



## **PAPER – 4: DIRECT TAX LAWS & INTERNATIONAL TAXATION**

The provisions of direct tax laws, as amended by the Finance (No. 2) Act, 2024 and the significant notifications and circulars issued upto 31.10.2024, are relevant for May 2025 examination. The relevant assessment year is A.Y.2025-26. The November, 2024 edition of the Study Material contains the provisions of direct tax laws as amended by the Finance (No. 2) Act, 2024 and notifications and circulars issued upto 31.10.2024. The said study material has to be read along with the following Statutory Update containing notifications and circulars issued upto 31.10.2024 but not covered in the study material and Judicial Update for May, 2025 Examination webhosted at <https://resource.cdn.icai.org/84599bos68185.pdf> .

### **STATUTORY UPDATE**

**1. Non-applicability of TDS provisions in respect of certain payments made to specified units located in IFSC [Notification No. 28/2024 dated 7.3.2024]**

In accordance with the provisions of section 197A(1F) read with section 80LA(1A)/(2) of the Income-tax Act, 1961, the Central Government has, vide this notification notified that no tax is required to be deducted at source in respect of the specified payments made by any 'payer' to a payee, being a Unit of International Financial Services Centre (IFSC), as specified in the following Table:-

**Table: List of payments receivable by a Unit of (IFSC)**

| <b>Sl. No.</b> | <b>IFSC Unit (Payee)</b> | <b>Nature of receipt</b>                                 | <b>Relevant TDS provisions</b> |
|----------------|--------------------------|--|--------------------------------|
| 1.             | Banking Unit             | Interest income on External Commercial Borrowings/ Loans | Section 195                    |
|                |                          | Professional fees  | Section 194J                   |

|     |                                    |   |                   |
|-----|------------------------------------|---|-------------------|
|     |                                    | Referral fees   | Section 194H      |
|     |                                    | Brokerage income  | Section 194H      |
|     |                                    | Commission income on factoring and forfaiting services    | Section 194H      |
| 2.  | IFSC Insurance Intermediary office | Insurance commission                                      | Section 194D      |
| 3.  | Finance Company                    | Interest income on External Commercial Borrowings /Loans  | Section 195/194A  |
|     |                                    | Dividend income   | Section 194       |
|     |                                    | Commission income on factoring and forfaiting services    | Section 194H      |
| 4.  | Finance Unit                       | Interest income on External Commercial Borrowings / Loans | Section 195/ 194A |
|     |                                    | Dividend income   | Section 194       |
|     |                                    | Commission income on factoring and forfaiting services    | Section 194H      |
| 5.  | Fund Management entity             | Professional fee  | Section 194J      |
| 6.  | Broker Dealer                      | Dividend  | Section 194       |
| 7.  | Investment advisor                 | Investment advisory fee                                   | Section 194J      |
| 8.  | Registered Distributor             | Distribution fee and Commission fee                       | Section 194H      |
| 9.  | Custodian                          | Professional fee  | Section 194J      |
|     |                                    | Commission fee  | Section 194H      |
| 10. | Credit rating agency               | Credit rating fee   | Section 194J      |
| 11. | Investment banker                  | Investment banker fee                                     | Section 194J      |

|     |   |                                |              |
|-----|---|--------------------------------|--------------|
| 12. | Debenture trustee                             | Trusteeship fee                | Section 194J |
| 13. | International Trade Finance Service or "ITFS" | Commission income              | Section 194H |
| 14. | FinTech Entity                                | Technical fee/Professional fee | Section 194J |
|     |   | Commission income              | Section 194H |

The following conditions are required to be satisfied for non-applicability of TDS provisions in respect of above specified payments:

The 'payee' has to furnish a statement-cum-declaration to the payer containing the details of the previous years relevant to the ten consecutive assessment years for which the 'payee' opts for claiming deduction under section 80LA(1A)/(2) and

Such statement-cum-declaration has to be furnished and verified for each previous year relevant to the ten consecutive assessment years for which the 'payee' opts for claiming deduction under section 80LA(1A)/(2).

The 'payer' would not deduct tax on such payments made or credited to the 'payee' after the date of receipt of copy of such statement-cum-declaration from the 'payee'; and furnish the particulars of all the payments made to 'payee' on which tax has not been deducted in view of this notification in the statement of deduction of tax at source.

The above relaxation is available to the 'payee' only during the said previous years relevant to the ten consecutive assessment years as declared by the 'payee' for which deduction under section 80LA is being opted. The 'payer' shall be liable to deduct tax on payments as referred above for any other year.

**Note** – Please refer the above notification for the purpose of definitions of these specified IFSC units.

**2. Applicability of section 197A(1D) and section 10(15)(viii) to interest paid by IFSC Banking Units (IBUs) [Circular No. 26/2016 dated 4.7.2016]**

Section 197A provides the circumstances in which deduction of tax at source is not required to be made under Chapter XVII of the Act. Section 197A(1D) provides that no tax is required to be deducted by an Offshore Banking Unit from the interest paid

- on deposit made on or after 1.4.2005 by a non-resident or a person not ordinarily resident in India, or
- on borrowing on or after 1.4.2005 from a non-resident or a person not ordinarily resident in India.

Section 10(15)(viii) provides that such interest will not be included in the total income of such non-resident or a person not ordinarily resident in India.

Offshore Banking Unit is defined in section 2(u) of the Special Economic Zones Act, 2005 as a branch of a bank located in a Special Economic Zone, which has obtained permission under section 23(1)(a) of the Banking Regulation Act, 1949.

IFSC Banking Units (IBUs) are branches of Indian Banks or Foreign Banks having presence in India, which are established in accordance with the RBI Scheme dated 1.4.2015, in the IFSC that are set up within the Special Economic Zones, as per section 18 of the Special Economic Zone Act, 2005. Therefore, the IBUs fulfil the necessary criteria for being considered Offshore Banking Units as defined in section 2(u) of the Special Economic Zones Act, 2005.

Accordingly, the CBDT has, vide this circular, clarified that in accordance with the provisions of section 197A(1D), tax is not required to be deducted on interest paid by such IBUs, on deposit made on or after 1.4.2005 by a non-resident or a person who is not ordinarily resident in India, or on borrowings made on or after 1.4.2005 from such persons.



**QUESTIONS**

**Case Scenario I**

Mr. Devansh is an Indian citizen and person of Indian origin who is living in the UK for the last 15 years. He comes to India every year for one month to visit his parents. For the rest of the year, he stays in UK.

He has invested in shares of Alpha Ltd., Beta Ltd., and Delta Ltd. in convertible foreign exchange. Alpha Ltd. and Beta Ltd. are companies incorporated in GIFT IFSC, Gujarat, carrying on business for which it has been approved for setting up in such a Centre in a special economic zone. Delta Ltd. is a company incorporated in New Delhi. The dividend income of Mr. Devansh from Alpha Ltd., Beta Ltd. and Delta Ltd. during the P.Y. 2024-25 is ₹ 62,500, ₹ 87,300 and ₹ 21,800, respectively. The interest expenditure incurred by him during the P.Y.2024-25 on money borrowed for investment in these shares is ₹ 12,000, ₹ 20,000 and ₹ 7,000, respectively.

Mr. Devansh has also lent foreign currency equivalent to ₹ 50 lakhs to Gamma Ltd., a company located in GIFT IFSC on 1<sup>st</sup> April, 2021. The rate of interest is 10% p.a. He has also made a deposit of foreign currency equivalent to ₹ 30 lakhs in IFSC banking unit of SEZ on 1<sup>st</sup> April, 2022. The rate of interest is 8% p.a. Dividend of ₹ 5,41,200 is due to be received in January, 2025 by Gamma Ltd. from Phi Ltd., which is also a company located in GIFT IFSC. The same was received on 28th January, 2025.

Alpha Ltd. has started availing benefit of deduction u/s 80LA(1A) from A.Y. 2023-24 while Beta Ltd. has not started availing the benefit even though it has commenced operations on 1.4.2021. Alpha Ltd. furnished the declaration to the payers about the claim of deduction under section 80LA(1A)/(2) for the P.Y. 2024-25

From the information given above, choose the most appropriate answer of MCQs 1 to 6:

1. What is the tax liability on dividend income of Mr. Devansh during the P.Y.2024-25? Ignore surcharge and cess.  
(a) ₹ 4,360

- (b) ₹ 15,522  
(c) ₹ 17,160  
(d) ₹ 19,340
2. The tax liability on interest income of Mr. Devansh from loan to Gamma Ltd. for the A.Y.2025-26, ignoring surcharge, if any, and cess, is-
- (a) Nil  
(b) ₹ 25,000  
(c) ₹ 50,000  
(d) ₹ 1,00,000
3. The tax liability on interest income of Mr. Devansh on deposit made with an IFSC banking unit in SEZ for the A.Y.2025-26, ignoring surcharge, if any, and cess, is -
- (a) ₹ 12,000  
(b) ₹ 24,000  
(c) ₹ 48,000  
(d) Nil
4. What is the tax liability on dividend income of Gamma Ltd. from Phi Ltd. during the P.Y.2024-25, assuming that both companies are primarily engaged in the business of leasing of an aircraft and have opted for section 115BAA?
- (a) ₹ 61,913  
(b) ₹ 1,23,827  
(c) ₹ 1,36,209  
(d) Nil
5. Assuming that, for the purpose of this MCQ, Alpha Ltd. and Beta Ltd. are banking units located in IFSC and both the companies are due to receive professional fee equivalent to ₹ 20 lakhs each in the P.Y. 2024-25, what is the tax deductible by the payer?

- (a) Nil, Nil
  - (b) Nil, ₹ 2 lakhs
  - (c) ₹ 2 lakhs, Nil
  - (d) ₹ 2 lakhs, ₹ 2 lakhs
6. Assuming that, for the purpose of this MCQ, Alpha Ltd. is a qualifying company engaged in shipping business, by which date can it opt for the tonnage tax scheme, if its date of incorporation is 1.4.2022?
- (a) 30.6.2022
  - (b) 31.3.2032
  - (c) 30.6.2032
  - (d) 30.6.2033

**Case Scenario II**

On 01.05.2024, ABC Ltd. (a listed co.) offered right shares in the ratio of 1:10 at a value of ₹ 50 per share. One of the shareholders, Mr. Sahil had 50,000 shares of ABC Ltd. on the date of offer of rights issue. He retains 30% of the rights and renounced balance right shares in favour of his friend, Mr. Jay for ₹ 15 per share on 28.05.2024.

Mr. Sahil transferred 10,000 shares out of his original shares on 15.07.2024 for ₹ 65 per share. He had acquired these 10,000 shares at a cost of ₹ 2,38,000 on 21.6.2021. Further, Mr. Jay transferred the shares acquired from Mr. Sahil for ₹ 80 per share on 26.02.2025.

XYZ Pvt. Ltd. bought back 80,000 shares on 14.12.2024 at a value of ₹ 160 per share. Such shares were issued for ₹ 20 per share (₹ 10, being the face value and ₹ 10, being premium) during the F.Y. 2012-13. Such bought back include 6,250 shares of Mr. Sahil (which he acquired on 28.5.2022 for ₹ 36.80 per share) and 250 shares of Mr. Rahul (which was inherited from his father). Rahul's father acquired these shares on 24.5.2020 for ₹ 10 per share. Apart from this transaction, Mr. Rahul has income under head "Salaries" of ₹ 12,42,000 (computed), on which no tax is withheld by the employer. Assume Mr. Sahil does not have any other income for the P.Y. 2024-25.

STT has been paid pertaining to the shares of ABC Ltd.

From the information given above, choose the most appropriate answer of MCQs 7 to 12:

7. Is XYZ Pvt Ltd. required to pay additional income-tax on buy back of shares? If yes, what would be the amount of such additional income-tax?
  - (a) No, it is not required to pay additional income-tax on buy back of shares, since it is an unlisted company.
  - (b) Yes, it is required to pay ₹ 26,09,152 as additional income-tax on buy back of shares.
  - (c) No, it is not required to pay additional income tax, since buy back takes place on or after 1.10.2024.
  - (d) Yes, it is required to pay additional income tax of ₹ 23,29,600.
8. Compute the amount of capital gains arising in the hands of Mr. Sahil during the P.Y. 2024-25?
  - (a) Long-term capital gains of ₹ 1,82,000 and Short-term capital gains of ₹ 52,500
  - (b) Long-term capital gains of ₹ 4,12,000 and Short-term capital gains of ₹ 52,500
  - (c) Long-term capital gains of ₹ 2,87,000 and Short-term capital gains of ₹ 75,000
  - (d) Long-term capital gains of ₹ 57,000 and Short-term capital gains of ₹ 52,500
9. Compute the amount of tax liability in the hands of Mr. Sahil for the A.Y. 2025-26. Assume Mr. Sahil is paying tax under section 115BAC.
  - (a) Nil
  - (b) ₹ 68,720
  - (c) ₹ 14,120
  - (d) ₹ 66,120

10. Compute tax liability of Mr. Jay for the A.Y. 2025-26. Assume he has salary income of ₹ 4,25,000 (computed) and he has opted out of the default tax regime.
- (a) Nil
  - (b) ₹ 7,020
  - (c) ₹ 4,290
  - (d) ₹ 6,750
11. Whether the income arising on buy back of shares taxable in the hands of Mr. Rahul? If yes, what amount, and under which head it would be taxable?
- (a) Income from buy back of shares would be exempt in the hands of Mr. Rahul by virtue of section 10(34A).
  - (b) ₹ 40,000 as deemed dividend under the head "Income from other sources" and long-term capital loss of ₹ 2,500 would arise.
  - (c) ₹ 37,500 as long-term capital gains under the head "Capital Gains".
  - (d) ₹ 37,500 as deemed dividend under the head "Income from other sources"
12. Compute total income and tax payable by Mr. Rahul for the A.Y. 2025-26. Assume he is paying tax as per section 115BAC.
- (a) Total Income – ₹ 12,82,000; Tax Payable – ₹ 96,260
  - (b) Taxable Income – ₹ 12,79,500; Tax Payable – ₹ 99,740
  - (c) Taxable Income – ₹ 12,82,000; Tax Payable – ₹ 1,00,256
  - (d) Taxable Income – ₹ 12,79,500; Tax Payable – ₹ 95,740
13. GlobalTech Inc., a company incorporated in the USA, has global assets worth ₹50 crores and Indian assets worth ₹25 crores. Its turnover during the P.Y. 2024-25 is US \$ equivalent to ₹90 crores. Out of 10 board meetings held during F.Y. 2024-25, only 4 were held in India. However, key management and commercial decisions for the conduct of the company's business as a whole were made in India at these meetings. Innovate Ltd., an Indian company, intends to remit fees for

technical services to GlobalTech Inc. for providing services in relation to a project in India. Assume such fees is not paid under an agreement approved by the Central Government.

Determine the residential status of GlobalTech Inc. for the P.Y. 2024-25. Whether tax is required to be deducted on fees for technical services paid by Innovate Ltd. If yes, at which rate (ignore surcharge and cess)?

- (a) Non-resident; and tax is deductible @20% u/s 195.
  - (b) Non-resident; and tax is deductible @35% u/s 195.
  - (c) Resident; and tax is deductible @35% u/s 195.
  - (d) Resident; and tax is deductible @10% u/s 194J.
14. The Statement of Profit & Loss of Tirupati Private Ltd., a domestic company engaged in manufacturing, shows net profit of ₹ 1,07,00,000 for the financial year ended on 31<sup>st</sup> March, 2025, after debit/credit of the following items.
- A. Credited to the Statement of Profit and Loss:
    - (i) Rent received from vacant land ₹ 2,55,000
    - (ii) Rent received (gross) from a commercial property owned by the company ₹ 5,30,000 (Tax deducted by tenant @ 10%)
    - (iii) Interest received on income tax refund ₹ 48,000
    - (iv) Profit on sale of plot ₹ 8,00,000.
    - (v) Dividend from ABC Inc., New York, a wholly owned subsidiary in February, 2025 ₹ 6,00,000
  - B. Debited to the Statement of Profit and Loss:
    - (i) Depreciation charged to the Statement of Profit and Loss ₹ 11,86,000.
    - (ii) Donation of ₹ 85,000 paid to Swachh Bharat Kosh.
    - (iii) Actual contribution to the pension scheme of employees: ₹ 1,90,000

- (iv) Payment made to transporter ₹ 68,000 by account payee cheque, but no tax has been deducted at source. (Transporter is having PAN and furnished declaration that he is covered under section 44AE and not having more than 10 goods carriages at any time during the previous year).
- (v) Bonus to employees ₹ 4,48,000. However, payment was made on 18<sup>th</sup> December, 2025.
- (vi) Provision made for income-tax ₹ 4,20,000 (including interest of ₹ 70,000 thereon)
- (vii) Contribution of ₹ 1,00,000 to a University approved and notified under section 35(1)(ii).
- (viii) Interest of ₹ 1,50,000 on loan borrowed for acquiring shares in ABC Inc., New York

**Additional information:**

- (1) Depreciation as per the Income-tax Act, 1961 ₹ 18,00,000. However, while calculating such depreciation, rate applicable to computers has been adopted for (i) accessories like printers and scanners, and (ii) EPABX. The written down value of these items as on 01.04.2024 is given below:
  - (a) Printers and Scanners ₹ 3,00,000
  - (b) EPABX ₹ 5,00,000
- (2) Additional depreciation on plant and machinery purchased for ₹ 34,00,000 on 18<sup>th</sup> November, 2024 has not been considered while calculating depreciation as per Income-tax Act, 1961 as above.
- (3) Provision for audit fee ₹ 1,00,000 was made in the books for the year ended on 31<sup>st</sup> March, 2024 without deducting tax at source. Such fee was paid to auditors in October 2024 after deducting tax at source under Section 194J and tax so deducted was deposited on 12<sup>th</sup> December, 2024.

- (4) During the financial year 2023-24, the company made a provision for an outstanding bill of ₹ 90,000 for purchase of raw material. Out of such outstanding amount, the company paid ₹ 45,000 in cash on 20<sup>th</sup> August, 2024.
- (5) During the year, the company has issued 1,00,000 equity shares of face value of ₹ 10 each at premium of ₹ 90 each. The fair market value is ₹ 60 per share at the time of issue of shares.
- (6) Plot was sold in March, 2025 for ₹ 58,00,000 was acquired by the company in January, 2023 for ₹ 50,00,000.
- (7) The eligible salary and dearness allowance for the pension scheme referred to under section 80CCD is ₹ 10,00,000.
- (8) The company declared interim dividend @10% of share capital being ₹ 5,20,000 in September, 2024.
- (9) Cost Inflation Index – FY 2022-23: 331; FY 2024-25: 363

Compute total income and tax liability of Tirupati Private Limited as per section 115BAA for the Assessment Year 2025-26 stating reasons for treatment of each item.

15. Vatsal, Vihaan & Vayu are equal partners of VSK & Co., which was formed w.e.f. 01.06.2024. The firm is an authorized dealer of shoes manufactured by a reputed company. It reported Net Profit as per profit and loss account of ₹ 4,50,000 after debit / credit of the following items:
  - (i) Depreciation on generator and computers ₹ 1,10,000.
  - (ii) Working partners' salary ₹ 82,000 per month for each partner.
  - (iii) Interest on capital to partners @ 18% per annum. The total interest on capital of the firm debited to profit and loss account being ₹ 3,60,000.
  - (iv) Donation to registered political parties ₹ 80,000 by cash and ₹ 70,000 by electronic transfer.
  - (v) Monthly rent paid to partner Vatsal for use of his premises as godown ₹ 36,000 per month and it is occupied from 01.10.2024.

The market rent for the premises is ascertained at ₹ 15,000 per month. No tax was deducted at source on the rent paid.

- (vi) The firm incurred ₹ 5 lakhs by way of expenditure towards the cost of gold coins awarded to customers on the first day of their showroom inauguration. The cost of each gold coin was less than ₹ 10,000 and one coin was given to each buyer on that day selected through lucky draw. No tax was deducted at source on such gold coins given to the customers.

**Additional information:**

- (i) Depreciation on tangible assets allowable u/s 32 ₹ 2,43,000.
- (ii) One registered trademark was acquired on 10.07.2024 for ₹ 3,00,000. The firm used the trademark w.e.f. 01.12.2024 since there was some dispute in title of the previous owner and was cleared through court decree only in November 2024.
- (iii) All the partners are working partners, and the salary and interest are authorized by the partnership deed.

You are required to compute the total income of the firm for the A.Y. 2025-26.

16. XYZ Charitable Trust, registered under Section 12AB, derives income from property held under trust of ₹ 500 lakh during the financial year 2024-25. The trust decides to pay an amount ₹ 200 lakh to another trust, ABC Educational Trust, which is also registered under Section 12AB.
- I. (a) How much the amount paid by XYZ Charitable Trust will be considered as an application of income for charitable purposes, if such contribution is given -
- (i) with a direction that the same shall be used for general charitable purposes and not as corpus.
- (ii) with a specific direction that the amount shall form part of its corpus.
- (b) Would your answer change to the above questions, if such amount is paid out of accumulations of XYZ trust. If yes, what other tax implications arise in its hands.

- II. Also, examine the conditions which ABC Educational trust require to satisfy for not including the amount received from XYZ Charitable trust with specific direction for forming part as corpus in its total income. What other tax implications arise in the hands of ABC Educational trust if such conditions are not satisfied.
17. Mr. Amit, an Indian resident, invested in Virtual Digital Assets (VDAs) such as cryptocurrencies and Non-fungible Tokens (NFTs).  
On 15 April, 2024, he purchased 1 Bitcoin (BTC) for ₹ 60 lakhs. His friend, Sushil gifted him NFTs (the transfer of these tokens does not result in transfer of underlying tangible asset) having FMV of ₹ 5 lakhs on his birthday on 16.8.2024. Sushil has bought these NFTs for ₹ 4.5 lakhs. Amit also buys NFTs worth ₹ 10 lakhs on 16.11.2024.  
Due to some financial need, on 1.12.2024, he sold 0.5 BTC for ₹ 28 lakhs and NFTs received from friend for ₹ 6.50 lakhs. He incurred expenses of 0.1% on transfer of BTC and NFTs.  
He has other income of ₹ 6,50,000 during the P.Y. 2024-25.  
Compute the tax payable by Mr. Amit for A.Y. 2025-26 assuming he has exercised the option to shift out of section 115BAC.
18. During the previous year 2024-25, Mr. Vivek, a non-resident became partner in a partnership firm M/s Pal & Co., India and contributed ₹ 50 lakhs towards capital. He was paid interest @10% as interest on capital and his profit share every year by the firm, as per the terms of the partnership deed. In the P.Y. 2024-25, his profit share was ₹ 4 lakhs. During the P.Y. 2024-25, firm paid ₹ 5 lakhs to Mr. Vikas, (a non-resident) friend of Mr. Vivek towards fees for technical services (FTS) for rendering of services for a project in India. Mr. Vivek and Mr. Vikas both are the resident of Country X.
- (i) As a tax consultant for M/s Pal & Co., India, you need to advise the firm regarding tax deduction at source on the payments (i.e., interest on capital and share of profit) made to Mr. Vivek and FTS payment to Mr. Vivek, considering that India has no DTAA with Country 'X'. In case tax is not deductible at source, is there any other related requirement to be complied with by the firm?

- (ii) If India has a DTAA with Country 'X' providing for deduction of tax at 10% in respect of FTS then, what is the remedy available in case M/s Pal & Co., India has deducted tax at the requisite rate provided under the Income-tax Act, 1961?
19. Mr. Bhuvan proposes to purchase for his business, certain raw materials from Mr. Srinivas. In view of the scarcity of the products, Srinivas insists on cash payments for the purchases, to which Bhuvan agrees. On 27-3-2025, the purchases are effected through a cash invoice for ₹ 3,20,000.
- In respect of the above transactions, will there be any detrimental effect in the hands of Bhuvan and Srinivas under the provisions of the Income-tax Act, 1961? Explain briefly.
- Will your answer be different, if the cash purchases are effected by the buyer Bhuvan on two different dates for different raw materials for ₹ 1,80,000 and ₹ 1,40,000 respectively?
20. Mrs. Sudha Sharma, aged 61 years, is married and settled in Calcutta. She is a Hindustani classical singer and composer who performs concerts in India and Country M. She visits Country M every year during the music season in October to participate in the Mega music concert held there. For the rest of the year, she performs concerts in India.
- Income from concerts held –
- In India - ₹ 10 lakhs
- In Country M - CMD 12,245
- Tax deducted in Country M in October, 2024 in respect of income earned by her in that country was 2500 CMD.
- She earns income of CND 10000 by way of royalty in respect of copyright of her musical compositions in Country N. The royalty is paid to her every year on 25th March after deduction of tax@10%.
- In India, she has interest income of ₹ 4 lakhs from bank fixed deposits in her name and ₹ 25,000 from savings bank account. She pays medical insurance premium of ₹ 27,000 to insure her health and ₹ 30,000 to

insure the health of her husband, a resident aged 64 years. She deposits ₹ 1.50 lakhs in public provident fund and ₹ 3 lakhs in five-year fixed deposit in the name of her son, Mr. Sahil.

The conversion rates are as follows –

| TT buying rate         | 30.9.2024 | 31.10.2024 | 28.2.2025 | 31.3.2025 |
|------------------------|-----------|------------|-----------|-----------|
| Country M dollar (CMD) | ₹ 80      | ₹ 84       | ₹ 78      | ₹ 80      |
| Country N dollar (CND) | ₹ 80      | ₹ 82       | ₹ 78      | ₹ 79      |

India has no double taxation avoidance agreement with Country M but has a DTAA with Country N.

**Relevant Extracts of DTAA between “India - Country N”**

**ARTICLE 12**

**ROYALTIES AND FEES FOR TECHNICAL SERVICES**

1. Royalties and fees for included services arising in a Contracting State and paid to a resident of the other Contracting State may be taxed in that other State.

**Article 23**

**ELIMINATION OF DOUBLE TAXATION**

3. The amount of tax paid, under the laws of Country N and in accordance with the provisions of the Agreement, whether directly or by deduction, by a resident of India, in respect of income from sources within Country N which has been subjected to tax both in India and Country N shall be allowed as a credit against the Indian tax payable in respect of such income but in an amount not exceeding that proportion of Indian tax which such income bears to the entire income chargeable to Indian tax.

Compute the total income and net tax liability (taking into account the foreign tax credit) of Mrs. Sudha Sharma for A.Y. 2025-26, if she has opted out of the default tax regime.

21. Manan who remained in Country X returned to India permanently in 1<sup>st</sup> February 2024. He has a house property in Country X from which he earned and received rental income of Country X \$ 30,000 and Country X \$ 34,000 for the year ended 31st March, 2024 and 31st March, 2025,

respectively, in bank account maintained in Country X. He is eligible for basic exemption limit of Country X \$ 18,200 and on the balance income, he paid income-tax for both the years@ 20% in Country X. The tax was paid for the let out property on income earned in Country X for both the years on 5<sup>th</sup> April 2024 and on 10<sup>th</sup> April 2025, respectively, from his bank account in India. His income from business in India is ₹ 12,50,000 for the year ended 31-03-2025.

He transferred land situated in Indore on 23.12.2024 to Mr. Sarthak for ₹ 80,00,000, which he acquired on 18.5.2022 for ₹ 30 lakhs.

Cost Inflation Index – FY 2022-23: 331 ; FY 2024-25: 363

The exchange rate of 1 Country X Dollar on various dates is given below:

31st March 2024 = ₹ 80; 05th April 2024 = ₹ 80.50; 31st December 2024 = ₹ 81;

31st March 2025 = ₹ 82; 10th April 2025 = ₹ 81.50 and 31st December 2025 = ₹ 83

Compute the tax liability of Manan in India for assessment year 2025-26 under default tax regime.

22. Triveni Cement Ltd. (TCL) is an Indian company, having its head office at Chennai. For the P.Y. 2024-25, it furnished the following information of certain entities and the transactions undertaken with these companies:

- Drift Inc. is a wholly owned foreign subsidiary in Japan of TCL. It is currently paying royalty of USD 3 million per annum to TCL for supply of know-how. For similar supply of know how to Elite LLC., a wholly owned Government Company in Japan, TCL receives annual royalty of USD 4 million. (1 USD = ₹ 82).
- TCL has borrowed a sum of equivalent of ₹ 220 crores from Swift Inc., Dubai on 1.4.2024. On this date, the assets position of TCL was as under:

| Type of assets        | (In ₹ Crores) |            |
|-----------------------|---------------|------------|
|                       | Market value  | Book value |
| Tangible fixed assets | 350           | 270        |
| Intangible assets     | 30            | 25         |
| Other assets          | 40            | 35         |

Swift Inc., has charged interest at 8% and TCL has paid interest of ₹ 17.6 crores for the year ended 31.3.2025. Though the normal lending rate of Swift Inc. was 7% per annum to other parties, in view of the urgent requirement of funds and pressing financial commitments, TCL decided to borrow this amount then.

- TCL supplies goods to True Words Ltd. (TWL), in Singapore. The paid-up capital of TWL in foreign currency equivalent is ₹ 92 crores. TCL holds shares to the tune of ₹ 22 crores in TWL. The voting power in the company is directly proportional to the number of shares held.

You are required to examine the various transactions entered into by TCL and determine the applicability of transfer pricing provisions for each transaction. Ignore provisions of section 94B, if applicable, in this case.



### SUGGESTED ANSWERS

| MCQ No. | Most Appropriate Answer | MCQ No. | Most Appropriate Answer |
|---------|-------------------------|---------|-------------------------|
| 1.      | (d)                     | 8.      | (a)                     |
| 2.      | (a)                     | 9.      | (d)                     |
| 3.      | (d)                     | 10.     | (b)                     |
| 4.      | (d)                     | 11.     | (b)                     |
| 5.      | (b)                     | 12.     | (a)                     |
| 6.      | (c)                     | 13.     | (c)                     |
| 7.      | (c)                     |         |                         |

**14. Computation of Total Income and Tax Liability of Tirupati Private Ltd. as per section 115BAA for the A.Y.2025-26**

|           | Particulars   | Amount (₹)      |          |
|-----------|---|-----------------|----------|
| <b>I</b>  | <b>Income from house property</b>   |                 |          |
|           | <b>[Rental income from commercial property]</b>   |                 |          |
|           | Gross Annual Value <sup>1</sup> /Net Annual Value   | 5,30,000        |          |
|           | Less: Deduction under section 24(a)   |                 |          |
|           | 30% of Net Annual Value   | <u>1,59,000</u> |          |
|           |   |                 | 3,71,000 |
| <b>II</b> | <b>Profits and gains of business and profession</b>   |                 |          |
|           | <b>Net profit as per profit and loss account</b>  | 1,07,00,000     |          |
|           | <b>Add: Items debited but to be considered separately or to be disallowed</b>   |                 |          |
|           | <b>B(ii) Donation paid to Swachh Bharat Kosh</b>  | 85,000          |          |
|           | [Not an expenditure incurred wholly and exclusively for the manufacturing business. Hence, not allowable under section 37]  |                 |          |
|           | <b>B(iii) Contribution towards pension scheme of employees</b>  | 50,000          |          |
|           | [Contribution towards pension scheme, referred to in section 80CCD, of employees is allowed only to the extent of 14% of salary of the employee in the P.Y. i.e., ₹ 1,40,000 being 14% of ₹ 10,00,000. Therefore, the excess contribution of ₹ 50,000 [i.e., ₹ 1,90,000 – ₹ 1,40,000] is disallowed u/s 36(1)(iva). |                 |          |
|           | <b>B(iv) Payment to transport contractor</b>  | -               |          |
|           | [As per section 194C(6), no tax is required to be deducted at source  |                 |          |

<sup>1</sup> Rent received has been taken as the Gross Annual Value (GAV) in the absence of information relating to Municipal Value, Fair Rent and Standard rent.

|  |          |                  |  |
|--|----------|------------------|--|
| <p>since the payment is to a transport contractor not having more than 10 goods carriages at any time during the previous year and he has given a declaration to that effect along with his PAN. Hence, disallowance under section 40(a)(ia) for non-deduction of tax at source is not attracted. Also, since payment is made by account payee cheque, no disallowance under section 40A(3) is attracted].</p> |          |                  |  |
| <p><b>B(v) Bonus to employees</b></p> <p>[Since the payment is made after the due date of filing return of income, disallowance under section 43B is attracted]</p>  | 4,48,000 |                  |  |
| <p><b>B(vi) Provision for income-tax (including interest of ₹ 70,000 thereon)</b></p> <p>[Not allowable as deduction. Disallowance under section 40(a)(ii) is attracted]</p>   | 4,20,000 |                  |  |
| <p><b>B(vii) Contribution to a University approved and notified u/s 35(1)(ii)</b></p> <p>No deduction is allowed u/s 115BAA in respect of contribution to a University approved and notified u/s 35(1)(ii)</p>   | 1,00,000 |                  |  |
| <p><b>B(viii) Interest on loan borrowed for investing in shares of ABC Inc.</b></p> <p>[Allowability or otherwise of interest expenditure on earning dividend has to be considered separately under the head "Income from Other Sources"]</p>  | 1,50,000 | <u>12,53,000</u> |  |
| <p><b>Add: Cash Payment for purchase of raw material deemed as income</b></p> <p>AI(4) [Since the provision for</p>  |          | 1,19,53,000      |  |
|  |          | <u>45,000</u>    |  |

|   |          |             |  |
|---|----------|-------------|--|
| <p>outstanding bill for purchase of raw material has been allowed as deduction during the P.Y.2023-24, cash payment in excess of ₹ 10,000 against such bill in the P.Y. 2024-25 would be deemed as income of P.Y.2024-25 as per section 40A(3A)]</p>  |          |             |  |
| <p><b>Less: Expenditure to be allowed</b></p> <p>B(i) &amp; A1(1) Depreciation<br/>[Difference between the normal depreciation of ₹ 16.75 lakhs as per Income-tax Act, 1961 <b>[See Note below]</b> and depreciation charged to the statement of profit and loss of ₹ 11.86 lakhs].</p> <p><b>Note</b> – <sup>2</sup>Printers and scanners form an integral part of the computer system and they cannot be used without the computer. Thus, they are part of the computer system, they would be eligible for depreciation at the higher rate of 40% applicable to computers including computer software. However, EPABX is not a computer and is, hence, not entitled to higher depreciation @40%<sup>3</sup><br/>Accordingly, depreciation of ₹ 1,25,000 on EPABX computed @ 25% (40% - 15%) is to be reduced from the depreciation given as per the Income-tax Act, 1961 of ₹ 18 lakhs. Thus, depreciation as per Income-tax Act, 1961 allowed as deduction would be ₹ 16.75 lakhs.</p> | 4,89,000 | 1,19,98,000 |  |
| <p>A1(2)<b>Additional depreciation on new plant and machinery</b> [Not</p>  | Nil      |             |  |

<sup>2</sup> CIT v. BSES Yamuna Powers Ltd (2013) 358 ITR 47 (Delhi)

<sup>3</sup> Federal Bank Ltd. v. ACIT (2011) 332 ITR 319 (Kerala)

|   |          |                  |                  |
|---|----------|------------------|------------------|
| allowable as deduction under section 115BAA]  |          |                  |                  |
| AI(3) <b>Audit Fees relating to P.Y.2023-24</b>   | 30,000   | <u>5,19,000</u>  |                  |
| [₹ 30,000, being 30% of audit fees of ₹ 1,00,000 provided for in the books of account of F.Y.2023-24 would have been disallowed due to non-deduction of tax at source. Since tax has been deducted in October, 2024 and paid on 12.12.2024, the amount of ₹ 30,000 is deductible while computing business income of P.Y.2024-25]. |          |                  |                  |
|   |          | 1,14,79,000      |                  |
| <b>Less: Items credited to statement of profit and loss, but not includible in business income</b>  |          |                  |                  |
| A(i) Rent received from vacant land [Chargeable to tax under the head "Income from other sources"]  | 2,55,000 |                  |                  |
| A(ii) Rent received from commercial property owned by the company [Chargeable to tax under the head "Income from house property"]   | 5,30,000 |                  |                  |
| A(iii) Interest received on income tax refund [Chargeable to tax under the head "Income from other sources"]  | 48,000   |                  |                  |
| A(iv) Profit on sale of plot [Chargeable to tax under the head "Capital Gains"]   | 8,00,000 |                  |                  |
| A(v) Dividend from ABC Inc. company [Dividend received from foreign company is taxable under the head "Income from Other Sources"]  | 6,00,000 | <u>22,33,000</u> |                  |
|   |          | 92,46,000        |                  |
| <b>Profits and gains from the business of manufacturing</b>   |          |                  | <b>92,46,000</b> |

|            |  |                  |                    |
|------------|--|------------------|--------------------|
| <b>III</b> | <b>Capital Gains</b>   |                  |                    |
|            | <b>Capital gain on sale of plot</b>  |                  |                    |
|            | Sale consideration   | 58,00,000        |                    |
|            | Less: Cost of Acquisition [since land is transferred on or after 23.7.2024, indexation benefit will not be to a person other than an individual or a HUF, resident in India]   | <u>50,00,000</u> |                    |
|            | <b>Long-term capital gain</b>  |                  | 8,00,000           |
| <b>IV</b>  | <b>Income from Other Sources</b>   |                  |                    |
|            | Rent received from vacant land   | 2,55,000         |                    |
|            | Interest received on income-tax refund   | 48,000           |                    |
|            | Excess of issue price of shares over the fair market value of shares is not taxable w.e.f. A.Y. 2025-26  | -                |                    |
|            | Dividend from ABC Inc., a foreign company  | 6,00,000         |                    |
|            | Less: Interest expenditure of ₹ 1,50,000 allowed deduction upto 20% of dividend  | 1,20,000         | 4,80,000           |
|            |  |                  | <u>7,83,000</u>    |
|            | <b>Gross Total Income</b>  |                  | <b>1,12,00,000</b> |
|            | <b>Less: Deductions under Chapter VI-A</b>   |                  |                    |
|            | <b>Deduction under section 80G</b>   |                  |                    |
|            | Not allowable u/s 115BAA   | -                |                    |
|            | <b>Deduction under section 80M</b>   | 4,80,000         |                    |
|            | Deduction in respect of inter-corporate dividend to the extent of ₹ 5,20,000, being dividend distributed by it one month prior to the due date specified u/s 139(1) or ₹ 4,80,000 dividend received to the extent includible in the gross total income, whichever is lower |                  | <u>4,80,000</u>    |
|            | <b>Total Income</b>  |                  | <b>1,07,20,000</b> |
|            | <b>Computation of tax liability</b>  |                  |                    |
|            | Tax on long-term capital gains @ 12.5%   |                  | 1,00,000           |
|            | Tax on other income @22% on ₹ 99,20,000  |                  | <u>21,82,400</u>   |
|            |  |                  | <b>22,82,400</b>   |

|  |                  |
|--|------------------|
| <b>Add:</b> Surcharge @10%                 | 2,28,240         |
|  | <b>25,10,640</b> |
| <b>Add:</b> Health and Education Cess @ 4% | 1,00,426         |
| <b>Tax Liability (rounded off)</b>         | <b>26,11,066</b> |
| <b>Tax Liability</b>                       | <b>26,11,070</b> |

15. **Computation of total income of the firm, VSK & Co. for the A.Y. 2025-26 applying the regular provisions of the Income-tax Act,1961**

| Particulars  | ₹         | ₹        |
|--|-----------|----------|
| Net profit as per profit & loss account  |           | 4,50,000 |
| <b>Add: Expenditure debited to profit &amp; loss account but not allowable as deduction or to be considered separately</b>   |           |          |
| - Depreciation as per books of accounts  | 1,10,000  |          |
| - Salary paid to working partners considered separately [₹ 82,000 x 3 partners x 10 months]  | 24,60,000 |          |
| - Interest on capital paid to partners in excess of 12% disallowed. Accordingly, ₹ 1,20,000 [₹ 3,60,000 – ₹ 2,40,000 (₹ 3,60,000 x 12/18)], is disallowed  | 1,20,000  |          |
| - Donation to registered political party [Donation paid to a political party is not an allowable expenditure under section 37 since it is not laid out wholly or exclusively for the purposes of business or profession]                 | 1,50,000  |          |
| - Excess rent paid to a partner would be disallowed under section 40A(2), since partner is a related person of the firm [(₹ 36,000 - ₹ 15,000) x 6]<br>[No disallowance would be attracted for non-deduction of tax at source, since the | 1,26,000  |          |

|   |                  |                         |
|---|------------------|-------------------------|
| amount of rent does not exceed ₹ 2,40,000]  |                  |                         |
| - Expenditure on gold coins awarded to customers<br>[Allowed as expenditure u/s 37. TDS u/s 194R is not attracted since the value of gold coin awarded to each customer does not exceed ₹ 20,000, consequently, no disallowance would be attracted for non-deduction of tax at source,] | Nil              | <u>29,66,000</u>        |
|   |                  | 34,16,000               |
| <b>Less: Depreciation as per Income-tax Act, 1961</b>   |                  |                         |
| - Tangible assets   | 2,43,000         |                         |
| - Intangible asset—registered trademark [₹ 3,00,000 x 12.5%]<br>[50% of 25%, being the depreciation allowable as deduction, since the asset is put to use for less than 180 days during the year of acquisition]  | <u>37,500</u>    | <u>2,80,500</u>         |
| <b>Book Profit</b>  |                  | 31,35,500               |
| <b>Less: Salary to working partners:</b>  |                  |                         |
| (i) As per prescribed limits  |                  |                         |
| On first ₹ 6,00,000 @ 90% or ₹ 3,00,000, whichever is more  | 5,40,000         |                         |
| On the balance of ₹ 25,35,500 @ 60%   | <u>15,21,300</u> |                         |
|   | 20,61,300        |                         |
| (ii) Salary actually paid   | 24,60,000        |                         |
| Deduction allowed being (i) or (ii) whichever is less   |                  | <u>20,61,300</u>        |
| <b>Profits and gains from business or profession</b>  |                  | <b><u>10,74,200</u></b> |

|  |        |                  |
|--|--------|------------------|
| <b>Gross Total Income</b>  |        | <b>10,74,200</b> |
| <b>Less: Deduction under Chapter VI-A</b>  |        |                  |
| Under section 80GGC Donation to registered political party   |        |                  |
| • Paid by cash not allowable   | Nil    |                  |
| • ₹ 70,000 paid by electronic transfer would be allowed as deduction, since payment is made in a mode other than cash. | 70,000 | 70,000           |
| <b>Total Income</b>  |        | <b>10,04,200</b> |

16. (I) (a) (i) As per *Explanation 4(iii)* to Section 11(1), only 85% of the amount paid to ABC Educational trust (other than for corpus) is considered as an application of income. Accordingly, ₹ 170 lakh will be treated as an application of income for charitable purposes.
- (ii) As per *Explanation 2* to Section 11(1), any contribution made by one trust to another trust or institution (even if registered under Section 12AB or Section 10(23C)(iv)/(v)/(vi)/(via)) with a direction that such amount shall form part of corpus is **not** considered as an application of income for charitable purposes.
- Therefore, the ₹ 200 lakhs given for corpus will **not** be treated as an application of income for XYZ Charitable Trust.
- (b) Where any amount of contribution given to another trust approved under section 12AB or registered under section 10(23C)(iv)/(v)/(vi)/(via) is out of accumulations then such amount would not qualify for application and would be deemed as income by virtue of section 11(3) in both cases. Moreover, such an amount would fall within the definition of specified income u/s 115BBI and would be taxable @30%.
- (II) As per section 11(1)(d), an amount received by a fund/ trust/ institution etc. would not be included in the total income, if such amount is received with a specific direction that it shall form part of the corpus and the said corpus contribution is invested in any of the modes specified under section 11(5).

However, if the same is invested in modes otherwise than specified under section 11(5), then by virtue of section 115BBI the same would be considered as specified income and would be taxable @30%.

**17. Tax payable by Mr. Amit for A.Y. 2025-26**

| Particulars   | Amount<br>in ₹   | Amount<br>in ₹   |
|---|------------------|------------------|
| <b>On sale of Bitcoin</b>   |                  |                  |
| Sale consideration  | 28,00,000        |                  |
| Less: Cost of acquisition [₹ 60 lakhs/2]<br>[Expenses on transfer of VDA is not allowable as deduction]   | <u>30,00,000</u> |                  |
| Loss from transfer of VDA not allowable to be set off against any other income  | (2,00,000)       |                  |
| <b>On sale of NFTs</b>  |                  |                  |
| Sale consideration  | 6,50,000         |                  |
| Less: Cost of acquisition [FMV of NFTs on 16.8.2024, being the date of receiving the gift]<br>[Expenses on transfer of VDA is not allowable as deduction] | <u>5,00,000</u>  |                  |
|   |                  | 1,50,000         |
| <b>Gift received from Mr. Sushil</b>  |                  |                  |
| Taxable [Since the FMV of NFTs on 16.8.2024 exceeds ₹ 50,000]   | 5,00,000         |                  |
| Other income  | <u>6,50,000</u>  | 11,50,000        |
| <b>Total Income</b>   |                  | <b>13,00,000</b> |
| Tax on other income of ₹ 11,50,000 [₹ 1,12,500 plus ₹ 45,000 @ 30% of ₹ 1,50,000]   |                  | 1,57,500         |

|   |  |               |
|---|--|---------------|
| Tax on income from transfer of VDA<br>income of ₹ 1,50,000@30%        |  | <u>45,000</u> |
|   |  | 2,02,500      |
| Add: Health and education cess @ 4%                                   |  | <u>8,100</u>  |
|   |  | 2,10,600      |
| Less: TDS under section 194S [₹ 28 lakhs x<br>1% + ₹ 6.50 lakhs x 1%] |  | <u>34,500</u> |
| <b>Net tax payable</b>  |  | 1,76,100      |

18. (i) Section 194A requiring deduction of tax at source on any income by way of interest, other than interest on securities credited or paid to a resident, excludes from its scope, income credited or paid by a firm to its partner. However, section 195 which requires tax deduction at source on payment to non-residents, does not provide for any exclusion in respect of payment of interest by firm to its non-resident partner. Further, since FTS is deemed to accrue or arise in India on account utilisation of services for a project in India and chargeable to tax in the hands of Mr. Vikas, TDS is also required to be deducted on FTS payment. Accordingly, tax has to be deducted under section 195 @30% plus HEC@4% being the rate in force on both interest on capital and FTS (assuming it is not in pursuance of Central Government agreement).

As per section 10(2A), share of profit received by partner from the total income of firm is exempt from tax. Therefore, the share of profit paid to non-resident Indian is not liable for tax deduction at source.

However, section 195(6) provides that the person responsible for paying any sum, whether or not chargeable to tax, to a non-corporate non-resident or to a foreign company shall be required to furnish the information relating to payment of such sum in the form and manner prescribed under Rule 37BB.

- (ii) As per section 239A, where under a DTAA, the tax deductible on any income, other than interest, under section 195 is to be borne by the person by whom the income is payable, and such person

having paid such tax to the credit of the Central Government, claims that no tax was required to be deducted on such income, such person can file an application before the Assessing Officer for refund of such tax within 30 days from the date of payment of such tax.

In this case, Pal & Co. has to file an application before the Assessing Officer for refund of such tax within 30 days from the date of payment of such tax.

The CBDT has, vide Circular No.11/2007 dated 27.9.2011 modified Circular No.7/2007 dated 23.10.2007, which laid down the procedure for refund of tax deducted at source under section 195 of the Income-tax Act, 1961 to the person deducting tax at source from the payment to a non-resident. The said Circular allowed refund to the person making payment under section 195, *inter alia*, when there occurs payment of tax at a higher rate under the Income-tax Act, 1961 while a lower rate is prescribed in the relevant double taxation avoidance treaty entered into by India.

Hence, M/s Pal & Co., India can claim tax refund of excess tax deducted at source under section 195 where tax has been deducted at source at the rate of 30% provided under the Income-tax Act, 1961 while a lower rate i.e., 10% is prescribed under the DTAA with Country 'X', only if Pal & Co. has borne the tax. Otherwise, refund can be claimed by the non-resident, Mr. Vikas.

**19. (1) Where purchases are effected through cash invoice of ₹ 3,20,000**

**(i) In the hands of Mr. Bhuvan**

Since Mr. Bhuvan is making cash payment of ₹ 3,20,000 for purchase of raw materials from Mr. Srinivas for his business, disallowance under section 40A(3) would be attracted, since the payment otherwise than by way of account payee cheque or bank draft or use of ECS through a bank account or through other prescribed electronic

modes to a person in a day exceeds ₹ 10,000. Accordingly, ₹ 3,20,000 would not be allowable as deduction while computing his business income.

**(ii) In the hands of Mr. Srinivas**

Section 269ST prohibits, *inter alia*, receipt of an amount of ₹ 2 lakh or more in aggregate from a person in a day otherwise than by way of account payee cheque or account payee bank draft or use of ECS through a bank account or through other prescribed electronic modes. If any person receives any sum in contravention of the provisions of section 269ST, he shall be liable to pay penalty under section 271DA of a sum equal to the amount of such receipt.

In this case, since Srinivas has received ₹ 3,20,000 by way of cash from Mr. Bhuvan on 27.3.2025, he has violated the provisions of section 269ST, and hence, is liable to pay penalty of ₹ 3,20,000 under section 271DA.

**(2) Where cash purchases of ₹ 1,80,000 and ₹ 1,40,000 are effected in respect of different raw materials on two different dates**

**(i) In the hands of Mr. Bhuvan**

Even if cash payment of ₹ 1,80,000 and ₹ 1,40,000 are made by Mr. Bhuvan on two different dates for different raw materials, disallowance under section 40A(3) would be attracted, since the payment in cash in a day to Mr. Srinivas exceeds ₹ 10,000.

**(ii) In the hands of Mr. Srinivas**

If Srinivas receives cash of ₹ 1,80,000 and ₹ 1,40,000 on two different dates, for purchase of different raw materials, there would be no violation of section 269ST since receipt on a day is less than ₹ 2 lakh and the receipts are not in respect of the same transaction but for purchase of different raw materials. Hence, provision of section 271DA shall not be attracted.

**20. Computation of net tax liability of Mrs. Sudha Sharma for the A.Y. 2025-26**

| Particulars   | ₹               | ₹                      |
|---|-----------------|------------------------|
| <b>Profits and gains of business or profession</b>  |                 |                        |
| From concerts held in India   | 10,00,000       |                        |
| From royalty received from Country N [CND 10000 x 79 (being conversion rate as on 31.3.2025 - Rule 115)]  | 7,90,000        |                        |
| From concerts held in Country M [CMD 12,245 x 80 (being conversion rate as on 31.3.2025 – Rule 115)]  | <u>9,79,600</u> |                        |
|   |                 | 27,69,600              |
| <b>Income from Other Sources</b>  |                 |                        |
| Income from bank fixed deposits in her name   | 4,00,000        |                        |
| Income from savings bank account  | <u>25,000</u>   | <b><u>4,25,000</u></b> |
| <b>Gross Total Income</b>   |                 | <b>31,94,600</b>       |
| <b>Less: Deduction under section 80C</b>  |                 |                        |
| - Deposit in PPF  | 1,50,000        |                        |
| - Five year fixed deposit in the name of her son (does not qualify for deduction under section 80C)   | -               |                        |
| <b>Under section 80D</b>  | 50,000          |                        |
| - Medical insurance premium to insure her health and health of spouse (₹ 57,000, restricted to ₹ 50,000, being the maximum allowable for senior citizens) |                 |                        |

|  |               |                  |
|--|---------------|------------------|
| <b>Under section 80TTB</b>   |               |                  |
| - Interest on bank FD and savings bank account restricted to   | <u>50,000</u> | <u>2,50,000</u>  |
| <b>Total Income</b>  |               | <b>29,44,600</b> |
| Tax on Total Income  |               |                  |
| Income-tax [₹ 1,10,000 (upto ₹ 10,00,000)<br>Plus ₹ 5,83,380 @30% of ₹ 19,44,600]  |               | 6,93,380         |
| Add: Health and Education Cess @4%   |               | <u>27,735</u>    |
|  |               | <b>7,21,115</b>  |
| Average rate of tax in India<br>(i.e., ₹ 7,21,115/ ₹ 29,44,600 × 100)  | 24.489%       |                  |
| <b>Foreign Tax Credit</b>  |               |                  |
| Lower of tax payable under the Income-tax Act, 1961 on income from profession and foreign tax payable on such income                                     |               |                  |
| <b>Tax covered under India-Country N DTAA:</b>   | 78,000        |                  |
| [Lower of ₹ 1,93,463 (i.e., 24.489% × ₹ 7,90,000) and ₹ 78,000 (₹ 78, being the conversion rate as on 28.2.2025 as per Rule 128 x CND 1000)]             |               |                  |
| <b>Tax paid in Country M:</b>  |               |                  |
| Country M [Lower of ₹ 2,39,894 (i.e., 24.489% × ₹ 9,79,600) and ₹ 2,00,000 (₹ 80, being the conversion rate as on 30.9.2024 as per Rule 128 x CMD 2500)] | 2,00,000      |                  |
|  |               | <u>2,78,000</u>  |
| <b>Net tax liability (₹ 7,21,115 – ₹ 2,78,000)</b>   |               | <u>4,43,115</u>  |
| <b>Net tax liability (rounded off)</b>   |               | <b>4,43,120</b>  |

**Note** - As per Rule 115, for computing income from profession of Mrs. Sudha Sharma, the TT buying rate as on 31.3.2025 has to be considered. Royalty income from Country N and income from concerts in Country M constitute her income from profession, since she is a singer and a composer.

As per Rule 128, for computing foreign tax credit, TT buying rate as on the last day of the month immediately preceding the month in which tax was deducted or paid in that country has to be considered. Foreign Tax Credit has been computed accordingly.

As per Article 12(1), royalty income arising in a Contracting State (Country N, in this case) and paid to a resident of another Contracting State (Mrs. Sudha Sharma, a resident of India, in this case) **may** be taxed in that other State (India, in this case). Credit for such tax paid by Mrs. Sudha Sharma in Source State, i.e., Country N, in this case, would be available for an amount not exceeding that proportion of Indian tax which such income bears to the entire income chargeable to Indian tax.

21. Manan is a resident but not ordinarily resident for the P.Y.2024-25. He is resident since he has stayed in India for the whole year and hence, he satisfies the condition of stay in India for a period of 182 days or more during the P.Y.2024-25. However, he is not ordinarily resident, since he has stayed in India only for a period of 60 days prior to P.Y.2024-25.

Hence, he satisfies the condition of stay in India for a period of 729 days or less in the seven previous years immediately preceding P.Y.2024-25 stipulated under section 6(6) for being treated as a "not ordinarily resident" in India in the P.Y.2024-25.

Also, he has been non-resident in all the ten previous years immediately preceding P.Y.2024-25. Hence, he also satisfies the condition in section 6(6) of being non-resident in 9 out of 10 previous years immediately preceding P.Y.2024-25. In this case, he has satisfied both the conditions even though satisfaction of any one condition would suffice for being treated as "not-ordinarily resident".

In case of a resident but not ordinarily resident, income which is received or is deemed to be received in India or income accrues or arises or is deemed to accrues or arises in India would be taxable in India. However, income which accrues or arises outside India would be included in total income, only if it is derived from a business controlled from or profession set up in India.

Accordingly, total income and tax liability of Mr. Manan, being resident but not ordinarily resident would be computed in the following manner:

| Particulars  | ₹                |
|--|------------------|
| <b>Income from property</b> earned and received in Country X would not be taxable in his hands in India.   | -                |
| <b>Income from business</b> [deemed to accrue or arise in India and hence taxable in India]  | 12,50,000        |
| <b>Capital Gains</b>   |                  |
| Sale consideration   | 80,00,000        |
| Less: Cost of Acquisition [since land is transferred on or after 23.7.2024, indexation benefit will be considered while determining the tax liability u/s 112] | <u>30,00,000</u> |
| <b>Long-term capital gain</b>  | <u>50,00,000</u> |
| <b>Total Income</b>  | <b>62,50,000</b> |
| <b>Computation of Tax Liability</b>  |                  |
| <b>Tax on long-term capital gains</b>  | 6,25,000         |
| Lower of   |                  |
| - Tax @12.5% without indexation benefit [₹ 50,00,000 x 12.5%]  | 6,25,000         |
| - Tax @20% on LTCG of ₹ 47,09,970 with indexation [80,00,000 – 32,90,030 (₹ 30 lakhs x 363/331)]   | 9,41,994         |
| <b>Tax on total income of ₹ 12.5 lakh other than LTCG u/s 115BAC</b>   |                  |

|   |               |                        |
|---|---------------|------------------------|
| Upto ₹ 3,00,000   | Nil           |                        |
| ₹ 3,00,001 – ₹ 7,00,000 [i.e., ₹ 4,00,000 x 5%]           | 20,000        |                        |
| ₹ 7,00,001 – ₹ 10,00,000 [i.e., ₹ 3,00,000 x 10%]         | 30,000        |                        |
| ₹ 10,00,001 – ₹ 12,00,000 [i.e., ₹ 2,00,000 x 15%]        | 30,000        |                        |
| ₹ 12,00,001 – ₹ 12,50,000 [i.e., ₹ 50,000 x 20%]          | <u>10,000</u> |                        |
|   |               | 90,000                 |
|   |               | 7,15,000               |
| Add: Surcharge @10% since total income exceeds ₹ 50 lakhs |               | <u>71,500</u>          |
|   |               | <b>7,86,500</b>        |
| Add: HEC@4%   |               | <u>31,460</u>          |
| <b>Tax liability</b>                                      |               | <b><u>8,17,960</u></b> |

22. Any income arising from an international transaction, between two or more "associated enterprises", shall be computed having regard to arm's length price as per the provisions of Chapter X of the Act. Section 92A defines an "associated enterprise" and sub-section (2) of this section speaks of the situations when the two enterprises shall be deemed to be associated enterprises.

**Transaction with Drift Inc.**

Drift Inc. is a wholly owned subsidiary of TCL and is a non-resident company. Hence, it is an associated enterprise. Royalty falls within the meaning of international transaction, since it is payment for supply of know-how, being an intangible property. Drift Inc. is currently paying a royalty of USD 3 million per annum to TCL for supply of know-how. For similar supply of know how to Elite LLC., a wholly owned Government Company in Japan, TCL receives annual royalty of USD 4 million.

Under CUP Method, ALP has to be taken as USD 4 million. Understatement of royalty is 1 million USD, i.e., 1 M USD x ₹ 82 = ₹ 820 lakhs.

**Transaction with Swift Inc.**

As per section 92A(2), if one enterprise advances loan to the other enterprise of an amount of 51% or more of the book value of the total assets of such other enterprise, the two enterprises would be deemed to be associated enterprises.

As on the date of borrowing, the amount advanced is ₹ 220 crores out of ₹ 330 crores, which comes to 66.67%. Hence, Swift Inc., is deemed to be an associated enterprise of TCL. Interest payments are also covered by the term "international transaction".

Swift Inc., has charged interest at 8% and TCL has paid interest of ₹ 17.6 crores for the year ended 31.3.2025. Interest rate charged to other parties is 7%. This has to be taken as the ALP rate.

In the light of this, the interest payment should have been  $17.6 \times 7/8$  i.e., ₹ 15.4 crores. There has been an excess payment of ₹ 2.2 crores above the ALP.

**Transaction with TWL**

In TWL, TCL holds 22/92 i.e., 23.91% of the voting power. Since TCL holds less than 26% of the voting power, TWL is not an associated enterprise. Hence, the transfer pricing provisions would not be applicable on sales made by TCL to TWL.