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