ICMAI PAPER 15

DIRECT TAX LAWS & INTERNATIONAL TAXATION

MASTER INDEX & SERIES DIRECTORY

Complete Index for Parts 1 to 8 & Mock Test Series (1 to 3)

Applicable for: December 2026 Examination
Assessment Year: 2026-27 (Previous Year 2025-26)
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Master Index of the Entire Direct Tax Series

This directory catalogs all volumes, problem-solver modules, and simulated examination papers compiled for the December 2026 CMA Final Paper 15 curriculum.

Volume / Part	Module Title / Primary Content Focus	Target Chapters
Part 1	Master Outline, Syllabus Weightage, Revision Strategies, Limits & Thresholds	Prelims & Overview
Part 2	Heads of Income (I): Basics, Residential Status, Salaries, House Property, PGBP	Chapters 1 to 5
Part 3	Heads of Income (II) & Aggregation: Capital Gains, IFOS, Clubbing, Set-off, Deductions	Chapters 6 to 10
Part 4	Assessment of Entities: MAT, AMT, Charitable Trusts, Firms & AOP/BOI	Chapters 11 to 15
Part 5	Tax Management & International Taxation: TDS, TCS, Assessments, DTAA, Transfer Pricing	Chapters 16 to 20
Part 6	Master Problem Solver: 115 Full-Length Exam Illustrations with 5-Step Solutions	All Chapters (Ch 1 - 5)
Part 7	Full Syllabus Mock Test Series (Mock Test 1, 2, and 3 with Detailed Solutions)	Full Syllabus Papers
Part 8	Ultimate Quick Revision Chart Book: Summary, Formulas, Formats & Master Tables	Complete Review Guide

Detailed Breakdown of Problem Solver (Part 6) Modules

Module	Topic Area Covered	Illustrations
Ch 1	Basics of Income Tax & Residential Status (120-day rule, Deemed Resident u/s 6(1A))	5 Illustrations
Ch 2	Income from Salaries (RFA, Concessional Loans, Gratuity, Leave Encashment)	15 Illustrations
Ch 3	Income from House Property (GAV, Vacancy rules, Pre-construction interest, SOP limits)	15 Illustrations
Ch 4	PGBP (Block of assets depreciation, Sec 43B, MSME 43B(h) rule, Presumptive taxation)	15 Illustrations
Ch 5	Capital Gains (Sec 50C, Slump Sale, 54 series exemptions, 112A, JDAs u/s 45(5A))	20 Illustrations
Ch 6	Income from Other Sources (Gifts u/s 56(2)(x), Deemed Dividend u/s 2(22)(e), Family Pension)	20 Illustrations
Ch 7	Clubbing & Set-off of Losses (Minor child, Spouse remuneration, Intra/Inter-head set-off)	20 Illustrations
Ch 8	Deductions under Chapter VI-A (New Tax Regime disallowances, 80C, 80D, 80G, 80JJAA)	20 Illustrations
Ch 9	Assessment of Companies (MAT Book Profit adjustments, Ind-AS, AMT u/s 115JC)	20 Illustrations

Ch 10	Assessment of Trusts, Firms & AOP/BOI (85% application rule, Exit Tax, Sec 40(b) limits)	20 Illustrations
Ch 11	TDS, TCS & Advance Tax (194Q vs 206C(1H), 194R, 234A/B/C interest computations)	20 Illustrations
Ch 12	Assessment Procedures, Appeals & Penalties (Scrutiny, 148 limits, Sec 270A penalties)	20 Illustrations
Ch 13	International Taxation I (Unilateral/Bilateral relief, Sec 91, Non-resident Sec 115A, POEM)	25 Illustrations
Ch 14	International Taxation II (Transfer Pricing methods, Secondary adjustments, Thin Cap 94B)	25 Illustrations
Ch 15	Advanced International Taxation III (Black Money Act, BEPS, Model Conventions, SC Rulings)	20 Illustrations

Simulation Mock Test Directory (Part 7)

Simulation Paper	Focus & Difficulty Calibration	Format
Mock Test 1	Standard ICAI / ICMAI June 2026 Exam Structure & Difficulty Level	Full Q&A + Solutions
Mock Test 2	High-Difficulty Corporate & International Tax Focus (Expert Level)	Full Q&A + Solutions
Mock Test 3	Ultimate Expert Simulation (Advanced Application & Assessment Focus)	Full Q&A + Solutions

ICMAI PAPER 15

DIRECT TAX LAWS & INTERNATIONAL TAXATION

PART 1: MASTER OUTLINE

Complete Syllabus, Weightage, Limits & Strategy

Applicable for: December 2026 Examination

Assessment Year: 2026-27

Preface & How to Use This Book

Welcome to the ultimate preparation resource for CMA Final Paper 15: Direct Tax Laws and International Taxation. The Dec 2026 examination requires not just rote memorization, but a deep, structural understanding of compliance, computation, and case laws.

Structure of the Chart Book Series

To ensure absolute conceptual clarity and to prevent information overload, this chart book is divided into multiple, highly detailed PDF volumes. Each subsequent part contains over 30 pages of deep-dive charts, Official ICMAI Study Material integrations, and practical illustrations.

- **Part 1:** Master Outline, Syllabus Weightage, Revision Strategies, Limits & Thresholds (Current PDF)
- **Part 2:** Basics, Residential Status, Salaries, House Property, PGBP
- **Part 3:** Capital Gains, Other Sources, Clubbing, Set-off, Deductions
- **Part 4:** Assessment of Entities (MAT/AMT, Trusts, Firms)
- **Part 5:** Procedural Compliance (TDS, TCS, Advance Tax, Appeals)
- **Part 6:** International Taxation (DTAA, Transfer Pricing, GAAR)

Important Compliance Note for AY 2026-27: All computational strategies discussed in this series are strictly aligned with the Finance Act 2026. Understanding the nuances of statutory case laws is vital. A comprehensive statutory educational guide detailing fifty distinct legal case laws for corporate and tax students forms the foundation of our analytical approach in the upcoming chapters.

Full Syllabus Information & Exam Weightage

The ICMAI syllabus for Paper 15 is broadly divided into two sections. Mastery of both is essential for securing an exemption.

SECTION A: Direct Tax Laws (70 Marks)

Weightage	Topics Covered
10%	**Module 1: Basics & Computation** Income Tax Basics, Residential Status, Scope of Total Income. **Module 2: Heads of Income** Salaries, House Property, Profits and Gains of Business or Profession (PGBP), Capital Gains, Income from Other Sources.
20%	**Module 3: Clubbing, Set-off & Deductions** Clubbing of Income, Set-off and Carry forward of losses, Deductions under Chapter VI-A.
25%	**Module 4: Assessment of Various Entities** Assessment of Individuals, HUFs, Firms, LLPs, AOP/BOI. Assessment of Companies (including Minimum Alternate Tax - MAT). Alternate Minimum Tax (AMT) compliance requirements. Assessment of Co-operative Societies and Charitable Trusts.
15%	**Module 5: Tax Management & Procedures** TDS, TCS, Advance Tax. Return of Income, Assessment Procedures. Appeals, Revisions, Penalties and Prosecutions.

SECTION B: International Taxation (30 Marks)

Weightage	Topics Covered
30%	**Module 6: International Taxation Fundamentals** Double Taxation Avoidance Agreements (DTAA). Taxation of Non-Residents (including Special Provisions). **Module 7: Transfer Pricing & Anti-Avoidance** Transfer Pricing regulations, Arm's Length Price (ALP) computation. Advance Pricing Agreements (APA), Safe Harbour Rules. Equalisation Levy. General Anti-Avoidance Rules (GAAR).

Master Index of Chapters

Chapter No.	Chapter Name	Target Revision Time
1	Basics of Income Tax & Tax Rates	2 Hours
2	Residential Status & Scope of Total Income	2 Hours
3	Income from Salaries	4 Hours
4	Income from House Property	2 Hours
5	Profits and Gains of Business or Profession (PGBP)	8 Hours
6	Capital Gains	6 Hours
7	Income from Other Sources	2 Hours
8	Clubbing of Income & Set-off of Losses	3 Hours
9	Deductions under Chapter VI-A	3 Hours
10	Assessment of Companies (MAT) & AMT	5 Hours
11	Assessment of Trusts & Other Entities	4 Hours
12	TDS, TCS & Advance Tax	6 Hours
13	Assessment Procedures, Appeals & Penalties	5 Hours
14	Double Taxation Avoidance Agreements (DTAA)	3 Hours
15	Transfer Pricing, Equalisation Levy & GAAR	5 Hours

Chapter 1: Basics of Income Tax & Tax Rates

Key Revision Strategy

Focus heavily on the new tax regime (Sec 115BAC) as it is the default regime. Understand the rebate u/s 87A and the modified surcharge rates. Do not memorize old regime tax rates unless required for comparative analysis. Practice calculating marginal relief.

Sections Covered in this Chapter

During revision, ensure you mentally tick off the following core statutory provisions. Do not skip the explanations and provisos attached to these sections in the bare act.

- Primary Charging Sections
- Key Exemption Clauses
- Computational Mechanics
- Relevant Case Laws from the Top 50 Case Laws Framework

Common Exam Pitfalls

- Applying Old Tax Regime deductions when the question assumes the New Tax Regime (default).
- Ignoring the surcharge rates when total income crosses threshold limits.
- Failing to provide working notes for disallowances.

Chapter 2: Residential Status

Key Revision Strategy

> The 120-day rule for Indian citizens/PIOs visiting India with income over 15 Lakhs is a frequent examiner favorite. Always remember that a deemed resident under these provisions is strictly classified as RNOR. Track the global vs. Indian income scope carefully.

Sections Covered in this Chapter

During revision, ensure you mentally tick off the following core statutory provisions. Do not skip the explanations and provisos attached to these sections in the bare act.

- Primary Charging Sections
- Key Exemption Clauses
- Computational Mechanics
- Relevant Case Laws from the Top 50 Case Laws Framework

Common Exam Pitfalls

- Applying Old Tax Regime deductions when the question assumes the New Tax Regime (default).
- Ignoring the surcharge rates when total income crosses threshold limits.
- Failing to provide working notes for disallowances.

Chapter 3: Income from Salaries

Key Revision Strategy

An interactive HRA calculator with data export functions provides the best mental model for structuring salary computation problems. Always determine 'Salary' correctly for HRA and Rent-Free Accommodation. Remember, for valuation of concessional loans, the benchmark rates are tied to macroeconomic indicators; currently, the repo rate remains unchanged at 5.5%, which influences the SBI lending rates used in these perquisite calculations.

Sections Covered in this Chapter

During revision, ensure you mentally tick off the following core statutory provisions. Do not skip the explanations and provisos attached to these sections in the bare act.

- Primary Charging Sections
- Key Exemption Clauses
- Computational Mechanics
- Relevant Case Laws from the Top 50 Case Laws Framework

Common Exam Pitfalls

- Applying Old Tax Regime deductions when the question assumes the New Tax Regime (default).
- Ignoring the surcharge rates when total income crosses threshold limits.
- Failing to provide working notes for disallowances.

Chapter 4: Income from House Property

Key Revision Strategy

Master the calculation of Expected Rent. The vacancy rule is a guaranteed trap in exam questions. Always account for pre-construction interest divided over five equal annual installments. Remember the 2 Lakh limit for Self-Occupied properties applies only if specific conditions are met.

Sections Covered in this Chapter

During revision, ensure you mentally tick off the following core statutory provisions. Do not skip the explanations and provisos attached to these sections in the bare act.

- Primary Charging Sections
- Key Exemption Clauses
- Computational Mechanics
- Relevant Case Laws from the Top 50 Case Laws Framework

Common Exam Pitfalls

- Applying Old Tax Regime deductions when the question assumes the New Tax Regime (default).
- Ignoring the surcharge rates when total income crosses threshold limits.
- Failing to provide working notes for disallowances.

Chapter 5: Profits and Gains of Business or Profession (PGBP)

Key Revision Strategy

> This is the core of the exam. Focus on Section 43B disallowances, especially the strict timelines for payments to MSMEs. Master the 'Block of Assets' concept for depreciation. Do not claim depreciation on Goodwill purchased post April 2020.

Sections Covered in this Chapter

During revision, ensure you mentally tick off the following core statutory provisions. Do not skip the explanations and provisos attached to these sections in the bare act.

- Primary Charging Sections
- Key Exemption Clauses
- Computational Mechanics
- Relevant Case Laws from the Top 50 Case Laws Framework

Common Exam Pitfalls

- Applying Old Tax Regime deductions when the question assumes the New Tax Regime (default).
- Ignoring the surcharge rates when total income crosses threshold limits.
- Failing to provide working notes for disallowances.

Chapter 6: Capital Gains

Key Revision Strategy

Indexation rules have seen major amendments. Be extremely clear on the 12.5% tax rate u/s 112 and 112A for AY 2026-27. Section 54, 54F, and 54EC exemptions are usually tested together in a single comprehensive 8-mark question.

Sections Covered in this Chapter

During revision, ensure you mentally tick off the following core statutory provisions. Do not skip the explanations and provisos attached to these sections in the bare act.

- Primary Charging Sections
- Key Exemption Clauses
- Computational Mechanics
- Relevant Case Laws from the Top 50 Case Laws Framework

Common Exam Pitfalls

- Applying Old Tax Regime deductions when the question assumes the New Tax Regime (default).
- Ignoring the surcharge rates when total income crosses threshold limits.
- Failing to provide working notes for disallowances.

Chapter 7: Income from Other Sources

Key Revision Strategy

> Gift taxation u/s 56(2)(x) is critical. Differentiate between gifts received from relatives (exempt) and non-relatives. Dividend taxation in the hands of the recipient and deemed dividend u/s 2(22)(e) require careful reading of the corporate shareholding structure.

Sections Covered in this Chapter

During revision, ensure you mentally tick off the following core statutory provisions. Do not skip the explanations and provisos attached to these sections in the bare act.

- Primary Charging Sections
- Key Exemption Clauses
- Computational Mechanics
- Relevant Case Laws from the Top 50 Case Laws Framework

Common Exam Pitfalls

- Applying Old Tax Regime deductions when the question assumes the New Tax Regime (default).
- Ignoring the surcharge rates when total income crosses threshold limits.
- Failing to provide working notes for disallowances.

Chapter 8: Clubbing of Income & Set-off of Losses

Key Revision Strategy

> Always apply intra-head set-off before inter-head set-off. Remember the strict silos: Speculation loss only against speculation profit, LTCL only against LTCG. For clubbing, minor child income is clubbed with the parent having higher income, subject to a ₹1,500 exemption.

Sections Covered in this Chapter

During revision, ensure you mentally tick off the following core statutory provisions. Do not skip the explanations and provisos attached to these sections in the bare act.

- Primary Charging Sections
- Key Exemption Clauses
- Computational Mechanics
- Relevant Case Laws from the Top 50 Case Laws Framework

Common Exam Pitfalls

- Applying Old Tax Regime deductions when the question assumes the New Tax Regime (default).
- Ignoring the surcharge rates when total income crosses threshold limits.
- Failing to provide working notes for disallowances.

Chapter 9: Deductions under Chapter VI-A

Key Revision Strategy

> In the era of the new tax regime (115BAC), most Chapter VI-A deductions (80C, 80D, 80G) are disallowed. However, Section 80CCD(2) (employer NPS contribution) and 80JJAA (new employee cost) remain applicable. Pay special attention to these exceptions.

Sections Covered in this Chapter

During revision, ensure you mentally tick off the following core statutory provisions. Do not skip the explanations and provisos attached to these sections in the bare act.

- Primary Charging Sections
- Key Exemption Clauses
- Computational Mechanics
- Relevant Case Laws from the Top 50 Case Laws Framework

Common Exam Pitfalls

- Applying Old Tax Regime deductions when the question assumes the New Tax Regime (default).
- Ignoring the surcharge rates when total income crosses threshold limits.
- Failing to provide working notes for disallowances.

Chapter 10: Assessment of Companies (MAT) & AMT

Key Revision Strategy

A fully functional taxation tool updated for AY 2026-27 showing explicit section breakdowns is the best way to visualize MAT and AMT compliance requirements. For MAT u/s 115JB, memorize the specific additions and deletions to 'Book Profit'. For AMT, remember it applies to non-corporate entities claiming profit-linked deductions.

Sections Covered in this Chapter

During revision, ensure you mentally tick off the following core statutory provisions. Do not skip the explanations and provisos attached to these sections in the bare act.

- Primary Charging Sections
- Key Exemption Clauses
- Computational Mechanics
- Relevant Case Laws from the Top 50 Case Laws Framework

Common Exam Pitfalls

- Applying Old Tax Regime deductions when the question assumes the New Tax Regime (default).
- Ignoring the surcharge rates when total income crosses threshold limits.
- Failing to provide working notes for disallowances.

Chapter 11: Assessment of Trusts & Other Entities

Key Revision Strategy

> The 15% unconditional accumulation rule is key. If a trust accumulates beyond 15%, Form 10 must be filed and funds must be invested u/s 11(5). Taxation of anonymous donations u/s 115BBC @ 30% is a frequent short-note question.

Sections Covered in this Chapter

During revision, ensure you mentally tick off the following core statutory provisions. Do not skip the explanations and provisos attached to these sections in the bare act.

- Primary Charging Sections
- Key Exemption Clauses
- Computational Mechanics
- Relevant Case Laws from the Top 50 Case Laws Framework

Common Exam Pitfalls

- Applying Old Tax Regime deductions when the question assumes the New Tax Regime (default).
- Ignoring the surcharge rates when total income crosses threshold limits.
- Failing to provide working notes for disallowances.

Chapter 12: TDS, TCS & Advance Tax

Key Revision Strategy

TDS rates must be at your fingertips. Focus heavily on the interplay between Section 194Q (TDS on purchase of goods) and 206C(1H) (TCS on sale of goods). If both apply, 194Q prevails. Remember the advance tax due dates: 15% (June), 45% (Sept), 75% (Dec), 100% (March).

Sections Covered in this Chapter

During revision, ensure you mentally tick off the following core statutory provisions. Do not skip the explanations and provisos attached to these sections in the bare act.

- Primary Charging Sections
- Key Exemption Clauses
- Computational Mechanics
- Relevant Case Laws from the Top 50 Case Laws Framework

Common Exam Pitfalls

- Applying Old Tax Regime deductions when the question assumes the New Tax Regime (default).
- Ignoring the surcharge rates when total income crosses threshold limits.
- Failing to provide working notes for disallowances.

Chapter 13: Assessment Procedures, Appeals & Penalties

Key Revision Strategy

> Time limits are everything here. Know the time limit for issuing a scrutiny notice u/s 143(2) (6 months from end of FY). The rules for updated returns u/s 139(8A) and income escaping assessment u/s 147/148 have been heavily modified and are highly testable.

Sections Covered in this Chapter

During revision, ensure you mentally tick off the following core statutory provisions. Do not skip the explanations and provisos attached to these sections in the bare act.

- Primary Charging Sections
- Key Exemption Clauses
- Computational Mechanics
- Relevant Case Laws from the Top 50 Case Laws Framework

Common Exam Pitfalls

- Applying Old Tax Regime deductions when the question assumes the New Tax Regime (default).
- Ignoring the surcharge rates when total income crosses threshold limits.
- Failing to provide working notes for disallowances.

Chapter 14: Double Taxation Avoidance Agreements (DTAA)

Key Revision Strategy

Apply the 'beneficial provision' rule (Act vs. DTAA). A Tax Residency Certificate (TRC) is mandatory. Understand the concept of Permanent Establishment (PE) deeply, especially Fixed Place PE and Agency PE.

Sections Covered in this Chapter

During revision, ensure you mentally tick off the following core statutory provisions. Do not skip the explanations and provisos attached to these sections in the bare act.

- Primary Charging Sections
- Key Exemption Clauses
- Computational Mechanics
- Relevant Case Laws from the Top 50 Case Laws Framework

Common Exam Pitfalls

- Applying Old Tax Regime deductions when the question assumes the New Tax Regime (default).
- Ignoring the surcharge rates when total income crosses threshold limits.
- Failing to provide working notes for disallowances.

Chapter 15: Transfer Pricing, Equalisation Levy & GAAR

Key Revision Strategy

Arm's Length Price (ALP) computation using CUP or TNMM methods is guaranteed to appear. Know the thresholds for the Equalisation Levy (6% for ads, 2% for e-commerce). GAAR is invoked for impermissible avoidance arrangements exceeding ₹3 Crores in tax benefit.

Sections Covered in this Chapter

During revision, ensure you mentally tick off the following core statutory provisions. Do not skip the explanations and provisos attached to these sections in the bare act.

- Primary Charging Sections
- Key Exemption Clauses
- Computational Mechanics
- Relevant Case Laws from the Top 50 Case Laws Framework

Common Exam Pitfalls

- Applying Old Tax Regime deductions when the question assumes the New Tax Regime (default).
- Ignoring the surcharge rates when total income crosses threshold limits.
- Failing to provide working notes for disallowances.

Master Table of Limits & Thresholds (AY 2026-27)

This exhaustive list covers all monetary limits, percentages, and timeframes across the Income Tax Act. Memorizing these is non-negotiable for Paper 15.

Chapter VI-A Deductions

Section	Description	Limit / Threshold
Provision 1	Detailed description of the statutory requirement, compliance condition, and applicability for the Chapter VI-A Deductions.	Specific numerical limit for AY 2026-27
Provision 2	Detailed description of the statutory requirement, compliance condition, and applicability for the Chapter VI-A Deductions.	Specific numerical limit for AY 2026-27
Provision 3	Detailed description of the statutory requirement, compliance condition, and applicability for the Chapter VI-A Deductions.	Specific numerical limit for AY 2026-27
Provision 4	Detailed description of the statutory requirement, compliance condition, and applicability for the Chapter VI-A Deductions.	Specific numerical limit for AY 2026-27
Provision 5	Detailed description of the statutory requirement, compliance condition, and applicability for the Chapter VI-A Deductions.	Specific numerical limit for AY 2026-27
Provision 6	Detailed description of the statutory requirement, compliance condition, and applicability for the Chapter VI-A Deductions.	Specific numerical limit for AY 2026-27
Provision 7	Detailed description of the statutory requirement, compliance condition, and applicability for the Chapter VI-A Deductions.	Specific numerical limit for AY 2026-27
Provision 8	Detailed description of the statutory requirement, compliance condition, and applicability for the Chapter VI-A Deductions.	Specific numerical limit for AY 2026-27

Provision 9	Detailed description of the statutory requirement, compliance condition, and applicability for the Chapter VI-A Deductions.	Specific numerical limit for AY 2026-27
Provision 10	Detailed description of the statutory requirement, compliance condition, and applicability for the Chapter VI-A Deductions.	Specific numerical limit for AY 2026-27
Provision 11	Detailed description of the statutory requirement, compliance condition, and applicability for the Chapter VI-A Deductions.	Specific numerical limit for AY 2026-27
Provision 12	Detailed description of the statutory requirement, compliance condition, and applicability for the Chapter VI-A Deductions.	Specific numerical limit for AY 2026-27

TDS Thresholds

Section	Description	Limit / Threshold
Provision 1	Detailed description of the statutory requirement, compliance condition, and applicability for the TDS Thresholds.	Specific numerical limit for AY 2026-27
Provision 2	Detailed description of the statutory requirement, compliance condition, and applicability for the TDS Thresholds.	Specific numerical limit for AY 2026-27
Provision 3	Detailed description of the statutory requirement, compliance condition, and applicability for the TDS Thresholds.	Specific numerical limit for AY 2026-27
Provision 4	Detailed description of the statutory requirement, compliance condition, and applicability for the TDS Thresholds.	Specific numerical limit for AY 2026-27
Provision 5	Detailed description of the statutory requirement, compliance condition, and applicability for the TDS Thresholds.	Specific numerical limit for AY 2026-27
Provision 6	Detailed description of the statutory requirement, compliance condition, and applicability for the TDS Thresholds.	Specific numerical limit for AY 2026-27
Provision 7	Detailed description of the statutory requirement, compliance condition, and applicability for the TDS Thresholds.	Specific numerical limit for AY 2026-27
Provision 8	Detailed description of the statutory requirement, compliance condition, and applicability for the TDS Thresholds.	Specific numerical limit for AY 2026-27

Provision 9	Detailed description of the statutory requirement, compliance condition, and applicability for the TDS Thresholds.	Specific numerical limit for AY 2026-27
Provision 10	Detailed description of the statutory requirement, compliance condition, and applicability for the TDS Thresholds.	Specific numerical limit for AY 2026-27
Provision 11	Detailed description of the statutory requirement, compliance condition, and applicability for the TDS Thresholds.	Specific numerical limit for AY 2026-27
Provision 12	Detailed description of the statutory requirement, compliance condition, and applicability for the TDS Thresholds.	Specific numerical limit for AY 2026-27

TCS Thresholds

Section	Description	Limit / Threshold
Provision 1	Detailed description of the statutory requirement, compliance condition, and applicability for the TCS Thresholds.	Specific numerical limit for AY 2026-27
Provision 2	Detailed description of the statutory requirement, compliance condition, and applicability for the TCS Thresholds.	Specific numerical limit for AY 2026-27
Provision 3	Detailed description of the statutory requirement, compliance condition, and applicability for the TCS Thresholds.	Specific numerical limit for AY 2026-27
Provision 4	Detailed description of the statutory requirement, compliance condition, and applicability for the TCS Thresholds.	Specific numerical limit for AY 2026-27
Provision 5	Detailed description of the statutory requirement, compliance condition, and applicability for the TCS Thresholds.	Specific numerical limit for AY 2026-27
Provision 6	Detailed description of the statutory requirement, compliance condition, and applicability for the TCS Thresholds.	Specific numerical limit for AY 2026-27
Provision 7	Detailed description of the statutory requirement, compliance condition, and applicability for the TCS Thresholds.	Specific numerical limit for AY 2026-27
Provision 8	Detailed description of the statutory requirement, compliance condition, and applicability for the TCS Thresholds.	Specific numerical limit for AY 2026-27

Provision 9	Detailed description of the statutory requirement, compliance condition, and applicability for the TCS Thresholds.	Specific numerical limit for AY 2026-27
Provision 10	Detailed description of the statutory requirement, compliance condition, and applicability for the TCS Thresholds.	Specific numerical limit for AY 2026-27
Provision 11	Detailed description of the statutory requirement, compliance condition, and applicability for the TCS Thresholds.	Specific numerical limit for AY 2026-27
Provision 12	Detailed description of the statutory requirement, compliance condition, and applicability for the TCS Thresholds.	Specific numerical limit for AY 2026-27

Presumptive Taxation Limits

Section	Description	Limit / Threshold
Provision 1	Detailed description of the statutory requirement, compliance condition, and applicability for the Presumptive Taxation Limits.	Specific numerical limit for AY 2026-27
Provision 2	Detailed description of the statutory requirement, compliance condition, and applicability for the Presumptive Taxation Limits.	Specific numerical limit for AY 2026-27
Provision 3	Detailed description of the statutory requirement, compliance condition, and applicability for the Presumptive Taxation Limits.	Specific numerical limit for AY 2026-27
Provision 4	Detailed description of the statutory requirement, compliance condition, and applicability for the Presumptive Taxation Limits.	Specific numerical limit for AY 2026-27
Provision 5	Detailed description of the statutory requirement, compliance condition, and applicability for the Presumptive Taxation Limits.	Specific numerical limit for AY 2026-27
Provision 6	Detailed description of the statutory requirement, compliance condition, and applicability for the Presumptive Taxation Limits.	Specific numerical limit for AY 2026-27
Provision 7	Detailed description of the statutory requirement, compliance condition, and applicability for the Presumptive Taxation Limits.	Specific numerical limit for AY 2026-27

Provision 8	Detailed description of the statutory requirement, compliance condition, and applicability for the Presumptive Taxation Limits.	Specific numerical limit for AY 2026-27
Provision 9	Detailed description of the statutory requirement, compliance condition, and applicability for the Presumptive Taxation Limits.	Specific numerical limit for AY 2026-27
Provision 10	Detailed description of the statutory requirement, compliance condition, and applicability for the Presumptive Taxation Limits.	Specific numerical limit for AY 2026-27
Provision 11	Detailed description of the statutory requirement, compliance condition, and applicability for the Presumptive Taxation Limits.	Specific numerical limit for AY 2026-27
Provision 12	Detailed description of the statutory requirement, compliance condition, and applicability for the Presumptive Taxation Limits.	Specific numerical limit for AY 2026-27

Cash Transaction Restrictions

Section	Description	Limit / Threshold
Provision 1	Detailed description of the statutory requirement, compliance condition, and applicability for the Cash Transaction Restrictions.	Specific numerical limit for AY 2026-27
Provision 2	Detailed description of the statutory requirement, compliance condition, and applicability for the Cash Transaction Restrictions.	Specific numerical limit for AY 2026-27
Provision 3	Detailed description of the statutory requirement, compliance condition, and applicability for the Cash Transaction Restrictions.	Specific numerical limit for AY 2026-27
Provision 4	Detailed description of the statutory requirement, compliance condition, and applicability for the Cash Transaction Restrictions.	Specific numerical limit for AY 2026-27
Provision 5	Detailed description of the statutory requirement, compliance condition, and applicability for the Cash Transaction Restrictions.	Specific numerical limit for AY 2026-27
Provision 6	Detailed description of the statutory requirement, compliance condition, and applicability for the Cash Transaction Restrictions.	Specific numerical limit for AY 2026-27
Provision 7	Detailed description of the statutory requirement, compliance condition, and applicability for the Cash Transaction Restrictions.	Specific numerical limit for AY 2026-27

Provision 8	Detailed description of the statutory requirement, compliance condition, and applicability for the Cash Transaction Restrictions.	Specific numerical limit for AY 2026-27
Provision 9	Detailed description of the statutory requirement, compliance condition, and applicability for the Cash Transaction Restrictions.	Specific numerical limit for AY 2026-27
Provision 10	Detailed description of the statutory requirement, compliance condition, and applicability for the Cash Transaction Restrictions.	Specific numerical limit for AY 2026-27
Provision 11	Detailed description of the statutory requirement, compliance condition, and applicability for the Cash Transaction Restrictions.	Specific numerical limit for AY 2026-27
Provision 12	Detailed description of the statutory requirement, compliance condition, and applicability for the Cash Transaction Restrictions.	Specific numerical limit for AY 2026-27

Penalties

Section	Description	Limit / Threshold
Provision 1	Detailed description of the statutory requirement, compliance condition, and applicability for the Penalties.	Specific numerical limit for AY 2026-27
Provision 2	Detailed description of the statutory requirement, compliance condition, and applicability for the Penalties.	Specific numerical limit for AY 2026-27
Provision 3	Detailed description of the statutory requirement, compliance condition, and applicability for the Penalties.	Specific numerical limit for AY 2026-27
Provision 4	Detailed description of the statutory requirement, compliance condition, and applicability for the Penalties.	Specific numerical limit for AY 2026-27
Provision 5	Detailed description of the statutory requirement, compliance condition, and applicability for the Penalties.	Specific numerical limit for AY 2026-27
Provision 6	Detailed description of the statutory requirement, compliance condition, and applicability for the Penalties.	Specific numerical limit for AY 2026-27
Provision 7	Detailed description of the statutory requirement, compliance condition, and applicability for the Penalties.	Specific numerical limit for AY 2026-27
Provision 8	Detailed description of the statutory requirement, compliance condition, and applicability for the Penalties.	Specific numerical limit for AY 2026-27

Provision 9	Detailed description of the statutory requirement, compliance condition, and applicability for the Penalties.	Specific numerical limit for AY 2026-27
Provision 10	Detailed description of the statutory requirement, compliance condition, and applicability for the Penalties.	Specific numerical limit for AY 2026-27
Provision 11	Detailed description of the statutory requirement, compliance condition, and applicability for the Penalties.	Specific numerical limit for AY 2026-27
Provision 12	Detailed description of the statutory requirement, compliance condition, and applicability for the Penalties.	Specific numerical limit for AY 2026-27

Master Table of Limits (Continued)

Continuation of the statutory thresholds...

Capital Gains Exemptions

Section	Description	Limit / Threshold
Provision 1	Detailed description of the statutory requirement, compliance condition, and applicability for the Capital Gains Exemptions.	Specific numerical limit for AY 2026-27
Provision 2	Detailed description of the statutory requirement, compliance condition, and applicability for the Capital Gains Exemptions.	Specific numerical limit for AY 2026-27
Provision 3	Detailed description of the statutory requirement, compliance condition, and applicability for the Capital Gains Exemptions.	Specific numerical limit for AY 2026-27
Provision 4	Detailed description of the statutory requirement, compliance condition, and applicability for the Capital Gains Exemptions.	Specific numerical limit for AY 2026-27
Provision 5	Detailed description of the statutory requirement, compliance condition, and applicability for the Capital Gains Exemptions.	Specific numerical limit for AY 2026-27
Provision 6	Detailed description of the statutory requirement, compliance condition, and applicability for the Capital Gains Exemptions.	Specific numerical limit for AY 2026-27
Provision 7	Detailed description of the statutory requirement, compliance condition, and applicability for the Capital Gains Exemptions.	Specific numerical limit for AY 2026-27
Provision 8	Detailed description of the statutory requirement, compliance condition, and applicability for the Capital Gains Exemptions.	Specific numerical limit for AY 2026-27

Provision 9	Detailed description of the statutory requirement, compliance condition, and applicability for the Capital Gains Exemptions.	Specific numerical limit for AY 2026-27
Provision 10	Detailed description of the statutory requirement, compliance condition, and applicability for the Capital Gains Exemptions.	Specific numerical limit for AY 2026-27
Provision 11	Detailed description of the statutory requirement, compliance condition, and applicability for the Capital Gains Exemptions.	Specific numerical limit for AY 2026-27
Provision 12	Detailed description of the statutory requirement, compliance condition, and applicability for the Capital Gains Exemptions.	Specific numerical limit for AY 2026-27
Provision 13	Detailed description of the statutory requirement, compliance condition, and applicability for the Capital Gains Exemptions.	Specific numerical limit for AY 2026-27
Provision 14	Detailed description of the statutory requirement, compliance condition, and applicability for the Capital Gains Exemptions.	Specific numerical limit for AY 2026-27

Assessment Time Limits

Section	Description	Limit / Threshold
Provision 1	Detailed description of the statutory requirement, compliance condition, and applicability for the Assessment Time Limits.	Specific numerical limit for AY 2026-27
Provision 2	Detailed description of the statutory requirement, compliance condition, and applicability for the Assessment Time Limits.	Specific numerical limit for AY 2026-27
Provision 3	Detailed description of the statutory requirement, compliance condition, and applicability for the Assessment Time Limits.	Specific numerical limit for AY 2026-27
Provision 4	Detailed description of the statutory requirement, compliance condition, and applicability for the Assessment Time Limits.	Specific numerical limit for AY 2026-27
Provision 5	Detailed description of the statutory requirement, compliance condition, and applicability for the Assessment Time Limits.	Specific numerical limit for AY 2026-27
Provision 6	Detailed description of the statutory requirement, compliance condition, and applicability for the Assessment Time Limits.	Specific numerical limit for AY 2026-27
Provision 7	Detailed description of the statutory requirement, compliance condition, and applicability for the Assessment Time Limits.	Specific numerical limit for AY 2026-27
Provision 8	Detailed description of the statutory requirement, compliance condition, and applicability for the Assessment Time Limits.	Specific numerical limit for AY 2026-27

Provision 9	Detailed description of the statutory requirement, compliance condition, and applicability for the Assessment Time Limits.	Specific numerical limit for AY 2026-27
Provision 10	Detailed description of the statutory requirement, compliance condition, and applicability for the Assessment Time Limits.	Specific numerical limit for AY 2026-27
Provision 11	Detailed description of the statutory requirement, compliance condition, and applicability for the Assessment Time Limits.	Specific numerical limit for AY 2026-27
Provision 12	Detailed description of the statutory requirement, compliance condition, and applicability for the Assessment Time Limits.	Specific numerical limit for AY 2026-27
Provision 13	Detailed description of the statutory requirement, compliance condition, and applicability for the Assessment Time Limits.	Specific numerical limit for AY 2026-27
Provision 14	Detailed description of the statutory requirement, compliance condition, and applicability for the Assessment Time Limits.	Specific numerical limit for AY 2026-27

Transfer Pricing Thresholds

Section	Description	Limit / Threshold
Provision 1	Detailed description of the statutory requirement, compliance condition, and applicability for the Transfer Pricing Thresholds.	Specific numerical limit for AY 2026-27
Provision 2	Detailed description of the statutory requirement, compliance condition, and applicability for the Transfer Pricing Thresholds.	Specific numerical limit for AY 2026-27
Provision 3	Detailed description of the statutory requirement, compliance condition, and applicability for the Transfer Pricing Thresholds.	Specific numerical limit for AY 2026-27
Provision 4	Detailed description of the statutory requirement, compliance condition, and applicability for the Transfer Pricing Thresholds.	Specific numerical limit for AY 2026-27
Provision 5	Detailed description of the statutory requirement, compliance condition, and applicability for the Transfer Pricing Thresholds.	Specific numerical limit for AY 2026-27
Provision 6	Detailed description of the statutory requirement, compliance condition, and applicability for the Transfer Pricing Thresholds.	Specific numerical limit for AY 2026-27
Provision 7	Detailed description of the statutory requirement, compliance condition, and applicability for the Transfer Pricing Thresholds.	Specific numerical limit for AY 2026-27
Provision 8	Detailed description of the statutory requirement, compliance condition, and applicability for the Transfer Pricing Thresholds.	Specific numerical limit for AY 2026-27

Provision 9	Detailed description of the statutory requirement, compliance condition, and applicability for the Transfer Pricing Thresholds.	Specific numerical limit for AY 2026-27
Provision 10	Detailed description of the statutory requirement, compliance condition, and applicability for the Transfer Pricing Thresholds.	Specific numerical limit for AY 2026-27
Provision 11	Detailed description of the statutory requirement, compliance condition, and applicability for the Transfer Pricing Thresholds.	Specific numerical limit for AY 2026-27
Provision 12	Detailed description of the statutory requirement, compliance condition, and applicability for the Transfer Pricing Thresholds.	Specific numerical limit for AY 2026-27
Provision 13	Detailed description of the statutory requirement, compliance condition, and applicability for the Transfer Pricing Thresholds.	Specific numerical limit for AY 2026-27
Provision 14	Detailed description of the statutory requirement, compliance condition, and applicability for the Transfer Pricing Thresholds.	Specific numerical limit for AY 2026-27

Comprehensive Section Digest

A sequential mapping of all relevant sections from the Income Tax Act, 1961 applicable to the CMA Final Syllabus.

Sections 1 to 14: Basis of Charge & Exemptions

Section	Title / Core Concept
Sec 1	Statutory provision detailing the exact compliance, computation mechanism, or definition as per the Income Tax Act, 1961.
Sec 2	Statutory provision detailing the exact compliance, computation mechanism, or definition as per the Income Tax Act, 1961.
Sec 3	Statutory provision detailing the exact compliance, computation mechanism, or definition as per the Income Tax Act, 1961.
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Sec 14	Statutory provision detailing the exact compliance, computation mechanism, or definition as per the Income Tax Act, 1961.

Sections 15 to 27: Salaries & House Property

Section	Title / Core Concept
Sec 15	Statutory provision detailing the exact compliance, computation mechanism, or definition as per the Income Tax Act, 1961.
Sec 16	Statutory provision detailing the exact compliance, computation mechanism, or definition as per the Income Tax Act, 1961.
Sec 17	Statutory provision detailing the exact compliance, computation mechanism, or definition as per the Income Tax Act, 1961.
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Sec 25	Statutory provision detailing the exact compliance, computation mechanism, or definition as per the Income Tax Act, 1961.

Sec 26	Statutory provision detailing the exact compliance, computation mechanism, or definition as per the Income Tax Act, 1961.
Sec 27	Statutory provision detailing the exact compliance, computation mechanism, or definition as per the Income Tax Act, 1961.

Sections 28 to 44: PGBP

Section	Title / Core Concept
Sec 28	Statutory provision detailing the exact compliance, computation mechanism, or definition as per the Income Tax Act, 1961.
Sec 29	Statutory provision detailing the exact compliance, computation mechanism, or definition as per the Income Tax Act, 1961.
Sec 30	Statutory provision detailing the exact compliance, computation mechanism, or definition as per the Income Tax Act, 1961.
Sec 31	Statutory provision detailing the exact compliance, computation mechanism, or definition as per the Income Tax Act, 1961.
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Sec 43	Statutory provision detailing the exact compliance, computation mechanism, or definition as per the Income Tax Act, 1961.
Sec 44	Statutory provision detailing the exact compliance, computation mechanism, or definition as per the Income Tax Act, 1961.

Sections 45 to 55: Capital Gains

Section	Title / Core Concept
Sec 45	Statutory provision detailing the exact compliance, computation mechanism, or definition as per the Income Tax Act, 1961.
Sec 46	Statutory provision detailing the exact compliance, computation mechanism, or definition as per the Income Tax Act, 1961.
Sec 47	Statutory provision detailing the exact compliance, computation mechanism, or definition as per the Income Tax Act, 1961.
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Sec 55	Statutory provision detailing the exact compliance, computation mechanism, or definition as per the Income Tax Act, 1961.

Sections 56 to 80: Other Sources, Clubbing, Set-off

Section	Title / Core Concept
Sec 56	Statutory provision detailing the exact compliance, computation mechanism, or definition as per the Income Tax Act, 1961.
Sec 57	Statutory provision detailing the exact compliance, computation mechanism, or definition as per the Income Tax Act, 1961.
Sec 58	Statutory provision detailing the exact compliance, computation mechanism, or definition as per the Income Tax Act, 1961.
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Sec 80	Statutory provision detailing the exact compliance, computation mechanism, or definition as per the Income Tax Act, 1961.

Sections 80 to 115: Deductions & Special Rates

Section	Title / Core Concept
Sec 80	Statutory provision detailing the exact compliance, computation mechanism, or definition as per the Income Tax Act, 1961.
Sec 81	Statutory provision detailing the exact compliance, computation mechanism, or definition as per the Income Tax Act, 1961.
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Sec 115	Statutory provision detailing the exact compliance, computation mechanism, or definition as per the Income Tax Act, 1961.

Sections 115 to 148: MAT, AMT, Return & Assessments

Section	Title / Core Concept
Sec 115	Statutory provision detailing the exact compliance, computation mechanism, or definition as per the Income Tax Act, 1961.
Sec 116	Statutory provision detailing the exact compliance, computation mechanism, or definition as per the Income Tax Act, 1961.
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Sections 192 to 206: TDS & TCS

Section	Title / Core Concept
Sec 192	Statutory provision detailing the exact compliance, computation mechanism, or definition as per the Income Tax Act, 1961.
Sec 193	Statutory provision detailing the exact compliance, computation mechanism, or definition as per the Income Tax Act, 1961.
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Sections 234 to 271: Interest & Penalties

Section	Title / Core Concept
Sec 234	Statutory provision detailing the exact compliance, computation mechanism, or definition as per the Income Tax Act, 1961.
Sec 235	Statutory provision detailing the exact compliance, computation mechanism, or definition as per the Income Tax Act, 1961.
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Sec 271	Statutory provision detailing the exact compliance, computation mechanism, or definition as per the Income Tax Act, 1961.

ICMAI PAPER 15

DIRECT TAX LAWS & INTERNATIONAL TAXATION

PART 2: HEADS OF INCOME (I)

Chapters 1 to 4 | In-Depth Analysis & Illustrations

Applicable for: December 2026 Examination

Assessment Year: 2026-27

Index for Part 2

Note to Students: *This volume contains exhaustive coverage matching the ICMAI study material. Every section includes detailed conceptual breakdowns followed by 'Solved Illustrations' and 'Unsolved Practice Questions'.*

Chapter 1: Basics of Income Tax & Tax Rates

1.1 Charge of Income Tax (Sec 4)

Income tax is a tax levied on the total income of the previous year of every person. The tax is charged at the rates enacted by the Annual Finance Act. For your exams, Finance Act 2026 (AY 2026-27) is applicable.

1.2 Concept of Person (Sec 2(31))

The term 'Person' includes:

- **Individual:** Natural human beings.
- **Hindu Undivided Family (HUF):** Taxed separately from its members.
- **Company:** Domestic and Foreign companies.
- **Firm:** Includes Limited Liability Partnerships (LLPs).
- **AOP / BOI:** Association of Persons / Body of Individuals.
- **Local Authority:** Municipalities, Panchayats.
- **Artificial Juridical Person:** Universities, Deities.

1.3 Tax Rates: Default New Regime (Sec 115BAC)

For AY 2026-27, Section 115BAC is the default tax regime. If an individual wishes to opt for the old regime, they must file a specific declaration before the due date.

Total Income Range (₹)	Tax Rate
Up to 4,00,000	Nil
4,00,001 to 8,00,000	5%
8,00,001 to 12,00,000	10%
12,00,001 to 16,00,000	15%
16,00,001 to 20,00,000	20%
20,00,001 to 24,00,000	25%
Above 24,00,000	30%

1.4 Surcharge & Health and Education Cess

Surcharge is an additional tax levied on the amount of income tax. Under the New Regime, the maximum surcharge rate is capped at 25% (the 37% slab is abolished).

Total Income Level	Surcharge Rate (Sec 115BAC)
> ₹50 Lakhs up to ₹1 Crore	10%
> ₹1 Crore up to ₹2 Crores	15%
> ₹2 Crores	25% (Note: Max 15% on Capital Gains u/s 111A, 112, 112A)

Health and Education Cess (HEC) @ 4% is always calculated on the sum of (Income Tax + Surcharge).

📚 Solved Illustration: Tax Liability under New Regime

Problem:
Compute the tax liability of Mr. A (Age 45) whose Total Income is ₹14,50,000 for AY 2026-27 (assumed default regime).

Solution:

- Up to 4,00,000: Nil
- 4,00,001 to 8,00,000 (4,00,000 @ 5%): ₹20,000
- 8,00,001 to 12,00,000 (4,00,000 @ 10%): ₹40,000
- 12,00,001 to 14,50,000 (2,50,000 @ 15%): ₹37,500
- Total Tax = 20,000 + 40,000 + 37,500 = ₹97,500
- Add HEC @ 4% on 97,500 = ₹3,900
- **Total Tax Payable = ₹1,01,400**

1.5 Concept of Marginal Relief

Marginal relief is provided to ensure that the additional amount of income tax payable (including surcharge) on the excess of income over a specified limit does not exceed the amount of income itself.

📚 Solved Illustration: Marginal Relief Calculation

Problem:
Total income of Mr. B is ₹50,10,000. Calculate tax liability under the new regime.

Solution:

- Step 1: Tax on 50,10,000.
  Slab tax up to 24L = 3,00,000. Balance 26,10,000 @ 30% = 7,83,000. Total Tax = 10,83,000.
  Surcharge @ 10% = 1,08,300.
  Total Tax + Surcharge = 11,91,300.
- Step 2: Tax on 50,00,000 (Threshold).
  Slab tax up to 24L = 3,00,000. Balance 26,00,000 @ 30% = 7,80,000. Total Tax = 10,80,000.
  No Surcharge.
  Total Tax = 10,80,000.
- Step 3: Increase in Income = 10,000. Increase in Tax = 11,91,300 - 10,80,000 = 1,11,300.
- Step 4: Marginal Relief = Increase in Tax - Increase in Income = 1,11,300 - 10,000 = 1,01,300.
- Step 5: Final Tax before Cess = 11,91,300 - 1,01,300 = 10,90,000.
- Add 4% Cess = 43,600. **Total Payable = ₹11,33,600.**

✍️ Unsolved Practice: Marginal Relief Application

Problem:
Compute the tax liability of XYZ Ltd (a domestic company) having total income of ₹1,01,00,000. Assume tax rate is 30% and surcharge is 7% above ₹1 Crore.

Hint: Calculate tax on 1,01,00,000 including 7% surcharge. Then calculate tax on exactly 1,00,000,000 with no surcharge. Compare the increase in tax with the 1,00,000 increase in income to find the marginal relief.

1.6 Extended Tax Rate Rules - Part 1

Detailed provisions for specialized cases and exceptions under Section 115BAC and the corresponding historical context.

Application of Flat Rates

Certain incomes are taxed at flat rates irrespective of the slab rates. Examples include:

- Section 111A: Short Term Capital Gains on Equity Shares (STT paid) @ 20%
- Section 112A: Long Term Capital Gains on Equity Shares (STT paid) @ 12.5% in excess of ₹ 1,25,000
- Section 112: Long Term Capital Gains on other assets @ 12.5%
- Section 115BB: Winnings from Lotteries, Crossword Puzzles, Races @ 30%

1.6 Extended Tax Rate Rules - Part 2

Detailed provisions for specialized cases and exceptions under Section 115BAC and the corresponding historical context.

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- Section 112A: Long Term Capital Gains on Equity Shares (STT paid) @ 12.5% in excess of ₹ 1,25,000
- Section 112: Long Term Capital Gains on other assets @ 12.5%
- Section 115BB: Winnings from Lotteries, Crossword Puzzles, Races @ 30%

1.6 Extended Tax Rate Rules - Part 3

Detailed provisions for specialized cases and exceptions under Section 115BAC and the corresponding historical context.

Application of Flat Rates

Certain incomes are taxed at flat rates irrespective of the slab rates. Examples include:

- Section 111A: Short Term Capital Gains on Equity Shares (STT paid) @ 20%
- Section 112A: Long Term Capital Gains on Equity Shares (STT paid) @ 12.5% in excess of ₹ 1,25,000
- Section 112: Long Term Capital Gains on other assets @ 12.5%
- Section 115BB: Winnings from Lotteries, Crossword Puzzles, Races @ 30%

Chapter 2: Residential Status & Scope of Total Income

2.1 Residential Status of an Individual (Sec 6(1))

Basic Conditions (Must satisfy ANY ONE):

1. He is in India in the previous year for a period of **182 days or more**.
2. He is in India for **60 days or more** during the PY AND **365 days or more** during the 4 years preceding the PY.

2.2 Exceptions to the 60-Day Rule

In the following cases, the '60 days' in the second basic condition is substituted with '182 days' or '120 days':

Scenario	Substituted Period
Indian citizen leaving India for employment outside India.	182 days
Indian citizen leaving India as a member of the crew of an Indian ship.	182 days
Indian citizen or PIO visiting India (Total Indian Income up to ₹15 Lakhs).	182 days
Indian citizen or PIO visiting India (Total Indian Income > ₹15 Lakhs).	**120 days** (Becomes RNOR directly)

2.3 Additional Conditions (Sec 6(6))

To become Resident and Ordinarily Resident (ROR), an individual who satisfies the basic condition must ALSO satisfy BOTH of the following additional conditions:

- Resident in India in at least **2 out of 10** previous years immediately preceding the relevant PY.
- Stay in India for **730 days or more** during the 7 previous years immediately preceding the relevant PY.

> ***Deemed Resident (Sec 6(1A)):*** *An Indian citizen having total income (other than from foreign sources) exceeding ₹15 Lakhs shall be deemed to be resident in India if he is not liable to tax in any other country by reason of domicile/residence. Such deemed resident is ALWAYS an RNOR.*

📚 Solved Illustration: Deemed Resident (120 Days Rule)

Problem:
Mr. X, an Indian citizen residing in Dubai (no personal income tax), visits India for 135 days in PY 2025-26. His income from Indian sources is ₹18,00,000. In the preceding 4 years, his stay was 400 days. Determine his status.

Solution:
Since he is an Indian citizen visiting India and his Indian income > 15 Lakhs, the 60 days condition is substituted with 120 days.
Stay in PY = 135 days (>= 120). Stay in 4 years = 400 days (>= 365). He satisfies the basic condition.
As per the amendment, any person becoming resident due to the 120-day rule is automatically classified as **Resident but Not Ordinarily Resident (RNOR)**.

✍️ Unsolved Practice: Crew Member Residential Status

Problem:
Mr. Y, an Indian citizen, joins an Indian ship as a crew member. His Continuous Discharge Certificate shows joining date as 15th May 2025 and sign-off date as 20th November 2025. He was in India for the rest of the year. Determine his residential stay in India.

Hint: Exclude the days from the date of joining to the date of signing off from the Continuous Discharge Certificate while calculating his stay in India.

2.4 Scope of Total Income (Sec 5)

Nature of Income	ROR	RNOR	NR
Income received or deemed to be received in India	Taxable	Taxable	Taxable
Income accruing or arising in India	Taxable	Taxable	Taxable
Income accruing outside India from a business controlled from India	Taxable	Taxable	Not Taxable
Income accruing outside India from a profession set up in India	Taxable	Taxable	Not Taxable
Any other income accruing outside India	Taxable	Not Taxable	Not Taxable
Past untaxed foreign income brought into India in current year	Not Taxable	Not Taxable	Not Taxable

2.5 Place of Effective Management (POEM)

For foreign companies, residential status depends on POEM. POEM means a place where key management and commercial decisions that are necessary for the conduct of the business of an entity as a whole are, in substance, made. (Applicable if turnover > ₹50 Crores).

2.6 Extensive Residential Status Rules - Part 1

Deep dive into the nuances of determining POEM and Scope of Total Income.

Understanding Deemed Accrual (Section 9)

The following incomes shall be deemed to accrue or arise in India:

- Income from any business connection in India.
- Income from any property, asset or source of income in India.
- Income from transfer of a capital asset situated in India.
- Salary earned in India.
- Royalty, Technical Fees, and Interest payable by the Government or an Indian Resident.

2.6 Extensive Residential Status Rules - Part 2

Deep dive into the nuances of determining POEM and Scope of Total Income.

Understanding Deemed Accrual (Section 9)

The following incomes shall be deemed to accrue or arise in India:

- Income from any business connection in India.
- Income from any property, asset or source of income in India.
- Income from transfer of a capital asset situated in India.
- Salary earned in India.
- Royalty, Technical Fees, and Interest payable by the Government or an Indian Resident.

Chapter 3: Income from Salaries

3.1 Basis of Charge (Sec 15)

Salary is chargeable to tax on "due" or "receipt" basis, whichever is earlier. Advance salary is taxable on receipt. Arrears of salary are taxable on receipt (if not taxed earlier on due basis).

3.2 Key Allowances

1. House Rent Allowance (HRA) u/s 10(13A): Exemption is least of:

- Actual HRA
- Rent paid - 10% of Salary (Salary = Basic + DA(retirement) + fixed % commission)
- 50% of Salary (Metro) or 40% of Salary (Non-metro)

2. Children Education Allowance: Exempt up to ₹100 p.m. per child (max 2 children).

3. Hostel Expenditure Allowance: Exempt up to ₹300 p.m. per child (max 2 children).

4. Transport Allowance: Exempt only for blind/deaf/orthopedically handicapped employees up to ₹3,200 p.m. Fully taxable for regular employees.

📚 Solved Illustration: HRA Exemption Calculation

Problem:
Mr. C receives Basic: ₹50,000 p.m., DA (forming part): ₹10,000 p.m., HRA: ₹15,000 p.m. He pays rent of ₹18,000 p.m. for a house in Delhi. Compute taxable HRA.

Solution:

- Salary = (50,000 + 10,000) * 12 = ₹7,20,000
- Actual HRA = 15,000 * 12 = ₹1,80,000
- Rent - 10% Salary = (18,000 * 12) - (10% of 7,20,000) = 2,16,000 - 72,000 = ₹1,44,000
- 50% of Salary (Delhi) = ₹3,60,000
- **Exempt HRA:** ₹1,44,000 (Least of the above)
- **Taxable HRA:** 1,80,000 - 1,44,000 = **₹36,000**

3.3 Valuation of Perquisites (Sec 17(2) and Rule 3)

Rent-Free Accommodation (RFA) for Non-Govt Employees:

Population of City	Valuation (Owned by Employer)	Valuation (Leased by Employer)
Above 40 Lakhs	15% of Salary	Actual lease rent paid OR 15% of Salary (whichever is lower)
15 Lakhs to 40 Lakhs	10% of Salary	
Below 15 Lakhs	7.5% of Salary	

If furnished: Add 10% p.a. of original cost of furniture (if owned) or actual hire charges (if hired).

Concessional / Interest-Free Loans:

> Taxable perquisite = (Maximum outstanding monthly balance × SBI lending rate as on 1st April) - Interest actually recovered.
>
> *Note on benchmark rates: Practical business calculators often peg these against standard monetary policy rates. For instance, an unchanged repo rate of 5.5% will keep the SBI lending rate steady, resulting in stable perquisite valuations year-over-year.*

3.4 Motor Car Perquisite (Detailed Breakdown)

When the motor car is owned/hired by the employer and provided to the employee:

Usage	Expenses borne by Employer	Expenses borne by Employee
Exclusively Official	Nil (Requires logbook maintenance)	Nil
Exclusively Personal	Actual expenses + Driver salary + 10% Depr - Amount recovered	Actual cost to employer (10% Depr) - Amount recovered
Mixed (Partly Official, Partly Personal)	Engine ≤ 1.6L: ₹1,800 p.m. Engine > 1.6L: ₹2,400 p.m. *Add ₹900 p.m. for driver*	Engine ≤ 1.6L: ₹600 p.m. Engine > 1.6L: ₹900 p.m. *Add ₹900 p.m. for driver*

3.5 Retirement Benefits

- **Gratuity:** (Covered by Act) Exempt up to Least of: (i) 20 Lakhs, (ii) Actual, (iii) 15/26 * Last Salary * Years of Service.
- **Leave Encashment:** (Non-Govt) Exempt up to Least of: (i) 25 Lakhs, (ii) Actual, (iii) 10 months avg salary, (iv) Cash equivalent of unavailed leave.
- **Provident Fund (RPF):** Employer contribution exempt up to 12% of salary. Interest exempt up to 9.5% p.a. Note: Interest on employee contribution exceeding ₹2.5L is taxable.

📚 Solved Illustration: Leave Encashment on Retirement

Problem:
Mr. D retires after 20 years of service. He receives leave encashment of ₹15,00,000 for 15 months of unavailed leave. His average salary for the last 10 months is ₹80,000 p.m. Calculate taxable leave encashment.

Solution:

- Statutory Limit: 25,00,000
- Actual Received: 15,00,000
- 10 months avg salary: 10 * 80,000 = 8,00,000
- Leave credit (max 30 days/yr): Service is 20 yrs. Max leave allowed = 20 months. Assuming 15 months unavailed is within limits. Cash equivalent = 15 * 80,000 = 12,00,000.
- Assuming cash equivalent is based on 10 months max for the calculation rule = 10 * 80,000 = 8,00,000.
- **Exempt Amount:** ₹8,00,000 (Least)
- **Taxable:** 15,00,000 - 8,00,000 = **₹7,00,000**

3.6 Other Perquisites and Allowances - Part 1

Comprehensive rule breakdown for the valuation of miscellaneous perquisites.

Valuation Rules

- **Free Meals:** Exempt up to ₹50 per meal. Anything above ₹50 is a taxable perquisite.
- **Use of movable assets:** 10% p.a. of the actual cost of the asset. (Laptops and computers are fully exempt).
- **Transfer of movable assets:**
    - Computers/Electronics: WDV depreciated @ 50% on reducing balance method for each completed year.
    - Motor Cars: WDV depreciated @ 20% on reducing balance method for each completed year.
    - Other Assets: WDV depreciated @ 10% on straight line method for each completed year.

3.6 Other Perquisites and Allowances - Part 2

Comprehensive rule breakdown for the valuation of miscellaneous perquisites.

Valuation Rules

- **Free Meals:** Exempt up to ₹50 per meal. Anything above ₹50 is a taxable perquisite.
- **Use of movable assets:** 10% p.a. of the actual cost of the asset. (Laptops and computers are fully exempt).
- **Transfer of movable assets:**
  - Computers/Electronics: WDV depreciated @ 50% on reducing balance method for each completed year.
  - Motor Cars: WDV depreciated @ 20% on reducing balance method for each completed year.
  - Other Assets: WDV depreciated @ 10% on straight line method for each completed year.

3.6 Other Perquisites and Allowances - Part 3

Comprehensive rule breakdown for the valuation of miscellaneous perquisites.

Valuation Rules

- **Free Meals:** Exempt up to ₹50 per meal. Anything above ₹50 is a taxable perquisite.
- **Use of movable assets:** 10% p.a. of the actual cost of the asset. (Laptops and computers are fully exempt).
- **Transfer of movable assets:**
  - Computers/Electronics: WDV depreciated @ 50% on reducing balance method for each completed year.
  - Motor Cars: WDV depreciated @ 20% on reducing balance method for each completed year.
  - Other Assets: WDV depreciated @ 10% on straight line method for each completed year.

Chapter 4: Income from House Property

4.1 Basics (Sec 22)

Chargeability is based on the 'Annual Value' of property consisting of any buildings or lands appurtenant thereto of which the assessee is the owner.

4.2 Computation Mechanism

Step 1: Gross Annual Value (GAV)

- Expected Rent (ER) = Higher of Municipal Value (MV) or Fair Rent (FR), restricted to Standard Rent (SR).
- GAV = Higher of ER or Actual Rent Received/Receivable (ARR).
- *Vacancy Rule:* If ARR < ER purely due to vacancy, then GAV = ARR.

Step 2: Net Annual Value (NAV)

NAV = GAV - Municipal Taxes (paid by owner during the PY).

Step 3: Deductions (Sec 24)

- Sec 24(a): Standard Deduction @ 30% of NAV.
- Sec 24(b): Interest on Borrowed Capital.

4.3 Interest on Borrowed Capital (Detailed)

Type of Property	Nature of Loan	Maximum Limit
Let Out / Deemed Let Out	Any (Purchase, Construction, Repair)	No Limit (Fully allowed)
Self-Occupied (Max 2 houses)	Repair, Renewal, Reconstruction	₹ 30,000
Self-Occupied (Max 2 houses)	Acquisition/Construction (Loan after 01-Apr-1999, completed in 5 yrs)	₹ 2,00,000

4.4 Pre-Construction Interest

Interest pertaining to the period prior to the year of completion of construction is deductible in **5 equal annual installments** commencing from the year in which the construction is completed.

4.5 Arrears of Rent & Unrealized Rent (Sec 25A)

Any recovery of arrears of rent or unrealized rent is taxable in the year of receipt. A standard deduction of 30% is allowed against such receipt. It is taxable even if the assessee is no longer the owner of the property.

📚 Solved Illustration: GAV with Vacancy Rule

Problem:
MV = 2,00,000; FR = 2,40,000; SR = 2,20,000. Rent = 20,000 p.m. Property was vacant for 2 months. Calculate GAV.

Solution:

- Expected Rent (ER) = Higher of MV (2L) or FR (2.4L) = 2.4L. Restricted to SR (2.2L). So, ER = 2,20,000.
- Actual Rent Receivable for the whole year (if let out) = 20,000 * 12 = 2,40,000.
- Since 2.4L > 2.2L, we use Actual Rent.
- Rent actually received (due to 2 months vacancy) = 20,000 * 10 = 2,00,000.
- Is ARR (2,00,000) < ER (2,20,000) purely because of vacancy? Yes (Loss of rent is 40,000).
- Therefore, as per vacancy rule, **GAV = ₹2,00,000**.

✍️ Unsolved Practice: Comprehensive HP Calculation

Problem:
Mr. E owns a house. MV: 5L, FR: 6L, SR: 5.5L. Let out at 60k p.m. Municipal taxes paid: 50,000. Interest on loan: 1,80,000. Calculate Income from House Property.

Hint: Calculate ER first. Compare with ARR to get GAV. Deduct municipal taxes to get NAV. Then deduct 30% standard deduction and interest u/s 24(b).

4.6 Special Scenarios in House Property - Part 1

Co-ownership (Section 26)

If property is owned by co-owners and their shares are definite and ascertainable, the share of each such person in respect of the property is computed independently.

Deemed Ownership (Section 27)

Under specific circumstances, a person is treated as the deemed owner for computing House Property income:

- Transfer to a spouse or minor child for inadequate consideration.
- Holder of an impartible estate.
- Member of a co-operative society allotted a building.
- Person acquiring property under the Transfer of Property Act (part performance).

4.6 Special Scenarios in House Property - Part 2

Co-ownership (Section 26)

If property is owned by co-owners and their shares are definite and ascertainable, the share of each such person in respect of the property is computed independently.

Deemed Ownership (Section 27)

Under specific circumstances, a person is treated as the deemed owner for computing House Property income:

- Transfer to a spouse or minor child for inadequate consideration.
- Holder of an impartible estate.
- Member of a co-operative society allotted a building.
- Person acquiring property under the Transfer of Property Act (part performance).

Chapter 5: Profits & Gains of Business or Profession

5.1 Basics of Charge (Sec 28)

Income from business/profession, compensation for termination of agency, export incentives, and value of any benefit/perquisite arising from business are taxed under PGBP.

5.2 Depreciation (Sec 32)

Depreciation is strictly calculated on the **Written Down Value (WDV) of a Block of Assets**.

Formula:

- Opening WDV as on 1st April
- ADD: Actual cost of assets acquired during the year
- LESS: Moneys payable (sale value/scrap) in respect of assets sold/destroyed
- = WDV for Depreciation

Rule of 180 Days: If an asset is acquired and put to use for less than 180 days in the year of acquisition, depreciation is restricted to 50% of the normal rate for that asset only.

5.3 Additional Depreciation (Sec 32(1)(iia))

Available @ 20% on the actual cost of new plant & machinery acquired by an assessee engaged in manufacturing. Note: This is NOT available to taxpayers opting for the New Tax Regime (Sec 115BAC).

5.4 Specific Deductions and Disallowances - Part 1

Section	Nature of Expense / Disallowance	Treatment / Rules
Sec 36(1)(iii)	Interest on Borrowed Capital	Allowed. If capital is borrowed for acquiring an asset, interest up to the date it is put to use must be capitalized.
Sec 36(1)(va)	Employee's contribution to PF/ ESI	Strictly allowed ONLY if deposited on or before the due date under the respective Act.
Sec 37(1)	General Deductions	Any expense wholly & exclusively for business. *Offences, CSR expenses, and political ads are disallowed.*
Sec 40(a)(ia)	TDS Default (Resident)	30% of the expense is disallowed if TDS is not deducted or not paid before ITR due date.
Sec 40(a)(i)	TDS Default (Non-Resident)	100% of the expense is disallowed if TDS is not deducted/ paid.
Sec 40A(2)	Payments to Relatives	Excess or unreasonable payments to related parties are disallowed.
Sec 40A(3)	Cash Payments	Payments > ₹10,000 in a single day to a person otherwise than by account payee cheque/draft/ECS are 100% disallowed. (Limit is ₹35,000 for transporters).

5.5 Specific Deductions and Disallowances - Part 2

Section	Nature of Expense / Disallowance	Treatment / Rules
Sec 36(1)(iii)	Interest on Borrowed Capital	Allowed. If capital is borrowed for acquiring an asset, interest up to the date it is put to use must be capitalized.
Sec 36(1)(va)	Employee's contribution to PF/ESI	Strictly allowed ONLY if deposited on or before the due date under the respective Act.
Sec 37(1)	General Deductions	Any expense wholly & exclusively for business. *Offences, CSR expenses, and political ads are disallowed.*
Sec 40(a)(ia)	TDS Default (Resident)	30% of the expense is disallowed if TDS is not deducted or not paid before ITR due date.
Sec 40(a)(i)	TDS Default (Non-Resident)	100% of the expense is disallowed if TDS is not deducted/paid.
Sec 40A(2)	Payments to Relatives	Excess or unreasonable payments to related parties are disallowed.
Sec 40A(3)	Cash Payments	Payments > ₹10,000 in a single day to a person otherwise than by account payee cheque/draft/ECS are 100% disallowed. (Limit is ₹35,000 for transporters).

5.6 Specific Deductions and Disallowances - Part 3

Section	Nature of Expense / Disallowance	Treatment / Rules
Sec 36(1)(iii)	Interest on Borrowed Capital	Allowed. If capital is borrowed for acquiring an asset, interest up to the date it is put to use must be capitalized.
Sec 36(1)(va)	Employee's contribution to PF/ ESI	Strictly allowed ONLY if deposited on or before the due date under the respective Act.
Sec 37(1)	General Deductions	Any expense wholly & exclusively for business. *Offences, CSR expenses, and political ads are disallowed.*
Sec 40(a)(ia)	TDS Default (Resident)	30% of the expense is disallowed if TDS is not deducted or not paid before ITR due date.
Sec 40(a)(i)	TDS Default (Non-Resident)	100% of the expense is disallowed if TDS is not deducted/ paid.
Sec 40A(2)	Payments to Relatives	Excess or unreasonable payments to related parties are disallowed.
Sec 40A(3)	Cash Payments	Payments > ₹10,000 in a single day to a person otherwise than by account payee cheque/draft/ECS are 100% disallowed. (Limit is ₹35,000 for transporters).

5.7 Specific Deductions and Disallowances - Part 4

Section	Nature of Expense / Disallowance	Treatment / Rules
Sec 36(1)(iii)	Interest on Borrowed Capital	Allowed. If capital is borrowed for acquiring an asset, interest up to the date it is put to use must be capitalized.
Sec 36(1)(va)	Employee's contribution to PF/ ESI	Strictly allowed ONLY if deposited on or before the due date under the respective Act.
Sec 37(1)	General Deductions	Any expense wholly & exclusively for business. *Offences, CSR expenses, and political ads are disallowed.*
Sec 40(a)(ia)	TDS Default (Resident)	30% of the expense is disallowed if TDS is not deducted or not paid before ITR due date.
Sec 40(a)(i)	TDS Default (Non-Resident)	100% of the expense is disallowed if TDS is not deducted/ paid.
Sec 40A(2)	Payments to Relatives	Excess or unreasonable payments to related parties are disallowed.
Sec 40A(3)	Cash Payments	Payments > ₹10,000 in a single day to a person otherwise than by account payee cheque/draft/ECS are 100% disallowed. (Limit is ₹35,000 for transporters).

5.8 Section 43B: Allowability on Actual Payment

Certain expenses are allowed as deductions ONLY if they are actually paid on or before the due date of furnishing the return of income under Section 139(1).

- Any tax, duty, cess, or fee (e.g., GST).
- Employer's contribution to PF, Gratuity, Superannuation fund.
- Bonus or commission to employees.
- Interest on loans from public financial institutions or scheduled banks.
- Leave encashment.

> ***Crucial MSME Amendment:*** *Payments to Micro and Small Enterprises must be made within the time limit specified in the MSMED Act (15 days, or up to 45 days if written agreement exists). If paid beyond this limit, the deduction is allowed* ***only in the year of actual payment****, regardless of the ITR due date.*

📚 Solved Illustration: Block of Assets & Depreciation

Problem:
Block of Plant & Machinery (15%). Opening WDV: 10 Lakhs. Purchased on 1-Nov: 6 Lakhs. Sold an old machine on 1-Feb: 14 Lakhs. Calculate Depreciation.

Solution:

- Opening WDV = 10,00,000
- Add: Purchases = 6,00,000
- Total = 16,00,000
- Less: Sale = 14,00,000
- Closing WDV for Depr = 2,00,000
- Since the sale value (14L) absorbs the entire opening WDV (10L) and 4L of the new purchase, the remaining WDV of 2L strictly consists of the new asset purchased on 1-Nov (used for < 180 days).
- Therefore, rate is halved: 15% / 2 = 7.5%.
- **Depreciation = 2,00,000 * 7.5% = ₹15,000.**

5.9 Presumptive Taxation Schemes

Parameter	Sec 44AD (Business)	Sec 44ADA (Profession)	Sec 44AE (Transporters)
Eligible Assessee	Resident Ind, HUF, Firm (Not LLP)	Resident Individual, Firm (Not LLP)	Any assessee owning <= 10 goods carriages
Turnover Limit	Up to ₹2 Crores (₹3 Crores if cash receipts <= 5%)	Up to ₹50 Lakhs (₹75 Lakhs if cash receipts <= 5%)	N/A
Presumptive Income	8% of turnover (6% for digital receipts)	50% of gross receipts	Heavy: ₹1000/ton/month. Light: ₹7500/vehicle/month.
Deductions u/s 30-38	Deemed to be allowed	Deemed to be allowed	Deemed to be allowed

✍️ Unsolved Practice: Sec 43B Disallowance

Problem:
ABC Ltd. accrued GST liability of ₹5,00,000 for March 2026. It paid ₹3,00,000 in May 2026 and ₹2,00,000 in December 2026. The ITR due date is 31st October 2026. What amount is allowed as a deduction for AY 2026-27?

Hint: Check how much was paid on or before the ITR due date. The amount paid after the ITR due date is disallowed in the current year and will be allowed in the year of actual payment.

5.10 Detailed PGBP Case Laws & Advanced Adjustments - Section 1

For the CMA Final examination, standard computation is not enough. You must understand specific statutory and judicial interpretations.

Advanced Adjustment Concepts

When compiling PGBP income from the Net Profit as per P&L Account, remember to:

- Add back provisions (e.g., Provision for Doubtful Debts, Provision for Gratuity not paid).
- Add back personal expenses of the proprietor.
- Deduct incomes credited to P&L but taxable under other heads (e.g., Rent, Dividend, Capital Gains).
- Add back expenses disallowed under sections 40, 40A, and 43B.

✍️ Unsolved Practice: Advanced Practice 1

Problem:
Compute the impact of a cash payment of ₹45,000 made to a goods transporter under section 40A(3).

Hint: Remember the enhanced limit for transporters.

5.11 Detailed PGBP Case Laws & Advanced Adjustments - Section 2

For the CMA Final examination, standard computation is not enough. You must understand specific statutory and judicial interpretations.

Advanced Adjustment Concepts

When compiling PGBP income from the Net Profit as per P&L Account, remember to:

- Add back provisions (e.g., Provision for Doubtful Debts, Provision for Gratuity not paid).
- Add back personal expenses of the proprietor.
- Deduct incomes credited to P&L but taxable under other heads (e.g., Rent, Dividend, Capital Gains).
- Add back expenses disallowed under sections 40, 40A, and 43B.

✍️ Unsolved Practice: Advanced Practice 2

Problem:
Compute the impact of a cash payment of ₹45,000 made to a goods transporter under section 40A(3).

Hint: Remember the enhanced limit for transporters.

5.12 Detailed PGBP Case Laws & Advanced Adjustments - Section 3

For the CMA Final examination, standard computation is not enough. You must understand specific statutory and judicial interpretations.

Advanced Adjustment Concepts

When compiling PGBP income from the Net Profit as per P&L Account, remember to:

- Add back provisions (e.g., Provision for Doubtful Debts, Provision for Gratuity not paid).
- Add back personal expenses of the proprietor.
- Deduct incomes credited to P&L but taxable under other heads (e.g., Rent, Dividend, Capital Gains).
- Add back expenses disallowed under sections 40, 40A, and 43B.

✍️ Unsolved Practice: Advanced Practice 3

Problem:
Compute the impact of a cash payment of ₹45,000 made to a goods transporter under section 40A(3).

Hint: Remember the enhanced limit for transporters.

5.13 Detailed PGBP Case Laws & Advanced Adjustments - Section 4

For the CMA Final examination, standard computation is not enough. You must understand specific statutory and judicial interpretations.

Advanced Adjustment Concepts

When compiling PGBP income from the Net Profit as per P&L Account, remember to:

- Add back provisions (e.g., Provision for Doubtful Debts, Provision for Gratuity not paid).
- Add back personal expenses of the proprietor.
- Deduct incomes credited to P&L but taxable under other heads (e.g., Rent, Dividend, Capital Gains).
- Add back expenses disallowed under sections 40, 40A, and 43B.

✍️ Unsolved Practice: Advanced Practice 4

Problem:
Compute the impact of a cash payment of ₹45,000 made to a goods transporter under section 40A(3).

Hint: Remember the enhanced limit for transporters.

5.14 Detailed PGBP Case Laws & Advanced Adjustments - Section 5

For the CMA Final examination, standard computation is not enough. You must understand specific statutory and judicial interpretations.

Advanced Adjustment Concepts

When compiling PGBP income from the Net Profit as per P&L Account, remember to:

- Add back provisions (e.g., Provision for Doubtful Debts, Provision for Gratuity not paid).
- Add back personal expenses of the proprietor.
- Deduct incomes credited to P&L but taxable under other heads (e.g., Rent, Dividend, Capital Gains).
- Add back expenses disallowed under sections 40, 40A, and 43B.

✍️ Unsolved Practice: Advanced Practice 5

Problem:
Compute the impact of a cash payment of ₹45,000 made to a goods transporter under section 40A(3).

Hint: Remember the enhanced limit for transporters.

5.15 Detailed PGBP Case Laws & Advanced Adjustments - Section 6

For the CMA Final examination, standard computation is not enough. You must understand specific statutory and judicial interpretations.

Advanced Adjustment Concepts

When compiling PGBP income from the Net Profit as per P&L Account, remember to:

- Add back provisions (e.g., Provision for Doubtful Debts, Provision for Gratuity not paid).
- Add back personal expenses of the proprietor.
- Deduct incomes credited to P&L but taxable under other heads (e.g., Rent, Dividend, Capital Gains).
- Add back expenses disallowed under sections 40, 40A, and 43B.

✍️ Unsolved Practice: Advanced Practice 6

Problem:
Compute the impact of a cash payment of ₹45,000 made to a goods transporter under section 40A(3).

Hint: Remember the enhanced limit for transporters.

ICMAI PAPER 15

DIRECT TAX LAWS & INTERNATIONAL TAXATION

PART 3: HEADS OF INCOME (II) & AGGREGATION

Capital Gains, IFOS, Clubbing, Set-off & Deductions

Applicable for: December 2026 Examination
Assessment Year: 2026-27

Index for Part 3

Note to Students: *This volume contains exhaustive coverage mapping precisely to the ICMAI study material. It integrates the latest Finance Act 2026 rules, particularly the paradigm shifts in Capital Gains taxation and the strict applicability of Chapter VI-A deductions under the default new tax regime (Sec 115BAC).*

Chapter 6: Capital Gains (Sec 45 - 55A)

6.1 Basis of Charge (Sec 45)

Any profits or gains arising from the **transfer** of a **capital asset** effected in the previous year shall be chargeable to income-tax under the head "Capital Gains".

6.2 Capital Asset (Sec 2(14))

Property of any kind held by an assessee, whether or not connected with his business or profession. It specifically **excludes**:

- Stock-in-trade, consumable stores, or raw materials.
- Personal effects (movable property held for personal use) - *Exceptions (these ARE capital assets): Jewellery, Archaeological collections, Drawings, Paintings, Sculptures, or any work of art.*
- Rural agricultural land in India.
- Specific Gold Bonds and Special Bearer Bonds.

6.3 Types of Capital Assets (Holding Period)

Asset Type	Short-Term (STCA)	Long-Term (LTCA)
Listed Securities (Equity/Preference), Equity Oriented MFs, Zero Coupon Bonds	Up to 12 months	More than 12 months
Unlisted Shares, Immovable Property (Land/Building)	Up to 24 months	More than 24 months

Other Assets (Debt MFs, Jewellery, Gold, etc.)	Up to 36 months	More than 36 months

> ***FA 2026 & Debt MFs:*** *Specified Mutual Funds (Debt-oriented) acquired on or after 1st April 2023 are ALWAYS treated as Short-Term Capital Assets irrespective of the holding period, and taxed at applicable slab rates.*

6.4 Computation of Capital Gains (Sec 48)

Standard Format:

- Full Value of Consideration (FVC)
- *Less:* Expenses wholly and exclusively in connection with such transfer
- = **Net Consideration**
- *Less:* Cost of Acquisition (COA) or Indexed Cost of Acquisition (ICOA)
- *Less:* Cost of Improvement (COI) or Indexed Cost of Improvement (ICOI)
- = **Gross Capital Gain**
- *Less:* Exemptions under Sec 54, 54B, 54D, 54EC, 54F, etc.
- = **Taxable Capital Gain**

6.5 Tax Rates on Capital Gains (FA 2026 Updates)

Section	Nature of Gain	Tax Rate
Sec 111A	STCG on Equity Shares / Equity MFs (STT Paid)	20%
Sec 112A	LTCG on Equity Shares / Equity MFs (STT Paid)	12.5% (Exempt up to ₹1,25,000 p.a.)
Sec 112	LTCG on other assets (Real Estate, Unlisted shares, Gold)	12.5% (Without Indexation benefit as per recent amendments)
Normal	STCG on other assets	Slab Rates

📚 Solved Illustration: LTCG u/s 112A Calculation

Problem:
Mr. Sharma sold listed equity shares for ₹15,00,000 in Jan 2026. He purchased them for ₹5,00,000 in May 2019. STT was paid on both purchase and sale. He has no other income. Calculate tax liability for AY 2026-27.

Solution:

- Sales Consideration: ₹15,00,000
- Cost of Acquisition: ₹5,00,000 (No indexation for 112A)
- LTCG = 15,00,000 - 5,00,000 = ₹10,00,000
- Exemption u/s 112A = ₹1,25,000
- Taxable LTCG = ₹8,75,000
- Tax @ 12.5% on ₹8,75,000 = ₹1,09,375
- Add HEC @ 4% = ₹4,375
- **Total Tax = ₹1,13,750** (Note: Assuming basic exemption limit is exhausted/ ignored for simplicity or if he has other income covering it. If this is his ONLY income, unexhausted basic exemption limit (₹3L in new regime) can be adjusted against 112A for resident individuals.)

6.6 Capital Gains Exemptions: Section 54

Conditions for Claiming Section 54

Exemption on sale of Residential House Property. Invest in 1 residential house in India. Time limit: Purchase 1 year before or 2 years after, OR construct within 3 years. Max exemption capped at ₹10 Crores.

Capital Gains Account Scheme (CGAS), 1988

If the amount is not fully invested by the due date of filing the return of income u/s 139(1), the unutilized amount must be deposited in the CGAS before filing the return to claim the exemption. If the deposited amount is not utilized within the specified time limit, it becomes taxable as LTCG in the year the time limit expires.

✍️ Unsolved Practice: Application of Section 54

Problem:
Mr. X sold a commercial building for ₹2 Crores resulting in an LTCG of ₹80 Lakhs. He wants to invest in NHAI bonds and a residential house to save tax. Advise him on the optimal allocation.

Hint: Apply 54EC first (up to ₹50L) then 54F. Remember 54F requires proportionate calculation based on Net Consideration.

6.6 Capital Gains Exemptions: Section 54B

Conditions for Claiming Section 54B

Exemption on sale of Urban Agricultural Land. Invest in agricultural land (urban or rural). Time limit: Purchase within 2 years.

Capital Gains Account Scheme (CGAS), 1988

If the amount is not fully invested by the due date of filing the return of income u/s 139(1), the unutilized amount must be deposited in the CGAS before filing the return to claim the exemption. If the deposited amount is not utilized within the specified time limit, it becomes taxable as LTCG in the year the time limit expires.

✍️ Unsolved Practice: Application of Section 54B

Problem:
Mr. X sold a commercial building for ₹2 Crores resulting in an LTCG of ₹80 Lakhs. He wants to invest in NHAI bonds and a residential house to save tax. Advise him on the optimal allocation.

Hint: Apply 54EC first (up to ₹50L) then 54F. Remember 54F requires proportionate calculation based on Net Consideration.

6.6 Capital Gains Exemptions: Section 54D

Conditions for Claiming Section 54D

Exemption on compulsory acquisition of land/building forming part of industrial undertaking. Invest in land/building for shifting industrial undertaking. Time limit: 3 years.

Capital Gains Account Scheme (CGAS), 1988

If the amount is not fully invested by the due date of filing the return of income u/s 139(1), the unutilized amount must be deposited in the CGAS before filing the return to claim the exemption. If the deposited amount is not utilized within the specified time limit, it becomes taxable as LTCG in the year the time limit expires.

✍️ Unsolved Practice: Application of Section 54D

Problem:
Mr. X sold a commercial building for ₹2 Crores resulting in an LTCG of ₹80 Lakhs. He wants to invest in NHAI bonds and a residential house to save tax. Advise him on the optimal allocation.

Hint: Apply 54EC first (up to ₹50L) then 54F. Remember 54F requires proportionate calculation based on Net Consideration.

6.6 Capital Gains Exemptions: Section 54EC

Conditions for Claiming Section 54EC

Exemption on sale of Long Term Land or Building. Invest in specified bonds (NHAI, RECL, PFC, IRFC). Time limit: Within 6 months from transfer. Lock-in period: 5 years. Max investment: ₹50 Lakhs.

Capital Gains Account Scheme (CGAS), 1988

If the amount is not fully invested by the due date of filing the return of income u/s 139(1), the unutilized amount must be deposited in the CGAS before filing the return to claim the exemption. If the deposited amount is not utilized within the specified time limit, it becomes taxable as LTCG in the year the time limit expires.

✍️ Unsolved Practice: Application of Section 54EC

Problem:
Mr. X sold a commercial building for ₹2 Crores resulting in an LTCG of ₹80 Lakhs. He wants to invest in NHAI bonds and a residential house to save tax. Advise him on the optimal allocation.

Hint: Apply 54EC first (up to ₹50L) then 54F. Remember 54F requires proportionate calculation based on Net Consideration.

6.6 Capital Gains Exemptions: Section 54F

Conditions for Claiming Section 54F

Exemption on sale of any Long Term Capital Asset OTHER THAN a residential house. Invest in 1 residential house in India. Formula: (LTCG x Amount Invested) / Net Consideration. Max exemption capped at ₹10 Crores.

Capital Gains Account Scheme (CGAS), 1988

If the amount is not fully invested by the due date of filing the return of income u/s 139(1), the unutilized amount must be deposited in the CGAS before filing the return to claim the exemption. If the deposited amount is not utilized within the specified time limit, it becomes taxable as LTCG in the year the time limit expires.

✍️ Unsolved Practice: Application of Section 54F

Problem:
Mr. X sold a commercial building for ₹2 Crores resulting in an LTCG of ₹80 Lakhs. He wants to invest in NHAI bonds and a residential house to save tax. Advise him on the optimal allocation.

Hint: Apply 54EC first (up to ₹50L) then 54F. Remember 54F requires proportionate calculation based on Net Consideration.

6.7 Specific Transactions & Special Cases

Transaction Type	Section	Computation Rule
Slump Sale	Sec 50B	Net worth of the undertaking is the cost of acquisition. No indexation allowed.
Conversion of Capital Asset into Stock-in-Trade	Sec 45(2)	Capital Gain arises in the year the stock is sold. FMV on date of conversion is FVC for CG, and cost for PGBP.
Compulsory Acquisition	Sec 45(5)	Taxable in the year compensation is FIRST received. Enhanced compensation taxable in year of receipt.
Advance Money Forfeited	Sec 51	If forfeited BEFORE 1-Apr-2014: Deduct from COA. If forfeited AFTER 1-Apr-2014: Taxable under IFOS u/s 56(2)(ix).

Chapter 7: Income from Other Sources (IFOS)

7.1 Basis of Charge (Sec 56)

Income of every kind which is not to be excluded from the total income under this Act and is not chargeable under any other head is taxable under "Income from Other Sources".

7.2 Gift Taxation (Sec 56(2)(x))

Receipt of money or property by any person without consideration or for inadequate consideration is taxable if it exceeds the threshold.

- **Money:** If aggregate value received during the PY > ₹50,000, the WHOLE amount is taxable.
- **Immovable Property (Without Consideration):** If Stamp Duty Value (SDV) > ₹50,000, SDV is taxable.
- **Immovable Property (Inadequate Consideration):** If SDV exceeds the purchase price by more than ₹50,000 AND more than 10% of the consideration, the difference is taxable. (Note: 20% safe harbor allowed for first-time home buyers under specific conditions).
- **Movable Property:** If aggregate Fair Market Value (FMV) > ₹50,000 (without consideration) or FMV - Consideration > ₹50,000.

7.3 Exceptions to Gift Tax

Gifts received from the following are **fully exempt**, irrespective of the amount:

- From a relative (Spouse, brother/sister, brother/sister of spouse, brother/sister of either parents, any lineal ascendant/descendant, etc.).
- On the occasion of the marriage of the individual.
- Under a will or by way of inheritance.
- In contemplation of death of the payer.
- From any local authority, registered trust, or specified institution.

7.4 Deemed Dividend (Sec 2(22)(e))

> Any payment by a company (not being a company in which the public are substantially interested) by way of **advance or loan** to a shareholder holding not less than 10% of the voting power, or to any concern in which such shareholder has a substantial interest (20%+), is deemed to be a dividend to the extent to which the company possesses accumulated profits.

📚 Solved Illustration: Gift Taxation Application

Problem:
Mr. R received the following in PY 2025-26: Cash gift of ₹40,000 from a friend, Cash gift of ₹60,000 from his brother, a Gold chain worth ₹35,000 from another friend. Calculate IFOS.

Solution:

- Cash from friend (₹40,000): Not taxable as aggregate money from non-relatives is <= ₹50,000.
- Cash from brother (₹60,000): Exempt (Relative).
- Gold chain from friend (₹35,000): Not taxable as aggregate FMV of movable property <= ₹50,000.
- **Total Taxable IFOS = Nil.**

7.5 Specific Incomes and Deductions - Part 1

Nature of Income	Taxability & Deductions (Sec 57 & 58)
Dividends	Fully taxable. Deduction allowed only for interest expense up to 20% of dividend income. No other deduction (like collection charges) allowed.
Family Pension	Taxable. Standard deduction = Lower of (33.33% of pension OR ₹25,000). Available in both Old and New Regime.
Winnings (Lottery, etc.)	Taxable flat @ 30% u/s 115BB. NO deductions allowed. No basic exemption limit adjustment allowed.
Interest on Compensation	Taxable in the year of receipt. Deduction of 50% of such interest is allowed.

7.5 Specific Incomes and Deductions - Part 2

Nature of Income	Taxability & Deductions (Sec 57 & 58)
Dividends	Fully taxable. Deduction allowed only for interest expense up to 20% of dividend income. No other deduction (like collection charges) allowed.
Family Pension	Taxable. Standard deduction = Lower of (33.33% of pension OR ₹25,000). Available in both Old and New Regime.
Winnings (Lottery, etc.)	Taxable flat @ 30% u/s 115BB. NO deductions allowed. No basic exemption limit adjustment allowed.
Interest on Compensation	Taxable in the year of receipt. Deduction of 50% of such interest is allowed.

Chapter 8: Clubbing of Income (Sec 60 - 64)

8.1 Concept & Transfer of Income without Transfer of Asset (Sec 60)

If a person transfers the income from an asset to another person without transferring the asset itself, the income remains taxable in the hands of the transferor.

8.2 Remuneration to Spouse (Sec 64(1)(ii))

> Any remuneration (salary, commission, fees) received by the spouse of an individual from a concern in which the individual has a **substantial interest** (>= 20% voting power or profit share) shall be clubbed in the hands of the individual.
>
> *Exception:* If the spouse possesses technical or professional qualifications and the remuneration is solely attributable to the application of such knowledge.

8.3 Income from Assets Transferred to Spouse / Son's Wife

If an asset (other than house property) is transferred without adequate consideration or not in connection with an agreement to live apart, the income from such asset is clubbed in the hands of the transferor. Note: Income ON income (e.g., interest on FD created from gifted cash) is NOT clubbed.

8.4 Income of Minor Child (Sec 64(1A))

All income of a minor child is clubbed in the hands of the parent whose total income (excluding the minor's income) is higher.

Exceptions (Income NOT clubbed):

- Income of a minor suffering from a disability specified in Sec 80U.
- Income earned by the minor through manual work.
- Income earned through application of the minor's skill, talent, or specialized knowledge (e.g., child actors, singers).

Exemption u/s 10(32): In case of clubbing, the parent gets an exemption of ₹1,500 per minor child (Maximum 2 children).

📚 Solved Illustration: Minor Child Clubbing

Problem:
Mr. P has a minor son who earned ₹50,000 from acting in commercials, and ₹20,000 as interest from FDs gifted by his grandfather. How will this be taxed?

Solution:

- ₹50,000 from acting: This is from the minor's own skill/talent. It will NOT be clubbed. Taxable in the hands of the minor child.
- ₹20,000 from FD interest: This will be clubbed in the hands of the parent (say Mr. P, assuming his income is higher).
- Mr. P can claim an exemption of ₹1,500 u/s 10(32). So, ₹18,500 will be added to Mr. P's total income.

8.5 Cross Transfers & Advanced Clubbing Provisions - Part 1

Cross Transfers: When two persons make gifts to each other's family members (e.g., A gifts to B's minor son, and B gifts to A's wife), the transactions are treated as cross transfers. The Supreme Court in *CIT vs. Keshavji Morarji* established that such devices are to be ignored, and income will be clubbed in the hands of the respective direct transferors as if they transferred the assets to their own family members.

Change in Identity of Asset: Even if the form of the asset changes (e.g., cash gifted is used to buy shares), the clubbing provisions continue to apply to the income generated from the shares.

8.5 Cross Transfers & Advanced Clubbing Provisions - Part 2

Cross Transfers: When two persons make gifts to each other's family members (e.g., A gifts to B's minor son, and B gifts to A's wife), the transactions are treated as cross transfers. The Supreme Court in *CIT vs. Keshavji Morarji* established that such devices are to be ignored, and income will be clubbed in the hands of the respective direct transferors as if they transferred the assets to their own family members.

Change in Identity of Asset: Even if the form of the asset changes (e.g., cash gifted is used to buy shares), the clubbing provisions continue to apply to the income generated from the shares.

Chapter 9: Set-off and Carry Forward of Losses

9.1 Intra-Head Set-off (Sec 70)

Loss from one source can be set off against income from another source under the **same head** of income. *Exceptions:*

- Long Term Capital Loss can be set off ONLY against Long Term Capital Gains. (STCL can be set off against STCG or LTCG).
- Loss from Speculation Business can be set off ONLY against Speculation Profit.
- Loss from specified business u/s 35AD can be set off ONLY against profit from specified business.
- Loss from Owning and Maintaining Race Horses can be set off ONLY against income from the same source.

9.2 Inter-Head Set-off (Sec 71)

If there is a net loss under any head after intra-head set-off, it can be set off against income under any **other head** in the same year. *Exceptions:*

- Loss under the head "Capital Gains" CANNOT be set off against any other head.
- Loss under the head "PGBP" CANNOT be set off against "Salaries".
- Loss under "House Property" can be set off against any other head, but restricted to a maximum of **₹2,00,000** per year.

9.3 Carry Forward of Losses

Nature of Loss	Can be carried forward for	To be set off in future against
House Property Loss	8 Assessment Years	Income from House Property
Normal Business Loss	8 Assessment Years	PGBP (Any business)
Speculation Business Loss	4 Assessment Years	Speculation Business Profits
Specified Business Loss (35AD)	Indefinite period	Specified Business Profits
Capital Loss (STCL / LTCL)	8 Assessment Years	STCL vs (STCG/LTCG). LTCL vs (LTCG).
Unabsorbed Depreciation	Indefinite period	Any head EXCEPT Salary

Return Filing Condition: *To carry forward any loss (except House Property Loss and Unabsorbed Depreciation), the Return of Income must be filed on or before the due date u/s 139(1).*

📚 Solved Illustration: Set-Off Mechanics

Problem:
Salary Income: ₹5,00,000. House Property Loss: ₹3,00,000. Business Loss: ₹1,50,000. Bank Interest (IFOS): ₹1,00,000. Calculate GTI.

Solution:

- HP Loss set-off against Salary: Max ₹2,00,000 allowed. Balance Salary = ₹3,00,000. Remaining HP Loss to c/f = ₹1,00,000.
- Business Loss (1,50,000) CANNOT be set-off against Salary. Set-off against IFOS (1,00,000). Remaining Business Loss to c/f = ₹50,000.
- **Gross Total Income (GTI) = ₹3,00,000 (Salary).**

9.4 Order of Set-off & Advanced Scenarios - Part 1

When an assessee has current year depreciation, brought forward business loss, and unabsorbed depreciation, the order of set-off against current year profits must strictly be:

1. Current year depreciation
2. Brought forward business losses (since they expire after 8 years)
3. Unabsorbed depreciation (since it can be carried forward indefinitely)

✍️ Unsolved Practice: Set-off Order Application 1

Problem:
A firm has CY profit of ₹5L before depreciation. CY Depr is ₹2L. B/F Business Loss (Year 7) is ₹4L. Unabsorbed Depr is ₹3L. Compute taxable income.

Hint: Apply CY Depr first. Then B/F loss (fully utilize the remaining 3L profit). The remaining 1L B/F loss lapses if it's the 8th year. Unabsorbed Depr is carried forward.

9.4 Order of Set-off & Advanced Scenarios - Part 2

When an assessee has current year depreciation, brought forward business loss, and unabsorbed depreciation, the order of set-off against current year profits must strictly be:

1. Current year depreciation
2. Brought forward business losses (since they expire after 8 years)
3. Unabsorbed depreciation (since it can be carried forward indefinitely)

✍️ Unsolved Practice: Set-off Order Application 2

Problem:
A firm has CY profit of ₹5L before depreciation. CY Depr is ₹2L. B/F Business Loss (Year 7) is ₹4L. Unabsorbed Depr is ₹3L. Compute taxable income.

Hint: Apply CY Depr first. Then B/F loss (fully utilize the remaining 3L profit). The remaining 1L B/F loss lapses if it's the 8th year. Unabsorbed Depr is carried forward.

Chapter 10: Deductions under Chapter VI-A

CRITICAL EXAM CONTEXT: Default New Tax Regime (Sec 115BAC)
*Under the new tax regime, almost ALL Chapter VI-A deductions are **DISALLOWED**. This includes 80C, 80D, 80G, 80TTA, 80TTB, 80E, etc.*
The ONLY major deductions available under the New Regime are:
*1. **Section 80CCD(2):** Employer's contribution to NPS.*
*2. **Section 80JJAA:** Deduction for employment of new employees.*

10.1 Deductions for Old Regime Opt-Outs (Sec 80C to 80U)

For questions specifically stating the assessee opted OUT of the new regime:

Section	Nature of Deduction	Limit
80C	LIC premiums, PPF, EPF, ELSS, Tuition fees, Principal of HP Loan	₹ 1,50,000
80CCC	Contribution to Pension Funds	Merged within 80C limit
80CCD(1B)	Additional contribution to NPS	₹ 50,000 (Over and above 80C limit)
80D	Medical Insurance Premium	Self/Family: ₹25k (Senior: ₹50k). Parents: ₹25k (Senior: ₹50k). Max: ₹1,00,000.

10.2 Section 80G: Donations

Cash donations exceeding ₹2,000 are not eligible for deduction. Categories:

- **100% without qualifying limit:** PM National Relief Fund, National Defence Fund, Swachh Bharat Kosh, Clean Ganga Fund.
- **50% without qualifying limit:** PM Drought Relief Fund, Jawaharlal Nehru Memorial Fund, Indira Gandhi Memorial Trust.
- **100% with qualifying limit:** Donations to Government/Local Authority for promoting family planning.
- **50% with qualifying limit:** Any other approved charitable trust, housing authority.

Qualifying Limit: 10% of Adjusted Gross Total Income.

10.3 Deduction Details: Section 80E

Interest on Education Loan

Deduction for interest paid on loan taken for higher education. Allowed for a maximum of 8 assessment years. No monetary limit.

Applicability Warning: As a CMA Final student, always verify the regime. If the problem states "Compute tax liability under default provisions", you MUST ignore Section 80E and proceed without it. Only apply this if the taxpayer has explicitly exercised the option to shift to the old regime under section 115BAC(6).

✍️ Unsolved Practice: Application of 80E

Problem:
Compute the deduction available if the assessee opted out of the new regime and incurred relevant expenses.

Hint: Ensure you cap the deduction at the statutory maximum limit.

10.3 Deduction Details: Section 80EEA

Interest on Housing Loan

Additional deduction up to ₹1.5 Lakhs for interest on loan for affordable housing (Stamp value <= ₹45L) sanctioned between 1-Apr-19 and 31-Mar-22.

Applicability Warning: As a CMA Final student, always verify the regime. If the problem states "Compute tax liability under default provisions", you MUST ignore Section 80EEA and proceed without it. Only apply this if the taxpayer has explicitly exercised the option to shift to the old regime under section 115BAC(6).

✍️ Unsolved Practice: Application of 80EEA

Problem:
Compute the deduction available if the assessee opted out of the new regime and incurred relevant expenses.

Hint: Ensure you cap the deduction at the statutory maximum limit.

10.3 Deduction Details: Section 80EEB

Interest on Electric Vehicle Loan

Deduction up to ₹1.5 Lakhs for interest on loan taken to purchase an EV, sanctioned between 1-Apr-19 and 31-Mar-23.

Applicability Warning: As a CMA Final student, always verify the regime. If the problem states "Compute tax liability under default provisions", you MUST ignore Section 80EEB and proceed without it. Only apply this if the taxpayer has explicitly exercised the option to shift to the old regime under section 115BAC(6).

✍️ Unsolved Practice: Application of 80EEB

Problem:
Compute the deduction available if the assessee opted out of the new regime and incurred relevant expenses.

Hint: Ensure you cap the deduction at the statutory maximum limit.

10.3 Deduction Details: Section 80TTA / 80TTB

Interest on Savings / Deposits

80TTA: Up to ₹10,000 on savings account interest (Non-senior). 80TTB: Up to ₹50,000 on savings/FD interest for Senior Citizens.

Applicability Warning: As a CMA Final student, always verify the regime. If the problem states "Compute tax liability under default provisions", you MUST ignore Section 80TTA / 80TTB and proceed without it. Only apply this if the taxpayer has explicitly exercised the option to shift to the old regime under section 115BAC(6).

✍️ Unsolved Practice: Application of 80TTA / 80TTB

Problem:
Compute the deduction available if the assessee opted out of the new regime and incurred relevant expenses.

Hint: Ensure you cap the deduction at the statutory maximum limit.

10.3 Deduction Details: Section 80U

Person with Disability

Flat deduction of ₹75,000 for a resident individual with disability. Increased to ₹1,25,000 for severe disability (80%+).

Applicability Warning: As a CMA Final student, always verify the regime. If the problem states "Compute tax liability under default provisions", you MUST ignore Section 80U and proceed without it. Only apply this if the taxpayer has explicitly exercised the option to shift to the old regime under section 115BAC(6).

✍️ Unsolved Practice: Application of 80U

Problem:
Compute the deduction available if the assessee opted out of the new regime and incurred relevant expenses.

Hint: Ensure you cap the deduction at the statutory maximum limit.

10.3 Deduction Details: Section 80DD

Maintenance of Disabled Dependent

Flat deduction of ₹75,000 (or ₹1,25,000 for severe) for medical treatment/ maintenance of a dependent with disability.

Applicability Warning: As a CMA Final student, always verify the regime. If the problem states "Compute tax liability under default provisions", you MUST ignore Section 80DD and proceed without it. Only apply this if the taxpayer has explicitly exercised the option to shift to the old regime under section 115BAC(6).

✍️ Unsolved Practice: Application of 80DD

Problem:
Compute the deduction available if the assessee opted out of the new regime and incurred relevant expenses.

Hint: Ensure you cap the deduction at the statutory maximum limit.

10.3 Deduction Details: Section 80DDB

Medical Treatment for Specified Diseases

Deduction up to ₹40,000 (₹1,00,000 for senior citizens) for treatment of specified critical illnesses for self or dependent.

Applicability Warning: As a CMA Final student, always verify the regime. If the problem states "Compute tax liability under default provisions", you MUST ignore Section 80DDB and proceed without it. Only apply this if the taxpayer has explicitly exercised the option to shift to the old regime under section 115BAC(6).

✍️ Unsolved Practice: Application of 80DDB

Problem:
Compute the deduction available if the assessee opted out of the new regime and incurred relevant expenses.

Hint: Ensure you cap the deduction at the statutory maximum limit.

10.4 Profit-Linked Deductions (Sec 80-IA to 80-IE)

These are massive deductions allowed to specific undertakings. Note: Undertakings claiming these deductions are generally subject to Alternate Minimum Tax (AMT) u/s 115JC at 18.5%.

Section	Eligible Business	Quantum of Deduction
80-IA	Infrastructure facility, Telecom, Power generation	100% of profits for 10 consecutive years out of 15/20 years.
80-IAB	SEZ Development	100% of profits for 10 consecutive years out of 15 years.
80-IAC	Eligible Start-ups	100% of profits for 3 consecutive years out of first 10 years.
80-IB	Industrial undertakings in backward states	Various percentages (25% to 100%) depending on the specific zone.
80-IBA	Housing Projects (Affordable Housing)	100% of profits subject to project approval conditions.
80-JJAA	Employment of New Workmen	30% of additional employee cost for 3 years. (Available under NEW REGIME).

ICMAI PAPER 15

DIRECT TAX LAWS & INTERNATIONAL TAXATION

PART 4: ASSESSMENT OF ENTITIES

MAT, AMT, Charitable Trusts, Firms & AOP/BOI

Applicable for: December 2026 Examination

Assessment Year: 2026-27

Index for Part 4

Algorithmic Focus: *This volume is particularly geared toward computational structuring. The step-by-step logic provided for MAT and AMT adjustments is perfectly aligned for programming taxation calculation tools. All provisions reflect the Finance Act 2026 (AY 2026-27) framework.*

Chapter 11: Assessment of Companies (MAT)

11.1 Concept of Minimum Alternate Tax (Sec 115JB)

MAT ensures that companies making massive economic profits but paying zero or negligible tax due to various exemptions, deductions, and incentives, pay a minimum amount of tax.

Applicability: Every company (domestic or foreign) is liable to pay MAT if the income tax payable under the normal provisions is less than 15% of its **Book Profit**.

Tax Liability Formula: Higher of:

- Tax under normal provisions (Regular Rates + Surcharge + Cess)
- MAT: 15% of Book Profit + Surcharge + Cess

11.2 Core Algorithm for "Book Profit"

The calculation of Book Profit begins with the *Net Profit as per the Profit & Loss Account* (prepared per Schedule III of the Companies Act). Specific statutory adjustments (Additions and Deletions) are then applied. **No other adjustments are permitted** beyond those explicitly listed in Section 115JB.

11.3 Statutory Additions to Net Profit (Part A)

Add the following amounts if they have been debited to the P&L Account:

Item	Detailed Rationale & Calculation Logic
Income Tax	Income-tax paid/payable, and any provision for income-tax. (Note: Includes Dividend Distribution Tax, Interest under Income Tax Act, Surcharge, and Cess. Does not include STT or indirect taxes like GST).
Reserves	Amounts carried to any reserves, by whatever name called (except specific reserves for shipping companies u/s 33AC).
Unascertained Liabilities	Provisions made for liabilities that are not ascertained. *Example: Provision for Gratuity purely on an ad-hoc basis (without actuarial valuation).*
Contingent Losses	Provisions for losses of subsidiary companies.

11.3 Statutory Additions to Net Profit (Part B)

Item	Detailed Rationale & Calculation Logic
Dividends	Dividends paid or proposed.
Deferred Tax	Expenditure related to deferred tax and the provision for deferred tax.
Exempt Incomes	Expenditure relatable to income exempt u/s 10, 11, or 12. (Exceptions apply to Section 10AA and Section 10(38) incomes, which are not added back).
Depreciation	The amount of depreciation debited to the P&L Account. (This is added back so that we can deduct the strictly permissible depreciation in the next step).
Foreign Co. specific	Expenditure related to Capital Gains from securities, Royalty, or FTS (if tax rate < 15%).

11.4 Statutory Deletions from Net Profit (Part A)

Deduct the following amounts if they have been credited to the P&L Account or meet specific criteria:

Item	Detailed Rationale & Calculation Logic
Withdrawal from Reserves	Amount withdrawn from any reserve or provision, if such reserve was created out of profits which were subjected to MAT in the past.
Exempt Incomes	Income exempt under section 10, 11, or 12 (excluding 10AA).
Depreciation	Depreciation (other than depreciation on revaluation of assets). *Logic: We added back total depreciation earlier. Now we deduct depreciation excluding the revaluation component.*

11.4 Statutory Deletions from Net Profit (Part B)

Item	Detailed Rationale & Calculation Logic
B/F Loss or Unabsorbed Depr	**CRITICAL STEP:** Deduct Brought Forward Business Loss OR Unabsorbed Depreciation as per the books of account, **whichever is LESS**. If either is Nil, the deduction is Nil.
Sick Companies	Profits of a sick industrial company until its net worth becomes positive.
Deferred Tax	Amount of deferred tax credited to the P&L account.
Foreign Co. specific	Income from Capital Gains from securities, Royalty, or FTS accruing to a foreign company (if taxed at less than 15%).

📚 Solved Illustration: MAT Computation Algorithm

Problem:
A company's P&L shows Net Profit of ₹150 Lakhs. The P&L is debited with: Provision for Income Tax (₹20L), Proposed Dividend (₹10L), Depreciation (₹30L - includes ₹5L on revaluation). It is credited with: Withdrawal from General Reserve (₹15L - created in a non-MAT year). B/F Loss as per books is ₹40L and Unabsorbed Depreciation is ₹25L. Calculate Book Profit.

Solution:

- **Net Profit:** 150
- **Additions:**
- Provision for Tax: +20
- Proposed Dividend: +10
- Depreciation debited: +30
- *(Total after additions = 210)*
- **Deletions:**
- Withdrawal from Reserve: NIL (Since it was created in a non-MAT year, it cannot be deducted now).
- Depreciation (excluding reval): 30 - 5 = -25
- B/F Loss (40) OR Unabsorbed Depr (25), whichever is LESS: -25
- *(Total deletions = 50)*
- **Book Profit = 210 - 50 = ₹160 Lakhs.**
- MAT Liability = 15% of 160L = ₹24 Lakhs (+ Surcharge/Cess).

11.5 MAT Credit (Sec 115JAA)

When a company pays tax under MAT, the excess of MAT over the normal tax is allowed as MAT Credit.

MAT Credit = **MAT Paid - Normal Tax Payable**

Carry Forward: MAT Credit can be carried forward for **15 Assessment Years** immediately succeeding the assessment year in which such credit became allowable.

Utilization: It can be utilized in a year when Normal Tax > MAT. The maximum credit that can be utilized in a year is (Normal Tax - MAT for that year).

✍️ Unsolved Practice: MAT Credit Mechanism

Problem:
In Year 1, Normal Tax is ₹10L, MAT is ₹18L. In Year 2, Normal Tax is ₹25L, MAT is ₹20L. Show the tax payable and MAT credit balance for both years.

Hint: Year 1: Pay MAT (₹18L). Generate credit of ₹8L. Year 2: Pay Normal Tax but utilize credit. Max utilization = 25L - 20L = 5L. Pay ₹20L. Remaining credit of ₹3L carried forward.

11.6 Specialized Adjustments in MAT - Part 1

Advanced corporate restructuring and specific industry adjustments under Section 115JB.

Ind AS Compliant Companies

For companies required to comply with Indian Accounting Standards (Ind AS), Book Profit must be further adjusted for Other Comprehensive Income (OCI) items.

- Items in OCI that will not be reclassified to P&L (e.g., changes in revaluation surplus, actuarial gains/losses on defined benefit plans) must be included in Book Profit in the year of realization/disposal.
- Transition amounts on the date of convergence to Ind AS must be adjusted equally over a period of 5 years.

✍️ Unsolved Practice: Ind AS Application 1

Problem:
A company transitioned to Ind AS. The convergence adjustment resulted in a positive balance of ₹50 Lakhs in retained earnings. How is this treated for MAT?

Hint: The transition amount is added to Book Profit equally over 5 years (i.e., ₹10 Lakhs per year).

11.6 Specialized Adjustments in MAT - Part 2

Advanced corporate restructuring and specific industry adjustments under Section 115JB.

Ind AS Compliant Companies

For companies required to comply with Indian Accounting Standards (Ind AS), Book Profit must be further adjusted for Other Comprehensive Income (OCI) items.

- Items in OCI that will not be reclassified to P&L (e.g., changes in revaluation surplus, actuarial gains/losses on defined benefit plans) must be included in Book Profit in the year of realization/disposal.
- Transition amounts on the date of convergence to Ind AS must be adjusted equally over a period of 5 years.

✍️ Unsolved Practice: Ind AS Application 2

Problem:
A company transitioned to Ind AS. The convergence adjustment resulted in a positive balance of ₹50 Lakhs in retained earnings. How is this treated for MAT?

Hint: The transition amount is added to Book Profit equally over 5 years (i.e., ₹10 Lakhs per year).

11.6 Specialized Adjustments in MAT - Part 3

Advanced corporate restructuring and specific industry adjustments under Section 115JB.

Ind AS Compliant Companies

For companies required to comply with Indian Accounting Standards (Ind AS), Book Profit must be further adjusted for Other Comprehensive Income (OCI) items.

- Items in OCI that will not be reclassified to P&L (e.g., changes in revaluation surplus, actuarial gains/losses on defined benefit plans) must be included in Book Profit in the year of realization/disposal.
- Transition amounts on the date of convergence to Ind AS must be adjusted equally over a period of 5 years.

✍️ Unsolved Practice: Ind AS Application 3

Problem:
A company transitioned to Ind AS. The convergence adjustment resulted in a positive balance of ₹50 Lakhs in retained earnings. How is this treated for MAT?

Hint: The transition amount is added to Book Profit equally over 5 years (i.e., ₹10 Lakhs per year).

Chapter 12: Alternate Minimum Tax (AMT u/s 115JC)

12.1 Concept of AMT

Similar to MAT for companies, AMT applies to **Non-Corporate Assessees** (Individuals, HUF, Firms, AOP/BOI, Artificial Juridical Persons).

> ***Exemption Threshold:*** *For Individuals, HUFs, AOPs, BOIs, and Artificial Juridical Persons, AMT provisions apply ONLY if the Adjusted Total Income (ATI) exceeds* ***₹20 Lakhs****. (Firms/LLPs have no such basic threshold; AMT applies regardless of ATI size).*

12.2 Applicability & Rate

AMT is triggered if the assessee has claimed deductions under:

- Chapter VI-A under the heading "C - Deductions in respect of certain incomes" (Sec 80-IA to 80-RRB, EXCEPT Sec 80P).
- Section 10AA (SEZ units).
- Section 35AD (Investment-linked deduction for specified business).

AMT Rate: 18.5% of Adjusted Total Income (+ Surcharge + Cess).

12.3 Computation of Adjusted Total Income (ATI)

ATI Formula:

Regular Total Income

ADD: Deductions claimed under Chapter VI-A (Heading C, excluding 80P)

ADD: Deduction claimed u/s 10AA

ADD: Deduction claimed u/s 35AD

LESS: Depreciation allowable u/s 32 as if Section 35AD was not claimed.

= **Adjusted Total Income (ATI)**

AMT Credit (Sec 115JD) works exactly like MAT Credit. Excess AMT paid over normal tax is carried forward for 15 Assessment Years.

📚 Solved Illustration: AMT Calculation

Problem:
Mr. M (Total Income: ₹25L) claimed a deduction of ₹15L u/s 80-IA. Calculate his tax liability (Assume he opted for old regime to claim 80-IA).

Solution:

- Total Income = ₹25,00,000.
- Normal Tax (Old Regime) = ₹5,62,500. Add 4% Cess = **₹5,85,000**.
- Adjusted Total Income (ATI) = 25,00,000 (Income) + 15,00,000 (80-IA deduction) = ₹40,00,000.
- Since ATI > 20L, AMT applies.
- AMT = 18.5% of 40,00,000 = ₹7,40,000. Add 4% Cess = **₹7,69,600**.
- **Tax Payable:** Higher of Normal or AMT = ₹7,69,600.
- AMT Credit generated = 7,69,600 - 5,85,000 = ₹1,84,600.

12.4 Advanced AMT Case Studies - Part 1

If an assessee is subject to the default New Tax Regime u/s 115BAC, deductions under Chapter VI-A (Heading C) and Section 10AA are generally not allowed. Consequently, the applicability of AMT is practically neutralized for individuals/HUFs remaining in the new regime.

✍️ Unsolved Practice: AMT under New Regime Context 1

Problem:
A partnership firm claims 10AA deduction of ₹30 Lakhs. Its regular total income is ₹15 Lakhs. Will AMT apply?

Hint: Yes. Firms do not have the ₹20 Lakh ATI threshold limit. Compute ATI (15L + 30L = 45L) and apply 18.5%.

12.4 Advanced AMT Case Studies - Part 2

If an assessee is subject to the default New Tax Regime u/s 115BAC, deductions under Chapter VI-A (Heading C) and Section 10AA are generally not allowed. Consequently, the applicability of AMT is practically neutralized for individuals/HUFs remaining in the new regime.

✍️ Unsolved Practice: AMT under New Regime Context 2

Problem:
A partnership firm claims 10AA deduction of ₹30 Lakhs. Its regular total income is ₹15 Lakhs. Will AMT apply?

Hint: Yes. Firms do not have the ₹20 Lakh ATI threshold limit. Compute ATI (15L + 30L = 45L) and apply 18.5%.

Chapter 13: Assessment of Charitable Trusts

13.1 Basic Exemptions (Sec 11 & 12)

Income derived from property held under a trust wholly for charitable or religious purposes is exempt to the extent such income is **applied** for such purposes in India.

- **Unconditional Accumulation:** 15% of the total income can be accumulated indefinitely without any conditions. It is unconditionally exempt.
- **Mandatory Application:** The remaining 85% must be applied for charitable/religious purposes during the previous year.

13.2 Shortfall in Application

If 85% of the income is not applied, the shortfall can still be exempted if:

1. **Deemed Application:** The income has not been received, or the trust exercises an option (by filing a prescribed form before the ITR due date) to apply the shortfall in the *immediately following* year.
2. **Statutory Accumulation (Sec 11(2)):** Form 10 is filed specifying the purpose, the period of accumulation cannot exceed **5 years**, and the money is invested in specified modes u/s 11(5) (e.g., Govt savings certificates, Post office deposits, scheduled banks).

13.3 Anonymous Donations (Sec 115BBC)

Donations where the trust does not maintain records of the identity (name and address) of the donor.

Taxability: Taxed at a flat rate of **30%**.

Exemption Threshold: Anonymous donations are exempt up to the HIGHER of:

- 5% of total donations received.
- ₹ 1,00,000.

Note: Sec 115BBC does not apply to wholly religious trusts. For partly religious and partly charitable trusts, it applies only to anonymous donations directed towards the educational/medical institutions run by them.

📚 Solved Illustration: Anonymous Donation Calculation

Problem:
A charitable trust receives total donations of ₹50 Lakhs, out of which ₹10 Lakhs are anonymous. Calculate the amount taxable u/s 115BBC @ 30%.

Solution:

- Total Donations = 50,00,000.
- Anonymous = 10,00,000.
- Exemption is HIGHER of: (i) 5% of 50,00,000 = 2,50,000, OR (ii) 1,00,000. Higher is 2,50,000.
- Taxable Anonymous Donations = 10,00,000 - 2,50,000 = **₹7,50,000**.
- ₹7,50,000 is taxed @ 30%. The remaining ₹2,50,000 is treated as normal trust income subject to 85% application rules.

13.4 Accreted Income / Exit Tax (Sec 115TD)

If a trust converts into any form which is not eligible for grant of registration, or merges with an entity not having similar objectives, or fails to transfer assets to another trust upon dissolution, it must pay Tax on Accreted Income.

> ***Accreted Income** = **Aggregate FMV of total assets - Total liability.***
> *Tax Rate: Maximum Marginal Rate (MMR), which includes the highest surcharge and cess.*

13.5 Forfeiture of Exemption under Section 13 - Part 1

Section 13 dictates scenarios where a trust completely loses its exemption under sections 11 and 12.

Prohibited Activities

- If the trust is created for the benefit of any particular religious community or caste.
- If any part of the income or property is used directly or indirectly for the benefit of the founder, trustees, substantial contributors (contribution > ₹50,000), or their relatives.
- If funds are invested in forms/modes OTHER than those specified in Section 11(5).

✍️ Unsolved Practice: Trust Compliance Case 1

Problem:
A charitable trust provided an interest-free loan of ₹5 Lakhs to the founder's son for his higher education. Discuss the tax implications.

Hint: This is a direct violation of Section 13(1)(c) - benefit to a specified person. The exemption u/s 11 will be forfeited.

13.5 Forfeiture of Exemption under Section 13 - Part 2

Section 13 dictates scenarios where a trust completely loses its exemption under sections 11 and 12.

Prohibited Activities

- If the trust is created for the benefit of any particular religious community or caste.
- If any part of the income or property is used directly or indirectly for the benefit of the founder, trustees, substantial contributors (contribution > ₹50,000), or their relatives.
- If funds are invested in forms/modes OTHER than those specified in Section 11(5).

✍️ Unsolved Practice: Trust Compliance Case 2

Problem:
A charitable trust provided an interest-free loan of ₹5 Lakhs to the founder's son for his higher education. Discuss the tax implications.

Hint: This is a direct violation of Section 13(1)(c) - benefit to a specified person. The exemption u/s 11 will be forfeited.

13.5 Forfeiture of Exemption under Section 13 - Part 3

Section 13 dictates scenarios where a trust completely loses its exemption under sections 11 and 12.

Prohibited Activities

- If the trust is created for the benefit of any particular religious community or caste.
- If any part of the income or property is used directly or indirectly for the benefit of the founder, trustees, substantial contributors (contribution > ₹50,000), or their relatives.
- If funds are invested in forms/modes OTHER than those specified in Section 11(5).

✍️ Unsolved Practice: Trust Compliance Case 3

Problem:
A charitable trust provided an interest-free loan of ₹5 Lakhs to the founder's son for his higher education. Discuss the tax implications.

Hint: This is a direct violation of Section 13(1)(c) - benefit to a specified person. The exemption u/s 11 will be forfeited.

Chapter 14: Assessment of Firms & LLPs

14.1 Conditions for Assessment as a Firm (Sec 184)

To be assessed as a Firm, the following conditions must be met:

- The partnership must be evidenced by an instrument in writing (Partnership Deed).
- The individual shares of the partners must be clearly specified in the deed.
- A certified copy of the deed must accompany the return of income for the first assessment year.

If these are not met, the firm is assessed under Sec 185 (No deduction for interest or remuneration to partners allowed).

14.2 Remuneration to Partners (Sec 40(b))

Remuneration (salary, bonus, commission) is allowed as a deduction only if:

- Paid only to **Working Partners**.
- Authorized by and in accordance with the Partnership Deed.
- Does not pertain to a period prior to the date of the deed.
- Within the statutory limits based on **Book Profit**.

14.3 Statutory Limits for Remuneration (Sec 40(b))

Book Profit Slab	Maximum Permissible Remuneration
On the first ₹ 3,00,000 of Book Profit (or in case of a loss)	₹ 1,50,000 OR 90% of Book Profit (whichever is MORE)
On the balance Book Profit	60% of Book Profit

14.4 Interest on Capital (Sec 40(b))

Interest paid to any partner (working or non-working) is allowed as a deduction up to a maximum of **12% simple interest per annum**, provided it is authorized by the partnership deed.

📚 Solved Illustration: Firm Book Profit and Remuneration

Problem:
A firm's net profit as per P&L is ₹4,00,000. The P&L was debited with Remuneration to working partners: ₹6,00,000, and Interest on Capital @ 15%: ₹1,50,000. Calculate Book Profit and allowable remuneration.

Solution:

- **Step 1: Compute Book Profit.**
- Net Profit: 4,00,000
- Add: Remuneration (always add back entirely): +6,00,000
- Add: Excess Interest on Capital (15% - 12% = 3%): (1,50,000 / 15) * 3 = +30,000
- **Book Profit** = **10,30,000.**
- **Step 2: Compute Maximum Remuneration u/s 40(b).**
- On first 3,00,000: 90% of 3L = 2,70,000 (since > 1.5L)
- On balance 7,30,000: 60% of 7.3L = 4,38,000
- Max limit = 2,70,000 + 4,38,000 = **₹7,08,000**.
- **Step 3: Allowable Remuneration.**
- Actual paid (6,00,000) OR Limit (7,08,000), whichever is LESS.
- **Allowable Remuneration** = **₹6,00,000.**

14.5 Advanced Firm Adjustments - Part 1

Treatment of Losses

The business loss of the firm is carried forward and set off by the **firm itself**. It cannot be apportioned among the partners. Unabsorbed depreciation is also carried forward by the firm.

Change in Constitution

If a partner retires or dies, the firm's brought forward business loss relating to the share of the retiring/deceased partner CANNOT be carried forward u/s 78(2). (Note: This restriction does not apply to unabsorbed depreciation).

✍️ Unsolved Practice: Firm Taxation Scenario 1

Problem:
A firm has 3 equal partners A, B, and C. B retires. The firm has a brought forward business loss of ₹9 Lakhs. How much can be carried forward by the reconstituted firm?

Hint: Loss pertaining to B's share (1/3rd = ₹3 Lakhs) will lapse. The firm can carry forward only ₹6 Lakhs.

14.5 Advanced Firm Adjustments - Part 2

Treatment of Losses

The business loss of the firm is carried forward and set off by the **firm itself**. It cannot be apportioned among the partners. Unabsorbed depreciation is also carried forward by the firm.

Change in Constitution

If a partner retires or dies, the firm's brought forward business loss relating to the share of the retiring/deceased partner CANNOT be carried forward u/s 78(2). (Note: This restriction does not apply to unabsorbed depreciation).

✍️ Unsolved Practice: Firm Taxation Scenario 2

Problem:
A firm has 3 equal partners A, B, and C. B retires. The firm has a brought forward business loss of ₹9 Lakhs. How much can be carried forward by the reconstituted firm?

Hint: Loss pertaining to B's share (1/3rd = ₹3 Lakhs) will lapse. The firm can carry forward only ₹6 Lakhs.

Chapter 15: Assessment of AOP / BOI

15.1 Basic Concept

An Association of Persons (AOP) or Body of Individuals (BOI) is treated as a separate taxable entity. The method of taxation depends primarily on whether the shares of the members are determinate (known) or indeterminate (unknown).

15.2 Tax Rates for AOP / BOI (Sec 167B)

Scenario 1: Shares of members are DETERMINATE

- If none of the members has income exceeding the basic exemption limit: Taxed at normal slab rates applicable to individuals.
- If any member has income exceeding the basic exemption limit: Taxed at the Maximum Marginal Rate (MMR).
- If any member is a foreign company/entity taxed at a rate higher than MMR: That portion of the AOP's income is taxed at that higher rate, and the balance at MMR.

Scenario 2: Shares of members are INDETERMINATE

The entire income of the AOP / BOI is taxed at the Maximum Marginal Rate (MMR). (If any member is taxed at a rate higher than MMR, the entire income is taxed at that higher rate).

15.3 Disallowances in AOP / BOI (Sec 40(ba))

Any payment of **interest, salary, bonus, commission, or remuneration** by whatever name called, made by an AOP or BOI to its members is **NOT** allowed as a deduction.

> ***Exception for Interest:*** *If interest is paid by the AOP to a member, and interest is also received by the AOP from that member, then only the NET interest paid by the AOP is disallowed.*

✍️ Unsolved Practice: AOP Taxation Logic

Problem:
An AOP has three members X, Y, and Z with equal shares. The AOP earns ₹15 Lakhs. X has a personal income of ₹5 Lakhs, Y has ₹2 Lakhs, and Z has NIL. Determine the tax rate applicable to the AOP.

Hint: Since the shares are determinate (equal), check the individual incomes. X has personal income exceeding the basic exemption limit (assuming New Regime). Because at least one member exceeds the basic exemption limit, the entire AOP income is taxed at the Maximum Marginal Rate (MMR).

ICMAI PAPER 15

DIRECT TAX LAWS & INTERNATIONAL TAXATION

PART 5: TAX MANAGEMENT & INTERNATIONAL TAXATION

TDS, Assessments, DTAA, Transfer Pricing & GAAR

Applicable for: December 2026 Examination
Assessment Year: 2026-27

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Index for Part 5

Crucial Exam Note: *This final volume covers the highly procedural and specialized international taxation aspects. International Taxation alone carries a solid 30-mark weightage. Ensure you master the nuances of Transfer Pricing Secondary Adjustments and the interplay between Sec 194Q and 206C(1H), as these are core components of the Dec 2026 exam matrix.*

Chapter 16: Tax Deduction & Collection at Source (TDS/TCS)

16.1 Key TDS Provisions (AY 2026-27 Focus)

TDS acts as a mechanism for the government to collect tax at the very source of income generation. The deductor must deposit the TDS and file quarterly returns.

Sec	Nature of Payment	Threshold (₹)	Rate
194A	Interest other than securities	40,000 (50k for Senior)	10%
194C	Payments to Contractors	30k single / 1L aggregate	1% (Ind/HUF), 2% (Others)
194J	Professional / Tech Services	30,000	10% (Prof) / 2% (Tech/Royalty for cinematographic films)
194Q	Purchase of Goods (Buyer TO > 10Cr)	50 Lakhs	0.1% on excess over 50L
194R	Benefits/Perquisites in Business	20,000	10%

16.2 Critical Interplay: Sec 194Q vs Sec 206C(1H)

Sec 194Q (TDS on Purchase): Buyer's preceding year turnover > ₹10 Cr. Rate: 0.1% on purchase value exceeding ₹50 Lakhs.

Sec 206C(1H) (TCS on Sale): Seller's preceding year turnover > ₹10 Cr. Rate: 0.1% on receipt of consideration exceeding ₹50 Lakhs.

The Tie-Breaker Rule: If a transaction falls under both sections (i.e., both Buyer and Seller have turnover > ₹10 Cr), **Section 194Q shall prevail**. The Buyer MUST deduct TDS, and the Seller SHALL NOT collect TCS.

📚 Solved Illustration: 194Q vs 206C(1H) Application

Problem:
Company A (Buyer, PY Turnover: 12 Cr) purchases goods from Company B (Seller, PY Turnover: 15 Cr). The total purchase value during the year is ₹85 Lakhs. Who will deduct/collect tax, and how much?

Solution:

- Since both buyer and seller have turnover > 10 Cr, both sections seemingly apply.
- Applying the tie-breaker rule, Sec 194Q prevails over Sec 206C(1H).
- Therefore, Company A (Buyer) is liable to deduct TDS.
- Taxable Value = 85,00,000 - 50,00,000 (Threshold) = ₹35,00,000.
- TDS Amount = 0.1% of ₹35,00,000 = **₹3,500**.

16.3 Non-Compliance & Higher Rates - Part 1

Section 206AA / 206CC (Non-furnishing of PAN)

If the deductee/collectee fails to furnish their PAN, tax shall be deducted/collected at the HIGHER of:

- The rate specified in the relevant provision of the Act.
- The rate or rates in force.
- 20% (For Sec 194Q and 206C(1H), the rate is 5% instead of 20%).

Section 206AB / 206CCA (Non-filers of Return)

Applies if the deductee has not filed the ITR for the preceding previous year, and the aggregate TDS/TCS in that year was ₹50,000 or more. The rate will be higher of: twice the specified rate OR 5%.

✍️ Unsolved Practice: TDS Default Scenario 1

Problem:
A contractor (Individual) did not furnish his PAN. Contract payment was ₹5 Lakhs. What is the TDS u/s 194C?

Hint: Normal rate is 1%. Due to missing PAN u/s 206AA, the rate becomes 20%.

16.3 Non-Compliance & Higher Rates - Part 2

Section 206AA / 206CC (Non-furnishing of PAN)

If the deductee/collectee fails to furnish their PAN, tax shall be deducted/collected at the HIGHER of:

- The rate specified in the relevant provision of the Act.
- The rate or rates in force.
- 20% (For Sec 194Q and 206C(1H), the rate is 5% instead of 20%).

Section 206AB / 206CCA (Non-filers of Return)

Applies if the deductee has not filed the ITR for the preceding previous year, and the aggregate TDS/TCS in that year was ₹50,000 or more. The rate will be higher of: twice the specified rate OR 5%.

✍️ Unsolved Practice: TDS Default Scenario 2

Problem:
A contractor (Individual) did not furnish his PAN. Contract payment was ₹5 Lakhs. What is the TDS u/s 194C?

Hint: Normal rate is 1%. Due to missing PAN u/s 206AA, the rate becomes 20%.

Chapter 17: Advance Tax & Assessment Procedures

17.1 Advance Tax (Sec 207-211)

Advance tax is payable if the estimated tax liability for the year is **₹10,000 or more**. Exemption: Resident senior citizens (age 60+) who do not have any income under PGBP are exempt from paying advance tax.

Installment Date	Cumulative % of Tax Payable
On or before 15th June	15%
On or before 15th September	45%
On or before 15th December	75%
On or before 15th March	100%

Note: Assessees opting for presumptive taxation u/s 44AD or 44ADA need to pay 100% advance tax in a single installment on or before 15th March.

17.2 Return of Income (Sec 139)

Due Dates (Sec 139(1)):

- 31st July: Individual, HUF, AOP, BOI (Non-Audit cases).
- 31st October: Companies, persons whose accounts must be audited, and working partners of such firms.
- 30th November: Persons required to furnish a report u/s 92E (Transfer Pricing).

Updated Return (Sec 139(8A)): Any person can file an updated return within **24 months** from the end of the relevant assessment year, irrespective of whether they filed an original return or not. However, additional tax is payable: 25% of tax and interest (if filed within 12 months) or 50% (if filed between 12 and 24 months).

17.3 Types of Assessments

- **Sec 143(1) Intimation:** Automated processing for arithmetical errors and incorrect claims.
- **Sec 143(3) Scrutiny Assessment:** Notice u/s 143(2) must be served within 6 months from the end of the FY in which the return is furnished.
- **Sec 144 Best Judgment Assessment:** Done if the assessee fails to file a return, fails to comply with notices, or fails to get accounts audited as directed.

📚 Solved Illustration: Income Escaping Assessment Time Limits

Problem:
The Assessing Officer (AO) discovers that Mr. H has escaped income of ₹60 Lakhs for AY 2021-22 in the form of an undisclosed foreign bank account. Can the AO issue a notice u/s 148 in November 2026?

Solution:

- Under the revised provisions of Sec 149, notice u/s 148 can generally be issued up to **3 years** from the end of the relevant AY.
- However, if the escaped income is represented in the form of an asset and amounts to **₹50 Lakhs or more**, the time limit is extended to **10 years**.
- Here, the escaped income > 50 Lakhs. The 10-year limit applies.
- AY 2021-22 ends on 31-Mar-2022. 10 years end on 31-Mar-2032.
- Therefore, the notice issued in November 2026 is perfectly **valid**.

Chapter 18: Appeals & Penalties

18.1 Hierarchy of Appeals

Authority	Section	Time Limit to File Appeal
CIT (Appeals)	246A	30 days from the date of service of notice of demand/order.
ITAT	253	60 days from the date of communication of the order. (ITAT is the final fact-finding authority).
High Court	260A	120 days. Allowed ONLY if the case involves a "Substantial Question of Law".
Supreme Court	261	90 days. Against the judgment of the High Court.

18.2 Critical Penalty Provisions

- **Sec 270A:** Penalty for Under-reporting (50% of tax payable on under-reported income) and Misreporting (200% of tax).
- **Sec 271F:** Fee for default in furnishing return of income. ₹5,000 if filed before 31st Dec; otherwise ₹10,000. (If total income <= 5 Lakhs, max fee is ₹1,000).
- **Sec 271C:** Penalty for failure to deduct tax at source (TDS). 100% of the tax that was not deducted.

Chapter 19: DTAA & Non-Resident Taxation

19.1 Double Taxation Avoidance Agreement (Sec 90)

To avoid double taxation of income across borders, India enters into DTAAs. As per Sec 90(2), where a DTAA exists, the provisions of the Income Tax Act or the DTAA, **whichever is more beneficial to the assessee**, shall apply.

> ***Tax Residency Certificate (TRC):*** *A non-resident CANNOT claim the relief provided under the DTAA unless they obtain a TRC from the government of their home country.*

19.2 Permanent Establishment (PE)

Business profits of a foreign enterprise are generally taxable in India ONLY if it has a PE in India. Types of PE:

- **Fixed Place PE:** Branch, office, factory, workshop, mine.
- **Agency PE:** Dependent agent who habitually concludes contracts on behalf of the enterprise.
- **Service PE:** Furnishing of services by a foreign enterprise through employees in India for a specified period (e.g., > 90 days).

19.3 Special Rates for Non-Residents (Sec 115A - 115BBA)

Non-residents are taxed at flat rates on a GROSS basis (no deduction for expenditures allowed) for specific incomes.

Nature of Income	Section	Base Rate
Dividends from Indian Companies	115A	20%
Interest from Govt / Indian Concern	115A	20%
Royalty & Fees for Technical Services (FTS)	115A	20% (Often reduced to 10% or 15% under DTAAs)
Income of Non-Resident Sportsmen / Sports Associations	115BBA	20%

📚 Solved Illustration: DTAA Beneficial Rate

Problem:
A UK company receives Royalty of ₹50 Lakhs from an Indian company. The IT Act taxes royalty @ 20%. The India-UK DTAA taxes royalty @ 15%. Determine the tax rate and documentation required.

Solution:

- As per Sec 90(2), the assessee can choose the Act or the DTAA, whichever is more beneficial.
- The DTAA rate of 15% is lower and more beneficial.
- However, to claim the 15% rate, the UK company MUST furnish a **Tax Residency Certificate (TRC)** from the UK tax authorities.
- If TRC is furnished, tax = 15%. If not, tax = 20% (or higher if PAN is missing u/s 206AA).

Chapter 20: Transfer Pricing, Equalisation Levy & GAAR

20.1 Transfer Pricing & Arm's Length Price (Sec 92C)

Any income arising from an "International Transaction" or "Specified Domestic Transaction (SDT > 20Cr)" between Associated Enterprises (AEs) must be computed having regard to the Arm's Length Price (ALP).

Approved Methods for ALP:

1. Comparable Uncontrolled Price (CUP) Method
2. Resale Price Method (RPM)
3. Cost Plus Method (CPM)
4. Profit Split Method (PSM)
5. Transactional Net Margin Method (TNMM)

20.2 Secondary Adjustments (Sec 92CE)

If a primary transfer pricing adjustment is made (exceeding ₹1 Crore), the excess money lying with the foreign AE must be repatriated to India within 90 days. If not repatriated, it is treated as an advance, and interest is imputed on it annually until repatriation. Alternatively, the company can pay a one-time additional tax @ 18% (+ surcharge/cess) on the excess amount.

20.3 Equalisation Levy ("Google Tax")

Introduced to tax B2B digital transactions where foreign companies do not have a PE in India.

Levy Type	Applicability	Threshold Limit
6% Levy	Amount paid to a Non-Resident for *online advertisement* or providing digital advertising space.	₹ 1 Lakh per year (paid by Indian resident).
2% Levy	Amount received by an *e-commerce operator* (Non-Resident) from e-commerce supply or services made to an Indian resident.	₹ 2 Crores per year (Gross receipts of operator).

20.4 General Anti-Avoidance Rules (GAAR)

GAAR gives tax authorities sweeping powers to declare any transaction as an "Impermissible Avoidance Arrangement" (IAA) if its main purpose is to obtain a tax benefit, and it lacks commercial substance.

Threshold: GAAR can only be invoked if the tax benefit arising from the arrangement in the relevant assessment year exceeds **₹3 Crores**.

Consequences: The AO can disregard corporate structures, recharacterize equity into debt, reallocate income, and deny tax treaty (DTAA) benefits.

20.5 Advanced Transfer Pricing Mechanisms - Part 1

Advance Pricing Agreement (APA): An agreement between a taxpayer and the CBDT determining in advance the ALP methodology for a specified period (up to 5 future years). It also features a 'Rollback provision' allowing application to 4 preceding years.

Thin Capitalization (Sec 94B): To prevent profit shifting via excessive interest payments, interest paid to a non-resident Associated Enterprise is restricted to a maximum of **30% of EBITDA**. The excess interest is disallowed but can be carried forward for 8 assessment years.

✍️ Unsolved Practice: Thin Cap Calculation 1

Problem:
Indian Co's EBITDA is ₹100 Lakhs. It paid interest of ₹50 Lakhs to its foreign parent company. Calculate the disallowance u/s 94B.

Hint: Max allowable interest = 30% of 100L = 30L. Disallowed interest = 50L - 30L = 20L. This 20L can be carried forward.

20.5 Advanced Transfer Pricing Mechanisms - Part 2

Advance Pricing Agreement (APA): An agreement between a taxpayer and the CBDT determining in advance the ALP methodology for a specified period (up to 5 future years). It also features a 'Rollback provision' allowing application to 4 preceding years.

Thin Capitalization (Sec 94B): To prevent profit shifting via excessive interest payments, interest paid to a non-resident Associated Enterprise is restricted to a maximum of **30% of EBITDA**. The excess interest is disallowed but can be carried forward for 8 assessment years.

✍️ Unsolved Practice: Thin Cap Calculation 2

Problem:
Indian Co's EBITDA is ₹100 Lakhs. It paid interest of ₹50 Lakhs to its foreign parent company. Calculate the disallowance u/s 94B.

Hint: Max allowable interest = 30% of 100L = 30L. Disallowed interest = 50L - 30L = 20L. This 20L can be carried forward.

ICMAI PAPER 15

DIRECT TAX LAWS & INTERNATIONAL TAXATION

PART 6: MASTER PROBLEM SOLVER

Chapter 1: Basics & Residential Status
(ICMAI Suggested Approach)

Applicable for: December 2026 Examination
Assessment Year: 2026-27 (Previous Year 2025-26)

Chapter 1: Basics & Residential Status

Welcome to the **Master Problem Solver Series**. This document shifts focus from pure theory to rigorous, practical application. Below are 5 high-yield illustrations crafted precisely to the standard of the ICMAI Final examination.

Each illustration follows our proprietary 5-step learning framework:

1. **The Question**
2. **How to Read the Question:** Decoding examiner intent.
3. **Key Point Notings:** Structuring the rough work.
4. **ICMAI Suggested Answer:** Formal presentation for maximum marks.
5. **CMA Insights:** Practical, real-world advisory application.

Illustration 1: Standard Residential Status Testing

1. THE QUESTION

Mr. John, a citizen of the UK (not a Person of Indian Origin), comes to India for the first time on 1st May 2021. During the financial years 2021-22, 2022-23, 2023-24, and 2024-25, he stayed in India for 120 days, 115 days, 15 days, and 190 days respectively. During the Previous Year 2025-26, he comes to India on 1st December 2025 and leaves on 28th February 2026. Determine his residential status for the Assessment Year 2026-27.

2. HOW TO READ THE QUESTION

- **Identify Citizenship:** He is a UK citizen, NOT an Indian citizen or PIO. Thus, the special exceptions (182-day or 120-day rules) DO NOT apply. The standard 60-day rule applies.
- **Identify the Target Year:** Determine the exact number of days he stayed in India during the current Previous Year (PY 2025-26).

- **Check Preceding Years:** The question gives data for the last 4 years. This immediately hints that you need to check the "60 days + 365 days" basic condition.

3. NOTING OF KEY POINTS (ROUGH WORK)

- **Current PY (2025-26) stay:** Dec (31) + Jan (31) + Feb (28) = 90 days.
- **Exception applicable?** No.
- **Preceding 4 Years stay (21-22 to 24-25):** 120 + 115 + 15 + 190 = 440 days.
- **Basic condition satisfied?** Yes (90 is >= 60, and 440 is >= 365). Therefore, he is a Resident.
- **Additional conditions (for ROR):** Needs 730 days in 7 years. He only came for the first time in 2021. Total stay since 2021 before current PY is 440 days. He clearly fails the 730-day requirement.

4. ANSWER AS PER ICMAI SUGGESTED FORMAT

Step 1: Statutory Provision
Under Section 6(1) of the Income Tax Act, 1961, an individual is said to be resident in India if he satisfies any one of the following basic conditions:
(a) He is in India in the previous year for 182 days or more; OR
(b) He is in India for 60 days or more in the previous year and 365 days or more during the 4 years preceding the previous year.

Step 2: Testing Basic Conditions
Stay of Mr. John in the current PY 2025-26 (1st Dec 2025 to 28th Feb 2026):
December = 31 days
January = 31 days
February = 28 days
Total Stay in PY = 90 days.

Since his stay is less than 182 days but more than 60 days, we check the second condition. His total stay in the 4 preceding previous years is (120 + 115 + 15 + 190) = 440 days, which exceeds 365 days. Hence, Mr. John is a **Resident** in India.

Step 3: Testing Additional Conditions u/s 6(6)
An individual is 'Resident and Ordinarily Resident (ROR)' only if he satisfies BOTH additional conditions: (i) Resident in 2 out of 10 preceding PYs, and (ii) Stay in India for 730 days or more in 7 preceding PYs.

Mr. John came to India for the first time on 1st May 2021. His total stay in the 7 preceding years is only 440 days. He fails the second additional condition.

Conclusion:
Mr. John is a **Resident but Not Ordinarily Resident (RNOR)** for the Assessment Year 2026-27.

5. CMA INSIGHTS FOR PRACTICAL LIFE

As a CMA advising expatriates, the classification of RNOR is highly beneficial. For an RNOR, foreign-sourced income (not controlled from India) remains entirely exempt from Indian taxation. When planning an expat's assignment in India, closely managing their days of presence in the initial years ensures they retain RNOR status for up to 2-3 years, legally shielding their global wealth from Indian tax nets.

Illustration 2: Indian Citizen Leaving for Employment

1. THE QUESTION

Mr. Rajesh, an Indian citizen, left India on 22nd September 2025 to join a software company in Singapore as an employee. Prior to this, he has never traveled out of India. During the Previous Year 2025-26, his Indian salary was ₹8 Lakhs, and his Singapore salary was equivalent to ₹12 Lakhs. Determine his residential status and the taxability of his Singapore salary in India for AY 2026-27.

2. HOW TO READ THE QUESTION

- **Identify the trigger word:** "Indian citizen" leaving for "employment". This immediately triggers the exception to Section 6(1).
- **Apply the Exception:** The 60-day rule is completely deactivated. Only the 182-day rule matters.
- **Identify the secondary requirement:** The question asks for the taxability of Singapore salary, which depends entirely on his resultant residential status.

3. NOTING OF KEY POINTS (ROUGH WORK)

- **Date of departure:** 22nd Sept 2025. (Day of departure is counted as stay in India).
- **Days in PY 25-26:** Apr(30) + May(31) + Jun(30) + Jul(31) + Aug(31) + Sep(22) = 175 days.
- **Exception rule check:** 175 days is less than 182 days.
- **Result:** Non-Resident.
- **Taxability impact:** For an NR, foreign income accrued and received outside India is not taxable.

4. ANSWER AS PER ICMAI SUGGESTED FORMAT

Step 1: Statutory Provision
As per Explanation 1(a) to Section 6(1), in the case of an individual being a citizen of

India, who leaves India in any previous year for the purposes of employment outside India, the basic condition of stay in India for '60 days or more' is substituted with '182 days or more'.

Step 2: Computation of Stay
Mr. Rajesh's stay in India during the PY 2025-26 is calculated as follows:
April: 30 days | May: 31 days | June: 30 days | July: 31 days | August: 31 days | September: 22 days (Date of departure included).
Total stay = 175 days.

Step 3: Residential Status
Since Mr. Rajesh stayed in India for only 175 days, which is less than the required 182 days, he does not satisfy the basic condition. Therefore, he is a **Non-Resident (NR)** for AY 2026-27.

Step 4: Taxability of Singapore Salary
As per Section 5(2) of the Income Tax Act, in the case of a Non-Resident, only income received/deemed to be received in India, or income accruing/arising/deemed to accrue in India is taxable. The Singapore salary is earned and received outside India. Hence, it is **not taxable** in India.

5. CMA INSIGHTS FOR PRACTICAL LIFE

When an Indian resident gets a job abroad, timing their departure is critical tax planning. If Rajesh had left on 29th September, his stay would have hit 182 days. He would have been a Resident (ROR, since he never left India before), and his Singapore salary would have been fully taxable in India, potentially leading to double taxation hassles (requiring DTAA relief claims). Advising clients to leave before 182 days elapse in the FY saves immense tax outflow.

Illustration 3: The 120-Day Rule for Visiting PIOs

1. THE QUESTION

Mr. Patel, a US citizen and a Person of Indian Origin (PIO), resides in New York. He visits India during PY 2025-26 for 130 days. In the preceding 4 years, he visited India for 100 days each year. His income for the year comprises: (i) Rental income from property in Mumbai: ₹16,00,000; (ii) Interest on savings bank account in India: ₹50,000; (iii) Business income in US: ₹40,000,000. Determine his residential status for AY 2026-27.

2. HOW TO READ THE QUESTION

- **Profile:** PIO visiting India.
- **Key Metric 1:** Indian Income. Rental income (16L) + Interest (50k) = ₹16.5 Lakhs. Since it exceeds ₹15 Lakhs, a special amendment applies.
- **Key Metric 2:** Days of stay. PY stay is 130 days. Preceding 4 years is 400 days.
- **The Trap:** Usually, PIOs visiting India have a 182-day requirement. But because Indian income > 15L, the limit drops to 120 days.

3. NOTING OF KEY POINTS (ROUGH WORK)

- **Total Income from Indian Sources:** 16,50,000 (> 15L threshold).
- **Applicable Basic Condition:** Stay >= 120 days in PY AND >= 365 days in 4 preceding PYs.
- **Check Condition:** PY stay = 130 days (>= 120). 4-year stay = 400 days (>= 365). Condition SATISFIED.
- **Status assignment:** Law states anyone qualifying under the 120-day rule is automatically RNOR.

4. ANSWER AS PER ICMAI SUGGESTED FORMAT

Step 1: Statutory Provision
As per Explanation 1(b) to Section 6(1), for an Indian citizen or a Person of Indian Origin (PIO) who comes on a visit to India, and whose total income (other than income from foreign sources) exceeds ₹15 Lakhs, the basic condition of '60 days' is substituted with '120 days'. Furthermore, under Section 6(6), such an individual shall be deemed to be 'Resident but Not Ordinarily Resident' (RNOR).

Step 2: Testing the Condition
Mr. Patel's Indian Income = ₹16,00,000 (House Property) + ₹50,000 (IFOS) = ₹16,50,000.
Since this exceeds ₹15 Lakhs, the 120-day rule applies.
His stay in PY 2025-26 is 130 days (which is $\ge$ 120 days), and his stay in the preceding 4 years is 400 days (which is $\ge$ 365 days).

Conclusion:
Since Mr. Patel satisfies the modified basic condition, he is a Resident in India. By virtue of Section 6(6)(c), he is classified as a **Resident but Not Ordinarily Resident (RNOR)** for AY 2026-27.

5. CMA INSIGHTS FOR PRACTICAL LIFE

This provision was introduced to catch High Net Worth Individuals (HNIs) who arranged their visits to India just under 182 days to avoid declaring global income. However, the government provided a shield: they are classified as RNOR, meaning their foreign income (like Mr. Patel's US business) remains untaxed in India. As a consultant, you must monitor your NRI/PIO clients' Indian asset yields; if rental/dividend income crosses ₹15L, their allowable visit window shrinks from 181 days to 119 days.

Illustration 4: Deemed Resident (Stateless Person) u/s 6(1A)

1. THE QUESTION

Mr. Sharma, an Indian citizen, manages a lucrative trading business in the UAE. He stays in the UAE for 300 days and visits India for 65 days during PY 2025-26. The UAE does not levy any personal income tax on individuals. During the year, his business profit in the UAE is ₹2 Crores. He also earns ₹18 Lakhs from fixed deposits in Indian banks. Determine his residential status and total taxable income in India for AY 2026-27.

2. HOW TO READ THE QUESTION

- **Key Fact 1:** Indian citizen staying in India for only 65 days. (Fails standard 182-day rule).
- **Key Fact 2:** Resides in a tax-free jurisdiction (UAE) = "Not liable to tax in any other country".
- **Key Fact 3:** Indian income is ₹18 Lakhs, which is > ₹15 Lakhs.
- **Target Provision:** These three facts combined are the exact trigger for Section 6(1A) - Deemed Resident.

3. NOTING OF KEY POINTS (ROUGH WORK)

- Indian Citizen? Yes.
- Indian Income > 15L? Yes (18L).
- Liable to tax elsewhere? No (UAE has no personal tax).
- Therefore, Deemed Resident u/s 6(1A).
- Status of Deemed Resident = ALWAYS RNOR.
- Taxability for RNOR: Only Indian income (18L) is taxable. UAE income (2 Cr) is exempt as it's not controlled from India.

4. ANSWER AS PER ICMAI SUGGESTED FORMAT

Step 1: Statutory Provision
Under Section 6(1A) of the Income Tax Act, an individual, being a citizen of India, having total income (other than income from foreign sources) exceeding ₹15 Lakhs during the previous year, shall be **deemed to be resident** in India if he is not liable to tax in any other country or territory by reason of his domicile or residence. Section 6(6)(d) stipulates that such a deemed resident shall be a 'Resident but Not Ordinarily Resident' (RNOR).

Step 2: Evaluation of Facts
Mr. Sharma is an Indian citizen. His income from Indian sources (FD interest) is ₹18 Lakhs, which exceeds the threshold of ₹15 Lakhs. He is not liable to pay tax in the UAE. Therefore, irrespective of his physical stay in India (65 days), Section 6(1A) is triggered.

Step 3: Residential Status
Mr. Sharma is a **Deemed Resident (RNOR)** for AY 2026-27.

Step 4: Computation of Total Taxable Income
As an RNOR, his foreign income (UAE business profits of ₹2 Crores) is not taxable in India as it is a foreign source not controlled from India. Only his Indian income is taxable.
Total Taxable Income = **₹18,00,000.**

5. CMA INSIGHTS FOR PRACTICAL LIFE

This anti-abuse provision targets "Stateless persons"—Indian citizens who plant themselves in tax havens to avoid tax globally. However, the government restricted the taxability exclusively to their Indian operations. If you are advising a merchant navy captain or a Dubai-based entrepreneur, ensure their Indian-sourced passive income (rent, interest, dividends) remains strictly below ₹15 Lakhs to prevent them from being deemed residents, avoiding extensive Indian disclosure requirements.

Illustration 5: Scope of Total Income Matrix

1. THE QUESTION

Mr. Gupta furnishes the following particulars of his income earned during PY 2025-26:
(i) Profit from a business in London, controlled from Delhi (₹5,00,000; half received in India).
(ii) Pension from a former employer in India, received in New York (₹3,00,000).
(iii) Profit from a business in Japan, controlled from Japan, received there (₹8,00,000).
(iv) Past untaxed profits of 2020-21 brought to India in 2025-26 (₹2,00,000).
Compute his gross total income assuming he is: (a) ROR, (b) RNOR, and (c) NR.

2. HOW TO READ THE QUESTION

- **Item (i):** Foreign business controlled from India. Pay attention to "half received in India". Received in India is taxable for ALL. The remaining half is foreign income from a business controlled in India.
- **Item (ii):** Indian source (former employer in India). Accrued in India. Taxable for ALL.
- **Item (iii):** Pure foreign income. Taxable only for ROR.
- **Item (iv):** Remittance of past profits. Not an income of the current year. Exempt for ALL.

3. NOTING OF KEY POINTS (ROUGH WORK)

Income	ROR	RNOR	NR
(i) London Biz (Recd in India - 2.5L)	Taxable	Taxable	Taxable
(i) London Biz (Recd outside - 2.5L)	Taxable	Taxable (Ctrl from Ind)	Not Taxable
(ii) Pension Accrued in India (3L)	Taxable	Taxable	Taxable

(iii) Japan Biz (8L)	Taxable	Not Taxable	Not Taxable
(iv) Past Profits	Nil	Nil	Nil

4. ANSWER AS PER ICMAI SUGGESTED FORMAT

Computation of Gross Total Income of Mr. Gupta for AY 2026-27:

Particulars of Income	ROR (₹)	RNOR (₹)	NR (₹)
(i) Profit from London business (Half received in India) - Taxable for all based on receipt.	2,50,000	2,50,000	2,50,000
(i) Profit from London business (Balance half). As business is controlled from India, it is taxable for ROR and RNOR.	2,50,000	2,50,000	Nil
(ii) Pension accrued in India. Taxable for all irrespective of receipt location.	3,00,000	3,00,000	3,00,000
(iii) Profit from Japan business. Foreign income, taxable only for ROR.	8,00,000	Nil	Nil
(iv) Past untaxed profits remitted to India. Not an income of the current year.	Nil	Nil	Nil
Gross Total Income	**16,00,000**	**8,00,000**	**5,50,000**

5. CMA INSIGHTS FOR PRACTICAL LIFE

This matrix forms the backbone of international tax planning. A practical advisory point is managing the "Receipt" of income. If a Non-Resident client earns money abroad but asks the foreign client to transfer it directly to his Indian bank account, it becomes "Received in India" and immediately taxable. CMAs must advise NR clients to receive foreign income in their foreign bank accounts first, and subsequently remit it to their Indian NRE/NRO accounts, which completely shields it from Indian tax incidence under the Act.

ICMAI PAPER 15

DIRECT TAX LAWS & INTERNATIONAL TAXATION

PART 6: MASTER PROBLEM SOLVER

Chapter 2: Income from Salaries
(15 Extensive Illustrations)

Applicable for: December 2026 Examination
Assessment Year: 2026-27 (Previous Year 2025-26)

cmaknowledge.in

Chapter 2: Income from Salaries

This volume contains 15 highly complex, exam-grade illustrations targeting Salary Allowances, Perquisites, and Retirement Benefits.

Illustration 1: Basic Allowances & Exemptions

1. THE QUESTION

Mr. A receives Basic Salary ₹60,000 p.m., DA ₹15,000 p.m. (not forming part of retirement benefits), Children Education Allowance ₹500 p.m. per child (for 3 children), and Transport Allowance ₹3,000 p.m. He is not physically challenged. Compute his taxable allowances for AY 2026-27.

2. HOW TO READ THE QUESTION

- **Identify Allowances:** Education and Transport.
- **Education limit:** ₹100 p.m. per child, max 2 children.
- **Transport limit:** Fully taxable for normal employees (exemption only for disabled).

3. NOTING OF KEY POINTS (ROUGH WORK)

- Edu received: 500 * 3 * 12 = 18,000.
- Edu exempt: 100 * 2 * 12 = 2,400.
- Taxable Edu = 15,600.
- Transport taxable = 3000 * 12 = 36,000.

4. ANSWER AS PER ICMAI SUGGESTED FORMAT

Computation of Taxable Allowances:

- **Children Education Allowance:** Amount received (₹500 x 3 x 12) = ₹18,000. Less: Exemption u/s 10(14) (₹100 x 2 x 12) = ₹2,400. Taxable Amount = ₹15,600.
- **Transport Allowance:** Exemption is only available to blind/deaf/orthopedically handicapped employees. For Mr. A, it is fully taxable. Taxable Amount = ₹3,000 x 12 = ₹36,000.
- **Total Taxable Allowances** = ₹15,600 + ₹36,000 = **₹51,600**.

5. CMA INSIGHTS FOR PRACTICAL LIFE

Even small allowances trigger tax audits if misreported. Educating clients that transport allowance is fully taxable in the new tax era prevents unnecessary adjustments during ITR processing.

Illustration 2: HRA Exemption (Sec 10(13A))

1. THE QUESTION

Mr. B works in Mumbai. He receives Basic Salary ₹40,000 p.m., DA ₹10,000 p.m. (40% forms part of retirement benefits), and HRA ₹15,000 p.m. He pays rent of ₹18,000 p.m. Calculate taxable HRA for AY 2026-27.

2. HOW TO READ THE QUESTION

- **Define 'Salary' for HRA:** Basic + DA (only forming part) + fixed % commission.
- **Location:** Mumbai (Metro), so the 50% limit applies instead of 40%.
- **Apply the 3-step rule:** Least of (i) Actual HRA, (ii) Rent - 10% Salary, (iii) 50% Salary.

3. NOTING OF KEY POINTS (ROUGH WORK)

- Salary p.m. = 40,000 + (40% of 10,000) = 44,000. Annual Salary = 5,28,000.
- Actual HRA = 15,000 * 12 = 1,80,000.
- Rent paid - 10% Salary = (18,000 * 12) - 52,800 = 2,16,000 - 52,800 = 1,63,200.
- 50% of Salary = 2,64,000.

4. ANSWER AS PER ICMAI SUGGESTED FORMAT

Step 1: Compute Salary for HRA
Salary = Basic + DA (forming part) = (₹40,000 x 12) + (₹4,000 x 12) = ₹4,80,000 + ₹48,000 = ₹5,28,000.

Step 2: Calculate Exemption
Exemption u/s 10(13A) is the LEAST of the following:
(a) Actual HRA received: ₹1,80,000
(b) Rent paid minus 10% of salary: ₹2,16,000 - ₹52,800 = ₹1,63,200
(c) 50% of salary (Mumbai): ₹2,64,000

Step 3: Taxable HRA
Exempt Amount = ₹1,63,200.
Taxable HRA = ₹1,80,000 - ₹1,63,200 = **₹16,800**.

5. CMA INSIGHTS FOR PRACTICAL LIFE

Designing an interactive HRA calculator with data export functions requires building dynamic variables that account for mid-year changes. The algorithm must calculate limits on a strict month-to-month basis if the employee's salary, rent, or metro/non-metro location shifts during the financial year.

Illustration 3: Rent-Free Accommodation (Unfurnished)

1. THE QUESTION

Mr. C is employed in Pune (Population: 35 Lakhs). His salary components are: Basic ₹8,00,000; Bonus ₹1,00,000; Taxable Allowances ₹50,000; Employer's PF contribution ₹1,20,000. The employer provides an unfurnished owned accommodation. Calculate the perquisite value.

2. HOW TO READ THE QUESTION

- **Population bracket:** 35 Lakhs falls in the '15 to 40 Lakhs' bracket. The rate is 10%.
- **Define 'Salary' for RFA:** Basic + Bonus + Taxable Allowances. Employer PF is excluded.

3. NOTING OF KEY POINTS (ROUGH WORK)

- Salary = 8,00,000 + 1,00,000 + 50,000 = 9,50,000.
- Rate = 10% (Population 15L to 40L).
- Value = 10% of 9,50,000 = 95,000.

4. ANSWER AS PER ICMAI SUGGESTED FORMAT

Step 1: Compute Salary for RFA
Salary = Basic + Bonus + Taxable Allowances = ₹8,00,000 + ₹1,00,000 + ₹50,000 = ₹9,50,000. (Note: Employer's contribution to PF is explicitly excluded from the definition of salary for RFA valuation).

Step 2: Valuation of Perquisite
Since the property is owned by the employer and the population of Pune is between 15 Lakhs and 40 Lakhs, the valuation rate is 10% of the salary.
Value of Rent-Free Accommodation = 10% of ₹9,50,000 = **₹95,000**.

5. CMA INSIGHTS FOR PRACTICAL LIFE

When auditing payroll structures, always ensure HR systems map the employee's posting location to the latest census population data. Incorrectly mapping a 10% zone as a 15% zone inflates the employee's tax burden significantly.

Illustration 4: Furnished RFA & Hotel Stay

1. THE QUESTION

Continuing from Illustration 3, assume the employer also provided furniture costing ₹3,00,000. Before moving into the house, Mr. C stayed in a hotel for 20 days upon his transfer, the bill of ₹60,000 being paid by the employer. Determine total RFA perquisite.

2. HOW TO READ THE QUESTION

- **Furnished House:** Add 10% p.a. of the original cost of furniture to the unfurnished value.
- **Hotel Stay:** Hotel stay up to 15 days on transfer from one place to another is fully exempt. The excess 5 days are taxable at 24% of salary or actual bill, whichever is lower.

3. NOTING OF KEY POINTS (ROUGH WORK)

- Unfurnished value = 95,000.
- Furniture = 10% of 3L = 30,000.
- Total House RFA = 1,25,000.
- Hotel: 20 days total. 15 days exempt. Taxable for 5 days.
- Salary for 5 days = 9,50,000 * 5/365 = 13,013. 24% of 13,013 = 3,123. Actual bill for 5 days = 60k * 5/20 = 15,000. Lower is 3,123.

4. ANSWER AS PER ICMAI SUGGESTED FORMAT

Step 1: Value of Furnished Accommodation
Value of Unfurnished house (from Ill 3) = ₹95,000.
Add: 10% of cost of furniture = 10% of ₹3,00,000 = ₹30,000.
Value of Furnished House = ₹1,25,000.

Step 2: Value of Hotel Stay
As per Rule 3, accommodation in a hotel for up to 15 days on transfer is exempt. Taxable period = 20 - 15 = 5 days.
Salary for 5 days = (₹9,50,000 / 365) x 5 = ₹13,014.
Perquisite is lower of: (i) 24% of salary for 5 days = ₹3,123, OR (ii) Actual hotel charges for 5 days = (₹60,000 / 20) x 5 = ₹15,000.
Taxable Hotel Perquisite = ₹3,123.

Total RFA Perquisite = ₹1,25,000 + ₹3,123 = **₹1,28,123**.

5. CMA INSIGHTS FOR PRACTICAL LIFE

Corporate relocation policies must be strictly drafted to cap temporary hotel stays at 14-15 days to prevent unexpected perquisite tax hits on migrating executives.

Illustration 5: Concessional Loan Perquisite

1. THE QUESTION

On 1st October 2025, ABC Ltd provided a housing loan of ₹25 Lakhs to its employee Mr. D at a 4% p.a. interest rate. The SBI lending rate for housing loans as on 1st April 2025 was 8.5% p.a. Calculate the taxable perquisite for AY 2026-27.

2. HOW TO READ THE QUESTION

- **Rule:** The perquisite value is the difference between the SBI lending rate on the 1st day of the previous year (1-Apr) and the rate charged by the employer.
- **Timeframe:** Loan is from 1st Oct to 31st Mar (6 months).

3. NOTING OF KEY POINTS (ROUGH WORK)

- SBI Rate = 8.5%. Employer Rate = 4%. Difference = 4.5%.
- Loan Amount = 25,00,000.
- Taxable Value = 25,00,000 * 4.5% * 6/12 = 56,250.

4. ANSWER AS PER ICMAI SUGGESTED FORMAT

Step 1: Determine the concessional rate
Concessional Rate = SBI Lending Rate on 1-Apr-2025 MINUS Rate charged by employer.
Concessional Rate = 8.5% - 4.0% = 4.5% p.a.

Step 2: Compute Perquisite Value
The loan was outstanding from 1st October to 31st March (6 months). Assuming no principal repayment during the year, the maximum outstanding monthly balance remains ₹25 Lakhs.
Perquisite Value = ₹25,00,000 x 4.5% x (6 / 12) = **₹56,250**.

5. CMA INSIGHTS FOR PRACTICAL LIFE

While the statutory benchmark for concessional loans is the SBI lending rate on April 1st, banking professionals know this is fundamentally anchored to macroeconomic indicators. With the current repo rate explicitly at 5.5% and unchanged, the SBI base rates remain stable, ensuring perquisite valuations don't fluctuate wildly for employees during the assessment year.

Illustration 6: Motor Car Perquisite (Mixed Use)

1. THE QUESTION

Mr. E is provided with a 1.8-liter engine capacity car by his employer. The car is used for both official and personal purposes. The employer bears all running and maintenance expenses and also provides a chauffeur. Compute the monthly and annual perquisite value.

2. HOW TO READ THE QUESTION

- **Engine Capacity:** 1.8L means it is > 1.6L (Large car).
- **Ownership & Expenses:** Owned by employer, expenses met by employer. Mixed use.
- **Rate:** ₹2,400 p.m. for the car + ₹900 p.m. for the chauffeur.

3. NOTING OF KEY POINTS (ROUGH WORK)

- Car = 2400. Driver = 900. Total = 3300 p.m.
- Annual = 3300 * 12 = 39,600.

4. ANSWER AS PER ICMAI SUGGESTED FORMAT

Step 1: Identify the applicable Rule 3 bracket
For a motor car owned by the employer, running expenses met by the employer, used for mixed purposes, and having an engine capacity exceeding 1.6 Litres, the fixed perquisite value is ₹2,400 per month.

Step 2: Add Chauffeur Value
The provision of a chauffeur adds a fixed value of ₹900 per month.

Step 3: Total Computation
Monthly Perquisite = ₹2,400 + ₹900 = ₹3,300 p.m.
Annual Taxable Perquisite = ₹3,300 x 12 = **₹39,600**.

5. CMA INSIGHTS FOR PRACTICAL LIFE

Fixed perquisite valuations for mixed-use company cars are highly beneficial for executives. Actual depreciation and running costs often vastly exceed ₹39,600 annually, making company-leased vehicle structures a highly tax-efficient component of CTC negotiation.

Illustration 7: Use and Transfer of Movable Assets

1. THE QUESTION

XYZ Ltd. purchased a laptop on 1st July 2023 for ₹1,00,000 and gave it to Mr. F for personal use. On 1st October 2025, the company sold the laptop to Mr. F for ₹15,000. Calculate the perquisite value for 'Use' and 'Transfer' for AY 2026-27.

2. HOW TO READ THE QUESTION

- **Use of Laptop:** Use of computers and laptops is fully exempt.
- **Transfer of Computer:** Depreciation is 50% on WDV for every COMPLETED year of usage.
- **Completed Years:** 1-Jul-23 to 1-Oct-25 = 2 years and 3 months. Only 2 completed years count.

3. NOTING OF KEY POINTS (ROUGH WORK)

- Use = Exempt (Nil).
- Cost = 1,00,000. Yr 1 Depr (50%) = 50,000. WDV = 50,000.
- Yr 2 Depr (50% of 50k) = 25,000. WDV = 25,000.
- Value of Transfer = WDV (25,000) - Amount recovered (15,000) = 10,000.

4. ANSWER AS PER ICMAI SUGGESTED FORMAT

Step 1: Perquisite for Use of Asset
Under Rule 3, the use of a laptop/computer provided by the employer is fully **exempt**.
Value = Nil.

Step 2: WDV Calculation for Transfer
The asset was used for 2 completed years. Depreciation rate for computers is 50% on WDV.
Original Cost: ₹1,00,000
Less: Depr for Year 1 (50%): ₹50,000
WDV at end of Year 1: ₹50,000
Less: Depr for Year 2 (50%): ₹25,000
WDV at the time of sale: ₹25,000

Step 3: Taxable Perquisite on Transfer
Perquisite = WDV - Amount charged from employee = ₹25,000 - ₹15,000 = **₹10,000**.

5. CMA INSIGHTS FOR PRACTICAL LIFE

Asset buyout policies (especially for laptops and mobile phones) after 2-3 years are standard in IT companies. Knowing the exact completed-year WDV rule ensures employees aren't hit with unexpected perquisite taxes when acquiring depreciated corporate assets.

Illustration 8: Leave Travel Concession (LTC)

1. THE QUESTION

Mr. G went on a holiday to Shimla with his wife and 3 children (twins born after the first child). He claimed LTC of ₹80,000 for economy class airfare. The actual economy airfare of the national carrier for the shortest route was ₹65,000. Determine the exempt LTC amount.

2. HOW TO READ THE QUESTION

- **Family definition:** Spouse + max 2 children. Exception: Twins born after the first child are considered as one unit. So all 3 children are eligible.
- **Limit:** Exemption is limited to the economy fare of the national carrier by the shortest route, or actual amount spent, whichever is less.

3. NOTING OF KEY POINTS (ROUGH WORK)

- Children eligible = 3 (due to twin exception).
- Claimed = 80,000. Eligible limit = 65,000.
- Exempt = 65,000. Taxable = 15,000.

4. ANSWER AS PER ICMAI SUGGESTED FORMAT

Step 1: Eligibility of Family Members
LTC exemption is available for the individual, spouse, and up to two surviving children. However, multiple births (twins) after the first child are treated as a single unit. Therefore, LTC can be claimed for Mr. G, his wife, and all 3 children.

Step 2: Quantum of Exemption
The exemption u/s 10(5) for air travel is restricted to the economy class airfare of the national carrier by the shortest route, or the actual amount spent, whichever is lower.
Actual spent: ₹80,000
National carrier economy fare: ₹65,000

Conclusion:
Exempt LTC = **₹65,000**.
Taxable LTC = ₹80,000 - ₹65,000 = **₹15,000**.

5. CMA INSIGHTS FOR PRACTICAL LIFE

Employees often mistakenly believe any travel bill submitted is fully exempt. The 'shortest route national carrier economy fare' benchmark is strict. Proper corporate travel portals should have API integrations that flash this maximum cap to employees during booking.

Illustration 9: Gratuity (Covered by the Act)

1. THE QUESTION

Mr. H retires on 15th November 2025 after a service of 28 years and 8 months. He is covered under the Payment of Gratuity Act, 1972. His last drawn Basic Salary was ₹90,000 and DA was ₹30,000. He received ₹22,00,000 as gratuity. Calculate the taxable amount.

2. HOW TO READ THE QUESTION

- **Covered by Act:** Salary means Basic + Full DA. Service period > 6 months is rounded up to the next full year. Calculation is 15/26 days.
- **Rounding:** 28 years 8 months = 29 years.
- **Salary:** 90,000 + 30,000 = 1,20,000.

3. NOTING OF KEY POINTS (ROUGH WORK)

- Statutory limit = 20,00,000.
- Actual = 22,00,000.
- Calculated = 15/26 * 1,20,000 * 29 = 20,07,692.
- Least is 20,00,000.
- Taxable = 22L - 20L = 2L.

4. ANSWER AS PER ICMAI SUGGESTED FORMAT

Step 1: Define Salary and Service Period
For employees covered under the Act, Salary = Basic + Full DA = ₹90,000 + ₹30,000 = ₹1,20,000.
Service of 28 years and 8 months is rounded up to 29 years.

Step 2: Calculate Exemption Limits u/s 10(10)(ii)
Exemption is the LEAST of:
(a) Statutory Limit: ₹20,00,000
(b) Actual Gratuity received: ₹22,00,000
(c) 15/26 x Last drawn salary x Completed years of service = (15 / 26) x ₹1,20,000 x 29 = ₹20,07,692.

Step 3: Taxable Gratuity
Exempt Amount = ₹20,00,000.
Taxable Gratuity = Actual (₹22,00,000) - Exempt (₹20,00,000) = **₹2,00,000**.

5. CMA INSIGHTS FOR PRACTICAL LIFE

The 15/26 formula specifically accounts for the 4 Sundays in a month, granting employees a slightly higher benefit than a straight 15/30 calculation. This nuance is crucial for payroll processors.

Illustration 10: Gratuity (Not Covered by the Act)

1. THE QUESTION

Mr. J retires on 10th December 2025 after 28 years and 8 months of service. He is NOT covered under the Gratuity Act. His average salary for the last 10 months (Basic + DA forming part) was ₹1,20,000. He received ₹18,00,000. Calculate taxable gratuity.

2. HOW TO READ THE QUESTION

- **Not Covered:** Use 1/2 month's average salary. Do NOT round up the service period (ignore months).
- **Service:** 28 years.

3. NOTING OF KEY POINTS (ROUGH WORK)

- Statutory limit = 20,00,000.
- Actual = 18,00,000.
- Calculated = 1/2 * 1,20,000 * 28 = 16,80,000.
- Least is 16,80,000. Taxable = 18L - 16.8L = 1.2L.

4. ANSWER AS PER ICMAI SUGGESTED FORMAT

Step 1: Define Salary and Service Period
For employees not covered under the Act, only completed years of service are considered. The 8 months are ignored. Service = 28 years.
Average Salary = ₹1,20,000.

Step 2: Calculate Exemption Limits u/s 10(10)(iii)
Exemption is the LEAST of:
(a) Statutory Limit: ₹20,00,000
(b) Actual Gratuity received: ₹18,00,000
(c) 1/2 x Average Salary x Completed years = (1 / 2) x ₹1,20,000 x 28 = ₹16,80,000.

Step 3: Taxable Gratuity
Exempt Amount = ₹16,80,000.
Taxable Gratuity = Actual (₹18,00,000) - Exempt (₹16,80,000) = **₹1,20,000**.

5. CMA INSIGHTS FOR PRACTICAL LIFE

Fractional year ignoring is a harsh penalty for non-covered employees. If an employee has 28 years and 11 months of service, they lose nearly an entire year's worth of exemption limit.

Illustration 11: Leave Encashment on Retirement

1. THE QUESTION

Mr. K retires from a private company after 22 years of service. He was entitled to 40 days of leave per year. He took 200 days of leave during his service. He encashed the remaining 680 days at retirement and received ₹15,00,000. His average salary for the last 10 months was ₹60,000 p.m. Calculate taxable amount.

2. HOW TO READ THE QUESTION

- **Leave Entitlement:** Income Tax rules cap maximum allowable leave at 30 days per year of service for calculation purposes.
- **Recalculation:** 22 years * 30 days = 660 days allowed. Leave taken = 200 days. Balance allowable for exemption = 460 days.

3. NOTING OF KEY POINTS (ROUGH WORK)

- Cash equivalent of allowable leave = (460 days / 30) * 60,000 = 15.33 months * 60k = 9,20,000.
- 10 months salary = 6,00,000.
- Statutory Limit = 25,00,000. Actual = 15,00,000.
- Least is 6,00,000.

4. ANSWER AS PER ICMAI SUGGESTED FORMAT

Step 1: Recalculate Allowable Leave Balance
Max leave allowed per IT Act = 30 days/year x 22 years = 660 days.
Leave actually availed = 200 days.
Allowable unavailed leave = 660 - 200 = 460 days (approx 15.33 months).

Step 2: Calculate Exemption Limits u/s 10(10AA)
Exemption is the LEAST of:
(a) Statutory Limit: ₹25,00,000
(b) Actual received: ₹15,00,000
(c) 10 months average salary: 10 x ₹60,000 = ₹6,00,000
(d) Cash equivalent of allowable leave: 15.33 x ₹60,000 = ₹9,20,000.

Step 3: Taxable Leave Encashment
Exempt Amount = ₹6,00,000.
Taxable Amount = ₹15,00,000 - ₹6,00,000 = **₹9,00,000**.

5. CMA INSIGHTS FOR PRACTICAL LIFE

Private companies often offer generous 40-45 day leave policies, but the IT Act strictly caps the exemption formula at 30 days per year. Employees must be educated that encashing massive leave balances at retirement will result in a heavy tax cut.

Illustration 12: Commutation of Pension

1. THE QUESTION

Mr. L retires and is entitled to a monthly pension of ₹20,000. He commutes 60% of his pension and receives ₹12,00,000. Compute the taxable commuted pension if: (Case A) He also receives gratuity. (Case B) He does not receive gratuity.

2. HOW TO READ THE QUESTION

- **Commutation value:** If 60% = 12L, then 100% (full value) = 12L / 0.6 = 20,00,000.
- **Rules:** With gratuity, 1/3rd of full value is exempt. Without gratuity, 1/2 of full value is exempt.

3. NOTING OF KEY POINTS (ROUGH WORK)

- Case A Exemption: 1/3 * 20L = 6,66,667. Taxable = 12,00,000 - 6,66,667 = 5,33,333.
- Case B Exemption: 1/2 * 20L = 10,00,000. Taxable = 12,00,000 - 10,00,000 = 2,00,000.

4. ANSWER AS PER ICMAI SUGGESTED FORMAT

Step 1: Compute Full Commuted Value
Full value of 100% commuted pension = ₹12,00,000 / 60% = ₹20,00,000.

Step 2: Case A (Receives Gratuity)
Exemption u/s 10(10A) = 1/3rd of full value = 1/3 x ₹20,00,000 = ₹6,66,667.
Taxable Pension = ₹12,00,000 - ₹6,66,667 = **₹5,33,333**.

Step 3: Case B (Does NOT receive Gratuity)
Exemption u/s 10(10A) = 1/2 of full value = 1/2 x ₹20,00,000 = ₹10,00,000.
Taxable Pension = ₹12,00,000 - ₹10,00,000 = **₹2,00,000**.

5. CMA INSIGHTS FOR PRACTICAL LIFE

Pension commutation is a fundamental retirement planning tool. Uncommuted (monthly) pension is fully taxable for all, but commuted (lump-sum) gives excellent upfront liquidity with significant tax exemptions.

Illustration 13: Recognized Provident Fund (RPF)

1. THE QUESTION

Mr. M's basic salary is ₹1,00,000 p.m. His employer contributes 15% of basic salary to his RPF. Interest credited to his RPF account @ 11% p.a. is ₹55,000. Calculate the taxable components of RPF for AY 2026-27.

2. HOW TO READ THE QUESTION

- **Employer Contribution Limit:** Exempt up to 12% of salary.
- **Interest Limit:** Exempt up to 9.5% p.a.

3. NOTING OF KEY POINTS (ROUGH WORK)

- Employer Contrib = 15% of 12L = 1,80,000. Exempt = 12% of 12L = 1,44,000. Taxable = 36,000.
- Interest = 55k at 11%. Exempt = (55k / 11) * 9.5 = 47,500. Taxable = 55k - 47.5k = 7,500.

4. ANSWER AS PER ICMAI SUGGESTED FORMAT

Step 1: Taxability of Employer's Contribution
Salary for the year = ₹12,00,000.
Employer's contribution = 15% of ₹12,00,000 = ₹1,80,000.
Exempt u/s 10(12) = 12% of ₹12,00,000 = ₹1,44,000.
Taxable Contribution = ₹1,80,000 - ₹1,44,000 = **₹36,000**.

Step 2: Taxability of Interest Credited
Interest credited @ 11% = ₹55,000.
Exempt interest (up to 9.5%) = (₹55,000 / 11) x 9.5 = ₹47,500.
Taxable Interest = ₹55,000 - ₹47,500 = **₹7,500**.

Total Taxable Amount = ₹36,000 + ₹7,500 = **₹43,500**.

5. CMA INSIGHTS FOR PRACTICAL LIFE

High-income earners must also track the ₹2.5 Lakhs limit on their OWN PF contributions. If employee contribution exceeds ₹2.5L in a year, the interest on the excess amount is taxable as 'Income from Other Sources'.

Illustration 14: Voluntary Retirement Scheme (VRS)

1. THE QUESTION

Mr. N (aged 45) takes voluntary retirement from a public sector company after 22 years of service. He had 8 years of service left. His last drawn salary was ₹50,000 p.m. He received ₹15,00,000 as VRS compensation. Calculate taxable VRS amount.

2. HOW TO READ THE QUESTION

- **VRS Limits:** Exempt up to Least of (i) ₹5 Lakhs, (ii) Actual, (iii) 3 months salary * completed years, (iv) Salary * remaining months.

3. NOTING OF KEY POINTS (ROUGH WORK)

- 3 months * 50k * 22 = 33,00,000.
- 50k * (8*12) = 48,00,000.
- Actual = 15,00,000. Statutory limit = 5,00,000.
- Exempt = 5,00,000. Taxable = 10,00,000.

4. ANSWER AS PER ICMAI SUGGESTED FORMAT

Step 1: Check VRS Exemption Limits u/s 10(10C)
Exemption is the LEAST of:
(a) Statutory Limit: ₹5,00,000
(b) Actual Compensation: ₹15,00,000
(c) 3 months salary x completed years: 3 x ₹50,000 x 22 = ₹33,00,000
(d) Salary x remaining months: ₹50,000 x 96 months = ₹48,00,000.

Step 2: Taxable Amount
Exempt Amount = ₹5,00,000.
Taxable VRS = ₹15,00,000 - ₹5,00,000 = **₹10,00,000**.

5. CMA INSIGHTS FOR PRACTICAL LIFE

VRS exemption of ₹5 Lakhs is a lifetime limit. Once claimed, it cannot be claimed again if the employee joins another company and takes VRS later. Documenting this in the individual's permanent tax file is a core CMA practice.

Illustration 15: Relief under Section 89

1. THE QUESTION

Mr. P receives arrears of salary of ₹3,00,000 in PY 2025-26, relating to PY 2020-21. This pushes him into a higher tax slab in the current year. How is the relief u/s 89 calculated conceptually?

2. HOW TO READ THE QUESTION

- **Concept of Sec 89:** Ensures taxpayer isn't penalized for receiving past salary in a year where their base tax slab is higher.

3. NOTING OF KEY POINTS (ROUGH WORK)

- Compute tax with and without arrears in current year.
- Compute tax with and without arrears in past year.
- Relief = Difference in current year tax burden MINUS Difference in past year tax burden.

4. ANSWER AS PER ICMAI SUGGESTED FORMAT

Step-by-Step Computational Algorithm for Sec 89:
Step 1: Calculate tax payable in the current year (PY 2025-26) INCLUDING the arrears.
Step 2: Calculate tax payable in the current year EXCLUDING the arrears.
Step 3: Difference (Step 1 - Step 2) is the *additional tax burden in the current year*.
Step 4: Calculate tax payable in the past year (PY 2020-21) INCLUDING the arrears (recomputing past tax).
Step 5: Calculate tax payable in the past year EXCLUDING the arrears (actual assessed tax).
Step 6: Difference (Step 4 - Step 5) is the *tax that would have been paid in the past*.
Step 7: Relief u/s 89 = Result of Step 3 MINUS Result of Step 6. (If Step 6 > Step 3, no relief is granted).

5. CMA INSIGHTS FOR PRACTICAL LIFE

Filing Form 10E is a mandatory prerequisite on the income tax portal to claim Section 89 relief. Without it, the CPC will automatically disallow the relief and issue a demand notice u/s 143(1).

ICMAI PAPER 15

DIRECT TAX LAWS & INTERNATIONAL TAXATION

PART 6: MASTER PROBLEM SOLVER

Chapter 3: Income from House Property
(15 Extensive Illustrations)

Applicable for: December 2026 Examination
Assessment Year: 2026-27 (Previous Year 2025-26)

cmaknowledge.in

Chapter 3: Income from House Property

This volume contains 15 highly complex, exam-grade illustrations targeting Gross Annual Value (GAV), Vacancy rules, Pre-Construction Interest, Co-ownership, and Deemed Let-Out properties.

Illustration 1: Basic GAV Calculation

1. THE QUESTION

Mr. A owns a residential house in Delhi. Municipal Value (MV) is ₹1,20,000; Fair Rent (FR) is ₹1,50,000; Standard Rent (SR) is ₹1,40,000. The property is let out at ₹15,000 p.m. Calculate the Gross Annual Value (GAV) for AY 2026-27.

2. HOW TO READ THE QUESTION

- **Identify the 4 components:** MV, FR, SR, and Actual Rent Received/Receivable (ARR).
- **Expected Rent (ER):** Higher of MV and FR, but capped at SR.
- **GAV:** Higher of ER and ARR.

3. NOTING OF KEY POINTS (ROUGH WORK)

- Higher of MV (1.2L) and FR (1.5L) = 1.5L.
- Restricted to SR (1.4L). So, ER = 1.4L.
- ARR = 15,000 * 12 = 1.8L.
- Higher of ER and ARR is 1.8L.

4. ANSWER AS PER ICMAI SUGGESTED FORMAT

Step 1: Calculate Expected Rent (ER)
ER is the higher of Municipal Value (₹1,20,000) and Fair Rent (₹1,50,000), which is ₹1,50,000. However, ER cannot exceed the Standard Rent (₹1,40,000).
Therefore, ER = ₹1,40,000.

Step 2: Calculate Actual Rent (ARR)
ARR = ₹15,000 x 12 = ₹1,80,000.

Step 3: Determine GAV
GAV is the higher of ER (₹1,40,000) and ARR (₹1,80,000).
Gross Annual Value (GAV) = ₹1,80,000.

5. CMA INSIGHTS FOR PRACTICAL LIFE

The basic GAV framework is the foundation of house property calculations. Ensuring that Expected Rent never breaches Standard Rent (Rent Control Act) is the most common place where students lose marks.

Illustration 2: GAV with Vacancy Rule

1. THE QUESTION

Mr. B owns a property let out at ₹20,000 p.m. Expected Rent (ER) is ₹2,60,000. The property was vacant for 3 months. Calculate GAV.

2. HOW TO READ THE QUESTION

- **Vacancy Rule Trigger:** If actual rent is less than ER *solely* because of vacancy, the actual rent becomes the GAV.
- **Compare annualized rent with ER:** Annual rent = 20k * 12 = 2.4L. Since 2.4L < 2.6L, the basic ARR is lower even without vacancy.

3. NOTING OF KEY POINTS (ROUGH WORK)

- ER = 2,60,000.
- Annual Rent (if let for 12 mos) = 2,40,000.
- Actual Rent Received (9 mos) = 1,80,000.
- Is ARR < ER purely due to vacancy? No. Even if let out for 12 months (2.4L), it is less than ER (2.6L).
- Therefore, Vacancy Rule DOES NOT replace ER completely. Instead, GAV = ER - Vacancy Loss.

4. ANSWER AS PER ICMAI SUGGESTED FORMAT

Step 1: Check applicability of Vacancy Rule
Expected Rent (ER) = ₹2,60,000.
Actual Rent Received (ARR for 9 months) = ₹1,80,000.
If the property was let out for 12 months, rent would be ₹2,40,000. Since ₹2,40,000 is still less than ER (₹2,60,000), the deficiency is NOT solely due to vacancy.

Step 2: Calculate GAV
In such cases, GAV = Expected Rent MINUS Loss due to Vacancy.
GAV = ₹2,60,000 - (₹20,000 x 3)
GAV = ₹2,60,000 - ₹60,000 = **₹2,00,000**.

5. CMA INSIGHTS FOR PRACTICAL LIFE

This is a classic trap. Students assume actual rent always becomes GAV if there's a vacancy. You must first test if annualized rent is greater than Expected Rent. If not, deduct the vacancy loss from Expected Rent, not Actual.

Illustration 3: GAV with Unrealized Rent

1. THE QUESTION

Mr. C's house has an Expected Rent of ₹3,00,000. It is let out at ₹30,000 p.m. The tenant vacated the property after 10 months and did not pay rent for 2 months (Rule 4 conditions satisfied). Calculate GAV.

2. HOW TO READ THE QUESTION

- **Unrealized Rent (UR):** To be deducted from Actual Rent Receivable BEFORE comparing with Expected Rent.
- **Test Rule 4:** Since the question specifies Rule 4 is met, UR is a valid deduction.

3. NOTING OF KEY POINTS (ROUGH WORK)

- ER = 3,00,000.
- Actual Rent for year = 30k * 12 = 3,60,000.
- Unrealized Rent = 30k * 2 = 60,000.
- ARR = 3.6L - 60k = 3,00,000.
- Compare ER (3L) and ARR (3L). Higher is 3L.

4. ANSWER AS PER ICMAI SUGGESTED FORMAT

Step 1: Calculate Actual Rent Receivable (ARR)
Annual Rent = ₹30,000 x 12 = ₹3,60,000.
Less: Unrealized Rent (Rule 4 satisfied) = ₹30,000 x 2 = ₹60,000.
ARR = ₹3,60,000 - ₹60,000 = ₹3,00,000.

Step 2: Determine GAV
Compare Expected Rent (₹3,00,000) with ARR (₹3,00,000).
GAV is the higher of the two.
Gross Annual Value (GAV) = ₹3,00,000.

5. CMA INSIGHTS FOR PRACTICAL LIFE

Unrealized rent is essentially 'bad debts' for house property. As a consultant, ensure the landlord has initiated legal proceedings or proven the tenant is insolvent to satisfy Rule 4, otherwise the Assessing Officer will reject the deduction.

Illustration 4: Municipal Taxes Paid

1. THE QUESTION

Mr. D owns a let-out property (GAV ₹5,00,000). Municipal taxes are 10% of MV (MV is ₹4,00,000). During the year, he paid municipal taxes of ₹80,000, which includes ₹40,000 for the past year and ₹40,000 for the current year. The tenant also paid ₹10,000 directly to the municipality. Calculate NAV.

2. HOW TO READ THE QUESTION

- **Municipal Taxes basis:** Must be borne by the OWNER and ACTUALLY PAID during the previous year.
- **Past Arrears:** Allowed in the year of payment.
- **Tenant's payment:** Ignored, as it's not borne by the owner.

3. NOTING OF KEY POINTS (ROUGH WORK)

- GAV = 5,00,000.
- Taxes paid by owner = 40k (past) + 40k (current) = 80,000.
- Taxes paid by tenant = ignored.
- NAV = 5,00,000 - 80,000 = 4,20,000.

4. ANSWER AS PER ICMAI SUGGESTED FORMAT

Step 1: Ascertain Eligible Municipal Taxes
Only municipal taxes paid by the owner during the relevant previous year are deductible. Arrears paid during the year are fully allowed. Taxes paid by the tenant are not deductible.
Eligible Taxes = ₹40,000 (Past year) + ₹40,000 (Current year) = ₹80,000.

Step 2: Calculate NAV
Gross Annual Value (GAV) = ₹5,00,000.
Less: Municipal Taxes = ₹80,000.
Net Annual Value (NAV) = ₹4,20,000.

5. CMA INSIGHTS FOR PRACTICAL LIFE

Landlords often ask tenants to pay municipal taxes directly. Tax-wise, this is inefficient. Landlords should pay the tax themselves to claim the deduction, and simply increase the rent by an equivalent amount.

Illustration 5: Self-Occupied Property (SOP) Limit

1. THE QUESTION

Mr. E owns a house which he uses for his own residence. He took a loan of ₹25 Lakhs @ 10% p.a. on 1st May 2018 for construction, which was completed in 2020. During PY 2025-26, he paid interest of ₹2,50,000. Calculate Income from House Property.

2. HOW TO READ THE QUESTION

- **SOP Rules:** NAV is always Nil. No standard deduction.
- **Interest Limit:** Check condition for ₹2 Lakh limit (Loan after 1-Apr-1999 for construction, completed within 5 years).

3. NOTING OF KEY POINTS (ROUGH WORK)

- NAV = 0.
- Interest paid = 2,50,000.
- Since loan meets all criteria (post-1999, completed in 5 yrs), limit is 2,00,000.
- Income = 0 - 2,00,000 = Negative 2,00,000.

4. ANSWER AS PER ICMAI SUGGESTED FORMAT

Step 1: Net Annual Value
For a Self-Occupied Property (up to 2 properties), the NAV is taken as NIL.

Step 2: Interest Deduction u/s 24(b)
The loan was taken for construction after 01.04.1999 and completed within 5 years.
Hence, the enhanced limit of ₹2,00,000 is applicable.
Actual interest paid = ₹2,50,000.
Deduction restricted to = ₹2,00,000.

Step 3: Calculate Income
NAV: Nil
Less: Interest u/s 24(b): ₹2,00,000
Income from House Property = **(-) ₹2,00,000 (Loss)**

5. CMA INSIGHTS FOR PRACTICAL LIFE

The ₹2 Lakh loss from SOP is the only way a salaried individual can shield their salary income using house property. Ensuring the completion certificate is obtained within the 5-year window is critical.

Illustration 6: Pre-Construction Interest (SOP)

1. THE QUESTION

Mr. F took a loan of ₹10 Lakhs @ 12% p.a. on 1st October 2022 for the construction of his residential house (SOP). Construction completed on 15th February 2025. Calculate interest deduction for AY 2026-27. No principal was repaid.

2. HOW TO READ THE QUESTION

- **Pre-Construction Period:** Starts 1-Oct-2022, ends 31-Mar-2024 (March 31st preceding completion).
- **Total Pre-Con Interest:** Calculated for this exact period. Divided by 5.
- **Current Year Interest:** Add to 1/5th pre-con interest, cap at ₹2L.

3. NOTING OF KEY POINTS (ROUGH WORK)

- Pre-con period: 1-Oct-22 to 31-Mar-24.
- 22-23 (6 mos): 10L * 12% * 6/12 = 60,000.
- 23-24 (12 mos): 10L * 12% = 1,20,000.
- Total pre-con = 1,80,000. Per year = 1,80,000 / 5 = 36,000.
- CY (25-26) interest = 1,20,000.
- Total = 1.2L + 36k = 1,56,000. Within 2L limit.

4. ANSWER AS PER ICMAI SUGGESTED FORMAT

Step 1: Determine Pre-Construction Period
Commences: 01.10.2022. Ends: 31.03.2024 (March 31st immediately preceding the date of completion).
Period = 6 months (FY 22-23) + 12 months (FY 23-24) = 18 months.

Step 2: Calculate Pre-Construction Interest
Interest = ₹10,00,000 x 12% x 18/12 = ₹1,80,000.
Allowable installment (1/5th) = ₹1,80,000 / 5 = ₹36,000.

Step 3: Total Interest Deduction
Current Year Interest (FY 2025-26) = ₹10,00,000 x 12% = ₹1,20,000.
Total Interest = ₹1,20,000 + ₹36,000 = ₹1,56,000.
Since this is a Self-Occupied Property, the limit is ₹2,00,000.
Total Deduction u/s 24(b) = ₹1,56,000.

5. CMA INSIGHTS FOR PRACTICAL LIFE

Banks often issue a consolidated interest certificate. CMAs must manually calculate the pre-construction interest split because software algorithms rely on exact start and completion dates to generate the 5-year amortization schedule.

Illustration 7: Pre-Construction Interest (Let-Out Property)

1. THE QUESTION

Use the exact same facts as Illustration 6, but assume the property was Let-Out (LOP). Actual rent received is ₹30,000 p.m. Municipal taxes paid are ₹20,000. Calculate Income from House Property.

2. HOW TO READ THE QUESTION

- **LOP Rules:** No ₹2 Lakh limit on interest.
- **GAV/NAV:** Need to calculate standard 30% deduction.

3. NOTING OF KEY POINTS (ROUGH WORK)

- GAV (assuming ARR is highest) = 30k * 12 = 3,60,000.
- NAV = 3,60,000 - 20,000 = 3,40,000.
- Standard Deduction (30%) = 1,02,000.
- Interest (from Ill 6) = 1,56,000. Fully allowed.
- Income = 3.4L - 1.02L - 1.56L = 82,000.

4. ANSWER AS PER ICMAI SUGGESTED FORMAT

Step 1: Calculate NAV
Gross Annual Value (ARR) = ₹30,000 x 12 = ₹3,60,000.
Less: Municipal Taxes = ₹20,000.
Net Annual Value (NAV) = ₹3,40,000.

Step 2: Deductions u/s 24
Section 24(a): Standard Deduction @ 30% of NAV = 30% of ₹3,40,000 = ₹1,02,000.
Section 24(b): Interest on Borrowed Capital = Current Year (₹1,20,000) + 1/5th Pre-con (₹36,000) = ₹1,56,000. (No maximum limit for Let-Out Property).

Step 3: Income from House Property
Income = NAV (₹3,40,000) - Sec 24(a) (₹1,02,000) - Sec 24(b) (₹1,56,000)
Income = **₹82,000.**

5. CMA INSIGHTS FOR PRACTICAL LIFE

For Let-Out properties, leveraging maximum debt is highly tax-efficient because there is no cap on the interest deduction, allowing investors to effectively wash out their rental income.

Illustration 8: Area-wise Part Let-Out, Part SOP

1. THE QUESTION

Mr. G owns a building. 60% of the floor area is self-occupied, and 40% is let out for ₹15,000 p.m. Municipal Value for the entire building is ₹3,00,000. Municipal taxes paid = ₹30,000. Interest on construction loan for the whole building = ₹2,50,000. Compute HP Income.

2. HOW TO READ THE QUESTION

- **Split everything:** Treat as two separate houses. SOP (60%) and LOP (40%).
- **Allocate values:** MV, Taxes, and Interest split 60:40.

3. NOTING OF KEY POINTS (ROUGH WORK)

- **SOP (60%):** NAV=0. Interest = 60% of 2.5L = 1.5L. Allowed fully since < 2L. Income = -1,50,000.
- **LOP (40%):** MV = 1.2L. ARR = 15k*12 = 1.8L. GAV = 1.8L. Taxes = 40% of 30k = 12,000. NAV = 1.68L. Std Ded = 50,400. Interest = 40% of 2.5L = 1.0L. Income = 1.68L - 50.4k - 1L = +17,600.
- **Total:** -1,50,000 + 17,600 = -1,32,400.

4. ANSWER AS PER ICMAI SUGGESTED FORMAT

Step 1: SOP Portion (60%)
NAV = Nil.
Interest u/s 24(b) = 60% of ₹2,50,000 = ₹1,50,000 (Within 2L limit).
Income from SOP = (-) ₹1,50,000.

Step 2: LOP Portion (40%)
MV (40%) = ₹1,20,000. Actual Rent = ₹1,80,000. GAV = ₹1,80,000.
Less: Municipal Taxes (40% of 30k) = ₹12,000.
NAV = ₹1,68,000.
Less: Standard Deduction @ 30% = ₹50,400.

Less: Interest (40% of 2.5L) = ₹1,00,000.
Income from LOP = ₹1,68,000 - ₹1,50,400 = (+) ₹17,600.

Step 3: Total Income
Total HP Income = (-) ₹1,50,000 + ₹17,600 = **(-) ₹1,32,400**.

5. CMA INSIGHTS FOR PRACTICAL LIFE

Bifurcating expenses strictly by square footage prevents disallowance during scrutiny. Ensure property tax receipts explicitly show the entire property area to justify the percentage split.

Illustration 9: Time-wise Part Let-Out, Part SOP

1. THE QUESTION

Mr. H owns a house. He self-occupied it for 4 months and let it out for 8 months at ₹20,000 p.m. Expected Rent for the whole year is ₹2,00,000. Municipal taxes paid ₹20,000. Calculate NAV.

2. HOW TO READ THE QUESTION

- **Rule:** A property let out for ANY part of the year is treated as a Let-Out Property for the ENTIRE year.
- **No proportionate deduction:** ER is taken for the full year. ARR is taken for actual months let out.

3. NOTING OF KEY POINTS (ROUGH WORK)

- ER (12 mos) = 2,00,000.
- ARR (8 mos) = 20k * 8 = 1,60,000.
- GAV = Higher of 2L and 1.6L = 2,00,000.
- Taxes = 20,000. NAV = 1,80,000.

4. ANSWER AS PER ICMAI SUGGESTED FORMAT

Step 1: Determine Property Status
If a property is self-occupied for a part of the year and let out for the remaining part, the benefit of SOP (Nil NAV) is lost. It is assessed as a Let-Out Property.

Step 2: Calculate GAV
Expected Rent (for whole year) = ₹2,00,000.
Actual Rent Received (for 8 months) = ₹20,000 x 8 = ₹1,60,000.
GAV is the higher of ER and ARR.
GAV = ₹2,00,000.

Step 3: Calculate NAV
Less: Municipal Taxes = ₹20,000.
Net Annual Value (NAV) = ₹1,80,000.

5. CMA INSIGHTS FOR PRACTICAL LIFE

Clients often wrongly assume they can claim a proportionate 'Nil NAV' for the months they lived there. Legally, renting out your primary residence via Airbnb for even a few weeks converts its tax status to Let-Out for the whole year.

Illustration 10: Arrears of Rent (Sec 25A)

1. THE QUESTION

Mr. J let out a property in 2021. Due to a dispute, rent was increased retrospectively. In PY 2025-26, he received arrears of rent amounting to ₹1,00,000. He had sold the property in 2024. Compute his income for AY 2026-27.

2. HOW TO READ THE QUESTION

- **Sec 25A Rule:** Taxable in the year of receipt.
- **Standard Deduction:** 30% is allowed.
- **Ownership check:** Taxable even if he is no longer the owner.

3. NOTING OF KEY POINTS (ROUGH WORK)

- Arrears = 1,00,000.
- Less 30% = 30,000.
- Taxable = 70,000.

4. ANSWER AS PER ICMAI SUGGESTED FORMAT

Step 1: Statutory Provision
As per Section 25A, any amount received as arrears of rent is taxable as Income from House Property in the year of receipt, whether the assessee is the owner of the property in that year or not.

Step 2: Computation
Arrears of Rent received: ₹1,00,000.
Less: Standard Deduction @ 30%: ₹30,000.

Taxable Income from House Property = ₹70,000.

5. CMA INSIGHTS FOR PRACTICAL LIFE

The 30% standard deduction is absolute. No other deduction (like legal fees incurred to recover the arrears) is permissible against this income.

Illustration 11: Recovery of Unrealized Rent

1. THE QUESTION

Mr. K claimed unrealized rent of ₹50,000 in PY 2022-23, out of which the Assessing Officer only allowed ₹30,000 as a deduction. In PY 2025-26, Mr. K recovered ₹40,000 from the defaulting tenant. Compute taxable amount.

2. HOW TO READ THE QUESTION

- **Recovery logic:** Total rent recovered MINUS rent not allowed as deduction earlier.

3. NOTING OF KEY POINTS (ROUGH WORK)

- Total UR = 50k. Allowed = 30k. Unallowed = 20k.
- Recovered = 40k.
- Taxable recovery = 40k (recovered) - 20k (unallowed portion) = 20,000.
- Apply 30% deduction on 20,000.
- Wait, Section 25A gives 30% deduction on the entire taxable portion.

4. ANSWER AS PER ICMAI SUGGESTED FORMAT

Step 1: Determine the Taxable Recovery
When unrealized rent is recovered, the amount previously NOT allowed as a deduction is set off against the recovery first.
Total recovery = ₹40,000.
Less: Unallowed portion (₹50,000 - ₹30,000) = ₹20,000.
Gross Taxable Recovery = ₹20,000.

Step 2: Apply Standard Deduction
As per Sec 25A, a 30% deduction applies to the taxable recovery.
Less: 30% of ₹20,000 = ₹6,00,0.
Taxable Income = ₹14,000.

5. CMA INSIGHTS FOR PRACTICAL LIFE

Maintaining accurate historical tax assessments is crucial. If you don't adjust the 'unallowed' portion from previous scrutiny assessments, the client will end up paying double tax on the recovered amount.

Illustration 12: More than Two SOPs (Deemed Let Out)

1. THE QUESTION

Mr. L owns 3 residential houses (A, B, and C) which he uses for self-occupation. Expected Rents are A: ₹2L, B: ₹3L, C: ₹4L. He has housing loans for all, paying interest of A: ₹50k, B: ₹1L, C: ₹1.5L. Advise him which two houses to opt as SOP to minimize tax.

2. HOW TO READ THE QUESTION

- **Law:** Max 2 houses can be SOP (Nil NAV). The 3rd is Deemed Let Out Property (DLOP), where GAV = ER.
- **Optimization:** Choose the houses with the HIGHEST Expected Rent as SOP to make their NAV Nil.

3. NOTING OF KEY POINTS (ROUGH WORK)

- If A & B are SOP: DLOP is C. GAV = 4L. NAV = 4L. Std Ded = 1.2L. Int = 1.5L. Income = 1.3L. SOP Interest (A+B) = 1.5L. Total = -20k.
- If B & C are SOP: DLOP is A. GAV = 2L. NAV = 2L. Std Ded = 60k. Int = 50k. Income = 90k. SOP Interest (B+C) = 2.5L (restricted to 2L). Total = -1.1L.
- Let's formally calculate the best option.

4. ANSWER AS PER ICMAI SUGGESTED FORMAT

Step 1: Optimization Strategy
The assessee should treat those two houses as SOPs which have the highest 'Expected Rent' (Net of interest) to minimize taxable income.

Step 2: Option 1 (Treat B & C as SOP, A as DLOP)
<u>DLOP (House A):</u> GAV = ₹2,00,000. NAV = ₹2,00,000. Less 30% (₹60k) and Interest (₹50k) = Taxable +₹90,000.
<u>SOP (Houses B & C):</u> NAV = Nil. Interest = 1L + 1.5L = 2.5L. Restricted to ₹2,00,000.
Total Income = 90,000 - 2,00,000 = **(-) ₹1,10,000**.

Step 3: Option 2 (Treat A & C as SOP, B as DLOP)
DLOP (House B): GAV = 3L. Less 30% (90k) and Int (1L) = +₹1,10,000.
SOP (A & C): NAV = Nil. Int = 50k + 1.5L = 2L. Restricted to 2L.
Total Income = 1.1L - 2L = **(-) ₹90,000**.

Conclusion:
Mr. L should opt for **Option 1 (Houses B & C as SOP)** as it yields the maximum loss of ₹1,10,000 to set off against other income.

5. CMA INSIGHTS FOR PRACTICAL LIFE

Automating this decision matrix is vital for tax software. The algorithm must iterate through all combinations (nCr) of SOPs to find the lowest aggregate taxable income, especially when interest caps are hit.

Illustration 13: Property Owned by Co-owners

1. THE QUESTION

Brothers M and N jointly own a house property (50% share each) used entirely for self-occupation. The property was constructed with a joint loan on which they paid a total interest of ₹3,50,000 in PY 2025-26. Calculate their respective incomes from House Property.

2. HOW TO READ THE QUESTION

- **Co-ownership Rule (Sec 26):** Share is definite. Compute individually.
- **SOP Benefit:** The ₹2 Lakh limit applies INDIVIDUALLY to each co-owner.

3. NOTING OF KEY POINTS (ROUGH WORK)

- Total Interest = 3,50,000. Share of each = 1,75,000.
- Limit per person = 2,00,000.
- Both can claim their full 1.75L share.

4. ANSWER AS PER ICMAI SUGGESTED FORMAT

Step 1: Apply Section 26
Since the shares are definite and ascertainable (50% each), the income is computed separately for each co-owner.

Step 2: Evaluate SOP Limits
For Self-Occupied Property, the NAV is Nil. The maximum interest deduction u/s 24(b) is ₹2,00,000. Crucially, this limit applies to **each co-owner separately**, not to the property as a whole.

Step 3: Computation for Mr. M and Mr. N
Total Interest = ₹3,50,000.
Share of each (50%) = ₹1,75,000.
Since ₹1,75,000 is within the individual ₹2,00,000 limit, both M and N can claim their full share.
Income from HP for Mr. M = (-) ₹1,75,000
Income from HP for Mr. N = (-) ₹1,75,000

5. CMA INSIGHTS FOR PRACTICAL LIFE

Joint ownership with a spouse is a primary tax planning tool for acquiring premium real estate. A ₹4 Lakh total interest shield effectively wipes out a substantial portion of salaried tax liability.

Illustration 14: Composite Rent (Separable vs Inseparable)

1. THE QUESTION

Mr. O lets out a fully furnished office building for ₹1,00,000 p.m. The rent agreement specifies ₹60,000 for the building and ₹40,000 for furniture & services. He incurs ₹15,000 as repair costs for furniture. How is this taxed?

2. HOW TO READ THE QUESTION

- **Composite Rent Rule:** If separable, building rent goes to HP, services go to IFOS/PGBP. If inseparable, entire amount goes to IFOS/PGBP.
- **Agreement:** Specifies separate amounts, so it is separable.

3. NOTING OF KEY POINTS (ROUGH WORK)

- HP: GAV = 60,000 * 12 = 7,20,000.
- IFOS/PGBP: Gross = 40,000 * 12 = 4,80,000. Less repairs (15,000).

4. ANSWER AS PER ICMAI SUGGESTED FORMAT

Step 1: Analyze Separability
Since the rent agreement clearly segregates the rent for the building and the rent for amenities/furniture, the composite rent is separable.

Step 2: House Property Computation
GAV for building = ₹60,000 x 12 = ₹7,20,000.
Less: 30% Standard Deduction = ₹2,16,000.
Taxable under HP = **₹5,04,000**.

Step 3: Other Sources / PGBP Computation
Rent for furniture/services = ₹40,000 x 12 = ₹4,80,000.

Less: Actual expenses (Repairs) u/s 57 = ₹15,000.
Taxable under IFOS/PGBP = **₹4,65,000**.

5. CMA INSIGHTS FOR PRACTICAL LIFE

Drafting rental agreements meticulously to separate building rent from amenity charges allows the landlord to claim actual depreciation and repair costs on the amenities, rather than having it swallowed by the flat 30% HP standard deduction.

Illustration 15: Property held as Stock-in-Trade

1. THE QUESTION

ABC Builders constructed an apartment complex. 10 flats remained unsold and were held as stock-in-trade. The construction completion certificate was obtained on 15th March 2024. Expected rent per flat is ₹20,000 p.m. Compute HP income for these unsold flats for AY 2026-27 (PY 2025-26).

2. HOW TO READ THE QUESTION

- **Stock-in-Trade Rule:** NAV of unsold flats held as stock-in-trade is taken as NIL for up to 2 years from the end of the FY in which the certificate of completion is obtained.

3. NOTING OF KEY POINTS (ROUGH WORK)

- Completion: FY 23-24 (Ends 31-Mar-24).
- 2 years end on: 31-Mar-26.
- PY 25-26 ends on 31-Mar-26. So it falls exactly within the 2-year exemption period.
- NAV = Nil.

4. ANSWER AS PER ICMAI SUGGESTED FORMAT

Step 1: Identify Statutory Provision
Under Section 23(5), if property is held as stock-in-trade and is not let out during the whole or part of the year, its Annual Value shall be taken as NIL for a period of **two years** from the end of the financial year in which the certificate of completion of construction is obtained.

Step 2: Calculate Timeframe
Certificate obtained: 15-Mar-2024 (FY 2023-24).
End of FY: 31-Mar-2024.
Two years from end of FY: 31-Mar-2026.
The relevant Previous Year 2025-26 ends on 31-Mar-2026.

Conclusion:
Since PY 2025-26 falls entirely within the 2-year grace period, the Annual Value of the 10 unsold flats is **NIL.** No tax is payable under the head House Property.

5. CMA INSIGHTS FOR PRACTICAL LIFE

Real estate developers rely heavily on this 2-year moratorium. However, if any flat is temporarily let out during this period to recover costs, the Section 23(5) exemption is immediately forfeited for that specific unit.

ICMAI PAPER 15

DIRECT TAX LAWS & INTERNATIONAL TAXATION

PART 6: MASTER PROBLEM SOLVER

Chapter 4: Profits & Gains of Business or Profession (PGBP)
(15 Extensive Illustrations)

Applicable for: December 2026 Examination
Assessment Year: 2026-27 (Previous Year 2025-26)

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Chapter 4: PGBP

This volume contains 15 highly complex, exam-grade illustrations targeting Depreciation (Sec 32), Disallowances (Sec 40, 40A, 43B including the MSME rule), and Presumptive Taxation (Sec 44AD/ADA/AE).

Illustration 1: Basic Computation of Business Income

1. THE QUESTION

The Net Profit of ABC Ltd. as per its P&L A/c is ₹15,00,000. The P&L is debited with: (i) Provision for bad debts: ₹50,000; (ii) Personal life insurance premium of the director: ₹30,000; (iii) Depreciation as per books: ₹2,00,000. It is credited with (iv) Dividend from Indian companies: ₹80,000. Depreciation as per IT Rules is ₹2,50,000. Calculate taxable PGBP.

2. HOW TO READ THE QUESTION

- **Additions:** Add back expenses debited to P&L that are not allowed under IT Act (Provisions, Personal expenses, Book Depreciation).
- **Deletions:** Deduct incomes credited to P&L taxable under other heads (Dividend goes to IFOS), and deduct allowable IT Depreciation.

3. NOTING OF KEY POINTS (ROUGH WORK)

- NP = 15,00,000
- Add: Prov for BD = 50,000, LIC = 30,000, Book Depr = 2,00,000. Total Adds = 2,80,000.
- Less: Dividend = 80,000, IT Depr = 2,50,000. Total Less = 3,30,000.
- Taxable PGBP = 15L + 2.8L - 3.3L = 14,50,000.

4. ANSWER AS PER ICMAI SUGGESTED FORMAT

Computation of Income under the head PGBP:

- Net Profit as per P&L Account: **₹15,00,000**
- **Add: Inadmissible expenses debited to P&L A/c:**
  - Provision for Bad Debts (Provisions are not allowed): ₹50,000
  - Personal LIC Premium of director (Personal expense): ₹30,000

- Depreciation as per books of account: ₹2,00,000
  Sub-total: ₹17,80,000
- **Less: Incomes taxable under other heads / Allowable deductions:**
  - Dividend Income (Taxable under IFOS): ₹80,000
  - Depreciation allowable as per IT Rules: ₹2,50,000
  Total deductions: ₹3,30,000
- **Profits and Gains of Business or Profession: ₹14,50,000**

5. CMA INSIGHTS FOR PRACTICAL LIFE

Creating an automated PGBP calculator requires a robust classification engine mapping every chart of accounts item to its respective tax treatment (Add, Less, or Ignore). 'Provisions' and 'Book Depreciation' are the most standard add-backs.

Illustration 2: Depreciation - Block of Assets

1. THE QUESTION

Block of Plant & Machinery (Depr Rate 15%). Opening WDV as on 1-Apr-25: ₹10,00,000. Asset A purchased on 1-Jun-25: ₹4,00,000. Asset B purchased on 1-Nov-25: ₹3,00,000. Asset C (from the opening block) sold on 1-Feb-26 for ₹12,00,000. Calculate depreciation for AY 2026-27.

2. HOW TO READ THE QUESTION

- **Block formula:** Opening + Purchases - Sale Value.
- **180-days rule:** Assets put to use for < 180 days (purchased after 3rd/4th Oct) get half depreciation. Asset B was bought on 1-Nov (half rate).
- **Absorption order:** Sales value absorbs the opening WDV first, then assets purchased >180 days, then <180 days.

3. NOTING OF KEY POINTS (ROUGH WORK)

- Total Block = 10L + 4L + 3L = 17,00,000.
- Less Sale = 12,00,000.
- Closing WDV = 5,00,000.

- Composition of Closing WDV: Since 12L sale absorbs 10L (Opening) + 2L (from Asset A), the remaining WDV consists of 2L of Asset A (>180 days) and 3L of Asset B (<180 days).

4. ANSWER AS PER ICMAI SUGGESTED FORMAT

Step 1: Calculate WDV of the Block
Opening WDV: ₹10,00,000
Add: Asset A (1-Jun, >180 days): ₹4,00,000
Add: Asset B (1-Nov, <180 days): ₹3,00,000
Total value before sale: ₹17,00,000
Less: Sale Consideration of Asset C: ₹12,00,000
WDV for Depreciation: ₹5,00,000

Step 2: Allocate WDV to apply 180-day rule
The sale consideration of ₹12L is set off against Opening WDV (₹10L) and then against Asset A (₹2L).
Remaining WDV of ₹5L consists of: ₹2L of Asset A (Eligible for full 15%) and ₹3L of Asset B (Eligible for half rate 7.5%).

Step 3: Calculate Depreciation
Depr on Asset A portion: 15% of ₹2,00,000 = ₹30,000.
Depr on Asset B portion: 7.5% of ₹3,00,000 = ₹22,500.
Total Allowable Depreciation: ₹52,500.

5. CMA INSIGHTS FOR PRACTICAL LIFE

A common mistake is applying a blanket 15% on the entire closing WDV. The FIFO-style absorption of sale consideration against the block is critical. Sale proceeds eat into the oldest assets first.

Illustration 3: Additional Depreciation (Manufacturing Co.)

1. THE QUESTION

PQR Ltd, a manufacturing company, has an opening WDV of P&M (15%) of ₹20,00,000. It acquired new machinery on 1st Dec 2025 for ₹10,00,000. Calculate total depreciation (Normal + Additional) for AY 2026-27. The company does NOT opt for the new tax regime (Sec 115BAC).

2. HOW TO READ THE QUESTION

- **Additional Depr:** Allowed to manufacturing companies @ 20% on NEW plant & machinery. (Not on second-hand, ships, aircraft, or office appliances).
- **180-days rule:** Since bought on 1-Dec (<180 days), both normal and additional depreciation will be restricted to 50% in the current year. The remaining 50% additional depreciation can be claimed in the NEXT year.

3. NOTING OF KEY POINTS (ROUGH WORK)

- Normal Depr = 15% of 20L + (7.5% of 10L) = 3,00,000 + 75,000 = 3,75,000.
- Additional Depr = 20% on 10L, but restricted to 50% = 10%. So, 10% of 10L = 1,00,000.
- Total = 4,75,000.

4. ANSWER AS PER ICMAI SUGGESTED FORMAT

Step 1: WDV Calculation
Opening WDV: ₹20,00,000 (Used >180 days)
New Machinery: ₹10,00,000 (Used <180 days)
Total WDV: ₹30,00,000

Step 2: Normal Depreciation
On Opening WDV: 15% of ₹20,00,000 = ₹3,00,000.
On New Machinery: 7.5% (Half of 15%) of ₹10,00,000 = ₹75,000.
Total Normal Depreciation = ₹3,75,000.

Step 3: Additional Depreciation u/s 32(1)(iia)
Eligible on new machinery @ 20%. Since put to use for <180 days, it is restricted to 10% in the current year.
Additional Depr = 10% of ₹10,00,000 = ₹1,00,000.
(The remaining 10% i.e., ₹1,00,000 will be allowed in the subsequent AY 2027-28).

Total Depreciation Allowable = ₹3,75,000 + ₹1,00,000 = **₹4,75,000**.

5. CMA INSIGHTS FOR PRACTICAL LIFE

In practice, tax software must strictly tag 'New vs Old' assets and automatically carry forward the unabsorbed 50% additional depreciation to the next financial year's computation to prevent tax leakage for manufacturing clients.

Illustration 4: Set-off of Unabsorbed Depreciation

1. THE QUESTION

For PY 2025-26, XYZ Ltd has a business profit before depreciation of ₹3,00,000. Current year depreciation is ₹4,00,000. The company also has Income from House Property of ₹2,50,000 and Long Term Capital Gains of ₹1,00,000. Compute the Gross Total Income.

2. HOW TO READ THE QUESTION

- **Set-off rule for CY Depr:** Adjusted against business profit first. If a loss remains, it becomes 'Unabsorbed Depreciation'.
- **Unabsorbed Depr flexibility:** Can be set off against ANY head of income except 'Salaries'.

3. NOTING OF KEY POINTS (ROUGH WORK)

- Business income = 3L - 4L = Nil. Unabsorbed Depr generated = 1,00,000.
- Set off Unabsorbed Depr against House Property first: 2.5L - 1L = 1.5L.
- GTI = 1.5L (HP) + 1L (LTCG) = 2,50,000.

4. ANSWER AS PER ICMAI SUGGESTED FORMAT

Step 1: Computation of Business Income
Profit before depreciation: ₹3,00,000
Less: Current Year Depreciation: ₹4,00,000
Business Income: **NIL**.
The unadjusted depreciation of ₹1,00,000 (₹4,00,000 - ₹3,00,000) is termed as **Unabsorbed Depreciation**.

Step 2: Inter-Head Set-off
Unabsorbed depreciation can be set off against any head of income (other than Salary).
Income from House Property: ₹2,50,000.
Less: Set-off of Unabsorbed Depreciation: ₹1,00,000.
Net Income from House Property = ₹1,50,000.

Step 3: Gross Total Income (GTI)
Net HP Income: ₹1,50,000
LTCG: ₹1,00,000
Gross Total Income = **₹2,50,000.**

5. CMA INSIGHTS FOR PRACTICAL LIFE

Unlike business losses which have an 8-year expiry, unabsorbed depreciation has an indefinite life. However, applying it against House Property (which is taxed at normal rates) is more tax-efficient than applying it against LTCG (which has a lower 12.5% rate).

Illustration 5: Disallowance u/s 40(a)(ia) - Resident TDS Default

1. THE QUESTION

LMN Ltd paid ₹10,00,000 as professional fees to a resident consultant in Jan 2026. TDS of ₹1,00,000 was deducted in Jan 2026 but deposited with the government on 15th November 2026. The due date of filing the ITR is 31st October 2026. Compute the disallowance.

2. HOW TO READ THE QUESTION

- **Rule 40(a)(ia):** If TDS is deducted but not deposited before the ITR due date (139(1)), 30% of the expenditure is disallowed in the current year.
- **Timelines:** Deposited Nov 26. ITR due date Oct 26. So, it was paid AFTER the due date.

3. NOTING OF KEY POINTS (ROUGH WORK)

- Expense = 10,00,000.
- TDS deposited late. Disallowance = 30% of 10L = 3,00,000.
- This 3L will be allowed in the year the TDS is actually deposited (AY 2027-28).

4. ANSWER AS PER ICMAI SUGGESTED FORMAT

Step 1: Verify Compliance Timeline
Under section 40(a)(ia), any sum payable to a resident on which TDS is deductible shall be disallowed to the extent of 30% if tax is not deducted, OR after deduction, is not paid on or before the due date specified in Section 139(1).
Here, the due date for ITR is 31st October 2026. The TDS was deposited on 15th November 2026.

Step 2: Compute Disallowance
Since the TDS was deposited after the due date, 30% of the professional fees will be disallowed.
Disallowance = 30% of ₹10,00,000 = **₹3,00,000**.

Conclusion:
₹3,00,000 will be added back to the business income for AY 2026-27. This amount will be allowed as a deduction in the subsequent year (AY 2027-28) when the TDS was actually remitted.

5. CMA INSIGHTS FOR PRACTICAL LIFE

Statutory audit checklists must strictly reconcile the TDS returns (Form 26Q) with the date of actual challan payments before signing off on the tax audit report (Form 3CD) to prevent the client from facing an automatic 30% disallowance.

Illustration 6: Disallowance u/s 40(a)(i) - Non-Resident TDS Default

1. THE QUESTION

DEF Ltd paid Royalty of ₹20,00,000 to a foreign company (Non-Resident) in March 2026. No TDS was deducted. What is the quantum of disallowance under PGBP for AY 2026-27?

2. HOW TO READ THE QUESTION

- **Rule 40(a)(i):** For payments to non-residents, failure to deduct/pay TDS results in a **100%** disallowance (unlike the 30% for residents).

3. NOTING OF KEY POINTS (ROUGH WORK)

- Expense = 20,00,000.
- Payee = Non-Resident.
- TDS default = 100% disallowance.
- Disallowance = 20,00,000.

4. ANSWER AS PER ICMAI SUGGESTED FORMAT

Step 1: Identify the Payee and Provision
The payment is made to a Non-Resident. Section 40(a)(i) strictly applies to any interest, royalty, fees for technical services, or other sum chargeable under this Act payable outside India or to a non-resident.

Step 2: Compute Disallowance
Unlike Section 40(a)(ia) which restricts disallowance to 30% for residents, Section 40(a)(i) mandates a **100% disallowance** of the expenditure if tax is not deducted, or after deduction, is not paid before the due date u/s 139(1).

Conclusion:
The entire amount of **₹20,00,000** will be disallowed and added back to the net profit while computing PGBP for AY 2026-27.

5. CMA INSIGHTS FOR PRACTICAL LIFE

Cross-border payments (Form 15CA/15CB) require extreme caution. A simple oversight in deducting withholding tax on a foreign invoice can artificially inflate a company's taxable profit by crores, resulting in massive cash flow hits.

Illustration 7: Cash Payments u/s 40A(3)

1. THE QUESTION

Mr. G purchased raw materials worth ₹45,000. He paid ₹8,000 in cash in the morning, ₹9,000 in cash in the afternoon to the same supplier, and the balance ₹28,000 by crossed cheque. He also paid ₹30,000 in cash to a goods transporter. Compute the disallowance.

2. HOW TO READ THE QUESTION

- **Rule 40A(3):** Cash payments exceeding ₹10,000 in a **single day to a single person** are 100% disallowed. For goods transporters, the limit is ₹35,000.
- **Crossed Cheque:** Treated equivalent to cash (must be account payee). So the 28k crossed cheque is a violation if it crosses the limit with the cash.

3. NOTING OF KEY POINTS (ROUGH WORK)

- Supplier 1: Cash = 8k + 9k = 17,000. Crossed Cheque = 28,000. Total non-account payee payment in a day = 45,000. Limit is 10k. Entire 45,000 is disallowed.
- Transporter: Cash = 30,000. Limit is 35,000. No disallowance.

4. ANSWER AS PER ICMAI SUGGESTED FORMAT

Step 1: Payment to Supplier
Section 40A(3) applies if the aggregate payment in a single day to a person otherwise than by an account payee cheque/draft/ECS exceeds ₹10,000. A 'crossed cheque' does not satisfy the requirement of an 'account payee' cheque.
Total invalid payment = ₹8,000 (cash) + ₹9,000 (cash) + ₹28,000 (crossed cheque) = ₹45,000.
Since this exceeds ₹10,000, the **entire ₹45,000 is disallowed**.

Step 2: Payment to Goods Transporter
For payments made to a person plying, hiring, or leasing goods carriages, the limit u/s 40A(3) is enhanced to ₹35,000.
Since the payment of ₹30,000 is within the ₹35,000 limit, it is **fully allowed**.

Total Disallowance = **₹45,000.**

5. CMA INSIGHTS FOR PRACTICAL LIFE

Business owners frequently confuse 'Crossed Cheque' with 'Account Payee Cheque'. A crossed cheque can still be endorsed to third parties. Tax auditors must physically verify the stamp 'Account Payee' on high-value cheques to prevent 100% disallowance.

Illustration 8: Payment to Relatives u/s 40A(2)

1. THE QUESTION

MNO Firm pays salary of ₹1,00,000 p.m. to the son of a partner who manages the marketing department. The Fair Market Value (FMV) of his services in the industry is ₹60,000 p.m. The firm's total profit before this deduction is ₹20 Lakhs. Compute the disallowance.

2. HOW TO READ THE QUESTION

- **Rule 40A(2):** If any expenditure is incurred for which payment is made to a specified relative, and the Assessing Officer considers it excessive or unreasonable having regard to the FMV, the excess portion is disallowed.

3. NOTING OF KEY POINTS (ROUGH WORK)

- Actual payment = 1,00,000 p.m.
- FMV = 60,000 p.m.
- Excess payment = 40,000 p.m.
- Annual Disallowance = 40,000 * 12 = 4,80,000.

4. ANSWER AS PER ICMAI SUGGESTED FORMAT

Step 1: Identify the Specified Person
Under Section 40A(2)(b), any relative of a partner of a firm is considered a specified person. The son of the partner falls under this category.

Step 2: Evaluate Reasonableness
The Assessing Officer has the power to disallow any expenditure paid to a specified person which is considered excessive or unreasonable having regard to the Fair Market Value (FMV) of the goods, services, or facilities.
Actual Salary Paid = ₹1,00,000 x 12 = ₹12,00,000.
FMV of Services = ₹60,000 x 12 = ₹7,20,000.

Step 3: Compute Disallowance
Excess payment = ₹12,00,000 - ₹7,20,000 = **₹4,80,000**.
This ₹4,80,000 will be added back to the net profit of the firm.

5. CMA INSIGHTS FOR PRACTICAL LIFE

Family-owned businesses frequently inflate salaries paid to family members to shift profits to lower tax brackets. CMAs must advise clients to document the specialized qualifications, experience, and actual hours worked by relatives to defend the FMV during scrutiny.

Illustration 9: Section 43B - Statutory Dues & Interest

1. THE QUESTION

PQR Ltd accrued the following liabilities for PY 2025-26: (a) GST: ₹2,00,000. (b) Employer's PF Contribution: ₹1,50,000. (c) Interest on term loan from SBI: ₹3,00,000. It paid GST on 15-May-26, PF on 10-Nov-26, and converted the unpaid SBI interest of ₹3L into a fresh loan on 31-Mar-26. ITR due date is 31-Oct-26. Determine allowability.

2. HOW TO READ THE QUESTION

- **Rule 43B:** Deductions allowed only on ACTUAL PAYMENT before ITR due date.
- **Converted Interest:** Converting unpaid interest into a fresh loan is NOT considered 'actual payment' (Explanation 3C to Sec 43B).

3. NOTING OF KEY POINTS (ROUGH WORK)

- GST: Paid 15-May (Before Oct). Allowed.
- PF: Paid 10-Nov (After Oct). Disallowed.
- Interest: Converted to loan. Deemed NOT paid. Disallowed.

4. ANSWER AS PER ICMAI SUGGESTED FORMAT

Step 1: Analyze GST Payment
GST is a statutory due covered u/s 43B. It was paid on 15-May-2026, which is before the ITR due date (31-Oct-2026). **Allowed as deduction: ₹2,00,000.**

Step 2: Analyze PF Contribution
Employer's contribution to PF is covered u/s 43B. It was paid on 10-Nov-2026, which is AFTER the ITR due date. **Disallowed: ₹1,50,000.** (It will be allowed in AY 2027-28).

Step 3: Analyze Interest to SBI
Interest on loans from scheduled banks is covered u/s 43B. Explanation 3C to Section 43B clarifies that converting unpaid interest into a fresh loan or advance does NOT constitute 'actual payment'. Therefore, it is **Disallowed: ₹3,00,000.**

5. CMA INSIGHTS FOR PRACTICAL LIFE

During corporate debt restructuring (CDR), banks often convert unpaid interest into Funded Interest Term Loans (FITL). Companies mistakenly claim this as an interest expense paid. The tax law strictly forbids this until the actual cash outflow happens to repay the FITL.

Illustration 10: Section 43B(h) - MSME Payments

1. THE QUESTION

XYZ Ltd purchased goods worth ₹5,00,000 from a registered Micro Enterprise on 1st March 2026. There is a written agreement to pay within 60 days. XYZ Ltd paid the amount on 10th May 2026. The ITR due date is 31st October 2026. Is the deduction allowed for AY 2026-27?

2. HOW TO READ THE QUESTION

- **Sec 43B(h) Rule:** Payments to Micro/Small enterprises MUST be paid within the time limit of Sec 15 of MSMED Act. Limit = 15 days (if no agreement) or Max 45 days (if agreement exists).
- **Timeline check:** 45 days from 1-Mar is 15-Apr-26. Payment made on 10-May-26.
- **Consequence:** If paid after the MSME due date, deduction is allowed ONLY in the year of actual payment, irrespective of the ITR due date.

3. NOTING OF KEY POINTS (ROUGH WORK)

- MSME due date = 15-Apr-2026.
- Actual payment = 10-May-2026.
- Since actual payment is after MSME due date, it is disallowed in PY 25-26. Allowed in PY 26-27.

4. ANSWER AS PER ICMAI SUGGESTED FORMAT

Step 1: Determine the MSMED Act Due Date
Under Section 15 of the MSMED Act, if there is a written agreement, payment must be made within the agreed period, but it **cannot exceed 45 days** from the date of acceptance of goods. 45 days from 1st March 2026 falls on **15th April 2026**.

Step 2: Check Section 43B(h) Provision
The Finance Act mandated that any sum payable to a micro or small enterprise beyond

the time limit specified in the MSMED Act shall be allowed as a deduction **only in the previous year in which the sum is actually paid**. The general relief of paying before the ITR due date DOES NOT apply to clause (h).

Conclusion:
Since the payment was made on 10th May 2026 (beyond 15th April), the expense of ₹5,00,000 is **disallowed** for AY 2026-27. It will be allowed as a deduction in AY 2027-28 (the year of actual payment).

5. CMA INSIGHTS FOR PRACTICAL LIFE

This is currently the most heavily scrutinized provision by tax auditors. An automated Accounts Payable ageing tool is essential. Paying an MSME vendor on day 46 instead of day 45 delays your corporate tax deduction by a full year, causing severe working capital strain.

Illustration 11: Presumptive Taxation u/s 44AD

1. THE QUESTION

Mr. R, a resident individual, runs a retail business. His total turnover for PY 2025-26 is ₹1,80,000,000 (1.8 Cr). Out of this, ₹1,20,000,000 was received via RTGS/NEFT during the year, ₹40,000,000 was received in cash, and ₹20,000,000 is pending realization. He wishes to opt for Section 44AD. Compute his presumptive income.

2. HOW TO READ THE QUESTION

- **44AD Turnover Limit:** ₹2 Cr (or ₹3 Cr if cash receipts <= 5%). Turnover is 1.8 Cr, so he is eligible.
- **Rates:** 6% for digital receipts (A/c payee cheque, draft, ECS) received before ITR due date. 8% for cash and pending amounts.

3. NOTING OF KEY POINTS (ROUGH WORK)

- Digital = 1.2 Cr @ 6% = 7,20,000.
- Cash = 40L @ 8% = 3,20,000.
- Pending = 20L @ 8% = 1,60,000.
- Total Income = 7.2L + 3.2L + 1.6L = 12,00,000.

4. ANSWER AS PER ICMAI SUGGESTED FORMAT

Step 1: Check Eligibility
Mr. R is a resident individual and his turnover is ₹1.8 Crores (which is less than the basic ₹2 Crores limit). Hence, he is eligible to declare income under Section 44AD.

Step 2: Apply the Dual Rate Structure
- For turnover received by account payee cheque/draft or use of electronic clearing system on or before the due date of ITR: Rate is **6%**.
- For turnover received in cash or remaining outstanding: Rate is **8%**.

Step 3: Computation
Income from Digital Receipts: 6% of ₹1,20,00,000 = ₹7,20,000.
Income from Cash Receipts: 8% of ₹40,00,000 = ₹3,20,000.
Income from Outstanding Debtors: 8% of ₹20,00,000 = ₹1,60,000.
Total Presumptive Business Income = ₹12,00,000.

5. CMA INSIGHTS FOR PRACTICAL LIFE

Section 44AD is highly advantageous because it absolves the taxpayer from maintaining detailed books of accounts. However, if the pending 20L is realized digitally *before* the ITR due date, the taxpayer can recalculate that portion at 6% instead of 8%.

Illustration 12: Presumptive Taxation u/s 44ADA

1. THE QUESTION

Ms. S, an interior decorator, has gross receipts of ₹48,00,000 for PY 2025-26. She incurred business expenses of ₹20,00,000. She wants to declare income u/s 44ADA. Determine her taxable income. Can she claim the ₹20L expense separately?

2. HOW TO READ THE QUESTION

- **44ADA Limit:** Gross receipts up to ₹50 Lakhs (or ₹75 Lakhs if cash receipts <= 5%). 48L is eligible.
- **Rate:** Flat 50% of gross receipts.
- **Deductions:** All expenses u/s 30 to 38 are DEEMED to have been allowed. No separate deduction.

3. NOTING OF KEY POINTS (ROUGH WORK)

- Income = 50% of 48,00,000 = 24,00,000.
- Separate expense claim of 20L is not allowed.

4. ANSWER AS PER ICMAI SUGGESTED FORMAT

Step 1: Check Eligibility
Interior decoration is a specified profession u/s 44AA. Her gross receipts (₹48 Lakhs) do not exceed the ₹50 Lakhs threshold. Thus, she can opt for Section 44ADA.

Step 2: Compute Presumptive Income
Under Section 44ADA, the presumptive income is calculated at **50% of total gross receipts**.
Presumptive Income = 50% of ₹48,00,000 = **₹24,00,000**.

Step 3: Treatment of Actual Expenses
Section 44ADA explicitly states that all deductions under sections 30 to 38 (including depreciation) are deemed to have been already allowed. Therefore, the actual business expense of ₹20,00,000 CANNOT be claimed as a separate deduction.

5. CMA INSIGHTS FOR PRACTICAL LIFE

For professionals with high margins (like consultants and doctors), 44ADA is a boon. However, if a professional's actual profit margin is less than 50% (e.g., they had heavy initial setup costs), they must maintain regular books of accounts and get them audited to declare a lower income.

Illustration 13: Presumptive Taxation u/s 44AE

1. THE QUESTION

Mr. T owns 12 trucks (8 light goods vehicles and 4 heavy goods vehicles weighing 15,000 kg each). He wants to opt for Section 44AE. Is he eligible? If he owned only 9 trucks (5 light, 4 heavy - owned for the full year), compute his 44AE income.

2. HOW TO READ THE QUESTION

- **44AE Eligibility:** Must not own MORE than 10 goods carriages at ANY time during the previous year.
- **Rates:** Heavy (> 12,000 kg GVW): ₹1,000 per ton per month. Light (<= 12,000 kg GVW): ₹7,500 per month.

3. NOTING OF KEY POINTS (ROUGH WORK)

- Part 1: Owns 12 trucks. Not eligible for 44AE.
- Part 2: Owns 9 trucks. Eligible.
- Light (5 trucks): 5 * 7500 * 12 = 4,50,000.
- Heavy (4 trucks, 15 tons each): 4 * (1000 * 15) * 12 = 4 * 15,000 * 12 = 7,20,000.
- Total = 4.5L + 7.2L = 11,70,000.

4. ANSWER AS PER ICMAI SUGGESTED FORMAT

Step 1: Check Eligibility
Case 1: Mr. T owns 12 trucks. Section 44AE strictly applies only to assessees who own **not more than 10 goods carriages** at any time during the previous year. He is NOT eligible.

Step 2: Computation for Case 2 (Owning 9 trucks)
Since 9 is within the limit, he is eligible.
Heavy Goods Vehicles (>12,000 kg): The rate is ₹1,000 per ton of gross vehicle weight (GVW) per month.
Income = 4 trucks x 15 tons x ₹1,000 x 12 months = ₹7,20,000.
Light Goods Vehicles (<=12,000 kg): The fixed rate is ₹7,500 per vehicle per month.
Income = 5 trucks x ₹7,500 x 12 months = ₹4,50,000.

Total Presumptive Income u/s 44AE = ₹7,20,000 + ₹4,50,000 = ₹11,70,000.

5. CMA INSIGHTS FOR PRACTICAL LIFE

Transporters often lease out trucks. The legal test is 'ownership', not usage. Even if a truck is under repair for 6 months, the presumptive tax applies for all 12 months since it is owned by the assessee.

Illustration 14: Scientific Research Expenditure (Sec 35)

1. THE QUESTION

A manufacturing company incurs ₹5,00,000 as revenue expenditure on in-house scientific research. It also purchased land for ₹10,00,000 and a laboratory building for ₹15,00,000 for the research facility. It donated ₹2,00,000 to an approved National Laboratory. Calculate allowable deduction u/s 35.

2. HOW TO READ THE QUESTION

- **In-house Revenue Exp:** 100% allowed.
- **In-house Capital Exp:** 100% allowed (EXCEPT LAND, which is NEVER allowed).
- **Contribution to Outside Bodies:** Approved National Lab gets 100% deduction (weighted deductions of 150% were abolished previously).

3. NOTING OF KEY POINTS (ROUGH WORK)

- Revenue: 5,00,000 (100%).
- Capital: Land (Nil). Building: 15,00,000 (100%).
- Donation: 2,00,000 (100%).
- Total = 5L + 15L + 2L = 22,00,000.

4. ANSWER AS PER ICMAI SUGGESTED FORMAT

Step 1: In-House Scientific Research (Sec 35(1)(i) & 35(1)(iv))
Revenue Expenditure: Fully allowed. Deduction = ₹5,00,000.
Capital Expenditure: Fully allowed in the year it is incurred, **excluding the cost of land**.
Cost of Land = NIL.
Cost of Building = ₹15,00,000.

Step 2: Contribution to Outside Institutions (Sec 35(2AA))
Contributions made to an approved National Laboratory, University, or IIT for scientific research are eligible for a 100% deduction. (The historical 150% weighted deduction has been phased out).
Deduction = ₹2,00,000.

Step 3: Total Allowable Deduction
Total Deduction = ₹5,00,000 + ₹15,00,000 + ₹2,00,000 = **₹22,00,000**.

5. CMA INSIGHTS FOR PRACTICAL LIFE

For pharmaceutical and tech companies, separating 'Land' from 'Building' costs in the purchase deed of an R&D facility is critical. The AO will disallow the entire capital asset if land and building values are inseparable.

Illustration 15: Preliminary Expenses (Sec 35D)

1. THE QUESTION

An Indian company commenced business on 1-Sep-2025. It incurred preliminary expenses (feasibility report, legal drafting of MoA) of ₹8,00,000. The cost of the project is ₹1,20,00,000 and the capital employed is ₹1,50,00,000. Calculate the deduction allowable u/s 35D for AY 2026-27.

2. HOW TO READ THE QUESTION

- **Rule 35D Limit:** Max eligible expense is 5% of 'Cost of Project' OR 'Capital Employed' (whichever is HIGHER for an Indian Company).
- **Amortization:** The eligible amount is allowed in 5 equal annual installments (1/5th each year).

3. NOTING OF KEY POINTS (ROUGH WORK)

- Higher of COP (1.2 Cr) or CE (1.5 Cr) = 1.5 Cr.
- 5% of 1.5 Cr = 7,50,000.
- Actual expense = 8,00,000.
- Eligible expense restricted to 7,50,000.
- CY deduction = 1/5th of 7,50,000 = 1,50,000.

4. ANSWER AS PER ICMAI SUGGESTED FORMAT

Step 1: Ascertain the Maximum Qualifying Limit
For an Indian Company, the maximum eligible preliminary expense is restricted to **5%** of the Cost of Project OR 5% of the Capital Employed, whichever is **higher**.
Cost of Project = ₹1,20,00,000.
Capital Employed = ₹1,50,00,000. (Higher).
Maximum Limit = 5% of ₹1,50,00,000 = ₹7,50,000.

Step 2: Determine Eligible Expenditure
Actual expense incurred = ₹8,00,000.
Since actual expense exceeds the limit, the eligible expenditure is restricted to **₹7,50,000**.

Step 3: Calculate Annual Deduction
The eligible expenditure is amortized over 5 successive previous years (i.e., 1/5th every

year).
Deduction for AY 2026-27 = ₹7,50,000 / 5 = **₹1,50,000**.

5. CMA INSIGHTS FOR PRACTICAL LIFE

Startups often incur massive legal and feasibility expenses before incorporation. Keeping the 'Capital Employed' (share capital + debentures + long-term borrowings) sufficiently high ensures that a larger chunk of these preliminary expenses falls within the 5% qualifying limit.

ICMAI PAPER 15

DIRECT TAX LAWS & INTERNATIONAL TAXATION

PART 6: MASTER PROBLEM SOLVER

Chapter 5: Capital Gains
(20 Full-Length Exam Illustrations)

Applicable for: December 2026 Examination
Assessment Year: 2026-27 (Previous Year 2025-26)

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Chapter 5: Capital Gains

This volume contains 20 highly complex, exam-grade illustrations directly mirroring past ICMAI papers. It covers Sec 50C, Slump Sale, Exemptions (54 series), 112A, and Corporate restructuring combinations.

Illustration 1: Section 50C - Stamp Duty Value > 110%

1. THE QUESTION

Mr. A sold a plot of land for ₹50 Lakhs on 15-May-2025. The Stamp Duty Value (SDV) on the date of registration was ₹70 Lakhs. The SDV on the date of agreement (advance of ₹2 Lakhs received via NEFT) was ₹65 Lakhs. He purchased the land in May 2012 for ₹10 Lakhs (CII: 200). CII for 25-26 is 363. Compute Capital Gains for AY 2026-27.

2. HOW TO READ THE QUESTION

- **Identify Sec 50C trigger:** SDV exceeds 110% of Actual Consideration.
- **Date of Agreement vs Registration:** Since advance was received via NEFT (prescribed mode) on or before agreement date, SDV on agreement date (₹65L) applies.
- **Indexation:** Land is LTCA (>24 months). ICOA applies.

3. NOTING OF KEY POINTS (ROUGH WORK)

- Actual = 50L. 110% of Actual = 55L.
- SDV on agreement = 65L. Since 65L > 55L, FVC = 65L.
- ICOA = 10L * 363 / 200 = 18.15L.
- LTCG = 65L - 18.15L = 46.85L.

4. ANSWER AS PER ICMAI SUGGESTED FORMAT

Step 1: Determine Full Value of Consideration (FVC) u/s 50C
As per Sec 50C, if SDV exceeds 110% of the actual consideration, SDV becomes the FVC. Further, if advance is received by account payee cheque/NEFT on or before the agreement date, SDV on the agreement date is considered.
Actual Consideration = ₹50,00,000. 110% of Actual = ₹55,00,000.

SDV on agreement date = ₹65,00,000.
Since ₹65L > ₹55L, **FVC = ₹65,00,000**.

Step 2: Compute Indexed Cost of Acquisition (ICOA)
ICOA = ₹10,00,000 x (363 / 200) = ₹18,15,000.

Step 3: Compute Capital Gains
LTCG = FVC (₹65,00,000) - ICOA (₹18,15,000) = **₹46,85,000**.

5. CMA INSIGHTS FOR PRACTICAL LIFE

The 'date of agreement' rule is a massive tax saver. Clients often delay registration, causing SDV to spike. By ensuring even a token advance is paid digitally on the agreement date, CMAs can legally lock in the lower SDV for 50C purposes.

Illustration 2: Conversion of Capital Asset to Stock-in-Trade (Sec 45(2))

1. THE QUESTION

Mr. B purchased gold jewelry in 2010 for ₹5 Lakhs (CII: 167). He started a jewelry business and converted this gold into stock-in-trade on 1-Aug-2023 when the FMV was ₹25 Lakhs (CII: 348). He finally sold the jewelry in Dec 2025 for ₹35 Lakhs. Calculate Capital Gains and Business Income for AY 2026-27 (CII: 363).

2. HOW TO READ THE QUESTION

- **Rule 45(2):** Capital Gain arises in the year of CONVERSION but is taxable in the year of SALE.
- **FVC for CG:** FMV on date of conversion (₹25L). Indexation up to the year of conversion (2023-24).
- **Cost for PGBP:** FMV on date of conversion (₹25L).

3. NOTING OF KEY POINTS (ROUGH WORK)

- CG taxable in AY 26-27 (year of sale).
- ICOA = 5L * 348 / 167 = 10,41,916.
- LTCG = 25,00,000 - 10,41,916 = 14,58,084.

• PGBP = Sale (35L) - FMV (25L) = 10,00,000.

4. ANSWER AS PER ICMAI SUGGESTED FORMAT

Step 1: Statutory Provision
Under Section 45(2), conversion of capital asset into stock-in-trade is a transfer. The CG is taxable in the year the stock is sold (PY 2025-26). FMV on conversion date is the FVC for CG.

Step 2: Compute Capital Gains
FVC (FMV on 1-Aug-23) = ₹25,00,000.
ICOA = ₹5,00,000 x (348 / 167) = ₹10,41,916. (Indexation up to year of conversion).
LTCG = ₹25,00,000 - ₹10,41,916 = ₹14,58,084.

Step 3: Compute Business Income (PGBP)
Sales Consideration = ₹35,00,000.
Less: FMV on conversion (treated as Cost of Goods Sold) = ₹25,00,000.
Business Income = ₹10,00,000.

5. CMA INSIGHTS FOR PRACTICAL LIFE

This dual-taxation mechanism prevents tax evasion by recharacterizing assets. Ensure that the FMV on the date of conversion is supported by a registered valuer's report to withstand scrutiny.

Illustration 3: Compulsory Acquisition & Enhanced Compensation (Sec 45(5))

1. THE QUESTION

Govt acquired Mr. C's land in June 2021. Initial compensation fixed was ₹30 Lakhs, received entirely in May 2025. Unhappy, C went to court. The court awarded enhanced compensation of ₹15 Lakhs in Feb 2026. Legal expenses incurred: ₹1 Lakh. Land was bought in 2005 for ₹4 Lakhs (CII: 117). CII for 21-22 is 317. Calculate CG.

2. HOW TO READ THE QUESTION

- **Rule 45(5):** Initial compensation taxable in the year of FIRST receipt (PY 2025-26). Indexation up to the year of acquisition (2021-22).
- **Enhanced Compensation:** Taxable in the year of receipt (PY 2025-26). Always treated as LTCG/STCG based on original asset. No cost deduction, only legal expenses allowed.

3. NOTING OF KEY POINTS (ROUGH WORK)

- Acquisition Year: 21-22. Receipt Year: 25-26.
- Initial CG (Taxable in 25-26): FVC = 30L. ICOA = 4L * 317 / 117 = 10,83,760. LTCG 1 = 19,16,240.
- Enhanced CG (Taxable in 25-26): FVC = 15L. Less exp = 1L. LTCG 2 = 14,00,000.

4. ANSWER AS PER ICMAI SUGGESTED FORMAT

Step 1: Initial Compensation Computation
Taxable in PY 2025-26 (year of first receipt). Indexation is up to the year of acquisition (PY 2021-22, CII: 317).
FVC = ₹30,00,000.
ICOA = ₹4,00,000 x (317 / 117) = ₹10,83,761.
LTCG (Initial) = ₹19,16,239.

Step 2: Enhanced Compensation Computation
Taxable in PY 2025-26 (year of receipt).
FVC = ₹15,00,000.
Less: Litigation Expenses = ₹1,00,000.
Cost of Acquisition for enhanced compensation is taken as NIL.
LTCG (Enhanced) = ₹14,00,000.

Total LTCG for AY 2026-27 = ₹33,16,239.

5. CMA INSIGHTS FOR PRACTICAL LIFE

Interest received on enhanced compensation is NOT capital gains. It is taxable under 'Income from Other Sources' (Section 56), and a flat 50% deduction is allowed on such interest under Section 57.

Illustration 4: Advance Money Forfeited (Sec 51)

1. THE QUESTION

Mr. D bought a house in 2008 for ₹10 Lakhs (CII: 137). He forfeited advance money of ₹2 Lakhs in 2012 from a buyer who backed out. He again forfeited ₹3 Lakhs in 2018 from another buyer. Finally, he sold the house in Dec 2025 for ₹60 Lakhs. Compute LTCG for AY 2026-27 (CII: 363).

2. HOW TO READ THE QUESTION

- **Rule 51 (Pre 1-Apr-2014):** Advance forfeited is DEDUCTED from the Cost of Acquisition before indexation.
- **Rule 56(2)(ix) (Post 1-Apr-2014):** Advance forfeited is taxable immediately under IFOS. It is NOT deducted from COA.

3. NOTING OF KEY POINTS (ROUGH WORK)

- Pre-2014 advance (2L): Deduct from 10L. Adjusted COA = 8L.
- Post-2014 advance (3L): Ignored for CG (was taxed as IFOS in 2018).
- ICOA = 8L * 363 / 137 = 21,19,708.
- LTCG = 60L - 21.19L = 38.8L.

4. ANSWER AS PER ICMAI SUGGESTED FORMAT

Step 1: Analyze Forfeited Advances
Advance forfeited in 2012 (₹2 Lakhs): Since it was forfeited before 01.04.2014, it must be deducted from the actual Cost of Acquisition u/s 51.

Advance forfeited in 2018 (₹3 Lakhs): Forfeited after 01.04.2014. It is taxable under 'Income from Other Sources' and will NOT be deducted from the Cost of Acquisition.

Step 2: Compute Adjusted COA and ICOA
Adjusted COA = ₹10,00,000 - ₹2,00,000 = ₹8,00,000.
ICOA = ₹8,00,000 x (363 / 137) = ₹21,19,708.

Step 3: Compute Capital Gains
Full Value of Consideration (FVC) = ₹60,00,000.
Less: ICOA = ₹21,19,708.
LTCG = ₹38,80,292.

5. CMA INSIGHTS FOR PRACTICAL LIFE

Reviewing past ledgers for pre-2014 forfeited advances is a mandatory audit step. Ignoring this deduction inflates the ICOA incorrectly, leading to severe penalties during income-tax scrutiny.

Illustration 5: Slump Sale (Sec 50B)

1. THE QUESTION

XYZ Ltd sold its 'Cement Division' as a going concern for a lump sum of ₹300 Lakhs on 1-Jan-2026. The division was set up in 2015. Balance sheet values: Depreciable Assets (WDV as per IT Act): ₹120L. Non-Depreciable Assets (Book Value): ₹80L. Revaluation Reserve included in assets: ₹20L. Liabilities transferred: ₹50L. Calculate CG.

2. HOW TO READ THE QUESTION

- **Rule 50B:** Net Worth is the Cost of Acquisition. No indexation allowed. Always LTCG if undertaking held > 36 months.
- **Net Worth:** (WDV of depr assets + Book value of non-depr assets) - Liabilities. Ignore revaluation.

3. NOTING OF KEY POINTS (ROUGH WORK)

- Assets = 120L (Depr) + 80L (Non-Depr). Total = 200L.
- Less Revaluation = 200L - 20L = 180L.
- Less Liabilities = 180L - 50L = 130L. Net Worth = 130L.
- FVC = 300L. LTCG = 300L - 130L = 170L.

4. ANSWER AS PER ICMAI SUGGESTED FORMAT

Step 1: Define the Nature of Capital Gain
Since the Cement Division was set up in 2015 and sold in 2026 (held for > 36 months), the gain will be Long Term Capital Gain. Indexation is expressly prohibited in a slump sale u/s 50B.

Step 2: Compute Net Worth (Cost of Acquisition)
Aggregate value of total assets = ₹120L (WDV) + ₹80L (Book Value) = ₹200 Lakhs.
Less: Revaluation Reserve (to be ignored) = ₹20 Lakhs.
Effective Total Assets = ₹180 Lakhs.
Less: Value of Liabilities transferred = ₹50 Lakhs.
Net Worth = ₹130 Lakhs.

Step 3: Compute Capital Gain
Full Value of Consideration (FVC) = ₹300 Lakhs.

Less: Net Worth (COA) = ₹130 Lakhs.
LTCG = ₹170 Lakhs.

5. CMA INSIGHTS FOR PRACTICAL LIFE

In M&A advisory, structuring a transaction as an 'Itemized Sale' versus a 'Slump Sale' yields vastly different tax outcomes. Slump sales prevent piecemeal STCG on depreciable assets, offering a flat LTCG rate instead.

Illustration 6: Section 54 Exemption (Residential House)

1. THE QUESTION

Mr. E sold his only residential house on 15-Jun-2025 for ₹120 Lakhs. ICOA was ₹50 Lakhs. He purchased a new residential house on 10-Feb-2026 for ₹40 Lakhs. He deposited ₹15 Lakhs in the Capital Gains Account Scheme (CGAS) before filing his ITR. Calculate taxable LTCG.

2. HOW TO READ THE QUESTION

- **Rule 54:** Exemption = Investment in new house + Deposit in CGAS. Limit: Cannot exceed total LTCG.

3. NOTING OF KEY POINTS (ROUGH WORK)

- LTCG = 120L - 50L = 70 Lakhs.
- Eligible Investment = 40L (New House) + 15L (CGAS) = 55 Lakhs.
- Exemption = 55 Lakhs.
- Taxable LTCG = 70L - 55L = 15 Lakhs.

4. ANSWER AS PER ICMAI SUGGESTED FORMAT

Step 1: Compute Initial Capital Gain
FVC = ₹120,00,000.
Less: ICOA = ₹50,00,000.
LTCG = ₹70,00,000.

Step 2: Evaluate Section 54 Exemption
Section 54 grants exemption to an individual/HUF on the LTCG arising from the sale of a residential house, if invested in another residential house within specified timelines. Amounts deposited in CGAS before the ITR due date also qualify.
Investment in new house = ₹40,00,000.
Deposit in CGAS = ₹15,00,000.
Total Eligible Exemption = ₹55,00,000.

Step 3: Final Taxable LTCG
Taxable LTCG = ₹70,00,000 - ₹55,00,000 = **₹15,00,000**.

5. CMA INSIGHTS FOR PRACTICAL LIFE

The Finance Act recently capped the maximum exemption under Section 54 and 54F at ₹10 Crores. For Ultra-HNIs, this eliminates the strategy of buying ₹50 Crore mansions solely to wash out massive capital gains.

Illustration 7: Section 54F Exemption (Proportionate)

1. THE QUESTION

Mr. F sold a commercial plot for ₹100 Lakhs (Net Consideration). His ICOA was ₹40 Lakhs. He purchased a residential house for ₹60 Lakhs to save tax. Calculate his taxable Capital Gains.

2. HOW TO READ THE QUESTION

- **Rule 54F:** Arises on sale of ANY LTCA other than a residential house. Exemption is PROPORTIONATE to the net consideration invested.
- **Formula:** (LTCG * Amount Invested) / Net Consideration.

3. NOTING OF KEY POINTS (ROUGH WORK)

- LTCG = 100L - 40L = 60 Lakhs.
- Exemption = (60L * 60L) / 100L = 36 Lakhs.
- Taxable = 60L - 36L = 24 Lakhs.

4. ANSWER AS PER ICMAI SUGGESTED FORMAT

Step 1: Compute Initial Capital Gain
Net Consideration (FVC) = ₹100,00,000.
Less: ICOA = ₹40,00,000.
LTCG = ₹60,00,000.

Step 2: Evaluate Section 54F Exemption
Unlike Sec 54, under Sec 54F the exemption is based on the proportion of the **Net Consideration** invested, not just the LTCG amount.
Exemption Formula = (LTCG x Amount Invested) / Net Consideration
Exemption = (₹60,00,000 x ₹60,00,000) / ₹100,00,000 = ₹36,00,000.

Step 3: Final Taxable LTCG
Taxable LTCG = ₹60,00,000 - ₹36,00,000 = **₹24,00,000**.

5. CMA INSIGHTS FOR PRACTICAL LIFE

A crucial prerequisite for 54F is that the assessee must not own MORE than ONE residential house on the date of transfer. Ensure you audit the client's property portfolio before advising a 54F reinvestment.

Illustration 8: Section 54EC Exemption (Bonds)

1. THE QUESTION

Mr. G sold a residential building on 1-May-2025. LTCG was ₹80 Lakhs. On 15-Oct-2025, he invested ₹40 Lakhs in NHAI bonds and ₹20 Lakhs in RECL bonds. Compute taxable LTCG.

2. HOW TO READ THE QUESTION

- **Rule 54EC:** Applies to Land or Building. Max investment limit is ₹50 Lakhs per financial year. Must be invested within 6 months.

3. NOTING OF KEY POINTS (ROUGH WORK)

- Transfer: 1-May. 6 months end on 1-Nov. Investment on 15-Oct is valid.
- Total invested = 60 Lakhs. Max allowed = 50 Lakhs.
- Taxable = 80L - 50L = 30 Lakhs.

4. ANSWER AS PER ICMAI SUGGESTED FORMAT

Step 1: Verify Compliance with Timelines
Date of Transfer: 01.05.2025. Six months expire on 01.11.2025. The investment was made on 15.10.2025, which is well within the 6-month statutory limit.

Step 2: Apply Statutory Limits for 54EC
Total investment made = ₹40L (NHAI) + ₹20L (RECL) = ₹60 Lakhs.
As per Section 54EC, the maximum deduction allowed for investment in specified bonds in any financial year is capped at **₹50,00,000**.

Step 3: Final Taxable LTCG
LTCG before exemption = ₹80,00,000.
Less: Exemption u/s 54EC = ₹50,00,000.
Taxable LTCG = ₹30,00,000.

5. CMA INSIGHTS FOR PRACTICAL LIFE

The ₹50 Lakhs limit applies per assessee, not per transaction. If a property is jointly owned by a husband and wife (50% each), both can individually claim ₹50 Lakhs, shielding a total of ₹1 Crore in Capital Gains.

Illustration 9: Section 112A (Listed Equity Shares)

1. THE QUESTION

Ms. H bought 10,000 listed equity shares on 1-Jun-2020 at ₹100 per share. She sold them on 1-Dec-2025 at ₹350 per share. STT was paid on both legs. Her other income is ₹4 Lakhs. Compute tax on Capital Gains.

2. HOW TO READ THE QUESTION

- **Rule 112A:** LTCG on listed equity (held > 12 months) with STT paid is taxed at 12.5% on the amount exceeding ₹1,25,000. Indexation is NOT allowed.

3. NOTING OF KEY POINTS (ROUGH WORK)

- Sale = 35L. Cost = 10L.
- LTCG = 25 Lakhs.
- Exemption = 1.25 Lakhs.
- Taxable CG = 23.75 Lakhs.
- Tax = 12.5% of 23.75L = 2,96,875. Add Cess 4%.

4. ANSWER AS PER ICMAI SUGGESTED FORMAT

Step 1: Ascertain the Gain
Since the shares were held for >12 months and STT was paid, Section 112A applies. No indexation benefit is available.
FVC = 10,000 x ₹350 = ₹35,00,000.
Cost of Acquisition = 10,000 x ₹100 = ₹10,00,000.
LTCG = ₹25,00,000.

Step 2: Apply 112A Limits
Under Section 112A, LTCG up to ₹1,25,000 is completely exempt.
Taxable LTCG = ₹25,00,000 - ₹1,25,000 = ₹23,75,000.

Step 3: Tax Computation
Tax @ 12.5% on ₹23,75,000 = ₹2,96,875.
Add: Health & Education Cess @ 4% = ₹11,875.
Total Tax on CG = ₹3,08,750.

5. CMA INSIGHTS FOR PRACTICAL LIFE

The ₹1.25 Lakh exemption is a rigid annual limit. Tax loss harvesting (booking losses before March 31st to offset gains) is a standard portfolio management service CMAs provide to HNIs.

Illustration 10: Section 111A (Short Term Listed Equity)

1. THE QUESTION

Mr. J bought listed shares on 10-Aug-2025 for ₹5,00,000. He sold them on 15-Mar-2026 for ₹8,00,000. STT was paid. Compute the tax liability assuming he has no other income and opts for the New Tax Regime.

2. HOW TO READ THE QUESTION

- **Rule 111A:** STCG on listed equity (held <= 12 months) is taxed at 20% (as per latest FA 2026 updates).
- **Basic Exemption Limit:** Since he has no other income, the unexhausted basic exemption limit (₹3 Lakhs in New Regime) CAN be adjusted against 111A STCG for a resident individual.

3. NOTING OF KEY POINTS (ROUGH WORK)

- STCG = 3,00,000.
- Basic Exemption Limit (New Regime) = 3,00,000.
- Since STCG is exactly equal to the exemption limit, taxable income is Nil.

4. ANSWER AS PER ICMAI SUGGESTED FORMAT

Step 1: Ascertain the Gain
Holding period is < 12 months. FVC = ₹8,00,000. COA = ₹5,00,000. STCG = ₹3,00,000. Covered under Sec 111A.

Step 2: Adjustment of Basic Exemption Limit
A resident individual can adjust the unexhausted basic exemption limit against STCG u/s 111A. Under the New Tax Regime (Sec 115BAC), the basic exemption limit is ₹3,00,000. Since his other income is NIL, the entire ₹3,00,000 exemption is available.

Step 3: Tax Computation
Taxable STCG = ₹3,00,000 - ₹3,00,000 (Exemption limit) = NIL.
Total Tax Liability = **NIL.**

5. CMA INSIGHTS FOR PRACTICAL LIFE

Non-residents DO NOT get the benefit of adjusting unexhausted basic exemption limits against special rate incomes like 111A, 112, or 112A. A non-resident would pay flat 20% on the entire ₹3L.

Illustration 11: Depreciable Assets (Sec 50)

1. THE QUESTION

Block of Machinery (15%) has an opening WDV of ₹8 Lakhs. No additions were made. All machines in the block were sold for ₹5 Lakhs. Calculate Capital Gains. What if they were sold for ₹12 Lakhs?

2. HOW TO READ THE QUESTION

- **Rule 50:** Capital gain on depreciable assets is ALWAYS Short-Term.
- **Empty Block:** If block ceases to exist, but value remains = STCL.
- **Negative Value:** If block exists, but WDV becomes negative = STCG.

3. NOTING OF KEY POINTS (ROUGH WORK)

- Case 1: Sale = 5L. WDV = 8L. Block empty. STCL = 3 Lakhs.
- Case 2: Sale = 12L. WDV = 8L. Negative WDV. STCG = 4 Lakhs.

4. ANSWER AS PER ICMAI SUGGESTED FORMAT

Step 1: Statutory Provision
Under Section 50, gains or losses arising from the transfer of depreciable assets are always deemed to be Short-Term Capital Gains/Losses. Indexation is not applicable.

Step 2: Case A (Sold for ₹5 Lakhs)
Opening WDV: ₹8,00,000.
Less: Sales Consideration: ₹5,00,000.
Since all assets are sold, the block ceases to exist. The remaining unabsorbed value is a loss.
Short Term Capital Loss (STCL) = ₹3,00,000.

Step 3: Case B (Sold for ₹12 Lakhs)
Opening WDV: ₹8,00,000.
Less: Sales Consideration: ₹12,00,000.
The sales consideration exceeds the block value, resulting in a negative WDV.
Short Term Capital Gain (STCG) = ₹4,00,000.

5. CMA INSIGHTS FOR PRACTICAL LIFE

Before shutting down a factory or selling off all machinery, tax planning dictates purchasing at least one small machine in that block before year-end. This keeps the block 'alive' and defers the STCG tax hit.

Illustration 12: Unlisted Shares (Sec 50CA)

1. THE QUESTION

Mr. K sold unlisted equity shares of a private company for ₹10 Lakhs. The Fair Market Value (FMV) as per Rule 11UAA was ₹25 Lakhs. He had purchased them for ₹5 Lakhs (Indexed cost: ₹8 Lakhs). Compute LTCG.

2. HOW TO READ THE QUESTION

- **Rule 50CA:** If unlisted shares are sold for less than FMV, the FMV becomes the deemed Full Value of Consideration.

3. NOTING OF KEY POINTS (ROUGH WORK)

- Actual sale = 10L. FMV = 25L. FVC = 25L.
- LTCG = 25L - 8L = 17 Lakhs.

4. ANSWER AS PER ICMAI SUGGESTED FORMAT

Step 1: Ascertain Full Value of Consideration
As per Section 50CA, where the consideration received for the transfer of an unquoted share is less than its Fair Market Value (determined per prescribed rules), the FMV shall be deemed to be the FVC.
Actual Consideration = ₹10,00,000.
FMV = ₹25,00,000.
FVC = ₹25,00,000.

Step 2: Compute Capital Gains
Less: Indexed Cost of Acquisition = ₹8,00,000.
LTCG = ₹17,00,000.

5. CMA INSIGHTS FOR PRACTICAL LIFE

Section 50CA is the twin of Section 50C (for real estate). It prevents promoters from transferring private company shares at face value to evade capital gains. Ensure an independent valuation report supports the FMV during transactions.

Illustration 13: Self-Generated Goodwill & Intangibles

1. THE QUESTION

Mr. L sold his 10-year-old running business. He received ₹20 Lakhs specifically for 'Self-Generated Goodwill' and ₹10 Lakhs for 'Self-Generated Tenancy Rights'. Determine the Capital Gains.

2. HOW TO READ THE QUESTION

- **Rule for Self-Generated Assets:** For Goodwill of a business, Tenancy rights, Route permits, and Loom hours, the Cost of Acquisition is strictly taken as NIL. (Note: Goodwill of a *profession* is not a capital asset, but business goodwill is).

3. NOTING OF KEY POINTS (ROUGH WORK)

- FVC = 20L + 10L = 30 Lakhs.
- COA = Nil.
- LTCG = 30 Lakhs.

4. ANSWER AS PER ICMAI SUGGESTED FORMAT

Step 1: Statutory Provision
Under Section 55(2)(a), the Cost of Acquisition for self-generated goodwill of a business, tenancy rights, route permits, trademarks, or brand names is deemed to be **NIL**.

Step 2: Compute Capital Gains
FVC for Goodwill = ₹20,00,000.
FVC for Tenancy Rights = ₹10,00,000.
Total Consideration = ₹30,00,000.
Less: Cost of Acquisition = NIL.
LTCG = ₹30,00,000.

5. CMA INSIGHTS FOR PRACTICAL LIFE

Recent amendments explicitly state that no depreciation u/s 32 is allowed on purchased goodwill anymore. Hence, both self-generated and purchased goodwill are treated as purely capital assets leading to LTCG on transfer.

Illustration 14: Bonus and Right Shares

1. THE QUESTION

Mr. M bought 1,000 shares of Reliance in 1999 for ₹100 each. FMV on 1-Apr-2001 was ₹150. He received 1,000 Bonus shares in 2010. He was offered 500 Right shares in 2025 at ₹500 each, which he subscribed to. He sold all 2,500 shares in Dec 2025. Determine the Cost of Acquisition (COA) for each tranche.

2. HOW TO READ THE QUESTION

- **Original Shares:** Higher of Actual Cost or FMV on 1-Apr-2001.
- **Bonus Shares:** If allotted before 1-Apr-01, COA = FMV on 1-Apr-01. If allotted AFTER 1-Apr-01, COA = NIL.
- **Right Shares:** COA = Amount actually paid to the company.

3. NOTING OF KEY POINTS (ROUGH WORK)

- Original = 1000 * 150 (since FMV > Actual).
- Bonus = 1000 * 0 (Post 2001).
- Rights = 500 * 500.

4. ANSWER AS PER ICMAI SUGGESTED FORMAT

Step 1: COA for Original Shares
For assets acquired before 01.04.2001, COA is the higher of Actual Cost (₹100) or FMV on 01.04.2001 (₹150).
COA = 1,000 shares x ₹150 = **₹1,50,000**. (This will be indexed).

Step 2: COA for Bonus Shares
Bonus shares were allotted in 2010 (after 01.04.2001). As per Section 55, the COA for bonus shares allotted after 2001 is always **NIL**.

Step 3: COA for Right Shares
For right shares subscribed by the assessee, the COA is the amount actually paid to the company.
COA = 500 shares x ₹500 = **₹2,50,000**.

5. CMA INSIGHTS FOR PRACTICAL LIFE

The 'FMV on 1-Apr-2001' grandfathering clause is critical for ancestral property and legacy portfolios. However, for listed shares, a newer grandfathering date (31-Jan-2018) applies specifically for Section 112A calculations.

Illustration 15: Joint Development Agreement (Sec 45(5A))

1. THE QUESTION

Mr. N entered into a JDA with a builder in 2022 to develop his ancestral land. The builder agreed to give ₹50 Lakhs cash and 3 flats. The project completion certificate was issued in Jan 2026. The Stamp Duty Value of each flat on completion date was ₹80 Lakhs. Calculate the Full Value of Consideration.

2. HOW TO READ THE QUESTION

- **Rule 45(5A):** For Individuals/HUFs entering a JDA, capital gains trigger in the year the certificate of completion is issued.
- **Consideration:** Cash received + SDV of the property share on the date of issue of the certificate.

3. NOTING OF KEY POINTS (ROUGH WORK)

- Cash = 50L.
- SDV of flats = 3 * 80L = 240L.
- Total FVC = 290 Lakhs. Taxable in AY 2026-27.

4. ANSWER AS PER ICMAI SUGGESTED FORMAT

Step 1: Year of Taxability
As per Section 45(5A), for an individual or HUF, the capital gains arising from a Joint Development Agreement (JDA) shall be chargeable to income tax in the previous year in which the certificate of completion for the whole or part of the project is issued by the competent authority (PY 2025-26).

Step 2: Determine Full Value of Consideration
The FVC shall be the Stamp Duty Value (SDV) of the assessee's share in the land/building on the date of issue of the completion certificate, PLUS any cash consideration received.
Cash consideration = ₹50,00,000.
SDV of 3 flats = 3 x ₹80,00,000 = ₹2,40,00,000.
Total FVC = ₹2,90,00,000.

5. CMA INSIGHTS FOR PRACTICAL LIFE

Sec 45(5A) defers the tax liability to the completion date, solving the massive cash-flow problem landowners faced when they had to pay tax on the agreement date without having actual possession of the flats to sell.

Illustration 16: Zero Coupon Bonds (Sec 2(47A))

1. THE QUESTION

Mr. P purchased Zero Coupon Bonds of an infrastructure company on 1-Jan-2025. He sold them on 1-Apr-2026. Are they short-term or long-term? What is the applicable tax rate?

2. HOW TO READ THE QUESTION

- **Holding Period:** ZCBs become Long-Term if held for more than 12 months.
- **Tax Rate:** 10% without indexation or 20% with indexation (whichever is lower/ beneficial). However, note FA 2024/2026 flat rate amendments on 112.

3. NOTING OF KEY POINTS (ROUGH WORK)

- Jan 25 to Apr 26 = 15 months. It is LTCA.

4. ANSWER AS PER ICMAI SUGGESTED FORMAT

Step 1: Determine Holding Period
For Zero Coupon Bonds, the threshold for classifying them as Long-Term Capital Assets is **12 months**. Since Mr. P held them for 15 months (Jan 25 to Apr 26), they are Long-Term Capital Assets.

Step 2: Tax Rate Applicability
Traditionally, ZCBs enjoyed a dual rate option (10% without indexation or 20% with). Under the newly simplified Section 112 regime, LTCG on all other assets is generally taxed at a flat **12.5% without indexation**. (Students must confirm the exact option validity as per the latest ICMAI supplementary paper).

5. CMA INSIGHTS FOR PRACTICAL LIFE

ZCBs are unique because the 'interest' accrues as capital appreciation. They are highly efficient for HNIs who want to convert what would otherwise be fully taxable interest income into lower-taxed capital gains.

Illustration 17: Section 54B - Agricultural Land

1. THE QUESTION

Mr. Q sold Urban Agricultural Land for ₹80 Lakhs (LTCG = ₹30 Lakhs). He had used it for agricultural purposes for 3 years. He purchased new Rural Agricultural Land for ₹25 Lakhs. Calculate Taxable CG.

2. HOW TO READ THE QUESTION

- **Rule 54B:** Exemption for sale of Urban Ag Land used for agriculture for at least 2 preceding years. Investment must be in ANY agricultural land (urban or rural).
- **Exemption limit:** Up to the cost of the new land.

3. NOTING OF KEY POINTS (ROUGH WORK)

- LTCG = 30L. Investment = 25L.
- Taxable = 30L - 25L = 5L.

4. ANSWER AS PER ICMAI SUGGESTED FORMAT

Step 1: Check Eligibility
Section 54B requires the land to be used for agricultural purposes by the assessee or his parents for at least 2 years preceding the transfer. Mr. Q used it for 3 years. Eligible.

Step 2: Compute Exemption
Amount invested in new agricultural land (Rural or Urban) = ₹25,00,000.
Exemption u/s 54B = ₹25,00,000.

Step 3: Taxable LTCG
Taxable LTCG = ₹30,00,000 - ₹25,00,000 = **₹5,00,000**.

5. CMA INSIGHTS FOR PRACTICAL LIFE

Rural agricultural land is NOT a capital asset, so selling it yields no capital gains. Buying rural land to claim 54B exemption against urban land sale is a brilliant strategy to permanently remove the asset from the capital gains tax net.

Illustration 18: Liquidation of a Company (Sec 46)

1. THE QUESTION

ABC Pvt Ltd went into liquidation. Shareholder R received ₹10 Lakhs in cash and an asset with FMV ₹40 Lakhs. The accumulated profits of the company attributable to R's share were ₹15 Lakhs. R's cost of acquisition of shares was ₹5 Lakhs. Compute Capital Gains.

2. HOW TO READ THE QUESTION

- **Rule 46:** Distribution on liquidation is a transfer.
- **FVC:** Cash received + FMV of assets MINUS Deemed Dividend u/s 2(22)(c).

3. NOTING OF KEY POINTS (ROUGH WORK)

- Total receipt = 10L + 40L = 50L.
- Deemed Div (taxed as IFOS) = 15L.
- FVC for CG = 50L - 15L = 35L.
- CG = 35L - 5L = 30L.

4. ANSWER AS PER ICMAI SUGGESTED FORMAT

Step 1: Bifurcate the Receipt
Upon liquidation, the distribution is first treated as Deemed Dividend u/s 2(22)(c) to the extent of accumulated profits. The balance is treated as Full Value of Consideration for Capital Gains.
Total Distribution = Cash (₹10L) + FMV of Asset (₹40L) = ₹50 Lakhs.
Deemed Dividend (Taxable under IFOS) = ₹15 Lakhs.

Step 2: Compute Capital Gains
FVC for Capital Gains = Total Distribution - Deemed Dividend = ₹50L - ₹15L = ₹35 Lakhs.
Less: Cost of Acquisition = ₹5 Lakhs.
Capital Gains = ₹30 Lakhs.

5. CMA INSIGHTS FOR PRACTICAL LIFE

Without deducting the deemed dividend from the FVC, the shareholder would be subjected to double taxation on the same ₹15 Lakhs (once under IFOS and once under Capital Gains).

Illustration 19: Reverse Mortgage Exemption

1. THE QUESTION

Mr. S (aged 68) mortgaged his house to a bank under the notified Reverse Mortgage Scheme. He receives a monthly stream of ₹40,000. Is this a taxable transfer? What if the bank sells the house after his death?

2. HOW TO READ THE QUESTION

- **Rule 47:** Any transfer of a capital asset in a reverse mortgage transaction is EXEMPT from capital gains.
- **Section 10(43):** The monthly installments received are strictly exempt from tax.

3. NOTING OF KEY POINTS (ROUGH WORK)

- Transfer by Mr. S = Exempt.
- Monthly receipt = Exempt.
- Sale by Bank later = Taxable (Bank recovers loan, heirs get balance, CG arises).

4. ANSWER AS PER ICMAI SUGGESTED FORMAT

Step 1: Taxability of Mortgage
Under Section 47(xvi), any transfer of a capital asset in a transaction of reverse mortgage under a scheme made and notified by the Central Government is **not regarded as a transfer**. Hence, no Capital Gains arise.

Step 2: Taxability of Monthly Stream
As per Section 10(43), any amount received by an individual as a loan, either in lump sum or in installments, in a transaction of reverse mortgage is **fully exempt** from tax.

Step 3: Sale by Bank Post-Demise
When the bank eventually sells the property to recover the loan, that specific sale will be treated as a transfer, and Capital Gains will attract tax in the hands of the legal heirs/ estate.

5. CMA INSIGHTS FOR PRACTICAL LIFE

Reverse mortgages provide tax-free liquidity to asset-rich, cash-poor senior citizens. It's a critical financial planning tool that CMAs must advocate for elderly clients looking to monetize idle real estate.

Illustration 20: Comprehensive Mega PYQ (50C + 54F + 54EC)

1. THE QUESTION

Mr. T sold a commercial building for ₹200 Lakhs (Actual). SDV was ₹250 Lakhs. He purchased the building for ₹40 Lakhs (Indexed Cost: ₹80 Lakhs). He invested ₹50 Lakhs in NHAI bonds and ₹60 Lakhs in a new residential house. Calculate Final Taxable LTCG.

2. HOW TO READ THE QUESTION

- **50C Check:** 250L > 110% of 200L. FVC = 250L.
- **LTCG:** 250L - 80L = 170L.
- **54EC:** 50L flat deduction. Balance LTCG = 120L.
- **54F:** Proportionate based on Net Consideration. Is NC 200L or 250L? For 54F, NC is the FVC under 50C (₹250L).

3. NOTING OF KEY POINTS (ROUGH WORK)

- LTCG = 170L.
- Less 54EC = 50L.
- Remaining LTCG = 120L.
- 54F Exemption = (Remaining LTCG * Inv) / Net Cons = (120L * 60L) / 250L = 28.8L.
- Taxable = 120L - 28.8L = 91.2 Lakhs.

4. ANSWER AS PER ICMAI SUGGESTED FORMAT

Step 1: Compute Initial LTCG (Sec 50C)
Since SDV (₹250L) > 110% of Actual (₹220L), FVC = ₹250 Lakhs.
Less: ICOA = ₹80 Lakhs.
LTCG = ₹170 Lakhs.

Step 2: Deduction u/s 54EC
Investment in NHAI bonds is capped at ₹50 Lakhs.
LTCG after 54EC = ₹170L - ₹50L = ₹120 Lakhs.

Step 3: Deduction u/s 54F
Net Consideration for 54F formula is the deemed FVC u/s 50C (i.e., ₹250 Lakhs).
Exemption = (LTCG after 54EC x Amount Invested) / Net Consideration
Exemption = (₹120L x ₹60L) / ₹250L = ₹28.80 Lakhs.

Step 4: Final Taxable LTCG
Taxable LTCG = ₹120L - ₹28.80L = **₹91.20 Lakhs**.

5. CMA INSIGHTS FOR PRACTICAL LIFE

In multi-exemption scenarios, always apply 54EC (fixed cap) before 54F (proportionate cap). Furthermore, courts have upheld that the 'Net Consideration' denominator in the 54F formula must be the inflated SDV under 50C, which significantly dilutes the taxpayer's exemption proportion.

ICMAI PAPER 15

DIRECT TAX LAWS & INTERNATIONAL TAXATION

PART 6: MASTER PROBLEM SOLVER

Chapter 6: Income from Other Sources (IFOS)
(20 Full-Length Exam Illustrations)

Applicable for: December 2026 Examination
Assessment Year: 2026-27 (Previous Year 2025-26)

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Chapter 6: Income from Other Sources

This volume contains 20 highly complex, exam-grade illustrations directly mirroring past ICMAI papers. It covers Sec 56(2)(x) Gifts, Deemed Dividends u/s 2(22)(e), Family Pension, and critical deductions under Sec 57.

Illustration 1: Gift of Cash (Sec 56(2)(x))

1. THE QUESTION

Mr. A received the following cash gifts during PY 2025-26: (i) ₹30,000 from his friend B on his birthday. (ii) ₹25,000 from his friend C on the same day. (iii) ₹1,00,000 from his father. (iv) ₹60,000 from his wife's sister. Compute the taxable income under the head IFOS.

2. HOW TO READ THE QUESTION

- **Aggregate Rule:** Cash gifts from non-relatives are aggregated. If the total exceeds ₹50,000, the ENTIRE amount is taxable.
- **Relative Definition:** Father is a lineal ascendant (relative). Wife's sister is a relative.

3. NOTING OF KEY POINTS (ROUGH WORK)

- Friend B: 30k (Non-relative).
- Friend C: 25k (Non-relative).
- Aggregate from non-relatives = 30k + 25k = 55,000. (>50k, so fully taxable).
- Father: 1,00,000 (Relative - Exempt).
- Wife's sister: 60,000 (Relative - Exempt).

4. ANSWER AS PER ICMAI SUGGESTED FORMAT

Step 1: Analyze Gifts from Relatives
As per the definition of 'relative' in Sec 56(2)(x), a father (lineal ascendant) and spouse's sister are considered relatives. Hence, the gifts of ₹1,00,000 and ₹60,000 are completely **exempt**.

Step 2: Aggregate Gifts from Non-Relatives
Cash received from Friend B = ₹30,000.

Cash received from Friend C = ₹25,000.
Aggregate amount = ₹55,000.

Step 3: Apply the Threshold
Since the aggregate amount of money received without consideration during the previous year exceeds ₹50,000, the **whole amount** is taxable.
Taxable IFOS = ₹55,000.

5. CMA INSIGHTS FOR PRACTICAL LIFE

A common mistake is taxing only the amount exceeding ₹50k (i.e., ₹5,000). The law clearly states the 'whole amount' becomes taxable once the ₹50k aggregate boundary is crossed. Ensure clients space out non-relative cash gifts across different financial years to stay under the radar.

Illustration 2: Gift of Immovable Property (Without Consideration)

1. THE QUESTION

Mr. B received a plot of land in Delhi as a gift from his friend on 1-Oct-2025. The Stamp Duty Value (SDV) of the plot on that date was ₹45,000. He received another vacant land in Noida from his uncle (father's brother) on 1-Jan-2026, whose SDV was ₹15 Lakhs. Calculate taxable IFOS.

2. HOW TO READ THE QUESTION

- **Rule for Immovable Property:** For property received without consideration, the ₹50,000 limit is checked PER PROPERTY, not in aggregate.
- **Relative Check:** Father's brother is a relative.

3. NOTING OF KEY POINTS (ROUGH WORK)

- Delhi Plot (from friend): SDV = 45k. Since SDV <= 50,000, it is NOT taxable.
- Noida Land (from uncle): Uncle is a relative. Exempt, irrespective of SDV.

4. ANSWER AS PER ICMAI SUGGESTED FORMAT

Step 1: Analyze Delhi Plot (Non-Relative)
For immovable property received without consideration, Section 56(2)(x) triggers only if the Stamp Duty Value (SDV) of the specific property exceeds ₹50,000. Since the SDV of the Delhi plot is ₹45,000, it is **exempt**.

Step 2: Analyze Noida Land (Relative)
The land is received from the father's brother. Under Sec 56(2)(x), 'brother or sister of either of the parents of the individual' falls within the definition of a relative. Therefore, the gift of ₹15 Lakhs is fully **exempt**.

Conclusion:
Total Taxable IFOS = NIL.

5. CMA INSIGHTS FOR PRACTICAL LIFE

Unlike cash or movable property, the ₹50,000 threshold for immovable property applies on a 'per transaction/property' basis. Receiving multiple plots with an SDV of ₹49,000 each from non-relatives remains completely tax-free.

Illustration 3: Immovable Property (Inadequate Consideration & Safe Harbor)

1. THE QUESTION

Mr. C purchased a commercial shop from a non-relative for ₹60 Lakhs. The SDV of the shop was ₹65 Lakhs. Another friend sold him a residential flat for ₹50 Lakhs, whose SDV was ₹60 Lakhs. Compute the taxable income u/s 56(2)(x).

2. HOW TO READ THE QUESTION

- **Inadequate Consideration Rule:** Taxable if SDV exceeds purchase price by MORE than ₹50,000 **AND** MORE than 10% of the consideration.
- **Shop:** Diff = 5L. 10% of 60L = 6L. Since 5L is NOT > 6L, no tax.
- **Flat:** Diff = 10L. 10% of 50L = 5L. Since 10L > 5L, entire diff is taxable.

3. NOTING OF KEY POINTS (ROUGH WORK)

- Shop: Actual = 60L. SDV = 65L. Limit (110%) = 66L. SDV < 110%. Exempt.
- Flat: Actual = 50L. SDV = 60L. Limit (110%) = 55L. SDV > 110%. Difference = 10L. Taxable.

4. ANSWER AS PER ICMAI SUGGESTED FORMAT

Step 1: Analyze the Commercial Shop
Actual Consideration = ₹60,00,000.
SDV = ₹65,00,000.
Difference = ₹5,00,000.
The safe harbor limit is 10% of actual consideration = ₹6,00,000. Since the difference (₹5L) does not exceed the safe harbor limit of ₹6L, the provision of Sec 56(2)(x) is not attracted.
Taxable = NIL.

Step 2: Analyze the Residential Flat
Actual Consideration = ₹50,00,000.
SDV = ₹60,00,000.
Difference = ₹10,00,000.
The safe harbor limit is 10% of actual consideration = ₹5,00,000. Since the difference (₹10L) exceeds BOTH ₹50,000 and 10% of consideration, the entire difference is taxable.

Conclusion:
Total Taxable IFOS = ₹10,00,000.

5. CMA INSIGHTS FOR PRACTICAL LIFE

The 10% tolerance band (Safe Harbor) is crucial for real estate transactions to account for minor fluctuations in market value versus circle rates. Previously, it was 5%, making property purchases highly litigious.

Illustration 4: Gift of Movable Property (Shares, Jewellery)

1. THE QUESTION

During PY 2025-26, Ms. D received the following from friends: (i) Jewellery (FMV ₹40,000) for free. (ii) Shares of Reliance (FMV ₹30,000) for free. (iii) A painting (FMV ₹80,000) purchased for ₹45,000. Calculate her taxable IFOS.

2. HOW TO READ THE QUESTION

- **Rule for Movable Property:** Must fit the definition of 'property' (Jewellery, Shares, Painting are included. Car, Watch, Phone are excluded).
- **Aggregation:** Free items are aggregated separately from inadequate consideration items.

3. NOTING OF KEY POINTS (ROUGH WORK)

- Free Items: Jewellery (40k) + Shares (30k) = 70k. Aggregate > 50k. Taxable = 70k.
- Inadequate Consideration: Painting. Diff = 80k - 45k = 35k. Since diff < 50k, not taxable.

4. ANSWER AS PER ICMAI SUGGESTED FORMAT

Step 1: Analyze Property received Without Consideration (Free)
Jewellery and shares are both specified movable properties under Sec 56(2)(x).
Aggregate FMV = ₹40,000 (Jewellery) + ₹30,000 (Shares) = ₹70,000.
Since the aggregate FMV exceeds ₹50,000, the **entire ₹70,000 is taxable**.

Step 2: Analyze Property received for Inadequate Consideration
Painting is a specified movable property.

FMV = ₹80,000. Purchase Price = ₹45,000.
Difference = ₹35,000.
For inadequate consideration, the aggregate difference must exceed ₹50,000 for it to be taxable. Since ₹35,000 is less than ₹50,000, this transaction is **exempt**.

Conclusion:
Total Taxable IFOS = ₹70,000.

5. CMA INSIGHTS FOR PRACTICAL LIFE

A 'Car' is not a specified movable property under Section 56(2)(x). If someone gifts you a Mercedes worth ₹50 Lakhs, it is completely tax-free under IFOS. Always check if the asset is defined as 'Property' in the Act.

Illustration 5: Marriage Gifts vs. Anniversary Gifts

1. THE QUESTION

Mr. & Mrs. E celebrated their 10th wedding anniversary. Friends gifted them cash totaling ₹2,00,000. On the same day, Mr. E's brother got married, and Mr. E received a gift of ₹1,00,000 from a business associate 'on the occasion of his brother's marriage'. Determine the taxability in the hands of Mr. E.

2. HOW TO READ THE QUESTION

- **Marriage Exemption:** Gifts received *on the occasion of the marriage of the individual* are exempt.
- **Anniversary:** Not covered. Fully taxable.
- **Brother's Marriage:** The exemption applies only to the bride/groom. Mr. E receiving a gift on his brother's marriage is taxable.

3. NOTING OF KEY POINTS (ROUGH WORK)

- Anniversary cash (2L): > 50k from non-relatives. Taxable.
- Brother's marriage gift (1L): Received by Mr. E, not the groom. Taxable.

4. ANSWER AS PER ICMAI SUGGESTED FORMAT

Step 1: Taxability of Anniversary Gifts
Under Section 56(2)(x), gifts received 'on the occasion of the marriage of the individual' are exempt. A wedding anniversary is NOT the occasion of marriage. Since the cash gifts of ₹2,00,000 exceed the ₹50,000 aggregate threshold and were given by friends (non-relatives), the entire **₹2,00,000 is taxable**.

Step 2: Taxability of Gift on Brother's Marriage
The exemption is restricted exclusively to the individual getting married. A gift received by Mr. E from a non-relative on the occasion of his brother's marriage does not qualify for the exemption.
Since this ₹1,00,000 is from a business associate (non-relative), it is **fully taxable**.

Conclusion:
Total Taxable IFOS for Mr. E = ₹3,00,000.

5. CMA INSIGHTS FOR PRACTICAL LIFE

People often try to mask business kickbacks as 'gifts' during family weddings. The Income Tax Department explicitly tracks high-value deposits in the accounts of family members other than the newlywed couple for this exact reason.

Illustration 6: Deemed Dividend - Distribution of Assets (Sec 2(22)(a))

1. THE QUESTION

PQR Pvt Ltd has accumulated profits of ₹15 Lakhs. It distributed assets with a Fair Market Value of ₹10 Lakhs to its shareholders. The company did not distribute any cash. How will this be taxed in the hands of the shareholders?

2. HOW TO READ THE QUESTION

- **Rule 2(22)(a):** Any distribution by a company of accumulated profits, whether capitalized or not, which entails the release of all or any part of the assets of the company, is deemed dividend.

3. NOTING OF KEY POINTS (ROUGH WORK)

- Accumulated profits = 15L.
- FMV of assets released = 10L.
- Since 10L < 15L, the entire 10L is Deemed Dividend.

4. ANSWER AS PER ICMAI SUGGESTED FORMAT

Step 1: Identify the Provision
Section 2(22)(a) states that dividend includes any distribution by a company of accumulated profits if such distribution entails the release of all or any part of the assets of the company.

Step 2: Determine the Quantum of Dividend
The distribution is limited to the extent of accumulated profits possessed by the company.
Accumulated Profits = ₹15,00,000.
Value of assets distributed = ₹10,00,000.

Since the value of assets distributed is well within the accumulated profits, the entire **₹10,00,000 is treated as Deemed Dividend**.

Step 3: Taxability
This amount is taxable in the hands of the shareholders under the head 'Income from Other Sources' at their respective applicable slab rates.

5. CMA INSIGHTS FOR PRACTICAL LIFE

Companies sometimes give luxury cars or real estate to promoters 'in-kind' instead of declaring dividends to avoid tax. Section 2(22)(a) pierces this veil by taxing the FMV of any asset released.

Illustration 7: Deemed Dividend - Loan to Shareholder (Sec 2(22)(e))

1. THE QUESTION

LMN Pvt Ltd (a closely held company) gave a loan of ₹25 Lakhs to Mr. F, who holds 12% equity shares in the company. The company had accumulated profits of ₹18 Lakhs on the date of the loan. Mr. F repaid the entire loan within 3 months during the same previous year. Calculate taxable IFOS.

2. HOW TO READ THE QUESTION

- **Rule 2(22)(e):** Loan/advance by a closely held company to a registered shareholder holding >= 10% voting power is deemed dividend to the extent of accumulated profits.
- **Repayment:** Repayment of the loan does NOT reverse the deemed dividend. The taxable event triggers on the day the loan is given.

3. NOTING OF KEY POINTS (ROUGH WORK)

- Voting power = 12% (>10%). Applicable.
- Loan = 25L. Acc Profits = 18L.
- Deemed dividend restricted to accumulated profits = 18 Lakhs.
- Repayment is ignored.

4. ANSWER AS PER ICMAI SUGGESTED FORMAT

Step 1: Check Applicability of Sec 2(22)(e)
LMN Pvt Ltd is a company in which the public is not substantially interested. Mr. F holds 12% voting power (which is >= 10%). Thus, any loan or advance given to him falls under Sec 2(22)(e).

Step 2: Determine Quantum of Deemed Dividend
The loan amount is ₹25,00,000. However, deemed dividend is strictly restricted to the extent the company possesses accumulated profits on the date of the loan.
Accumulated profits = ₹18,00,000.
Deemed Dividend = ₹18,00,000.

Step 3: Impact of Repayment
The subsequent repayment of the loan during the same previous year does not nullify the tax liability. The deemed dividend of **₹18,00,000 is fully taxable** under IFOS for Mr. F.

5. CMA INSIGHTS FOR PRACTICAL LIFE

Promoters frequently use corporate funds for personal use under the guise of 'short-term loans'. Even if they repay it the next day, the IT department will tax it as dividend if picked up during scrutiny.

Illustration 8: Deemed Dividend - Loan to a Concern (Sec 2(22)(e))

1. THE QUESTION

DEF Pvt Ltd gave a loan of ₹50 Lakhs to XYZ Partnership Firm. Mr. G holds 15% equity in DEF Pvt Ltd and has a 25% profit-sharing ratio in XYZ Firm. DEF Pvt Ltd has accumulated profits of ₹80 Lakhs. Who is taxed for the deemed dividend, and how much?

2. HOW TO READ THE QUESTION

- **Rule 2(22)(e) Extension:** Loan to any concern (HUF, Firm, AOP, Company) in which a 10%+ shareholder has a 'substantial interest' (>= 20% profit share/voting power) is a deemed dividend.
- **Taxable in whose hands?** Case law (Supreme Court in CIT vs Madhur Housing) establishes that deemed dividend is taxable in the hands of the SHAREHOLDER, not the concern receiving the loan.

3. NOTING OF KEY POINTS (ROUGH WORK)

- Mr. G in DEF Ltd = 15% (>= 10%).
- Mr. G in XYZ Firm = 25% (>= 20%).
- Loan = 50L. Acc profits = 80L.
- Deemed dividend = 50L.
- Taxable in the hands of Mr. G.

4. ANSWER AS PER ICMAI SUGGESTED FORMAT

Step 1: Check the Thresholds
- Shareholder threshold: Mr. G holds 15% in the lending company (>= 10% required).
- Substantial Interest threshold: Mr. G has a 25% share in the borrowing firm (>= 20% required).
Since both conditions are met, the loan to XYZ Firm triggers Section 2(22)(e).

Step 2: Quantum of Deemed Dividend
Loan amount: ₹50,00,000. Accumulated profits: ₹80,00,000. Since accumulated profits > loan amount, the entire **₹50,00,000** is deemed dividend.

Step 3: Point of Taxability
As settled by the Supreme Court, deemed dividend u/s 2(22)(e) can only be taxed in the hands of the registered shareholder, not the concern receiving the loan. Therefore, **₹50,00,000 is taxable as IFOS in the hands of Mr. G**.

5. CMA INSIGHTS FOR PRACTICAL LIFE

This is a classic trap in corporate structuring. Promoters routing money from a cash-rich private company to their loss-making partnership firm will personally suffer the tax hit, even though the money never hit their personal bank account.

Illustration 9: Dividend Income & Deduction (Sec 57)

1. THE QUESTION

Ms. H received dividend of ₹5,00,000 from an Indian company in PY 2025-26. She had taken a loan to invest in these shares and paid an interest of ₹1,50,000 during the year. She also paid ₹10,000 as a collection commission to her bank. Compute taxable IFOS.

2. HOW TO READ THE QUESTION

- **Dividend Taxability:** Fully taxable in the hands of the shareholder.
- **Sec 57 Restriction:** No deduction is allowed against dividend income EXCEPT interest expense. Even interest is capped at 20% of the dividend income. Collection charges are strictly disallowed.

3. NOTING OF KEY POINTS (ROUGH WORK)

- Dividend = 5,00,000.
- Interest paid = 1,50,000. Max allowed = 20% of 5,00,000 = 1,00,000.
- Collection charges = 10,000 (Disallowed).
- Taxable = 5L - 1L = 4,00,000.

4. ANSWER AS PER ICMAI SUGGESTED FORMAT

Step 1: Gross Dividend
Dividend received from a domestic company is fully taxable under the head IFOS.
Gross Dividend = ₹5,00,000.

Step 2: Compute Allowable Deductions
As per the proviso to Section 57, no deduction shall be allowed against dividend income other than interest expense. Furthermore, the interest deduction cannot exceed **20%** of the dividend income included in the total income.
- Collection charges of ₹10,000 are explicitly disallowed.
- Actual interest paid = ₹1,50,000.
- Maximum allowable limit = 20% of ₹5,00,000 = ₹1,00,000.
Allowable deduction = ₹1,00,000.

Step 3: Taxable Income
Taxable IFOS = ₹5,00,000 - ₹1,00,000 = **₹4,00,000**.

5. CMA INSIGHTS FOR PRACTICAL LIFE

Investors leveraging debt to buy high-dividend-yielding stocks must be warned of this 20% cap. If the borrowing cost exceeds 20% of the dividend yield, the excess interest represents a dead weight loss for tax purposes.

Illustration 10: Winnings from Lotteries/Game Shows (Sec 115BB)

1. THE QUESTION

Mr. J participated in 'Kaun Banega Crorepati' and won. He received a net amount of ₹7,00,000 after TDS @ 30%. He incurred ₹50,000 on travel and prep classes to participate. Compute his taxable IFOS and total tax liability (ignore basic exemption).

2. HOW TO READ THE QUESTION

- **Grossing Up:** The amount received is NET of TDS. You must gross it up to reflect the actual winning amount. (Net / 70%).
- **Deductions:** No deduction for any expenditure is allowed against winnings u/s 58(4).
- **Tax Rate:** Flat 30% u/s 115BB + Cess.

3. NOTING OF KEY POINTS (ROUGH WORK)

- Net = 7,00,000. Gross = 7L / 70% = 10,00,000.
- Taxable IFOS = 10,00,000. (50k expense ignored).
- Tax = 30% of 10L = 3,00,000. Add 4% Cess = 12,000. Total Tax = 3,12,000.
- TDS already paid = 3,00,000. Balance payable = 12,000.

4. ANSWER AS PER ICMAI SUGGESTED FORMAT

Step 1: Grossing up of Winnings
Winnings from lotteries, TV shows, etc., are subject to TDS @ 30% u/s 194B if the amount exceeds ₹10,000.
Gross Winnings = Net Amount Received x [100 / (100 - TDS Rate)]
Gross Winnings = ₹7,00,000 x (100 / 70) = **₹10,00,000**.

Step 2: Allowability of Expenses
As per Section 58(4), no deduction in respect of any expenditure or allowance is

permitted against income by way of winnings. The ₹50,000 expense is ignored.
Taxable IFOS = ₹10,00,000.

Step 3: Tax Liability Computation
Tax @ 30% u/s 115BB = ₹3,00,000.
Add: HEC @ 4% = ₹12,000.
Total Tax Liability = ₹3,12,000.
Less: TDS already deducted = ₹3,00,000.
Net Tax Payable = ₹12,000.

5. CMA INSIGHTS FOR PRACTICAL LIFE

A critical detail for such taxpayers is that Chapter VI-A deductions (like 80C) and the basic exemption limit (e.g., ₹3 Lakhs) CANNOT be adjusted against casual winnings under Section 115BB. The tax is absolute.

Illustration 11: Family Pension (Sec 57(iia))

1. THE QUESTION

Mrs. K receives a family pension of ₹60,000 p.m. following the death of her husband, a government employee. Calculate her taxable income under IFOS for AY 2026-27.

2. HOW TO READ THE QUESTION

- **Rule:** Family pension (received by legal heirs of deceased employee) is taxed under IFOS, not Salaries.
- **Standard Deduction:** 33.33% of the pension received OR ₹25,000, whichever is lower. (Available under both Old and New Tax Regimes).

3. NOTING OF KEY POINTS (ROUGH WORK)

- Annual Pension = 60,000 * 12 = 7,20,000.
- 33.33% of 7.2L = 2,40,000.
- Statutory cap = 25,000. Lower is 25,000.
- Taxable = 7,20,000 - 25,000 = 6,95,000.

4. ANSWER AS PER ICMAI SUGGESTED FORMAT

Step 1: Ascertain Gross Family Pension
Family pension is taxable under 'Income from Other Sources'.
Gross Pension = ₹60,000 x 12 = ₹7,20,000.

Step 2: Apply Standard Deduction
As per Section 57(iia), a standard deduction is allowed equal to 33-1/3% of the family pension or ₹25,000, whichever is less. (This deduction was restored to the New Tax Regime via recent amendments).
33.33% of ₹7,20,000 = ₹2,40,000.
Maximum cap = ₹25,000.
Allowable Deduction = ₹25,000.

Step 3: Taxable Income
Taxable IFOS = ₹7,20,000 - ₹25,000 = **₹6,95,000**.

5. CMA INSIGHTS FOR PRACTICAL LIFE

Family pension received by family members of armed forces personnel who die in the course of operational duties is completely EXEMPT under Section 10(19).

Illustration 12: Interest on Enhanced Compensation (Sec 56(2)(viii) & 57(iv))

1. THE QUESTION

The government acquired Mr. L's land. In PY 2025-26, the court awarded him enhanced compensation, plus an interest of ₹4,00,000 on such delayed compensation (pertaining to the period 2022-2025). He paid ₹50,000 to a lawyer specifically to recover this interest. Calculate IFOS.

2. HOW TO READ THE QUESTION

- **Rule:** Interest on enhanced compensation is taxable in the YEAR OF RECEIPT under IFOS, regardless of the period it relates to.
- **Deduction:** A flat 50% deduction is allowed. No actual expenses (like lawyer fees) can be claimed.

3. NOTING OF KEY POINTS (ROUGH WORK)

- Interest = 4,00,000. Taxable in 25-26.
- Standard deduction (50%) = 2,00,000.
- Lawyer fee = Ignored.
- Taxable IFOS = 2,00,000.

4. ANSWER AS PER ICMAI SUGGESTED FORMAT

Step 1: Point of Taxation
As per Section 56(2)(viii), income by way of interest received on compensation or enhanced compensation is deemed to be the income of the year in which it is received. Thus, the entire ₹4,00,000 is taxable in PY 2025-26.

Step 2: Statutory Deduction
As per Section 57(iv), a flat deduction of **50%** of such interest is allowed. No other

deduction (such as legal or recovery expenses) is permissible.
Deduction = 50% of ₹4,00,000 = ₹2,00,000.
The actual expense of ₹50,000 is ignored.

Step 3: Taxable Income
Taxable IFOS = ₹4,00,000 - ₹2,00,000 = **₹2,00,000**.

5. CMA INSIGHTS FOR PRACTICAL LIFE

This provision ends decades of litigation where taxpayers argued that interest should be spread over the past years on an accrual basis. The flat 50% deduction simplifies compliance but punishes those with excessively high litigation costs.

Illustration 13: Advance Money Forfeited Post-2014

1. THE QUESTION

Mr. M entered into an agreement to sell his vintage car for ₹10 Lakhs in May 2025. He received ₹1 Lakh as an advance. The buyer backed out, and Mr. M forfeited the advance. He ultimately sold the car in Dec 2025 to another buyer for ₹9 Lakhs. Assess the tax implications.

2. HOW TO READ THE QUESTION

- **Asset type:** A vintage car is NOT a capital asset (it is a personal effect, not falling under the exceptions like jewellery or art). Hence, no Capital Gains on sale.
- **Forfeited Advance Rule:** Any sum of money received as an advance in the course of negotiations for transfer of a capital asset, if forfeited after 1-Apr-2014, is taxable u/s 56(2)(ix) under IFOS.
- **Catch:** The asset MUST be a capital asset for 56(2)(ix) to apply.

3. NOTING OF KEY POINTS (ROUGH WORK)

- Is the car a capital asset? No. Personal effect.
- Therefore, the advance forfeited during negotiations of a NON-capital asset is a capital receipt not chargeable to tax under 56(2)(ix).

4. ANSWER AS PER ICMAI SUGGESTED FORMAT

Step 1: Determine the nature of the Asset
A vintage car used for personal purposes is a 'personal effect' and is expressly excluded from the definition of a Capital Asset under Section 2(14). (Only specific personal effects like jewellery, paintings, and sculptures are capital assets).

Step 2: Applicability of Sec 56(2)(ix)
Section 56(2)(ix) taxes advance money forfeited in the course of negotiations for the transfer of a **capital asset**. Since the vintage car is not a capital asset, the forfeiture of ₹1,00,000 does not fall under this section. It is a capital receipt and remains **non-taxable**.

Step 3: Sale of the Car
Since it is not a capital asset, the subsequent sale for ₹9 Lakhs does not attract any Capital Gains tax.

5. CMA INSIGHTS FOR PRACTICAL LIFE

This is an extremely tricky exam question. The instinct is to immediately tax the ₹1 Lakh under IFOS because it was forfeited post-2014. Always perform the preliminary 'Capital Asset Test' on the underlying property first.

Illustration 14: Angel Tax Exemption (AY 2026-27 Update)

1. THE QUESTION

A Pvt Ltd (a closely held Indian company) issued 10,000 equity shares to a resident investor in August 2025. Face value: ₹100. Issue Price: ₹500. The Fair Market Value (FMV) of the shares as per Rule 11UA was ₹200. Compute the taxable income for the company.

2. HOW TO READ THE QUESTION

- **Old Rule (Sec 56(2)(viib)):** Issue of shares at a premium exceeding FMV was taxed as 'Angel Tax' in the hands of the company.
- **FA 2024 Update:** The Angel Tax provision was ABOLISHED for all classes of investors effective AY 2025-26. Therefore, for AY 2026-27, this section is non-existent.

3. NOTING OF KEY POINTS (ROUGH WORK)

- Premium charged > FMV. Previously: (500 - 200) * 10,000 = 30 Lakhs taxable.
- Current Law: Abolished. Not taxable.

4. ANSWER AS PER ICMAI SUGGESTED FORMAT

Step 1: Historical Context
Historically, under Section 56(2)(viib), if a closely held company issued shares at a premium and the issue price exceeded the FMV, the excess (Issue Price - FMV) was taxed as IFOS (Angel Tax).

Step 2: Application of Current Law (AY 2026-27)
The Finance (No. 2) Act, 2024 completely **abolished** the provisions of Section 56(2)(viib) effective from Assessment Year 2025-26 onwards to foster the startup ecosystem.

Conclusion:
The receipt of premium over and above the FMV is a capital receipt for the company.
Taxable Income under IFOS = NIL.

5. CMA INSIGHTS FOR PRACTICAL LIFE

Examiners will test if students are updated with the latest budgets. Setting up a trap with detailed FMV and Issue Price numbers will cause outdated students to waste time calculating a defunct tax.

Illustration 15: Sub-letting of House Property

1. THE QUESTION

Mr. N took a house on rent at ₹20,000 p.m. He sub-let a portion of it to Mr. O for ₹15,000 p.m. N incurred ₹2,000 p.m. on repairs for the sub-let portion and paid municipal taxes of ₹5,000 for that portion. Compute his taxable income.

2. HOW TO READ THE QUESTION

- **Head of Income:** Income from sub-letting is taxable under IFOS (not House Property, because N is not the owner).
- **Deductions:** Proportionate rent paid by N, repairs, and taxes are allowed as actual expenses u/s 57. (No 30% standard deduction).

3. NOTING OF KEY POINTS (ROUGH WORK)

- Gross receipts = 15k * 12 = 1,80,000.
- Less Rent paid by N for that portion (Assuming it's a 50% sub-let, but we don't know the ratio. Wait, if he sublet a portion, he claims the rent *apportioned* to it. Let's assume the question implies he claims a proportionate rent of say 10,000 p.m., or if data is missing, we highlight the rule). Let's explicitly define: N took house for 20k, sublet exactly half. So rent expense = 10k p.m.
- Rent expense = 10k * 12 = 1,20,000. Repairs = 24k. Taxes = 5k.
- Total deductions = 1,49,000. Taxable = 1.8L - 1.49L = 31,000.

4. ANSWER AS PER ICMAI SUGGESTED FORMAT

Step 1: Determine Head of Income
Since Mr. N is a tenant and not the owner of the property, the income from sub-letting cannot be taxed under House Property. It is taxable under 'Income from Other Sources'.

Step 2: Compute Gross Receipts
Sub-letting rent received = ₹15,000 x 12 = ₹1,80,000.

Step 3: Allowable Deductions (Sec 57)
Under Sec 57, expenditures wholly and exclusively incurred for earning such income are allowed. (Assume the sub-let portion represents exactly 50% of the property).
Proportionate rent paid by Mr. N = (₹20,000 x 50%) x 12 = ₹1,20,000.
Repairs for sub-let portion = ₹2,000 x 12 = ₹24,000.

Municipal taxes paid for sub-let portion = ₹5,000.
Total Deductions = ₹1,49,000.

Conclusion:
Taxable IFOS = ₹1,80,000 - ₹1,49,000 = **₹31,000**.

5. CMA INSIGHTS FOR PRACTICAL LIFE

Sub-letting prevents the taxpayer from claiming the flat 30% standard deduction. Instead, meticulous record-keeping of every repair and municipal tax receipt is required to claim deductions under IFOS.

Illustration 16: Compensation on Termination of Employment (Sec 56(2)(xi))

1. THE QUESTION

Mr. P was offered a job as CEO of a tech company. Before he could join, the company underwent a merger and withdrew the offer. They paid him a compensation of ₹25 Lakhs for the termination of the employment contract. How is this taxed?

2. HOW TO READ THE QUESTION

- **Nature of Receipt:** Compensation for termination or modification of employment terms.
- **Taxability Check:** If an employer-employee relationship existed, it's 'Profits in lieu of salary' (Sec 17). If it's a business agency, it's PGBP (Sec 28). Since he never joined, no employer-employee relationship was formed.
- **Sec 56(2)(xi):** Specifically taxes such compensation under IFOS.

3. NOTING OF KEY POINTS (ROUGH WORK)

- Taxable under IFOS. Fully taxable. Amount = 25L.

4. ANSWER AS PER ICMAI SUGGESTED FORMAT

Step 1: Analyze the Relationship
For compensation to be taxed under the head 'Salaries', an employer-employee

relationship must exist. Since Mr. P had not yet joined, the relationship did not commence.

Step 2: Apply Statutory Provision
As per Section 56(2)(xi), any compensation or other payment due to or received by any person, in connection with the termination of his employment or the modification of the terms and conditions relating thereto, is taxable under IFOS if it is not chargeable under Salaries or PGBP.

Step 3: Conclusion
The entire compensation of **₹25,00,000 is fully taxable** under 'Income from Other Sources' in the hands of Mr. P.

5. CMA INSIGHTS FOR PRACTICAL LIFE

Severance packages and 'golden handshakes' for prospective employees were historically litigated as non-taxable capital receipts. Sec 56(2)(xi) was inserted to plug this exact loophole, making pre-joining termination payouts fully taxable.

Illustration 17: Keyman Insurance Policy (Received by Third Party)

1. THE QUESTION

A company took a Keyman Insurance Policy on its director. Upon maturity, the policy was assigned to the director's son, who received the maturity proceeds of ₹50 Lakhs. How is this taxed?

2. HOW TO READ THE QUESTION

- **Keyman Policy Rules:** If received by Employer = PGBP. If received by Employee = Salary. If received by any other person = IFOS.

3. NOTING OF KEY POINTS (ROUGH WORK)

- Recipient: Son (Third party). Taxable under IFOS.
- Exemption u/s 10(10D) is NOT available for Keyman policies.

4. ANSWER AS PER ICMAI SUGGESTED FORMAT

Step 1: Rule for Keyman Insurance
The exemption under Section 10(10D) for life insurance maturity proceeds explicitly excludes amounts received under a Keyman Insurance Policy. It is always taxable.

Step 2: Determine Head of Income
- If received by the Company (Employer) -> PGBP.
- If received by the Director (Employee) -> Salaries.
- If received by any other person (e.g., legal heirs, assignees) -> Income from Other Sources.

Conclusion:
Since the proceeds are received by the director's son, the entire **₹50,00,000 is taxable under IFOS** for the son.

5. CMA INSIGHTS FOR PRACTICAL LIFE

Assigning Keyman policies to family members just before maturity is a known tactic to bypass corporate tax. The law ensures the tax net catches the payout irrespective of whose hands it lands in.

Illustration 18: Interest on Securities (Grossing Up)

1. THE QUESTION

Mr. Q received ₹36,000 as interest on listed debentures of a domestic company. TDS was deducted at 10%. He incurred ₹500 as bank collection charges. Compute his IFOS.

2. HOW TO READ THE QUESTION

- **Grossing up:** The amount *received* is net of TDS. Income must be declared GROSS. (36k / 90%).
- **Deductions:** Bank collection charges are allowed u/s 57 for interest on securities (unlike dividend where collection charges are disallowed).

3. NOTING OF KEY POINTS (ROUGH WORK)

- Net = 36,000. Gross = 36,000 / 0.90 = 40,000.
- Deduction = 500.
- Taxable = 40,000 - 500 = 39,500.

4. ANSWER AS PER ICMAI SUGGESTED FORMAT

Step 1: Grossing up of Interest
Income must be included in total income at its gross value. TDS on interest on securities u/s 193 is 10%.
Gross Interest = Net amount received x (100 / 90)
Gross Interest = ₹36,000 x (100 / 90) = ₹40,000.

Step 2: Allowable Deductions
Unlike dividend income, any reasonable sum paid by way of commission or remuneration to a banker for the purpose of realizing interest on securities is allowed as

a deduction u/s 57.
Less: Bank collection charges = ₹500.

Conclusion:
Taxable IFOS = ₹39,500.

5. CMA INSIGHTS FOR PRACTICAL LIFE

Failing to gross up interest income is a primary cause for automated notices (Intimation u/s 143(1)) from the tax department, as Form 26AS reflects the gross amount paid by the company.

Illustration 19: Shares Issued at Premium (Sec 56(2)(viib)) - Historical Perspective

1. THE QUESTION

Although Angel Tax is abolished for AY 2026-27, assume a scenario relating to AY 2023-24. A closely held company issued shares with Face Value ₹10, FMV ₹50, and Issue Price ₹120. Calculate the per-share taxable amount under Angel Tax.

2. HOW TO READ THE QUESTION

- **Old Rule Recap:** Taxable if Issue Price > FMV. The taxable amount is (Issue Price - FMV). Face value is only relevant as a base trigger (Issue price must be > Face value).

3. NOTING OF KEY POINTS (ROUGH WORK)

- Issue Price (120) > FMV (50).
- Taxable IFOS per share = 120 - 50 = ₹70.

4. ANSWER AS PER ICMAI SUGGESTED FORMAT

Step 1: Rule Identification (Historical context)
Under the erstwhile Section 56(2)(viib), if a closely held company issued shares at a premium (Issue Price > Face Value), and the Issue Price exceeded the FMV, the excess was taxed.

Step 2: Computation
Issue Price = ₹120.
FMV = ₹50.
Excess = ₹120 - ₹50 = ₹70.
The taxable amount per share would be **₹70**.

(Note: Students must clearly state in the Dec 2026 exams that this provision stands abolished and no tax arises for such transactions executed in PY 2025-26).

5. CMA INSIGHTS FOR PRACTICAL LIFE

Understanding abolished laws is crucial because ongoing litigation and open assessments for past years (like AY 2023-24) will still heavily involve Angel Tax computations in your professional practice.

Illustration 20: Comprehensive IFOS Computation

1. THE QUESTION

Ms. R reports for PY 2025-26: (a) Family Pension: ₹15,000 p.m. (b) Dividend (Net of 10% TDS): ₹90,000. Interest paid on loan to buy these shares: ₹25,000. (c) Lottery winnings (Net of 30% TDS): ₹70,000. (d) Cash gift from father-in-law: ₹60,000. Compute Income from Other Sources.

2. HOW TO READ THE QUESTION

- **Pension:** 15k * 12 = 1.8L. Less 33.33% or 25k.
- **Dividend:** Gross up (90k/90% = 1L). Interest allowed up to 20% of 1L (i.e., 20k).
- **Lottery:** Gross up (70k/70% = 1L). Fully taxable.
- **Gift:** Father-in-law is a relative (lineal ascendant of spouse). Exempt.

3. NOTING OF KEY POINTS (ROUGH WORK)

- Pension: 1.8L - 25k (max cap) = 1,55,000.
- Dividend: Gross 1,00,000 - 20,000 (restricted interest) = 80,000.
- Lottery: Gross 1,00,000.
- Gift: Nil.
- Total IFOS = 1.55L + 0.8L + 1L = 3,35,000.

4. ANSWER AS PER ICMAI SUGGESTED FORMAT

Step 1: Family Pension
Gross Pension = ₹15,000 x 12 = ₹1,80,000.
Standard Deduction = Lower of (33.33% of 1.8L = ₹60,000) OR ₹25,000. Allowed: ₹25,000.
Taxable = ₹1,55,000.

Step 2: Dividend Income
Gross Dividend = ₹90,000 x (100/90) = ₹1,00,000.

Less: Interest expense (Restricted to 20% of dividend = ₹20,000. Actual ₹25k is ignored). Taxable = ₹80,000.

Step 3: Lottery Winnings
Gross Winnings = ₹70,000 x (100/70) = ₹1,00,000.
Taxable = ₹1,00,000.

Step 4: Cash Gift
Father-in-law is a relative. The ₹60,000 gift is fully exempt.

Total Taxable IFOS = ₹1,55,000 + ₹80,000 + ₹1,00,000 = **₹3,35,000**.

5. CMA INSIGHTS FOR PRACTICAL LIFE

In a comprehensive computation, always list exempt items (like the gift) in the main table with a 'NIL' value and a footnote. Examiners award specific step-marks for demonstrating why an item was excluded.

ICMAI PAPER 15

DIRECT TAX LAWS & INTERNATIONAL TAXATION

PART 6: MASTER PROBLEM SOLVER

Chapter 7: Clubbing & Set-Off of Losses
(20 Full-Length Exam Illustrations)

Applicable for: December 2026 Examination
Assessment Year: 2026-27 (Previous Year 2025-26)

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Chapter 7: Clubbing & Set-Off of Losses

This volume contains 20 highly complex, exam-grade illustrations directly mirroring past ICMAI papers. It covers Minor Child Clubbing, Remuneration to Spouse, Cross Transfers, Intra/Inter-Head Set-offs, and rules for Carry Forward of Losses.

Illustration 1: Basic Intra-Head Set-off (Capital Gains)

1. THE QUESTION

For PY 2025-26, Mr. A has the following: Short Term Capital Loss (STCL) from shares: ₹1,50,000. Long Term Capital Loss (LTCL) from land: ₹2,00,000. Short Term Capital Gain (STCG) from jewelry: ₹1,00,000. Long Term Capital Gain (LTCG) from gold: ₹2,50,000. Compute taxable Capital Gains.

2. HOW TO READ THE QUESTION

- **Rule 70 (Intra-Head):** LTCL can ONLY be set off against LTCG. STCL can be set off against BOTH STCG and LTCG.
- **Order of operation:** Set off LTCL against LTCG first. Then evaluate STCL against the remaining gains.

3. NOTING OF KEY POINTS (ROUGH WORK)

- LTCL (2L) set off against LTCG (2.5L). Remaining LTCG = 50k.
- STCL (1.5L) set off against STCG (1L). Remaining STCL = 50k.
- Can the remaining STCL (50k) be set off against the remaining LTCG (50k)? Yes.
- Final CG = Nil.

4. ANSWER AS PER ICMAI SUGGESTED FORMAT

Step 1: Set-off of Long Term Capital Loss
As per Section 70, LTCL can only be set off against LTCG.
LTCG = ₹2,50,000.
Less: LTCL = ₹2,00,000.
Balance LTCG = ₹50,000.

Step 2: Set-off of Short Term Capital Loss
STCL can be set off against STCG as well as LTCG.
STCG = ₹1,00,000.
Less: STCL utilized against STCG = ₹1,00,000.
Balance STCL = ₹50,000.

Step 3: Final Set-off
The remaining STCL of ₹50,000 can be set off against the remaining LTCG of ₹50,000.
Balance LTCG = ₹50,000 - ₹50,000 = NIL.
Taxable Capital Gains = NIL.

5. CMA INSIGHTS FOR PRACTICAL LIFE

Proper sequencing prevents artificial tax liabilities. Always exhaust the restricted losses (like LTCL) against their specific allowed gains first, before touching versatile losses (like STCL).

Illustration 2: Inter-Head Set-off (House Property vs Salary)

1. THE QUESTION

Mr. B has Income from Salary of ₹12,00,000. He has two house properties. House 1 (SOP) has an interest loss of ₹2,00,000. House 2 (LOP) has a computed loss of ₹1,50,000. He also has Bank Interest of ₹50,000. Compute his Gross Total Income.

2. HOW TO READ THE QUESTION

- **Rule 71 (Inter-Head):** House Property loss can be set off against any other head of income, but RESTRICTED to a maximum of ₹2,00,000 per assessment year.

3. NOTING OF KEY POINTS (ROUGH WORK)

- Total HP Loss = 2L + 1.5L = 3.5 Lakhs.
- Max set-off allowed against other heads = 2.0 Lakhs.
- Balance HP Loss to be carried forward = 1.5 Lakhs.
- GTI = 12L (Salary) + 50k (IFOS) - 2L (HP Set-off) = 10,50,000.

4. ANSWER AS PER ICMAI SUGGESTED FORMAT

Step 1: Compute Total House Property Loss
Loss from SOP = ₹2,00,000.
Loss from LOP = ₹1,50,000.
Total Loss under House Property = ₹3,50,000.

Step 2: Apply Inter-Head Set-off Limits (Sec 71(3A))
Loss from House Property can be set off against income under any other head (Salary, IFOS, PGBP, CG) up to a maximum limit of **₹2,00,000** in a particular assessment year.
Eligible Set-off = ₹2,00,000.

Step 3: Compute Gross Total Income
Income from Salary = ₹12,00,000.
Income from Other Sources = ₹50,000.
Total Income before set-off = ₹12,50,000.
Less: House Property loss set-off = ₹2,00,000.
Gross Total Income = ₹10,50,000.

Note: The remaining HP loss of ₹1,50,000 will be carried forward to the next AY.

5. CMA INSIGHTS FOR PRACTICAL LIFE

For high-net-worth salaried individuals, the ₹2L cap severely restricts the immediate tax benefits of highly leveraged real estate. Planners must focus on capital appreciation rather than immediate tax shields.

Illustration 3: Speculation vs Normal Business Loss

1. THE QUESTION

For PY 2025-26, XYZ Ltd reports: Normal Business Profit: ₹5,00,000. Speculation Business Loss: ₹3,00,000. Short Term Capital Gain: ₹1,00,000. Calculate GTI and losses to be carried forward.

2. HOW TO READ THE QUESTION

- **Speculation Loss Rule (Sec 73):** Speculation loss can ONLY be set off against Speculation Profit. It cannot be set off against normal business profit or any other head.

3. NOTING OF KEY POINTS (ROUGH WORK)

- Normal PGBP = 5L. STCG = 1L.
- Speculation Loss = 3L (Cannot be set off against the 5L normal profit).
- GTI = 5L + 1L = 6,00,000.
- C/F Speculation Loss = 3,00,000.

4. ANSWER AS PER ICMAI SUGGESTED FORMAT

Step 1: Analyze Speculation Loss
As per Section 73, losses from a speculation business can be set off **only against profits from another speculation business**. It cannot be set off against normal business profits or any other head of income.

Step 2: Compute Gross Total Income
Normal Business Profit = ₹5,00,000.
Short Term Capital Gain = ₹1,00,000.
Since speculation loss cannot be set off, **GTI = ₹6,00,000**.

Step 3: Carry Forward
The Speculation Business Loss of **₹3,00,000** will be carried forward. It can be carried forward for a maximum of **4 Assessment Years** to be set off against future speculation profits only.

5. CMA INSIGHTS FOR PRACTICAL LIFE

Intraday equity trading is classified as a speculative business. Taxpayers often mistakenly blend intraday trading losses with their regular business income, triggering notices for incorrect set-offs.

Illustration 4: Specified Business Loss (Sec 35AD)

1. THE QUESTION

Mr. C runs a 2-star hotel (Normal Business) generating ₹8,00,000 profit. He also started a new hospital with 150 beds (Specified Business u/s 35AD), which incurred a loss of ₹12,00,000 due to heavy capital expenditure deductions. Compute GTI.

2. HOW TO READ THE QUESTION

- **Specified Business Rule (Sec 73A):** Any loss from a specified business u/s 35AD can ONLY be set off against profit from ANOTHER specified business u/s 35AD.

3. NOTING OF KEY POINTS (ROUGH WORK)

- Normal Profit = 8L.
- Specified Loss = 12L. (Cannot be set off against normal profit).
- GTI = 8,00,000.
- C/F Specified Loss = 12,00,000.

4. ANSWER AS PER ICMAI SUGGESTED FORMAT

Step 1: Analyze Specified Business Loss
As per Section 73A, any loss computed in respect of any specified business referred to in Section 35AD (like a 100+ bed hospital) shall not be set off against income from any other business or any other head of income.

Step 2: Compute Gross Total Income
Normal Business Profit (2-star hotel) = ₹8,00,000.
Set-off of 35AD loss = NIL.
GTI = ₹8,00,000.

Step 3: Carry Forward
The specified business loss of **₹12,00,000** will be carried forward. Unlike normal business loss (8 years), specified business loss can be carried forward **indefinitely** until set off against future 35AD profits.

5. CMA INSIGHTS FOR PRACTICAL LIFE

While Sec 35AD offers 100% deduction on capital expenditure, the resulting massive losses are trapped within the 35AD silo. They cannot shield regular business income from immediate taxation.

Illustration 5: Order of Set-Off (B/F Loss vs Unabsorbed Depr)

1. THE QUESTION

DEF Ltd has Current Year (CY) Profit before depreciation: ₹10 Lakhs. CY Depreciation: ₹3 Lakhs. Brought Forward (B/F) Business Loss from Year 7: ₹5 Lakhs. Unabsorbed Depreciation from Year 2: ₹4 Lakhs. Calculate taxable income.

2. HOW TO READ THE QUESTION

- **Order of Set-Off Rule:** 1. CY Depreciation. 2. B/F Business Losses. 3. Unabsorbed Depreciation.
- **Why this order?** B/F business losses expire after 8 years, whereas unabsorbed depreciation has an indefinite life.

3. NOTING OF KEY POINTS (ROUGH WORK)

- Profit = 10L. Less CY Depr (3L) = 7L.
- Less B/F Loss (5L) = 2L.
- Less Unabsorbed Depr (4L) -> Set off up to 2L. Balance Unabsorbed Depr = 2L to carry forward.
- Taxable Income = Nil.

4. ANSWER AS PER ICMAI SUGGESTED FORMAT

Step 1: Set-off Current Year Depreciation
CY Profit before depreciation = ₹10,00,000.
Less: CY Depreciation = ₹3,00,000.
Balance Profit = ₹7,00,000.

Step 2: Set-off Brought Forward Business Loss
The law mandates that B/F business losses must be given priority over unabsorbed depreciation.
Balance Profit = ₹7,00,000.
Less: B/F Business Loss = ₹5,00,000.
Remaining Profit = ₹2,00,000.

Step 3: Set-off Unabsorbed Depreciation
Remaining Profit = ₹2,00,000.

Less: Unabsorbed Depreciation (₹4,00,000 available) = ₹2,00,000.
Taxable Business Income = **NIL.**

The unabsorbed depreciation of ₹2,00,000 (4L - 2L) will be carried forward indefinitely.

5. CMA INSIGHTS FOR PRACTICAL LIFE

Incorrect sequencing by junior accountants often results in B/F losses lapsing in the 8th year. Software algorithms must strictly enforce this hierarchy.

Illustration 6: Clubbing of Minor Child Income (Skill vs Passive)

1. THE QUESTION

Master D (aged 12) won ₹2,00,000 in a singing reality show. He invested the prize money in a bank FD, which earned ₹15,000 interest during the year. His father's income is ₹12 Lakhs and mother's is ₹15 Lakhs. Determine whose hands the income is taxable.

2. HOW TO READ THE QUESTION

- **Clubbing Rule (Sec 64(1A)):** Minor's income clubbed with the parent whose income is higher (Mother, ₹15L).
- **Exception for Skill:** Income from manual work or application of skill/talent is NOT clubbed.
- **Interest on Skill Income:** The FD interest does NOT arise directly from the skill. It is passive income, hence it IS clubbed.

3. NOTING OF KEY POINTS (ROUGH WORK)

- Prize money (2L): Not clubbed. Taxed in D's hands.
- FD Interest (15k): Clubbed with Mother.
- Exemption u/s 10(32): Mother gets 1,500 deduction.
- Net addition to Mother = 15,000 - 1,500 = 13,500.

4. ANSWER AS PER ICMAI SUGGESTED FORMAT

Step 1: Analyze Prize Money (Skill Income)
Under Section 64(1A), income arising to a minor child due to the application of his skill,

talent, or specialized knowledge is **not clubbed**. Therefore, the ₹2,00,000 is taxable in the hands of Master D directly.

Step 2: Analyze FD Interest (Passive Income)
The interest earned on the FD created out of skill-based income is considered passive income. The exception does not extend to the accretion of skill-income. Hence, the ₹15,000 **will be clubbed**.

Step 3: Determine the Parent and Apply Exemption
Income is clubbed with the parent whose total income is higher (Mother: ₹15 Lakhs).
Amount to be clubbed = ₹15,000.
Less: Exemption u/s 10(32) = ₹1,500.
Net amount added to Mother's income = ₹13,500.

5. CMA INSIGHTS FOR PRACTICAL LIFE

Child influencers and actors earn significant amounts. While their primary income avoids clubbing, their portfolio managers must be aware that reinvestment yields (interest, dividends) will aggressively inflate the parents' tax brackets.

Illustration 7: Clubbing - Remuneration to Spouse (No Qualifications)

1. THE QUESTION

Mr. E holds 25% voting power in EFG Pvt Ltd. His wife, Mrs. E, is appointed as a 'Marketing Consultant' at a salary of ₹50,000 p.m. She holds a degree in History and has no professional experience in marketing. Calculate the clubbing impact.

2. HOW TO READ THE QUESTION

- **Rule 64(1)(ii):** Remuneration to spouse from a concern in which the individual has a 'substantial interest' (>=20%) is clubbed.
- **Exception:** If spouse possesses technical/professional qualifications. Mrs. E has a History degree for a Marketing role, which fails the test.

3. NOTING OF KEY POINTS (ROUGH WORK)

- Substantial interest? Yes (25%).
- Professional qualification relevant to job? No.
- Salary = 50k * 12 = 6,00,000.
- Clubbed in Mr. E's hands under 'Salaries'. Standard deduction applies.

4. ANSWER AS PER ICMAI SUGGESTED FORMAT

Step 1: Test for Substantial Interest
Mr. E holds 25% voting power in the company, which exceeds the 20% threshold. He has a substantial interest in EFG Pvt Ltd.

Step 2: Test for Qualifications Exception
Mrs. E lacks any relevant technical or professional qualifications required for the role of a Marketing Consultant. Her History degree does not satisfy the statutory exception.

Step 3: Computation of Clubbing
Gross Salary of Mrs. E = ₹50,000 x 12 = ₹6,00,000.
Since it is taxable under the head 'Salaries', the standard deduction of ₹50,000 (or ₹75,000 under new regime) is available.
Net Taxable Salary = ₹6,00,000 - ₹75,000 (Assuming New Regime) = ₹5,25,000.
Conclusion: ₹5,25,000 will be clubbed in the total income of Mr. E.

5. CMA INSIGHTS FOR PRACTICAL LIFE

To legitimately employ a spouse and split income, the spouse must possess a verifiable degree or substantial provable experience directly related to their corporate designation.

Illustration 8: Both Spouses have Substantial Interest

1. THE QUESTION

Mr. F holds 20% and Mrs. F holds 15% in HIJ Ltd. Both are employed in the company without any technical qualifications, earning ₹8 Lakhs and ₹6 Lakhs respectively. Excluding this remuneration, Mr. F's other income is ₹4 Lakhs and Mrs. F's is ₹7 Lakhs. How will clubbing apply?

2. HOW TO READ THE QUESTION

- **Rule 64(1)(ii) Explanation 1:** Where both spouses have substantial interest and both receive remuneration without qualifications, the remuneration of BOTH shall be clubbed in the hands of the spouse whose TOTAL INCOME (excluding such remuneration) is HIGHER.

3. NOTING OF KEY POINTS (ROUGH WORK)

- Do both have substantial interest? Yes, under Sec 2(32) relative includes spouse. Mr. F = 20+15=35%. Mrs. F = 15+20=35%.
- Other Income: Mr. F = 4L. Mrs. F = 7L.
- Mrs. F's other income is higher.
- Therefore, Mr. F's salary (8L) is clubbed with Mrs. F.

4. ANSWER AS PER ICMAI SUGGESTED FORMAT

Step 1: Check Substantial Interest
For computing the 20% threshold, shares held by the individual and their relatives (including spouse) are aggregated. Hence, both Mr. F and Mrs. F are deemed to have a substantial interest (35% combined).

Step 2: Apply the Tie-Breaker Rule
When both spouses draw remuneration from the same concern (without professional

qualifications), the remuneration is clubbed in the hands of the spouse whose total income (excluding such remuneration) is **greater**.
Mr. F's other income: ₹4 Lakhs.
Mrs. F's other income: ₹7 Lakhs.

Conclusion:
Since Mrs. F's other income is higher, **Mr. F's remuneration of ₹8 Lakhs will be clubbed with Mrs. F's income**. (Mrs. F's own remuneration of ₹6L naturally remains in her hands).

5. CMA INSIGHTS FOR PRACTICAL LIFE

Family businesses often place both spouses on the board to draw two basic exemption limits. Without proper qualifications, this backfires dramatically due to the aggregation rule.

Illustration 9: Transfer of Asset to Spouse (Sec 64(1)(iv))

1. THE QUESTION

Mr. G gifted ₹10 Lakhs to his wife Mrs. G on 1-Apr-2025. She invested it in a bank FD at 8% p.a. On 1-Oct-2025, she invested the half-yearly interest (₹40,000) in another FD at 8% p.a. Compute the income to be clubbed in Mr. G's hands for AY 2026-27.

2. HOW TO READ THE QUESTION

- **Rule 64(1)(iv):** Income arising from assets transferred to spouse without adequate consideration is clubbed with the transferor.
- **Income on Income:** Any income generated from the ACCRETED income (interest on interest) is NOT clubbed.

3. NOTING OF KEY POINTS (ROUGH WORK)

- Primary FD (10L): Interest = 10L * 8% = 80,000. (Clubbed).
- Secondary FD (40k): Interest = 40k * 8% * 6/12 = 1,600. (Not Clubbed).

4. ANSWER AS PER ICMAI SUGGESTED FORMAT

Step 1: Primary Income (From Transferred Asset)
The ₹10 Lakhs was gifted without adequate consideration. The interest earned on this primary amount falls squarely under Section 64(1)(iv).
Interest = ₹10,00,000 x 8% = **₹80,000**.
This ₹80,000 **will be clubbed** in the hands of Mr. G.

Step 2: Accreted Income (Income on Income)
The half-yearly interest of ₹40,000 is Mrs. G's own income. When she invests this ₹40,000 into a new FD, the interest generated from it is 'income on income'.
Interest = ₹40,000 x 8% x 6/12 = **₹1,600**.
This ₹1,600 **will NOT be clubbed** and will be taxed in Mrs. G's hands.

5. CMA INSIGHTS FOR PRACTICAL LIFE

Gifted corpuses should be managed such that the 'income on income' is meticulously separated into a different bank account to prevent the assessing officer from indiscriminately clubbing the entire portfolio yield.

Illustration 10: Clubbing - Cross Transfers

1. THE QUESTION

Mr. H gifted ₹5 Lakhs to his brother's wife. On the same day, his brother Mr. I gifted ₹5 Lakhs to Mr. H's minor son. Both amounts were invested in 10% bonds. Whose hands will the interest be taxed in?

2. HOW TO READ THE QUESTION

- **Cross Transfer Doctrine:** Supreme Court ruled in CIT vs. Keshavji Morarji that reciprocal gifts are colorable devices. The law will 'look through' the transaction.
- **Result:** Treat it as if H gifted to his own minor son, and I gifted to his own wife.

3. NOTING OF KEY POINTS (ROUGH WORK)

- H's minor son earns 50k. Treat as gifted by H. Clubbed with H (subject to 1,500 exemption).
- I's wife earns 50k. Treat as gifted by I. Clubbed with I.

4. ANSWER AS PER ICMAI SUGGESTED FORMAT

Step 1: Invoke the Doctrine of Cross Transfers
The transactions are intimately connected and form a reciprocal arrangement designed to evade tax. The courts ignore the apparent structure and apply clubbing provisions by matching the transferor with their respective relatives.

Step 2: Taxability for Mr. H
The ₹5 Lakhs gifted by Mr. I to Mr. H's minor son is deemed to be a transfer from Mr. H himself. The interest of ₹50,000 will be clubbed in the hands of Mr. H u/s 64(1A) (subject to ₹1,500 exemption u/s 10(32)).

Step 3: Taxability for Mr. I
The ₹5 Lakhs gifted by Mr. H to Mr. I's wife is deemed to be a transfer from Mr. I himself. The interest of ₹50,000 will be clubbed in the hands of Mr. I u/s 64(1)(iv).

5. CMA INSIGHTS FOR PRACTICAL LIFE

Reciprocal gifting is heavily scrutinized by algorithms analyzing family PAN databases. Planners must rely on genuine time gaps, differing amounts, and distinct asset classes if they engage in family wealth redistribution.

Illustration 11: Transfer to Son's Wife (Sec 64(1)(vi))

1. THE QUESTION

Mr. J gifted a commercial property to his daughter-in-law (son's wife) on 1-Apr-2025. She let it out for ₹30,000 p.m. She paid municipal taxes of ₹20,000. Calculate the clubbed income.

2. HOW TO READ THE QUESTION

- **Rule 64(1)(vi):** Income from assets transferred to a son's wife without adequate consideration is clubbed in the hands of the transferor (father-in-law).
- **Head of Income:** The income retains its character. It will be computed as House Property income first, then the NET income is clubbed.

3. NOTING OF KEY POINTS (ROUGH WORK)

- GAV = 30k * 12 = 3.6L.
- NAV = 3.6L - 20k = 3.4L.
- Std Ded = 30% of 3.4L = 1.02L.
- Net HP Income = 2,38,000.
- This 2.38L is clubbed in Mr. J's hands.

4. ANSWER AS PER ICMAI SUGGESTED FORMAT

Step 1: Compute Income under the relevant head
The income must first be computed in the hands of the transferee (daughter-in-law) under the applicable head of income (House Property).
GAV = ₹30,000 x 12 = ₹3,60,000.
Less: Municipal Taxes = ₹20,000.
NAV = ₹3,40,000.
Less: 30% Standard Deduction = ₹1,02,000.
Net Income from House Property = **₹2,38,000**.

Step 2: Apply Clubbing Provisions
Under Section 64(1)(vi), income arising directly or indirectly from assets transferred without adequate consideration to a son's wife is clubbed with the transferor.
Conclusion: ₹2,38,000 will be clubbed in the hands of Mr. J.

5. CMA INSIGHTS FOR PRACTICAL LIFE

Transferring assets to a daughter-in-law does not bypass clubbing. However, transferring to a daughter's husband (son-in-law) is NOT covered under Section 64. No clubbing applies in that specific scenario.

Illustration 12: Business run with Gifted Funds (Sec 64(1))

1. THE QUESTION

Mr. K gifted ₹10 Lakhs to his wife. She started a new boutique business with a total capital of ₹20 Lakhs (10L gifted + 10L her own funds) on 1-Apr-2025. The business earned a profit of ₹6 Lakhs in PY 2025-26. Determine the clubbing amount.

2. HOW TO READ THE QUESTION

- **Rule:** If gifted money is invested in a business, the profit is clubbed in the ratio of the gifted capital to the TOTAL capital as on the 1st day of the previous year.

3. NOTING OF KEY POINTS (ROUGH WORK)

- Gifted Capital = 10L. Total Capital = 20L. Ratio = 10/20 = 1/2.
- Total Profit = 6 Lakhs.
- Clubbed Profit = 6L * 1/2 = 3 Lakhs.

4. ANSWER AS PER ICMAI SUGGESTED FORMAT

Step 1: Identify the Proportion of Capital
Under Explanation 3 to Section 64(1), if an asset transferred to a spouse is invested in any business, the income clubbed is determined by the ratio of the gifted capital to the total capital of the business as on the first day of the previous year.
Gifted Capital on 01.04.2025 = ₹10,00,000.
Total Capital on 01.04.2025 = ₹20,00,000.
Proportion = 10 / 20 = 50%.

Step 2: Compute Clubbed Income
Total Business Profit = ₹6,00,000.

Amount to be clubbed in Mr. K's hands = 50% of ₹6,00,000 = **₹3,00,000**.
The remaining ₹3,00,000 will be taxed in the wife's hands.

5. CMA INSIGHTS FOR PRACTICAL LIFE

Tracking opening capital balances is strictly required. Any mid-year capital introduced by the wife will NOT change the clubbing ratio for that current financial year.

Illustration 13: Revocable Transfer of Assets (Sec 61)

1. THE QUESTION

Mr. L created a trust transferring property worth ₹50 Lakhs for the benefit of his friend. The trust deed specifies that Mr. L can revoke the trust and reclaim the property after 5 years. The property generates rent of ₹4 Lakhs annually. Who pays tax on this?

2. HOW TO READ THE QUESTION

- **Rule 61 & 62:** If a transfer contains any clause for re-transfer of the asset or income to the transferor, it is a Revocable Transfer. The income is clubbed with the transferor.

3. NOTING OF KEY POINTS (ROUGH WORK)

- Transfer is revocable (can reclaim after 5 years).
- Entire income (4L) is clubbed with Mr. L.

4. ANSWER AS PER ICMAI SUGGESTED FORMAT

Step 1: Ascertain the Nature of Transfer
As per Section 63, a transfer is 'revocable' if it contains any provision for the re-transfer directly or indirectly of the whole or any part of the income or assets to the transferor, or gives the transferor a right to reassume power over the assets.

Step 2: Apply Clubbing Provision
Under Section 61, all income arising to any person by virtue of a revocable transfer of assets shall be chargeable to income-tax as the income of the **transferor**.
Conclusion: The entire rental income of ₹4,00,000 will be clubbed in the hands of Mr. L.

5. CMA INSIGHTS FOR PRACTICAL LIFE

The only exception (Sec 62) is if the trust is irrevocable during the lifetime of the beneficiary. If L could only reclaim it after the friend's death, the income would NOT be clubbed during the friend's lifetime.

Illustration 14: Carry Forward of House Property Loss

1. THE QUESTION

In PY 2025-26, Mr. M has Salary: ₹8 Lakhs, HP Loss: ₹3.5 Lakhs. He files his ITR on 10th December 2026 (due date was 31st July). Will he be allowed to set off ₹2 Lakhs against salary and carry forward the balance ₹1.5 Lakhs?

2. HOW TO READ THE QUESTION

- **Inter-head limit:** 2 Lakhs max.
- **Late filing rule (Sec 80):** Losses CANNOT be carried forward if ITR is filed late.
- **EXCEPTION to Sec 80:** House Property loss and Unabsorbed Depreciation CAN be carried forward even if the ITR is filed belatedly.

3. NOTING OF KEY POINTS (ROUGH WORK)

- Set-off against salary = 2L. GTI = 6L.
- Balance HP Loss = 1.5L.
- ITR is late, but HP loss is immune to Sec 80.
- Yes, he can carry it forward.

4. ANSWER AS PER ICMAI SUGGESTED FORMAT

Step 1: Current Year Set-off
Inter-head set-off for House Property loss is restricted to ₹2,00,000.
Salary Income (₹8L) - HP Loss (₹2L) = GTI of ₹6,00,000.
Unadjusted HP Loss = ₹1,50,000.

Step 2: Check Sec 80 (Late Filing Restrictions)
Section 80 states that losses under the heads PGBP, Capital Gains, and Owning/ Maintaining Race Horses cannot be carried forward if the return is filed after the due date u/s 139(1).
However, **House Property Loss (Sec 71B) and Unabsorbed Depreciation (Sec 32(2)) are explicitly EXCLUDED** from the rigors of Section 80.

Conclusion:
Yes, Mr. M is fully entitled to set off ₹2 Lakhs and **carry forward the remaining ₹1,50,000** to the next 8 assessment years despite filing a belated return.

5. CMA INSIGHTS FOR PRACTICAL LIFE

A delayed return completely wipes out massive accumulated business and capital losses. However, retail clients with heavily mortgaged second homes are protected by this specific HP exception.

Illustration 15: Carry Forward of Capital Losses (Belated ITR)

1. THE QUESTION

Ms. N incurred a Short Term Capital Loss of ₹5 Lakhs from intraday equity trading (assume treated as CG for this specific query via some mechanism, though normally intraday is speculative) - let's correct the asset: STCL from delivery-based equity shares: ₹5 Lakhs. She filed her return late. She had a brought forward STCL from AY 2024-25 of ₹2 Lakhs (ITR filed on time for that year). Can she carry forward the ₹5L and ₹2L to AY 2027-28?

2. HOW TO READ THE QUESTION

- **Sec 80 applicability:** Capital losses must be filed on time to be carried forward.
- **CY Loss:** ₹5L (Filed late) -> Cannot be carried forward.
- **B/F Loss:** ₹2L (Filed on time originally) -> Can continue to be carried forward.

3. NOTING OF KEY POINTS (ROUGH WORK)

- CY Loss of 5L lapses entirely due to late filing.
- The B/F loss of 2L retains its validity because the initial year's compliance was met.

4. ANSWER AS PER ICMAI SUGGESTED FORMAT

Step 1: Treatment of Current Year Capital Loss
As per Section 80, Capital Losses (under Section 74) cannot be carried forward if the return of income for the year in which the loss is incurred is not filed within the due date u/s 139(1).
Because Ms. N filed the ITR late, the CY STCL of ₹5,00,000 **lapses and cannot be carried forward**.

Step 2: Treatment of Brought Forward Capital Loss
Section 80 only applies to the return of the year in which the loss was *first incurred*. Since the ₹2,00,000 loss from AY 2024-25 was filed on time in that respective year, a late filing in the current year does not destroy its validity.

Conclusion:
She can carry forward ONLY the **₹2,00,000** (past loss) to AY 2027-28.

5. CMA INSIGHTS FOR PRACTICAL LIFE

In years involving heavy stock market crashes, CPAs must prioritize filing loss-making ITRs before the July 31st deadline over profit-making ITRs, to preserve the 'carry forward' tax shield.

Illustration 16: Set-off involving Lottery Winnings

1. THE QUESTION

Mr. O has Business Loss: ₹4,00,000. Lottery Winnings (Gross): ₹10,00,000. Income from House Property: ₹1,00,000. Compute his Gross Total Income and Tax Liability.

2. HOW TO READ THE QUESTION

- **Rule 58(4):** No loss can be set off against winnings from lotteries, crossword puzzles, races, card games, etc.
- **Set-off mechanics:** Business loss CANNOT eat into the 10L lottery. It can eat into the 1L HP income.

3. NOTING OF KEY POINTS (ROUGH WORK)

- Lottery = 10L. (Ring-fenced).
- HP = 1L. Biz Loss = 4L.
- Set off Biz loss against HP up to 1L. Remaining Biz loss = 3L (Carry forward).
- GTI = 10L.
- Tax = 30% of 10L + 4% cess.

4. ANSWER AS PER ICMAI SUGGESTED FORMAT

Step 1: Ring-Fencing of Lottery Income
Under Section 58(4), no loss under any head of income can be set off against winnings from lotteries, crossword puzzles, races, etc. The ₹10,00,000 is completely isolated.

Step 2: Inter-Head Set-Off
The Business Loss of ₹4,00,000 can be set off against the House Property Income of ₹1,00,000.
Remaining Business Loss to carry forward = ₹3,00,000.

Step 3: Gross Total Income & Tax
GTI = **₹10,00,000**.
Tax Liability = 30% of ₹10,00,000 = ₹3,00,000 + 4% HEC = **₹3,12,000**.

5. CMA INSIGHTS FOR PRACTICAL LIFE

A taxpayer might be bankrupt from an operational business standpoint, but if they win the lottery, the government takes its 30% cut immediately without allowing the business losses to absorb the gain.

Illustration 17: Change in Constitution of Firm (Sec 78)

1. THE QUESTION

PQR & Co., a partnership firm, has 3 partners (P, Q, R) sharing profits equally (1:1:1). The firm has a brought-forward business loss of ₹12 Lakhs. On 1-Apr-2025, Partner R retires and is replaced by S. In PY 2025-26, the firm makes a profit of ₹15 Lakhs. Calculate taxable income.

2. HOW TO READ THE QUESTION

- **Rule 78(2):** If there is a change in the constitution of a firm, the share of loss attributable to the retiring/deceased partner CANNOT be carried forward and set off by the reconstituted firm.

3. NOTING OF KEY POINTS (ROUGH WORK)

- R's share in firm was 1/3rd.
- Loss attributable to R = 12L * 1/3 = 4L. This 4L lapses.
- Remaining eligible B/F loss = 12L - 4L = 8L.
- CY Profit = 15L. Less eligible B/F loss = 8L.
- Taxable Profit = 7L.

4. ANSWER AS PER ICMAI SUGGESTED FORMAT

Step 1: Identify Statutory Restriction
Section 78(2) prohibits a firm from carrying forward and setting off so much of the loss as is proportionate to the share of a retired or deceased partner.

Step 2: Disallow the Retiring Partner's Loss
Total B/F Loss = ₹12,00,000.
Partner R's Share (1/3) = ₹4,00,000.
This ₹4,00,000 lapses completely. The eligible B/F loss available to the reconstituted firm is ₹8,00,000.

Step 3: Compute Taxable Income
Current Year Profit = ₹15,00,000.
Less: Eligible B/F Loss = ₹8,00,000.
Taxable Business Income = ₹7,00,000.

5. CMA INSIGHTS FOR PRACTICAL LIFE

If the ₹12L was 'Unabsorbed Depreciation' instead of 'Business Loss', Section 78(2) does NOT apply. The entire ₹12L unabsorbed depreciation would be allowed to be set off by the new firm. Structuring past losses as depreciation shields them from partner exits.

Illustration 18: Carry Forward by Closely Held Companies (Sec 79)

1. THE QUESTION

ABC Pvt Ltd (closely held) has B/F business loss of ₹50 Lakhs from AY 2023-24. In PY 2025-26, 60% of its shareholding was acquired by a new investor group. The company made a profit of ₹40 Lakhs in PY 2025-26. Can it set off the loss?

2. HOW TO READ THE QUESTION

- **Rule 79:** For closely held companies, B/F losses can be set off ONLY IF at least **51%** of the voting power remains held by the same persons who held them in the year the loss was incurred.

3. NOTING OF KEY POINTS (ROUGH WORK)

- 60% acquired means only 40% of original shareholders remain.
- 40% is less than 51%. The continuity test fails.
- The entire 50L B/F loss lapses.

4. ANSWER AS PER ICMAI SUGGESTED FORMAT

Step 1: Check Section 79 Continuity of Ownership Test
Section 79 states that a company in which the public are not substantially interested cannot carry forward and set off losses if there is a change in shareholding, unless shares carrying at least 51% of the voting power are beneficially held by persons who held them in the year the loss was incurred.

Step 2: Evaluate Facts
Original shareholders retained only 40% (100% - 60% acquired). Since 40% < 51%, the continuity test fails.

Step 3: Conclusion
The entire B/F loss of ₹50 Lakhs lapses. **The company will pay tax on the full ₹40 Lakhs current year profit.**

5. CMA INSIGHTS FOR PRACTICAL LIFE

During M&A of private startups, acquirers often structure the buyout in tranches (e.g., buying 49% this year, and the rest next year) specifically to preserve the Section 79 loss shield for the current assessment year.

Illustration 19: Sequence of Adjustments (Comprehensive)

1. THE QUESTION

CY Business Profit (Before Depr): ₹6L. CY Depr: ₹2L. B/F Business Loss: ₹5L. Unabsorbed Depr: ₹3L. Unabsorbed Speculation Loss: ₹1L. CY LTCG: ₹2L. Compute GTI.

2. HOW TO READ THE QUESTION

- **Order:** CY Depr -> B/F Biz Loss -> Unabsorbed Depr.
- **Speculation Loss:** Cannot touch normal biz profit or LTCG.
- **Unabsorbed Depr flexibility:** Can touch LTCG.

3. NOTING OF KEY POINTS (ROUGH WORK)

- Biz Profit = 6L - 2L (CY Depr) = 4L.
- Less: B/F Biz Loss (up to 4L) = Nil Biz Income. Remaining B/F Biz Loss = 1L (C/F).
- LTCG = 2L. Less: Unabsorbed Depr (up to 2L) = Nil LTCG. Remaining Unabsorbed Depr = 1L (C/F).
- Speculation Loss = 1L (C/F).
- GTI = Nil.

4. ANSWER AS PER ICMAI SUGGESTED FORMAT

Step 1: Set-off against Business Income
Profit before Depr = ₹6,00,000.
Less: CY Depreciation = ₹2,00,000. Balance = ₹4,00,000.
Less: B/F Business Loss (out of ₹5L) = ₹4,00,000. Balance Business Income = NIL.
(₹1L B/F Business loss is carried forward).

Step 2: Set-off against Capital Gains
LTCG = ₹2,00,000.
Unabsorbed Depreciation of ₹3L is available. It can be set off against LTCG.
Less: Unabsorbed Depr (out of ₹3L) = ₹2,00,000. Balance LTCG = NIL.
(₹1L Unabsorbed Depr is carried forward).

Step 3: Speculation Loss
The ₹1L unabsorbed speculation loss cannot be set off against any head. It is carried forward.

Gross Total Income = NIL.

5. CMA INSIGHTS FOR PRACTICAL LIFE

By applying unabsorbed depreciation against LTCG, the taxpayer effectively wipes out a 12.5% tax liability. Optimizing the order of set-off manually is often required as basic tax software occasionally misses inter-head cross-absorptions.

Illustration 20: Mega Clubbing & Set-off Combine

1. THE QUESTION

Mr. X: Salary ₹8L, HP Loss ₹3L, STCG ₹1L.
Mrs. X: Business Profit ₹4L. (Mr. X transferred ₹5L to her business on 1-Apr-25; Total Capital was ₹10L).
Minor Son: Bank Interest ₹30k.
Compute GTI of Mr. X.

2. HOW TO READ THE QUESTION

- **Mr. X's own:** Salary 8L, HP loss restricted to 2L set-off. Balance 1L HP loss c/f. STCG 1L.
- **Wife clubbing:** 50% capital gifted. So 50% of 4L profit = 2L clubbed with X.
- **Minor child:** Passive interest 30k. Clubbed with higher income parent (Mr. X is 8L-2L+1L+2L = 9L. Assume his is higher). 30k - 1.5k exemption = 28.5k clubbed.

3. NOTING OF KEY POINTS (ROUGH WORK)

- Salary = 8L - 2L (HP loss) = 6L.
- PGBP (Clubbed from wife) = 2L.
- STCG = 1L.
- IFOS (Clubbed from minor) = 28,500.
- GTI = 6,00,000 + 2,00,000 + 1,00,000 + 28,500 = 9,28,500.

4. ANSWER AS PER ICMAI SUGGESTED FORMAT

Step 1: Compute Mr. X's Individual Income
Salary Income = ₹8,00,000.

Less: HP Loss set-off (max limit u/s 71) = ₹2,00,000.
Net Salary = ₹6,00,000. (Remaining ₹1L HP loss is carried forward).
STCG = ₹1,00,000.

Step 2: Clubbing of Wife's Income
Gifted Capital / Total Capital = 5L / 10L = 50%.
Clubbed Profit = 50% of ₹4,00,000 = ₹2,00,000. (Added to Mr. X under PGBP).

Step 3: Clubbing of Minor Son's Income
Bank Interest = ₹30,000. Since Mr. X has higher income, it is clubbed with him.
Less: Sec 10(32) Exemption = ₹1,500.
Net Clubbed IFOS = ₹28,500.

Step 4: Gross Total Income
GTI = Salary (₹6,00,000) + PGBP (₹2,00,000) + STCG (₹1,00,000) + IFOS (₹28,500) = **₹9,28,500**.

5. CMA INSIGHTS FOR PRACTICAL LIFE

This represents a standard 12-16 mark final exam question. Structuring the answer head-by-head, clearly showing the ₹2L HP cap and the ₹1.5k minor exemption, guarantees maximum step marks.

ICMAI PAPER 15

DIRECT TAX LAWS & INTERNATIONAL TAXATION

PART 6: MASTER PROBLEM SOLVER

Chapter 8: Deductions under Chapter VI-A
(20 Full-Length Exam Illustrations)

Applicable for: December 2026 Examination
Assessment Year: 2026-27 (Previous Year 2025-26)

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Chapter 8: Deductions under Chapter VI-A

This volume contains 20 highly complex, exam-grade illustrations directly mirroring past ICMAI papers. It covers the crucial interplay of deductions (80C to 80U) and rigorously tests the limits applicable under the New Tax Regime (Sec 115BAC) versus the Old Regime.

Illustration 1: The Default New Tax Regime Trap

1. THE QUESTION

Mr. A, aged 35, has a Gross Total Income of ₹12,00,000 for PY 2025-26. He invested ₹1,50,000 in PPF, paid medical insurance of ₹25,000, and donated ₹50,000 to PMNRF. He does not explicitly opt out of the default tax regime. Compute his taxable income.

2. HOW TO READ THE QUESTION

- **Identify the Regime:** Section 115BAC (New Tax Regime) is the default regime. Since he didn't opt out, he is assessed under the new regime.
- **Deduction Rules under 115BAC:** Chapter VI-A deductions like 80C (PPF), 80D (Mediclaim), and 80G (Donations) are STRICTLY DISALLOWED.

3. NOTING OF KEY POINTS (ROUGH WORK)

- GTI = 12,00,000.
- 80C (PPF) = Nil.
- 80D (Medical) = Nil.
- 80G (Donation) = Nil.
- Total Deductions = Nil. Total Income = 12,00,000.

4. ANSWER AS PER ICMAI SUGGESTED FORMAT

Step 1: Determine Applicable Tax Regime
As per the Finance Act, the New Tax Regime under Section 115BAC is the default tax regime. Since Mr. A has not explicitly opted out to choose the old regime, his income will be computed under the default provisions.

Step 2: Evaluate Deductions
Under Section 115BAC, an individual must forego most of the deductions under Chapter

VI-A (except 80CCD(2) and 80JJAA).
- PPF Investment (Sec 80C) = Not Allowed.
- Medical Insurance (Sec 80D) = Not Allowed.
- Donation to PMNRF (Sec 80G) = Not Allowed.

Step 3: Compute Total Taxable Income
Gross Total Income = ₹12,00,000.
Less: Chapter VI-A Deductions = NIL.
Total Taxable Income = ₹12,00,000.

5. CMA INSIGHTS FOR PRACTICAL LIFE

This is the #1 trick in modern ICMAI exams. Examiners will give a long list of investments to distract you. If the question states 'assuming default tax regime', simply ignore 80C/80D/80G entirely.

Illustration 2: Section 80C Restrictions (Old Regime Opted)

1. THE QUESTION

Mr. B (opted for Old Regime) invested ₹1,00,000 in PPF. He also paid a Life Insurance Premium of ₹60,000 for a policy issued in 2018 (Sum Assured: ₹5,00,000). He paid ₹40,000 as tuition fees for his two children. Calculate his 80C deduction.

2. HOW TO READ THE QUESTION

- **Regime Check:** Old regime opted. 80C is available.
- **LIC Premium Limits:** For policies issued after 1-Apr-2012, premium is restricted to 10% of the actual capital sum assured.
- **Tuition Fees:** Fully allowed under 80C for max 2 children.

3. NOTING OF KEY POINTS (ROUGH WORK)

- PPF = 1,00,000.
- LIC = Actual 60k. Limit = 10% of 5L = 50,000. Allowed = 50,000.
- Tuition = 40,000.
- Total Eligible = 1L + 50k + 40k = 1,90,000.
- Sec 80CCE limits total 80C to 1,50,000.

4. ANSWER AS PER ICMAI SUGGESTED FORMAT

Step 1: Compute Eligible 80C Investments
- PPF Contribution: ₹1,00,000 (Fully eligible).
- LIC Premium: For policies issued on or after 01.04.2012, the deduction is restricted to 10% of the Sum Assured. Limit = 10% of ₹5,00,000 = ₹50,000. Eligible amount = ₹50,000.
- Tuition Fees: Fees paid for the education of up to 2 children in India are eligible. Eligible amount = ₹40,000.

Step 2: Aggregate and Apply Ceiling
Total Eligible Investment = ₹1,00,000 + ₹50,000 + ₹40,000 = ₹1,90,000.

Step 3: Final Deduction
As per Section 80CCE, the maximum aggregate deduction u/s 80C, 80CCC, and 80CCD(1) is capped at ₹1,50,000.
Deduction u/s 80C = ₹1,50,000.

5. CMA INSIGHTS FOR PRACTICAL LIFE

Insurance agents often sell policies with high premiums and low life cover to maximize their commissions. Taxpayers only discover during ITR filing that their ₹1 Lakh premium is mostly disallowed because the life cover was only ₹5 Lakhs.

Illustration 3: NPS Deductions (Sec 80CCD Series)

1. THE QUESTION

Mr. C (Old Regime) has a salary of ₹10,00,000. He contributes ₹1,20,000 to his NPS Tier-I account. His employer also contributes ₹1,00,000 to the same account. Compute his total deductions under Chapter VI-A.

2. HOW TO READ THE QUESTION

- **Employee Contribution (80CCD(1)):** Max allowed is 10% of Salary. Falls under the 1.5L cap of 80CCE.
- **Additional Contribution (80CCD(1B)):** Extra ₹50,000 allowed outside the 1.5L cap.
- **Employer Contribution (80CCD(2)):** Max allowed is 10% of Salary (14% for Govt). Allowed OUTSIDE the 1.5L cap.

3. NOTING OF KEY POINTS (ROUGH WORK)

- Salary = 10L. 10% = 1L.
- Employee Contrib = 1.2L. Split this: 50k to 80CCD(1B) and 70k to 80CCD(1).
- 80CCD(1) claim = 70k (within 10% limit of 1L).
- Employer Contrib = 1L. 80CCD(2) limit = 10% of 10L = 1L. Claim = 1L.

4. ANSWER AS PER ICMAI SUGGESTED FORMAT

Step 1: Deduction for Employee's Contribution
Mr. C contributed ₹1,20,000. To maximize tax benefits, this should be split.
- Claim ₹50,000 exclusively under Section **80CCD(1B)**. This provides an additional deduction over and above the ₹1.5L limit.
- The remaining ₹70,000 is claimed under Section **80CCD(1)**. The maximum limit here is 10% of Salary (₹1,00,000). Since ₹70,000 < ₹1,00,000, it is fully allowed.

Step 2: Deduction for Employer's Contribution
The employer's contribution is first added to Gross Salary, and then an equivalent deduction is claimed under Section **80CCD(2)**.
Maximum allowed = 10% of Salary = ₹1,00,000. Actual = ₹1,00,000.
Deduction u/s 80CCD(2) = ₹1,00,000.

Step 3: Total Deductions
80CCD(1) = ₹70,000
80CCD(1B) = ₹50,000
80CCD(2) = ₹1,00,000
Total Deduction = ₹2,20,000.

5. CMA INSIGHTS FOR PRACTICAL LIFE

Section 80CCD(2) is one of the few deductions that SURVIVES under the New Tax Regime (Sec 115BAC). Restructuring CTC to include employer NPS contributions is highly tax-efficient in the current era.

Illustration 4: Medical Insurance (Sec 80D)

1. THE QUESTION

Mr. D (aged 45) pays medical insurance premium for himself: ₹22,000, and for his dependent father (aged 72): ₹48,000. He also spent ₹6,000 in cash for a preventive health check-up for his family. He opted for the Old Regime. Compute 80D deduction.

2. HOW TO READ THE QUESTION

- **Self/Family Limit:** ₹25,000.
- **Senior Parent Limit:** ₹50,000.
- **Preventive Check-up:** Max ₹5,000. Can be paid in cash. However, this is INCLUDED within the respective overall limits (25k/50k), not over and above it.

3. NOTING OF KEY POINTS (ROUGH WORK)

- Self premium = 22,000. Checkup max = 5,000. Total = 27,000. Capped at 25,000.
- Parent premium = 48,000. (Since checkup 5k is already exhausted, we don't allocate it here, or we can allocate 2k here). Total parent = 48,000. Capped at 50,000.

4. ANSWER AS PER ICMAI SUGGESTED FORMAT

Step 1: Deduction for Self & Family
Insurance Premium paid by non-cash mode = ₹22,000.
Preventive Health Check-up (cash allowed) = Max ₹5,000.

Total eligible = ₹22,000 + ₹5,000 = ₹27,000.
Maximum limit under Sec 80D for non-senior citizens is ₹25,000.
Deduction allowed = **₹25,000**.

Step 2: Deduction for Senior Citizen Parent
Insurance Premium paid = ₹48,000.
Maximum limit for senior citizens is ₹50,000.
Deduction allowed = **₹48,000**.

Step 3: Total 80D Deduction
Total Deduction = ₹25,000 + ₹48,000 = **₹73,000**.

5. CMA INSIGHTS FOR PRACTICAL LIFE

The ₹5,000 preventive health check-up is a sub-limit, NOT an additional limit. If the core insurance premium already exhausts the ₹25,000 cap, the check-up expense yields zero extra tax benefit.

Illustration 5: Medical Expenditure for Uninsured Senior Citizens (Sec 80D)

1. THE QUESTION

Mr. E (aged 50) incurred medical expenditure of ₹60,000 on his father (aged 80). His father does not have any health insurance policy. Mr. E paid this amount via credit card. (Old Regime). Compute 80D deduction.

2. HOW TO READ THE QUESTION

- **Rule 80D (Medical Expenditure):** Allowed ONLY for Senior Citizens (60+) who do NOT have a health insurance policy.
- **Limit:** Maximum ₹50,000.
- **Payment mode:** Must be non-cash.

3. NOTING OF KEY POINTS (ROUGH WORK)

- Father is 80 (Senior). No insurance. Paid via credit card. All conditions met.
- Expense = 60,000. Limit = 50,000.
- Allowed = 50,000.

4. ANSWER AS PER ICMAI SUGGESTED FORMAT

Step 1: Check Statutory Conditions
Section 80D permits a deduction for medical expenditure incurred on the health of a senior citizen (60 years or above), provided no amount has been paid to effect or keep in force a health insurance policy for such person.
The payment must be made by any mode other than cash.

Step 2: Apply Limits
Actual medical expenditure incurred via credit card = ₹60,000.
Maximum deduction permissible under this specific clause = ₹50,000.

Conclusion:
Mr. E can claim a deduction of **₹50,000** u/s 80D.

5. CMA INSIGHTS FOR PRACTICAL LIFE

This clause is extremely beneficial for very senior citizens whose insurance premiums are prohibitively expensive or who are denied coverage due to pre-existing conditions. Keep hospital and pharmacy bills safely.

Illustration 6: Maintenance of Disabled Dependent (Sec 80DD)

1. THE QUESTION

Mr. F spent ₹20,000 on the medical treatment and rehabilitation of his brother who suffers from 85% disability (severe disability). He opted for the Old Regime. Compute his 80DD deduction.

2. HOW TO READ THE QUESTION

- **Rule 80DD:** Flat deduction regardless of the actual amount spent.
- **Limits:** Normal disability (40% to <80%) = ₹75,000. Severe disability (80% or more) = ₹1,25,000.

3. NOTING OF KEY POINTS (ROUGH WORK)

- Dependent = Brother (Eligible relative).
- Disability = 85% (Severe).
- Actual spent = 20,000 (Irrelevant).
- Deduction = 1,25,000.

4. ANSWER AS PER ICMAI SUGGESTED FORMAT

Step 1: Identify the Nature of Deduction
Section 80DD provides a flat, fixed deduction for the maintenance (including medical treatment) of a dependent relative suffering from a disability. The actual amount of expenditure incurred is irrelevant to the quantum of deduction.

Step 2: Determine the Quantum based on Severity
For disability >= 40% but < 80%: Flat deduction is ₹75,000.
For severe disability (80% or more): Flat deduction is ₹1,25,000.

Conclusion:
Since the brother suffers from 85% disability, Mr. F is entitled to a flat deduction of **₹1,25,000** u/s 80DD, despite having spent only ₹20,000.

5. CMA INSIGHTS FOR PRACTICAL LIFE

A valid medical certificate from a specified medical authority is mandatory. This is a flat deduction, meaning even a nominal ₹1 spent on maintenance unlocks the full ₹1.25 Lakh tax shield.

Illustration 7: Medical Treatment of Specified Diseases (Sec 80DDB)

1. THE QUESTION

Mr. G spent ₹1,10,000 on the cancer treatment of his dependent mother (aged 65). He received a reimbursement of ₹30,000 from his employer's medical insurance scheme. (Old Regime). Compute 80DDB deduction.

2. HOW TO READ THE QUESTION

- **Rule 80DDB:** Deduction for specific critical illnesses (e.g., Cancer, AIDS, Neurological diseases).
- **Limits:** Actual expense OR ₹40,000 (₹1,00,000 for Senior Citizens), whichever is less.
- **Adjustment:** Any insurance reimbursement must be deducted from the ELIGIBLE deduction limit.

3. NOTING OF KEY POINTS (ROUGH WORK)

- Expense = 1,10,000.
- Limit for Senior Citizen = 1,00,000.
- Eligible base amount = 1,00,000.
- Less: Insurance received = 30,000.
- Final Deduction = 70,000.

4. ANSWER AS PER ICMAI SUGGESTED FORMAT

Step 1: Determine the Base Limit
Section 80DDB allows a deduction for actual expenses incurred on specified diseases. The maximum limit is ₹40,000 for non-seniors and ₹1,00,000 for senior citizens.
Since the mother is 65 (Senior Citizen), the maximum limit is ₹1,00,000.
Actual expense = ₹1,10,000.
Eligible base amount = ₹1,00,000 (Lower of actual or limit).

Step 2: Adjust for Reimbursements
The deduction must be reduced by any amount received from an insurer or reimbursed by an employer.
Eligible base = ₹1,00,000.
Less: Insurance reimbursement = ₹30,000.

Conclusion:
Deduction allowed u/s 80DDB = **₹70,000**.

5. CMA INSIGHTS FOR PRACTICAL LIFE

Always deduct the insurance reimbursement from the *Statutory Limit* (if expenses exceed the limit), not from the gross actual expense. If you deducted 30k from 1.1L, you'd get 80k, which is mathematically incorrect as per IT rules.

Illustration 8: Interest on Education Loan (Sec 80E)

1. THE QUESTION

Mr. H took an education loan from a scheduled bank for his daughter's MBA in the UK. In PY 2025-26, he paid ₹1,50,000 towards the principal and ₹2,80,000 towards interest. (Old Regime). Compute 80E deduction.

2. HOW TO READ THE QUESTION

- **Rule 80E:** Allowed ONLY for interest on education loan (not principal). Allowed for higher education of self, spouse, or children.
- **Limits:** NO MONETARY LIMIT. Allowed for a maximum of 8 assessment years.

3. NOTING OF KEY POINTS (ROUGH WORK)

- Principal (1.5L): Not allowed under 80E (and not under 80C either, as 80C only covers tuition fees, not loan principal).
- Interest (2.8L): Fully allowed.

4. ANSWER AS PER ICMAI SUGGESTED FORMAT

Step 1: Analyze Principal Repayment
Under the Income Tax Act, the repayment of the principal amount of an education loan does not qualify for any deduction (neither under 80C nor 80E).

Step 2: Analyze Interest Payment
Section 80E provides a deduction for the interest paid on a loan taken from a financial institution or approved charitable institution for pursuing higher education. This covers

the education of the individual, spouse, or children.
Crucially, there is **no maximum monetary cap** on this deduction.

Conclusion:
Mr. H can claim the entire interest amount as a deduction.
Deduction u/s 80E = ₹2,80,000.

5. CMA INSIGHTS FOR PRACTICAL LIFE

80E is one of the most powerful tax shields for middle-class professionals funding foreign education. However, the loan MUST be from an approved financial institution; loans from relatives or employers do not qualify.

Illustration 9: Interest on Affordable Housing Loan (Sec 80EEA)

1. THE QUESTION

Mr. J, a first-time homebuyer, took a housing loan of ₹30 Lakhs sanctioned in Oct 2021. The Stamp Duty Value of the house is ₹42 Lakhs. In PY 2025-26, he paid interest of ₹3,10,000. The house is Self-Occupied. (Old Regime). Calculate total interest deductions.

2. HOW TO READ THE QUESTION

- **Sec 24(b):** First, claim up to ₹2,00,000 under House Property for an SOP.
- **Sec 80EEA:** Conditions: Sanctioned between 1-Apr-19 and 31-Mar-22. SDV <= 45 Lakhs. First-time buyer. Limit: ₹1,50,000.
- **Interplay:** Claim 24(b) first, then push the excess to 80EEA.

3. NOTING OF KEY POINTS (ROUGH WORK)

- Total Interest = 3,10,000.
- Claim under 24(b) = 2,00,000 (Max).
- Remaining Interest = 1,10,000.
- Conditions for 80EEA met (Oct 21 is within window, SDV 42L is <= 45L). Limit = 1.5L.
- Claim under 80EEA = 1,10,000.

4. ANSWER AS PER ICMAI SUGGESTED FORMAT

Step 1: Deduction under Head House Property (Sec 24(b))
For a Self-Occupied Property, the maximum interest deduction allowable u/s 24(b) is ₹2,00,000.
Interest claimed u/s 24(b) = **₹2,00,000**. (This will be a loss under the head HP).

Step 2: Deduction under Chapter VI-A (Sec 80EEA)
Section 80EEA provides an additional deduction for interest on housing loans for affordable housing (SDV <= ₹45L), sanctioned between 01.04.2019 and 31.03.2022.
Total Interest paid = ₹3,10,000.
Less: Claimed u/s 24(b) = ₹2,00,000.
Balance Interest available = ₹1,10,000.
Maximum limit u/s 80EEA is ₹1,50,000. Since the balance is within limits, the entire remaining interest is allowed.

Conclusion:
Deduction u/s 80EEA = **₹1,10,000**. (Total tax shield = ₹3,10,000).

5. CMA INSIGHTS FOR PRACTICAL LIFE

80EEA was a temporary window to boost affordable housing. While new loans no longer qualify, existing loans sanctioned before March 31, 2022, continue to yield this extra ₹1.5L deduction until the loan is repaid.

Illustration 10: Interest on Electric Vehicle Loan (Sec 80EEB)

1. THE QUESTION

Mr. K purchased an Electric Vehicle (EV) on a loan sanctioned in December 2022. He paid interest of ₹1,80,000 during PY 2025-26. He uses the EV for personal commute. (Old Regime). Calculate the deduction.

2. HOW TO READ THE QUESTION

- **Rule 80EEB:** Deduction for interest on loan taken to purchase an EV. Sanction window: 1-Apr-19 to 31-Mar-23. Limit: ₹1,50,000.

3. NOTING OF KEY POINTS (ROUGH WORK)

- Sanction date is Dec 2022 (within window).
- Interest = 1,80,000. Limit = 1,50,000.
- Allowed = 1,50,000.

4. ANSWER AS PER ICMAI SUGGESTED FORMAT

Step 1: Check Statutory Conditions
Section 80EEB allows a deduction for interest payable on a loan taken from a financial institution for the purchase of an electric vehicle. The loan must be sanctioned between 01.04.2019 and 31.03.2023. Mr. K's loan was sanctioned in Dec 2022, so he qualifies.

Step 2: Apply Limits
The maximum deduction allowable under this section is ₹1,50,000 per year.

Actual interest paid = ₹1,80,000.
Conclusion: Deduction u/s 80EEB = ₹1,50,000.

(Note: If the EV was used for business purposes, the excess ₹30,000 could be claimed as a business expense u/s 36(1)(iii). Since it's for personal commute, the excess lapses).

5. CMA INSIGHTS FOR PRACTICAL LIFE

Similar to 80EEA, the sanction window for 80EEB has closed. However, ongoing EMIs continue to receive this deduction. Always check the original loan sanction letter date during client onboarding.

Illustration 11: Donations without Limit (Sec 80G)

1. THE QUESTION

ABC Ltd donated ₹5,00,000 to the Prime Minister's National Relief Fund (PMNRF) and ₹2,00,000 to the Jawaharlal Nehru Memorial Fund. Both were paid via RTGS. Compute the 80G deduction.

2. HOW TO READ THE QUESTION

- **Category A (100% no limit):** PMNRF falls here. Entire 100% allowed.
- **Category B (50% no limit):** Jawaharlal Nehru Memorial Fund falls here. 50% allowed.
- **Payment mode:** RTGS (Non-cash) is valid.

3. NOTING OF KEY POINTS (ROUGH WORK)

- PMNRF = 100% of 5L = 5,00,000.
- Nehru Fund = 50% of 2L = 1,00,000.
- Total = 6,00,000.

4. ANSWER AS PER ICMAI SUGGESTED FORMAT

Step 1: Analyze PMNRF Donation
Donations to the Prime Minister's National Relief Fund fall under the category of funds eligible for **100% deduction without any qualifying limit**.
Deduction = 100% of ₹5,00,000 = ₹5,00,000.

Step 2: Analyze Jawaharlal Nehru Memorial Fund
Donations to the Jawaharlal Nehru Memorial Fund, Prime Minister's Drought Relief Fund, and Indira Gandhi Memorial Trust fall under the category eligible for **50% deduction without any qualifying limit**.
Deduction = 50% of ₹2,00,000 = ₹1,00,000.

Conclusion:
Total Deduction u/s 80G = ₹6,00,000.

5. CMA INSIGHTS FOR PRACTICAL LIFE

Corporate entities often mandate CSR (Corporate Social Responsibility) spending. However, CSR expenditure is explicitly disallowed as a business expense u/s 37. Routing CSR through eligible 80G funds is the standard methodology to retrieve the tax shield.

Illustration 12: Donations with Qualifying Limit (Sec 80G)

1. THE QUESTION

Mr. L's Adjusted Gross Total Income (after all other Chapter VI-A deductions except 80G) is ₹15,00,000. He donated ₹2,50,000 to an approved public charitable trust via cheque. Compute 80G deduction.

2. HOW TO READ THE QUESTION

- **Category D (50% with qualifying limit):** Approved public charitable trusts fall here.
- **Qualifying Limit:** 10% of Adjusted GTI.
- **Deduction:** 50% of (Actual donation OR Qualifying limit, whichever is lower).

3. NOTING OF KEY POINTS (ROUGH WORK)

- Adjusted GTI = 15L.
- Qualifying Limit = 10% of 15L = 1,50,000.
- Actual Donation = 2,50,000.
- Eligible Amount = Lower of 1.5L or 2.5L = 1,50,000.
- Deduction = 50% of Eligible Amount = 50% of 1.5L = 75,000.

4. ANSWER AS PER ICMAI SUGGESTED FORMAT

Step 1: Calculate the Qualifying Limit
For donations to approved public charitable trusts, the aggregate donation cannot exceed the qualifying limit, which is **10% of the Adjusted Gross Total Income**.
Qualifying Limit = 10% of ₹15,00,000 = ₹1,50,000.

Step 2: Determine Eligible Donation Amount
Actual Donation = ₹2,50,000.
The eligible donation is restricted to the qualifying limit. Thus, eligible amount = ₹1,50,000.

Step 3: Calculate Final Deduction
Such donations are eligible for a **50%** deduction on the eligible amount.
Deduction = 50% of ₹1,50,000 = **₹75,000**.

5. CMA INSIGHTS FOR PRACTICAL LIFE

To calculate Adjusted GTI computationally: GTI MINUS Long Term Capital Gains MINUS Short Term Capital Gains u/s 111A MINUS all Chapter VI-A deductions (except 80G). Failure to exclude LTCG artificially inflates the 10% limit.

Illustration 13: Donations to Political Parties (Sec 80GGC)

1. THE QUESTION

Mr. M donated ₹50,000 to a registered political party. He paid ₹10,000 in cash and ₹40,000 via a bank draft. (Old Regime). Calculate the deduction.

2. HOW TO READ THE QUESTION

- **Rule 80GGC:** 100% deduction for contributions to registered political parties or electoral trusts.
- **Restriction:** NO deduction is allowed for ANY amount paid in cash.

3. NOTING OF KEY POINTS (ROUGH WORK)

- Cash donation = 10,000 (Disallowed entirely).
- Bank Draft = 40,000 (Fully allowed).

4. ANSWER AS PER ICMAI SUGGESTED FORMAT

Step 1: Identify Statutory Provision
Section 80GGC allows individuals to claim a 100% deduction for amounts contributed to any political party registered under section 29A of the Representation of the People Act, 1951.

Step 2: Apply Cash Restriction
The section explicitly states that no deduction shall be allowed under this section in respect of any sum contributed **by way of cash**.
Cash Contribution = ₹10,000 (Disallowed).
Bank Draft Contribution = ₹40,000 (Allowed).

Conclusion:
Deduction u/s 80GGC = ₹40,000.

5. CMA INSIGHTS FOR PRACTICAL LIFE

While companies claim this under Sec 80GGB, individuals use 80GGC. The absolute ban on cash removes the ₹2,000 cash tolerance limit that exists in Section 80G. For political donations, even a ₹100 cash donation is disallowed.

Illustration 14: Employment of New Workmen (Sec 80JJAA)

1. THE QUESTION

PQR Mfg Ltd (subject to tax audit) hired 50 new regular employees in May 2025 at a salary of ₹20,000 p.m. each. It also hired 10 supervisors at ₹30,000 p.m. each. All payments were made digitally. The company operates under the New Tax Regime (Sec 115BAC). Calculate deduction.

2. HOW TO READ THE QUESTION

- **Regime Check:** 80JJAA is ALLOWED under the New Tax Regime.
- **Eligibility:** Employee salary must be <= ₹25,000 p.m. So supervisors (30k) are excluded.
- **Quantum:** 30% of additional employee cost for 3 years.

3. NOTING OF KEY POINTS (ROUGH WORK)

- Eligible employees = 50.
- Salary per month = 20,000. Months worked in PY (May to Mar) = 11 months.
- Additional cost = 50 * 20,000 * 11 = 1,10,00,000.
- Deduction = 30% of 1.1 Cr = 33,00,000.

4. ANSWER AS PER ICMAI SUGGESTED FORMAT

Step 1: Confirm Regime Applicability
Section 80JJAA is one of the rare Chapter VI-A deductions explicitly permitted under the default New Tax Regime (Section 115BAC).

Step 2: Filter Eligible Employees
The deduction applies only to employees whose total emoluments are **₹25,000 per month or less**, and who participate in the recognized provident fund.

Supervisors (₹30,000 p.m.) = Ineligible.
Regular employees (₹20,000 p.m.) = 50 employees Eligible.

Step 3: Compute Additional Employee Cost
Employed from May 2025 to March 2026 = 11 months. (Condition of min 240 days met).
Total Cost = 50 employees x ₹20,000 x 11 months = ₹1,10,00,000.

Step 4: Compute Deduction
Deduction is 30% of the additional employee cost.
30% of ₹1,10,00,000 = **₹33,00,000**.
(This same deduction will be available in AY 27-28 and AY 28-29 as it is allowed for 3 assessment years).

5. CMA INSIGHTS FOR PRACTICAL LIFE

To claim 80JJAA, the enterprise must be subject to a tax audit u/s 44AB and must file a special CA certificate in Form 10DA. It's a massive tax shield for labor-intensive manufacturing and BPO sectors.

Illustration 15: Interest on Deposits (Sec 80TTA vs 80TTB)

1. THE QUESTION

Mr. S (aged 65) earned: Interest on savings account: ₹15,000. Interest on Bank Fixed Deposits (FD): ₹60,000. His son Mr. T (aged 35) earned: Savings interest: ₹12,000. FD Interest: ₹40,000. Both opted for Old Regime. Compare their deductions.

2. HOW TO READ THE QUESTION

- **Mr. S (Senior Citizen):** Eligible for 80TTB. Covers BOTH savings and FD interest. Max limit = ₹50,000.
- **Mr. T (Non-Senior):** Eligible for 80TTA. Covers ONLY savings interest. Max limit = ₹10,000.

3. NOTING OF KEY POINTS (ROUGH WORK)

- Mr. S Total Interest = 15k + 60k = 75,000. 80TTB Limit = 50,000. Deduction = 50,000.
- Mr. T Total Savings Interest = 12,000. (FD interest ignored). 80TTA Limit = 10,000. Deduction = 10,000.

4. ANSWER AS PER ICMAI SUGGESTED FORMAT

Step 1: Deduction for Senior Citizen (Mr. S)
Mr. S is 65 years old. He is eligible for Section **80TTB**, which covers interest on deposits (both Savings and Fixed Deposits) with banks, post offices, or co-operative societies.
Total Eligible Interest = ₹15,000 + ₹60,000 = ₹75,000.
Maximum statutory limit = ₹50,000.
Deduction for Mr. S = ₹50,000.

Step 2: Deduction for Non-Senior Citizen (Mr. T)
Mr. T is 35 years old. He is eligible only for Section **80TTA**, which strictly covers interest on Savings Accounts only. Interest on Time Deposits (FDs) is not eligible.
Eligible Savings Interest = ₹12,000.
Maximum statutory limit = ₹10,000.
Deduction for Mr. T = ₹10,000.

5. CMA INSIGHTS FOR PRACTICAL LIFE

Both 80TTA and 80TTB are fully abolished under the New Tax Regime. Salaried clients must evaluate if giving up these deductions (along with 80C/80D) is mathematically offset by the lower slab rates of 115BAC.

Illustration 16: Disability Deductions (80U vs 80DD)

1. THE QUESTION

Ms. U is completely blind (100% severe disability). Her gross total income is ₹8 Lakhs. She maintains her dependent sister who suffers from 50% locomotor disability, spending ₹30,000 on her care. (Old Regime). Compute total deductions.

2. HOW TO READ THE QUESTION

- **Rule 80U (Self):** Deduction for a resident individual suffering from a disability. 100% blind = Severe. Flat ₹1,25,000.
- **Rule 80DD (Dependent):** Deduction for maintenance of disabled dependent. 50% = Normal. Flat ₹75,000.

3. NOTING OF KEY POINTS (ROUGH WORK)

- 80U = 1,25,000.
- 80DD = 75,000 (Actual expense irrelevant).
- Total = 2,00,000.

4. ANSWER AS PER ICMAI SUGGESTED FORMAT

Step 1: Deduction for Self (Sec 80U)
Section 80U applies when the assessee themselves suffers from a disability. Since blindness > 80% constitutes 'severe disability', a flat statutory deduction is allowed regardless of actual expenses.
Deduction u/s 80U = ₹1,25,000.

Step 2: Deduction for Dependent (Sec 80DD)
Section 80DD applies to the maintenance of a dependent relative with a disability. The sister's 50% disability falls into the 'normal' bracket (40% to <80%). The actual expenditure of ₹30,000 is irrelevant; the flat deduction applies.
Deduction u/s 80DD = ₹75,000.

Conclusion:
Total Deductions under Chapter VI-A = ₹1,25,000 + ₹75,000 = **₹2,00,000**.

5. CMA INSIGHTS FOR PRACTICAL LIFE

A common point of confusion is whether 80U and 80DD can be claimed simultaneously. They absolutely can, provided they relate to two *different* individuals (self and dependent respectively). However, two people cannot claim 80DD for the same dependent.

Illustration 17: Mega Computation (Adjusted GTI)

1. THE QUESTION

Mr. V's Income: PGBP: ₹10L, STCG u/s 111A: ₹2L, LTCG: ₹3L. He deposited ₹1L in PPF, ₹30k in mediclaim, and donated ₹2L to an approved public charitable trust. (Old Regime). Calculate Total Income.

2. HOW TO READ THE QUESTION

- **GTI:** 10L + 2L + 3L = 15L.
- **80C/80D Deductions:** 1L + 30k (capped at 25k) = 1.25L. Note: These CANNOT be deducted from STCG(111A) or LTCG.
- **80G Limits:** Needs Adjusted GTI. Adjusted GTI = GTI - LTCG - STCG(111A) - All Deductions (except 80G).

3. NOTING OF KEY POINTS (ROUGH WORK)

- GTI = 15,00,000.
- 80C = 1,00,000. 80D = 25,000.
- Adj GTI = 15L - 3L(LTCG) - 2L(STCG) - 1L(80C) - 25k(80D) = 8,75,000.
- 80G Qualifying Limit = 10% of 8.75L = 87,500.
- Actual donation = 2L. Restricted to 87,500.
- 80G Deduction = 50% of 87,500 = 43,750.
- Total Deductions = 1L + 25k + 43,750 = 1,68,750.
- Total Income = 15,00,000 - 1,68,750 = 13,31,250.

4. ANSWER AS PER ICMAI SUGGESTED FORMAT

Step 1: Compute Gross Total Income (GTI)
PGBP (₹10L) + STCG u/s 111A (₹2L) + LTCG (₹3L) = **₹15,00,000**.

Step 2: Basic Deductions
Sec 80C (PPF) = ₹1,00,000.
Sec 80D (Mediclaim) = ₹25,000 (Maximum limit).
(These are valid as PGBP of ₹10L comfortably covers them).

Step 3: Calculate Adjusted GTI for 80G
Adjusted GTI = GTI - LTCG - STCG u/s 111A - Deductions u/s 80C to 80U (except 80G).
Adjusted GTI = ₹15,00,000 - ₹3,00,000 - ₹2,00,000 - ₹1,00,000 - ₹25,000 = **₹8,75,000**.

Step 4: Compute 80G Deduction
Qualifying Limit = 10% of Adjusted GTI = 10% of ₹8,75,000 = ₹87,500.
Donation (₹2L) is restricted to the limit of ₹87,500.
Allowed Deduction = 50% of ₹87,500 = **₹43,750**.

Step 5: Total Taxable Income
Total Income = GTI (₹15,00,000) - Total Deductions (₹1,00,000 + ₹25,000 + ₹43,750)
Total Income = ₹13,31,250.

5. CMA INSIGHTS FOR PRACTICAL LIFE

This algorithm is the hardest to master. The fundamental rule of Indian Taxation is that Chapter VI-A deductions can ONLY be claimed against normal income, never against special rate capital gains or lottery winnings.

Illustration 18: Section 80GGA (Donations for Scientific Research)

1. THE QUESTION

Mr. W, a salaried employee with no business income, donates ₹50,000 in cash to a university approved u/s 35(1)(ii) for scientific research. (Old Regime). Compute deduction.

2. HOW TO READ THE QUESTION

- **Rule 80GGA:** Applicable for non-business assessees. (Business assessees claim it u/s 35).
- **Cash restriction:** Donations exceeding ₹2,000 in cash are completely disallowed.

3. NOTING OF KEY POINTS (ROUGH WORK)

- Assessee: Non-business. 80GGA applies.
- Payment: Cash (50,000).
- Limit: Cash > 2000 disallowed. Deduction = Nil.

4. ANSWER AS PER ICMAI SUGGESTED FORMAT

Step 1: Identify Provision
Section 80GGA allows deductions for donations made for scientific research or rural development, provided the assessee does not have income chargeable under the head PGBP.

Step 2: Evaluate Payment Mode
The section stipulates that no deduction shall be allowed under this section in respect of any sum exceeding ₹2,000 unless such sum is paid by any mode other than cash.
Since the entire ₹50,000 was paid in cash, it violates this restriction.

Conclusion:
Deduction u/s 80GGA = NIL.

5. CMA INSIGHTS FOR PRACTICAL LIFE

The ₹2,000 cash threshold is absolute across 80G and 80GGA. Even an RTGS transfer of ₹500 is preferred over dealing with cash receipt proofs during scrutiny.

Illustration 19: The 80C / 80CCC / 80CCD Limitation

1. THE QUESTION

Mr. X invests ₹1,00,000 in ELSS, ₹40,000 in a pension fund (80CCC), and ₹30,000 in NPS Tier-1 (80CCD(1)). How much is allowed? (Old Regime).

2. HOW TO READ THE QUESTION

- **Aggregation Rule (Sec 80CCE):** The aggregate deduction under sections 80C, 80CCC, and 80CCD(1) shall not exceed ₹1,50,000.

3. NOTING OF KEY POINTS (ROUGH WORK)

- Sum = 1,00,000 + 40,000 + 30,000 = 1,70,000.
- Capped at 1,50,000.

4. ANSWER AS PER ICMAI SUGGESTED FORMAT

Step 1: Sum the Investments
80C (ELSS) = ₹1,00,000
80CCC (Pension Fund) = ₹40,000
80CCD(1) (NPS) = ₹30,000
Total = ₹1,70,000.

Step 2: Apply Sec 80CCE Limit
Section 80CCE places an absolute ceiling on the aggregate amount of deductions under these three specific sub-sections.
Maximum Deduction Allowed = ₹1,50,000.

5. CMA INSIGHTS FOR PRACTICAL LIFE

Advisors should re-allocate the excess ₹20,000 from NPS Tier-1 (80CCD(1)) to NPS Tier-1 (80CCD(1B)) to rescue the deduction, providing a total tax shield of ₹1.7 Lakhs.

Illustration 20: Impact of New Regime on Disabled Dependents

1. THE QUESTION

Mr. Y has a Gross Total Income of ₹10 Lakhs. He spends ₹50,000 on his brother's severe disability care (eligible for ₹1.25L u/s 80DD). He does not opt out of the default regime. What is his Total Income?

2. HOW TO READ THE QUESTION

- **Regime Check:** Default New Tax Regime (Sec 115BAC).
- **80DD Check:** Is 80DD allowed under 115BAC? No.

3. NOTING OF KEY POINTS (ROUGH WORK)

- Default regime invalidates 80DD.
- Total income remains 10 Lakhs.

4. ANSWER AS PER ICMAI SUGGESTED FORMAT

Step 1: Tax Regime Analysis
Under the default New Tax Regime (Section 115BAC) for AY 2026-27, an individual must forego various specified deductions.

Step 2: Section 80DD Applicability
Deductions under Section 80DD (Maintenance of disabled dependent) and Section 80U (Self-disability) are **not allowable** under the New Tax Regime. They are exclusively available under the Old Tax Regime.

Conclusion:
Mr. Y cannot claim the ₹1,25,000 flat deduction.
Total Taxable Income = ₹10,00,000.

5. CMA INSIGHTS FOR PRACTICAL LIFE

For taxpayers with severely disabled dependents, the Old Tax Regime is almost always mathematically superior. The loss of the ₹1.25L flat deduction completely erodes the slight tax slab benefits of the new regime.

Conclusion

Mastering Chapter VI-A deductions is the cornerstone of effective tax planning and compliance. As demonstrated throughout these 20 illustrations, the paradigm has shifted significantly with the advent of the default New Tax Regime (Section 115BAC), which systematically strips away traditional tax shields like 80C, 80D, and 80G, while preserving specific corporate incentives like 80JJAA. For CMA professionals, the challenge is no longer just computing the caps on medical premiums or adjusting Adjusted Gross Total Income for donations; it is running rigorous comparative analytics to determine if sacrificing these deductions is mathematically offset by the lower slab rates. Ensure that these conceptual frameworks are firmly embedded in your computational algorithms to guarantee flawless execution in the upcoming December 2026 examination.

ICMAI PAPER 15

DIRECT TAX LAWS & INTERNATIONAL TAXATION

PART 6: MASTER PROBLEM SOLVER

Chapter 9: Assessment of Companies (MAT) & AMT
(20 Full-Length Exam Illustrations)

Applicable for: December 2026 Examination
Assessment Year: 2026-27 (Previous Year 2025-26)

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Chapter 9: Assessment of Companies (MAT) & AMT

This volume contains 20 highly complex, exam-grade illustrations directly mirroring past ICMAI papers. It strictly covers Section 115JB (MAT) for companies and Section 115JC (AMT) for non-corporate assessees, detailing book profit adjustments, Ind-AS convergence, and credit utilization mechanisms.

Illustration 1: Basic MAT Computation (Statutory Additions)

1. THE QUESTION

ABC Ltd has a Net Profit of ₹200 Lakhs as per its P&L account. The P&L is debited with: Provision for Income Tax (₹30L), Proposed Dividend (₹20L), Provision for Gratuity purely on an ad-hoc basis (₹10L), and Securities Transaction Tax (STT) (₹5L). Compute the Book Profit u/s 115JB.

2. HOW TO READ THE QUESTION

- **Additions to Net Profit:** Income Tax, Dividend, and Unascertained Liabilities (ad-hoc gratuity) must be added back.
- **Exclusions:** STT is an indirect tax and is a valid business expense. It is NOT 'Income Tax'. Hence, do not add it back.

3. NOTING OF KEY POINTS (ROUGH WORK)

- Net Profit = 200L.
- Add: Income Tax = +30L.
- Add: Proposed Dividend = +20L.
- Add: Ad-hoc Gratuity (Unascertained) = +10L.
- STT = Ignore (already deducted, perfectly valid).
- Book Profit = 200 + 30 + 20 + 10 = 260 Lakhs.

4. ANSWER AS PER ICMAI SUGGESTED FORMAT

Step 1: Start with Net Profit
Net Profit as per Statement of P&L = ₹200 Lakhs.

Step 2: Statutory Additions u/s 115JB
- Provision for Income Tax: Added back. Amount = ₹30 Lakhs.
- Proposed Dividend: Added back. Amount = ₹20 Lakhs.
- Provision for Gratuity (Ad-hoc): Since it is not based on actuarial valuation, it is a provision for an unascertained liability. Added back. Amount = ₹10 Lakhs.
- Securities Transaction Tax (STT): STT is not an 'income tax' and is an allowable deduction. No adjustment required.

Conclusion:
Book Profit = ₹200L + ₹30L + ₹20L + ₹10L = **₹260 Lakhs**.

5. CMA INSIGHTS FOR PRACTICAL LIFE

Building tax calculators requires strict parameter mapping. STT, GST, and Custom Duties must never be mapped to the 'Income Tax' add-back array for MAT.

Illustration 2: Depreciation & Revaluation Reserve

1. THE QUESTION

PQR Ltd's P&L shows a Net Profit of ₹150 Lakhs. It is debited with Depreciation of ₹40 Lakhs (which includes ₹15 Lakhs on account of revaluation of assets). Calculate Book Profit.

2. HOW TO READ THE QUESTION

- **Add-back Rule:** Add back the ENTIRE depreciation debited to the P&L (₹40L).
- **Deduction Rule:** Deduct depreciation EXCLUDING the depreciation on revaluation of assets (₹40L - ₹15L = ₹25L).

3. NOTING OF KEY POINTS (ROUGH WORK)

- NP = 150L.
- Add: Total Depr = 40L.
- Less: Depr (excluding reval) = 25L.

• Net effect = +15L. Book Profit = 165L.

4. ANSWER AS PER ICMAI SUGGESTED FORMAT

Step 1: Initial Add-back
As per the MAT provisions, the total amount of depreciation debited to the P&L account must first be added back.
Net Profit = ₹150 Lakhs.
Add: Depreciation = ₹40 Lakhs.
Sub-total = ₹190 Lakhs.

Step 2: Permissible Deduction
The company is allowed to deduct depreciation excluding the depreciation on the revaluation reserve.
Deductible Depreciation = Total Depreciation (₹40L) - Depreciation on Revaluation (₹15L) = ₹25 Lakhs.

Step 3: Book Profit
Book Profit = ₹190 Lakhs - ₹25 Lakhs = **₹165 Lakhs**.

5. CMA INSIGHTS FOR PRACTICAL LIFE

This two-step process mathematically ensures that companies do not artificially deflate their Book Profits by arbitrarily revaluing assets upwards just to claim higher depreciation.

Illustration 3: Withdrawal from Reserves

1. THE QUESTION

DEF Ltd transferred ₹20 Lakhs from General Reserve to its P&L, arriving at a Net Profit of ₹100 Lakhs. Case A: The reserve was created in FY 2012-13 by debiting P&L, when the company paid normal tax (no MAT). Case B: The reserve was created in FY 2015-16, when the company paid MAT. Compute Book Profit for both cases.

2. HOW TO READ THE QUESTION

- **Deletion Rule:** Amount withdrawn from a reserve and credited to P&L is DEDUCTED from Book Profit ONLY IF the reserve was originally created by debiting the P&L account in a year where Book Profits were impacted (i.e., subjected to MAT).

3. NOTING OF KEY POINTS (ROUGH WORK)

- Case A: Reserve not subjected to MAT previously. Cannot deduct. BP = 100L.
- Case B: Reserve was subjected to MAT previously. Can deduct. BP = 100L - 20L = 80L.

4. ANSWER AS PER ICMAI SUGGESTED FORMAT

Step 1: Analyze Case A (Non-MAT Year Creation)
The reserve was created in a year when the company paid normal tax, meaning it did not increase the Book Profit for MAT purposes at that time. Therefore, withdrawing it now cannot reduce the Book Profit.
Book Profit (Case A) = ₹100 Lakhs.

Step 2: Analyze Case B (MAT Year Creation)
The reserve was created in a year when the company paid MAT. This means the creation of the reserve artificially inflated the Book Profit in that past year. To prevent double taxation of MAT, the withdrawal is deducted now.
Less: Withdrawal from Reserve = ₹20 Lakhs.
Book Profit (Case B) = ₹80 Lakhs.

5. CMA INSIGHTS FOR PRACTICAL LIFE

Maintaining a meticulous 'Reserve Ledger' detailing the exact tax regime (Normal vs MAT) in the year of creation is a vital CMA compliance task to shield future withdrawals.

Illustration 4: Set-off of Brought Forward Loss & Depreciation

1. THE QUESTION

GHI Ltd has a Net Profit of ₹300 Lakhs. As per its books of account, it has a brought forward (B/F) business loss of ₹50 Lakhs and unabsorbed depreciation of ₹80 Lakhs. Calculate Book Profit.

2. HOW TO READ THE QUESTION

- **Deletion Rule:** Deduct the amount of B/F Business Loss OR Unabsorbed Depreciation as per the BOOKS OF ACCOUNT, whichever is LESS.

3. NOTING OF KEY POINTS (ROUGH WORK)

- B/F Loss = 50L.
- Unabsorbed Depr = 80L.
- Lesser amount = 50L.
- Book Profit = 300L - 50L = 250 Lakhs.

4. ANSWER AS PER ICMAI SUGGESTED FORMAT

Step 1: Identify Book Values
MAT computations strictly use figures from the books of account, NOT from the Income Tax records.
B/F Business Loss (Books) = ₹50 Lakhs.
Unabsorbed Depreciation (Books) = ₹80 Lakhs.

Step 2: Apply the 'Lesser Of' Rule
Section 115JB explicitly states to deduct the lower of the B/F loss or unabsorbed depreciation.
Lower amount = ₹50 Lakhs.

Step 3: Compute Book Profit
Net Profit = ₹300 Lakhs.
Less: Lower of B/F loss/Depr = ₹50 Lakhs.
Book Profit = ₹250 Lakhs.

5. CMA INSIGHTS FOR PRACTICAL LIFE

If a company has a B/F loss of ₹100 Lakhs but Unabsorbed Depreciation is NIL, the 'lower of' rule means the deduction is NIL. The company gets no relief under MAT.

Illustration 5: Provision for Doubtful Debts

1. THE QUESTION

JKL Ltd's Net Profit is ₹80 Lakhs. The P&L is debited with a 'Provision for Doubtful Debts' of ₹15 Lakhs. Is this added back to compute Book Profit?

2. HOW TO READ THE QUESTION

- **Add-back Rule:** Any amount set aside for provision for diminution in the value of any asset must be added back. Doubtful debts fall squarely into this category.

3. NOTING OF KEY POINTS (ROUGH WORK)

- NP = 80L.
- Add Provision for Doubtful Debts = 15L.
- Book Profit = 95L.

4. ANSWER AS PER ICMAI SUGGESTED FORMAT

Step 1: Statutory Provision
Under Section 115JB(2) Explanation 1(i), any amount set aside as a provision for the diminution in the value of any asset must be added back to the Net Profit. Debtors are an asset, and a provision for bad/doubtful debts reduces their value.

Step 2: Computation
Net Profit = ₹80,00,000.
Add: Provision for Doubtful Debts = ₹15,00,000.
Book Profit = ₹95,00,000.

5. CMA INSIGHTS FOR PRACTICAL LIFE

To bypass this MAT add-back, companies should write off the bad debt completely from the debtors account rather than creating a provision, as actual write-offs are not added back.

Illustration 6: Exempt Incomes under MAT

1. THE QUESTION

MNO Ltd's Net Profit is ₹500 Lakhs. This includes ₹20 Lakhs of agricultural income (exempt u/s 10(1)) and ₹50 Lakhs of income from an SEZ unit (deductible u/s 10AA). The company incurred ₹2 Lakhs expenditure to earn the agricultural income. Calculate Book Profit.

2. HOW TO READ THE QUESTION

- **Deletion Rule:** Incomes exempt under sections 10, 11, or 12 are deducted from Net Profit.
- **Exceptions:** Section 10AA (SEZ income) is explicitly NOT deducted for MAT purposes.
- **Addition Rule:** Any expenditure related to the exempt income (which is deducted) must be added back.

3. NOTING OF KEY POINTS (ROUGH WORK)

- NP = 500L.
- Less: Agricultural Income (Sec 10) = 20L.
- SEZ Income (10AA) = Do not deduct. Remains in Book Profit.
- Add: Expenditure on Ag Income = 2L.
- Book Profit = 500 - 20 + 2 = 482 Lakhs.

4. ANSWER AS PER ICMAI SUGGESTED FORMAT

Step 1: Handle Exempt Incomes
Agricultural income is exempt u/s 10(1). Hence, it must be deducted from Net Profit.
Deduct: ₹20 Lakhs.
However, Section 10AA (SEZ deduction) does not qualify for exclusion from Book Profit. It remains taxable under MAT.

Step 2: Handle Related Expenditures
Since agricultural income is excluded from Book Profit, any expenditure debited to P&L to earn it must be added back.
Add: ₹2 Lakhs.

Step 3: Compute Book Profit
Book Profit = ₹500L (NP) - ₹20L (Exempt Income) + ₹2L (Expense) = **₹482 Lakhs.**

5. CMA INSIGHTS FOR PRACTICAL LIFE

SEZ units enjoy a 100% tax holiday under normal provisions but are fully trapped under the MAT umbrella, forcing them to pay 15% tax and carry it forward as MAT credit.

Illustration 7: Deferred Tax Adjustments

1. THE QUESTION

VWX Ltd's Net Profit is ₹120 Lakhs. The P&L is debited with 'Provision for Deferred Tax' of ₹10 Lakhs. In the previous year, it credited 'Deferred Tax' of ₹5 Lakhs to the P&L. How does deferred tax impact Book Profit in both years?

2. HOW TO READ THE QUESTION

- **Rule:** Add back deferred tax (or provision thereof) if debited to P&L. Deduct deferred tax if credited to P&L.

3. NOTING OF KEY POINTS (ROUGH WORK)

- Current Year: Debited 10L. Must ADD 10L. Book Profit = 130L.
- Previous Year: Credited 5L. Must DEDUCT 5L.

4. ANSWER AS PER ICMAI SUGGESTED FORMAT

Step 1: Treatment of Deferred Tax Debit
Under Section 115JB, if the amount of deferred tax or any provision for deferred tax is debited to the statement of profit and loss, it must be **added back** to the net profit.
Current Year Book Profit = ₹120L + ₹10L = **₹130 Lakhs**.

Step 2: Treatment of Deferred Tax Credit
Conversely, if deferred tax is credited to the statement of profit and loss, it must be **deducted** from the net profit to arrive at the Book Profit for that specific year.

5. CMA INSIGHTS FOR PRACTICAL LIFE

Deferred tax is merely an accounting entry to match timing differences. It does not represent actual cash outflows or inflows, which is why MAT neutralizes its impact entirely.

Illustration 8: MAT Credit Utilization (Sec 115JAA)

1. THE QUESTION

For AY 2026-27, a company's Normal Tax Liability is ₹50 Lakhs. Its MAT Liability (15% of Book Profit) is ₹30 Lakhs. The company has a brought forward MAT Credit of ₹25 Lakhs from AY 2024-25. Calculate the tax payable and the remaining MAT Credit.

2. HOW TO READ THE QUESTION

- **Rule 115JAA:** MAT credit can be utilized ONLY when Normal Tax > MAT.
- **Utilization Limit:** Maximum utilization = Normal Tax - MAT.

3. NOTING OF KEY POINTS (ROUGH WORK)

- Normal Tax = 50L. MAT = 30L.
- Can utilize credit because Normal > MAT.
- Max utilization = 50L - 30L = 20 Lakhs.
- Available credit = 25 Lakhs. Utilize 20 Lakhs.
- Tax Payable = 50L - 20L = 30 Lakhs.
- Remaining MAT Credit to C/F = 25L - 20L = 5 Lakhs.

4. ANSWER AS PER ICMAI SUGGESTED FORMAT

Step 1: Test Applicability for Utilization
Since Normal Tax (₹50L) is greater than the MAT Liability (₹30L), the company is eligible to utilize its accumulated MAT credit.

Step 2: Determine Maximum Utilization
The law restricts credit utilization to the difference between Normal Tax and MAT.
Maximum Utilization = ₹50,00,000 - ₹30,00,000 = ₹20,00,000.

Step 3: Compute Tax Payable
Tax Payable = Normal Tax - MAT Credit Utilized
Tax Payable = ₹50,00,000 - ₹20,00,000 = **₹30,00,000**.

Step 4: Carry Forward Balance
Total Credit available (₹25L) - Utilized (₹20L) = **₹5,00,000** remaining to be carried forward (up to 15 AYs).

5. CMA INSIGHTS FOR PRACTICAL LIFE

Tax calculators must automatically limit MAT credit utilization. A company will *never* pay less than the MAT amount in any given year, regardless of how much MAT credit it possesses.

Illustration 9: Ind-AS Transition Amount

1. THE QUESTION

XYZ Ltd transitioned to Ind-AS. On the convergence date (1-Apr), the transition adjustments recorded in Other Equity showed a net positive balance of ₹100 Lakhs (excluding capital reserve and securities premium). Compute the MAT adjustment for AY 2026-27 (Assume this is Year 3 of transition).

2. HOW TO READ THE QUESTION

- **Ind-AS Rule:** The transition amount recorded in Other Equity on convergence date is added/deducted equally over a period of 5 years (1/5th each year).

3. NOTING OF KEY POINTS (ROUGH WORK)

- Transition Amount = 100L.
- Annual Adjustment = 100L / 5 = 20 Lakhs.
- Since it's a positive balance, ADD 20 Lakhs to Book Profit for Year 3.

4. ANSWER AS PER ICMAI SUGGESTED FORMAT

Step 1: Identify the Transition Amount
The transition amount represents the net adjustments made in retained earnings/other equity on the first-time adoption of Ind-AS. (Excluding items like revaluation reserve, capital reserve, which have separate treatments).
Transition Amount = ₹100 Lakhs.

Step 2: Compute Annual Adjustment
As per Section 115JB(2C), this transition amount must be adjusted equally over a period of **5 years** starting from the year of convergence.
Adjustment per year = ₹100 Lakhs / 5 = ₹20 Lakhs.

Conclusion:
For AY 2026-27 (Year 3), an amount of **₹20 Lakhs** must be ADDED to the Book Profit.

5. CMA INSIGHTS FOR PRACTICAL LIFE

First-time adoption of Ind-AS drastically alters a company's net worth. Spreading the tax impact over 5 years prevents sudden catastrophic MAT outflows for converging corporations.

Illustration 10: Ind-AS OCI (Other Comprehensive Income)

1. THE QUESTION

An Ind-AS compliant company sold an equity investment. The fair value gains on this investment were previously recorded in OCI (not reclassified to P&L) amounting to ₹50 Lakhs. Upon sale in PY 2025-26, how is this ₹50 Lakhs treated for MAT?

2. HOW TO READ THE QUESTION

- **Ind-AS Rule for OCI:** Items in OCI that will NOT be reclassified to P&L are added to Book Profit in the year the underlying asset is realized/disposed of.

3. NOTING OF KEY POINTS (ROUGH WORK)

- Asset disposed in PY 25-26.
- OCI gain = 50L.
- Add 50L to Book Profit in PY 25-26.

4. ANSWER AS PER ICMAI SUGGESTED FORMAT

Step 1: Nature of OCI Item
Under Ind-AS, certain fair value changes (like equity instruments designated through OCI) are never recycled to the P&L account, meaning they escape normal Book Profit completely.

Step 2: Statutory Adjustment
To prevent this loophole, Section 115JB mandates that such OCI items must be included in the Book Profit in the year the asset is retired, disposed of, or realized.

Conclusion:
The entire **₹50 Lakhs** must be ADDED to the Book Profit for the AY 2026-27.

5. CMA INSIGHTS FOR PRACTICAL LIFE

Without this provision, companies could park all their massive investment gains in OCI forever, completely evading both normal tax and MAT.

Illustration 11: Applicability of AMT (Sec 115JC)

1. THE QUESTION

Mr. S (an individual) has a Normal Total Income of ₹18 Lakhs. He claimed deductions u/s 80C (₹1.5L) and 80-IA (₹5L). Compute his Adjusted Total Income (ATI) and state if AMT applies.

2. HOW TO READ THE QUESTION

- **ATI Formula:** Normal Income + Chapter VI-A (Heading C) + 10AA + 35AD - Depreciation.
- **Threshold:** For individuals, AMT applies only if ATI > ₹20 Lakhs.

3. NOTING OF KEY POINTS (ROUGH WORK)

- Normal Income = 18L.
- Add 80-IA (Heading C) = +5L.
- Do NOT add 80C.
- ATI = 18L + 5L = 23 Lakhs.
- Since 23L > 20L, AMT applies.

4. ANSWER AS PER ICMAI SUGGESTED FORMAT

Step 1: Compute Adjusted Total Income (ATI)
ATI is calculated by adding back specific profit-linked deductions to the Normal Total Income.
Normal Total Income = ₹18,00,000.
Add: Deduction u/s 80-IA = ₹5,00,000.
(Note: Section 80C is NOT added back for AMT purposes).
ATI = ₹23,00,000.

Step 2: Check Applicability Threshold
For individuals, HUFs, AOPs, and BOIs, Alternate Minimum Tax (AMT) is applicable only if the Adjusted Total Income exceeds **₹20 Lakhs**.

Conclusion:
Since ATI (₹23L) > ₹20L, **AMT provisions will apply** to Mr. S. He must pay tax at 18.5% on ₹23 Lakhs (if it exceeds his normal tax liability).

5. CMA INSIGHTS FOR PRACTICAL LIFE

The ₹20 Lakh threshold ensures that small retail business owners claiming minor profit-linked deductions are not burdened with complex AMT calculations.

Illustration 12: AMT for Partnership Firms

1. THE QUESTION

A partnership firm has a Normal Total Income of ₹12 Lakhs. It claimed a deduction of ₹4 Lakhs u/s 10AA (SEZ unit). Calculate ATI and check AMT applicability.

2. HOW TO READ THE QUESTION

- **ATI:** 12L + 4L (10AA) = 16 Lakhs.
- **Threshold Check:** Firms and LLPs have NO basic threshold. AMT applies immediately.

3. NOTING OF KEY POINTS (ROUGH WORK)

- ATI = 16 Lakhs.
- AMT rate = 18.5% of 16L.

4. ANSWER AS PER ICMAI SUGGESTED FORMAT

Step 1: Compute Adjusted Total Income (ATI)
Normal Total Income = ₹12,00,000.
Add: Deduction u/s 10AA = ₹4,00,000.
ATI = ₹16,00,000.

Step 2: Check Applicability
Unlike individuals/HUFs, the ₹20 Lakhs threshold does **NOT** apply to Partnership Firms or LLPs. They are subject to AMT irrespective of the quantum of ATI.

Conclusion:
The firm is liable for AMT. AMT Liability = 18.5% of ₹16,00,000 = **₹2,96,000** (+ Surcharge/Cess).

5. CMA INSIGHTS FOR PRACTICAL LIFE

Firms must be highly strategic. If they operate an SEZ unit, they are guaranteed to face AMT, generating AMT credits that might take years to utilize if their normal tax rate (30%) remains high.

Illustration 13: AMT Adjustment for Sec 35AD

1. THE QUESTION

Mr. T's Normal Income is ₹30 Lakhs. He claimed a 100% deduction of ₹50 Lakhs u/s 35AD for building a hospital. Had 35AD not been claimed, normal depreciation u/s 32 on the building would have been ₹5 Lakhs. Compute ATI.

2. HOW TO READ THE QUESTION

- **Rule for 35AD in AMT:** Add back the 35AD deduction. DEDUCT the normal Section 32 depreciation that would have been allowable otherwise.

3. NOTING OF KEY POINTS (ROUGH WORK)

- Normal Income = 30L.
- Add: 35AD = 50L.
- Less: Sec 32 Depr = 5L.
- ATI = 30 + 50 - 5 = 75 Lakhs.

4. ANSWER AS PER ICMAI SUGGESTED FORMAT

Step 1: Statutory Provision for 35AD Adjustment
When calculating ATI, the entire deduction claimed u/s 35AD is added back. However, to maintain equity, the taxpayer is allowed to deduct the normal depreciation u/s 32 that they sacrificed by claiming 35AD.

Step 2: Computation of ATI
Normal Total Income = ₹30,00,000.
Add: Deduction u/s 35AD = ₹50,00,000.
Less: Depreciation allowable u/s 32 = ₹5,00,000.
Adjusted Total Income = **₹75,00,000**.

Conclusion:
Mr. T must calculate 18.5% on ₹75 Lakhs to determine his AMT liability.

5. CMA INSIGHTS FOR PRACTICAL LIFE

This mathematical adjustment prevents extreme double taxation. By deducting the phantom Sec 32 depreciation, the AMT base accurately reflects the true economic income of the specified business.

Illustration 14: AMT and the New Tax Regime (Sec 115BAC)

1. THE QUESTION

Mr. V opts for the New Tax Regime u/s 115BAC. He runs a business eligible for deduction u/s 80-IA. Is he required to compute AMT?

2. HOW TO READ THE QUESTION

- **Regime Interplay:** Section 115BAC requires the taxpayer to forego Chapter VI-A (Heading C) deductions, including 80-IA.
- **AMT Applicability:** If the deduction is ZERO, ATI equals Normal Income. Further, Sec 115JC explicitly states AMT shall not apply to a person who has exercised the option u/s 115BAC.

3. NOTING OF KEY POINTS (ROUGH WORK)

- No deductions claimed.
- Section 115JC neutralized.

4. ANSWER AS PER ICMAI SUGGESTED FORMAT

Step 1: Analyze New Regime Restrictions
Under Section 115BAC, a taxpayer must forego profit-linked deductions under Chapter VI-A (such as 80-IA). Therefore, Mr. V cannot claim the 80-IA deduction in the first place.

Step 2: Statutory Exemption from AMT
The Finance Act explicitly amended Section 115JC to state that the provisions of Alternate Minimum Tax shall **not apply** to an individual, HUF, AOP, BOI, or AJP who has exercised the option to pay tax under the concessional tax regime of Section 115BAC.

Conclusion:
Mr. V is completely exempt from AMT calculations. His tax liability is solely determined by the slab rates of 115BAC.

5. CMA INSIGHTS FOR PRACTICAL LIFE

For retail taxpayers, the New Tax Regime vastly simplifies compliance by entirely eliminating the cumbersome ATI computations and AMT credit tracking.

Illustration 15: AMT Credit (Sec 115JD)

1. THE QUESTION

For AY 2026-27, a Firm's Normal Tax is ₹5 Lakhs. Its AMT is ₹8 Lakhs. The firm has B/F AMT Credit of ₹4 Lakhs from AY 2024-25. Determine tax payable and remaining credit.

2. HOW TO READ THE QUESTION

- **Rule:** AMT Credit can be utilized ONLY when Normal Tax > AMT.
- **Status:** Here, AMT (8L) > Normal Tax (5L).

3. NOTING OF KEY POINTS (ROUGH WORK)

- Normal = 5L. AMT = 8L.
- Payable = Higher of Normal or AMT = 8L.
- Cannot utilize old credit because Normal < AMT.
- New credit generated = 8L - 5L = 3L.
- Total Credit C/F = Old (4L) + New (3L) = 7 Lakhs.

4. ANSWER AS PER ICMAI SUGGESTED FORMAT

Step 1: Determine Current Year Tax Payable
Tax payable is the higher of Normal Tax (₹5L) or AMT (₹8L).
Tax Payable = **₹8,00,000**.

Step 2: Evaluate Credit Utilization
AMT Credit can only be utilized in a year where Normal Tax is GREATER than AMT. Since AMT is higher this year, **no credit can be utilized**.

Step 3: Generate New Credit & Carry Forward
Current Year AMT Credit generated = AMT - Normal Tax = ₹8L - ₹5L = ₹3 Lakhs.
Total Accumulated AMT Credit to be carried forward = B/F Credit (₹4L) + CY Credit (₹3L) = **₹7 Lakhs**.

5. CMA INSIGHTS FOR PRACTICAL LIFE

Firms trapped in continuous AMT cycles accumulate massive credits they can never use. Tax planning requires intentionally shifting investments or delaying 10AA claims to boost normal tax temporarily to flush out credits.

Illustration 16: Foreign Company under MAT

1. THE QUESTION

A foreign company has Book Profits of ₹500 Lakhs. This includes ₹100 Lakhs of Capital Gains on listed securities and ₹50 Lakhs of Royalty income taxed at 10% under a DTAA. It incurred ₹5 Lakhs expenditure to earn these incomes. Compute MAT Book Profit.

2. HOW TO READ THE QUESTION

- **Rule for Foreign Companies:** Capital gains on securities, interest, royalty, and FTS are EXCLUDED from Book Profit if the normal tax rate on these incomes is LESS than the MAT rate (15%).

3. NOTING OF KEY POINTS (ROUGH WORK)

- Capital Gains: Rate is 12.5% or 10% (under 112A/DTAA), which is < 15%. Exclude.
- Royalty: Taxed at 10% (under DTAA). < 15%. Exclude.
- Total Exclusion = 100L + 50L = 150 Lakhs.
- Add back related expenditure = 5 Lakhs.
- Book Profit = 500L - 150L + 5L = 355 Lakhs.

4. ANSWER AS PER ICMAI SUGGESTED FORMAT

Step 1: Statutory Exclusions for Foreign Companies
Section 115JB states that income from capital gains on transactions in securities, interest, royalty, or FTS accruing to a foreign company shall be deducted from Net Profit, provided such income is taxed at a rate lower than 15%.

Step 2: Process Exclusions
Deduct Capital Gains = ₹100 Lakhs.
Deduct Royalty (taxed @ 10%) = ₹50 Lakhs.
Total Deductions = ₹150 Lakhs.

Step 3: Handle Related Expenditure
Expenditure related to excluded income must be added back.
Add: ₹5 Lakhs.

Step 4: Compute Book Profit
Book Profit = ₹500L (NP) - ₹150L + ₹5L = **₹355 Lakhs**.

5. CMA INSIGHTS FOR PRACTICAL LIFE

Foreign Portfolio Investors (FPIs) heavily advocated for this amendment. Without it, their 10%/12.5% concessional treaty rates were being overridden by the 15% MAT, destroying India's competitiveness as an investment hub.

Illustration 17: Sick Industrial Company under MAT

1. THE QUESTION

Z Ltd is a sick industrial company. Its net worth became positive in AY 2026-27. In PY 2025-26, it generated a Net Profit of ₹80 Lakhs. Is this profit subject to MAT?

2. HOW TO READ THE QUESTION

- **Rule:** Profits of a sick industrial company are deducted from Book Profit starting from the year it becomes sick, up to the assessment year in which its net worth becomes positive.

3. NOTING OF KEY POINTS (ROUGH WORK)

- Net worth became positive in AY 26-27.
- Therefore, the profits of PY 25-26 (AY 26-27) are STILL eligible for deduction.
- Book Profit = 80L - 80L = Nil.

4. ANSWER AS PER ICMAI SUGGESTED FORMAT

Step 1: Statutory Provision
Under Section 115JB, the amount of profits of a sick industrial company is deducted from the Net Profit. This deduction is available from the assessment year in which the company became a sick industrial company and ends in the assessment year during which its net worth becomes equal to or exceeds the accumulated losses.

Step 2: Application
Since the net worth became positive in AY 2026-27, the profits of this year are fully deductible.
Net Profit = ₹80 Lakhs.
Less: Sick Company Profits = ₹80 Lakhs.
Book Profit = **NIL.**

5. CMA INSIGHTS FOR PRACTICAL LIFE

This is a life-saving grace period for turnaround companies. Burdening a newly revived sick company with a 15% MAT cash outflow would immediately push it back into insolvency.

Illustration 18: MAT vs Section 115BAA/BAB (Concessional Regimes)

1. THE QUESTION

A domestic manufacturing company opts for the highly concessional tax rate of 15% under Section 115BAB. Its Normal Tax Liability is ₹30 Lakhs. Its MAT Liability comes to ₹45 Lakhs. How much tax should it pay?

2. HOW TO READ THE QUESTION

- **Rule:** Companies opting for Section 115BAA (22%) or Section 115BAB (15%) are COMPLETELY EXEMPT from the provisions of MAT u/s 115JB.

3. NOTING OF KEY POINTS (ROUGH WORK)

- Company opted for 115BAB.
- MAT does not apply.
- Tax payable is purely Normal Tax = 30 Lakhs.

4. ANSWER AS PER ICMAI SUGGESTED FORMAT

Step 1: Identify Regime Interplay
Section 115JB(5A) explicitly states that the provisions of MAT shall not apply to a person who has exercised the option referred to under Section 115BAA or Section 115BAB.

Step 2: Determine Tax Payable
Since the company opted for Section 115BAB, the MAT liability of ₹45 Lakhs is ignored entirely. The company is not required to calculate Book Profit.

Conclusion:
The company will pay the Normal Tax Liability of **₹30 Lakhs**. No MAT credit is generated.

5. CMA INSIGHTS FOR PRACTICAL LIFE

New manufacturing companies should almost universally opt for 115BAB. It not only provides a rock-bottom 15% tax rate but entirely removes the massive compliance headache of Schedule III MAT reconciliations.

Illustration 19: Past Unabsorbed Depreciation under MAT

1. THE QUESTION

A company has Book Profit before adjusting B/F losses of ₹50 Lakhs. Its financial books show: B/F Loss (Excluding Depr): NIL. Unabsorbed Depreciation: ₹20 Lakhs. Compute Book Profit.

2. HOW TO READ THE QUESTION

- **Rule:** Deduct lower of B/F Loss OR Unabsorbed Depr.
- **Catch:** If one of them is NIL, the 'lower' amount is technically NIL.

3. NOTING OF KEY POINTS (ROUGH WORK)

- B/F Loss = 0. Unabsorbed Depr = 20L.
- Lower = 0.
- Deduction = NIL.
- Book Profit = 50 Lakhs.

4. ANSWER AS PER ICMAI SUGGESTED FORMAT

Step 1: Apply the 'Lesser Of' Rule rigidly
Section 115JB allows the deduction of the amount of loss brought forward or unabsorbed depreciation, whichever is less, as per books of account.

Step 2: Compare the Values
Brought Forward Loss = NIL.
Unabsorbed Depreciation = ₹20,00,000.
The lesser of the two is **NIL.**

Conclusion:
Deduction = NIL.
Book Profit = ₹50,00,000.

5. CMA INSIGHTS FOR PRACTICAL LIFE

This anomaly is the biggest pain point for asset-heavy companies. If they wipe out their business loss but carry heavy depreciation, MAT denies them any shelter. Companies often artificially structure their books to ensure both loss and depreciation balances remain above zero.

Illustration 20: Comprehensive MAT vs Normal Tax Calculation

1. THE QUESTION

ABC Ltd has a Net Profit of ₹100 Lakhs. Additions u/s 115JB = ₹40L. Deletions u/s 115JB = ₹20L. Its Total Income under normal IT provisions is ₹30 Lakhs. Calculate final Tax Payable (Assume 30% normal tax rate, ignoring surcharge for simplicity, 4% HEC applies).

2. HOW TO READ THE QUESTION

- **Normal Tax:** 30% of 30L + 4% HEC.
- **Book Profit:** 100L + 40L - 20L = 120L.
- **MAT:** 15% of 120L + 4% HEC.
- **Compare:** Higher of the two.

3. NOTING OF KEY POINTS (ROUGH WORK)

- Normal Tax = 30% of 30L = 9,00,000. Add 4% = 9,36,000.
- Book Profit = 120L.
- MAT = 15% of 120L = 18,00,000. Add 4% = 18,72,000.
- Higher is MAT. Payable = 18,72,000.

4. ANSWER AS PER ICMAI SUGGESTED FORMAT

Step 1: Compute Normal Tax Liability
Total Income = ₹30,00,000.
Tax @ 30% = ₹9,00,000.
Add: HEC @ 4% = ₹36,000.
Normal Tax = ₹9,36,000.

Step 2: Compute MAT Liability
Book Profit = ₹100L + ₹40L - ₹20L = ₹120,00,000.
MAT @ 15% = ₹18,00,000.

Add: HEC @ 4% = ₹72,000.
MAT Liability = **₹18,72,000.**

Step 3: Determine Tax Payable & MAT Credit
Since MAT > Normal Tax, the company will pay **₹18,72,000**.
MAT Credit generated = ₹18,72,000 - ₹9,36,000 = **₹9,36,000** to be carried forward.

5. CMA INSIGHTS FOR PRACTICAL LIFE

When building an end-to-end tax tool, the final output must automatically trigger the 'MAT Credit Generation' ledger entry when MAT exceeds Normal Tax, ensuring accurate deferred tax asset reporting in the balance sheet.

ICMAI PAPER 15

DIRECT TAX LAWS & INTERNATIONAL TAXATION

PART 6: MASTER PROBLEM SOLVER

Chapter 10: Assessment of Trusts & Firms
(20 Full-Length Exam Illustrations)

Applicable for: December 2026 Examination
Assessment Year: 2026-27 (Previous Year 2025-26)

cmaknowledge.in

Chapter 10: Assessment of Trusts, Firms & AOP/BOI

This volume contains 20 highly complex, exam-grade illustrations directly mirroring past ICMAI papers. It rigorously tests the 85% application rule for Trusts, Anonymous Donations (Sec 115BBC), Exit Tax (Sec 115TD), Section 40(b) remuneration limits for Firms, and Maximum Marginal Rate (MMR) applicability for AOPs.

Illustration 1: Trust - Basic 85% Application & 15% Accumulation

1. THE QUESTION

A charitable trust registered u/s 12AB has gross receipts of ₹100 Lakhs in PY 2025-26. It applied ₹75 Lakhs towards charitable purposes in India. It did not file Form 10 for any specific accumulation. Compute its taxable income.

2. HOW TO READ THE QUESTION

- **Rule 11(1)(a):** 15% of gross receipts is UNCONDITIONALLY exempt (statutory accumulation).
- **Balance:** The remaining 85% must be applied. If application falls short of 85%, the shortfall is taxable.

3. NOTING OF KEY POINTS (ROUGH WORK)

- Gross Receipts = 100L.
- 15% Unconditional accumulation = 15L.
- Required to be applied = 85L.
- Actually applied = 75L.
- Shortfall (Taxable) = 85L - 75L = 10 Lakhs.

4. ANSWER AS PER ICMAI SUGGESTED FORMAT

Step 1: Determine Gross Receipts & Exemption
Gross Receipts of the trust = ₹100,00,000.

Less: 15% Statutory Accumulation allowed u/s 11(1)(a) = ₹15,00,000.
Balance required to be applied for charitable purposes = ₹85,00,000.

Step 2: Compare Application with Requirement
Amount actually applied for charitable purposes in India = ₹75,00,000.

Step 3: Compute Taxable Income
Shortfall in application = ₹85,00,000 - ₹75,00,000 = ₹10,00,000.
Taxable Income of the Trust = ₹10,00,000.

5. CMA INSIGHTS FOR PRACTICAL LIFE

Trusts often assume they only need to apply 85% of 'Net' income. The law strictly requires 85% of 'Gross Receipts'. Failure to monitor this causes massive unexpected tax liabilities at the normal slab rates.

Illustration 2: Trust - Treatment of Corpus Donations

1. THE QUESTION

In PY 2025-26, XYZ Trust received ₹50 Lakhs as voluntary contributions. Out of this, ₹20 Lakhs was received with a specific written direction that it shall form part of the corpus. The trust invested this ₹20 Lakhs in a Post Office Savings Bank Account. Compute the income required to be applied.

2. HOW TO READ THE QUESTION

- **Corpus Donation Rule (Sec 11(1)(d)):** Fully exempt IF invested in specified modes under Section 11(5).
- **Section 11(5) Modes:** Post Office Savings Bank is a valid 11(5) mode.
- **Calculation:** Exclude corpus from gross receipts before calculating the 85% application requirement.

3. NOTING OF KEY POINTS (ROUGH WORK)

- Total Receipts = 50L.
- Less: Corpus (Validly invested) = 20L.
- Normal Receipts = 30L.
- 15% Accumulation = 4.5L.

• Required to be applied = 25.5 Lakhs (85% of 30L).

4. ANSWER AS PER ICMAI SUGGESTED FORMAT

Step 1: Check Validity of Corpus Donation
Voluntary contributions made with a specific written direction that they shall form part of the corpus are exempt under Section 11(1)(d), provided they are invested or deposited in the forms or modes specified in Section 11(5).
Since a Post Office Savings Bank Account is an approved mode u/s 11(5), the ₹20 Lakhs corpus donation is fully exempt.

Step 2: Determine Base for 85% Application
Total Receipts = ₹50,00,000.
Less: Exempt Corpus Donation = ₹20,00,000.
Gross Receipts subject to application = ₹30,00,000.

Step 3: Calculate Application Requirement
Less: 15% Statutory Accumulation = ₹4,50,000.
Amount required to be applied = ₹25,50,000.

5. CMA INSIGHTS FOR PRACTICAL LIFE

If the corpus donation is kept in a regular current account or cash box, the exemption u/s 11(1)(d) is forfeited. It instantly becomes normal income requiring 85% application.

Illustration 3: Trust - Form 10 Specific Accumulation (Sec 11(2))

1. THE QUESTION

A trust has gross receipts of ₹80 Lakhs. It applied ₹40 Lakhs. It wants to accumulate ₹20 Lakhs for constructing a library. It files Form 10 electronically before the ITR due date and deposits the ₹20 Lakhs in Govt Bonds. Calculate taxable income.

2. HOW TO READ THE QUESTION

- **Rule 11(2):** If a trust falls short of 85% application, it can accumulate the shortfall for up to 5 years for a specific purpose by filing Form 10 and investing in 11(5) modes.

3. NOTING OF KEY POINTS (ROUGH WORK)

- Gross Receipts = 80L.
- 15% limit = 12L. Balance = 68L.
- Applied = 40L. Shortfall = 28L.
- Sec 11(2) Form 10 Accumulation = 20L.
- Remaining Shortfall = 28L - 20L = 8 Lakhs.

4. ANSWER AS PER ICMAI SUGGESTED FORMAT

Step 1: Determine Shortfall in Application
Gross Receipts = ₹80,00,000.
15% Unconditional Accumulation = ₹12,00,000.
Required Application = ₹68,00,000.
Actual Application = ₹40,00,000.
Shortfall = ₹28,00,000.

Step 2: Evaluate Sec 11(2) Accumulation
The trust has complied with the conditions of Sec 11(2) by filing Form 10 and investing in Govt Bonds (Sec 11(5) mode). Therefore, the specific accumulation is allowed as a deduction.
Allowed Accumulation = ₹20,00,000.

Step 3: Compute Taxable Income
Taxable Income = Shortfall (₹28L) - Allowed Sec 11(2) Accumulation (₹20L).
Taxable Income = ₹8,00,000.

5. CMA INSIGHTS FOR PRACTICAL LIFE

Failure to file Form 10 *before* the due date of filing ITR u/s 139(1) strictly invalidates the accumulation, immediately triggering tax on the entire shortfall.

Illustration 4: Trust - Violation of Sec 11(2) Conditions

1. THE QUESTION

In PY 2020-21, a trust accumulated ₹30 Lakhs u/s 11(2) for building a hospital, with a specified period of 5 years (ending PY 2025-26). By 31-Mar-2026, it had only spent ₹20 Lakhs on the hospital. The balance ₹10 Lakhs remained unutilized. What is the tax consequence for AY 2026-27?

2. HOW TO READ THE QUESTION

- **Rule 11(3):** If accumulated funds u/s 11(2) are not utilized for the specified purpose within the specified period (max 5 years), the unutilized amount becomes taxable in the year IMMEDIATELY FOLLOWING the expiry of the period.
- **Wait:** The period expires in PY 2025-26. Does it tax in PY 25-26 or PY 26-27? The law says it is deemed income of the previous year immediately following the expiry of the period (i.e., PY 2026-27).

3. NOTING OF KEY POINTS (ROUGH WORK)

- Period of 5 years expired on 31-Mar-2026 (PY 25-26).
- Unutilized amount = 10 Lakhs.
- Taxable in the PY immediately following the expiry = PY 2026-27 (AY 2027-28).
- Wait, let's confirm the exact wording: Section 11(3)(c) says it's deemed to be income of the previous year immediately following the expiry of the period. So for AY 2026-27 (PY 25-26), it is NOT YET taxable. It will be taxable next year.

4. ANSWER AS PER ICMAI SUGGESTED FORMAT

Step 1: Analyze Section 11(3) Provisions
Under Section 11(3)(c), if the income accumulated u/s 11(2) is not utilized for the specified purpose during the period of accumulation (max 5 years), the unutilized amount shall be

deemed to be the income of the trust in the **previous year immediately following the expiry of the period**.

Step 2: Determine Year of Taxability
The accumulation period of 5 years expired in the Previous Year 2025-26 (ending 31st March 2026).
Therefore, the unutilized amount will be deemed as income in the next Previous Year, i.e., PY 2026-27 (Assessment Year 2027-28).

Conclusion:
For the current AY 2026-27, the unutilized ₹10 Lakhs is **not taxable**. It will trigger a tax liability in AY 2027-28.

5. CMA INSIGHTS FOR PRACTICAL LIFE

This 1-year grace period gives trusts a brief window to legally petition the CBDT/CIT to allow a change in the 'specified purpose' of the accumulated funds if the original project became unviable.

Illustration 5: Anonymous Donations (Sec 115BBC) - Wholly Charitable Trust

1. THE QUESTION

A wholly charitable trust received total donations of ₹150 Lakhs in PY 2025-26. Out of this, ₹35 Lakhs were anonymous donations (no name/address of donors maintained). The trust applied ₹120 Lakhs for charitable purposes. Compute the tax liability (Assume normal slab rates apply to standard income, ignore surcharge/cess).

2. HOW TO READ THE QUESTION

- **Rule 115BBC:** Anonymous donations are taxed at 30%. Exemption is HIGHER of: (i) 5% of Total Donations, or (ii) ₹1 Lakh.
- **Double counting prevention:** The taxable anonymous donation is REMOVED from normal gross receipts before calculating the 85% application rule.

3. NOTING OF KEY POINTS (ROUGH WORK)

- Total = 150L. Anonymous = 35L.
- Exemption = Higher of (5% of 150L = 7.5L) or 1L. So, 7.5L is exempt.
- Taxable u/s 115BBC @ 30% = 35L - 7.5L = 27.5 Lakhs.
- Normal Receipts = 150L - 27.5L = 122.5 Lakhs.
- Application required = 85% of 122.5L = 104.125 Lakhs.
- Applied = 120 Lakhs. (No shortfall). Normal taxable income = Nil.
- Tax = 30% of 27.5L = 8,25,000.

4. ANSWER AS PER ICMAI SUGGESTED FORMAT

Step 1: Compute Taxable Anonymous Donations
Total Donations = ₹150 Lakhs.
Anonymous Donations = ₹35 Lakhs.
Exemption is higher of: (i) 5% of ₹150L = ₹7.50 Lakhs, OR (ii) ₹1 Lakh.
Exempt Anonymous Donations = ₹7.50 Lakhs.
Taxable Anonymous Donations u/s 115BBC = ₹35L - ₹7.5L = **₹27.50 Lakhs**.

Step 2: Segregate Normal Trust Income
Gross Receipts for normal computation = Total Receipts - Taxable Anonymous Donations.

Gross Receipts = ₹150L - ₹27.5L = ₹122.50 Lakhs.
85% Application Required = 85% of ₹122.50L = ₹104.125 Lakhs.
Amount Actually Applied = ₹120 Lakhs.
Since application exceeds 85%, normal taxable income is **NIL**.

Step 3: Tax Liability
Tax on Anonymous Donations u/s 115BBC = 30% of ₹27.50 Lakhs = **₹8,25,000**. (Add Cess/Surcharge as applicable).

5. CMA INSIGHTS FOR PRACTICAL LIFE

By removing the 30% taxed portion from the gross receipts, the law ensures the trust is not forced to apply 85% of funds that have already been severely depleted by the 30% penal tax.

Illustration 6: Anonymous Donations - Partly Religious Trust

1. THE QUESTION

A trust created for both charitable and religious purposes receives total donations of ₹80 Lakhs. ₹20 Lakhs are anonymous. Out of the ₹20 Lakhs anonymous, ₹8 Lakhs was received specifically with a direction that it is for the educational institution (charitable) run by the trust. The rest was dropped in the temple hundi. Compute taxable anonymous donations.

2. HOW TO READ THE QUESTION

- **Rule 115BBC(2):** Sec 115BBC does NOT apply to wholly religious trusts. For partly religious & partly charitable trusts, 115BBC applies ONLY to anonymous donations specifically directed to any university, educational institution, hospital, or medical institution run by them.

3. NOTING OF KEY POINTS (ROUGH WORK)

- Anonymous for educational institute = 8L. (Falls under 115BBC).
- Anonymous in Hundi = 12L. (Exempt from 115BBC, treated as normal income).
- Total Donations = 80L.
- 115BBC Exemption = Higher of (5% of 80L = 4L) or 1L. Exempt = 4L.
- Taxable u/s 115BBC = 8L - 4L = 4 Lakhs.

4. ANSWER AS PER ICMAI SUGGESTED FORMAT

Step 1: Identify Applicability to Partly Religious Trusts
Under Section 115BBC(2), for a trust established for both charitable and religious purposes, the 30% tax on anonymous donations applies **only** to those anonymous donations made with a specific direction that they are for any educational or medical institution run by the trust. General anonymous donations (like temple Hundi collections) are excluded from 115BBC and treated as normal receipts.

Step 2: Filter Anonymous Donations
Anonymous Donations subject to 115BBC = ₹8 Lakhs (directed to educational institution). The remaining ₹12 Lakhs is treated as normal trust income subject to 85% application rules.

Step 3: Compute Exemption & Tax
Total Donations of the trust = ₹80 Lakhs.
Exemption = Higher of (5% of ₹80L = ₹4 Lakhs) OR ₹1 Lakh. Allowed = ₹4 Lakhs.
Taxable Anonymous Donations u/s 115BBC = ₹8 Lakhs - ₹4 Lakhs = **₹4 Lakhs**.

Conclusion:
₹4 Lakhs will be taxed flat @ 30%. The remaining ₹76 Lakhs (80L - 4L) forms the gross receipts for regular 85% application.

5. CMA INSIGHTS FOR PRACTICAL LIFE

Temples and churches running schools alongside religious activities must maintain meticulously separate donation boxes and accounting ledgers to prevent routine religious offerings from being taxed at 30%.

Illustration 7: Capital Gains of a Trust (Sec 11(1A))

1. THE QUESTION

A charitable trust sold a capital asset (Land) for ₹200 Lakhs in Nov 2025. The cost of acquisition was ₹80 Lakhs (Indexation is ignored for trust CG). The trust purchased another land for its charitable activities for ₹150 Lakhs in March 2026. Calculate the Capital Gains exempt u/s 11(1A) and taxable CG.

2. HOW TO READ THE QUESTION

- **Rule 11(1A):** If the net consideration of a capital asset is utilized for acquiring a new capital asset, the capital gain is exempt.
- **Formula:** If partially reinvested, Exemption = Amount Reinvested MINUS Cost of Old Asset.

3. NOTING OF KEY POINTS (ROUGH WORK)

- Net Consideration = 200L. Cost = 80L. CG = 120L.
- Reinvested = 150L.
- Exemption = Reinvested (150L) - Cost of Old (80L) = 70 Lakhs.
- Taxable CG = Total CG (120L) - Exemption (70L) = 50 Lakhs.

4. ANSWER AS PER ICMAI SUGGESTED FORMAT

Step 1: Compute Gross Capital Gain
Net Consideration (Sales Value) = ₹200 Lakhs.
Less: Cost of Asset = ₹80 Lakhs.
Gross Capital Gain = ₹120 Lakhs.

Step 2: Apply Section 11(1A) Formula
If the net consideration is partially reinvested, the capital gains deemed to have been applied for charitable purposes (exempted) is calculated as:
Exemption = **Cost of New Asset - Cost of Old Asset**
Exemption = ₹150 Lakhs - ₹80 Lakhs = **₹70 Lakhs**.

Step 3: Calculate Taxable Capital Gain
Taxable CG = Gross CG - Exemption
Taxable CG = ₹120 Lakhs - ₹70 Lakhs = **₹50 Lakhs**.

5. CMA INSIGHTS FOR PRACTICAL LIFE

For a trust to claim 100% exemption on capital gains, it must reinvest the ENTIRE sales consideration (₹200L), not just the profit margin (₹120L). This traps massive amounts of liquidity into fixed assets.

Illustration 8: Violation of Section 13(1)(c) - Benefit to Founder

1. THE QUESTION

A charitable trust provided rent-free accommodation in its building to the founder of the trust. The Fair Market Rent of the accommodation is ₹6 Lakhs p.a. The trust's total income is ₹50 Lakhs. Does the trust lose its entire exemption? How is it taxed?

2. HOW TO READ THE QUESTION

- **Rule 13(1)(c):** If any part of the trust's income/property is used for the benefit of specified persons (founder, trustee, >50k contributor), the exemption is forfeited.
- **FA 2022 Amendment (Sec 115BBI):** Instead of entirely denying the exemption on the whole ₹50L, the law now specifically taxes the 'income applied for the benefit of specified person' at the Maximum Marginal Rate (MMR).

3. NOTING OF KEY POINTS (ROUGH WORK)

- Benefit value = 6L.
- Taxed at MMR u/s 115BBI.
- Remaining 44L continues to enjoy Sec 11/12 exemptions subject to 85% rules.

4. ANSWER AS PER ICMAI SUGGESTED FORMAT

Step 1: Identify the Violation
Providing rent-free accommodation to the founder is a direct violation of Section 13(1)(c) read with Section 13(2), as it constitutes using trust property for the benefit of a specified person without adequate compensation.

Step 2: Apply Amended Taxation Rules (Sec 115BBI)
Historically, such a violation would trigger the forfeiture of the entire trust's exemption. However, under the newly inserted Section 115BBI, only the specific income applied in

violation is penalized.
The Fair Market Rent of **₹6,00,000** will be taxed separately at the **Maximum Marginal Rate (MMR)** (approx 39% or as prescribed for the AY).

Step 3: Treatment of Balance Income
The remaining income of the trust (₹50L - ₹6L = ₹44L) will continue to be eligible for exemption under Sections 11 and 12, subject to standard 85% application rules.

5. CMA INSIGHTS FOR PRACTICAL LIFE

This surgical strike by the CBDT protects legitimate charities from losing their registration over minor administrative lapses regarding trustee reimbursements, while heavily punishing the specific illicit transaction.

Illustration 9: Depreciation on Assets Claimed as Application

1. THE QUESTION

XYZ Trust purchased medical equipment for ₹30 Lakhs in PY 2023-24 and claimed the entire amount as 'application of income' in that year. In PY 2025-26, it wishes to claim depreciation of ₹4.5 Lakhs on this equipment. Is this allowed?

2. HOW TO READ THE QUESTION

- **Rule 11(6):** Double deduction is strictly prohibited. If the cost of an asset has already been claimed as an application of income u/s 11, depreciation cannot be claimed on it.

3. NOTING OF KEY POINTS (ROUGH WORK)

- Asset cost claimed as application in 23-24.
- Depreciation claim in 25-26 = Disallowed.

4. ANSWER AS PER ICMAI SUGGESTED FORMAT

Step 1: Statutory Provision
Section 11(6) states that income for the purposes of Section 11 shall be computed without any deduction or allowance in respect of depreciation of an asset, if the acquisition cost of such asset has been claimed as an application of income in the same or any other previous year.

Step 2: Analysis of Facts
The trust already claimed the full capital expenditure of ₹30 Lakhs as an application of income in PY 2023-24, effectively getting a 100% tax shield.

Conclusion:
The trust **cannot** claim the depreciation of ₹4,50,000 in PY 2025-26. Doing so would amount to a double deduction, which is legally barred. The depreciation claim will be disallowed.

5. CMA INSIGHTS FOR PRACTICAL LIFE

Audit software should automatically set the WDV of any asset claimed as 100% 'application' to NIL for Income Tax purposes, preventing accidental double-dipping in subsequent years.

Illustration 10: Exit Tax / Accreted Income (Sec 115TD)

1. THE QUESTION

ABC Educational Trust (registered u/s 12AB) merged with PQR Pvt Ltd (a non-charitable entity) on 1-Oct-2025. On the date of merger, the trust's Balance Sheet showed: Land (FMV: ₹500L, Book Value: ₹100L), Shares (FMV: ₹200L, Book Value: ₹150L), Bank Balance: ₹50L. Total Liabilities: ₹120L. Compute the Accreted Income and the tax payable.

2. HOW TO READ THE QUESTION

- **Rule 115TD:** Merging with a non-charitable entity triggers 'Exit Tax' on Accreted Income.
- **Accreted Income Formula:** Aggregate FMV of total assets MINUS Total Liabilities.
- **Tax Rate:** Maximum Marginal Rate (MMR).

3. NOTING OF KEY POINTS (ROUGH WORK)

- FMV of Assets = 500L (Land) + 200L (Shares) + 50L (Bank) = 750 Lakhs.
- Liabilities = 120 Lakhs.
- Accreted Income = 750L - 120L = 630 Lakhs.
- Tax = 630L * MMR.

4. ANSWER AS PER ICMAI SUGGESTED FORMAT

Step 1: Identify Trigger Event
Under Section 115TD, if a registered trust merges with an entity which is not registered u/s 12AB (like a private limited company), it is deemed to be a conversion into a non-charitable form, triggering Exit Tax.

Step 2: Compute Accreted Income
Accreted Income is the difference between the Aggregate Fair Market Value (FMV) of total assets and total liabilities as on the specified date.
FMV of Total Assets = Land (₹500L) + Shares (₹200L) + Bank Balance (₹50L) = ₹750 Lakhs.

Less: Total Liabilities = ₹120 Lakhs.
Accreted Income = **₹630 Lakhs.**

Step 3: Tax Computation
The Accreted Income is taxed at the **Maximum Marginal Rate (MMR)** (approx 39% or the prescribed peak rate for the AY).
This tax is in addition to any regular income tax payable by the trust and must be paid within 14 days of the merger.

5. CMA INSIGHTS FOR PRACTICAL LIFE

Exit tax prevents 'Charity Washing'—where promoters build massive untaxed wealth within a trust using exemptions, and then merge the trust into their private corporate empire to extract the wealth tax-free.

Illustration 11: Firm - Computation of Book Profit (Sec 40(b))

1. THE QUESTION

LMN & Co., a firm, reports a Net Profit of ₹4,00,000. P&L debits: Partner's Salary: ₹6,00,000, Interest on Capital @ 18%: ₹1,80,000, Depreciation: ₹2,00,000. P&L credits: STCG: ₹1,00,000. Additionally, the firm has Unabsorbed Depreciation u/s 32(2) of ₹1,50,000. Calculate 'Book Profit' for Section 40(b) limits.

2. HOW TO READ THE QUESTION

- **Book Profit formula:** Net Profit + Remuneration + Excess Interest (>12%) - Incomes not taxable under PGBP - Unabsorbed Depreciation u/s 32(2).
- **Catch:** Unabsorbed depreciation MUST be deducted to arrive at Book Profit. Brought Forward Business Loss is NOT deducted.

3. NOTING OF KEY POINTS (ROUGH WORK)

- NP = 4,00,000.
- Add Remuneration = 6,00,000.
- Add Excess Interest (18% - 12% = 6%) = (1.8L / 18) * 6 = 60,000.
- Less STCG (Not PGBP) = 1,00,000.
- Less Unabsorbed Depr = 1,50,000.
- Book Profit = 4L + 6L + 60k - 1L - 1.5L = 8,10,000.

4. ANSWER AS PER ICMAI SUGGESTED FORMAT

Step 1: Standard Add-backs
Net Profit as per P&L = ₹4,00,000.
Add: Remuneration to partners = ₹6,00,000.
Add: Interest on Capital in excess of 12% = (₹1,80,000 / 18%) x 6% = ₹60,000.
Sub-total = ₹10,60,000.

Step 2: Statutory Adjustments for Book Profit
As per Explanation 3 to Section 40(b), 'Book Profit' means net profit computed as per PGBP rules, increased by remuneration.
Less: Incomes taxable under other heads (STCG) = ₹1,00,000.
Less: Unabsorbed Depreciation u/s 32(2) = ₹1,50,000. *(Crucial step: Unabsorbed depreciation reduces Book Profit, but brought forward business loss does not).*

Step 3: Final Book Profit
Book Profit = ₹10,60,000 - ₹2,50,000 = **₹8,10,000**.

5. CMA INSIGHTS FOR PRACTICAL LIFE

Partners often inflate Book Profit to draw maximum tax-free remuneration from the firm. The assessing officer will explicitly slash the Book Profit by deducting unabsorbed depreciation, which subsequently disallows a chunk of the partner's salary.

Illustration 12: Firm - Remuneration Limits

1. THE QUESTION

Using the Book Profit of ₹8,10,000 from Illustration 11, compute the maximum allowable remuneration to the working partners and the taxable income of the firm.

2. HOW TO READ THE QUESTION

- **Rule 40(b):** First ₹3L = 90% or ₹1.5L (whichever is higher). Balance = 60%.

3. NOTING OF KEY POINTS (ROUGH WORK)

- First 3L @ 90% = 2,70,000.
- Balance 5.1L @ 60% = 3,06,000.
- Max Limit = 5,76,000.
- Actual Paid = 6,00,000.
- Allowed = 5,76,000. Disallowed = 24,000.

4. ANSWER AS PER ICMAI SUGGESTED FORMAT

Step 1: Compute Maximum Permissible Limit u/s 40(b)
Book Profit = ₹8,10,000.
On the first ₹3,00,000: 90% = ₹2,70,000.
On the balance ₹5,10,000 (i.e., 8.1L - 3L): 60% = ₹3,06,000.
Maximum Allowable Remuneration = ₹2,70,000 + ₹3,06,000 = **₹5,76,000**.

Step 2: Compare with Actuals
Actual Remuneration Paid = ₹6,00,000.

Allowable Deduction = Lower of Actual or Limit = ₹5,76,000.
Disallowed Remuneration = ₹6,00,000 - ₹5,76,000 = ₹24,000.

Step 3: Compute Firm's Taxable PGBP
Taxable PGBP = Book Profit - Allowable Remuneration
Taxable PGBP = ₹8,10,000 - ₹5,76,000 = **₹2,34,000**.

5. CMA INSIGHTS FOR PRACTICAL LIFE

The ₹24,000 disallowed remuneration is taxed in the hands of the firm at a flat 30%. However, to prevent double taxation, this ₹24,000 is EXEMPT in the personal hands of the partners.

Illustration 13: Interest Paid to Partner in Representative Capacity

1. THE QUESTION

Mr. X is a partner in XYZ Firm representing his HUF (Karta). He advanced a personal loan of ₹10 Lakhs to the firm from his individual funds. The firm paid him 18% interest on this loan. Does the 12% limit u/s 40(b) apply here?

2. HOW TO READ THE QUESTION

- **Explanation 2 to Sec 40(b):** If a person is a partner in a representative capacity (e.g., as Karta of HUF), interest paid to him in his INDIVIDUAL capacity is NOT subject to the 12% ceiling.

3. NOTING OF KEY POINTS (ROUGH WORK)

- Partner capacity = Representative (HUF).
- Loan capacity = Individual.
- Limit = Does not apply. The entire 18% is allowed as a business expense (subject to normal Sec 40A(2) reasonableness).

4. ANSWER AS PER ICMAI SUGGESTED FORMAT

Step 1: Identify the Capacities
Mr. X represents his HUF in the partnership firm. However, the loan was advanced from his personal, individual funds. Thus, his capacity as a partner (representative) differs from his capacity as a lender (individual).

Step 2: Apply Statutory Exception
Explanation 2 to Section 40(b) explicitly states that where an individual is a partner in a representative capacity, interest paid by the firm to such individual in his personal capacity shall **not** be subject to the 12% restriction.

Conclusion:
The entire 18% interest paid to Mr. X is **fully allowable** as a deduction to the firm u/s 36(1)(iii), assuming it meets the general reasonableness test under Sec 40A(2). The 12% cap u/s 40(b) is bypassed.

5. CMA INSIGHTS FOR PRACTICAL LIFE

This is a brilliant tax structuring tool for family businesses. By making the HUF the partner, the individual members can lend money to the firm at higher market interest rates without hitting the 12% disallowance wall.

Illustration 14: Carry Forward of Loss upon Partner's Retirement (Sec 78)

1. THE QUESTION

A, B, and C are equal partners (1:1:1) in a firm. The firm has a Brought Forward Business Loss of ₹6 Lakhs and Unabsorbed Depreciation of ₹3 Lakhs from AY 2024-25. On 1-Apr-2025, C retires. During PY 2025-26, the firm earned ₹10 Lakhs profit. Calculate taxable income.

2. HOW TO READ THE QUESTION

- **Rule 78(2):** Firm cannot c/f the share of business loss belonging to the retired partner.
- **Crucial Exception:** Sec 78(2) does NOT apply to unabsorbed depreciation. Unabsorbed depreciation can be carried forward entirely regardless of constitution changes.

3. NOTING OF KEY POINTS (ROUGH WORK)

- C's share of B/F Loss = 1/3 of 6L = 2L. This 2L lapses.
- Eligible B/F Loss = 6L - 2L = 4 Lakhs.
- Unabsorbed Depr = 3L (Fully eligible, no lapse).
- CY Profit = 10L.
- Less: Eligible B/F Loss (4L) and Unabsorbed Depr (3L).
- Taxable = 10L - 7L = 3 Lakhs.

4. ANSWER AS PER ICMAI SUGGESTED FORMAT

Step 1: Evaluate Brought Forward Business Loss
Under Section 78(2), the share of loss attributable to a retiring partner cannot be carried forward.
Retiring Partner C's share = 1/3rd.
Lapsed Loss = 1/3 of ₹6,00,000 = ₹2,00,000.
Eligible B/F Business Loss = ₹4,00,000.

Step 2: Evaluate Unabsorbed Depreciation
Section 78(2) strictly applies only to 'business losses'. It does not apply to unabsorbed depreciation governed by Sec 32(2). Therefore, the entire unabsorbed depreciation of ₹3,00,000 remains eligible.

Step 3: Compute Taxable Income
Current Year Profit = ₹10,00,000.
Less: Eligible B/F Business Loss = ₹4,00,000.
Less: Unabsorbed Depreciation = ₹3,00,000.
Taxable Income of the Firm = ₹3,00,000.

5. CMA INSIGHTS FOR PRACTICAL LIFE

Partnerships undergoing messy breakups must prioritize writing off unabsorbed depreciation last. Converting operational losses into unabsorbed depreciation secures the tax shield even if partners leave the firm.

Illustration 15: AOP Taxation - Determinate Shares

1. THE QUESTION

An AOP consists of 3 members: P, Q, and R sharing profits in the ratio 2:2:1. The AOP earns ₹15 Lakhs in PY 2025-26. P has personal income of ₹4 Lakhs. Q has ₹2 Lakhs. R has Nil. The AOP does not opt out of the new regime (basic exemption ₹3L). How is the AOP taxed?

2. HOW TO READ THE QUESTION

- **Determinability:** Shares are known (2:2:1).
- **Member Income Check:** Does any member have personal income exceeding the basic exemption limit (₹3 Lakhs)? Yes, P has ₹4 Lakhs.
- **Rule 167B(2):** If shares are determinate AND any member's income > basic limit, the ENTIRE AOP income is taxed at the Maximum Marginal Rate (MMR).

3. NOTING OF KEY POINTS (ROUGH WORK)

- P's income > 3L.
- AOP taxed at MMR.

4. ANSWER AS PER ICMAI SUGGESTED FORMAT

Step 1: Analyze AOP Characteristics
The shares of the members in the AOP are determinate (2:2:1).

Step 2: Test Member's Individual Income
Under the default New Tax Regime, the basic exemption limit is ₹3,00,000. Member P has a personal income of ₹4,00,000, which exceeds the maximum amount not chargeable to tax.

Step 3: Apply Section 167B
As per Section 167B(2), if the shares of the members are determinate and the total income of ANY ONE member (excluding his share from the AOP) exceeds the basic exemption limit, the **entire income of the AOP** shall be charged to tax at the **Maximum Marginal Rate (MMR)**.

Conclusion:
The AOP's total income of ₹15,00,000 will be taxed at MMR (approx 39%, or as notified for the AY).

5. CMA INSIGHTS FOR PRACTICAL LIFE

Structuring a Joint Venture as an AOP is lethal if even a single member is a high-net-worth individual or a profitable company. The entire AOP's profit gets slapped with the peak 39% rate.

Illustration 16: AOP Taxation - Member Taxed at Higher Rate

1. THE QUESTION

Continuing Illustration 15, assume member R is a Foreign Company (taxable at 40%). The shares are still 2:2:1. How will the AOP be taxed now?

2. HOW TO READ THE QUESTION

- **Rule 167B Extension:** If any member is chargeable to tax at a rate HIGHER than the MMR, their proportionate share of AOP income is taxed at that higher rate, and the balance AOP income is taxed at MMR.

3. NOTING OF KEY POINTS (ROUGH WORK)

- R's share = 1/5th of 15L = 3 Lakhs.
- R's rate (40%) > MMR (39%).
- R's share (3L) taxed at 40%.
- Balance 12L taxed at MMR.

4. ANSWER AS PER ICMAI SUGGESTED FORMAT

Step 1: Identify Higher Rate Member
Member R is a foreign company subject to a basic corporate tax rate of 40% (plus applicable surcharge/cess), which is higher than the standard Maximum Marginal Rate (MMR).

Step 2: Apply Proviso to Section 167B
The proviso dictates that if any member is taxable at a rate higher than MMR, the portion of the AOP's income attributable to that member is taxed at that higher rate.
R's share = 1/5th of ₹15,00,000 = ₹3,00,000.

Step 3: Final Tax Configuration for the AOP
- ₹3,00,000 will be taxed at the Foreign Company Rate (>40%).
- The remaining ₹12,00,000 will be taxed at the normal MMR.
(Note: The AOP pays this tax, not the individual members. The members' share of profit from the AOP is subsequently exempt in their personal hands u/s 86).

5. CMA INSIGHTS FOR PRACTICAL LIFE

Foreign entities entering into Indian consortiums (AOPs) must insert indemnity clauses in the JV agreement, ensuring their higher tax bracket doesn't drag the domestic partners into a heavier tax burden.

Illustration 17: Disallowances in AOP / BOI (Sec 40(ba))

1. THE QUESTION

An AOP pays ₹1,00,000 as interest on capital to Member Y. Member Y also took a loan from the AOP and paid ₹40,000 as interest to the AOP. The AOP also paid ₹50,000 as salary to Member Y. Calculate the amount to be disallowed u/s 40(ba) while computing the AOP's business income.

2. HOW TO READ THE QUESTION

- **Rule 40(ba):** Any salary, bonus, commission, or interest paid to a member is DISALLOWED.
- **Interest Exception:** If interest is both paid and received from the same member, only the NET interest paid by the AOP is disallowed.

3. NOTING OF KEY POINTS (ROUGH WORK)

- Salary paid = 50,000. (Fully disallowed).
- Net Interest = Paid (1,00,000) - Received (40,000) = 60,000. (Net disallowed).
- Total disallowance = 50k + 60k = 1,10,000.

4. ANSWER AS PER ICMAI SUGGESTED FORMAT

Step 1: Analyze Salary Payment
Under Section 40(ba), any payment of salary, bonus, commission, or remuneration to a member of an AOP/BOI is strictly not allowed as a deduction.
Disallowance on Salary = ₹50,000.

Step 2: Analyze Interest Payment
For interest, the law permits netting. If the AOP pays interest to a member and also receives interest from the same member, only the **net interest paid** is disallowed.
Interest Paid to Y = ₹1,00,000.
Interest Received from Y = ₹40,000.
Net Interest Paid = ₹60,000.
Disallowance on Interest = ₹60,000.

Conclusion:
Total amount disallowed and added back to AOP's profit = ₹1,10,000.

5. CMA INSIGHTS FOR PRACTICAL LIFE

Unlike Partnership Firms (where salary up to book profit limits and interest up to 12% are allowed), AOPs suffer absolute disallowance of all member payouts, making them structurally inefficient for operational businesses.

Illustration 18: Trust Application Rule with TDS

1. THE QUESTION

A charitable trust raised invoices for ₹100 Lakhs for services related to its charitable objectives. The clients deducted 10% TDS (₹10 Lakhs) and deposited ₹90 Lakhs into the trust's bank account. Does the trust need to apply 85% of ₹100 Lakhs or ₹90 Lakhs to maintain its exemption?

2. HOW TO READ THE QUESTION

- **Law:** The 85% application requirement is strictly calculated on 'Gross Receipts' derived from property held under trust. TDS is deemed to be received by the assessee.

3. NOTING OF KEY POINTS (ROUGH WORK)

- Gross Receipts = 100L.
- Required application = 85% of 100L = 85 Lakhs.

4. ANSWER AS PER ICMAI SUGGESTED FORMAT

Step 1: Define Gross Receipts
Under the Income Tax Act, Tax Deducted at Source (TDS) is treated as income received by the assessee. The fact that only ₹90 Lakhs physically hit the bank account does not alter the gross receipts.

Step 2: Compute Application Requirement
Gross Receipts = ₹100,00,000.
Unconditional accumulation (15%) = ₹15,00,000.
Minimum Application Required (85%) = **₹85,00,000**.

Conclusion:
The trust must apply ₹85 Lakhs towards charitable purposes. If it bases its application on

the net cash received (85% of 90L = 76.5L), it will face a shortfall of ₹8.5 Lakhs which will be heavily taxed.

5. CMA INSIGHTS FOR PRACTICAL LIFE

Many NGO accountants calculate application based on the cash book. Statutory auditors must reconcile the Gross Receipts with Form 26AS to prevent this dangerous compliance failure.

Illustration 19: Trust - Donations received in Kind

1. THE QUESTION

A hospital run by a registered trust receives an ambulance worth ₹30 Lakhs as a donation in kind. How is this treated for the 85% application rule under Section 11?

2. HOW TO READ THE QUESTION

- **Rule:** Donations in kind do not constitute 'receipt of income' in monetary terms for the purpose of the 85% cash application rule, UNLESS they are converted into cash.

3. NOTING OF KEY POINTS (ROUGH WORK)

- Receipt in kind = Not included in Gross Receipts for the 85% calculation.
- Consequently, utilizing the ambulance is NOT treated as an 'application' of income either.

4. ANSWER AS PER ICMAI SUGGESTED FORMAT

Step 1: Nature of Receipt
Donations received in kind (such as an ambulance, land, or medical supplies) do not form part of the 'income derived from property held under trust' in monetary terms for the specific mechanical calculation of the 85% application rule u/s 11(1)(a).

Step 2: Treatment of Application
Since the receipt is not included in the gross monetary income, the mere usage or holding of the ambulance does not count as an 'application' of income.

Conclusion:
The ₹30 Lakhs is completely kept outside the 15% accumulation and 85% application computational matrix, provided it is used directly for the trust's objectives.

5. CMA INSIGHTS FOR PRACTICAL LIFE

If the trust subsequently sells the donated ambulance, the sale proceeds will instantly convert into 'Gross Receipts' for that year, triggering the mandatory 85% application requirement.

Illustration 20: Comprehensive Firm Assessment (Mega PYQ)

1. THE QUESTION

Firm DEF's Net Profit is ₹8,00,000 after debiting: Salary to working partner D: ₹4,00,000. Interest on Capital to Partner E @ 15%: ₹3,00,000. Depreciation: ₹1,50,000. Unabsorbed Depr of past year: ₹1,00,000. Compute the firm's Taxable Income and the taxable amounts in the hands of Partners D and E.

2. HOW TO READ THE QUESTION

- **Firm's Book Profit:** NP + Salary + Excess Int - Unabsorbed Depr.
- **Allowable Salary:** Apply 40(b) limits on Book Profit.
- **Partner Taxability:** Salary/Interest ALLOWED to the firm is TAXABLE for the partner. The share of final profit is EXEMPT for the partner u/s 10(2A).

3. NOTING OF KEY POINTS (ROUGH WORK)

- Excess Int = (3L/15) * 3 = 60,000.
- Book Profit = 8L + 4L + 60k - 1L = 11,60,000.
- Allowable Salary: First 3L @ 90% = 2.7L. Balance 8.6L @ 60% = 5.16L. Max = 7.86L. Actual 4L. Fully allowed.
- Taxable Firm Income = 11.6L - 4L = 7,60,000.
- Partner D gets 4L salary (Taxable as PGBP for D).
- Partner E gets 12% Interest = 2.4L (Taxable as PGBP for E).

4. ANSWER AS PER ICMAI SUGGESTED FORMAT

Step 1: Compute Firm's Book Profit
Net Profit = ₹8,00,000.
Add: Salary to Partner D = ₹4,00,000.
Add: Excess Interest to E (15% - 12% = 3%) = (₹3,00,000 / 15) x 3 = ₹60,000.
Less: Unabsorbed Depreciation = ₹1,00,000.
Book Profit = ₹11,60,000.

Step 2: Allowable Remuneration
Limit: (90% of ₹3L = ₹2.7L) + (60% of ₹8.6L = ₹5.16L) = ₹7,86,000.
Actual paid to D = ₹4,00,000.
Since actual < limit, the entire ₹4,00,000 is allowed.

Step 3: Firm's Taxable Income
Taxable Income = Book Profit (₹11.6L) - Allowable Remuneration (₹4L) = **₹7,60,000**. (Firm pays flat 30% tax on this).

Step 4: Taxability in Hands of Partners
Partner D: Salary received (₹4,00,000) is fully taxable under the head 'PGBP'.
Partner E: Interest allowed to the firm (12% = ₹2,40,000) is taxable under 'PGBP'. The excess 3% (₹60,000) disallowed for the firm is EXEMPT for E.
Both Partners: Their share in the final post-tax profit of ₹7.6L is completely EXEMPT u/s 10(2A).

5. CMA INSIGHTS FOR PRACTICAL LIFE

Partnership taxation prevents double whammies. Whatever the firm successfully deducts as an expense becomes taxable for the partner. Whatever the firm pays tax on (disallowed expenses and final net profit) becomes tax-free for the partner.

ICMAI PAPER 15

DIRECT TAX LAWS & INTERNATIONAL TAXATION

PART 6: MASTER PROBLEM SOLVER

Chapter 11: Tax Deduction & Collection at Source (TDS/TCS) & Advance Tax
(20 Full-Length Exam Illustrations)

Applicable for: December 2026 Examination
Assessment Year: 2026-27 (Previous Year 2025-26)

Chapter 11: TDS, TCS & Advance Tax

This volume contains 20 highly complex, exam-grade illustrations directly mirroring past ICMAI papers. It rigorously covers threshold limits, rate variations, 194Q vs 206C(1H) conflicts, new TDS sections (194R, 194S, 194BA), and Advance Tax Interest computations u/s 234A/B/C.

Illustration 1: Sec 194C - Payments to Contractors

1. THE QUESTION

ABC Ltd made the following payments: (i) ₹28,000 to Mr. X on 15-May-2025 and ₹25,000 on 20-Oct-2025. (ii) ₹45,000 to XYZ Pvt Ltd. (iii) ₹1,50,000 to a goods transporter who owns 8 trucks and furnished his PAN. Determine the TDS obligations.

2. HOW TO READ THE QUESTION

- **Single vs Aggregate Limit:** 194C threshold is ₹30,000 for a single contract, OR ₹1,00,000 in aggregate per year.
- **Rates:** 1% for Individual/HUF; 2% for others (Companies/Firms).
- **Transporter Exception:** If a transporter owns <= 10 goods carriages and furnishes PAN, TDS is NIL.

3. NOTING OF KEY POINTS (ROUGH WORK)

- Mr. X: Single < 30k. Aggregate = 53k (< 1L). No TDS.
- XYZ Pvt Ltd: Single = 45k (>30k). Rate = 2% (Company). TDS = 900.
- Transporter: Owns 8 (<=10) + gave PAN. No TDS.

4. ANSWER AS PER ICMAI SUGGESTED FORMAT

Step 1: Payment to Mr. X (Individual)
Each payment is below the single contract limit of ₹30,000. The aggregate payment (₹53,000) is below the annual limit of ₹1,00,000. Therefore, **No TDS** is required to be deducted.

Step 2: Payment to XYZ Pvt Ltd (Company)
The single payment is ₹45,000, which exceeds the ₹30,000 threshold. Since the payee is a

company, the applicable TDS rate is 2%.
TDS = 2% of ₹45,000 = **₹900**.

Step 3: Payment to Transporter
As per Section 194C(6), no TDS is to be deducted from payments made to a contractor engaged in plying, hiring, or leasing goods carriages, provided he owns ten or fewer goods carriages at any time during the year and furnishes a declaration with his PAN. Since the conditions are met, **No TDS** is required.

5. CMA INSIGHTS FOR PRACTICAL LIFE

Accountants often mistakenly deduct 1% or 2% from transporters just to be safe. This traps the transporter's working capital. Always collect the PAN and the '<=10 vehicles' declaration to legitimately bypass TDS.

Illustration 2: Sec 194J - Professional vs Technical Fees

1. THE QUESTION

DEF Ltd made payments of: (i) ₹35,000 to a CA for professional services. (ii) ₹40,000 to a call center for BPO services. (iii) ₹15,000 as sitting fees to an independent director. Calculate TDS under Section 194J.

2. HOW TO READ THE QUESTION

- **Thresholds:** ₹30,000 per annum for professional/technical fees. NO THRESHOLD for director's sitting fees.
- **Rates:** Professional fees = 10%. Technical fees (including Call Centers & Royalty for cinematographic films) = 2%. Director sitting fees = 10%.

3. NOTING OF KEY POINTS (ROUGH WORK)

- CA: 35k > 30k. Rate = 10%. TDS = 3,500.
- Call Center: 40k > 30k. Rate = 2%. TDS = 800.
- Director: 15k. No threshold. Rate = 10%. TDS = 1,500.

4. ANSWER AS PER ICMAI SUGGESTED FORMAT

Step 1: Payment to Chartered Accountant
The payment (₹35,000) exceeds the ₹30,000 threshold. It is a 'professional service'.
TDS @ 10% = 10% of ₹35,000 = **₹3,500**.

Step 2: Payment to Call Center
The payment (₹40,000) exceeds the ₹30,000 threshold. For operators of call centers (and technical services), a concessional TDS rate applies.
TDS @ 2% = 2% of ₹40,000 = **₹800**.

Step 3: Director's Sitting Fees
Any remuneration, fee, or commission paid to a director (which is not in the nature of salary) is subject to TDS u/s 194J. Crucially, the **₹30,000 threshold does not apply**.
TDS @ 10% = 10% of ₹15,000 = **₹1,500**.

5. CMA INSIGHTS FOR PRACTICAL LIFE

Misclassifying 'Technical Services' as 'Professional Services' results in a 10% TDS deduction instead of 2%, leading to unnecessary cash blockage for IT and call center vendors.

Illustration 3: Sec 194-IA - Sale of Immovable Property

1. THE QUESTION

Mr. G purchased a residential house. The actual consideration paid was ₹48 Lakhs. The Stamp Duty Value (SDV) on the date of registration was ₹55 Lakhs. Compute the TDS obligations.

2. HOW TO READ THE QUESTION

- **194-IA Trigger:** TDS @ 1% is applicable if the consideration OR the SDV of the property is ₹50 Lakhs or more.
- **TDS Base:** The 1% is calculated on the actual consideration OR the SDV, *whichever is higher*.

3. NOTING OF KEY POINTS (ROUGH WORK)

- Actual = 48L. SDV = 55L.
- Trigger met? Yes, because SDV > 50L.
- TDS Base = Higher of 48L or 55L = 55L.
- TDS = 1% of 55L = 55,000.

4. ANSWER AS PER ICMAI SUGGESTED FORMAT

Step 1: Check Threshold Applicability
Section 194-IA requires the buyer of immovable property (other than agricultural land) to deduct TDS @ 1%. This applies if either the consideration paid **OR** the Stamp Duty Value (SDV) is ₹50 Lakhs or more. Since SDV is ₹55 Lakhs, TDS provisions are triggered.

Step 2: Determine the Base for TDS
As per the Finance Act amendment, TDS must be deducted on the consideration paid or the SDV, **whichever is higher**.
Higher amount = ₹55,00,000.

Step 3: Compute TDS
TDS = 1% of ₹55,00,000 = **₹55,000**.
(Mr. G must deduct this amount from the ₹48 Lakhs payout and deposit it using Form 26QB).

5. CMA INSIGHTS FOR PRACTICAL LIFE

Previously, buyers avoided TDS if the actual payment was ₹49 Lakhs, even if the property was worth ₹1 Crore. The amendment mathematically aligns TDS u/s 194-IA with the capital gains valuation u/s 50C.

Illustration 4: Sec 194-IB - Rent Paid by Individuals/HUFs

1. THE QUESTION

Mr. H, a salaried employee (not subject to tax audit), pays rent of ₹60,000 p.m. for his residence from 1-Apr-2025 to 31-Mar-2026. The landlord refused to provide his PAN. Determine the TDS to be deducted and when it should be deducted.

2. HOW TO READ THE QUESTION

- **194-IB Trigger:** Individuals/HUFs not liable to audit must deduct TDS if rent > ₹50,000 p.m.
- **Rate:** Normally 5%. If PAN is missing, 20% u/s 206AA.
- **Special Cap:** The TDS deducted under 206AA (20%) cannot exceed the rent payable for the LAST month of the previous year.

3. NOTING OF KEY POINTS (ROUGH WORK)

- Rent = 60,000 p.m. (> 50k).
- Annual Rent = 7,20,000.
- Normal TDS = 5% of 7.2L = 36,000.
- Since no PAN, rate = 20%. 20% of 7.2L = 1,44,000.
- Cap: Cannot exceed last month's rent = 60,000.
- Therefore, TDS = 60,000. Deducted in March 2026.

4. ANSWER AS PER ICMAI SUGGESTED FORMAT

Step 1: Check Applicability & Rate
Since rent exceeds ₹50,000 per month, Section 194-IB applies. The normal TDS rate is 5%, to be deducted once a year in the last month of the previous year (March) or the last month of tenancy.

Step 2: Apply Non-PAN Provision (Sec 206AA)
Since the landlord did not provide a PAN, Section 206AA applies, pushing the TDS rate to 20%.
TDS calculated = 20% of ₹7,20,000 (Annual Rent) = ₹1,44,000.

Step 3: Apply the Statutory Cap
A crucial proviso to Section 194-IB states that where TDS is deducted at 20% due to the absence of a PAN, the total TDS amount **shall not exceed the rent payable for the last month** of the previous year or tenancy.
Rent for March = ₹60,000.
Final TDS to be deducted = **₹60,000** (deducted entirely from March's rent payout).

5. CMA INSIGHTS FOR PRACTICAL LIFE

This ceiling ensures that the tenant doesn't have to dig into their own pocket to pay the government if the 20% penal TDS exceeds the final month's rent cheque available for deduction.

Illustration 5: Sec 194M - Contractor/Professional payments by Salaried Persons

1. THE QUESTION

Mr. J, a salaried individual, hired a contractor to build his personal house and paid him ₹55 Lakhs during PY 2025-26. He also paid ₹15 Lakhs as commission to a broker for buying the land. Determine his TDS obligations.

2. HOW TO READ THE QUESTION

- **Rule 194M:** Individuals/HUFs not subject to tax audit must deduct TDS @ 5% on payments for contracts, commission, or professional fees if the aggregate payment to a resident exceeds ₹50 Lakhs in a year.

3. NOTING OF KEY POINTS (ROUGH WORK)

- Contract payment = 55L. (>50L). TDS @ 5% applies.
- Commission = 15L. (<50L). No TDS.

4. ANSWER AS PER ICMAI SUGGESTED FORMAT

Step 1: Payment to Contractor
Section 194M requires an individual/HUF (not liable to tax audit) to deduct TDS @ 5% if payments for contract work, commission, brokerage, or professional fees to a resident exceed ₹50,000,000 during the financial year.
Payment to contractor = ₹55,00,000 (Exceeds ₹50L).
TDS = 5% of ₹55,00,000 = **₹2,75,000**.

Step 2: Payment to Broker
Payment as commission = ₹15,00,000.
Since it does not exceed the ₹50 Lakhs threshold individually for that payee, **No TDS** is required on this payment.

5. CMA INSIGHTS FOR PRACTICAL LIFE

Prior to 194M, wealthy salaried individuals could build multi-crore personal mansions without deducting a single rupee of TDS. 194M forces them to act as tax collectors for the government on high-value personal transactions.

Illustration 6: Sec 194N - Cash Withdrawals

1. THE QUESTION

Mr. K withdrew cash from his current account with SBI: ₹40 Lakhs in June, ₹50 Lakhs in October, and ₹30 Lakhs in February. Mr. K has NOT filed his Income Tax Returns for the past 3 years. Compute the TDS the bank must deduct.

2. HOW TO READ THE QUESTION

- **Rule 194N (Defaulters):** For a person who hasn't filed ITR for 3 previous years, the threshold drops to ₹20 Lakhs.
- **Rates for Defaulters:** 2% on withdrawal > ₹20 Lakhs to ₹1 Crore. 5% on withdrawal > ₹1 Crore.

3. NOTING OF KEY POINTS (ROUGH WORK)

- Total withdrawal = 40L + 50L + 30L = 1.2 Crores.
- Up to 20L = Nil.
- 20L to 1 Cr (80 Lakhs) = 2%.
- Above 1 Cr (20 Lakhs) = 5%.

4. ANSWER AS PER ICMAI SUGGESTED FORMAT

Step 1: Check Applicability & Threshold
Since Mr. K has not filed his ITRs for all three preceding assessment years for which the time limit u/s 139(1) has expired, the modified threshold of Section 194N applies.
Total cash withdrawn = 40L + 50L + 30L = ₹1,20,00,000 (1.2 Crores).

Step 2: Compute TDS dynamically
- On first ₹20,00,000: NIL.
- On amount from ₹20 Lakhs to ₹1 Crore (i.e., ₹80,00,000): TDS @ 2% = ₹1,60,000.
- On amount exceeding ₹1 Crore (i.e., ₹20,00,000): TDS @ 5% = ₹1,00,000.

Conclusion:
Total TDS deducted by the bank = ₹1,60,000 + ₹1,00,000 = **₹2,60,000**. (The bank will deduct this progressively as the thresholds are breached during the year).

5. CMA INSIGHTS FOR PRACTICAL LIFE

Banks use automated APIs linked to the Income Tax portal to check the PAN's ITR filing history in real-time before dispensing large cash amounts, instantly adjusting the TDS slab.

Illustration 7: Sec 194-O - E-Commerce Operators

1. THE QUESTION

Amazon (an e-commerce operator) facilitated sales of ₹10 Lakhs for XYZ Retailers (a resident company) and ₹4 Lakhs for Mr. M (a resident individual). Mr. M furnished his PAN/Aadhaar. Compute TDS u/s 194-O.

2. HOW TO READ THE QUESTION

- **Rule 194-O:** E-commerce operator must deduct 1% TDS on the GROSS amount of sales of goods or services facilitated.
- **Exception:** Resident Individual/HUF whose gross sales through the operator are <= ₹5 Lakhs AND who furnishes PAN/Aadhaar.

3. NOTING OF KEY POINTS (ROUGH WORK)

- XYZ Retailers: Company. No exception. TDS = 1% of 10L = 10,000.
- Mr. M: Individual. Sales 4L (<= 5L). Furnished PAN. No TDS.

4. ANSWER AS PER ICMAI SUGGESTED FORMAT

Step 1: Sales for XYZ Retailers (Company)
Under Section 194-O, an e-commerce operator must deduct TDS @ 1% on the gross amount of sales. There is no base exemption limit for corporate sellers.
TDS = 1% of ₹10,00,000 = **₹10,000**.

Step 2: Sales for Mr. M (Individual)
An exception exists for a resident individual or HUF. If the gross amount of sales facilitated through the operator during the previous year does not exceed ₹5,00,000, AND the seller furnishes their PAN or Aadhaar, no TDS is required.
Since Mr. M's sales are ₹4,00,000 and he provided his PAN, **No TDS** is required.

5. CMA INSIGHTS FOR PRACTICAL LIFE

The 1% TDS is on the *Gross* sale amount, even if the e-commerce operator routes the payment directly to the seller via a payment gateway bypassing its own accounts.

Illustration 8: Sec 194Q vs 206C(1H) Conflict (Advanced)

1. THE QUESTION

Company X (Turnover: ₹12 Cr) purchased goods from Company Y (Turnover: ₹8 Cr) worth ₹80 Lakhs. Company X made an advance payment of ₹60 Lakhs in Feb 2026. The goods were delivered, and the invoice was raised in May 2026. Determine the TDS/TCS implications for PY 2025-26.

2. HOW TO READ THE QUESTION

- **Identify Applicability:** Buyer X > 10 Cr. Seller Y < 10 Cr. Only 194Q applies. 206C(1H) does not apply.
- **Point of Taxation 194Q:** At the time of credit to the account OR at the time of payment, whichever is EARLIER.

3. NOTING OF KEY POINTS (ROUGH WORK)

- 194Q applies to Company X.
- Event in PY 25-26: Advance payment of 60L.
- Threshold = 50L. Excess = 10L.
- TDS on advance = 0.1% of 10L = 1,000.

4. ANSWER AS PER ICMAI SUGGESTED FORMAT

Step 1: Check Applicability of Sections
Buyer (Company X) Turnover > ₹10 Cr. Section 194Q applies.
Seller (Company Y) Turnover < ₹10 Cr. Section 206C(1H) does NOT apply.
Therefore, Company X is liable to deduct TDS.

Step 2: Point of Taxation u/s 194Q
TDS must be deducted at the time of credit of such sum to the account of the seller or at the time of payment thereof, **whichever is earlier**.
In PY 2025-26 (Feb 2026), an advance payment of ₹60 Lakhs was made. Since payment occurred before invoicing, TDS is triggered on the advance.

Step 3: Compute TDS
Taxable amount = Total Payment - Threshold = ₹60,00,000 - ₹50,00,000 = ₹10,00,000.
TDS = 0.1% of ₹10,00,000 = **₹1,000**. (To be deducted in Feb 2026).

5. CMA INSIGHTS FOR PRACTICAL LIFE

Deducting TDS on advance payments for goods is a massive ERP configuration challenge. If the system waits for the GRN (Goods Receipt Note) or Invoice in the next financial year, it will result in a compliance default for the current year.

Illustration 9: Sec 194R - Perquisites in Business

1. THE QUESTION

Pharma Ltd sponsored an all-expenses-paid trip to Switzerland worth ₹3 Lakhs for Dr. N (a practitioner) for achieving a sales target. It also gave free medical samples worth ₹15,000 to Dr. O. Compute TDS u/s 194R.

2. HOW TO READ THE QUESTION

- **Rule 194R:** 10% TDS on any benefit or perquisite arising from business or profession if the aggregate value exceeds ₹20,000 in a year.
- **Free Samples Check:** Are free samples a perquisite? Yes, CBDT guidelines confirm it. But check threshold.

3. NOTING OF KEY POINTS (ROUGH WORK)

- Dr. N: Trip = 3L (>20k limit). TDS = 10% of 3L = 30,000.
- Dr. O: Samples = 15k (<20k limit). No TDS.

4. ANSWER AS PER ICMAI SUGGESTED FORMAT

Step 1: Statutory Provision
Section 194R requires any person responsible for providing any benefit or perquisite (whether convertible into money or not) arising from business or the exercise of a profession, to deduct TDS @ 10%, if the value of the benefit exceeds ₹20,000 in the financial year.

Step 2: Benefit to Dr. N
The Switzerland trip is a clear perquisite arising out of professional targets. Value = ₹3,00,000. (Exceeds ₹20,000).
TDS = 10% of ₹3,00,000 = **₹30,000**. (Pharma Ltd must ensure this tax is paid before releasing the tickets).

Step 3: Benefit to Dr. O
While free medical samples are classified as perquisites under CBDT guidelines, the total value provided to Dr. O is ₹15,000, which is below the ₹20,000 statutory threshold.
No TDS is required for Dr. O.

5. CMA INSIGHTS FOR PRACTICAL LIFE

194R radically changed B2B marketing. 'Free' foreign trips are no longer free; the sponsoring company must either ask the doctor for a cheque of ₹30,000 to deposit the TDS, or bear the tax cost themselves (grossing it up).

Illustration 10: Sec 194S & 194BA - Crypto and Online Gaming

1. THE QUESTION

Mr. P won Net Winnings of ₹50,000 from an online rummy platform. He also sold Bitcoin for ₹80,000 (profit was ₹10,000) on a crypto exchange. Determine the TDS.

2. HOW TO READ THE QUESTION

- **Rule 194BA (Online Games):** 30% TDS on Net Winnings at the time of withdrawal or year-end. NO threshold limit.
- **Rule 194S (VDA/Crypto):** 1% TDS on the TRANSFER CONSIDERATION (Sale value), not the profit. Threshold is ₹10k or ₹50k depending on the person. Assume normal person (limit ₹10k).

3. NOTING OF KEY POINTS (ROUGH WORK)

- Online Game: 30% of Net Winnings (50k) = 15,000.
- Crypto: 1% of Consideration (80k) = 800.

4. ANSWER AS PER ICMAI SUGGESTED FORMAT

Step 1: TDS on Online Gaming (Sec 194BA)
TDS must be deducted at **30%** on the Net Winnings from online games. Crucially, there is no minimum monetary threshold for 194BA.
TDS = 30% of ₹50,000 = **₹15,000**.

Step 2: TDS on Virtual Digital Assets (Sec 194S)
TDS is deducted at **1%** on the **Transfer Consideration** (sales value), NOT on the capital gain or profit. The limit is ₹10,000 (or ₹50,000 for specified persons). Since sales value is ₹80,000, TDS applies.
TDS = 1% of ₹80,000 = **₹800**.

5. CMA INSIGHTS FOR PRACTICAL LIFE

Section 194S taxes the gross transaction. A crypto trader executing 100 trades a day will lose 1% of their capital on every single sell order, effectively bleeding their portfolio dry even if they are making trading losses.

Illustration 11: Sec 206C(1G) - LRS and Overseas Tour Packages

1. THE QUESTION

Mr. Q remitted ₹10 Lakhs to his son in the US for his living expenses under the Liberalised Remittance Scheme (LRS). He also bought an overseas tour package to Europe for ₹8 Lakhs from a travel agent. What is the TCS liability for AY 2026-27?

2. HOW TO READ THE QUESTION

- **LRS Remittance:** For purposes other than education/medical, TCS is 20% on the amount exceeding ₹7 Lakhs.
- **Overseas Tour Package:** TCS is 5% up to ₹7 Lakhs, and 20% on the amount exceeding ₹7 Lakhs.

3. NOTING OF KEY POINTS (ROUGH WORK)

- LRS: 10L - 7L = 3L. 20% of 3L = 60,000.
- Tour: First 7L @ 5% = 35,000. Remaining 1L @ 20% = 20,000. Total = 55,000.

4. ANSWER AS PER ICMAI SUGGESTED FORMAT

Step 1: TCS on LRS Remittance
For LRS remittances other than for education or medical treatment, TCS is applicable at **20%** on the amount exceeding the threshold of ₹7 Lakhs in a financial year.
Amount exceeding threshold = ₹10,00,000 - ₹7,00,000 = ₹3,00,000.
TCS = 20% of ₹3,00,000 = **₹60,000**.

Step 2: TCS on Overseas Tour Program Package
As per the latest amendments, the TCS rate on overseas tour packages is **5%** for amounts up to ₹7 Lakhs, and **20%** for amounts exceeding ₹7 Lakhs.
TCS on first ₹7 Lakhs = 5% of ₹7,00,000 = ₹35,000.
TCS on balance ₹1 Lakh = 20% of ₹1,00,000 = ₹20,000.
Total TCS on Tour = ₹55,000.

5. CMA INSIGHTS FOR PRACTICAL LIFE

These steep 20% TCS rates act as an upfront cash-flow deterrent for foreign spending. However, clients can claim this TCS against their final tax liability or obtain a refund when they file their ITR.

Illustration 12: Advance Tax Liability (Senior Citizen Exemption)

1. THE QUESTION

Mr. R (aged 62) has Income from House Property: ₹15 Lakhs and Interest on FDs: ₹5 Lakhs. His estimated tax liability is ₹4,20,000. Is he liable to pay advance tax? What if he also had a PGBP income of ₹50,000?

2. HOW TO READ THE QUESTION

- **Rule 207:** A resident senior citizen (>= 60 years) who does NOT have any income chargeable under the head 'Profits and Gains of Business or Profession' (PGBP) is exempt from paying advance tax.

3. NOTING OF KEY POINTS (ROUGH WORK)

- Case A: No PGBP. Senior citizen. Exempt from advance tax.
- Case B: Has PGBP (50k). Exemption lost. Must pay advance tax on entire income.

4. ANSWER AS PER ICMAI SUGGESTED FORMAT

Step 1: Evaluate Case A (No Business Income)
Mr. R is a resident senior citizen. His income consists solely of House Property and Other Sources. He does not have any income under the head PGBP. As per Section 207, he is **completely exempt** from the payment of advance tax, even though his tax liability exceeds ₹10,000. He can discharge his entire tax liability via self-assessment tax at the time of filing his ITR.

Step 2: Evaluate Case B (With Business Income)
If Mr. R earns even ₹1 from PGBP, the exemption u/s 207 is immediately forfeited. He would be required to pay advance tax in 4 standard installments (15%, 45%, 75%, 100%) on his entire estimated tax liability of ₹4,20,000+.

5. CMA INSIGHTS FOR PRACTICAL LIFE

Retirees heavily trading in F&O (Futures & Options) unwittingly classify themselves as having PGBP income. This revokes their senior citizen advance tax exemption, leading to massive 234B and 234C interest penalties.

Illustration 13: Advance Tax Installments (Sec 44AD)

1. THE QUESTION

Mr. S declares his business income under Section 44AD. His estimated tax liability for PY 2025-26 is ₹2,00,000. What are his advance tax due dates and amounts?

2. HOW TO READ THE QUESTION

- **Rule 211(1)(b):** Assessees declaring income under presumptive taxation (44AD or 44ADA) are required to pay the whole amount of advance tax in a SINGLE installment on or before 15th March.

3. NOTING OF KEY POINTS (ROUGH WORK)

- Single installment: 15th March 2026.
- Amount: 100% of 2,00,000.

4. ANSWER AS PER ICMAI SUGGESTED FORMAT

Step 1: Identify the Special Provision
Normally, taxpayers must pay advance tax in four installments (June, Sept, Dec, March). However, Section 211 provides a special concession to assessees opting for presumptive taxation under Section 44AD (Business) or Section 44ADA (Profession).

Step 2: Determine Due Date and Amount
They are required to pay **100%** of their advance tax in a single installment on or before the **15th of March** of the previous year.
Due Date: 15th March 2026.
Amount to be paid: ₹2,00,000.

(Note: Any tax paid by 31st March is also treated as advance tax paid during the financial year).

5. CMA INSIGHTS FOR PRACTICAL LIFE

This exemption from quarterly installments severely reduces compliance tracking for small businesses. However, note that Section 44AE (Presumptive Transporters) does NOT get this single-installment benefit; they must pay in 4 quarters.

Illustration 14: Interest u/s 234B (Shortfall in Advance Tax)

1. THE QUESTION

Mr. T's assessed tax liability for AY 2026-27 is ₹5,00,000. TDS deducted was ₹50,000. He paid Advance Tax of ₹3,50,000. He filed his return and paid the balance on 15th July 2026. Calculate interest u/s 234B.

2. HOW TO READ THE QUESTION

- **Rule 234B:** Imposed if advance tax paid is LESS than 90% of 'Assessed Tax'.
- **Assessed Tax:** Total Tax Liability - TDS/TCS.
- **Rate:** 1% per month or part of a month from 1st April to the date of actual payment.

3. NOTING OF KEY POINTS (ROUGH WORK)

- Assessed Tax = 5L - 50k = 4,50,000.
- 90% of Assessed Tax = 4,05,000.
- Advance Tax paid = 3,50,000. (Since 3.5L < 4.05L, 234B triggers).
- Shortfall = Assessed Tax - Advance Tax = 4.5L - 3.5L = 1,00,000.
- Months (Apr, May, Jun, Jul) = 4 months.
- Interest = 1% * 1,00,000 * 4 = 4,000.

4. ANSWER AS PER ICMAI SUGGESTED FORMAT

Step 1: Compute Assessed Tax
Assessed Tax = Total Tax - TDS = ₹5,00,000 - ₹50,000 = ₹4,50,000.

Step 2: Check 234B Applicability
Minimum Advance Tax required to avoid 234B = 90% of ₹4,50,000 = ₹4,05,000.
Advance Tax actually paid = ₹3,50,000.
Since ₹3.5L < ₹4.05L, Section 234B is attracted.

Step 3: Calculate Interest
Shortfall = Assessed Tax - Advance Tax Paid = ₹4,50,000 - ₹3,50,000 = ₹1,00,000.
Period of delay: 1st April 2026 to 15th July 2026 (April, May, June, July) = 4 months.
Interest u/s 234B = 1% per month x ₹1,00,000 x 4 months = **₹4,000**.

5. CMA INSIGHTS FOR PRACTICAL LIFE

A classic mistake is calculating 234B on the 90% threshold amount. Interest is always calculated on the TOTAL shortfall from the Assessed Tax, not the shortfall from the 90% limit.

Illustration 15: Interest u/s 234C (Deferment of Installments)

1. THE QUESTION

Mr. U's Assessed Tax is ₹10 Lakhs. He paid advance tax as follows: 15-Jun: ₹1L, 15-Sep: ₹3L, 15-Dec: ₹3L, 15-Mar: ₹3L. Total paid = ₹10L. Calculate interest u/s 234C.

2. HOW TO READ THE QUESTION

- **Rule 234C:** Interest for defaulting on quarterly percentages. Rate is 1% per month for 3 months per quarter (except March, which is 1 month).
- **Safe Harbors:** Jun (12% instead of 15% is fine). Sep (36% instead of 45% is fine).

3. NOTING OF KEY POINTS (ROUGH WORK)

- Q1 (Jun): Req = 15% = 1.5L. Paid = 1L. (1L < 1.2L safe harbor? 12% of 10L is 1.2L. Since 1L < 1.2L, default exists). Shortfall = 1.5L - 1L = 50k. Int = 1% * 50k * 3 = 1,500.
- Q2 (Sep): Req = 45% = 4.5L. Cum Paid = 4L. (4L < 3.6L safe harbor? 36% of 10L is 3.6L. Since 4L > 3.6L, NO DEFAULT for Q2). Int = 0.
- Q3 (Dec): Req = 75% = 7.5L. Cum Paid = 7L. Shortfall = 50k. Int = 1% * 50k * 3 = 1,500.
- Q4 (Mar): Req = 100% = 10L. Cum Paid = 10L. No shortfall. Int = 0.
- Total = 1500 + 0 + 1500 + 0 = 3,000.

4. ANSWER AS PER ICMAI SUGGESTED FORMAT

Step 1: Check Q1 (15th June)
Required (15%) = ₹1,50,000. Paid = ₹1,00,000.
Safe harbor is 12% (₹1,20,000). Since ₹1L < ₹1.2L, 234C triggers.
Shortfall = ₹1.5L - ₹1L = ₹50,000.
Interest = 1% x ₹50,000 x 3 months = **₹1,500**.

Step 2: Check Q2 (15th September)
Required (45%) = ₹4,50,000. Cumulative Paid = ₹4,00,000.
Safe harbor is 36% (₹3,60,000). Since ₹4L > ₹3.6L, there is **NO DEFAULT** for the September quarter. Interest = NIL.

Step 3: Check Q3 (15th December)
Required (75%) = ₹7,50,000. Cumulative Paid = ₹7,00,000.

Shortfall = ₹50,000. (No safe harbor for Dec/Mar).
Interest = 1% x ₹50,000 x 3 months = **₹1,500**.

Conclusion:
Total Interest u/s 234C = ₹1,500 + ₹0 + ₹1,500 = **₹3,000**.

5. CMA INSIGHTS FOR PRACTICAL LIFE

The 12% and 36% safe harbors for June and September prevent taxpayers from being penalized for unpredictable business profits early in the financial year.

Illustration 16: Interplay of 206AA and 206AB

1. THE QUESTION

Mr. V is a contractor who has not filed ITRs for the past 3 years. He also refused to provide his PAN to the client. What TDS rate applies to his contract payment?

2. HOW TO READ THE QUESTION

- **Rule 206AB (Non-Filer):** Higher of 5% or 2x the normal rate (Normal 1% or 2% -> 2x = 2% or 4%). Thus, 206AB rate is 5%.
- **Rule 206AA (No PAN):** 20%.
- **Interplay Rule (206AB(2)):** If both sections apply, the tax shall be deducted at HIGHER of the two rates.

3. NOTING OF KEY POINTS (ROUGH WORK)

- Normal = 1%.
- 206AB = 5%.
- 206AA = 20%.
- Higher = 20%.

4. ANSWER AS PER ICMAI SUGGESTED FORMAT

Step 1: Determine Rate under 206AB (Non-Filer)
Since Mr. V is a specified person (non-filer), the TDS rate u/s 206AB is the higher of: Twice

the rate specified (2% or 4%) OR 5%.
Therefore, the 206AB rate is **5%**.

Step 2: Determine Rate under 206AA (No PAN)
Since Mr. V did not furnish his PAN, the TDS rate u/s 206AA is **20%**.

Step 3: Resolve the Conflict
As per Section 206AB(2), if the provisions of Section 206AA also apply to a specified person, the tax shall be deducted at higher of the two rates.
Higher of 5% and 20% is 20%.
Conclusion: Tax will be deducted at 20%.

5. CMA INSIGHTS FOR PRACTICAL LIFE

These penal sections run concurrently. The government portal flags 'Specified Persons' (non-filers) automatically, shifting the compliance burden onto the deductor to enforce the penal rates.

Illustration 17: TDS on Life Insurance Maturity (Sec 194DA)

1. THE QUESTION

Mr. W received ₹5,00,000 upon maturity of a life insurance policy. The policy is NOT exempt u/s 10(10D) because the premium paid was 20% of the sum assured. The total premiums he paid over the years amounted to ₹3,00,000. Calculate the TDS.

2. HOW TO READ THE QUESTION

- **Rule 194DA:** If maturity is not exempt u/s 10(10D), TDS is deducted at 5% on the INCOME part of the maturity proceeds, NOT the gross amount. Threshold is ₹1 Lakh.

3. NOTING OF KEY POINTS (ROUGH WORK)

- Gross proceeds = 5L (> 1L threshold).
- Income component = Proceeds (5L) - Premiums paid (3L) = 2,00,000.
- TDS = 5% of 2L = 10,000.

4. ANSWER AS PER ICMAI SUGGESTED FORMAT

Step 1: Check Exemption & Threshold
Since the premium exceeded 10% of the sum assured, the maturity proceeds are not exempt u/s 10(10D). Section 194DA applies as the payout (₹5L) exceeds the ₹1,00,000 threshold.

Step 2: Determine the TDS Base (Income Component)
An amendment to Section 194DA changed the TDS base from the 'gross amount' to only the 'income comprised therein'.
Income = Maturity Proceeds - Total Premiums Paid.
Income = ₹5,00,000 - ₹3,00,000 = ₹2,00,000.

Step 3: Calculate TDS
TDS Rate = 5%.
TDS = 5% of ₹2,00,000 = **₹10,000**.

5. CMA INSIGHTS FOR PRACTICAL LIFE

Taxing only the income component u/s 194DA prevents massive cash-flow blockages for taxpayers who would otherwise have 5% deducted on their own principal capital.

Illustration 18: TDS on Dividend vs Mutual Funds (194 vs 194K)

1. THE QUESTION

Mr. Y received ₹6,000 as dividend from an Indian company and ₹8,00,000 as income distributed by a Debt Mutual Fund. Discuss the TDS applicability.

2. HOW TO READ THE QUESTION

- **Sec 194 (Company Dividend):** Threshold is ₹5,000. Rate is 10%.
- **Sec 194K (Mutual Funds):** Threshold is ₹5,000. Rate is 10%. Applies to income distributed, NOT to capital gains on sale of MF units.

3. NOTING OF KEY POINTS (ROUGH WORK)

- Dividend = 6k (>5k). TDS = 600.
- Mutual Fund = 8L (>5k). TDS = 80,000.

4. ANSWER AS PER ICMAI SUGGESTED FORMAT

Step 1: Dividend from Indian Company (Sec 194)
The dividend (₹6,000) exceeds the ₹5,000 threshold for payments made by any mode other than cash.
TDS @ 10% = 10% of ₹6,000 = **₹600**.

Step 2: Income from Mutual Fund (Sec 194K)
Any income distributed by a mutual fund is subject to TDS u/s 194K if it exceeds ₹5,000. The rate is 10%.
TDS @ 10% = 10% of ₹8,00,000 = **₹80,000**.

(Note: Section 194K expressly exempts capital gains arising on the sale/redemption of mutual fund units from TDS. It applies only to dividends/income distributions).

5. CMA INSIGHTS FOR PRACTICAL LIFE

To avoid the 10% TDS drag under 194K, HNIs often opt for 'Growth' plans in mutual funds rather than 'Dividend/IDCW' plans, allowing the wealth to compound tax-deferred until redemption.

Illustration 19: TDS on Salary - Default Regime (Sec 192)

1. THE QUESTION

A company is deducting TDS for its employee whose estimated salary is ₹14 Lakhs. The employee provides proof of ₹1.5L PPF and ₹50k Mediclaim. The employee makes NO declaration regarding tax regimes. How should the employer calculate TDS u/s 192?

2. HOW TO READ THE QUESTION

- **Rule 192 & Circulars:** The employer MUST deduct TDS according to the Default New Tax Regime (Sec 115BAC) UNLESS the employee explicitly submits an intimation opting for the Old Regime.

3. NOTING OF KEY POINTS (ROUGH WORK)

- Intimation given? No.
- Regime = New Regime.
- Deductions (PPF, Mediclaim) = Ignored.
- Standard Deduction = 75,000.
- Taxable Salary = 14L - 75k = 13,25,000.
- Calculate tax on 13.25L via slab rates.

4. ANSWER AS PER ICMAI SUGGESTED FORMAT

Step 1: Determine the Governing Tax Regime
As per CBDT guidelines on Section 192, if an employee does not intimate their employer regarding their choice of tax regime, the employer is legally bound to deduct TDS based on the default **New Tax Regime (Section 115BAC)**.

Step 2: Process the Declarations
Under the New Regime, Chapter VI-A deductions (80C PPF, 80D Mediclaim) are not allowed. The employer must ignore the investment proofs provided. However, the standard deduction of ₹75,000 is allowed.

Step 3: Compute TDS Base
Gross Salary = ₹14,00,000.
Less: Standard Deduction = ₹75,000.
Net Taxable Salary = ₹13,25,000.

The employer will calculate the tax on ₹13.25 Lakhs using the new slab rates, divide it by 12, and deduct it monthly.

5. CMA INSIGHTS FOR PRACTICAL LIFE

HR and Payroll teams must secure written or portal-based declarations from all employees in April. Arbitrarily applying the old regime for employees who submit investment proofs without a formal opt-out declaration violates Section 192.

Illustration 20: Comprehensive TDS/TCS Failure with Interest (Mega PYQ)

1. THE QUESTION

Company Z purchased goods worth ₹100 Lakhs from Supplier S. (Z's turnover = ₹15 Cr, S's turnover = ₹12 Cr). Z failed to deduct TDS u/s 194Q. S filed his return on time, included the ₹100L in his PGBP, and paid all his taxes. What are the consequences for Company Z regarding disallowance u/s 40(a)(ia) and interest?

2. HOW TO READ THE QUESTION

- **Tie-Breaker:** 194Q applies. Z failed.
- **Proviso to 40(a)(ia):** If the payee (S) files ITR, includes the income, and pays the tax, the deductor (Z) is deemed to have deducted and paid the TDS on the date S filed the return. Thus, NO 30% disallowance.
- **Interest u/s 201(1A):** However, Z must pay 1% per month interest from the date TDS was deductible until the date S furnished his return.

3. NOTING OF KEY POINTS (ROUGH WORK)

- 194Q Default occurred.
- S cured the default by paying tax.
- Z escapes 30% disallowance.
- Z must pay 1% p.m. interest u/s 201(1A).

4. ANSWER AS PER ICMAI SUGGESTED FORMAT

Step 1: Identify the Default
Under the tie-breaker rule, Company Z was liable to deduct 0.1% TDS u/s 194Q on ₹50 Lakhs (₹100L - ₹50L). It failed to do so. Generally, this triggers a 30% disallowance of ₹50L u/s 40(a)(ia).

Step 2: Apply the Rescue Proviso
A proviso to Section 40(a)(ia) states that if the deductor fails to deduct tax, but the resident payee (Supplier S) has furnished his ITR, taken the sum into account for computing income, and paid the tax due, the deductor shall be deemed to have complied.
Conclusion: The 30% disallowance (₹15 Lakhs) will NOT be attracted for Company Z.

Step 3: Compute Penalty Interest
While the disallowance is saved, the interest penalty u/s 201(1A) is mandatory. Company Z must pay interest @ 1% per month on the TDS amount (₹5,000) from the date it was deductible to the date Supplier S actually furnished his return of income.

5. CMA INSIGHTS FOR PRACTICAL LIFE

Obtaining a 'CA Certificate' (Form 26A) from the vendor proving they paid their taxes is the ultimate defense strategy for companies trying to avoid brutal 30% disallowances during tax audits due to TDS oversights.

ICMAI PAPER 15

DIRECT TAX LAWS & INTERNATIONAL TAXATION

PART 6: MASTER PROBLEM SOLVER

Chapter 12: Assessment Procedures, Appeals & Penalties
(20 Full-Length Exam Illustrations)

Note: (Assuming your request for Chapter 11 was fulfilled in the previous document, we are advancing to Chapter 12 to maintain sequence).
Applicable for: December 2026 Examination
Assessment Year: 2026-27 (Previous Year 2025-26)

Chapter 12: Assessment Procedures & Penalties

This volume contains 20 highly complex, exam-grade illustrations targeting ITR filing rules, Scrutiny Assessments, Reassessment (148 limits), Appeals to CIT(A)/ITAT, and the strict Penalty regime under Sec 270A.

Illustration 1: Due Dates for Return of Income (Sec 139(1))

1. THE QUESTION

Identify the due date for filing the ITR for AY 2026-27 for the following: (a) Mr. A, a salaried employee. (b) XYZ Ltd, a company. (c) Mr. B, a working partner in XYZ Ltd (Wait, companies don't have working partners. Assume Mr. B is a working partner in PQR Firm, which is subject to tax audit). (d) Mr. C, who is required to furnish a Transfer Pricing report u/s 92E.

2. HOW TO READ THE QUESTION

- **Rule 139(1):** Different classes of taxpayers have specific deadlines: 31st July, 31st October, and 30th November.

3. NOTING OF KEY POINTS (ROUGH WORK)

- (a) Individual (No audit) = 31st July.
- (b) Company = 31st October.
- (c) Working partner of an audited firm = 31st October.
- (d) TP Report cases = 30th November.

4. ANSWER AS PER ICMAI SUGGESTED FORMAT

Step 1: Statutory Provisions u/s 139(1)
The Income Tax Act prescribes absolute deadlines for filing the original return of income for different categories of assessees.

Step 2: Apply to Scenarios
(a) **Mr. A (Salaried):** For individuals not subject to any tax audit, the due date is **31st July**

2026.
(b) **XYZ Ltd (Company):** For all corporate assessees, irrespective of audit, the due date is **31st October 2026**.
(c) **Mr. B (Working Partner):** For a working partner of a firm whose accounts are required to be audited, the due date aligns with the firm, i.e., **31st October 2026**.
(d) **Mr. C (Transfer Pricing):** Any assessee required to furnish an accountant's report under Section 92E for international transactions has an extended due date of **30th November 2026**.

5. CMA INSIGHTS FOR PRACTICAL LIFE

Missing these precise deadlines triggers late fees u/s 234F, penal interest u/s 234A, and forfeits the right to carry forward most business and capital losses.

Illustration 2: Belated Return (Sec 139(4))

1. THE QUESTION

Mr. D missed his ITR due date of 31st July 2026. What is the absolute last date by which he can file a Belated Return for AY 2026-27? What are the consequences?

2. HOW TO READ THE QUESTION

- **Rule 139(4):** A belated return can be filed before 31st December of the relevant assessment year, OR before the completion of assessment, whichever is earlier.
- **Consequences:** Late fees (234F), Interest (234A), and loss of carry-forward rights.

3. NOTING OF KEY POINTS (ROUGH WORK)

- AY is 26-27.
- Last date = 31st December 2026.

4. ANSWER AS PER ICMAI SUGGESTED FORMAT

Step 1: Determine the Time Limit
As per Section 139(4), any person who has not furnished a return within the time allowed u/s 139(1) may furnish a belated return at any time before **31st December of the relevant Assessment Year** or before the completion of the assessment, whichever is

earlier.
For AY 2026-27, the last date is **31st December 2026**.

Step 2: List the Consequences
1. **Late Fee u/s 234F:** ₹5,000 (Reduced to ₹1,000 if total income <= ₹5 Lakhs).
2. **Interest u/s 234A:** 1% per month on the outstanding tax liability.
3. **Loss of Carry Forward:** Business losses (Sec 72) and Capital losses (Sec 74) cannot be carried forward. (Note: House Property loss and unabsorbed depreciation can still be carried forward).

5. CMA INSIGHTS FOR PRACTICAL LIFE

Many taxpayers assume they can file belated returns until March 31st. The deadline was permanently shortened to December 31st to accelerate the processing cycle of the tax department.

Illustration 3: Revised Return (Sec 139(5))

1. THE QUESTION

Mr. E filed his ITR on time on 15-Jul-2026. In October, he realized he forgot to declare Bank FD interest of ₹40,000. He wishes to file a Revised Return. What is the deadline? Can he revise a belated return?

2. HOW TO READ THE QUESTION

- **Rule 139(5):** If an assessee discovers any omission or wrong statement, they can furnish a revised return.
- **Time limit:** Same as belated return (31st Dec of AY).
- **Eligibility:** YES, a belated return CAN be revised.

3. NOTING OF KEY POINTS (ROUGH WORK)

- Original filed on time. Revision allowed.
- Deadline = 31st Dec 2026.
- Belated returns can also be revised under current law.

4. ANSWER AS PER ICMAI SUGGESTED FORMAT

Step 1: Identify Statutory Provision
Section 139(5) allows an assessee to file a revised return if they discover any omission or wrong statement in a return filed under section 139(1) or section 139(4) (Belated Return).

Step 2: Determine Time Limit
The revised return can be filed at any time before **31st December of the relevant assessment year** or before the completion of the assessment, whichever is earlier.
For AY 2026-27, Mr. E must file the revised return by **31st December 2026**.

Conclusion:
Yes, he can revise his return to include the FD interest. Also, under current provisions, even a return filed belatedly u/s 139(4) can be subsequently revised.

5. CMA INSIGHTS FOR PRACTICAL LIFE

Filing a revised return replaces the original return completely. However, if the AO proves the omission was intentional concealment rather than a bona-fide mistake, penalty u/s 270A (Misreporting) can still be initiated.

Illustration 4: Updated Return (Sec 139(8A)) - Time Limits

1. THE QUESTION

Ms. F failed to file her ITR for AY 2024-25 (Due date was 31-Jul-2024, Belated limit was 31-Dec-2024). In August 2026, she wants to declare income and pay tax. Can she file an Updated Return? What is the absolute deadline?

2. HOW TO READ THE QUESTION

- **Rule 139(8A):** Any person can file an updated return whether they filed an original/belated/revised return or not.
- **Time Limit:** Within 24 months from the END of the relevant Assessment Year.

3. NOTING OF KEY POINTS (ROUGH WORK)

- AY is 2024-25.
- End of AY = 31-Mar-2025.
- 24 months from end of AY = 31-Mar-2027.
- Current date = Aug 2026. It is within the limit.

4. ANSWER AS PER ICMAI SUGGESTED FORMAT

Step 1: Check Applicability of Updated Return (U-ITR)
Section 139(8A) allows taxpayers to voluntarily update their returns to declare previously undisclosed income and pay the applicable tax, thus avoiding scrutiny and heavy penalties. It can be filed even if no original return was filed.

Step 2: Calculate the Absolute Deadline
The time limit to file a U-ITR is **24 months from the end of the relevant Assessment Year**.
Relevant AY: 2024-25.
End of AY: 31st March 2025.
24 months from 31st March 2025 = **31st March 2027**.

Conclusion:
Since August 2026 falls before the 31-Mar-2027 deadline, Ms. F is fully eligible to file an Updated Return for AY 2024-25.

5. CMA INSIGHTS FOR PRACTICAL LIFE

The Updated Return facility is a permanent amnesty scheme. However, it CANNOT be used to declare a loss, decrease total tax liability, or claim a refund.

Illustration 5: Updated Return - Additional Tax (25% vs 50%)

1. THE QUESTION

Following Illustration 4, Ms. F calculates her pending tax + interest for AY 2024-25 to be ₹1,00,000. She plans to file the Updated Return in August 2026. Calculate the 'Additional Tax' she must pay u/s 140B.

2. HOW TO READ THE QUESTION

- **Rule 140B:** Additional tax is payable when filing U-ITR.
- **Rates:** 25% if filed within 12 months from end of AY. 50% if filed between 12 to 24 months from end of AY.

3. NOTING OF KEY POINTS (ROUGH WORK)

- End of AY 24-25 = 31-Mar-2025.
- 12 months end on = 31-Mar-2026.
- 24 months end on = 31-Mar-2027.
- Filing in Aug 2026 means she is in the 12-24 month window.
- Additional Tax = 50% of (Tax + Interest).

4. ANSWER AS PER ICMAI SUGGESTED FORMAT

Step 1: Determine the Filing Window
End of AY 2024-25 is 31.03.2025.
- Window 1 (Up to 12 months): 01.04.2025 to 31.03.2026.
- Window 2 (12 to 24 months): 01.04.2026 to 31.03.2027.
Since Ms. F is filing in August 2026, she falls into **Window 2**.

Step 2: Apply Additional Tax Rate (Sec 140B)
For returns updated within 12 months, the additional tax is 25% of the aggregate tax and interest. For returns updated after 12 months but before 24 months, the additional tax is **50%** of the aggregate tax and interest.
Additional Tax = 50% of ₹1,00,000 = **₹50,000**.

Conclusion:
Total amount payable by Ms. F before filing the U-ITR = Tax & Interest (₹1,00,000) + Additional Tax (₹50,000) = **₹1,50,000**.

5. CMA INSIGHTS FOR PRACTICAL LIFE

Delaying the U-ITR beyond March 31st doubles the penal additional tax. Advising clients to clear undisclosed income before the 12-month window closes saves them 25% in hard cash.

Illustration 6: Defective Return (Sec 139(9))

1. THE QUESTION

XYZ Ltd filed its ITR without paying the self-assessment tax of ₹2 Lakhs. The Assessing Officer issued a notice declaring the return defective. What is the timeline to rectify this, and what happens if the company fails?

2. HOW TO READ THE QUESTION

- **Rule 139(9):** A return is defective if taxes are unpaid, audit reports are missing, or mandatory annexures are incomplete.
- **Timeline:** Must rectify within 15 days from the date of intimation.

3. NOTING OF KEY POINTS (ROUGH WORK)

- Notice issued for unpaid tax. Defective return.
- 15 days to rectify (pay tax and resubmit).
- Failure = Return treated as INVALID (as if never filed).

4. ANSWER AS PER ICMAI SUGGESTED FORMAT

Step 1: Identify Defect
Under Section 139(9), a return of income is considered defective if, among other things, the tax together with interest payable on self-assessment has not been paid on or before the date of furnishing the return.

Step 2: Timeline for Rectification
The Assessing Officer gives the assessee an opportunity to rectify the defect within a period of **15 days** from the date of such intimation. (The AO has the discretionary power to extend this period on an application made by the assessee).

Step 3: Consequence of Failure

If the defect is not rectified within the given 15 days (or extended period), the return shall be treated as an **invalid return**. The provisions of the Act will apply as if the assessee had **never filed a return**, triggering severe consequences like Best Judgment Assessment u/s 144 and massive penalties.

5. CMA INSIGHTS FOR PRACTICAL LIFE

Never upload an ITR XML/JSON file assuming you can pay the self-assessment tax 'next week'. The system will instantly flag it as defective, jeopardizing the filing date.

Illustration 7: Intimation u/s 143(1) - Automated Adjustments

1. THE QUESTION

Mr. G filed his ITR claiming a deduction of ₹1,50,000 u/s 80C. However, his Form 16 from the employer only showed ₹1,00,000. He also claimed a business loss carry-forward, but his return was filed belatedly on 20th August. What automated adjustments will CPC make u/s 143(1)?

2. HOW TO READ THE QUESTION

- **Rule 143(1):** CPC automatically adjusts arithmetical errors, incorrect claims apparent from information in the return, and disallows carry-forward of losses if the return is belated.

3. NOTING OF KEY POINTS (ROUGH WORK)

- 80C mismatch: If the claim is inconsistent with Form 16/26AS, CPC *might* propose an adjustment, but usually, Section 143(1)(a)(ii) allows adjustments for incorrect claims *apparent from the return itself*. A mismatch with Form 16 triggers a proposed adjustment notice.
- Belated Return Loss: Explicitly covered u/s 143(1)(a)(iv) - disallowance of loss claimed if return is filed beyond 139(1) due date.

4. ANSWER AS PER ICMAI SUGGESTED FORMAT

Step 1: Adjustment for Belated Loss Claim
Under Section 143(1)(a)(iv), if a return is filed after the due date specified under Section 139(1), the Central Processing Centre (CPC) will automatically disallow the carry-forward of business losses. Since Mr. G filed on 20th August (late), the system will strip away this loss carry-forward.

Step 2: Adjustment for 80C Mismatch
Under Section 143(1)(a)(vi), adjustments are made for addition of income appearing in Form 26AS/Form 16/Form 16A which has not been included in computing total income. However, regarding deductions (like 80C), if an assessee claims more than Form 16, CPC issues a preliminary intimation proposing the adjustment. If the taxpayer provides proof of the extra ₹50k investment (done outside payroll), the claim is retained. Otherwise, it is adjusted.

5. CMA INSIGHTS FOR PRACTICAL LIFE

Section 143(1) is an automated algorithm. It cannot exercise 'human judgment'. If your data contradicts the pre-filled CPC database, you will receive a proposed adjustment notice where you must agree or disagree within 30 days.

Illustration 8: Scrutiny Assessment Notice (Sec 143(2))

1. THE QUESTION

Mr. H filed his original ITR for AY 2026-27 on 15th July 2026. The Assessing Officer wants to pick the case for a detailed Scrutiny Assessment. What is the last date for the AO to serve the notice u/s 143(2)?

2. HOW TO READ THE QUESTION

- **Rule 143(2):** Notice for scrutiny must be SERVED on the assessee within **6 months** from the end of the Financial Year in which the return is furnished.

3. NOTING OF KEY POINTS (ROUGH WORK)

- Return furnished in FY 2026-27 (on 15-Jul-26).
- End of FY in which return furnished = 31-Mar-2027.
- 6 months from 31-Mar-2027 = 30-Sep-2027.

4. ANSWER AS PER ICMAI SUGGESTED FORMAT

Step 1: Identify Statutory Time Limit
Section 143(2) mandates that no notice for scrutiny assessment shall be served on the assessee after the expiry of **six months from the end of the financial year** in which the return is furnished.

Step 2: Compute the Deadline
Date of furnishing return: 15th July 2026.
Financial Year in which return is furnished: FY 2026-27.
End of this Financial Year: 31st March 2027.
Six months from the end of this FY: **30th September 2027**.

Conclusion:
The AO must ensure the notice u/s 143(2) is actively served on Mr. H on or before **30th September 2027**. If served even a day late, the scrutiny proceedings are entirely invalid.

5. CMA INSIGHTS FOR PRACTICAL LIFE

Serving means actually reaching the taxpayer (via email or portal update). Simply 'issuing/signing' the notice on 30th Sept and emailing it on 1st Oct renders the scrutiny assessment legally void.

Illustration 9: Best Judgment Assessment (Sec 144)

1. THE QUESTION

ABC Firm failed to file its ITR for AY 2026-27. The AO issued a notice u/s 142(1) asking them to file the return, which they ignored. The AO then issued a show-cause notice to complete the assessment to the best of his judgment. What triggers Sec 144?

2. HOW TO READ THE QUESTION

- **Rule 144:** Triggers when assessee fails to file ITR, fails to comply with 142(1) notices (produce accounts), or fails to get a special audit done u/s 142(2A).

3. NOTING OF KEY POINTS (ROUGH WORK)

- Assessee ignored 139(1) -> No return.
- Assessee ignored 142(1) -> No compliance.
- AO is legally bound to invoke 144.

4. ANSWER AS PER ICMAI SUGGESTED FORMAT

Step 1: Identify Triggers for Sec 144
The Assessing Officer shall make the assessment to the best of his judgment (ex-parte) in the following scenarios:
1. Failure to file the return u/s 139(1), 139(4), or 139(5).
2. Failure to comply with all the terms of a notice issued u/s 142(1) (calling for books of account/information).
3. Failure to comply with a direction issued u/s 142(2A) to get the accounts audited.

Step 2: Application to the Case
ABC Firm has committed two defaults: failing to file the return and failing to comply with the 142(1) notice. Therefore, the AO is legally empowered to estimate the income of the firm based on gathered intelligence (GST returns, bank deposits) and complete the assessment u/s 144.

Conclusion:
Before passing the order, the AO must issue a Show Cause Notice (which he did). The resulting tax demand will be legally binding and heavily penalized.

5. CMA INSIGHTS FOR PRACTICAL LIFE

Ignoring income tax notices never makes them go away. Ex-parte (Best Judgment) assessments are notoriously brutal, often assuming every single bank credit is taxable revenue with zero allowance for expenses.

Illustration 10: Income Escaping Assessment (Sec 147/148) - 3 Year Rule

1. THE QUESTION

In Dec 2026, the AO receives information that Mr. I did not disclose capital gains of ₹25 Lakhs in AY 2022-23. Can the AO issue a notice u/s 148 to reopen the assessment?

2. HOW TO READ THE QUESTION

- **Rule 149 (Time limits for 148):** Normal time limit is **3 years** from the end of the relevant assessment year.
- **Calculation:** AY is 22-23. End is 31-Mar-23. 3 years end on 31-Mar-26.

3. NOTING OF KEY POINTS (ROUGH WORK)

- Current date is Dec 2026.
- Normal limit of 3 years expired in March 2026.
- Is the amount >= 50 Lakhs? No, it's 25 Lakhs. So the 10-year extended rule doesn't apply.
- Notice cannot be issued.

4. ANSWER AS PER ICMAI SUGGESTED FORMAT

Step 1: Check the Normal Time Limit u/s 149(1)(a)
No notice under section 148 shall be issued if **3 years** have elapsed from the end of the relevant assessment year, unless the escaped income falls under the high-value exception.
Relevant AY: 2022-23.
End of AY: 31.03.2023.
3 years from end of AY = **31.03.2026**.

Step 2: Check the Extended Time Limit u/s 149(1)(b)
The time limit is extended up to **10 years** ONLY IF the Assessing Officer has evidence that the income escaping assessment, represented in the form of an asset, amounts to or is likely to amount to **₹50 Lakhs or more**.
In this case, the escaped income is ₹25 Lakhs, which is below the ₹50 Lakhs threshold.

Conclusion:
Since the normal 3-year deadline expired in March 2026, and the amount does not qualify for the 10-year extension, the AO **cannot** issue a notice u/s 148 in December 2026. The case is time-barred.

5. CMA INSIGHTS FOR PRACTICAL LIFE

The Finance Act 2021 completely revamped reassessment. The old 4-year/6-year limits were replaced by this strict 3-year/10-year framework to reduce tax terrorism for small taxpayers.

Illustration 11: Income Escaping Assessment - 10 Year Rule

1. THE QUESTION

Assume the same facts as Illustration 10 (AY 2022-23, notice in Dec 2026), but the undiscovered capital gains amount to ₹80 Lakhs, represented by an undisclosed bank account in Switzerland. Can the AO issue the notice now?

2. HOW TO READ THE QUESTION

- **Rule 149(1)(b):** Escaped income >= 50 Lakhs represented by an asset. Extends limit to 10 years.

3. NOTING OF KEY POINTS (ROUGH WORK)

- Amount = 80 Lakhs (>= 50L).
- Asset exists (Bank account).
- 10 years from 31-Mar-23 is 31-Mar-2033.
- Notice in Dec 2026 is valid.

4. ANSWER AS PER ICMAI SUGGESTED FORMAT

Step 1: Analyze the Quantum of Escapement
The escaped income amounts to ₹80 Lakhs, which comfortably breaches the **₹50 Lakhs** statutory threshold required for extended reassessment.

Step 2: Apply the Extended Time Limit
Under Section 149(1)(b), if the escaped income represented in the form of an asset (or expenditure related to an event, or entries in books) exceeds ₹50 Lakhs, the AO can issue a notice up to **10 years** from the end of the relevant assessment year.
Relevant AY: 2022-23.
End of AY: 31.03.2023.
10 years limit: **31.03.2033**.

Conclusion:
Issuing the notice in December 2026 is perfectly valid. The AO must first follow the procedure u/s 148A (conduct inquiry and provide an opportunity of being heard) before issuing the final 148 notice.

5. CMA INSIGHTS FOR PRACTICAL LIFE

For High Net Worth Individuals, the tax assessment is never truly 'closed' until a full decade has passed. Advisers must retain property, bank, and asset records for at least 11 years.

Illustration 12: Procedure u/s 148A

1. THE QUESTION

Before issuing a notice u/s 148 for income escaping assessment, what mandatory pre-notice procedural steps must the Assessing Officer follow under Section 148A?

2. HOW TO READ THE QUESTION

- **Rule 148A:** Mandates a formal inquiry and a 'Show Cause' process before the actual 148 notice is blasted out.

3. NOTING OF KEY POINTS (ROUGH WORK)

- Step 1: Conduct inquiry (with prior approval).
- Step 2: Issue show-cause notice (minimum 7 days time).
- Step 3: Consider taxpayer's reply.
- Step 4: Pass a formal speaking order whether it is a fit case for 148.

4. ANSWER AS PER ICMAI SUGGESTED FORMAT

Step 1: Conduct Inquiry (148A(a))
The AO must conduct an inquiry, if required, with the prior approval of specified authorities, regarding the information suggesting income has escaped assessment.

Step 2: Show Cause Notice (148A(b))
The AO must provide an opportunity of being heard by serving a notice to the assessee to show cause why a notice u/s 148 should not be issued. The assessee must be given a time of **7 to 30 days** to reply.

Step 3: Consider Reply & Pass Order (148A(c) & (d))
The AO must consider the reply of the assessee. Based on the material and the reply, the AO must pass a formal order (with prior approval) deciding whether or not it is a fit case

to issue a notice u/s 148. This order must be passed within 1 month from the end of the month in which the reply is received.

5. CMA INSIGHTS FOR PRACTICAL LIFE

Section 148A was introduced to stop the arbitrary reopening of cases. Replying aggressively and factually at the 148A(b) stage can nip a tax audit in the bud, avoiding years of grueling 148 reassessment proceedings.

Illustration 13: Rectification of Mistakes (Sec 154)

1. THE QUESTION

An assessment order was passed for XYZ Ltd on 15-Sep-2023. The AO made an obvious calculation error, applying a 30% tax rate instead of 25%. In Nov 2026, the company applies for a rectification u/s 154. Is it time-barred?

2. HOW TO READ THE QUESTION

- **Rule 154 Time Limit:** 4 years from the END of the financial year in which the order sought to be amended was passed.

3. NOTING OF KEY POINTS (ROUGH WORK)

- Order passed: 15-Sep-2023 (FY 23-24).
- End of FY = 31-Mar-2024.
- 4 years from 31-Mar-2024 = 31-Mar-2028.
- Application in Nov 2026 is valid.

4. ANSWER AS PER ICMAI SUGGESTED FORMAT

Step 1: Identify Nature of Mistake
Section 154 allows the income-tax authority to amend any order passed by it to rectify any **mistake apparent from the record**. Applying an incorrect statutory tax rate is a glaring mistake apparent from the record.

Step 2: Compute Time Limit
No amendment under this section can be made after the expiry of **4 years from the end of the financial year** in which the order sought to be amended was passed.
Order passed on: 15.09.2023 (falls in FY 2023-24).
End of FY: 31.03.2024.
Expiry of 4 years: **31.03.2028**.

Conclusion:
The rectification application filed in November 2026 is well within the 4-year limit and is completely valid. The authority must pass an order within 6 months from the end of the month in which the application is received.

5. CMA INSIGHTS FOR PRACTICAL LIFE

Section 154 is strictly for 'clerical or arithmetical' errors. If the issue requires a debate or interpretation of law, Section 154 will be rejected. You must file a formal appeal u/s 246A instead.

Illustration 14: Revision of Orders Prejudicial to Revenue (Sec 263)

1. THE QUESTION

The AO passed an assessment order allowing a deduction of ₹50 Lakhs u/s 35AD without checking if the hospital had the mandatory 100 beds. The Principal Commissioner of Income Tax (PCIT) realizes this order caused a massive loss of tax revenue. What powers does the PCIT have?

2. HOW TO READ THE QUESTION

- **Rule 263:** PCIT can call for and examine records. If the AO's order is ERRONEOUS and PREJUDICIAL to the interests of the revenue, PCIT can revise, cancel, or direct a fresh assessment.

3. NOTING OF KEY POINTS (ROUGH WORK)

- AO failed to make inquiries (Erroneous).
- Tax was lost (Prejudicial to revenue).
- Sec 263 triggers.

4. ANSWER AS PER ICMAI SUGGESTED FORMAT

Step 1: Statutory Powers of PCIT/CIT
Under Section 263, the Principal Commissioner or Commissioner has the authority to call for and examine the record of any proceeding under the Act.

Step 2: Test the Twin Conditions
To invoke Section 263, two conditions must be cumulatively satisfied:
1. The order passed by the AO must be **erroneous** (e.g., passing an order without making necessary inquiries or verifying claims).
2. The order must be **prejudicial to the interests of the revenue** (i.e., it resulted in an

unlawful loss of tax to the government).
Here, the AO's failure to verify the 100-bed condition makes the order erroneous and directly caused a loss of tax revenue.

Step 3: Action Taken
The PCIT can, after giving the assessee an opportunity of being heard, pass an order enhancing or modifying the assessment, or cancelling the assessment and directing a fresh assessment.

5. CMA INSIGHTS FOR PRACTICAL LIFE

An AO's order is not final. Section 263 is the government's internal audit mechanism. However, if the AO took one of two legally plausible views, the PCIT cannot invoke 263 just because he prefers the other view.

Illustration 15: Revision in Favour of Assessee (Sec 264)

1. THE QUESTION

Mr. M forgot to claim an 80C deduction in his ITR. The time limit for filing a revised return has expired. The AO processed the return u/s 143(1). Can Mr. M approach the Commissioner for relief?

2. HOW TO READ THE QUESTION

- **Rule 264:** The Commissioner can revise orders (other than those u/s 263) either suo motu or on an application by the assessee, usually to grant relief where no other appellate remedy is available.

3. NOTING OF KEY POINTS (ROUGH WORK)

- Time for revision expired. Cannot go to ITAT for a mere 143(1) intimation omission.
- Sec 264 is the last resort.

4. ANSWER AS PER ICMAI SUGGESTED FORMAT

Step 1: Exhaustion of Other Remedies
Since the time limit to file a revised return u/s 139(5) has expired, Mr. M cannot alter his return directly. Since he missed claiming the deduction himself, filing an appeal to CIT(A) might be technically difficult as the AO did not 'deny' the claim; it was never made.

Step 2: Invoke Section 264
Section 264 empowers the Principal Commissioner/Commissioner to revise an order passed by a subordinate authority. This is often called the 'Revision in favour of the assessee'. The assessee must make an application within **1 year** from the date on which the order was communicated to him.

Conclusion:
Yes, Mr. M can file a revision petition u/s 264 along with proof of his 80C investments. The Commissioner has the administrative power to accept the fresh claim and direct the AO to issue a refund.

5. CMA INSIGHTS FOR PRACTICAL LIFE

Section 264 is an equitable remedy. A fee of ₹500 applies. However, once an assessee files an appeal to the CIT(A) against an order, the parallel right to invoke Section 264 against that same order is permanently extinguished.

Illustration 16: Appeals to CIT(A) (Sec 246A)

1. THE QUESTION

An assessment order u/s 143(3) creating a tax demand of ₹5 Lakhs is served on Ms. P on 10-Aug-2026. What is the deadline to file an appeal to the Commissioner of Income Tax (Appeals), and what is the mandatory pre-deposit?

2. HOW TO READ THE QUESTION

- **Rule 249 (Time Limit):** 30 days from the date of service of the order.
- **Admitted Tax:** You cannot file an appeal unless you pay the tax on the income you ADMIT to have earned. Disputed tax can be stayed.

3. NOTING OF KEY POINTS (ROUGH WORK)

- Served on 10-Aug. 30 days = 9-Sep-2026.
- Must pay admitted tax.

4. ANSWER AS PER ICMAI SUGGESTED FORMAT

Step 1: Compute Time Limit
As per Section 249(2), an appeal to the CIT(A) must be filed within **30 days** of the date of service of the notice of demand relating to the assessment.
Date of Service: 10.08.2026.
Deadline: **09.09.2026**.

Step 2: Conditions for Filing Appeal (Sec 249(4))
The appeal shall not be admitted unless the assessee has paid the tax due on the income **returned by him** (admitted tax). For the disputed ₹5 Lakhs, she can file a stay application with the AO. Normally, the CBDT guidelines require a payment of **20% of the disputed demand** to grant a stay on recovery proceedings during the pendency of the appeal.

5. CMA INSIGHTS FOR PRACTICAL LIFE

The 30-day clock starts on the date the email/portal notification is 'served', not the date printed on the PDF order. Condonation of delay is possible if the taxpayer proves 'sufficient cause' (like severe medical emergencies).

Illustration 17: Appeals to ITAT (Sec 253)

1. THE QUESTION

The CIT(A) passes an order against Company Q. The order is communicated on 1-Oct-2026. What is the time limit for the company to file an appeal to the Income Tax Appellate Tribunal (ITAT)? If the Income Tax Department files an appeal, what can the company do?

2. HOW TO READ THE QUESTION

- **Time Limit:** 60 days from the date of communication of order.
- **Cross Objections:** If the department appeals, the assessee has 30 days from receiving the notice to file a memorandum of cross-objections.

3. NOTING OF KEY POINTS (ROUGH WORK)

- Deadline: 60 days from 1-Oct = 30-Nov-2026.
- Cross-objection = 30 days.

4. ANSWER AS PER ICMAI SUGGESTED FORMAT

Step 1: Time Limit for Direct Appeal
Under Section 253(3), any appeal to the ITAT (either by the assessee or by the Revenue) must be filed within **60 days** of the date on which the order sought to be appealed against is communicated.
60 days from 1-Oct-2026 expires on **30th November 2026**.

Step 2: Memorandum of Cross-Objections
If the Income Tax Department decides to file an appeal against the CIT(A) order, the ITAT will send a notice to Company Q. Upon receiving this notice, Company Q has **30 days** to file a memorandum of cross-objections against any part of the CIT(A) order. This cross-objection is treated exactly like an independent appeal.

5. CMA INSIGHTS FOR PRACTICAL LIFE

ITAT is the final fact-finding authority in India. Whatever facts are established here are locked in. You can only appeal to the High Court if there is a 'Substantial Question of Law', not to argue facts or evidence.

Illustration 18: Penalty for Under-reporting (Sec 270A)

1. THE QUESTION

Mr. R filed an ITR declaring income of ₹10 Lakhs. During scrutiny, the AO discovered undisclosed bank interest and assessed the income at ₹15 Lakhs. Calculate the penalty u/s 270A assuming tax on ₹15L is ₹1,80,000 and tax on ₹10L is ₹75,000. (Ignore cess/ surcharge).

2. HOW TO READ THE QUESTION

- **Rule 270A:** Penalty is 50% of the tax payable on the under-reported income.
- **Under-reported Tax:** (Tax on assessed income) - (Tax on processed/returned income).

3. NOTING OF KEY POINTS (ROUGH WORK)

- Under-reported Income = 15L - 10L = 5 Lakhs.
- Tax on assessed (15L) = 1,80,000.
- Tax on returned (10L) = 75,000.
- Tax on under-reported income = 1,80,000 - 75,000 = 1,05,000.
- Penalty = 50% of 1,05,000 = 52,500.

4. ANSWER AS PER ICMAI SUGGESTED FORMAT

Step 1: Define Under-Reported Income
Under-reported income = Assessed Income (₹15 Lakhs) - Income determined u/s 143(1) / Returned Income (₹10 Lakhs) = ₹5 Lakhs.

Step 2: Calculate Tax on Under-Reported Income
Tax on Under-Reported Income = Tax calculated on Assessed Income MINUS Tax calculated on Returned Income.
Tax on Under-Reported Income = ₹1,80,000 - ₹75,000 = **₹1,05,000**.

Step 3: Compute Penalty
As per Section 270A, the penalty for under-reporting of income is **50%** of the amount of tax payable on under-reported income.
Penalty = 50% of ₹1,05,000 = **₹52,500**.

5. CMA INSIGHTS FOR PRACTICAL LIFE

Section 270A replaced the draconian Section 271(1)(c). The penalty is now mathematically rigid (50%), removing the Assessing Officer's discretionary power to arbitrarily levy penalties between 100% to 300%.

Illustration 19: Penalty for Misreporting (Sec 270A)

1. THE QUESTION

In Illustration 18, assume the AO discovers that the ₹5 Lakhs was concealed by creating fake purchase invoices from dummy shell companies. What is the penalty?

2. HOW TO READ THE QUESTION

- **Rule 270A(8) & (9):** If under-reporting is a consequence of 'misreporting', the penalty jumps to 200% of the tax payable on the under-reported income.
- **Misreporting defined:** Suppression of facts, fake invoices, failure to record investments, claiming bogus expenses.

3. NOTING OF KEY POINTS (ROUGH WORK)

- Fake invoices = Misreporting.
- Tax on under-reported income = 1,05,000.
- Penalty = 200% of 1,05,000 = 2,10,000.

4. ANSWER AS PER ICMAI SUGGESTED FORMAT

Step 1: Identify Misreporting
Under Section 270A(9), claiming an expenditure based on a fake invoice constitutes 'misreporting of income'.

Step 2: Apply Penal Rate
When under-reporting is a consequence of misreporting, the penalty escalates from 50% to **200%** of the amount of tax payable on the under-reported income.

Step 3: Compute Penalty
Tax on Under-Reported Income = ₹1,05,000.
Penalty u/s 270A = 200% of ₹1,05,000 = **₹2,10,000**.

5. CMA INSIGHTS FOR PRACTICAL LIFE

Misreporting is practically treated as tax evasion/fraud. Beyond the 200% financial penalty, the department will likely launch criminal prosecution proceedings u/s 276C against the directors of the company.

Illustration 20: Cash Loans Penalty (Sec 269SS & 271D)

1. THE QUESTION

Mr. S took a cash loan of ₹25,000 from his friend to meet a business emergency. He repaid the loan the next month via RTGS. What is the penalty implication?

2. HOW TO READ THE QUESTION

- **Sec 269SS:** Prohibits accepting loans/deposits of ₹20,000 or more in cash.
- **Sec 271D:** Penalty for violating 269SS is 100% of the loan amount.

3. NOTING OF KEY POINTS (ROUGH WORK)

- Cash loan = 25,000. (>= 20,000 threshold).
- Violation of 269SS.
- Penalty u/s 271D = 25,000.

4. ANSWER AS PER ICMAI SUGGESTED FORMAT

Step 1: Check Statutory Provision
Section 269SS prohibits any person from taking or accepting any loan or deposit in cash if the amount is **₹20,000 or more**. Since Mr. S took ₹25,000 in cash, he has violated Section 269SS.

Step 2: Ascertain Penalty
Section 271D imposes a penalty on the person who accepts such a cash loan. The penalty amount is strictly **100% of the loan or deposit taken**.

Conclusion:
Mr. S will face a penalty of **₹25,000**. The fact that he repaid the loan legally via RTGS does not absolve him of the initial violation of accepting it in cash.

5. CMA INSIGHTS FOR PRACTICAL LIFE

Similarly, Section 269T prohibits REPAYING any loan of ₹20,000 or more in cash. Violating that attracts a 100% penalty u/s 271E. The government tracks cash flows aggressively via these twin penal provisions.

ICMAI PAPER 15

DIRECT TAX LAWS & INTERNATIONAL TAXATION

PART 6: MASTER PROBLEM SOLVER

Chapter 13: International Taxation I - DTAA & NR Taxation
(25 Full-Length Exam Illustrations)

Applicable for: December 2026 Examination
Assessment Year: 2026-27 (Previous Year 2025-26)

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Chapter 13: International Taxation - DTAA & NR Taxation

This volume contains 25 highly complex, exam-grade illustrations directly mirroring past ICMAI papers. It rigorously covers Unilateral/Bilateral Relief (Sec 90/91), Non-Resident taxation (Sec 115A, 115BBA), Presumptive shipping/airlines (Sec 44B, 44BBA), POEM, and Significant Economic Presence (SEP).

Illustration 1: Unilateral Relief (Sec 91) - Basic Computation

1. THE QUESTION

Mr. A, a resident Indian, earned Business Income in India: ₹15 Lakhs. He also earned Business Income in Country X: ₹10 Lakhs, on which he paid tax of ₹2,00,000 in Country X. India has NO DTAA with Country X. Compute his net tax liability in India for AY 2026-27.

2. HOW TO READ THE QUESTION

- **Identify Sec 91 Applicability:** Resident assessee, income accrued/arising outside India, tax paid in foreign country, NO DTAA exists.
- **Relief Formula:** Doubly taxed income × Lower of (Indian Rate of Tax OR Foreign Rate of Tax).

3. NOTING OF KEY POINTS (ROUGH WORK)

- Foreign Income = 10L. Indian Income = 15L. Global Income = 25L.
- Foreign Tax Rate = (2L / 10L) * 100 = 20%.
- Indian Tax on 25L (New Regime) = 3L (Slab up to 24L) + 30k (30% on 1L) = 3,30,000 + 4% HEC = 3,43,200.
- Indian Average Rate = (3,43,200 / 25,00,000) * 100 = 13.728%.
- Lower Rate = 13.728%.
- Relief = 10,00,000 * 13.728% = 1,37,280.

4. ANSWER AS PER ICMAI SUGGESTED FORMAT

Step 1: Determine Global Income & Indian Tax
Global Income = ₹15,00,000 (Indian) + ₹10,00,000 (Country X) = ₹25,00,000.
Tax on ₹25,00,000 (New Regime) = ₹3,30,000 + 4% HEC = ₹3,43,200.
Average Indian Tax Rate = (₹3,43,200 / ₹25,00,000) × 100 = **13.728%**.

Step 2: Determine Foreign Tax Rate
Foreign Tax Rate = (Foreign Tax Paid / Foreign Income) × 100 = (₹2,00,000 / ₹10,00,000) × 100 = **20%**.

Step 3: Compute Section 91 Relief
Relief is available at the lower of the Indian Rate or Foreign Rate.
Lower Rate = 13.728%.
Relief u/s 91 = ₹10,00,000 × 13.728% = **₹1,37,280**.

Step 4: Net Tax Payable
Net Tax = ₹3,43,200 - ₹1,37,280 = **₹2,05,920**.

5. CMA INSIGHTS FOR PRACTICAL LIFE

Programming a DTAA calculator requires dynamic calculation of the 'Average Indian Tax Rate'. Ensure the algorithm factors in Surcharge and HEC into the numerator before deriving the percentage.

Illustration 2: Unilateral Relief with Chapter VI-A Deductions

1. THE QUESTION

Mr. B (Resident, opted out of New Regime) has Indian Salary: ₹8 Lakhs, and Foreign Royalty (Country Y, no DTAA): ₹6 Lakhs (Tax paid in Y: ₹90,000). He invested ₹1.5 Lakhs in PPF (80C) and claimed ₹50,000 u/s 80QQB against Royalty. Calculate Sec 91 relief.

2. HOW TO READ THE QUESTION

- **Doubly Taxed Income:** It is the foreign income *included* in the Indian Net Taxable Income. You must subtract any deductions (like 80QQB) directly related to the foreign income.

3. NOTING OF KEY POINTS (ROUGH WORK)

- GTI = 8L + 6L = 14 Lakhs.

- Deductions = 1.5L (80C) + 50k (80QQB) = 2 Lakhs.
- Net Income = 12 Lakhs.
- Doubly Taxed Income = 6L (Royalty) - 50k (80QQB) = 5.5 Lakhs.
- Foreign Rate = (90k / 6L) * 100 = 15%.
- Indian Tax on 12L = 1,15,000 + 4% HEC = 1,19,600.
- Indian Rate = (1,19,600 / 12,00,000) * 100 = 9.966%.
- Relief = 5.5L * 9.966% = 54,813.

4. ANSWER AS PER ICMAI SUGGESTED FORMAT

Step 1: Compute Net Taxable Income & Indian Tax
Gross Total Income = ₹8,00,000 + ₹6,00,000 = ₹14,00,000.
Less: Chapter VI-A Deductions (80C: ₹1.5L, 80QQB: ₹50k) = ₹2,00,000.
Net Taxable Income = ₹12,00,000.
Tax on ₹12L (Old Regime) = ₹1,12,500 (Base) + 4% HEC = ₹1,17,000. *(Correction: 1,12,500 is tax up to 10L + 30% on 2L = 1,12,500 + 60,000 = 1,72,500. Let's recalculate accurately: Up to 2.5L: Nil. 2.5-5L: 12.5k. 5-10L: 1L. 10-12L: 60k. Total = 1,72,500 + 4% = 1,79,400).*
Average Indian Rate = (1,79,400 / 12,00,000) × 100 = **14.95%**.

Step 2: Determine Doubly Taxed Income & Foreign Rate
Doubly Taxed Income = Foreign Royalty (₹6L) - Deduction u/s 80QQB (₹50k) = **₹5,50,000**.
Foreign Rate = (90,000 / 6,00,000) × 100 = **15%**.

Step 3: Compute Relief u/s 91
Lower Rate is Indian Rate (14.95%).
Relief = ₹5,50,000 × 14.95% = **₹82,225**.

5. CMA INSIGHTS FOR PRACTICAL LIFE

Failing to deduct specific Section 80 Chapter VI-A components (like 80QQB or 80RRB) from the foreign income base before applying the Sec 91 relief percentage leads to inflated tax credits, triggering CPC scrutiny.

Illustration 3: Foreign Agricultural Income (Sec 91)

1. THE QUESTION

Mr. C earned ₹5 Lakhs from agricultural land situated in Country Z (No DTAA). He paid ₹1 Lakh as agricultural tax there. His Indian business income is ₹15 Lakhs. Compute Sec 91 Relief.

2. HOW TO READ THE QUESTION

- **Rule:** Agricultural income is exempt u/s 10(1) ONLY if the land is situated IN INDIA. If situated abroad, it is fully taxable under 'Income from Other Sources'.
- **Relief:** Since it is taxed in India and in Country Z, Sec 91 unilateral relief applies.

3. NOTING OF KEY POINTS (ROUGH WORK)

- Foreign Income = 5L. Foreign Tax = 1L. Foreign Rate = 20%.
- Total Income = 15L + 5L = 20 Lakhs.
- Indian Tax (New Regime) = 3,00,000. Plus 4% HEC = 3,12,000.
- Indian Rate = (3,12,000 / 20,00,000) * 100 = 15.6%.
- Relief = 5L * 15.6% = 78,000.

4. ANSWER AS PER ICMAI SUGGESTED FORMAT

Step 1: Treatment of Foreign Agricultural Income
Agricultural income from land situated outside India does not qualify for exemption under Section 10(1). It is fully taxable in India under the head 'Income from Other Sources'.

Step 2: Compute Global Income & Rates
Global Income = ₹15,00,000 + ₹5,00,000 = ₹20,00,000.
Indian Tax (New Regime) = ₹3,12,000 (Including Cess).
Average Indian Rate = (₹3,12,000 / ₹20,00,000) × 100 = **15.6%**.
Foreign Tax Rate = (₹1,00,000 / ₹5,00,000) × 100 = **20%**.

Step 3: Compute Relief
Lower rate is 15.6%.
Relief u/s 91 = ₹5,00,000 × 15.6% = **₹78,000**.
Net Tax Payable = ₹3,12,000 - ₹78,000 = **₹2,34,000**.

5. CMA INSIGHTS FOR PRACTICAL LIFE

High-Net-Worth clients investing in overseas vineyards or plantations must be counseled that global agricultural income does not carry the sovereign exemption Indian agricultural income enjoys.

Illustration 4: Bilateral Relief u/s 90 (Credit Method)

1. THE QUESTION

Mr. D (Resident) has Indian income of ₹20 Lakhs. He earned Business Income from Country U: ₹8 Lakhs (Tax paid in U: ₹80,000). India has a DTAA with Country U providing for the 'Credit Method'. Calculate Tax Payable.

2. HOW TO READ THE QUESTION

- **Credit Method Rule:** Compute global income and Indian tax. The tax credit allowed is the lower of (Foreign Tax actually paid) or (Indian tax proportionate to the foreign income).

3. NOTING OF KEY POINTS (ROUGH WORK)

- Global Income = 28 Lakhs.
- Indian Tax (New Regime) = 3L + 30% of 4L = 4.2L. Add 4% = 4,36,800.
- Proportionate Indian Tax = (4,36,800 / 28L) * 8L = 1,24,800.
- Foreign Tax Paid = 80,000.
- Relief = Lower of 1,24,800 or 80,000 = 80,000.

4. ANSWER AS PER ICMAI SUGGESTED FORMAT

Step 1: Compute Global Income and Indian Tax
Global Income = ₹20,00,000 + ₹8,00,000 = ₹28,00,000.
Tax on ₹28,00,000 (New Regime) = ₹4,20,000 + 4% HEC = ₹4,36,800.

Step 2: Determine Proportionate Indian Tax
Proportionate tax on foreign income = (Total Indian Tax / Total Income) × Foreign Income
= (₹4,36,800 / ₹28,00,000) × ₹8,00,000 = **₹1,24,800**.

Step 3: Apply DTAA Credit Method
Under the Credit Method, the assessee gets a deduction of the tax paid in the foreign country, limited to the amount of Indian tax attributable to that foreign income.
Foreign Tax Paid = ₹80,000.
Relief allowed u/s 90 = Lower of (₹80,000 or ₹1,24,800) = **₹80,000**.
Net Tax Payable = **₹4,36,800 - ₹80,000** = **₹3,56,800.**

5. CMA INSIGHTS FOR PRACTICAL LIFE

The Credit Method is the most common DTAA model India adopts. It ensures that the taxpayer pays the higher of the two countries' tax rates on the international income, preventing tax evasion.

Illustration 5: Sec 90(2) Beneficial Provision (Royalty)

1. THE QUESTION

XYZ Inc, a US company, earned Royalty of ₹50 Lakhs from an Indian resident. As per the Income Tax Act (Sec 115A), the tax rate is 20%. As per the India-US DTAA, the rate is 15%. However, the DTAA explicitly defines Royalty to exclude 'equipment royalty', which is covered under the IT Act. How will XYZ Inc be taxed if the income is equipment royalty?

2. HOW TO READ THE QUESTION

- **Rule 90(2):** The provisions of the IT Act or the DTAA, whichever is MORE BENEFICIAL to the assessee, shall apply.
- **Catch:** If the DTAA excludes a specific income from its 'Royalty' definition, that specific DTAA concessional rate (15%) cannot apply. It falls back to Business Profits or Other Income, OR the IT Act applies directly.

3. NOTING OF KEY POINTS (ROUGH WORK)

- If DTAA excludes equipment royalty, it's not taxed at 15% under DTAA Royalty article.
- Under IT Act, it is Royalty @ 20%.
- If taxed as Business Profit under DTAA (with no PE), it is Not Taxable.
- If Not Taxable under DTAA, DTAA is more beneficial. Tax = Nil.

4. ANSWER AS PER ICMAI SUGGESTED FORMAT

Step 1: Analyze the IT Act vs DTAA Scope
Under the IT Act, 'Equipment Royalty' is taxable @ 20% (plus surcharge and cess) under Section 115A.
Under the India-US DTAA, the definition of Royalty (Article 12) strictly excludes payment for the use of industrial, commercial, or scientific equipment.

Step 2: Reclassify under DTAA
Since it is excluded from Royalty under the DTAA, it must be classified under 'Business Profits' (Article 7). Under Article 7, business profits of a US enterprise are taxable in India ONLY IF it has a Permanent Establishment (PE) in India. Assuming XYZ Inc has no PE in India, this income is **Not Taxable** in India as per the DTAA.

Step 3: Apply Sec 90(2)
The assessee will opt for the DTAA as it is more beneficial (0% vs 20%).
Conclusion: The income is wholly exempt in India.

5. CMA INSIGHTS FOR PRACTICAL LIFE

This specific definition mismatch (IT Act vs DTAA) is a massive tax planning avenue for foreign equipment lessors (rigs, aircraft, heavy machinery) operating in India.

Illustration 6: Tax Residency Certificate (TRC) & Form 10F

1. THE QUESTION

PQR Ltd, a UK company, provided technical services to an Indian company and earned ₹2 Crores. It wants to claim the concessional 10% rate under the India-UK DTAA. It submits a TRC, but the TRC does not mention its Tax Identification Number (TIN). What are the consequences?

2. HOW TO READ THE QUESTION

- **Rule 90(4):** To claim DTAA relief, the non-resident MUST furnish a TRC containing prescribed particulars.
- **Rule 10F:** If the TRC does not contain all the prescribed particulars (like TIN, address, period), the assessee must separately furnish Form 10F providing the missing details.

3. NOTING OF KEY POINTS (ROUGH WORK)

- TRC is present but incomplete.
- Cannot deny treaty benefits immediately. The company must file Form 10F.

4. ANSWER AS PER ICMAI SUGGESTED FORMAT

Step 1: Statutory Requirement for DTAA Relief
Under Section 90(4), claiming DTAA benefits is strictly contingent upon the non-resident furnishing a Tax Residency Certificate (TRC) issued by the government of their home country.

Step 2: Role of Form 10F
Rule 21AB prescribes the details a TRC must contain (Name, Status, TIN, Period, Address). If the TRC issued by the foreign government does not contain all these specified particulars (e.g., TIN is missing), the non-resident assessee must furnish **Form 10F** self-declaring the missing information.

Conclusion:
PQR Ltd will not lose the DTAA benefit solely because the TRC lacks the TIN. However, the Indian deductor MUST insist PQR Ltd provides a signed and electronically verified Form 10F. Only then can the 10% concessional rate be legally applied.

5. CMA INSIGHTS FOR PRACTICAL LIFE

Form 10F must now be filed electronically on the Indian Income Tax Portal by the foreign entity. This requires the foreign entity to create an account, which practically forces them to obtain an Indian PAN.

Illustration 7: Tie-Breaker Rule for Dual Residency

1. THE QUESTION

Mr. E has homes in both India and Country Y. He stayed in India for 190 days and Country Y for 175 days in PY 2025-26. Under the domestic laws of both nations, he is a Resident. His personal and economic relations (center of vital interests) are closer to Country Y. Determine his residential status as per the DTAA.

2. HOW TO READ THE QUESTION

- **DTAA Article 4 (Tie-Breaker):** When an individual is a resident of both contracting states, the tie-breaker rule applies in a specific sequence: Permanent Home -> Center of Vital Interests -> Habitual Abode -> Nationality -> Mutual Agreement.

3. NOTING OF KEY POINTS (ROUGH WORK)

- Permanent Home: Both countries. (Tie).
- Center of Vital Interests: Country Y. (Tie broken).
- Status: Resident of Country Y.

4. ANSWER AS PER ICMAI SUGGESTED FORMAT

Step 1: Identify the Conflict
Under the Income Tax Act, 1961, staying >= 182 days makes him a Resident of India. Country Y's domestic law also classifies him as a resident. This causes dual residency.

Step 2: Apply DTAA Tie-Breaker Sequence
As per Article 4 of the UN/OECD Model Convention, dual residency is resolved sequentially:
1. **Permanent Home:** He has a home in both countries. Proceed to next test.
2. **Center of Vital Interests:** The state with which his personal and economic relations are closer. The facts explicitly state his vital interests are closer to Country Y.

Conclusion:
The tie is broken at the second step. Under the DTAA, Mr. E shall be deemed to be a **Resident of Country Y**. India will treat him as a Non-Resident for treaty purposes, taxing only his Indian-sourced income.

5. CMA INSIGHTS FOR PRACTICAL LIFE

For HNIs shuttling between Dubai/London and Mumbai, establishing the 'Center of Vital Interests' (where the family lives, where primary bank accounts exist, club memberships) is the ultimate defense against global taxation in India.

Illustration 8: Permanent Establishment (Dependent Agent PE)

1. THE QUESTION

Foreign Co 'F' appoints Mr. G in India to solicit orders. Mr. G has no authority to conclude contracts. However, he maintains a large stock of F's goods in Mumbai, from which he regularly delivers goods to Indian customers on behalf of F. Does Foreign Co 'F' have a PE in India?

2. HOW TO READ THE QUESTION

- **Dependent Agent PE (DAPE):** Exists if the agent habitually concludes contracts, OR habitually maintains a stock of goods from which he regularly delivers, OR habitually secures orders wholly/almost wholly for the enterprise.

3. NOTING OF KEY POINTS (ROUGH WORK)

- Does not conclude contracts.
- BUT maintains stock and regularly delivers.
- Condition for DAPE met.

4. ANSWER AS PER ICMAI SUGGESTED FORMAT

Step 1: Define Agency PE
Under typical DTAAs (Article 5), an enterprise is deemed to have a Permanent Establishment in another State if a dependent agent acts on its behalf.

Step 2: Analyze Agent's Authority
While Mr. G does not possess the authority to negotiate or conclude contracts (which is the primary trigger for a DAPE), he triggers the secondary condition.
If an agent has no such authority, but **habitually maintains a stock of goods or**

merchandise from which he regularly delivers goods on behalf of the enterprise, it constitutes a Dependent Agent PE.

Conclusion:
Yes, Foreign Co 'F' has a Permanent Establishment in India. The business profits of 'F' attributable to Mr. G's activities will be fully taxable in India.

5. CMA INSIGHTS FOR PRACTICAL LIFE

Foreign companies often assume that merely stripping the agent of 'contract-signing authority' protects them from PE status. Warehousing and logistics managed by the agent are equally lethal PE triggers.

Illustration 9: Significant Economic Presence (SEP)

1. THE QUESTION

Foreign Tech Co 'H' provides data analytics software to Indian users. It has NO physical presence, branch, or agent in India. In PY 2025-26, it earned revenue of ₹2.5 Crores from Indian IP addresses and has 400,000 active users in India. Is it liable to tax in India under the IT Act?

2. HOW TO READ THE QUESTION

- **Rule (Sec 9(1)(i) Explanation 2A):** Significant Economic Presence (SEP) constitutes a 'Business Connection' in India.
- **Thresholds:** Revenue > ₹2 Crores OR Users >= 3 Lakhs. Both are satisfied here.

3. NOTING OF KEY POINTS (ROUGH WORK)

- Revenue = 2.5 Cr (> 2 Cr). Users = 4 Lakhs (> 3 Lakhs).
- SEP established. Business connection exists.
- Taxable under IT Act. (Subject to DTAA override if applicable).

4. ANSWER AS PER ICMAI SUGGESTED FORMAT

Step 1: Statutory Provision for Digital Businesses
To tax digital economy giants, India expanded the definition of 'Business Connection' under Section 9(1)(i) to include 'Significant Economic Presence' (SEP).

Step 2: Test SEP Thresholds
SEP is established if:
(a) Revenue from transactions in respect of any goods, services, or property with any person in India exceeds **₹2 Crores**; OR
(b) Systematic and continuous soliciting of business activities or engagement with **3 Lakhs or more** users in India.
Foreign Tech Co 'H' breaches BOTH thresholds (Revenue ₹2.5Cr, Users 4 Lakhs).

Conclusion:
Company H has a Business Connection in India. The profits attributable to this SEP are **taxable in India** under the Income Tax Act. *(Note: If Company H resides in a country with which India has a DTAA, the DTAA 'PE' definition will override SEP unless the treaty has been updated with digital PE rules).*

5. CMA INSIGHTS FOR PRACTICAL LIFE

SEP is India's unilateral move to tax digital tech giants. However, practically, if a DTAA exists, the traditional 'Physical PE' requirement of the treaty overrides SEP, shielding the tech company. SEP bites hardest for companies in non-DTAA jurisdictions (like certain tax havens).

Illustration 10: POEM (Place of Effective Management) - ABOI Test

1. THE QUESTION

Company J is incorporated in Singapore. For PY 2025-26, its total global assets are ₹100 Cr (₹30 Cr in India). Total employees: 50 (10 in India). Total payroll: ₹10 Cr (₹2 Cr in India). Total passive income is ₹20 Cr out of a total global income of ₹100 Cr. Determine its residential status in India based on POEM guidelines.

2. HOW TO READ THE QUESTION

- **Active Business Outside India (ABOI) Test:** A company is ABOI if: Passive income is <= 50% of total income; AND Indian assets < 50% of total assets; AND Indian employees < 50% of total employees; AND Indian payroll < 50% of total payroll.
- **POEM Consequence:** If ABOI is met, POEM is presumed outside India (unless board meetings happen in India).

3. NOTING OF KEY POINTS (ROUGH WORK)

- Passive Income: 20/100 = 20% (< 50%). Pass.
- Indian Assets: 30/100 = 30% (< 50%). Pass.
- Indian Employees: 10/50 = 20% (< 50%). Pass.
- Indian Payroll: 2/10 = 20% (< 50%). Pass.
- All 4 conditions passed. Company is ABOI.

4. ANSWER AS PER ICMAI SUGGESTED FORMAT

Step 1: Understand the ABOI Test for POEM
A foreign company is treated as a Resident in India if its Place of Effective Management (POEM) is in India. The CBDT guidelines provide a safe harbor via the 'Active Business Outside India' (ABOI) test. If ABOI conditions are satisfied, POEM is presumed to be outside India (provided majority board meetings are outside India).

Step 2: Check the 4 Cumulative Conditions
1. **Passive Income:** ₹20 Cr / ₹100 Cr = 20% (Must be <= 50%). *Satisfied.*
2. **Indian Assets:** ₹30 Cr / ₹100 Cr = 30% (Must be < 50%). *Satisfied.*
3. **Indian Employees:** 10 / 50 = 20% (Must be < 50%). *Satisfied.*
4. **Indian Payroll:** ₹2 Cr / ₹10 Cr = 20% (Must be < 50%). *Satisfied.*

Conclusion:
Company J satisfies the ABOI test. Its POEM is outside India. It is a **Non-Resident** for Indian tax purposes.

5. CMA INSIGHTS FOR PRACTICAL LIFE

Indian multinationals setting up subsidiaries in Singapore or Dubai must meticulously monitor these four ratios. Breaching even one ratio (e.g., if Indian payroll hits 51%) throws the subsidiary into severe POEM scrutiny.

Illustration 11: Non-Resident Sportsmen (Sec 115BBA)

1. THE QUESTION

Mr. K, a non-resident Australian cricketer, earned the following in India: (i) ₹10 Lakhs for participating in a cricket tournament. (ii) ₹5 Lakhs for writing an article on cricket in an Indian newspaper. (iii) ₹20 Lakhs for featuring in a TV advertisement in India. (iv) ₹50,000 won in a card game. Compute his tax liability.

2. HOW TO READ THE QUESTION

- **Rule 115BBA:** Taxes participation in sports, writing sports articles, and sports advertisements at a flat rate of 20%. No deductions allowed.
- **Other Income:** Card game winnings fall under Sec 115BB (30% flat).

3. NOTING OF KEY POINTS (ROUGH WORK)

- 115BBA Income = 10L + 5L + 20L = 35 Lakhs.
- Tax on 115BBA = 20% of 35L = 7,00,000.
- 115BB Income = 50,000.
- Tax on 115BB = 30% of 50k = 15,000.
- Total Tax = 7,15,000 + 4% HEC = 7,43,600.

4. ANSWER AS PER ICMAI SUGGESTED FORMAT

Step 1: Compute Income under Section 115BBA
Section 115BBA applies to Non-Resident Sportsmen (who are not citizens of India). It taxes income from participation in matches, advertisement, and contribution of articles related to sports at a flat rate of **20%**. No expense deduction is allowed.
Income = ₹10L (Match) + ₹5L (Article) + ₹20L (Ad) = ₹35,00,000.
Tax @ 20% = **₹7,00,000**.

Step 2: Compute Income under Section 115BB
Winnings from card games do not fall under the special sports provision. They are taxed as casual income u/s 115BB at a flat rate of **30%.**
Income = ₹50,000.
Tax @ 30% = **₹15,000**.

Step 3: Total Tax Liability
Total Base Tax = ₹7,00,000 + ₹15,000 = ₹7,15,000.
Add: Health & Education Cess @ 4% = ₹28,600.
Total Tax Payable = **₹7,43,600.**

5. CMA INSIGHTS FOR PRACTICAL LIFE

TDS u/s 194E applies to payments made to foreign sportsmen at 20% + surcharge + cess. If the payer deducts exact TDS, the sportsman is exempted from filing an ITR in India.

Illustration 12: Umpire vs Sportsman (Sec 115BBA)

1. THE QUESTION

Mr. L, a non-resident British citizen, came to India to act as a Match Referee in the IPL. He earned ₹15 Lakhs. Does Section 115BBA (20% tax) apply to him?

2. HOW TO READ THE QUESTION

- **Scope of 115BBA:** Applies to a 'Sportsman'. An umpire, referee, or coach is NOT considered a sportsman under the strict interpretation of this section.

3. NOTING OF KEY POINTS (ROUGH WORK)

- Referee is not a sportsman.
- 115BBA does not apply.
- Income is taxable as professional fees/business income under normal provisions.

4. ANSWER AS PER ICMAI SUGGESTED FORMAT

Step 1: Define 'Sportsman'
Section 115BBA provides a concessional tax regime (20%) exclusively for non-resident 'sportsmen' and 'entertainers'.

Step 2: Judicial Interpretation
Various judicial rulings (including the Authority for Advance Rulings) have clarified that umpires, match referees, and coaches do not participate in the game as 'sportsmen'. They perform a professional/adjudicatory role.

Conclusion:
Section 115BBA **does not apply** to Mr. L. His income of ₹15 Lakhs will be taxed as Professional Income / Fees for Technical Services under normal provisions (or specific DTAA provisions), which may attract a different tax rate and allow for expense deductions.

5. CMA INSIGHTS FOR PRACTICAL LIFE

Drafting contracts for foreign match officials requires extreme care. Applying the 20% 194E TDS meant for sportsmen will result in a TDS default. They fall under 194J or 195.

Illustration 13: Presumptive Taxation - Shipping Business of NR (Sec 44B)

1. THE QUESTION

A foreign shipping company (Non-Resident) collected ₹50 Crores in India for shipping goods from Mumbai to Dubai. It also collected ₹20 Crores in London for shipping goods from Chennai to London. Additionally, it collected ₹10 Crores in Dubai for shipping goods from Dubai to Singapore. Compute its taxable income in India.

2. HOW TO READ THE QUESTION

- **Rule 44B:** 7.5% presumptive income on amount paid/payable (whether in or out of India) for goods shipped FROM India, PLUS amount received IN India for goods shipped from anywhere.

3. NOTING OF KEY POINTS (ROUGH WORK)

- Mumbai to Dubai (Paid in India): 50 Cr. (Shipped from India AND received in India). Taxable.
- Chennai to London (Paid in London): 20 Cr. (Shipped from India). Taxable.
- Dubai to Singapore (Paid in Dubai): 10 Cr. (Shipped outside, received outside). Not taxable.
- Total base = 50 + 20 = 70 Cr.
- Income = 7.5% of 70 Cr = 5.25 Crores.

4. ANSWER AS PER ICMAI SUGGESTED FORMAT

Step 1: Identify the Statutory Base u/s 44B
For a non-resident engaged in the shipping business, profits are presumed to be **7.5%** of the aggregate of:
1. Amount paid or payable (in or out of India) for goods/passengers shipped **FROM** any port in India.
2. Amount received or deemed to be received **IN India** for goods/passengers shipped from any port outside India.

Step 2: Filter the Receipts
- ₹50 Cr (Mumbai to Dubai): Shipped from India. Included.
- ₹20 Cr (Chennai to London): Shipped from India. Included (even though collected in

London).
- ₹10 Cr (Dubai to Singapore): Shipped from outside India and collected outside India. **Excluded.**
Total Eligible Receipts = ₹70 Crores.

Step 3: Compute Presumptive Income
Income = 7.5% of ₹70 Crores = **₹5.25 Crores**.

5. CMA INSIGHTS FOR PRACTICAL LIFE

Section 44B is an absolute presumptive regime. The foreign shipping company cannot claim that its actual profits are lower than 7.5% to demand a regular assessment. The 7.5% is locked.

Illustration 14: Presumptive Taxation - Aircraft Business of NR (Sec 44BBA)

1. THE QUESTION

Foreign Airlines Co. collected ₹100 Crores in India for flights originating in Delhi. It collected ₹40 Crores in New York for flights originating in Mumbai. It collected ₹20 Crores in India for flights originating in Paris. Calculate presumptive income.

2. HOW TO READ THE QUESTION

- **Rule 44BBA:** Same base logic as shipping, but the presumptive rate for airlines is **5%**.

3. NOTING OF KEY POINTS (ROUGH WORK)

- Delhi origin (Paid in India): 100 Cr.
- Mumbai origin (Paid in NY): 40 Cr.
- Paris origin (Paid in India): 20 Cr.
- Total base = 160 Crores.
- Income = 5% of 160 Cr = 8 Crores.

4. ANSWER AS PER ICMAI SUGGESTED FORMAT

Step 1: Identify the Statutory Base u/s 44BBA
For a non-resident engaged in the business of operation of aircraft, profits are presumed to be **5%** of the aggregate of:
1. Amount paid or payable (in or out of India) for carriage of passengers/cargo departing **from** any place in India.
2. Amount received **in India** for carriage of passengers/cargo departing from any place outside India.

Step 2: Aggregate the Receipts
- ₹100 Cr (Departing India). Included.
- ₹40 Cr (Departing India). Included.
- ₹20 Cr (Received in India). Included.
Total Eligible Receipts = ₹160 Crores.

Step 3: Compute Presumptive Income
Income = 5% of ₹160 Crores = **₹8 Crores**.

5. CMA INSIGHTS FOR PRACTICAL LIFE

Unlike Section 44AD (where an assessee can show lower profits by maintaining books), Sections 44B and 44BBA do not permit the non-resident to claim lower actual profits. The flat percentages are mandatory.

Illustration 15: Taxation of Royalties / FTS (Sec 115A vs Sec 44DA)

1. THE QUESTION

Foreign Co 'M' earned ₹5 Crores as Fees for Technical Services (FTS) from an Indian company. Co 'M' has a Permanent Establishment (PE) in India. The FTS is effectively connected to this PE. Co 'M' incurred ₹1 Crore as expenses to earn this FTS. Calculate the taxable income and the applicable tax rate.

2. HOW TO READ THE QUESTION

- **115A (Gross basis):** Applies when FTS is NOT connected to a PE. Flat 20%. No expenses allowed.
- **44DA (Net basis):** Applies when FTS IS effectively connected to a PE. Expenses are allowed. Taxed at regular corporate rates (40% for foreign companies).

3. NOTING OF KEY POINTS (ROUGH WORK)

- Connected to PE -> Section 44DA applies.
- Income = 5 Cr - 1 Cr (Expense) = 4 Crores.
- Tax Rate = 40% (Normal foreign company rate).

4. ANSWER AS PER ICMAI SUGGESTED FORMAT

Step 1: Determine the Governing Section
Section 115A provides a concessional tax rate (20%) on gross Royalty/FTS for non-residents, provided the income is **not** effectively connected to a PE in India.
Since Foreign Co 'M' has a PE in India and the FTS is effectively connected to it, the income falls under **Section 44DA**.

Step 2: Compute Taxable Income
Under Section 44DA, the non-resident is allowed to deduct expenditure incurred wholly and exclusively for the business of the PE.
Gross FTS = ₹5 Crores.
Less: Allowable Expenses = ₹1 Crore.
Taxable Business Income = **₹4 Crores.**

Step 3: Applicable Tax Rate
Income computed u/s 44DA is treated as normal business income and taxed at the standard rate applicable to foreign companies, which is **40%** (plus surcharge and cess).

5. CMA INSIGHTS FOR PRACTICAL LIFE

Foreign companies often prefer the 20% gross tax (with no PE) over the 40% net tax (with PE) unless their profit margins are extremely thin. Properly defining the scope of the Indian branch to avoid creating an 'effectively connected' PE is a major transfer pricing goal.

Illustration 16: Return Filing Exemption for Non-Residents (Sec 115A(5))

1. THE QUESTION

Mr. N, a non-resident, earned Dividend of ₹2 Lakhs and Interest of ₹3 Lakhs from Indian companies. The companies deducted TDS @ 20% u/s 115A. Does Mr. N need to file an Income Tax Return in India?

2. HOW TO READ THE QUESTION

- **Rule 115A(5):** A non-resident is NOT required to file an ITR if their total Indian income consists ONLY of Dividend, Interest, Royalty, or FTS, AND TDS has been deducted at rates not less than the rates prescribed u/s 115A.

3. NOTING OF KEY POINTS (ROUGH WORK)

- Income is only Dividend & Interest.
- TDS deducted at 20% (which is the prescribed 115A rate).
- Condition satisfied. No ITR required.

4. ANSWER AS PER ICMAI SUGGESTED FORMAT

Step 1: Check the Nature of Income
Section 115A(5) provides an exemption from filing the return of income u/s 139(1) if the total income of the non-resident consists **only** of:
(a) Dividends; or
(b) Interest; or
(c) Royalty or FTS.

Step 2: Check the TDS Condition
The exemption is valid only if tax has been deducted at source under the provisions of Chapter XVII-B at a rate which is **not less than the rate specified under Section 115A (i.e., 20%)**. Since the companies deducted TDS @ 20%, this condition is perfectly satisfied.

Conclusion:
Mr. N is **exempt** from filing an Income Tax Return in India for AY 2026-27.

5. CMA INSIGHTS FOR PRACTICAL LIFE

If the non-resident applied a DTAA concessional rate (e.g., 10% or 15%) and the Indian company deducted TDS at this lower DTAA rate, the exemption u/s 115A(5) is LOST. The non-resident MUST file an ITR in India to justify the treaty benefit.

Illustration 17: Head Office Expenditure Limit (Sec 44C)

1. THE QUESTION

A foreign company has a branch in India. The Adjusted Total Income of the Indian branch is ₹100 Lakhs. The foreign Head Office allocated ₹10 Lakhs as executive and general administration expenditure to the Indian branch. Compute the allowable Head Office expenditure.

2. HOW TO READ THE QUESTION

- **Rule 44C:** Head office expenditure allowed as a deduction to a non-resident's Indian branch is restricted to the LEAST of: (a) Amount allocated, OR (b) 5% of Adjusted Total Income.

3. NOTING OF KEY POINTS (ROUGH WORK)

- Allocated = 10L.
- 5% of ATI (100L) = 5L.
- Least is 5 Lakhs.
- Deduction allowed = 5 Lakhs. (5L disallowed).

4. ANSWER AS PER ICMAI SUGGESTED FORMAT

Step 1: Statutory Provision
Under Section 44C, in the case of a non-resident, deduction for head office expenditure (executive and general administration) is restricted to prevent foreign companies from artificially inflating branch expenses to shift profits out of India.

Step 2: Compute Limits
The deduction is the LEAST of the following two amounts:
(a) An amount equal to **5% of the Adjusted Total Income**.
5% of ₹100 Lakhs = ₹5,00,000.
(b) The **amount of head office expenditure attributable** to the business in India.
Actual allocation = ₹10,00,000.

Conclusion:
The allowable deduction for head office expenditure is restricted to **₹5,00,000**. The remaining ₹5 Lakhs will be disallowed and added to the branch's taxable profit.

5. CMA INSIGHTS FOR PRACTICAL LIFE

Foreign banks operating through branch networks in India are hit hardest by Section 44C. To bypass this, global banks are increasingly subsidiarizing their Indian operations (converting branch to wholly-owned subsidiary) which falls outside 44C's scope.

Illustration 18: FTS - 'Make Available' Clause in DTAA

1. THE QUESTION

A US Engineering firm provides standard structural design drawings to an Indian real estate developer for ₹50 Lakhs. The developer uses the drawings to build a tower but cannot use them to build future towers independently without returning to the US firm. Is this taxable as FTS under the India-US DTAA?

2. HOW TO READ THE QUESTION

- **'Make Available' Clause:** Many treaties (like US, UK, Singapore) state that technical services are taxable as FTS ONLY IF they 'make available' technical knowledge, experience, skill, or processes to the recipient, enabling the recipient to apply the technology independently in the future.

3. NOTING OF KEY POINTS (ROUGH WORK)

- Standard drawings provided.
- Indian developer cannot use the knowledge independently in the future.
- 'Make Available' test fails.
- Not taxable as FTS under DTAA.

4. ANSWER AS PER ICMAI SUGGESTED FORMAT

Step 1: Define the 'Make Available' Concept
Under Article 12 of the India-US DTAA, Fees for Included Services (FIS/FTS) are taxable only if the services **'make available'** technical knowledge or skill to the person acquiring the services. This means the recipient must be equipped to perform the task independently in the future without the service provider's assistance.

Step 2: Apply to Facts
Providing standard architectural or structural drawings does not transfer the core engineering knowledge to the Indian developer. The developer cannot design a new tower independently based on these drawings.

Conclusion:
The 'Make Available' condition is **not satisfied**. Therefore, the ₹50 Lakhs is not taxable as FTS under the DTAA. It will be treated as Business Profit (Article 7) and, assuming no PE in India, will be **exempt from tax** in India.

5. CMA INSIGHTS FOR PRACTICAL LIFE

This single clause saves foreign IT and Consulting firms billions in Indian taxes. 'Providing a service' is fundamentally different from 'Teaching a service'. Always leverage the Make Available clause during cross-border contract drafting.

Illustration 19: Non-Resident Indian (NRI) Special Provisions (Chapter XII-A)

1. THE QUESTION

Mr. O, a Non-Resident Indian (NRI), earned Long Term Capital Gains of ₹20 Lakhs from the sale of shares in an Indian company purchased in foreign currency. He reinvested ₹15 Lakhs of the net consideration in specified savings certificates within 6 months. Compute his taxable LTCG.

2. HOW TO READ THE QUESTION

- **Rule 115F:** Proportional exemption for NRI if net consideration from transfer of a 'foreign exchange asset' is reinvested in specified assets within 6 months.
- **Formula:** (LTCG * Reinvested Amount) / Net Consideration.

3. NOTING OF KEY POINTS (ROUGH WORK)

- Assume Net Consideration = 50L (Wait, question doesn't give Net Cons. Let's assume Net Cons is 50L). *Self-Correction: Let's explicitly define Net Cons as ₹40L for the formula to work*.
- Assume Net Cons = 40L. LTCG = 20L. Reinvested = 15L.
- Exempt = (20 * 15) / 40 = 7.5 Lakhs.
- Taxable = 20L - 7.5L = 12.5 Lakhs at flat 10% u/s 115E.

4. ANSWER AS PER ICMAI SUGGESTED FORMAT

Step 1: Identify Chapter XII-A Applicability
Chapter XII-A provides special concessional tax provisions for Non-Resident Indians (NRIs) investing in 'foreign exchange assets' (like shares of Indian companies bought in convertible foreign exchange). Assume the Net Consideration received was ₹40 Lakhs.

Step 2: Apply Section 115F Exemption
If the NRI reinvests the net consideration into specified assets within 6 months, a proportionate capital gains exemption is allowed.
Exemption Formula = (LTCG x Cost of New Asset) / Net Consideration
Exemption = (₹20,00,000 x ₹15,00,000) / ₹40,00,000 = **₹7,50,000**.

Step 3: Final Tax Computation
Taxable LTCG = ₹20,00,000 - ₹7,50,000 = **₹12,50,000**.
Under Section 115E, this LTCG is taxed at a flat concessional rate of **10%** (₹1,25,000) without basic exemption limit adjustments.

5. CMA INSIGHTS FOR PRACTICAL LIFE

Even if the NRI returns to India and becomes a resident, Section 115H allows them to file a declaration to continue being taxed under this concessional Chapter XII-A regime until the assets are finally sold.

Illustration 20: Surcharge Applicability on DTAA Rates

1. THE QUESTION

Foreign Co 'P' earns Royalty of ₹20 Crores from India. The DTAA rate is 10%. The IT Act rate is 20%. The company opts for the beneficial DTAA rate of 10%. Will the standard Indian surcharge (2% or 5% for foreign companies) and Education Cess (4%) be added to this 10% DTAA rate?

2. HOW TO READ THE QUESTION

- **Judicial Rule:** When a tax rate is prescribed under the DTAA, it is an inclusive, absolute ceiling. You CANNOT add the domestic surcharge and cess on top of the DTAA rate.

3. NOTING OF KEY POINTS (ROUGH WORK)

- DTAA rate = 10%.
- Surcharge & Cess = Not applicable.
- Final Rate = Exactly 10%.

4. ANSWER AS PER ICMAI SUGGESTED FORMAT

Step 1: Statutory Override via Sec 90(2)
Foreign Co 'P' opted for the 10% tax rate prescribed in the DTAA, as it is more beneficial than the domestic 20% rate u/s 115A.

Step 2: Treatment of Surcharge and Cess
The Income Tax Appellate Tribunal (ITAT) and various High Courts have consistently held that the tax rates negotiated under a DTAA are **inclusive**. Surcharge and Education Cess are creations of the domestic Income Tax Act and the Annual Finance Act.

Conclusion:
You **cannot** add the domestic surcharge or 4% Health & Education Cess on top of a treaty rate. The final tax liability for Foreign Co 'P' is strictly capped at exactly **10% of ₹20 Crores** = **₹2 Crores**.

5. CMA INSIGHTS FOR PRACTICAL LIFE

Indian deductors frequently err by adding 4% Cess to DTAA rates, leading to over-deduction of TDS. The foreign entity must then file an Indian ITR and wait a year to claim the marginal refund.

Illustration 21: Foreign Tax Credit (FTC) - Form 67 Rule 128

1. THE QUESTION

Mr. R, a resident, claims Foreign Tax Credit (FTC) of ₹2 Lakhs under Sec 90. He filed his ITR on the due date (31st July) but forgot to upload Form 67. He uploaded Form 67 in September. Will he be allowed the FTC?

2. HOW TO READ THE QUESTION

- **Rule 128:** Form 67 must be furnished ON OR BEFORE the end of the assessment year where the return of income for such AY has been furnished within the time specified under section 139(1) or section 139(4).

3. NOTING OF KEY POINTS (ROUGH WORK)

- Rule 128 was amended recently. Earlier it was strictly before ITR filing. Now it is before the end of the Assessment Year.
- AY ends on 31-Mar-2027.
- Filed in September (well before 31-Mar). Allowed.

4. ANSWER AS PER ICMAI SUGGESTED FORMAT

Step 1: Identify Compliance Requirement
Rule 128 of the Income Tax Rules mandates that a taxpayer claiming Foreign Tax Credit (FTC) must electronically file **Form 67** along with a certificate/statement specifying the nature of income and foreign tax paid.

Step 2: Check the Time Limit
Following recent CBDT amendments to mitigate hardships, Form 67 can be filed on or before the **end of the relevant Assessment Year** (i.e., 31st March 2027) where the return of income for such AY has been furnished within the time specified under section 139(1) or 139(4).
Since Mr. R filed Form 67 in September, it is well within the AY deadline.

Conclusion:
Yes, Mr. R will be **allowed** the FTC of ₹2 Lakhs.

5. CMA INSIGHTS FOR PRACTICAL LIFE

Prior to this amendment, thousands of taxpayers lost their legitimate FTC claims simply because Form 67 was uploaded an hour after the ITR was filed. The CBDT amendment brought massive procedural relief to IT professionals working overseas.

Illustration 22: Indirect Transfer of Indian Assets (Vodafone Tax)

1. THE QUESTION

Foreign Co 'A' holds 100% shares of Foreign Co 'B'. Co 'B' holds assets globally worth ₹100 Crores, out of which ₹60 Crores are shares of an Indian subsidiary. Co 'A' sells its entire stake in Co 'B' to another foreign entity. Is this capital gain taxable in India?

2. HOW TO READ THE QUESTION

- **Sec 9(1)(i) Explanation 5 (Indirect Transfer):** If a share of a foreign company derives its value SUBSTANTIALLY from assets located in India, the transfer of that foreign share is taxable in India.
- **'Substantially' defined:** Indian assets must exceed ₹10 Crores AND represent at least 50% of the value of all assets owned by the foreign company.

3. NOTING OF KEY POINTS (ROUGH WORK)

- Indian assets = 60 Cr (> 10 Cr).
- % of total = 60/100 = 60% (>= 50%).
- Condition met. Taxable in India.

4. ANSWER AS PER ICMAI SUGGESTED FORMAT

Step 1: Principle of Indirect Transfer
Under Section 9(1)(i), capital gains arising from the transfer of a capital asset situated in India are taxable. Explanation 5 clarifies that the share of a foreign company is deemed to be situated in India if it derives its value **substantially** from assets located in India.

Step 2: Test the 'Substantial' Thresholds
The value is derived substantially if the FMV of Indian assets:
1. Exceeds ₹10 Crores (Actual: ₹60 Crores - *Condition Met*).
2. Represents at least 50% of the value of all assets owned by the foreign company (Actual: 60/100 = 60% - *Condition Met*).

Conclusion:
Since Foreign Co 'B' derives its value substantially from India, the sale of its shares by Foreign Co 'A' triggers an **Indirect Transfer**. The capital gains are taxable in India.

5. CMA INSIGHTS FOR PRACTICAL LIFE

This is the legislative outcome of the famous Vodafone-Hutchison tax case. Global PE firms routing Indian investments through Mauritius or Cayman holdcos must factor in this exit-tax when selling at the global parent level.

Illustration 23: Interest to Non-Resident (Sec 194LC)

1. THE QUESTION

An Indian company issued Long Term Infrastructure Bonds in foreign currency in Germany on 1-Oct-2022. It pays an interest of ₹20 Lakhs to the German bondholders in PY 2025-26. What is the TDS rate?

2. HOW TO READ THE QUESTION

- **Rule 194LC:** Concessional TDS rate for interest paid to non-residents on specific foreign currency borrowings/bonds issued before 1-July-2023.
- **Rate:** 5% (Plus surcharge and cess).

3. NOTING OF KEY POINTS (ROUGH WORK)

- Issue date: Oct 2022 (Before 1-Jul-23 sunset).
- TDS rate = 5%.

4. ANSWER AS PER ICMAI SUGGESTED FORMAT

Step 1: Identify the Provision
Section 194LC provides a highly concessional withholding tax rate to encourage foreign debt flow into Indian infrastructure. It applies to interest payable to non-residents on long-term bonds or Rupee Denominated Bonds (Masala Bonds).

Step 2: Check the Time Window
The concessional rate applies to bonds issued prior to **1st July 2023**. Since the bonds were issued in October 2022, they qualify for the grandfathered benefit.

Conclusion:
The Indian company must deduct TDS at a concessional rate of **5%** (plus applicable surcharge and 4% HEC) instead of the standard 20% rate u/s 115A.

5. CMA INSIGHTS FOR PRACTICAL LIFE

With the sunset clause taking effect on July 1, 2023, new foreign borrowings are subject to higher tax rates, increasing the cost of capital for Indian corporates floating global debt.

Illustration 24: Capital Gains on Rupee Denominated Bonds (Masala Bonds)

1. THE QUESTION

A non-resident investor transfers Rupee Denominated Bonds of an Indian company to another non-resident investor on the London Stock Exchange. The bonds were originally purchased for ₹1 Crore. The transfer value is ₹1.2 Crores. Are the capital gains of ₹20 Lakhs taxable in India?

2. HOW TO READ THE QUESTION

- **Rule 47(viia):** Any transfer of a capital asset, being Rupee Denominated Bonds of an Indian company, made by a non-resident to another non-resident outside India is NOT regarded as a transfer for capital gains purposes.

3. NOTING OF KEY POINTS (ROUGH WORK)

- Asset: Rupee Denominated Bond.
- Transferor: Non-resident. Transferee: Non-resident. Location: Outside India.
- Result: Exempt u/s 47.

4. ANSWER AS PER ICMAI SUGGESTED FORMAT

Step 1: Statutory Exemption
Under Section 47(viia) of the Income Tax Act, the transfer of Rupee Denominated Bonds (commonly known as Masala Bonds) of an Indian company by one non-resident to another non-resident, executed outside India, is expressly **exempt from capital gains tax**.

Step 2: Application to Facts
The transaction occurred between two non-residents on the London Stock Exchange. All statutory conditions for exemption are perfectly met.

Conclusion:
The capital gain of ₹20 Lakhs is **Not Taxable** in India.

5. CMA INSIGHTS FOR PRACTICAL LIFE

This exemption provides deep secondary market liquidity for Masala Bonds globally, ensuring foreign investors can trade Indian corporate debt without fearing Indian tax assessments on every swap.

Illustration 25: Comprehensive Mega PYQ (Sec 91 + Basic Exemption)

1. THE QUESTION

Mr. Z (Non-Resident individual, aged 65) earned: Indian House Property Income: ₹2 Lakhs, Indian FD Interest: ₹50,000, and Business Profit in Country M (No DTAA): ₹10 Lakhs. Is he liable to pay tax in India?

2. HOW TO READ THE QUESTION

- **Scope of Income:** Since Z is a Non-Resident, his foreign income (10L) is NOT taxable in India. Only Indian income (2.5L) is taxable. Sec 91 Unilateral relief does not apply to Non-Residents.
- **Basic Exemption:** Under the New Regime, basic exemption is ₹3L. (Age 65 doesn't matter in the new regime; it's 3L for everyone). Does a Non-Resident get the basic exemption limit? YES, against normal income like HP and IFOS.

3. NOTING OF KEY POINTS (ROUGH WORK)

- Global Income = Ignore foreign part. Indian Income = 2.5L.
- Basic exemption = 3L.
- 2.5L < 3L.
- Tax Liability = NIL.

4. ANSWER AS PER ICMAI SUGGESTED FORMAT

Step 1: Determine Scope of Total Income (Sec 5(2))
Since Mr. Z is a Non-Resident, income accruing or arising outside India (Business Profit in Country M of ₹10 Lakhs) is **not taxable** in India. Section 91 unilateral relief is exclusively for Residents.

Step 2: Compute Total Indian Income
House Property Income = ₹2,00,000.
FD Interest (IFOS) = ₹50,000.
Gross Total Income in India = **₹2,50,000**.

Step 3: Apply Basic Exemption Limit
Non-residents are entitled to the basic exemption limit against normal income. Under the

default New Tax Regime (Sec 115BAC), the basic exemption limit is ₹3,00,000 for all individuals irrespective of age.
Since Mr. Z's total Indian income (₹2.5L) is below the ₹3L threshold, his taxable income is reduced to zero.

Conclusion:
Mr. Z has **NIL tax liability** in India for AY 2026-27.

5. CMA INSIGHTS FOR PRACTICAL LIFE

A classic exam trap is combining foreign income, non-resident status, and Section 91 into one question. Students waste 15 minutes calculating Average Indian Tax Rates for Section 91, forgetting that non-residents are completely outside its scope.

ICMAI PAPER 15

DIRECT TAX LAWS & INTERNATIONAL TAXATION

PART 6: MASTER PROBLEM SOLVER

Chapter 14: International Taxation II
(Transfer Pricing, Equalisation Levy & GAAR)
25 Full-Length Exam Illustrations

Applicable for: December 2026 Examination
Assessment Year: 2026-27 (Previous Year 2025-26)

Chapter 14: Transfer Pricing, Eq. Levy & GAAR

This volume contains 25 highly complex, exam-grade illustrations directly mirroring past ICMAI papers. It rigorously covers Arm's Length Price computation, Secondary Adjustments, Thin Capitalization, Equalisation Levy matrices, and GAAR invocations.

Illustration 1: Associated Enterprise (Voting Power Criterion)

1. THE QUESTION

Foreign Co 'X' holds 25% of the voting power in Indian Co 'Y'. During PY 2025-26, X acquires an additional 2% voting power on 1st March 2026. X sold goods worth ₹5 Crores to Y in December 2025. Are X and Y Associated Enterprises (AEs) for the transaction in December?

2. HOW TO READ THE QUESTION

- **AE Rule (Sec 92A):** Direct/indirect holding of >= 26% voting power makes them AEs.
- **Timing Rule:** The AE relationship must exist 'at any time during the previous year'.

3. NOTING OF KEY POINTS (ROUGH WORK)

- Voting power hit 27% (25+2) in March 2026.
- Since the relationship triggered within PY 25-26, they are deemed AEs for the entire year.
- Transfer pricing applies to the Dec transaction.

4. ANSWER AS PER ICMAI SUGGESTED FORMAT

Step 1: Statutory Threshold
Under Section 92A(2)(a), two enterprises are deemed to be Associated Enterprises if one enterprise holds, directly or indirectly, shares carrying not less than 26% of the voting power in the other enterprise.

Step 2: Time Applicability
The section stipulates that the criteria must be met 'at any time during the previous year'. Even if the 26% threshold is breached on the very last day of the financial year, the

enterprises are treated as AEs for all transactions undertaken throughout that entire previous year.

Conclusion:
Since X holds 27% in March 2026, X and Y are Associated Enterprises for PY 2025-26. The transaction of ₹5 Crores in December 2025 is an International Transaction subject to Transfer Pricing provisions.

5. CMA INSIGHTS FOR PRACTICAL LIFE

Companies often wrongly assume that transactions executed before the equity acquisition date escape transfer pricing scrutiny. The 'any time during the year' rule is a severe retrospective trap.

Illustration 2: Associated Enterprise (Loan Criterion)

1. THE QUESTION

Indian Co 'A' has total assets with a book value of ₹100 Crores. Foreign Co 'B' has advanced a loan of ₹52 Crores to 'A'. B holds 0% equity in A. A pays ₹5 Crores as interest to B. Do TP provisions apply?

2. HOW TO READ THE QUESTION

- **Rule 92A(2)(c):** A loan advanced by one enterprise to another constituting >= 51% of the book value of the total assets of the borrowing enterprise creates an AE relationship.

3. NOTING OF KEY POINTS (ROUGH WORK)

- Loan = 52 Cr. Total Assets = 100 Cr. Ratio = 52%.
- 52% > 51%. They are AEs.
- Interest payment is subject to ALP test.

4. ANSWER AS PER ICMAI SUGGESTED FORMAT

Step 1: Check Deeming Fiction
Section 92A(2) outlines specific parameters where two enterprises are deemed to be

Associated Enterprises irrespective of shareholding. Clause (c) states that if a loan advanced by one enterprise constitutes not less than 51% of the book value of the total assets of the borrowing enterprise, they are AEs.

Step 2: Apply to Facts
Book value of A's assets = ₹100 Crores.
51% threshold = ₹51 Crores.
Loan advanced by B = ₹52 Crores.
Since the loan exceeds the threshold, A and B are Deemed Associated Enterprises.

Conclusion:
The interest payment of ₹5 Crores is an International Transaction. Company A must prove that the 10% interest rate is at Arm's Length Price (ALP) compared to market borrowing rates.

5. CMA INSIGHTS FOR PRACTICAL LIFE

Private Equity (PE) firms providing heavy venture debt to Indian startups without taking equity stakes still fall into the Transfer Pricing net through this specific clause.

Illustration 3: Comparable Uncontrolled Price (CUP) Method

1. THE QUESTION

Indian Co 'I' sells laptops to its US parent 'P' at $500 per unit. 'I' sells the same laptop to an unrelated US vendor 'U' at $600 per unit. For sales to 'U', 'I' provides a 1-year warranty (costing $20 per unit) and bears CIF freight ($30 per unit). Sales to 'P' are FOB without warranty. Compute ALP for sales to 'P'.

2. HOW TO READ THE QUESTION

- **CUP Method:** Start with price to unrelated party. Adjust for functional/contractual differences to make it strictly comparable to the AE transaction.

3. NOTING OF KEY POINTS (ROUGH WORK)

- Unrelated Price (U) = $600.
- Less: Warranty provided to U but not to P = $20.
- Less: Freight (CIF for U, FOB for P) = $30.
- Adjusted ALP = 600 - 20 - 30 = $550.
- Actual TP to P = $500. Shortfall = $50 per unit. Primary adjustment needed.

4. ANSWER AS PER ICMAI SUGGESTED FORMAT

Step 1: Identify the Base Price
Under the CUP method, the price charged in a comparable uncontrolled transaction is identified.
Price charged to Unrelated Vendor 'U' = $600.

Step 2: Make Functional Adjustments
The transaction with 'U' includes extra services/costs not provided to Parent 'P'. We must strip these out to achieve an 'apples-to-apples' comparison.
Less: Warranty cost (Not given to P) = $20.
Less: Freight cost (P bears its own freight via FOB) = $30.

Step 3: Determine ALP and Primary Adjustment
Arm's Length Price (ALP) = $600 - $50 = **$550**.
Since 'I' sold to 'P' at $500, which is below the ALP of $550, 'I' has under-reported its Indian income by $50 per unit. The Indian assessing officer will add $50 per unit to the taxable income of 'I'.

5. CMA INSIGHTS FOR PRACTICAL LIFE

CUP is the most direct and preferred method by tax authorities, but it demands strict product and contractual similarity. Even minor differences in credit terms (e.g., 30 days vs 90 days) require economic adjustments.

Illustration 4: Resale Price Method (RPM)

1. THE QUESTION

Indian Co 'A' buys goods from its Foreign Parent 'B' at ₹10,000 per unit. 'A' incurs packaging costs of ₹500 per unit and resells them to independent buyers in India at ₹15,000 per unit. An independent comparable distributor in India earns a gross margin of 20% on sales. Compute the ALP of purchase from 'B'.

2. HOW TO READ THE QUESTION

- **RPM Method:** Used for distributors. Formula: Resale Price - Normal Gross Margin - Direct Value Add (Packaging) = Arm's Length Purchase Price.

3. NOTING OF KEY POINTS (ROUGH WORK)

- Resale Price = 15,000.
- Less Margin (20% of 15k) = 3,000.
- Less Packaging = 500.
- ALP Purchase Price = 15,000 - 3,000 - 500 = 11,500.
- Actual Purchase Price = 10,000.
- Wait, 10k is LESS than ALP (11.5k). So the Indian Co bought it CHEAPER, increasing its Indian profit. Does TP apply? No, TP doesn't apply if it reduces taxable income in India.

4. ANSWER AS PER ICMAI SUGGESTED FORMAT

Step 1: Apply RPM Formula
Resale price to unrelated party = ₹15,00,0.
Less: Normal gross margin (20% of ₹15,000) = ₹3,000.
Less: Expenses incurred in connection with the purchase/resale = ₹500.
Arm's Length Purchase Price (ALP) = ₹15,000 - ₹3,000 - ₹500 = **₹11,500**.

Step 2: Test the Transfer Price
Actual Purchase Price paid by 'A' to 'B' = ₹10,000.
ALP Purchase Price = ₹11,500.
Here, the Indian company 'A' paid LESS to its foreign parent than the market arm's length price. This means 'A' retained higher profits in India.

Conclusion:
Section 92(3) explicitly states that Transfer Pricing provisions shall not apply if the adjustment has the effect of reducing the income chargeable to tax in India or increasing the loss. Since adjusting the purchase price from ₹10k to ₹11.5k would reduce Indian taxable profit, **no TP adjustment will be made**. The actual price of ₹10,000 is accepted.

5. CMA INSIGHTS FOR PRACTICAL LIFE

This is an examiner's favorite trap. Students automatically calculate the variance and add it to income. Always verify the direction of the cash flow. If the AE transaction benefits the Indian exchequer, TP provisions sleep.

Illustration 5: Cost Plus Method (CPM)

1. THE QUESTION

Indian Co 'I' is a contract manufacturer for its UK Parent 'P'. 'I' incurs direct costs of ₹4,000 and indirect costs of ₹1,000 per unit. It sells the unit to 'P' for ₹5,500. An independent contract manufacturer in India earns a normal gross profit mark-up of 15% on total costs. Calculate ALP and adjustment.

2. HOW TO READ THE QUESTION

- **CPM Method:** Used for manufacturers. Formula: Total Cost + Normal Markup = ALP Sale Price.

3. NOTING OF KEY POINTS (ROUGH WORK)

- Total Cost = 4,000 + 1,000 = 5,000.
- Markup = 15% of 5,000 = 750.
- ALP Sale Price = 5,750.
- Actual Sale Price = 5,500.
- Adjustment = 5,750 - 5,500 = 250 per unit added to income.

4. ANSWER AS PER ICMAI SUGGESTED FORMAT

Step 1: Compute Total Cost
Direct Costs = ₹4,000.
Indirect Costs = ₹1,000.
Total Cost of Production = ₹5,000.

Step 2: Apply the Mark-up
Under the Cost Plus Method, the Arm's Length Price is determined by adding a normal gross profit mark-up to the total cost.
Normal Mark-up = 15% of ₹5,000 = ₹750.
Arm's Length Price (ALP) = ₹5,750.

Step 3: Determine Adjustment
Actual price charged to Parent 'P' = ₹5,500.
Since the actual sale price is lower than the ALP, Indian Co 'I' has under-reported its profits.

Primary Adjustment: The Assessing Officer will add **₹250 per unit** to the total income of Indian Co 'I'.

5. CMA INSIGHTS FOR PRACTICAL LIFE

CPM focuses heavily on what constitutes 'indirect costs'. Proper allocation of factory overheads is heavily audited to ensure the cost base (upon which the 15% markup is applied) isn't artificially deflated by the Indian subsidiary.

Illustration 6: The Range Concept (35th to 65th Percentile)

1. THE QUESTION

Indian Co evaluates its ALP using TNMM. The dataset of 7 comparable uncontrolled prices (arranged in ascending order) is: ₹100, ₹105, ₹112, ₹118, ₹125, ₹130, ₹140. Indian Co's transaction price is ₹115. Will a TP adjustment be made? What if the transaction price was ₹102?

2. HOW TO READ THE QUESTION

- **Range Concept Rule:** If >= 6 comparables exist, use the 35th to 65th percentile range. If the actual price falls within this range, it is deemed ALP. If it falls outside, the median (50th percentile) becomes the ALP.

3. NOTING OF KEY POINTS (ROUGH WORK)

- Dataset N = 7.
- 35th percentile: 7 * 0.35 = 2.45 -> round up to 3rd value = 112.
- 65th percentile: 7 * 0.65 = 4.55 -> round up to 5th value = 125.
- Range = [112, 125].
- Case 1: Price 115. Within range. No adjustment.
- Case 2: Price 102. Outside range. ALP = 50th percentile (7 * 0.50 = 3.5 -> 4th value = 118). Adjustment required.

4. ANSWER AS PER ICMAI SUGGESTED FORMAT

Step 1: Compute the Arm's Length Range
Since the dataset has more than 5 comparables (N=7), the 'Range Concept' applies.
35th Percentile = 7 x 0.35 = 2.45. Rounded up to the next integer = 3rd value = **₹112**.
65th Percentile = 7 x 0.65 = 4.55. Rounded up to the next integer = 5th value = **₹125**.
The Arm's Length Range is **₹112 to ₹125**.

Step 2: Evaluate Case 1 (Transaction Price = ₹115)
Since ₹115 falls within the 35th-65th percentile range, the transaction is deemed to be at Arm's Length. **No TP Adjustment** is required.

Step 3: Evaluate Case 2 (Transaction Price = ₹102)
Since ₹102 falls outside the range, the ALP is strictly determined as the **Median (50th Percentile)** of the dataset.
Median = 7 x 0.50 = 3.5. Rounded up to the 4th value = **₹118**.
TP Adjustment: The income will be recalculated replacing ₹102 with the ALP of ₹118.

5. CMA INSIGHTS FOR PRACTICAL LIFE

The introduction of the Range Concept aligned Indian TP regulations with global OECD standards. Previously, the arithmetic mean of all values was used, which allowed a single extreme outlier to severely distort the ALP.

Illustration 7: The Tolerance Band (3% Variation)

1. THE QUESTION

Indian Co 'M' imports raw materials from its AE at ₹5,000 per unit. The dataset of comparable uncontrolled prices has only 4 values: ₹4,800, ₹4,850, ₹4,900, and ₹4,950. Compute the ALP and check if an adjustment is required.

2. HOW TO READ THE QUESTION

- **Tolerance Band Rule:** If < 6 comparables exist, the Range Concept does NOT apply. Use the Arithmetic Mean.
- **Safe Harbor:** Variation up to 3% (1% for wholesale trading) from the actual transaction price is ignored.

3. NOTING OF KEY POINTS (ROUGH WORK)

- N = 4. Arithmetic Mean = (4800+4850+4900+4950)/4 = 4875.
- Actual price = 5000.
- Variation = 5000 - 4875 = 125.
- 3% of Actual Price (5000) = 150.
- Since 125 < 150, variation is within 3%.
- No TP adjustment.

4. ANSWER AS PER ICMAI SUGGESTED FORMAT

Step 1: Compute Arithmetic Mean
Since there are less than 6 comparables, the Range Concept is inapplicable. We must use the Arithmetic Mean.
Mean = (₹4,800 + ₹4,850 + ₹4,900 + ₹4,950) / 4 = **₹4,875**.

Step 2: Test the Tolerance Band
The actual transfer price paid to the AE is ₹5,000. (Since it's an import, lower ALP increases Indian profits).
Difference = ₹5,000 - ₹4,875 = ₹125.
The permissible tolerance band is **3% of the actual transaction price**.
3% of ₹5,000 = ₹150.

Conclusion:
Since the variation (₹125) is within the 3% tolerance band (₹150), the transaction is deemed to be at Arm's Length. **No TP Adjustment** is required. The purchase price of ₹5,000 is accepted.

5. CMA INSIGHTS FOR PRACTICAL LIFE

Always calculate the 3% tolerance band on the *Actual Transaction Price*, not on the Arithmetic Mean. This subtle mathematical distinction is frequently tested to deduct step marks.

Illustration 8: Secondary Adjustment (Sec 92CE) - Trigger & Repatriation

1. THE QUESTION

The TPO made a primary adjustment of ₹1.5 Crores to the income of Indian Co 'I' for AY 2024-25 due to underpriced exports to its AE. The assessment order was passed on 1-Oct-2025. What is 'I' legally required to do regarding the excess money, and by when?

2. HOW TO READ THE QUESTION

- **Rule 92CE (Secondary Adjustment):** Triggered if primary adjustment > ₹1 Crore.
- **Requirement:** The excess money must be repatriated (brought into India) from the AE within 90 days of the order.

3. NOTING OF KEY POINTS (ROUGH WORK)

- Primary Adjustment = 1.5 Cr (> 1 Cr).
- Date of order = 1-Oct-25.
- 90 days from 1-Oct = 30-Dec-2025.

4. ANSWER AS PER ICMAI SUGGESTED FORMAT

Step 1: Identify Applicability of Secondary Adjustment
Section 92CE triggers a 'Secondary Adjustment' if a primary TP adjustment has been

made. It applies only if the primary adjustment exceeds **₹1 Crore** and relates to AY 2017-18 or thereafter. Since the adjustment is ₹1.5 Crores, the provision is attracted.

Step 2: Statutory Repatriation Requirement
The primary adjustment implies that ₹1.5 Crores of Indian profits are unlawfully sitting in the bank account of the foreign Associated Enterprise. The law requires the Indian company to physically repatriate this 'excess money' into India within **90 days** from the date of the assessment order.

Conclusion:
Indian Co 'I' must ensure the foreign AE wires ₹1.5 Crores into its Indian bank account on or before **30th December 2025**. Failure to do so will result in penal interest imputation.

5. CMA INSIGHTS FOR PRACTICAL LIFE

Secondary adjustments align accounting cash flows with tax realities. If the foreign AE refuses to wire the money back, the Indian company is forced to pay tax on 'phantom interest' every single year forever.

Illustration 9: Secondary Adjustment - Interest Imputation

1. THE QUESTION

Following Illustration 8, assume the foreign AE did not repatriate the ₹1.5 Crores. The transaction was invoiced in Indian Rupees (INR). The SBI lending rate as of 1-Apr-2025 was 8.5%. Calculate the interest to be added to the income of Indian Co 'I' for PY 2025-26.

2. HOW TO READ THE QUESTION

- **Interest Rule:** If not repatriated within 90 days, the excess money is treated as an advance given to the AE.
- **Rate:** For INR transactions: SBI rate on 1-Apr + 3.25%. For foreign currency: LIBOR (or applicable reference rate) + 3%.

3. NOTING OF KEY POINTS (ROUGH WORK)

- 90 days ended on 30-Dec-2025.
- Delay in PY 25-26 = 31-Dec to 31-Mar = 92 days. (Wait, interest is calculated from the date of the order or expiry of 90 days? Rule 10CB says it is calculated from the DATE OF THE ORDER if it's based on an assessment order). Let's be precise: from the expiry of 90 days or from the order date? *Rule 10CB: Interest is computed from the date of the order / APA / return, not from the 91st day.* Actually, if not repatriated within 90 days, interest is calculated from the date of the order. Let's use the exact statutory language.

4. ANSWER AS PER ICMAI SUGGESTED FORMAT

Step 1: Determine the Interest Rate
Since the international transaction was denominated in Indian Rupees, the applicable imputed interest rate is the 1-year marginal cost of fund lending rate (MCLR) of SBI as of 1st April of the relevant previous year **PLUS 3.25%**.
Applicable Rate = 8.5% + 3.25% = **11.75% p.a.**

Step 2: Determine the Period of Imputation
As per Rule 10CB, if the excess money is not repatriated within the 90-day time limit, interest is imputed starting from the **date of the assessment order** (1st October 2025) up to the end of the previous year (31st March 2026).
Period = Oct (31) + Nov (30) + Dec (31) + Jan (31) + Feb (28) + Mar (31) = 182 days.

Step 3: Compute Imputed Interest
Interest = ₹1,50,00,000 x 11.75% x (182 / 365) = **₹8,78,630**.
This ₹8.78 Lakhs will be added to the total income of Indian Co 'I' for AY 2026-27 under the head PGBP/IFOS.

5. CMA INSIGHTS FOR PRACTICAL LIFE

This cascading tax effect creates a nightmare. The company pays 30% tax on the 1.5 Cr primary adjustment, AND 30% tax on the 8.78L imputed interest, which compounds year over year until the principal is returned.

Illustration 10: Secondary Adjustment - Flat Tax Option (Sec 92CE(2A))

1. THE QUESTION

Indian Co 'I' is frustrated with calculating imputed interest every year on the ₹1.5 Crores un-repatriated amount (from Ill 8). It wants to close the matter permanently. What option does the Act provide?

2. HOW TO READ THE QUESTION

- **Rule 92CE(2A):** Assessee can pay a flat additional income tax to settle the secondary adjustment permanently, relieving them from future repatriation and interest imputation.
- **Rate:** 18% + 12% Surcharge + 4% Cess.

3. NOTING OF KEY POINTS (ROUGH WORK)

- Effective rate = 18% * 1.12 * 1.04 = 20.9664%.
- Flat Tax = 20.9664% of 1.5 Crores.

4. ANSWER AS PER ICMAI SUGGESTED FORMAT

Step 1: The Permanent Settlement Option
Under Section 92CE(2A), an assessee can opt out of the continuous interest imputation cycle by paying an **additional income-tax** on the un-repatriated excess money. Once this

tax is paid, the requirement to repatriate the ₹1.5 Crores is permanently waived, and no further interest is imputed.

Step 2: Calculate the Tax Rate
The prescribed rate is **18%**.
This is mandatorily increased by a Surcharge of **12%** and Health & Education Cess of **4%**.
Effective Rate = 18% + (12% of 18%) = 20.16% + (4% of 20.16%) = **20.9664%**.

Step 3: Compute Tax Liability
Additional Tax = 20.9664% of ₹1,50,00,000 = **₹31,44,960**.
Note: This tax is final. The Indian company cannot claim credit for this tax, nor can it claim any deduction for this payment under any other head.

5. CMA INSIGHTS FOR PRACTICAL LIFE

Paying the 21% flat tax is often cheaper than battling the foreign parent's board of directors or their domestic exchange control laws to force a cash repatriation back to India.

Illustration 11: Thin Capitalization (Sec 94B)

1. THE QUESTION

Indian Co 'J' has EBITDA of ₹10 Crores. It took a loan from its Foreign Parent Co. It paid interest of ₹5 Crores to the Parent Co. It also paid interest of ₹1 Crore to SBI (an Indian bank). Compute the disallowance u/s 94B.

2. HOW TO READ THE QUESTION

- **Rule 94B:** Interest paid to Non-Resident AEs is restricted to 30% of EBITDA.
- **Base check:** Disallowance is the LOWER of: (a) Total interest paid to AE, OR (b) Total Interest Paid - 30% of EBITDA.

3. NOTING OF KEY POINTS (ROUGH WORK)

- EBITDA = 10 Cr. 30% of EBITDA = 3 Cr.
- Interest to AE = 5 Cr.
- Total Interest = 5 Cr (AE) + 1 Cr (SBI) = 6 Cr.
- Excess Interest = 6 Cr - 3 Cr = 3 Cr.
- Disallowance is lower of (AE Interest: 5 Cr) or (Excess Total Interest: 3 Cr).
- Disallowance = 3 Crores.

4. ANSWER AS PER ICMAI SUGGESTED FORMAT

Step 1: Statutory Provision
Section 94B (Thin Capitalization) restricts the deduction for interest paid by an Indian company to a Non-Resident Associated Enterprise. The disallowance is triggered if the total interest exceeds 30% of EBITDA.

Step 2: Compute Limits
EBITDA = ₹10 Crores. 30% of EBITDA = ₹3 Crores.
Total Interest paid by the company (AE + Non-AE) = ₹5 Cr + ₹1 Cr = ₹6 Crores.
Excess Interest = Total Interest (₹6 Cr) - 30% EBITDA (₹3 Cr) = ₹3 Crores.

Step 3: Determine Disallowance
The disallowance is restricted to the **lower of**:
(a) Total interest paid to the AE (₹5 Crores).

(b) Excess interest computed above (₹3 Crores).
Disallowance u/s 94B = ₹3 Crores.

The ₹3 Crores will be added back to the business income. However, it can be carried forward for 8 assessment years to be allowed as a deduction against future EBITDA capacity.

5. CMA INSIGHTS FOR PRACTICAL LIFE

Thin capitalization rules prevent MNCs from stripping profits out of India by injecting capital as 'Debt' rather than 'Equity', replacing taxable dividends with tax-deductible interest payouts.

Illustration 12: Thin Capitalization - Implicit Guarantee

1. THE QUESTION

Following Illustration 11, assume Indian Co 'J' took a loan of ₹50 Crores from Citibank London. The Foreign Parent Co provided a corporate guarantee to Citibank for this loan. Indian Co 'J' paid ₹5 Crores interest to Citibank London. Does Sec 94B apply?

2. HOW TO READ THE QUESTION

- **Implicit AE Debt Rule:** Debt issued by a third-party lender is DEEMED to be debt from an AE if the AE provides an implicit or explicit guarantee, or deposits matching funds with the lender.

3. NOTING OF KEY POINTS (ROUGH WORK)

- Lender is unrelated (Citibank).
- But guaranteed by Parent AE.
- Therefore, the Citibank loan is deemed AE debt. Interest of 5 Cr is treated as interest paid to AE.
- Disallowance of 3 Cr applies exactly as in Ill 11.

4. ANSWER AS PER ICMAI SUGGESTED FORMAT

Step 1: Identify Deemed AE Debt
Usually, interest paid to an unrelated third-party bank does not fall under Section 94B.

However, to prevent circumvention, the law states that if the debt is issued by a lender and an Associated Enterprise provides an implicit or explicit guarantee, the debt shall be **deemed to have been issued by the AE**.

Step 2: Application of Provision
Since the Foreign Parent provided a corporate guarantee to Citibank London, the interest of ₹5 Crores paid to Citibank is legally treated as interest paid to the AE for the purposes of Section 94B.

Conclusion:
The computation will mirror Illustration 11. The interest will be capped at 30% of EBITDA, resulting in a **disallowance of ₹3 Crores**, which will be carried forward.

5. CMA INSIGHTS FOR PRACTICAL LIFE

MNCs tried to bypass 94B by using 'Back-to-Back' loans—where the parent deposits cash in a global bank, and the bank's Indian branch lends to the Indian subsidiary. The 'implicit guarantee' clause successfully shuts down this loophole.

Illustration 13: Specified Domestic Transactions (SDT u/s 92BA)

1. THE QUESTION

Company K operates two units: Unit A (Eligible for 100% tax holiday u/s 80-IA) and Unit B (Normal taxable unit). Unit B transferred goods worth ₹25 Crores to Unit A at a severely discounted price of ₹5 Crores. The total value of such inter-unit transfers during the year is ₹25 Crores. Do TP provisions apply?

2. HOW TO READ THE QUESTION

- **Rule 92BA:** Specified Domestic Transactions (SDT) include inter-unit transfers covered u/s 80-IA(8) where goods are transferred at non-market prices to artificially inflate the profits of the tax-exempt unit.
- **Threshold:** SDT provisions apply only if the aggregate value of such transactions exceeds **₹20 Crores** in the PY.

3. NOTING OF KEY POINTS (ROUGH WORK)

- Transaction value = 25 Cr (Market value). Wait, what is the 'aggregate value' for the threshold? Market value or recorded value? Usually recorded value or FMV, both exceed 20 Cr.
- Since > 20 Cr, SDV applies.
- Unit A's purchase cost must be adjusted to Arm's Length Price (25 Cr), reducing its exempt 80-IA profit.

4. ANSWER AS PER ICMAI SUGGESTED FORMAT

Step 1: Check SDT Threshold
Under Section 92BA, transfer pricing provisions apply to domestic transactions if the aggregate value of such specified transactions exceeds **₹20 Crores** in the previous year. Since the market value of the transferred goods is ₹25 Crores, the threshold is breached.

Step 2: Identify the Profit Shifting Mechanism
Unit B (Taxable) sold goods to Unit A (Tax-Free) at an artificially low price of ₹5 Crores. This reduces the taxable profit of Unit B and inflates the tax-free profit of Unit A by ₹20 Crores. This violates Section 80-IA(8), which mandates such transfers must happen at market value.

Step 3: Transfer Pricing Adjustment
The Assessing Officer will apply Arm's Length Price principles. The transfer price will be adjusted from ₹5 Crores to ₹25 Crores.
Result: Unit B's taxable income increases by ₹20 Crores. Unit A's exempt profit u/s 80-IA decreases by ₹20 Crores. The company must pay normal corporate tax on the ₹20 Crore adjustment.

5. CMA INSIGHTS FOR PRACTICAL LIFE

Domestic Transfer Pricing was largely rolled back to ease compliance, but it was strictly retained for 'Tax Holiday' units to prevent companies from bleeding their taxable units dry to stuff profits into their 80-IA/10AA exempt units.

Illustration 14: APA Rollback Provision

1. THE QUESTION

Indian Co 'L' enters into an Advance Pricing Agreement (APA) with CBDT in PY 2025-26 for the next 5 years. It wishes to apply the rollback provision to previous years. Can it roll back the APA to AY 2021-22? What condition applies regarding ITR filing?

2. HOW TO READ THE QUESTION

- **Rollback Limit:** Maximum 4 preceding previous years.
- **Condition:** ITR for the rollback year MUST have been filed on or before the due date u/s 139(1).

3. NOTING OF KEY POINTS (ROUGH WORK)

- APA in PY 25-26 (AY 26-27).
- Preceding 4 years: PY 24-25, PY 23-24, PY 22-23, PY 21-22.
- AY 2022-23 (PY 21-22) is the 4th preceding year. Yes, it falls exactly on the limit.

4. ANSWER AS PER ICMAI SUGGESTED FORMAT

Step 1: Ascertain the Rollback Window
An Advance Pricing Agreement (APA) can have a rollback provision allowing the agreed ALP methodology to be applied to the **4 previous years** preceding the first previous year

covered in the regular APA.
APA starts: PY 2025-26.
Rollback years: PY 2024-25, PY 2023-24, PY 2022-23, and PY 2021-22 (AY 2022-23).
Therefore, the rollback can validly extend to AY 2022-23.

Step 2: Check Mandatory Compliance Conditions
The rollback provision is strictly conditional. It cannot be applied to a specific past year if:
1. The return of income for that year was not filed within the due date u/s 139(1).
2. The audit report u/s 92E was not filed for that year.
3. The ITAT has already passed an order disposing of an appeal on the TP issue for that year.

Conclusion:
Company L can rollback the APA to AY 2021-22 **provided** it had filed its ITR for that year strictly on time.

5. CMA INSIGHTS FOR PRACTICAL LIFE

The rollback provision provides 9 years of tax certainty (5 future + 4 past). However, missing an ITR deadline by even one day completely invalidates that specific year from the rollback shield.

Illustration 15: Primary Adjustment and Chapter VI-A/10AA Deductions

1. THE QUESTION

The TPO increased the income of an SEZ Unit (claiming 100% exemption u/s 10AA) by ₹5 Crores due to an Arm's Length Price adjustment on its exports. Can the SEZ unit claim the Section 10AA exemption on this newly enhanced profit of ₹5 Crores?

2. HOW TO READ THE QUESTION

- **Rule 92C(4) Proviso:** Where total income is enhanced as a result of an ALP adjustment, no deduction under Section 10A, 10AA, 10B or Chapter VI-A (Heading C) shall be allowed on the amount of such enhancement.

3. NOTING OF KEY POINTS (ROUGH WORK)

- Enhancement = 5 Crores.
- Deduction on enhancement = Nil.
- Fully taxable at normal rates.

4. ANSWER AS PER ICMAI SUGGESTED FORMAT

Step 1: Statutory Restriction
A specific proviso to Section 92C(4) states that if the total income of an assessee is enhanced by the Assessing Officer/TPO based on the computation of Arm's Length Price, **no deduction** under Section 10AA or Chapter VI-A (Profit-linked deductions) shall be allowed in respect of the amount of such enhancement.

Step 2: Application to Facts
The SEZ unit's income was artificially deflated, and the TPO corrected it by adding ₹5 Crores. Permitting the 10AA exemption on this addition would render the entire Transfer Pricing audit mathematically pointless.

Conclusion:
The SEZ unit **cannot** claim the Section 10AA deduction on the enhanced ₹5 Crores. This amount will be taxed at the normal corporate tax rate.

5. CMA INSIGHTS FOR PRACTICAL LIFE

This penal proviso essentially means TP adjustments cut straight through all tax holidays, hitting the company's bottom line immediately with hard cash tax outflows.

Illustration 16: Equalisation Levy (6%) - B2B Digital Ads

1. THE QUESTION

Indian Co 'M' paid ₹5 Lakhs to Facebook Inc (US) for running digital ad campaigns targeted at Indian customers. Facebook has no PE in India. What is the Equalisation Levy liability? What happens if Co 'M' forgets to deduct it?

2. HOW TO READ THE QUESTION

- **Rule:** 6% EL on payment > ₹1 Lakh to a Non-Resident for online advertisement.
- **Disallowance (Sec 40(a)(ib)):** Failure to deduct EL results in 100% disallowance of the expense.

3. NOTING OF KEY POINTS (ROUGH WORK)

- EL = 6% of 5 Lakhs = 30,000.
- If not deducted, entire 5L is added back to PGBP income.

4. ANSWER AS PER ICMAI SUGGESTED FORMAT

Step 1: Compute Equalisation Levy
Chapter VIII of the Finance Act 2016 imposes an Equalisation Levy @ **6%** on the amount of consideration exceeding ₹1,00,000 paid to a Non-Resident for specified services (online advertisement, provision of digital advertising space).
Levy = 6% of ₹5,00,000 = **₹30,000**. (Co 'M' must deduct this and pay to the Govt).

Step 2: Consequences of Default (Sec 40(a)(ib))
If Indian Co 'M' fails to deduct the Equalisation Levy, or after deducting, fails to deposit it before the ITR due date, Section 40(a)(ib) of the Income Tax Act triggers a **100% disallowance** of the expenditure.

Conclusion:
If Co 'M' defaults, the entire ₹5,00,000 advertising expense will be disallowed and added back to its taxable business profit.

5. CMA INSIGHTS FOR PRACTICAL LIFE

Digital marketing agencies routinely face this issue. Since US tech giants refuse to accept payments net of tax, the Indian company must 'gross up' the payment, bearing the 6% cost from its own pocket to protect the underlying ₹5 Lakh expense deduction.

Illustration 17: Equalisation Levy (2%) - E-Commerce Operators

1. THE QUESTION

Foreign Co 'N' operates an e-commerce platform. It sells software subscriptions directly to Indian residents worth ₹3 Crores. It also facilitates sales for Indian vendors worth ₹1.5 Crores. Co 'N' has no PE in India. Compute its Equalisation Levy.

2. HOW TO READ THE QUESTION

- **Rule:** 2% EL applies on consideration received by an e-commerce operator from e-commerce supply/services to an Indian resident.
- **Threshold:** Aggregate gross receipts > ₹2 Crores.
- **Base:** Both direct sales AND facilitated sales count towards the base.

3. NOTING OF KEY POINTS (ROUGH WORK)

- Total receipts = 3 Cr + 1.5 Cr = 4.5 Crores (> 2 Cr).
- EL applies.
- Levy = 2% of 4.5 Cr = 9 Lakhs.

4. ANSWER AS PER ICMAI SUGGESTED FORMAT

Step 1: Test the Threshold
The 2% Equalisation Levy applies if the gross receipts of the non-resident e-commerce operator from e-commerce supplies/services exceed **₹2 Crores** during the previous year.
Gross Receipts = ₹3 Crores (Direct) + ₹1.5 Crores (Facilitated) = ₹4.5 Crores. The threshold is breached.

Step 2: Compute the Levy
The levy is **2%** on the entire gross consideration received or receivable.
Levy = 2% of ₹4,50,00,000 = **₹9,00,000**.

Step 3: Liability to Pay
Unlike the 6% levy (which is deducted by the Indian payer via TDS mechanism), the 2% e-commerce levy is a **direct compliance burden on the Non-Resident**. Foreign Co 'N' must obtain an Indian PAN, file an Equalisation Levy return, and pay the ₹9 Lakhs directly to the Indian Government.

5. CMA INSIGHTS FOR PRACTICAL LIFE

This extraterritorial tax forced global platforms (SaaS providers, digital marketplaces) to register in India. Non-compliance results in heavy penalties and potentially blocking of their IP/payment gateways in India.

Illustration 18: Equalisation Levy vs Income Tax (Sec 10(50))

1. THE QUESTION

Foreign Co 'N' (from Ill 17) pays the ₹9 Lakhs Equalisation Levy. Does it also have to pay Indian Income Tax on the ₹4.5 Crores profit generated from these sales?

2. HOW TO READ THE QUESTION

- **Rule 10(50):** Income subject to Equalisation Levy is explicitly EXEMPT from Income Tax to prevent double taxation.

3. NOTING OF KEY POINTS (ROUGH WORK)

- Income is exempt u/s 10(50). No income tax.

4. ANSWER AS PER ICMAI SUGGESTED FORMAT

Step 1: Identify the Double Taxation Risk
If a foreign company pays the Equalisation Levy, taxing the same transaction under the domestic Income Tax Act (as Business Connection/SEP) would result in punitive double taxation.

Step 2: Apply Exemption
Section 10(50) of the Income Tax Act provides that any income arising from any specified service or e-commerce supply/services which is chargeable to Equalisation Levy shall be **exempt from income-tax**.

Conclusion:
Foreign Co 'N' is entirely protected. Once the 2% Equalisation Levy is paid, the ₹4.5 Crores is exempt from normal Indian corporate tax.

5. CMA INSIGHTS FOR PRACTICAL LIFE

This exemption cleanly segregates the tax regimes. The CBDT essentially traded the complex, highly litigious Transfer Pricing/PE attribution audits for a simple, flat 2% top-line revenue tax.

Illustration 19: GAAR Trigger (Tax Benefit Threshold)

1. THE QUESTION

Company X devises a complex circular routing structure through a tax haven to avoid Capital Gains tax on the sale of shares. The structure lacks commercial substance. The tax saved is ₹2.5 Crores. Can the revenue authorities invoke GAAR?

2. HOW TO READ THE QUESTION

- **GAAR Threshold:** General Anti-Avoidance Rules (GAAR) can only be invoked if the tax benefit arising from the arrangement in the relevant assessment year exceeds **₹3 Crores**.

3. NOTING OF KEY POINTS (ROUGH WORK)

- Tax benefit = 2.5 Cr.
- Threshold = 3 Cr.
- GAAR cannot be invoked.

4. ANSWER AS PER ICMAI SUGGESTED FORMAT

Step 1: Identify an Impermissible Avoidance Arrangement (IAA)
The arrangement created by Company X lacks commercial substance and its main purpose is to obtain a tax benefit. This perfectly fits the definition of an IAA under Chapter X-A (GAAR).

Step 2: Test the Quantitative Threshold
Rule 10U of the Income Tax Rules explicitly states that GAAR provisions shall not apply to an arrangement where the tax benefit arising to all the parties to the arrangement in the relevant assessment year does not exceed **₹3 Crores**.

Conclusion:
Since the tax benefit obtained by Company X is ₹2.5 Crores, it falls below the statutory threshold. The tax authorities **cannot invoke GAAR** to disregard the structure.

5. CMA INSIGHTS FOR PRACTICAL LIFE

This ₹3 Crore safe harbor ensures that routine tax planning by MSMEs and mid-tier corporates is not subjected to the terrifying discretionary powers of a GAAR assessment.

Illustration 20: GAAR vs SAAR (Specific Anti-Avoidance Rules)

1. THE QUESTION

A transaction triggers both a Specific Anti-Avoidance Rule (SAAR) under the Act (like Section 50C for property valuation) and the General Anti-Avoidance Rule (GAAR). Which provision will prevail?

2. HOW TO READ THE QUESTION

- **CBDT Circular:** GAAR and SAAR can co-exist. The application of SAAR does not automatically prevent the invocation of GAAR if the arrangement as a whole is an impermissible avoidance arrangement.

3. NOTING OF KEY POINTS (ROUGH WORK)

- Both can apply. However, GAAR acts as the overarching framework.

4. ANSWER AS PER ICMAI SUGGESTED FORMAT

Step 1: Distinguish GAAR and SAAR
- **SAAR** (e.g., Sec 50C, Sec 94B, Sec 2(22)(e)) are objective, mathematical rules targeting specific known loopholes.
- **GAAR** (Chapter X-A) is a broad, subjective framework targeting complex, novel structures lacking commercial substance.

Step 2: CBDT Clarification on Co-existence
The CBDT has clarified that the provisions of GAAR and SAAR can co-exist and are applicable, as may be necessary, depending on the facts of the case. The mere fact that a transaction complies with a SAAR does not immunize it from GAAR.

Conclusion:
If a transaction technically satisfies the mathematical boundaries of Section 50C (SAAR), but is part of a larger, artificial web of transactions designed solely to evade tax (>₹3 Cr), the Commissioner can still invoke **GAAR** to strike down the entire structure.

5. CMA INSIGHTS FOR PRACTICAL LIFE

Tax planners used to rely on 'form over substance'—ensuring every technical box of a SAAR was ticked while violating the spirit of the law. GAAR officially imported the 'substance over form' doctrine into Indian tax jurisprudence.

Illustration 21: GAAR vs DTAA (Treaty Override)

1. THE QUESTION

Foreign Co 'Y' is a shell company incorporated in Mauritius solely to claim Capital Gains exemption under the India-Mauritius DTAA. It has no office, employees, or business operations in Mauritius. Can GAAR override the DTAA benefits?

2. HOW TO READ THE QUESTION

- **Treaty Override (Sec 90(2A)):** The provisions of Chapter X-A (GAAR) shall apply to the assessee even if such provisions are NOT beneficial to him, overriding the DTAA.

3. NOTING OF KEY POINTS (ROUGH WORK)

- Shell company = Lacks commercial substance.
- Main purpose = Tax benefit.
- GAAR triggered. DTAA denied.

4. ANSWER AS PER ICMAI SUGGESTED FORMAT

Step 1: Evaluate Commercial Substance
Foreign Co 'Y' is a 'letterbox' company. Under Section 97, an arrangement is deemed to lack commercial substance if it does not have a significant effect upon the business risks or net cash flows of any party, or if it involves a round-tripping of funds or an accommodating party.

Step 2: Statutory Override of DTAA
While Section 90(2) generally allows taxpayers to choose the DTAA if it is more beneficial, **Section 90(2A)** explicitly overrides this. It states that the provisions of Chapter X-A (GAAR) shall apply even if they are NOT beneficial to the assessee.

Conclusion:
The Assessing Officer, with the approval of the Approving Panel, will invoke GAAR. The 'corporate veil' of the Mauritius entity will be pierced, and the DTAA exemption will be **denied**. The capital gains will be fully taxed in India.

5. CMA INSIGHTS FOR PRACTICAL LIFE

This provision ended the era of 'Treaty Shopping'. Foreign investors must now demonstrate genuine substance (local directors, actual office space, active local business) in jurisdictions like Mauritius or Singapore to claim treaty benefits.

Illustration 22: Country-by-Country Reporting (CbCR) Threshold

1. THE QUESTION

An International Group has an Indian subsidiary. The consolidated group revenue for the preceding accounting year was ₹6,000 Crores. Is the Indian subsidiary required to file a Country-by-Country Report (CbCR) u/s 286?

2. HOW TO READ THE QUESTION

- **Threshold:** CbCR applies if the consolidated group revenue of the international group exceeds **₹6,400 Crores** in the preceding accounting year.

3. NOTING OF KEY POINTS (ROUGH WORK)

- Revenue = 6,000 Crores.
- Threshold = 6,400 Crores.
- Requirement = Not applicable.

4. ANSWER AS PER ICMAI SUGGESTED FORMAT

Step 1: Identify Statutory Requirement
Section 286 mandates the filing of a Country-by-Country Report (CbCR) by the parent entity or alternate reporting entity of an international group, detailing revenue, taxes paid, and assets in every jurisdiction they operate.

Step 2: Test the Threshold
The compliance is triggered only if the consolidated revenue of the international group in the preceding accounting year exceeds the prescribed threshold of **₹6,400 Crores** (Approx. €750 Million, harmonized with OECD BEPS Action 13).

Conclusion:
Since the group's revenue (₹6,000 Crores) is below the ₹6,400 Crore threshold, the Indian subsidiary is **exempt** from filing the CbCR for the current year.

5. CMA INSIGHTS FOR PRACTICAL LIFE

CbCR gives tax authorities a global radar to detect if MNCs are disproportionately shifting massive revenues to zero-tax jurisdictions while leaving mere cost-centers in high-tax countries like India.

Illustration 23: Master File Threshold (Rule 10DA)

1. THE QUESTION

Indian Co 'Z', part of a global MNC, had international transactions of ₹60 Crores in PY 2025-26. The consolidated group revenue of the MNC is ₹600 Crores. Does Co 'Z' need to maintain and file a 'Master File'?

2. HOW TO READ THE QUESTION

- **Master File Threshold:** Twin conditions must be met: (1) Consolidated Group Revenue > ₹500 Crores, AND (2) Aggregate value of International Transactions > ₹50 Crores (or ₹10 Cr for intangibles).

3. NOTING OF KEY POINTS (ROUGH WORK)

- Group Revenue = 600 Cr (> 500 Cr). Condition 1 met.
- Int. Txn = 60 Cr (> 50 Cr). Condition 2 met.
- Must file Master File.

4. ANSWER AS PER ICMAI SUGGESTED FORMAT

Step 1: Check the Dual Conditions
Under Section 92D read with Rule 10DA, a constituent entity of an international group must keep and furnish a 'Master File' (Form 3CEAA) if TWO cumulative conditions are satisfied:
1. Consolidated group revenue for the accounting year exceeds **₹500 Crores**.
2. The aggregate value of international transactions during the accounting year exceeds **₹50 Crores** (or exceeds ₹10 Crores in respect of purchase/sale/transfer of intangible property).

Step 2: Application to Facts
- Group Revenue is ₹600 Crores (> ₹500 Cr).
- International transactions are ₹60 Crores (> ₹50 Cr).
Both conditions are breached.

Conclusion:
Indian Co 'Z' **must maintain and file the Master File**. Failure to furnish this document attracts a severe penalty of ₹5,00,000 under Section 271AA.

5. CMA INSIGHTS FOR PRACTICAL LIFE

Unlike local TP documentation which focuses purely on the Indian entity, the Master File forces the Indian subsidiary to disclose the global MNC's overall supply chain, IP ownership, and financing arrangements to the Indian tax officer.

Illustration 24: Transfer Pricing Penalties (Sec 271AA / 271G)

1. THE QUESTION

Company W executed international transactions worth ₹100 Crores. It completely failed to maintain the required Transfer Pricing documentation u/s 92D. Furthermore, during the audit, it failed to furnish the required information to the TPO. Calculate the penalties.

2. HOW TO READ THE QUESTION

- **Sec 271AA (Failure to keep docs):** 2% of the value of each international transaction.
- **Sec 271G (Failure to furnish info):** 2% of the value of the international transaction.

3. NOTING OF KEY POINTS (ROUGH WORK)

- Txn Value = 100 Crores.
- 271AA Penalty = 2% of 100 Cr = 2 Crores.
- 271G Penalty = 2% of 100 Cr = 2 Crores.

4. ANSWER AS PER ICMAI SUGGESTED FORMAT

Step 1: Penalty for Non-Maintenance (Sec 271AA)
Failure to keep and maintain the prescribed TP information and documents u/s 92D attracts a penalty of **2% of the value of each international transaction**.
Penalty = 2% of ₹100 Crores = **₹2 Crores**.

Step 2: Penalty for Non-Furnishing (Sec 271G)
Failure to furnish the required information/documents to the Transfer Pricing Officer (TPO) or Assessing Officer attracts an additional penalty of **2% of the value of the international transaction**.
Penalty = 2% of ₹100 Crores = **₹2 Crores**.

Conclusion:
Company W faces total statutory penalties of **₹4 Crores**, completely independent of whatever actual tax adjustment the TPO makes to the profit margin.

5. CMA INSIGHTS FOR PRACTICAL LIFE

TP penalties are brutal because they are tied to Gross Transaction Value, not the tax evaded. Even if the transaction was perfectly at Arm's Length and resulted in zero tax loss, merely failing to maintain the paperwork triggers this multi-crore penalty.

Illustration 25: Comprehensive TP Mega-Problem

1. THE QUESTION

Indian Co 'I' exported goods to its US Parent 'P' for ₹50 Crores. The TPO computed the Arm's Length Price at ₹53 Crores (Primary Adj: ₹3 Cr). The US Parent refused to remit the ₹3 Cr back to India. Indian Co 'I' has an EBITDA of ₹10 Crores and paid ₹4 Crores as interest to US Parent 'P'. Compute the total addition to the taxable income of 'I' for AY 2026-27. (Assume SBI rate + 3.25% = 12% p.a., default is for 100 days in the PY).

2. HOW TO READ THE QUESTION

- **Primary Adj:** Add ₹3 Cr.
- **Secondary Adj (Interest):** 3 Cr * 12% * 100/365.
- **Thin Cap (94B):** Interest to AE (4 Cr) restricted to 30% of EBITDA (30% of 10 Cr = 3 Cr). Disallowance = 1 Cr.

3. NOTING OF KEY POINTS (ROUGH WORK)

- Add 1: Primary = 3,00,00,000.
- Add 2: Secondary Interest = 3,00,00,000 * 12% * (100/365) = 98,630.
- Add 3: Thin Cap 94B = 4 Cr - 3 Cr = 1,00,00,000.
- Total addition = 4,00,98,630.

4. ANSWER AS PER ICMAI SUGGESTED FORMAT

Step 1: Primary Adjustment (Sec 92C)
The transaction price (₹50 Cr) is substituted with the ALP (₹53 Cr).
Addition to Income = **₹3,00,00,000**.

Step 2: Secondary Adjustment (Sec 92CE)
Since the primary adjustment > ₹1 Crore, and the US Parent failed to repatriate the excess money, interest is imputed.
Imputed Interest = ₹3,00,00,000 x 12% x (100 / 365) = **₹98,630**.
(This is added to the income).

Step 3: Thin Capitalization (Sec 94B)
Interest paid to AE = ₹4 Crores.
EBITDA limit = 30% of ₹10 Crores = ₹3 Crores.

Excess Interest Disallowed = ₹4 Cr - ₹3 Cr = **₹1,00,00,000**.
(This is added back to PGBP).

Conclusion:
Total Additions to Taxable Income = ₹3,00,00,000 + ₹98,630 + ₹1,00,00,000 = **₹4,00,98,630**.

5. CMA INSIGHTS FOR PRACTICAL LIFE

This is the ultimate 16-mark ICMAI Final question. It tests three distinct international tax defense mechanisms simultaneously. Meticulously detailing the calculation steps for each section guarantees full marks.

ICMAI PAPER 15

DIRECT TAX LAWS & INTERNATIONAL TAXATION

PART 6: MASTER PROBLEM SOLVER

Chapter 15: Advanced International Taxation III
(Black Money Act, BEPS, Model Conventions & SC Case Laws)
20 Full-Length Exam Illustrations

Applicable for: December 2026 Examination
Assessment Year: 2026-27 (Previous Year 2025-26)

Chapter 15: Black Money Act, BEPS & Case Laws

This concluding volume contains 20 highly complex, exam-grade illustrations directly mirroring past ICMAI papers. It integrates the Black Money Act, 2015, the nuances of the OECD vs UN Model Tax Conventions, BEPS Action Plans, and Landmark Supreme Court Judgments (e.g., Engineering Analysis, Formula One, Pilcom).

Illustration 1: Black Money Act - Undisclosed Foreign Bank Account

1. THE QUESTION

Mr. A, an Indian resident, opened a bank account in Geneva in 2018 with an undisclosed deposit of $100,000. He made further undisclosed deposits of $50,000 in 2020. The Assessing Officer discovers this account in PY 2025-26. The balance on the date of discovery is $120,000. Calculate the value of the undisclosed asset under the Black Money Act, 2015.

2. HOW TO READ THE QUESTION

- **Rule (Valuation):** For undisclosed foreign bank accounts, the value is the SUM of all deposits made into the account since its opening, NOT the balance on the date of discovery.
- **Exchange Rate:** RBI Reference rate on the date of valuation (assume ₹85/$ for PY 25-26).

3. NOTING OF KEY POINTS (ROUGH WORK)

- Deposits: $100,000 + $50,000 = $150,000.
- Current balance = $120,000 (Ignored).
- Value in INR = $150,000 * 85 = ₹1,27,50,000.
- Tax Rate under BMA = 30%. Penalty = 90% (3 times the tax).

4. ANSWER AS PER ICMAI SUGGESTED FORMAT

Step 1: Statutory Valuation Rule
Under the Black Money (Undisclosed Foreign Income and Assets) and Imposition of Tax Act, 2015, the value of an undisclosed foreign bank account is computed as the **sum of all deposits** made into the account since its opening. The closing balance on the date of discovery is irrelevant for valuation.

Step 2: Compute the Value
Total Deposits = $100,000 (2018) + $50,000 (2020) = $150,000.
Value in INR (assuming RBI reference rate of ₹85/$) = $150,000 x 85 = **₹1,27,50,000**.

Step 3: Tax Liability
Under Section 3 of the BMA, tax is charged at a flat rate of **30%**.
Tax = 30% of ₹1,27,50,000 = ₹38,25,000.
(Note: A penalty equal to 3 times the tax, i.e., 90%, is additionally levied u/s 41, totaling an effective 120% tax hit).

5. CMA INSIGHTS FOR PRACTICAL LIFE

The BMA is draconian. Even if the money was lost in trading or withdrawn and spent (leaving a zero balance), the taxpayer is still liable to pay 120% tax and penalty on the historical gross deposits.

Illustration 2: Black Money Act - Undisclosed Immovable Property

1. THE QUESTION

Mr. B bought a house in London for £500,000 in 2015 using undisclosed income. The Assessing Officer discovers it in PY 2025-26. The Fair Market Value (FMV) of the house on the 1st day of PY 2025-26 is £800,000. The stamp duty value is £750,000. Compute the value of the undisclosed asset (Assume £1 = ₹105).

2. HOW TO READ THE QUESTION

- **Rule (Immovable Property Valuation):** Higher of (a) Cost of acquisition, or (b) FMV on the 1st day of the previous year in which it comes to the notice of the AO.

3. NOTING OF KEY POINTS (ROUGH WORK)

- Cost = 500k. FMV = 800k. Higher is 800k.

• Value in INR = £800,000 * 105 = ₹8.4 Crores.

4. ANSWER AS PER ICMAI SUGGESTED FORMAT

Step 1: Statutory Valuation Rule
As per Rule 3(1)(e) of the Black Money Rules, 2015, the value of an undisclosed foreign immovable property shall be the **higher** of its cost of acquisition or its Fair Market Value (FMV) on the valuation date (1st April of the previous year in which it is discovered).

Step 2: Determine Value in Foreign Currency
Cost of Acquisition = £500,000.
FMV on valuation date = £800,000.
Higher of the two = £800,000.

Step 3: Compute Value in INR
Value = £800,000 x ₹105 = **₹8,40,00,000**.

Conclusion:
Mr. B will be assessed under the Black Money Act for an undisclosed asset worth ₹8.4 Crores. He will face 30% tax (₹2.52 Cr) and 90% penalty (₹7.56 Cr), wiping out the entire value of the property.

5. CMA INSIGHTS FOR PRACTICAL LIFE

Unlike the Income Tax Act which taxes capital appreciation only upon sale (Capital Gains), the Black Money Act taxes the unrealized appreciation (FMV) of the asset immediately upon discovery.

Illustration 3: Black Money Act - Penalty for Non-Disclosure in ITR

1. THE QUESTION

Mr. C is a resident and ordinarily resident (ROR). He has a perfectly legal, fully tax-paid bank account in the US with a balance of $5,000. However, he forgot to disclose this account in the 'Foreign Assets (FA)' schedule of his ITR for AY 2026-27. Can the AO levy a penalty under the Black Money Act?

2. HOW TO READ THE QUESTION

- **Sec 43 (BMA):** Penalty of ₹10 Lakhs for failure to furnish information regarding an asset located outside India in the ITR.
- **Exemption:** Penalty does not apply if the asset is one or more bank accounts having an aggregate balance NOT exceeding ₹5,00,000 at any time during the previous year.

3. NOTING OF KEY POINTS (ROUGH WORK)

- Balance = $5,000 (approx ₹4.25 Lakhs).
- Since balance < ₹5,00,000, the ₹10 Lakh penalty does NOT apply.

4. ANSWER AS PER ICMAI SUGGESTED FORMAT

Step 1: Identify Statutory Default
Section 43 of the Black Money Act imposes a severe penalty of **₹10 Lakhs** on an ROR who fails to furnish details of any foreign asset (even if acquired from disclosed, tax-paid income) in the Foreign Assets (FA) schedule of the Income Tax Return.

Step 2: Apply the Safe Harbor Exemption
To protect small taxpayers and professionals from draconian penalties for minor omissions, a proviso to Section 43 states that the ₹10 Lakh penalty shall **not apply** if the foreign asset consists of one or more bank accounts whose aggregate balance does not exceed **₹5,00,000** at any time during the previous year.

Conclusion:
Since Mr. C's account balance is $5,000 (approx. ₹4.25 Lakhs), which is below the ₹5 Lakhs threshold, the AO **cannot** levy the ₹10 Lakh penalty u/s 43.

5. CMA INSIGHTS FOR PRACTICAL LIFE

This ₹5 Lakh exemption applies ONLY to bank accounts. If a taxpayer forgets to disclose a foreign stock or ESOP worth even ₹10,000 in the FA schedule, the ₹10 Lakh penalty applies strictly.

Illustration 4: Model Tax Conventions - 'Force of Attraction' Rule

1. THE QUESTION

US Co 'X' has a branch in India (constituting a PE) which sells laptops. During the year, US Co 'X' also directly sells identical laptops to Indian customers via its website without any involvement of the Indian branch. Under which Model Convention (UN or OECD) is the direct web sale taxable in India?

2. HOW TO READ THE QUESTION

- **OECD Model:** Taxes only the profits 'attributable to the PE'. Direct sales are not taxed.
- **UN Model:** Contains the 'Force of Attraction' rule. If an enterprise has a PE, direct sales of the same or similar goods by the head office are also 'attracted' to the PE and taxed in the source country.

3. NOTING OF KEY POINTS (ROUGH WORK)

- OECD = Not Taxable.
- UN = Taxable (Force of Attraction).

4. ANSWER AS PER ICMAI SUGGESTED FORMAT

Step 1: Analyze under OECD Model Convention
Article 7 of the OECD Model strictly follows the 'Attribution Rule'. A contracting state can only tax the profits of a foreign enterprise that are specifically attributable to its Permanent Establishment (PE) situated in that state. Direct sales bypassing the PE are not taxed in the source state. Therefore, the web sales are **Not Taxable** in India under OECD principles.

Step 2: Analyze under UN Model Convention
The UN Model is designed to favor developing (source) nations. Article 7(1) of the UN Model incorporates the **'Force of Attraction'** rule. It allows the source state to tax not only the profits attributable to the PE, but also profits from direct sales by the enterprise of goods or merchandise of the *same or similar kind* as those sold through the PE.

Conclusion:
Under the UN Model, the direct web sales of laptops are **Taxable in India** because they are 'attracted' to the existing Indian branch.

5. CMA INSIGHTS FOR PRACTICAL LIFE

India heavily relies on the UN Model when drafting its DTAAs to maximize source-based taxation, preventing MNCs from bypassing their Indian branches to evade tax.

Illustration 5: Service PE - UN vs OECD Model

1. THE QUESTION

A UK consulting firm sends 5 employees to India to provide technical services to an Indian client for 120 days. They do not have a fixed office in India. Does the UK firm have a PE in India under the OECD Model? What about the UN Model?

2. HOW TO READ THE QUESTION

- **OECD Model:** Does not have a specific 'Service PE' clause. Without a fixed place of business (Fixed PE) or an agent (Agency PE), no PE is formed.
- **UN Model:** Contains a 'Service PE' clause. Furnishing of services by employees for more than a specified period (usually 183 days, or less depending on the specific DTAA) creates a PE.

3. NOTING OF KEY POINTS (ROUGH WORK)

- OECD: No PE.
- UN: Yes, Service PE exists (if > threshold, assume 90 days as per India-UK DTAA).

4. ANSWER AS PER ICMAI SUGGESTED FORMAT

Step 1: Evaluation under OECD Model
The OECD Model generally requires a 'fixed place of business' to constitute a Permanent Establishment (Article 5(1)). It lacks a standalone 'Service PE' provision. Since the employees do not have a fixed base, **No PE is constituted** under the pure OECD Model.

Step 2: Evaluation under UN Model
The UN Model Convention explicitly includes a **Service PE** clause [Article 5(3)(b)]. It states that the furnishing of services, including consultancy services, by an enterprise through employees creates a PE if activities continue for the same or connected project within the country for a period aggregating more than 183 days in any 12-month period (many Indian DTAAs reduce this to 90 days).

Conclusion:
Assuming the specific DTAA threshold (e.g., 90 days for India-UK) is breached, a **Service PE exists** under UN Model principles, and the profits attributable to these services will be taxed in India.

5. CMA INSIGHTS FOR PRACTICAL LIFE

Foreign companies carefully track 'man-days' spent by their personnel in India. Flying consultants out of the country on day 89 is a standard tax planning maneuver to dodge Service PE status.

Illustration 6: Supreme Court Case Law - Engineering Analysis Centre of Excellence

1. THE QUESTION

Indian Co 'I' purchases shrink-wrapped, off-the-shelf software (like MS Office) from a US developer and resells it in India. The Income Tax Department argues the payment is 'Royalty' for the use of copyright and demands TDS u/s 195. Discuss in light of the landmark Supreme Court ruling.

2. HOW TO READ THE QUESTION

- **Case Law:** *Engineering Analysis Centre of Excellence Pvt. Ltd. vs CIT (2021).*
- **Core Issue:** Does the sale of software constitute the transfer of a 'copyright' (Royalty) or merely a 'copyrighted article' (Business Profit)?

3. NOTING OF KEY POINTS (ROUGH WORK)

- SC Ruled: It is a copyrighted article. Not royalty.
- Therefore, no TDS u/s 195.

4. ANSWER AS PER ICMAI SUGGESTED FORMAT

Step 1: Department's Stand
The revenue department historically argued that any payment for computer software involved granting a license to use the underlying copyright, thereby classifying the payment as 'Royalty' taxable u/s 9(1)(vi) and subject to TDS u/s 195.

Step 2: The Supreme Court Judgment
In the landmark case of **Engineering Analysis Centre of Excellence Pvt. Ltd. (2021)**, the Supreme Court ruled in favor of the taxpayers. The Court drew a clear distinction between acquiring a 'copyright' and acquiring a 'copyrighted article'.

Purchasing shrink-wrapped, off-the-shelf software only gives the buyer a non-exclusive, non-transferable license to *use* the product. It does not transfer the right to exploit the underlying copyright (like making copies for resale or reverse engineering).

Conclusion:
The payment is for a **copyrighted article** (goods). It constitutes Business Profits, not Royalty. In the absence of a Permanent Establishment (PE) of the US developer in India, the income is not taxable in India, and **no TDS u/s 195** is required.

5. CMA INSIGHTS FOR PRACTICAL LIFE

This judgment saved the Indian IT distribution industry thousands of crores in retrospective TDS demands. It aligns Indian tax jurisprudence closely with global OECD definitions.

Illustration 7: Supreme Court Case Law - Pilcom vs CIT (Sec 194E)

1. THE QUESTION

Pilcom (a joint committee) made payments to foreign cricket boards for matches played in India. The foreign boards argued that under the relevant DTAA, they do not have a PE in India, hence their business profits are not taxable in India, meaning Pilcom shouldn't deduct TDS u/s 194E. Discuss the SC ruling.

2. HOW TO READ THE QUESTION

- **Case Law:** *Pilcom vs CIT (2020).*
- **Core Issue:** Is the obligation to deduct TDS u/s 194E absolute, or does it depend on the ultimate taxability of the income under the DTAA?

3. NOTING OF KEY POINTS (ROUGH WORK)

- SC Ruled: 194E liability is absolute and independent of ultimate taxability.
- TDS must be deducted. The payee can claim a refund later if protected by DTAA.

4. ANSWER AS PER ICMAI SUGGESTED FORMAT

Step 1: The Assessee's Contention
The foreign boards argued that under Section 195, TDS is deducted only on sums 'chargeable to tax' in India. Since they are protected by the DTAA (no PE in India), the income isn't chargeable, so no TDS should be deducted.

Step 2: The Supreme Court Judgment
In **Pilcom vs CIT**, the Supreme Court distinguished Section 194E from Section 195. Section 194E (Payments to non-resident sportsmen or sports associations) does not contain the phrase 'chargeable to tax'.
The Court ruled that the obligation to deduct TDS u/s 194E is **absolute and independent** of the ultimate taxability of the income in the hands of the non-resident.

Conclusion:
Pilcom **was legally required to deduct TDS**. If the foreign boards believe their income is ultimately exempt under the DTAA, they must file an Income Tax Return in India and claim a refund. The payer cannot unilaterally decide not to deduct TDS u/s 194E based on treaty interpretations.

5. CMA INSIGHTS FOR PRACTICAL LIFE

When making payments to foreign entities, always check the exact wording of the TDS section. If it doesn't explicitly say 'any sum chargeable under the provisions of this Act', you must deduct TDS regardless of DTAA exemptions.

Illustration 8: Supreme Court Case Law - Formula One World Championship

1. THE QUESTION

FOWC (a UK company) granted rights to Jaypee Sports to host the F1 Grand Prix at the Buddh International Circuit (India) for 3 days a year. FOWC retained full access and control over the circuit during the event. Did FOWC constitute a Permanent Establishment (PE) in India?

2. HOW TO READ THE QUESTION

- **Case Law:** *Formula One World Championship Ltd vs CIT (2017).*
- **Core Issue:** Can a presence of just 3 days a year constitute a 'Fixed Place PE' under the DTAA?

3. NOTING OF KEY POINTS (ROUGH WORK)

- SC Ruled: Yes. Fixed place PE exists because the space was at their 'absolute disposal' during the event.

4. ANSWER AS PER ICMAI SUGGESTED FORMAT

Step 1: The Concept of Fixed Place PE
Under Article 5(1) of the DTAA, a PE exists if there is a 'fixed place of business through which the business of an enterprise is wholly or partly carried on'.

Step 2: The Supreme Court Judgment
In the **Formula One** case, the SC ruled that duration (e.g., just 3 days) is not the sole test for a PE. What matters is **'Disposal Test'**—whether the physical location was at the absolute disposal of the foreign enterprise.
During the race days, FOWC had complete control over the Buddh International Circuit.

Jaypee's access was restricted, and FOWC conducted its core business (exploiting commercial rights) from that specific location.

Conclusion:
The Supreme Court held that the Buddh International Circuit constituted a **Fixed Place PE** for FOWC in India. Consequently, the business profits attributable to the Indian race were fully taxable in India.

5. CMA INSIGHTS FOR PRACTICAL LIFE

This ruling shattered the myth that transient or short-duration events (like concerts, trade shows, or pop-up stores) cannot form a PE. 'Control and disposal' supersedes the 'duration' test.

Illustration 9: Supreme Court Case Law - Azadi Bachao Andolan (Treaty Shopping)

1. THE QUESTION

Foreign investors routed funds into India through Mauritius shell companies purely to claim capital gains exemptions under the India-Mauritius DTAA. The tax department sought to pierce the corporate veil, claiming it was illegal treaty shopping. Discuss the SC ruling.

2. HOW TO READ THE QUESTION

- **Case Law:** *Union of India vs Azadi Bachao Andolan (2003)*.
- **Core Issue:** Is a Tax Residency Certificate (TRC) sufficient to claim DTAA benefits, or can the AO deny it based on 'treaty shopping' motives?

3. NOTING OF KEY POINTS (ROUGH WORK)

- SC Ruled: TRC is conclusive evidence. Treaty shopping is legally permissible (at that time) unless explicitly banned by the treaty or GAAR.

4. ANSWER AS PER ICMAI SUGGESTED FORMAT

Step 1: The Department's Contention
The revenue authorities argued that the Mauritius entities lacked commercial substance, were mere conduits ('treaty shopping'), and therefore should be denied DTAA benefits to protect the Indian tax base.

Step 2: The Supreme Court Judgment
In **Azadi Bachao Andolan**, the Supreme Court upheld the validity of CBDT Circular No. 789, ruling that a **Tax Residency Certificate (TRC) issued by the Mauritian authorities is conclusive evidence** of residential status.
The Court observed that 'treaty shopping' is a widely accepted practice globally to encourage foreign investment. Unless the DTAA explicitly contains a 'Limitation of Benefits (LOB)' clause, the tax authorities cannot unilaterally pierce the corporate veil or deny treaty benefits based on moral grounds.

Conclusion (Contextualization):
While this landmark ruling legalized Mauritius routing for decades, students must note that the introduction of **GAAR (Chapter X-A)** and the multilateral **Principal Purpose**

Test (PPT) have effectively diluted this ruling in the modern era, empowering AOs to deny treaty benefits to shell companies.

5. CMA INSIGHTS FOR PRACTICAL LIFE

While *Azadi Bachao Andolan* is still good law regarding the validity of a TRC, the insertion of GAAR gives the revenue the exact statutory ammunition it lacked during the 2003 judgment.

Illustration 10: Supreme Court Case Law - GE India Technology (Sec 195)

1. THE QUESTION

GE India remits payments to its foreign parent for software licenses and management services. It believes the payments are not taxable in India and thus remits the amount without deducting TDS u/s 195, without obtaining a Nil Deduction Certificate from the AO. Is GE India in default?

2. HOW TO READ THE QUESTION

- **Case Law:** *GE India Technology Centre Pvt. Ltd. vs CIT (2010).*
- **Core Issue:** Can an assessee unilaterally decide that an income is not chargeable to tax and bypass Sec 195, or must they always approach the AO?

3. NOTING OF KEY POINTS (ROUGH WORK)

- SC Ruled: TDS u/s 195 is required ONLY IF the sum is 'chargeable to tax' in India. If it is clearly not chargeable, the assessee can remit without going to the AO.

4. ANSWER AS PER ICMAI SUGGESTED FORMAT

Step 1: The Provision u/s 195
Section 195 requires anyone making a payment to a non-resident of *'any sum chargeable under the provisions of this Act'* to deduct TDS.

Step 2: The Supreme Court Judgment
The Revenue argued that GE India must deduct TDS on all foreign remittances, and if

they feel it's not taxable, they must apply to the AO u/s 195(2) for a Nil deduction certificate.
In **GE India Technology**, the SC rejected the Revenue's view. The Court held that the obligation to deduct TDS u/s 195 triggers **only if the sum paid is actually chargeable to tax in India**. If the payer is certain that the remittance does not contain any income chargeable to tax in India, they can remit it without deducting TDS and without approaching the AO.

Conclusion:
GE India is not in default merely for bypassing the AO. However, if during assessment it is found that the sum *was* actually chargeable to tax, GE India will be treated as an 'assessee in default' u/s 201 and face heavy penalties.

5. CMA INSIGHTS FOR PRACTICAL LIFE

This places the entire risk on the CMA/CA issuing the Form 15CB. If your interpretation of 'not chargeable to tax' is overturned by a court later, the Indian company becomes liable for the entire foreign tax amount.

Illustration 11: BEPS Action 1 - Digital Economy & Equalisation Levy

1. THE QUESTION

How does India's Equalisation Levy align with the OECD's Base Erosion and Profit Shifting (BEPS) Action Plan 1?

2. HOW TO READ THE QUESTION

- **Context:** Link domestic provisions with global BEPS actions to show conceptual depth.

3. NOTING OF KEY POINTS (ROUGH WORK)

- Action 1 deals with addressing tax challenges of the digital economy.
- Because physical PE rules fail to capture digital platforms, India implemented EL as a unilateral measure.

4. ANSWER AS PER ICMAI SUGGESTED FORMAT

Step 1: Identify BEPS Action 1
Action 1 of the BEPS project addresses the tax challenges of the **Digital Economy**. It highlighted that multinational digital platforms generate massive revenues from user jurisdictions without establishing a physical Permanent Establishment (PE), thereby escaping source-based taxation.

Step 2: India's Domestic Implementation
To counter this, India implemented the **Equalisation Levy (EL)** under the Finance Act, 2016 (6% on digital advertising) and expanded it in 2020 (2% on e-commerce operators). Further, India amended the Income Tax Act to introduce the concept of **Significant Economic Presence (SEP)** under Section 9, creating a 'digital PE' based on revenue and user thresholds rather than physical presence.

Conclusion:
The Equalisation Levy and SEP are direct legislative responses adopted by India to execute the recommendations outlined in BEPS Action Plan 1.

5. CMA INSIGHTS FOR PRACTICAL LIFE

As global consensus shifts toward 'Pillar One' (reallocating taxing rights to market jurisdictions), India has indicated it will roll back the unilateral Equalisation Levy once the OECD multilateral convention is universally adopted.

Illustration 12: BEPS Action 4 - Limiting Interest Deductions (Sec 94B)

1. THE QUESTION

Explain the nexus between BEPS Action Plan 4 and Section 94B (Thin Capitalization) of the Income Tax Act.

2. HOW TO READ THE QUESTION

- **Context:** Link domestic provisions with global BEPS actions.

3. NOTING OF KEY POINTS (ROUGH WORK)

- Action 4: Limiting Base Erosion via Interest Deductions.
- Implementation: Sec 94B limits interest to AEs to 30% of EBITDA.

4. ANSWER AS PER ICMAI SUGGESTED FORMAT

Step 1: Identify BEPS Action 4
Action 4 focuses on **Limiting Base Erosion via Interest Deductions**. MNCs often use inter-company debt to shift profits from high-tax jurisdictions (by claiming high interest expenses) to low-tax jurisdictions.

Step 2: India's Domestic Implementation
In line with Action 4 recommendations, India inserted **Section 94B** into the Income Tax Act. It restricts the deduction of interest paid by an Indian company to a Non-Resident Associated Enterprise to **30% of EBITDA**.

Conclusion:
By capping the interest deduction based on a fixed ratio of operational earnings (EBITDA), Section 94B prevents foreign parents from stripping the Indian tax base bare through excessive debt-loading, perfectly executing BEPS Action 4.

5. CMA INSIGHTS FOR PRACTICAL LIFE

By capping it at 30% of EBITDA, the law aligns the tax-deductible debt capacity directly with the actual economic performance of the Indian subsidiary.

Illustration 13: BEPS Action 6 - Principal Purpose Test (PPT)

1. THE QUESTION

Foreign Co 'A' sets up a subsidiary in a treaty jurisdiction (Country T) primarily to channel investments into India and claim a 0% capital gains tax rate under the India-Country T DTAA. How does BEPS Action 6 address this treaty abuse?

2. HOW TO READ THE QUESTION

- **Action 6:** Prevention of Treaty Abuse.
- **Mechanism:** Multilateral Instrument (MLI) introduces the Principal Purpose Test (PPT).

3. NOTING OF KEY POINTS (ROUGH WORK)

- If one of the principal purposes of a transaction is to obtain a treaty benefit, that benefit is denied.

4. ANSWER AS PER ICMAI SUGGESTED FORMAT

Step 1: Identify BEPS Action 6
Action 6 focuses on **Preventing the Granting of Treaty Benefits in Inappropriate Circumstances** (Treaty Shopping).

Step 2: The Principal Purpose Test (PPT)
Through the Multilateral Instrument (MLI) signed by India, DTAAs are being updated with the PPT. The PPT states that a treaty benefit shall be **denied** if it is reasonable to conclude that obtaining that benefit was **one of the principal purposes** of the arrangement or transaction.

Conclusion:
Since the subsidiary in Country T was set up 'primarily' to claim the 0% capital gains rate, it violates the PPT. The Indian tax authorities will use the MLI-enhanced DTAA to deny the treaty benefit, taxing the capital gains under standard domestic provisions.

5. CMA INSIGHTS FOR PRACTICAL LIFE

PPT is the international equivalent of domestic GAAR. It places the burden of proof on the taxpayer to demonstrate robust commercial rationale beyond mere tax savings.

Illustration 14: BEPS Action 13 - Transfer Pricing Documentation (CbCR)

1. THE QUESTION

Discuss the three-tiered Transfer Pricing documentation structure introduced in India in response to BEPS Action 13.

2. HOW TO READ THE QUESTION

- **Action 13:** TP Documentation and CbCR.
- **Three Tiers:** Local File, Master File, Country-by-Country Report (CbCR).

3. NOTING OF KEY POINTS (ROUGH WORK)

- Local File: Entity specific.
- Master File: Global group level (Rule 10DA).
- CbCR: Jurisdiction-wise allocation of income/taxes (Sec 286).

4. ANSWER AS PER ICMAI SUGGESTED FORMAT

Step 1: Identify BEPS Action 13
Action 13 established standardized, global documentation requirements to provide tax administrations with high-level and detailed views of an MNC's global operations and TP policies.

Step 2: India's Three-Tiered Implementation
1. **Local File (Sec 92D / Rule 10D):** Maintained by the local Indian entity detailing specific intra-group transactions affecting India.
2. **Master File (Form 3CEAA):** Requires MNCs (Group Revenue > ₹500 Cr & Int. Txn > ₹50 Cr) to provide a high-level overview of their global business operations and transfer pricing policies.
3. **Country-by-Country Report (CbCR - Sec 286):** Requires mega-MNCs (Group Revenue > ₹6,400 Cr) to file a jurisdiction-wise breakdown of global revenue, taxes paid, employees, and retained earnings.

Conclusion:
This 3-tier structure allows the CBDT to instantly detect if an MNC is reporting massive profits in a tax haven where it has zero employees, triggering automated TP scrutiny audits in India.

5. CMA INSIGHTS FOR PRACTICAL LIFE

Failure to furnish the CbCR or Master File attracts the steepest penalties under the Income Tax Act (₹5,00,000 for Master File u/s 271AA, and escalating per-day penalties for CbCR u/s 271GB).

Illustration 15: Safe Harbour for Offshore Funds (Sec 9A)

1. THE QUESTION

An Eligible Investment Fund located in Mauritius appoints an Eligible Fund Manager in Mumbai to manage its global portfolio. Will the fund be deemed to be a resident in India or have a business connection in India due to the fund manager's activities?

2. HOW TO READ THE QUESTION

- **Rule 9A:** Creates a safe harbor to encourage fund management activities in India.
- **Condition:** If conditions are met, the manager does not create a business connection, and the fund's POEM is not triggered in India.

3. NOTING OF KEY POINTS (ROUGH WORK)

- Fund manager in Mumbai. Normally, this creates an Agency PE / Business Connection.
- Section 9A overrides this. Fund remains non-resident.

4. ANSWER AS PER ICMAI SUGGESTED FORMAT

Step 1: Identify the Risk
Normally, under Section 9(1)(i), appointing a fund manager in India who actively makes investment decisions on behalf of an offshore fund would constitute a 'Business Connection' (and Agency PE) in India. This would subject the offshore fund's global profits to Indian tax.

Step 2: Apply Statutory Safe Harbor (Sec 9A)
To promote India as a fund management hub, Section 9A provides a specific safe harbor. It states that for an 'Eligible Investment Fund', the fund management activity carried out through an 'Eligible Fund Manager' located in India shall **not constitute a business connection** in India. Furthermore, the presence of the manager will not trigger the Place of Effective Management (POEM) rules for the fund in India.

Conclusion:
Assuming all complex conditions of Section 9A are met, the offshore fund will **not be taxed in India** (except on specific Indian-sourced capital gains/dividends), despite the portfolio being actively managed from Mumbai.

5. CMA INSIGHTS FOR PRACTICAL LIFE

This provision successfully stopped the exodus of elite Indian fund managers shifting base to Singapore and Dubai just to protect their offshore funds from Indian taxation.

Illustration 16: Advance Rulings (Sec 245R)

1. THE QUESTION

Foreign Co 'X' obtained an Advance Ruling from the Board for Advance Rulings (BAR) regarding the taxability of a complex joint venture. The Assessing Officer disagrees with the ruling. Can the AO ignore the ruling? Is the ruling binding on Foreign Co 'Y' in a similar case?

2. HOW TO READ THE QUESTION

- **Binding Nature:** Advance rulings are binding ONLY on the applicant and the Revenue in respect of that specific transaction.
- **Not Precedent:** It is not binding on other taxpayers.

3. NOTING OF KEY POINTS (ROUGH WORK)

- AO cannot ignore it for Co X.
- Ruling is NOT binding for Co Y.

4. ANSWER AS PER ICMAI SUGGESTED FORMAT

Step 1: Binding Nature on the Applicant and Revenue
An advance ruling pronounced by the BAR is legally **binding on the Assessing Officer** and the Principal Commissioner in respect of the specific applicant and the specific transaction. The AO cannot ignore it or take a divergent view during the assessment of Foreign Co 'X'.

Step 2: Applicability to Third Parties
Unlike judgments of the High Court or Supreme Court which become the law of the land, an advance ruling is **in personam** (specific to the person).
It has no binding precedent value. Therefore, it is **not binding** on Foreign Co 'Y', even if Co 'Y' is executing an identical joint venture.

5. CMA INSIGHTS FOR PRACTICAL LIFE

While not legally binding on third parties, rulings by the BAR possess immense persuasive value. CMAs frequently cite favorable advance rulings in their submissions to convince Assessing Officers during standard scrutinies.

Illustration 17: Sovereign Wealth Funds Exemption (Sec 10(23FE))

1. THE QUESTION

The Abu Dhabi Investment Authority (a wholly-owned Sovereign Wealth Fund of the UAE) invests ₹500 Crores in an Indian Infrastructure Investment Trust (InvIT) in PY 2023-24. In PY 2025-26, it earns dividend and interest income of ₹40 Crores from this investment. Calculate tax payable.

2. HOW TO READ THE QUESTION

- **Rule 10(23FE):** Absolute exemption for specified income (dividend, interest, LTCG) of Sovereign Wealth Funds and Global Pension Funds investing in specified Indian infrastructure sectors.

3. NOTING OF KEY POINTS (ROUGH WORK)

- Investment made between 1-Apr-2020 and 31-Mar-2024. (PY 23-24 is within window).
- Income is dividend and interest.
- Fully exempt.

4. ANSWER AS PER ICMAI SUGGESTED FORMAT

Step 1: Identify Statutory Provision
To attract patient global capital into the infrastructure sector, Section 10(23FE) was introduced. It completely exempts any income in the nature of dividend, interest, or long-term capital gains arising to a notified Sovereign Wealth Fund (SWF) or Foreign Pension Fund.

Step 2: Check Conditions
- The investment must be made between 01.04.2020 and 31.03.2024 (Condition met: invested in PY 23-24).
- The investment must be in specified infrastructure entities like InvITs (Condition met).
- The investment must be held for at least 3 years.

Conclusion:
Assuming the 3-year lock-in condition is maintained, the entire income of ₹40 Crores is **100% exempt from tax** in India.

5. CMA INSIGHTS FOR PRACTICAL LIFE

This massive exemption has been the primary driver of the multi-billion dollar buyout of Indian toll roads, renewable energy parks, and telecom towers by Middle Eastern and Canadian sovereign funds.

Illustration 18: Grossing Up of Tax (Sec 195A)

1. THE QUESTION

Indian Co 'I' enters into a contract with US Co 'P' for technical services. The contract states that 'I' will pay ₹100 Lakhs to 'P' 'Net of Indian Taxes'. The applicable tax rate u/s 115A is 20%. Compute the tax to be deposited by Indian Co 'I'.

2. HOW TO READ THE QUESTION

- **Rule 195A:** If the payer bears the tax burden on behalf of the non-resident, the income must be GROSSED UP to calculate the actual TDS liability.

3. NOTING OF KEY POINTS (ROUGH WORK)

- Net amount = 100 Lakhs.
- Tax rate = 20% (ignore cess for calculation simplicity, though technically it's 20.8%).
- Gross amount = Net / (100 - Rate) = 100L / (1 - 0.20) = 125 Lakhs.
- TDS = 20% of 125 Lakhs = 25 Lakhs.

4. ANSWER AS PER ICMAI SUGGESTED FORMAT

Step 1: Identify Tax Bearing Arrangement
Since the contract is 'Net of Taxes', the Indian company has agreed to bear the tax burden. Section 195A mandates that for the purpose of TDS deduction, the income shall be increased (grossed up) to such an amount as would, after deduction of tax thereon, be equal to the net amount payable.

Step 2: Compute Gross Amount
Assuming a base tax rate of 20% (ignoring surcharge/cess for simplicity of the formula):
Gross Income = [Net Amount / (100% - Tax Rate)]
Gross Income = [₹100 Lakhs / (100% - 20%)] = [₹100 Lakhs / 80%] = **₹125 Lakhs**.

Step 3: Compute TDS Liability
TDS to be deposited by Indian Co 'I' = 20% of ₹125 Lakhs = **₹25 Lakhs**.

5. CMA INSIGHTS FOR PRACTICAL LIFE

Foreign vendors almost exclusively demand 'Net of Tax' contracts. Indian companies often fail to gross up the amount, resulting in severe short-deduction penalties u/s 201 during international tax audits.

Illustration 19: Dispute Resolution Panel (DRP) - Sec 144C

1. THE QUESTION

The Assessing Officer (AO) proposes a variation in the income of an eligible foreign company prejudicial to its interest. He passes an assessment order directly and issues a demand notice. Is the AO's action legally valid?

2. HOW TO READ THE QUESTION

- **Rule 144C:** The AO MUST issue a 'Draft Assessment Order' first. The foreign company then has 30 days to either file objections with the DRP or accept the draft order.

3. NOTING OF KEY POINTS (ROUGH WORK)

- AO passed final order directly.
- Action is legally void.

4. ANSWER AS PER ICMAI SUGGESTED FORMAT

Step 1: Statutory Safeguard for Foreign Entities
Under Section 144C, the Assessing Officer is legally obligated to forward a **'Draft Assessment Order'** to an eligible assessee (any foreign company, or any person facing a Transfer Pricing adjustment) if he proposes to make any variation in the income or loss which is prejudicial to the interest of such assessee.

Step 2: The Assessee's Rights
Upon receiving the draft order, the assessee has 30 days to either accept the variation or file objections with the Dispute Resolution Panel (DRP).

Conclusion:
The Assessing Officer **cannot pass a final assessment order directly**. Bypassing the draft order stage renders the final assessment order legally invalid and void ab initio (from the beginning), as repeatedly held by High Courts.

5. CMA INSIGHTS FOR PRACTICAL LIFE

The DRP mechanism was established to prevent high-pitched, arbitrary tax demands against MNCs. The DRP comprises a collegium of 3 Commissioners, providing a more balanced, expert review before any tax demand is actually raised.

Illustration 20: Comprehensive Mega-Problem (PE, Royalty, and DTAA Surcharge)

1. THE QUESTION

Foreign Co 'FC' has a branch (PE) in India generating Business Profit of ₹10 Crores. It also earns Royalty of ₹5 Crores directly from Indian clients (not connected to the PE). The DTAA specifies a 10% rate for Royalty. Indian corporate tax rate for foreign companies is 40%. Surcharge is 5%, HEC is 4%. Compute total tax liability of Foreign Co 'FC'.

2. HOW TO READ THE QUESTION

- **Business Profit (PE):** Taxed at normal 40% + Surcharge (5%) + Cess (4%).
- **Royalty (No PE):** Taxed at DTAA rate (10%). Surcharge and Cess CANNOT be added to the DTAA rate.

3. NOTING OF KEY POINTS (ROUGH WORK)

- PE Profit = 10 Cr. Tax = 40%. Surcharge applies to the tax on 10 Cr? Wait, total income is 15 Cr, so surcharge is 5% (>10 Cr limit).
- Tax on PE = 40% of 10 Cr = 4 Cr. Add Surcharge (5% of 4 Cr) = 20 Lakhs. Add HEC (4% of 4.2 Cr) = 16.8 Lakhs. Total PE tax = 4.368 Crores.
- Tax on Royalty = 10% of 5 Cr = 50 Lakhs flat. No surcharge/cess.
- Total Tax = 4.368 Cr + 0.5 Cr = 4.868 Crores.

4. ANSWER AS PER ICMAI SUGGESTED FORMAT

Step 1: Compute Tax on Business Profits (PE Income)
Business profits effectively connected to the PE are taxed as per the domestic Income Tax Act provisions.
Income = ₹10 Crores.
Base Tax @ 40% = ₹4,00,00,000.
Since total income (₹15 Cr) exceeds ₹10 Cr, surcharge @ 5% applies to the tax on business income: 5% of ₹4 Cr = ₹20,00,000.

Tax + Surcharge = ₹4,20,00,000.
Add: HEC @ 4% = ₹16,80,000.
Tax on PE Income = ₹4,36,80,000.

Step 2: Compute Tax on Royalty (Non-PE Income)
Since the Royalty is not effectively connected to the PE, the assessee can opt for the beneficial DTAA rate.
DTAA Rate = 10%.
As per judicial precedents, domestic surcharge and cess are NOT added to tax rates prescribed under the DTAA.
Tax on Royalty = 10% of ₹5 Crores = ₹50,00,000.

Step 3: Total Tax Liability
Total Tax Payable = ₹4,36,80,000 + ₹50,00,000 = **₹4,86,80,000**.

5. CMA INSIGHTS FOR PRACTICAL LIFE

This illustrates the pinnacle of international tax planning. Shielding specific revenue streams (like royalties and FTS) from becoming 'effectively connected' to an existing Indian PE saves foreign corporations millions in surcharges and higher corporate tax brackets.

Conclusion: Mastering the CMA Final Framework

This final volume bridges the domestic Income Tax Act with global compliance realities. The Black Money Act's draconian 120% penal structure on historic deposits proves that undisclosed foreign assets carry infinite risk. Furthermore, understanding the nuances of Supreme Court landmark judgments—such as the *Engineering Analysis* ruling protecting software distributors from royalty TDS, and the *Formula One* case redefining physical PE—is what separates a standard compliance officer from a strategic CMA advisory expert. Combine this with the sweeping structural changes introduced by BEPS (PPT, CbCR, Master Files) and the unilateral Equalisation Levy, and you have the complete matrix required to solve the most complex 16-mark problems in the December 2026 examination.

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End of Master Problem Solver Series

ICMAI PAPER 15

DIRECT TAX LAWS & INTERNATIONAL TAXATION

PART 7: MOCK TEST SERIES

MOCK TEST PAPER - 1 (Full Syllabus)
With Detailed ICMAI Suggested Answers

Target Attempt: December 2026 Examination
Assessment Year: 2026-27 (PY 2025-26)
Difficulty Level: Advanced (As per June 2026 ICMAI standard)

MOCK TEST PAPER - 1

Time Allowed: 3 Hours
Maximum Marks: 100

Instructions:

1. The figures in the margin on the right indicate full marks.
2. All workings must form part of your answer.
3. State assumptions clearly wherever necessary.
4. **Section A** is compulsory (15 MCQs x 2 Marks = 30 Marks).
5. In **Section B**, answer any 5 questions out of 7 (14 Marks each = 70 Marks).
6. Assume the New Tax Regime u/s 115BAC is the default unless specified otherwise.

SECTION A (Compulsory - 30 Marks)

1. Choose the most appropriate alternative for the following (15 x 2 = 30 Marks):

(i) Mr. X (an Indian citizen) leaves India for employment in Dubai on 15th October 2025. He has never left India before. His total Indian income is ₹12 Lakhs. His residential status for AY 2026-27 will be:

A. Resident and Ordinarily Resident
B. Resident but Not Ordinarily Resident
C. Non-Resident
D. Deemed Resident

(ii) Under the default New Tax Regime (Sec 115BAC) for AY 2026-27, the standard deduction for salaried individuals is:

A. ₹50,000
B. ₹75,000
C. Not allowed under the new regime
D. ₹1,00,000

(iii) ABC Ltd (Turnover: ₹15 Cr) purchased goods from XYZ Ltd (Turnover: ₹8 Cr) worth ₹60 Lakhs. The transaction attracts:

A. TCS u/s 206C(1H) @ 0.1% on ₹60 Lakhs
B. TDS u/s 194Q @ 0.1% on ₹10 Lakhs
C. Both TDS and TCS
D. Neither TDS nor TCS

(iv) A secondary adjustment under Transfer Pricing (Sec 92CE) requires the excess money to be repatriated to India within:

A. 30 days of the assessment order
B. 60 days of the assessment order
C. 90 days of the assessment order
D. 180 days of the assessment order

(v) Long Term Capital Gains on the sale of listed equity shares (STT paid) exceeding ₹1,25,000 is taxed at:

A. 10% without indexation
B. 12.5% without indexation
C. 20% with indexation
D. 15% without indexation

(vi) For a closely held company, the penalty for 'Misreporting of Income' under Section 270A is:

A. 50% of the tax payable on under-reported income
B. 100% of the tax payable on under-reported income
C. 200% of the tax payable on under-reported income
D. 300% of the tax payable on under-reported income

(vii) Under the Black Money Act, 2015, the penalty for failure to disclose a foreign bank account in the ITR (where balance exceeds ₹5,00,000) is:

A. ₹1 Lakh
B. ₹5 Lakhs
C. ₹10 Lakhs
D. 3 times the tax amount

(viii) An e-commerce operator must deduct Equalisation Levy @ 2% if the aggregate gross receipts from e-commerce supply/services to Indian residents exceed:

A. ₹50 Lakhs
B. ₹1 Crore
C. ₹2 Crores
D. ₹5 Crores

(ix) MNO Trust (registered u/s 12AB) received total donations of ₹100 Lakhs, out of which anonymous donations are ₹15 Lakhs. The amount of anonymous donations taxable at 30% u/s 115BBC is:

A. ₹15 Lakhs
B. ₹10 Lakhs
C. ₹5 Lakhs
D. NIL

(x) According to the active business outside India (ABOI) test for POEM, passive income of the foreign company should not exceed:

A. 25% of its total income
B. 50% of its total income

C. 75% of its total income
D. 10% of its total income

(xi) A foreign company earns royalty from an Indian company which is effectively connected to its PE in India. The royalty will be taxed under:

A. Section 115A at 20% on gross basis
B. Section 44DA at 40% on net basis
C. Section 44B at 7.5% on presumptive basis
D. Section 115BBA at 20% on gross basis

(xii) To claim relief under a DTAA (Sec 90), a non-resident must mandatorily obtain and furnish a:

A. Permanent Account Number (PAN)
B. Tax Residency Certificate (TRC)
C. Form 15CB
D. No Objection Certificate from AO

(xiii) An updated return u/s 139(8A) can be filed within 24 months from the end of the relevant assessment year with an additional tax of:

A. 25% if filed after 12 months
B. 50% if filed between 12 to 24 months
C. 100% flat rate
D. 30% flat rate

(xiv) Payment made by an AOP as salary to its member is:

A. Allowed as a deduction subject to 40(b) limits
B. Fully allowed as a business expense
C. Fully disallowed under Section 40(ba)
D. Taxed in the hands of the AOP at Maximum Marginal Rate

(xv) Section 94B (Thin Capitalization) restricts interest paid to a non-resident Associated Enterprise to:

A. 30% of Net Profit
B. 30% of EBITDA
C. 50% of Gross Revenue
D. 20% of EBITDA

SECTION B (Answer any 5 out of 7 - 70 Marks)

Question 2 **[14 Marks]**

DEF Ltd., an Indian manufacturing company, furnishes the following Profit and Loss Account for the year ended 31st March 2026:

Particulars	Amount (₹)	Particulars	Amount (₹)
To Operating Expenses	85,00,000	By Gross Profit	1,50,00,000
To Depreciation (As per books)	15,00,000	By Dividend from Indian Co.	5,00,000
To Provision for Income Tax	10,00,000	By LTCG on sale of land	12,00,000
To Penalty for GST violation	2,00,000		
To Employer's PF Contribution	4,00,000		
To Net Profit	51,00,000		
Total	**1,67,00,000**	**Total**	**1,67,00,000**

Additional Information:
1. Depreciation allowable under the IT Act is ₹18,00,000.
2. Employer's PF contribution of ₹4,00,000 includes ₹1,50,000 deposited on 20th November 2026 (after the ITR due date of 31st October).
3. The company made cash payments of ₹45,000 in a single day to a raw material supplier.
4. Brought forward business loss (AY 2024-25) is ₹8,00,000.
5. The company does **not** opt for the concessional regime under Section 115BAA.

Required: Compute the Total Income and Gross Tax Liability of DEF Ltd. under the normal provisions of the Income Tax Act for AY 2026-27.

Question 3 **[14 Marks]**

(a) [8 Marks] Mr. Sharma, a resident individual (Age: 45), provides the following income details for PY 2025-26:
- Income from business in India: ₹18,00,000
- Income from business in Country X: ₹12,00,000
- Tax paid in Country X: ₹3,00,000

India does NOT have a DTAA with Country X. Mr. Sharma operates under the default New Tax Regime (Sec 115BAC). Compute his Net Tax Liability in India.

(b) [6 Marks] Mr. Y sold an unlisted commercial building for ₹80 Lakhs on 10-Feb-2026. The Stamp Duty Value was ₹110 Lakhs. Indexed Cost of Acquisition is ₹30 Lakhs. He purchased a new residential house for ₹50 Lakhs on 20-Mar-2026 to claim exemption u/s 54F. He owns no other residential house. Calculate his taxable Capital Gains.

Question 4 [14 Marks]

(a) [8 Marks] Compute the "Book Profit" u/s 115JB for PQR Ltd. from the following data (PY 2025-26):
- Net Profit as per P&L: ₹300 Lakhs.
- P&L is debited with: Provision for deferred tax (₹25L), Provision for doubtful debts (₹15L), Depreciation (₹40L - includes ₹10L on revaluation of assets).
- P&L is credited with: Withdrawal from General Reserve (created in a non-MAT year) (₹20L).
- Financial records show: Brought Forward Business Loss: ₹60 Lakhs; Unabsorbed Depreciation: ₹45 Lakhs.

(b) [6 Marks] Explain the time limits for the issue of notice under Section 148 for Income Escaping Assessment as per the latest provisions of the Income Tax Act. Under what circumstances can the time limit be extended to 10 years?

Question 5 **[14 Marks]**

(a) [8 Marks] 'Aarogya Trust' is registered u/s 12AB. For PY 2025-26, it received total voluntary contributions of ₹200 Lakhs. This includes ₹40 Lakhs as corpus donation (invested in Govt Bonds u/s 11(5)) and ₹50 Lakhs as Anonymous Donations. The trust spent ₹90 Lakhs on charitable activities in India. Compute the total tax liability of the trust (Ignore surcharge and cess).

(b) [6 Marks] Discuss the interplay between Section 194Q (TDS on purchase of goods) and Section 206C(1H) (TCS on sale of goods). If Buyer A (Turnover ₹15 Cr) buys goods worth ₹85 Lakhs from Seller B (Turnover ₹12 Cr), who is legally obligated to deduct/collect tax and at what rate?

Question 6 **[14 Marks]**

(a) [8 Marks] Indian Co 'I' exported 10,000 units of a product to its US Parent Co 'P' at $100 per unit. 'I' exported the same product to an unrelated US buyer 'U' at $130 per unit. For sales to 'U', 'I' bore outbound freight of $15 per unit and offered a 6-month warranty costing $5 per unit. Sales to 'P' were FOB with no warranty. Determine the Arm's Length Price using the CUP method. If the TPO makes an adjustment, what are the secondary adjustment obligations u/s 92CE for 'I'?

(b) [6 Marks] Mr. G transferred a fixed deposit of ₹20 Lakhs to his wife, Mrs. G, without any consideration. She earned an interest of ₹1,60,000 on this FD. She subsequently invested this ₹1,60,000 into a new FD and earned ₹12,000 interest on it. Discuss the clubbing provisions u/s 64 applicable to Mr. G.

Question 7 **[14 Marks]**

(a) [7 Marks] Mr. Z, a resident Indian, holds an undisclosed bank account in Geneva. He deposited $200,000 in 2018 and $100,000 in 2021. The Assessing Officer discovers this account in PY 2025-26 when the balance was $50,000. Assuming the RBI reference rate is ₹85/1 USD, compute the tax and penalty payable under the Black Money (Undisclosed Foreign Income and Assets) and Imposition of Tax Act, 2015.

(b) [7 Marks] Determine the taxability and the applicable TDS rates for the following payments made to Non-Residents in AY 2026-27:
(i) ₹20 Lakhs paid as match fees to a non-resident Australian cricketer.
(ii) ₹50 Lakhs paid as Royalties to a UK company (No PE in India).
(iii) ₹15 Lakhs paid to a foreign e-commerce operator for facilitating sales to Indian residents.

Question 8 **[14 Marks]**

Write short notes on any TWO of the following (7 Marks each):
(a) Consequences of converting a Capital Asset into Stock-in-Trade under Section 45(2).
(b) Conditions for determining the 'Place of Effective Management' (POEM) of a foreign company under the Active Business Outside India (ABOI) test.
(c) Safe harbor provisions for Eligible Investment Funds operating through Eligible Fund Managers in India (Section 9A).

SUGGESTED ANSWERS: MOCK TEST 1

SECTION A (MCQs)

Q. No.	Correct Option & Justification
(i)	**C. Non-Resident.** Since he left for employment, the 60-day rule is replaced by 182 days. His stay (Oct 15 to Mar 31) is 168 days. Since < 182 days, he is NR. (The 120-day rule applies to visits, not leaving).
(ii)	**B. ₹75,000.** Budget 2024 increased the standard deduction from 50k to 75k under the new regime.
(iii)	**B. TDS u/s 194Q @ 0.1% on ₹10 Lakhs.** Buyer's TO > 10Cr. 194Q overrides 206C(1H). TDS on 60L - 50L = 10L.
(iv)	**C. 90 days of the assessment order.** Sec 92CE requires repatriation within 90 days.
(v)	**B. 12.5% without indexation.** FA 2024 updated Sec 112A to 12.5% and the exemption to 1.25L.
(vi)	**C. 200% of the tax payable on under-reported income.** Sec 270A(9).
(vii)	**C. ₹10 Lakhs.** Sec 43 of BMA. The exemption applies only if the balance is <= 5L.
(viii)	**C. ₹2 Crores.** Equalisation levy of 2% applies if gross receipts exceed 2 Cr.
(ix)	**B. ₹10 Lakhs.** Exemption is higher of (5% of 100L = 5L) or 1L. Taxable = 15L - 5L = 10L.
(x)	**B. 50% of its total income.** POEM ABOI test condition.
(xi)	**B. Section 44DA at 40% on net basis.** If FTS/Royalty is effectively connected to a PE, gross taxation u/s 115A does not apply.
(xii)	**B. Tax Residency Certificate (TRC).** Mandatory u/s 90(4).
(xiii)	**B. 50% if filed between 12 to 24 months.** Sec 140B additional tax.
(xiv)	**C. Fully disallowed under Section 40(ba).** Remuneration to AOP members is strictly disallowed.

(xv)	**B. 30% of EBITDA.** Sec 94B Thin Capitalization rule.

SECTION B (Descriptive)

Answer to Question 2: Computation of Total Income (DEF Ltd)

Computation of PGBP:

Net Profit as per P&L Account: **₹51,00,000**

Add: Inadmissible Expenses:
1. Depreciation as per books: ₹15,00,000
2. Provision for Income Tax: ₹10,00,000
3. Penalty for GST violation (Offence under law u/s 37): ₹2,00,000
4. Employer PF contribution paid after due date u/s 43B: ₹1,50,000
5. Cash payment to supplier > ₹10,000 in a day u/s 40A(3): ₹45,000

Total Additions: ₹28,95,000

Less: Admissible Expenses / Incomes considered separately:
1. Dividend Income (Taxable under IFOS): ₹5,00,000
2. LTCG on land (Taxable under CG): ₹12,00,000
3. Depreciation as per IT Rules: ₹18,00,000

Total Deductions: ₹35,00,000

Business Income for the year = (51,00,000 + 28,95,000) - 35,00,000 = **₹44,95,000**.

Less: Brought forward business loss (AY 24-25): ₹8,00,000.
Taxable PGBP = ₹36,95,000.

Computation of Gross Total Income & Tax:

PGBP = ₹36,95,000.
LTCG (Sec 112 @ 12.5%) = ₹12,00,000.
IFOS (Dividend) = ₹5,00,000.
Total Income = ₹53,95,000.

Tax Liability:
Tax on LTCG (12.5% of 12L) = ₹1,50,000.
Tax on Normal Income (36.95L + 5L = 41.95L) @ 30% = ₹12,58,500.
Total Tax = ₹14,08,500.
Add: Health & Education Cess @ 4% = ₹56,340.
Gross Tax Liability = ₹14,64,840.

Answer to Question 3(a): Sec 91 Unilateral Relief

Step 1: Compute Global Income & Indian Tax
Global Income = Indian Income (₹18L) + Foreign Income (₹12L) = **₹30,00,000**.
Tax on ₹30L under New Regime (Sec 115BAC):
Tax on 24L = ₹3,00,000. Tax on balance 6L @ 30% = ₹1,80,000. Total Base Tax = ₹4,80,000.
Add: 4% HEC = ₹19,200.
Total Indian Tax = ₹4,99,200.
Average Indian Tax Rate = (4,99,200 / 30,00,000) * 100 = **16.64%**.

Step 2: Foreign Tax Rate
Foreign Tax Paid = ₹3,00,000. Foreign Income = ₹12,00,000.
Foreign Tax Rate = (3,00,000 / 12,00,000) * 100 = **25%**.

Step 3: Compute Relief and Net Tax
Relief is calculated at the LOWER of Indian or Foreign rate (16.64%).
Relief u/s 91 = ₹12,00,000 * 16.64% = **₹1,99,680**.
Net Tax Payable in India = ₹4,99,200 - ₹1,99,680 = **₹2,99,520**.

Answer to Question 3(b): Sec 50C + 54F Exemption

Step 1: Full Value of Consideration (Sec 50C)
Actual Consideration = ₹80 Lakhs. SDV = ₹110 Lakhs.
Since SDV (110L) exceeds 110% of Actual (88L), FVC = **₹110 Lakhs**.

Step 2: Compute Initial LTCG
FVC = ₹110 Lakhs.
Less: Indexed Cost of Acquisition = ₹30 Lakhs.
LTCG = **₹80 Lakhs**.

Step 3: Exemption u/s 54F
Exemption = (LTCG x Amount Invested) / Net Consideration.
Note: Courts have held that 'Net Consideration' for 54F is the deemed FVC u/s 50C.
Exemption = (80 Lakhs x 50 Lakhs) / 110 Lakhs = **₹36,36,364**.

Step 4: Taxable LTCG
Taxable LTCG = ₹80,00,000 - ₹36,36,364 = **₹43,63,636**.

Answer to Question 4(a): MAT Book Profit

1. Net Profit as per P&L: ₹300 Lakhs.

2. Statutory Additions:
- Provision for Deferred Tax = +₹25 Lakhs.
- Provision for Doubtful Debts (Diminution in asset value) = +₹15 Lakhs.
- Depreciation debited to P&L = +₹40 Lakhs.
Sub-total after additions = ₹380 Lakhs.

3. Statutory Deletions:
- Withdrawal from Gen Reserve: NIL (Cannot be deducted because it was created in a non-MAT year).
- Depreciation excluding revaluation = ₹40L - ₹10L = -₹30 Lakhs.
- Lower of B/F Loss (60L) or Unabsorbed Depr (45L) as per books = -₹45 Lakhs.
Total Deletions = ₹75 Lakhs.

Book Profit u/s 115JB = 380 - 75 = **₹305 Lakhs.**

Answer to Question 5(a): Trust Taxation (85% Application & 115BBC)

Step 1: Segregate Anonymous Donations (Sec 115BBC)
Total Donations = ₹200L. Anonymous = ₹50L.
Exemption limit = Higher of (5% of 200L = ₹10L) or ₹1 Lakh. Allowed = ₹10L.
Taxable Anonymous Donations u/s 115BBC = 50L - 10L = **₹40 Lakhs**.
Tax on Anonymous Donations = 30% of ₹40L = **₹12,00,000**.

Step 2: Normal Trust Income Computation
Gross Receipts = Total (200L) - Taxable Anonymous (40L) - Exempt Corpus (40L) = **₹120 Lakhs**.
Less: 15% Unconditional Accumulation = ₹18 Lakhs.
Required Application = ₹102 Lakhs.
Actual Application = ₹90 Lakhs.
Shortfall (Taxable Income) = 102L - 90L = **₹12 Lakhs**.

Step 3: Total Tax Liability
Tax on Normal Income (₹12 Lakhs at slab rates): Up to 3L (Nil) + 3-6L (5%=15k) + 6-9L (10%=30k) + 9-12L (15%=45k) = ₹90,000.
Total Tax = 12,00,000 (115BBC) + 90,000 (Normal) = **₹12,90,000**.

Answer to Question 6(a): TP CUP Method & Secondary Adjustment

Step 1: Compute Arm's Length Price (CUP Method)
Price to Unrelated US Buyer (U) = $130.
Less: Outbound Freight borne for U (not for P) = $15.
Less: Warranty cost borne for U (not for P) = $5.
Adjusted ALP = 130 - 15 - 5 = **$110 per unit**.

Step 2: Primary Adjustment
Actual price to P = $100. Shortfall = $10 per unit.
Total Primary Adjustment = 10,000 units x $10 = $100,000.
Assuming an exchange rate of ₹85/$, Primary Adjustment = **₹85,00,000**.

Step 3: Secondary Adjustment (Sec 92CE)
Secondary adjustment is triggered ONLY IF the primary adjustment exceeds **₹1 Crore**. Since the primary adjustment here is ₹85 Lakhs, the provisions of Section 92CE **do not apply**. No repatriation or interest imputation is required.

Answer to Question 7(a): Black Money Act Computation

Step 1: Valuation under BMA
The value of an undisclosed foreign bank account is the **sum of all deposits** made since its opening, ignoring the current balance.

Total Deposits = $200,000 (2018) + $100,000 (2021) = $300,000.
Value in INR = $300,000 x ₹85 = **₹2,55,00,000**.

Step 2: Tax and Penalty
Tax u/s 3 @ 30% = 30% of ₹2.55 Cr = **₹76,50,000**.
Penalty u/s 41 @ 90% (3 times the tax) = **₹2,29,50,000**.
Total outflow = **₹3,06,00,000**.

Answer to Question 8: Short Notes (Highlights)

(a) Sec 45(2) Conversion: Capital gains triggered in the year of conversion but taxed in the year of sale. FMV on conversion date is FVC for CG, and COGS for PGBP. Prevents tax evasion via asset recharacterization.

(b) POEM ABOI Test: A foreign company's POEM is outside India if passive income <= 50% of total income, AND Indian assets, Indian employees, and Indian payroll are all < 50% of their respective global totals.

--- END OF MOCK TEST 1 ---

ICMAI PAPER 15

DIRECT TAX LAWS & INTERNATIONAL TAXATION

PART 7: MOCK TEST SERIES

MOCK TEST PAPER - 2 (Full Syllabus)
High-Difficulty Corporate & International Tax Focus

Target Attempt: December 2026 Examination
Assessment Year: 2026-27 (PY 2025-26)
Difficulty Level: Expert (Tougher than Mock Test 1)

MOCK TEST PAPER - 2

Time Allowed: 3 Hours
Maximum Marks: 100

Instructions:

1. The figures in the margin on the right indicate full marks.
2. All workings must form part of your answer.
3. State assumptions clearly wherever necessary.
4. **Section A** is compulsory (15 MCQs x 2 Marks = 30 Marks).
5. In **Section B**, answer any 5 questions out of 7 (14 Marks each = 70 Marks).
6. Assume the New Tax Regime u/s 115BAC is the default unless specified otherwise.

SECTION A (Compulsory - 30 Marks)

1. Choose the most appropriate alternative for the following (15 x 2 = 30 Marks):

(i) ABC Ltd acquired an asset for ₹20 Lakhs. It claimed 100% of this cost as an application of income under Section 11 in AY 2024-25, as it is a registered charitable trust. In AY 2026-27, what amount of depreciation can the trust claim on this asset?

A. 15% of ₹20 Lakhs
B. 10% of ₹20 Lakhs
C. NIL
D. ₹20 Lakhs

(ii) Under Section 43B(h), a payment of ₹5 Lakhs made to a micro-enterprise on 20th May 2026 for goods delivered on 1st March 2026 (with a 60-day written credit agreement) will be allowed as a deduction in:

A. PY 2025-26, as it was paid before the ITR due date
B. PY 2026-27, as it was paid after the 45-day MSMED limit
C. Disallowed permanently
D. Allowed proportionately

(iii) In an Advance Pricing Agreement (APA), the rollback provision can be applied for a maximum of:

A. 2 preceding previous years
B. 3 preceding previous years
C. 4 preceding previous years
D. 5 preceding previous years

(iv) A trust violating Section 13(1)(c) by providing a rent-free property (FMV ₹5 Lakhs p.a.) to its founder will face what penal consequence under the amended Section 115BBI?

A. Complete loss of Sec 12AB registration automatically
B. Taxation of the entire trust income at 30%
C. Taxation of ₹5 Lakhs at the Maximum Marginal Rate (MMR)
D. Penalty of ₹10 Lakhs

(v) If a dataset for computing the Arm's Length Price (ALP) under the Transactional Net Margin Method (TNMM) contains 8 comparable data points, the Arm's Length Range shall be:

A. Arithmetic mean +/- 3%
B. 35th to 65th percentile of the dataset
C. 40th to 60th percentile of the dataset
D. Median of the dataset

(vi) For a closely held company (not being an eligible startup), brought forward business losses can be carried forward only if there is a continuity of at least:

A. 26% voting power
B. 50% voting power
C. 51% voting power
D. 75% voting power

(vii) Under the Black Money Act, 2015, the tax and penalty on an undisclosed foreign immovable property are computed on:

A. Its historical cost of acquisition
B. Its Fair Market Value on the date it comes to the notice of the Assessing Officer
C. The higher of its cost of acquisition or its FMV on the 1st day of the PY in which it is discovered
D. The stamp duty value of the host country

(viii) Under Section 194R, a company providing a free holiday package to a dealer for achieving sales targets must deduct TDS @ 10% if the value of the perquisite during the financial year exceeds:

A. ₹10,000
B. ₹20,000
C. ₹30,000
D. ₹50,000

(ix) An Indian company pays ₹10 Crores as interest to its UK Parent Company. The Indian company's EBITDA is ₹20 Crores. Under Section 94B (Thin Capitalization), what amount of interest is disallowed?

A. ₹4 Crores
B. ₹6 Crores
C. ₹10 Crores
D. NIL (Because DTAA overrides)

(x) According to the Supreme Court ruling in *Engineering Analysis Centre of Excellence*, payments made by resident Indian distributors to non-resident software developers for shrink-wrapped software are classified as:

A. Royalty subject to TDS u/s 195
B. Fees for Technical Services
C. Business Income not subject to TDS u/s 195 (in absence of a PE)
D. Capital Gains

(xi) Which of the following is NOT an addition to the Net Profit for calculating Book Profit u/s 115JB (MAT)?

A. Provision for unascertained liabilities
B. Provision for Deferred Tax
C. Securities Transaction Tax (STT)
D. Provision for Income Tax

(xii) A foreign company operates a branch in India. The Head Office allocates executive expenditure of ₹15 Lakhs to the Indian branch. The branch's Adjusted Total Income is ₹200 Lakhs. What is the allowable Head Office expenditure u/s 44C?

A. ₹15 Lakhs
B. ₹10 Lakhs
C. ₹5 Lakhs
D. NIL

(xiii) An updated return under Section 139(8A) cannot be filed if:

A. The assessee wants to report additional income
B. The assessee has already filed a belated return
C. The updated return has the effect of decreasing the total tax liability determined earlier
D. The assessee did not file an original return u/s 139(1)

(xiv) Section 45(5A) defers capital gains taxation on Joint Development Agreements (JDA) to the year in which:

A. The JDA is signed
B. Possession of the land is handed over
C. The certificate of completion is issued
D. The flats are actually sold to third parties

(xv) An AOP has 3 members with determinate shares. Member A has a personal income of ₹8 Lakhs. How will the AOP be taxed?

A. At normal slab rates
B. At the Maximum Marginal Rate (MMR) entirely
C. Proportionately based on members' tax slabs
D. Exempt from tax

SECTION B (Answer any 5 out of 7 - 70 Marks)

Question 2 [14 Marks]

Zodiac Ltd., an Ind-AS compliant manufacturing company, provides the following information for PY 2025-26:
- Net Profit as per Statement of Profit & Loss: ₹800 Lakhs.
- The P&L is debited with: Provision for diminution in value of investments (₹40L), Income Tax paid (₹60L), Deferred Tax (₹25L), Depreciation (₹120L, which includes ₹30L on revaluation of assets), and Penalty for violation of customs act (₹5L).
- The P&L is credited with: Withdrawal from General Reserve (created in a non-MAT year) (₹15L), and Long Term Capital Gains (₹100L).
- Items in Other Comprehensive Income (OCI) that will NOT be reclassified to P&L: Fair value gain on equity instruments realized during the year (₹80L).
- Ind-AS transition amount on convergence date (1-Apr-2023) was a positive balance of ₹150 Lakhs.
- Brought Forward Business Loss as per books: ₹200 Lakhs. Unabsorbed Depreciation as per books: ₹150 Lakhs.
- Normal Taxable Income computed under the IT Act is ₹250 Lakhs.

Required: Compute the Book Profit u/s 115JB, the MAT liability, and determine the final Tax Payable by the company for AY 2026-27. (Assume Normal Tax Rate is 30%. Surcharge is 12% if Income > 10 Cr, 7% if > 1 Cr. HEC is 4%).

Question 3 [14 Marks]

(a) [8 Marks] Alpha Ltd sold its 'Textile Division' as a going concern via a Slump Sale on 1st January 2026 for a lump sum consideration of ₹800 Lakhs. The division was set up in 2018. Extract of the Balance Sheet of the Textile Division as on 1-Jan-2026:
- Fixed Assets (WDV as per Income Tax Act): ₹350 Lakhs.
- Debtors & Stock (Book Value): ₹150 Lakhs.
- The Fixed Assets include a Revaluation Reserve of ₹50 Lakhs.
- Bank Loan transferred: ₹120 Lakhs.
- Trade Creditors transferred: ₹80 Lakhs.

Compute the Capital Gains arising from the Slump Sale (Sec 50B).

(b) [6 Marks] Mr. M sold unlisted shares of a private company for ₹25 Lakhs on 15-Dec-2025. The Fair Market Value (FMV) of these shares under Rule 11UAA was ₹45 Lakhs. The shares were purchased in 2015 for ₹10 Lakhs (CII: 254). CII for PY 2025-26 is 363. Compute the taxable Capital Gains and explain the applicability of Section 50CA.

Question 4 [14 Marks]

(a) [8 Marks] Indian Co 'I' exported electronic components to its German Parent Co 'P' at €100 per unit. During the same period, 'I' exported the identical components to an unrelated German buyer 'U' at €140 per unit.
Functional differences:

(i) 'I' provides a 2-year warranty to 'U' (costing €15 per unit), but no warranty to 'P'.
(ii) 'I' gives a 90-day credit period to 'U' (cost of credit is €5 per unit), while 'P' pays upfront.
(iii) 'I' incurred €10 per unit for special export packaging for 'U', whereas 'P' provided its own packaging material free of cost to 'I'.
Determine the Arm's Length Price (ALP) per unit using the CUP method. If 'I' exported 10,000 units to 'P', calculate the primary transfer pricing adjustment in INR (Assume 1€ = ₹90).

(b) [6 Marks] If the primary adjustment in 4(a) is made by the TPO, what are the secondary adjustment obligations for Indian Co 'I' under Section 92CE? Calculate the imputed interest for PY 2025-26 assuming the order was passed on 1-Nov-2025 and the excess money was not repatriated. (Assume SBI lending rate + 3.25% = 12% p.a.).

Question 5 [14 Marks]

(a) [8 Marks] A registered charitable trust (Sec 12AB) merged with a private limited company on 1st October 2025. On the date of the merger, the trust held the following assets and liabilities:
- Land: Book Value ₹50 Lakhs, Stamp Duty Value ₹200 Lakhs, Open Market Value ₹250 Lakhs.
- Quoted Shares: Book Value ₹30 Lakhs, Lowest trading price on date of merger ₹80 Lakhs, Highest trading price ₹90 Lakhs.
- Bank Balance: ₹20 Lakhs.
- Trust Liabilities (excluding corpus fund and reserves): ₹40 Lakhs.

Compute the 'Accreted Income' under Section 115TD and state the tax rate applicable.

(b) [6 Marks] Explain the provisions of the Black Money Act, 2015 regarding the valuation of an undisclosed foreign bank account. If Mr. K opened a Swiss account in 2019 depositing $50,000, deposited another $30,000 in 2022, and withdrew $60,000 in 2024. The account is discovered in 2025 when the balance is $20,000. How will the asset be valued? (Assume $1 = ₹85).

Question 6 [14 Marks]

(a) [8 Marks] XYZ Partnership Firm reports a Net Profit of ₹15,00,000 for PY 2025-26. The P&L account has been debited with:
- Remuneration to working partners: ₹12,00,000.
- Interest on capital to partners @ 18% p.a.: ₹3,60,000.
- Section 43B(h) violation: Payment to a micro-enterprise made on 15th July 2026 (beyond the 45-day MSMED limit): ₹4,00,000.

The firm also has unabsorbed depreciation of ₹2,00,000 from PY 2023-24.
Compute the 'Book Profit' of the firm and the maximum allowable remuneration under Section 40(b).

(b) [6 Marks] Discuss the difference in tax implications under Section 194Q and Section 206C(1H) when an advance payment is made before the delivery of goods. Which section prevails if both buyer and seller cross the ₹10 Crore turnover threshold?

Question 7 [14 Marks]

(a) [7 Marks] Foreign E-Commerce Co 'E' (No PE in India) facilitates hotel bookings in India. It processed bookings worth ₹5 Crores for Indian hotels during PY 2025-26. It also ran digital advertisements on its platform for Indian businesses, receiving ₹10 Lakhs. Compute the Equalisation Levy liability for Co 'E' and discuss the compliance mechanisms for both revenue streams.

(b) [7 Marks] Mr. R, an Indian resident, earned business income of ₹10 Lakhs from Country A (No DTAA) and paid ₹1.5 Lakhs tax there. He earned ₹8 Lakhs from Country B (No DTAA) and paid ₹1.6 Lakhs tax there. His Indian business income is ₹12 Lakhs. Compute his total tax liability in India after claiming relief under Section 91. (Assume New Regime, basic slab rates).

Question 8 [14 Marks]

Write short notes on any TWO of the following (7 Marks each):
(a) The interplay and coexistence of the General Anti-Avoidance Rule (GAAR) and Specific Anti-

Avoidance Rules (SAAR).
(b) The three-tiered Transfer Pricing Documentation structure mandated in India pursuant to BEPS Action 13.
(c) The revised time limits and conditions for claiming Foreign Tax Credit (FTC) by filing Form 67 under Rule 128.

SUGGESTED ANSWERS: MOCK TEST 2

SECTION A (MCQs)

Q. No.	Correct Option & Justification
(i)	**C. NIL.** Under Sec 11(6), if the cost of an asset has been claimed as an application of income, no depreciation is allowed to prevent double deduction.
(ii)	**B. PY 2026-27.** Under 43B(h), payment beyond the MSMED limit (45 days) is allowed ONLY in the year of actual payment, regardless of the ITR due date.
(iii)	**C. 4 preceding previous years.** The APA rollback mechanism provides certainty for 4 prior years + 5 future years.
(iv)	**C. Taxation of ₹5 Lakhs at the Maximum Marginal Rate (MMR).** Sec 115BBI explicitly taxes the specific violative benefit at MMR, saving the trust from losing its entire registration.
(v)	**B. 35th to 65th percentile of the dataset.** Since the dataset >= 6 comparables, the Range Concept applies.
(vi)	**C. 51% voting power.** Sec 79 requires 51% continuity of beneficial ownership for closely held companies.
(vii)	**C. The higher of its cost of acquisition or its FMV on the 1st day of the PY in which it is discovered.** Rule 3(1)(e) of the BMA.
(viii)	**B. ₹20,000.** Sec 194R threshold for business perquisites.
(ix)	**A. ₹4 Crores.** 30% of EBITDA (20 Cr) = 6 Cr. Interest paid is 10 Cr. Excess = 4 Cr disallowed u/s 94B.
(x)	**C. Business Income not subject to TDS u/s 195.** SC ruled shrink-wrapped software is a copyrighted article, not a royalty-bearing copyright.
(xi)	**C. Securities Transaction Tax (STT).** STT is a valid indirect tax expense. Only Income Tax (Direct tax) and provisions are added back.
(xii)	**B. ₹10 Lakhs.** Sec 44C limits HO expenses to the LEAST of 5% of ATI (5% of 200L = 10L) or actual allocated (15L).

(xiii)	**C. The updated return has the effect of decreasing the total tax liability determined earlier.** U-ITR cannot be a loss/refund return.
(xiv)	**C. The certificate of completion is issued.** For JDAs, Sec 45(5A) defers taxation to the year the completion certificate is received.
(xv)	**B. At the Maximum Marginal Rate (MMR) entirely.** Sec 167B(2) mandates MMR for the whole AOP if even one member exceeds the basic exemption limit.

SECTION B (Descriptive)

Answer to Question 2: Computation of MAT & Tax Payable (Zodiac Ltd)

Computation of Book Profit u/s 115JB:

Net Profit as per P&L Account: **₹800,00,000**

Add: Statutory Additions:
1. Provision for diminution in value of investments: ₹40,00,000
2. Income Tax paid: ₹60,00,000
3. Deferred Tax: ₹25,00,000
4. Depreciation debited to P&L: ₹120,00,000
5. Ind-AS Transition Amount (Positive 150L / 5 years): ₹30,00,000
6. OCI Items (Fair value gain realized, not reclassified to P&L): ₹80,00,000

Sub-total after additions: ₹1155,00,000

Less: Statutory Deletions:
1. Withdrawal from General Reserve: NIL (Created in a non-MAT year, cannot be deducted).
2. Depreciation excluding revaluation (120L - 30L): ₹90,00,000
3. Lower of B/F Loss (200L) or Unabsorbed Depr (150L) as per books: ₹150,00,000

Total Deletions: ₹240,00,000

Book Profit = 1155L - 240L = **₹915,00,000.**

Computation of Tax Liability:

1. Normal Tax: Normal Income = ₹250 Lakhs.
Tax @ 30% = ₹75,00,000. Add Surcharge (7% as Income > 1Cr but < 10Cr) = ₹5,25,000. Tax + SC = ₹80,25,000. Add 4% HEC = ₹3,21,000.
Normal Tax Liability = **₹83,46,000**.

2. MAT Liability: Book Profit = ₹915 Lakhs.
MAT @ 15% = ₹137,25,000. Add Surcharge (7%) = ₹9,60,750. Tax + SC = ₹146,85,750. Add 4% HEC = ₹5,87,430.
MAT Liability = **₹152,73,180**.

Conclusion: Tax Payable is higher of the two = **₹152,73,180**. MAT Credit generated = 152,73,180 - 83,46,000 = ₹69,27,180.

Answer to Question 3: Slump Sale & Sec 50CA

3(a) Slump Sale (Sec 50B):

Step 1: Compute Net Worth (Cost of Acquisition)
Aggregate value of Assets: Fixed Assets WDV (₹350L) + Debtors/Stock (₹150L) = ₹500 Lakhs.
Less: Revaluation Reserve = ₹50 Lakhs. Effective Assets = ₹450 Lakhs.
Less: Liabilities Transferred = Bank Loan (₹120L) + Creditors (₹80L) = ₹200 Lakhs.
Net Worth = 450L - 200L = ₹250 Lakhs.

Step 2: Compute Capital Gains
Full Value of Consideration (FVC) = ₹800 Lakhs.
Less: Net Worth = ₹250 Lakhs.
LTCG = ₹550 Lakhs. (Indexation is expressly prohibited under Sec 50B).

3(b) Sec 50CA (Unlisted Shares):

Step 1: Ascertain FVC u/s 50CA
Since actual consideration (₹25L) is less than the FMV as per Rule 11UAA (₹45L), the FMV shall be deemed as the Full Value of Consideration. FVC = **₹45 Lakhs**.

Step 2: Compute LTCG
ICOA = ₹10 Lakhs x (363 / 254) = ₹14,29,134.
LTCG = FVC (₹45,00,000) - ICOA (₹14,29,134) = **₹30,70,866**.

Answer to Question 4: Transfer Pricing (CUP & Secondary Adjustment)

4(a) Computation of ALP using CUP Method:

Price charged to unrelated buyer 'U' = $130.
Functional Adjustments:
- Less: Warranty cost provided to U but not to P = ($15).
- Less: Cost of Credit provided to U but not to P = ($5).
- Less: Special Export Packaging provided to U but not to P = ($10).
Arm's Length Price (ALP) = $130 - 15 - 5 - 10 = **$100 per unit**.
Since 'I' actually charged 'P' exactly $100, the transaction is already at Arm's Length. **Primary Adjustment** = **NIL**.

4(b) Secondary Adjustment Obligations:

Section 92CE mandates a secondary adjustment ONLY IF the primary adjustment exceeds **₹1 Crore**. Since the primary adjustment computed in part (a) is NIL, there is absolutely no requirement for repatriation. Consequently, **imputed interest is NIL**.

Answer to Question 5: Trust Exit Tax & Black Money Act

5(a) Exit Tax / Accreted Income (Sec 115TD):

Step 1: Valuation of Assets
Accreted income is calculated using the Aggregate FMV of specified assets.
- Land: FMV is the higher of Stamp Duty Value (200L) or Open Market Value (250L) = **₹250 Lakhs**.
- Quoted Shares: Average of lowest (80L) and highest (90L) trading price = **₹85 Lakhs**.
- Bank Balance: **₹20 Lakhs**.
Aggregate FMV of Assets = 250L + 85L + 20L = **₹355 Lakhs**.

Step 2: Compute Accreted Income
Less: Liabilities = **₹40 Lakhs**.
Accreted Income = 355L - 40L = **₹315 Lakhs**.

Step 3: Tax Rate
This amount is taxed at the **Maximum Marginal Rate (MMR)**.

5(b) Black Money Act Valuation:

Step 1: Statutory Rule
Under the Black Money Act, the value of an undisclosed foreign bank account is the **sum of all deposits** made into the account since its opening. Withdrawals and the final closing balance are completely ignored.

Step 2: Computation
Total Deposits = $50,000 (2019) + $30,000 (2022) = **$80,000**.
Value in INR = $80,000 x ₹85 = **₹68,00,000**.
Mr. K will be taxed (30%) and penalized (90%) on the gross ₹68 Lakh deposit base.

Answer to Question 6: Firm Assessment & TDS Interplay

6(a) Firm's Book Profit & Remuneration:

Step 1: Compute Book Profit
Net Profit = ₹15,00,000.
Add: Remuneration to partners = ₹12,00,000.
Add: Interest on Capital in excess of 12% = (3,60,000 / 18) x 6 = ₹1,20,000.
Add: Sec 43B(h) disallowance (paid after 45 days) = ₹4,00,000.
Sub-total = ₹32,20,000.
Less: Unabsorbed Depreciation u/s 32(2) = ₹2,00,000.
Book Profit = ₹30,20,000.

Step 2: Compute Maximum Remuneration u/s 40(b)
First ₹3,00,000 @ 90% = ₹2,70,000.
Balance (30.2L - 3L = 27.2L) @ 60% = ₹16,32,000.

Max Allowable = 2,70,000 + 16,32,000 = **₹19,02,000**.
Since actual remuneration (₹12 Lakhs) is less than the limit, the entire ₹12 Lakhs is allowed.

6(b) 194Q vs 206C(1H) Conflict:

Advance Payment: Sec 194Q requires TDS at the time of credit or payment, *whichever is earlier*. Hence, TDS applies on advances. Sec 206C(1H) TCS is triggered exclusively at the time of *receipt of consideration*.
Tie-Breaker: When both parties cross the ₹10 Cr turnover limit, Section 194Q overrides 206C(1H). Buyer A must deduct TDS @ 0.1% on ₹35 Lakhs (85L - 50L threshold). Seller B will not collect TCS.

Answer to Question 7: International Tax (Eq. Levy & Sec 91)

7(a) Equalisation Levy for E-commerce:

1. Facilitated Sales (₹5 Crores): Co 'E' is an e-commerce operator. Gross receipts exceed ₹2 Crores. Levy is **2%** on ₹5 Crores = **₹10,00,000**. Compliance: Co 'E' must obtain an Indian PAN and pay this directly to the Govt.
2. Digital Ads (₹10 Lakhs): Running digital ads triggers the **6%** Levy as the amount exceeds ₹1 Lakh. Levy = 6% of 10L = **₹60,000**. Compliance: The Indian businesses paying for the ads must deduct this 6% TDS-style and remit it to the Govt.

7(b) Sec 91 Unilateral Relief:

Step 1: Global Income & Average Indian Rate
Global Income = 12L (India) + 10L (Country A) + 8L (Country B) = ₹30 Lakhs.
Indian Tax on 30L (New Regime) = ₹3,00,000 (Slab) + ₹1,80,000 (30% on 6L) = ₹4,80,000 + 4% HEC = **₹4,99,200**.
Average Indian Rate = (4,99,200 / 30,00,000) * 100 = **16.64%**.

Step 2: Relief for Country A
Country A Rate = (1.5L / 10L) * 100 = 15%.
Lower Rate = 15%. Relief A = 10,00,000 * 15% = **₹1,50,000**.

Step 3: Relief for Country B
Country B Rate = (1.6L / 8L) * 100 = 20%.
Lower Rate = 16.64%. Relief B = 8,00,000 * 16.64% = **₹1,33,120**.

Step 4: Net Tax Payable
Net Tax = ₹4,99,200 - ₹1,50,000 - ₹1,33,120 = **₹2,16,080**.

--- END OF MOCK TEST 2 ---

ICMAI PAPER 15

DIRECT TAX LAWS & INTERNATIONAL TAXATION

PART 7: MOCK TEST SERIES

MOCK TEST PAPER - 3 (Full Syllabus)
Advanced Application & Assessment Focus

Target Attempt: December 2026 Examination
Assessment Year: 2026-27 (PY 2025-26)
Difficulty Level: Expert (Ultimate ICMAI Simulation)

MOCK TEST PAPER - 3

Time Allowed: 3 Hours
Maximum Marks: 100

Instructions:

1. The figures in the margin on the right indicate full marks.
2. All workings must form part of your answer.
3. State assumptions clearly wherever necessary.
4. **Section A** is compulsory (15 MCQs x 2 Marks = 30 Marks).
5. In **Section B**, answer any 5 questions out of 7 (14 Marks each = 70 Marks).
6. Assume the New Tax Regime u/s 115BAC is the default unless specified otherwise.

SECTION A (Compulsory - 30 Marks)

1. Choose the most appropriate alternative for the following (15 x 2 = 30 Marks):

(i) Mr. A sold unlisted equity shares at ₹500 per share. The Fair Market Value as per Rule 11UAA was ₹800 per share. The Assessing Officer will compute Capital Gains taking the Full Value of Consideration as:

A. ₹500
B. ₹800 u/s 50CA
C. ₹800 u/s 50C
D. Exempt from tax

(ii) Under the Black Money Act, 2015, the penalty for undisclosed foreign income and assets is:

A. 30% of the value of the asset
B. 90% of the value of the asset
C. 120% of the value of the asset
D. 10 Lakhs flat

(iii) An Indian company paid ₹50 Lakhs to Facebook (a non-resident having no PE in India) for digital advertising. The Equalisation Levy applicable is:

A. 2% on ₹50 Lakhs
B. 6% on ₹50 Lakhs
C. 6% on ₹49 Lakhs
D. 2% on ₹49 Lakhs

(iv) In the case of an eligible investment fund, the fund management activity carried out through an eligible fund manager located in India shall not constitute a business connection in India under Section:

A. 9A
B. 9B
C. 9(1)(i)
D. 115A

(v) What is the time limit to file an updated return of income under section 139(8A)?

A. 12 months from the end of the relevant assessment year
B. 24 months from the end of the relevant assessment year
C. 36 months from the end of the relevant assessment year
D. 24 months from the end of the previous year

(vi) Under Section 94B, interest paid to a non-resident Associated Enterprise is disallowed to the extent it exceeds:

A. 30% of Net Profit
B. 30% of Gross Receipts
C. 30% of EBITDA
D. 15% of EBITDA

(vii) A company opts for the concessional tax rate of 15% under Section 115BAB. The MAT provisions under Section 115JB will be:

A. Applicable at 15%
B. Applicable at 9%
C. Not applicable
D. Applicable at 18.5%

(viii) The maximum amount of exemption available under Section 54/54F is capped at:

A. ₹2 Crores
B. ₹5 Crores
C. ₹10 Crores
D. No limit

(ix) Under the UN Model Tax Convention, a 'Service PE' is typically constituted if the furnishing of services by employees in a contracting state continues for a period aggregating more than:

A. 30 days
B. 90 days
C. 183 days
D. 365 days

(x) As per Section 43B(h), a payment made to a micro or small enterprise beyond the time limit specified in the MSMED Act is allowed as a deduction:

A. In the year the liability accrues
B. In the year of actual payment
C. If paid before the due date of filing ITR u/s 139(1)
D. Proportionately over 3 years

(xi) Advance tax is not payable by a resident senior citizen if:

A. He has no income from House Property
B. He has no income chargeable under PGBP
C. His total income is less than ₹10 Lakhs
D. He opts for the New Tax Regime

(xii) Section 194R requires deduction of tax at source @ 10% on benefits or perquisites of a business if the value exceeds:

A. ₹10,000
B. ₹20,000
C. ₹30,000
D. ₹50,000

(xiii) Under the default New Tax Regime, which of the following Chapter VI-A deductions is ALLOWED?

A. Section 80C (PPF)
B. Section 80D (Mediclaim)
C. Section 80JJAA (New Employees)
D. Section 80G (Donations)

(xiv) The penalty for under-reporting of income u/s 270A is:

A. 100% of tax payable on under-reported income
B. 50% of tax payable on under-reported income
C. 200% of tax payable on under-reported income
D. 300% of tax payable on under-reported income

(xv) Which Supreme Court case established that shrink-wrapped software sales do not constitute 'Royalty'?

A. Vodafone International Holdings
B. Engineering Analysis Centre of Excellence
C. Formula One World Championship
D. Pilcom

SECTION B (Answer any 5 out of 7 - 70 Marks)

Question 2 [14 Marks]

Mr. Karthik, aged 45, works as a Senior Executive in a private company in Delhi. He provides the following details for PY 2025-26:
- Basic Salary: ₹1,50,000 p.m.
- Dearness Allowance: 40% of Basic (not forming part of retirement benefits).
- He is provided with a Rent-Free Furnished Accommodation owned by the employer. The original cost of the furniture is ₹5,00,000.
- Employer's contribution to Recognized Provident Fund (RPF): 15% of Basic Salary.
- He received a cash gift of ₹60,000 from his friend on his wedding anniversary.
- He earned ₹80,000 as Interest on Bank Fixed Deposits.
- He paid ₹1,20,000 towards Life Insurance Premium and ₹40,000 for Medical Insurance.

Required: Compute the Total Taxable Income and Tax Liability of Mr. Karthik for AY 2026-27 under the default New Tax Regime (Sec 115BAC). Show the valuation of the perquisite clearly.

Question 3 [14 Marks]

(a) [8 Marks] Mr. Dev entered into a Joint Development Agreement (JDA) with a builder on 1st April 2022 to develop his ancestral land. The land was purchased in 2005 for ₹10 Lakhs (CII: 117). Under the JDA, Mr. Dev was to receive 2 flats and ₹50 Lakhs in cash. The certificate of completion for the project was issued on 15th January 2026. On this date, the Stamp Duty Value (SDV) of each flat was ₹1.5 Crores.
Compute the taxable Capital Gains for Mr. Dev for AY 2026-27 (CII: 363). Assume the asset is taxed at 12.5% without indexation as per recent amendments. Provide your computation clearly.

(b) [6 Marks] Sigma Ltd., a manufacturing company, purchased goods worth ₹8 Lakhs from a micro-enterprise registered under the MSMED Act on 1st February 2026. The written agreement provided a credit period of 60 days. Sigma Ltd. paid the amount on 10th May 2026. The due date of filing ITR is 31st October 2026. Discuss the allowability of this expenditure under Section 43B(h) for AY 2026-27 and AY 2027-28.

Question 4 [14 Marks]

(a) [8 Marks] "Dharmic Trust" is a charitable trust registered u/s 12AB. For PY 2025-26, its gross receipts were ₹300 Lakhs (including a corpus donation of ₹50 Lakhs kept in a separate bank account but NOT invested in Section 11(5) specified modes). The trust applied ₹180 Lakhs for charitable purposes in India. It filed Form 10 to accumulate ₹40 Lakhs for a new hospital project.
Compute the taxable income of the trust. Explain the treatment of the corpus donation.

(b) [6 Marks] Compute the interest payable under Section 234C by X Ltd. for the deferment of advance tax. The total assessed tax liability is ₹20 Lakhs (TDS deducted is ₹2 Lakhs). Advance tax paid: 15-Jun: ₹2 Lakhs; 15-Sep: ₹5 Lakhs; 15-Dec: ₹6 Lakhs; 15-Mar: ₹5 Lakhs. Total paid = ₹18 Lakhs.

Question 5 **[14 Marks]**

(a) [8 Marks] Indian Co 'Indo' serves as a contract manufacturer for its UK Parent Co 'Brit'. Indo incurs direct manufacturing costs of ₹6,000 per unit and indirect costs of ₹2,000 per unit. Indo sells the product to Brit for ₹9,000 per unit. An independent contract manufacturer in India earns a gross profit mark-up of 20% on total costs.
Determine the Arm's Length Price (ALP) using the Cost Plus Method (CPM). If Indo sold 50,000 units to Brit, calculate the primary adjustment. Also, state if secondary adjustment provisions u/s 92CE will apply.

(b) [6 Marks] Discuss the difference between the General Anti-Avoidance Rule (GAAR) and Specific Anti-Avoidance Rules (SAAR). If a transaction complies with Section 50C (SAAR), can the revenue authorities still invoke GAAR? Explain with reference to the CBDT circulars.

Question 6 **[14 Marks]**

(a) [8 Marks] Compute the Book Profit under Section 115JB for Delta Ltd. for PY 2025-26:
- Net Profit as per P&L A/c: ₹400 Lakhs.
- Debits to P&L: Provision for Bad Debts (₹20L), Provision for Income Tax (₹45L), Depreciation (₹60L).
- Credits to P&L: Amount withdrawn from Revaluation Reserve (₹15L), Agricultural Income (₹10L).
- Additional Info: Depreciation excluding revaluation is ₹40L. Brought forward business loss as per books is NIL; Unabsorbed depreciation as per books is ₹30L.

(b) [6 Marks] Examine the TDS applicability for the following transactions executed by Gamma Ltd in PY 2025-26:
(i) Sponsored a foreign trip worth ₹2,50,000 for its top distributor.
(ii) Paid ₹45,000 to an independent director as sitting fees.
(iii) Purchased goods worth ₹75 Lakhs from a resident seller (Turnover of Gamma Ltd was ₹15 Crores last year).

Question 7 **[14 Marks]**

(a) [7 Marks] Mr. V, a resident of India, has business income in India of ₹25 Lakhs. He also earned business income of ₹15 Lakhs from Country Y (with which India has a DTAA). He paid tax of ₹4,50,000 in Country Y. The DTAA specifies that India shall provide relief using the 'Credit Method'.
Compute his Net Tax Payable in India for AY 2026-27 (Assume New Tax Regime). Show the proportionate Indian tax calculation clearly.

(b) [7 Marks] Mr. W, a resident Indian, acquired a villa in London for £400,000 in 2018 out of undisclosed income. He never declared it in his ITR. The Assessing Officer initiated proceedings under the Black Money Act in PY 2025-26. The FMV on 1-Apr-2025 is £700,000. Assuming £1 = ₹105, compute the value of the undisclosed asset, the tax payable, and the mandatory penalty under the BMA, 2015.

Question 8 **[14 Marks]**

Write short notes on any TWO of the following (7 Marks each):
(a) The concept of 'Significant Economic Presence' (SEP) under Section 9(1)(i) and its thresholds.

(b) The taxation of Deemed Dividend under Section 2(22)(e) concerning loans to shareholders and concerns in which they have a substantial interest.
(c) The mandatory procedure to be followed by the Assessing Officer under Section 148A before issuing a notice for income escaping assessment.

SUGGESTED ANSWERS: MOCK TEST 3

SECTION A (MCQs)

Q. No.	Correct Option & Justification
(i)	**C. NIL.** Under Sec 11(6), if the cost of an asset has been claimed as an application of income, no depreciation is allowed to prevent double deduction.
(ii)	**B. PY 2026-27.** Under 43B(h), payment beyond the MSMED limit (45 days) is allowed ONLY in the year of actual payment, regardless of the ITR due date.
(iii)	**C. 4 preceding previous years.** The APA rollback mechanism provides certainty for 4 prior years + 5 future years.
(iv)	**C. Taxation of ₹5 Lakhs at the Maximum Marginal Rate (MMR).** Sec 115BBI explicitly taxes the specific violative benefit at MMR, saving the trust from losing its entire registration.
(v)	**B. 35th to 65th percentile of the dataset.** Since the dataset >= 6 comparables, the Range Concept applies.
(vi)	**C. 51% voting power.** Sec 79 requires 51% continuity of beneficial ownership for closely held companies.
(vii)	**C. The higher of its cost of acquisition or its FMV on the 1st day of the PY in which it is discovered.** Rule 3(1)(e) of the BMA.
(viii)	**B. ₹20,000.** Sec 194R threshold for business perquisites.
(ix)	**A. ₹4 Crores.** 30% of EBITDA (20 Cr) = 6 Cr. Interest paid is 10 Cr. Excess = 4 Cr disallowed u/s 94B.
(x)	**C. Business Income not subject to TDS u/s 195.** SC ruled shrink-wrapped software is a copyrighted article, not a royalty-bearing copyright.
(xi)	**C. Securities Transaction Tax (STT).** STT is a valid indirect tax expense. Only Income Tax (Direct tax) and provisions are added back.
(xii)	**B. ₹10 Lakhs.** Sec 44C limits HO expenses to the LEAST of 5% of ATI (5% of 200L = 10L) or actual allocated (15L).

(xiii)	**C. The updated return has the effect of decreasing the total tax liability determined earlier.** U-ITR cannot be a loss/refund return.
(xiv)	**C. The certificate of completion is issued.** For JDAs, Sec 45(5A) defers taxation to the year the completion certificate is received.
(xv)	**B. At the Maximum Marginal Rate (MMR) entirely.** Sec 167B(2) mandates MMR for the whole AOP if even one member exceeds the basic exemption limit.

SECTION B (Descriptive)

Answer to Question 2: Total Income & Tax Liability (Mr. Karthik)

1. Computation of Salary Income:

Basic Salary = ₹1,50,000 x 12 = ₹18,00,000.
DA = 40% of 18,00,000 = ₹7,20,000.
Employer's PF Contribution: 15% of Basic. Exempt up to 12%. Taxable = 3% of 18,00,000 = ₹54,000.
Perquisite for RFA:
Salary for RFA = Basic (DA excluded as not forming part) = ₹18,00,000.
Value of Unfurnished RFA (Delhi > 40L pop) = 15% of 18,00,000 = ₹2,70,000.
Add: 10% of Furniture Cost = 10% of 5,00,000 = ₹50,000.
Total RFA Value = ₹3,20,000.
Gross Salary = 18,00,000 + 7,20,000 + 54,000 + 3,20,000 = **₹28,94,000**.
Less: Standard Deduction u/s 16(ia) (Applicable in New Regime) = ₹75,000.
Net Salary = ₹28,19,000.

2. Computation of Income from Other Sources (IFOS):

Cash Gift from friend on anniversary: Since aggregate > ₹50,000, fully taxable = ₹60,000.
Interest on Bank FD = ₹80,000.
Total IFOS = ₹1,40,000.

3. Computation of Total Income:

Gross Total Income = ₹28,19,000 + ₹1,40,000 = **₹29,59,000**.
Less: Deductions under Chapter VI-A. Under the New Tax Regime (Sec 115BAC), deductions u/s 80C (LIC) and 80D (Mediclaim) are **NIL**.
Total Taxable Income = ₹29,59,000.

4. Computation of Tax Liability (New Regime):

0 - 4L: Nil
4L - 8L: 5% of 4L = 20,000

8L - 12L: 10% of 4L = 40,000
12L - 16L: 15% of 4L = 60,000
16L - 20L: 20% of 4L = 80,000
20L - 24L: 25% of 4L = 100,000
Above 24L: 30% of 5,59,000 = 1,67,700
Total Base Tax = ₹4,67,700.
Add: HEC @ 4% = ₹18,708.
Total Tax Payable = ₹4,86,408.

Answer to Question 3: Capital Gains (JDA) & PGBP (MSME)

3(a) Sec 45(5A) Joint Development Agreement:

Step 1: Determine Full Value of Consideration (FVC)
As per Sec 45(5A), for JDAs, capital gains trigger in the year the completion certificate is issued (PY 2025-26).
FVC = SDV of flats on completion date + Cash Consideration.
FVC = (2 flats x ₹1.5 Cr) + ₹0.5 Cr = **₹3.5 Crores (₹350 Lakhs)**.

Step 2: Compute Capital Gains
As per recent amendments, real estate LTCG is taxed at 12.5% **without indexation**.
Cost of Acquisition (COA) = ₹10 Lakhs.
LTCG = FVC (₹350L) - COA (₹10L) = **₹340 Lakhs**.

3(b) Sec 43B(h) MSMED Act Implications:

Step 1: Ascertain the Due Date under MSMED Act
With a written agreement, the maximum credit period allowed is 45 days. From 1-Feb-2026, 45 days expires on **17th March 2026**.

Step 2: Allowability Analysis
Since payment was made on 10th May 2026, it is beyond the statutory 45-day limit. Under Sec 43B(h), the general rule of paying before the ITR due date (31st Oct) **does not apply**.
Conclusion: The ₹8 Lakhs expense is **disallowed in AY 2026-27**. It will be allowed as a deduction in **AY 2027-28** (the year in which the actual payment was made).

Answer to Question 4: Trust Assessment & Advance Tax

4(a) Trust Taxation:

Step 1: Treatment of Corpus Donation
Under Section 11(1)(d), corpus donations are exempt **only if** they are invested in specified modes under Section 11(5). Keeping them in a separate regular bank account violates this condition.

Hence, the ₹50 Lakhs corpus donation loses its exemption and forms part of normal Gross Receipts.

Step 2: Computation of Taxable Income
Gross Receipts = ₹300 Lakhs.
Less: 15% Statutory Accumulation = ₹45 Lakhs.
Required Application = ₹255 Lakhs.
Actual Application = ₹180 Lakhs.
Shortfall = ₹255L - ₹180L = ₹75 Lakhs.
Less: Accumulation u/s 11(2) via Form 10 = ₹40 Lakhs.
Taxable Income = ₹35 Lakhs.

4(b) Section 234C Interest:

Assessed Tax = ₹20L - ₹2L (TDS) = **₹18 Lakhs**.
1. 15-Jun (15% req = 2.7L): Paid = 2L. Safe harbor (12%) = 2.16L. Since 2L < 2.16L, default exists. Shortfall = 2.7L - 2L = ₹70,000. Interest = 1% x 70k x 3 = **₹2,100**.
2. 15-Sep (45% req = 8.1L): Cum. Paid = 2L + 5L = 7L. Safe harbor (36%) = 6.48L. Since 7L > 6.48L, NO DEFAULT. Interest = **NIL**.
3. 15-Dec (75% req = 13.5L): Cum. Paid = 13L. Shortfall = 13.5L - 13L = ₹50,000. Interest = 1% x 50k x 3 = **₹1,500**.
4. 15-Mar (100% req = 18L): Cum. Paid = 18L. Shortfall = NIL. Interest = **NIL**.
Total Interest u/s 234C = ₹3,600.

Answer to Question 5: Transfer Pricing & GAAR

5(a) Cost Plus Method (CPM) & Secondary Adjustment:

Step 1: Compute Arm's Length Price (ALP)
Total Direct + Indirect Cost = ₹6,000 + ₹2,000 = ₹8,000 per unit.
Add: Normal Gross Profit Markup (20%) = 20% of ₹8,000 = ₹1,600.
ALP = ₹9,600 per unit.

Step 2: Compute Primary Adjustment
Actual Sale Price = ₹9,000. Shortfall = ₹600 per unit.
Total Primary Adjustment = 50,000 units x ₹600 = **₹3,00,00,000 (₹3 Crores)**. This will be added to Indo's taxable income.

Step 3: Secondary Adjustment (Sec 92CE)
Since the primary adjustment exceeds ₹1 Crore, Section 92CE applies. The excess money (₹3 Crores) must be repatriated to India within 90 days. If not, interest will be imputed on it.

5(b) GAAR vs SAAR:

GAAR (Chapter X-A) is a broad, subjective framework targeting transactions lacking commercial substance designed primarily for tax avoidance. **SAAR** (e.g., Sec 50C) are objective, mathematical rules targeting specific known loopholes.
Interplay: As per CBDT circulars, GAAR and SAAR can co-exist. The fact that a transaction mathematically complies with Section 50C does not grant it immunity from GAAR. If the overall arrangement is an Impermissible Avoidance Arrangement (IAA) providing a tax benefit > ₹3 Crores, the tax authorities can invoke GAAR to disregard the structure entirely.

Answer to Question 6: MAT Book Profit & TDS Applicability

6(a) Book Profit u/s 115JB (Delta Ltd):

Net Profit as per P&L = **₹400,00,000**.
Additions:
- Provision for Bad Debts (Diminution in asset value) = +₹20,00,000.
- Provision for Income Tax = +₹45,00,000.
- Total Depreciation debited = +₹60,00,000.

Sub-total = ₹525,00,000.
Deletions:
- Agricultural Income (Exempt u/s 10) = -₹10,00,000.
- Withdrawal from Reval Reserve (Deducted only to the extent of depreciation on reval: 60L-40L = 20L. Since withdrawal is 15L, deduct 15L) = -₹15,00,000.
- Depreciation excluding revaluation = -₹40,00,000.
- Lower of B/F Loss (NIL) or Unabsorbed Depr (30L) = **NIL.** (This is the critical trap).

Total Deletions = ₹65,00,000.
Book Profit = 525L - 65L = **₹460,00,000**.

6(b) TDS Applicability (Gamma Ltd):

(i) Foreign Trip (₹2.5L): Section 194R applies to business perquisites > ₹20k. TDS @ 10% is applicable (₹25,000). Gamma Ltd must gross it up if it bears the tax.
(ii) Director Sitting Fees (₹45k): Section 194J applies to independent directors without any threshold limit. TDS @ 10% is applicable (₹4,500).
(iii) Purchase of Goods (₹75L): Section 194Q applies as Buyer's TO > 10Cr and purchase > 50L. TDS @ 0.1% on excess (₹25L) = ₹2,500.

Answer to Question 7: Equalisation Levy & Sec 90 Relief

7(a) Equalisation Levy:

1. Facilitated Sales (₹5 Crores): Co 'E' is an e-commerce operator. The gross receipts > ₹2 Crores threshold is met. Levy is **2%** on ₹5 Crores = **₹10,00,000**. Compliance: Co 'E' must obtain an Indian PAN, file an EL statement, and pay this directly to the Indian Government.
2. Digital Ads (₹10 Lakhs): Providing digital ad space triggers the **6%** Levy (threshold > ₹1 Lakh). Levy = 6% of 10L = **₹60,000**. Compliance: The Indian businesses paying for the ads must deduct this 6% from their payments and remit it to the Govt.

7(b) Sec 90 Bilateral Relief (Credit Method):

Step 1: Compute Global Income & Indian Tax
Global Income = ₹25L (India) + ₹15L (Country Y) = **₹40,00,000**.
Indian Tax on 40L (New Regime): Slab tax up to 24L = 3L. 30% on remaining 16L = 4.8L. Total Base = 7.8L. Add 4% HEC = **₹8,11,200**.

Step 2: Proportionate Indian Tax on Foreign Income
Proportionate Tax = (Total Indian Tax / Global Income) x Foreign Income
= (8,11,200 / 40,00,000) x 15,00,000 = **₹3,04,200**.

Step 3: Relief under Credit Method
Relief is the LOWER of Foreign Tax paid (₹4,50,000) or Proportionate Indian Tax (₹3,04,200).
Allowed Relief = **₹3,04,200**.
Net Tax Payable in India = ₹8,11,200 - ₹3,04,200 = **₹5,07,000**.

--- END OF MOCK TEST 3 ---

ICMAI PAPER 15

DIRECT TAX LAWS & INTERNATIONAL TAXATION

PART 8: ULTIMATE CHART BOOK & QUICK REVISION GUIDE

100% Comprehensive One-Day Before Exam Revision Master

Applicable for: December 2026 Examination
Assessment Year: 2026-27 (Previous Year 2025-26)
Coverage: All Sections, Key Takeaways, Formulas, Formats, TDS/TCS Tables & Returns

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Module 1: Computation Formats & Tax Rates (AY 2026-27)

1.1 Master Format for Computation of Total Income and Tax Liability

1. **Income from Salaries:** Gross Salary less Standard Deduction (u/s 16(ia) - ₹75,000 under New Regime, ₹50,000 under Old Regime), Professional Tax (u/s 16(iii)).
2. **Income from House Property:** Net Annual Value less Sec 24(a) Standard Deduction (30% of NAV) less Sec 24(b) Interest on Borrowed Capital.
3. **Profits and Gains of Business or Profession (PGBP):** Net Profit adjusted for inadmissible expenses, unabsorbed depreciation, and presumptive incomes.
4. **Capital Gains:** STCG and LTCG computed under respective sections (u/s 111A, 112A, 112).
5. **Income from Other Sources (IFOS):** Dividends, gifts u/s 56(2)(x), family pension (less deduction u/s 57(iia)), winnings from lotteries.
6. **= Gross Total Income (GTI)**
7. *Less:* Deductions under Chapter VI-A (80C to 80U) — *Note: Disallowed under default New Tax Regime u/s 115BAC except 80CCD(2) and 80JJAA.*
8. **= Total Income (Rounded off nearest multiple of ₹10 u/s 288A)**

1.2 Tax Slab Rates for Individual / HUF (Default New Regime u/s 115BAC)

Total Income Range (₹)	Tax Rate
Up to 4,00,000	Nil
4,00,001 to 8,00,000	5%
8,00,001 to 12,00,000	10%
12,00,001 to 16,00,000	15%
16,00,001 to 20,00,000	20%
20,00,001 to 24,00,000	25%
Above 24,00,000	30%

Rebate u/s 87A: Up to ₹25,000 if Total Income does not exceed ₹7,00,000 under New Regime.
Surcharge Rates (New Regime): 10% (>50L to 1Cr), 15% (>1Cr to 2Cr), 25% (>2Cr). *Max 15% on Capital Gains u/s 111A, 112, 112A.*
Health & Education Cess: 4% on (Tax + Surcharge).

Module 2: Master Tables for TDS, TCS & Advance Tax

2.1 Critical Tax Deduction at Source (TDS) Matrix (AY 2026-27)

Section	Nature of Payment	Threshold Limit (₹)	TDS Rate
192	Salary	Basic Exemption Limit	Average Slab Rate
194	Dividend	5,000 (Non-cash)	10%
194A	Interest other than Securities	40,000 (50,000 for Seniors)	10%
194C	Contractors	30,000 single / 1,00,000 aggregate	1% (Ind/HUF), 2% (Others)
194H	Commission / Brokerage	15,000	5%
194I	Rent (Plant & Machinery | Land & Building)	2,40,000	2% | 10%
194J	Professional / Technical Services / Royalty	30,000	10% (Prof) / 2% (Tech/Royalty)
194M	Contract/Commission by Non-Audit Ind/HUF	50,000,000 (Aggregate)	5%
194N	Cash Withdrawals from Banks	20 Lakhs (Non-filer) / 1 Cr (Filer)	2% (>20L-1Cr) / 5% (>1Cr)
194-O	E-Commerce Participant	5,00,000 (Resident Ind/HUF with PAN)	1%
194Q	Purchase of Goods (Buyer TO > 10 Cr)	50 Lakhs	0.1% on excess over 50L
194R	Business Perquisites / Benefits	20,000	10%
194S	Transfer of Virtual Digital Assets (Crypto)	10,000 (Specified) / 50,000 (Others)	1%
194BA	Net Winnings from Online Games	NIL (No threshold)	30%

2.2 Critical Tax Collection at Source (TCS) & Advance Tax Matrix

Section / Item	Nature / Category	Threshold (₹)	TCS / Rate
206C(1H)	Sale of Goods (Seller TO > 10 Cr)	50 Lakhs	0.1% on excess over 50L
206C(1G)	LRS Remittance (Other than Edu/ Medical)	7 Lakhs	20% on excess over 7L
206C(1G)	Overseas Tour Program Package	NIL (First 7L @ 5%)	5% up to 7L, 20% above 7L
Advance Tax	**Due Dates & Cumulative %**	**Corporate & Non-Corporate**	**15% (15-Jun), 45% (15-Sep), 75% (15-Dec), 100% (15-Mar)**

Module 3: Returns, Assessments & Compliance Timelines

3.1 Master Return Filing Timeline (Sec 139)

Return Type	Applicable Section	Due Date / Absolute Deadline
Original Return (Non-Audit)	Sec 139(1)	31st July of Assessment Year
Original Return (Audit / Corporate / TP)	Sec 139(1)	31st Oct / 30th Nov (Transfer Pricing)
Belated Return	Sec 139(4)	31st December of Assessment Year
Revised Return	Sec 139(5)	31st December of AY (or completion of assessment)
Updated Return (Amnesty)	Sec 139(8A)	Within 24 months from end of relevant AY (+ 25%/50% Add. Tax)

3.2 Assessment & Scrutiny Timelines

- **Sec 143(1) Intimation:** Automated processing by CPC. Can be issued up to 9 months from the end of the financial year in which the return was filed.
- **Sec 143(2) Scrutiny Notice:** Must be **served** within 6 months from the end of the financial year in which the return is furnished.
- **Sec 147 / 148 Reassessment:** Normal limit is 3 years from the end of the relevant AY. Extended to 10 years if escaped income represented in assets >= ₹50 Lakhs.
- **Sec 154 Rectification:** 4 years from the end of the financial year in which the order was passed.

Chapter 1 & 2: Basics & Residential Status

Core Statutory Provisions & Key Takeaways:

Sec 4 (Charge), Sec 2(31) (Person), Sec 115BAC (New Tax Regime), Sec 6(1) (Basic conditions for Individual), Sec 6(6) (ROR/RNOR tests), Sec 6(1A) (Deemed Resident >15L income), Sec 5 (Scope of Total Income), POEM (ABOI test for foreign companies). Formula: Total tax = Base Tax + Surcharge + 4% HEC.

Key Exam Formula / Decision Rule:
Application Check: Strict adherence to statutory thresholds, Finance Act 2026 amendments, and procedural timelines is mandatory for Dec 2026.

Chapter 3: Income from Salaries

Core Statutory Provisions & Key Takeaways:

Sec 15 (Basis), Sec 16 (Standard deduction ₹75k), Sec 10(13A) (HRA least of 3), Sec 17(2) & Rule 3 (Perquisites: RFA population brackets, Concessional loan benchmark repo rate 5.5%), Sec 10(10) (Gratuity limits 20L), Sec 10(10AA) (Leave encashment 25L), Sec 89(1) (Relief).

Key Exam Formula / Decision Rule:
Application Check: Strict adherence to statutory thresholds, Finance Act 2026 amendments, and procedural timelines is mandatory for Dec 2026.

Chapter 4: Income from House Property

Core Statutory Provisions & Key Takeaways:

Sec 22 (Charge), Sec 23 (GAV calculation with Expected Rent and Vacancy Rule), Sec 24(a) (30% Standard Deduction), Sec 24(b) (Interest deduction: Sop capped at ₹2,00L, LOP unlimited, Pre-con interest 5 equal installments), Sec 25A (Arrears & Unrealized rent recovery), Sec 26 (Co-ownership), Sec 23(5) (2-year stock-in-trade Nil NAV).

Key Exam Formula / Decision Rule:
Application Check: Strict adherence to statutory thresholds, Finance Act 2026 amendments, and procedural timelines is mandatory for Dec 2026.

Chapter 5: PGBP (Profits & Gains of Business or Profession)

Core Statutory Provisions & Key Takeaways:

Sec 28 (Charge), Sec 32 (Block of assets depreciation, <180 days half-rate, Additional depr 20%), Sec 35 (Scientific research), Sec 35D (Preliminary expenses 5% limit), Sec 36(1)(va) (Employee PF due date rule), Sec 40(a)(ia) (30% resident TDS default), Sec 40A(3) (Cash limit ₹10k/35k), Sec 43B (Actual payment rule), Sec 43B(h) (15/45 day MSME rule), Sec 44AD/ADA/AE (Presumptive taxation).

Key Exam Formula / Decision Rule:
Application Check: Strict adherence to statutory thresholds, Finance Act 2026 amendments, and procedural timelines is mandatory for Dec 2026.

Chapter 6: Capital Gains

Core Statutory Provisions & Key Takeaways:

Sec 45 (Charge), Sec 2(14) (Capital asset definition), Holding periods (12/24/36 months), Sec 48 (Computation with Indexation/ICOA), Sec 111A (STCG @ 20%), Sec 112A (LTCG @ 12.5% over 1.25L), Sec 50 (Depreciable assets STCG/STCL), Sec 50C (SDV > 110%), Sec 50CA (Unlisted shares FMV), Sec 54 series exemptions (54, 54B, 54D, 54EC capped at 50L, 54F proportionate).

Key Exam Formula / Decision Rule:
Application Check: Strict adherence to statutory thresholds, Finance Act 2026 amendments, and procedural timelines is mandatory for Dec 2026.

Chapter 7: Income from Other Sources (IFOS)

Core Statutory Provisions & Key Takeaways:

Sec 56(1) & 56(2) (Residual head), Sec 56(2)(x) (Gifts: Cash >50k, Immovable property SDV >50k & 10% safe harbor, Movable property FMV >50k), Sec 2(22)(e) (Deemed dividend 10% voting power), Sec 115BB (Lottery winnings @ 30%), Sec 57(iia) (Family pension standard deduction lower of 33.33% or ₹25k).

Key Exam Formula / Decision Rule:
Application Check: Strict adherence to statutory thresholds, Finance Act 2026 amendments, and procedural timelines is mandatory for Dec 2026.

Chapter 8: Clubbing & Set-off of Losses

Core Statutory Provisions & Key Takeaways:

Sec 60-64 (Clubbing: Transfer without asset, Remuneration to spouse with substantial interest, Minor child income with ₹1,500 exemption u/s 10(32), Cross transfers), Sec 70-71 (Intra-head and Inter-head set-off, HP loss inter-head cap ₹2,00L), Sec 72-80 (Carry forward rules: Speculation 4 yrs, Normal business 8 yrs, Capital loss 8 yrs, Sec 80 late filing bar exceptions).

Key Exam Formula / Decision Rule:
Application Check: Strict adherence to statutory thresholds, Finance Act 2026 amendments, and procedural timelines is mandatory for Dec 2026.

Chapter 9: Deductions under Chapter VI-A

Core Statutory Provisions & Key Takeaways:

Sec 80C (₹1.5L), Sec 80CCD(1B) (NPS ₹50k), Sec 80CCD(2) (Employer NPS 10%/14%), Sec 80D (Mediclaim ₹25k/₹50k), Sec 80G (Donations 100%/50% with 10% adjusted GTI limit), Sec 80JJAA (30% new employee cost - ALLOWED in New Regime), Sec 80U / 80DD (Disability flat deductions ₹75k/₹1,25L).

Key Exam Formula / Decision Rule:
Application Check: Strict adherence to statutory thresholds, Finance Act 2026 amendments, and procedural timelines is mandatory for Dec 2026.

Chapter 10: Assessment of Companies (MAT) & AMT

Core Statutory Provisions & Key Takeaways:

Sec 115JB (MAT @ 15% on Book Profit, Additions: IT tax, reserves, unascertained liabilities; Deletions: Lesser of B/F loss or unabsorbed depr, withdrawals from MAT reserves), Sec 115JAA (MAT credit 15 years), Sec 115JC (AMT @ 18.5% on ATI for non-corporate assessees with ₹20L threshold).

Key Exam Formula / Decision Rule:

Application Check: Strict adherence to statutory thresholds, Finance Act 2026 amendments, and procedural timelines is mandatory for Dec 2026.

Chapter 11: Assessment of Trusts, Firms & AOP/BOI

Core Statutory Provisions & Key Takeaways:

Sec 11-13 (Trusts: 15% unconditional accumulation, 85% application on Gross Receipts, Corpus u/s 11(5)), Sec 115BBC (Anonymous donations @ 30%), Sec 115TD (Exit tax on accreted income at MMR), Sec 40(b) (Firms: Remuneration limits 90% of first 3L + 60% balance, Interest cap 12%), Sec 167B (AOP/BOI MMR applicability based on member determinability).

Key Exam Formula / Decision Rule:

Application Check: Strict adherence to statutory thresholds, Finance Act 2026 amendments, and procedural timelines is mandatory for Dec 2026.

Chapter 12: TDS, TCS & Advance Tax

Core Statutory Provisions & Key Takeaways:

Sec 192 to 194S (TDS matrix: 194A @10%, 194C @1/2%, 194I @2/10%, 194J @2/10%, 194Q @0.1%, 194R @10%, 194BA @30%), Sec 206C (TCS: 206C(1H) @0.1%, 206C(1G) LRS @20%), Advance tax installments (15%, 45%, 75%, 100%), Interest u/s 234A/B/C (1% per month).

Key Exam Formula / Decision Rule:
Application Check: Strict adherence to statutory thresholds, Finance Act 2026 amendments, and procedural timelines is mandatory for Dec 2026.

Chapter 13: Assessment Procedures, Appeals & Penalties

Core Statutory Provisions & Key Takeaways:

Sec 139(1) (Due dates), Sec 139(4) (Belated), Sec 139(5) (Revised), Sec 139(8A) (Updated return with 25%/50% tax), Sec 143(1) (Intimation), Sec 143(2) (Scrutiny service within 6 months of FY end), Sec 147/148 (Reassessment 3 yr / 10 yr limits), Sec 270A (50% under-reporting / 200% misreporting penalty).

Key Exam Formula / Decision Rule:
Application Check: Strict adherence to statutory thresholds, Finance Act 2026 amendments, and procedural timelines is mandatory for Dec 2026.

Chapter 14: International Taxation I - DTAA & NR Taxation

Core Statutory Provisions & Key Takeaways:

Sec 90/91 (Bilateral and Unilateral relief formulas), Sec 90(2) (Beneficial provision rule), Sec 90(4) (TRC & Form 10F), Permanent Establishment (Fixed, Agency, Service PE), Sec 115A (NR gross taxation @20%), Sec 44B/44BBA (Presumptive shipping @7.5% and airlines @5%), POEM (ABOI test).

Key Exam Formula / Decision Rule:
Application Check: Strict adherence to statutory thresholds, Finance Act 2026 amendments, and procedural timelines is mandatory for Dec 2026.

Chapter 15: International Taxation II - TP, EL & GAAR

Core Statutory Provisions & Key Takeaways:

Sec 92C (Transfer pricing methods: CUP, RPM, CPM, PSM, TNMM, Range Concept 35th-65th percentile), Sec 92CE (Secondary adjustment & 90-day repatriation / 21% flat tax), Sec 94B (Thin capitalization 30% EBITDA cap), Equalisation Levy (6% ads, 2% e-commerce), GAAR (Chapter X-A, ₹3 Crore benefit threshold), Black Money Act (30% tax, 90% penalty).

Key Exam Formula / Decision Rule:
Application Check: Strict adherence to statutory thresholds, Finance Act 2026 amendments, and procedural timelines is mandatory for Dec 2026.