

# **ADDITIONAL QUESTIONS**

This file includes important questions for practice (to be done in addition to the questions given in practice manual).

## PGBP & TOTAL INCOME

### **QUESTION 1: VERY IMPORTANT:**

Statement of Profit and Loss of SJ Industries Ltd., engaged in production and marketing of leather products, shows a net profit of ₹ 72,00,000 for the financial year ended 31<sup>st</sup> March, 2026 after debit/credit of the following items:

- (i) Depn. as per the Companies Act, 2013: ₹ 24,00,000
- (ii) Interest and borrowing costs amounting to ₹ 9,50,000 and ₹ 7,00,000 though not meeting the criteria for recognition as a component of cost, included in cost of opening and closing inventory, respectively.
- (iii) Expenditure of ₹ 41,000 paid in cash comprising of ₹ 22,000 directly paid to producer of dairy farming products and ₹ 19,000 paid towards printing and stationery items to a trader.
- (iv) ₹ 35,000 towards expenditure for earning income from transfer of carbon credits.
- (v) Foreign travel expenditure of ₹ 12,00,000 regarding three directors for a collaboration agreement with a foreign company for setting up a new plant in London for manufacturing of plastic products. The negotiation could not succeed and project was abandoned.
- (vi) Security deposit of ₹ 6,50,000 was paid to MNO Ltd. on 01.05.2025 for hiring a building on rent for business purpose. Due to unforeseen circumstances, assessee vacated the building which resulted in a dispute. To end the dispute, assessee agreed to forgo the security deposit and claimed the amount as deduction.
- (vii) It contributed ₹ 5,00,000 to the State Housing Board towards construction of tenements for the company's workers which constituted 25% of the cost of construction and the assessee could use these for 15 years. Ownership of such tenements remains with the State Housing Board.
- (viii) Lumpsum consideration of ₹ 16 lakhs paid to a foreign company for obtaining designs & models on 12-12-2025.
- (ix) Bank guarantee was given by the company towards disputed GST liabilities of ₹ 11 lakhs.

- (x) Upfront discounted interest paid during the year to the debenture holders ₹ 5 lakhs. Debentures were issued for a period of 5 years. Apart from half yearly periodical interest, debenture holders were paid onetime upfront discounted interest payment. One fifth of the interest paid has been debited to the statement of profit and loss.
- (xi) Company debited an interest of ₹ 7.50 lakhs which the company remitted as interest to a company incorporated in USA on a loan taken 3 years ago. Tax under section 195 from such interest has been deducted in March 2026, but deposited by the company on 14th July, 2026.
- (xii) The company had provided ₹ 18 lakhs, being sum fairly estimated as payable with reasonable certainty, to workers on agreement to be entered with the workers union towards periodical wage revision once in every three years.
- (xiii) Legal expenses incurred for issue of bonus shares at ₹ 6 lakhs and legal expenses for issue of right shares at ₹ 8 lakhs.
- (xiv) The company borrowed ₹ 75.75 lakhs from Andhra Pradesh State Financial Corporation (APSFC). The company had accrued interest of ₹ 11,56,900 on these loans but did not make payments. However, while restructuring the loan facility, the company converted the outstanding interest into equity shares on 05<sup>th</sup> March 2026.
- (xv) The company sold auto components worth ₹ 18,50,000 to M/s Zenith Tech Solutions, a sole proprietorship, on 15.12.2022. On 20.01.2024, ₹ 11,00,000 was written off in the books as a bad debt. The sole proprietor passed away on 05.02.2026, and the company later recovered ₹ 9,80,000 in full and final settlement on 28.02.2026. The entire recovered amount was credited to the Statement of Profit and Loss.
- (xvi) Unrealised rent of ₹ 3,80,000 pertaining to financial year 2020-21 & 2021-22 recovered during the year in respect of a commercial property owned by the company, which was sold by the company on 23.03.2025.

- (xvii) Profit of ₹ 3,00,000 from hedging contract entered into for meeting out loss in foreign currency payments towards an imported machinery valued at ₹ 95 lakhs, installed on 15<sup>th</sup> December, 2025 and put to use from that date.
- (xviii) Closing Stock including 1200 pieces of imported machinery spares at its landed cost as on the date of import at US\$ 25 per piece. Exchange rate on the date of import i.e. 15.01.2026 was 1 US\$ = ₹ 80 (rounded off). Exchange rate on 31.3.2026 was 1 US\$ = ₹ 82. The market value per pieces as on 31.3.2026 was US\$ 27 per piece.

**Additional Information:**

- (1) Depreciation as per Income-tax Rules: ₹ 28,00,000 exclusive of depreciation on assets referred to in items debited/credited.
- (2) Expenditure pertaining to previous financial year allowed on due basis, but paid in current financial year in cash on 18.01.2026: ₹ 35,000
- (3) Audit fee for the previous year 2024-25: ₹ 75,000. TDS deducted but not paid in the relevant previous year. However, TDS was paid on 31.12.2025.
- (4) Income from transfer of Carbon Credits amounting to ₹ 4,00,000 included in Net Profit (before tax).

Compute the **total income** of SJ Industries Ltd. for assessment year 2026- 27 as per the **normal provisions** of the Income-tax Act, 1961. Give **brief reasons for the treatment** given to each of the items considered in computation of income of the company. Company does not want to opt for section 115BAA.

**ANSWER:****STATEMENT OF TOTAL INCOME**

Particulars		Amt.
* Income from Salaries		Nil
* <u>Income from House Property:</u>		
Unrealized rent recovered		2,66,000
[3,80,000 – 30%]		
* Income from Business <b>[Note 1]</b>		84,06,500
* Capital Gains		Nil
* Income from Other Sources		Nil
<b>GROSS TOTAL INCOME</b>		<b>86,72,500</b>
<b>Less: Dedn under Chapter VI A</b>		<b>Nil</b>
<b>NET TAXABLE INCOME</b>		<b>86,72,500</b>

**Note 1:****STATEMENT OF INCOME FROM BUSINESS**

Particulars	₹	₹
Net Profit as per Profit & Loss A/c		72,00,000
<b>Add: DISALLOWED EXPENSES:</b>		
Depn as per books	24,00,000	
Interest included in opening stock	9,50,000	
Cash payment exceeding ₹10,000 for printing and stationery	19,000	
[cash payment to producers of dairy products is allowed as per Rule 6DD]		
Expenses on transfer of carbon credit	35,000	
Foreign travel exp in relation to starting of a new project which is abandoned – disallowed as the new project is not related to the business of assessee	12,00,000	
[any such expense is allowed if the abandoned project is related to the business]		

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Security deposit forgone on vacating rented premises – disallowed as it is a loss of capital nature	6,50,000	
Contribution to state housing board for construction of tenements for workers [allowed as revenue exp as the ownership is with the Hsg Board]	—	
Purchase of designs and models [intangible assets – capital exp.]	16,00,000	
Bank guarantee for GST liabilities [disallowed u/s 43B is GST unpaid]	11,00,000	
Interest paid to foreign co. – allowed as TDS is deposited before the due date of filing return	—	
Provision for periodical wage revision [allowed as per ICDS X as there is reasonable certainty]	—	
Expense on bonus issue [revenue]	—	
Expense on rights issue [capital]	8,00,000	
Interest due to SFC paid by issue of equity shares [allowed as per the judgment of Telangana High Court in Frontier Information Tech Ltd.]	—	+ 87,54,000
		1,59,54,000
<b>Less: NON-BUSINESS INCOMES:</b>		
Bad debts recovered	—	
Good debts recovered	7,50,000	
Interest included in closing stock	7,00,000	
Unrealized rent recovered	3,80,000	
Profit from hedging contract	3,00,000	- 21,30,000
		1,38,24,000

<b>Less: UNRECORDED BUS.. EXPS:</b>		
Upfront discounted interest [5L x 4/5]	4,00,000	
Depn as per income tax	28,00,000	
Depn on designs and models [16L x 25% x ½]	2,00,000	
Depn on imported machinery & spares:		
Normal - (95L – 3L + 24L*) x 15% x ½	8,70,000	
Additional - (95L – 3L + 24L*) x 20% x ½	11,60,000	
*24L = 1,200 pieces x \$25 x ₹80		
30% Audit fees of PY 24-25 – TDS deposited on 31.12.25 [75,000 x 30%]	22,500	- 54,52,500
		83,71,500
<b>Add: UNRECORDED BUS.. INCOME:</b>		
Expense allowed in PY 24-25 paid in cash in PY 25-26		+ 35,000
<b>TAXABLE INCOME FROM BUSINESS</b>		<b>84,06,500</b>

**Imported machinery spares [capital exp.]** included in the closing stock is purchased during the year. Hence, it is included in the purchases also. Amount included in the purchases should be **added back** to the NP and amount included in the closing stock should be **deducted** from the NP. **Alternatively**, it can be **completely ignored** as the effect of add back and deduct gets nullified. In the above solution, its ignored.

**QUESTION 2:**

Sheetal Ltd. is a listed company located in Mumbai. It is engaged in multiple activities at different locations. Books of account are maintained by each unit separately. The head office maintains books relating to common transactions. All the accounts are consolidated and the return of income is filed at Mumbai.

The following information is furnished unit wise for the year ended 31<sup>st</sup> March, 2026:

(a) **Chemical manufacturing unit, Jaipur:**

The Company has reported Net Profit of ₹ 300 lakhs in the books of account of the said business unit.

It entered into an agreement for use of know-how owned by a renowned scientist. The amount of royalty paid during the previous year 2025-26 was ₹ 40 lakhs. The company deducted tax at source on the amounts paid upto November, 2025 and omitted to deduct tax at source on the royalty of ₹ 10 lakhs due for the period from November, 2025 to March, 2026. The payee admitted the royalty income fully, paid tax and filed his return of income before the "due date" specified in section 139(1).

The company paid ₹ 1,68,00,000 being 15% of basic salary *plus* DA of the employees in notified pension scheme and the amount so paid is debited as expenditure in the books of account.

(b) **Fertilizer producing unit, Narmada:**

The Company established a fertilizer producing unit in Narmada, Gujarat which become operational in July, 2024. It has acquired a Land for ₹ 1 crore and put up a Building for ₹ 2.50 crores and installed new Plant and Machinery for ₹ 3 crores. The Net Profit as per books of account of the unit is ₹ 220 lakhs (after deducting depreciation on Building of ₹ 25 lakhs and Plant and Machinery of ₹ 45 lakhs).

(c) **Warehousing facility for storage of edible oils at Delhi:**

It established a warehousing facility for storage of edible oils from 01-08-2024. It made investments such as cost of Land ₹ 2 crores, Building ₹ 3 cores and Plant and Machinery (new) ₹ 5 crores. The Net Profit as per books (without deducting depreciation) was ₹ 70 lakhs.

**Additional information:**

The company mobilized capital during the previous year 2025-26 by public issue of shares. The application money was kept in bank pending allotment of shares. The interest income from the said deposit of ₹ 3,20,000 is credited to general reserve.

The company declared interim dividend @ 10% of share capital being ₹ 40 lakhs in December, 2025. It has 27% shareholding in ABC Inc., New York from whom it received ₹ 56 lakhs as dividend in February, 2026. Both dividend received and paid were credited and debited, respectively, in the Consolidated Statement of Profit and Loss.

The total turnover of the company for previous year 2023-24 was ₹ 390 crores and for financial year 2024-25 is ₹ 405 crores.

The company has MAT credit of ₹ 20 lakhs of the assessment year 2016-17. The book profit (computed) for the assessment year 2026-27 is ₹ 520 lakhs.

Compute the **total income** of the company and **optimum income-tax liability** for the assessment year 2026-27.

**ANSWER:**

**STATEMENT OF TOTAL INCOME [in lakhs]**

Particulars		Amt.
* Income from Salaries		Nil
* Income from House Property		Nil
* <b>Income from Business [Note 1]</b>		
Profit from CHEMICAL BUSINESS	314.20	
Loss from WAREHOUSING	(35)	279.2
* Capital Gains		Nil
* <b>Income from Other Sources:</b>		
Dividend from foreign co.		56
Interest on FD through share appln money [capital receipt – not income as it was a statutory requirement to deposit share appln money in bank]		—
<b>GROSS TOTAL INCOME</b>		<b>335.2</b>
<b>Less: Dedn under Chapter VI A:</b>		
→ <b>Sec.80M:</b> Dividend distributed		- 40
<b>NET TAXABLE INCOME</b>		<b>295.2</b>

**STATEMENT OF TAX**

	STCG 111A	LTCG 112A	LTCG (Other)	Win.	Balance
<b>Taxable Income</b>	<b>Nil</b>	<b>Nil</b>	<b>Nil</b>	<b>Nil</b>	<b>2,95,20,000</b>
Tax on above					73,80,000
					[25%]
Add: SC @7%					+ 5,16,600
					78,96,600
Add: HEC @ 4%					+ 3,15,864
<b>TAX PAYABLE</b>					<b>82,12,464</b>
<b>Rounded off</b>					<b>82,12,460</b>

**Note 1:****STATEMENT OF INCOME FROM BUSINESS [in lakhs]**

Particulars	₹	₹
NP as per Profit & Loss A/c ( <b>CHEMICAL</b> )		300
<b>Add: DISALLOWED EXPENSES:</b>		
Royalty - TDS not deducted [30% of 10L – sec.40(a)]	3	
Excess contribution to NPS [168L x 1/15]	11.2	14.2
<b>TAXABLE IFB</b>		<b>314.2</b>
NP as per Profit & Loss A/c ( <b>FERTILIZERS</b> )		220
<b>Add: DISALLOWED EXPENSES:</b>		
Depn on capital expenditure		+ 70
<b>LESS: UNRECORDED BUS. EXPS:</b>		
Full cost of capital exp. except land [250L + 300L]		- 550
<b>LOSS FROM SPECIFIED BUSINESS [C/F]</b>		<b>(260)</b>
NP as per Profit & Loss A/c ( <b>WAREHOUSING</b> )		70
<b>LESS: UNRECORDED BUS. EXPS:</b>		
Depn. on Bldg [300L x 10%]		- 30
Depn. on P&M [500L x 15%]		- 75
<b>LOSS FROM NORMAL BUSINESS [SET-OFF]</b>		<b>(35)</b>

**COMPUTATION OF MAT**

Particulars	₹
<b>BOOK PROFITS</b>	<b>5,20,00,000</b>
Tax on above @ 15%	78,00,000
Add: Surcharge	+ 5,46,000
	83,46,000
Add: HEC @ 4%	+ 3,33,840
<b>MINIMUM ALTERNATE TAX</b>	<b>86,79,840</b>

**→ FINAL TAX LIABILITY:**

↑ Normal Tax	82,12,460
↑ MAT	86,79,840
<b>Tax Payable</b>	<b>86,79,840</b>

→ Amount of MAT Credit = 86,79,840 – 82,12,460 = ₹ 4,67,970

Sheetal Ltd. is eligible for concessional rate under section 115BAA @22% plus surcharge @10% plus HEC @4%.

In case Sheetal Ltd. opted for concessional rate of tax u/s 115BAA, it would not be eligible for section 35AD. In that case, its total income u/s 115BAA would be as follows:

**STATEMENT OF TOTAL INCOME u/s 115BAA [in lakhs]**

Particulars		Amt.
* <b>Income from Business [Note 1]</b>		
Profit from CHEMICAL BUSINESS	314.20	
Profit from FERTILIZERS BUSINESS	220	
Loss from WAREHOUSING	(35)	499.2
* <b>Income from Other Sources:</b>		
Dividend from foreign co.		56
<b>GROSS TOTAL INCOME</b>		<b>555.2</b>
<b>Less: Dedn under Chapter VI A:</b>		
→ <b>Sec.80M:</b> Dividend distributed		- 40
<b>NET TAXABLE INCOME</b>		<b>515.2</b>

**STATEMENT OF TAX**

	STCG 111A	LTCG 112A	LTCG (Other)	Win.	Balance
<b>Taxable Income</b>	<b>Nil</b>	<b>Nil</b>	<b>Nil</b>	<b>Nil</b>	<b>5,15,20,000</b>
Tax @22%					1,13,34,400
Add: SC @10%					+ 11,33,440
					1,24,67,840
Add: HEC @ 4%					+ 4,98,714
<b>TAX PAYABLE</b>					<b>1,29,66,554</b>
<b>Rounded off</b>					<b>1,29,66,550</b>

**→ Suggestion to Sheetal Ltd.**

Since the tax liability u/s 115BAA is higher, the company should not opt for section 115BAA and its optimum tax liability is that as per normal tax regime i.e. ₹ 86,79,840

**QUESTION 3:**

Krishna, Kinara and Komal were three partners in a partnership firm, KKK Enterprises. The firm carried on the business of running banquet halls for marriages and other parties or events purposes from the date of its formation i.e. 20.12.2015 till 31.03.2022. The partners converted the firm into a company from 01.04.2022 by the name KKK Private Ltd. and transferred the entire business to the company. All the partners of the firm became the shareholders of the company in the same proportion as per their capital balance stood in the books of the firm. No other consideration was paid to the partners.

The company earned a net profit of ₹ 1,19,25,000 after debiting/crediting the following items in its Statement of Profit and Loss for the year ended 31.03.2026:

- (i) During the Financial year 2025-26, a sum of ₹ 1,17,000 was paid to a resident transport operator, Mr. Milan, for transporting necessary goods to the banquet halls. The payments were made in cash as follows:

4th May, 2025	26,000
23rd July, 2025	37,000
14th September, 2025	22,000
16th February, 2026	32,000

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

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

**Additional Information:**

1. Depreciation as per Income-tax Rules, 1962 - ₹ 15,78,000. A machinery that the firm had used earlier was transferred to the company at the time of succession. The machinery formed part of 15% depreciation block. The WDV of the machinery was ₹ 12 lakhs as on 01.04.2025. On 01.09.2025, the machinery was discarded. The amount of depreciation as per Income-tax Rules given above (₹ 15,78,000) includes depreciation on this machine as well.

2. The share-holding structure of the company at the start of the F.Y., i.e. 01.04.2025 was as follows:

Krishna	30%
Kinara	25%
Komal	20%
Others	25%

During F.Y. 2025-26, Krishna sold 95% of her holdings to her daughter-in-law, Keerat.

3. Brought forward business loss - ₹ 14 lakhs (of A.Y. 22-23)
4. The long-term capital gains on transfer of capital assets amounting to ₹ 55 lakhs which arose at the time of succession of firm to company was exempt at the time of conversion of firm into company in the hands of the firm as per conditions laid under section 47(xiii).

The turnover of the company for the previous year 2024-25 was ₹ 390 crores and for the previous year 2023-24 was ₹ 408 crores.

You are required to compute the **total income** and **tax payable** of the company for A.Y. 2026-27 by giving brief reasons for the treatment of each item.

Would it be beneficial for the company to opt for the concessional tax regime under section 115BAA of the Act for the A.Y. 2026-27? Examine. **Ignore the provisions relating to MAT.**

**ANSWER:**

**STATEMENT OF TOTAL INCOME**

Particulars	Amt.
* Income from Salaries	Nil
* Income from House Property	Nil
* Income from Business [Note 1]	1,17,40,000
* Capital Gains [Note 2]	
LTCG exemption allowed earlier withdrawn	55,00,000
* Income from Other Sources:	
<b>GROSS TOTAL INCOME</b>	<b>1,72,40,000</b>
Less: Dedn under Chapter VI A	Nil
<b>NET TAXABLE INCOME</b>	<b>1,72,40,000</b>

## STATEMENT OF TAX

	STCG 111A	LTCG 112A	LTCG (Other)	Win.	Balance
<b>Taxable Income</b>	<b>Nil</b>	<b>Nil</b>	<b>55,00,000</b>	<b>Nil</b>	<b>1,17,40,000</b>
Tax on above			6,87,500 [12.5%]		35,22,000
					↓ [30%] 42,09,500
Add: SC @ 7%					+ 2,94,665
					45,04,165
Add: HEC @ 4%					+ 1,80,167
<b>TAX PAYABLE</b>					<b>46,84,332</b>
<b>Rounded off</b>					<b>46,84,330</b>

**Note 1:**

## STATEMENT OF INCOME FROM BUSINESS

Particulars	₹	₹
Net Profit as per Profit & Loss A/c		1,19,25,000
<b>Add: DISALLOWED EXPENSES:</b>		
Payment to transporter in cash exceeding 35,000 [Sec. 40A(3)]	37,000	
[Payment to transporter without TDS is allowed as the transporter has submitted certificate of no TDS]		
Depn as per books	13,56,000	+ 13,93,000
		1,33,18,000
<b>Less: NON-BUSINESS INCOMES:</b>		—
<b>Less: UNRECORDED BUS.. EXPS:</b>		
Depn as per I.Tax		- 15,78,000
<b>Less: B/f business loss [Note 2]</b>		- Nil
<b>TAXABLE INCOME FROM BUSINESS</b>		<b>1,17,40,000</b>

**Note 1:**

**Brought forward business loss** of P.Firm **cannot be set-off** as the aggregate shareholding of all the partners in the new company should be atleast 50% for min.5 years from the date of succession. Since Krishna sold 95% of her holding, the shareholding of all the partners has **reduced below 50%** within 5 years from the date of succession.

Since the shareholding has **reduced below 50%**, **LTCG exemption** allowed in the year of succession shall be **withdrawn** in PY 2025-26.

In case KKK Pvt. Ltd. opts for concessional rate of tax u/s 115BAA, it's total income (in this question) would remain same as that computed under normal provisions.

Tax liability u/s 115BAA will be as follows:

**STATEMENT OF TAX u/s 115BAA**

	STCG 111A	LTCG 112A	LTCG (Other)	Win.	Balance
<b>Taxable Income</b>	<b>Nil</b>	<b>Nil</b>	<b>55,00,000</b>	<b>Nil</b>	<b>1,17,40,000</b>
Tax on above			6,87,500 [12.5%]		25,82,800 ↓ [22%]
					32,70,300
Add: SC @ 10%					+ 3,27,030
					35,97,330
Add: HEC @ 4%					+ 1,43,893
<b>TAX PAYABLE</b>					<b>37,41,223</b>
<b>Rounded off</b>					<b>37,41,220</b>

Since the tax liability under section 115BAA is less than that under normal provisions, it would be beneficial for the company to opt for the concessional tax regime u/s 115BAA.

## ASSESSMENT PROCEDURES

### QUESTION 1:

Due to the nature, complexity and volume of the accounts of M/s. ABC Private Limited, during the assessment proceedings, the Assessing Officer issued the direction for inventory valuation under section 142(2A) of the Income-tax Act. The relevant approval has been taken by the AO and the company was given an opportunity of being heard as per law. The AO wants to appoint a Chartered Accountant in practice for the purpose. The AO fixed the fees for inventory valuation at ₹ 1,00,000 and asked the CA to raise the bill for valuation report directly to the company after completion of the valuation.

Is AO justified in doing so? What are the relevant provisions for Inventory valuation under section 142(2A)? Discuss in detail.

### ANSWER:

As per **section 142(2A)**, if at any stage of the proceedings, the Assessing Officer, having regard to the nature and complexity of the accounts, volume of the accounts etc. is of the opinion that it is necessary so to do, he may, with the previous approval of the Principal Chief Commissioner (PCC) or Chief Commissioner (CC) or the Principal Commissioner (PC) or Commissioner (C) get the inventory valued by a Cost Accountant and furnish a report of such inventory valuation. Opportunity of being heard is to be given to the assessee before directing to get the inventory valued.

For inventory valuation, **Cost Accountant** should be **nominated** by **PCC or CC or PC or C** of Income-tax. Further, the **expenses** of inventory valuation **including remuneration** of Cost Accountant shall be **determined by the PCC or CC or PC or C** of Income-tax in accordance with the prescribed guidelines, and not by the AO. The expenses so determined shall be **paid by the Central Government**.

In the present case, though AO has taken the relevant approval and the company was given opportunity of being heard, the Assessing Officer is **not justified in appointing a Chartered Accountant** in practice, **fixing his fees himself** and asking the CA to raise the bill to the company. For inventory valuation, a Cost Accountant nominated by PCC or CC or PC or C can be appointed and expenses of inventory valuation including remuneration are also determined by these authorities. Such expenses shall be paid by the Central Government and not by the company.

**QUESTION 2:**

The assessee filed its return of income u/s 139(1) on 29<sup>th</sup> November, 2023. The return was found to be defective, and accordingly, the assessee received an intimation on 10<sup>th</sup> July, 2024 to correct the defects within a period 15 days from the receipt of the said notice. The defects were rectified by filing a new return on 19<sup>th</sup> July, 2024. Subsequently, the Assessing Officer issued a notice under section 143(2) on 11<sup>th</sup> June, 2025. The assessee contended that the notice u/s 143(2) can be issued within three months from the end of the financial year in which original return is furnished. Thus, the said notice was barred by limitation as per the provisions of the Act. Is the contention of assessee valid?

**ANSWER:**

In the given case, the assessee filed its original return on 29<sup>th</sup> November, 2023 after which it received a notice for rectifying the defective return. In order to rectify the defects, the assessee filed a new return on 19<sup>th</sup> July, 2024.

Notice u/s 143(2) should be served on the assessee within 3 months from the end of the year in which return was filed by the assessee. In order to compute this time limit, date of original return should be considered and not the date of new return because the **new return** rectifying the defects **replaces the original return**. Accordingly, the **time limit** of 3 months shall be **reckoned from** the end of the year in which **original return** is filed [which comes to 30<sup>th</sup> June, 2024]. However, in this case the notice u/s 143(2) was received by the assessee on 11<sup>th</sup> June, 2025 [much beyond the period of limitation]. Hence, the notice is **barred by limitation** and the contention of assessee is valid.

This was decided in the case of **Travel Designer India Pvt. Ltd.**

## APPEALS AND REVISION

### **QUESTION 1:**

“The arm’s length price (ALP) determined by the Tribunal, which is the final fact-finding authority, is final and cannot be the subject matter of scrutiny by the High Court as it does not give rise to a substantial question of law; accordingly, in an appeal u/s 260A, the High Court is precluded from examining the correctness of determination of the ALP” – Examine the correctness of this statement with reference to a recent Supreme Court ruling.

### **ANSWER:**

**Issue Involved:** The issue under consideration is whether the arm’s length price (**ALP**) determined by the Tribunal, which is the final fact-finding authority, is final and **cannot be the subject matter of** scrutiny by the **High Court** as it does not give rise to a substantial question of law.

**Relevant provision of law:** As per section 260A, 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**.

### **Analysis & Conclusion:**

While determining the ALP, the Tribunal has to follow the guidelines stipulated under **Chapter X** of the Income-tax Act, 1961, namely, **sections 92 to 92F** of the Act and **Rules 10A to 10E** of the Income-tax Rules, 1962. Any determination of the ALP under Chapter X not in accordance with the relevant provisions of the Income-tax Act, 1961 and Rules can be considered as perverse and it may be considered as a **substantial question of law** as perversity itself can be said to be a substantial question of law. There cannot be any absolute proposition of law that in all cases where the Tribunal has determined the ALP, the same is final and cannot be the subject matter of scrutiny by the High Court in an appeal under section 260A. Therefore, in an appeal challenging the determination of the arm's length price, it is always open for the High Court to examine in each case, within the parameters of section 260A, whether while determining the ALP, the guidelines laid down under the Income-tax Act/Rules.

The statement is, therefore, **not correct**.

Note – As decided by **Supreme Court** in the case of **SAP Labs India Pvt. Ltd.**

**QUESTION 2:**

In case of an assessee, the Assessing Officer passed an order u/s 143(3) on 15/12/2023. CIT passed the order u/s 263 on 26.03.2026 holding that the said assessment order passed u/s 143(3) was erroneous and prejudicial to the interests of the revenue. CIT set aside the assessment order and directed the AO to make fresh assessment after conducting necessary enquiries. The order passed u/s 263 was dispatched to assessee on 28.03.2026. The AO issued notice u/s 142(1) to the assessee on 06.05.2026 for making fresh assessment. The assessee contended that it had come to know about the revision order only when he received notice u/s 142(1) dated 06.05.2026. The copy of the order passed by CIT u/s 263 was supplied to him on 29.05.2026 on the request made to the Assessing Officer by him after receipt of notice u/s 142(1). Hence, the revision order is beyond the period of limitation u/s 263(2). Is the contention of assessee valid?

**ANSWER:**

**Issue Involved:** The issue under consideration is whether the **revisionary order u/s 263** which is **passed within 2 years** from the end of the financial year in which order [containing error] was passed but **received by the assessee after 2 years** is considered as beyond the period of limitation.

**Provision applicable:** As per section 263(2), no revision order shall be **made** after the expiry of two years from the end of the financial year in which the order sought to be revised was passed.

**Analysis:** Sub-section (2) of section 263 mandates that no revision order shall be "made" after the expiry of two years from the end of the financial year in which the order sought to be revised was passed. **The word used is "made" and not the order "received" by the assessee.** Even the word "dispatch" is not mentioned in section 263(2). The provisions of the statute are to be read as they are and nothing is to be added or taken away from the provisions of the statute. Therefore, once it is established that the order under section 263 was made or passed within the period of two years from the end of the financial year in which the order sought to be revised was passed, such an order cannot be said to be beyond the period of limitation prescribed under section 263(2).

**Conclusion:** In the present case, revision order under section 263 was passed on 26.3.2026 before the expiry of two years i.e., 31.3.2026 from the end of the F.Y. 2023-24 in which assessment order u/s 143(3) was passed. Thus, the revision order is **within the period of limitation** prescribed under section 263(2).

Note – The facts given in the question are similar to the facts in the case of **Mohammed Meeran Shahul Hameed (2021)**. The above answer is based on the rationale of the **Apex Court** ruling in the said case.

**QUESTION 3:**

Mr. Balram Kumar, a jeweller was intercepted by Police personnel with 1 kg of gold ornaments at New Delhi on 17.01.2024. The case was referred to Income Tax Investigation wing by the Police and the gold ornaments were seized by the Income Tax Department. The registered valuer made the valuation of the gold ornaments amounting to ₹ 63.30 Lacs, to which the assessee did not raise any objection.

During the assessment proceedings, the AO was not satisfied with the explanation given by the assessee and the AO made the additions of ₹ 63.30 lacs as unexplained jewellery u/s 69A in the hands of Mr. Balram Kumar and applied section 115BBE for applicability of tax alongwith Interest. As a result, a demand of tax of ₹ 49.37 lacs and interest of ₹ 12.35 Lacs were created against the assessee. The assessee filed an appeal before the CIT(Appeals). The CIT(Appeals) allowed the appeal and the addition of ₹ 63.30 lacs was deleted by the CIT being satisfied with the nature and source of the ornaments found from the assessee.

The jurisdictional CIT contemplates to file an appeal before the ITAT against the order of CIT(Appeals). Can Jurisdictional CIT do so? Discuss while explaining the provisions of Income-tax Act and Rules.

**ANSWER:**

As per section 253(2), the CIT may, if he objects to any order passed by the Joint CIT(A) or the CIT(A) under section 250, direct the Assessing Officer to appeal to the Appellate Tribunal against such order.

However, the Departmental appeals are subjected to the monetary limits specified by the CBDT for filing appeals before ITAT, High Courts and Supreme Court.

The key points as per CBDT circulars in this regard are as under:

- Departmental Appeals shall not be filed **before ITAT** in cases where the tax effect does not exceed the **monetary limit of ` 60 lakhs**.
- Tax would include surcharge and cess. However, the **tax will not include any interest thereon**, except where chargeability of interest itself is in dispute.

In the present case, tax of ₹ 49.37 lacs [78% of ₹ 63.30 lakhs] under section 115BBE and interest of ₹ 12.35 lakhs determined in respect of additions of unexplained jewellery under section 69A.

Since the tax effect excluding interest **does not exceed ` 60 lakhs**, the **department cannot file appeal before the ITAT**.

**QUESTION 4:**

In the case of M/s Hyper Ltd., the ITAT decided against the assessee and issued order under section 254. The assessee filed an appeal to the jurisdictional High Court by framing the substantial question of law under section 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 u/s 260A(3) and adjudicating merely on the questions put forth by the appellant under section 260A(2)(c).

**Note:**

Formulating/Framing the question of law = Converting general issues raised by appellant into a precise legal question.

**ANSWER:**

**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:**

Section 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 section 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 under section 260A(3). Section 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 section 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 section 260A.

**Note** – The facts given in the question are similar to the facts in the case of **A.A. Estate Pvt. Ltd.** 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.

## TRANSFER PRICING

### **Question 1:**

Alpha Inc. having its business in Malaysia has advanced a loan of MD 1,60,000 to Beta Ltd, India. Book value of total assets of Beta Ltd was ₹125 lakhs. Beta Ltd provides software backup support to Alpha Inc. Beta Ltd has spent 50,000 man hours during the financial year 2025-26 for the services rendered to Alpha Inc. The cost for Beta Ltd is MD 75/manhour. Beta Ltd has billed Alpha Inc. at MD 90.75/manhour.

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

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

- (1) Calculate Arm's Length Price for the transaction between Beta Ltd. and Alpha Inc. using the Transactional Net Margin Method. Assume 1MD = ₹45.
- (2) Explain, if there is any adjustment to be made to the total income of Andes Ltd.

Note: MD = Malaysia Dollars

### **Answer:**

Two enterprises are deemed to be associated enterprises where one enterprise **advances loan of at least 51%** of the book value **of the total assets** of the other enterprise.

In this case, since Alpha Inc., a foreign company, has advanced loan to Beta 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 Beta Ltd., Alpha Inc and Beta Ltd. are deemed to be **associated enterprises**.

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

### COMPUTATION OF ALP

Particulars	Malaysian Dollars
Total Cost incurred by assessee [Beta Ltd] [MD 75 per man hour x 50,000]	37,50,000
<u>Add: Normal NP (25% on Cost) (Note 1)</u>	+ 9,37,500
Arm's length price in MD	46,87,500
Arm's length price in ₹ (MD 46,87,500 x ₹45)	21,09,37,500

#### **Note 1:**

Normal NP % can be calculated from comparable uncontrolled transaction between Gama Ltd. and Olive Inc

Particulars	₹ in lakhs
Direct Cost	600
Indirect Cost	200
Total cost	800
Net profit	200
NP % on cost	25%

**Conclusion:** Since the ALP is ₹21,09,37,500, the genuine price is ₹21,09,37,500 but Beta Ltd has billed it's AE Alpha Inc ₹20,41,87,500 (MD 90.75 x 50,000 man hours x ₹45). Hence, the difference of ₹67,50,000 shall be added to the income of Beta Ltd.

#### **Question 2:**

NANO Inc., a German Company, holds 45% of equity in Hitech Ltd., an Indian Company. Hitech Ltd. is engaged in development of software and maintenance of the same for customers across the globe. Its clientele includes NANO Inc.

During the financial year 2025-26, Hitech Ltd. had spent 2400 man hours for developing and maintaining software for NANO Inc. with each hour being billed at ₹1,300. Cost incurred by Hitech Ltd. for executing work for NANO Inc. amounts to ₹20 lakhs.

Hitech Ltd. had also undertaken developing software for Modi Industries, for which Hitech Ltd. had billed at ₹2,700 per man hour. The persons working for Modi Industries and NANO Inc. were part of the same team and were of matching credentials and calibre, Hitech Ltd. made a gross profit of 60% on Modi Industries work. Hitech Ltd.'s transactions with NANO Inc. are comparable to transactions with Modi Industries, subject to the following differences:

- (i) NANO Inc. gives technical support to Hitech Ltd., which can be valued at 8% of the normal gross profit. Modi Industries does not provide any such support.
- (ii) Since the work for NANO Inc. involved huge number of man hours, a quantity discount of 14% of normal gross profits was given.
- (iii) Hitech Ltd. had offered 90 days credit to NANO Inc., the cost of which is measured at 2% of the normal billing rate. No such facility was offered to Modi Industries.

Compute arm's length price as per cost plus method and the amount of increase in total income of Hitech Ltd.

**Answer:**

### COMPUTATION OF ARMS LENGTH PRICE

(for Billing by Hitech Ltd. to NANO Inc.)

		₹
Direct Cost and Indirect Cost	51.2	20,00,000
Add: <b>Adjusted GP % (48.8% on sales)</b>	48.8	+ 19,06,250
Arms Length Price	100	39,06,250

**Conclusion:** Since the ALP is ₹ 39,06,250, the genuine price of transaction of Hitech Ltd. with NANO Inc. is ₹ 39,06,250 but Hitech Ltd. has shown only ₹ 31,20,000 (1,300 x 2,400).

Hence, the **difference of ₹ 7,86,250 shall be added to the income of Hitech Ltd.**

→ **Adjusted GP %:**

Normal GP % in uncontrolled transaction with Modi Ind.	60%
Less: Value of technology support [60% x 8%]	- 4.8%
Less: Quantity discount [60% x 14%]	- 8.4%
Add: Credit facility [100% x 2%]	+ 2%
<b>Adjusted GP <i>on sales</i></b>	<b>48.8%</b>

**Question 3:**

Earth (P) Ltd., Calcutta is engaged in trading of electronic goods. It purchased goods from its associated enterprise Sun Ltd., Singapore, and also from unrelated party, Oceania Ltd., UK.

For the F.Y.2025-26, the gross profit margin was 15% on the sale of goods of Sun Ltd., whereas it was 20% in the case of Oceania Ltd.

Warranty of 6 months was provided by Sun Ltd. whereas Oceania Ltd. gave warranty of 1 year. The cost of warranty may be taken as 2% of the sale price.

Sun Ltd.'s brand value is internationally known and the benefit of the brand value can be taken as 1% of sale price.

During the F.Y.2025-26, it sold goods of Sun Ltd. for ₹20 crores and of Oceania Ltd. for ₹15 crores.

Compute the ALP of the transaction between Earth (P) Ltd. and Sun Pte Ltd., Singapore by applying the Resale Price Method, considering the facts of the case.

**Answer:**

**COMPUTATION OF ARMS LENGTH PRICE**

(for purchase by Earth (P) Ltd. from Sun Ltd.)

Particulars	₹
Resale price of goods purchased from Sun Ltd.	20,00,00,000
<u>Less: Normal GP margin (20% on sales)</u>	4,00,00,000
	16,00,00,000
<u>Less: Purchase related expenses</u>	Nil
	16,00,00,000
<b>Add/less: Adjustments:</b>	
Brand value (1% of sale price)	+ 20,00,000
Warranty (2% of sale price x 6/12)	- 20,00,000
<b>Arm's length price (Purchase Price)</b>	<b>16,00,00,000</b>

**Question 4:**

ABC (P) Ltd., Bangalore is engaged in the manufacture of electronic goods and exporting the same to various associated and other enterprises across Southeast Asia. The report with respect to its international transactions with AE has been furnished for all years. The company has applied for APA in respect of the transactions with its AE. Application was filed on 15th February 2023. The company also applied in respect of the international transactions to which APA applies for rollback benefit which was agreed and signed in January 2024. The details of the status of income tax assessments are as follows:

**A.Y. 2018-19:**

The matter is pending before High Court with regard to acquisition of a company by the assessee and the dispute is about set off of loss of the erstwhile company.

**A.Y. 2019-20 and A.Y. 2020-21:**

There is no dispute and the assessments have been completed.

**A.Y. 2021-22:**

The assessment for the A.Y. 2021-22 was completed by making reference to the TPO who enhanced the arm's length price of the international transaction by ₹ 500 lakhs.

**A.Y. 2022-23:**

ALP of international transaction was disputed before the tribunal which set aside the order for fresh consideration by the Assessing Officer in November 2023.

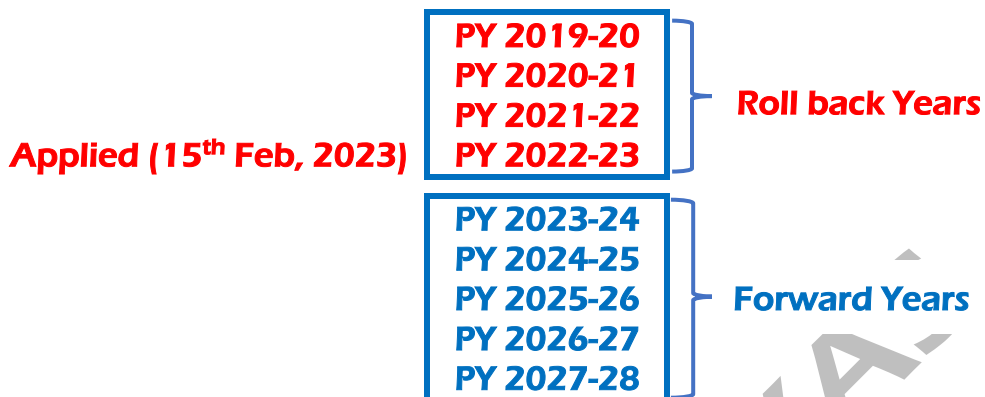
**A.Y. 2023-24:**

The income tax return ('ITR') was filed on 29th December 2023.

If the APA is applied, the ALP determined for the A.Y. 2021-22 would get enhanced by ₹ 300 lakhs as against ₹ 500 lakhs originally determined by TPO.

Discuss the applicability of rollback agreement for various assessment years in case of ABC (P) Ltd.

**Answer:**



**Applicability of APA benefit for rollback years**

P.Y./A.Y.	Whether roll back benefit would be available?	Reason
P.Y. 2017-18 (A.Y.2018-19) And P.Y. 2018-19 (A.Y.2019-20)	<b>No</b>	Roll back period means <b>max. 4 P.Y.s</b> , preceding P.Y.2023-24, being the first of the 5 consecutive previous years specified in the APA. Since P.Y. 2017-18 and P.Y. 2018-19 fall <b>beyond</b> the said <b>4-year period</b> , roll back benefit cannot be availed in respect of these years.
P.Y.2019-20 (A.Y.2020-21)	<b>Yes</b>	Since P.Y. 2019-20 falls <b>within</b> the said <b>4-year period</b> , roll back benefit can be availed in respect of this year.
P.Y.2020-21 (A.Y.2021-22)	<b>Yes</b>	Since P.Y. 2020-21 falls <b>within</b> the said <b>4-year period</b> , roll back benefit can be availed in respect of this year even though the addition in income on account of ALP as per APA is less than that made by TPO. <b>Note:</b> Addition in income on account of ALP as per APA should not be less than that made by Assessee.

CA SHIRISH VYAS / CA FINAL / DIRECT TAX / ADDITIONAL QUESTIONS

P.Y.2021-22 (A.Y.2022-23)	<b>Yes</b>	Roll back provisions are applicable for A.Y. 2022-23, since ITAT has only set aside the order for fresh consideration and the matter has <b>not reached finality</b> .
P.Y.2022-23 (A.Y.2023-24)	<b>No</b>	Rollback provisions are not applicable for A.Y. 2023-24, since the <b>return was filed belatedly</b> on 29.12.2023.

**Question 5:**

Delta Ltd., an Indian company, declared total income of ₹ 2,100 crores before making primary adjustment, if required, in respect of the loan transaction with Alps Inc, a Swiss company, for the year ended 31.03.2026.

Alps Inc. had advanced a loan of Euro 350 crores carrying interest @ 9% p.a. on 1.4.2025 to Delta Ltd. The total book value of assets of Delta Ltd. and was ₹60,000 crores. Assume that the amount of interest computed @ 9% p.a. and payable to Alps Inc. does not exceed 30% of EBITDA and that this is the only loan taken by Delta Ltd.

Alps Inc also advanced a loan of similar nature and amount to Beta Ltd., another Indian company @ 7% p.a. during the F.Y. 2025-26. The value of 1 Euro may be taken as ₹ 88. You are required to:

- (i) Examine whether transfer pricing provisions under the Income-tax Act, 1961 would be attracted in this case and if so, on what basis.
- (ii) Advise Delta Ltd. regarding primary adjustments, if any, to be made to the above income keeping in mind the transfer pricing provisions contained in the Income-tax Act, 1961 and compute the total income for A.Y.2025-26.
- (iii) Elaborate on secondary adjustments, if any, required to be made under the provisions of Income-tax Act, 1961, assuming that Delta Ltd. has made the primary adjustment suo moto.
- (iv) Calculate the additional income-tax liability, if Delta Ltd. opts for payment of additional income-tax in lieu of making secondary adjustment.

**Answer:**

- (i) Alps Inc, a Swiss company has advanced a loan to Delta Ltd., an Indian company which constitutes 51.33% of the book value of total assets of Delta Ltd. [Euro 350 crores x ₹ 88/Rs.60,000 crores]. Since the loan advanced by Alps Inc is atleast 51% of the book value of the total assets of Delta Ltd., the two companies are deemed to be associated enterprises. A loan transaction between two enterprises, one of whom is a non-resident (Alps Inc. Switzerland, in this case), would be an international transaction. Accordingly, transfer pricing provisions would be attracted in this case.
- (ii) The interest rate charged by Alps Inc. on loan advanced to Delta Ltd. is 9% p.a. whereas the arm's length interest charged by Alps Inc. in a comparable uncontrolled transaction with Beta Ltd., another Indian company, is 7% p.a. Therefore, the arm's length adjustment (primary adjustment) to be made is = 9% - 7% = 2% of ₹ 30,800 crores (Euro 350 crores x ₹ 88, being the value of 1 Euro) = ₹ 616 crores. The total income (after primary adjustment) of Delta Ltd for P.Y.2025-26 = ₹ 2,100 crores + primary adjustment of ₹ 616 crores = ₹ 2,716 crores.
- (iii) Since the primary adjustment has been made by Delta Ltd. suo moto while filing its return of income for A.Y.2026-27, Delta Ltd. should carry out secondary adjustment in the following manner. The excess money (i.e., ₹ 616 crores) lying with Alps Inc must be repatriated within 90 days from the due date for filing return of income i.e. latest upto 28th February, 2027. If the excess money is not repatriated on or before 28th February, 2027, it would be deemed as an advance made by Delta Ltd. to Alps Inc and deemed interest income would be computed from 30.11.2026 at LIBOR + 3%, since the loan is denominated in Euros. Such interest for the period from 30.11.2026 to 31.3.2027 (assuming that it has not been repatriated upto 31.3.2027) would be included in the total income of Delta Ltd. for P.Y.2026-27.
- (iv) If Delta Ltd. opts for payment of additional income-tax, it has to pay ₹ 129.153 crores [i.e. 616 crores x 18% Tax + 12% SC + 4% HEC].

**Question 6:**

Paras Ltd. is an Indian company engaged in the manufacturing of supreme quality mink blankets. It has total borrowings of ₹ 60 crores by way of loan as on 31.03.2026. Saksham Ltd. of Germany imported 5 lakh blankets from Paras Ltd. for sale in Germany @ ₹ 2,000 per unit. Paras Ltd. sold similar blankets to other dealers in Germany @ ₹ 2,100 per unit. Paras Ltd. received a bank guarantee on 1.04.2024 for availing a cash credit limit of ₹ 9 crores for which Saksham Ltd. was the guarantor. The terms of trade for other dealers was to make payment within 1 month from the date of sale of goods by Paras Ltd., whereas for Saksham Ltd., the credit period allowed was 3 months from the date of sale of goods. The cost of capital was 12% per annum and the supply of goods is assumed to be uniform throughout the year.

- 1) Whether Paras Ltd. and Saksham Ltd. are associated enterprises. If yes, compute the ALP of the transaction between them and the amount to be added to the income of Paras Ltd., if any, by way of an ALP adjustment.
- 2) What is the time limit for the repatriation of such excess money assuming that the above adjustments to the transfer price have been made suo-moto by Paras Ltd. in its return of income? What are the implications if the excess money is not repatriated within such prescribed time limit?
- 3) Calculate the additional income-tax liability, if Paras Ltd. opts for payment of additional income-tax in lieu of making secondary adjustment.

**Answer:**

- (1) Paras Ltd. and Saksham Ltd. of Germany are deemed to be associated enterprises, since Saksham Ltd., a German company provides guarantee for loan of ₹ 9 crores taken by Paras Ltd., which is 15% of the total borrowings (i.e., more than 10%) of Paras Ltd. i.e., ₹ 60 crores.

As per section 92B, the transactions entered into between Paras Ltd. and Saksham Ltd., two associate enterprises, for sale of blankets falls within meaning of "international transaction".

As Paras Ltd. has sold similar blankets to other dealers, being unrelated entity, at ₹ 2,100 per unit, the transactions between Paras Ltd. and such unrelated party can be considered as a comparable uncontrolled transaction for the purpose of determining the arm's length price of the transactions between Paras Ltd. and Saksham Ltd. However, such figure needs to be adjusted by the functional adjustments.

**COMPUTATION OF ALP**

(for transaction between Paras Ltd. and Saksham Ltd.)

Particulars	₹
Price charged in comparable UT	2,100
<u>Add: Adjustment of additional credit provided to Saksham Ltd. (2,100 x 12% x 2/12)</u>	42
Arm's length price per unit	2,142

Since the ALP is ₹ 2,142 per unit, the genuine SP is ₹ 2,142 per unit but Paras Ltd has declared only ₹ 2,000 per unit. Hence, the difference of ₹ 142 per unit shall be added to the income of Paras Ltd. Total addition to the income of Paras Ltd. on account of ALP is ₹ 7,10,00,000 [5,00,000 units x ₹ 142 per unit].

- (2) Where the primary adjustment to transfer price has been made suo moto by Paras Ltd. in its return of income, the time limit for the repatriation of such excess money (i.e., ₹ 710 lakhs) available with the associated enterprise (i.e., Saksham Ltd.) is within 90 days from the due date of filing of return i.e. 28.2.2026.

If the excess money (i.e., ₹ 710 lakhs) available with the associated enterprise (i.e., Saksham Ltd.) is not repatriated to India within 90 days from the due date of filing return then it would be deemed as an advance made by the Paras Ltd. to its associated enterprise, Saksham Ltd.

Deemed Interest income would be calculated on such advance at SBI rate + 3.25%, since the international transaction is denominated in Indian rupee. Such interest for the period from 30.11.2026 to 31.3.2027 (assuming that it has not been repatriated upto 31.3.2027) would be included in the total income of Delta Ltd. for P.Y.2026-27.

- (3) If Paras Ltd. opts for payment of additional income-tax, it has to pay ₹ 148.861 lakhs [i.e. ₹ 710 lakhs x 18% Tax + 12% SC + 4% HEC].

**Question 7:**

KVS Ltd., the assessee, has sold goods on 12.01.2026 to L Ltd., located in notified jurisdictional area (NJA), for ₹10.50 crores.

During the current financial year, KVS Ltd. charged ₹11.50 crores from AJ of New York and ₹12 crores from KP of London for sale of identical goods and both of which are neither associated enterprise of KVS Ltd. nor they are situated in any NJA.

While sales to AJ and KP were on CIF basis, the sale to L Ltd., was on FOB basis (which paid ocean freight and insurance amounting to ₹20 lakhs on purchases from KVS Ltd).

India has a Double Taxation Avoidance Agreement with the U.S.A. and U.K.

The assessee has a policy of providing after sales support service to the tune of ₹14 lakhs to all customers except L Ltd. which procured the same locally at a cost of ₹18 lakhs.

Compute the ALP for the sales made to L Ltd., and the amount of consequent increase, if any, in the profit of the assessee-company.

**Answer:**

A transaction with a person located in a NJA would be deemed to be an **international transaction** and all parties to the transaction would be deemed as **associated enterprises**. Hence, the transactions between KVS Ltd, an Indian company and L Ltd., located in NJA, would be deemed to be international transactions between associated enterprises. Accordingly, all the provisions of transfer pricing would be attracted case of such a transaction.

The transactions of KVS Ltd, with AJ of New York and KP of London for sale of identical goods are comparable uncontrolled international transactions, since they are neither associated enterprises nor are they situated in NJA. Hence, Comparable Uncontrolled Price (CUP) method can be used to determine ALP.

Where **less than 6 prices** are determined by the most appropriate method, then the ALP shall be **arithmetic mean** of such prices. However, the **benefit of tolerance band** (3% of actual price) **would not be available** in respect of transaction with person located in NJA.

**COMPUTATION OF ALP USING CUP METHOD**

Particulars	AJ [crores]	KP [crores]
Price charged in comparable UT	11.50	12.00
<u>Less:</u> Ocean freight and insurance	- 0.20	- 0.20
	11.30	11.80
<u>Less:</u> Cost of after-sales support service	- 0.14	- 0.14
Arm's Length Price	11.16	11.66
Arithmetic mean [(₹11.16 crores + ₹11.66 crores) / 2]		11.41
<u>Less:</u> Actual Price at which goods were sold to L Ltd		10.50
Increase in profit of KVS Ltd.		0.91

**Question 8:**

On 23rd June 2024, R Ltd., an Indian Company borrowed 100 crores from M Ltd., a company incorporated in Singapore. The said loan is repayable over a period of 6 years. This loan is guaranteed by L Ltd., a company incorporated in U.S.A. L Ltd. holds 30% shares in R Ltd. R Ltd. provides you the following information with respect to its P/L account [in lakhs].

Particulars	F.Y. 24-25	F.Y. 25-26	Particulars	F.Y. 24-25	F.Y. 25-26
Employees Benefit Exps	280	301	Gross Profit	1630	1550
Interest paid to M Ltd.	589	238			
Depreciation	250	254			
Income Tax	271	232			
Profit	240	525			
	1630	1550		1630	1550

Calculate the income under the head Profits and Gains from business and profession of R Ltd. for the Assessment Year 2026-27, assuming the gross profit is calculated as per the provisions of Income-tax Act and Depreciation is also as per Income-tax Rules. Give appropriate reasons of your workings. Assume none of the companies are engaged in the business of banking.

**Answer:**

If an Indian company pays interest in respect of any debt issued by its non-resident associated enterprise and such interest exceeds ₹1 crore, then such interest paid or payable in excess of 30% of EBITDA shall be disallowed as per section 94B. This disallowance is applicable whether the loan is given by AE or an outsider who is guaranteed by the AE or an outsider with whom, AE has deposited matching funds.

In the present case, since L Ltd., a US company, holds 30% share in R Ltd., an Indian company, i.e. more than 26%, L Ltd. and R Ltd. are deemed to be associated enterprise.

Since loan of ₹100 crores taken by R Ltd., an Indian company from M Ltd., a Singapore company, is guaranteed by L Ltd., an associated enterprise, interest paid or payable to M Ltd. shall be considered for the purpose of limitation of interest deduction under section 94B.

**COMPUTATION OF PGBP [for A.Y. 2026-27]**

	23-24
Gross Profit	1,550
<u>Less:</u> Employee benefits expenses	- 301
EBITDA	1,249
<u>Less:</u> Interest paid to M Ltd. <b>(Note 1)</b>	- 374.70
<u>Less:</u> Depreciation	- 254
Taxable PGBP	620.60

**Note 1:**

	23-24	24-25
<b>EBITDA</b> [GP – Employee expenses]	<b>1,350</b>	<b>1,249</b>
Interest (Current Year)	589	238
Interest (B/f)	—	184
<b>Interest Allowed [30% of EBITDA]</b>	<b>405</b>	<b>374.70</b>
Excess C/f to next year	184	47.30

**Questio 9:**

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

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

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

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

Indiana Ltd. entered into the following transactions with these entities during the F.Y. 2025-26:

**Transaction with Star GmbH:**

Indiana Ltd. bought 1,000 units of electronic projectors from Star GmbH for ₹ 15,000 per unit for the purpose of resale in India. It sold these projectors in India without doing any modification thereon. The gross profit margin earned from such resale was 20% of Sale price. Star GmbH provided after-sales warrantee of 1 year. The cost of warrantee is 3% of sale price.

**Transaction with Moon Inc.**

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

**Transaction with Astroid Ltd.**

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

You are required to discuss:

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

**Answer:**

(i)

Indiana Ltd., an Indian company and **Star GmbH** are **associated** enterprises as per section 92A, since Indiana Ltd. holds more than 26% of voting power i.e., **30%** in Star GmbH.

Indiana Ltd. and **Moon Inc.** are **not associated** enterprises as per section 92A, since Indiana Ltd. appoints less than half of the directors of Moon Inc. i.e., only 6 out of 15 directors.

Indiana Ltd. and **Astroid Ltd.** are **not associated** enterprises as per section 92A, since Indiana Ltd. guarantees less than 10% i.e., 8%, in this case (Euro 12 million/ Euro 150 million) of the total borrowing of Astroid Ltd.

(ii)

The transaction of purchasing electronic projectors from Star GmbH is an "international transaction". Hence, transfer pricing provisions would be attracted in this case. Indiana Ltd. purchases similar electronic projectors from Moon Inc., the transaction would be uncontrolled transaction.

**COMPUTATION OF ARM'S LENGTH PRICE**

	₹
Resale price of projectors purchased from Star GmbH [(Cost 15,000 + Profit ¼ of 15,000) x 1,000 unit]	1,87,50,000
<b>Less:</b> Normal GP margin between Indiana & Moon [30% on sale price]	- 56,25,000
	1,31,25,000
<b>Add:</b> Adj. for warranty [1,87,50,000 x 3% x 3/12] [Star GmbH provides warranty for 1 year whereas Moon Inc. has provided warranty of 9 months. Therefore, adjustment for the cost of such warranty has to be carried out for 3 months @3% of sales price.]	+ 1,40,625
<b>Arm's length price</b>	<b>1,32,65,625</b>

**Question 10:**

Surya Ltd., an Indian Company, is engaged in manufacturing activities by importing raw material from Sun Inc. of UK. Sun Inc. has a total loan of 1 million pounds from XYZ Bank of UK. Out of that, Surya Ltd. guarantees 20% of total borrowings in case of any default made by Sun Inc.

During the financial year 2023-24, Surya Ltd. imported goods for ₹ 60 crores from Sun Inc. Sun Inc. supplied similar raw materials to unrelated parties with a mark-up of 20%, whereas, for Surya Ltd. it provided a mark-up of 25%. Surya Ltd. was allowed to use the brand name of Sun Inc., without any payment and whereas the unrelated parties cannot use such brand name in India. The annual cost of brand value is ₹ 100 Lakhs. Surya Ltd. was allowed credit period of 2 months, whereas for the unrelated parties, Sun Inc. allowed only 1 month as credit period. The interest cost may be taken as 12% per annum and the purchases were uniform throughout the year.

You are required to compute the ALP and the adjustments to be made to the income of Surya Ltd.

**Answer:**

Surya Ltd., an Indian company and Sun Inc. of UK, are deemed to be associated enterprises as per section 92A(2), since Surya Ltd. guarantees 10% or more of total borrowings of Sun Inc.

Further, the transaction of purchasing raw material falls within the meaning of "international transaction" under section 92B. Hence, transfer pricing provisions would be attracted in this case.

**COMPUTATION OF ARM'S LENGTH PRICE**

[Comparable Uncontrolled Price Method]

Particulars	₹ in cr.
Purchase Price charged by AE (Sun Inc.)	60.00
Less: Mark up in Surya @ 25% [₹ 60 crores x 5/125]	- 12.00
	48.00
Add: Mark up in uncontrolled transaction @ 20%	+ 9.60
Purchase Price in uncontrolled transaction	57.60
Add: Adjustment for brand value	+ 1.00
Add: Adjustment for cost of credit [57.60 x 12% x 1/12]	+ 0.576
Arm's length price of raw material purchase	59.176

**Conclusion:**

Since the ALP is ₹59.176 crores, the genuine purchase price is 59.176 crores. However, assessee has shown purchase from AE (Sun) at a higher price ₹60 crores. Hence, the difference of ₹ 0.824 crores shall be added back to the Net Profit of assessee.

**Question 11:**

On 1.4.2025, Focus Ltd., an Indian company, borrowed ₹ 50 crores @ 9.5% p.a. from Max Inc., a US entity, thereby increasing its total borrowings to ₹ 65 crores. The said loan is guaranteed by Hik Inc., another US entity. The book value of total assets of Focus Ltd. is ₹ 180 crores.

Focus Ltd. imported turbo equipment worth ₹ 30 crores from Hik Inc. Import duty of ₹ 4.50 crores on the same was paid by Focus Ltd. The equipment was sold to T Ltd., an unrelated party for ₹ 40 crores. Normal GP margin of Focus Ltd. in similar uncontrolled transaction is 20% on sale.

Net profit of Focus Ltd. of A.Y.2026-27 was ₹ 8 crores after debiting interest of ₹ 6 crores (out of which ₹ 1.25 crores interest pertaining to local borrowings), depreciation of ₹ 2.5 crores and income tax of ₹ 1.5 crores.

Based on the facts of the above case scenario, choose the most appropriate answer to Q. 1 to 6 below:

1. What is the amount of interest to be allowed in the computation of total income of Focus Ltd. for A.Y. 2026-27, if for A.Y. 2025-26 there was an interest expenditure disallowed to the extent of ₹ 4 crores under section 94B?  
(a) ₹ 6,65,00,000 (b) ₹ 4,75,00,000  
(c) ₹ 6,00,00,000 (d) ₹ 3,65,00,000
2. The transfer pricing adjustment for the arm's length purchase price to be made in the computation of total income of Focus Ltd. for A.Y. 2026-27 would be:  
(a) ₹ 3,00,00,000  
(b) ₹ 2,50,00,000  
(c) ₹ 2,00,00,000  
(d) No adjustment is required, since transfer pricing adjustment cannot result in reduction of income

3. If Focus Ltd. repatriated the excess money on 31.03.2027, what will be the interest income that would be added to its total income of A.Y.2027-28, if SBI's one-year marginal cost of funds lending rate is 11.25% on 1.4.2026 and 10.25% on 1.4.2027? Assume that Focus Ltd. suo motu made the primary adjustment in its books of account and filed its return for A.Y.2026-27 on 30.11.2026.
- (a) ₹ 12,01,712      (b) ₹ 12,08,333  
(c) ₹ 9,32,363      (d) ₹ 8,49,486
4. If Focus Ltd. decides not to repatriate the excess money and instead, pay additional income-tax on the entire excess money, then, what would be the additional income-tax payable?
- (a) ₹ 62,89,920      (b) ₹ 52,41,600  
(c) ₹ 41,93,280      (d) ₹ 53,87,200
5. If Focus Ltd. decides to pay additional income-tax on the entire excess money on 15.03.2027, should interest be calculated and added to its total income of A.Y.2027-28? If so, what is the amount to be added? Assume that SBI one-year marginal cost of funds lending rate is 11.25% on 1.4.2026 and 10.25% on 1.4.2027 -
- (a) No, since it has paid additional income-tax on the entire excess money in the P.Y.2026-27  
(b) Yes; ₹ 9,70,890  
(c) Yes; ₹ 10,42,808  
(d) Yes; ₹ 8,09,075
6. In addition to above facts, assuming that -
- (i) on 23.08.2025, Focus Ltd. has entered into an agreement for sale of turbo equipment with Y Ltd., an Indian company not related to Focus Ltd;
- (ii) Y Ltd. had already entered into an agreement on 21.8.2025 for the sale of the same goods to Kite Inc. (unrelated to Y Ltd.), a UK entity; and
- (iii) Focus Ltd. holds shares carrying 28% voting power in Kite Inc.
- With which of the following enterprises would a transaction with Focus Ltd. be considered an international transaction?
- (a) Hik Inc. and Kite Inc.  
(b) Max Inc. and Kite Inc.  
(c) Hik Inc., Kite Inc. and Y Ltd.  
(d) Max Inc., Hik Inc. and Kite Inc.

**Answer:**

MCO No.	Most Appropriate Answer
1.	(a)
2.	(b)
3.	(a)
4.	(b)
5.	(c)
6.	(c)

**Question 12:**

Safe Systems Ltd., an Indian company, is engaged in multiple international transactions with its AE in the USA during P.Y. 2025–26. The company is evaluating the option to opt for Safe Harbour Rules under Rule 10TD.

1. IT Enabled Services:
    - Operating Cost: ₹ 40 crores
    - Operating Revenue: ₹ 48 crores
  2. KPO Services
    - Operating Cost: ₹ 40 crores
    - Employee Cost: ₹ 20 crores
    - Operating Revenue: ₹ 50 crores
  3. Contract R&D Services (Software)
    - Operating Cost: ₹ 20 crores
    - Operating Revenue: ₹ 23 crores
  4. Intra-group Loan given to AE in Indian currency
    - Loan Amount: ₹ 60 crores
    - Credit Rating: Not available
    - Interest charged: 12% p.a.
    - MCLR of SBI: 10.25% p.a.
  5. Corporate Guarantee given to Zee Ltd. [60% Subsidiary]
    - Amount guaranteed: ₹ 120 crores
    - Guarantee commission charged: 1%
  6. Payment for low value adding services to its AE ₹ 6.24 crs.  
Total cost incurred by AE for providing such services: ₹6 crs.
- Determine whether Safe Harbour rule is applicable for each of the above transactions.

**Answer:**

**DETERMINATION OF THE APPLICABILITY OF SAFE HARBOUR**

**→ Services provided to AE:**

International transaction	Operating profit % (OP/OC)	Safe harbour requirement	Safe harbour applicable or not
IT Enabled services	8/40 = <b>20%</b>	<b>17%</b>	<b>Yes</b>
KPO services	10/40 = <b>25%</b>	<b>21%</b> As employee cost is 50% [≥ 40% < 60%]	<b>Yes</b>
R&D services	3/20 = <b>15%</b>	<b>24%</b>	<b>No</b>

**→ Intra group loan given to AE in Indian currency:**

Actual Interest charged **12%**

Safe harbour requirement = SBI (MCLR) + 4.25% [Credit rating–NA]  
= 10.25% + 4.25% = **14.50%**

Since actual interest charged is less than 14.50%, safe harbour rule is **not applicable**

**→ Corporate guarantee given to Zee Ltd [60% Subsidiary]**

Safe harbour rule – **not applicable**

In case of corporate guarantee, safe harbour rule is applicable only if such guarantee is given for **wholly owned** subsidiary.

**→ Payment for low value adding services to its AE:**

Actual Payment 6.24 cr.

Safe harbour requirement – **max. 10cr.**

Actual mark up = 0.24 cr./6 cr. = 4%

Safe harbour requirement – **max.5%**

Hence, safe harbour rule will be **applicable**

## TAXATION OF NR

### QUESTION 1:

The net result of the BUSINESS carried on by a branch of US based foreign company in India for the year ended 31.03.2026 was a loss of ₹ 28 lakhs after charge of the following expenses -

- (i) Depreciation for the current financial year of ₹ 35 lakhs.
- (ii) Unabsorbed depreciation of past ₹ 18 lakhs.
- (iii) Short term capital loss of ₹ 1.5 lakhs.
- (iv) Voluntary Retirement Compensation ₹ 12 lakhs.
- (v) Capital exp. on family planning promotion for employees ₹ 5 lakhs.
- (v) Brought forward business loss of A.Y. 2024-25 ₹ 17 lakhs [including speculation loss of ₹ 7 lakhs].
- (vi) Deductions under Chapter VI-A of ₹ 29 lakhs.
- (vii) Head Office expenses of ₹ 165 lakhs allocated to the branch.

The adjusted total income for the preceding 3 years was:

Assessment year	₹ (in lakhs)
2025-26	600
2024-25	450
2023-24	500

You are required to compute income to be declared by the branch in its return for the assessment year 2026-27.

### ANSWER:

#### STATEMENT OF TOTAL INCOME

Particulars	Amt.
* Income from Salaries	Nil
* Income from House Property	Nil
* Income from Business <b>[Note 1]</b>	1,77,24,500
* Capital Gains [STCL carried fwd]	Nil
* Income from Other Sources	Nil
<b>GROSS TOTAL INCOME</b>	<b>1,77,24,500</b>
Less: Dedn under Chapter VI A	- 29,00,000
<b>NET TAXABLE INCOME</b>	<b>1,48,24,500</b>

**Note 1:**

**STATEMENT OF INCOME FROM BUSINESS**

Particulars	₹	₹
Net Result of the BUSINESS		(28,00,000)
<b>Add: DISALLOWED EXPENSES:</b>		
Unabsorbed depn.	18,00,000	
Short term capital loss	1,50,000	
Exp. on VRS [12 L x 4/5]	9,60,000	
Capital Exp. on FP [5 L x 4/5]	4,00,000	
B/f Business loss	17,00,000	
Dedn under chapter VIA	29,00,000	
H.O.expenses	1,65,00,000	+2,44,10,000
<b>Less: NON-BUSINESS INCOMES:</b>		Nil
<b>Less: UNRECORDED BUS.. EXPS:</b>		Nil
<b>Add: UNRECORDED BUS. INCOME:</b>		Nil
PGBP [Before HO Exp.]		2,16,10,000
<b>Less: Dedn for H.O. Exp. (Note 2)</b>		<b>- 10,85,500</b>
PGBP of Current Year		2,05,24,500
<b>Less: B/f Business loss [Non-Sec.]</b>		<b>- 10,00,000</b>
<b>Less: Unabsorbed depn.</b>		<b>- 18,00,000</b>
<b>TAXABLE INCOME FROM BUS...</b>		<b>1,77,24,500</b>

**Note 2: Deduction for H.O. Exp.:**

- ↓ 1. Actual H.O. Exp. = ₹ 1,65,00,000
- ↓ 2. 5% of Adjusted Total Income\*  
= 5% of 217.10 L = ₹ 10,85,500

**\* Adjusted Total income**

PGBP [before HO Exp.]	216.10 L
Add: 1/5 <sup>th</sup> of Cap. Exp. on FP	+ 1 L
Add: Income under other heads	Nil
<b>Adjusted Total Income</b>	<b>217.10 L</b>

If above amount is **negative** then we take **average** of **preceding 3 years** adjusted total income [given in the question].

**QUESTION 2:**

Mr. Albert, a non-resident and American citizen, is employed in an American company. The American company has a PE in India. Albert visited India during the F.Y. 2025-26 on official work and stayed for 80 days. His salary for that period was ₹ 25,00,000 which is borne by the Indian PE.

Albert held 1200 shares of Shine Pvt. Ltd. (SPL), an Indian company since 31.12.2018 which he acquired for ₹ 35 per share. For acquiring the shares, he remitted USD 50,000 to India on 15.12.2018. He sold these shares on 20.8.2025 for ₹ 63 per share.

Albert also held 2000 equity shares of YoC Inc., another American company, which he had acquired for dollars equivalent to ₹ 145 per share in 2018. YoC Inc. follows April to March as its financial year. He sold all these shares for dollars equivalent to ₹ 615 per share to Mishel, another non-resident, on 10.10.2025. The relevant information of YoC Inc. as on 31.3.2025 is given below:

- (i) Total value of assets ₹ 15 crores.
- (ii) Total value of immovable properties worldwide = ₹ 12 crores.
- (iii) Immovable properties held in India - ₹ 8 crores.

Dividend from Shine (Pvt) Ltd. on 28.06.2025 was ₹ 13,200.

You are required to compute his total income taxable in India assuming he has opted out of section 115BAC ignoring the provisions of DTAA between India and USA.

Exchange rates for 1 USD on the relevant dates is given as hereunder:

Date	Buying Rate (1 US \$)	Selling Rate (1 US\$)
31.12.2018	₹ 68	₹ 70
15.12.2018	₹ 66	₹ 68
20.08.2025	₹ 90	₹ 92

**ANSWER:****STATEMENT OF TOTAL INCOME**

Particulars	Amt.
* Income from Salaries <b>[Note 1]</b> [25,00,000 – Std dedn 50,000]	24,50,000
* Income from House Property	Nil
* Income from Business	Nil
* Capital Gains <b>[Note 2]</b>	19,986
* <u>Income from Other Sources:</u> Dividend from Indian company	13,200
<b>GROSS TOTAL INCOME</b>	<b>24,83,186</b>
Less: Dedn under Chapter VI A	Nil
<b>NET TAXABLE INCOME [rounded off]</b>	<b>24,83,190</b>

**Note 1:**

Normally, salary of foreign citizen from foreign employer during his stay in India is exempt if:

- His stay in India during the previous year is max.90 days and
- The employer is not engaged in any business in India.

In case of Albert, this exemption is not allowed as his employer has PE in India [engaged in business in India].

**Note 2:****COMPUTATION OF CAPITAL GAINS [shares of Indian co.]**

Particulars	Amt.
Full value of consideration (1,200 shares x ₹ 63) ÷ 91	\$ 830.77
Less: Cost of acquisition (1,200 shares x ₹ 35) ÷ 69	\$ 608.70
LTCG in dollars	\$ 222.07
LTCG in ₹ [\$ 222.07 x 90]	₹ 19,986

Capital gains on sale of shares of foreign company is **not taxable** as the same has not accrued in India [FMV of **Indian assets** of YoC Inc. **does not exceed 10 crores** although the percentage of Indian assets out of total assets is 53.33% i.e. ≥50%].

**QUESTION 3:**

XYZ Co., an Indian company, is engaged in the business of manufacture of packaging material having its manufacturing facility in India. XYZ Co. is a wholly owned subsidiary of Flix Inc., a company incorporated in Country M. Angelo and James, citizens and residents of the Country N, each of them holds 50% of the share capital of Flix Inc. Angelo and James, each had invested equivalent to INR 100 crores in Flix Inc. in April 2015.

On 1<sup>st</sup> June 2025, Angelo and James, having received an offer which they believe was fair, sold their entire stake in Flix Inc. to Ishaan, resident of Country N for amount equivalent to INR 350 crores each.

The accounting period of Flix Inc. is January to December. The relevant extract of the balance sheet of Flix Inc. as on 31<sup>st</sup> December 2024, 1<sup>st</sup> June 2025 and 31<sup>st</sup> December 2025 are as follows:

Particulars	As on 31 <sup>st</sup> Dec. 2024 (in INR crores)	As on 1 <sup>st</sup> June 2025 (in INR crores)	As on 31 <sup>st</sup> Dec. 2025 (in INR crores)
<b><u>Details regarding Flix Inc.:</u></b>			
Book value of assets	1,000	1,300	1,500
Liabilities	300	250	350
FMV of assets (without reduction of liab.)	800	1100	950
<b><u>Details regarding investment in XYZ Co.</u></b>			
Cost of acquisition	150	150	150
Book value of assets in B/S of XYZ Co.	350	550	480
Liabilities	150	200	250
FMV of assets in B/S of XYZ Co. (without reduction of liab.)	350	600	600

Determine whether the income arising from transfer of shares of Flix Co. chargeable to tax in India in the hands of Angelo and James for the A.Y. 2026-27. Assume there is no DTAA between India-Country M and between India-Country N.

**ANSWER:**

Capital gain arising in the hands of **NR** [Angelo and James] from transfer of shares of **foreign company** [Flix Inc.] shall be deemed to accrue in India if in the balance sheet\* of such foreign company:

1. **FMV** of Indian assets is **> ₹ 10 crores**
2. **FMV** of Indian assets is **≥ 50%** of the FMV of all assets of Foreign co.

\* Balance sheet as on the end of **accounting year immediately preceding the date of transfer**. However, if the total book value of assets as on such date has **increased by ≥ 15%** as on the transfer date then balance sheet as on the **transfer date** should be considered.

Since book value of the assets of Flix Inc. on the date of transfer i.e., ₹ 1,300 crores exceed the book value of the assets as on the last balance sheet date preceding the date of transfer i.e., ₹ 1,000 crores by at least 15%, we consider balance sheet as on transfer date. As per this balance sheet:

1. FMV\* of Indian assets is ₹ 600 crores [more than 10 crores]
2. FMV\* of Indian assets is 54.545% [600/1,100] [≥ 50% of the FMV of total assets of Foreign co.].

\* **without reduction of liabilities**

Hence, the shares of Flix Inc. would be deemed to be a capital asset situated in India and the capital gains from the transfer of shares of Flix Inc. by Angelo and James would be **deemed to accrue or arise in India**. Accordingly, the capital gains arising from transfer of shares of Flix Inc. would be **taxable** in the hands of Angelo and James **in India** as per Income-tax Act, 1961.

**QUESTION 4:**

Delta Global Inc., a foreign company, operates a branch in India. During PY 2025-26, head office incurred certain administrative expenses outside India and allocated ₹ 1,85,00,000 to the Indian branch.

The adjusted total income of the A.Y. 2026-27 is a loss of ₹ 25,20,200.

The assessable total income and other details for the preceding three previous years [in lakhs] are as follows:

Particulars	22-23	23-24	24-25
Assessable TOTAL Income	18	28	41
Depreciation	10	12	18
Unabsorbed Depreciation	12	18	22
Ded. under Chapter VI-A	2	29	34
Brought forward Short- term capital loss	2	–	1
Long-term capital loss	5	2	–
Brought forward Speculative Losses	2	17	15
Exp. on Voluntary Retirement [1/5 <sup>th</sup> ]	4	12	18
H.O. Exp.	145	160	180

You are required to compute the amount of head office expenditure deductible under section 44C for the assessment year 2026-27. Assume Delta Global Inc do not have POEM in India.

**ANSWER:****COMPUTATION OF DEDUCTION FOR H.O. EXP. [SEC. 44C]**

As per section 44C, deduction for HO Expenditure in case of NR having branch in India is calculated as follows:

1. Actual H.O. Exp. = ₹ 1,85,00,000
2. 5% of Adjusted Total Income **(Note 1)**  
= 5% of 2,48,33,333 = ₹ 12,41,667

**Note 1:**

Since the adjusted total income of PY 2025-26 is **negative**, we take **average of preceding 3 years** adjusted total income as follows:

**COMPUTATION OF ADJUSTED TOTAL INCOME [in lakhs]**

Particulars	22-23	23-24	24-25
Assessable TOTAL Income	18	28	41
<b>Add: Adjustments:</b>			
<b>H.O. Exp.</b>	<b>+145</b>	<b>+160</b>	<b>+180</b>
<b>Unabsorbed Depreciation</b>	<b>+12</b>	<b>+18</b>	<b>+22</b>
<b>Brought forward losses</b>			
Short- term capital loss	+2	—	+1
Speculative Losses	+2	+17	+15
<b>Chapter VI-A Dedn.</b>	<b>+21</b>	<b>+29</b>	<b>+34</b>
<b>FP Cap. Exp. [1/5<sup>th</sup>]</b>	<b>Nil</b>	<b>Nil</b>	<b>Nil</b>
Depreciation [allowed]	—	—	—
Current year's LT Capital loss [allowed]	—	—	—
Exp. on VRS [1/5 <sup>th</sup> ] [allowed]	—	—	—
	200	252	293

Average of Adjusted Total Income =  
 $(\text{₹ } 200 \text{ L} + \text{₹ } 252 \text{ L} + \text{₹ } 293 \text{ L}) \div 3 = \text{₹ } 248.333... \text{L}$

## CHARITABLE TRUST

### QUESTION 1:

Reliance foundation, a charitable trust registered u/s 12AB runs a hospital. The trust furnished the following information:

- (i) The total receipts of the trust ₹ 8 crores.
  - (ii) Voluntary contributions ₹ 1 crore
  - (iii) A land belonging to trust which was purchased in 2022-23 for ₹ 80 lakhs was sold for ₹ 95 lakhs. Out of the sale proceeds of this land, another land was purchased for ₹ 92 lakhs.
  - (iv) Mr. Shaurya, son of Mr. Neeraj, who is founder of the trust, was admitted in the hospital for heart surgery. He was charged a total fee of ₹ 3,00,000 as against the amount of ₹ 7,00,000 charged by hospital for similar treatment to the general public.
  - (v) Income of ₹ 7 crores was applied for the objects of the trust.
- Compute the total income of the trust for P.Y. 2025-26.

### ANSWER:

#### STATEMENT OF TOTAL INCOME

Particulars	₹
Total Receipts other than donations	8,00,00,000
Donations	1,00,00,000
LTCLG on sale of land [95L – 80L]	15,00,000
	9,15,00,000
<b>Less: 15% Exempt</b>	<b>(1,37,25,000)</b>
	7,77,75,000
<b>Less: Applied</b>	
Capital gains reinvested	- 12,00,000
[Cost of new asset – cost of old asset] [92L - 80L]	
Applied for the objects of the trust	- 7,00,00,000
<b>Add: Free or concessional service to founder's son</b>	<b>+ 4,00,000</b>
[Deemed income = 7L – 3L]	
<b>Taxable Income</b>	<b>69,75,000</b>

**QUESTION 2:**

Examine and discuss each of the following independent cases of charitable trust/institutions based on the relevant provisions of Income-tax Act, 1961 for the AY 2026 -27:

1. KRA Foundation is a charitable trust registered u/s 12AB engaged in the activity of providing old-age homes to senior citizens. The total receipts of the trust for the financial year 2025-26 was ₹ 145 lakhs. This receipt of ₹ 145 lakhs includes a voluntary contribution received from Mr. Keshav, a resident individual, amounting to ₹ 1,70,000. During F.Y. 2025-26, out of the total receipts, the trust gave an unsecured loan of ₹ 5 lakhs to Mr. Keshav at an interest rate of 12% p.a. The scheduled banks charge interest at the rate of 11.50% for a similar kind of loan. The trust has always applied 85% of the total receipts for its objects. Discuss the implications in the hands of the trust as per the provision of the I.T. Act, 1961.

**Answer:**

If any part of the income of the trust is lent to any "specified person" referred to in section 13(3) for any period during the previous year **without** either **adequate security** or **adequate interest** or both, such income is to be deemed to have been used or applied for the benefit of a person referred to in section 13(3). In the present case, Mr. Keshav has made a substantial contribution of ₹ 1,70,000 which exceeds the limit of ₹ 1,00,000 to KRA Foundation, he would fall within the category of persons specified u/s 13(3).

KRA Foundation trust gave loan of ₹ 5 lakhs out of the income of the trust without any security to Mr. Keshav though rate of interest i.e., 12% is higher than the market rate of 11.50%, such income/loan amount of ₹ 5 lakhs is deemed to have been used or applied for the benefit of Mr. Keshav, being a person specified u/s 13(3). Such income shall not be excluded from the total income of the P.Y. 2025-26.

Consequently, the income of ₹ 5 lakhs would be considered as specified income u/s **115BBI** and be taxable @30%.

Further, in terms of section **271AAE**, penalty of ₹ 5 lakhs would also be leviable, calculated at 100% of income provided as a benefit, where the violation is noticed for the first time during any previous year.

2. M/s Medi Care Foundation, a trust registered u/s 12AB of the Income- tax Act, 1961, runs a hospital. During the financial year 2023 -24, it received a voluntary contribution of ₹ 95 lakhs with a specific direction that it should form part of the corpus of the trust. The trust invested such amount in the shares of M/s Healthy Care Ltd., a public sector company. On March 31, 2026, due to disinvestment by the Government, M/s Healthy Care Ltd. ceases to be a public sector company.

**Answer:**

Voluntary contribution of ₹ 95 lakhs received with a specific direction that it should form part of the corpus of the trust, would be eligible for exemption, since investment in shares of M/s Healthy Care Ltd. a public sector company is permissible mode of investment under section 11(5).

However as per provisions of section 11(5), where an investment is made in the shares of any public sector company and such public sector company ceases to be a public sector company, the investment so made shall be deemed to be a valid investment for a period of 3 years from the date of such cessation.

Therefore, it would continue to be **eligible for exemption for a period of 3 years from the cessation date** i.e., 31.3.2026 on which M/s Healthy Care Ltd., ceases to be a public sector company due to the disinvestment.

3. Yashoda Green Charitable Trust having its main object as “advancement of object of general public utility” provide electrical scooter to the various corporate employees of Cyber Hub Gurugram for their daily commute. With this business activity, it generates receipts of ₹ 45 lakh, which has been applied for the object of general public utility. The total receipts for the F.Y. 2025-26 of Yashoda Green Charitable Trust was ₹ 190 Lakh.

**Answer:**

If a trust having its main object as advancement of any other object of general public utility, derives income from an activity in the nature of trade during a financial year, it will **lose its charitable status** if aggregate receipts from such activity is **more than 20% of the total receipts** of the trust in that year even if it applies such income for its main object.

In the present case, receipts from the business of providing electrical scooters to various corporate employees i.e., ₹ 45 lakhs exceed 20% of total receipts of ₹ 190 lakhs (i.e., ₹ 38 lakhs) during the previous year 2025-26. Accordingly, Yashoda Green Charitable trust would lose its charitable status for the P.Y. 2025-26 and would not be eligible for the exemption under section 11 and 12.

4. "Light of Hope" Charitable Trust having objective of providing 'clean drinking water' started its welfare activities in 2019 by providing clean water to some villages of Uttar Pradesh. In August 2025, a similar objective trust named 'Water for All' was formed by a group of people in Jharkhand. They also provide clean drinking water to villagers on a small scale. "Light of Hope" offers the "Water for All" trust to merge with them so that they can scale the benefits and share resources. However, they are concerned about the exit tax levied at the time of merger of trusts.

**Answer:**

As per **section 12AC**, if a trust or institution approved u/s 10(23C) or registered u/s 12AB merges with another trust or institution, the exit tax provisions contained in Chapter XII-EB would not apply if –

- the other trust or institution has **same or similar objects**.
- the other trust or institution is **approved** u/s 10(23C) or **registered** u/s 12AB; and
- the said merger fulfils **such conditions** as may be **prescribed**.

In the present case, since the both the trust has similar objects, the exit tax under Chapter XII-EB would not be applied, assuming the both the trust are registered and fulfills the conditions as prescribed.

5. Devayani Trust is a registered charitable trust under section 12AB. During the previous year 2025-26, the trust had applied ₹ 4,50,000/- for the benefit of the trustee and ₹ 2,50,000/- for the benefit of Mr. Sujan Dave, who has donated ₹ 3,75,000/- to the trust during PY 2025-26. Also, an amount of ₹ 2,50,000/- set apart in the P.Y. 2023-2024 by the trust for charitable purposes under section 11(2) has been utilized in the P.Y. 2025-26 for making donation to another registered charitable trust with similar object as Devayani Trust.

What is the amount of 'specified income' liable to tax @30% under section 115BBI for assessment year 2026-27? Explain with reasons.

**Answer:**

**COMPUTATION OF SPECIFIED INCOME**

Income <b>A</b> ccumulated not in accordance with the provisions of Income Tax Act	Nil
Income <b>A</b> ccumulated in past not used/misused/ceases to remain invested	2,50,000
Income <b>D</b> eemed to be applied in past not used	Nil
Income not <b>I</b> nvested u/s 11(5)	Nil
Income used/applied for the benefit of specified person [ <b>A</b> uthor, trustee etc..]	
⇒ Benefit of Trustee	4,50,000
⇒ Benefit of substantial contributor	2,50,000
<b>SPECIFIED INCOME TAXABLE u/s 115BBI</b>	<b>9,50,000</b>

## TAX DEDN. / COLLECTION AT SOURCE

### QUESTION 1:

In respect of the following independent case scenarios you are required to discuss the provisions related to TDS/TCS and amount of tax deductible/collectible for the year ended 31<sup>st</sup> March 2026:

- 1) Mr. A and Mrs. A jointly purchased a fully built-up and ready to move flat at Lucknow on 10.12.2025 from M/s XYZ Builders Limited for ₹ 86 Lacs. In addition, they have paid an amount of ₹ 4 Lacs for two car parking spaces to M/s XYZ Builders Limited. They also paid one time generator cost of ₹2,50,000 and swimming pool cost of ₹ 1,50,000 to the M/s XYZ Builders Limited. The stamp duty value of the property is ₹ 75 lacs. Mr. A and Mrs. A, each paid ₹ 47 lacs to the Builder for effecting the sale deed on 10.12.2025.

### ANSWER:

As per **section 194-IA**, consideration for transfer of any immovable property **include all charges** in the nature of, inter alia, parking charges, generator cost and swimming pool cost. In case of more than one transferee, consideration shall be **aggregate** of amount **paid by all the transferees** for transfer of such property.

In the present case, since aggregate value of consideration of both transferees i.e., of Mr. A and Mrs. A is  $\geq$  ₹ 50 lakhs, tax is required to be deducted at source under section 194-IA @1% on ₹ 94 lakhs (1% on ₹ 47 lakhs by Mr. A and 1% on ₹ 47 lakhs by Mrs. A) since consideration of ₹ 94 lakhs is higher than stamp duty value of ₹ 75 lakhs on purchase of flat from M/s XYZ Builders Ltd.

- 2) An Urban Cooperative Bank (engaged in the business of banking) made an FDR of ₹ 100 crores with Union Bank of India (UBI) at 2.5% p.a. interest as per RBI guidelines for maintaining capital adequacy ratio. The said Cooperative Bank is also maintaining a current account with UBI from which, it withdrew ₹ 4 crores in cash during the financial year 2025-26. The Cooperative Bank is filing its returns of income without any default.

**ANSWER:**

**No TDS u/s 194A** is to be made on interest income credited or paid to co-operative society engaged in banking business. Accordingly, Union Bank of India (UBI) is not required to deduct tax at source under section 194A on interest on FDR to Urban Co-operative Bank. Liability to deduct tax at source under section **194N shall not be applicable** on payment made to co-operative society engaged in banking business. Accordingly, Union Bank of India (UBI) is also not required to deduct tax at source on cash withdrawal by Urban cooperative bank.

- 3) Ubclick Inc., a non-resident company (incorporated in Country Y) is engaged in the manufacturing of paints and has factories across the world including India. The factory in India produces paints and sells in the Indian market as well as worldwide since past 10 years. Its turnover for the last 3 years in India was F.Y. 2022-23 ₹ 200 crores, F.Y. 2023-24 ₹ 490 crores and F.Y. 2024-25 ₹ 540 crores. On 1.5.2025, it bought raw materials from Colours Private Ltd., a domestic company for ₹ 1 crore.

**ANSWER:**

Ubclick Inc., a **non-resident** company has to deduct tax at source under section **194Q @ 0.1% on ₹ 50 lakhs** being the sum exceeding ₹ 50 lakhs on purchase of raw material of ₹ 1 crore from Colours Private Ltd. since its **turnover exceeds ₹ 10 crores** during the P.Y. 2024-25 and purchase of raw material from Colours Private Ltd. is **effectively connected with** its factory, being a **permanent establishment** in India.

Tax to be deducted = ₹ 50,00,000 x 0.1% = ₹ 5,000

- 4) M/s Seal India Pvt. Ltd., a domestic company, engaged in business of manufacturing and selling of washing powder and bars. For the purpose of promoting and to boost sales of its products it hires agents, to whom incentives and commission is paid on the basis of percentage of sales made through them. During the P.Y. 2025-26, Mr. Prakash, a resident individual, is working as an agent for the company.

The company paid him commission and incentives on the basis of target achieved by him as follows:

Date of payment	Particulars	Amount
10-01-2026	Commission for achieving sales target	3,35,000
15-01-2026	Other Incentives	1,60,000

The figure of other incentives includes reimbursement of expenses of ₹ 1,00,000 incurred on booking of air tickets for an event in Singapore for Mr. Prakash and his family members who accompany him. The company has also given Mr. Prakash laptop worth ₹ 60,000 for achieving sales target for the month of September, 2025 in October 2025.

**ANSWER:**

M/s Seal India Pvt. Ltd. is required to deduct tax at source on **commission** paid to Mr. Prakash u/s **194H @2%**, being sum exceeding ₹20,000.

Reimbursement of expenses of ₹ 1 lakh for booking air tickets for Mr. Prakash and his family, **other incentive** of ₹ 60,000 and **laptop** of ₹ 60,000 for achieving sale target is **benefit or perquisite** arising to Mr. Prakash from his business or the exercise of his profession, being sum exceeding ₹ 20,000. Accordingly, M/s Seal India Pvt. Ltd. is required to deduct TDS **u/s 194R @10%**.

TDS u/s 194H = 2% on 3,35,000 = ₹ 6,700

TDS u/s 194R = 10% on ₹ 1,00,000 (Air tickets) + ₹ 60,000 (other incentive) + ₹ 60,000 (laptop) = ₹ 22,000

- 5) AntiqueMasters.com is an online portal that provides e-auction for antique items like coins, artifacts etc. and operates only in India. The owners list their items on the portal and interested buyers place bids for them on the portal itself. The portal provides the details of the buyers who make the top 3 bids. The seller chooses the buyer and intimates the portal. The portal takes money from the buyer and transfers the amount to the seller's bank account after deducting the agreed commission. The seller then delivers the item directly to the buyer's address. What will be the TDS obligations on the portal with respect to a sale amounting to ₹11 lakhs made by Mr. Sonu, an Indian resident, on the portal on 28th February 2026?

**ANSWER:**

As per section **194-O**, AntiqueMasters.com, an e-commerce operator, is required to deduct tax @**0.1%** on ₹ 11,00,000, being the gross amount of sale of products of Mr. Sonu, an e-commerce participant, since such sale of goods is facilitated by AntiqueMasters.com through its digital facility.

Thus, AntiqueMasters.com is required to deduct tax of ₹ 1,100, being 0.1% of ₹ 11,00,000.

- 6) Peter Inc., is a company incorporated under the laws of USA. The value of its global assets are ₹ 50 crores. The value of assets in India are ₹ 25 crores. Its turnover during the P.Y. 2025-26 is US \$ equivalent to ₹ 90 crores. Out of 10 board meetings held during the F.Y.2025-26, only 4 meetings are held in India. The key management and commercial decisions for conduct of the company's business are, however, made by the directors located in India at the meetings held in India. Your client, Payal Ltd, an Indian company, wishes to remit an amount towards professional fees to Peter Inc. on which tax is required to be deducted in India. Advise Payal Ltd as to whether tax on fees for professional services paid to Peter Inc. has to be deducted under section 194J or section 195.

**ANSWER:**

In the given case, Peter Inc. is a company incorporated under the laws of USA and hence, it is a foreign company under the Income-tax Act, 1961. However, the said company shall be resident in India if its place of effective management is in India. In this case, the company does not satisfy the active business outside India test since 50% of its assets are located in India. Hence, the persons who take key management and commercial decisions for conduct of the company's business and the place where the decisions are made are the key factors in determining the POEM of the company. The facts of the case clearly state that the key management decisions and commercial decisions for conduct of the company's business are made by the directors located in India and at the meetings held in India. Therefore, the **POEM** of Peter Inc. is **in India** in the P.Y.2025-26, irrespective of the fact that majority of the board meetings are held outside India.

**Section 194J** applies when **professional fees** are being paid to a **resident**, whereas **section 195** applies when payments are made to a **foreign company** or a **non-corporate non-resident**. Where more than one provision of the Act applies to the foreign company as resident as well as a foreign company, the **provision applicable to the foreign company alone shall apply**. Hence, Payal Ltd shall **deduct tax u/s 195** while making payment of fees for professional services to Peter Inc., a foreign company resident in India.

- 7) ABC Pvt Ltd, a domestic company is engaged in a software development business at Techno Park, which employed 700 employees, deducted tax at source (TDS) in respect of salaries, contract payments etc. totaling ₹ 1.10 crores upto 31.03.2026 for the assessment year (A.Y.) 2026-27. In March 2026, the assessee deposited part of the TDS being ₹ 38 lakhs and balance of ₹ 72 lakhs was deposited later in July 2026. However, the Additional Commissioner of Income Tax issued a show cause notice proposing to levy penalty under section 271C of the amount equal to TDS and also levied penal interest under section 201(1A) of the Income-tax Act, 1961. Feeling aggrieved and dissatisfied with the levy of interest/penalty under the Income-tax Act, 1961 on late deposit of TDS, the company has approached you to seek your advice in the matter.

**ANSWER:**

The issue under consideration is whether penalty u/s 271C and interest u/s 201(1A) both are leviable on late deposit of TDS.

**Section 271C** provides that if any person **fails to deduct** the whole or any part of the tax then, such person is liable to pay, by way of penalty, a sum equal to the amount of tax which such person failed to deduct.

Section 201(1A) provides that in case a tax has been deducted at source but is subsequently remitted belatedly, such a person is liable to pay interest as provided under section 201(1A).

No penalty is leviable on late deposit of TDS after it is deducted by the assessee. **Section 276B** speaks about prosecution for **failure to deposit** TDS within the prescribed time.

Accordingly, **no penalty** would be leviable under section 271C on delay in depositing TDS after deducting it on time.

However, **interest** u/s 201(1A) for late deposit of TDS is **leviable**.

- 8) Smart Switch Pvt. Ltd., an emerging fintech start-up based in Bengaluru, operates a digital platform for trading in various crypto currencies. The company has recently gained popularity among young investors due to its user-friendly app and attractive promotional offers. On 01<sup>st</sup> November 2025, Mr. Adesh, an IT professional working in Gurugram invested a sum of ₹ 1,00,000 in Picto Coins, a cryptocurrency. On 15<sup>th</sup> December 2025, he transferred entire Picto Coins and earned profit of ₹ 3,47,504.

**ANSWER:**

**Section 194S** requires any person who is responsible for paying to any resident any sum by way of consideration for transfer of a virtual digital asset to deduct tax at source @1% of such sum.

The deduction is to be made at the time of credit of consideration to the account of the resident or at the time of payment of such sum by any mode, whichever is earlier.

Hence, **Smart Switch Pvt. Ltd. is required to deduct** tax at source @1% of ₹ 4,47,504, being the amount of consideration for transfer of virtual digital asset. Accordingly, tax of ₹ 4,475 is required to be deducted at source.

- 9) RM Ltd., Pathankot, is a Maruti Cars dealer. It also runs a service station. The sale of cars of RM Ltd. for F.Y.2024-25 is ₹ 8.40 crores. The sale of spare parts and service station is ₹ 80 lakhs for F.Y.2024-25. M/s. ABC Ltd., dealing in textile manufacturing, bought three Maruti cars on 18.7.2025, 18.8.2025 and 15.12.2025 for ₹ 18 lakhs, ₹ 22 lakhs and ₹ 9.5 lakhs for business purposes. On 16.1.2026, M/s ABC Ltd. purchased five more cars valuing ₹ 8.9 lakhs each. The payment against each purchase made on the same date of invoice itself. The turnover of ABC Ltd. for the F.Y. 2024-25 is ₹ 15.5 crores.

What is the amount of tax required to be collected or deducted at source on sale transaction entered between RM Ltd. and ABC Ltd.?

**ANSWER:**

Transaction of car can attract:

- ⇒ TCS u/s **206C(1F)** from **seller's point of view** if the sale value **exceeds ₹ 10 lakhs** and
- ⇒ TDS u/s **194Q** from **buyer's point of view** if the aggregate value of purchase during the financial year **exceeds ₹ 50 lakhs** and if buyer's turnover in the preceding F.Y. exceeds 10 crores.

However, same transaction cannot be subject to TCS as well as TDS. Either TCS will apply or TDS. Since section **206C(1F)** is a **specific** section for sale of car, provisions of TCS shall **prevail** if sale of car is above ₹10 lakhs. However, if TCS on sale of car is not attracted then TDS u/s 194Q shall apply.

Accordingly,

- ⇒ On sale of car on 18/7/25 and 18/8/25, TCS @1% shall be collected by **RM Ltd** as the sale value of each car exceeds ₹ 10 lakhs.

Amt of **TCS = 1%** of (18 L + 22 L) = **₹ 40,000**.

- ⇒ On sale of other cars [where the sale value does not exceed ₹ 10 L per car], the buyer **ABC Ltd.** is liable to deduct TDS as the aggregate value of purchase by ABC Ltd exceeds ₹ 50 L.

Amt of **TDS = 0.1%** of {(9.5 L + 8.9 x 5 cars) – 50 L} = **₹ 400**.

- 10) M/s GreenEarth Resources Ltd. is engaged in extraction and sale of forest produce and minerals. During F.Y 2025–26, it sold timber obtained under a forest lease to M/s BuildWell Infrastructure Pvt. Ltd. and sold scrap generated from such operations to a resident scrap dealer. In the same year, it supplied coal to M/s PowerGen Ltd. for generation of electricity, against which PowerGen Ltd. furnished a declaration stating that coal would be used only for power generation and not for trading. Further, GreenEarth Resources Ltd. granted a licence to operate a toll plaza near its mining site to M/s National Highways Authority Ltd., a public sector company, for business purposes. Examine the applicability of TCS in respect of each transaction.

**ANSWER:**

Under section 206C(1), a seller is required to collect tax at source (TCS) at the time of debit to the buyer's account or receipt of consideration, whichever is earlier, on sale of specified goods.

**→ Sale of timber:**

Timber obtained under a forest lease is a specified good u/s 206C(1). Accordingly, M/s GreenEarth Resources Ltd. is liable to collect TCS at **2%** on the sale value of timber at the time of debit or receipt, whichever is earlier.

**→ Sale of scrap:**

Scrap is also a specified good under section 206C(1). Hence, TCS is required to be collected by M/s GreenEarth Resources Ltd. **@1%** at the time of debit or receipt of sale consideration, whichever is earlier.

**→ Sale of coal for power generation:**

Coal is a specified mineral under section 206C(1), liable to TCS @ 1%. However, since the buyer furnished a declaration stating that coal would be used for **generation of power** and not for trading purposes, **no TCS** is required to be collected in view of section 206C(1A).

**→ Licence to operate toll plaza:**

Section 206C(1C) applies to collection of TCS at 2% on grant of licence for operating a toll plaza, except where the licensee is a **public sector company**. Since the licence is granted to M/s National Highways Authority Ltd., a public sector company, TCS is **not applicable** in this case.

## DOUBLE TAXATION

### QUESTION 1:

Mrs. Sudha Sharma, aged 61 years, is married and settled in Calcutta. She is a Hindustani classical singer and composer who performs concerts in India and Country M. She visits Country M every year during the music season in October to participate in the Mega music concert held there. For the rest of the year, she performs concerts in India.

Income from concerts held

- In India - ₹ 10 lakhs
- In Country M - CMD 12,245

Tax deducted in Country M in October, 2025 in respect of income earned by her in that country was 2500 CMD.

She earns income of CND 10000 by way of royalty in respect of copyright of her musical compositions in Country N. The royalty is paid to her every year on 25th March after deduction of tax @ 10%.

In India, she has interest income of ₹ 4 lakhs from bank fixed deposits in her name and ₹ 25,000 from savings bank account.

She pays medical insurance premium of ₹ 27,000 to insure her health and ₹ 30,000 to insure the health of her husband, a resident aged 64 years.

She deposits ₹ 1.50 lakhs in public provident fund and ₹ 3 lakhs in five-year fixed deposit in the name of her son, Mr. Sahil.

The conversion rates are as follows –

TT buying rate	30.9.25	31.10.25	28.2.26	31.3.26
Country M dollar	₹ 80	₹ 84	₹ 78	₹ 80
Country N dollar	₹ 80	₹ 82	₹ 78	₹ 79

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

**Relevant Extracts of DTAA between "India - Country N"**

**Article 12**

**ROYALTIES AND FEES FOR TECHNICAL SERVICES**

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

**Article 23**

**ELIMINATION OF DOUBLE TAXATION**

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

Compute the total income and net tax liability (taking into account the foreign tax credit) of Mrs. Sudha Sharma for A.Y. 2026-27, if she has opted out of the default tax regime.

**ANSWER:****STATEMENT OF TOTAL INCOME**

Particulars	Amt.
* <u>Income from Salaries</u>	Nil
* <u>Income from House Property</u>	Nil
* <u>Income from Business [Concerts]</u>	
→ In India	10,00,000
→ In Country M [CMD 12,245 x 80]	9,79,600
* <u>Capital Gains</u>	Nil
* <u>Income from Other Sources:</u>	
→ Royalty from Country N [CND 10,000 x 79]	7,90,000
→ Interest on FD with Bank in India	4,00,000
→ Interest on Savings Bank A/c	25,000
<b>GROSS TOTAL INCOME</b>	<b>31,94,600</b>
<b>Less: Deduction under Chapter VI A:</b>	
→ <b>Sec. 80C:</b> Deposit in PPF [5 year FD in the name of her son not eligible]	- 1,50,000
→ <b>Sec. 80D:</b> Mediclaim Insurance [Senior citizen]	- 50,000
→ <b>Sec. 80TTB:</b> Interest on FD and Savings Bk A/c	- 50,000
<b>NET TAXABLE INCOME</b>	<b>29,44,600</b>

**STATEMENT OF TAX**

	ST 111A	LT 112A	LT	Win	Balance
<b>Net Taxable Income</b>	<b>Nil</b>	<b>Nil</b>	<b>Nil</b>	<b>Nil</b>	<b>29,44,600</b>
Tax on above <b>(Slab Rt)</b>					6,93,380
<u>Add: SC</u>					+ Nil
					6,93,380
<u>Add: HEC @ 4%</u>					+ 27,735
					7,21,115
<u>Less: Relief u/s 91 (Note 1)</u>					- 2,00,000
<u>Less: Relief u/s 90 (Note 2)</u>					- 78,000
Tax Payable					4,43,115
Tax Payable [Rounded]					4,43,120

**Note 1: RELIEF u/s 91:**

Since India does not have DTAA with Country "M", the assessee will get unilateral relief u/s 91 as follows:

$$\Rightarrow \text{Amount of Relief} = \text{Doubly Taxed Income} \times \begin{matrix} \text{Avg. Indian Tax Rate} \\ \text{or} \\ \text{Avg. Foreign Tax Rate} \\ \text{[whichever is less]} \end{matrix}$$

	₹
Business income [Concerts]	9,79,600
<b>Doubly Taxed Income</b>	<b>9,79,600</b>
Avg. Indian Tax Rate*	24.489%
Or	
Avg. Foreign Tax Rt.*	<b>20.416%</b>
Amt of Relief	2,00,000

$$\begin{aligned} \text{*Avg. Indian Tax Rate} &= \text{Total Tax} / \text{Net Taxable Income} \\ &= 7,21,115 / 29,44,600 = 24.489\% \end{aligned}$$

$$\begin{aligned} \text{*Avg. Foreign Tax Rate} &= \text{Total Foreign Tax} / \text{Total Foreign Income} \\ &= [2,500 \times 80] / [12,245 \times 80] = 20.416\% \end{aligned}$$

**Note 2: RELIEF u/s 90 [For DTAA with Country "N"]:**

- 1) Tax in India [Doubly Taxed Income x Avg. Indian Tax Rate]  
= 7,90,000 x 24.489% = 1,93,463
- 2) Actual tax paid in Foreign Country "N" = CND 1,000 x 78  
= **78,000**

**QUESTION 2:**

Miss. Ritika aged 30 years, a resident individual, started a business of printing mobile skins and covers in India and abroad. She frequently visits Country Z to serve her overseas clients. The following particulars are furnished for the Financial Year 2025-26:

1. Receipts from selling of phone skins and covers:
  - In India – ₹ 12,45,50,780
  - In Country Z – ₹ 15,50,000
2. Expenses incurred in earning the above income:
  - In India – ₹ 10.20 crores
  - In Country Z – ₹ 9 lakh
3. Rent received from property in Country Z – ₹ 65,000 p.m..
4. Exps. for earning such rental income in Country Z – ₹ 1,50,000.

**Additional Information:**

- (i) Country Z provides 2 options to the assessee as far as taxation of business income is concerned -  
Option 1 - 20% Tax without deduction of any expenses; or  
Option 2 - 37% Tax after deduction of expenses.
- (ii) Country Z taxes rental incomes at a flat rate of 27% after giving a standard deduction of 20% for regular expenses. No other expense is allowed to be deducted.
- (iii) In F.Y. 2025-26, Ms. Ritika expanded her mobile accessories business by opening a large manufacturing unit in Pune. She hired the following new employees for unit of Pune:
  - 18 employees on 01.05.2025 (Salary ₹ 23,300 each)
  - 22 employees on 01.06.2025 (Salary ₹ 24,500 each)
  - 15 employees on 01.11.2025 (Salary ₹ 24,700 each)
- (iv) India does not have any DTAA with Country Z.
- (v) Ms. Ritika is paying tax as per the default tax regime.

You are required to compute the total income and net tax liability of Ms. Ritika chargeable to tax in India for A.Y. 2026-27.

**ANSWER:****STATEMENT OF TOTAL INCOME**

Particulars	Amt.
* Income from Salaries	Nil
* <u>Income from House Property</u> – Country “Z”: Rent 65,000 p.m. x 12 – 30% Std dedn.	5,46,000
* <u>Income from Business</u> In India (12,45,50,780 – 10,20,00,000)	2,25,50,780
In Country Z (15,50,000 – 9,00,000)	6,50,000
* Capital Gains	Nil
* Income from Other Sources	Nil
<b>GROSS TOTAL INCOME</b>	<b>2,37,46,780</b>
<b>Less: Deduction under Chapter VI A:</b>	
→ <b>Sec. 80JJAA:</b> Deduction for <b>new employees</b> [(23,300 x 18 x 11m) + (24,500 x 22 x 10m)] x <b>30%</b> <b>15 employees</b> employed for a period of <b>less than 240 days</b> during the P.Y. 2025-26 are <b>not considered</b> for deduction u/s 80JJAA for the said P.Y.	- 30,01,020
<b>NET TAXABLE INCOME</b>	<b>2,07,45,760</b>

Under default tax regime, deductions under chapter VIA are not allowed. However, deduction u/s 80JJAA is allowed.

**STATEMENT OF TAX**

	ST 111A	LT 112A	LT	Win	Balance
<b>Net Taxable Income</b>	<b>Nil</b>	<b>Nil</b>	<b>Nil</b>	<b>Nil</b>	<b>2,07,45,760</b>
Tax on above ( <b>Slab Rt</b> )					58,03,728
Add: SC @25%					+ 14,50,932
					72,54,660
Less: M. Relief ( <b>Note1</b> )					- 91,900
					71,62,760
Add: HEC @ 4%					+ 2,86,510
					74,49,270
Less: Relief u/s 91 ( <b>Note2</b> )					- 3,83,916
Tax liability					70,65,354
Tax liability [rounded off]					70,65,350

**Note 1: Marginal Relief**

		Extra Income 7,45,760
Income	2,00,00,000	2,07,45,760
Tax (Incl. SC)	64,17,000	72,54,660
		Extra Tax 8,37,660

Extra Tax	8,37,660
(-) Extra Income	- 7,45,760
Marginal Relief	91,900

**Note 2:**

Since India does not have DTAA with Country "Z", the assessee will get unilateral relief u/s 91 as follows:

$$\Rightarrow \text{Amount of Relief} = \text{Doubly Taxed Income} \times \begin{matrix} \text{Avg. Indian Tax Rate} \\ \text{or} \\ \text{Avg. Foreign Tax Rate} \\ \text{[whichever is less]} \end{matrix}$$

	Country "Z"
Rent from HP	5,46,000
Business income	6,50,000
<b>Doubly Taxed Income</b>	<b>11,96,000</b>
Avg. Indian Tax Rate*	35.91%
Or	
Avg. Foreign Tax Rt.*	<b>32.10 %</b>
Amt of Relief	3,83,916

$$\begin{aligned} \text{*Avg. Indian Tax Rate} &= \text{Total Tax} / \text{Net Taxable Income} \\ &= 74,49,270 / 2,07,45,760 = 35.91\% \end{aligned}$$

$$\begin{aligned} \text{*Avg. Foreign Tax Rate} &= \text{Total Foreign Tax} / \text{Total Foreign Income} \\ &= 4,08,980 / 12,74,000 = 32.10\% \end{aligned}$$

CA SHIRISH VYAS / CA FINAL / DIRECT TAX / ADDITIONAL QUESTIONS

	Foreign Income		Foreign Tax
Business income	6,50,000	37%*	2,40,500
Rent of HP	6,24,000	27%	1,68,480
	12,74,000		4,08,980

\*

Option 1 – 20% Tax on 15,50,000 = 3,10,000

Option 2 – 37% Tax on (15,50,000 – 9,00,000) = 2,40,500

∴ Option 2 is better

**QUESTION 3:**

Mr. Ram Prakash, a resident Indian aged 58 years, has business interest in India and in some other foreign nations also. He has derived income from two other nations X and Y, with which India does not have DTAA. The particulars of income earned in the two nations X, Y and in India during the P.Y. 2025-26 are as under:

	X	Y	India
Gross rental receipts from commercial property	2,50,000	2,50,000	—
Share income from Partnership firm (loss) [The partnership deed was not evidenced by an instrument in writing]	(1,20,000)	(1,30,000)	—
Business income	2,80,000	3,40,000	1,80,000
STCG from sale of vacant site on 11.11.2025	10,80,000	—	—
LTCG on sale of residential house in Delhi on 1.3.2026	—	—	37,00,000
Agricultural Income	3,40,000	1,80,000	5,20,000

The following investments were made in India during the year ended 31.3.2026:

Particulars of Income	(₹)
Purchase of residential house at Delhi on 18.3.2026 in joint name with spouse	25,00,000
Contribution to PPF	1,50,000

→ Income-tax rate structure:

**Country X**

	Tax rate
Upto ₹ 3 lakhs	Nil
₹ 3 to ₹ 6 lakhs	15%
Above ₹ 6 lakhs	22%

**Country Y**

Flat 27% without any basic exemption limit.

→ Tax treatment/ concessions in other nations:

- (i) No statutory allowance/deduction in respect of house property income in Country X as well as Country Y.
- (ii) Loss from firm can be set off against other business income in Country Y only (and not in Country X).
- (iii) Agricultural income is exempt in Country X only (and not in Country Y).

Compute the net tax liability of Mr. Ram Prakash for the AY 2026-27 assuming that he is paying tax under section 115BAC.

**ANSWER:**

**STATEMENT OF TOTAL INCOME**

Particulars	Amt.
* <u>Income from Salaries</u>	Nil
* <u>Income from House Property:</u>	
Country X - 2,50,000 – 30% Std dedn.	1,75,000
Country Y - 2,50,000 – 30% Std dedn.	1,75,000
* <u>Income from Business:</u>	
Country X - 2,80,000 – 1,20,000	1,60,000
Country Y - 3,40,000 – 1,30,000	2,10,000
In India	1,80,000
* <u>Capital Gains:</u>	
STCG in Country X	10,80,000
LTCG in India [37 L – 25 L <b>Ex. u/s 54</b> ]	12,00,000
* <u>Income from Other Sources:</u>	
Agricultural income in Country X	3,40,000
Agricultural income in Country Y	1,80,000
Agricultural income in India [Exempt u/s 10(1)]	Nil
<b>GROSS TOTAL INCOME</b>	<b>37,00,000</b>
<u>Less:</u> Deduction under Chapter VI A	Not allowed
<b>NET TAXABLE INCOME</b>	<b>37,00,000</b>

**STATEMENT OF TAX**

	ST 111A	LT 112A	LT (Others)	Win	Balance
<b>Net Taxable Income</b>	<b>Nil</b>	<b>Nil</b>	<b>12 L</b>	<b>Nil</b>	<b>25 L</b>
Tax on above			1,50,000 (12.5%)		4,54,000 (Note 1)
<u>Add:</u> Surcharge					6,04,000 + Nil
<u>Add:</u> HEC @ 4%					6,04,000 + 24,160
<u>Less:</u> Relief u/s 91 <b>Note2</b>					6,28,160 - 3,30,770
Tax Payable					2,97,390

**Note 1: Tax on Balance NTI (Scheme of Partial Integration)**

Tax on (Balance NTI + Net Agricultural Income)	
Tax on (25,00,000 + 5,20,000)	4,86,000
<u>Less:</u> Tax on (Basic Exemption + Net Agricultural Inc.)	
Tax on (4,00,000 + 5,20,000)	- 32,000
Tax payable	4,54,000

**Note 2:**

Since India does not have DTAA with Country "X" and Country "Y", the assessee will get unilateral relief u/s 91 as follows:

$$\Rightarrow \text{Amount of Relief} = \text{Doubly Taxed Income} \times \begin{matrix} \text{Avg. Indian Tax Rate} \\ \text{or} \\ \text{Avg. Foreign Tax Rate} \\ \text{[whichever is less]} \end{matrix}$$

	Country "X"		Country "Y"
Rent of HP	1,75,000	Rent of HP	1,75,000
Business income	1,60,000	Business income	2,10,000
STCG	10,80,000	Agricultural income	1,80,000
<b>Doubly Taxed Inc.</b>	<b>14,15,000</b>	<b>Doubly Taxed Inc.</b>	<b>5,65,000</b>
Avg. Indian Tax Rt. or Avg. Foreign Tax Rt.	16.98%*	Avg. Indian Tax Rt. Or Avg. Foreign Tax Rt.	16.98%* 27%
Amt of Relief	2,34,833		95,937

Total Relief u/s 91 = 2,34,833 + 95,937 = ₹ 3,30,770

\*Avg. Indian Tax Rate = Total Tax / Net Taxable Income  
= 6,28,160/37,00,000 = 16.98%

\*Avg. Foreign Tax Rate [Country X]  
= Total Foreign Tax/Total Foreign Income  
= 2,67,200 / 16,10,000 = 16.596%

	₹
Rent of HP	2,50,000
Business income	2,80,000
STCG	10,80,000
Agricultural income	Nil
Foreign income [as per foreign law]	16,10,000
Foreign Tax [foreign slab rates]	2,67,200

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