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CMA FINAL

P15: DIRECT TAX LAWS AND INTERNATIONAL TAXTATION

Work Book

PREFACE

This book has been prepared with the objective of providing a comprehensive and conceptually strong understanding of **Direct Taxation** for students appearing in the **CMA Final Examination**. The subject has been presented in a systematic and minimalistic manner, ensuring clarity while covering the syllabus in its entirety.

Each chapter is carefully structured to build a logical progression of concepts, supported by relevant explanations to facilitate effective learning and application. With proper conceptual understanding and disciplined preparation, students can confidently aim for an **80+ score** in Direct Taxation.

This book is intended to serve as a reliable companion for CMA students by simplifying complex provisions and promoting analytical thinking required for examination success.

I express my sincere gratitude to **CA E Srinivas Sir** for his constant motivation, guidance, and encouragement throughout the preparation of this book. I am also thankful to my students, whose questions and feedback have greatly contributed to refining the content.

I dedicate this book to my wife **Priya** and my daughters **Aaraadhya and Jaithri**, whose unwavering support and patience have been a constant source of strength.

I also extend my heartfelt thanks to **Bhawani Arjun, K.C Bhanu Srinivas, Kalyani Valluri** for their valuable assistance and support in the preparation of this material.

For the convenience of students and ease of reference:

SM – Questions taken from ICMAI Study material
WB – Questions taken from ICMAI Work Book (Old & New)
PEQ – Questions taken from ICMAI Past Exam Question Papers
ICAI – Questions taken from ICAI Sources.

to ensure better readability, quick identification, and focused revision.

M. Bhaskar Rao

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w.e.f 01.04.2025 Equalisation levy concept is not applicable i.e. abolished.

BASIC CONCEPTS

QUESTION 1 (ICAI)

Mr. Mahesh aged 32 years and a resident in India, has a total income of ₹ 10,50,000, comprising his salary income and interest on bank fixed deposit. Compute his tax liability for A.Y.2026-27 under default tax regime under section 115BAC.

Solution:

Computation of tax liability of Mr. Mahesh for A.Y. 2026-27

Particulars	₹
Tax on total income of ₹ 10,50,000	
Tax on 10,50,000 (4L x 5% + 2,50,000 x 5%)	45,000
Less: Rebate u/s 87A (Lower of tax payable or ₹60,000)	(45,000)
Tax Liability	**Nil**

QUESTION 2 (ICAI)

Mr. Nitin aged 42 years and a resident in India, has a total income of ₹ 12,15,000, comprising his salary income and interest on bank fixed deposit. Compute his tax liability for A.Y.2026-27 under default tax regime under section 115BAC.

Solution:

Particulars	₹
Step 1: Total Income of ₹ 12,15,000 - ₹ 12,00,000	15,000
Step 2: Tax on total income of ₹ 12,15,000 (4L x 5% + 4L x 10% + 15,000 x 15%)	62,250
Step 3: Since S2 > S1, rebate u/s 87A would be (S2 - S1) [₹ 62,250 - ₹ 15,000]	(47,250)
	15,000
Add: HEC@4%	600
Tax Liability	**15,600**

QUESTION 3

Mr. X, Y, Z are resident Individuals having total income of ₹ 12,00,000 & ₹ 12,10,000 & ₹ 14,30,000 respectively for PY 2025-26. Find out Tax liability for AY 2026-27? Assume all above assesses are opted default tax regime u/s 115BAC.

Solution:

Particulars	X	Y	Z
Total income	12,00,000	12,10,000	14,30,000
Step 1: Total income - ₹12,00,000	-	10,000	2,30,000

Step 2: Income tax liability on Total income	60,000 (4L x 5% + 4L x 10%)	61,500 (4L x 5% + 4L x 10% + 10,000 x 15%)	94,500 (4L x 5% + 4L x 10% + 2,30,000 x 15%)
Step 3: Rebate u/s 87A	(60,000)	(51,500) S2 > S1 S2 - S1	S2 < S1 No Rebate
	-	10,000	94,500
Add: H&EC @ 4%	-	400	3780
Tax liability	-	10,400	98,280

QUESTION 4 (ICAI)

Compute tax liability after marginal relief in the following situations for Resident assesses for the previous year 2025-2026. (Assume that the Assessee has exercised the option to shift out /opt out of default tax regime i.e., Sec 115BAC)

Name	Arun	Murthy	Shekhar
Age of Assessee	42 years	51 years	58 years
Total income	Rs.51 lakhs	Rs.1.01 crores	Rs.2.20 crores

Solution:

Computation of tax liability of Mr. Arun (42 years) for the A.Y.2026-27

Particulars		Amount (₹)
Step-1: Tax on total income of 51,00,00 + Surcharge @10%		
Up to Rs. 2,50,000	Nil	Nil
2,50,000 to Rs.5,00,000 (5%)	(2,50,000 x 5%)	12,500
5,00,000 to Rs.10,00,000 (20%)	(5,00,000 x 20%)	1,00,000
10,00,000 to 51,00,000 (30%)	(41,00,000 x 30%)	12,30,000
		13,42,500
Add: Surcharge @ 10% on 13,42,500		1,34,250
Total		**14,76,750**
Step-2: Tax on ₹50L + ₹1Lac		
Up to Rs. 2,50,000		Nil
2,50,000 to Rs.5,00,000 (5%)	(2,50,000 x 5%)	12,500
5,00,000 to Rs.10,00,000 (20%)	(5,00,000 x 20%)	1,00,000
10,00,000 to 50,00,000 (30%)	(40,00,000 x 30%)	12,00,000
Total		**13,12,500**

Add: Surcharge	Nil
Add: Income over ₹50L	1,00,000
Total	**14,12,500**
Step-3: Marginal relief = Step-1 (-) Step-2 [14,76,750-14,12,500]	**64,250**
Step-4: Tax payable [Step-1 (-) Step-3]	**14,12,500**
Add: H & EC@4% (14,12,500 x 4%)	56,500
Net tax payable	**14,69,000**

Computation of tax liability of Mr. Murthy for the A.Y.2026-27

Particulars	**Amount (₹)**
Step-1: Tax on total income of 1,01,00,000 + Surcharge @15%	
up to Rs. 2,50,000	Nil
2,50,000 to Rs.5,00,000 (5%)	12,500
5,00,000 to Rs.10,00,000 (20%)	1,00,000
10,00,000 to 1,01,00,000 (30%)	27,30,000
	28,42,500
Add: Surcharge @ 15% on 28,42,500	4,26,375
Total	**32,68,875**
Step-2: Tax on ₹1Cr +Surcharge @10%+ ₹1Lac	
up to Rs. 2,50,000	Nil
2,50,000 to Rs.5,00,000 (5%)	12,500
5,00,000 to Rs.10,00,000 (20%)	1,00,000
10,00,000 to 1,00,00,000 (30%)	27,00,000
Total	**28,12,500**
Add: Surcharge @10% (28,12,500 X 10%)	2,81,250
Add: Income over ₹1Cr	1,00,000
Total	**31,93,750**
Step-3: Marginal relief = Step-1 (-) Step-2 [32,68,875 - 31,93,750]	**75,125**
Step-4: Tax payable [Step-1 (-) Step-3]	**31,93,750**
Add: H & EC@4% (31,93,750 x 4%)	1,27,750
Net tax payable	**33,21,500**

Computation of tax liability of Mr. Shekhar for the A.Y.2026-27

Particulars	**Amount (₹)**
Step-1: Tax on total income of 2,20,00,000 + Surcharge @25%	
up to Rs. 2,50,000	Nil

2,50,000 to Rs.5,00,000 (5%)	12,500
5,00,000 to Rs.10,00,000 (20%)	1,00,000
10,00,000 to 2,20,00,000 (30%)	63,00,000
	64,12,500
Add: Surcharge @ 25% on 64,12,500	16,03,125
Total	**80,15,625**
Step-2: Tax on ₹2Cr +Surcharge @15%+ ₹20Lacs	
up to Rs. 2,50,000	Nil
2,50,000 to Rs.5,00,000 (5%)	12,500
5,00,000 to Rs.10,00,000 (20%)	1,00,000
10,00,000 to 2,00,00,000 (30%)	57,00,000
Total	**58,12,500**
Add: Surcharge @15% (58,12,500 X 15%)	8,71,875
Add: Income over ₹2Cr	20,00,000
Total	**86,84,375**
Step-3: Marginal relief = Step-1 (-) Step-2 [80,15,625 – 86,84,375]	**Nil**
Step-4: Tax payable [Step-1 (-) Step-3]	**80,15,625**
Add: H & EC@4% (80,15,625 x 4%)	3,20,625
Net tax payable	**83,36,250**

QUESTION 5 (ICAI)

Compute the tax liability of X Ltd., a domestic company, assuming that the total income of X Ltd. is ₹1,01,00,000 and the total income does not include any income in the nature of capital gains. (Assume that the Assessee has not opted for Provisions of Sec 115BAB/BAA)

Note: The gross receipts of X Ltd. For PY 2023-24 is ₹402 crore.

Solution:

Computation of tax liability of X Ltd for the A.Y.2026-27

Particulars	Amount (₹)
Step-1: Tax on total income of ₹1,01,00,000 + Surcharge @ 7%	
Tax @ 30%	30,30,000
Add: Surcharge @7%	2,12,100
Total	32,42,100
Step-2: Tax on ₹1Cr + 1Lac	
Tax @ 30% on 1Cr	30,00,000
Add: Income over 1Cr	1,00,000

Total	31,00,000
Step-3: Marginal relief Step-1 (-) Step-2 [32,42,100 – 31,00,000]	1,42,100
Step-4: Tax payable Step-1 (-) Step-3	31,00,000
Add: H & EC @4% (31,00,000 x 4%)	1,24,000
Net tax payable	32,24,000

QUESTION 6 (ICAI)

Compute Tax liability of Mr. A aged 65 years in most beneficial manner. He is having total income of ₹ 5,01,00,000 for the AY 2026-27.

Solution:

Computation of tax liability of Mr. A For the A.Y.2026-27
(under old tax regime)

Particulars	Amount (₹)
Step-1: Tax on total income of 5,01,00,000 + Surcharge @37%	
up to Rs. 3,00,000	Nil
3,00,000 to Rs.5,00,000 (5%)	10,000
5,00,000 to Rs.10,00,000 (20%)	1,00,000
10,00,000 to 5,01,00,000 (30%)	1,47,30,000
	1,48,40,000
Add: Surcharge @ 37% on 28,42,500	54,90,800
Total	**2,03,30,800**
Step-2: Tax on ₹5Cr +Surcharge @25%+ ₹1Lac	
up to Rs. 3,00,000	Nil
3,00,000 to Rs.5,00,000 (5%)	10,000
5,00,000 to Rs.10,00,000 (20%)	1,00,000
10,00,000 to 1,00,00,000 (30%)	1,47,00,000
Total	**1,48,10,000**
Add: Surcharge @25% (1,48,10,000 X 25%)	37,02,500
Add: Income over ₹5 Cr	1,00,000
Total	**1,86,12,500**
Step-3: Marginal relief = Step 1 (-) Step 2 [2,03,30,800 -1,86,12,500]	**17,18,300**
Step-4: Tax payable [Step-1 (-) Step-3]	**1,86,12,500**
Add: H & EC@4% (1,86,12,500 x 4%)	7,44,500
Net tax payable	**1,93,57,000**

Computation of tax liability of Mr. A For the A.Y.2026-27
(under new regime u/s 115BAC)

Particulars	Computation	Amount (₹)
Up to 4,00,000	-	-
4,00,000 - 8,00,000	@5%	20,000
8,00,001 - 12,00,000	@10%	40,000
12,00,001 - 16,00,000	@15%	60,000
16,00,001 - 20,00,000	@20%	80,000
20,00,001 - 24,00,000	@25%	1,00,000
Above 24,00,001	@30%	1,43,10,000
Total		**1,46,10,000**
Add: Surcharge@25%		36,52,500
		1,82,62,500
Add: Health and education cess @4%		7,30,500
Tax liability		**1,89,93,000**

Tax liability under default tax regime is lower. So, opting Sec 115BAC is most beneficial to Assessee.

Note: under default tax regime u/s 115BAC ₹5,00,00,000 is not a basic limit for surcharge. Therefore, no need to calculate marginal relief, directly we can compute tax liability.

QUESTION 7 (PEQ)

Provide the answer to the following case study under the below-mentioned heads:

a) Issue involved
b) Provisions applicable to the issue
c) Analysis of the issue and
d) Conclusion.

The assessment of Vishal was taken up for scrutiny by the income-tax department. Assessing Officer (AO) found that a sum of ₹ 20 lakhs was credited in the bank account of Vishal. It was explained that the said amount had been received by him from his friend Gautam. The amount had been accepted through an account payee crossed cheque by way of loan. When the AO enquired Gautam, he accepted that he had given the amount to Vishal as loan. The AO insisted that mere acceptance by Gautam that he had given the amount to Vishal is not sufficient and the Vishal should prove the creditworthiness of Gautam, otherwise he would add the sum of ₹ 20 lakhs as unexplained cash credit.

Is the AO correct in his contention? State tax liability in case the amount of loan is taxed as income of Vishal in the assessment.

Solution:

Unexplained cash credit

a) Issue involved

The issue involved is whether the AO is correct in his contention that the onus is on the Assessee to prove the credit worthiness of the lender, even where the lender accepts, he had lent the money

in question to the assesses.

b) Provisions applicable

Section 68 brings to tax any sum found credited in the books of an Assessee, where the Assessee does not offer explanation about the nature and source thereof, or the explanation offered by him is not found satisfactory by the Assessing Officer.

c) Analysis

For a cash credit not to be treated as income, the Assessee should

- ✓ Not only prove the identity of the lender and
- ✓ The genuineness of the transaction, but also
- ✓ Prove the source for the lender, or in other words, the credit worthiness of the lender or that the lender had the means to lend such amount to the Assessee.
- ✓ Mere confirmation by the lender that he had lent the amount in question to the Assessee will not suffice. A specific amendment has been introduced in this regard to section 68.

d) Conclusion

The **contention of the AO is hence valid** and if Vishal is unable to prove the credit worthiness of Gautham, the AO will be justified in making the addition under section 68.

RETURN OF INCOME

QUESTION 1 (PEQ)

Write the correct answer from the following statements as per provision of 139(1) of Income Tax Act, 1961.

a) Mr. Rahman, a salaried employee of Calcutta based company having Taxable Income ₹ 4,00,000 for the Previous year 2025-26, whose due date of filing income tax return is 30th November 2026.

b) Mr. Raghav, a salaried employee of Tata Motors having Taxable income ₹ 8,00,000 for the previous year 2025-26 and fails to file Income Tax Return within Due date as per Income Tax Act. He wants to file Belated Return. The time limit of filing Belated return is within 31st March 2027.

c) M/s ABC, a Kolkata based partnership firm is required to get its Accounts Audited under Income Tax Act. The Due Date of filing Income Tax Return of the firm for the Previous Year 2025-26 is within 31st July 2026.

d) Ms. Ankita is the working partner of a partnership firm, and the accounts of the firm is required to be audited. Due Date of filing Income Tax Return of Ms. Ankita for the Previous Year 2025-26 is within 31st December 2026.

Solution:

a) Due Date of filing Income Tax Return shall be 31st July 2026.

b) He can file belated return up to 31-12-2026.

c) Partnership firm, whose accounts are required to be audited, is required to submit the return of income by 31-10-2026.

d) Due date of filing return shall be 31-10-2026.

QUESTION 2 (PEQ)

State whether the following persons must be filed mandatorily furnish their return of income for the assessment year 2026-27:

a) Mr. Choudhury, aged 52 years whose gross total income ₹ 3,00,000 and total income after deduction u/s 80C is ₹2,00,000.

b) M/s Roxy, a partnership firm, whose total income during the previous year 2025-26 ₹ 50,000.

c) Smt. R. Bose aged 62 years, having total income ₹ 2,80,000.

d) Rambo India Ltd., a registered company in India, has incurred loss during the previous year 2025-26 is ₹ 2,20,000.

e) Smt. I. Sing, aged 50 years, whose total income is ₹ 2,40,000 before adjustment of unabsorbed business loss of ₹ 1,00,000.

Assume that the Assessee has exercised the option to shift out /opt out of default tax regime i.e., Sec 115BAC.

Solution:

a) Yes, as his gross total income exceeds basic exemption limit.

b) Yes, partnership firm is required to file its return of income irrespective of its size of turnover or income.

c) No, as her gross total income does not exceed basic exemption limit applicable to her (i.e., ₹ 3,00,000).

d) Yes, company is required to file its return of income irrespective of its size of turnover or income.

e) An Assessee is not compulsorily required to furnish return of loss. However, business loss (among other specified losses) cannot be carried forward if the return of loss is not submitted within the time allowed u/s 139(1).

QUESTION 3 (PEQ)

With reasons state whether return of income must file in the following cases for the assessment year 2026-2027

a) Allen a resident individual aged 81 years has total income of ₹ 3,10,000. He has claimed deduction of ₹ 1,50,000 under section 80C. He has long term capital gain of ₹ 1,20,000 taxable under section 112A. He opted normal tax rates.

Would your answer change if Mr. Allen has incurred ₹ 1,05,000 towards payment of electricity bills for F.Y. 2025-26?

b) Gomes& Co a partnership firm constituted on 01.04.25 has business loss of ₹22,000 for the previous year 2025-26.

c) Nigiri association eligible for exemption under sec 10(23B) has income from house property of ₹ 4,30,000.

d) Williams aged 51 years is an employee of Chappell Ltd. Having salary income of ₹2,40,000 before standard deduction and income from bank saving deposits ₹20,000 and interest on public provident fund ₹ 68,000.

e) A public trust hospital having an aggregate annual receipt of ₹ 505 lacs and availing exemption of ₹ 3,10,000 under section 10(23C) (via) with total income of ₹ 2,40,000.

f) A registered trade union having income from let out property of ₹ 1,00,000.

Solution:

a) Not required to file the return of income.

- ✓ Every person whose total income without giving effect to the provisions of chapter VIA if exceeds Basic exemption limit must furnish ITR on or before due date.
- ✓ In this case, the total income is ₹3,10,000+ Sec 80C deduction of ₹1,50,000 Aggregating to ₹4,60,000.
- ✓ Since the basic exemption for very senior citizen is ₹5,00,000, Allen is not required to file ITR.
- ✓ The long-term capital gain of ₹1,20,000 forms part of total income which does not exceed ₹5,00,000.

Yes, the answer would change, since Mr. Allen has incurred expenditure of an amount exceeding ₹ 1 lakh towards the consumption of electricity and he is not liable to file a return of income under other provisions of section 139(1). In such a case, he would have to file his return for A.Y.2026-27 on or before the due date u/s 139(1).

b) Yes, requires filing the ROI.
- ✓ It is mandatory for partnership firm to file their return of income or loss every year. it is immaterial whether the firm derived any total income or has suffered loss.
- ✓ In this case, though the firm Gomes & Co has loss of ₹22,000 filing of return of income is mandatory.

c) Yes, requires filing the ROI.
- ✓ As per sec 139(4C) Every association must file ROI if total income before claiming exemption under sec 10 exceeds the basic exemption limit.
- ✓ In this case, the association before exemption under sec 10(23B) has income from house property of ₹ 4,30,000 it exceeds basic exemption limit ₹4,00,000. (u/s 115BAC)
- ✓ Therefore, it has to file its return of income compulsorily for the assessment year 2026-2027.

d) Not required to file the return of income.
- ✓ The salary income of Williams is ₹1,65,000 after deducting standard deduction of ₹75,000 (u/s 115BAC). The income from other sources in respect of bank deposits is ₹20,000 for which, eligible deduction under section 80TTA is ₹10,000.
- ✓ Income by way of interest on PPF is exempt under sec 10.
- ✓ Thus, Gross total income of Williams is ₹1,85,000 only i.e., does not exceed basic exemption limit of ₹4,00,000. (u/s 115BAC)
- ✓ As the total income before claiming chapter VIA deduction is ₹1,85,000. William need not to file ROI for assessment year 2026-27.

e) Since the total income without giving effect to the exemption under section 10(23C) (via) is ₹ 5,50,000, which exceeds ₹ 4,00,000 (u/s 115BAC), the trust must file its return of income by 31st October 2026.

f) A registered trade union is having income from house property, which is **exempt** under section 10(24). Section 139(4C) mandates filing of return only when the total income exceeds the maximum amount which is not chargeable to tax without giving effect to the provisions of section 10. In this case, even without giving effect to section 10(24), the total income of the registered trade union is below basic exemption limit and therefore, there is **no mandatory requirement to file** the return of income.

QUESTION 4 (ICAI)

Smt. Kanti, aged 49 years engaged in the business of growing, curing, roasting and grounding of coffee in India after mixing chicory had income of ₹ 6,00,000 from this business which was her only source of income during the year ended on 31.3.2026. She consults you to have an opinion whether she is required to file return of income for the A.Y. 2026-27 as per provisions of section 139(1). Would your answer change if she had travelled to the USA during the P.Y.2025-26 and incurred ₹ 2.20 lakhs for the same?

Solution:

The clarification regarding filing return of income by the coffee growers being individuals covered by Rule 7B of the Income-tax Rules, 1962 is given in Circular No.10/2006 dated 16.10.2006. According to the Circular, an individual deriving income from growing, curing, roasting and grounding of coffee with

or without mixing chicory **would not be required to file the return of income** if the **aggregate** of 40% of his or her income from growing, curing, roasting and grounding of coffee with or without mixing chicory **and** income from all other sources liable to tax in accordance with the provisions of this Act, is **equal to or less than the basic exemption limit** prescribed in the First Schedule of the Finance Act of the relevant year.

In this case, Smt. Kanti has a total income of ₹ 6,00,000 from this business, which was her only source of income for P.Y. 2025-26. 40% of her income works out to ₹2,40,000, which is less than the basic exemption limit of ₹ 4,00,000 (under section 115BAC, being default regime) / ₹ 2,50,000 (if opting for normal provisions) in respect of an individual assessee. Therefore, Smt. Kanti is **not required to file a return of income** for the A.Y. 2026-27 as per the provisions of section 139(1).

If Smt. Kanti had travelled to the USA during the P.Y. 2025-26 and incurred ₹ 2.20 lakhs on such travel, she would be required to **mandatorily file a return of income** for A.Y. 2026-27 on or before the due date u/s 139(1), even though her total income does not exceed the basic exemption limit.

QUESTION 5 (PEQ)

With reasons state whether return of income must be filed in the following cases for the assessment year 2026-2027.

a) Mr. Raj, aged 70 years is a resident and ordinary resident in India for the AY 2026-27. He owns a house property in Dubai, which he purchased on 30.04.17 and he also has bank account in the bank of Dubai. His total income is ₹2,80,000 for the PY 2025-26, Comprising of income from house property and bank interest.

b) Mrs. Radha, an Indian resident receives rental income ₹ 30,000 pm from her residential house property. Mr. Radha purchased car worth ₹28,00,000 (ex-showroom price) on which TCS @1% was collected. Mrs. Radha has no other source of income for the previous year 2025-26.

Solution:

a) Resident Individual (ROR) is required to file ROI mandatorily if

- ✓ Beneficial Owner of any asset (including Financial Interest) located outside India& Has signing authority in any bank account outside India.
- ✓ Beneficiary of any asset (including Financial Interest) located outside India.

If Beneficial Owner already includes income from such asset in his ROI, then Beneficiary is not required to file ROI.

In this case Mr. Raj has the house property located outside India for that asset he is beneficial owner. So, he required to file return of income for assessment year 2026-27 mandatorily.

b) If the aggregate of TDS & TCS during the PY, in the case of the person, is ≥ ₹25,000 (in case of Senior Citizen ≥ ₹50,000); is required to file ROI mandatorily.

In this case Mrs. Radha purchased car worth ₹28,00,000 (ex-showroom price) on which TCS @1% was collected under Sec 206C(1F) is 28,000 that is more than 25,000 She required to file return of income for assessment year 2026-27 mandatorily.

QUESTION 6 (PEQ)

State the cases where Form ITR 1 or ITR 4 cannot be used by a person.

Solution:

The form is not applicable to a person who:

a) has assets (including financial interest in any entity) located outside India;
b) has signing authority in any account located outside India;
c) has income from any source outside India;
d) has income to be apportioned in accordance with provisions of section 5A;
e) is a director in any company;
f) has held any unlisted equity share at any time during the previous year;
g) owns more than one house property, the income of which is chargeable under the head "Income from house property";
h) has any brought forward loss or loss to be carried forward under any head of income.
i) is assessable for the whole or any part of the income on which tax has been deducted at source in the hands of a person other than the Assessee.
j) has claimed any relief u/s 90 or 90A or deduction of tax u/s 91.
k) has income taxable under section 115BBDA; or
l) has income of the nature referred to in sec. 115BBE.
m) has income of the nature specified in sec. 17(2)(vi) on which tax is payable or deductible u/s 191(2) or 192(1C).

QUESTION 7 (PEQ)

Manu furnishes the following information for the previous year 2025-26:

(a) Loss from business: ₹16,00,000

(b) Long-term capital loss: ₹10,00,000

(c) Loss from House property: ₹ 2,00,000

Does Manu require to submit return? Also state the consequences for non-filing of return. What is the due date of submission of such return?

Solution:

An individual-Assessee is not compulsorily required to furnish return of loss. However, the following losses cannot be carried forward if the return of loss is not submitted within the time allowed u/s 139(1):

a) Business Loss (Normal or Speculative business loss)
b) Capital Loss
c) Loss from activity of owning & maintaining race horses
d) Specified business loss u/s 35AD.

Manu is required to file his return of income by 31-07-2026 (if audit is not required) else 31-10- 2026 (if audit is compulsory).

QUESTION 8 (ICAI)

ABC Ltd. regularly files its return of income electronically. While trying to upload return of income for assessment year 2025-26 on 31st October, 2025, ABC Ltd found it extremely difficult to do the same due to network problems and ultimately, became successful in making e-filing of its return only at 1 a.m. on 1st November,2025. The return contained a claim for carry forward of business loss of ₹ 3.10 crores. This circumstance was recorded in an e-mail addressed to the competent income-tax authority on 1st November, 2025. ABC Ltd. made a request to the Principal Chief Commissioner of Income-tax (PCCIT) for condonation of delay in filing return of income.

Discuss whether the PCCIT has the power to condone the delay in filing the return of income and permit carry forward of loss in the given circumstance.

Solution:

Section 119 empowers the CBDT to authorize any income tax authority to admit an application or claim for any exemption, deduction, refund or **any other relief under the Act** after the expiry of the period specified under the Act, to avoid genuine hardship in any case or class of cases. The claim for carry forward of loss in case of late filing of a return is relatable to a claim arising under the category of "any other relief available under the Act". Therefore, the CBDT has the power to condone delay in filing of such loss return due to genuine reasons.

The CBDT Circular specified the monetary limits along with following authorities to be approached for this purpose.

Authority	Loss w.e.f from 1.10.24
PCIT or CIT	Up to ₹ 1 Cr
CCIT	above ₹ 1 Cr but up to ₹ 3 crores
PCCIT	above ₹ 3 crores
CBDT	-

Applying the rationale of the above court ruling and the clarification given in CBDT Circular to the case on hand, the Principal CCIT has the power to condone the delay in filing the return of income of ABC Ltd. and permit carry forward of business loss of ₹ 3.10 crores, since the delay of one hour was due to a genuine and justifiable reason i.e., network problem while e- filing the return.

Lodhi Property Company Ltd vs Department of Revenue, where the Delhi High Court held that the Board has the power to condone the delay in case of a return which was filed late and where a claim for carry forward of losses was made. The delay was only one day and the Assessee had shown justifiable reason for the delay of one day in filing the return of income.

Therefore, the Court held that the delay of one day in filing of the return had to be condoned.

QUESTION 9 (PEQ)

The Assessing Officer issued a notice under section 142(1) on the Assessee on 24th April 2027 calling upon him to file return of income for Assessment Year 2026-27. In response to the said notice, the Assessee furnished a return of loss and claimed carry forward of business loss and unabsorbed depreciation. State whether the Assessee would be entitled to carry forward as claimed in the return.

Solution:

- ✓ ROI is required to be filed up to due date given u/s 139(1) to carry forward following losses of current year:
  a) Business Loss (Normal or Speculative business loss)
  b) Capital Loss
  c) Loss from activity of owning & maintaining race horses
  d) Specified business loss u/s 35AD.
- ✓ HP Loss & Unabsorbed Depreciation can be c/f even if ROI is filed late.
- ✓ In the given case, the Assessee has file return of loss in response to notice 142(1). As per the provisions stated above, Assessee furnished return in response to notice under section 142(1) after the due date specified under section 139(1) and therefore, the benefit of **carry forward of business loss shall not be available.**
- ✓ The Assessee shall, however be **entitled to carry forward the unabsorbed depreciation** as per provisions of section 32(2).

QUESTION 10 (ICAI)

Examine the correctness or otherwise of the following statements in the context of provisions contained in the Income-tax Act, 1961 and the decided case laws:

"The Assessing Officer is bound to allow the set-off of brought forward losses under section 72 even if the Assessee has not claimed the same in the return filed".

Solution:

The statement is correct.

The **duty of the Assessing Officer** to apply the relevant provisions of the Act for the purpose of determining the true figure of the assesses total income and consequential tax liability. Merely because the Assessee has not claimed the set-off in the return filed, it cannot relieve the Assessing Officer of his duty to apply section 72.

As per CBDT Circular, it is the duty of the Assessing Officer to assist a taxpayer in every reasonable way, particularly in the matter of claiming and securing reliefs, they should take the initiative in guiding a taxpayer where proceedings or other particulars before them indicate that some refund or relief is due to him.

Therefore, on the basis of the above, the Assessing Officer is bound to allow the set-off of brought forward losses under section 72, even if the Assessee has not claimed the same in the return filed, provided the loss was determined in pursuance of a return filed under section 139(3) in any earlier previous year.

Therefore, the Assessing Officer is bound to allow the claim for set off of brought forward business losses even if the Assessee has not claimed the same in the return filed.

QUESTION 11 (ICAI)

Discuss the correctness or otherwise of the following proposition in the context of the income tax Act, 1961:

"A fresh claim before the Assessing Officer can be made only by filing a revised return and not otherwise".

Solution:

This proposition is correct.

A return of income filed within the due date under section 139(1) or a belated return filed under section 139(4) may be revised by filing a revised return under section 139(5) where the Assessee finds any omission or wrong statement in the original return subject to satisfying other conditions.

There is no provision in the Income-tax Act, 1961, to make changes or modification in the return of income by filing a letter before the Assessing Officer.

The revised return can be filed at any time before three months prior to the end of the relevant assessment year or before the completion of assessment, whichever is earlier.

Therefore, a fresh claim can be made before the Assessing Officer only by filing a revised return and not otherwise.

Goetze (India) Ltd. vs. CIT, has held that there is no power available under the provisions of the Income-tax Act, 1961 enabling the Assessing Officer to allow a claim made by the Assessee except by way of filing a revised return.

Note – Section 139(8A), provides an option to an Assessee to file an updated return for an assessment year, at any time within 48 months from the end of the relevant assessment year.

QUESTION 12 (ICAI)

Ram, an individual, filed his return of income for the assessment year 2026-27 on 15.6.2026. He later discovered that he had not claimed deduction under section 80C in the said return though he had opted for the normal provisions of the Act. He claimed the said deduction through a letter addressed to the Assessing Officer.

The Assessing Officer completed the assessment without allowing the deduction claimed by Ram. Is the Assessing Officer justified in doing so?

Solution:

Assessing Officer has no power to entertain a claim for deduction made after filing of the return of income otherwise than by way of a revised return.

In the instant case, Ram has claimed the deduction under section 80C, which he omitted to claim in the original return of income, through a letter addressed to the Assessing Officer and not by filing a revised return under section 139(5).

The Assessing Officer was justified in completing the assessment without allowing the deduction under section 80C.

QUESTION 13 (PEQ)

List the persons who should apply for allotment of Permanent Account Number

Solution:

Following persons are required to apply for allotment of PAN:

1) Every person who is assessable to tax [Required to file ROI] - On or before 31st May of the assessment year.
2) Every person carrying on B/P & whose Total Turnover / Gross Receipts exceeds or likely to exceed ₹5,00,000 in any PY - Before the end of that financial year.
3) Trust - Before the end of that financial year.
4) Resident Person (other than Individual) who enters into Financial Transactions of aggregate ₹2,50,000 or more & Director / Partner / Principal Officer of such Person- On or before 31st May of the immediately following financial year.

QUESTION 14 (ICAI)

What will be the consequences when Mr. Raghav paid ₹ 75,000 in cash to a travel agent for his travel to Saudi Arabia to be undertaken for business purposes by intentionally quoting the wrong PAN? Would your answer be different if such cash payment was made for his travel to Nepal, instead of Saudi Arabia?

Solution:

If a person who is required to quote his permanent account number in any document referred to in section 139A, quotes a number which is false, and which he either knows or believes to be false or does not believe to be true, the Assessing Officer may direct that such a person shall pay by way of **penalty a sum of ₹ 10,000 under section 272B(2).**

In the given case, if Mr. Raghav travels to Saudi Arabia and pays his travel agent cash in excess of ₹ 50,000, such a transaction is covered by **section 139A read with Rule 114B** and therefore, Mr. Raghav has to quote his PAN. Since Mr. Raghav has misquoted his PAN, penalty under section 272B(2) is leviable.

Mr. Raghav has to be given **an opportunity of being heard** in the matter. If Mr. Raghav is not able to prove that there was a reasonable cause for the said failure, penalty under section 272B (2) would be imposable.

The answer would remain the same even if such cash payment was made for his travel to Nepal.

QUESTION 15 (ICAI)

X, an individual, has got his books of accounts for the year ending 31.3.2026 audited under section 44AB. His total income for the assessment year 2026-27 is Rs. 5,20,000. He desires to know if he can furnish his return of income for the assessment year 2026-27 through a Tax Return Preparer.

Solution:

Section 139B provides for submission of return of income through Tax Return Preparers. It empowers the Central Board of Direct Taxes (CBDT) to frame a scheme for the purpose of enabling any specified class or classes of persons to prepare and furnish their returns of income through Tax Return Preparers.

Specified class or classes of persons have been defined to mean any person, other than a company or a person whose accounts are required to be audited under section 44AB or under any other existing law, who is required to furnish a return of income under the Act. Thus, companies and persons whose accounts are liable for tax audit under section 44AB do not fall within the definition of 'specified class or classes of persons' and consequently, cannot furnish their returns of income through Tax Return Preparers.

In the instant case, the books of account of X for the year ending 31.3.2026 have been audited under section 44AB. As such, **he cannot furnish his return of income** for the A.Y. 2026-27 through a Tax Return Preparer.

INCOME TAX AUTHORITIES

QUESTION 1 (WB)

Who can appoint income-tax authorities?

Solution:

Appointment of income-tax authorities [Sec. 117]

1. The Central Government may appoint such persons as it thinks fit to be income-tax authorities.
2. The Central Government may authorize the Board, or a Principal Director General or Director-General, a Principal Chief Commissioner or Chief Commissioner or a Principal Director or Director or a Principal Commissioner or Commissioner to appoint income- tax authorities below the rank of an Assistant Commissioner or Deputy Commissioner.
3. An income-tax authority authorized in this behalf by the Board may appoint such executive or ministerial staff as may be necessary to assist it in the execution of its functions.

   All these appointments can be made subject to the rules and orders of the Central Government.

QUESTION 2 (WB)

Write notes on jurisdiction of income-tax authorities

Solution:

Jurisdiction of income-tax authorities [Sec. 120]

a) Income-tax authorities shall exercise all or any of the powers and perform all or any of the functions assigned to such authorities in accordance with directions of the Board

b) The directions of the Board may authorize any other income-tax authority to issue orders in writing for the exercise of the powers and performance of the functions by any of its subordinate.

c) The Board or other authorized income-tax authority may have regard to any one or more of the following criteria:

- territorial area;
- persons or classes of persons;
- incomes or classes of income; and
- cases or classes of cases.

QUESTION 3 (PEQ)

The jurisdiction of an Assessing Officer cannot be objected by the Assessee. Discuss

Solution:

Sec. 124: Assessees can challenge jurisdiction of AO within the following time limit:

Where a return of Income has been filed under section 139(1).	a) One month from the date of service of notice under section 142(1) or 143(2). or b) completion of assessment whichever is earlier.
Where no return of income has been filed.	a) Time allowed by notice under section 142(1) or 148 for filing return of income.

	or b) Notice under section 144 to show cause why the best judgement assessment should not be made whichever is earlier
Where search is initiated under section 132 or books of accounts or other documents, or any assets are requisitioned under section 132A.	a) One month from the date on which notice was served under section 153A(1) or 153C(2). or b) completion of assessment whichever is earlier.

QUESTION 4 (WB)

Write notes on provision relating to succession of income tax authority.

Solution:

Succession of income-tax authority [Sec. 129]

a) Whenever in respect of any proceeding under this Act an income-tax authority ceases to exercise jurisdiction and another income tax authority exercises jurisdiction.

b) The income-tax authority so succeeding may continue the proceeding from the stage at which the proceeding was left by his predecessor.

Opportunity of being re-heard the Assessee may demand that before –

- ✓ Such succeeding authority reopens previous proceeding or any part thereof; or
- ✓ any order of assessment is passed against him.

ASSESSMENT PROCEDURES

QUESTION 1 (WB)

Distinguish between: 'Tax audit under section 44AB' and 'special audit under section 142(2A)'

Solution:

	Tax Audit u/s 44AB	Special Audit u/s 142(2A)
Requirement	The tax audit is mandatory in nature and is required to be done in all applicable cases.	The special audit is at the direction of the Assessing Officer.
Appointment of auditor	Auditor is appointed by the Assessee	Auditor is appointed by the assessing officer with the prior approval of the Chief Commissioner or commissioner.
Completion of Audit	Tax audit is required to be uploaded one month prior to the due date of furnishing return of income	The audit report shall be furnished by the Assessee within the period specified by the Assessing Officer. The Assessing Officer has power to extend such period on an application made by the Assessee or Suo moto. However, the aggregate period (fixed originally and extended) shall not exceed 180 days from the date on which such direction is received by the Assessee.
Form	Form 3CA (or Form 3CB) with Form 3CD	Form 6B
Fees	Fees to the auditor is required to be paid by the Assessee.	Fees to the auditor shall be paid by the Central Government.
Penalty	Failure to complete and furnish tax audit report within prescribed time attracts penalty u/s 271B. The quantum of penalty is lower of the following: a) ½% of turnover; or b) ₹ 1,50,000	Failure to comply with direction issued u/s 142(2A) attracts penalty of ₹ 10,000 u/s 271(1)(b).

QUESTION 2 (WB)

Examine whether the Assessing Officer has the power to make any adjustment to income disclosed by the assessee in the return of income in the course of processing the return under section 143(1)?

Solution:

The procedure to be followed for summary assessment is contained in section 143(1). As per section 143(1), the total income or loss of an assessee shall be computed after making the **following adjustments to the returned income:**

i. any arithmetical error in the return; or
ii. an incorrect claim, if such incorrect claim is apparent from any information in the return.
iii. disallowance of loss claimed, if return is filed beyond due date u/s 139(1).
iv. Any such inconsistency in the return, with respect to the information in the return of any preceding previous year, as may be prescribed.
v. disallowance of expenditure or increase in income indicated in the audit report but not considered in computing the total income in the return.
vi. disallowance of deduction claimed under section 10AA or under any of the provisions of Chapter VI-A under the heading "C.—Deductions in respect of certain incomes", if return is filed beyond due date u/s 139(1).

No such adjustment shall be made unless as intimation is given to the assessee of such adjustment either in writing or electronic mode.

Further, Assessing Officer shall make any adjustment after considering the response received from the assessee, if any. Where no response is received with in 30 days of the issue of such notice, the above adjustment can be made.

For the purpose of section 143(1), **"an incorrect claim apparent from any information in the return"** means such claim on the basis of an entry, in the return of income:

i. of an item, which is inconsistent with another entry of the same or some other item in such return;
ii. in respect of which, the information required to be furnished under the Income-Tax Act, 1961 to substantiate such entry, has not been so furnished;
iii. in respect of a deduction, where such deduction exceeds specified statutory limit which may be expressed as monetary amount or percentage or ratio or fraction.

QUESTION 3 (PEQ)

A notice under section 143(2) was served on Mr. Imaan for the assessment year 2026-27 on 05.05.2027. State the time limit within, which the assessment would be completed in his case.

Solution:

a) Section 153 provides time limit for completion of assessment under section 143 or section 144.
b) The time limit is 12 months from the end of the assessment year.
c) Therefore, for the assessment year 2026-27, the time limit is available up to 31.03.2028.

QUESTION 4 (ICAI)

Teach well Education is a trust approved under section 10(23C) (vi) which runs various educational institutions. During the course of assessment under section 143(3), the Assessing Officer finds that the trust has carried out its activities in contravention of the section under which it was approved for exemption. Hence, the Assessing Officer wants to pass an order without giving exemption under section 10, which the Assessee objects. You are required to examine the following with respect to the provisions of Income-Tax Act, 1961.

a. Whether the Assessing Officer can pass an order without giving exemption under section 10?

b. Can the Assessing Officer get any additional time limit in completing this assessment?

Solution:

a. As per second proviso to section 143(3), if any educational institution referred to in section 10(23C) (iv) has committed any **"specified violation"** as mentioned under section 10(23C), the Assessing Officer shall send a reference to the Principal Commissioner or Commissioner to withdraw the approval or registration, as the case may be. Specified violation inter alia includes a case where income of the institution has been applied other than for the objects for which it is established.

   No order assessing the total income or loss of such educational institution shall be made by AO without giving effect to the order passed by the Principal Commissioner or Commissioner either cancelling the approval or refusing to cancel the approval of such educational institution.

   Therefore, in the aforesaid case, the Assessing Officer can pass an assessment order without giving exemption under section 10 to Teach well Education, which is an educational institution approved under section 10(23C) (vi), **if he has referred the matter to Principal Commissioner or Commissioner and they have subsequently cancelled the approval of such educational institution** under clause (ii) of fifteenth proviso section 10(23C).

b. As per Explanation 1 to section 153, the period commencing from the date on which the Assessing Officer makes a reference to the Principal Commissioner or Commissioner under section 143(3) and ending with the date on which the copy of the order either cancelling the approval or refusing to cancel the approval under section 10(23C) is received by the Assessing Officer, shall be **excluded for computing the period of limitation for completing the assessment.**

   Further, in case the **time limit available to the Assessing Officer for passing an assessment order, after such exclusion is less than 60 days, such remaining period of assessment shall be deemed to have been extended to 60 days.** Therefore, the Assessing Officer will get the above-mentioned additional time for completing the assessment of Teach well Education.

QUESTION 5 (WB)

The Assessing Officer has the power to make an assessment to the best of his judgment, in certain situations. What are they?

Solution:

Under section 144, the Assessing Officer, after considering all relevant material which he has gathered, is under an obligation to assess the total income or loss to the best of his judgment and determine the

sum payable by the Assessee in the following cases

i. Where any person fails to make the return under section 139(1) and has not filed a belated return under section 139(4) or a revised return under section 139(5).

ii. Where any person fails to comply with all the terms of a notice issued under section 142(1) or fails to comply with a direction issued under section 142(2A) for getting the accounts audited.

iii. Where any person, having made a return, fails to comply with all the terms of a notice issued under section 143(2).

Further, section 145(3) of the Income-Tax Act, 1961 permits the Assessing Officer to make an assessment in the manner provided in section 144:

a. Where the Assessing Officer is not satisfied about the correctness or completeness of the accounts of the assessee; or

b. Where the method of accounting under section 145(1) has not been regularly followed by the assessee;

c. Where the income has not been computed in accordance with "Income Computation and Disclosure Standards" notified by the Central Government under section 145(2).

Faceless assessment as per section 144B shall be applicable to best judgement assessment under section 144 i.e., the assessment proceedings shall be conducted electronically in e- Proceeding facility through assessee registered account in designated portal. The faceless assessment shall be made in respect of such territorial area, or persons or class of persons, or incomes or class of incomes, or cases or class of cases, as may be specified by the Board.

QUESTION 6 (PEQ)

Can the Joint Commissioner issue directions to the Assessing Officer for completion of assessment in a particular case? Is such direction binding on the Assessing Officer?

Solution:

a) Section 144A empowers the Joint Commissioner to issue guidance to the Assessing Officer for completing the assessment.

b) Such guidance is binding on the Assessing Officer and the assessment has to be made in the light of such guidelines only.

QUESTION 7 (WB)

For facilitating expeditious resolution of disputes relating to international transactions involving transfer pricing and foreign companies, the Income-Tax Act, 1961, has provided for "alternate dispute resolution mechanism". In this context, you are required to answer the following:

a) What meanings have been assigned to "dispute resolution panel" and the "Eligible Assessee" under this mechanism?

b) When can a grievance for resolution be filed by an assessee?

c) What evidences are being considered by the panel to redress the grievance of the assessee?

Solution:

a) The term "Dispute Resolution Panel" has been defined to mean a collegium comprising of three Principal Commissioners or Commissioners of Income-tax constituted by the Board for this purpose.

The term "Eligible Assessee" means any person in whose case the variation referred to in section 144C (1) arises as a consequence of the order of the Transfer Pricing Officer passed under section 92CA (3) and any non- corporate non-resident or any foreign company.

b) In case of an assessment of the eligible Assessee, the Assessing Officer shall forward a draft of the proposed order of assessment. The eligible Assessee shall file his objections to such variation within 30 days of receipt of such order, with the Dispute Resolution Panel and with the Assessing Officer.

c) The Dispute Resolution Panel shall, in a case where any objections are received, take into consideration:
   i. the draft order
   ii. the objections filed by the Assessee
   iii. the evidence furnished by the Assessee
   iv. the report, if any, of the Assessing Officer, Valuation Officer or Transfer Pricing Officer or any other authority
   v. the records relating to the draft order
   vi. the evidence collected by, or caused to be collected by it
   vii. the result of any enquiry made by or caused to be made by it

QUESTION 8 (PEQ)

Magnet Ltd. Has following issues with regard to its assessment and tax management. You are to provide brief answer to the following:

The Assessing officer in order to invoke section 147 and to issue notice under section 148 has sought some information from search procedure conducted on 10/08/2024 for the assessment year 2022-23. Briefly explain the scope of power of the assessing officer under section 148A.

Solution:

Sec 148A: AO has to follow the following steps before issue of notice u/s 148

a) Conduct any inquiry (if required).

b) Provide an opportunity of being heard to Assessee by serving Show Cause Notice [SCN] as to why notice u/s 148 shouldn't be issued. [Reply by Assessee should be within time specified in notice being 7-30 days.]

c) Consider the reply of Assessee.

d) Decide by passing order whether it is a fit case to issue notice u/s 148.

Non-Applicability of Section 148A

a) **a search is initiated under section 132** or books of account, other documents or any assets are requisitioned under section 132A, on or after 01.04.2021, in the case of the Assessee; or

b) the Assessing Officer is satisfied, with the prior approval of the Principal Commissioner or Commissioner, that **any money, bullion, jewellery or other valuable article or thing, books of account or documents seized or requisitioned under section 132 or section 132A** in case of any other person on or after 01.04.2021, belongs to the Assessee; or

c) any **information made available** to the Assessing Officer under the scheme notified in respect of

faceless collection of information under **section 135A**;

Note: In this question, Search was conducted before 01/09/024, so here income escapement assessment procedure only applicable. Block assessment procedures will not applicable in this case.

QUESTION 9 (PEQ)

Tai Ltd. filed its return of income for assessment year 2025-2 on 26th September, 2025. The return is selected for regular assessment under section 143(3) for which notice under section 143(2) is served on the company on 3rd July, 2026. The company responded to the notice under section 143(2). Examine whether the service of the notice is within time and if not, whether the assessment order can be challenged by the Assessee.

Solution:

The time limit for service of notice under section 143(2) is three months from the end of the financial year in which the return of income was furnished by the Assessee. The return of income for assessment year 2025-26 was filed by the Assessee on 26th September, 2025. Therefore, the notice under section 143(2) has to be served by 30th June, 2026. However, the notice was served on the Assessee only on 3rd July, 2026. Hence, the notice issued under section 143(2) is time-barred.

However, as per section 292BB, where an assessee had appeared in any proceedings or co- operated in any enquiry relating to an assessment or reassessment, it shall be deemed that any notice required to be served upon him, has been duly served upon him in time in accordance with the provisions of the Act and such assessee shall be precluded from raising any objection in any proceeding or enquiry that the notice was

a. not served upon him or
b. not served upon him in time or
c. served upon him in an improper manner.

The above provision shall not be applicable where the assessee has raised such objection before the completion of such assessment or reassessment. Therefore, in the instant case, if the assessee, Tai Limited, had raised an objection to the proceeding, on the ground of non- service of the notice under section 143(2) upon it on time, then, the validity of the assessment order can be challenged. In absence of such objection, the assessment order cannot be challenged.

SEARCH, SEIZURE & SURVEY

QUESTION 1 (WB)

Write a short note on powers of income tax authority u/s 131

Solution:

I.T. Authority shall have all the powers vested in **a civil court** under **the Code of civil procedure, 1908:**

a. Discovery & Inspection.
b. Enforcing the attendance of any persons & examining such person on oath.
c. Compelling the production of books of & documents.
d. Issuing commission (Summons).
e. IT Authority can impound books of A/C's for max 15 working days.

QUESTION 2 (ICAI)

The Director General of Income-Tax after getting the information that Mr. Mogambo is in possession of unaccounted cash of ₹ 50 lacs, issued orders by invoking powers vested in him as per section 131(1A), for its seizure. Is the order for seizure of cash issued by the Director General of Income-Tax, correct? If not, does the Director General of Income-tax have any other power to seize such cash?

Solution:

The powers under section 131(1A) deal with power of discovery and production of evidence. They do not confer the power of seizure of cash or any asset. The Director General, for the purposes of making an enquiry or investigation relating to any income concealed or likely to be concealed by any person or class of persons within his jurisdiction, shall be competent to exercise powers conferred under section 131(1), which confine to discovery and inspection, enforcing attendance, compelling the production of books of account and other documents and issuing commissions. Thus, the power of seizure of unaccounted cash is not one of the powers conferred on the Director General under section 131(1A).

However, **under section 132,** the Director General has the power to authorize any Additional Director or Additional Commissioner or Joint Director or Joint Commissioner etc. to **seize money found as a result of search**, if he has reason to authorize the Officers concerned to enter the premises where the cash is kept by Mr. Mogambo and seize such unaccounted cash.

QUESTION 3 (WB)

What are the presumptions in case of search?

Solution:

Presumption under Search:

If any books, documents, money, bullion, jewellery etc. found in possession of any person it is presumed:

- ✓ They belong to such person.
- ✓ Content of books or documents are true.
- ✓ Signature & other part of books or documents which seems to be in handwriting of any particular person are in that person's handwriting.

If Authorized Officer has no jurisdiction over the person searched by him or if he found books, assets etc. of other person, then he shall handover the books, assets etc. to AO having jurisdiction over such other person within 60 days from the date on which search was completed.

QUESTION 4 (WB)

Describe the power of authorized officer while conducting search u/s 132.

Solution:

Power of Authorized Officer

a. Enter any building, place, vessel, vehicle or aircraft where he suspects that books, money etc. are kept.
b. Power to break locks of any door, box, locker etc. if keys are not available.
c. Search any person there.
d. Require to produce password, if books are in electronic form.
e. Place marks of identification & Make inventory.
f. Seize any books, documents, money, bullion, jewellery etc. found under search. [Stock cannot be seized].

QUESTION 5 (ICAI)

The premises of Ganesh were subjected to a search under section 132 of the Act. The search was authorized and the warrant was signed by the Joint Commissioner of Income- Tax having jurisdiction over the assessee, consequent to information in his possession. The Assessee challenged the validity of search on the ground that section 132(1) does not empower Joint Commissioner to authorize a search under the Act. Decide the correctness of the contention raised by the assessee.

Solution:

Under section 132(1), the income-tax authorities listed therein are empowered to authorise other income-tax authorities to conduct search and seizure operations. The authorities empowered to issue authorisation include such Additional Director, Additional Commissioner, Joint Director and Joint Commissioner as are empowered by the CBDT to do so. However, a Joint Commissioner can issue warrant of authorisation only if he has been specifically empowered to do so by the CBDT. Therefore, only if the Joint Commissioner has not been specifically empowered by the CBDT to do so, the contention of the assessee would hold good. If the Joint Commissioner has been duly empowered by the CBDT, then the contention raised by the Assessee would not be valid.

QUESTION 6 (ICAI)

Examine whether the information regarding possession of unexplained assets and income received from the Central Bureau of Investigation, a Government agency, can constitute "information" for action under section 132. Discuss.

Solution:

As per section 132(1)(c), authorisation for search and seizure can take place if the authority, in consequence of information in his possession, has reason to believe that any person is in possession of money, bullion, jewellery or other valuable article or thing and these assets represent, either wholly or partly, income or property which has not been, or would not be disclosed by such person for the

purposes of this Act. In the absence of such information, a search cannot be validly authorised.

The Apex Court in **UOI v Ajit Jain** has held that mere intimation by the CBI that money was found in the possession of the assessee, which according to the CBI was undisclosed, without something more, does not constitute "information" within the meaning of section 132, on the basis of which a search warrant could be issued. Consequently, the Supreme Court held that the search conducted on this basis and the assessment made pursuant to such **search was not valid.**

QUESTION 7 (ICAI)

The business premises of Ram Bharose Ltd. and the residence of two of its directors at Delhi were searched under section 132 by the DDI (Deputy Director of Income Tax), Delhi. The search was concluded on 9.8.2025 and following were also seized besides other papers and records:

i. Papers found in the drawer of an accountant relating to Shri Krishna Ltd., Mumbai indicating details of various business transactions. However, Ram Bharose Ltd. is not having any direct or indirect connection of any nature with these transactions and Shri Krishna Ltd., Mumbai and its directors.

ii. Jewellery worth ₹ 5 lacs from the bed room of one of the directors, which was claimed by him to be of his married daughter.

iii. Papers recording certain transactions of income and expenses having direct nexus with the business of the company for the period from 16.4.2020 to date of search. It was admitted by the director that the transactions recorded in such papers have not been incorporated in the books.

You are required to answer on the basis of aforesaid and the provisions of Act, following questions:

a) What action the DDI shall be taking in respect of the seized papers relating to Shri Krishna Ltd., Mumbai?

b) Whether the contention raised by the director as to jewellery found from his bed- room will be acceptable?

c) What presumption shall be drawn in respect of the papers which indicate transactions not recorded in the books?

Solution:

a) The authorized officer being DDI, Delhi is not having any jurisdiction over Shri Krishna Ltd., Mumbai, and therefore, as per section 132(9A), the papers seized relating to this company shall be handed over by him to the assessing officer having jurisdiction over Shri Krishna Ltd., Mumbai **within a period of 60 days** from the date on which the last of the authorizations for search was executed for taking further necessary action thereon.

b) The contention raised by the Director will not be acceptable because as per the provisions of sub-section (4A) of section 132, where any books of account, other documents, money, bullion, jewellery or other valuables are found in the possession or control of any person in the course of search, then, in respect thereof, it may be presumed that the same belongs to that person.

c) As per section 132(4A), the presumptions in respect of the papers, indicating transactions not recorded in the books but having direct nexus with the business of the company, are that the same belong to the company, contents of such papers are true and the handwriting in which the same are written is/are of the persons(s) whose premises have been searched.

QUESTION 8 (WB)

Write notes on deemed or constructive seizure.

Solution:

Conditions:

Not possible to take physical possession due to **volume, weight** or **a dangerous nature.**

Procedure:

- ✓ Authorized Officer may serve order to owner that he shall not deal with such asset without approval.
- ✓ No such order can be passed for stock-in-trade.

Though such order can also be passed for reasons other than those mentioned above, but the order shall not be treated as Deemed seizure and it shall not be in force for a period exceeding 60 days from the date of the order. (Prohibitor Order / Order of Restraint).

QUESTION 9 (PEQ)

State the consequences in case of provisional attachment of any property belonging to the Assessee by the Assessing Officer.

Solution:

- **Procedure:**
  - ✓ during the course of the search or seizure; or
  - ✓ within a period of **60 days** from the date on which the last of the authorizations for search was executed, the authorized officer may attach provisionally any property belonging to the assessee.
  - ✓ Every provisional attachment shall cease to have effect after the expiry of **6 months** from the date of such order.
  - ✓ During course of search/within 60 days conclusions of search the authorized officer, may make a reference to VO, VO shall estimate the FMV of the property. Report of VO shall be in 60 days of receipt of such reference.
- **Conditions:**
  - ✓ The authorized officer is satisfied that for the **purpose of protecting the interest of revenue.**
  - ✓ The reasons for such provisional attachment should be **recorded in writing.**
  - ✓ **Previous approval** (in writing) of the PDGIT or DGIT or the PDIT or DIT has taken.

QUESTION 10 (ICAI)

Cash of ₹ 25 lacs was seized on 12.9.2025 in a search conducted as per section 132 of the Act. The assessee moved an application on 27.10.2025 to release such cash after explaining the sources thereof, which was turned down by the department. The assessee seeks your opinion on, the following issues:

(i) Can the department withhold the explained money?

(ii) If yes, then to what extent and up to what period?

Solution:

The proviso to section 132B(1)(i) provides that where the person concerned makes an application to the assessing officer, within 30 days from the end of the month in which the asset was seized, for release of the asset and the nature and source of acquisition of the asset is explained to the satisfaction of the assessing officer then the assessing officer may, with the prior approval of the Principal Chief Commissioner or Chief Commissioner or Principal Commissioner or Commissioner, release the asset after

recovering the existing liability under the Income-Tax Act, 1961, etc. out of such asset. 'Existing liability', however, does not include advance tax payable. Such asset or portion thereof has to be released within 120 days from the date on which the last of the authorisations for search under section 132 was executed.

In this case, since the application was made to the assessing officer within 30 days from the end of the month in which search was conducted, **the department may retain only the amount of existing liability, if any, and the balance may have to be released within 120 days from the date on which the last of the authorisations** for search under section 132 was executed.

Important Note: It may be noted that one of the conditions mentioned above for release of an asset is that the **nature and source** of acquisition of the asset should be explained to the satisfaction of the assessing officer. However, in this case, it has been given that the assessee application for release of the asset, explaining the sources thereof, was turned down by the Department.

If the application was turned down by the Department due to the reason that it was not satisfied with the explanation given by the assessee as to the nature and source of acquisition of the asset, then, the asset (in this case, cash) cannot be released, since the condition mentioned above is not satisfied.

QUESTION 11 (PEQ)

A movable asset worth ₹ 30 lacs and cash of ₹ 20 lakhs were seized on 10.01.2024 in search conducted in the premises of Vidyut & Co, the assessee, as per section 132 of act. The assessee moved an application on 25.02.2024 to release such asset after explaining the source thereof. Can the AO release the asset and cash seized and if so, what is the time period for such release?

Solution:

Conditions and time limit for release of seized asset:

Where the following conditions are satisfied, the amount of any existing liability may be recovered out of such asset and the remaining portion of the asset may be released to the person from whose custody the assets were seized –

1. The person concerned makes an application to AO within 30 days from the end of the month in which the asset was seized for release of asset.
2. The nature and source of acquisition of such asset is explained to the satisfaction of AO.
3. The AO obtains prior approval from the PCCIT/CCIT/PCIT/CIT.

Time limit for release of seized asset:

Asset or any portion there of shall be released within a period of 120 days from the date on which the last date authorization for search.

In this case, since the application was made to the assessing officer within 30 days period, the amount of existing tax liability may be recovered out of the asset and balance may be released within 120 days from the date on which the last day of authorizations for search under sec 132 was executed.

QUESTION 12 (PEQ)

The assessing officer within his jurisdiction surveyed a popular Cyber Café at 12 o'clock in night for the purpose of collecting information which may be useful for the purposes of the Income-Tax Act, 1961. The Cyber Café is kept open for business every day between 2 p.m. and 2 a.m. The owner of the

Cyber Café claims that the assessing officer could not enter the café in late night. The Assessing Officer wanted to take away with him the books of account kept at the Cyber Café. Examine the validity of the claim made by owner and the proposed action of the Assessing Officer.

Solution:

The Assessing Officer can exercise his **power of survey under section 133A** only after obtaining the approval. Assuming that he has obtained such approval in this case, he is empowered under section 133A to enter any place of business of the assessee within his jurisdiction only during the hours at which such place is open for the conduct of business. In the case given, the cyber cafe is open from 2.00 p.m. to 2.00 a.m. for the conduct of business. The Assessing Officer entered the cyber cafe at 12 o'clock in the night which falls within the working hours of the cyber cafe. Therefore, **the claim made by the owner to** the effect that the Assessing Officer could not enter the cyber cafe at late night is **not in accordance with law.**

Further, as per section 133A (3) (ia), the Assessing Officer may, impound and retain in his custody for such period as he thinks fit, any books of account or other documents inspected by him. However, he shall not impound any books of account or other documents except after recording his reasons for doing so. **He shall not retain** in his custody any such books of account or other documents for a period exceeding fifteen days (exclusive of holidays).

QUESTION 13 (WB)

During the course of survey operations u/s 133A, the Income-tax authority, impounded the books of account and other documents inspected by him, relating to the assessee and retained in his custody. Is the action of the officer justified under law?

Solution:

a) IT Authority may enter any building or place at which business / profession is carried on.
b) If books or assets relating to business / profession are kept at some other place, then such other place can also be covered under survey.
c) **Upon entering, they can:**
   i. Inspect any books of accounts or documents.
   ii. Check or verify cash, stock or any other valuable articles.
   iii. Place identification marks on books of accounts & documents.
   iv. Record statement of any person.
   v. Impound & retain books & documents after recording reasons. [Max 15 working days]

He shall not retain in his custody any such books of account or other documents for a period exceeding fifteen days (exclusive of holidays).

QUESTION 14 (WB)

State the cases where Income-Tax Authority has the power to survey. In this connection, also state the restrictions imposed on Income-Tax Authority while conducting survey.

Solution:

Upon entering, they can:

i. Inspect any books of accounts or documents.
ii. Check or verify cash, stock or any other valuable articles.

iii. Place identification marks on books of accounts & documents.
iv. Record statement of any person.
v. Impound & retain books & documents after recording reasons. [Max 15 working days]

QUESTION 15 (PEQ)

Discuss whether section 133(6) is applicable in the case of a co-operative society or co- operative bank.

Solution:

Section 2(31) defines 'person'. The definition clause is inclusive and not exhaustive. After arranging the categories of persons covered by the normal meaning of term 'person', the residuary clause covers every 'artificial juridical person' not falling within any of the preceding sub-clauses.

This shows that the Act does not exclude anyone or any institution from the scope of definition of the term 'person'. A society constituted under the Co-operative Societies Act is an artificial juridical person and so much so it answers the above definition of 'person'.

Therefore, section 133(6) squarely applies to a co-operative society as well. Want of specific mention of co-operative society or co-operative bank in section 133(6) does not make any difference. Co-operative societies or Co-operative banks are not immune from proceedings under section 133(6) so far as they come within the definition of 'person'.

QUESTION 16 (PEQ)

Akshay & Co (P) Ltd is engaged in jewellery business. A team of income tax department visited its premises at 11 a.m. on a working day for survey under section 133A. It was a few days before Diwali and the survey team pulled down the shutters of its showroom to stop entry and exit of persons including customers and did counting of physical stock. There was excess stock of gold ornaments weighing 3 Kgs (value ₹ 150 lakhs-approx.). The books of account were checked and the survey team stayed whole day and left the premises on next day morning. The regular business hours are 10am to 10pm on all days except Sundays. Based on these facts, answer the following:

i. Can the survey team suspend the business of the assessee for the purpose of survey under section 133A?
ii. Can the survey exercise be extended whole night beyond regular business hours?
iii. Can the excess stock be seized by the survey team in a survey under section 133A?
iv. Can the survey team impound books of account?
v. State the income-tax authority competent to authorize a survey under section 133A.

Solution:

i. The survey team under section 133A is not empowered to suspend the business of Akshay & Co (P) Ltd. The objection of conducting a survey under section 133A is to collect information, verify records, inspect the premises, etc. Suspension of business is not within the scope of section 133A.
ii. The authority conduction survey can enter during normal business hours of the taxpayer, In that sense, if a taxpayer functions a movie theatre during night till 1 am, the survey team can enter during such night hour also. However, survey operations cannot be done throughout the night, beyond the normal working hours of the taxpayers. If the survey cannot be completed during the

course of working hours or a reasonable time beyond the same, it must be conducted the subsequent day.

iii. The income-tax authority conducting the survey can makes an inventory of any cash, stock or other valuable article or thing checked or verified by him. Even if any excess stock is found during the survey, it cannot be seized during the survey operations. Power of seizure is available only during search operations.

iv. The income-tax authority conducting the survey can impound any books of account or other documents except after recording his reasons for so doing.

v. The income-tax authority authorized to conduct survey are a principal Commissioner or Commissioner, a principal Director or Director, joint Commissioner or joint Director, and assistant Director or a Deputy Director or an Assessing officer, or a tax recovery officer; and includes an Inspector.

QUESTION 17 (WB)

Write a short note on Door-to-Door survey u/s 133B

Solution:

a. IT Authority may enter any place at which B&P is carried on & collect information from there.
b. Entry shall be made only during hours when such place is kept open for conducting B&P.
c. No power to impound books & documents u/s 133B.

QUESTION 18 (PEQ)

An income-tax authority visits to the registered office of a company and ask to inspect certain register of the companies which is required to be maintained by the company as per Company law. The company denies to show such registers of the company stating that such registers can be inspected by any member, debenture-holder, other security holder or beneficial owner only. Discuss

Solution:

The Income tax authority [being Assessing Officer, Deputy Commissioner (Appeals), Joint Commissioner, Joint Commissioner (Appeals), Commissioner (Appeals) or any other authorized person] may inspect and take copies of any register of the members, debenture- holders or mortgagees of any company or of any entry in such register.

QUESTION 19 (ICAI)

Mr. Sanskar is engaged in the business of retail trade and has been declaring income of 10 lakhs to 15 lakhs every year in the last 10 years. A search was conducted under section 132 in the business premises of Sanskar on 5th July, 2025. The search was concluded by executing last of authorisation for search on 10thAugust, 2025. The A.O. has in his possession documents which revealed that Mr. Sanskar has incurred 5 crores in May 2019 for the marriage of his daughter. The A.O intends to issue notice under section 148 to Sanskar for the Assessment Year relevant to the previous year 2019-20. Can he do so?

Solution:

In the given case, Mr. Sanskar, a retail trader, has been regularly filing returns of income over the past ten years. A search under section 132 was initiated at his business premises on 5th July 2025 and was concluded by executing the last of the authorisations on 10th August 2025. During the course of the search, the Assessing Officer came into possession of documents evidencing that Mr. Sanskar had incurred an expenditure of 5 crores towards the marriage of his daughter in May 2019, which was not recorded in the books of account.

Pursuant to the **amendments made by the Finance Act (No. 2), 2024 and Finance Act, 2025**, the provisions of **Chapter XIV-B (Sections 158B to 158BI)** have been reintroduced and are applicable to search and requisition cases where the search is initiated under section 132 or requisition is made under section 132A on or after 1st September 2024. As the search in this case was initiated after the said date, the **case falls within the ambit of the block assessment scheme as reintroduced and not under section 147.**

As per section 158BA, the **"block period"** is defined to include the six assessment years immediately preceding the previous year in which the search is conducted, as well as the period commencing from the first day of the relevant previous year up to the date of conclusion of the search. Accordingly, for a search conducted in the previous year 2025-26, the block period would comprise PYs 2019-20 to 2024-25, along with the period from 1st April 2025 to 10th August 2025.

Given that the expenditure of 5 crores pertains to the previous year 2019-20 (relevant to Assessment Year 2020-21), the same falls within the block period. Once the provisions of Chapter XIV-B become applicable pursuant to a search initiated on or after 1st September 2024, the assessment of undisclosed income for the block period must be undertaken under section 158BC, and not under the regular assessment or reassessment provisions, including section 148.

Therefore, the **Assessing Officer cannot issue a notice under section 148** for Assessment Year 2020-21 in this case. Instead, he is required to proceed by issuing a notice under section 158BC, requiring the assessee to furnish a return of income in the prescribed form for the block period. The undisclosed expenditure identified during the search would be assessed as undisclosed income in the block assessment in accordance with the procedure laid down under Chapter XIV-B.

QUESTION 20

On Dec 8,2025, IT Dept conducts search u/s 132 at the office / residence of Mr. X, resident individual (last authorisation of search was executed: 10th Jan, 2026). He provides details of Income admitted in ITRS for the AY's up to AY 24-25. As well as the undisclosed income of block period admitted by him in ROI u/s 158BC. Additionally, the total income for each AY determined by AO is given as follows;

Particulars	Assessment status	Total income declared by assessee in ITR / Assessed based on books	Total undisclosed income declared by assessee in ROI u/s 158 BC	Additional undisclosed income identified by AO
A: ROI filled AY 20 - 21	143 (3)	25	35	60
AY 21 - 22	143	35	50	70

AY 22 – 23	143 (1)	36	62	100
AY 23 – 24	143 (1)	10	15	40
AY 24 – 25	143 (1)	30	60	100
		136	222	370
B: ROI not filed up to Dec 8th 2025				
AY25 – 26	On the basis Of books	25	7	20
1/4/25 to 7/12/25		12	-	-
8/12/25 to 10/1/26		10	-	-
			229	390

Compute total Income of block period?

Solution:

Block period:

{PY 24-25, PY 23-24, PY 22-23, PY 21-22, Py 20-21, PY 19-20} + {1/4/25 to 10/1/26}

The aggregation of following shall be total undisclosed income of block period:

Particulars	Amount
1. Undisclosed income declared in ROI u/s 158BC by assessee	229
2. Undisclosed income determined by AO	390
	619

Negative list (not included in undisclosed income of the block period)	
1. AY 20-21 to 24-25 based on Assessment / Intimation	136
2. AY 25-26 – on the basis of books	25
3. 1/4/25 to 7/12/25	12
4. 8/12/25 to 10/1/26	10
Shall not be included in computation of total undisclosed income of block period.	

APPEALS AND REVISION

QUESTION 1 (ICAI)

"SVS Popcorn" did not make a claim of ₹ 20 lakhs in the return of income filed for A.Y. 2026- 27 which was disallowed in the previous assessment year under section 43B. However, the said claim was also not considered by the assessing officer during assessment proceedings on the ground that no revised return was filed. Can the assessee now make such claim before the appellate authority?

Solution:

Yes, the assessee is entitled to raise additional claims before the appellate authorities.

The restriction that an additional claim has to be made by filing a revised return applies only in respect of a claim made before the assessing officer. An assessee cannot make a claim before the assessing officer otherwise than by filing a revised return. It was so held by the Supreme Court in **Goetze (India) Ltd v. CIT.**

However, this restriction does not apply to an additional claim made before an appellate authority. The appellate authorities have jurisdiction to permit additional claims before them, though, the exercise of such jurisdiction is entirely the authorities' discretion. It was so held by the Bombay High Court in **CIT v. Pruthvi Brokers & Shareholders.** This view is also endorsed by the Supreme Court in case of **Wipro Finance Ltd. v. CIT.**

Thus, an additional claim can be raised before the appellate authority even if no revised return is filed.

QUESTION 2 (ICAI)

1. The Commissioner of Income-tax issued notice to revise the order passed by an assessing officer under section 143. During the pendency of proceedings before the Commissioner, on the basis of material gathered during survey under section 133A after issue of the first notice, the Commissioner of Income-tax issued a second notice, the contents of which were different from the contents of the first notice. Examine whether the action of the Commissioner is justified as to the second notice.
2. Examine the circumstances where the appellant shall be entitled to produce additional evidence, oral or documentary, before the Commissioner of Income-Tax (Appeals) other than the evidence produced during the proceedings before the assessing officer.

Solution:

1. The action of the Commissioner in issuing the second notice is not justified. The term "record" has been defined in clause (b) of Explanation to section 263(1). According to this definition "record" shall include and shall be deemed always to have included all records relating to any proceeding under the Act available at the time of examination by the Commissioner. In other words, the information, material, report etc. which were not in existence at the time the assessment was made and came into existence afterwards can be taken into consideration by the Commissioner for the purpose of invoking his jurisdiction under section 263(1). However, at the same time, in view of the express provisions contained in clause (b) of the Explanation to section 263(1), such information, material, report etc. can be relied upon by the Commissioner only if the same forms part of record when the action under section 263 is taken by the Commissioner.

issuance of a notice under section 263 succeeds the examination of record by Commissioner. In the present case, the Commissioner initially issued a notice under section 263, after the examination of the record available before him. The subsequent second notice was on the basis of material collected under section 133A, which was totally unrelated and irrelevant to the issues sought to be revised in the first notice. Accordingly, the material on the basis of which the second notice was issued could not be said to be "record" available at the time of examination as emphasized in Explanation (b) to section 263(1).

2. As per Rule 46A(1) of the Income-Tax Rules 1962, an appellant shall be entitled to produce before the Commissioner (Appeals), evidence, either oral or documentary, other than the evidence produced by him during the course of proceedings before the assessing officer, only in the following circumstances -
   a. where the Assessing Officer has refused to admit evidence which ought to have been admitted; or
   b. where the appellant was prevented by sufficient cause from producing the evidence which he was called upon to produce by the Assessing Officer; or
   c. where the appellant was prevented by sufficient cause from producing before the assessing officer any evidence which is relevant to any ground of appeal; or
   d. where the assessing officer has made the order appealed against without giving sufficient opportunity to the appellant to adduce evidence relevant to any ground of appeal.

QUESTION 3 (WB)

With reference to the provisions of the Income-Tax, 1961, critically examine the proposition that 'the Commissioner (Appeals) has no power to decide a matter that was not raised before him'.

Solution:

According to explanation to sec. 251, while disposing an appeal, the CIT(Appeals) may consider and decide any matter arising out of the proceedings in which the order appealed against was passed, not withstanding that such matter was not raised before the Commissioner (Appeals) by the appellant. Thus, the given statement is not correct.

QUESTION 4 (ICAI)

Does the Income-Tax Appellate Tribunal have the following powers?

i. Power to allow the assessee to urge any ground of appeal which was not raised by him before the Commissioner (Appeals).

ii. Power to recall its own order solely for rectification of mistake apparent from the records.

Solution:

i. The Income-Tax Appellate Tribunal has the power to entertain question raised for the first time. The Tribunal is not confined only to the issues arising out of the appeal before the Commissioner (Appeals). It has the power to allow the assessee to urge any ground not raised before the Commissioner (Appeals). However, the relevant facts in respect of such ground should be on record. The decision of the Supreme Court in the case of **National Thermal Power Company Limited vs. CIT** supports this view.

ii. The Delhi High Court, in **Lachman Dass Bhatia Hingwala (P) Ltd. v. ACIT** observed that the justification of an order passed by the Tribunal recalling its own order is required to be tested on the basis of the law laid down by the Apex Court in **Honda Siel Power Products Ltd. v. CIT** , dealing with the Tribunal's power under section 254(2) to recall its order where prejudice has resulted to a party due to an apparent omission, mistake or error committed by the Tribunal while passing the order. Such recalling of order for correcting an apparent mistake committed by the Tribunal has nothing to do with the doctrine or concept of inherent power of review. It is a well settled provision of law that the Tribunal has no inherent power to review its own judgment or order on merits or reappreciate the correctness of its earlier decision on merits. However, the power to recall has to be distinguished from the power to review. While the Tribunal does not have the inherent power to review its order on merits, it can recall its order for the purpose of correcting a mistake apparent from the record.

When prejudice results from an order attributable to the Tribunal's mistake, error or omission, then, it is the duty of the Tribunal to set it right. The Delhi High Court observed that the Tribunal, while exercising the power of rectification under section 254(2), can recall its order in entirety, if it is satisfied that prejudice has resulted to the party which is attributable to the Tribunal's mistake, error or omission and the error committed is apparent.

QUESTION 5 (ICAI)

A petition for stay of demand was filed by XYZ Ltd. before the Income-Tax Appellate Tribunal in respect of a disputed demand for which appeal was pending before it. The Appellate Tribunal granted stay vide order dated 1.1.2025 for a period of 180 days from the date of such order, on deposit of 20% of the amount of tax by XYZ Ltd. Thereafter, the bench was functioning intermittently till 1.2.2026 and therefore, the disputed matter could not be disposed of. In the meanwhile, in June 2025, XYZ Ltd. had made an application for extension of stay and was granted extension of stay up to 31.12.2025. Thereafter, on 5.1.2026, the assessing officer attached the bank account of XYZ Ltd. and recovered the amount of ₹ 15 lakhs against the arrear demand of ₹ 25 lakhs. The company requested the Assessing Officer to refund the amount as it holds stay over it. The assessing officer, however, rejected the contention of the assesses stating that the stay period expired on 31.12.2025, after which the order of stay stood vacated automatically. Examine the correctness of contention of the assessing officer.

Solution:

As per section 254(2A), the Appellate Tribunal may, on merit, pass an order of stay in any proceedings relating to an appeal. However, such period of stay cannot exceed 180 days from the date of such order subject to the condition that the assesses deposits not less than 20% of the amount of tax, interest, fee, penalty, or any other sum payable under the provisions of this Act, or furnishes security of equal amount in respect thereof.

No extension of stay shall be granted by the Appellate Tribunal, where such appeal is not so disposed of within the said period as specified in the order of stay, unless the assesses makes an application and has complied with the condition of depositing 20% of tax and the Appellate Tribunal is satisfied that the delay in disposing of the appeal is not attributable to the assesses, However, the aggregate of the

period of stay originally allowed and the period of stay so extended cannot exceed 365 days and the Appellate Tribunal has to dispose of the appeal within the period or periods of stay so extended or allowed.

If such appeal is not so disposed of within 180 days or the period or periods extended not exceeding 365 days, the order of stay shall stand vacated after the expiry of such period or periods, **only if the delay in disposing of the appeal is attributable to the assesses**. It was so held by the Supreme Court in DCIT v. Pepsi Foods Ltd.

Accordingly, if an appeal is not heard by the bench, due to the bench functioning intermittently, the delay is not attributable to XYZ Ltd. In such a case, though the extended stay period of 365 days had expired on 30.12.2025, the recovery of ₹ 15 lakhs against the arrear demand of ₹ 25 lakhs made by the Assessing Officer on 5.1.2026 is not in order, since the delay in disposing of the appeal is not attributable to XYZ Ltd. Therefore, the contention of the assessing officer is not correct. The order of stay would stand vacated after 31.12.2025, only in a case where the delay in disposing of the appeal had been attributable to XYZ Ltd.

QUESTION 6 (WB)

Who can file memorandum of cross-objections before the Income-Tax Appellate Tribunal? What is the time limit? What is the fee for filing memorandum of cross objections?

Solution:

Section 253(4) of the Income-Tax Act, 1961 gives the respondent (assessee or the Assessing Officer), in every appeal filed before the Income-Tax Appellate Tribunal, a right to file a memorandum of cross-objections against any order of the Joint Commissioner (Appeals) or the Commissioner (Appeals). This right of filing a memorandum of cross- objections is an independent right given to the respondent in an appeal and is in addition to the right of appeal which may or may not be exercised by the assessee or the Assessing Officer under section 253(1) or section 253(2). The memorandum of cross-objections has to be in the prescribed form and verified in the prescribed manner and has to be filed within 30 days of the receipt of notice of the appeal. The Tribunal is empowered to permit filing of memorandum of cross- objections after the expiry of the prescribed period if sufficient cause is shown. Such memorandum of cross-objections will be disposed of by the Appellate Tribunal as if it were an appeal presented within the time specified in section 253(3). There is no fee for filing a memorandum of cross-objections.

QUESTION 7 (PEQ)

The ITAT can grant indefinite stay for the demand disputed in appeals before it. Discuss

Solution:

The Tribunal, after considering the merits, may pass an order of stay in any proceedings for a period not exceeding 180 days (provided the assesses deposits not less than 20% of the amount of tax, interest, fee, penalty, or any other sum payable or furnishes security of equal amount in respect thereof) from the date of such order and the Tribunal shall dispose of the appeal within the said period of stay specified in that order.

However, no extension of stay shall be granted by the Appellate Tribunal, where such appeal is not so

disposed of within the said period of stay as specified in the order of stay, unless the assesses makes an application and has complied with the condition and the Appellate Tribunal is satisfied that the delay in disposing of the appeal is not attributable to the assesses, so however, that the aggregate of the period of stay originally allowed and the period of stay so extended shall not exceed 365 days and the Appellate Tribunal shall dispose of the appeal within the period or periods of stay so extended or allowed.

Further if such appeal is not so disposed of within the period allowed (original and extended), the order of stay shall stand vacated after the expiry of such period (i.e., 365 days), even if the delay in disposing of the appeal is not attributable to the assessees.

QUESTION 8 (ICAI)

Examine the correctness or otherwise of the following statements with reference to the provisions of the Income-Tax Act, 1961:

i. An appeal before Income-Tax Appellate Tribunal cannot be decided in the event of difference of opinion between the Judicial Member and the Accountant Member on a particular ground.

ii. A High Court does not have an inherent power to review an earlier order passed by it on merits.

Solution:

i. **The statement given is not correct.** As per the provisions of section 255, in the event of difference in opinion between the members of the Bench of the Income-tax Appellate Tribunal, the matter shall be decided on the basis of the opinion of the majority of the members. In case the members are equally divided, they shall state the point or points of difference and the case shall be referred by the President of the Tribunal for hearing on such points by one or more of the other members of the Tribunal. Such point or points shall be decided according to the opinion of majority of the members of the Tribunal who heard the case, including those who had first heard it.

ii. **The statement given is not correct.** The Supreme Court, in **CIT v. Meghalaya Steels Ltd**, observed that the power of review would inhere on High Courts, being courts of record under article 215 of the Constitution of India. There is nothing in article 2262 of the Constitution to preclude a High Court from exercising the power of review which is inherent in every court of plenary jurisdiction to prevent miscarriage of justice or to correct grave and palpable errors committed by it. The Supreme Court further observed that section 260A (7) does not purport in any manner to curtail or restrict the application of the provisions of the Code of Civil Procedure. Section 260A(7) only states that all the provisions that would apply qua appeals in the Code of Civil Procedure would apply to appeals under section 260A. The Supreme Court opined that this does not in any manner suggest either that the other provisions of the Code of Civil Procedure are necessarily excluded or that the High Court's inherent jurisdiction is in any manner affected.

QUESTION 9 (ICAI)

Examine the correctness or otherwise of the following propositions in the context of the Income-Tax Act, 1961:

1. The powers of the Commissioner of Income-Tax (Appeals) to enhance the assessment are plenary and quite wide.

2. At the time of hearing of rectification application, the Income-Tax Appellate Tribunal can re-appreciate the evidence produced during the proceedings of the appeal hearing.
3. The High Court cannot interfere with the factual finding recorded by the lower authorities and the Tribunal, without any valid reasons.

Solution:

1. The proposition is correct in law. The Supreme Court has, in **CIT vs. McMillan & Co.** and **CIT vs. Kanpur Coal Syndicate,** held that in disposing of an appeal before him, the appellate authority can travel over a whole range of the assessment order. The scope of his powers is co-terminus with that of the assessing officer. He can do what the assessing officer can do and can also direct him to do, what he has failed to do. He can assess income from sources which have been considered by the assessing officer but not brought to tax. He can consider every aspect of the assessment order and give appropriate relief.

   The Allahabad High Court has, in **CIT v. Kashi Nath Chandi Wala** , held that the appellate authority is empowered to consider and decide any matter arising out of the proceedings in which the order appealed against was passed notwithstanding the fact that such matter was not raised before him by the assessee. The Commissioner (Appeals) is entitled to direct additions in respect of items of income not considered by the assessing officer.

   Further, the Apex Court has, in the case of **Jute Corporation of India Ltd. vs. CIT**, held that the appellate authority is vested with all the plenary powers which the subordinate authority may have in the matter.

   Thus, the powers of the Commissioner of Income-tax (Appeals) in enhancing the assessment are very wide and plenary.
2. The proposition is not correct as per law. This is because section 254(2) specifically empowers the Appellate Tribunal to amend any order passed by it, either suo-moto or on an application made by the assessee or assessing officer, with a view to rectify any mistake apparent from record, at any time **within 6 months** from the end of the month of the order sought to be amended.

   The powers of the Tribunal under section 254(2) relating to rectification of its order are very limited. Such powers are confined to rectifying any mistake apparent from the record. The mistake has to be such that for which no elaborate reasons or inquiry is necessary. Accordingly, the re-appreciation of evidence placed before the Tribunal during the course of the appeal hearing is not permitted. It cannot re-adjudicate the issue afresh under the garb of rectification **[CIT vs. Vardhman Spinning, CIT v. Ballabh Prasad Agarwal & Niranjan & Co. Ltd. v. ITAT]**
3. The proposition is correct in law. A finding of fact cannot be disturbed by the High Court in exercise of its powers under section 260A. The Income-Tax Appellate Tribunal is the final fact-finding authority and the findings of fact recorded by the Tribunal can be interfered with by the High Court under section 260A only on the ground that the same were without evidence or material, or if the finding is contrary to the evidence, or is perverse or there is no direct nexus between conclusion of fact and the primary fact upon which that conclusion is based.

   In **CIT vs. P. Mohan akala and M. Janardhana Rao v. Joint CIT,** the Apex Court observed that the High Court had set aside the factual findings of the lower authorities and the Tribunal without any

valid reason. The Apex Court held that the findings of fact could not be interfered with by the High Court without carefully considering the facts on record, the surrounding circumstances and the material evidence. There is no scope for interference with the factual findings, unless the findings are per se without reason or basis, perverse and/or contrary to the material on record.

Hence, only if the issue gives rise to a substantial question of law, an appeal shall lie before the High Court.

QUESTION 10 (PEQ)

An assessee, who is aggrieved by all or any of the following orders, is desirous to know the available remedial recourse and the time limit against each order under the Income-Tax Act, 1961:

1. passed under section 143(3) by the Assessing Officer.
2. passed under section 263 by the Commissioner of Income-tax.
3. passed under section 272A by the Director General.
4. passed under section 254 by the ITAT.

Solution:

1. An assessee, aggrieved by the order passed under section 143(3) by the Assessing Officer, can file an appeal before the Joint Commissioner (Appeals) under section 246 or the Commissioner of Income-tax (Appeals) under section 246A(1), within 30 days of the date of service of the notice of demand relating to the assessment. However, where the assessee does not want to prefer an appeal, then he can move a revision petition before the Principal Commissioner or Commissioner of Income-tax under section 264 within a period of one year from the date of on which the order was communicated to him or the date on which he otherwise came to know of it, whichever is earlier.
2. An assessee, aggrieved by the order passed under section 263 by the Commissioner of Income-tax, can file an appeal to Income-Tax Appellate Tribunal under section 253(1)(c) within 60 days of the date on which the order sought to be appealed against is communicated to the assessee.
3. An assessee, aggrieved by the order passed under section 272A by the Director General, can file an appeal before the Income-Tax Appellate Tribunal under section 253(1)(c) within 60 days of the date on which the order sought to be appealed against is communicated to the assessee.
4. An assessee, aggrieved by the order passed under section 254 by the Income-tax Appellate Tribunal, can file an appeal before the High Court under section 260A within 120 days from the date of receipt of order of Income-Tax Appellate Tribunal, only where the order gives rise to a substantial question of law.

QUESTION 11 (PEQ)

An Assesses, who is aggrieved by all or any of the following orders, is desirous to know the remedial recourse and the time limit against each order under the Income-Tax Act, 1961 –

1. Passed under section 153A (except an order passed in pursuance of the direction of the Dispute Resolution Panel) by the Assessing Officer.
2. Passed under section 263 by the Commissioner of Income-tax.
3. Passed under section 272A by the Principal Commissioner.
4. Passed under section 254 by the ITAT.

Solution:

Remedial measures against certain orders and time limit

No	Order Passed u/s	Remedy available	Time limit
1	153 A	File an appeal before the Commissioner (Appeals) u/s 246A (1) (or) Move a revision petition u/s 264 before the commissioner or Principal Commissioner	Within 30 days of the date of service of the notice of demand relating to the assessment. Within period of one year from: (i) The date of on which the order was communicated to him; or (ii) The date on which he otherwise came to know of it, whichever is earlier.
2.	263	File an appeal before the Appellate Tribunal (ITAT) u/s 253 (1) (c)	Within 60 days of the date on which the order sought to be appealed against is communicated to the assesses
3.	272 A	File an appeal before the Appellate Tribunal (ITAT) u/s 253 (1) (c)	Within 60 days of the date on which the order sought to be appealed against is communicated to the assesses.
4.	254	File an appeal before the High Court u/s 260 A	Within 120 days from the date of receipt of order of ITAT

QUESTION 12 (MQP)

Summarize a comparison between revision u/s 263 and revision u/s 264.

Solution:

Basis	Sec. 263	Sec. 264
Which order can be revised	Order, which is prejudicial to the interest of revenue.	Order, which is prejudicial to the interest of assessee.
Proceedings at the motion of	At the own motion of the authorities.	At the own motion of the authorities or on the application of the assessee.
Scope	Revision is possible of the issues which have not been considered and decided in an appeal, i.e., doctrine of partial merger is applicable.	Revision u/s 264 is not possible on any issue if an appeal has been filed, i.e., doctrine of total merger is applicable.
Time limit for application	Assessee does not apply.	Within 1 year from the date on which the order in question was communicated to the assessee.

Time limit for passing a revisional order	2 years from the end of the financial year in which the order sought to be revised was passed.	• **Where the authorities act on his own motion:** within 1 year from the date of original order. • **Where the application is made by the assessee:** within 1 year from the end of the financial year in which such application is made.
Fee	Not applicable	₹ 500 where the application for revision is made by the assessee.
Appeal against order	Appeal can be filed to the Tribunal	No appeal can be filed
Beneficial to	Revenue	Assessee

QUESTION 13 (PEQ)

What are pre-conditions to be fulfilled for exercising revisionary powers by the Commissioner of Income tax under Section 263 of the Income-Tax Act, 1961? Can he revise an order without affording an opportunity to the assesses? What is the time limit to exercise such powers? Briefly explain

Solution:

Any order passed by the Assessing Officer, which is –

a) Erroneous;

b) Prejudicial to the interests of the revenue; and

c) Passed by an authority subordinate to the Principal Commissioner or Commissioner.

– is revised by the Commissioner u/s 263

If the aforesaid conditions are satisfied, the Principal Commissioner or Commissioner may call for and examine the records of any proceeding under the Act. If he considers that any order passed by the Assessing Officer is prejudicial to the interest of the revenue, he can revise and rectify the assessment. No revision order shall be passed u/s 263 without giving the assesses an opportunity of being heard. Such order can be passed by the authorities within 2 years from the end of the financial year in which the order sought to be revised was passed.

QUESTION 14 (ICAI)

An assesses who had been served with an order of assessment passed under section 143(3) on 1.1.2026 had filed an application against this order before the CIT as per section 264 on 11.1.2026. However, the CIT refused to entertain the application on the pretext of premature application. Assesses seeks your opinion.

Solution:

An assessee, who is aggrieved by the order of the Assessing Officer under section 143(3) passed on 1.1.2026, had moved an application for revision of order under section 264 on 11.1.2026. The order passed by the assessing officer under section 143(3) is an order appealable before the Joint Commissioner (Appeals) or the Commissioner (Appeals). The time limit for filing an appeal is 30 days from the date of order i.e., up to 31.1.2026. This time limit had not expired on 11.1.2026 and the assessee had also not waived his right of appeal while filing the application for revision on 11.1.2026 before the Commissioner of Income-tax. The application filed before the Commissioner of Income-tax for revision under section 264 by the assessee will only be considered when the conditions specified under section 264(4) have been complied with.

One of the conditions is that the Commissioner shall not revise any order where an appeal against the order lies to the Joint Commissioner (Appeals) or Commissioner (Appeals) or Appellate Tribunal and the time within which such appeal may be made has not expired, unless the assessee has waived his right of appeal. In the present case, the time limit had not expired on 11.1.2026 and the assessee had also not waived the right of appeal while filing the application for revision before the Commissioner of Income-tax on 11.1.2026 under section 264. Therefore, the Commissioner's refusal to entertain such application is correct.

Note: In practical situations, the Commissioner could have kept the proceedings in abeyance till the expiry of the time prescribed for filing appeal by the assessee and thereafter, could have assumed jurisdiction for making revision besides taking an undertaking from the assessee for waiving his right of appeal. In reality, taxpayers usually will not prefer revision in such short time period nor would the Commissioner reject the application, the moment it is received by him.

QUESTION 15 (WB)

Commissioner of Income-tax has power only to revise an order in favor of the assessee. Comment.

Solution:

The Commissioner has power u/s 263 to revise any erroneous order, which are prejudicial to the interest of revenue. The Commissioner may call for and examine the records of any proceeding under the Act. If he considers that any order passed by the assessing officer is prejudicial to the interest of the revenue, he can revise and rectify the assessment. No revision order shall be passed u/s 263 without giving the assessee an opportunity of being heard.

Such order can be passed by the Commissioner within 2 years from the end of the financial year in which the order sought to be revised was passed.

QUESTION 16 (PEQ)

The income tax assessment of Murali (P) Ltd. Was completed on 20th November, 2026. There were three additions to the returned income viz, ₹ 5 lakh, ₹ 4 lakh respectively. The assesses filed appeal against first two additions. When the matter was pending in appeal, the CIT invoked section 263 in respect of the third addition. Is the action of CIT tenable in law? What would be your answer in case the assesses filled revision under section 264 in respect of the third addition made in the assessment after filing appeal in respect of the first two additions?

Solution:

Invoking section 263 when the matter is pending before CIT (Appeals)

Section 263 empowers PCCIT / CCIT / PCIT or CIIT to call for and examine the record of any proceeding under the Act if he considers that any order passed by the assessing officer is erroneous in so far as it is prejudicial to the interests of the Revenue.

The CIT may enhance or modify the assessment or cancel the assessment and direct a fresh assessment.

When the matter is pending before CIT (Appeals), the doctrine of partial merger will apply.

Therefore, section 263 could be invoked in respect of matters not covered in the appeal. Therefore, the action of the CIT is tenable in law.

Invoking section 264 when the matter is pending before CIT (Appeals):

As per section 264 in the case of any order passed by an income-tax authority subordinate to PCCIT or CCIT or PCIT / CIT, he may either of his own motion or on an application made by the assessee call for record of any proceeding and make such enquiry and make an order not being prejudicial to the Revenue.

When the assessee has preferred an appeal in respect of some of the matters and has not preferred appeal in respect of some of the matters contained in the assessment order, the doctrine of total merger would apply.

Once the assessee has approached CIT (Appeals) in respect of some of the matters, he cannot prefer revision under section 264.

This is because the assessment order of the Assessing Officer fully merges with that of the appellate order and therefore, it cannot be subjected to revision under section 264.

QUESTION 17 (PEQ)

The Assessing Officer (AO) of Dheeraj (P) Ltd. passed an assessment order under section 143(3) on 7th July, 2025 in respect of assessment year 2024-25 where he disallowed certain expenses to the extent of ₹5,00,000. However, he enhanced depreciation claim in respect of one of the assets. Dheeraj (P) Ltd. filed an appeal with the CIT (Appeals) against the disallowance of expenses. The CIT wants to revise the order under section 263 to withdraw allowance of enhanced depreciation made by the AO. Can the CIT exercise his revisionary power under section 263? Will your answer change if the CIT (Appeals) has disposed of the appeal without passing the order? Your answer should explain the relevant provisions of the Income-Tax Act.

Solution:

Doctrine of partial merger

Section 263 of the Income-Tax Act gives the power to Pr. CCIT or CCIT or PCIT or CIT to revise an order which is prejudicial to the interests of the Revenue; or which is erroneous and which was passed by an authority subordinate to him.

Revision under 263 of an order cannot be made when it is the subject matter of appeal.

However, the doctrine of partial merger is applicable in case of section 263 which means that the Commissioner can revise that part of the order which is not in the appeal.

In the present case, the assessee has preferred an appeal for the disallowance of business expenditure of ₹5,00,000 but the second point about the enhancement of depreciation is not a subject matter of the appeal filed by the assessee. As per the doctrine of partial merger, the Commissioner may at his

own motion revise the assessment order of the assessing officer on the point of enhancement of depreciation.

Where the CIT (A) has disposed off the appeal without passing an order:

An assessment order cannot be said to have been made subject of an appeal if the appeal has been disposed of by the appellate authority without passing an order.

Since, in the present case, the Commissioner wants to revise the matter which is not taken up in appeal by the assessee, there will not be any change in the answer even if the appeal is disposed of by the Appellate Authority.

QUESTION 18 (PEQ)

Arun Ltd, Jaipur is engaged in multiple businesses. It has the following 3 issues:

a) The assessee has preferred appeal against certain additions relating to assessment year 2022-23 before CIT (Appeals) and did not contest a few other additions made to its returned income in the assessment made under section 143(3). When the appeal was pending, the Commissioner of Income-tax invoked section 263 in respect of certain other issues not dealt with in the assessment. The tax counsel of the company says that the doctrine of total merger would apply and therefore the revision proposed is bad in law.

b) The company had sought a ruling from the Board for Advance Ruling and it is aggrieved with the ruling. Its tax counsel says that since the decision of the Board is binding on the applicant being the company in this case, it has no other option but to accept the ruling of the Board.

c) For the assessment year 2022-23, the assessing officer made an addition of ₹180 lakhs on account of excessive depreciation and ₹150 lakhs by way of disallowance under section 40A(2). The company filed an appeal before the CIT(A) against the denial of depreciation and on being unsuccessful filed a further appeal before the Appellate Tribunal. In respect of the disallowance under section 40A(2), it did not file any appeal but filed a revision petition under section 264, to the Commissioner of Income-tax, who dismissed it on the ground that the assessment was a subject matter of appeal to the Appellate Tribunal. The tax counsel says that the action of the Commissioner is not tenable in law.

Solution:

a) Section 263 invoked while appeal is pending before CIT(A)

Provision: Section 263 empowers the Principal Commissioner or Commissioner to revise any assessment order if it is erroneous and prejudicial to the interest of the revenue.

However, Section 263(1) Explanation (c) restricts such revision to issues not covered in appeal.

Analysis & Conclusion: The doctrine of partial merger applies – only the matters actually appealed against merge with the appellate order. Other parts of the assessment remain open for revision.

Hence, the Commissioner can invoke Section 263 for issues not under appeal, even if an appeal is pending for other issues. The revision is valid; the tax counsel is incorrect.

b) Binding nature of Advance Ruling by BAR

Provision: Under Section 245S, the ruling of the Board for Advance Rulings (BAR) is binding on:

- The applicant (assessee), and

- The jurisdictional Principal Commissioner or Commissioner, only in respect of the transaction referred to in the application.

Analysis & Conclusion: Although the ruling is binding under section 245S, it is not beyond judicial review. If there is an error of law or violation of natural justice, the assessee may file a writ petition under Article 226 of the Constitution.

The ruling is binding in regular course but can be challenged in court; tax counsel is incorrect.

c) **Rejection of Section 264 revision due to pending appeal on another issue**

Provision: As per Section 264(4), the Commissioner cannot revise any order which is the subject matter of an appeal. However, if the assessee appeals only on specific issues, the revision is permissible for unappealed issues.

Analysis & Conclusion: Since the company appealed only on the depreciation issue, and the disallowance under Section 40A(2) was not appealed, the revision petition under Section 264 was maintainable. The rejection on the ground of a general appeal is not tenable.

Commissioner's action is incorrect; tax counsel is right.

QUESTION 19 (PEQ)

Dhruv, a resident India, was served an intimation under section 143(1) relating to the assessment year 2026-27. He came to know only then that he has omitted to claim deduction under section 80-IA, which he is eligible to claim. He wants to file a revision petition before the principal Commissioner of Income-tax (PCIT) under section 264 of the Income-Tax Act, 1961. The Tax Manager of his concern opines that intimation is not an "order" eligible for a new revision under section 264 by PCIT.

Is the opinion of the Tax Manager, correct?

You are required to answer under the following heads:

i. Issue involved,
ii. Provisions applicable,
iii. Analysis of the issue, and
iv. Conclusion.

Solution:

Can the "intimation" be revised by the PCIT?

Issue involved

The issue involved is whether an intimation served on an assessee u/s 143(1) can be regarded as an "order" which can be revised by the PCIT u/s 264. In other words, whether intimation is an "order" amenable for revisionary jurisdiction of the PCIT.

Provisions applicable

As per section 264, in the case of any order, other than the one to which section 263 applies, the PCIT may, either on his own motion, or upon an application by the assessee, call for the record of any proceeding under the Act, may make an inquiry or cause an inquiry to be conducted, and may pass such order as he thinks fir, not being an order prejudicial to the assessee.

Analysis

Section 264 uses the words "any order"; hence it would imply that the section does not limit the power

thereunder to correct errors committed by the subordinate authorities but could even be exercised where errors are committed by assessee. It would even cover situations where the assessee, because of an error, has not put forth a legitimate claim at the time of filing the return and the error is subsequently discovered and is raised in an application under section 264.

The intimation under section 143(1) is to be regarded as an order for the purposes of section 264. Further, as per CBDT circular, a duty is cast upon the assessing officer to assist and aid the assessee in the matter of taxation and to advise the assessee, guide him and not to take advantage of error or mistake committed by the assessee or of his ignorance.

When the AO has failed in his duty, the PCIT should come to the rescue of the taxpayer.

Conclusion

In view of the above, intimation u/s 143(1) can be regarded as an "order" for the purposes of section 264 and is amenable to the revisionary jurisdiction of the PCIT.

QUESTION 20 (ICAI)

An Income-tax authority did not file an appeal to the Income-Tax Appellate Tribunal against an order of the Commissioner (Appeals) decided against the Income-tax department on a particular issue in case of one assesses, Alpi for assessment year 2025- 26 on the ground that the tax effect of such dispute was less than the monetary limit prescribed by CBDT. In assessment year 2026-27, similar issue arose in the assessments of Alpi and her sister Palki, which was decided by the Commissioner (Appeals) against the Department. Can the Income- tax department move an appeal to the Tribunal in respect of A.Y. 2026-27 against the orders of the Commissioner (Appeals) for Alpi and her sister Palki?

Solution:

Under section 268A (1), the CBDT is empowered to issue orders, instructions or directions to the other income-tax authorities, fixing such monetary limits, as it may deem fit, to regulate filing of appeal or application for reference by any income-tax authority.

Under section 268A (2), where an income-tax authority has not filed any appeal or application for reference on any issue in the case of an assesses for any assessment year, due to above- mentioned order/instruction/direction of the CBDT, such authority shall not be precluded from filing an appeal or application for reference on the same issue in the case of the same assesses for any other assessment year or any other assesses for the same or any other assessment year. Further, in such a case, it shall not be lawful for an assesses to contend that the income-tax authority has acquiesced in the decision on the disputed issue by not filing an appeal or application for reference in any case.

In view of above provision, it would be in order for the Income-Tax Department to move an appeal to the Tribunal against the orders of the CIT(A) in respect of A.Y. 2026-27 both for Alpi and Palki.

QUESTION 21 (ICAI)

Can a rectification order under section 254 of the Income-Tax Act, 1961 be passed by the Income-Tax Appellate Tribunal beyond 6 months from the end of the month in which the order sought to be rectified was passed?

Solution:

The issue as to whether a rectification order can be passed by the Income-tax Appellate Tribunal under section 254 beyond six months from the end of the month in which order sought to be rectified was passed, has been addressed in **Sree Ayyanar Spinning and Weaving Mills Ltd. v. CIT**. Section 254(2), dealing with the power of the Appellate Tribunal to pass an order of rectification of mistakes, is in two parts. The first part refers to the suo motu exercise of the power of rectification by the Appellate Tribunal, whereas the second part refers to rectification on an application filed by the assesses or assessing officer bringing any mistake apparent from the record to the attention of the Appellate Tribunal.

If Income-Tax Appellate Tribunal, suo moto, makes the rectification of its order, then the order has to be passed within 6 months from the end of the month in which the order sought to be rectified was passed. Where the application for rectification is made by the assessing officer or the assesses within 6 months from the end of the month in which the order sought to be rectified was passed, the Appellate Tribunal is bound to decide the application on merits and not on the ground of limitation i.e. order can be passed after expiry of 6 months from the end of the month in which the order sought to be rectified was passed. However, the application for rectification cannot be filed belatedly after 6 months from the end of the month in which the order sought to be rectified was passed. **[Ajith Kumar Pitaliya vs ITO]**

QUESTION 22 (PEQ)

State the provision regarding avoidance of repetitive appeals.

Solution:

Special provision for avoiding repetitive appeals [Sec. 158A]

1. Where an assesses claim (a declaration in the Form 8 and verified in the prescribed manner) that:
   - any question of law arising in his case for an assessment year which is pending before the assessing officer or any appellate authority (such case being hereafter in this section referred to as the relevant case) is identical
   - with a question of law arising in his case for another assessment year which is pending before the High Court or the Supreme Court (such case being hereafter in this section referred to as the other case),
   - and if the assessing officer or the appellate authority, as the case may be, agrees to apply in the relevant case the final decision on the question of law in the other case,
   - he shall not raise such question of law in the relevant case in appeal before any appellate authority.
2. The Assessing Officer or the appellate authority, as the case may be, may, by order in writing:
   - admit the claim of the assesses if he or it is satisfied that the question of law arising in the relevant case is identical with the question of law in the other case; or
   - reject the claim if he or it is not so satisfied.
3. Such order shall be final and shall not be called in question in any proceeding by way of appeal or revision under this Act.
4. Where a claim is admitted:

- the assessing officer or the appellate authority may make an order disposing of the relevant case without awaiting the final decision on the question of law in the other case; and
- the assesses shall not be entitled to raise, in relation to the relevant case, such question of law in appeal.

5. When the decision on the question of law in the other case becomes final, it shall be applied to the relevant case and the assessing officer or the appellate authority, shall, if necessary, amend the order conformably to such decision.

QUESTION 23 (MQP)

Discuss with reasons the following statements:

a. The ITAT cannot admit additional evidence during the hearing of the appeal.

b. The Commissioner of income-tax can revise an order during the pendency of an appeal before the First Appellate Authority.

c. The commissioner of appeals cannot admit an appeal filed beyond 30 days from the date of receipt of order by an assessee.

Solution:

a. Rule 29 of ITAT Rules,1963 deals with production of additional evidence before the Appellate Tribunal. The parties to the appeal shall not be entitled to produce additional evidence, either oral or documentary, before the Tribunal. However, the following are the exceptions to this rule-

i. Where the ITAT requires any document to be produced or any witness to be examined or any affidavit to be filled to enable it to pass orders or for any other substantial cause; or

ii. Where the income-tax authorities have decided the case without giving sufficient opportunity to the assessee to adduce evidence either on points specified by them or not specified by them.

In case (a) above, the ITAT may allow such document to be produced or witness to be examined or affidavit to be filled.

In case (b) above, the ITAT may allow such evidence to be adduced. However, in both cases, the ITAT should record its reasons in writing.

b. **Revision of orders by the Commissioner can be carried out u/s 263 or section 264.**

Revision of orders prejudicial to the interest of revenue [Section 263]

Section 263(1)(c) provides that if an order passed by the Assessing Officer has been the subject matter of any appeal, the same cannot be revised. However, at the same time, the power of the Principal Commissioner or Commissioner under sub-section (1) of section 263 shall extend to such matters as had not been considered and decided in such appeal.

Revision of other orders (Section 264)

The Principal Commissioner or Commissioner shall not revise any order u/s 264, where an appeal against the order lies to the CIT(A) or to the Appellate Tribunal, but it has not been made and the time within which such appeal may be made has not expired. However, if the Assessee has waived his right of appeal, the Principal Commissioner or Commissioner can revise the order under this section.

c. As per section 249(3) of the Income-Tax Act,1961, the CIT(A) may admit an appeal after the expiry of the period of 30 days specified in section 249(2) if he is satisfied that the appellant had sufficient cause for not presenting the appeal within the prescribed time.

QUESTION 24 (PEQ)

Assessment of Bhajan Ltd. was completed under section 143(3) with an addition of Rs. 15 lakhs to the returned income. The assessee-company preferred appeal before the Commissioner (Appeals) which is pending now.

In this backdrop, answer the following:

a. Based on fresh information that there was escapement of income for the same assessment year, can the assessing officer initiate reassessment proceedings when the appeal is pending before Commissioner (Appeals)?

b. Can the assessing officer pass an order under section 154 for rectification of mistake in respect of issues not being subject matter of appeal?

c. Can the assesses-company seek revision under section 264 in respect of matters other than those preferred in appeal?

d. Can the Commissioner make a revision under section 263 both in respect of matters covered in appeal and other matters?

Solution:

a. As per the third proviso to section 147, the assessing officer may assess or reassess such income, other than the income involving matters which are the subject matters of any appeal, reference or revision, which is chargeable to tax and has escaped assessment. The doctrine of partial merger would apply in this case.

Therefore, even when an appeal is pending before Commissioner (Appeals), the assessing officer can initiate reassessment proceedings in respect of income chargeable to tax which has escaped assessment, provided such income is not the subject matter of the appeal before the Commissioner (Appeals) i.e., such income which has escaped assessment does not form part of the additions of Rs.15 lakhs to the returned income, which is the subject matter of appeal.

b. As per section 154(1A), the Assessing Officer can pass an order under 154(1) to rectify mistake apparent from the record, provided the rectification is in relation to a matter, other than the matter which has been considered and decided in the appeal before commissioner (Appeals). The doctrine of partial merger holds good for section 154 also. Since the issue under consideration in this case relates to rectification of a mistake in respect of a matter which is not the subject matter of appeal, the Assessing Officer can pass an order under section 154 for rectification of the same provided the same is a mistake apparent from the record.

c. As per section 264(4), the Commissioner shall not revise any order under section 264, where such order has been made the subject of an appeal to the Commissioner (Appeals). Thus, the concept of total merger would apply in the case of section 264.

Therefore, under section 264, the Commissioner cannot revise an order which is pending before the Commissioner (Appeals), even if the revision pertains to a matter, other than the matter(s) covered in the appeal.

d. As per section 263, the Commissioner has the power to revise an order prejudicial to revenue, even if the order is the subject matter of appeal before Commissioner (Appeals). However, the power of the Commissioner under section 263 shall extend to only such matters as had not been considered

and decided in such appeal. Here again, the doctrine of partial merger would apply.

In a case where the appeal is pending but not yet decided, the Commissioner cannot exercise his revisionary jurisdiction in respect of those issues which are the subject matter of appeal.

QUESTION 25 (WB)

What do you mean by substantial question of law? Examine.

Solution:

The expression "substantial question of law" has not been defined anywhere in the Act. However, it has acquired a definite meaning through various judicial pronouncements. The tests are:

1. whether directly or indirectly it affects substantial rights of the parties; or
2. the question is of general public importance; or
3. whether it is an open question in the sense that issue is not settled by the pronouncement of the Supreme Court or Privy Council or by the Federal Court; or
4. the issue is not free from difficulty; or
5. it calls for a discussion for alternative view.

COLLECTION, RECOVERY & REFUND

QUESTION 1 (WB)

What is Garnishee order?

Solution:

Garnishee order

The Assessing Officer or Tax Recovery Officer may by notice in writing require, any person from whom money is due or any person holds or may subsequently hold money for or on account of the assessee, to pay to the Assessing Officer or Tax Recovery Officer so much of the money (subject to maximum of amount payable to assessee) as is sufficient to pay the amount due by the assessee.

If the person to whom a notice is sent fails to make payment in pursuance thereof to the Assessing Officer or Tax Recovery Officer, he shall be deemed to be an assessee in default in respect of the amount specified in the notice and further proceedings may be taken against him for the realization of the amount as if it were an arrear of tax due from him, in the manner provided in sec. 222 to 225.

Any person discharging any liability to the assessee after receipt of a notice shall be personally liable to the Assessing Officer or Tax Recovery Officer to the extent of his own liability to the assessee so discharged or to the extent of the assesses liability for any sum due under this Act, whichever is less.

A copy of the notice shall be forwarded to the assessee at his last address known to the Assessing Officer or Tax Recovery Officer.

Where a person to whom a notice is sent objects to it by a statement on oath that the sum demanded or any part thereof is not due to the assessee or that he does not hold any money for or on account of the assessee, then, nothing shall be deemed to require such person to pay any such sum or part thereof. But if it is discovered that such statement was false in any material particular, such person shall be personally liable to the Assessing Officer or Tax Recovery Officer to the extent of his own liability to the assessee on the date of the notice, or to the extent of the assesse's liability for any sum due under this Act, whichever is less.

QUESTION 2 (WB)

State the provision when certain transfers are considered as void under the Income-Tax Act.

Solution:

Certain transfers to be void [Sec. 281]

1. Where, during the pendency of any proceeding under this Act or after the completion thereof, but before the service of notice by TRO, any assessee creates a charge on or parts with the possession (by way of sale, mortgage, gift, exchange or any other mode of transfer whatsoever) of, any of his assets in favour of any other person, such charge or transfer shall be void as against any claim in respect of any tax or any other sum payable by the assessee as a result of the completion of the said proceeding or otherwise.
2. Assets means land, building, machinery, plant, shares, securities and fixed deposits in banks, to the extent to which any of the assets aforesaid does not form part of the stock-in-trade of the

business of the assessee.

3. However, such charge or transfer shall not be void if it is made:
   a. for adequate consideration and without notice of the pendency of such Proceeding or without notice of such tax or other sum payable by the assessee; or
   b. with the previous permission of the Assessing Officer.
4. This section applies to cases where the amount of tax or other sum payable or likely to be payable exceeds ₹ 5,000 and the assets charged or transferred exceed ₹ 10,000 in value.

QUESTION 3 (WB)

Who can claim refund?

Solution:

Following person can claim refund –

- ✓ A person who has paid tax more than the amount for which he is chargeable under this Act [Sec. 237];
- ✓ Where the income of one person is included in the total income of other person, such other person is entitled to claim refund on tax paid on such income [Sec. 238(1)]

Where due to death, incapacity, insolvency, liquidation or any other cause, a person is unable to claim or receive any refund due to him, his legal representative, trustee, guardian or receiver, as the case may be, can claim and receive such refund for the benefit of such person or his estate [Sec. 238(2)]

ADVANCE TAX AND INTEREST

QUESTION 1 (SM)

Calculate interest u/s **234A**in the following cases –

Name of the Assessees	A	A Ltd.	B
Due date of furnishing return	31st July	31st October	31st July
Date of filing return	4th December	28th December	Not filed
Date of completion of assessment	1st March	15th April	15th February
Income as per return	₹ 5,80,000	₹ 5,00,000	--
Assessed Income	₹ 6,10,000	₹ 5,50,000	₹ 12,00,000
Advance tax paid	₹ 10,000	₹ 25,000	₹ 80,000
Tax deducted at source	₹ 10,000	₹ 15,000	₹ 80,000
Tax paid along with return	₹ 6,000	₹ 1,50,000	--

Also state interest payable u/s 234A for the purpose of sec.140A. Ignore interest under any other section.

Assume Mr. A, Mr. B opted normal tax rates. A ltd opted regular provisions of income tax act 1961

Solution:

a) **Computation of Interest U/s 234A [Final Interest Computed by AO]**

	Particulars	A	A ltd	B
1	**Amount**			
	Assessed Income	6,10,000	5,50,000	12,00,000
	Assessed tax	35,880 [2,50,000 X 5% + 1,10,000 X 20% + 4%]	1,71,600 [5,50,000 X 30% +4%]	1,79,400 [2,50,000 X 5% + 5,00, 000 X 20% + 2,00,000 X 30% + 4%]
	Less: TDS & TCS	(10,000)	(15,000)	(80,000)
	Advance tax	(10,000)	(25,000)	(80,000)
	Short fall	15,880	1,31,600	19,400
	Shortfall (rounded off) [Lowest multiple of ₹100]	15,800	1,31,600	19,400
2	**Rate of interest**	1%	1%	1%
3	**Period**	5M [1st Aug - 4th Dec]	2M [1st Nov - 28th Dec]	7M [1st Aug- 15th Feb]

Final Interest u/s 234A	790	2632	1358

b) **Compute of Int u/s 234A [by Assessees – at the time of filing of ROI]**

	Particulars	A	A ltd
1	**Amount**		
	Returned Income tax	5,80,000	5,00,000
		29,640	1,56,000
		{ 2,50,000 X 5% + 80,000 X 20% } +4%	{ 5,00,000 X 30% + 4% }
	Less: TDS & TCS	(10,000)	(15,000)
	Advance tax	(10,000)	(25,000)
	Short fall	9640	1,16,000
	Short fall (Rounding off) [lowest multiple of ₹ 100]	9600	1,16,000
2	**Rate of interest**	1%	1%
3	Period	5M [1st Aug to 4th Dec]	2M [1st Nov to 25th Dec]
Interest U/S 234A		480	2320

It is to be noted that when interest is calculated on monthly basis, any fraction of the month shall be taken as full month.

Note: In case of B, return has not been filed, hence interest payable u/s 234A at the time of self-assessment cannot be computed.

QUESTION 2 (SM)

A firm furnished its return of income on 30th June, 2026 showing income of ₹ 1,00,000. The return shows other particulars as follows –

Advance tax ₹ 20,000

TDS ₹ 1,000

The AO passed the assessment order enhancing income by ₹ 5,000 on 29-3-2027. Compute interest u/s 234B.

Solution:

Computation of Interest U/S 234B [by AO]

- **Check – is Sec 234B is applicable / Not?**

Advance tax paid	<	90%of assessed tax
20,000	<	90% [(1,05,000 X 30%) + 4% - 1000]
20,000	<	90% [31,760]
20,000	<	28,584

Advance tax paid is less than 90% of Assessed tax, we need to compute int U/S 234B

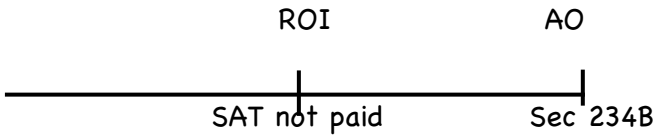
	Particulars	Amount
1	**Amount**	1,05,000
	Assessed Income	32,760
	Assessed Tax	[1,05,000 X 30%] + 4%
	Less: Advance tax	(20,000)
	TDS	(1000)
	Short fall	11,760
	Short fall (rounded off)	11,700
2	Rate of interest	1%
3	Period	12 Months [1/4/26 to 29/3/27]
Interest U/S 234B		1404

QUESTION 3 (SM)

How shall your answer differ if the assesses pays ₹ 10,200 as self-assessment tax along with return. Ignore interest u/s **234C**.

Solution:

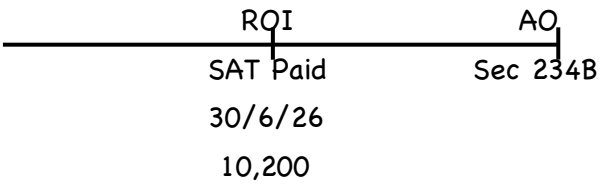
Q2



Interest U/S 234B?

1404

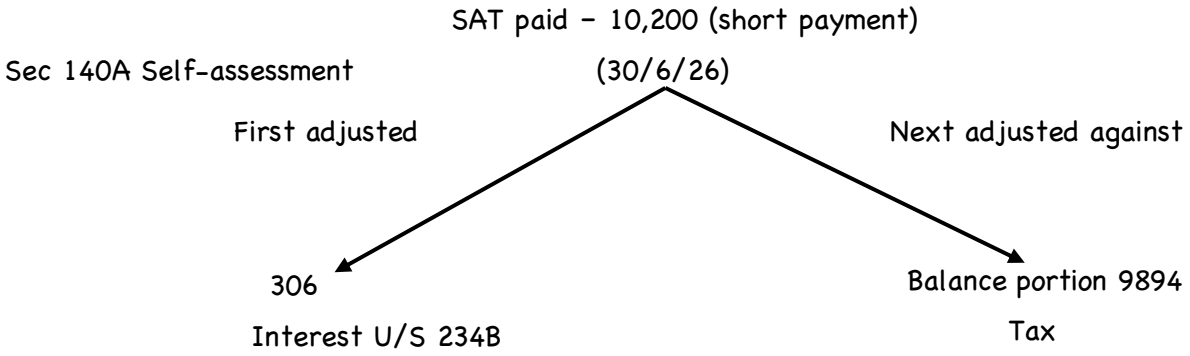
Q3



Interest U/S 234B?

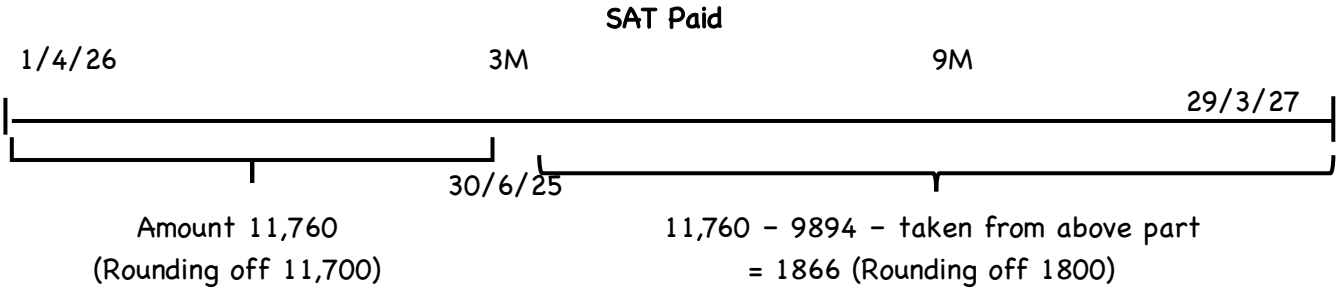
Interest U/S 234B – Calculated by Assessee

	Particulars	Amount
1	**Amount**	
	Returned income	1,00,000
	Tax	31,200
		[1L X 30% + 4%]
	Less: TDS	(1000)
	Advance tax	(20,000)
	Short fall	10,200
2	Rate of interest	1%
3	Period	3M [1/4/26 to 30/6/26]
Interest U/S 234B		306



Int U/S 234B [calculated by AO – If SAT paid by Assessees]

Particulars		Amount
1	**Amount**	
	Assessed Income	1,05,000
	Tax	32,760
		[1,05,000 X 30%] + 4%
	Less: TDS	(1000)
	Advance tax	(20,000)
	Short fall	11,760
	Short fall (rounding)	11,700
2	Rate of Interest	1%
3	Period	



Int U/s 234B = [11,700 X 3M X 1%] + [1800 X 9M X 1%] = ₹ 513

QUESTION 4 (SM)

A Ltd. made the following payments of advance tax during the financial year 2025-26:

	₹ in lakh		₹ in lakh
June 15, 2025	3.70	September 15, 2025	3.50
December 15, 2025	10.25	March 18, 2026	8.80

The return of income is filed on 31-7-2026 showing –

Business income ₹ 80 lakh

Long term capital gain taxable @ 12.5% (as on 1-12-2025) ₹ 10 lakh

Compute interest payable u/s **234C**.

Solution:

Taxability based on Returned Income

Particular	Business	LTCG
Income Tax rate Tax liability (+) H & EC @ 4%	80,00,000 30% 24,00,000 96,000	10,00,000 12.5% 1,25,000 5000
	24,96,000	1,30,000 (1/12/24)
	26,26,000	

Interest U/S 234C

Installments	Actual amount due (a)	Estimations Amount paid (b)	Short fall (a-b)	Interest
15th June	3,74,400 [24,96,000 X 15%] 2,99,520 [24,96,000 X 12%]	3,70,000	-	-
15th Sep	11,23,200 [24,96,000 X 45%] 8,98,560 [24,96,000 X 36%]	7,20,000 [3.7L + 3.2L]	4,03,200	12,096 [4,03,200 X 3M X 1%]
15th Dec	19,69,500 [24,96,000 + 1,30,000] X 75%	17,45,000 [3.7L + 3.2L + 10.25L]	2,24,500	6375 [2,24,500 X 3M X 1%]
15th March	26,26,000	17,45,000	8,81,000	8810 [8,81,000 X 1% X 1m]
	Total			**27,281**

QUESTION 5 (PEQ)

Management Ltd. Has following issues with regard for previous year 2025-26, it has paid advance tax of ₹ 6 Lakh on 20th March, 2026. Its total income for the assessment year 2026-27 amounts to ₹30 Lakh. The rate of tax applicable is 25% plus HEC @ 4%. It wants to know the amount of interest payable under section 234C.

Solution:

Calculation of Interest U/S 234C

Returned Income	30,00,000
Returned tax	7,80,000
	[30 L X 25% + 4%]

Installment	Amount due (a)	Amount paid (b)	Shall fall (a-b)	Interest
15th June	1,17,000 (7,80,000 X 15%)	-	1,17,000	3510 (1,17,000 X 1% X 3m)
15th Sep	3,51,000 (7,80,000 X 45%)	-	3,51,000	10,530 (3,51,000 X 1% X 3m)
15th Dec	5,85,000 (7,80,000 X 75%)	-	5,85,000	17,550 (5,85,000 X 1% X 3m)
15th March	7,80,000 (7,80,000 X 100%)	-	7,80,000	7800 (7,80,000 X 1% X 1m)
	Int u/s 234C			39,390

QUESTION 6 (PEQ)

Mathi (age 55 years) is a resident individual having income from business of ₹ 14,00,000 (Computed) for the year ended 31st March,2026. He sold a vacant land on 15th February 2026 in which his long-term capital gain (computed – taxable @12.5%) amounts to ₹ 6,00,000. He has TDS credit of ₹30,000. He paid advance tax as under:

Date	Amount
13.06.2025	10,000
20.09.2025	50,000
10.12.2025	40,000
27.03.2026	20,000

Assume that he has opted for section 115BAC and compute interest under section 234C payable for the assessment year 2026-27.

Solution:

Taxability based on Returned Income

Particular	Business	LTCG (15/2/26)
Income	14,00,000	6,00,000
Tax rates	u/s 115BAC	12.5%
Tax liability	1,20,000	75,000
(+) H & EC @ 4%	4,800	3,000
	1,24,800	78,000
Less: TDS	(30,000)	
	94,800	78,000
	1,72,800	

Interest U/S 234C

Installments	Actual amount due (a)	Estimations Amount paid (b)	Short fall (a-b)	Interest
15th June	14,220 [94,800 X 15%] 11,376 [94,800X 12%]	10,000	4220 (Rounded off to 4200)	126 [4,200 X 3M X 1%]
15th Sep	42,660 [94,800 X 45%] 34,128 [94,800 X 36%]	10,000	32,660 (Rounded off to 32,600)	978 [32,600 X 3M X 1%]
15th Dec	71,100 [94,800] X 75%	1,00,000	-	-
15th March	1,72,800	1,00,000	72,800	728 [72,800 X 1% X 1m]
	Total			**1832**

QUESTION 7 (PEQ)

The following details are furnished:

Particulars	Mr. X	Mr. Y	A Co Ltd	B Co Ltd
Age	52	63	-	-
Option to pay tax	115BAC	Regular	115BA	Regular
Income from business	5,00,000	-	11,00,000	16,00,000
Income from other sources	2,50,000	12,50,000	-	2,00,000
Advance tax paid	Nil	50,000	2,50,000	2,00,000
Due date for filling return	31.07.2026	31.07.2026	31.10.2026	31.10.2026
TDS/TCS credit	Nil	10,000	50,000	Nil
Date of filing the return	31.10.2026	31.12.2026	29.08.2026	02.12.2026

Compute interest under sections 234A and 234B payable. Assume B Ltd turnover during PY 2023-24 is ₹ 350Cr

Solution:

Computation of interest under sections 234A and 234B

Particulars	Mr. X	Mr. Y	A Co Ltd	B Co Ltd
Age	52	63	--	--
Option to pay tax	115BAC	Regular	115BA	Regular
Income from Business	5,00,000	--	11,00,000	16,00,000

Income from Other sources	2,50,000	12,50,000	-	2,00,000
Total income	7,50,000	12,50,000	11,00,000	18,00,000
Tax rate (Effective incl. SC and cess)			**25% + 4%**	**25% + 4%**
Tax thereon (incl. Cess)	**26,000**	**1,92,400**	**2,86,000**	**4,68,000**
Less: Prepaid taxes (Advance tax, TDS/TCS)	-	(60,000)	(3,00,000)	(2,00,000)
Balance tax payable	26,000	1,32,400	**Nil**	**2,68,000**
Interest U/s.234 A	@3% on Rs.26,000 **780**	@ 5% **6,620**	**Nil**	@2% **5360**
Interest U/s.234 B	@7% on Rs.26,000 **1,820**	**Not applicable**	**Nil**	@9% **24,120**

QUESTION 8 (PEQ)

Mr. Goswami submitted his return on 25th July 2026 for the assessment year 2026-27. The following particulars are furnished by him for the previous year 2025-26:

Particulars	₹
Tax payable on assessed income	1,03,950
Tax deducted at source	36,450
Advance taxes paid as under:	
15th June, 2025	Nil
15th September, 2025	18,500
15th December, 2025	16,125
15th March, 2026	25,250

You are required to examine and compute the interest, if any, payable by the assesses at the time of filling return of income.

Solution:

Computation of interest u/s 234B

Particulars	Amount (₹)
Tax and cess payable	1,03,950
Less: Tax deducted at source	36,450
Assessed tax	67,500
90% of above	60,750
Advance tax paid [₹ 18,500 + ₹ 16,125 + ₹ 25,250]	59,875

Since advance tax paid by him is less than 90% of assessed tax, sec.234B is applicable	
Shortfall (Assessed tax less Advance tax paid)	7,625
Rounded off	7,600
Period of default [From April 2026 to July 2026]	4 months
Interest u/s 234B (1% * ₹ 7,600 * 4)	304

Computation of Interest payable U/S 234C

Assessed tax = 67,500

Instalment	Amount due (a)	Amount paid (b)	Short fall (a-b)	Interest
15/6	67,500 x 15% = 10,125	Nil	10,125 (Rounding off) = 10,100	10,100 X 1% X 3M = 303
	67,500 X 12% =8,100			
15/9	67500 X 45% =30,375	18,500	11,875 (Rounding off = 11,800)	11800 X 1% X 3M = 354
	67500 X 36% =24,300			
15/12	67500 X 75% = 50,625	18500 + 16125 = 34,625	16,000	16000 X 1% X 3M = 480
15/3	67500	18500 + 16125 + 25,250 = 59,875	7625 (Rounding off = 7600)	7600 X 1% X 1M =76

∴ Interest u/s 234C = ₹ 1213

QUESTION 9 (PEQ)

M/s. NIACO Ltd., an Indian Company reports total income of Rs. 10,50,000 for the previous year ending March 31, 2026. Tax deducted at source by different payers amounts to Rs.24,450 and tax paid in foreign country on a doubly taxed income amounts to Rs. 10,000 for which the company is entitled to relief under section 90 as per DTAA. During the year the company pays advance tax on June 15, 2025 – Rs.40,000; on September 12, 2025 - Rs.65,000; on December 15, 2025– Rs.1,00,000 and on March 15, 2026– Rs.62,000. The company files its return of income for the assessment year 2026 – 27 on Nov 14, 2027. There is no international transaction and no transfer pricing provisions are applicable. Compute interest, if any, payable by the company under sections 234A, 234B and 234C. The due date for filing return of income is Oct 31, 2026.

Solution:

Computation of Interest Payable under section 234A, 234B & 234C – M/S.

NIACO LTD. AY 2026-27

Particulars	In Rs.
Total Income	10,50,000
Tax on total income @31.2% (Income tax @30%+SC-Nil + EC & HEC @4%)	3,27,600
Less:- Double taxation relief	10,000
Balance	3,17,600
Less: Tax Deducted at Source	24,450
Balance assessed tax	2,93,150
Interest under section 234A: The due date of submission of return of income is Oct 31, 2026 & actual date of submission is taken as Nov 14, 2026. The assessed tax is Rs. 2,93,150. Advance tax paid during the financial year is Rs. 2,67,000. Short fall of advance tax is Rs. 26,150 (Rs. 2,93,150 – Rs. 2,67,000) Interest on shortfall amount is Rs. 26,100 @ 1% per month for 1 month.	261

Interest U/S 234B

Check whether,

Advance paid < 90% of Assessed tac

2,67,000 > 90% (2,93,150)

2,67,000 > 2,63,835

∴ Advance tax paid is not less than 90% of Assessed tax So, Interest U/S 234B is not applicable.

Interest U/S 234C

Instalment	Amount due (a)	Amount paid (b)	Short fall (a-b)	Interest
5/6	2,93,150 X 12% = 35,178	40,000	Nil	-
15/9	2,93,150 X 45% = 1,31,918	[40,000 + 65,000] = 1,05,000	26,918 [Rounding off = 26,900]	26,900 X 1% X 3M = 807
	2,93,150 X 36% = 1,05,534			
15/12	2,93,150 X 75% = 2,19,863	[40,000 + 65000 + 1,00,000] = 2,05,000	14,863 [Rounding off = 14,800]	14,800 X 1% X 3M = 444
15/3	2,93,150	[40,000 + 65,000 1,00,000 + 62,00] = 2,67,000	26,150 [Rounding off = 26,100]	26,100 X 1% X 1M = 261

∴ Interest u/s 234C = ₹ 1512

QUESTION 10 (MQP)

XYZ (P) Ltd., an Indian Company established in the year 2009, reports total income of ₹22 lakhs for the previous year ended 31st March,2026. Tax deducted at source by different payers amounted to ₹1,68,000 and tax paid in Country A on a doubly taxed income amounted to ₹30,000 for which the company is entitled to relief u/s 90 as per the double taxation avoidance agreement.

During the year, the company paid advance tax as under:

Date of payment	Advance tax paid (₹)
13-06-2025	45,000
14-09-2025	90,000
13-12-2025	1,00,000
14-03-2026	1,05,000

The company filled its return of income for the A.Y 2026-27 on 3rd November,2026. Compute interest, if any, payable by the company u/s 234A, 234B and 234C and fee payable u/s 234F. Assume that transfer pricing provisions are not applicable and that the company has not opted for the provisions of section 115BAA.

Note- Turnover of XYZ (P) Ltd. for P.Y 2023-24 is ₹251 crores.

Solution:

Interest u/s 234A: Since the return of income has been furnished by XYZ (P) Ltd. on 3rd November 2025 i.e., after the due date for filling return of income (31.10.2026), interest u/s 234A will be payable for 1 month @ 1% p.m. on the amount of tax payable on the total income, as reduced by tax reliefs and prepaid taxes.

Particulars	₹
Tax on total income (₹22,00,000×26%) [Since turnover of P.Y 2023-24 does not exceed ₹400 crore, the rate of tax would be 26% (i.e. 25%+HEC@4%)]	5,72,000
Less: Advance tax paid	3,40 000
Less: Tax deducted at source	1,68,000
Less: Relief of tax allowed u/s 90	30,000
Tax payable on self-assessment	34,000
Interest u/s 234A= ₹34,000×1%×1 months = ₹340	

Interest u/s 234B: Where the advance tax paid by the Assessee is less than 90% of the assessed tax, the Assessee would be liable to pay interest u/s 234B.

Interest U/S 234B

Tax on Total Income (22,00,000 X 25% + 4%)	=	5,72,000
(-) TDS		(1,68,000)
(-) Relief U/S 90		(30,000)
∴ Assessed Tax	=	3,74,000

Check whether,

Advance tax paid < 90% of Assessed Tax

3,40,000 > 90% (3,74,000)

3,40,000 > 3,36,600

∴ Since, Advance tax paid is more than 90% of Assessed tax, it is not liable to pay interest U/S 234B.

Interest U/S 234C

Assessed Tax = 3,74,000

Installment	Amount due	Amount paid	Shortfall	Interest
15/6/25	3,74,000 X 12% = 44,800	45,000	Nil	Nil
15/9/25	3,74,000 X 36% = 1,34,640	[45,000 + 90,000] = 1,35,000	-	Nil
15/12/25	3,74,000 X 75% = 2,80,500	[45,000 + 90,000 + 1,00,000]	45,500	4500 X 1% X 3M = 1365
15/3/26	3,74,000	[45,000 + 90,000 + 1,00,000 + 1,05,000] = 3,40,000	3,40,000	34,000 X 1% X 1M = 340

∴ Interest u/s 234C = 1705

QUESTION 11 (MQP)

Tax audit u/s 44AB is applicable to Mr. S, a businessman. For the assessment year 2026- 27, the due date of submission of return of income is Oct 31, 2026. The return is uploaded on September 25, 2026. Intimation u/s 143(1) is received by email on October 8, 2027. Date of intimation and date of grant of refund is October 6, 2027. The following information are related to how refund is calculated:

Particulars	₹
Tax on income assessed	2,92,430
Add: interest u/s 234C	18,000
Total	3,10,430
Less: Credit for prepaid tax -	
– TDS, TCS and tax paid in advance	4,70,000
– Self-assessment tax paid on August 18, 2026	9,000
Refund due	1,68,570

Compute the amount of interest payable by the Government u/s 244A.

Solution:

Refund of ₹1,68,570 may be segregated as follows:

Option 1: ₹ 9,000 may be taken as refund of self-assessment tax and the balance of ₹ 1,59,570 may be taken as refund of TDS/ TCS/ Advance Tax.

Option 2: As no formula for segregation is provided, it may be assumed that entire amount of refund pertains to refund of TDS/ TCS/ Advance Tax.

In the two alternatives given above, interest u/s 244A will be calculated as follows:

	Option 1		Option 2
Nature of refund	Self-assessment Tax	TDS/ TCS/ Advance Tax	TDS/ TCS/ Advance Tax
Amount of refund (in ₹)	9,000	1,59,570	1,68,570
Amount of refund (in ₹) (rounded off for the purpose of calculation of interest)	9,000	1,59,500	1,68,500
Period for which interest is available	From 25.09.2026 to 06.10.2027	From 01.04.2026 to 06.10.2027 **Note 1**	From 01.04.2026 to 06.10.202
Period for which interest is available	13	19	19
Interest @ 0.5% per month (in ₹)	585	15,153	16,008

Amount of interest is higher in Option 2. Interest payable by the Government is ₹ 16,008.

Note 1 – if return of income is submitted on or before the due date of submission of return of income given u/s 139(1), interest is payable from the first day of the assessment year to the date on which the refund is granted.

UPDATED RETURN

QUESTION 1 (ICAI)

Mr. X would like to furnish his updated return for the A.Y. 2025-26. In case he furnished his updated return of income, he would be liable to pay ₹2,50,000 towards tax and ₹35,000 towards interest after adjusting tax and interest paid at the time filing earlier return. You are required to examine whether Mr. X can furnish updated return-

(i) as on 31.3.2027
(ii) as on 28.2.2028
(iii) as on 31.5.2028

If yes, compute the amount of additional income-tax payable by Mr. X at the time of filing his updated return.

Would your answer be different with respect to filing of the updated return in case of (ii) above, where he has received a notice under section 148 for the said A.Y. 2025-26 on 23.7.2027.

Solution:

Mr. X may furnish an updated return of his income for A.Y. 2025-26 at any time within 48 months from the end of the relevant assessment year, i.e., 31.3.2030. Accordingly, Mr. X can furnish updated return for A.Y. 2025-26 for all the above cases i.e. 31.3.2027, 28.2.2028 and 31.5.2028.

Mr. X would be liable to pay additional income-tax

- @25% of tax and interest payable, if updated return is furnished after the expiry of the time limit available under section 139(4) or 139(5), i.e., 31st December 2025 and before the expiry of 12 months from the end of relevant assessment year, i.e., 31.3.2027.
- @50% of tax and interest payable, if updated return is furnished after the expiry of 12 month from the end of relevant assessment year, i.e., after 31.3.2027 but before the expiry of 24 months from the end of relevant assessment year, i.e., 31.3.2028.
- @60% of tax and interest payable, if updated return is furnished after the expiry of 24 months from the end of the relevant assessment year, i.e., after 31.3.2028 but before the expiry of 36 months from the end of the relevant assessment year, i.e., 31.3.2029.

Accordingly, Mr. X is liable to pay additional income-tax in case he furnished his updated return as on
(i) 31.03.2027 - ₹ 71,250 [25% of 2,85,000, being tax of ₹ 2,50,000 plus interest of ₹ 35,000]
(ii) 28.02.2028 - ₹ 1,42,500 [50% of 2,85,000, being tax of ₹2,50,000 plus interest of ₹ 35,000]
(iii) 31.05.2028 - ₹ 1,71,000 [60% of 2,85,000, being tax of ₹ 2,50,000 plus interest of ₹ 35,000]

He cannot furnish an updated return where he has received notice u/s 148, since proceeding for income escaping assessment for the A.Y. 2025-26 are pending.

BUSINESS RECONSTRUCTING & RECONSTRCTION

QUESTION 1 (SM)

Mr. Joseph has 1,000 equity shares of X Ltd. that he acquired on 17/08/2009 through will of his father. His father acquired such shares on 17/07/2006 through gift from his father- in-law (Mr. Z). Mr. Z acquired such shares on 18/08/2000 for ₹ 20 each. Fair market value of such shares as on –

1/04/2001	17/07/2006	17/08/2009
₹ 18 each	₹ 25 each	₹ 40 each

On 31/03/2015, X Ltd. amalgamated with Y Ltd. and amalgamated company issued its 3 equity shares for every two equity shares of amalgamating company. On 02/04/2025, Mr. Joseph sold 1,000 shares of Y Ltd to one of his friends for ₹ 38 each. Compute capital gain.

Solution:

When any shares become the property of assesses in a scheme of amalgamation, period of holding of shares in amalgamated company shall be aggregate of period of holding of shares in amalgamating company prior to amalgamation and period of holding of share in amalgamated company. Hence, in the given case, asset transferred (being shares of Y Ltd) were treated as long-term capital asset.

Calculation of cost of acquisition of shares of Y Ltd.

Cost of shares of X Ltd. (i.e., cost of the previous owner#) (1,000 share @ ₹ 20 each)	₹ 20,000
Shares received on amalgamation of Y Ltd. (3 for every 2 shares held)	1,500 shares
Cost of acquisition per share of Y Ltd. (₹ 20,000/1,500)	₹ 13.33
#. **Previous owner:** Previous owner means the last owner who acquired the asset for a value. In the given case Mr. Joseph acquired the shares through will of his father. Hence, literally Joseph's father is previous owner. But since Joseph's father has not purchased such shares but acquired by way of gift from his father-in-law, hence for this purpose, Mr. Z is the previous owner. [Sec. 49(1)]	

Computation of capital gains in the hands of Mr. Joseph for the A.Y. 2026-27

Particulars	Workings	Details	Amount
Sale consideration	1,000 x ₹ 38		38,000
Less: Expenses on transfer			Nil
Net Sale Consideration			38,000
Less: Cost of acquisition	1,000 x ₹ 13.33	13,330	
Less: Cost of improvement		Nil	(13,330)
Long Term Capital Gain			24,670

QUESTION 2 (MQP)

Examine how do you treat the following items when X Ltd. is merging with Y Ltd. on 1st January 2026 on the assumption:

a) Condition u/s 2(1B) and u/s 72A does not satisfy
b) Condition u/s 2(1B) satisfy but conditions u/s 72A not satisfy
c) Conditions u/s 2(1B) and u/s 72A are satisfied

Other Information of X Ltd.:

	Particulars	₹ in Rs.
i.	Business Profits (before adjusting losses and expenses)	60,000
ii.	Expenses on merger	2,00,000
iii.	VRS Compensation (Paid during 2023-24)	4,00,000
iv.	Sale consideration of non-depreciable capital assets	20,00,000
v.	Cost of acquisition / COA of non-depreciable capital assets	12,00,000
vi.	Sale consideration of depreciable assets	10,00,000
vii.	WDV of depreciable assets	7,00,000
viii.	Non-speculation business loss relating to 2023-24	3,00,000
ix.	Unabsorbed depreciation relating to 2023-24	1,50,000
x.	Long term Capital loss relating to 2024-25	2,00,000

Business profits of Y Ltd. (before adjusting losses and expenses) ₹ 30,00,000 and long- term capital gain of Y Ltd. (before adjusting losses) ₹ 3,00,000

Solution:

a. Condition u/s 2(1B) & sec 72A does not satisfy

Sec 2(1B) not satisfied	Sec 72A not satisfied
▪ Expenses on merger not deductible.	▪ Business loss & unabsorbed depreciation not allowed to set off & C/F to Y ltd
▪ Need to calculate capital gain in the hands of (X ltd).	
▪ Depreciation calculated in the hands y ltd.	

X ltd

Particulars	Amount	Amount
PGBP		
Business profit		60,000
Less: VRS	4,00,000/5	(80,000)
		(20,000)
Capital gain	Sec 48 LTCG	Sec 50 STCG/L
Sale consideration	20,00,000	10,00,000
Less: Cost of acquisition	(12,00,000)	(7,00,000)

LTCG/STCG	8,00,000	3,00,000
Less: LTCL (PY 23-24)	(2,00,000)	
Less: Business Loss		(20,000)
Less: Unabsorbed depreciation		(1,50,000)
	6,00,000	1,30,000
Total	7,30,000	

Y ltd

Particulars	Amount	Amount
PGBP		
Business income		30,00,000
Less: Depreciation	10,00,000 x 15% x 50% Put to use less than 180 days (Merger – Jan 2025)	(75,000)
		27,25,000
Capital gain		3,00,000
Total income		32,25,000

Note: In the hands of X ltd non speculative business loss relating to 2023-24 not allowed to set off during PY 2025-26 & AY 2026-27 that loss was C/F from earlier year & eligible for set off against PGBP income only.

b. Condition u/s 2(1B) Satisfy but Sec 72A not satisfy

Sec 2(1B) not satisfied	Sec 72A not satisfied
▪ Expenses on merger allowed.	▪ Business loss & unabsorbed depreciation not allowed to set off & C/F to Y ltd.
▪ No Need to calculate capital gain in the hands of X ltd.	
▪ Depreciation needs apportioned between X ltd & Y ltd.	

X ltd

Particulars	Amount	Amount
PGBP		
Business profit		60,000
Less: VRS	4,00,000/5	(40,000)
Less: Merger expenses	2,00,000/5	(80,000)
		(60,000)
Depreciation (7,00,000 x 15% x 275/365) (April 1st – Dec 31st apportioned on usage ratio)		79,110
Capital gain	No need to calculate because Sec 2(1B) conditions satisfied.	

Y ltd

Particulars	Amount	Amount
PGBP		
Business income		30,00,000
Less: Depreciation	7,00,000 x 15% x 91/365	(25,890)
		29,74,110
Capital gain		3,00,000
Total income		32,74,110

c. **Condition u/s 2(1B) & Sec 72A are satisfied**

Sec 2(1B) not satisfied	Sec 72A not satisfied
▪ Expenses on merger allowed.	▪ Business loss & unabsorbed depreciation allowed to set off & C/F to Y ltd.
▪ No Need to calculate capital gain in the hands of X ltd.	
▪ Depreciation needs apportioned between X ltd & Y ltd.	

X ltd

Particulars	Amount	Amount
PGBP		
Business profit		60,000
Less: VRS	4,00,000/5	(40,000)
Less: Merger expenses	2,00,000/5	(80,000)
		(60,000)
Depreciation (7,00,000 x 15% x 275/365) (April 1st – Dec 31st apportioned on usage ratio)		79,110
Capital gain	No need to calculate because Sec 2(1B) conditions satisfied.	

Y ltd

Particulars	Amount	Amount
PGBP		
Business income		30,00,000
Less: Depreciation	7,00,000 x 15% x 91/365	(25,890)
Less: Business loss of X ltd		(60,000)
Less: Depreciation of X ltd		(79,110)
Less: B/F loss of X ltd		(3,00,000)
Less: B/F depreciation of X ltd		(1,50,000)
		23,85,000

Capital gain		3,00,000
Total income		26,85,000

QUESTION 3 (PEQ)

Moon Ltd., engaged in the textile business, got amalgamated with Sun Ltd., also engaged in a similar business, on 1st April 2025, duly complying with the provisions of Section 72A. Moon Ltd. has always been filing its Income Tax Returns within the due date specified under Section 139(1).

The following items remain unabsorbed in the hands of Moon Ltd. as on the above said date:

Nature of Item	Amount (₹)
Normal business loss for AY 2021-22	12,60,000
Speculative business loss of AY 2025-26	9,23,560
Unabsorbed depreciation of AY 2025-26	13,23,000
Loss from warehousing business eligible under Section 35AD (AY 2024 -25); business discontinued from 01.04.2024	3,00,000

For the Previous Year 2025-26, Sun Ltd. earned a profit of ₹24,10,000 after providing for current depreciation, but before considering the above unabsorbed items.

With respect to machinery transferred from Moon Ltd. (WDV as on 31-03-2025: ₹120 lakhs), Sun Ltd. adopted a book value of ₹100 lakhs as on 01-04-2025 and provided depreciation @15% on this value. The block of assets is eligible for 15% depreciation.

Required:

Compute the Total Income of Sun Ltd. for Assessment Year 2026-27. Give specific notes regarding the treatment of each item of set-off in the hands of Sun Ltd., duly considering the provisions of the Income Tax Act. If any item remains unabsorbed, also state the number of years for which it can be carried forward by Sun Ltd.

Solution:

Computation of Total Income of Sun Ltd

Particulars	Amount (₹)
Business Income	24,10,000
[Depreciable assets of Amalgamating Co. should be taken at WDV in Amalgamated Company]	
Add: Depreciation already charged (100L × 15%)	15,00,000
Less: Depreciation on WDV (120L × 15%)	(18,00,000)
	21,10,000
Since 72A satisfied, losses & unabsorbed depreciation of Moon Ltd can be set off with Sun Ltd Income.	
Less: Non-speculative Business Loss	(12,60,000)
Less: Unabsorbed Depreciation	(8,50,000)
Total Income	**Nil**

Note:

- Balance unabsorbed depreciation ₹4,73,000 (13,23,000-8,50,000) can be c/f indefinitely.
- Speculation losses are not eligible for set off with successor company income as per 72A.
- Specified business loss can be set off only with specified business income; since business discontinued not eligible for set off.

QUESTION 4 (ICAI)

A Co Ltd took over a sick company by name X Co Ltd in a scheme of amalgamation in accordance with section 72A of the Income-tax Act. At the time of amalgamation X Co Ltd had accumulated loss of ₹ 3.60 crores. After amalgamation the creditors of erstwhile X Co Ltd waived their claim of interest to the extent of ₹ 1.10 crores. In the assessment, the Assessing Officer adjusted the deemed income under section 41(1) for the amounts waived by the creditors and permitted ₹2.50 crores as loss relating to X Co Ltd eligible for set off by A Co Ltd.

State whether the deemed income of X Co Ltd would go to reduce its business loss for the purpose of set off by A Co Ltd.

Solution:

Adjustment of deemed income against brought forward business loss

Where expenditure was allowed as a deduction and subsequently such expenditure is waived by the creditor is liable to be taxed under section 41(1) of the Act.

In this case, the assessee who claimed the expenditure i.e. X Co Ltd was amalgamated with A Co Ltd. However, the successor A Co Ltd has brought forward loss of X Co Ltd to be set off post-amalgamation. The waiver of liability due to be paid by amalgamating company i.e. A Co Ltd after amalgamation is taxable, since the benefit of deduction was claimed by the predecessor.

Accordingly, the loss of the erstwhile company must be adjusted to the extent of the expenditure taxable under section 41(1) and only the resultant is eligible for carry forward and set off by the successor viz. A Co Ltd.

Therefore, the action of the Assessing Officer to adjust the deemed income under section 41(1) against brought forward loss eligible for deduction under section 72A is tenable in law. The facts of the case given in the question are similar to that of **McDowell & Co Ltd v. CIT**

QUESTION 5 (SM)

Dona purchases 600 equity shares in XY (P) Ltd. on 1-04-2025 @ ₹ 150 each. On 31-12- 2025, XY (P) Ltd. is demerged. In the scheme of demerger, division Y was transferred to Y (P) Ltd. (resulting company). On that date balance sheet of XY (P) Ltd. is as follow –

Liabilities	Division		Total	Asset	Division		Total
	X	Y			X	Y	
6,000 E. Shares			6,00,000	Land	-	2,50,000	2,50,000
General Reserve			4,00,000	Plant	1,75,000	1,00,000	2,75,000

Loan (General)			2,00,000	Investment	2,50,000		2,50,000
Loan (Specific)	60,000	75,000	1,35,000	Stock	1,95,000	2,30,000	4,25,000
Creditors	25,000	40,000	65,000	Debtors	55,000	45,000	1,00,000
				Cash and Bank	25,000	75,000	1,00,000
			14,00,000				**14,00,000**

Y (P) Ltd., in consideration of the demerger, issued equity share of ₹ 100 each (at par) to the shareholders of XY (p) Ltd. on proportionate basis. You are required to compute –

- Number of shares of Y (P) Ltd. received by Dona and cost thereof.
- Cost of acquisition of shares held by Dona in XY (P) Ltd. after demerger.
- Capital gain, if Dona sold 200 shares of XY (P) Ltd. @ ₹ 125 & 100 shares of Y(P) Ltd. @ ₹ 110 on 31-03-2026.

Solution:

Calculation of number of shares of Y (P) Ltd. received by Dona

Particulars	Amount	Amount
Net asset taken over by Y (P) Ltd		
Assets taken over		
Land		2,50,000
Plant		1,00,000
Stock		2,30,000
Debtors		45,000
Cash and bank		75,000
		7,00,000
Less: Liabilities		
Loan (Specific)	(75,000)	
Creditors	(40,000)	
Share of General loan (₹ 2,00,000 x ₹ 7,00,000) / ₹14,00,000	(1,00,000)	(2,15,000)
Net asset taken over		**4,85,000**
No. of shares issued by Y (P) Ltd. (Consideration of ₹ 4,85,000 was discharged by issuing equity shares of ₹ 100 each)		4,850 shares
% of Dona's holding in XY (P) Ltd. (600 shares, out of 6,000 shares of XY (P) Ltd.)		10%
No. of shares allotted in Y (P) Ltd to Dona (10% of 4,850 shares)		485 shares

Cost of such shares is –

$$\frac{\text{Cost of acquisition of shares in XY (P) Ltd. X Net book value of asset transferred to Y (P) Ltd.}}{\text{Net worth of XY (P) Ltd. immediately before demerger (i.e., paid up capital + General reserve)}}$$

$$= \frac{(600 \text{ X } ₹ 150) \text{ X } ₹ 4,85,000}{₹ 6,00,000 + ₹ 4,00,000} = ₹ 43,650$$

b)	Cost of acquisition of shares of XY (P) Ltd. (after demerger)	=	Original cost of acquisition – Cost of acquisition of shares of Y (P) Ltd. (as computed above)
		=	₹ 90,000 – ₹ 43,650 = ₹ 46,350

Computation of capital gain in the hands of Dona for the A.Y. 2026-27

Particulars	Details	Shares of	
		XY (P) Ltd.	Y (P) Ltd.
Sale Consideration	200 x ₹ 125	25,000	-
	100 x ₹ 110	-	11,000
Less: Expenses on transfer		Nil	Nil
Net Sale Consideration		25,000	11,000
Less: i) Cost of acquisition	[(₹ 46,350 x200)/600]	15,450	-
	[(₹ 43,650 x100)/485]	-	9,000
ii) Cost of improvement			Nil
Short Term Capital Gain		**9,550**	**2,000**

QUESTION 6 (ICAI)

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 31.3.2025 was demerged on 16.5.2025 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 2026-27 of the resulting company:

a) When the same are not directly relatable to the undertakings transferred and

b) When the same are directly relatable to the undertakings transferred.

Solution:

Section 72A (4) provides that notwithstanding anything contained in any other provisions of this Act in the case of a demerger, the accumulated loss and the allowance for unabsorbed depreciation of the demerged company shall-

a. Where such loss or unabsorbed depreciation is directly relatable to the undertakings transferred to the resulting company, be allowed to be carried forward and set off in the hands of the resulting company:

b. Where such loss or unabsorbed depreciation is not directly relatable to the undertakings transferred to the resulting company, be apportioned between the demerged company and the resulting company in the same proportion in which the assets of the undertakings have been retained by the demerged company and transferred to the resulting company and 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.

Therefore, if the loss and unabsorbed depreciation relates directly to the undertakings transferred. then such loss and depreciation shall be carried forward by the resulting company and not the demerged company.

However, if such loss and unabsorbed depreciation is not directly relatable to the undertakings transferred to the resulting company, then the loss and depreciation shall be apportioned between the demerged company and resulting company in the following proportion:

Assets retained by the demerged company	:	Assets transferred to the resulting company

The law is silent about the period of carry forward of such losses and depreciation. Logically, such losses and depreciation should be allowed to be carried forward for the balance number of years for which the demerged company would have carried forward.

	Loss to be carried forward by	
	X Ltd. (in lakh)	XY Ltd. (in lakh)
When the losses are directly relatable to undertaking transferred		
- Loss	-	130
- Depreciation	-	250
When the losses are not directly relatable to undertaking transferred		
- Loss	91	39
- Depreciation	175	75

QUESTION 7 (PEQ)

Parikshit Ltd, Kolkata is a domestic company with two divisions viz. (i) textile and (ii) automobile. The Board of Directors of the company decided to hive off textile division by way of demerger. The net book value of assets of textile division before demerger was 50 crore and the total book value of assets of the company was 150 crores. The scheme of demerger was approved with allotment of 5 equity shares of 10 each fully paid up from the buying company Kota Ltd. for each equity share held in Parikshit Ltd.

The demerger was made in April, 2025. Burman is one of the shareholders of Parikshit Ltd. with 2000 equity shares acquired in the financial year 2019-20 for ₹8,40,000. He sold all the shares received from Kota Ltd. in May, 2025 for ₹ 30,00,000.

In this background of facts, you are to answer the following:

a) Is the transaction of demerger of textile division by Parikshit Ltd. attract any tax consequence in its hands?

b) How much is the capital gain in the hands of Burman on exchange of shares of Parikshit Ltd. for the shares of Kota Ltd.?

c) Compute capital gain on transfer of shares of Kota Ltd. by Burman in May, 2025.

d) Does the sale of share by Burman have any implication in the demerger undertaken by Parikshit Ltd?

Solution:

Issues in demerger

a) Transfer of undertaking under a scheme of demerger by an Indian company to a resulting Indian company is not regarded as transfer as per section 47(vib). Therefore, the transaction of demerger is tax neutral both for Parikshit Ltd and Kota Ltd.

b) When a shareholder transfers shares on demerger held in an Indian company to the resulting Indian company is not a transfer as per section 47(vic). Therefore, the transfer of shares by Burman of Parikshit Ltd in exchange for shares of Kota Ltd will not lead to any capital gain in his hands.

c) Subsequent sale of shares of Kota Ltd by Burman is liable for Long-term capital gain

Particulars	Amount
Sale consideration	30,00,000
Less: COA	(8,40,000)
LTCG	21,60,000

Note: As per section 2(42A) (g), in the case of capital asset being shares in an Indian company which become property in consideration of a demerger, there shall be included the period for which the shares in demerged company were held by the assesses.

d) Sale of shares of resulting company by the shareholder of the demerged company will not have any tax implication in the hands of both demerged company and resulting company.

QUESTION 8 (ICAI)

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 2026.

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 the financial year 2005-06 for ₹ 6,00,000. Mr. N.K. received 50,000 equity shares from RV(P) Ltd. consequent to demerger in January 2026. He sold all the shares of RV(P) Ltd. For ₹ 8,00,000 in March, 2026. In this background you are requested to answer the following:

a. Does the transaction of demerger attract any income tax liability in the hands of SS(P) Ltd. and RV(P) Ltd.?

b. Compute the capital gain that could arise in the hands of Mr. N.K. on receipt of shares of RV(P) Ltd.

c. Compute the capital gain that could arise in the hands of Mr. N.K. on sale of shares of RV(P) Ltd.

d. Will the sale of shares by Mr. N.K. affect the tax benefits availed by SS(P) Ltd. and/or RV(P) Ltd.?

e. 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.

Solution:

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

b. There would be no capital gains tax liability in the hands of Mr. N.K. on receipt of shares of RV (P) Ltd., since as per section 47(vid), any issue of shares by the 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 the issue is made in consideration of demerger of the undertaking.

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

Sale consideration	8,00,000
Less: Indexed cost of acquisition of shares of RV (P) Ltd.	

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

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

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

Cost of acquisition of shares of RV (P) Ltd.	₹ 1,50,000
Long-term capital gain (since period of holding of shares in demerged company is also to be considered)	₹ 6,50,000

d. No, sale of shares by Mr. N.K. would not affect the tax benefits availed by SS(P) Ltd. or RV (P) Ltd. One of the conditions to be satisfied is that the shareholders holding not less than three- fourths in value of the shares in the demerged company become shareholders of the resulting company by virtue of the demerger. It is presumed that the condition is satisfied in this case.

There is no stipulation that they continue to remain shareholders for any period of time thereafter.

e. 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 9 (SM)

X Ltd. has several undertakings carrying on several businesses. During the year 2025-26, the company sold one of its undertakings (as it was continuously generating loss since last 5 years) for a lump sum value of ₹ 300 lacs without assigning value to individual asset and liabilities. Book value of sundry assets and liabilities of the undertaking as on the date of sale is as under:

Items	Book Value	Market Value
Land	₹ 50 lacs (Value for the purpose of Stamp duty ₹ 70,00,000)	₹ 100 lacs
Machinery	₹ 70 lacs (WDV as per IT Act ₹ 60 lacs)	₹ 100 lacs

Furniture	₹ 50 lacs (WDV as per IT Act ₹ 90 lacs)	₹ 75 lacs
Stock	₹ 30 lacs	₹ 35 lacs
Debtors	₹ 40 lacs	₹ 40 lacs
Creditors	₹ 50 lacs	

Brokerage on transfer paid @ 5%. Compute capital gain.

Solution:

Since the undertaking is owned by the company for more than 3 years hence the gain on transfer shall be liable to long term. Calculation of cost of acquisition (i.e. Net worth)

Particulars	Workings	Details	Amount
Value of asset taken over			
Land	Book value of non- depreciable assets	₹ 50 lacs	
Stock	Book value of non- depreciable assets	₹ 30 lacs	
Debtors	Book value of non- depreciable assets	₹ 40 lacs	
Machinery	WDV as per I.T. Act	₹ 60 lacs	
Furniture	WDV as per I.T. Act	₹ 90 lacs	**₹ 270 lacs**
Less: Value of liabilities taken over			
Creditors	Book Value		(₹ 50 lacs)
Net worth (cost of acquisition)			₹ 220 lacs

Computation of capital gains in the hands of X Ltd. for the A.Y. 2026-27

Particulars	Details	Amount	Amount
Sale Consideration			300 lacs
Less: Expenses on transfer	5% of ₹ 300 lacs		15 lacs
Net Sale Consideration			**285 lacs**
Less: Cost of Acquisition	Calculated above	(220 lacs)	
Less: Cost of improvement		Nil	(220 lacs)
Long Term Capital Gain			**65 lacs**

QUESTION 10 (PEQ)

Laxmi Ltd transferred its Unit X to Amin Ltd. by way of slump sale on 31st December 2025. The summarized balance sheet of Laxmi Ltd. as on that date is given below:

Liabilities	₹ in lakhs	Assets	₹ in lakhs
Share capital-paid up	2,000	Fixed Assets:	
Reserves and Surplus	950	Unit X	700
Liabilities:		Unit Y	900
Unit X	400	Unit Z	1,200
Unit Y	600	Other Assets:	
Unit Z	1,050	Unit X	650
		Unit Y	750

		Unit Z	800
	5,000		5,000

From the information given below compute the capital gain arising from slump sale of Unit X:

1. Cost inflation index for the financial year 2007-08 is 129 being the year in which the Unit X was established.
2. The lump sum consideration received for transfer of Unit X is ₹ 1,100 lakhs.
3. The fixed assets of Unit X include a vacant land which was purchased in the financial year 2007-08 for ₹ 50 lakhs and it was revalued at ₹ 100 lakhs in the year 2024-25.
4. Other fixed assets reflected in the balance sheet ₹ 600 (₹ 700 lakhs less value of land) represents WDV of the assets as per books of account. The WDV of these assets under the Income-tax Act is ₹ 200 lakhs.

On the basis of aforesaid information, you are requested to choose correct options for the following:

a) What will be the net worth of unit X?

b) What will be the nature of gain (loss) on such slump sale?

c) What will be the taxable income on such slump sale?

Solution:

Computation of Net worth of Unit X

Particulars	₹ in lakhs
Land - ignoring the revaluation amount	50
Other assets	650
Depreciable assets - as per WDV	200
	900
Less: Liabilities of Unit X	(400)
Net worth of Unit X	**500**

Computation of Capital gain on slump sale of Unit X

Particulars	₹ in lakhs
Sale consideration	1,100
Less: Net worth	(500)
Long-term capital gain arising on slump sale as the unit is operational since 2007 operational since 2007	600

QUESTION 11 (PEQ)

Ray Limited has two units - one engaged in manufacture of Product X and the other involved in developing Product Y. As a restructuring drive, the company has decided to sell its Product Y 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 Ray limited as on 31st March 2026, being the date on which software unit has been transferred, is given hereunder - (Amount ₹ in lakhs)

Liabilities	Amount	Assets	Amount
Paid up share capital	300	Fixed Assets	
General reserve	150	Product X unit	170
Share Premium	50	Product Y unit	200
Revaluation reserve	120	Debtors	
Current liabilities		Product X unit	140
Product X unit	40	Product Y unit	110
Product Y unit	90	Inventories	
		Product X unit	95
		Product Y unit	35
	750		750

Following additional information are furnished by the management:

a) The Product Y unit is in existence since May, 2017.

b) Fixed assets of Product Y unit include land which was purchased at 40 lacs in the year 2008 and revalued at 60 lacs as on March 31, 2021.

c) Fixed assets of Product Y unit mirrored at 140 lacs (200 lacs minus land value 60 lacs) is written down value of depreciable assets 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.

d) Ascertain the tax liability, which would arise from slump sale to S Limited.

Solution:

Tax liability (Rs. In lacs) = 27.82 lakhs

Hint:

Net worth = 185 lacs

Long term capital gain = 200 lacs (385 lacs -185 lacs)

Tax rate is 12.5% & Surcharge Rate is 7% and H&EC @4%

QUESTION 12 (PEQ)

Kite & Co. (firm) had sold all its assets and liabilities on 31.03.2026 to ABC Co. (P) Ltd. for a lump sum consideration of ₹ 500 lakhs.

The Balance Sheet of Kite & Co. as on 31.03.2026 is as below:

Liabilities	₹ in lakhs	Assets	₹ in lakhs	
Capital	1,500	Fixed Assets:		
Unsecured loans	100	Plant & Machinery at WDV	300	
Bank borrowing	700	Land (At revalued figure)	1,200	1,500
Sundry Creditors	200	Current Assets:		
		Sundry Debtors	500	
		Cash & Bank balance	50	
		Loans & Advances	340	
		Closing stock	110	1,000
	2,500			2,500

Additional Information:

a) The land was acquired in March, 2006 for ₹ 200 lakhs.

b) WDV of plant & machinery under section 43(6) was ₹ 250 lakhs.

c) Cost inflation index for the financial year 2005-06 was 117.

d) Stock is overvalued by 10%.

e) Loans and advances include ₹ 150 lakhs due from ABC Co. (P) Ltd.

f) Compute capital gain arising from slump sale and tax liability on such gain.

Solution:

When the entire business is transferred for a lump sum consideration it is slump sale which is governed by section 50B of the Act. The unit is in existence for more than 3 years (as reflected in acquisition of land in March, 2006) and therefore the capital gain on transfer of business is taxable as long-term capital gain.

Computation of capital gain from slump sale and tax on such gain

Particulars	₹ in lakhs
Slump sale consideration	500.00
Less: Cost of acquisition (net worth) [Working note]	(440.00)
Long-term Capital Gain	60.00
Income tax @ 12.5% (under section 112)	7.5
Add: Surcharge	Nil
Add: Education cess @ 4%	0.3
Total tax liability	7.8

Computation of Net worth of the undertaking

Particulars	₹	₹
WDV of block of assets		250
Book value of non-depreciable assets		
Land (revaluation not to be considered)	200	
Sundry Debtors	500	
Bank & cash balance	50	
Loans & advances	340	
Closing stock (110 × 100/110)	100	1190
		1440
Less: Liabilities		
Unsecured loans	(100.00)	
Bank borrowing	(700.00)	
Sundry Creditors	(200.00)	(1000)
Net Worth		**440**

QUESTION 13 (PEQ)

Laxmi Ltd transferred its Unit X to Amin Ltd. by way of slump sale on 31st December 2025. The summarized balance sheet of Laxmi Ltd. as on that date is given below:

Liabilities	₹ in lakhs	Assets	₹ in lakhs
Share capital-paid up	2,000	Fixed Assets:	
Reserves and Surplus	950	Unit X	700
Liabilities:		Unit Y	900
Unit X	400	Unit Z	1,200
Unit Y	600	Other Assets:	
Unit Z	1,050	Unit X	650
		Unit Y	750
		Unit Z	800
	5,000		5,000

From the information given below compute the capital gain arising from sale of Unit X

a) Cost inflation index for the financial year 2007-08 is 129 being the year in which the Unit X was established.

b) The lump sum consideration received for transfer of Unit X is ₹1,100 lakhs. Unit X owes ₹ 100 lakhs to the buyer Amin Ltd. in respect of raw materials purchased by it.
This amount would be foregone by the buyer. In other words, the sale consideration is after set off of ₹ 100 lakhs.

c) The fixed assets of Unit X include a vacant land which was purchased in the financial year 2007-08 for ₹ 50 lakhs and it was revalued at ₹ 100 lakhs in the year 2018-19.

d) Other fixed assets reflected in the balance sheet ₹ 600 (₹ 700 lakhs less value of land) represents WDV of the assets as per books of account. The WDV of these assets under the Income-tax Act is ₹ 200 lakhs.

Solution:

Computation of Net worth of Unit X

Particulars	₹ in lakhs
Book value of non-depreciable asset	
Land - ignoring the revaluation amount	50
Other assets	650
Depreciable assets - as per WDV	200
	900
Less: Liabilities of Unit X	(300)
Net worth of Unit X	600

Computation of Capital gain on slump sale of Unit X

Particulars	₹ in lakhs
Sale consideration	1,100
Less: Net worth	(600)
Long-term capital gain arising on slump sale	500

QUESTION 14 (PEQ)

Tiger (P) Ltd. is engaged in manufacture of textile garments and automobile parts. It has been incurring losses in manufacture of automobile parts. The management of the company wants to divest automobile parts manufacture on 20/06/2025 for a lump sum consideration of ₹500 lakhs. The net worth of the automobile division has been computed @₹ 340 lakhs. The automobile division was in existence for the past 10 years. The management has identified a potential buyer by name Lion Ltd. There are two options available to Tiger (P) Ltd. regarding divesting of automobile division viz. (i) slump sale; or (ii) demerger. Briefly explain to the management of Tiger (P) Ltd. the comparative pros and cons of slump sale and demerger of automobile division.

Solution

- **In the case of slump sale**

  Slump sale means transfer of one or more undertaking for a lump sum consideration without values being assigned to individual assets and liabilities in such transfer.

  Any profits or gains arising from slump sale effected shall be chargeable to income-tax as capital gain arising from long-term capital asset if the undertaking was owned and held for more than 36 months preceding the date of transfer. Since it is stated that the automobile division was operational for more than 10 years the capital gain is liable to tax as long-term capital gain.

  It is liable to tax @ 12.5% + surcharge @7% + HEC @4%. The effective rate would be 22.256% on ₹ 160 lakhs (₹ 500 lakhs minus ₹ 340 lakhs).

  The tax liability would be ₹ 22,25,600.

- **In the case of demerger**

  Demerger is defined in section 2(19AA) where all the property of the undertaking of the demerged company held immediately before demerger is transferred and becomes the property of the resulting company. In this case, Tiger (P) Ltd would be demerged company and Lion Ltd would be the resulting company.

  Section 47(vib) says any transfer in a demerger, of a capital asset by the demerged company to the resulting company is not to be regarded as transfer, if the resulting company is an Indian company. In this case, both Tiger (P) Ltd and Lion Ltd are Indian companies. Therefore, the transaction of demerger will not attract any tax liability.

  If the sale consideration is discharged by the resulting company by issuing shares to the demerged company, there would be no tax consequence. On the other hand, if the shareholders of the demerged company receive shares in return for the shares held in demerged company it would attract capital gains tax based on their individual holding, cost of acquisition, period of holding and other factors.

  It is advisable to prefer demerger than slump sale of automobile division.

QUESTION 15 (WB)

Mundhra Pvt. Ltd has sold all its assets and liabilities as a slump sale on 31.03.2026 to Sonam Pvt. Ltd. for a lump sum consideration. Mundhra Pvt. Ltd. received the following considerations:

(i) Money ₹ 800 lakhs

(ii) House Property ₹ 300 lakhs (SDV of Plot)

(iii) Bitcoins ₹ 60 lakhs (Value based on Valuer Report)

(iv) Shares of Mohak Ltd ₹ 140 lakhs (value as per rule 11UA)

The statement of affairs of Mundhra Pvt. Ltd. as on 31.03.2026 is as below:

Liabilities	₹ (in lakhs)	Assets	₹ (in lakhs)	₹ (in lakhs)
Equity Share Capital	3,254	**Fixed Assets:**		
Unsecured Loans	50	Plant & Machinery at WDV	500	
Bank Borrowing	1,000	Land (At Revalued figure)	2,400	
		Unlisted shares (FMV ₹ 240 lakhs)	160	3,060
		Current Assets:		
Sunday Creditors	160	Sundry Debtors	600	
		Cash & Bank Balances	4	
		Loan &Advances	300	
		Closing stock	500	1,404
Total	**4,464**	**Total**		**4,464**

Additional Information:

1. Cost of land in March 2007 was ₹ 200 lakhs & SDV as on 31.03.26 is ₹ 800 lakhs.
2. WDV of plant & Machinery u/s 43(6) was ₹ 400 lakhs. Compute capital gain arising from slump sale and tax on such gain.

Solution:

Computation of Capital Gain arising from Slump sale and Tax on such gain

Particulars	₹ In lakhs
Full Value of Consideration (Note 1)	1,734.00
Less: Cost of acquisition (Net worth) (Note 2)	954.00
Long-term capital gain	**780.00**
Income tax @ 12.5% (u/s 112)	97.50
Add: Surcharge @ 7%, since total income exceeds ₹ 1 crore but does not exceed ₹ 10 crore	6.825
	104.325
Add: Health & Education cess @ 4%	4.173
Total tax liability	**108.498**

Note 1: Calculation of Full Value of Consideration

Particulars	Amount	Amount
Fair Market Value 1 (on the basis of net asset given)		
Plant and Machinery		500
Debtors		600
Cash and bank balance		4
Loan Advance		300

Closing stock		500
Add: Fair market value of share		240
Add: Stamp duty value of land		800
		2,944
Less: Unsecured Loan	50	
Less: Bank borrowings	1,000	
Less: Sundry Creditors	160	1,210
Fair Market Value 1 [A]		**1,734**
Fair Market Value 2 (on the basis of asset received)		
Money		800
House Property		300
Bitcoin		60
Shares of Mohak Ltd		140
Fair Market Value 2 [B]		1,300
Full value of consideration being higher of [A] and [B]		**1,734**

Note 2: Computation of Net worth of the undertaking

Particulars	₹ (lakhs)	₹ (lakhs)
WDV of block assets (Plant & Machinery) as per section 43(6)		400
Add: Book value of non-depreciable assets		
- Land (Revaluation not to be considered)	200	
- Unlisted Shares	160	
- Sundry Debtors	600	
- Cash & Bank Balance	4	
- Loans & Advance	300	
- Closing stock	500	1,764
		2,164
Less: Liabilities		
- Unsecured loans	50	
- Bank borrowing	1,000	
- Sundry Creditors	160	1,210
Net worth		**954**

QUESTION 16 (PEQ)

M/s Sriram Enterprises, a proprietorship having 2 units. Unit 1 is transferred on 1.4.2025 by way of slump sale for a total consideration of ₹ 14 lakhs. Unit 1 was started in the year 2005-06. The expenses incurred for this transfer were ₹ 38,000. Balance Sheet as on 31.3.2025 is as under:

Liabilities	Total (₹)	Assets	Unit 1 (₹)	Unit 2 (₹)	Total (₹)
Own Capital	17,00,000	Land	13,00,000	3,00,000	16,00,000
Revaluation Reserve (for land 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

Other information:

a. Revaluation reserve is created by revising upward the value of the land of Unit 1. The stamp duty value on 1.4.2025 is ₹ 10 lakhs.

b. No individual value of any asset is considered in the transfer deed.

c. Patents were acquired on 1.7.2023 on which no depreciation has been charged.

d. The value of machinery represents the written down value as per the Income-tax Act, 1961. Compute the capital gain for the assessment year 2026-27.

Solution:

Computation of capital gains on slump sale of Unit 1

Particulars	₹
Full value of consideration [Fair market value on 1.4.2025]	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:

a. 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 1.4.2025, 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 considerationsn [Higher of FMV1 or FMV2]			14,82,500

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

Particulars	₹	₹
Land (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

c. Written down value of patents as on 1.4.2025

Value of patents	₹
Cost as on 1.7.2023	2,50,000
Less: Depreciation @ 25% for Financial Year 2023-24	62,500
WDV as on 1.4.2024	1,87,500
Less: Depreciation for Financial Year 2024-24	46,875
WDV as on 1.4.2025	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 WDV of machinery and building, respectively of Unit 1.

d. Since the Unit is held for more than 36 months, capital gain arising would be long-term capital gain. However, indexation benefit is not available in case of slump sale.

QUESTION 17 (SM)

M/S ABC converted itself into a company as on 31/12/2024. As on date, balance sheet of the firm was as under:

Liabilities	Amount	Assets	Amount
A's Capital	40,000	Machinery (WDV as per IT Act)	1,00,000
B's Capital	1,10,000	Investments (acquired on 14/08/2004)	50,000
C's Capital	50,000	Stock	70,000

Creditors	1,00,000	Debtors	60,000
		Bank	20,000
	3,00,000		3,00,000

Following value was agreed upon on conversion

Machinery	₹ 1,20,000
Investments	₹ 2,50,000
Stock	₹ 90,000
Debtors	₹ 60,000

The firm fulfilled all the conditions of sec.47(xiii) and partners account are settled by way of issuing equity shares in their capital ratio. However, on 01/04/2025, all partners transferred all of their shares. Show tax treatment.

Solution:

As per sec. 47A (3), where any of the conditions laid down in sec. 47(xiii) are not complied with, the gain exempted/s 47(xiii) shall be charged to tax in the hands of successor company in the previous year in which the requirements of sec. 47(xiii) are violated. One of the conditions stated in sec. 47(xiii) is that the partner of the old firm cannot transfer shares of the successor company till 5 years. In the given case, all partners sold shares of the successor company within 5 years hence earlier exempted gain shall be revoked.

Computation of taxable income in the hands of successor company for the AY 26-27

Particulars	Investments	Machinery
Sale consideration	2,50,000	1,20,000
Less: Expenses on transfer	Nil	Nil
Net Sale Consideration	2,50,000	1,20,000
Less: Cost of acquisition	(50,000)	Nil
Less: Cost of acquisition (being WDV)	Nil	(1,00,000)
Long Term Capital Gain	**2,00,000**	**Nil**
Short Term Capital Gain	**Nil**	**20,000**
Note: Profit on transfer of stock by firm to company (i.e., ₹ 20,000 being ₹ 90,000 – ₹ 70,000) is taxable as business income of the firm for the A.Y. 2024-25.		

QUESTION 18 (PEQ)

M/s Arihant Motors, Noida is a partnership firm having three partners, namely X, Y and Z, sharing the profits and losses in the ratio of 3:2:1. On 1st April, 2025 it was taken over by Anand (P) Ltd., Delhi. All the assets and liabilities of the firm were taken over at book value. The capital accounts of the partners immediately before the succession showed a credit balance of ₹10,00,000, ₹8,00,000 and ₹6,00,000 respectively.

Anand (P) Ltd. has only two shareholders, namely A and B, having equity share capital of ₹10,00,000 each. The company further allotted equity shares worth ₹10,00,000, ₹8,00,000 and ₹6,00,000 respectively to X, Y and Z in the company as the consideration for the transfer.

Required:

(i) Analyse the above situation in the light of the conditions specified under section 47(xiii) (transactions not regarded as transfer in the case of succession of firm by a company).

(ii) Suppose, shareholder X sells his entire shareholdings to Y for ₹12,00,000 on 1st January, 2026, what will be the tax implications in the hands of X and Anand (P) Ltd.?

(iii) Will there be any change in your answer if the company allotted 3000 9% debentures of ₹100 each, to the three partners in their profit-sharing ratio besides the equity shares stated earlier?

Solution:

Tax implications on conversion of firm into company Transaction not regarded as transfer for the purpose of capital gain [Sec. 47(xiii)]

Any transfer of a capital asset, by a firm to a company as a result of succession of the firm by a company in the business carried on by the firm, shall not be regarded as transfer provided following conditions are satisfied:

a) All assets and liabilities of the firm relating to the business immediately before the succession become the assets and liabilities of the company.
   Here, Anand (P) Ltd. took over all the assets and liabilities of the firm.

b) All the partners of the firm immediately before the succession became the shareholders of the company in the same proportion in which their capital accounts stood in the books of the firm on the date of succession.
   Here, all the three partners became the shareholders in the company. Their capital account balances at the time of succession was in the ratio of 10:8:6 and the shareholdings in the company are also in the ratio of 10:8:6.

c) The partners of the firm do not receive any consideration or benefit, directly or indirectly, in any form or manner, other than by way of allotment of shares in the company.
   All the three partners received only the equity shares in the company as the consideration for transfer.

d) The aggregate of the shareholding in the company of the partners of the erstwhile firm is not less than 50% of the total voting power in the company and their shareholding continues to be as such for a period of 5 years from the date of succession.

Total share capital of the company after succession is ₹44,00,000. Total share capital of the three partners is more than 50% i.e. ₹24,00,000 = 54.5%

Since all the above conditions are satisfied, the transfer of capital assets by M/s Arihant Motors to Anand (P) Ltd. will not be regarded as 'transfer' and no capital gain will arise.

In case X sells his entire shareholdings to Y

In the hands of Anand Pvt. Ltd.

The condition (d) says, the aggregate of the shareholding in the company of the partners of the firm is not less than 50% of the total voting power in the company and their shareholding continues to be as such for a period of 5 years from the date of succession. Therefore, if X sells his entire shareholdings to Y, then still remaining partners Y and Z are holding not less than 50% of the voting power in the company and no capital gain arises in the hands of Anand Pvt. Ltd.

In the hands of X

Short term capital gain of ₹2,00,000, which arises in the hands of X for the assessment year 2025-26 is chargeable to tax.

If the company issues debentures along with the equity shares to the three partners

If the company issues debentures along with the equity shares to the three partners, the above condition (c) gets violated. Hence, the firm will not get the exemption u/s 47(xiii). Capital gain arising from such transfer will be taxable in the hands of the firm.

Entire transfer becomes taxable in the hands of the firm in AY 2026-27.

QUESTION 19 (PEQ)

ABC & Co. a partnership firm got converted into ABC Co. (P) Ltd. on 01.09.2025. It furnishes you the following details for the year ended 31st March, 2026.

a) Unabsorbed depreciation Rs.15 lakhs relating to assessment year 2014 – 15.

b) Business loss Rs. 20 lakhs relating to assessment year 2018-19.

c) Unadjusted AMT credit Rs.2 lakhs of the assessment year 2025-26.

d) Written down value of assets under the Income-tax Act, 1961 [Section 43(6)]:

- Plant & Machinery (15%) Rs.20 lakhs (market value Rs. 25 lakhs)
- Plant & Machinery cost Rs.50 lakhs – deduction claimed under section 35 AD.
- Factory Building (10%) Rs.30 lakhs (market value Rs.50 lakhs)

e) Cost of land (acquired in 2009) Rs.50 lakhs (market value Rs.90 lakhs)

f) Bad debt written off in assessment year 2021-22 Rs. 8 lakhs.

g) Amount recovered in December 2025 from the debtor Rs.6 lakhs.

Explain the tax treatment of each of the items given above in the hands of the company on the assumption that all the conditions laid down in section 47(iii) are satisfied.

Solution:

	Particulars
(i)	**Unabsorbed Depreciation** Unabsorbed depreciation of the firm is **eligible for set off** in the hands of successor company as though the depreciation belongs to the successor company.
(ii)	**Business loss** Business loss of the predecessor is eligible for set off by the successor up to 8 years. In this case the loss was incurred in the assessment year 2018-19 and the assessment year 2025-26 would be the 8th year for set off of the brought forward loss. **Brought forward business loss can thus be set off.** However, as the succession had taken place in the previous year 2025-26, the loss will be treated as if the loss so brought forward was incurred in a previous year in which the conversion took place.; as per section 72A (6) such loss is eligible for fresh period of 8 assessment years for carry forward and set off.
(iii)	The AMT brought forward by the firm is not eligible for credit upon conversion in to a company. However, the vice versa that a company when it converted into firm it is eligible for such credit. **The AMT credit of the firm hence would be lost.**

(iv)	**Depreciation on assets:** Depreciation on plant and machinery would be apportioned between the predecessor and successor in the number of days of use during the previous year. The succession had taken place on 01.09.20z and hence the depreciation would be allocated in 153: 212 (days ratio) between the firm and the company.		
		Firm	Company
	On plant and machinery Rs.20 lakhs x 15%= Rs. 3 lakhs: Apportioned in the ratio of 153: 212 ratios	1,25,753	1,74,247
	Plant and machinery of unit covered by section 35AD	NIL	NIL
	Factory Building Rs. 30 lakhs x 10% = Rs. 3 lakhs: Apportioned in the ratio of 153: 212 ratios	1,25,753	1,74,247
	Total Depreciation	2,51,506	3,48,494
(v)	**Cost of land:** In the hands of successor company, the original cost of acquisition of the predecessor (firm) would be adopted as and when it is sold by the successor-company.		
(vi)	**Bad debt recovery:** The amount of bad debt recovery of the successor is chargeable to tax in its hands as per section 41(4)		

QUESTION 20 (SM)

Balance sheet of Handoo & Handoo (P) Ltd. as on 31/08/2025

Liabilities	Amount	Assets	Amount
Equity Share capital of ₹ 10 each	10,00,000	Land (acquired on 17/05/2007) (Market value ₹ 50,00,000)	10,00,000
Reserves	30,00,000	Building (WDV as per IT Act) (Market value ₹ 30,00,000)	13,00,000
		Machinery (WDV as per IT Act) (Market value ₹ 10,00,000)	6,00,000
		Investments (acquired on 18/08/2008) (Market value ₹ 12,00,000)	4,00,000
		Current Assets (Realizable)	7,00,000
	40,00,000		**40,00,000**

Additional information

1. The company converts itself into limited liability partnership (LLP) [as per conditions mentioned u/s 47(xiiib)] on the date of balance sheet.
2. All assets and liabilities of the company was transferred to the LLP. Further, it was also agreed that assets shall be transferred to the LLP at market value.
3. Total number of shareholders in the company: 4 (each holding 25% of equity shares capital and acquired at face value on 01-04-2001)
4. On 28-02-2026, the LLP has transferred land to Mr. Animesh for a consideration of ₹ 63,00,000.

Discuss tax treatment in hands of company, shareholder and LLP.

Solution:

Computation of capital gain for the A.Y. 2026-27 in the hands of Handoo & Handoo (P) Ltd.

Particulars	Land	Building	Machinery	Investment
Full value of consideration	50,00,000	30,00,000	10,00,000	12,00,000
Less: Cost of Acquisition	(10,00,000)	(13,00,000)	(6,00,000)	(4,00,000)
Long Term Capital Gain	40,00,000	-	-	8,00,000
Short Term Capital Gain	-	17,00,000	4,00,000	-
Note: Entire capital gain is exempt in hands of Handoo & Handoo (P) Ltd., if such conversion fulfills all the conditions given in sec.47(xiiib). However, if such conditions are not fulfilled at the time of conversion, then entire capital gain would be taxable in hands of the company. Further, if later on, such conditions are violated, then such capital gain shall be taxable in hands of the **Limited Liability Partnership in the year of such violation.**				

Statement showing consideration received by a shareholder of the company

Particulars	Amount ₹
Land	50,00,000
Building	30,00,000
Machinery	10,00,000
Investment	12,00,000
Current Asset	7,00,000
Total worth available for 1,00,000 shares	1,09,00,000
To be received by each shareholder (₹ 1,09,00,000 x 25%)	27,25,000
- Received as Dividend [(₹ 30,00,000 x 25%]	7,50,000
- Received against shares	19,75,000

Computation of capital gain in hands of each Shareholder

Particulars	Amount
Full value of consideration	19,75,000
Less: Indexed Cost of Acquisition (₹ 10,00,000 x 25%)	(2,50,000)
Long Term Capital Gain	17,25,000
Note: Entire capital gain is exempt in hands of shareholder, if such conversion fulfills all the conditions given in sec.47(xiiib). However, if such conditions are not fulfilled at the time of conversion, then entire capital gain would be taxable in hands of the shareholder. Further, if later on, such conditions are violated, then such capital gain shall be taxable in hands of the **shareholder in the year of such violation.** Further, dividend is separately taxable in hands of respective shareholder.	

Computation of capital gain in hands of LLP (Sale of land)

Particulars	Amount
Full value of consideration	63,00,000
Less: Cost of Acquisition	(10,00,000)
Short Term Capital Gain	**53,00,000**

QUESTION 21 (WB)

Carry forward & set off of losses on conversion into Limited Liability Partnership.

Solution:

Carry forward & set off of losses on conversion into Limited Liability Partnership [Sec. 72A(6A)]:

Condition: Where a private company or unlisted public company is succeeded by a limited liability partnership fulfilling the conditions laid down in the proviso to sec. 47 (xilib).

Tax Treatment: The accumulated loss and unabsorbed depreciation of the predecessor concern shall be deemed to be the loss or allowance for depreciation of the successor firm for the purpose of previous year in which reorganization of business was affected.

Tax point: Accumulated loss of such firm or concern can be carried forward for further 8 years.

Effect of non-compliance of conditions given u/s 47 (xiiib)

If any of the conditions laid down in the sec. 47 (xiiib) are not complied with, the set off of loss or allowance of depreciation made in any previous year by the successor firm shall be deemed to be the income of the firm and chargeable to tax in the year in which such conditions are violated.

QUESTION 22 (PEQ)

BCG Pvt. Ltd. has converted itself into a Limited Liability Partnership (LLP) on 1.4.2024 and at the time of conversion, all the conditions specified in section 47(xiiib) have been fulfilled. The unabsorbed business loss and depreciation of the company as on the date of conversion were 48 lakhs and 25 lakhs respectively. The business profits of the LLP for the previous year 2024 - 25 were 85 lakhs. However, on 10.9.2025 two partners (who were erstwhile shareholders of BCG Pvt. Ltd) having in aggregate 50.75% of the profit sharing in LLP, resigned.

Discuss the tax consequences of the conversion of company into LLP and subsequent resignation of partners.

Solution:

Tax consequences of conversion of company into LLP:

As per section 72A, the LLP would be able to carry forward and set-off the unabsorbed depreciation and business loss of Rs. 48 lakhs and Rs. 25 lakhs, respectively, of BCG Pvt. Ltd. since at the time of conversion, all the conditions specified in section 47(xiiib) have been fulfilled.

Further, the LLP can set off the unabsorbed depreciation and business loss aggregating to Rs. 73 lakhs against its business profits of Rs. 85 lakhs for A.Y. 2025-26.

However, if in any subsequent year, the LLP fails to fulfil any of the conditions mentioned in section 47(xiiib), the business loss or unabsorbed depreciation of the company already set off by the LLP would be deemed to be the income chargeable to tax of the LLP for the year in which it fails to fulfil such conditions.

One of the conditions mentioned in section 47(xiiib) is that the erstwhile shareholders of the company continue to be entitled to receive at least 50% of the profits of the LLP for a period of 5 years from the date of conversion.

Since two partners (who were erstwhile shareholders of BCG Pvt. Ltd.) holding in aggregate 50.75% of the profit-sharing in the LLP have resigned on 10.9.2025, thus the LLP has failed to fulfill this condition.

Therefore, the amount of Rs. 73 lakhs representing unabsorbed depreciation and business losses set-off against profits of the LLP for the A.Y. 2025-26, would deemed to be income of the LLP for the A.Y. 2026-27, being the year in which it failed to fulfil the conditions.

QUESTION 23 (MQP)

Patel Co (P) Ltd. consisted of 4 individual shareholders Arun, Bimal, Chirag and Dhaval having equal shareholding. It was decided to convert the company into an LLP by name Patel LLP. The company has brought forward depreciation of ₹ 5 lakhs and business loss (of assessment year 2026-27) of ₹ 10 lakhs. Shareholder Bimal does not want to continue in the business and wants to transfer his shareholding to Arun. You are the tax counsel of the company.

Explain briefly the conditions to be satisfied by the company to have relief from capital gain on conversion into an LLP. Also, state how timing of the exit of shareholder Bimal be made from Patel LLP so that it does not lose the benefit of set off of unabsorbed depreciation and brought forward business loss.

Solution:

Conditions to be satisfied by a company on conversion into an LLP:

Section 47 (xiiib) says that any transfer of a capital asset or intangible asset by a private company or a unlisted public company to a limited liability partnership or any transfer of a share or shares held in the company by a shareholder as a result of conversion of the company into a limited liability partnership in accordance with the provisions of section 56 or section 57 of the Limited Liability Partnership Act, 2008 shall not be regarded as transfer if the following conditions are satisfied:

(i) All the assets and liabilities of the company before the conversion become the assets and liabilities of the limited liability partnership;

(ii) All the shareholders of the company immediately before the conversion become the partners of the limited liability partnership and profit-sharing ratio in the limited liability partnership are in the same proportion as their shareholding in the company on the date of conversion;

(iii) The shareholders of the company do not receive any consideration or benefit, directly or indirectly, in any form or manner, other than by way of share in profit and capital contribution in the limited liability partnership;

(iv) The aggregate of the profit-sharing ratio of the shareholders of the company in the limited liability partnership shall not be less than 50% at any time during the period of 5 years from the date of conversion;

(v) The total sales, turnover or gross receipt in the business of the company in any of the 3 previous years preceding the previous year in which the conversion takes place does not exceed ₹ 60 lakhs;

(vi) The total value of assets as appearing in the books of account of the company in any of the 3 previous years preceding the previous year in which the conversion takes place does not exceed ₹ 5 crore; and

(vii) No amount is paid, either directly or indirectly, to any partner out of balance of accumulated profit standing in the accounts of the company on the date of conversion for a period of 3 years from the date of conversion.

In this case, the company has brought forward loss and unabsorbed depreciation:

Section 72A(6A) says that where there has been reorganization of business whereby a private company is succeeded by an LLP fulfilling the conditions of clause (xiiib) of section 47, then the accumulated loss and unabsorbed depreciation of the predecessor company shall be deemed to be the loss or allowance of depreciation of the successor LLP of the previous year in which the business organization was effected and other provisions of the Act relating to set off and carry forward of loss and depreciation shall apply accordingly.

In case Bimal does not want to become a partner in the LLP, he must cease to be a shareholder in the company. He can transfer his shares to some other shareholder before conversion in to LLP so that the unabsorbed depreciation and business loss on the date of conversion would remain intact and could be set off by the successor LLP.

QUESTION 24 (PEQ)

Rosy (P) Ltd. incorporated in April, 2018 is engaged in manufacturing activity with 4 equal shareholders. The company has paid up share capital of ₹40 lakhs with each equity share of ₹10 each, fully paid up. As per the provisions of Income-tax Act, 1961 it has the following as on 31st March, 2025:

- ✓ Brought forward business loss ₹30 lakhs; and
- ✓ Unabsorbed depreciation ₹20 lakhs.

For the previous year 2025-26 also it is expected that the company would have unabsorbed depreciation of ₹10 lakhs though it would not have any business loss for the year as per the provisions of Income-tax Act, 1961. The Board of Directors of the company desire to carry out business restructuring by issuing equity shares for ₹160 lakhs to new investors in March, 2026.

Required:

(i) Discuss the tax consequences of the proposal of Rosy (P) Ltd.

(ii) What would be your answer in case Rosy (P) Ltd. is an eligible start-up in terms of section 80-IAC?

Solution

(i) Tax consequence of the proposal of Rosy (P) Ltd:

Section 79(1) of the Income-tax Act, 1961 says that in the case of a company in which public substantially interested and **not being an eligible start-up** referred to in section 80-IAC, no loss incurred in any previous year prior to that previous year would be eligible for carry forward and set off against the income of the previous year, unless on the last day of the previous year, the shares of the company carrying not less than 51% of the voting power were beneficially held by persons who beneficia shares of the company carrying not less than 51% of the voting power on the last day of the year in which the loss was incurred.

Therefore, induction of new shareholders would lead to the business loss as on 31.03.2025 be eligible for set off since the existing shareholders would hold less than 51% of the voting power on the last day of the previous year ending 31st March 2026. Therefore, the brought forward business loss could not be set off by Rosy (P) Ltd when new shareholders are inducted into the company before 31st march, 2026.

This would not however impact the carry forward and set off of unabsorbed depreciation of Rosy (P) Ltd.

(ii) In case Rosy (P) Ltd is an eligible start-up in terms of section 80-IAC:

If Rosy (P) Ltd is an eligible start-up, the conditions for carrying forward and setting off business loss and unabsorbed depreciation are as follows:

1. The company must be a closely held company, which is true in this case.
2. The company is an eligible start-up, which is also assumed to be satisfied.
3. All 4 shareholders who held shares on the last day of the year in which the loss occurred must continue to hold those shares in the future year when the loss is being set off. It's not about the percentage of shares, but rather that the same shareholders must hold the shares without transfer or dilution.
4. The loss incurred within the first 10 years from the company's incorporation is eligible for this benefit.

Therefore, if Rosy (P) Ltd is an eligible start-up, the change in shareholding will not affect the carry-forward and set-off of business loss and unabsorbed depreciation, as long as the original shareholders still hold the shares when the loss is set off.

PGBP

QUESTION 1 (ICAI)

M/s. QQ Trading Co. a sole proprietary concern, was converted into a company w.e.f. 01- 09-2025. Before the conversion, the sole proprietary concern had a block of Plant & Machinery (15%), whose WDV as on 1-4-2025 was ₹ 3,00,000. On 1st April itself, a new plant of the same block was purchased for ₹ 1,20,000. After the conversion, the company has purchased the same type of plant on 1-1-2026 for ₹ 1,60,000. Compute the depreciation that would be allocated between the concern & the company.

Solution:

Computation of depreciation on plant and machinery if there were no succession

Particulars	Plant & Machinery
W.D.V. as on 1/4/2025	3,00,000
Add: Purchase during the year	1,20,000
	4,20,000
Less: Sale during the year	Nil
	4,20,000
Depreciation @ 15% of ₹ 4,20,000	**63,000**

The depreciation of ₹ 63,000 is to be allocated in the ratio of number of days the assets were used by the sole proprietary concern and the successor company.

Calculation of allowable depreciation to sole proprietary concern.

Particulars	Amount
sole proprietary: Plant & machinery are used by sole proprietary concern from 1/4/2025 to 31/8/2025 i.e., 153 days.	
Depreciation for 153 days (₹ 63,000 x 153/365)	26,408

Calculation of allowable depreciation to successor company

Particulars	Amount
Plant & machinery of sole proprietary concern used by the successor company from 1/9/2025 to 31/3/2026 i.e., 212 days. Depreciation for such period (₹ 63,000 x 212/365)	36,592
After conversion	
Depreciation in respect of assets purchased by the successor company on 1/1/2026 is fully allowable in the hands of successor company [50% of 15% on ₹ 1,60,000].	12,000
Total depreciation	**48,592**

QUESTION 2 (SM)

M/s S & Co., a sole proprietary concern is converted into a company, Sid Co. Ltd. with effect from November 29, 2025. The written down value of assets as on April 1, 2025 are as follows:

Items	Rate of Depreciation	WDV as on 1 April, 2025
Building	10%	₹ 3,50,000
Furniture	10%	₹ 50,000
Plant & Machinery	15%	₹ 2,00,000

Further, on 15-10-2025, M/s S & Co. purchased a plant for ₹ 1,00,000 (rate of depreciation 15%). After conversion, the company added another plant worth ₹ 50,000 (rate of depreciation 15%). Compute the depreciation available to (i) M/s S & Co. and (ii) Sid Co. Ltd. for the A.Y. 2026-27

Solution:

Computation of depreciation on assets if there were no succession

Particulars	Building	Furniture	Plant & Machinery
Rate of depreciation	10%	10%	15%
W.D.V. as on 1/4/2025	3,50,000	50,000	2,00,000
Add: Purchase during the year	Nil	Nil	1,00,000*
	3,50,000	50,000	3,00,000
Less: Sale during the year	Nil	Nil	Nil
	3,50,000	50,000	3,00,000
Depreciation	**35,000**	**5,000**	**37,500**

It is assumed that the assesses is not entitled for additional depreciation.

Without considering assets acquired after succession. ** [(₹ 2,00,000 * 15%) + (₹ 1,00,000 * 15% * ½)]

Allocation of depreciation between sole proprietary concern and the successor company The depreciation is to be allocated in the ratio of number of days the assets were used by the sole proprietary concern and the successor company.

Calculation of allowable depreciation to sole proprietary concern

Particulars	Amount
Depreciation on assets held as on 01/04/2025	
Assets are used by sole proprietary concern from 01/4/2025 to 28/11/2025 i.e. 242 days, hence depreciation shall be allowed for 242 days	
- Building (₹ 35,000 x 242/365)	23,205
- Furniture (₹ 5,000 x 242/365)	3,315
- Plant and Machinery (₹ 30,000 x 242/365)	19,890
Depreciation on newly acquired assets	
New asset has been used by it from 15/10/2025 to 28/11/2025 i.e., 45 days, hence depreciation shall be allowed for 45 days	
- Plant and Machinery (₹ 7,500 x 45/168)	2,009
Depreciation allowable u/s 32	48,419

Calculation of allowable depreciation to successor company

Particulars	Amount
Depreciation on assets held by sole-proprietary concern as on 01/04/2025	
Asset of sole proprietary concern used by the successor company from 29/11/2025 to 31/3/2026 i.e. 123 days, hence depreciation shall be allowed for 123 days	
- Building (₹ 35,000 x 123/365)	11,795
- Furniture (₹ 5,000 x 123/365)	1,685
- Plant and Machinery (₹ 30,000 x 123/365)	10,110
Depreciation on assets acquired by sole-proprietary concern during the year	
New asset has been used by it from 29/11/2025 to 31/03/2026 i.e. 123 days, hence depreciation shall be allowed for 123 days	
- Plant and Machinery (₹ 7,500 x 123/168)	5,491
After conversion	
Depreciation in respect of plant purchased by the successor company is fully allowable in the hands of successor company [50% of 15% on ₹ 50,000].	3,750
Total depreciation	**32,831**

QUESTION 3 (MQP)

Smile Ltd. is a wholly-owned subsidiary company of Happy Ltd., an Indian company. Smile Ltd. owns Plant-A and Plant-B (depreciation rate 40%, depreciated value of the block ₹ 3,00,000 on 1st April, 2025). Plant-B was purchased and put to use on 10th November, 2023 (cost being ₹ 70,000). Plant-B is transferred by Smile Ltd. to Happy Ltd. on 14th December, 2025 for ₹ 20,000. It is put to use by Happy Ltd. on the same day. Happy Ltd. owns Plant- C on 1st April, 2025 (depreciation rate 40%, depreciated value ₹ 60,000). Find out the amount of depreciation in the hands of Smile Ltd. and Happy Ltd. for the assessment year 2026-27.

Solution:

Depreciation in the hands of Smile Ltd. for the assessment year 2026-27

Particulars	Amount
Depreciated value of the Plant A and B on 1st April, 2025	3,00,000
Less: Plant B transferred to Happy Ltd	(20,000)
WDV as on 31st March, 2026	2,80,000
Depreciation for the block P.Y.2025-26	(1,12,000)
WDV at the end of the year	**1,68,000**

Depreciation in the hands of Happy Ltd. for the assessment year 2026-27

Particulars	Amount
Depreciated value of the block on 1st April, 2025	60,000
Add: Actual Cost of Plant B acquired from Smile Ltd (See Note)	33,600

WDV as on 31st March, 2026	93,600
Depreciation on transferred asset [₹ 33,600* ½ * 40%]	6,720
Other Asset @ 40% of ₹ 60,000	24,000
Total Depreciation	**30,720**

Note: Actual Cost of Plant B in the hands of Happy Ltd.

Particulars	Amount
Actual Cost of Plant B in the hands of Smile Ltd on Nov 10, 2023	70,000
Less: Depreciation for P.Y 2023-24 (1/2 of 40% of ₹ 70,000)	(14,000)
Balance on April 1, 2024	56,000
Less: Depreciation for the P.Y.2024-25	(22,400)
Balance on April 1, 2025	**33,600**

QUESTION 4 (SM)

M/s AP a wholesale enterprise, has sold one of its undertakings consisting of Machinery A (rate of depreciation 30%), Machinery X (rate of depreciation 15%), Building B (rate of depreciation 10%) for ₹ 15,00,000 on 1/9/2025.

- Machinery A, originally acquired for ₹ 5,00,000 on 1/8/2022
- Building B acquired on 17/7/2025 for ₹ 4,00,000.
- During the year, new machinery Z (15%) purchased for ₹ 5,00,000 on 7/7/2025.

Compute depreciation for the A.Y.2026-27:

- ✓ Machinery (rate of depreciation 30%) block [WDV as on 1/4/2025 is ₹ 9,00,000]
- ✓ Building (rate of depreciation 10%) block [WDV as on 1/4/2025 is ₹ 5,00,000]

Solution:

Computation of depreciation for Block

Particulars	Machinery (30%)	Building (10%)
W.D.V. as on 1/4/2024	9,00,000	5,00,000
Add: Purchase during the year	Nil	4,00,000
	9,00,000	9,00,000
Less: Sale under slump sale (Working)	1,71,500	4,00,000
	7,28,500	5,00,000
Depreciation	**2,18,550**	**50,000**

Working: Written down value of the asset sold under slump sale

Particulars	Machinery A	Building B
Original cost of asset sold under slump sale	5,00,000	4,00,000
Less: Depreciation (notional) that would have been allowable if the asset is only asset in the relevant block. * Depreciation ₹ 1,50,000 (for 2022-23) + ₹ 1,05,000 (for 2023-24) + ₹ 73,500 (for 2024-25)	(3,28,500*)	Nil
Written down value of the asset sold under slump sale	1,71,500	4,00,000

QUESTION 5 (SM)

Star Gas Ltd. commenced operations of the business of laying and operating a cross-country natural gas pipeline network for distribution on 1st April, 2025. The company incurred capital expenditure of ₹ 1,490 lakh (including the cost of financial instrument ₹ 2 lakh) during the period January to March, 2025 exclusively for the above business and capitalized the same in its books of account as on 1st April 2025.

Further, during the financial year 2025-26, it incurred capital expenditure of ₹ 6,600 lakh (including the cost of land ₹ 1,100 lakh) exclusively for the above business. Compute the amount of deduction under section 35AD for the assessment year 2026-27, assuring that the company has fulfilled all the conditions specified in sec. 35AD.

Solution:

Computation of the Amount of Deduction under Section 35AD for the AY 2026- 27

Particulars	₹ in lakh
Capital expenditure incurred during the Year (excluding cost of land) [₹ 6,600 lakh – ₹ 1,100 lakh]	5,500
Capital expenditure incurred prior to commencement of business & capitalized (excluding cost of Financial Instrument) [₹ 1,490 lakh – ₹ 2 lakh]	1,488
Total Deduction u/s 35AD	**6,988**

QUESTION 6 (ICAI)

Bright Ltd. incurred ₹ 52.75 lakhs during the period April, 2025 to June, 2025 on advertisement, professional fees, administration cost, etc. for the purpose of public issue of ₹ 55 crore in July, 2025 and had, therefore, accounted all such expenses under the head share issue expenses. However, the clearance for the public issue was not given by SEBI. The company in its return of income filed for the year ended 31st March, 2026 had claimed such expenses as revenue expenses which were disallowed by the Assessing Officer. The company seeks your opinion. Advise.

Solution:

Allowability of the expenses in similar facts has been examined by the Hon`ble Bombay High Court in the case of M/s Nimbus Communications Ltd. Hon`ble Bombay High Court has held that the Assessee has incurred the expenditure and that on account of the aborted public issue offer, no new asset has come into existence and consequently there is no question of the Assessee getting any enduring benefit. With the approval of SEBI, the Assessee was to increase the share capital and thereby promote its business activity. However, the same got aborted due to reasons beyond its control. In these circumstances, the **aborted share issue expenditure should be allowed u/s 37.**

Earlier, similar view has also been taken by the Hon`ble Bombay High Court in CIT -vs.- Essar Oil Limited.

QUESTION 7 (PQ)

Jobo (P) Ltd., an Indian Company earned fee for technical services from Power Inc., a company resident in USA amounting to ₹2 crores. The company paid ₹30 lakhs as federal taxes in USA. During the course of assessment proceedings in India, the Assessing Officer allowed the foreign tax credit to the extent of ₹20 lakhs only from Income tax payable in India by Jobo (P) Ltd. The company accepted the non-allowance of Foreign tax credit to the extent of ₹10 lakhs, however it wants to claim deduction of

the disallowed portion of foreign tax as business expenditure deductible from its income chargeable to tax in India.

Discuss the correctness of the assessee's claim.

Solution:

i. **Issue Involved**

Whether tax paid in foreign country for which foreign tax credit under section 90 or section 91 of the Income-tax Act not allowed by the Assessing Officer can be claimed as business expenditure?

ii. **Provisions applicable**

Section 2(43) of the Income-tax Act defines "tax" to mean income-tax chargeable under the provisions of the Income-tax Act, 1961.

Section 40(a) (ii) of the Income-tax Act disallows any tax paid on the income of the assessee. Explanation 1 to section 40(a)(ii) provides that whenever an assessee is eligible for relief under section 90 or section 91 of the Act, the sum paid on account of any rate or tax levied shall also be liable for disallowance under section 40(a)(ii). In other words, if it is not eligible for section 90 or section 91 relief it is not liable for disallowance under section 40(a) (ii).

iii. **Analysis & Conclusion**

The occasion to insert Explanation 1 to section 40(a)(ii) arose as assessees were claiming to be entitled to obtain necessary credit to the extent of tax paid abroad under section 90 or section 91 of the Income-tax Act, 1961, and also

Claim the benefit of tax paid abroad as business expenditure on account of it not being covered by section 40(a) (ii).

The Bombay High Court in the case of Reliance Infrastructure Ltd. v CIT (2016) 390 ITR 271 (Bom) held that section 91 excludes taxes on income which is deemed to accrue or arise in India. However, where the income does not accrue or arise in India the tax paid thereon is not hit by section 40(a) (ii).

So, that much of tax to the extent not covered by section 40(a)(ii) is eligible for deduction as business expenditure.

Thus, the assesse's contention is tenable in law.

QUESTION 8 (ICAI)

P Ltd. is a manufacturing company (not having any international or specified domestic transaction). The profit and loss account of P Ltd. for the year ending March 31, 2026 is given below –

Particulars	Rs.	Particulars	Rs.
GST	50,000	Sales	20,10,000
Other expenses	14,15,000		
Net profit	5,45,000		
	20,10,000		20,10,000

Other information –

a. Out of GST of Rs. 50,000, only Rs. 47,000 is paid. The payment is mode as follows –

- Rs. 40,000 on Oct 2, 2025;
- Rs. 4,000 on Oct 12, 2026; and
- Rs. 3,000 on November 1, 2026.

b. Return of income is submitted on November 10, 2026.

c. During the previous year 2025-26, the following payments are mode in respect of expenses pertaining to earlier years -

i. bonus to employees pertaining to the previous year 2023 -24 paid on April 30, 20255: Rs. 15,000;

ii. customs duty pertaining to the previous year 2023- 24 paid on December 1, 2025: Rs. 25,000;

iii. electricity bill payable to BSES pertaining to previous year 2023 -24 paid on May 3, 2025: Rs. 35,000;

iv. excise duty pertaining to the previous year 2024-25 paid on May 20, 2025: Rs. 40,000; and

v. leave salary payable to employees pertaining to the previous year 2024-25 paid on December 2, 2025: Rs. 45,000.

These payments do not pertain to the previous year 2025-26. Consequently, these are not recorded in the profit and loss account given above. Find out the net income of P Ltd. for the assessment year 2026-27.

Solution:

Particulars	Rs.
Net profit as per profit and loss account	5,45,000
Adjustments:	
Add: GST	+ 50,000
Less: GST paid during 2025-26 (deductible on payment basis)	(-) 40,000
Less: GST tax paid On Oct 12, 2026 (Note 1)	(-) 4,000
Less: Bonus to employees [Note 2]	(-) 15,000
Less: Customs duty [Note 2]	(-) 25,000
Less: Leave salary [Note 3]	(-) 45,000
Net income	**4,66,000**

Notes:

1. GST debited to the profit and loss account given in the problem is covered by section 43B. The due date of submission of return of income is October 31, 2026. If the payment is made up to October 31, 2026, then it is deductible on accrual basis for the previous year 2025-26. The payment of GST of Rs. 4,000 on Oct 12, 2026 is, therefore, deductible on accrual basis. The payment made on November 1, 2026 is not deductible for the previous year 2025-26 even if return is submitted after the due date.
2. Bonus to employees pertaining to the previous year 2023-24 is paid on April 30, 2025. Similarly, customs duty to the previous year 2023-24 is paid on December 1, 2025. The due date of submission of return of income for the previous year 2023-24 (or the assessment year 2024-25) is October 31st, 2025. As these payments were not made up to October 31st, 2025, these were not allowed as deduction for the previous year 2023-24. Payments made after this date is allowable as deduction

on payment basis in the year in which the payments are made. Therefore, payment mode on April 30, 2025 and December 1, 2025 are deductible for the previous year 2025-26.

3. For the previous year 2024-25 (i.e., the assessment year 2025-26) the due date of submission of return of income is October, 2025. Excise duty and leave salary are covered by section 43B. If payment in respect of these expenses is made up to October, 2025, then these payments are deductible on accrual basis for the previous year 2024-25. Excise duty is paid on May 20, 2025. It is deductible for the previous year 2024-25. However, leave salary is paid on December 2, 2025 (i.e., after October, 2025 being the due date of submission of return of income). It is not deductible for the previous year 2024-25. It is deductible on payment basis for the previous year 2025-26.
4. Electricity bill payable to BSES is not covered by section 43B. Any expenditure, which is not covered by section 43B is deductible on accrual basis if the taxpayer maintains books of account on accrual basis. Consequently, it was deductible for the previous year 2023-24.

QUESTION 9 (ICAI)

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:

	Particulars	₹
1	Andhra Pradesh State Financial Corporation (P.Y. 2024-25 & 2025-26)	15,00,000
2	Indian Bank (P.Y. 2025-26)	30,00,000
		45,00,000

Both APSFC and Indian Bank, while restructuring the loan facilities of Hari during the year 2025-26, converted the above interest payable by Hari to them as a loan repayable in 60 equal instalments. During the year ended 31.3.2026, Hari paid 5 instalments to APSFC and 3 instalments 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.

Solution:

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, inter alia, scheduled banks shall be allowed only in the year of payment of such interest irrespective of the method of accounting followed by the assesses. Where there is default in the payment of interest by the assesses, 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 the financial year. Accordingly, the amount of interest eligible for deduction for the A.Y.2026-27 shall be calculated as follows:

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

QUESTION 10 (ICAI)

Alpha Co-operative Bank amalgamated with Beta Co-operative Bank on 1.12.2025. The depreciation for the year ended 31.3.2026 calculated as per Income-tax Rules, 1962, allowable to Alpha Co-operative Bank had the amalgamation had not taken place amounts to ₹ 2,40,000. Compute the deduction on account of depreciation allowable in the hands of Alpha Co-operative Bank and Beta Co-operative Bank for A.Y. 2026-27.

Solution:

i. The amount of deduction allowable to the amalgamating co-operative bank (i.e. Alpha Co- operative bank, in this case) under section 32 has to be determined in accordance with the following formula – A X B/C

A = the amount of deduction allowable to the predecessor co-operative bank (i.e. Alpha Co-operative bank, in this case) if the business reorganization had not taken place. In this case, the amount of deduction is ₹ 2,40,000.

B = the number of days comprised in the period beginning with the 1st day of the financial year (i.e., 1.4.2025, in this case) and ending on the day immediately preceding the date of business reorganization (i.e., 30.11.2025, in this case); and

C = the total number of days in the financial year in which the business reorganization has taken place (i.e., 365 days).

ii. The amount of deduction allowable to the amalgamated co-operative bank (i.e. Beta Co- operative bank, in this case) under section 32 has to be determined in accordance with the formula - A X B/C

A = the amount of deduction allowable to the predecessor co-operative bank (i.e. Alpha Co-operative bank, in this case) if the business reorganization had not taken place. In this case, the amount of deduction is ₹ 2,40,000.

B = the number of days comprised in the period beginning with the date of business reorganisation (i.e. 1.12.2025, in this case) and ending on the last day of the financial year (i.e. 31.3.2026); and

C = the total number of days in the financial year in which the business reorganisation has taken place (i.e. 365 days).

iii. In this case, the deduction that would have been allowable under section 32 to Alpha co- operative bank had the business reorganization had not taken place is ₹ 2,40,000 and the business re-organisation took place on 1.12.2025. Therefore, the deduction allowable to Alpha co-operative bank under section 32 would be ₹1,60,438 i.e., ₹ 2,40,000 x 244/365. The deduction allowable to Beta co-operative bank would be ₹ 79,562 i.e., ₹ 2,40,000 x 121/365.

QUESTION 11 (PEQ)

Mahavishnu Tea Pvt. Ltd. is engaged in the business of tea as well as development of infrastructural facility (covered by section 35 AD).

The company has brought forward business loss of 3 lakhs from tea business and ₹4 crores from the business of infrastructural facility, relating to the AY 2025-26.

During the year ended 31.03.2026, the company has shown a net profit of ₹82 lakhs from business of tea in its books, before current depreciation of ₹12 lakhs.

From the infrastructural facility business, it has earned profit of ₹2.2 crores.

The company has credited a sum of ₹30 lakhs in the share application money on 28- 2-2026, for which it is unable to explain the source satisfactorily.

Compute the total income of the company for the assessment year 2026-27.

Solution:

Total income of Mahavishnu Tea Pvt. Ltd for the assessment year 2026-27.

Particulars	(₹ in lakhs)	
Income from tea business Net profit as per books	82	
Less: Current depreciation	12	
Profit from tea business	70	
Chargeable profits at 40%	28	
Less: Brought forward business loss	3	
Chargeable income from tea business		25
Income from specified business covered by section 35AD Net profit as per books	220	
Less: Brought forward loss from specified business	220	
Chargeable income from specified business		Nil
Income from other sources Unexplained cash credit [Share application money not explainable]		30
Gross total income/total income		**55**

Notes:

1. Brought forward loss from specified business covered by section 35AD can be set off only against income from specified business in the current year.
2. Balance loss of ₹ 1.8 crores (4 - 2.2) from specified business can be carried forward to subsequent year.
3. Unexplained cash credit of ₹30 lakhs cannot be reduced by brought forward loss from specified business, as per section 115BBE (2)

QUESTION 12 (ICAI)

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 31-3-2026:

S.No.	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 Yervand, 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 assessment year 2026-27.

Solution:

Computation of business income and agricultural income of Ms. Vivitha for the A.Y.2026-27

Sr. No.	Source of income	Gross (₹)	Business income		Agricultural income
			%	₹	₹
1.	Sale of centrifuged latex from rubber plants grown in India.	3,00,000	35%	1,05,000	1,95,000
2.	Sale of coffee grown and cured in India. Sale of coffee grown, cured, roasted and	1,00,000	25%	25,000	75,000
3.	grounded outside India. (See Note 1 below)	2,50,000	100%	2,50,000	-
4.	Sale of tea grown and manufactured in India	4,00,000	40%	1,60,000	2,40,000
5.	Saplings and seedlings grown in nursery in India (See Note 2 below)	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 assesses, 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 13 (PEQ)

PQR Co. Ltd. engaged in manufacturing activity reports a Net Profit of ₹15 lakhs for the year ended 31.03.2026. The below said items are debited/credited to statement of profit and loss.

1. CSR expenditure incurred during the year ₹ 5 lakhs.
2. Non-compete fee paid to DEF Ltd for not marketing their products in North- Eastern States ₹ 10 lakhs. The non-compete agreement bars DEF Ltd for a period of 5 years ending 31.03.2030. No tax was deducted at source on the said payment.
3. A building was constructed on the leasehold land for ₹30 lakhs and it was completed on 30.11.2025. The lease agreement is for 3 years and after the lease period, the building must be handed over to the lessor.
4. The company during the year paid donation of ₹1 lakh to Dalmia Research Centre Ltd. which is engaged in approved scientific research.
5. The company introduced VRS scheme during the financial year 2022-23 and paid ₹60 lakhs as VRS compensation. The company transferred the entire unamortized amount of ₹24 lakhs to statement of profit and loss.
6. Paid ₹2 lakhs to Registrar of Companies as fee for issue of bonus shares.
7. It incurred ₹25 lakhs towards feasibility study for new product manufacture which eventually was aborted.
8. Cost of EPABX and mobile phones acquired on 01.06.2025 for use by executives ₹10 lakhs. Depreciation @ 60% was charged in the books.
9. Compounding fee paid for violation of municipal laws in construction of buildings ₹1,20,000.
10. Depreciation debited ₹24,60,000.
11. Royalty from patent developed by the company credited to Statement of profit and loss ₹22 lakhs.
12. Dividend received from foreign company in which the Assessee company holds 26% shares ₹8 lakhs.

Additional Information:

Eligible depreciation ₹32,30,000 under section 32 without considering item (3) and (8) given above.

You are required to compute the total income and income tax liability of PQR Ltd for the assessment year 2026-27.

Note: Your answer must be supported by reasons for treatment of each item. Ignore MAT provisions & provisions of section 115BAA

Solution:

PQR Co Ltd Computation of Total Income for the Asst. Year 2026-27

Particulars	Rs.
Net Profit as per statement of profit and loss	15,00,000
Add:	
CSR expenditure debited, not deductible in view of Explanation 2 to section 37	5,00,000
Non-compete fee on which tax was not deducted at source as per section 194J and hence @ 30% to be disallowed as per section 40(a)(ia)	3,00,000

Building on leasehold land debited to Statement of profit and loss is eligible for depreciation only. Hence disallowed		30,00,000
VRS Compensation to be amortized in 5 annual instalments as per section 35DDA. The unamortized amount is Rs.24 lakhs of which Rs.12 lakhs is deductible in assessment year 2026-27 and balance Rs.12 lakhs in assessment year 2027-28. As the full amount has been debited to Statement and profit and loss, the excess Rs.12 lakh is added back.		12,00,000
Expenditure towards feasibility study for examining new line of activity has no connection to the present business and hence it is a capital expenditure to be disallowed.		25,00,000
Depreciation on the cost of EPABX and mobile phones debited to Statement of profit and loss @ 60% disallowed.		6,00,000
Compounding fee paid for violation of local laws in construction is a expenditure for violation of law hence not deductible (Millenia Developers v. DCIT (2010) 322 ITR 401(Ker).		1,20,000
Depreciation debited in the books		24,60,000
		1,21,80,000
Less: Depreciation on leasehold building on Rs.30 lakhs @5% (since the building was put to use for less than 180 days)	1,50,000	
Donation to scientific research company eligible for deduction @ 100% only. As the amount is already debited no adjustment is required. [Section 35(1) (iia)]	Nil	
Amount paid to ROC as fee for issue of bonus shares is deductible expenditure as the payment does not create any asset or increase in capital base	Nil	
Depreciation on EPABX and mobile phones @ 15% on Rs.10 lakhs	1,50,000	
Royalty from patent credited to P&L – considered separately	22,00,000	
Dividend from foreign companies – considered separately	8,00,000	
Depreciation eligible under section 32	32,30,000	
		65,30,000
Income from Business or Profession		**56,50,000**
Royalty from patent developed by the company		22,00,000
Dividend from foreign companies		8,00,000
Total Income		**86,50,000**
Computation of Tax liability		
On Rs.64,50,000 @ 30%		19,35,000
Royalty from patent Rs.22 lakhs @ 10%		2,20,000
		21,55,000

Add: Cess @ 4%		86,200
Total tax liability		**22,41,200**

QUESTION 14 (PEQ)

King Metals (P) Ltd. reports a Net Profit ₹ 10,20,000 as per Statement of Profit and Loss for the year ended 31.03.2026. The following additional information is provided:

1. Opening stock as on 01.04.2025 was ₹ 9,00,000 and the closing stock as on 31.03.2026 was ₹ 16,50,000. The opening stock was overvalued by 10% and the closing stock was undervalued by 10%.
2. Dividend received from a foreign company credited to Statement of Profit and Loss ₹ 31,000. The company has 2% shareholding in the foreign company.
3. The company sold a vacant land for ₹ 23 lakhs on 05.07.2025. The original cost of acquisition is ₹ 12 lakhs. The cost of acquisition is ₹ 16,17,000. Profit on sale of vacant land has been credited to Statement of Profit and Loss. The company subscribed to REC bonds for ₹ 5,30,000 on 20.12.2025.
4. The company made a provision for bad and doubtful debts @ 5% of debtors on the closing date. The debtors outstanding as on 31.03.2026 was ₹ 62 lakhs.
5. Depreciation debited to Statement of Profit and Loss ₹ 7,50,000. Depreciation allowable as per Income-tax Rules ₹ 6,55,000.
6. Salary expenditure includes ₹ 3,60,000 paid to son of managing director who was no way connected with the business of the company. It also includes commission paid to a directors son 3% being ₹ 2,40,000 and whereas for other commission agents it was paid @2%.
7. The company has paid term loan interest to SBI relating to previous year 2024-25 ₹2,10,000 in December, 2025. It has not paid term loan interest of ₹ 1,90,000 of the previous year 2025-26 during the year and proposes to make the payment only in January, 2027.
8. The company took factory premises on lease and paid lease rent of ₹ 40,000 per month for 2 months to Mr. Akhil. No tax was deducted on such rent payment.
9. Directors sitting fee of ₹ 50,000 each was paid to 5 directors during the year. Tax was deducted for 2 directors and for the balance no tax deduction was made.
10. Provision for loss of subsidiary included in administrative expenses ₹ 2 lakhs.
11. Amount credited to Statement of Profit and Loss by transfer from revaluation reserve amounts to ₹ 1,10,000.
12. Provision for gratuity debited to Statement of profit and loss ₹ 7 lakhs. Actual gratuity paid during the year debited to provision account ₹ 4 lakhs.
13. A bad debt claims of ₹ 1,60,000 relating to the assessment year 2022-23 allowed in assessment was recovered and was credited to general reserve account.

You are required to compute the income of King Metals (P) Ltd. by giving brief explanations for each of the adjustments given above. Ignore MAT provisions & provisions of section 115BAA.

Solution:

Computation of Total Income of King Metals (P) Ltd for the Asst. Year 2026-27

Particulars	₹	₹
Profits and gains of business or profession Net Profit as per Statement of profit and loss		10,20,000
Add:		
Undervaluation of closing stock to be adjusted		1,83,333
Overvaluation of opening stock by 10% to be adjusted		81,818
Provision for bad and doubtful debts - disallowed		3,10,000
Depreciation debited to statement of profit and loss		7,50,000
Salary paid to son managing director having no nexus to the business of the company is not allowable under section 37		3,60,000
Excess commission paid to the director's son is liable for disallowance under section 40A (2).		80,000
Term loan interest debited to Statement of profit and loss of the previous year 2025-26 not allowable under section 43B.		1,90,000
Premises lease rent paid ₹60,000 per month for 2 months being ₹ 1,20,000. It is not liable for tax deduction under section 194-IB as the section will apply only to individual and HUF taxpayers. No adjustment is required.		Nil
Directors sitting fee paid without deduction of tax at source liable for disallowance @ 30% under section 40(a)(ia) [30% of ₹1,50,000].		45,000
Provision for loss of subsidiary company -disallowed		2,00,000
Provision for gratuity debited to Statement of profit and loss ₹7 lakhs not deductible in view of section 40A (7). However, the amount actually paid is eligible for deduction. The excess provision is disallowed.		3,00,000
Bad debt claim allowed in assessment year 2022-23 recovered during the year but credited to general reserve is chargeable to tax as income.		1,60,000
		36,80,151
Less:		
Dividend received from foreign company excluded and to be taxed under the head other sources	31,000	
Profit on sale of vacant land credited to Statement of profit and loss, to be considered under the head capital gains	11,00,000	
Depreciation allowable as per Income-tax rules	6,55,000	
Interest on term loan of the previous year 2024-25 paid in December, 2025 deductible under section 43B	2,10,000	

Amount withdrawn from revaluation reserve and credited to Statement of profit and loss excluded	1,10,000	
		21,06,000
Income from Business		15,74,151
Capital Gain:		
Sale consideration	23,00,000	
Less: cost of acquisition	(16,17,000)	
	6,83,000	
Less: Exemption U/s54EC eligible for corporate taxpayers also.	(5,30,000)	
		1,53,000
Income from Other Sources:		
Dividend received from foreign company		31,000
Total Income (Rounded off)		**17,58,150**

QUESTION 15 (PEQ)

KGB Ltd. is engaged in the manufacture of fabrics since 01-04-2013. Its Statement of Profit and Loss for the previous year ended 31st March, 2026 shows a profit of ₹ 720 lakhs after debiting or crediting the following items:

1. Industrial power tariff concession of ₹ 3.80 lakhs, received from Karnataka State Government was credited to Statement of profit and loss.
2. Depreciation charged on the basis of useful life of assets as per the Companies Act is ₹ 55 lakhs.
3. The company had provided ₹ 22 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.
4. Loss ₹ 18 lakhs, due to destruction of a machine by fire due to short circuit debited to Statement of Profit and Loss. The insurance company did not admit the claim of the company on charge of gross negligence and ₹ 4 lakhs received as scrap value credited to profit and loss account.
5. Dividend received from a US company ₹ 14 lakhs.
6. Provision for gratuity based on actuarial valuation was ₹ 300 lakhs. Actual gratuity paid debited to gratuity provision account was ₹ 120 lakhs.
7. Advertisement charges ₹ 2.20 lakhs, paid by cheque for advertisement published in the souvenir of a political party registered with the Election Commission of India.
8. Long-term capital gain ₹ 95,000 on sale of equity shares on which Securities Transaction Tax (STT) was paid at the time of acquisition and sale.

Additional Information:

1. Normal depreciation computed as per Income-tax Rules is ₹ 72 lakhs after consideration of scrap value.
2. GST ₹ 10 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 ₹ 4 lakhs to the company. The

company in turn refunded ₹ 1 lakh to the customers from whom it was collected and the balance ₹ 3 lakhs is still lying under the head 'Current Liabilities'.

Compute the total income of KGB Ltd. for the A.Y. 2026-27 by analyzing and applying the relevant provisions of income-tax law. Briefly explain the reasons for treatment of each item. Ignore the provisions relating to Minimum Alternate Tax. Assume that the company has not opted for section 115BAA. Show income under proper head as required under Income-Tax Act, 1961.

Solution:

Computation of Total income of KGB Ltd., for the A.Y. 2026-27

	Amount (Rs.)
I. Profits and gains of business and profession	
Net profit as per the statement of profit and loss	7,20,00,000
Add: Items debited but to be considered separately or items expenditure to be disallowed	
Depreciation as per the Companies Act	55,00,000
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. As the provision of Rs. 22 lakhs have been debited to statement of profit and loss; no adjustment is required while computing business income]	Nil
Loss due to destruction of machinery by fire [Loss of Rs. 18 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]	18,00,000
Provision for gratuity [Provision of Rs. 300 lakhs for gratuity based on actuarial valuation is not allowable as deduction. However, actual gratuity of Rs. 120 lakhs paid is allowable as deduction. Hence, the difference has to be added back to income (Rs. 300 lakhs (-) Rs. 120 lakhs)	1,80,00,000
Advertisement in souvenir of a political party [Advertisement charges paid in respect of souvenir published by a political party is not allowable as deduction since it is specifically disallowed under section 37(2B)]	2,20,000
Add: Income taxable but not credited to statement of profit and loss	
GST not refunded to customers out of GST refund received from State Govt. The amount of GST refunded to the company by the Government is a revenue receipt chargeable to tax. Out of the refunded amount of Rs. 4 lakhs, the	3,00,000

amount of Rs. 1 lakh stands refunded to customers would not be chargeable to tax. The balance amount of Rs. 3,00,000 not refunded, lying with the company would be chargeable to tax]	
	9,78,20,000
Less: Items credited to statement of profit and loss, but not includible in business income/ permissible expenditure and allowances	
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 regarded as income. As the same has been credited to statement of profit and loss, no adjustment is required]	Nil
Dividend received from US company [Dividend received from foreign company is taxable under "Income from other sources". Since the same has been credited to the statement of profit and loss, it has to be deducted while computing business income]	14,00,000
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]	4,00,000
Long term capital gains on 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.]	95,000
Depreciation as per Income-tax Rules, 1961	72,00,000
Profits and gains from business and profession	8,87,25,000
II. 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"]	14,00,000
III. Capital Gains	
Long term capital gain on sale of equity shares [Long term capital gains on sale of equity shares on which STT has been paid]	95,000
Gross Total Income	**9,02,20,000**
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	(2,20,000)

party tantamount to contribution to such political party.]	
Total Income	**9,00,00,000**

QUESTION 16 (PEQ)

Moonshine Ltd. engaged in manufacturing activity was incorporated in the year 2011. It has reported a Net Profit of ₹ 82,00,000 for the year ended 31st March, 2026 in its Statement of Profit and Loss. The following information is given to you:

1. Opening stock ₹ 36,00,000. It is undervalued by 10%.
2. Closing stock ₹ 33,00,000. It is overvalued by 10%.
3. Employees contribution to recognized provident fund ₹ 24 lakhs. Of this, ₹4,00,000 representing contribution for 2 months was remitted 10 days beyond the prescribed 'due date'.
4. Employer's contribution to recognized provident fund ₹ 24 lakhs. The whole amount of the entire year was remitted on 21.05.2026.
5. Paid commission to Mr. Quinto, a non-resident agent for procuring orders for sale of goods in Japan ₹ 3 lakhs. No tax was deducted at source though the entire payment was made before the end of the previous year.
6. Depreciation debited in the books ₹ 16,50,000. Depreciation under section 32 in respect of assets other than (vii) below, computed as per Income-tax rules, 1962 was ₹ 19,50,000.
7. Acquired a machinery for 20 lakhs on 05.08.2025. It was installed and put to use from 10.10.2025
8. Paid as interest for late filing of GST return ₹ 50,000.
9. Paid ₹ 2,00,000 by way of fee for increasing its authorized share capital.
10. A vacant plot was sold for ₹ 24 lakhs to Jupiter (P) Ltd. being its wholly owned subsidiary company. The stamp duty value of the plot was ₹ 30 lakhs. The profit on sale of plot as per books of account of 10 lakhs is credited in the Statement of Profit and Loss.
11. On 1st May, 2025, the company sold a factory building for ₹ 80 lakhs (being the only building owned by it). The WDV of the building as on 1st April, 2025 was ₹ 34 lakhs. The building was used for business for the past 7 years. The company bought capital gain bonds of NHAI for ₹ 46 lakhs in Aug, 2025 for the purpose of availing exemption under section 54EC.

The company has not opted for section 115BAA. You are requested to assess the total income of Moonshine Ltd. for the assessment year 2026-27 by giving reasons for treatment of each item given above.

Solution:

Total income of Moonshine Ltd for the Asst. Year 2026-27

Particulars	₹
Profits and gains of Business or profession:	
Net Profit as per Statement of Profit and Loss	82,00,000
Add:	
Employees contribution to recognized provident fund ₹ 24 lakhs Of The same, ₹4 lakh was remitted with a delay of 10 days. Since the remittance was made beyond	4,00,000

the due date, not eligible for deduction under section 36(1) (va)		
Commission paid to non-resident Quinto for procuring orders without deduction of tax at source. Since the payment was made outside India it is not chargeable to tax and no tax deduction is warranted under section 195. Therefore, there is no disallowance under section 40(a)(i).		Nil
Employer's contribution to recognized provident fund		Nil
Since the payment was made before the „due date" for filing the return of income under section 139(1) it is eligible for deduction under section 43B.		..
Interest paid for late filing of GST return is allowable deduction		Nil
Fee paid for increasing the authorized share capital is not an allowable expenditure as that would permanently change the capital structure of the company.		2,00,000
Depreciation debited to Statement of Profit and Loss		16,50,000
		1,04,50,000
Less:		
Depreciation as per Income-tax rules, 1962	19,50,000	
Depreciation in respect of new plant and machinery	1,50,000	
Additional depreciation	2,00,000	
Opening stock undervalued by 10%	4,00,000	
Closing stock overvalued by 10%	3,00,000	
Profit on sale of plot to wholly owned subsidiary company credited to Statement of Profit and Loss	10,00,000	
		40,00,000
Profits and gains of business or profession		64,50,000
Capital Gains:		
Sale of vacant plot to wholly owned Indian subsidiary company is not regarded as transfer as per section 47(iv).		Nil
Sale of factory building	80,00,000	
Less: WDV of building as on 01.04.2025	34,00,000	
	46,00,000	
Less: Exemption under section 54EC		
The asset was sold on 1st May, 2025. The investment was made in section 54EC bonds in Aug, 2025 which is within 6 months after the date of transfer. Hence, exemption is allowable.	46,00,000	
Short-term capital gain		Nil
Total Income		**64,50,000**

QUESTION 17 (PEQ)

XYZ Ltd. is engaged in the manufacture of textile since 01-04-2013. Its Statement of Profit & Loss shows a profit of ₹700 lakhs after debit/credit of the following items:

1. Depreciation calculated based on useful life of assets as per provisions of the Companies Act, 2013 is ₹50 lakhs.
2. Employer's contribution to EPF of ₹2 lakhs and Employees' contribution of ₹2 lakhs for the month of March, 2026 were remitted on 8th May 2026.
3. The company appended a note to its Income Statement that industrial power tariff concession of ₹2.5 lakhs was received from the State Government and credited the same to P & L Account.
4. The company had provided an amount of ₹25 lakhs being sum estimated as payable to workers based on agreement to be entered with the worker's union towards periodical wage revision once in 3 years. The provision is based on a fair estimation on wage and reasonable certainty of revision once in 3 years.
5. The company had made a provision of 10% of its debtors towards bad and doubtful debts. Total sundry debtors of the company as on 31-03-2025 was ₹200 lakhs.
6. A debtor who owed the company an amount of ₹40 lakhs was declared insolvent and hence, was written off by debit to Profit and loss account.
7. Sundry creditors include an amount of ₹50 lakhs payable to A & Co, towards supply of raw materials, which remained unpaid due to quality issues. An agreement has been made on 31-03-2026, to settle the amount at a discount of 75% of the outstanding. The amount waived is credited to Profit and Loss account.
8. The opening and closing stock for the year were ₹200 lakhs and ₹255 lakhs, respectively. They were overvalued by 10%.
9. Provision for gratuity based on actuarial valuation was ₹500 lakhs. Actual gratuity paid debited to gratuity provision account was ₹300 lakhs.
10. Commission of ₹1 lakh paid to a recovery agent for realization of a debt. Tax has been deducted and remitted as per Chapter XVIIB of the Act.
11. The company has purchased 500 tons of industrial paper as packing material at a price of ₹30,000/ton from PQR, a firm in which majority of the directors are partners. PQR's normal selling price in the market for the same material is ₹28,000/ton.

Additional Information:

a. There was an addition to Plant & Machinery amounting to ₹50 lakhs on 10-06-2025, which was used for more than 180 days during the year. Additional depreciation has not been adjusted in the books.

b. Normal depreciation calculated as per Income-tax rules is ₹80 lakhs.

c. The company had credited a sub-contractor an amount of ₹10 lakhs on 31-03-2025 towards repairing a machinery component. The tax so deducted was remitted on 31-12- 2025.

d. The company has collected ₹7 lakhs as sales tax from its customers and paid the same on the due dates. However, on an appeal made, the High Court directed the Sales Tax Department to refund ₹3 lakhs to the company. The company in turn refunded ₹2 lakhs to the customers from

whom the amount was collected and the balance of ₹1 lakh is still lying under the head "Current Liabilities",

Compute total income and tax payable for A.Y. 2026-27. Ignore MAT provisions & provisions of section 115BAA. Note - The turnover of XYZ Ltd. for the P.Y.2023-24 was ₹460 crores.

Solution:

Computation of Total Income of XYZ Ltd. for the A.Y. 2026-27

Particulars	Amount (₹)	
Profits and Gains from Business and Profession		
Profit as per Statement of profit and loss account		7,00,00,000
Add: Items debited but to be considered separately or to be disallowed		
a) Depreciation as per Companies Act, 2013 disallowed	50,00,000	
b) Employees' contribution to EPF [Since employees' contribution to EPF has not been deposited on or before the due date under the PF Act, the same is not allowable as deduction as per section 36(1)(va). Since the same has been debited to profit and loss account, it has to be added back for computing business income].	2,00,000	
c) Employers contribution to EPF [As per section 43B, employers' contribution to EPF is allowable as deduction since the same has been deposited on or before the 'due date' of filing of return u/s 139(1). Since the same has been debited to profit and loss account, no further adjustment is necessary]	Nil	
d) 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 as per section 2(24)(xviii). Since the same has been credited to profit and loss account, no adjustment is required].	Nil	
e) Provision for wages payable to workers [The provision is based on fair estimate of wages and reasonable certainty of revision, the provision is allowable as deduction, since ICDS X requires 'reasonable certainty for recognition of a provision, which is present in this case. As the provision has been debited to profit and loss account, no adjustment is required while computing business income]	Nil	
f) Provision for doubtful debts [10% of ₹200 lakhs] [Provision for doubtful debts is allowable as deduction u/s 36(1)(viia) only in case of banks, public financial institutions, state financial corporations, state industrial investment corporations and non-banking financial corporations. Such provisions is not allowable as deduction in the case	20,00,000	

of a manufacturing company. Since the same has been debited to profit and loss account, it has to be added back for computing business income]		
g) Bad debts written off [Bad debts write off in the book of account is allowable as deduction u/s 36(1)(vii). Since the same has already been debited to profit and loss account, no further adjustment is required]	Nil	
h) Discount given by Sundry Creditors for supply of raw materials [Discount of 75% given by Sundry Creditors for supply of raw materials is taxable u/s 41(1). Since the same has already been credited to profit and loss account, no further adjustments is required]	Nil	
i) Provision for gratuity [Provision of ₹500 lakhs for gratuity based on actuarial valuation is not allowable as deduction as per section 40A (7). However, actual gratuity of ₹300 lakhs paid is allowable as deduction. Hence, the difference has to be added back]	2,00,000	
j) Commission paid to recovery agent for realization of a debt. [Communication of ₹1 lakh paid to a recovery agent for realization of a debt is an allowable expense u/s 37 as per Super Tannery (India) Ltd. (2005) (All). Since the same has been debited to profit and loss account, no further adjustment is required]	Nil	
k) Purchase of paper at a price higher than the fair market value [The difference between the purchase price (₹30,000 per ton) and the fair market value (₹28,000 per ton) multiplied by the quantity purchased (500 tons) has to be added back since the purchase is from a related party, a firm in which majority of the directors are partners, at a price higher than the fair market value]	10,00,000	
l) 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 u/s 41(1). Deduction can be claimed of amount refunded to customers [Thirumalaiswamy Naidu & Sons (1998) (SC)]. Hence, the net amount of ₹1,00,000 (i.e., ₹3,00,000 minus ₹2,00,000) would be chargeable to tax]	1,00,000	2,83,00,000
		9,83,00,000
Less: Items credited but to be considered separately/permissible expenditure and allowances		
a) Depreciation as per Income tax Act,1961	80,00,000	

b) Over-valuation of stock [₹55 lakhs × 10/110] [The amount by which stock is over-valued has to be reduced for computing business income ₹50 lakhs, being the difference between closing and opening stock, has to be adjusted to remove the effect of over-valuation]	5,00,000	
c) Additional Depreciation [Additional depreciation @20% is allowable on 50 lakhs, being actual cost of new plant & machinery acquired on 10.06.2024, as the same was put to use for more than 180 days in the P.Y.2024-25.]	10,00,000	
d) Payment to a sub-contractor where tax deducted last year was remitted after the due date of filing of return [30% of ₹10 lakhs, being payment to a sub- contractor, would have been disallowed u/s 40(a)(ia) while computing the business income of A.Y.2025-26, since tax deducted was remitted after the due date of filing of return. However, the same is allowable in A.Y.2026-27, since the remittance has been made on 31.12.2025]	3,00,000	
Total Income		8,85,00,000

Computation of Tax liability of XYZ Ltd. for A.Y. 2026-27

Particulars	₹
Tax @30% on the above total income (since the turnover exceeded ₹400 crore in the P.Y. 2023-24)	2,65,50,000
Add: Surcharge @7% (since total income exceeds ₹1crore but less than ₹10 crore)	18,58,500
	2,84,08,500
Add: Health & Education cess@4%	11,36,340
Total tax liability	2,95,44,840

Notes:

1. Employees contribution to PF deposited after the due date mentioned under the PF Actis not allowable as deduction as per section 36(1)(va).
   Further, Explanation 2 provides that - For the removal of doubts, it is hereby clarified that the provisions of section 43B shall not apply and shall be deemed never to have been applied for the purposes of determining the "due date" under this clause.
2. ₹50 lakhs, being the addition to plant and machinery on 10.6.2025 qualifies for additional depreciation@20% u/s 32(1)(iia). Since only the normal depreciation as per Income-tax Rules, 1962, has been debited to profit and loss account, additional depreciation of ₹10 lakhs (being 20% of ₹50 lakhs) has to be deducted while computing business income.
3. Since the tax deducted during the P.Y.2023-24 was remitted only on 31.12.2025, i.e., after the due date of filing of return for A.Y.2025-26, ₹3,00,000, being 30% of 10 lakhs would have been disallowed while computing the business income of that year. Since the tax deducted has been remitted on 31.12.2025, ₹3,00,000 would be allowed as deduction while computing the business income of the A.Y.2026-27.

QUESTION 18 (PEQ)

M/s Devi (P) Limited is engaged in the business of manufacturing of leather goods and articles. Its Net Profit as per Statement of Profit and Loss was ₹43,45,000 for the year ended 31st March, 2026 after considering the following items:

(i) Raw material purchase includes a purchase from WS & Co LLP for ₹15 lakhs on 12th March, 2026. WS & Co LLP is a micro enterprise as per MSMED Act, 2006. A sum of ₹8 lakhs was paid on 20th March, 2026 and the balance was paid on 10th July, 2026. There is no agreement or valid reason for the delayed payment made.

(ii) One Senior Manager of the company Atul went on a business trip to foreign country and he died there in road accident. The company paid gratuity voluntarily to his dependent amounting to ₹10 lakhs. It was claimed as business expenditure.

(iii) Advertisement expenditure paid ₹2.50 lakhs to Surya LLP, in which one of its directors is a designated partner. Similar advertisement expenditure was incurred for ₹1,90,000 being the payment to Moon LLP an unrelated party. For both the expenses, tax was deducted and remitted promptly.

(iv) Late fee for delayed filing of TDS quarterly statement under section 234E ₹10,000 and interest under section 201(1A) ₹25,000 debited as general expenses.

(v) Employees Provident Fund recovered from salary of the month of August 2025 ₹60,000 was remitted on 16th October, 2025 and of March 2026 ₹40,000 was remitted on 20th August, 2026. Such recoveries shown as credit in Statement of Profit and Loss.

(vi) Employer's contribution to provident fund of similar amounts were also remitted on the same date as stated in (v) above. These amounts are debited in the Statement of Profit and Loss.

(vii) On the occasion of New Year (i.e. 01.01.2026), the company gave one laptop to each of its 10 distributors. The cost of laptops was ₹60,000 each. The company did not deduct any amount by way of tax deduction at source for the laptops given to the distributors. The cost of laptops were debited to the Statement of Profit and Loss under the head 'sales promotion expenses'.

(viii) One machinery was acquired on 10th September, 2025 for ₹15.50 lakhs for which payment was made through banking channels and ₹1,50,000 was incurred by way of expenses for its installation by making payment through UPI. The said machinery was previously used by a foreign company outside India for six years. The machinery was put to use from 25th September, 2025 and the company had claimed depreciation @15% and additional depreciation @20%.

(ix) Annual bonus debited to Statement of Profit and Loss ₹15 lakhs. The same was unpaid till the date of filing of ITR [which actually was filed on 3rd December, 2026 for the assessment year 2026-27].

(x) Donation to registered political party by net banking ₹1,80,000 and by cash ₹20,000 debited in the Statement of Profit and Loss.

(xi) A sum of ₹5 lakhs was waived by an NBFC, compromising ₹3.80 lakhs towards principal and ₹1.20 lakhs for interest as part of one-time settlement. Interest amount waived is credited to Statement of Profit and Loss. The principal amount waived was credited to Capital Reserve. The said loan was originally obtained for acquiring a vacant site.

Note: Ignore provisions of sections 115BAA/115BAB

Solution:

Particulars		₹	₹
Net profit as per Statement of Profit and Loss			43,45,000
Add:			
i)	Raw material purchase from WS & Co LLP for ₹ 15 lakhs on 12.03.2026. WS & Co LLP being a micro enterprise as per the MSMED Act, 2005, the amount paid on 10th July, 2026 is liable for disallowance under section 43B.	7,00,000	
ii)	Gratuity voluntarily paid to dependents of senior manager No adjustment is required since it is already debited to profit and loss account; it is an expenditure incurred wholly and exclusively for business purposes and not being capital expenditure, it is an allowable expenditure.	NIL	
iii)	Advertisement expenditure to Surya LLP In a LLP, where director is a designated partner it becomes a relative within meaning of section 40A(2), ₹60,000 being excess payment made to the specified person shall be disallowed.	60,000	
iv)	TDS late fee is allowed since it is not in the nature of penalty.	Nil	
v)	Interest on late payment of TDS is not allowed	25,000	
vi)	Belated remittance of EPF recovered from employees for the month of August,2025 and March,2026 - disallowed Employees contribution disallowed since it was remitted late thus not eligible for deduction u/s 36(1) (va)	1,00,000	
vii)	Belated remittance of EPF contribution of employer is allowed under section 43B. So, no adjustment is required.	Nil	
viii)	Incentives to dealers and distributors without deduction of TDS (₹ 60,000 X 10) @ 30%= ₹1,80,000(being 30% of such expenditure on which TDS is not made is disallowed)	1,80,000	
ix)	Additional depreciation-disallowed Since such machine has been in used outside India, additional depreciation shall not be allowed	3,40,000	
x)	Bonus declared but remained unpaid till the date of filing return on income-Disallowed Bonus shall be allowed in the year in which it will be actually paid, as per section 43B	15,00,000	
xi)	Donation to registered political party by net banking ₹1,80,000 and by cash ₹ 20,000 Not being an expenditure related to business, the same is disallowed u/s 37; will be considered for deduction u/s 80GGB.	2,00,000	
			31,05,000

			74,50,000
Less			
xii)	Waiver of principal on bank loan for acquiring capital asset-no adjustment required If the loan was taken for acquiring a capital asset (vacant land), waiver thereof would be a capital receipt and not amount to taxability of the same.	NIL	
xiii)	Waiver of interest on bank loan Interest is allowed on actual payment as per section 43B. As the same would not have been allowed in any earlier previous year, the write back cannot be considered as income. Therefore, the same is to be deducted.	1,20,000	
			1,20,000
			73,30,000
Less	Deduction u/s 80GGB- paid by net banking		1,80,000
			71,50,000

QUESTION 19 (MQP)

The trading profit and loss account of Subash Trading Pvt. Ltd. having business of agricultural produce, consume items and other products for the year ended 31.03.2026 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 and 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	5,00	Warehousing Charges	15,00,000
Bad Debts	75,000		
Interest on Loans	1,67,500		
Depreciation	71,500		
GST Demand Paid	1,08,350		
Misc. 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:

1. There was a survey u/s 133A on the business premises on 31.03.2026 in which it was revealed that the value of closing stocks on 31.03.2025 was ₹8,75,000 and a sale of ₹75,000 made on 13.03.2026 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 31.03.2026 worked out at ₹12,50,000/- which was accepted to be correct and not disputed.
2. Income Tax Refund includes amount of ₹5,570/- of Interest allowed thereon.
3. Bonus to Staff includes an amount of ₹5,500 paid in the month of December,2025 which was provided in the books on 31.03.2025.
4. 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.
5. 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
6. Miscellaneous Expenses include:
   i. Amount of ₹25,000/- paid towards penalty for non-fulfilment of delivery conditions of a contract of sale for the reason beyond control.
   ii. 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 charges only ₹25,000/- for the same opinion.
   iii. Amount of ₹1,00,000 paid to an electoral Trust by a cheque.
7. GST demand paid includes and amount of ₹5,300/- charges as penalty for delayed filing of returns and ₹12,750/- towards interest for delay in deposit of tax.
8. The company had made an investment of ₹25 lakhs on the construction of a warehouse in rural area for the purpose of storage of agricultural produce. This was made available for use from 15.09.2025 and the income from this activity is credited in the Profit and Loss Account under the head "Warehousing Charges".
9. Depreciation under the Income Tax Act, 1961 works out at ₹65,000/-.
10. Interest on loans includes an amount of ₹60,000/- on which tax was not deducted.

Compute the Income chargeable to tax for A.Y.2026-27 for Subash Trading Pvt. Ltd. indicating reasons for treatment of each items. Ignore the provisions relating to minimum alternate tax & provision of section 115BAA.

Solution:

Computation of Total Income chargeable to tax of Subash Trading Pvt. Ltd. for the A.Y.2026-27

Particulars	₹
Net Profit as per Profit and Loss Account	33,90,000
Add: Expenditure Disallowed/items considered separately	
(i) Difference in the valuable of stocks (Note 1)	3,75,000
(ii) Advertisement in the souvenir of Political Party (The amount of ₹2,500 paid for advertisement in the souvenir issued by a political party attracts disallowance u/s	2,500

37 (2B). However, such expenditure falls within the meaning assigned to "contribute" u/s 293A of the Companies act, 1956, and is hence eligible for deduction u/s 80GGB)	
(iii) Payment made to the wife of a Director (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 ₹25,000/- for the same opinion and therefore, the balance ₹75,000/- has been disallowed)	75,000
(iv) Payment made to electoral trust by cheque (Payment to an electoral trust qualifies for deduction u/s 80GGB since the payment is made by way of a cheque)	1,00,000
(v) Penalty levied by the Sales Tax Department (The interest of ₹12,750 paid on the delayed deposit of GST is for breach of contract and hence is allowable as deduction. However, penalty of ₹5,300 for delay of filing of returns is not allowable since it is for breach of law)	5,300
(vi) Depreciation as per books	71,500
(vii)30% of interest paid on loan without deduction of tax at source not allowable as per section 40(a)(ia) (₹60,000 × 30%)	18,000
Adjusted Net Profit	40,37,300
Less: Income Allowed/items considered separately	
Income tax refund and interest	(20,000)
Depreciation allowable as per Income Tax Act, 1961	(65,000)
Income from specified business (warehousing charges)	(15,00,000)
Income from Business (other than specified business)	24,52,300
Income from Specified Business	
Income from specified business	15,00,000
Less: Deduction u/s 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	5,570
Gross Total Income	24,57,870
Less: Deduction u/s 80GGB	
Contribution to Political Party (The amount of ₹2,500 paid for advertisement in the souvenir issued by a political party attracts disallowance u/s 37(2B). However, such expenditure falls within the meaning assigned to "contribute" u/s 293A of the Companies Act, 1956, and is hence eligible for deduction u/s 80GGB)	2,500
Contribution to Electoral Trust (Payment to an electoral trust qualifies for deduction u/s 80GGB since the payment is made by way of a cheque)	1,00,000
Total Income	**23,55,370**

Note:

1. Revised Trading Account [Expenses for Repaired by Assessee begin tenant and not as per agreement Not allowed u/s 30. So need to Add Back]

Particulars	₹	Particulars	₹
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 previous year 2024-25 paid after the due date for filing return for that year would have been disallowed u/s 43B for the F.Y. 2024-25. However, when the same has been paid in December, 2025 it should be allowed as deduction in the F.Y. 2025-26 (A.Y. 2026-27). 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 penalty of ₹25,000/- paid for non-fulfilment if 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.

QUESTION 20 (PEQ)

M/s. Derek Private Limited, Kolkata, reports a net profit of ₹22,75,000 for the year ended 31st March, 2026 after adjustment of the following items:

Items debited to Statement of Profit and Loss:

Particulars	₹
(a) Interest on loan from NBFC. This amount remained unpaid till the 'due date' for filing the return	1,85,000
(b) Depreciation as per Companies Act	3,70,000
(c) Penalty for infraction of law	60,000
(d) Payment of fee to Registrar of Companies for: - Change in Articles of Association - Changes in Memorandum of Association - Changes in Authorized Share Capital	 15,000 20,000 70,000
(e) Company made following provisions: - Deferred tax - Provision for doubtful debts - Provision for loss of wholly owned subsidiary	 50,000 85,000 2,40,000
(f) Retrenchment compensation paid to employees for closing down a unit of the company during FY 2025-26	8,40,000

Items Credited to Statement of Profit and Loss:

Particulars	₹
Profit from unit established in Special Economic Zone (the unit was set up in December, 2020)	2,75,000
Income from growing and manufacturing of tea in Darjeeling	1,00,000

Other Information:

(i) Company received a refund of income tax of ₹47,000 which is credited to Statement of Profit and Loss. Out of this, ₹7,000 is interest on income tax refund.

(ii) Depreciation as per Income-tax Act ₹4,00,000.

(iii) Business loss brought forward of assessment year 2024-2025 (non-speculative) ₹3,75,000.

(iv) Business loss brought forward of assessment year 2023-2024 (speculative business) ₹1,00,000.

(v) Unabsorbed depreciation brought forward ₹3,50,000 relating to assessment year 2013-2014.

(vi) During the year the company purchased raw materials from Micro Enterprises (as per MSMED Act) for ₹45 lakhs and paid ₹37.50 lakhs up to the end of the year. It settled the balance on 25th May, 2026. There was no defect in the raw materials purchased. The entire purchase is debited in the Statement of Profit and Loss.

(vii) Advance tax paid by company during the year ₹5,00,000.

From the above information you are required to compute the Total Income giving reasons for treatment of each item stated above and tax payable by the company for the assessment year 2026-2027. Company has not opted for sections 115BA/115BAA/115BAB. Assume the applicable tax rate as 25% + 4% HEC.

Solution:

Computation of Total Income of M/s. Derek Pvt. Ltd. For A.Y. 2026-27

Particulars	₹	₹
Net Profit as per the Statement of profit and loss		22,75,000
Add: Items debited to the Statement of profit and loss but not allowable		
i) Interest on loan from the NBFC (not paid within the due date of filing of return of income) (As per Section 43B, interest on loan from an NBFC is not allowable if not paid within the due date of filing of return of income.)		1,85,000
ii) Depreciation as per Companies Act		3,70,000
iii) Penalty for infringement of law (Penalty for infringement of law is specifically not allowed as deduction as per Section 37)		60,000
iv) Fees to Registrar of Companies for changes in Authorised capital Memorandum of Association Articles of Association (All the above are capital expenditure that alters a company's		 70,000 20,000 15,000

capital base, hence not allowable.)		
v) Provisions Deferred tax Doubtful debts Losses of subsidiary (Provisions are not allowed as expenses, as per section 37(1))	 50,000 85,000 2,40,000	 3,75,000
vi) Retrenchment compensation paid to employees on closing down of a unit (Retrenchment compensation paid to employees on closing down of a unit is allowed as expenditure as per section 37)	Nil	
vii) Delayed payment to micro enterprise [100% disallowed under section 43B(h)] [Assumption: It is assumed that the amount of ₹ 35.50 lakhs that has been paid up to the end of the year, qualifies the time limits prescribed under section 43B(h)]		7,50,000
		41,20,000
Less: Items credited to the Statement of profit and loss but not to be considered under PGBP		
i) Profit from SEZ Unit (To be considered separately)	2,75,000	
ii) Income from growing and manufacturing of tea (To be considered separately)	1,00,000	
iii) Income tax refund (To be considered separately, since it is not a business income)	47,000	
		4,22,000
		36,98,000
Less: Items not debited to the Statement of profit and loss		
i) Depreciation as per the Income-tax Act (This amount includes the amount discussed in point ii infra)	4,00,000	
ii) Unabsorbed Depreciation (As per s. 32(2) any brought forward depreciation of an earlier year will be added to current year depreciation and will be treated as current depreciation. Since the depreciation as per Income-tax Act includes the unabsorbed depreciation, no more adjustment is required)	Nil	4,00,000
Income from manufacturing business		32,98,000
Profit from the SEZ Unit		2,75,000
Income from growing and manufacturing of tea		40,000
(60% agricultural income and 40% non- agricultural income)		

PGBP prior to set off		36,13,000
Less: Brought forward loss from non-speculative business (Losses from non-speculative business are allowed to be set off)	3,75,000	
Brought forward loss from speculative business (Losses from speculative business cannot be set off against profit from normal business. Hence, carried forward.)	Nil	
		3,75,000
Income from PGBP		32,38,000
Income from Other Sources		
Interest on income tax refund		7,000
Gross total income		32,45,000
Less: Deduction u/s 10AA		2,75,000
(Profit from unit established in special economic zone is exempt @ 100% for first 5 years)		
Total income		29,70,000
Tax @25%		7,42,500
Cess @ 4%		29,700
Total tax payable		7,72,200
Less: Advance tax		5,00,000
Net tax payable		2,72,200

QUESTION 21 (WB)

RVD Ltd. is a domestic company engaged in the business of electronics manufacturing since 01.07.2016. The Profit and Loss account for the year ended 31.03.2026 shows a net profit of ₹ 50 lakhs after debiting/crediting the following:

1. Depreciation charged in books as per the Companies Act: ₹30 lakhs
2. Compensation of ₹4 lakhs paid to workers under the VRS scheme
3. Income tax refund, including interest of ₹ 22,000: ₹2 lakhs
4. Provision for doubtful debts: ₹5 lakhs
5. Advertisement in a souvenir published by a private political party: ₹1 lakh
6. Royalty income from a patent registered in India: ₹ 10 lakhs
7. Goods purchased from R Ltd., a related party: ₹20 lakhs. FMV: ₹18 lakhs..

Additional Information:

- Depreciation as per Income-tax Rules: ₹35 lakhs
- Company paid donation of ₹1.2 lakhs to PM CARES Fund, which is debited to the statement of Profit and Loss

Compute the total income of RVD Ltd. for A.Y. 2026-27. Ignore the provision of MAT

Solution:

Computation of Total Income of RVD Ltd. for A.Y. 2026-27

Particulars	Amount (₹)	Amount (₹)
Net Profit as per P&L		50,00,000
Add: Items debited but not allowable/deductible separately		
Depreciation as per the Companies Act	30,00,000	
VRS Compensation (not allowable u/s 35DDA)	4,00,000	
Provision for Doubtful Debts	5,00,000	
Advertisement in political souvenir (Sec. 37 disallowance)	1,00,000	
Excess payment to related party (Sec. 40A(2)) [20L - 18L]	2,00,000	
Donation	1,20,000	43,20,000
		93,20,000
***Less*: Items credited but taxable separately/expenses deductible**		
VRS Compensation (1/5th allowable u/s 35DDA)	80,000	
Income tax refund & interest	2,00,000	
Depreciation as per sec. 32	35,00,000	37,80,000
Profits and Gains of Business or Profession		55,40,000
Income from Other Sources		
Interest on income tax refund		22,000
Gross Total Income		55,62,000
***Less*: Deduction u/s 80G**		1,20,000
Total Income		**54,42,000**

QUESTION 22 (WB)

Shivam Ltd., a manufacturing company, is engaged in the manufacturing of leather products since 01-11-2022 in the State of Karnataka. As per Statement of Profit and Loss for the year ended 31st March, 2026, the company showed profit of ₹ 1,20,00,000 after debiting or crediting the following items:

1. 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%.
2. Shivam Ltd. paid ₹ 10 lakhs in foreign currency as sales commission during the year without deducting tax at source to Mr. John, a citizen of U.S.A and non-resident, for procuring orders from outside India.
3. ₹ 45,000 paid in cash to Mr. Raj employee of the company at the time of his retirement.
4. Profit on sale of 2000 shares of M/s. ABC Ltd, a listed company, ₹ 3,50,000. These shares were sold on 7-10-2025 for ₹ 250 per share. The highest price of ABC 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.
5. STCG derived from transfer of a Capital asset on which no depreciation is allowable under the Act

₹ 75,000.

6. Profit of ₹ 6 lakhs on sale of plot of land on 24-07-2025 to MSP Ltd, a domestic company, the entire shares of which are held by the assessee company. The plot was acquired by Shivam Ltd. on 30-09-2024.
7. Credits to statement of Profit and Loss Account include dividend of ₹ 50,000 from a domestic company.
8. ₹ 20,000 paid for expenses in connection with the inauguration of a new branch opened for expanding the business.
9. ₹ 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.
10. An amount of ₹ 5 lakhs was paid to the manager of the company under Voluntary Retirement Scheme.
11. 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.
12. Marked to market loss amounting to ₹ 6,00,000 in respect of an unsettled derivative contract. The contract was settled in May, 2026 with a gain of ₹ 1,00,000.
13. Contribution of ₹ 2,50,000 to a scientific laboratory functioning at the national level with a specific direction for use of the amount for scientific research programme approved by the prescribed authority.
14. Depreciation on tangible fixed assets as per books of account ₹ 2,20,000.

Additional information:

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

b) Company has acquired on 15.11.2025, new machinery for ₹ 20,00,000 and put the same to use on the same date. Depreciation on such machinery is not included in point (a) above.

c) During the year F.Y. 2025-26, the company has employed 56 additional employees. All these employees contribute to a recognized provident fund. 39 out of 56 employees joined on 1-6-2025 on a salary of ₹ 15,000 per month, 14 joined on 1-7-2025 on a salary of ₹ 45,700 per month, and 3 joined on 1-11-2025 on a salary of ₹ 22,000 per month. The salaries of 9 employees who joined on 1-6-2025 are being settled by bearer cheques every month. Audit under section 44AB has been done before the due date.

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

e) The Company opted for concessional rate of tax and exemption from MAT u/s 115BAB for Assessment year 2026-27.

Compute the total income and tax payable for the Assessment Year 2026-27.

Solution:

Computation of total income of Shivam Ltd. for the A.Y. 2026-27

Particulars	Notes	Details	Amount	Amount
Profits & gains of business or profession				
Net profit as per Statement of Profit and Loss			1,20,00,000	
Over-valuation of opening stock [₹ 55,00,000 x 10% / 110%]		5,00,000		
Under-valuation of closing stock [₹ 54,00,000 x 10% / 90%]		6,00,000		
Add: Items debited but to be considered separately or to be disallowed				
Sales commission to Mr. John, a non- resident, for procuring orders from outside India	1	-		
Payment to Mr. Raj, an employee, on his retirement	2	-		
Expenses in connection with inauguration of a new branch for expanding business	3	-		
Penalty to Government for failure in performance of a contract	4	-		
Voluntary Retirement Scheme expenditure [₹ 5,00,000 x 4 / 5]	5	4,00,000		
Interest paid to non-resident buyers of goods, on deposits made by them	6	75,000		
Salary paid to employees through bearer cheques	7	13,50,000		
Marked to market losses	8	6,00,000		
Contribution to National Laboratory	9	2,50,000		
Depreciation on tangible fixed assets	10	2,20,000	39,95,000	
			1,59,95,000	
Less: Depreciation u/s 32 [₹ 2,60,000 + (₹ 20,00,000 x 15% x ½]	11	4,10,000		
Less: Items credited but chargeable to tax under another head / expenses allowed but not debited				
Profit on sale of shares of M/s ABC Ltd.	12	3,50,000		
Short term capital gain on sale of capital asset on which no depreciation is allowable	13	75,000		
Profit on sale of plot of land to 100% subsidiary	14	6,00,000		
Dividend received from domestic company	15	50,000		
Contribution to National Fund for Rural Development	16	1,20,000	16,05,000	1,43,90,000

Capital Gains				
Long term capital gain on sale of shares of M/s. ABC Ltd				
Full value of consideration [₹ 250 x 2000]		5,00,000		
Less: Cost of acquisition being higher of the following				
a) Actual cost of acquisition [₹ 75 x 2000] i.e., ₹ 1,50,000				
b) ₹3,50,000, being lower of fair market value as on 31.1.2018 (i.e., ₹3,50,000, being 2,000 x ₹ 175) and sale consideration (i.e., ₹ 5,00,000)		3,50,000	1,50,000	
Short term capital gain on sale of capital asset on which no depreciation is allowable			75,000	
Profit on sale of plot of land to 100% subsidiary	17		-	2,25,000
Income from other sources				
Dividend received from domestic company	15			50,000
Gross Total Income				**1,46,65,000**
Less: Deduction u/s 80JJAA				14,49,000
Total Income				**1,32,16,000**

Notes

1. The commission paid to Mr. John, a non-resident agent, for services performed outside India is not taxable in India. This commission, being paid directly to him in foreign currency, is neither received by him nor on his behalf in India. Consequently, since the commission earned by a non- resident for securing orders while remaining outside India is not subject to Indian taxation, the disallowance under section 40(a)(i) does not apply to such payments, even if tax has not been deducted at source.
2. Section 40A(3) mandates a 100% disallowance of any expenditure exceeding ₹10,000 if it is made through means other than an account payee cheque, an account payee bank draft, electronic clearing systems via a bank account, or other prescribed electronic modes. However, as per Rule 6DD, no disallowance under section 40A(3) applies to the payment made to Mr. Raj upon his retirement, as the amount does not exceed ₹ 50,000.
3. Expenditure incurred for the inauguration of a new branch aimed at business expansion qualifies as a revenue expense, as it is exclusively for business purposes. Since this amount has already been recorded in the statement of profit and loss, no additional adjustments are necessary.
4. A penalty of ₹ 20,000 paid for failing to fulfill a contract within the stipulated timeframe is not considered a violation of law but rather a violation of contractual obligations, making it an allowable expense. As this amount has already been recorded in the statement of profit and loss, no additional adjustments are needed.
5. Under section 35DDA, 1/5th of the expenditure on a voluntary retirement scheme is allowable as a

deduction over a five-year period. Since the entire expenditure has been debited to the statement of profit and loss, 4/5th of the amount, i.e., ₹ 5,00,000 × 4/5, must be added back.

6. Interest paid to a non-resident buyer of goods on deposits made by them is deemed to accrue or arise in India. This is because the interest is paid by a resident company, which utilized the deposit for its business operations within India. Therefore, such interest is taxable in India, and Shivam Ltd. is liable to deduct tax at source on this interest. A 100% disallowance of the interest paid is attracted under section 40(a)(i), as tax has not been deducted at source
7. Salary paid through bearer cheques to 9 employees for 10 months (₹ 15,000 × 9 × 10) will be subject to disallowance under Section 40A(3). Consequently, the entire amount must be added back
8. Marked to market loss or other expected loss as computed in accordance with the ICDS would be allowed as deduction u/s 36(1)(xviii). As per ICDS I, marked to market losses cannot be recognized unless the recognition of such loss is in accordance with the provisions of any other ICDS. Marked to market loss in respect of an unsettled derivative contract is not allowable as deduction. Since such losses have been debited to the profit and loss A/c, they have to be added back for computing business income
9. As per section 35(2AA) donation to National Laboratory eligible for 100% deduction but when the assessee opted section 115BAB then this deduction not allowed
10. An amount of ₹ 2,20,000, representing depreciation as per the books of account and debited to the statement of profit and loss, must be added back.
11. Additional depreciation shall not be available as the company is opting for section 115BAB
12. Capital Gain arising on sale of shares of ABC 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
13. Short-term capital gain (STCG) arising from the sale of a capital asset is taxable under the head "Capital Gains." As this STCG has been credited to the statement of profit and loss, it must be deducted while computing business income.
14. The taxability or otherwise of such gain is to be determined under the head "Capital Gains." As this profit has been credited to the statement of profit and loss, it must be deducted while computing business income.
15. Dividend income received from a domestic foreign company is taxable under the head "Income from Other Sources." As this dividend income has been credited to the statement of profit and loss, it must be deducted while computing business income. Further, amount credited into the Statement of Profit and Loss is gross dividend, hence grossing up is not required.
16. A deduction under section 35CCA is allowable for contributions made to a National Fund for Rural Development while computing business income. This deduction is also available to an assessee opting for the provisions of Section 115BAB.
17. As per Section 47, if the transfer is made to a 100% subsidiary company and the subsidiary company is an Indian company, such a transaction does not qualify as a transfer for the purpose of levying capital gains tax.
18. Computation of deduction under section 80JJAA

No of eligible additional employees [56 - 14 = 42]	42
[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 1.11.2025 qualify as additional employees, since they have been employed for more than 150 days during the P.Y.2025-26]	
Additional employee cost means the total emoluments paid or payable to additional employees employed during the P.Y. 2025-26. However, the additional employee cost in respect of 9 employees who joined on 1.6.2025, whose salary is paid by bearer cheque would be Nil	
Additional employee cost	
[₹ 15,000 x 30 employees (39 - 9) x 10 months] + [₹ 22,000 x 3 employees x 5 months] = ₹ 45,00,000 + ₹ 3,30,000	₹ 48,30,000
Eligible deduction = 30% of ₹ 48,30,000	₹ 14,49,000

Computation of tax liability

Particulars	₹
Tax on long-term capital gains in excess of ₹ 1.25 lakh @ 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 ₹ 50,000 @ 22%	11,000
Tax on business income @ 15% of ₹ 1,29,41,000 (i.e. 1,43,90,000 - 14,49,000)	19,41,150
	19,71,775
Add: Surcharge @ 10%	1,97,178
	21,68,953
Add: Health and education cess @ 4%	86,758
Tax Liability	22,55,711
Tax Liability being rounded off	22,55,710

Since the assessee has opted for section 115BAB, the provision of section 115JB is not applicable.

QUESTION 23 (SM)

Compute gross total income of Minakshi Ltd. under the head Profits & gains of business or profession for the assessment year 2026-27

Profit & Loss A/c for the year ended 31/3/2026

Particulars	Amount	Particulars	Amount
To Opening stock	4,00,000	By Sales	17,80,000
To Purchases of raw material	5,00,000	By Closing Stock	5,00,000
To Conversion cost	4,00,000	By Interest on debenture	10,000
To Customs duty	1,70,000	By Bad debt recovery	25,000

To Salary and wages	80,000	(Previously allowed)	
To Bonus to employee	15,000	By Interest on income tax Refund	6,000
To Carriage inward	20,000	By Rent from house property	40,000
To Advertisement	30,000		
To Interest	2,000		
To Carriage outward	38,000		
To Depreciation	50,000		
To Provision for income tax	20,000		
To Compensation paid to director	1,00,000		
To Provision for bad debt	10,000		
To Audit fees	20,000		
To Bad debt	30,000		
To Traveling expenses	25,000		
To Municipal tax	5,000		
To Net profit	4,46,000		
	23,61,000		23,61,000

Additional information:

1. Minakshi, holder of 21% share, sold goods to the company for ₹40,000 though market value is lower by ₹10,000. Payment to her made by way of bearer cheque.
2. Advertisement expenses relate to purchase of a machinery for advertisement. Depreciation allowed on such machinery is ₹2,250.
3. Ritu, holder of 21% share, purchased goods from the company for ₹30,000 though market value is ₹35,000. She made payment by way of bearer cheque.
4. Purav, who supplies more than 25% of goods, sold goods to company for ₹11,000 however, market value of such goods was ₹8,000.
5. Outstanding salary ₹20,000 is paid on 30-12-2026.
6. Bonus is not paid till due date of furnishing return.
7. Provision for bad debts is in excess of ₹1,000.
8. Salary paid in excess of requirement to non-relative ₹ 2,000 and to relative of director ₹ 6,000.
9. Traveling expenses is on traveling of Minakshi for 10 days out of which she used 8 days for acquiring a new machine from Jaipur for company and 2 days for meeting her relative. However, Minakshi agreed to refund proportionate cost.
10. On 31-7-2025, company purchased a machine from Jaipur costing ₹5,00,000.
11. Customs duty paid on 30-11-2026. However, company paid ₹5,000 on 30-7-2025 outstanding customs duty of earlier year
12. Company incurred capital expenditure of ₹1,00,000 for promoting family planning among its workers.
13. Carriage inward shows the expenditure incurred for acquiring machine from Jaipur.
14. Interest paid is related to loan taken for purchasing debenture.

15. As on 1-4-2025, company holds following assets –

Assets	Rate	Value
Plant & Machinery	15%	6,00,000
Furniture	10%	1,00,000

Compute gross total income for assessment year 2026-27. Ignore MAT provisions & provisions of section 115BAA

Solution:

Computation of gross total income of Minakshi Ltd. for the A.Y. 2026-27

Particulars	Notes	Details	Amount	Amount
Income from house property				
Gross Annual value (Rent received)			40,000	
Less: Municipal tax			5,000	
Net annual value (NAV)			35,000	
Less: Standard deduction u/s 24(a) [30% of NAV]			(10,500)	24,500
Profits & gains of business or profession				
Net profit as per Profit and Loss A/c			4,46,000	
Add: Expenditure disallowed but debited in P/L A/c				
Depreciation	1	50,000		
Provision for income tax	2	20,000		
Provision for bad debt	3	10,000		
Municipal tax	4	5,000		
Excessive payment to Minakshi	5	10,000		
Cash payment to Minakshi in excess of ₹ 10,000	6	30,000		
Advertisement expenditure	7	30,000		
Bonus	8	15,000		
Excess payment of salary to relative of director	9	6,000		
Travelling expenses	10	25,000		
Customs duty	11	1,70,000		
Carriage inward	10	20,000		
Interest	12	2,000	3,93,000	
			8,39,000	
Less: Expenditure allowed but not debited to P/L A/c				
Customs duty of earlier years	11	5,000		
Expenditure on promoting family planning among employees	13	20,000		
Depreciation u/s 32	1	2,91,250		

Less: Income taxable under other head but credited in P/L A/c				
Rent from house property	14	40,000		
Interest on debenture	14	10,000		
Interest on refund of income tax	14	6,000	3,72,250	4,66,750
Income from other sources				
Interest on debenture		10,000		
Less: Interest on borrowed capital	12	(2,000)	8,000	
Interest on refund of income tax			6,000	14,000
Gross Total Income				**5,05,250**

Notes –

1. **Depreciation is allowed as per Income tax Act being calculated as under –**

Particulars	Details	Amount
Block 1: Plant and Machinery @ 15%		
W.D.V. as on 1/4/2025	6,00,000	
Add: Purchase during the year	5,40,000#	
	11,40,000	
Less: Sale during the year	-	
	11,40,000	
Depreciation @ 15% [₹ 11,40,000 x 15%]	1,71,000	
Additional depreciation @ 20% [₹ 5,40,000 x 20%]	1,08,000	2,79,000
Block 2: Furniture @ 10%		
W.D.V. as on 1/4/2025	1,00,000	
Add: Purchase during the year	-	
	1,00,000	
Less: Sale during the year	-	
	1,00,000	
Depreciation @ 10% [₹ 1,00,000 x 10%]		10,000
On machinery for advertisement		2,250
Depreciation allowed u/s 32		2,91,250
# Computation of actual cost of machinery purchased during the year – Particulars Amount Purchase cost 5,00,000 Carriage inward 20,000 Traveling cost * 20,000 Actual cost of purchased machinery 5,40,000 * Since traveling cost for 10 days was ₹ 25,000. Hence cost for 8 days (used for acquiring the new machine) is ₹ 20,000.		

2. Income tax is not allowed u/s 40(a).
3. Any anticipatory loss is not allowed.
4. Municipal tax is not allowed as deduction from business income but allowed from Income from house property.
5. Since Minakshi has a substantial interest in the company, hence, excessive payment is disallowed u/s 40A (2).
6. Payment of allowed expenditure otherwise than by account payee cheque or demand draft in excess of ₹ 10,000 shall be disallowed u/s 40A (3).
7. Any capital expenditure is not allowed.
8. By virtue of sec. 43B, bonus to employees is allowed as deduction on payment basis.
9. Excessive payment to relative of director is disallowed [Sec. 40A (2)].
10. Since traveling expenditure and carriage inward is related to acquisition of machine, hence the same should be added with the cost of machine. Further, personal expenditure of Minakshi being refundable shall not be treated as expenditure.
11. By virtue of sec. 43B, customs duty is allowed as deduction on payment basis. Interest on loan taken for acquisition of debenture is deductible from income from debenture.
12. Any capital expenditure on promoting family planning among employees by a company is allowed in 5 equal instalments [Sec. 36(1)(ix)].
13. Rent from house property is taxable under the head Income from house property, whereas interest income (including interest on income tax refund) is taxable under the head Income from other sources.
14. Any excessive payment received from a person who has substantial interest is not governed by sec. 40A (2).
15. A person supplying 25% of raw material is not treated as person who holds substantial interest. Hence excessive payment to Purav is allowed.
16. Compensation paid to director shall be allowed u/s 37(1).
17. Sec. 43B covers bonus and commission paid to employee but does not cover salary paid to employee.

QUESTION 24 (WB)

Compute total income & tax liability under the old tax regime of Mrs. Banerjee, 66 years (a resident) from the following information:

She has three house properties detailed as follows:

Particulars	Pune (HP1)	Vellore (HP2)	Mount Abu (HP3)
Used for	Self-occupied	Self-occupied	Let out
Municipal value	80,000	1,00,000	1,20,000
Fair rent	60,000	90,000	1,50,000
Actual rent received	-	-	1,44,000
Vacancy period	5 months	7 months	1 month
Interest on loan	20,000	20,000	40,000

Her salary details are as under:

Basic Salary	₹ 8,000 p.m.
D.A.	₹ 4,000 p.m.
Conveyance allowance	₹ 3,000 p.m.
Bonus	₹ 9,000
Professional tax paid by employer	₹ 2,000
LIC premium paid by employer	₹ 10,000

Other information are as under:

Business loss	₹ 30,000
Interest on investment	₹ 30,000
Profit on sale of jewellery (period of holding 8 months)	₹ 6,000
Saving Bank Interest	₹ 8,000
Winning from KBC, a game show (Gross)	₹ 3,20,000
Brought forward long-term capital loss	₹ 5,000
Brought forward short-term capital loss	₹ 3,000
Contribution in LIC Annuity Plan	₹ 10,000
Investment in NSC	₹ 10,000
Donation to a poor man	₹ 5,000
Donation to political party	₹ 3,000
Donation to an approved trust u/s 80G	₹ 10,000

Solution:

Computation of total income of Mrs. Banerjee for the A.Y. 2026-27

Particulars	Details	Amount	Amount
Salaries			
Basic Salary		96,000	
Bonus		9,000	
Allowances			
Dearness allowance	48,000		
Conveyance allowance	36,000	84,000	
Perquisites u/s 17(2)			
Professional tax paid by employer	2,000		
LIC premium paid by employer	10,000	12,000	
Gross Salary		2,01,000	
Less: Standard Deduction u/s 16(ia)	50,000		
Less: Deduction u/s 16(iii) Professional tax	2,000	52,000	1,49,000
Income from house property			

HP1: Self occupied [Sec. 23(2)(a)]			
Net Annual Value	Nil		
Less: Deduction u/s 24(b): Interest on loan	20,000	(-) 20,000	
HP2: Self occupied [Sec. 23(2)(a)]			
Net Annual Value	Nil		
Less: Deduction u/s 24(b): Interest on loan	20,000	(-) 20,000	
HP3: Let-out [Sec. 23(1)]			
Gross Annual Value (Note 1)	1,44,000		
Less: Municipal tax	Nil		
Net Annual Value	1,44,000		
Less: Deduction u/s			
24(a) Standard Deduction (30% of NAV)	43,200		
24(b) Interest on loan	40,000	60,800	20,800
Profits and gains of business or profession			(-) 30,000
Capital gains			
Short term capital gain			
On sale of jewellery		6,000	
Less: Brought forward short-term capital loss		3,000	3,000
Income from other sources			
Interest on investment		30,000	
Interest on saving bank account		8,000	
Winning from KBC		3,20,000	3,58,000
Gross Total Income			5,00,800
Less: Deduction u/s			
80C (Note 3)		20,000	
80CCC (Contribution to LIC Annuity Plan)		10,000	
80G (50% of donation to an approved trust)		5,000	
80GGC (Donation to political party)		3,000	
80TTB (Interest on saving bank account)		8,000	46,000
Total Income			**4,54,800**

Notes

1. Computation of gross annual value

Particulars	Working	HP 3
Municipal value		1,20,000
Fair rent		1,50,000

RER	Being higher of MV or FR	1,50,000
ARR		1,44,000
Higher of above		1,50,000
GAV		1,44,000[#]
[#]. ARR is less than RER due to vacancy period, otherwise ARR would have been ₹ 1,57,091		

2. Brought forward long-term capital loss can be set off only against long term capital gain.
3. Computation of deduction u/s 80C

Investment in NSC	₹ 10,000
LIC premium	₹ 10,000
	₹ 20,000

Computation of tax liability

Particulars	Tax on Casual income	Tax on other income	Total
Total Income	3,20,000	1,34,800	4,54,800
Tax rate	30%	Slab	
	96,000	Nil	96,000
Less: Rebate u/s 87A			12,500
Tax liability after rebate			83,500
Add: Health & Education cess @ 4%			3,340
Tax liability			**86,840**

TAX AUDIT

Question 1 (WB)

Examine the applicability of tax audit u/s 44AB in the following independent cases:

Case	Cash Turnover from			Audit u/s 44AB applicable
	Business A	Business B	Profession A	
1	₹ 72 lakhs	-	₹ 54 lakhs	**Yes**, as the professional receipt exceeds threshold limit, hence audit is required for his business and profession.
2	₹ 86 lakhs	-	₹ 42 lakhs	**No**, as business turnover does not exceed threshold limit of ₹ 1 crore and professional receipt does not exceed ₹ 50 lakhs, hence tax audit is not applicable.
3	₹ 65 lakhs	₹ 40 lakhs	-	**Yes**, as aggregate business turnover exceeds ₹ 1 crore, hence the audit is applicable for his all business.

Question 2 (ICAI)

The following information is noted from the records of ABC and Company, a partnership firm engaged in manufacturing and trading of goods, for the previous year ending on 31st March 2026: ₹ in lakhs

Particulars	Receipts				Payment			
	Cash	NEFT	Total	Cash as % of total	Cash	NEFT	Total	Cash as % of total
Sale / purchase of machine	1.30	140	141.30	0.92	10	82	92	10.87
Sale / Purchase of car	-	5	5	0	-	35	35	0
Advance received for sales to be made in the next year	4	160	164	2.44	-	-	-	-
Purchase of raw material	-	-	-	-	2	100	102	1.96
Purchase of finished goods	-	-	-	-	-	108	108	0
Sale of goods	25	580	605	4.13	-	-	-	-
Income tax refund		10	10	0	-	-	-	-
Other receipts / Payment	16	40	56	28.57	16	152	168	9.52
Total	**46.30**	**935**	**981.3**	**4.72**	**28**	**477**	**505**	**5.54**

ABC and company want to know whether it requires an audit under section 44AB.

Solution:

In the instant case, the aggregate receipt of the firm is ₹ 981.30 lakh. Out of which, cash receipt is only ₹ 46.30 lakhs, which is equivalent to 4.72% of the receipt.

On the other hand, the aggregate payment made by the firm is ₹ 505 lakhs. Out of which, cash payment is ₹ 28 lakhs, which constitutes 5.54% of the total payment made by the firm during the year.

Since cash payment constitutes more than 5% of aggregate payment made by the firm during the previous year, hence, the firm cannot avail the benefit of the higher threshold limit of ₹ 10 crore provided u/s 44AB.

Further, the sales made by the firm exceed ₹ 1crore, hence, tax audit u/s 44AB is applicable in the given case.

Question 3 (ICAI)

The following information is noted from the records of PQR Ltd engaged in two businesses viz sale of computer and sale of readymade garments, for the previous year ending on 31st March 2026:

₹ in lakhs

Particulars	Computer Business	Garment Business
Sale through banking channel	300	50
Sales made in cash	-	200
Purchase through banking channel	250	200

PQR Ltd is of the view that in the case of computer business, tax audit is not applicable as entire sales and purchases were made through a proper banking channel, hence, the higher threshold limit of ₹ 10 crore would be applicable.

However, the company has submitted a tax audit report within time, considering the garment business only. Analyse the situation.

Solution:

As per section 44AB, tax audit is applicable where total sales, turnover or gross-receipts of business for the previous year exceeds ₹ 1 crore. However, if the following conditions are satisfied, then the higher threshold limit of ₹ 10 crore shall be applicable for a person carrying on business:

a) aggregate of all amounts received including amount received for sales, turnover or gross receipts during the previous year, in cash, does not exceed 5% of the said amount; **and**

b) aggregate of all payments made including amount incurred for expenditure, in cash, during the previous year does not exceed 5% of the said payment.

In this respect, it is to be noted that if the assessee is engaged in multiple businesses, then aggregate turnover or gross receipts are required to be considered.

In view of the above provision, aggregate receipt and payment of the concern are as under:

₹ in lakhs

Particulars	Total Receipt /Payment	Cash receipt /payment out of total	Cash as a % of total
Aggregate Receipt	550	200	36.36
Aggregate Payment	450	-	-

Since cash sales constitutes more than 5% of aggregate turnover made by the company during the previous year, hence, the company cannot avail the benefit of the higher threshold limit of ₹ 10 crore provided u/s 44AB. Further, the sales made by the company exceed ₹ 1crore, hence, tax audit u/s 44AB is applicable for the assessee-company. Tax audit is applicable for the assessee and not for each business carried on by it. Thus, the company is required to file a tax audit report for both of its business.

Further, the company has not submitted tax audit report for its computer business, the company is liable for a penalty u/s 271B, which is lower of the following:

a. ½% of turnover; or
b. ₹ 1,50,000

Since the assessee has already furnished the report for ₹ 250 lakhs (i.e., garment business), the penalty u/s 271B shall be invoked only on turnover of ₹ 300 lakhs.

Question 4 (ICAI)

Sunlight & Co., a partnership firm engaged in trading of electronic goods, has a turnover of ₹ 265 lakhs for the F.Y. 2025-26. Examine whether Sunlight & Co. is required to get its books of account audited mandatorily as per section 44AB from the information given below-

	Particulars	₹
(i)	Total turnover of F.Y.2025-26	2,65,00,000
(ii)	Aggregate of all receipts during the year (including amount received for turnover mentioned in (i) above)	3,25,00,000
(iii)	Cash receipts out of (i) above	14,00,000
(iv)	Cash receipts out of (ii) above (This is inclusive of the figure mentioned in (iii) above)	16,00,000
(v)	Aggregate of all payments during the year	1,35,00,000
(vi)	Cash payments out of (v) above	6,95,000

Would your answer change if the cash receipts indicated in (iii) is ₹ 13 lakh instead of ₹ 14 lakh?

Solution:

As per section 44AB, every person carrying on business or profession is required to get his accounts audited before the "specified date" by a Chartered Accountant, if the total sales, turnover or gross receipts in business exceeds ₹ 1 crore in any previous year.

However, tax audit is not required in case of such person carrying on business whose total sales, turnover or gross receipts in business ≤ ₹ 10 crore in the relevant previous year (P.Y.), if:-

- aggregate cash receipts including amount received for sales, turnover, gross receipts in the relevant previous year ≤ 5% of such receipts; and
- aggregate cash payments including amount incurred for expenditure in the relevant P.Y. ≤ 5% of such payments

In this case, the turnover of Sunlight & Co. exceeds ₹ 1 crore but does not exceed ₹ 10 crore. Accordingly, it has to be seen whether cash receipts exceed 5% of aggregate receipts and cash payments exceed 5% of aggregate payments, to determine whether tax audit is compulsory.

In this case, the percentage of cash receipts of ₹ 16 lakhs to aggregate receipts of ₹ 325 lakhs is 4.92% and the percentage of cash payments to aggregate payments is 5.14%.

Since the cash payments made during the year exceed 5% of aggregate payments, the firm is required to get its accounts audited under section 44AB and furnish audit report before the specified date, irrespective of the fact that its turnover does not exceed ₹ 10 crores and its cash receipts do not exceed 5% of total receipts.

It may be noted that, in this case, Sunshine & Co. cannot declare profits as per the presumptive provisions of section 44AD, since the percentage of turnover receipts in cash of ₹ 14 lakhs to the total turnover of ₹ 265 lakhs is 5.28%.

If the cash receipts indicated in (iii) is ₹ 13 lakhs instead of ₹ 14 lakhs, the percentage of turnover receipts in cash of ₹ 13 lakhs to the total turnover of ₹ 265 lakhs would be 4.91%. In such a case, Sunshine & Co. can declare profits as per the presumptive provisions of section 44AD, in which case, it need not get its books of account audited under section 44AB.

Question 5 (ICAI)

Mr. Abhinav Ahuja runs a travel agency business since the year 2010. His total commission receipts for the F.Y. 2025-26 is ₹ 287 lakhs. The details of receipts and payments made by him during the year 2024-25 are as follows:

Particulars	Amount (₹)	Mode of receipt/payment
Date of Receipt		
15.4.2025	15,65,000	BHIM UPI
27.4.2025	13,80,000	A/c payee cheque
7.5.2025	13,35,000	Bearer cheque
6.6.2025	18,21,000	A/c payee cheque
15.8.2025	15,25,000	NEFT
19.9.2025	16,72,000	NEFT
18.10.2025	15,35,600	UPI
15.2.2025	16,25,350	UPI
17.3.2025	18,19,450	NEFT
Other aggregate receipts not exceeding ₹ 2,000 per person on certain occasions from various customers. Out of this, receipts of ₹ 52,500 are received in cash.	1,44,21,600	A/c payee cheques, NEFT and UPI
Payments		
Aggregate all payments made during the P.Y. 2025-26	2,58,00,000	
Amount incurred for expenditure in cash (not exceeding ₹ 10,000 per person in each case)	20,58,000	

Mr. Abhinav contended that he is not required to get his accounts audited since his turnover does not exceed ₹ 3 crores and he is eligible to declare his income as per presumptive provisions of section 44AD. Examine the contention of Mr. Abhinav Ahuja.

Solution:

As per section 44AB, every person inter alia carrying on business or profession is required to get his accounts audited before the "specified date" by an accountant, if total sales, turnover or gross receipts in business exceeds ₹ 1 crore in any previous year.

However, tax audit is not required in case of such person carrying on business whose total sales, turnover or gross receipts in business ≤ ₹ 10 crore in the relevant previous year (P.Y.), if –

- ✓ aggregate cash receipts including amount received for sales, turnover, gross receipts in the relevant previous year ≤ 5% of such receipts; and
- ✓ aggregate cash payments including amount incurred for expenditure in the relevant P.Y. ≤ 5% of such payments

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" whose total turnover/ gross receipts in the P.Y. ≤ ₹ 200 lakhs (where cash receipts do not exceed 5% of total turnover, higher threshold limit of ₹ 300 lakhs applicable) 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. However, a person inter alia carrying on any agency business are not eligible for presumptive provisions of section 44AD.

In the present case, since Mr. Abhinav Ahuja is carrying on travel agency business, he is not eligible for presumptive provisions of section 44AD, though his turnover does not exceed ₹ 3 crores.

In this case, the turnover of Mr. Abhinav Ahuja exceeds ₹ 1 crore but does not exceed ₹ 10 crore. Accordingly, it has to be seen whether cash receipts exceed 5% of aggregate receipts and cash payments exceed 5% of aggregate payments, to determine whether tax audit is compulsory. During the P.Y. 2025-26, his cash receipts are ₹ 13,35,000 plus ₹ 52,500 totalling to ₹ 13,87,500, which is 4.83% of total receipts of ₹ 2,87,00,000. Cash payments made during the P.Y. 2025-26 are ₹ 20,58,000 which is 7.98% of aggregate payments of ₹ 2,58,00,000. Since his cash payments during the P.Y. 2025-26, exceed 5% of aggregate payments made during the year, he is required to get the accounts audited under section 44AB and furnish tax audit report on or before the specified date i.e., one month prior to the due date of filing return of income under section 139(1).

Question 6 (SM)

XYZ Ltd (having TAN: CALX12345D) has made the following payments during the year:

Particulars	Gross Amount	TDS
Professional Fee to Mr. X	1,00,000	10,000
Professional Fee to Mr. Y	1,50,000	15,000
Professional Fee to Mr. Z	40,000	-
Yearly Rent to Mr. A	2,00,000	-

All of the aforesaid transactions are related to 31st Mar 2026. The company has paid the TDS being deducted by it, on 25-04-2026 and TDS return in Form 26Q has been submitted by it on 10-05-2026.

How could you submit this information in the Form 3CD?

Solution:

Section 40(ia) provides for disallowance of 30% of the sum payable to a resident on which tax is deductible a source and such tax has not been deducted or after deduction has not been paid on or before the due date of filing return of income under section 139(1).

The professional fee to Mr. Z (being in excess of ₹ 30,000) is subject to TDS, but the company fails to deduct tax at source. Hence, 30% of ₹ 40,000 i.e., ₹ 12,000 shall be disallowed u/s 40(ia)

Further, in case of payment of rent, threshold limit has not been crossed, hence TDS is not applicable.

Reporting requirement in clause 21(b) of the Form 3CD

Disallowance u/s 40(ia) are required to be reported in clause 21(b) of the Form 3CD in the following manner:

Date of payment	Amount of payment	Nature of payment	Name of the payee	Permanent Account Number of the payee, if available	Aadhaar Number of the payee, if available	Address Line 1	Add-ress Line 2	City Or Town Or District	Zip Code / Pin Code	Country	State
31-03-2026	40000	Profession al Fee	Y	ABCPY1234A		123	ABC place	Kolkata	700055	India	West Bengal

Further, information regarding TDS is required to be reported in clause 34 of the Form 3CD

34 (a) Whether the assessee is required to deduct or collect tax as per the provisions of Chapter XVII-B or Chapter XVII-BB	Yes

Please furnish

Sl. N	(1) Tax deduction and collection Account Number (TAN)	(2) Section	(3) Nature of payment	(4) Total amount of payment or receipt of the nature specified in column (3)	(5) Total amount on which tax was required to be deducted or collected out of (4)	(6) Total amount on which tax was deducted or collected at specified rate out of (5)	(7) Amount of tax deducted or collected out of (6)	(8) Total amount on which tax was deducted or collected at less than specified rate out of (7)	(9) Amount of tax deducted or collected on (8)	(10) Amount of tax deducted or collected not deposited to the credit of the Central Govern- ment out of (6) and (8) (10)
1	CALX12345D	194J	Fees for pro-fessional or technical services	2,90,000	2,90,000	2,50,000	25,000	0	0	0
2	CALX12345D	194-I	Rent	2,00,000	0	0	0	0	0	0
(b) Whether the assessee is required to furnish the statement of tax deducted or tax collected?										Yes

Please furnish

Sl. No.	Tax deduction and collection Account Number (TAN)	Type of Form	Due date for furnishing	Date of furnishing, if furnished	Whether the statement of tax deducted or collected contains information about all details/ transactions which are required to be reported	Please furnish list of details/transactions which are not reported.
1	CALX12345D	26Q	31-May-2026	10-May-2026	No	Professional Fee of ₹40,000 paid to Mr. Z on 31-03-2026

Question 7 (SM)

The following transactions are recorded in the books of MSPL:

Date	Particulars	Amount
01-04-2025	Loan taken from ABCL, Maharashtra (PAN: AAACA1234A) via RTGS	50,00,000
30-09-2025	Interest paid to ABCL (net of TDS @ 10%) via RTGS	2,25,000
30-09-2025	Repayment of loan to ABCL via RTGS	25,00,000
1-11-2025	Loan taken from ABCL via RTGS	35,00,000
31-03-2026	Interest credited to ABCL A/c (Net of TDS @ 10%)	2,70,000

MSPL (TAN: BLRM12345T) has furnished the TDS return, after paying TDS within the due date, on: 2nd quarter – on 10-10-2025 4th quarter – 20-05-2026.

How could you submit this information in Form 3CD?

Solution:

From the given information, we can observe the following:

Observation	Applicable clause of Form 3CD
MSPL has taken a loan from ABCL	Clause 31(a)
On interest, TDS has been deducted by the MSPL which is duly paid and TDS return has furnished within due date of filing Form 26Q	Clause 34(a) and (b)
MSPL has repaid part of the loan	Clause 31(c)

Further, TDS has been duly deducted and paid, hence, there is no disallowance u/s 40(ia). Thus, information is not required to be provided in clause 21(b).

Clause 31(a): Particulars of each loan or deposit in an amount exceeding the limit specified in section 269SS taken or accepted during the previous year

Sl. No.	Name of the lender or depositor	Address of the lender or depositor	Permanent Account Number (if available with the assessee) of the lender or depositor	Aadhaar Number of the lender or depositor, if available	Amount of each loan or deposit taken or accepted and code of the nature of such	Whether the loan/ deposit was squared up during the previous year?	Maximum amount outstanding in the account at any time during the previous year	Whether the loan or deposit was taken or accepted by cheque or bank draft or use of	Code of the nature of such amount	In case the loan or deposit was taken or accepted by cheque or bank draft, whether the same was taken or

					amount			electronic clearing system through a bank account?		accepted by an account payee cheque or an account payee bank draft
1	ABCL	xxxx, Maharashtra	AAACA1234A		85,00,000	No	62,70,000	Yes	RTGS	

Clause 31(c): Particulars of each repayment of loan or deposit or any specified advance in an amount exceeding the limit specified in section 269T made during the previous year

Sl. No.	Name of the payee	Address of the payee	Permanent Account Number (if available with the assessee) of the payee	Aadhaar Number of the payee, if available	Amount of each repayment of loan or deposit or any specified advance	Maximum amount outstanding in the account at any time during the previous year	Whether the repayment was made by cheque or bank draft or use of electronic clearing system through a bank account ?	Code of the nature of such amount	In case the repayment was made by cheque or bank draft, whether the same was repaid by an account payee cheque or an account payee bank draft
1	ABCL	xxxx, Maharashtra	AAACA1234A		25,00,000	62,70,000	Yes	RTGS	

Further, information regarding TDS is required to be reported in clause 34 of the Form 3CD

34 (a) Whether the assessee is required to deduct or collect tax as per the provisions of Chapter XVII-B or Chapter XVII-BB	Yes

Please furnish

Sl. N	(1) Tax deduction and collection Account Number (TAN)	(2) Section	(3) Nature of payment	(4) Total amount of payment or receipt of the nature specified in column (3)	(5) Total amount on which tax was required to be deducted or collected out of (4)	(6) Total amount on which tax was deducted or collected at specified rate out of (5)	(7) Amount of tax deducted or collected out of (6)	(8) Total amount on which tax was deducted or collected at less than specified rate out of (7)	(9) Amount of tax deducted or collected on (8)	(10) Amount of tax deducted or collected not deposited to the credit of the Central Govern- ment out of (6) and (8) (10)

1	BLRM1234T	194A	Interest other than interest on securities	5,50,000	5,50,000	5,50,000	55,000	0	0	0

(b) Whether the assessee is required to furnish the statement of tax deducted or tax collected?	Yes

Please furnish

Sl. No.	Tax deduction and collection Account Number (TAN)	Type of Form	Due date for furnishing	Date of furnishing, if furnished	Whether the statement of tax deducted or collected contains information about all details/transactions which are required to be reported	Please furnish list of details/ transactions which are not reported.
1	BLRM12345T	26Q	31-Oct-2025	10-Oct-2026	Yes	
2	BLRM12345T	26Q	31-May-2026	20-May-2026	Yes	

Question 8 (ICAI)

X Ltd., an Indian company, paid interest of ₹ 95 lakhs to X Inc., a non-resident associated enterprise in the P.Y.2025-26 on loan borrowed from it. X Ltd. also obtained loan of ₹ 5 crore@10% p.a. on 1.4.2025 from Y Inc., a foreign company in which it holds 20% voting power. X Inc. deposits ₹ 2 crore with Y Inc. X Ltd. contends that the provisions of section 94B are not attracted in its case, since the interest paid to non-resident associated enterprise does not exceed ₹ 1 crore in the P.Y.2025-26. The tax auditor is, however, of the opinion that the interest of ₹ 20 lakh (i.e., 10% of ₹ 2 crore) also has to be considered for the purpose of section 94B. X Ltd. contends that X Inc. has not deposited a corresponding and matching amount of ₹ 5 crore with Y Inc, and hence, the provisions of section 94B will not be attracted in this case. Examine the reporting requirement, if any, of the tax auditor in this case.

Solution:

Relevant provision of law - Section 94B provides that where the debt is issued by a lender which is not associated but an associated enterprise either provides an implicit or explicit guarantee to such lender or deposits a corresponding and matching amount of funds with the lender, such debt shall be deemed to have been issued by an associated enterprise.

In this case, the debt issued by Y Inc. is ₹ 5 crore and the deposit made by the associated enterprise, X Inc. with Y Inc. is ₹ 2 crore. Since the deposit is not of a matching amount, the X Ltd. contends that provisions of section 94B will not be attracted in respect of interest payable by it to Y Inc. The tax auditor is of the opinion that interest on ₹ 2 crore amounting to ₹ 20 lakhs will have to be considered for the purpose of section 94B. Accordingly, the interest payable/paid by X Ltd. to non-resident associated enterprises during the year would be ₹ 115 lakhs and hence, the provisions of section 94B would be attracted, since the same exceeds the threshold of ₹ 1 crore. This appears to

be the legislative intent, since otherwise it is possible to escape the application of this provision by even by depositing a marginally lower amount than the loan taken.

Relevant clause of Form 3CD - Clause 30B(a) of Form 3CD requires the tax auditor to state whether the assessee has incurred expenditure during the previous year by way of interest or of similar nature exceeding one crore rupees as referred to in sub-section (1) of section 94B.

Relevant paras of the Guidance Note on Tax Audit - As per para 18.6 of the Guidance Note on Tax Audit, the tax auditor may have a difference of opinion with regard to the particulars furnished by the assessee. These differences are to be reported in para 3 of Form No. 3CA or para 5 of Form 3CB. As per para 19.3, if there is any difference in the opinion of the tax auditor and that of the assessee in respect of any information furnished in Form No. 3CD by the assessee, the tax auditor may consider stating both the view points and also the relevant information related to matter in order to enable the tax authority to take a decision in the matter.

Therefore, the tax auditor has to report the difference of opinion appropriately as an observation in para 3 of Form No. 3CA or para 5 of Form No. 3CB as the case may be.

Accordingly, in this case, the tax auditor may state both the viewpoints in Clause 30B as well as report the difference of opinion appropriately as an observation in para 3 of Form 3CA to enable the tax authority to take a decision in the matter.

Question 9 (ICAI)

ABC Ltd. is engaged in transportation of building material and transportation of goods to contractors. It made payment for hiring dumpers for this purpose. The company has not deducted tax at source on the ground that since the payment was for transportation of goods and not renting out machinery and equipment, such payments could not be termed as rent paid for use of machinery under section 194-I and hence, no tax was deductible at source.

The tax auditor is, however, of the view that the transactions being in the nature of contracts for shifting of goods from one place to another would be covered under works contracts, thereby attracting the provisions of section 194C. He relied upon the Gujarat High Court ruling in CIT (TDS) v. Shree Mahalaxmi Transport Co. (2011) 339 ITR 484.

What is the reporting responsibility of the tax auditor in such a case? Examine.

Solution:

In clause 34(a) of Form 3CD, the tax auditor is required to report whether the assessee is required to deduct or collect tax as per the provisions of Chapter XVII-B or Chapter XVII- BB, and if yes, to furnish the details mentioned thereunder. While answering the issue of applicability of the provisions of Chapter XVII-B and/or XVII-BB, a number of debatable issues may arise before the assessee as well as the tax auditor. The tax auditor may have a difference of opinion with regard to the applicability of the provisions of TDS/TCS on a particular payment. In such a case, the tax auditor has to report the difference of opinion appropriately as an observation in para 3 of Form 3CA. This requirement is contained in the Guidance Note on Tax Audit.

Also, in clause 21(b)(ii) of Form 3CD, the amount inadmissible under section 40(a)(ia) has to be mentioned.

Question 10 (ICAI)

A search was conducted u/s 132 of the Income-tax Act, 1961 in the case of LMN Jewellers (P) Ltd., a gold jewellery retail chain, on 28.2.2025. As part of the post search enquiries, data from the billing software was analysed. On analysis of this data, it was found that the company was involved in violation of section 40A(3) in a major way to the tune of ₹ 20 crores in the purchase of old gold. In order to verify the findings culled from digital data, some of the customers whose whereabouts were available from computer records were contacted and their statements were recorded under oath. These customers admitted under oath that they had sold old gold and received the amounts (all exceeding ₹ 10,000) in cash. The fact which emerged from the enquiries is that LMN Jewellers (P) Ltd. purchase old gold and make payments for these purchases in cash, even if they exceed ₹ 10,000.

However, the tax auditor had mentioned "Yes" in response to the statement in sub-clause (A) of Clause 21(d) on whether the expenditure covered under section 40A(3) read with Rule 6DD were made by account payee cheque drawn on a bank or account payee bank draft. The tax auditor submitted that standing instructions were given by the management of the entity to the employees to make payments above ₹ 10,000 only through account payee cheques and/or bank drafts or other permissible electronic modes; and copy of these instructions were verified by him. He further submitted that he had also taken a representation from the Management that net payment in cash to any person in a day did not exceed ₹ 10,000. Also, he mentioned that the test checks conducted by him did not reveal any violation.

Examine the implications in this case and the consequences thereof.

Solution:

As per section 40A(3), where the assessee incurs any expenditure, in respect of which payment or aggregate of payments made to a person in a day otherwise than by an account payee cheque drawn on a bank or by an account payee bank draft or use of electronic system through bank account or through such other prescribed electronic modes exceeds ₹ 10,000, such expenditure shall not be allowed as a deduction.

Clause 21(d) of Form 3CD requires the tax auditor to report, on the basis of the examination of books of account and other relevant documents/evidence, whether the expenditure covered under section 40A(3) read with rule 6DD were made by account payee cheque drawn on a bank or account payee bank draft; and if not, to furnish details mentioned thereunder, namely, date of payment, nature of payment, amount etc.

The Guidance Note on Tax Audit issued by ICAI states that there may be practical difficulties in verifying whether each payment is made through account payee cheque or bank draft or ECS or other prescribed electronic modes. Where the reporting has been done on the basis of the certificate of the assessee, the fact has to be reported as an observation in para 3 of Form 3CA.

The tax auditor is required to point out in tax audit report, the violation of the provisions of section 40A(3) thereof involving expenditure to a person in a day exceeding ₹ 10,000 otherwise than by way of account payee cheque/bank draft, ECS and other prescribed electronic modes. However, in this case, the tax auditor has certified that there was no such instance, though such instances aggregate

to a large quantum of ₹ 20 crores.

The tax auditor should have considered the nature of business i.e., jewellery business of the assessee and accordingly undertaken necessary checks to verify whether there are cash payments in violation of section 40A(3). He should have made use of the audit tools which are available to find out such payments expeditiously and accurately where the data is voluminous.

In this case, considering the nature of business of the assessee, namely, jewellery business, the onus was on the tax auditor to verify the same before reporting in Form 3CD. Mere reliance on certificate issued by the management is not acceptable in such a case. Also, even in a case where the reporting has been done on the basis of the certificate of the assessee, the fact has to be reported as an observation in para 3 of Form 3CA, which he had failed to do.

Thus, in the case, the tax auditor had failed to exercise due diligence in the conduct of his professional duties. He had also failed to obtain sufficient information which is necessary for expression of opinion.

Question 11 (ICAI)

XYZ & Co, a firm engaged in interior decoration business, employed 20 new employees on 1.4.2025 on a monthly salary of ₹ 25,000 to be paid by account payee cheque. In addition, each employee was entitled to 10% employer contribution to recognised provident fund. The employees were also entitled to transport allowance of ₹ 3,000 p.m. paid in cash. The gross total income of XYZ & Co. included profits and gains from business of ₹ 62 lakhs.

The firm claimed deduction under section 80JJAA of ₹ 18 lakh, being 30% of 60 lakh (20 new employees x ₹ 25,000 p.m. x 12) on the basis of the report of the chartered accountant issued in Form 10DA. The same chartered accountant was also the tax auditor of the firm. The chartered accountant contended that "emoluments" do not include employer contribution to PF. Also, cash payments were not to be considered as "additional employee cost" for the purpose of section 80JJAA. Hence, only ₹ 25,000 p.m. per employee paid by account payee cheque has to be treated as additional employee cost. Since the same does not exceed the limit of ₹ 25,000 p.m. and the employees have been employed for more than 240 days in the P.Y.2025-26, the employees would qualify as "additional employees" for the purpose of deduction under section 80JJAA for A.Y.2026-27.

Is his contention correct?

Solution:

Deduction under section 80JJAA is allowable to an assessee to whom section 44AB applies and whose gross total income includes any profits and gains derived from business, in respect of employment of new employees. The amount of deduction is 30% of additional employee cost incurred in the course of such business in the previous year, for three assessment years including the assessment year relevant to the previous year in which such employment is provided.

"Additional employee cost" means the total emoluments paid or payable to additional employees employed during the previous year. However, in the case of an existing business, the additional employee cost shall be nil, if emoluments are paid otherwise than by an account payee cheque or account payee bank draft or use of ECS through bank account or other prescribed electronic mode.

"Emoluments" means any sum paid or payable to an employee in lieu of his employment by whatever name called but does not include, inter alia, contribution by employer to provident fund.

"Additional employee" means an employee who has been employed during the previous year and whose employment has the effect of increasing the total number of employees employed by the employer as on the last day of the preceding year, but does not include, inter alia, an employee whose total emoluments are more than ₹ 25,000 p.m.

In this case, the contention of the chartered accountant that the emoluments do not include employer contribution to PF is correct. However, emoluments include ₹ 3,000 paid in cash by way of transport allowance to the employee. Hence, the total emoluments per employee is ₹ 28,000 p.m. Due to this reason, the 20 employees employed on 1.4.2025 will not qualify as "additional employees" for the purpose of deduction under section 80JJAA, since their total emoluments are more than ₹ 25,000 p.m. Hence, XYZ & Co. is not eligible for any deduction under section 80JJAA due to failure to fulfil the condition for being treated as an "additional employee". In this case, the chartered accountant has failed to ensure compliance with the condition stipulated for claim of deduction under section 80JJAA and has wrongly issued the report in Form 10DA certifying the deduction claimed by the assessee under section 80JJAA.

Also, clause 33 of Form 3CD requires section-wise details of deductions, if any, admissible under Chapter VIA. Here again, the tax auditor has to ensure that the assessee fulfils all the conditions specified in the section under which the deduction is claimed. However, in this case, the tax auditor has failed to do so.

ASSESSMENT OF VARIOUS ENTITIES

QUESTION 1 (ICAI)

PQR LLP, a limited liability partnership set up a unit in Special Economic Zone (SEZ) in the financial year 2019-20 for production of washing machines. The unit fulfils all the conditions of section 10AA of the Income-tax Act, 1961. During the financial year 2024- 25, it has also set up a warehousing facility in a district of Tamil Nadu for storage of agricultural produce. It fulfils all the conditions of section 35AD. Capital expenditure in respect of warehouse amounted to ₹ 75 lakhs (including cost of land ₹ 10 lakhs). The warehouse became operational with effect from 1st April 2025 and the expenditure of ₹ 75 lakhs was capitalized in the books on that date.

Relevant details for the financial year 2025-26 are as follows:

Particulars	₹
Profit of unit located in SEZ	40,00,000
Export sales of above unit received in India in convertible foreign exchange on or before 30.09.2026	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 2026-27.

Solution:

Computation of total income and tax liability of PQR LLP for A.Y.2026-27
(under the regular provisions of the Income-tax Act, 1961)

Particulars	₹	₹
Profits and gains of business or profession		
Unit in SEZ		40,00,000
Profit from operation of warehousing facility	1,05,00,000	
Less: Deduction under section 35AD **[See Note (1) below]**	(65,00,000)	
Business income of warehousing facility chargeable to tax		40,00,000
Gross Total Income		**80,00,000**
Less: Deduction under section 10AA **[See Note (2) below]**		(16,00,000)
Total Income		64,00,000
Computation of tax liability (under the normal/regular 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**
Add: Deduction under section 10AA		16,00,000
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 115JD

Particulars	₹
Tax liability under section 115JC	29,84,510
Less: Tax liability under the regular provisions of the Income-tax Act	19,96,800
	9,87,710

Notes:

1. Deduction @ 100% of the capital expenditure is available under section 35AD for A.Y.2026-27 in respect of specified business of setting up and operating a warehousing facility for storage of agricultural produce which commences operation on or after 01.04.2009.
2. 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 it commences operations of 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 assesses on the date of commencement of its operations.
3. Deduction under section 35AD would, however, not be available on expenditure incurred on acquisition of land.
4. 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. 2024-25 and capitalized in the books of account on 1.4.2025, being the date when the warehouse became operational, ₹ 65,00,000, being 100% ofc₹ 65 lakhs would qualify.
5. Deduction under sec 10AA in respect of unit in SEZ:

$$\text{Profit of the unit in SEZ} \times \frac{\text{Export turnover of the unit in SEZ}}{\text{Total turnover of the unit in SEZ}} \times 50\%$$

$$₹40,00,000 \times \frac{₹80,00,000}{₹1,00,00,000} \times 50\% = 16,00,000.$$

QUESTION 2 (ICAI)

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. 2026- 27. 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. 2025-26 and he has exercised the option to shift out of default regime under section 115BAC.

Solution:

Computation of regular income-tax payable under the provisions of the Act

Particulars	₹
Profits and gains of business or profession	45,00,000
Gross total Income	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 regular provisions of 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% of ₹ 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 3 (SM)

Apple Industries Ltd. provides the following information for the financial year 2025-26:

Particulars	₹ in lacs
Net profit as per statement of profit and loss after debiting /crediting the following:	₹ 120 lakh
Proposed dividend	₹ 30 lakh
Profit from unit established in SEZ	₹ 20 lakh
Provision for income-tax	₹ 18 lakh
Provision for deferred tax	₹ 10 lakh
Provision for permanent diminution in value of investments	₹ 3 lakh

Depreciation debited to statement of profit and loss ₹10 lakh includes depreciation on revaluation of assets to the tune of	₹ 1 lakh

Bought forward losses and unabsorbed depreciation as per books of the company are as follows:

(₹ in lakh)

Previous Year	Brought Forward Losses	Unabsorbed Depreciation
2022 – 23	1	4
2023 – 24	1	1
2024 – 25	10	5

Compute the book profit of the company as per section 115JB for the assessment year 2026- 27.

Solution:

Computation of Book Profit of Apple Industries Ltd. for the A.Y.2026-27

(₹ In lakhs)

Particulars	Details	Amount
Net profit as per books of accounts		120
Add:		
Proposed Dividend	30	
Provision for income tax	18	
Provision for deferred-tax	10	
Provision for permanent diminution in value of investments	3	
Depreciation	10	71
		191
Less:		
Depreciation (ignoring depreciation on revaluation)	(9)	
Lower of brought forward loss and unabsorbed depreciation	(10)	(19)
Book Profit		172

QUESTION 4 (SM)

The book profits of a company in the previous year 2025-26 computed in accordance with section 115JB are ₹ 60,00,000. If the total income for the same period computed as per the provisions of the Income-tax Act, 1961 is ₹12,00,000 calculate the tax payable by the company in the assessment year 2026-27 and also indicate whether the company is eligible for any tax credit.

Solution:

Computation of Tax Liability of company for the A.Y. 2026-27

Particulars	Amount
Total Income	12,00,000
Tax on above	3,60,000
Add: Health & Education Cess	14,400
Tax payable as per Normal provisions (A)	**3,74,400**
Book Profit	60,00,000

Tax on above	9,00,000
Add: Health & Education Cess	36,000
Tax payable as per MAT provisions (B)	9,36,000
Tax liability (A or B whichever is higher)	9,36,000
MAT credit (9,36,000 – 3,74,400)	5,61,600

QUESTION 5 (ICAI)

X Ltd. charged depreciation on its fixed assets at the rate prescribed in the income tax rules. However, the Assessing Officer disallowed the same and allowed the rate as prescribed in the Companies Act, 2013 for the purpose of computation of book profit under section 115JB for the previous year 2025-26. Examine the legality of action taken by the Assessing Authority.

Solution:

This issue was settled by the Supreme Court in **Malayali Manorama Co. Ltd. Vs CIT.** The Apex Court observed that for the purpose of computation of book profit under section 115JB, the Assessing Officer's power is restricted to examining whether the books of account are certified by the authorities under the Companies Act as having been properly maintained in accordance with the Companies Act.

Thereafter, he only has **the limited power of making additions** and deductions as provided for in Explanation 1 to section 115JB. The Assessing Officer does not have the jurisdiction to go behind the net profit shown in the profit and loss account except to the extent provided in Explanation 1 to section 115JB.

Where an assesses is consistently charging depreciation in its books of account at the rates prescribed in Income-tax Rules and the accounts of the assessee have been prepared and certified as per the provisions of the Companies Act, the Assessing Officer does not have any jurisdiction under section 115JB to rework the net profit of the assessee by substituting the rates of depreciation prescribed under the Companies Act.

Applying the ratio of the Supreme Court decision to this case, it may be concluded that the **action of the Assessing Officer is not correct.**

QUESTION 6 (SM)

The net profit of Renuka Ltd. an Indian company, as per its profit and loss account prepared as per the Income-tax Act, 1961 is ₹ 90,00,000 after debiting and crediting following items:

Particulars	₹
Provision for income-tax	5,00,000
Provisions for deferred tax	3,00,000
Proposed dividend	7,50,000
Depreciation including depreciation on revaluation of assets ₹ 20,00,000 debited to profit and loss account	60,00,000
Profit from industrial unit in SEZ area	80,000
Provision for permanent diminution in the value of investments	70,000

Compute tax liability under section 115JB for the assessment year 2026-27.

Solution:

Computation of Book Profit for the purpose of Sec. 115JB

Particulars	Details	Amount
Net profit as per books of accounts		90,00,000
Add:		
Provision for income tax	5,00,000	
Provisions for deferred tax	3,00,000	
Provision for permanent diminution in the value of investments	70,000	
Proposed dividend	7,50,000	
Depreciation	60,00,000	76,20,000
		1,66,20,000
Less:		
Depreciation (without considering depreciation on revaluation)	(40,00,000)	
Profit from industrial unit in SEZ area	Nil	(40,00,000)
Book Profit		1,26,20,000

Computation of Tax Liability under section 115JB

Particulars	Amount
Book profit u/s 115JB	1,26,20,000
15% of book profit	18,93,000
Add: Surcharge [As total income exceeds ₹ 1,00,00,000]	1,32,510
Tax & Surcharge	20,25,510
Add: Health & Education Cess @ 4%	81,020
Tax Liability u/s 115JB	21,06,530

The tax liability u/s 115JB is required to be compared with tax liability calculated on income calculated as per other provisions of the Act.

QUESTION 7 (SM)

Sun bright Ltd., an Indian company furnished following particulars of its income for the previous year 2025-26. Calculate its total income and income tax liability for the assessment year 2026-27:

Particulars	₹
Income from business	5,00,000
Dividend received during the year:	
– from Indian company	20,000
– from foreign company	5,000
Gains from transfer of capital assets:	
– short term capital gains	25,000
– long term capital gains	50,000
Agricultural income in India	35,000

Additional information:

1. Business expenses already charged from business income include ₹ 10,000 revenue expenditure

and ₹ 30,000 capital expenditure on family planning programme for employees.

2. Company has debited following donations in the profit and loss account of the business of company.
   - Prime Minister's National Relief Fund: ₹ 50,000

Solution:

Computation of Total Income of Sun Bright Ltd. for the Assessment Year 2026-27

Particulars	Amount (₹)	Amount (₹)
Income from Business		
Profit as per Profit & Loss A/c		5,00,000
Add: Disallowed Expenditure		
i. Donation	75,000	
ii. Capital Expenditure on Family Planning (30,000 – 6,000)	24,000	99,000
		5,99,000
Capital Gain		
- Long term	50,000	
- Short term	25,000	75,000
Income from Other Sources		
Dividend from:		
- Indian Company	20,000	
- foreign Company	5,000	
Agricultural Income	Exempt	25,000
Gross Total Income		**6,99,000**
Less: Deduction u/s		
- 80G (Prime Minister's National Relief Fund-100% of Donation allowed as deduction)		(50,000)
Total Income		**6,49,000**

Computation of Tax Liability

Particulars	Tax on LTCG	Other Income
Total Income	50,000	5,99,000
Rate	12.5%	30%
Tax	6,250	1,79,700
Total tax		**1,85,950**
Surcharge		Nil
Tax including surcharge		1,85,950
Health & Education Cess @ 4%		7,438
Total tax (Rounded Off)		1,93,390

QUESTION 8 (MQP)

Following is the profit and loss account of Z Ltd. for the year ended on 31-3-2026

Particulars	Amount (₹)	Particulars	Amount (₹)
To Raw material consumed	20,00,000	By Sale	
To Rent	5,00,000	Export	50,00,000
To Salary & Wages	10,00,000	Domestic	30,00,000
To Depreciation	5,00,000	By Closing Stock	10,00,000
To Provision for contingencies	75,000		
To Wealth Tax of earlier year	50,000		
To Loss of subsidiary co.	50,000		
To Custom Duty	40,000		
To Proposed dividend	1,00,000		
To Provision for Income tax	1,05,000		
To Net Profit	45,80,000		
	90,00,000		**90,00,000**

Additional Information

1. Interest on bank loan relating to year 2023-24 has been paid during the previous year ₹ 1,00,000.
2. Whole of Custom duty is unpaid.
3. Company is entitled to get deduction u/s 80G ₹ 1,00,000.
4. For the purpose of Income tax, depreciation is ₹ 4,00,000.
5. Turnover of the company during the previous year was ₹ 65 crores and it is life time highest turnover achieved by the company.
6. In past few years, company had suffered losses, following balances are still unabsorbed:

	As per Income tax Act	As per books of Accounts
Depreciation	--	₹ 3,50,000
Losses	₹ 42,50,000	₹ 4,00,000

Compute tax liability of the company.

Solution:

Computation of total income of Z Ltd. for the A.Y.2026-27
(As per other provisions of the Act)

Particulars	Details	Amount
Net profit as per books of accounts		45,80,000
Add:Expenditure disallowed but debited in P/L A/c		
Excess Depreciation	1,00,000	
Provisions for Contingencies	75,000	
Wealth Tax	50,000	
Loss of subsidiary company	50,000	
Proposed Dividend	1,00,000	
Provision for income tax	1,05,000	
Unpaid customs duty	40,000	5,20,000

		51,00,000
Less: Expenditure allowed but not debited in P/L A/c		
Interest on bank loan of earlier years		(1,00,000)
		50,00,000
Less: Brought forward business loss		(42,50,000)
Gross Total Income		7,50,000
Less: Deduction u/s 80G		(1,00,000)
Total Income		**6,50,000**

Computation of Book Profit of Z Ltd. for the A.Y.2026-27

Particulars	Details	Amount
Net profit as per books of accounts		45,80,000
Add:		
Provision for contingencies	75,000	
Loss of subsidiary company	50,000	
Proposed Dividend	1,00,000	
Provision for income tax	1,05,000	
Depreciation	5,00,000	8,30,000
		54,10,000
Less:		
Depreciation (as assets are not revalued)	(5,00,000)	
Lower of unabsorbed depreciation and brought forward loss (as per books of account)	(3,50,000)	(8,50,000)
Book Profit		**45,60,000**

Computation of tax liability of Z Ltd.

Particulars	Amount
Total income as per other provisions of the Act	6,50,000
Tax on above @ 25% **[A]**	1,62,500
Book profit u/s 115JB	45,60,000
15% of book profit **[B]**	6,84,000
Tax [Higher of A & B]	**6,84,000**
Add: Surcharge [As total income is only ₹ 45,60,000/-, thus, surcharge is not applicable]	Nil
Tax & Surcharge	6,84,000
Add: Health & Education Cess @ 4%	27,360
Tax Liability (Rounded off)	**7,11,360**

QUESTION 9 (MQP)

Following is the profit and loss account of Z Ltd. for the year ended on 31-3-2026

Particulars	Amount	Particulars	Amount
To Raw material consumed	23,25,000	By Sale	1,60,00,000
To Rent	3,50,000	By Closing Stock	10,00,000
To Salary & Wages	12,00,000	By Revaluation Reserve	25,000
To Depreciation	5,00,000	By General Reserve	1,00,000
To Provision for contingencies	75,000		
To Wealth Tax	50,000		
To Provision for bad debts	40,000		
To Proposed dividend	1,00,000		
To Provision for Income tax	1,05,000		
To Net Profit	1,23,80,000		
	1,71,25,000		1,71,25,000

Additional Information

1. The amount of depreciation includes depreciation on revaluation of assets ₹ 50,000. Further, for the purpose of Income tax, depreciation is ₹ 4,00,000.
2. Turnover of the company during the previous year was ₹ 530 crores. However, during the financial year 2023-24, turnover of the company was ₹ 250 crores only.
3. In past few years, company had suffered losses, following balances are still unabsorbed:

	As per Income tax Act	As per books of Accounts
Depreciation	₹ 66,00,000	Nil
Losses	₹ 35,50,000	Nil

Compute tax liability of the company.

Solution:

Computation of total income of Z Ltd. for the A.Y.2026-27
(As per other provisions of the Act)

Particulars	Details	Amount
Net profit as per books of accounts		1,23,80,000
Add: Expenditure disallowed but debited in P/L A/c		
Excess Depreciation	1,00,000	
Provisions for Contingencies	75,000	
Wealth Tax	50,000	
Provision for bad debts	40,000	
Proposed Dividend	1,00,000	
Provision for income tax	1,05,000	4,70,000
		1,28,50,000
Less: Amount credited to P/L A/c		
Revaluation Reserve	(25,000)	
General Reserve	(1,00,000)	(1,25,000)
		1,27,25,000

Less: Brought forward business loss		(35,50,000)
		91,75,000
Less: Unabsorbed Depreciation		(66,00,000)
Total Income		**25,75,000**

Computation of Book Profit of Z Ltd. for the A.Y.2026-27

Particulars	Details	Amount
Net profit as per books of accounts		1,23,80,000
Add:		
Provision for contingencies	75,000	
Proposed Dividend	1,00,000	
Provision for income tax	1,05,000	
Provision for Bad Debts	40,000	
Depreciation	5,00,000	8,20,000
		1,32,00,000
Less:		
Depreciation (ignoring depreciation on revaluation)	(4,50,000)	
Amount transferred from Revaluation Reserve	(25,000)	
Amount transferred from General Reserve	(1,00,000)	5,75,000
Book Profit		1,26,25,000

Computation of tax liability of Z Ltd.

Particulars	Amount
Total income as per other provisions of the Act	25,75,000
Tax on above @ 25% **[A]**	6,43,750
Book profit u/s 115JB	1,26,25,000
15% of book profit **[B]**	18,93,750
Tax [Higher of A & B]	**18,93,750**
Add: Surcharge [As total income is ₹ 1,26,25,000]	1,32,563
Tax & Surcharge	20,26,313
Add: Health & Education cess @4%	81,052
Tax liability (Rounding off)	21,07,370

QUESTION 10 (MQP)

Given below is the Profit and Loss A/C of Mitra Ltd.

Particulars	₹	Particulars	₹
Salaries	3,00,000	Gross Profit	10,00,000
Donation to charitable trust	40,000	Withdrawal from Reserve fund	24,000
Contribution to approved research	30,000	Withdrawal from Revaluation Reserve Fund	25,000
Staff welfare Fund	25,000	Agricultural income	40,000
Proposed dividend	75,000	Short term capital gain	36,000
Bad debts	5,000	Dividend	30,000

Provision for doubtful debts	15,000	Miscellaneous income	45,000
Provision for GST	35,000		
Provision for ascertained liability	10,000		
Income tax	50,000		
Penalty	4,000		
Depreciation	85,000		
Cultivation expenses	12,000		
General reserved	2,000		
Long term capital loss	16,000		
Net Profit	4,88,000		
	12,00,000		

Other Information:

1. Depreciation includes ₹ 20,000 on account of revaluation
2. Dividend ₹ 50,000 paid on 30th September, 2025
3. GST ₹ 30,000 paid on 31st October, 2025
4. Brought forward items:

Relating for FY 2022-23	Tax Purpose	Accounts Purpose
(a) Brought forward business loss	25,000	30,000
(b) Unabsorbed depreciation	15,000	20,000

Calculate the tax liability of Mitra Ltd applying MAT u/s 115JB.

Note: Assumption for Staff welfare fund. → it is assumed as just amount set aside like a portion, not actually Spent.

Solution:

Particulars	₹	₹
	Book Profit	Business income
Net Profit	4,88,000	4,88,000
(+) Donation	-	40,000
(+) Staff welfare fund	25,000	25,000
(+) Dividend	75,000	75,000
(+) PBD	15,000	15,000
(+) GST	-	5,000
(+) Ascertained		10,000
(+) Income Tax	50,000	50,000
(+) Penalty	-	4,000
(+) Cultivation	12,000	12,000
(+) Reserve	2,000	2,000
(+) LTCL	-	16,000
(+) Depreciation	85,000	85,000
(-) BF Business Loss or Unabsorbed depreciation (Lower)	20,000	-
(-) Withdrawal	24,000	24,000
(-) Revaluation Reserve (max up to. dep)	20,000	25,000
(-) Depreciation	65,000	-
(-) Agriculture	40,000	40,000

(-) STCG	-	36,000
(-) Dividend	-	30,000
Book Profit	5,83,000	5,87,000
(-) BF Loss/ Depreciation		40,000
Business Income		5,47,000

Calculation of Tax Liability of X Ltd:

Summary	**(₹)**
Profits & Gains of Business & Profession	5,47,000
Short Term Capital Gain	36,000
Income from Other Sources	30,000
Gross Total Income	6,13,000
(-) Sec 80M (30,000 or 50,000)	30,000
	5,83,000

Normal Tax @ 30%	1,74,900
(+) HEC @4%	6,996
	1,81,896
MAT @ 15%	87,450
(+) HEC @4%	3,498
	90,948
Tax payable	₹ 1,81,896

QUESTION 11 (PEQ)

Mention any six items which are required to added while computing book profit u/s 115JB

Hint: Refer concept book

QUESTION 12 (ICAI)

A domestic company, ABC Ltd., furnishes the following particulars in respect of Assessment Year 2026-27 and seeks your opinion on the application of section 115JB. You are also required to compute the total income and tax payable.

S. No	Particulars	in ₹ (in lacs)
1	Profits as per Statement of profit and loss as per the Companies Act, 2013	215
2	Statement of Profit and Loss includes: a) **Credits:** Dividend income from Indian companies' excess realized on sale of land held as investment b) **Debits:** Depreciation on straight line method basis Provision for loss of subsidiary company.	 20 30 100 60
3	Depreciation allowable as per the Income-tax Rules, 1962	150
4	Short term capital gains on sale of land mentioned above as computed under Income-tax Act, 1961	40
5	Losses brought forward as per books of account and as per Income-tax Act, 1961: • Business loss • Unabsorbed depreciation	 50 60

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:- he turnover of ABC Ltd. for the P.Y. 2023-24 was ₹ 390 crore.

Solution:

In the case of a company, it has been provided that where tax @ 15% 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.

Computation of Total Income as per the normal provisions of the Income-tax Act

Particulars	(in Lakhs)	
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
Less:		375
Dividend income from Indian companies	(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)		(40)
Income from other sources (Dividend income chargeable to tax in the hands of shareholders)		(20)
		185
Less: Set-off of unabsorbed depreciation		(60)
Total Income as per Income-tax Act, 1961		125

Computation of book profit under section 115JB

Particulars	(₹ in Lakhs)	
Net profit as per statement of profit and loss Add:		215
Provision for loss of subsidiary		60
Depreciation as per books of account		100
Less:		375
Depreciation as per books of account	(100)	
Business loss which is less than unabsorbed depreciation	(50)	(150)
"Book Profit"		**225**

Computation of tax liability under the normal provisions of the Income-tax Act

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 ≤ ₹ 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

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 13 (ICAI)

Maitri Jeans (P) Ltd. is in the business of manufacturing jeans. For the assessment year 2026-27, 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 under section 115JB, wants to charge interest under sections 234B and 234C as no advance tax was paid during the financial year 2025-26. The company seeks your opinion on the proposed levy of interest.

Solution:

The issue under consideration is whether interest under sections 234B and 234C can be levied where a company is assessed based on its book profit under section 115JB. The Supreme Court, in **Joint CIT v. Rolta India Ltd.,** 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 assesses, 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 assesses 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.2026-27, it is liable to pay advance tax. Since Maitri Jeans (P) Ltd. has not paid any advance tax during the financial year 2025-26, **the levy of interest under section 234B and 234C is valid.**

QUESTION 14 (PEQ)

S Textiles (P) Ltd., Surat earned a profit of ₹ 20 lakhs after debit/credit of the following items to its statement of profit and loss for the year ended 31.03.2026:

Particulars		₹
Items debited to statement of profit and loss:		
(i)	Provision for the loss of subsidiary	2,00,000
(ii)	Provision for Doubtful Debts	1,50,000
(iii)	Provision for Income-tax	3,00,000
(iv)	Provision for Gratuity (based on actuarial valuation ₹ 5 lakhs)	7,00,000
(v)	Depreciation (including ₹ 1,60,000 on account of revaluation of fixed assets)	5,60,000
(vi)	Interest to financial institution (unpaid till filing of return)	2,50,000
(vii)	Penalty for infraction of law	60,000
Items credited to statement of profit and loss:		
(i)	Royalty in respect of patent (chargeable to tax under section 115BBF)	6,00,000
(ii)	Share income as partner in a firm	1,20,000
(iii)	Long term capital gains on sale of vacant land	4,00,000

Other information:

(i) Depreciation as per Income-tax Rules is ₹ 2,80,000.

(ii) Income tax liability on income computed as per regular provisions for the Assessment Year 2026-27 is ₹ 1,22,070 (before cess) excluding tax on royalty chargeable to tax under section 115BBF.

You are required to compute Book Profits under section 115JB of the Income-tax Act, 1961 for Assessment Year 2026-27 and tax liability of the company for the assessment year 2026-27.

Solution:

Computation of Book Profit of S Textiles P Ltd. as per section 115JB

Particulars	₹	₹
Net Profit as per Statement of Profit & Loss		20,00,000
Add:		
Provision for the loss of subsidiary	2,00,000	

Provision for Doubtful Debts	1,50,000	
Provision for Income-tax	3,00,000	
Provision for Gratuity (over and above actuarial valuation Rs. 5 lakhs)	2,00,000	
Depreciation (including Rs. 1,60,000 on account of revaluation of fixed assets)	5,60,000	
Interest to financial institution (unpaid till filing of return)	-	
Penalty for infraction of law	-	14,10,000
		34,10,000
Less:		
Royalty in respect of patent (chargeable to tax under section 115BBF)	(6,00,000)	
Share income as partner in a firm as exempted u/s 10(2A)	(1,20,000)	
Long term capital gains on sale of vacant land	-	
Depreciation without considering revaluation	(4,00,000)	11,20,000
Book Profit as per section 115JB		**22,90,000**

Computation of tax liability of S Textiles (P) Ltd for the A.Y. 2026-27

Particulars	₹	₹
Book Profit as per section 115 JB		22,90,000
Tax u/s 115JB [₹ 22,90,000 x 15%]		3,43,500
Tax Liability on regular computation:		
On Income other than royalty [Given]	1,22,070	
On Royalty Income of ₹ 6,00,000 u/s 115 BBF @10%	60,000	1,82,070
Tax liability (as tax u/s 115JB is higher)		3,43,500
Add: HEC		13,740
Tax and cess payable		**3,57,240**

QUESTION 15 (WB)

ABC Ltd., a domestic company, has prepared its financial statements for the year ending 31st March 2026. The Profit & Loss Account reports a Net Profit of ₹ 50,00,000 after accounting for the following items:

1. Depreciation: ₹ 8,00,000
2. Provision for Income Tax: ₹ 3,00,000
3. Provision for Unascertained Liabilities: ₹ 2,00,000
4. Deferred Tax Provision: ₹ 1,50,000
5. Provision for Bad Debts: ₹ 1,00,000
6. Dividend Received from Domestic Companies: ₹ 4,00,000
7. Long-Term Capital Gain on Sale of Equity Shares: ₹ 5,00,000
8. Brought Forward Business Loss: ₹ 6,00,000
9. Unabsorbed Depreciation: ₹ 4,00,000

Additional Information:

- The Depreciation of ₹ 8,00,000 includes ₹ 2,00,000 related to revaluation of fixed assets.
- The company has not opted for any concessional tax regime

Compute the Book Profit and the MAT liability under Section 115JB for AY 2026-27.

Solution:

Computation of Book Profit under Section 115JB

Particulars	Amount (₹)
Net Profit as per Profit & Loss Account	50,00,000
Additions (if debited to the Statement of Profit and Loss):	
- Provision for Income Tax	3,00,000
- Provision for Unascertained Liabilities	2,00,000
- Deferred Tax Provision	1,50,000
- Provision for Bad Debts	1,00,000
- Depreciation	8,00,000
Total Additions (A)	15,50,000
Deductions (if credited to the Statement of Proft and Loss):	
- Dividend Income	-
- Long-Term Capital Gain	-
- Depreciation (excluding Revaluation Depreciation)	(6,00,000)
- Lower of Brought Forward Business Loss or Unabsorbed Depreciation as per Books	(4,00,000)
Total Deductions (B)	(10,00,000)
Book Profit (Net Profit + A - B)	**55,50,000**

Notes:

1. Provision for Income Tax, Provision for Unascertained Liabilities, Deferred Tax Provision, and Provision for Bad Debts are added back as per Explanation 1 to Section 115JB(2).
2. Depreciation (excluding the revaluation component) is adjusted to allow the actual depreciation.
3. The lower of Brought Forward Business Loss (₹6,00,000) or Unabsorbed Depreciation (₹4,00,000) is deducted, which in this case is ₹4,00,000.

Computation of MAT Liability

Particulars	Amount (₹)
Book Profit	55,50,000
MAT @ 15% of Book Profit	8,32,500
Add: Surcharge	Nil
	8,32,500
Add: Health & Education Cess @ 4%	33,300
Total MAT Liability	**8,65,800**

QUESTION 16 (WB)

XYZ Ltd., an Indian company, earned a profit of ₹60,00,000 after debiting/crediting the following items to its Statement of Profit and Loss for the year ended on 31.03.2026:

(I) Items debited to Statement of Profit and Loss:

1. Provision for loss of subsidiary: ₹90,000
2. Provision for doubtful debts: ₹1,10,000
3. Provision for income tax: ₹1,80,000
4. Provision for gratuity based on actuarial valuation: ₹3,50,000
5. Interest to financial institution (unpaid before filing return): ₹85,000
6. Depreciation: ₹3,50,000
7. Penalty for infraction of law: ₹20,000

(II) Items credited to Statement of Profit and Loss:

1. Profit from unit established in Special Economic Zone (SEZ): ₹16,00,000
2. Share in income of an Association of Persons (AOP) as a member: ₹2,00,000
3. Long-term capital gains: ₹4,00,000

Other Information:

1. Depreciation includes ₹90,000 on account of revaluation of fixed assets.
2. Balance in Statement of Profit and Loss shown in Balance Sheet at the asset side as at 31.03.2025 was ₹35 lakhs which includes unabsorbed depreciation of ₹20 lakhs.
3. The AOP, of which the company is a member, has paid tax at maximum marginal rate. Compute book profit and tax liability u/s 115JB

Solution:

Computation of Book Profit for MAT under Section 115JB

Particulars	Amount (₹)	Amount (₹)
Net Profit as per Statement of Profit and Loss		60,00,000
Add: Adjustments as per Explanation 1 to Section 115JB		
- Provision for loss of subsidiary		90,000
- Provision for doubtful debts		1,10,000
- Provision for income tax		1,80,000
- Depreciation		3,50,000
		67,30,000
Less: Deductions as per Explanation 1 to Section 115JB		
- Depreciation without considering revaluation [₹3,50,000 - ₹ 90,000]	2,60,000	
- Share in income of AOP (tax paid at maximum marginal rate)	2,00,000	
- Lower of unabsorbed depreciation (₹ 20 lakhs) and brought forward loss (₹15 lakhs)	15,00,000	19,60,0000
Book Profit		**47,70,000**

Computation of MAT Liability

Particulars	Amount (₹)
Book Profit	47,70,000
MAT @ 15% of Book Profit	7,15,500
Add: Surcharge	Nil
	7,15,500
Add: Health & Education Cess @ 4%	28,620
Total MAT Liability	**7,44,120**

QUESTION 17 (WB)

ABC Ltd., an Indian company, earned a profit of ₹ 56 lakhs after considering the following items debited/credited in its Statement of Profit and Loss for the year ending 31.03.2026:

i. Items Debited:

No.	Particulars	Amount (₹)
1	Provision for loss of subsidiary	90,000
2	Provision for doubtful debts	1,00,000
3	Provision for income tax (includes ₹ 70,000 interest)	1,60,000
4	Depreciation as per books (incl. ₹ 85,000 on revaluation)	3,20,000
5	Interest to NBFC (unpaid before filing the return)	80,000
6	Penalty for violation of law	16,000

ii. Items Credited:

No.	Particulars	Amount (₹)
1	Profit from SEZ unit (eligible under section 10AA)	16,00,000
2	Share of profit from AOP (taxed at MMR)	2,00,000
3	Long-term capital gain (taxable u/s 112)	3,50,000

iii. Additional Information:

a. Depreciation as per Income-tax Act: ₹ 4,25,000
b. Unabsorbed depreciation (as per income-tax) from earlier years: ₹ 18,50,000
c. No brought forward business loss.
d. No option exercised under sections 115BAA or 115BAB.
e. The company is not located in IFSC.
f. Assume the tax rate applicable to ABC Ltd for the P.Y. 2025-26 is 25%

Required:

1. Compute Book Profit and MAT liability under section 115JB for A.Y. 2026-27.
2. Compute Normal Tax liability under regular provisions.

Solution:

Computation of Book Profit under Section 115JB

Particulars	Amount (₹)	Amount (₹)
Net Profit as per Statement of Profit and Loss		56,00,000
Add: Adjustments as per Explanation 1 to Section 115JB		
- Provision for loss of subsidiary	90,000	
- Provision for doubtful debts	1,00,000	
- Provision for income tax including interest	1,60,000	
- Depreciation	3,20,000	6,70,000
		62,70,000
Less: Deductions as per Explanation 1 to Section 115JB		
- Depreciation without considering revaluation [₹ 3,20,000 - ₹ 85,000]	2,35,000	
- Share in income of AOP (tax paid at maximum marginal rate)	2,00,000	4,35,000
Book Profit		58,35,000

Computation of total income under other provisions of the Act

Particulars	Amount (₹)	Amount (₹)
Profits and Gains of Business or Profession		
Net Profit as per Statement of Profit and Loss		56,00,000
Add: Items debited but to be considered separately or to be disallowed		
- Provision for loss of subsidiary	90,000	
- Provision for doubtful debts	1,00,000	
- Provision for income tax including interest	1,60,000	
- Depreciation	3,20,000	
- Interest to NBFC (unpaid before filing the return)	80,000	
- Penalty for violation of law	16,000	7,66,000
		63,66,000
Less: Items credited but chargeable to tax under other head / expenses allowed but not debited		
- Depreciation as per income tax	4,25,000	
- Profit from SEZ unit (eligible under section 10AA)	16,00,000	
- Long term capital gain	3,50,000	
- Unabsorbed depreciation	18,50,000	
- Share in income of AOP (tax paid at maximum marginal rate)	2,00,000	44,25,000
		19,41,000
Capital Gains		
Long term capital gains		3,50,000
Total Income		**22,91,000**

Computation of tax liability

Particulars	Amount
Tax under other provisions of the law	
Tax on long term capital gains [₹ 3,50,000 x 12.5%]	43,750
Tax on other income [(₹ 22,91,000 - ₹ 3,50,000) x 25%]	4,85,250
Tax on above [A]	5,29,000
Book Profit	58,35,000
Tax on above [B]	8,75,250
Tax liability [Higher of (A) and (B)]	8,75,250
Add: Health & Education Cess	35,010
Tax & Cess payable u/s 115JB	9,10,260

QUESTION 18 (PEQ)

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 31/03/2026. 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

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:

1. Depreciation includes ₹ 1,50,000 on account of revaluation of fixed assets.
2. Depreciation as per Income-tax Rules is ₹ 2,80,000.
3. Brought forward loss as per books of account of the company is of ₹ 10 lakhs which includes unabsorbed depreciation of ₹ 4 lakhs.
4. The AOPs, of which the company is a member, has paid tax at maximum marginal rate.
5. 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. 2026-27, assuming that Sona Ltd. is not required to comply with the Indian Accounting Standards. Ignore the provisions of section 115BAA.

Solution:

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 [As per Explanation 2 to section 115JB, income-tax shall include, 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]	1,05,000	
- Depreciation	3,60,000	6,10,000
Less: Net profit to be decreased by the following amounts as per Explanation 1 to section 115JB:		21,10,000
- 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)	
- Income from units in UTI [Income from units in UTI is taxable in the hands of the unitholders thus, the same would not be reduced while computing book profits even though it is credited in the Statement of Profit and Loss]	-	
- 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 115JB

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 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 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 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.

QUESTION 19 (PEQ)

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 31.3.2026:

(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 buyers on 31.3.2026 for advance received from them, on which tax was deducted in April 2026 and was deposited on 31.7.2026	1,00,000
(b)	Items credited to Statement of Profit and Loss	
	Long term capital gain on sale of equity shares on 05.10.25 on which securities transaction tax was paid at the time of acquisition and sale.	3,60,000
	Income from units of UTI (Gross)	75,000

The company provides the following additional information:

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

F.Y.	Amount as per books		Amount as per Income-tax	
	Loss ₹	Depreciation ₹	Loss ₹	Depreciation ₹
2022-23	2,50,000	3,00,000	2,00,000	2,50,000
2023-24	Nil	2,70,000	1,00,000	1,80,000
2024-25	3,50,000	3,15,000	1,20,000	2,10,000

You are required to:

compute the total income of the company for the assessment year 2026-27 giving the reasons for treatment of items and 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 for the P.Y. 2025-26 is 30%. Ignore the provisions of section 115BAA.

Solution:

Computation of total income of M/s Hyper Ltd. for the A.Y. 2026-27

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 assesses]	85,000	
• Provision for income-tax [disallowed under section 40(a)(ii)]	1,05,000	
• Interest on deposit credited to buyers 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 the 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 was 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)		(2,80,000)
		12,90,000
Less: Set-off of brought forward business loss and unabsorbed depreciation Brought forward business loss under section 72 Brought forward depreciation under section 32 **Income from business** **Capital Gains**	 (4,20,000) (6,40,000)	 (10,60,000)
Long term capital gain on sale of equity shares on which securities transaction tax was paid at the time of acquisition and sale		**2,30,000**
Income from Other Sources Income from units of UTI		3,60,000 75,000

Total Income		**6,65,000**
Tax on LTCG exceeding ₹ 1.25 lakh @ 12.5% of ₹ 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	
Depreciation debited to statement of profit and loss	3,60,000	5,50,000
		19,75,000
Less: Net Profit to be reduced by the following amounts as per Explanation 1 below section 115JB (2)		
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 deprecation 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
Minimum Alternate Tax u/s 115JB		1,81,740

In case of a company, it has been provided that where income-tax payable on total income computed as per the provisions of the Act is less than 15% of book profit, the book profit shall be deemed as the total income and the tax payable on such total income shall be 15% thereof plus health and education cess @4%.

Accordingly, in this case, since income-tax payable on total income computed as per the provisions of the Act is less than 15% of book profit, the book profit of ₹ 11,65,000 is deemed to be the total income and income-tax is payable @ 15% thereof plus health and education cess @4%. The tax liability, therefore, works out to be ₹1,81,740.

Computation of tax credit

Particulars	₹
Tax on book profit under section 115JB	1,81,740
Less: Tax on total income computed as per the normal provisions	1,25,710
Tax credit to be carried forward under section 115JAA [can be carried forward for 15 assessment years succeeding A.Y. 2026-27]	**56,030**

QUESTION 20 (ICAI)

The profit as per the Statement of profit and loss of XYZ Ltd., an Indian company, for the year ended 31.3.2026 is ₹ 190 lakhs arrived at after making the following adjustments:

	Particulars	₹ (in lakhs)
(i)	Depreciation on assets	100
(ii)	Reserve for currency exchange fluctuation	50
(iii)	Provision for tax	40
(iv)	Proposed dividend	120

Following further information are also provided by company:

1. Provision for tax includes ₹ 2 lakhs of interest payable on income-tax.
2. Depreciation includes ₹ 40 lakhs towards revaluation of assets.
3. Amount of ₹ 50 lakhs credited to statement of P & L was drawn from revaluation reserve.
4. Balance of statement of profit and loss shown in balance sheet at the asset side as at 31.3.2025 was ₹ 30 lakhs which includes unabsorbed depreciation of ₹ 10 lakhs.

Compute the book profit under section 115JB for the year ended 31.3.2026.

Solution:

Computation of book profit of XYZ Ltd. for the year ended 31.3.2026

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 the 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 lakhs - ₹ 40 lakhs)	(60,00,000)	
• Withdrawal from revaluation reserve restricted to the • extent of depreciation on account of revaluation of assets (₹50 lakhs or ₹ 40 lakhs, 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, inter alia, interest on income- tax. Therefore, the entire provision of ₹ 40 lakhs for income- tax is added back for computing book profit for levy of minimum alternate tax.

QUESTION 21 (WB)

Compare 'minimum alternate tax' u/s 115JB and 'alternate minimum tax' u/s 115JC?

Solution:

Comparison between 'minimum alternate tax' and 'alternate minimum tax' are as under:

Particulars	Alternate Minimum Tax (AMT)	Minimum Alternate Tax (MAT)
Applicability	It is applicable on all assessee (other than company) who has claimed any deduction under: • Sec. 80IA to Sec. 80RRB (other than sec. 80P); or • Sec. 35AD less depreciation u/s 32 • Sec.10AA **Exception:** The provisions shall not apply to an individual or a HUF or an AOP or a BOI, whether incorporated or not, or an artificial juridical person, if the adjusted total income of such person does not exceed ₹ 20 lakh.	It is applicable on Companies (Subject to few exceptions)
Income	It is calculated on Adjusted Total Income.	It is calculated on Book Profit.
Meaning of income	Adjusted total income means the total income as per income tax provisions in normal course as increased by deduction under: • Sec. 80IA to Sec. 80RRB (other than sec. 80P); or • Sec. 35AD less depreciation u/s 32 • Sec.10AA	Book Profit means the profit as per profit and loss account of the company prepared in accordance with Schedule III of the Companies Act 2013 as increased / decreased by certain items specified in Explanation to Section 115JB.
Rate of Tax	Rate of AMT is 18.5%. + surcharge + cess	Rate of MAT is 15% + surcharge + cess
Credit	AMT paying assessee can claim its credit for 15 assessment years.	MAT paying companies can claim their credit for 15 assessment years.
Change of constitution	AMT credit in case of change in constitution is not available.	Change in constitution, that is, conversion of private limited company or unlisted

		public company into LLP shall result in lapse of MAT credit which would have been available to be set off to the company if such conversion had not taken place.
Brought forward loss & unabsorbed depreciation	While computing AMT, brought forward losses and unabsorbed depreciation both shall be taken into account. For the calculation of AMT brought forward loss and unabsorbed depreciation liable to be set -off shall be in accordance with normal provisions of the Income -tax Act, 1961. Such set-off of losses or depreciation shall reduce the amount of loss or depreciation to be carried forward in next year.	While computing MAT, what is allowable to be deducted is brought forward loss or unabsorbed depreciation whichever is less and not both. For the calculation of MAT brought forward loss and unabsorbed depreciation liable to be set off shall be in accordance with books of account. Such set off of losses or depreciation shall not affect the amount of loss or depreciation to be carried forward in next year.
Deductions	Deductions, rebates, allowances and adjustments except that provided in Chapter VI -A under the heading "C - Deductions in respect of certain incomes" and Section 10AA are available in computing Adjusted Total Income.	Deductions, rebates, allowances and adjustments except to the extent covered by the Explanation to Section 115JB are not available in computation of Book Profit.

QUESTION 22 (WB)

Discuss the provision relating to concessional rate of tax in respect of domestic manufacturing company.

Hint: Refer concept book

QUESTION 23 (ICAI)

ABC Ltd., a pharmaceutical company incorporated in year 2016-17, purchased a new plant and machinery for ₹ 10 lakhs on 01-04-2025. The total income of the company for Assessment Year 2026-27 before allowing additional depreciation in respect of new plant and machinery is ₹ 20 lakhs. For A.Y. 2026-27 assuming its turnover for the previous year 2023-24 was ₹ 350 crores. Ignore the provisions of MAT. ABC Ltd. Wants to opt the concessional tax regime under section 115BAA or 115BA. Compute the tax liability of ABC Ltd in beneficial manner.

Solution:

Computation of tax liability of ABC Ltd. for A.Y. 2026-27 under regular provisions of the Act

Particulars	₹
Total Income before allowing additional depreciation	20,00,000
Less: Additional Depreciation u/s section 32(1) (iia) [₹ 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. for A.Y. 2026-27 under section 115BAA

Particulars	₹
Total Income before allowing additional depreciation	20,00,000
Less: Additional Depreciation u/s section 32(1) (iia) [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 24 (SM)

Following are the details of X Pvt. Ltd., determine the brought forward loss available for set off during the previous year 2025-26 relevant to the assessment year 2026-27:

Previous Year 2024-25	Previous Year 2025-26
Business Loss = ₹ 12 lakh Unabsorbed depreciation: ₹ 2 lakh	Business Profit = ₹ 25 lakh (Before adjusting brought forward loss and unabsorbed depreciation)
Details of Shareholders as on 31-03-2025	Details of Shareholders as on 31-03-2026
A = 30%	E = 30%
B = 25%	F = 25%
C = 20%	C = 20%
D = 25%	D = 25%

How shall your view will differ, if Mr. B had gifted the shares to Mr. F, a relative of Mr. B.

Solution:

As per **sec. 79**, in case of a company in which public are not substantially interested, no loss shall be carried forward and set off against the income of the previous year, unless 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 person(s) who held at least 51% of the shares on the last day of the financial year in which the loss was incurred. However, the said provision is **not applicable in case of unabsorbed depreciation.**

Since, in the given case, shareholders holding 51% shares as on 31-03-2025 (the last day of the previous year in which loss has been incurred) and 31-03-2026 are not beneficially held by the same persons hence such loss shall not be available for set off with the income of the previous year 2025-26.

Thus, no brought forward business loss is available for set off during the previous year 2025-26 relevant to the assessment year 2026-27. However, unabsorbed depreciation of ₹ 2 lakh shall be available for adjustment from the business income of the previous year 2025-26. Thus, business income for the assessment year 2026-27 is ₹ 23 lakhs.

If Mr. B had gifted the shares to Mr. F Transfer of shares by way of gift to a relative is **not considered as change in shareholding** for the purpose of sec.79. Hence, the loss of ₹ 12 lakh of previous year 2024-25 shall be available for set off with income of the previous year 2025-26.

QUESTION 25 (SM)

A private limited company has share capital in the form of equity share capital. The shares were held until 31st March 2024 by 4 members A, B, C and D equally. The company made losses/profits for the past three assessment years are as follow:

Asst. Year	Business Loss	Unabsorbed depreciation	Total
2022-23	Nil	₹ 15,00,000	₹ 15,00,000
2023-24	Nil	₹ 12,00,000	₹ 12,00,000
2024-25	₹ 9,00,000	₹ 9,00,000	₹ 18,00,000

The above figures have been accepted by the tax department.

During the previous year 31-3-2025, A sold his shares to Y and during the previous year 31-3-2026, B sold his shares to Z.

The profits for the past two years are as follows:

- 31-3-2025 ₹ 18,00,000 (before charging depreciation ₹ 9,00,000)
- 31-3-2026 ₹ 45,00,000 (before charging depreciation ₹ 7,50,000)

Compute taxable income for A.Y. 2026-27.

Solution:

According to sec. 79, loss sustained by the closely held company shall not allowed to be set off unless in the year of such set off the shareholders holding not less than 51% of beneficial interest in share capital of the company in the year of sustaining the loss shall continue to be the shareholders of the company.

Accordingly, the taxable income of the company for the A.Y. 2025-26 shall be **nil** as detailed here below:

Particulars	₹ in lacs
Income before depreciation	18
Less: Depreciation of the current year	(9)
Income after depreciation	9
Less: Unabsorbed business loss b/f	(9)
Taxable	Nil

However, the abovementioned condition of beneficial ownership shall not be applied for carry forward and setoff of unabsorbed depreciation therefore, the company can carry forward and set off the unabsorbed depreciation, even if there is a change in the shareholding pattern between the year in which the loss was suffered and the year in which it seeks to set off such loss.

Thus, the taxable income of the company for A.Y. 2026-27 is worked out as follow:

₹ In lacs

Particulars	Amount	Amount
Income before depreciation		45
Less: Depreciation of the current year		(7.5)
Income after current depreciation		37.50
Less: Unabsorbed Depreciation		
A.Y. 2022-23	(15)	
A.Y. 2023-24	(12)	
A.Y. 2024-25	(9)	(36)
Taxable income		**1.50**

QUESTION 26 (PEQ)

The Statement of Profit and Loss of Radhe Private Ltd. which is a closely held company which is engaged in the manufacturing and trading of FMCG goods, shows a net profit of 10,40,000 for the financial year ended 31st March, 2026 after the charge of the following items:

Items debited to the statement of Profit and Loss:

1. Interest amounting to 35,000 for short payment of advance tax paid as per section 234B relating to the assessment year 2026-27.
2. Cash payment of 78,000 made 01-10-2025 includes the 46,000 paid to farmers of agriculture produce and 32,000 was paid for their transportation.
3. Depreciation as per Companies Act, 2013 is 2,40,000.
4. Provision for income tax is 55,000.
5. Contribution to the electoral trust is ₹ 1,00,000.
6. Interest on term loans obtained from Cooperative Bank not paid before the "due date" of filing of return of income is ₹ 1,30,000.
7. Bonus paid in excess of requirement to relative of director 25,000.

Additional information:

1. Depreciation as per Income-tax Rules: 2,80,000

2. The business loss of ₹ 3,40,000 was carried forward and unabsorbed depreciation of 2,20,000 of P.Y. 2024-25. The return of income was filed within the due date specified u/s 139(1).
3. Equity shares in the company were equally held by X, Y, Z and P during the financial year 2024-25. During the financial year 2025-26 X, Y and Z sold all the shares to Q, R and S.

Compute the income chargeable under the head "Profits and gains of business or profession" of Radhe Private Ltd., for the assessment year 2026-27. Adduce brief reasons for the treatment of the given to each of the items taken into consideration in computation of business income of the company. Ignore the provisions of section 115BAA.

Solution:

Computation of income chargeable under the head "Profits and gains of business or profession" of Radhe Private Ltd. For the AY 2026- 27

Particulars	Amount	Amount
Net profit as per P&L Account		10,40,000
Add: Interest for short payment of advance tax paid as per section 234B (disallowed u/s 37)	35,000	
Add: Depreciation as per books	2,40,0000	
Add: Provision for income tax (disallowed u/s 36(1))	55,000	
Add: Contribution to the electoral trust (disallowed because it is not a business expenditure)	1,00,000	
Add: Interest on term loans obtained from Cooperative Bank not paid before the "due date" of filing of return of income (disallowed u/s 43B)	1,30,000	
Add: Bonus paid in excess of requirement to relative of director (disallowed u/s 40A (2))	25,000	5,85,000
Less: Depreciation as per Income-tax Rules		(2,80,000)
Less: Business loss of PY 2024-25 (Sec 79 condition not satisfied here then Earlier business losses cannot be set off against CPY Income)		-
Less: Unabsorbed depreciation related to PY 2024-25 (Sec 79 condition is not applicable for unabsorbed depreciation)		(2,20,000)
PGBP		11,25,000

QUESTION 27 (WB)

R (P) Ltd. is a company where public are not substantially interested and is engaged in multiple business activities. It has brought forward business loss of Assessment Year 2021-22 of ₹ 15 lakhs and unabsorbed depreciation of ₹ 20 lakhs. The company has 10 shareholders each having 10% of the equity share capital of the company. Four shareholders transferred the shares in October, 2025. One shareholder died in February, 2026 and yet another shareholder gifted his shares to his son in April, 2025.

The company for the previous year 2025-26 earned Net Profit of ₹ 10 lakhs (computed) as per regular provisions before set off of brought forward loss and depreciation given above.

How much of accumulated loss and unabsorbed depreciation, the company could carry forward to the subsequent assessment years?

Solution:

As per section 79(1), brought forward business loss shall not be allowed to be carried forward and set-off unless at least 51% of the voting power is held by same beneficial owners on the last day of the previous year as were holding on the last day of the year in which the loss was incurred.

However, as per section 79(2)(a), exceptions are provided in case of:

- Change in shareholding due to death of a shareholder
- Change due to gift to relatives

Application to this case:

- Transfers by 4 shareholders = 40% change (not exempt)
- Gift to son = 10% (ignored under 79)
- Inheritance due to death = 10% (ignored under 79)

Hence, effective continuity of shareholding = 60% (40% retained + 10% via gift + 10% via inheritance) Since more than 51% beneficial ownership remains with original shareholders/covered exceptions, section 79 does not apply.

Tax Treatment:

- Brought forward business loss of ₹15,00,000 is eligible for set-off and carry forward
- Unabsorbed depreciation is always allowed as per section 32(2)

Set-off in A.Y. 2026-27:

- Current year profit: ₹10,00,000
- Set-off against business loss: ₹10,00,000

Carry forward to A.Y. 2027-28:

Particulars	Amount (₹)	Treatment
Business Loss (c/f)	5,00,000	Allowed
Unabsorbed Depreciation (c/f)	20,00,000	Allowed

Conclusion: Since 60% of voting power is beneficially held by the same persons or covered relatives, R(P) Ltd. is allowed to carry forward both business loss and unabsorbed depreciation.

QUESTION 28 (SM)

DEF is a real estate investment trust (REIT). It owns house properties in different parts of Maharashtra. Besides, it holds controlling interest in A Ltd. (A Ltd., an Indian company, is SPV created by DEF for the purpose of owning commercial properties). Annual income of DEF for the previous year 2025-26 are calculated as under:

Particulars	₹ in crore
Rental income from properties directly owned by DEF (computed)	7
Long-term capital gain on sale of land and buildings directly owned by DEF (computed)	20
Short term capital gain on sale of listed shares of A Ltd.	2
Short term capital gain on sale of land and buildings directly owned by DEF (computed)	8
Interest from A Ltd.	13
Total	**50**

DEF distributes ₹ 50 crore to its unitholders. X is one of the unitholders. He holds 10% units in DEF. Compute income in hands of DEF and X

Solution:

Computation of total income and tax liability of DEF for the A.Y. 2026-27

Particulars	₹ in crore
Rental income from properties directly owned by DEF [Exempt u/s 10(23FCA)]	Nil
Long-term capital gain on sale of land and buildings directly owned by DEF	20
Short term capital gain on sale of listed shares of A Ltd.	2
Short term capital gain on sale of land and buildings directly owned by DEF	8
Interest from A Ltd. [Exempt u/s 10(23FC)]	Nil
Total Income	**30**

Computation of total income of X for the A.Y. 2026-27

Particulars	₹ in crore
Rental income from properties [₹ 5 crore x 7 / 50]	0.70
Long-term capital gain on sale of land and buildings [Exempt u/s 10(23FD)]	Exempt
Short term capital gain on sale of listed shares of A Ltd. [Exempt u/s 10(23FD)]	Exempt
Short term capital gain on sale of land and buildings [Exempt u/s 10(23FD)]	Exempt
Interest from A Ltd. [₹ 5 crore x 13 / 50]	1.30
Total Income	**2.00**

QUESTION 29 (SM)

Compute total income of each investment fund for A.Y. 2026-27 from the following details:

Income	Fund A (₹)	Fund B (₹)	Fund C (₹)
Business Income	Nil	5,00,000	(2,00,000)
Capital Gains	20,00,000	15,00,000	(5,00,000)
Income from Other Sources	5,00,000	3,00,000	10,00,000

Further, it is also given that there are 20 unit-holders each holding one unit. You are also requested to compute income of unit holder assuming that income from investment fund is the only income of unit holder.

Solution:

Computation of total income of the investment fund for the A.Y. 2026-27

Particulars	Fund A (₹)	Fund B (₹)	Fund C (₹)
Business Income	Nil	5,00,000	Nil
Total Income	Nil	5,00,000	Nil

Such income is taxable at the rate @ 30% if the fund is a company or firm else at maximum marginal rate of tax.

Computation of total income of the unit holder for the A.Y. 2026-27

Particulars	Fund A	Fund B	Fund C
Capital Gains [Income / 20]	1,00,000	75,000	-
Income from Other Sources [Income / 20] [# (₹ 10 lakh – ₹ 2 lakh) / 20]	25,000	15,000	40,000#
Total Income	1,25,000	90,000	40,000

QUESTION 30 (SM)

In case of case C of the aforesaid illustration, if Fund C has earned following income during the previous year 2026-27, compute total income for the assessment year 2027-28

- Business Income: ₹ 2,00,000
- Capital Gains: ₹ 8,00,000
- Income from Other Sources: ₹ 9,00,000

Solution:

Computation of total income of the investment fund for the A.Y. 2027-28

Particulars	Amount (₹)
Business Income	2,00,000
Total Income	**2,00,000**

Computation of total income of the unit holder for the A.Y. 2027-28

Particulars	Amount (₹)
Capital Gains [(₹ 8 lakh – ₹ 5 lakh i.e., b/f loss) / 20]	15,000
Income from Other Sources [Income / 20]	45,000
Total Income	**60,000**

QUESTION 31 (ICAI)

A partnership firm with three equal partners authorized payment of monthly salary of ₹1 lakh each to all the partners w.e.f. 01.04.2025. Earlier, the partnership deed authorized payment of monthly salary of ₹50,000 each to all the partners. The business of the firm has more than doubled during the financial year 2025-26 and the partners anticipating such increase in business/profit have changed accordingly the condition for working partner salary.

The profit of the firm was ₹50 lakhs for the year ended 31.03.2026 and the corresponding profit was ₹20 lakhs for the year ended 31.03.2025. The partners of the firm want to know whether increase in payment of salary to working partners would be subjected to disallowance under section 40A(2)(a).

Solution:

The facts of the case given above are similar to that of CIT vs Great City Manufacturing Co (2013).

Section 40(b) provides for disallowance of remuneration to working partners subject to the limits prescribed therein.

Section 40A(2)(a) provides for disallowance of expenditure when it is excessive in the opinion of the Assessing Officer considering the fair market value of the goods or services.

Remuneration allowable subject to section 40(b) or disallowable as the case may be is subject to the limits

specified therein.

The Assessing Officer must ensure that the remuneration to working partner is authorized by the deed of partnership and the allowance is subject to the limits prescribed in section 40(b)(v).

If the above conditions are satisfied, the Assessing Officer cannot disallow a salary under section 40A(2)(a) when it is allowable under section 40(b).

QUESTION 32 (ICAI)

A firm assessed as such has paid ₹ 8,50,000 as remuneration to its partners for the P.Y.2025-26, in accordance with its partnership deed, and it has a book profit of ₹ 10 lakh as computed under section 40(b). What is the remuneration allowable as deduction?

Solution:

The allowable remuneration calculated as per the limits specified in section 40(b)(v) would be –

Particulars	₹
On first ₹ 6 lakh of book profit [₹ 6,00,000 × 90%]	5,40,000
On balance ₹ 4 lakh of book profit [₹ 4,00,000 × 60%]	2,40,000
	7,80,000

The excess amount of ₹ 70,000 (i.e., ₹ 8,50,000 – ₹ 7,80,000) would be disallowed as per section 40(b)(v).

QUESTION 33 (ICAI)

Rao & Jain, a partnership firm consisting of two partners, reports a net profit of ₹ 17,00,000 before deduction of the following items:

1. Salary of ₹ 40,000 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:

1. Book-profit of the firm under section 40(b) of the Income-tax Act, 1961.
2. Allowable working partner salary for the assessment year 2026-27 as per section 40(b).

Solution:

1. 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)			17,00,000
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			**14,90,000**

2. Salary actually paid to working partners = ₹ 40,000 × 2 × 12 = ₹ 9,60,000.
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 for the A.Y. 2026-27 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 (₹ 14,90,000 - ₹ 6,00,000)]	5,34,000
Maximum allowable partners' salary	10,74,000

Hence, allowable working partners' salary for the A.Y. 2026-27 as per the provisions of section 40(b)(v) is ₹ 9,60,000.

QUESTION 34 (ICAI)

Explain in the context of provisions of the Act, whether the income derived during the year ended on 31.03.2026 in following case shall be subject to tax in the A.Y. 2026-27:

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 buildings let out to a bank from 01.06.2025.

Solution:

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 the 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 35 (ICAI)

The books of account maintained by a National Political Party registered with Election Commission for the year ended on 31.3.2026 discloses the following receipts:

S.no	Particulars	₹
(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 of ₹ 21,000 each from 100 persons (who have secreted their names)	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)	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 2026-27, with reasons for inclusion or otherwise.

Solution:

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 ₹ 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 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
(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 36 (SM)

A is an association governed by the provisions of sec. 44A of the Income-tax Act. The subscription receipts for the year ended 31st March 2026 were ₹ 60,000. The expenditure in the normal course of its activities was ₹ 85,000. Its other income taxable under the Act works out to ₹ 75,000. On these facts, you are consulted as to:

1. How A's taxable income will be determined for assessment year 2026-27.
2. In case the association did not have the other taxable income, will there be any difference in the computation of its income?

Solution:

Computation of total income

Particulars	Amount (₹)
Other Income	75,000
Less: Deficiency (Note 1)	25,000
Total Income	**50,000**

Note 1: Calculation of deficiency

Particulars	Amount (₹)
Subscription received	60,000
Less: Expenditure	85,000
Deficiency	**25,000**

maximum deficiency can be set off against other income is lower of the following:

- Actual Deficiency i.e., ₹ 25,000
- 50% of other income i.e., ₹ 37,500 being 50% of ₹ 75,000

In case, association do not have any other taxable income, then the total income shall be nil and the deficiency of₹ 25,000 shall not be carried forward.

QUESTION 37 (WB)

Discuss the tax treatment of income of a professional institution.

Solution:

Income of professional institutions [Sec. 10(23A)]

Any income (**other than** income chargeable under the head "Income from house property" or any income received for rendering any specific services or income by way of interest or dividends derived from its investments) of professional association shall be exempt provided

a) Such association or institution is established in India having as its object the control, supervision, regulation or encouragement of the profession of law, medicine, accountancy, engineering or architecture or other specified profession;

b) Such association or institution applies its income, or accumulates it for application, solely to the objects for which it is established; and

c) The association or institution is approved by the Central Government.

QUESTION 38 (SM)

Mamta, widow of Shri Kulkarni, supplies the following details for the P.Y. 2025-26:

1. She has two house properties. 2nd is self-occupied and 1st is let-out for ₹ 10,000 p.m. Municipal tax paid for 2nd house ₹ 5,000 and that for 1st house ₹ 3,000. Interest on loan for 1st house is ₹ 22,000.
2. She is working with A Ltd. on following terms:

Particulars	₹
Basic Salary	5,000 p.m.
Bonus	50,000
D.A.	2,000 p.m.
HRA	3,000 p.m. (she resides in Kolkata)

   Car of 1.4 later is provided for office as well as personal purpose.
3. She received interest on her fixed deposit ₹ 5,000. Interest on Saving Bank Account ₹ 6,000. Interest on deposits in a public Ltd. company ₹ 5,000.
4. She made a Mediclaim policy of her dependent mother aged 62 years and paid a premium of ₹ 5,000.
5. She donated to Rajiv Gandhi Memorial Fund ₹ 10,000
6. Her handicapped brother is fully dependent on her.
7. She paid LIC premium ₹ 8,000 and made repayment of housing loan taken for acquisition of second house ₹43,000 (including ₹ 22,000 interest).
8. During the previous year, she sold 200 debentures of X Ltd on behalf of her minor son for ₹ 1,00,000. She acquired such debenture on 1-4-2005 for ₹ 50,000 and gifted the same to her minor child on 1-4-2014.
9. She paid tuition fees for her –
   - Elder son (Mumbai University) ₹ 10,000.
   - Younger son (Melbourne University, Australia) ₹ 25,000

On the basis of aforesaid information, you are requested to choose correct options for the following:

1. What will be value of taxable perquisites?
2. What will be her taxable salary?
3. What will be her taxable income under the head income from house property?
4. What will be taxable capital gain?
5. What will be her taxable income under the head income from other sources?
6. State the amount of deduction under chapter VIA. Assume assessee following normal tax rates.

Solution:

Computation of total income of Mamta for A.Y.2025-26

Particulars	Details	Amount	Amount
Salaries			
Basic		60,000	
Bonus		50,000	
Allowances			
Dearness Allowance	24,000		
House Rent Allowance (as she resides in her own house)	36,000	60,000	
Perquisite u/s 17(2)			
Car facility [₹ 1,800 x 12]		21,600	
		1,91,600	
Less: Standard Deduction u/s 16(ia)		(50,000)	1,41,600
Income from house property			
HP 1: Let out [Sec.23(1)]			
Gross Annual Value (being rent received)	1,20,000		
Less: Municipal Tax	(3,000)		
Net Annual Value	1,17,000		
Less: Deduction u/s			
24(a) Standard Deduction	(35,100)		
24(b) Interest on loan	(22,000)	59,900	
HP 2: Self occupied [Sec. 23(2)(a)]			
Net Annual Value	Nil		
Less: Deduction u/s 24(b) Interest on loan	(22,000)	(22,000)	37,900
Capital gains Long term capital gain of minorson [Clubbed u/s 64(1A)]			
Sale consideration		1,00,000	
Less: Cost of acquisition (Indexation benefit is not available on debenture)		(50,000)	

		50,000	
Less: Exemption u/s 10(32)		(1,500)	48,500
Income from other sources			
Interest on Fixed Deposit		5,000	
Interest on Saving Bank Account		6,000	
Interest on deposits in a public limited company		5,000	16,000
Gross Total Income			**2,44,000**
Less: Deduction u/s			
80C#		(39,000)	
80D (Mediclaim insurance premium paid)		(5,000)	
80DD (Assessee has handicapped dependent relative)		(75,000)	
80G (50% of donation to Rajiv Gandhi Memorial Fund)		(5,000)	
80TTA (Interest on Saving Bank Account)		(6,000)	(1,30,000)
Total Income			**1,14,000**
Tax on above			**Nil**

 # Deduction u/s 80C

Particulars	Amount
Insurance premium	8,000
Tuition fees (Burdwan University)	10,000
Housing loan repayment (Maximum)	21,000
Total	**39,000**

QUESTION 39 (WB)

Write short note

- Tax on income from patent u/ s 115BBF
- TDS on income of units of Investment Fund [Sec. 194LBB]
- Business Trust and its taxability
- Meaning of Securitization Trust

Hint: Refer concept book

TRUST

QUESTION 1 (ICAI)

An educational institution having annual receipts of ₹ 3.80 crore during the P.Y. 2025-26, has availed exemption under section 10(23C)(iiiad). The Assessing Officer has denied the exemption on the grounds that the educational institution has not made any application to the prescribed authority for approval under the said section 10(23C)(iiiad). Examine the action of the Assessing Officer in denying the exemption.

Solution:

As per section 10(23C)(iiiad), 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, the action of the Assessing Officer in denying the exemption to the educational institution is not correct.

QUESTION 2 (ICAI)

A not-for-profit trust undertakes philanthropic activities through an educational institution and a hospital. During the P.Y. 2025-26, the trust had annual receipts of ₹ 3 crore from its educational institution and ₹ 4 crore from the hospital. During the P.Y. 2025- 26, it desires to avail exemption under section 10(23C)(iiiad) and 10(23C)(iiiae), as the individual threshold under each of the sub- clauses, is less than ₹ 5 crore. Can it do so? Examine.

Solution:

As per Explanation to section 10(23C) (iiiae), it has been clarified that the limit of annual receipts of ₹ 5 crore is qua 'taxpayer' and not qua 'activity'. Therefore, if the aggregate annual receipts from educational activity and medical activity exceeds ₹ 5 crores, then, exemption under sub-clause (iiiad) and (iiiae) cannot be availed by the trust.

Since, in the present case, the aggregate annual receipt of ₹ 7 crores (₹ 3 crores of educational institution and ₹ 4 crores from hospital) exceeds the threshold of ₹ 5 crores, exemption under section 10(23C)(iiiad) and (iiiae) cannot be availed, even though the individual receipts from educational institution and hospital have not exceeded ₹ 5 crores.

QUESTION 3 (ICAI)

An institution having its main object as "advancement of general public utility" received ₹ 30 lakhs in aggregate during the P.Y.2025-26 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 object of general public utility.

1) What would be the tax consequence of such receipt and application thereof by the institution?
2) Would your answer be different if the institution's total receipts had been ₹ 150 lakhs (instead of ₹ 140 lakhs) in aggregate during the P.Y.2025-26?

3) 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?

Solution:

1) As the main object of the institution is "advancement of object of general public utility", the institution will lose its "charitable" status for the P.Y.2025-26, 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 for the P.Y.2025-26, irrespective of the fact that its approval is not withdrawn or its registration is not cancelled.
2) If the total receipt of the institution is ₹ 150 lakhs, and the institution receives ₹ 30 lakhs in aggregate from an activity in the nature of trade during the P.Y.2025-26, then it will not lose its "charitable" status since receipt of up to 20% of the 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 the course of actual carrying out of such advancement of any other object of general public utility.
3) The restriction regarding carrying on 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 4 (ICAI)

"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 during the previous year ended on 31.03.2026. Would such utilization of its income be treated as utilization for "charitable purpose"? Examine. Would your answer be different, if the main object of the institution is "advancement of object of general public utility"?

Solution:

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 5 (ICAI)

MSO Foundation, a registered charitable institution set up on 1st April, 2024 is engaged in providing education in hotel management. The organization acquires a building in July 2025 for using the same for holding classes and office activities. It has approached you for your opinion on its eligibility to claim the cost of the building and also depreciation thereon in the current year and the subsequent year. Advise the institution indicating the reasons. Would your advice change, if building has been acquired out of loan taken in July 2025 from bank, to be repaid in installments over a period of 7 years?

Solution:

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.

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 from the end of the previous year in which building was acquired. The repayment made upto 31.3.2031 would be eligible to be treated as application in the respective year of repayment. Repayment made thereafter i.e. from 1.4.2031 cannot be treated as application.

Alternatively, since cost of building is not claimed as application, depreciation on such building can be claimed as deduction. However, if deduction in respect of depreciation is claimed, then, it is possible to take a view that repayment of loan may not be eligible to be treated as application.

QUESTION 6 (ICAI)

VPS Foundation, a charitable institution registered under section 12AB set up on 1st August 2023 is engaged in providing education in sports management. The Foundation follows accrual basis of accounting and during the previous year 2025-26, has accrued staff's salary expenses pertaining to the month of March 2026 amounting to ₹ 5 lakhs. The salary was paid during the first week of April 2026. KS, the tax advisor of the foundation has advised them that the salary expenses provided for in the accounts will not be treated as an application of income for the previous year 2025-26. Examine.

Solution:

Upto Assessment Year 2021-22, an expenditure could be regarded as an application of income even if it was not actually paid. However, effective from assessment year 2022-23, Explanation to section 11 provides that any sum payable by an institution shall be considered as an application of income only in the previous year in which such sum is actually paid by it. This is irrespective of the previous year in which the liability to pay such sum is incurred by the institution according to the method of accounting regularly employed by it. Therefore, the tax advisor's statement is correct.

QUESTION 7 (ICAI)

Ramji Charitable Trust has filed return of income for the Assessment Year 2026-27 in December 2026 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. Accordingly, it filed its Statement in Form 10 in August, 2026 and deposited the money so accumulated in post office savings bank account. While completing the assessment, the Assessing Officer disallowed the accumulated income of 35% and taxed the same on the ground that the trust has filed its return of income after the due date for filing return of income. Discuss the validity of the action of the Assessing Officer in this case.

Solution:

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 the purpose and the period (not exceeding 5 years). The application should be filed or furnished before the assessing authority two months prior to the due date specified under section139(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).

In case the statement in Form 10 is submitted in August, 2026 and the amount accumulated was deposited in post office savings bank account, which is a mode specified in section 11(5). However, the benefit of accumulation would not be available if the return of income is not furnished on or before the due date of filing of return of income under section 139(1). In this case, trust has not filed its return on or before the due date under section 139(1). The return of income was filed only in December, 2026. Therefore, the action of the Assessing Officer, in this case, is valid.

QUESTION 8 (ICAI)

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 the business activity. Examine the taxability of application of the income, if the income so derived relates to the previous year 2025-26.

Solution:

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 9 (ICAI)

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 lakhs 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 during the P.Y. 2025-26 was ₹ 140 lakhs.

Examine the taxability of application of the income, if the income so derived relates to the previous year 2025-26. 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?

Solution:

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 the definition of "charitable purpose" i.e. advancement of object of general public utility. It does not affect the other limbs of the definition viz. "relief of the poor", "education", "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 10 (ICAI)

XYZ Charitable Trust is an educational institution registered under section 12AB of the Income-tax Act. During the Financial Year 2025-26, the trust receives a corpus donation of ₹ 25 lakhs with a specific direction that the corpus fund should be utilized for setting up a science laboratory. The trust intends to set up the lab only during P.Y. 2027-28 and will utilize the funds only during that financial year. In this regard, the trust wants to understand whether the corpus donations are exempt u/s 11(1)(d) of the Income-tax Act, 1961

Solution:

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 by the trust, such corpus donations must be invested or deposited in one or more of the forms or modes specified in section 11(5). Failure to deposit the same in the prescribed modes, will result in inclusion of corpus donation as an income of the XYZ Charitable trust.

QUESTION 11 (ICAI)

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. 2026-27. It approaches you in October, 2025. Total income of the trust for P.Y. 2023-24 and P.Y. 2024-25 was ₹20L and ₹45L, respectively. Advise the trust as to the time limit for making an application for registration, time limit for granting approval by the Principal Commissioner or Commissioner and the period for which the approval is valid.

Solution:

In order to avail the exemption under section 11, the trust has to obtain registration under section 12AB read with section 12A(1)(ac). From 1.10.2023, 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 31.3.2026 to avail the exemption for A.Y. 2026-27. Accordingly, the time limit for making application, time limit for granting registration and period of validity would be as follows:

S. No.	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 the 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 12 (ICAI)

Help All, a trust created on 1st April 2024 for providing relief to the poor, applied for registration under section 12AB on 28th 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.

Solution:

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 features 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 have 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 13 (ICAI)

Work out, from the following particulars, the amount of capital gain which shall be deemed to have been applied for charitable or religious purpose arising out of sale of a capital asset utilized for the purposes of trust to the extent of 60%:

Particulars	₹
Cost of transferred asset	2,40,000
Sale consideration	3,60,000
Cost of new asset purchased	3,00,000

Solution

In this case, since the asset which is transferred is utilized for the purposes of the trust only to the extent of 60%, only the proportionate amount (i.e., 60%) of the capital gain would be regarded as having been applied for charitable or religious purposes.

As per section 11(1A), where a capital asset held under trust is transferred, and only a part of the net consideration is utilized for acquiring a new capital asset, only so much of the capital gain as is equal to the amount, if any, by which the amount so utilized exceeds the cost of the transferred asset shall be considered to have been applied for the objects of the trust.

In this case, only a part of the net consideration of ₹ 3,60,000 is utilized for acquiring the new capital asset costing ₹ 3,00,000. The amount utilized in acquiring the new asset (i.e., ₹ 3,00,000) exceeds the cost of the transferred asset (i.e., ₹ 2,40,000) by ₹ 60,000.

Therefore, only 60% of (₹ 3,00,000 – ₹ 2,40,000) = 60% of ₹ 60,000 = ₹ 36,000 is deemed to be applied for the objects of the trust.

QUESTION 14 (ICAI)

SR Trust is a registered charitable trust under section 12AB. During the P.Y.2025-26, the trust had applied ₹ 5 lakh for the benefit of the trustee and ₹ 3 lakh for the benefit of Mr. Satish, who has donated ₹ 15 lakh to the trust upto 31.3.2026. Also, an amount of ₹ 2 lakh set apart in the P.Y.2023-24 by the trust for charitable purposes u/s 11(2) has been utilized in the P.Y.2025-26 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 for A.Y. 2026-27?

Solution:

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 upto 31.3.2026 is more than ₹ 1,00,000). 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 for A.Y. 2026-27 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 15 (ICAI)

The following trusts claim that anonymous donations received by them during the financial year 2025-26 are not liable to tax under section 115BBC:

1) 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.
2) A trust established wholly for religious purposes which applied 85% of the 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.

Solution:

1) 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 the 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 under section 115BBC. As such, application of the anonymous donations received by the charitable trust for charitable purposes does not confer any exemption from tax. Therefore, the 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.

2) 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 16 (SM)

Compute taxable income of a charitable trust for the A.Y 2026-27 under the following cases:

Particulars	Case 1	Case 2	Case 3
Income other than voluntary contribution	4,00,000	5,00,000	15,00,000
Voluntary contribution	1,00,000	80,000	2,00,000
Voluntary contribution in the corpus of the trust	2,00,000	1,50,000	5,00,000
Income applied for the purpose for which trust is created	4,50,000	4,93,000	2,00,000

Solution:

Computation of taxable income of the charitable trust for the A.Y 2026-27

Particulars	Amount		
	Case 1	Case 2	Case 3
Income other than voluntary contribution	4,00,000	5,00,000	15,00,000
Add: Voluntary contribution	1,00,000	80,000	2,00,000
Total income of the trust	5,00,000	5,80,000	17,00,000
Less: 15% Free accumulation	(75,000)	(87,000)	(2,55,000)
Balance	4,25,000	4,93,000	14,45,000
Less: Income exempted to the extent applied for the purpose	(4,25,000)	(4,93,000)	(2,00,000)
Total Income	Nil	Nil	12,45,000
Note: Contribution in corpus of the trust shall not be treated as income of the trust.			

QUESTION 17 (WB)

Bangor Charitable Trust has earned income of ₹ 70 lacs during the previous year 2025-26. It has applied the income of ₹ 15 lacs, during the previous year 2025-26 and also applied before the due date u/s 139(1) for deferment of application of income of -

Case 1) ₹ 32 lacs

Case 2) ₹ 45 lacs

- as such income has not yet been received by the trust.

During the previous year 2027-28 such income is received and applied as under

Amount applied for charitable purposes		
Previous Year	Case 1	Case 2
2027-28	₹ 12 lacs	₹ 15 lacs
2028-29	₹ 11 lacs	₹ 10 lacs
2029-30	₹ 9 lacs	₹ 20 lacs

Compute taxable income of the A.Y. 2026-27 and 2029-30

Solution:

Computation of income of Bangor Charitable Trust for the A.Y.2026-27

Particulars	Amount (in Lakes)	
	Case 1	Case 2
Income earned	70	70
Less: Free accumulation of income @ 15%	(10.5)	(10.5)
Balance	59.5	59.5
Less: Application of income during the previous year	(15)	(15)
	44.5	44.5
Less: Amount for which deferment is allowed [Max. of taxable income before deferment]	(32)	(44.5)
Taxable income	**12.5 lacs**	**Nil**

Computation of income of Bangor Charitable Trust for the A.Y.2029-30

Particulars	Amount	
	Case I	Case II
Amount deferred in the P.Y. 2025-26 and are to be applied till P.Y.2028-29 i.e. one year after the year in which such income is received	32	44.5
Less: Amount applied before 31/3/2029	(23)	(25)
Taxable income	**9**	**19.5**

QUESTION 18 (ICAI)

An institution operating for promotion of education claiming exemption under section 11 since 1994 furnishes the following data for the assessment year 2026-27:

S. No.	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 within the next 4 years.	4

Compute the total income of the institution for the A.Y.2026-27.

Solution:

Computation of total income of the institution for the A.Y. 2026-27

Particulars	₹ (in crores)
Fees received	14.00
Less: 15% (exempt even if not spent for the objects of the institution)	(2.10)
	11.90
Less: Amount applied for charitable purposes	
Actual amount spent on construction of computer science lab	0.50
(See Note 1)	
Actual amount spent on purchase of land for cricket field (See Note 1)	2.00
	2.50
	9.40
Less: Accumulated for specified purpose (See Note 2)	(4.00)
Total Income	5.40

Notes:

1) The institution must utilize 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 the 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 forms and modes specified in section 11(5). In this case, the institution has to furnish statement in Form 10 two months prior to the due date of filing return of income to the 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, the institution has to invest ₹ 4 crore in the specified forms and modes.

QUESTION 19 (ICAI)

A public charitable trust registered under section 12AB, for the previous year ending 31.3.2026, derived gross income of ₹ 21 lakhs, which consists of the following:

	(₹ in Lacs)
(a) Income from properties held by trust (net)	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. The entire expenditure incurred

on construction of orphanage was allowed as application of income in the P.Y. 2020-21.

Determine the taxable income of the trust for the assessment year 2026-27.

Solution:

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
	Voluntary contribution made with a specific direction towards corpus are alone to be excluded under section 11(1)(d). In this case, there is no such direction and hence, included.	
		21,00,000
	Less: 15% of the income eligible for retention / 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 (See Note below)	-
	Taxable Income	9,85,000

Note - As per Explanation 4(ii) to section 11(1), any application for charitable or religious purposes, from any loan or borrowing in the concerned year, shall not be treated as application of income for charitable or religious purposes. However, the amount not so treated as application, shall be treated as application in the year in which the loan is repaid. The Fourth proviso to Explanation 4(ii) to section 11(1) clarifies that this provision will, however, not apply where application is from loan or borrowing made on or before 31.3.2021. Since the amount spent on construction of orphanage was allowed as deduction in the P.Y. 2020-21, repayment of loan taken for such purposes will not be allowed as application as it would tantamount to double deduction.

QUESTION 20 (ICAI QP SEP 2025)

A public charitable trust engaged in "Relief of Poor" and registered under section 12AB, for the previous year ending 31.3.2026, derived gross income of ₹ 114.50 lacs, which consists of the following:

Particulars	Amount in ₹
Income from properties held by trust	1,10,00,000
Accrued interest on FDR [FDR was made in financial years 2023-24 for investment under section 11(5) with regard to amount set apart in terms of section 11(2)	4,50,000

During the financial year, the trust applied a sum of ₹ 86 lacs towards charitable purposes, as per the objects of the trust, which includes:

- Electricity bill amounting to ₹ 80,000 paid on 18.04.2025 pertaining to March 2025. The trust

follows the mercantile system of accounting.

- Amount of ₹ 4,72,000 (including GST of ₹ 72,000) paid to M/s. XYZ and Co, an event management company, for advertising and organising a fundraising programme at Delhi. The full amount of ₹ 4,72,000 was remitted to M/s. XYZ and Co through RTGS on 1.3.2026.
- ₹ 5,00,000 paid to M/s Parivartan, another charitable trust having same objects, by way of donation (other than corpus donation).

Additional information

The trust received a sum of ₹ 8 lacs as corpus donation for constructing a playground for poor children in F.Y. 2024-25. It spent ₹ 8 lacs in F.Y. 2025-26 for constructing the same. You are required to compute the total income of the Charitable trust for the A.Y. 2026-27.

Solution:

Computation of total income of charitable trust for the A.Y.2026-27

Particulars	₹	₹
Income from properties held by trust	1,10,00,000	
Add: Accrued interest on FDR	4,50,000	
Less: 15% of income eligible for being set apart without any condition		1,14,50,000
		(17,17,500)
Less: Amount applied for charitable purposes		97,32,500
- Electricity bill of ₹ 80,000 pertaining to March 2025 [Treated as application as payment is made in P.Y. 2025-26]	80,000	
- Payment to event management company [₹ 1,20,000 (i.e. @ 30% of ₹ 4,00,000 being the amount excluding GST of ₹ 72,000) is not considered as application on account of non-deduction of TDS. Accordingly, ₹ 3,52,000 [₹4,72,000 -₹ 1,20,000] would be allowed as application.	3,52,000	
- Donation to another charitable trust having same objects (other than corpus) [85% of amount contributed would be treated as application]	,25,000	
- Other application [₹ 86 lakhs – ₹ 80,000 – ₹ 4,72,000 – ₹ 5,00,000]	75,48,000	
- Amount spent on construction of playground [Any application made from corpus donation, being exempt income shall not be treated as application of income]	Nil	
		84,05,000
Total Income of the trust		**13,27,500**

Note – Alternative Presentation

Computation of total income of charitable trust for the A.Y.2026-27.

Particulars	₹	₹
Income from properties held by trust	1,10,00,000	
Add: Accrued interest on FDR	4,50,000	

		1,14,50,000
Less: 15% of income eligible for being set apart without any condition		(17,17,500)
		97,32,500
Less: Amount applied for charitable purposes		
Total amount spent		
Less: Amount not considered as applied	86,00,000	
- Electricity bill of ₹ 80,000 pertaining to March 2025 [Treated as application as payment is made in P.Y. 2025-26, hence no adjustment is required]	Nil	
- Payment to event management company [₹ 1,20,000 (i.e. @ 30% of ₹ 4,00,000, being the amount excluding GST of ₹ 72,000) is not considered as application on account of non-deduction of TDS]	(1,20,000)	
- Donation to another charitable trust having same objects (other than corpus) [85% of amount contributed would be treated as application and balance 15% is not considered as application (15% of ₹ 5,00,000).	(75000)	
Amount applied for charitable purposes		**84,05,000**
Amount spent on construction of playground [Any application made from corpus donation, being exempt income shall not be treated as application of income]		NIL
Total Income of the trust		13,27,500

QUESTION 21 (ICAI)

Helpage is a charitable trust set up on 1.4.2010 with the object of providing relief to the poor. Later on, in April, 2012, it changed its object to medical relief. It applied for registration on the basis of its new object, i.e., medical relief, on 1.9.2012 and was granted registration under Section 12AA on 1.2.2013.

On 1.4.2025, Helpage got merged with Poor Aid, is not eligible for registration under section 12AB or approval under section 10(23C). All the assets and liabilities of the erstwhile trust became the assets and liabilities of Poor Aid. 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:

1. Land

Location	Date of purchase	Stamp duty value on 1.4.2025	Value which the land would fetch, if sold in the open market on 1.4.2025	Book Value on 1.4.2025
		₹	₹	₹
Noida	1.9.2010	55 lakhs	58 lakhs	50 lakhs
Gurgaon	1.9.2013	100 lakhs	120 lakhs	110 lakhs

2. Shares

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 1.4.2025		Open market value as on 1.4.2025 #
				Highest price	Lowest price	
		₹	₹	₹	₹	₹
5000 Quoted equity shares of A Ltd.	1.5.2014	100	110	320	300	
2000 Preference shares of B Ltd.	1.9.2015	100	100	-	-	180

on the basis of report of Merchant Banker

3. **Liabilities**

Book value of liabilities on 1.4.2025 = ₹ 120 lakhs. This includes –

a) Corpus fund ₹ 12 Lakhs.

b) Provision for taxation ₹ 8 lakhs; and

c) Reserves and Surplus ₹ 18 lakhs

Solution:

As per section 115TD, the accreted income of "Helpage", a charitable trust, registered under section 12AA which is merged with Poor Aid, an entity not entitled for registration under section 12AB or approval under section 10(23C), 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 Poor Aid

Particulars	Amount (₹)
Aggregate FMV of total assets as on 1.4.2025, 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]**	82,00,000
Accreted Income	57,10,000
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 1.9.2010** Since the trust was registered only on 1.2.2013 and benefit of section 11 and 12 was available to the trust only from A.Y.2013-14, relevant to P.Y.2012-13, being the previous year in which the application for registration is made, the value of land purchased in P.Y.2010-11, in respect of which benefit under sections 11 and 12 was not availed, has to be ignored for computing accreted income.	-

- **Land at Gurgaon, being an immovable property, purchased on 1.9.2013** [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, i.e., 1.4.2025]	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 i.e., FMV on 1.4.2025]	3,60,000
	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]	82,00,000
	82,00,000

QUESTION 22 (ICAI)

"Serving the poor", a charitable trust, is registered under section 12AB of the Act. On 1.4.2025, it got merged with another entity not eligible for registration under section 12AB or approval under section 10(23C).

All the assets and liabilities of the erstwhile trust became the assets and liabilities of the merged entity.

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:

1) 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.
2) 75,000 equity shares in Ink Ltd. traded in Delhi Stock Exchange. The lowest price per share on 1.4.2025 was ₹ 75 and the highest price on that day was ₹ 85. The book value was ₹ 67 lakhs.
3) 55,000 preference shares held in N Ltd. The shares will fetch ₹ 44 lakhs, if they are sold in the open market on 1.4.2025. Book value was ₹ 25 Lakhs.
4) Corpus fund as on 1.4.2025 ₹ 15 Lakhs.
5) Outside liabilities ₹ 90 lakhs
6) Provision for taxation ₹ 5 lakhs.
7) Liabilities in respect of payment of various utility bills ₹ 6 lakhs.

Solution:

As per section 115TD, the accreted income of "Serving the poor", a charitable trust, registered under section 12AA which merged with an entity not entitled for registration under section 12AB or approval under section 10(23C), 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 the "not eligible" entity for A.Y. 2026-27

Particulars	Amount (₹)
Aggregate FMV of total assets as on 1.4.2025, 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:	
(1) Aggregate fair market value of total assets on the date of merger	
- **Land, being an immovable property** [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]	17,00,000
- **Quoted equity shares in Ink Ltd. [75,000 x ₹ 80 per share]** [₹ 80 per share, being the average of the lowest (₹ 75) and highest price (₹ 85) of such shares on the date of merger]	60,00,000
- **55,000 preference shares of N Ltd.** [The fair market value which it would fetch if sold in the open market on the date of merger i.e., FMV on 1.4.2025]	44,00,000
	1,21,00,000
(2) Total liability	
- 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

TAX PLANNING

QUESTION 1 (WB)

Write notes on Tax Evasion and Tax Avoidance?

Solution:

- **Tax Avoidance:** Tax avoidance means taking undue advantage of the loopholes, lacunae or drafting mistakes for reducing tax liability and thus avoiding payment of tax which is lawfully payable. Generally, it is done by twisting or interpreting the provisions of law and avoiding payment of tax. Tax avoidance considers the loopholes of law. Though it has a legal sanction, it means following the provisions of law in letter but killing the spirit of the law.

  Example: Sale and leaseback of assets, so that the depreciation is diverted but the asset remains with Assessee.

- **Tax Evasion:** Tax evasion means avoiding tax by illegal means. Generally, it involves suppression of facts, falsifying records, fraud or collusion. It is an attempt to evade tax liability with the help of unfair means. Tax evasion is illegal and would result in punishment by way of penalty, fines and sometimes prosecution.

  Example: Record bogus expenses etc.

QUESTION 2 (PEQ)

Specify whether the following acts can be considered as an act of

(i) Tax management; or
(ii) Tax planning; or
(iii) Tax evasion:

a. X has paid the premium of ₹ 72,000 for Life Insurance Policy so as to reduce Total Income.
b. X has installed an air conditioner costing ₹ 60,000 at his residence but shows as it is fitted in a factory. This is with the objective to claim depreciation.
c. Y Ltd maintains registers of tax deductions affected by it to enable timely compliance.
d. Z ltd issues a credit note for ₹ 36,000 for brokerage payable to A, who is the son of G, managing director of the company. The purpose is to reduce Z ltd. income and increase A's income from ₹ 18,000 to ₹ 54,000.
e. A is a working partner in ABC Firm. In such a capacity, he is entitled to a salary of ₹ 7,500 per month. He treats this as salary instead of business income.
f. A is using a motor car for his personal purposes, but charges as business expenditure.
g. X always pays advance tax on time.
h. Y sell his residential house and purchased another residential house to claim exemption u/s 54.
i. X had Fixed deposit interest amounting to ₹ 15,000 but did not disclose this amount in his Income Tax Return.
j. Y had Saving deposit interest amounting to ₹ 5,000, he disclosed this amount under other sources and claimed deduction u/s 80TTA.

Solution:

a. Tax planning;
b. Tax evasion;
c. Tax management;

d. Tax evasion;
e. Tax evasion;
f. Tax evasion
g. Tax management;
h. Tax planning;
i. Tax evasion;
j. Tax planning.

QUESTION 3 (PEQ)

State with brief reason, whether the following would fall in the category of tax planning, tax avoidance or tax evasion:

a) Setting up of a liaison office in India by a foreign company, instead of a full-fledged establishment to run its business activities in India;
b) Investment in bonds approved under section 54EC;
c) Claiming depreciation of business purpose for a solar power generation system installed in the residential premises of proprietor;
d) A Hindu undivided Family (HUF) engaged in business, paid salary to family members who were actually involved in day-to-day business activities of the HUF.

Solution:

a) Setting up of a liaison office in India by a foreign company, instead of a full-fledged establishment to run its business activities in India: This is an act of **tax planning.** The underlying intention is to reap the benefit of the DTAA instead of coming under the clutches of section 9 of the Act, and to thus plan for lower tax in the long run.
b) Investment in bonds approved u/s. 54EC it is an act of **tax planning**. Investment in section 54EC bond is a genuine investment to reduce/mitigate incidence of tax on capital gain. Hence, it is tax planning.
c) Claiming depreciation on an asset used for personal purposes as a business asset is an act of **Tax evasion**. Depreciation is allowable only for assets used for business purposes. Even though the asset is installed at residence, showing it as a business asset and claiming depreciation with a view to evade tax, constitutes tax evasion.
d) When HUF pays salary to members for their Individual effort to take care of the affairs of the business, it is a fair compensation permissible in law. Such salaries paid are permissible deductions. Therefore, it is a case of **tax planning**.

QUESTION 4 (PEQ)

State with brief reason, whether the following would fall in the category of tax planning, tax management or tax evasion:

a) Aditya Ltd. Had to pay ₹60 lakhs by way of income tax consequent to scrutiny assessment under sec 143(3) completed in May, 2025. It paid the amount of tax demanded immediately and filed appeal before CIT(A).
b) Julian Ltd. Contemplating to incorporate a 100% subsidiary company for treating bio degradable

waste for generation of power.

c) Thora (age 62 years) having own funds of ₹ 10 lakhs deposited it in senior citizen savings scheme and for the purpose of purchase of electric vehicle borrowed money from bank

d) Rishabh Co Ltd selling its goods to Warner Ltd (its subsidiary) @90% of cost to enable Warner Ltd to earn profits.

Solution:

a) The company in this case had to pay the tax demand within 30 days as per section 156. By making payment it avoided being treated as Assessee-in-default and also levy of interest under section 220 in case the appeal is decided against it. This is a case of effective **tax management** by paying the tax and blocking the levy of interest which may arise in case the appeal is decided against it.

b) When a company incorporates a subsidiary company for the purpose of treating bio degradable waste for generation of power the subsidiary company would be eligible for deduction under section 80JJA @100% of the profits for a period of 5 consecutive assessment years beginning with the assessment year relevant to the previous year in which such business commences.

Thus, establishing a unit by incorporating a subsidiary company for treating bio- degradable waste is an act of **tax planning.**

c) The amount deposited in Senior Citizen Savings Scheme would fetch interest income which is liable to tax after a deduction of ₹ 50,000 under section 80TTB. The money borrowed for the purpose of purchase of electric vehicle would entitle the assessee to claim interest thereon under section 80EEB up to a maximum of ₹ 1,50,000. Thus, the taxpayer has resorted to **tax planning.**

d) When a company sells goods to its subsidiary company at less than cost deliberately it would mean that it is transferring its profits thereby. Thus, transfer of goods to subsidiary company below cost is intended to transfer profits and thereby resort to **tax evasion.**

QUESTION 5 (WB)

In respect of the following independent transactions undertaken during the previous year 2025-26, state whether they are tax planning or tax management or tax evasion:

a) Filing ITR before the 'due date' in order to carry forward business loss.
b) Setting up of a warehouse to avail tax benefit under section 35AD.
c) Payment of medical insurance premium of ₹ 45,000 for a parent, aged 76.
d) Collecting PAN Details of contractors to whom TDS as per section 194C is to be made.
e) Recording in the books of account, salary payment to J, who is not actually employed by the assessee.
f) Paying advance tax instalments in accordance with section 211.
g) Gifting a property to major son in order to divert rental income so that it is taxed at a lower slab rate.

Solution:

a) Filing ITR before the due date for availing carry forward benefit of business loss is **Tax management.**

b) Setting up of a warehouse to avail tax benefit u/s 35AD – **Tax planning.**

c) Payment of medical insurance premium of D 45,000 for a parent, aged 76 – **Tax planning.**

d) Collecting PAN Details of contractors to whom TDS as per section 194C is to be made – **Tax management.**

e) Recording in the books of account, salary payment to J, who is not actually employed by the assessee – **Tax evasion.**

f) Paying advance tax instalments in accordance with section 211. – **Tax management.**

g) Gifting a property to major son in order to divert rental income being taxed at a lower rate of tax – **Tax planning.**

QUESTION 6 (WB)

Classify the following acts into: Tax Management or Tax Planning or Tax Evasion

a) Mr. A pays health insurance premium for himself and his family and claims deduction under section 80D.

b) Mr. B submits Form 15G though his income exceeds the basic exemption limit, to avoid TDS.

c) Mr. C maintains proper records of TDS deducted from employees' salaries and deposits the tax on time.

d) Mr. D invests ₹1,50,000 in PPF to reduce tax liability under section 80C.

e) M/s E Ltd. creates fictitious entries of rent paid to director's relative to reduce net income.

f) Mr. F forgets to file his return by the due date but files it before the end of assessment year.

g) Mr. G sells agricultural land located in the rural area and claims it as exempt income.

h) Mr. H claims business depreciation on his personal car by including it in the block of assets.

i) Mr. I calculates advance tax liability and pays instalments before due dates.

j) Mr. J earns ₹4,000 as interest from the savings account and claims a deduction under section 80TTA.

Solution:

a) Tax Planning.
Justification: Legal way to reduce taxable income by claiming permissible deductions.

b) Tax Evasion
Justification: Willful false declaration to avoid tax deduction is a punishable offence.

c) Tax Management
Justification: Compliance measures to fulfill legal obligations in time.

d) Tax Planning
Justification: Optimizing investments to avail tax benefits legally.

e) Tax Evasion
Justification: Intentional false entries were made to reduce income unlawfully.

f) Tax Management
Justification: Late filing but still within permissible time under section 139(4) – procedural compliance.

g) Tax Planning
Justification: Proper application of provisions to structure the transaction in a tax- exempt manner.

h) Tax Evasion
Justification: False claim for personal expense is a clear misrepresentation.

i) Tax Management
Justification: Ensures timely discharge of tax obligations.

j) Tax Planning
Justification: Rightly disclosing income and claiming eligible deduction.

QUESTION 7 (WB)

Write short notes on Approaches of tax planning?

Solution:

- **Reducing taxable income:** As a rule, higher the income or profit, higher the tax liability on such income or profit. Gross income is total profits or income from all sources, and taxable income is such gross income less adjustments allowable under various tax laws and other provisions.
- **Deferring payment of taxes to the extent possible:** An underestimated dimension of tax planning is timing investments and financial transactions so that the tax liability for such transactions arises at the farthest possible time.

While this does not reduce the amount of tax payable, it delays tax outgo. Individuals may not need to resort to such a strategy, but delayed pay-out is valuable for small businesses that very often face cash flow difficulties.

QUESTION 8 (WB)

Write short notes on Objectives of tax planning?

Solution:

The basic objectives of tax planning are

- ✓ Reduction of Tax liability
- ✓ Minimization of litigation
- ✓ Productive investment
- ✓ Healthy growth of economy
- ✓ Economic stability

QUESTION 9 (WB)

What are the essentials of tax planning?

Solution:

- **Up-to-date Knowledge** of tax laws along with circulars, notifications, clarifications and administrative instructions issued by the CBDT.
- **Disclosure of full and true** material information
- **Avoid sham transactions** or make- believe transactions or colorable devices
- Foresight of future development or changes and enterprise's goal. The planning should be **flexible** enough to adjust statutory negation.

QUESTION 10 (WB)

Write short notes on Types of tax planning?

Solution:

a) **Short-range and long-range tax planning:**

Short- range planning refers to planning to achieve some specific or limited objective of particular fiscal year.

E.g., Assessee whose income is likely to register unusual growth in particular year as compared to the preceding year, may plan to subscribe to the PPF/NSC's within the prescribed limits in order to enjoy substantive tax relief.

Long range planning involves entering into activities, which may not pay off immediately. **E.g.,** when

an Assessee transfers his equity shares to his minor son, he knows that income from shares will be clubbed with his own income. But clubbing would cease after his son attains majority.

b) **Permissive tax planning:** Permissive tax planning is tax planning under the express provisions of tax laws. Tax laws of our country offer many exemptions and incentives.

c) **Purposive tax planning:** Purposive tax planning is based on the basis of circumvention of the law. The permissive tax planning has the express sanction of the Statute while the purposive tax planning does not carry such sanction.

E.g., if Assessee manages his affairs in such way that his income is taxable in the hands of other person without attracting clubbing provision.

QUESTION 11 (SM)

Mr. A owned two residential houses for his own residential purpose, details of which are as follows –

Particulars	House 1	House 2
Gross Annual value	4,00,000	5,00,000
Municipal tax (paid)	2,000	10,000
Interest on loan taken for construction of house	20,000	25,000

On 1/4/2025, Mr. A gifted ₹ 25,00,000 to her wife. Out of such money, she acquired a house property for her own residential purpose. The new house has a gross municipal value of ₹ 2,50,000. She paid a corporation tax of ₹ 2,000. Compute income from house property of Mr. & Mrs. A. (Assume that Mrs. A does not own any other property). Assume that he has opted for old tax regime.

Solution:

Computation of income from house property of Mr. A for the A.Y. 2026-27

Particulars	Amount
Self-occupied house properties	
Net Annual Value	Nil
Less: Deduction	
24(b) Interest on loan [₹ 25,000 + ₹ 20,000]	45,000
	(45,000)
Add: Income of Mrs. A clubbed u/s 64(1)(iv)	Nil
Income from house property	**(45,000)**

Computation of income from house property of Mrs. A for the A.Y. 2026-27

Particulars	Amount
Self-occupied house	
Net Annual Value	Nil
Less: Deduction	
24(b) Interest on loan	Nil
	Nil
Less: Income clubbed u/s 64(1)(iv) with the income of Mr. A	Nil
Income from house property	**Nil**

QUESTION 12 (PEQ)

Amar (aged 35) owns 2 residential house properties, of which, one is used for own residential purpose and the other is let out for a monthly rent of ₹ 50,000. He bought these houses by taking housing loan from SBI. During the financial year 2025-26, he paid interest on housing loan amounting to ₹ 2,50,000 each for both the houses and total principal repayment of ₹ 2,00,000. He is doing business by name Mercury Traders in which His income (computed) amounts to ₹ 11,80,000.

Determine his income as per section 115BAC and regular provisions. Also suggest which one should be opted by Amar for the assessment year 2026-27.

Solution:

Total income and tax payable as per normal provisions (Old regime)

Particulars	Amount	Amount
Income from House property (Let out)		
Rent Received (50,000 x 12M)	6,00,000	
Less: Standard Deduction @30%	(1,80,000)	
Less: Interest on Loan	(2,50,000)	
		1,70,000
Income from House property (Self-occupied)		
Rent Received	Nil	
Less: Interest on Loan (Restricted to ₹ 2,00,000)	(2,00,000)	(2,00,000)
Income/ (loss) from house property		**(30,000)**
Income from Business – Mercury Traders (computed)		**11,80,000**
Gross total income		**11,50,000**
Less: Deduction under section 80C in respect of housing loan principal repaid		(1,50,000)
Total income		10,00,000
Computation of tax liability		
Tax on 10,00,000	1,12,500	
Add: Cess @4%	4,500	
Total tax payable as per normal provisions		1,17,000

Total income and tax payable as per default tax regime u/s 115BAC.

Particulars	Amount	Amount
Income from House property		
Income from house property (Self-occupied))	Nil	
Income from house property (let out) as computed above	1,70,000	1,70,000
Income from business		11,80,000
Total income as per section 115BAC		**13,50,000**

Computation of tax liability		
Tax on 13,50,000(4L x 5% + 4L x 10% +1.5L x 15%)	82,500	
Add: Cess @4%	3,300	
Total tax payable as per section 115BAC		85,800

Since, the total tax payable is Lower in new regime i.e., section 115BAC, then Amar should opt section 115BAC.

Note: if Assessee opted Sec 115BAC, Then Sec 80C Deduction is not available.

QUESTION 13 (PEQ)

A business entity requires ₹ 50 lakhs for expansion of business. The entity has three options

Particulars	Option 1	Option 2	Option 3
	(₹)	(₹)	(₹)
Equity Share of ₹ 10 each	40,00,000	30,00,000	30,00,000
12% Debentures	10,00,000	10,00,000	20,00,000
18% Loan from Bank	-	10,00,000	-

Expected rate of return is 15% (before tax). Tax Rate is 31.2% (including Cess).

On the basis of aforesaid information, you are requested to choose correct options for the following:

a) What will be the profit after tax in Option 1?

b) What will be the profit after tax in Option 2?

c) What will be the profit after tax in Option 3?

d) Which option is better?

Solution:

Particulars	Option 1	Option 2	Option 3
Share Capital	40,00,000	30,00,000	30,00,000
12% Debentures	10,00,000	10,00,000	20,00,000
18% loan from Bank	—	10,00,000	
Total	**50,00,000**	**50,00,000**	**50,00,000**
EBIT	**7,50,000**	**7,50,000**	**7,50,000**
Cost to Company			
Debenture Interest	(1,20,000)	(1,20,000)	(2,40,000)
Interest on loan from Bank	—	(1,80,000)	--
Net Profit before tax and dividend	**6,30,000**	**4,50,000**	**5,10,000**
Tax Payable @ 31.2%	(1,96,560)	(1,40,400)	(1,59,120)
Profit after tax	**4,33,440**	**3,09,600**	**3,50,880**
Return on capital (PAT/Share Capital)	10.84%	10.32%	11.70%

Option 3 is better as in this option return on capital is maximum.

QUESTION 14 (SM)

Virat Ltd. is a widely held company. It is currently considering a major expansion of its production facilities and the following alternatives are available:

Particulars	Alt-1(₹)	Alt-2(₹)	Alt-3(₹)
Share capital	50,00,000	20,00,000	10,00,000
14% Debentures	—	20,00,000	15,00,000
18% Loan from Bank	—	10,00,000	25,00,000

Expected rate of return before tax is 30%. Rate of dividend of the company since 1995 has not been less than 22% and date of dividend declaration is 30th June every year. Which alternative should the company opt with reference to tax planning?

Solution:

Computation of Net Benefit in different Alternative

Particulars	Alt - 1	Alt - 2	Alt - 3
Share Capital	50,00,000	20,00,000	10,00,000
14% Debentures	—	20,00,000	15,00,000
18% loan from Bank	—	10,00,000	25,00,000
Total	**50,00,000**	**50,00,000**	**50,00,000**
EBIT	**15,00,000**	**15,00,000**	**15,00,000**
Cost to Company			
Debenture Interest	—	(2,80,000)	(2,10,000)
Interest on loan from Bank	—	(1,80,000)	(4,50,000)
Net Profit before tax and dividend	**15,00,000**	**10,40,000**	**8,40,000**
Tax Payable @ 31.2%	(4,68,000)	(3,24,480)	(2,62,080)
Profit after tax	**10,32,000**	**7,15,520**	**5,77,920**
Less: Dividend @ 22%	(11,00,000)	(4,40,000)	(2,20,000)
Profit after cost of capital	**(68,000)**	**2,75,520**	**3,57,920**

Hence, Alt-3 is better.

QUESTION 15 (PEQ)

Following are the details of income of Chaturvedi (age 45) for the previous year 2025- 26:

Particulars	₹
(i) Salary income before standard deduction	8,20,000
(ii) Self-occupied property – Interest on housing loan to SBI	(2,20,000)
(iii) Interest on fixed deposits with Canara Bank	1,10,000
(iv) Savings Bank interest	20,000
(v) Recognised Provident Fund contribution	1,20,000
(vi) Housing loan principal repaid	80,000

Compute total income and tax liability of Chaturvedi under regular provisions and section 115BAC and suggest which one is to be opted for assessment year 2026-27.

Solution:

Computation of Total Income & Tax Liability

Particulars	Default Regime u/s 115BAC	Old Regime
Income from salaries		
Gross salary	8,20,000	8,20,000
Less: Standard Deduction	(75,000)	(50,000)
Net salary	**7,45,000**	**7,70,000**
Income from H.P	-	(2,00,000) [Restricted ₹ 2,00,000]
Income from other sources	1,30,000	1,30,000
Gross Total income	**8,75,000**	**7,00,000**
Less: Chapter VIA deductions **Sec 80C** RPF – 1,20,000 Principal Repaid – 80,000	-	(1,50,000) Restricted
80TTA	-	(10,000)
Net Total Income	**8,75,000**	**5,40,000**
Tax	Nil After claiming Rebate u/s 87A.	20,500 (2.5L x 5% + 40,000 x 20%)
Add: Cess @ 4%	-	820
	-	**21,320**

Comment: Tax liability under default tax regime is NIL, opting of default tax regime is beneficial for assessee.

QUESTION 16 (PEQ)

Anand, an Indian resident, aged 52 years, gives the following information for the year ended 31st March, 2026:

(i) Income from manufacturing business (as per Profit and Loss Account) ₹ 10,60,000
(ii) Depreciation as per Books ₹ 56,000
(iii) Depreciation as per Income Tax Act ₹ 77,000 (includes additional depreciation of ₹ 11,000)
(iv) Loss from speculation business ₹ 1,25,000
(v) Public Provident Fund investment ₹ 1,50,000
(vi) Medical insurance premium paid for self and spouse ₹ 35,000

Compute the total income of Anand both as per default regime and normal provisions of the Act. Decide which option is better for Anand.

Solution

Computation of total Income & tax payable

Particulars	Default tax regime u/s 115BAC	Old Regime
PGBP:		
Profit as per P&L A/c	10,60,000	10,60,000
Add: Depreciation as per books	56,000	56,000
Less: Normal Depreciation	(66,000)	(66,000)
Less: Additional Depreciation	-	(11,000)

PGBP	10,50,000	10,39,000
Speculation Business Loss (1,21,000 not eligible for set-off)	-	-
Gross Total Income	10,50,000	10,39,000
Less: Deductions u/s Ch. VIA		
Sec 80C	-	(1,50,000)
Sec 80D (Restricted to ₹25,000)	-	(25,000)
Net Total Income	10,50,000	8,64,000
Tax	-	85,300
Surcharge	-	-
Cess @ 4% (Tax + Surcharge)	-	3,412
Tax Payable	-	88,712
Tax Payable (Rounding off)	- (After claiming Rebate u/s 87A)	88,710

Comment: Tax liability under default tax regime is NIL, opting of default tax regime is beneficial for assessee.

QUESTION 17 (PEQ)

Palam Ltd., Delhi is a domestic company engaged in the manufacturing activity. The following details relate to financial year 2025-26:

(i) Gross Revenue from operations: ₹ 80,00,000
(ii) Manufacturing expenses (excluding depreciation): ₹ 30,00,000
(iii) Normal Depreciation (as per Income Tax Act): ₹ 7,00,000
(iv) Additional Depreciation (as per Income Tax Act): ₹ 2,00,000
(v) The company is eligible for deduction section 80-IA: ₹ 5,00,000
(vi) The company is eligible for deduction section 80-JJAA: ₹ 4,00,000
(vii) The turnover of the company never exceeded ₹ 400 crores in its lifetime.

You are required to suggest the company as to whether it should opt for the regular provisions or provisions of section 115BAA in order to minimize its tax liability on the assumption that it has satisfied all the applicable conditions.

Solution

Computation of total income and tax payable by Ms. Palam Ltd. as per regular provisions

Particulars	₹	₹
Gross revenue		80,00,000
Less: Manufacturing expenses (excluding depreciation)	(30,00,000)	
Normal Depreciation (as per the Income-tax Act)	(7,00,000)	
Additional Depreciation (as per the Income-tax Act)	(2,00,000)	
Gross total income		**41,00,000**
Less: Deduction u/s 80-IA	(5,00,000)	
Deduction u/s 80JJAA	(4,00,000)	
Total income		**32,00,000**
Tax on above @ 25%		8,00,000

Add: Cess @ 4%		32,000
Total tax payable		8,32,000

Computation of total income and tax payable by Ms. Palam Ltd. as per sec 115BAA

Total income as per normal provisions		32,00,000
Add: Deductions not allowed		
Additional Depreciation – not allowed as per Sec.115BAA	2,00,000	
Deduction U/s 80-IA – not allowed as per Sec.115BAA	5,00,000	
Deduction U/s.80JJAA – allowed under section 115BAA	Nil	
Total income		**39,00,000**
Tax on ₹ 39,00,000 @22%		8,58,000
Add: Surcharge @10%		85,800
Add: Cess @4%		37,752
Total tax payable		9,81,552
Tax liability rounded off		9,81,550
Conclusion: It is beneficial for the company to pay tax as per regular provisions of the Act		

QUESTION 18 (PEQ)

Babloo, an Indian resident aged 34 years started his retail trade business from 01.04.2025. He gives the following information to you relating to FY 2025-26:

(i) Net profit as per Profit & Loss account ₹ 51,70,000

(ii) Net profit includes gross rent received from let-out property ₹ 1,20,000

(iii) Interest debited to Profit & Loss A/c includes interest on loan taken for the purchase of let-out house property ₹ 2,20,000

Additional information (Not passed through Profit & Loss A/c):

(i) Deposit in PPF ₹ 2,00,000

(ii) Medical Insurance Premium paid for self and spouse ₹ 30,000

Compute total income and tax payable by Babloo for the Assessment Year 2026-27 under both, default as well as normal regime and suggest which option is better.

Solution:

Computation of Total Income & Tax Payable of Babloo

Particulars	Default	Old
PGBP		
Net Profit as per P&L A/c	51,70,000	51,70,000
Less: Rent credited in P&L A/c	(1,20,000)	(1,20,000)
Add: Interest on Housing Loan	2,20,000	2,20,000
	52,70,000	**52,70,000**
House property Income		
Gross Annual value	1,20,000	1,20,000
Less: Sec 24(a) – 30% of NAV	(36,000)	(36,000)
Less: Sec 24(b) – Interest	(2,20,000)	(2,20,000)
	(1,36,000) (Loss from H.P not eligible	**(1,36,000)**

	for set-off in Default)	
Gross Total Income	**52,70,000**	**51,34,000**
Less: Chapter VIA deductions		
Sec 80C	-	(1,50,000)
Sec 80D	-	(25,000)
Net Total Income	**52,70,000**	**49,59,000**
Tax	11,61,000	13,00,200
Surcharge - 10%	1,16,100	-
Cess @ 4% (Tax + Surcharge)	51,084	52,008
Tax Payable	13,28,184	13,52,208
Tax payable (Rounding off)	13,28,180	13,52,210

Conclusion: It is beneficial for the asseessee to pay tax as per normal provisions of the Act.

QUESTION 19 (PEQ)

Sara (P) Ltd., Kanpur is a new manufacturing company incorporated on 16.01.2021 who commenced manufacturing activity w.e.f. 01.04.2021. Its net profit as per the Statement of Profit and Loss was ₹ 30,90,000 for the financial year 2025-26, after debiting/crediting the following items:

(i) Depreciation as per Companies Act ₹ 4,50,000.

(ii) Employer's contribution as well as Employees contribution to EPF of ₹ 11 lakhs each, for the month of March 2025, was deposited on 31st May, 2026.

(iii) Dividend ₹ 17 lakhs (gross) received on 15.10.2025 from another Indian company (in which Sara (P) Ltd. holds 32% shares).

(iv) Amount spent for earning the above dividend income ₹ 3,60,000

Additional information:

(i) Normal depreciation as per Income-tax Rules ₹ 4,90,000.

(ii) Additional depreciation as per Income-tax Rules ₹ 1,50,000.

(iii) Dividend declared and distributed ₹ 20 lakhs (date of dividend declaration 25.10.2025).

The company never had a gross annual turnover above ₹ 200 crores.

You are required to suggest the company whether it should opt for the provisions of section 115BAB or not, by clearly showing your relevant computations.

Solution:

Computation of Total Income & Tax Payable

Particulars	Normal provisions	115BAB
PGBP:		
Net Profit as per P&L A/c	30,90,000	30,90,000
Add: Depreciation as per Co. Act	4,50,000	4,50,000
Add: Employees Contribution [Not allowed u/s 36]	11,00,000	11,00,000
Add: Expense related to Dividend	3,60,000	3,60,000
Less: Dividend Income credited	(17,00,000)	(17,00,000)
Less: Normal Depreciation	(4,90,000)	(4,90,000)
Less: Additional Depreciation	(1,50,000)	-
	26,60,000	**28,10,000**
IFOS:		

Dividend Received:	17,00,000	17,00,000
Less: Interest Expense [20% of dividend i.e. 3.4L or 3.6L whichever is lower]	(3,40,000)	(3,40,000)
	13,60,000	**13,60,000**
Gross Total Income	**40,20,000**	**41,70,000**
Less: chapter VIA deductions Sec 80M [Dividend Received or Paid whichever is lower]	(17,00,000)	(17,00,000)
Net Total Income	**23,20,000**	**24,70,000**
Tax	25% → 5,80,000	15%→ 3,70,500
Surcharge	-	10% → 37,050
Cess @ 4%	23,200	16,302
Tax Payable	6,03,200	4,23,852
Tax payable (Rounded Off)	6,03,200	4,23,850

Conclusion: It is beneficial for the company to pay tax as per sec 115BAB is beneficial.

QUESTION 20 (SM)

Naresh, who is neither a director nor has a substantial interest in any company, is offered employment by Freewheel Ltd., Mumbai with the following two alternatives:

Particulars	I	II
Basic pay	66,000	66,000
Bonus	9,000	9,000
Education allowance for 2 children	30,200	-
Education facility for 2 children in school maintained by employer	-	30,200
Sweeper allowance	10,000	-
Sweeper facility	-	10,000
Entertainment allowance	6,000	-
Club facility	-	6,000
Transport allowance for personal use	1,800 pm	-
Free car (1200 cc) facility for performing journey between office to home and vice versa (car owned by employer)	-	12,000
Medical allowance	18,000	-
Medical bills reimbursement facility	-	18,000
Allowance for gas, electricity and water supply	4,500	-
Free gas, electricity and water supply (bills will be in the name of the employer)	-	4,500
Holiday home allowance	8,000	-
Holiday home facility	-	8,000
Lunch allowance	18,000	-

Free lunch (₹ 70 x 200 days + ₹ 80 x 50 days)	-	18,000
Diwali gift allowance	7,500	-
Gift on Diwali	-	7,500
A rent-free unfurnished home – lease rent	14,000	14,000

Which of the two alternatives Naresh should opt for on the assumption that both employer and employee will contribute 10% of salary towards unrecognized provident fund? Interest free loan of ₹ 20,000 will be given to him for purchasing household items. Assume that he has opted for old tax regime.

Solution:

As both the options are yielding equivalent facilities, hence the option where tax liability can be minimized is the better choice for the Assessee. Accordingly, computation of taxable salary of Naresh under both options are as under

Particulars	Working	Option1		Option2	
		Details	Amount	Details	Amount
Basic salary			66,000		66,000
Bonus			9,000		9,000
Allowances					
Children education allowance		30,200			
Less: Exemption u/s 10(14) Rule 2BB	100 x 2 x 12	(2,400)	27,800		
Transport allowance	1800 x 12	21,600			
Less: Exemption u/s 10(14)		Nil	21,600		
Holiday home allowance			8,000		
Medical allowance			18,000		
Sweeper allowance			10,000		
Entertainment allowance			6,000		
Lunch allowance			18,000		
Gas, electricity & water allowance			4,500		
Diwali gift allowance			7,500		
Perquisites u/s 17(2)					
Rent free accommodation					
(Being minimum of the following):					
Rent paid by employer		14,000		14,000	
10% of salary*		19,640	14,000	7,500	7,500
Car facility for journey between office to home and vice versa	Exempted				Nil
Education facility				30,200	
Less: Exempted				(24,000)	6,200

Interest free loan exempted up to ₹ 20,000			Nil		Nil
Sweeper facility					10,000
Club facility					6,000
Holiday home facility					8,000
Medical facility					18,000
Gift	7,500 - 5,000				2,500
Gas, electricity & water facility					4,500
Free lunch facility (₹ 50 per meal is exempt)	(20x200) + (30x50)				5,500
Gross Taxable Salary			2,10,400		1,43,200
Less: Standard Deduction u/s 16(ia)			(50,000)		(50,000)
Taxable Salary			1,60,400		93,200

Salary for the purpose of -

Particulars	Rent free accommodation	
	Option 1	Option 2
Basic	66,000	66,000
Bonus	9,000	9,000
Children education allowance	27,800	-
Transport allowance	21,600	-
Holiday home allowance	8,000	-
Medical allowance	18,000	-
Sweeper Allowance	10,000	-
Entertainment allowance	6,000	-
Lunch allowance	18,000	-
Gas, electricity & water allowance	4,500	-
Diwali gift allowance	7,500	-
Total	1,96,400	75,000

Note: Contribution to URPF is not taxable.

Conclusion: Option 2 is better.

QUESTION 21 (MQP)

On 01-10-2025, Mr. Shah of Surat is offered an employment by Vimal & Co. Ltd., Surat on a basic salary of ₹ 55,500 p.m. Other allowances are dearness allowance (not forming part of salary for retirement benefits) ₹ 50,000 p.m., medical allowance ₹ 10,000 p.m. and bonus being 1 month's basic salary. The company gives an option to Mr. Shah either to take a rent- free accommodation in Surat of the fair rental value of ₹ 20,000 p.m. or to accept house rent allowance of ₹ 20,000 p.m. Mr. Shah

join the job with house rent allowance and takes a house in Surat at a monthly rent of ₹ 20,000. Analyze whether he has made a wise choice from tax advantage view (old regime).

Solution:

Computation of Gross Taxable Salary of Mr. Shah for the A.Y.2026-27

Particulars		When he takes HRA		When he takes RFA	
		Amount	Amount	Amount	Amount
Basic salary (55,500 x 6)			3,33,000		3,33,000
Bonus (55,500/2)			27,750		27,750
Dearness allowance (50,000 x 6)			3,00,000		3,00,000
Medical allowance (10,000 x 6)			60,000		60,000
HRA (20,000 x 6)		1,20,000			
Less: Minimum of the following					
a) Actual amount received	1,20,000				
b) 40% of salary	1,33,200				
C) Rent paid over 10% of salary	86,700	(86,700)	33,300		NIL
Rent free accommodation (being 10% of salary)			NIL		42,075
Gross Taxable Salary			**7,54,050**		**7,62,825**

Note: Salary for the purpose:

Particulars	RFA	HRA
Basic salary	3,33,000	3,33,000
Medical Allowance	60,000	-
Bonus	27,750	-
Total	4,20,750	3,33,000

Comment: The above computation indicates that if the Assessee chooses rent-free accommodation, then his gross taxable salary increases by ₹ 8,775 (being ₹ 7,62,825 – ₹ 7,54,050), which will increase his tax bill. Hence, Assessee has taken right decision.

QUESTION 22 (MQP)

Mr Gopal, is a salaried employee who submits his income particulars for two financial years:

Income	FY 2025-26 (₹)	FY 2021-22 (₹)
Basic Salary	10,00,000	7,00,000
Dearness allowance (3/4 is part of retirement benefits)	2,00,000	1,80,000
House Rent Allowance	4,00,000	4,00,000
Rent Paid by Gopal	3,00,000	3,00,000
Arrears of Salary	3,00,000	-
Life insurance Premium	65,000	63,500

You are required to calculate amount of exemption allowed in respect in HRA, amount of deduction in respect of life insurance premium and amount of relief in respect of arrears of salary u/s 10(13A), u/s 80C and u/s 89(1) respectively. Assessee opted old regime for AY 26-27. FY 2025-26 & FY 2021-22

same slab rates for individuals.

Solution:

	2025-26 (₹) Tax on income including arrears of salary	2025-26 (₹) Tax on income excluding arrears of salary	2021-22 (₹) Tax on income including arrears of salary	2021-22 (₹) Tax on income excluding arrears of salary
Basic salary	10,00,000	10,00,000	7,00,000	7,00,000
Dearness Allowance	2,00,000	2,00,000	1,80,000	1,80,000
House Rent Allowance	2,15,000	2,15,000	1,83,500	1,83,500
Arrears of salary	3,00,000	-	3,00,000	-
Gross salary	**17,15,000**	**14,15,000**	**13,63,500**	**10,63,500**
Less: Standard Deduction	(50,000)	(50,000)	(50,000)	(50,000)
Net salary	**16,65,000**	**13,65,000**	**13,13,500**	**10,13,500**
Less: Sec 80C	(65,000)	(65,000)	(63,500)	(63,500)
Net Total Income	**16,00,000**	**13,00,000**	**12,50,000**	**9,50,000**
Tax liability including H&EC	**3,04,200** (2.5L x 5% + 5L x 20% + 6L x 30% + 4%)	**2,10,600** (2.5L x 5% + 5L x 20% + 3L x 30% + 4%)	1,95,000 (2.5L x 5% + 5L x 20% + 2.5L x 30% + 4%)	1,06,600 (2.5L x 5% + 4.5L x 20% + 4%)

Relief u/s 89(1) = (₹3,04,200 - ₹2,10,600) - (₹1,95,000 - ₹1,06,600) = ₹5,200

Tax Payable = ₹304200 - ₹5200 = ₹2,99,000

Calculation of HRA:	**(₹)**	**(₹)**
Least of the following is exempt:		
(i) Actual HRA	4,00,000	4,00,000
(ii) Rent - 10% of Salary	**1,85,000**	**2,16,500**
(iii) 40% of Salary	4,60,000	3,34,000
Taxable HRA	4,00,000 -1,85,000 = 2,15,000	4,00,000-2,16,500 =1,83,500
Salary for HRA (Basic salary + DA (Forming part of Retirement benefits)	11,50,000	8,35,000

QUESTION 23 (SM)

Lucent Ltd. purchased machinery on 1st April, 2025 for ₹ 10 crores by availing loan facility from the bank. The machine was put to use in effective production on 1st February, 2026. The interest on the loan works out to 12% per annum. Advise Lucent Ltd. on the treatment of interest payment made on this loan and depreciation allowable for the previous year 2025-26. You may assume that this is the only machine in its block.

Solution:

Computation of Depreciation

Particulars	Amount (in Crore)	Amount (In Crore)
Block: Plant & Machinery (Rate 15%)		
W.D.V. as on 1/4/2025		Nil
Add: Purchase	10	
Interest on loan up to Jan. 2026 (₹ 10 Cr x 12% x 10/12)	1	11
		11
Depreciation [₹ 11 cr. x 15% x ½]		0.825

Interest cost from Feb 2026 shall be allowed as deduction u/s 36(1)(iii).

Tax planning: if assessee put to use the asset as early as possible, then only he can claim more depreciation u/s 32 & more interest as deduction u/s 36(1) by using these he can reduce the PGBP income.

QUESTION 24 (SM)

Sure Success Ltd. wants to acquire an asset costing ₹1,00,000. It has two options are available, the first one is buying the asset by taking a loan repayable in five instalments of ₹20,000 each with 14% interest per annum. The second is leasing the asset for which the annual lease rental charge is ₹30,000 up to 5 years. The lessor charges 1% as a processing fee in the first year. Assume the internal rate of return to be 10%. The present value factors are:

Year	1	2	3	4	5
P/V Factor	.909	.826	.751	.683	.621

Assuming that the payments are made at the end of the year, suggest which alternative is better for the company. The rate of depreciation is 15% while the tax rate is 33.22%

Solution:

Alternative I: Acquire the Asset by taking a Bank Loan

Year	Instalment (a)	Interest (b)	Depreciation (c)	Tax Benefit (d) = (b + c) × 33.22 %	Net Outflow (a + b – d)	PV factor	Total PV
1	20,000	14,000	15,000	9,634	24,366	0.909	22,149
2	20,000	11,200	12,750	7,956	23,244	0.826	19,200
3	20,000	8,400	10,838	6,391	22,009	0.751	16,529
4	20,000	5,600	9,212	4,921	20,679	0.683	14,124
5	20,000	2,800	7,830	3,531	19,269	0.621	11,966
							83,968

Note: It is assumed that salvage value is Nil after 5 years.

Alternative II: Acquire Asset on Lease Basis

Year	Lease (a)	Tax Benefit (b)	Net Outflow (a – b)	PV factor	Total PV
0	1,000	332	668	1	668
1	30,000	9,966	20,034	0.909	18,211
2	30,000	9,966	20,034	0.826	16,548
3	30,000	9,966	20,034	0.751	15,046
4	30,000	9,966	20,034	0.683	13,683

5	30,000	9,966	20,034	0.621	12,441
					76,597

Suggestion: The present value of net cash flows is lower in Alternative II; hence it is suggested to acquire the asset on lease basis.

QUESTION 25 (WB)

XYZ Ltd. wants to acquire a machine costing ₹ 1,00,000. The depreciation rate is 15% + 20% additional depreciation in the first year. Tax rate is 34.944%. Weighted average cost of capital (IRR) is 10%. The machine has a useful life of 5 years. A loan of ₹ 75,000 can be availed at 9% interest payable annually, with principal repayable at the end of 5th year. Alternatively, lease rentals are ₹ 34,000 p.a. for 5 years with a lease management fee of ₹ 1,000 payable at inception. Suggest the better option.

Solution:

Option 1: Cost of Acquisition – if own fund is used for acquisition

Depreciation & Tax Shield Schedule

Year	Depreciation (₹)	Tax Shield @ 34.944%	P/V @ 10%	Present Value (₹)
1	35,000	12,230	0.909	11,117
2	9,750	3,407	0.826	2,814
3	8,288	2,896	0.751	2,175
4	7,044	2,462	0.683	1,682
5	5,988	2,092	0.621	1,299

Total PV of Tax Shield = ₹ 19,087

Effective Cost of Machine = ₹ 1,00,000 - ₹ 19,087 = ₹ 80,913

Option 2: Cost of Acquisition – If Financed via Loan

Year	Interest (₹)	Principal Repayment / Cost (₹)	Total Outflow (₹)	Outflow after tax (₹)	P/V @ 10%	Present Value (₹)
0	-	25,000	25,000	25,000	1	25,000
1	6,750	0	6,750	4,391	0.909	3,991
2	6,750	0	6,750	4,391	0.826	3,627
3	6,750	0	6,750	4,391	0.751	3,298
4	6,750	0	6,750	4,391	0.683	2,999
5	6,750	75,000	81,750	79,391	0.621	49,302

Total PV of Loan Outflows = ₹ 88,217

Less: Tax Shield on depreciation = ₹ 19,087

Net Outflow = ₹ 69,130

Option 3: Cost of Acquisition – If taken on Lease

Year	Lease Fee (₹)	Lease Rental (₹)	Tax Shield (₹)	Net Cash Flow (₹)	P/V @ 10%	PV of Outflow (₹)
0	1,000	0	349	651	1	651
1	0	34,000	11,881	22,119	0.909	20,106
2	0	34,000	11,881	22,119	0.826	18,270

3	0	34,000	11,881	22,119	0.751	16,611
4	0	34,000	11,881	22,119	0.683	15,107
5	0	34,000	11,881	22,119	0.621	13,736

Total PV of Lease Outflows = ₹84,481

Conclusion

Since the Net Present Value of cash outflow is lower in case of loan-financing (₹ 69,126) as compared to other options, it is advisable to purchase the asset through borrowed funds.

QUESTION 26 (WB)

If ABC Ltd. decides to manufacture:

- It must purchase a second-hand machine for ₹ 10,00,000 (5-year life).
- Manufacturing costs for 5 years: ₹ 15 L, ₹ 18 L, ₹ 21 L, ₹ 24 L, ₹ 27 L.
- Depreciation @15% WDV. Machine sold for ₹ 1,50,000 at end of the 5th year.

If ABC Ltd. decides to buy externally:

- Purchase cost per year: ₹ 20 L, ₹ 22 L, ₹ 24 L, ₹ 26 L, ₹ 30 L. Tax rate = 32.445%, Discount rate = 14% Please suggest

Solution:

Option 1: Make the product

Year	Mfg. Cost (₹)	Depreciation (₹)	Tax Saving (₹)	Cash Outflow (₹)	P/V Factor @ 14%	PV (₹)
0	-	-	-	10,00,000	1	10,00,000
1	15,00,000	1,50,000	5,35,343	9,64,658	0.87719	8,46,188
2	18,00,000	1,27,500	6,25,377	11,74,623	0.76947	9,03,837
3	21,00,000	1,08,375	7,16,507	13,83,493	0.67497	9,33,816
4	24,00,000	92,119	8,08,568	15,91,432	0.59208	9,42,255
5	27,00,000	78,300	9,01,419	17,98,581	0.51937	9,34,129
6 (sale)	-	-	-	-1,50,000	0.51937	-77,906
Total						**54,82,319**

Option 2: Buy the product

Year	Purchase Cost (₹)	Tax Saving (₹)	Cash Outflow (₹)	P/V Factor @ 14%	PV (₹)
1	20,00,000	6,48,900	13,51,100	0.87719	11,85,171
2	22,00,000	7,13,790	14,86,210	0.76947	11,43,594
3	24,00,000	7,78,680	16,21,320	0.67497	10,94,342
4	26,00,000	8,43,570	17,56,430	0.59208	10,39,947
5	30,00,000	9,73,350	20,26,650	0.51937	10,52,581
Total					**55,15,635**

Conclusion:

Since the present value of cost is lower if ABC Ltd. manufactures the component (₹ 54,82,345) compared to buying it from outside (₹ 55,15,637), the company should opt for the Make option.

QUESTION 27 (SM)

P Ltd. owns two undertakings. Undertaking-A is eligible for deduction u/s 80-IA and Undertaking-B are not eligible for such deduction. The date of commencement of operation in both the undertaking is 14th September, 2025. The profits earned by both the undertaking are as under:

Previous Year	Undertaking-A (₹ in Lakhs)	Undertaking-B (₹ in Lakhs)
2025-26	(-) 6	(-) 4
2026-27	(-) 4	10
2027-28	5	9
2028-29	8	6
2029-30	9	(-) 3

Calculate total income of P Ltd. for last three assessment years.

Solution:

In the given case, the entire loss of the undertaking A has been set-off under Sections 70 & 72 till the A.Y 2028-29

Assessment Year	Unit A	Unit B	GTI	Carried forward losses
2026-27	- 6	- 4	Nil	-10
2027-28	- 4	10	Nil	-4
2028-29	5	9	10	Nil
2029-30	8	6	14	Nil
2030-31	9	- 3	6	Nil

There is no loss brought forward for earlier years for the Assessment Year 2029-30 and subsequent year. However, to compute profit eligible for tax holidays u/s 80-IA, it is assumed that the undertaking is the only unit owned by P. Ltd. Consequently, deduction u/s 80-IA is as under:

Computation of Total Income

Particulars	A.Y. 2028-29	A.Y. 2029-30	A.Y. 2030-31
Profit from Unit A	5	8	9
Add: Profit from Unit B	9	6	-3
Gross Total Income (a)	**14**	**14**	**6**
Less: Deduction u/s 80-IA			
Current year profit of Unit A	5	8	9
Less: Notional B/F loss from earlier years	-10	-5	Nil
Balance	-5	3	9
Deduction U/S 80-IA @ 100% (b)	**Nil**	**3**	**6 (Restricted to GTI)**
Total Income [(a)-(b)]	14	11	Nil

QUESTION 28 (WB)

Tax Planning relating to Corporate Restructuring

Solution:

Tax Planning relating to Corporate Restructuring: Corporate Restructuring is a process of redesigning one or more aspects of a corporate for achieving certain objectives. The objectives of restructuring may be achieving economies of scale or surviving in an adverse economic climate or restructuring of debt or for any other objectives. Such restructuring can be done through various tools.

Some of them are as follow:

1. Amalgamation
2. Demerger
3. Slump sale of business
4. Buy back of shares
5. Capital Reduction
6. Conversion of debentures into shares
7. Redemption of preference shares
8. Conversion into company
9. Conversion of an Indian branch of foreign company into a subsidiary company
10. Conversion of company into LLP, etc.

QUESTION 29 (WB)

"Fund can be obtained from various sources have different characteristics in terms of risk, cost and control." – Write about the tax planning in relation to capital structure and Lease or buy decision in this context.

Solution:

Fund can be obtained from various sources thus their procurement is always considered as a complex problem by a business organization. Fund procured from different sources have different characteristics in terms of risk, cost and control.

a. **Capital Structure** – the optimum capital structure is a mix of equity capital and debt funds. Following should be considered in this regard:
   1. Interest on debt fund is allowed as deduction as it is a business expenditure. Therefore, it may increase the rate of return on owner's equity.
   2. Dividend on equity fund is not allowed as deduction as it is the appropriation of profit. Further, the company declaring the dividend shall be liable to pay dividend distribution tax.
   3. The cost of raising owner's fund is treated as capital expenditure therefore not allowed as deduction. However, if conditions of sec. 35D is satisfied then such cost can also be amortized.
   4. The cost of raising debt fund is treaded as revenue expenditure.

b. **Lease or buy** – when a person needs an asset for his business purposes, he has to decide whether the asset should be purchased or taken on lease. Following should be considered in this regard:
   1. Lease rental can be claimed as deduction as revenue expenditure. However, depreciation on leases asset is not allowed.

2. Depreciation on depreciable assets can be claimed as deduction u/s 32.
3. In case, the asset is purchased from the amount taken on loan, interest paid for the period after the asset is first put to use, the deduction on account of interest shall be claimed as revenue expenditure. However, interest paid for the period before the asset is first put to use shall be capitalized.
4. Any gain on transfer of capital asset is subject to capital gain. In this regard, it is to be noted that in case of depreciable asset, asset shall be merged in the respective block of asset.

QUESTION 30 (WB)

What is Tax Haven? State the key factors which are used to determine whether a jurisdiction is a tax haven.

Solution:

a. Many fiscally sovereign territories and countries use tax and non-tax incentives to attract activities in the financial and other services sectors.

b. These territories and countries offer the foreign investor an environment with a no or only nominal taxation which is usually coupled with a reduction in regulatory or administrative constraints.

c. The activity is usually not subject to information exchange because, for example, of strict bank secrecy provisions. These jurisdictions are known as tax havens.

d. In other words, any country which modifies its tax laws to attract foreign capital could be considered a tax haven.

e. The **central feature of a haven** is that its laws and other measures can be used to evade or avoid the tax laws or regulations of other jurisdictions.

f. A tax haven is a state or a country or territory where income tax is levied at a low rate or no tax at all is levied.

Four key factors are used to determine whether a jurisdiction is a tax haven:

1. **Imposes no or only nominal taxes:** Tax havens impose nil or only nominal taxes (generally or in special circumstances) and offer themselves, or are perceived to offer themselves, as a place to be used by non-residents to escape high taxes in their country of residence.
2. **Lack of transparency:** Transparency ensures that there is an open and consistent application of tax laws among similarly situated taxpayers and that information needed by tax authorities to determine a taxpayer's correct tax liability is available (e.g., accounting records and underlying documentation). A lack of transparency in the operation of the legislative, legal or administrative provisions is another factor used to identify tax havens.
3. **Lack of effective exchange of information with foreign tax authorities:** Whether there are laws or administrative practices that prevent the effective exchange of information for tax purposes with other governments on taxpayers benefiting from the no or nominal taxation.
4. **No requirement for a substantive local presence of the entity**: The absence of a requirement that the activity be substantial is important because it suggests that a jurisdiction may be attempting to all act investment and transactions that are purely tax driven.

QUESTION 31 (WB)

Write short notes on organization tax planning cell?

Solution:

Various organizations have separate tax planning departments to plan their transactions with a view to attracting the least incidence of tax. Organization of such a cell can be justified on the following grounds

a) **Complexity and volume of work:** Where the volume of tax work to be handled is large and highly complex, then it is required to appoint a special tax expert along withthe required staff.

b) **Separate Documentation:** Documentation is an indispensable ingredient of tax management. An Assessee has to keep reliable, complete and updated documentation for all the relevant tax files so that the documentary evidence can be made available at a short notice whenever it is required.

c) **Data Collection:** The staff concerned with taxation has to collect and keep on collecting data relating to latest circulars, case laws, rules and provisions, and other government notifications to keep abreast of the current developments.

d) **Integration:** Tax planner should be consulted by all the departments of the company to know the impact of taxation on their decisions. It would be necessary to integrate and properly link all the departments of the company with the tax planning department.

e) **Constant Monitoring:** In order to obtain the intended tax benefits, persons connected with tax management should ensure compliance of all the pre-requisites, like procedures, rules etc. Besides, there should be constant monitoring, so that all the tax obligations are discharged and penal consequences avoided.

f) **Developing Tax effective Alternatives:** Tax laws provide various options for entering into a transaction. A tax planner could guide management in taking important decisions, by considering varieties of alternatives and choices.

g) **Take advantage of variance allowances and deductions:** An expert tax manager has to keep track of the provisions relating to various allowances, deductions, exemptions, and rebates so as to initiate tax planning measures.

GAAR

QUESTION 1 (PEQ)

Examine whether GAAR can be invoked in the following independent situation:

H Ltd. is a domestic company. It sets up a subsidiary company S Inc, in nation N, which is a tax haven. The entire capital of Rs. 150 Cr has been subscribed by H Ltd. S Inc had advanced a loan of Rs. 60 Cr to K Ltd, an Indian company on 1-4-2023 at 8% per annum. This lending is the only activity in S Inc for the PY 2025-26. The department wants to invoke GAAR in the hands of H Ltd. Will your answer be different, if the loan advanced is Rs.30 Cr?

Solution:

GAAR: Loan advanced to Indian company through subsidiary set up in tax haven

Sec. 102(1) defines an "arrangement" to mean:

- any step in, or a part or whole of,
- any transaction, operation, scheme, agreement or understanding,
- whether enforceable or not, and
- includes the alienation of any property in such transaction, operation, scheme, agreement or understanding.

If the object of the arrangement is to avoid or evade tax or where the arrangement lacks commercial substance, then GAAR can be invoked. Here, in S Inc, there is no other activity, except this lending. Hence it lacks commercial substance and it is clear that the objective is to avoid tax in India in the hands of H Ltd.

The amount of interest involved is Rs. 4.8 crores (8% of Rs 60 crores).

For GAAR to apply, the amount involved should be Rs 3 crores or more. Hence GAAR can be invoked.

If the loan advanced is 30 crores, then the amount of interest involved is Rs 2.4 crores (8% of 30 crores). Since it is less than 3 crores, GAAR cannot be invoked.

QUESTION 2 (ICAI)

M/s Global Architects Inc is a company incorporated in country F1. It is engaged in the business of providing architectural design services all over the world. It receives an offer from Lovely Resorts Pvt Ltd, an Indian company, for design and development of resorts all over India.

India-F1 tax treaty provides that architectural services are technical services and payment for the same to a company may be taxed in India. However, if such professional services are provided by a firm or individual, then payment for such services are taxable only if the firm has a fixed base in India or stay of partners/ employees in India exceed 180 days. Limitation of benefit clause does not exist in tax treaty between India-F1.

M/s Global Architects Inc forms a partnership firm with a third party (director of the company) having only a nominal share in the F1. The firm enters into an agreement to carry out the services in India. The company seconded its trained manpower to the firm.

Thus, the partnership firm claimed the treaty benefit and no tax was paid in India. Can such an arrangement be examined under GAAR?

Solution:

It is obvious that there was no commercial necessity to create a separate firm except to obtain the tax benefit. The firm was only on paper as the manpower was drawn from the company. The firm did not have any commercial substance. Moreover, it is a case of treaty abuse. Hence, GAAR may be invoked to disregard the firm and tax payment for architectural services as fee for technical services. However, the rate of tax on such payment shall be as applicable under the treaty, if more beneficial.

QUESTION 3 (WB)

Write down the consequences of impermissible avoidance arrangement as per sec. 98.

Solution:

If any arrangement is declared to be IAA, then the consequences shall be determined in such manner as is deemed appropriate, in the circumstances of the case. Circumstances of case may result in denial of any tax benefit or benefit under DTAA. The impact of treating a transaction as IAA may result into following illustrative situations: -

a. disregarding, combining or re-characterizing any step in, or a part or whole of, the IAA:
b. treating the IAA as if it had not been entered into or carried out;
c. disregarding any accommodating party or treating any accommodating party and any other party as one and the same person [treating accommodating party as benami];
d. deeming persons who are connected persons in relation to each other to be one and the same person for the purposes of determining tax treatment of any amount: [holding concerns as benami]
e. reallocating amongst the parties to the arrangement-
   - any accrual, or receipt, of a capital or revenue nature; or
   - any expenditure, deduction, relief or rebate;
f. Treating-
   - the place of residence of any party to the arrangement: or
   - the situs of an asset or of a transaction, at a place other than the place of residence. location of the asset or location of the transaction as provided under the arrangement, or
g. considering or looking through any arrangement by disregarding any corporate structure [lifting of corporate veil/ disregarding the alter-ego]

LIABILITY IN SPECIAL CASES

QUESTION 1 (WB)

Define qualifying ship in the context of tonnage tax scheme.

Solution:

Qualifying ship [Sec. 115VD]

A ship is a qualifying ship if: Seagoing ship or vessel of 15 net tonnage or more

but exclude

a) a seagoing ship or vessel if the main purpose for which it is used is for the provision of goods or services of a kind normally provided on land
b) factory ships
c) fishing vessels
d) harbour and river ferries
e) pleasure craft
f) offshore installations
g) qualifying ship which is used as a fishing vessel for a period of more than 30 days during a P.Y.

QUESTION 2 (ICAI)

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.2025-26	120	70	250	100

Solution:

Qualifying Ships	Q1	Q2	Q3	Q4
Net Tonnage (rounded off)	1,000	8,600	22,400	37,500
Daily Tonnage (₹) – Refer Note points	700	4,728	10,678	15,395
Days for which ship operated during the P.Y.2025-26	120	70	250	100
Tonnage Income (₹)	84,000	3,30,960	26,69,500	15,39,500

Note1: 1000/100 x 70 =700

Note 2: 700 + 7600/100 x 53 = 4728

Note 3: 5470 + 12,400/100 x 42 = 10,678

Note 4: 11,770 + 12,500/100 x 29 = 15,395

QUESTION 3 (ICAI)

Dolphy Ltd., a tonnage tax company provides following information for the P.Y. 2024-25:

1) Relevant Shipping Income - ₹ 350 lakhs
2) Tonnage Income - ₹ 180 lakhs
3) Book profits derived from core and incidental activities - ₹ 400 lakhs

Provide answers to following questions, considering each of the 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. 2025- 26.

c) Calculate the taxable amount under the other provisions of the Act, if Dolphy Ltd. mutualized amount of ₹ 12 lakhs during P.Y. 2026-27 out of ₹ 92 lakhs transferred to tonnage tax reserve account during P.Y. 2025-26.

Solution:

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 for P.Y. 2025-26 = Relevant shipping income during P.Y. 2025-26 × Extent of reserves mutualized/Total reserve created during P.Y. 2025-26 = ₹ 350 lakhs × ₹ 12 lakhs / ₹ 92 lakhs = ₹ 45.65 lakhs

QUESTION 4 (WB)

Write a short note on Representative assessee

Solution:

Representative assessee means:

In respect of the income	Representative Assessee
(i) of a non-resident specified in Sec. 9(1)	Agent of the non-resident, including a person who is treated as an agent u/s 163
(ii) of a minor, lunatic or idiot	A guardian or manager who is entitled to receive or is in receipt of such income on behalf of such minor, lunatic or idiot.
(iii) which is received by the Court of wards; • the Administrator-General; • the Official Trustee; or • any receiver or manager, appointed by or under any order of a court on behalf of or for the benefit of any person.	Such – • Court of Wards; • Administrator-General; • Official Trustee; or • Receiver or Manager
(iv) which is received by trustee [appointed under a trust declared by a duly executed instrument in writing whether testamentary or otherwise (including any valid wakf deed)] on behalf of or for the benefit of any person	Such trustee or trustees
(v) which is received receives or entitled to receive by trustee (appointed under an oral trust) on behalf of or for the benefit of any person	Such trustee or trustees

QUESTION 5 (WB)

Representative assessee has right to recover tax paid by him. Comment

Solution:

Right of representative assessee to recover tax paid [Sec. 162]

a) A **representative assessee** who pays any tax on behalf of another person (the **principal**) can:
   - **Recover** the amount paid from the principal or,
   - **Retain** an amount equal to what was paid from any money they hold for the principal.

b) If the representative assessee thinks they might be liable to pay tax on behalf of the principal, they can **retain** an estimated amount from the principal's money.

c) If there's a **disagreement** between the principal and the representative assessee, the representative can get a **certificate** from the Assessing Officer that states the amount they can retain. This certificate acts as proof for retaining that amount.

   The amount recoverable from such representative assessee at the time of final settlement shall not exceed the amount specified in such certificate, except to the extent to which such representative assessee may, at such time, have in his hand's additional assets of the principal.

QUESTION 6 (WB)

The directors of a private company are personally liable to pay the income tax due from the company but their liability does not include liability towards interest and penalty payable by the company. Comment

Solution:

Liability of directors of private company in liquidation [Sec. 179]

a. **Director's Liability for Company's Tax**: If a private company owes taxes that cannot be recovered, every director of the company during the relevant year will be personally liable to pay the tax.

b. **Exemption for Directors**: A director will not be liable if they can prove that the failure to recover the tax was not due to their own neglect, misconduct, or breach of duty in handling the company's affairs.

Here, tax due includes penalty, interest or any other sum payable under the Act. In light of aforesaid provision, the statement is not correct.

QUESTION 7 (WB)

Explain the provision relating to restrictions on receipt of cash u/s 269ST.

Solution:

Any person shall receive amount of ₹2,00,000 or more

a. In aggregate from a person in a day;

b. In respect of a single transaction;

c. In respect of transactions relating to one event

only by A/c Payee Cheque, DD, ECS or any Electronic Mode.

Non-applicability

a. Transactions covered u/s 269SS.

b. Any receipt by Government, Banks, Co-operative Bank or Post Office.

c. Cash withdrawals by any person from Bank, Co-operative Bank or Post Office.

Penalty u/s 271DA

a. If Assessee fails to comply with above provisions, penalty will be 100% of such receipt.

b. It shall be imposed by JC

QUESTION 8 (WB)

Write short notes on

a) Service of notice when family is disrupted or firm, etc., is dissolved

b) Service of notice in the case of discontinued business

Solution:

a) Service of notice when family is disrupted or firm, etc., is dissolved [Sec. 283] When a Hindu undivided family (HUF) undergoes a partition and the Assessing Officer records this under Section 171, **tax notices** regarding the family's income should be served on:

- The last manager of the family.
- If the last manager is deceased, then on all the **adults** who were members of the family just before the partition.

Similarly, if a **firm** or **association of persons (AOP)** is dissolved, the **tax notices** for the firm or AOP's income can be served on:

- Any **partner** (who is not a minor) of the firm.
- Any **member** of the association, as applicable, right before its dissolution.

b) Service of notice in the case of discontinued business [Sec. 284]

When an assessment is to be made under Section 176 (discontinued business), the Assessing Officer can serve a notice on the person whose income is being assessed.

- ✓ For a firm or association of persons, the notice can be served on any member of the firm or association at the time it was discontinued.
- ✓ For a company, the notice is served on the principal officer of the company.

QUESTION 9 (WB)

Are producers of cinematograph films required to submit any statement. If yes, please explain the provision relating thereto?

Solution:

Submission of statements by producers of cinematograph films [Sec. 285B]

Any person carrying on the production of a cinematograph film or engaged in any **specified activity** during the financial year, they must:

- Submit a **statement** to the income-tax authority in the required **form** (Form 52A) and
- within 30 days from the end of such financial year or within 30 days from the date of the completion of the production of the film, whichever is earlier.
- The statement should include details of all payments **over ₹50,000** made or due to any person engaged in the production or activity.

BLACK MONEY

QUESTION 1 (WB)

Discuss the scope of total undisclosed foreign income and asset u/s 4 of the Black Money (Undisclosed Foreign Income and Assets) and Imposition of Tax Act, 2015.

Solution:

Scope of total undisclosed foreign income and asset [Sec. 4]

1. The total undisclosed foreign income and asset of any previous year of an assessee shall be:
   a) the income from a source located outside India, which has not been disclosed in the return of income furnished u/s 139 of the Income-Tax Act;
   b) the income, from a source located outside India, in respect of which a return is required to be furnished u/s 139 of the Income-Tax Act but no return of income has been furnished u/s 139 of the Income-Tax Act; and
   c) the value of an undisclosed asset located outside India.
2. Any variation made in the income from a source outside India in the assessment or reassessment of the total income of any previous year, of the assessee under the Income-Tax Act in accordance with the provisions of section 29 to section 43C (Profits and gains of business or profession) or section 57 to section 59 (Income from other sources) or section 92C (Transfer pricing) of the said Act, shall not be included in the total undisclosed foreign income.
3. To avoid double taxation, the income included in the total undisclosed foreign income and asset under this Act shall not form part of the total income under the Income-tax Act.

QUESTION 2 (WB)

What do you mean by:

a) Undisclosed asset located outside India
b) Undisclosed foreign income and asset

Solution:

a) Undisclosed asset located outside India means an asset (including financial interest in any entity) located outside India, held by the assessee in his name or in respect of which he is a beneficial owner, and he has no explanation about the source of investment in such asset or the explanation given by him is in the opinion of the Assessing Officer unsatisfactory [Sec. 2(11)]

b) Undisclosed foreign income and asset means the total amount of undisclosed income of an assessee from a source located outside India and the value of an undisclosed asset located outside India, referred to in section 4, and computed in the manner laid down in section 5 [Sec. 2(12)].

QUESTION 3 (WB)

How to compute total undisclosed foreign income and asset u/s 5 of Black Money (Undisclosed Foreign Income and Assets) and Imposition of Tax Act, 2015.

Solution:

In computing the total undisclosed foreign income and asset of any previous year of an assessee:

a) No deduction in respect of any expenditure or allowance or set off of any loss shall be allowed to the assessee, whether or not it is allowable in accordance with the provisions of the Income-Tax Act.

b) The amount of deduction in case of an immovable property shall be the amount which bears to the value of the asset as on the first day of the financial year in which it comes to the notice of the Assessing Officer, the same proportion as the assessable or assessed foreign income bears to the total cost of the asset.

Explanation:

A house property located outside India was acquired by an assessee in the previous year 2010-11 for ₹ 50 lakh. Out of the investment of ₹ 50 lakh, ₹ 20 lakh was assessed to tax in the total income of the previous year 2010-11and earlier years. Such undisclosed asset comes to the notice of the Assessing Officer in the year 2025-26. If the value of the asset in the year 2025-26 is ₹ 1 crore, the amount chargeable to tax shall be ₹ 60,00,000 i.e.: ₹ 1,00,00,000 – (₹ 20,00,000 / ₹ 50,00,000) = ₹ 60,00,000.

QUESTION 4 (WB)

Who shall be treated as tax authorities under the Black Money (Undisclosed Foreign Income and Assets) and Imposition of Tax Act, 2015?

Solution:

Tax authorities [Sec. 6]

a. The income-tax authorities shall be the tax authorities for the purposes of this Act.
b. Every such authority shall exercise the powers and perform the functions of a tax authority under this Act in respect of any person within his jurisdiction.
c. The jurisdiction of a tax authority under this Act shall be the same as he has under the Income-Tax Act.
d. The tax authority having jurisdiction in relation to an assessee who has no income assessable to income-tax under the Income-tax Act shall be the tax authority having jurisdiction in respect of the area in which the assessee resides or carries on its business or has its principal place of business.

QUESTION 5 (WB)

State the provision relating to assessment u/s 10 of the Black Money (Undisclosed Foreign Income and Assets) and Imposition of Tax Act, 2015.

Solution:

Assessment [Sec. 10]

a. The Assessing Officer may, on receipt of an information from an income-tax authority or any other authority under any law for the time being in force or on coming of any information to his notice, serve on any person, a notice requiring him, on the specified date, to produce such accounts or documents or evidence as the Assessing Officer may require for the purposes of this Act.
b. No separate return is required to be filed under this Act.
c. There is no time limit for issuance of the aforesaid notice. The Assessing Officer may issue such notice any time on the basis of information.
d. The Assessing Officer may, from time to time, serve further notices requiring the production of such other accounts or documents or evidence as he may require.
e. The Assessing Officer may make such inquiry, as he considers necessary, for the purpose of obtaining

full information in respect of undisclosed foreign income and asset of any person for the relevant financial year or years.

f. The Assessing Officer, after considering such accounts, documents or evidence, as he has obtained, and after taking into account any relevant material which he has gathered and any other evidence produced by the assessee, shall by an order in writing, assess the undisclosed foreign income and asset and determine the sum payable by the assessee.

g. **Sec. 11:** Such order shall be made within 2 years from the end of the financial year in which the notice was issued by the Assessing Officer

h. **Sec. 10(4) Best Judgment Assessment:** If any person fails to comply with all the terms of the notice, the Assessing Officer shall, after taking into account all the relevant material which he has gathered, make the assessment of undisclosed foreign income and asset to the best of his judgment and determine the sum payable by the assessee. Before making such an assessment, an opportunity of being heard is required to be given to the assessee.

QUESTION 6 (WB)

State the provision relating to rounding off of undisclosed foreign income and asset. Also state the provision relating to rounding off of amount payable thereon.

Solution:

Rounding off

a. The amount of undisclosed foreign income and asset computed shall be rounded off to the nearest multiple of ₹ 100.

b. Any amount payable or receivable by the assessee shall be rounded off to the nearest multiple of ₹ 10.

QUESTION 7 (PEQ)

Krishna was a director in RSM (P) Ltd. Up to 31st March, 2025. He left India in April, 2025 and settled in country G with his son. When he was in India, he was filing his ITR. In the financial year 2016-17, he acquired an apartment for Rs. 200 Lakh in UK. He disclosed the cost of acquisition of apartment as Rs. 80 Lakh for income-tax purposes. In May, 2025 based on information from Enforcement Directorate, the partial undisclosed foreign asset come to the notice of the assessing officer. The fair market value of the apartment as on 1st April, 2025 was Rs. 300 Lakh. Notice under section 10 of the Black Money Act was served in June, 2025.

Decide the amount of undisclosed foreign asset liable to tax and tax payable under the Black Money Act, 2015. What is the time for completing the assessment under the Act?

Solution:

Undisclosed foreign asset under the Black Money Act

Particulars	Rs. in lakhs
The amount of undisclosed asset value ($300L \times \frac{120L}{200L}$)	180.00
Tax thereon @ 30%	54.00
Time limit for assessment	

2 years from the **end of the financial year in which the notice under section 10 was issued.**

Notice issued in June, 2025 and therefore the time limit for completion of assessment under the Black Money Act would be **31st March 2028.**

QUESTION 8 (MQP)

Mr. Gugu (age 77) was the Senior Officer of Rx Motors (P) Ltd. at Gujarat. He retired in June, 2010 and left India permanently in January, 2013. It came to the notice of the Joint Director of Income-tax (Investigation) in June, 2025 that Mr. Gugu had accumulated assets during the previous year 2009-10 exceeding ₹500 lakhs outside India (consisting of residential apartments and deposits in banks) which were not disclosed for income-tax purposes up to the assessment year 2013-14 for which the return of income was filed in India. Mr. Gugu was served with a notice under the Black Money (Undisclosed Foreign Income and Assets) and Imposition of Tax Act, 2015 in August, 2025. Mr. Gugu is of the opinion that since 10 years have elapsed from the last assessment year in which he was assessed in India, no proceedings could be initiated against him under the Income-tax Act, 1961 and the Black Money (Undisclosed Foreign Income and Assets) and Imposition of Tax Act, 2015. Mr. Gugu is a non-resident for the assessment year 2026-27.

Discuss the liability of Mr. Gugu under the Black Money law and state the procedure and methodology for determination of the value of undisclosed asset outside after evaluating the validity of the contentions raised by him.

Solution:

The contention of Mr. Gugu that proceedings under the Black Money (Undisclosed Foreign Income and Assets) and Imposition of Tax Act, 2015 ("Black Money Act") are barred by limitation is **not tenable.**

Validity of contention:

1. The time limitation under the Income-Tax Act, 1961 does not apply to the Black Money Act.
2. There is no time limit for initiation of proceedings under the Black Money Act.
3. Therefore, proceedings can be initiated against Gugu even though 10 years have elapsed from the last assessment year in which he was assessed in India.

Taxability under Black Money Act

1. As per section 3, every assessee is liable to tax @ 30% in respect of his undisclosed foreign income and asset of the previous year.
2. Undisclosed foreign asset is taxable in the previous year in which such asset comes to the notice of the Assessing Officer.
3. In this case, the assets came to the notice of the Joint Director of Income-tax (Investigation) in June 2025 and notice was served in August 2025. Hence, such assets are taxable in P.Y. 2025-26 (A.Y. 2026-27).

Residential status and meaning of assessee

1. Though Gugu is a non-resident in P.Y. 2025-26, he was a resident in P.Y. 2008-09, the year in which he acquired the undisclosed foreign assets.
2. Section 2(2) of the Black Money Act includes within the definition of assessee a non-resident or not ordinarily resident who was resident in India in the year of acquisition of the undisclosed

foreign asset.

3. Accordingly, Gugu is an assessee under the Black Money Act, even though he is a non-resident in 2025-26.

Valuation of undisclosed asset

1. The relevant valuation date is 01.04.2025 (the first day of the previous year in which it comes to the notice of the AO).
2. As per Rule 3 of the Black Money (Undisclosed Foreign Income and Assets) and Imposition of Tax Rules, 2015:

   ♣ Residential apartments abroad → Higher of (i) cost of acquisition, and (ii) fair market value in the open market on valuation date.

   ♣ Bank deposits abroad → Aggregate of all deposits made since the date of opening of the account, excluding redeposits out of withdrawals.

Penalty provisions

In addition to tax @ 30%, Gugu is liable to penalty under section 41 of the Act, equal to three times the tax payable

Conclusion: Mr. Gugu's plea of limitation is invalid. He is liable to pay tax @30% on the FMV of undisclosed foreign assets as on 01.04.2025, being the year of discovery, along with penalty equal to three times the tax. Valuation shall be done as per Rule 3 of the Black Money Rules, 2015.

DISPUTE RESOLUTION COMMEITTEE

QUESTION 1 (ICAI)

What is the need for constitution of Dispute Resolution Committee (DRC)? Can an assessee make an application before DRC against an order which is based on information received under an agreement referred to in section 90 or section 90A?

Solution:

In order to provide early tax certainty to small and medium taxpayers, with effect from 1st April, 2021, new scheme of Dispute Resolution has been formulated for constitution of one or more Dispute Resolution Committee(s) (DRC).

Specified order inter alia does not include an order which is based on information received under an agreement referred to in section 90 or section 90A. Thus, an assessee cannot opt for dispute resolution before DRC in respect of an order which is based on information received under an agreement referred to in section 90 or section 90A.

QUESTION 2 (ICAI)

Can an assessee opt for dispute resolution before DRC if prosecution for any offence punishable under the provisions of the Indian Penal Code has been instituted against him and he has been convicted in respect of the same under the said Act?

Solution:

Dispute Resolution Committee would resolve dispute in the case of such persons or class of persons, as may be specified by the Board, who may opt for dispute resolution under this Chapter in respect of dispute arising from any variation in the specified order in his case and who fulfils the specified conditions.

Specified conditions in relation to a person means a person who inter alia is not a person in respect of whom prosecution for any offence punishable under the provisions of the Indian Penal Code has been instituted and he has been convicted of any offence punishable under the said Act.

Thus, a person in respect of whom any prosecution has been instituted and who is convicted of any offence punishable under the Indian Penal Code, cannot opt for resolution of dispute in respect of specified order before DRC.

DTAA

QUESTION 1 (PEQ)

Shri Anuj, an ordinarily resident in India, provides following details of his income for the previous year relevant to the A.Y. 2026-27

- Income from India ₹ 3,40,000
- Income from Country Z ₹ 2,00,000
- Investment in PPF ₹ 10,000

Further, it is to be noted that:

a) India has avoidance of double taxation agreement with Country Z. According to the said agreement, income is taxable in the country in which it is earned and not in the other country. However, in the other country, such income can be included for the purpose of computation of tax rate.

b) Foreign income has been taxed in Country Z @ 20%. Compute Indian tax payable Assume Mr. Shri Anuj following Normal Tax rates i.e. he opted out from Default tax regime u/s 115BAC.

Solution:

Computation of total income and tax liability of Shri Anuj for the A.Y. 2026-27

Particulars	Amount
Income from India	3,40,000
Income from Country Z	2,00,000
Gross Total Income	5,40,000
Less: Deduction u/s 80C [Investment in PPF]	(10,000)
Total income	5,30,000
Tax on above (2.5L x 5% + 30,000 x 20%)	18,500
Add: Health & Education cess	740
Tax and cess payable	19,240
Less: Relief u/s 90 [₹ 2,00,000 x 3.63%]	(7,260)
Tax payable in India	**11,980**

Average rate of Indian tax = ₹ 19,240 / ₹ 5,30,000 x 100 = 3.63%

QUESTION 2 (PEQ)

Mahesh, aged 64 years, is resident and ordinarily resident in India. His income is ₹ 16,80,000 from a business in India and ₹ 5,45,000 from a business in a foreign country with whom India has agreement for avoidance of double taxation (ADT). According to the ADT agreement, income is taxable in the country in which it is earned and not in other country. However, in the other country, such income can be included for computation of tax rate.

According to the tax laws of the foreign country, Mahesh has paid ₹ 32,000 as tax in that country. During the previous year, Mahesh has paid ₹ 28,000 as tuition fee for his daughter in India and ₹

90,000 as tuition fee for his son outside India for full time education. Mahesh has also received an interest of ₹ 48,000 on Government securities. Find out the tax liability of Mahesh for the assessment year 2026-27.

Assume Mr. Mahesh following Normal Tax rates i.e. he opted out from Default tax regime u/s 115BAC.

Solution:

Computation of Total Income of Mahesh for the Assessment Year 2026-27

Particulars	₹
Business income in India	16,80,000
Foreign income to be included for rate purpose	5,45,000
Interest on Government Securities	48,000
Gross Total Income	22,73,000
Less: Deduction u/s 80C	(28,000)
Total Income	22,45,000
Total	22,45,000
Tax on above (2Lx5% + 5Lx20% + 12.45Lx30%) + 4%	5,02,840
Less: Relief u/s 90 [₹ 5,45,000 x 22.4%]	(1,22,080)
Tax Payable	3,80,760

Average rate of tax = ₹ 5,02,840 / ₹ 22,45,000 x 100 = 22.4%

QUESTION 3 (PEQ)

Ranjit (age 35) a resident in India has total income in India of Rs. 11,20,000. He has income in Country X (Source State) of Rs.4,40,000. Assume the rate of tax in country X as 20% without basic exemption limit. He has opted for section 115BAC and assume that the incomes are assessable for the assessment year 2026-27. Compute the tax liability of Ranjit as per Exemption with Progression Method.

Solution:

Computation of tax liability of Ranjith for AY 26-27

Particulars			Amount
Income from India			11,20,000
Income from Country X			4,40,000
Gross total income			15,60,000
Less: chapter VIA deductions			-
Net total income			**15,60,000**
Tax liability including H & EC			
0-4L	Nil	-	
4L – 8L	5%	20,000	
8L – 12L	10%	40,000	
12L – 15.6L	15%	54,000	
		1,14,000	
(+) H & EC @ 4%		4,560	1,18,560

Average rate of tax in India = $\frac{1,18,560}{15,60,000}$ X 100 = 7.6%	
Tax payable before relief	1,18,560
Less: Relief as per exemption with progression [4,40,000 X 7.6%]	(33,440)
Tax payable	**85,120**

QUESTION 4 (SM)

Mr. A is a resident of India, went on 3 months assignment to Country Y Salary income of Mr. A is ₹ 24,00,000 Of the above, Country Y taxed 3 months income of ₹ 6,00,000 @ 28%. Compute tax liability of Mr. A considering full credit method and ordinary credit method.

Assume Mr. A following Normal Tax rates i.e. he opted out from Default tax regime u/s 115BAC.

Solution:

Computation of tax liability of Mr. A

Particulars	India Rs.	Country Y Rs.
Total Income	24,00,000	6,00,000
Tax rate	Slab	28%
Tax on above before relief (2.5Lx5% + 5Lx20% + 14Lx30%) + 4%	5,53,800	1,68,000
Full credit:		
Tax payable before relief	5,53,800	
Less: Tax paid in Country Y	(1,68,000)	
Tax payable	3,85,800	
Ordinary Credit:		
Tax payable before relief	5,53,800	
Less: lower of the following a. 1,68,000 or b. 1,38,450 [₹ 5,53,800 x ₹ 6,00,000 / ₹ 24,00,000]	(1,38,450)	
Tax payable	4,15,350	

QUESTION 5 (SM)

Ramesh is a resident of India employed in X Co. Ltd. He went on 3 months assignment to Country Y. His total salary for the year is Rs. 18 Lakhs which includes salary in Country Y of Rs. 6 Lakhs which was taxed at 25% without basic exemption limit. Compute his tax liability for the assessment year 2026-27 under full credit method and ordinary credit method. Assume, he opted for section 115BAC.

Solution:

Tax liability of Mr. Ramesh for AY 26-27

Particulars	Amount	Amount
Total Income	India 18,00,000	Country Y 6,00,000
Tax rates	U/S 115BAC	@25%
Tax liability including H & EC		

0-4L	Nil	Nil		
4L – 8L	5%	20,000		
8L – 12L	10%	40,000		
12L – 16L	15%	60,000		
16L – 18L	20%	40,000		
		1,60,000		
(+) H& EC @ 4%		+ 6,400	1,66,400	1,50,000
a. Full credit Tax payable before relief **Less:** Tax paid in country X Tax payable			1,66,400 (1,50,000) **16,400**	
b. Ordinary credit Tax payable before relief **Less:** Lower of following 1,50,000 or $1,66,400 \times \frac{6,00,000}{18,00,000}$ i.e.55,467			1,66,400 (55,467) **1,10,933**	

QUESTION 6 (PEQ)

Mr. Ramesh, a resident Indian, has derived the following incomes for the previous year relevant to the A.Y. 2026-27:

a.	Income from profession in India	₹ 2,44,000
b.	Income from profession in country A (Tax paid in foreign country @ 5%)	₹ 4,50,000

Compute Indian tax liability of the Assessee. As per treaty between India and Country A, ₹ 4,50,000 is taxable in India. However foreign tax can be set off against Indian tax liability.

Assume Mr. Ramesh following Normal Tax rates i.e. he opted out from Default tax regime u/s 115BAC.

Solution

Computation of total income and tax liability of Mr. Ramesh for the A.Y. 2026-27

Particulars	Amount
Income from profession in India	2,44,000
Income from profession in Country A	4,50,000
Gross Total Income	6,94,000
Less: Chapter VIA Deduction	Nil
Total income	6,94,000
Tax on above (2.5Lx5% + 1.94Lx20%)	51,300
Add: Health & Education cess	2,052
Tax and cess payable	53,352
Less: Relief u/s 90 [₹ 4,50,000 x 5%]	(22,500)
Tax payable in India (Rounded off u/s 288B)	30,850

QUESTION 7 (SM)

- A Co, the parent company, being located in Country X has a branch in Country Y
- Branch earns a profit of ₹ 10,00,000
- Country X taxes residents on global income @ 30%
- Tax rate in country Y is 25%. However, as a measure to promote economic development therein (like special economic zones), country Y is not levying any tax.
- DTAA between Country X-Y has tax sparing provisions. Compute tax sparing if branch operates in a specified area and is not taxed in Y

Solution:

Computation of tax liability of A Co

Particulars	Country X	Country Y
Total Income	10,00,000	10,00,000
Tax on above before relief	**3,00,000**	**0**
Relief as per tax sparing provision		
Relief [₹ 10,00,000 x rate of tax in foreign country i.e., 25%]	2,50,000	
Tax Payable	**50,000**	**0**

Relief is available in country X deeming that tax has been paid in the country Y @ 25% though no tax has been paid in the country Y.

QUESTION 8 (SM)

Mr. Saha, a resident Indian, has derived the following incomes for the previous year relevant to the A.Y. 2026-27:

a.	Income from profession	₹ 3,74,000
b.	Royalty on books from foreign country Y (₹ 3,00,000 is eligible for deduction u/s 80QQB) (Tax paid in foreign country @ 20%)	₹ 5,00,000

Compute Indian tax liability of the Assessee. Assuming that India does not have any agreement with country Y.

Assume Mr. Saha following Normal Tax rates i.e. he opted out from Default tax regime u/s 115BAC.

Solution:

Computation of total income and tax liability of Mr. Saha for the A.Y. 2026-27

Particulars	Amount
Income from profession	3,74,000
Royalty earned in country Y	5,00,000
Gross Total Income	8,74,000
Less: Deduction u/s 80QQB	(3,00,000)
Total income	5,74,000
Tax on above (2.5Lx5% + 74k x20%)	27,300
Add: Health & Education cess	1,092

Tax and cess payable	28,392
Average rate of tax [₹ 28,392 / ₹ 5,74,000 x 100]	4.95%
Rate of tax in country Y	20%
Tax liability before Relief	28,392
Less: Relief u/s 91 [4.95% of ₹ 2,00,000]	(9,900)
Tax payable (Rounded off u/s 288B)	**18,490**

Indian average tax rate: 04.95%
Foreign average tax rate: 20.00%
Relief u/s 91 is available at lower of aforesaid rate. i.e., 4.95%

QUESTION 9 (PEQ)

Mr. Bedi (63 years] is a musician deriving income from concerts performed outside India of Rs. 7,50,000. Tax of Rs. 1,50,000 was deducted at source in the country where the concerts were given and remaining Rs. 6,00,000 is remitted to India. India does not have any agreement with that country for avoidance of double taxation. Assuming that the Indian income of Mr. Bedi is Rs. 3,98,000. what is the relief due to him under section 91 for assessment year 2026-27, assuming that Mr. Bedi has deposited Rs. 20,000 in the public provident fund account during the previous year 2025-26.
Assume Mr. Bedi following Normal Tax rates i.e. he opted out from Default tax regime u/s 115BAC.

Solution:

Computation of total income & Tax liability of Mr. Bedi for AY 26-27

Particulars	Rs.
Indian income	3,98,000
Foreign income	7,50,000
Gross total income	11,48,000
Less: Deduction under section 80C	20,000
Net income	11,28,000
Tax on net income	1,48,400
Add: Surcharge	Nil
	1,48,400
Add: Health and education cess	5,936
Tax	1,54,336
Rate of tax in India [i.e., Rs. 1,54,336 / Rs. 11,28,000] X 100	13.68227%
Rate of tax in foreign country [i.e., Rs. 1,50,000 / Rs. 7,50,000]X 100	20%
Tax payable before Relief	1,54,336
Less: Relief under section 91 on Rs. 7,50,000 @ 13.68227%	(1,02,617)
Tax payable in India (rounded off)	51,720

QUESTION 10 (WB)

Assessee: Mr. Arnav

Status: Resident and Ordinarily Resident Individual

Age: 58 years

Assessment Year: 2026-27

Tax Regime: Old regime

Financial Details:

Mr. Arnav earns income from both India and a foreign country during the previous year 2025-26. He provides the following details:

- Business income in India: ₹4,00,000
- Business income in Foreign Country Y: ₹9,00,000
- Premium paid for medical insurance for his non-resident father, aged 83, via cheque: ₹28,000
- Income-tax paid in Country Y: 22% on ₹9,00,000 = ₹1,98,000

You are required to compute the tax liability (as per the old tax regime) of Mr. Arnav if India does not have a DTAA with Country Y

Solution

Computation of total income and tax liability of Mr. Arnav for the A.Y. 2026-27

Particulars	Amount
Business income in India	4,00,000
Business income in foreign country	9,00,000
Gross Total Income	13,00,000
Less: Deduction u/s 80D [his father is a non-resident; hence he is not a senior citizen]	25,000
Total income	12,75,000
Tax on above (2.5Lx5% + 5Lx20% + 2,75,000x30%)	1,95,000
Add: Health & Education cess	7,800
Tax and cess payable	2,02,800
Average rate of tax in India [₹ 2,02,800 / ₹ 12,75,000 x 100]	15.90%
Rate of tax in country Y	22%
Relief u/s 91 [15.90% of ₹ 9,00,000]	1,43,153
Tax payable (Rounded off u/s 288B)	**59,650**

Indian average tax rate: 15.90%

Foreign average tax rate: 22.00%

Relief u/s 91 is available at lower of aforesaid rate. i.e., 15.90%

QUESTION 11 (SM)

Amar, an individual, resident of India, receives the following payments after TDS during the previous year 2025-26:

i	Professional fees on 17.08.2025	2,40,000
ii	Professional fees on 04.03.2026	1,60,000

Both the above services were rendered in country X on which TDS of ₹ 50,000 and ₹ 30,000 respectively has been deducted. He had incurred an expenditure of ₹ 2,40,000 for earning both these

receipts / incomes. His income from other sources in India is ₹ 5,00,000 and he has made payment of ₹ 70,000 towards LIC. Compute the tax liability of Amar and the relief u/s 91, if any, for A.Y.2026-27.

Assume Mr. Amar following Normal Tax rates i.e. he opted out from Default tax regime u/s 115BAC.

Solution

Computation of total income and tax liability of Mr. Amar for the A.Y. 2026-27

Particulars	Amount	Amount
Income from profession from foreign (Gross Amount)	4,80,000	
Less: Expenses	2,40,000	2,40,000
Income from profession in India		5,00,000
Gross Total Income		7,40,000
Less: Deduction u/s 80C		(70,000)
Total income		**6,70,000**
Tax on above (2.5Lx5% + 1.7Lx20%)		46,500
Add: Health & Education cess		1,860
Tax and cess payable		48,360
Average rate of tax [₹ 48,360 / ₹ 6,70,000 x 100]		7.22%
Rate of tax in Country X [80,000/4,80,000 X 100]		16.67%
Tax liability before relief		48,360
Less: Relief u/s 91 [7.22% of ₹ 2,40,000]		(17,328)
Tax payable (Rounded off u/s 288B)		**31,030**

Relief u/s 91 is available at lower rate. i.e., 7.22%

QUESTION 12 (PEQ)

Arvind, a textile merchant and resident Indian is doing business in India and abroad. During the previous year 2025-26, he disclosed the following information:

Particulars	₹
Income from business in India	27,00,000
Income from business in Country- A with which India does not have agreement for avoidance of double taxation	15,00,000
Income-tax levied by government in Country-A	5,00,000
Loss from business in Country-B with which also India does not have agreement for avoidance of double taxation	(4,00,000)
Contribution to public provident fund	1,50,000
Payment of life insurance premium on the life of his Father and mother	20,000

Assume Mr. Arvind following Normal Tax rates i.e. he opted out from Default tax regime u/s 115BAC.

Solution:

Computation of total income and tax liability for the A.Y. 2026-27

Particulars	Amount
Income from business in India	27,00,000
Income from business in Country A	15,00,000
Income from business in Country B	(4,00,000)

Gross Total Income	38,00,000
Less: Deduction u/s 80C	(1,50,000)
Total income	**36,50,000**
Tax on above (2.5Lx5% + 5Lx20% + 26.5Lx30%)	9,07,500
Add: Health & Education cess	36,300
Tax and cess payable	**9,43,800**
Average rate of tax [₹ 9,43,800 / ₹ 36,50,000 x 100]	25.86%
Rate of tax in country A [5L/15L X 100]	33.33%
Tax liability before Relief	**9,43,800**
Less: Relief u/s 91 [25.86% of ₹ 15,00,000]	(3,87,900)
Tax payable	**5,55,900**

Indian average tax rate: 25.86%
Foreign average tax rate: 33.33%
Relief u/s 91 is available at lower of aforesaid rate. i.e., 25.86%

QUESTION 13 (PEQ)

Mr. Amin, a resident individual in India (age 42) furnishes you the following particulars of income for the previous year 2025-26:

Particulars	₹
Income from business in India (computed)	11,00,000
Dividend received from Company incorporated in Country X(gross)	2,00,000
Royalty income from writing text book for schools in Country Y (gross)	6,00,000
Expenditure incurred for authoring text book	50,000
Business loss in Country Y (gross)	2,50,000
Health insurance premium paid by credit card for his father (age 67) a resident in India (His father is not dependent on Mr. Amin)	30,000

The business loss in Country Y is eligible for set off against other income as per the Income- tax law of that country.
There is no DTAA between India and Country "X" and Country "Y" given above. The rate of tax in Country "X" and Country "Y" may be taken as 10% and 25% respectively (without any threshold exemption limit).
On the basis of aforesaid information, you are requested to choose correct options for the following:

1) What will be his tax liability before any relief u/s 90 or 91?
2) What is his average rate of tax?
3) State the eligible amount of relief u/s 90 or 91

Assume Mr. Amin following Normal Tax rates i.e. he opted out from Default tax regime u/s 115BAC.

Solution:

Computation of Total Income of Mr. Amin for A.Y. 2026-27

Particulars	₹	₹	₹
Profits and gains of Business or profession			
Income from business in India		11,00,000	
Less: Loss from business in Country "Y"		(2,50,000)	8,50,000

Income from other Sources			
Dividend from companies in Country "X"		2,00,000	
Royalty income from Country "Y"	6,00,000		
Less: Expenditure thereon	(50,000)		
		5,50,000	7,50,000
Gross Total Income			16,00,000
Less: Deduction under Chapter VI-A			
Sec 80D: Health insurance premium for father, senior citizen is deductible even though he is not dependent on the Assessee.		(30,000)	
Sec 80QQB: As the Assessee has authored text- book for schools in Country "Y" hence it is not eligible for deduction.		-	(30,000)
Total Income			**15,70,000**
Tax on above (2.5Lx5% + 5Lx20% + 5.7Lx30%)			2,83,500
Add: Cess			11,340
Tax Liability before Relief			2,94,840
Less: Relief u/s 91 [See Working]			(76,339)
Tax after relief (Rounded off u/s 288B)			**2,18,500**

Working:

Country X		
Average rate of tax in India ₹ 2,94,840 / ₹ 15,70,000 x 100	18.78%	
Average rate of tax in country X	10%	
Doubly taxed income of country X	2,00,000	
Relief u/s 91 would be 10% or average rate @ 18.78%, whichever is lower [10% on ₹ 2 lakhs]		₹ 20,000
Country Y		
Doubly taxed income of country Y (after set-off of business loss)	3,00,000	
Average rate of tax in India	18.78%	
Rate of tax country Y	25%	
Relief u/s 91 would be @ 18.78% or 25% whichever is lower [18.78% on ₹ 3 lakhs]		₹ 56,339
Relief under section 91		₹ 76,339

QUESTION 14 (PEQ)

The assessee is a popular Kollywood star Mr. Sohan Lal. He has business interest in few other nations as well. He is a resident in India for the Assessment Year 2026-27. Income earned in India by Mr. Shan Lal during the year ended 31-3-2026:

(₹ in crores)

Income from house property (Computed)	4.3
Business income: From being the owner of cricket team Hyderabad Super Stars	12.4
Acting in movies	9.415

Mr. Sohan Lal has deposited ₹ 1.5 lakhs in PPF and paid Life Insurance premium of ₹ 1 lakh. The details of income earned by him from two countries outside India, X and Y, with which India does not have any DTAA, during the P.Y. 2025-26 are as under:

(₹ in crores)

Type of Income	X	Y
Loss from house property (Computed)	1.3	-
Business income:		
- Own	7.2	2.9
- Share income from partnership firm (not evidenced by an instrument in writing)	4.8	-
Agricultural income	-	1.2

In Country X, share income is not exempt and loss from house property is not eligible for being set off against other income. In Country Y, agricultural income is chargeable to income-tax. In Country X, he has paid income-tax of ₹ 2.16 crores and in Country Y ₹ 80 lakhs on the total income earned in those countries.

Compute his income-tax liability for the A.Y.2026-27, assuming that he has opted for section 115BAC.

Solution:

Computation of tax liability of Mr. Sohan Lal for A.Y.2026-27

Particulars	Details	₹	₹
Income from house property			
Income from house property in India	4,30,00,000		
Less: Loss from house property in Country X	1,30,00,000	3,00,00,000	
Profits and gains of business or profession			
Business income in India			
From being the owner of cricket team Hyderabad Super Stars	12,40,00,000		
From acting in movies	9,41,50,000	21,81,50,000	
Business income in Country X			
Own	7,20,00,000		
Share income from foreign firm [exemption u/s 10(2A) is available if it is from Indian partnership firm]	4,80,00,000	12,00,00,000	
Business income in Country Y		2,90,00,000	36,71,50,000
Income from Other Sources			
Agricultural income from Country Y			1,20,00,000
Gross Total Income			**40,91,50,000**
Less: Deductions under Chapter VI-A			
Under section 80C (LIC & PPF) [not available]			-
Total Income			**40,91,50,000**

Computation of tax liability			
Tax on total income			12,23,25,000
Add: Surcharge @ 25%			3,05,81,250
			15,29,06,250
Add: HEC @ 4%			61,16,250
Tax liability			15,90,22,500
Less: Deduction under section 91 **[See Working Notes]**			(2,72,60,000)
Net Tax liability (rounded off)			**13,17,62,500**

Working Note 1: Computation of deduction u/s 91

Particulars	₹	₹
Deduction under section 91 in respect of doubly taxed income in India and Country X:		
- Business Income	7,20,00,000	
- Taxable share income from firm	4,80,00,000	
- Loss from house property	(1,30,00,000)	
Doubly taxed income	**10,70,00,000**	
Lower of Indian rate of tax and rate of tax in Country X	18%	
Deduction u/s 91 [18% x ₹ 10.70 crores]		1,92,60,000
Deduction under section 91 in respect of doubly taxed income in India and Country Y Doubly taxed income:		
Business Income	2,90,00,000	
Agricultural income	1,20,00,000	
Doubly taxed income	**4,10,00,000**	
Lower of Indian rate of tax and rate of tax in Country Y	19.512%	
Deduction u/s 91 = 19.512% x ₹ 4.10 crores		80,00,000
Deduction under section 91		**2,72,60,000**

Working Note 2: Computation of average rate of tax in India, Country X & Country Y

Average rate of tax in India	[15,90,22,500 x 100/40,91,50,000]	38.87%
Average rate of tax in Country X	[2,16,00,000 x 100/12,00,00,000]	18%
Average rate of tax in Country Y	[80,00,000 x 100/4,10,00,000]	19.512%

QUESTION 15 (PEQ)

Manoj (age 50 years), an Indian resident doing business in India and in Country X and Country Y, discloses the following information for the previous year 2025-26:

	₹
Income from automobile business in India	9,10,000
Income from rubber estate in Country X	5,00,000

Loss from textile business in Country Y	2,00,000
Income from property in Country Y	50,000
Income from authorship of book in Country Y (not eligible for deduction under section 80QQB)	3,00,000
Contribution to public provident fund	1,10,000
Housing loan interest in respect of self-occupied property in India	2,00,000
Housing loan principal in respect of self-occupied property	70,000
Health insurance premium for non-resident parents (senior citizens)	35,000

Tax rate in Country X 10% without basic exemption limit

Tax rate in Country Y 25% without basic exemption limit

India has no DTAA with both Country X and Country Y.

Note: Assume Manoj has not opted for section 115BAC.

Compute the total income and tax liability of Manoj for the assessment year 2026-27.

Solution:

Computation of total income and tax liability of Manoj for the AY 26-27

Particulars	Amount ₹	Amount ₹
a) Income from house property:		
Country Y [LOP]	50,000	
IFHP in India [SOP] [NAV]	0	
(-) Interest on borrowing capital	(2,00,000)	(1,50,000)
b) Income from PGBP:		
Income from automobile business India	9,10,000	
Income from rubber estate in country X	5,00,000	
(-) loss from textile business in country Y	(2,00,000)	
		12,10,000
c) IFOS:		
Income from authorship of book		3,00,000
Gross total income		**13,60,000**
(-) Chapter VIA deductions		
→ 80C – Contribution to PPF	1,10,000	
– Housing loan principal	70,000	
(Restricted)		(1,50,000)
→ 80D – Health insurance		(25,000)
Net total income		**11,85,000**
Tax liability before relief		1,74,720
[2.5Lx 5% + 5L x 10% + 1.85L x 30%] + 4%		
(-) relief u/s 91 (Working Note)		72,110
Tax liability after relief		1,02,610
Rounded off		**1,02,600**

Working Note:

a) Country X:

Indian Average rate = $\frac{1,74,720}{11,85,000} \times 100 = 14.74\%$

Country x average rate = 10%

Double tax income = [5,00,000 x 10%] 50,000

b) **Country Y:**

Indian average rate = 14.74%

Country Y average rate = 25%

Double tax amount = [1,50,000 x 14.74%] 22,110

72,110

QUESTION 16 (PEQ)

Ramesh (age 61) an individual resident in India furnishes you particulars of income for the previous year 2025-26. He earned income in country M and India has not entered into double taxation avoidance agreement with that country.

Particulars	Rs.
Income from house property in country M	2,50,000
Business income in India	8,00,000
Dividend from company in country M	1,00,000
Royalty income country M (see note below)	4,00,000
Business income in country M	2,00,000
Income from house property in India	5,00,000
Donation to Prime Minister 's National Relief Fund	50,000
Incurred medical expenses for his mother aged 85	60,000
Rate of tax in country M (no basic exemption limit)	20%
Note: Ramesh disputed royalty income in country M but paid the tax on that income in June 2025 after the appeal was decided by the appellate authority. The royalty income is charged to tax at concessional rate of 15% in country M.	

Assume Mr. Ramesh following Normal Tax rates i.e. he opted out from Default tax regime u/s 115BAC.

Solution:

Computation of Total Income of Ramesh for the Asst. Year 2025-26

Particulars	₹
Income from House property	
Income from house property - in country M	2,50,000
Income from house property - in India	5,00,000
Income from business	
Income from business - in India	8,00,000
Income from business - in country M	2,00,000
Income from other sources	
Dividend income - country M	1,00,000

Royalty income in country M		4,00,000
Gross Total Income		22,50,000
Less: Deduction U/s80D in respect of medical expenditure, for mother being very senior citizen ₹60,000 but limited to	50,000	
Less: Deduction U/s80G in respect of donation paid Prime Minister's National Relief Fund ₹ 50,000 @ 100%	50,000	
		(1,00,000)
Net total income		21,50,000
Tax thereon (2Lx5% + 5Lx20% + 11.5Lx30%)		4,55,000
Add: Cess @ 4%		18,200
Tax liability before relief		4,73,200
Less: Rebate u/s 91 (Note)		(1,70,000)
Tax payable		3,03,200
Note:		
Average rate of income-tax in India ₹4,73,200/21,50,000 ×100		22%
Doubly tax income in country M		
Royalty income ₹ 4,00,000 × 15%	₹60,000	
Other income ₹ 5,50,000 × 20% (₹2,50,000 + ₹2,00,000 + ₹1,00,000)	₹1,10,000	
	₹1,70,000	
Average rate of tax = ₹ 1,70,000/9,50,000 ×100	17.89%	
Rebate u/s 91 @ 17.89% on ₹ 9,50,000		1,70,000

QUESTION 17 (PEQ)

Bhist, aged 58, a resident of India, has business activities in India, as well as in Country M, with which India does not have a DTAA. During the year ended 31st March, 2026 he has derived the following income:

In India	₹
Income from speculation business	9,67,000
Gross rent received for let-out property	6,00,000
Property tax paid for above	72,000
In Country M	
Loss from business	1,24,000
Interest from bonds and bank deposits	6,74,000
Other information	
He has paid PPF as under:	

For self	1,20,000
For handicapped brother dependent on him	80,000

Compute the tax liability for the assessment year 2026-27. In country M income after set off losses is taxed @ 15% without any basic exemption.

Rate of tax may be calculated up to two decimal places.

Assume Mr. Bhist following Normal Tax rates i.e. he opted out from Default tax regime u/s 115BAC.

Solution:

Compute tax liability of Mr. Bhist for AY 26-27

Particulars		Amount
IFHP		
GAV	6,00,000	
(-) Municipal taxes paid	(72,000)	
NAV	5,28,000	
(-) Standard deduction @ 30%	(1,58,400)	
		3,69,600
PGBP		
Speculative Income	9,67,000	
(-) Business loss	(1,24,000)	8,43,000
IFOS Interest		6,74,000
Gross total Income		18,86,600
Less: Chapter VIA deductions 80C – PPF for self		(1,20,000)
Net total Income		17,66,600
Tax liability including cess [2.5L X 5% + 5L X 20% + 7,66,600 X 30%] + 4%		3,56,179
Average tax rate – India $\left[\frac{3,56,180}{17,66,600} \times 100\right]$ 20. 16% Foreign tax rate 15%		15%
Tax liability before relief		3,56,179
Less: Relief U/S 91 [(6,74,000 – 1,24,000) X 15%]		(82,500)
Tax payable		2,73,679
Tax payable (Rounding off)		2,73,680

QUESTION 18 (PEQ)

Ms. Vibha, aged 37 is a musician, who gives music concerts in Nation N, with which India does not have a DTAA. The following are the broad details of income earned by her during the year ended 31-3-2026:

Particulars	₹
Income from music concerts in India	5,40,000
Income from music concerts in Nation N (as converted into INR)	6,70,000
Agricultural income in Nation N (exempt in that nation)	2,12,000
Loss from card games	37,000
Life Insurance premium paid in India (Sum assured Rs 10 Lakhs)	52,000
PPF paid for her daughter employed in IT sector	1,20,000

In nation N, there is a flat basic deduction of 20% of total income and balance income is taxed at 12%.

You are required to compute the total income and the tax liability of the Assessee for the AY 2026-27. Suitable note is to be appended for treatment/computation of tax.

She has opted for the provisions of section 115BAC.

Calculate the tax rate up to two decimal places.

Vibha is a resident in India.

Solution:

Computation of total income & Tax liability of Vibha for AY 26-27

Particulars			Amount
PGBP			
Income from music concerts – India		5,40,000	
Income from music concerts – country N		6,70,000	12,10,000
IFOS			
Foreign agricultural income			2,12,000
Gross total income			14,22,000
Less: Chapter VIA deductions			-
Net total Income			14,22,000
Tax liability including H & EC			
0-4L	**0**	**NIL**	
4L – 8L	5%	20,000	
8L – 12L	10%	40,000	
12L – 14.22L	15%	33,300	
		93,300	
(+) H & EC @ 4%		3,732	97,032

Average tax rate in India 6.82%

$$\left[\frac{97,032}{14,22,000} \times 100\right]$$

Tax rate in foreign country 9.6%

Total income	6,70,000
(-) Exempt @ 20%	(1,34,000)

	5,36,000	
Tax @ 12%	64,320	
	Rate = $\frac{64,320}{6,70,000} \times 100$ i.e. 9.6%	
Tax payable before Relief		97,032
Less: Relief u/s 91 [6,70,000 X 6.82%]		(45,694)
Tax liability (Rounding off)		51,340

QUESTION 19 (PEQ)

Hari, aged 42 years, a resident individual furnishes the following particulars of income earned by him in India and Country SA for the financial year 2025-26. India does not have a Double Taxation Avoidance Agreement (DTAA) with Country SA.

Particulars	₹
Income from profession carried on in India	10,50,000
Agricultural Income from Country SA	2,65,000
Dividend from a company incorporated in Country SA (gross)	66,000
Royalty income from Country SA (gross)	10,10,000
Expenses incurred for earning royalty	2,10,000
Business loss in Country SA	2,50,000

Assume that the royalty earned outside India is eligible for deduction under section 80QQB. Income-tax law of Country SA permits set-off of business loss against any other income. The rate of income-tax in Country SA is 15%.

Compute total income and net tax liability of Hari in India for A.Y. 2026-27, assuming that Hari has satisfied all the conditions for the purposes of section 91 and opted out of the default tax regime under section 115BAC(1A).

Solution:

Computation of total income of Hari for the assessment year 2026-2027		
Normal provisions of the Income-tax Act, 1961		
Particulars	**₹**	**₹**
Profits and gains of business or profession		
Income from profession carried on in India		10,50,000
Royalty income from a literary book from Country SA (net of expenses)	8,00,000	
Less: Business loss in Country SA	(2,50,000)	
		5,50,000
PGBP income		16,00,000
Income from other sources		
Agricultural income in Country SA [Not exempt u/s 10(1)]	2,65,000	

Dividend from a company incorporated in Country SA	66,000	
		3,31,000
Gross total income		19,31,000
Less: Deduction under Chapter VI-A		
Under section 80QQB -Royalty income of a resident restricted to		3,00,000
Total income		16,31,000
Note: Since the adjusted total income (i.e. ₹ 16,31,000) does not exceed ₹ 20 lakhs, AMT would not be attracted in this case.		
Tax on total income @ slab rate	3,01,800	
Add: Health and education cess @4%	12,072	
Tax Liability		3,13,872
Calculation of Rebate under section 91		
Average rate of tax in India [i.e. ₹ 313872 / ₹ 1631000 X 100)	19.24%	
Average rate of tax in Country SA	15%	
Doubly taxed income pertaining to Country SA		
Agricultural Income		2,65,000
Royalty Income (net of deduction u/s 80QQB) (8,00,000-3,00,000)		5,00,000
Dividend income		66,000
		8,31,000
Less: Business Loss set off		(2,50,000)
Doubly taxed income		5,81,000
Rebate under section 91 (On ₹ 5,81,000 @15% being lower of Indian Tax rate and the tax rate in country SA)		87,150
Net tax liability (3,13,872-87,150)		2,26,722
Net tax liability (Rounded off)		2,26,720

QUESTION 20 (MQP)

Mr. Avinash, a resident aged 45 years is a salaried employee employed with ZZ P Ltd. He received the following components of his salary income during the previous year 2025-26.

- Basic Salary ₹60,000 p.m.
- Dearness Allowance 12% of basic salary
- Transport Allowance ₹10,000 p.m.
- Medical Allowance ₹5,000 p.m.

He contributed ₹18,000 to approved Pension Fund of LIC. He also paid ₹2,00,000 by crossed cheque for Mediclaim premium to insure the health of his mother, a resident aged 63 years, who is not dependent on him as a lump sum payment for 5 years including the current previous year. He also delivered guest lecture in a reputed university in Country A during the year. He received ₹8,00,000

from such university after deduction of tax of ₹2,00,000 in Country A. India does not have any double taxation avoidance agreement under section 90 of the Income-tax Act, 1961, with Country A. Calculate the tax liability of Mr. Avinash for the A.Y. 2026-27. He has opted out of the Default Tax Regime.

Solution:

Computation of total income of Mr. Avinash for the A.Y. 2026-27

Particulars	Amount (₹)	Amount (₹)
Salaries [Indian Income]		
Basic Salary (₹60,000 × 12 months)	7,20,000	
Dearness Allowance (12% of basic salary of ₹7,20,000)	86,400	
Transport Allowance (₹10,000 × 12) [Fully taxable]	1,20,000	
Medical Allowance (₹ 5,000 × 12) [Fully taxable]	60,000	
Gross Salary	**9,86,400**	
Less: Standard deduction u/s 16(ia) Lower of actual salary or ₹ 50,000	(50,000)	
Net Salary		**9,36,400**
Income from Other Sources [Foreign Income] Income from lectures in foreign university [₹ 8,00,000 plus tax deducted at source of ₹ 2,00,000]		10,00,000
Gross Total Income		**19,36,400**
Less: Deduction under Chapter VIA **Under section 80CCC** – Contribution to approved Pension Fund of LIC **Under section 80D** – Medical insurance premium of mother, being a resident senior citizen for the year 2023-24, ₹40,000 [being 1/5th of the lump sum premium of ₹2,00,000 paid for 5 years] fully allowable, even though she is not dependent on him, since the same does not exceed ₹50,000	(18,000) (40,000)	(58,000)
Total Income		**18,78,400**

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

Particulars		Amount (₹)
Tax on total income (2.5Lx5% + 5Lx20% + 8,78,400x30%)		3,76,020
Add: Health and education cess@4%		15,041
Tax Liability		3,91,061
Average rate of tax in India [i.e., 3,91,061 / 18,78,400 × 100]	20.82%	
Tax rate in Country A [2,00,000 /10,00,000] × 100	20%	
Deduction under section 91 on ₹ 10,00,000, being the doubly taxed income@ 20% [being the lower of Indian rate of tax (20.82%) and Country A tax rate (20%)]		2,00,000
Tax Payable		**1,91,061**
Tax Payable (rounded off)		1,91,060

QUESTION 21 (PEQ)

Madhu, an Indian resident aged 34 is a trainer in marketing. He takes online classes for persons resident in Country Y. For the year ended 31st March, 2026, he gives the following details about his income:

a) Dividend from Indian companies ₹ 2,87,500. Interest on money borrowed for investment in shares ₹ 90,000.

b) Amount received from online classes from Country Y residents ₹ 45,000 p.m. Tax rate on such income in Country Y 15% without any basic exemption limit.

c) On 25/6/25, Long term capital gains on sale of listed shares of Indian companies (STT paid) ₹ 26,00,000 (computed without indexation) and ₹ 24,00,000 (computed with indexation). Capital gain was computed without considering the investment of ₹ 10,00,000 in capital gain bonds of REC within the prescribed limits.

Assume that the Assesses does not opt for the provisions of Section 115BAC

Solution:

Total Income of Madhu for the Asst. Year 2025-26

Particulars		Amount
Profits and gains of Business or profession		
Fees from online marketing classes		5,40,000
Capital gains		
Long-term capital gains	26,00,000	
Less: Exemption U/s.54EC in respect of capital gain bonds of REC acquired within the prescribed time of 6 months from the date of transfer.	Not available	
		26,00,000
Income from other sources		
Dividends from Indian companies	2,87,500	
Less: Interest on moneys borrowed for acquisition of shares ₹ 90,000. But the deduction is limited to 20% of dividend income	(57,500)	
		2,30,000
Total income		33,70,000
Tax on total income		
Tax on LTCG (26,00,000 – 1,25,000) x 10%		2,47,500
Tax on remaining Income i.e. 7,70,000		
Slab Rates (2.5Lx5% + 2.7LX20%)		66,500
		3,16,500
Add: Cess @ 4%		12,660
Indian tax payable (A)		3,29,160
Average rate of tax in India:		9.77%

Average rate of tax in Foreign	15%
Less: Double taxation relief u/s. (5,40,000 x 9.77%) (B)	52,758
Tax payable (A) – (B)	2,76,402
Round off	**2,76,400**

QUESTION 22 (PEQ)

Mr. Virat Pandey, aged 62 years, a resident individual furnishes the following particulars of income earned by him in India and in Canada for the previous year 2025-26. India does not have a double taxation avoidance agreement with Canada.

Particulars	Amount (₹)
Gross Salary in India	6,25,000
Professional Income received in Country Canada	4,80,000
Dividend Income in Country Canada	88,000
Rent from House Property Situated in Country Canada	1,80,000
Interest Income on FDR's with Bank of Baroda, Pune Branch	62,000
Paid interest on Housing Loan to Punjab National Bank, Pune branch for the residential property, where he and his family resides.	1,80,000
Investment in Public Provident Fund	1,20,000
Medical Insurance Premium paid for himself	35,000

Assume the tax rate in Country Canada is 12%.

Compute the total income and tax liability of Mr. Virat Pandey for the Assessment Year 2026-27 as per default tax regime u/s 115BAC.

Solution:

Computation of Total Income of Mr. Virat Pandey for A.Y. 2026-27

Particulars	₹	₹
Income from salaries [Standard deduction of ₹75,000 allowable]		5,50,000
Income from House Property		
Annual value of self-occupied property in India	Nil	
Less: Interest on housing loan [not allowable, since he opts for section 115BAC]	Nil	
	Nil	
Annual value of house property in Canada [Rental income from property in Canada*]	1,80,000	
Less: Deduction u/s 24 (a) @30% (allowable in respect of let out property)	(54,000)	1,26,000
Profits and gains form business or profession		
Professional income from Canada		4,80,000
Income from Other Sources		
Dividend from Canada		88,000

Interest on FDRs with Bank of Baroda		62,000
Gross Total Income		13,06,000
Less: Deduction u/s 80C in respect of investment in PPF and deduction u/s 80D in respect of medical insurance premium [not deduction is allowable under these sections, since he opts for section 115BAC]		Nil
Total Income		**13,06,000**

*In the absence of any information relating to fair rent, municipal value and standard rent, rental income assumed to be GAV.

Computation of Tax Liability of Mr. Virat Pandey for A.Y.2026-27

Particulars	₹	₹
Up to ₹4,00,000	Nil	
₹4,00,000 – ₹8,00,000 [i.e. ₹4,00,000@5%]	20,000	
₹8,00,001 – ₹12,00,000 [i.e. ₹4,00,000@10%]	40,000	
₹12,00,001 – ₹13,06,000 [i.e. ₹1,06,000 @15%]	15,900	75,900
Add: Health & Education Cess @ 4%		3,036
		78,936
Less: Deduction u/s 91		
Average rate of tax in India = ₹78,936 ×100/ ₹13,06,000 = 6.044%		
Rate of tax in Canada = 12%		
Doubly taxed income = ₹1,26,000 + ₹4,80,000 + ₹88,000 = ₹6,94,000		
Lower of the Indian rate of tax and Canada rate of tax is 6.044 %, which has to be applied on doubly taxed income of ₹6,94,000 [6.044 %× ₹6,94,000]		41,945
Tax Payable		36,991
Tax Payable (rounded off)		**36,990**

QUESTION 23 (WB)

Mrs. Kavita, aged 63 years, is a resident individual and a classical dance performer. During the previous year 2025-26, she earned income from India as well as from Country X. India does not have a DTAA with Country X. Her income and investments are as follows:

1. Rental income from residential house property located in Country X is XCD 28,000.
   - Municipal taxes paid in Country X: XCD 250
   - Conversion rate: ₹ 70 per XCD
2. Professional income from concerts held in India: ₹ 16,00,000
3. Professional income from concerts held in Country X: XCD 11,200
4. Interest income from Indian bank fixed deposits: ₹ 3,25,000
5. Interest from Indian savings bank account: ₹ 18,269

6. Investment in PPF: ₹ 1,50,000
7. 5-year deposit in the name of son: ₹ 1,50,000 (not eligible for deduction)
8. Medical insurance premium:
   - For self: ₹ 27,000
   - For spouse: ₹ 31,000
9. Tax paid in Country X : 20% on income earned there

Mrs. Kavita has not opted for section 115BAC. Compute her tax liability in India.

Solution:

Computation of total income and tax liability for the A.Y. 2026-27

Particulars	Amount	Amount
Income from House Property		
Gross Annual Value [XCD 28,000 x ₹ 70 – as per Rule 115]	19,60,000	
Less: Municipal Tax [XCD 250 x ₹ 70]	(17,500)	
Net Annual Value (NAV)	19,42,500	
Less: Standard Deduction @ 30% of NAV	(5,82,750)	13,59,750
Profits and Gains of Business or Profession		
From concerts in India	16,00,000	
From concerts in Country X [XCD 11,200 x ₹ 70]	7,84,000	23,84,000
Income from Other Sources		
Interest on Fixed Deposits	3,25,000	
Interest on Saving Bank Deposits	18,269	3,43,269
Gross Total Income		40,87,019
Less: Deduction u/ch VIA		
- Deduction u/s 80C [Investment in PPF]	1,50,000	
- Deduction u/s 80D [Medical Insurance subject to max limit]	50,000	
- Deduction u/s 80TTB [Interest on bank FD & saving bank deposit subject to max limit]	50,000	2,50,000
Total Income		**38,37,019**
Total Income [Rounded off]		**38,37,020**
Tax on above (2 Lx5% + 5Lx20% + 28,37,020x30%)		9,61,106
Add: Health & Education cess @4%		38,444
Tax and cess payable		9,99,550
Average rate of tax [₹ 9,99,550 / ₹ 38,37,020 x 100]		26.05%
Rate of tax in country X		20%
Relief u/s 91 [20% of (₹ 13,59,750 + ₹ 7,84,000)]		4,28,750
Tax payable (Rounded off u/s 288B)		**5,70,800**

Indian average tax rate: 26.05%

Foreign average tax rate: 20%
Relief u/s 91 is available at lower of the aforesaid rates i.e., 20%

QUESTION 24 (WB)

Mr. Rahul, an Indian citizen aged 52 years, left India on 1st April 2022 to settle in Country X, but owing to some personal unavoidable circumstances, he returned back to India permanently on 1st June 2025.

He has a residential property in Country Y from which he earned an income of $25,000 for the year ended 31st March 2026. He is eligible for basic exemption limit of $8,000 and on balance income, he paid income tax @20% in Country X. The tax was paid on 10th May 2026 from his bank account in India.

His income from business in India is ₹5,00,000 for the year ended on 31st March 2026. He also received dividend amounting to ₹1,25,000 from an Indian company and interest of 11,500 on saving bank account with SBI, during the year.

The exchange rates of 1$ on various dates is given below:

1.04.2025 - ₹74; 31.03.2026 - ₹75; 10.05.2026 - ₹75.5

Compute the net tax liability of Mr. Rahul in India for the assessment year 2026-27 on the assumption that there is no DTAA between India and Country X.

Assume that the Assesses does not opt for the provisions of Section 115BAC

Solution:

Mr. Rahul is a resident in India for A.Y.2026-27, since his stay in India in the P.Y.2025-26 is for 304 days which exceeds the minimum required stay of 182 days in that previous year. Also, his stay in India is for 1461 days (i.e., 365 days each in P.Y.2017-18 to P.Y.2021-22 + 1 day for leap year) during the last seven years (which exceeds the minimum specified requirement of 730 days in the immediately preceding seven years) and he has been resident in 7 years (P.Y.2015-16 to P.Y.2021-22) out of 10 years immediately preceding P.Y.2025-26.

Hence, he is resident and ordinarily resident in India for A.Y.2026-27. Accordingly, his global income would be subject to tax. He would, however, be entitled for deduction under section 91 in respect of doubly taxed income earned in Country X.

Computation of total Income of Mr. Rahul for A.Y. 2026-27

Particulars	₹	₹
Income from House Property [Residential property in Country X]		
Annual Value ($25,000×₹75, exchange rate on 31.3.2026)	18,75,000	
Less: Deduction under section 24 - 30% of NAV	(5,62,500)	13,12,500
Profits and Gains of Business or Profession		
Income from business in India		5,00,000
Income from Other Sources		
Dividend from Indian company [1,25,000 ×100/90] (grossing up)	1,38,889	
Interest on savings bank account with SBI	11,500	1,50,389

Gross Total Income		19,62,889
Less: Deduction under Chapter VIA		
Under section 80TTA - Interest on savings bank account (actual interest of ₹11,500 or ₹10,000, whichever is lower)		10,000
Total Income		**19,52,889**
Total Income (rounded off u/s 288A)		**19,52,890**

Computation of tax liability of Mr. Rahul for A.Y. 2026-27

Particulars	₹
Tax on total income (2.5Lx5% + 5Lx20% + 9,52,890x30%)	3,98,367
Add: Health and Education cess @4%	15,935
	4,14,302
Less: Relief under section 91 (See Working Note Below)	(1,78,500)
Net Tax liability (rounded off)	2,35,800

Working Note: Calculation of Relief under section 91

Particulars	₹	₹
Average rate of tax in India [i.e., ₹4,14,302/₹19,52,890 × 100]	21.21%	
Average rate of tax in country Y [20% of $ 17,000 ($ 25,000 - $ 8,000) = $ 3,400/$ 25,000 × 100 = 13.6%	13.6%	
Doubly taxed income		
Income from house property	13,12,500	
Deduction u/s 91 on ₹13,12,500 @13.60% (being the lower of average Indian tax rate (21.21%) and foreign tax rate (13.60%)]		**1,78,500**

QUESTION 25 (WB)

Mr. Arun, an Indian resident, aged 49 years, is employed as a Supervisor at ADNOC in the country UAE, earning a monthly salary of AED 7,500. In order to look after his ailing mother residing in Mumbai, India, he shifted with his family on 1 July, 2025 and started his consultancy business in India. Before shifting to India, he let out his house property in UAE @ 4,250 AED from the same month. His stay in India in last 7 years is 780 days and he was residents for 5 PY's in last 10 PY's. The details of his income in INR for the year ended 31st March, 2026 are as follows:

Profit from the consultancy business	₹8,35,000
Fixed Deposit interest from the bank of Country UAE	₹45,500
Savings bank interest from SBI, Mumbai	₹15,250
Dividend income from PQR Ltd., an Indian company	₹ 7,750

Rate of income tax in Country UAE is 25%

During the previous year, Mr. Arun paid ₹45,000 as medical insurance premium for himself and ₹56,000 as medical insurance premium to insure the health of his father, a non-resident aged 76 years, who is not dependent on him.

You are required to compute the total income and tax liability of Mr Arun for assessment year 2026-27 assuming that India has not entered into double taxation avoidance agreement with Country UAE and he has opted out from provisions of Section 115BAC. You may consider (1 AED = 25 INR).

Solution:

Computation of total income and tax liability of Mr. Arun for A.Y.2026-27

Particulars	₹	₹
Salaries		
Salary income from ADNOC, Country UAE (7500 AED × 3 × ₹25)	5,62,500	
Less: Standard deduction	50,000	5,12,500
Income from house property		
Annual Value of house property in Country UAE (4,250 AED× 25 × 9 months)	9,56,250	
Less: Deduction u/s 24(a) 30% of Annual Value	2,86,875	6,69,375
Profits and Gains of Business or Profession		
Profits from the Consultancy business in India		8,35,000
Income from Other Sources		
Fixed deposit interest from the bank of Country UAE	45,500	
Savings bank interest from SBI Mumbai	15,250	
Dividend income from PQR Ltd., an Indian company	7,750	68,500
Gross Total Income		**20,85,375**
Less: Deductions u/c VI-A u/s 80D		
Mediclaim premium for self ₹45,000 restricted to	25,000	
Mediclaim premium for father ₹56,000 restricted to	25,000	
(Since father is a non-resident, even though he is of the age of 76 years)		
Under section 80TTA		
Interest on savings bank account ₹15,250, restricted to	10,000	60,000
Total Income		**20,25,375**
Total Income (rounded off)		**20,25,380**
Tax liability on ₹20,25,380		
Tax on total income (2.5Lx5% + 5Lx20% + 10,25,380x30%)		4,20,114
Add: Health and Education cess @4%		16,805
		4,36,919
Less Deduction u/s 91 **(See Working Note below)**		2,64,769
Net tax liability		**1,72,150**

Working note – Calculation of deduction u/s 91

Particulars	₹
Doubly Taxed Income	
Salaries	5,12,500
Income from house property	6,69,375
FD interest in Country UAE	45,500
	12,27,375
Indian rate of tax = 4,36,919/20,25,380 × 100 = 21.572%	
Rate of tax in Country UAE = 25%	
Lower of the above = 21.572%	
Deduction u/s 91 [21.572% × ₹12,27,375)	**2,64,769**

QUESTION 26 (WB)

Ankit (Age 53 yeas) is the CFO of Bharat India Ltd. since 01.04.2021. his income in India consists of

(i) Salary (before standard deduction) of ₹25.25 lakhs;

(ii) Interest in respect of self-occupied property of ₹1,80,000;

(iii) Interest of bank fixed deposits ₹1,50,000.

He has the following income for the year ended 31st March 2026 in Country 'A'.

(i) Income from business in Country A = USD 25,000;

(ii) Rent from house property in Country A = USD 4,500;

(iii) Municipal taxes in respect of the above house (Not allowed as deduction in Country A) = USD 450;

(iv) Dividend from shares held in Country 'A' where dividend was declared and paid in March, 2026 = USD 10,000;

(v) Short term capital gain of USD 5,000 on sale of shares of companies registered in Country 'A' and sale proceeds were credited in bank account outside India on 28.03.2026.

India has DTAA with Country 'A' and the tax paid in Country 'A' is eligible for tax credit in India. The fiscal year for income-tax is the same both in Indian and Country 'A'. Rate of tax is 20% in Country 'A' in respect of all incomes. Income-tax was paid by Ankit on 25.05.2026 for the incomes of the year ended 31st March 2026 in Country 'A'.

Compute the total income and net tax liability of Ankit for the A.Y. 2026-27. Assume Ankit pays tax u/s 115BAC.

The TT buying rate of 1 USD on various dates: 29.02.2026 = ₹70; 28.03.2026 = ₹71; 31.03.2026 = ₹72; 30.04.2026 = ₹74; and 25.05.2026 = ₹75.

Solution:

Computation of total income of Ankit for A.Y. 2026-27 as per section 115BAC

Since Mr. Ankit is a resident in India for the P.Y.2025-26, his global income would be subject to tax in India. Therefore, income earned by him in country A would be taxable in India.

Particulars	₹	₹
Salaries		
Salaries form Bharat India Ltd.	25,25,000	
Less: Standard deduction u/s 16(ia)	75,000	24,50,000
Income from house property		
Let out property in Country A		
Gross Annual Value*	USD 4,500	
Less: Municipal taxes	(USD 450)	
Net Annual Value	USD 4,050	
Less: Deduction u/s 24 – 30% of NAV	(USD 1,125)	
	UDS 2,835	
[$ 2,835 x 72, being the last day of previous year i.e., 31.3.2026 as per Rule 115]	2,04,120	
Self-occupied property in India		
Loss from self-occupied property [Interest u/s 24(b) is not allowable in respect of self-occupied property u/s 115BAC]	-	2,04,120
Profits and gains from business or profession		
Income from business in Country A [$ 25,000 x 72, being the last day of previous year i.e., 31.3.2026 as per Rule 115]		18,00,000
Capital Gains		
Short term capital gains on sale of shares of companies registered in Country A [$ 5,000 x 70, being the last day of the month immediately preceding the month in which the shares are transferred i.e., 29.2.2026 as per Rule 115]		3,50,000
Income from Other Sources		
Interest on bank fixed deposits	1,50,000	
Dividend from shares held in Country A [$10,000 x 70, being the last day of the month immediately preceding the month in which the dividend is declared i.e., 29.2.2026 as per Rule 115]	7,00,000	8,50,000
Gross Total Income /Total Income		**56,54,120**

Rental Income has been taken as GAV in the absence of other information relating to fair rent, municipal value etc.

Computation of Net tax liability of Ankit for A.Y.2026-27

Particulars	Amount (₹)	Amount (₹)
Upto ₹4,00,000	Nil	
₹4,00,001 – ₹8,00,000 [i.e., ₹4,00,000@5%]	20,000	

₹8,00,001 – ₹12,00,000 [i.e., 4,00,000@10%]	40,000	
₹12,00,001 – ₹16,00,000 [i.e., 4,00,000@15%]	60,000	
₹16,00,001 – ₹20,00,000 [i.e., 4,00,000@20%]	80,000	
₹20,00,001 – ₹24,00,000 [i.e., 4,00,000@25%]	1,00,000	
Above 24,00,001 [i.e., 32,54,120@30%]	9,76,236	12,76,236
Add: Surcharge @10% [Since total income exceed ₹50 lakhs but does not exceed ₹1 crore]		1,27,623.6
		14,03,859.6
Add: Health & Education Cess@4%		56,154.38
		14,60,013.9
Tax liability (Rounding off)		**14,60,010**
Less: Foreign tax credit, being lower of –		
– Tax payable in India @25.822% on ₹30,54,120, being income form house property of ₹2,04,120, business income of ₹18,00,000 plus capital gains of ₹3,50,000 plus dividend income of ₹7,00,000 [i.e., ₹14,60,010/₹56,54,120 x 100] = 25.822%	7,88,635	
– Tax paid in Country A@20% [$44,500@20% x 74, being the rate on 30.4.2026, being the last day of the month immediately preceding the month in which tax is paid i.e., May 2026]	6,58,600	6,58,600
Net tax liability		**8,01,410**

QUESTION 27 (PEQ)

Explain methods of Bilateral relief in Double Taxation Avoidance Agreements (DTAAs) and briefly state how unilateral relief is provided in the Income Tax Act,1961.

Solution:

Methods of Bilateral relief in Double Taxation Avoidance Agreements (DTAAs)

Bilateral Relief: In cases where there is DTAA between two tax jurisdictions, Bilateral relief is provided. There are two ways by which the jurisdictions may agree to provide relief from double taxation viz. Exemption method and Credit method.

Exemption Method:

In this method, one country provides an exemption to such type of income, which is generally the country of residence.

i. **Full Exemption Method**: Under this method, income earned in the State of source is fully exempt in the State of residence.
ii. **Exemption with progression**: Under this method, income from the State of source is considered by the State of residence only for rate purposes.

Credit Method:

In this method, the taxpayer remains liable in the country of residence on his / its global income. However, as far as the quantum of tax liabilities is concerned, credit or deduction for tax paid in the

source country is given by the country of residence against its domestic law as if the foreign tax were paid to the country of residence itself.

(i) **Full credit:**

Total tax paid in the State of source is allowed as credit against the tax payable in country of residence.

(ii) **Ordinary Credit:**

State of residence allows credit of tax paid in the State of source restricted to the part of income-tax which is attributable to the income taxable in the State of residence.

(iii) **Tax Sparing:**

State of residence allows credit for deemed tax paid on income which is otherwise exempt from tax in the country of source.

(iv) **Underlying tax credit:**

Credit is allowed to resident not only for the taxes withheld against the dividend income but also for the taxes paid on the underlying profits out of which dividend is paid by a company in the overseas jurisdiction. However, underlying credit may only apply if satisfaction of substantial shareholding requirement is met.

Unilateral method of relief provided in the Income-tax Act, 1961:

Section 91 of the Income-tax Act contains unilateral relief where there is no DTAA between India and foreign jurisdiction.

If any person resident in India proves that his income which accrued or arose outside India and he has paid tax thereon he shall be entitled to the deduction from the Indian income-tax payable of a sum calculated on such doubly taxed income at the Indian rate of tax or the rate of tax in the said foreign country whichever is lower or at the Indian rate if both the rates are equal.

Indian rate of tax means the rate determined by dividing the amount of Indian income-tax (including surcharge and cess) by the total income. Such rate is applied on the foreign income by way of relief under section 91.

QUESTION 28 (PEQ)

Alpha Ltd. is incorporated in Country X. It has a branch situated in Mumbai opened in in April 2023. The Indian branch filed its return of income as per section 139 of the Income-tax Act for Assessment Year 2026-2027 disclosing total income of Rs. 75 lakhs. paid tax @ 30% plus applicable cess as per provision of the double tax avoidance agreement between India and the Country X. The relevant article of DTAA reads as below.

"The taxation on a permanent establishment which an enterprise of a Contracting State has in the other Contracting State shall not be less favourably levied in that other State than the taxation levied on enterprises of that other State carrying on the same activities in the same circumstances"

However, the Assessing Officer computed tax on the Indian branch at the rate applicable to a foreign company i.e. 35% plus applicable cess.

State whether the action of the Assessing Officer is correct.

Solution:

Rate of tax applicable to Indian branch of foreign company

As par section 90 where there is a double tax avoidance agreement between India and any foreign country, then the provision of Income-tax Act, 1961 or provision of the DTAA whichever is more beneficial to the tax payer shall be applicable.

In the instant case, the branch in India filed return of income under section 139 of the Income tax Act and paid tax at 30% as per the DTAA. However, the AO computed tax at 35% plus surcharge and education cess. However, Explanation 1 of section 90 clarifies that the charge of tax in respect of a foreign company at rate higher than the rate of tax for domestic company shall not be regarded as less favorable.

Therefore, the action of the AO is justified.

QUESTION 29 (PEQ)

Significance of the PE in transactions governed by the Double Taxation Avoidance Agreements (DTAA)

Solution:

Significance of the PE in transactions governed by the Double Taxation Avoidance Agreements (DTAA):

a. Permanent establishment means a fixed place of business through which the business of an enterprises is wholly or partly carried on.

b. Every DTAA has a specific clause, which will deal with an explanation of permanent establishment for the purpose of such DTAA, which has not been defined in the Income Tax Act.

c. Business Income of a non-resident will not be taxed in India, unless such Non-resident has a permanent establishment in India.

d. PE includes:

- A branch
- An Office
- A factory
- A workshop
- A sales outlet
- A warehouse
- A mine on oil or gas well, a quarry, or any other place of extraction of natural resources (not exploration)
- A placement of management

a. PE excludes: An enterprise shall not be deemed to have a permanent establishment merely by reason of:

- the **use of facilities** solely for the purpose of storage or display of goods or merchandise belonging to the enterprise; **(In Simple terms, just storing or displaying goods)**
- the **maintenance of a stock** of goods or merchandise belonging to the enterprise solely for the purpose of storage or display; **(In Simple terms, just storing or displaying goods)**
- the maintenance of a stock of goods or merchandise belonging to the enterprise solely for the purpose of processing by another enterprise; **(In Simple terms, Having stock of**

goods for processing by another company)

- the maintenance of a fixed place of business solely for the purpose of purchasing goods or merchandise, or of collecting information, for the enterprise; or **(In Simple terms, Activities like buying goods or gathering data for business purposes).**
- the maintenance of a fixed place of business solely for the purpose of advertising, for the supply of information, for scientific research, or for similar activities which have a preparatory or auxiliary character, for the enterprise. **(In Simple terms, Conducting research, advertising, or similar preparatory activities)**

As per DTAA business income of NR is taxable in India only if such NR has PE in India but as per Income Tax Act Business income of NR taxable in India if NR having Business Connection (Sec 9) in India.

QUESTION 30 (PEQ)

What is meant by 'permanent Establishment?' State with brief reasons whether PE exists in the following cases in the case of a foreign company located in UK:

a) Establish a branch in India.
b) Establish a subsidiary company in India.
c) Open a liaison office in India with the permission of RBI
d) Appoint an agent in India to work exclusively for the company to market the products and the terms and conditions of trade to be decided by the company in UK.
e) Rent a machinery in Inda with supervisors (employees of foreign company) to maintain and monitor the machinery usage.

Solution:

Meaning of PE:

Permanent establishment means a fixed place of business through which the business of an enterprise is wholly or partly carried on.

Once a PE exists, the income of the PE would be chargeable to tax as business income of the foreign company.

a) Establishing a branch in India would amount to location of PE in India.
b) Incorporating a subsidiary company in India would not lead to location of PE in India if the subsidiary company carries on business as a legal entity separate from the parent company located outside India.
c) Opening a liaison office by obtaining permission from RBI would not lead to location of PE in India. However, if the liaison office breaches the conditions issued in the permission of RBI then it would turn into PE.
d) Appointing an exclusive agent to market the products with the terms and conditions of trade decided by foreign company, then being a dependent agent, would lead to location of PE in India.
e) Locating a machinery in India with supervisor (employee of foreign company) even if located within the premises of Indian tenant company would lead to location of PE in India.

QUESTION 31 (PEQ)

Explain the meaning of the term "permanent establishment"; and state whether use of facilities for storage or display or delivery of goods or merchandize is a permanent establishment under OECD and under UN model.

Solution:

Meaning of "Permanent Establishment"

Permanent establishment means a fixed place of business through which the business of an enterprise is wholly or partly carried on.

It includes especially

(a) a place of management;
(b) a branch;
(c) an office;
(d) a factory;
(e) a workshop; and
(f) a mine, an oil or gas well, a quarry or any other place of extraction of natural resources.

As per OECD model

permanent establishment does not include the use of facilities solely for the purpose of storage, display or delivery of goods or merchandise belonging to the enterprise.

As per UN Model

permanent establishment does not include use of facilities for the purpose of storage or display of goods or merchandize belonging to the enterprise.

If the goods are delivered then as per UN model PE is said to exist.

QUESTION 32 (PEQ)

a) Under the provisions of the Income-tax Act, 1961 read with the Income-tax Rules, 1962, what is the meaning of Foreign Tax Credit (FTC)?
b) State the documents which are required for availment of such credit.
c) To whom is FTC allowed and in which year?
d) An assessee has to pay income-tax of Rs. 92 lakhs, surcharge of Rs.9.2lakhs, Cess Rs.3,03,600 and interest under section 234B of Rs.9,78,700. Against which of these item/amounts is FTC available?

Solution:

Foreign Tax Credit [Rule 128]

a) Meaning of foreign Tax Credit

If India has DTAA with a country (Under Sections 90 or 90A)	Tax covered under the said agreement
Countries without DTAA (under Section 91)	The tax must be similar to an "income-tax" under Section 91

The **Foreign Tax Credit (FTC)** allows Indian residents to claim credit for taxes paid in foreign countries on income that has been taxed both in India and abroad. This credit helps avoid **double taxation** by reducing the tax liability in India based on the foreign tax paid.

b) Documents Required for Foreign Tax Credit

- **Income Statement (Form No. 67):**
  - ✓ A statement detailing the income from a foreign country or specified territory, which has been offered for tax in India for the relevant financial year.
  - ✓ The statement should also include the amount of foreign tax deducted or paid on that income.
  - ✓ This document must be verified as per the manner specified in Form No. 67.
- **Certificate or Statement from Relevant Authorities:**

  The following must be provided to confirm the amount of foreign tax paid or deducted:
  - ✓ Certificate from the tax authority of the foreign country or specified territory, stating the nature of the income and the tax paid or deducted.
  - ✓ Alternatively, a statement from the person responsible for deducting the foreign tax.
  - ✓ If the above documents are not available, the Assessee can provide a self- signed statement.
- **Supporting Proof of Payment:**
  - ✓ **Online Payment Acknowledgment or Bank Challan:** If the Assessee made the foreign tax payment themselves, they must provide an acknowledgment of online payment or a bank counterfoil/challan as proof of tax payment.
  - ✓ **Proof of Deduction:** If the tax was deducted at source, the Assessee must provide evidence of that deduction.

Note: Form No.67 shall also be furnished in a case where the carry backward of loss of the current year results in refund of foreign tax for which credit has been claimed in any earlier previous year or years.

c) Eligible Assessee and year of credit

- A resident Indian taxpayer can claim a foreign tax credit if they have paid taxes on income in a foreign country or specified territory.
- The credit can be claimed in the year the foreign income is offered to tax in India.

  Example: If you are an Indian resident and earn income from the U.S., you can claim a credit for the U.S. taxes paid on that income when it is taxed in India.
- If the foreign income is **taxed in multiple years,** the foreign tax credit is spread across those years in the same proportion as the income is offered to tax in India.

  Example: If you earned ₹10,000 in 2023-24 and paid ₹1,000 as foreign tax, but the income is taxed over 2 years (2023-24 and 2024-25), the foreign tax credit will be applied proportionally over both years based on the taxable income.

d) Exclusions from Foreign Tax Credit:

- **No credit for interest, fees, or penalties:** The FTC is only applicable to taxes like income tax, not interest, penalties, or other charges.

  Example: If you paid a fine to a foreign government, this would not be eligible for the credit.
- **No credit for disputed tax:** If you are disputing the foreign tax, you cannot claim the credit

for that tax. However, if the dispute is resolved and you prove the tax has been paid, the credit can be claimed for the year the dispute was settled.

Example: If you are contesting a foreign tax bill and the dispute is resolved in 2024- 25, you can claim the FTC for 2024-25 once you show evidence that the tax was paid and the dispute was settled.

Conclusion:

FTC shall be available against the amount of tax, surcharge and cess payable under the Act but not in respect of any sum payable by way of interest, fee or penalty.

Thus, FTC can be used against IT, Cess. Rs.104.236 lakhs in total.

QUESTION 33 (PEQ)

Explain briefly the different Model Tax Conventions that are currently in vogue and their significance in international taxation.

Solution:

Presently, the following are the model tax conventions which are in vogue –

a. **Organization for Economic Co-operation and Development (OECD) Model**

The emergence of present form of OECD Model Convention can be traced back to 1927, when the Fiscal Committee of the League of Nations prepared the first draft of Model Form applicable to all countries. Since then, it has been revised several times and the latest being in the year 2017. OECD Model is essentially a model treaty between two developed nations. This model advocates residence principle, that is to say, it lays emphasis on the right of state of residence to tax the income.

b. **United Nations (UN) Model**

In 1968, the United Nations set up an Adhoc Group of Experts from various developed and developing countries to prepare a draft model convention between developed and developing countries. In 1980, this Group finalized the UN Model Convention in its present form. It has further been revised a number of times, the recent ones being in the year 2021. It gives more weight to the source principle as against the residence principle of the OECD Model. UN Model is designed to encourage flow of investments from the developed countries to developing countries. It takes into account sharing of tax-revenue with the country providing capital. Most of India's tax treaties are based on the UN Model.

c. **US Model**

The US Model convention was first published in 1976 and revised several times. US motel is used by the United States while entering into tax treaties with various country.

NON-RESIDENT

QUESTION 1 (WB)

What do you mean by place of effective management?

Hint: Refer Concept book

QUESTION 2 (SM)

USA Airlines incorporated as a company in USA operates its flights to India and vice versa during the year 2025-26 and collects charges of ₹ 150 lakh for carriage of passengers and cargo out of which ₹ 90 lakh were received in US Dollars for the passenger fare booked from New York to Mumbai. The total expenses for the year on operation of such flights were ₹ 195 lakh. Income chargeable to tax of the foreign airlines may please be computed.

Solution:

Computation of income of USA Airlines

Particulars	Fare booked from Mumbai to New York whether paid in India or outside India	Fare booked from New York to Mumbai	
		If paid in India (or deemed to be received in India)	If paid outside India
Fare	₹ 60 lakh [₹ 150-₹ 90]	₹ 90 lakh	₹ 90 lakh
Taxable Income @ 5% of the above	₹ 3,00,000	₹ 4,50,000	-

QUESTION 3 (SM)

Mr. Q, a non-resident, operates an aircraft between Singapore and Chennai. He received the following amounts in the course of the business of operation of aircraft during the previous year:

a) ₹ 2 crores in India on account of carriage of passengers from Chennai.
b) ₹ 1 crore in India on account of carriage of goods from Chennai.
c) ₹ 3 crores in India on account of carriage of passengers from Singapore.
d) ₹ 1 crore in Singapore on account of carriage of passengers from Chennai.

The total expenditure incurred by Mr. Q for the purposes of the business during the year was ₹ 6.75 crores. Compute income chargeable to tax of the foreign airlines

Solution:

Computation of income of Mr. Q for the A.Y. 2026-27

Particulars	Amount
Amount received in India on account of carriage of passengers from Chennai	2,00,00,000
Amount received in India on account of carriage of goods from Chennai	1,00,00,000
Amount received in India on account of carriage of passengers from Singapore	3,00,00,000
Amount received in Singapore on account of carriage of passengers from Chennai	1,00,00,000
Total	**7,00,00,000**
Total Income (as per sec. 44BBA being 5% of above)	**35,00,000**

QUESTION 4 (SM)

A non-resident foreign company has a permanent establishment (PE) in India, in respect of which royalty ₹ 101 lakh was earned from an Indian company in pursuance of an agreement dated 10th June, 2016 (expenditure incurred on PE in India ₹ 12,37,600). Compute the gross tax liability of foreign company ignoring TDS/advance tax for the assessment year 2026-27, assuming that there is no other income of the company for the year.

Solution:

Computation of Total Income and Tax Liability

Particulars	Amount
Royalty covered u/s 44DA	1,01,00,000
Less: Expenses	12,37,600
Income	88,62,400
Tax on above [104% {₹ 88,62,400 * 35%} [Rounded off]	32,25,910

QUESTION 5 (SM)

The net result of the business carried on by a branch of foreign company in India for the year ended 31.03.2026 was a loss of ₹ 50 lacs after charge of head office expenses of ₹ 100 lacs allocated to the branch. Compute income of the branch for the assessment year 2026- 27.

Solution:

Computation of income of the branch for the A.Y. 2026-27

Particulars	Amount	Amount
Net Income for the year ended on 31-03-2026		(50,00,000)
Add: Head office expenses (to be considered separately)		1,00,00,000
Adjusted Total Income		50,00,000
Less: Head office expenses allowable u/s 44C being lower following:		
- 5% of ₹ 50,00,000	2,50,000	
- Actual Expenses	1,00,00,000	(2,50,000)
Total Income		**47,50,000**

QUESTION 6 (WB)

The net result of the business carried on by a branch of a foreign company in India for the year ended 31.03.2026 was a loss of ₹ 30 lakhs after debiting head office expenses of ₹ 60 lakhs allocated to the branch.

Compute the income of the branch for the A.Y. 2026-27.

Solution:

Computation of income of the branch for the A.Y. 2026-27

Particulars	Amount	Amount
Net Income for the year ended on 31-03-2026		(30,00,000)
Add: Head office expenses (to be considered separately)		60,00,000
Adjusted Total Income		30,00,000
Less: Head office expenses allowable u/s 44C being lower of the following:		
- 5% of ₹ 30,00,000	1,50,000	
- Actual Expenses	60,00,000	1,50,000
Total Income		**28,50,000**

QUESTION 7 (WB)

Discussion the provision relating to deduction of Head Office Expenditure in the case of non-residents u/s 44C

Hint: Refer Concept book

QUESTION 8 (MQP)

A non-resident having branch office in India submits the following information relating to the branch.

a. Net total income ₹ 30,00,000
b. Deduction (Chapter VIA) ₹ 2,00,000
c. Brought forward business loss ₹ 1,00,000
d. Brought forward house property loss ₹ 30,000
e. Unabsorbed depreciation ₹ 1,50,000
f. Expenses reimbursed by branch to Head office ₹ 3,00,000

You are required to compute total income of the branch after adjusting the amount of deduction allowed u/s 44C.

Solution:

Amount of Deduction u/s 44C:

Adjusted Total Income (ATI) = ₹ [30,00,000+2,00,000+1,00,000+1,50,000+3,00,000]

= ₹ 37,50,000

Amount of deduction: @5% of ATI or actual expenses whichever is lower i.e., 5% of ₹ 37,50,000 Or ₹ 3,00,000 whichever is lower.

= 1,87,500 (or) 3,00,000 whichever is lower i.e., 1,87,500

Particulars	Amount
Net Total income	30,00,000
Add: Express reimbursed by branch to HO	3,00,000
Less: Amount allowed u/s 44C	(1,87,500)
Total Income	31,12,500

QUESTION 9 (PEQ)

Roger, a foreign national, furnishes the following data for the previous year ended 31st March 2026:

1. Royalty from Indian concern under an agreement made on 15-09-1996 approved by the Central Government ₹ 3,00,000.
2. Expenditure as per section 28 to 44C for earning such income ₹ 2,00,000.
3. Interest from an Indian company on money lent in foreign currency ₹ 11,00,000.
4. Expenditure on collection of above interest ₹ 90,000.
5. Gross sale of business in India ₹ 30,00,000.
6. Expenditure as per sections 28 to 44C for above business ₹ 28,00,000.

Determine the total income of Roger for the assessment year 2026-27.

Solution:

Computation of Total income of Roger for the A.Y.2026-27

Particulars	Amount	Amount	Amount
Profits and gains of business or profession			
Sale	30,00,000		
Less: Expenditure	(28,00,000)	2,00,000	
Royalty income	3,00,000		
Less: Expenditure (Not allowed u/s 115A)	Nil	3,00,000	5,00,000
Income from other sources			
Interest income		11,00,000	
Less: Expenses (Not allowed u/s 115A)		Nil	11,00,000
Total Income			**11,00,000**

Note: As per sec. 115A, no expenses shall be allowed from royalty and interest income.

QUESTION 10 (WB)

Techno Ltd., a German company, received ₹ 4.50 crore in previous year 2025-26 as fees for technical services from Krishna Ltd., an Indian company, under an agreement approved by the Central Government. Expenses incurred to earn such income are ₹ 35 lakhs.

Evaluate the taxability of the above amount in India for Techno Ltd. assuming:

Case (A): Techno Ltd. does not have a Permanent Establishment (PE) in India.

Case (B): Techno Ltd. has a PE in India, and the technical services agreement is effectively connected to such PE. Further details are:

Particulars	Amount (₹)
(1) Fees for technical services from Krishna Ltd.	4.50 crore
(2) Expenses incurred to earn such income	35 lakhs
(3) Fees for technical services from other Indian companies under approved agreements	2.80 crore
(4) Expenses incurred for earning income under point (3)	30 lakhs
(5) Expenses not wholly and exclusively for PE's business (other than (2) and (4))	15 lakhs
(6) Amounts paid by PE to Head Office (not reimbursement of actual expenses)	20 lakhs

Solution:

Case (A): When there is no PE in India (Tax under Section 115A)

Taxable under section 115A at a flat rate of 20%, without deduction of expenses:

Particulars	Amount (₹)
Fees from Krishna Ltd.	4,50,00,000
Fees from other Indian companies	2,80,00,000
Gross Taxable Income u/s 115A	7,30,00,000
Expenses (Not deductible under sec. 115A)	NIL
Net Taxable Income	7,30,00,000
Tax @ 20% u/s 115A	1,46,00,000
Add: Surcharge @ 2% (as income > ₹1 crore, ≤10 crore)	2,92,000
Tax + surcharge	1,48,92,000
Add: Health & Education cess @ 4%	5,95,680
Total Tax Liability	1,54,87,680

Case (B): Presence of PE in India (Tax under Section 44DA at normal rates)

Under Section 44DA, income connected with PE is taxable at normal rates (now revised to 35%) after allowing expenses wholly incurred for PE:

Particulars	Amount (₹)
Fees for technical services (Krishna Ltd.)	4,50,00,000
Fees from other Indian companies	2,80,00,000
Total Gross Receipts	7,30,00,000
Less: Allowable Expenses:	
- Related to Krishna Ltd.	(35,00,000)
- Related to other Indian companies	(30,00,000)
Net Income (Before disallowances)	6,65,00,000
Less: Expenses not wholly & exclusively incurred (disallowed)	NIL
Less: Amount paid by PE to HO (disallowed u/s 44C)	NIL
Taxable Income	6,65,00,000
Tax @ 35%	2,32,75,000
Add: Surcharge @ 2% (as income > ₹1 crore, ≤10 crore)	4,65,500
Tax + surcharge	2,37,40,500
Add: Health & Education cess @ 4%	9,49,620
Total Tax Liability	2,49,90,120

QUESTION 11 (PEQ)

Compute the income-tax in the following cases:

a) Royalty of ₹ 10 lakh received by a foreign company from an Indian concern in pursuance of an agreement approved by the Central Government in the previous year 2025-26.

b) ₹ 10 lakh long-term capital gains received by an overseas financial organization on 20.06.2025 by transfer of unit purchased in foreign currency.

Solution:

a) As per Section 115A(i)(b), the rate of income tax applicable on royalty is 20%. Therefore, Income tax = 20% of ₹ 10,00,000 = ₹ 2,00,000.

Health & Education cess = 4% of ₹ 2,00,000 = ₹ 8,000 Total tax payable = ₹ 2,00,000 + ₹ 8,000 = ₹ 2,08,000

b) Long term Capital Gain = ₹ 10,00,000

Income-tax u/s 115AB = 10% of ₹ 10,00,000 = ₹ 1,00,000Health & Education cess = 4% of ₹ 1,00,000 = ₹ 4,000 Total tax payable = ₹ 1,00,000 + ₹ 4,000 = ₹ 1,04,000.

QUESTION 12 (SM)

Roger Federer, a tennis professional and a non-Indian citizen participated in India in a tennis Tournament and won the prize money of ₹ 15 lakh. He contributed articles on the tournament in a local newspaper for which he was paid ₹ 1 lakh. He was also paid ₹ 4 lakh by a Soft Drink Company for appearance in a T.V. advertisement. Although his expenses in India were met by the sponsors, he had to incur ₹ 1,30,000 towards his travel cost to India. He was a non-resident for tax purposes in India. What would be his tax liability in India for A.Y. 2026-27. Is he required to file his return of income u/s 139(1)?

Solution:

As per Section 115BBA, where a sportsman who is not a citizen of India receives any income by way of participating in any game in India; or

a) advertisement; or

b) contributing articles relating to any game or sport in India in newspapers, magazines or journals, then such income shall be chargeable to tax @ 20% + cess @ 4% on the tax.

Accordingly, his income for the A.Y. 2026-27 are as under:

Particulars	Amount
Tennis tournament prize	15,00,000
Amount received on contributing articles in the newspaper	1,00,000
Amount received on advertisement	4,00,000
Total Income	**20,00,000**
Tax on above [₹ 20,00,000 x 20% x 104%]	**4,16,000**

Notes

a. While computing income, no deduction in respect of any expenditure or allowance shall be allowed

b. It shall not be necessary for the assessee to furnish return of his income if:

i. his total income consisted only of income referred to in sec. 115BBA; and

ii. the tax deductible at source has been deducted from such income

QUESTION 13 (SM)

The total income of a non-resident Indian includes:

- Investment income (net) ₹ 50,000
- Long term capital gain ₹ 25,000
- Other income ₹ 2,65,000

What will be the tax payable by him (old regime) in respect of assessment year 2026-27 on the above income under chapter XIIA (special provisions relating to certain income of non- residents) of the I.T. Act, 1961?

Solution:

Since the assessee is non-resident hence income shall be taxable as per provision of sec. 115E as under–

Particulars	Income	Rate	Tax liability
Investment income (Net)	50,000	20%	10,000
Long term capital gain	25,000	10%	2,500
Other income	2,65,000	[(2,50,000×Nil) + (15,000×5%)]	750
Tax before surcharge			13,250
Add: Health & Education cess @ 4%			530
Tax payable			13,780

QUESTION 14 (PEQ)

Mr. Wesley a non-resident (age 56 years) furnishes the following information relating to the previous year 2025-26:

Particulars	₹
Interest on deposits with private limited companies in India	2,10,000
Short-term capital gain from sale of shares in listed companies on 01.06.2025. (STT paid).	4,60,000
Long-term capital gain, from transfer of specified foreign exchange asset, sold on 01-06-2025. The long-term capital gain is a computed figure. **Note:** Expenditure incurred wholly and exclusively in connection with transfer ₹ 17,000 has not been deducted while computing the capital gain given above.	6,67,000
Investment in shares of public limited companies in India on 22-11-2025.	2,10,000

Compute total income and tax liability of Wesley as per Chapter XII-A of the Income-tax Act, 1961. Assume assessee opted old regime.

Solution:

Particulars		Amount
a) Interest on deposits with limited companies in India	Taxable by using Normal tax rates	2,10,000
b) Short-term capital gain from sale of shares in listed companies on 01.06.2025.	Taxable u/s 111A	4,60,000

c) Long-term capital gain, from transfer of specified foreign exchange asset, sold on 01-06-2025.	6,67,000	
Less: Expenditure incurred wholly and exclusively in connection with transfer	(17,000)	
Gross long term capital gain	6,50,000	
Less: Investment in shares of public limited companies in India on 22-11-2025.	(2,10,000)	
Net long-term capital gain	Taxable u/s 115E	**4,40,000**
Gross total income		**11,10,0000**
Less: Chapter VIA deductions		-
Net total income		**11,10,000**
Tax liability		
Tax on ₹ 2,10,000 (Below BEL)	0	
Tax on ₹ 4,60,000 @ 15%	69,000	
Tax on ₹ 4,40,000 @ 10%	44,000	1,13,000
Add: Health & education cess		4,520
Tax liability		**1,17,520**

QUESTION 15 (SM)

Anthoy, a non-resident Indian, acquired 1,000 shares in A Ltd. (an Indian Company) for ₹ 20,000 by utilizing foreign currency ($) on 18/08/2025. On 16/09/2025, Anthony sold such shares for ₹ 45,000 and utilized the proceeds in acquisition of 500 shares of B Ltd. (an Indian Company) after paying expenditure on transfer on 13/8/2025 ₹ 5,000. Compute capital gain liability in the previous year 2025-26.

Date	$ Buying rate	US $ Selling rate
18/08/2025	45	46
13/08/2025	48	50
6/09/2025	46	48

Solution:

Since the assessee is a non-resident and shares of an Indian company were acquired by utilizing foreign currency, hence first proviso to sec. 48 and Rule 115A shall be applicable on above transactions.

Computation of capital gain for the A.Y. 2026-27

Particulars	Working	Rate applied	Amount $	Amount $
Sale consideration	₹45,000/ ₹ 47	Av. Rate as on 16/09/2025		957.4
Less: Expenditure on transfer	₹ 5,000/₹ 47	Av. Rate as on 16/09/2025		(106.4)
Net Sale consideration				**851.0**

Less: Cost of acquisition	₹ 20,000/ ₹ 45.5	Av rate as on 18/08/2025	(439.6)	
Less: Cost of improvement			Nil	(439.6)
Short term Capital Gain				**411.4**
Short term capital gain	₹411.4 x ₹ 46	Buying rate as on 16/09/2025		18,924

QUESTION 16 (PEQ)

Dravid (age 45) is a non-resident but an Indian citizen. On 11.04.2023, he bought 10,000 equity shares of PQR Ltd., a listed Indian Company for USD 5 per share. Dravid sold all the shares on 12.06.2025 for ₹ 770 per share (STT paid). Out of the sale proceeds, Dravid bought 11,550 equity shares of another listed Indian company by name EFG Ltd. on 13.07.2025 for ₹ 500 per share. Also, he subscribed to REC bonds for 10 lakhs on 15.09.2025. The buying and selling rates of US Dollars on different dates are as follows:

Date	TT Buying Rate	TT Selling Rate
11.04.2023	70	74
12.06.2025	76	78
13.07.2025	80	84

Assess the capital gain of non-resident Dravid for the assessment year 2026-27.

Solution:

Long-term capital gain of Non-resident Dravid		
Long-term capital gains Note: Since the assessee Dravid is a non-resident who held shares of the Indian company which were acquired by utilizing foreign currency, the first proviso to section 48 (no indexation benefit would be available) and Rule 115A shall apply.		
Particulars	**USD**	**₹**
Sales consideration (Average of USD rate on the date of sale) (₹770 X 10,000/₹77)	1,00,000	
Net sale consideration	1,00,000	
Less: Cost of acquisition Average USD rate on the date of acquisition, i.e., 11.04.23 (10,000 shares X USD 5) [Since the buying rate is already in USD so no need to convert] (The Average USD rate on the date of acquisition)	50,000	
Long-term capital gains	50,000	
	₹	
Long-term capital gains in INR (Buying rate as on the date of sale) (50,000 X ₹76)	38,00,000	

Less: Exemption under section 115F (38,00,000 X 57,75,000/77,00,000)	(28,50,000)	
Exemption under section 54EC in respect of REC capital gain bonds not allowed since it is not a capital gain from land or building or both. Also, Chapter XII-A does not allow such exemption other than exemption contained in section 115F.	Nil	
Long-term capital gain		9,50,000

QUESTION 17 (WB)

Mr. Ramesh, a non-resident Indian (NRI), has the following incomes in India during the P.Y. 2025-26:

1. Income from house property (computed): ₹3,00,000
2. Dividend from Indian companies: ₹80,000
3. Interest on debentures of an Indian company (subscribed in convertible foreign exchange): ₹1,20,000
   - Less: Interest on loan taken for debenture investment: ₹25,000
4. Long-term capital gains on sale of debentures on 10-10-2025 (subscribed in US$):
   - Sale consideration: ₹7,00,000
   - Cost of acquisition: ₹4,50,000
   - Commission to broker: ₹8,000

Assuming that Mr. Ramesh opts for provisions under Chapter XII-A, compute his total income (old tax regime) and tax liability for A.Y. 2026-27.

Solution

Computation of income of Mr. Ramesh for the A.Y. 2026-27

Particulars	Amount	Amount
Income from house property		3,00,000
Capital gains on sale of debenture		
Full value of consideration	7,00,000	
Less: Commission	8,000	
	6,92,000	
Less: Cost of acquisition	4.50,000	2,42,000
Income from Other Sources		
Dividend	80,000	
Interest on debenture [expenses not allowed]	1,20,000	2,00,000
Total Income		**7,42,000**

Computation of tax liability

Particulars	Amount
Tax on Long term capital gain [₹ 2,42,000 x 12.5%]	30,250
Tax on interest on debenture [₹ 1,20,000 x 20%]	24,000
Tax on balance income of ₹ 3,80,000	6,500

Tax	60,750
Add: Health and Education Cess	2,430
Tax and cess payable	**63,180**

QUESTION 18 (ICAI)

Mr. Joseph, a non-resident and a person of Indian origin (aged 49 years). furnished following information for the previous year ended 31 March, 2026:

Particulars	Amount in ₹
Sale proceeds of listed equity shares in A Limited, an Indian company on 31.05.2025	6,00,000
Cost of acquisition (in convertible foreign exchange) of equity shares of A Limited acquired on 01.06.2021	1,10,000
Expenditure wholly and exclusively incurred in connection with transfer of listed equity shares of A Limited	50,000
Interest on Government Securities (net of TDS) (Acquired in convertible foreign exchange)	81,000
Interest on deposits with pubic limited companies (Gross) (Acquired in convertible foreign exchange) Expenditure incurred in earning such income ₹7,500	3,25,000
Interest on deposits held with Private limited companies (Gross) (These deposits were made when Mr. Joseph was resident in India out of his taxable income in India during F.Y. 2015-16)	5,55,000
Fresh Investment in shares of Indian public limited companies on 11.11.2025	2,20,000

You are required to compute the total income of Mr. Joseph and Grass amount of tax payable for assessment year 2026-27 in accordance with special provisions prescribed under chapter XII-A applicable to non-residents and other provisions of the Act. Mr. Joseph has opted to shift out of default tax regime provided under section 115BAC(1A). He has no other income. The applicable tax was deducted at source from interest income. Ignore interest calculations u/s 234A, 2348 and 234C and the effect of first proviso to section 48

Solution:

Computation of total income and gross tax payable by Mr. Joseph for A.Y. 2026-27 as per Chapter XII-A and other provisions of the Income-tax Act, 1961

Particulars		Amount (₹)	Amount (₹)
Capital Gains **Long term capital gain on sale of listed equity shares of A Ltd.** Full value of consideration **Less**: Expenditure on Transfer Net consideration [Indexation benefit is not available]		 6,00,000 (50,000) 5,50,000	

		4,40,000	
Less: Exemption under section 115F [4,40,000 x 2,20,000/5,50,000]		(1,76,000)	2,64,000
Income from Other Sources			
Interest on Government Securities [81,000 / 79.20% x 100%]		1,02,273	
Interest on deposits with public limited companies	3,25,000		
Less: Expenses incurred [Not allowed under section 115D]	NIL	3,25,000	
Interest on deposits with private limited companies		5,55,000	9,82,273
Gross total income/ Total income			
Total income (Rounded off)			12,46,273
Computation of gross tax payable			**12,46,270**
Tax on LTCG of ₹ 2,64,000 @12.5%		33,000	
Tax on investment income of ₹4,27,273 @20% [₹1,02,273 + ₹3,25,000]		85,455	
Tax on other income of 5,55,000 at slab rate		23,500	
			1,41,955
Add: Health and education cess@4%			5678
Gross tax payable			1,47,633
Gross tax payable (Rounded off)			1,47,630

QUESTION 19 (WB)

Discuss the provision u/s 115JH which states that foreign company said to be resident in India.

Solution:

Foreign company said to be resident in India [Sec. 115JH]

Where,

i. a foreign company is said to be resident in India in any previous year; and

ii. such foreign company has not been resident in India in any of the previous years preceding the said previous year, then, the provisions relating to the computation of total income, treatment of unabsorbed depreciation, set off for carry forward and set off of losses, collection and recovery and special provisions relating to avoidance of tax shall apply with such exceptions, modifications and adaptations as may be specified in notification issued by the Government for the said previous year.

Consequences when such company fails to comply with the conditions

Where, in a previous year, any benefit, exemption or relief has been claimed and granted to the foreign company and, subsequently, there is failure to comply with any of the conditions specified in the notification, then,

i. such benefit, exemption or relief shall be deemed to have been wrongly allowed; the Assessing Officer may, notwithstanding anything contained in this Act, re-compute the total income of the assessee for the said previous year and make the necessary amendment as if the exceptions, modifications

and adaptations did not apply; and

ii. the provisions of sec. 154 shall, so far as may be, apply thereto and the period of 4 years specified therein being reckoned from the end of the previous year in which the failure to comply with the conditions takes place.

QUESTION 20 (WB)

Write notes on conversion of an Indian branch of Foreign Company into Subsidiary Indian Company

Solution:

Conversion of an Indian branch of Foreign Company into Subsidiary Indian Company [Sec. 115JG]

Where a foreign company is engaged in the business of banking in India through its branch situated in India and such branch is converted into a subsidiary company thereof, being an Indian company (hereafter referred to as an Indian subsidiary company) in accordance with the scheme framed by the Reserve Bank of India (and subject to the conditions as may be notified by the Central Government), then,

a) The capital gains arising from such conversion shall not be chargeable to tax in the assessment year relevant to the previous year in which such conversion takes place.

b) The provisions of this Act relating to treatment of unabsorbed depreciation, set off or carry

c) forward and set off of losses, tax credit in respect of tax paid on deemed income relating to certain companies and the computation of income in the case of the foreign company and the Indian subsidiary company shall apply with such exceptions, modifications and adaptations as may be specified in that notification.

Consequence of failure to Comply with any of the Conditions:

In case of failure to comply with any of the conditions specified in the scheme or in the notification, all the provisions of this Act shall apply to the foreign company and the said Indian subsidiary company without aforesaid benefit, exemption or relief.

Consequence of failure to Comply with any of the conditions after Claiming Benefit: Where, in a previous year, any benefit, exemption or relief has been claimed and granted to the foreign company or the Indian subsidiary company and, subsequently, there is failure to comply with any of the conditions specified in the scheme or in the notification, then:

a) Such benefit, exemption or relief shall be deemed to have been wrongly allowed;

b) The Assessing Officer may, notwithstanding anything contained in this Act, re-compute the total income of the assessee for the said previous year and make the necessary amendment; and

The provisions of sec. 154 shall, so far as may be, apply thereto and the period of 4 years specified in that section being reckoned from the end of the previous year in which the failure to comply with the condition takes place.

QUESTION 21 (ICAI)

Examine the liability for tax deduction at source in the following cases for the assessment year 2025-26:

a. A notified infrastructure debt fund eligible for exemption under Section 10(47) of the Income-tax Act, 1961 pays interest of ₹ 6 lakhs to a company incorporated in Netherlands. The Netherlands Company incurred expenditure of ₹ 24,000 for earning such interest. The fund also pays interest of ₹ 4 lakhs to Mr. Karan, who is a resident of a notified jurisdictional area.

b. Lucky Ltd., an event management company, organized a concert of international artists in India. In this connection, it engaged the services of an overseas agent Mr. Marshal from USA to bring artists to India. He contacted the artists and negotiated with them for performance in India in terms of the authority given by the company. He did not take part in event organized in India. The company made the payment of commission equivalent to ₹ 2 lakhs to the overseas agent.

Solution:

a. Obligation to deduct tax at source

As per section 194LB, tax would be deductible @5% plus Cess @ 4% on gross interest paid/credited by a notified infrastructure debt fund, eligible for exemption under section 10(47), to a foreign company. Therefore, the tax deductible under section 194LB would be Rs. 31,200 (i.e., 5.20% of Rs.6 lakhs).

However, in case the notified infrastructure debt fund pays interest to a person who is a resident of a notified jurisdictional area, section 94A will apply. Accordingly, tax would be deductible @30% (plus health and education cess@4%) under section 94A, even though section 194LB provides for deduction of tax at a concessional rate of 5%. Therefore, the tax deductible in respect of payment of Rs.4 lakh to Mr. Karan, who is a resident of notified jurisdictional area, would be Rs.1,24,800 being 31.2% of Rs.4,00,000.

b. TDS on services of overseas agent outside India:

Section 195 is the governing section for TDS where payment is made to non-residents. The liability to deduct TDS u/s 195 arises only where there is income chargeable to tax in India.

An overseas agent of an Indian company operates in his own country and no part of his income accrues or arises in India. His commission is usually remitted directly to him and is, therefore, not received by him or on his behalf in India.

The commission paid to the non-resident agent for services rendered outside India is, thus, not chargeable to tax in India.

Since commission income for contacting and negotiating with artists by Mr. Marshall, a non- resident. who remains outside India is no subject to tax in India, there is no liability for deduction of tax at source.

It is assumed that the commission equivalent to Rs. 2 lakh was remitted to Mr. Marshal outside India.

QUESTION 22 (MQP)

Examine with reasons whether the following transactions attract income-tax in India, in the hands of recipients under section 9 of income-tax Act, 1961:

a. A non-resident USA company, which did not have a permanent establishment in India, entered into an agreement for execution of electrical work in India. Separate payments were made towards drawings & designs, which were described as "Engineering Fee". The assessee contended that such business profits should be taxable in USA as there is no business connection within the meaning of section 9(1)(i) of the Income-tax Act, 1961.

b. A firm of solicitors in Delhi engaged a barrister in UK for arguing a case before Supreme Court of India. A payment of 5000 pounds was made as per terms of professional engagement.

c. Amount paid by Government of India for use of a patent developed by Mr. X. who is a non- resident.

d. Om Engineering, a non-resident foreign company entered into a collaboration agreement on 25/6/2025, with an Indian Company and was in receipt of interest on 8% debentures for 20 lakhs, issued by Indian Company, in consideration of providing technical know-how utilized in its business in Pune during previous year 2025-26.

Solution:

a. Fees for technical services is taxable under section 9(1)(vii). In this case, the separate payments made towards drawings and designs (described as "engineering fee") are in the nature of fee for technical services and, therefore, it is taxable in India by virtue of section 9(1)(vii), since the services are utilized for execution of electrical work in India.

As per Explanation below section 9(2), where income is deemed to accrue or arise in India under section 9(1)(vii), such income shall be included in the total income of the non-resident USA company, regardless of whether it has a residence or place of business or business connection in India.

b. As per section 9(1)(i), all income accruing or arising, whether directly or indirectly, through or from any business connection in India is deemed to accrue or arise in India. In this case, there was a professional connection between the firm of solicitors in Delhi and the barrister in UK. The expression "business" includes not only trade and manufacture; it includes, within its scope: "profession" as well. Therefore, the existence of professional connection amounts to existence of "business connection under section 9(1)(i). It was so held by the Supreme Court in Barendra Prasad Roy v. ITO (1981) 129 ITR 295

Hence, the amount of 5,000 pounds paid to the barrister in UK as per the terms of the professional engagement constitutes income which is deemed to accrue or arise in India under section 9(1)(i). Hence, it is taxable in India.

c. As per section 9(1)(vi), income by way of royalty payable by the Government of India is deemed to accrue or arise in India. "Royalty means consideration for inter alia, use of patent. Therefore, the amount paid by Government of India for use of patent developed by Mr. X, a non-resident, is deemed to accrue or arise in India. Hence, it is taxable in India in the hands of Mr. X

d. 20 lakhs, being the value of debentures issued by an Indian company in consideration of providing technical know-how for use in its business in India, is in the nature of fee for technical services, deemed to accrue or arise in India to Om Engineering, a non-resident foreign company, under section

9/1)(vii). Hence, it is taxable in India.

Further, as per section 9(1)(v), income by way of interest payable by a person who is a resident of India is deemed to accrue or arise in India. Therefore, interest Income from debentures of an Indian company is deemed to accrue or arise in India in the hands of Om Engineering by virtue of section 9(1)(v). Hence, it is taxable in India.

QUESTION 23 (ICAI)

State whether 'business connection 'is established as envisaged by section 9 of the Income- tax Act, 1961, in the under-mentioned situations:

1) Jupier Pty Ltd., London (JPL), a non-resident company, has set up a liaison office at Kolkata, with the permission of the RBI. Indian customers, who are briefed of the products of JPL by the liaison office, interact directly with JPL for placing and processing of their orders.
2) Madan & Co. (MC), is acting on behalf of Nelson Inc., Sydney, a non-resident company. MC can accept the order, negotiate the price and coordinate with Nelson Inc. for delivery of product to the Indian clients. MC is paid commission in this regard.

Solution:

Business connection:

1) When a liaison Office is maintained solely for the purpose of carrying out activities which are preparatory or auxiliary in character, and such activities are approved by the Reserve Bank of India, then, no business connection is established.

   Indian customers, who are briefed of the products of JPL by the liaison office, interact directly with JPL for placing and processing of their orders. The liaison office does not procure orders or process them. Hence there is no business connection, as envisaged by section 9.
2) Business connection shall include any business activity carried out through a person acting on behalf of the non-resident. For a business connection to be established, the person acting on behalf of the non-resident -
   - must have an authority which is habitually exercised in India to conclude contracts on behalf of the non-resident or;
   - in a case where he has no such authority, but habitually maintains in India a stock of goods or merchandise from which he regularly delivers goods or merchandise on behalf of the non-resident, or
   - habitually secures orders in India, mainly or wholly for the non-resident.

Here, MC can accept the order, negotiate the price and coordinate with MC for delivery of product to the Indian clients. Hence there exists a business connection in this situation.

QUESTION 24 (SM)

Smart (a non-resident) has computed his tax liability as under -

Particulars	Details	Amount
Income from business A		2,80,000
Long term capital gain	10,000	
Less: Income from business B u/s 71	(10,000)	Nil

Income from other sources		30,000
Gross Total Income		3,10,000
Less: Deduction u/s 80CCC to 80U		-
Total Income		3,10,000
Tax liability (after rebate u/s 87A)		520

Comment on the above computation.

Solution:

Computation made by Smart is incorrect, as because first intra head set-off shall be made, thereafter inter head set-off can be made. The correct computation is shown below –

Computation of total income and tax liability of Smart for the A.Y. 2026-27

Particulars	Details	Amount
Profits & Gains of Business or Profession		
Income from business A	2,80,000	
Income from business B u/s 70	(10,000)	2,70,000
Capital Gains		
Long term capital gain		10,000
Income from other sources		30,000
Gross Total Income		3,10,000
Less: Deduction u/s 80CCC to 80U		-
Taxable Income		3,10,000
Tax liability [{₹ 10,000 x 20% + (₹ 3,00,000 – ₹ 2,50,000) x 5%} x 104%]		4,680

In case of non-resident individual, rebate u/s 87A is not available.

QUESTION 25 (SM)

Mr. Crown, a non-resident, gives you the following information for the year ended 31-3-2026.

Particulars	Amount
Interest on Government securities (gross)	21,000
Dividend on shares of foreign companies received aboard	52,000
Interest from deposits in Indian companies (gross)	30,000
Income from horse races in India	20,000

He has donated a sum of ₹ 10,000 to Municipal Corporation of Delhi for promotion of family planning. He has paid ₹ 2,000 by cheque to New India Assurance Co. for Mediclaim for himself. He has also spent ₹ 16,000 on medical treatment of his minor son who is physically handicapped. Compute total income of Mr. Crown for the assessment year 2026-27 Assuming that he has opted for old regime.

Solution:

Computation of Total Income of Mr. Crown, a non-resident, for the A.Y.2026-27

Particulars	Working	Amount	Amount
Income from other sources			
Dividend from Foreign company	Non- resident	Nil	
Interest from Government securities		21,000	
Indian company deposits		30,000	51,000
Casual income -Winning from horse races			20,000
Gross Total Income			**71,000**
Less: Deduction			
U/s 80D (Medical insurance)		2,000	
U/s 80DD (Handicapped son)	Non- resident	Nil	
U/s 80G (Donation)	Note	6,900	8,900
Total Income			**62,100**

Note: Computation of Deduction u/s 80G

Computation of Adjusted GTI:

Adj. GTI = GTI – Deduction u/s 80CCC to 80U other than 80G

= ₹ 71,000 – ₹ 2,000 = ₹ 69,000

Qualifying amount for donation = 10% of Adjusted GTI = 10% of ₹ 69,000 = ₹ 6,900

Deduction: In case of donation to Municipal Corporation for family planning, rate of deduction is 100% of qualifying amount. Hence, deduction u/s 80G shall be ₹ 6,900 (being 100% of ₹ 6,900).

ADVANCE RULING

QUESTION 1 (WB)

Who is applicant for advance ruling?

Solution:

	Applicant	Form No	Advance Ruling determination by BAR in relation to
1	NR	Form No 34C	A transaction which has been undertaken or is proposed to be undertaken by him.
2	Resident	Form No 34D	The tax liability of a NR arising out of a transaction which has been undertaken or is proposed be undertaken by him which such NR and such determination shall include the determination of any question of law or of fact specified in the application.
3	Resident of class or category of persons notified by CG. (Resident, who has undertaken/ proposed to be undertaken one or more transactions value ₹100 Cr or more)	Form No 34DA	The tax liability of a resident applicant, arising out of transaction which has been undertaken or proposed to be undertaken by such applicant and such determination shall include the determination of question of law or of fact specified in the application.
4	Resident of class or category of persons notified by CG. (A public sector undertakings)	Form No 34E	An issue relating to computation of TI which is pending before any IT Authority or the ITAT and such determination or decision shall include the determination or decision of any question of law or fact w.r.t such computation of IT specified in the Application.
5	Resident or NR	Form No 34EA	Whether an arrangement, which is proposed to be undertaken by such applicant, is an impermissible avoidance arrangement or not.

QUESTION 2 (WB)

The term 'Advance Ruling' includes within its scope, a determination by the Board for Advance Rulings only in relation to a transaction undertaken by a non-resident applicant. Examine the correctness of this statement, with reference to the provisions of the Income- tax Act 1961.

Solution:

The statement is not correct.

As per section 245N, advance ruling not only includes a determination by the BAR in relation to a transaction which has been undertaken or is proposed to be undertaken by a non- resident applicant, but also includes, inter alia, determination by the BAR in relation to the tax liability of a non-resident

arising out of a transaction which has been undertaken or is proposed to be undertaken by **a resident applicant** with such non-resident and such determination shall include the determination of any question of law or of fact specified in the application.

QUESTION 3 (WB)

Q, a non-resident, made an application to the Board for Advance Rulings on 3.4.2025 in relation to a transaction proposed to be undertaken by him. On 1.5.2025, he decides to withdraw the said application. Can he withdraw the application on 1.5.2025?

Solution:

Section 245Q (3) of the Income-tax Act, 1961 provides that an applicant, who has sought for an advance ruling, may withdraw the application within 30 days from the date of the application. Since the 30-day period from the date of application by Q to the Board for Advance Rulings has not lapsed, he can withdraw the application.

QUESTION 4 (PEQ)

Hats LLP, a foreign company, has filed an application for advance ruling on 20th January, 2026, in respect of a construction contract it has undertaken with Deepti Ltd., and Indian company. The ruling sought related to tax implications of certain complex terms in the contract. In this regard, you are required to answer the following:

i. Can Hats LLP withdraw on 14th April, 2026, the application for advance ruling, validly filed by it which was pending adjudication?

ii. Hats LLP seeks to acquire an immovable property from Deepti Ltd., as part of the contract. Can the ruling be sought, inter alia, in respect of ascertainment of fair market value of the said property?

Solution:

i. **Time limit for withdrawal of Advance ruling**
As per section 245Q, an application for advance ruling can be withdrawn within 30 days from the date of the application. Hence Hats LLP cannot withdraw on 14.04.2026, the application filed by it on 12.01.2026.

ii. **Advance ruling seeking determination of FMV of a property – validity?**
The Board for Advance Ruling (BAR) has been conferred certain powers in respect of admitting an application filed before it. It is specifically stated that BAR cannot admit an application seeking determination of the FMV of any property. Hence it is not possible for Hats LLP to seek advance ruling in this regard.

QUESTION 5 (WB)

Examine when can an advance ruling pronounced by the Board for Advance Rulings be declared void. What is the consequence?

Solution:

As per section 245T, an advance ruling can be declared to be void ab initio by the Board for Advance Rulings if, on a representation made to it by the Principal Commissioner or Commissioner or otherwise, it finds that the ruling has been obtained by fraud or misrepresentation of facts. Thereafter, all the provisions of the Act will apply (after excluding the period beginning with the date of such advance

ruling and ending with the date of order under this section) as if no such advance ruling has been made. A copy of such order shall be sent to the applicant and the Principal Commissioner or Commissioner.

QUESTION 6 (WB)

The Board for Advance Rulings has the powers of compelling the production of books of account – Examine the correctness or otherwise of this statement.

Solution:

The statement is correct.

Under section 245U, the Board for Advance Rulings shall have all the powers vested in the Civil Court under the Code of Civil Procedure, 1908 as are referred to in section 131.

Accordingly, the Board for Advance Rulings shall have the same powers as are vested in a court under the Code of Civil Procedure, 1908, when trying a suit in respect of the following matters, namely –

i. discovery and inspection;
ii. enforcing the attendance of any person, including any officer of a banking company and examining him on oath;
iii. compelling the production of books of account and other documents; and
iv. issuing commissions.

Therefore, the Board for Advance Ruling has the powers of compelling the production of books of account.

QUESTION 7 (WB)

A. What is the remedy available to an applicant who is aggrieved by the ruling of Board for Advance Rulings? Also, state the time limit within which he should exercise this remedy.

B. The company had sought a ruling from the Board for Advance Ruling and it is aggrieved with the ruling. Its tax counsel says that since the decision of the Board is binding on the applicant being the company in this case, it has no other option but to accept the ruling of the Board.

Solution:

A. An applicant who is aggrieved by any ruling pronounced by the Board for Advance Rulings may appeal to the High Court against such ruling or order of the Board of Advance Rulings. He has to do so within sixty days from the date of the communication of that ruling.

However, where the High Court is satisfied, on an application made by the appellant in this behalf, that the appellant was prevented by sufficient cause from presenting the appeal within the **60-day period** as specified above, it may grant **further period of 30 days** for filing such appeal.

B. The view of the tax counsel of the company is **incorrect.**

As per section 245W, the applicant, if he is aggrieved by any ruling pronounced or order passed by the Board for Advance Rulings, may appeal to the High Court against such ruling or order of the Board for Advance Rulings within 60 days from the date of the communication of that ruling or order, in such form and manner, as may be prescribed.

TRANSFER PRICING

QUESTION 1 (PEQ)

State with brief reasons whether the relationship of associated enterprise or deemed associated enterprise is present in the following cases:

a. A Ltd. has 28% voting power in B Ltd. and 31% voting power in C Ltd. Both B Ltd. and C Ltd. are independent entities engaged in different line of business. Decide the relationship between B Ltd. and C Ltd.

b. Sun Ltd. is engaged in manufacture of medicines for joint pains. It is partly dependent on Moon Ltd. for using the know-how to manufacture the same. Sun Ltd. pays royalty to Moon Ltd as per the regular trade practice.

c. Ram Ltd. is engaged in manufacture of computer hardware's and for this purpose it is dependent on Laxman Ltd. During the financial year 2025-26, 88% of the raw materials for configuring the computer were purchased from Laxman Ltd.

d. The total book value of assets of Plant Ltd. was ₹ 52 crores when it borrowed ₹ 20 crores from Tree Ltd. for expansion of its business.

e. The total borrowings of Jupiter Ltd. was ₹ 7 crores of which Venus Ltd. gave guarantee to the extent of ₹ 2 crores.

f. Gautam Ltd. having major stake in many companies which in turn have majority stake in Pluto Ltd. Gautam Ltd. has the authority (voting power) to appoint 4 out of 7 directors in Pluto Ltd.

g. Mukherjee Ltd. is engaged in manufacture of mobile handsets. The entire handsets so manufactured are sold to Banerjee Ltd. The ice and terms and conditions relating thereto are decided by Mitra Ltd. being the holding company Banerjee Ltd. Assume the entities are geographically located in three different countries with Mukherjee Ltd. at Kolkata.

h. Arjun has 90% shareholding in Bheem (P) Ltd. His brother Nakul has 85% shareholding in Hastina P Ltd. Decide the relationship of Bheem (P) Ltd. and Hastina (P) Ltd.

Solution:

Associated Enterprises

a. A Ltd has more than 26% voting power in B Ltd and C Ltd already there is AE relationship between A Ltd and B Ltd and similarly between A Ltd and C Ltd. However, by virtue of such common shareholding in both the companies B Ltd and C Ltd would become deemed AEs.

b. When an entity for the purpose of manufacture or processing of goods is wholly (100%) dependent on another enterprise, there would be deemed AE relationship. In this case
Sun Ltd is partly dependent on Moon Ltd. Therefore, they are not AEs or deemed AEs

c. When an enterprise depends on 90% or more of raw materials or consumables which are supplied by another enterprise, they are deemed to be AEs. In this case, Ram Ltd purchased only 88% of the raw materials from Laxman Ltd and therefore they are not deemed AEs.

d. When one enterprise advances loan to another enterprise which is 51% or more of the book value of the total assets of borrowing enterprise, they are deemed AEs. In this case, the borrowing is

Rs.20 crores which is less than 51% of the total book value of assets of the borrowing entity. Therefore, they are not deemed AEs.

e. The total borrowings of Jupiter Ltd was Rs.7 crores of which Venus Ltd gave guarantee to the extent of Rs.2 crores: When an enterprise guarantees 10% or more of the total borrowings of the other enterprise, they are deemed to be AEs. In this case, the total borrowing is Rs.7 crores and the guarantee of Venus Ltd enabling Jupiter Ltd to borrow is Rs.2 crore. Therefore, they are deemed AEs.

f. Gautam Ltd having major stake in many companies which in turn have majority stake in Pluto Ltd. Gautam Ltd has the authority (voting power) to appoint 4 out of 7 directors in Pluto Ltd: When an enterprise or person is eligible to appoint more than half of the directors or members of the governing board of the other enterprise, they are deemed to be AEs. In this case Gautam Ltd has authority to appoint 4 out of 7 directors in Pluto Ltd. Hence, they are deemed to be AEs.

g. When goods or articles manufactured by one enterprise is sold to another enterprise and the prices and the terms and conditions thereof are decided by the other enterprise or persons specified by the other enterprise, there is deemed AE relationship established.

h. When one enterprise is controlled by an individual and other enterprise is controlled by his relative then they are deemed to be associated enterprises. Therefore, Bheem (P) Ltd and Hastina (P) Ltd are deemed AEs.

QUESTION 2 (PEQ)

State whether the following transaction attract transfer pricing regulations:

a) Bear Ltd., Delhi has 12 directors of which 7 directors are appointed by Lion Trade SA of France along with its subsidiaries located in US and Europe.

b) DEF LLP, United Kingdom holds 28% voting power in PQR Ltd., Kolkata from 01.04.2026 though there were transactions exceeding ₹ 5 crores between them in the previous year 2025-26.

c) Dizzy Ltd., Chennai exported semi-finished goods to its subsidiary company Tom Co. Ltd. of Colombo. The subsidiary Tom Co. Ltd. completed the processing and after packing them dispatched goods back to Dizzy Ltd. During the financial year 2025-26, the total value of goods dispatched by Dizzy Ltd. to Tom Co. Ltd. was ₹3 crores and processing charges paid was ₹50 lakhs.

d) Karun (HUF) consists of Shir. Karun, two sons and a daughter. It is carrying on business at Kanpur. Both the sons are in USA owning share capital exceeding 50% in 2 companies. The HUF purchased raw materials in India and exported the same to both the companies in USA of sons of Karun.

Solution:

a) As per section 92A(2)(e) where more than half of the board of directors of the governing board of one enterprise is appointed by the other enterprise, they are deemed to be associated enterprises. Since 7 out of 12 directors of Bear Ltd are appointed by Lion Trade SA of France, the relationship between Bear Ltd and Lion Trade SA, France, is that of associated enterprise and the transfer pricing regulations will apply.

b) When one enterprise holds directly or indirectly not less than 26% of the voting power in the other enterprise, they are said to be associated enterprises.
However, in this case only from 01.04.2026 such relationship comes into existence. For the financial

year 2025-26 that relationship does not exist and hence the transfer pricing regulations will not apply.

c) Transfer pricing regulations are attracted when there is an international transaction between the assessee and an associated enterprise. Here the Indian company and its subsidiary are associated enterprises.

In this case the processing charges paid is an international transaction and therefore the transfer pricing regulation will apply.

d) Where one enterprise is controlled by HUF and another enterprise is controlled by members of HUF or relatives of members from a company formed outside India, the relationship of associated enterprise is established between them.

In this case, the HUF is purchasing raw materials and exporting to USA to the companies where the coparceners of the HUF have more than 50% shareholding. Therefore, the relationship of associated enterprise is established in this case.

QUESTION 3 (PEQ)

State whether the following situations lead to deemed associated enterprise relationships:

a) A Co Ltd (foreign company) had 30% shareholding in B Co Ltd w.e.f. 01.04.2025. B Co Ltd came out with public issue of shares in August, 2025 and post this public issue of shares, the shareholding of A Co Ltd got reduced to 22%.

b) F Co Ltd of UK had 10% shareholding in G Co Ltd, Mumbai as on 01.04.2025. More than 90% of the raw materials required by G Co Ltd was supplied by F Co Ltd. However, w.e.f. 1st December, 2025. G Co Ltd stopped purchase of raw material from F Co Ltd. In January, 2026 in order to expand its business G Co Ltd went in for private placement of shares. F Co Ltd subscribed to the shares issued by G Co Ltd and thereby its shareholding became 27% as on 31.03.2026.

c) H Co Ltd a domestic company in which K Ltd (foreign company) had 28% shareholding. It reduced its shareholding to 20% in July, 2025. H Co Ltd went for a bank loan of 50 crore in December, 2025 which was its only borrowing. K Ltd gave guarantee to the bank for the said borrowing by H Co Ltd.

d) M Co Ltd, Mumbai borrowed money from P Ltd (foreign company) on 15.7.2025. The borrowing was 60% of book value of total assets on the date of borrowing. Based on the borrowing M Co Ltd expanded its business and its loan from P Ltd on the book value of assets got reduced to 45% from 1st January, 2026.

Solution:

Situations leading to deemed AE relationships

a) Section 92A(2) says that two enterprises shall be deemed to be associated enterprises, if at any time during the previous year one enterprise holds, directly or indirectly, shares carrying not less than 26% of the voting power in the other enterprise.

In this case, A Co Ltd held more than 26% of voting power in B Co Ltd till the public issue of shares. Therefore, for the financial year 2025-26 they are AEs.

b) Two enterprises shall be deemed to be associated enterprises, if at any time during the previous year one enterprise holds, directly or indirectly, shares carrying not less than 26% of the voting power in the other enterprise.

In this case, at the time of supply of goods which was more than 90% of the total raw materials required by G Co Ltd, there was no AE relationship with F Co Ltd of UK. However, after stopping purchase of raw material F Co Ltd increased its shareholding to 27% and therefore they are AE for the previous year 2025-26.

c) A company said to be an associated enterprise of another entity if it guarantees not less than 10% of the total borrowings of the other enterprise.
In this case, the shareholding was 28% for part of the year and it got reduced to 20% in July, 2025. After that the borrowing of H Co Ltd was guaranteed by the foreign company K Ltd. Therefore, they are AEs for the assessment year 2026-27 since the shareholding was more than 26% for some time during the previous year.

d) If one enterprise advances loan to another enterprise which is not less than 51% of the book value of total assets of the other enterprise, they are said to be deemed AEs. In this case, at the time of borrowing the amount of borrowing was 60% of the book value of the assets of the borrowing company. The subsequent acquisition and the loan getting reduced to less than 51% will not change the situation. Therefore, they are AEs.

QUESTION 4 (MQP)

Explain when two enterprises will be considered as an associated enterprise? Examine the different circumstances when two enterprises are treated as deemed associated enterprises. If X Inc. holds 30% equity shares in Y Ltd. as well as in Z Inc., does Y Ltd. And Z Inc. considered as associated enterprise? Justify.

Solution:

Associated enterprise [Sec. 92A]: Associated enterprise, in relation to another enterprise, means an enterprise:

1. which participates, directly or indirectly, or through one or more intermediaries, in the management or control or capital of the other enterprise; or
2. in respect of which one or more persons who participate, directly or indirectly, or through one or more intermediaries, in its management or control or capital, are the same persons who participate, directly or indirectly, or through one or more intermediaries, in the management or control or capital of the other enterprise.

Deemed associated enterprise [Sec. 92A (2)]:

For the above purpose, two enterprises shall be deemed to be associated enterprises if, at any time during the previous year fulfil any of the following conditions (if one of following conditions are not satisfied, then mere participation in management or control or capital of the other enterprise, etc. shall not make them associate):

a. one enterprise holds (directly or indirectly) shares carrying not less than 26% of the voting power (i.e., equity shares in case of company) in the other enterprise; or
b. any person or enterprise holds (directly or indirectly) shares carrying not less than 26% of the voting power in each of such enterprises; or
c. the manufacture or processing of goods or articles or business carried out by one enterprise is wholly (not partially) dependent on the use of know-how, patents,

d. rights of similar nature, or any data, documentation, drawing or specification relating to any patent, invention, model, design, secret formula or process, of which the other enterprise is the owner or in respect of which the other enterprise has exclusive rights; or
e. 90% or more of the raw materials and consumables required for the manufacture or processing of goods or articles carried out by one enterprise, are supplied by the other enterprise or by persons specified by the other enterprise, and the prices and other conditions relating to the supply are influenced by such other enterprise; or
f. the goods or articles manufactured or processed by one enterprise, are sold to the other enterprise or to persons specified by the other enterprise, and the prices and other conditions relating thereto are influenced by such other enterprise; or
g. where one enterprise is controlled by an individual, the other enterprise is also controlled by such individual or his relative or jointly by such individual and relative of such individual; or
h. where one enterprise is controlled by a Hindu undivided family, the other enterprise is controlled by a member of such Hindu undivided family, or by a relative of a member of such Hindu undivided family, or jointly by such member and his relative; or
i. where one enterprise is a firm, association of persons or body of individuals, the other enterprise holds not less than 10% interest in such firm, association of persons or body of individuals; or
j. a loan advanced by one enterprise to the other enterprise constitutes not less than 51% of the book value of the total assets of the other enterprise; or
k. one enterprise guarantees not less than 10% of the total borrowings of the other enterprise; or
l. more than ½ of the board of directors or members of the governing board, or one (not
m. ½ of total number of executive director) or more executive directors or executive members of the governing board of one enterprise, are appointed by the other enterprise; or
n. more than ½ of the directors or members of the governing board, or one or more of the executive directors or members of the governing board, of each of the two enterprises are appointed by the same person or persons; or
o. there exists between the two enterprises, any relationship of mutual interest, as may be prescribed.

Since, X Inc. holds more than 26% equity shares in Y Ltd as well as in Z Inc., hence, Y Ltd and Z Inc. are considered as associated enterprises.

QUESTION 5 (MQP)

When is a transaction treated as an international transaction for the transfer pricing provisions as per section 92B?

Solution:

As per section 92B, an international transaction is one which satisfies the following criteria

1. A transaction between two or more associated enterprises, either or both of whom are non-residents;
2. It is in the nature of purchase, sale or lease of tangible or intangible property, or provision of services, lending/borrowing money or any other transaction having a bearing on the profits, income, losses or assets of such enterprises;

3. It includes a transaction in the nature of a mutual agreement, or arrangement between two or more associated enterprises for the allocation or apportionment of, or any contribution to, any cost or expense incurred (or to be incurred) in connection with a benefit, service or facility provided (or to be provided) to any one or more of such enterprises.

QUESTION 6 (SM)

A Co. Ltd. of Chennai and Sky Inc. of Singapore are associate enterprises. A Co. Ltd. imported 1000 television sets at ₹ 16,000 per set without any warranty period. A Co. Ltd. also imports similar TV sets from unrelated party Sign Inc. of Japan. It is imported at ₹ 15,000 per set with warranty time of 2 years. The cost of warranty in respect of goods imported from Sky Inc. for a period of 2 years would cost ₹ 2,000.

Compute arm's length price and the amount of increase in total income of A Co. Ltd. as per CUP method.

Solution:

Computation of Arm's Length Price

Particulars	Amount (₹)
Cost of TV Set acquired from Sign Inc	15,000
Less: Cost of Warranty	2,000
Arm's Length Gross Profit mark-up	13,000

Computation of Increase in Total Income

Particulars	Amount (₹)
Cost of TV Set acquired from Sky Inc [₹ 16,000 * 1,000]	1,60,00,000
Less: Arm's length Value [₹ 13,000 * 1,000]	1,30,00,000
Therefore, Increase in Total Income	30,00,000

QUESTION 7 (SM)

J Inc. of Korea and CD Ltd, an Indian Company are associated enterprises. CD Ltd manufactures Cell Phones and sells them to J.K.& F Inc., a Company based at Nepal. During the year CD Ltd. supplied 2,50,000 Cellular Phones to J Inc. Korea at a price of ₹ 3,000 per unit and 35,000 units to JK & F Inc. at a price of ₹ 5,800 per unit. The transactions of CD Ltd with JK & F Inc. are comparable subject to the following considerations:

Sales to J Inc. are on FOB basis, sales to JK & F Inc. are CIF basis. The freight and insurance paid by J Inc. for each unit @ ₹ 700. Sales to JK & F Inc. are under a free warranty for Two Years whereas sales to J Inc. are without any such warranty. The estimated cost of executing such warranty is ₹ 500. Since J Inc.'s order was huge in volume, quantity discount of ₹ 200 per unit was offered to it.

Compute the Arm's Length Price and the subsequent amount of increase in the Total Income of CD Ltd, if any.

Solution:

Computation of Arm's Length Price of Products sold to J Inc. Korea by CD Ltd.

Particulars	₹	₹
Price per Unit in a Comparable Uncontrolled Transaction		5,800
Less: Adjustment for Differences –		
(a) Freight and Insurance Charges	700	
(b) Estimated Warranty Costs	500	
(c) Discount for Voluminous Purchase	200	(1,400)
Arms's Length Price for Cellular Phone sold to J Inc. Korea		**4,400**

Computation of Increase in Total Income of CD Ltd

Particulars	₹
Arm's Length Price per Unit	4,400
Less: Price at which actually sold to J Inc. Korea	(3,000)
Increase in Price per Unit	1,400
No. of Units sold to J Inc. Korea	2,50,000
Increase in Total Income of CD Ltd (2,50,000 x ₹ 1,400)	₹ 35 Crores

QUESTION 8 (SM)

Fox Solutions Inc. a US Company, sells Laser Printer Cartridge Drums to its Indian Subsidiary Quality Printing Ltd at $ 20 per drum. Doc Solutions Inc. has other takers in India for its Cartridge Drums, for whom the price is $ 30 per drum. During the year, Fox Solutions had supplied 12,000 Cartridge Drums to Quality Printing Ltd.

Determine the Arm's Length Price and taxable income of Quality Printing Ltd if its income after considering the above is ₹ 45,00,000. Compliance with TDS provisions may be assumed and Rate per USD is ₹ 45. Also determine income of Fox Solutions Inc.

Solution:

Computation of Total Income of Quality Printing Ltd.

Particulars	Amount (₹)	Amount (₹)
Total Income before adjusting for differences due to Arm's Length Price		45,00,000
Add: Difference on Account of adopting Arm's Length Price [12,000 x $20 x ₹ 45]	1,08,00,000	
Less: Amount under Arm's Length Price [12,000 x $ 30 x ₹ 45]	1,62,00,000	
Incremental Cost on adopting ALP u/s 92(3), Taxable Income cannot be reduced on applying ALP. Therefore, difference on account of ALP is ignored.	54,00,000	
Total Income of Quality Printing Ltd.		**45,00,000**

Computation of Total Income of Fox Solutions Inc.

The provisions relating to taxing income of Fox Solutions Inc., on applying Arm's Length Price for transactions entered into by a Foreign Company is given in Circular 23 dated 23.7.1969, which is as follows:

i. Transactions Not Taxable in India: Transactions will not be subject tax in India if transactions are on principal- to-principal basis and are entered into at ALP, and the subsidiary also carries on business on its own.

ii. Transactions Taxable in India if the Indian Subsidiary does not carry on any business on its own. The following are the other considerations in this regard:

a. Adopting ALP does not affect the computation of taxable income of Fox Solutions Inc. if tax has been deducted at source or if tax is deductible.

b. Where ALP is adopted for taxing income of the Parent Company, income of the recipient Company (i.e. Quality Printing Ltd) will not be recomputed.

QUESTION 9 (PEQ)

Khazana Ltd is an Indian Company engaged in the business of developing and manufacturing Industrial components. Its Canadian Subsidiary Tech pro Inc. supplies technical information and offers technical support to Khazana for manufacturing goods, for a consideration of Euro 1,00,000 per year. Income of Khazana Ltd is ₹ 90 Lakhs. Determine the Taxable Income of Khazana Ltd if Tech pro charges Euro 1,30,000 per year to other entities in India. What will be the answer if Tech pro charges Euro 60,000 per year to other entities. (Rate per Euro may be taken at ₹ 50.)

Solution:

Computation of Total Income of Khazana Ltd

Particulars	Amount (₹)	Amount (₹)
When price charged for Comparable Uncontrolled Transaction	€ 1,00,000	€ 60,000
Price actually paid by Khazana Ltd [€1,00,000 x ₹ 50]	50,00,000	50,00,000
Less: Price charged in Rupees (under ALP)		
[€1,30,000 x ₹ 50]	65,00,000	
[€60,000 x ₹ 50]		30,00,000
Incremental Profit on adopting ALP (A)	(15,00,000)	20,00,000
Total Income before adjusting for differences due to Arm's Length Price	90,00,000	90,00,000
Add: Difference on account of adopting Arm's Length Price [if (A) is positive]	NIL	20,00,000
Total Income of Khazana Ltd.	**90,00,000**	**1,10,00,000**

Note: u/s 92(3), Taxable Income cannot be reduced on applying ALP. Therefore, difference on account of ALP which reduces the Taxable Income is ignored.

QUESTION 10 (PEQ)

Videsh Ltd., a US company has a subsidiary, Hind Ltd. in India. Videsh Ltd. sells mobile phones to Hind Ltd. for resale in India. Videsh Ltd. also sells mobile phones to Bharat Ltd. another mobile phone reseller. It sold 48,000 mobile phones to Hind Ltd. at ₹ 12,000 per unit. The price fixed for Bharat Ltd. is ₹ 11,000 per unit. The warranty in case of sale of mobile phones by Hind Ltd. is handled by itself, whereas, for sale of mobile phones by Bhart Ltd., Videsh Ltd. is responsible for warranty for 6

months. Both Videsh Ltd. and Hind Ltd. extended warranty at a standard rate of ₹ 500 per annum. On the above facts, how is the assessment of Hind Ltd. going to be affected?

Solution:

Computation of Arm's Length Price

Particulars	Amount (₹)
Cost of Mobile Phone sold to Bharat Ltd.	11,000
Less: Cost of Warranty	250
Arm's Length Price	10,750

Computation of Increase in Total Income

Particulars	Amount (₹) (in lacs)
Cost of mobile phone acquired from Videsh Ltd. [₹ 12,000 * 48,000]	5,760
Less: Arm's length Value [₹ 10,750 x 48,000]	5,160
Therefore, Increase in Total Income	600

QUESTION 11 (PEQ)

BPL Ltd., the assessee, has sold goods on 12.01.2026 to X Ltd., located in notified jurisdictional area (NJA), for ₹10.50 crores. During the current financial year, BPL Ltd. charged ₹11.50 crores from JD of New York and ₹12 crores from ZZ of London for sale of identical goods and both of which are neither associated enterprises of BPL Ltd. nor they are situated in any NJA. While sales to JD and ZZ were on CIF basis, the sale to X Ltd., was on FOB basis, which paid ocean freight and insurance amounting to ₹20 lakhs on purchases from BPL Ltd.

India has a Double Taxation Avoidance Agreement with the U.S.A. and U.K. The assessee has a policy of providing after sales support service to the tune of ₹14 lakhs to all customers except X Ltd. which procured the same locally at a cost of ₹18 lakhs.

Compute the ALP for the sales made to X Ltd., and the amount of consequent increase, if any, in the profit the assessee-company.

Solution:

A transaction where one of the parties thereto is a person located in a NJA would be deemed to be an international transaction and all parties to the transaction would be deemed as associated enterprises. Accordingly, all the provisions of transfer pricing would be attracted in case of such a transaction.

Hence, the transactions between BPL Ltd, an Indian company and X Ltd., located in NJA, would be deemed to be international transactions between associated enterprises.

The transactions of BPL Ltd. with JD of New York and ZZ of London for sale of identical goods are comparable uncontrolled international transactions, since they are neither associated enterprises of BPL Ltd. nor are they situated in NJA. Hence, **Comparable Uncontrolled Price (CUP) method** can be used to determine ALP.

Where **more than one price is determined** by the most appropriate method, CUP method in this case, then, the **arithmetic mean** has to be taken in cases where the number of entries in the dataset is less

than 6 (in this case it is only 2). However, the benefit of permissible variation between the ALP and the transfer price based on the rate notified by the Central Government (i.e., maximum of 3% of transaction price) would not be available in respect of such transaction.

Computation of ALP using CUP method

Particulars	JD	ZZ
	₹ in crores	₹in crores
Price charged by BPL Ltd. (on CIF basis)	11.50	12.00
Less: Ocean freight and insurance, has to be reduced since the price charged to X Ltd. is on FOB basis	0.20	0.20
	11.30	11.80
Less: Cost of after-sales support service (has to be reduced, since such services are being provided to JD and ZZ but not to X Ltd.)	0.14	0.14
Arm's Length Price	11.16	11.66
Arithmetic mean of the above prices [(₹₹11.16 crores + ₹11.66 crores)/2]		11.41
Less: Price at which goods were sold to X Ltd.		10.50
Arm's length adjustment [increase in profit of BPL Ltd.]		0.91

QUESTION 12 (SM)

Compute arm's length price from following information

Particulars	Related Party	Unrelated Party
Price paid (inclusive of taxes)	₹ 25,000	₹ 23,500
Delivery terms	CIF	FOB
Quantity	100 pcs	110 pcs
Availability of Input Tax Credit	No	Yes
Quantity	100 pcs	110 pcs
Freight cost	-	₹ 1,200
Insurance cost	-	₹ 700
Input Tax Credit	-	₹ 2,000
Credit period	90 days	Upon dispatch
Interest rate on working capital	12% p.a.	-

Solution:

Computation of ALP

Particulars	Amount (₹)
Price paid (inclusive of taxes)	₹ 23,500
Adjustments of differences	
Delivery terms – Freight cost	₹ 1,200
Delivery terms – Insurance cost	₹ 700
Input Tax Credit available	(₹ 2000)
Credit period (Interest on ₹ 23,500 for 3 months @ 12% p.a.)	₹ 705
Arm's length price	₹ 24,105

QUESTION 13 (PEQ)

Bran Ltd., a company incorporated in US, sells laser printer cartridge to its 100 per cent Indian subsidiary Alpha Ltd. @ $ 50 per cartridge. Bran Ltd. also sells its laser printer cartridge to another company Toy Ltd. in India @ $ 80 per piece. Total income of Alpha Ltd. for the assessment year 2023-24 is Rs. 12,00,000 after making payment for 100 cartridges @ $50 (1$ = Rs. 49). Alpha Ltd. has deducted tax at source while making payments to Bran Ltd. In this case, sale to unrelated party Toy Ltd. is @ $ 80. Compute the arm's length price and taxable income of Bran Ltd. and Alpha Ltd. The rate of one dollar may be assumed to be equivalent to Rs. 49 in all transactions for the sake of simplicity.

Solution:

Arm's length price: Arm's length price of laser printer cartridge, which is sold to Alpha Ltd. will be $ 80 per cartridge by comparable uncontrolled price method.

Income of Alpha Ltd.

Particulars	Rs.
Income as per books of account	12,00,000
Add: Amount charged by Bran Ltd. [$ 50 x 100 x Rs. 49]	(+) 2,45,000
Less: Arm's length price [$ 80 x 100 x Rs. 49]	(-) 3,92,000
Income (after applying arm's length price)	**10,53,000**

By virtue of section 92(3), one cannot reduce taxable income by applying arm's length price. Therefore, income of Alpha Ltd. will be Rs. 12,00,000.

Income of Bran Ltd.:

If the transactions are actually on a principal-to-principal basis and are at arm's length and the subsidiary company functions and carries on business on its own, instead of functioning as an agent of the parent company, the mere fact that the Indian company is a subsidiary of the non-resident company will not be considered a valid ground for invoking section 9 for assessing the non-resident.

If the aforesaid conditions are satisfied, then Bran Ltd. is not chargeable to tax in India. Conversely, if the aforesaid conditions are not satisfied, Bran Ltd. will be chargeable to tax in India in respect of income which arises on sale of goods to Alpha Ltd. However, the adaptation of arm's length price by the Assessing Officer will not affect the computation of taxable income of Bran Ltd. [as per second proviso to section 92C (4) when tax is deducted/deductible, the income of recipient enterprise will not be recomputed if arm's length price is adopted in the case of payer-enterprise].

QUESTION 14 (PEQ)

S Limited, an Indian Company supplied billets to its holding company, G Limited, Germany during the previous year 2025-26. S Limited also supplied the same product to another German-based company, Z Limited, an unrelated entity. The transactions with G Limited are priced at Euro 500 per MT (FOB), whereas the transactions with Z Limited are priced at Euro 900 per MT (CIF). Insurance and Freight amounts to Euro 300 per MT. Compute the arm's length price for the transaction with G Limited.

During the year, 10,000 MT were supplied to G Limited. What will be the effect of the change in the ALP on the profits of S Limited? Assuming that its export profits are covered by exemption u/s 10AA (seventh year), will there be any increase in the quantum of exemption u/s 10AA? Assume an exchange rate of 1 Euro = 90 INR.

Solution:

In this case, S Limited, the Indian company, supplied billets to its foreign holding company, G Limited. Since the foreign company, G Limited, is the holding company of S Limited, S Limited and G Limited are the **associated enterprises** within the meaning of section 92A. As S Limited supplies similar product to an unrelated entity, Z Limited, Germany, the transactions between S Limited and Z Limited can be considered as comparable uncontrolled transactions for the purpose of determining the arm's length price of the transactions between S Limited and G Limited **Comparable Uncontrolled Price (CUP) method** of determination of arm's length price (ALP) would be applicable in this case.

Transactions with G Limited are on FOB basis, whereas transactions with Z Limited are on CIF basis. This difference has to be adjusted before comparing the prices.

Particulars	Amount (in Euro)
Price per MT of billets to Z Limited	900
Less: Cost of insurance and freight per M.T.	300
Adjusted Price per M.T.	600

The price charged to G Ltd., is Euro 500 and the variation is more than 16% of the adjusted price.

Since the adjusted price for Z Limited, Germany and the price fixed for G Limited are not the same, the arm's length price is Euro 600 per MT. Since the sale price to related party (i.e., G Limited) and unrelated party (i.e., Z Limited) is not the same and the variation is more than 16%, the transaction with related party G Limited has not been carried out at arm's length price.

There has been under invoicing to the tune of Euro 100 per MT.

Increase in profits of S Ltd for 10,000 MT is Euro 10,000 × 100 - 10,00,000

In terms of INR, it is 10,00,000 × 90 = ₹ 9 crore.

S Ltd. will not be entitled to any exemption u/s 10AA in respect of the above increase in profits and hence its total income will go up by the above figure.

QUESTION 15 (MQP)

X Ltd, an Indian company, supplies 50,000 products to Y Ltd, a German company and which associated, at FOB price of ₹ 4000(after a discount of ₹ 200) per product. It also supplies 5000 products of Z Ltd which is not associated, at CIF price of ₹ 5800 (including warranty charges ₹300) per product. Insurance and freight charges are ₹ 600. Profit disclosed by X Ltd is ₹ 8 Crore. Calculate reasonable profits of X Ltd by applying ALP if X Ltd is covered u/s 10AA.

Solution:

Particulars	₹
Price charged in comparable uncontrollable transaction	5800
(-) insurance & freight	(600)
(-) warranty charges	(300)
(-) discount given to related party	(200)
ALP	**4700**

But given AC total transaction	= 4000
Increase in total income	= (4700 – 4000)
	= 700 X units
	= 700 X 50,000 units
	= 350,00,000
	= 3.5 Crores

QUESTION 16 (ICAI)

Anush Motors Ltd., an Indian company declared income of ₹ 300 crores computed in accordance with Chapter IV-D but before making any adjustments in respect of the following transactions for the year ended on 31.3.2026:

a. 10,000 cars sold to Rida Ltd., US company, which holds 30% shares in Anush Motors Ltd. at a price which is less by $ 200 for each car than the price charged from Shing to Ltd.

b. Royalty of $ 1,20,00,000 was paid to Kyoto Ltd., a US company, for use of technical know-how in the manufacturing of car. However, Kyoto Ltd. had provided the same know-how to another Indian company for $ 90,00,000. Kyoto Ltd. is the sole owner of technology used by Anush Motors Ltd. in its manufacturing process and the manufacture of cars by Anush Motors Ltd is wholly dependent on the use of know- how owned by Kyoto Ltd.

c. Loan of Euro 1000 crores carrying interest @10% p.a. advanced by Dorf Ltd., a German company, was outstanding on 31.3.2026. The total book value of assets of Anush Motors Ltd. on the date was ₹ 90,000 crores. The said German company had also advanced a loan of similar amount to another Indian company @9% p.a. Total interest paid for the year was EURO 100 crores.

Explain in brief the provisions of the Act affecting all these transactions and compute the income of the company chargeable to tax for A.Y.2026-27 keeping in mind that the value of 1$ and of 1 EURO was ₹ 63 and ₹ 84, respectively, throughout the year.

Solution:

Any income arising from an international transaction, where two or more "associated enterprises" enter into a mutual agreement or arrangement, shall be computed having regard to arm's length price as per the provisions of Chapter X of the Act.

Section 92A defines an **"associated enterprise"** and sub-section (2) of this section speaks of the situations when the two enterprises shall be deemed to associated enterprises. Applying the provisions of section 92A(2)(a) to (m) to the given facts, it is clear that "Anush Motors Ltd." is associated with:

a. Rida Ltd. as per section 92A(2)(a), because this company holds shares carrying more than 26% of the voting power in Anush Motors Ltd.;

b. Kyoto Ltd. as per section 92A(2)(g), since this company is the sole owner of the technology used by Anush Motors Ltd. in its manufacturing process;

c. Dorf Ltd. as per section 92A(2)(c), since this company has financed an amount which is more than 51% of the book value of total assets of Anush Motors Ltd.

The transactions entered into by Anush Motors Ltd. with different companies are, therefore, to be adjusted accordingly to work out the income chargeable to tax for the A.Y. 2025-26.

Particulars	₹ (in crores)
Income of Anush Motors Ltd. as computed under Chapter IV-D, prior to adjustments as per Chapter X	300.00
Add: Difference on account of adjustment in the value of international transactions:	
i. Difference in price of car @ $ 200 each for 10,000 cars ($ 200 x 10,000 x ₹ 63)	12.60
ii. Difference for excess payment of royalty of $ 30,00,000 ($ 30,00,000 x ₹ 63) [See Note below]	18.90
iii. Difference for excess interest paid on loan of EURO 1000 crores (₹ 84*1000*1 /100)	840.00
Total Income	**1,171.50**

Note: It is presumed that Anush Motors Ltd. has not entered into an Advance Pricing Agreement or opted to be subject to Safe Harbour Rules.

QUESTION 17 (ICAI)

XE Ltd. is an Indian Company in which Zilla Inc., a US company, has 28% shareholding and voting power. Following transactions were affected between these two companies during the financial year 2025-26.

a. XE Ltd. sold 1,00,000 pieces of T-shirts at $ 2 per T-Shirt to Zilla Inc. The identical T-Shirts were sold to unrelated party namely Kennedy Inc., at $ 3 per T-Shirt.

b. XE Ltd. borrowed $ 2,00,000 from a foreign lender based on the guarantee of Zilla Inc. For this, XE Ltd. paid $ 10,000 as guarantee fee to Zilla Inc. To an unrelated party for the same amount of loan, Zilla Inc. collected $ 7000 as guarantee fee.

c. XE Ltd. paid $15,000 to Zilla Inc. for getting various potential customers details to improve its business. Zilla Inc. provided the same service to unrelated parties for $ 10,000.

Assume the rate of exchange as 1 $ = ₹ 64

XE Ltd. is located in a Special Economic (SEZ) and its income before transfer pricing adjustments for the year ended 31st March, 2026 was ₹ 1,200 lakhs.

Compute the adjustments to be made to the total income of XE Ltd. Assuming that such adjustments are made by the Assessing Officer, state whether it can claim deduction under section 10AA for the income enhanced by applying transfer pricing provisions.

Solution:

XE Ltd, the Indian company and Zilla Inc., the US company are deemed to be associated enterprises as per section 92A(2)(a), since Zilla Inc. holds shares carrying not less than 26% of the voting power in XE Ltd.

As per Explanation to section 92B, the transactions entered into between these two companies for sale of product, lending or guarantee and provision of services relating to market research are included within the meaning of **"international transaction".**

Accordingly, transfer pricing provisions would be attracted and the income arising from such international transactions have to be computed having regard to the arm's length price. In this case, from the information given, the arm's length price has to be determined taking the comparable uncontrolled price method to be the most appropriate method.

Particulars	₹ in lakhs
Amount by which total income of XE Ltd. is enhanced on account of adjustment in the value of international transactions:	
a. Difference in price of T-Shirt @ $ 1 each for 1,00,000 pieces sold to Zilla Inc. ($ 1 x 1,00,000 x ₹ 64)	64.00
b. Difference for excess payment of guarantee fee to Zilla Inc. for loan borrowed from foreign lender ($ 3,000 x ₹ 64)	1.92
c. Difference for excess payment for services to Zilla Inc. ($ 5,000 x ₹ 64)	3.20
	69.12
XE Ltd. cannot claim deduction under section 10AA in respect of ₹ 69.12 lakhs, being the amount of income by which the total income is enhanced by virtue of the first proviso to section 92C(4)	

QUESTION 18 (PEQ)

Ashish Ltd., Indore, imports Air Conditioners (ACs) for resale in the Indian market from Bear LLC., its US based holding company. ACs are sold to the distributors in India in the same form as imported without any customization or value-addition. During the financial year 2025-26, it purchased 2000 ACs from Bear LLC at ₹ 35,000 each and sold to third party distributors @ ₹40,000 per unit. Based on a TP benchmarking conducted by the company, three independent comparable companies earn resale margin (gross profit on sales) of 15%, 23% and 19% respectively from distribution of similar products in India.

Based on the details provided-

(i) Which method is the most appropriate method for determination of Arm's Length Price (ALP) for the import of ACs from Bear LLC and state why?

(ii) Compute the ALP for the transaction between Ashish Ltd. and Bear LLC and the adjustment to be made to the total income of Ashish Ltd.

Solution:

Determination of ALP in the case of Ashish Ltd, Indore	
Resale Price Method is the most appropriate method for determination of the Arm's Length Price for import of ACs by Ashish Ltd from Bear LLC. Since Ashish Ltd sold the ACs without any customization or value-addition, Resale Price Method is generally used to test transactions involving distribution function, i.e. when the tested party purchases products/ acquires services from related party and resells the same to independent parties.	
The use of RPM is the most appropriate method where the reseller does not add to the value of the product/ services.	
Determination of ALP of transaction between Ashish Ltd from Bear LLC by applying Resale Price Method using three independent comparable resale margins.	
Particulars	**₹ (per unit)**
Sale price	40,000
Resale price by Ashish Ltd to third party distributor	40,000
Less: Resale margin of comparable 1 (15% of sales)	6,000

Arm's Length Price using comparable 1	34,000
Resale price by Ashish Ltd to third party distributor	40,000
Less: Resale margin of comparable 2 (23% of sales)	9,200
Arm's Length Price using comparable 2	30,800
Resale price by Ashish Ltd to third party distributor	40,000
Less: Resale margin of comparable 3 (19% of sales)	7,600
Arm's Length Price using comparable 3	32,400
Since there are more than one ALP using Resale Price Method as the most appropriate method and as the dataset has less than 6 entries, Arithmetic mean of all the values would be the Arm's length Price [(34,000+30,800+32,400)/3]	32,400
ALP of 2000 units	6,48,00,000
Total amount billed (₹ 35,000 x 2,000)	7,00,00,000
Since transaction value (billed amount) is higher than the ALP, adjustment is required to be made to the total income of Ashish Ltd. The purchase price excessively paid to AE Bear LLC.	52,00,000

QUESTION 19 (ICAI)

MNO Ltd., having its registered office in Mumbai, is engaged in multiple businesses. It has borrowed ₹ 200 crores from State Bank of India (SBI) for which 100% guarantee was given by the parent company, ABC Inc. of Country A. The total borrowings of MNO Ltd. is ₹ 1,000 crores.

MNO Ltd. buys mobile phones from ABC Inc. The mobile phones are branded for which royalty at ₹ 100 per mobile phone sold is paid to ABC Inc. Similar mobile phones are also sold to other customers in India by ABC Inc. but no royalty is charged from them. The credit period offered to MNO Ltd. is 2 months, whereas for other customers, the credit period is 1 month. During the year, 10 lakh mobile phones were bought for an aggregate sum of ₹ 2,600 crores from ABC Inc. The purchase could be assumed as uniform throughout the financial year 2025-26. The cost of capital may be adopted as 10% per annum. ABC Inc. would have billed ₹ 2,400 crores (excluding interest component for the delay beyond 1 month) for supply of identical quantity of similar mobile phones to other customers. It may be assumed that the entire purchase has been sold out by 31st March, 2026.

Determine the arm's length price (ALP) of the transaction of purchase of mobile phones by MNO Ltd. from ABC Inc., Country A and its impact on the assessable income, if any, for the assessment year 2026-27.

Solution:

MNO Ltd., an Indian company, and ABC Inc., a Country A based company, are associated enterprises as per section 92A, since ABC Inc. is a parent company of MNO Ltd. Thus, the transaction of purchase of mobile handsets by MNO Ltd. from ABC Inc. would be an international transaction. The value of

international transaction is to be worked out on the basis of Arm's Length Price (ALP).

ABC Inc. is selling mobile phones to unrelated customers, which would be the comparable uncontrolled transaction in this case. The purchase price for unrelated customers has to be adjusted by taking into consideration the functional differences existing between the transactions of ABC Inc. with associated enterprise (MNO Ltd.) and other unrelated parties.

Accordingly, the arm's length price for purchase of mobile phones has to be computed for working out the impact on assessable value **as per CUP method.**

Computation of Arm's Length Price

Particulars	₹ in crores
Purchase price of mobile phones by unrelated parties from ABC Inc.	2,400
Adjustments for functional differences	
Add: Royalty payable by MNO Ltd. [₹ 100 per mobile phone x 10,00,000]	10
Cost of capital for 1 month credit which is not given to unrelated party [10% x ₹ 2,400 crore x 1/12]	20
Arm's Length Price of 10,00,000 mobile phones (A)	**2430**
Purchase price of mobile phone by MNO Ltd. from ABC Inc., its parent company (associated enterprise) (B)	2600
Amount to be added to its total income (B) – (A)	170

Note – In case it is assumed that ₹ 10 crores is not included in the price of ₹ 2600 crores, the adjustment of royalty of ₹ 10 crores paid/payable is not required. The ALP in such a case would be ₹ 2,420 crores. The amount to be added to the total income would be ₹ 180 crores.

QUESTION 20 (SM)

Brain Inc. London has 35% equity in Salem Ltd. The company Salem Ltd. is engaged in development of software and maintenance of customers across the globe, which includes Brain Inc.

During the year 2025-26, Salem Ltd. spent 2000 men hours for developing and maintaining a software for Brain Inc. and billed at ₹ 1,000 per hour. The cost incurred for executing maintenance work to Brain Inc. for Salem Ltd. amount to ₹ 15,00,000. Similar such work was done for unrelated party Try Ltd. in which the profit was at 50%.

Brain Inc. gives technical support to Salem Ltd. which can be valued at 8% of gross profit. There is no such functional relationship with try Ltd.

Salem Ltd. gives credit period of 90 days the cost of which is 3% of the normal billing rate which is not given to other parties.

Compute ALP under cost plus method in the hands of Salem Ltd. and the impact of the same on the total income.

Solution:

Computation of Arm's Length Gross Profit Mark-up

Particulars	%
Normal Gross Profit Mark up	50.00
Less: Adjustment for differences	
Technical support from Brain Inc [8% of Normal GP = 8% of 50%]	(4.00)

	46.00
Add: Cost of Credit to Brain Inc 3% of Normal Bill [3% ×GP 50%]	1.50
Arm's Length Gross Profit mark-up	47.50

Computation of Increase in Total Income of Brain Inc

Particulars	Amount (₹)
Cost of services	15,00,000
Arm's length Billed Value [Cost/ [(100 – Arm's Length markup)] [₹ 15,00,000/ (100% - 47.50%)]	28,57,143
Less: Billed amount [2,000 hours x ₹ 1,000 per hour]	20,00,000
Therefore, Increase in Total Income	8,57,143

QUESTION 21 (PEQ)

ABC Ltd., Canada holds 35% shares in LMN Ltd., India. LMN Ltd. develops software and does both onsite and offsite consultancy services for the customers. LMN Ltd. during the year billed ABC Ltd. Canada for 120 man-hours at the rate of ₹ 1,800 per man hour. The total cost (direct and indirect) for executing this work amounted to ₹ 2,25,000.

However, LMN Ltd. billed XYZ Ltd., India at the rate of ₹ 2,800 per man hour for the similar level of manpower and earned a Gross Profit of 50% on its cost.

The transactions of LMN Ltd. with ABC Ltd. and XYZ Ltd. are comparable, subject to the following differences:

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

Compute the Arm's Length Price along with income to be increased under the Cost-Plus Method.

Solution:

LMN Ltd, an Indian company and ABC Ltd., a Canadian company, are deemed to associated enterprises as per section 92A (2), since ABC Ltd. holds shares carrying 35% of the voting power (i.e., not less than 26% of voting power) in LMN Ltd. Further, the transaction of developing software and providing consultancy services (both onsite and offsite) fall within the meaning of **"international transaction"** under section 92B. Hence, transfer pricing provisions would be attracted in this case.

Computation of Arm's Length Price as per Cost Plus Method		
Gross Profit mark-up on cost in case of XYZ Ltd. [an unrelated party]		50%
Less: Adjustments for functional and other differences		
- Value of technology support [ABC Ltd. provides technology support, but XYZ Ltd. does not provide such support. Therefore, value of technology support shall be adjusted] [18% of 50%, being gross profit]	9%	
- Quantity discount to ABC Ltd. [Quantity discount is allowed to ABC Ltd. as it gives business in large volumes, but the same is not provided to XYZ Ltd. Therefore, it shall be adjusted] [10% of 50%, being gross profit]	5%	
- Risk and cost associated with marketing [LMN Ltd. has to bear all the risk and costs associated with the marketing function in case of XYZ Ltd., while there is no such risk in case of services to ABC Ltd. Therefore, market risk and cost shall be adjusted] [12% of 50%, being gross profit]	6%	20%
		30%
Add: Cost of credit to ABC Ltd. [LMN Ltd has provided credit of 1 month to ABC Ltd. but not to the unrelated party. Therefore, adjustment for the cost of such credit has to be carried out to arrive at the ALP] [(2% of 50%, being gross profit]		1%
Arm's length gross profit mark up to cost		**31%**
Cost incurred by LMN Ltd. for executing ABC Ltd.'s work		2,25,000
Add: Adjusted gross profit (₹ 2,25,000 x 31%)		69,750
Arm's length billed value		**2,94,750**
Less: Actual Billed Income from ABC Ltd. (₹ 1800 x 120-man hours)		2,16,000
Total Income of LMN Ltd to be increased by		78,750

QUESTION 22 (SM)

Compute ALP through following information:

A Ltd. is a distributor of IT products.

A Ltd. purchases these products from its related party, P Ltd.

A Ltd. also trades in laptops manufactured by X Ltd.

P Ltd as well as X Ltd would supply the warranty replacements free of cost to A Ltd. Other details are as under:

Particulars	P Ltd (AE)	X Ltd
Purchase price of A Ltd.	₹ 15,000	₹ 22,000
Sale price of A Ltd	₹ 18,000	₹ 26,000
Other expenses incurred by A Ltd	₹ 500	₹ 700

Solution:

Computation of gross profit margin on unrelated transaction

Particulars	Amount (₹)
Sale price of laptop in India	26,000
Expenses incurred by A Ltd	700
Net Sale proceeds of laptop in India [A]	25,300
Purchase price [B]	22,000
Gross profit [A – B]	**3,300**
GP on sale (%)	**12.69%**

Computation of arm's length price

Particulars	Amount (₹)
Sales price of desktop in India	18,000
Less: Expenses incurred by A ltd	500
Less: Arm's length resale margin @ 12.69 % of sale	2,284
Arm's length purchase price	**15,216**
Purchase price paid to AE	**15,000**

Thus, no adjustment is required.

QUESTION 23 (WB)

CoolAir Pvt. Ltd. (India) is an associated enterprise of ChillCorp Inc. (USA). During the previous year 2025–26, CoolAir imported 4,000 AC compressors from ChillCorp at ₹ 8,200 per unit and sold them to ChillZone Ltd. at ₹ 12,000 per unit.

CoolAir had also purchased similar compressors from unrelated party FrostTech Ltd. (Germany) and resold them at the same resale price of ₹ 12,000 with a gross profit margin of 25%.

However, ChillCorp provided a special volume discount of ₹ 1,800 per unit, whereas FrostTech provided only ₹ 700 per unit. Additionally, ChillCorp delivered at port without insurance, due to which CoolAir had to pay ₹ 1,400 per unit as shipping charges. In the case of FrostTech, delivery was at factory, and CoolAir paid only ₹ 500 per unit on shipping.

You are required to compute:

- The Arm's Length Price per unit, and
- The increase in total income of CoolAir Pvt. Ltd.

Solution:

a. Computation of Arm's Length Price (Per Unit)

Particulars	Amount (₹)
Resale Price to third party (ChillZone Ltd.)	12,000
Less: Normal Gross Profit Margin @ 25% of ₹12,000	3,000
Less: Quantity Discount Adjustment [₹1,800 – ₹700]	1,100
Less: Freight/insurance difference [₹1,400 – ₹500]	900
Arm's Length Price (per unit)	**7,000**

b. Computation of Increase in Total Income of CoolAir Pvt. Ltd.

Particulars	Amount (₹)
Actual Purchase Price per unit from ChillCorp	8,200
Arm's Length Price per unit	7,000
Excess Price Paid per unit	1,200
Quantity imported	4,000 units
Increase in Total Income (1,200 × 4,000)	**48,00,000**

Conclusion:

As per Resale Price Method, the Arm's Length Price is ₹ 7,000 per unit. Since CoolAir actually paid ₹ 8,200 per unit, the total purchase price was overstated by ₹ 48,00,000. Thus, ₹ 48,00,000 shall be added to total income of CoolAir Pvt. Ltd. under Section 92C.

QUESTION 24 (PEQ)

Suresh Ltd is engaged in the business of selling machineries meant for textile manufacture. It imported machinery from South Korea for sale in India. It imported machinery for ₹ 6 lakh per unit and sold the same @ ₹ 7 lakh per unit. Siraj Ltd is engaged in trading in similar type of machines. Siraj Ltd imported machine from Germany @ ₹ 4.5 lakh per unit and sold the same @ ₹ 6 lakh per unit. During the year, Suresh Ltd imported 200 machines.

Explain when resale price method should be applied and the steps in computation of resale price method. Compute ALP adjustment to be made in respect of Suresh Ltd.

Answer:

1. **Applicability of resale price method**
   a. Resale price method is used to test transactions involving distribution function. It is applicable where the assessee purchases goods from related party and resells the same to independent parties.
   b. It is applicable where the reseller (assessee) does not add substantially to the value of the product.
   c. Where the transactions are not comparable and the differences have a material effect on price, necessary adjustments have to be made to eliminate the effect of those differences.
   d. In this regard operating expenses associated with functions performed and risks assumed may be necessary.
2. **Steps in computation of resale price method**
   a. Identification of resale price by tested party i.e., the price at which the goods were purchased or services obtained by the enterprise from the AE which is sold to unrelated enterprise.
   b. Resale price is reduced by normal gross profit margin with reference to uncontrolled transaction.
   c. Such price is reduced by expenses incurred in connection with purchase of the product/services.
   d. The price is further adjusted and other differences, including difference is accounting practices which could affect gross profit margin in the open market.
   e. Adjusted price arrived at is to be taken in respect of the purchase of goods by the enterprise from the AE. Transfer pricing adjustment per machine-₹ 75,000
   For 200 machines Rs.75000 X 200 = Rs.150 lakh to be added to the total income of Suresh Ltd.

QUESTION 25 (ICAI)

Earth (P) Ltd., Calcutta is engaged in trading of electronic goods. It purchased goods from its associated enterprise Sun Pte. Ltd., Singapore, and also from unrelated party, Oceania Ltd., UK. For the F.Y.2024-25, the gross profit margin was 15% on the sale of goods of Sun Pte Ltd., whereas it was 20% in the case of Oceania Ltd. After-sales warranty of 6 months was provided by Sun Pte Ltd. whereas Oceania Ltd. gave after-sales warranty of 1 year. The cost of warranty may be taken as 2% of the sale price. The Sun Pte. Ltd.'s brand value is internationally known and the benefit of the brand value can be taken as 1% of sale price. During the F.Y.2024-25, it sold goods of Sun Pte Ltd. for ₹ 20 crores and of Oceania Ltd. for ₹ 15 crores. As regards transport cost of the goods purchased, there was no difference between related and unrelated party. Compute the ALP of the transaction between Earth (P) Ltd. and Sun Pte Ltd., Singapore by applying the Resale Price Method, considering the facts of the case.

Solution:

As per section 92B, the transactions entered into between Earth (P) Ltd., an Indian company, and Sun Pte. Ltd., Singapore, being associated enterprises, for purchase of electronic goods would be **international transaction.**

Since Earth (P) Ltd. purchased similar electronic goods from Oceania Ltd., an unrelated entity, and sold the same to unrelated parties, this transaction can be considered as uncontrolled transaction and the gross profit margin of 20% earned on sale of such goods can be considered for the purpose of determining the arm's length price of the transactions between Earth (P) Ltd. and Sun Pte. Ltd. However, functional adjustments need to be given effect to in arriving at the ALP.

Computation of ALP of transaction between Earth (P) Ltd. and Sun Pte. Ltd.

Particulars	Amount
Resale price of goods purchased from Sun Pte. Ltd.	20,00,00,000
Less: Profit margin with reference to uncontrolled transaction between Earth (P) Ltd. and Oceania Ltd. (20% on sale)	4,00,00,000
	16,00,00,000
Add: Adjustment for benefit of brand value of Sun Pte. Ltd. [Sun Pte. Ltd has its brand value internationally. Therefore, adjustment of benefit of brand value has to be carried out to arrive at ALP (1% of sale price)]	20,00,000
Less: Adjustment of cost of warranty [Sun Pte. Ltd. provides warranty for 6 months whereas unrelated party has provided warranty of 12 months. Therefore, adjustment for the cost of such warranty has to be carried out to arrive at arm's length price (2% of sale price x 6/12)]	(20,00,000)
Arm's length price	**16,00,00,000**

QUESTION 26 (PEQ)

Andes Inc. having its business in Malaysia has advanced a loan of MD 1,60,000 to Andes Ltd, India. Book value of total assets of Andes Ltd was ₹ 125 lakhs. Andes Ltd provides software backup support to Andes Inc. Andes Ltd has spent 50,000-man hours during the financial year 2025-26 for the services rendered to Andes Inc. The cost for Andes Ltd is MD 75/manhour. Andes Ltd has billed Andes Inc. at

MD 90.75/manhour.

Gama Ltd. in India which has a similar business model, provides software backup support to Olive Inc. in Penang, Malaysia. Gama Ltd.'s cost and operating profits are as hereunder:

Particulars	₹ in lakhs
Direct costs	600
Indirect costs	200
Operating profits	200

1. Calculate Arm's Length Price for the transaction between Andes Ltd. and Andes Inc. based on the above data of Gama Ltd. using the Transactional Net Margin Method. Assume 1 MD = ₹ 45.
2. Explain, if there is any adjustment to be made to the total income of Andes Ltd.

   Note: MD = Malaysia Dollars

Solution:

Two enterprises are deemed to be associated enterprises where one enterprise advances loan constituting not less than 51% of the book value of the total assets of the other enterprise.

In this case, since Andes Inc., a foreign company, has advanced loan to Andes Ltd., an Indian company, and such loan constitutes 57.6% [(₹ 45 x 1,60,000 x 100/1,25,00,000] of the book value of total assets of Andes Ltd., Andes Inc and Andes Ltd. are deemed to be associated enterprises. Since the transaction of provision of software backup support by Andes Ltd. to Andes Inc. is an international transaction between associated enterprises the provisions of transfer pricing would be attracted in this case.

Determination of Operating Margin of transaction of provision of software backup support by Andes Ltd. to Andes Inc

Particulars	₹
Billing per manhour [MD 90.75/hour x ₹45]	4,083.75
Cost per man hour [MD 75/hour x ₹45]	3,375.00
Operating profit per manhour	708.75
Operating profits to cost (%) [708.75 x 100/3375] = 21%	

Determination of Operating Margin of Comparable Uncontrolled transaction i.e., provision of software backup support. by Gama Ltd. to Olive Inc.

Particulars	₹ in lakhs
Direct Cost	600
Indirect Cost	200
Total cost	800
Operating profits	200
Operating profits to cost (%) [200 x 100/800] = 25%	

1. **Computation of Arm's Length Price of provision of software backup support provided by Andes Ltd. to Andes Inc. by applying TNMM**

Particulars	₹
Cost for Andes Ltd. (per man hour) [MD 75 x ₹ 45/MD]	3,375.00

Add: Arm's length operating profit margin as % of cost (25% of ₹ 3,375)	843.75
Arm's length price (per manhour) in ₹	4,218.75
Arm's length price of total manhours spent by Andes Ltd. for providing software backup support to Andes Inc. [₹ 4,218.75 x 50,000-man hours] = ₹ 21,09,37,500	

2. **Adjustment to be made to the total income of Andes Ltd.**

Particulars	₹
Arm's length price of total manhours spent by Andes Ltd. for providing software backup support to Andes Inc.	21,09,37,500
Less: Amount actually billed [90.75 MD x ₹ 45/MD x 50,000 manhours]	20,41,87,500
Arm's length adjustment to be made to the total income of Andes Ltd.	67,50,000

QUESTION 27 (WB)

IndTech Ltd., an Indian company, designs and develops a proprietary solar-powered drone. Its Singapore subsidiary, SkyTech Pte Ltd., develops advanced navigation software that integrates with the drone. Both the drone and software are key to the commercial success of the product.

- IndTech manufactures and supplies the drone hardware to SkyTech.
- SkyTech integrates the software and sells the final product to unrelated customers.

Due to the uniqueness of the technology, no direct comparables exist. Traditional methods (CUP, TNMM) are not reliably applicable. However, comparable market return for routine manufacturers without intangibles is 12% on manufacturing costs.

Available Financial Data:

Particulars	IndTech (₹)	SkyTech (₹)	Total (₹)
Sales to third party (by SkyTech)	-	-	3,000
Manufacturing Cost	400	500	900
Development Cost	150	100	250
Operating Cost	100	200	300
Total Cost	650	800	1,450
Gross Profit (Sales – Total Cost)	-	-	1,550

Compute arm's length price.

Solution

Step 1: Routine Returns on Manufacturing

Routine return @ 12% on manufacturing cost:

IndTech: ₹ 400 × 12% = ₹ 48

SkyTech: ₹ 500 × 12% = ₹ 60 Total Routine Return = ₹ 108

Step 2: Residual Profit = Gross Profit – Routine Returns

Residual Profit = ₹ 1,550 – ₹ 108 = ₹ 1,442

Step 3: Split Residual Profit based on Development Effort

Proportion of Development Costs:

IndTech = ₹ 150 / ₹ 250 = 60%

SkyTech = ₹ 100 / ₹ 250 = 40%

Residual Profit Allocation:

IndTech: ₹ 1,442 × 60% = ₹ 865.20

SkyTech: ₹ 1,442 × 40% = ₹ 576.80

Step 4: Total Profit to Each Entity

Entity	Routine Return	Residual Profit Share	Total Profit
IndTech	₹ 48	₹ 865.20	₹ 913.20
SkyTech	₹ 60	₹ 576.80	₹ 636.80

Step 5: Transfer Price of IndTech (Indian Entity)

Component	Amount (₹)
Manufacturing Cost	400
Development Cost	150
Operating Cost	100
Routine Return	48
Residual Profit Share	865.20
Total Transfer Price	1,563.20

Conclusion:

Since no reliable comparable exist, Profit Split Method is the most appropriate method. Profit is allocated based on the relative contribution to intangibles (i.e., development costs). Transfer price of ₹ 1,563.20 is justified under arm's length standard.

QUESTION 28 (PEQ)

Discuss whether adjustment is required in the context of transfer pricing provisions where the transfer price adopted for an international transaction of sale of goods by an Indian company during the financial year 2025-26, is ₹ 50 lacs whilst the Arm's Length Price determined using the most appropriate method are ₹ 48 lacs and ₹ 56 lacs. Assume that the rate of permissible variation prescribed by the Central Government is 3% of the transfer price for this class of international transaction.

Solution:

The proviso to section 92C (2) provides that where more than one price is determined by the most appropriate method, the arm's length price (ALP) shall be taken to be the arithmetical mean of such prices. However, if the **arithmetical mean,** so determined, is within such percentage of the transfer price notified by the Central Government, then, the transfer price shall be deemed to be the arm's length price and no adjustment is required to be made.

The arithmetical mean of the prices = (₹ 48 + ₹ 56) / 2 = ₹ 52 lacs.

The rate of permissible variation prescribed by the Central Government is 3% i.e., ₹ 1.5 lacs (₹ 50 lacs × 3%).

Since the variation between the arm's length price of ₹ 52 lacs and the transfer price of ₹ 50 lacs is not within the limit of 3% of TP (i.e., ₹ 1.5 lacs), the arm's length price shall be ₹ 52 lacs.

The Assessing Officer may compute the total income of the Indian company having regard to the arm's

length price of ₹ 52 lacs so determined. No deduction shall be allowed under Chapter VI-A or section 10AA in respect of ₹ 2 lacs, being the amount of income by which the total income of the Indian company is enhanced after application of the arm's length price of ₹ 52 lacs.

Note: It is assumed that the assessee has not entered into an Advance Pricing Agreement.

QUESTION 29 (PEQ)

Enumerate the consequences that would ensue if the Assessing Officer makes adjustment to arm's length price in international transactions of the assessee resulting in increase in total income of the assessee. What are the remedies available to an assessee to dispute such adjustment made?

Solution:

Consequences of adjustments made to ALP

In case the Assessing Officer makes adjustment to arm's length price in an international transaction which results in increase in taxable income of the assessee, the following consequences shall follow: -

1) No deduction under section 10AA or Chapter VI-A shall be allowed from the income so increased.
2) No corresponding adjustment would be made to the total income of the other associated enterprise (in respect of payment made by the assessee from which tax has been deducted or is deductible at source) on account of increase in the total income of the assessee on the basis of the arm's length price so recomputed.

Remedies available to the assessee

The remedies available to the assessee to dispute such an adjustment are: -

1) In case the assessee is an eligible assessee under section 144C, he can file his objections to the variation made in the income within 30 days [of the receipt of draft order by him] to the Dispute Resolution Panel and Assessing Officer. Appeal against the order of the Assessing Officer in pursuance of the directions of the Dispute Resolution Panel can be made to the Income-tax Appellate Tribunal.
2) In any other case, he can file an appeal under section 246A to the Commissioner (Appeals) against the order of the Assessing Officer within 30 days of the date of service of notice of demand.
3) The assessee can opt to file an application for revision of order of the Assessing Officer under section 264 within one year from the date on which the order sought to be revised is communicated, provided the time limit for appeal to the Commissioner (Appeals) or the Income-tax Appellate Tribunal has expired or the assessee has waived the right of such an appeal. The eligibility conditions stipulated in section 264 should be fulfilled.

QUESTION 30 (PEQ)

Duke Ltd, Mumbai is engaged in international transactions by way of supply of goods to related and unrelated parties. For the assessment year 2026-27, the return of income was furnished in October, 2026. The Assessing Officer issued notice under section 143(2) in April, 2027 and in June, 2027 he made reference to the TPO for determination of ALP of the international transactions. Duke Ltd has claimed deduction under section 10AA of ₹ 40 lakh.

State when Assessing Officer can invoke his power to determine the ALP of the transaction by himself and when he can refer to the TPO for computation of ALP. What would happen to the deduction

claimed under section 10AA because of increase in ALP? What are the powers of TPO and time limit for passing the order?

Solution:

1. **AO may invoke the power to determine the ALP if he is of the opinion as under:**
   - The price charged or paid in an international transaction has not been determined in accordance with the norms stipulated [in section 92C (1) or section 92C (2)); or
   - Any information and documents relating to an international transaction has not been kept and maintained by the assessee in accordance with the provisions contained in section 92D (1) and the rules made in this behalf (rule 10D); or
   - The information or data used in computation of ALP by the assessee is not reliable or correct; or
   - The assessee has failed to furnish within the specified time, any information or documents which he was required to furnish a notice issued under section 92D(3).
2. However, before invoking the power to determine the ALP, the Assessing Officer must provide an opportunity of being heard to the assessee.
3. The power of Assessing Officer does not extend to determination of the income of the other enterprise based on ALP computed in the case as per second proviso to section 92D(4).
4. When the ALP is determined leading to increase in income, no deduction under section 10AA or Chapter VI-A be allowed on the income so increased. In other words, when the income is eligible for deduction under section 10AA or Chapter VI-A, any increase in ALP shall not go to increase such deduction.

Power of TPO:

a) It is the absolute discretion of the Assessing Officer to make a reference to TPO for the purpose of computation of ALP in relation to the international transaction. However, before making such reference to TPO, the Assessing Officer must take the approval of PCIT /CIT.

b) The TPO can determine the ALP of the transaction and any other international transaction identified subsequently in the course of proceedings before him as if such transaction is referred to him by the Assessing Officer.

c) The TPO shall pass an order after determining the ALP which is binding on the Assessing Officer. The Assessing Officer must pass order in conformity with the order of the TPO.

d) The time limit for TPO to pass the order is at least 60 days before the expiry of the time limit under section 153 for making an order by the Assessing Officer.

QUESTION 31 (PEQ)

Arati Ltd., the assessee having international transactions, entered into an Advance Pricing Agreement (APA) for the transactions entered into with its associated enterprise (AE) in Sweden, on 12-01-2026. The assessee has been doing identical transactions for the past 5 years and intends to continue the same in future also. The applicable method for determination of the ALP is cost-plus method. The ALP for the AY 2026-27 is 540 euros per MT.

The relevant details for the earlier 5 assessment years are as under.

Asst. year	Date of filing the return of income	ALP per MT (if APA is applied)	ALP per MT (as per assessment completed) (Euros)
2025-26	21-06-2026	520	530
2024-25	23-10-2024	550	530
2023-24	12-09-2023	560	580
2022-23	12-11-2022	495	490
2021-22	12-10-2022	490	485

In each of these years, the minimum quantity traded is 100 lakh MT, with the above AE. Assume that the transfer pricing provisions and other related provisions have remained unchanged from the assessment year 2021-22 onwards. The return of income for the assessment year 2026-27 is yet to be filed.

In the light of the above facts existing on 1st June, 2026, Arati Ltd. seeks your advice on the following:

i. State the assessment years for which the APA can be applied starting with the first year and future.

ii. For how many years it can avail rollback benefit out of the given years? Under what situations will the rollback be inapplicable?

iii. What is the duty on the part of Arati Ltd. as regards filing of return of income?

Solution:

Advance Pricing Agreement

i. APA will apply from the previous year in which it was entered into and 4 years forward Thus, it will apply for the AY 2026-27 and four assessment years in future, i.e., 2027- 28,2028- 29, 2029-30 and 2030-31.

ii. prima facie, the rollback will apply for 4 years backward, i.e., 2025-26, 2024-25, 2023- 24 and 2022-23

Thus, it cannot be applied for AY 2021-22.

Rollback is not applicable where the return of income (ROI) has been filed beyond the "due date" specified in section 139(1) or when it has the effect of reduction of the total income returned/assessed.

For the AY 2025-26, the ROI has been filed beyond the 'due date and hence the rollback provisions will not apply.

For the AY 2023-24, if the APA is applied, the same will result in reduction of the total income, hence the rollback cannot be pressed into service. Rollback will be applicable for the other two years.

iii. For the AY 2026-27, the assessee has not yet filed the ROI. Hence in the ROI to be filed, Arati Ltd can apply the APA and compute the ALP in accordance with the same. For the AY 2022-23 and 2024-25, Arati Lid has to furnish a modified return.

iv. The modified return has to be filed within a period of 3 months from the end of the month in which the agreement was entered into i.e., on or before 30th April, 2026.

QUESTION 32 (PEQ)

Mittal & Co Ltd, Delhi is engaged in manufacture of computer hardware. It has been exporting its goods to unrelated parties till 31st March, 2025. It is contemplating to sell only to its associated enterprises exceeding ₹ 100 crore in every financial year commencing from financial year 2025-26. As tax manager of the company, you are requested to explain briefly with reference to Advance Pricing Agreement (APA)

(i) period of its validity; (ii) fees payable; (iii) on whom it is binding; and (iv) determination of ALP after entering into APA.

Solution:

i. **Period of validity of APA:**

When the assessee enters into an APA with the Department, it is valid for 5 consecutive previous years commencing from the previous year in which the APA was entered into.

If the application is filed and the APA is entered into the financial year 2025-26 it would be valid and applicable from F.Y.2025-26 to F.Y.2029-30 (5 consecutive years).

ii. **Fees payable:**

When the amount of international transaction proposed to be undertaken exceeds ₹ 100 crore the fee payable along with application for APA would be ₹ 15 lakh.

iii. **Binding nature:**

An APA entered into shall be binding on

- the person in whose case and in respect of the transaction in relation to which the APA has been entered into; and
- the PCIT or CIT and the income-tax authorities subordinate to him, in respect of the said person and the said transaction

However, the APA would not be binding if there is any change in law or facts which have a bearing on such APA.

iv. **APA vs ALP determination**

Once APA is entered in to the ALP shall be determined in accordance with APA only. It shall override the provisions of section 92C or section 92CA.

QUESTION 33 (ICAI)

XYZ (P) Ltd. has been supplying goods to its Associate Enterprise (AE) in foreign country. It has applied for Advance Pricing Agreement ('APA') in respect of the transactions with its AE. Application for APA was filed on 15th March, 2025 and the APA was signed on 2nd June, 2025. Discuss from which previous year APA would be applicable.

Solution:

XYZ (P) Ltd. has filed APA application in respect of transactions with its AE which are of a continuing nature from dealings that are already occurring. Since the application was filed on 15th March, 2025 i.e., before 1.4.2025, APA would be applicable from P.Y. 2025-26.

QUESTION 34 (ICAI)

Discuss the Rollback provisions of Advance Pricing Agreement?

Solution:

In many countries the APA scheme provides for "roll back" mechanism for dealing with ALP issues relating to transactions entered into during the period prior to APA. The "roll back" provisions refer to the applicability of the methodology of determination of ALP, or the ALP, to be applied to the international transactions which had already been entered into in a period prior to the period covered under an APA. However, the "roll back" relief is provided on case-to-case basis subject to certain conditions. Providing of such a mechanism in Indian legislation would also lead to reduction in large scale litigation which is currently pending or may arise in future in respect of the transfer pricing matters.

1. Subject to the provisions of this rule, the agreement may provide for determining the arm's length price or specify the manner in which arm's length price shall be determined in relation to the international transaction entered into by the person during the rollback year (hereinafter referred to as "rollback provision").
2. The agreement shall contain rollback provision in respect of an international transaction subject to the following:
   i. the international transaction is same as the international transaction to which the agreement (other than the rollback provision) applies;
   ii. the return of income for the relevant rollback year has been or is furnished by the applicant before the due date specified u/s 139;
   iii. the report in respect of the international transaction had been furnished in accordance with sec. 92E;
   iv. the applicability of rollback provision, in respect of an international transaction, has been requested by the applicant for all the rollback years in which the said international transaction has been undertaken by the applicant; and
   v. the applicant has made an application seeking rollback in Form 3CEDA in accordance with sub-rule (5);
3. Rollback provision shall not be provided in respect of an international transaction for a rollback year, if:
   i. the determination of arm's length price of the said international transaction for the said year has been subject matter of an appeal before the Appellate Tribunal and the Appellate Tribunal has passed an order disposing of such appeal at any time before signing of the agreement; or
   ii. the application of rollback provision has the effect of reducing the total income or increasing the loss, as the case may be, of the applicant as declared in the return of income of the said year.
   iii. Where the rollback provision specifies the manner in which arm's length price shall be determined in relation to an international transaction undertaken in any rollback year then such manner shall be the same as the manner which has been agreed to be provided for determination of arm's length price of the same international transaction to be undertaken in any previous year to which the agreement applies, not being a rollback year.

iv. The applicant may, if he desires to enter into an agreement with rollback provision, furnish along with the application, the request for the same in Form No. 3CEDA with proof of payment of an additional fee of ₹5 lakhs.

QUESTION 35 (ICAI)

Under rule 10MA(2)(ii) there is a condition that the return of income for the relevant roll back year has been or is furnished by the applicant before the due date specified in Explanation 2 to section 139(1). It is not clear as to whether applicants who have filed returns under section 139(4) or 139(5) of the Act would be eligible for roll back.

Solution:

The return of income under section 139(5) can be filed only when a return under section 139(1) has already been filed. Therefore, the return of income filed under section 139(5) of the Act, replaces the original return of income filed under section 139(1). Hence, if there is a return which is filed under section 139(5) to revise the original return filed before the due date specified in Explanation 2 to sub-section (1) of section 139, the applicant would be entitled for rollback on this revised return of income. However, rollback provisions will not be available in case of a return of income filed under section 139(4) because it is a return which is not filed before the due date.

Note: A belated return filed under section 139(4) can also be revised under section 139(5). In such a case, the revised return would replace the belated return. Therefore, an applicant would not be entitled for roll back provisions on a revised return which replaces a belated return.

QUESTION 36 (PEQ)

Ramesh (P) Ltd., Chennai is engaged in the manufacture of electronic goods and exporting the same to its Associated Enterprise (AE) outside India and various other unrelated enterprises. It has applied for Advance Pricing Agreement (APA) in respect of its transactions with its AE. The application for APA was filed on 10th February, 2025 and the APA was signed on 15th May, 2025. It applied for rollback in June 2025 which was signed on 18th October, 2025. The details of the status of income tax assessments as on the date of signing of rollback are as follows:

- AY 2021-22: Reassessment under section 148 of the Income-tax Act is pending and it is in respect of the Arm's Length Price (ALP) determination, which was alleged by Revenue as wrongly computed in the original assessment.
- AY 2022-23: The matter is pending before the High Court with regard to acquisition of a company by the assessee and the dispute is about the set off of loss of the erstwhile company.
- AY 2023-24: Assessment was completed by making the reference to Transfer Pricing Officer (TPO) who enhanced the Arm's Length Price (ALP) of the international transaction by ₹200 crores. If APA is applied, ALP determined would get enhanced by ₹150 crores only instead of ₹200 crores determined by TPO.
- AY 2024-25: Assessment regarding the computation of ALP of the international transaction was disputed before the Tribunal which set aside the order and directed for fresh consideration by the Assessing Officer in December 2024.
- AY 2025-26: Notice under section 143(2) of the Act was issued and the assessment is pending.

The income tax returns for all the above assessment years were filed within the "due date' under section 139(1).

You are required to state with reasons, the assessment years for which the APA and the rollback would apply.

Solution:

APA and rollback applicability

The benefit of APA can be applied for the assessment year relevant to the previous year in which the APA was entered into (date of signing of APA) and four subsequent financial years. Thus, it will apply for the FY 2025-26 (date of signing the APA 15th May,2025) and 4 subsequent financial years being F. Ys 2026-27, 2027-28, 2028- 29 and 2029-30.

The roll back provisions will apply for four preceding assessment years only, preceding the assessment year 2026-27.

Hence rollback cannot be applied for the AY 2021-22.

Rollback provision shall not be provided in respect of an international transaction for a rollback year, if:

(i) the determination of arm's length price of the said international transaction for the said year has been subject matter of an appeal before the Appellate Tribunal and the Appellate Tribunal has passed an order disposing of such appeal at any time before signing of the agreement; or

(ii) the application of rollback provision has the effect of reducing the total income or increasing the loss, as the case may be, of the applicant as declared in the return of income of the said year.

For the assessment year 2022-23, rollback provisions would apply. If any appeal is pending with the High Court for a rollback year, on the issue which is the subject matter of the rollback provision for that year, the said appeal to the extent of the subject covered under the agreement shall be withdrawn by the applicant before furnishing the modified return for the said year.

For the assessment year 2023-24, rollback would not apply if ALP adjustment was reduced to addition of ₹ 150 crores as against addition of ₹ 200 crores originally determined by the TPO.

For the assessment year 2024-25, the rollback provisions would apply since the order has been set aside by the Tribunal for fresh consideration and has not reached the finality.

For the assessment year 2025-26, in respect of which assessment is pending, rollback would apply, since the return of income has been filed before the due date u/s 139(1).

QUESTION 37 (ICAI)

On 1-4-2025, Rohit Ltd., an Indian company, advanced a loan of ₹6 crores to Virat Inc., a company resident in Dubai. As on the date of loan, the book value of total assets in the books of Virat Inc. was ₹4 crores. In the Financial Year 2024-25, Virat Inc. had revalued its assets and accordingly the value of assets had increased by ₹2 crores. Virat Ltd. paid the entire loan along with interest thereon on 31st August, 2025. During the Financial Year 2025-26, Rohit Ltd. also entered into an agreement with Virat Inc. to provide 20 thousand medical equipment's at a cost of ₹7,400 per unit. The Assessing Officer treats them as associate enterprise and wants to re-compute the income of Rohit Ltd. at arms' length price. You are required to answer the following questions in this respect:

a. Examine whether, Rohit Ltd. and Virat Ltd. be treated as associate enterprises for the purpose of

transfer pricing adopted by the Assessing Officer?

b. Calculate the arm's length price of Rohit Ltd. which sells the same equipment's at the rate of ₹9,000 per unit to Y Ltd. and at the rate of ₹9,500 per unit to X LLP (both of them are unrelated parties in respect of Rohit Ltd.). Rohit Ltd. is not a wholesale dealer.

c. What are the options available to Virat Inc. in respect of such increase in transfer price by income tax authorities, if Rohit Ltd. accepts such transfer price?

Solution:

a. Two enterprises are deemed to be associated enterprises as per section 92A(2)(c), if a loan advanced by one enterprise to the other enterprise constitutes not less than 51% of the book value of total assets of the other enterprise. Since Rohit Ltd., an Indian company, advanced loan of an amount of ₹6 crores to Virat Inc., a Dubai company, which is 150% of the book value of the total assets of Virat Inc. (i.e., 150% of ₹4 crores), Rohit Ltd. and Virat Inc. are deemed to be associated enterprises.

b. Rohit Ltd. sells equipment's at the rate of ₹9,000 per unit to Y Ltd. and at ₹9,500 per unit to X LLP, both of them being unrelated parties. Since the transactions can be considered as comparable uncontrolled transactions for the purpose of determining the arm's length price, Comparable Uncontrolled Price (CUP) method would be most appropriate method.

Since two prices are determined by the most appropriate method, and data set comprises of only two entries, the arm's length price shall be the arithmetical mean of both the values included in the dataset. Accordingly, arm's length price would be ₹9,250 [(₹9,000 + ₹9,500)/2]. Since the deviation between the arm's length price and actual sale price of the equipment to Virat Inc. i.e., ₹7,400 per unit is 25%, which exceeds 3% of the price of the international transaction, the arm's length price would be ₹9,250 per unit and the total income would increase by ₹3.7 crores [i.e., ₹ 1,850 (9,250 – 7,400) × 20,000 units].

c. On account of the primary adjustment of ₹3.7 crores (₹1850 × 20,000 units) made by the Assessing Officer, in the total income of Rohit Ltd. for A.Y. 2026-27, secondary adjustment has to be made under section 92CE, since –

i. The company has accepted the primary adjustment made by the Assessing Officer;

ii. The primary adjustment is in respect of A.Y. 2026-27; and

iii. The primary adjustment exceeds ₹100 lakhs.

Accordingly, the excess money i.e., ₹3.7 crores available with the Virat Inc. has to be repatriated to India within 90 days of the date of the order of the Assessing Officer. Alternatively, Rohit Ltd. can opt to pay additional income-tax @ 20.9664% (Tax @18% plus surcharge @ 12% plus cess @ 4%) on ₹3.7 crores, which amounts to ₹77,57,568.

QUESTION 38 (PEQ)

State the time limit for repatriation of excess money in the following cases:

a. AB Ltd. determined ALP of the transactions and made primary adjustment of ₹ 210 lakhs and filed its return of income on 25.09.2026.

b. MNO Ltd. filed. its return of income for the assessment year 2026-27 on 10.06.2026 and subsequently entered into APA on 30.09.2026. The increase income because of ALP determination as

per APA was ₹ 80 lakhs.

c. PQR Ltd. filed its return of income for the assessment year 2025-26 on 05.02.2026 and subsequently entered into APA on 10.03.2026. The increase in income because of APA leading to determination of arm's length price was ₹ 190 lakhs.

Solution:

Primary adjustments and time limit for repatriation

a. Where the primary adjustment to transfer price has been made Suo moto by the assessee in his return of income, the excess money must be repatriated by the AE within 90 days reckoned from the "due date" of filing of return under section 139(1) of the Act.

In this case the "due date" for repatriation must be counted from 30th November, 2026. The last date will be 28th Feb., 2027.

b. Where the primary adjustment to transfer price is determined by APA entered into and the APA was entered into before the "due date" of filing of return, the time limit for repatriation of excess money shall be within 90 days reckoned from the he date" of filing of return under section 139(1) of the Act.

However, the secondary adjustment viz. repatriation of excess money would apply only where the primary adjustment exceeds Rs.100 lakhs.

In this case, the primary adjustment is only Rs.80 lakhs and therefore the secondary adjustment viz. repatriation of excess money will not apply in this case.

c. Where primary adjustment to transfer price is determined by an APA entered into on or after the "due date" for filing the return of income, the time limit for repatriation of excess money viz. 90 days must be counted from the end of the month in which the APA was entered into.

Therefore, the time limit of 90 days must be counted from 31.03.2026 i.e, due date is 29.06.2026.

QUESTION 39 (ICAI)

A Ltd., an Indian company, provides technical services to a company, XYZ Inc., located in a NJA for a consideration of ₹ 40 lakhs in October, 2025. It charges ₹ 42 lakhs for similar services rendered to PQR Inc., which is not located in a NJA. PQR Inc. is not an associated enterprise of A Ltd.

Discuss the tax implications under section 94A read with section 92C in respect of the above transaction of provision of technical services by A Ltd. to XYZ Inc.

Solution:

Since XYZ Inc. is located in a NJA, the transaction of provision of technical services by the Indian company, A Ltd., would be deemed to be an international transaction and XYZ Inc. and A Ltd. would be **deemed to be associated enterprises.** Therefore, the provisions of transfer pricing would be attracted in this case.

The price of ₹ 42 lakhs charged for similar services from PQR Inc, being an independent entity located in a non-NJA country, can be taken into consideration for determining the arm's length price (ALP) under **Comparable Uncontrolled Price (CUP)** Method.

Since the ALP is more than the transfer price, the ALP of ₹ 42 lakhs would be considered as the income arising from the international transaction between A Ltd. and XYZ Inc.

It may be noted that the benefit of permissible variation between the ALP and transfer price is not available in respect of a transaction entered into with an entity in NJA.

QUESTION 40 (PEQ)

Mithun (P) Ltd. is a subsidiary of Robert LLC of USA. On 1st June, 2025 Mithun (P) Ltd. Borrowed ₹2500 lakhs from Robert LLC for which interest is payable at 6% per annum. There is no other borrowing made by Mithun (P) Ltd.

The net profit of Mithun (P) Ltd. for the year ended 31st March, 2026 was ₹ 95 lakhs after deduction of the following: (i) Depreciation 50 lakhs; (ii) Provision for Income-tax ₹ 20 lakhs; (iii) Amortization of preliminary expenditure 10 lakhs; and (iv) Interest on loan borrowed from Robert LLC.

Explain thin capitalization's applicability and compute the amount of interest eligible for deduction and / or liable for disallowance in the case of Mithun (P) Ltd. Also state the consequence of interest disallowance.

Solution:

Thin capitalization

As per section 94B where an Indian company being the borrower incurs any expenditure by way of interest to the AEs exceeding ₹ 100 lakhs which is deductible in computing income under the head "Profits and gains of business or profession" in respect of any debt issued by a non-resident being an associated enterprise of such borrower, the interest to the extent it exceeds 30% of EBITDA is not eligible for deduction.

	₹ in lakhs
Interest paid to AE	125.00
EBITDA	300.00
Interest payment limited to 30% of EBITDA	90.00
Excess interest liable for disallowance (₹ 125 lakhs minus ₹ 90 lakhs)	35.00
The disallowed portion of interest is eligible for carry forward for 8 assessment years immediately succeeding the assessment year 2026-27.	

QUESTION 41 (PEQ)

EXE Ltd, Mumbai is an Indian company engaged in manufacture of laptops and computers. 27% of its share capital is held by Trafford Ltd of UK. The total assets of EXE Ltd as on 01.04.2025 was ₹ 600 crores. It borrowed on 1st July, 2025 ₹400 crores for interest @ 9% per annum from Middleton Ltd of UK which was guaranteed by Trafford Ltd.

The Net Profit of EXE Ltd for the year ended 31st March, 2026 was ₹ 30 crores after debiting depreciation ₹ 10 crores, provision for taxation ₹ 8 crores and amortization of expenses 5 crores in addition to interest on loan due to Middleton Ltd.

You are required to state the reason for limiting the interest deduction in the hands of EXE Ltd and compute the amount of interest allowable in the hands of EXE Ltd. State briefly about the allowability of disallowed interest, if any.

Solution:

Computation of interest allowance / disallowance [Section 94B]

As 27% of the shares of EXE Ltd are held by Trafford Ltd they are associated enterprises.	
Further the loan from Middleton Ltd was guaranteed by associated enterprise Trafford Ltd and therefore the interest on loan would be deemed as loan advanced by associated enterprise and interest not exceeding 30% of EBITDA is deductible. The excess interest if any would be disallowed.	
	₹ in crores
EBITDA	80.00
Interest paid to deemed associated AE	27.00
30% of EBITDA being	24.00
Interest liable for disallowance	3.00
The excess interest disallowed under section 94B is eligible for carry forward to subsequent 8 assessment years and would be deemed to be interest expenditure of such subsequent year. It would be eligible for deduction subject to the cap given in section 94B. It cannot be carried forward beyond that time period.	

QUESTION 42 (PEQ)

On 01.04.2025, Deer Ltd. an Indian company borrowed 120 crore from Shine Inc. a company incorporated in Country Z for interest @ 8% per annum. The said loan is repayable in a period of 8 years. The loan was guaranteed by Tiger Inc. of Country Z who has 33% shareholding in Deer Ltd. and who deposited matching amount of loan with Shine Inc.

For the year ended 31st March, 2026 Deer Ltd reported a Net Profit of ₹ 5 crores after debiting (1) interest on the above loan ₹ 9 crore; (ii) provision for income-tax ₹ 3 crore; (iii) depreciation ₹ 5 crore; and (iv) amortization ₹ 2 crore.

Deer Ltd. wants to know how much of interest paid to Shine Inc. is eligible for deduction while computing the income under the head 'Profits and gains of business or profession' and your answer must explain the legal position besides computation of interest allowable or otherwise.

Solution:

Condition for allowance of deduction of interest to AEs under section 94B:
Deer Ltd being an Indian company as borrower incurs interest expenditure in respect of any debt issued by its non-resident associated enterprise and where such interest exceeds ₹ 1 crore, interest paid or payable in excess of 30% of EBITDA shall not be allowed as deduction as per section 94B.
Where the debt is issued by a lender who is not associated but an associated enterprise has guaranteed such lending being explicit or implicit guarantee or by making deposit matching with the amount of funds given by the lender, such debt shall be deemed to have been issued by the associated enterprise and therefore the limitation of interest deduction would apply.
In this case, Tiger Inc. has 33% shareholding in Deer Ltd and therefore they are deemed to be associated enterprise. Since the loan is guaranteed by Tiger Inc. to the lender Shine Inc. the interest limitation contained in section 94B would apply.

Computation of EBITDA	₹in Cr.
Net Profit	5.00
Add: Interest	9.00
Provision for taxation	3.00
Depreciation	5.00
Amortization	2.00
EBITDA (Amount allowable as deduction)	24.00
30% EBITDA is the amount eligible for deduction (A)	7.20
Actual interest payable on the borrowing (B)	9.00
Interest liable for disallowance (B)-(A)	1.80
The disallowed interest is eligible for carry forward to subsequent 8 assessment years immediately succeeding the assessment year 2026-27 for claiming the deduction against the income computed under the head „Profits and gains of business or profession" to the extent of maximum allowable interest expenditure.	

QUESTION 43 (PEQ)

JK Ltd., a resident Indian Company, on 01-04-2025 has borrowed ₹100 crores from M/s. P Inc, a Company incorporated in US, at an interest rate of 9% p.a. The said loan is repayable over a period of 10 years. Further, loan is guaranteed by Mis Q Inc incorporated in US. M/s. R Inc, a non-resident, holds shares carrying 30% of voting power both in M/s JK Ltd. and Mis Q. Inc. M/s R Inc has also deposited ₹100 crores with M/s P Inc.

Other information:

Net profit of M/s. JK Ltd. was ₹10 crores after debiting the above interest, depreciation of ₹5 crores and income-tax of ₹3.40 crores. Calculate the amount of interest to be disallowed under the head "Profits and gains of business or profession" in the computation of M/s JK Ltd.

Discuss your answer with reasons.

Solution:

If an Indian company, being the borrower, incurs any expenditure by way of interest in respect of any debt issued by its non-resident associated enterprise (AE) and such interest exceeds Rs.1crore, then, the interest paid or payable by such Indian company in excess of 30% of its earnings before interest, taxes, depreciation and amortization (EBITDA) or interest paid or payable to associated enterprise, whichever is lower, shall not be allowed as deduction as per section 94B.

Further, where the debt is issued by a lender which is not associated but an associated enterprise either provides an implicit or explicit guarantee to such lender or deposits a corresponding and matching amount of funds with the lender, such debt shall be deemed to have been issued by an associated enterprise and limitation of interest deduction would be applicable.

In the present case, since M/s R Inc. holds 30% of voting power i.e., more than 26% of voting power in both JK Ltd and M/s Q Inc., JK Ltd. and M/s Q Inc. are deemed to be associated enterprises.

Since loan of ₹100 crores taken by JK Ltd., an Indian company from M/s P Inc., is guaranteed by M/s Q Inc., an associated enterprise of JK Ltd., such debt shall be deemed to have been issued by an associated enterprise and interest payable to M/s P. Inc. shall be considered for the purpose of limitation of interest deduction u/s 94B.

Computation of interest to be disallowed as per section 94B in the computation of Income under the head Profits and Gains of Business or Profession of M/s. JK Ltd.

Particulars	₹
Net Profit	10,00,00,000
Add: Interest already debited (₹100 crores × 9%)	9,00,00,000
Depreciation	5,00,00,000
Income tax	3,40,00,000
EBITDA	27,40,00,000
Interest paid or payable by JK Ltd.	9,00,00,000
Interest paid or payable in excess of the lower of the following would be disallowed: a) Total Interest-30% of EBITDA (9 Cr. - 8.22Cr.) ₹78,00,000 b) Interest paid or payable to non-resident AE ₹9,00,00,000	78,00,000
Interest to be disallowed as deduction	78,00,000

Note: Since R Inc., an associated enterprise of JK Ltd., has deposited a matching amount of ₹100 crores with P Inc., the interest payable by JK Ltd. to P Inc. on loan of ₹100 crores borrowed from P Inc. would be subject to limitation of interest deduction on the basis of this line of reasoning also.

QUESTION 44 (MQP)

X Ltd, an Indian company has borrowed ₹ 50 crores from Y Ltd, an American company at an interest rate of 8% pa. X Ltd submits the following particulars:

a. Net Profit after interest, income tax, depreciation and dividend ₹ 5 Crore
b. Income tax ₹ 1.5 crore
c. Depreciation ₹ 1 crore
d. Dividend ₹ 0.5 crore.

Compute taxable profits of X Ltd if book value of assets is ₹ 98 crores. Does it make any difference if book value of assets is ₹ 99 crores.

Solution:

Computation of Taxable Profits of X Ltd, if book value of assets is ₹ 98 crores:

Here both companies are deemed associated enterprises.

Disallowed interest u/s 94B

a. Interest paid - 30% of EBITDA (5 cr + 1.5 cr + 1 cr + 0.5 cr + 4 cr)
   4,00,00,000 - 30 % of 12,00,00,000 = 40,00,000
b. Interest paid = 4,00,00,000
   Disallowed interest = 40,00,000 (Whichever is lower)
   Allowed interest = 4,00,00,000 - 40,00,000 = 3,60,00,000

Particulars	Amount
EBITDA	12,00,00,000
Less: Interest Allowed u/s94B	(3,60,00,000)
Less: Depreciation	(1,00,00,000)
Taxable Income	9,40,00,000

Computation of Taxable Profits of X Ltd, if book value of assets is ₹ 99 crores:

Here both companies are not deemed associated enterprises.

No disallowances if interest is paid to unrelated Person.

Particulars	Amount
EBITDA	12,00,00,000
Less: Interest Allowed u/s94B	(4,00,00,000)
Less: Depreciation	(1,00,00,000)
Taxable Income	7,00,00,000

QUESTION 45 (PEQ)

SD Ltd., an Indian Company, has borrowed ₹ 100 crores on 01-04-2025 from M/s. SM Inc., a company incorporated in UK, at an interest rate of 10% p.a. The said loan is repayable over a period of 10 years. Further, this loan is guaranteed by M/s MSPL Inc. incorporated in UK. M/s. MM Inc., a non-resident, holds shares carrying 35% of voting power both in M/s SD Ltd. and M/s MSPL Inc. Net profit of M/s. SD Ltd. for P.Y. 2025-26 was ₹ 11 crores after debiting the above interest, depreciation of ₹ 5 crores and income-tax of ₹ 4 crores. Calculate the amount of interest to be allowed to be claimed under the head "Profits and gains of business or profession" in the computation of M/s SD Ltd. Also explain allowability of such disallowed interest, if any.

Solution:

As per sec. 94B, where an Indian company, being the borrower, incurs any expenditure by way of interest in respect of any debt issued by its non-resident associated enterprise (AE) and such interest exceeds ₹ 1 crore, then, the interest paid or payable by such Indian company in excess of 30% of its earnings before interest, taxes, depreciation and amortization (EBITDA) or interest paid or payable to associated enterprise, whichever is lower, shall not be allowed as deduction.

Further, where the debt is issued by a lender which is not associated but an associated enterprise either provides an implicit or explicit guarantee to such lender or deposits a corresponding and matching amount of funds with the lender, such debt shall be deemed to have been issued by an associated enterprise and limitation of interest deduction provided u/s 94B would be applicable.

In the present case, since M/s MM Inc holds 35% of voting power i.e., more than 26% of voting power in both SD Ltd and M/s MSPL Inc, SD Ltd. and M/s MSPL Inc are deemed to be associated enterprises. Since loan of ₹ 100 crores taken by SD Ltd., an Indian company from M/s SM Inc, is guaranteed by M/s MSPL Inc, an associated enterprise of SD Ltd., such debt shall be deemed to have been issued by an associated enterprise and interest payable to M/s SM Inc shall be considered for the purpose of limitation of interest deduction u/s 94B.

Computation of interest to be allowed as per section 94B in the computation of income under the head profits and gains of business or profession of SD Ltd.

₹ in crore

Particulars	₹	₹
Net profit		11.00
Add: Interest already debited (₹ 100 crores x 10%)		10.00
Depreciation		5.00
Income-tax		4.00
EBITDA		30.00
Interest paid or payable by ND Ltd. (Lower of the following would be disallowed)		10.00
- Total interest paid or payable in excess of 30% of EBITDA (₹ 10,00,00,000 – ₹ 9,00,00,000) = ₹ 100 lakhs	1.00	
- Interest paid or payable to non-resident AE	10.00	
Interest to be disallowed as deduction		1.00
Interest allowable as deduction under the head "Profits and gains from business or profession (₹10,00,00,000 – ₹ 1,00,00,000)		9.00

Disallowed interest of ₹ 1.00 crore can be carried forward to the subsequent assessment year and it would be allowed as deduction against profits and gains, to the extent of allowable interest expenditure u/s 94B.

QUESTION 46 (WB)

Rosy Ltd. provides you the Profit and loss A/c for the Financial Year 2024-25 and Financial Year 2025-26:

₹ in lakhs

Particulars	For the F.Y. 2024-25	For the F.Y. 2025-26	Particulars	For the F.Y. 2024-25	For the F.Y. 2025-26
Employees Benefit Expenses	390	402	Gross Profit	2,030	1,780
Interest paid to L & T Inc.	562	389			
Depreciation	250	254			
Income Tax	271	332			
Profit transferred to Reserves	557	403			
	2,030	1,780		2,030	1,780

On 23rd June 2024, Rosy Ltd., an Indian Company borrowed ₹ 120 crores from L & T Inc., a company incorporated in Country X. The said loan is repayable over a period of 4 years. This loan is guaranteed by Rite Ltd., a company incorporated in Country Y. Rite Ltd. holds 46% shares in Rosy Ltd.

Calculate the income under the head Profits and Gains from business and profession of Rosy Ltd. for the Assessment Year 2026-27, assuming the gross profit is calculated as per the provisions of Income-tax Act and Depreciation is also as per Income-tax Rules. Give appropriate reasons of your workings. Assume none of the companies are engaged in the business of banking.

Solution:

If an Indian company, being the borrower, incurs any expenditure by way of interest in respect of any debt issued by its non-resident associated enterprise and such interest exceeds ₹ 1 crore, then, the interest paid or payable by such Indian company in excess of 30% of its earnings before interest, taxes, depreciation and amortization (EBITDA) or interest paid or payable to associated enterprise, whichever is lower, shall not be allowed as deduction as per section 94B.

Further, where the debt is issued by lender which is not associated enterprise but an associated enterprise provides an implicit or explicit guarantee to such lender, such debt shall be deemed to have been issued by an associated enterprise and limitation of interest deduction would be applicable.

In the present case, since Rite Ltd., a Country Y company, holds 46% share in Rosy Ltd., an Indian company, i.e., more than 26% of voting power, Rite Ltd. and Rosy Ltd. are deemed to be associated enterprise.

Since loan of ₹ 120 crores taken by Rosy Ltd., an Indian company from L & T Inc., Country X company, is guaranteed by Rite Ltd., an associated enterprise, such debt shall be deemed to have been issued by an associated enterprise and interest paid or payable to L & T Inc. shall be considered for the purpose of limitation of interest deduction under section 94B.

Computation of income under the head profits and gains of business or profession of Rosy Ltd

Particulars	Amount (₹ in lakhs)
Interest allowable u/s 94B for A.Y. 2025-26	
Gross Profit	2,030
Less: Employee benefits expenses	390
EBITDA	1,640
Interest paid or payable to L & T Inc.	562
Lower of the following would be disallowed - Total interest paid or payable in excess of 30% i.e., ₹ 70 lakhs EBITDA [₹ 562 lakhs – ₹ 492 lakhs (i.e., 30% of ₹ 1,640 lakhs)] - Interest paid or payable to L & T Inc. ₹ 562 lakhs Interest to be disallowed as deduction for A.Y. 2025-26, which can be carried forward up to 8 assessment years	70
Interest allowable u/s 94B for A.Y. 2026-27	
Gross Profit	1,780
Less: Employee benefits expenses	402
EBITDA	**1,378**
Interest paid or payable to L & T Inc.	389
Lower of the following would be disallowed - Total interest paid or payable in excess of 30% of Nil EBITDA [₹ 389 lakhs – ₹ 413.40 lakhs (30% of ₹ 1,378 lakhs)] - Interest paid or payable to L & T Inc. ₹ 389 lakhs Interest to be disallowed as deduction for A.Y. 2026-27	Nil

Brought forward interest of A.Y. 2025-26 allowed as deduction against profits and gains of A.Y. 2026-27 to the extent of maximum allowable interest expenditure u/s 94B i.e., ₹ 24.4 lakhs [₹ 413.40 lakhs – ₹ 389 lakhs]	
Total interest allowed in A.Y. 2026-27 [₹ 389 lakhs + ₹ 24.40 lakhs]	413.40
Balance of amount of interest relating to AY 2025-26 is eligible for carried forward i.e., ₹ 45.60 lakhs (₹ 70 lakhs - ₹ 24.40 lakhs) to 7 more subsequent assessment years.	
Income under the head profit and gains of business or profession of Rosy Ltd. for A.Y. 2026-27	
EBITDA	1,378.00
Less: Interest (maximum interest allowable as deduction u/s 94B)	413.40
Less: Depreciation (As per the Income-tax Act, 1961)	254.00
Profit and gains of business or profession	**710.60**

QUESTION 47 (PEQ)

Sakshitha Ltd., Madurai is engaged in providing IT enabled services (ITES). The following is the extract from Statement of Profit and Loss for the year ended 31st March, 2026:

Particulars	(in lakhs)
Net profit as per books (after tax)	180
Depreciation	60
Interest to AE 1 (Sri Lanka)	90
Interest to AE 2 (Japan)	250
Interest to others (unrelated parties)	100
Amortization	20
Provision for Taxation	80

As per the transfer pricing provisions, how much would be the amount of interest that will be allowed as deduction while computing the income under the head "Profits and gains of business or profession"? Can the disallowed interest, if any, be carried forward? Explain.

Solution:

EBITDA

Particulars	₹ in lakhs
Net profit as per books (after tax)	180
Depreciation	60
Interest to AE 1 (Sri Lanka)	90
Interest to AE 2 (Japan)	250
Interest to others (unrelated parties)	100
Amortization	20
Provision for Taxation	80
EBITDA	780

Interest paid to AEs not allowed as deduction

	₹ in lakhs
Interest to AE 1 (Sri Lanka) – less than 100 lakhs hence it is eligible for deduction without any restriction.	NIL
Interest to AE 2 (Japan)	250
Maximum amount allowable is 30% of EBITDA (30% of 780)	234
Amount to be disallowed	16
Note: Disallowance will arise only where the interest to AE is more than D 1 crore. Hence no adjustment is required for AE1.	

Interest allowable as deduction

	₹ in lakhs
Interest to AE 1 (Sri Lanka)	90
Interest to AE 2 (Japan)	234
Interest to others (unrelated parties)	100
Total interest allowable as deduction	424

Carry forward of disallowed interest

Disallowed interest of ₹ 16 lakh is eligible for carry forward to the subsequent 8 assessment years and will be allowed as deduction while computing Profits and gains of business or profession, to the extent it is allowable under section 94B.

QUESTION 48 (PEQ)

Fast Growth Ltd. is an Indian company belonging to Bolo Group and it is engaged in sale of air-conditioners throughout India. Eric Inc. of USA having 28% shareholding in Fast Growth Ltd. is engaged in manufacture of air-conditioners and belongs to Bolo Group. During the financial year 2025-26, Fast Growth Ltd. purchased 20,000 air-conditioners manufactured by Eric Inc. of USA for a price of 70,000 per unit. Identical units manufactured by unrelated parties were purchased by it at 65,000 per unit. Eric Inc. gave credit period of 1 month to Fast Growth Ltd. and whereas unrelated parties gave credit period of 2 months to Fast Growth Ltd. The cost of capital may be taken @12% per annum and the supply be assumed as uniform throughout the year.

Required:

(i) Determine the ALP per unit and the income addition, if any, to be made to the total income of Fast Growth Ltd. for the assessment year 2026-27;

(ii) If primary adjustment is proposed to be made by Fast Growth Ltd. on suo moto basis state the time limit for repatriation of excess money;

(iii) State the consequence of non-repatriation of excess money;

(iv) Tax liability if such repatriation of excess funds is not opted by Fast Growth Ltd.; and

(v) Consequence of repatriation of money by Zeet Inc. of Canada being another company belonging to Bolo Group.

Solution:

ALP and other consequences of Fast Growth Ltd for the Asst. Year 2026-27

(i) Determination of ALP – CUP Method	
Two enterprises are deemed to be associated enterprise if one enterprise, directly or indirectly holds shares carrying not less than 26% of the voting power in the other enterprise.	
In this case, Eric Inc. has 28% shareholding in Fast Growth Ltd. Hence, they are associated enterprises and transfer pricing provisions would apply.	
Since details of comparable uncontrolled transitions are available, CUP method will be the most ideal method to adopt for determining the ALP.	
Price per unit to unrelated parties	65,000
Less: Excess credit period allowed by unrelated parties	**650**
ALP per unit	64,350
Price charged to associated enterprise	70,000
Adjustment in ALP per unit	**5,650**
Total income to be increased by way of primary adjustment	**11.30cr.**
(ii) Time limit for repatriation	
As the primary adjustment by way of ALP exceeds D 1 crore, the assessee Fast Growth Ltd must carry out secondary adjustment. The time limit for secondary adjustment is 90 days from the „due date" of filing of return under section 139(1). Thus, it must be counted from 30th November, 2026. The same will be 28th Feb., 2027.	
(iii) Consequence of non-repatriation	
If the amount of primary adjustment is not brought into India within the specified time it shall be deemed to be an advance and liable for interest.	
The interest chargeable: where the transaction is in Indian rupee, at the 1 year marginal cost of fund lending rate (MCLR) of SBI as on 1st day of April, of the relevant PY (here 1-4-2025) + 3.25%	
If the transaction is in foreign currency, the interest shall be at 6 months London Interbank Offered Rate (LIBOR) as on 30th September of the relevant previous year i.e. 30.09.2025 + 3%.	
(iv) Opting for non-repatriation	
In case Fast Growth Ltd does not want repatriation of primary adjustment then it can pay tax at 20.9664% on ₹ 11.30 crores being ₹ 2,36,92,032.	
(v) Remittance by another associated enterprise	
If the amount of primary adjustment is remitted by some other concern of the same group such remittance is also to be deemed as repatriation by the foreign entity viz. Eric Inc. in this case. Then also, secondary adjustment is not required.	

QUESTION 49 (WB)

Factor for determining Most Appropriate Method

Solution:

Factor for determining Most Appropriate Method:

As per Rule 10C, the most appropriate method shall be the method which is best suited to the facts

and circumstances of each particular international transaction or specified domestic transaction, and which provides the most reliable measure of an arm's length price in relation to the international transaction or specified domestic transaction. In selecting the most appropriate method, the following factors shall be considered:

1. the nature and class of the international transaction or specified domestic transaction;
2. the class or classes of associated enterprises entering into the transaction and the functions performed by them considering assets employed or to be employed and risks assumed by such enterprises;
3. the availability, coverage and reliability of data necessary for application of the method;
4. the degree of comparability existing between the international transaction or specified domestic transaction and the uncontrolled transaction and between the enterprises entering into such transactions;
5. the extent to which reliable and accurate adjustments can be made to account for differences, if any, between the international transaction or specified domestic transaction and the comparable uncontrolled transaction or between the enterprises entering into such transactions;
6. the nature, extent and reliability of assumptions required to be made in application of a method.

QUESTION 50 (WB)

Explain the importance of provision for transfer pricing?

Solution:

Transfer pricing mechanism is very important for following reasons:

1. **Helpful in correct pricing of Product/Services:** An effective transfer pricing mechanism helps an organization in correctly pricing its product and services. Since in any organization, transaction between associated parties occurs frequently, it is necessary to value all transaction correctly so that the final product/ services may be priced correctly.
2. **Helpful in Performance Evaluation:** For the performance evaluation of any entity, it is necessary that all economic transactions are accounted. Calculation of correct transfer price is necessary for accounting of inter related transaction between two Associated enterprises.
3. **Helpful in complying Statutory Legislations:** Since related party transaction have a direct bearing on the profitability or cost of a company, the effective transfer pricing mechanism is very necessary. For example, if the related party transactions are measured at less value, one unit may incur loss and other unit may earn undue profit. This will result in income tax imbalances at both parties' end. Similarly, wrong transfer pricing may lead to wrong payment of excise duty, custom duty /sales tax (if applicable) as well.

QUESTION 51 (WB)

Define:

a) Secondary adjustment

b) Arm's length price

c) Enterprise

d) Berry Ratio

Solution:

a) "Secondary adjustment" means an adjustment in the books of account of the assessee and its associated enterprise to reflect that the actual allocation of profits between the assessee and its associated enterprise are consistent with the transfer price determined as a result of primary adjustment, thereby removing the imbalance between cash account and actual profit of the assessee.

b) Arm's length price means

i. a price which is applied or proposed to be applied in a transaction

ii. between persons other than associated enterprises (i.e., unrelated person, resident or non-resident),

iii. in uncontrolled conditions [Sec. 92F(ii)]

c) Enterprise means a person (including a permanent establishment1 of such person) who is, or has been, or is proposed to be, engaged:

- in any activity, relating to the production, storage, supply, distribution, acquisition or control of:
  - articles or goods; or
  - know-how, patents, copyrights, trademarks, licenses, franchises or any other
  - business or commercial rights of similar nature; or
  - any data, documentation, drawing or s pacification relating to any patent, invention, model, design, secret formula or process, of which the other enterprise is the owner or in respect of which the other enterprise has exclusive rights; or
- in the provision of services of any kind; or
- in carrying out any work in pursuance of a contract; or
- in investment, or providing loan; or
- in the business of acquiring, holding, underwriting or dealing with shares, debentures or other securities of any other body corporate, whether such activity or business is carried on, directly or through one or more of its units or divisions or subsidiaries; or whether such unit or division or subsidiary is located at the same place where the enterprise is located or at a different place or places.

1) Permanent establishment includes a fixed place of business through which the business of the enterprise is wholly or partly carried on [Sec. 92F(iiia)]

d) Berry ratio is the **ratio** of **gross profit to operating expenses.** It measures the return on operating expenses. As the functions performed by the tax-payers are often reflected in the operating expenses, this ratio determines the relationship of the income earned in relation to the functions performed.

This ratio **helps in overcoming the difficulties in applying the RPM**, which does not explain the creation of gross profit. This ratio is used in conducting an arm's length analysis of service-oriented industry such as limited risk distributor, advertising, marketing and engineering services. The Berry ratio may be used to test whether service providers have earned enough mark-up on their operating expenses. In essence, the Berry ratio implicitly assumes that there is a relationship between the level of operating expenses and the level of gross profits earned by routine distributors and service providers.

PENALTIES & PROSECUTIONS

QUESTION 1 (SM)

Compute penalty leviable u/s 270A in case of X Ltd from the following details:

Particulars	Total Income	Tax on Total Income	Book Profit	Tax on Book Profit
Return of income	80,00,000	24,96,000	2,00,00,000	33,38,400
Assessed income	1,20,00,000	40,06,080	2,10,00,000	35,05,320

Solution:

Computation of penalty

Particulars		Amount
Under-reported income		
Total income computed by the Assessing Officer	A	1,20,00,000
Total income as per return of income	B	80,00,000
Book profit computed by the Assessing Officer	C	2,10,00,000
Book profit as per return of income	D	2,00,00,000
Under-reported income [(A – B) + (C – D)]		**50,00,000**
Tax on under-reported income		
Tax on A	P	40,06,080
Tax on B	Q	24,96,000
Tax on C	R	35,05,320
Tax on D	S	33,38,400
Tax on Under-reported income [(P – Q) + (R – S)]	T	**16,77,000**
Penalty u/s 270A		
– Minimum (being 50% of T)		8,38,500
– Maximum (being 200% of T)		33,54,000

QUESTION 2 (SM)

In the above illustration, out of addition of ₹ 10 lakh made in the book profit and ₹ 40 lakh made in the total income (under general provisions), ₹3,00,000 was made on the same ground. Compute penalty u/s 270A.

Solution:

Computation of penalty

Particulars		₹
Under-reported income		
Total income computed by the Assessing Officer	A	1,20,00,000
Total income as per return of income	B	80,00,000
Book profit computed by the Assessing Officer	C	2,10,00,000

Book profit as per return of income	D	2,03,00,000
Under-reported income [(A – B) + (C – D)]		**47,00,000**
Tax on under-reported income		

Particulars		Amount
Tax on A	P	40,06,080
Tax on B	Q	24,96,000
Tax on C	R	35,05,320
Tax on D	S	33,88,476
Tax on Under-reported income [(P – Q) + (R – S)]	T	16,26,924
Penalty u/s 270A		
– Minimum (being 50% of T)		8,13,462
– Maximum (being 200% of T)		32,53,848

QUESTION 3 (WB)

Which cases are treated cases of misreporting of income for levy of penalty u/s 270A.

Solution:

Cases of misreporting of income [Sec. 270A (9)]

The cases of misreporting of income shall be the following:

a) misrepresentation or suppression of facts;
b) failure to record investments in the books of account;
c) claim of expenditure not substantiated by any evidence;
d) Recording of any false entry in the books of account;
e) failure to record any receipt in books of account having a bearing on total income; and failure to report any international transaction or any transaction deemed to be an international transaction or any specified domestic transaction, to which the provisions of Chapter X apply.

QUESTION 4(WB)

Which cases are treated cases of under-reporting of income for levy of penalty u/s 270A.

Solution:

Cases of under-reporting of income [Sec. 270A (2)]

A person shall be considered to have under-reported his income, if:

1. the income assessed is greater than the income determined in the return processed u/s 143(1)(a);
2. the income assessed is greater than the maximum amount not chargeable to tax, where no return of income has been furnished or where return has been furnished for the first-time u/s 148;
3. the income reassessed is greater than the income assessed or reassessed immediately before such reassessment;
4. the amount of deemed total income assessed or reassessed u/s 115JB or 115JC is greater than the deemed total income determined in the return processed u/s 143(1)(a);

5. the amount of deemed total income assessed u/s 115JB or 115JC is greater than the maximum amount not chargeable to tax, where no return of income has been filed or where return has been furnished for the first-time u/s 148;
6. the amount of deemed total income reassessed u/s 115JB or 115JC is greater than the deemed total income assessed or reassessed immediately before such reassessment;
7. the income assessed or reassessed has the effect of reducing the loss or converting such loss into income.

QUESTION 5 (WB)

Discuss the provision u/s 270AA relating to immunity from imposition of penalty

Solution:

Immunity from imposition of penalty, etc. [Sec. 270AA]

- ✓ An assessee may make an application to the Assessing Officer to grant immunity from imposition of penalty u/s 270A and initiation of proceedings u/s 276C or 276CC, if he fulfils the following conditions:
  - a) the tax and interest payable as per the order of assessment or reassessment u/s 143(3) or 147, as the case may be, has been paid within the period specified in such notice of demand; and
  - b) no appeal against aforesaid order has been filed.
- ✓ An application shall be made within 1 month from the end of the month in which the said order has been received and shall be made in such form (Form 68) and verified in prescribed manner.
- ✓ The Assessing Officer shall (on fulfilment of the aforesaid conditions) and after the expiry of the period of filing the appeal to the Commissioner (Appeals), grant immunity from imposition of penalty u/s 270A and initiation of proceedings u/s 276C or 276CC, where the proceedings for penalty u/s 270A has not been initiated due to misreporting of income.
- ✓ The Assessing Officer shall, within a period of 3 month from the end of the month in which the application is received, pass an order accepting or rejecting such application after giving an opportunity of being heard to the assessee.
- ✓ The order made by the assessing officer in this regard is final. Where immunity is granted to the assessee, then appeal to Commissioner (Appeals) or an application for revision u/s 264 shall not be admissible against the order of assessment or reassessment.

QUESTION 6 (WB)

Discuss the power of Principal Commissioner or Commissioner to Grant Immunity from Penalty u/s 273AA.

Solution:

Power of Principal Commissioner or Commissioner to Grant Immunity from Penalty [Sec. 273AA]

a) A person can apply to the **Principal Commissioner** or **Commissioner** for immunity from penalties if:
   - ✓ They applied for settlement under section 245C, but the settlement process was **abated** under section 245HA.

- ✓ Penalty proceedings have been initiated against them.

b) The application must be made **before** the penalty is imposed.

c) The **Principal Commissioner** or **Commissioner** can grant immunity from the penalty if they are satisfied that the person:
   - ✓ Cooperated with the tax authorities after the settlement process ended,
   - ✓ Fully disclosed their income and how it was earned.

d) The decision (either accepting or rejecting the application) must be made within 12 months 12 months from the end of the month in which the application is received by the Principal Commissioner or the Commissioner. Further, no order rejecting the application, either in full or in part, shall be passed unless the assessee has been given an opportunity of being heard.

e) If the person doesn't follow the conditions of the immunity, it will be **withdrawn**, and thereupon the provisions of this Act shall apply as if such immunity had not been granted.

f) The immunity can also be **withdrawn** if the person is found to have concealed information or provided false evidence during the proceedings.

QUESTION 7 (WB)

Discuss the limitation for imposing penalties.

Solution:

To streamline the process and reduce the compliance burden, the time-limit for imposing penalties has been modified (with effect from April 1, 2025) under section 275 as follows-

1. Imposing penalties under Chapter XXI-Penalty can be imposed before the expiry of 6 months from the end of the quarter in which, -
   a) the proceedings, in the course of which action for the imposition of penalty has been initiated are completed (if the relevant assessment or other order is not the subject matter of an appeal under section 246/246A/253);
   b) the order of revision under section 263/264 is passed;
   c) the order of appeal under section 246/246A is received by the jurisdictional PCIT/CIT, if the relevant assessment or other order is the subject matter of an appeal under the said sections and no further appeal has been filed under section 253;
   d) the order of appeal under section 253 is received by the jurisdictional PCIT/CIT, if the relevant assessment or other order is the subject matter of an appeal under the said section;
   e) notice for the imposition of penalty is issued (in any other case).
2. Imposing or enhancing or reducing or cancelling penalty or dropping proceedings for penalty imposition under section 275(2). It can be done at any time within 6 months from the end of the quarter in which order of revision under section 263/264 is passed.

QUESTION 8 (WB)

What do you understand by 'willful attempt to evade tax'? Mention the consequences of a willful attempt to evade tax, etc., under section 276C of the income tax Act, 1961.

Solution:

For the purposes of section 276C, a willful attempt to evade any tax, penalty or interest chargeable or imposable under this Act or the payment thereof shall include a case where any person:

a) has in his possession or control any books of account or other documents (being books of account or other documents relevant to any proceeding under this Act) containing a false entry or statement; or

b) makes or causes to be made any false entry or statement in such books of account or other documents; or

c) willfully omits or causes to be omitted any relevant entry or statement in such books of account or other documents; or causes any other circumstance to exist which will have the effect of enabling such person to evade any tax, penalty or interest chargeable or imposable under this Act or the payment thereof.

d) If a person willfully attempts in any manner whatsoever to evade any tax, penalty or interest chargeable or imposable, or under reports his income, or evade the payment of it, he shall, without prejudice to any penalty that may be imposable on him under any other provision of this Act, be punishable, —

Attempt to evade tax, penalty or interest chargeable / imposable, or under- reports income		
- If amount sought to be evaded exceeds ₹ 25,00,000	6 months (with fine)	7 years (with fine)
- If such amount involved does not exceed ₹ 25,00,000	3 months (with fine)	2 years (with fine)
Attempt to evade the payment of any tax, penalty or interest.	3 months (with fine)	3 years (with fine)

QUESTION 9 (PEQ)

Tax assessment of Harshal (P) Ltd. was completed on 20th December, 2025 with additions such as

a) estimated disallowance of expenditure by assessing Officer Rs. 2 Lakh;

b) estimated income in respect of scrap value by assessee but enhanced based on estimated by the assessing Officer of Rs. 3 Lakh;

c) addition in respect of expenditure due to assesse inability to explain the nature of expenditure Rs. 1,20,000;

d) increase due to ALP determination by TPO Rs. 25 Lakh. Documents and other information as prescribed under section 92D were maintained ad the international transaction was declared under Chapter X; and

e) incorrect claim of depreciation by claiming higher rate with resultant disallowance Rs. 6 Lakh.

Note: The assessee has additions all facts material to the addition in respect of (a) and (b) above.

Which of the above additions would be treated as under-reported income? How should the assessee must seek immunity from penalty of under-reported income?

Solution:

Additions which would be treated as under-reported income.

They are five additions to the income returned by Harshal Ltd. Each of the additions which would be falling in the category of under-reported income needs to be verified.

a) **Estimated disallowance by Assessing Officer:**
As per section 270A(6)(c) where the assessee has estimated the disallowance of expenditure and the Assessing Officer has estimated higher amount, then such disallowance of expenditure on estimate basis is not liable for penalty as under- reporting of income.

b) **Estimated income by assessee, enhanced by Assessing Officer:**
Where the assessee has estimated the income and the Assessing Officer has also estimated but higher amount such addition is not liable for penalty as under-reporting of income.

c) **Failure to explain the nature of expenditure:**
Where the assessee could not explain the nature of expenditure then such amount when added to the income of the assessee it amounts to under-reporting of income.

d) **Increase in income due to ALP:**
Where any addition is made in conformity with the ALP determined by the TPO and the assessee has maintained information and documents and declared the international transaction under Chapter X, it is not to be treated as under-reported income.

e) **Incorrect claim of depreciation:**
Where the assessee has claimed depreciation excessively such excess claim of expenditure would tantamount to under-reporting of income.

Seeking immunity from penalty in respect of under-reported Income:

The assessee in respect of whom addition is made and such addition is treated as under- reported income.

1. The assessee must pay the tax and interest as per the order of assessment within the period specified in the notice of demand.
2. The assessee must not make an appeal against the aforesaid assessment order.
3. The application for immunity from penalty in Form 68 must be filed within one month from the end of the month in which the said order was received.
4. The Assessing Officer shall on fulfillment of the aforesaid conditions and after the expiry of the period of filing the appeal to CIT (Appeals), grant immunity from imposition of penalty under section 270A and initiation of proceedings under sections 276C /276CC where no proceedings for levy of penalty under section 270A was initiated due to mis-reporting of income.
5. The Assessing Officer shall within one month from the end of the month in which the application for waiver of penalty is received, pass an order accepting or rejecting such application. The order so passed in this regard is final.

ICDS

QUESTION 1 (SM)

ICDS-I requires disclosure of significant accounting policies and other ICDS requires specific disclosures. Where is the taxpayer required to make such disclosures specified in ICDS?

Solution:

Net effect on the income due to application of ICDS is to be disclosed in the Return of income. The disclosures required under ICDS shall be made in the tax audit report in Form 3CD. However, there shall not be any separate disclosure requirements for persons who are not liable to tax audit.

QUESTION 2 (SM)

Preamble of ICDS-I states that this ICDS is applicable for computation of income chargeable under the head "Profits and gains of business or profession" or "Income from other sources" and not for the purposes of maintenance of books of accounts. However, Para 1 of ICDS I states that it deals with significant accounting policies. Accounting policies are applied for maintenance of books of accounts and preparing financial statements. What is the interplay between ICDS- I and maintenance of books of accounts?

Solution:

As stated in the Preamble, ICDS is not meant for maintenance of books of accounts or preparing financial statements. Persons are required to maintain books of accounts and prepare financial statements as per accounting policies applicable to them. For example, companies are required to maintain books of account and prepare financial statements as per requirements of Companies Act 2013. The accounting policies mentioned in ICDS-I being fundamental in nature shall be applicable for computing income under the heads "Profits and gains of business or profession" or "Income from other sources".

QUESTION 3 (SM)

Valuation of inventory as per ICDS in case of dissolution of firm.

Solution:

Valuation of inventory in case of dissolution of firm as per ICDS

ICDS II deals with valuation of inventories

ICDS II says that the value of inventory on the date of dissolution of the firm shall be valued at net realizable value (NRV), irrespective of whether the business of the firm is continued or not.

When a firm is dissolved and the surviving partners continue the business of the firm, the inventory need not be valued at net realizable value as per Supreme Court decision in the case of Sakthi Trading Co. v CIT (2001).

As the ICDS specifically mandates the firm to adopt only NRV method of stock valuation on dissolution of firm, regardless of whether the business in continued or not, the stock valuation must be as per NRV method.

QUESTION 4 (SM)

Comparative study of ICDS II with AS 2.

Solution:

Comparative study of ICDS II with AS 2:

Basis of difference	AS 2	ICDS II
Valuation of service inventory	No specific provision	NA
Opening inventory	No specific provision	• Value of opening inventory of a business shall be the same as the value of inventory at the end of the immediately preceding financial year • In case of commencement of business, cost of inventory on the day of commencement of business will be opening inventory
Change in Method of inventory valuation	Change permitted if a) required by statute; b) required for compliance of AS; c) change results in more appropriate presentation of financial statements	Method of valuation once adopted shall not be changed without - reasonable cause
Inventory valuation in case of Certain dissolutions	No specific provision	In case of partnership firm, AOP or BOI inventory on the date of dissolution shall be valued at NRV, whether or not business is discontinued.

QUESTION 5 (SM)

State the method of computation of income from construction and service contract.

Solution:

Computation of income from construction and service contracts [Sec. 43CB]

The profits and gains arising from a construction contract or a contract for providing services shall be determined on the basis of percentage of completion method in accordance with the ICDS.

Profits and gains arising from a contract for providing services:

Case	Method
Contract for providing services with duration of not more than 90 days	Project completion method
A contract for providing services involving indeterminate number of acts over a specific period of time	Straight line method

For the purpose of percentage of completion method:

- ✓ the contract revenue shall include retention money;
- ✓ the contract costs shall not be reduced by any incidental income in the nature of interest, dividends or capital gains.

QUESTION 6 (SM)

Distinguish between AS7 and ICDS III with regards to Construction Contracts.

Solution:

Distinction between AS 7 and ICDS III are as under

AS 7	ICDS III
Contract revenue is required to be recognized if it is possible to reliably measure the outcome of a contract	- The criteria of reliable measurement of outcome of contract omitted. - Recognized as per provision of ICDS – III
Silent on treatment of accrual of income	Retention money is required to be considered as part of contract revenue and revenue to be recognized on POCM basis
Losses fully allowable irrespective of commencement, stage of completion and expected profits from other independent contracts	- Losses not allowable unless actually incurred and only on POCM basis - ICDS on accounting policies also does not permit recognition of foreseeable loss
Contract cost which relates to future activity shall be recognized as an asset only if recoverability is probable	Contract cost is to be recognized as an asset
- Revenue is to be recognized only to the extent of recoverable costs - No profit is to be recognized during early stages of contract	Same as AS, however ICDS objectively defines early stage as not to exceed beyond 25%
Contract cost may be reduced by any incidental income that is not included in contract revenue	Contract cost shall be reduced by any incidental income (except interest, dividend and capital gains) that is not included in contract revenue

QUESTION 7 (PEQ)

Julian (P) Ltd. provides the following information in respect of plant and equipment for the year ended 31st March, 2025:

Block 1-Plant and machinery (Rate of Depreciation 15%)

a. Opening WDV ₹ 15,00,000
b. Purchase of a new plant on 31.10.2024 (put to use on 30th November, 2024)
c. Original cost of the plant ₹12,00,000
d. Trade discount 10%
e. Total amount paid ₹ 10,80,000

f. Expenses on installation of plant ₹ 40,000.

g. Cost of stand by equipment required for operating the new plant ₹ 80,000.

h. Cost of machinery spare parts ₹ 70,000.

Also, it gave the value of securities held as stock in trade as on 31st March, 2025 as under:

Security	A	B	C	D		E	F	G	H	
Category	Equity shares				Total	Debt security				Total
Actual cost of purchase	100	120	140	200	560	150	105	125	220	600
Net realizable value as on 31.03.2025	75	150	120	190	535	160	90	135	230	615

You are required to calculate: (i) depreciation on plant and equipment; and (ii) carrying value of securities as per applicable Income Computation and Disclosure Standards for the assessment year 2025-26.

Solution:

7Disclosure as per ICDS V – In respect of plant and equipment	₹	₹
Opening WDV (1st April, 2024)		15,00,000
Add: Assets acquired during the year (used for less than 180 days)		
Purchase cost (after allowing trade discount)	10,80,000	
Add: Cost of installation	40,000	
Add: Stand by equipment	80,000	
Add: Cost of machinery spares **Note**: As per ICDS V, these are charged to Statement of Profit and Loss and are not to be added to the cost of machine.	Nil	12,00,000
		27,00,000
Less: Depreciation rate @15%		
On opening WDV @15%	(2,25,000)	
On Addition @ 7.50% (Since used for less than 180 days)	(90,000)	
		(3,15,000)
WDV as on 31st March 2024		23,85,000

Computation of value of security as per ICDS VIII
a) Securities held as stock in trade shall be valued at actual cost initially recognized or the net realizable value at the end of the year, whichever is lower.
b) The comparison of actual cost initially recognized and net realizable value shall be done category-wise (viz. shares; debt securities; convertible debentures and any other securities) and not each individual security.
c) In respect of equity shares the actual cost ₹ 560 which is more than NRV which is ₹ 535 and therefore the NRV ₹ 535 would be adopted.

d) In respect of debt security, the actual cost ₹ 600 is less than NRV of ₹ 615 and therefore actual cost ₹ 600 would be adopted.

QUESTION 8 (SM)

Para 9 of ICDS-VIII on securities requires securities held as stock-in-trade shall be valued at actual cost initially recognized or net realizable value (NRV) at the end of that previous year, whichever is lower. Para 10 of Part-A of ICDS-VIII requires the said exercise to be carried out category wise. How the same shall be computed?

Solution:

For subsequent measurement of securities held as stock-in-trade, the securities are first aggregated category wise. The aggregate cost and NRV of each category of security are compared and the lower of the two is to be taken as carrying value as per ICDS- VIII. This is illustrated below

Security	Category	Cost	NRV	Lower of cost or NRV	ICDS Value
A	Share	100	75	75	
B	Share	120	150	120	
C	Share	140	120	120	
D	Share	200	190	190	
	Total	**560**	**535**	**505**	**535**
E	Debt Security	150	160	150	
F	Debt Security	105	90	90	
G	Debt Security	125	135	125	
H	Debt Security	220	230	220	
	Total	**600**	**615**	**585**	**600**
Securities Total		**1160**	**1150**	**1090**	**1135**

QUESTION 9 (SM)

There are specific provisions in the Act read with Rules under which a portion of borrowing cost may get disallowed under sections like 14A, 43B, 40(a) (i), 40(a)(ia), 40A(2)(b), etc. of the Act. Whether borrowing costs to be capitalized under ICDS-IX should exclude portion of borrowing costs which gets disallowed under such specific provisions?

Solution:

Since specific provisions of the Act override the provisions of ICDS, it is clarified that borrowing costs to be considered for capitalization under ICDS IX shall exclude those borrowing costs which are disallowed under specific provisions of the Act. Capitalization of borrowing cost shall apply for that portion of the borrowing cost which is otherwise allowable as deduction under the Act.

QUESTION 10 (SM)

Whether bill discounting charges and other similar charges would fall under the definition of borrowing cost?

Solution:

The definition of borrowing cost is an inclusive definition. Bill discounting charges and other similar charges are covered as borrowing cost.

QUESTION 11 (SM)

How to allocate borrowing costs relating to general borrowing as computed in accordance with formula provided under Para 6 of ICDS-IX to different qualifying assets?

Solution:

The capitalization of general borrowing cost under ICDS-IX shall be done on asset- by- asset basis.

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