



Practical Learning Series

DIRECT TAXES & INTERNATIONAL TAXATION

As per CA Final New Syllabus 2023

Applicable for May 2024 and onwards Examination

Highlights of this Book:

- Complete Coverage of the Income Tax Act, 1961 along with International Taxation.
- Quick Understanding of the topics / concepts by using Tables and Flowcharts.
- Incorporation of Circulars, Notifications and up-to-date Case Laws in relevant Chapters.
- Latest Amendments applicable for Exams highlighted & marked for reference.
- Solved Illustrations as guidance to the Student on how to present answers in Professional Exams.
- Chapter Overview at the beginning of each Topic, to guide the student through the Topic and its Detailed Contents.
- Fast Track Referencer with Case Law Highlights for quick revision of all Topics.
- Solutions to Past Exam question Papers is included in the respective topics
- Guidance for Systematic Approach for Success in learning Direct Tax Law effectively for Professional Exams.

**1st
Edition
December
2023**

**Assessment Years
2024-2025**

**Exclusive FTR
for amendments made
by Finance Act 2023**

**Updated with
Latest amendments
including
MCQs for Practice**

Volume I

CA G. Sekar

Commercial Law Publishers (India) Pvt. Ltd.



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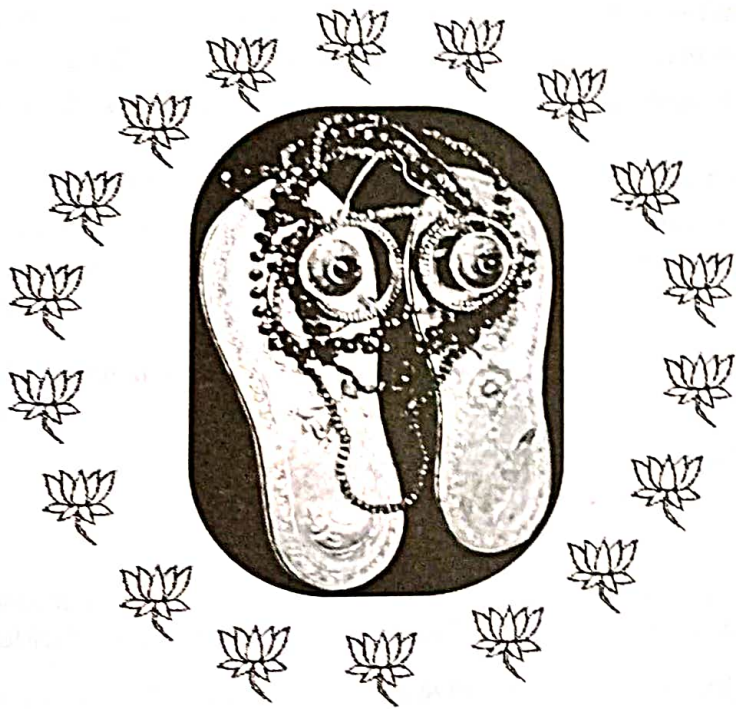
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PRANAMS
TO
THE ACHARYAS OF KANCHI



PREFACE

This First Edition of Padhuka's Practical Learning Series – Direct Taxes & International Taxation for Professional Examinations is contained in TWO handy volumes for the ease of reference of students.

- a) VOLUME I – Heads of Income & Computation of Total Income of Various Assessee
- b) VOLUME II – Tax Administration, Assessment, Appeals & International Taxation

It comes with a refreshing style and presentation, with the following special features –

1. **Complete Coverage of the Income Tax Act, 1961** along with **International Taxation**.
2. Quick Understanding of the topics / concepts by using **Tables and Flowcharts**.
3. Incorporation of **Circulars, Notifications** and up-to-date **Case Laws** in relevant Chapters.
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8. **Solutions to Past Exam question Papers** is included in the respective topics
9. Guidance for **Systematic Approach for Success** in learning Direct Tax Law effectively for Professional Exams.

My sincere thanks to the **Institute of Chartered Accountants of India** for their permission to use questions from previous examinations and Revision Test Papers (RTP).

Many thanks to the Users of the Padhuka's Books, for their positive feedback, which reflects the benefits they have reaped from our Books, and also their keen interest to reciprocate with constructive suggestions.

I also thank the efforts and co-operation of the various Service Providers in bringing out this New Edition including the Publishers, in quickly getting this Book in the current form.

Constructive Suggestions and Feedback from Users would be highly appreciated, gratefully acknowledged and suitably incorporated.

Chennai

With Best Wishes

December 2023

G Sekar

ICAI SYLLABUS

NEW SYLLABUS

Part I: Direct Tax Laws (70 Marks)

Law and Procedures under the Income-tax Act, 1961,

1. Comprehensive computation of income-tax liability of companies & other entities under the alternative tax regimes under the income tax act 1961 to optimize tax liability
 - General provisions under the Act for computation of total income & tax liability of companies & other entities
 - Special tax regimes under the Act for companies & other entities
 - Optimisation of tax liability of companies & other entities through tax planning
2. Special provisions relating to charitable and religious trust & institutions, political parties & electoral trusts, business trusts, securitization trusts, investment funds & other funds/trusts
3. Anti-avoidance provisions under the Act
4. Provisions to address tax challenges on digitalization
5. Deduction, collection & recovery of Tax
6. Income Tax Authorities
7. Assessment procedures
8. Appeals & revision & dispute resolution
9. Provisions to counteract unethical tax practices
 - Taxation of undisclosed income under the income-tax act 1961
 - Taxation of undisclosed foreign income & assets
 - Penalties & offences and prosecution
 - Miscellaneous Provisions
 - Tax Audit

Part II: International Taxation (30 Marks)

1. Taxation of Cross Border transactions and Non-resident taxation under the income tax act, 1961 including-
 - (i) The provisions under the Income-tax Act, 1961, including
 - (a) Specific provisions relating to Non-residents
 - (b) Double Taxation Relief
 - (c) Transfer Pricing & Other Anti-Avoidance Measures
 - (d) Advance Rulings
 - (ii) Equalisation levy
2. Overview of Model Tax Conventions – OECD & UN
3. Application and interpretation of Tax Treaties
4. Latest developments in international Taxation
5. Fundamentals of Base Erosion and Profit Shifting

SUBJECT INDEX

Chapter	Title	Page No.
VOLUME I - Heads of Income & Computation of Total Income of Various Assesseees		
Part I - Basics of Income Tax Act, 1961		
1	Basic Concepts in Income Tax Law	1.1 - 1.26
2	Residential Status and Taxability in India	2.1 - 2.16
3	Analysis of Exemptions	3.1 - 3.40
Part II - Heads of Income & their Taxability		
4	Income from Salaries**	4.1 - 4.46
5	Income from House Property**	5.1 - 5.16
6	Profits and Gains of Business or Profession	6.1 - 6.110
7	Capital Gains	7.1 - 7.74
8	Income from Other Sources	8.1 - 8.28
Part III - Computation of Total Income		
9	Income of other persons included in Assessee's Total Income	9.1 - 9.10
10	Set off and Carry Forward of Losses	10.1 - 10.20
11	Deductions under Chapter VI-A	11.1 - 11.48
12	Relief for Salaried Employees	12.1 - 12.8
13	Agricultural Income	13.1 - 13.10
14	Tax Planning	14.1 - 14.14
Part IV - Taxation of Various Persons and Miscellaneous		
15	Taxation of Individuals	15.1 - 15.18
16	Taxation of HUF	16.1 - 16.10
17	Taxation of Partnership Firm	17.1 - 17.26
18	Taxation of Limited Liability Partnerships	18.1 - 18.6
19	Taxation of Companies	19.1 - 19.96
20	Presumptive Taxation of Shipping Companies - Tonnage Tax Scheme	20.1 - 20.6
21	Taxation of Co-operative Societies	21.1 - 21.8
22	Taxation of Association of Persons	22.1 - 22.6
23	Assessment of Trusts	23.1 - 23.44
24	Taxation of Persons - Others	24.1 - 24.6
25	Miscellaneous	25.1 - 25.4

Chapter	Title	Page No.
VOLUME II - Tax Administration, Assessment, Appeals & International Taxation		
Part V - Non-Resident Taxation		
26	Taxation of Non-Residents	
27	Taxation of International Transactions	26.1 - 26.50
28	Double Taxation Avoidance Agreements	27.1 - 27.60
Part VI - Tax Audit and ICDS		
29A	Audit under the Income Tax Act	28.1 - 28.18
29B	Income Computation and Disclosure Standards	29.1 - 29.52
Part VII - Income Tax Authorities and Income Tax Assessment		
30	Income Tax Authorities	29.53 - 29.74
31	Assessment Procedure - Duties of Assessee	30.1 - 30.6
32	Assessment Procedure - Powers of the Department	31.1 - 31.30
33	Assessment Procedure - Various Assessments	32.1 - 32.18
34	Assessment Procedure - Income Escaping Assessment	33.1 - 33.18
35	Assessment Procedure - Search Assessment	34.1 - 34.14
36A	Assessment Procedure - Faceless Schemes	35.1 - 35.18
36B	Liability in Special Cases	36A.1 - 36A.34 36B.1 - 36B.6
Part VIII - Remedies for Assessee and Department		
37	Settlement Commission	37.1 - 37.16
38	Rectification and Revision	38.1 - 38.12
39	Appeals to Various Authorities	39.1 - 39.24
40	Authority for Advance Rulings	40.1 - 40.8
Part IX - Collection and Recovery of Tax		
41	Tax Deducted at Source	41.1 - 41.84
42	Advance Tax, Collection and Recovery of Tax	42.1 - 42.12
43	Interest	43.1 - 43.8
44	Refunds	44.1 - 44.6
45	Penalties and Prosecutions	45.1 - 45.34
Part X - International Taxation (For New Syllabus)		
46	Overview of Model Tax Conventions	46.1 - 46.26
47	Application and Interpretation of Tax Treaties	47.1 - 47.10
48	Fundamentals of Base Erosion and Profit Shifting	48.1 - 48.26

** Chapter 4 & 5 given for better understanding of the subject and does not directly form part of the syllabus

SECTION INDEX

INCOME TAX ACT, 1961

Section	Page No
2(1A)	13.2
2(1B)	19.10
2(7)	1.20
2(7A)	30.2
2(9)	1.14
2(10)	1.5
2(11)	6.15
2(12A)	6.11
2(13A)	19.81
2(14)	7.3
2(15)	23.2
2(17)	19.2
2(18)	19.7
2(19)	21.1
2(19AA)	19.8
2(19AAA)	19.9
2(22)	8.18
2(22A)	19.8
2(22AAA)	24.54
2(23)	17.2, 18.1
2(23A)	19.8
2(23C)	33.1
2(24)	1.21, 21.6
2(25A)	2.6
2(26)	19.8
2(26A)	7.6
2(26B)	7.6
2(28A)	41.8
2(29A)	26.2
2(29AA)	7.5
2(29B)	7.5
2(29BA)	6.27, 11.40
2(29C)	22.3, 1.5
2(31)	1.21
2(32)	1.26, 19.8
2(37A)	41.53
2(41)	6.77
2(41A)	19.9
2(42A)	7.5, 7.14-20
2(42B)	7.5
2(42C)	7.33
2(45)	1.4
2(47)	7.6
2(47A)	41.43
2(48)	7.6
3	1.14
4	1.5
5	2.9
6(1)	2.4
6(1A)	2.4
6(2)	2.9
6(3)	2.8
6(4)	2.9
6(5)	2.4
6(6)	2.5
7	2.10
8	8.21
9(1)(i)	2.11, 26.2
9(1)(ii)-(iii)	2.11, 4.4, 2.6.2
9(1)(iv)	2.11, 8.21, 26.2

Section	Page No
9(1)(v)	2.13
9(1)(vi)	2.11, 2.14
9(1)(vii)	2.14
9(1)(viii)	2.15
9A	26.12, 26.29
9A(8A)	26.13
9B	17.9
10(1)	5.4
10(2)	3.29
10(2A)	3.29
10(4)(i)	15.4
10(4)(ii)	15.4, 3.4
10(4B)	15.4
10(4C)	3.4
10(4D)	3.4
10(4E)	3.6
10(4F)	3.6
10(4G)	3.6
10(4H)	3.7
10(5)	4.27
10(6)	3.7
10(6A)	3.8
10(6B)	3.8
10(6BB)	3.8
10(6C)	3.8
10(6D)	3.8
10(7)	4.7
10(8)	3.9
10(8A)	3.9
10(8B)	3.10
10(9)	3.10
10(10)	4.10
10(10A)	4.12
10(10AA)	4.13
10(10B)	4.14
10(10BB)	3.10
10(10BC)	3.10
10(10C)	4.15
10(10CC)	4.38
10(10D)	4.6, 8.24
10(11)	4.17
10(11A)	3.21
10(12)	4.17
10(12A)	3.21
10(12B)	3.21
10(12C)	3.21
10(13)	4.18
10(13A)	4.9
10(14)	4.6, 4.7
10(15)	8.23
10(16)	15.3
10(17)	8.26
10(17A)	8.26
10(18)	8.22
10(19)	8.22
10(19A)	15.4
10(20)	24.4
10(21)	3.11
10(22B)	3.11
10(23A)	3.12
10(23AA)	3.21
10(23AAA)	3.21

Section	Page No
10(23AAB)	3.21
10(23B)	3.18
10(23BB)	3.18
10(23BBA)	3.18
10(23BBB)	3.20
10(23BBC)	3.20
10(23BBE)	3.18
10(23BBG)	3.18
10(23BBH)	3.18
10(23C)	3.12
10(23D)	3.21
10(23DA)	3.22
10(23EA)	3.22
10(23EC)	3.22
10(23ED)	3.22
10(23EE)	3.22
10(23FA)	3.23
10(23FB)	1.16, 3.23
10(23FBA)	3.24
10(23FBB)	3.24
10(23FBC)	3.24
10(23FC)	3.24
10(23FCA)	3.24
10(23FD)	3.24
10(23FE)	3.24
10(23FF)	3.27
10(24)	3.18
10(25)	3.27
10(25A)	3.27
10(26)	15.4
10(26AAA)	15.4
10(26AAB)	3.18
10(26B)	3.19
10(26BB)	3.19
10(26BBB)	3.18
10(27)	3.19
10(29A)	3.18
10(30)	3.29
10(31)	3.29
10(32)	15.4
10(33)	3.30
10(34)	3.30
10(34A)	3.30
10(35)	3.30
10(35A)	3.30
10(37)	7.55
10(37A)	3.30
10(38)	3.30
10(39)	3.20
10(40)	3.31
10(41)	3.31
10(42)	3.20
10(43)	15.4
10(44)	3.27
10(46)	3.19
10(47)	3.27
10(48)	3.9
10(48A)	3.9
10(48B)	3.9
10(48C)	3.9
10(48D)	3.27
10(48E)	3.27

Section	Page No
10(50)	3.27
10A	3.33
10AA	3.31
10BA	31.1
11(1)	23.5
11(1A)	23.28
11(1B)	23.32
11(2)	23.19
11(3)	23.19
11(4)	23.29
11(4A)	23.29
11(5)	23.12
12	23.31
12(2)	23.31
12A	23.7
12AA	23.7
12AB	23.13
13	23.14
13(3)	23.30
13A	24.5
13B	24.5
14	1.3
14A	3.2
15	4.3
16(ia)	4.40
16(ii),(iii)	4.40
17(1)	4.4
17(2)	4.21
17(2)(iii)	4.5
17(3)	4.5
22	5.2
23(1)(a)	5.10
23(1)(b)	5.10
23(1)(c)	5.11
23(2)	5.10
23(4)	5.9
23(5)	5.13
24	5.8
25	5.8
25A	5.11
26	5.14
27	5.5
28	6.3
28(va)	6.3
29	6.3
30	6.34
31	6.35
32	6.15
32(2)	10.2
33AB	13.6
33ABA	6.36
33B	11.29
35	6.37
35(1)&(2)	6.37
35(2AB)	6.38
35ABA	6.41
35ABB	6.42
35AD	6.44
35CCA	6.44
35CCC	6.44
35CCD	6.44
35D	6.48

SECTION INDEX

INCOME TAX ACT, 1961

Section	Page No
2(1A)	13.2
2(1B)	19.10
2(7)	1.20
2(7A)	30.2
2(9)	1.14
2(10)	1.5
2(11)	6.15
2(12A)	6.11
2(13A)	19.81
2(14)	7.3
2(15)	23.2
2(17)	19.2
2(18)	19.7
2(19)	21.1
2(19AA)	19.8
2(19AAA)	19.9
2(22)	8.18
2(22A)	19.8
2(22AAA)	24.54
2(23)	17.2,18.1
2(23A)	19.8
2(23C)	33.1
2(24)	1.21,21.6
2(25A)	2.6
2(26)	19.8
2(26A)	7.6
2(26B)	7.6
2(28A)	41.8
2(29A)	26.2
2(29AA)	7.5
2(29B)	7.5
2(29BA)	6.27, 11.40
2(29C)	22.3,1.5
2(31)	1.21
2(32)	1.26,19.8
2(37A)	41.53
2(41)	6.77
2(41A)	19.9
2(42A)	7.5, 7.14-20
2(42B)	7.5
2(42C)	7.33
2(45)	1.4
2(47)	7.6
2(47A)	41.43
2(48)	7.6
3	1.14
4	1.5
5	2.9
6(1)	2.4
6(1A)	2.4
6(2)	2.9
6(3)	2.8
6(4)	2.9
6(5)	2.4
6(6)	2.5
7	2.10
8	8.21
9(1)(i)	2.11,26.2
9(1)(ii)-(iii)	2.11,4.4,2 6.2
9(1)(iv)	2.11,8.21, 26.2

Section	Page No
9(1)(v)	2.13
9(1)(vi)	2.11,2.14
9(1)(vii)	2.14
9(1)(viii)	2.15
9A	26.12, 26.29
9A(8A)	26.13
9B	17.9
10(1)	5.4
10(2)	3.29
10(2A)	3.29
10(4)(i)	15.4
10(4)(ii)	15.4,3.4
10(4B)	15.4
10(4C)	3.4
10(4D)	3.4
10(4E)	3.6
10(4F)	3.6
10(4G)	3.6
10(4H)	3.7
10(5)	4.27
10(6)	3.7
10(6A)	3.8
10(6B)	3.8
10(6BB)	3.8
10(6C)	3.8
10(6D)	3.8
10(7)	4.7
10(8)	3.9
10(8A)	3.9
10(8B)	3.10
10(9)	3.10
10(10)	4.10
10(10A)	4.12
10(10AA)	4.13
10(10B)	4.14
10(10BB)	3.10
10(10BC)	3.10
10(10C)	4.15
10(10CC)	4.38
10(10D)	4.6,8.24
10(11)	4.17
10(11A)	3.21
10(12)	4.17
10(12A)	3.21
10(12B)	3.21
10(12C)	3.21
10(13)	4.18
10(13A)	4.9
10(14)	4.6,4.7
10(15)	8.23
10(16)	15.3
10(17)	8.26
10(17A)	8.26
10(18)	8.22
10(19)	8.22
10(19A)	15.4
10(20)	24.4
10(21)	3.11
10(22B)	3.11
10(23A)	3.12
10(23AA)	3.21
10(23AAA)	3.21

Section	Page No
10(23AAB)	3.21
10(23B)	3.18
10(23BB)	3.18
10(23BBA)	3.18
10(23BBB)	3.20
10(23BBC)	3.20
10(23BBE)	3.18
10(23BBG)	3.18
10(23BBH)	3.18
10(23C)	3.12
10(23D)	3.21
10(23DA)	3.22
10(23EA)	3.22
10(23EC)	3.22
10(23ED)	3.22
10(23EE)	3.22
10(23FA)	3.23
10(23FB)	1.16,3.23
10(23FBA)	3.24
10(23FBB)	3.24
10(23FBC)	3.24
10(23FC)	3.24
10(23FCA)	3.24
10(23FD)	3.24
10(23FE)	3.24
10(23FF)	3.27
10(24)	3.18
10(25)	3.27
10(25A)	3.27
10(26)	15.4
10(26AAA)	15.4
10(26AAB)	3.18
10(26B)	3.19
10(26BB)	3.19
10(26BBB)	3.18
10(27)	3.19
10(29A)	3.18
10(30)	3.29
10(31)	3.29
10(32)	15.4
10(33)	3.30
10(34)	3.30
10(34A)	3.30
10(35)	3.30
10(35A)	3.30
10(37)	7.55
10(37A)	3.30
10(38)	3.30
10(39)	3.20
10(40)	3.31
10(41)	3.31
10(42)	3.20
10(43)	15.4
10(44)	3.27
10(46)	3.19
10(47)	3.27
10(48)	3.9
10(48A)	3.9
10(48B)	3.9
10(48C)	3.9
10(48D)	3.27
10(48E)	3.27

Section	Page No
10(50)	3.27
10A	3.33
10AA	3.31
10BA	31.1
11(1)	23.5
11(1A)	23.28
11(1B)	23.32
11(2)	23.19
11(3)	23.19
11(4)	23.29
11(4A)	23.29
11(5)	23.12
12	23.31
12(2)	23.31
12A	23.7
12AA	23.7
12AB	23.13
13	23.14
13(3)	23.30
13A	24.5
13B	24.5
14	1.3
14A	3.2
15	4.3
16(ia)	4.40
16(ii),(iii)	4.40
17(1)	4.4
17(2)	4.21
17(2)(iii)	4.5
17(3)	4.5
22	5.2
23(1)(a)	5.10
23(1)(b)	5.10
23(1)(c)	5.11
23(2)	5.10
23(4)	5.9
23(5)	5.13
24	5.8
25	5.8
25A	5.11
26	5.14
27	5.5
28	6.3
28(va)	6.3
29	6.3
30	6.34
31	6.35
32	6.15
32(2)	10.2
33AB	13.6
33ABA	6.36
33B	11.29
35	6.37
35(1)&(2)	6.37
35(2AB)	6.38
35ABA	6.41
35ABB	6.42
35AD	6.44
35CCA	6.44
35CCC	6.44
35CCD	6.44
35D	6.48

SECTION INDEX

Section	Page No
35DD	6.83
35DDA	6.50
35E	6.50
36	6.51
36(1)(ix), (xii)	6.54
36(1)(viiia)	6.55
37	6.59
37(2B)	6.75
38	6.35
40(a)	6.75
40(a)(i)- (v)	6.75
40(b)	17.4
40(ba)	22.2
40A	6.78
40A(2)	6.77
40A(3)	6.78
40A(3A)	6.78
40A(7)	6.80
40A(9)	6.80
40A(13)	6.80
41	6.84
42	6.87
43(1)	6.22
43(3)	6.15
43(5)	6.94
43(6)	6.25
43A	6.96
43AA	6.97
43B	6.80
43C	6.97
43CA	6.98
43CB	6.98
43D	6.88
44	6.91
44A	24.3
44AA	6.11
44AB	6.12
44AD	6.100
44ADA	6.101
44AE	6.102
44B	1.14, 26.15
44BB	26.14
44BBA	26.17
44BBB	26.15
44C	26.14
44D	26.18
44DA	26.18
44DB	6.90
45(1)	7.8
45(1A)	7.24
45(1B)	7.25
45(2)	7.26
45(2A)	7.28
45(3)	7.29, 17.8
45(4)	7.29, 17.8
45(5)	7.29
45(5A)	7.30
46	7.31
47	7.15

Section	Page No
47(i)	7.13
47(iii)	7.14
47(iv),(v)	7.14
47(vi),(vi a),(vib), (viab), (vii)	7.15
47(vic), (vicc),(vi d),(viiia), (vica)	7.16
47(vicb)	7.17
47(viiiaa) (viiab)	7.21
47(viiac)	7.22
47(viiie), (viiif),(vi ib)(viid), (ix), (x)(xa)(x b)	7.23
47(xii)(x v)(xvii)	7.24
47(xiii),(xiv)	7.19
47(xiiiib)	7.19
47(xiiiia)	7.20
47(xvi)	7.21
47(xviii)	7.20
47(xix)	7.20
47A(1)	7.14
47A(3)	7.18
47A(4)	7.19
48	7.8
49	7.13
49(2AC)	7.23
49(2AF)	7.20
49(2AG)	7.9
49(2AH)	7.9
50	6.30, 6.33
50A	14.5
50AA	7.34
50B	7.33
50C	7.40
50CA	7.44
50D	7.44
51	7.45
54	7.47
54B	7.53
54D	7.54
54EC	7.55
54F	7.51
54G	7.59
54GA	7.61
54GB	7.62
54H	7.64
55	7.65
55A	7.72
56	8.2
56(2)(x)	8.6
57	8.4

Section	Page No
58	8.5
59	8.5
60	9.2
61	9.2
62	9.2
64(1)	9.2
64(1A)	9.6
64(2)	9.8
65	9.9
67A	22.3
68	1.15
69	1.16
69A	1.16
69B	1.16
69C	1.16
69D	1.16
70	10.2, 7.72
71	10.2, 7.72
71B	10.2
72	10.2
72A	10.5
72AA	10.5
72AB	10.10
73	10.2
73A	6.47, 10.2
74	7.73, 10.2
74A	10.2
78	10.10
78(1)	17.14
79	10.12
79A	10.3
80A	11.2
80AB	11.2
80AC	11.3
80B	11.2, 1.4
80C	11.4
80CCC	11.7
80CCD	11.7
80CCE	11.7
80CCH	11.9
80D	11.9
80DD	11.12
80DDDB	11.13
80E	11.14
80EE	11.14
80EEA	11.15
80EEB	11.15
80G	11.19
80GG	11.16
80GGA	11.25
80GGB	11.25
80GGC	11.25
80-IA	11.26
80-IAB	11.33
80-IAC	11.32
80-IB	11.33
80-IBA	11.40
80-IC	11.42
80-ID	11.43
80-IE	11.44
80JJA	11.45
80JJAA	11.45
80LA	11.46

Section	Page No
80M	11.47
80P	11.47, 21.1
80PA	11.47
80QQB	11.16
80RRA	32.3
80RRB	11.17
80TTA	11.18
80TTB	11.18
80U	11.11
87A	1.9, 12.1
89	12.1
89A	12.6
90	28.3
90A	28.3
91	28.6
92	27.8
92A	27.6
92B	27.2
92BA	27.4
92C	27.10
92CA	27.36
92CB	27.16
92CC	27.45
92CD	27.45
92CE	27.46
92D	27.4, 27.40
92E	27.6
92F(ii)	27.10
92F(iii)	27.6
92F(v)	27.2
93	26.27
94	9.9
94A	27.4
94B	27.5
94(7)	7.67
94(8)	7.67
110	22.4
111A	1.10
112	1.10, 7.68
112A	1.10, 7.70
115A	26.18
115A(1)(a)	26.18
115AB	26.18
115AC	26.18
115ACA	26.18
115AD	26.18
115B	1.10
115BA	19.17
115BAA	19.18
115BAB	19.18
115BAC	1.6
115BAD	21.4
115BAE	21.5
115BB	1.10
115BBA	26.23
115BBC	1.10, 23.23
115BBD	1.10, 19.78
115BBE	1.10, 1.16
115BBF	1.11, 8.19
115BBG	1.11, 19.79
115BBH	1.11
115BBI	23.32
115BBJ	1.10, 41.4

SECTION INDEX

Section	Page No
115C	26.24
115D	26.25
115E	26.24
115F	26.24
115H	26.25
115-I	26.25
115JAA	19.13
115JB	19.13
115JB(2A)	19.14
)	
115JB(2B)	19.14
)	
115JB(2C)	19.14
)	
115JC	1.11
115JD	1.11
115JE	1.11
115JEE	1.11
115JF	1.12
115JG	7.16
115JH	19.20
115-O	19.76
115P	19.76
115Q	19.76
115QA-	19.77
QC	
115TA-	19.77
TC	
115TCA	19.78
115UA	19.79
115UB	19.85
115V-	20.2
VZC	
116	30.1
117	30.2, 32.16
118	30.2
119	32.1
119(2)	32.16
119A	30.2
120	30.2
124(1)-	30.3
(5)	
127	30.4
129	30.5
130	36A.20
131	32.4
131(1)	32.4
131(1A)	32.4
131(2)	32.4
131(3)	32.4
132	35.1
132(1)	35.2
132(1A)	35.3
132(2)	35.3
132(3)	35.5
132(4)	35.3
132(4A)	35.4
132(8)	35.6
132(9)	35.6
132(9A)	35.6
132(9B)	35.7
132(9C)	35.7
132(9D)	35.7
132(10)	35.7
132A	35.8
132B	35.9

Section	Page No
133	32.5
133A	32.6
133A(1)	32.6
133B	32.8
133C	32.9
133C(3)	32.9
134	32.11
135	32.16
135A	36A.20
136	30.1
138	32.11
139(1)	31.1
139(1B)	31.13
139(1C)	31.13
139(3)	31.8
139(4)	31.9
139(4A)	31.5
139(4B)	31.5
139(4C)	31.5
139(4D)	31.5
139(4E)	31.5
139(4F)	31.5
139(5)	31.9
139(6)	31.12
139(6A)	31.12
139(8A)	31.11
139(9)	31.10
139A	31.20
139AA	31.26
139B	31.19
139C	31.11
139D	31.14
140	31.15
140A	31.16
140B	31.17
142	32.12
142B	36A.20
142(1)	32.12
142(2)	32.12
142(2A)	32.12
142A	32.15
143(1)	33.2
143(1D)	33.3
143(2)	33.4
143(3)	33.4
144	33.11
144A	33.14
144B	36A.4
144C	27.48
145	6.8
145(2)	6.9
145A	6.9
145B	6.10
147	34.1
148	34.5
148A	34.7
148B	34.8
149	34.8
150	34.6
151	34.9
151A	36A.20
151(1)	32.16
152	34.9
153	33.6
153A	35.10
153A(1)	35.11

Section	Page No
153B	35.14
153C	35.14
153C(1)	35.10,
	35.11
153D	35.11
153(4)	35.9
154	38.1
155	38.4
155(7B)	38.4
156	33.3
156A	33.3
157	33.3
157A	36A.20
158A	39.16
158AA	39.17
158AB	39.21
159	36B.1
160	36B.3
161	26.27,
	36B.3
161(1)	23.40
161(1A)	23.40
162	26.27,
	36B.3
163	26.27
164	23.21
164(1)	23.40
164(2)	23.22
164A	36B.3
166	36B.3
167	36B.3
167A	17.2
167B	22.2
167C	18.1
168	36B.2
169	36B.2
170	36B.4
170A	36B.6
171	16.3
172	1.14, 26.15
173	26.29
174	1.15
174A	1.15
175	1.15
176	1.15, 36B.5
176(3A)	6.86, 36B.5
176(4)	6.86
177	22.4
178	19.88
179	19.88
184	17.2
185	17.2
187	17.2
188	17.3
188A	17.3
189	17.3
191	1.21,
	41.67
192	41.2
192(1A)	41.67
192(1B)	4.38
192(2A)	12.2
192A	41.6
193	41.6
194	41.8
194A	41.8

Section	Page No
194B	41.13
194BA	41.14
194BB	41.16
194C	41.16
194D	41.19
194DA	41.19
194E	41.50
194EE	41.20
194F	41.21
194G	41.21
194H	41.21
194-I	41.24
194-IA	41.28
194-IB	41.29
194-IC	41.30
194J	41.30
194K	41.37
194LA	41.32
194LB	41.50
194LBA	41.50
194LBB	41.51
194LBC	41.51
194LC	41.51
194LD	41.52
194M	41.38
194N	41.38
194O	41.39
194P	41.40
194Q	41.41
194R	41.42
194S	41.42
195	41.52
195A	41.66
196	41.59
196B	41.57
196C	41.57
196D	41.57
197	41.58
197A	41.59
198	41.66
199	41.66
200	41.61
200(2A)	41.62
200(3)	41.63
200A	41.64
201	41.67
202	41.66
203	41.65
203A	41.38
203AA	41.66
204	41.58
205	41.66
206A	41.12
206AA	41.62
206AB	41.63
206C	41.73
206C(3A)	41.62
206C(1F)	41.74
206CB	41.64
206CC	41.74
206CCA	41.76
207	42.1
208	42.1
209	42.1
210	42.2
211	42.2

SECTION INDEX

Section	Page No
218	42.2
219	42.2
220	1.21, 42.2
220(2A)	42.3
221	42.4, 45.6
222	42.6
223	42.8
224	42.6
225	42.8
226	42.6
227	42.11
228A	42.12
229	42.12
231	36A.21
232	42.12
234A	43.1
234B	43.2
234C	43.3
234D	43.5
234E	41.64, 41.68
234F	31.6
234G	41.69
234H	31.26
237	44.1
238	44.1
239	44.1
239A	44.1
240	44.2
241A	44.2
242	44.3
244A	44.3
245	44.5
245A(b)	37.2
245AA	37.2
245B	37.1
245BA	37.1
245BB	37.1
245BC	37.2
245BD	37.2
245C	37.3
245D	37.5
245DD	37.10
245E	37.10
245F	37.10
245G	37.10
245H	37.11
245HA	37.12
245HAA	37.12
245-I	37.5

Section	Page No
245J	37.7
245K	37.12
245L	37.11
245M	33.7
245MA	36A.21, 37.15
245N	40.3
245N(b)	40.3
245O	40.2
245OB	40.3
245P	40.3
245Q	40.3
245R	40.4
245RR	40.3
245S	40.6
245T	40.4
245V	40.4
245W	40.5
246	32.3
246A	39.4
248	39.4
249	39.6
250	39.6
251	39.8
252	39.9
253	39.10
253(2)	32.16
254	39.11
255	39.11
260A	39.16
260B	39.17
261	39.20
263	38.5
264	38.5
264A	36A.21
264B	36A.21
268A	39.2
269SS	45.21
269ST	45.25
269T	45.21
269SU	45.23
270A	45.8
270AA	45.19
271	39.8
271A	6.11
271AA	27.44
271AAA	45.6
271AAB	35.16, 45.6
271AAC	45.7

Section	Page No
271AAD	41.69
271AAE	45.5
271B	6.13
271BA	27.44
271BB	45.7
271C	41.69
271CA	41.79
271D	45.22
271DA	45.25
271DB	45.23
271E	45.22
271FA	45.2
271FAA	45.6
271FAB	45.5
271FB	45.3
271G	27.44
271GA	45.5
271GB	45.5
271H	41.79
271I	45.5
271J	45.16
271K	41.69, 45.5
272A	33.5
272A(1)(a)	45.3
272A(1)(b)	45.3
272A(1)(c)	45.4
272A(2)	41.69
272A(2)(a)	45.5, 27.44
272A(2)(b)	45.5
272A(2)(c)	45.4, 32.5
272AA	45.4, 32.8
272B	45.3, 41.60
272BB	45.4, 41.60
273A	45.15
273AA	45.19
273B	6.13, 27.44, 45.7
274	45.13
275	45.13
275A	35.5
275B	35.4
276	45.16
276A	19.88
276AB	45.16

Section	Page No
276B	41.70
276BB	41.79
276C	45.20
276CC	31.19
276D	32.13
277	45.17
277A	45.17
278	45.17
278A	45.17
278AA	45.17
278AB	45.19
278B	45.20
278C	45.20
278E	45.20
279A	45.16
280A	45.21
280B	45.21
280C	45.21
280D	45.21
281	42.9
281B	42.9
282	33.12
282A	33.13
283/284	33.13
285	26.29
285A	45.5
285B	6.93
285BA	31.27
285BB	31.28
286	27.37
287A	33.16
288	33.14
288A	1.4
288B	1.5
291	45.19
292A	45.18
292B	33.13
292BB	33.13
292C	35.4
292CC	35.4
293B	32.3
293C	32.3
293D	36A.21
295	32.3, 1.3

Gurukripa's Guideline Answers to Nov 2023 Exam Questions CA Final – Direct Tax Laws and International Taxation (New Syllabus)

Part A Consists of MCQs (30 Marks). **Part B** Descriptive Answers (70 Marks)
Working Notes should form part of the answers. Question No.1 is compulsory (14 Marks).
Answer **any four** questions from the **remaining five** questions (14 × 4 = 56 Marks).

Question 1: Taxation of Companies

14 Marks

M/s. Breeze Dental Care Pvt Ltd, a Tooth brush manufacturing company, having its factory in Rajkot, Gujarat shows a net profit of ₹ 79,50,000 after debiting and crediting of the amounts in its Profit and Loss Account as mentioned below for the year ended March 31, 2024:

- (a) Depreciation as per Companies Act ₹ 85,00,000.
- (b) A gross Loss of amount of ₹ 25,00,000, due to destruction of old machinery by fire in the factory. Though ₹ 7,80,000 was received as scrap value on this old machinery on 31.08.2023, the insurance company did not admit the claim of the company on the charge of negligence.
- (c) Income Tax Assessment of AY 2022-23 was completed in September 2023 with a tax demand of ₹ 5,70,000 which included surcharge of ₹ 60,500 and a cess of ₹ 24,200. The entire sum has been duly paid during the FY 2023-24.
- (d) Power Subsidy received from Central Government amounting to ₹ 13 lakhs. It was received with a stipulation that the same is to be adjusted in the electricity bills for the FY 2022-2023. The subsidy received in the FY 2023-24. It was not included in the income of year 2022-23.
- (e) Interest Received ₹ 7,50,000 on margin money deposited with bank for obtaining bank guarantee to carry on business is included as income in the Profit and Loss Account.
- (f) Purchase price of raw material used for the purpose of in-house research and development is ₹ 14,00,000. (Including GST of ₹ 2,75,000 on which ITC is not admissible) is debited in Profit and Loss account.
- (g) Breeze Dental Care Pvt Ltd paid ₹ 12 lakhs to JAPA Inc. of China for online digital advertisement. JAPA Inc. has no PE in India. No tax was deducted at source nor was equalisation levy paid on the said amount.
- (h) Dividend of ₹ 2,50,750 was received from a foreign company, in which Breeze Dental Care Pvt. Ltd. holds 28% in nominal value of equity share capital of the company. An expense (other than interest payment) of ₹ 15,000 spent on earning this income.
- (i) Interest of ₹ 20,00,000 lakhs relating to FY 2023-24, which is settled by issuing 8% debentures of ₹ 100 each in March, 2024.

Additional Information:

- (1) Depreciation as per Income Tax Act, 1961 is ₹ 32,50,000.
- (2) A new Air Compressor machine, necessary for installing with main Plant to keep the Air compression as per guidelines, was purchased and was installed and put to use on 01.05.2023 = ₹ 74,00,000.
- (3) Another new specified Air Pollution Control Equipment was purchased for ₹ 23,45,000 on 18.06.2023.
- (4) Items purchased after 30th October, 2023:
 - (a) Lorries for transporting goods to sales depots ₹ 95,00,000.
 - (b) Machine imported from Germany ₹ 1,60,00,000. It arrived at Kandla port on 30.03.2023 and was installed on 10.04.2023.

All the other items were installed during the period ended March 31, 2024. The total turnover of the company for the FY 2021-22 was ₹ 415 crores. You are required to compute Total Income and Tax payable of Breeze Dental Care Pvt Ltd for the AY 2024-2025 with brief reasons for the treatment of each item given above. The company has not opted for section 115BAA/115BAB. Ignore provisions of MAT.

Solution:

**Refer Various Illustrations in Chapter 19
Computation of Total Income and Tax Payable**

Particulars	Computation	Amount (₹)
Total PGBP Income [as per Computation Statement below]		1,65,05,250
Income from other source – Dividend [Note 6]		2,50,750
Gross Total Income/ Total income		1,67,56,000
Tax @ 30% [Note 1]	1,67,56,000 × 30%	50,26,800
Add: Surcharge @ 7%	50,26,800 × 7%	3,51,876
Add: Cess @ 4%		2,15,147
Total Tax Payable [Rounded Off]		55,93,820

Computation of Profits and Gains of Business or Profession

Particulars	WN	Deduction from Profit	Addition to Profit
Net Profit as per Profit and Loss Account (Loss)			79,50,000
Depreciation as per books			85,00,000
Net Loss Recognised in the books due to destruction of machine by fire	2		17,20,000
Disallowance u/s 40(a)(ii) – Income Tax paid (including Surcharge and Cess)			5,70,000
Disallowance u/s 40(a)(ib) – Non-Payment of Equalization Levy			12,00,000
Disallowance u/s 43B – Interest Payable converted to Debentures	3		20,00,000
Depreciation as per Income Tax Act	8	32,50,000	
Additional Depreciation	9	19,49,000	
Air Compressor machine [₹ 74,00,000 × 20%] = 14,80,000			
Air Pollution equipment [₹ 23,45,000 × 20%] = 4,69,000			
Income treated as income from other sources [Dividend = Net Amount]		2,35,750	
Sub-Total		54,34,750	2,19,40,000
Income under the head Profits and Gains of Business or Profession (2,19,40,000 – 54,34,750)			1,65,05,250

Notes:

- Turnover of the Company during the PY 2021–22 = ₹ 415 crores (> 400 crores). Therefore, the applicable tax rate for the current AY = 30%
- Capital gain u/s 45(1A) not applicable as no proceeds received from insurance company. On the other hand, net loss due to destruction of machinery is a capital loss to be adjusted against block of asset & hence not to be claimed as deduction in computing PGBP income.
- Interest payable will be deductible only on actual payment. Interest which has been converted into (a) fresh loan or borrowing, (b) Debentures, (c) any other instrument by which the liability is deferred to future date, shall not be treated as actual payment. Thus, in this case, the interest converted to debenture is disallowed.
- As per ICDS VII read with Section 145B, Government grants are not subject to tax on accrual basis, it shall be taxed in year of receipt. In this case, even though the Subsidy (from Central Government) is received for adjusting the same with electricity bills of PY 2022–23, as it is received in the Current PY, it shall be taxable in the current PY. As it is already credited in the Profit and Loss Account, no adjustment is required.
- In case of CIT vs K & Co 2014, It was held that interest received on margin money deposit with the bank for obtaining Bank guarantee should be taxable as PGBP income & not as income from other source. Thus, in this case no adjustment is required as it is already included in the Profits
- As per Section 57, only interest expense to earn dividend income is allowed as deduction
- Purchase price of Raw materials used for In-House Research and Development ₹ 14,00,000, is an allowable expense u/s 35(2AB) with 100% deduction. As the same has been already debited to Profit and Loss Account, no further adjustment is required.
- Depreciation (@ 7.5% = 15% × 50% as put to use for Less than 180 days) on Lorries for transporting goods to sales depots is assumed to be included in the given figure of "depreciation as per income tax act".
- Additional depreciation not allowed in for acquisition of following assets:
 - Road transport vehicle [Lorries for transporting goods to sales depot = Road Transport vehicle]
 - Machinery not installed in the PY [Machinery imported from Germany]
- Machinery imported from Germany and not installed in the current PY is not eligible for both Normal Depreciation and additional depreciation.

Question 2(a): Taxation of Companies – Sec 115JB

8 Marks

Agro Food Corporation Ltd., a domestic company engaged in manufacturing of FMCG products. It has business of manufacturing, marketing and selling of a wide range of food products and edible oils in India. The company has prepared statement of Profit & Loss in accordance with the schedule III to the Companies Act, 2013 and such Statement of Profit & Loss for the previous year ended 31.03.2024 shows a net profit of ₹ 89 lakhs. The above net profit was arrived at in respect of its business activities after debiting/crediting the following amounts under different heads:

Particulars	₹ (in lakh)
Debits to the Statement of Profit and loss	
Expenditure relating to industrial undertaking qualifying for deduction u/s 10AA	15.00
Depreciation for current year under Companies Act, 2013	34.00
Interest to Financial Institution (an NBFC) not paid up to the date of filing the return	3.50
Penalty for infraction of law	1.50
Proposed Dividend	3.50
Provision for Income Tax	2.75
Transfer to General Reserve	5.00
Expenditure relating to Sec 80-IA undertaking	6.00
Credits to the Statement of Profit and Loss	
Amount withdrawn to Reserve created during 2019-20 (Book profits was not increased by the amount transferred to such reserve in the year 2019-2020)	4.00
Profits from an Industrial Undertaking covered and qualified for deduction u/s 10AA of the Income tax Act	31.70
Profits from an Industrial Undertaking covered and qualified for deduction u/s 80-IA of Income Tax Act, 1961	7.00
Deferred tax credit	3.57
Additional Information	
Brought forward Business Loss as per books	8.75
Depreciation allowable under Income Tax rules	42.00
Brought forward Business Loss as per Income Tax Law	9.50
Unabsorbed depreciation as per Income Tax Law	10.53
Unabsorbed depreciation as per books	Nil

Solution:

Refer Para: 19.2 Section 115JB

Particulars	₹	₹
Profit as per Schedule III		89,00,000
Add: Depreciation as per Books		34,00,000
Add: Proposed Dividend		3,50,000
Add: Provision for Income Tax		2,75,000
Add: Transfer to general reserve		5,00,000
Less: Depreciation as per Books [Excluding depreciation on Revaluation]		(34,00,000)
Less: Deferred Tax credit		(3,57,000)
Less: Lower of following: B/f business loss as per Books = 8,75,000 Unabsorbed depreciation as per Books = 0		Nil
Books Profit u/s 115JB		96,68,000
Tax @ 15%	96,68,000 × 15%	14,50,200
Add: Cess @ 4%	14,50,200 × 4%	58,008
Total Tax Payable [Rounded off]		15,08,210

Note:

- Amount withdrawn from Reserve created during 2019–2020 shall not be reduced unless the Book Profits of the year of creation were increased on account of such reserves.
- In computation of Book Profit for MAT, only Brought forward business loss as per books and Unabsorbed depreciation as per books to be considered (Figures given as per Income Tax Law is not relevant).

Question 2(b)(i): Non-Resident Taxation

3 Marks

M/s. XY Airlines Inc, incorporated as a company in USA operated its flights to India and vice versa during the FY 2023–2024. M/s. XY Airlines Inc. collected charges of ₹ 90 lakhs for carriage of passengers and cargo from Delhi to New York and vice versa out of which, ₹ 40 lakhs were received in New York in USD for the passenger and cargo fare booked from New York to Delhi. The company also collected ₹ 70 lakhs for carriage of passengers and cargo from Mumbai to New York and vice versa out of which, ₹ 30 lakhs were received in New York in USD for the passenger and cargo fare booked from New York to Mumbai. The total expenses for the year on operation of such flights were ₹ 170 lakhs. Compute the income chargeable to tax of the XY Airlines Inc in India.

Solution:

Refer Para: 26.4.3, Similar to Illustration – Pg 26.17

Particulars		₹	₹
	Amount collected for carriage from Delhi to New York	90,00,000	
Less:	Charges booked from new York to Delhi & received in USD in New York	(40,00,000)	
Add:	Amount collected for carriage from Mumbai to New York	70,00,000	
Less:	Charges Booked from New York to Mumbai & received in New York	(30,00,000)	
	Net receipts		90,00,000
	Income Chargeable u/s 44BBA [5% of 90,00,000]		4,50,000

Question 2(b)(ii): Non-Resident Taxation

3 Marks

Mr. Aadi, a non-resident Indian (Age 45 years), subscribed unlisted equity shares of an Indian company in 2008-09 for ₹ 6,00,000. These shares were sold by him on 05.03.2023 for a consideration of ₹ 9,00,000. Brokerage paid for sale of these shares is ₹ 15,000. Compute taxable capital gain of Mr. Aadi for the AY 2024-25, assuming that he has invested in specified assets ₹ 3,50,000, before 31st March 2024. CII for FY 2008–09 is 137 and for 2023–24 is 348. Ignore the effect of first proviso to Section 48.

Solution:

Refer Para: 26.4.8 section: 112 & 115F

Particulars		₹
	Full Value of Consideration	9,00,000
Less:	Brokerage	(15,000)
	Net Consideration	8,85,000
Less:	Cost of acquisition [Indexation not available]	(6,00,000)
	Long term capital gain	2,85,000
	Tax @ 10% u/s 112 [2,85,000 × 10%]	28,500
Add:	Cess @ 4% [28,500 × 4%]	1,140
	Total tax payable	29,640

Question 3(a): Taxation of Charitable Trust

8 Marks

Mookti Foundation, a Charitable institution registered u/s 12AB is engaged in preservation of forests. The accountant of the institution provides the following details of the institution to you as a Chartered Accountant. Please discuss the treatment of Application of Income / Expense in the hands of the Charitable institution in the following independent situations as per provisions of Income Tax Act, 1961. Your answer should be followed with reasons:

- The Institution follows mercantile system of accounting and during PY 2023–24, has incurred Electricity expenses amounting to ₹ 1,00,000 for the period pertaining to PY 2023–24. The Electricity expenses was actually paid on 10.04.2024 through Account payee cheque. In which year the application of income will be treated by the Foundation?
- The Foundation was cultivating 20 acres of agriculture land. It is doing agriculture operations and earned an agriculture income of ₹ 12,00,000 during PY 2023–2024 from this activity. Whether exemption u/s 10(1) will be available to Mookti Foundation on such income?
- It has earned Rental income for PY 2023–2024 amounting to ₹ 3,00,000. It received ₹ 2,00,000 upto 31.12.2023 of such income. However the balance of ₹ 1,00,000 was received on 31.07.2024. Upto what period the institution can apply the same amount towards the objects of the institution? The institution has exercised the relevant option in this regard.
- Mookti Foundation borrowed ₹ 45 Lakhs from a nationalised bank in April, 2023 for purchase of building in a forest area for the objects of the institution. It spent the whole amount of loan for the same purpose and claimed the same as application of income in March 2024. It repaid the first instalment of ₹ 6 Lakhs to the Bank on 31.03.2024.

Solution:

Case	Reference	Answer
A	Para 23.3.2	Year of actual payment will be treated as year of application i.e. PY 2024-2025
B	Para 23.4.2	Yes. Exemption u/s 10(1) will be available.
C	Para 23.3.3	Time available upto the end of PY 2023-2024
D	Para 23.3.3A	Only 6 Lakhs can be treated as application of Income and balance loan amount to be treated as application only in the year of repayment of loan.

Question 3(b): DTAA

6 Marks

Smt. Manisha (aged 70 years), a resident individual, furnishes you the following particulars of Income relating to the previous year 2023-24:

Particulars	Amount (₹)
Loss from Let out Property at Delhi (Computed)	4,50,000
Income from Business in India (computed)	8,99,500
Business Income in Country A	8,00,000
FD Interest in Country A	USD 8,000
Savings Bank Interest in India from PNB Bank	50,500
Contribution to PPF Account of her married son	1,50,000
Interest on PPF Account (In own name)	58,682
Agricultural income in Country "M"	1,20,000

Agriculture income is exempt in Country "M" and rate of Tax in country A is 25%. Assume that there is no double taxation avoidance agreement between India and country "A" and Country "M". Rate of 1 USD = 82 for calculation purposes.

Compute the total income and tax payable by Smt. Manisha for the AY 2024-25. Assume that she did not opt to be governed by provision of Section 115BAC.

Solution:

Refer Para: 28.3.2 Section 91

Particulars	₹	₹
Income (Loss) under the head House Property		
Loss from house property [balance 2.5 lakhs loss to be carried forward]		(2,00,000)
Income under the head Profits and Gains from Business or Profession		
Business income from India	8,99,500	
Business income from Country A	8,00,000	16,99,500
Income from Other Source		
Interest from Fixed deposit (Country A) \$ 8,000 × 82	6,56,000	
Savings Bank Interest	50,500	
Agri income from country "M"	1,20,000	8,26,500
Gross Total Income		23,26,000
Tax @ Slab rates [1,10,000 + (13,26,000 × 30%)]		5,07,800
Add: Cess @ 4% [5,07,800 × 4%]		20,312
Less: Relief u/s 91 [refer Working Note 1]		(3,30,512)
Total Tax Payable		1,97,600

Note: Interest on PPF (own name) exempt u/s 10(11)

WN 1: Calculation of relief u/s 91

Particulars	Computation	
Average Tax rate	$5,28,112 + 23,26,000$	22.70%
Tax Rate - Country A		25%
Foreign Income	8,00,000	
Business Income	6,56,000	14,56,000
FD Interest		3,20,512
Tax relief u/s 91 [Lower of 22.7% or 25%]	$22.70\% \times 14,56,000$	

8 Marks

Question 4(a): TDS & TCS

Examine the applicability of TDS or TCS in the following independent situations. Calculate the amount of tax to be deducted at source or tax to be collected at source in given cases as per the provisions applicable for AY 2024-25:

- Mr. Ron took a loan of ₹ 10 Lakhs from his employer, Thomas Private Limited, an Indian Domestic Manufacturing Company for sponsoring studies of his son in Germany. He also remitted ₹ 8,75,000 towards fees to the University in Germany for his son's education. He also remitted to his son an amount of ₹ 4,75,000 for pursuing higher studies in Germany towards his out of pocket expenses. Both the remittances were made through the same authorized dealer under the Liberalized Remittance Scheme of RBI.
- Mr. Mandeep Singh, a manufacturer of textile goods, had a turnover of ₹ 12 Crores during last FY and is covered u/s 44AB for compulsory audit of Books of Accounts. He purchased a residential house in January for his personal use for ₹ 5 Crores from Mr. Amit and paid a commission @ 12% of the value of the house to Mr. Pankaj for effecting the deal. The house is not used for business purposes by Mr. Mandeep Singh.
- Examine the correctness of the following situation. Registrar General of Hon'ble High Court of Delhi has made a fixed deposit of 100 lakhs with a nationalised bank out of money deposited by litigants on directions of the Court. Is section 194A applicable in respect of interest on fixed deposits in the name of Registrar General of High Court?

Refer Para: 33.2, 31.1.5

Solution:

Answer

Case	Reference	Particulars	₹
A	Para 41.6.2 Sec. 206C(iG)	TCS to be collected by Authorised Dealer = $8,75,000 \times 0.5\%$	4,375
		Add: $[(8,75,000 + 4,75,000) - 7,00,000] \times 5\%$	32,500
		Total	36,875
B	Para 41.2.11, 41.2.13 Section: 194-IA, 194H	TDS u/s 194-IA = $5 \text{ Crores} \times 1\% = 5 \text{ Lakhs}$ TDS u/s 194-H = $(5 \text{ Crores} \times 12\%) \times 5\% = 3 \text{ Lakhs}$	
C	Refer Para: 41.2.3	Circular No. 8/2011, dated 14-10-2011	

6 Marks

Question 4(b): Taxation of International Transactions

Paras Ltd is an Indian Company engaged in the manufacturing of supreme quality mink blankets. It has total borrowings of ₹ 60 Crores by way of loan as on 31.03.2024. SHQ Inc of Germany during FY 2023-24 imported 5 Lakh piece of blankets from Paras Ltd @ ₹ 2,000 per unit for the trading purposes in Germany. Paras Ltd sold similar blankets to other dealers in Germany @ ₹ 2,100 per unit. Paras Ltd received a guarantee on 01.04.2023 for availing a cash credit limit of ₹ 9 Crores for which SHQ Inc was the guarantor. The terms of trade for other dealers was to make payment within 1 month from the date of sale of goods by Paras Ltd, whereas for SHQ Inc, the credit period allowed was 3 months from the date of sale of goods. The cost of capital was 12% per annum and the supply of goods is assumed to be uniform throughout the year. You are required to determine whether Paras Ltd and SHQ Inc are associated enterprises. If yes, compute the Arm's Length Price (ALP) of the transaction between them and the amount to be added to the income of Paras Ltd, if any, by way of an ALP adjustment. Assuming that the above adjustments to the transfer price have been made suo-moto by Paras Ltd. in its return of income, what is the time limit for the repatriation of such excess money? What are the implications if the excess money is not repatriated within such prescribed time limit? Your answer must be based on the latest provisions of Income Tax Act.

Solution: Refer Para: 27.2, 27.3.1, 27.5.5, Section: 92A, 92B, 92C, 92CE

Note: Since the Guarantee given exceeds 10% of the loan value, Paras Ltd and SHQ Inc are associated enterprises.

Particulars		Computation	₹ in Lakhs
	Uncontrolled Comparable Price	2,100 × 5 Lakhs	10,500
Add:	Cost of Excess Credit	10,500 × 12% × 2/12	210
	Arms Length Price		10,710
Less:	Actual Transaction Price	2,000 × 5 Lakhs	10,000
	Primary Adjustment		710

Question 5(a)(i): Assessment procedure – Duties of Assessee

Mr. Surajit e-filed his ITR. He declared a total income of ₹ 11,75,000. Total income includes interest from Public Provident Fund (PPF) ₹ 95,530 and long term capital gains on agricultural land exempt u/s 10(37). Both these incomes were disclosed in the schedule of exempt income. Mr. Surajit also found that by mistake he failed to claim the current year business loss in the ITR amounting to ₹ 4,50,000 which he is entitled to claim. In due course of time, the above ITR got processed u/s 143(1) and both the above exemptions for interest on PPF and LTCG on agricultural land were denied. Intimation was served to Mr. Surajit and a demand of tax was raised. For all the above mistakes in the return he filed a revised return u/s 139(5) but time limit for e-verification of revised return had lapsed and the same became invalid. Assessee filed for rectification u/s 154 which was also rejected by AO. Is AO bound to accept the request of Mr Surajit?

4 Marks

Solution: Refer Para: 33.2, 31.1.5 Section: 139(5), 143, 154
Hint Answer: AO cannot take advantage of mistake committed by the Assessee. Rectification filed u/s 154 is within stipulated time and cannot be rejected by AO.

Question 5(a)(ii): Penalties & Prosecution

IT Finance (I) Ltd repays a Loan merely by passing adjustment entries in its books of account. Loan repayment was not actually made. The cause shown by the assessee for repayment of the loan otherwise than by account payee cheque / bank draft was on account of the fact that the assessee was liable to receive amount towards the sale price of the shares sold by the assessee to the person from whom loan was received by the assessee. In order to avoid the unnecessary circular transfer of shares, both the parties agreed to set off the amount payable and receivable by way of passing journal entries and the balance loan amount was paid by the assessee by way of an account payee cheque. The amount of loan settled by way of passing journal entries exceeds ₹ 20,000. Neither the genuineness of the receipt of loan nor the transaction of repayment of loan by way of adjustment through book entries has been doubted in the regular assessment. But AO imposed Penalty u/s 271E as a contravention of Sec. 269T w.r.t. repayment of loan otherwise than by banking channel. Is AO justified in imposing penalty?

4 Marks

Solution: Refer Para: 45.3 & 45.4 Case Law Triumph International Finance Ltd. 2012 Bom HC
Hint Answer: AO is justified in imposing penalty.

Question 5(a)(iii): Profits and Gains from Business or Profession

The assessee, M/s. ABC Finance Limited, a Finance Company, was engaged in business of leasing and hire purchase of capital equipment to existing Indian enterprises. It had obtained certain amount of loan from a UK based company in foreign currency to be used by the assessee for financing the procurement of Capital Equipment by its customers. While repaying said amount, the assessee had to pay a higher amount in lieu of fluctuation in exchange rate, which resulted in loss of ₹ 3.57 Crores. Subsequently, the assessee, while filing the return of income, claimed loss owing to exchange fluctuation, amongst others, of ₹ 1.10 Crores as deduction u/s 37(1), and capitalised exchange fluctuation of ₹ 2.47 Crores. However the claim u/s 37(1) was denied by the Revenue while processing return. CIT(A) also rejected the assessee's claim and held Sec. 43A for capitalisation of Exchange rate fluctuation was applicable. In the appeal before ITAT, the appellant not only claimed deduction in respect of loss of ₹ 1.10 Crores arising on account of exchange fluctuation, but also set up a fresh claim in respect of revenue expenses to the tune of ₹ 2.47 Crores, erroneously capitalised in the return. The Tribunal reversed the findings of CIT(A) and further held that since entire amount of loan was utilised in trading operations, the expenditure so incurred was revenue in nature and allowable u/s 37(1). Whether the Tribunal is justified in deleting the disallowance of claim of ₹ 1.10 Crores made by AO and allowing the additional claim of ₹ 2.47 Crores as Revenue Expense?

4 Marks

Solution: Refer Page: 6.66, Case Law: Wipro Finance Ltd vs. CIT (2022)
Hint Answer: Tribunal is justified.