

Direct Tax Chart Book

Direct Tax Laws & International Taxation — Quick Revision Guide

Covers Direct Tax (Modules 1–15) + International Taxation (Modules 16–20)
as per ICAI Syllabus 2022

For December 2026 Attempt — AY 2026-27

20 **20 Modules** — chapter-wise flowcharts & concept boxes (DT + Intl Tax)

§ **Case Laws** — one-line summaries, incl. Checkmate Services & Ashish Agarwal (SC)

CG **New Capital Gains Regime** — post 23 July 2024 rates & the Income-tax Act, 2025 transition

Q&A **PYQ Illustrations** — short, exam-style worked solutions

SECTION A · DIRECT TAX LAWS (60%)

01 Basics/Residence	02 Exempt Income/Trusts	03 Salaries	04 House Property	05 PGBP
06 Capital Gains	07 Other Sources	08 Clubbing	09 Set-off/C-fwd	10 Chapter VI-A
11 Computation/Tax	12 Companies/MAT	13 Adv Tax/TDS/TCS	14 Assessment/Search	15 Appeals/Penalties

SECTION B · INTERNATIONAL TAXATION (40%)

16 NR Taxation/DTAA	17 Transfer Pricing	18 GAAR	19 Adv Ruling/Equal. Levy	20 Treaties/BEPS
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How to Use This Chart Book

- **Quick Concept Notes** (blue box) — condensed law points in ICAI exam language, for the final 2–3 revision passes.
- **Flow Chart / Process** (green box) — visual decision-path for numerical/practical questions.
- **Case Law One-Liners** (pink box) — sufficient for 1–2 mark theory recall; expand from your main study material for full-length answers.
- **Amendment / RTP Watch** (amber box) — recent legal developments relevant to the Dec 2026 attempt; appears only where a module has a notable recent update.
- **PYQ-Style Illustration** (violet box) — one worked example per module in the pattern examiners typically ask.
- **Quick Revision Chart** (dark box) — last-look table before entering the exam hall.

Important: This chart book is a condensed revision aid, not a substitute for the ICAI Study Notes / Bare Act. All computations use figures applicable for **Assessment Year 2026-27** (Previous Year 2025-26) under the Income-tax Act, 1961 — the year most relevant to the December 2026 attempt. Direct Tax law changes frequently through Finance Acts, CBDT notifications and circulars. Always cross-check the points flagged in the amber "Amendment / RTP Watch" boxes, and any provision you are unsure of, against the **latest ICAI RTP/MTP for December 2026** and the Income Tax Department website (www.incometax.gov.in) before the exam.

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SECTION B — INTERNATIONAL TAXATION (40%)

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Amendment & Reform Watch — December 2026 Attempt

UPDATE

New Capital Gains Regime (from 23 July 2024)

Holding periods simplified to 12 months (listed securities/equity MF units) and 24 months (all other assets). Rates: STCG on listed equity/equity MF (Sec 111A) — 20%; LTCG on such assets (Sec 112A) — 12.5% above ₹1.25 lakh, no indexation; LTCG on other assets (Sec 112) — 12.5% without indexation, with a one-time 12.5%-no-indexation vs 20%-with-indexation option for land/buildings acquired before 23 July 2024. This is the single biggest Direct Tax development for Dec 2026 — expect both numerical and theory questions.

UPDATE

New Tax Regime Slabs — AY 2026-27

Sec 115BAC (default regime): Nil up to ₹4 lakh, 5%/10%/15%/20%/25% in ₹4-lakh slabs up to ₹24 lakh, 30% above. Standard deduction ₹75,000. Section 87A rebate raised to ₹60,000 for total income (normal-rate only) up to ₹12 lakh — effectively zero tax up to ₹12.75 lakh for salaried taxpayers. Maximum surcharge under the new regime remains capped at 25% (vs 37% under the old regime).

UPDATE

Equalisation Levy — Now Fully Abolished

The 2% levy on non-resident e-commerce operators was withdrawn from 1 August 2024; the 6% levy on online advertisement payments to non-residents was abolished from 1 April 2025 (Finance Act 2025). India's entire unilateral digital-tax framework introduced in 2016 is now defunct — do not describe EL as a live/active tax in Dec 2026 answers, though pre-abolition period assessments/appeals remain relevant historically.

UPDATE

Block Assessment Scheme Reintroduced for Search Cases

For searches initiated on or after 1 September 2024, a single consolidated block assessment (covering the block period) taxed at a flat 60% replaces the year-wise Sec 153A/153C assessment procedure that had applied since 2003 — a major structural reform to the Assessment Procedures chapter.

UPDATE

The New Income-tax Act, 2025

Enacted to replace the Income-tax Act, 1961 entirely with effect from 1 April 2026 (Tax Year 2026-27 onwards) — introduces the single 'Tax Year' concept (replacing Previous Year/Assessment Year), renumbers sections (e.g. Sec 80C becomes Sec 123), and reorganises the law into 23 chapters/16 schedules, WITHOUT changing substantive tax rates, deductions or exemptions. For the December 2026 attempt, note carefully: the previous year most likely tested (PY 2025-26 / AY 2026-27) is STILL governed by the Income-tax Act, 1961, since the new Act applies only from Tax Year 2026-27 (FY 2026-27) onwards. However, ICAI's RTP/MTP for Dec 2026 may well carry an awareness-level theory question on the transition itself (structure, Tax Year concept, section-renumbering logic) — keep this chart book's computations (based on the 1961 Act) as your primary reference, but be ready to discuss the 2025 Act transition as a standalone theory topic.

UPDATE

Updated Return Window Extended

Sec 139(8A) 'Updated Return' filing window extended from 24 to 48 months from the end of the relevant assessment year, with revised additional-tax slabs (25%/50%/60%/70% of tax+interest depending on the stage of filing), by Finance Act 2025.

UPDATE

Vivad Se Vishwas Scheme, 2024 (VSV 2.0)

Effective 1 October 2024, with declarations accepted up to 30 April 2025, for disputes pending as on 22 July 2024 before CIT(A)/ITAT/High Courts/Supreme Court/DRP — full waiver of interest, penalty and prosecution (search-related cases excluded). The filing window has now closed, but it remains a relevant 'recent development in dispute resolution' theory topic.

Disclaimer: The above reflects developments verified at the time of preparing this chart book. Direct Tax notifications, rate schedules, thresholds and due dates change frequently through Finance Acts and CBDT circulars. Before the Dec 2026 exam, cross-check every point above — and every provision in this book — against the ICAI's official RTP/MTP for Dec 2026, the Study Notes, and the Bare Act / Income Tax Department notifications for the most current position.

SECTION A

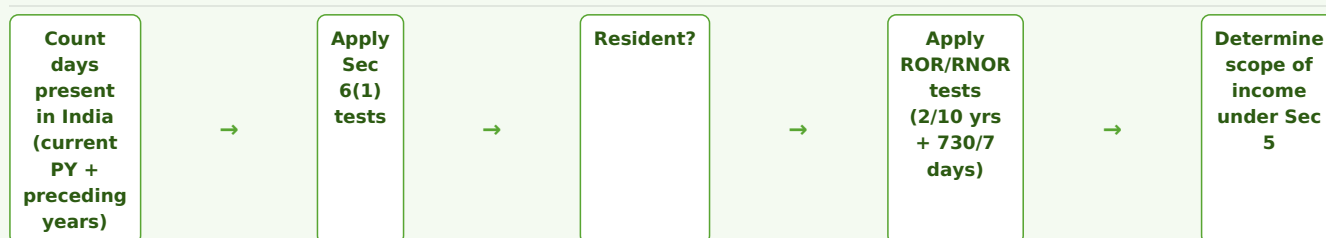
DIRECT TAX LAWS — Weight: 60%

Modules 1–15, covering Basic Concepts & Residential Status, Exempt Income & Charitable Trusts, the five Heads of Income (Salaries, House Property, PGBP, Capital Gains, Other Sources), Clubbing, Set-off & Carry Forward of Losses, Chapter VI-A Deductions, Computation of Total Income & Tax Liability, Assessment of Companies/Firms, Advance Tax/TDS/TCS, Assessment & Search Procedures, and Appeals/Penalties — as per ICAI Syllabus 2022, Paper 15 (DT & International Taxation).

Quick Concept Notes

- Income-tax is levied under Article 265 of the Constitution (List I, Entry 82) — 'no tax shall be levied or collected except by authority of law'. Charge of tax: Sec 4 — on 'total income' of the 'previous year' at rates prescribed by the annual Finance Act, for the relevant 'assessment year' (AY = PY + 1).
- Capital vs Revenue: a recurring theory/practical distinction — capital receipts/expenditure relate to fixed assets or the profit-making apparatus itself (generally not taxable/not deductible unless specifically brought to tax, e.g. certain capital gains); revenue receipts/expenditure arise from normal trading operations (generally taxable/deductible).
- Residential Status (Sec 6) — Individual: 'Resident' if (a) present in India ≥ 182 days in the PY, OR (b) present ≥ 60 days in PY AND ≥ 365 days in preceding 4 years (the 60-day limb is relaxed to 182 days for Indian citizens/PIOs visiting India, and further modified to 120 days for such visiting citizens/PIOs with India-sourced total income exceeding ₹15 lakh). 'Resident and Ordinarily Resident (ROR)' additionally requires resident in India in 2 of the preceding 10 years AND present ≥ 730 days in preceding 7 years — else 'Resident but Not Ordinarily Resident (RNOR)'.
- Deemed Residency (Sec 6(1A)): an Indian citizen having India-sourced total income exceeding ₹15 lakh is deemed resident (RNOR) if NOT liable to tax in any other country/territory by reason of domicile/residence — targets 'stateless persons' for tax purposes.
- Scope of Total Income (Sec 5): ROR — taxed on global income (Indian + foreign, received/accrued anywhere). RNOR/Non-Resident — taxed on income received/deemed received in India, or accruing/arising/deemed to accrue or arise in India; RNOR additionally taxed on foreign business income if controlled from India.

Flow Chart / Process



Case Law — One-Liners

- CIT vs Suresh Nanda (Del HC) and related rulings — physical presence is a question of fact based on entry/exit stamps and travel records; the burden of proving residential status lies on the assessee claiming a favourable (lower-taxing) status.

PYQ-Style Illustration

Q. Mr. Raj, an Indian citizen, leaves India on 1 October 2025 for employment abroad. He was in India for the whole of PY 2024-25 and earlier years. Determine his residential status for AY 2026-27, assuming his India-sourced income is ₹8 lakh.

Solution: As Mr. Raj leaves India for employment abroad during PY 2025-26, the special relaxation applies: for individuals leaving India for employment, only the 182-day test (not the 60-day test) applies. He was present in India from 1 April 2025 to 30 September 2025 — approximately 183 days — so he satisfies the 182-day test and is a Resident for AY 2026-27. Since he was resident in at least 2 of the preceding 10 years and present ≥ 730 days in the preceding 7 years (given continuous prior stay), he is Resident and Ordinarily Resident (ROR), taxable on his global income for the period he qualifies as resident, subject to specific provisions on income earned post-departure.

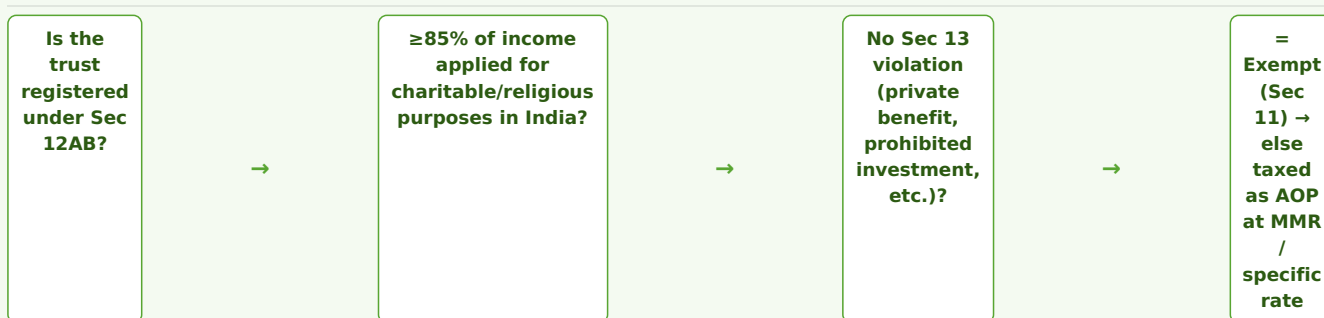
Quick Revision Chart

Basic test	182 days OR 60+365 days (Sec 6(1))
ROR additional test	Resident 2/10 yrs + 730 days/7 yrs
Deemed resident	Indian citizen, India income $> ₹15L$, stateless (Sec 6(1A))
ROR — scope	Global income (Sec 5)
Non-resident — scope	India-received/accrued income only

< Quick Concept Notes

- Sec 10 lists incomes excluded from total income altogether (not merely deducted) — e.g. agricultural income (Sec 10(1)), HRA exemption (10(13A)), leave travel concession (10(5)), specified allowances, life insurance maturity proceeds satisfying Sec 10(10D) conditions, income of specified funds/authorities.
- Charitable/Religious Trusts (Sec 11-13): income applied for charitable/religious purposes in India is exempt, subject to registration under Sec 12AB (replacing erstwhile 12AA), at least 85% application of income in the year (or accumulation under Sec 11(2) for specified purposes, filing Form 10 before the due date), and the trust not violating the 'specified violations' list (e.g. private benefit to Sec 13(3) persons, business income not incidental to objects, investment pattern violations under Sec 11(5)).
- Registration under Sec 12AB: provisional registration (5 years) for new trusts, regular registration (5 years, renewable) for existing/functioning trusts — a periodic renewal-based regime replacing the earlier one-time perpetual registration.
- Anonymous donations (Sec 115BBC): taxed at 30% (with a basic exemption of higher of 5% of total donations or ₹1 lakh) for most trusts, EXCEPT wholly religious trusts (fully exempt) and religious-cum-charitable trusts (exempt if not for the benefit of any particular religious community/caste).

🔗 Flow Chart / Process



🏛 Case Law — One-Liners

- ACIT (Exemptions) vs Ahmedabad Urban Development Authority (SC, 2022) — laid down a comprehensive test distinguishing 'charitable purpose' (advancement of general public utility) from trade/commerce/business, holding that incidental business activities are permissible only if genuinely subservient to the charitable object and subject to the quantitative cap on such receipts.

📢 Amendment / RTP Watch — Dec 2026

The Sec 12AB registration/renewal regime and associated compliance timelines have been streamlined by successive Finance Acts (2023-2025) — always check the latest due dates for Form 10A/10AB registration applications and the timeline for provisional-to-regular conversion in the current RTP.

📄 PYQ-Style Illustration

Q. A registered charitable trust earns income of ₹50 lakh and applies ₹40 lakh for charitable purposes during the year. Is it entitled to full exemption?

Solution: No. Sec 11 requires at least 85% of income to be applied for charitable purposes to claim full exemption. Here, only 80% (₹40L/₹50L) is applied. The shortfall of 5% (₹2.5 lakh) is taxable, unless the trust exercises the option under Explanation to Sec 11(1) to apply the balance in the following year (or the option to accumulate under Sec 11(2), by filing Form 9A/Form 10 within the prescribed timeline), in which case the shortfall can still be treated as applied, subject to conditions.

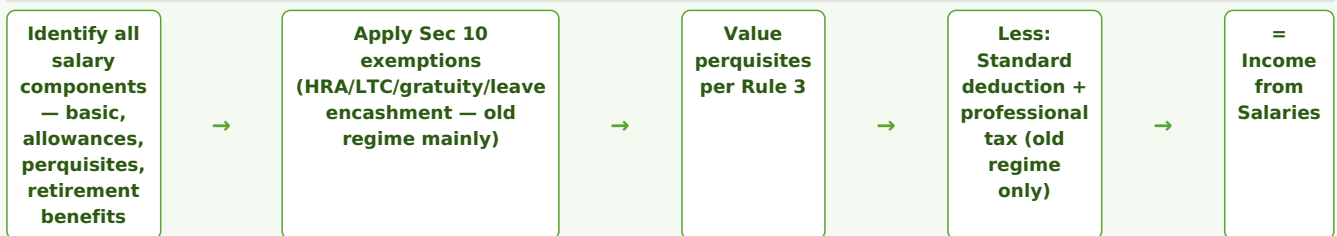
📊 Quick Revision Chart

Registration section	Sec 12AB (provisional/regular, 5-year cycles)
Minimum application	85% of income for charitable purposes
Anonymous donation tax	30% u/s 115BBC (with threshold exemption)
Key case	Ahmedabad Urban Development Authority (SC, 2022)

Quick Concept Notes

- Salary is taxable on 'due or receipt, whichever is earlier' basis (Sec 15) — includes wages, annuity/pension, gratuity, fees/commission/bonus, leave encashment, advance salary, allowances, and the value of perquisites (Sec 17).
- Standard Deduction: ₹75,000 under the new tax regime (Sec 115BAC) for AY 2026-27; ₹50,000 under the old regime — a flat deduction against salary income with no bills/proof required.
- Key exemptions: HRA (Sec 10(13A), least of actual HRA / rent paid minus 10% salary / 50%-40% of salary for metro/non-metro — available only under the OLD regime), LTC (Sec 10(5)), gratuity (Sec 10(10) — up to ₹20 lakh for non-government employees covered by the Payment of Gratuity Act), leave encashment on retirement (Sec 10(10AA) — up to ₹25 lakh for non-government employees).
- Perquisites (Sec 17(2) + Rule 3): rent-free accommodation (valued per Rule 3 slabs based on population/ownership), motor car, interest-free/concessional loans (valued at SBI lending rate less rate charged), ESOPs (perquisite = FMV on exercise date less exercise price, taxable in the year of allotment/transfer of shares; for eligible start-ups, TDS on ESOP perquisite can be deferred).
- New tax regime (Sec 115BAC) is now the DEFAULT regime for all individuals/HUF/AOP/BOI (w.e.f. AY 2024-25) — most exemptions/deductions (HRA, LTA, Chapter VI-A except employer's NPS contribution u/s 80CCD(2) and a few others) are NOT available; taxpayers must specifically opt for the old regime (Form 10-IEA, where applicable) if beneficial.

Flow Chart / Process



Case Law — One-Liners

- Employer's contribution to NPS (Sec 80CCD(2)) remains deductible even under the new regime, up to 14% of salary for Central Government employees / 10% for others (for private-sector employees, if the employer opts for a higher rate) — a useful planning point frequently tested to distinguish 'available under both regimes' deductions.

Amendment / RTP Watch — Dec 2026

Standard deduction under the new regime was raised to ₹75,000 (from ₹50,000) effective FY 2024-25 (AY 2025-26) onwards, continuing for AY 2026-27 — ensure the current figure is applied, not the older ₹50,000 new-regime figure.

PYQ-Style Illustration

Q. Mr. Amit, opting for the new tax regime, receives basic salary ₹8,00,000, HRA ₹2,00,000 (actual rent paid ₹1,80,000, lives in Mumbai). Compute taxable salary.

Solution: Under the new tax regime (Sec 115BAC), HRA exemption under Sec 10(13A) is NOT available. Taxable Salary = Basic Salary + HRA (fully taxable) = 8,00,000 + 2,00,000 = 10,00,000. Less: Standard deduction (new regime) = 75,000. Taxable Income from Salary = ₹9,25,000. (Had he opted for the old regime, HRA exemption — least of actual HRA ₹2,00,000 / rent paid minus 10% salary = 1,80,000 - 80,000 = 1,00,000 / 50% of basic for Mumbai = 4,00,000, i.e. ₹1,00,000 — would have been exempt.)

Quick Revision Chart

Basis of charge	Due or receipt, whichever earlier (Sec 15)
Standard deduction (new regime)	₹75,000
HRA/LTA exemption	Old regime only
Gratuity exemption cap	₹20 lakh (non-govt, covered employees)
NPS employer contribution 80CCD(2)	Deductible under BOTH regimes

< Quick Concept Notes

- Charged under Sec 22 on the 'Annual Value' of property (building/land appurtenant) of which the assessee is the owner, EXCEPT property used for the assessee's own business/profession.
- Annual Value (Sec 23) = Gross Annual Value (GAV) minus Municipal Taxes paid by owner. GAV = higher of Expected Rent (higher of Municipal Value / Fair Rent, capped at Standard Rent if rent-controlled) and Actual Rent Received/Receivable (for let-out property); for self-occupied property, GAV is NIL.
- Deductions from Net Annual Value (Sec 24): (a) Standard deduction — flat 30% of NAV (irrespective of actual expenditure), (b) Interest on borrowed capital — actual interest, fully deductible for let-out property; capped at ₹2,00,000 for self-occupied property (loan for acquisition/construction, completed within 5 years from end of FY of borrowing), or ₹30,000 if conditions not met.
- An assessee can now treat up to TWO house properties as self-occupied (Nil GAV) — earlier restricted to one — relevant where both cannot be actually let out due to employment/business elsewhere.
- House property income/loss (up to ₹2,00,000 for self-occupied) can be set off against other heads in the same year; any loss beyond this, or losses under let-out property exceeding other-head income, are carried forward for 8 assessment years, settable ONLY against house property income in future years.
- New regime restriction: interest deduction on self-occupied property (Sec 24(b)) is NOT allowed under the new tax regime (Sec 115BAC) — only available for let-out property (since it directly reduces a positive income head, not creates/enhances a loss position from a nil-income head).

🔗 Flow Chart / Process

Determine GAV (self-occupied = Nil; let-out = higher of expected rent/actual rent)



Less: Municipal taxes paid = NAV



Less: 30% standard deduction + interest on borrowed capital (Sec 24)



= Income/Loss from House Property

📖 PYQ-Style Illustration

Q. Mr. Kabir owns a self-occupied house with home loan interest of ₹2,50,000 for FY 2025-26. He opts for the OLD tax regime. Compute income from house property.

Solution: GAV of self-occupied property = Nil. Interest deduction u/s 24(b) for self-occupied property is capped at ₹2,00,000 (loan for acquisition, assuming conditions on completion within 5 years are met). Income from House Property = Nil – 2,00,000 = (–) ₹2,00,000 (loss), which can be set off against income under other heads (salary, business, etc.) in the same year, subject to the overall ₹2,00,000 set-off cap for house property loss against other heads under Sec 71(3A).

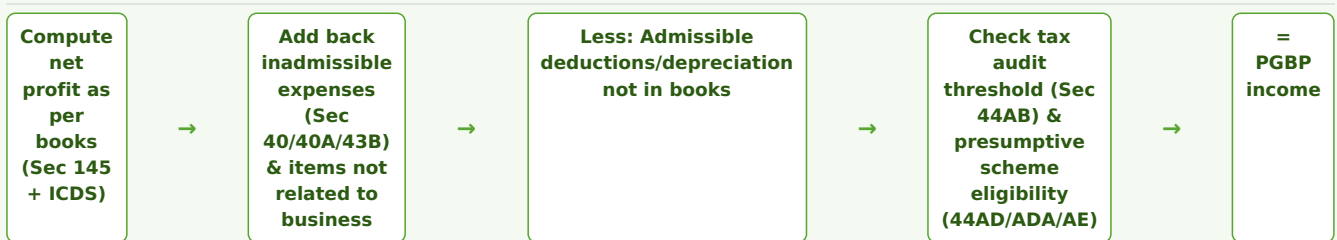
📊 Quick Revision Chart

Self-occupied GAV	Nil
Standard deduction	30% of NAV (flat)
Interest cap — self-occupied	₹2,00,000 (old regime only)
Loss set-off cap (against other heads)	₹2,00,000 per year
Carry-forward period	8 assessment years (against house property income only)

< Quick Concept Notes

- Charged under Sec 28; computed per Sec 29 read with Sec 30-43D (allowable/disallowable expenses) using the method of accounting regularly employed (Sec 145), subject to notified Income Computation and Disclosure Standards (ICDS).
- Depreciation (Sec 32): allowed on the Written Down Value (WDV) block of assets at prescribed rates (e.g. 15% general plant & machinery, 40% computers/software, 10% buildings — verify current rate schedule); additional depreciation @20% (35% for notified backward areas) for new plant & machinery in manufacturing; half-rate if asset used <180 days in the year of acquisition.
- Key disallowances: Sec 40(a)(ia) — 30% of expenditure disallowed for non-deduction/non-deposit of TDS on payments to residents (100% for payments to non-residents u/s 40(a)(i), fully allowed in the year of subsequent deduction/deposit); Sec 40A(3) — payment >₹10,000 (₹35,000 for transporters) otherwise than by account payee cheque/draft/ECS disallowed; Sec 43B — specified statutory dues (GST, PF/ESI employer contribution, bonus, interest to specified financial institutions, etc.) deductible only on ACTUAL payment before the due date of filing return (Sec 43B(h) additionally covers payments to Micro and Small Enterprises beyond the specified 45-day/agreed period).
- Presumptive Taxation: Sec 44AD — 8% (6% for digital receipts) of turnover deemed as business income for eligible businesses with turnover up to ₹2 crore (enhanced threshold ₹3 crore if cash receipts ≤5% of total receipts); Sec 44ADA — 50% of gross receipts for specified professionals with receipts up to ₹50 lakh (enhanced ₹75 lakh if cash receipts ≤5%); Sec 44AE — presumptive income for goods carriages based on per-vehicle rates.
- Tax Audit (Sec 44AB): mandatory if turnover exceeds ₹1 crore (₹10 crore if cash transactions ≤5% of total) for business, or gross receipts exceed ₹50 lakh (₹75 lakh with the cash-limit relaxation) for profession, or where presumptive scheme income is declared below the prescribed percentage and total income exceeds the basic exemption limit.

🔗 Flow Chart / Process



🏛 Case Law — One-Liners

- Checkmate Services Pvt Ltd vs CIT (SC, 2022) — employees' contribution to PF/ESI (deducted from employees' salary) is deductible ONLY if deposited by the due date under the respective welfare legislation (not the Sec 43B extended due date for filing return, which applies to EMPLOYER's own contribution) — a critical, frequently-tested distinction.

🔔 Amendment / RTP Watch — Dec 2026

Sec 43B(h) — disallowance for delayed payment to Micro and Small Enterprises (MSEs) beyond the time limit under the MSMED Act, 2006 (45 days if agreement, else 15 days), applicable from AY 2024-25 onwards — verify continuing applicability and any relief circulars for Dec 2026.

📖 PYQ-Style Illustration

Q. A company deducted employees' PF contribution of ₹2,00,000 in March 2026 but deposited it in May 2026 (after the due date under the PF Act, but before the due date of filing the return). Is the deduction allowable?

Solution: No. As held in Checkmate Services Pvt Ltd vs CIT (SC, 2022), employees' contribution to PF (collected by the employer as a fiduciary, not the employer's own outgo) is allowable as a deduction ONLY if credited to the employees' account in the relevant fund by the due date prescribed under the PF Act — the extended timeline under Sec 43B (up to the due date of filing the return) applies only to the EMPLOYER's own contribution, not employees' contributions routed through the employer. Since deposit was after the PF Act due date, the ₹2,00,000 is disallowed and taxable as income under Sec 2(24)(x) read with Sec 36(1)(va).

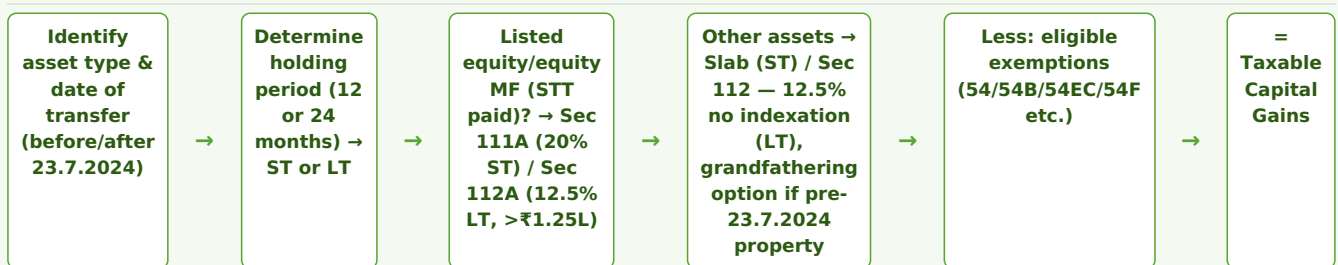
Quick Revision Chart

Sec 40(a)(ia)	30% disallowed — TDS default on resident payments
Sec 40A(3)	Disallowed — cash payment >₹10,000 (₹35,000 transporters)
Sec 43B	Statutory dues — deductible only on actual payment
Tax audit threshold (business)	₹1 crore (₹10 crore if cash ≤5%)
Key case	Checkmate Services (SC, 2022) — employees' PF contribution

Quick Concept Notes

- Charged under Sec 45 on transfer of a 'capital asset' (Sec 2(14)) — includes property of any kind except stock-in-trade, personal effects (with exclusions like jewellery/archaeological collections/drawings/paintings/sculptures which remain capital assets), agricultural land in rural areas (excluded), and specified movable property.
- MAJOR REGIME CHANGE (Finance (No.2) Act, 2024, effective for transfers on/after 23 July 2024 — applicable throughout PY 2025-26 / AY 2026-27, relevant for Dec 2026): Holding period simplified to TWO buckets — 12 months (listed securities/units of equity-oriented funds/units of business trust) and 24 months (all other assets, including unlisted shares and immovable property; unlisted shares/immovable property earlier required 24/36 months respectively — now uniformly 24 months for non-listed assets); indexation benefit WITHDRAWN for most long-term capital assets.
- Rates (post 23.7.2024): STCG on listed equity/equity MF/business trust units (Sec 111A, STT paid) — 20% (up from 15%). LTCG on such assets (Sec 112A) — 12.5% on gains exceeding ₹1,25,000 per year (raised from ₹1,00,000), NO indexation. LTCG on other assets (Sec 112, e.g. property, gold, unlisted shares) — 12.5% WITHOUT indexation; for land/building acquired BEFORE 23 July 2024, resident individuals/HUFs get a one-time OPTION of 12.5% without indexation OR 20% with indexation, whichever gives LOWER tax (grandfathering relief).
- Other STCG (non-Sec 111A assets) continues to be taxed at normal slab rates. Exemptions largely unchanged in structure: Sec 54 (residential house reinvestment), 54B (agricultural land), 54D (compulsory acquisition), 54EC (bonds, cap ₹50 lakh), 54F (net consideration reinvested in one residential house, subject to a ₹10 crore cost cap on the new asset introduced by Finance Act 2023 for 54 & 54F), 54GB (SME investment).
- CII for FY 2025-26 (relevant for cases still eligible for indexation under the grandfathering option) = 376 (Base year 2001-02 = 100), per CBDT Notification No. 70/2025.

Flow Chart / Process



Case Law — One-Liners

- Vodafone International Holdings BV vs UOI (SC, 2012) — indirect transfer of shares of a foreign company deriving substantial value from Indian assets does not attract capital gains tax under the (then) existing provisions; Parliament responded with retrospective amendments (Sec 9(1)(i) Explanations 5-6) specifically taxing such indirect transfers going forward — an important 'legislative override of judicial interpretation' illustration.

Amendment / RTP Watch — Dec 2026

The 23 July 2024 capital gains overhaul (uniform holding periods, indexation withdrawal, revised rates) is THE single biggest Direct Tax development for the Dec 2026 attempt — expect at least one full numerical problem and a theory question contrasting pre- and post-23.7.2024 treatment.

PYQ-Style Illustration

Q. Mr. Verma sells listed equity shares (held for 18 months, STT paid) for ₹8,00,000, purchase cost ₹5,00,000, on 15 September 2025. Compute the tax on capital gains.

Solution: Holding period (18 months) exceeds 12 months → Long-Term Capital Asset. LTCG = 8,00,000 – 5,00,000 = ₹3,00,000. Since transfer is after 23 July 2024, Sec 112A applies: exemption of ₹1,25,000, balance ₹1,75,000 taxed at 12.5% (no indexation) = ₹21,875, plus applicable cess (4%) = ₹22,750 (before any surcharge). No Section 87A rebate is available against this special-rate LTCG even if total income is otherwise within the rebate threshold.

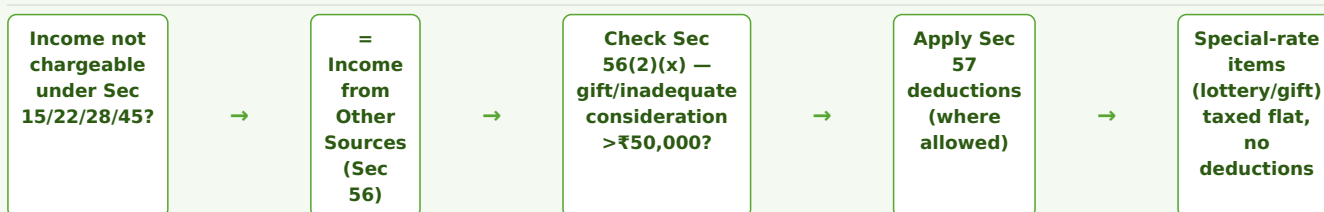
Quick Revision Chart

Holding period — listed/equity MF	12 months
Holding period — other assets	24 months
STCG equity (111A)	20%
LTCG equity (112A)	12.5% above ₹1.25L, no indexation
LTCG other assets (112)	12.5% no indexation (option for pre-23.7.24 property)
CII FY 2025-26	376

< Quick Concept Notes

- Residuary head (Sec 56) — covers income not chargeable under any other head: dividends (Sec 2(22)), interest on securities, family pension, winnings from lotteries/crossword puzzles/card games/betting/gambling (flat 30% u/s 115BB, no deduction/set-off allowed), income from letting of machinery/plant/furniture (composite letting), interest income, gifts.
- Sec 56(2)(x): any sum of money/immovable property/specified movable property received WITHOUT consideration exceeding ₹50,000 (or, for immovable property, stamp duty value exceeding consideration by higher of ₹50,000 or 10% of consideration) is taxable in the hands of the recipient, EXCEPT from relatives, on marriage, under a will/inheritance, or from specified trusts/institutions.
- Dividend taxation (post abolition of Dividend Distribution Tax from FY 2020-21): dividends are taxable in the hands of shareholders at applicable slab rates (or 20% flat for non-residents subject to DTAA benefit); domestic companies must deduct TDS u/s 194 on dividends exceeding ₹10,000 (verify current threshold) paid to resident shareholders.
- Deductions allowed (Sec 57): expenses incurred wholly/exclusively to earn such income (e.g. collection charges on interest/dividend, standard deduction of 33.33% or ₹15,000 (whichever less) on family pension) — BUT no deduction for expenses against winnings from lotteries/betting etc. (Sec 58(4)).

🔗 Flow Chart / Process



📖 PYQ-Style Illustration

Q. Mr. Shah receives a gift of ₹1,00,000 in cash from his college friend on his birthday. Is this taxable?

Solution: Yes. Under Sec 56(2)(x), any sum of money received without consideration exceeding ₹50,000 in aggregate during the year is taxable as 'Income from Other Sources', UNLESS received from a 'relative' as defined (which does not include a friend), or falls within other specified exclusions (marriage, inheritance, etc.). Since a college friend is not a 'relative' under the Act and the amount exceeds ₹50,000, the entire ₹1,00,000 is taxable in Mr. Shah's hands under this head, with no threshold exemption once the ₹50,000 limit is crossed (the whole sum becomes taxable, not just the excess).

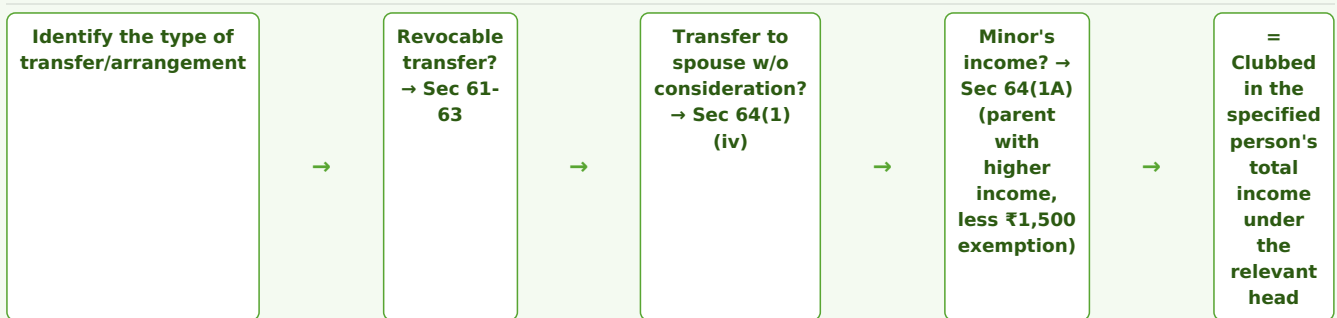
📌 Quick Revision Chart

Winnings (lottery/betting)	Flat 30% (Sec 115BB), no deductions
Gift threshold	₹50,000 (money) — exceptions for relatives/marriage/inheritance
Family pension deduction	Lower of 33.33% or ₹15,000
Dividend taxability	Slab rate in shareholder's hands (DDT abolished)

< Quick Concept Notes

- Sec 60: income transferred without transferring the asset — clubbed in transferor's hands regardless of revocability.
- Sec 61-63: income from a revocable transfer of assets is clubbed in the transferor's hands (with specific exceptions for trusts/transfers not revocable during the transferee's lifetime and where the transferor derives no direct/indirect benefit).
- Sec 64(1)(ii): remuneration paid by a concern to the spouse of an individual having substantial interest, WITHOUT technical/professional qualification justifying it, is clubbed in the individual's hands (higher-earning spouse, if both have substantial interest and both receive such remuneration).
- Sec 64(1)(iv): income from assets transferred to spouse without adequate consideration (not in connection with an agreement to live apart) is clubbed in the transferor's hands — the clubbed income keeps 'regenerating' (income on income arising in later years from the transferred asset is NOT clubbed, only the direct income is).
- Sec 64(1A): income of a MINOR CHILD is clubbed in the hands of the parent whose total income (excluding this clubbed income) is higher, EXCEPT income from the minor's own manual work/skill/talent, or income of a minor suffering from a specified disability (Sec 80U) — an exemption of ₹1,500 per child (or actual clubbed income if lower) is available.

🔗 Flow Chart / Process



📖 PYQ-Style Illustration

Q. Mr. and Mrs. Sharma both have substantial interest in XYZ Pvt Ltd. The company pays Mrs. Sharma (a graduate with no relevant technical qualification) a salary of ₹6,00,000 as 'consultant', while Mr. Sharma's own income (excluding this) is ₹15,00,000 and Mrs. Sharma's own other income is ₹4,00,000. How is this taxed?

Solution: Since Mrs. Sharma lacks technical/professional qualifications justifying the remuneration, and both spouses have substantial interest in the company, Sec 64(1)(ii) clubs this income in the hands of the spouse whose total income (before including this clubbed amount) is greater — i.e. Mr. Sharma (₹15,00,000 > ₹4,00,000). The ₹6,00,000 is added to Mr. Sharma's total income under the head 'Salaries'/'Other Sources' as applicable, and taxed accordingly in his hands, not Mrs. Sharma's.

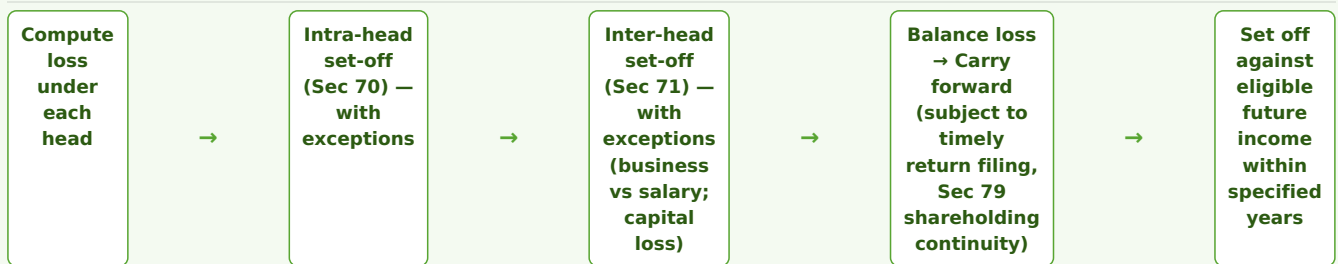
📊 Quick Revision Chart

Sec 64(1)(ii)	Spouse remuneration, no qualification, substantial interest
Sec 64(1)(iv)	Asset transferred to spouse w/o consideration
Sec 64(1A)	Minor's income → higher-earning parent, ₹1,500 exemption/child
Exception	Minor's income from own skill/manual work — not clubbed

Quick Concept Notes

- Intra-head set-off (Sec 70): loss from one source can be set off against income from another source under the SAME head (with exceptions — e.g. long-term capital loss can be set off only against long-term capital gains, not short-term; speculation business loss only against speculation profits).
- Inter-head set-off (Sec 71): loss under one head can be set off against income under another head in the same year, EXCEPT — business loss cannot be set off against salary income; capital loss cannot be set off against any other head; loss from 'specified business' (Sec 35AD) and speculation loss cannot be set off against other-head income at all; house property loss set-off against other heads is capped at ₹2,00,000 (Sec 71(3A)).
- Carry forward periods: Business loss (non-speculative) — 8 years, settable only against PGBP income (need NOT continue the same business); Speculation loss — 4 years, only against speculation profits; Specified business loss (35AD) — no time limit, only against specified business income; Capital loss (ST or LT) — 8 years (ST loss settable against both ST & LT gains; LT loss settable only against LT gains); House property loss — 8 years, only against house property income; Unabsorbed depreciation — NO time limit, settable against any head except salary.
- Sec 79: carry forward of losses in a CLOSELY HELD company is disallowed unless shares carrying $\geq 51\%$ voting power are held by the SAME persons on the last day of the loss year and the last day of the set-off year (with specific relief for eligible start-ups u/s 80-IAC, and for amalgamation/demerger/resolution plans under IBC).
- Return must be filed within the due date u/s 139(1) to carry forward most losses (Sec 80) — EXCEPT house property loss and unabsorbed depreciation, which can be carried forward even if the return is filed late.

Flow Chart / Process



PYQ-Style Illustration

Q. A closely held company incurs a business loss of ₹20 lakh in FY 2023-24. In FY 2025-26, it wants to set off this loss against current profits, but 60% of its shares changed hands in FY 2024-25 to new, unrelated shareholders. Can the loss be carried forward and set off?

Solution: No, generally. Under Sec 79, a closely held company can carry forward and set off a business loss only if shares carrying not less than 51% of voting power are beneficially held by the same persons on the last day of the loss year AND the last day of the year in which set-off is claimed. Since 60% of shares changed hands (i.e. shareholding continuity of only 40% remains with original shareholders), this condition is violated, and the ₹20 lakh loss CANNOT be carried forward/set off in FY 2025-26 — unless the company qualifies for one of the specific carve-outs (e.g. an eligible start-up under Sec 80-IAC meeting alternative conditions, or a change pursuant to an approved resolution plan under the Insolvency and Bankruptcy Code).

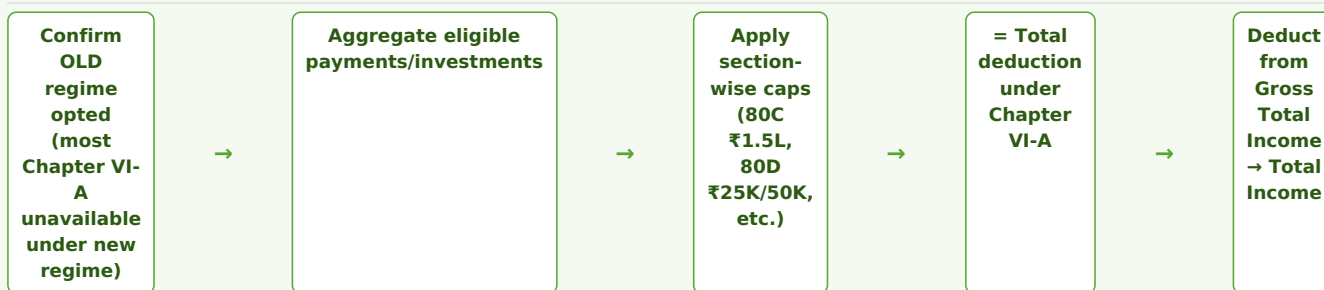
Quick Revision Chart

Business loss c/f	8 years — against PGBP only
Capital loss c/f	8 years — LT only vs LT; ST vs ST or LT
Unabsorbed depreciation	No time limit — any head except salary
Sec 79 condition	$\geq 51\%$ shareholding continuity (closely held cos.)
Return filing requirement	Timely u/s 139(1) — except HP loss & unabsorbed dep.

< Quick Concept Notes

- Chapter VI-A deductions are available ONLY under the OLD tax regime (with narrow exceptions — Sec 80CCD(2) employer's NPS contribution, 80CCH Agnipath Scheme contribution, and 80JJAA for new employment — which remain available even under the new regime u/s 115BAC).
- Sec 80C: aggregate deduction up to ₹1,50,000 for specified investments/payments — LIC premium, PPF, EPF, ELSS, principal repayment of housing loan, tuition fees (up to 2 children), NSC, Sukanya Samridhi, five-year bank/post-office FDs, etc.
- Sec 80D: health insurance premium — up to ₹25,000 for self/family (₹50,000 if senior citizen); additional ₹25,000/₹50,000 for parents' premium (senior citizen parents get the higher limit) — maximum aggregate benefit up to ₹1,00,000 where both self and parents are senior citizens.
- Sec 80TTA (₹10,000 — savings bank interest, non-senior citizens) vs Sec 80TTB (₹50,000 — ALL interest income including FDs, for senior citizens; 80TTA not available to senior citizens who claim 80TTB).
- Sec 80G: donations to specified funds/institutions — 100% or 50% deduction, with or without a qualifying limit (10% of adjusted gross total income) depending on the category of donee; cash donations above ₹2,000 are NOT eligible.
- Sec 80GG (rent paid, where no HRA received) — least of ₹5,000/month, 25% of total income, or rent paid minus 10% of total income. Sec 80E — interest on education loan (no monetary cap, 8 years from start of repayment). Sec 80EEB — interest on electric vehicle loan.

🔗 Flow Chart / Process



📖 PYQ-Style Illustration

Q. Mr. Rao (age 45, opting for old regime) pays LIC premium ₹80,000, PPF ₹60,000, health insurance for self ₹22,000, and health insurance for his senior-citizen father ₹45,000. Compute his Chapter VI-A deduction.

Solution: Sec 80C: LIC premium ₹80,000 + PPF ₹60,000 = ₹1,40,000 (within the ₹1,50,000 cap, so full ₹1,40,000 allowed). Sec 80D: self ₹22,000 (within ₹25,000 cap, so ₹22,000 allowed) + father (senior citizen) ₹45,000 (within enhanced ₹50,000 cap, so full ₹45,000 allowed) = ₹67,000. Total Chapter VI-A deduction = ₹1,40,000 + ₹67,000 = ₹2,07,000.

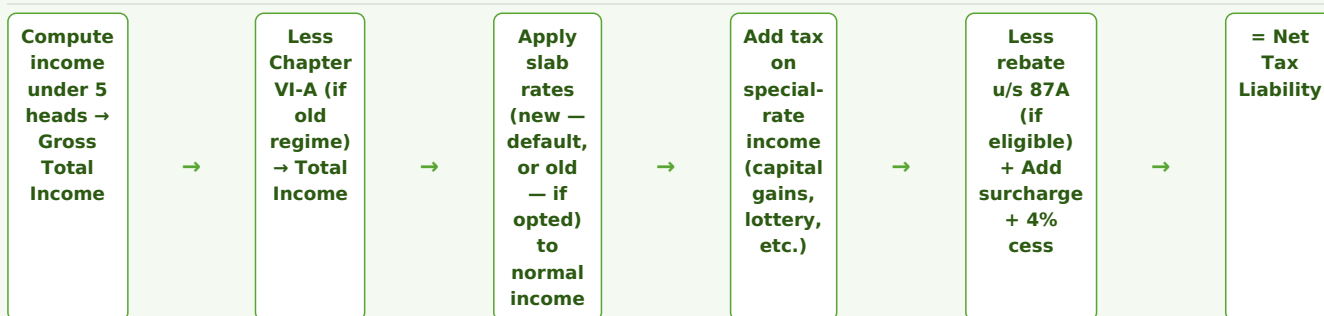
📊 Quick Revision Chart

Available under new regime	80CCD(2), 80CCH, 80JJAA only
80C cap	₹1,50,000
80D cap (self, non-senior + senior parents)	₹25,000 + ₹50,000 = up to ₹75,000
80TTA vs 80TTB	₹10,000 (SB interest) vs ₹50,000 (all interest, seniors)

< Quick Concept Notes

- Aggregation sequence: Salary + House Property + PGBP + Capital Gains + Other Sources = Gross Total Income; less Chapter VI-A deductions (old regime) = Total Income; apply slab rates + special rates (capital gains, lottery, etc.) = Tax before rebate.
- New Tax Regime (Sec 115BAC) — DEFAULT for AY 2026-27 (FY 2025-26): Nil up to ₹4,00,000; 5% (₹4-8L); 10% (₹8-12L); 15% (₹12-16L); 20% (₹16-20L); 25% (₹20-24L); 30% above ₹24,00,000. Standard deduction ₹75,000. Rebate u/s 87A: up to ₹60,000 for resident individuals with total income (normal-rate income only, excluding special-rate income like capital gains) up to ₹12,00,000 — makes tax effectively NIL up to ₹12,00,000 (₹12,75,000 for salaried, after standard deduction), with marginal relief just above the threshold.
- Old Tax Regime (optional, via Form 10-IEA for those with business/professional income; freely selectable each year for others without such income): Nil up to ₹2,50,000; 5% (₹2.5-5L); 20% (₹5-10L); 30% above ₹10L (higher slabs for senior/super-senior citizens: ₹3L/₹5L basic exemption respectively). Rebate u/s 87A: up to ₹12,500 for total income up to ₹5,00,000.
- Surcharge: applicable above ₹50 lakh total income, on a slab basis (10%/15%/25%/37% under old regime; capped at 25% under new regime — i.e. the 37% highest slab does NOT apply under the new regime, reducing the maximum marginal rate under the new regime to 39% vs 42.744% under the old regime). Health & Education Cess: 4% on tax + surcharge, under both regimes.
- Alternate Minimum Tax (AMT, Sec 115JC): applies to non-corporate assesseees (other than those opting for 115BAC) claiming specified deductions (Chapter VI-A under 'C' heading, 10AA, 35AD) — tax cannot be less than 18.5% of 'Adjusted Total Income'; AMT credit carried forward 15 years.

🔄 Flow Chart / Process



📌 Amendment / RTP Watch — Dec 2026

New regime slabs revised by Finance Act 2025 (Budget 2025) with the ₹12 lakh / ₹60,000 rebate structure — a like-for-like replacement of the earlier (AY 2025-26) ₹7 lakh / ₹25,000 structure. Always use the CURRENT AY 2026-27 figures in computations for the Dec 2026 attempt, not the older AY 2025-26 numbers.

📖 PYQ-Style Illustration

Q. Ms. Neha (resident, age 35), opting for the new regime, has salary income of ₹11,50,000 (before standard deduction) and no other income. Compute her tax liability for AY 2026-27.

Solution: Taxable Salary = 11,50,000 – 75,000 (standard deduction) = ₹10,75,000. Since total income (₹10,75,000) is within the ₹12,00,000 threshold and consists entirely of normal-rate income, she is eligible for full rebate u/s 87A. Tax as per slabs: Nil (0-4L) + 5% × 4L (20,000) + 10% × 2.75L (27,500) = ₹47,500. Rebate u/s 87A = lower of ₹60,000 or tax payable (₹47,500) = ₹47,500. Net tax payable = Nil.

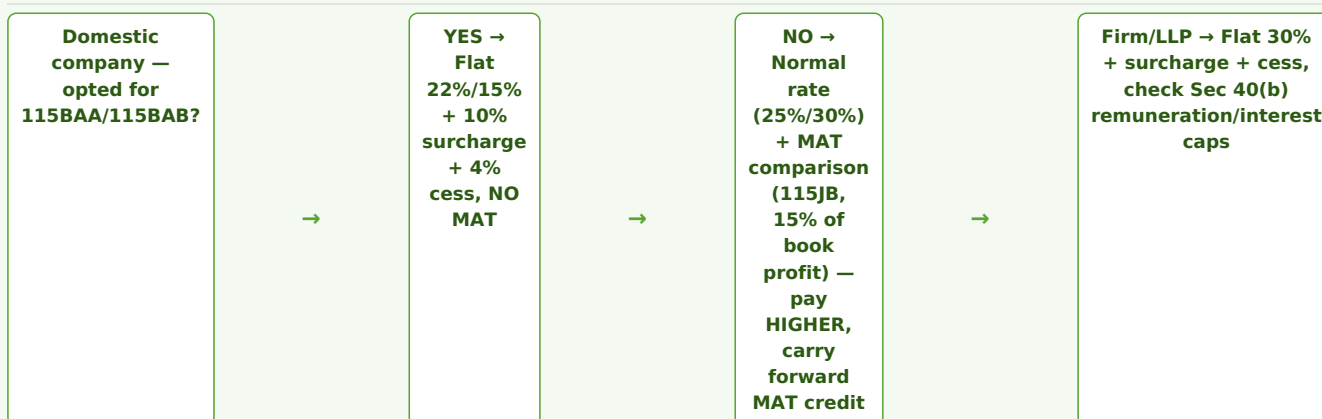
📊 Quick Revision Chart

New regime basic exemption	₹4,00,000
New regime top slab	30% above ₹24,00,000
87A rebate — new regime	Up to ₹60,000 (income ≤ ₹12L, normal-rate only)
87A rebate — old regime	Up to ₹12,500 (income ≤ ₹5L)
Max surcharge — new vs old	25% vs 37%

Quick Concept Notes

- Standard corporate tax rate: Domestic company — 30% (25% if turnover in the specified preceding year $\leq$ ₹400 crore) + surcharge (7%/12% based on income slabs) + 4% cess. Foreign company — 35% (rates under specific sections for royalty/FTS may differ) + surcharge + cess.
- Sec 115BAA (concessional regime, optional): 22% flat rate for any domestic company (no turnover condition), + 10% surcharge (flat, regardless of income level) + 4% cess = effective ~25.17%, PROVIDED the company forgoes specified deductions/exemptions (e.g. 10AA, additional depreciation, various Chapter VI-A profit-linked deductions) — once exercised, the option applies for all subsequent years and cannot be withdrawn (except on ceasing to satisfy conditions once). No MAT applicability for companies opting 115BAA.
- Sec 115BAB (concessional regime for NEW manufacturing domestic companies, set up and registered on/after 1 Oct 2019, commencing manufacturing by a notified cut-off date): 15% flat rate + 10% surcharge + 4% cess = effective ~17.16%, subject to conditions (no reconstruction of existing business, new plant & machinery mainly, specified business restrictions).
- Minimum Alternate Tax (MAT, Sec 115JB): applies to companies NOT opting for 115BAA/115BAB — tax cannot be less than 15% of 'Book Profit' (computed per Sec 115JB adjustments to profit as per Schedule III of the Companies Act) — MAT credit (excess of MAT paid over normal tax) carried forward 15 years, settable in future years when normal tax exceeds MAT.
- Firms/LLPs: taxed at a flat 30% + surcharge (12% if income $>$ ₹1 crore) + 4% cess — no slab benefit; conditions for deduction of partner's remuneration/interest under Sec 40(b) (interest capped at 12% p.a.; remuneration capped per a slab formula on book profit) must be satisfied via a valid partnership deed.

Flow Chart / Process



Case Law — One-Liners

- Apollo Tyres Ltd vs CIT (SC, 2002) — the Assessing Officer has no power to re-scrutinise or recompute book profit certified in accordance with Schedule VI (now Schedule III) of the Companies Act for MAT purposes, beyond the specific adjustments expressly permitted under Sec 115JB — the AO cannot substitute his own view of 'true and fair' profits.

PYQ-Style Illustration

Q. A domestic manufacturing company (turnover ₹250 crore in the preceding year) has book profit of ₹8 crore and total income as per normal provisions of ₹5 crore (after claiming accelerated depreciation), and has NOT opted for Sec 115BAA. Compute its tax liability (ignore surcharge/cess for simplicity of the illustration; state the concept clearly).

Solution: Since turnover $\leq$ ₹400 crore, the normal corporate tax rate is 25%. Tax on normal income = $25\% \times 5,00,00,000 = ₹1,25,00,000$. MAT under Sec 115JB = $15\% \times \text{Book Profit} = 15\% \times 8,00,00,000 = ₹1,20,00,000$. Since tax as per normal provisions (₹1.25 crore) EXCEEDS MAT (₹1.20 crore), the company pays tax under the normal provisions (₹1.25 crore); no MAT credit arises this year (MAT credit arises only when MAT paid exceeds normal tax, to be carried forward and set off in a future year when normal tax exceeds MAT).

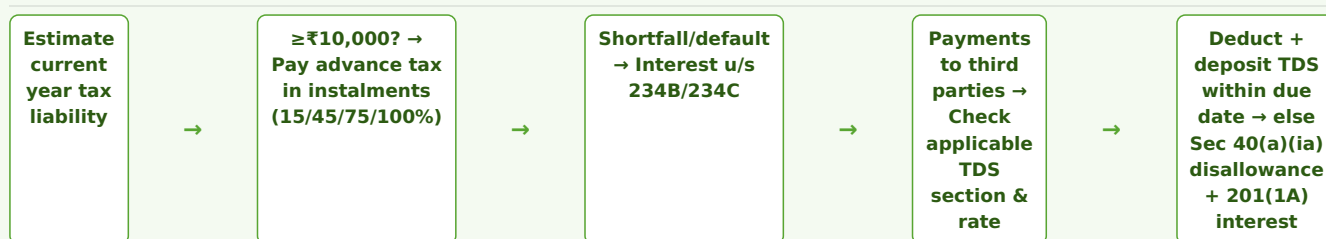
Quick Revision Chart

115BAA rate	22% + 10% surcharge + 4% cess (~25.17%)
115BAB rate	15% + 10% surcharge + 4% cess (~17.16%)
MAT rate	15% of Book Profit (Sec 115JB)
MAT credit carry-forward	15 years
Firm/LLP rate	Flat 30% (+ surcharge if income > ₹1 cr)

Quick Concept Notes

- Advance Tax (Sec 208-211): payable if estimated tax liability for the year is $\geq ₹10,000$. Instalments (non-presumptive assessee): 15% by 15 June, 45% (cumulative) by 15 September, 75% by 15 December, 100% by 15 March. Presumptive taxpayers (44AD/44ADA): 100% in a single instalment by 15 March.
- Interest for default: Sec 234A — 1% p.m. for late filing of return (from due date to actual filing date); Sec 234B — 1% p.m. for shortfall in advance tax (paid $<90\%$ of assessed tax); Sec 234C — 1% p.m. for deferment of instalments (shortfall in individual instalments vis-à-vis the prescribed %).
- TDS: major sections include 192 (salary — at average rate), 194A (interest, other than securities — threshold ₹10,000/₹50,000 depending on payer/payee category), 194C (contractors — 1%/2%), 194H (commission/brokerage), 194-IA (transfer of immovable property, 1% on consideration $\geq ₹50$ lakh), 194J (professional/technical fees — 10%/2%), 194Q (purchase of goods, 0.1% on consideration $> ₹50$ lakh — payer's turnover $> ₹10$ crore), 206C(1H) (TCS on sale of goods, now largely subsumed/overlapping with 194Q — the two are NOT applied simultaneously to the same transaction, 194Q generally prevails).
- Sec 206AB/206CCA (higher TDS/TCS for 'specified persons' — non-filers of return for 2 preceding years with aggregate TDS+TCS $\geq ₹50,000$ in each such year) have been RATIONALISED/omitted in later Finance Acts to ease compliance — verify the current applicability status for Dec 2026 in the RTP.
- TDS/TCS credit is available to the deductee/collectee based on Form 26AS/AIS; non-deduction/non-collection or late deposit triggers interest (Sec 201(1A) — 1%/1.5% p.m.) in addition to expenditure disallowance (Sec 40(a)(ia)) for the deductor.

Flow Chart / Process



Amendment / RTP Watch — Dec 2026

TCS rate on e-commerce/liberalised remittance scheme (LRS) remittances and related thresholds are periodically revised — verify current LRS-TCS thresholds/rates (a frequently updated area) against the latest notification before the Dec 2026 attempt.

PYQ-Style Illustration

Q. A company's estimated tax liability for FY 2025-26 is ₹10,00,000. It pays ₹1,00,000 by 15 June and ₹3,50,000 (cumulative) by 15 September. Is there any shortfall, and what is the consequence?

Solution: Required cumulative payment by 15 June = $15\% \times 10,00,000 = ₹1,50,000$; actual = ₹1,00,000 → shortfall ₹50,000. Required cumulative by 15 September = $45\% \times 10,00,000 = ₹4,50,000$; actual (cumulative) = ₹3,50,000 → shortfall ₹1,00,000. Since actual payment in both instalments falls short of the prescribed percentage, interest under Sec 234C @1% per month is payable on the shortfall for each defaulted instalment (for a specified period — 3 months for the June/September/December instalments, 1 month for the March instalment), in addition to Sec 234B interest if the year-end shortfall (vis-à-vis 90% of assessed tax) persists.

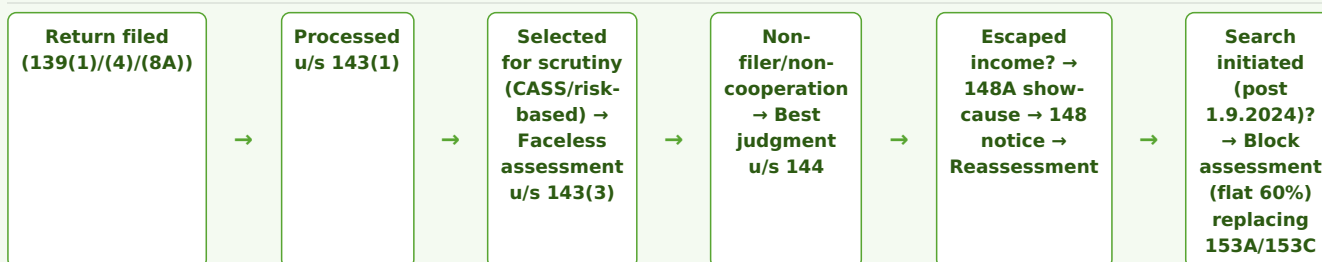
Quick Revision Chart

Advance tax instalments	15% / 45% / 75% / 100% by 15 Jun/Sep/Dec/Mar
234A / 234B / 234C	Late filing / shortfall / deferment — all @1% p.m.
194Q vs 206C(1H)	194Q (buyer TDS) generally prevails over TCS
TDS default consequence	40(a)(ia) disallowance + 201(1A) interest

Quick Concept Notes

- Return filing (Sec 139): due dates — 31 July (non-audit individuals/others), 31 October (audit cases/companies/working partners of audited firms), 30 November (cases requiring transfer pricing report u/s 92E). Belated return — Sec 139(4), up to 3 months before end of relevant AY. Updated return — Sec 139(8A), up to 48 months from end of relevant AY, on payment of additional tax (25%/50%/60%/70% of tax+interest depending on when filed — the window was extended from 24 to 48 months and additional-tax slabs revised by Finance Act 2025).
- Processing/Assessment: Sec 143(1) — summary processing (adjustments for arithmetical errors, incorrect claims apparent from return); Sec 143(3) — scrutiny assessment (now largely FACELESS, per the Faceless Assessment Scheme, with case selection via CASS — Computer Assisted Scrutiny Selection, based on risk parameters); Sec 144 — best judgment assessment (non-cooperation/non-filing).
- Reassessment (Sec 147-151, substantially revamped by Finance Act 2021 & further by Finance Act 2022/2024): notice u/s 148 can be issued if 'income has escaped assessment', based on 'information' suggesting escapement (Sec 148A procedure — show-cause notice, opportunity to respond, before issuing 148 notice, except in search/survey cases). Time limit: normally 3 years from end of relevant AY; extended to 5 years (subject to a further-reduced/streamlined threshold, verify current monetary limit, historically ₹50 lakh) where escaped income represented as an asset.
- Search Assessment — BLOCK ASSESSMENT SCHEME REINTRODUCED (Finance (No.2) Act, 2024, effective for searches initiated on/after 1 Sept 2024): assessment of total income for the 'block period' (broadly, 6 years preceding the year of search + the period up to the date of search) is now made in a SINGLE block assessment order, taxed at a flat rate of 60% (plus surcharge/cess, no slab benefit), REPLACING the earlier year-wise Sec 153A/153C assessment procedure that had applied since 2003 — a major structural change directly relevant to Dec 2026.

Flow Chart / Process



Case Law — One-Liners

- Union of India vs Ashish Agarwal (SC, 2022) — treated all reassessment notices issued under the OLD Sec 148 (pre-1.4.2021 law) between 1.4.2021 and 30.6.2021 (during the TOLA extension period) as deemed notices under the NEW Sec 148A regime, balancing revenue's interest with the taxpayer-friendly procedural safeguards introduced by Finance Act 2021 — a landmark transitional ruling.

Amendment / RTP Watch — Dec 2026

TWO major Dec-2026-relevant updates: (1) Updated Return window extended to 48 months (from 24) with revised additional-tax slabs (Finance Act 2025); (2) Block Assessment Scheme for search cases reintroduced at a flat 60% rate for searches from 1 September 2024, replacing Sec 153A/153C — both are high-probability theory/practical questions.

PYQ-Style Illustration

Q. A search under Sec 132 is conducted on Mr. X's premises on 15 October 2024. How will his total income be assessed for the block period, and at what rate?

Solution: Since the search is initiated after 1 September 2024, the REINTRODUCED block assessment scheme applies (not the erstwhile Sec 153A year-wise assessment). The Assessing Officer will determine Mr. X's total income for the entire 'block period' (broadly the 6 assessment years preceding the year of search, plus the part of the year up to the date of search) in a SINGLE consolidated block assessment order. This aggregated undisclosed/total income for the block period is taxed at a flat rate of 60% (plus applicable surcharge and cess), with no benefit of slab rates, and largely without the year-wise set-off flexibility that existed under the erstwhile Sec 153A regime.

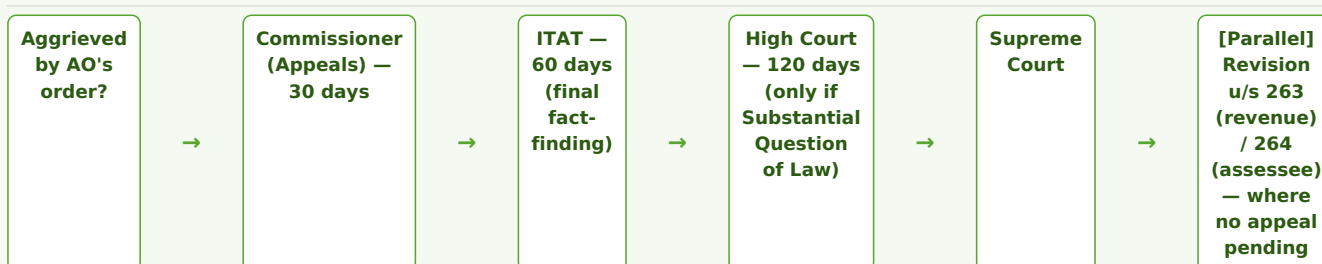
 Quick Revision Chart

Return due dates	31 Jul / 31 Oct / 30 Nov (TP cases)
Updated return window	48 months (Sec 139(8A), post FA 2025)
Reassessment normal limit	3 years from end of relevant AY
Block assessment rate	Flat 60% (searches from 1.9.2024)
Key case	Ashish Agarwal (SC, 2022) — 148 transition

Quick Concept Notes

- Appeal hierarchy: Assessing Officer's order → Commissioner (Appeals)/Joint Commissioner (Appeals) [Sec 246A, within 30 days] → Income Tax Appellate Tribunal (ITAT) [Sec 253, within 60 days, final fact-finding authority] → High Court [Sec 260A, within 120 days, only if it involves a Substantial Question of Law] → Supreme Court [Sec 261].
- Revision: Sec 263 — Principal Commissioner/Commissioner can revise an AO's order that is ERRONEOUS and PREJUDICIAL to revenue's interest (within 2 years from end of the FY in which the order was passed, subject to specified extensions for giving effect to appellate/court orders). Sec 264 — revision in favour of the assessee, on the assessee's application, for orders NOT otherwise appealed.
- Dispute Resolution Panel (DRP, Sec 144C): available to 'eligible assesseees' (foreign companies and cases involving a Transfer Pricing adjustment) — objections filed within 30 days of a draft assessment order; DRP issues binding directions within 9 months; final assessment order thereafter is directly appealable to ITAT (bypassing Commissioner (Appeals)).
- Penalties: Sec 270A — replaced the earlier 271(1)(c); penalty for UNDER-REPORTING of income = 50% of tax on under-reported income; for MISREPORTING (specific categories — false entries, non-disclosure of international transactions, etc.) = 200% of tax. Sec 271B — tax audit default (0.5% of turnover, max ₹1.5 lakh). Sec 271H — TDS/TCS return default. Sec 234F — late filing fee (₹5,000, or ₹1,000 if total income ≤ ₹5 lakh).
- Prosecution: Sec 276C (wilful attempt to evade tax) — rigorous imprisonment ranging from 3 months to 7 years plus fine, graded by the amount of tax sought to be evaded; compounding of offences permitted (CBDT Compounding Guidelines) subject to conditions and payment of compounding charges, except in specified serious/repeat-offence categories.

Flow Chart / Process



Case Law — One-Liners

- CIT vs Reliance Petroproducts Pvt Ltd (SC, 2010) — merely making an incorrect/unsustainable claim in the return (which is disallowed on assessment) does NOT by itself amount to furnishing 'inaccurate particulars of income' warranting penalty, unless the claim is found to be false or made with concealment — a foundational case for the under-reporting/misreporting distinction later codified in Sec 270A.

Amendment / RTP Watch — Dec 2026

The Vivad Se Vishwas Scheme, 2024 (VSV 2.0) — effective 1 October 2024, last declaration date 30 April 2025 — allowed settlement of disputes pending as on 22 July 2024 before CIT(A)/ITAT/High Court/Supreme Court/DRP, with waiver of penalty/interest/prosecution (search-related cases excluded). Though the filing window has closed, it remains a highly relevant 'recent development in dispute resolution' theory topic for Dec 2026.

PYQ-Style Illustration

Q. An assessee is aggrieved by an order of the Assessing Officer passed after DRP directions in a transfer pricing case. Where should he appeal, and within what time?

Solution: Since the final assessment order was passed pursuant to binding DRP directions (Sec 144C), the assessee (or, in specified circumstances, the Assessing Officer, with the Principal Commissioner's approval) must appeal DIRECTLY to the Income Tax Appellate Tribunal (ITAT) under Sec 253 within 60 days of receipt of the order — the Commissioner (Appeals) stage is bypassed entirely for DRP-route assessments, since DRP directions themselves already function as a first-level review mechanism for eligible assesseees (foreign companies / TP-adjustment cases).

Quick Revision Chart

Appeal — 1st level	CIT(A)/JCIT(A) — 30 days (Sec 246A)
Appeal — 2nd level	ITAT — 60 days (Sec 253)
Appeal — 3rd level	High Court — 120 days, SQOL only (Sec 260A)
270A penalty	50% (under-reporting) / 200% (misreporting)
DRP route	Bypasses CIT(A) — direct to ITAT

SECTION B

INTERNATIONAL TAXATION — Weight: 40%

Modules 16–20, covering Non-Resident Taxation & Double Taxation Relief, Transfer Pricing, GAAR, Advance Ruling & Equalisation Levy, and Application/Interpretation of Tax Treaties with Model Conventions & BEPS — as per ICAI Syllabus 2022, Paper 15 (DT & International Taxation). Though smaller in weight, this section is high-scoring and rewards precise section/case recall.

Quick Concept Notes

- Non-residents are taxed only on India-sourced income (Sec 5(2)) — income received/deemed received in India, or accruing/arising/deemed to accrue or arise in India (Sec 9) — e.g. income from a business connection in India, asset/source of income situated in India, salary for services rendered in India, and specified deeming provisions for royalty/FTS/interest payable by residents (subject to exceptions for foreign business use).
- Business Connection (Sec 9(1)(i)) & Significant Economic Presence (SEP, Explanation 2A to Sec 9(1)(i)): SEP includes (a) transactions in goods/services/property (including download of data/software) with any Indian resident exceeding a prescribed monetary threshold, or (b) systematic and continuous soliciting of business/engaging with a prescribed number of 'users' in India, regardless of whether the non-resident has any physical presence in India or the agreement is concluded outside India — a key tool for taxing the digital economy absent a treaty override.
- Double Taxation Relief: Sec 90/90A — relief via DTAA (bilateral agreements with 'specified associations' under 90A) where India has an agreement; Sec 91 — UNILATERAL relief (lower of Indian rate or foreign rate, on doubly-taxed income) where NO DTAA exists, or the DTAA does not cover that specific income/person. Sec 90(2): the assessee gets the benefit of provisions of the DTAA OR the Income-tax Act, WHICHEVER IS MORE BENEFICIAL.
- Methods under DTAA: Exemption method (income taxed only in one country) vs Tax Credit method (income taxed in both, with the country of residence granting credit for tax paid in the source country) — most Indian DTAA's adopt the credit method for residents.
- Multilateral Instrument (MLI): India has adopted the OECD/G20 BEPS Multilateral Instrument, which modifies India's existing bilateral tax treaties (without a fresh round of bilateral renegotiation) to incorporate a Principal Purpose Test (PPT) — denying treaty benefits where obtaining that benefit was one of the principal purposes of an arrangement — and other minimum BEPS standards, largely already in force for major treaty partners.

Flow Chart / Process



Case Law — One-Liners

- Union of India vs Azadi Bachao Andolan (SC, 2003) — upheld the validity of 'treaty shopping' via the India-Mauritius DTAA (pre-GAAR/pre-LOB era) based on a valid Tax Residency Certificate, holding that Circular 789 (accepting a TRC as sufficient evidence of residence) was valid — since substantially curtailed by GAAR and the India-Mauritius Protocol (2016) introducing source-based taxation and a Limitation of Benefits clause, but the case remains a landmark on treaty interpretation and the limits of judicial anti-avoidance absent codified GAAR.

PYQ-Style Illustration

Q. A US-based company, with no office or employees in India, has annual online transactions of goods worth ₹5 crore with Indian residents through its website (exceeding the prescribed SEP threshold), and there is no applicable DTAA benefit available. Is it taxable in India?

Solution: Yes. Under the Significant Economic Presence provisions (Explanation 2A to Sec 9(1)(i)), transacting in goods with Indian residents exceeding the prescribed monetary threshold constitutes SEP, creating a 'business connection' in India — deeming the attributable income to accrue/arise in India — regardless of physical presence, agency, or where the contract is concluded. In the absence of DTAA relief, the company's India-attributable profits from such transactions would be taxable in India as per the Income-tax Act, subject to profit attribution rules for the deemed business connection.

Quick Revision Chart

Non-resident scope	India-received or India-accrued income only (Sec 5(2))
SEP threshold basis	Transaction value OR systematic user engagement
Sec 90 vs Sec 91	DTAA relief vs unilateral relief (no DTAA)
Rule	DTAA or Act — whichever more beneficial (Sec 90(2))
Key case	Azadi Bachao Andolan (SC, 2003) — treaty shopping

Quick Concept Notes

- Applies to 'International Transactions' between 'Associated Enterprises' (AEs, Sec 92A — defined via direct/indirect participation in management/control/capital, or specified deeming criteria like $\geq 26\%$ shareholding, common loans/guarantees) — income from such transactions must be computed having regard to the Arm's Length Price (ALP, Sec 92).
- Specified Domestic Transactions (SDTs, Sec 92BA) — certain domestic transactions between related parties (e.g. with entities availing profit-linked deductions) also require ALP compliance if the aggregate value exceeds ₹20 crore in a year.
- ALP Methods (Sec 92C + Rule 10B): Comparable Uncontrolled Price (CUP), Resale Price Method (RPM), Cost Plus Method (CPM), Profit Split Method (PSM), Transactional Net Margin Method (TNMM), and any 'Other Method' as may be prescribed — method selection based on the 'Most Appropriate Method' considering FAR (Functions, Assets, Risks) analysis.
- Documentation: Sec 92D — maintenance of prescribed documentation (Rule 10D); Sec 92E — mandatory Accountant's Report (Form 3CEB) for all international transactions/SDTs, to be filed by 31 October (extended due date entities). Master File (Form 3CEAA) and Country-by-Country Report (CbCR, Form 3CEAD) apply to large multinational groups exceeding prescribed consolidated revenue thresholds (per BEPS Action 13).
- Advance Pricing Agreement (APA, Sec 92CC-92CD): an agreement between the taxpayer and CBDT fixing the ALP (or the manner of determining ALP) for specified international transactions, valid for up to 5 consecutive years (with a 'roll-back' facility covering up to 4 preceding years) — provides certainty and materially reduces TP litigation.
- Secondary Adjustment (Sec 92CE): where a primary TP adjustment is made (and accepted/not contested, or arises from an APA/MAP/safe harbour), the excess money not repatriated to India within the prescribed period (90 days) is deemed an advance to the AE, attracting notional interest.

Flow Chart / Process



Case Law — One-Liners

- Vodafone India Services Pvt Ltd vs UOI (Bombay HC, 2014, since broadly affirmed in subsequent rulings) — held that a share issue by an Indian subsidiary to its foreign AE (a capital account transaction, not chargeable to tax) cannot be recharacterised as an 'international transaction' for TP purposes merely because shares were issued at less than fair value — TP provisions apply to income, not to capital transactions that don't give rise to income under the Act.

PYQ-Style Illustration

Q. An Indian subsidiary provides IT-enabled support services exclusively to its US parent company. Which TP method is generally most appropriate, and why?

Solution: For a low-risk, routine captive service provider (with limited functions and minimal risk-bearing, as is typical for a subsidiary providing support services exclusively to its parent), the Transactional Net Margin Method (TNMM) is generally the Most Appropriate Method. TNMM compares the net operating margin (e.g. operating profit/total cost) earned by the tested party against comparable uncontrolled companies performing similar functions, since it is more tolerant of minor product/functional differences than CUP, and does not require the granular resale-margin or gross-cost-markup data needed for RPM/CPM, making it practical for routine service transactions where reliable comparable company data (rather than comparable transaction data) is more readily available.

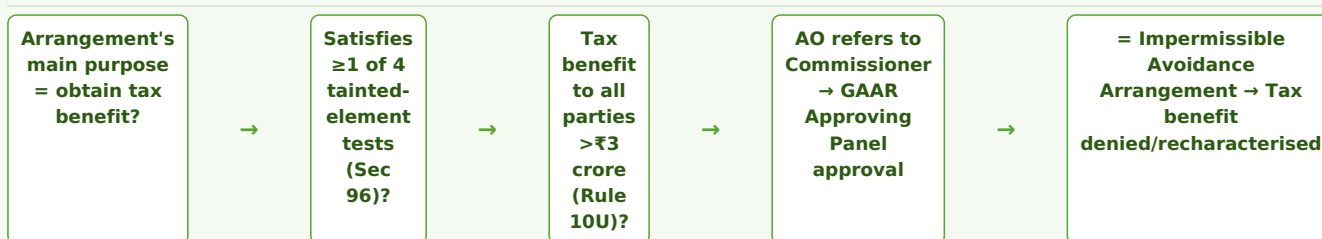
Quick Revision Chart

Governing sections	Sec 92-92F
SDT threshold	₹20 crore aggregate value
Mandatory report	Form 3CEB (Sec 92E) — Accountant's Report
APA validity	Up to 5 years + 4-year rollback
Secondary adjustment repatriation window	90 days (Sec 92CE)

Quick Concept Notes

- GAAR (Chapter X-A, Sec 95-102), in force since 1 April 2017 (AY 2018-19), empowers tax authorities to declare an arrangement an 'Impermissible Avoidance Arrangement' (IAA) and deny its tax benefit, where the MAIN PURPOSE (or one of the main purposes) of the arrangement is to obtain a tax benefit, AND it satisfies at least ONE of four additional 'tainted element' tests.
- Four tainted elements (any one suffices, Sec 96): (a) creates rights/obligations not normally created between parties dealing at arm's length, (b) results, directly/indirectly, in misuse or abuse of the provisions of the Act, (c) lacks commercial substance (wholly/partly), (d) is entered into/carried out by means, or in a manner, not normally employed for bona fide purposes.
- 'Lack of commercial substance' (Sec 97) is deemed where, among other indicators, the arrangement involves round-trip financing, an accommodating/tax-indifferent party, elements that offset/cancel each other, a transaction conducted through one or more persons disguising the value/location/source/ownership of funds, or lacks a significant effect on business risks/net cash flows apart from the tax benefit.
- Monetary threshold: GAAR provisions generally apply only where the tax benefit to ALL parties from the arrangement, in the relevant year, exceeds ₹3 crore (Rule 10U) — arrangements below this threshold are excluded, along with certain other carve-outs (e.g. income from transfer of investments made before 1 April 2017, in specified circumstances).
- Procedure: an Assessing Officer must refer a suspected IAA to the Principal Commissioner/Commissioner, who (if not satisfied with the assessee's objections) refers it to the GAAR Approving Panel — GAAR cannot be invoked unilaterally by an AO without this layered approval process, providing a procedural safeguard against arbitrary invocation.

Flow Chart / Process



Case Law — One-Liners

- McDowell & Co Ltd vs CTO (SC, 1985) — pioneered the judicial 'substance over form' doctrine against colourable tax-avoidance devices in India, later somewhat diluted by Azadi Bachao Andolan's endorsement of legitimate tax planning within the four corners of the law — the tension between these two lines of authority is the doctrinal backdrop against which codified GAAR (Chapter X-A) was subsequently enacted to provide statutory clarity.

PYQ-Style Illustration

Q. Distinguish between legitimate 'tax planning' and an 'Impermissible Avoidance Arrangement' under GAAR, with reference to the relevant tests.

Solution: Tax planning involves structuring affairs within the four corners of the law to legitimately minimise tax (e.g. choosing a tax-efficient but genuine business structure, as broadly endorsed in Azadi Bachao Andolan). An Impermissible Avoidance Arrangement (IAA) under Sec 96, by contrast, is one where obtaining a tax benefit is the main purpose (or one of the main purposes), AND the arrangement additionally exhibits at least one 'tainted element' — creating abnormal rights/obligations, misusing/abusing the Act's provisions, lacking commercial substance (e.g. round-trip financing, tax-indifferent accommodating parties), or being carried out through means not normally used for bona fide business purposes. The key differentiator is not merely tax motive (which even legitimate planning has) but the combination of tax-benefit motive WITH one of these specific abusive/artificial indicia, coupled with the arrangement exceeding the ₹3 crore aggregate tax-benefit threshold and surviving the layered Approving Panel scrutiny.

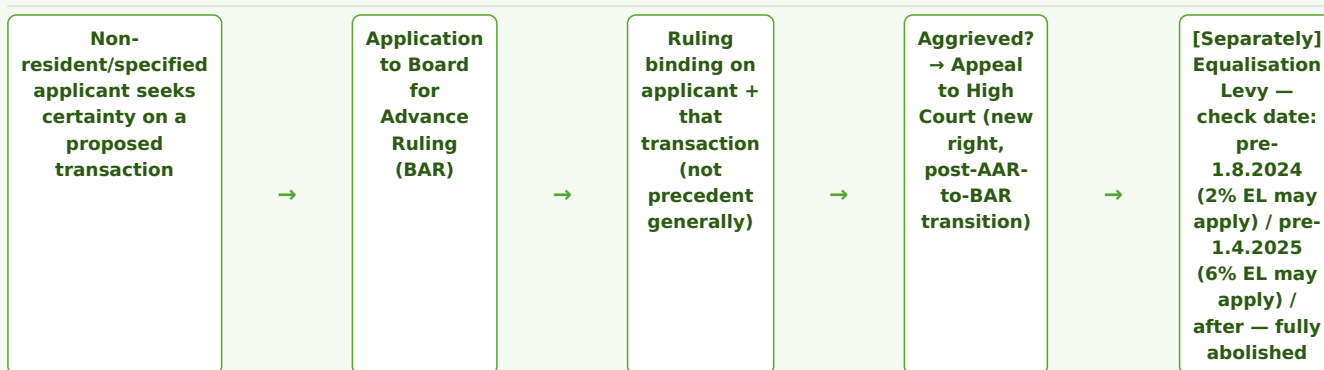
Quick Revision Chart

Governing chapter	Chapter X-A, Sec 95-102
In force since	1 April 2017 (AY 2018-19)
Monetary threshold	₹3 crore aggregate tax benefit (Rule 10U)
Approval needed	Principal Commissioner + GAAR Approving Panel
Landmark case	McDowell & Co (SC, 1985) — substance over form

Quick Concept Notes

- Advance Ruling mechanism (Chapter XIX-B, Sec 245N-245V) provides upfront certainty on the tax treatment of a proposed/completed transaction for eligible applicants (non-residents, specified residents undertaking transactions with non-residents, notified resident classes, and PSUs) BEFORE the transaction is taken up for assessment.
- Structural change: the erstwhile stand-alone Authority for Advance Rulings (AAR) was WOUND UP and its residual/pending functions merged into the Board for Advance Rulings (BAR) — with orders of the BAR now appealable to the High Court (a right of appeal that did NOT exist against the old AAR's rulings, which were directly writ-challengeable only) — a structural reform aimed at improving accountability and consistency.
- Equalisation Levy — NOW FULLY ABOLISHED: EL 2.0 (2% on consideration received by non-resident e-commerce operators from e-commerce supply/services) was withdrawn effective 1 August 2024 (Finance (No.2) Act, 2024); EL 1.0 (6% on payment to non-residents for online advertisement) was ABOLISHED effective 1 April 2025 (Finance Act 2025) — India's entire unilateral 'Google Tax' digital-levy framework introduced in 2016 is now defunct, as a diplomatic accommodation amid US reciprocal-tariff tensions.
- Consequential point: Sec 10(50) (exemption for income otherwise subject to equalisation levy, to avoid double taxation) correspondingly sunsets for AY 2026-27 onwards as the levy itself no longer applies — but EL assessments/appeals for periods UP TO 31 March 2025 continue to be governed by the pre-amendment Chapter VIII framework, keeping past EL disputes alive in CIT(A)/ITAT even though the levy is prospectively dead.

Flow Chart / Process



Amendment / RTP Watch — Dec 2026

CRITICAL Dec 2026 point: do NOT describe Equalisation Levy as a live, currently-applicable tax — both limbs (2% e-commerce and 6% online advertisement) stand abolished (from 1.8.2024 and 1.4.2025 respectively). Any theory question on EL for AY 2026-27 should be answered in terms of its abolition/history, not current applicable rates.

PYQ-Style Illustration

Q. An Indian company pays ₹10,00,000 to a US-based non-resident company for online advertisement services in November 2025. Is Equalisation Levy deductible?

Solution: No. The 6% Equalisation Levy on online advertisement payments to non-residents (EL 1.0, under Chapter VIII of the Finance Act, 2016) was ABOLISHED with effect from 1 April 2025 (Finance Act 2025). Since the payment in question is made in November 2025 — after the abolition date — no Equalisation Levy is deductible on this payment. (Had the payment been made before 1 April 2025, a 6% EL deduction and deposit would have been required, with the corresponding income exempt in the non-resident's hands under the now-sunsetting Sec 10(50).)

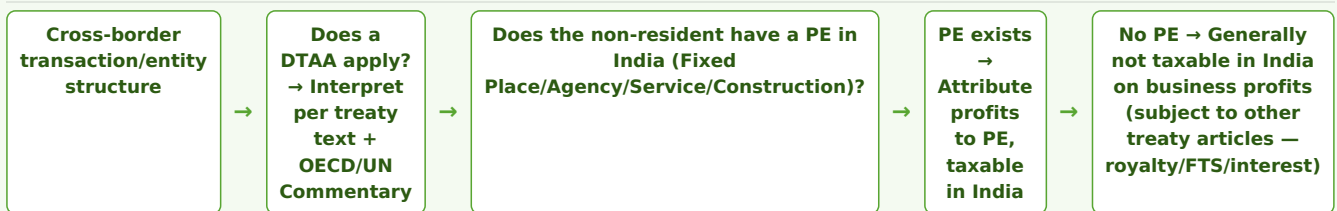
Quick Revision Chart

AAR successor body	Board for Advance Ruling (BAR)
New appeal right	BAR order → appealable to High Court
EL 2.0 (2%, e-commerce)	Abolished from 1 August 2024
EL 1.0 (6%, online ads)	Abolished from 1 April 2025
Current EL status	Fully defunct — verify before answering as 'live'

Quick Concept Notes

- Tax treaties are interpreted per international law principles (Vienna Convention on the Law of Treaties, 1969 — though India is not a signatory, its principles are widely applied by Indian courts) — ordinary meaning of treaty terms in context, in light of the treaty's object and purpose; OECD/UN Commentaries are used as persuasive (not binding) interpretive aids.
- Model Conventions: OECD Model Tax Convention (favours residence-based taxation, generally suited to developed/capital-exporting economies) vs UN Model Tax Convention (retains greater source-based taxing rights, more relevant to developing/capital-importing countries like India) — most Indian DTAA's are a hybrid, drawing on both models with country-specific modifications (e.g. wider Permanent Establishment definitions, 'make available' clauses for FTS).
- Permanent Establishment (PE) — the treaty concept determining a non-resident's taxable presence: Fixed Place PE (Art 5(1)), Construction/Installation PE (specified duration threshold, e.g. 6 months per many Indian treaties), Agency PE (dependent agent habitually concluding contracts / playing the principal role leading to conclusion of contracts, per the post-BEPS Action 7 formulation), and Service PE (specific to certain Indian treaties, e.g. India-US).
- BEPS (Base Erosion and Profit Shifting) — the OECD/G20 15-Action Plan addressing aggressive tax planning by MNEs; India has domestically implemented several BEPS minimum standards — CbCR/Master File (Action 13), PPT via the Multilateral Instrument (Action 6), and broadened Equalisation-Levy-era digital taxation attempts (Action 1, though since rolled back domestically pending global Pillar One consensus) — signalling India's alignment with global anti-BEPS consensus while retaining source-based taxing instincts (SEP, wide 'royalty'/FTS definitions).
- Pillar One (reallocation of taxing rights over large MNE profits to market/user jurisdictions) and Pillar Two (15% global minimum corporate tax via GloBE rules) represent the next generation of international tax reform under the OECD/G20 Inclusive Framework — India has been an active participant in these ongoing multilateral negotiations, though full implementation timelines continue to evolve; verify the latest status for Dec 2026.

Flow Chart / Process



Case Law — One-Liners

- CIT vs Formula One World Championship Ltd (SC, 2017) — the Buddh International Circuit was held to constitute a Fixed Place PE of the non-resident F1 entity in India, since the circuit was at its 'disposal' for the duration of the event, illustrating that even short-duration, event-specific physical control/access can satisfy the Fixed Place PE test under the India-UK DTAA.

PYQ-Style Illustration

Q. Explain briefly why the UN Model Tax Convention is generally considered more favourable to India's interests than the OECD Model, with one illustration.

Solution: The UN Model preserves greater SOURCE-based taxing rights for the country where income arises (typically the developing/capital-importing country), whereas the OECD Model leans toward RESIDENCE-based taxation (favouring capital-exporting/developed countries where multinational parent companies typically reside). For example, the UN Model provides a lower threshold/broader definition for constituting an Agency Permanent Establishment and a wider scope for taxing Fees for Technical Services at source, allowing India (as a net importer of technology and capital) to retain a greater share of taxing rights over income generated within its borders, rather than ceding primary taxing rights to the country of the non-resident's residence.

Quick Revision Chart

OECD Model bias	Residence-based taxation
UN Model bias	Source-based taxation (India's preference)
PE types	Fixed Place / Construction / Agency / Service
BEPS Action 13	CbCR + Master File
Key case	Formula One World Championship (SC, 2017) — Fixed Place PE

Final Countdown Checklist

- Re-read all 20 "Quick Revision Chart" boxes on the last day — treat this as your final 60-minute pass.
- Revise the "Amendment & Reform Watch" page separately — the new capital gains regime, tax slabs, and the abolition of Equalisation Levy are the most likely sources of fresh questions.
- Practice at least one numerical each from Capital Gains, PGBP, Computation of Total Income, and Transfer Pricing from your question bank.
- Memorise the appeal hierarchy, time limits, and the distinction between old and new tax regime deductions — a guaranteed scoring area.
- In International Taxation, prioritise DTAA relief mechanics, PE types, and GAAR's four tainted-element tests — small section, high marks-per-page.
- For theory answers, always cite the correct Section number and, where relevant, the case law one-liner — examiners award marks for both.

All the best for your December 2026 CMA Final attempt! — Team cmaknowledge.in