

CA FINAL

CORRIGENDUM

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Corrigendum

CA Final Paper 4- Direct Tax

Edition 5

Chapter 21- Non-Resident Taxation

Direct Tax Compiler 11 attempts – Q 8 Page number 21.5

Direct Tax Compiler 5 attempts – Q 2 Page number 21.2

Direct Tax Compiler 3 attempts – Q 1 Page number 21.1

Correction: India's Finance Act, 2023 has increased the withholding tax rate on royalties and fees for technical services (FTS) paid to non-residents. The rate has doubled from 10% to 20%.

Changes in following questions:

Question

Flax Ltd., a company incorporated in Country "F", has the following incomes in India during the year ended on 31.03.2024.

- (i) Dividend of ₹ 8,50,000 earned on Global Depository Receipts of MN Ltd., an Indian company, issued under a scheme of Central Government against the initial issue of shares of the company and purchased by Flax Ltd. in foreign currency through an approved intermediary.
- (ii) Dividend of ₹ 16,80,000 earned on equity shares of Indian companies.
- (iii) Royalty amounting to ₹ 8,76,000, received from Flip Ltd., an Indian company, in pursuance of an agreement entered between Flip Ltd. and Flax Ltd. The said agreement is not approved by the Central Government.
- (iv) Business Income of ₹ 9,50,000 from a unit established at Surat.
- (v) Interest of ₹ 2,88,000 earned on debentures of ₹ 32,00,000 issued on 1st July 2023, in consideration of providing technical knowhow to Sangita Ltd., an Indian Company, for the purpose of business carried out in India. Flax Ltd. received the consideration in pursuance to an agreement approved by the Central Government.

Compute the total income and tax liability of Flax Ltd. for the Assessment Year 2024-25, assuming that it does not have a PE in India and its POEM is outside India.

Note – No DTAA exists between India and Country "F". (MTP 6 Marks Sep'22)

Answer

Computation of total income and tax liability of Flax Ltd., a non-resident foreign company, for the A.Y. 2024-25

Particulars	₹
Business Income from a unit established at Delhi	9,50,000
Income from other sources	
- Fees for technical services [would be equivalent to the amount of debentures of ₹ 32,00,000 received from an Indian company, issued in consideration of providing technical knowhow for the purpose of business carried out in India]	32,00,000
- Interest on Debentures	2,88,000
- Dividend on Global Depository Receipts (GDRs) of MN Ltd. an Indian company, issued under a scheme of Central Government against the initial issue of MN Ltd. and purchased in foreign currency by Flax Ltd.	8,50,000
- Dividend income on equity shares of Indian companies	16,80,000

- Royalty income received from Flip Ltd., an Indian company. Since such agreement is not approved by the Central Government, TDS is to be deducted @41.6%. [₹ 8,76,000 x 100/58.4, since tax would have been deducted at source @ 41.6%]	15,00,000
Gross Total Income/ Total income	84,68,000
Computation of tax liability	
Dividend income of ₹ 16,80,000, taxable @20% u/s 115A	3,36,000
Dividend on GDRs of ₹ 8,50,000, taxable @10% u/s 115AC	85,000
FTS of ₹ 32,00,000, taxable @10% 20% as per amendment u/s 115A, since it is in pursuance of an agreement approved by the Central Government	3,20,000 6,40,000
Royalty income of ₹ 15,00,000, taxable @40%, since it is not in pursuance of an agreement approved by the Central Government	6,00,000
Interest on debentures of ₹ 2,88,000, taxable @40%, since debt is incurred in Indian currency, it is not eligible for concessional rate of 20% provided u/s 115A	1,15,200
Business income of ₹ 9,50,000 [taxable @40%]	3,80,000
	21,56,200
Add: Health and education cess@4%	86,248
Tax liability	22,42,448
Tax liability (rounded off)	22,42,440

Direct Tax Compiler 11 attempts – Q 9 Page number 21.6

Direct Tax Compiler 5 attempts – Q 3 Page number 21.3

Direct Tax Compiler 3 attempts – Q 2 Page number 21.2

Question

XYZ Ltd., a Country P company, had entered into agreements with Y Ltd., and G Ltd., Indian companies in the year 2015 to provide technical services to them to be utilised for the business carried on by them in India. The agreements were approved by the Central Government. Following particulars are provided by XYZ Ltd. in respect of previous year 2023-24

	Particulars	Amount
(1)	Fees for technical services received from Y Ltd.	265 lakhs
(2)	Expenses incurred for earning such income	35 lakhs
(3)	Fees for technical services received from G Ltd.	302 lakhs
(4)	Expenses incurred for earning such income	24 lakhs
Other expenses [not included in (2) and (4) above]		
(5)	General Expenditure not wholly and exclusively incurred for the business of the PE	8.2 lakhs
(6)	Amounts paid by the PE to HO (not being in the nature of reimbursement of actual expenses)	14.6 lakhs
(7)	Amounts paid by the PE to HO (being in the nature of reimbursement of actual expenses)	15.2 lakhs

Examine the taxability of the income received by XYZ Ltd. on the following assumptions:

- XYZ Ltd., does not have a permanent establishment in India.
- XYZ Ltd., has a permanent establishment in India and the contracts/ agreements are effectively connected with such PE.

Also, discuss the requirements relating to maintaining books of accounts and audit and filing of return of income in India by XYZ Ltd. under both the assumptions made above, under the Income- tax Act, 1961. Also assume no DTAA exists between India and Country P. (MTP 6 Marks Oct'22)

Answer

- (i) Where XYZ Ltd., a Country P company, does not have a PE in India
 In this case, XYZ Ltd. would be eligible for a concessional rate of tax @10% **(as per amendment 20%)** (plus surcharge@2% and HEC@4%) under section 115A on the fees for technical services of ₹ 567 lakhs (i.e., ₹ 265 lakhs plus ₹ 302 lakhs) received from the Indian companies, Y Ltd. and G Ltd., since the same are in pursuance of agreements approved by the Central Government. No deduction, however, would be allowed in respect of expenditure of ₹ 59 lakhs (i.e., ₹ 35 lakhs and ₹ 24 lakhs) incurred to earn such income.
 If tax deductible at source @10.608% **21.22%** has been fully deducted, XYZ Ltd. need not file its return of income in India under section 139 for A.Y. 2024-25.
- (ii) Where XYZ Ltd., a Country P company, has a PE in India and the contracts/agreements are effectively connected with the PE in India.
 In this case, XYZ Ltd. has a PE in India, and the agreements with Y Ltd. and G Ltd. are effectively connected with such PE and such agreements have been entered into in the year 2015. Accordingly, as per section 44DA, the income from rendering technical services shall be computed under the head "Profits and gains of business or profession" in accordance with the provisions of the Income-tax Act, 1961; and shall be subject to tax@40% (plus surcharge@2% and HEC@4%).
 Accordingly, expenses of ₹ 35 lakhs and ₹ 24 lakhs incurred for earning fees for technical services of ₹ 265 lakhs and ₹ 302 lakhs, respectively, from Y Ltd. and G Ltd., is allowable as deduction therefrom. Further amount of ₹ 15.2 lakhs paid by the PE to the HO being in the nature of reimbursement of actual expenses is allowable as deduction. However, expenditure of ₹ 8.2 lakhs which is not incurred wholly and exclusively for the business of the PE and the amount of ₹ 14.6 lakhs paid by the PE to the HO, not being in the nature of reimbursement of actual expenses, are not allowable as deduction.
 XYZ Ltd. is required to maintain books of account under section 44AA and get the same audited under section 44AB and furnish report before the specified date i.e., the date one month prior to the due date of filing return u/s 139(1) for A.Y. 2024-25.
 entered into after 31.3.1976, i.e., after 31.3.2003

Direct Tax Compiler 11 attempts – Q 16 Page number 21.12

Question

Xylo Inc., a US company, received income by way of fees for technical services of ₹2 crore from Alpha Ltd., an Indian company, in pursuance of an agreement between Alpha Ltd. and Xylo Inc. entered into in the year 2012, which is approved by the Central Government. Expenses incurred for earning such income is ₹ 8 lakhs. Examine the taxability of the above sum in the hands of Xylo Inc as per the provisions of the Income-tax Act, 1961 and the requirement, if any, to file return of income, assuming that Xylo Inc does not have a permanent establishment in India (RTP May '19)

Answer

Where Xylo Inc., a US company, does not have a PE in India

In this case, Xylo Inc. would be eligible for a concessional rate of tax@10% **20% as per amendment** of ₹ 2 crore under section 115A on the fees for technical services received from Alpha Ltd., an Indian company, since the same is in pursuance of an agreement entered into after 31.3.1976, which has been approved by the Central Government. No deduction, however, would be allowed in respect of expenditure of ₹ 8 lakhs incurred to earn such income. Also, Xylo Inc. does not have to file its return of income in India under section 139 **if TDS has been deducted and if the total income consists of interest or royalty or dividend or Fees for technical services.**

Direct Tax Compiler 11 attempts – Q 17 Page number 21.12

Question

Lords Inc., a British company, received, in the P.Y. 2023-24, income by way of fees for technical services of ₹ 3.20 crore from Yamuna Ltd., an Indian company, in pursuance of an agreement between Yamuna Ltd. and Lords Inc. entered into in the year 2012, which is approved by the

Central Government. Expenses incurred for earning such income is ₹ 28 lakhs.

- (i) Examine the taxability of the above sum in the hands of Lords Inc as per the provisions of the Income-tax Act, 1961 and the requirement, if any, to file return of income, assuming that Lords Inc does not have a permanent establishment in India.
- (ii) If Lords Inc. has a permanent establishment in India and the contract/agreement with Yamuna Ltd. for rendering technical services is effectively connected with such PE in India, examine the taxability based on the following details provided relating to P.Y.2023-24 –

	Particulars	Amount
(1)	Fees for technical services received from Yamuna Ltd.	₹ 3.20 crore
(2)	Expenses incurred for earning such income	₹ 28 lakhs
(3)	Fees for technical services received from other Indian companies in pursuance of approved agreement entered into between the years 2006 to 2010	₹ 2 crore
(4)	Expenses incurred for earning such income	₹ 21 lakhs
(5)	Expenditure not wholly and exclusively incurred for the business of such PE [not included in (2) & (4) above]	₹ 8 lakhs
(6)	Amounts paid by the PE to HO (not being in the nature of reimbursement of actual expenses)	₹ 14 lakhs

What are the other requirements, if any, under the Income-tax Act, 1961 in this case? (RTP May '21)

Answer

- (i) **Where Lords Inc., a British company, does not have a PE in India**

In this case, Lords Inc. would be eligible for a concessional rate of tax@10% **as per amendment 20%** (plus surcharge@2% and HEC@4%) of ₹ 3.20 crore under section 115A on the fees for technical services received from Yamuna Ltd., an Indian company, since the same is in pursuance of an agreement entered into after 31.3.1976, which has been approved by the Central Government. No deduction, however, would be allowed in respect of expenditure of ₹ 28 lakhs incurred to earn such income.

If tax deductible at source@~~10.608%~~ **21.22%** has been fully deducted, Lords Inc. need not file its return of income in India under section 139 for A.Y.2024-25.

- (ii) **Where Lords Inc., a British company, has a PE in India and rendering technical services is effectively connected with the PE in India .**

Since Lords Inc. carries on business through a PE in India, in pursuance of an agreement with Yamuna Ltd. or other Indian companies entered into after 31.3.2003, and the income by way of fees for technical services is effectively connected with the PE in India as per section 44DA, such income shall be computed under the head "Profits and gains of business or profession" in accordance with the provisions of the Income-tax Act, 1961.

Accordingly, expenses of ₹ 49 lakhs (₹ 28 lakhs + ₹ 21 lakhs) incurred for earning fees for technical services of ₹ 5.20 crore (₹ 3.20 crore + ₹ 2 crore) is allowable as deduction therefrom. However, expenditure of ₹ 8 lakhs which is not incurred wholly and exclusively for the business of the PE and the amount of ₹ 14 lakhs paid by the PE to the HO is **not** allowable as deduction.

Lords Inc. is required to maintain books of account under section 44AA and get the same audited under section 44AB and furnish report before the specified date i.e., the date one month prior to the due date of filing return u/s 139(1) for A.Y.2024-25.

Direct Tax Compiler 11 attempts – Q 19 Page number 21.15

Direct Tax Compiler 5 attempts – Q 8 Page number 21.8

Question

Trex Ltd., a company incorporated in Country "T", has the following incomes in India during the year ended on 31.03.2024. Compute the total income and tax liability of Trex Ltd. for the Assessment Year 2024-25, assuming that its POEM is outside India.

- (i) Interest of ₹ 2,85,000 earned on debentures of ₹ 30,00,000 issued on 1st August 2023, in consideration of providing technical knowhow to MNO Ltd., an Indian Company, for the purpose of business carried out in India.
- (ii) Dividend of ₹ 6,50,000 earned on Global Depository Receipts of YL Ltd., an Indian company, issued under a scheme of Central Government against the initial issue of shares of the company and purchased by Trex Ltd. in foreign currency through an approved intermediary.
- (iii) Dividend of ₹ 15,50,000 earned on equity shares of Indian companies.
- (iv) Income by way of royalty amounting to ₹ 12,56,470, received from Z Ltd., an Indian company, in pursuance of an agreement approved by Central Government.
- (v) Business Income of ₹ 8,50,000 from a unit established at Delhi.
- (vi) Long-term capital gain of ₹ 1,32,000 on transfer of unlisted shares of an Indian Company (computed with indexation benefit). If computed without indexation benefit, the long-term capital gains would be ₹ 2,32,000.

Notes –

- (i) No DTAA exists between India and Country “T”.
- (ii) The Unit in Delhi is not involved in any manner in provision of technical knowhow/royalty. (RTP May’22)

(To keep the essence of the question we have changed the Income from royalty from 12,56,470 to 11,10,630)

Answer

Computation of total income and tax liability of Trex Ltd., a non-resident foreign company, for the A.Y. 2024-25

Computation of total income for A.Y.2024-25		
Particulars	₹	₹
Profits and gains of business or profession		
Business Income from a unit established at Delhi	8,50,000	
Fees for technical services [would be equivalent to the amount of debentures of ₹ 30,00,000 received from an Indian company, issued in consideration of providing technical knowhow] for the purpose of business carried out in India	30,00,000	
Royalty income received from Z Ltd., an Indian company, in pursuance of an agreement approved by Central Government [₹11,10,630 x 100/79.2, since tax would have been deducted at source @ 10.4 20.8%]	14,02,310	52,52,310
Capital Gains		
Long-term capital gains on transfer of unlisted shares		1,32,000
Income from Other Sources		
Interest on debentures issued by an Indian company	2,85,000	
Dividend on Global Depository Receipts (GDRs) of YL Ltd., an Indian company, issued under a scheme of Central Government against the initial issue of YL Ltd. and purchased in foreign currency by Trex Ltd.	6,50,000	
Dividend income on equity shares of Indian companies	15,50,000	24,85,000
Gross Total Income/ Total income		78,69,310
Computation of tax liability for A.Y.2024-25		
Particulars	₹	₹
Business income of ₹ 8,50,000 [taxable @40%]	3,40,000	
FTS of ₹ 30,00,000, taxable @40%, since it is not in pursuance of an agreement approved by the Central Government	12,00,000	
Royalty income of ₹ 14,02,310, taxable @10% as per amendment 20% u/s 115A, since it is in pursuance of an agreement approved by the Central Government	1,40,231 2,80,462	
		18,20,462

Particulars	₹	₹
Long-term capital gain of ₹ 2,32,000 (computed without indexation benefit) on unlisted shares taxable @10% under section 112(1)(c)(iii)		23,200
Interest on debentures of ₹ 2,85,000, taxable @40% [Since debt is incurred in Indian currency, it is not eligible for concessional rate of 20% u/s 115A]	1,14,000	
Dividend on GDRs of ₹ 6,50,000, taxable @10% u/s 115AC	65,000	
Dividend income of ₹ 15,50,000, taxable @20% u/s 115A	3,10,000	4,89,000
		21,92,431
Add: Health and education cess@4%		87,697
Tax liability		22,80,128
Tax liability (rounded off)		22,80,130

Note – Since the unit in Delhi does not play any role in provision of technical know/royalty, the provisions of section 44DA are **not** attracted in this case in respect of fees for technical services and royalty.

Direct Tax Compiler 11 attempts – Q 20 Page number 21.16

Direct Tax Compiler 5 attempts – Q 9 Page number 21.9

Direct Tax Compiler 3 attempts – Q 6 Page number 21.5

Question

- (i) Gamma Inc., a US company, received income by way of fees for technical services of ₹ 3 crore from Delta Ltd., an Indian company, in pursuance of an agreement between Delta Ltd. and Gamma Inc. entered into in the year 2012, which is approved by the Central Government. Expenses incurred for earning such income is ₹ 22 lakhs. Examine the taxability of the above sum in the hands of Gamma Inc as per the provisions of the Income-tax Act, 1961 and the requirement, if any, to file return of income, assuming that Gamma Inc does not have a permanent establishment in India.
- (ii) If Gamma Inc. has a permanent establishment in India and the contract/agreement with Delta Ltd. and other Indian companies for rendering technical services is effectively connected with such PE in India, examine the taxability based on the following details provided –

	Particulars	Amount (₹)
(1)	Fees for technical services received from Delta Ltd.	3 crore
(2)	Expenses incurred for earning such income referred to in (1) above	22 lakhs
(3)	Fees for technical services received from other Indian companies in pursuance of approved agreement entered into between the years 2010 to 2015	5 crore
(4)	Expenses incurred for earning such income referred to in (3) above	35 lakhs
(5)	Expenditure not wholly and exclusively incurred for the business of such PE [not included in (2) & (4) above]	12 lakhs
(6)	Amounts paid by the PE to HO (not being in the nature of reimbursement of actual expenses)	15 lakhs

What are the other requirements, if any, under the Income-tax Act, 1961 in this case?

(RTP May '23) (Same concept different figures MTP 3 Marks Oct 19, RTP May '19, MTP 6 Marks Oct'20)

Answer

- (i) Where Gamma Inc., a US company, does not have a PE in India

In this case, Gamma Inc. would be eligible for a concessional rate of tax@10% **as per amendment 20%** (plus surcharge@2% and HEC@4%) of ₹ 3 crore under section 115A on the fees for technical services received from Delta Ltd., an Indian company, since the same is in pursuance of an agreement entered into after 31.3.1976, which has been approved by the Central Government. No deduction, however, would be allowed in respect of expenditure of ₹ 22 lakhs incurred to earn such income. Also, Gamma Inc. would be exempted from filing its return of income in India under section 139 if tax deductible at source@10% **20%** under section 115A (plus surcharge@2% and HEC@4%) has been fully deducted from such income. If, however, tax has not been deducted or has been deducted at a lower rate, if any, specified in the DTAA with US, then, benefit of exemption from filing of return of income would not be available.

- (ii) Where Gamma Inc., a US company, has a PE in India and rendering technical services is effectively connected with the PE in India.

Since Gamma Inc. carries on business through a PE in India, in pursuance of an agreement with Delta Ltd. or other Indian companies entered into after 31.3.2003, and the income by way of fees for technical services is effectively connected with the PE in India as per section 44DA, such income shall be computed under the head "Profits and gains of business or profession" in accordance with the provisions of the Income-tax Act, 1961 and subject to tax@40% plus surcharge@2% and HEC@4%.

Accordingly, expenses of ₹ 57 lakhs (₹ 22 lakhs + ₹ 35 lakhs) incurred for earning fees for technical services of ₹ 8 crore (₹ 3 crore + ₹ 5 crore) is allowable as deduction therefrom. However, expenditure of ₹ 12 lakhs which is not incurred wholly and exclusively for the business of the PE and the amount of ₹ 15 lakhs paid by the PE to the HO is not allowable as deduction.

Gamma Inc. is required to maintain books of account u/s 44AA and get the same audited under section 44AB and furnish report on or before the specified date i.e., date one month prior to the due date for furnishing the return of income u/s 139(1).

Direct Tax Compiler 11 attempts – Q 21 Page number 21.17

Direct Tax Compiler 5 attempts – Q 10 Page number 21.10

Direct Tax Compiler 3 attempts – Q 7 Page number 21.7

Question

Analyze the tax consequence in the hands of Mr. Smith, a non-resident, for A.Y. 2024-25 in respect of fees for technical services (FTS) received from ABC Ltd., an Indian company, in pursuance of an agreement approved by the Central Government, if -

- India has no Double Tax Avoidance Agreement (DTAA) with Country A
- India has a DTAA with Country A, which provides for taxation of such FTS @8%.
- India has a DTAA with Country A, which provides for taxation of such FTS@25%.

Assume that Mr. Smith is a resident of Country A and he has no fixed place of his profession in India and that the technical services are utilised by ABC Ltd. for its business in India.

Also, examine whether Mr. Smith would be exempt from filing his return of income if tax deductible at source had been fully deducted in each case mentioned above in a manner most beneficial to him; and his total income comprises only of the said fees from technical services. (RTP Nov '23)

(In part c we have changed the rate from 15% to 25% to keep the essence of the question)

Answer

As per section 9(1)(vii)(b), income by way of fees for technical services payable by a resident is deemed to accrue or arise in India, except where the fees is payable, inter alia, in respect of services utilized in a business or profession carried on by such person outside India. In this case, since ABC Ltd. utilizes the technical services for its business in India, the fees for technical services payable by ABC Ltd. is deemed to accrue or arise in India in the hands of the non-resident, Mr. Smith.

In accordance with the provisions of section 115A, where the total income of a non-corporate non-

resident includes any income by way of fees for technical services other than the income referred to in section 44DA(1), received from an Indian concern in pursuance of an agreement made by him with the Indian concern and the agreement is approved by the Central Government, then, the special rate of tax at ~~10%~~ **20%** of such fees for technical services is applicable. No deduction would be allowable under sections 28 to 44C and section 57 while computing such income. The non-resident would be exempt from the requirement of filing return of income under section 139(1), if tax deductible at source has been fully deducted and the rate of tax deduction is not less than the rate specified in section 115A and his total income comprises only of income referred to in section 115A.

Section 90(2) makes it clear that where the Central Government has entered into a DTAA with a country outside India, then, in respect of an assessee to whom such agreement applies, the provisions of the Act shall apply to the extent they are more beneficial to the assessee.

- (a) In this case, since India does not have a DTAA with Country A, of which Mr. Smith is a resident, the fees for technical services (FTS) received from ABC Ltd., an Indian company, would be taxable ~~@10%~~ **as per amendment 20%**, by virtue of the provisions of section 115A (plus surcharge, if applicable, and health and education cess@4%). If tax deductible at source at the said rate has been fully deducted, he would be exempt from the requirement of filing return of income under section 139(1), since his total income comprises only of such fees for technical services taxable u/s 115A.
- (b) In this case, the FTS from ABC Ltd. would be taxable @8%, being the rate specified in the DTAA, even though section 115A provides for a higher rate of tax, since the tax rate specified in the DTAA is more beneficial. However, since Mr. Smith is a non-resident, he has to furnish a tax residency certificate from the Government of Country A for claiming such benefit. Also, he has to furnish other information, namely, his nationality, his tax identification number in Country A and his address in Country A. Further, he would not be exempt from the requirement to file return of income under section 139(1), since tax would have been deducted at 8%, being the rate specified in the DTAA, which is lower than the rate of 10% u/s 115A.
- (c) In this case, the FTS from ABC Ltd. would be taxable ~~@10%~~ **as per amendment 20%** as per section 115A (plus surcharge, if applicable, and health and education cess@4%), even though DTAA provides for a higher rate of tax, since the provisions of the Act (i.e. section 115A in this case) are more beneficial. If tax deductible at source at the said rate has been fully deducted, he would be exempt from the requirement of filing return of income under section 139(1), since his total income comprises only of such fees for technical services taxable u/s 115A.

Direct Tax Compiler 11 attempts – Q 22 Page number 21.18

Question

Red Ltd., non-resident foreign company, had entered into a collaboration agreement, approved by the Central Government, with Blue Ltd., an Indian company on February 21, 2003 and is in receipt of following payments during the previous year ending on March 31, 2024:

- (i) Interest on 8% debentures for ₹ 40 lakhs issued by Blue Ltd. on July 1, 2023 in consideration of providing of technical know-how, manufacturing process and designs (date of payment of interest being March 31 every year).
- (ii) Service charges @2.5% of the value of plant and machinery for ₹ 500 Lakhs leased out to Blue Ltd. payable each year before March 31.
- (iii) Apart from the above incomes, Red Ltd. received a long term capital gain amounting to ₹ 1.90 Lakhs on sale of debentures of Green Ltd., an Indian company, subscribed in US\$.

Compute the Total Income of Red Ltd. and determine its tax liability for the assessment year 2018-19. (PYP 6 Marks Nov'18)

Answer

Computation of total income of Red Ltd., a foreign company, for A.Y.2024-25

Particulars	₹
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Fees for technical services Debentures issued by Blue Ltd. in consideration for provision of technical know-how by Red Ltd., a foreign company, is in the nature of fee for technical services, deemed to accrue or arise in India to Red Ltd., a foreign company	40,00,000
Royalty Service charges for leased out plant and machinery [₹ 500 lakhs x 2.5%] [Service charges paid by Blue Ltd. for leased out plant and machinery is in the nature of royalty, which is deemed to accrue or arise in India to Red Ltd., a foreign company]	12,50,000
Capital Gains Long term capital gain on sale of debentures of Green Ltd. an Indian company	1,90,000
Interest on debentures Interest on debentures [₹40 lakhs x 8% x 9/12] [Interest on debentures of Blue Ltd., an Indian company, is deemed to accrue or arise in India, since the debt incurred is not used for a business outside India or for earning income from a source outside India]	2,40,000
Total Income	56,80,000

Computation of taxliability of Red Ltd. for A.Y.2024-25

Particulars	₹
Tax@10% (as per amendment 20%) on royalty of ₹12.50 lakhs and fees for technical services of ₹ 40 lakhs	5,25,000 10,50,000
Tax @20% on long term capital gains of ₹ 1,90,000, assuming debentures are listed on recognised stock exchange	38,000
Tax @40% on interest on debentures of ₹ 2,40,000 since debt is not incurred by Blue Ltd. in foreign currency	96,000
	11,84,000
Add: Education cess and SHEC@3% (As per amendment at 4%)	47,360
Tax Liability	12,31,360

Note – The above Answer is based on the assumption that debentures of Green Ltd. are listed on a recognized stock exchange. However, Question can also be answered on the basis of the assumption that the debentures are not listed on recognized stock exchange. In such case, long term capital gains on sale of debentures would be subject to tax @10% and tax thereon shall be ₹ 19,000/- and total tax liability of Red Ltd. would be ₹ 6,65,600/-.

EXAMINERS' COMMENTS ON THE PERFORMANCE OF EXAMINEES:

Examinees were not able to correctly compute the tax liability of non-resident foreign company as they were not aware of tax rates applicable for different categories of income chargeable to tax in its hands.

Direct Tax Compiler 11 attempts – Q 33 Page number 21.32

Direct Tax Compiler 5 attempts – Q 14 Page number 21.16

Direct Tax Compiler 3 attempts – Q 8 Page number 21.7

Question

Ms. Black and Brown S.A., (BnB) a company incorporated in Country X, appointed Mr. Lal Singh as an agent in India. Lal Singh habitually maintains in India, stock of goods or merchandise and regularly delivers the same on behalf of various non-resident entities including BnB. BnB does not have a permanent establishment or a fixed place of profession in India. Also, there is no DTAA between India and Country X.

BnB earned the following incomes from India during the FY 2023-24: Income from delivery of goods by Mr. Lal Singh ₹ 2 crores.

Fee for technical services ₹ 55 lakhs (After deducting ₹ 6 lakhs spent on earning such income)
 Long-term capital gains from sale of unlisted debentures of White Ltd., an Indian Company (subscribed in US\$) ₹ 14 lakhs
 BnB had paid a sum equal to ₹ 50 lakhs as tax in Country X in respect of the above- mentioned income earned from India. You are required to discuss the relevant provisions of Income-tax Act with respect to the taxability of incomes earned by BnB in India and compute the tax payable by BnB on above income. (PYP 6 Marks May'22)

Answer

Computation of Tax liability of BnB for the A.Y.2024-25

Particulars	₹
Income from delivery of goods by Mr. Lal Singh, an agent of BnB As per section 9(1)(i), business profits of a foreign company would be deemed to accrue or arise in India, if such income accrues or arises through or from any business connection in India. In case of BnB, business connection is established, since Mr. Lal Singh acting on its behalf habitually maintains in India a stock of goods or merchandise from which he regularly delivers goods or merchandise on its behalf. Therefore, such income is taxable in the hands of BnB.	2,00,00,000
Fee for technical services (FTS) FTS would be taxable in the hands of a foreign company, since the FTS has been received in India. Therefore, such FTS would be taxable in the hands of BnB after deducting expenditure on earning such income. Accordingly, ₹ 55 lakhs would be taxable.	55,00,000
Long-term capital gains from sale of unlisted debentures of White Ltd. an Indian company, would be taxable in the hands of BnB, since it arises from the capital asset situated in India.	14,00,000
Total Income	2,69,00,000
Tax payable on total income	
Tax on long-term capital gain @10% as per section 112(1)(c)(iii)	1,40,000
Tax on other income@40% on ₹ 2,55,00,000	1,02,00,000
	1,03,40,000
Add: Surcharge@2% since total income > ₹ 1 crore but ≤ ₹10 crore	2,06,800
	1,05,46,800
Add: Health and education cess @4%	4,21,872
Tax liability	1,09,68,672
Tax liability (rounded off)	1,09,68,670
Note – No credit will be available in respect of ₹ 50 lakhs paid as tax in Country X since there is no DTAA with Country X and the provisions of section 91 providing for deduction in cases where there is no DTAA will not apply to BnB, being a foreign company.	

Alternate Answer

If it is assumed that the agreement for FTS is approved by the Central Government, then FTS would be taxable@10% **20% as per amendment** under section 115A. The tax liability would be as follows

Particulars	₹
Income from delivery of goods by Mr. Lal Singh, an agent of BnB As per section 9(1)(i), business profits of a foreign company would be deemed to accrue or arise in India, if such income accrues or arises through or from any business connection in India. In case of BnB, business connection is established, since Mr. Lal Singh acting on its behalf habitually maintains in India a stock of goods or merchandise from which he regularly delivers goods or merchandise on its behalf. Therefore, such income is taxable in the hands of BnB.	2,00,00,000

Fee for technical services (FTS) FTS would be taxable in the hands of a foreign company, since the FTS has been received in India. Assuming that the Agreement has been approved by the Central Govt., as per section 115A, such FTS would be taxable in the hands of BnB without deducting expenditure on earning such income. Accordingly, ₹ 61 lakhs would be taxable.	61,00,000
Long-term capital gains from sale of unlisted debentures of White Ltd. an Indian company, would be taxable in the hands of BnB, since it arises from the capital asset situated in India.	14,00,000
Total Income	2,75,00,000

Computation of tax liability

Particulars	₹
Tax liability on total income of ₹ 2,75,00,000	
Tax on long-term capital gain @10% as per section 112(1)(c)(iii)	1,40,000
Tax on Fees for technical services @ 10% 20% as per amendment on ₹ 61,00,000	6,10,000 12,20,000
Tax on other income @40% on ₹ 2,00,00,000	80,00,000
	93,60,000
Add: Surcharge@2% since total income > ₹ 1 crore but ≤ ₹10 crore	1,87,200
	95,47,200
Add: Health and education cess@4%	3,81,888
Tax liability	99,29,088

Direct Tax Compiler 11 attempts – Q 38 Page number 21.37

Question

Mr. Bhist, a non-resident individual, earned an interest income of Rs. 12 lakhs on an investment made in a notified Infrastructure Debt Fund set up in India eligible for exemption under section 10(47) during the financial year 2023-24. Further, he incurred an expenditure of Rs. 15,000 for earning such interest income. Examine the tax implications in the hands of both Fund and Mr. Bhist and justify your conclusions with relevant provisions of Income-tax Act, 1961 in two situations, when (i) Mr. Bhist is residing in Notified Jurisdictional Area; and (ii) Mr. Bhist is stationed outside India, in a place other than NJA.

Will there be any change in tax liability of Mr. Bhist, if the income received is fee for technical services from an Indian Company instead of interest income from Infrastructure Debt Fund?

(PYP 6 Marks Nov'19)

Answer

If Mr. Bhist has received interest on investment made in notified Infrastructure Debt Fund

The interest income received by Mr. Bhist, a non-resident, from a notified infrastructure debt fund u/s 10(47) would be subject to a concessional tax rate of 5% (plus health and education cess@4%) i.e., 5.2% under section 115A on the gross amount of such interest income. Accordingly, the tax liability of Mr. Bhist in respect of such income would be Rs. 62,400 (being 5% of Rs. 12 lakhs plus health and education cess@4%).

If Mr. Bhist is residing in a Notified Jurisdictional Area (NJA)

Under section 194LB, tax is deductible @ 5% (plus health and education cess@4%) i.e. 5.2% on interest paid by notified infrastructure debt fund u/s 10(47) to a non-resident.

However, since Mr. Bhist is a resident of a NJA, tax would be deductible@30% (plus health and education cess@4%) i.e. 31.2% being the highest of the following rates –

- at the rate or rates in force;
- at the rate specified in the relevant provision of the Act i.e., 5%;
- at the rate of 30%.

Tax to be deducted by notified infrastructure debt fund would be Rs. 3,74,400 (being 30% of Rs. 12 lakhs plus health and education cess@4%).

(i) If Mr. Bhist is stationed outside India, in a place other than a NJA

Tax would be deductible @ 5% under section 194LB (plus health and education cess @ 4%) i.e. 5.2% on interest paid by notified infrastructure debt fund u/s 10(47) to Mr. Bhist. Tax to be deducted by notified infrastructure debt fund would be Rs. 62,400 (being 5% of Rs. 12 lakhs plus health and education cess @ 4%).

(ii) If Mr. Bhist has received fee for technical services (FTS) from an Indian company If Mr. Bhist, a non-resident, has received FTS from an Indian company instead of interest income from Infrastructure Debt Fund assuming that the agreement for FTS is approved by the Central Government, the same would be subject to tax @ 10% (plus health and education cess @ 4%) i.e. ~~10.4%~~ **20.8% as per amendment** under section 115A on the gross amount of such FTS, irrespective of the residing place of Mr. Bhist.

The tax liability of Mr. Bhist, in such a case, would be **Rs. 2,49,600** (being ~~10%~~ **20%** of Rs. 12 lakhs plus health and education cess @ 4%).

EXAMINERS' COMMENTS ON THE PERFORMANCE OF EXAMINEES:

Many examinees were not aware of the concessional rate of tax under section 115A and TDS under section 194LB and hence, have not applied the correct rate. Even the examinees who have applied the correct rate of TDS, have not increased the same by health and education cess @ 4%. As a consequence, the tax rates applied were incorrect, as also the total tax or withholding tax involved for the impugned payments.

Chapter 29: Case Scenarios

Correction: Through the Finance Act 2023, amendments were carried out in sub-section (1G) of section 206C of the Act. These amendments, *inter alia*, increased the rate of TCS from 5% to 20% for remittance under LRS as well as for purchase of overseas tour program package and removed the threshold of Rs 7 lakh for triggering TCS on LRS. These two changes were not applicable when the remittance is for education or medical purpose. These amendments were to take effect from 1st July 2023.

Changes in following questions

Direct Tax Compiler 11 attempts – Q 17 Page number 29.27

Direct Tax Compiler 5 attempts – Q 12 Page number 29.18

Direct Tax Compiler 3 attempts – Q 6 Page number 29.9

Case Scenario (MTP Oct '22, RTP Nov'21) (Deduction, Collection & Recovery of Tax)

Mr. Anmay, a resident Indian, is in retail business in Delhi and his turnover for F.Y.2022-23 was ₹ 9.2 crores. He regularly purchases goods from another resident, Mr. Parth, a wholesaler in Delhi, and the aggregate payments made by Mr. Anmay to Mr. Parth during the F.Y.2023-24 was ₹ 85 lakh (₹ 25 lakh on 8.5.2023, ₹ 20 lakh on 27.8.2023, ₹ 25 lakh on 18.10.2023 and ₹ 15 lakh on 11.2.2024). Mr. Parth's turnover for F.Y.2022-23 was ₹ 13.5 crores.

Mr. Parth paid ₹ 5.2 lakhs on 1.9.2023 to M/s. Sharp Travels for a holiday package to Singapore for a week with his family, comprising of his wife and two children, being twins aged 21 years, in the last week of September. He also took an education loan of ₹ 13 lakhs on 1.2.2024 from Bank of India, Madam Cama Road, Mumbai, for his son's two-year Master of Public Administration program in Columbia University, USA and remitted the said amount through the same bank, which

is an authorised dealer, under the Liberalised Remittance Scheme of RBI (LRS). For his daughter's MBA in Iowa State University, USA, he remitted ₹ 12 lakhs on 15.2.2024, out of his personal savings, through Bank of India, Bandra branch, Mumbai which is also an authorised dealer, under LRS. Mr. Parth also remitted ₹ 6.5 lakh on 28.3.2024, out of his personal savings, under LRS through Bank of India, Bandra branch, as gift to his sister residing in London, on the occasion of her 50th birthday. On the basis of the facts given above, choose the most appropriate answer to Q. 6 to Q.10 below – (2 Marks Each Question)

9. What is the amount of tax to be collected from Mr. Parth in respect of the remittance of amounts overseas for his son's and daughter's education?
- TCS@0.5% of ₹ 6 lakhs and ₹ 5 lakhs are attracted in respect of remittance for son's and daughter's education, respectively.
 - TCS@5% of ₹ 6 lakhs and ₹ 5 lakhs are attracted in respect of remittance for son's and daughter's education, respectively
 - TCS@0.5% of ₹ 6 lakhs and TCS@5% of ~~₹ 5 lakhs~~ ₹ 12 lakhs are attracted in respect of remittance for son's and daughter's education, respectively.
 - TCS@5% of ₹ 6 lakhs is attracted in respect of remittance for son's education; No TCS is attracted in respect of remittance for daughter's education.

Answer (c)

10. Are TCS provisions attracted in respect of remittance of gift to sister? If so, what is the amount of tax to be collected from Mr. Parth?
- No, since the remittance is out of personal savings for a personal purpose
 - No, since the amount remitted to his sister is less than ₹ 7 lakhs
 - No, due to reasons stated in (a) and (b) above
 - Yes, ₹ 32,500-~~₹1,30,000-~~

Answer (d)

Chapter 22- DTAA

Direct Tax Compiler 11 attempts – Q 4 Page number 22.4

Direct Tax Compiler 5 attempts – Q 3 Page number 22.3

Correction: Changes in exemption limit as per the normal provisions

Question

Compute the total income and tax payable after providing relief under section 91 by Mr. Guru Charan, aged 73 years for A.Y. 2024-25 from the following information in respect of income earned by him in various places for the previous year ended 31-03-2024:

India

Pension from State Government ₹ 3,90,000

Short term capital gains on sale of plot ₹ 2,10,000 Deposit in PPF Account ₹ 1,50,000

Speculative Income ₹ 1,16,000

Country M

Agricultural Income (gross) ₹ 90,000

Dividends from a company incorporated in Country M (gross) ₹ 64,000 [Exempt in Country M]

Country N

Business loss (proprietary business) ₹ 1,06,000 [Not eligible for set off against other incomes in Country N].

Gross rental income from a property ₹ 3,00,000 (No statutory deduction was available in Country

N)

Municipal taxes paid in respect of the above property (not allowed as deduction in Country N) ₹ 20,000

Additional Information:

- (1) There is no agreement under section 90 for relief for avoidance of double taxation between India and Country M and Country N where the incomes have accrued or arisen.
- (2) Mr. Guru Charan is an individual resident in India, and he has paid applicable taxes on incomes earned in Country M and Country N, where the applicable tax rates are 10% and 5%, respectively. Assume Mr. Guru Charan opts for section 115BAC. (MTP 6 Marks Apr'22)

Answer

Since Mr. Guru Charan is an individual resident in India for the P.Y.2023-24, his global income would be subject to tax in India. Therefore, income earned by him in Country M and Country N would be taxable in India. He would, however, be entitled to deduction under section 91, since India does not have a DTAA with Country M and Country N, and all conditions under section 91 are satisfied.

Since Mr. Guru Charan is an individual resident in India for the P.Y.2023-24, his global income would be subject to tax in India. Therefore, income earned by him in Country M and Country N would be taxable in India. He would, however, be entitled to deduction under section 91, since India does not have a DTAA with Country M and Country N, and all conditions under section 91 are satisfied.

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

Particulars	₹	₹
Income under the head "Salaries"		
Pension from State Government	3,90,000	
Less: Standard deduction u/s 16(ia) [Not allowable as per section 115BAC]	(50,000)	3,40,000
Income from House Property		
Rental income from property in Country N4	3,00,000	
Less: Municipal taxes	20,000	
	2,80,000	
Less: Deduction u/s 24(a)@30%	84,000	
Profits and Gains of Business or Profession		1,96,000
Speculative income in India	1,16,000	
Less: Set-off of business loss from proprietary business in Country N under section 70	1,06,000	10,000
Short-term capital gains on sale of plot in India		2,10,000
Income from Other Sources		
Agricultural income from Country M [not exempt u/s 10(1), since it is earned from land situated outside India]	90,000	
Dividend from a company in Country M	64,000	1,54,000
Gross Total Income		9,10,000
Less: Deduction under Chapter VI-A [No deduction allowable as per section 115BAC]		-
Total Income		9,10,000

Computation of tax liability of Mr. Guru Charan for A.Y.2024-25

Particulars	₹	₹
Tax payable on ₹ 9,60,000		
Upto ₹ 2,50,000 ₹3,00,000	Nil	
₹ ₹ 3,00,000 – ₹ 6,00,000 [₹ 3,00,000 @ 5%]	15,000	
₹ 6,00,001 – ₹ 9,00,000 [₹ 3,00,000 @ 10%]	30,000	
₹ 9,00,000 to 9,10,000 @15%	1,500	46,500
Add: Health and education cess@4%		1,860
		48,360

Less: Rebate under section 91 (See Working Note below)		9,283
Tax Payable		39,077
Tax Payable (rounded off)		39,070
Calculation of Rebate under section 91:	₹	
Average rate of tax in India [i.e., ₹ 48,360/ ₹ 9,10,000 × 100] = 5.314%		
Doubly taxed income pertaining to Country M		
Agricultural income	90,000	
Dividend from a company in Country M [Not includible, since exempt in Country M]	-	
Rebate under section 91 on ₹ 90,000 @5.314% [being the lower of average Indian tax rate (5.314%) and Country M tax rate (10%)]	90,000	4,783
Doubly taxed income pertaining to Country N		
Income from house property less business loss set-off against income chargeable to tax in India (₹ 1,96,000 – ₹ 1,06,000)	90,000	
Rebate under section 91 on ₹ 90,000 @5% [being the lower of average Indian tax rate (5.314%) and Country N tax rate (5%)]		4,500
Total rebate under section 91 (Country M + Country N)		9,283

Chapter 22- DTAA

Direct Tax Compiler 11 attempts – Q 1 Page number 22.1, Q 9 Page number 22.11, Q 18 Page number 22.19

Direct Tax Compiler 5 attempts – Q 1 Page number 22.3

Correction: Assumed that he does not opt for Sec 115BAC added.

Chapter 22- DTAA

Direct Tax Compiler 11 attempts – Q 10 Page number 22.12

Direct Tax Compiler 5 attempts – Q 9 Page number 22.10

Correction: India's Finance Act, 2023 has increased the withholding tax rate on royalties and fees for technical services (FTS) paid to non-residents. The rate has doubled from 10% to 20%.

Chapter 1- Basic Concepts

Direct Tax Compiler 11 attempts – Q 1 Page number 1.4

Correction: Answer has been amended

Mr. Ganesh, a resident Indian aged 42 years, is a salaried employee whose salary computed under the normal provisions of the Income-tax Act, 1961 for A.Y.2024-25 is Rs.14,50,000. In addition, he has interest on savings bank account to the tune of Rs.12,000. He has deposited Rs.1,50,000 in PPF and has paid medical insurance premium of Rs.25,000 by way of account payee cheque for insuring his health and Rs.30,000 by way of crossed cheque for insuring the health of his mother, aged 75 years. He incurred medical expenditure of Rs.35,000 by account payee cheque for his father, aged 78 years, who does not have an insurance policy. Ganesh's brother Rajesh, a resident Indian aged 40 years, earns rental income of Rs.40,000 per month and Rs.45,000 from his two let out flats. He also has interest on savings bank account to the tune of Rs.15,000. He deposits Rs.50,000 in NPS Tier I account. Should Mr. Ganesh and Mr. Rajesh opt for the provisions of section 115BAC for A.Y.2024 - 25 to minimise their tax liability?

- (a) Both Ganesh and Rajesh should opt for the provisions of section 115BAC
 - (b) Neither Ganesh nor Rajesh should opt for the provisions of section 115BAC
 - (c) Mr. Ganesh should opt for the provisions of section 115BAC but not Mr. Rajesh
 - (d) Mr. Rajesh should opt for the provisions of section 115BAC but not Mr. Ganesh
- (MTP 2 Marks April '21)**

Ans: (d) *Answer is amended to (a)*

Direct Tax Compiler 11 attempts – Q 14 Page number 1.7

Correction: Answer has been amended

Mr. Gagan, aged 67 years and resident, is a retired person earning a monthly pension of ₹ 12,000 from his employer. He purchased a piece of land in Delhi in December, 2015 and sold the same in April, 2023. Taxable LTCG amounted to ₹ 2,80,000. Apart from pension income and gain on sale of land, he is not having any other income. What will be his tax liability (rounded off) for the year 2023-24? (RTP May '19)

- (a) ₹ 25,790
- (b) ₹ 6,450
- (c) ₹ 4,370
- (d) ₹ 17,470

Ans: (d)

(As per amendment the rebate u/s 87A is increased to tax amounting to Rs 12500 hence after deduction it comes to Rs 2300)

Chapter 10- Charitable Trusts

Direct Tax Compiler 11 attempts – Q3 & Q19 Page number 10.3 & 10.20

Correction: No deduction of excess expenditure over income is given to both, trust u/s 12AA and Institutions etc u/s 10(23C).

Question 3

A public charitable trust registered under section 12AA furnished the following particulars for the previous year ending 31.3.2024:

		(Rs. in Lacs)
(a)	Income from properties held by trust	10
(b)	Income from business (incidental to main objects)	4
(c)	Voluntary contributions from public	7
(d)	Anonymous Donations	10
(e)	Excess of expenditure over income in the P.Y. 2022-23	1

The trust applied a sum of Rs.11.50 lacs towards charitable purposes during the year which includes Rs.4 lakhs, being the amount applied for the benefit of the founder of trust. The trust repaid the loan taken for construction of orphanage of Rs.4 lacs. You are required to compute the total income of the trust in such a manner that it can avail the optimal benefit within the four corners of the Income-tax Act, 1961 (MTP 5 Marks Mar'19)

Answer 3

Computation of taxable income of public charitable trust

	Particulars	Rs.
(i)	Income from property held under trust	10,00,000
(ii)	Income from business (incidental to main objects)	4,00,000
(iii)	Voluntary contributions from public Voluntary contribution made with a specific direction towards corpus are alone to be excluded under section 11(1)(d). In this case, there is no such direction and hence, included.	7,00,000

			21,00,000
(iv)	Anonymous donations [to the extent not chargeable to tax@30% under section 115BBC(1)(i)] [See Note below]		1,00,000
			22,00,000
	Less: 15% of the income eligible for retention / accumulation without any conditions		3,30,000
			18,70,000
	Less: Amount applied for the objects of the trust		
	(i) Amount spent for charitable purposes (excluding amount applied for the benefit of the founder) (Rs.11,50,000 -Rs. 4,00,000)	7,50,000	
	(ii) Repayment of loan for construction of orphanage	4,00,000	11,50,000
	(iii) Excess of expenditure over income in the P.Y. 2022-23 (as per amendment NO deduction of excess expenditure over income is given to both, trust u/s 12AA and Institutions etc u/s 10(23C).	1,00,000 NIL	
			7,20,000
	Add: Amount applied for the benefit of the founder of the trust chargeable to tax under section 12(2) read with section 13(6)		4,00,000
	Anonymous donation taxable @30% under section 115BBC(1)(i) [See note below]		9,00,000
	Total Income of the trust (including anonymous donation taxable @30%)		20,20,000

Note: As per section 115BBC(1)(i), the anonymous donation in excess of the higher of the following would be subject to tax@30%;

- Rs.85,000, being 5% of the total donation received i.e., 5% of Rs.17 lakhs; or
- Rs.1 lakh.

Therefore, anonymous donation of Rs.9 lakhs (Rs.10 lakhs – Rs.1 lakh) would be subject to tax@30% under section 115BBC(1)(i).

Such anonymous donations which are subject to tax @30% are not eligible for the benefit of exclusion from total income under sections 11 and 12.

Alternative view – As per plain reading of section 13(7), it is possible to take a view that the entire anonymous donation may not be eligible for benefit of exclusion from total income under sections 11 and 12. If this view is taken, then, Rs.1 lakh should not be added to Rs.21 lakhs. Accordingly, Rs.3,15,000, being 15% of Rs.21 lakhs would be the income eligible for accumulation without any condition. The total income of the trust (including anonymous donations) would be Rs.19,35,000.

Question 19

Mani foundations, a charitable trust registered under section 12AA of the Income-tax Act, 1961, run schools for primary and secondary education. The following particulars pertaining to the previous year 2023-24 are furnished to you by the trust:

		₹ (in lakhs)
(i)	Gross receipts from students towards tuition fees, development fees, laboratory fees etc.	200
(ii)	Voluntary contributions received from public (including anonymous donation ₹ 5 lakhs)	25
(iii)	Government grants	8
(iv)	Donation given towards corpus to a trust registered under section 10(23C)	2
(v)	Amount applied for the purpose of schools	90
(vi)	Included in (v) above, a sum of 5 lakhs, being the amount applied for the benefit of the founder of the trust.	
(vii)	The trust set apart ₹ 55 lakhs for acquiring a building to expand its schools. But the amount was paid in December 2024 when the sale deed was registered in its name	

(viii)	Excess of expenditure over income in the previous year 2022-23	25
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Compute the total income of the trust for the assessment year 2024-25 in order to avail maximum benefits within the four corners of law. (PYP 8 Marks Nov'18)

Answer 19

Computation of total income of Mani Foundations for the A.Y.2024-25

Particulars	₹	₹
Gross receipts from students towards tuition fees, development fees etc.		2,00,00,000
Government Grants (taxable, since only grant for the purpose of corpus of a trust established by the Central or State Government is excluded from the definition of income)		8,00,000
[Note - Government Grants would be exempted based on the assumption that Mani Foundations is set up by the Central or State Government and the grant is towards the corpus of the trust]		
Voluntary contributions (other than anonymous donations) [₹ 25 lakh – ₹ 5 lakh]		20,00,000
		2,28,00,000
Add: Anonymous donations [to the extent not chargeable to tax@30% under section 115BBC(1)(i)] [See Note below]		1,25,000
		2,29,25,000
Less: 15% of income eligible for being set apart without any condition ⁶		34,38,750
Less: Amount applied for charitable purposes		1,94,86,250
- Amount applied for the purpose of schools (excluding amount applied for the benefit of the founder) = ₹ 90 lakh – ₹ 5 lakh	85,00,000	
- Amount set apart for acquiring a building to expand its schools	55,00,000	
[The word "applied" used in section 11 means that the income is actually applied for the charitable purposes of the trust. The word "applied" does not necessarily imply "spent". Even if a certain amount is irretrievably earmarked and allocated for charitable purposes, the said amount can be deemed to have been applied for charitable purposes. ⁷]		
- Corpus donations to a trust registered under section 10(23C) [Deduction is not permissible only in respect of corpus donations to a trust registered u/s 12AA] <i>*(as per amendment NO deduction if Corpus donation is given to both, trust u/s 12AA and Institutions etc u/s 10(23C).</i> — Excess of expenditure over income in the P.Y.2022-23 <i>(as per amendment NO deduction of excess expenditure over income is given to both, trust u/s 12AA and Institutions etc u/s 10(23C).</i>	2,00,000 (NIL)	
	25,00,000 (NIL)	1,40,00,000
		54,86,250
Add: Amount applied for the benefit of the founder of the trust chargeable to tax under section 12(2) read with section 13(6)		5,00,000
Anonymous donation taxable @30% under section 115BBC(1)(i) [See Note below]		3,75,000
Total Income of the trust (including anonymous donation taxable@30%)		63,61,250

Note - As per section 115BBC(1)(i), the anonymous donations in excess of the higher of the following would be subject to tax@30%;

- ₹ 1.25 lakh, being 5% of the total donations received i.e., 5% of ₹ 25 lakh; or ₹ 1 lakh

⁶ As per the Supreme Court ruling in CIT v. Programme for Community Organisation (2001) 116 Taxman 608, 15% of gross receipts would be eligible for accumulation under section 11(1)(a).

⁷ It was so held in CIT vs. Trustees of H.E.H. Nizams Charitable Trust, (1981) 131 ITR 497 (AP).

Therefore, anonymous donations of ₹ 3.75 lakh (₹ 5 lakh – ₹ 1.25 lakh) would be subject to tax@30% under section 115BBC(1)(i).

Such anonymous donations which are subject to tax@30% are not eligible for the benefit of exclusion from total income under sections 11 and 12.

***As per amendment-**

From FY 2020-21, Any amount credited or paid, out of income to any university or other educational institution or any hospital or other medical institution referred to in sec 10(23C)(iv)(v)(vi)(via) being contribution with a specific direction that it shall form part of the corpus, shall not be treated as application of income for charitable or religious purposes.

Therefore, now NO deduction if Corpus donation is given to both, trust u/s 12AA and Institutions etc u/s 10(23C).

[Alternate Answer] – As per the plain reading of section 13(7), it is possible to take a view that the entire anonymous donations may not be eligible for benefit of exclusion from total income under sections 11 and 12. If this view is taken, then ₹ 1.25 lakhs should not be added to ₹ 228 lakhs. Accordingly, ₹ 34.20 lakhs, being 15% of ₹ 228 lakhs would be the income eligible for accumulation without any condition. The total income of the trust (including anonymous donations) would be ₹ 36.80 lakhs.

Chapter 22- DTAA

Direct Tax Compiler 11 attempts – Q 15 Page number 22.17

Direct Tax Compiler 5 attempts – Q 11 Page number 22.10

Correction: Standard Deduction considered while calculating 115BAC

Question

Mr. Anil Talpade, aged 62 years, a resident individual, furnishes the following particulars of income earned by him in India and in Brazil for the previous year 2023-24. India does not have a double taxation avoidance agreement with Brazil.

S. No.	Particulars	Amount (₹)
1.	Gross Salary in India	4,50,000
2.	Professional Income received in Country Brazil	5,80,000
3.	Dividend Income in Country Brazil	88,000
4.	Rent from House Property Situated in Country Brazil	1,80,000
5.	Interest Income on FDR'S with Bank of Baroda, Pune Branch.	62,000
6.	Paid interest on Housing Loan to Punjab National Bank, Pune branch for the residential property, where he and his family resides	2,00,000
7.	Investment in Public Provident Fund	1,50,000
8.	Medical insurance Premium paid for himself	32,000

Assume the tax rate in Country Brazil is 16%. Compute the total income and tax liability of Mr. Anil Talpade for the Assessment Year 2024-25 assuming he opts for Section 115BAC complying with all the necessary rules. (PYP 6 Marks Dec'21)

Answer

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

Particulars	₹	₹
Income from salaries [Standard deduction not allowable, since he opts	4,50,000	

for section 115BAC]		
Less- Standard Deduction	50,000	4,00,000
Income from House Property		
Annual value of self-occupied property in India	Nil	
Less: Interest on housing loan [not allowable, since he opts for section 115BAC]	Nil	
	Nil	
Annual value of house property in Brazil [Rental income from property in Brazil]	1,80,000	
Less: Deduction u/s 24(a) @30% (allowable in respect of let out property)	54,000	1,26,000
Profits and gains from business or profession		
Professional income from Brazil		5,80,000
Income from Other Sources		
Dividend from Brazil		88,000
Interest on FDRs with Bank of Baroda		62,000
Gross Total Income		12,56,000
Less: Deduction under 80C in respect of investment in PPF and deduction under section 80D in respect of medical insurance premium [no deduction is allowable under these sections, since he opts for section 115BAC]		Nil
Total Income		12,56,000

Computation of tax liability of Mr. Mr. Anil Talpade for A.Y.2024-25

Particulars	Amount (₹)
Upto ₹ 2,50,000 ₹ 3,00,000 Nil	Nil
₹ ₹ 3,00,000 – ₹ 6,00,000 [₹ 3,00,000 @ 5%]	15,000
₹ 6,00,001 – ₹ 9,00,000 [₹ 3,00,000 @ 10%]	30,000
₹ 9,00,001 – ₹ 12,00,000 [₹3,00,000 @ 15%]	45,000
₹ 12,00,001 – ₹ 12,56,000 [₹56,000 @ 20%]	11,200
	1,01,200
Add: Health & Education Cess@4%	4,048
	1,05,248
Less: Deduction under section 91	
Average rate of tax in India = ₹1,05,248 x 100/ ₹12,56,000 = 8.3796%	
Rate of tax in Brazil = 16%	
Doubly taxed income = ₹ 1,26,000 + ₹ 5,80,000 + ₹ 88,000 = ₹ 7,94,000	
Lower of the Indian rate of tax and Brazil rate of tax is 8.3796%, which has to be applied on doubly taxed income of ₹ 7,94,000 [8.3796% x ₹ 7,94,000]	66,534
Tax Payable	38,714
Tax Payable (rounded off)	38,710

In the absence of any information relating to fair rent, municipal value and standard rent, rental income assumed to be GAV

Chapter 9- Assessment of Various Entities

Direct Tax Compiler 11 attempts – Q 2 Page number 9.3

Correction: MMR rate is 35.535% instead of 42.744%.

Chapter 24- Transfer Pricing

Direct Tax Compiler 11 attempts – Q 12 Page number 24.32

Direct Tax Compiler 5 attempts – Q 4 Page number 24.20

Direct Tax Compiler 3 attempts – Q 2 Page number 24.12

Correction: Answer is wrong in ICAI MTP has been revised

K Ltd. is an Indian Company in which A Inc., a Country P company, holds 32% shareholding and voting power. During the previous year 2020-21, the Indian company supplied computers to the Country P based company @CPD 2300 per piece. The price of computer supplied to other unrelated parties in Country P is @CPD 2700 per piece. During the course of assessment proceedings relating to A.Y.2021 - 22, the Assessing Officer carried out primary adjustments and added a sum of ₹ 154 lakhs, being the difference between actual price of computer and arm's length price for 450 pieces and it was duly accepted by the assessee. The Assessing Officer passed the order, in which the primary adjustments were made, on 1.7.2023. On account of this adjustment, the excess money of ₹ 154 lakhs is available with A Inc, Country P. What would be the effect of this transaction while computing the total income of K Ltd. for the assessment year 2024-25, assuming that –

- (i) K Ltd. declared an income of ₹ 340 lakhs;
- (ii) the excess money is still lying with A Inc. till today;
- (iii) K Ltd. has not opted to pay additional income-tax on such excess money not repatriated; and
- (iv) Six-month LIBOR as on 30.9.2023 is 9%.

[CPD stands for Country P Dollars, which is the currency of Country P]. The correct answer is -

- (a) Interest of ₹ 13.873 lakhs would be added to the total income of K Ltd.
- (b) Interest of ₹ 14.1099 lakhs would be added to the total income of K Ltd.
- (c) Interest of ₹ 13.822 lakhs would be added to the total income of K Ltd.
- (d) Interest of ₹ 10.367 lakhs would be added to the total income of K Ltd. (MTP 2 Marks Oct '22)

Ans: ~~(e)~~ **(a) (Wrong answer in MTP has been changed)**

Chapter 3- Profits & Gains from Business & Profession

Direct Tax Compiler 11 attempts – Q 8 Page number 3.12

Correction: Education cess taken @3% instead of 4% has been rectified.

Question 8 (Includes concepts from Deduction, Collection & Recovery of Tax)

A partnership firm consisting of three working partners A, B and C is engaged in the business of manufacturing and selling stationery.

Turnover of the business for the year ended 31st March, 2024 amounts to ₹ 190 lakh. Bad debts written off in the books are ₹ 80,000. Interest at 12% is provided to partner B on his capital of ₹ 10 lakh as authorized by the partnership deed.

The firm had business loss of ₹ 75,000 and unabsorbed depreciation of ₹ 1,20,000 carried forward from Assessment Year 2023-24. The firm did not pay tax under presumptive tax system in assessment year 2023-24. The firm opts for presumptive taxation under section 44AD for Assessment Year 2024-25. Assume that whole of the amount of turnover has been received by way of account payee cheque during the P.Y. 2023-24.

- (i) Compute the income of the firm chargeable under the head “Profits and gains of business or profession.”
- (ii) What would be the liability for interest under sections 234B and 234C, if the firm has not paid any advance tax? Assume that no TDS/TCS to its credit. (RTP May’18)

Answer 8

- (i) Computation of income of the firm chargeable under the head “Profits and Gains of business or profession”

Particulars	₹
Presumptive income under section 44AD (6% of ₹ 190 lakh) [See Note 1]	11,40,000
Less: Brought forward business loss under section 72 [See Note 4]	<u>75,000</u>
Income of the firm chargeable under the head “Profits and Gains of business or profession”	10,65,000
Tax liability at @ 30.9% 31.2%	3,32,280

Notes: -

- (1) A partnership firm falls within the definition of “eligible assessee” under section 44AD. The threshold limit of turnover for applicability of presumptive taxation scheme under section 44AD is ₹ 200 lakh. In this case, since the turnover of the business of the firm is ₹ 190 lakh, it falls within the definition of “eligible business” and therefore, the firm is eligible to opt for presumptive taxation scheme under section 44AD. 6% of the total turnover would be deemed to be the business income of the firm as whole of the amount of turnover has been received by way of account payee cheque during the P.Y. 2023-24. **(As per amendment Where the amounts received in the PY in cash does not exceed 5% of the total turnover or gross receipts of such PY then the limit of T/o 3 crores instead of 2 crores.)**
- (2) As per section 44AD(2), all deductions allowable under sections 30 to 38 shall be deemed to have been allowed in full and no further deduction shall be allowed. Accordingly, no deduction shall be allowed for bad debts since the same is deductible under section 36(1)(vii). Likewise, unabsorbed depreciation is not deductible since the same is deductible under section 32(2).
- (3) Interest on capital and working partner salary are also not deductible while computing the presumptive income of a partnership firm under section 44AD for the assessment year 2024-25.
- (4) However, brought forward business loss of previous year 2022-23 can be set-off against current year business income as per section 72.
- (ii) Since the partnership firm has opted for computation of income on presumptive basis under section 44AD, it must pay the whole amount of advance tax in one installment on or before 15.03.2024. Further, any amount paid by way of advance tax on or before 31.3.2018 shall also be treated as advance tax paid during the financial year on or before 15th March 2024.
- Since the firm has not paid advance tax –
- (a) it has to pay interest under section 234C at 1% on ₹ 3,29,085.
- (b) it has to pay interest under section 234B @1% per month or part of a month on ₹ 3,29,085 from 1st April, 2023 to the date of determination of total income under section 143(1) and where regular assessment is made, to the date of regular assessment.

Chapter 1- Basic Concepts

Direct Tax Compiler 11 attempts – Q 4 Page number 1.4

Correction: Answer has been amended

Mr. Anish, a resident individual aged 45 years, sold a house property on 16.01.2024. On the said transaction, he earned a long-term capital gain of ₹ 1,25,50,000. He invested a sum of ₹ 50,00,000 in capital gains bonds specified in section 54EC on 15.03.2024. He further invested a sum of ₹ 50,00,000 in the same bonds on 14.06.2024. His total income (excluding LTCG on such house property) comprising of income from other sources only for the financial year 2023-24 was ₹ 1,50,00,000. He does not opt for section 115BAC. Compute the tax payable by him for the A.Y. 2024-25.

(a) ₹ 75,69,250

- (b) ₹ 69,63,710
 (c) ₹ 74,12,210
 (d) ₹ 57,67,710 (MTP 2 Marks Oct 21)

Ans: (b)

Chapter 15- Assessment Procedures

Direct Tax Compiler 11 attempts – Q 12 Page number 15.6

Direct Tax Compiler 5 attempts – Q 5 Page number 15.3

Direct Tax Compiler 3 attempts – Q 3 Page number 15.2

Correction: AY mentioned are wrong has been rectified.

Question 12

In respect of Mr. Hari, who is engaged in export of fabrics, information is flagged as per the risk management strategy formulated by the CBDT for A.Y.2019-20, A.Y.2020-21, A.Y.2021-22 and A.Y.2022-23. The income escaping assessment for these years aggregate to ₹ 42 lakhs. In respect of Mr. Hari's friend Mr. Rajesh, who is engaged in trading of commodities, a search was initiated u/s 132 in April, 2023. Can the Assessing Officer issue notice under section 148 to Mr. Hari and Mr. Rajesh in April, 2023? If so, in respect of which assessment years can notice be issued? Is it necessary that they be provided an opportunity of being heard before issuance of notice? Examine. (RTP May'22, MTP 4 Marks Sep'22)

Answer 12

In respect of Mr. Hari, the Assessing Officer has information suggesting that income has escaped assessment for the purposes of section 148 and 148A, since information has been flagged for the relevant assessment year as per risk management policy formulated by the CBDT. Notice can be issued for A.Y.2022-23, A.Y.2021-22 and A.Y.2020-21, since the three year time limit from the end of the relevant assessment year has not expired as on April, 2023. Such notice can be issued after conducting an enquiry, if required, with respect to the information suggesting escapement of income; and providing an opportunity of being heard to Mr. Hari by serving a show cause notice. Thereafter, on the basis of material available on record including the reply of Mr. Hari, in response to show cause notice, the Assessing Officer has to decide whether or not it is a fit case to issue notice under section 148 by passing an order, with the prior approval of Principal Commissioner or Principal Director or Commissioner or Director. However, notice cannot be issued in respect of A.Y.2019-20, since the three year time limit from the end of the relevant assessment year (i.e., from 31.3.2020) has since expired on 31st March, 2023. The extended time limit of 10 years from the end of the relevant assessment year cannot be invoked in this case to issue notice for A.Y.2019-20, since the income escaping assessment in respect of Mr. Hari is not ₹ 50 lakh or more for that year. In case of Mr. Rajesh, the Assessing Officer shall be deemed to have information suggesting that income has escaped assessment for three assessment years immediately preceding A.Y.2024-25, relevant to P.Y.2023-24 in which search is initiated. Hence, the relevant assessment years in respect of which the Assessing Officer can issue notice to Mr. Rajesh are A.Y.2023-24, A.Y.2022-23 and A.Y.2021-22. In this case, for the purpose of issue of notice u/s 148, there is no requirement to conduct an enquiry or provide an opportunity of being heard to Mr. Rajesh.

Chapter 15- Assessment Procedures

Direct Tax Compiler 11 attempts – Q 1 Page number 15.17

Correction: AY mentioned are wrong has been rectified.

For A.Y. 2020-21, XYZ Ltd. filed its return of income on 14.09.2020 declaring total income of Rs.80 Lakhs. The Assessing Officer issued notice under Section 143(2) to XYZ Ltd. on 23.09.2021 stating that there are certain points in connection with the return of income submitted by the Company on which he would like to seek some other information. The Company attended the assessment proceedings and the Assessment Order for A.Y. 2020-21 was passed under Section 143(3) by the Assessing Officer on 31.05.2023. Determine whether the said Assessment Order is barred by limitation.

- (a) Yes, the Assessment Order is barred by limitation as the time limit for passing Assessment Order expired on 31.12.2022.
- (b) Yes, the Assessment Order is barred by limitation as the time limit for passing Assessment Order expired on 31.03.2023.
- (c) No, the Assessment Order is not barred by limitation as the time limit for passing Assessment Order expires on 31.12.2023.
- (d) No, the Assessment Order is not barred by limitation as the time limit for passing Assessment Order expires on 31.03.2024. (2 Marks Mar'19)

Ans: (a)

Chapter 15- Assessment Procedures

Direct Tax Compiler 11 attempts – Q 11 Page number 15.18

Correction: AY mentioned are wrong has been rectified.

Mr. Shiv was travelling from Delhi to Jodhpur on 05.07.2023 carrying FDRs of ₹ 20 Lakhs. The said FDRs were seized by the police authorities and subsequently, requisitioned by the income-tax authorities u/s 132A. The requisition was made on 20.07.2023. Now, the Assessing Officer has issued notices to Shiv u/s 153A for A.Y. 2014-15 to A.Y. 2023-24. Whether the said notices issued by the Assessing Officer u/s 153A are valid?

- (a) Invalid. Notices can be issued u/s 153A in the present case by the Assessing Officer only for A.Y. 2018-19 to A.Y. 2023-24, since FDRs do not constitute an asset for the purpose of section 153A.
- (b) Invalid. Notices can be issued u/s 153A in the present case by the Assessing Officer for A.Y. 2018-19 to A.Y. 2024-25.
- (c) Notices are valid for A.Y. 2018-19 to A.Y. 2023-24. However, for A.Y. 2014-15 to A.Y. 2017-18, notices can be issued u/s 153A only if the Assessing Officer has any evidence which reveals that income, represented in form of asset is greater than or equal to ₹ 50 lakhs.
- (d) Notices are valid for A.Y. 2014-15 to A.Y. 2023-24 as notices in case of requisition can be issued for 10 assessment years immediately preceding the A.Y. relevant to the P.Y. in which requisition is made. (RTP May'19)

Ans: (c)

Chapter 9- Assessment of Various Entities

Direct Tax Compiler 11 attempts – Q 2 Page number 9.147

Correction: Answer has been amended

Mr. B has been holding 5% units in Investment Fund, 10% units in Real Estate Investment Trust, 7.5% units in Securitisation Trust for more than 15 months. The following incomes were earned by them during the P.Y. 2023-24 :

Particulars	Investment Fund (₹)	Real Estate Investment Trust (₹)	Securitisation Trust (₹)
Rental Income from owned asset	-	10,00,000	-
Interest income from Special Purpose Vehicle	-	8,00,000	-

Profit from Business	5,00,000	-	6,00,000
Other Income	2,00,000	1,00,000	-
Long-term capital loss	(12,50,000)	-	-

What would be the total income of Mr. B for P.Y. 2023-24 assuming apart from share of Mr. B in above income, Mr. B had only long-term capital gains of ₹ 2,70,000?

- (a) ₹ 4,42,500
- (b) ₹ 4,67,500
- (c) ₹ 4,52,500
- (d) ₹ 5,05,000 (MTP 2 Marks Oct '20)

Ans: (c)

Chapter 1- Basic Concepts

Direct Tax Compiler 11 attempts – Q 8 Page number 1.5

Correction: Answer has been amended

Mr. Mahesh is found to be the owner of two gold chains of 50 gms each (market value of which is ₹ 1,45,000 each) during the financial year ending 31.3.2024 but he could offer satisfactory explanation for ₹ 50,000 spent on acquiring these gold chains. As per section 115BBE, Mr. Mahesh would be liable to pay tax of –

- (a) ₹ 1,87,200
- (b) ₹ 2,26,200
- (c) ₹ 1,49,760
- (d) ₹ 1,80,960 (MTP 2 Marks Oct '20)

Ans: (b)

Chapter 19- Penalties

Direct Tax Compiler 11 attempts – Q 2 Page number 19.9

Correction: Answer has been amended. Duplicate questions removed

In the course of search operations under section 132 in the month of May, 2023, Mr. Anurag makes a declaration under section 132(4) on the earning of income not disclosed in respect of P.Y. 2022-23. He also explains the manner in which he has derived such income and he pays the tax together with interest on such income and declares such income in the return of income filed by him in the month of July, 2023. Is penalty leviable in this case?

- (a) No penalty is attracted since Mr. Anurag has voluntarily made a declaration under section 132(4).
- (b) Penalty@10% of undisclosed income would be attracted even if Mr. Anurag has voluntarily made a declaration under section 132(4).
- (c) Penalty@30% of undisclosed income would be attracted even if Mr. Anurag has voluntarily made a declaration under section 132(4).
- (d) Penalty@60% of undisclosed income would be attracted even if Mr. Anurag has voluntarily made a declaration under section 132(4). (MTP 1 Mark Mar'19)

Ans: (d)

Chapter 19- Penalties

Direct Tax Compiler 11 attempts – Q 6 Page number 19.10

Direct Tax Compiler 5 attempts – Q 2 Page number 19.5

Direct Tax Compiler 3 attempts – Q 1 Page number 19.3

Correction: Duplicate Question has been removed.

In the course of search operations under section 132 in the month of April, 2023, Mr. Atharv makes a declaration under section 132(4) on the earning of income not disclosed in respect of P.Y. 2022 -23. He also explains the manner in which he has derived such income and he pays the tax together with interest on such income and declares such income in the return of income filed by him in the month of June, 2023. Is penalty leviable in this case? If so, how much?

- (a) No penalty is attracted since Mr. Atharv has voluntarily made a declaration under section 132(4)
- (b) Yes; Penalty@30% of undisclosed income would be attracted even if Mr. Atharv has voluntarily made a declaration under section 132(4)
- (c) Yes; Penalty@10% of undisclosed income would be attracted even if Mr. Atharv has voluntarily made a declaration under section 132(4)
- (d) Yes; Penalty@60% of undisclosed income would be attracted even if Mr. Atharv has voluntarily made a declaration under section 132(4) (MTP 2 Mark Oct '22)

Ans: (b)

Chapter 19- Penalties

Direct Tax Compiler 11 attempts – Q 7 Page number 19.10

Correction: Answer is amended.

Mr. Ganesh and Mr. Rajesh, resident Indians aged 60 years and 80 years, respectively, have not furnished their returns of income for the P.Y.2022-23. However, the total income assessed in respect of such year under section 144 is ₹ 8 lakhs and ₹ 5 lakhs, respectively. Is penalty leviable under section 270A, and if so, what is the quantum of penalty? (RTP Nov'20)

- (a) No penalty is leviable under section 270A in the hands of either Mr. Ganesh or Mr. Rajesh
- (b) Yes; ₹ 36,400 and ₹ 5,200, respectively
- (c) Yes; ₹ 37,700 and ₹ 6,500, respectively
- (d) Penalty of ₹ 18,200 leviable in the hands of Mr. Ganesh; No penalty leviable in the hands of Mr. Rajesh.

Ans: (d)

Chapter 19- Penalties

Direct Tax Compiler 11 attempts – Q 2 Page number 19.9

Correction: Answer is amended.

Dinesh, a resident individual of age of 47 years, has not furnished his return of income for the A.Y. 2024-25. However, his total income for such year as assessed u/s 144 is Rs. 18 lakhs. Is penalty under section 270A attracted and if so, what is the quantum of penalty?

- (a) No; penalty under section 270A is not attracted since he has not filed his return of income, hence, this is not a case of underreporting or misreporting of income.
- (b) Yes; penalty is Rs. 3,66,600, assuming it is a case of underreporting of income
- (c) Yes; penalty is Rs. 1,24,800, assuming it is a case of underreporting of income
- (d) Yes; penalty is Rs. 1,44,300, assuming it is a case of underreporting of income (MTP 1 Mark Oct'19)

Ans: (c)

Chapter 13- Deduction, Collection & Recovery of Tax

Direct Tax Compiler 11 attempts – Q 32 Page number 13.44

Correction: Answer is changed and option a is amended.

1. M Ltd. and N Ltd. are Indian companies which have to pay interest of ₹ 2 lakhs and ₹ 1 lakh outside India to Mr. P, a non-resident, during the P.Y.2023-24 on rupee denominated bonds issued in January, 2023 and April, 2023, respectively. Which of the following statements are correct relating to liability of M Ltd. and N Ltd. to deduct tax at source on such interest payable to Mr. P? (RTP Nov'20)
- M Ltd. has to deduct tax at source @4.16% and N Ltd has to deduct tax at source @9.36%
 - Both M Ltd. and N Ltd. have to deduct tax at [source @5.2%](#)
 - M Ltd. does not have to deduct tax at source but N Ltd. has to deduct tax at [source@5.2%](#)
 - N Ltd. does not have to deduct tax at source but M Ltd. has to deduct tax at source@5.2%

Ans: (a)

Chapter 3- Profits & Gains from Business & Profession

Direct Tax Compiler 11 attempts – Q 2 Page number 3.27

Correction: Answer is amended.

1. Which of the following individuals would be entitled to opt for presumptive taxation schemes under the Income-tax Act, 1961 for A.Y.2024-25?
- A retail trader having turnover of Rs.2 crore during the previous year 2023-24
 - A practising CA having gross receipts of Rs.92 lakhs during the previous year 2023-24.
 - A wholesale trader having turnover of Rs.1.96 crore during the previous year 2023-24.
 - A doctor having gross receipts of Rs.50 lakhs during the previous year 2023-24
 - Individual owning 8 goods carriages as on 1.4.2023. He purchased 4 goods carriages on 1.5.2023 and sold 2 goods carriages on 1.7.2023.
- (i), (iii) & (iv)
 - (iii) & (v)
 - (i), (iii), (iv) & (v)
 - (i), (ii), (iii), (iv) & (v) (MTP 2 Marks Mar'19)

Ans: (a) **The answer is amended to (c)**

Chapter 3- Profits & Gains from Business & Profession

Direct Tax Compiler 11 attempts – Q 2 Page number 3.27

Correction: Answer is changed and options are amended.

Mr. Akash is engaged in the business of running motor cars on hire. His brother, Mr. Vikas, is a dentist. Mr. Akash and Mr. Vikas each purchased a motor car of the value of Rs.5 lakh on 1.11.2023 for their business/profession and put the same to use immediately. The written down value of motor cars as on 1.4.2023 may be taken as Rs.50 lakh for Mr. Akash and Nil for Mr.Vikas. What is the depreciation allowable in respect of motor cars to Mr. Akash and Mr. Vikas under section 32 for A.Y.2024-25, assuming both of them have not opted for section 115BAC? (MTP 2 Marks May '20)

- Rs.11,73,750 and Rs.69,375, respectively
- Rs.7,89,188 and Rs.58,970 respectively
- Rs.8,30,906 and Rs.89,250, respectively
- Rs.12,24,375 and Rs.1,27,500, respectively

Ans: (c)

Chapter 13- Deduction, Collection & Recovery of Tax

Direct Tax Compiler 11 attempts – Q 1 Page number 13.36

Correction: Options are amended and answer remains unchanged

PQR Ltd. took on sub-lease a building from Ms. Sara with effect from 1.7.2023 on a rent of Rs.20,000 per month. It also took on hire machinery from Ms. Sara with effect from 1.10.2023 on hire charges of Rs.15,000 per month. PQR Ltd. entered into two separate agreements with Ms. Sara for sub-lease of building and hiring of machinery. Which of the following statements are correct with reference to PQR Ltd.'s liability to deduct tax at source, assuming that one-month's rent was received as security deposit, which is refundable at the end of the lease period?

- (a) No tax needs to be deducted at source since rent for building does not exceed Rs.2,40,000 p.a. and rent for machinery also does not exceed Rs.2,40,000 p.a. Security deposit refundable at the end of the lease term is not rent for the purpose of TDS
- (b) Tax has to be deducted @10% on Rs. 2,00,000 and @2% on Rs. 1,05,000 (i.e., rent including security deposit).
- (c) Tax has to be deducted @10% on Rs.1,80,000 and @2% on Rs. 90,000 (i.e., rent excluding security deposit)
- (d) Tax has to be deducted @10% on Rs. 2,00,000 (i.e., rent including security deposit). However, no tax is to be deducted on rent of Rs.1,05,000 (i.e., rent including security deposit) for machinery, since the same does not exceed ` 1,80,000. (MTP 2 Marks Mar'19)

Ans: (c)

Chapter 13- Deduction, Collection & Recovery of Tax

Direct Tax Compiler 11 attempts – Q 27 Page number 13.43

Correction: Option d is amended

2. Mr. Rajesh and Mr. Brijesh, resident individuals, received ₹ 12 lakhs each on 31.3.2024 on maturity of life insurance policy taken on 31.3.2012 and 1.4.2012, respectively, the sum assured of which is ₹ 10 lakhs. They had paid an annual premium of ₹ 1.10 lakhs each. Are provisions of tax deduction at source attracted on maturity proceeds received by Mr. Rajesh and Mr. Brijesh? (RTP May'20)
- (a) Yes; Tax is deductible at source on maturity proceeds received by both Mr. Rajesh and Mr. Brijesh, since the annual premium is more than ₹ 1,00,000, being 10% of ₹ 10 lakhs.
 - (b) No; Tax is not deductible at source on maturity proceeds received by either Mr. Rajesh or Mr. Brijesh, since the annual premium is less than ₹ 1,20,000, being 10% of ₹ 12 lakhs.
 - (c) No tax is deductible at source on maturity proceeds received by Mr. Rajesh. Tax is deductible at source on maturity proceeds received by Mr. Brijesh and the tax deductible at source is ₹ 12,000
 - (d) No tax is deductible at source on maturity proceeds received by Mr. Rajesh. Tax is deductible at source on maturity proceeds received by Mr. Brijesh and the tax deductible at source is ₹ 10,500.

Ans: (d)

Chapter 22- DTAA

Direct Tax Compiler 11 attempts – Q 1 Page number 22.37

Correction: Option d is amended

1. Shaurya, resident in India, has earned an income of Rs.4 lakh by way of lump sum consideration for copyright of a book, being a work on literary from a publisher in Country E, with which India does not have a DTAA. The same has been taxed at a flat rate of 5% in Country E. In India, his gross total income is Rs.7 lakhs. The double taxation relief available is
- (a) Rs.20,000
 - (b) Rs.7,725
 - (c) Rs.1,950
 - (d) NIL (MTP 1 Mark Apr'19)

Ans: (d)

Chapter 29- Case Scenarios

Direct Tax Compiler 11 attempts – CS 3 (iii) Page number 29.3

Correction: Options & Answers are amended

What would be amount of tax payable on capital gain arising on slump sale in the hands of X Ltd. assuming X Ltd. is opting for section 115BAA?

- (a) Rs. 22,75,430
- (b) Rs. 24,69,317
- (c) Rs. 25,38,550
- (d) Rs. 27,92,305 (MTP 2 Marks Mar'21)

Answer The Answer is (c)

Chapter 29- Case Scenarios

Direct Tax Compiler 11 attempts – CS 26 (iii) Page number 29.42

Correction: Options & Answers are amended

What would be the tax liability of A Ltd. for A.Y.2024-25, if it avails the beneficial tax rates under the special provisions inserted by the Taxation Laws (Amendment) Act, 2019 in the Income-tax Act, 1961 by fulfilling the conditions specified thereunder? Assume that the gross total income reflects the computation under the special provisions.

- (a) ₹ 1,23,32,320
- (b) ₹ 59,89,980
- (c) ₹ 14,59,740
- (d) ₹ 9,95,280

(Chapter – Basic Concepts)

Answer

The Answer is (c)

Chapter 29- Case Scenarios

Direct Tax Compiler 11 attempts – CS 29 (ii) Page number 29.49

Direct Tax Compiler 5 attempts – CS 17 (ii) Page number 29.27

Correction: Options & Answers are amended

What is the deduction allowable under section 80M to A Ltd. for A.Y.2024-25?

- (a) ₹ 6,00,000
- (b) ₹ 7,00,000
- (c) ₹ 9,20,000
- (d) ₹ 13,00,000 (Deduction from Gross Total Income)

Answer

The Answer is (b)

Chapter 22- DTAA

Direct Tax Compiler 11 attempts – Q6 Page number 10.38

Direct Tax Compiler 5 attempts – Q3 Page number 10.19

Correction: Typing error in the options and the answer

1. PoorAid is a charitable trust registered under section 12AB. Its main object is relief of poor. During the P.Y.2023-24, it received ₹ 50 lakhs by way of corpus donations, out of which it invested 85%, i.e., ₹ 42.50 lakhs in post office savings bank account. It was of the view that ₹ 7.50 lakhs, being 15% of ₹ 50 lakhs, is eligible for unconditional accumulation. The trust also withdrew ₹ 2.50 lakhs out of ₹ 42.50 lakhs deposited in post office savings bank account and applied the same for relief of the poor. Examine the tax implications, if any, based on the above facts.
- The trust is eligible for unconditional accumulation of ₹ 7.50 lakhs, being 15% of ₹ 50 lakhs. There would be no tax liability on the said amount.
 - The trust would be eligible to treat ₹ 2.50 lakhs withdrawn from post office savings bank account as application for the purposes of the trust.
 - The trust will not be eligible for benefit of exemption of ₹ 7.50 lakhs unless it invests such amount in any of the modes specified in section 11(5).
 - Amount of ₹ 2.50 lakhs withdrawn from post office savings bank account cannot be treated as application
- Which of the above statements are correct?
- (i) and (ii)
 - (ii) and (iii)
 - (iii) and (iv)
 - (i) and (iv) (RTP May'22)

Ans: (c)

Chapter 1-Basic Concepts

Direct Tax Compiler 11 attempts – Q3 Page number 1.3

Direct Tax Compiler 5 attempts – Q3 Page number 1.3

Direct Tax Compiler 3 attempts – Q3 Page number 1.3

Correction: Typing error in Answer in the figure across row "Less: Standard deduction under section 16(ia)" the amount is Rs 22,50,000 not 2,50,000.

Chapter 9-Assessment of Various Entities

Direct Tax Compiler 11 attempts – Q33 Page number 9.81

Direct Tax Compiler 5 attempts – Q20 Page number 9.48

Direct Tax Compiler 3 attempts – Q12 Page number 9.27

Correction: Answer is rectified.

Question

SF Ltd. is engaged in manufacturing and sale of pharmaceutical products. The net profit of the company as per statement of profit and loss for the year ended 31st March, 2024 is ₹ 930 lakhs, after debiting or crediting the following items:

- (i) The opening and closing stock for the year were ₹ 66 lakhs and ₹ 63 lakhs respectively. Opening stock was overvalued by 10% and Closing stock was undervalued by 10%.
- (ii) Payment of ₹ 65 lakhs on 15th October 2023 to a foreign company for obtaining know how for a product launched in the month of November 2023.
- (iii) Profit on sale of 2200 shares of M/s. MS Ltd., a listed company ₹ 2,97,000. These shares were sold on 27.11.2023 for ₹ 220 per share. The highest price of MS Ltd. quoted on the stock exchange as on 31.01.2018 was ₹ 195 per share. The said shares were acquired for ₹ 85 per share on 12.08.2016. STT was paid both at the time of purchase and sale of shares.
- (iv) Electricity charges of ₹ 8 lakhs for the month of February 2024 and March 2024 was unpaid up to the due date of filing of return.
- (v) Loss of ₹ 2.2 lakhs due to hedging contract against future price fluctuations in respect of import of raw material, used in the course of manufacturing.
- (vi) Depreciation charged to the Statement of Profit and Loss was ₹ 48 lakhs.
- (vii) Credits to statement of Profit and Loss include dividend of ₹ 5,20,000 received on September 9, 2023, from a foreign company, in which it holds 30% voting rights.
- (viii) ₹ 32 lakhs received from Zen Ltd. under an agreement in the form of non-compete fees for not carrying out any business in a particular product.
- (ix) Advance received amounting to ₹ 22 lakhs on proposed sale of land, forfeited due to non-receipt of balance amount of ₹ 70 lakhs on time, as per terms of agreement. The land was purchased during FY 2019-20.
- (x) Excess on sale of unlisted shares - ₹ 23 lakhs (Sold on 18th January 2024).
- (xi) Loss of ₹ 2 lakh from hedging contracts entered into for mitigating the loss arising due to fluctuation in foreign currency payment towards an imported machinery purchased from Japan for ₹ 70 lakhs, which was installed and put to use in the month of November 2023.

Additional Information:

- (1) Normal depreciation allowable as per the Income-tax Act, 1961 ₹ 35 lakhs.
- (2) Depreciation on plant and machinery imported and installed during November 2023 and on technical know-how has not been considered while calculating normal depreciation as per Income-tax Act, 1961 given in (1) above.
- (3) During the year F.Y. 2023-24, the company has employed 59 additional employees. All these employees contribute to a recognized provident fund. 36 out of 59 employees joined on 1-6-2023 on a salary of ₹ 15,000 per month, 18 joined on 1-7-2023 on a salary of ₹ 35,200 per month, and 5 joined on 1-11-2023 on a salary of ₹ 22,000 per month. The salaries of 10 employees who joined on 1-6-2023 are being settled by bearer cheques every month. Audit under section 44AB has been done before the due date.
- (4) The unlisted shares were acquired on 18.2.2018 for ₹ 80 lakhs.
- (5) Cost Inflation Index F.Y. 2016-17 - 264, F.Y. 2017-18 - 272, F.Y. 2022-23- 331, **FY 2023-24- 348**

You are required to compute the total income and tax liability of the company for the A.Y.2024-25 clearly stating the reasons for treatment of each of the items given above. The return of income of the company is to be filed applying the provisions of section 115BAA. (RTP May '23)

(The fair value of shares has been changed from Rs 98,00,000 to Rs. 1,03,00,000 to keep the essence of the question)

Answer

Computation of total Income and tax liability of SF 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		9,30,00,000

	Add: (i) Stock valuation adjustments		
	Overvaluation of opening stock [₹ 66,00,000 x 10/110]	6,00,000	
	Undervaluation of closing stock [₹ 63,00,000 x 10/90]	7,00,000	
	Add: Items debited but to be considered separately or to be disallowed		
	(ii) Payment towards know-how for a product [Payment towards obtaining know-how is capital expenditure i.e., an intangible asset and eligible for depreciation. Since the same is debited in statement of profit and loss, it has to be added back]	65,00,000	
	(iv) Electricity charges unpaid upto the due of filing return of income	-	
	[Electricity charges are not included within the scope of section 43B2, therefore no disallowance would be attracted. Since the same is already debited in statement of profit and loss, no further adjustment is required]		
	(v) Loss due to hedging contract in respect of raw material	-	
	[Loss due to hedging contract against future price fluctuations in respect of import of raw material for manufacturing is not deemed to be speculative transaction. Hence, the same is allowable as deduction while computing income from manufacturing. Since the same is already debited in statement of profit and loss, no further adjustment is required]		
	(vi) Depreciation as per books of account	48,00,000	
	(xi) Loss from hedging contract in respect of imported machinery from Japan	2,00,000	
	[Loss from hedging contracts entered for mitigating loss arising due to fluctuation in foreign currency payment towards import of machinery has to be added to the actual cost of the machinery as per section 43A. Since the same is wrongly debited to statement of profit and loss, same has to be added back].		
	AI(3) Salary paid to employees through bearer cheques	15,00,000	
	[Salary paid through bearer cheques (10 employees x ₹ 15,000 x 10 months) will attract disallowance u/s 40A(3) and hence, the same has to be added back]	-	1,43,00,000
			10,73,00,000
	Less: Items credited but chargeable to tax under other head/ expenses allowed but not debited		

	(iii) Profit on sale of shares of M/s MS Ltd. [Capital Gain arising on sale of shares of MS Ltd. is taxable under the head "Capital Gains". Since the profit on sale of shares has been credited to the statement of profit and loss, the same has to be deducted while computing business income]	2,97,000	
	(vii) Dividend received from foreign company [Dividend income from foreign company is taxable under the head "Income from other sources". Since the said dividend has been credited to the statement of profit and loss, the same has to be deducted while computing business income]	5,20,000	
	(viii) Non-compete fees for not carrying out any business in a particular product	-	
	[Non-compete fees for not carrying out any business in a particular product would be chargeable to tax as business income under section 28(va). Since the same is already credited in statement of profit and loss, no further adjustment is required]		
	(ix) Advance forfeited in respect of sale of land	22,00,000	
	[With effect from A.Y.2015-16, advance forfeited in respect of sale of land due to non- receipt of balance amount of consideration would be taxable under the head "Income from other sources". Since the same has been credited to the statement of profit and loss, the same has to be deducted while computing business income]		
	(x) Profit on sale of unlisted shares	23,00,000	
	[Profit on sale of unlisted shares is taxable under the head "Capital Gains". Since profits have been credited to the statement of profit and loss, the same has to be deducted while computing business income]		53,17,000
			10,19,83,000
	Less: Depreciation as per Income-tax Act, 1961 [other than imported plant & machinery and know-how]	35,00,000	
	Depreciation on:	₹	
	Plant & Machinery imported	70,00,000	
	Add: Loss on hedging contract	2,00,000	
		72,00,000	
	- Normal depreciation @7.5% of ₹ 72,00,000 [only 50% of the 15% allowable since machinery is put to use for less than 180 days]	5,40,000	
	- Additional depreciation not allowable, since company is opting for section 115BAA	-	
	Know-how @ 12.5% of ₹ 65,00,000 [50% of 25% since know how was obtained on 15th October 2023, which is used for less than 180 days]	8,12,500	48,52,500
			9,71,30,500

II	Capital Gains			
	Long term capital gain on sale of unlisted shares [Since shares were held for more than 24 months]			
	Full value of consideration [₹ 18,00,000 + ₹ 80,00,000]	1,03,00,000		
	Less: Indexed cost of acquisition [80,00,000 x 348 /272]	1,02,35,294	64,706	
	Long term capital gain on sale of listed shares of M/s. MS Ltd. [Since shares were held for more than 12 months]	₹		
	Full value of consideration (2,200 x ₹ 220)	4,84,000		
	Less: Cost of acquisition [Higher of (i) and (ii) below]	4,29,000	55,000	
	(i) Actual cost of acquisition ₹ 1,87,000 (2,200 x ₹ 85)			
	(ii) ₹ 4,29,000, being lower of fair market value as on 31.1.2018 (i.e., ₹ 4,29,000, being 2,200 x 195) and sale consideration (i.e., ₹ 4,84,000)			1,19,706
III	Income from Other Sources			
	Advance forfeited on sale of land		22,00,000	
	Dividend from foreign company		5,20,000	27,20,000
	Gross Total Income			9,99,70,206
	Less: Deduction under section 80JJAA [Deduction under section 80JJAA is allowable though company is opting for concessional tax rate under section 115BAA. For computation of amount, see working note below]			11,70,000
	Total income			9,88,00,206
	Total income (rounded off)			9,88,00,210

CIT vs Andhra Ferro Alloys (P.) Ltd. (2012) 349 ITR 255 (AP)

Computation of tax liability of SF Ltd. for the A.Y. 2024-25 u/s 115BAA

Particulars	₹
Tax on long-term capital gains u/s 112A would be nil, since such gain does not exceed ₹ 1 lakh	Nil
Tax on long term capital gain @20% under section 112 on unlisted shares [₹ 64,706 x 20%]	12,941
Tax on remaining income including dividend received from foreign company @22% remaining income is ₹ 9,86,80,504 [₹ 9,88,00,210 – ₹ 55,000 – ₹ 64,706]	2,17,09,711
	2,17,22,652
Add: Surcharge@10%	21,72,265
	2,38,94,917
Add: Health and education cess@4%	9,55,797
Tax liability	2,48,50,714
Tax liability (rounded Off)	2,48,50,710

Working Note - Computation of deduction u/s 80JJAA

No of eligible additional employees [59 (-) 18 (-) 5 = 36] [18 employees who joined on 1.7.2023 do not qualify as “additional employees” since their monthly emoluments exceed ₹ 25,000 and 5 employees who joined on 1.11.2023 also do not qualify as additional employees, since they have not employed for more than 240 days during the P.Y.2023-24]. In respect of these 5 employees deduction in respect of their additional employee cost would eligible for deduction in subsequent previous year. Additional employee cost means the total emoluments paid or payable to additional employees employed during the P.Y.2023-24. However, the additional employee cost in respect of 10 employees who joined on 1.6.2023, whose salary is paid by bearer cheque would be Nil.	36
Additional employee cost [₹ 15,000 x 26 employees (36 - 10) x 10 months] = ₹ 39,00,000	₹ 39,00,000
Eligible deduction = 30% of ₹ 39,00,000	₹ 11,70,000

Chapter 15- Assessment Procedures

Direct Tax Compiler 11 attempts – Q13 Page number 15.18

Direct Tax Compiler 5 attempts – Q3 Page number 15.10

Direct Tax Compiler 3 attempts – Q2 Page number 15.7

Correction: Amendment not present, answer is changed.

- Mr. Aakash filed his original return of income under section 139(1) for A.Y.2023 -24 and A.Y.2024-25 on 31.7.2023 and 31.7.2024, respectively. He however filed an updated return of income under section 139(8A) for A.Y.2023-24 on 31.10.2024. What is the time limit for completion of assessment under section 143(3) in respect of A.Y.2023-24 and A.Y.2024-25? (RTP May'23)
 - 31.12.2024 and 31.12.2025, respectively
 - 31.03.2026, in both cases
 - 31.12.2026 and 31.12.2025, respectively
 - 31.12.2025 and 31.12.2026, respectively

Ans: (b) (As per amendment 12 months from the end of the relevant AY)

Chapter 15- Assessment Procedures

Direct Tax Compiler 11 attempts – Q13 Page number 15.8

Direct Tax Compiler 5 attempts – Q3 Page number 15.5

Direct Tax Compiler 3 attempts – Q5 Page number 15.4

Correction: Typing mistake in AYs.

Question 5

Mr. Ram, who gets his accounts audited under section 44AB filed his original return of income under section 139 for A.Y.2020-21 on 28.12.2020 declaring income of ₹ 12 lakhs and for A.Y.2021-22 on 31.10.2021 declaring loss of ₹ 5 lakhs.

- He wants to file an updated return of income under section 139(8A) for A.Y.2021 -22 on

30.11.2022 declaring total income of ₹ 7 lakhs. Can he do so? Examine.

- (ii) Based on your answer to (i), what would be the time limit for completion of assessment under section 143(3) in respect of A.Y.2020-21 and A.Y.2021-22 (RTP Nov '23)**

Answer 5

- (i) Yes, he can do so. If a person has a loss in any previous year and has furnished a return of loss under section 139(3) on or before the due date of filing return of income u/s 139(1), he shall be allowed to furnish an updated return, if such updated return is a return of income. Accordingly, in this case, since the original return of Mr. Ram was filed on the due date u/s 139(1) i.e., on 31.10.2022, he can file an updated return within 2 years from the end of A.Y.2021-22, i.e., on or before 31.3.2024. Accordingly, he can file an updated return of income on 30.11.2025 declaring total income of ₹ 7 lakhs, after paying tax due on such total income along with interest under section 234B and section 234C and additional income-tax at 25% of aggregate of tax and interest payable (since the updated return is filed before 31.3.2023, i.e., before 12 months from the end of A.Y.2021-22).
- (ii) The time limit for completion of assessment for A.Y.2020-21 would be 30.9.2022, being 18 months from the end of the assessment year.
 The time limit for completion of assessment for A.Y.2021-22 would be 31.12.2023 i.e., 9 months from the end of F.Y.2022-23, being the financial year in which the updated return was furnished

Chapter 3- Profits & Gain from Business & Profession

Direct Tax Compiler 11 attempts – Q10 Page number 3.29

Direct Tax Compiler 5 attempts – Q1 Page number 3.8

Correction: In changing the AYs the rate of variation allowable between the stamp duty value and actual sale consideration value had been raised from 10% to 20%. However, the said provision was invoked for the period November 12, 2020, to June 30, 2021, in the case of residential properties costing up to Rs 2 crore, that has since been changed to 10% but the same was not incorporated when the AY was changed. Hence answer is changed to d.

Chapter 21- Non-Resident Taxation

Direct Tax Compiler 11 attempts – Q29 Page number 21.27

Direct Tax Compiler 5 attempts – Q1 Page number 3.8

Question 29

Cherry Ltd., a non-resident German company, has the following incomes in India during the year ended on 31.03.2024:

- (i) Dividend income of ₹ 12,50,000 from XY Ltd., an Indian company listed on recognized stock exchange.
- (ii) 8% debentures of ₹ 20,00,000 received from X Ltd., an Indian Company, on October 1, 2023, in consideration of providing technical knowhow (date of payment of interest being March 31 every year).
- (iii) Dividend received ₹ 5,50,000 on Global Depository Receipts of Y Ltd., an Indian company, issued under a scheme of Central Government against the initial issue of shares of the company and purchased by Cherry Ltd. in foreign currency through an approved intermediary.
- (iv) Business Income of ₹ 8,00,000 from a unit established at Mumbai.
- (v) Income by way of royalty (other than referred to in section 44DA) amounting to ₹ 10,00,000, received from Z Ltd., an Indian company, in pursuance of an agreement approved by Central Government. As per DTTA between the two countries, such royalty is taxable @12%. With brief reasons for the treatment of the above incomes, you are required to compute the tax liability of Cherry Ltd. for the Assessment Year 2024-25. (PYP 6 Marks Jul'21)

Answer 29
Computation of total income and tax liability of Cherry Ltd., a non-resident German company, for the A.Y. 2024-25

Particulars	₹
Business Income from a unit established at Mumbai	8,00,000
Income from other sources	
- Dividend income from XY Ltd. an Indian company	12,50,000
- Fees for technical services [would be equivalent to the amount of debentures of ₹ 20,00,000 received from an Indian company, issued in consideration of providing technical knowhow]	20,00,000
- Interest on Debentures [₹ 20,00,000 x 8% x 6/12]	80,000
- Dividend on Global Depository Receipts (GDRs) of Y Ltd. an Indian company, issued under a scheme of Central Government against the initial issue of Y Ltd. and purchased in foreign currency by Cherry Ltd. [₹ 5,50,000 x 100/89.6, since tax would have been deducted at source @ 10.4%]	6,13,839
- Royalty income received from Z Ltd. an Indian company in pursuance of an agreement approved by Central Government [₹10,00,000 x 100/79.2, since tax would have been deducted at source @ 10.4% 20.8%]	11,16,071 12,62,626
Gross Total Income/ Total income	60,06,465
Computation of tax liability	
Dividend income of ₹ 12,50,000, taxable @20% u/s 115A	2,50,000
Dividend on GDRs of ₹ 6,13,839, taxable @10% u/s 115AC	61,384
Royalty income of ₹ 11,16,071 12,62,626 , taxable @ 10% 20% u/s 115A, since it is in pursuance of an agreement approved by the Central Government	1,11,607 2,52,525
FTS of ₹ 20,00,000, taxable @40%, since it is not in pursuance of an agreement approved by the Central Government	8,00,000
Interest on debentures of ₹ 80,000, taxable @40%, since debt is incurred in Indian currency, it is not eligible for concessional rate of 20% u/s 115A	32,000
Business income of ₹8,00,000 [taxable @40%]	3,20,000
	17,15,909
Add: Health and education cess@4%	68,636
Tax liability ³	17,84,545
Tax liability (rounded off)	17,84,540

Chapter 3- Profits & Gains from Business & Profession
Direct Tax Compiler 11 attempts – Q2 Page number 4.3

Correction- Calculation Error in part (iii) has been changed

Question 2

PQR Ltd. is a company in which the whole of its share capital was held by LMN Ltd. Both PQR Ltd. and LMN Ltd. are Indian companies. PQR Ltd. had made investment in shares of Berkley Ltd. in 1992 for ₹ 7,00,000 which it sold to LMN Ltd. on April 1, 2010 for a consideration of ₹ 42,00,000. The fair market value of these shares of Berkley Ltd., as on April 1, 2001 is ₹ 32,00,000. LMN Ltd. disinvested 7% of the shares held by it in PQR Ltd., in November 2023 by sale to public. It sold the shares in Berkley Ltd. acquired by it from PQR Ltd. in February, 2024 for a sum of ₹ 95,00,000. Examine the capital gains tax effect of these transactions in the hands of PQR Ltd. and LMN Ltd. in the relevant assessment years, presuming that the shares of Berkley Ltd. are unlisted shares. The cost inflation index for the F.Y.2010-11 is 167 and F.Y.2023-24 is 348. (RTP Nov'19)

Answer 2
(i) Sale of shares of Berkley Ltd. by PQR Ltd. to LMN Ltd. on 1.4.2010

Since LMN Ltd. is an Indian company which holds 100% of shares of PQR Ltd., the transfer of capital asset, namely, shares of Berkley Ltd., by PQR Ltd. to LMN Ltd. would not be treated as a transfer for attracting capital gains tax liability as per section 47(v).

Hence, no capital gains tax would have been attracted on such transfer in the hands of PQR Ltd.

(ii) Disinvestment by LMN Ltd., of 7% shares held in PQR Ltd. in November, 2023

As per section 47A(1), where a holding company ceases to hold 100% of shares of the subsidiary company before the expiry of a period of eight years from the date of transfer of capital asset, the amount of capital gains not charged to tax at the time of transfer would be deemed to be income chargeable under the head "Capital gains" of the previous year in which such transfer took place.

However, in this case, the above deeming provision would not apply because the eight year period from the date of transfer expires on 31.3.2018 and the disinvestment by LMN Ltd. of 7% shares held in PQR Ltd. was only in November, 2023.

(iii) Sale of shares of Berkley Ltd. by LMN Ltd. in February 2024

This transaction would attract capital gains tax in the hands of LMN Ltd. for the A.Y.2024-25. The capital gains would be long-term, since the period of holding is more than 24 months.

The cost of acquisition to PQR Ltd. in the year 1992 (i.e., ₹ 7,00,000) or the fair market value as on 1.4.2001 (₹ 32,00,000), whichever is higher, would be deemed as the cost of acquisition in the hands of LMN Ltd.

Computation of capital gains in the hands of LMN Ltd.

Particulars	₹
Sale consideration	95,00,000
Less: Indexed cost of acquisition [₹ 32,00,000 x 348/100]	1,11,36,000
Long-term capital gain/ (loss)	(16,36,000)
Tax on long term capital gains @ 20.8% (₹ 5,40,000 x 20.8%)	1,12,320

Chapter 10- Charitable Trusts
Direct Tax Compiler 11 attempts – Q19 & Q21 Page number 10.21 & 10.25

Correction- As per notification issued in May 2024 only 85% of donation to another trust is considered Application of Funds

Answer 19
Computation of total income of Asma Rani Public Charitable Trust for the A.Y.2024-25

Particulars	₹ in lakhs	₹ in lakhs
Gross receipts from Hospital (other than voluntary contribution of ₹ 20 lakhs)		540.000
Gross receipts from Rehabilitation Centre		220.000
Grant received from State Govt. [See Note 3 below]		7.500
Fees not realized from patients as at 31.3.2024 (not includible, since trust follows cash system of accounting)		-
Add: Voluntary contributions other than corpus donations of ₹ 10 lakhs		767.500
		10.000
Add: Anonymous donations [to the extent not chargeable to tax @ 30% u/s 115BBC(1)(i)] [See Notes 1 & 2 below]		777.500
		1.400
		778.900
Less: 15% of income eligible for being set apart without any condition ⁴		116.835

		662.065
Less: Amount applied for charitable purposes		
- On revenue account – Administrative expenses: For Hospital (Out of ₹ 335 lakhs, ₹ 3.6 lakhs, being 30% of 12 lakhs, would be disallowed, since tax is not deducted u/s 192 & 194C on such amount paid to resident doctors & contractors)	331.40	
For Rehabilitation Centre	138.00	
- On capital account – Land & Building [Section 56(2)(x) is not attracted in respect of value of property received by a trust or institution registered u/s 12AA]	150.00	
- Donation to Jan Kalyan Trust registered u/s 12AA [allowable since the same is out of current year income of the trust, even though the objects of the trust are different. Only corpus donations are not permissible to other trusts registered u/s 12AA. Thus, out of ₹ 11 lakhs, ₹ 5 lakhs towards corpus are not allowable as deduction.] <i>(As per amendment only 85% is considered as application of funds hence 85% of 6 lakhs is allowed which is Rs 5.10 lakhs)</i>	6.00 5.10	
- Repayment of loan taken earlier for construction of Rehab. Centre	6.65	631.150
		30.915
Less: Amount set apart for acquiring another table & equipment for OT ₹ 25 lakhs would be treated as application for the previous year 2023-24 to the extent of ₹ 15 lakhs, being the amount of investment made in units of UTI, a mode prescribed u/s 11(5)		15.000
Total income [other than anonymous donation taxable@30% under section 115BBC(1)(i)]		15.915
Add: Anonymous donation taxable @30% u/s 115BBC(1)(i) [See Note 2 below]		6.600
Total Income of the trust (including anonymous donation taxable@30%)		22.515

Computation of tax liability of the trust for the A.Y. 2024-25

Particulars	₹
Tax on total income [Excluding anonymous donations]	2,89,950
[₹ 5,91,500 x 30% + ₹ 1,12,500]	
Tax on anonymous donations taxable@30% [₹ 6,60,000 x 30%]	1,98,000
	4,87,950
Add: Health and education cess @4%	19,518
Total tax liability	5,07,468
Total tax liability (rounded off)	5,07,470

Notes:

- (1) As per section 115BBC(1)(i), the anonymous donations in excess of the higher of the following would be subject to tax@30%;
- ₹ 1.40 lakh, being 5% of the total donations received i.e., 5% of ₹ 28 lakh [Voluntary contributions including Corpus donations ₹ 20 lakhs (+) Anonymous donations ₹ 8 lakhs]; or
 - ₹ 1 lakh
- Therefore, anonymous donations of ₹ 6.60 lakh (₹ 8 lakh – ₹ 1.4 lakh) would be subject to

- tax@30% under section 115BBC(1)(i). Such anonymous donations which are subject to tax@30% are not eligible for the benefit of exclusion from total income under sections 11 and 12
- (2) As per the plain reading of section 13(7), it appears that the entire anonymous donations may not be eligible for benefit of exclusion from total income under sections 11 and 12. If this view is taken, then ₹ 1.40 lakhs should not be added to ₹ 777.50 lakhs for 15% unconditional exemption. Accordingly, ₹ 116.625 lakhs, being 15% of ₹ 777.50 lakhs would be the income eligible for accumulation without any condition. Computation of total income and tax liability would, accordingly, change.
 - (3) Grants of ₹ 7.50 lakhs received from State Govt. are not included in the total donations, in the above solution, while computing the limit of 5% of total donations u/s 115BBC(1). This view is taken since Govt. grants are generally given subject to stipulated conditions. However, in Income-tax Form ITR-7, Government grants are included in the total donations for the purpose of computing limit of 5% of total donations u/s 115BBC(1). Hence, the solution can also be worked out by including government grants in total donations for computing the limit of 5% of total donations.
 - (4) As per amendment: From FY 2020-21, Any amount credited or paid, out of income to any university or other educational institution or any hospital or other medical institution referred to in sec 10(23C)(iv)(v)(vi)(via) being contribution with a specific direction that it shall form part of the corpus, shall not be treated as application of income for charitable or religious purposes. Therefore, now NO deduction if Corpus donation is given to both, trust u/s 12AA and Institutions etc u/s 10(23C).

Answer 21

Computation of total income of Tulsi Foundations for the A.Y.2024-25

Particulars	₹	₹
Gross receipts from hospitals		2,00,00,000
Add: Voluntary contributions other than corpus donation and anonymous donation		20,00,000
Corpus donation [does not form part of total income]		Nil
Anonymous donations for temple [not subject to tax u/s 115BBC]		8,00,000
		2,28,00,000
Add: Anonymous donations other than for temple [to the extent not chargeable to tax@30% u/s 115BBC(1)(i)] [₹1,75,000, being 5% of total donations of ₹35,00,000 or ₹1,00,000, whichever is higher] [See Note 1 at the end of the solution]		1,75,000
Less: 15% of income eligible for being set apart without any condition [See Note 2 at the end]		2,29,75,000
		34,46,250
Less: Amount applied for charitable purposes		1,95,28,750
- Operational expenses incurred for hospital and temple [₹ 94 lakhs + ₹ 15 lakhs – ₹ 6,00,000 not treated as application as payment to contractor made in cash ⁴]	1,03,00,000	
- Purchase of computer [it is beneficial for the trust to claim cost of computer itself as application of income in the year asset is acquired. If the cost of asset is claimed as application, then, depreciation will not be allowed as deduction as per section 11(6)]	25,00,000	
- Donation to charitable trust registered u/s 12AA allowable as application, since it is not given with a specific direction that it shall form part of corpus of the trust nor is it given out of accumulated income (As per amendment only 85% is considered as application of	12,00,000 10,20,000	

<i>funds hence 85% of 12 lakhs is allowed which is Rs 10,20,000)</i>		
		1,38,20,000
Total income [other than anonymous donation taxable@30% under section 115BBC(1)(i)]		57,08,750
Add: Anonymous donation taxable @30% u/s 115BBC(1)(i) [See Note at the end of the solution]		25,000
Total Income of the trust		57,33,750

Computation of tax liability of the trust for the A.Y. 2024-25

Particulars	₹
Tax on total income of ₹ 55,28,750 i.e., total income [excluding anonymous donations of ₹ 25,000 chargeable to tax @30% u/s 115BBC(1)(i)] [₹ 47,08,750 x 30% plus ₹ 1,12,500]	15,25,125
Tax on anonymous donations taxable@30% [₹ 25,000 x 30%]	7,500
	15,32,625
Add: Surcharge@10%, since total income exceeds ₹ 50 lakhs but does not exceed ₹ 1 crore.	1,53,263
	16,85,888
Add: Health and Education cess @4%	67,436
Total tax liability	17,53,324
Total tax liability (rounded off)	17,53,320
Note - To avail the maximum benefit, the amount of ₹ 54,58,750 (i.e., Total income excluding anonymous donation taxable@30% u/s 115BBC i.e., ₹ 57,08,750 – ₹ 2,50,000, being the basic exemption limit) can be accumulated or set apart for such period not exceeding 5 years by exercising an option on or before the due date for filing return of income and such amount should be invested in modes specified u/s 11(5).	

Notes:

- (1) As per section 13(7), anonymous donations subject to tax@30% under section 115BBC are not eligible for 15% unconditional exemption. However, the plain reading of section 13(7) may give rise to an alternate view that the anonymous donations referred to in section 115BBC(1)(i) and (ii) may not be eligible for benefit of exclusion from total income under sections 11 and 12. If this view is taken, then ₹ 1,75,000 should not be added to ₹ 228,00,000 for 15% unconditional exemption.
- (2) As per the Supreme Court ruling in CIT v. Programme for Community Organisation (2001) 116 Taxman 608, 15% of gross receipts would be eligible for accumulation under section 11(1)(a). Accordingly, in the above solution, 15% of gross receipts has been considered. However, as per the plain reading of section 11(1), only 15% of income can be set apart without any conditions. On the basis of alternate views arising due to reasons stated in notes (1) & (2) above, three alternative solutions have been worked out below -

Alternative Answer 1 [Based on alternate view in Note 2]

Computation of total income of Tulsi Foundations, a public charitable and religious trust, for the A.Y.2024-25

Particulars	₹	₹
Gross receipts from hospitals		2,00,00,000
Add: Voluntary contributions other than corpus donation and anonymous donation		20,00,000
Corpus donation [does not form part of total income]		Nil
Anonymous donations for temple [not subject to tax u/s 115BBC]		8,00,000

Less: Operational Expenses [₹ 94 lakhs + ₹ 15 lakhs – ₹ 6 lakhs not treated as application as payment to contractor made in cash]		2,28,00,000
		1,03,00,000
Add: Anonymous donations other than for temple [to the extent not chargeable to tax@30% under section 115BBC(1)(i)] [₹ 1,75,000, being 5% of total donations of ₹ 35,00,000 or ₹ 1,00,000, whichever is higher]		1,25,00,000
		1,75,000
Less: 15% of income eligible for being set apart without any condition		1,26,75,000
		19,01,250
Less: Amount applied for charitable purposes		1,07,73,750
- Purchase of computer [it is beneficial for the trust to claim cost of computer itself as application of income in the year asset is acquired. If the cost of asset is claimed as application, then, depreciation will not be allowed as deduction as per section 11(6)]	25,00,000	
- Donation to charitable trust registered u/s 12AA allowable as application, since it is not given with a specific direction that it shall form part of corpus of the trust nor is it given out of accumulated income (As per amendment only 85% is considered as application of funds hence 85% of 12 lakhs is allowed which is Rs 10,20,000)	12,00,000 10,20,000	35,20,000
Total income [other than anonymous donation taxable@30% under section 115BBC(1)(i)]		72,53,750
Add: Anonymous donation taxable @30% u/s 115BBC(1)(i)		25,000
Total Income of the trust		72,78,750

Computation of tax liability of the trust for the A.Y. 2024-25

Particulars	₹
Tax on total income of ₹ 72,53,750 i.e., total income [excluding anonymous donations of ₹ 25,000 chargeable to tax @30% u/s 115BBC(1)(i)] [₹ 62,53,750 x 30% plus ₹ 1,12,500]	19,88,625
Tax on anonymous donations taxable@30% [₹ 25,000 x 30%]	7,500
	19,96,125
Add: Surcharge@10%, since total income exceeds ₹ 50 lakhs but does not exceed ₹ 1 crore.	1,99,613
	21,95,738
Add: Health and Education cess @4%	87,830
Total tax liability	22,83,568
Total tax liability (rounded off)	22,83,570
Note - To avail the maximum benefit, the amount of ₹ 70,03,750 (i.e., Total income excluding anonymous donation taxable@30% u/s 115BBC i.e., ₹ 72,53,750– ₹ 2,50,000, being the basic exemption limit) can be accumulated or set apart for such period not exceeding 5 years by exercising an option on or before the due date for filing return of income and such amount should be invested in modes specified u/s 11(5).	

Alternative Answer 2 [Based on alternative view in Note 1]

Computation of total income of Tulsi Foundations for the A.Y.2024-25

Particulars	₹	₹
Gross receipts from hospitals		2,00,00,000
Add: Voluntary contributions other than corpus donation and anonymous donation		20,00,000
Add: Corpus donation [does not form part of total income]		Nil

Add: Anonymous donations for temple [not subject to tax u/s 115BBC]		8,00,000
		2,28,00,000
Less: 15% of income eligible for being set apart without any condition		34,20,000
		1,93,80,000
Less: Amount applied for charitable purposes		
- Operational expenses incurred for hospital and temple [₹ 94 lakhs + ₹ 15 lakhs – ₹ 6,00,000 not treated as application as payment to contractor made in cash ⁶]	1,03,00,000	
- Purchase of computer [it is beneficial for the trust to claim cost of computer itself as application of income in the year asset is acquired. If the cost of asset is claimed as application, then, depreciation will not be allowed as deduction as per section 11(6)]	25,00,000	
- Donation to charitable trust registered u/s 12AA allowable as application, since it is not given with a specific direction that it shall form part of corpus of the trust nor is it given out of accumulated income <i>(As per amendment only 85% is considered as application of funds hence 85% of 12 lakhs is allowed which is Rs 10,20,000)</i>	12,00,000 10,20,000	1,38,20,000
Total income [other than anonymous donation taxable u/s 115BBC(1)(i) and (ii)]		55,60,000
Add: Anonymous donations other than for temple [to the extent not chargeable to tax@30% under section 115BBC(1)(ii)] [₹ 1,75,000, being 5% of total donations of ₹ 35,00,000 or ₹ 1,00,000, whichever is higher]		1,75,000
Add: Anonymous donation taxable @30% u/s 115BBC(1)(i)		25,000
Total Income of the trust		57,60,000

As per the Supreme Court ruling in CIT v. Programme for Community Organisation (2001) 116 Taxman 608, 15% of gross receipts would be eligible for accumulation under section 11(1)(a).

⁶Explanation 3 below section 11(1) read with section 40A(3)

Computation of tax liability of the trust for the A.Y. 2024-25

Particulars	₹
Tax on total income of ₹ 57,35,000 i.e., total income [excluding anonymous donations of ₹ 25,000 chargeable to tax @30% u/s 115BBC(1)(i)] [₹ 47,35,000 x 30% plus ₹ 1,12,500]	15,33,000
Tax on anonymous donations taxable@30% [₹ 25,000 x 30%]	7,500
	15,40,500
Add: Surcharge@10%, since total income exceeds ₹ 50 lakhs but does not exceed ₹ 1 crore.	1,54,050
	16,94,550
Add: Health and education cess @4%	67,782
Total tax liability	17,62,332
Total tax liability (rounded off)	17,62,330

Note - To avail the maximum benefit, the amount of ₹ 53,10,000 (i.e., Total income excluding anonymous donation taxable u/s 115BBC(1) i.e., ₹ 55,60,000 – ₹ 2,50,000, being the basic exemption

limit) can be accumulated or set apart for such period not exceeding 5 years by exercising an option on or before the due date for filing return of income and such amount should be invested in modes specified u/s 11(5).

Alternative Answer 3 [Based on alternative views given in Notes 1 and 2]

Computation of total income of Tulsi Foundations for the A.Y.2024-25

Particulars	₹	₹
Gross receipts from hospitals		2,00,00,000
Add: Voluntary contributions other than corpus donation and anonymous donation		20,00,000
Corpus donation [Does not form part of total income]		Nil
Anonymous donations for temple [not subject to tax u/s 115BBC]		8,00,000
Less: Operational Expenses: [₹ 94 lakhs + ₹ 15 lakhs – ₹ 6 lakhs not treated as application as payment to contractor made in cash]		2,28,00,000
		1,03,00,000
Less: 15% of income eligible for being set apart without any condition		1,25,00,000
		18,75,000
Less: Amount applied for charitable purposes		1,06,25,000
- Purchase of computer [it is beneficial for the trust to claim cost of computer itself as application of income in the year asset is acquired. If the cost of asset is claimed as application, then, depreciation will not be allowed as deduction as per section 11(6)]	25,00,000	
- Donation to charitable trust registered u/s 12AA allowable as application, since it is not given with a specific direction that it shall form part of corpus of the trust nor is it given out of accumulated income <i>(As per amendment only 85% is considered as application of funds hence 85% of 12 lakhs is allowed which is Rs 10,20,000)</i>	12,00,000 10,20,000	35,20,000
Total income [other than anonymous donation taxable u/s 115BBC(1)(i) and (ii)]		71,05,000
Add: Anonymous donations other than for temple [to the extent not chargeable to tax@30% under section 115BBC(1)(i)] [₹ 1,75,000, being 5% of total donations of ₹ 35,00,000 or ₹ 1,00,000, whichever is higher]		1,75,000
Add: Anonymous donation taxable @30% u/s 115BBC(1)(i)		25,000
Total Income of the trust		73,05,000

Computation of tax liability of the trust for the A.Y. 2024-25

Particulars	₹
Tax on total income of ₹ 72,80,000 i.e., total income [excluding anonymous donations of ₹ 25,000 chargeable to tax @30% u/s 115BBC(1)(i)] [₹ 62,80,000 x 30% plus ₹ 1,12,500]	19,96,500
Tax on anonymous donations taxable@30% [₹ 25,000 x 30%]	7,500
Add: Surcharge @10%, since total income exceeds ₹ 50 lakhs but does not exceed ₹ 1 crore.	20,04,000
	2,00,400
	22,04,400
Add: Health and Education cess @4%	88,176
Total tax liability	22,92,576
Total tax liability (rounded off)	22,92,580

Note - To avail the maximum benefit, the amount of ₹ 68,55,000 (i.e., Total income excluding anonymous donation taxable u/s 115BBC(1) i.e., ₹ 71,05,000 – ₹ 2,50,000, being the basic exemption

limit) can be accumulated or set apart for such period not exceeding 5 years by exercising an option on or before the due date for filing return of income and such amount should be invested in modes specified u/s 11(5).

Chapter 2- Income from House Property

Direct Tax Compiler 11 attempts – Q2 Page number 4.3

Correction- Question has been deleted as Section no longer applicable

Question 1

Mr. Adarsh sold his residential property on 22nd March, 2024 for ₹ 95 lakh and paid brokerage@1% of sale price. He had purchased the said property in August 2004 for ₹ 27,36,000. In July, 2024, he invested ₹ 78 lakh in equity of TMN (P) Ltd., an eligible start- up company (set up on 1st March, 2024), which constituted 29% of share capital of the said company. TMP(P) Ltd. utilized the said sum for the following purposes –

- (a) Purchase of new plant and machinery during August 2024 – ₹ 66 lakh
- (b) Included in (a) above is ₹ 8 lakh for purchase of cars.
- (c) Air-conditioners purchased for ₹ 1 lakh, included in the (a) above, were installed at the residence of Mr. Adarsh.
- (d) Amount deposited in specified bank on 18.9.2024 – ₹ 12 lakh

Compute the chargeable capital gain for the A.Y.2024-25. Assume that Mr. Adarsh is liable to file his return of income on or before 30th September, 2024 and he files his return on 25.09.2024.

Cost Inflation Index: 2004-05: 113, 2023-24: 348. (MTP 4 Marks Sep'22, Old SM)

Chapter- Profits & Gains from Business & Profession

Direct Tax Compiler 11 attempts – Q2 Page number 3.25

Correction- Amendment line removed answer will remain a

2. Which of the following individuals would be entitled to opt for presumptive taxation schemes under the Income-tax Act, 1961 for A.Y.2024-25?

- (vi) A retail trader having turnover of Rs.2 crore during the previous year 2023-24
- (vii) A practising CA having gross receipts of Rs.92 lakhs during the previous year 2023-24.
- (viii) A wholesale trader having turnover of Rs.1.96 crore during the previous year 2023-24.
- (ix) A doctor having gross receipts of Rs.50 lakhs during the previous year 2023-24
- (x) Individual owning 8 goods carriages as on 1.4.2023. He purchased 4 goods carriages on 1.5.2023 and sold 2 goods carriages on 1.7.2023.
 - (e) (i), (iii) & (iv)
 - (f) (iii) & (v)
 - (g) (i), (iii), (iv) & (v)
 - (h) (i), (ii), (iii), (iv) & (v) (MTP 2 Marks Mar'19)

Ans: (a) ~~The answer is amended to (c)~~

Chapter- Profits & Gains from Business & Profession

Direct Tax Compiler 11 attempts – Q5 Page number 3.8

Correction- FY to be changed to FY 2021-22

Question 5 (Includes concepts from Basic Concepts)

Sun Ltd., a pharmaceutical company incorporated in year 2002-03, purchased a new plant and machinery for ₹ 12 lakhs on 01-04-2023. The total income of the company for Assessment Year 2024-25 before allowing additional depreciation in respect of new plant and machinery is ₹ 22 lakhs. Sun Ltd. has not opted for the concessional tax regime under section 115BAA or 115BA so far. Compute the tax liability of Sun Ltd. in most beneficial manner for A.Y. 2024-25 assuming its turnover for the previous year ~~2019-20~~ **2021-22** was ₹ 338 crores. Ignore the provisions of MAT. (MTP 4 Marks Apr'22)

Chapter 10- Charitable Trusts

Direct Tax Compiler 11 attempts – Q3 Page number 10.3

Correction- Section 115BBI has been considered

Question 3

The following are the particulars of Healthcare Trust relevant for the previous year ended 31st March, 2024. Healthcare Trust running hospitals is registered under section 12AA.

- Income from running of hospitals Rs.108 lakhs.
- Income from medical college (gross receipts Rs.95 lakhs) Rs.24 lakhs
- Donation received (including anonymous donation Rs.3 lakhs) Rs.8 lakhs.
- Amount applied for the purposes of hospital Rs.93.50 lakhs.
- The trust had accumulated Rs.20 lakhs under section 11(2) in the financial year 2017-18 for a period of five years for extension of one of its hospitals. The trust has spent Rs.15 lakhs for the said purpose till 31st March, 2023. No amount was spent in the year 2023-24.

You are required to compute taxable income and tax liability of the trust for A.Y.2024-25.

(MTP 8 Marks Apr'19, RTP Nov'18)

Answer 3

Computation of taxable income of Healthcare Trust for A.Y. 2024-25

Particulars	Rs.	
Income from running of hospitals	1,08,00,000	
Income from medical college [exempt u/s 10(23C)(iiad)]	Nil	
Donation other than anonymous donation of Rs.2,00,000 taxable @30% (Rs.3,00,000, being reduced by 5% of Rs.8,00,000 or Rs.1,00,000, whichever is higher) ⁵ [Rs.8,00,000 – Rs.2,00,000]	6,00,000	1,14,00,000
Less: 15% of income of Rs.114 lakhs accumulated or set apart under section 11(1)(a)		17,10,000
		96,90,000
Less: Amount applied for the purposes of hospital		93,50,000
Add: Amount accumulated for extension of a hospital but not spent deemed to be income under section 11(3) (Rs.20 lakhs – Rs.15 lakhs) (As per amendment read note 1 below)		3,40,000
		5,00,000
		3,40,000
Add: Anonymous donation taxable @30% under section 115BBC (See Note 2 below)		2,00,000
Add:-Amount accumulated for extension of a hospital but not spent deemed to be income under section 11(3) (Rs.20 lakhs – Rs.15 lakhs) taxable @ 30%		5,00,000
Total Income		10,40,000
Tax on total income		

Tax on anonymous donation of Rs.2 lacs @30% + Deemed income in violation of accumulation Rs 5 lacs @ 30% (See Note 2 below)		2,10,000
Tax on accumulated income as per		
Tax on other income of Rs.3,40,000 at normal rates		
Upto Rs.2,50,000	Nil	
Over Rs.2,50,000 up to Rs.3,40,000 @ 5%	4,500	
Over Rs.5,00,000 upto Rs.8,40,000@20%		4,500
		2,14,500
Health and education cess@4%		8,580
Tax payable		2,23,080

Notes:

- (1) Section 11(3) provides that if the income accumulated for certain purpose is not utilized for the said purpose within the period (not exceeding 5 years) for which it was accumulated, or in the year immediately following the expiry thereof, then the unutilised amount is deemed to be the income of the charitable institution for the previous year immediately following the expiry of the period of accumulation. In the instant case, Healthcare Trust accumulated Rs.20,00,000 in the previous year 2017-18 for extension of one of its hospitals for a period of 5 years. Period of accumulation thus expired on 31.3.2023. The assessee has spent Rs.15,00,000 out of accumulated sum of Rs.20,00,000 up to 31.3.2023. Therefore, the unutilised amount of Rs.5,00,000, which is not utilized in the P.Y.2023-24 also, is deemed to be income of the previous year 2024-25 (A.Y. 2024-25). ***As per section 115BBI Rs. 5,00,000 will be taxed @ 30% as it comes under the definition of specified income. Specified income includes deemed income in violation of deemed application of funds.***
- (2) Only the anonymous donations in excess of the exemption limit specified below would be subject to tax@30% under section 115BBC.
 The exemption limit is the higher of the following –
 (i) 5% of the total donations received by the assessee [i.e., Rs.40,000 (5% x Rs.8 lakhs)]; or
 (ii) Rs.1 lakh.
 Therefore, in this case the exemption would be Rs.1 lakh. The total tax payable by such institution would be –
 (i) tax@30% on the anonymous donations exceeding the exemption limit as calculated above [i.e., tax@30% on Rs.2,00,000, being Rs.3,00,000 – Rs.1,00,000]; and
 (ii) tax on the balance income i.e., total income as reduced by Rs.2,00,000, being the aggregate amount of anonymous donations in excess of Rs.1 lakh.

Corrigendum

CA Final Paper 5- Indirect Tax Laws

Edition 5

Chapter 21: Penalties & Offences

Indirect Tax Compiler 11 attempts – Q 20 Page number 21.10

Indirect Tax Compiler 5 attempts – Q 8 Page number 21.4

Indirect Tax Compiler 3 attempts – Q 6 Page number 21.3

Correction: As per amendment minimum limit is 25% of tax involved

Question

Arjun has committed offence under CGST Act which can be compounded as per provisions of section 138(1) of the CGST Act, 2017. He has paid the tax amount of ₹ 10 lakh involved in the offence. He wishes to apply to Commissioner for compounding the said offence. You are required to compute minimum and maximum compounding amount as per provisions of section 138(2) of the CGST Act, 2017 payable by Arjun. What are the consequences, if Arjun pays such compounding amount as may be determined by Commissioner? (PYP 5 Marks Nov'22)

Answer

(i) Minimum limit for compounding amount is ~~higher of:-~~

- ~~50% of tax involved, viz., ₹ 5,00,000 (₹ 10 lakh × 50%) or~~
- ~~₹ 10,000,~~

~~i.e. ₹ 5,00,000.~~

As per amendment minimum limit is 25% of tax involved that is ₹2,50,000 (₹ 10 lakh × 25%)

(ii) Maximum limit for compounding amount is ~~higher of:-~~

- ~~150% of tax involved, viz., ₹ 15,00,000 (₹ 10 lakh × 150%) or~~
- ~~₹ 30,000~~

~~i.e. ₹ 15,00,000.~~

As per amendment maximum limit is 100% of tax involved that is ₹10,00,000 (₹ 10 lakh × 25%)

If Arjun pays such compounding amount as may be determined by Commissioner, no further proceedings shall be initiated under this Act against him in respect of the same offence and any criminal proceedings, if already initiated in respect of the said offence, shall stand abated.

Chapter 12: Electronic Commerce Transactions

Indirect Tax Compiler 11 attempts – Q 3 Page number 12.1

Indirect Tax Study Material – Q 10 Page number 12.4

Correction: Amendment not included

Question

AB Pvt. Ltd., Pune, Maharashtra, provides house-keeping services. The company supplies its services exclusively through an e-commerce website owned and managed by Hi-Tech Indya Pvt. Ltd., Pune. The turnover of AB Pvt. Ltd. in the current financial year is ₹ 18 lakh.

Advise AB Pvt. Ltd. as to whether it is required to obtain GST registration. Will your advice be any different if AB Pvt. Ltd. sells readymade garments exclusively through the e-commerce website owned and managed by Hi-Tech Indya Pvt. Ltd.?

Answer

As per section 22, every supplier of goods or services or both is required to obtain registration in the State/ Union territory from where he makes the taxable supply if his aggregate turnover exceeds threshold limit in a financial year.

However, section 24 enlists certain categories of persons who are mandatorily required to obtain registration, irrespective of their turnover. Persons who supply goods or services or both through such electronic commerce operator (ECO), who is required to collect tax at source under section 52, is one such person specified under clause (ix) of section 24. However, where the ECO is liable to pay tax on behalf of the suppliers of services under a notification issued under section 9(5), the suppliers of such services are entitled for threshold exemption.

Section 2(45) defines ECO as any person who owns, operates or manages digital or electronic facility or platform for electronic commerce. Electronic commerce is defined under section 2(44) to mean the supply of goods or services or both, including digital products over digital or electronic network. Since Hi-Tech Indya Pvt. Ltd. owns and manages a website for e-commerce where both goods and services are supplied, it will be classified as an ECO under section 2(45).

Notification No. 17/2017 CT (R) dated 28.06.2017 issued under section 9(5) specifies services by way of house-keeping, except where the person supplying such service through ECO is liable for registration under section 22(1), as one such service where the ECO is liable to pay tax on behalf of the suppliers.

In the given case, AB Pvt. Ltd. provides house-keeping services through an ECO. It is presumed that Hi-Tech Indya is an ECO which is required to collect tax at source under section 52. However, house-keeping services provided by AB Pvt. Ltd., which is not liable for registration under section 22(1) as its turnover is less than ₹20 lakh, is a service notified under section 9(5). Thus, AB Pvt. Ltd. will be entitled for threshold exemption for registration and will not be required to obtain registration even though it supplies services through ECO.

In the second case, AB Pvt. Ltd. sells readymade garments through ECO. ~~Such supply cannot be notified under section 9(5) as only supplies of services are notified under that section. Therefore, in the second case, AB Pvt. Ltd. will not be entitled for threshold exemption and will have to compulsorily obtain registration in terms of section 24(ix).~~ ***As per amendment with effect from 1.10.2023 that the person making supply of goods through an ECO who is required to collect TCS under section 52 and having an aggregate turnover in the preceding financial year and the current financial year not exceeding the threshold limit in accordance with the provisions of section 22(1) are exempted from obtaining registration subject to the following conditions:***

- (i) Such person shall not make any inter-state supply of goods***
- (ii) Such person shall not make any supply of goods through ECO in more than one State/Union Territory***
- (iii) such persons shall be required to have a Permanent Account Number issued under the Income Tax Act, 1961 (43 of 1961);***
- (iv) such persons shall, before making any supply of goods through electronic commerce operator, declare on the common portal their Permanent Account Number issued under the Income Tax Act, 1961 (43 of 1961), address of their place of business and the State or Union territory in which such persons seek to make such supply, which shall be subjected to validation on the common portal;***
- (v) such persons have been granted an enrolment number on the common portal on successful validation of the Permanent Account Number declared as per clause (iv);***
- (vi) such persons shall not be granted more than one enrolment number in a State or Union territory;***
- (vii) no supply of goods shall be made by such persons through electronic commerce operator unless such persons have been granted an enrolment number on the common portal; and where such persons are subsequently granted registration under section 25 of the said Act, the enrolment number shall cease to be valid from the effective date of registration.***

Chapter 16: Job Work

Indirect Tax Compiler 11 attempts – Q2 Page number 16.1

Indirect Tax 5 attempts – Q 1 Page number 16.1

Correction: AY pending to be changed in one place. 7thMar, 2018 changed to 7th March, 2021. Extendible by 2 years added.

Question 2

Octa Manufacturers, Jalandhar, a registered supplier, instructs its supplier Dawson Ltd. to send a CNC machine directly to the job worker, J Enterprises, outside its factory to carry out certain operations on the goods. The CNC machine was sent by the supplier on 7th March 2021 and was received by the job worker on 10th March. J Enterprises carried out the job work and returned the CNC machine to the principal, Octa Manufacturers on 1st March 2023.

- (i) Can Octa Manufacturers retain the ITC availed by them on the CNC machine?
- (ii) Would your Answer be the same if in place of CNC machine, jigs and fixtures were supplied to the job worker which were returned to the principal on 1st March 2023. (PYP 4 Marks May'22)

Answer 2

- I. The capital goods directly sent to a job worker are required to be returned to the principal within 3 years (extendible by another 2 years) from the date of receipt of such capital goods by the job worker. In such a case, principal can avail the credit of tax paid on such capital goods.

Octa Manufacturers is entitled to take and retain ITC on capital goods – CNC machine directly sent to the job worker for the job work– J. Enterprises - without being brought into its premises since said machine was returned within specified time period of 3 years (extendible by another 2 years) from the date its receipt by J. Enterprises.

- II. The aforesaid time period of 3 years does not apply to moulds and dies, jigs and fixtures or tools sent out for job work.
Hence, in that case also, Octa Manufacturers is entitled to take and retain ITC in respect of moulds and dies etc.

Chapter 30: Warehousing

Indirect Tax Compiler 11 attempts – Q6 Page number 30.5

Indirect Tax Compiler 5 attempts – Q 4 Page number 30.2

Indirect Tax Compiler 3 attempts – Q 3 Page number 30.1

Correction: ICAI has wrongly solved the question by taking 30 days in Jan has been rectified.

Question 6

Niryaat Exporters imported some goods on 1st January. The goods were not meant for being used in an 100% EOU, STP unit, EHTP unit. The goods were cleared from the Mumbai port for warehousing on 8th January by presenting an 'into Bond' Bill of Entry. The assessable value of the goods was US \$ 10,000. On 8th January, the exchange rate was ₹ 66 per US \$ and the rate of basic customs duty was 15%. The order permitting the deposit of goods in warehouse for 4 months was issued under section 60 of the Customs Act, 1962 on 15th January. The goods were thereafter deposited in a warehouse at Pune and were cleared from Pune warehouse on 31st May. The rate of basic customs duty was 12% and exchange rate was ₹ 68.75 per 1 US \$ on 31st May. IGST @ 10% is applicable on said goods. Further, the rate of basic customs duty was 12% and exchange rate was ₹ 67 per 1 US \$ on 15th May. IGST @ 12% is applicable on said goods.

Ignore agriculture and infrastructure development cess.

You are required to compute: (a) total customs duty payable and (b) interest, if any, payable.

(RTP Nov'22)

Answer 6

Computation of import duty payable by Niryaat Exporters

Particulars	Amount (US \$)
Assessable value	10,000
Value in Indian currency (US \$ 10,000 x ₹ 66) [Note 1]	6,60,000
Customs duty @ 12% [Note 2]	79,200
Add: Social welfare surcharge @ 10% on ₹ 79,200	7,920
Total customs duty payable	87,120

Notes:

- As per third proviso to section 14(1) of the Customs Act, 1962, assessable value has to be calculated with reference to the rate of exchange prevalent on the date on which the into bond bill of entry is presented for warehousing under section 46 of the Customs Act, 1962.
- Goods which are not removed within the permissible period are deemed to be improperly removed in terms of section 72 of the Customs Act, 1962 on the day they should have been removed [Kesoram Rayon v. CC 1996 (86) ELT 464 (SC)]. The applicable rate of duty in such a case is the rate of duty prevalent on the last date on which the goods should have been removed.

Computation of interest payable by Niryaat Exporters

As per section 61 of the Customs Act, 1962, if goods (not meant for being used in an 100% EOU, STP unit, EHTP unit) remain in a warehouse beyond a period of 90 days from the date on which the order permitting deposit of goods in warehouse under section 60 of the Customs Act, 1962 is made, interest is payable [@ 15% p.a.], on the amount of duty payable at the time of clearance of the goods, for the period from the expiry of the said 90 days till the date of payment of duty on the warehoused goods.

Therefore, interest payable will be computed as under:

Period of 90 days commencing from the date of order made under 60 expires on	16th April *15th April
No. of days for which interest shall be payable [15 days of April + 31 days of May]	46 days
Interest payable = ₹ 87,120 × $\frac{15}{100}$ × $\frac{46}{365}$ (rounded off)	₹ 1,611 ₹ 1,647

***ICAI has wrongly considered 30 days in Jan for calculation purpose has been corrected**

Chapter 28: Valuation under Customs

Indirect Tax Compiler 11 attempts – Q1 Page number 28.1

Correction: SWS @10% has not been taken, hence been rectified

Question 1

Arpan Industries Ltd., New Delhi has imported certain machine (by sea) from Japan. From the following particulars furnished by it, work out the assessable value of the machine and customs duty payable by Arpan Industries Ltd. with appropriate working notes:

S. No.	Particulars	Amount in (Rs.)
(i)	CIF value of the machine	4,23,379.69
(ii)	Freight incurred from port of entry to Inland Container depot	25,000.00
(iii)	Unloading and handling charges paid at the place of importation	40,000.00
(iv)	Designing charges paid to Consultancy firm in Mumbai	10,000.00

1.	Basic Customs Duty leviable	10% advalorem
2.	Integrated tax leviable under section 3(7) of the Customs Tariff Act, 1975 is 18%.	
3.	Note: Ignore GST Compensation Cess.	

(MTP 5 Marks Oct'18, PYP 5 Marks May'18)

Answer 1

Computation of assessable value and customs duty payable

Particulars	Rs.
CIF value of machine	4,23,379.69
Unloading and handling charges at the place of importation [Note-1]	Nil
Freight from port of entry to ICD [Note-2]	Nil
Designing charges paid to consultancy firm in Mumbai [Note-3]	Nil
Assessable Value	4,23,379.69
Add: Basic customs duty (BCD) @10% (rounded off)	42,338
Add: Education cesses @3% of BCD (rounded off)	1,270
Add: Social Welfare Surcharge @ 10% on 42,338	4,234
Value for computing IGST	4,69,952
IGST @ 18% (rounded off)	84,591
Total duty and tax payable	1,31,163
= [Rs. 42,338 + Rs. 4,234 + Rs. 84,591]	

Notes: -

- Only charges incurred for delivery of goods "to" the place of importation are includible in the transaction value vide rule 10(2)(a) of Customs Valuation (Determination of Value of Imported Goods) Rules, 2007. The loading, unloading and handling charges associated with the delivery of the imported goods "at" the place of importation are not to be added to the CIF value of the goods.
- In case of goods imported by sea and transhipped to another custom station in India, the cost of transport associated with such transshipment is excluded in terms of sixth proviso to rule 10(2) of Customs Valuation (Determination of Value of Imported Goods) Rules, 2007.
- Rule 10(1)(b)(iv) of Customs Valuation (Determination of Value of Imported Goods) Rules, 2007 provides that only the design and engineering work undertaken elsewhere than in India is includible in the assessable value.

Chapter 15: Refunds

Indirect Tax Compiler 11 attempts – Q6 Page number 15.4

Indirect Tax Compiler 5 attempts – Q2 Page number 15.1

Correction: Inverted Supply formula not amended has been corrected

Question

Jai and Co, a registered supplier under GST, is engaged in weaving yarn into fabrics and has provided the following information:

Nature of various intra-State supplies during April 2021	Value of supply (excluding GST) (₹)
Outward supply of fabrics (Tax rate of CGST and SGST is 2.5% each)	30,00,000
Inward supply of rayon yarn (Tax rate of CGST and SGST is 6% each)	24,00,000

Inward supply of services for processing the yarn (Tax rate of CGST and SGST is 2.5% each)	4,00,000
Inward supply of machineries for weaving the processed yarn into fabrics (Tax rate of CGST and SGST is 9% each)	45,00,000
The concern has not provided any supply other than the outward supply referred above.	
ITC in respect of all types of inward supplies as given above was claimed in the relevant GSTR 38 as well reflected in GSTR 2A.	
Other applicable conditions for claiming the refund are duly complied with.	

You are required to compute the 'maximum refund amount' eligible under rule 89(5) of CGST Rules, 2017 for inverted duty structure. Also provide working notes for your calculation.

Note - No refund has been claimed under rule 89(3) or rule 89(4) of the CGST Rules, 2017. (PYP 5 Marks Dec'21)

Answer

Maximum refund amount under rule 89(5) of the CGST Rules, 2017 on account of inverted duty structure, is computed as follows –

Maximum Refund Amount	=	Turnover of inverted rated supply of goods and services × Net ITC	–	Tax payable on such inverted rated supply of goods and ×
		Adjusted Total Turnover		<i>Net ITC</i>
				<i>ITC availed on inputs and input services</i>

where Net ITC means ITC availed only on inputs

= ₹ [(24,00,000 × 6%) × 30,00,000 / 30,00,000] - [(30,00,000 × 2.5%) × (1,44,000 / 1,44,000 + 10,000)] (each for CGST and SGST) = ₹ 73,870

Thus, maximum refund amount is ₹ 73,870 each for CGST and SGST.

Note: Refund of tax paid on input services and capital goods is not a part of refund of accumulated ITC on account of inverted duty structure.

Chapter 1: Supply under GST

Indirect Tax Compiler 11 attempts – Q4 Page number 1.9

Indirect Tax Compiler 5 attempts – Q2 Page number 1.3

Correction: Typing error in answer is c

Chapter 13: Returns

Indirect Tax Compiler 11 attempts- Q1 Page 13.1

Correction: Answer has been amended

Question 1

Explain the provisions of section 39(9) of the CGST Act, 2017 with reference to rectification of returns. (RTP May'19)

Answer 1

As per section 39(9) of the CGST Act, 2017, if any registered person after furnishing a return discovers any omission or incorrect particulars therein, he shall rectify such omission or incorrect particulars in the return to be furnished for the month or quarter during which such omission or incorrect particulars are noticed, subject to payment of interest.

However, section 39(9) does not permit rectification of error or omission discovered on account of scrutiny, audit, inspection or enforcement activities by tax authorities. Hence taxpayer may not be able to pass on the ITC to the receiver in respect of tax payments made by him in the above mentioned situations. ~~Further, no such rectification of any omission or incorrect particulars shall be allowed after the due date for furnishing of return for the month of September or second quarter following the end of the financial year, or the actual date of furnishing of relevant annual return, whichever is earlier.~~

As per amendment-the maximum time limit within which he shall rectify such omission or incorrect particulars is earlier of the following dates:

- *30th Day of November from the end of the financial year to which such details pertain or*
- *Actual date of filing the relevant annual return*

Corrigendum

CA Final Paper 3- Advanced Auditing & Professional Ethics

Edition 5

Chapter 15: Audit of PSUs

Advanced Auditing Compiler 11 attempts – Q 4 Page number 15.13

Correction: Typing error answer is d

Chapter 15: Audit of PSUs

Advanced Auditing Compiler 11 attempts – Q 2 Page number 15.12

Correction: Typing error answer is c

Corrigendum

CA Final Paper 2- Advanced Financial Management

Edition 5

Chapter 13: Business Valuation

AFM Compiler 11 attempts – Q 25 Page number 13.29

Correction: Answer is wrong in the suggested answers of ICAI. Tax amount as per P&L is considered which is wrong tax rate on EBIT has to be considered, answer has been revised.

Question 25

Compute Economic Value Added (EVA) of Good luck Ltd. from the following information:

Profit & Loss Statement

Particulars	(Rs. in Lakh)
(a) Income -	
Revenue from Operations	2000
(b) Expenses -	
Direct Expenses	800
Indirect Expenses	400
(c) Profit before interest & tax(a-b)	800
(d) Interest	30
(e) Profit before tax (c - d)	770
(f) Tax	231
(g) Profit after tax (e - f)	539

Balance Sheet

Particulars	(Rs. in Lakh)
Equity and Liabilities :	
(a) Shareholder's Fund -	
Equity Share Capital	1000
Reserve and Surplus	600
(b) Non- Current Liabilities -	
Long Term Borrowings	200
(c) Current Liabilities	800
Total	2600
Assets :	
(a) Non - Current Assets	2000
(b) Current Assets	600
Total	2600

Other Information:

- (1) Cost of Debts is 15%.
- (2) Cost of Equity (i.e. shareholders' expected return) is 12%.

(3) Tax Rate is 30%.

(4) Bad Debts Provision of Rs. 40 lakhs is included in indirect expenses and Rs. 40 lakhs reduced from receivables in current assets. (PYP 8 Marks May '19)

Answer 25

$$\text{EVA} = \text{NOPAT} - (\text{Invested Capital} \times \text{WACC})$$

$$\text{NOPAT} = \text{EBIT} - \text{Tax} + \text{Non-Cash Expenses}$$

$$= 800 \text{ lakhs} - 231 \text{ lakhs} + (240 \text{ lakhs}) + 40 \text{ lakhs}$$

$$= \text{Rs. } 600 \text{ lakh}$$

(OR)

$$\text{Operating Income} = \text{Taxable Income} + \text{Interest} + \text{Non-cash Expenses}$$

$$= 539 + 30(1-0.30) + 40 = \text{Rs. } 600 \text{ lakh}$$

$$\text{Invested Capital} = 1000 + 600 + 200 = 1800$$

$$= 1800 + 40 \text{ (Non-cash expenses)}$$

$$= \text{Rs. } 1840 \text{ lakhs}$$

$$\text{WACC} = \frac{1600}{1800} \times 12\% + \frac{200}{1800} \times 15\% (1-0.3)$$

$$= 10.67\% + 1.17\% = 11.84\%$$

$$\text{Now, EVA} = 600 - (1840 \times 11.84\%)$$

$$= 600 - 217.86$$

$$= \text{Rs. } 382.14 \text{ Lakhs}$$

OR

$$\text{WACC} = \frac{1000}{1200} \times 12\% + \frac{200}{1200} \times 15\% (1-0.3)$$

$$= 10.00\% + 1.75\% = 11.75\%$$

$$\text{Now, EVA} = 600 - (1840 \times 11.75\%)$$

$$= 600 - 216.20$$

$$= \text{Rs. } 383.80 \text{ lakhs}$$

** Answer is wrong in the suggested answers of ICAI. Tax amount as per P&L is considered which is wrong tax rate on EBIT has to be considered, answer has been revised.*

Chapter 3: Advanced Capital Budgeting Decisions

AFM Compiler 11 attempts – Q 3 Page number 3.2

Correction: In the Answer in the table below the heading “If the project is judged to be Low risk”, in the last column there is a typing mistake it should be

$$\frac{80}{1+0.12^2} = 63.78$$

Corrigendum

CA Final Paper 1- Financial Reporting

Edition 5

Chapter 15: Analysis of Financial Statements

AFM Compiler 11 attempts – Q 3 Page number 3.2

Correction: In the Answer in the table below there is a typing error.

Balance Sheet of Master Creator Private Limited as at 31st March, 20X2

Particulars	Working / Note reference	(Rs.)
ASSETS		
Non-current assets		
Property, plant and equipment	1	49,87,750
Capital work-in-progress	2	20,01,600
investment Property	3	15,48,150
Financial assets		
Other financial assets (Security deposits)		4,62,500
Other non-current assets (capital advances)	4	17,33,480
Current assets		
Inventories		5,98,050
Financial assets		
Investments (55,000 + 5,000)	5	60,000
Trade receivables	6	7,25,000
Cash and cash equivalents	7	1,16,950
Other financial assets	8	1,27,370
Other current assets (Prepaid expenses)	8	90,000
TOTAL ASSETS		1,24,50,850
EQUITY AND LIABILITIES		
Equity		
Equity share capital	A	10,00,000
Other equity	B	28,44,606
Non-current liabilities		
Financial liabilities		
8% Convertible loan	11	60,60,544
Long term provisions		5,24,436
Deferred tax liability	12	2,20,700
Current liabilities		
Financial liabilities		

Trade payables	13	6,69,180
Other financial liabilities	14	1,19,299
Other current liabilities (TDS payable)	15	81,265
Current tax liabilities		9,30,820
TOTAL EQUITY AND LIABILITIES		1,24,50,850