

**CAICMA Final**

# Direct Tax

# STUDY MATE

**Volume 1**

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**CA Rahul Satija**

**Relevant for May 27 & Onwards**

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## Direct Taxes & International Taxation

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Dear Students,

I am so glad that you chose this book to accompany you on your CA Final Direct Taxes journey. Believe me, it took me months to comprehensively cover the entire syllabus of Direct Taxes in just "360 pages" without leaving anything out.

This book is specially crafted to help you cover the entire syllabus during the last 1.5 days before your exam. It will act as a true Study-Mate and friend.

I have left space at the top of each chapter so that you can write your name and feel motivated when you read it. Also, please leave your signature beside mine as an autograph!

I hope you will take full benefit of this book. Remember, you are capable and prepared to achieve great success.

With lots of love and best wishes,

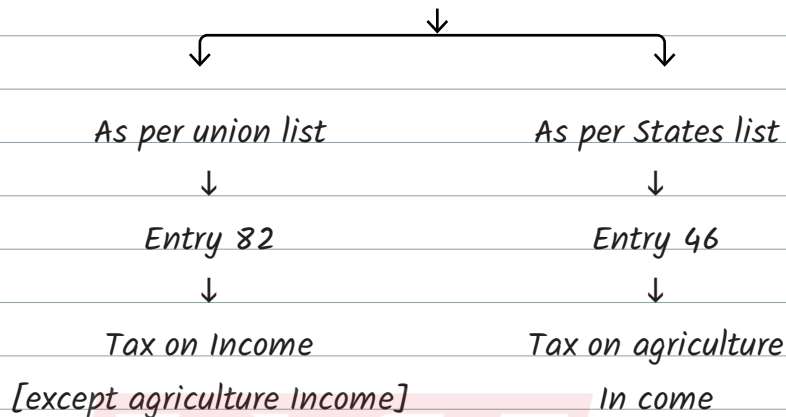


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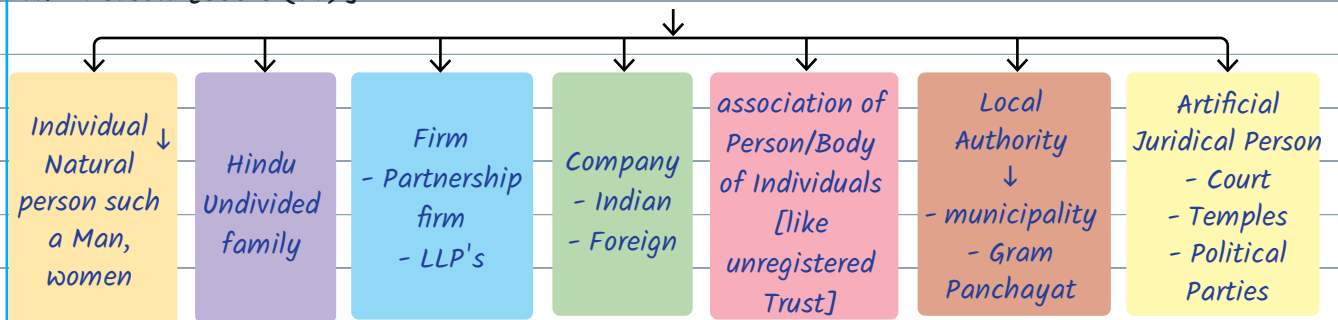
**Part I Overview of Direct Taxes**

1. Taxes means unilateral payment in the form of compulsory finance charge to Govt & Direct Taxes means taxes on Income on the person who earns such income.
2. Constitutional Right to Tax



3. Source of Income Tax laws.
  1. Income Tax Act, 2025 [till FY 2025-26 - ITA 1961]
  2. Income Tax Rules, 2026
  3. Annual finance Act, [Finance Act 2026]
  4. Circulars by CBDT [Binding to AO]
  5. Notifications by CBDT [due date extention, forms]
  6. Supreme Court, High Court Judgments

4. Basic Definition
  - A. Person [sec 2(77)]



B. Assessee [Sec 2(11)]

It means any person who is liable to pay any tax or any other sum under IT Act, 1961. It includes person in respect of which any proceeding initiated, deemed assessee or assessee in default.

C. Tax Year [Sec 3].

year in which income is earned is Tax Year. It generally starts with 1st April & ends with 31st March. But in case of new established business, TY will commence from date of establishment of such business

E. Certain cases where income is taxed in Tax Year Itself.

1. Shipping Business of Non Resident
2. Income of person leaving for long duration without any intention of returning (marriage)
3. AOP / BOI / AJP formed for particular event / purpose
4. person trying to escape taxes by transferring assets.
5. Income of discontinued Business

5. Steps to Calculate Total Income.

| Particulars                        | TY 2026-27 | ₹ | ₹ |
|------------------------------------|------------|---|---|
| Income from Salary.                | XX         |   |   |
| Income from House Property         | XX         |   |   |
| Income from Business & profession. | XX         |   |   |
| Income from Capital Gain           | XX         |   |   |
| Income from other sources          | XX         |   |   |

Clubbing of Income

Set off & Carry forward of loss

|                                 |      |    |
|---------------------------------|------|----|
| gross total Income              | XX   | XX |
| (-) Deduction U/C VIII          | (xx) |    |
| Net Total Income / Total Income | XX   | XX |

## Basics, Normal Tax Rates, Alternate Tax Regimes & Special Tax Rates

|  |      |
|--|------|
| Tax payable on such Income                     | xx   |
| Add Surcharge [on Tax payable]                 | xx   |
| Add Health & Education cess [4% of (Tax + Sc)] | xx   |
| Total Tax liability                            |      |
| (-) TDs/TCS Credit                             | (xx) |
| (-) Advance Tax                                | (xx) |
| (-) Relief U/S 157/158/159                     | (xx) |
| Net Tax payable / Refundable.                  | xx   |

This rounded off to nearest 10

### Part 2 General Tax Rates for Tax Year 2026-27

1. for Individual, Huf, AOP, BOI, Artificial Juridical Person

(Resident or Non Resident)

| If Total Income (NTI)                   | Rate |
|---|------|
| Upto ₹ 2,50,000 (Basic exemption limit) | Nil  |
| from ₹ 2,50,000 upto ₹ 5,00,000         | 5%   |
| from ₹ 5,00,000 upto ₹ 10,00,000        | 20%  |
| above ₹ 10,00,000                       | 30%  |

2. for Senior citizen who is 60 years of age but less than 80 years.

[Birthday on 1 April 2027. means 60 age completed on 31 march] [only Resident]

| If total income (NTI)                   | Rate |
|---|------|
| Upto ₹ 3,00,000 (Basic exemption limit) | Nil  |
| from ₹ 3,00,000 upto ₹ 5,00,000         | 5%   |
| from ₹ 5,00,000 upto ₹ 10,00,000        | 20%  |
| above ₹ 10,00,000                       | 30%  |

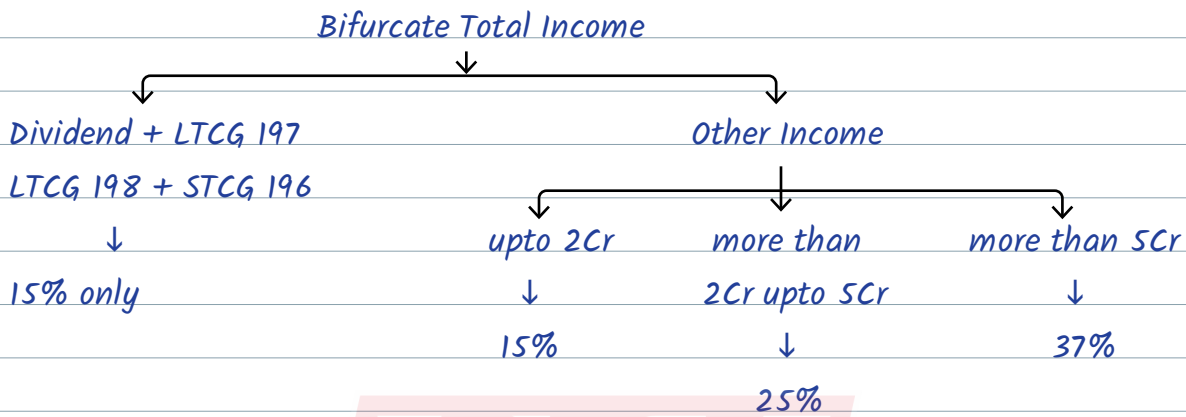
3. Senior Citizen of 80 years of age or above [Resident]

| If Total Income (NTI)                   | Rate |
|---|------|
| Upto ₹ 5,00,000 (Basic exemption limit) | Nil  |
| From ₹ 5,00,000 upto ₹ 10,00,000        | 20%  |
| Above ₹ 10,00,000                       | 30%  |

Common Point for 1,2,3

Surcharge for Assessee being Individual, HUF, AOP, BOI, AJP

| S NO. | Total Income                                   | Surcharge |
|-------|--|-----------|
| (i)   | Total Income upto & 50 lacks                   | Nil       |
| (ii)  | Total Income more than 50 lakh upto 1 crores.  | 10%       |
| (iii) | Total Income more than 1 crores upto 2 crores. | 15%       |
| (iv)  | Total Income more than 2Cr. upto 5 Crore.      | }         |
| (v)   | Total Income is more than 5 crore              |           |



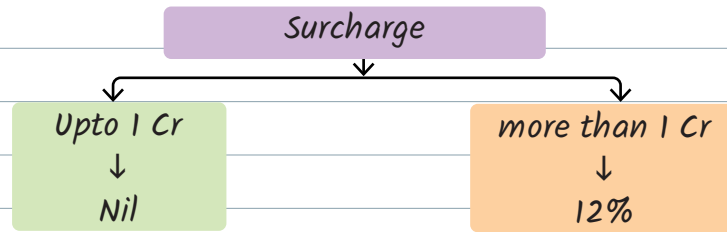
**Crux:-** Once Total Income of 2 Cr is crossed remove dividend, LTCG 197, LTCG 198, STCG 196 A & then check whether exceeds 2 Cr or 5 Cr limit]

Example Mr. Rahul

| Case | CG & Dividend Income | Other Income | Total Income | Surcharge Rate on Tax on CG & Dividend | Surcharge Rate on Tax on other Income |
|------|----------------------|--------------|--------------|--|---------------------------------------|
| 1.   | 15 Lacs              | 25 Lacs      | 40 lacs      | -                                      | -                                     |
| 2.   | 45 Lacs              | 50 Lacs      | 95 lacs      | 10%                                    | 10%                                   |
| 3.   | 55 Lacs              | 65 Lacs      | 120 lacs     | 15%                                    | 15%                                   |
| 4.   | 2.3 Cr               | 25 Lacs      | 2.55 Cr      | 15%                                    | 15%                                   |
| 5.   | 1 Cr                 | 2.6 Cr       | 3.6 Cr       | 15%                                    | 25%                                   |
| 6.   | 4 Cr                 | 3 Cr         | 7 Cr         | 15%                                    | 25%                                   |
| 7.   | 4 CR                 | 6 Cr         | 10 Cr        | 15%                                    | 37%                                   |
| 8.   | 10 Cr                | 10 Cr        | 20 Cr        | 15%                                    | 37%                                   |

4. firm / Local Authority / LLP

Flat Rate = 30%



5. Company

- a. Domestic company [having Turnover of TY 2024-25 upto 400 Cr] 25%
- b. Domestic company other than above 30%
- c. Foreign company 35%

Surcharge in case of Company

|                                   | Domestic co | foreign co. |
|-----------------------------------|-------------|-------------|
| Total Income > 1 Crore upto 10 Cr | 7%          | 2%          |
| Total Income > 10 Crores          | 12%         | 5%          |

6. Cooperative Society

| Total Income         | Tax Rate |
|----------------------|----------|
| Upto 10,000          | 10%      |
| > 10,000 upto 20,000 | 20%      |
| > 20,000             | 30%      |

Surcharge

|                                   |      |
|-----------------------------------|------|
| Total Income > 1 crore upto 10 Cr | 7 %  |
| Total Income > 10 crores.         | 12 % |

7. In all cases Health & education cess @ 4%. shall be added to Tax including Surcharge.

Example Mr. Rahul Age 30. Total income for Tax Year 2026-27 in as follows

- i) Capital Gain U/S 198 1.2Cr
- ii) Capital Gain U/S 197 40 lakhs
- iii) Capital Gain U/S 196 3 Cr
- iv) Dividend Income 20 lakhs
- v) Other Income 3 Crores

computation of Tax liability for TY 2026-27 [Normal Provision]

Solution :-

| Particular                 | Tax Rate                  | Income | Tax         |
|----------------------------|---------------------------|--------|-------------|
| LTCG 198                   | 12.5 % over<br>1.25 lakhs | 1.2 Cr | 14,84,375   |
| LTCG 197                   | 12.5 %                    | 40L    | 5,00,000    |
| STCG 196                   | 20 %                      | 3 Cr   | 60,00,000   |
| Other Income [3 Cr + 20 L] | slab Rate                 | 3.2 Cr | 94,12,500   |
|                            |                           | 7.8 Cr |             |
|                            | Total Tax                 |        | 1,73,96,875 |

Surcharge @ 15% on LTCG/STCG

$[14,84,375 + 5,00,000 + 60,00,000] \times 15\%$       11,97,656

Surcharge @ 15% on Dividend Income

$5,88,281 \times 15\%$       88,242

$[20L/3.2Cr \times 94,12,500]$

Surcharge @ 25% On Balance Income      22,06,054

$88,24,219 \times 25\%$

$[94,12,500 - 5,88,281]$

2,08,88,827

Add education Cess @ 4%

8,35,553

Net Tax liability

2,17,24,380

Marginal Relief in Surcharge.

1. This relief is given in case where there is significant rise to total taxes due change

In surcharge Bracket with little increase in Income.

Eg. person earning 4.99 Cr pays 25% Surcharge

person earning 5.01 Cr Pays 37% Surcharge

2. calculation of Marginal Relief

Step 1: Calculate Tax on Original Total Income [without cess]

Step 2: Calculate Tax on

• ₹ 50 lacs/1 cr./2 cr./5 cr. [Individual etc.]

• ₹ 1 cr. [Firm etc.]

• ₹ 1 cr./10 cr. [Company]

as per case [without Cess]

Step 3: Tax to be paid = Step 2 + Extra Income

Step 4: Marginal Relief = Step 1 - Step 3 [Original Tax - Tax to be paid]

3. Eg. total Income of Mr. Lavish [Age 33] is ₹ 5,01,00,000/- calculate Tax liability

Calculation of tax liability

|  |                    |
|--|--------------------|
| Tax on Total Income                        | ₹                  |
| Upto 2,50,000                              | -                  |
| from 2,50,000 to 5,00,000 @ 5%             | 12,500             |
| from 5,00,000 to 10,00,000 @ 20%           | 1,00,000           |
| from 10,00,000 to 5,01,00,000 @ 30%        | <u>1,47,30,000</u> |
|  | 1,48,42,500        |
| Add Surcharge @ 37%                        | <u>54,91,725</u>   |
|  | 2,03,34,225        |
| Above amount shall be restricted to        | 1,86,15,625        |
| Tax on 5,00,00,000 & [Total Income - 5 Cr] |                    |
| = 1,85,15,625 + 1,00,000                   |                    |
| [Surcharge @ 25% will still be applicable] |                    |
| Marginal relief                            | <u>17,18,600</u>   |
| Tax payable =                              | 1,86,15,625        |
| Add Education cess @ 4%                    | <u>7,44,625</u>    |
| Total tax liability                        | <u>1,93,60,250</u> |

### Sec 156:- Tax Rebate [Erstwhile Sec 87A]

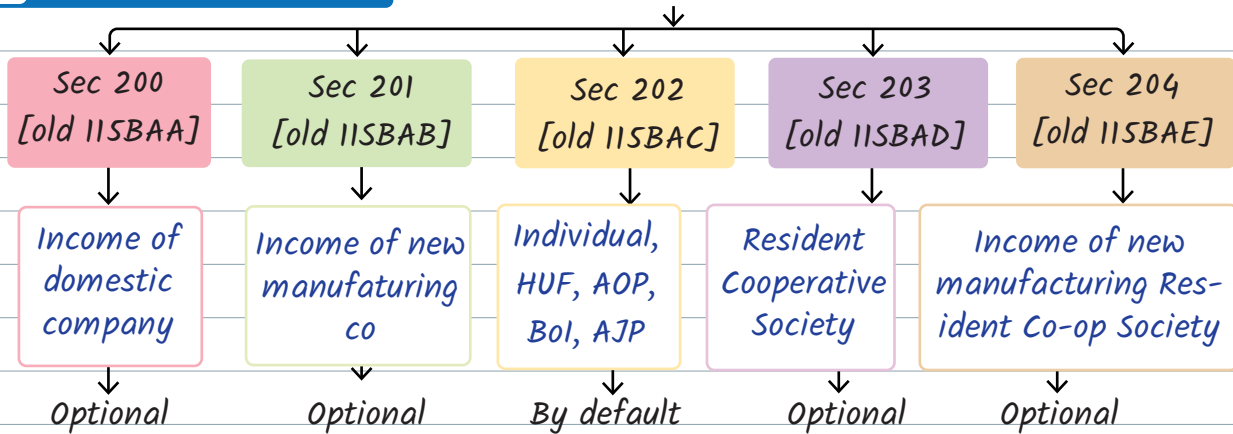
For **Resident Individuals** whose Total Income is upto ₹5,00,000 Tax rebate of

- i) 100% of tax payable or  
 ii) 12500
- ↓ Whichever is lower

Notes

- 1) Rebate shall be calculated on Gross tax liability ie Tax + ~~HEC~~
- 2) Rebate U/S 156 is available against all income except (LTCG U/S 198)
- 3) If Income exceeds even by 1 rupee from 5 lakhs then rebate u/s 156 not allowed.

## Part 3 Alternate Tax Regimes



## Sec 200 :- Tax on Income of Certain Domestic Companies [Erstwhile Sec IISBAA]

- Tax Rate = 22%

Surcharge = 10% [Compulsory] ★

Education cess = 4%

Effectively = 25.168%
- Income like LTCG 197, STCG 196, LTCG 198. shall continue to be taxed as per their respective rates [special rate + 10%. Surcharge + 4%. HEC]

## Sec 201:- Tax on Income of certain new domestic manufacturing [Erstwhile Sec IISBAB]


[company setup & registered on or after 1 Oct 2019 & commences manufacturing on or before 31 march 2024].

- Tax Rate on manufacturing Income = 15%

Surcharge = 10% [compulsory]

HEC = 4%

Effectively = 17.16%
- Income like LTCG 197, STCG 196, LTCG 198 shall continue to be taxed as per their respective rates [special rate + 10%. Surcharge + 4%. HEC]
- If Income compute by AO on account of profit shifting from high tax paying entity to this entity then tax rate shall be  $[30+10+4] = 34.32\%$ .
- Income of Transfer of Non Depreciable STCG shall be taxed  $[22+10+4] = 25.168\%$   
[For Depreciable Assets STCG = 15%]
- Other Income like Ifos, HP, non manufacturing Income etc shall be taxed @  $[22+10+4] = 25.168\%$ .  
[In short 15% benefit is available to manufacturing Business Income]

- Other conditions
- a. Company should not be formed by splitting up or reconstruction of an existing business.
  - b. P&M should be New. 
 $\left\{ \begin{array}{l} 20\% \text{ second hand allowed} \\ \text{Imported shall be treated as new} \end{array} \right.$
  - c. Does not use any building previously used as a Hotel.
  - d. Not engaged in any business other than manufacturing and research relating to, or distribution of such article manufactured by it.
- # Business of Manufacture does not include business of:
- Development of Computer software
  - Mining
  - Conversion of marble block into slabs
  - Bottling of gas into cylinder
  - Printing books or production of film 
- Note:** Business of power generation shall be treated as manufacturing business.
- e. Benefit of this section shall be allowed only if prescribed form is furnished before 1st Return of Income.
  - f. If transaction > 20 Cr with AE, it shall be specified domestic Transaction & transfer pricing provisions will apply.

### Sec 203 - Tax On Resident Co-operative Societies [Erstwhile IISBAD]

1.
 

|                |   |                  |
|----------------|---|------------------|
| Tax Rate       | = | 22%              |
| Surcharge      | = | 10% [Compulsory] |
| Education Cess | = | 4%               |
| Effectively    | = | 25.168%          |
2. Income like LTCG 197, STCG 196, LTCG 198. shall continue to be taxed as per their respective rates [special rate + 10%. Surcharge + 4% HEC]

### Sec 204 [Completely similar to Sec 201] [Erstwhile IISBAE]

Tax on new manufacturing Co-operative societies  
 [Co-ops. setup & registered on or after 1-April-2023. & Commences manufacturing on or before 31 march 2024].

## CHAPTER 1

1. tax Rate on manufacturing Income = 15%  
Surcharge = 10% [compulsory]  
HEC = 4%  
Effectively = 17.16%
2. Income like LTCG 197, STCG 196, LTCG 198 shall continue to be taxed as per their respective rates [special rate + 10%. Surcharge + 4%. HEC]
3. If Income compact by AO, on account of profit shifting from high tax paying entity to this entity then tax rate shall be  $[30+10+4] = 34.32\%$
4. Income of Transfer of Non Depreciable STCG shall be taxed  $[22+10+4] = 25.168\%$   
[For Depreciable Assets STCG = 15%]
5. Other Income like IFOS, HP, non manufacturing Income etc shall be taxed @  $[22+10+4] = 25.1681\%$ .  
[In short 15% benefit is available to manufacturing Business Income]

### Other Conditions

- a. Should not be formed by splitting up or reconstruction of an existing business.
- b. P&M should be New. 20% second hand allowed.  
Imported shall be treated as new
- c. Does not use any building previously used as a Hotel
- d. Not engaged in any business other than manufacturing and research relating to, or distribution of such article manufactured by it.

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- Conversion of marble block
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- f. If transaction > 20Cr with AE, it shall be specified domestic Transaction & transfer pricing provisions will apply.

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