

# **Final Course Study Material (Modules 1 to 4)**

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## **Paper 4**

# **Direct Tax Laws & International Taxation**

**[Direct Tax Laws as amended by the Finance (No.2) Act, 2024]  
Assessment Year 2025-26**

## **Module – 1**

**(Relevant for May, 2025 and  
November, 2025 examinations)**



**BOARD OF STUDIES**

**THE INSTITUTE OF CHARTERED ACCOUNTANTS OF INDIA**

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## BEFORE WE BEGIN ...

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### Direct Tax Laws & International Taxation: Dynamic Subject Area

Direct Tax Laws & International Taxation is one of the dynamic subjects of the chartered accountancy course. The direct tax laws of the country undergo significant changes every year with the passing of the annual Finance Act. Apart from these significant amendments ushered in every year through the Finance Act, notifications and circulars are also issued from time to time by the Central Board of Direct Taxes (CBDT), the statutory authority in charge with the administration of direct taxes, to implement the provisions of the Act and clarify issues regarding the meaning and scope of certain provisions. Further, decisions are pronounced by various Courts interpreting the provisions of tax laws.

With increased cross border transactions and the whole world virtually becoming one market, there is a need for chartered accountants to enhance their knowledge base in international taxation. Countries across the globe are entering into tax treaties to avoid double taxation of a single transaction. In a highly advanced IT enabled business scenario where an entity operates from many establishments spread throughout the globe, chartered accountants have to be well versed with the nuances of international taxation to be able to give an informed and correct advice and ensure compliance with tax laws. Accordingly, international taxation has been included as an integral part of this paper.

The contents of the syllabi of this paper is divided into three parts –

1. Chapters based on substantive law of direct taxes including tax planning and tax avoidance;
2. Chapters based on the compliance and procedural law of direct taxes; and
3. Chapters based on international taxation.

### The relevant Finance Act and Assessment Year

This Study Material is based on the provisions of direct tax laws, as amended by the Finance (No. 2) Act, 2024 and the significant notifications, circulars issued and other legislative amendments made upto 31<sup>st</sup> October, 2024. The computational problems have been solved on the basis of the provisions of direct tax laws applicable for A.Y.2025-26. The Study Material is, therefore, relevant for May 2025 and November, 2025 examinations. In this Study Material, the amendments made by the Finance (No. 2) Act, 2024 and latest notifications and circulars issued have been indicated in *italics/bold italics*.

The significant circulars and notifications issued and other legislative amendments, if any, made upto 31<sup>st</sup> October, 2024, relevant for May, 2025 Examination, but not covered in the study material would be webhosted as Statutory Update for May, 2025 examination in the BoS Knowledge Portal. Likewise, the significant circulars and notifications issued and other legislative amendments, if any, made upto 30<sup>th</sup> April, 2025, relevant for November, 2025 Examination, but not covered in the study material would be webhosted as Statutory Update for November, 2025 examination. The Judicial Update containing latest significant court rulings relevant for May, 2025 and November, 2025 examination would also be webhosted at the BOS Knowledge Portal.

### **Read the Bare Act & Rules along with Study Material**

At the Final level, along with the Study Material, students are also advised to read the Income-tax Act, 1961 and Income-tax Rules, 1962, available at the website of the income-tax department [www.incometaxindia.gov.in](http://www.incometaxindia.gov.in). This will help understand the language of law and sequence of sections and rules. The circulars and notifications issued by CBDT, the income-tax return forms, important provisions relating to firms, companies, trusts, FAQs etc. are also available at this website. Students are advised to visit the income-tax department's website and enhance their knowledge.

### **Framework of Chapters: Uniform Structure comprising of specific components**

Efforts have been made to present the complex direct tax laws in a lucid manner. Care has been taken to present the chapters in a logical sequence to facilitate easy understanding by the students. The Study Material has been divided into four modules for ease of handling by students. The first three modules are on direct tax laws and the fourth module is on international taxation.

Each chapter of the Study Material has been structured uniformly and comprises of the following components:

<b>Components of each Chapter</b>		<b>About the component</b>
1	<b>Learning Outcomes</b>	Learning outcomes which you need to demonstrate after learning each topic have been detailed in the first page of each chapter. Demonstration of these learning outcomes would help you achieve the desired level of technical competence
2	<b>Content</b>	The concepts and provisions of direct tax laws and international taxation are explained in a student-friendly manner with the aid of examples/illustrations/diagrams/flow charts. Diagrams and Flow charts would help you understand and retain the concept/ provision learnt in a better manner. Examples and illustrations would help you understand the application of concepts/provisions. These value additions would,

		thus, help you develop conceptual clarity and get a good grasp of the topic.
3	<b>Significant Select Cases</b>	<p>The summary of recent significant select Supreme Court and High Court rulings have been tabulated at the end of each chapter capturing the gist of the Court decisions interpreting the provisions of tax laws.</p> <p>In addition, case laws (including recent case laws) also form part of the discussion of topics in the content as well as in the questions and answers in “Test Your Knowledge” component.</p> <p>Questions on “Significant Select Cases” in direct tax laws have been given at the end of Module 3 to enable you to apply the rationale of court rulings in addressing issues.</p>
4	<b>Test Your Knowledge</b>	The questions and answers at the end of each chapter would help you to analyse the provisions of direct tax laws and international taxation and apply the same in problem solving, thus, sharpening your application skills. In effect, these questions would test your ability to analyse and apply the concepts/provisions learnt in solving problems and addressing issues.

We hope that these student-friendly features in the Study Material improves your learning curve and sharpens your analytical and interpretational skills.

***Happy Reading and Best Wishes!***

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

*(One paper — Three hours –100 Marks)*

**Objective:**

- (a) To acquire the ability to analyse and interpret the provisions of direct tax laws and recommend optimal solutions to practical problems in a tax efficient manner; and
- (b) To apply the provisions of direct tax laws and the concepts, principles and provisions of international taxation to recommend solutions to issues involved in cross border transactions.

**Contents:**

- I. (i) Comprehensive computation of income-tax liabilities of companies and other entities under the alternative tax regimes under the Income-tax Act, 1961 to optimise tax liability
    - General provisions under the Act for computation of total income and tax liability for companies and other entities
    - Special tax regimes under the Act for companies and other entities
    - Optimisation of tax liability of companies and other entities through tax planning
  - (ii) Special Provisions relating to charitable and religious trust and institutions, political parties and electoral trusts, business trusts, securitisation trusts, investment funds and other funds/trusts
  - (iii) Anti-avoidance provisions under the Act
  - (iv) Provisions to address tax challenges on digitalization
- II. Tax Administration and Appellate Mechanism**
- Deduction, Collection and Recovery of Tax
  - Income-tax Authorities
  - Assessment Procedures
  - Appeals and Revision; and Dispute Resolution
  - Provisions to counteract unethical tax practices
    - Taxation of undisclosed income under the Income-tax Act, 1961

- Taxation of undisclosed foreign income and assets
- Penalties and offences and prosecution

Miscellaneous Provisions

Tax Audit

### III. International Taxation

- (i) Taxation of cross border transactions and Non-resident taxation under the Income-tax Act, 1961, including
  - Transfer Pricing
  - Non-resident Taxation
  - Double Taxation Relief
  - Advance Ruling
- (ii) Other Aspects of International Taxation, namely,
  - Significant articles of OECD and UN Model Tax Conventions
  - Fundamentals of BEPS
  - Application and Interpretation of Tax Treaties
  - Latest developments in international taxation

**Note:** If any new legislation(s) are enacted in place of an existing legislation(s), the syllabus will accordingly include the corresponding provisions of such new legislation(s) in the place of the existing legislation(s) with effect from the date to be notified by the Institute. Similarly, if any existing legislation(s) on direct tax laws ceases to be in force, the syllabus will accordingly exclude such legislation(s) with effect from the date to be notified by the Institute.

Further, the specific inclusions/exclusions in any topic covered in the syllabus will be effected by way of Study Guidelines every year, if required. Specific inclusions/exclusions in a topic may also arise due to additions/deletions made every year by the Annual Finance Act.

## OVERVIEW OF SELECTED KEY AMENDMENTS MADE BY THE FINANCE (NO. 2) ACT, 2024

This edition of the study material on Direct Tax Laws & International Taxation has been meticulously updated in line with the Direct Tax Laws, as amended by the Finance (No. 2) Act, 2024 along with significant Notifications and Circulars issued upto 31.10.2024. It is specifically designed for A.Y. 2025-26 and is applicable for May 2025 and November 2025 examinations.

The amendments made by the Finance (No.2) Act, 2024, significant Notifications and Circulars issued upto 31.10.2024 have been incorporated in this material. Accordingly, the content including tabular presentations, diagrams, flow charts etc have been added, deleted, modified on the basis of provisions of direct tax laws applicable for A.Y. 2025-26. Additionally, examples, illustrations given during the discussion, significant select cases of Supreme Court and High Court rulings forming part of the discussion or contained in the questions and tabulated at the end of each chapter and "Test Your Knowledge" questions have been updated, deleted or modified in accordance with these amendments.

While the amended provisions are distinctly highlighted in *italics/bold and italics* throughout the material for easy access and quick reference, the concise summary of some of the **key amendments** introduced by the Finance (No. 2) Act, 2024 are given here below:

- ✚ **Default Tax Regime [Section 115BAC]** - Significant changes have been made to the default tax regime under section 115BAC, with the objective of making it more beneficial and appealing for taxpayers. The tax slabs under the Default Tax Regime have been restructured as follows:

Total income	Rate of tax
Upto ₹ 3,00,000	Nil
From ₹ 3,00,001 to ₹ 7,00,000	5%
From ₹ 7,00,001 to ₹ 10,00,000	10%
From ₹ 10,00,001 to ₹ 12,00,000	15%
From ₹ 12,00,001 to ₹ 15,00,000	20%
Above ₹ 15,00,000	30%

Under the Default Tax Regime, the standard deduction available to salaried employees has been enhanced from ₹ 50,000 to ₹ 75,000. Additionally, the maximum deduction for family



pension has been increased from ₹ 15,000 to ₹ 25,000. For non-government employees, the permissible deduction for employer's contributions to the National Pension System (NPS) has been raised from 10% to 14% of the employee's salary, applicable exclusively under this regime.

- ✚ **Reduction of tax rate applicable to foreign companies:** The rate of income-tax chargeable on total income of a foreign company (other than that chargeable at special rates) reduced from 40% to 35%.
- ✚ **Increase in deduction limit in respect of remuneration to working partners of a firm:** The limit for computing the allowable deduction in respect of remuneration paid to working partners has been increased. Accordingly, new limits are:

On the first ₹ 6,00,000 of the book-profit or in case of a loss	Higher of ₹ 3,00,000, or 90% of the book-profit
On the balance book profit	60%

- ✚ **Income from letting out of residential house property:** Any income from letting out of a residential house or part thereof by the owner would be chargeable to tax only under the head 'Income from house property' and not under the head 'Profits and gains of business or profession'.
- ✚ **Period of holding for classifying capital asset as long term or short term:** W.e.f. 23.7.2024, there are only two period of holding for classifying a capital asset as long-term or short-term, 12 months for all listed securities and 24 months for all other assets. Consequently, the period of holding for units of listed business trust has been changed from 36 months to 12 months which is now at par with listed equity shares.
- ✚ **Increase in tax rate on STCG on specified financial assets -** The tax rate on short term capital gains on specified financial assets (STT paid equity shares, units of equity-oriented fund and units of a business trust) under section 111A has been increased from 15% to 20% with effect from 23.7.2024. However, there is no change in the tax rate for other short term capital gains.
- ✚ **Uniform tax rate on LTCG -** In respect of all long-term capital gains whether taxable under section 112 or on specified financial assets under section 112A, a uniform tax rate of 12.5% would be applicable (except unlisted debentures and bonds) w.e.f. 23.7.2024.

- ✚ **Increased exemption limit under section 112A:** The exemption limit for long term capital gains on specified financial assets under section 112A has been increased from ₹ 1 lakh per year to ₹ 1.25 lakh per year.
- ✚ **Capping of Indexation for Certain Long-Term Capital Gains:** W.e.f. 23.7.2024, the indexation benefit available on transfer of certain long term capital assets has been removed. However, grand fathering being allowed in respect of long-term capital gain arising to resident individual or HUF on transfer of land or building or both acquired before 23.7.2024.
- ✚ **Abolition of Angel Tax:** Where capital is raised by closely held companies through the issuance of shares and the consideration for issue of shares exceeds the face value of such shares, the excess of consideration received over the fair market value of the shares, was taxed under section 56(2)(viib). In order to boost the start-ups, the angel tax, as it is commonly referred to, is abolished.
- ✚ **Tax on Buy-back of shares:** The income from buy-back of shares by domestic companies on or after 1.10.2024 is now taxable in the hands of recipient investor as dividend. Upto 30.9.2024, additional income-tax is attracted in the hands of the domestic company and consequently, income on buyback of shares is exempt in the hands of shareholders under section 10(34A). Accordingly, w.e.f. 1.10.2024, TDS@10% would be attracted in respect of dividend arising on account of buy back of shares in the hands of shareholders.
- ✚ **No application for approval under First Regime:** The Income-tax Act, 1961 puts in place two main regimes for trusts or funds or institutions to claim exemption. The first regime is contained in section 10(23C)(iv), (v), (vi) or (via). The second regime is contained in the provisions of sections 11 to 13. In order to simplify the procedures for approvals or registration of trusts or institutions and to reduce administrative burden, w.e.f. 1st October, 2024, no application can be filed for approval under first regime.
- ✚ **Withdrawal of Equalisation Levy on e-commerce supply or services:** Equalisation Levy @ 2% of consideration received for e-commerce supply of goods or services from 1st August 2024 has been withdrawn. Consequently, this study material does not contain any discussion regarding it.
- ✚ **Reduction in tax deducted at source (TDS) rates:** The rate of TDS under section 194D, 194DA, 194G, 194H, 194-IB, 194M have been reduced from 5% to 2% from 1.10.2024 (in case of section 194D, from 1.4.2025). Moreover, TDS rate on e-commerce operators under section 194-O is also reduced from 1% to 0.1% on gross amount of sales or services or both. This is in line with the objective of TDS serving as an audit trail rather than as a revenue garnering measure.

- ✚ **TCS on notified luxury goods:** To enable TCS on luxury goods, the scope of section 206C(1F) has been expanded w.e.f. 1<sup>st</sup> January 2025 to levy TCS of 1% on notified goods of value exceeding ₹ 10 lakhs.
- ✚ **Re-introduction of block assessment scheme for search and seizure cases:** A scheme of block assessment for search cases has been re-introduced w.e.f. 1<sup>st</sup> September 2024. The block period would be six previous years preceding the previous year in which the search was initiated, or any requisition was made and also include the period up to the date of conclusion of search or such requisition. The applicable rate of tax would be 60%. Further, penalty at 50% of the said tax would be leviable, unless the same is disclosed in the return filed pursuant to search.
- ✚ **Revision in the time-limit for filing appeals to the ITAT:** The time limit for filing appeal before the ITAT has been amended w.e.f. 1<sup>st</sup> October 2024 from 'within sixty days of the date on which the order sought to be appealed against is communicated to the assessee or to the PCIT/CIT, as the case may be' to "within two months from the end of the month in which the order sought to be appealed against is communicated to the assessee or to the PCIT/CIT, as the case may be".
- ✚ **Introduction of presumptive income scheme for cruise ship operations by non-residents:** New section 44BBC has been inserted to provide for presumptive income @20% of the aggregate amount received/ receivable by, or paid/ payable to, the non-resident cruise-ship operator, on account of the carriage of passengers, as profits and gains of such cruise-ship operator from this business.
- ✚ **Parity in taxation between resident and non-resident assesses:** To bring parity of taxation between residents and non-residents, corresponding amendments to section 115AD, 115AB, 115AC, 115ACA and 115E have been made to align the rates of taxation in respect of long-term capital gains taxable under section 112A and 112 and rates of short term capital gains taxable under section 111A.

The above coverage provides only a concise overview of the significant select amendments made by the Finance (No. 2) Act, 2024. To fully grasp the scope and application of the amendments introduced by the Finance (No. 2) Act, 2024 along with Notification and Circulars, it is imperative to refer to the detailed discussions including tabular presentations, flow charts, examples, illustrations, significant select cases, test your knowledge questions provided in the respective chapters. Therefore, students are advised to refer the chapters thoroughly for comprehensive study and effective preparation for their examinations.

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