



# Work Book

Final

# Direct Tax Laws and International Taxation

Paper

# 15



**The Institute of Cost Accountants of India**  
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# WORK BOOK

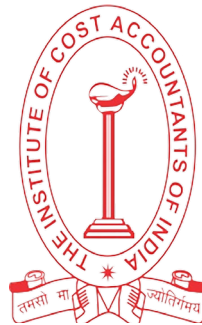
## Direct Tax Laws & International Taxation

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**FINAL**

**Paper 15**

**SYLLABUS 2022**



**The Institute of Cost Accountants of India**

CMA Bhawan, 12, Sunder Street, Kolkata - 700 016

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First Edition : March 2025

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**Published by :**

Directorate of Studies  
The Institute of Cost Accountants of India  
CMA Bhawan, 12, Sudder Street, Kolkata - 700 016  
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## Preface

**T**he landscape of professional education is undergoing a profound transformation, driven by the evolving demands of a globally integrated economy. In this dynamic environment, it is imperative to equip students not only with technical knowledge but also with the analytical skills and professional acumen essential for success.

Effective learning extends beyond theoretical understanding—it necessitates the development of strong conceptual foundations, critical thinking abilities, and disciplined study habits. These attributes are cultivated through continuous practice and engagement with thought-provoking academic material. To facilitate this process, the curriculum, instructional methods, and assessments must be designed to provide comprehensive, structured, and intellectually stimulating learning experiences.

Building on the success of the previous editions, we are pleased to present the new edition of our 'Workbook' in an e-distributed format. This edition has been meticulously developed to enhance students' comprehension and application of key concepts. Each chapter is structured to offer a seamless learning experience and integrating practical illustrations in a phased manner to align with the evolving regulatory framework.

We are confident that this new edition will continue to serve as a valuable academic resource, empowering students to achieve their professional aspirations with confidence and competence.

The Directorate of Studies,  
The Institute of Cost Accountants of India

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# 1

## Assessment of Income and Computation of Tax Liability of Various Entities [Study Material - Module 1]

### Illustration 1 (Company Assessment)

RVD Ltd. is a domestic company engaged in the business of electronics manufacturing since 01.07.2015. The Profit and Loss account for the year ended 31.03.2025 shows a net profit of ₹ 50 lakhs after debiting/crediting the following:

1. Depreciation charged in books as per the Companies Act: ₹30 lakhs
2. Compensation of ₹4 lakhs paid to workers under the VRS scheme
3. Income tax refund, including interest of ₹ 22,000: ₹2 lakhs
4. Provision for doubtful debts: ₹5 lakhs
5. Advertisement in a souvenir published by a private political party: ₹1 lakh
6. Royalty income from a patent registered in India: ₹ 10 lakhs
7. Goods purchased from R Ltd., a related party: ₹20 lakhs. FMV: ₹18 lakhs..

Additional Information:

- Depreciation as per Income-tax Rules: ₹35 lakhs
- Company paid donation of ₹1.2 lakhs to PM CARES Fund, which is debited to the statement of Profit and Loss

Compute the total income of RVD Ltd. for A.Y. 2025-26. Ignore the provision of MAT

### Solution

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

Particulars	Amount (₹)	Amount (₹)
Net Profit as per P&L		50,00,000
<b>Add: Items debited but not allowable/deductible separately</b>		
Depreciation as per the Companies Act	30,00,000	
VRS Compensation (not allowable u/s 35DDA)	4,00,000	



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Provision for Doubtful Debts	5,00,000	
Advertisement in political souvenir (Sec. 37 disallowance)	1,00,000	
Excess payment to related party (Sec. 40A(2)) [20L - 18L]	2,00,000	
Donation	1,20,000	43,20,000
		93,20,000
<b><u>Less: Items credited but taxable separately/expenses deductible</u></b>		
VRS Compensation (1/5 <sup>th</sup> allowable u/s 35DDA)	80,000	
Income tax refund & interest	2,00,000	
Depreciation as per sec. 32	35,00,000	37,80,000
<b>Profits and Gains of Business or Profession</b>		55,40,000
<b><i>Income from Other Sources</i></b>		
Interest on income tax refund		22,000
<b>Gross Total Income</b>		55,62,000
<b><i>Less: Deduction u/s 80G</i></b>		1,20,000
<b>Total Income</b>		<b>54,42,000</b>

### Illustration 2 (Company Assessment)

R (P) Ltd. is a company where public are not substantially interested and is engaged in multiple business activities. It has brought forward business loss of Assessment Year 2020-21 of ₹ 15 lakhs and unabsorbed depreciation of ₹ 20 lakhs. The company has 10 shareholders each having 10% of the equity share capital of the company. Four shareholders transferred the shares in October, 2024. One shareholder died in February, 2025 and yet another shareholder gifted his shares to his son in April, 2024.

The company for the previous year 2024-25 earned Net Profit of ₹ 10 lakhs (computed) as per regular provisions before set off of brought forward loss and depreciation given above. Its book profit under section 115JB for the Assessment Year 2025-26 is ₹ 25 lakhs (computed).

How much of accumulated loss and unabsorbed depreciation, the company could carry forward to the subsequent assessment years?

### Solution

As per section 79(1), brought forward business loss shall not be allowed to be carried forward and



set-off unless at least 51% of the voting power is held by same beneficial owners on the last day of the previous year as were holding on the last day of the year in which the loss was incurred.

However, as per section 79(2)(a), exceptions are provided in case of:

- Change in shareholding due to death of a shareholder
- Change due to gift to relatives

Application to this case:

- Transfers by 4 shareholders = 40% change (not exempt)
- Gift to son = 10% (ignored under 79)
- Inheritance due to death = 10% (ignored under 79)

Hence, effective continuity of shareholding = 60% (40% retained + 10% via gift + 10% via inheritance)

Since more than 51% beneficial ownership remains with original shareholders/covered exceptions, section 79 does not apply.

Tax Treatment:

- Brought forward business loss of ₹15,00,000 is eligible for set-off and carry forward
- Unabsorbed depreciation is always allowed as per section 32(2)

Set-off in A.Y. 2025–26:

- Current year profit: ₹10,00,000
- Set-off against business loss: ₹10,00,000

Carry forward to A.Y. 2026–27:

Particulars	Amount (₹)	Treatment
Business Loss (c/f)	5,00,000	Allowed
Unabsorbed Depreciation (c/f)	20,00,000	Allowed

Conclusion: Since 60% of voting power is beneficially held by the same persons or covered relatives, R(P) Ltd. is allowed to carry forward both business loss and unabsorbed depreciation.

### Illustration 3 (Company Assessment)

S Textiles (P) Ltd., Surat earned a profit of ₹ 20 lakhs after debit/credit of the following items to its statement of profit and loss for the year ended 31.03.2025:



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Particulars	₹
<b>Items debited to statement of profit and loss:</b>	
(i) Provision for the loss of subsidiary	2,00,000
(ii) Provision for Doubtful Debts	1,50,000
(iii) Provision for Income-tax	3,00,000
(iv) Provision for Gratuity (based on actuarial valuation ₹ 5 lakhs)	7,00,000
(v) Depreciation (including ₹ 1,60,000 on account of revaluation of fixed assets)	5,60,000
(vi) Interest to financial institution (unpaid till filing of return)	2,50,000
(vii) Penalty for infraction of law	60,000
<b>Items credited to statement of profit and loss:</b>	
(i) Royalty in respect of patent (chargeable to tax under section 115BBF)	6,00,000
(ii) Share income as partner in a firm	1,20,000
(iii) Long term capital gains on sale of vacant land	4,00,000

Other information:

(i) Depreciation as per Income-tax Rules is ₹ 2,80,000.

(ii) Income tax liability on income computed as per regular provisions for the Assessment Year 2025-26 is ₹ 1,22,070 (before cess) excluding tax on royalty chargeable to tax under section 115BBF.

You are required to compute Book Profits under section 115JB of the Income-tax Act, 1961 for Assessment Year 2025-26 and tax liability of the company for the assessment year 2025-26

**Solution**

Computation of Book Profit of S Textiles P Ltd. as per section 115JB

Particulars	₹	₹
Net Profit as per Statement of Profit & Loss		20,00,000
<b>Add:</b>		
Provision for the loss of subsidiary	2,00,000	
Provision for Doubtful Debts	1,50,000	
Provision for Income-tax	3,00,000	
Provision for Gratuity (over and above actuarial valuation Rs. 5 lakhs)	2,00,000	

Depreciation (including Rs. 1,60,000 on account of revaluation of fixed assets)	5,60,000	
Interest to financial institution (unpaid till filing of return)	-	
Penalty for infraction of law	-	14,10,000
		34,10,000
<b>Less</b>		
Royalty in respect of patent (chargeable to tax under section 115BBF)	6,00,000	
Share income as partner in a firm as exempted u/s 10(2A)	1,20,000	
Long term capital gains on sale of vacant land	-	
Depreciation without considering revaluation	4,00,000	11,20,000
<b>Book Profit as per section 115JB</b>		<b>22,90,000</b>

Computation of tax liability of S Textiles (P) Ltd for the A.Y. 2025-26

Particulars	₹	₹
Book Profit as per section 115 JB		22,90,000
Tax u/s 115JB [₹ 22,90,000 x 15%]		3,43,500
Tax Liability on regular computation:		
On Income other than royalty [Given]	1,22,070	
On Royalty Income of ₹ 6,00,000 u/s 115 BBF	60,000	1,82,070
Tax liability (as tax u/s 115JB is higher)		3,43,500
<b>Add: HEC</b>		13,740
<b>Tax and cess payable</b>		<b>3,57,240</b>

Illustration 4 (MAT)

Sunrise & Co. Ltd., a public company, prepared its financial statements as per Schedule III of the Companies Act, 2013. Its Profit & Loss Account for the year ended 31st March, 2025, shows a net profit of ₹ 35 lakhs.

The following credits/debits were recorded in the P&L account:



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Credits to the P&L A/c	Debits to the P&L A/c
1. Agricultural Income – ₹14 Lakhs	1. Expenses relating to 10AA undertaking – ₹20 Lakhs
2. Profits from SEZ unit qualified u/s 10AA – ₹40 Lakhs	2. Depreciation relating to P.Y. 2023-24 (Brought forward) – ₹18 Lakhs
3. Withdrawal from reserves created in FY 2023-24 (Book profit not increased then) – ₹6 Lakhs	3. Business Loss relating to P.Y. 2023-24 (Brought forward) – ₹12 Lakhs
4. LTCG on equity shares (STT paid) – ₹5 Lakhs	4. Current Year Depreciation – ₹15 Lakhs
5. Amount withdrawn from revaluation reserve – ₹6 Lakhs	5. Interest to bank unpaid till filing ROI – ₹6 Lakhs
	6. Provision for unascertained liabilities – ₹4 Lakhs
	7. Income Tax paid – ₹8 Lakhs
	8. Penalty for infringement of law – ₹3 Lakhs

Further Information:

- Depreciation for the current year includes ₹6 Lakhs towards revaluation of fixed assets.

Required: Compute the book profit of the company liable to tax under MAT provisions of Section 115JB for A.Y. 2025-26.

Solution

Computation of Book Profit under section 115JB

Particulars	₹ in Lakhs
<b>Net Profit as per Statement of Profit &amp; Loss</b>	<b>35</b>
<b>Add: Amounts to be added back (as per Explanation 1 to Section 115JB)</b>	
1. Expenses related to 10AA undertaking (Not specifically covered u/s 115JB)	NIL
2. Depreciation (including revaluation portion ₹6 Lakhs)	15
3. Lower of brought forward loss or unabsorbed depreciation (₹12 Lakhs or ₹18 Lakhs, whichever is less)	12
4. Interest unpaid to bank till ROI filing (Not specifically covered)	NIL
5. Provision for unascertained liabilities	4
6. Income tax	8
7. Penalty for infringement of law	NIL (Note-2)



<b>Sub-Total (A)</b>	<b>74</b>
<b>Less: Amounts to be reduced (as per Explanation 1 to Section 115JB)</b>	
1. Agricultural Income	14
2. Profit from SEZ unit u/s 10AA (No deduction allowed as per 115JB Explanation)	NIL
3. Withdrawal from reserves (since no addition in earlier years to book profit)	NIL
4. LTCG on equity shares on which STT is paid (No express deduction u/s 115JB)	NIL
5. Depreciation (excluding revaluation depreciation component ₹6 Lakhs; ₹15-₹6 Lakhs)	9
6. Amount withdrawn from revaluation reserve to extent of revaluation depreciation	6
<b>Sub-Total (B)</b>	<b>29</b>
<b>Book Profit (A - B)</b>	<b>45</b>

Notes:

- Expenses relating to 10AA undertaking and interest unpaid to bank till ROI filing are not explicitly specified for add-back under Explanation 1 to Section 115JB, hence not added back.
- Penalty for infringement of law is not explicitly mentioned under Explanation 1 to Section 115JB; therefore, it is not added back for computing MAT.
- Withdrawal from reserve is not deductible since profit was not increased by the amount transferred to reserve in earlier years.
- Long-term capital gains on STT paid equity shares form part of book profit. There is no provision to exclude such gains for computing MAT under Section 115JB.
- Lower of brought forward loss or unabsorbed depreciation as per books must be added back while computing MAT.

#### Illustration 5 (MAT)

ABC Ltd., a domestic company, has prepared its financial statements for the year ending 31st March 2025. The Profit & Loss Account reports a Net Profit of ₹ 50,00,000 after accounting for the following items:

- Depreciation: ₹ 8,00,000
- Provision for Income Tax: ₹ 3,00,000
- Provision for Unascertained Liabilities: ₹ 2,00,000



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4. Deferred Tax Provision: ₹ 1,50,000
5. Provision for Bad Debts: ₹ 1,00,000
6. Dividend Received from Domestic Companies: ₹ 4,00,000
7. Long-Term Capital Gain on Sale of Equity Shares: ₹ 5,00,000
8. Brought Forward Business Loss: ₹ 6,00,000
9. Unabsorbed Depreciation: ₹ 4,00,000

Additional Information:

- The Depreciation of ₹ 8,00,000 includes ₹ 2,00,000 related to revaluation of fixed assets.
- The company has not opted for any concessional tax regime

Compute the Book Profit and the MAT liability under Section 115JB for AY 2025-26.

Solution

Computation of Book Profit under Section 115JB

Particulars	Amount (₹)
Net Profit as per Profit & Loss Account	50,00,000
Additions (if debited to the Statement of Profit and Loss):	
- Provision for Income Tax	3,00,000
- Provision for Unascertained Liabilities	2,00,000
- Deferred Tax Provision	1,50,000
- Provision for Bad Debts	1,00,000
- Depreciation	8,00,000
Total Additions (A)	15,50,000
Deductions (if credited to the Statement of Profit and Loss):	
- Dividend Income	-
- Long-Term Capital Gain	-
- Depreciation (excluding Revaluation Depreciation)	(6,00,000)
- Lower of Brought Forward Business Loss or Unabsorbed Depreciation as per Books	(4,00,000)
Total Deductions (B)	(10,00,000)
<b>Book Profit (Net Profit + A - B)</b>	<b>55,50,000</b>



Notes:

1. Provision for Income Tax, Provision for Unascertained Liabilities, Deferred Tax Provision, and Provision for Bad Debts are added back as per Explanation 1 to Section 115JB(2).
2. Depreciation (excluding the revaluation component) is adjusted to allow the actual depreciation.
3. The lower of Brought Forward Business Loss (₹6,00,000) or Unabsorbed Depreciation (₹4,00,000) is deducted, which in this case is ₹4,00,000.

Computation of MAT Liability

Particulars	Amount (₹)
Book Profit	55,50,000
MAT @ 15% of Book Profit	8,32,500
Add: Surcharge	Nil
	8,32,500
Add: Health & Education Cess @ 4%	33,300
<b>Total MAT Liability</b>	<b>8,65,800</b>

Illustration 6 (Individual)

Mamta, 53 years and widow of Shri Kulkarni, supplies the following details for computing her tax liability under the old tax regime for the A.Y. 2025-26:

- a. She has two house properties. 2<sup>nd</sup> is self occupied and 1<sup>st</sup> is let-out for ₹ 10,000 p.m. Municipal tax paid for 2<sup>nd</sup> house ₹ 5,000 and that for 1<sup>st</sup> house ₹ 3,000. Interest on loan for 1<sup>st</sup> house is ₹ 22,000.
- b. She is working with A Ltd. on the following terms:
  - Basic Salary ₹ 5,000 p.m.
  - Bonus ₹ 50,000
  - D.A. ₹ 2,000 p.m.
  - HRA ₹ 3,000 p.m. (she resides in Kolkata)

Car of 1.4 ltr is provided for office as well as personal purpose.
- c. She received interest on her fixed deposit ₹ 5,000. Interest on Saving Bank Account ₹ 6,000. Interest on deposits in a public Ltd. company ₹ 5,000.
- d. She made a mediclaim policy of her dependent mother aged 62 years and paid a premium of ₹ 5,000.



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- e. She donated to PM Drought Relief Fund ₹ 10,000
- f. Her handicapped brother is fully dependent on her.
- g. She paid LIC premium ₹ 8,000 and made repayment of housing loan taken for acquisition of second house ₹ 43,000 (including ₹ 22,000 interest).
- h. During the previous year, she sold 200 debenture of X Ltd. on behalf of her minor son for ₹ 1,00,000. She acquired such debenture on 1-4-2014 for ₹ 50,000 and gifted the same to her minor child on 1-4-2017.
- i. She paid tuition fees for her –
  - Elder son (Mumbai University) ₹ 10,000.
  - Younger son (Melbourne University, Australia) ₹ 25,000

Solution

Computation of total income of Mamta for A.Y. 2025-26

Particulars	Details	Amount	Amount
<b><i>Salaries</i></b>			
Basic		60,000	
Bonus		50,000	
<b><i>Allowances</i></b>			
Dearness Allowance	24,000		
House Rent Allowance (as she resides in her own house)	36,000	60,000	
<b><i>Perquisite u/s 17(2)</i></b>			
Car facility [₹ 1,800 x 12]		21,600	
		1,91,600	
Less: Standard Deduction u/s 16(ia)		50,000	1,41,600
<b><i>Income from house property</i></b>			
HP 1: <u>Let out</u> [Sec. 23(1)]			
Gross Annual Value (being rent received)	1,20,000		
Less: Municipal Tax	3,000		
Net Annual Value	1,17,000		
<b><i>Less: Deduction u/s</i></b>			
24(a) Standard Deduction	35,100		
24(b) Interest on loan	22,000	59,900	



HP 2: <u>Self occupied</u> [Sec. 23(2)(a)]			
Net Annual Value	Nil		
<i>Less:</i> Deduction u/s 24(b) Interest on loan	22,000	(-) 22,000	37,900
<b><i>Capital gains</i></b>			
<u>Long term capital gain of minor son</u> [Clubbed u/s 64(1A)]			
Sale consideration	1,00,000		
<i>Less:</i> Cost of acquisition	50,000		
	50,000		
<i>Less:</i> Exemption u/s 10(32)	1,500		48,500
<b><i>Income from other sources</i></b>			
Interest on Fixed Deposit	5,000		
Interest on Saving Bank Account	6,000		
Interest on deposits in a public limited company	5,000		16,000
<b>Gross Total Income</b>			2,44,000
<i>Less: Deduction u/s</i>			
80C#	39,000		
80D (Mediclin insurance premium paid)	5,000		
80DD (Assessee has handicapped dependent relative)	75,000		
80G (50% of donation to PM Drought Relief Fund)	5,000		
80TTA (Interest on Saving Bank Account)	6,000		1,30,000
<b>Total Income</b>			1,14,000
<b>Tax on above</b>			Nil

# Deduction u/s 80C

Particulars	Amount
Insurance premium	8,000
Tuition fees (Mumbai University)	10,000
Housing loan repayment (Maximum)	21,000
<b>Total</b>	<b>39,000</b>



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### Illustration 7 (Individual)

Compute total income & tax liability under the old tax regime of Mrs. Banerjee, 66 years (a resident) from the following information:

She has three house properties detailed as follows:

Particulars	Pune (HP1)	Vellore (HP2)	Mount Abu (HP3)
Used for	Self-occupied	Self-occupied	Let out
Municipal value	80,000	1,00,000	1,20,000
Fair rent	60,000	90,000	1,50,000
Actual rent received	-	-	1,44,000
Vacancy period	5 months	7 months	1 month
Interest on loan	20,000	20,000	40,000

Her salary details are as under:

Basic Salary	₹ 8,000 p.m.
D.A.	₹ 4,000 p.m.
Conveyance allowance	₹ 3,000 p.m.
Bonus	₹ 9,000
Professional tax paid by employer	₹ 2,000
LIC premium paid by employer	₹ 10,000

Other information are as under:

Business loss	₹ 30,000
Interest on investment	₹ 30,000
Profit on sale of jewellery (period of holding 8 months)	₹ 6,000
Saving Bank Interest	₹ 8,000
Winning from KBC, a game show (Gross)	₹ 3,20,000
Brought forward long term capital loss	₹ 5,000
Brought forward short term capital loss	₹ 3,000
Contribution in LIC Annuity Plan	₹ 10,000
Investment in NSC	₹ 10,000

Donation to a poor man	₹ 5,000
Donation to political party	₹ 3,000
Donation to an approved trust u/s 80G	₹ 10,000

Solution

Computation of total income of Mrs. Banerjee for the A.Y. 2025-26

Particulars	Details	Amount	Amount
<b><i>Salaries</i></b>			
Basic Salary		96,000	
Bonus		9,000	
<b><i>Allowances</i></b>			
Dearness allowance	48,000		
Conveyance allowance	36,000	84,000	
<b><i>Perquisites u/s 17(2)</i></b>			
Professional tax paid by employer	2,000		
LIC premium paid by employer	10,000	12,000	
Gross Salary		2,01,000	
Less: Standard Deduction u/s 16(ia)	50,000		
Less: Deduction u/s 16(iii) Professional tax	2,000	52,000	1,49,000
<b><i>Income from house property</i></b>			
HP1: <u>Self occupied</u> [Sec. 23(2)(a)]			
Net Annual Value	Nil		
Less: Deduction u/s 24(b): Interest on loan	20,000	(-) 20,000	
HP2: <u>Self occupied</u> [Sec. 23(2)(a)]			
Net Annual Value	Nil		
Less: Deduction u/s 24(b): Interest on loan	20,000	(-) 20,000	
HP3: <u>Let-out</u> [Sec. 23(1)]			
Gross Annual Value (Note 1)	1,44,000		
Less: Municipal tax	Nil		



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Net Annual Value	1,44,000		
<i>Less: Deduction u/s</i>			
24(a) Standard Deduction (30% of NAV)	43,200		
24(b) Interest on loan	40,000	60,800	20,800
<b><i>Profits and gains of business or profession</i></b>			(-) 30,000
<b><i>Capital gains</i></b>			
<u>Short term capital gain</u>			
On sale of jewellery		6,000	
<i>Less: Brought forward short term capital loss</i>		3,000	3,000
<b><i>Income from other sources</i></b>			
Interest on investment		30,000	
Interest on saving bank account		8,000	
Winning from KBC		3,20,000	3,58,000
<b>Gross Total Income</b>			<b>5,00,800</b>
<i>Less: Deduction u/s</i>			
80C (Note 3)		20,000	
80CCC (Contribution to LIC Annuity Plan)		10,000	
80G (50% of donation to an approved trust)		5,000	
80GGC (Donation to political party)		3,000	
80TTB (Interest on saving bank account)		8,000	46,000
<b>Total Income</b>			<b>4,54,800</b>

Notes

1. Computation of gross annual value

Particulars	Working	HP 3
Municipal value		1,20,000
Fair rent		1,50,000
RER	Being higher of MV or FR	1,50,000
ARR		1,44,000



Higher of above		1,50,000
GAV		1,44,000 <sup>#</sup>
<sup>#</sup> . ARR is less than RER due to vacancy period, otherwise ARR would have been ₹ 1,57,091		

- Brought forward long term capital loss can be set off only against long term capital gain.
- Computation of deduction u/s 80C

Investment in NSC	₹ 10,000
LIC premium	₹ 10,000
	₹ 20,000

Computation of tax liability

Particulars	Tax on Casual income	Tax on other income	Total
Total Income	3,20,000	1,34,800	4,54,800
Tax rate	30%	Slab	
	96,000	Nil	96,000
<i>Less: Rebate u/s 87A</i>			12,500
Tax liability after rebate			83,500
<i>Add: Health &amp; Education cess @ 4%</i>			3,340
	<b>Tax liability</b>		<b>86,840</b>

Illustration 8 (Non Resident)

The net result of the business carried on by a branch of a foreign company in India for the year ended 31.03.2025 was a loss of ₹ 30 lakhs after debiting head office expenses of ₹ 60 lakhs allocated to the branch.

Compute the income of the branch for the A.Y. 2025-26.

Solution

Computation of income of the branch for the A.Y. 2025-26

Particulars	Amount	Amount
Net Income for the year ended on 31-03-2025		(30,00,000)
<i>Add: Head office expenses (to be considered separately)</i>		60,00,000
Adjusted Total Income		30,00,000



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Less: Head office expenses allowable u/s 44C being lower of the following:		
- 5% of ₹ 30,00,000	1,50,000	
- Actual Expenses	60,00,000	1,50,000
<b>Total Income</b>		<b>28,50,000</b>

### Illustration 9 (Non Resident)

Mr. Z, a non-resident, operates an aircraft between Dubai and Delhi. He received the following amounts during the previous year in the course of his business:

- ₹ 3 crores in India for carriage of passengers from Delhi
- ₹ 1.5 crores in India for carriage of goods from Delhi
- ₹ 2.5 crores in India for carriage of passengers from Dubai
- ₹ 0.5 crore in Dubai for carriage of goods from Delhi
- ₹ 7 crores – total expenditure incurred during the year for business operations

Compute income chargeable to tax under Section 44BBA for the A.Y. 2025–26.

Solution:

Computation of income of Mr. Z for A.Y. 2025–26:

Particulars	Amount (₹)
Amount received in India for carriage of passengers from Delhi	3,00,00,000
Amount received in India for carriage of goods from Delhi	1,50,00,000
Amount received in India for carriage of passengers from Dubai	2,50,00,000
Amount received in Dubai for carriage of goods from Delhi	50,00,000
<b>Total Receipts as per Section 44BBA</b>	<b>7,50,00,000</b>
<b>Taxable Income @ 5% (Deemed under Section 44BBA)</b>	<b>37,50,000</b>

Note:

- ☑ Under Section 44BBA, 5% of the gross receipts (received in or outside India) for services rendered from or in India by non-resident airline operators is deemed as income.
- ☑ Actual expenditure is not deductible under this presumptive scheme.
- ☑ Receipts in India or receipts for carriage from India are both covered under Section 44BBA.



Illustration 10 (Non Resident)

John Smith, a non-resident football player and non-citizen of India, participated in an exhibition match in Mumbai and received the following payments during the P.Y. 2024–25:

1. ₹ 18,00,000 as prize money
2. ₹ 1,50,000 for contributing a column in a sports magazine
3. ₹ 3,50,000 for appearing in a commercial for a sports drink brand

He also incurred ₹ 1,20,000 on accommodation and travel. He is a non-resident for tax purposes.

Compute his tax liability in India for A.Y. 2025–26 and state whether he is required to file a return of income.

Solution

U/s 115BBA, where a sportsman who is not a citizen of India receives any income by way of i) participating in any game in India; or ii) advertisement; or iii) contributing articles relating to any game or sport in India in newspapers, magazines or journals, then such income shall be chargeable to tax @ 20% + cess @ 4% on the tax.

Accordingly, his income for the A.Y. 2025-26 are as under:

Particulars	Amount
Tournament prize	18,00,000
Amount received on contributing column in sports magazine	1,50,000
Amount received on advertisement	3,50,000
<b>Total Income</b>	<b>23,00,000</b>
<b>Tax on above [₹ 23,00,000 x 20% x 104%]</b>	<b>4,78,400</b>

Notes

- a. While computing income, no deduction in respect of any expenditure or allowance shall be allowed
- b. It shall not be necessary for the assessee to furnish a return of his income if:
  - (i) his total income consisted only of income referred to in sec. 115BBA; and
  - (ii) the tax deductible at source has been deducted from such income

Illustration 11 (Non Resident)

Mr. Ramesh, a non-resident Indian (NRI), has the following incomes in India during the P.Y. 2024–25:

1. Income from house property (computed): ₹3,00,000
2. Dividend from Indian companies: ₹80,000



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3. Interest on debentures of an Indian company (subscribed in convertible foreign exchange): ₹1,20,000
  - o Less: Interest on loan taken for debenture investment: ₹25,000
4. Long-term capital gains on sale of debentures on 10-10-2024 (subscribed in US\$):
  - o Sale consideration: ₹7,00,000
  - o Cost of acquisition: ₹4,50,000
  - o Commission to broker: ₹8,000

Assuming that Mr. Ramesh opts for provisions under Chapter XII-A, compute his total income (old tax regime) and tax liability for A.Y. 2025–26.

Solution

Computation of income of Mr. Ramesh for the A.Y. 2025-26

Particulars	Amount	Amount
Income from house property		3,00,000
<i>Capital gains on sale of debenture</i>		
Full value of consideration	7,00,000	
Less: Commission	8,000	
	6,92,000	
Less: Cost of acquisition	4.50,000	2,42,000
<i>Income from Other Sources</i>		
Dividend	80,000	
Interest on debenture [expenses not allowed]	1,20,000	2,00,000
<b>Total Income</b>		<b>7,42,000</b>

Computation of tax liability

Particulars	Amount
Tax on Long term capital gain [₹ 2,42,000 x 12.5%]	30,250
Tax on interest on debenture [₹ 1,20,000 x 20%]	24,000
Tax on balance income of ₹ 3,80,000	6,500
Tax	60,750
Add: Health and Education Cess	2,430
<b>Tax and cess payable</b>	<b>63,180</b>



Illustration 12 (MAT)

XYZ Ltd., an Indian company, earned a profit of ₹60,00,000 after debiting/crediting the following items to its Statement of Profit and Loss for the year ended on 31.03.2025:

(I) Items debited to Statement of Profit and Loss:

1. Provision for loss of subsidiary: ₹90,000
2. Provision for doubtful debts: ₹1,10,000
3. Provision for income tax: ₹1,80,000
4. Provision for gratuity based on actuarial valuation: ₹3,50,000
5. Interest to financial institution (unpaid before filing return): ₹85,000
6. Depreciation: ₹3,50,000
7. Penalty for infraction of law: ₹20,000

(II) Items credited to Statement of Profit and Loss:

1. Profit from unit established in Special Economic Zone (SEZ): ₹16,00,000
2. Share in income of an Association of Persons (AOP) as a member: ₹2,00,000
3. Long-term capital gains: ₹4,00,000

Other Information:

1. Depreciation includes ₹90,000 on account of revaluation of fixed assets.
2. Balance in Statement of Profit and Loss shown in Balance Sheet at the asset side as at 31.03.2024 was ₹35 lakhs which includes unabsorbed depreciation of ₹20 lakhs.
3. The AOP, of which the company is a member, has paid tax at maximum marginal rate.

Compute book profit and tax liability u/s 115JB

Solution

Computation of Book Profit for MAT under Section 115JB

Particulars	Amount (₹)	Amount (₹)
Net Profit as per Statement of Profit and Loss		60,00,000
<b>Add: Adjustments as per Explanation 1 to Section 115JB</b>		
- Provision for loss of subsidiary		90,000
- Provision for doubtful debts		1,10,000



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- Provision for income tax		1,80,000
- Depreciation		3,50,000
		67,30,000
<b>Less: Deductions as per Explanation 1 to Section 115JB</b>		
- Depreciation without considering revaluation [₹3,50,000 - ₹ 90,000]	2,60,000	
- Share in income of AOP (tax paid at maximum marginal rate)	2,00,000	
- Lower of unabsorbed depreciation (₹ 20 lakhs) and brought forward loss (₹15 lakhs)	15,00,000	19,60,000
<b>Book Profit</b>		<b>47,70,000</b>

### Computation of MAT Liability

Particulars	Amount (₹)
Book Profit	47,70,000
MAT @ 15% of Book Profit	7,15,500
Add: Surcharge	Nil
	7,15,500
Add: Health & Education Cess @ 4%	28,620
<b>Total MAT Liability</b>	<b>7,44,120</b>

### Illustration 13 (MAT)

ABC Ltd., an Indian company, earned a profit of ₹ 56 lakhs after considering the following items debited/credited in its Statement of Profit and Loss for the year ending 31.03.2025:

#### (I) Items Debited:

No.	Particulars	Amount (₹)
1	Provision for loss of subsidiary	90,000
2	Provision for doubtful debts	1,00,000
3	Provision for income tax (includes ₹ 70,000 interest)	1,60,000
4	Depreciation as per books (incl. ₹ 85,000 on revaluation)	3,20,000
5	Interest to NBFC (unpaid before filing the return)	80,000
6	Penalty for violation of law	16,000

(II) Items Credited:

No.	Particulars	Amount (₹)
1	Profit from SEZ unit (eligible under section 10AA)	16,00,000
2	Share of profit from AOP (taxed at MMR)	2,00,000
3	Long-term capital gain (taxable u/s 112)	3,50,000

(III) Additional Information:

1. Depreciation as per Income-tax Act: ₹ 4,25,000
2. Unabsorbed depreciation (as per income-tax) from earlier years: ₹ 18,50,000
3. No brought forward business loss.
4. No option exercised under sections 115BAA or 115BAB.
5. The company is not located in IFSC.

Required:

1. Compute Book Profit and MAT liability under section 115JB for A.Y. 2025-26.
2. Compute Normal Tax liability under regular provisions.

Solution

Computation of Book Profit under Section 115JB

Particulars	Amount (₹)	Amount (₹)
Net Profit as per Statement of Profit and Loss		56,00,000
<b>Add: Adjustments as per Explanation 1 to Section 115JB</b>		
- Provision for loss of subsidiary	90,000	
- Provision for doubtful debts	1,00,000	
- Provision for income tax including interest	1,60,000	
- Depreciation	3,20,000	6,70,000
		62,70,000
<b>Less: Deductions as per Explanation 1 to Section 115JB</b>		
- Depreciation without considering revaluation [₹ 3,20,000 - ₹ 85,000]	2,35,000	
- Share in income of AOP (tax paid at maximum marginal rate)	2,00,000	4,35,000
<b>Book Profit</b>		<b>58,35,000</b>



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Computation of total income under other provisions of the Act

Particulars	Amount (₹)	Amount (₹)
<i>Profits and Gains of Business or Profession</i>		
Net Profit as per Statement of Profit and Loss		56,00,000
<b>Add: Items debited but to be considered separately or to be disallowed</b>		
- Provision for loss of subsidiary	90,000	
- Provision for doubtful debts	1,00,000	
- Provision for income tax including interest	1,60,000	
- Depreciation	3,20,000	
- Interest to NBFC (unpaid before filing the return)	80,000	
- Penalty for violation of law	16,000	7,66,000
		63,66,000
<b>Less: Items credited but chargeable to tax under another head / expenses allowed but not debited</b>		
- Depreciation as per income tax	4,25,000	
- Profit from SEZ unit (eligible under section 10AA)	16,00,000	
- Long term capital gain	3,50,000	
- Unabsorbed depreciation	18,50,000	
- Share in income of AOP (tax paid at maximum marginal rate)	2,00,000	44,25,000
		19,41,000
<i>Capital Gains</i>		
Long term capital gains		3,50,000
<b>Total Income</b>		<b>22,91,000</b>

Computation of tax liability

Particulars	Amount
<i>Tax under other provisions of the law</i>	
Tax on long term capital gains [₹ 3,50,000 x 12.5%]	43,750
Tax on other income [(₹ 22,91,000 - ₹ 3,50,000) x 25%]	4,85,250

Tax on above [A]	5,29,000
Book Profit	58,35,000
Tax on above [B]	8,75,250
Tax liability [Higher of (A) and (B)]	8,75,250
Add: Health & Education Cess	35,010
<b>Tax &amp; Cess payable u/s 115JB</b>	<b>9,10,260</b>

Illustration 14 (Tax Audit)

Examine the applicability of tax audit u/s 44AB in the following independent cases, considering updated provisions and threshold limits:

Case	Cash Turnover / Receipts	Tax Audit Applicable?	Remarks
1	Business A: ₹48 L Profession A: ₹46 L	No	Both business turnover and professional receipts are below respective thresholds (₹1 Cr / ₹50 L)
2	Business A: ₹98 L Profession A: ₹52 L	Yes	Professional receipts exceed ₹50 L, hence audit u/s 44AB is applicable
3	Business A: ₹1.80 Cr (under 44AD)	No	Audit is not applicable if presumptive scheme u/s 44AD is opted

Illustration 15 (Tax Audit)

MNO Pvt. Ltd. is engaged in two lines of business for the P.Y. 2024–25:

Particulars	FMCG Business (₹ in lakhs)	Industrial Machinery (₹ in lakhs)
Sales through banking channel	160	500
Sales in cash	80	—
Purchases through banking	180	450
Purchases in cash	15	—

The company is of the opinion that tax audit is not applicable. You are required to:

1. Examine the applicability of Section 44AB for A.Y. 2025–26.
2. Is the higher threshold limit of ₹10 crore applicable?
3. Compute the penalty u/s 271B, if any.



### Solution

As per Section 44AB of the Income-tax Act, 1961, audit is required if:

- Turnover > ₹1 crore; or
- Higher threshold of ₹ 10 crore may be used only if:
  - o Cash receipts  $\leq$  5% of total receipts, and
  - o Cash payments  $\leq$  5% of total payments

### Computation of Aggregate Receipts & Payments

Particulars	Amount (₹ in lakhs)	Cash Component (₹)	% in Cash
Aggregate Receipts	160 + 80 + 500 = 740	80	10.81%
Aggregate Payments	180 + 450 + 15 = 645	15	2.33%

Since cash receipts > 5%, the higher limit of ₹ 10 crore is not available.

### Determine Tax Audit Applicability

- Combined turnover = ₹ 740 lakhs = ₹ 7.4 crore
- Since it exceeds ₹1 crore and 10 crore threshold is not available, Tax audit u/s 44AB is applicable.

Tax audit is for the entire assessee, not each line of business.

### Penalty under Section 271B

If audit report is not furnished, penalty is lower of:

- 0.5% of turnover = 0.5% of ₹ 7.4 crore = ₹ 3,70,000
- ₹ 1,50,000 (maximum limit)

Penalty = ₹ 1,50,000

### Conclusion

- MNO Pvt. Ltd. is liable for tax audit under Section 44AB.
- Since cash sales exceed 5% of aggregate receipts, ₹ 10 crore threshold is not available.
- As no audit report has been filed, company is liable for penalty u/s 271B of ₹ 1,50,000.

### Illustration 16 [Company Assessment - Sec. 115BAB]

Shivam Ltd., a manufacturing company, is engaged in the manufacturing of leather products since 01-11-2021 in the State of Karnataka. As per Statement of Profit and Loss for the year ended 31st March, 2025, the company showed profit of ₹ 1,20,00,000 after debiting or crediting the following

items:

1. The opening and closing stock for the year were ₹ 55 lakhs and ₹ 54 lakhs, respectively. Opening stock was overvalued by 10% and Closing stock was undervalued by 10%.
2. Shivam Ltd. paid ₹ 10 lakhs in foreign currency as sales commission during the year without deducting tax at source to Mr. John, a citizen of U.S.A and non-resident, for procuring orders from outside India.
3. ₹ 45,000 paid in cash to Mr. Raj employee of the company at the time of his retirement.
4. Profit on sale of 2000 shares of M/s. ABC Ltd, a listed company, ₹ 3,50,000. These shares were sold on 7-10-2024 for ₹ 250 per share. The highest price of ABC Ltd quoted on the stock exchange as on 31-01-2018 was ₹ 175 per share. The said shares were acquired for ₹ 75 per share on 10.06.2016. STT paid both at the time of purchase and sale of shares.
5. STCG derived from transfer of a Capital asset on which no depreciation is allowable under the Act ₹ 75,000.
6. Profit of ₹ 6 lakhs on sale of plot of land on 24-07-2024 to MSP Ltd, a domestic company, the entire shares of which are held by the assessee company. The plot was acquired by Shivam Ltd. on 30-09-2023.
7. Credits to statement of Profit and Loss Account include dividend of ₹ 50,000 from a domestic company.
8. ₹ 20,000 paid for expenses in connection with the inauguration of a new branch opened for expanding the business.
9. ₹ 20,000 paid as penalty to Government for company's failure in performance of a contract within stipulated time. There was delay of 4 months and according to the agreement, the company had to pay a penalty of ₹ 5,000 per month to the Government.
10. An amount of ₹ 5 lakhs was paid to the manager of the company under Voluntary Retirement Scheme.
11. Interest of ₹ 75,000 paid by bank remittance, on deposits made by non-resident buyers of goods manufactured by the company. The said payments were made outside India without deduction of tax.
12. Marked to market loss amounting to ₹ 6,00,000 in respect of an unsettled derivative contract. The contract was settled in May, 2025 with a gain of ₹ 1,00,000.
13. Contribution of ₹ 2,50,000 to a scientific laboratory functioning at the national level with a specific direction for use of the amount for scientific research programme approved by the prescribed authority.
14. Depreciation on tangible fixed assets as per books of account ₹ 2,20,000.



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Additional information:

- Depreciation on tangible fixed assets as per Income-tax Rules ₹ 2,60,000.
- Company has acquired on 15.11.2024, new machinery for ₹ 20,00,000 and put the same to use on the same date. Depreciation on such machinery is not included in point (a) above.
- During the year F.Y. 2024-25, the company has employed 56 additional employees. All these employees contribute to a recognized provident fund. 39 out of 56 employees joined on 1-6-2024 on a salary of ₹ 15,000 per month, 14 joined on 1-7-2024 on a salary of ₹ 45,700 per month, and 3 joined on 1-11-2024 on a salary of ₹ 22,000 per month. The salaries of 9 employees who joined on 1-6-2024 are being settled by bearer cheques every month. Audit under section 44AB has been done before the due date.
- The company has paid through bank ₹ 1,20,000 to National Fund for Rural Development.
- The Company opted for concessional rate of tax and exemption from MAT u/s 115BAB for Assessment year 2025-26.

Compute the total income and tax payable for the Assessment Year 2025-26.

Solution

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

Particulars	Notes	Details	Amount	Amount
<b><u>Profits &amp; gains of business or profession</u></b>				
Net profit as per Statement of Profit and Loss			1,20,00,000	
Over-valuation of opening stock [₹ 55,00,000 x 10% / 110%]		5,00,000		
Under-valuation of closing stock [₹ 54,00,000 x 10% / 90%]		6,00,000		
<b><u>Add: Items debited but to be considered separately or to be disallowed</u></b>				
Sales commission to Mr. John, a non-resident, for procuring orders from outside India	1	-		
Payment to Mr. Raj, an employee, on his retirement	2	-		

Expenses in connection with inauguration of a new branch for expanding business	3	-		
Penalty to Government for failure in performance of a contract	4	-		
Voluntary Retirement Scheme expenditure [₹ 5,00,000 x 4 / 5]	5	4,00,000		
Interest paid to non-resident buyers of goods, on deposits made by them	6	75,000		
Salary paid to employees through bearer cheques	7	13,50,000		
Marked to market losses	8	6,00,000		
Contribution to National Laboratory	9	2,50,000		
Depreciation on tangible fixed assets	10	2,20,000	39,95,000	
			1,59,95,000	
<i>Less: Depreciation u/s 32 [₹ 2,60,000 + (₹ 20,00,000 x 15% x ½)]</i>	11	4,10,000		
<i>Less: <u>Items credited but chargeable to tax under another head / expenses allowed but not debited</u></i>				
Profit on sale of shares of M/s ABC Ltd.	12	3,50,000		
Short term capital gain on sale of capital asset on which no depreciation is allowable	13	75,000		
Profit on sale of plot of land to 100% subsidiary	14	6,00,000		
Dividend received from domestic company	15	50,000		
Contribution to National Fund for Rural Development	16	1,20,000	16,05,000	1,43,90,000
<b><i>Capital Gains</i></b>				
<i><u>Long term capital gain on sale of shares of M/s. ABC Ltd</u></i>				



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Full value of consideration [₹ 250 x 2000]		5,00,000		
<i>Less:</i> Cost of acquisition being higher of the following				
a) Actual cost of acquisition [₹ 75 x 2000] i.e., ₹ 1,50,000				
b) ₹3,50,000, being lower of fair market value as on 31.1.2018 (i.e., ₹3,50,000, being 2,000 x ₹ 175) and sale consideration (i.e., ₹ 5,00,000)		3,50,000	1,50,000	
Short term capital gain on sale of capital asset on which no depreciation is allowable			75,000	
Profit on sale of plot of land to 100% subsidiary	17		-	2,25,000
<b><i>Income from other sources</i></b>				
Dividend received from domestic company	15			50,000
<b>Gross Total Income</b>				<b>1,46,65,000</b>
<i>Less:</i> Deduction u/s 80JAA				14,49,000
<b>Total Income</b>				<b>1,32,16,000</b>

### Notes

- The commission paid to Mr. John, a non-resident agent, for services performed outside India is not taxable in India. This commission, being paid directly to him in foreign currency, is neither received by him nor on his behalf in India. Consequently, since the commission earned by a non-resident for securing orders while remaining outside India is not subject to Indian taxation, the disallowance under section 40(a)(i) does not apply to such payments, even if tax has not been deducted at source.
- Section 40A(3) mandates a 100% disallowance of any expenditure exceeding ₹10,000 if it is made through means other than an account payee cheque, an account payee bank draft, electronic clearing systems via a bank account, or other prescribed electronic modes. However, as per Rule 6DD, no disallowance under section 40A(3) applies to the payment made to Mr. Raj upon his retirement, as the amount does not exceed ₹ 50,000.
- Expenditure incurred for the inauguration of a new branch aimed at business expansion

qualifies as a revenue expense, as it is exclusively for business purposes. Since this amount has already been recorded in the statement of profit and loss, no additional adjustments are necessary.

4. A penalty of ₹ 20,000 paid for failing to fulfill a contract within the stipulated timeframe is not considered a violation of law but rather a violation of contractual obligations, making it an allowable expense. As this amount has already been recorded in the statement of profit and loss, no additional adjustments are needed.
5. Under section 35DDA, 1/5th of the expenditure on a voluntary retirement scheme is allowable as a deduction over a five-year period. Since the entire expenditure has been debited to the statement of profit and loss, 4/5th of the amount, i.e., ₹ 5,00,000 × 4/5, must be added back.
6. Interest paid to a non-resident buyer of goods on deposits made by them is deemed to accrue or arise in India. This is because the interest is paid by a resident company, which utilized the deposit for its business operations within India. Therefore, such interest is taxable in India, and Shivam Ltd. is liable to deduct tax at source on this interest. A 100% disallowance of the interest paid is attracted under section 40(a)(i), as tax has not been deducted at source.
7. Salary paid through bearer cheques to 9 employees for 10 months (₹ 15,000 × 9 × 10) will be subject to disallowance under Section 40A(3). Consequently, the entire amount must be added back.
8. Marked to market loss or other expected loss as computed in accordance with the ICDS would be allowed as deduction u/s 36(1)(xviii). As per ICDS I, marked to market losses cannot be recognized unless the recognition of such loss is in accordance with the provisions of any other ICDS. Marked to market loss in respect of an unsettled derivative contract is not allowable as deduction. Since such losses have been debited to the profit and loss A/c, they have to be added back for computing business income.
9. As per section 35(2AA) donation to National Laboratory eligible for 100% deduction but when the assessee opted section 115BAB then this deduction not allowed.
10. An amount of ₹ 2,20,000, representing depreciation as per the books of account and debited to the statement of profit and loss, must be added back.
11. Additional depreciation shall not be available as the company is opting for section 115BAB.
12. Capital Gain arising on sale of shares of ABC Ltd. is taxable under the head "Capital Gains". Since the profit on sale of shares has been credited to the statement of profit and loss, the same has to be deducted while computing business income.
13. Short-term capital gain (STCG) arising from the sale of a capital asset is taxable under the head "Capital Gains." As this STCG has been credited to the statement of profit and loss, it must be deducted while computing business income.
14. The taxability or otherwise of such gain is to be determined under the head "Capital Gains." As this profit has been credited to the statement of profit and loss, it must be deducted while computing business income.



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15. Dividend income received from a domestic foreign company is taxable under the head “Income from Other Sources.” As this dividend income has been credited to the statement of profit and loss, it must be deducted while computing business income. Further, amount credited into the Statement of Profit and Loss is gross dividend, hence grossing up is not required.
16. A deduction under section 35CCA is allowable for contributions made to a National Fund for Rural Development while computing business income. This deduction is also available to an assessee opting for the provisions of Section 115BAB.
17. As per Section 47, if the transfer is made to a 100% subsidiary company and the subsidiary company is an Indian company, such a transaction does not qualify as a transfer for the purpose of levying capital gains tax.
18. Computation of deduction under section 80JJAA

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

### Computation of tax liability

Particulars	₹
Tax on long-term capital gains in excess of ₹ 1.25 lakh @ 12.5% u/s 112A [₹ 25,000 x 12.5%]	3,125
Tax on short term capital gain of ₹ 75,000 derived from transfer of a capital asset on which no depreciation is allowable @ 22%	16,500
Tax on dividend income of ₹ 50,000 @ 22%	11,000

Tax on business income @ 15% of ₹ 1,29,41,000 (i.e. 1,43,90,000 – 14,49,000)	19,41,150
	19,71,775
Add: Surcharge @ 10%	1,97,178
	21,68,953
Add: Health and education cess @ 4%	86,758
<i>Tax Liability</i>	22,55,711
<i>Tax Liability being rounded off</i>	22,55,710

Since the assessee has opted for section 115BAB, the provision of section 115JB is not applicable.

#### Illustration 17 (Non-resident)

Techno Ltd., a German company, received ₹ 4.50 crore in previous year 2024-25 as fees for technical services from Krishna Ltd., an Indian company, under an agreement approved by the Central Government. Expenses incurred to earn such income are ₹ 35 lakhs.

Evaluate the taxability of the above amount in India for Techno Ltd. assuming:

Case (A): Techno Ltd. does not have a Permanent Establishment (PE) in India.

Case (B): Techno Ltd. has a PE in India, and the technical services agreement is effectively connected to such PE. Further details are:

Particulars	Amount (₹)
(1) Fees for technical services from Krishna Ltd.	4.50 crore
(2) Expenses incurred to earn such income	35 lakhs
(3) Fees for technical services from other Indian companies under approved agreements	2.80 crore
(4) Expenses incurred for earning income under point (3)	30 lakhs
(5) Expenses not wholly and exclusively for PE's business (other than (2) and (4))	15 lakhs
(6) Amounts paid by PE to Head Office (not reimbursement of actual expenses)	20 lakhs

#### Solution

Case (A): When there is no PE in India (Tax under Section 115A)

Taxable under section 115A at a flat rate of 20%, without deduction of expenses:

Particulars	Amount (₹)
Fees from Krishna Ltd.	4,50,00,000



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Fees from other Indian companies	2,80,00,000
<b>Gross Taxable Income u/s 115A</b>	7,30,00,000
Expenses (Not deductible under sec. 115A)	NIL
<b>Net Taxable Income</b>	7,30,00,000
Tax @ 20% u/s 115A	1,46,00,000
<i>Add:</i> Surcharge @ 2% (as income > ₹1 crore, ≤10 crore)	2,92,000
Tax + surcharge	1,48,92,000
<i>Add:</i> Health & Education cess @ 4%	5,95,680
<b>Total Tax Liability</b>	1,54,87,680

Case (B): Presence of PE in India (Tax under Section 44DA at normal rates)

Under Section 44DA, income connected with PE is taxable at normal rates (now revised to 35%) after allowing expenses wholly incurred for PE:

Particulars	Amount (₹)
Fees for technical services (Krishna Ltd.)	4,50,00,000
Fees from other Indian companies	2,80,00,000
<b>Total Gross Receipts</b>	7,30,00,000
<i>Less:</i> Allowable Expenses:	
- Related to Krishna Ltd.	(35,00,000)
- Related to other Indian companies	(30,00,000)
<b>Net Income (Before disallowances)</b>	6,65,00,000
<i>Less:</i> Expenses not wholly & exclusively incurred (disallowed)	NIL
<i>Less:</i> Amount paid by PE to HO (disallowed u/s 44C)	NIL
<b>Taxable Income</b>	6,65,00,000
Tax @ 35%	2,32,75,000
<i>Add:</i> Surcharge @ 2% (as income > ₹1 crore, ≤10 crore)	4,65,500
Tax + surcharge	2,37,40,500
<i>Add:</i> Health & Education cess @ 4%	9,49,620
<b>Total Tax Liability</b>	2,49,90,120

# 2

## Tax Management, Return and Assessment Procedure [Study Material - Module 2]

### Illustration 1 (Return)

Examine whether the following persons are required to file a return of income for AY 2025-26, giving brief reasons as per Income-tax Act provisions:

Case	Particulars
(i)	Mr. Rahul, aged 34 years, whose business turnover is ₹ 75 lakhs for the previous year 2024-25 and whose total income computed as per books is ₹ 2.40 lakhs. This is his first year of business. He has no other income and is not claiming any deductions under Chapter VI-A or section 10AA.
(ii)	Mr. Manoj, aged 48 years, has gross receipts from a profession amounting to ₹ 4 lakhs and profits computed from the profession are ₹ 2.20 lakhs for previous year 2024-25. Additionally, he earned ₹ 3.20 lakhs interest from fixed deposits.
(iii)	M/s XYZ & Associates, a Chartered Accountancy firm, with gross receipts from the profession amounting to ₹ 9.50 lakhs for the previous year 2024-25.
(iv)	ABC (P) Ltd., a private limited company which has incurred expenditure of ₹ 1,05,000 towards electricity consumption during the previous year 2024-25.
(v)	Mr. Anil Kumar, aged 56 years, deposited ₹ 60 lakhs received as a gift from his daughter, Ms. Priya, aged 28, on 25th March 2025 into his savings account. Mr. Anil Kumar purchased residential property on 30th March 2025 for ₹ 35 lakhs for self-residence. On 2nd April 2025, the remaining balance was transferred into a fixed deposit for two years. He has no other source of income except interest from this deposit.
(vi)	Mr. Prakash, a resident Indian aged 52 years, gifted a sum of ₹ 30 lakhs to his wife Mrs. Sudha on the occasion of her 50th birthday. Out of the said sum, Mrs. Sudha purchased a car for ₹ 29,52,000 inclusive of RTO charges of ₹ 2,15,000, insurance of ₹ 51,575, extended warranty of ₹ 25,255 and accessories charges of ₹ 35,460 during the P.Y. 2024-25. These charges were shown separately in the invoice. Mrs. Sudha's furnished her Aadhaar No. to the dealer. She is a housewife and does not have any income except rental income of ₹ 25,000 p.m. in respect of a house property gifted to her by her father. Mr. Prakash is of the opinion that his wife is not required to furnish return of income, since her total income does not exceed the basic exemption limit.



Solution

Case	Is filing Return Mandatory?	Explanation & Relevant Provisions
(i)	Yes	Under section 139(1), an individual whose total income exceeds ₹ 2.50 lakhs (basic exemption limit) must file a return. Additionally, Mr. Rahul's business turnover is ₹ 75 lakhs, exceeding the ₹ 60 lakhs limit under the seventh proviso to section 139(1), thus he is required to file his return of income mandatorily.
(ii)	Yes	Total income = ₹ 2.20 lakhs (Professional income) + ₹ 3.20 lakhs (Interest) = ₹ 5.40 lakhs, exceeds basic exemption limit. Filing return of income is therefore compulsory under Section 139(1).
(iii)	Yes	As per section 139(1), Partnership Firms (including LLPs) must compulsorily file a return of income regardless of income level, hence filing return of income is mandatory for M/s XYZ & Associates.
(iv)	Yes	Under section 139(1), every company is mandatorily required to file a return of income irrespective of income earned or loss incurred. Hence, ABC (P) Ltd. must file the return of income mandatorily.
(v)	Yes	Mr. Anil Kumar must file a return as per the seventh proviso to section 139(1), because he deposited ₹ 60 lakhs (exceeding ₹ 50 lakhs threshold) into his savings account. Therefore, filing a return is mandatory even if income is below taxable limits.
(vi)	Yes	<p>Mrs. Sudha's income from house property would be ₹ 2,10,000 (₹ 3,00,000 less 30% of net annual value). Since this is her only source of income, her gross total income/total income for A.Y.2025-26 would be ₹ 2,10,000, which is lower than the basic exemption limit. Hence, she is not required to file her return of income for A.Y.2025-26 as per section 139(1)(b), since her gross total income/total income does not exceed the basic exemption limit.</p> <p>However, clause (iv) to seventh proviso of section 139(1) provides that a person (other than a company or a firm) who is not required to furnish a return u/s 139(1) has to furnish return on or before the due date if he/she fulfills such other conditions as may be prescribed under Rule 12AB.</p> <p>Rule 12AB, <i>inter alia</i>, prescribes that any person other than a company or a firm, who is not required to furnish a return under section 139(1), has to file income-tax return in the prescribed form and manner on or before the due date if, the aggregate of tax deducted at source and tax collected at source during the previous year, in case of such person, is ₹ 25,000 or more.</p>



		<p>Accordingly, it has to be examined whether, in Mrs. Sudha's case, the requirement to file return for A.Y.2025-26 arises due to TDS/TCS, in her case, exceeding ₹ 25,000 in the P.Y.2024-25.</p> <p>As per section 206C(1F), every person, being a seller, who receives any amount as consideration for sale of a motor vehicle of the value exceeding ₹ 10 lakhs, has to collect tax from the buyer @ 1% of the sale consideration.</p> <p>Accordingly, dealer of the car is required to collect tax at source of ₹ 26,247 @ 1% on ex-showroom price i.e., ₹ 26,24,710 (₹ 29,52,000 – ₹ 2,15,000 – ₹ 51,575 – ₹ 25,255 – ₹ 35,460) from Mrs. Sudha, being the buyer of the car.</p> <p>Hence, as per the seventh proviso to section 139(1) read with Rule 12AB, Mrs. Sudha is required to mandatorily file her return of income for A.Y.2025-26, even though her gross total income/total income does not exceed the basic exemption limit, since tax collected at source during the P.Y. 2024-25, in her case is ₹ 26,247 which exceeds the threshold of ₹ 25,000.</p>
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**Illustration 2 (Interest and return)**

After considering TDS and advance tax, tax liability of Mr. Vikash is ₹ 50,000 is still payable. Due to certain unavoidable circumstances, he could not file his return of income for the A.Y. 2025-26 within the prescribed time limit. He approaches you for advice on the following issues.

- a) Whether he can file a return of income on 1<sup>st</sup> December 2025.
- b) Whether he will be able to revise his return of income, in case he discover any omission or mistake in his return filed on 1st December 2025 on 10-12-2025.
- c) What amount of interest and fee, he will be subjected to for the defaults, if any, for the relevant assessment year.

He informed that his income is ₹ 9,00,000 consists of salary, capital gains and income from other sources.

**Solution**

**a. Belated Return**

Yes, Mr. Vikash can file a belated return on 01-12-2025. As per sec. 139(4), belated return can be filed at any time:

- i. Before 3 months prior to the end of the relevant assessment year; or
  - ii. Before completion of assessment
- whichever is earlier.

**b. Revise Return**

Yes, Mr. Vikash can revise his return on 10-12-2025. As per sec. 139(5), a return (belated or



otherwise) can be revised at any time:

- i. Before 3 months prior to the end of the relevant assessment year; or
- ii. Before completion of assessment
- whichever is earlier.

c. Consequence of delayed furnishing of return

1	Fee u/s 234F	In case, where the assessee furnish a belated return, he is liable to fee u/s 234F amounting to ₹ 1,000 (where total income does not exceed ₹ 5,00,000) / ₹ 5,000 (where total income exceeds ₹ 5,00,000)  In the given case, total income of Mr. Vikash is ₹ 9,00,000 and he is filing his return of income belatedly, he is liable for fee u/s 234F ₹ 5,000
2.	Interest u/s 234A	His income consists of salary, capital gains and income from other sources, that denotes audit is not required in his case, hence due date for filing reurn of income in his case is 31-07-2025. Hence, he is liable to pay interest u/s 234A from 01-08-2025 till date of filing return i.e., 01-12-2025  ₹ 50,000 x 5 months x 1% p.m. = ₹ 2,500
3.	Interest u/s 234B	Where the assessee fails to pay 90% of assessed tax as advance tax, he is liable for interest u/s 234B. Thus, Mr. Vikash is liable to pay interest u/s 234B  ₹ 50,000 x 9 months x 1% p.m. = ₹ 4,500
4.	Interest u/s 234C	He is also liable to pay interest u/s 234C for deferment of advance tax. Here, the information regarding date of payment of advance tax and amount thereof is not given, hence, we are not able to compute interest u/s 234C
5.	Losses shall not be carried forward	Certain Loss shall not be allowed to be carried forward.

Illustration 3 (Interest)

Mr. Goswami submitted his return on 25th July, 2025 for the assessment year 2025-26. The following particulars are furnished by him for the previous year 2024-25:

	₹
Tax payable on assessed income	1,03,950
Tax deducted at source	36,450
Advance taxes paid as under :	
15th June, 2024	Nil
15th September, 2024	18,500
15th December, 2024	16,125
15th March, 2025	25,250

You are required to compute the interest, if any, payable by the assessee.

Solution

Computation of interest u/s 234B

Particulars	Amount
Tax and cess payable	1,03,950
Less: Tax deducted at source	36,450
Assessed tax	67,500
90% of above	60,750
Advance tax paid [₹ 18,500 + ₹ 16,125 + ₹ 25,250]	59,875
Since advance tax paid by the firm is less than 90% of assessed tax, sec.234B is applicable	
Shortfall (Assessed tax less Advance tax paid)	7,625
Rounded off	7,600
Period of default [From April 2025 to July 2025]	4 months
Interest u/s 234B (1% x ₹ 7,600 x 4)	304

Computation of Interest Payable u/s 234C

Particulars	Installment of Advance Tax			
	15-6	15-9	15-12	15-3
Rate of Advance tax	15%	45%	75%	100%
Amount payable as advance tax	10,125	30,375	50,625	67,500
Less: Amount paid till date	-	18,500	34,625	59,875
Shortfall	10,125	11,875	16,000	7,625
Rounded off (a)	10,100	11,800	16,000	7,600
Period of default (b)	3 months	3 months	3 months	1 month
Interest (1% x a x b)	₹ 303	₹ 354	₹ 480	₹ 76
<b>Total interest payable u/s 234C</b>	<b>₹ 1,213</b>			

Illustration 4 (Interest)

Mr. Sharma submitted his return on 31st July 2025 for the assessment year 2025-26. The following



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particulars are furnished for the previous year 2024-25:

Tax payable on assessed income	₹ 1,28,600
Tax deducted at source	₹ 42,100
Advance tax paid as under	
- 15th June, 2024	Nil
- 15th September, 2024	₹ 20,000
- 15th December, 2024	₹ 21,500
- 15th March, 2025	₹ 29,300

You are required to compute the interest, if any, payable by the assessee.

Solution

Computation of Interest u/s 234B

Particulars	Amount
Tax and cess payable	1,28,600
Less: Tax deducted at source	42,100
Assessed Tax	86,500
90% of above	77,850
Advance tax paid (20,000 + 21,500 + 29,300)	70,800
Shortfall	15,700
Rounded off	15,700
Interest u/s 234B (1% x ₹ 15,700 x 4 months)	₹ 628

Computation of Interest u/s 234C

Installment	Rate of Adv. Tax	Amount Payable	Amount Paid	Shortfall (R/off)	Interest (₹)
15-6	15%	12,975	Nil	12,900	387
15-9	45%	38,925	20,000	18,900	567
15-12	75%	64,875	41,500	23,300	699
15-3	100%	86,500	70,800	15,700	157
					1,810

Total Interest u/s 234C = ₹ 1,810

## 3

## Management Reporting Issues and Analysis [Study Material - Module 4]

### Illustration 1 (Penalty)

The following details are noted from the records of Y Ltd. for the Assessment Year 2025-26 (annual turnover exceeding ₹ 10 crore since the previous year 2016-17):

Particulars	General Provisions (₹)	MAT Provisions (₹)
Income/book profit as per return	15,00,000	25,00,000
<i>Add:</i> Estimation basis addition (not representing under-reported income)	50,000	Nil
<i>Add:</i> Misreporting of income (sales to Z Ltd. not recorded in accounts)	1,20,000	1,20,000
<i>Add:</i> Under-reported income (wrong claim of deduction u/s 35 weighted deduction)	80,000	Nil
<i>Add:</i> Under-reported income (deferred tax being debited in P&L A/c, not added)	Nil	1,50,000
<b>Net Income/Book profit (as per Assessment order)</b>	<b>17,50,000</b>	<b>27,70,000</b>

Determine the amount of penalty under section 270A of the Income-tax Act, 1961, ignoring provisions of section 115BAA.

Solution

Computation of under-reporting of income

	Particulars	₹
A	Total income assessed under general provisions	17,50,000
B	A – Under-reported income – Mis-reporting of income [i.e., ₹ 17,50,000 - ₹1,20,000 - ₹ 80,000]	15,50,000
C	Book profit	27,70,000



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D	Book Profit - Under reported income – Mis-reporting of income [i.e., ₹27,70,000 - ₹ 1,50,000] [₹ 1,20,000 which is deducted under B will not be deducted again from D]	26,20,000
	Under-reported income [(A - B) + (C - D)] [out of which Rs 1,20,000 is misreporting of income]	3,50,000
	Computation of penalty u/s 270A	
	Tax on under-reported income	
	- 31.2% of ₹ 2,30,000	71,760
	- 31.2% of ₹ 1,20,000	37,440
	Penalty leviable u/s 270A	
	- 50% of tax payable on under-reported income	35,880
	- 200% of tax payable on misreported income	74,880

### Illustration 2 (Penalty)

Compute penalty leviable u/s 270A in case of M Ltd from the following details:

Particula	Total Income	Tax on Total Income	Book Profit	Tax on Book Profit
Return of income	70,00,000	21,84,000	1,80,00,000	30,01,200
Assessed income	1,10,00,000	36,01,200	1,95,00,000	32,17,400

Solution

Computation of penalty

Particulars	Amount
<i>Under-reported income</i>	
Total income computed by the Assessing Officer	A 1,10,00,000
Total income as per return of income	B 70,00,000
Book profit computed by the Assessing Officer	C 1,95,00,000
Book profit as per return of income	D 1,80,00,000
<b>Under-reported income [(A - B) + (C - D)]</b>	<b>55,00,000</b>
<i>Tax on under-reported income</i>	

Tax on A	P	36,01,200
Tax on B	Q	21,84,000
Tax on C	R	32,17,400
Tax on D	S	30,01,200
<b>Tax on Under-reported income [(P - Q) + (R - S)]</b>	<b>T</b>	<b>16,33,400</b>
<i>Penalty u/s 270A</i>		
- Minimum (being 50% of T)		8,16,700
- Maximum (being 200% of T)		32,66,800

### Illustration 3 (Other)

Mr. X, an individual, invested in a deposit scheme of Secure Finance Ltd., a non-banking finance company. The following transactions occurred:

- Mr. X deposited ₹18,000 in cash on 1st April 2023 for a 36-month term.
- He again deposited ₹ 7,000 in cash on 1st July 2024 to purchase another certificate.
- On 15th Oct 2024, Mr. X applied for premature withdrawal of both certificates. The company repaid ₹13,000 on 15-10-2024 and ₹16,000 on 28-10-2024 in cash.
- One of the certificates was in joint name with Mrs. X.

Determine whether there is any violation of section 269SS (acceptance of deposit) or section 269T (repayment of deposit) and applicability of penalty under section 271D or 271E.

Solution

Transaction	Analysis	Violation	Penalty
(1) Deposit of ₹18,000 in cash	No violation as the amount does not exceed ₹20,000	No	Nil
(2) Additional deposit of ₹7,000 in cash	Aggregate = ₹18,000 + ₹7,000 = ₹25,000. Violates sec. 269SS	Yes - 269SS	₹7,000 u/s 271D
(3) Repayment of ₹13,000 in cash (15-10-2024)	At the time of this repayment, the outstanding balance exceeds ₹ 20,000, hence repayment made in cash attracts sec. 269T	Yes - 269T	₹ 13,000 u/s 271E



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(4) Repayment of ₹16,000 in cash (28-10-2024)	At the time of this repayment, outstanding balance does not exceed ₹ 20,000, hence sec. 269T is not attracted.	No	-
(5) Deposit in joint names	Joint holding does not change applicability of 269SS/269T		

# 4

## Business Restructuring [Study Material - Module 5]

### Illustration 1 (Amalgamation - Depreciation)

M/s Aryan & Co., a sole proprietorship, was converted into Aryan Pvt. Ltd. with effect from 1st January, 2025. The WDV of assets as on 1st April, 2024 is:

Asset	Rate of Depreciation	WDV (₹)
Building	10%	4,00,000
Furniture	10%	60,000
Plant & Machinery	15%	3,00,000

Further details:

- M/s Aryan & Co. purchased a machine worth ₹1,20,000 (15%) on 1st September, 2024.
- Aryan Pvt. Ltd. purchased another machine worth ₹80,000 (15%) on 15th January, 2025.

Compute depreciation for A.Y. 2025–26 for:

(i) M/s Aryan & Co.

(ii) Aryan Pvt. Ltd.

Solution

Step 1: Depreciation on Assets (as if no conversion took place)

Particulars	Building (10%)	Furniture (10%)	Plant & Machinery (15%)
Opening WDV	4,00,000	60,000	3,00,000
Add: Additions	—	—	1,20,000
Depreciation	40,000	6,000	63,000

Step 2: Allocation of Depreciation Between Sole Proprietor and Company

- Days used by M/s Aryan & Co. = 275 days (1st Apr – 31st Dec)



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- Days used by Aryan Pvt. Ltd. = 90 days (1st Jan – 31st Mar)
- Total days = 365
- Days for new asset = 212 days (1st Sep – 31st Mar); used by firm for 122 days

Depreciation for M/s Aryan & Co.

Asset	Amount (₹)
Building: ₹ 40,000 × 275/365	30,137
Furniture: ₹ 6,000 × 275/365	4,521
Plant (old): ₹ 45,000 × 275/365	33,904
Plant (new): ₹ 18,000 × 122/212	10,358
<b>Depreciation available to Aryan &amp; Co</b>	<b>78,920</b>

Depreciation for Aryan Pvt. Ltd.

Asset	Amount (₹)
Building: ₹ 40,000 × 90/365	9,863
Furniture: ₹ 6,000 × 90/365	1,479
Plant (old): ₹ 45,000 × 90/365	11,096
Plant (new by firm): ₹ 18,000 × 90/212	7,642
New Plant (by company): ₹ 80,000 × 15% × 50%	6,000
<b>Depreciation available to Aryan Pvt Ltd</b>	<b>36,080</b>

Illustration 2 (Holding and Subsidiary Company - Depreciation)

Bright Ltd., a 100% subsidiary of Shine Ltd. (both Indian companies), owns:

- Plant X and Plant Y (Depreciation rate 40%; WDV of block on 1st April 2024: ₹5,00,000)
- Plant Y was purchased and put to use on 15th October 2022 for ₹1,00,000

Bright Ltd. transfers Plant Y to Shine Ltd. on 10th December 2024 for ₹30,000. It is put to use by Shine Ltd. on the same day.

Shine Ltd. also owns Plant Z (same block) with WDV of ₹80,000 as on 01.04.2024.

Compute depreciation in the hands of Bright Ltd. and Shine Ltd. for A.Y. 2025–26.

Solution

Depreciation in the hands of Bright Ltd. for the assessment year 2025-26



Particulars	Amount
Depreciated value of the Plant X and Y on 1 <sup>st</sup> April, 2024	5,00,000
Less: Plant Y transferred to Shine Ltd	30,000
WDV as on 31 <sup>st</sup> March, 2025	4,70,000
Depreciation for the block P.Y.2024-25	1,88,000
WDV at the end of the year	2,82,000

Depreciation in the hands of Shine Ltd. for the assessment year 2025-26

Particulars	Amount
Depreciated value of the block on 1 <sup>st</sup> April, 2024	80,000
Add: Actual Cost of Plant Y acquired from Bright Ltd (See Note)	48,000
WDV as on 31 <sup>st</sup> March, 2025	1,28,000
Depreciation on transferred asset [ $\text{₹ } 48,000 \times \frac{1}{2} \times 40\%$ ]	9,600
Other Asset @ 40% of ₹ 80,000	32,000
Total Depreciation	41,600

Note: Actual Cost of Plant Y in the hands of Shine Ltd.

Particulars	Amount
Actual Cost of Plant Y in the hands of Bright Ltd on Oct 15, 2022	1,00,000
Less: Depreciation for P.Y 2022-23 ( $\frac{1}{2}$ of 40% of ₹ 1,00,000)	20,000
Balance on April 1, 2023	80,000
Less: Depreciation for the P.Y.2023-24	32,000
Balance on April 1, 2024	48,000

Illustration 3 [Slump sale]

Mundhra Pvt. Ltd has sold all its assets and liabilities as a slump sale on 31.03.2025 to Sonam Pvt. Ltd. for a lump sum consideration. Mundhra Pvt. Ltd. received the following considerations:

- (i) Money ₹ 800 lakhs
- (ii) House Property ₹ 300 lakhs (SDV of Plot)
- (iii) Bitcoins ₹ 60 lakhs (Value based on Valuer Report)
- (iv) Shares of Mohak Ltd ₹ 140 lakhs (value as per rule 11UA)



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The statement of affairs of Mundhra Pvt. Ltd. as on 31.03.2025 is as below:

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

Additional Information:

1. Cost of land in March 2007 was ₹ 200 lakhs & SDV as on 31.03.25 is ₹ 800 lakhs.
2. WDV of plant & Machinery u/s 43(6) was ₹ 400 lakhs.

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

Solution

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

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

Note 1: Calculation of Full Value of Consideration

Particulars	Amount	Amount
<b>Fair Market Value 1</b> (on the basis of net asset given)		
Plant and Machinery		500
Debtors		600
Cash and bank balance		4
Loan Advance		300
Closing stock		500
<i>Add:</i> Fair market value of share		240
<i>Add:</i> Stamp duty value of land		800
		2,944
<i>Less:</i> Unsecured Loan	50	
<i>Less:</i> Bank borrowings	1,000	
<i>Less:</i> Sundry Creditors	160	1,210
<b>Fair Market Value 1 [A]</b>		1,734
<b>Fair Market Value 2</b> (on the basis of asset received)		
Money		800
House Property		300
Bitcoin		60
Shares of Mohak Ltd		140
<b>Fair Market Value 2 [B]</b>		1,300
<b>Full value of consideration being higher of [A] and [B]</b>		1,734

Note 2: Computation of Net worth of the undertaking

Particulars	₹ (lakhs)	₹ (lakhs)
WDV of block assets (Plant & Machinery) as per section 43(6)		400
<i>Add:</i> Book value of non-depreciable assets		
- Land (Revaluation not to be considered)	200	
- Unlisted Shares	160	
- Sundry Debtors	600	



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- Cash & Bank Balance	4	
- Loans & Advance	300	
- Closing stock	500	1,764
		2,164
<i>Less: Liabilities</i>		
- Unsecured loans	50	
- Bank borrowing	1,000	
- Sundry Creditors	160	1,210
<b>Net worth</b>		<b>954</b>

# 5

## Different Aspects of Tax Planning [Study Material - Module 6]

### Illustration 1 (Lease vs Buy)

Bright Future Ltd. wants to acquire an equipment costing ₹ 1,50,000. It has two options: either to buy the equipment by taking a loan repayable in five equal annual instalments of ₹ 30,000 each at 12% interest, or to lease the equipment with annual lease rentals of ₹ 40,000 for 5 years. A processing fee of ₹ 2,000 is payable upfront by the lessee. The company's cost of capital is 10%. The applicable depreciation rate is 15% on WDV and tax rate is 30%.

Present Value (P/V) factors:

Year	1	2	3	4	5
P/V Factor	0.909	0.826	0.751	0.683	0.621

Assuming that the payments are made at the end of each year, suggest which alternative is better for the company.

Solution

Cost of Ownership

Year	Instalment (a)	Interest (b)	Depreciation (c)	Tax Benefit (d) = (b+c)* 30%	Net Outflow (a+b-d)	P/V	Net
1	30,000	18,000	22,500	12,150	35,850	0.909	32,588
2	30,000	14,400	19,125	10,058	34,343	0.826	28,367
3	30,000	10,800	16,256	8,117	32,683	0.751	24,545
4	30,000	7,200	13,818	6,305	30,895	0.683	21,101
5	30,000	3,600	11,745	4,604	28,997	0.621	18,007
						Total	<b>1,24,607</b>



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It is assumed that salvage value is Nil after 5 years.

### Cost of Lease

Year	Lease (a)	Tax Benefit (b)	Net Outflow (a-b)	P/V	Net
0	2,000	600	1,400	1	1,400
1	40,000	12,000	28,000	0.909	25,452
2	40,000	12,000	28,000	0.826	23,128
3	40,000	12,000	28,000	0.751	21,028
4	40,000	12,000	28,000	0.683	19,124
5	40,000	12,000	28,000	0.621	17,388
				Total	<b>1,07,520</b>

Since the Net Present Value in case of lease is lower, lease is financially better for Bright Future Ltd.

### Illustration 2 (Capital Mix)

Apex Ltd., a widely held company, plans to expand its operations. It is evaluating the following three financing alternatives:

#### Capital Structure Options

Particulars	Alt-1	Alt-2	Alt-3
Share Capital	₹ 60,00,000	₹ 30,00,000	₹ 15,00,000
12% Debentures	—	₹ 20,00,000	₹ 25,00,000
15% Bank Loan	—	₹ 10,00,000	₹ 20,00,000

Assume: EBIT = ₹18,00,000; Tax Rate = 30%; Dividend payout rate = 20%. Please suggest.

#### Solution

#### Comparison of different capital structure options

Particulars	Alt-1	Alt-2	Alt-3
EBIT	18,00,000	18,00,000	18,00,000
Less: Debenture Interest	—	2,40,000	3,00,000
Less: Bank Loan Interest	—	1,50,000	3,00,000
Net Profit before Tax	18,00,000	14,10,000	12,00,000
Less: Tax @30%	5,40,000	4,23,000	3,60,000

Profit After Tax	12,60,000	9,87,000	8,40,000
Less: Dividend @ 20%	12,00,000	6,00,000	3,00,000
Profit After Cost of Capital	60,000	3,87,000	5,40,000

Conclusion: Since the profit after cost of capital is highest in Alternative 3, Apex Ltd. should choose Alternative 3 from a tax planning perspective.

### Illustration 3 (Own Fund – Borrowed Fund - Lease)

XYZ Ltd. wants to acquire a machine costing ₹ 1,00,000. The depreciation rate is 15% + 20% additional depreciation in the first year. Tax rate is 34.944%. Weighted average cost of capital (IRR) is 10%. The machine has a useful life of 5 years. A loan of ₹ 75,000 can be availed at 9% interest payable annually, with principal repayable at the end of 5th year. Alternatively, lease rentals are ₹ 34,000 p.a. for 5 years with a lease management fee of ₹ 1,000 payable at inception. Suggest the better option.

#### Solution

Option 1: Cost of Acquisition – if own fund is used for acquisition

#### Depreciation & Tax Shield Schedule

Year	Depreciation (₹)	Tax Shield @ 34.944%	P/V @ 10%	Present Value (₹)
1	35,000	12,230	0.909	11,118
2	9,750	3,407	0.826	2,816
3	8,288	2,896	0.751	2,176
4	7,044	2,462	0.683	1,682
5	5,988	2,092	0.621	1,299

Total PV of Tax Shield = ₹ 19,091

Effective Cost of Machine = ₹ 1,00,000 - ₹ 19,091 = ₹ 80,909

Option 2: Cost of Acquisition – If Financed via Loan

Year	Interest (₹)	Principal Repayment / Cost (₹)	Total Outflow (₹)	Outflow after tax (₹)	P/V @ 10%	Present Value (₹)
0	-	25,000	25,000	25,000	1	25,000
1	6,750	0	6,750	4,391	0.909	3,991
2	6,750	0	6,750	4,391	0.826	3,627



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3	6,750	0	6,750	4,391	0.751	3,298
4	6,750	0	6,750	4,391	0.683	2,999
5	6,750	75,000	81,750	79,391	0.621	49,302

Total PV of Loan Outflows = ₹ 88,217

Less: Tax Shield on depreciation = ₹ 19,091

Net Outflow = ₹ 69,126

Option 3: Cost of Acquisition – If taken on Lease

Year	Lease Fee (₹)	Lease Rental (₹)	Tax Shield (₹)	Net Cash Flow (₹)	P/V @ 10%	PV of Outflow (₹)
0	1,000	0	349	651	1	651
1	0	34,000	11,881	22,119	0.909	20,106
2	0	34,000	11,881	22,119	0.826	18,270
3	0	34,000	11,881	22,119	0.751	16,611
4	0	34,000	11,881	22,119	0.683	15,107
5	0	34,000	11,881	22,119	0.621	13,736

Total PV of Lease Outflows = ₹84,481

**Conclusion**

Since the Net Present Value of cash outflow is lower in case of loan-financing (₹ 69,126) as compared to other options, it is advisable to purchase the asset through borrowed funds.

**Illustration 4 (Make or buy)**

ABC Ltd. is evaluating whether to manufacture a component in-house or purchase it externally. If ABC Ltd. decides to manufacture:

- It must purchase a second-hand machine for ₹ 10,00,000 (5-year life).
- Manufacturing costs for 5 years: ₹ 15 L, ₹ 18 L, ₹ 21 L, ₹ 24 L, ₹ 27 L.
- Depreciation @15% WDV. Machine sold for ₹ 1,50,000 at end of the 5th year.

If ABC Ltd. decides to buy externally:

- Purchase cost per year: ₹ 20 L, ₹ 22 L, ₹ 24 L, ₹ 26 L, ₹ 30 L.

Tax rate = 32.445%, Discount rate = 14%

Please suggest

Solution

Option 1: Make the product

Year	Mfg Cost (₹)	Depreciation (₹)	Tax Saving (₹)	Cash Outflow (₹)	P/V Factor @ 14%	PV (₹)
0	-	-	-	10,00,000	1	10,00,000
1	15,00,000	1,50,000	5,35,343	9,64,658	0.877	8,46,191
2	18,00,000	1,27,500	6,25,377	11,74,623	0.769	9,03,834
3	21,00,000	1,08,375	7,16,507	13,83,493	0.675	9,33,818
4	24,00,000	92,119	8,08,568	15,91,432	0.592	9,42,255
5	27,00,000	78,151	9,01,371	17,98,629	0.519	9,34,151
5 (Sale)	-	-	-	-1,50,000	0.519	-77,905
<b>Total</b>						<b>54,82,345</b>

Option 2: Buy the product

Year	Purchase Cost (₹)	Tax Saving (₹)	Cash Outflow (₹)	P/V Factor @ 14%	PV (₹)
1	20,00,000	6,48,900	13,51,100	0.877	11,85,175
2	22,00,000	7,13,790	14,86,210	0.769	11,43,590
3	24,00,000	7,78,680	16,21,320	0.675	10,94,345
4	26,00,000	8,43,570	17,56,430	0.592	10,39,948
5	30,00,000	9,73,350	20,26,650	0.519	10,52,579
					<b>55,15,637</b>

Conclusion:

Since the present value of cost is lower if ABC Ltd. manufactures the component (₹ 54,82,345) compared to buying it from outside (₹ 55,15,637), the company should opt for the Make option.

Illustration 5 (Tax Planning)

Classify the following acts into:

- (i) Tax Management
- (ii) Tax Planning



### (iii) Tax Evasion

SN	Particulars	Category	Justification
a	Mr. A pays health insurance premium for himself and his family and claims deduction under section 80D.	Tax Planning	Legal way to reduce taxable income by claiming permissible deductions.
b	Mr. B submits Form 15G though his income exceeds the basic exemption limit, to avoid TDS.	Tax Evasion	Willful false declaration to avoid tax deduction is a punishable offence.
c	Mr. C maintains proper records of TDS deducted from employees' salaries and deposits the tax on time.	Tax Management	Compliance measures to fulfill legal obligations in time.
d	Mr. D invests ₹1,50,000 in PPF to reduce tax liability under section 80C.	Tax Planning	Optimizing investments to avail tax benefits legally.
e	M/s E Ltd. creates fictitious entries of rent paid to director's relative to reduce net income.	Tax Evasion	Intentional false entries were made to reduce income unlawfully.
f	Mr. F forgets to file his return by the due date but files it before the end of assessment year.	Tax Management	Late filing but still within permissible time under section 139(4) – procedural compliance.
g	Mr. G sells agricultural land located in the rural area and claims it as exempt income.	Tax Planning	Proper application of provisions to structure the transaction in a tax-exempt manner.
h	Mr. H claims business depreciation on his personal car by including it in the block of assets.	Tax Evasion	False claim for personal expense is a clear misrepresentation.
i	Mr. I calculates advance tax liability and pays instalments before due dates.	Tax Management	Ensures timely discharge of tax obligations.
j	Mr. J earns ₹4,000 as interest from the savings account and claims a deduction under section 80TTA.	Tax Planning	Rightly disclosing income and claiming eligible deduction.

# 6

## Double Taxation and Avoidance Agreements (DTAA) [Sec.90. 90A and 91] [Study Material - Module 12]

### Illustration 1 (DTAA)

Shri Ramesh, an ordinarily resident individual, has the following income for the P.Y. 2024–25:

- Income from India: ₹ 16,00,000
- Income from Country Y: ₹ 10,00,000
- Investment in PPF: ₹ 1,50,000

### Additional Information

- India has a DTAA with Country Y, under which income is taxable only in the source country (Country Y). However, such income is included for rate purposes under Indian law.
- Income earned in Country Y has already been taxed there at 25%.

Compute his tax liability in India

### Solution

Computation of total income and tax liability of Shri Ramesh for the A.Y. 2025-26

Particulars	Amount
Income from India	16,00,000
Income from Country Z	10,00,000
Gross Total Income	26,00,000
Less: Deduction u/s 80C [Investment in PPF]	NA
<b>Total income</b>	<b>26,00,000</b>
Tax on above	4,70,000
Add: Health & Education cess	18,800
Tax and cess payable	4,88,800
Less: Relief u/s 90 [₹ 10,00,000 x 18.80% <sup>1</sup> ]	1,88,800
<b>Tax payable in India (Rounded off u/s 288B)</b>	<b>3,00,800</b>

<sup>1</sup> Average rate of Indian tax = ₹ 4,88,800 / ₹ 26,00,000 x 100 = 18.80%



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### Illustration 2 (DTAA)

Mr. Ranjan, a resident Indian, has derived the following incomes for the previous year relevant to the A.Y. 2025-26:

a. Income from profession	₹ 9,54,000
b. Royalty on books from foreign country Y (₹ 3,00,000 is eligible for deduction u/s 80QQB) (Tax paid in foreign country @ 20%)	₹ 8,00,000

Compute Indian tax liability, if he has opted for the old regime, assuming that India does not have any agreement with country Y.

### Solution

Computation of total income and tax liability of Mr. Ranjan for the A.Y. 2025-26

Particulars	Amount
Income from profession	9,54,000
Royalty earned in country Y	8,00,000
Gross Total Income	17,54,000
Less: Deduction u/s 80QQB	3,00,000
<b>Total income</b>	<b>14,54,000</b>
Tax on above	2,48,700
Add: Health & Education cess	9,948
<b>Tax and cess payable</b>	<b>2,58,648</b>
Average rate of tax [₹ 2,58,648 / ₹ 14,54,000 x 100]	17.79%
Rate of tax in country Y	20%
Relief u/s 91 [17.79% <sup>1</sup> of ₹ 5,00,000]	88,950
<b>Tax payable</b> (Rounded off u/s 288B)	<b>1,69,700</b>

<sup>1</sup> Indian average tax rate: 17.79% Foreign average tax rate: 20.00%

Relief u/s 91 is available at lower of aforesaid rate. i.e., 17.79%

Since ₹ 3,00,000 of foreign royalty was allowed as deduction u/s 80QQB, it is not doubly taxed in India. The balance ₹ 5,00,000 is included in total income and qualifies for relief.

Illustration 3 (DTAA)

Shubham, a sports goods merchant and resident Indian is doing business in India and abroad. During the previous year 2024-25, he disclosed the following information:

	₹
Income from business in India	28,00,000
Income from business in Country- A with which India does not have agreement for avoidance of double taxation	12,00,000
Income-tax levied by government in Country-A	3,00,000
Loss from business in Country-B with which also India does not have agreement for avoidance of double taxation	(5,00,000)
Contribution to public provident fund	1,50,000
Payment of life insurance premium on the life of his Father and mother	30,000

Compute the tax liability of Shubham for the assessment year 2025-26.

Solution

Computation of total income and tax liability for the A.Y. 2025-26

Particulars	Amount
Income from business in India	28,00,000
Income from business in Country A	12,00,000
Income from business in Country B	(-) 5,00,000
Gross Total Income	35,00,000
<i>Less:</i> Deduction u/s 80C	NA
<b>Total income</b>	<b>35,00,000</b>
Tax on above	7,40,000
<i>Add:</i> Health & Education cess	29,600
Tax and cess payable	7,69,600
Average rate of tax [ $\text{₹ } 7,69,600 / \text{₹ } 35,00,000 \times 100$ ]	21.99%
Rate of tax in country A	25%
Relief u/s 91 [ $21.99\%^1$ of ₹ 12,00,000]	2,63,880
<b>Tax payable</b> (Rounded off u/s 288B)	<b>5,05,720</b>



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<sup>1</sup> Indian average tax rate: 21.99% Foreign average tax rate: 25%  
Relief u/s 91 is available at lower of the aforesaid rates i.e., 21.99%

### Illustration 4 (DTAA)

Mrs. Kavita, aged 63 years, is a resident individual and a classical dance performer. During the previous year 2024–25, she earned income from India as well as from Country X. India does not have a DTAA with Country X. Her income and investments are as follows:

- Rental income from residential house property located in Country X is XCD 28,000.
  - Municipal taxes paid in Country X: XCD 250
  - Conversion rate: ₹ 70 per XCD
- Professional income from concerts held in India: ₹ 16,00,000
- Professional income from concerts held in Country X: XCD 11,200
- Interest income from Indian bank fixed deposits: ₹ 3,25,000
- Interest from Indian savings bank account: ₹ 18,269
- Investment in PPF: ₹ 1,50,000
- 5-year deposit in the name of son: ₹ 1,50,000 (not eligible for deduction)
- Medical insurance premium:
  - For self: ₹ 27,000
  - For spouse: ₹ 31,000
- Tax paid in Country M: 20% on income earned there

Mrs. Kavita has not opted for section 115BAC. Compute her tax liability in India.

### Solution

Computation of total income and tax liability for the A.Y. 2025-26

Particulars	Amount	
<b><i>Income from House Property</i></b>		
Gross Annual Value [XCD 28,000 x ₹ 70 – as per Rule 115]	19,60,000	
Less: Municipal Tax [XCD 250 x ₹ 70]	17,500	
Net Annual Value (NAV)	19,42,500	
Less: Standard Deduction @ 30% of NAV	5,82,750	13,59,750



<b><i>Profits and Gains of Business or Profession</i></b>		
- From concerts in India	16,00,000	
- From concerts in Country X [XCD 11,200 x ₹ 70]	7,84,000	23,84,000
<b><i>Income from Other Sources</i></b>		
Interest on Fixed Deposits	3,25,000	
Interest on Saving Bank Deposits	18,269	3,43,269
Gross Total Income		40,87,019
<i>Less: Deduction u/ch VIA</i>		
- Deduction u/s 80C [Investment in PPF]	1,50,000	
- Deduction u/s 80D [Medical Insurance subject to max limit]	50,000	
- Deduction u/s 80TTB [Interest on bank FD & saving bank deposit subject to max limit]	50,000	2,50,000
<b>Total Income</b>		<b>38,37,019</b>
<b>Total Income [Rounded off]</b>		<b>38,37,020</b>
Tax on above		9,61,106
<i>Add: Health &amp; Education cess</i>		38,444
Tax and cess payable		9,99,550
Average rate of tax [₹ 9,99,550 / ₹ 38,37,020 x 100]		26.05%
Rate of tax in country X		20%
Relief u/s 91 [20% <sup>1</sup> of (₹ 13,59,750 + ₹ 7,84,000)]		4,28,750
<b>Tax payable (Rounded off u/s 288B)</b>		<b>5,70,800</b>

<sup>1</sup> Indian average tax rate: 26.05% Foreign average tax rate: 20%

Relief u/s 91 is available at lower of the aforesaid rates i.e., 20%

#### Illustration 5 (DTAA)

Assessee: Mr. Arnav

Status: Resident and Ordinarily Resident Individual

Age: 58 years

Assessment Year: 2025–26

Tax Regime: Old regime



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### Financial Details:

Mr. Arnav earns income from both India and a foreign country during the previous year 2024-25. He provides the following details:

- Business income in India: ₹4,00,000
- Business income in Foreign Country Y: ₹9,00,000
- Premium paid for medical insurance for his non-resident father, aged 83, via cheque: ₹28,000
- Income-tax paid in Country Y: 22% on ₹9,00,000 = ₹1,98,000

You are required to compute the tax liability (as per the old tax regime) of Mr. Arnav if India does not have a DTAA with Country Y

### Solution

Computation of total income and tax liability of Mr. Arnav for the A.Y. 2025-26

Particulars	Amount
Business income in India	4,00,000
Business income in foreign country	9,00,000
Gross Total Income	13,00,000
<i>Less:</i> Deduction u/s 80D [his father is a non-resident, hence he is not a senior citizen]	25,000
<b>Total income</b>	12,75,000
Tax on above	1,95,000
<i>Add:</i> Health & Education cess	7,800
<b>Tax and cess payable</b>	2,02,800
Average rate of tax [ $\text{₹ } 2,02,800 / \text{₹ } 12,75,000 \times 100$ ]	15.90%
Rate of tax in country Y	22%
Relief u/s 91 [ $15.90\%^1$ of ₹ 9,00,000]	1,43,153
<b>Tax payable (Rounded off u/s 288B)</b>	<b>59,650</b>

<sup>1</sup>Indian average tax rate: 15.90% Foreign average tax rate: 22.00%

Relief u/s 91 is available at lower of aforesaid rate. i.e., 15.90%



Illustration 6 [DTAA]

The assessee is a popular Kollywood star Mr. Sohan Lal. He has business interest in few other nations as well. He is a resident in India for the Assessment Year 2025-26. Income earned in India by Mr. Shan Lal during the year ended 31-3-2025:

(₹ in crores)

Income from house property (Computed)	4.3
Business income: From being the owner of cricket team Hyderabad Super Stars	12.4
Acting in movies	9.415

Mr. Sohan Lal has deposited ₹ 1.5 lakhs in PPF and paid Life Insurance premium of ₹ 1 lakh. The details of income earned by him from two countries outside India, X and Y, with which India does not have any DTAA, during the P.Y. 2024-25 are as under:

(₹ in crores)

Type of Income	X	Y
Loss from house property (Computed)	1.3	-
Business income:		
- Own	7.2	2.9
- Share income from partnership firm (not evidenced by an instrument in writing)	4.8	-
Agricultural income	-	1.2

In Country X, share income is not exempt and loss from house property is not eligible for being set off against other income. In Country Y, agricultural income is chargeable to income-tax. In Country X, he has paid income-tax of ₹ 2.16 crores and in Country Y ₹ 80 lakhs on the total income earned in those countries.

Compute his income-tax liability for the A.Y.2025-26, assuming that he has opted for section 115BAC.



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Solution

Computation of tax liability of Mr. Sohan Lal for A.Y.2025-26

Particulars	Details	₹	₹
<u>Income from house property</u>			
Income from house property in India	4,30,00,000		
Less: Loss from house property in Country X	1,30,00,000	3,00,00,000	
<u>Profits and gains of business or profession</u>			
<u>Business income in India</u>			
From being the owner of cricket team Hyderabad Super Stars	12,40,00,000		
From acting in movies	9,41,50,000	21,81,50,000	
<u>Business income in Country X</u>			
Own	7,20,00,000		
Share income from foreign firm [exemption u/s 10(2A) is available if it is from Indian partnership firm]	4,80,00,000	12,00,00,000	
Business income in Country Y		2,90,00,000	36,71,50,000
<u>Income from Other Sources</u>			
Agricultural income from Country Y			1,20,00,000
<b>Gross Total Income</b>			<b>40,91,50,000</b>
<u>Less: Deductions under Chapter VI-A</u>			
Under section 80C (LIC & PPF) [not available]			-
<b>Total Income</b>			<b>40,91,50,000</b>
<b>Computation of tax liability</b>			
Tax on total income			12,24,35,000

Add: Surcharge @ 25%			3,06,08,750
			15,30,43,750
Add: HEC @ 4%			61,21,750
<b>Tax liability</b>			15,91,65,500
Less: Deduction under section 91 [See Working Notes]			2,72,60,000
<b>Net Tax liability (rounded off)</b>			<b>13,19,05,500</b>

Working Note 1: Computation of deduction u/s 91

Particulars	₹	₹
<b>Deduction under section 91 in respect of doubly taxed income in India and Country X:</b>		
- Business Income	7,20,00,000	
- Taxable share income from firm	4,80,00,000	
- Loss from house property	(1,30,00,000)	
<b>Doubly taxed income</b>	<b>10,70,00,000</b>	
Lower of Indian rate of tax and rate of tax in Country X	18%	
Deduction u/s 91 [18% x ₹ 10.70 crores]		1,92,60,000
<b>Deduction under section 91 in respect of doubly taxed income in India and Country Y Doubly taxed income:</b>		
Business Income	2,90,00,000	
Agricultural income	1,20,00,000	
<b>Doubly taxed income</b>	<b>4,10,00,000</b>	
Lower of Indian rate of tax and rate of tax in Country Y	19.512%	
Deduction u/s 91 = 19.512% x ₹ 4.10 crores		80,00,000
<b>Deduction under section 91</b>		<b>2,72,60,000</b>



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Working Note 2: Computation of average rate of tax in India, Country X & Country Y

Average rate of tax in India	$[15,91,65,500 \times 100 / 40,91,50,000]$	38.90%
Average rate of tax in Country X	$[2,16,00,000 \times 100 / 12,00,00,000]$	18%
Average rate of tax in Country Y	$[80,00,000 \times 100 / 4,10,00,000]$	19.512%

# 7

## Transfer Pricing [Study Material - Module 13]

### Illustration 1 (Arm's Length Price – Cost Plus)

Galaxy Inc. USA holds 40% equity in Comet Ltd. India. Comet Ltd. is engaged in providing product design services to Galaxy Inc. During the year 2024–25, Comet Ltd. rendered 2,500 man-hours for Galaxy Inc., charging ₹ 1,200 per hour. Total cost of providing these services amounted to ₹ 22,00,000.

Similar services were rendered to unrelated enterprise Star Ltd. India, with a gross profit margin of 55%.

Additional information:

- Galaxy Inc. provides cloud infrastructure support, valued at 10% of gross profit.
- Galaxy Inc. is given a 60-day credit period. The cost of this extended credit is 2% of the billing rate and is not given to unrelated parties.

Required:

Compute the Arm's Length Price (ALP) of the services provided to Galaxy Inc. under Cost Plus Method, and determine the adjustment to total income of Comet Ltd.

Solution

#### (A) Computation of Arm's Length Gross Profit Mark-up

Particulars	%
Normal Gross Profit Margin (Star Ltd.)	55.00
<i>Less:</i> Adjustment for Cloud Infra Support (10% of 55%)	(5.50)
	49.50
<i>Add:</i> Adjustment for 60-day credit (2% of 55%)	1.10
Arm's Length Gross Profit Mark-up	50.60



### (B) Computation of Increase in Total Income of Comet Ltd.

Particulars	Amount (₹)
Cost of services rendered to Galaxy Inc.	22,00,000
Arm's Length Billing Value = ₹ 22,00,000 ÷ (100% – 50.60%)	44,53,441
Less: Actual billed amount (2,500 hrs × ₹1,200)	30,00,000
<b>Increase in Total Income (ALP Adjustment)</b>	<b>14,53,441</b>

#### Conclusion:

The Arm's Length Price under Cost Plus Method is ₹ 44,53,441. Since Comet Ltd. billed only ₹ 30,00,000 to Galaxy Inc., the income shall be increased by ₹ 14,53,441 under section 92C of the Income-tax Act, 1961.

### Illustration 2 (Arm's Length Price – Resale Price)

CoolAir Pvt. Ltd. (India) is an associated enterprise of ChillCorp Inc. (USA). During the previous year 2024–25, CoolAir imported 4,000 AC compressors from ChillCorp at ₹ 8,200 per unit and sold them to ChillZone Ltd. at ₹ 12,000 per unit.

CoolAir had also purchased similar compressors from unrelated party FrostTech Ltd. (Germany) and resold them at the same resale price of ₹ 12,000 with a gross profit margin of 25%.

However, ChillCorp provided a special volume discount of ₹ 1,800 per unit, whereas FrostTech provided only ₹ 700 per unit. Additionally, ChillCorp delivered at port without insurance, due to which CoolAir had to pay ₹ 1,400 per unit as shipping charges. In the case of FrostTech, delivery was at factory, and CoolAir paid only ₹ 500 per unit on shipping.

You are required to compute:

- The Arm's Length Price per unit, and
- The increase in total income of CoolAir Pvt. Ltd.

#### Solution

### (A) Computation of Arm's Length Price (Per Unit)

Particulars	Amount (₹)
Resale Price to third party (ChillZone Ltd.)	12,000
Less: Normal Gross Profit Margin @ 25% of ₹12,000	3,000
Less: Quantity Discount Adjustment [₹1,800 – ₹700]	1,100
Less: Freight/insurance difference [₹1,400 – ₹500]	900
<b>Arm's Length Price (per unit)</b>	<b>7,000</b>

(B) Computation of Increase in Total Income of CoolAir Pvt. Ltd.

Particulars	Amount (₹)
Actual Purchase Price per unit from ChillCorp	8,200
Arm's Length Price per unit	7,000
Excess Price Paid per unit	1,200
Quantity imported	4,000 units
<b>Increase in Total Income (1,200 × 4,000)</b>	<b>48,00,000</b>

Conclusion:

As per Resale Price Method, the Arm's Length Price is ₹ 7,000 per unit. Since CoolAir actually paid ₹ 8,200 per unit, the total purchase price was overstated by ₹ 48,00,000. Thus, ₹ 48,00,000 shall be added to total income of CoolAir Pvt. Ltd. under Section 92C.

Illustration 3 (ALP – Profit Split)

IndTech Ltd., an Indian company, designs and develops a proprietary solar-powered drone. Its Singapore subsidiary, SkyTech Pte Ltd., develops advanced navigation software that integrates with the drone. Both the drone and software are key to the commercial success of the product.

- IndTech manufactures and supplies the drone hardware to SkyTech.
- SkyTech integrates the software and sells the final product to unrelated customers.

Due to the uniqueness of the technology, no direct comparables exist. Traditional methods (CUP, TNMM) are not reliably applicable. However, comparable market return for routine manufacturers without intangibles is 12% on manufacturing costs.

Available Financial Data:

Particulars	IndTech (₹)	SkyTech (₹)	Total (₹)
Sales to third party (by SkyTech)	-	-	3,000
Manufacturing Cost	400	500	900
Development Cost	150	100	250
Operating Cost	100	200	300
Total Cost	650	800	1,450
Gross Profit (Sales – Total Cost)	-	-	1,550

Compute arm's length price.



### Solution

#### Step 1: Routine Returns on Manufacturing

Routine return @ 12% on manufacturing cost:

IndTech: ₹ 400 × 12% = ₹ 48

SkyTech: ₹ 500 × 12% = ₹ 60

Total Routine Return = ₹ 108

#### Step 2: Residual Profit = Gross Profit – Routine Returns

Residual Profit = ₹ 1,550 – ₹ 108 = ₹ 1,442

#### Step 3: Split Residual Profit based on Development Effort

Proportion of Development Costs:

IndTech = ₹ 150 / ₹ 250 = 60%

SkyTech = ₹ 100 / ₹ 250 = 40%

Residual Profit Allocation:

IndTech: ₹ 1,442 × 60% = ₹ 865.20

SkyTech: ₹ 1,442 × 40% = ₹ 576.80

#### Step 4: Total Profit to Each Entity

Entity	Routine Return	Residual Profit Share	Total Profit
IndTech	₹ 48	₹ 865.20	₹ 913.20
SkyTech	₹ 60	₹ 576.80	₹ 636.80

#### Step 5: Transfer Price of IndTech (Indian Entity)

Component	Amount (₹)
Manufacturing Cost	400
Development Cost	150
Operating Cost	100
Routine Return	48
Residual Profit Share	865.20
Total Transfer Price	1,563.20

Conclusion:

Since no reliable comparables exist, Profit Split Method is the most appropriate method. Profit is allocated based on the relative contribution to intangibles (i.e., development costs). Transfer price of ₹ 1,563.20 is justified under arm's length standard.

Illustration 4 (ALP)

Orbitron Ltd., an Indian company, receives technical advisory services from its German subsidiary, Tech Nova GmbH, for a consideration of EUR 85,000 per year.

In similar transactions with unrelated parties in India, Tech Nova charges EUR 1,00,000 per year. Orbitron Ltd. reports a profit of ₹ 78 lakhs before ALP adjustment.

Assume exchange rate = ₹ 65 per EUR.

Compute the taxable income of Orbitron Ltd. in the following cases:

(i) When ALP is EUR 1,00,000

(ii) When ALP is EUR 50,000

Solution

Computation of Total Income of Orbitron Ltd.

Particulars	Case I	Case II
Price Charged for Comparable Uncontrolled Transaction	€1,00,000	€50,000
Price actually paid by Orbitron Ltd. (€85,000 × ₹65)	₹55,25,000	₹55,25,000
ALP in Rupees (as per CUP)	₹65,00,000	₹32,50,000
Incremental Profit / Adjustment (Actual Price – ALP)	(₹9,75,000)	₹22,75,000
Total Income before ALP adjustment	₹78,00,000	₹78,00,000
Add: Adjustment on adopting ALP (only if positive)	- (See Note)	₹22,75,000
<b>Taxable Income</b>	<b>₹78,00,000</b>	<b>₹ 1,00,75,000</b>

Conclusion: U/s 92(3), taxable income cannot be reduced on applying ALP. So difference on account of ALP is ignored.



### Illustration 5 (ALP)

Xenon India Ltd., an Indian company, sold goods on 15.01.2025 to M Corp, a company located in a Notified Jurisdictional Area (NJA), for ₹ 9.80 crores on FOB basis.

During the same financial year, identical goods were sold on CIF basis to unrelated customers in Germany for ₹ 10.70 crores. CIF sales included Ocean Freight and Insurance of ₹18 lakhs, and the company also provides After-sales support worth ₹12 lakhs to customers (excluding M Corp). As per the Cost Plus Method, the ALP for identical goods is ₹ 11.20 crores. Required:

1. Compute the Arm's Length Price for the sale to M Corp.
2. Compute the increase in total income of Xenon India Ltd., if any.

### Solution

#### Computation of Arm's Length Price of Products Sold to M Corp

Particulars	Amount (₹ in Crores)
Price in Comparable Uncontrolled Transaction (CIF)	10.70
Less: Adjustments for Differences	
(a) Freight & Insurance Charges	(0.18)
(b) After-sales Support (not given to M Corp)	(0.12)
<b>Arm's Length Price (ALP) for Sale to M Corp</b>	<b>10.40</b>

#### Computation of Increase in Total Income of Xenon India Ltd.

Particulars	Amount (₹ Cr)
ALP as computed above	10.40
Less: Price actually charged to M Corp	9.80
<b>Increase in Total Incomee</b>	<b>0.60</b>

### Notes

1. Although ALP is also available under Cost Plus Method (₹ 11.20 Cr), CUP is considered Most Appropriate Method here due to availability of comparable transaction.
2. As per Section 92C(2), where only one price is determined under the MAM, it shall be deemed the ALP. Hence, no permissible  $\pm 3\%$  variation is allowed.
3. Second Proviso to Section 92C(2) r.w.s 94A specifically disallows the 3% tolerance in transactions with entities in Notified Jurisdictional Areas (NJA).

Illustration 6 [Sec. 94B]

Rosy Ltd. provides you the Profit and loss A/c for the Financial Year 2023-24 and Financial Year 2024-25:

₹ in lakhs

Particulars	For the F.Y. 2023-24	For the F.Y. 2024-25	Particulars	For the F.Y. 2023-24	For the F.Y. 2024-25
Employees Benefit Expenses	390	402	Gross Profit	2,030	1,780
Interest paid to L & T Inc.	562	389			
Depreciation	250	254			
Income Tax	271	332			
Profit transferred to Reserves	557	403			
	<b>2,030</b>	<b>1,780</b>		<b>2,030</b>	<b>1,780</b>

On 23rd June 2023, Rosy Ltd., an Indian Company borrowed ₹ 120 crores from L & T Inc., a company incorporated in Country X. The said loan is repayable over a period of 4 years. This loan is guaranteed by Rite Ltd., a company incorporated in Country Y. Rite Ltd. holds 46% shares in Rosy Ltd.

Calculate the income under the head Profits and Gains from business and profession of Rosy Ltd. for the Assessment Year 2025-26, assuming the gross profit is calculated as per the provisions of Income-tax Act and Depreciation is also as per Income-tax Rules. Give appropriate reasons of your workings. Assume none of the companies are engaged in the business of banking.

Solution

If an Indian company, being the borrower, incurs any expenditure by way of interest in respect of any debt issued by its non-resident associated enterprise and such interest exceeds ₹ 1 crore, then, the interest paid or payable by such Indian company in excess of 30% of its earnings before interest, taxes, depreciation and amortization (EBITDA) or interest paid or payable to associated enterprise, whichever is lower, shall not be allowed as deduction as per section 94B.

Further, where the debt is issued by lender which is not associated enterprise but an associated enterprise provides an implicit or explicit guarantee to such lender, such debt shall be deemed to have been issued by an associated enterprise and limitation of interest deduction would be applicable.

In the present case, since Rite Ltd., a Country Y company, holds 46% share in Rosy Ltd., an Indian company, i.e., more than 26% of voting power, Rite Ltd. and Rosy Ltd. are deemed to be associated enterprise.



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Since loan of ₹ 120 crores taken by Rosy Ltd., an Indian company from L & T Inc., Country X company, is guaranteed by Rite Ltd., an associated enterprise, such debt shall be deemed to have been issued by an associated enterprise and interest paid or payable to L & T Inc. shall be considered for the purpose of limitation of interest deduction under section 94B.

Computation of income under the head profits and gains of business or profession of Rosy Ltd

Particulars	Amount (₹ in lakhs)
<b>Interest allowable u/s 94B for A.Y. 2024-24</b>	
Gross Profit	2,030
Less: Employee benefits expenses	390
<b>EBITDA</b>	<b>1,640</b>
Interest paid or payable to L & T Inc.	562
Lower of the following would be disallowed	
- Total interest paid or payable in excess of 30% i.e., ₹ 70 lakhs EBITDA [₹ 562 lakhs – ₹ 492 lakhs (i.e., 30% of ₹ 1,640 lakhs)]	
- Interest paid or payable to L & T Inc. ₹ 562 lakhs	
Interest to be disallowed as deduction for A.Y. 2024-25, which can be carried forward up to 8 assessment years	70
<b>Interest allowable u/s 94B for A.Y. 2025-26</b>	
Gross Profit	1,780
Less: Employee benefits expenses	402
<b>EBITDA</b>	<b>1,378</b>
Interest paid or payable to L & T Inc.	389
Lower of the following would be disallowed	
- Total interest paid or payable in excess of 30% of Nil EBITDA [₹ 389 lakhs – ₹ 413.40 lakhs (30% of ₹ 1,378 lakhs)]	
- Interest paid or payable to L & T Inc. ₹ 389 lakhs	
Interest to be disallowed as deduction for A.Y. 2025-26	Nil
Brought forward interest of A.Y. 2024-25 allowed as deduction against profits and gains of A.Y. 2025-26 to the extent of maximum allowable interest expenditure u/s 94B i.e., ₹ 24.4 lakhs [₹ 413.40 lakhs – ₹ 389 lakhs]	

Total interest allowed in A.Y. 2025-26 [₹ 389 lakhs + ₹ 24.40 lakhs]	413.40
Balance of amount of interest relating to AY 2024-25 is eligible for carried forward i.e., ₹ 45.60 lakhs (₹ 70 lakhs - ₹ 24.40 lakhs) to 7 more subsequent assessment years.	
<b>Income under the head profit and gains of business or profession of Rosy Ltd. for A.Y. 2025-26</b>	
<b>EBITDA</b>	1,378.00
<i>Less:</i> Interest (maximum interest allowable as deduction u/s 94B)	413.40
<i>Less:</i> Depreciation (As per the Income-tax Act, 1961)	254.00
<b>Profit and gains of business or profession</b>	<b>710.60</b>

Illustration 7 [Sec. 94B]

Sunny Ltd. provides you the Profit and Loss Account for Financial Year 2023-24 and 2024-25:

(₹ in lakhs)

Particulars	FY 2023-24	FY 2024-25	Particulars	FY 2023-24	FY 2024-25
Employees Benefit Expenses	480	510	Gross Profit	2400	2200
Interest paid to Z Inc.	750	350			
Depreciation	320	640			
Income Tax	300	300			
Profit transferred to Reserves	550	400			
<b>Total</b>	<b>2400</b>	<b>2200</b>	<b>Total</b>	<b>2400</b>	<b>2200</b>

On 15th May 2023, Sunny Ltd. (Indian Company) borrowed ₹ 150 crores from Z Inc. (incorporated in Country A). The loan is repayable over 5 years and guaranteed by Sky Ltd., a company incorporated in Country B. Sky Ltd. holds 40% shares in Sunny Ltd.

Compute income under the head “Profits and Gains from Business and Profession” of Sunny Ltd. for AY 2025-26. Assume Gross Profit and Depreciation figures comply with Income-tax Act and Rules. None of these companies are banking entities.



Solution

Step 1: Computation of EBITDA for FY 2023-24:

EBITDA = ₹ 2400 - ₹ 480 [i.e., employees benefits expenses] = ₹ 1920 lakhs

- 30% of EBITDA = ₹ 576 lakhs
- Interest paid: ₹ 750 lakhs
- Allowed Interest: ₹ 576 lakhs
- Interest disallowed and carried forward: ₹ 174 lakhs

Step 2: Computation of EBITDA for FY 2024-25:

EBITDA = ₹ 2200 - ₹ 510 [i.e., employees benefits expenses] = ₹ 1690 lakhs

- 30% of EBITDA = ₹ 507 lakhs
- Interest paid in current year: ₹ 350 lakhs
- Add: Interest carried forward: ₹ 174 lakhs
- Total interest available: ₹ 524 lakhs
- Allowed interest (lower of ₹ 524 lakhs or ₹ 507 lakhs): ₹ 507 lakhs
- Interest disallowed and carried forward: ₹ 17 lakhs

Step 3: Income under the head Profit and gains of business or profession for AY 2025-26:

Particulars	Amount (₹ in lakhs)
Gross Profit	2,200
Less: Allowable Expenses	
Employees Benefit Expenses	(510)
Depreciation (IT rules)	(640)
Interest (allowed as above)	(507)
<b>Profit and gains of business or profession</b>	<b>543</b>

Interest of ₹ 17 lakhs disallowed in PY 2024-25 is eligible to carry forward further





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