

CHAPTER 1

BASICS, NORMAL TAX RATES, ALTERNATE TAX REGIMES & SPECIAL TAX RATES

Basic Concept

1. Mr. Amit, an Indian resident, invested in Virtual Digital Assets (VDAs) such as crypto currencies and Non-fungible Tokens (NFTs).
On 15 April, 2024, he purchased 1 Bitcoin (BTC) for ₹ 60 lakhs. His friend, Sushil gifted him NFTs (the transfer of these tokens does not result in transfer of underlying tangible asset) having FMV of ₹ 5 lakhs on his birthday on 16.8.2024. Sushil has bought these NFTs for ₹ 4.5 lakhs. Amit also buys NFTs worth ₹ 10 lakhs on 16.11.2024. Due to some financial need, on 1.12.2024, he sold 0.5 BTC for ₹ 28 lakhs and NFTs received from friend for ₹ 6.50 lakhs. He incurred expenses of 0.1% on transfer of BTC and NFTs.
He has other income of ₹ 6,50,000 during the P.Y. 2024-25.
Compute the tax payable by Mr. Amit for A.Y. 2025-26 assuming he has exercised the option to shift out of section 115BAC. [RTP May 2025]

Ans.

Tax payable by Mr. Amit for A.Y. 2025-26

Particulars	Amount in ₹	Amount in ₹
On sale of Bitcoin		
Sale consideration	28,00,000	
Less: Cost of acquisition [₹ 60 lakhs/2] [Expenses on transfer of VDA is not allowable as deduction]	<u>30,00,000</u>	
Loss from transfer of VDA not allowable to be set off against any other income	(2,00,000)	
On sale of NFTs		
Sale consideration	6,50,000	
Less: Cost of acquisition [FMV of NFTs on 16.8.2024, being the date of receiving the gift] [Expenses on transfer of VDA is not allowable as deduction]	<u>5,00,000</u>	
		1,50,000
Gift received from Mr. Sushil		
Taxable [Since the FMV of NFTs on 16.8.2024 exceeds ₹ 50,000]	5,00,000	
Other income	<u>6,50,000</u>	11,50,000
Total Income		13,00,000
Tax on other income of ₹ 11,50,000 [₹ 1,12,500 plus ₹ 45,000 @ 30% of ₹ 1,50,000]		1,57,500
Tax on income from transfer of VDA income of ₹ 1,50,000 @30%		<u>45,000</u>
		2,02,500
Add: Health and education cess @ 4%		<u>8,100</u>
		2,10,600
Less: TDS under section 194S [₹ 28 lakhs x 1% + ₹ 6.50 lakhs x 1%]		<u>34,500</u>
Net tax payable		1,76,100

CHAPTER

2

INCOME FROM CAPITAL GAIN

Illustrations

2. Manan who remained in Country X returned to India permanently in 1st February 2024. He has a house property in Country X from which he earned and received rental income of Country X \$ 30,000 and Country X \$ 34,000 for the year ended 31st March, 2024 Capital and 31st March, 2025, respectively, in bank account maintained in Country X. He is eligible for basic exemption limit of Country X \$ 18,200 and on the balance income, he paid income-tax for both the years @ 20% in Country X. The tax was paid for the let out property on income earned in Country X for both the years on 5th April 2024 and on 10th April 2025, respectively, from his bank account in India. His income from business in India is ₹ 12,50,000 for the year ended 31-03-2025. He transferred land situated in Indore on 23.12.2024 to Mr. Sarthak for ₹ 80,00,000, which he acquired on 18.5.2022 for ₹ 30 lakhs.
 Cost Inflation Index – FY 2022-23: 331 ; FY 2024-25: 363
 The exchange rate of 1 Country X Dollar on various dates is given below:
 31st March 2024 = ₹ 80; 05th April 2024 = ₹ 80.50; 31st December 2024 = ₹ 81;
 31st March 2025 = ₹ 82; 10th April 2025 = ₹ 81.50 and 31st December 2025 = ₹ 83
 Compute the tax liability of Manan in India for assessment year 2025-26 under default tax regime.

[RTP May 2025]

Ans. Manan is a resident but not ordinarily resident for the P.Y.2024-25. He is resident since he has stayed in India for the whole year and hence, he satisfies the condition of stay in India for a period of 182 days or more during the P.Y.2024-25. However, he is not ordinarily resident, since he has stayed in India only for a period of 60 days prior to P.Y.2024-25.
 Hence, he satisfies the condition of stay in India for a period of 729 days or less in the seven previous years immediately preceding P.Y.2024-25 stipulated under section 6(6) for being treated as a “not ordinarily resident” in India in the P.Y.2024-25.
 Also, he has been non-resident in all the ten previous years immediately preceding P.Y.2024-25. Hence, he also satisfies the condition in section 6(6) of being non-resident in 9 out of 10 previous years immediately preceding P.Y.2024-25. In this case, he has satisfied both the conditions even though satisfaction of any one condition would suffice for being treated as “not-ordinarily resident”.
 In case of a resident but not ordinarily resident, income which is received or is deemed to be received in India or income accrues or arises or is deemed to accrue or arises in India would be taxable in India. However, income which accrues or arises outside India would be included in total income, only if it is derived from a business controlled from or profession set up in India.
 Accordingly, total income and tax liability of Mr. Manan, being resident but not ordinarily resident would be computed in the following manner:

Particulars		₹
Income from property earned and received in Country X would not be taxable in his hands in India.		-
Income from business [deemed to accrue or arise in India and hence taxable in India]		12,50,000
Capital Gains		
Sale consideration	80,00,000	
Less: Cost of Acquisition [since land is transferred on or after 23.7.2024, indexation benefit will be considered while determining the tax liability u/s 112]	<u>30,00,000</u>	
Long-term capital gain		<u>50,00,000</u>
Total Income		62,50,000
Computation of Tax Liability		
Tax on long-term capital gains		6,25,000
Lower of		
- Tax @12.5% without indexation benefit [₹ 50,00,000 x 12.5%]	6,25,000	
- Tax @20% on LTCG of ₹ 47,09,970 with indexation [80,00,000 – 32,90,030 (₹ 30 lakhs x 363/331)]	9,41,994	
Tax on total income of ₹ 12.5 lakh other than LTCG u/s 115BAC		

Upto ₹ 3,00,000	Nil	
₹ 3,00,001 – ₹ 7,00,000 [i.e., ₹ 4,00,000 x 5%]	20,000	
₹ 7,00,001 – ₹ 10,00,000 [i.e., ₹ 3,00,000 x 10%]	30,000	
₹ 10,00,001 – ₹ 12,00,000 [i.e., ₹ 2,00,000 x 15%]	30,000	
₹ 12,00,001 – ₹ 12,50,000 [i.e., ₹ 50,000 x 20%]	<u>10,000</u>	90,000
<i>Add:</i> Surcharge @10% since total income exceeds ₹ 50 lakhs		7,15,000
		<u>71,500</u>
		7,86,500
<i>Add:</i> HEC@4%		31,460
Tax liability		<u>8,17,960</u>

3. ABC Pvt. Ltd was converted into limited liability partnership (LLP) as ABC LLP on 1-10-2024. You are provided with the following particulars of ABC Pvt. Ltd. as on 31-03-2024:
- Business loss ₹ 54 Lakhs (relating to P.Y.2020-21)
 - Written down value of the assets as per the Income-tax Act, 1961:
 - Plant and Machinery (15%) ₹ 14 Lakhs (Market Value ₹ 20 lakhs)
 - Plant and Machinery ₹ 75 Lakhs (cost) – deduction claimed u/s 35AD
 - Building (10%) ₹ 40 lakhs (Market Value ₹ 80 Lakhs)
 - Cost of land (acquired in year 2012) ₹ 80 lakhs (Market value ₹ 120 lakhs)
 - Expenditure on voluntary retirement incurred by the company during the P.Y. 2022-23 is ₹ 28 Lakhs. The company has been allowed a deduction of ₹ 5.6 lakhs for each year for the P.Y. 2022-23 and P.Y. 2023-24 u/s 35DDA.
 - Unadjusted MAT credit u/s 115JAA ₹ 8.6 lakhs
 - Unabsorbed depreciation ₹ 48 lakhs
- Explain the tax treatment of each item stated above in the hands of LLP, assuming that the conversion satisfies all the conditions laid down in section 47(xiiiib). **[Model Test Paper]**

- Ans.** Tax treatment in the hands of ABC LLP on conversion of ABC Pvt. Ltd. into ABC LLP
- Business loss of ₹ 54 lakhs (relating to P.Y. 2020-21)**
As per section 72A(6A), the business loss of ₹ 54 lakhs of ABC Pvt. Ltd. would be deemed to be the loss of ABC LLP for P.Y. 2024-25 and it would be able to set off and carry forward such loss.
The carry forward is for 8 assessment years subsequent to the assessment year 2025-26.
However, if subsequent to the conversion, ABC LLP fails to fulfill any of the conditions mentioned in section 47(xiiiib), the set-off of business loss so made in any previous year would be deemed to be the income chargeable to tax in the year in which such conditions are not complied with.
 - Depreciation and written down value of assets**
In case of conversion of ABC Pvt. Ltd. into ABC LLP, depreciation on assets shall be apportioned between the company and LLP in the ratio of the number of days for which the assets were used by them.
Total Depreciation
Plant and machinery (15%) = ₹ 14 lakhs x 15% = ₹ 2,10,000
Building (10%) = ₹ 40 lakhs x 10% = ₹ 4,00,000
In the hands of ABC LLP (for 182 days)
Plant and machinery (15%) = ₹ 2,10,000 x 182/365 = ₹ 1,04,712
Building (10%) = ₹ 4,00,000 x 182/365 = ₹ 1,99,452
WDV in the hands of ABC LLP
As per section 43(6), the actual cost of the block of assets in the hands of ABC LLP shall be the WDV of the block of assets as in the case of ABC Pvt. Ltd. on the date of conversion.
WDV of P & M (15%) = ₹ 14 lakhs – ₹ 1,04,712 ₹ = ₹ 12,95,288
WDV of Building (10%) = ₹ 40 lakhs – ₹ 1,99,452 ₹ = ₹ 38,00,548
Actual cost of Plant and machinery on which deduction has been allowed or is allowable to the assessee under section 35AD would be 'NIL' in the hands of ABC Pvt. Ltd. and ABC LLP.
 - Cost of land acquired in 2012 at ₹ 80 lakhs (Market value ₹ 120 lakhs)**

The cost of acquisition of land in the hands of ABC LLP would be the cost for which ABC Pvt. Ltd. acquired it, i.e., ₹ 80 lakhs.

(iv) Expenditure on voluntary retirement benefit of ₹ 28 lakhs

As per section 35DDA, in case of conversion of ABC Pvt. Ltd. into ABC LLP, deduction would be available to ABC LLP for the remaining periods from the previous year in which conversion took place. Since deduction of ₹ 5.6 lakhs each has been claimed by ABC Pvt Ltd. in P.Y. 2022-23 and P.Y. 2023-24, ABC LLP would be eligible for deduction of ₹ 5.6 lakhs each for the remaining three previous years, namely P.Y.2024-25, P.Y.2025-26 and P.Y.2026-27 under section 35DDA.

(v) Unadjusted MAT credit u/s 115JJAA of ₹ 8.6 lakhs

As per section 115JAA(7), in case of conversion of ABC Pvt. Ltd. into ABC LLP, the credit for MAT paid by ABC Pvt. Ltd. cannot be availed by the successor LLP i.e., ABC LLP.

(vi) Unabsorbed depreciation of ₹ 48 lakhs

As per section 72A(6A), ABC LLP would be able to carry forward and set-off the unabsorbed depreciation of ₹ 48 lakhs of ABC Pvt. Ltd.

However, if subsequent to the conversion, ABC LLP fails to fulfill any of the conditions mentioned in section 47(xiiib), the set-off of depreciation so made in any previous year would be deemed to be the income chargeable to tax in the year in which such conditions are not complied with.

4. Salsy Limited has two units one engaged in manufacture of textile goods and the other involved in manufacturing of chemicals. As a restructuring drive, the company sold its chemical unit as a going concern by way of slump sale for ₹ 242 lakhs on 01.10.2024. The balance sheet of Salsy limited as on 01 October 2024, being the date on which chemical unit has been transferred, is given here under –

Liabilities	₹	Assets	₹
Paid up Share Capital	2,50,00,000	Land	
General Reserve	1,35,00,000	Textile Unit	60,00,000
Share Premium	60,00,000	Chemical Unit	70,00,000
Revaluation reserve	20,00,000	Building	
Trade Creditors		Textile Unit	90,00,000
Textile Unit	90,00,000	Chemical Unit	70,00,000
Chemical unit	47,00,000	Machinery	
		Textile Unit	40,00,000
		Chemical unit	52,00,000
		Investment in Equity Share	
		(1,00,000) shares of ABC Ltd, a listed company at ₹ 35 per share	
		Chemical Unit	35,00,000
		Inventories	
		Textile Unit	82,00,000
		Chemical unit	60,00,000
		Licenses and Franchises	
		Textile Unit	20,00,000
		Chemical unit	23,00,000
	6,02,00,000		6,02,00,000

The following information have been furnished by the management:

- (i) The Chemical unit was established in July, 2020 during the COVID period.

- (ii) Land of Chemical unit includes revaluation reserve of ₹ 20 lakhs. The Land was purchased at ₹ 50 lakhs in May 2020 and revalued at ₹ 70 lakhs as on October 1, 2024. The stamp duty value on 01.10.2024 is ₹ 62 lakhs.
- (iii) The Building and Machinery have been shown in the balance sheet at its written down value as per section 43(6)(c) of the Income-tax Act, 1961. The stamp duty value of building of Chemical unit on 01.10.2024 is ₹ 72 lakhs.
- (iv) License and Franchises were acquired on 01.06.2023 and shown in the balance sheet at its original purchase price.
- (v) Equity shares were acquired by the company through National stock exchange on 01.04.2022 and value recorded for shares of ABC Limited as on 01.10.2024 at NSE is ₹ 42 per share.

You are required to Compute the Taxable capital gain to Salsy Limited for A.Y.2025-26.

[Nov 24]

Ans.

(a) Computation of Taxable Capital gain in the hands of Salsy Limited for A.Y.2025-26

Particulars	₹
Full value of consideration [See Note 1 below]	2,64,00,000
Less: Net worth [See Note 2 below]	<u>2,37,25,000</u>
Long-term capital gain [Since the Unit is held for more than 36 months]	<u>26.75.000</u>
No indexation benefit is allowed in slump sale.	

Note 1: Computation of Full value of consideration

Particulars	₹
<u>Fair market value of the capital assets transferred by way of slump sale [FMV1]</u>	
Land, being an immovable property [Stamp duty value on 1.10.2024, being the date of slump sale]	62,00,000
Building, being an immovable property [Stamp duty value on 1.10.2024, being the date of slump sale]	72,00,000
Machinery [Book value as appearing in the books of accounts]	52,00,000
Investment in listed equity shares of ABC Limited [Fair market value as on 1.10.24] [1,00,000 x 42]	42,00,000
Inventories [Book value as appearing in the books of accounts]	60,00,000
Licenses and Franchises [Book value as appearing in the books of accounts]	<u>23,00,000</u>
	3,11,00,000
Less: Liabilities of Chemical Unit - Trade Creditors	<u>47,00,000</u>
Fair market value of the capital assets transferred by way of slump sale [FMV1]	2,64,00,000
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]	2,42,00,000
Full value of consideration [Higher of FMV1 or FMV2]	2,64,00,000

Note 2 - Computation of Net worth

Particulars	₹	₹
Land (Excluding ₹ 20 lakhs on account of revaluation)		50,00,000
Building		70,00,000
Machinery		52,00,000
Investment in Equity Shares of ABC Ltd.		35,00,000
Inventories		60,00,000
Licenses and Franchises		<u>17,25,000</u>
Cost as on 1.6.2023	23,00,000	

<i>Less: Depreciation @ 25% for Financial Year 2023-24</i>	<u>5,75,000</u>	
WDV as on 1.4.2024	17,25,000	
Total assets		2,84,25,000
<i>Less: Trade Creditors</i>		<u>47,00,000</u>
Net worth		2,37,25,000

**CHAPTER
4**

**PROFITS AND GAINS OF BUSINESS OR
PROFESSION (PGBP)**

Illustrations

5. The Statement of Profit & Loss of Tirupati Private Ltd., a domestic company engaged in manufacturing, shows net profit of ₹ 1,07,00,000 for the financial year ended on 31st March, 2025, after debit/credit of the following items.
- A. Credited to the Statement of Profit and Loss:
- (i) Rent received from vacant land ₹ 2,55,000
 - (ii) Rent received (gross) from a commercial property owned by the company ₹ 5,30,000 (Tax deducted by tenant @ 10%)
 - (iii) Interest received on income tax refund ₹ 48,000
 - (iv) Profit on sale of plot ₹ 8,00,000.
 - (v) Dividend from ABC Inc., New York, a wholly owned subsidiary in February, 2025 ₹ 6,00,000
- B. Debited to the Statement of Profit and Loss:
- (i) Depreciation charged to the Statement of Profit and Loss ₹ 11,86,000.
 - (ii) Donation of ₹ 85,000 paid to Swachh Bharat Kosh.
 - (iii) Actual contribution to the pension scheme of employees: ₹ 1,90,000
 - (iv) Payment made to transporter ₹ 68,000 by account payee cheque, but no tax has been deducted at source.
(Transporter is having PAN and furnished declaration that he is covered under section 44AE and not having more than 10 goods carriages at any time during the previous year).
 - (v) Bonus to employees ₹ 4,48,000. However, payment was made on 18th December, 2025.
 - (vi) Provision made for income-tax ₹ 4,20,000 (including interest of ₹ 70,000 thereon)
 - (vii) Contribution of ₹ 1,00,000 to a University approved and notified under section 35(1)(ii).
 - (viii) Interest of ₹ 1,50,000 on loan borrowed for acquiring shares in ABC Inc., New York
- Additional information:**
- (1) Depreciation as per the Income-tax Act, 1961 ₹ 18,00,000. However, while calculating such depreciation, rate applicable to computers has been adopted for (i) accessories like printers and scanners, and (ii) EPABX. The written down value of these items as on 01.04.2024 is given below:
 - (a) Printers and Scanners ₹ 3,00,000
 - (b) EPABX ₹ 5,00,000
 - (2) Additional depreciation on plant and machinery purchased for ₹ 34,00,000 on 18th November, 2024 has not been considered while calculating depreciation as per Income-tax Act, 1961 as above.
 - (3) Provision for audit fee ₹ 1,00,000 was made in the books for the year ended on 31st March, 2024 without deducting tax at source. Such fee was paid to auditors in October 2024 after deducting tax at source under Section 194J and tax so deducted was deposited on 12th December, 2024.
 - (4) During the financial year 2023-24, the company made a provision for an outstanding bill of ₹ 90,000 for purchase of raw material. Out of such outstanding amount, the company paid ₹ 45,000 in cash on 20th August, 2024.
 - (5) During the year, the company has issued 1,00,000 equity shares of face value of ₹ 10 each at premium of ₹ 90 each. The fair market value is ₹ 60 per share at the time of issue of shares.
 - (6) Plot was sold in March, 2025 for ₹ 58,00,000 was acquired by the company in January, 2023 for ₹ 50,00,000.
 - (7) The eligible salary and dearness allowance for the pension scheme referred to under section 80CCD is ₹ 10,00,000.
 - (8) The company declared interim dividend @10% of share capital being ₹ 5,20,000 in September, 2024.
 - (9) Cost Inflation Index – FY 2022-23: 331; FY 2024-25: 363

Compute total income and tax liability of Tirupati Private Limited as per section 115BAA for the Assessment Year 2025-26 stating reasons for treatment of each item. **[RTP May 2025]**

Ans. Computation of Total Income and Tax Liability of Tirupati Private Ltd. as per section 115BAA for the A.Y.2025-26

Particulars		Amount (₹)	
I	Income from house property		
	[Rental income from commercial property]		
	Gross Annual Value ¹ /Net Annual Value	5,30,000	
	Less: Deduction under section 24(a)		
	30% of Net Annual Value	<u>1,59,000</u>	3,71,000
II	Profits and gains of business and profession		
	Net profit as per profit and loss account	1,07,00,000	
	Add: Items debited but to be considered separately or to be disallowed		
	B(ii) Donation paid to Swachh Bharat Kosh	85,000	
	[Not an expenditure incurred wholly and exclusively for the manufacturing business. Hence, not allowable under section 37]		
	B(iii) Contribution towards pension scheme of employees	50,000	
	[Contribution towards pension scheme, referred to in section 80CCD, of employees is allowed only to the extent of 14% of salary of the employee in the P.Y. i.e., ₹ 1,40,000 being 14% of ₹ 10,00,000. Therefore, the excess contribution of ₹ 50,000 [i.e. ₹ 1,90,000 - ₹ 1,40,000] is disallowed u/s 36(1)(iva).		
	B(iv) Payment to transport contractor	-	
	[As per section 194C(6), no tax is required to be deducted at source since the payment is to a transport contractor not having more than 10 goods carriages at any time during the previous year and he has given a declaration to that effect along with his PAN. Hence, disallowance under section 40(a)(ia) for non-deduction of tax at source is not attracted. Also, since payment is made by account payee cheque, no disallowance under section 40A(3) is attracted].		
	B(v) Bonus to employees	4,48,000	
	[Since the payment is made after the due date of filing return of income, disallowance under section 43B is attracted]		
	B(vi) Provision for income-tax (including interest of ₹ 70,000 thereon)	4,20,000	
	[Not allowable as deduction. Disallowance under section 40(a)(ii) is attracted]		
	B(vii) Contribution to a University approved and notified u/s 35(1)(ii)	1,00,000	
	No deduction is allowed u/s 115BAA in respect of contribution to a University approved and notified u/s 35(1)(ii)		
	B(viii) Interest on loan borrowed for investing in shares of ABC Inc.	1,50,000	
	[Allowability or otherwise of interest expenditure on		
		<u>12,53,000</u>	

<p>earning dividend has to be considered separately under the head "Income from Other Sources"]</p>		1,19,53,000		
<p>Add: Cash Payment for purchase of raw material deemed as income</p>		<u>45,000</u>		
<p>AI(4) [Since the provision for outstanding bill for purchase of raw material has been allowed as deduction during the P.Y.2023-24, cash payment in excess of ₹ 10,000 against such bill in the P.Y. 2024-25 would be deemed as income of P.Y.2024-25 as per section 40A(3A)]</p>			1,19,98,000	
<p>Less: Expenditure to be allowed</p>				
<p>B(i) & AI(1) Depreciation</p>	4,89,000			
<p>[Difference between the normal depreciation of ₹ 16.75 lakhs as per Income-tax Act, 1961 [See Note below] and depreciation charged to the statement of profit and loss of ₹ 11.86 lakhs].</p>				
<p>Note - 2Printers and scanners form an integral part of the computer system and they cannot be used without the computer. Thus, they are part of the computer system, they would be eligible for depreciation at the higher rate of 40% applicable to computers including computer software. However, EPABX is not a computer and is, hence, not entitled to higher depreciation @40% ³ Accordingly, depreciation of ₹ 1,25,000 on EPABX computed @ 25% (40% - 15%) is to be reduced from the depreciation given as per the Income- tax Act, 1961 of ₹ 18 lakhs. Thus, depreciation as per Income-tax Act, 1961 allowed as deduction would be ₹ 16.75 lakhs.</p>				
<p>AI(2) Additional depreciation on new plant and machinery [Not allowable as deduction under section 115BAA]</p>	Nil			
<p>AI(3) Audit Fees relating to P.Y.2023-24</p>	30,000	<u>5,19,000</u>		
<p>[₹ 30,000, being 30% of audit fees of ₹ 1,00,000 provided for in the books of account of F.Y.2023-24 would have been disallowed due to non- deduction of tax at source. Since tax has been deducted in October, 2024 and paid on 12.12.2024, the amount of ₹ 30,000 is deductible while computing business income of P.Y.2024-25].</p>			1,14,79,000	
<p>Less: Items credited to statement of profit and loss, but not includible in business income</p>				
<p>A(i) Rent received from vacant land [Chargeable to tax under the head "Income from other sources"]</p>	2,55,000			
<p>A(ii) Rent received from commercial property owned by the company [Chargeable to tax under the head "Income from house property"]</p>	5,30,000			
<p>A(iii) Interest received on income tax refund [Chargeable to tax under the head "Income from other sources"]</p>	48,000			
<p>A(iv) Profit on sale of plot [Chargeable to tax under the head "Capital Gains"]</p>	8,00,000			
<p>A(v) Dividend from ABC Inc. company</p>	6,00,000	<u>22,33,000</u>		

	[Dividend received from foreign company is taxable under the head "Income from Other Sources"]		92,46,000	
	Profits and gains from the business of manufacturing			92,46,000
III	Capital Gains			
	Capital gain on sale of plot			
	Sale consideration		58,00,000	
	Less: Cost of Acquisition [since land is transferred on or after 23.7.2024, indexation benefit will not be to a person other than an individual or a HUF, resident in India]		<u>50,00,000</u>	
	Long-term capital gain			8,00,000
IV	Income from Other Sources			
	Rent received from vacant land		2,55,000	
	Interest received on income-tax refund		48,000	
	Excess of issue price of shares over the fair market value of shares is not taxable w.e.f. A.Y. 2025-26		-	
	Dividend from ABC Inc., a foreign company	6,00,000		
	Less: Interest expenditure of ₹ 1,50,000 allowed deduction upto 20% of dividend	<u>1,20,000</u>	4,80,000	
	Gross Total Income			<u>7,83,000</u>
	Less: Deductions under Chapter VI-A			1,12,00,000
	Deduction under section 80G			
	Not allowable u/s 115BAA		-	
	Deduction under section 80M		4,80,000	
	Deduction in respect of inter-corporate dividend to the extent of ₹ 5,20,000, being dividend distributed by it one month prior to the Due date specified u/s 139(1) or ₹ 4,80,000 dividend received to the extent includible in the gross total income, whichever is lower			<u>4,80,000</u>
	Total Income			1,07,20,000
	Computation of tax liability			
	Tax on long-term capital gains @ 12.5%			1,00,000
	Tax on other income @22% on ₹ 99,20,000			<u>21,82,400</u>
				22,82,400
	Add: Surcharge @10%			<u>2,28,240</u>
				25,10,640
	Add: Health and Education Cess @ 4%			<u>1,00,426</u>
	Tax Liability (rounded off)			26,11,066
	Tax Liability			26,11,070

6. Kansal Cements Ltd., a resident company set up in the year 2010 is engaged in the manufacture of cement. Its Statement of Profit and Loss (from cement business) for the financial year ended 31st March, 2025 shows a net profit of ₹ 75 Lakhs after debiting/crediting the following items:
- (i) Depreciation as per the Companies Act, 2013 ₹ 6 lakhs.

- (ii) The assessee company received a dividend of ₹ 5,00,000 from Arnold Ltd., a foreign company. It has incurred interest expense of ₹ 1,50,000 towards borrowed funds for the purpose of investing in the shares of Arnold Ltd.
- (iii) It contributed ₹ 5,00,000 to the State Housing Board towards construction of tenements for the company's workers which constituted 25% of the cost of construction and the assessee could use these for 15 years. Ownership of such tenements remains with the State Housing Board.
- (iv) A trade creditor whose amount of ₹ 20 lakhs was outstanding for 10 years, has been settled for ₹ 15 lakhs on 01.03.2025 based on compromise settlement. The amount waived has been credited to the statement of profit and loss.
- (v) Upfront discounted interest paid during the year to the debentureholders ₹ 5 lakhs. Debentures were issued for a period of 5 years.

Apart from half yearly periodical interest, debenture holders were paid one-time upfront discounted interest payment. One fifth of the interest paid has been debited to the statement of profit and loss.

Additional Information:

- A. During the previous year 2024-25, the assessee company started a business of developing and building rental housing projects eligible under section 80-IBA. Net profit from such business amounted to ₹ 20 lakhs during the year. Assessee also earned an income of ₹ 10 lakhs for constructing a housing project eligible under the above said section which it executed as a work contract, received from X Constructions Ltd. These projects were approved/ notified during the F.Y. 2021-22.
- B. The assessee company has purchased a land on 01.04.2010 for ₹ 5 lakhs which was compulsorily acquired by the Government on 31.03.2018. Original compensation awarded ₹ 10 lakhs was received on 30.06.2018. The assessee company has filed a suit for the additional compensation in the High Court and was awarded an additional compensation of ₹ 8 lakhs on 31.05.2024.
- C. Depreciation as per the Income-tax Act, 1961 ₹ 4.5 lakhs
- D. The assessee company has purchased machinery worth ₹ 20 lakhs on May 1, 2021 and insured it against fire, flood, earthquake etc. The insurance policy contained a reinstatement clause requiring the insurance company to pay the value of machinery, as on the date of loss due to fire, flood, earthquake etc. A fire broke out in September, 2024 causing total damage to the machinery. The company received a sum of ₹ 22 lakhs from the insurance company on 01.03.2025 (Rate of depreciation is 15% and assume that the machinery was the only asset in the block)
- E. The company declares and distributes a dividend of ₹ 6,00,000 to its shareholders on 31.08.2025

Compute the total income and tax liability of Kansal Cements Ltd for the assessment year 2025-26 under the regular provision by analyzing and applying the relevant provisions of Income-tax Law, assuming that the assessee has not opted for any concessional rates under special provisions of the Income-tax Act, 1961. Briefly explain the reasons for treatment of each item. Total turnover of the company for the previous year 2022-23 was ₹ 450 crores. [Nov 2024]

Ans.

Computation of Total Income and tax liability of Kansal Cements Ltd. for the A.Y. 2025-26 under regular provisions of the Act

Particulars		Amount (in ₹)	
I	Profits and gains of business or profession		
	Net profit as per statement of profit and loss from Cement business		75,00,000
	Add: Items debited but to be considered separately or to be disallowed		
	(i) Depreciation as per the Companies Act, 2013	6,00,000	
	(ii) Interest expenditure towards borrowed funds for investing in shares	1,50,000	
	[Allowability or otherwise of interest expenditure on earning dividend has to be considered separately under the head "Income from		

	<p>Other Sources". Since the amount has been debited to the statement of profit and loss, it has to be added back.]</p> <p>(iii) Expenditure towards construction of tenements for company's workers [As Kansal Cements Ltd. acquired no ownership rights in the tenements and remained the property of the Housing Board, the expenditure of ₹ 5,00,000 was incurred wholly and exclusively for the welfare of the employees and, therefore, constituted legitimate business expenditure¹⁹. Since the same has been debited to the statement of profit and loss, no further adjustment is required]</p>		<u>Nil</u>	
	<p>Less: Items credited but not taxable or chargeable to tax under another head/ Allowable expenditure</p> <p>(ii) Dividend received from foreign company [Dividend received from foreign company is taxable under the head "Income from Other Sources". Since the same has been credited to the statement of profit and loss, the same has to be deducted while computing business income]</p> <p>(iv) Waiver of amount by trade creditor [Amount waived by the trade creditor is deemed income under section 41(1) as there is a benefit by way of remission or cessation of trading liability. Since the same has been credited to the statement of profit and loss, no further adjustment is required.]</p> <p>(v) Upfront discounted interest to debenture holders [Since the liability of Kansal Cements Ltd. with respect to upfront interest payment had arisen this year, it would be eligible to claim the entire amount of ₹ 5 lakhs of interest paid as deduction²⁰ under section 36(1)(iii). As only 1/5th of the interest is debited to the statement of profit and loss, remaining 4/5th also has to be reduced]</p>		5,00,000	<u>7,50,000</u> 82,50,000
	<p>Less: Depreciation as per the Income- tax Act, 1961</p>			<u>4,50,000</u> 69,00,000
	<p>Profit from business of developing and building rental housing projects Net profit from business of developing and building rental housing projects</p>		20,00,000	
	<p>Income from housing project executed as a work contract</p>		10,00,000	30,00,000
				99,00,000
II	<p>Capital Gains</p> <p>Long term capital gain on compulsory acquisition of land Full value of consideration 8,00,000 [Additional compensation pursuant to order of the High Court] Less: Cost of acquisition _____ <u>Nil</u></p>		8,00,000	
	<p>Short term capital gain on damage of machinery due to fire Full value of consideration 22,00,000 [Insurance compensation]</p>			

	Less: WDV as on 1.4.2024	<u>9,39,250</u>	12,60,750	20,60,750
	Computation of WDV as on 1.4.2024			
	Actual Cost as on 1.5.2021	20,00,000		
	Less: Depreciation for P.Y. 2021-22 [15%]	3,00,000		
	Less: Additional Dep.@ 20%	4,00,000		
	WDV	13,00,000		
	Less: Depreciation for P.Y. 2022-23 [15%]	<u>1,95,000</u>		
	WDV	11,05,000		
	Less: Depreciation for P.Y. 2023-24 [15%]	<u>1,65,750</u>		
	WDV as on 01.04.2024	9,39,250		
III	Income from Other Sources			
	Dividend received from foreign company		5,00,000	
	Less: Interest expenditure of ₹ 1,50,000 allowed upto 20% of dividend		<u>1,00,000</u>	<u>4,00,000</u>
	Gross Total Income			1,23,60,750
	Less: Deduction under Chapter VI-A			
	Under section 80-IAB		20,00,000	
	[100% of profits from business of developing and building rental housing projects. No deduction is allowed in respect of income from housing project executed as a work contractor]			
	Under section 80M		<u>4,00,000</u>	
	[Deduction in respect of inter-corporate dividend to the extent of dividend distributed by it on or before the due date specified u/s 139(1) or dividend received, whichever is lower]			<u>24,00,000</u>
	Total Income			<u>99,60,750</u>
	Computation of tax liability			
	Tax on long term capital gains of ₹ 8,00,000 @ 20%		1,60,000	
	Tax on other income of ₹ 91,60,750 @ 30%, since the turnover of the company for the previous year 2022-23 exceeds ₹ 400 crores		<u>27,48,225</u>	29,08,225
	Add: Health and education cess @4%			<u>1,16,329</u>
	Tax liability			<u>30,24,554</u>
	Tax liability (Rounded off)			30,24,550

7. Krisha, Kinara and Komal were three partners in a partnership firm, KKK Enterprises. The firm carried on the business of running banquet halls for marriages and other parties or events purposes from the date of its formation i.e. 20.12.2015 till 31.03.2020. The partners converted the firm into a company from 01.04.2020 by the name KKK Private Ltd. and transferred the entire business to the company. All the partners of the firm became the shareholders of the company in the same proportion as per their capital balance stood in the books of the firm. No other consideration was paid to the partners. The company earned a net profit of ₹ 1,19,25,000 after debiting/ crediting the following items in its Statement of Profit and Loss for the year ended 31.03.2025:
- (i) During the Financial year 2024-25, a sum of ₹ 1,17,000 was paid to a resident transport operator, Mr. Milan, for transporting necessary goods to the banquet halls. The payments were made in cash as follows:

Date	Amount in ₹
4 th May, 2024	26,000
23 rd July, 2024	37,000
14 th September, 2024	22,000
16 th February, 2025	32,000

The company did not deduct tax at source from such payment as Mr. Milan submitted a certificate under section 197(1) issued to him by the Assessing Officer for no deduction of tax at source.

(ii) Depreciation as per books - ₹ 13,56,000

(iii) Out of the debtors that were transferred to the company, one debtor, M/s. M Travels LLP, from whom ₹ 6 lakhs were due since F.Y. 2019-20, went bankrupt on 01.12.2024 and nothing could be recovered from them. The company debited the amount of ₹ 6 lakhs in the Statement of Profit and Loss.

(iv) Dividend received from listed companies - ₹ 5,40,000.

Additional Information:

(i) The company invested in shares of listed companies through a stock broker. During the F.Y. 2024-25, the company paid ₹ 1,25,000 to its resident stock broker as commission for the purchase of shares. No shares were sold during the year. No TDS was deducted on such payment.

(ii) Depreciation as per Income-tax Rules, 1962 - ₹ 15,78,000. A machinery (HYC) that the firm had used earlier was transferred to the company at the time of succession. The machinery formed part of 15% depreciation block. The WDV of the machinery was ₹ 12 lakhs as on 01.04.2024. On 01.09.2024, the machinery was discarded. The amount of depreciation as per Income-tax Rules given above (₹ 15,78,000) includes depreciation on this machine as well.

(iii) The share-holding structure of the company at the start of the F.Y., i.e. 01.04.2024 was as follows:

Krisha	30%
Kinara	25%
Komal	20%
Others	25%

During F.Y. 2024-25, Krisha sold 95% of her holdings to her daughter-in-law, Keerat.

(iv) Brought forward business loss - ₹ 14 lakhs (relating to A.Y. 2020-21)

(v) The company holds 65% stake in Adar Hospitality Services Pvt. Ltd., a closely held Indian company. On 12th April 2024, the company took a loan of ₹ 15 lakhs from Adar Hospitality Services Pvt. Ltd. Accumulated profits of Adar Hospitality Services Pvt. Ltd. was ₹ 31 lakhs on 01.04.2024. The company repaid the loan in full on 25th March, 2025.

(vi) The long-term capital gains on transfer of capital assets amounting to ₹ 55 lakhs which arose at the time of succession of firm to company was exempt at the time of conversion of firm into company in the hands of the firm as per conditions laid under section 47(xiii).

The turnover of the company for the previous year 2023-24 was ₹ 390 crores and for the previous year 2022-23 was ₹ 408 crores. You are required to compute the total income and tax payable of the company for A.Y. 2025-26 by giving brief reasons for the treatment of each item.

Would it be beneficial for the company to opt for the concessional tax regime under section 115BAA of the Act for the A.Y. 2025-26? Examine. Ignore the provisions relating to MAT. **[RTP May 2025]**

Ans.

Computation of Total Income and tax payable by KKK Pvt. Ltd. for the A.Y. 2025-26

Particulars		Amount (in ₹)	
I	Profits and gains of business or profession		
	Net profit as per statement of profit and loss		1,19,25,000
	Add: Item debited but to be considered separately or to be disallowed		
	(i) Cash payment to transporter [Cash payment to transporter exceeding ₹ 35,000 would be disallowed under section 40A(3). Since the same has been debited to the statement of profit and loss, the same has to be added back while computing business income.]	37,000	
(ii) Payment to transporter without deducting tax at source [Since Mr. Milan, a transporter submitted certificate u/s 197(1) for no deduction of tax at source, KKK Pvt. is not required to deduct tax at source on payment made for		NIL	

	<p>transporter. Hence, no disallowance for non-deduction of tax would be attracted under section 40(a)(ia). Since the same has been debited to the statement of profit and loss, no adjustment is required to be made]</p> <p>(iii) Depreciation as per books</p> <p>(iv) Bad debt of erstwhile firm [Where the business of the firm has been transferred to the company and the successor has suffered loss on account of it turning bad, the successor would be entitled to deduction, if the required conditions are complied with. Since the same has been debited to the statement of profit and loss, no further adjustment is required.]</p> <p>AI(i) Commission for purchase of shares without deduction of TDS [Commission for purchase of shares will form part of cost of acquisition of listed shares and not allowable as deduction from business income. Further, no tax is required to be deducted under section 194H in respect of commission on securities. Moreover, commission for purchase of shares is not in relation to business, non-deduction of tax will not impact the business income. Since the same has not been debited to the statement of profit and loss, no further adjustment is required to be made.]</p> <p>Less: Items credited but not taxable or chargeable to tax under another head</p> <p>(ii) Dividend received from listed companies [Dividend received from listed companies is taxable under the head "Income from Other Sources". Since the same has been credited to the statement of profit and loss, the same has to be deducted while computing business income.]</p> <p>Less: Depreciation as per the Income- tax Rules, 1961 [Depreciation on discarded machinery will be allowed assuming that this machinery is not the only asset in that block and that the dissertation is not permanent in nature. Under the block concept, since no amount has been received or receivable due to such dissertation, no amount needs to be deducted.]</p> <p>Less: Brought forward business loss of A.Y. 2020-21 [Not allowed since one of the conditions of section 47(xiii) of being shareholding of partners of the firm in the company should not be less than 50% of the total voting power for 5 years from the date of succession is violated.]</p>	<p>13,56,000</p> <p>NIL</p> <p>NIL</p> <p><u>13,93,000</u></p> <p>1,33,18,000</p> <p><u>5,40,000</u></p> <p>1,27,78,000</p> <p><u>15,78,000</u></p> <p>1,12,00,000</p> <p><u>NIL</u></p> <p>1,12,00,000</p> <p>55,00,000</p>	<p><u>13,93,000</u></p> <p><u>5,40,000</u></p> <p><u>15,78,000</u></p> <p><u>NIL</u></p>
II	Capital Gains		
	Long term capital gain on transfer of capital assets at the time of succession		

	<p>Since Krisha sold 95% of her holding i.e., 28.5% shares in the company, the shareholding of partners of the firm i.e., Krisha, Kinara and Komal in the company becomes less than 50% of the total voting power i.e., 46.5% within a period of 5 years from the date of succession. In such a case, the LTCG would be taxable in the year of violation of this condition.</p>			
III	<p>Income from Other Sources Dividend received from listed companies Deemed dividend [Since the company holds 10% or more voting power of the Adar Hospitality Services Pvt. Ltd., loan of ₹ 15 lakhs received from such company would be deemed as dividend under section 2(22)(e) to the extent of accumulated profit even if the loan is repaid in the same F.Y.]</p>	5,40,000 <u>15,00,000</u>		20,40,000
	<p>Gross total income/ Total income</p>			1,87,40,000
	<p>Computation of tax payable Tax on long term capital gains of ₹ 55,00,000 @20% Tax on other income of ₹ 1,32,40,000 @30%, since the turnover of the company for the previous year 2022-23 exceeds ₹ 400 crores</p>	11,00,000 <u>39,72,000</u>		
	<p><i>Add: Surcharge @7%, since total income exceeds ₹ 1 crore.</i></p>			50,72,000 <u>3,55,040</u>
	<p><i>Add: Health and education cess @4%</i></p>			54,27,040 <u>2,17,082</u>
	<p>Tax liability</p>			56,44,122
	<p><i>Less: TDS u/s 194</i></p>			<u>2,04,000</u>
	<p>Tax payable</p>			<u>54,40,122</u>
	<p>Tax payable (Rounded off)</p>			<u>54,40,120</u>

Computation of Total Income and tax payable by KKK Pvt. Ltd. for the A.Y. 2025-26 under concessional regime u/s 115BAA

Particulars	Amount (in ₹)
Total Income under regular provisions of the Act/ Total Income as per section 115BAA	1,87,40,000
Computation of tax payable	
Tax on long term capital gains of ₹ 55,00,000 @20%	11,00,000
Tax on other income of ₹ 1,32,40,000 @22%	<u>29,12,800</u>
<i>Add: Surcharge @10%</i>	40,12,800
	<u>4,01,280</u>
<i>Add: Health and education cess @4%</i>	44,14,080
	<u>1,76,563</u>
Tax liability	45,90,643
<i>Less: TDS u/s 194</i>	2,04,000
Tax payable	<u>43,86,643</u>
Tax payable (Rounded off)	<u>43,86,640</u>

Conclusion

Since the tax payable of KKK Pvt. Ltd. computed under section 115BAA is lower than the tax payable computed under regular provisions of the Act, it is beneficial for KKK Pvt. Ltd. to opt for the special provisions under section 115BAA for A.Y. 2025-26. However, once it opted for the concessional tax regime u/s 115BAA, it cannot withdraw such option in subsequent years.

CHAPTER

7

SET OFF CARRY FORWARD OF LOSSES

Illustration

8. Pigeon Limited was amalgamated with Laksh Limited on 01.04.2024. All the conditions of section 2(1B) were satisfied.
- Pigeon Limited has the following carried forward losses as assessed till the Assessment Year 2024-25:
- Speculative Loss: ₹ 5.5 lakhs
 - Unabsorbed Depreciation: ₹ 20 lakhs
 - Unabsorbed Capital Expenditure on Scientific Research: ₹ 2.5 lakhs
 - Business Loss: ₹ 125 lakhs
- Laksh Limited has computed a profit of ₹ 160 lakhs for the Financial Year 2024-25, which is before adjusting the eligible losses of Pigeon Limited but after accounting for depreciation at 15% on ₹ 150 lakhs, the consideration at which plant and machinery were transferred upon amalgamation. However, as per Income-tax records, the written down value (WDV) of the assets in the hands of Pigeon Limited as on 1st April 2024 was ₹ 100 lakhs.
- The profit of Laksh Limited of ₹ 160 lakhs also includes a speculative profit of ₹ 10 lakhs.
- Compute the total income of Laksh Limited for Assessment Year 2025-26 and indicate the losses/ other allowances to be carried forward by it. [MTP April 2025]

Ans.

Computation of total income of Laksh Limited for the A.Y. 2025-26

Particulars	₹ (in lakhs)	
Business income before setting off brought forward losses of Pigeon Ltd.		160.00
<i>Add:</i> Excess depreciation claimed in the scheme of amalgamation of Pigeon Limited with Laksh Limited.		
Value at which assets are transferred by Pigeon Ltd.	150	
WDV in the books of Pigeon Ltd.	100	
Excess accounted	50	
Excess depreciation claimed in computing taxable income of Laksh Ltd. [₹ 50 lakhs × 15%] [<i>Explanation 2</i> to section 43(6)]		7.50
		167.50
Set-off of brought forward business loss of Pigeon Ltd. (See Notes 2 & 4)		(125.00)
Set-off of unabsorbed depreciation under section 32(2) read with section 72A (See Notes 2 & 4)		(20.00)
Set-off of unabsorbed capital expenditure under section 35(1)(iv) read with section 35(4) (See Note 5)		(2.50)
Business income		20.00

Notes:

1. It is presumed that the amalgamation is within the meaning of section 72A of the Income-tax Act, 1961.
2. In the case of amalgamation of companies, the unabsorbed losses and unabsorbed depreciation of the amalgamating company shall be deemed to be the loss or unabsorbed depreciation of the amalgamated company for the previous year in which the amalgamation was effected and such business loss and unabsorbed depreciation shall be carried forward and set-off by the amalgamated company for a period of 8 years and indefinitely, respectively.
3. As per section 72A(7), the accumulated loss to be carried forward specifically excludes loss sustained in a speculative business. Therefore, speculative loss of ₹ 5.5 lakhs of Pigeon Ltd. cannot be carried forward by Laksh Ltd.
4. Section 72(2) provides that where any allowance or part thereof unabsorbed under section 32(2) (i.e., unabsorbed depreciation) or section 35(4) (i.e., unabsorbed scientific research capital expenditure) is to be carried forward, effect has to be first given to brought forward business losses under section 72.

5. Section 35(4) provides that the provisions of section 32(2) relating to unabsorbed depreciation shall apply in relation to deduction allowable under section 35(1)(iv) in respect of capital expenditure on scientific research related to the business carried on by the assessee. Therefore, unabsorbed capital expenditure on scientific research can be set-off and carried forward in the same manner as unabsorbed depreciation.
6. The restriction contained in section 73 is only regarding set-off of loss computed in respect of speculative business. Such a loss can be set-off only against profits of another speculation business and not non-speculation business. However, there is no restriction under the Income-tax Act, 1961 regarding set-off of normal business losses against speculative income. Therefore, normal business losses can be set-off against profits of a speculative business.

Consequently, there is no loss or allowance to be carried forward by Laksh Ltd. to the A.Y. 2026-27

CHAPTER

9

Assessment of Various Entities

Illustration

9. M/s Mittal Metals is a Limited Liability Partnership firm (LLP) consisting of three partners J, K and L. Mr. J and Mr. K are working partners as per deed. Partnership deed authorizes interest to partners @14% p.a. The deed also authorizes remuneration to the working partners @₹75,000 per month.
- It has a unit in SEZ which started its operations w.e.f. 01.06.2019. Its total turnover, export turnover and net profits for the F.Y. 2024-25 are ₹120 lakhs, ₹90 lakhs and ₹24 lakhs, respectively. The unit fulfills all the conditions of section 10AA of Income-tax Act, 1961.
- The firm has commenced the operations of a warehousing facility for storage of sugar on 01.05.2024. It incurred capital expenditure of ₹60 lakhs on purchase of land and construction of building during the period January 2024 to April 2024 (It includes ₹35 lakhs for cost of land) for such warehouse. This expenditure has been capitalized in the books of accounts, but no depreciation has been charged on the same. The warehousing facility fulfills all the conditions of section 35AD.
- Profits from operation of warehousing facility are ₹30 lakhs, before considering deduction u/s 35AD, for the F.Y. 2024-25 and after debiting the following items:
1. Interest on capital @14% ₹11,48,000
 2. Salary credited to all 3 partners ₹9,00,000 each
- (i) Compute the total income and income tax payable by the firm Mittal Metals for the A.Y. 2025-26 giving explanations for each item. (Ignore AMT provisions and tax payable as per AMT u/s 115JC)
- (ii) Assuming that the LLP filed its return of income for A.Y. 2025-26 in December, 2025 i.e. after the due date of filing return of income as prescribed under the Act, Will it make any impact on deduction under section 10AA or deduction u/s 35AD for A.Y. 2025-26? (No need to recompute total income and tax payable)

[May 2025]

Ans.

(i) **Computation of Total income and income tax payable by M/s Mittal Metals for A.Y. 2025-26**

Particulars	₹	₹
Profits and gains of business or profession		
Unit in SEZ		24,00,000
Profit from operation of warehousing facility	30,00,000	
Add: Interest on capital @14%	11,48,000	
Salary credited to all partners [₹9,00,000 x 3]	<u>27,00,000</u>	
	68,48,000	
Less: Deduction under section 35AD	<u>25,00,000</u>	
[Capital expenditure incurred prior to commencement of business and capitalised in the books of account excluding the expenditure incurred for cost of land] [₹60 lakhs - ₹35 lakhs]		<u>43,48,000</u>
		67,48,000
Less: Interest to partners on capital [Maximum interest@12% is allowed as per section 40(b)] [₹11,48,000/14%*12%]		<u>9,84,000</u>
Book profits		57,64,000
Less: Partners' remuneration allowable under section 40(b)(v)		

(i) As per limit prescribed in section 40(b) On first ₹6,00,000 Higher of ₹3,00,000 or 90% of ₹6 lakhs On the balance ₹51,64,000 @60%	5,40,000 <u>30,98,400</u> 36,38,400	
(ii) Remuneration actually paid or payable to working partners [₹9,00,000 x 2]	18,00,000	
Whichever is less is allowed		<u>18,00,000</u>
PGBP/Gross total income		39,64,000
<i>Less: Deduction u/s 10AA [₹24 lakhs x 90 lakhs/120 lakhs x 50%, since this is the sixth year]</i>		<u>9,00,000</u>
Total income		<u>30,64,000</u>
Computation of tax liability		
Tax @ 30% on ₹30,64,000		9,19,200
<i>Add: Health and Education cess @ 4%</i>		<u>36,768</u>
Tax liability		9,55,968
Tax liability (Rounded off)		9,55,970

(ii) As per proviso to section 10AA(1), no deduction under section 10AA shall be allowed to an assessee who does not furnish a return of income on or before the 'due date' specified in section 139(1).

However, there is no such condition for claiming deduction under section 35AD.

Since M/s Mittal Metals files its return of income for A.Y. 2025 -26 in December, 2025 i.e., after the due date of filing return of income, it cannot claim deduction under section 10AA in respect of profits derived from unit in SEZ. It will be eligible to claim the deduction under section 35AD.

CHAPTER 10

TAXATION OF CHARITABLE TRUST, POLITICAL PARTIES

- 10.** XYZ Charitable Trust, registered under Section 12AB, derives income from property held under trust of ₹ 500 lakh during the financial year 2024-25. The trust decides to pay an amount ₹ 200 lakh to another trust, ABC Educational Trust, which is also registered under Section 12AB.
- I. (a) How much the amount paid by XYZ Charitable Trust will be considered as an application of income for charitable purposes, if such contribution is given -
- with a direction that the same shall be used for general charitable purposes and not as corpus.
 - with a specific direction that the amount shall form part of its corpus.
- (b) Would your answer change to the above questions, if such amount is paid out of accumulations of XYZ trust. If yes, what other tax implications arise in its hands.
- II. Also, examine the conditions which ABC Educational trust require to satisfy for not including the amount received from XYZ Charitable trust with specific direction for forming part as corpus in its total income. What other tax implications arise in the hands of ABC Educational trust if such conditions are not satisfied.
- [RTP May 2025]**

- Ans.**
- (I) (a) (i) As per Explanation 4(iii) to Section 11(1), only 85% of the amount paid to ABC Educational trust (other than for corpus) is considered as an application of income. Accordingly, ₹ 170 lakh will be treated as an application of income for charitable purposes.
- (ii) As per Explanation 2 to Section 11(1), any contribution made by one trust to another trust or institution (even if registered under Section 12AB or Section 10(23C)(iv)/(v)/(vi)/(via)) with a direction that such amount shall form part of corpus is not considered as an application of income for charitable purposes.
- Therefore, the ₹ 200 lakhs given for corpus will not be treated as an application of income for XYZ Charitable Trust.
- (b) Where any amount of contribution given to another trust approved under section 12AB or registered under section 10(23C)(iv)/(v)/(vi)/(via) is out of accumulations then such amount would not qualify for application and would be deemed as income by virtue of section 11(3) in both cases. Moreover, such an amount would fall within the definition of specified income u/s 115BBI and would be taxable @30%.
- (II) As per section 11(1)(d), an amount received by a fund/ trust/ institution etc. would not be included in the total income, if such amount is received with a specific direction that it shall form part of the corpus and the said corpus contribution is invested in any of the modes specified under section 11(5).
- However, if the same is invested in modes otherwise than specified under section 11(5), then by virtue of section 115BBI the same would be considered as specified income and would be taxable @30%.

- 11.** Examine each of the following independent cases of charitable trust/ institutions based on the relevant provisions of the Income-tax Act and judicial pronouncements for the assessment year 2025-26:
- (i) M/s MPL, an electoral trust incorporated on 1st April 2024, provides following information for the previous year 2024-25. Total voluntary contributions received ₹ 600 lakhs. It spends ₹ 5 lakhs on management of its affairs. In light of the provisions of section 13B of the Income-tax Act and rule 17CA notified by the Central Government in this context, give answer to the following questions.
- What is the amount of surplus that can be distributed by the electoral trust to a registered political party assuming all other conditions as provided under the Act are satisfied?

What will be your answer if out of the total voluntary contributions of ₹ 600 lakhs, ₹ 100 lakhs received from individuals who are not citizen of India?

(ii) Astha Foundation is a not for profit trust that runs a secondary school and a hospital. The trust had total receipts of ₹ 1.2 crores from school and ₹ 4.2 crores from hospital for the assessment year 2025-26. Can the trust claim exemption under section 10(23C)(iiiad) and section 10(23c)(iiiiae) for assessment year 2025-26?

(iii) Care for All Foundation is claiming exemption under section 10(23C)(vi). On 15.11.2024 it gets notified under section 10(46). The foundation intends to know whether it can enjoy the benefits of both sections in section 10(46) and section 10(23C)(vi) simultaneously. **[Nov 2024]**

Ans.

(i) As per section 13B, any voluntary contribution received by an electoral trust would be exempt during the previous year, if such electoral trust –

- distributes to the eligible political parties during the said previous year, 95% of the total contributions received during the financial year along with the surplus, if any, brought forward from earlier previous year; and
- functions in accordance with the rules (Rule 17CA) made by the Central Government.

In the present case, M/s MPL, an electoral trust incorporated in the previous year 2024-25, received voluntary contributions of ₹ 600 lakhs. It spent ₹ 5 lakhs for the purpose of managing its affairs.

As per rule 17CA, since M/s MPL, an electoral trust incorporated in the P.Y. 2024-25, it is eligible to spend ₹ 5 lakhs, being ₹ 30 lakhs i.e., 5% of total contributions of ₹ 600 lakhs subject to the limit of ₹ 5 lakhs.

Accordingly, distributable contribution for the P.Y. 2024-25 would be ₹ 595 lakhs [i.e., ₹ 600 lakhs less ₹ 5 lakhs]. In such a case, M/s MPL can distribute ₹ 595 lakhs to a registered political party as the same exceeds ₹ 570 lakhs, being 95% of total contributions received of ₹ 600 lakhs.

Rule 17CA provides that the electoral trust shall not accept contributions, inter alia, from an individual who is not a citizen of India.

If M/s MPL received ₹ 100 Lakhs as contribution from individuals who are not citizen of India, it has violated the conditions mentioned in Rule 17CA. In such case, M/s MPL, an electoral trust, would not be eligible for exemption under section 13B in respect of entire contribution.

Moreover, the CBDT may withdraw the approval after giving an opportunity of being heard and record the reasons in writing for the withdrawal of approval.

(ii) No, Astha Foundation trust cannot claim exemption under section 10(23C)(iiiad) and section 10(23C)(iiiiae), since the aggregate annual receipt of ₹ 5.4 crores (₹ 1.2 crores from school and ₹ 4.2 crores from hospital) exceeds the aggregate threshold of ₹ 5 crores though the individual receipts from school and hospital have not exceeded ₹ 5 crores.

(iii) Where a trust or institution or fund is notified under section 10(46), the approval or provisional approval granted under first regime under section 10(23C)(vi) would become inoperative from the date of such notification issued under section 10(46).

Accordingly, in the present case, since approval granted under section 10(23C)(vi) would become inoperative from 15.11.2024, being the date of notification issued under section 10(46), Care for All Foundation cannot simultaneously enjoy the benefits of both sections i.e., 10(23C)(vi) and section 10(46).

12.

Examine and discuss each of the following independent cases of charitable trust/institutions based on the relevant provisions of Income-tax Act, 1961 and judicial pronouncements for the assessment year 2025 -26:

(i) KRA Foundation is a charitable trust registered under section 12AB engaged in the activity of providing old-age homes to senior citizens. The total receipts of the trust for the financial year 2024-25 was ₹ 145 lakhs. This receipt of ₹ 145 lakhs includes a voluntary contribution received from Mr. Keshav, a resident individual, amounting to ₹ 70,000. During F.Y. 2024-25, out of the total receipts, the trust gave an unsecured loan of ₹ 5 lakhs to Mr. Keshav at an interest rate of 12% p.a. The scheduled banks charge interest at the

- rate of 11.50% for a similar kind of loan. The trust has always applied 85% of the total receipts for its objects. Discuss the implications in the hands of the trust as per the provision of the Income-tax Act, 1961
- (ii) M/s Medi Care Foundation, a trust registered u/s 12AB of the Income- tax Act, 1961, runs a hospital. During the financial year 2023 -24, it received a voluntary contribution of ₹ 95 lakhs with a specific direction that it should form part of the corpus of the trust. The trust invested such amount in the shares of M/s Healthy Care Ltd., a public sector company.
- On March 31, 2025, due to disinvestment by the Government, M/s Healthy Care Ltd. ceases to be a public sector company. (2 Marks)
- (iii) M/s Medi Care Foundation, a trust registered u/s 12AB of the Income- tax Act, 1961, which runs a hospital also paid consultancy fees ₹ 1,00,000 to Mr. Suresh, a doctor on 31.08.2024. The trust did not deduct the TDS on consultancy fees paid to doctors. The accountant of the trust claims that the trust is not liable to tax audit under section 44AB (being a trust), therefore it is out of the purview of section 194J. **[May 2025]**

Ans.

- (i) As per section 13(2), if any part of the income or the property of the trust or institution is or continues to be lent to any “specified person” referred to in section 13(3) for any period during the previous year without either adequate security or adequate interest or both, such income or property is to be deemed to have been used or applied for the benefit of a person referred to in section 13(3).
- In the present case, Mr. Keshav has made a substantial contribution of ₹ 70,000 which exceeds the limit of ₹ 50,000 to KRA Foundation, he would fall within the category of persons specified under section 13(3). KRA Foundation trust gave loan of ₹ 5 lakhs out of the income of the trust without any security to Mr. Keshav though rate of interest i.e., 12% is higher than the market rate of 11.50%, such income/loan amount of ₹ 5 lakhs is deemed to have been used or applied for the benefit of Mr. Keshav, being a person specified u/s 13(3). By virtue of section 13(1)(c), the provisions of section 11 or 12 would not apply to such income to exclude from the total income of the P.Y. 2024-25.
- Consequently, the income of ₹ 5 lakhs would be considered as specified income u/s 115BBI and be taxable @30%.
- Further, in terms of section 271AAE, penalty of ₹ 5 lakhs would also be leviable, calculated at 100% of income provided as a benefit, where the violation is noticed for the first time during any previous year.
- (ii) Voluntary contribution of ₹ 95 lakhs received with a specific direction that it should form part of the corpus of the trust, would be eligible for exemption, since investment in shares of M/s Healthy Care Ltd. a public sector company is permissible mode of investment under section 11(5).
- However as per provisions of section 11(5), where an investment is made in the shares of any public sector company and such public sector company ceases to be a public sector company, the investment so made shall be deemed to be an investment made for a period of three years from the date of such cessation.
- Therefore, it would continue to be eligible for exemption for a period of 3 years from the cessation date i.e., 31.3.2025 on which M/s Healthy Care Ltd., ceases to be a public sector company due to the disinvestment.
- (iii) A trust is required to deduct tax at source u/s 194J even if it is not subjected to tax audit u/s 44AB. Moreover, as per Explanation 3 to section 11(1), where tax has not been deducted at source on any expenditure, 30% of disallowance of expenditure for non-deduction of tax at source under section 40(a)(ia) would mutatis mutandis apply to a trust in determining application of income.
- Accordingly, ₹ 30,000 being 30% of ₹ 1,00,000 would not be treated as application of income for non-deduction of tax at source on the consultancy fees paid to Mr. Suresh by M/s Medi Care Foundation.

**CHAPTER
11**

TDS, TCS, ADVANCE TAX & REFUNDS

Illustrations

13.	<p>Examine whether TDS provisions are attracted in the following cases:</p> <p>(i) Kite & Co LLP withdrew from its bank account ₹ 68 lakhs cash for buying agricultural produce, from farmers/agriculturists, being raw material required for manufacture of finished products by it and ₹ 58 lakhs for purpose of other business activities. It files return of income on time regularly.</p> <p>(ii) Interest of ₹ 98,000 on Capital Gains Bond issued by Power Finance Corporation Ltd. to Mr. Ajay (aged 52), a non-resident individual. <i>[Model Test Paper]</i></p>
Ans.	<p>(i) Section 194N, provides that every person, including, inter alia, a banking company, who is responsible for paying, in cash, any sum or aggregate of sums exceeding ₹ 1 crore during the previous year to any person from one or more accounts maintained by such recipient-person with it, shall deduct tax at source @2% of sum exceeding ₹ 1 crore.</p> <p>In the present case, M/s Kite & Co. LLP has withdrawn ₹ 1.26 crores in cash in aggregate during the previous year 2024-25. Since aggregate amount of cash withdrawals exceed ₹ 1 crore, bank is required to deduct tax at source on the amount exceeding ₹ 1 crore i.e., ₹ 26 lakhs though he withdraws ₹ 68 lakhs for buying agricultural produce from farmers, agriculturists, being raw material required for manufacturing of finished products by it.</p> <p>(ii) Any person responsible for paying interest (other than interest referred to in section 194LB or section 194LC or section 194LD) or any other sum chargeable to tax (other than salaries) to a non-corporate non-resident or to a foreign company is liable to deduct tax at source at the rates in force.</p> <p>Since interest of ₹ 98,000 on Capital Gains Bond issued by Power Finance Corporation Ltd. is taxable in the hands of Mr. Ajay, being a non-resident, the provisions for tax deduction at source under section 195 are attracted in this case.</p>
14.	<p>Examine the applicability of Tax Deducted at source/Tax Collected at source and calculate the amount of TDS/TCS in the following independent cases as per the provisions applicable for A.Y. 2025-26:</p> <p>(i) Raj Keshri Hotels and Resorts Limited is engaged in business of owning, operating and managing hotels during the previous year 2024-25. The tips are paid by the guests by way of charge to the Credit Cards, UPI or Net Banking in the bills.</p> <p>The company disburses the same to the employees at periodic intervals. Explain with reason whether the company is responsible for deducting tax at source from disbursement of tips to its employees.</p> <p>(ii) Lalit is an individual whose total sales in business during the year ended 31.3.2024 was ₹ 1.50 crores. He has entered into a contract with Rajesh for construction of his factory building for ₹ 5,00,000 which was credited in his books of account on 1.2.2025. No amount was credited earlier to the account of the contractor in the books of Lalit. The turnover of Mr. Lalit for previous year 2024-25 is ₹ 95 Lakhs.</p>

He also pays a monthly rent starting from 1st April, 2024 to 31st March, 2025 of ₹ 16,000 p.m. for the office premises to Mr. Hemant, the owner of building. Besides, he also pays service charges of ₹ 5,500 per month to Mr. Hemant towards the use of furniture, fixtures and vacant land appurtenant to office. Examine the obligation of the tax deducted at source for A.Y. 2025-26.

(iii) XY and Co., a partnership firm selling its products 'R' through the digital facility provided by ABC Limited (an E-commerce Operator). On 28th February, 2025, ABC Limited credited in its books of account, the account of XY and Co. with a sum of ₹ 4,90,000 for the online sale of products 'R' made during the month of February-2025.

The company released a payment of ₹ 4,30,000 on 6th March 2025 to XY and Co. out of above sales made during February. Further, Mr. Rai, who purchased products 'R' through the digital facility of ABC Limited on 10th March 2025 made payment of ₹ 60,000 directly to XY and Co. on 15th March, 2025.

[Model Test Paper]

Ans.

- (i) In respect of tips collected by the company from the guests and distributed to the employees, the person responsible for paying the employee was not the employer at all, but a third person, namely the guest. The payments of collected tips included and paid by way of a credit cards, UPI or Net Banking in the bills by guest, would not be payments made "by or on behalf of" an employer. The contract of employment not being the proximate cause for the receipt of tips by the employee from a guest, such payments would be outside the scope of sections 15 and 17. There is no employer-employee relationship between customers and the employees of Raj Keshri Hotels and Resorts Ltd. and therefore such payments do not fall in the nature of salary. On account of such tips being received from guests and not from the employer, section 192 would not get attracted at all in the hands of Raj Keshri Hotels and Resorts Ltd. Thus, the company is not responsible for deducting tax at source from disbursement of tips to its employees.
- (ii) Lalit is required to deduct TDS under section 194C for contract payments and under section 194-I for rent paid for office premises during the previous year 2024-25 since Lalit's turnover for the previous year 2023-24 exceeded ₹ 1 crore. Thus, tax deduction under section 194C would be ₹ 5,000, being 1% of ₹ 5 lakhs. Mr. Lalit is also required to deduct tax at source @10% u/s 194-I on the rent paid for office premises and for furniture, fixtures and vacant land appurtenant to office to Mr. Hemant, since aggregate of rent i.e., ₹ 2,58,000 [(16,000 + ₹ 5,500) × 12] paid during the P.Y. 2024-25 exceeds the threshold limit of ₹ 2,40,000. The tax deduction under section 194-I would be ₹ 25,800, being 10% of ₹ 2,58,000.
- (iii) As per section 194-O, ABC Limited, an e-commerce operator is required to deduct tax at source @0.1% on ₹ 4,90,000, being the gross amount of sale of products 'R' of XY and Co., a partnership firm, an e-commerce participant, since such sale of goods is facilitated by ABC Limited through its digital facility. ABC Ltd. is also required to deduct tax @0.1% on the payment of ₹ 60,000 directly made to XY and Co., since such amount is deemed to be amount credited or paid by ABC Ltd. to XY and Co. Thus, ABC Ltd. is required to deduct tax of ₹ 550, being 0.1% of ₹ 5,50,000.

15.

Discuss the relevant provisions of the Income-tax Act, 1961, with respect to collection/deduction of tax in the following situations:

- (i) Mr. Bhavan, an individual purchased urban land on 12.07.2015 which was compulsory acquired by Maharashtra State Government on 10.04.2023. The compensation for acquisition was fixed at ₹ 2,40,000,

which was paid to Mr. Bhuvan on 10.04.2024. Against the order of court, the compensation was enhanced by ₹ 50,000 and paid to Mr. Bhuvan on 10.12.2024.

- (ii) On 1st October, 2024. Mr. Aman makes payment of ₹ 9,00,000 towards cost of overseas tour programme package to Mr. Robert, a seller of an overseas tour programme package and an authorized dealer under the Liberalised Remittance Scheme of the RBI.

Mr. Aman has not filed his return of income the last two assessment years i.e., 2024-25 and 2023-24. Mr. Aman has total TCS of ₹ 51,000 in A.Y. 2024-25 and ₹ 60,000 in A.Y. 2023-24 to his credit. Tax is collected and deposited before due date of filing return of income for both the assessment years.

- (iii) Dream 44 is an online gaming portal. Mr. Z is a user of this portal and he has a credit balance of ₹ 10,000 in his user account with Dream 44 as on 31.03.2024. He deposited ₹ 1,00,000 from his accumulated savings on 02.04.2024 to play online games. He earned ₹ 30,00,000 from online games during IPL season which started on April 4, 2024 and ended on May 31, 2024. During the previous year 2024-25, Mr. Z also earned Referral bonus of ₹ 50,000 from Dream 44 for referring new users on 31.03.2025.

Out of the above sum Mr. Z withdrew ₹ 25,00,000 on 01.02.2025 and kept the balance of ₹ 6,60,000 in user account on 31.03.2025 to utilise it in next year online games. **[Nov 2024]**

Ans.

- (i) As per section 194LA, Maharashtra State Government is required to deduct tax at source @ 10% on the entire sum of ₹ 2,90,000 on 10.12.2024, being the date on which enhanced compensation of ₹ 50,000 is paid to Mr. Bhuvan on account of compulsory acquisition of urban land since aggregate amount of compensation including enhanced compensation exceeds ₹ 2,50,000 during the F.Y. 2024-25.

- (ii) Mr. Robert, being a seller of an overseas tour programme package has to collect tax at source under section 206C(1G) from Mr. Aman on receiving the amount for purchase of package.

Tax has to be collected at source @ 5% on ₹ 7 lakhs received, and @ 20% on ₹ 2 lakhs, being above ₹ 7 lakhs.

Since Mr. Aman has not filed his return of income for A.Y. 2024-25 and A.Y. 2023-24 and the TCS credit exceeds ₹ 50,000 for both A.Y 2024-25 and A.Y. 2023-24, section 206CCA is invoked which provides, tax is required to be collected at source, in his case, at the higher of twice the rate specified under section 206C(1G) and 5%.

However, the higher rate of TCS leviable cannot exceed 20%. Accordingly, Mr. Robert is required to collect tax @ 10% (twice of 5%) on ₹ 7 lakhs and @ 20% (40% twice of 20% but restricted to 20%) on ₹ 2 lakhs (₹ 9 lakhs – ₹ 7 lakhs).

- (iii) As per section 194BA, on any income by way of winnings from any online game during the financial year, tax @ 30% is required to be deducted on the net winnings in the user account. Since there is a withdrawal on 1.2.2025, Dream 44 is required to deduct tax at source at the time of such withdrawal on the net winnings comprised in such withdrawal, as well as on the remaining amount of net winnings in the user account at the end of the financial year.

Net winnings at the time of first withdrawal during the F.Y. i.e., on 1.2.2025 = ₹ 25,00,000, being amount withdrawn – (₹ 1,00,000, being non-taxable deposit made in the user account + ₹ 10,000, being opening balance) = ₹ 23,90,000.

Net winnings at the end of the financial year i.e., on 31.3.2025 = (₹ 25,00,000, being amount withdrawn + ₹ 6,60,000, being closing balance) – (₹ 1,00,000, being non-taxable deposit made in the user account + ₹ 10,000, being opening balance + ₹ 23,90,000, being net winnings comprised in the earlier withdrawal) = ₹ 6,60,000.

16.

Examine in the context of provisions contained in Chapter XVII of the Act and also work out the amount of tax to be deducted by the payer of income in the following cases:

- (I) "Profit Commission" of ₹ 1 lakh paid on 18.7.2024 by a re-insurance company to the insurer company after the expiry of the term of insurance and where there was no claim during the treaty.

	<p>(II) Amrish, a part time director of Krish Pvt. Ltd. was paid an amount of ₹ 3,10,000 as fees which was actually in the nature of commission on sales for the period 1.4.2024 to 30.6.2024. [MTP April 2025]</p>												
<p>Ans.</p>	<p>(I) Section 194D requires deduction of tax at source@10% from insurance commission, where the commission exceeds ₹ 15,000. Reinsurance is different from insurance since there is no direct contractual relationship between the person insured and the re-insurer.</p> <p>In order to attract section 194D, the commission or any other payment covered under the section should be a remuneration or reward for soliciting or procuring the insurance business. The insurance companies do not procure business for the reinsurance company nor does the reinsurer pay commission or other payment for soliciting the business from the insurance companies. Therefore, section 194D has no application.</p> <p>Hence, when profit commission is paid by a reinsurance company to an insurance company, after the expiry of the term of insurance, in respect of cases where there is no claim during the operation of the reinsurance treaty, tax deduction under section 194D is not attracted.</p> <p>(II) Section 194J provides for deduction of tax at source @10% on any remuneration or fees or commission, by whatever name called, paid to a director, which is not in the nature of salary in respect of which tax is deductible at source under section 192.</p> <p>Hence, tax is to be deducted at source under section 194J @10% by Krish Pvt. Ltd. on the commission of ₹ 3,10,000 paid to Amrish, a parttime director. The tax deductible under section 194J would be ₹ 31,000, being 10% of ₹ 3,10,000.</p>												
<p>17.</p>	<p>Examine the applicability of tax deducted at source/tax collected at source and calculate the amount of TDS/TCS in the following independent cases as per the provisions applicable for A.Y. 2025-26:</p> <p>(i) Uclick Inc., a non-resident company (incorporated in Country Y) is engaged in the manufacturing of paints and has factories across the world including India. The factory in India produces paints and sells in the Indian market as well as worldwide since past 10 years. Its turnover for the last 3 years in India was F.Y. 2021-22 ₹ 200 crores, F.Y. 2022-23 ₹ 490 crores and F.Y. 2023-24 ₹ 540 crores. On 1.5.2024, it bought raw materials from Colours Private Ltd., a domestic company for ₹ 1 crore. Colours Private Ltd.'s turnover for the F.Y. 2021-22 was ₹ 5 crores, F.Y. 2022-23 was ₹ 8 crores and F.Y. 2023-24 was ₹ 9 crores. India does not have a DTAA with Country Y. Discuss the TDS/ TCS implications of this transaction.</p> <p>(ii) M/s Seal India Pvt. Ltd., a domestic company, engaged in business of manufacturing and selling of washing powder and bars. For the purpose of promoting and to boost sales of its products it hires agents, to whom incentives and commission is paid on the basis of percentage of sales made through them. During the P.Y. 2024-25, Mr. Prakash, a resident individual, is working as an agent for the company. The company paid him following commissions and incentives on the basis of target achieved by him:</p> <table border="1" data-bbox="305 1442 1479 1651"> <thead> <tr> <th>Date of payment/ credit</th> <th>Particulars</th> <th>Amount (₹)</th> </tr> </thead> <tbody> <tr> <td>13-07-2024</td> <td>Commission for achieving sales target of Quarter 1</td> <td>1,75,000</td> </tr> <tr> <td>10-01-2025</td> <td>Commission for achieving sales target of Quarter 3</td> <td>1,60,000</td> </tr> <tr> <td>15-01-2025</td> <td>Other Incentives</td> <td>1,60,000</td> </tr> </tbody> </table> <p>The figure of other incentives includes reimbursement of expenses of ₹ 1,00,000 incurred on booking of air tickets for an event in Singapore for Mr. Prakash and his family members who accompany him. The company has also given Mr. Prakash laptop worth ₹ 60,000 for achieving sales target for the month of September, 2024 in October 2024.</p> <p>(iii) AntiqueMasters.com is an online portal that provides e-auction for antique items like coins, artifacts etc. and operates only in India. The owners list their items on the portal and interested buyers place bids for them on the portal itself. The portal provides the details of the buyers who make the top 3 bids. The seller chooses the buyer and intimates the portal. The portal takes money from the buyer and transfers</p>	Date of payment/ credit	Particulars	Amount (₹)	13-07-2024	Commission for achieving sales target of Quarter 1	1,75,000	10-01-2025	Commission for achieving sales target of Quarter 3	1,60,000	15-01-2025	Other Incentives	1,60,000
Date of payment/ credit	Particulars	Amount (₹)											
13-07-2024	Commission for achieving sales target of Quarter 1	1,75,000											
10-01-2025	Commission for achieving sales target of Quarter 3	1,60,000											
15-01-2025	Other Incentives	1,60,000											

the amount to the seller's bank account after deducting the agreed commission. The seller then delivers the item directly to the buyer's address. What will be the TDS obligations on the portal with respect to a sale amounting to ₹ 11 lakhs made by Mr. Sonu, an Indian resident, on the portal on 28th February 2025?

[May 2025]

Ans.

- (i) Ubclick Inc., a non-resident company has to deduct tax at source under section 194Q @ 0.1% on ₹ 50 lakhs being the sum exceeding ₹ 50 lakhs on purchase of raw material of ₹ 1 crore from Colours Private Ltd. since its turnover exceeds ₹ 10 crores during the P.Y. 2023-24 and purchase of raw material from Colours Private Ltd. is effectively connected with its factory, being a permanent establishment in India.
Tax to be deducted = ₹ 50,00,000 × 0.1% = ₹ 5,000
- (ii) M/s Seal India Pvt. Ltd. is required to deduct tax at source on commission paid to Mr. Prakash under section 194H @5% till 30.9.2024 and @2% from 1.10.2024, being sum exceeding ₹ 15,000.
Reimbursement of expenses of ₹ 1 lakh for booking air tickets for Mr. Prakash and his family other incentive of ₹ 60,000 and laptop of ₹ 60,000 for achieving sale target is benefit or perquisite arising to Mr. Prakash from his business or the exercise of his profession, being sum exceeding ₹ 20,000. Accordingly, M/s Seal India Pvt. Ltd. is required to deduct tax at source under section 194R @10%.
Tax to be deducted under section 194H = 5% on ₹ 1,75,000 + 2% on ₹ 1,60,000 = ₹ 11,950
Tax to be deducted under section 194R = 10% on ₹ 1,00,000 (Air tickets) + ₹ 60,000 (other incentive) + ₹ 60,000 (laptop) = ₹ 22,000
- (iii) As per section 194-O, AntiqueMasters.com, an e-commerce operator, is required to deduct tax at source @0.1% on ₹ 11,00,000, being the gross amount of sale of products of Mr. Sonu, an e-commerce participant, since such sale of goods is facilitated by AntiqueMasters.com through its digital facility.
Thus, AntiqueMasters.com is required to deduct tax of ₹ 1,100, being 0.1% of ₹ 11,00,000.

CHAPTER 12

INCOME TAX AUTHORITIES/RETURN FILING/ASSESSMENT PROCEDURE

Questions

18.	<p>Answer any two out of the following three sub-parts viz (i), (ii) and (iii):</p> <p>(i) Mr. Rajneesh, a resident individual, during the course of assessment proceedings, was found guilty of making false entries in his books of accounts to evade payment of taxes. The assessing officer initiated penalty proceedings against him under section 271AAD. The penalty that is likely to be levied is ₹ 3 crores. The assessing officer passed an order to provisionally attach the properties of the assessee on 31 st May 2024, since the AO is of the opinion that it is necessary to do so to protect the interest of the revenue. AO also took prior approval from the Principal Commissioner of Income-tax for passing such order. You are required to answer the following questions in this regard:</p> <p>(A) Is the action of the Assessing Officer valid? Is there any monetary limit with respect to the provisional attachment of properties in the present case?</p> <p>(B) Assume all the procedural aspects of the provisional attachment have been met, discuss the validity period of such provisional attachment. Can it be extended?</p> <p>(C) Is there any option available to Mr. Rajneesh where such provisional attachment of property can be avoided? If, yes, explain the relevant provisions in this regard.</p> <p>(ii) Please answer the following question covering aspects relating to Issue Involved, Provision applicable, Analysis and Conclusion as per latest Court rulings. The assessee, M/s TQR LLP, a registered LLP, is engaged in the wholesale and retail trade of beverages. The assessee debited ₹ 5 crores to the Profit & Loss account in respect of surcharge on sales tax and turnover tax paid to the State Government. In the assessment order under section 143(3) of the Income-tax Act, 1961 the Assessing Officer made an addition of ₹ 5 crores on account of disallowance of surcharge on sales tax and turnover tax to the returned income. The assessee contends that the order of the assessment is bad in law as no notice was issued under section 143(2) even though the assessee had participated in the assessment proceedings. The assessing officer, relying on section 292BB, contends that when assessee has participated in assessment proceedings, now he cannot raise any objection on the assessment order. On the basis of relevant case laws and provisions of the Act, Examine the validity of the contentions of both.</p> <p>(iii) Mr. Baljit, a resident individual, e-filed his return of income for assessment year 2024-25 on 30.07.2024, offered entire interest income of ₹ 25 lakhs received from M/s Sanjay Finance Ltd., Delhi (deductor) and claimed the credit for Tax Deducted at source (TDS) by the said deductor. TDS credit was not allowed by the department, pursuant to intimation issued u/s 143(1). The application filed under section 154 was also rejected for the reason that TDS credit is not reflected in Form 26AS and consequently, the said tax was recovered from the assessee itself. Advice, Mr. Baljit, on the basis of latest Court rulings, whether the department can recover tax due from him. Discuss the relevant Provisions and give conclusion.</p> <p style="text-align: right;">[May 2025]</p>
Ans.	<p>(i) (A) Yes, the action of the Assessing Officer is valid, since the Assessing Officer is empowered to provisionally attach any property of the assessee, by an order in writing, during the pendency of assessment or reassessment proceedings of any income which has escaped assessment or for imposition of penalty under section 271AAD (penalty leviable for false entry etc. in books of accounts) with the prior approval of the PCC or CC or PC or C or PDG or DG or PD or D of Income-tax, if he is of the opinion that it is necessary to do so for the purpose of protecting the interests of the revenue. Such provisional attachment can be made where the amount or aggregate of amounts of penalty likely to be imposed under section 271AAD exceeds ₹ 2 crores.</p> <p>(B) The provisional attachment shall be valid till 30.11.2024 for a period of 6 months from the date of the order. The said period may be extended for a total period not exceeding two years or sixty days after the date of assessment or reassessment, whichever is later.</p>

- (C) If Mr. Rajneesh furnishes a guarantee from a scheduled bank, for an amount not less than the fair market value of such provisionally attached property or for an amount which is sufficient to protect the interests of the Revenue, such provisional attachment can be revoked.
- (ii) Issue Involved: The issue under consideration is whether the participation by the assessee in assessment proceedings would make the omission to issue notice under section 143(2) a curable defect on account of the deeming provision under section 292BB.
- Provision applicable: As per section 292BB, any notice which is required to be served upon an assessee shall be deemed to have been duly served and the assessee would be precluded from taking any objection 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,
- if he had appeared in any proceedings or co-operated in any enquiry relating to assessment or re-assessment.
- Where any scrutiny proceeding is proposed to be taken for completion of assessment u/s 143(3), notice u/s 143(2) should be served on the assessee, within the prescribed time.
- Analysis:** Issue of notice under section 143(2) is mandatory for making a regular assessment under section 143(3). Section 292BB is a deeming provision that seeks to cure defects in any notice issued under any provision of the Income-tax Act, 1961, if the assessee has participated in the proceedings. For section 292BB to apply, the notice must have emanated from the Department. It is only the infirmities in the manner of service of notice that the section seeks to cure. The section is not intended to cure the complete absence of notice itself. Accordingly, non-issuance of notice under section 143(2) is not a curable defect under section 292BB in spite of participation by the assessee in assessment proceedings.
- Conclusion:** In the present case, since the assessment of M/s TQR LLP was completed u/s 143(3) without issuing notice u/s 143(2), the assessment is bad in law and not a curable defect u/s 292BB. Therefore, the contention of M/s TQR LLP is valid and the contention of the Assessing Officer is invalid in spite of the fact that M/s TQR LLP participated in the assessment proceedings.
- Note** – The facts given in the question are similar to the facts in CIT v. Laxman Das Khandelwal (2019) 417 ITR 325 (SC). The above answer is based on the rationale of the Apex Court ruling in the said case.
- (iii) Deduction of taxes at source is one of the methods of collecting tax. The tax deducted at source is part of the assessee's income and therefore, the gross amount is included in the total income and offered to tax. It is on this premise that the tax deducted at source would have to be treated as tax paid on behalf of the assessee.
- Section 205 provides for restriction against direct demand on assessee to the extent to which tax has been deducted from that income. Thus, no recovery of TDS can be made from the deductee.
- Further, the amount retained against remittance made by the payer is nothing but tax which the assessee/deductee has offered for tax by grossing up the remittance. If credit is not given, the Department would end up doing indirectly what they cannot do directly i.e., recover tax directly from the deductee. The assessee had followed the regime put in place in the Act for collecting tax albeit, through an agent (deductor) of the Government. The recovery proceedings could only be initiated against the deductor, as the deductor, an agent for collecting tax, had failed to deposit the tax with the Government. Therefore, the deductee should be given credit for TDS though it was not reflected in Form 26AS and no recovery towards TDS could be made from the assessee in terms of the provisions of section 205.
- Thus, in the present case, the Department's action in recovering the tax due from Mr. Baljit on the ground that it is not reflected in Form 26AS, is bad in law
- Note** – The facts given in the question are similar to the facts in BDR Finvest Pvt. Ltd. v. DCIT [2024] 462 ITR 141 (Delhi). The above answer is based on the rationale of the Delhi High Court ruling in the said case

CHAPTER 14

TAX PLANNING, TAX AVOIDANCE & GAAR

Questions

19. In the following independent circumstances, discuss whether the provisions of GAAR would be applicable:
- (i) Right Inc., a company incorporated in Country M, holds 1200 equity shares in PS Ltd., an Indian listed entity since 1.4.2016. On 1.5.2024, PS Ltd. issued 1200 bonus shares to Right Inc. As per the treaty between India and Country M, the capital gain is taxable in the country where the transferor of shares is a resident. The tax laws of Country M, exempt capital gains.
Right Inc. sells all the shareholding in PS Ltd. on 1.1.2025 and earned a capital gain of ₹ 5 crores.
- (ii) D Ltd., an Indian company, incorporates a wholly owned subsidiary Company C, in Country X which is a Low Tax Jurisdiction with equity share capital of ₹ 1 crore. Out of the equity capital, company C gives loan to C Ltd., an Indian company at the rate of 5%. There is no other activity in Company C.
- [Model Test Paper]**

Ans. Applicability of GAAR

- (i) In case of investment made prior to 1.4.2017, income arising from transfer thereof would not be subject to GAAR. Accordingly, income from transfer of shares acquired on by Right Inc. would not attract GAAR.
If the original shares are acquired before 1.4.2017, but bonus shares are issued after that date, GAAR provisions would not be attracted on transfer of such bonus shares also.
- (ii) An impermissible avoidance arrangement means an arrangement, the main purpose or one of the main purposes of which is to obtain a tax benefit and also, inter alia, lacks commercial substance or is deemed to lack commercial substance. An arrangement is deemed to lack commercial substance if it involves, inter alia, round tripping of funds.
In this case, the arrangement of routing money through wholly owned subsidiary Company C in Country X, a low tax jurisdiction, to an Indian company (C Ltd.) involves round tripping of funds even though funds emanating from D Ltd. are not traced back to D Ltd. The alternate course available in this case is direct advance to C Ltd. an Indian company, in which case the interest income would have been chargeable to tax in the hands of D Ltd.
Therefore, the agreement is deemed to lack commercial substance as it involves round tripping of funds. Also, its main purpose is to obtain tax benefit and there is no other activity in Company C.
However, if the tax benefit in the relevant assessment year arising, in aggregate, to all the parties to the arrangement does not exceed ₹ 3 crore, then, GAAR provisions would not be invoked.

20. A. The management of M/s. KKT Private limited, Chennai planned to acquire 5 JCB machines for business purposes. The total depreciation on such machines is around ₹ 30 lakhs for one year. However, a choice is made by the management of the company by acquiring the machines on lease over outright purchase. The lease rentals are ₹ 36 lakhs per annum. The company claims deduction for lease rentals. Would the lease rent payment, being higher than the depreciation, be disallowed as expense under GAAR provisions?

	<p>B. Mr. Dhaval, aged 45 years, is making investment in Equity shares at recognised stock exchange through registered broker. During previous year 2024-25, he made a short term capital gain in Equity shares of ₹ 10,00,000 till 20.03.2025.</p> <p>He was holding 1000 Equity shares of SPR Limited (purchased on 01.01.2025 at ₹ 500 per share). The market price of it was ₹ 200 per share on 31.03.2025.</p> <p>Mr. Dhaval sold all the shares of SPR Limited on 31.03.2025 and purchased the same quantity of these shares back on 01.04.2025. He did it so that his short term capital gain may reduce by ₹ 3,00,000 for P.Y. 2024-25.</p> <p>Is it a tax planning or tax evasion? [Nov 24]</p>
Ans.	<p>A. GAAR provisions would not apply in this case as the assessee, M/s KKT Private Limited merely makes a selection of acquiring the machine on lease over outright purchase, out of the options available to him under the provisions of the Act for which he is eligible and satisfies the stipulated conditions, if any.</p> <p>Even if choice of such option results in lower tax liability, the same is a result of tax planning.</p> <p>B. Investment strategy adopted by the assessee to reduce its tax effect for a particular year is not a method of tax evasion.</p> <p>Selling of shares of an Indian company at loss and setting off such loss against the short-term capital gain arising on sale of other listed shares is as per the provisions of law. It does not make any difference if the shares sold are purchased again in the next year. It would be considered as tax planning.</p>
21.	<p>Under the tax treaty between India and Country X, capital gains from the sale of shares of Red Chilies Ltd., an Indian company, are taxable only in Country X, provided the transferor is a resident of Country X, except when the transferor holds more than 10% equity in Red Chilies Ltd. X Ltd., a resident of Country X, invests in Red Chilies Ltd. through its two wholly owned subsidiaries, Lalit Ltd. and Mohan Ltd., both incorporated in Country X. Each subsidiary individually holds 9.95% shares, resulting in a combined holding of 19.9% in Red Chilies Ltd. The subsidiaries sell the shares of Red Chilies Ltd and claim exemption as each is holding less than 10% equity shares in the Indian company. Examine whether GAAR be invoked to deny treaty benefit ? [MTP April 2025]</p>
Ans.	<p>The above arrangement of splitting the investment through two subsidiaries appears to be with the intention of obtaining tax benefit under the treaty. Further, there appears to be no commercial substance in creating two subsidiaries as they do not change the economic condition of investor X Ltd. in any manner (i.e. on business risks or cash flow), and reveals a tainted element of abuse of tax laws. Hence, the arrangement can be treated as an impermissible avoidance arrangement by invoking GAAR. Consequently, treaty benefit would be denied by ignoring Lalit Ltd. and Mohan Ltd., the two subsidiaries, or by treating Lalit Ltd. and Mohan Ltd. as one and the same company for tax computation purposes.</p>
22.	<p>M/s RH Steels Ltd. is a company incorporated in India. It sets up two units, one in a Special Economic Zone (SEZ) and another in non-SEZ area for manufacturing of steel bottles. The company transfers the product of non-SEZ unit to SEZ unit at a price lower than the fair market value. In respect of such products transferred from non-SEZ unit, only insignificant manufacturing activity takes place in the SEZ unit. In this way, the company is able to show higher profits in SEZ unit than in non-SEZ unit, and consequently claims higher deduction in computation of income. The sales from bottles transferred from non- SEZ unit constitute 15% of the total turnover of SEZ unit. Can provisions of GAAR be invoked? [May 2025]</p>

Ans.

M/s RH Steels Ltd. has tried to take advantage of tax provisions by diverting profits from non-SEZ unit to SEZ unit. This is not the intention of the SEZ legislation.

However, such tax avoidance is specifically dealt with through the provisions contained in section 10AA(9), as per which provisions of section 80-IA(8) would get attracted in such a case.

Further, if the aggregate of such transactions entered into in the relevant previous year exceed the threshold of ₹ 20 crore, domestic transfer pricing regulations under section 92BA would be attracted.

Thus, in this case, due to application of specific anti-avoidance provisions, no tax benefit can be derived by M/ RH Steels Ltd. by transferring the products from non-SEZ unit to SEZ unit at less than fair market value.

Hence, the Revenue need not invoke GAAR in such a case, though GAAR and SAAR can co-exist as per clarification given in the CBDT Circular.

**CHAPTER
17**

MISCELLANEOUS PROVISION

23. Mr. Bhuvan proposes to purchase for his business, certain raw materials from Mr. Srinivas. In view of the scarcity of the products, Srinivas insists on cash payments for the purchases, to which Bhuvan agrees. On 27-3-2025, the purchases are effected through a cash invoice for ₹ 3,20,000.
In respect of the above transactions, will there be any detrimental effect in the hands of Bhuvan and Srinivas under the provisions of the Income-tax Act, 1961? Explain briefly.
Will your answer be different, if the cash purchases are effected by the buyer Bhuvan on two different dates for different raw materials for ₹ 1,80,000 and ₹ 1,40,000 respectively? *[RTP May 2025]*

Ans.

- (1) Where purchases are effected through cash invoice of ₹ 3,20,000**
- (i) In the hands of Mr. Bhuvan**
Since Mr. Bhuvan is making cash payment of ₹ 3,20,000 for purchase of raw materials from Mr. Srinivas for his business, disallowance under section 40A(3) would be attracted, since the payment otherwise than by way of account payee cheque or bank draft or use of ECS through a bank account or through other prescribed electronic modes to a person in a day exceeds ₹ 10,000. Accordingly, ₹ 3,20,000 would not be allowable as deduction while computing his business income.
- (ii) In the hands of Mr. Srinivas**
Section 269ST prohibits, inter alia, receipt of an amount of ₹ 2 lakh or more in aggregate from a person in a day otherwise than by way of account payee cheque or account payee bank draft or use of ECS through a bank account or through other prescribed electronic modes. If any person receives any sum in contravention of the provisions of section 269ST, he shall be liable to pay penalty under section 271DA of a sum equal to the amount of such receipt.
In this case, since Srinivas has received ₹ 3,20,000 by way of cash from Mr. Bhuvan on 27.3.2025, he has violated the provisions of section 269ST, and hence, is liable to pay penalty of ₹ 3,20,000 under section 271DA.
- (2) Where cash purchases of ₹ 1,80,000 and ₹ 1,40,000 are effected in respect of different raw materials on two different dates**
- (i) In the hands of Mr. Bhuvan**
Even if cash payment of ₹ 1,80,000 and ₹ 1,40,000 are made by Mr. Bhuvan on two different dates for different raw materials, disallowance under section 40A(3) would be attracted, since the payment in cash in a day to Mr. Srinivas exceeds ₹ 10,000.
- (ii) In the hands of Mr. Srinivas**
If Srinivas receives cash of ₹ 1,80,000 and ₹ 1,40,000 on two different dates, for purchase of different raw materials, there would be no violation of section 269ST since receipt on a day is less than ₹ 2 lakh and the receipts are not in respect of the same transaction but for purchase of different raw materials. Hence, provision of section 271DA shall not be attracted.

CHAPTER 20

NON RESIDENT TAXATION

Illustrations

24. The net result of the business carried on to a branch of US based foreign company in India for the year ended 31.03.2025 was a loss of ₹ 28 lakhs after charge of the following expenses -
- Depreciative for the current financial year of ₹ 35 lakhs.
 - Unabsorbed depreciation for previous financial year of ₹ 18 lakhs.
 - Short term capital loss of ₹ 1.5 lakhs on sale of shares of an Indian company received in US.
 - Expenditure incurred for payment in respect of voluntary retirement scheme ₹ 12 lakhs.
 - Speculative Business Loss brought forward for A.Y. 2023-24 of ₹ 17 lakhs.
 - Deductions under Chapter VI-A of 29 ₹ lakhs.
 - Head Office expenses of ₹ 165 lakhs allocated to the branch.

The assessable adjusted total income of the assessee for the three immediately preceding assessment years was:

Assessment year	₹ (in lakhs)
2024-25	600
2023-24	450
2022-23	500

You are required to compute income to be declared by the branch in its return for the assessment year 2025-26. [Nov 2024]

Ans.

Computation of income to be declared by the branch in its return of income for A.Y.2025-26

Particulars	₹	₹
Loss of the branch		(28,00,000)
<i>Add:</i> Short-term capital loss [Allowed to be set-off Only against capital gains]	1,50,000	
Expenditure on Voluntary Retirement Scheme [Only 1/5 is allowable as deduction. Thus, 4/5 th will be added back]	9,60,000	
Brought forward Speculative business loss [Allowed to be set-off only against speculative business]	17,00,000	
Head office expenditure debited to profit and loss	<u>1,65,00,000</u>	<u>1,93,10,000</u>
		1,65,10,000
<i>Less:</i> Head office expenses allowable u/s 44C [Refer note below]		<u>10,60,500</u>
Income to be declared by the branch		<u>1,54,49,500</u>
Note - Computation of Head Office expenses allowable u/s 44C		
Head office expenses allowable u/s 44C = ₹ 10,60,500		
Being the lower of -		
(i) 5% of ₹ 2,12,10,000 (adjusted total income) = ₹ 10,60,500		
(ii) Actual Head Office expenses allocated to the branch = ₹ 1,65,00,000		

Computation of Adjusted Total Income

Particulars	₹	₹
Loss of the branch		(28,00,000)
Add: Current year depreciation	NIL	
Unabsorbed depreciation	18,00,000	
Short-term capital loss	1,50,000	
Expenditure on Voluntary Retirement Scheme	9,60,000	
[Only 1/5 is allowable as deduction. Thus, 4/5 th will be added back]		
Brought forward speculative business loss	17,00,000	
Deductions under Chapter VI-A	29,00,000	
Head office expenditure debited to profit and loss	<u>1,65,00,000</u>	<u>2,40,10,000</u>
Adjusted total income		<u>2,12,10,000</u>

Note – Depreciation for the current financial year is not required to be added back for computing adjusted total income.

25. Mr. Joseph, a non-resident and a person of Indian origin (aged 49 years), furnished following information for the previous year ended 31st March, 2025:

Particulars	Amount in ₹
Sale proceeds of listed equity shares in A Limited, an Indian company on 31.05.2024	6,00,000
Cost of acquisition (in convertible foreign exchange) of equity shares of A Limited acquired on 01.06.2020	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 public 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. 2014-15)	5,55,000
Fresh Investment in shares of Indian public limited companies on 11.11.2024	2,20,000

You are required to compute the total income of Mr. Joseph and Gross amount of tax payable for assessment year 2025-26 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, 234B and 234C and the effect of first proviso to section 48.

(Cost Inflation Index F.Y. 2020-21: 301, F.Y. 2024-25: 363)

[May 2025]

- Ans. **Computation of total income and gross tax payable by Mr. Joseph for A.Y. 2025-26 as per Chapter XII-A and other provisions of the Income-tax Act, 1961**

Particulars		Amount (₹)	Amount (₹)
Capital Gains			

<u>Long term capital gain on sale of listed equity shares of A Ltd.</u>			
Full value of consideration		6,00,000	
Less: Expenditure on Transfer		<u>50,000</u>	
Net consideration		5,50,000	
Less: Cost of Acquisition		<u>1,10,000</u>	
[Indexation benefit is not available]		4,40,000	
Less: Exemption under section 115F [4,40,000 x 2,20,000/ 5,50,000]		<u>1,76,000</u>	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]	<u>NIL</u>		
		3,25,000	
Interest on deposits with private limited companies		<u>5,55,000</u>	
			<u>9,82,273</u>
Gross total income/ Total income			<u>12,46,273</u>
Total income (Rounded off)			
			<u>12,46,270</u>
Computation of gross tax payable			
Tax on LTCG of ₹ 2,64,000 @10%		26,400	
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		<u>23,500</u>	
			1,35,355
Add: Health and education cess@4%			<u>5,414</u>
Gross tax payable			
			<u>1,40,769</u>
Gross tax payable (Rounded off)			
			<u>1,40,770</u>

**CHAPTER
21**

**DOUBLE TAXATION AVOIDANCE
AGREEMENT**

Questions

26. Mrs. Sudha Sharma, aged 61 years, is married and settled in Calcutta. She is a Hindustani classical singer and composer who performs concerts in India and Country M. She visits Country M every year during the music season in October to participate in the Mega music concert held there. For the rest of the year, she performs concerts in India.
Income from concerts held –
In India - ₹ 10 lakhs
In Country M - CMD 12,245
Tax deducted in Country M in October, 2024 in respect of income earned by her in that country was 2500 CMD. She earns income of CND 10000 by way of royalty in respect of copyright of her musical compositions in Country N. The royalty is paid to her every year on 25th March after deduction of tax@10%.
In India, she has interest income of ₹ 4 lakhs from bank fixed deposits in her name and ₹ 25,000 from savings bank account. She pays medical insurance premium of ₹ 27,000 to insure her health and ₹ 30,000 to insure the health of her husband, a resident aged 64 years. She deposits ₹ 1.50 lakhs in public provident fund and ₹ 3 lakhs in five-year fixed deposit in the name of her son, Mr. Sahil.
The conversion rates are as follows –

TT buying rate	30.9.2024	31.10.2024	28.2.2025	31.3.2025
Country M dollar (CMD)	₹ 80	₹ 84	₹ 78	₹ 80
Country N dollar (CND)	₹ 80	₹ 82	₹ 78	₹ 79

India has no double taxation avoidance agreement with Country M but has a DTAA with Country N.

Relevant Extracts of DTAA between “India - Country N”

ARTICLE 12

ROYALTIES AND FEES FOR TECHNICAL SERVICES

- Royalties and fees for included services arising in a Contracting State and paid to a resident of the other Contracting State may be taxed in that other State.

Article 23

ELIMINATION OF DOUBLE TAXATION

- The amount of tax paid, under the laws of Country N and in accordance with the provisions of the Agreement, whether directly or by deduction, by a resident of India, in respect of income from sources within Country N which has been subjected to tax both in India and Country N shall be allowed as a credit against the Indian tax payable in respect of such income but in an amount not exceeding that proportion of Indian tax which such income bears to the entire income chargeable to Indian tax.

Compute the total income and net tax liability (taking into account the foreign tax credit) of Mrs. Sudha Sharma for A.Y. 2025-26, if she has opted out of the default tax regime.

Ans.

Computation of net tax liability of Mrs. Sudha Sharma for the A.Y. 2025-26

Particulars	₹	₹
Profits and gains of business or profession		
From concerts held in India	10,00,000	
From royalty received from Country N [CND 10000 x 79 (being conversion rate as on 31.3.2025 - Rule 115)]	7,90,000	
From concerts held in Country M [CMD 12,245 x 80 (being		

conversion rate as on 31.3.2025 – Rule 115)	<u>9,79,600</u>	27,69,600
Income from Other Sources		
Income from bank fixed deposits in her name	4,00,000	
Income from savings bank account	<u>25,000</u>	4,25,000
Gross Total Income	-	31,94,600
Less: Deduction under section 80C		
- Deposit in PPF	1,50,000	
- Five year fixed deposit in the name of her son (does not qualify for deduction under section 80C)	-	
Under section 80D	50,000	
- Medical insurance premium to insure her health and health of spouse (₹ 57,000, restricted to ₹ 50,000, being the maximum allowable for senior citizens)		
Under section 80TTB		
- Interest on bank FD and savings bank account restricted to	<u>50,000</u>	<u>2,50,000</u>
Total Income		29,44,600
Tax on Total Income		
Income-tax [₹ 1,10,000 (upto ₹ 10,00,000)		6,93,380
Plus ₹ 5,83,380 @30% of ₹ 19,44,600]		
Add: Health and Education Cess @4%		<u>27,735</u>
		7,21,115
Average rate of tax in India (i.e., ₹ 7,21,115/ ₹ 29,44,600 × 100)	24.489%	
Foreign Tax Credit		
Lower of tax payable under the Income-tax Act, 1961 on income from profession and foreign tax payable on such income		
Tax covered under India-Country N DTAA: [Lower of ₹ 1,93,463 (i.e., 24.489% x ₹ 7,90,000) and ₹ 78,000 (₹ 78, being the conversion rate as on 28.2.2025 as per Rule 128 x CND 1000)]	78,000	
Tax paid in Country M: Country M [Lower of ₹ 2,39,894 (i.e., 24.489% x ₹ 9,79,600) and ₹ 2,00,000 (₹ 80, being the conversion rate as on 30.9.2024 as per Rule 128 x CMD 2500)]	2,00,000	<u>2,78,000</u>
Net tax liability (₹ 7,21,115 – ₹ 2,78,000)		<u>4,43,115</u>
Net tax liability (rounded off)		4,43,120

27.

Mr. Ashok, aged 66 years, a resident individual furnishes the following particulars of income earned by him in India and Country N for the assessment year 2025-26:

- (i) Taxable income from a sole proprietary concern in Mumbai ₹ 8,00,000.
- (ii) Income from Country N with which India does not have any Double Taxation Avoidance Agreement:
 - (A) Business income ₹ 9,50,000.
 - (B) Gift in foreign currency from a friend ₹ 65,000.
 - (C) Dividend (gross) (taxed in country N) ₹ 1,40,000.
 - (D) Brought forward business loss of assessment year 2021-22 in Country N ₹ 50,000. The domestic tax laws of Country N do not permit set off of business loss against any income.
 - (E) Country N taxed dividend income at the rate of 10% and all other income at the rate of 20%.
- (iii) Mr. Ashok has deposited ₹ 1,50,000 in Public Provident fund and paid contribution to approved Pension fund of LIC ₹ 22,000.

Compute taxable income and net tax liability of Mr. Ashok in India for assessment year 2025-26. Assume that Mr. Ashok pays tax under default tax regime provided under section 115BAC(IA). [Nov 2024]

Ans.

Computation of taxable total income and net tax liability of Mr. Ashok for A.Y.2025-26 under the default tax regime under section 115BAC

Particulars	₹	₹
Profits and Gains of Business or Profession		
Income from sole-proprietary concern in India	8,00,000	
Business Income in Country 'N'	<u>9,50,000</u>	
	17,50,000	
Less: Business loss of A.Y. 2021-22 in Country 'N'	<u>50,000</u>	17,00,000
Income from Other Sources		
Gift received from a friend in Country 'N'	65,000	
Dividend in Country 'N'	<u>1,40,000</u>	<u>2,05,000</u>
Gross Total Income		19,05,000
Less: Deductions under Chapter VI A [Not available under default tax regime]		<u>Nil</u>
Total Income		
Tax liability on ₹ 19,05,000		19,05,000
Tax on total income [30% of ₹4,05,000 + ₹ 1,40,000]	2,61,500	
Add: Health and Education cess @ 4%	<u>10,460</u>	
		2,71,960
Less: Deduction u/s 91 (See Working Note below)		<u>1,57,794</u>
Net Tax Liability		1,14,166
Net Tax Liability (Rounded off)		1,14,170

Working Note: Calculation of deduction under section 91

Average Rate of tax in Country N	14,000	
- Tax @10% on dividend income of ₹ 1,40,000		
- Tax @20% on other income of ₹ 10,15,000 (Business income of ₹ 9,50,000 and gift of ₹ 65,000)	<u>2,03,000</u>	
Total Tax Liability in Country N		2,17,000
Average Rate of tax in Country N		18.79%
= 2,17,000/11,55,000 x 100		
Indian Rate of tax = 2,71,960/19,05,000 x 100		14.28%
Doubly taxed income from Country N		
Business income [9,50,000 - ₹ 50,000]	9,00,000	
Gift from a friend of ₹ 65,000	65,000	
Dividend Income	<u>1,40,000</u>	
Doubly taxed income		11,05,000
Deduction u/s 91 = Lower of average rate of tax in Country N and Indian rate of tax rate of tax x Doubly taxed income = [14.28% x ₹ 11,05,000]		1,57,794

28.

Miss. Meera, aged 28 years, a resident individual, provides management consultancy to small and medium-sized corporations in India and abroad. She regularly travels to country K for providing consultancy services to her clients. It provides the following information to you in respect of its income during the F.Y. 2024-25:

- (i) Amount received from providing consultancy:
- In India- ₹ 35,70,000
 - In Country K - ₹ 12,00,000
- (ii) Amount spent in earning these incomes:
- In India - ₹ 9,60,000
 - In Country K - ₹ 2,50,000

- (iii) Rent received from a shop in Country K- ₹ 55,000 p.m.
 (iv) Expenses incurred in earning this rental income in Country K - ₹ 1,20,000

Additional information

- (i) Country K provides 2 options to the assessee as far as taxation of income from management consultancy is concerned -
 Option 1 - at a flat rate of 20% without deduction of any expenses; or
 Option 2 - at the rate of 37% after deduction of expenses in earning the income.
 (ii) Country K taxes rental incomes at a flat rate of 27% after giving a standard deduction of 20% for regular expenses. No other expense is allowed to be deducted.
 (iii) Country K does not have any tax deduction regulations at the source. Miss Meera will opt for lowest possible tax in country K.

You are required to compute the total income and tax payable by Miss Meera in India for A.Y. 2025-26 assuming she chooses to pay tax as per default tax regime as per section 115BAC(IA). Ignore the provisions of section 44ADA. India does not have any Double Taxation Avoidance Agreement with country K. Your calculations should be made upto 2 decimal points. [May 2025]

Ans.

Computation of total income and tax payable by Miss Meera for A.Y. 2025-26 under the default tax regime under section 115BAC

Particulars	₹	₹
Income from House Property		
Annual Value [₹ 55,000 x 12]	6,60,000	
Less: Deduction under section 24(a) @30%	<u>1,98,000</u>	4,62,000
Profits and Gains of Business or Profession		
Amount for consultancy in India	35,70,000	
Less: Expenses	<u>9,60,000</u>	26,10,000
Amount for consultancy in Country K	12,00,000	
Less: Expenses	<u>2,50,000</u>	<u>9,50,000</u>
Gross total income/ Total income		40,22,000
Tax liability on ₹ 40,22,000		
Tax on total income [30% of ₹ 25,22,000 + ₹ 1,40,000]		8,96,600
Add: Health and Education cess@4%		<u>35,864</u>
		9,32,464
Less: Deduction u/s 91 (See Working Note below)		<u>3,12,617</u>
Tax payable		<u>6,19,847</u>
Tax payable (Rounded off)		<u>6,19,850</u>
Working Note: Calculation of deduction under section 91		
Average Rate of tax in Country K		
Tax on consultancy		
Option 1 - Tax @20% on ₹ 12 lakhs = ₹ 2,40,000		
Option 2 - Tax @37% on ₹ 9,50,000 = ₹ 3,51,500		
Option 1 is beneficial for Ms. Meera = ₹ 2,40,000		
Tax on rental income		
27% on ₹ 5,28,000 [₹ 6,60,000 - 20%] = ₹ 1,42,560		
Total Tax Liability in Country K = ₹ 3,82,560		
Total Income in Country K = ₹ 12,00,000 + ₹ 5,28,000 = ₹ 17,28,000		
Average Rate of tax in Country K		

= $3,82,560/17,28,000 \times 100 = 22.14\%$

Indian Rate of tax = $9,32,464/40,22,000 \times 100 = 23.18\%$

Doubly taxed income pertaining to Country K

= Consultancy income of ₹ 9,50,000 [₹ 12,00,000 - ₹ 2,50,000] +
Income of house property of ₹ 4,62,000 = ₹ 14,12,000

Deduction u/s 91= Lower of average rate of tax in Country K and Indian
rate of tax rate of tax x Doubly taxed income = [22.14% x ₹ 14,12,000]

3,12,617

CHAPTER 22

TRANSFER PRICING

Questions

- 29.** Surya Ltd., an Indian Company, is engaged in manufacturing activities by importing raw material from Sun Inc. of UK. Sun Inc. has a total loan of 1 million pounds from XYZ Bank of UK. Out of that, Surya Ltd. guarantees 20% of total borrowings in case of any default made by Sun Inc.
- During the financial year 2024-25, Surya Ltd. imported goods for ₹ 60 crores from Sun Inc. Sun Inc. supplied similar raw materials to unrelated parties with a mark-up of 20%, whereas, for Surya Ltd. it provided a mark-up of 25%. Surya Ltd. was allowed to use the brand name of Sun Inc., without any payment and whereas the unrelated parties cannot use such brand name in India. The annual cost of brand value is ₹ 100 Lakhs. Surya Ltd. was allowed credit period of 2 months, whereas for the unrelated parties, Sun Inc. allowed only 1 month as credit period. The interest cost may be taken as 12% per annum and the purchases were uniform throughout the year.
- The Assessing Officer referred the matter to Transfer Pricing Officer (TPO) for determination of Arm Length Price (ALP).
- You are required to (i) Compute the ALP and the adjustments to be made to the income of Surya Ltd. (ii) What is the due date for Surya Ltd. for furnishing audit report u/s 92E? (iii) What amount of penalty is leviable on Surya Ltd., if it fails to furnish audit report u/s 92E? [Nov 24]

- Ans.** (i) Surya Ltd., an Indian company and Sun Inc. of UK, are deemed to be associated enterprises as per section 92A(2), since Surya Ltd. guarantees 10% or more of total borrowings of Sun Inc.
- Further, the transaction of purchasing raw material falls 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 and adjustment to be made as per Comparable Uncontrolled Price Method**
- | Particulars | ₹ in crores |
|---|---------------------|
| Price of imported goods charged by Sun Inc. from Surya Ltd. | 60.00 |
| Less: Mark up earned @ 25% [₹ 60 crores x 25/125] from Surya Ltd. | <u>12.00</u> |
| | 48.00 |
| Add: Mark up earned in uncontrolled comparable transaction @ 20% | 9.60 |
| Add: Adjustment on account of brand value [Annual cost of brand value] | 1.00 |
| Add: Adjustment on account of cost of credit for 1 month [12% x 1/12 x 57.60] | <u>0.576</u> |
| Arm’s length price of raw material purchase | 59.176 |
| Less: Price at which raw material was imported by Surya Ltd. from Sun Inc. | <u>60.000</u> |
| Adjustment to be made to the income of Surya Ltd. | <u>0.824</u> |
- (ii) Surya Ltd. is required to furnish the audit report under section 92E on or before 31.10.2025, being the specified date i.e., date one month prior to the due date for furnishing the return of income under section 139(1) for the relevant assessment year.
- (iii) If Surya Ltd. fails to furnish the audit report under section 92E, penalty of ₹ 1 lakh would be leviable.

- 30.** DiamondLux BV is a foreign company incorporated in Belgium. It is engaged in diamond mining and trading of raw diamonds. It sells raw diamonds globally. During the P.Y. 2024-25, it sold raw diamonds to Indian buyers in Special Notified Zone (SNZ) in Surat, Gujarat for ₹ 100 crores. An exhibition was taken place in Special Notified Zone (SNZ) in Surat, Gujarat for display of uncut and unsorted diamonds. DiamondLux BV has

income of ₹ 10 crores from activity of display of uncut and unassorted diamond in that exhibition. DiamondLux BV wants to exercise the option to apply for safe harbour rules. It wants to declare profits of ₹ 3 crores from trading of raw diamonds to Indian buyers and profit of ₹ 2 crores from display of diamonds in Special Notified Zone (SNZ) in Surat.

Whether DiamondLux BV is eligible to opt for the Safe Harbour Rules. If yes, can it declare profit of ₹ 3 crores and ₹ 2 crores from trading of raw diamonds to Indian buyers and from display of diamonds, respectively under safe harbour rules?

[RTP September 2025]

Ans.

Section 92CB(1) provides that the determination of income referred to in section 9(1)(i) shall be subject to safe harbour rules. Safe harbour means circumstances in which the income tax authorities shall accept the transfer price declared by the assessee. Section 92CB(2) empowers the CBDT to prescribe such safe harbour rules or circumstances under which the transfer price declared by the assessee shall be accepted by the Income-tax Authorities.

Accordingly, in exercise of the powers conferred by section 92CB read with section 295 of the Income-tax Act, 1961, the CBDT has, vide Notification No.124/2024 dated 29.11.2024, prescribed the safe harbour rules for income referred to in section 9(1)(i) chargeable to tax under the head "Profits and gains of business or profession".

DiamondLux BV is a foreign company engaged in the business of diamond mining, hence, it is an eligible assessee as per Rule 10TI and can apply for safe harbour rules.

An eligible business, for this purpose, means a business of selling raw diamonds in any notified special zone as referred to in clause (e) of Explanation 1 to section 9(1)(i). Accordingly, display of uncut and unassorted diamonds is not an eligible business and DiamondLux BV cannot declare profits from such display under safe harbour rules.

Moreover, in case of a foreign company which is engaged in the business of mining of diamonds, no income shall be deemed to accrue or arise in India to it through or from the activities which are confined to display of uncut and unassorted diamonds in any notified special zone. Hence, profit of ₹ 2 crores from display of diamonds in Special Notified Zone (SNZ) in Surat shall not be deemed to accrue or arise in India and not taxable in India.

As per Rule 10TIA, if an eligible assessee declares 4% or more of the gross receipts as profits and gains of the eligible business chargeable to tax under the head "Profits and gains of business or profession", the option for safe harbour exercised by such eligible assessee in any relevant previous year shall be accepted by the income-tax authorities.

During the P.Y. 2024-25, DiamondLux BV wants to declare ₹ 3 crores from trading of raw diamonds to Indian buyers which is only 3% of gross receipts of ₹ 100 crores. Hence, the option for safe harbour exercised by DiamondLux BV in P.Y. 2024-25 shall not be accepted by the income-tax authorities as the same is not in accordance with the circumstance mentioned in Rule 10TIA.

31.

Indiana Ltd., an Indian company engaged in the manufacturing and trading of electronic projectors. Indiana Ltd. has the following stakes in different foreign entities:

It holds 30% voting rights in Star GmbH, a German company.

It appoints 6 directors in Moon Inc., an American company. Moon Inc. has 15 directors on its board.

It has given guarantee for a loan amounting to Euro 12 million taken by Astroid Ltd. of the UK. The value of total borrowing of Astroid Ltd. is Euro 150 million and the book value of total assets of Astroid Ltd. is Euro 160 million.

Indiana Ltd. entered into the following transactions with these entities during the F.Y. 2024-25:

Transaction with Star GmbH

Indiana Ltd. bought 1,000 units of electronic projectors from Star GmbH for ₹ 15,000 per unit for the purpose of resale in India. It sold these projectors in India without doing any modification thereon. The gross profit

margin earned from such resale was 20% of Sale price. Star GmbH provided after- sales warrantee of 1 year. The cost of warrantee is 3% of sale price.

Transaction with Moon Inc.

Indiana Ltd. bought 1,000 units of similar electronic projectors (as purchased from Star GmbH) from Moon Inc. for ₹ 14,000 per unit for the purpose of resale in India. It sold these projectors in India without doing any modification and earned gross profit margin of 30% of sale price. Moon Inc. provided after-sales warrantee of 9 months. The cost of warrantee is 3% of sale price.

Transaction with Astroid Ltd.

Indian Ltd. provided consultancy services to Astroid Ltd. for ₹ 8,000 per hour for 5,000 hours. It provided similar services to M/s Comet Ltd., an unrelated Indian company for ₹ 9000 per hour.

You are required to discuss:

- (i) Whether Star GmbH, Moon Inc. and Astroid Ltd. are associated enterprises/deemed associated enterprises of Indiana Ltd. as per section 92A of the Act.
- (ii) Compute the Arm Length Price (ALP) of the international transactions made between them, wherever applicable. *[May 2025]*

Ans.

- (i) Indiana Ltd., an Indian company and Star GmbH, a German company are deemed to be associated enterprises as per section 92A(2), since Indiana Ltd. holds more than 26% of voting power i.e., 30% in Star GmbH.
Indiana Ltd. and Moon Inc., an American company are not deemed to be associated enterprises as per section 92A(2), since Indiana Ltd. appoints less than half of the directors of Moon Inc. i.e., only 6 out of 15 directors.
Indiana Ltd. and Astroid Ltd., UK are not deemed to be associated enterprises as per section 92A(2), since Indiana Ltd. guarantees less than 10% i.e., 8%, in this case (Euro 12 million/ Euro 150 million) of the total borrowing of Astroid Ltd.
- (ii) The transaction of purchasing electronic projectors from Star GmbH falls within the meaning of “international transaction”. Hence, transfer pricing provisions would be attracted in this case. Indiana Ltd. purchases similar electronic projectors from Moon Inc., the transaction would be uncontrolled transaction.

Computation of Arm’s length price

	₹
Resale price of electronic projectors purchased from Star GmbH [(₹ 15,000 + 20/80 of ₹ 15,000) x 1,000 unit]	1,87,50,000
<i>Less:</i> Profit margin with reference to uncontrolled transaction between Indiana Ltd. and Moon Inc. [30% on sale price]	<u>56,25,000</u>
	1,31,25,000
<i>Add:</i> Cost of warranty [Star GmbH provides warranty for 1 year whereas Moon Inc. has provided warranty of 9 months. Therefore, adjustment for the cost of such warranty has to be carried out for 3 months @3% of sales price. [₹ 1,87,50,000 x 3% x 3/12]	<u>1,40,625</u>
Arm’s length price	1,32,65,625

**CHAPTER
24**

ADVANCE RULING

Illustration

32.	<p>an Indian company makes an application to Board of Advance rulings in relation to the tax liability of M/s. Pinicer Inc, a non-resident arising out of a transaction which is proposed to be undertaken by ABC Limited with M/s. Pinicer Inc. The value of transactions entered into between both the parties is ₹ 250 crores.</p> <p>What would be the amount of fees to be accompanied with the application for advance ruling.</p> <p>What is the remedy available to M/s ABC Limited if it is aggrieved by the ruling of Board for Advance Rulings? Also, state the time limit within which it should exercise this remedy. [Nov 2024]</p>
Ans.	<p>As per section 245Q(2), the application of advance ruling needs to be made in quadruplicate by the applicant i.e., M/s ABC Ltd.</p> <p>Since the value of transaction between M/s ABC Ltd and M/s Pinicer Inc., in respect of which ruling is sought, exceeds ₹ 100 crores but does not exceed ₹ 300 crores, fees of ₹ 5 lakhs to be accompanied with the application.</p> <p>As per section 245W(1), an applicant who is aggrieved by any ruling pronounced by the Board for Advance Rulings may appeal to the High Court against such ruling of the Board of Advance Rulings.</p> <p>He has to do so within sixty days from the date of the communication of that ruling or order. However, where the High Court is satisfied that the appellant was prevented by sufficient cause from presenting the appeal within the 60 days period, it may grant further period of 30 days for filing such appeal.</p>
33.	<p>ABC Ltd., an Indian company has entered into an agreement for providing technical knowhow with PQR Inc., a company registered in Country A. PQR Inc. has a sister concern, XYZ LLC., in Country A, which has obtained Advance Ruling on an identical technical know-how agreement with another Indian company, MNC Ltd.</p> <p>The agreement is expected to be of ₹ 500 crores and expected tax liability would be ₹ 150 crores. ABC Ltd. wants to make use of this advance ruling for its assessment proceedings. So, it applied to Board for Advance Rulings to issue same ruling for ABC Limited, being identical ruling. To verify the transaction between ABC Ltd and PQR Inc., the Board for Advance Rulings compel the production of books of accounts.</p> <p>Can ABC Ltd make an application for advance ruling with Board for Advance Rulings as per the Act. Also Examine whether the Board can ask for production of books of accounts when ruling on similar issue has already been given. Examine in the context of the provisions of the Income-tax Act, 1961? [May 2025]</p>
Ans.	<p>A resident can make an application for advance ruling in relation to his tax liability arising out of one or more transactions valuing ₹ 100 crore or more in total which has been undertaken or is proposed to be undertaken.</p> <p>Since the value of transactions between M/s ABC Ltd and M/s PQR Inc for providing technical knowhow exceeds ₹ 100 crores, ABC Ltd. can make an application for advance ruling with the Board for Advance Rulings.</p> <p>As per section 245U, the Board for Advance Rulings shall have all the powers of the Civil Court in respect of discovery and inspection, enforcing the attendance of any person, including any officer of a banking company and examining on oath, issuing commissions and compelling the production of books of accounts and other documents.</p> <p>Accordingly, the Board can ask for the production of books of accounts before passing advance ruling for ABC Ltd.</p>

**CHAPTER
25****FUNDAMENTAL OF BEPS****Illustration**

34. Under BEPS Action Plan 13, BEPS report recommends that countries adopt a standardized approach to transfer pricing documentation, wherein it mandates the three-tier structure of (i) Master File (ii) Local File and (iii) Country-by-Country report. What are the advantages of the three-tier structure mandated by BEPS Action Plan 13? *[May 2025]*

Ans. Advantages of the three-tier structure mandated by BEPS Action Plan 13:

- (a) Taxpayers will be required to articulate consistent transfer pricing positions;
- (b) Tax administrations would get useful information to assess transfer pricing risks;
- (c) Tax administrations would be able to make determinations about where their resources can most effectively be deployed, and, in the event audits are called for, provide information to commence and target audit enquiries;