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.