P15 Direct Tax Laws and International Taxation · Paper Map

Dec'26

What the paper is, what each module carries, where the Dec'26 questions are expected, and in which order the notes are printed (exam weight). Marks are from the 7 past papers (Jun'23 → Jun'26), out of the **128 printed marks**. **A prediction, not a promise.**

THE PAPER

- **Q1: 15 MCQs × 2 = 30, compulsory.** Mostly facts and limits; 3–8 are small computations.
- **Q2–Q8: seven questions of 7 + 7 marks; answer any 5** (you write 100 of 128).
- **Section A** Direct Tax Laws = Modules 1–11 · **Section B** International Taxation = 12 DTAA, 13 Transfer Pricing, 14 GAAR (47 marks of each of the last two papers).
- About **70 of the 128 marks are sums**. M1 (~44) + transfer pricing (~27) = two-thirds of the paper.
- Jun'23 used the old layout (12 MCQs, 15-mark questions); averages use Dec'23 onwards.

THE LAW FOR DEC 2026

- Income-tax Act 1961 as amended by the **Finance Act 2025**, **A.Y. 2026-27** (P.Y. 2025-26). The SM's formats are already for A.Y. 2026-27. [SM 6]
- **Jun'26 supplementary** (still applies): FA 2025 slabs, 87A rebate ₹60,000, trust registration 10 years, s.13(3) ₹1,00,000 / ₹10,00,000, s.72A / 72AA 8-year rule, multi-year ALP, updated return 48 months, block assessment, TDS thresholds, CII 376. [Supp J26 p.2–29]
- **Dec'26 supplementary**: DIN (Circular 4/2026, approval within 15 days), ITR-1 / ITR-4 two house properties, Rule 10U GAAR (investments before 1 April 2017). [Supp D26 p.2–4]
- ⚠ boxes in these notes = the SM is out of date or silent; the supplementary wins.

Modules: what they cover and what they carried

#	Module (SM pages) · what it covers	J23	D23	J24	D24	J25	D25	J26	Exp D26	Priority
M1	**Assessment of various entities** (6–108): individual + non-resident (regimes, NRI Chapter XII-A, s.115A / 115BBA, 44B–44BBD, TDS on NR) · company (115BAA / BAB, 80JJAA, MAT 115JB) · trust (s.11–13, 115BBC, 115TD) · mutual association	17	29	47	41	51	44	44	**40.9**	★★★
M13	**Transfer pricing** (515–611): AE u/s 92A, international transaction / SDT, ALP methods, APA + rollback, safe harbour, s.94B, secondary adjustment	30	27	20	27	30	27	27	**27.0**	★★★
M12	**DTAA** (452–508): types, OECD vs UN models, s.90 / 91 relief, PE, Articles, relief methods 23A / 23B	22	16	16	9	7	18	18	**17.1**	★★★
M3	**Grievance redressal** (204–230): appeals, rectification, revision 263 / 264, DRC, advance ruling	6	16	7	16	9	9	9	9.8	★★
M2	**Tax management, return, assessment** (112–200): filing triggers, 143(1)/(2), interest 234A/B/C, search and survey, refund, DIN	18	11	4	9.5	13	6	6	8.2	★★
M5	**Business restructuring** (258–292): amalgamation, demerger, slump sale, proprietor / firm → company, company → LLP	5	14	–	7	7	7	7	7.0	★★
M9	**ICDS** (361–396): ICDS I–X, situations and actual-cost / securities sums	2	–	7	1.75	–	9	9	6.2	★★
M6	**Tax planning** (295–320): planning vs management vs evasion / avoidance, financial decisions (debt vs equity, lease vs buy)	–	7	9	2	–	2	2	3.1	★
M11	**Case study** (409–443): SM case laws (royalty on software, 80-IA / 80AB, foreign tax …)	–	–	14	7	7	–	–	2.8	★
M10	**Black Money Act 2015** (399–406): tax, value of undisclosed foreign asset, penalties	3	–	2	3.75	–	2	2	2.2	★
M4	**Penalties and prosecutions** (233–254): 270A, 270AA, 271AAD, 271AA / BA / G …	19	4	2	4	2	2	2	1.7	★

M14	**GAAR** (615–632): impermissible avoidance arrangement, ₹3 crore, Approving Panel, Rule 10U	–	2	–	–	2	2	2	1.7	★
M7	**CBDT and other authorities** (323–334): powers of CBDT u/s 119	2	–	–	–	–	–	–	0.2	·
M8	**E-commerce and special cases** (337–358): equalisation levy	6	2	–	–	–	–	–	0.2	·

Exp D26 = expected marks in the Dec'26 printed paper (workbook "Marks by Topic"). Printed order of these notes = this table's order (exam weight). Firms are tested (Q2(b) in D25 and J26) but are not taught in the P15 SM: they sit inside M1 Part 1 with a ⚠.

Where the Dec'26 questions are expected (slot model since Dec'25)

Q	(a) 7 marks	(b) 7 marks	Notes pack
Q2	**Trust total income** (D25, J26); 115TD (MQP) unused; the old 14-mark **company P&L** may return	**Firm + partners**: interest 12%, remuneration limits, 40(a)(ia), 43B(h) (D25, J26)	M1 Part 3 · M1 Part 1
Q3	**Individual: old vs default regime** (5 of 6 papers)	**Company: normal vs 115BAA / 115BAB** + 80JJAA (every paper since D24)	M1 Part 1 · Part 2
Q4	**Restructuring** — rotates: amalgamation (due), proprietor → company (never asked), demerger, firm → company, company → LLP, slump sale	**Non-resident computation** (6 of 6): Chapter XII-A, 115A / 115BBA, 44B / 44BBB, first proviso s.48	M5 · M1 Part 1
Q5	**Grievance situation**: revision 263 / 264, appeal procedure, DRC, advance ruling	**ICDS** situations / sums, or **interest 234B / 234C**	M3 · M9 · M2
Q6	**DTAA theory**: relief methods, PE, OECD vs UN, or APA rollback	**Relief u/s 91 sum** (6 of 6)	M12 · M13
Q7	**ALP sum** (CUP with adjustments; RPM / cost plus) or secondary adjustment	**s.94B interest limitation sum** (6 of 6)	M13
Q8	**MAT 115JB sum** (D25, J26) or an SM case law	**AE / international transaction cases** (J25–J26) or APA	M1 Part 2 · M13 · M11

Q1 · THE 15 MCQ POSITIONS (D25 + J26 MENU)

i. Return filing triggers / ITR (M2)
ii. Interest 234A / B / C computation (M2)
iii. One fact: individual, trust or company (M1)
iv. Appeal time limit or Black Money (M3 / M10)
v. Penalty: 270A, 271AAD, 271G … (M4)
vi. Tax planning or search / survey (M6 / M2)
vii. ICDS or appeal (M9 / M3)
viii. Black Money or ICDS (M10 / M9)
ix. Search / survey or tax planning (M2 / M6)
x. Most appropriate TP method (M13)
xi. APA: years, fee (M13)
xii. Secondary adjustment / safe harbour (M13)
xiii. s.91 relief / juridical vs economic double taxation (M12)
xiv. OECD vs UN Model (M12)
xv. GAAR (M14)

YOUR 5 OF 7 (ANALYSIS §5)

- **Core: Q3, Q6, Q7, Q8** — repeatable sums (regime, 115BAA, s.91, ALP, 94B, MAT, AE cases): ~56 marks. Start with transfer pricing.
- **Fifth: Q2** (trust + firm): same type in D25 and J26.
- **Spare: Q5** (revision / appeal / DRC + ICDS).
- **Drop if you must: Q4** — the restructuring half changes type every paper.

STUDY ORDER (FIRST 10 ROWS ≈ 67% OF THE PAPER)

1. 1.1 Individual + non-resident (+ firm)
2. 1.2 Company: 115BAA / BAB, MAT
3. 13.4 s.94B, secondary adjustment, safe harbour
4. 12.3 s.90 / 91 relief
5. 13.2 ALP methods
6. 9.0 ICDS
7. 1.3 Trust
8. 13.1 AE, international transaction, SDT
9. 13.3 APA (rollback)
10. 3.3 Revision 263 / 264

Then 2.3 interest, 12.2 OECD vs UN, 12.4 PE + relief methods, 3.1 appeal, 6.0 planning (first 15 ≈ 81%).

Rates card for A.Y. 2026-27 — learn this page first

Default regime u/s 115BAC (individual / HUF / AOP / BOI / AJP) [Supp J26 p.2]	
Up to ₹4,00,000	Nil
₹4,00,001 – ₹8,00,000	5%
₹8,00,001 – ₹12,00,000	10%
₹12,00,001 – ₹16,00,000	15%
₹16,00,001 – ₹20,00,000	20%
₹20,00,001 – ₹24,00,000	25%
Above ₹24,00,000	30%

REBATE u/s 87A (RESIDENT INDIVIDUAL)

- **Default regime:** total income ≤ **₹12,00,000** → rebate = lower of 100% of tax or **₹60,000**. Not on special-rate income (111A / 112 / 112A, 115BB). **Marginal relief** up to **₹12,70,587**: tax cannot exceed the income above ₹12,00,000. [Supp J26 p.2]
- **Old regime:** total income ≤ **₹5,00,000** → lower of tax or **₹12,500**; not on 112A gains. [Supp J26 p.4]

Surcharge (individual etc.) on total income	**Default**	**Old**
Above ₹50 lakh – ₹1 crore	10%	10%
Above ₹1 crore – ₹2 crore	15%	15%
Above ₹2 crore – ₹5 crore	25%	25%
Above ₹5 crore	25%	37%
Cap **15%** on the tax on dividend and 111A / 112 / 112A gains (and an AOP of only companies). Marginal relief applies. **Cess 4%** on tax + surcharge, every assessee. [Supp J26 p.3–5]		

Old regime slabs	**Other individual / HUF**	**Senior (60+)**	**Super senior (80+)**
Nil up to	₹2,50,000	₹3,00,000	₹5,00,000
5%	2.5 – 5 lakh	3 – 5 lakh	–
20%	5 – 10 lakh (₹12,500 +)	5 – 10 lakh (₹10,000 +)	5 – 10 lakh
30% above ₹10 lakh	₹1,12,500 +	₹1,10,000 +	₹1,00,000 +
Senior / super senior = **resident** individual aged 60 / 80 at any time in the P.Y. A non-resident always uses the "other individual" slab. [Supp J26 p.3–4]			

Firm / LLP · companies [Supp J26 p.5]	
Firm / LLP	30%; surcharge 12% if total income > ₹1 crore; cess 4%
Domestic company, turnover of P.Y. 2023-24 ≤ ₹400 crore	25%
Other domestic company	30%
Foreign company	35%
Surcharge, income ₹1–10 crore / above ₹10 crore	domestic 7% / 12% · foreign 2% / 5%

Special rates and options (SM)	
Casual income (115BB) · STCG 111A · LTCG	30% · 20% · 12.5% / 20% / 0% [SM 6]
LTCG u/s 112A	12.5% on the gain above ₹1.25 lakh [SM 6, SM 20]
s.115BAA (domestic company)	22% + SC 10% (any income) + cess [SM 41]
s.115BAB (new manufacturer)	15% + SC 10% + cess [SM 43]
MAT u/s 115JB	15% of book profit + SC + cess [SM 52]

⚠ WHAT COULD GO WRONG (ANALYSIS §7)

- **Rates:** a wrong slab or rebate spoils every individual sum — learn the rates card above first.
- **Old slots return:** the 14-mark company P&L computation (Q2) and the case-law Q8 were the template until Jun'25.
- **Outside the SM** (~10 marks a paper): firms, Inter-level MCQs (44AD, VDA, s.57). Accept losing an MCQ or two.

MEMORY HOOK · DEFAULT REGIME

"**Every 4 lakh, add 5%**": 0 · 5 · 10 · 15 · 20 · 25 · 30 on steps of ₹4 lakh up to ₹24 lakh. Tax at exactly ₹12 lakh before rebate = 20,000 + 40,000 = ₹60,000 — that is why the rebate is ₹60,000.

Module 1 · Part 1 · Individual (old vs default regime), Non-resident, Firm P15 · topic 1.1

SM pp. 6–36. **Topic 1.1 is the biggest topic of the paper** (avg ~19 marks; expected 19.4 in Dec'26). Three 7-mark sums every recent paper: **Q3(a) regime comparison**, **Q4(b) non-resident**, **Q2(b) firm** (firms are not taught in the SM). Rates: the **Paper Map rates card**.

Paper	Long questions (7 marks each)	MCQs
Jun'23	Q5(a) salaried individual: regular vs 115BAC (6 marks)	–
Dec'23	Q4(b) **NRI, Chapter XII-A** (interest, STCG, LTCG on foreign-exchange asset)	115BBE on unexplained jewellery
Jun'24	Q3(a) two houses + business: 115BAC vs regular · Q4(b) **NR capital gain on shares bought in USD** (first proviso s.48), 54F / 54EC	rent-free house · 115BAE · 111A / 112A / crypto rates
Dec'24	Q3(a) manufacturer with speculation loss: default vs normal · Q4(b) **foreign company 44BBB** + FTS through a branch	s.24 / 80EEA · **194E** sportsman TDS
Jun'25	Q3(a) retail trader + let-out house · Q4(b) **NRI in Germany, Chapter XII-A**	s.57 · 44AD · **POEM** · **115E 20%** · 195 · **196D**
Dec'25	Q2(b) **retiring partner** gets stock + land (9B / 45(4)) · Q3(a) business + 112A + LIC + PM fund · Q4(b) **NRI in UK, XII-A + 115F**	VDA 30%
Jun'26	Q2(b) **firm**: interest / remuneration limits, 40(a)(ia), 43B(h) · Q3(a) salary + 80CCD(2), s.54, 80DD · Q4(b) **NRI cricketer 115BBA** + bonds / UTI	–

HOW IT IS EXAMINED · DEC'26 PREDICTION

- **Q3(a) 7 marks, near-certain**: an individual — compute tax under the **default regime (115BAC)** and the **old regime**, then advise. Needs the FA 2025 slabs.
- **Q4(b) 7 marks, near-certain**: a non-resident — Chapter XII-A (115C–115I, 115F reinvestment), or special-rate income (115A royalty, 115BBA sportsman), 44B / 44BBB, first proviso to s.48.
- **Q2(b) 7 marks, likely**: firm / LLP + partners — interest 12%, remuneration limit u/s 40(b), 40(a)(ia), 43B(h); or a retiring partner (9B / 45(4)).
- **Q1(iii)**: one fact (VDA 30%, NRI 115E rate, POEM, TDS on NR).

MAP OF THIS PART

1. Computation format + regime comparison ★★★ (sum)
2. Residential status, POEM ★★
3. Presumptive income of non-residents 44B–44BBD, 44DA, 44C ★★
4. Special rates: 115A–115BBA, 112(1)(c), first proviso s.48 ★★★
5. NRI Chapter XII-A (115C–115I) ★★★
6. TDS on non-residents, agent, recovery ★★
7. Non-resident sum: problems box ★★★
8. Firm / LLP + partners ⚠ not in the SM ★★★
9. Reporting: 115JH, 115JG, 285, 285BAA, 286 ★
10. Traps · MCQ facts · revision sheet

A The computation format (use it for every individual sum)

WHAT IT IS Total income = the five heads → gross total income → less Chapter VI-A deductions (only those the regime allows) → tax on normal income at slab rates + special-rate income at its own rate → rebate 87A → surcharge → cess 4% → reliefs → prepaid taxes.

1 HEADS
Salaries · house property · PGBP · capital gains · other sources [SM 6]

→

2 GTI – VI-A
Deductions 80C–80U, **not** against casual income, STCG 111A and LTCG; regime decides which [SM 6]

→

3 TAX
Slab tax on normal income + casual **30%** + LTCG **12.5% / 20% / 0%** + STCG 111A **20%** [SM 6]

→

4 87A → SC → CESS
Rebate (resident only), surcharge, cess **4%** [SM 6]

→

5 RELIEF, PREPAID
Less relief u/s **86, 89, 90 and 91**, advance tax, TDS / TCS; round off u/s **288A** (income) / **288B** (tax) [SM 6–7]

PROBLEMS BOX · Q3(a) INDIVIDUAL: DEFAULT (115BAC) vs OLD REGIME · 7 MARKS

1 · WHEN IT COMES

- J23 Q5(a) (6) · J24 Q3(a) · D24 Q3(a) · J25 Q3(a) · D25 Q3(a) · J26 Q3(a) — **5 of the last 6 papers**; MQP Q3(a).
- Facts: salary or a business, a house property, 112A LTCG, 80C / 80D / 80DD / 80CCD(2), s.54, a donation; "compute under both and advise".

2 · STEPS (TWO COLUMNS SIDE BY SIDE)

1. Compute each head once (same in both regimes, except items the default regime denies).
2. GTI → **old**: all eligible VI-A deductions; **default**: only those it allows (e.g. employer NPS 80CCD(2)).
3. Split special-rate income out of the slab income (111A, 112A, casual).
4. Slab tax (rates card) + special-rate tax → 87A (resident; not on special-rate tax) → surcharge → cess.
5. Last line: "**tax is lower under the ___ regime; he should opt for it**".

5 · TRAPS

- Default regime 87A: total income ≤ ₹12 lakh → up to ₹60,000, with **marginal relief** to ₹12,70,587; never on 111A / 112A tax.
- **Non-resident: no 87A** (SM Illustration 3) and the "other individual" slab even at 60+.
- A house held for **24 months or less** is short-term: no s.54 (J26 Q3(a): bought July 2023, sold April 2025).
- Interest on capital from a firm: only the part up to 12% is the partner's business income (MQP Q3(a)).
- Arrears of rent: taxable in the year received, less 30% (s.25A; MQP Q3(a)).
- Deductions not allowed in the default regime are often the whole difference: show them as "Not allowed".

3 · WORKED PATTERN · ICMAI MQP Q3(a) (MR. RAJAT, AY 2026-27) — ICMAI'S MODEL ANSWER, RE-WORKED BY SCRIPT

Facts: retail trader, net profit ₹20,50,000 after crediting SB interest ₹15,000 and interest on capital from his firm @16% ₹1,60,000, and debiting interest on late advance tax ₹21,000 and mediclaim ₹45,000; arrears of rent ₹1,20,000 of a let-out house sold in 2023.

Item	ICMAI's answer	Why
House property: arrears 1,20,000 − 30%	84,000	s.25A: taxed when received
PGBP: 20,50,000 + 21,000 (interest on tax, not business)	20,71,000	personal / tax interest added back
Less: interest on capital above 12% (1,60,000 / 16 × 4)	40,000	only 12% is business income
Less: SB interest 15,000 (to other sources) · mediclaim 45,000	60,000	see ⚠ below
PGBP	19,71,000	
Other sources: SB interest	15,000	
GTI = total income, default regime (no VI-A)	**20,70,000**	
Default tax 2,17,500 + cess 8,700	2,26,200	slabs to 20 lakh + 25%
Old: less 80D 25,000 (limit) + 80TTA 10,000 → TI	20,35,000	
Old tax 4,23,000 + cess 16,920	4,39,920	1,12,500 + 30% above 10 lakh
Advice: tax is lower under the default regime; opt for it.		

⚠ ICMAI'S ANSWER SUBTRACTS THE MEDICLAIM; IT WAS DEBITED, SO IT MUST BE ADDED BACK

The question says the profit is "after debiting or crediting" the items, and a mediclaim premium is a personal expense. Correctly: PGBP = 20,50,000 + 21,000 + 45,000 − 40,000 − 15,000 = **20,61,000**; GTI = **21,60,000**; default tax 2,40,000 + cess = **2,49,600**; old TI 21,25,000, tax 4,50,000 + cess = **4,68,000**. The advice does not change. In the exam: add back debited personal items, deduct credited non-business items.

4 · PRACTISE THESE (IN THIS ORDER)

J26 Q3(a) (salary + 80CCD(2) + s.54 trap + 80DD) · D25 Q3(a) (business + 112A + LIC + PM fund) · J25 Q3(a) · D24 Q3(a) (speculation loss) · J24 Q3(a) · MQP Q3(a) · **SM M1 solved case (Mamta, old regime, SM 100–102)** · SM M1 problem 1 (Shri Khote, SM 104–105) · MCQ bank Q35, Q38, Q41, Q43, Q44 · **workbook Ch 1 illus. 6, 7**.

⚠ NOT IN THE P15 SM — INTER-LEVEL LAW YOU STILL NEED

The P15 SM has the computation format but **no regime chapter**: the slabs and 87A come from the Jun'26 supplementary (rates card). Salary, house property, VI-A limits (standard deduction, 80C, 80D, 80DD, 80CCD(2), 80TTA), s.54 / 54F / 54EC, set-off rules and 43B(h) are Inter-level: revise them from your Inter material for A.Y. 2026-27. ICMAI's MQP answer applies 80D **₹25,000** and 80TTA **₹10,000** in the old regime.

B Residential status · POEM (J25 MCQ: POEM)

- **Non-resident** = not a resident; for ss. **92, 93 and 168** it includes a not-ordinarily-resident. [SM 7]
- **Individual resident** (s.6(1)): in India **182 days** or more, **or 60 days** + **365 days** in the 4 preceding years. The 60-day test does not apply to an Indian citizen leaving for employment or as crew of an Indian ship. [SM 7]
- **Visiting Indian citizen / PIO**: if Indian income > **₹15 lakh**, the second test becomes **120 days** + 365; otherwise only **182 days** counts. [SM 8]
- **Deemed resident** (s.6(1A)): Indian citizen, Indian income > ₹15 lakh, not liable to tax in any other country by domicile / residence. [SM 7–8]
- **Ordinarily resident**: resident in **2 of 10** preceding years **and 730 days** in the 7 preceding years. Deemed residents and the 120-day visitors are **RNOR**. [SM 7–8]
- HUF / firm / AOP: resident if control and management is **wholly or partly** in India; **Indian company always resident**; foreign company resident if its **POEM** is in India. [SM 8]
- SM WORDS **POEM** = the place where **key management and commercial decisions** necessary for the business as a whole are **in substance made** (Circular 6/2017). [SM 9]
- **Active business outside India (ABOI)** — all four: passive income not more than **50%** of total income; less than **50%** of assets, employees and payroll in India. ABOI + majority board meetings outside India → POEM outside India (unless the board "stands aside"). [SM 9]
- POEM does not apply to a company with turnover of **₹50 crore** or less (Circular 8/2017). [SM 9]
- s.115JH: a foreign company resident for the first time — notified modifications; benefits withdrawn on breach, s.154 period of **4 years**. [SM 11]

C Presumptive income of non-residents (D24 Q4(b): 44BBB)

Section	Who / business	Deemed income	Note
44B	NR operating **ships** (not cruise)	**7.5%**	freight from Indian ports + received in India from foreign ports, incl. demurrage [SM 12]
172	ship of a NR on a **casual** call	**7.5%**	master files return before departure (or within **30 days**); order within **9 months** from FY end [SM 12]
44BB	NR: services / plant hire for **mineral oils**	**10%**	may claim lower profit with books + audit; no b/f loss set-off [SM 13]
44BBA	NR operating **aircraft**	**5%**	SM Illustration 1 and 7 [SM 13–14, SM 34]
44BBB	**Foreign company**: civil construction / erection in an approved **turnkey power project**	**10%**	lower profit allowed with books + audit; no unabsorbed depreciation / b/f loss [SM 14]
44BBC	NR operating **cruise ships**	**20%**	passenger carriage [SM 14]
44BBD	NR: services / technology for an **electronics manufacturing** facility of a resident company (MeitY scheme)	**25%**	no b/f loss; 44DA / 115A do not apply [SM 15] [Supp J26 p.11–12]
44DA	NR / foreign company: royalty / FTS **effectively connected with a PE** in India (agreement after 31-3-2003)	normal PGBP	no deduction for payments to head office; audit report **one month** before due date [SM 15]
44C	NR: **head-office expenditure**	allowed up to	lower of actual and **5%** of adjusted total income (loss year: 5% of the **3-year** average) [SM 15–16]

SM ILLUSTRATION 8 · s.44C

Branch loss ₹50 lacs after head-office expenses ₹100 lacs → adjusted total income **₹50,00,000**; allowed = lower of 5% (₹2,50,000) and actual → income **₹47,50,000**. [SM 34–35]

SM ILLUSTRATION 11 · s.44DA

Royalty ₹101 lakh effectively connected with a PE, PE expenses ₹12,37,600 → income **₹88,62,400**; tax at **35%** × 104% = **₹32,25,910** (foreign company, normal rate). [SM 36]

D Special rates for non-residents · capital gain in foreign currency

Section	Income of a non-resident	Rate	Expenses / VI-A / return
115A(1)(a)	dividend; interest on foreign-currency loans / notified bonds	**20%** (IFSC dividend 10%; 194LC / 194LD rates)	no expenses; no VI-A; no return if TDS done [SM 18–19]
115A(1)(b)	**royalty / FTS** from Govt or an Indian concern (not under 44DA)	**20%**	no expenses; VI-A available; return required [SM 18–19]
115AB	overseas financial organisation: LTCG on UTI / MF units bought in foreign currency	**12.50%**	no indexation [SM 18–19]
115AC	interest on foreign-currency bonds, GDR dividend; LTCG on them	10% · LTCG **12.50%**	no expenses; no return if TDS done [SM 18–19]
115AD	FII / specified fund on securities	194LD interest 5% · 111A 20% · other STCG 30% · LTCG 12.50% · other 20%	no expenses, no VI-A [SM 19–20]
115BBA	**NR sportsman / entertainer who is not an Indian citizen**: game or sport in India, advertisement, articles; NR sports association: guaranteed amount	**20%**	no expenses; no VI-A; no return if only this income and TDS done; a **match referee is not a sportsman** [SM 19–20]
112(1)(c)	NR / foreign company: LTCG on **unlisted securities** (or shares of a closely held company), computed without the first proviso to s.48	**12.50%**	[SM 18]

FIRST PROVISO TO s.48 + RULE 115A (NR, shares / debentures of an Indian company bought in foreign currency) · J24 Q4(b)

1. Sale consideration → foreign currency at the **average rate** on the date of transfer.
2. Expenditure on transfer → at the **average rate on the date of transfer** (not the date paid).
3. Cost → at the **average rate on the date of acquisition**.
4. Gain in foreign currency = 1 − 2 − 3.
5. Reconvert at the **TT buying rate on the date of transfer**. Mandatory, not optional; no indexation; not for UTI / MF units. [SM 16–17]

SM ILLUSTRATION 2 · ANTHONY (NRI)

Cost ₹20,000 ÷ ₹45.5 (average of 45 / 46) = **$439.6**; sale ₹45,000 ÷ ₹47 = $957.4; expenses ₹5,000 ÷ ₹47 = $106.4; gain **$411.4** × buying rate ₹46 = **STCG ₹18,924**. [SM 17]

The SM prints the purchase as 18/08/2024 in the question and 18/08/2025 in the rate table; with a sale on 16/09/2025 the SM treats the shares as short-term — follow its method, not the dates.

E NRI: Chapter XII-A (ss. 115C–115-I) · D23, J25, D25 Q4(b)

WHAT IT IS An optional scheme for a **non-resident Indian** (citizen or person of Indian origin) on income from **foreign exchange assets** — specified assets bought in convertible foreign exchange.

- **Specified assets**: shares in an Indian company; debentures of / deposits with an Indian company that is **not a private company**; Central Government securities; notified assets. [SM 21]
- **s.115D**: no expense or allowance against **investment income**; **no deduction u/s 80C to 80U** against it. [SM 21]
- **s.115E rates**: investment income **20%**; LTCG on a foreign exchange asset **12.5%**; other income at normal rates. [SM 21]
- **s.115F exemption**: LTCG on an original asset (shares in an Indian company, debentures of / deposits with an Indian public company, CG securities) reinvested within **6 months** in a new asset (same list + NSC VI / VII). [SM 21–22]
- **Exempt** = LTCG × amount invested ÷ net consideration (full gain if all reinvested). New asset sold within **3 years** → exemption taxed as LTCG of that year. [SM 22]
- **s.115G**: no return needed if only such income and TDS was deducted. **s.115H**: on becoming resident, continue for investment income by a declaration with the return. **s.115-I**: opt out for a year by a declaration in the return. [SM 22]
- **SM Illustration 6**: investment income 50,000 × 20% = 10,000; LTCG 25,000 × 12.50% = 3,125; other income 4,15,000 → 15,000 × 5% = 750; + cess 555 = **₹14,430**. [SM 33–34]

F TDS on payments to non-residents · agent · recovery

Section	Payment to a non-resident	TDS
194E	NR **foreign-citizen sportsman / entertainer** (game, advertisement, articles); NR sports association (D24 MCQ)	**20%** + SC + cess [SM 26]
194LB	interest from an infrastructure debt fund u/s 10(47)	**5%** [SM 26]
194LC	interest by an Indian company / business trust on foreign-currency borrowings and bonds (IFSC-listed bonds: 4% before 1-7-2023, 9% after); 206AA not applied to long-term bonds	**5%** / 4% / 9% [SM 27]
194LD	interest to FII / QFI on rupee bonds, G-secs, municipal debt	**5%** [SM 27–28]
195	**any other sum chargeable** (not salary) — payer may be resident or NR; lower / nil rate by AO certificate (Form 13, s.197); failure to furnish payment information → penalty **₹1,00,000** u/s 271-I	rates in force [SM 28]
196A	income from MF / UTI units to a foreign company or NR	**20%** [SM 28]
196B · 196C	offshore fund units (115AB) · foreign-currency bonds / GDR (115AC)	LTCG **12.5%**; other **10%** [SM 29]
196D	FII / specified fund income on securities; **no TDS on capital gains** of an FII (J25 MCQ); DTAA rate if lower	**20%** (specified fund 10%) [SM 29]

- **Representative assessee** (ss. 160–161): the agent is assessed in his own name, in a representative capacity. [SM 29–30]
- **Agent u/s 163**: a person in India employed by the NR, having a business connection, through whom the NR receives income, or the NR's trustee; also any person who acquired a capital asset in India from him. Must be heard first. **Exception**: a broker dealing through a NR broker in the ordinary course. [SM 30]

- An agent may **retain** money of the principal to cover the tax; a dispute → AO certificate of the amount. [SM 30–31]
- **s.173**: tax on 9(1)(i) income of a NR recoverable by TDS and from his assets in India. **s.228A**: recovery through agreements with foreign countries (TRO certificate u/s 222 to the Board). [SM 31]

PROBLEMS BOX · Q4(b) NON-RESIDENT COMPUTATION · 7 MARKS · ALL 6 PAPERS SINCE DEC'23

1 · WHEN IT COMES

- **Chapter XII-A**: D23 Q4(b), J25 Q4(b), D25 Q4(b) (+ 115F reinvestment).
- **First proviso s.48** + 54F / 54EC: J24 Q4(b).
- **Foreign company 44BBB** + FTS through a branch: D24 Q4(b).
- **Sportsman 115BBA** + bonds / UTI in foreign currency: J26 Q4(b).
- MQP Q4(b) (trader + 115A royalty + XII-A + b/f loss) · PTP Q4(b) (G-sec interest, horse races).

2 · STEPS

1. Residential status first (one line, with the day count).
2. Scope: a NR is taxed only on Indian income — drop foreign salary / foreign dividends (SM Illustration 4: "Nil, non-resident").
3. Put each item in its box: **normal** (business, rent, SB interest) · **special rate** (115A, 115AC, 115BBA, 115E, 111A / 112A) · **presumptive** (44B…44BBD).
4. Special-rate items: **no expenses**, **no VI-A**; VI-A only against normal income (80DD is for residents).
5. Tax = slab tax on normal income (NR: "other individual" slab, **no 87A**) + each special rate; + SC + cess.
6. Say whether a **return** is needed (115G, 115BBA, 115A).

3 · WORKED PATTERN · SM ILLUSTRATION 9 (= THE CORE OF J26 Q4(b))

Tennis prize won in India	15,00,000
Articles in a local newspaper	1,00,000
TV advertisement	4,00,000
Travel cost ₹1,30,000: **not deductible**	–
Income u/s 115BBA	**20,00,000**
Tax 20,00,000 × 20% × 104%	**4,16,000**

No return u/s 139(1) if total income is only 115BBA income and TDS (194E) was deducted. [SM 35]

4 · PRACTISE THESE

J26 Q4(b) · D25 Q4(b) · J25 Q4(b) · D23 Q4(b) · J24 Q4(b) · D24 Q4(b) · MQP Q4(b) · PTP Q4(b) · SM Illus. 1–11 (SM 13–36) · MCQ bank Q47, Q48, Q49, Q55, Q102, Q103 · **workbook Ch 1 illus. 8–11, 17**.

5 · TRAPS

- 115BBA needs a sportsman who is **not an Indian citizen**; an NRI citizen is taxed normally.
- XII-A investment income = gross: no expenses, no 80C.
- Royalty u/s 115A: no expenses (Illustration 5); with a PE → 44DA, expenses allowed, normal rate (Illustration 11).
- Intra-head set-off before inter-head (Illustration 3: Smart).

G Firm / LLP and partners · Q2(b) in D25 and J26 ⚠ not in the P15 SM

⚠ FIRMS ARE INTER-LEVEL — THE P15 SM DOES NOT TEACH THEM

Only the rate is in the supplementary. The steps below follow **ICMAI's own MQP Q2(b) answer**. Revise from your Inter notes: s.40(b) conditions (deed, working partner), s.184, 28(v), 10(2A), 40(a)(ia), 43B(h), 194T.

- **Rate**: firm / LLP **30%**; surcharge **12%** if total income > ₹1 crore; cess 4%. [Supp J26 p.5]
- **Interest on capital** to partners: allowed only up to **12%** p.a. (excess disallowed: 4,50,000 × 8/20 = 1,80,000 in MQP Q2(b)).
- **Book profit** = net profit + partners' remuneration + book depreciation + disallowed items (political donation, excess interest) − depreciation under the Act.
- **Remuneration limit u/s 40(b)** (ICMAI MQP): on the first **₹6,00,000** of book profit **90%**; on the balance **60%**. Allowed = lower of limit and actual (working partners, as per deed).
- PGBP of the firm = book profit − allowed remuneration. Political donation by cheque → **80GGC**; in cash → nothing.
- Partner: allowed salary + interest (up to 12%) = his business income; share of profit is exempt.

WORKED PATTERN · MQP Q2(b) SAS LLP (ICMAI ANSWER, RE-WORKED BY SCRIPT)

Net profit	4,78,000
+ working partners' remuneration (1,20,000 × 2 × 12)	28,80,000
+ book depreciation 6,00,000 · political donations 22,000 · interest above 12% 1,80,000	8,02,000
Bonus of 2024-25 paid 25 Dec 2025: allowed this year (43B)	Nil
− depreciation as per IT Act	7,50,000
Book profit	**34,10,000**
Limit: 90% of 6,00,000 = 5,40,000 + 60% of 28,10,000 = 16,86,000	22,26,000
Allowed = lower of 22,26,000 and paid 28,80,000	22,26,000
PGBP = 34,10,000 − 22,26,000	11,84,000
− 80GGC (cheque only)	15,000
Total income of the LLP	**11,69,000**

Tax (not asked in the MQP): 30% + cess = ₹3,64,728.

PRACTISE THESE · TRAPS

- **Practise**: J26 Q2(b) (Hardy Components) · D25 Q2(b) (retiring partner, stock + land: s.9B / 45(4)) · MQP Q2(b) · PTP Q2(b) (working and sleeping partners) · **ICMAI Practice Workbook: no problem on this topic**.
- **J26 Q2(b) traps**: no TDS on payment to a resident → **30% of it** disallowed u/s 40(a)(ia); MSME invoice paid after the agreed credit period and after 31 March → disallowed this year u/s 43B(h), allowed when paid; remuneration counts only for **working** partners; interest above 12% out.
- **D25 Q2(b)**: assets given to a retiring partner — stock at fair value (s.9B) and capital gain on the land at stamp-duty value; the partner's capital balance matters for s.45(4).

H Reporting and other non-resident provisions (MCQ only)

- **s.115JG**: an Indian **branch of a foreign bank** converted into an Indian subsidiary (RBI scheme): no capital gain in the year of conversion; breach → benefits withdrawn, s.154 for **4 years**. [SM 22–23]
- **s.285**: NR with a **liaison office** files a statement in **Form 49C**. [SM 23]
- **s.285BAA** crypto-asset reporting: defect to be rectified within **30 days**; inaccuracy to be reported within **10 days**. [SM 23] VDA includes any crypto-asset; VDA transfer taxed at **30%** u/s 115BBH, TDS **1%** u/s 194S (D25 MCQ). [Supp J26 p.28–29]
- **s.286 country-by-country report**: parent / alternate reporting entity in India files within **12 months** of the reporting year; AO notice to produce information within **30 days** (extendable by 30). Not applicable if consolidated group revenue ≤ **₹5,500 crores** (Rule 10DB). [SM 24]
- An Indian constituent files the report where the parent's country does not require it, has no exchange agreement, or has a **systemic failure**. [SM 24, SM 26]
- **Dec'26 supplementary**: Rules 114F–114H (from 1 January 2026) bring CBDC, relevant crypto-assets and specified e-money into financial-account reporting. [Supp D26 p.3]

Revision sheet · M1 Part 1 (glance page)

Item	Rule / number	Item	Rule / number
Default slabs	0 / 5 / 10 / 15 / 20 / 25 / 30% per ₹4 lakh to ₹24 lakh	Old slabs	2.5 L nil (3 L senior, 5 L super senior), 5%, 20%, 30% above 10 L
87A default	TI ≤ ₹12,00,000: up to ₹60,000; marginal relief to ₹12,70,587	87A old	TI ≤ ₹5,00,000: up to ₹12,500
Special rates	casual 30% · 111A 20% · LTCG 12.5% · 112A above ₹1.25 lakh	Surcharge	10 / 15 / 25 (default cap) / 37% (old); 15% cap on dividend, 111A, 112, 112A
Resident	182 days, or 60 + 365 (4 yrs); visitor with > ₹15 lakh: 120 + 365	ROR	resident 2 of 10 years and 730 days in 7
POEM	ABOI: passive ≤ 50%; assets, staff, payroll in India < 50%; ≤ ₹50 crore turnover → no POEM	Company	Indian company always resident; foreign: POEM
44B · 172	7.5% shipping (172: 30 days, 9 months)	44BB · 44BBA	10% mineral oils · 5% aircraft
44BBB · 44BBC · 44BBD	10% turnkey power (foreign co.) · 20% cruise · 25% electronics	44C	HO expenses: lower of actual and 5% of adjusted total income
115A	dividend / interest 20%; royalty / FTS 20%; no expenses	115BBA · 194E	sportsman (foreign citizen) 20%; TDS 20%
115AB · 115AC · 112(1)(c)	LTCG 12.50% · bonds / GDR 10%, LTCG 12.50% · unlisted 12.50%	First proviso s.48	average rate (sale, expenses on transfer date; cost on purchase date) → buying rate
XII-A 115E	investment income 20%; LTCG 12.5%; no expenses, no 80C–80U	115F	reinvest in 6 months; held 3 years; LTCG × invested ÷ net consideration
194LB · 194LC · 194LD	5% · 5% (4% / 9% IFSC bonds) · 5%	196A · 196C · 196D	20% · 10% / LTCG 12.5% · 20% (no TDS on FII capital gains)
195 · 271-I	rates in force; payment info penalty ₹1,00,000	286 CbCR	12 months; ₹5,500 crore threshold; 30 + 30 days
Firm / LLP	30%; SC 12% above ₹1 crore; interest 12%; 40(b): 90% of first ₹6 lakh, 60% of balance	VDA	30% (115BBH); TDS 1% (194S)

MCQ FACTS · WHAT PAST MCQs ASKED (Q1)

- J25: NRI's dividend on shares bought in foreign exchange → **20%** u/s 115E. [SM 21]
- J25: capital gains paid to an FII → **no TDS** u/s 196D. [SM 29]
- J25: a foreign company whose POEM is in India is **resident**. [SM 8–9]
- D24: payment to a NR foreign-citizen sportsman → TDS **20%** u/s 194E. [SM 26]
- J24 / D25: STCG 111A **20%**; LTCG 112A **12.5%** above ₹1.25 lakh; VDA **30%**. [SM 6, SM 20] [Supp J26 p.28]
- Inter-level MCQs also came (rent-free house, s.24 / 80EEA, 44AD, s.57 interest cap, 115BAE, 115BBE): accept these as the "outside the SM" share.

MEMORY HOOKS

- **"Ships 7½, Oil 10, Air 5, Power 10, Cruise 20, Chips 25"** — 44B, 44BB, 44BBA, 44BBB, 44BBC, 44BBD.
- **XII-A = "20-12½, no costs, no 80s"**; **115F = "6 months in, 3 years stay"**.
- First proviso s.48: **"Average in, Buying out"**.

Module 1 · Part 2 · Company: normal vs 115BAA / 115BAB, s.79, MAT P15 · topic 1.2

SM pp. 37–76 (exercise 103–108). Second-biggest topic (avg ~20 marks a paper). **Q3(b) normal vs 115BAA / 115BAB** every paper since Dec'24; **Q8(a) MAT** in D25 and J26; the **14-mark company P&L** (J24, D24, J25 Q2) may come back.

Paper	Long questions	MCQs
Jun'23	Q2(a) closely held company PGBP: 234B, 40A(3), 43B, electoral trust, **s.79** (9 marks)	MAT on book profit ₹20 lakh
Dec'23	Q2(i) company business income · Q2(ii) **book profit u/s 115JB** for the same company	40(a)(ii) · 43B interest converted · normal vs MAT
Jun'24	Q2 (14) **company total income** (stock, PF, 195, depreciation, 50C, 54EC) · Q4(a) **s.79** fresh issue, start-up exception	company tax · 79A · 80M
Dec'24	Q2 (14) company total income (43B(h), 40A(2), 234E …) · Q3(b) **normal vs 115BAA** with 80-IA, 80JJAA	115BA company with MAT
Jun'25	Q2 (14) company total income (10AA, 7B, 43B(h), losses) · Q3(b) **normal vs 115BAB** with 80M	MAT rate 15%
Dec'25	Q3(b) **normal vs 115BAB** (additional depreciation, 80JJAA, 80M) · Q8(a) **book profit** (CSR, deferred tax, 10AA, 115BBF)	–
Jun'26	Q3(b) **normal vs 115BAA**, 80JJAA table (= MQP Q3(b)) · Q8(a) **normal TI + book profit + final tax**	–

HOW IT IS EXAMINED · DEC'26 PREDICTION

- **Q3(b) 7 marks, near-certain**: compute tax under the normal provisions and under 115BAA (or 115BAB): what is given up, 80JJAA from an employee table, 40(a)(ia), 40A(3) — then advise.
- **Q8(a) 7 marks, likely**: normal total income + **book profit u/s 115JB** + final tax (higher of the two) + MAT credit.
- **Q2 (14) possible**: a company P&L with disallowances (the J24–J25 slot).
- MCQs: MAT rate / Form 29B / book-profit items; s.79; company rates.

MAP OF THIS PART

1. Company types and rates ★★
2. Optional regimes 115BA / 115BAA / 115BAB ★★★
3. Problems box Q3(b) (MQP Q3(b) worked) ★★★
4. Company P&L adjustments (SM Illustration 12) ★★
5. s.79 change in shareholding · s.79A ★★
6. MAT 115JB: book profit, 115JAA credit, Ind AS ★★★
7. Problems box Q8(a) (SM Illustration 22 worked) ★★★
8. Securitisation trust, business trust, investment fund, 115BBF, 115BBG ★
9. Revision sheet + SM exercise MCQs

A Company: types and rates

- **Company** s.2(17): Indian company; foreign body corporate; body assessed as a company on or before 1 April 1970; body declared a company by the CBDT. [SM 37]
- **Indian company** s.2(26): formed and registered under the Companies Act (and earlier / State / UT company laws), statutory corporations, CBDT-declared bodies — registered or principal office **in India**. Always resident. [SM 37–38]
- **Domestic company** s.2(22A): an Indian company, or any other company that has made the **Rule 27** arrangements: share register at its principal place in India, AGM in India, dividends payable only in India. **Foreign company** = not domestic. [SM 38]
- **Widely held** s.2(18): Government / RBI company (not less than **40%** shares), section 8 company, Nidhi, co-operatives hold **50%** votes, listed company, or not less than 50% (**40%** for an industrial company) held by Government / corporations; CBDT-declared. [SM 38–39]

Income of a company	Rate
STCG u/s 111A	20%
LTCG (112A and other)	12.50%
Lottery, crossword etc.	30%
Domestic: turnover of P.Y. **2023-24** ≤ ₹400 crores	**25%**
Domestic: other	30%
Foreign: old approved royalty / FTS (1961–1976 agreements)	50%
Foreign: other income	35%
Surcharge, income ₹1–10 crores / above ₹10 crores	7% / 12% (foreign 2% / 5%)

Cess 4% on tax + surcharge. Marginal relief at ₹1 crore and ₹10 crores: extra tax + surcharge cannot exceed the income above the threshold. [SM 39–40] [Supp J26 p.5]

B Optional regimes: 115BA · 115BAA · 115BAB

	s.115BA	s.115BAA	s.115BAB
Who	domestic company set up and registered on or after **01-03-2016**, only manufacturing (+ research, distribution) [SM 40]	any domestic company [SM 41]	domestic company set up and registered on or after **01-10-2019** and manufacturing begun on or before **31-03-2024** [SM 42]
Rate	**25%** + SC + cess [SM 40]	**22%** + SC **10%** (whatever the income) + cess [SM 41]	**15%** + SC **10%** + cess; non-manufacturing income and STCG on non-depreciable assets **22%** [SM 43]
Given up	10AA (SEZ), **32(1)(iia) additional depreciation**, 32AD, 33AB, 33ABA, 35(1)(ii)/(iia)/(iii), 35(2AA), 35(2AB), 35AD, 35CCC, 35CCD and all Chapter VI-A "C" deductions **except 80JJAA** (and **80M** for 115BAA / 115BAB); no set-off of b/f loss attributable to those deductions (deemed fully absorbed). 115BAA: an IFSC unit keeps **80LA**. [SM 40–43]		
Option	Form 10-IB by the due date u/s 139(1) of the first return; **cannot be withdrawn**. A 115BA option may be withdrawn to opt for 115BAA; an invalid 115BAB option → may opt for 115BAA; breach of conditions → option invalid from that year. [SM 41, SM 43]		
MAT	–	**115JB does not apply** under 115BAA / 115BAB (SM 41, 43, 53); no MAT credit u/s 115JAA for a 115BAA company (SM 66). [SM 41, SM 43, SM 53, SM 66]	

115BAB EXTRA CONDITIONS

- Not formed by splitting up or reconstruction of an existing business (s.33B revival excepted). [SM 42]
- **No previously used plant**: imported used plant never used in India and never depreciated is fine; used plant up to **20%** of total plant value is fine. No building used as a hotel / convention centre with 80-ID. [SM 42]
- Not manufacturing: **software**, mining, marble slabs, gas bottling, printing books / films. [SM 42]
- Excess profit from close-connection arrangements (ALP for an SDT) taxed at **30%**. [SM 43–44]

115BA

- Same deductions given up (80JJAA allowed); depreciation of a block restricted to **40%** of WDV (Rule 5). [SM 40]
- Special-rate income stays at its special rate (e.g. 111A 20%) under all three regimes. [SM 40–41]

C Company total income from a P&L · SM Illustration 12 (Minakshi Ltd) (the J24 / D24 / J25 14-mark Q2)

ADD BACK (DEBITED BUT NOT ALLOWED)

- Book **depreciation** (allow s.32 instead); provision for **income-tax** (s.40(a)); provision for bad debts (future losses); **municipal tax** (goes to house property). [SM 45–47]
- Excess payment to a **substantial-interest** holder or a director's relative (s.40A(2)); cash / bearer cheque payment above **₹10,000** (s.40A(3)); capital expenditure (advertisement machine). [SM 45–47]
- **Bonus** and **customs duty** unpaid by the due date (s.43B); carriage inward and travel for buying a machine → capitalise. [SM 46–47]

DEDUCT (ALLOWED BUT NOT DEBITED / OTHER HEADS)

- Customs duty of an earlier year paid now (43B); capital spend on family planning: **1/5** a year u/s 36(1)(ix) (₹1,00,000 → ₹20,000). [SM 46–47]
- Rent → house property (NAV less 30%); interest on debentures and on IT refund → other sources (interest on the loan for the debentures deductible there). [SM 45–47]
- Not a substantial interest: a supplier of 25% of goods; excess **received** from a related person is not touched; director's compensation allowed u/s 37(1). [SM 47]
- Result: depreciation ₹2,91,250 (incl. 20% additional on ₹5,40,000) → GTI **₹5,05,250**. [SM 46–47]

Practise: J24 Q2 · D24 Q2 · J25 Q2 · SM Illustrations 12, 20, 21 · SM M1 cases 1–2 (SM 105–106) · **ICMAI workbook Ch 1 illustrations 1 and 3**.

PROBLEMS BOX · Q3(b) COMPANY: NORMAL vs 115BAA / 115BAB · 7 MARKS

1 · WHEN IT COMES

- D24 Q3(b) (115BAA with 80-IA, 80JJAA) · J25 Q3(b) (115BAB with 80M, additional depreciation) · D25 Q3(b) (115BAB: additional depreciation, b/f loss, 80JJAA, 80M) · J26 Q3(b) (115BAA, 80JJAA table, 40A(3)) = **MQP Q3(b)** with new numbers.

2 · STEPS

1. PGBP from net profit: add back disallowances (40(a)(ia) **30%** of the payment without TDS, book depreciation, 40A(3) / 40A(3A) cash payments); deduct credited non-business income (capital gains) and IT depreciation.
2. Add other heads → GTI. Normal: all deductions (additional depreciation, b/f losses, 80-IA, 80JJAA, 80M).
3. 115BAA / BAB: remove additional depreciation and the barred deductions; keep 80JJAA / 80M.
4. Tax: normal 25% / 30% (turnover of P.Y. 2023-24) + SC 7% / 12% · 115BAA 22% / 115BAB 15% + SC **10%** · special-rate income at its rate · cess 4%.
5. Advise the lower; mention: option is irrevocable; no MAT credit later under 115BAA.

3 · WORKED PATTERN · MQP Q3(b) MNO LTD (ICMAI ANSWER, RE-WORKED BY SCRIPT)

Net profit	96,00,000
+ commission ₹7,00,000 without TDS: 30% disallowed	2,10,000
+ book depreciation	5,40,000
+ cash ₹30,000 for an earlier year's purchase (40A(3A))	30,000
− STCG on land (own head) 85,000 − IT depreciation 6,20,000	7,05,000
PGBP	96,75,000
+ STCG → GTI	97,60,000
− 80JJAA: 30% × 21,000 × 35 × 10 months (₹26,000 wage and casual staff not eligible)	22,05,000
Total income (same under both: 80JJAA allowed in 115BAA)	**75,55,000**
Normal: 25% = 18,88,750 + cess 75,550	19,64,300
115BAA: 22% = 16,62,100 + SC 10% 1,66,210 + cess 73,132	19,01,440
Lower under 115BAA → opt for 115BAA.	

4 · PRACTISE THESE

J26 Q3(b) (RST Ltd) · D25 Q3(b) · J25 Q3(b) · D24 Q3(b) · MQP Q3(b) · MCQ bank Q40, Q58, Q101 · **ICMAI workbook Ch 1 illustration 16** (new manufacturing company u/s 115BAB).

5 · TRAPS

- The STCG on land stays at normal rate under 115BAA here (land is not depreciable — under 115BAB it would be 22%).
- Turnover test year is **P.Y. 2023-24**, not the current year.
- Additional depreciation and b/f loss from it are lost under 115BAA / BAB.

⚠ 80JJAA AND 40(a)(ia) / 40A(3) ARE NOT EXPLAINED IN THE P15 SM

The SM only says 80JJAA survives under 115BA / 115BAA / 115BAB. ICMAI's MQP answer applies: 30% of the additional employee cost (monthly wages of ₹21,000 eligible, ₹26,000 not; casual workers not eligible). The full conditions (wage ceiling, minimum days of employment, three years) are Inter-level: revise them. 40A(3): cash payment above **₹10,000** disallowed (SM 47, note 6).

D s.79 change in shareholding · s.79A · J24 Q4(a), J23 Q2(a)

- SM WORDS A company in which the public are **not substantially interested**: no loss is carried forward and set off unless at least **51% of the voting power** is beneficially held on the last day of the year of set-off by the same persons who held at least 51% on the last day of the year of loss. [SM 48]
- Applies to all losses incl. capital-gain losses; **not to unabsorbed depreciation**. [SM 48]
- **Eligible start-up** (80-IAC): loss of the first **10 years** carried forward if **all** the shareholders of the loss year still hold their shares. [SM 48]
- **Exceptions**: death; gift to a relative; amalgamation / demerger of a foreign parent (51% continuity); IBC resolution plan; relocation of funds; NCLT-replaced board
- **SM Illustration 13**: 51% holders changed → b/f loss ₹12 lakh lapses; unabsorbed depreciation ₹2 lakh allowed → income **₹23 lakhs**. If B had **gifted** shares to a relative → loss allowed. [SM 49–50]
- **SM Illustration 14**: A and B sold 50% in two years → business loss of the year when the old 51% still held is set off; unabsorbed depreciation (15 + 12 + 9 = 36 lakh) always set off → taxable **₹1.50 lakh**. [SM 50–51]
- **s.79A**: no set-off of any loss (incl. unabsorbed depreciation, current or b/f) against **undisclosed income** found in a search (132), requisition (132A) or survey (133A, not 133A(2A)) (J24 MCQ). [SM 51]
- ⚠ Jun'26 supplementary: losses taken over on amalgamation u/s 72A / 72AA run for 8 AYs from the original loss year — see Module 5.

(s.241 / 242); strategic disinvestment (holding company keeps 51%). [SM 48–49]

E MAT u/s 115JB · credit u/s 115JAA

P&L prepared under **Schedule III** [SM 52] → **ADJUST** Explanation 1 items → book profit [SM 52] → **15%** of book profit (IFSC unit in foreign exchange: **9%**) [SM 52] → **COMPARE** with tax on normal total income [SM 52] → **HIGHER** is payable; excess = MAT credit [SM 52, SM 65]

- **Applies** to every company (Indian / foreign, widely / closely held) when tax on total income is less than **15%** of book profit; book profit becomes the total income. [SM 52]
- Same accounting policies, standards and depreciation as the accounts laid before the AGM; the AO cannot go behind audited profit except the Explanation 1 items (**Apollo Tyres**, SC; **Malayala Manorama**, SC: IT-rate depreciation in books cannot be replaced by Companies Act rates — SM Illustration 18). [SM 52–53, SM 58]
- Accountant's report in **Form 29B**, one month before the due date u/s 139. [SM 53]
- **Not applicable**: life insurance income (s.115B); 115BAA / 115BAB companies; a foreign company resident in a treaty country without a PE, or in a non-treaty country without a registration requirement; a NR company with only 44B / 44BB / 44BBA / 44BBB income. [SM 53]
- APA / secondary-adjustment income of earlier years in this year's book profit → AO may recompute those years (s.154, 4 years). MAT does not change the losses carried forward. [SM 53]

- **MAT credit (115JAA)** = tax paid u/s 115JB − tax under normal provisions; no interest on it; carried forward **15 assessment years**; set off in a year when normal tax > MAT, only down to that year's MAT. [SM 65]
- Foreign tax credit used against MAT above the credit usable against normal tax is ignored in the MAT credit (SM example: credit ₹65 cut by ₹60 → **₹5**). [SM 65–66]
- No MAT credit for an LLP converted from a company, or for a 115BAA company. [SM 66]
- **Ind AS companies** (2A): add / deduct OCI items that will not be re-classified (except revaluation surplus under Ind AS 16 / 38 and FVOCI equity — taken on derecognition); demerger non-cash distribution (Appendix A of Ind AS 10). [SM 66–67]
- (2B) resulting company ignores revalued figures on demerger; (2C) first-time adoption: **1/5th** of the transition amount in the year of convergence and each of the next 4 years. [SM 67]

ADD (if debited to the P&L) [SM 54–55]	**DEDUCT** [SM 55–56]
(a) income-tax paid / payable and its provision — incl. interest, surcharge, cess; **not** penalty, wealth tax, STT	(i) amounts withdrawn from reserves / provisions if credited to P&L (only if book profit was increased when created; pre-1-4-1997 reserves not)
(b) transfers to **reserves** · (c) provisions for **unascertained** liabilities (actuarial gratuity is ascertained: **Shree Sajjan Mills**)	(ii) income exempt u/s 10, 11, 12 credited · (iii) AOP share exempt u/s 86
(d) provision for losses of **subsidiaries** · (e) **dividends** paid / proposed	(iv) foreign company: capital gains on securities, interest / royalty / FTS taxed u/s 115A–115BBG where normal tax is below 15%
(f) expenses for exempt income (s.10, 11, 12) · (g) expenses for exempt AOP share · (h) foreign company's expenses for (iv)	(vii) patent **royalty u/s 115BBF**
(j) expenses for 115BBF royalty · (k) **depreciation** debited	(viii) depreciation debited **excluding revaluation depreciation**
(l) **deferred tax** and its provision · (m) provision for **diminution** in the value of assets	(ix) amount withdrawn from revaluation reserve credited, up to the revaluation depreciation
(n) revaluation reserve on assets retired / transferred (not credited earlier) · (i), (o) business-trust unit items u/s 47(xvii)	(x) **lower of b/f loss and unabsorbed depreciation as per books** (loss excludes depreciation; nothing if either is **nil**; aggregate for NCLT / IBC companies) · (xi) deferred tax credited · (xii) sick company profits

PROBLEMS BOX · Q8(a) NORMAL INCOME + BOOK PROFIT u/s 115JB + FINAL TAX · 7 MARKS

1 · WHEN IT COMES

- D23 Q2(ii) · D25 Q8(a) (CSR, provisions, revaluation, deferred tax, 10AA, 115BBF) · J26 Q8(a) (revaluation depreciation, lower of losses) · MQP Q8(a) · PTP Q8(a) · postal Q2(b); MCQs J23, D23, D24, J25.

2 · STEPS

1. **Normal TI**: net profit + disallowances (book depreciation, provisions, IT, dividend, wealth tax) − IT depreciation − items credited that are not income (reserves) − b/f loss − unabsorbed depreciation (as per the **Act**).
2. **Book profit**: net profit + the Explanation 1 additions − deductions; lower of loss / depreciation as per **books**.
3. Tax A = normal rate on TI; tax B = 15% of book profit. Higher + surcharge (on the income taxed) + cess.
4. If B > A: MAT credit = B − A, for 15 AYs.

5 · TRAPS

- SEZ (10AA) profit is **not** deducted from book profit (SM Illustrations 16, 19).
- Wealth tax: disallowed for TI, but **not** added to book profit.
- Books show b/f loss **nil** → no deduction at all (J26 Q8(a)).
- Surcharge on MAT follows the **book profit** (SM Illustration 22: 7%).

3 · WORKED PATTERN · SM ILLUSTRATION 22 (Z LTD) — RE-WORKED BY SCRIPT

Net profit	1,23,80,000
+ excess depreciation, contingencies, wealth tax, bad-debt provision, dividend, IT	4,70,000
− revaluation reserve 25,000 + general reserve 1,00,000 credited	1,25,000
− b/f loss 35,50,000 − unabsorbed depreciation 66,00,000	1,01,50,000
Total income	**25,75,000**
Book profit: 1,23,80,000 + 8,20,000 (contingencies, dividend, IT, bad debts, depreciation)	1,32,00,000
− depreciation without revaluation 4,50,000 − reserves withdrawn 1,25,000	5,75,000
Book profit (books: no loss, no depreciation)	**1,26,25,000**
A: 25% of 25,75,000 (turnover of 2023-24: ₹250 crores)	6,43,750
B: 15% of book profit	18,93,750
+ SC 7% 1,32,563 → 20,26,313 + cess 81,053	21,07,370

MAT credit = 18,93,750 − 6,43,750 (the SM computes the credit on tax; add SC / cess per the question).

4 · PRACTISE THESE

J26 Q8(a) · D25 Q8(a) · D23 Q2(ii) · MQP Q8(a) · PTP Q8(a) · postal Q2(b) · SM Illustrations 15–22 (SM 54–65) · **SM M1 cases 1–5** (SM 105–108; hints: case 3 book profit ₹22,15,000, MAT ₹4,07,940, credit ₹2,23,470; case 5 ₹58,00,000 / ₹9,04,800) · MCQ bank Q1, Q3, Q4, Q5 · **ICMAI workbook Ch 1 illustrations 2, 3, 4, 5, 12, 13** (MAT book profit).

F Pass-through entities and special-rate income (MCQ)

Entity / income	Rule	TDS
Securitisation trust (115TCA)	trust's income exempt u/s 10(23DA); investor taxed as if he invested directly, same nature and proportion; undistributed income deemed credited on the last day; statement Form 64E by **30th June** (investor) / **30th November** (authority) [SM 67–69]	194LBC: resident 10%; foreign company 40%; other NR 30% [SM 69] (Supp: 10% [Supp J26 p.25])
Business trust (REIT / InvIT, 115UA)	interest / dividend from SPV and REIT's own rent exempt for the trust (10(23FC), 10(23FCA)) and taxed in unitholders' hands; dividend taxable for unitholders only if the SPV opted for 115BAA; other income of the trust at MMR (111A / 112 / 112A at their rates — 112A added, [Supp J26 p.20]); SPV shares swapped for units: no capital gain [SM 69–71]	194LBA: resident 10%; NR interest 5%, dividend 10%; REIT rent to NR 30% / foreign company 40% [SM 71]
Investment fund (Cat I / II AIF, 115UB)	only business income taxed in the fund (company / firm: Finance Act rate; others: MMR); other income passes to unitholders (business-income share exempt u/s 10(23FBB)); non-business loss passes through only to a unitholder who held units for **12 months** [SM 72–74]	194LBB: resident 10%; NR 30%; foreign company 40% [SM 74]
Patent royalty (115BBF)	resident patentee, patent **developed** (at least **75%** of expenditure in India) and registered in India: **10%**, no expenses; opting out for a year bars it for **5** AYs [SM 76]	–
Carbon credits (115BBG)	**10%** on income from transfer; one credit = one tonne of CO_2 reduction validated by the UNFCCC; no expenses [SM 76]	–

SM Illustration 23 (REIT DEF): trust taxed on its capital gains (₹30 crore); unitholder X (10%) taxed on his share of rent and SPV interest (₹2.00 crore); his share of capital gains is exempt u/s 10(23FD). Illustrations 24–25: investment fund losses.

Revision sheet · M1 Part 2 (glance page)

Item	Rule / number	Item	Rule / number
Domestic company rate	25% if turnover of P.Y. 2023-24 ≤ ₹400 crore; else 30%	Foreign company	35% (old royalty / FTS 50%)
Company surcharge	7% (₹1–10 crore), 12% (above); foreign 2% / 5%	Widely held	Govt 40%; co-ops 50%; listed; industrial 40%
115BA	set up on / after 01-03-2016, manufacturing; 25%	115BAA	22% + SC 10% + cess; no MAT, no MAT credit
115BAB	set up on / after 01-10-2019, production by 31-03-2024; 15% + SC 10%; other income 22%; excess profit 30%	Given up	10AA, additional depreciation, 33AB, 35(2AB), 35AD, VI-A "C" except 80JJAA / 80M
Option	Form 10-IB by the due date of the first return; irrevocable	Used plant (115BAB)	up to 20% allowed; imported never-used-in-India allowed
s.79	51% voting power same on both last days; not unabsorbed depreciation	Start-up	all shareholders continue; losses of first 10 years
s.79A	no set-off of any loss against search / survey undisclosed income	MAT rate	15% of book profit (IFSC 9%)
MAT report	Form 29B, one month before due date	MAT credit	B − A; 15 AYs; no interest
Book profit +	IT provision, reserves, unascertained provisions, subsidiary loss provision, dividend, deferred tax, diminution, depreciation	Book profit −	depreciation excl. revaluation, revaluation reserve withdrawn, lower of b/f loss and unabsorbed depreciation (books), exempt income, 115BBF royalty
Ind AS	OCI not re-classified; transition amount 1/5 for 5 years	Pass-through TDS	194LBA / LBB / LBC: resident 10%
115BBF · 115BBG	patent royalty 10% (75% developed in India) · carbon credits 10%	40A(3)	cash above ₹10,000 disallowed

SM M1 EXERCISE MCQs (= MCQ BANK Q1–Q5) · ANSWERS AS PRINTED

1. MAT applies if tax on total income is less than **15.00%** of book profit. [SM 103]
2. MAT does not apply to income from **life insurance business**. [SM 103]
3. Book profit starts from the P&L prepared under **Schedule III**. [SM 103]
4. Accountant's report in Form **29B**. [SM 103]
5. Reduce the **lower of b/f loss and unabsorbed depreciation as per books**. [SM 103]

MEMORY HOOKS

- **"22-15-25"**: BAA 22, BAB 15, BA 25 — and BAA / BAB both carry a flat 10% surcharge.
- MAT book profit: **"Add what the P&L hid (tax, reserves, provisions, dividends, depreciation); take off what the Act allows (real depreciation, the lower loss)"**.
- s.79: **"51 on both last days"**; depreciation is immune.

Module 1 · Part 3 · Charitable trust, Mutual association

P15 · topics 1.3, 1.4

SM pp. 78–102. **Q2(a) trust total income** in D25 and J26 (expected ~6 marks); trust MCQs in J25 and J26. Mutual association (1.4) has never been asked: read the headings.

Paper	What was asked	Marks
Jun'25	MCQ: fee / penalty for a trust's late return	2
Dec'25	Q2(a) **trust with a hospital + nursing college**: total income; receipts realised at the year end → **deferment** of application	7
Jun'26	Q2(a) **trust with a hospital + engineering college**: voluntary contributions, dividend, agricultural income, corpus and non-corpus donations to other trusts, a building bought · MCQ (iii) **anonymous donation** taxable @30%	7 + 2
ICMAI	MQP Q2(a) **115TD accreted income** (merger with an ineligible entity) — unused · MQP MCQ (iii) anonymous donation · PTP Q2(a) **accumulation u/s 11(2)** · PTP MCQ (iii) 85% application	–

HOW IT IS EXAMINED · DEC'26 PREDICTION

- **Q2(a) 7 marks, likely**: trust total income — 85% application, 15% free accumulation, voluntary vs corpus contributions, donations to other trusts, capital spending as application, deferment / accumulation u/s 11(2), anonymous donations.
- Variant: **115TD** tax on accreted income (MQP Q2(a)).
- MCQ: anonymous donation limit; 85%; registration period; s.13(3) persons.

MAP OF THIS PART

1. Conditions for exemption, charitable purpose ★★
2. Income and application: 85% / 15%, corpus, donations ★★★
3. Anonymous donations s.115BBC ★★★
4. Deferment, accumulation u/s 11(2), withdrawal ★★★
5. Problems box Q2(a) (PTP Q2(a) worked) ★★★
6. Registration 12A / 12AB, cancellation, s.13 ★★
7. 115BBI, 115TD accreted income, 12AC ★★
8. Mutual association, s.44A, insurance ★
9. Revision sheet · Module 1 mind map

A Conditions for exemption u/s 11 · charitable purpose

- Property held under a **trust or other legal obligation** (a mere trust with no property is not enough); wholly charitable / religious and lawful purpose; **registered**; accounts audited where income before ss. 11–12 exceeds the exemption limit (report one month before the due date); income applied; return u/s 139(4A) by the due date. [SM 78–79]
- ss. 40(a)(ia), 40A(3) and 40A(3A) apply when computing a trust's income. [SM 78]
- Trust created on or after **1/4/1962**: not for a particular religious community or caste; no benefit to the settlor / specified persons. [SM 79]

- **Charitable purpose** s.2(15): relief of the poor, education, **yoga**, medical relief, environment, monuments, and **general public utility** — the last is not charitable if it carries on trade / business for a fee unless done while carrying out the object **and** those receipts do not exceed **20%** of total receipts. [SM 79]
- Sports promotion is charitable; benefit of SC / ST / backward classes is fine; a **private religious trust** gets no exemption. [SM 80]
- Repair of a notified temple / mosque / church: voluntary contribution may be treated as corpus (applied for that purpose, kept separate, invested u/s 11(5)). [SM 80]

B Income and its application (the 85% rule)

INCOME receipts + **voluntary contributions** (non-corpus) — accounting income, not tax income; corpus donations out [SM 82] → **– 15%** free accumulation (no conditions) [SM 82] → **– APPLIED** revenue + **capital** spent for the objects in India, when actually paid [SM 81, SM 83] → **– DEFERRED / 11(2)** deferment or accumulation (Form 10) [SM 84–86] → **= TAXABLE** shortfall; excess accumulation is specified income @ **30%** u/s 115BBI [SM 92]

- **Donation to another registered trust**: with a direction to form its **corpus** → **not** application; without it → application only to **85%** of the amount. [SM 81]

- Application counts in the year **actually paid**; once claimed, never again; no carry-forward of excess application; no depreciation on an asset already claimed as application. [SM 81, SM 83]

- **Voluntary contributions** (non-corpus) are income u/s 12(1); corpus contributions are not income if invested in s.11(5) modes kept for the corpus. Spending out of corpus or a loan is not application until put back / repaid within **5 years**. [SM 82–83]
- s.12(2): the value of a **medical or educational service** provided by a trust running a hospital or college is **deemed income** of the year it is provided (as the SM prints it). [SM 82–83]
- Business income exempt only if incidental to the objects, separate books kept, and the object is relief of the poor, education or medical relief (s.11(4A)). [SM 83]
- Loan to a poor person for education or treatment = application; repayment = income. [SM 83]
- A registered trust gets no s.10 exemption except 10(1), 10(23C), 10(46). [SM 81]
- **SM example**: income ₹3,00,000 − 15% (₹45,000) − applied ₹1,80,000 → taxable **₹75,000**. **Illustration 26 case 3**: 17,00,000 − 2,55,000 − 2,00,000 = **₹12,45,000**. [SM 82, SM 84]
- **Capital gain** on trust property: exempt to the extent the net consideration is reinvested in a new asset (part reinvested: amount used − cost). [SM 87]

ANONYMOUS DONATIONS · s.115BBC (J26 MCQ)

- Trust / institution receiving a donation without a record of the donor's name and address: amount above the **higher of 5% of total donations or ₹1,00,000** is taxed @ **30%**; not exempt u/s 11. [SM 81]
- Not applicable to wholly religious trusts; religious-cum-charitable trusts only for donations meant for their college / hospital. [SM 82]
- J26 MCQ: total ₹15 lakh, anonymous ₹2,50,000 → exempt ₹1,00,000 (5% = ₹75,000 is lower) → **₹1,50,000** @30%.
- ⚠ MQP MCQ (iii): total ₹26 lakh, anonymous ₹4,00,000 — ICMAI's key says ₹1,00,000 exempt; by the SM rule 5% = ₹1,30,000 is higher, so ₹2,70,000 is taxed. Write the SM rule with the working.

DEFERMENT (Explanation to s.11(1)) · D25 Q2(a)

- Application below 85% because income was **not received** (or any other reason): opt by Form at least **2 months** before the due date u/s 139(1). [SM 84]
- Not received → apply in the year of receipt and the next year; other reason → apply in the next year; else taxed in the year after. [SM 84]
- **Illustration 27**: ₹70 lacs − 10.5 − 15 = ₹44.5 lacs; deferment ₹32 lacs → taxable **₹12.5 lacs** (₹45 lacs asked → capped, Nil); unapplied later: ₹9 / ₹19.5 lacs taxed in A.Y. 2029-30. [SM 85]

ACCUMULATION u/s 11(2)

- For a specific purpose for up to **5 years** (court-stay time excluded); **Form 10** at least **2 months** before the due date; return by the due date; money invested in s.11(5) modes (Govt savings, post office, banks, UTI, Govt securities, PSU, IDBI, immovable property …). [SM 85–86]
- s.11(3A): AO may allow another charitable purpose if the original cannot be done. [SM 87]

WITHDRAWAL u/s 11(3) — TAXED IN THE YEAR WHEN …

- applied for another purpose · ceases to be accumulated · ceases to be invested in s.11(5) modes · not used within the period (year it expires) · paid to another registered trust / 10(23C) fund. [SM 87]
- On dissolution, the AO may allow it to be paid to another registered trust. [SM 87]

PROBLEMS BOX · Q2(a) TOTAL INCOME OF A CHARITABLE TRUST · 7 MARKS

1 · WHEN IT COMES

- D25 Q2(a) (Sitaram Trust: hospital + nursing college; uncollected fees, building, corpus donations, loan repaid, NR payment without TDS, deferment) · J26 Q2(a) (Happy Foundations) · PTP Q2(a) · MQP Q2(a) (115TD).

2 · STEPS AND ITEM TREATMENT

Item	Treatment
Gross receipts (cash system: only what was realised)	income
Voluntary contributions (non-corpus)	income u/s 12
Corpus donations received	not income
Agricultural income · dividend	10(1) still exempt for a registered trust · dividend is income (state "net / gross")
Running expenses of hospital / college	application (40(a)(ia): 30% of a payment without TDS is not application)
Building / land bought for the objects	application when paid (stamp-duty value irrelevant)
Corpus donation to another trust	not application
Non-corpus donation to another trust	85% is application
Repayment of a loan used earlier for the objects	application in the year repaid

Then: income − 15% − application = shortfall → deferment / 11(2) → taxable; tax on excess at 30% (115BBI).

3 · WORKED PATTERN · PTP Q2(a) (ICMAI ANSWER, RE-WORKED BY SCRIPT)

Gross receipts from students	60,00,000
Voluntary contributions	10,00,000
Gross income	**70,00,000**
− 15% unconditional accumulation	10,50,000
Available for application	59,50,000
− applied (revenue + capital)	35,00,000
Shortfall	24,50,000
− accumulated u/s 11(2) for an auditorium (Form 10, 5 years, s.11(5) modes)	20,00,000
Taxable income	**4,50,000**

4 · PRACTISE THESE

J26 Q2(a) · D25 Q2(a) · PTP Q2(a) · MQP Q2(a) (115TD) · SM Illustrations 26, 27 (SM 84–85) · SM M1 short essay 2 (registration) · MCQ bank Q60, Q99 · **ICMAI Practice Workbook: no problem on this topic**.

5 · TRAPS

- 85% is of **income** (accounting), before deducting the application.
- Corpus received is out; corpus **given** is not application.
- Deferment needs the option 2 months before the due date — say so in D25-type "suggest" parts.

C Registration (12A / 12AB) · cancellation · s.13 forfeiture

- **Apply**: registered trust whose period is ending — at least **6 months** before expiry; provisional — 6 months before expiry or within 6 months of starting activities (earlier); objects modified — within **30 days**; new trust not yet active — at least **1 month** before the year; delay condonable. [SM 88]
- Applications for 10(23C) approval filed on or after **01-10-2024** are not considered: move to 12A. [SM 88]
- **Order**: within **6 months** from the end of the quarter → registered for **5 years** (**10 years** if income before ss. 11–12 ≤ **₹5 crore** in each of the two preceding years); new trusts: provisional for **3 years**, order within **1 month**. [SM 89] [Supp J26 p.9–10]
- **Cancellation** for specified violations (income applied outside the objects, non-incidental business, private religious use, community / caste, non-genuine activity, other-law breach, false information) after hearing; order within **6 months** from the end of the quarter of the first
- **s.13 — no exemption for**: private religious income; community / caste trusts; funds outside s.11(5) modes (PSU shares are fine); income used for **interested persons**. [SM 90]
- **Interested persons**: author / founder; a contributor of more than **₹1 lakh** in the year or **₹10 lakh** in aggregate; trustee / manager; relatives of author or trustee (not of a contributor — Jun'26 supp); concerns in which they have a substantial interest. [SM 90–91] [Supp J26 p.10]
- **Deemed benefit**: loans without adequate security / interest, property or services without adequate payment, excess salary, buying above / selling below value, diversion. [SM 91]
- **s.13(10)/(11)**: business not exempt, no books, no audit, late return → tax on income less revenue expenditure in India (not from corpus or loans, no donations, no double depreciation). [SM 91]

notice. Jun'26 supp: an **incomplete application** is no longer a specified violation. [SM 89–90] [Supp J26 p.9]

D 115BBI specified income · 115TD accreted income · 12AC merger

- **s.115BBI**: **30%** on specified income (excess accumulation over 15%, 11(3) defaults, funds in wrong modes, benefit to specified persons, income applied outside India); no expenses or set-off; other income at slab rates. [SM 92]
- **s.115TD** (exit tax): trust **converts** into a non-eligible form (incl. cancellation, modified objects without fresh registration, failing to apply in time), **merges** with a non-similar / unregistered entity, or fails to transfer assets within **12 months** of dissolution → **accreted income** taxed at **MMR**, in addition to normal tax. [SM 92–93]
- **Accreted income** = FMV of total assets − total liabilities (ignore assets from agricultural income and assets bought before registration without exemption). Tax due within **14 days**; interest **1%** a month u/s 115TE; final tax, no credit. [SM 92–94]
- **s.12AC**: merger with a registered trust with similar objects → no 115TD. [SM 94]

WORKED PATTERN · MQP Q2(a) 115TD (ICMAI ANSWER, ₹ LAKH)

Land: higher of open-market 27 and stamp duty 25	27.00
Listed shares: 1,00,000 × ₹90 (average of low 85 / high 95)	90.00
Preference shares at open-market value	50.00
Total assets	**167.00**
– outside liabilities 100 + pending bills 5 (not corpus, not tax provision)	105.00
Accreted income	**62.00**
Tax 30% 18.60 + SC 10% → 20.46 + cess 0.82	21.28

ICMAI applies MMR as 34.944% (30% + 10% SC + 4% cess). Book values are irrelevant.

E Mutual association (1.4) · s.44A · insurance (never asked — read once)

- SM WORDS **No one can trade with himself.** Mutuality: all contributors share the surplus and vice versa (future reduction or on dissolution is enough); company form makes no difference; only **mutual** surplus is exempt. [SM 95]
- Taxed despite mutuality: mutual **insurance** (s.44); trade / professional association's fees for **specific services** (28(iii)); entrance fees are not specific service (**Calcutta Stock Exchange**, SC); co-operative banks partly. Social clubs: mutuality (**Bankipur Club**, SC). [SM 95, SM 97]
- **s.10(23A)**: approved professional institutions exempt, except house property, specific services, interest and dividends. [SM 97]
- **s.44A**: trade association's deficiency (subscriptions below expenditure) is deductible from its other income, up to **½** of total income before this deduction; no carry-forward. **Illustration 28**: 60,000 − 85,000 → deficiency 25,000 (limit 37,500) → total income **₹50,000**. [SM 96–97]
- **Life insurance** profits: **12.5%** u/s 115B; outside MAT. Non-life reserve for unexpired risks (Rule 6E): **50%** of net premium (fire / misc.), **100%** marine and fire / engineering with terrorism cover. [SM 97–98]

Revision sheet · M1 Part 3 (glance page)

Item	Rule / number	Item	Rule / number
Application	85% of income; 15% free accumulation	Donation to other trust	corpus: not application; non-corpus: 85%
Anonymous (115BBC)	above higher of 5% of total donations or ₹1,00,000 → 30%	Specified income (115BBI)	30%, no deductions
Deferment	option 2 months before due date; year of receipt + next year	Accumulation 11(2)	Form 10; 5 years; s.11(5) modes
Corpus / loan spending	application when put back / repaid within 5 years	Charitable purpose	GPU business receipts ≤ 20% of total receipts
Registration	5 years (10 if income ≤ ₹5 crore in each of 2 years); provisional 3 years	Apply	6 months before expiry; modified objects 30 days; new 1 month before
Orders	registration 6 months from quarter end; provisional 1 month; cancellation 6 months	Interested persons	author, contributor > ₹1 lakh (year) / ₹10 lakh (total), trustee, relatives (not contributor's)
115TD	accreted income = FMV assets − liabilities; MMR; 14 days; 1% a month	Dissolution	assets to another trust within 12 months
s.44A	deficiency up to ½ of total income	115B	life insurance profits 12.5%

MEMORY HOOKS

- **"85 spent, 15 rests"**; **"Corpus in = not income, corpus out = not application"**.
- Anonymous: **"5% or a lakh, whichever is MORE, is free"**.
- Registration: **"6-30-1"** — 6 months before expiry, 30 days after changing objects, 1 month before starting.

Module 1 mind map · Assessment of various entities

Individual (Q3(a))

- Format: heads → GTI → VI-A → slab + special rates → 87A → SC → cess
- Default 0–30% per ₹4 lakh; 87A ₹60,000 to ₹12 lakh
- Old: 2.5 / 3 / 5 lakh; 87A ₹12,500
- Advise the lower regime

Company (Q3(b))

- 25% (P.Y. 2023-24 ≤ ₹400 crore) / 30%; foreign 35%
- 115BAA 22% · 115BAB 15% · SC 10%; no MAT
- Lose additional depreciation, 10AA, VI-A except 80JJAA / 80M
- s.79 51%; start-up; s.79A

Non-resident (Q4(b))

- 182 / 60 + 365; 120 days if > ₹15 lakh; POEM
- 44B 7.5 · 44BB 10 · 44BBA 5 · 44BBB 10 · 44BBC 20 · 44BBD 25 · 44C 5%
- 115A 20% · 115BBA 20% · 112(1)(c) 12.5%
- XII-A: 20% / 12.5%; 115F 6 months; no costs
- TDS 194E, 194LC, 195, 196A–196D

MODULE 1
~41 marks expected
Q2, Q3, Q4(b), Q8(a)

MAT (Q8(a))

- 15% of book profit; Form 29B
- + tax, reserves, provisions, dividend, deferred tax, depreciation
- − depreciation (no revaluation), lower of loss / unabsorbed (books)
- Credit 15 AYs

Firm / LLP (Q2(b)) ⚠ Inter

- 30% + SC 12% above ₹1 crore
- Interest 12%; 40(b): 90% of first ₹6 lakh, 60% rest
- 40(a)(ia) 30%; 43B(h) MSME
- Retiring partner: 9B / 45(4)

Trust (Q2(a)) · others

- 85% / 15%; corpus rules; 85% of non-corpus gifts
- 115BBC: 5% or ₹1 lakh; 115BBI 30%
- 11(2) 5 years; deferment
- 115TD accreted income at MMR
- Pass-through: 115TCA, 115UA, 115UB; mutuality, 44A

Module 13 · Part 1 · AE, international transaction, SDT, arm's length price

P15 · topics 13.1, 13.2

SM pp. 515–531 + Rule 10B and illustrations pp. 559–597 (exercise 608–611). **Module 13 is the biggest after M1: 20–30 marks every paper** (expected 27). This part: **Q7(a) ALP sum** (5 of 6 papers) and **Q8(b) AE / transaction cases** (J25, D25, J26) + MCQ (x) method.

Paper	Long questions	MCQs
Jun'23	Q3(c) AE in three cases (6) · Q6(c) **CUP**: credit, discount, warranty (6)	which ALP methods
Dec'23	Q7(a) **cost plus** with discount, technical support, credit	–
Jun'24	Q7(a) **CUP** with credit period + primary / secondary adjustment	Berry ratio · PSM not transaction-based
Dec'24	–	TPO may take up other transactions · TPO order binds AO
Jun'25	Q7(a) **resale price**: three comparables 15 / 23 / 19% · Q8(b) TPO's ALP on non-AE transactions	–
Dec'25	Q7(a) **CUP** with warranty · Q8(b) **international / SDT / neither** (4 cases)	MAM for unique intangibles: PSM
Jun'26	Q7(a) **CUP** for software services: know-how, discount, credit · Q8(b) **seven AE cases** (= MQP Q7(a))	MAM for semi-finished goods to parent

HOW IT IS EXAMINED · DEC'26 PREDICTION

- **Q7(a) 7 marks, near-certain**: CUP with adjustments (FOB / CIF, warranty, quantity discount, credit, know-how) — or RPM / cost plus; name the MAM, compute ALP and the addition.
- **Q8(b) 7 marks, likely**: "state with reasons" — AE / deemed AE u/s 92A in 5–7 cases, or international transaction vs SDT vs neither.
- **MCQ (x)**: most appropriate method for a situation.

MAP OF THIS PART

1. Why TP; s.92; ALP; comparability ★★
2. International transaction, deemed, SDT ★★★
3. Associated enterprise s.92A ★★★ (problems box Q8(b))
4. Methods: CUP, RPM, CPM, PSM, TNMM, other ★★★
5. MAM, range, 3%, multi-year data, TPO ★★
6. Problems box Q7(a) (SM Illustration 8 worked) ★★★
7. Traps · SM exercise MCQs

A s.92 · arm's length price · comparability

- SM WORDS MNEs can manipulate prices of intra-group transactions so the resident makes **no or less than ordinary profit**, eroding Indian tax; Chapter X computes income from international transactions **having regard to the arm's length price**. [SM 515]
- **s.92**: income, expense / interest and **cost-sharing** arrangements are taken at ALP. SM: sale ₹5 lacs, ALP ₹9 lacs → income up ₹4 lacs; interest at 20% vs 12% on ₹20 lacs → income up ₹1,60,000. [SM 515–516]
- **Never reduces income**: no adjustment if ALP would lower income or raise the loss (sale ₹5 lacs, ALP ₹3 lacs → no impact). [SM 516]
- **ALP** s.92F(ii): price in a transaction between persons **other than AEs** in **uncontrolled conditions**; there may be more than one ALP. [SM 516]
- **Comparability factors**: characteristics of property / services; **FAR** (functions, assets, risks) analysis; contractual terms (sham?); market conditions (geography, location savings, government rules, market level); business strategies (market penetration). [SM 517–520]
- Then: transaction analysis (do not substitute transactions), separate vs combined ("package deals"), arm's length **range**, multiple-year data, losses, intentional set-offs, customs valuation. [SM 520–523]
- **Enterprise** s.92F(iii) includes a **PE** (fixed place of business). [SM 523–524]

B International transaction (s.92B) · specified domestic transaction (s.92BA)

- **International transaction**: between **two or more AEs, either or both non-residents** (incl. NOR), of purchase / sale / lease of property, services, lending / borrowing, or anything bearing on profits, and **cost-sharing** arrangements. Both tests are cumulative. [SM 524–525]
- **Deemed** s.92B(2): a transaction with a **non-AE** is deemed between AEs if there is a **prior agreement** between that
- **SDT** (not an international transaction): transactions u/s 80A, 80-IA(8) transfers, 80-IA(10) close-connection business, same under other VI-A / 10AA, business between persons in 115BAB(4) and 115BAE(4), others prescribed — **where their aggregate in the year exceeds ₹20 crore**. [SM 526]

person and the AE, or the terms are **determined in substance** between them (C Co. – Z Plc. example). [SM 524–525]
- Includes tangible and **intangible** property (marketing, technology, customer, human-capital … intangibles), capital financing incl. **guarantees**, services, and **business restructuring**. "Transaction" includes informal arrangements. [SM 525–526]

- SM Example 1: Sultan Ltd paid ₹28,40,00,000 to a tax-holiday group company; ALP ₹17,00,00,000 → deduction limited to ALP. [SM 526]
- **Notified jurisdictional area** (s.94A): every party to a transaction with a person there is deemed an AE; TDS at the higher of **30%** or the rate in force. [SM 543–544]

C Associated enterprise · s.92A

WHAT IT IS Basic test s.92A(1): one enterprise participates (directly / indirectly) in the management, control or capital of the other, or the same persons participate in both. **Deemed AE** s.92A(2): any one of the conditions below at any time in the year. [SM 527]

Group	Two enterprises are deemed AEs if … [SM 527–528]
Holding	(a) one holds **not less than 26%** of the voting power of the other · (b) any person holds not less than 26% in **each**
Finance	(i) a **loan** by one is **not less than 51% of the book value of total assets** of the other · (j) one **guarantees** not less than **10%** of the other's total borrowings
Board	(k) more than **½ of the board** or **one or more executive directors** appointed by the other · (l) same persons appoint them in both — **power must be exercised**
Dependence	(c) manufacture / business **wholly** dependent on know-how, patents, trademarks, data … owned by the other · (d) **90% or more** of raw materials supplied by the other (or persons it specifies) at prices it influences · (e) goods sold to the other (or persons it specifies) at prices it influences
Control	(f) both controlled by an individual / his relative / jointly · (g) HUF and its member or relative · (h) one holds **not less than 10%** interest in a **firm, AOP or BOI** · (m) prescribed mutual interest

PROBLEMS BOX · Q8(b) "STATE WITH REASONS: AE / DEEMED AE?" OR "IT / SDT / NEITHER?" · 7 MARKS

1 · WHEN IT COMES

- J26 Q8(b) seven AE cases = **MQP Q7(a)** · J23 Q3(c) (voting fell to 23%, indirect holding, exclusive distributor) · D25 Q8(b) IT / SDT / neither (4 cases) · J25 Q8(b) (TPO's ALP applied to non-AE transactions) · PTP Q8(b) (meaning of SDT) · MCQ bank Q69–Q83.

2 · ANSWER FORMAT (ICMAI MQP STYLE)

1. Quote the condition of s.92A(2) that fits (one line).
2. Apply it to the figures (26%? 51% of **book** value? power **exercised**? **wholly** dependent?).
3. Conclude: "deemed AEs" / "not AEs". For IT vs SDT: both AEs? either non-resident? else SDT list and ₹20 crore?

5 · TRAPS

- Loan test uses **book value**, at **any time** in the year — later repayment does not matter (MQP: ₹65 crore of ₹120 crore).
- Power to appoint 5 of 9 but only 4 appointed → not AE.
- Partner with 12% in a foreign LLP → AE (10% test).
- A transaction with a person in a notified jurisdictional area → deemed AE (s.94A) even at 15% holding.
- Below 26% (e.g. 23%) → not AE on holding.

3 · WORKED PATTERN · MQP Q7(a) (ICMAI ANSWER) = J26 Q8(b) SHAPE

Case	Answer
(i) Sale to a company in a **notified jurisdictional area**, 15% holding	Deemed AE u/s 94A
(ii) Power to appoint 5 of 9 directors, appointed 4	Not AE: more than ½ not appointed
(iii) Loan ₹65 crore; book value of assets ₹120 crore (market ₹180 crore); ₹25 crore repaid	AE: ≥ 51% of **book** value at any time
(iv) Generators made wholly on a patented design of the German company	AE: wholly dependent on its patent
(v) Firm processing data 100% supplied by a US company	AE: wholly dependent on its data
(vi) Laptops marketed by a Belgian company, terms influenced by it (customers identified by RS Ltd)	ICMAI: AE ⚠
(vii) 12% share in a UK LLP	AE: not less than 10% in a firm

⚠ (vi): s.92A(2)(e) needs goods sold to the other enterprise or to persons **it specifies** at prices it influences; here RS Ltd identifies the customers, so "not AE" is arguable. Write the condition, then follow ICMAI's conclusion with that one-line caveat.

4 · PRACTISE THESE

J26 Q8(b) · MQP Q7(a) · D25 Q8(b) · J23 Q3(c) · J25 Q8(b) · PTP Q8(b) · SM M13 case 5 (SM 611) · MCQ bank Q69, Q70, Q75–Q81, Q83 · **ICMAI Practice Workbook: no problem on this topic**.

D Methods of ALP (s.92C, Rule 10B) · most appropriate method (Rule 10C)

Method	How (Rule 10B)	Use for
CUP	price in a comparable uncontrolled transaction, **adjusted** for differences that materially affect price (all adjustments made to the **uncontrolled** price); internal or external CUP [SM 560–562]	goods, services, intangibles, **interest on loans**; needs very close product similarity [SM 560–561]
Resale price (RPM)	resale price to an unrelated party − normal GP margin (on sales) − purchase expenses ± functional / accounting differences [SM 562–563]	only goods **bought from an AE and resold to unrelated parties** (distributor) [SM 564]
Cost plus (CPM)	direct + indirect cost of production + normal gross **mark-up on cost** (adjusted) [SM 567]	services, joint facilities, **semi-finished goods**, long-term buy-sell; only for **supply to** an AE [SM 567, SM 570]
Profit split (PSM)	combined net profit split by relative contribution (FAR); or **residual**: basic return first, residue by contribution [SM 570–572]	**unique intangibles**, integrated / inter-related transactions (D25 MCQ) [SM 570–571]
TNMM	net profit margin on cost / sales / assets compared with comparables on the same base [SM 574–575]	services, distribution where RPM fails, semi-finished goods where CPM fails, intangibles where PSM fails; the **most commonly used** [SM 575, SM 583]
Other (Rule 10AB)	any method using the price that has been or would be charged in the same / similar uncontrolled transaction [SM 582]	patent sale on a valuation report; buy-back of shares from an AE; group cost allocation [SM 581]

- CUP, RPM, CPM = **transaction-based**; PSM, TNMM = **profit-based** (J24 MCQ). [SM 529]
- **MAM (Rule 10C)**: best suited, most reliable — considering the nature of the transaction, FAR of the AEs, data availability, degree of comparability, accuracy of adjustments, assumptions. [SM 582–583]
- **Ratios**: cost cover = operating revenue ÷ operating expenses; return on assets = EBIT per rupee of assets; **Berry ratio = gross profit ÷ operating expenses** (J24 MCQ; limited-risk distributors, service providers). [SM 583]
- Comparability data: current year; for RPM / CPM / TNMM the preceding year may be used if current data is unavailable at return time. [SM 582]

- **More than one price**: arithmetic mean; if the actual price is within **3%** (or notified %) of it, it is accepted (second proviso to s.92C(2)); otherwise adjust from the mean. [SM 553, SM 599]
- **AO** may determine ALP (s.92C(3)) if the price was not per the rules, documents not kept, data unreliable or not furnished — after a show-cause notice. No 10AA / VI-A deduction on the enhancement; the other AE's income is not recomputed. [SM 529–530]
- **TPO** (s.92CA): reference with the Commissioner's approval; TPO's order **binds the AO** (D24 MCQ); TPO may take up **other transactions** that come to notice, incl. ones not reported in Form 3CEB (D24 MCQ); order up to **60 days** before the s.153 time limit; powers of ss. 131(1), 133(6), 133A. [SM 530–531]
- **Multi-year ALP** (Jun'26 supp, s.92CA(3B)): ALP of a year applies to similar transactions of the next **2** years on the assessee's option; TPO declares validity within **1 month**; AO recomputes u/s 155(21). [SM 530–531] [Supp J26 p.17–19]

PROBLEMS BOX · Q7(a) ARM'S LENGTH PRICE SUM (CUP / RPM / CPM) · 7 MARKS · 5 OF 6 PAPERS

1 · WHEN IT COMES

- **CUP**: J23 Q6(c), J24 Q7(a), D25 Q7(a), J26 Q7(a) · PTP Q7(a) = postal Q6(b) (FOB / CIF, warranty, discount).
- **RPM**: J25 Q7(a) (three comparables). **Cost plus**: D23 Q7(a).

2 · FORMULA + STEPS

1. Name the AE link and the international transaction; choose the MAM with one reason.
2. **CUP**: start from the uncontrolled price; − freight + insurance if it is CIF and the AE deal is FOB; − warranty cost given only to the outsider; − quantity discount given only to the AE; + interest for credit given only to the AE.
3. **RPM**: resale price − normal GP% × resale price − purchase-cost differences ± discount differences.
4. **CPM**: cost × (1 + adjusted mark-up %).
5. Several comparables: **mean**; within **3%**? no adjustment.
6. Adjustment = (ALP − price) × units, only if it **raises** income (s.92(3)).

5 · TRAPS

- Price to another **AE** is never a comparable (SM: AE3).
- Purchase from an AE: ALP below the price paid raises income; above it — no change.
- RPM margin is on **sales**; "25% on cost" = 20% on sales (SM M13 case 1).
- ⚠ SM Illustration 6 grosses up cost by "cost ÷ (1 − 47.5%)" = ₹28,57,143; Rule 10B(1)(c) adds the mark-up to cost (₹15,00,000 × 1.475 = ₹22,12,500). Show the rule; note the SM figure.

3 · WORKED PATTERN · SM ILLUSTRATION 8 (CD LTD) — RE-WORKED BY SCRIPT

CD Ltd sells 2,50,000 phones to its AE (Korea) at ₹3,000 FOB, no warranty, quantity discount ₹200; and 35,000 to an unrelated buyer at ₹5,800 CIF (freight + insurance ₹700) with a 2-year warranty (cost ₹500).

Comparable uncontrolled price	5,800
− freight and insurance	700
− warranty cost	500
− quantity discount	200
ALP per phone	**4,400**
− actual price to the AE	3,000
Increase per unit	1,400
Increase in total income: 2,50,000 × ₹1,400	**₹35 Crores**

Credit add-on (SM Illustration 20): 23,500 + 1,200 + 700 − 2,000 + interest on 23,500 for 3 months @ 12% = **INR 24,105**. RPM (SM Illustration 12): 11,000 − 2,200 − 1,000 − 1,000 = **₹6,800**; income up ₹21,00,000. Cost plus (SM 568–570): mark-up 50% − 10% − 5% − 7.5% + 1.5% = **29.00%** → ₹2,25,750; income up ₹25,750.
[SM 588–589, SM 596, SM 568–570]

4 · PRACTISE THESE

J26 Q7(a) · D25 Q7(a) · J25 Q7(a) (RPM: mean of 15 / 23 / 19% = 19% → ALP ₹32,400 v ₹35,000, outside 3% → + ₹52,00,000) · J24 Q7(a) · D23 Q7(a) · PTP Q7(a) · postal Q6(b) · SM Illustrations 6–22, solved case (SM 607), cases 1, 2, 4 (SM 610–611; hints ₹13,800 / ₹120 lakhs; Euro 600 / ₹9 crore; ₹9,750 / ₹625 lakhs) · MCQ bank Q63–Q65, Q68 · **ICMAI workbook Ch 7 illustrations 1–5**.

E Worked method examples from the SM (for theory and MCQs)

- **RPM (SM 564–566)**: resale ₹3,000 − normal GP 12% (actual 15% − 2% FOR − 1% discount) = 2,640 − freight 10 − customs 25 = 2,605 + 10 − 15 = **ALP ₹2,600** vs ₹2,900 → income up ₹30,000. [SM 564–566]
- **PSM (SM 572–574)**: combined profit US$ 22,000; total split 70 : 30 → AE1 ALP income US$ 35,400 (+5,400); residual split after basic returns 3,000 / 800 → US$ 35,740 (+5,740). [SM 573–574]
- **Residual PSM (Illustration 14)**: profit 200 − routine 10% on manufacturing (20 + 30) = residual 150 split by development cost 100 : 50 → Indco's transfer price **470**. [SM 590–591]
- **TNMM (SM 576–578)**: comparable operating margin on cost 51.52% → AE1's ALP revenue ₹143.94 crores vs ₹130 crores → +₹13.94 crores. [SM 577–578]
- **TNMM for purchases** (Illustrations 1–2): recast P&L at the comparable margin → AE purchases ₹460 v ₹500 (+₹40); raw material ₹445 v ₹500 (+₹55). [SM 578–580]
- **s.92(3)** (Illustrations 15–16): an ALP that would **reduce** income is ignored (Khazana: €1,30,000 comparable → no change; €60,000 → +₹20,00,000). [SM 592]
- **Illustration 18** (ABC India): RPM on laptops with computers / printers as comparables; normal GP 36%; ALP ₹5,860 > price ₹4,800 → at arm's length. [SM 593–595]

SM M13 EXERCISE MCQs (ANSWERS AS PRINTED) · MCQ FACTS

- SDT threshold: **₹20 crore**. [SM 608–609]
- SDT at ALP: **s.92**; methods: **s.92C**. [SM 608–609]
- ALP is found by the **resale price method** (not FMV / stamp duty). [SM 608–609]
- Uncontrolled transaction = between enterprises **other than AEs**. [SM 609]
- D25 MCQ: unique intangibles → PSM · J26 MCQ: semi-finished goods to the parent → cost plus (SM 567) · J24: Berry ratio = GP ÷ operating expenses.

Revision sheet · M13 Part 1 (glance page)

Item	Rule / number	Item	Rule / number
s.92	income / expense / cost-sharing at ALP; never reduces income	ALP	price between non-AEs in uncontrolled conditions
International transaction	between AEs; either or both non-resident	Deemed IT	non-AE with prior agreement / terms set by the AE
SDT	80A, 80-IA(8)/(10), 10AA, 115BAB(4), 115BAE(4); aggregate > ₹20 crore	94A NJA	all parties deemed AEs; TDS ≥ 30%
AE: holding	≥ 26% voting in the other, or by one person in each	AE: finance	loan ≥ 51% of book value of assets; guarantee ≥ 10% of borrowings
AE: board	> ½ of board or 1 executive director, actually appointed	AE: dependence	wholly on intangibles; ≥ 90% raw materials; sales at influenced prices
AE: control	individual / relative; HUF member; ≥ 10% in a firm / AOP / BOI	Methods	CUP, RPM, CPM (transaction) · PSM, TNMM (profit) · other
RPM	bought from AE, resold to outsiders; GP on sales	CPM	supply to AE; mark-up on cost; semi-finished goods, services
PSM	unique intangibles; integrated transactions; total or residual	TNMM	net margin on a base; most used
Range	arithmetic mean; within 3% accepted	Berry ratio	gross profit ÷ operating expenses
TPO	order binds AO; may take up other transactions; order 60 days before s.153 limit	Multi-year ALP	option: same ALP for next 2 years; TPO validates in 1 month

MEMORY HOOKS

- AE numbers: **"26 – 51 – 10 – 90 – ½"** (voting, loan / assets, guarantee and firm share, raw materials, board).
- CUP adjustments: **"Make the outsider's deal look like the AE's deal"** — strip what the outsider got extra (freight, warranty), add what the AE got extra (credit), remove what only the AE got (discount).
- Method by role: **distributor → RPM · manufacturer / service to AE → CPM · unique joint intangible → PSM · default → TNMM**.

Module 13 · Part 2 · APA, safe harbour, s.94B, secondary adjustment

P15 · topics 13.3, 13.4

SM pp. 532–559 (exercise 608–611). **Q7(b) s.94B sum in all 6 papers since Dec'23**; a secondary-adjustment MCQ in 5 of 6; APA MCQ (xi) in D25 / J26 and APA long questions in D23, D24, J25.

Paper	Long questions	MCQs
Jun'23	Q4(b) 94B after an ALP adjustment of interest (6) · Q8(b) APA years, rollback, ROI duty (8)	repatriation of excess money
Dec'23	Q7(b) **94B** · Q8(b) APA validity, fee, binding nature	rollback years · 90 days · 20.9664%
Jun'24	Q7(a) CUP + primary / **secondary adjustment** · Q7(b) **94B** with an AE's matching deposit	additional tax on ₹300 lakh
Dec'24	Q6(a) **APA and rollback years** from ITR dates · Q7(a) secondary-adjustment **interest** (SBI MCLR / LIBOR) · Q7(b) **94B**	additional tax on ₹200 lakh
Jun'25	Q6(a) **APA / rollback years** by each year's status · Q7(b) **94B** (two AEs, carry forward)	20.9664%
Dec'25	Q7(b) **94B** (supplier-AE loan + bank loan guaranteed by an AE)	APA fee ₹150 crore · safe harbour meaning
Jun'26	Q7(b) **94B** (loan guaranteed by an AE via a common 30% holder)	APA years · tax on ₹210 lakh

HOW IT IS EXAMINED · DEC'26 PREDICTION

- **Q7(b) 7 marks, near-certain**: s.94B — who is an AE lender, EBITDA, 30%, disallowance, carry forward (8 AYs).
- **MCQ (xi)** APA years / fee · **MCQ (xii)** secondary adjustment or safe harbour.
- **Q6(a) / Q8(b) possible**: APA rollback situation (MQP Q8(b) unused), or secondary-adjustment sum (D24 Q7(a) type).

MAP OF THIS PART

1. APA s.92CC: validity, binding, rollback, fees ★★★
2. APA procedure (Rules 10F–10T), s.92CD modified return ★★
3. Documentation 92D / 92E, penalties ★★
4. Safe harbour ★★
5. s.94B thin capitalisation ★★★ (problems box)
6. s.92CE secondary adjustment, Rule 10CB ★★★
7. Revision sheet · M13 mind map

A Advance pricing agreement · s.92CC

WHAT IT IS A contract, usually for several years, between a taxpayer and at least one tax authority, to settle the transfer pricing of future transactions in advance. [SM 532]

- The **Board**, with Central Government approval, may agree with any person on the ALP (or its method) of an international transaction, or on the income of a **non-resident** u/s 9(1)(i) attributable to India. [SM 532]
- Valid for up to **5 consecutive previous years** (SM MCQ 5; J26 / MQP MCQ). Binds the person (for that transaction) and the Commissioner and subordinate authorities — not if the facts or law change. [SM 532, SM 608]
- **Void ab initio** if obtained by fraud / misrepresentation; that period is excluded from limitation, with at least **60 days** left. [SM 532–533]
- **Rollback**: may cover up to **four previous years** before the first APA year. An APA application makes the proceeding "pending". [SM 533–534]
- Types: **unilateral** (taxpayer + Indian authority), **bilateral** (+ one foreign authority), **multilateral** (+ more). [SM 534]

Step (Rule)	Form / time
Pre-filing consultation (10H) — not binding	Form 3CEC to DGIT (International Taxation) [SM 534–535]
Application (10-I)	Form 3CED **before the first day of the first year** (continuing transactions) or before the transaction [SM 535]
Fee by value of transactions	up to ₹100 crores: **₹10 lacs** · up to ₹200 crores: **₹15 lacs** · above: **₹20 lacs** [SM 535]
Rollback request (10MA)	Form 3CEDA + extra fee **₹5 lakh** [SM 538]
Withdrawal (10J)	Form 3CEE before terms are final; **fee not refunded** [SM 535]
Deficiency letter (10K)	within **1 month**; cure in **15 days** (max **30 days**); if rejected, fee refunded [SM 536]
Annual compliance report (10-O)	Form 3CEF within **30 days** of the return due date or **90 days** of the APA, later [SM 539]
Compliance audit (10P) by TPO	within **6 months** from the month the report is received [SM 539]
Bilateral terms (44GA)	applicant accepts within **thirty days** [SM 542]

ROLLBACK CONDITIONS (RULE 10MA)

- **Same** international transaction as the APA; return for the rollback year filed by the **due date u/s 139**; Form 3CEB filed; rollback asked for **all** rollback years of that transaction; Form 3CEDA. [SM 538]
- **Not allowed** for a year where the **ITAT has disposed of the appeal** on that ALP before the APA is signed, or where rollback would **reduce the returned income / raise the loss**. [SM 538]
- Effect (10RA): modified return with the tax; assessee withdraws its own appeals before filing it; the AO / Commissioner withdraws theirs within **3 months**; failure → APA cancelled. [SM 540–541]

AFTER SIGNING · s.92CD · REVISION / CANCELLATION

- **Modified return** within **3 months** from the end of the month of the APA for years already filed; completed assessments are modified; pending ones follow the APA; order within **1 year** from the end of the FY of the modified return; s.153 / 153B / 144C limits extended by **12 months**. [SM 542]
- Revision (10Q): change in critical assumptions / law, or the other country asks; cancellation (10R): failed compliance audit, late or wrong annual report, refused revision. Renewal = fresh application without pre-filing (10S). Filing an application does not stop Chapter X meanwhile (10T). [SM 539–541]

PROBLEMS BOX · APA "WHICH YEARS?" SITUATIONS (Q6(a) / Q8(b) / MCQ (xi))

STEPS

1. Find the **first APA year**: the year beginning after the application (application must be filed before its first day).
2. APA years = that year + up to 4 more (5 in all), as the agreement says.
3. Rollback years = the **4 years before** the first APA year.
4. Strike out rollback years where: return was late; ITAT already **disposed of** the TP appeal before signing; rollback would cut the returned income.
5. Pending reassessment / CIT(A) / HC on the issue → rollback still applies (appeal withdrawn).

PAST / PRACTICE

- J26 MCQ: applied 20.10.2025, signed 10.04.2026 → first year F.Y. 2026-27, so F.Y. 2026-27 to 2030-31 (option B; our reading of Rule 10-I).
- D25 MCQ: transactions ₹150 crores → fee **₹15 lakhs**.
- J25 Q6(a) (applied Feb 2024, signed May 2024, rollback Oct 2024; five AYs with different statuses) · D24 Q6(a) · J23 Q8(b) · D23 Q8(b) · MQP Q8(b) (unused) · PTP Q6(a) · SM short essay 1 · MCQ bank Q67, Q71, Q72, Q89–Q93, Q151 · **ICMAI Practice Workbook: no problem on this topic**.

B Documentation, accountant's report, penalties

Provision	Rule
s.92D records	keep prescribed information (Rule 10D) — contemporaneous, by the due date u/s 139(1); keep for **8 years** from the end of the AY (SM MCQ 9; postal MCQ); produce within **10 days** of a notice (extendable by up to **30 days**) [SM 543, SM 586]
s.92E report	Form **3CEB** from an accountant by the specified date (31st Oct, one month before the return due date) [SM 543]
s.271AA	not keeping / not reporting / wrong information: **2%** of each international transaction or SDT; constituent entity not furnishing master-file information: **₹5,00,000** [SM 543–545]
s.271BA	no Form 3CEB: **₹1,00,000** [SM 545]
s.271G	not furnishing documents u/s 92D(3): **2%** of the transaction, for each failure (J26 MCQ) [SM 545]

C Safe harbour · s.92CB (D25 MCQ)

- SM WORDS **Safe harbour** means circumstances in which the income-tax authorities shall **accept the transfer price** (or the income u/s 9(1)(i)) declared by the assessee. [SM 546]
- Rule 10TD lists eligible transactions with minimum margins, e.g. software development services: operating profit on cost not less than **17%** (value up to ₹100 crore) / **18%** (₹100–300 crore); also ITES, KPO, intra-group loans, corporate guarantees, contract R&D, auto components (90% OEM sales), low value-adding services. [SM 546–554]
- Option in **Form 3CEFA** by the return due date (return filed first); in force for the period stated or **3 years**, whichever is less; may opt out by declaration. [SM 554]
- Not for AEs in a notified jurisdictional area or a **no / low tax** country (maximum rate below **15%**); no **MAP** once accepted; no 3% comparability allowance; 92D / 92E still apply. [SM 553–554]
- SDT safe harbour (10THC): Government electricity companies (tariff fixed by the Commission) and milk co-operatives (price by fat / SNF); Form 3CEFB. [SM 554–555]

D s.94B · limitation on interest (thin capitalisation)

WHO Indian company or PE of a foreign company, the **borrower** [SM 556] → **DEBT** issued by a **non-resident AE** — or by any lender where an AE **guarantees** it or deposits matching funds [SM 556] → **THRESHOLD** interest (or similar) **exceeding ₹1 crore**, deductible under PGBP [SM 556] → **DISALLOW** lower of (total interest − **30% of EBITDA**) and interest to AEs [SM 556] → **CARRY FORWARD** up to **8 AYs**, within that year's 30% limit [SM 556–557]

- Origin: OECD **BEPS Action Plan 4** (PTP MCQ). [SM 555]
- Not for **banking / insurance** companies, IFSC finance companies, notified NBFCs; nor for loans from an Indian **PE of a foreign bank**. [SM 556]
- **SM Example 2** (₹ crore, EBITDA 100, total interest 35): all to AE → 5 disallowed; all to non-AE → nil; 15 AE + 20 others → 5. [SM 557]
- **EBITDA** = net profit + interest (all) + depreciation + amortisation + tax provision (back to the profit before them).
- "AE" lender test = s.92A: e.g. a common holder with ≥ 26% in the borrower and the guarantor makes the guarantor an AE (J26 Q7(b), SM case 3).
- Proposed dividend is not an expense: do not add it.

PROBLEMS BOX · Q7(b) s.94B INTEREST DISALLOWANCE · 7 MARKS · ALL 6 PAPERS SINCE DEC'23

1 · WHEN IT COMES

- D23 · J24 (AE's matching deposit with the lender) · D24 (loan from the foreign holding company) · J25 (two AEs + unrelated lenders; carry forward) · D25 (supplier-AE loan + bank loan guaranteed by an AE) · J26 (loan from a UK company guaranteed by a US company; common 30% holder) · J23 Q4(b) (after an ALP adjustment of interest).

2 · ANSWER FORMAT

1. Is the borrower covered? Is the lender (or guarantor / depositor) an AE — which s.92A test?
2. Interest > ₹1 crore?
3. EBITDA table → 30%.
4. Excess = total interest − 30% of EBITDA; disallow lower of excess and AE interest.
5. Carry forward the disallowed amount (8 AYs); taxable income if asked.

5 · TRAPS

- Interest to **non-AEs** counts in the excess but is never itself disallowed beyond the AE interest.
- Where 30% of EBITDA exceeds total interest, nothing is disallowed (J26 Q7(b): EBITDA ₹40 crore, 30% = ₹12 crore v interest ₹9 crore → nil, on our working).
- J25 Q7(b) (our working): EBITDA 780 lakh; allowed 234; disallowed 206; carry forward 8 AYs.

3 · WORKED PATTERN · SM M13 CASE 3 (X LTD) — THE J26 Q7(b) SHAPE (SM HINTS RE-WORKED BY SCRIPT)

X Ltd borrowed ₹100 crores on 01-04-2025 from A Inc (USA) at 9%, guaranteed by B Inc (USA); K Inc holds 30% votes in both X Ltd and B Inc and has deposited ₹100 crores with A Inc. Net profit ₹10 crores after interest, depreciation ₹5 crores and income-tax ₹3.40 crores.

B Inc and X Ltd: K holds ≥ 26% in each → AEs; guarantee by an AE → debt deemed from an AE	covered
EBITDA = 10 + interest 9 + depreciation 5 + tax 3.40 (₹ crores)	27.40
30% of EBITDA	8.22
Interest paid (9% of ₹100 crores)	9.00
Disallowed u/s 94B (lower of 0.78 and 9.00)	**₹78 lakhs**
Taxable income = 1,000 + 340 (tax) + 78 (₹ lakhs)	**₹1,418 lakhs**

4 · PRACTISE THESE

J26 Q7(b) · D25 Q7(b) · J25 Q7(b) · D24 Q7(b) · J24 Q7(b) · D23 Q7(b) · J23 Q4(b) · MQP Q7(b) (with three TP adjustments) · SM Example 2 (SM 557) · SM M13 numerical problem (SM 610, answer printed "Nil") · SM short essay 2 · MCQ bank Q66, Q85–Q88, Q96 · **ICMAI workbook Ch 7 illustrations 6, 7**.

E Secondary adjustment · s.92CE · Rule 10CB

WHAT IT IS **Secondary adjustment** = an adjustment in the books of the assessee and its AE so that the actual allocation of profits matches the transfer price fixed by the **primary adjustment** — removing the gap between cash and profit. [SM 557]

- **When**: primary adjustment made suo motu in the return; made by the AO and **accepted**; by an APA signed on or after **01-04-2017**; under safe harbour; or by MAP. [SM 557]
- **Not if** the primary adjustment ≤ **₹1 crore**, or relates to an AY commencing on or before **01-04-2016**. [SM 557]
- **Excess money** (ALP − actual price) not repatriated in time → deemed an **advance to the AE**; interest imputed. May be repatriated from any non-resident AE. [SM 557–558]
- SM Example 3: sale ₹100 crores, ALP ₹150 crores → primary adjustment ₹50 crores; if not brought back, deemed loan of ₹50 crores to the AE with interest. [SM 558]
- **Option**: pay **additional income-tax @ 18%** + surcharge **12%** + cess on the excess money — final, no credit, no deduction; then no further secondary adjustment or interest. [SM 558]

- **Time to repatriate**: **90 days** from — the return due date (suo motu, safe harbour, APA signed by the due date); the AO's / appellate order (accepted adjustment); end of the month of the APA (APA signed later); giving effect to MAP. [SM 558–559]
- **Interest rate**: INR transaction — one-year SBI **MCLR** on 1st April + **325** basis points; foreign-currency transaction — 6-month LIBOR on 30th September + **300** basis points (D24 Q7(a)). Runs from the same start dates. [SM 559]
- Exchange rate: TT buying rate on the last day of the year of the transaction. [SM 559]
- **MCQ sums** (rate 18% × 1.12 × 1.04 = **20.9664%**; D23, J25): ₹200 lakh → ₹41,93,280 (D24) · ₹210 lakh → **₹44,02,944** (J26, option D) · ₹300 lakh → ₹62,89,920 (J24).
- Practise: J24 Q7(a) · D24 Q7(a) · PTP Q7(b) · postal Q6(a) · MQP MCQ (xii) · SM short essay 3 · MCQ bank Q141, Q150, Q162 · **ICMAI Practice Workbook: no problem on this topic**.

Revision sheet · M13 Part 2 (glance page)

Item	Rule / number	Item	Rule / number
APA validity	up to 5 consecutive years; rollback up to 4 earlier years	APA fee	≤ ₹100 crores ₹10 lacs · ≤ ₹200 crores ₹15 lacs · above ₹20 lacs; rollback + ₹5 lakh
APA forms	3CEC pre-filing · 3CED application · 3CEDA rollback · 3CEE withdrawal · 3CEF annual report	Rollback barred	ITAT disposed of the appeal before signing; would reduce returned income; late return
Modified return 92CD	3 months from the month-end of the APA; order in 1 year; limits + 12 months	Annual report	30 days of due date or 90 days of APA (later); audit in 6 months
92D / 92E	keep 8 years; produce in 10 (+30) days; Form 3CEB by 31st Oct	Penalties	271AA 2% (₹5,00,000 master file) · 271BA ₹1,00,000 · 271G 2%
Safe harbour	declared price accepted; Form 3CEFA; ≤ 3 years; no MAP; not low-tax (< 15%)	Software SH margin	17% (≤ ₹100 crore), 18% (₹100–300 crore)
94B	borrower: Indian co. / PE; AE lender or AE guarantee / deposit; interest > ₹1 crore	94B limit	30% of EBITDA; disallow lower of excess and AE interest; carry forward 8 AYs
92CE triggers	suo motu, accepted AO order, APA (from 01-04-2017), safe harbour, MAP	92CE exceptions	≤ ₹1 crore; AY on or before 2016-17
Repatriate	within 90 days	Interest	SBI MCLR + 325 bp (INR) · LIBOR + 300 bp (FC)
Additional tax	18% + 12% SC + 4% cess = 20.9664%	BEPS	94B from Action Plan 4

MEMORY HOOKS

- APA: **"5 forward, 4 back, fee 10-15-20 (+5 for going back)"**.
- 94B: **"30 of EBITDA, 1 crore door, 8 years more"**.
- Secondary adjustment: **"90 days or 18 + 12 + 4"**.

Module 13 mind map · Transfer pricing

Who and what (13.1)

- s.92: at ALP; never reduces income
- IT: AEs, either non-resident; deemed IT
- SDT: > ₹20 crore
- 94A NJA: all deemed AEs

APA (13.3)

- 5 years forward; rollback 4 back
- Fee ₹10 / 15 / 20 lacs; +₹5 lakh
- Modified return in 3 months
- Rollback barred: ITAT disposed; lower income

AE s.92A (Q8(b))

- 26% voting · 51% loan / book assets
- 10% guarantee · 10% in a firm
- > ½ board appointed (exercised)
- wholly dependent · 90% raw materials

MODULE 13
~27 marks expected
Q7(a), Q7(b), Q8(b), MCQ x–xii

s.94B (Q7(b))

- AE lender / guarantee / deposit
- Interest > ₹1 crore
- 30% of EBITDA; lower of excess and AE interest
- Carry forward 8 AYs

ALP methods (Q7(a))

- CUP: adjust the outsider's price
- RPM: resale − GP% − costs
- CPM: cost × (1 + mark-up)
- PSM: unique intangibles · TNMM: most used
- mean; 3% tolerance; TPO binds AO

92CE · safe harbour · documents

- Repatriate in 90 days or pay 20.9664%
- Exceptions: ≤ ₹1 crore
- Safe harbour: price accepted; 3CEFA
- 92D 8 years; 3CEB; 271AA / 271BA / 271G

Module 12 · Double Taxation Avoidance Agreements P15 · topics 12.1–12.4

SM pp. 452–506 (exercise 507–508). **7–22 marks a paper; 18 in D25 and J26** (expected 17). **Q6(b) relief u/s 91 sum in all 6 papers since Dec'23**, Q6(a) DTAA theory, and MCQs (xiii) / (xiv).

Paper	Q6(a) / theory	Q6(b) and others	MCQs
Jun'23	Q2(b) exemption-with-progression, full vs ordinary credit (6) · Q5(c) PE cases (6)	Q7(b) **s.91**: senior with business abroad	economic double taxation · force of attraction
Dec'23	**PE**; storage / display / delivery under OECD vs UN	**s.91**: income + loss in two non-DTAA countries	India follows the UN Model
Jun'24	**Methods of relief** + unilateral relief u/s 91	**s.91**: online trainer · Q8(b) foreign tax not credited — business expense?	which activity creates a PE
Dec'24	(APA)	**s.91**: resident cricketer	India follows the UN Model
Jun'25	(APA)	**s.91**: professional with foreign agriculture, royalty (80QQB), loss	–
Dec'25	**Exemption, credit, tax sparing**	**s.91**: CEO with business, royalty, LTCG abroad	s.91 without DTAA · Article 12A only in UN
Jun'26	**DTAA objectives, types, models**	**s.91**: senior (68) with dividend, royalty, rent abroad, default regime	juridical double taxation · OECD = developed countries

HOW IT IS EXAMINED · DEC'26 PREDICTION

- **Q6(b) 7 marks, near-certain**: s.91 relief — total income, tax under the regime asked, average Indian rate vs foreign rate, country by country.
- **Q6(a) 7 marks, likely**: relief methods (23A / 23B, underlying credit, tax sparing), PE (Article 5), or OECD vs UN on royalties / FTS (MQP Q6(a), unused).
- **MCQ (xiii)** s.91 / juridical vs economic · **(xiv)** OECD vs UN.

MAP OF THIS MODULE

1. Double taxation, DTAA types, objectives ★★
2. OECD vs UN Model; list of Articles ★★★
3. s.90 / 90A bilateral relief, TRC, Rule 128 FTC ★★
4. s.91 unilateral relief (problems box) ★★★
5. Article 4 tie-breaker, Article 5 PE, Article 7 ★★★
6. Royalties / FTS (Articles 12, 12A) ★★
7. Relief methods (Articles 23A, 23B) ★★★
8. Revision sheet · mind map

A DTAA: objectives, types, models (12.1, 12.2) · J26 Q6(a)

- **Objectives** (s.90(1)): (a) **relief** on income taxed in both countries, to promote economic relations, trade and investment; (b) **avoidance of double taxation** without creating non-taxation or treaty shopping; (c) **exchange of information** to prevent evasion; (d) **recovery** of tax. [SM 456]
- **Types**: **limited** DTAA — certain incomes only (India–Pakistan: shipping and aircraft profits); **comprehensive** — almost all incomes. India has DTAAs with more than **90** countries. Relief is **bilateral** (s.90 / 90A) or **unilateral** (s.91). [SM 452, SM 455, SM 461]
- ⚠ **Juridical** double taxation = the **same income taxed in the hands of the same person** by more than one country; **economic** = the same income taxed in the hands of **two different persons** (company and shareholder on dividends). Not in the SM text; asked in J26 MCQ (xiii) and ICMAI MQP MCQ (xiv) (key: dividend of a foreign shareholder taxed in both countries = juridical).

- **OECD Model**: since 1927 (League of Nations draft), latest 2017; a treaty between **two developed** nations; favours the **residence** principle. [SM 453]
- **UN Model**: Ad hoc Group of Experts set up 1968, finalised 1980, revised 2021; between **developed and developing** countries; favours the **source** principle; encourages investment flows. **Most of India's treaties follow the UN Model** (SM MCQ 1; D23, D24 MCQs). [SM 453, SM 507]
- US Model: 1976. Models are not binding; their language is copied into treaties. UN: 31 Articles; OECD: 32 (both 7 chapters). [SM 453–454]
- **Only in the UN Model**: Article 12A FTS (D25 MCQ), 12B automated digital services, 14 independent personal services; OECD Article 14 deleted. [SM 454, SM 484]

⚠ The SM's Article list (SM 454) prints "12A Fee for Technical Services" in the OECD column too; the Article text (SM 484) shows 12A only in the UN Model — use the text (and the D25 MCQ).

B Bilateral relief · s.90 / 90A · foreign tax credit (Rule 128)

- Where a DTAA applies, the Act applies only so far as it is **more beneficial**; **GAAR applies anyway**. SM: FTS at 25% under a DTAA vs 20% u/s 115A → use 115A. [SM 456]
- Treaty overrides the Act on conflict (**Kulandagan Chettiar**, SC); a DTAA rate applies without surcharge / cess (**BOC Group**, Trib); TDS at the Finance Act rate or the DTAA rate, whichever benefits; no Indian tax → no relief (**Azadi Bachao Andolan**, SC — residence certificate binds). [SM 457]
- **TRC**: a non-resident needs a tax residency certificate (+ Form **10F**); a resident applies in Form **10FA**, AO issues **10FB**. s.90A: agreements between specified associations (specified territories). [SM 457–460]
- **SM Illustration 2** (exemption-with-progression treaty): total income ₹25,40,000 (Indian + Country Z) → tax + cess ₹3,55,680; relief u/s 90 at the average rate **14.00%** on ₹12,00,000 = ₹1,68,000 → payable **₹1,87,680**. [SM 458–459]
- **Rule 128 FTC**: credit in the year the income is taxed in India; against tax, surcharge and cess (not interest, fee, penalty); disputed tax — credit once settled, evidence within **6 months**. [SM 463–464]
- Credit = lower of Indian tax on that income and foreign tax, **source-wise and country-wise**; foreign tax above the DTAA rate ignored; TT buying rate of the month before payment. Against MAT / AMT too (excess ignored for MAT credit). [SM 464]
- Claim by **Form No.67** by the return due date + certificate of tax deducted / paid. [SM 465]
- **SM Illustration 1** (credit treaty): tax + cess ₹1,44,352 – relief 5% on ₹4,50,000 (₹22,500) = **₹1,21,850**. [SM 458]

C Unilateral relief · s.91 (no DTAA)

WHAT IT IS A **resident** who proves that the income **accrued outside India** (not deemed to accrue in India), that he **paid tax** on it in that country, and that India has **no s.90 agreement** with that country, deducts from Indian tax: doubly taxed income × the **lower** of the Indian average rate and the foreign average rate (Indian rate if equal). [SM 461]

- Relief only on income **actually taxed in India** after allowances, set-offs and VI-A (**Arunachalam Chettiar**). [SM 461]
- **Country by country**, not on the aggregate of foreign income (**Bombay Burmah Trading Corpn.**). [SM 461]
- No relief on income **deemed to accrue in India**. [SM 461]
- **SM Illustration 3** (old regime): royalty ₹5,00,000 less 80QQB ₹3,00,000 → relief on ₹2,00,000 at 4.95% (lower than 20%) = **₹9,900**. [SM 461–462]
- **SM Illustration 4** (default regime): Country A income ₹15,00,000 (tax ₹5,00,000 = 33.33%), Country B loss ₹4,00,000 → total income ₹38,00,000; tax + cess ₹7,48,800; average **19.71%** → relief ₹2,95,650; payable **₹4,53,150**. [SM 462–463]

PROBLEMS BOX · Q6(b) RELIEF u/s 91 · 7 MARKS · ALL 6 PAPERS SINCE DEC'23

1 · WHEN IT COMES

- J23 Q7(b) · D23 Q6(b) (two countries, a loss) · J24 Q6(b) · D24 Q6(b) · J25 Q6(b) (foreign agriculture, 80QQB, loss) · D25 Q6(b) (LTCG abroad) · J26 Q6(b) (senior, default regime) · MQP Q6(b) · PTP Q6(b) · postal Q3(b) · MCQ D25 (xiii).

2 · STEPS

1. Residential status: **resident** (else no s.91); no DTAA with the country.
2. Total income: Indian + foreign incomes (foreign agricultural income is **taxable**); set off foreign losses as the Act allows; VI-A only if the regime allows (80QQB for books, not school text-books).
3. Tax on total income (regime asked; senior slabs only in the old regime) + cess = Indian tax.
4. Indian average rate = tax + cess ÷ total income (2 decimals).
5. For **each** country: doubly taxed income (net of its expenses / losses, after deductions) × lower of Indian and foreign average rates.
6. Tax payable = Indian tax − total relief (round u/s 288B).

5 · TRAPS

- Foreign rate = tax paid abroad ÷ income taxed abroad (e.g. 5,00,000 ÷ 15,00,000 = 33.33%).
- A loss in another country does not reduce the doubly taxed income of the first country, unless the same country (SM case: Country Y loss set off against Country Y royalty).
- ⚠ SM Illustration 5 prints the foreign rate as 16.67%; on its own figures it is 80,000 ÷ 12,00,000 = 6.67% (then relief = lower rate). Do not copy it.

3 · WORKED PATTERN · SM SOLVED CASE 1 (MR. AMIN, OLD REGIME) — RE-WORKED BY SCRIPT

Business income in India	11,00,000
Dividend from Country X (tax 10%)	2,00,000
Royalty Country Y 6,00,000 − expenses 50,000 − business loss in Y 2,50,000 (tax 25%)	3,00,000
Gross total income	**16,00,000**
− 80D father (senior) 30,000 · 80QQB nil (school text-books)	30,000
Total income	**15,70,000**
Tax 2,83,500 + cess 11,340	2,94,840
Average Indian rate 2,94,840 ÷ 15,70,000	18.78%
Relief X: lower of 18.78% and 10% on 2,00,000	20,000
Relief Y: lower of 18.78% and 25% on 3,00,000	56,339
Tax after relief u/s 91 (76,339)	**2,18,500**

4 · PRACTISE THESE

J26 Q6(b) · D25 Q6(b) · J25 Q6(b) · D24 Q6(b) · J24 Q6(b) · D23 Q6(b) · J23 Q7(b) · MQP Q6(b) · PTP Q6(b) · postal Q3(b) · SM Illustrations 1–4 (SM 458–463) · SM numerical problem (Anupam Gulati, SM 507, answer ₹3,50,000) · SM case 1 (Suresh, SM 508; hint total income ₹21,50,000, tax ₹3,03,245) · MCQ bank Q61, Q120, Q169 · **ICMAI workbook Ch 6 illustrations 1–6**.

D Articles: residence, PE, business profits (12.4) · D23 Q6(a), J23 Q5(c)

- **Article 4 tie-breaker** (individual resident in both): **permanent home** → **centre of vital interests** → **habitual abode** → **nationality** → mutual agreement. Non-individuals: competent authorities decide (POEM, place of incorporation); else no treaty relief. [SM 471–472]
- SM WORDS **PE** = a **fixed place of business through which the business of an enterprise is wholly or partly carried on**; includes a place of management, branch, office, factory, workshop, mine / oil or gas well / quarry. Not defined in the Act; the PE is taxed as a distinct enterprise. [SM 465, SM 472]
- **Construction / installation**: OECD — PE only if it lasts more than **12 months**; UN — more than **6 months**, and **service PE** for services through employees for more than **183 days** in any 12-month period. [SM 472]
- **Not a PE** (preparatory / auxiliary): facilities or stock solely for storage, display (OECD also **delivery** — UN omits "delivery"), processing by another, purchasing / collecting information. [SM 473]
- **Agency PE**: a person habitually concluding contracts (or playing the principal role) for the enterprise; UN adds an **insurance** PE (premiums collected through a person, except reinsurance). **Independent agent** in the ordinary course is not a PE — unless acting exclusively for closely related enterprises (more than **50 per cent** control). [SM 474–475]
- A **subsidiary is not by itself a PE** of its parent (and vice versa). [SM 475]
- **Article 7 business profits**: taxable in the other State only through a PE and only profits **attributable** to it (separate enterprise / arm's length); UN adds **force of attraction** — sales of similar goods and similar activities in that State are also taxed (J23 MCQ). PTP MCQ: business profits = Article 7. [SM 476–477]
- BPO in India is a PE only if there is a business connection and the conditions of Article 5 are met (Circular 5/2004). [SM 466–467]

E Royalties and FTS (Articles 12, 12A) · relief methods (23A, 23B)

Point	OECD Model	UN Model
Who taxes royalties	**Only** the State of the beneficial owner's residence	Residence State **and** source State (rate capped at a % agreed bilaterally) [SM 483]
Definition of royalties	copyright, films, patent, trade mark, design, secret formula, know-how	also films / tapes for radio or TV, and **equipment rentals** (industrial, commercial or scientific) [SM 483]
Royalty effectively connected with a PE	Article 7 applies	Article 7 or 14 (fixed base) [SM 483–484]
Source rule	–	arises where the payer resides (or where the PE that bears it is) [SM 484]
FTS (Article 12A)	no Article	managerial, technical or consultancy services; source State may tax at a negotiated cap [SM 484]

- **Article 23A exemption method**: residence State **exempts** income that the other State may tax; for dividends / interest (UN also royalties, FTS) it gives a **deduction** of the foreign tax limited to its own tax on that income; exempt income may still be counted for the **rate** (exemption with progression). [SM 496–497]
- **Article 23B credit method**: residence State taxes the income and allows a **deduction** of the foreign tax, **limited** to the part of its own tax attributable to that income (ordinary credit). [SM 497]

- ⚠ **Not in the SM** but asked (J23 Q2(b), J24 / D25 Q6(a)): **full credit** (whole foreign tax credited) vs **ordinary credit** (capped at home tax on that income); **underlying tax credit** (credit also for the foreign company's tax on the profits behind a dividend); **tax sparing** (residence State gives credit for foreign tax that was spared under incentives). Write them as defined here; ICMAI's suggested answers will confirm the wording.
- Other Articles: **Article 24** non-discrimination (a foreign company taxed at a higher rate is not "less favourable" under the Act, SM 457); **Article 25** MAP; **26** exchange of information; **27** assistance in collection. [SM 454, SM 455, SM 457, SM 497]

SM M12 EXERCISE MCQs · MCQ FACTS

- India generally follows the **UN Model**. [SM 507]
- s.91 = **unilateral** relief; s.90 = bilateral. [SM 507]
- D25: relief u/s 91 is available although no DTAA exists (if tax was paid abroad).
- J26: OECD Model = treaties between developed countries · J23: force of attraction = UN Model Article 7.

Revision sheet · Module 12 (glance page)

Item	Rule / number	Item	Rule / number
s.90 objectives	relief, avoidance (no treaty shopping), exchange of information, recovery	Types	limited (India–Pakistan) / comprehensive; > 90 countries
OECD	developed–developed; residence principle; 2017; 32 Articles	UN	developed–developing; source principle; 1980 / 2021; 31 Articles; India follows
UN only	12A FTS, 12B digital services, 14 independent services, insurance PE, force of attraction, service PE 183 days	Construction PE	OECD > 12 months · UN > 6 months
s.90 rule	Act or DTAA, whichever is beneficial; GAAR always; TRC + Form 10F	Resident's TRC	Form 10FA → 10FB
s.91	resident; foreign income; tax paid; no DTAA; lower of average rates	s.91 cases	income actually taxed in India; country-wise; not on deemed-Indian income
FTC Rule 128	Form 67 by the due date; not against interest / fee / penalty	Disputed foreign tax	credit after settlement; evidence in 6 months
Tie-breaker	home → vital interests → habitual abode → nationality → MAP	Not a PE	storage, display (OECD: delivery), processing by another, purchasing, auxiliary
Article 7	only profits attributable to the PE	23A / 23B	exemption (with progression) / credit capped at own tax

Module 12 mind map

Why + what
- juridical vs economic ⚠
- limited / comprehensive
- OECD residence · UN source

Article 4, 5
- tie-breaker order
- PE: fixed place
- 12 / 6 months; 183 days

s.90 / 90A
- beneficial; GAAR
- TRC, Form 10F
- Rule 128, Form 67

MODULE 12
~17 marks
Q6(a), Q6(b), MCQ xiii–xiv

Article 7, 12, 12A
- attributable profits; FOA (UN)
- royalties: OECD residence only
- FTS only in UN

s.91 (Q6(b))
- lower average rate
- country-wise
- after set-offs

23A / 23B
- exemption, progression
- ordinary credit
- full · underlying · sparing ⚠

Module 3 · Grievance Redressal P15 · topics 3.1–3.5

SM pp. 204–228 (exercise 229–230). 6–16 marks a paper (expected ~10): **Q5(a) a 7-mark legal situation in every paper since Dec'23** (revision 263 / 264, appeal procedure, DRC) + an appeal-time-limit MCQ.

Paper	Long (7 marks)	MCQs
Jun'23	Q3(b) advance ruling: withdrawal; FMV question (4)	appeal against a 270A order of the CIT
Dec'23	Q5(a) **263** on an addition not under appeal; **264** after appealing others · Q8(a) is a 143(1) intimation an "order" for 264?	remedy against a BAR ruling: High Court
Jun'24	Q5(a) remedies and time limits against orders u/s 143(3), 263, 254	–
Dec'24	Q5(a) **263** on enhanced depreciation while an appeal on other items is pending · Q8(a) ITAT stay beyond 365 days	rectification time limit
Jun'25	Q5(a) total merger and 263; AAR ruling appealable; 264 when the issue is not under appeal	ITAT time limit
Dec'25	Q5(a) **CIT(A) appeal**: time limit, condonation, disposal time, pre-deposit	Department's monetary limit for the High Court
Jun'26	Q5(a) (i) **263** on a valuation report received after assessment · (ii) **DRC** eligibility	CIT(A) time limit

HOW IT IS EXAMINED · DEC'26 PREDICTION

- **Q5(a) 7 marks, near-certain**: revision 263 / 264 (most likely), appeal procedure, DRC eligibility, or advance ruling (PTP Q5(a)).
- Answer in four steps: **issue** → **provision** → **analysis** → **conclusion**, with the section and time limit.
- MCQ: appeal time limits, Department's monetary limits, rectification 4 years, withdrawal of appeal.

MAP OF THIS MODULE

1. Appeal ladder: JCIT(A) / CIT(A) → ITAT → HC → SC ★★★
2. CIT(A): orders, 30 days, fees, powers ★★★
3. ITAT: 2 months, cross objection, stay, rectification ★★
4. HC, SC, 158A / 158AB ★
5. Rectification s.154 ★★
6. Revision 263 v 264 (merger doctrines) ★★★
7. Settlement Commission → Interim Board, DRC ★★
8. Advance ruling (BAR) ★★
9. Model answers · revision sheet

A Appeals (3.1)

Level	Against	Who appeals	Time limit · form · fee
JCIT(A) s.246	orders of an AO below Joint Commissioner (143(1), 143(3) / 144, 147, 200A, 201, 206C(6A), 206CB, penalties, 154 / 155) — not if passed by or with approval of an authority above Deputy Commissioner	assessee	as for CIT(A); appeals may be transferred between JCIT(A) and CIT(A) (rehearing) [SM 204–205]
CIT(A) s.246A	143(1) / 143(3) / 144 / 147 / 153A (not DRP-directed), 154 / 155 enhancing, 163 agent, 170, 171, 201, 237, penalties ...	assessee	**30 days** from service of the demand notice (assessment / penalty) or of the order; Form **35**; fee ₹250 / ₹500 / ₹1,000 by assessed income (≤ ₹1,00,000 / ≤ ₹2,00,000 / above) [SM 204–208]
ITAT s.253	orders of CIT(A) / JCIT(A); 263; 12AB / 80G(5); DRP-directed orders	assessee or Commissioner	within **2 months** from the end of the month the order is communicated; Form **36**; fee ₹500 / ₹1,500 / 1% of assessed income (max **₹10,000**); stay ₹500; no fee for the Commissioner [SM 211–212]
High Court s.260A	ITAT orders involving a **substantial question of law**	assessee or Commissioner	**120 days** from receipt; bench of not less than 2 judges [SM 214–215]
Supreme Court s.261	HC judgment certified fit; else SLP under Article 136	assessee or Commissioner	[SM 215–216]

- **Exclude** (s.268): the day of service; time to get a copy; period of a 270AA application. **Delay** condoned for sufficient cause (statutory duty to consider). [SM 206–207]
- **Tax before appeal**: return filed → pay tax on the returned income; no return → pay advance tax (CIT(A) may waive for good reason). AO may treat the assessee **not in default** for the disputed amount u/s **220(6)** while the appeal is pending; else apply to the Commissioner for stay. [SM 207]
- **Disposal**: within **one year** (if possible) from the end of the FY in which the appeal is filed / transferred. [SM 208]
- **Additional evidence** only if the AO refused it, sufficient cause prevented it, or no opportunity was given; AO is heard first. New grounds allowed if the omission was not wilful. [SM 208–209]
- **Powers** (s.251): confirm, reduce, **enhance** (after show-cause) or annul; set aside only a **s.144** best-judgment assessment. An appeal once filed **cannot be withdrawn**. [SM 209]

- **ITAT**: either party may file a **cross objection** within **30 days** of notice of the appeal (Form 36A, no fee); an assessee cannot **withdraw** an ITAT appeal (MQP MCQ). [SM 211–212]
- ITAT decides facts finally (writ possible); may **rectify** within **6 months** from the end of the month of its order (assessee's fee ₹50); no additional evidence unless it asks. [SM 212–213]
- **ITAT time**: decide within **4 years** from the end of the FY of filing (if possible); **stay** up to **180 days** if the assessee deposits not less than **20%** of the sum or gives security; extension only if the delay is not the assessee's (aggregate limit 365 days; **Comverse Network**, SC: protection may continue). [SM 213]
- Single member: total income as computed ≤ **₹50 lakh**; Special Bench of 3 or more. [SM 214]
- **Department's monetary limits** (tax effect): ITAT ₹60,00,000 · High Court **₹2,00,00,000** (D25 MCQ) · Supreme Court **₹5,00,00,000**. [SM 211, SM 214–215]
- **s.158A**: assessee's declaration (Form 8) that a question is identical to one pending in HC / SC → AO / appellate body decides without waiting; no further appeal on it. **s.158AB**: collegium may defer the Department's appeal; file within **60 days** (ITAT) / **120 days** (HC) of the final decision. [SM 216–217]

B Rectification (3.2) and revision (3.3)

s.154 RECTIFICATION

- Any income-tax authority may rectify a **mistake apparent from the record** (fact or law) in its order, or amend an intimation u/s 143(1), 200A(1), 206CB(1) — suo motu or on application; in writing. [SM 218]
- Within **4 years** from the end of the FY in which the order was passed (D24 MCQ, PTP); on an application, order within **6 months** from the end of the month of receipt. Prejudicial rectification → hearing first; enhanced liability → demand notice u/s 156. [SM 218]

FACELESS

- Schemes: faceless appeal 2021, faceless rectification (157A), faceless revision (264A), e-Dispute Resolution 2022, e-Advance Rulings 2022. [SM 210, SM 218, SM 223, SM 225, SM 228]
- Jun'26 supp: period of a court stay is excluded from the time limits of ss. 263, 264 (and others) from the date of stay to receipt of the certified order vacating it. [SM 221] [Supp J26 p.22]

Basis	s.263 — order prejudicial to the revenue	s.264 — other orders (for the assessee)
Order	AO / TPO order that is **erroneous AND prejudicial** to revenue (even a 143(1) intimation); not if the AO made proper inquiries and followed SC decisions [SM 219]	erroneous order not covered by 263; never prejudicial to the assessee; non-appealable orders too [SM 221]
Initiated by	Principal Commissioner / Commissioner (own motion) on the **records** — incl. material available at the time of examination, not only at assessment [SM 220]	own motion **or** assessee's application (within **1 year** of communication; fee **₹500**) [SM 221–222]
Appeal pending	**Partial merger**: may revise points not considered and decided in appeal [SM 220, SM 223]	**Total merger**: no revision of any part once an appeal is filed; not while appeal time is running (unless the right is waived) [SM 222–223]
Time for order	**2 years** from the end of the FY in which the order was passed (no limit to give effect to ITAT / HC / SC orders) [SM 221]	own motion: **1 year** from the original order; application: **1 year** from the end of the FY of the application [SM 222]
Remedy	appeal to the **Tribunal** [SM 221]	**no appeal**; writ under Article 226 [SM 222]
Hearing	must hear the assessee; may enhance, modify, cancel and direct fresh assessment; works even on **debatable** issues (unlike s.154) [SM 220–221]	declining to interfere is not prejudicial; no relief for an earlier year from a later Tribunal finding [SM 222]

C Settlement Commission, DRC (3.4) · Advance ruling (3.5)

- **Settlement Commission** ceased after **31/01/2021**; pending applications go to **Interim Boards** of **3** Chief Commissioners (majority view). [SM 224]
- **Dispute Resolution Committee** (s.245MA): optional for a **specified order** where the aggregate **variations ≤ ₹10 lakhs** and the **returned income ≤ ₹50 lakhs**; not for orders based on **search, requisition, survey** or information under a DTAA; not for persons detained under COFEPOSA, convicted under listed Acts, prosecuted by income-tax, or notified under the Special Court Act. [SM 224–225]
- DRC may **reduce / waive penalty** and grant immunity from prosecution; the AO passes / modifies the order within **1 month** from the end of the month of receipt. [SM 224]
- **Board for Advance Rulings**: 2 members, each not below Chief Commissioner; its ruling is **not binding** on the Department or the applicant. [SM 226]
- **Advance ruling**: on a transaction of a non-resident, a non-resident's liability from a resident's transaction, a resident's own transaction, a pending computation issue (notified residents), or whether an arrangement is an **impermissible avoidance arrangement** (GAAR). [SM 226]
- **Applicants**: such non-residents / residents; a resident with transactions of **₹100 crore** or more; a PSU. Fee: higher of **₹10,000** or prescribed; withdraw within **30 days**. [SM 227]
- **Rejected** if the question is already pending before an authority / ITAT / court, involves the **FMV of property**, or is designed for tax avoidance (J23 Q3(b)); hearing first; ruling within **6 months**. [SM 227–228]
- **Appeal to the High Court** within **60 days** (+**30 days** for sufficient cause) (D23 MCQ, J25 Q5(a)); void ab initio if obtained by fraud. [SM 228]

PROBLEMS BOX · Q5(a) LEGAL SITUATION · MODEL ANSWERS (OUR ANSWERS FROM THE SM RULES; NO ICMAI ANSWER YET)

J26 Q5(a)(i) · 263 ON A VALUATION REPORT RECEIVED AFTER ASSESSMENT

- **Issue**: can the Commissioner revise a 143(3) order (30.10.2024) in November 2025 on a valuation report received after the assessment?
- **Provision**: s.263 — order **erroneous and prejudicial**; "record" includes material available when the Commissioner examines it; order within 2 years from the end of the FY of the original order.
- **Analysis**: the AO completed the assessment without the report he had called for (inadequate inquiry) → erroneous; the ₹80 lakh difference means loss of revenue → prejudicial; limitation runs to 31.3.2027.
- **Conclusion**: revision is **valid**.

J26 Q5(a)(ii) · DRC

- Returned income ₹45 lakh (≤ ₹50 lakh) but the variation is ₹18 lakh (> ₹10 lakh) → **not a specified order**; DRC not available — appeal to the CIT(A) instead.

D24 Q5(a) · 263 WHILE AN APPEAL IS PENDING

- Appeal covers only the disallowance; depreciation was not appealed → **partial merger**: the CIT **can** revise the depreciation point; the answer is the same after the appeal is disposed of, since the depreciation point was not "considered and decided" in it.

D25 Q5(a) · CIT(A) APPEAL (DR. MATHEW)

- (i) **Time limit**: 30 days from service of the demand notice (25.9.2025) → by 25.10.2025; the appeal on 15.11.2025 is late.
- (ii) **Remedy**: apply for **condonation of delay**; absence from India (1.9.2025 – 13.11.2025) is a sufficient cause the CIT(A) must consider.
- (iii) **Disposal**: where possible within one year from the end of the FY of filing, i.e. by 31.3.2027.
- (iv) **Deposit**: only the tax on the **returned income** must be paid before appealing; for the ₹28 lakh addition, apply u/s **220(6)** to be treated as not in default (then the Commissioner for stay).

PRACTISE THESE

J26 Q5(a) · D25 Q5(a) · J25 Q5(a) · D24 Q5(a) · D23 Q5(a), Q8(a) · J24 Q5(a) · D24 Q8(a) · J23 Q3(b) · PTP Q5(a) (advance ruling) · postal Q3(a) (DRC), Q7(b) · SM M3 short essays 1–4 (SM 230: appealable orders, 263, 154, who can apply for an advance ruling) · MCQ bank Q11–Q17, Q124, Q127, Q135, Q143, Q171 · **ICMAI Practice Workbook: no problem on this module**.

TRAPS

- 263 needs **both** erroneous and prejudicial; a view the AO took after inquiry is not erroneous.
- 264 is barred while appeal time is running — unless the assessee **waives** the appeal.
- ITAT time limit runs from the **end of the month** of communication; CIT(A) from the **date** of service.

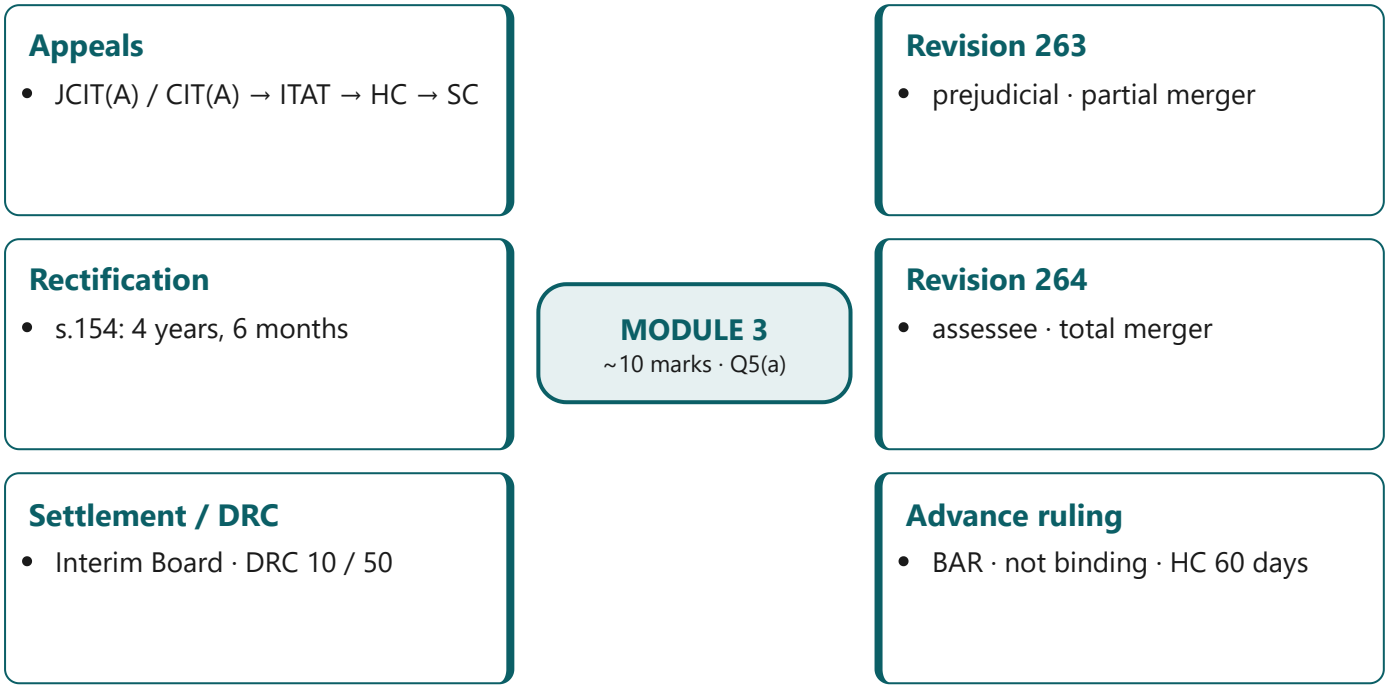
Revision sheet · Module 3 (glance page)

Item	Rule / number	Item	Rule / number
CIT(A) / JCIT(A)	30 days; Form 35; fee ₹250 / ₹500 / ₹1,000; dispose in 1 year	ITAT	2 months from end of month; Form 36; fee up to 1% (max ₹10,000); cross objection 30 days, Form 36A
High Court	120 days; substantial question of law; ≥ 2 judges	Supreme Court	HC certificate or SLP (Article 136)
Department limits	ITAT ₹60 lakh · HC ₹2 crore · SC ₹5 crore	ITAT stay	180 days with 20% deposit; aggregate 365 days
ITAT rectification	6 months from end of month; fee ₹50	ITAT decision	within 4 years from end of FY (if possible)
Withdrawal	CIT(A) and ITAT appeals cannot be withdrawn	Single member	income ≤ ₹50 lakh
s.154	4 years from end of FY; application decided in 6 months	s.263	erroneous + prejudicial; partial merger; 2 years; appeal to ITAT
s.264	application in 1 year; fee ₹500; order in 1 year; total merger; no appeal	DRC	variation ≤ ₹10 lakh; returned income ≤ ₹50 lakh; no search / survey / DTAA info
Settlement Commission	ceased 31/01/2021; Interim Boards of 3	BAR	2 members; ₹100 crore residents; fee ₹10,000; withdraw in 30 days; ruling in 6 months; HC in 60 (+30) days

MEMORY HOOKS

- Appeal days: **"30 – 2 months – 120"** (CIT(A), ITAT, HC); Department limits **"60 lakh – 2 crore – 5 crore"**.
- 263 = Revenue's sword, **partial** merger, **2** years, appealable · 264 = Assessee's shield, **total** merger, **1** year, ₹500, no appeal.
- DRC: **"10 and 50, no raids"**.

Module 3 mind map



Module 2 · Tax Management, Return and Assessment Procedure

P15 · topics 2.1–2.5

SM pp. 112–198 (exercise 199–200). 4–18 marks a paper (expected ~8): **three MCQs every paper** — (i) return filing, (ii) interest 234A/B/C, (vi)/(ix) search / survey — and now and then a **Q5(b) 234B / 234C sum** (D23, J25; PTP).

Paper	Long	MCQs
Jun'23	Q7(a) 241A, 148A, company 234C (9) · Q8(a) s.68 loan → 115BBE + 271AAC · Q3(a) survey after sunset	234A senior · stock-in-trade not seized
Dec'23	Q5(b) **234C** with late LTCG	updated return date · survey: books kept 15 days
Jun'24	–	234E fee · 194S TDS on VDA
Dec'24	Q5(b) parts: advance tax of a senior with only LTCG; 234A + 234B	234C section · 143(1) adjustments · 194-IB
Jun'25	Q5(b) **company: shortfall per instalment, 234B and 234C**	loss c/f after late return · trust late-return penalty · 143(2) time · block period
Dec'25	–	NR doctor > ₹10 lakh receipts must file · 234B after enhancement · survey cannot seize cash
Jun'26	–	foreign travel > ₹2 lakh · company 234C · stock-in-trade not seized

HOW IT IS EXAMINED · DEC'26 PREDICTION

- **MCQ (i)** return filing triggers / ITR forms — both supplementaries changed this area (ITR-1 / ITR-4 two houses; updated return 48 months; DIN).
- **MCQ (ii)** a 234A / 234B / 234C computation.
- **MCQ (vi) / (ix)** search vs survey powers; block period.
- **Q5(b) possible**: 234B + 234C instalment sum (J25 type) instead of ICDS.

MAP OF THIS MODULE

1. Return: who files, triggers, ITRs, due dates, 234F ★★★
2. Belated / revised / defective / updated return ★★
3. Assessment: 143(1), 143(2)/(3), 144, DRP, 147–149 ★★
4. Interest 234A / 234B / 234C, 244A, fees ★★★ (problems box)
5. Search, survey, block assessment ★★
6. Collection, recovery, refund, DIN ★
7. Revision sheet · SM exercise MCQs

A Return of income (2.1)

- **Must file** (s.139(1)): every company and firm; others if total income **before** ss. 54–54GB exemptions and VI-A exceeds the exemption limit. A **resident (ROR)** with any asset / signing authority / beneficial interest **outside India** must file even with no income. [SM 112]
- **Seventh proviso** — must file even below the limit if in the year: deposits over **₹1 crore** in current accounts; foreign travel over **₹2 lakh** (J26 MCQ); electricity over **₹1 lakh**; or **Rule 12AB**: business turnover over **₹60 lakhs**; professional receipts over **₹10 lakh** (D25 MCQ — even a non-resident doctor); TDS + TCS **₹25,000** or more (**₹50,000** senior); savings-bank deposits **₹50 lakh** or more. [SM 113]
- **ITR-1 Sahaj**: resident individual, salary, house property, other sources, 112A LTCG up to ₹1,25,000, total income up to **₹50 lakh** (not for directors, unlisted shares, foreign assets / income, agricultural income above **₹5,000**, 115BBE …). **ITR-4 Sugam**: individuals, HUFs, firms (not LLP) with 44AD / 44ADA / 44AE income, up to ₹50 lakh. ITR-2 / 3 / 5 / 6 / 7 for others; ITR-7 for 139(4A)–(4F). [SM 113–115]

DEC'26 SUPPLEMENTARY · ITR-1 / ITR-4

Rule 12 amended (2nd Amendment Rules 2026): ITR-1 and ITR-4 may now show **2 house properties** (the SM still says one). [Supp D26 p.3–4]

- **Due dates**: Form 3CEB cases (and their partners) **30th November**; companies, audited assessees and partners of audited firms **31st October**; others **31st July**. Verify an e-return within **30 days** (else the verification date is the filing date). [SM 116–117]
- **Fee s.234F**: ₹1,000 if total income ≤ ₹5 lakh; ₹5,000 above. [SM 117]
- **Loss return s.139(3)**: business, capital, race-horse and 35AD losses lapse if the return is late; **unabsorbed depreciation and house-property loss** still go forward (J25 MCQ; SM MCQ 2). [SM 117]
- **Belated** 139(4) and **revised** 139(5): by **31st December** of the AY or completion of assessment, earlier (belated: 234F, 234A, no profit-linked VI-A / 10AA); any return filed u/s 139(1), (4) or (5) can be revised (SM MCQ 3). **Defective** 139(9): cure in **15 days**. [SM 118–120]
- **Trusts / research bodies** late or no return u/s 139(4A) / (4C): penalty u/s 272A(2) per day of default (J25 MCQ). [SM 118–119]
- ⚠ SM conflict: SM 118–119 print ₹100 a day; the penalty table in M4 (SM 237) prints **₹500 a day** — the amended s.272A(2) figure. Answer the J25 MCQ with ₹500 per day (option C).
- Workbook: Ch 1 illustrations 14, 15 (tax audit), Ch 2 illustrations 1 (must a return be filed), 2 (belated / revised

return, fee and interest).

- **Aadhaar** s.139AA: PAN inoperative if not linked; fee up to ₹1,000 u/s 234H; PAN operative within **30 days** of intimation. [SM 122]

UPDATED RETURN · s.139(8A) / 140B

- Within **48 months** from the end of the AY (Jun'26 supp: was 24); not a loss return, not to reduce tax or raise a refund; not after search / survey / requisition, pending or completed assessment, information under PMLA / Black Money / DTAA, or prosecution. Not if a 148A notice is issued after **36 months** (unless 148A(3) says "not a fit case"). [SM 122–124] [Supp J26 p.21–22]

ADDITIONAL INCOME-TAX (ON TAX + INTEREST)

Filed within ... from end of AY	Extra
12 months	25%
12–24 months	50%
24–36 months	60%
36–48 months	70%

[SM 125] [Supp J26 p.21–22]

B Assessment (2.2)

- **s.142(1)** notice: return, accounts (not more than **3 years** before the year), information. **Special audit** s.142(2A): report within the AO's time, total not more than **180 days**. **Valuation Officer** s.142A: report in **6 months**. [SM 127–129]
- **s.143(1) processing** — only: arithmetical errors; incorrect claims apparent from the return; inconsistency with a preceding year's return (Jun'26 supp); loss set-off where that year's return was late; audit-report disallowances; 10AA / VI-A "C" deductions in a late return. No other additions (D24 MCQ). [SM 130] [Supp J26 p.22]
- ⚠ Time limit for the 143(1) intimation: the SM's text (SM 130) says 12 months from the end of the FY of the return, its own summary table (SM 149) says **9 months**. The Act (since the Finance Act 2021) says 9 months — use 9.
- **s.241A**: refund due u/s 143(1) may be **withheld** till assessment where a 143(2) notice is out (reasons, Commissioner's approval) (J23 Q7(a)). [SM 131]
- **s.143(2)** notice within **3 months** from the end of the FY in which the return is filed (J25 MCQ); **143(3)** / **144** completed within **12 months** from the end of the AY (updated return: 12 months from the end of the FY of filing). [SM 131–133]
- **s.144C DRP** (eligible assessee; draft order): objections within **30 days**; DRP directions within **9 months** from the end of the month of the draft; final order within **1 month** from the end of the month the directions are received. [SM 141–142]
- **s.144BA** GAAR reference; Approving Panel directions within **6 months**; panel term one year, up to **3 years**. [SM 143–144]
- **s.147 / 148 / 148A**: information-based; show-cause u/s 148A first. **Time** (s.149): 148A notice within **3 years** (escaped income ₹50 lakh or more with evidence: up to **5 years**); 148 notice within **3 years and 3 months** (or 5 years and 3 months). Reassessment within **12 months** from the end of the FY of the 148 notice. [SM 145–147]
- A TPO reference u/s 92CA adds **12 months** to the assessment time. Fresh assessment after 254 / 263 / 264: 12 months from the end of the FY of the order. [SM 148–149]
- **Demand** u/s 156: pay within **30 days** (shorter with JCIT approval) or interest **1%** a month u/s 220(2). [SM 150]

C Interest, fees, advance tax (2.3)

Section	When	On what	Rate · period
234A	return late / not filed	tax on assessed (or 143(1)) income − advance tax − TDS / TCS − reliefs − MAT credit (not self-assessment tax paid with the return)	1% p.m. from the day after the due date to filing (or to the 144 assessment) [SM 152–153]
234B	advance tax paid < **90%** of assessed tax	assessed tax − advance tax (after self-assessment payment: reduce by it)	1% p.m. from **1st April** of the AY to the 143(1) / regular assessment [SM 155–156]
234C	instalment short	15% / 45% / 75% / 100% of tax on **returned** income − TDS − advance tax paid by the due date	1% p.m. for **3 months** (last: **1 month**); none if **12%** paid by 15 June / **36%** by 15 September [SM 158–159]
234D	refund u/s 143(1) more than due on assessment	excess refund	**½%** p.m. from grant to assessment [SM 162]

201(1A) · 206C(7)	TDS / TCS not deducted · not paid	the tax	**1%** p.m. (not deducted / collected) · **1.50%** p.m. (deducted, not paid) [SM 152]
234E · 234G	late TDS / TCS statement · late 35 / 80G statement	–	**₹200** a day, up to the TDS / default amount (J24 MCQ) [SM 162–163]
244A	refund to the assessee	refund (none if < **10%** of tax determined)	**½%** p.m. from 1st April (return in time) (PTP MCQ; SM MCQ 5); +**3%** p.a. on appeal-effect delays [SM 165–166]

- **Rule 119A**: round the amount **down to a multiple of 100**; any part of a month is a full month. [SM 151]
- **Instalments**: 15 June 15% · 15 Sept 45% · 15 Dec 75% · 15 March 100%; 44AD / 44ADA: **100%** by 15 March. [SM 159]
- No 234C on a shortfall from **capital gains**, lottery-type income, first-year business income or **dividend** if the tax is paid in the remaining instalments / by 31 March. [SM 159]

- 234A / B / C are automatic (no hearing); demand only if the order levies them; adjusted after 154 / 250 / 254 / 263 / 264 orders. [SM 153, SM 156]
- **Waiver** of 234A / B / C by the Chief Commissioner / DG in listed cases (books seized, retrospective law, voluntary late return …). [SM 165]
- No 234A / B / C or 270A on block-period undisclosed income (s.158BF). [SM 185]

PROBLEMS BOX · Q5(b) / MCQ (ii) INTEREST u/s 234B AND 234C · 7 MARKS (D23, J25; PTP Q5(b))

STEPS

1. Tax on returned income (234C) / assessed income (234B) incl. cess, less TDS.
2. **234C** table: due % × tax − cumulative paid by each due date (late payments ignored) → round down to 100 → × 1% × 3 (last × 1). Check the 12% / 36% exemptions; capital gains enter only from the instalment after they arise.
3. **234B**: paid < 90%? shortfall × 1% × months from April to the payment / assessment.
4. 234A only if the return was late.

WORKED PATTERN · SM ILLUSTRATION 5 (A LTD, 234C) — RE-WORKED BY SCRIPT

Business income ₹80 lakh (tax + cess ₹24,96,000) + LTCG ₹10 lakh on 1-12-2025 (₹1,30,000). Paid (₹ lakh): 15 June 3.70 · 15 Sept 3.50 · 15 Dec 10.25 · 18 March 8.80 (late).

Due	Payable	Paid	Interest
15 June (15% of 24,96,000)	3,74,400	3,70,000	nil (≥ 12%)
15 Sept (45%)	11,23,200	7,20,000	12,096
15 Dec (75% of 26,26,000)	19,69,500	17,45,000	6,735
15 March (100%)	26,26,000	17,45,000	8,810
Interest u/s 234C			**27,641**

⚠ The SM prints 75% of 26,26,000 as 19,68,500 (it is 19,69,500), so its Dec interest 6,705 and total 27,611 are ₹30 short; the same slip is in Illustration 4 (39,493 → 39,523). Method unchanged.

234B · SM ILLUSTRATIONS 2–3

Firm, assessed income ₹1,05,000: tax + cess 32,760 − TDS 1,000 = assessed tax **31,760**; 90% = 28,584 > advance tax 20,000 → interest on 11,700 × 1% × 12 = **₹1,404**. With ₹10,200 self-assessment tax paid in June: April–June on 11,700 (351) + July–March on 1,800 (162) − 306 paid = **₹207**. [SM 157–158]

PRACTISE THESE

J25 Q5(b) (Surya Ltd, tax ₹15,60,000; our working: 234C 0 + 6,060 + 8,100 + 2,600 = **₹16,760**; 234B 2,60,000 × 7 months = **₹18,200** if the balance is paid with the return on 31.10.2025) · D23 Q5(b) · D24 Q5(b)(iii)/(iv) · PTP Q5(b) (234B after an enhanced assessment) · MQP MCQ (ii) · SM Illustrations 1–5 (SM 154–161) · SM problem 1 (Ms. Devi, SM 200) · MCQ bank Q10, Q51, Q107, Q154 · **ICMAI workbook Ch 2 illustrations 3, 4**.

⚠ SM problem 1 (Ms. Devi) prints ₹15,075; by the SM's own rules (part month = full month) it is 234A 1,500 + 234B 7,500 (April–10 August = 5 months) + 234C 7,575 = **₹16,575**.

TRAPS

- 234C uses **returned** income; 234B uses **assessed** income.
- A payment made after the due date (18 March) does not count for that instalment.
- Round down to 100 before multiplying.

D Survey, search and seizure (2.4)

Point	Search s.132	Survey s.133A
Timing	any day; starts after sunrise, continues till done	working hours on business days (deemed place: sunrise to sunset); may continue once started [SM 177–178]
Powers	enter, break open, search persons, **seize** books, money, bullion, jewellery, valuables; police help	inspect, verify cash / stock, **impound** books (reasons recorded), inventory, statements; **no removal of cash or stock** (D25 MCQ), no personal search, no police [SM 169, SM 177–178]
Limits	**stock-in-trade not seized** — only inventoried (J23, J26 MCQs); deemed seizure (prohibitory order) not for stock, otherwise 60 days	impounded books kept beyond **15 days** (excluding holidays) only with approval (D23 MCQ) [SM 168–171, SM 178]

- s.131 powers of a civil court; impounded books kept beyond **15 days** only with approval. Seized assets go to the jurisdictional AO within **60 days** of the last authorisation. [SM 167–170]
- **Retention** s.132(8): not beyond **1 month from the end of the quarter** in which the assessment order is made (Jun'26 supp: was 30 days), unless approved. [SM 172] [Supp J26 p.21]
- **Presumption** s.132(4A): what is found belongs to the person and is true. s.132A requisition from other authorities = deemed seizure. [SM 172–174]
- **s.132B**: seized assets adjusted against liabilities; release on application within **30 days** from the end of the month of seizure; release within **120 days**; then **½%** p.m. interest on excess. [SM 174–175]

- **Block assessment** (search on or after 1-9-2024): block period = **6** assessment years before the year of search + the current year up to the search (J25 MCQ); undisclosed income (incl. VDA) taxed at **60%** u/s 113; no set-off of b/f losses. [SM 180–182] [Supp J26 p.22–24]
- Notice u/s 158BC: return within up to **60 days**; order within **12 months from the end of the quarter** of the last authorisation (Jun'26 supp: was month); +12 months with a TPO reference. [SM 182–184]
- No 234A / B / C or 270A; penalty u/s 158BFA = **50%** of the tax on undisclosed income. TP income of the search year is outside the block (supp). [SM 185] [Supp J26 p.23–24]
- s.79A: no set-off of any loss against search / survey undisclosed income (see M1 Part 2). [SM 51]

E Collection, recovery, refund · DIN (2.5)

- **s.220**: pay a demand within 30 days; instalments / extension on application; waiver of 220(2) interest (genuine hardship, beyond control, co-operation) decided within **12 months**; s.220(6) not in default while an appeal is pending. **s.221** penalty up to the tax in arrear. [SM 188–189]
- Recovery: TRO certificate (s.222: attachment / sale, arrest, receiver); s.226 garnishee; s.228A abroad; s.281B provisional attachment. [SM 189–195]
- **Refund** s.237–245: by the return; s.239A refund to a 195 deductor who bore the tax — apply within **30 days**, order in **6 months**; s.245 set-off after intimation; refund may be withheld up to **60 days** after a pending assessment is made. [SM 197–198]

DEC'26 SUPPLEMENTARY · DIN (CIRCULAR 4/2026, 31-03-2026)

- Every notice, letter, order, summons by an income-tax authority must carry a computer-generated **Document Identification Number** (in the e-mail or an attachment; not needed on every page; not for public FAQs). [Supp D26 p.2]
- Exceptions: technical difficulty, officer away on field duty, no PAN, PAN with a non-jurisdictional AO, function not on ITBA — the document must say so; **post-facto approval within 15 days**; upload with a DIN within **15 working days**. Replaces Circular 19/2019. [Supp D26 p.2]

JUN'26 SUPPLEMENTARY · TDS / TCS (MCQ FACTS)

New thresholds e.g. 194A banks ₹50,000 (senior ₹1,00,000), 194-I ₹50,000 a month, 194J ₹50,000; 194D rate 2%; 206C(1H) TCS on sale of goods gone from 01-04-2025; s.206AB omitted. [Supp J26 p.24–26]

SM M2 EXERCISE MCQs (ANSWERS AS PRINTED)

1. Company with Form 3CEB: due date **November 30**. [SM 199]
2. Carried forward even after a late return: **unabsorbed depreciation**. [SM 199]
3. Revisable u/s 139(5): returns u/s 139(1), (4), (5) — **all**. [SM 199]
4. Scrutiny assessment = u/s **143(3)**. [SM 199]
5. Interest on refund of excess advance tax: **½% per month**. [SM 199]

Revision sheet · Module 2 (glance page)

Item	Rule / number	Item	Rule / number
Must file anyway	current a/c > ₹1 crore; foreign travel > ₹2 lakh; electricity > ₹1 lakh; turnover > ₹60 lakhs; receipts > ₹10 lakh; TDS ≥ ₹25,000 (₹50,000 senior); SB ≥ ₹50 lakh; foreign assets (ROR)	Due dates	30 Nov (3CEB) · 31 Oct (company / audit) · 31 July
ITR-1 / ITR-4	≤ ₹50 lakh; 112A ≤ ₹1.25 lakh; 2 house properties (Dec'26 supp)	234F	₹1,000 (≤ ₹5 lakh) / ₹5,000
Belated / revised	31 Dec of AY or assessment, earlier	Defective	cure in 15 days
Updated return	48 months; +25 / 50 / 60 / 70%; not after 148A notice after 36 months	Late loss return	only unabsorbed depreciation and HP loss survive
143(1) / 143(2)	9 months (⚠ SM also says 12) / 3 months from end of FY of return	143(3) / 144	12 months from end of AY
148A / 148	3 years (5 if ≥ ₹50 lakh) / 3 years 3 months (5 years 3 months)	DRP	objections 30 days; directions 9 months; order 1 month
234A / 234B	1% p.m. from due date / from 1 April (paid < 90%)	234C	15-45-75-100; 3 months each, last 1; safe if 12% / 36%
201(1A)	1% not deducted · 1.5% not paid	234E / 234G	₹200 a day
244A / 234D	½% p.m.	Rule 119A	round down to 100; part month = month
Search	no seizure of stock-in-trade; retain 1 month after quarter-end of order	Survey	no cash / stock seizure; impound 15 days; working hours
Block	6 AYs + current; 60%; order 12 months from quarter-end	132B	apply 30 days; release 120 days; ½% interest
DIN	post-facto approval 15 days; upload 15 working days	239A	apply 30 days; order 6 months

MEMORY HOOKS

- Filing triggers: **"1 crore current, 2 lakh travel, 1 lakh power; 60 trade, 10 practice, 25 TDS, 50 savings"**.
- Advance tax: **"15-45-75-100; 12 and 36 are safe"**.
- Search takes, survey looks: **"search seizes (not stock), survey impounds (15 days)"**.

Module 5 · Business Restructuring P15 · topics 5.1–5.6

SM pp. 258–288 (exercise 289–292). **Q4(a): one 7-mark restructuring sum in 5 of the last 6 papers — never the same type twice running**: amalgamation (D23), company → LLP (D24), firm → company (J25), demerger (D25), slump sale (J26 = MQP Q4(a)). Proprietor → company has never come. Expected ~7 marks.

Type	Asked	Due in Dec'26?	Pattern in these notes
Amalgamation (5.1)	D23 Q4(a) (losses, speculation loss, 35AD loss, depreciation)	★★ due; s.72A changed (Jun'26 supp)	SM Illustration 1 + 72A table
Demerger (5.2)	D25 Q4(a), J23 Q6(a); D23 Q3(b) theory	★	SM Illustration 2 (Dona)
Slump sale (5.3)	J26 Q4(a) = MQP Q4(a); PTP Q4(a), postal Q8(a)	least likely (just asked)	SM Illustration 3
Proprietor → company (5.4)	never	★★ "never asked"	conditions + Illustration 6
Firm → company (5.5)	J25 Q4(a)	★	SM Illustration 5
Company → LLP (5.6)	D24 Q4(a)	★	SM Illustration 8

HOW TO ANSWER ANY Q4(a)

1. Name the restructuring and its **definition / conditions** (2(1B), 2(19AA), 2(42C), 47(xiii), (xiv), (xiiib)).
2. Say who is exempt (company / shareholder / partner) and **what is not exempt** (stock → business income).
3. Compute: cost / net worth / capital gain / depreciation split / losses carried forward.
4. Breach later? Exemption **withdrawn** in the year of breach (47A).

Analysis advice: Q4 is the question to drop if you must — but learn all six patterns below, one page each.

MAP OF THIS MODULE

1. Amalgamation: 2(1B), 47(vi)/(vii), 49, 72A ★★★
2. Demerger: 2(19AA), cost split 49(2C)/(2D), 72A(4) ★★★
3. Slump sale: 2(42C), 50B net worth ★★
4. Proprietor → company 47(xiv) ★★
5. Firm → company 47(xiii), 47A(3) ★★
6. Company → LLP 47(xiiib), 47A(4), 72A(6A) ★★
7. Buy-back 46A, s.170, 170A ★
8. Revision sheet

A Amalgamation (5.1) · D23 Q4(a)

- **s.2(1B)**: merger of companies so that **all assets and liabilities** pass and shareholders holding **not less than 75% in value** of shares (excluding those already held by the amalgamated company / nominee / subsidiary) become its shareholders. Not by purchase of property or distribution after winding up. [SM 258]
- **Shareholder** (47(vii)): no transfer if he gets shares of an **Indian** amalgamated company; cost = cost of old shares (49(2)); holding period includes the old shares. [SM 259]
- **Company** (47(vi)): transfer of assets to an Indian amalgamated company not a transfer; 47(via) / (viab) foreign-to-foreign of Indian shares (at least **25%** shareholders continue, no foreign CG tax). [SM 259–260]
- **Amalgamated company**: cost of non-depreciable assets = previous owner's (49(1)); block's actual cost = WDV of the amalgamating company (Expl. 2 to 43(6)); year's depreciation split by **days**; asset sold as stock — cost of the amalgamating company (43C). [SM 261]
- **s.35DD**: amalgamation / demerger expenses deducted **1/5th** a year for 5 years; 35(5), 35ABB, 35D, 35DDA continue. [SM 264]

s.72A · LOSSES OF THE AMALGAMATING COMPANY

Who / test	Condition
Eligible amalgamating company	owns an **industrial undertaking** (manufacture, software, power, telecom, mining, ships / aircraft / rail), a ship or a hotel; or banking company with a specified bank; PSU with PSU; erstwhile PSU (within **5 years**) [SM 262]
Amalgamating company	in the loss business for **three or more years**; held at least **¾th** of the book value of fixed assets held two years before [SM 263]
Amalgamated company	holds ¾th of those assets and continues the business for **5 years**; Rule 9C: reach **50%** of installed capacity within **4 years** and keep it to year 5; Form No. 62 [SM 263]
Effect	non-speculative loss and unabsorbed depreciation deemed the amalgamated company's; breach → set-offs taxed in the year of breach [SM 264]

JUN'26 SUPPLEMENTARY · ss. 72A / 72AA

The loss is carried forward for not more than **8 assessment years** from the year it was **first computed for the original predecessor** — no fresh 8 years. The SM's text (SM 264) already says this, but **SM exercise MCQ 1** still keys "loss of the year of amalgamation" (fresh life) — answer with the supplementary. [SM 264, SM 289] [Supp J26 p.15]

WORKED PATTERN · SM ILLUSTRATION 1 (MR. JOSEPH: SHAREHOLDER OF THE AMALGAMATING COMPANY) — RE-WORKED BY SCRIPT

1,000 shares of X Ltd bought by grandfather-in-law Z on 18/08/2000 @ ₹20 (gift → will → Joseph); X Ltd amalgamated with Y Ltd on 31/03/2013, **3 for 2**; 1,000 Y shares sold on 2/10/2025 @ ₹75. Cost = previous owner's: 1,000 × 20 = ₹20,000 for **1,500** shares → ₹13.33 each; holding period counts from 2000 → **LTCG** = 75,000 − 13,330 = **₹61,670**. [SM 264–265]

Practise: D23 Q4(a) · SM M5 case 2 (ABC with XYZ: depreciation on transfer value disallowed, hint ₹9.75 lakhs) and case 4 (SM 290–292) · SM short essays 1–2 · **ICMAI workbook Ch 4 illustration 2**.

B Demerger (5.2) · D25 Q4(a), J23 Q6(a)

- **s.2(19AA)** (scheme u/s 230–232): all assets and liabilities of the undertaking pass; at **book value** (revaluation ignored; Ind AS exception); resulting company issues **its shares proportionately**; holders of **not less than 75%** in value become its shareholders; **going concern**; notified conditions. "Undertaking" includes a unit / division / business activity, not single assets. [SM 266–267]
- Liabilities transferred: of the undertaking, its specific loans, and a share of **general borrowings** = general loans × book value of assets transferred ÷ total book value of assets. [SM 267]
- No CG for the company (47(vib), Indian resulting company) or the shareholder (47(vid)); foreign demergers 47(vic) / (vicc) with **¾th** continuity. [SM 268, SM 270–271]
- **Cost of resulting-company shares** (49(2C)) = cost of original shares × net book value of assets transferred ÷ **net worth** (paid-up capital + general reserves) of the demerged company; **cost of demerged-company shares** (49(2D)) = original cost − that amount; holding period from the original purchase. [SM 268–269]
- Resulting company: actual cost of assets limited to the demerged company's **WDV**; depreciation of the year split by days; **losses** directly relatable to the undertaking go to the resulting company, others split in the ratio of assets transferred and retained (72A(4)). [SM 271]

WORKED PATTERN · SM ILLUSTRATION 2 (DONA) — RE-WORKED BY SCRIPT

Assets of Division Y: land 2,50,000 + plant 1,00,000 + stock 2,30,000 + debtors 45,000 + cash 75,000	7,00,000
− specific loan 75,000 − creditors 40,000 − general loan (₹2,00,000 × ₹7,00,000) / ₹14,00,000 = 1,00,000	2,15,000
Net asset taken over → 4,850 shares; Dona (10%)	**485 shares**
Cost of Y (P) shares = (600 × ₹150) × ₹4,85,000 ÷ (₹6,00,000 + ₹4,00,000)	₹43,650
Cost of XY (P) shares after demerger = 90,000 − 43,650	₹46,350
STCG: 200 XY @ ₹125 (25,000 − 15,450) · 100 Y @ ₹110 (11,000 − 9,000)	9,550 · 2,000

Practise: D25 Q4(a) (Tall / Salt: Unit A net worth ₹20 crores of ₹50 crores → 40% of the original cost goes to the Salt shares) · J23 Q6(a) · D23 Q3(b) (slump sale vs demerger for a loss-making division) · **ICMAI workbook Ch 4 illustration 2**. [SM 269–270]

C Slump sale (5.3) · J26 Q4(a) = MQP Q4(a)

- **s.2(42C)**: transfer of an undertaking for a **lump sum** without values assigned to individual assets. [SM 272]
- **Sale consideration** = higher of FMV 1 (FMV of the capital assets transferred) and FMV 2 (FMV of the consideration). **Cost** = **net worth**; no indexation. [SM 272]
- **Held more than 36 months** → LTCG (even if some assets are new); otherwise STCG. [SM 272]
- **Net worth** = assets − book liabilities: **revaluation ignored**; self-generated goodwill nil; depreciable assets at **WDV** (IT Act); 35AD assets nil; others at book value. [SM 272–273]
- Stock does not create business income; losses / depreciation stay with the transferor; CA report Form **3CEA** one month before the due date. [SM 273]

WORKED PATTERN · SM ILLUSTRATION 3 (X LTD, ₹ LACS) — RE-WORKED BY SCRIPT

Land 50 (book; stamp value ignored) + stock 30 + debtors 40	120
Machinery (IT WDV) 60 + furniture (IT WDV) 90	150
− creditors	50
Net worth = cost	**220 lacs**
Consideration: higher of 300 and FMV 350	350 lacs
− brokerage 5% of ₹300 lacs	15 lacs
LTCG (held more than 3 years)	**115 lacs**

⚠ SM solved case (Laxmi Ltd): the balance sheet shows Unit X liabilities ₹400 lakhs, the solution deducts ₹300 lakhs (net worth 600, gain 500). On the balance-sheet figure: net worth 500, gain 600. State your figure.

Practise: J26 Q4(a) · MQP Q4(a) · PTP Q4(a) · postal Q8(a) · SM solved case (SM 287–288) · SM case 1 (Padmaja, hint net worth ₹7,00,000, loss ₹3,90,000) and case 3 (Kite & Co.) · PTP MCQ (ix) · **ICMAI workbook Ch 4 illustration 3**.

D Conversions: proprietor / firm → company, company → LLP (5.4–5.6)

	Proprietor → company 47(xiv)	Firm → company 47(xiii)	Company → LLP 47(xiiib)
Assets	all assets and liabilities of the business pass [SM 276–277, SM 282]		
Holders	proprietor holds **not less than 50%** of voting power for **5 years**	all partners become shareholders in their **capital ratio**; together **not less than 50%** for **5 years**	all shareholders become partners in the shareholding ratio; their profit share **not less than 50%** for **5 years** [SM 276–277, SM 282]
Consideration	only shares (no other benefit)		only profit share and capital contribution; no payout of accumulated profit for **3 years** [SM 282]
Size test	–		turnover ≤ **₹60 lakh** and assets ≤ **₹5 crore** in each of the 3 preceding years [SM 282]
Breach	47A(3): exempted gain taxed in the **successor company** in the year of breach [SM 277]		47A(4): taxed in the LLP / shareholder in the year of breach [SM 282–283]
Losses	72A(6): predecessor's loss and unabsorbed depreciation pass for the remaining life [SM 281]		72A(6A): same for the LLP [SM 285]

- **Stock** transferred at a profit is business income of the firm / proprietor (exemption is only for capital assets). Company's cost of assets = previous owner's (49(1)); depreciation of the year split by **days** (s.170 assessment split at succession). [SM 276, SM 278–279, SM 285]
- **SM Illustration 5** (M/s ABC): partners sold all shares within 5 years → in the company's hands in A.Y. 2027-28: LTCG on investments **₹2,00,000** (2,50,000 − 50,000) and STCG on machinery **₹20,000** (1,20,000 − WDV 1,00,000); stock profit ₹20,000 is the firm's business income. [SM 278]

- **SM Illustration 6** (QQ Trading): depreciation ₹63,000 split 153 : 212 days → concern **₹26,408**; company 36,592 + 12,000 on its own new plant = **₹48,592**. [SM 279]
- **SM Illustration 8** (Handoo & Handoo, assets moved at market value → conditions not met): company taxed on LTCG land ₹40,00,000, investments ₹8,00,000, STCG building ₹17,00,000, machinery ₹4,00,000; each shareholder gets 27,25,000 (7,50,000 as dividend) → LTCG **₹17,25,000**; LLP's later land sale LTCG **₹53,00,000**. [SM 283–284]

Revision sheet · Module 5 (glance page)

Item	Rule / number	Item	Rule / number
Amalgamation 2(1B)	all assets + liabilities; ≥ 75% in value of shareholders join	Shareholder	47(vii) no CG; cost and holding period carried over
72A eligibility	industrial undertaking / ship / hotel; bank; PSU	72A conditions	3 years in business; ¾ assets held 2 years before; ¾ held 5 years after; 50% capacity in 4 years; Form 62
72A loss life	8 AYs from original year (Jun'26 supp)	35DD	1/5 for 5 years
Demerger 2(19AA)	book value; proportionate shares; ≥ 75%; going concern	Cost split	original cost × net assets transferred ÷ (capital + general reserve)
General loans	× assets transferred ÷ total assets	Demerger losses	direct → resulting co.; others in asset ratio
Slump sale	consideration = higher of FMV 1 / FMV 2; cost = net worth; > 36 months = LTCG	Net worth	no revaluation; WDV for depreciable; self-goodwill nil; Form 3CEA
47(xiv) / 47(xiii)	≥ 50% voting for 5 years; only shares; capital ratio (firm)	47(xiiib)	≥ 50% profit share 5 years; ₹60 lakh / ₹5 crore; no payout 3 years
Breach	47A(3) successor company · 47A(4) LLP / shareholder	Depreciation	split by days in the year
46A buy-back	receipt = dividend (other sources); cost = capital loss [SM 285]	170A	successor's modified return (ITR-A) within 6 months from the end of the month of the order [SM 286]

MEMORY HOOKS

- **"75 to merge, 75 to split, 50 for 5 to convert"**.
- 72A: **"3 years old, ¾ kept, 5 years more, 50% capacity by year 4"**.
- Slump sale: **"36 months, net worth, no revaluation"**.

CONVERSIONS · PRACTISE THESE · TRAPS

- **Practise**: J25 Q4(a) (firm → company; partner sells early; debentures as consideration break the condition) · D24 Q4(a) (company → LLP; time a shareholder's exit to keep losses) · SM Illustrations 5–9 (SM 278–287) · SM numerical problem (RST Co., answers ₹52,816 and ₹97,184, SM 289) · **ICMAI workbook Ch 4 illustration 1** (proprietor → company depreciation) and **2**.
- **Traps**: debentures / cash to partners = "other consideration" → exemption lost; proprietor needs 50% **himself**; LLP route only for small companies (₹60 lakh / ₹5 crore); a shareholder leaving after conversion is fine for the LLP's 50% test only while the 50% holds.

SM M5 EXERCISE MCQs

1. Loss of the amalgamating company: key (b) "loss of the year of amalgamation" — **⚠ now: remaining life within 8 AYs of the original loss year (Jun'26 supp)**. [SM 289] [Supp J26 p.15]
2. Depreciation in the year of restructuring: **apportioned by number of days**. [SM 289]

Module 9 · Income Computation and Disclosure Standards P15 · topic 9.0

SM pp. 361–395 (exercise 396). **Q5(b) ICDS in J24, D25, J26** (9 marks in each of the last two papers) + an ICDS MCQ. Expected ~6 marks. Learn each ICDS as "the rule that differs from the AS".

Paper	What was asked	Marks
Jun'23	MCQ: ICDS VII refund of a grant on a capital asset	2
Jun'24	Q5(b) **ICDS V actual cost** of plant + **ICDS VIII** securities valuation	7
Dec'24	Q5(b)(ii) subsidy for pollution-control machinery (ICDS VII)	1.75
Dec'25	Q5(b) **ICDS V**: machine for shares, imported used machine, forex + depreciation · MCQ ICDS VIII category-wise	7 + 2
Jun'26	Q5(b) **four scenarios**: construction contract at 15%, forex on a payable, stock on dissolution, MTM provision · MCQ: materiality is not an assumption	7 + 2

HOW IT IS EXAMINED · DEC'26 PREDICTION

- **Q5(b) 7 marks, likely** (or interest 234B / 234C instead): "state with reasons" scenarios (ICDS I, II, III, VI, VII) or an ICDS V actual-cost / ICDS VIII valuation sum.
- Answer format: **ICDS + its rule → apply → correct / incorrect + right treatment**.
- MCQ (vii) / (viii): ICDS I assumptions, ICDS VIII category-wise, to whom ICDS apply.

THE TEN ICDS

ICDS	Subject	AS
I	Accounting policies	1
II	Valuation of inventories	2
III	Construction contracts	7
IV	Revenue recognition	9
V	Tangible fixed assets	10
VI	Foreign exchange rates	11
VII	Government grants	12
VIII	Securities	13
IX	Borrowing costs	16
X	Provisions, contingent liabilities / assets	29

[SM 362]

A Applicability · ICDS I–IV

- Notified u/s **145(2)** (Notification 87/2016): for every assessee following the **mercantile** system, except an individual / HUF not liable to tax audit u/s 44AB; only for **PGBP** and **other sources** (not for books of account); the Act prevails over ICDS. [SM 361]
- Also for presumptive schemes (44AD etc.) and for gross income u/s 115A; **not for MAT** (book profit), but yes for AMT; Rules (9A, 9B) prevail over ICDS (CBDT Circular 10/2017). [SM 389–391]
- **ICDS I**: true and fair; substance over form; **MTM loss / expected loss not recognised** unless another ICDS allows (same for MTM gains); assumptions = going concern, consistency, accrual — **materiality is not recognised** (J26 MCQ); change of policy only for **reasonable cause**. [SM 363–364, SM 390]
- **ICDS II**: lower of cost and NRV; costs of purchase, services, conversion; exclude abnormal waste, storage, admin, selling; FIFO / weighted average / specific identification; firm / AOP / BOI **dissolved** → stock at **NRV** whether or not the business continues (contrary to **Sakti Trading**). [SM 365–366]
- **ICDS III construction contracts**: revenue (incl. **retentions**, and variations / claims if probable and measurable) and costs by **percentage of completion**; contract costs reduced by incidental income other than interest, dividends, capital gains; changes in estimates prospectively. [SM 367–368]
- vs AS 7: no "reliable outcome" test; **expected losses not allowed**; early stage defined as **not exceeding 25%** — revenue to the extent of costs, no profit. [SM 369]
- **ICDS IV**: sale of goods — property / risks transferred, no effective control, reasonable certainty of collection; services — percentage completion (indeterminate acts: straight line; contracts of not more than **90 days**: on completion); interest on time basis; **interest on tax refund** taxed in the year **received**; royalty per agreement; dividends per the Act. [SM 370–371]
- s.43CB: construction / service contract profit on POCM (retention money included). [SM 395]

B ICDS V–X

- **ICDS V tangible fixed assets** (land, building, machinery, plant, furniture): actual cost = price + duties / taxes (not recoverable) + directly attributable costs − trade discounts; **start-up, test runs, experimental production capitalised** (till commercial production — CBDT Q15); stand-by / servicing equipment capitalised; spares expensed unless used only with one asset irregularly. [SM 372, SM 391]
- Acquired in exchange for **another asset or for shares / securities** → actual cost = **fair value of the asset acquired**; joint assets grouped proportionately; consolidated price apportioned fairly. [SM 372–373]
- **ICDS VI foreign exchange**: initial at the transaction-date rate (weekly / monthly average if stable); year end — **monetary items at the closing rate**, non-monetary at the transaction rate; forward contracts: premium / discount amortised, differences recognised as rates change (trading / speculation contracts on settlement); s.43AA: exchange gain / loss is income / loss — except s.43A cases. [SM 375–376, SM 394]
- **ICDS VII grants**: recognise on reasonable assurance; **not later than receipt**; grant for a **depreciable asset** → **reduce actual cost / WDV**; for non-depreciable assets with obligations → income over the obligation period; compensation for past losses → income when receivable; refund of an asset grant → **add to cost / WDV**, depreciation prospectively (J23 MCQ). [SM 378–379]
- **ICDS VIII securities held as stock**: actual cost incl. brokerage, fees, tax (exchange → fair value; pre-acquisition interest deducted); year end at **lower of cost and NRV, category-wise** (shares, debt, convertible, other) — not security by security; unlisted / unquoted at cost. Not for insurers, mutual funds, VC funds, banks, PFIs. [SM 381, SM 394]
- **ICDS IX borrowing costs**: capitalise on qualifying assets (tangible, intangible, inventories needing **12 months** or more); general borrowing formula A × B ÷ C; start from borrowing (specific) / use of funds (general); stop when first put to use; bill discounting = borrowing cost. [SM 383–384, SM 393]
- **ICDS X**: provision only if present obligation, **reasonably certain** outflow and reliable estimate; not discounted; contingent liabilities and assets **not recognised** (asset recognised when inflow is reasonably certain). [SM 386–387]
- s.36(1)(xviii): MTM / expected loss allowed only as computed under ICDS; ICDS disclosures go in Form **3CD**. [SM 393, SM 395]

PROBLEMS BOX · Q5(b) ICDS · 7 MARKS · MODEL ANSWERS (OURS, FROM THE SM RULES; NO ICMAI ANSWER YET)

J26 Q5(b) · FOUR SCENARIOS

1. **Contractor recognises no revenue at 15% completion** — incorrect. ICDS III: POCM; at an early stage (not exceeding 25%) revenue is recognised to the extent of costs incurred (no profit), not nil.
2. **Forex loss ₹3,00,000 on a USD 1,00,000 trade payable treated as notional** — incorrect. ICDS VI: monetary items at the closing rate (₹93 v ₹90); the loss is allowable u/s 43AA.
3. **Firm dissolved, business continued by L, stock at cost although NRV is 20% higher** — incorrect. ICDS II: on dissolution stock is valued at NRV whether or not the business continues.
4. **Provision for expected future losses on MTM basis** — not allowed. ICDS I: MTM / expected losses are not recognised unless another ICDS permits; ICDS III does not.

ICDS VIII · CATEGORY-WISE (CBDT CIRCULAR, SM 392) — RE-WORKED BY SCRIPT

Category	Cost	NRV	ICDS value
Shares A–D	560	535	535
Debt E–H	600	615	600
Total (security-wise lower would be 1090 — wrong)	**1160**	**1150**	**1135**

D25 Q5(b) · ICDS V ACTUAL COST (FOX LTD) — RE-WORKED BY SCRIPT

- **Machinery A** (got for 10,000 shares): actual cost = **fair value of the machine** ₹20,00,000 (not the shares' ₹15,00,000 / ₹24,00,000) + installation ₹5,00,000 = **₹25,00,000**; put to use 15.10.2024 (under 180 days) → 15% × ½ = **₹1,87,500**.
- **Machinery B** (imported, used): USD 40,000 at ₹82 = ₹32,80,000 + customs ₹4,00,000 + installation ₹1,50,000 = **₹38,30,000**; the ₹25,000 difference on the unpaid USD 5,000 (₹82 → ₹87) is not added until paid (s.43A overrides ICDS VI / s.43AA); depreciation 15% × ½ = **₹2,87,250**.
- ⚠ The 180-day half rate, s.43A (capitalise exchange differences on payment) and additional depreciation (new plant of a manufacturer; not for used / imported-used plant) are Inter-level rules not in the P15 SM.

PRACTISE THESE

J26 Q5(b) · D25 Q5(b) · J24 Q5(b) · D24 Q5(b)(ii) · J23 MCQ · D25 MCQ (viii) (Allan (P) Ltd securities) · PTP MCQ (vii) · postal Q4(b) (ICDS VI), MCQ (vi) · SM short essays 1–2 (SM 396) · MCQ bank Q31, Q32, Q50 · **ICMAI Practice Workbook: no problem on this module**.

TRAPS

- ICDS do not apply to MAT book profit.
- Grant for a depreciable asset reduces cost — it is never income.
- Dissolution stock at NRV even if the business continues.

Revision sheet · Module 9 (glance page)

ICDS	Key rule (differs from AS)	ICDS	Key rule
Applicability	mercantile system; PGBP and other sources; not individuals / HUF outside tax audit; not MAT	I Policies	no MTM / expected loss; assumptions: going concern, consistency, accrual (not materiality); change only for reasonable cause
II Inventories	lower of cost / NRV; dissolution of firm / AOP / BOI → NRV	III Construction	POCM; retention included; no expected loss; early stage ≤ 25%: revenue = cost
IV Revenue	services POCM; ≤ 90 days: on completion; tax-refund interest when received	V Fixed assets	fair value of asset got for shares / other asset; test runs capitalised
VI Forex	monetary at closing rate; non-monetary at historical; s.43AA (not 43A cases)	VII Grants	reduce cost / WDV of depreciable asset; not later than receipt; refund added to cost
VIII Securities	lower of cost / NRV category-wise; unlisted at cost	IX Borrowing cost	qualifying inventory ≥ 12 months; A × B ÷ C
X Provisions	reasonably certain; not discounted; contingents not recognised	Disclosure	Form 3CD (tax audit)

MEMORY HOOKS

- ICDS I–X = AS **1, 2, 7, 9, 10, 11, 12, 13, 16, 29**.
- ICDS's mood: **"no expected losses, no materiality, NRV on dissolution, grants cut cost, securities by category"**.

SM M9 EXERCISE MCQs

1. ICDS VIII deals with **securities**. [SM 396]
2. ICDS apply to income under **PGBP** (and other sources). [SM 396]

I · II

- no MTM loss · NRV on dissolution

III · IV

- POCM · 25% · 90 days

V

- fair value of asset · test runs

MODULE 9
~6 marks · Q5(b)

VI

- closing rate · 43AA

VII · VIII

- grant cuts cost · category-wise

IX · X

- 12 months · reasonably certain

Module 6 · Different Aspects of Tax Planning P15 · topic 6.0

SM pp. 295–318 (exercise 319–320). **One MCQ every paper since Jun'24** (planning vs management vs evasion); long questions in D23 (seven acts) and J24 (capital structure by EPS after tax). Expected ~3 marks.

Paper	What was asked	Marks
Dec'23	Q3(a) seven acts: tax planning, management or evasion	7
Jun'24	Q3(b) **equity vs debentures vs loan: choose by return after tax** · MCQ: reinvesting LTCG in a house = planning	7 + 2
Dec'24	MCQ: paying TDS before the due date = management	2
Dec'25 · Jun'26	MCQ: buying 54EC bonds = planning · paying advance tax on time = management	2 · 2
ICMAI	PTP Q3(a) salary package (allowances vs perquisites), Q3(b) **lease vs buy** · postal Q7(a) ten acts, Q8(b) capital structure	–

A Planning, avoidance, evasion, management

	Tax planning	Tax avoidance	Tax evasion	Tax management
Meaning	full use of exemptions, deductions, rebates and reliefs the Act gives	legal use of **loopholes**	illegal: suppressing income / sales or inflating expenses	procedure to **comply** with the law
Feature	within the law and its moral	bends the law without breaking it	illegal in script and moral	implementation in the tax department
Approach	futuristic, positive	short-term (loopholes get closed)	after the liability arose; negative	past, present, future (continuous)
Result	tax saving · desirable · moral	tax hedging · avoidable · immoral	concealment · objectionable · penalty, prosecution	administration · essential · a duty

Cases: **McDowell & Co.** (SC 1985) — planning legitimate only within the law; colourable devices are not planning · **Westminster**, **Helvering v. Gregory**, **Raman & Co.** — arranging affairs to pay less is allowed · **B.M. Kharwar** — authorities may unravel a device · **Motor & General Stores** — form counts for genuine transactions; Wanchoo Committee on evasion v. avoidance. [SM 295–299]

- **Objectives**: reduce tax liability; minimise litigation; productive investment; healthy growth of the economy; economic stability. **Essentials**: up-to-date law, full disclosure, no sham transactions, foresight / flexibility. [SM 302–303]
- **Types**: short-range (one year, e.g. PPF / NSC) and long-range; **permissive** (express provisions) and **purposive** (circumventing, e.g. avoiding clubbing). [SM 304]
- **Areas**: form of organisation, location (SEZ 10AA for units started by 31-03-2021, 80-IE, 80LA), nature of business (33AB, 35AD, 44AD, 44B …), restructuring, financial decisions, employee remuneration, non-residents. [SM 305–310]

- **Form**: company 30% (or lower) + SC + cess, dividends taxed again; firm / LLP 30%, partners' share exempt, remuneration within 40(b); proprietor at slab rates, no deduction for own salary / interest. [SM 305–306]
- **Financing**: interest is deductible, dividend is not; equity issue cost capital (35D amortisation), debt-raising cost revenue. **Lease or buy**: lease rent deductible (no depreciation); owned asset — depreciation + interest after first use (before that, interest is capitalised). [SM 308–309]
- **Salary**: split pay into allowances, prefer perquisites with low valuation, commuted pension, leave encashment, employer PF up to 12%. [SM 309–310]
- Tax planning cells: volume, documentation, data, integration, monitoring, alternatives. [SM 311]

PROBLEMS BOX · Q3(b)-TYPE TAX PLANNING SUM · CAPITAL STRUCTURE / LEASE OR BUY (J24 Q3(b); PTP Q3(b); postal Q8(b))

WORKED PATTERN · SM SOLVED CASE 1 (₹50 LAKH; EBIT 15%; TAX 31.2%) — RE-WORKED BY SCRIPT

	Option 1	Option 2	Option 3
Equity / 12% debentures / 18% loan (₹ lakh)	40 / 10 / –	30 / 10 / 10	30 / 20 / –
EBIT	7,50,000	7,50,000	7,50,000
– interest	1,20,000	3,00,000	2,40,000
Profit before tax	6,30,000	4,50,000	5,10,000
Tax @ 31.2%	1,96,560	1,40,400	1,59,120
Profit after tax	**4,33,440**	**3,09,600**	**3,50,880**
Return on equity capital	**10.84%**	**10.32%**	**11.70%**

Option 3 gives the highest return on capital. [SM 318]

LEASE OR BUY · SM ILLUSTRATION 5 (₹1,00,000 ASSET; TAX 33.22%; PV 10%)

- **Own (loan of 5 × ₹20,000 at 14%)**: each year outflow = instalment + interest − tax on (interest + 15% depreciation): year 1 = 20,000 + 14,000 − 9,634 = **24,366** … PV ₹83,985. [SM 315–316]
- **Lease** (₹30,000 a year + 1% fee in year 0): net 20,034 a year → PV **₹76,611** → **lease is better**. [SM 316]
- The SM's PV columns are loosely rounded (exact: owning ₹83,967, leasing ₹76,597); the decision does not change.

STEPS

1. Same EBIT for every option; deduct interest (tax-deductible), never dividend.
2. Tax at the rate given; PAT; divide by equity (or EPS = PAT ÷ number of shares).
3. Lease v buy: after-tax cash outflows × PV factors; choose the lower PV.

PRACTISE THESE

J24 Q3(b) · postal Q8(b) · PTP Q3(a), Q3(b) · SM Illustrations 1 (salary package), 3 (interest before first use capitalised), 5 · SM numerical problem (make or buy, SM 319) · SM case 1 (Virat Ltd, SM 320) · **ICMAI workbook Ch 5 illustrations 1–4**.

CLASSIFY THE ACT (D23 Q3(a), postal Q7(a), MCQ (vi)/(ix)) · SM ILLUSTRATION 6 + PAST MCQs

Act	Answer	Act	Answer
LIC premium to cut total income · new house for s.54 · SB interest shown and 80TTA claimed · buying 54EC bonds (D25) · reinvesting LTCG in a house (J24)	**Planning**	Registers of TDS kept for timely compliance · advance tax paid on time (J26) · TDS paid before the due date (D24)	**Management**
Home AC shown as factory asset · credit note to MD's son to shift income · partner's salary shown as "salary" · personal car charged to business (postal) · FD interest not disclosed	**Evasion**	Countries that minimise taxes (postal MCQ)	**Tax havens**

MCQ bank Q25, Q26, Q36, Q149 · ICMAI workbook Ch 5 illustration 5. [SM 316–317]

MEMORY HOOKS

- **Planning saves, avoidance hedges, evasion hides, management complies.**
- Paying on time = management; investing to claim a deduction = planning; hiding or false claims = evasion.

Module 11 · Case Study — SM case laws in one line P15 · topic 11.0

SM pp. 409–442. Q8 was **case law** in J24 (two), D24 and J25 (14 / 7 / 7 marks), then MAT + TP replaced it from Dec'25; keep the cases as a backup (expected ~3 marks) and for **MCQs and "state with reasons" parts** elsewhere.

ANSWER FORMAT ICMAI ASKS FOR (J24 Q8, J25 Q8)

1. **Issue involved** — one line as a question.
2. **Provisions applicable** — the section(s).
3. **Analysis of the issue** — the facts against the provision + the case (name, court).
4. **Conclusion** — one line: allowed / not, taxable / not.

PAST QUESTIONS

- **D24 Q8(b)**: software bought from a non-resident under an EULA — royalty? TDS u/s 195? → **Engineering Analysis** (SC): not royalty, no TDS. Also postal Q5(b).
- **J25 Q8(a)**: 80-IA deduction limited by s.80AB to business income? → **Reliance Energy** (SC): no; 80-IA on the eligible undertaking's profit (within GTI).
- **J24 Q8(a)**: exchange loss on a foreign loan for leasing; fresh claim before ITAT · **J24 Q8(b)**: foreign tax not credited — deductible? ⚠ neither case is in the current SM list; answer from principles (s.37(1), s.40(a)(ii), Rule 128).
- **MQP Q5(a)**: ITAT moving an addition from s.68 to s.69A → **Sarika Jain** (All): ITAT cannot add under a section that was not the subject of appeal.

A International taxation and TDS cases

Case	Holding (one line)
Engineering Analysis Centre of Excellence (SC 2021)	Payments by Indian end-users / distributors to non-resident software makers under **EULAs / distribution agreements are not royalty**; no TDS u/s 195. [SM 434–435]
Gracemac Corporation (Delhi)	Licensing of Microsoft software products is not royalty taxable in India. [SM 438]
Vinzas Solutions (Mad 2017)	A dealer's outright purchase of software is not royalty. [SM 418]
Amazon Web Services (Delhi 2025)	Standard cloud-computing (IaaS) payments are neither royalty nor FTS under the India–US DTAA — customers get no right over the hardware or code. [SM 409]
Kotak Securities (SC 2016)	Transaction charges paid to BSE are not FTS (no customised service). [SM 423]
BHEL (P&H 2016)	Usual technical inputs in construction / erection contracts do not make them FTS for TDS. [SM 419]
E-Funds IT Solution (SC 2017)	Outsourcing by a US company to its Indian affiliate is not a PE under the India–USA treaty. [SM 419]
UAE Exchange Centre (SC 2020)	A liaison office doing preparatory / auxiliary activities is not a PE. [SM 430]
Samsung Heavy Industries (SC 2020)	A project office doing non-core, auxiliary work is not a fixed-place PE (Article 5(4)(e)). [SM 433]
Thyssen Krupp (Bom 2015)	TP adjustments only on transactions with AEs, not with unrelated parties (cf. J25 Q8(b)). [SM 424]
Open Solutions Software (Del 2020)	TNMM comparables are tested for functional similarity; none excluded for high turnover alone. [SM 432]
SAP Labs India (SC 2023)	The Tribunal's ALP finding is not final — an appeal u/s 260A lies to the High Court. [SM 438–439]
Renault Nissan (Mad 2018)	A cryptic DRP direction simply accepting the TPO's order is set aside. [SM 428]
Prasar Bharati (SC 2018) · **Bharti Cellular** (SC 2024) · **Corporation Bank** (Kar 2021)	Agency commission to advertising agencies attracts 194H · no 194H on distributors' margin on prepaid kits (principal-to-principal) · no 194H on NFS ATM network charges. [SM 426, SM 435, SM 441–442]
Purnima Advertising (Guj 2017) · **IVRCL-KBL** (AP 2016) · **Hightension Switchgears** (Kol 2016)	No 206AA demand for a wrong PAN in a TDS return · TDS credit allowed though all work was sub-contracted · no TDS on transport reimbursed by the buyer to a seller who pays the GTA. [SM 413, SM 419, SM 423]

B Business income, capital gains, procedure

Case	Holding (one line)
Reliance Energy (SC 2022)	s.80AB does not cut down s.80-IA: deduction is on the eligible undertaking's profit (as if its only source), not limited to PGBP of other units (J25 Q8(a)). [SM 440]
Cognizant Technology (SC 2023)	Forex gain solely relatable to export business qualifies for s.10AA. [SM 440]
KBD Sugars (SC 2023)	A dysfunctional unit can be demerged "on a going concern basis"; the resulting company sets off its losses u/s 72A(4). [SM 440–441]
McDowell & Co. (SC 2017)	s.41(1) deemed income of the amalgamating company reduces the loss carried forward u/s 72A. [SM 414–416]
Equinox Solution (SC 2017)	Slump sale of a running business: no part of the price taxed u/s 50(2) as STCG on depreciable assets. [SM 414–416]
Siemens Public Communications (SC 2016)	Voluntary subvention by a parent to protect its investment in a loss-making subsidiary is a capital receipt. [SM 409]
Peerless General Finance (SC 2019) · **Aditya Balkrishna Shroff** (Mum-Trib 2021)	Collective-investment subscriptions are capital receipts · forex gain on a personal loan is a capital receipt. [SM 428, SM 437]
Raj Dadarkar (SC 2017) · **Maneklal Agarwal** (SC 2017)	Sub-licensing income from property is house property income · rentals from sub-lessees taxed in the first lessor's hands if the lease is sham. [SM 411–412]
Palam Gas Service (SC 2017)	s.40(a)(ia) also covers amounts **actually paid**, not only payable. [SM 412]
U. K. Paints (Del 2016)	s.14A disallowance only after recording dissatisfaction with the assessee's own disallowance. [SM 409–411]
Mother Hospital (SC 2017) · **Tally Solutions** (Kar 2021) · **NCR Corporation** (Kar 2020) · **Kohinoor Indian** (Trib 2021)	Lessee gets depreciation only on its own construction cost · non-deduction of TDS on an asset purchase does not bar depreciation · an ATM is a computer (higher rate) · an iPad is not. [SM 414, SM 430, SM 437]
Berger Paints (SC 2017) · **Honda Siel** (SC 2017)	Securities premium is not "capital employed" for s.35D · JV-linked technical fee is capital expenditure. [SM 424–427]
National Travel Services (SC 2018) · **Vasisth Chay Vyapar** (SC 2018) · **Tejua Kapadia** (SC 2018)	s.2(22)(e) applies to a loan to a ≥ 10% beneficial shareholder · NBFC income on NPAs on receipt basis (RBI norms) · purchases not bogus u/s 69 where payment and sales are proved. [SM 424, SM 426]
Supnekar (Bom 2016) · **Navin Jolly** (Kar 2020) · **Noida Cyber Park** (Trib 2021) · **P. P. Mahatme** (Bom 2019) · **Ranjan Pai** (Kar 2021)	54EC investment may come from an advance under the sale agreement · several flats in one building = one unit for 54F · s.50C not for leasehold rights · family settlement is not a transfer · bonus shares not taxed u/s 56(2)(x). [SM 418, SM 430, SM 432, SM 435, SM 437]
Yum! Restaurants (SC 2020) · **Secunderabad Club** (SC 2023) · **BCCI** (Trib 2021)	No mutuality in a commercial arrangement · a club's FD interest from member banks is not mutual (taxable) · BCCI's IPL funds used to promote cricket — not commercial. [SM 432, SM 435, SM 439–440]
Ian Peter Morris (SC 2016) · **Ramgopal Minerals** (Kar 2017) · **Anil Kumar** (Kar 2016)	No 234B / 234C on salary income (TDS) · no s.41(1) cessation when payments to untraceable creditors are proved · no estimate without rejecting the books. [SM 417–419]
Sarika Jain (All 2017) · **Reliance Telecom** (SC 2021) · **Pepsi Foods** (SC 2021) · **Shreeram Durgaprasad** (Bom 2016)	ITAT cannot add under a section not in appeal (MQP Q5(a)) · ITAT cannot recall its order u/s 254(2) beyond rectification · ITAT stay ends after 365 days only if the delay is the assessee's (D24 Q8(a)) · penalty order during pending assessment is void. [SM 413, SM 419, SM 434–435]
Rajesh Kumar Aggarwal (Del 2017) · **Iven Interactive** (SC 2019) · **T.K.S. Builders** (Del 2024) · **KMG Wires** (Bom 2025) · **IT Bar Association** (Guj 2025)	54F can be allowed in 264 revision · a new address in the return is not intimation to the AO · FAO and JAO both may issue 148 notices · notice relying on AI-invented case laws quashed · audit-report date extended → ITR date must be too. [SM 409–410, SM 414–417, SM 428]

Practise: D24 Q8(b) · J25 Q8(a) · J24 Q8(a), (b) · MQP Q5(a) · postal Q5(b) · **ICMAI Practice Workbook: no problem on this module**. Shankar Dalal (Bom): local land laws decide "agricultural land"; Priya Blue (Guj): ship-breaking output is not scrap for TCS. [SM 414, SM 424]

Module 10 · Black Money Act, 2015 P15 · topics 10.1, 10.2

SM pp. 399–405 (exercise 406). **An MCQ in 5 of 6 papers since Dec'23** (value of a partly disclosed foreign asset, tax, time limits, the ₹20 lakh exclusion); a long case only in the MQP (Q5(b), unused). Expected ~2 marks.

Paper	What was asked
Jun'23	Q5(b) undisclosed foreign apartment: value taxable, tax, time limit (3)
Jun'24 · Dec'25	MCQ: value taxable for a partly undisclosed / partly disclosed foreign asset
Dec'24	MCQ: time limit for a BMA order · Q5(b)(i) tax on an undisclosed foreign deposit of ₹30 lakhs
Jun'26	MCQ: ₹20 lakh limit — no penalty for unreported foreign assets (other than immovable property)
ICMAI	MQP Q5(b) (commission abroad → Singapore apartment), MCQ (viii) notice to a person now non-resident · PTP MCQ (viii) · postal Q5(a)

- **Charge** (s.3): tax **@ 30%** on total undisclosed foreign income and asset of the previous year; extends to the **whole of India** (SM MCQs 1–2). Assent 26th May 2015. [SM 400, SM 406]
- **Assessee**: a **resident other than not-ordinarily resident** (s.2(2)). An undisclosed foreign asset is taxed in the year it **comes to the notice of the AO** — even if the person is now a non-resident (MQP). [SM 400]
- **Undisclosed asset**: asset abroad (incl. financial interest) held or beneficially owned with no (satisfactory) explanation of its source; **value = FMV**. [SM 400–401]
- **Scope** (s.4): foreign income not disclosed in the return; foreign income where no return was filed; value of undisclosed foreign assets. Variations under ss. 29–43C, 57–59, 92C are not "undisclosed"; amounts taxed here are excluded from income-tax. [SM 401]
- **Computation** (s.5): **no expenses, allowances or set-off**; reduce income already taxed (under either Act) that funded the asset; for immovable property in proportion: value on the first day of the year of notice × taxed income ÷ cost. [SM 401]

- **Procedure**: income-tax authorities act; no separate return; notice u/s 10 at any time; order within **2 years** from the end of the FY of the notice (D24 MCQ); best-judgment possible; appeal / revision mirror the IT Act (ss. 12–24). [SM 402–403]
- **Penalties**: not disclosing → **300%** of tax (s.41); no return or asset not reported → **₹10 lakh** (ss. 42, 43) — **not if the assets (other than immovable property) total ₹20 lakh or less** (J26 MCQ); non-compliance s.45 ₹50,000 to ₹2,00,000. [SM 403–404]
- **Prosecution** (sanction of the PCIT / CIT / CIT(A)): failure to disclose 3 to 10 years; return / disclosure failures 6 months to 10 years; second offence 3 to 10 years + fine ₹5 lakh to ₹1 crore. Penalty orders within **1 year** from the end of the FY of the notice. [SM 403–404]
- Rounding: income / asset to the nearest ₹100; payable / receivable to ₹10. [SM 405]

PROBLEMS BOX · VALUE AND TAX UNDER THE BMA (MCQ / MQP Q5(b))

WORKED PATTERN 1 · SM ILLUSTRATION 1

Foreign house bought in 2009-10 for ₹50 lakh, of which ₹20 lakh was already taxed; noticed in 2025-26 when worth ₹1 crore → chargeable value = 1,00,00,000 − (₹20,00,000 / ₹50,00,000 of it) = **₹60,00,000**. [SM 401]

Tax at the s.3 rate (30%) = **₹18,00,000** (our working).

STEPS

1. Was the person a resident (ROR) when the income / asset arose?
2. Year of tax = year the asset comes to the AO's notice.
3. Value = FMV (higher of cost and FMV per the MQP answer) − proportion funded by taxed income.
4. Add undisclosed foreign income not represented by the asset; tax 30%; penalty 300% of tax if not disclosed.

WORKED PATTERN 2 · MQP Q5(b) ANKIT (ICMAI ANSWER) — RE-WORKED BY SCRIPT

Apartment: higher of cost USD 4,50,000 and FMV USD 6,50,000 × ₹80 (rate on 1.04.25)	5,20,00,000
Unspent commission (USD 5,00,000 – USD 4,50,000) = USD 50,000 × ₹80	40,00,000
Undisclosed foreign income and assets (P.Y. 2025-26)	**5,60,00,000**
Tax @30%	**1,68,00,000**

Resident in P.Y. 2019-20 when he acquired the apartment → liable although non-resident now; taxed in the year of notice. D24 Q5(b)(i) (our working): undisclosed foreign deposit ₹30 lakhs × 30% = ₹9,00,000.

PRACTISE THESE

MQP Q5(b) · J23 Q5(b) · D24 Q5(b)(i) · MCQs J24 Q1(iii), D24 Q1(ix), D25 Q1(iv), J26 Q1(viii) · MCQ bank Q33, Q34, Q140 · MQP MCQ (viii) · PTP MCQ (viii) · postal Q5(a) · SM short essays 1–2 · **ICMAI Practice Workbook: no problem on this module**.

R Revision sheet · penalties, prosecution, IT Act look-alikes

Default	Sec.	Penalty	Sec.	Prosecution
Fails to disclose foreign income and asset	41	**300% of tax** u/s 10	51(1)	3 years to 10 years + fine
No return before the end of the relevant AY (asset abroad)	42	₹10 lakh		
Foreign asset / income not disclosed in the return	43	₹10 lakh	50	6 months to 10 years + fine
Attempt to evade tax, interest, penalty	44	tax in arrear	51(2)	3 years to 10 years
Not answering, not signing, not attending (summons u/s 8)	45	₹50,000 to ₹2,00,000		
False statement · abetting a false statement			52 · 53	6 months to 10 years + fine
Second and subsequent offences			58	3 years to 10 years + fine ₹5 lakh to ₹1 crore

ss. 42 and 43 do not apply where the asset(s), other than immovable property, total ≤ ₹20 lakh. Penalty order: within 1 year from the end of the FY of the s.46 notice (s.47); approval of the JCIT if the penalty exceeds ₹1,00,000 (ITO) or ₹5,00,000 (AC / DC). [SM 403–404]

IT ACT → BMA SECTION

	IT Act	BMA
Rectification	154	12
Notice of demand	156	13
Appeal to CIT(A)	246A–250	15–17
Appeal to ITAT	252–255	18
High Court · Supreme Court	260A · 261	19 · 21
Revision	263 / 264	23 / 24
Recovery · TRO	220 · 222–232	30 · 31–39
Interest	234–234C	40
Discovery, inspection	131	8

[SM 403]

MCQ FACTS

- Manager of a company jointly and severally liable if tax cannot be recovered from the company (s.35), unless no neglect on his part; participants of an unincorporated body likewise (s.36). [SM 403]
- Only a metropolitan magistrate or magistrate of the first class tries offences (s.80); no civil suit against orders (s.82). [SM 404]
- s.73: agreements with foreign countries / specified territories for exchange of information and recovery of tax. [SM 405]
- Notice: **any time** · order: **2 years** from end of FY of notice · penalty: **1 year** from end of FY of penalty notice.

MEMORY HOOK

"30 tax, 300 penalty, 10 lakh fine, 20 lakh safe, 2 years to assess".

Module 4 · Penalties and Prosecutions P15 · topics 4.1–4.4

SM pp. 233–253 (exercise 254). **A penalty MCQ in every paper** (often two) — "how much is the penalty u/s …"; one long question in J23 (Q4(a) under-reported income + s.270AA immunity, 9 marks) and the J23 Q8(a) case (s.68 → 115BBE + 271AAC). Expected ~4 marks.

Paper	What was asked	Marks
Jun'23	Q4(a) which additions are under-reported income; immunity u/s 270AA · Q8(a) loan by cheque taxed u/s 68: tax + penalty · MCQs: prosecution for TCS not paid (276BB); appeal against a 270A order	9 + 8 + 4
Dec'23	MCQs: accommodation entry — 271AAD on both firms · 271BA (no 92E report) · 115BBE tax on unexplained jewellery	6
Jun'24	MCQ: 271AA — 2% of the undocumented international transactions	2
Dec'24	MCQs: 270A misreporting (200% of tax) · 271BA amount	4
Jun'25	MCQs: 270A in a reassessment (firm) · trust's late return (272A(2)(e) per day)	4
Dec'25 · Jun'26	MCQ: 271AAD false purchase entry though income is a loss · MCQ: 271G (2%) for not furnishing TP documents	2 · 2
ICMAI	MQP / PTP MCQ (v): 271A (₹25,000) · MQP MCQ (vii): 269SS and a primary agricultural credit society (see M8) · postal MCQ (ix): SDT information (2%)	–

4.1 Penalty table — the amounts MCQs ask

Sec.	Default	Penalty
221(1) · 140A(3)	tax / interest / demand (or self-assessment tax) not paid in time	as the AO decides, up to the tax in arrears
270A	under-reporting · misreporting of income	**50%** of tax on under-reported income · **200%** if misreported
271A	books not kept as per s.44AA (MQP / PTP MCQ)	**₹25,000**
271AA(1) · 271AA(2)	no information / documents kept for an international transaction or SDT, or not reported (J24 MCQ) · master file u/s 92D(4) not furnished	**2% of the value of each transaction** · ₹5,00,000
271AAC	income u/s 68, 69, 69A–69D in the assessed income	**10% of the tax u/s 115BBE**; nil if returned and the tax paid by the end of the PY
271AAD	false entry (forged documents, invoice without supply, invoice of a non-existent person) or omitted entry, to evade tax — also on **any other person** who causes it	**aggregate amount of the false / omitted entry**
271AAE	trust / institution gives unreasonable benefit to a related person (13(1)(c))	100% of the income applied (first time); 200% thereafter
271B	no tax audit u/s 44AB	½% of turnover / gross receipts, maximum ₹1,50,000
271BA	no accountant's report u/s 92E (D23, D24 MCQs)	**₹1,00,000**
271C · 271CA	TDS not deducted (or 115-O, 194B, 194R, 194S, 194BA tax not paid) · TCS not collected	amount not deducted / paid / collected
271D · 271E	loan / deposit / specified sum taken (269SS) · repaid (269T) otherwise than by account-payee cheque / e-mode	**amount taken / repaid** (not if reasonable cause)
271DA · 271DB	cash receipt in breach of 269ST · no e-payment facility (269SU)	amount received · ₹5,000 per day
271FA	statement of financial transaction (285BA(1)) late	₹500 a day; ₹1,000 a day after the notice period
271FAA · 271FAB	inaccurate SFT · s.9A(5) fund information not furnished	₹50,000 (+ ₹5,000 per inaccurate account) · ₹5,00,000
271G	TP information / documents not furnished when asked u/s 92D(3) (J26 MCQ)	**2% of the value of the transaction**

271GA	s.285A (indirect transfer) information not furnished	2% of the transaction if it transfers management or control; else ₹5,00,000
271GB	country-by-country report u/s 286(2) not furnished	₹5,000 a day (first month), ₹15,000 a day beyond, ₹50,000 a day after the penalty order; inaccurate report ₹5,00,000
271GC · 271H	s.285 statement late · TDS / TCS statement not filed or inaccurate	₹1,000 a day up to 3 months, else ₹1,00,000 · ₹10,000 to ₹1,00,000 (nil if filed within 1 month after paying tax, fee 234E and interest)
271-I · 271J · 271K	195(6) information · wrong report by accountant / merchant banker / valuer · 35(1A) / 80G(5) statements	₹1,00,000 · ₹10,000 per report · ₹10,000 to ₹1,00,000
272A(1)	not answering, not signing, ignoring summons u/s 131(1), notices u/s 142(1) / 143(2), direction 142(2A)	₹10,000 for each default
272A(2)	notices 94(6), returns u/s 139(4A)/(4C) (J25 MCQ: trust), 133, 206, 206C, 197A, certificates 203 / 206C …	**₹500 a day** (for TDS / TCS items capped at the tax)
272B · 272BB · 272BBB	PAN rules (s.139A) · TAN not quoted · 206CA	₹10,000 each

[SM 233–238]

JUN'26 SUPPLEMENTARY · PENALTIES

- Penalties u/s 271C, 271CA, 271D, 271DA, 271DB, 271E are now levied by the **Assessing Officer** (not the JCIT), with JCIT approval above the s.274(2) limits. [Supp J26 p.26]
- s.271AAB does not apply to searches initiated on or after 1st September 2024; **s.271BB omitted** (the SM's reasonable-cause list still shows it). [Supp J26 p.28]

4.2 s.270A — under-reporting and misreporting

UNDER-REPORTED IF (270A(2))

- assessed income > income determined u/s 143(1)(a);
- no return (or first return u/s 148): assessed income > basic exemption;
- reassessed income > income assessed in the preceding order;
- the same three tests for **deemed total income u/s 115JB / 115JC**;
- assessment reduces a loss or turns it into income. [SM 239–240]

NOT UNDER-REPORTED (270A(6))

a. **bona fide explanation** with all material facts;
b. **estimate by the AO** where accounts are correct and complete but the method does not show the income;
c. **estimate by the assessee**: he estimated a lower addition, included it, and disclosed all facts;
d. **ALP addition** where 92D documents were kept, the transaction declared and facts disclosed;
e. undisclosed income in a **block assessment**. [SM 242]

MISREPORTING = 200% (270A(9))

misrepresentation or suppression of facts · investments not recorded · **expenditure not substantiated by evidence** · false entry · receipt not recorded · international transaction / SDT not reported. [SM 242]

AMOUNT OF UNDER-REPORTED INCOME (270A(3))

Case	Under-reported income
First assessment, return filed	assessed income − income u/s 143(1)(a)
No return / first return u/s 148	company, firm, local authority: assessed income · others: assessed income − basic exemption
Reassessment	reassessed − income in the preceding order
MAT / AMT	(A − B) + (C − D); an amount added under both is not reduced again in D
Loss	income / loss assessed − loss claimed

s.270A(4): a receipt / deposit explained as coming out of an earlier year's addition (no penalty then) is under-reported income of that earlier year. [SM 240–241]

TAX ON UNDER-REPORTED INCOME (270A(10))

- no return / first return u/s 148 → tax on (under-reported income + basic exemption) as if total income;
- 143(1)(a) or preceding order shows a loss → tax on under-reported income as if total income;
- otherwise → tax on (under-reported + earlier income) − tax on earlier income. [SM 243]

No double penalty on the same addition (270A(11)); order in writing; penalty only by the authority that made the addition — Tribunal cannot levy (*Shadiram Balmukund*); proceedings start before the assessment / appeal / revision order is complete. [SM 239, SM 243]

PROBLEMS BOX · PENALTY u/s 270A (J23 Q4(a); D24, J25 MCQs; SM Illustrations 1–4)

WORKED PATTERN 1 · SM ILLUSTRATION 1 (FA 2025 SLABS) — RE-WORKED BY SCRIPT

Case	143(1)(a)	Assessed	Tax diff.	50%
Individual	16,00,000	20,00,000	83,200	41,600
Firm	17,00,000	20,00,000	93,600	46,800
Firm (loss)	(8,00,000)	20,00,000	8,73,600	4,36,800
Individual (loss)	(19,00,000)	(3,00,000)	1,24,800	62,400
Individual, no return	N.A.	18,00,000	1,66,400	83,200

Loss cases: tax on the under-reported income (₹28,00,000; ₹16,00,000) as if total income. No return: tax on ₹18,00,000 (under-reported + basic exemption). [SM 243]

⚠ SM ILLUSTRATION 1 SLIPS

Firm, no return, ₹8,00,000 assessed: tax ₹2,49,600 → 50% = **₹1,24,800** (SM prints ₹1,19,600). Individual, no return: under-reported income = ₹18,00,000 − ₹4,00,000 basic exemption = **₹14,00,000** (SM column prints 18,00,000; its own footnote says "as reduced by basic exemption").

STEPS

1. Sort each addition: excluded (270A(6)) → under-reported → misreported (270A(9)).
2. Under-reported income by the 270A(3) case.
3. Tax on it by the 270A(10) case (with SC + cess).
4. Penalty 50% (under-reported) or 200% (misreported) of that tax — never of income or interest.

WORKED PATTERN 2 · SM ILLUSTRATION 3 (MAT COMPANY) — RE-WORKED BY SCRIPT

A − B: total income 1,20,00,000 − 80,00,000	40,00,000
C − D: book profit 2,10,00,000 − 2,00,00,000	10,00,000
Under-reported income	**50,00,000**
(P − Q): 40,06,080 − 24,96,000	15,10,080
(R − S): 35,05,320 − 33,38,400	1,66,920
Tax on under-reported income T	**16,77,000**
Penalty: minimum 50% · maximum 200%	8,38,500 · 33,54,000

Illustration 4: ₹3,00,000 added under both → D becomes 2,03,00,000 → under-reported ₹47,00,000, T ₹16,26,924, penalty ₹8,13,462 to ₹32,53,848. [SM 244–245]

MCQ SUMS (ANSWERS FROM SM RULES)

- D24 (vii): addition ₹12 lakhs, tax ₹3,12,000, misreporting → 200% = **₹6,24,000** (interest ignored).
- J25 (v): firm, reassessed; misreported ₹20 lakhs over ₹12 lakhs assessed → tax 6,24,000 × 200% = **₹12,48,000**.
- J24 (xiv): 271AA on the undocumented ₹5 crore × 2% = **₹10,00,000**. D25 (v): 271AAD = false entry **₹5,00,000** even though income is a loss. D23 (vi): M & Co 200% of tax on the addition **plus** 271AAD ₹7,00,000; P & Co (who caused it) ₹7,00,000.

PRACTISE THESE

J23 Q4(a), Q8(a) · MCQs J23 (x), (xii) · D23 (iii), (vi), (xiv) · J24 (xiv) · D24 (vii), (xiv) · J25 (iii), (v) · D25 (v) · J26 (v) · MQP / PTP MCQ (v) · postal MCQ (ix) · SM Illus. 1–4 · SM exercise MCQs 1–5 = MCQ bank Q18–Q22; bank Q131, Q148, Q158 · **ICMAI workbook Ch 3 illustrations 1–3** (270A normal / MAT; 269SS / 269T).

4.4 Prosecution (rigorous imprisonment)

Sec.	Offence	Term
275A · 275B · 276	breach of a search restraint order · not giving access to electronic records (132(1)(iib)) · removing / concealing property to defeat recovery	up to 2 years + fine
276A	liquidator's default u/s 178	up to 2 years; no fresh prosecution from 1st April 2023
276B · 276BB	TDS (and 115-O / 194B / 194R / 194S / 194BA tax) not paid · **TCS not paid** (J23 MCQ)	**3 months to 7 years** + fine; none if paid by the due date of the quarterly statement
276C(1)	wilful attempt to evade tax, penalty, interest, or under-reporting	evaded > **₹25,00,000**: 6 months to 7 years · otherwise 3 months to 2 years (+ fine)
276C(2)	wilful attempt to evade payment	3 months to 3 years + fine
276CC	wilful failure to file the return (139(1), 142(1), 148) — only if tax payable (non-company, net of prepaid taxes) exceeds **₹10,000** and not filed within the AY / as an updated return	same as 276C(1)

276CCC · 276D	block-return notice 158BC ignored · books not produced u/s 142(1) / no special audit 142(2A) (SM MCQ 1)	3 months to 3 years · up to 1 year + fine
277 · 278	false statement in a verification · abetting a false return / statement	> ₹25,00,000: 6 months to 7 years · otherwise 3 months to 2 years
277A	false entry to help another person evade (proof of actual evasion not needed)	3 months to 2 years + fine
278A	second offence u/s 276B, 276BB, 276C(1), 276CC, 277, 278	6 months to 7 years for every offence + fine
278B · 278C · 280	company (incl. firm, AOP / BOI) + persons in charge — company fined only · Karta for an HUF · public servant disclosing information	— · — · up to 6 months + fine

Court: not below a first-class (presidency) magistrate (s.292). Reasonable cause excuses 276A, 276B, 276BB (s.278AA). Sanction of the PCIT / CIT / CIT(A) needed (s.279); no 276C / 277 prosecution for a year whose 270A penalty was waived or reduced u/s 273A (279(1A)). [SM 250–252]

JUN'26 SUPPLEMENTARY · s.276BB

No prosecution for TCS paid to the credit of the Central Government on or before the due date of the quarterly TCS statement (proviso to 206C(3)). [Supp J26 p.27]

J23 Q4(a) · WHICH ADDITIONS ARE UNDER-REPORTED (ICMAI ANSWER)

Addition	Treatment
(i) AO's estimated disallowance ₹2 lakh (facts disclosed)	not under-reported — estimate (270A(6))
(ii) assessee's own estimate of scrap enhanced by the AO ₹3 lakh	not under-reported — 270A(6)(c)
(iii) expenditure whose nature he could not explain ₹1,20,000	**under-reported**
(iv) TPO's ALP addition ₹25 lakhs, 92D documents kept, transaction declared	not under-reported — 270A(6)(d)
(v) depreciation at a higher rate disallowed ₹6 lakh	**under-reported**

Under-reported total (our sum): ₹7,20,000. (iii) could also be read as misreporting — "claim of expenditure not substantiated by any evidence" (270A(9)(c)); say so in one line.

IMMUNITY u/s 270AA (J23 Q4(a), second half)

- Conditions: tax and interest per the order u/s 143(3) / 147 **paid within the demand-notice period**; **no appeal** filed. [SM 245]
- Apply in **Form 68 within 1 month** from the end of the month the order is received; AO grants immunity from 270A penalty and 276C / 276CC prosecution after the appeal period — **not where the penalty was initiated for misreporting**. [SM 245]
- AO's order within **3 months** from the end of the month of the application (after a hearing); final; then no appeal / 264 revision against the assessment. [SM 245] [Supp J26 p.27]

⚠ ICMAI J23 ANSWER IS OUT OF DATE

The J23 suggested answer says the AO decides within "one month". The Jun'26 supplementary extended it to **3 months** (the SM already shows 3). Write 3 months.

4.3 · WAIVER, IMMUNITY, PROCEDURE

- **s.273A(1)** — PCIT / CIT may reduce or waive the 270A penalty (suo motu or otherwise) if, before detection, the person voluntarily disclosed in good faith, co-operated, and paid / arranged the tax and interest. Income > **₹5,00,000** needs the PCCIT / CCIT / PDGIT / DGIT's approval. Only **once in a lifetime**. [SM 246]
- **s.273A(4)** — on application only: reduce / waive any penalty, or stay / compound recovery, for **genuine hardship** + co-operation; above **₹1,00,000** needs the PCCIT / CCIT's consent; order within **12 months** from the end of the month of the application. Hardship must exist at petition and at order (Circular 784). [SM 246–247]
- 273A(4) relief does not bar later relief; 273A(1) relief bars both. Orders are final. [SM 247]
- **s.273AA / 273AB** — immunity from penalty / prosecution after a settlement application (245C) abates (245HA); decided within 12 months; withdrawn if conditions broken or facts concealed. [SM 247, SM 252–253]
- **s.273B** — no penalty under 271A, 271AA, 271B, 271BA, 271C, 271CA, 271D, 271E, 271FA–271K, 272A(1)(c)/(d), 272A(2), 272AA, 272B, 272BB, 272BBB if there was **reasonable cause**. [SM 248]
- The reasonable-cause list does not include 270A, 271AAC or 271AAD.
- **s.274** — hearing first; JCIT approval if the penalty exceeds **₹10,000** (ITO) or **₹20,000** (AC / DC). Faceless penalty scheme (prosecution too, s.279). [SM 248]
- **s.275** — no penalty order after **6 months from the end of the quarter** in which the proceedings are completed / the appeal order reaches the PCIT / CIT / the revision order is passed / the penalty notice is issued. [SM 248] [Supp J26 p.27]
- A penalty order is separate: appeal to CIT(A), then ITAT; or 264 / 154 petitions. [SM 239]
- J23 MCQ (xii): 270A order passed by the Commissioner → appeal to the ITAT u/s 253.

R Revision sheet · Module 4

NUMBERS TO KNOW COLD

270A under / mis	50% / 200% of tax
271A books	₹25,000
271AA · 271G	2% of transaction value
271AA(2) · 271FAB · 271GA (other)	₹5,00,000
271AAC	10% of 115BBE tax
271AAD · 271D / 271E · 271DA	amount of the entry / loan / receipt
271B	½% of turnover, max ₹1,50,000
271BA · 271-I	₹1,00,000
271H	₹10,000 to ₹1,00,000
272A(1) · 272B · 272BB	₹10,000
272A(2)	₹500 per day
JCIT approval (274)	> ₹10,000 ITO · > ₹20,000 AC / DC
270AA	apply 1 month · order 3 months
275 time limit	6 months from end of quarter
273A(1) · 273A(4)	₹5 lakh · ₹1 lakh approval; 12 months
276B / 276BB	3 months to 7 years
276C / 276CC / 277 / 278	> ₹25 lakh: 6 months to 7 years; else 3 months to 2 years

⚠ NOT IN THE SM · s.115BBE RATE

The SM gives 271AAC (10% of tax u/s 115BBE) but not the 115BBE rate. The papers use **60% + 25% surcharge + 4% cess = 78%**: D23 MCQ (iii) jewellery ₹22,60,000 × 78% = **₹17,62,800**. J23 Q8(a) (our working): ₹20 lakhs taxed u/s 68 → tax ₹15,60,000; 271AAC = **₹1,56,000**; no deduction or set-off against it.

⚠ SM SLIPS

Exercise MCQ 3 says "271AD" — read **271AAD**. s.273B list still names 271BB (omitted, Jun'26 supplementary).

SM EXERCISE MCQs (KEY AS PRINTED)

1. Prosecution for not producing books demanded u/s **142(1)**.
2. PAN default → **272B**.
3. False / omitted entry → **sum equal to the entry**.
4. 273A(1) waiver above **₹5,00,000** needs approval.
5. Relief powers: 273A and **273AA**. [SM 254]

MEMORY HOOKS

- **"Half for hiding a little, double for lying"** — 50% under-reported, 200% misreported, always of the tax.
- "Two percent for TP papers" — 271AA keep, 271G furnish; 92E report = flat ₹1 lakh.
- "25 lakh splits the jail term" — above: 6 months to 7 years; below: 3 months to 2 years.

Fixed penalties

- 271A 25k · 271BA 1L · 272A 10k

270A

- 50% / 200% of tax · 270A(6) exclusions

Percent penalties

- 271AA / 271G 2% · 271B ½%

MODULE 4
~4 marks · MCQ every paper

Relief

- 270AA · 273A · 273AA · 273B

Amount penalties

- 271AAD · 271D / E · 271C

Prosecution

- 276B 3m–7y · 276C 25 lakh split

Module 14 · General Anti-Avoidance Rule P15 · topics 14.1, 14.2

SM pp. 615–631 (exercise 632); procedure s.144BA at SM 143–144. **Only MCQs** — the ₹3 crore limit (D23, J25, MQP, postal), the Approving Panel's time limit (D25), "is a tax incentive caught?" (J26). No sums. Expected ~2 marks.

Paper	MCQ	Answer
Dec'23 · Jun'25 · MQP (xv) · postal (v)	minimum tax benefit to invoke GAAR	**₹3 crore** (all parties, one AY)
Dec'25 (xv)	time for the Approving Panel's directions	**6 months from the end of the month** in which the reference was received
Jun'26 (xv)	SEZ unit claims 10AA deduction of ₹15 crore	**GAAR not applicable** — taking a fiscal incentive is tax mitigation (CBDT Example 1)
PTP (xv)	GAAR is introduced mainly to ...	**prevent aggressive tax planning**

14.1 · APPLICABILITY (CHAPTER X-A, ss. 95–102)

- Why: codify **substance over form** against aggressive tax planning and opaque low-tax jurisdictions; SAAR (Chapter X etc.) is specific, GAAR is general. Inserted by FA 2013, **effective 1st April 2018** (SM MCQ 1). [SM 615, SM 632]
- **s.95**: an arrangement may be declared an **impermissible avoidance arrangement** (IAA) and its tax consequence determined; may apply to **any step or part**. "Arrangement" = any step in or part / whole of a transaction, operation, scheme, agreement or understanding, enforceable or not. [SM 616]
- **Tax benefit**: reduction / avoidance / **deferral** of tax, higher refund (incl. via a tax treaty), lower total income, higher loss — in that or any other previous year. [SM 617]

RULE 10U · GAAR DOES NOT APPLY TO

a. an arrangement whose tax benefit in the AY, **in aggregate to all parties**, does not exceed **₹3 crore**;

b. an FII that is an assessee, has **not taken treaty benefit** (s.90 / 90A) and invested under SEBI regulations;

c. a non-resident investing in such an FII (offshore derivative instruments or otherwise);

d. income from transfer of investments made **before 1st April 2017**.

Otherwise it applies to any arrangement, whatever its date, for tax benefits obtained on or after 1st April 2017. [SM 616]

DEC'26 SUPPLEMENTARY · RULE 10U (NOTIFICATION 54/2026)

Tenth Amendment Rules 2026 clarify: income from transfer of investments made before 1 April 2017 is excluded **even if it accrues or is received on or after 1 April 2017**, irrespective of when the arrangement was entered into. [Supp D26 p.4]

14.2 · IMPERMISSIBLE AVOIDANCE ARRANGEMENT (s.96)

Main purpose = tax benefit AND at least one **tainted element**: (a) rights / obligations not normally created at **arm's length**; (b) **misuse or abuse** of the Act; (c) **lacks commercial substance** (s.97); (d) means or manner not normally used for **bona fide purposes**. If the main purpose of a **step** is tax benefit, the whole is presumed so unless the assessee proves otherwise. [SM 618]

LACKS COMMERCIAL SUBSTANCE (s.97)

- substance of the whole differs significantly from the form of its steps;
- **round-trip financing**, an **accommodating party**, elements that cancel each other, a transaction through persons that **disguises** value, location, source, ownership or control of funds;
- location of an asset / transaction / residence with no substantial purpose but tax;
- no significant effect on business risks or net cash flows apart from the tax benefit. [SM 618]
- Round trip: regardless of tracing, timing or mode of the funds. Accommodating party: main purpose of its participation is the tax benefit, connected or not. [SM 619]
- **Relevant but not sufficient** (97(4)): how long the arrangement exists, taxes paid under it, an exit route. [SM 619, SM 630]
- Connected person: relatives, directors, partners, members, persons with **substantial interest** (≥ 20% voting power or profits). [SM 619–620]

CONSEQUENCES (s.98) · s.99 · s.100

Deny the tax / treaty benefit by: disregarding, combining or recharacterising steps; treating it as never entered into; disregarding an accommodating party or treating parties (and connected persons) as one; reallocating income / expenditure; re-siting residence or assets; **looking through corporate structures**; equity ↔ debt, capital ↔ revenue. Applies in addition to, or in lieu of, other provisions (s.100). Only the IAA part is affected (Rule 10UA). [SM 620–621]

PROCEDURE · s.144BA AND RULES 10UB / 10UC

1. AO issues a notice seeking objections, then refers to the **PCIT / CIT** (Form 3CEG). [SM 621–622]
2. PCIT / CIT: notice to the assessee, objections within **60 days** at most. No objection → he issues directions; objection not accepted → reference to the **Approving Panel** (satisfaction in Form 3CEI); satisfied GAAR is not needed → order to the AO (Form 3CEH). [SM 143] [SM 622]

CBDT EXAMPLES · GAAR OR NOT?

Facts	GAAR?
1 · SEZ unit claims 100% deduction (J26 MCQ)	**No** — tax mitigation
1A · non-SEZ production shown as SEZ	No — **evasion**, dealt with directly

3. Time limits (Rule 10UC): PCIT's directions within 1 month, and his reference to the Panel within 2 months, from the end of the month of the assessee's compliance / final submission. [SM 622]
4. **Approving Panel**: 3 members — chaired by a person who is or was a **High Court judge**, an IRS officer of PCCIT / CCIT rank, and an academic; term 1 year, extendable up to 3 years; majority decides. [SM 144]
5. Directions within **6 months from the end of the month** of the reference (D25 MCQ); excluded: treaty-information time (up to 1 year) and court-stay period; minimum 60 days left. **Binding on the assessee and the department; no appeal.** [SM 144]
6. An assessment with GAAR consequences needs the **PCIT / CIT's prior approval**; the DRP route does not apply to it. [SM 142, SM 144]

JUN'26 SUPPLEMENTARY · STAY PERIOD

Excluded stay period runs from the date the court grants the stay to the date the certified copy of the vacating order is received by the Approving Panel (for s.144BA). [Supp J26 p.22]

1B · goods moved to SEZ unit below FMV · 1C · new orders shifted to SEZ unit	No — **SAAR** (transfer pricing / the deduction section)
2 · Holdco in NTJ keeps dividends · 2A · later cross-border merger	No — business choice; timing / sequencing
3 · loss company merged into profit company	No — merger SAAR exists
4 · lease instead of buy	No — **but circular leasing** may be examined
5 · Subco deposit → bank → back-to-back loan to Indco	**Yes** — loan taxed as (deemed) dividend; interest disallowed; treaty relief to the bank may be denied
6 · Subco in NTJ lends its own equity back to Indco	**Yes** — round tripping; interest disallowed
7 · group service company at cost plus	No — transfer pricing
8 · JV shares held via a conduit in a treaty LTJ · 9 · conduit funded by parent sells shares after 5 years	**Yes** — no commercial substance (unless Circular 789 TRC / LOB applies)
10 · choosing the order of liquidation and sale	No — sequencing

[SM 622–628]

CIRCULAR 7/2017 · FAQ ANSWERS

- GAAR and **SAAR can co-exist**; if a treaty's **LOB** sufficiently addresses the avoidance, no GAAR. [SM 628]
- No interplay with the taxpayer's **choice of method**; not invoked merely because an entity is in a tax-efficient jurisdiction. [SM 628–629]
- Grandfathering covers bonus, split / consolidation and compulsory conversions of pre-1 April 2017 holdings — **not leases or loans**. [SM 629]
- Arrangement held permissible by the **AAR**, or sanctioned by a court that considered the tax effect → no GAAR. [SM 629]
- ₹3 crore: per arrangement, per AY, Indian tax only, all parties together. [SM 630]
- No corresponding adjustment for other parties; consistency across years; penalty not automatic (273A available). [SM 630–631]

MEMORY HOOKS

- **"3 crore, 2017, 6 months, HC judge."**
- **Purpose + taint = GAAR.** Incentive taken as the law intends = mitigation, not GAAR. Lies = evasion, not GAAR. Specific rule exists = SAAR first.

SM EXERCISE MCQs

1. GAAR applicable from **01-04-2018**.
2. Not applicable where aggregate tax benefit ≤ **₹3 crore**. [SM 632]

PRACTISE THESE

MCQs D23 (xi), J25 (xiii), D25 (xv), J26 (xv) · MQP (xv) · PTP (xv) · postal (v) · MCQ bank Q73, Q74, Q94, Q95, Q114 · SM short essays 1–2 (when GAAR does not apply; define IAA) · **ICMAI Practice Workbook: no problem on this module**.

Module 7 · CBDT and Other Authorities P15 · topics 7.1–7.9

SM pp. 323–333 (exercise 334). Asked rarely — J23 MCQ (v) and ICMAI MQP MCQ (vi) on the **powers of the CBDT u/s 119**; the postal paper has a 10-mark essay on the same. Learn s.119 well; the rest is MCQ reading. Expected 0–2 marks.

Paper	Question	Answer (from SM rules)
Jun'23 MCQ (v)	power NOT vested in the CBDT u/s 119(2): VI-A relaxation / set-off of losses relaxation / time limit for return / all	**(B) set-off of losses** — 119(2)(c) covers only Chapters IV and VI-A; s.139 is in the 119(2)(a) list
MQP MCQ (vi)	not a CBDT power	**(D) amend sections of the Act** — a circular cannot override the Act
Postal Q4(a)	describe the powers of the CBDT (10 marks)	write the five powers below + 119A charter

7.1–7.3 · AUTHORITIES AND THE BOARD

- **s.116 hierarchy**: CBDT → Pr. DGIT / Pr. CCIT → DGIT / CCIT → Pr. DIT / Pr. CIT → DIT / CIT / CIT(A) → Addl. → Joint (incl. JCIT(A)) → Deputy → Assistant → ITO → TRO → Inspector. [SM 323]
- **Assessing Officer** (s.2(7A)): AC / DC / AD / DD / ITO with jurisdiction, and an Addl. / Joint Commissioner or Director directed to act as AO. [SM 323]
- **s.117**: the Central Government appoints; it may authorise the Board, DG, CCIT, Director or Commissioner to appoint authorities **below the rank of AC / DC**, and staff. [SM 324]
- **CBDT**: statutory body under the **Central Boards of Revenue Act, 1963** (split from the 1924 Board with effect from 1.1.1964); Chairman + six Members (Income-tax; Legislation & Computerisation; Personnel & Vigilance; Investigation; Revenue; Audit & Judicial). [SM 325]

7.4–7.9 · JURISDICTION, TRANSFER, SUCCESSION

- **s.120**: powers per the Board's directions, by territory, persons, incomes or cases; concurrent jurisdiction possible. [SM 328]
- **s.124**: AO of the area where the business (principal place) is, or where the person resides. Dispute decided by the Pr. DG / DG / Pr. CCIT / CCIT / Pr. CIT / CIT (or the Board). Objection barred: return filed → **1 month** after notice u/s 142(1) / 143(2) or completion, earlier (⚠ SM prints "142(2)"; s.124(3)(a) reads 142(1)); no return → after time in the 142(1) / 148 / 144 notice; search → 1 month after the 153A / 153C notice. [SM 329]
- **s.127 transfer**: by the Pr. DG / DG / Pr. CCIT / CCIT / Pr. CIT / CIT between AOs under him — after a hearing where possible and **recording reasons**; different bosses → if they agree, the transferor; if not, the Board. **No hearing** if all offices are in the same city. Any stage; notices need not be re-issued; "case" covers past, pending and future years. [SM 330]
- **s.129**: successor continues from where left; assessee may demand to be **re-heard**. [SM 331]
- **s.130 faceless jurisdiction** (SM MCQ 2) and **s.293D faceless approval / registration** — team-based, dynamic jurisdiction, no interface. [SM 332–334]

POWERS OF THE CBDT (s.118, 119, 119A)

1. **Instructions** (119(1)) to all authorities for proper administration — but **never** to make a particular assessment or dispose of a case in a particular manner, nor to interfere with the **JCIT(A) / CIT(A)**'s appellate discretion. [SM 325–326]
2. **General / special orders** (119(2)(a)) for efficient assessment and collection, incl. **relaxing** ss. 115P, 115S, 139, 143, 144, 147, 148, 154, 155, 158BFA, 201(1A), 210, 211, 234A–234C, 234E, 234F, 270A, 271, 271C, 271CA, 273 — for classes of incomes / cases; **not prejudicial to the assessee**; may be published. [SM 326]
3. **Condone delay** (119(2)(b)): admit a late application or claim for exemption, deduction, refund or other relief to avoid **genuine hardship** — directed to any authority except the JCIT(A) / CIT(A). [SM 326]
4. **Relax Chapter IV / VI-A requirements** (119(2)(c)) with reasons, for genuine hardship, if the default was **beyond the assessee's control** and he complied **before completion of the assessment**; laid before Parliament. [SM 326]
5. **Control** (s.118): by notification, make any authority subordinate to another. [SM 327]

A circular or instruction u/s 119 **cannot override the Act**. **s.119A**: the Board must adopt and declare a **Taxpayer's Charter** and issue directions to implement it. [SM 327]

DEC'26 SUPPLEMENTARY · DIN

The CBDT has mandated a computer-generated Document Identification Number on every communication (Circular 4/2026) — details in the M2 notes. [Supp D26 p.2]

MEMORY HOOK

"Board may guide, relax, condone, subordinate — never decide a case, never bind the CIT(A), never amend the Act."

SM EXERCISE MCQs

1. CBDT = **Central Board of Direct Taxes**.
2. s.130 = **faceless jurisdiction** of income-tax authorities. [SM 334]

PRACTISE THESE

J23 MCQ (v) · MQP MCQ (vi) · postal Q4(a) · MCQ bank Q27, Q28, Q168 · SM short essays 1–2 (powers of the CBDT; s.127 transfer) · **ICMAI Practice Workbook: no problem on this module**.

Module 8 · Tonnage Tax, Special Cases, Cash Rules P15 · topics 8.1–8.6

SM pp. 337–357 (exercise 358). Past questions were all on **equalisation levy** (J23 MCQ + Q6(b), D23 MCQ, postal MCQ) — which the SM now says no longer applies. Remaining MCQ material: 269SS / 269ST / 269T limits (MQP MCQ (vii)), liquidator (s.178), representative assessees, tonnage tax. Expected 0–2 marks.

⚠ EQUALISATION LEVY · DO NOT LEARN THE OLD ANSWERS

SM: **"Equalisation levy is not applicable from 01.08.2024"** — no EL rules are printed. [SM 357]

Not in the SM: 1 August 2024 ended the 2% levy on e-commerce supply (J23 Q6(b)); the 6% levy on online advertisement (D23 MCQ: ₹5 lakhs × 6% = ₹30,000; postal MCQ (iv)) was removed by the Finance Act 2025 from 1 April 2025. So for A.Y. 2026-27 no EL applies. If an EL question still appears, state that it no longer applies, and add the old-law working only if the question asks for it.

8.1 · TONNAGE TAX SCHEME (ss. 115V–115VZC)

- **Presumptive**: notional income from the ship's net tonnage, taxed at the normal corporate rate; **payable even in a loss year**. Option locked in for **10 years**; opting out or expulsion bars re-entry for 10 years. [SM 337]
- **Qualifying company** (115VC): Indian company, **POEM in India**, owns at least one qualifying ship, main object = operating ships. [SM 339]
- **Qualifying ship** (115VD): sea-going ship or inland vessel of **15 net tonnage or more**, registered (Merchant Shipping Act 1958 / licensed / Inland Vessels Act 2021), valid tonnage certificate; **excludes** factory ships, pleasure crafts, harbour and river ferries, ships giving land-type services, off-shore installations, fishing vessels (and a ship used for fishing over 30 days). [SM 338–339]
- Not an operator of a ship chartered out on bareboat (cum-demise) terms for over 3 years (115VB). [SM 338]
- Separate tonnage tax business and accounts; tonnage income replaces **relevant shipping income** (core + incidental; incidental above **¼% of core turnover** is taxed normally); a loss in relevant shipping income is ignored. [SM 339–341]
- **No deduction, set-off, VI-A**; ss. 30–43B and depreciation **deemed** allowed (115VL); pre-scheme losses deemed set off (115VM); **excluded from MAT** (115VO). [SM 340–341]
- Conditions: reserve of **20% of book profit** for new ships (115VT); training (expelled if not met for 5 consecutive years); chartering-in limit **49%**; separate audited accounts. [SM 337–338]

DAILY TONNAGE INCOME (s.115VG)

Net tonnage	Daily tonnage income
up to 1,000	₹70 for each 100 tons
1,000 – 10,000	₹700 + ₹53 per 100 tons above 1,000
10,000 – 25,000	₹5,470 + ₹42 per 100 tons above 10,000
above 25,000	₹11,770 + ₹29 per 100 tons above 25,000

× days operated in the year. Round tonnage to the nearest 100 (ignore kg; last figure 50 tons or more → up, else down). [SM 340]

WORKED PATTERN (OUR WORKING — SM HAS NO ILLUSTRATION) · CHECKED BY SCRIPT

Net tonnage 15,150.6 → ignore kg → 15,150 → round up	15,200
Daily: 5,470 + 42 × 52	7,654
Annual tonnage income × 365 days	**27,93,710**

Trap: 15,149 tons rounds **down** to 15,100 → ₹7,612 a day.

JUN'26 SUPPLEMENTARY · TONNAGE TAX

- **Inland vessels** (Inland Vessels Act, 2021) now qualify (115V, 115VD). [Supp J26 p.21]
- s.115VP(4): JCIT's order on the option — for applications from 1st April 2025, within **3 months from the end of the quarter** of receipt (was 1 month from the end of the month). [Supp J26 p.20–21]

8.2–8.5 · LIABILITY IN SPECIAL CASES

- **Legal representative** (s.159): pays what the deceased owed, **limited to the estate** — personally liable if he charges or disposes of estate assets while tax is unpaid (up to their value); pending proceedings continue against him; he is deemed an assessee. Death of a Karta: HUF continues, s.159 only for his own income. [SM 342]
- **Executor** (s.168): estate income taxed as an **individual** (one executor) or **AOP** (more than one); residence = the deceased's in the year of death; separate assessments till distribution; income given to a specific legatee is taxed in his hands; executor recovers tax from the estate (s.169). [SM 343]
- **Representative assessee** (s.160): agent of a non-resident (incl. s.163 agent); guardian / manager of a minor, lunatic or idiot; Court of Wards, Administrator-General, Official

CASH TRANSACTION RULES (MQP MCQ (vii))

Section	Rule	Penalty
269SS take	loan / deposit / specified sum (immovable property advance) of **₹20,000 or more** (incl. balance outstanding) only by a/c-payee cheque / draft / ECS / e-mode; **₹2,00,000** for a primary agricultural credit society or primary co-operative agricultural and rural development bank and its members	271D: amount taken

Trustee, court-appointed receiver; trustees under a written or oral trust. Same liabilities, assessed only in that capacity (s.161); may recover or retain the tax, with an AO certificate if disputed (s.162); direct assessment of the beneficiary not barred (s.166); remedies against property (s.167). [SM 344–345]

- **Liquidator** (s.178; SM MCQ 1): notify the AO within **30 days** of appointment; AO notifies the amount to be set aside within **3 months**; no parting with assets meanwhile (except tax, secured creditors with priority, reasonable winding-up costs); default → **personally liable up to the notified amount**; joint and several; overrides other laws except the **IBC 2016**. [SM 346]
- **Directors of a private company** (s.179): jointly and severally liable for its unrecoverable tax (incl. penalty, interest) of years they were directors — unless no gross neglect, misfeasance or breach of duty. [SM 347]

8.6 · INCOME TAXED IN THE SAME YEAR

s.174 person leaving India (notice ≥ 7 days) · **s.174A** AOP / BOI / AJP formed for a short period · **s.175** person likely to transfer assets to avoid tax · **s.176** discontinued business (notice of discontinuance within **15 days**; later receipts taxed when received) · **s.177** dissolved AOP — members jointly and severally liable. [SM 348–349]

MCQ ANSWERS

1. SM MCQ 1: 178(3) duty is the **liquidator**'s. SM MCQ 2: 269SS threshold **₹20,000**. [SM 358]
2. MQP MCQ (vii): loan from a primary agricultural credit society to its member → **₹2,00,000** (ICMAI key B).
3. J23 MCQ (vii) (old law): an individual's website advert for selling his own house — not for business, so no equalisation levy.

MEMORY HOOKS

- **"20k take, 2 lakh receive"** — 269SS / 269T at ₹20,000; 269ST at ₹2,00,000; co-op farm credit lifts 20k to 2 lakh.
- Tonnage: **15 tons, 10 years, 20% reserve, 49% charter, no MAT**.
- Liquidator: **30 days to tell, 3 months to hear**.

PRACTISE THESE

MQP MCQ (vii) · SM MCQs 1–2 · MCQ bank Q29, Q30, Q111, Q112, Q113, Q147 (check each for equalisation levy — now obsolete) · SM short essays 1–3 (tonnage tax; representative assessee; liquidator) · **ICMAI Practice Workbook: no problem on this module**.

269ST receive	**₹2,00,000 or more** from a person in a day / one transaction / one event — not in cash	271DA: amount received
269T repay	loan / deposit / specified advance with interest ₹20,000 or more (₹2,00,000 for the co-operative cases)	271E: amount repaid
269SU	turnover above **₹50 crores** in the preceding year → offer prescribed e-payment modes	271DB: ₹5,000 a day

Exempt: Government, banks, post-office savings banks, co-operative banks, statutory corporations, Government companies, notified bodies; 269SS also where both parties have only agricultural income. 269ST: one NBFC / HFC instalment = one transaction (Circular 22/2017). [SM 350–353]

The SM says the 271D penalty is imposed by the Joint Commissioner; the Jun'26 supplementary moved 271C–271E to the AO (see M4).

OTHER PROVISIONS

- Notices after HUF partition → last manager (or all adult members); dissolved firm / AOP → any partner (not minor) / member (s.283); discontinued business (s.284). [SM 353]
- Non-resident's **liaison office** statement Form 49C (s.285); Indian concern of an indirect-transfer entity Form 49D (s.285A); film producers / event managers report payments over **₹50,000** (s.285B). [SM 353]
- Publication of names (s.287) only after the appeal time for a penalty; registered valuer may appear (287A). [SM 354]
- **Authorised representative** (s.288): relative / employee, bank officer, legal practitioner, CA, holder of a recognised accountancy exam (incl. **ICWAI final**), commerce / law graduate …; disqualified: dismissed government servant (always), fraud conviction (10 years), insolvent (while insolvent); appeal to the Board within 1 month. [SM 354–357]

JUN'26 SUPPLEMENTARY · s.285BAA

New duty for prescribed reporting entities to report **crypto-asset** transactions; defects to be cured within 30 days of intimation. [Supp J26 p.28]