

CA | CMA Final

Direct Tax and International Taxation

Applicable for Sept'25 Attempt and Onwards

Q & A?

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Question for every concept

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DIRECT TAX & INTERNATIONAL TAXATION

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CHAPTER 1

BASICS, NORMAL TAX RATES, ALTERNATE TAX REGIMES & SPECIAL TAX RATES

Basic Concept

- | | |
|------|---|
| 1. | <p>Mr. Bhargava, a leading advocate on corporate law, decided to reduce his practice and to accept briefs only for paying his taxes and making charities with the fees received on such briefs. In a particular case, he agreed to appear to defend one company in the Supreme Court on the condition that he would be provided with ₹ 5 lakhs for a public charitable trust that he would create. He defended the company and was paid the sum by the company. He created a trust of that sum by executing a trust deed. Decide whether the amount received by Mr. Bhargava is assessable in his hands as income from profession. <i>(Basic Concept)</i></p> |
| Ans. | <p>In the instant case, the trust was created by Mr. Bhargava himself out of his professional income. The client did not create the trust. The client did not impose any obligation in the nature of a trust binding on Mr. Bhargava. Thus, there is no diversion of the money to the trust before it became professional income in the hands of Mr. Bhargava. This case is one of application of professional income and not of diversion of income by overriding title.</p> <p>Therefore, the amount received by Mr. Bhargava is chargeable to tax under the head "Profits and gains of business or profession".</p> |
| 2. | <p>XYZ Ltd. took over the running business of a sole-proprietor by a sale deed. As per the sale deed, XYZ Ltd. undertook to pay overriding charges of ₹ 15,000 p.a. to the wife of the sole proprietor in addition to the sale consideration. The sale deed also specifically mentioned that the amount was charged on the net profits of XYZ Ltd., who had accepted that obligation as a condition of purchase of the going concern. Is the payment of overriding charges by XYZ Ltd. to the wife of the sole-proprietor in the nature of diversion of income or application of income? Discuss. <i>(Basic Concept)</i></p> |
| Ans. | <p>This issue came up for consideration before the Allahabad High Court in <i>Jit & Pal X-Rays (P.) Ltd. v. CIT</i> (2004) 267 ITR 370 (All). The Allahabad High Court observed that the overriding charge which had been created in favour of the wife of the sole-proprietor was an integral part of the sale deed by which the going concern was transferred to the assessee.</p> <p>The obligation, therefore, was attached to the very source of income i.e., the going concern transferred to the assessee by the sale deed. The sale deed also specifically mentioned that the amount in question was charged on the net profits of the assessee-company and the assessee-company had accepted that obligation as a condition of purchase of the going concern. Hence, it is clearly a case of diversion of income by an overriding charge and not a mere application of income.</p> |
| 3. | <p>MKG Agency is a partnership firm consisting of Mr. Mohan and his three major sons. The partnership deed provided that after the death of Mr. Mohan, the business shall be continued by the sons, subject to the condition that the firm shall pay 20% of the profits to their mother, Lakshmi. Mr. Mohan died in March, 2024. In the previous year 2024-25, the reconstituted firm paid ₹ 1 lakh (equivalent to 20% of the profits) to Lakshmi and claimed the amount as deduction from its income. Examine the correctness of the claim of the firm. <i>(Basic Concept)</i></p> |
| Ans. | <p>The issue raised in the problem is based on the concept of diversion of income by overriding title, which is well recognised in the income-tax law. In the instant case, the amount of ₹ 1 lakh, being 20% of profits of the firm, paid to Lakshmi gets diverted at source by the charge created in her favour as per the terms of the partnership deed. Such income does not reach the assessee-firm.</p> <p>Rather, such income stands diverted to the other person as such other person has a better title on such income than the title of the assessee. The firm might have received the said amount but it so received for and on behalf of Lakshmi, who possesses the overriding title.</p> |

	Therefore, the amount paid to Lakshmi should be excluded from the income of the firm. This view has been confirmed in CIT vs. Nariman B. Bharucha & Sons (1981) 130 ITR 863 (Bom).
4.	Anand was the Karta of HUF. He died leaving behind his major son Prem, his widow, his grandmother and brother"s wife. Can the HUF retain its status as such or the surviving persons would become co-owners? (Basic Concept)
Ans.	In the case of Gowli Buddanna v. CIT (1966) 60 ITR 293, the Supreme Court has made it clear that there need not be more than one male member to form a HUF as a taxable entity under the Income-tax Act, 1961. The expression –Hindu Undivided Family in the Act is used in the sense in which it is understood under the personal law of the Hindus. Under the Hindu system of law, a joint family may consist of a single male member and the widows of the deceased male members and the Income-tax Act, 1961 does not mandate that it should consist of at least two male members. Therefore, the property of a joint Hindu family does not cease to belong to the family merely because the family is represented by a single co-parcener who possesses the right which an owner of property may possess. Therefore, the HUF would retain its status as such.
5.	Mr. Ram (aged 56) is Karta of his HUF. The HUF consists of himself, his wife and two sons viz. Mr. C (aged 28) and Minor D (aged 16). The HUF is assessed to income tax and has business income from the year 2015-16 onwards. The business income of HUF for the year ended 31.3.2025 is ₹ 5,00,000 (computed). Mr. Ram is employed in a private company and his salary income for the same period is ₹ 6,10,000 (computed). You are requested to answer the following treating each of them as independent situations: (i) Mr. C gave cash gift of ₹1,00,000 to the HUF of Mr. Ram. What would be the total income of HUF? (ii) The HUF has one house property fetching rent of ₹ 10,000 per month and some movable assets. There is a proposal to make a partial partition of HUF by allotting the house property to Mr. C. Is it advisable to do a partial partition? (iii) Minor D earned ₹ 70,000 by use of his special skill and talent. How would his income be taxed? (iv) A car owned personally by Mr. Ram was blended with HUF during the year. It was leased out for a monthly rent of ₹ 10,000 from 1-10-2024. How would this income be taxed? (Basic of HUF taxation)
Ans.	(i) Cash gift of ₹ 1 lakh by Mr. C, Ram's major son, to the HUF of Mr. Ram would not be taxable in the hands of the HUF, since gifts from a relative of the HUF does not fall within the scope of income taxable under section 56(2)(x). Since Mr. C, being Mr. Ram's son, is a member of Ram's HUF, he is a relative of the HUF. Hence, the total income of HUF would be ₹ 5 lakhs, being the business income computed. Note - Salary income of Mr. Ram, the Karta of the HUF, who is employed in a private company would be taxed in his individual hands, since the remuneration earned by the Karta on account of the personal qualifications and exertions and not on account of the investment of the family funds cannot be treated as income of the HUF. (ii) Partial partition (after 31.12.1978) is not recognized and the HUF, which has been hitherto assessed to tax, shall continue to be liable to be assessed as if no such partial partition has taken place [Section 171(9)] The rental income in this case would continue to be assessed in the hands of the HUF, even after partial partition. Therefore, it is not advisable to do a partial partition. (iii) Income of ₹ 70,000 earned by Minor D by use of his special skill and talent would be taxable in his individual hands. It will not be included in the hands of his parent by virtue of the exception to section 64(1) contained in the proviso to section 64(1). (iv) As per section 64(2), where a member of the HUF blends his self-acquired property for inadequate consideration with the HUF, income derived therefrom is deemed to arise to the transferor-member and not to the HUF. In this case, Mr. Ram has blended his personal property (i.e., car) with the HUF.

	<p>Since there is no consideration in case of blending, the income from car computed in the prescribed manner, [which can be as per the presumptive provisions or lease rental of ₹ 60,000 (₹ 10,000 × 6 months) less depreciation] would be deemed as the income of Mr. Ram.</p>
6.	<p>Mr. Gavaskar sought voluntary retirement from a Government of India Undertaking and received compensation of ₹ 40 lacs on 28th February, 2024. He is planning to use the money as capital for a business dealership in electronic goods. The manufacturer of the product requires a security deposit of ₹ 15 lacs, which would carry interest at 8% p.a. Gavaskar's wife is a graduate and has worked as marketing manager in a multinational company for 15 years. She now looks for a change in employment. She is willing to join her husband in running the business. She expects an annual income of ₹ 5 lacs. Mr. Gavaskar would like to draw a monthly remuneration of ₹ 40,000 and also interest @ 10% p.a. on his capital in the business. Mr. Gavaskar has approached you for a tax efficient structure of the business.</p> <p>Discuss the various issues, which are required to be considered for formulating your advice.</p> <p>Computation of income or tax liability is not required.</p> <p style="text-align: right;">(Defining Structure of Incorporation for tax benefit)</p>
Ans.	<p>The selection of the form of organisation to carry on any business activity is essential in view of the differential tax rates prescribed under the Income-tax Act, 1961 and specific concessions and deductions available under the Act in respect of different entities. For the purpose of formulating advice as to the tax efficient structure of the business, it is necessary for the tax consultant to consider the following issues:</p> <p>(i) In the case of sole proprietary concern, interest on capital and remuneration paid to the proprietor is not allowable as deduction under section 37(1) as the expenditure is of personal nature. On the other hand, in the case of partnership firm, both interest on capital and remuneration payable to partners are allowable under section 37(1) subject to the conditions and limits laid down in section 40(b). The partnership should be evidenced by an instrument and the individual share of partners should be specified in the instrument. Remuneration and interest should however, be authorised by the instrument of partnership and paid in accordance with such instrument. Such interest and salary shall be taxable in the hands of partners to the extent the same is allowed as deduction in the hands of the firm under section 40(b). Interest to partners can be allowed upto 12% on simple interest basis, while the limit for allowability for partners' remuneration is based on book profit under section 40(b). As per section 40(b)(v), partners' remuneration shall be allowed to the extent of aggregate of -</p> <p>(a) On the first ₹ 3,00,000 of book profit or in case of loss - ₹ 1,50,000 or at the rate of 90% of book profits, whichever is more</p> <p>(b) On the balance of book profit - at the rate of 60%</p> <p>Note - However, if the firm is eligible to declare presumptive taxation under section 44AD, 8% of gross receipts or 6% of gross receipts, as the case may be, would be deemed as its income. All deductions under section 30 to 37 are deemed to be allowed. No deduction is allowable, including deduction for partner's remuneration and interest on capital.</p> <p>(ii) Partner's share in the profits of firm is not taxed in the hands of the partners by virtue of section 10(2A).</p> <p>(iii) If a proprietary concern is formed, the salary of Mrs. Gavaskar shall be allowed as deduction under section 37(1).</p> <p>(iv) The possibility of invoking section 40A(2) cannot be ruled out as salary is payable to a relative, who is an interested person within the meaning of section 40(2). However, it can be argued successfully that salary of ₹ 5 lacs is justified in view of her long experience as marketing manager of a multinational company and the fair market value of services to be rendered by her to the concern.</p> <p>(v) An issue arises as to whether remuneration of Mrs. Gavaskar would be includible in the total income of Mr. Gavaskar. Under section 64(1)(ii), remuneration of the spouse of an individual working in a concern in which the individual is having a substantial interest shall be included in the total income of the individual. However, the clubbing provision does not apply if the spouse possesses technical or</p>

professional qualification and the income is solely attributable to the application of his or her technical or professional knowledge and experience. Further, technical or professional qualification would not necessarily mean the qualifications obtained by degree or diploma of any recognized body [Batta Kalyani vs. CIT (1985) 154 ITR 0059 (AP)]. The experience of Mrs. Gavaskar as a marketing manager in a multinational company for 15 years may reasonably be considered as a professional qualification for this purpose.

(vi) If Mrs. Gavaskar joins the proprietary concern or partnership concern of her husband as employee, remuneration of ₹ 5 lacs shall be taxed in her hands under the head "salary".

Standard deduction u/s 16(ia) of Rs. 50,000 would be allowed.

(vii) If she joins as partner in the business, remuneration shall be taxed in her hand as business income under section 28 to the extent such remuneration is allowed in the hands of the firm under section 40(b).

(viii) For individuals, tax can be computed as per slab rates provided under the default regime under section 115BAC(1A). Alternatively, he can exercise the option to shift out of the default tax regime and pay tax under the optional tax regime as per the regular provisions of the Act at the tax rates prescribed by the Annual Finance Act of that year. However, where he exercises the option of shifting out of the default regime for any previous year, he would be able to withdraw such option only once.

The surcharge rate is also depended on the total income and the highest surcharge would be 37% where total income exceeds ₹ 5 crores and the assessee has opted to shift out of the default tax regime whereas under default regime highest rate of surcharge would be 25%. Health and Education cess @ 4% on income-tax plus surcharge, if applicable, is attracted in all the cases. Whereas for partnership firms' tax is levied at a flat rate of 30%.

Surcharge @12% would be attracted only if total income exceeds ₹ 1 crore.

If a sole proprietary concern is formed, Mr. Gavaskar has an option to pay income-tax in respect of his total income (other than income chargeable to tax at special rates under Chapter XII) as per the default regime under section 115BAC or as per the optional regime under the normal provisions of Income-tax Act.

Alternative Tax Regimes

7. Mr. X aged 34 years and a resident in India, has a total income of ₹ 6,70,000, comprising his salary income and interest on bank fixed deposit. Compute his tax liability for A.Y.2025-26 under default tax regime under section 115BAC.
[Calculation of Rebate u/s 87A in 115BAC]

Ans. **Computation of tax liability of Mr. X for A.Y. 2025-26**

Particulars	₹
Tax on total income of ₹ 6,70,000	
Tax [5% of ₹ 3,70,000 i.e., from ₹ 3,00,000 to ₹ 6,70,000]	18,500
Less: Rebate u/s 87A (Lower of tax payable or ₹ 25,000)	18,500
Tax Liability	Nil

8. Ms. Pallavi aged 32 years and a resident in India, has a total income of ₹ 7,18,000, comprising his salary income and interest on bank fixed deposit. Compute his tax liability for A.Y.2025-26 under default tax regime under section 115BAC.
[Basic in 115BAC]

Ans. **Computation of tax liability of Ms. Pallavi for A.Y. 2025-26**

Particulars	₹	
Step 1: Total Income of ₹ 7,18,000 - ₹ 7,00,000	18,000	(A)
Step 2: Tax on total income of ₹ 7,18,000 Tax@10% on 18000+20000	21,800	(B)
Step 3: Since B > A, rebate u/s 87A would be B - A		

	[₹ 21,800 - ₹ 18,000] Add: HEC@4% Tax Liability	3800	
		18,000	
		720	
		18,720	

9. ABC Ltd., a pharmaceutical company incorporated in year 2002-03, purchased a new plant and machinery for ₹ 10 lakhs on 01.04.2024. The total income of the company for Assessment Year 2025- 26 before allowing additional depreciation in respect of new plant and machinery is ₹ 20 lakhs. ABC Ltd. has not opted for the concessional tax regime under section 115BAA so far. Compute the tax liability of ABC Ltd. for A.Y. 2025-26 assuming its turnover for the previous year 2022-23 was * 350 crores. Ignore the provisions of MAT. Suggest whether ABC Ltd. should opt 115BAA or not. **[Study Material]**

Ans. Computation of tax liability of ABC Ltd. for A.Y. 2025-26 under regular provisions of the Act

Particulars	₹
Total Income before allowing additional depreciation	20,00,000
Less : Additional Depreciation u/s section 32 (1) (iia) [₹10 lakh x 20 %]	2,00,000
Total Income	18,00,000
Applicable Tax Rate (since turnover of P.Y. 2022-23 < 400 crores	25%
Tax payable	4,50,000
Add : Health & Education cess @ 4 %	18,000
Tax Liability	4,68,000

Computation of tax liability of ABC Ltd. for A.Y. 2025-26 under section 115BAA

Particulars	₹
Total Income before allowing additional depreciation	20,00,000
Less : Additional Depreciation u/s section 32 (1) (iia) [not allowable as deduction while computing income u/s 115BAA]	-
Total Income	20,00,000
Applicable Tax Rate	22%
Tax payable	4,40,000
Add : Surcharge @ 10 %	44,000
	4,84,000
Add : Health & Education cess @ 4 %	19,360
Tax Liability	5,03,360

Since tax payable as per the regular provisions of the Act is lower than the tax payable under the provisions of section 115BAA, it would be beneficial for ABC Ltd. not to opt for section 115BAA.

10. The following are the particulars relating to two Indian companies, namely, Alpha Ltd. and Beta Ltd., which are subject to tax audit u/s 44AB, for A.Y.2025-26

Particulars	Alpha Ltd.	Beta Ltd.
Date of setting up / registration	1.4.2019	1.11.2023
Main object	Manufacture of steel	Manufacture of leather
Place	Vaishali , Bihar	Ranipet , Tamil Nadu
Turnover of P.Y. 2022-23	₹ 251 crores	-
Turnover of P.Y. 2023-24	₹ 401 crores	-
Turnover of P.Y. 2024-25	₹ 270 crores	₹ 120 crores
Value of new plant and machinery installed and put to use on 1.11.2024	8 crore	₹ 5 crore
Gross Total Income of P.Y.2024-25 (computed under the special provisions)	5 crore	3 crore

No. of new employees employed on the date of setting up / registration of the company	50	
No. of new employees employed as on	750	750
Monthly emoluments to 750 employees employed in the respective companies as mentioned above by ECS through bank account :	(1.4.2024)	(1.11.2024)
250 employees	₹ 20,000 per employee	₹ 21,000 per employee
250 employees	₹ 25,000 per employee	₹ 25,000 per employee
250 employees	₹ 28,000 per employee	₹ 27,000 per employee

From the above details.

- Compute the tax liability of Alpha Ltd. and Beta Ltd. for A.Y.2025-26, assuming that Alpha Ltd. has not opted for any concessional rates earlier and they both avail the beneficial tax rates under special provisions of the Income-tax Act, 1961 in the P.Y. 2024-25.
- Would it be beneficial for Alpha Ltd. to opt for beneficial tax rates in P.Y. 2024-25 instead of paying tax under regular provisions of the Income-tax Act, 1961 Examine. **[Study Material]**

Ans.

- Computation of tax liability of Alpha Ltd. and Beta Ltd. under the special provisions of the Income-tax Act, 1961**

Particulars	Alpha Ltd. ₹	Beta Ltd. ₹
Gross Total Income	5,00,00,000	3,00,00,000
Less : Deduction u / s 80JJAA		
Alpha Ltd - [(20,000 x 12 x 250) + (25,000 x 12 x 250)] x 30 %	<u>4,05,00,000</u>	
Beta Ltd - [(21,000 x 5 x 250) + (25,000 x 5 x 250)] x 30 %		<u>1,72,50,000</u>
Total Income	<u>95,00,000</u>	<u>1,27,50,000</u>
Computation of tax liability		
Tax @ 22 % on ₹95,00,000 [As per section 115BAA]	20,90,000	
Tax @ 15 % on ₹1,27,50,000 [As per section 115BAB]		19,12,500
Add : Surcharge @ 10 %	<u>2,09,000</u>	<u>1,91,250</u>
	22,99,000	21,03,750
Add : Health and Education cess @ 4 %	<u>91.96</u>	<u>84.15</u>
Total tax liability	<u>23,90,960</u>	<u>21,87,900</u>

Notes.

- Beta Ltd. is a manufacturing company set up on or after 1.10.2019 but before 31.3.2024, hence, it would be eligible to opt for section 115BAB, and avail benefit of concessional rate of tax@15% plus surcharge@10% and HEC@4%. Alpha Ltd. is eligible to opt for special provisions under section 115BAA, as per which the rate of tax would be 22% plus surcharge@10% and HEC@4%.
- Both Alpha Ltd. and Beta Ltd. are eligible to claim deduction u/s 80JJAA, which is a permissible Chapter VI-A deduction while computing total income under section 115BAA and 115BAB.
 In case of Alpha Ltd, 30% of the additional employee cost of new employees employed in the P.Y. 2024-25, can be claimed as deduction u/s 80JJAA for P.Y.2024-25. Out of 750 employees, 250 employees whose emoluments are ₹20,000 p.m., 250 employees whose emoluments are ₹25,000 p.m. qualify as additional employees and 250 employees whose emoluments exceed ₹25,000 p.m. do not qualify as additional employees.
 In case of Beta Ltd, 750 new employees are employed on 1.11.2023, being the date of setting up, for which 30% of additional employee cost can be claimed as deduction. Beta Ltd. is engaged in manufacture of leather, and hence it would be entitled for deduction u/s 80JJAA in the P.Y. 2024-25, since the eligible employees have been employed for more than 150 days in that year. Thus, 30% of the additional employee cost of 250 employees whose emoluments are ₹21,000 p.m. and 250 employees whose emoluments are ₹25,000 p.m. qualify as additional employees, can be claimed as deduction u/s 80JJAA for P.Y.2024-25.

(ii) **Computation of tax liability of Alpha Ltd. as per the regular provision of the Act**

Particulars	Alpha Ltd. ₹
Gross Total Income (computed under the special provisions)	5,00,00,000
Less : Additional Depreciation [10 % of ₹8 crore , since the plant and machinery has been put to use for less than 180 days in the P.Y.2024-25]	<u>80,00,000</u>
Gross Total Income (computed under the regular provisions of the Act)	4,20,00,000
Less : Deduction u/s 80JAA [(₹ 20,000 x 12 x 250) + (₹25,000 x 12 x 250)] x 30 %	<u>4,05,00,000</u>
Total Income	<u>15,00,000</u>
Computation of tax liability	
Tax @ 25 % on ₹15,00,000 [Since turnover of P.Y.2022-23 is less than ₹400 cr .]	3,75,000
Add : Surcharge (Not applicable , since total income is less than 1 crore)	Nil
	3,75,000
Add : Health and Education cess @ 4 %	15,000
Total tax liability	<u>3,90,000</u>

Since the tax liability under the regular provisions of the Act is ₹3,90,000 vis-à-vis tax liability of ₹23,90,960 computed under section 115BAA, it is not beneficial for Alpha Ltd. to opt for the special provisions under section 115BAA for A.Y.2025-26. Hence, **Alpha Ltd. should not opt for the special provisions under section 115BAA** for A.Y.2025-26.

11.

M/s Kaveri Ltd., a manufacturing company, having an annual turnover of ₹ 6,000 lakhs, shows a net profit of ₹ 850 lakhs after debit/credit of following amounts to its Statement of Profit and Loss for the year ended 31st March, 2025:

- Depreciation as per Companies Act ₹65 lakhs.
- Employer's contribution to EPF of ₹18 lakhs together with similar amount of Employee's contribution for the month of March, 2025 was remitted on 20th May, 2025. (The due date for the remittance to the credit of employee's EPF account being 15th April, 2025.)
- GST paid includes an amount of ₹10,500 charged as penalty for delayed filing of returns and ₹15,400 towards interest for delay in deposit of tax.
- An amount of ₹10.50 lakhs was incurred on notified skill development project u/s. 35CCD
- Loss of ₹20 lakhs, on destruction of an old machinery by fire in the factory and ₹5 lakhs received as scrap value on this machinery. The insurance company did not admit the claim of the company on the charge of gross negligence.
- Dividend income of ₹15 lakhs from a foreign company in which the company holds 32% of the equity share capital of the company.
- Profit of ₹15 lakhs on sale of a building to X Ltd., a domestic company, entire shares of which are held by assessee company. The building was acquired by Kaveri Ltd on 1st December, 2022.

Additional information:

- Normal depreciation computed as per Income-tax Rules, 1962 is ₹92 lakhs.
- During the previous year 2023-24, the company has purchased a new plant and machinery worth ₹20 lakhs on 10th January, 2024. Balance of Additional depreciation on this machine is not included in the depreciation computed for the previous year 2024-25.
- The company had credited in the account of a sub-contractor, an amount of ₹7 lakhs on 31st March, 2024 towards repairs of factory building. The tax deducted on such payment was remitted on 31st December, 2025.
- On 15th May, 2025, M/s Kaveri Ltd. declared and distributed dividend of ₹20 lakhs.

Compute the total income and tax payable by M/s Kaveri Ltd. for the A.Y. 2025-26 clearly stating the reasons for treatment of each item. Assume that the company has opted for section 115BAA. [May 22]

Ans.

Computation of Total Income of M/s Kaveri Ltd. for the A.Y. 2024-25 under section 115BAA

Particulars		Amount (in ₹)	
I.	Profits and gains of business and profession		
	Net profit as per Statement of profit and loss		8,50,00,000
	Add: Items debited but to be considered separately or to be disallowed		
	(a) Depreciation as per Companies Act	65,00,000	
	(b) Employees' contribution to EPF	18,00,000	
	[Since employees' contribution to EPF has not been deposited on or before the due date under the PF Act, the same is not allowable as deduction as per section 36 (1) (va) read with Explanations 1 and 2 thereto. Since the same has been debited to Statement of profit and loss, it has to be added back for computing business income.]		
	(c) Employer's contribution to EPF	Nil	
	[As per section 43B, employers' contribution to EPF is allowable as deduction since the same has been deposited on or before the due date of filing of return under section 139 (1). Since the same has been debited to Statement of profit and loss, no further adjustment is necessary.]		
	(d) Penalty for delayed filing of GST return	10,500	
	[Penalty imposed for delay in filing GST return is not deductible since it is on account of infraction of the law requiring filing of the return within the specified period. Since the same has been debited to Statement of profit and loss, it has to be added back for computing business income.]		
	(e) Interest for delay in deposit of GST	Nil	
	[Interest paid for delay in deposit of GST is compensatory in nature and hence, allowable as deduction. Since the same has been debited to Statement of profit and loss, no further adjustment is necessary.]		
	(f) Expenditure on notified skill development project u/s 35CCD		
	[Expenditure on notified skill development project u/s 35CCD is not allowable as deduction since the company has opted for section 115BAA.]	10,50,000	
	(g) Loss due to destruction of machinery by fire	20,00,000	
	[Loss of ₹20 lakhs due to destruction of machinery caused by fire is not deductible since it is capital in nature. As the loss has been debited to statement of profit and loss, the same is required to be added back while computing business income.]		
			<u>1,13,60,500</u>
	Less: Items credited but chargeable to tax under another head / expenses allowed but not debited		9,63,60,500
	1. Scrap value of machinery	5,00,000	
	[Scrap value of machinery, being capital in nature, has to be reduced from WDV of machinery. Since the same has been credited to the statement of profit and loss, it has to be deducted while computing business income.]		
	2. Dividend income from foreign company	15,00,000	
	[Dividend income from foreign company is taxable under the head "Income from other sources". Since the said dividend		

	<p>has been credited to the statement of profit and loss , the same has to be deducted while computing business income]</p> <p>3. Profit on sale of building to 100 % subsidiary [Taxability or otherwise to be considered under the head "Capital Gains" . Since such profit has been credited to the statement of profit and loss , the same has to be deducted while computing business income]</p> <p>4. Depreciation as per Income - tax Rules Normal depreciation Additional depreciation [Though the balance 10% additional depreciation of the earlier year is allowable as deduction in the current year, since the company is opting for section 115BAA, additional depreciation is not permissible in this case]</p> <p>5. Payment to a sub-contractor where tax deducted last year was remitted after the due date of filing of return [30 % of ₹7 lakhs , being payment to a sub - contractor , would have been disallowed u/s 40 (a)(ia) while computing the business income of A.Y.2025-26 , since tax deducted was remitted after the due date of filing of return . However , the same is allowable in A.Y.2026-27 , since the remittance has been made on 31.12.2025]</p>	15,00,000		
		92,00,000 Nil		
		2,10,000	<u>1,29,10,000</u>	
II	Capital Gains Profit on sale of building to 100 % Indian subsidiary [Long - term capital gains arise on sale of building held for more than 24 months . However , in this case , since the transfer is to a 100 % subsidiary company and the subsidiary company is an Indian company, the same would not constitute a transfer for levy of capital gains tax as per section 47 (iv)]			8,34,50,500 Nil
III	Income from Other Sources Dividend income from foreign company Gross Total Income Less : Deduction under Chapter VI - A Deduction u/s 80M in respect of inter - corporate dividends [being lower of ₹15 lakh , being dividend received from foreign company, and ₹20 lakh , being dividend distributed by M / s Kaveri Ltd. on or before due date specified u / s 139 (1) of filing return of income]		15,00,000	
	Total Income			8,49,50,500 15,00,000
				8,34,50,500

Computation of tax payable by M/s Kaveri Ltd. for the A.Y. 2025-26 under section 115BAA

Particulars	₹
Tax on business income @ 22 % of ₹8,34,50,500	1,83,59,110
Add : Surcharge @ 10 %	<u>18,35,911</u>
	2,01,95,021
Add : Health and education cess @ 4 %	<u>8,07,801</u>
Tax liability	<u>2,10,0,822</u>
Tax payable (rounded off)	2,10,02,820

12. The Statement of Profit and Loss of Manav Ltd., engaged in manufacturing activity for the year ended 31st March, 2025, exhibits a Net Profit of ₹180 lakhs after debiting/crediting the following items:

- (a) Interest of ₹24 lakhs relating to F.Y.2024-25, which is settled by issuing 8% debentures of ₹100 each in August, 2025.
- (b) Income-tax assessment of A.Y.2022-23 was completed in September, 2023 with a tax demand of ₹5,80,000 which included surcharge of ₹50,700 and cess of ₹22,308. The entire sum has been duly paid during the F.Y. 2024-25.
- (c) Provision for gratuity based on actuarial valuation ₹180 lakhs.
- (d) Expenditure incurred towards foreign travel of directors ₹ 6.5 lakhs to explore opening of a branch in a foreign country to market its products in the said foreign country.
- (e) Paid ₹82,000 for purchase of raw material by making payment in cash to a supplier in a single day.
- (f) Paid ₹11 lakhs to ST Inc. of Japan for online digital advertisement. ST Inc. has no PE in India. No tax was deducted at source nor was equalization levy paid on the said amount.
- (g) Incurred ₹4.6 lakhs on activities related to Corporate Social Responsibility as required under section 135 of Companies Act, 2013.
- (h) Sold a vacant land to its wholly owned subsidiary Petal (P) Ltd., Mumbai. The long-term capital gain of ₹18 lakhs is credited to the Statement of Profit and Loss.
- (i) Paid ₹2.2 lakhs to a university as donation to be used for research in social science approved u/s 35(1)(iii). Out of this, ₹1.2 lakh was paid through net banking and balance by cash.
- (j) Interim dividend distributed during the year of ₹65 lakhs.
- (k) Contributed ₹300 lakhs towards employees' pension scheme notified by Central Government u/s 80CCD calculated at 15% of aggregate of salary and dearness allowance (forming part of retirement benefits) payable to employees as per the terms of employment.
- (l) Depreciation ₹36 lakhs.
- (m) ₹36 lakhs by way of dividend received from Knight Pte. of Singapore in which Manav Ltd. has 28% voting power.
- (n) Paid ₹6 lakhs as donation to a recognised political party by way of crossed cheque.
- Additional Information:**
- (i) Normal depreciation as per Income-tax Act, 1961 - ₹62 lakhs.
- (ii) Additional depreciation as per Income-tax Act, 1961- ₹24 lakhs
- (iii) Brought forward unabsorbed depreciation (out of normal depreciation) of A.Y. 2024-25 ₹14 lakhs.
- (iv) Actual gratuity paid during the year of ₹105 lakhs is debited to provision for gratuity account.
- You are required to compute the total income and tax liability of Manav Ltd. for A.Y. 2025-26. Manav Ltd. has opted to pay tax as per the provisions of section 115BAA. **[RTP Nov 23]**

Ans.

Particulars	₹	₹
Income from Profits and gains of business or profession		
Profit as per Statement of Profit and Loss		1,80,00,000
Add : Items debited but to be considered separately or to be disallowed		
Term loan interest arrears settled by issuing 8 % debentures	24,00,000	
As per Explanation 3C to section 43B , issue of debentures by which the interest liability is deferred to a future date shall not be deemed to have been actually paid . Since issue of debentures is not equivalent to discharge of interest on term loan, interest would be disallowed. Since ₹24 lakhs towards interest is debited to statement of profit and loss, the same has to be added back.		
Tax demand of ₹5,80,000 which includes surcharge and cess of ₹50,700 and ₹22,308 , respectively	5,80,000	

<p>As per Explanation 3 to section 40 (a)(ii) the term 'tax' shall include any surcharge or cess, by whatever name called, on such tax. Therefore, both surcharge and cess partake the character of income-tax and hence, are liable for disallowance along with tax. Since tax of ₹5,80,000 including surcharge and cess is debited to Statement of Profit and Loss, the same has to be added back.</p> <p>Provision for gratuity</p> <p>Provision of ₹180 lakhs for gratuity based on actuarial valuation is not allowable as deduction as per section 40A (7). However, actual payment of gratuity of ₹105 lakhs is allowable as deduction. Hence, the difference has to be added back.</p> <p>Expenses on foreign travel of directors</p> <p>Expenses on foreign travel of directors for exploring opening of a branch in foreign country for marketing its products relates to the existing business of the company and is, therefore, eligible for deduction. Since the same has been debited to the Statement of Profit and Loss, no adjustment is required.</p> <p>Cash payment for purchase of raw material in an amount exceeding ₹10,000</p> <p>Under section 40A (3), disallowance is attracted in respect of expenditure for which cash payment exceeding ₹10,000 is made on a day to a person. Cash payment of ₹82,000 for purchase of raw material is, therefore, liable for disallowance.</p> <p>Expenses on online digital advertisement</p> <p>Expenses on online digital advertisement to a non-resident company, which has no PE in India, is liable for deduction of equalisation levy. Since equalization levy is not deducted and paid, 100% disallowance is attracted in respect of such payment under section 40 (a) (ib). Since ₹11 lakhs has been debited to Statement of Profit and Loss, the same has to be added back.</p> <p>Expenditure on CSR Activities:</p> <p>As per Explanation 2 to section 37(1), expenditure incurred on CSR activities is not deductible. Assuming that such expenditure is not deductible under sections 30 to 36, the entire amount is liable for disallowance. Since ₹4.6 lakhs has been debited to Statement of Profit and Loss, the same has to be added back.</p> <p>Contribution to University for research in social science</p> <p>As per section 35(1) (iii), contribution to university for research in social science is eligible for 100% deduction, However, since Manav Ltd. has opted for concessional tax regime u/s 115BAA, deduction under section 35 (1) (iii) is not allowable. Since ₹2.2 lakhs has been debited to Statement of Profit and Loss, same has to be added back.</p> <p>Interim dividend distributed</p> <p>Interim dividend distributed is not allowable as deduction. Since the same has been debited to Statement of Profit and Loss, the said amount same has to be added back to arrive at business income.</p> <p>Contribution towards employee's pension scheme in excess of 14% of salary disallowed</p> <p>Contribution to the extent of 14% of salary (basic salary + dearness allowance, if it forms part of pay for retirement benefits) is allowable as</p>	<p>75,00,000</p> <p>-</p> <p>82,000</p> <p>11,00,000</p> <p>4,60,000</p> <p>2,20,000</p> <p>65,00,000</p> <p>20,00,000</p>		
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