

CA FINAL / CMA Final Nov / Dec 24

DT & Int Tax - OTM

[ONLY THIS MUCH]

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This contain a special compilation of questions from almost all the Topics which are frequently asked in the exam . Students are requested to solve this Question Bank before Exam to Ensure good marks. Students must note all the topics given by the Institute are Important , This is just a compilation of the most expected Topic .

ONLY THIS MUCH – OTM IS A KIND OF QUESTION SPECIALLY SELECTED BEFORE YOUR EXAM TO ACE IN DT FOR NOV / DEC 24 EXAMS.

Question 1: TP

Andes Inc. having its business in Malaysia has advanced a loan of MD 1,60,000 to Andes Ltd, India. Book value of total assets of Andes Ltd was ₹ 125 lakhs. Andes Ltd provides software backup support to Andes Inc. Andes Ltd has spent 50,000 man hours during the FY 2023-24 for the services rendered to Andes Inc. The cost for Andes Ltd is MD 75/man hour. Andes Ltd has billed Andes Inc. at MD 90.75/man hour.

Gama Ltd. in India which has a similar business model, provides software backup support to Olive Inc. in Penang, Malaysia. Gama Ltd.'s cost and operating profits are as hereunder:

Particulars	₹ in lakhs
Direct costs	600
Indirect costs	200
Operating profits	200

(1) Calculate Arm's Length Price for the transaction between Andes Ltd. and Andes Inc. based on the above data of Gama Ltd. using the Transactional Net Margin Method. Assume 1 MD = ₹ 45.

(2) Explain, if there is any adjustment to be made to the total income of Andes Ltd.

Note: MD = Malaysia Dollars

Solution:

Two enterprises are deemed to be associated enterprises where one enterprise advances loan constituting not less than 51% of the book value of the total assets of the other enterprise.

In this case, since Andes Inc., a foreign company, has advanced loan to Andes Ltd., an Indian company, and such loan constitutes 57.6% [$(₹ 45 \times 1,60,000 \times 100 / 1,25,00,000)$] of the book value of total assets of Andes Ltd., Andes Inc and Andes Ltd. are deemed to be associated enterprises.

Since the transaction of provision of software backup support by Andes Ltd. to Andes Inc. is an international transaction between associated enterprises the provisions of transfer pricing would be attracted in this case.

Determination of Operating Margin of transaction of provision of software backup support by Andes Ltd. to Andes Inc

Particulars	₹
Billing per manhour [MD 90.75/hour x ₹45]	4,083.75
Cost per man hour [MD 75/hour x ₹45]	3,375.00
Operating profit per manhour	708.75
Operating profits to cost (%) [$708.75 \times 100 / 3375$] = 21%	

Determination of Operating Margin of Comparable Uncontrolled transaction i.e., provision of software backup support. by Gama Ltd. to Olive Inc.

Particulars	₹
Direct cost	600
Indirect cost	200
Total cost	800

Operating profits	200
Operating profits to cost (%) $[200 \times 100/800] = 25\%$	

(1) Computation of Arm's Length Price of provision of software backup support provided by Andes Ltd. to Andes Inc. by applying TNMM

Particulars	₹
Cost for Andes Ltd. (per man hour) $[MD 75 \times ₹ 45/MD]$	3,375.00
Add: Arm's length operating profit margin as % of cost (25% of ₹ 3,375)	843.75
Arm's length price (per manhour) in ₹	4,218.75
Arm's length price of total manhours spent by Andes Ltd. for providing software backup support to Andes Inc. $[₹ 4,218.75 \times 50,000 \text{ man hours}] = ₹ 21,09,37,500$	

(2) Adjustment to be made to the total income of Andes Ltd.

Particulars	₹
Arm's length price of total manhours spent by Andes Ltd. for providing software backup support to Andes Inc.	21,09,37,500
Less: Amount actually billed $[90.75 \text{ MD} \times ₹ 45/MD \times 50,000 \text{ manhours}]$	20,41,87,500
Arm's length adjustment to be made to the total income of Andes Ltd.	67,50,000

Question 2: PCRT

Tulsi Foundations, a public charitable trust u/s 12AB, runs a hospital and also owns a temple. It furnishes you the following information for the year ended 31.03.2024:

- i) Gross receipts from hospital Rs 200 Lakhs
- ii) Voluntary Contribution (not included in gross receipts) received from public amounted to Rs 35 lakhs. It includes corpus donations of Rs 5 Lakhs & anonymous donations Rs 10 Lakhs. Out of the anonymous donations of Rs 10 Lakhs, Rs 8 Lakhs are made to the donations box of temple.
- iii) Operational expenses incurred for the hospital amounted to Rs 94 Lakhs and for the temple amounted to Rs 15 Lakhs.
- iv) On 1.01.2024 Rs 6 Lakhs was paid to a contractor in cash for the overall maintenance of the hospital. This amount is included in the operational expenses of the hospital.
- v) On 1.05.2023 the trust purchased & installed new computer software for Rs 25 Lakhs for the hospital: The rate of depreciation is 40%.
- vi) The trust gave donation of Rs 12 Lakhs to Balaji trust(having objects of charitable nature), registered u/s 12AB, but not similar to the objects of the donor trust.

Compute the Total Income and Income Tax Liability of the Trust, in such a manner that it can avail the optimal benefits within the 4 corners of law.

Solution: Computation of Total income of Tulsi Foundations

Particulars	Rs	Rs
Gross Receipts from hospitals		2,00,00,000
Add: Voluntary contributions other than corpus donation and anonymous donations		20,00,000
Corpus Donations [Does not form part of total income]		Nil
Anonymous donations for temple [Not subject to tax u/s 115BBC]		8,00,000

Total		2,28,00,000
Add: Anonymous donations other than for temple [to the extent not chargeable to tax u/s 115BBC(1)(i)] [Rs 1,75,000 being 5% of total donations of Rs 35,00,000 or Rs 1,00,000 whichever is higher]		1,75,000
Total		2,29,75,000
Less: 15% of income eligible for being set apart without any conditions		(34,46,250)
Total		1,95,28,750
Less: Amount applied for charitable purposes		
Operational Expenses incurred for hospital and temple [Rs 94 lakhs + 15 lakhs – 6,00,000 not treated as application as payment to contractor made in cash]	1,03,00,000	
Purchase of computer	25,00,000	
Donation to charitable trust registered u/s 12AB allowable as application, since it is not given with a specific direction that it shall form part of corpus of the trust	10,20,000	(1,38,20,000)
Total Income [other than anonymous donations taxable @30% u/s 115BBC(1)(i)]		57,08,750
Add: Anonymous Donations taxable u/s 115BBC(1)(i)		25,000
Total Income		57,33,750

Computation of Tax Liability of Tulsi Foundations

Particulars	Rs
Tax on total income of Rs 57,08,750	17,12,625
Tax on anonymous donations taxable @30% (25,000 x 30%)	7,500
Total	17,20,125
Add: Surcharge @10%, since total income exceeds Rs 50 lakhs but does not exceed Rs 1 Crore	1,72,013
Total	18,92,138
Add: HEC @4%	75,686
Total tax (After Round off)	19,67,820
Note: To avail the maximum benefits, the amount of Rs 57,08,750 (i.e Total Income excluding anonymous donations taxable @30% u/s 115BBC) can be accumulated or set apart for such period not exceeding 5 years by exercising an option on or before the due date for filing ROI and such amount should be invested in modes specified u/e 11(5).	

Notes:

1. As the Supreme court ruling in CIT vs. Programme for Community Organization (2001), 15 % of gross receipts would be eligible for accumulation u/s 11(1)(a). Accordingly, in the above solution, 15% gross receipts has been considered.
2. It is also assumed that no amount has been applied out of the amount received towards corpus and the same is invested in modes prescribed u/s 11(5).
3. As per sec 12AB(4), where any part of income is applied by the trust for other than the objects of the trusts, then the PCIT/CIT shall cancel the registration of the trust as per the procedure u/s 12AB. Accordingly, if the object of Bajaj Trust are not similar to Tulsi Foundation, Its registration shall be cancelled and tax shall be leviable @ MMR.
4. As per clause (iii) Explanation 4 to Sec 11(1), donations shall be allowable to the extent of 85% of such amount only.

Question 3: PGBP

The net profit of M/s Dilip Industries Ltd engaged in the manufacturing of Iron and Steel in Belampalli, a notified backward area in Andhra Pradesh, after debit/credit of the following amounts to its Statement of Profit and Loss for the year ended 31-03-2024 was ₹ 1000 lakhs.

Amounts Debited:

1. Depreciation calculated as per useful life of its assets ₹ 350 lakhs.
2. The company has paid ₹ 50 lakhs on 01-08-2023 to a research institution recognized and notified by the Central Government which has its object of undertaking scientific research.
3. The company has provided interest at 8% p.a. on ₹ 350 lakhs being amount borrowed from a NBFC on 01-05-2023 for purchase of machinery. The interest outstanding as on 31-03-2024 was paid on 01-11-2024.
4. Salary of ₹ 100 lakhs to foreign technicians for installation of machinery at the factory premises was paid without deduction of tax.
5. General Expenses include ₹ 35 lakhs, incurred towards bringing drinking water to the village in which the factory is situated.
6. Donation includes ₹ 10 lakhs given to a political party.
7. The company has incurred expenditure of ₹ 25 lakhs, towards purchase of coal for its smelting furnace for which invoice is not available. However, indirect evidence such as Goods Inward report, online payment made towards the purchases are available. The auditors have made an adverse remark in their Report in this regard.

Amounts Credited:

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

Additional Information

1. Written down value of its assets as on 01-04-2023 was as follows:
 - a. Factory Building ₹ 1200 Lakhs,
 - b. Computers and accessories ₹ 50 Lakhs,
 - c. Office appliances ₹ 30 Lakhs,
 - d. Tractors used for movement of raw materials, Semi finished goods and finished goods within the factory premises ₹ 20 lakhs,
 - e. Plant and Machinery ₹ 800 Lakhs.Additions made to the assets were as follows:
 - i) Factory Buildings ₹ 300 Lakhs - Put to use from 01-11-2023.
 - ii) Computers ₹ 25 Lakhs - Put to use on 01-05-2023.
 - iii) Tractors ₹ 15 Lakhs - on 01-08-2023 and ₹ 10 Lakhs - Put to use on 01-02- 2024.
 - iv) Plant and machinery ₹ 500 Lakhs - Installed and put to use on 01-02-2024.
 - v) Expenditure incurred towards the grant of ISO 9001 certificate 10 Lakhs. This amount is included in the Property, Plant and Asset Schedule as Intangible asset.
- f. The recognition granted to the research association which was engaged in scientific research was subsequently withdrawn by the Government on

28-02- 2024.

You are required to compute the Total Income of the company for the AY 2024-25. Ignore MAT and the provisions of section 115BAA.

Solution: Computation of Total Income of M/s Dilip Industries Ltd.

Particulars	₹ (in lakhs)	₹ (in lakhs)
Profits and gains of business and profession		
Net Profit as per Statement of Profit or loss		1000
Add: Items debited but to be considered separately or to be disallowed		
1) Depreciation as per useful life of asset	350	
2) Contribution to research institution approved and notified by the central Government for scientific research	-	
3) Interest on borrowing paid to NBFC after due date of filing return of income [8% x 350 lakhs x 11/12]	25.67	
4) Salary for installation of machinery	100	
5) Expense towards bringing drinking water to the Village	-	
6) Donation to political party	10	
7) Expenditure towards purchase of coal	-	485.67
		1,485.67
Less: Items credited but not chargeable to tax / expenses allowed but not debited		
1) Bad debts recovered : Since the deduction of bad debts allowed u/s 36 was rs.10L out of the total debt of rs.20L and the amount recovered in respect of such debt is only Rs. 7 Lakhs which is not more than the amount of Rs. 10L not written off no amount is chargeable to tax as business income. Since the amount of Rs.7L recovered has been credited to the P&L it has to be reduced while computing business Income.	7	
2) Bad debts	3	
AI1. Expenditure towards grant of ISO 9001 certificate	10	20
		1,465.67
Less: Depreciation as per Income-tax Rules, 1962		
- Factory building		
On Opening WDV = ₹ 1200 lakhs x 10%	120	
On factory building purchased on 1.11.2024 [₹ 300 lakhs x 10% x 50%, since it has been put to use for less than 180 days during the year]	15	
	135	
- Computer and accessories		
On opening WDV = ₹ 50 lakhs x 40%	20	
On computer purchased on 1.5.2024 [₹ 25 lakhs x 40%, since it has been put to use for more than 180 days during the year]	10	
	30	
- Plant and machinery		
a) Office appliances on opening WDV [₹ 30 lakhs x 15%]	4.50	
B) Tractors		
On opening WDV = ₹ 20 Lakhs x 15%		
On tractor purchased on 1.08.2024 [₹ 15 lakhs x 15%, since it has been put to use for more than 180 days during the year]	3.00	
	2.25	

On tractor purchased on 1.2.2024 [₹ 10 lakhs x 15% x 50%, since it has been put to use for less than 180 days during the year]	0.75	
<u>Plant and Machinery</u>		
On Opening WDV = ₹ 800 lakhs x 15%	120	
On P & M installed on 1.2.2024 [₹ 621 lakhs (₹ 500 lakhs + ₹ 100 lakhs of salary for installation + ₹ 21 lakhs, being interest from 1.5.2023 to 31.1.2024) x 15% x 50%, since it has been put to use for less than 180 days during the year]	46.58	
	177.08	
<u>Additional depreciation</u>		
On tractors installed and put to use on 1.8.2023 = 20% x ₹ 15 lakhs, since it is used within factory premises	3	
On tractors installed and put to use on 1.2.2024 = 20% x 50% x ₹ 10 lakhs, since it is used within factory premises	1	
On new plant and machinery installed and put to use on 1.2.2024 = 50% x 20% x ₹ 621 lakhs	62.10	
		408.18
Gross Total Income		1057.49
Less: Deduction under chapter VI-A		10
Deduction u/s 80GGB [Donation to political party is allowed as deduction to Dilip Industries Ltd., assuming that the payment is made otherwise than by way of cash]		
Total Income		1047.49

Question 4: CG

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

The balance sheet of PQR limited as on 31st March 2024, being the date on which software unit has been transferred, is given hereunder –

Balance Sheet as on 31.3.2024 ₹ in lakhs

Liabilities	₹	Asset	₹
Paid up Share Capital	300	Fixed Assets	
General Reserve	150	Hardware unit	170
Share Premium	50	Software unit	200
Revaluation Reserve	120	Debtors	
Current Liabilities (Ascertained liabilities)		Hardware unit	140
Hardware unit	40	Software unit	110
Software unit	90	Inventories	
		Hardware unit	95
		Software unit	35
	750		750

Following additional information are furnished by the management:

- (i) The Software unit is in existence since May, 2015.
- (ii) Fixed assets of Software unit includes land which was purchased at ₹ 40 lakhs in the year 2016 and revalued at ₹ 60 lakhs as on March 31, 2024. The SDV on

31.3.2024 is ₹ 55 lakhs.

- (iii) Fixed assets of Software unit mirrored at ₹ 140 lakhs (₹ 200 lakhs minus land value ₹ 60 lakhs) is WDV of depreciable assets (Furniture and Plant & machinery) as per books of account. However, the WDV of these assets u/s 43(6) of the Act is ₹ 90 lakhs.
- (a) Ascertain the tax liability, which would arise from slump sale to PQR Limited, assuming it does not opt for section 115BAA.
- (b) What would be your advice as a tax-consultant to make the restructuring plan of the company more tax-savvy, without changing the amount ?

Solution:

(a) As per section 50B, any profits and gains arising from the slump sale effected in the previous year shall be chargeable to income-tax as capital gains arising from the transfer of capital assets and shall be deemed to be the income of the PY in which the transfer took place. If the assessee owned and held the undertaking transferred under slump sale for more than 36 months before slump sale, the capital gain shall be deemed to be LTCG. Indexation benefit is not available in case of slump sale as per section 50B(2).

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

Particulars	₹ in lakh
Full value of consideration for slump sale of Software Unit	385
Less: Cost of acquisition, being the net worth of Software Unit	185
Long term capital gains arising on slump sale	200
(The capital gains is long-term as the Software Unit is held for more than 36 months)	
Tax liability on LTCG	
Under section 112 @ 20% on ₹ 200 lakhs	40.00
Add: Surcharge@ 7%	2.80
Total	42.80
Add: Health and Education cess@4%	1.712
	44.512
WN Computation of Full value of consideration	
Fair market value of the capital assets transferred by way of slump Sale	
Land, being an immovable property [stamp duty value on 31.3.2024, being the date of slump sale] [A]	55
Other Fixed assets (Furniture and Plant & machinery) [Book value as appearing in the books of accounts] [₹ 200 lakhs - ₹ 60 lakhs] [B]	140
Debtors [Book value as appearing in the books of accounts] [C]	110
Inventories [Book value as appearing in the books of accounts] [D]	35
	340
Less: Liabilities of Software Unit [₹ 750 - ₹ 40L - 620L] [L]	
Excluding	
(i) Paid up share capital	300
(ii) General Reserve	150
(ii) Share Premium	50
(iii) Revaluation reserve	120
Total	620
	90
Fair market value of the capital assets transferred by way of slump sale [A+B+C+D- L] [FMV1]	250
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]	385
Full value of consideration [Higher of FMV1 or FMV2]	385

Computation of net worth of software unit

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

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

(b) Tax advice

- (i) Transfer of any capital asset by a holding company to its 100% Indian subsidiary company is exempt from capital gains u/s 47(iv). Hence, PQR Limited should try to acquire the remaining 26% equity shares in S Limited then make the slump sale in the above said manner, in which case the slump sale shall be exempt from tax. For this exemption, PQR Limited will have to keep such 100% holding in S Limited for a period of 8 years from the date of slump sale, otherwise the amount exempt would be deemed to be income chargeable under the head "Capital Gains" of the previous year in which such transfer took place.
- (ii) Alternatively, if acquisition of 26% share is not feasible, PQR Limited may think about demerger plan of Software Unit to get benefit of section 47(vib) of the Act.

Question 5: Total Income

Mrs. Rajni, aged 63 years, is married and settled in Ranchi. She is a Hindustani classical dancer and choreographer who performs in concerts in India and Country M. She visits Country M every year in October to participate in the Spring dance concert held there. For the rest of the year, she performs in dance programs organized in India. India does not have a DTAA with Country M.

She earns CMD 10120 from concerts held in Country M. She also owns a residential house property in Country M. She earned rental income of CMD 25,000 from such property. She paid municipal taxes of CMD 200 in respect of this property, which is not deductible in Country M. All income from Country M is taxable in Country M @20%. The entire tax due in Country M has been duly paid by Mrs. Rajni.

She earns ₹ 15 lakhs from performances in dance programs held in India. She has interest income of ₹ 4.2 lakhs (gross) from bank fixed deposits in her name and 15,000 from savings bank account in India.

She pays medical insurance premium of ₹ 29,000 to insure her health and ₹ 32,000 to insure the health of her husband, a resident aged 65 years. She deposits ₹ 1.50 lakhs in her PPF and ₹ 4 lakhs in 5-year fixed deposit in the name of her son, Mr. Priyanshu. The TT buying rate as on 31.3.2024 for Country M Dollar (CMD) is ₹ 69. Compute the total income and net tax payable by Mrs. Rajni for A.Y.2024-25, providing for deduction u/s 91. Assume Mrs. Rajni does not opt for sec 115BAC.

Solution: Computation of total income of Mr. Rajni

Particulars	₹	₹
Income from house property		
Gross annual value [CMD 25000 x 69, being conversion rate as on 31.3.2024 – Rule 115)]	17,25,000	
Less: Municipal taxes [CMD 200 x 69]	(13,800)	
	17,11,200	
Less: Deduction u/s 24 @ 30%	5,13,360	11,97,840
Profits and Gains from business and profession		
From concerts held in India	15,00,000	
From concerts held in Country M [CMD 10,120 x 69 (being conversion rate as on 31.3.2024 – Rule 115)]	6,98,280	
		21,98,280
Income from other sources		
Income from bank fixed deposits in her name	4,20,000	
Income from savings bank account	15,000	4,35,000
Gross Total Income		38,31,120
Less: Deduction under section 80C	1,50,000	
Deposit in PPF Five year fixed deposit in the name of her son (does not qualify for deduction u/s 80C)	-	
Under section 80D	50,000	
Medical insurance premium to insure her health and health of spouse (₹ 61,000, restricted to ₹ 50,000, being the maximum allowable for senior citizens)		
Under section 80TTB	50,000	2,50,000
Interest on bank FD and savings bank account restricted to		
Total Income		35,81,120

Computation Tax Liability:

Particulars	₹	₹
Income tax		8,84,336
Add: HEC@ 4%		35,373
		9,19,709
Average rate of tax in India (i.e., ₹ 9,19,709/ ₹ 35,81,120 × 100)	25.682%	
Rate of tax in country M	20%	
Doubly taxed Income ₹ 11,97,840 (income from house property) + ₹ 6,98,280 (income from concerts)	18,96,120	
Lower of Indian rate of tax and rate of tax in Country M	20%	
Deduction under section 91 20% of doubly taxed income of ₹ 18,96,120		3,79,224
Net tax payable		5,40,485
Net tax payable (Rounded off)		5,40,490

Question 6: Total Income

Fun Limited, a domestic company, set-up and commenced business of manufacturing of mixer grinder on 01-4-2023 in the State of MP. The net profit of the company as per Statement of Profit and Loss for the year ended 31st March, 2024, revealed profit of ₹ 1,47,50,000 after debiting or crediting the following items:

(i) Depreciation charged during the year amounted to ₹ 34,00,000.

(ii) Lumpsum consideration of ₹ 36 lakhs paid to a foreign company for obtaining

designs & models of mixer grinder on 12-12-2023.

- (iii) Purchased raw material valued at ₹ 96 lakhs from Gold Ltd. in which directors have substantial interest. The market value of the goods is ₹ 82 lakhs.
- (iv) Cash subsidy of ₹ 15 lakhs received from State Government on acquisition of new plant & machinery [mentioned at point (c) in additional information] acquired on 01-07-2023 which was credited to Statement of profit and loss.
- (v) Legal expenses incurred for issue of bonus shares at ₹ 6 lakhs and legal expenses for issue of right shares at ₹ 8 lakhs.
- (vi) STCG of ₹ 15 lakhs arising on transfer of a capital asset being equity shares in a company on which security transaction tax is charged.

Additional information:

- (a) Depreciation eligible u/s 32 is ₹ 36 lakhs.
- (b) During the PY 2023-24, the company transferred unlisted equity shares for a consideration of ₹ 22,00,000 which were acquired on 1.5.2023. The cost of these shares acquired is ₹ 12,00,000.
- (c) New P&M acquired on 01-07-2023 for ₹ 75 lakhs and payment of ₹ 10 lakhs made by bearer cheque and balance by way of transfer through RTGS. Depreciation on this machinery is not included in depreciation amount given at point (a).

Book profits for the PY 2023-24 is ₹ 320 lakhs.

Compute the total income and tax liability of Fun Limited for the AY 2024-25 in a most beneficial manner assuming opting out of default scheme.

Solution: Computation of total income and tax liability of Fun Ltd under regular provisions of the Act

Particulars	₹	₹	₹
Profits and gains of business or profession			
Net profit as per statement of profit and loss		1,47,50,000	
Add: Items debited but to be disallowed			
(a) Depreciation as per books of account	34,00,000		
(b) Consideration for designs & models	36,00,000		
(c) Purchased raw material at a price higher than the fair market value	14,00,000		
(d) Legal expenses for issue of bonus shares	NIL		
(e) Legal expenses for issue of right shares	8,00,000		
		92,00,000	
		2,39,50,000	
Less: Items credited but to be considered separately			
(a) STCG on equity shares	15,00,000		
(b) Cash Subsidy	15,00,000		
		30,00,000	
		2,09,50,000	
Less: Depreciation as per Income-tax Rules			
(a) Depreciation	36,00,000		
(b) Depreciation on New Plant and machinery	7,50,000		
(c) Additional depreciation on New Plant and machinery	10,00,000		
(d) Depreciation on Intangible asset, being designs & models of mixer grinder	4,50,000		
		58,00,000	
			1,51,50,000
Capital Gains			
STCG on transfer of listed equity shares		15,00,000	

STCG on transfer of unlisted equity shares [Since not held for more than 24 months] Full Value of consideration Less: Cost of Acquisition	22,00,000 12,00,000	10,00,000	
			25,00,000
Total Income			1,76,50,000

Computation of tax liability

Particulars	₹
Tax u/s 111A on Short-term capital gains on transfer of listed equity shares on which STT is paid [₹ 15 lakhs x 15%]	2,25,000
Tax on other income [₹ 1,61,50,000 x 25%]	40,37,500
Add: Surcharge @7% since total income exceeds ₹ 1 crore but does not exceed ₹ 10 crores	2,98,375
	45,60,875
Add: HEC @ 4%	1,82,435
Tax Liability	47,43,310

Computation of tax liability of Fun Limited u/s 115JB

Particulars	₹
Minimum Alternate Tax @15% on book profit of ₹ 3,20,00,000	48,00,000
Add: Surcharge@7% , since the book profit of the company > ₹ 1 cr but ≤ ₹ 10 cr	3,36,000
	51,36,000
Add: HEC @4%	2,05,440
Tax liability u/s 115JB	53,41,440

Since the regular income-tax payable is less than the MAT, book profit of ₹ 3,20,00,000 would be deemed to be the total income of Fun Limited and it has to pay tax of ₹ 53,41,440. It would be eligible for MAT credit of:

Particulars	₹
MAT Liability	53,41,440
Tax liability under regular provisions	47,43,310
MAT Credit	5,98,130

Note – Since Fun Limited set up and registered on or after 1.10.2019 and has commenced operations before 31.3.2023, and engaged in manufacturing business, it is eligible for concessional tax regime u/s 115BAB. In case Fun Limited opted for concessional tax regime u/s 115BAB, it would not be eligible to claim additional depreciation u/s 32 on plant and machinery. In that case, its total income and tax liability would be –

Particulars		₹
Total Income under Regular provisions		1,76,50,000
Add: Additional depreciation [No additional depreciation is allowable u/s 32(1)(ia)]		10,00,000
Total Income		1,86,50,000
Computation of tax Liability u/s 115BAB		
Tax u/s 115BAB on business income [₹ 1,61,50,000 x 15%]	24,22,500	
Tax u/s 111A on Short-term capital gains on transfer of listed equity shares on which STT is paid [₹15 lakhs x 15%]	2,25,000	
Tax u/s 115BAB on short term capital gains on transfer of unlisted equity shares [₹ 10 lakhs x 22%]	2,20,000	
		28,67,500
Add: Surcharge @10%		2,86,750
		31,54,250

Add: HEC @4%		1,26,170
Tax Liability		32,80,420

Suggestion to Fun Limited:

Fun Limited should opt for sec 115BAB, since the tax liability u/s 115BAB is lower than the tax liability under the regular provisions of the Act and section 115JB.

Question 7: CG

M/s Simran is a proprietorship having 2 units. He transferred on 1.4.2023 his Unit 1 by way of slump sale for a total consideration of ₹ 14 lacs. Unit 1 was started in the year 2005-06. The expenses incurred for this transfer were ₹ 38,000. His Balance Sheet as on 31.3.2023 is as under:

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

Other information:

- Revaluation reserve is created by revising upward the value of the building of Unit 1. The SDV on 1.4.2023 is Rs 10 Lakhs.
- No individual value of any asset is considered in the transfer deed.
- Patents were acquired on 1.7.2021 on which no depreciation has been charged.

Compute the capital gain for the AY. 2024-25.

Solution: Computation of Capital Gains on slump sale of Unit 1

Particulars	₹
Full Value of consideration [FMV on 1.4.2023]	14,82,500
Less: Expenses on sale	38,000
Net sale consideration	14,44,500
Less: Net worth (See Note 1 below)	11,73,125
Long-term capital gain	2,71,375

Notes: Computation of Full Value of Consideration

Particulars	₹
Fair market value of the capital assets transferred by way of slump sale	
Building, being an immovable property [stamp duty value on 1.4.2023, being the date of slump sale] [A]	10,00,000
Machinery [Book value as appearing in the books of accounts] [B]	4,00,000
Debtors [Book value as appearing in the books of accounts] [C]	2,00,000
Patents [Book value as appearing in the books of accounts] [D]	2,50,000
	18,50,000
Less: Liabilities of Unit 1 [₹ 29,50,000 - ₹ 1,20,000 - ₹ 2,62,500] [L]	25,67,500

Excluding (i) Own Capital	17,00,000		
(ii) Revaluation reserve	5,00,000	22,00,000	3,67,500
Fair market value of the capital assets transferred by way of slump sale [A+B+C+D- L] [FMV1]			14,82,500
FMV of the consideration received or accruing as a result of transfer by way of slump sale [value of the monetary consideration received] [FMV2]			14,00,000
Full value of consideration [Higher of FMV1 or FMV2]			14,82,500

Computation of Net worth of Unit 1

Particulars	₹	₹
Building (excluding ₹ 5 lakhs on account of revaluation)		8,00,000
Machinery		4,00,000
Debtors		2,00,000
Patents (See Note2 below)		1,40,625
Total assets		15,40,625
Less: Creditors (25% of ₹3,50,000)	87,500	
Bank Loan (70% of ₹4,00,000)	2,80,000	3,67,500
Net worth		11,73,125

Written down value of patents as on 1.4.2023

Value of patents:	₹
Cost as on 1.7.2021	2,50,000
Less: Depreciation @ 25% for FY 2021-22	62,500
WDV as on 1.4.2022	1,87,500
Less: Depreciation @ 25% for FY 2022-23	46,875
WDV as on 1.4.2023	1,40,625

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

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

Question 8: CG

Mrs. Harshita purchased a land at a cost of ₹ 35 lakhs in the FY 2004-05 and held the same as her capital asset till 31st May, 2021. She started her real estate business on 1st June, 2021 and converted the said land into stock-in-trade of her business on the said date, when the FMV of the land was ₹ 210 lakhs.

She constructed 15 flats of equal size, quality and dimension. Cost of construction of each flat is ₹ 10 lakhs. Construction was completed in January, 2024. She sold 10 flats at ₹ 30 lakhs per flat in January and March, 2024. The remaining 5 flats were held in stock as on 31st March, 2024.

She invested ₹ 50 lakhs in bonds issued by National Highways Authority of India on 31st March, 2024 and another ₹ 50 lakhs in bonds of Rural Electrification Corporation Ltd. in April, 2024.

Compute amount of chargeable capital gain & business income in the hands of Mrs. Harshita arising from above transactions for A.Y.2024-25 indicating clearly reasons for treatment for each item. [CII: FY 2004-05: 113; FY 2021-22: 317 FY 2023-24: 348].

Solution:

Computation of Capital Gains and Business Income of Harshita

Particulars	₹
Capital Gains	
FMV of land on the date of conversion deemed as the FVOC for the purposes of section 45(2)	2,10,00,000
Less: Indexed cost of acquisition [Rs. 35,00,000 × 317/113]	(98,18,584)
Capital Gains	1,11,81,416
Proportionate capital gains arising during [Rs.1,11,81,416 × 2/3]	74,54,277
Less: Exemption under section 54EC	(50,00,000)
Capital gains chargeable to tax	24,54,277
Business Income	
Sale price of flats [10 × Rs. 30 lakhs]	3,00,00,000
Less: Cost of flats	
Fair market value of land on the date of conversion [Rs. 210 lacs × 2/3]	(1,40,00,000)
Cost of construction of flats [10 × Rs. 10 lakhs]	<u>(1,00,00,000)</u>
Business income chargeable to tax	60,00,000

Notes:

- The conversion of capital asset into stock-in-trade is treated as transfer u/s 2(47). It would be treated as transfer in the year in which the capital asset is converted into stock-in-trade.
- However, as per section 45(2), the capital gains arising from the transfer by way of conversion of capital assets into stock-in-trade will be chargeable to tax only in the year in which the stock-in-trade is sold.
- The indexation benefit for computing ICOA would, however, be available only up to the year of conversion of capital asset into stock-in-trade and not up to the year .
- In case of conversion of capital asset into stock-in-trade and subsequent sale of stock-in-trade, the period of 6 months is to be reckoned from the date of sale of stock-in-trade for the purpose of exemption u/s 54EC [CBDT Circular No.791 dated 2.6.2000]. In this case, since the investment in bonds of NHAI has been made within 6 months of sale of flats, the same qualifies for exemption u/s 54EC. With respect to LTCG arising on land or building or both in any FY, maximum deduction u/s 54EC would be Rs. 50 lakhs, whether the investment in bonds of NHAI or RECL are made in the same FY or next FY or partly in the same FY and partly in the next FY. Therefore, even though investment of Rs. 50 lakhs has been made in bonds of NHAI during the P.Y.2024-25 and investment of Rs. 50 lakhs has been made in bonds of RECL during the P.Y.2024-25, both within the stipulated 6 month period, the maximum deduction allowable for A.Y.2024-25, in respect of LTCG arising on sale of long-term capital asset(s) during the P.Y.2023-24, is only Rs. 50 lakhs.

5. For the purpose of computing capital gains in such cases, the FMV of the capital asset on the date on which it was converted into stock-in-trade shall be deemed to be the FVOC received or accruing as a result of the transfer of the capital asset.
In this case, since only 2/3rd of the stock-in-trade (10 flats out of 15 flats) is sold in the P.Y.2023-24, only proportionate capital gains (i.e., 2/3rd) would be chargeable in the A.Y.2024-25.
6. On sale of such stock-in-trade, business income would arise. The business income chargeable to tax would be computed after deducting the FMV on the date of conversion of the capital asset into stock-in-trade and cost of construction of flats from the price at which the stock-in-trade is sold.

Question 9: AP

Mr. Sanskar is engaged in the business of retail trade and has been declaring income of ₹ 10 lakhs to ₹ 15 lakhs every year in the last 10 years. A search was conducted u/s 132 in the business premises of Sanskar on 5th December, 2023. The search was concluded by executing last of authorisation for search on 21st December, 2023. The A.O. has in his possession documents which revealed that Mr. Sanskar has incurred ₹ 5 crores in May 2017 for the marriage of his daughter. The A.O intends to issue notice u/s 148 to Sanskar for the AY relevant to the PY 2017-18. Can he do so?

Solution:

As per sec 148, the AO shall be deemed to have information which suggests that the income chargeable to tax has escaped assessment in case of an assessee where a search is initiated u/s 132 on or after 01.04.2021. Further, in case of search u/s 132, notice u/s 148 need not be accompanied by order u/s 148A. Thus, the AO can issue a notice u/s 148 for any of the relevant AY -

- (a) If 3 years have not elapsed from the end of the relevant AY,
(b) If 3 years, but not more than 10 years, have elapsed from the end of the relevant AY and the AO has in his possession books of account or other documents or evidence which reveal that the income chargeable to tax, represented in the form of
- (i) Asset: or
 - (ii) Expenditure in respect of a transaction or in relation to an event or occasion; or
 - (iii) An entry or entries in the books of account, which has escaped assessment amounts to or is likely to amount to ₹ 50 lakhs or more for that year.

Where the income chargeable to tax represented in the form of an asset or expenditure in relation to an event or occasion of the value referred to in (b) above, has escaped the assessment and the investment in such asset or expenditure in relation to such event or occasion has been made or incurred, in more than one previous years relevant to the assessment years within the period referred to in (b), a notice u/s 148 shall be issued for every such AY for assessment, reassessment or re-computation, as the case may be.

In this case, Mr. Sanskar has incurred expenditure of ₹ 5 crores in relation to marriage of his daughter. Hence, the AO can issue notice u/s 148 for A.Y. 2018-19, since it falls within the 10 year period.

Note – As per sec 153A, the AO shall assess or reassess the TI of each of the six AY immediately preceding the AY relevant to the PY in which the search was conducted u/s 132 or requisition was made u/s 132A. Moreover, where the AO has in his possession BOA or other documents or evidence which reveal that the income, represented in the form of assets,

which has escaped assessment amounts to or is likely to amount to ₹ 50 lakhs or more in the relevant AY or in aggregate in the relevant AY, notice u/s 153A can be issued for beyond 6 AYs but upto 10 AYs prior to the AY relevant to the PY in which the search or requisition is conducted. In the present case, notice u/s 153A can be issued for A.Y. 2018-19, since it falls within the 6 A.Y. immediately preceding the A.Y. 2024-25 relevant to the P.Y. 2023-24 in which search is conducted.

Question 10: Appeal

Answer the following on the basis of decided case laws, bringing out the following –

(1) Issue involved

(2) Relevant provisions of law

(3) Analysis and Conclusion

In the case of M/s Hyper Ltd., the Income-tax Appellate Tribunal decided against the assessee and issued order u/s 254. The assessee filed an appeal to the jurisdictional High Court by framing the substantial question of law u/s 260A(2)(c). The High Court, without framing the question of law u/s 260A(3) at the time of admission of appeal, issued notices, heard both the parties and decided the appeal affirming the order of the Tribunal on the questions raised by the assessee appellant. You are required to discuss whether the High Court was justified in not formulating the substantial question of law as required under section 260A(3) and adjudicating merely on the questions put forth by the appellant u/s 260A(2)(c).

Solution:

Issue Involved: The issue under consideration is whether the High Court is justified in not framing any substantial question of law itself and adjudicating merely on the questions put forth by the appellant.

Relevant provision of law: Sec 260A(1) provides that an appeal shall lie to the High Court from every order passed in appeal by the Appellate Tribunal, if the High Court is satisfied that the case involves a substantial question of law. As per sec 260A(3) and 260A(4), if the High Court is so satisfied, it shall formulate that question and the appeal shall be heard only on the question so formulated.

Analysis & Conclusion: There lies a distinction between the questions proposed by the appellant for admission of the appeal to the High Court and the questions framed by the High Court. The questions, which are proposed by the appellant, fall under section 260A(2)(c) whereas the questions framed by the High Court fall u/s 260A(3). Sec 260A(4) provides that the appeal is to be heard on merits only on the questions formulated by the High Court under section 260A(3) and not on the questions proposed by the appellant.

In case the High Court is of the view that the appeal did not involve any substantial question of law, it should have recorded a categorical finding to that effect that the questions proposed by the appellant either do not arise in the case or/and are not substantial questions of law so as to attract the rigour of sec 260A for its admission and accordingly, should have dismissed the appeal at the preliminary stage itself. However, this was not done in this case. Instead, the appeal was heard only on the questions urged by the appellant u/s 260A(2)(c).

The High Court was, therefore, not justified since it did not decide the appeal in conformity with the mandatory procedure prescribed in sec 260A.

Note – The facts given in the question are similar to the facts in CIT v. A.A. Estate Pvt. Ltd. [2019] , wherein the issue came up before the Supreme Court. The above answer is based on the rationale of the Supreme Court in the said case.

Question 11: Search

On 31.12.2023, a search u/s 132 of the Income-tax Act was conducted in the business and residential premises of Mr. Rajasekaran and some gold bars were seized from the locker. Mr. Rajasekaran voluntarily disclosed 12.50 crores of income during the course of search. Later on, he filed an application for sale of the gold bars worth 5 kgs for adjustment "towards the automatic tax liability", even before the completion of the assessment by the AO. However, AO rejected the application and observed that such action can be taken only after the assessment is completed and a demand has been quantified.

Is the AO justified in rejecting the application?

Your answer should cover

- (a) Issue involved**
- (b) Provision applicable**
- (c) Analysis**
- (d) Conclusion**

Solution:

Issue Involved: The issue involved in this case is whether Mr. Rajshekarán's application, for adjustment of tax liability on income surrendered during search by sale of seized gold bars, can be entertained where assessment has not been completed.

Provision applicable: The provision contained in sec 132B(1) lays down the manner in which the assets seized u/s 132 may be dealt with. An assessee is entitled to make an application to the AO for adjustment of seized assets towards existing tax liability.

Analysis: Here, the application by the assessee is not for adjustment of any existing liability, but "towards the automatic tax liability". In the said provision, the expression used is "the amount of the liability determined". "A liability is determined" only on completion of the assessment. Until the assessment is complete, it cannot be postulated that a liability has been crystallized.

Conclusion: Accordingly, the action of the AO rejecting the application on the ground that such action can be taken only after the assessment is completed and a demand has been quantified, is justified.

Note - The facts given in the question are similar to the facts in Hemant Kumar Sindhi & Another v. CIT (2014) 364 ITR 555 wherein the issue came up before the Allahabad High Court. The above answer is based on the rationale of the Allahabad High Court in the said case.

Question 12: Search

The business premises of Ram Bharose Ltd. and the residence of two of its directors at Delhi were searched u/s 132 by the DDI, Delhi. The search was concluded on 9.8.2023 and following were also seized besides other papers and records:

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

these transactions and Shri Krishna Ltd., Mumbai and its directors.

- ii) Jewellery worth Rs 5 lacs from the bed room of one of the director, which was claimed by him to be of his married daughter.
- iii) Papers recording certain transactions of income and expenses having direct nexus with the business of the company for the period from 16.4.2019 to date of search. It was admitted by the director that the transactions recorded in such papers have not been incorporated in the books.

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

- a) What action the DDI shall be taking in respect of the seized papers relating to Shri Krishna Ltd., Mumbai?
- b) Whether the contention raised by the director as to jewellery found from his bed-room will be acceptable?
- c) What presumption shall be drawn in respect of the papers which indicate transactions not recorded in the books?

Solution:

- (a) The authorised officer being DDI, Delhi is not having any jurisdiction over Shri Krishna Ltd., Mumbai, and therefore as per sec 132(9A), the papers seized relating to this company shall be handed over by him to the AO having jurisdiction over Shri Krishna Ltd., Mumbai within a period of 60 days from the date on which the last of the authorisations for search was executed for taking further necessary action thereon.
- (b) The contention raised by the Director will not be acceptable because of provisions of sub-sec (4A) (i) of sec 132, where any BOA, other documents, money, bullion, jewellery or other valuables are found in the possession or control of any person in the course of search, then, in respect thereof, it may be presumed that the same belongs to that person.
- (c) As per section 132(4A), the presumptions in respect of the papers, indicating transactions not recorded in the books but having direct nexus with the business of the company, are that the same belong to the company, contents of such papers are true and the handwriting in which the same are written is/are of the persons(s) whose premises have been searched.

Question 13: Total Income

XYZ Ltd. is engaged in the manufacture of textile since 01-04-2009. Its Statement of Profit & Loss shows a profit of ₹ 700 lakhs after debit/credit of the following items:

- (a) Depreciation calculated on the basis of useful life of assets as per provisions of the Companies Act, 2013 is ₹ 50 lakhs.
- (b) Employer's contribution to EPF of ₹ 2 lakhs and Employees' contribution of ₹ 2 lakhs for the month of March 2024 were remitted on 30.06.2024.
- (c) The company appended a note to its Income Statement that industrial power tariff concession of ₹ 2.5 lakhs was received from the State Government and credited the same to Statement of P & L.
- (d) The company had provided an amount of ₹ 25 lakhs being sum estimated as payable to workers based on agreement to be entered with the workers union towards periodical wage revision once in 3 years. The provision is based on a fair estimation of wages and reasonable certainty of revision once in 3 years.
- (e) The company had made a provision of 10% of its debtors towards bad and doubtful debts. Total sundry debtors of company on 31-03-2024 was ₹ 200 lakhs.

- (f) A debtor who owed the company an amount of ₹ 40 lakhs was declared insolvent and hence, was written off by debit to Statement of Profit and loss.
- (g) Sundry creditors include an amount of ₹ 50 lakhs payable to A & Co, towards supply of raw materials, which remained unpaid due to quality issues. An agreement has been made on 31-03-2024, to settle the amount at a discount of 75% of the outstanding. The amount waived is credited to Statement of P&L.
- (h) The opening and closing stock for the year were ₹ 200 lakhs and ₹ 255 lakhs, respectively. They were overvalued by 10%.
- (i) Provision for gratuity based on actuarial valuation was ₹ 500 lakhs. Actual gratuity paid debited to gratuity provision account was ₹ 300 lakhs.
- (j) Commission of ₹ 1 lakhs paid to a recovery agent for realization of a debt. Tax has been deducted and remitted as per Chapter XVIIB of the Act.
- (k) The company has purchased 500 tons of industrial paper as packing material at a price of ₹ 30,000/ton from PQR, a firm in which majority of the directors are partners.

PQR's normal selling price in the market for the same material is ₹ 28,000/ton.

Additional Information:

- (i) There was an addition to Plant & Machinery amounting to ₹ 50 lakhs on 10-06-2023, which was used for more than 180 days during the year. Additional depreciation has not been adjusted in the books.
- (ii) Normal depreciation calculated as per Income-tax Rules, 1962 is ₹ 80 lakhs.
- (iii) The company had credited a sub-contractor an amount of ₹ 10 lakhs on 31-03-2023 towards repairing a machinery component. The tax so deducted was remitted on 31-12-2023.
- (iv) The company has collected ₹ 7 lakhs as GST from its customers and paid the same on the due dates. However, on an appeal made, the High Court directed the Department to refund ₹ 3 lakhs to the company. The company, in turn, refunded ₹ 2 lakhs to the customers from whom the amount was collected and the balance of ₹ 1 lakh is still lying under the head "Current Liabilities".

Compute total income and tax liability for A.Y. 2024-25. Ignore MAT provisions and the provisions of section 115BAA.

Note - The turnover of XYZ Ltd. for the P.Y.2021-22 was ₹ 405 crore.

Solution: **Computation of Total Income of XYZ Ltd.**

Particulars	₹	₹
Profits and Gains from Business and Profession		
Profit as per Statement of profit and loss		7,00,00,000
Add: Items debited but to be considered separately or to be disallowed		
(a) Depreciation as per Companies Act, 2013	50,00,000	
(b) Employees' contribution to EPF	2,00,000	
(c) Employer's contribution to EPF	Nil	
(d) Provision for wages payable to workers	Nil	
(e) Provision for doubtful debts [10% of ₹ 200 lakhs]	20,00,000	
(f) Bad debts written off	Nil	
(i) Provision for gratuity	2,00,00,000	
(j) Commission paid to recovery agent for realization of a debt.	Nil	
(k) Purchase of paper at a price higher than the FMV	10,00,000	
AI(vi) GST not refunded to customers out of GST refund	1,00,000	2,83,00,000
		9,83,00,000
Less: Items credited but to be considered separately/		

permissible expenditure and allowances		
(k) Industrial power tariff concession received from State Government	Nil	
(g) Discount given by Sundry Creditors for supply of raw materials	Nil	
AI(ii) Depreciation as per Income-tax Act, 1961	80,00,000	
(h) Over-valuation of stock [$\text{₹ } 55 \text{ lakhs} \times 10/110$]	5,00,000	
AI(i) Additional Depreciation	10,00,000	
AI(iii) Payment to a sub-contractor where tax deducted last year was remitted after the due date of filing of return	3,00,000	98,00,000
Total Income		8,85,00,000

Computation of tax liability of XYZ Ltd.

Particulars	₹
Tax @30% on the above total income (since the turnover exceeded ₹400 crore in the P.Y. 2022-23)	2,65,50,000
Add: Surcharge @ 7% (since total income exceeds ₹1 crore but less than ₹ 10 crore)	18,58,500
Total	2,84,08,500
Add: Health and Education cess @ 4%	11,36,340
Total tax liability	2,95,44,840

Question 14: DTAA

The following are the particulars of income earned by Miss Vaishnavi, a resident Indian aged 25, for the AY 2024-25:

Particulars	(₹ In l cs)
Income from playing snooker matches in country L	12.00
Tax paid in country L	1.80
Income from playing snooker tournaments in India	19.20
Life Insurance Premium paid	1.10
Medical Insurance Premium paid for her father (resident Indian) aged 62 years (paid through credit card)	0.54

Compute her total income and net tax liability for the AY 2024-25. There is no DTAA between India and country L.

Solution:

Computation of total income and net tax liability for AY 2024-25 under the default tax regime u/s 115BAC (assuming that she pays tax under the default tax regime)

Particulars	₹	₹
Indian Income [Income from playing snooker tournaments in India]		19,20,000
Foreign Income [Income from playing snooker matches in country L]		12,00,000
Gross Total Income		31,20,000
Less: Deduction under Chapter VIA		Nil
Total Income		31,20,000
Tax on Total Income		
Income-tax		6,36,000
Add: Health and education cess @4%		25,440
Total		6,61,440
Average rate of tax in India (i.e. $\text{₹ } 6,61,440/\text{₹ } 31,20,000 \times 100$)	21.20%	
Average rate of tax in foreign country	15.00%	

(i.e. ₹ 1,80,000/ ₹12,00,000 ×100)		
Deduction u/s 91 on ₹ 12 lakh @ 15% (lower of average Indian-tax rate or average foreign tax rate)		1,80,000
Net tax liability in India (₹ 6,61,440 – ₹ 1,80,000)		4,81,440

Computation of total income and net tax liability of Miss Vaishnavi for the A.Y. under the normal provisions of the Act (assuming that she has exercised the option to shift out of default tax regime)

Particulars	₹	₹
Indian Income [Income from playing snooker tournaments in India]		19,20,000
Foreign Income [Income from playing snooker matches in country L]		12,00,000
Gross Total Income		31,20,000
Less: Deduction under Chapter VIA		Nil
Deduction under section 80C		
Life insurance premium of ₹ 1,10,000 paid during the PY deduction, is within the overall limit of ₹ 1.5 lakh. Hence, fully allowable as deduction	1,10,000	
Deduction under section 80D		
Medical insurance premium of ₹ 54,000 paid for her father aged 62 years. Since her father is a senior citizen, the deduction is allowable to a maximum of ₹ 50,000. Further, deduction is allowable where payment is made by any mode other than cash. Here payment is made by credit card hence, eligible for deduction.	50,000	1,60,000
Total Income		29,60,000
Tax on Total Income		
Income-tax		7,00,500
Add: Health and education cess @4%		28,020
Total		7,28,520
Average rate of tax in India (i.e. ₹ 7,28,520/₹ 29,60,000 × 100)	24.61%	
Average rate of tax in foreign country (i.e. ₹ 1,80,000/ ₹12,00,000 ×100)	15.00%	
Deduction u/s 91 on ₹ 12 lakh @ 15% (lower of average Indian-tax rate or average foreign tax rate)		1,80,000
Net tax liability in India (₹ 7,28,520 – ₹ 1,80,000)		5,48,520

Note: Miss Vaishnavi shall be allowed deduction u/s 91, since the following conditions are fulfilled:-

- She is a resident in India during the relevant previous year.
- The income accrues or arises to her outside India during that previous year and such income is not deemed to accrue or arise in India during the previous year.
- The income in question has been subjected to income-tax in the foreign country L in her hands and she has paid tax on such income in the foreign country L.
- There is no agreement under section 90 for the relief or avoidance of double taxation between India and country L where the income has accrued or arisen.

Question 15: Residential Status

Compute the total income in the hands of an individual, aged 55 years, being a ROR, RNOR, NR. Assuming not opted for 115BAC.

Particulars	Amt
Interest on UK Development Bonds, 50% of interest received in India	10,000
Income from a business in Chennai (50% is received in India)	20,000
STCG on sale of shares of an Indian company received in London	20,000
Dividend from British company received in London	5,000
LTCG on sale of plant at Germany, 50% of profits received in India	40,000
Income earned from business in Germany which is controlled from Delhi (₹ 40,000 is received in India)	70,000
Profits from a business in Delhi but managed entirely from London	15,000
Income from house property in London deposited in an Indian Bank at London, brought to India (Computed)	50,000
Interest on debentures in an Indian company received in London	12,000
Fees for technical services rendered in India but received in London	8,000
Profits from a business in Bombay managed from London	26,000
Pension for services rendered in India but received in London	4,000
Income from property situated in Pakistan received there (Computed)	16,000
Past foreign untaxed income brought to India during the PY	5,000
Income from agricultural land in Nepal received there and then brought to India	18,000
Income from profession in Kenya which was set up in India, received there but spent in India	5,000
Gift received on the occasion of his wedding	20,000
Interest on savings bank deposit in State Bank of India	12,000
Income from a business in Russia, controlled from Russia	20,000
Dividend from Reliance Petroleum Limited, an Indian Company	5,000
Agricultural income from a land in Rajasthan	15,000

Solution: Computation of Total Income

Particulars	ROR ₹	RNOR ₹	NR ₹
Interest on UK Development Bonds, 50% of interest received in India	10,000	5,000	5,000
Income from a business in Chennai (50% is received in India)	20,000	20,000	20,000
Short term capital gains on sale of shares of an Indian company received in London	20,000	20,000	20,000
Dividend from British company received in London	5,000	-	-
Long term capital gain on sale of plant at Germany, 50% of profits are received in India	40,000	20,000	20,000

Income earned from business in Germany which is controlled from Delhi, out of which ₹ 40,000 is received in India	70,000	70,000	40,000
Profits from a business in Delhi but managed entirely from London	15,000	15,000	15,000
Income from property in London deposited in a Bank at London, later on remitted to India	50,000	-	-
Interest on debentures in an Indian company received in London	12,000	12,000	12,000
Fees for technical services rendered in India but received in London	8,000	8,000	8,000
Profits from a business in Bombay managed from London	26,000	26,000	26,000
Pension for services rendered in India but received in London	4,000	4,000	4,000
Income from property situated in Pakistan, received there	16,000	-	-
Past foreign untaxed income brought to India during the previous year	-	-	-
Income from agricultural land in Nepal received there and then brought to India	18,000	-	-
Income from profession in Kenya which was set up in India, received there but spent in India	5,000	5,000	-
Gift received on the occasion of his wedding [not taxable]	-	-	-
Interest on savings bank deposit in State Bank of India	12,000	12,000	12,000
Income from a business in Russia, controlled from Russia	20,000	-	-
Dividend from Reliance Petroleum Limited, an Indian Company [Taxable from AY 2024-25]	5000	5000	5000
Agricultural income from a land in Rajasthan [Exempt under section 10(1)]	-	-	-
Gross Total Income	3,56,000	2,22,000	1,87,000
Less: Deduction u/s 80TTA [Interest on savings bank account subject to a maximum of ₹10,000]	10,000	10,000	10,000
Total Income	3,46,000	2,12,000	1,77,000

Question 16: IFOS

Mr. A, a dealer in shares, received the following without consideration for P.Y. 2023-24 from his friend Mr. B, -

- (1) Cash gift of ₹ 75,000 on his anniversary, 15th April, 2023.
- (2) Bullion, the FMV of which was ₹60,000, on his birthday, 19th June, 2023.
- (3) A plot of land at Faridabad on 1st July, 2023, the stamp value of which is ₹5 lakh on that date. Mr. B had purchased the land in April, 2009.

Mr. A purchased from his friend Mr. C, who is also a dealer in shares, 1000 shares of X Ltd. @ ₹400 each on 19th June, 2023, the FMV of which was ₹ 600 each on that date. Mr. A sold these shares in the course of his business on 23.06.2023.

Further, on 1.11.2023, Mr. A took possession of property (building) booked by him two years back at ₹20 lakh. The SDV of the property as on 1.11.2023 was ₹32 lakh and on the date of booking was ₹23 lakh. He had paid ₹1 lakh by account payee cheque as down payment on the date of booking. On 1.03.2024, he sold the plot of land at Faridabad for ₹ 7 lakh.

Compute the income of Mr. A chargeable under the head “IFOS & CG”.

Solution: Computation of “Income from other sources” of Mr. A

	Particulars	₹
1)	Cash gift is taxable u/s 56(2)(x), since it exceeds ₹ 50,000	75,000
2)	Since bullion is included in the definition of property, therefore, when bullion is received without consideration, the same is taxable, since the aggregate FMV exceeds ₹ 50,000	60,000
3)	Stamp value of plot of land at Faridabad, received without consideration, is taxable u/s 56(2)(x)	5,00,000
4)	Difference of ₹ 2 lakh in the value of shares of X Ltd. purchased from Mr. C, a dealer in shares, is not taxable as it represents the stock-in-trade of Mr. A. Since Mr. A is a dealer in shares and it has been mentioned that the shares were subsequently sold in the course of his business, such shares represent stock-in-trade of Mr.A	-
5)	Difference between the SDV of ₹ 23 lakh on the date of booking and the actual consideration of ₹ 20 lakh paid is taxable u/s 56(2)(x) since the difference exceeds ₹ 1,00,000 being, the higher of ₹ 50,000 and 10% of consideration	3,00,000
Income from Other Sources		9,35,000

Computation of Capital Gains of Mr. A

Particulars	₹
Sale Consideration	7,00,000
Less: Cost of acquisition [deemed to be the stamp value charged to tax u/s 56(2)(x) as per section 49(4)]	(5,00,000)
Short-term capital gains	2,00,000

Note – The resultant capital gains will be STCG since for calculating the period of holding, the period of holding of previous owner is not to be considered.

Question 17: OMTc

XYZ GmbH Germany is a foreign company engaged in manufacturing and sale of LED lights. It opened a branch in Gurugram for sale of LED lights in India. The profit mark up was cost plus 40% in respect of sales made by the branch. The XYZ GmbH, Germany also supplied the goods directly to various customers in India. The turnover of the Gurugram branch for the P.Y. 2023-24 is 155 lakhs and direct sales by XYZ GmbH to Indian customers is 80 lakhs.

The AO wants to tax the profits arising to XYZ GmbH from direct sale to customers in India though PE (i.e., branch in India) had no role to play in it. Decide the validity of the AO view in the context of OECD and UN Model tax Convention.

Solution:

Business profits of an enterprise can only be taxed by the Residence State. Source State would have the right to tax business profits of an enterprise only if a PE exists in its jurisdiction.
Taxability as per OECD Model Convention

The OECD Model Convention provides that if the enterprise of the Residence State carries on business in the Source State through a PE situated therein, then, the profits that are attributable to the PE alone may be taxed in the Source State. OECD Model does not incorporate "Force of Attraction" rule.

Accordingly, only profits from turnover of 155 lakhs, representing sale of LED lights made by the Gurugram branch would be taxable in India in the hands of XYZ GmbH, Germany.
Thus, in this case, the AO proposed action to bring to tax profit earned by XYZ GmbH, Germany from direct supply to customers in India, in which the PE had no role to play, is not valid.

Taxability as per UN Model Convention

The UN Model Convention amplifies this attribution principle by a limited Force of Attraction rule, which permits Source State taxation of the enterprise, not only in respect of the business carried on by it through a PE in the Source State, but also on business profits arising from sales in Source State of same or similar goods or merchandise as those sold through that PE.
Accordingly, profits from turnover of 235 lakhs, representing sale of LED lights made by the Gurugram branch as well as the direct sale of LED lights made by XYZ GmbH, Germany to Indian customers would be taxable in India in the hands of XYZ GmbH, Germany.
Therefore, in this case, the AO proposed action to bring to tax profit earned by XYZ GmbH, Germany from direct supply to customers in India is valid, even though the PE had no role to play.

Question 18: PGBP

Sankar Ltd, engaged in the manufacture of footwear and leather products, for the past 8 years, reported a net profit of ₹ 272 lakhs as per the statement of profit and loss for the year ended 31.03.2024. The company was subject to tax audit u/s 44AB of the Act. The net profit is arrived at after debiting or crediting the following amounts:

- (i) Depreciation charged on the basis of useful life of assets as per Companies Act is ₹ 32 lakhs.**
- (ii) A sundry creditor whose amount of ₹ 32 lakhs was outstanding since long time, has been settled for ₹ 26 lakhs on 31.03.2024 based on compromise settlement. The amount waived has been credited to the statement of profit and loss.**
- (iii) Employers' contribution to EPF of ₹ 3 lakhs for the month of March, 2024 was deposited on 29.07.2024.**
- (iv) Interest payments debited ₹ 30 lakhs (Includes interest on term loan of ₹ 25 lakhs availed on 1-4-2023 at interest rate of 12% p.a towards purchase of machinery during the year.**
- (v) Payment of ₹ 30 lakhs to A & Co., a subcontractor, for processing raw leather without deduction of tax is debited to statement of profit & loss. This amount includes ₹ 20 lakhs for purchase of chemicals and ₹ 10 lakhs towards labour charges which is separately shown in bills submitted.**

Additional Information:

- 1) The company has not made provision for an amount of ₹ 12 lakhs being a fair**

estimate of the amount as payable to workers towards periodical wage revision once in 3 years in respect of existing employees. The provision is estimated on a reasonable certainty of the revision once in 3 years.

2) The written down values of assets before allowing depreciation as per Income-tax Rules are as under:

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

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

3) During the year 2023-24, the company has employed 24 additional employees (qualified as "workman" under the Industrial Disputes Act, 1947). All these employees contribute to a recognized provident fund. 12 out of 24 employees joined on 1.6.2023 on a salary of ₹ 23,000 per month, 4 joined on 1.7.2023 on a salary of ₹ 26,000 per month, and 8 joined on 1.11.2023 on a salary of ₹ 20,000 per month. The salaries of 2 employees who joined on 1.6.2023 are being settled by bearer cheques every month.

4) Employees contribution to EPF of ₹ 3 lakhs recovered from their salaries for the month of March 2024 and shown in the Balance Sheet under the head Sundry Creditors was remitted on 31st May, 2024.

Compute the total income and tax payable of Sankar Ltd. for the AY 2024-25. The turnover of the company for the year ended 31.3.2022 was 52 crores. Ignore the provisions of MAT.

Solution: Computation of Total Income of Sankar Ltd.

Particulars	₹	₹
Net profit as per the statement of profit and loss		2,72,00,000
Add: Items debited but to be considered separately or to be disallowed		
i) Depreciation charged as per Companies Act, 2013	32,00,000	
iii) Employer's Contribution to EPF	Nil	
iv) Interest on term loan for purchase of plant and Machinery [25 lakhs x 12% x 7/12]	1,75,000	
v) Payment of labour charges to A & Co. a Sub- contractor, without deduction of tax [30% of ₹ 10 Lakh]	3,00,000	36,75,000
		3,08,75,000
Add: Amount taxable but not credited to profit and loss account		
AI(4) Sale of leather bag at a price lower than the FMV [₹ 300 x 5,000]	15,00,000	
AI(5) Employee's contribution to EPF	3,00,000	
	18,00,000	3,26,75,000
Less: Items credited to statement of profit and loss, but not includible in business income / permissible expenditure and allowances		
ii) Waiver of sundry creditor's outstanding amount	Nil	
AI (1) Provision for wages payable to workers	12,00,000	12,00,000
		3,14,75,000
Less: Depreciation as per Income-tax Rules, 1962		
A(2) Depreciation u/s 32		
Depreciation on factory building [10% of ₹ 180 lakh]	18,00,000	

Depreciation on plant and machinery - Depreciation@7.5% on ₹ 31.75 lakhs [₹ 30 lakh, being machinery cost + ₹ 1.75 lakh, being interest from 1.4.2023 to 31.10.2023] since machinery is put to use for less than 180 days]. - Depreciation@15% on ₹ 140 lakh [₹ 170 lakh –₹ 30 lakh] - Depreciation on computers [40% of ₹ 15 lakh]	2,38,125 21,00,000 6,00,000	
	47,38,125	
Add: Additional depreciation @10% on ₹ 31.75 lakh, since machinery is put to use for less than 180 days	3,17,500	
		50,55,625
Gross Total Income		2,64,19,375
Less: Deduction under chapter VI-A		
Under section 80JJAA[See Working note below]		9,30,000
Total Income		2,54,89,375
Total Income (Rounded off)		2,54,89,380

Computation of Tax liability by Sankar Ltd.

Particulars	₹
Tax payable on ₹ 2,54,89,380 @ 25%, since the turnover of the company for the P.Y. 2022-23 does not exceed ₹ 250 crores	63,72,345
Add: Surcharge @ 7% (since the total income of the company exceeds 1 crore but does not exceed 10 crore)	4,46,064
	68,18,409
Add: Health and education cess @ 4%	2,72,736
Tax Liability	70,91,145
Tax liability (Rounded off)	70,91,150

Working Note:

Computation of deduction u/s 80JJAA

Sankar Ltd. is eligible for deduction u/s 80JJAA since the company is subject to tax audit u/s 44AB for A.Y.2023-24 and has employed “additional employees” during the P.Y.2023-24.

Number of additional employees

Particulars	₹
Total number of employees employed during the year	24
Less: Employees employed on 1.7.2023, since their total monthly emoluments exceed 25,000	4
Employees employed on 1.6.2023 whose emoluments are paid by bearer cheque	2
Number of additional employees [10 employees employed on 1.6.2023 and 8 employed on 1.11.2023]	18
Additional employee cost [23 lakh, being 23,000 × 10 × 10 + 8 lakh, being 20,000 × 5 × 8]	31,00,000
Deduction under section 80JJAA [30% of 31 Lakh]	9,30,000

Question 19: NR

Cherry Ltd., a non-resident German company, has the following incomes in India during the year ended on 31.03.2024:

- (i) Dividend income of Rs.12,50,000 from XY Ltd., an Indian company listed on recognized stock exchange.
- (ii) 8% debentures of Rs.20,00,000 received from X Ltd., an Indian Company, on

1.10.2023, in consideration of providing technical knowhow (date of payment of interest being March 31 every year).

- (iii) Dividend received Rs.5,50,000 on Global Depository Receipts of Y Ltd., an Indian company, issued under a scheme of CG against the initial issue of shares of the company and purchased by Cherry Ltd. in foreign currency through an approved intermediary.
- (iv) Business Income of Rs. 8,00,000 from a unit established at Mumbai.
- (v) Income by way of royalty (other than referred to in sec 44DA) amounting to Rs. 10,00,000, received from Z Ltd., an Indian company, in pursuance of an agreement approved by CG. As per DTTA between the two countries, such royalty is taxable @12%.

With brief reasons for the treatment of the above incomes, you are required to compute the tax liability of Cherry Ltd. for the AY .

Solution

Particulars	Rs
Business Income from a unit established at Mumbai	8,00,000
Income from other sources	
1. Dividend income from XY Ltd. an Indian company	12,50,000
2. Fees for technical services [would be equivalent to the amount of debentures of Rs. 20,00,000 received from an Indian company, issued in consideration of providing technical knowhow	20,00,000
3. Interest on Debentures [Rs. 20,00,000 x 8% x 6/12]	80,000
4. Dividend on Global Depository Receipts (GDRs) of Y Ltd. an Indian company, issued under a scheme of CG against the initial issue of Y Ltd. and purchased in foreign currency by Cherry Ltd. [Rs. 5,50,000 x 100/89.6, since tax would have been deducted at source @ 10.4%]	6,13,839
5. Royalty income received from Z Ltd. an Indian company in pursuance of an agreement approved by Central Government [Rs.10,00,000 x 100/89.6, since tax would have been deducted at source @ 10.4%]	11,16,071
Total Income	58,59,910
Computation of Tax Liability	
Dividend Rs 12,50,000, taxable @20% u/s 115A	250000
Dividend on GDRs of Rs. 6,13,839, taxable @10% u/s 115AC	61384
Royalty income of Rs.11,16,071, taxable @10% u/s 115A, since it is in pursuance of an agreement approved by the Central Government	1,11,607
FTS of Rs.20,00,000, taxable @ 10%,	2,00,000
Interest on debentures of Rs.80,000, taxable @40%, since debt is incurred in Indian currency, it is not eligible for concessional rate of 20% u/s 115A	32000
Business income of Rs.8,00,000 [taxable @40%]	3,20,000
Total	9,74,991
Add: HEC @ 4%	39,000
Total (After Round off)	10,13,990

Question 20: MAT/AMT

M/s Fit & Fair, a partnership firm, commenced operations of the business of a new three- star hotel in Pune, Maharashtra on 1.4.2023. The firm consisting of 2 working partners, with equal shares, reports a net profit of 26,00,000 after deduction of the following items:

- (i) Depreciation as per books of accounts 15,80,000.

- (ii) Interest on capital @ 15% p.a (as per the deed of partnership). The amount of interest is 50,00,000.
- (iii) Interest on loan includes an amount of 6,00,000 paid to Mr. Rajveer, a resident, on which tax was not deducted.

The firm purchased a new motor car for the above business for 7 lakh on 10th March, 2023 and capitalized the same in its books of account as on 1st April, 2023. Further, in April, 2023, it incurred capital expenditure of 2 cr (out of which 1.50 cr was for acquisition of land and 50 lakhs on building) exclusively for the above business. The firm also installed and put to use new centralised air conditioners on 15.5.2020 costing 3,20,000.

The capital expenditure incurred by the firm were paid by account payee cheque or use of ECS through bank account.

The firm also has another existing business of running a 4 star hotel in Mumbai, which commenced operations 15 years back, the profits from which are 41,38,000 computed as per Income-tax Act for the A.Y.2024-25.

Compute total income and tax payable by the firm for the A.Y.2024-25, assuming that the firm has fulfilled all the conditions specified for claim of deduction u/s 35AD and opted for claiming deduction u/s 35AD; and has not claimed any deduction under Chapter VI-A under the heading "C. – Deductions in respect of certain incomes".

Solution: Computation of total income and tax payable of M/s Fit &

Particulars	₹	₹ in lacs
Profits from the specified business of new hotel in Pune		26,00,000
Add: Items debited but to be considered separately or to be disallowed		
Depreciation	15,80,000	
Interest on capital to partners@15% p.a. (Interest allowable to the extent of 12% p.a., since the same is authorized by the partnership deed. Thus, interest of 10,00,000, being in excess of 12% p.a. i.e., 50,00,000 x 3%/15% would be disallowed)	10,00,000	
30% disallowance of interest on loan on which tax is not deducted [30% of 6,00,000]	1,80,000	27,60,000
Balance		53,60,000
Less: Permissible expenditures and allowances		
100% of capital expenditure allowable as deduction u/s 35AD in respect of –		
- Building (expenditure on land not eligible for deduction)	50,00,000	
- New Motor Car (capital expenditure for purchase of car prior to 1.4.2023 (i.e., prior to commencement of business) and capitalized in the books of account as on 1.4.2023	7,00,000	
- New Air conditioner	3,20,000	
Balance		60,20,000
Loss from the specified business of new hotel in Pune		(6,60,000)
Profit from the existing business of running a hotel in Mumbai	41,38,000	
Less: Loss from the specified business of new hotel in Pune	6,60,000	
Net profit from business after set-off of loss of specified business against profits of another specified business under section 73A		34,78,000

Total Income		34,78,000
Income-tax @30% on total income of Rs. 34,78,000		10,43,400
Add: Health & education cess @4%		41,736
Tax liability		10,85,136
Tax liability (rounded off)		10,85,140

Computation of Alternate Minimum Tax liability of M/s Fit & Fair

Particulars	₹	₹
Total income (computed above)		34,78,000
Add: Deduction u/s 35AD		60,20,000
		94,98,000
Less: Depreciation in respect of –		
Building @10% of 50,00,000	5,00,000	
New Motor Car (capital expenditure for purchase of car prior to 1.4.2023 (i.e., prior to commencement of business) and capitalized in the books of account as on 1.4.2023 @15% of 7,00,000	1,05,000	
New Air conditioner @15% of 3,20,000	48,000	6,53,000
Adjusted total income		88,45,000
Alternate Minimum Tax@18.5%		16,36,325
Add: Health & education cess@4%		65,453
Tax liability u/s 115JC		17,01,778
Tax liability u/s 115JC (Rounded off)		17,01,780
Since the regular income-tax payable is less than the AMT payable, the ATI shall be deemed to be the total income and tax is leviable @18.5% thereof plus HEC @ 4%. Therefore, the tax liability is 17,01,780		
AMT Credit to be carried forward u/s 115JD		
Tax liability u/ s 115JC		17,01,780
Less: Tax liability under the regular provisions of the Income-tax Act, 1961		10,85,140
AMT Credit to be carried forward		6,16,640

Question 21: Deduction

Compute the eligible deduction under Chapter VI-A for the AY 2024- 25 of Ms. Roma, who has a GTI of ₹ 15,00,000 for the AY 2024-25 and provides the following information about her investments/ payments during the year 23-24 assuming she has opted out of default scheme:

Sr. No	Particulars	Amount (₹)
1.	Life Insurance premium paid (Policy taken on 31.03.2013 and sum assured is ₹ 4,40,000)	35,000
2.	Public Provident Fund contribution	1,50,000
3.	Repayment of housing loan to Bhartiya Mahila Bank,	20,000
4.	Payment to LIC Pension Fund	1,40,000
5.	Mediclaim Policy taken for self, wife and dependent children, premium paid by cheque	30,000
6.	Medical Insurance premium paid by cheque for parents	52,000

(Senior Citizen)

Solution: Computation of Eligible Deduction of Ms. Roma for AY 2024-25

Particulars	₹	₹
Deduction under section 80C		
Life insurance premium paid ₹ 35,000 (allowed in full since the same is within the limit of 20% of the sum assured, the policy being taken before 1.4.2013)	35,000	
Public Provident Fund	1,50,000	
Repayment of housing loan to Bhartiya Mahila Bank, Bangalore	20,000	
Total	2,05,000	
Restricted to a maximum of ₹ 1,50,000	1,50,000	
Deduction u/s 80CCC for payment towards LIC pension fund	1,40,000	
As per sec 80CCE, aggregate deduction under, inter alia, sec 80C and 80CCC, is restricted to	2,90,000	1,50,000
Deduction under section 80D		
Payment of medical insurance premium of ₹ 30,000 towards medical policy taken for self, wife and dependent children restricted to	25,000	
Medical insurance premium paid ₹ 52,000 for parents, being senior citizen, restricted to	50,000	75,000
Eligible deduction under Chapter VI-A		2,25,000

Question 22: Total Income

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

1. Depreciation debited to books ₹ 8,47,000.
2. Gross revenue includes ₹5,00,000 in respect of a service contract for maintenance of the office building for Nitup Ltd. for the period from 1st March, 2024 to 30th April, 2024. The expenses incurred on the project till 31-3-2024 amounts to ₹1,27,000 which is included in other expenses.
3. The amount of employee benefits include a sum of ₹4,41,000 in respect of bonus payable to employees. In the PY 2023-24, the company and its employee's union had a dispute over payment of bonus. In order to avoid late payment of bonus, the company formed a trust and transferred the amount of bonus payable to employees to the said trust. The dispute was settled in the month of Oct, 2024 and the trust paid the amount of bonus to the employees on 30th December, 2024;
4. Capital gains on sale of shares in Yara Ltd. ₹3,77,500.
5. In respect of one of its on-going projects, the assessee had made some structural changes contrary to what was earlier approved by the municipal authorities. Assessee hence paid a sum of ₹98,000 as regularization fee in respect of such

changes made in the construction plan.

6. Other expenses include ₹1,45,000 as expenditure incurred on CSR.
7. During the PY 2023-24, the assessee company decided to expand its business and open a retail petrol out let. Accordingly, a sum of ₹1,75,000 was deposited with the concerned authority. However, the assessee could not start this operation and the deposit with the authority was forfeited. Amount paid for advertisement in political parties' brochure ₹48,000.
8. During the PY 2023-24, the assessee entered into an agreement with Bat Ltd. As per the agreement, Bat Ltd. has agreed to not to engage in the business of real estate trading. The assessee paid ₹11 lakhs without deduction of tax at source on 1-6-2023 as non-compete fee.

Additional Information:

- (i) Depreciation as per IT Act, 1961 ₹5,14,000. This includes an amount of ₹78,000 in respect of fire fighting equipment's installed in various business premises/offices of the assessee. During the year, as there was no incidence of fire, these equipment's were not used.
- (ii) On 26th October, out of 5 unsold office spaces in a mall, the assessee converted one such space into its own office. The FMV of that space as on that date was ₹15,00,000. The cost incurred originally to construct such space was ₹10,00,000.
- (iii) In respect of ongoing construction contracts, there was a claim for escalation of prices, to the tune of ₹ 8,50,000. The company had filed a lawsuit in the year 2022. In the PY 2023-24, the court gave its judgement in favour of the company. The company has received ₹2,00,000 till 31-03-2024. Gross receipt in the profit and loss account includes ₹2,00,000 in respect of such claims.
- (iv) The assessee held 250 shares in Yara Ltd. On 1-4-2020, Y Ltd. allotted bonus shares in the ratio of 1:1. The company sold all the shares in Yara Ltd. on 24th September 2023 for ₹2,050 per share. The company had acquired the original shares for ₹ 540 on 23-06-2019. The fair market value of the shares as at 31st January 2019 was ₹1,980 per share.

You are required to compute the total income chargeable to tax in the hands of Anamika Builders and Constructions Ltd., for the AY giving a brief explanation to each item of additions or deletions. Ignore provisions of MAT.

Solution:

Particulars	₹	₹
PGBP		
Net profit		54,80,000
Add: Items Debited to P&L to be considered separately		
Depreciation	8,47,000	
Expenses on service contract as sec 43CB if duration of service is not more than 90 days, then revenue shall be recognised on completion method	1,27,000	
Bonus transferred to the trust for making payment to the employees after settlement of the	4,41,000	
Regularization fee paid to Municipal Authorities it does not qualify for deduction u/s 37.	98,000	
Expenditure incurred on CSR u/s 37[1]	1,45,000	
Abortive expenditure on expansion of new business which failed to start is capital expenditure & hence disallowed	1,75,000	
Amount paid for advertisement in political parties brochure [Section 37(2B)]	48,000	
Depreciation @25% on non-compete fees treating it as Intangible	8,25,000	

since ₹ 11L is debited to P&L, depreciation of 275000 is allowed. Hence 11L- 275000 is added back		
Business Profits arising on conversion of SIT into capital assets sec 28 FMV has been taken assuming that Rs.10L would be in the opening stock	15,00,000	
Claim for escalation of price is settled in favour of company is taxable as per ICDS since there is reasonable certainty after courts judgement. Out of 850000 only 2L has been recognised	6,50,000	48,56,000
Total		1,03,36,000
Less: Items not taxable in PGBP or considered separately		
Revenue from service contract to be recognised on project completion method as per sec 43CB	5,00,000	
Capital gains on sale of shares of YARA ltd to be considered separately	3,77,500	
Depreciations as per Income tax act On fire fighting equipment even if not in use	5,14,000	13,91,500
PGBP		89,44,500
Capital Gains		
CG are LT since period of holding is more than 12 M Sale price of 500 shares Less: COA as per sec 55	10,25,000 [9,90,000]	
LT CG		35,000
Gross Total Income		89,79,500
Less: Deduction u/s 80GGB [donation to political party]		48000
Total income		89,31,500

Question 23: TDS & TCS

Mr. Gupta, a resident Indian, is in retail business and his turnover for F.Y.2022-23 was ₹ 12 crores. He regularly purchases goods from another resident, Mr. Agarwal, a wholesaler, and the aggregate payments during the F.Y.2023-24 was ₹ 95 lakh (₹ 20 lakh on 1.6.2023, ₹ 25 lakh on 12.8.2023, ₹ 22 lakh on 23.11.2023 and ₹ 28 lakh on 25.3.2024). Assume that the said amounts were credited to Mr. Agarwal's account in the books of Mr. Gupta on the same date. Mr. Agarwal's turnover for F.Y.2022-23 was ₹ 15 crores.

- Based on the above facts, examine the TDS/TCS implications, if any, under the Income-tax Act, 1961.
- Would your answer be different if Mr. Gupta's turnover for F.Y.2022-23 was ₹ 8 crores, all other facts remaining the same?
- Would your answer to (i) and (ii) change, if PAN has not been furnished by the buyer or seller, as required?

Solution:

- Since Mr. Gupta's turnover for F.Y.2022-23 exceeds ₹ 10 crores, and payments made by him to Mr. Agarwal, a resident seller exceed ₹ 50 lakhs in the P.Y.2023-24, he is liable to deduct tax @ 0.1% of ₹ 45 lakhs (being the sum exceeding ₹ 50 lakhs) in the following manner –

No tax is to be deducted u/s 194Q on the payments made on 1.6.2023 and 12.8.2023, since the aggregate payments till that date i.e., 45 lakhs, has not exceeded the threshold of ₹ 50 lakhs.

Tax of ₹ 1,700 [i.e., 0.1% of ₹ 17 lakhs (₹ 22 lakh – ₹ 5 lakhs, being the balance unexhausted threshold limit)] has to be deducted u/s 194Q from the payment/ credit of ₹ 22 lakh on 23.11.2023.

Tax of ₹ 2,800 (i.e., 0.1% of ₹ 28 lakhs) has to be deducted u/s 194Q from the payment/ credit of ₹ 28 lakhs on 25.3.2024.

Note – In this case, since both sec 194Q and 206C(1H) applies, tax has to be deducted u/s 194Q

(ii) If Mr. Gupta's turnover for the F.Y.2022-23 was only ₹ 8 crores, TDS provisions under section 194Q would not be attracted. However, TCS provisions under section 206C(1H) would be attracted in the hands of Mr. Agarwal, since his turnover exceeds ₹ 10 crores in the F.Y.2022-23 and his receipts from Mr. Gupta exceed ₹ 50 lakhs.

No tax is to be collected u/s 206C(1H) on 1.6.2023 and 12.8.2023, since the aggregate receipts till that date i.e., ₹ 45 lakhs, has not exceeded the threshold of ₹ 50 lakhs.

Tax of ₹ 1,700 [i.e., 0.1% of ₹ 17 lakh (₹ 22 lakh – ₹ 5 lakhs, being the balance unexhausted threshold limits)] has to be collected u/s 206C(1H) on 23.11.2023.

Tax of ₹ 2,800 (i.e., 0.1% of ₹ 28 lakhs) has to be collected u/s 206C(1H) on 25.3.2024.

(iii) In case (i), if PAN is not furnished by Mr. Agarwal to Mr. Gupta, then, Mr. Gupta has to deduct tax @5%, instead of 0.1%. Accordingly, tax of ₹ 85,000 (i.e., 5% of ₹ 17 lakhs) and ₹ 1,40,000 (5% of ₹ 28 lakhs) has to be deducted by Mr. Gupta u/s 194Q on 23.11.2023 and 25.3.2024, respectively.

In case (ii), if PAN is not furnished by Mr. Gupta to Mr. Agarwal, then, Mr. Agarwal has to collect tax@1% instead of 0.1%. Accordingly, tax of ₹ 17,000 (i.e., 1% of ₹ 17 lakhs) & ₹ 28,000 (1% of ₹ 28 lakhs) has to be collected by Mr. Agarwal u/s 206C(1H) on 23.11.2023 and 25.3.2024, respectively.

Question 24: Penalty

MCM is a firm, liable to tax at the rate of 30% and has filed its return of income. The following information are provided to you:

	Particulars	₹
(i)	Returned Total income	1,00,00,000
(ii)	Total income determined u/s 143(1)(a)	1,20,00,000
(iii)	Total income assessed u/s 143(3)	1,60,00,000
(iv)	Total income reassessed u/s 147	1,90,00,000

Considering that none of the additions or disallowances made in the assessment or reassessment as above qualifies u/s 270A (6), compute the amount of penalty to be levied u/s 270A of the IT Act, 1961 at the time of assessment u/s 143(3) and at the time of reassessment u/s 147. (Assume underreporting of income is not on account of misreporting.

Solution:

MCM, a firm, is deemed to have under-reported its income since:

(1) Its income assessed under 143(3) exceeds its income determined in a return processed u/s 143(1)(a); and

(2) The income reassessed under section 147 exceeds the income assessed u/s 143(3).

Therefore, penalty is leviable under section 270A for under-reporting of income.

Computation of Penalty leviable under section 270A

Particulars	₹	₹
Assessment under section 143(3) Under-reported income:		
Total income assessed under section 143(3)	1,60,00,000	
Less: Total income determined u/s 143(l)(a)	1,20,00,000	
Total	40,00,000	
Tax payable on under-reported income:		
Tax on under-reported income of ₹40 lakhs plus on total income of ₹120 lakhs determined u/s 143(l)(a) [30% of ₹ 160 lakh + Surcharge @12% + HEC @ 4%]	55,91,040	
Less: Tax on total income determined u/s 143(l)(a) [30% of ₹120 lakhs + Surcharge @12% + HEC @ 4%]	41,93,280	
Total	13,97,760	
Penalty leviable @ 50% of tax payable		6,98,880
Reassessment under section 147 Under-reported income:		
Total income reassessed under section 147	1,90,00,000	
Less: Total income assessed under section 143(3)	1,60,00,000	
Total	30,00,000	
Tax payable on under-reported income:		
Tax on under-reported income of ₹30 lakhs plus on total income of ₹160 lakhs assessed u/s 143(3) [30% of ₹190 lakhs + Surcharge @12% + HEC @ 4%]	66,39,360	
Less: Tax on total income assessed u/s 143(3) [30% of ₹ 160 lakhs + surcharge @12% + HEC @ 4%]	55,91,040	
Total	10,48,320	
Penalty leviable @ 50% of tax payable		5,24,160

Question 25: Business Trust

A Real Estate Investment Trust received income of ₹120 lakhs from Special Purpose Vehicle Company. The Break-up of the income so received is as follows:
(i) Interest ₹ 90 lakhs (ii) Dividend ₹30 lakhs
The REIT distributes ₹ 90 lakhs to its unit-holders on 30.04.2023, 40% of the unit holders are non-residents. Examine the tax implications of the above transactions in the hands of REIT and the unit holders including the requirement to deduct tax at source.

Solution:

- Interest and dividend received by a business trust from Special Purpose Vehicle (SPV) is exempt in the hands of business trust u/s 10(23FC).
- Any distributed income to the extent it comprises of interest from SPV is taxable in hands of unit holder and business trust has to deduct TDS @ 10% if paid to residents and 5% if paid to Non-Residents.
- If SPV has not opted for sec 115BAA, the dividend from SPV is exempt in hands of business trust as well as unit holder and there is no question of TDS.

4. If SPV has opted for sec 115BAA, dividend from SPV is exempt in hands of business trust but taxable in the hands of unit holders. Business trust will deduct TDS @ 10% on such dividend portion.

Tax implications in the hands of REIT and unit holders

(1) Interest Income from SPV: There would be no tax liability in the hands of REIT due to pass-through status enjoyed by it under section 10(23FC) in respect of interest income from the special purpose vehicle. Therefore, the SPV is not required to deduct tax at source on interest payment to the REIT.

However, the REIT has to deduct tax at source under section 194LBA:

@ 10%, on interest component of income distributed to resident unit holders [i.e., ₹4.05 lakhs, being 10% of ₹40.50 lakhs (60% x ₹90 lakhs x 90/120)]; and @5%, on interest component of income distributed to non-resident unit holders and foreign companies [i.e., ₹1.35 lakhs, being 5% of ₹27 lakhs (40% x ₹90 lakhs x 90/120)].

Interest component of income distributed to unit holders is taxable in the hands of the unit holders: @ 5%, in case of unit holders, being non-residents or foreign companies as per section 115A; and @ normal rates of tax in case of resident unit holders.

Note: The interest component of income received from the REIT in the hands of each unit-holder would be determined in the proportion of 90/120 as per section 115UA (1).

(2) Dividend income from SPV: There would be no tax liability in the hands of the REIT since dividend is exempt under section 10(23FC) in the hands of the REIT. SPV shall not deduct TDS on dividend distributed to business trust.

In hands Unitholders:

i) If SPV has not opted for Sec 115BAA, then dividend portion received by unit holder is exempt in his hands. There is no question of TDS.

ii) If SPV has opted for Sec 115BAA, then dividend portion received by unit holder is taxable in their hands as under:

Residents unitholders

90 lakhs X 60% X 30/120 = ₹13,50,000

REIT will deduct TDS @ 10% i.e., ₹1,35,000

Non-resident unitholders

90 lakhs X 40% X 30/120 = ₹9,00,000

REIT will deduct TDS @ 10% i.e., ₹90,000