

**CA | CMA FINAL**

**DIRECT TAXATION & INTERNATIONAL TAXATION**

# **COMPILER**

**CA - SEP 25 / JAN 26 | CMA - JUNE / DEC 25**  
**AMENDED BY FA 2024**

**QUESTION &  
ANSWER**

**AS PER NEW  
SYLLABUS**



**BY  
CA BHANWAR  
BORANA**

**A COMPIATION OF MORE THAN 400+ PAST YEAR EXAM & RTP / MTP QUESTIONS**

## Contents

<b>Chapter 1</b>	Basics, Tax Rates AY 25-26 & Alternate Taxation Regime	1
<b>Chapter 2</b>	Income from Capital Gains	19
<b>Chapter 3</b>	Income from Other Sources	57
<b>Chapter 4</b>	Taxation of Dividend & Deemed Dividend	68
<b>Chapter 5</b>	Taxation in Case of Liquidation & Buy Back	71
<b>Chapter 6</b>	Taxation in Case of Amalgamation and Demerger	74
<b>Chapter 7</b>	Profits & Gains of Business or Profession & ICDS	77
<b>Chapter 8</b>	Taxation of Political Parties & Electoral Trust	164
<b>Chapter 9</b>	Taxation in Case of Firm/LLP, AOP/BOI	166
<b>Chapter 10</b>	Business Trust, Investment Fund and Securitisation Trust	181
<b>Chapter 11</b>	Minimum Alternate Tax	189
<b>Chapter 12</b>	AMT & Deduction u/s 10AA (SEZ)	205
<b>Chapter 13</b>	Deduction U/C VI-A	218
<b>Chapter 14</b>	Clubbing of Income	238
<b>Chapter 15</b>	Set-Off & C/F of Losses	243
<b>Chapter 16</b>	Advance Tax, TDS & TCS	252
<b>Chapter 17</b>	Assessment Procedure	294
<b>Chapter 18</b>	Appeals & Revisions	316
<b>Chapter 19</b>	Dispute Resolution	327
<b>Chapter 20</b>	Miscellaneous Provisions	329
<b>Chapter 21</b>	Penalties & Prosecutions	338
<b>Chapter 22</b>	Black Money Act, 2015	347
<b>Chapter 23</b>	Equalisation Levy	352
<b>Chapter 24</b>	GAAR	355



## Contents

<b>Chapter 25</b>	<b>Taxation of VDA</b>	<b>361</b>
<b>Chapter 26</b>	<b>Exempt Income</b>	<b>364</b>
<b>Chapter 27</b>	<b>Tonnage Taxation</b>	<b>368</b>
<b>Chapter 28</b>	<b>Taxation of Trust &amp; Institution</b>	<b>371</b>
<b>Chapter 29</b>	<b>Tax Audit &amp; Ethical Compliance</b>	<b>396</b>
<b>Chapter 30</b>	<b>Transfer Pricing</b>	<b>415</b>
<b>Chapter 31</b>	<b>Non-Resident &amp; NRI Taxation</b>	<b>442</b>
<b>Chapter 32</b>	<b>Double Taxation Relief (DTAA)</b>	<b>482</b>
<b>Chapter 33</b>	<b>Advance Ruling (BOAR)</b>	<b>511</b>
<b>Chapter 34</b>	<b>Application &amp; Interpretation of Tax Treaties</b>	<b>514</b>
<b>Chapter 35</b>	<b>Model Tax Conventions (MTC)</b>	<b>520</b>
<b>Chapter 36</b>	<b>Base Erosion &amp; Profit Shifting (BEPS)</b>	<b>524</b>
<b>Chapter 37</b>	<b>Foreign Tax Credit &amp; Foreign Currency Income</b>	<b>529</b>
<b>Chapter 38</b>	<b>Questions Based on selected case laws</b>	<b>532</b>
<b>Chapter 39</b>	<b>Nov - 2024 Exam Paper</b>	<b>543</b>

# Basics, Tax Rates AY 25-26 & Alternate Taxation Regime

## Question 1

[Diversion of Income - SM Q.]

XYZ Ltd. took over the running business of a sole-proprietor by a sale deed. As per the sale deed, XYZ Ltd. undertook to pay overriding charges of ₹ 15,000 p.a. to the wife of the sole-proprietor in addition to the sale consideration. The sale deed also specifically mentioned that the amount was charged on the net profits of XYZ Ltd., who had accepted that obligation as a condition of purchase of the going concern. Is the payment of overriding charges by XYZ Ltd. to the wife of the sole-proprietor in the nature of diversion of income or application of income? Discuss.

## Answer

This issue came up for consideration before the Allahabad High Court in *Jit & Pal X-Rays (P.) Ltd. v CIT* (2004) (All). The Allahabad High Court observed that the overriding charge which had been created in favour of the wife of the sole-proprietor was an integral part of the sale deed by which the going concern was transferred to the assessee. The obligation, therefore, was attached to the very source of income i.e., the going concern transferred to the assessee by the sale deed. The sale deed also specifically mentioned that the amount in question was charged on the net profits of the assessee-company and the assessee-company had accepted that obligation as a condition of purchase of the going concern. Hence, it is clearly a case of diversion of income by an overriding charge and not a mere application of income.

## Question 2

[Diversion of Income - SM Q.]

MKG Agency is a partnership firm consisting of Mr. Mohan and his three major sons. The partnership deed provided that after the death of Mr. Mohan, the business shall be continued by the sons, subject to the condition that the firm shall pay 20% of the profits to their mother, Lakshmi. Mr. Mohan died in March, 2024. In the previous year 2024-25, the reconstituted firm paid ₹ 1 lakh (equivalent to 20% of the profits) to Lakshmi and claimed the amount as deduction from its income. Examine the correctness of the claim of the firm.

## Answer

The issue raised in the problem is based on the concept of diversion of income by overriding title, which is well recognised in the income-tax law. In the instant case, the amount of ₹ 1 lakh, being 20% of profits of the firm, paid to Lakshmi gets diverted at source by the charge created in her favour as per the terms of the partnership deed. Such income does not reach the assessee-firm. Rather, such income stands diverted to the other person as such other person has a better title on such income than the title of the assessee. The firm might have received the said amount but it so received for and on behalf of Lakshmi, who possesses the overriding title. Therefore, the amount paid to Lakshmi should be excluded from the income of the firm. This view has been confirmed in *CIT v Nariman B. Bharucha & Sons* (1981) (Bom).



**Question 3**

[Application of Income –SM]

Mr. Bhargava, a leading advocate on corporate law, decided to reduce his practice and to accept briefs only for paying his taxes and making charities with the fees received on such briefs. In a particular case, he agreed to appear to defend one company in the Supreme Court on the condition that he would be provided with ₹ 5 lakhs for a public charitable trust that he would create. He defended the company and was paid the sum by the company. He created a trust of that sum by executing a trust deed. Decide whether the amount received by Mr. Bhargava is assessable in his hands as income from profession.

**Answer**

In the instant case, the trust was created by Mr. Bhargava himself out of his professional income. The client did not create the trust. The client did not impose any obligation in the nature of a trust binding on Mr. Bhargava. Thus, there is no diversion of the money to the trust before it became professional income in the hands of Mr. Bhargava. This case is one of application of professional income and not of diversion of income by overriding title. Therefore, the amount received by Mr. Bhargava is chargeable to tax under the head “Profits and gains of business or profession”.

**Question 4**

[115BAC - Handmade]

Mr Devam (32 years) is a salaried employee, employed by BB Pvt Ltd. as tax advisor. His income and tax incentives for the previous year 2024-25 are as follows –

Particulars	₹
Basic Salary	40,00,000
House rent allowance [₹60,000 is exempted u/s 10(13A)]	90,000
Leave travel concession (LTC) [₹1,80,000 is exempt u/s 10(5)]	1,95,000
New Pension Scheme contribution (NPS) by BB Pvt. Ltd. (12% of basic salary)	4,80,000
Payment of professional tax by Devam	2,000
Income from Property A (self-occupied)	(-) 1,05,000
Income from Property B (let out)	60,000
Income from Property C (let out)	(-) 80,000
Savings bank A/c interest received by minor son of Devam	800
Savings bank A/c interest received by minor daughter of Devam	2,000
Interest on saving bank account of Devam	28,000
Interest on public provident fund credited on March 31, 2025	55,000
Deduction under section 80D, 80E, 80EEA and 80EEB and 80G	2,81,000
NPS contribution by Devam	4,00,000
PPF contribution by Devam	20,000

Devam wants to know whether he should opt default taxation regime u/s 115BAC or opt out from default taxation regime u/s 115BAC from the AY 2025-26.



**Answer**

Mr. Devam PY 24-25 AY 25-26

**Computation of Total Income & Tax Liability**

Particular	Normal Provisions		Section 115BAC	
	₹	₹	₹	₹
Basic Salary		40,00,000		40,00,000
HRA	90,000		90,000	
Less: Exempt u/s 10(13A)	60,000	30,000	N/A	90,000
LTC	1,95,000		1,95,000	
Less: Exempt u/s 10(5)	1,80,000	15,000	N/A	1,95,000
NPS contribution by BB Pvt. Ltd.		4,80,000		4,80,000
<b>Gross Salary</b>		<b>45,25,000</b>		<b>47,65,000</b>
<b>Deduction u/s 16</b>				
(i) Professional Tax		(2,000)		N/A
(ii) Standard Deduction		(50,000)		(75,000)
<b>Net Salary</b>		<b>44,73,000</b>		<b>46,90,000</b>
<b>Income from House Property</b>				
Self-Occupied Property – A		(1,05,000)		N/A
Let-out Property- B	60,000			
Let-out Property- C	(80,000)	(20,000)	(20,000)	Set-off not allowed so carry/ forward
		<b>43,48,000</b>		<b>46,90,000</b>
<b>Income from other sources</b>				
SB Interest of Minor Son	800		800	
Less: Exempt u/s 10(32)	800	-	N/A	800
SB Interest of Minor Daughter	2000		2,000	
Less: Exempt u/s 10(32)	1500	500	N/A	2,000
SB Interest of Devam		28,000		28,000
Interest on PPF	55,000		55,000	
Less: Exempt u/s 10(11)	55,000	-	55,000	-
<b>Gross Total Income</b>		<b>43,76,500</b>		<b>47,20,800</b>
Less: Deductions u/c VI-A				
Sec. 80C: PPF	20,000		N/A	
Sec. 80CCD(1) EE cont. to NPS	3,50,000		N/A	
	<b>3,70,000</b>			



## Chapter 1: Basics, Tax Rates AY 25-26 & Alternate Taxation Regime

Particular	Normal Provisions		Section 115BAC	
	₹	₹	₹	₹
Sec. 80CCE Max. deduction u/s 80C+80CCC+80CCD(1) is 1,50,000	1,50,000	1,50,000		
Sec. 80CCD(1B) EE cont. to NPS		50,000	N/A	
Sec. 80CCD(2) ER cont. to NPS				
(i) ER Cont. 4,80,000		4,00,000		4,80,000
(ii) *10% of Salary 4,00,000 (14% in case of 115BAC)				
Lower of above		2,81,000		N/A
Sec. 80D, 80E, 80EEA, 80EEB, 80G		10,000		N/A
Sec. 80TTA Interest on SB A/c				
<b>Total Income/Net Taxable Income</b>		<b>34,85,500</b>		<b>42,40,800</b>

### Computation of Tax Liability

Tax as per Normal Provisions			Tax as per section 115BAC		
Particular	Rate	Tax Amount	Particular	Rate	Tax Amount
Upto 2,50,000	Nil	-	Upto 3,00,000	Nil	-
> 2,50,000 upto 5,00,000	5%	12,500	> 3,00,000 upto 7,00,000	5%	20,000
> 5,00,000 upto 10,00,000	20%	1,00,000	> 7,00,000 upto 10,00,000	10%	30,000
>10,00,000 upto 34,85,500	30%	7,45,650	> 10,00,000 upto 12,00,000	15%	30,000
		8,58,150	> 12,00,000 upto 15,00,000	20%	60,000
Add: HEC @4%		34,326	> 15,00,000 upto 42,40,800	30%	8,22,240
Net Tax Payable		8,92,476			9,62,240
			Add: HEC @ 4%		38,490
			Net Tax Payable		10,00,730

Conclusion: Since in the present question tax as per normal provision is lower so Mr. Devam should opt for default taxation regime u/s 115BAC for AY 25-26.

### Question 5

[115BAB - Handmade]

BB Ltd is incorporated on October 20, 2023 to commence manufacture of Bikes in Rajasthan. Manufacturing activity is started on December 10, 2023. For the year ending March 31, 2025, income of BB Ltd. is as follows –

Particulars	₹
Income from manufacturing of Bikes (computed as per provisions of 115BAB)	60,45,000
Bank FD interest	3,00,000



## Chapter 1: Basics, Tax Rates AY 25-26 & Alternate Taxation Regime

Short-term capital gain on transfer of land (Computed)	18,00,000
Short-term capital gain on transfer of a Depreciable Assets (Computed)	2,00,000
Rental Income from Commercial Property	7,00,000

BB Ltd has donated ₹ 50,000 to a political party. BB Ltd. has opted for lower tax regime of section 115BAB. Necessary option uploaded at the time of submission of first income-tax return. Find out the tax liability of BB Ltd.

### Answer

#### Computation of Total Income

PY 24-25 AY 25-26

Particular	₹	₹
<b><u>Income from House Property</u></b>		
Rental Income from Commercial Property	7,00,000	
Deduction u/s 24	N/A	7,00,000
Profit & Gain from Business or Profession		
Income from Manufacturing Activities		60,45,000
<b><u>Capital Gain</u></b>		
STCG on Land		18,00,000
STCG on Depreciable Assets		2,00,000
<b><u>Income from other sources</u></b>		
Interest on Bank FD		3,00,000
<b>Gross Total Income</b>		<b>90,45,000</b>
Deduction u/s 80GGB: Donation to Political Party		N/A
<b>Total Income(NTI)</b>		<b>90,45,000</b>

#### Computation of Tax Liability

Particular	Income	Tax Rate	₹
(i) Tax on House Property Income	7,00,000	22%	1,54,000
(ii) Tax on Interest on FD	3,00,000	22%	66,000
(iii) STCG on Land	18,00,000	22%	3,96,000
(iv) Tax on Balance Income	62,45,000	15%	9,36,750
<b>Total</b>	<b>90,45,000</b>		<b>15,52,750</b>
<b>Add: Surcharge @ 10%</b>			<b>1,55,275</b>
			<b>17,08,025</b>
<b>Add: HEC @ 4%</b>			<b>68,321</b>
<b>Net Taxable Payable</b>			<b>17,76,346</b>



**Question 6**

[115BAB – Q opted from Dec. 21 Exams and included other adjustments]

Devam Ltd., a manufacturing company, is engaged in the manufacturing of leather products since 01-11-2022 in the State of Tamil Nadu. 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:

- (i) 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%.
- (ii) Devam 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.
- (iii) ₹ 45,000 paid in cash to Mr. Raj employee of the company at the time of his retirement.
- (iv) Profit on sale of 2000 shares of M/s. VKL LTD, a listed company ₹ 3,50,000. These shares were sold on 7-10-2024 for ₹ 250 per share. The highest price of VKL LTD. quoted on the stock exchange as on 31-01-2018 was ₹ 175 per share. The said shares were received as gift from 100% holding company & such company acquired for ₹ 75 per share on 10.06.2016. STT paid both at the time of purchase and sale of shares.
- (v) STCG derived from transfer of a Capital asset on which no depreciation is allowable under the Act ₹ 75,000.
- (vi) Profit of ₹ 6 lakhs on sale of plot of land on 24-07-2024 to XYZ LTD, a domestic company, the entire shares of which are held by the assessee company. The plot was acquired by Devam Ltd. on 30-09-2023.
- (vii) Credits to statement of Profit and Loss Account include dividend of ₹ 50,000 received on September 6, 2024 from a domestic company.
- (viii) ₹ 20,000 paid for expenses in connection with the inauguration of a new branch opened for expanding the business.
- (ix) ₹ 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.
- (x) An amount of ₹ 5 lakhs was paid to the manager of the company under Voluntary Retirement Scheme.
- (xi) 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.
- (xii) 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.
- (xiii) 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.
- (xiv) Rent of ₹ 60,000 p.m. received from letting out a part of its office premises. Municipal tax paid in respect of the said part of the building is ₹ 8,000. The same has been debited to statement of profit and loss.
- (xv) Depreciation on tangible fixed assets as per books of account ₹ 2,20,000.



**Additional information:**

- (1) Depreciation on tangible fixed assets as per Income-tax Rules ₹ 2,60,000.
- (2) 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 (1) above.
- (3) 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.
- (4) The company has paid through bank ₹ 1,20,000 to National Fund for Rural Development.
- (5) 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 clearly stating the reasons for treatment of each item.

**Answer**

**Computation of Total Income of Devam Ltd. for the A.Y. 2025-26 under section 115BAB**

Particulars		Amount (in ₹)	
<b>I</b>	<b>Income from house property</b> Rental income [₹ 60,000 x 12] [No deduction is allowable in respect of such income, since the company has opted for concessional regime under section 115BAB. Hence, deduction for municipal taxes paid and deduction@30% of net annual value is not allowable]		7,20,000
<b>II</b>	<b>Profits and gains of business and profession</b> Net profit as per Statement of profit and loss Add: Overvaluation of opening stock [₹ 55,00,000 x 10/110] Undervaluation of closing stock [₹ 54,00,000 x 10/90] Add: Items debited but to be considered separately or to be disallowed (1) Sales commission to Mr. John, a non-resident, for procuring orders from outside India [The commission paid to Mr. John, non-resident agent, for services rendered outside India is not chargeable to tax in India. His commission is paid in foreign currency directly to him and is, therefore, not received by him or on his behalf in India. Since commission income for procuring orders by non-resident who remains outside India is not subject to tax in India, disallowance under section 40(a)(i) is not attracted in respect of payment of commission to such non-resident outside India even though tax has not been deducted at source.] (2) Payment to Mr. Raj, an employee, on his retirement	5,00,000 6,00,000  Nil  Nil	1,20,00,000



# Chapter 1: Basics, Tax Rates AY 25-26 & Alternate Taxation Regime

Particulars	Amount (in ₹)
<p>[Section 40A(3) provides for disallowance @ 100% of the expenditure incurred exceeding ₹ 10,000 otherwise than by an account payee cheque drawn on a bank or an account payee bank draft or use of electronic clearing system through a bank account or through such other electronic mode as may be prescribed. However, no disallowance under section 40A(3) is to be made as the amount paid to Mr. Raj is on his retirement since such sum payable does not exceed ₹ 50,000. This exception is provided in Rule 6DD]</p>	
<p><b>(3) Expenses in connection with inauguration of a new branch for expanding business</b></p> <p>[Expenses in connection with inauguration of a new branch for expanding business is allowable as revenue expenditure since it is incurred wholly or exclusively for business purpose. Since the same is already debited in statement of profit and loss, no further adjustment is required]</p>	Nil
<p><b>(4) Penalty to Government for failure in performance of a contract</b></p> <p>[The penalty of ₹ 20,000 paid for non-fulfilment of a contract within stipulated time is not for the breach of law but was paid for breach of contractual obligations and therefore, is an allowable expense. Since it is already debited in statement of profit and loss, no further adjustment is required]</p>	Nil
<p><b>(5) Voluntary Retirement Scheme expenditure</b></p> <p>[Only 1/5th of expenditure on voluntary retirement scheme is allowable over a period of five years u/s 35DDA. Since whole amount of expenditure is debited to statement of profit and loss, 4/5th has to be added back [₹ 5,00,000 x 4/5].</p>	4,00,000
<p><b>(6) Interest paid to non-resident buyers of goods, on deposits made by them</b></p>	75,000
<p>[Interest paid to non-resident buyer of goods, on deposits made by them is deemed to accrue or arise in India since such interest is paid by the company, a resident, which used such deposit for the purpose of business carried on by it in India. Thus, such interest is chargeable to tax in India and Devam Ltd. is required to deduct tax at source on such interest. Disallowance @ 100% of interest paid is attracted under section 40(a)(i), since tax has not been deducted at source therefrom.]</p>	
<p><b>(7) Salary paid to employees through bearer cheques</b></p> <p>[Salary paid through bearer cheques (9 employees x ₹ 15,000 x 10 months) will attract disallowance u/s 40A(3) and hence, the same has to be added back] [See Note at the end of the solution]</p>	13,50,000
<p><b>(8) Marked to market losses</b></p> <p>[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. Since such losses have been debited to the statement of profit and loss, they have to be added back for computing business</p>	6,00,000



# Chapter 1: Basics, Tax Rates AY 25-26 & Alternate Taxation Regime

Particulars		Amount (in ₹)	
	income]		
	<b>(9) Contribution to National Laboratory</b> [As per section 35(2AA) donation to National Laboratory eligible for 100% deduction but when assessee opted section 115BAB then this deduction not allowed]	2,50,000	
	<b>(10) Municipal Taxes paid</b> [Not allowed in PGBP]	8,000	
	<b>(11) Depreciation on tangible fixed assets</b> [The amount of ₹ 2.20 lakh, being depreciation as per books of account, debited to statement of profit and loss has to be added back]	2,20,000	
	Less: Depreciation u/s 32		
	Tangible fixed assets		
	Plant & Machinery 2,60,000		
Particulars		Amount (in ₹)	
	- Normal Depreciation (₹ 20,00,000 x 7.5%, since put to use for less than 180 days during the P.Y. 24-25)	1,50,000	
	- Additional depreciation [not allowable since company is opting for section 115BAB]	(4,10,000)	35,93,000
	<b>Less: Items credited but chargeable to tax under another head/expenses allowed but not debited</b>		<b>1,55,93,000</b>
	<b>1. Profit on sale of shares of M/s VKL Ltd.</b> [Capital Gain arising on sale of shares of VKL 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]	3,50,000	
	<b>2. Short term capital gain on sale of capital asset on which no depreciation is allowable</b> [Short term capital gain arising on sale of capital asset is taxable under the head "Capital Gains". Since such STCG has been credited to the statement of profit and loss, the same has to be deducted while computing business income]	75,000	
	<b>3. Profit on sale of plot of land to 100% subsidiary</b> [Taxability or otherwise to be considered under the head "Capital Gains". Since such profit has been credited to the statement of profit and loss, the same has to be deducted while computing business income]	6,00,000	
	<b>4. Dividend received from domestic company</b> [Dividend income from domestic foreign company is taxable under the head "Income from other sources". Since the said dividend has been credited to the statement of profit and loss, the same has to be deducted while computing business income]	50,000	



## Chapter 1: Basics, Tax Rates AY 25-26 & Alternate Taxation Regime

Particulars		Amount (in ₹)	
	<b>5. Contribution to National Fund for Rural Development</b> [In respect of payment to a National Fund for Rural Development, deduction is allowable under section 35CCA while computing business income. This deduction is permissible in case of an assessee opting for section 115BAB also]	1,20,000	
	<b>6. Rental income from letting out of office premises</b> (Rental income from letting out a part of the office premises is taxable under "Income from house property". Therefore, it has to be deducted while calculating business income, since the income has been credited to statement of profit and loss)	7,20,000	19,15,000
	<b>Profit &amp; Gains from Business or Profession</b>		<b>1,36,78,000</b>

Particulars		Amount (in ₹)	
<b>II</b>	<b>Capital Gains</b>		
	<b>1. Long term capital gain on sale of shares of M/s. VKL Ltd.</b> [Since shares were held for more than 12 months] [Full value of consideration (2,000 x ₹ 250)] 5,00,000 Less: Cost of acquisition - Higher of (i) and (ii) <u>3,50,000</u> (i) Actual cost of acquisition (2,000 x ₹ 75) ₹ 1,50,000 (ii) ₹ 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)	1,50,000	
	<b>2. Short term capital gain on sale of capital asset on which no depreciation is allowable</b>	75,000	
	<b>3. Profit on sale of plot of land to 100% subsidiary</b> [Short-term capital gains arise on sale of plot of land held for less than 24 months. However, in this case, since the transfer is to a 100% subsidiary company and the subsidiary company is an Indian company, the same would not constitute a transfer for levy of capital gains tax due to section 47]	Nil	<b>2,25,000</b>
<b>III</b>	<b>Income from Other Sources</b>		
	<b>Dividend income from domestic company</b> [50,000/90 x 100]		55,555
	<b>Gross Total Income</b>		<b>1,46,78,555</b>
	<b>Deduction u/s 80JJAA</b> [See Working Note below]		14,49,000
	<b>Total Income</b>		<b>1,32,29,555</b>
	<b>Total Income (Rounded Off)</b>		<b>1,32,29,560</b>



## Computation of tax payable by Devam Ltd. for the A.Y. 2025-26 under section 115BAB

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 House Property income of ₹ 7,20,000 @22%		1,58,400
Tax on dividend income of ₹ 55,555 @22%		12,222
Tax on business income@15% of ₹ 1,22,29,000 (i.e. 1,36,78,000 – 14,49,000)		<u>18,34,350</u>
		20,24,597
Add: Surcharge@10%		<u>2,02,460</u>
		22,27,057
Add: Health and education cess@4%		<u>89,082</u>
Tax liability		23,16,139
Less: TDS on dividend income		<u>5,555</u>
<b>Tax payable</b>		<u>23,10,584</u>
<b>Tax payable (Rounded Off)</b>		<b>23,10,580</b>

## Working Note - Computation of deduction u/s 80JJAA

No of eligible additional employees [56 (-) 14 = 42]	33
[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 cheques would be Nil.	
Additional employee cost [₹ 15,000 x 30 employees (39 - 9) x 10 months] + [₹ 22,000 x 3 employees x 5 months] = ₹ 45,00,000 + ₹ 3,30,000	₹ 48,30,000
Eligible deduction = 30% of ₹ 48,30,000	₹ 14,49,000

**Note** – Since it is logical to assume that remuneration paid to employees has been debited to statement of profit and loss, consequently, disallowance would be attracted in respect of remuneration paid to 9 employees by bearer cheque every month. Accordingly, ₹ 13,50,000, being salary paid to 9 employees during the P.Y.2024-25 has been added back while computing profits and gains of business or profession.

If a view is taken that the details of remuneration paid to employees, given by way of “Additional Information”, are only for the purpose of computation of deduction under section 80JJAA, then, the computation of income under the head “Profits and gains of business and profession” would be without providing for disallowance under section 40A(3) in respect of payment to employees by bearer cheque.



## Chapter 1: Basics, Tax Rates AY 25-26 & Alternate Taxation Regime

### Question 7

[115BAC/10AA/80JJAA – INTER RTP Dec. 21]

Mr. Dheeraj, aged 48 years, a resident Indian has furnished the following particulars for the year ended 31.03.2025:

- (i) He occupies ground floor of his residential building and has let out first floor for residential use at an annual rent of ₹ 3,34,000. He has paid municipal taxes of ₹ 30,000 for the current financial year. Both these floors are of equal size.
- (ii) As per interest certificate from ICICI bank, he paid ₹ 1,80,000 as interest and ₹ 95,000 towards principal repayment of housing loan borrowed for the above residential building in the year 2015.
- (iii) He owns an industrial undertaking established in a SEZ and which had commenced operation during the financial year 2020-21. Total turnover of the undertaking was ₹ 400 lakhs, which includes ₹ 120 lakhs from export turnover. This industrial undertaking fulfills all the conditions of section 10AA of the Income-tax Act, 1961. Profit from this industry is ₹ 45 lakhs.
- (iv) He employed 20 new employees for the said industrial undertaking during the previous year 2024-25. Out of 20 employees, 12 were employed on 1st May 2024 on monthly emoluments of ₹ 18,000 and remaining were employed on 1st August 2024 on monthly emoluments of ₹ 12,000. All these employees participate in recognised provident fund and they are paid their emoluments directly to their bank accounts.
- (v) He earned ₹ 30,000 and ₹ 45,000 as interest on saving bank deposits and fixed deposits respectively.
- (vi) He also sold his vacant land on 01.06.2024 for ₹ 13 lakhs. The stamp duty value of land at the time of transfer was ₹ 14 lakhs. The FMV of the land as on 1st April, 2001 was ₹ 4.8 lakhs and Stamp duty value on the said date was ₹ 3.4 lakhs. This land was acquired by him on 15.9.1997 for ₹ 2.80 lakhs. He had incurred registration expenses of ₹ 12,000 at that time.  
The cost of inflation index for the financial year 2024-25 and 2001-02 are 363 and 100 respectively.
- (vii) He paid insurance premium of ₹ 49,000 towards life insurance policy of his son, who is not dependent on him.

You are requested to compute his total income and tax liability of Mr. Dheeraj for the Assessment Year 2025-26, in the manner so that he can make maximum tax savings.

### Answer

#### Computation of total income of Mr. Dheeraj for A.Y. 2025-26 as per Normal Provisions

	Particulars	₹	₹	₹
I	<b>Income from house property</b>			
	<b>Let out portion [First floor]</b>			
	Gross Annual Value [Rent received is taken as GAV, in the absence of other information]		3,34,000	
	Less: Municipal taxes paid by him in the P.Y. 2024-25 pertaining to let out portion [₹30,000/2]		15,000	
	Net Annual Value (NAV)		3,19,000	
	Less: Deduction u/s 24			



**Chapter 1: Basics, Tax Rates AY 25-26 & Alternate Taxation Regime**

	Particulars	₹	₹	₹
	(a) 30% of ₹ 3,19,000	95,700		
	(b) Interest on housing loan [₹ 1,80,000/2]	90,000	1,85,700	
	<b>Self-occupied portion [Ground Floor]</b>		1,33,300	
	Annual Value		Nil	
	[No deduction is allowable in respect of municipal taxes paid]			
	Less: Interest on housing loan		90,000	
	Income from house property [₹ 1,33,300 – ₹ 90,000]		(90,000)	43,300
II	<b>Profits and gains of business or profession</b>			45,00,000
	Income from SEZ unit			
III	<b>Capital Gains</b>			
	Long-term capital gains on sale of land (since held for more than 24 months)			
	Full Value of Consideration [Actual consideration of ₹ 13 lakhs, since stamp duty value of ₹ 14 lakhs does not exceed actual consideration by more than 10%]		13,00,000	
	Less: Indexed Cost of acquisition [₹ 3,40,000 x 363/100]		12,34,200	65,800
	Cost of acquisition			
	Higher of -			
	- Actual cost ₹ 2.80 lakhs + ₹ 0.12 lakhs = ₹ 2.92 lakhs and			
	- Fair Market Value (FMV) as on 1.4.2001 = ₹ 4.8 lakhs but cannot exceed stamp duty value of ₹ 3.4 lakhs.			
IV	<b>Income from Other Sources</b>			
	Interest on savings bank deposits		30,000	
	Interest on fixed deposits		45,000	75,000
	<b>Gross Total Income</b>			<b>46,84,100</b>
	<b>Less: Deduction u/s 10AA</b>			13,50,000
	[Since the industrial undertaking is established in SEZ, it is entitled to deduction u/s 10AA@100% of export profits, since P.Y.2024-25 being the 5th year of operations]			
	[Profits of the SEZ x Export Turnover/Total Turnover] x 100%			
	[₹ 45 lakhs x ₹ 120 lakhs/ ₹ 400 lakhs x 100%]			
	<b>Less: Deduction under Chapter VI-A</b>			
	<b>Deduction under section 80C</b>			
	Repayment of principal amount of housing loan	95,000		



## Chapter 1: Basics, Tax Rates AY 25-26 & Alternate Taxation Regime

Particulars	₹	₹	₹
Insurance premium paid on life insurance policy of son allowable, even though not dependent on Mr. Dheeraj	49,000	1,44,000	
<b>Deduction under section 80JJAA</b> 30% of the employee cost of the new employees employed during the P.Y. 2024-25 allowable as deduction [30% of ₹ 31,44,000 [₹ 23,76,000 (12 x 18,000 x 11) + ₹ 7,68,000 (8 x 12,000 x 8)]]		9,43,200	
<b>Deduction under section 80TTA</b> Interest on savings bank account, restricted to ₹ 10,000		10,000	
<b>Total income</b>			10,97,200
			22,36,900

### Computation of tax liability of Mr. Dheeraj for A.Y.2025-26 under the normal provisions of the Act

Particulars	₹	₹
Tax on total income of ₹ 22,36,900		13,160
Tax on LTCG of ₹ 65,800 @ 20%		
Tax on remaining total income of 21,71,100		
Upto ₹ 2,50,000	Nil	
₹ 2,50,001 – ₹ 5,00,000 [ @ 5% of ₹ 2.50 lakh]	12,500	
₹ 5,00,001 – ₹ 10,00,000 [ @ 20% of ₹ 5,00,000]	1,00,000	
₹ 10,00,001 – ₹ 21,71,100 [ @ 30% of ₹ 11,71,100]	3,51,330	4,63,830
		4,76,990
Add: Health and education cess @ 4%		19,080
<b>Total tax liability</b>		4,96,070
<b>Tax liability (rounded off)</b>		4,96,070

### Computation of tax liability of Mr. Dheeraj for A.Y.2025-26 under the special provisions of the Act (Alternate Minimum Tax)

Particulars	₹
Computation of adjusted total income	
Total income as per the normal provisions of the Act	22,36,900
Add: Deduction u/s 10AA	13,50,000
Deduction u/s 80JJAA	9,43,200
	45,30,100



AMT@18.5%	8,38,069
Add: HEC@4%	33,523
AMT liability	8,71,592
AMT liability (rounded off)	8,71,590

Since the regular income tax payable is less than the AMT, the adjusted total income of ₹ 45,30,100 would be deemed to be the total income and tax would be payable @18.5% plus HEC@4%. The total tax liability would be ₹ 8,71,590. In this case, AMT credit of ₹ 3,75,520 (₹ 8,71,590 – ₹ 4,96,070) can be carried forward.

The computation of total income and tax liability as per default tax regime u/s 115BAC would be as follows:

**Computation of total income of Mr. Dheeraj as per section 115BAC for A.Y. 2025-26**

Particulars	₹	₹
Gross Total Income as per regular provisions of the Income-tax Act		46,84,100
Add: Interest on borrowing in respect of self-occupied house property not allowable as deduction as per section 115BAC		90,000
<b>Gross Total Income as per section 115BAC</b>		<b>47,74,100</b>
Less: Deduction under section 80JJAA		
30% of the employee cost of the new employees employed during the P.Y. 2024-25 allowable as deduction [30% of ₹ 31,44,000 [₹ 23,76,000 (12 x 18,000 x 11) + ₹ 7,68,000 (8 x 12,000 x 8)]]	9,43,200	
No deduction under section 10AA or under Chapter VI-A allowable except u/s 80JJAA		9,43,200
<b>Total income</b>		<b>38,30,900</b>

**Computation of tax liability as per section 115BAC**

Particulars	₹	₹
Tax on total income of ₹ 38,30,900		
Tax on LTCG of ₹ 65,800@20%		13,160
Tax on remaining total income of ₹ 37,65,100		
Upto ₹ 3,00,000	Nil	
₹ 3,00,001 – ₹ 7,00,000 [@5% of ₹ 4 lakhs]	20,000	
₹ 7,00,001 – ₹ 10,00,000 [@10% of ₹ 3 lakhs]	30,000	
₹ 10,00,001 – ₹ 12,00,000 [@15% of ₹ 2 lakhs]	30,000	
₹ 12,00,001 – ₹ 15,00,000 [@20% of ₹ 3 lakhs]	60,000	
₹ 15,00,001 – ₹ 37,65,100 [@30% of ₹ 22,65,100]	6,79,530	8,19,530
		<b>8,32,690</b>



## Chapter 1: Basics, Tax Rates AY 25-26 & Alternate Taxation Regime

Particulars	₹	₹
Add: Health and education cess@4%		33,308
Total tax liability		8,65,998
Tax liability (rounded off)		8,66,000

Since tax liability as per section 115BAC i.e. ₹ 8,66,000 is lower than the tax liability as per normal provisions of ₹ 8,71,590 being higher of AMT liability and tax liability computed as per normal provisions of the Income-tax Act, 1961, it is beneficial for Mr. Dheeraj to pay tax as per default tax regime u/s 115BAC. If Dheeraj opt out from default tax regime then he has to pay AMT of ₹ 8,71,590. In such case, his tax liability, therefore, would be ₹ 8,71,590. Moreover, Mr. Dheeraj would also be eligible to claim carry forward of AMT credit of ₹ 3,75,520.

### Question 8

[115BAD/80JJAA/80P – Similar RTP MAY. 23]

ABC Co-operative society is derived following income during PY 24-25 from following activities:—

- Income from house property (Computed) ₹7,50,000
- Income from marketing of agricultural produce grown by its members ₹ 4,00,000
- Income from collective disposal of labour of its members ₹ 15,00,000
- Income from processing with the aid of power ₹35,00,000
- Income from other business activity ₹ 25,00,000
- Interest from another co-operative society ₹ 10,00,000
- Income by way of dividend from another co-operative society: ₹ 5,00,000.
- Income by way of interest on fixed deposits with banks: ₹ 42,00,000

It has employed ten new employees with salary of ₹ 20,000 p.m. on 1.5.2024. Salary is paid by account payee cheque. It gets its books of accounts audited under section 44AB.

Compute its total income and tax liability for A.Y.2025-26 and advise whether it should opt for the special provisions under section 115BAD.

### Answer

**Computation of total income & tax liability of ABC Co-operative Society for A.Y.2025-26 (under the regular provisions of the Act)**

Particulars	₹	₹
<b>Income from House Property (Computed)</b>		7,50,000
<b>Profits and gains of business or profession</b>		
Income from marketing of agricultural produce	4,00,000	
Income from collective disposal of labour	15,00,000	
Income from processing with the aid of power	35,00,000	
Income from other business activity	25,00,000	79,00,000
<b>Income from other sources</b>		
Interest and Dividend from another Co.Op. Society	15,00,000	
Interest on bank fixed deposits	42,00,000	57,00,000
<b>Gross Total Income</b>		<u>1,43,50,000</u>
<b>Less: Deductions under Chapter VI-A</b>		



# Chapter 1: Basics, Tax Rates AY 25-26 & Alternate Taxation Regime

Particulars	₹	₹
Deduction u/s 80JJAA [30% of ₹ 20,000 x 10 employees x 11 months]	6,60,000	
Deduction u/s 80P [ABC Co-operative society is entitled for deduction under section 80P, on the whole of the amount of profits and gains of the activity of marketing of agricultural produce grown by its members, Collective disposal of labour & interest/dividend from another co.op. society & also eligible for 50,000 general deduction for other activities income]	<u>34,50,000</u>	<u>41,10,000</u>
<b>Total Income</b>		<b><u>1,02,40,000</u></b>
<b>Tax liability:</b>	1,000	
Upto ₹ 10,000 – 10%		
₹ 10,000 – ₹ 20,000 – 20%	2,000	
₹ 20,000 – ₹ 1,02,40,000 – 30%	<u>30,66,000</u>	
		30,69,000
Add: Surcharge @ 7% as total income more than 1 crore		<u>2,14,830</u>
<b>Marginal Relief – ₹ 46,830</b>		32,83,830
Above amount restricted to Tax on 1 crore + (NTI – 1 Crore)		<u>32,37,000</u>
₹ 29,97,000 + ₹ 2,40,000		32,37,000
Add: Health and education cess@4%		<u>1,29,480</u>
<b>Tax liability</b>		<b><u>33,66,480</u></b>
<b>Alternate Minimum Tax</b>		
<b>Total Income</b>		1,02,40,000
Add: Deduction under section 80JJAA		<u>6,60,000</u>
<b>Adjusted Total Income</b>		<b><u>1,09,00,000</u></b>
Alternate Minimum Tax@15% of ₹ 1,09,00,000		16,35,000
Add: Surcharge @ 7%		<u>1,14,450</u>
		17,49,450
Add: Health and education cess@4%		<u>69,978</u>
<b>Alternate Minimum Tax</b>		<b><u>18,19,428</u></b>
Since AMT is lower than the tax payable under the regular provisions of the Act, the tax liability of the co-operative society would be ₹ 33,66,480.		

## Computation of total income & tax liability of ABC Co-operative Society under section 115BAD for A.Y.2025-26

Particulars	₹	₹
<b>Gross Total Income</b>		<b>1,43,50,000</b>
<b>Less: Deductions under Chapter VI-A</b>		
Deduction u/s 80JJAA [30% of ₹ 20,000 x 10 employees x 11 months]	6,60,000	
Deduction u/s 80P [Not allowable where the cooperative society opts for section 115BAD]	-	<u>6,60,000</u>
<b>Total Income</b>		<b><u>1,36,90,000</u></b>