

CA / CMA -FINAL
MAY / JUNE & NOV / DEC - 2024 EXAMS
(AS AMENDED BY FINANCE ACT 2023)



DIRECT TAXATION & INTERNATIONAL TAXATION
QUESTION & ANSWER
COMPILER

As Per New Syllabus

A Compilation of more than 400+ Past Year Exam & RTP / MTP Questions
By CA BHANWAR BORANA

for CA/CMA Final

DIRECT TAX & INTERNATIONAL TAXATION

(for MAY/JUNE & NOV/DEC 2024 EXAMS)

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As per New Syllabus of ICAI

CA Bhanwar Borana



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Basics, Tax Rates AY 24-25 & 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, 2022. In the previous year 2022-23, 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

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 2023-24 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, 2024	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 for alternative tax regime from the AY 2024-25.

Answer

Mr. Devam PY 23-24 AY 24-25 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
Gross Salary		45,25,000		47,65,000
Deduction u/s 16				
(i) Professional Tax		(2,000)		N/A
(ii) Standard Deduction		(50,000)		(50,000)
Net Salary		44,73,000		47,15,000

Particular	Normal Provisions		Section 115BAC	
	₹	₹	₹	₹
Income from House Property				
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
		43,48,000		47,15,000
Income from other sources				
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	=
Gross Total Income		43,76,500		47,45,800
Less: Deductions u/e VI-A				
Sec. 80C: PPF	20,000		N/A	
Sec. 80CCD(1) EE cont. to NPS	3,50,000		N/A	
	3,70,000			
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		4,00,000
(ii) 10% of Salary 4,00,000				
Lower of above				
Sec. 80D, 80E, 80EEA, 80EEB, 80G		2,81,000		N/A
Sec. 80TTA Interest on SB A/c		10,000		N/A
Total Income/Net Taxable Income		34,85,500		43,45,800

Chapter 1: Basics, Tax Rates AY 24-25 & Alternate Taxation Regime
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 6,00,000	5%	15,000
> 5,00,000 upto 10,00,000	20%	1,00,000	> 6,00,000 upto 9,00,000	10%	30,000
>10,00,000 upto 34,85,500	30%	7,45,650	> 9,00,000 upto 12,00,000	15%	45,000
		8,58,150	> 12,00,000 upto 15,00,000	20%	60,000
Add: HEC @4%		34,326	> 15,00,000 upto 43,45,800	30%	8,53,740
Net Tax Payable		8,92,476	Add: HEC @ 4%		10,03,740
			Net Tax Payable		40,150
					10,43,890

Conclusion: Since in the present question tax as per normal provision is lower so Mr. Devam should opt normal provisions for AY 24-25.

Question 4

[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, 2024, 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
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 23-24 AY 24-25

Particular	₹	₹
Income from House Property		
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

Chapter 1: Basics, Tax Rates AY 24-25 & Alternate Taxation Regime

Particular	₹	₹
Capital Gain		18,00,000
STCG on Land		2,00,000
STCG on Depreciable Assets		
Income from other sources		3,00,000
Interest on Bank FD		90,45,000
	Gross Total Income	N/A
Deduction u/s 80GGB; Donation to Political Party		90,45,000
	Total Income(NIT)	

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
Total	90,45,000		15,52,750
Add: Surcharge @ 10%			1,55,275
			17,08,025
Add: HEC @ 4%			68,321
Net Taxable Payable			17,76,346

Question 5

[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, 2024, 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 7-10-2023 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.

Chapter 1: Basics, Tax Rates AY 24-25 & Alternate Taxation Regime

- (vi) Profit of ₹ 6 lakhs on sale of plot of land on 24-07-2023 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 30-09-2022.
- (vii) Credits to statement of Profit and Loss Account include dividend of ₹ 50,000 received on September 6, 2023 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, 2024 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 15.11.2023, 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. 2023-24, the company has employed 56 additional employees. All these employees contribute to a recognized provident fund. 39 out of 56 employees joined on 1-6-2023 on a salary of ₹ 15,000 per month, 14 joined on 1-7-2022 on a salary of ₹ 45,700 per month, and 3 joined on 1-11-2023 on a salary of ₹ 22,000 per month. The salaries of 9 employees who joined on 1-6-2023 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 2024-25.

Compute the total income and tax payable for the Assessment Year 2024-25 clearly stating the reasons for treatment of each item.

Answer

Computation of Total Income of Devam Ltd. for the A.Y. 2024-25 under section 115BAB

Particulars		Amount (in ₹)	
I	<p>Income from house property</p> <p>Rental income [₹ 60,000 x 12]</p> <p>[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]</p>		7,20,000
II	<p>Profits and gains of business and profession</p> <p>Net profit as per Statement of profit and loss</p> <p>Add: Overvaluation of opening stock [₹ 55,00,000 x 10/110]</p> <p>Undervaluation of closing stock [₹ 54,00,000 x 10/90]</p> <p>Add: Items debited but to be considered separately or to be disallowed</p> <p>(1) Sales commission to Mr. John, a non-resident, for procuring orders from outside India</p> <p>[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.]</p> <p>(2) Payment to Mr. Raj, an employee, on his retirement</p> <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>(3) Expenses in connection with inauguration of a new branch for expanding business</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>	<p>5,00,000</p> <p>6,00,000</p> <p>Nil</p> <p>Nil</p>	<p>1,20,00,000</p> <p>Nil</p> <p>Nil</p>

	Nil
<p>(4) Penalty to Government for failure in performance of a contract</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>	
<p>(5) Voluntary Retirement Scheme expenditure</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>(6) Interest paid to non-resident buyers of goods, on deposits made by them</p> <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>	75,000
<p>(7) Salary paid to employees through bearer cheques</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>(8) Marked to market losses</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 income]</p>	6,00,000
<p>(9) Contribution to National Laboratory</p> <p>[As per section 35(2AA) donation to National Laboratory eligible for 100% deduction but when assessee opted section 115BAB then this deduction not allowed]</p>	2,50,000
<p>(10) Municipal Taxes paid [Not allowed in PGBP]</p>	8,000
<p>(11) Depreciation on tangible fixed assets</p> <p>[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]</p>	2,20,000
<p>Less: Depreciation u/s 32</p>	
<p>Tangible fixed assets</p>	2,60,000
<p>Plant & Machinery</p>	

Particulars	Amount (in ₹)	
- Normal Depreciation (₹ 20,00,000 x 7.5%, since put to use for less than 180 days during the P.Y. 2023-24)	1,50,000	
- Additional depreciation [not allowable since company is opting for section 115BAB]	-	
Less: Items credited but chargeable to tax under another head/expenses allowed but not debited		
1. Profit on sale of shares of M/s VKL Ltd. [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]		
2. Short term capital gain on sale of capital asset on which no depreciation is allowable	75,000	
[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]		
3. Profit on sale of plot of land to 100% subsidiary [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	
4. Dividend received from domestic company [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	
5. Contribution to National Fund for Rural Development [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	
6. Rental income from letting out of office premises (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
Profit & Gains from Business or Profession		<u>1,36,78,000</u>

Particulars		Amount (in ₹)	
II Capital Gains			
1. Long term capital gain on sale of shares of M/s. VKL Ltd. [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	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)			
2. Short term capital gain on sale of capital asset on which no depreciation is allowable			
3. Profit on sale of plot of land to 100% subsidiary [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]	75,000	2,25,000	
	Nil		
III Income from Other Sources			
Dividend income from domestic company [50,000/90 x 100]		55,555	
Gross Total Income		1,46,78,555	
Deduction u/s 80JJAA [See Working Note below]		14,49,000	
Total Income		1,32,29,555	
Total Income (Rounded Off)		1,32,29,560	

Computation of tax payable by Devam Ltd. for the A.Y. 2024-25 under section 115BAB

Particulars	₹	₹
Tax on long-term capital gains in excess of ₹ 1 lakh @10% u/s 112A [₹ 50,000 x 10%]		5,000
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)		18,34,350
		20,26,472
<i>Add: Surcharge@10%</i>		<u>2,02,647</u>
		22,29,119

Chapter 1: Basics, Tax Rates AY 24-25 & Alternate Taxation Regime

Particulars	₹	₹
Add: Health and education cess@4%		89,164
Tax liability		23,12,283
Less: TDS on dividend income		5,555
Tax payable		23,12,728
Tax payable (Rounded Off)		23,12,730

Working Note - Computation of deduction u/s 80JJAA

No of eligible additional employees [56 (-) 14 = 42] [14 employees who joined on 1.7.2022 do not qualify as "additional employees" since their monthly emoluments exceed ₹ 25,000. However, 3 employees who joined on 1.11.2022 qualify as additional employees, since they have been employed for more than 150 days during the P.Y.2022-23.]		33
Additional employee cost means the total emoluments paid or payable to additional employees employed during the P.Y.2022-23. However, the additional employee cost in respect of 9 employees who joined on 1.6.2022, 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.2022-23 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.

Question 6

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

Mr. Dheeraj, aged 48 years, a resident Indian has furnished the following particulars for the year ended 31.03.2024:

- 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.
- As per interest certificate from ICICI bank, he paid ₹ 1,30,000 as interest and ₹ 95,000 towards principal repayment of housing loan borrowed for the above residential building in the year 2015.
- 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.

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(iv) He employed 20 new employees for the said industrial undertaking during the previous year 2023-24. Out of 20 employees, 12 were employed on 1st May 2022 on monthly emoluments of ₹ 18,000 and remaining were employed on 1st August 2023 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 01.12.2023 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 ₹ 3.6 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 2023-24 and 2001-02 are 348 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 2024-25, in the manner so that he can make maximum tax savings.

Answer

Computation of total income of Mr. Dheeraj for A.Y. 2024-25

	Particulars	₹	₹	₹
I	Income from house property			
	Let out portion [First floor]			
	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. 2023-24 pertaining to let out portion [₹30,000/2]		15,000	
	Net Annual Value (NAV)		3,19,000	
	Less: Deduction u/s 24			
	(a) 30% of ₹ 3,19,000	95,700		
	(b) Interest on housing loan [₹ 1,80,000/2]	90,000	1,85,700	
	Self-occupied portion [Ground Floor]		1,33,300	
	Annual Value		Nil	
	[No deduction is allowable in respect of municipal taxes paid]			
	Less: Interest on housing loan		90,000	
			(90,000)	
	Income from house property [₹ 1,33,300 – ₹ 90,000]			43,300
II	Profits and gains of business or profession			
	Income from SEZ unit			45,00,000

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	Particulars	₹	₹	₹
III	Capital Gains 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%] Less: Indexed Cost of acquisition [₹ 3,60,000 x 348/100] Cost of acquisition		13,00,000	47,200
	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 ₹ 3.8 lakhs.			
IV	Income from Other Sources Interest on savings bank deposits Interest on fixed deposits Gross Total Income		30,000 45,000	75,000 46,65,500
	Less: Deduction u/s 10AA [Since the industrial undertaking is established in SEZ, it is entitled to deduction u/s 10AA@100% of export profits, since P.Y.2023-24 being the 4th year of operations] [Profits of the SEZ x Export Turnover/Total Turnover] x 100% [₹ 45 lakhs x ₹ 120 lakhs/ ₹ 400 lakhs x 100%] Less: Deduction under Chapter VI-A Deduction under section 80C Repayment of principal amount of housing loan Insurance premium paid on life insurance policy of son allowable, even though not dependent on Mr. Dheeraj Deduction under section 80JJAA 30% of the employee cost of the new employees employed during the P.Y. 2023-24 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)]] Deduction under section 80TTA Interest on savings bank account, restricted to ₹ 10,000	95,000 49,000	1,44,000 9,43,200	13,50,000
	Total income			10,97,200 22,18,300

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Computation of tax liability of Mr. Dhooval for A.Y. 2024-25 under the normal provisions of the Act

Particulars	₹	₹
Tax on total income of ₹ 22,18,400		
Tax on ₹ 1,00,000 of ₹ 47,300 (@30%)		9,440
Tax on remaining total income of ₹ 21,71,400		
Upto ₹ 2,50,000	Nil	
₹ 2,50,000 - ₹ 5,00,000 (@5% of ₹ 2,50 lakh)	12,500	
₹ 5,00,000 - ₹ 10,00,000 (@20% of ₹ 5,00,000)	1,00,000	
₹ 10,00,000 - ₹ 21,71,400 (@30% of ₹ 11,71,400)	3,51,310	4,63,810
Add: Health and education cess (@4%)		18,908
Total tax liability		4,91,618
Tax liability (rounded off)		4,91,620

Computation of tax liability of Mr. Dhooval for A.Y. 2024-25 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	22,18,300
Add: Deduction u/s 10AA	13,50,000
Deduction u/s 80UAA	9,43,200
	45,11,500
AMT @ 18.5%	8,34,628
Add: HEC @ 4%	33,385
AMT liability	8,68,013
AMT liability (rounded off)	8,68,010

Since the regular income tax payable is less than the AMT, the adjusted total income of ₹ 45,11,500 would be deemed to be the total income and tax would be payable @ 18.5% plus HEC @ 4%. The total tax liability would be ₹ 8,68,010. In this case, AMT credit of ₹ 3,76,390 (₹ 8,68,010 - ₹ 4,91,620) can be carried forward.

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The computation of total income and tax liability as per the provisions of section 115BAC would be as follows:

Computation of total income of Mr. Dheeraj as per section 115BAC for A.Y. 2024-25

Particulars	₹	₹
Gross Total Income as per regular provisions of the Income-tax Act		46,65,500
Add: Interest on borrowing in respect of self-occupied house property not allowable as deduction as per section 115BAC		90,000
Gross Total Income as per section 115BAC		47,55,500
Less: Deduction under section 80JJAA		
30% of the employee cost of the new employees employed during the P.Y. 2023-24 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
Total income		38,12,300

Computation of tax liability as per section 115BAC

Particulars	₹	₹
Tax on total income of ₹ 38,12,300		
Tax on LTCG of ₹ 47,200 @ 20%		9,440
Tax on remaining total income of ₹ 37,65,100		
Upto ₹ 3,00,000		Nil
₹ 3,00,001 – ₹ 6,00,000 [@5% of ₹ 3 lakhs]	15,000	
₹ 6,00,001 – ₹ 9,00,000 [@10% of ₹ 3 lakhs]	30,000	
₹ 9,00,001 – ₹ 12,00,000 [@15% of ₹ 3 lakhs]	45,000	
₹ 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	8,29,530
		8,38,970
Add: Health and education cess @ 4%		33,559
Total tax liability		8,72,529
Tax liability (rounded off)		8,72,530

Since tax liability as per section 115BAC is higher than the tax liability of ₹ 8,68,010 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 exercise normal provision. In such case, his tax liability, therefore, would be ₹ 8,68,010. Moreover, Mr. Dheeraj would also be eligible to claim carry forward of AMT credit of ₹ 3,76,390.

Question 7

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

ABC Co-operative society is derived following income during PY 23-24 from following activities:—

- (i) Income from house property (Computed) ₹7,50,000
- (ii) Income from marketing of agricultural produce grown by its members ₹ 4,00,000
- (iii) Income from collective disposal of labour of its members ₹ 15,00,000
- (iv) Income from processing with the aid of power ₹35,00,000
- (v) Income from other business activity ₹ 25,00,000
- (vi) Interest from another co-operative society ₹ 10,00,000
- (vii) Income by way of dividend from another co-operative society: ₹ 5,00,000.
- (viii) 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 1.5.2023. 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.2024-25 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.2024-25
(under the regular provisions of the Act)**

Particulars	₹	₹
Income from House Property (Computed)		7,50,000
Profits and gains of business or profession		
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
Income from other sources		
Interest and Dividend from another Co.Op. Society	15,00,000	
Interest on bank fixed deposits	42,00,000	<u>57,00,000</u>
Gross Total Income		1,43,50,000
Less: Deductions under Chapter VI-A		
Deduction u/s 80JJAA [30% of ₹ 20,000 x 10 employees x 11 months]	6,60,000	
Deduction u/s 80P	<u>34,50,000</u>	<u>41,10,000</u>
[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]		
Total Income		<u>1,02,40,000</u>
Tax liability:		
Upto ₹ 10,000 – 10%	1,000	

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Particulars	₹	₹
₹ 10,000 – ₹ 20,000 – 20%	2,000	
₹ 20,000 – ₹ 1,02,40,000 – 30%	30,66,000	
		30,69,000
Add: Surcharge @ 7% as total income more than 1 crore		2,14,830
Marginal Relief – ₹ 46,830		32,83,830
Above amount restricted to Tax on 1 crore + (NTI – 1 Crore)		32,37,000
₹ 29,97,000 + ₹ 2,40,000		32,37,000
Add: Health and education cess@4%		1,29,480
Tax liability		33,66,480
Alternate Minimum Tax		
Total Income		1,02,40,000
Add: Deduction under section 80JAA		6,60,000
Adjusted Total Income		1,09,00,000
Alternate Minimum Tax@15% of ₹ 1,09,00,000		16,35,000
Add: Surcharge @ 7%		1,14,450
		17,49,450
Add: Health and education cess@4%		69,978
Alternate Minimum Tax		18,19,428
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.2024-25

Particulars	₹	₹
Gross Total Income		1,43,50,000
Less: Deductions under Chapter VI-A		
Deduction u/s 80JAA [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]	-	6,60,000
		<u>1,36,90,000</u>
Total Income		
Tax liability		30,11,800
22% of ₹ 1,36,90,000		3,01,180
Add: Surcharge@10%		33,12,980
		1,32,192
Add: Health and education cess@4%		<u>34,45,499</u>
Tax liability		34,45,500
Tax liability (rounded off)		

Since the tax liability under section 115BAD is higher than the tax liability under the regular provisions of the Act, ABC Co-operative Society should not opt for section 115BAD.

Income from Capital Gains

Question 1

[First Proviso to Sec 48 - SM Q.]

Mr. A, a non-resident Indian remits US \$ 40,000 to India on 16.09.2001. The amount is partly utilised on 3.10.2001 for purchasing 10,000 shares in A Ltd an Indian Company at the rate of ₹12 per share. These shares are sold for ₹48 per share on 30.03.2024.

The telegraphic transfer buying and selling rate of US dollars adopted by the State Bank of India is as follows:—

Date	Buying Rate (1 US \$)	Selling Rate (1 US \$)
16.09.2001	18	20
03.10.2001	19	21
30.03.2024	59	61

Compute Capital gain chargeable to tax for the AY 2024-25 on the assumption that these shares have not been sold through a recognised stock exchange.

Answer

Where the shares are not sold through recognised stock exchange.

Particulars		US \$
Sale consideration (₹4,80,000/60)		8000
Less: Cost of Acquisition (1,20,000/20)	—	6000
Long-term capital gain		2000

Long-term-capital gain converted into \$ 2000 x ₹59 = ₹1,18,000

Question 2

[Bonus Shares - SM Q.]

Ms. Usha purchases 1,000 equity shares in X Ltd., an unlisted company, at a cost of ₹ 30 per share (brokerage 1%) in January 1996. She gets 100 bonus shares in August 2000. She again gets 1,100 bonus shares by virtue of her holding in February 2006. Fair market value of the shares of X Ltd. on April 1, 2001 is ₹ 80.

On 1st January 2024, she transfers all her shares @ ₹ 200 per share (brokerage 2%).

Compute the capital gains taxable in the hands of Ms. Usha for the A.Y. 2024-25

Cost Inflation Index for F.Y. 2001-02: 100, F.Y.2005-06: 117 & F.Y.2023-24: 348.

Answer

Computation of capital gains for the A.Y. 2024-25

Particulars	₹
1000 Original shares	
Sale proceeds (1000 × ₹ 200)	2,00,000
Less: Brokerage paid (2% of ₹ 2,00,000)	4,000
Net sale consideration	1,96,000
Less: Indexed cost of acquisition [₹ 80 × 1000 × 348/100]	2,78,400
Long term capital loss (A)	(82,400)
100 Bonus shares	
Sale proceeds (100 × ₹ 200)	20,000
Less: Brokerage paid (2% of ₹ 20,000)	400
Net sale consideration	19,600
Less: Indexed cost of acquisition [₹ 80 × 100 × 348/100] [See Note below]	27,840
Long term capital loss (B)	(8,240)
1100 Bonus shares	
Sale proceeds (1100 × ₹ 200)	2,20,000
Less: Brokerage paid (2% of ₹ 2,20,000)	4,400
Net sale consideration	2,15,600
Less: Cost of acquisition	NIL
Long term capital gain (C)	2,15,600
Long term capital gain (A+B+C)	1,24,960

Note: Cost of acquisition of bonus shares acquired before 1.4.2001 is the FMV as on 1.4.2001 (being the higher of the cost or the FMV as on 1.4.2001).

[Right Shares - SM Q.]

Question 3

Mr. R holds 1000 shares in Star Minus Ltd., an unlisted company, acquired in the year 2001-02 at a cost of ₹75,000. He has been offered right shares the company in the month of August, 2023 at ₹160 per share, in the ratio of 2 for every 5 held. He retains 50% of the right and renounces the balance right shares in favour of Mr. Q for ₹30 per shares in September 2023. All the shares are sold by Mr. R for ₹300 per shares in January 2024 and Mr. Q sells his shares in December 2023 at ₹280 per share. What are the capital gains taxable in the hands of Mr. R and Mr. Q?

Financial year	Cost Inflation Index
2001-02	100
2023-24	348

Computation of Capital Gain in the hands of Mr. X for the year 2024-25

Answer:

Particulars		₹
1000 (Right) shares:		
Sale proceeds (1000 × ₹500)		5,00,000
Less: Interest cost of acquisition (₹5,000 × 24%)		(1,20,000)
Long-term capital gain (A)		3,80,000
100 (Right) shares:		
Sale proceeds (100 × ₹500)		50,000
Less: Cost of acquisition (₹600 × 100) (Note 1)		(60,000)
Short-term capital gain (B)		(10,000)
Sale of Right entitlement:		
Sale proceeds (100 × ₹500)		50,000
Less: Cost of acquisition (Note 2)		(0)
Short-term capital gain (C)		50,000
Capital Gains (A+B+C)		4,20,000

Note:

- Since the holding period of these shares is less than 24 months, they are short-term capital assets, hence cost of acquisition will not be interest.
- The cost of the right entitlement in favour of another person for a consideration is taken to be the consideration so received, i.e., ₹500 as short-term capital gain in full. The period of holding is from the date of the right offer to the date of the allotment.

Computation of capital gain in the hands of Mr. Y for the year 2024-25

Particulars		₹
Sale proceeds (200 shares) × ₹200		40,000
Less: Cost of acquisition (200 shares) × ₹200 (See Note below)		(40,000)
Short-term capital gain		0

Note:

The cost of the right is the amount paid to Mr. X as well as the amount paid to the company. Since holding period of these shares is less than 24 months, they are short-term capital assets.

Question 4

[CDA in case of Asset Acquired before 1/4/01 - S]

Mr. C purchases a house property for ₹1,00,000 in May 15, 1975. The following expenses incurred by him for making substantial addition to the house property:

Particulars		₹
(a) Cost of construction of first floor in 1982-83		5,70,000
(b) Cost of construction of the second floor in 2002-03		7,95,000
(c) Re-construction of the property in 2012-13		5,50,000

Fair market value of the property on April 1, 2011 is ₹ 8,50,000 and stamp duty value on the date was ₹ 8,10,000. The house property is sold by Mr. C on August 10, 2023 for ₹ 58,00,000 (expenses incurred on transfer: ₹ 50,000). Compute the capital gain for the assessment year 2024.

Cost Inflation Index: F.Y. 2011-12: 100, F.Y. 2012-13: 115, F.Y. 2013-14: 200, F.Y. 2023-24: 348