



## **PAPER – 4:**

# **DIRECT TAX LAWS & INTERNATIONAL TAXATION**

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The provisions of direct tax laws, as amended by the Finance (No. 2) Act, 2024 and the significant notifications and circulars issued upto 28.02.2025, are relevant for September 2025 examination. The relevant assessment year is A.Y.2025-26. The November, 2024 edition of the Study Material contains the provisions of direct tax laws as amended by the Finance (No. 2) Act, 2024 and notifications and circulars issued upto 31.10.2024. The said study material has to be read along with the Statutory Update containing notifications and circulars issued upto 28.02.2025 but not covered in the study material webhosted at <https://resource.cdn.icai.org/86345bos-aps947-statutory-fnl-sep2025.pdf> and Judicial Update for September, 2025 Examination webhosted at <https://resource.cdn.icai.org/86374bos-aps978-judicial-update-sep2025.pdf>



## **QUESTIONS**

### **Case Scenario I**

Sugam (P) Ltd., Mumbai is engaged in manufacture of ceiling fans and exporting the same to various associated and other enterprises worldwide. The income tax assessment for A.Y. 2022-23 was completed by making reference to the TPO who enhanced the arm's length price of the international transaction by ₹ 855 lakhs. The company applied for APA in March 2024 which was signed in July 2024. The tax assessment for the A.Y. 2021-22 regarding ALP of international transaction was disputed before the Tribunal which set aside the order for fresh consideration by the Assessing Officer in June 2024. The company also applied for rollback benefit which was agreed and signed in December 2024. If the APA is applied, the ALP determined for the A.Y.2022-23 would get enhanced by ₹ 580 lakhs as against ₹ 855 lakhs originally determined by TPO.

Sugam (P) Ltd. has an associated enterprise by name Fiber Inc. in Australia. Fiber Inc. wants to appoint an agent in India to procure raw materials from India for the purpose of manufacture of its products in Germany. The persons/ entity so appointed would be authorized to enter into contracts on its behalf after negotiations with the suppliers.

Sugam (P) Ltd. borrowed USD 100 lakhs from Triple Inc. USA on 1st July 2019 under a loan agreement approved by the Central Government. Interest is payable half yearly in foreign currency @ 4% per annum, on every half year i.e. on 31st December and 30th June. For the half year ended 31st December 2024, interest was paid on 28th February 2025 after deducting tax on source.

TT buying rate of SBI on various dates are: 31<sup>st</sup> December, 2024 - 1 USD = ₹ 72; 31st January, 2025 - 1 USD = ₹ 73; 28th February, 2025 - 1 USD = ₹ 72.50; 31<sup>st</sup> March 2025-1 USD = ₹ 74.

Sugam (P) Ltd. exported its products to unrelated party Midland Ltd., Canada. Sugam (P) Ltd. did not maintain prescribed document and information in respect of sales made to Midland Ltd. During the financial year 2024-25, the aggregate sale made by Sugam (P) Ltd. to Midland Ltd., was ₹ 12 crores.

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

1. For which of the following Assessment Years, can the company validly claim rollback benefit under the Advance Pricing Agreement (APA) provisions?
  - (a) A.Y. 2021-22, A.Y. 2022-23, A.Y. 2023-24, A.Y. 2024-25
  - (b) A.Y. 2022-23, A.Y. 2023-24, A.Y. 2024-25, A.Y. 2025-26
  - (c) A.Y. 2021-22, A.Y. 2023-24, A.Y. 2024-25
  - (d) A.Y. 2022-23, A.Y. 2023-24, A.Y. 2024-25
2. What is the time limit for filing the modified return of income in respect of rollback years under the APA provisions?
  - (a) Within 3 months from the end of the month in which the original APA was signed, i.e., 30th October 2024
  - (b) Within 3 months from the end of the month in which the rollback agreement was signed, i.e., 31<sup>st</sup> March 2025

- (c) Within 6 months from the end of the financial year in which original APA was signed, i.e., 30th September 2025
  - (d) On or before the original due date of filing return of income for rollback years
3. Which of the following statements is **correct** regarding the adjustment of Arm's Length Price (ALP) for A.Y. 2022-23 based on the APA and TPO's original determination?
- (a) ALP adjustment of ₹ 855 lakhs has to be made for A.Y. 2022-23 as the adjustment based on APA of ₹ 580 lakhs results in reducing the total income of the company compared to the TPO's adjustment of ₹ 855 lakhs, thereby disqualifying rollback provisions.
  - (b) ALP adjustment of ₹ 580 lakhs has to be made for A.Y. 2022-23 even though it is less than the TPO's original adjustment of ₹ 855 lakhs since it does not reduce total income as declared in the return of income.
  - (c) ALP adjustment of ₹ 855 lakhs has to be made for A.Y. 2022-23 as rollback provisions cannot be applied for A.Y. 2022-23.
  - (d) ALP adjustment of ₹ 855 lakhs has to be made for A.Y. 2022-23 as the ALP is already determined by the TPO.
4. How much is the amount of tax deductible at source by Sugam (P) Ltd. on interest paid to Triple Inc. on 28th February 2025?
- (a) ₹ 7,63,776
  - (b) ₹ 7,74,384
  - (c) ₹ 7,69,080
  - (d) ₹ 61,10,208
5. In which of the following instances, business connection would not get established for Fiber Inc. in India?
- (a) Opening a branch in Pune for carrying on business in India.
  - (b) Opening a liaison office in New Delhi for finalizing the contracts for supply of raw materials by the suppliers.

- (c) Appointing Mr. X as an agent in Kolkata for interacting with potential customers for promoting the company's products. Mr. X acts as an agent in India for several other companies, which are not related in any manner to Fiber Inc.
- (d) Appointing Mr. Y as an agent in Mumbai for finalizing contracts with the customers on its behalf. Mr. Y acts exclusively for Fiber Inc.
6. How much would be the quantum of penalty leviable on Sugam (P) Ltd. for failure to keep and maintain documents in respect of its transactions with Midland Ltd?
- (a) ₹ 1,00,000
- (b) ₹ 12,00,000
- (c) ₹ 24,00,000
- (d) NIL

### Case Scenario II

Timely Payment Limited is engaged in manufacturing and distribution of clocks and watches. It has committed multiple offences over different financial years. The details of the application made for compounding of such offences and their status is given below:

Application Date	Status	Details
10/01/2021	Compounded	Offence u/s 276B for F.Y. 2015-16
15/12/2022	Compounded	Offence u/s 276C(1) for F.Y. 2018-19
14/09/2023	Rejected	Compounding application for offence u/s 276B for F.Y. 2016-17 – rejected due to non payment of tax
20/07/2024	Pending	Application filed for offence u/s 276CC for F.Y. 2019-20 – not disposed of till 17.10.2024
15/11/2024	Consolidated application	Fresh application filed covering: <ul style="list-style-type: none"> <li>Offence u/s 276B for F.Y. 2016-17</li> </ul>

		<ul style="list-style-type: none"> <li>• Offence u/s 276C(1) for F.Y. 2021-22</li> <li>• Offence u/s 275A for F.Y. 2023-24</li> </ul>
18/12/2024	New application	Application for offence u/s 276B for F.Y. 2022-23. Prosecution initiated on 10/ 08/ 2023

**Other Relevant Facts:**

- All dues including tax, interest, penalty have been paid before filing the application.
- The applicant has filed necessary undertakings and agreed to withdraw related appeals.
- Compounding application fees of ₹ 50,000 and ₹ 25,000 were paid for consolidated and single applications, respectively.

The company has delayed in depositing the tax deducted at source for the first quarter of F.Y. 2024-25 of ₹ 1,25,00,000 for 135 days. However, no prosecution proceedings yet commenced for such offence. Company has paid all TDS, interest, penalty etc.

Assume that the normal compounding charges in each of the above offence is ₹ 45,000.

**From the information given above, choose the most appropriate answer of MCQs 7 to 11:**

7. As per the guidelines of compounding of offences, how will the application dated 20/07/2024 (pending as on 17.10.2024) be treated?
- It will be treated as debarred, and company has to file a fresh application under revised guidelines and pay fresh application fees.
  - It will be disposed of as per previous guidelines.
  - It will be treated as the first application under revised guidelines and no fees is required to be paid.
  - It will be rejected automatically since it was filed under previous guidelines.

8. What rate of compounding charges shall be applicable on compounding the offence u/s 275A for F.Y. 2023-24 included in the consolidated application?
- (a) Normal rate
  - (b) 1.2 times of compounding charges
  - (c) 1.4 times of normal rate
  - (d) Not a compoundable offence
9. What rate of compounding charges shall be applicable on compounding the offence u/s 276B for F.Y. 2016-17 included in the consolidated application?
- (a) Normal rate
  - (b) 1.2 times of compounding charges
  - (c) 1.4 times of normal rate
  - (d) Not compoundable, as it was previously rejected due to non payment of tax
10. What would be compounding charges for application filed on 18.12.2024 for offence u/s 276B for F.Y. 2022-23?
- (a) ₹ 81,000
  - (b) ₹ 45,000
  - (c) ₹ 94,500
  - (d) ₹ 67,500
11. Whether application for compounding of offence can be filed for the third quarter of F.Y. 2024-25?
- (a) No, application for compounding can be filed only after initiation of prosecution proceeding.
  - (b) No, application for compounding cannot be filed for offence related to delay in deposit of TDS
  - (c) Yes, application for compounding can be filed by the company even if prosecution proceedings are not yet commenced.

- (d) Since company has already paid the TDS, interest and penalty etc., no further action is required for F.Y. 2024-25.
12. A search is conducted by the Income-tax department in India in the premises of Mr. Surya Prakash on 25.3.2025 and it has come to the notice of the department that Mr. Surya Prakash has earned income to the tune of ₹ 5 lakhs in country X during the previous year 2020-21. Further, Income-tax department noticed the existence of undisclosed gold jewellery which was purchased on 21-4-2022. Neither this income, nor the asset in question, has any bearing to income chargeable under the provisions of the Income-tax Act, 1961. The jewellery had been purchased for ₹ 4.2 lakhs. Its value as per report of Valuer recognized by the Government is ₹ 5.2 lakhs as on 1.4.2024 and ₹ 5.3 lakhs as on 25.3.2025.

Which of the following statements is correct, with reference to the taxability of the impugned items in the hands of Mr. Surya Prakash in India under the Black Money (Undisclosed Foreign Income and Assets) and Imposition of Tax Act, 2015 (BM Act)?

- (i) Both undisclosed income and undisclosed asset would be taxable in the P.Y.2024-25
- (ii) Undisclosed asset is taxable in the P.Y.2022-23 and undisclosed income in the P.Y.2020-21
- (iii) Undisclosed asset is taxable in the P.Y.2024-25 and undisclosed income in the P.Y.2020-21
- (iv) The value of undisclosed asset is ₹ 4.2 lakhs
- (v) The value of undisclosed asset is ₹ 5.2 lakhs
- (vi) The value of undisclosed asset is ₹ 5.3 lakhs

The correct answer is –

- (a) (i) and (v)
- (b) (ii) and (iv)
- (c) (iii) and (v)
- (d) (i) and (vi)

13. Peter Pte. Ltd., Singapore (a Foreign Institutional Investor) is a subsidiary company of Zoom Ltd. based on U.K. Peter Pte. Ltd. commenced its activities in India from 01<sup>st</sup> December, 2024. On 31st March 2025, it earned short term capital gains of ₹ 70 lakhs on transfer of listed shares of an Indian company on which STT is paid.

How much is the tax payable by Peter Pte. Ltd. on the short-term capital gain of ₹ 70 lakhs for the A.Y. 2025-26?

- (a) ₹ 12,01,200
  - (b) ₹ 10,92,000
  - (c) ₹ 16,01,600
  - (d) ₹ 14,56,000
14. The net profit of Rainbow Ltd. as per its statement of profit and loss for the year ended 31.03.2025 amounted to ₹ 27,22,000 after debiting/crediting following items:
- (i) Payment of interest on money borrowed from bank for purchase of land ₹ 2,00,000. The land was meant for construction of a factory building and for which the approval from local authority is pending till 31.03.2025.
  - (ii) Commission of ₹ 1,00,000 paid in the month of February, 2025 on which tax was deducted in February, 2025 itself. Commission of ₹ 1,25,000 paid in the month of March, 2025 on which tax was deducted in May, 2025. Tax deducted at source on these payments was deposited to the Government on 28.09.2025.
  - (iii) Travelling expenses of ₹ 90,000 on a foreign tour of a director for negotiating collaboration with a foreign manufacturer for initiation of new line of business.
  - (iv) As part of the restructuring of its debt, the company has converted arrears of interest of ₹ 3,00,000 on term loan into a new term loan with a revised repayment schedule. The company has paid ₹ 50,000 towards such funded interest during the year. ₹ 3,00,000 is debited to statement of profit and loss.



- (v) On EPABX and mobile phones (exclusively used for business purpose) purchased during the year, depreciation amounting to ₹ 18 lakhs was claimed at 40% treating them as computers.
- (vi) ₹ 5,00,000, being contribution to S Ltd. (wholly owned subsidiary company) for construction of a school for the benefit of its employees.
- (vii) Dividend received from P Ltd. on 10,000 equity shares of ₹ 10 each purchased at ₹ 100 per share on 10<sup>th</sup> October, 2017. The rate of dividend declared is 100%, the record date being 10<sup>th</sup> December, 2024. These shares were sold on 15.3.2025 at ₹ 130 per share. Long term capital gain of ₹ 3 lakhs is credited in statement of profit and loss. Fair market value of shares as on 31.1.2018 is ₹ 110.
- (viii) Provision for gratuity based on actuarial valuation ₹ 6,00,000 was debited to statement of profit and loss. Actual gratuity paid ₹ 1,50,000 was debited to provision for gratuity account.

**Other information:**

- (1) Provision for bonus for the year 2023-24 paid on 15.11.2024 ₹ 98,000. It is inclusive of payment by bearer cheque of ₹ 34,000 to one employee.
- (2) The company has purchased and put to use a commercial vehicle of ₹ 8,00,000 for the purpose of business on 21.03.2025 and calculated depreciation@15% for the full year. Depreciation debited to the statement of profit and loss is calculated on all other assets as per the rates prescribed in the Income-tax Act, 1961.

Compute the total income of the company chargeable to tax for the A.Y. 2025-26, ignoring the provisions of section 115JB. Company is not opting for any concessional tax regimes.

15. Shaanti Foundation, a Charitable institution registered under section 12AB is engaged in preservation of forests. The accountant of the institution provides the following details of the institution to you as a Chartered Accountant. Examine and discuss the treatment of each of the independent situations in the hands of the Charitable institution for the

P.Y. 2024-25 as per provisions of Income-tax Act, 1961. Your answer should be followed with reasons:

- (i) The institution follows mercantile system of accounting and during the previous year 2024-25, has incurred Electricity expenses amounting to ₹ 1,20,000 for the period pertaining to the year 2024-25. The Electricity expenses was actually paid on 15<sup>th</sup> April 2025 through an account payee cheque. In which year, such expenditure will be treated as application of income of the Shaanti Foundation?
  - (ii) The Foundation was cultivating 15 acres of agriculture land. From agricultural operations, it earned ₹ 10,00,000 during the previous year 2024-25. Whether exemption under section 10(1) will be available to Shaanti Foundation on such income?
  - (iii) Shaanti Foundation has earned rental income for the P.Y. 2024-25 amounting to ₹ 4,00,000. It received ₹ 3,00,000 upto 31<sup>st</sup> December, 2024 of such income. However, the balance of ₹ 1,00,000 was received on 31<sup>st</sup> August, 2025. Upto what period the institution can apply the same amount towards the objects of the institution? The institution has exercised the relevant option in this regard.
16. In respect of the following independent case scenarios, you are required to discuss the provisions related to tax deducted at source/tax collection at source for the year ended 31<sup>st</sup> March, 2025:
- (1) Mr. Raju purchased scrap of ₹ 55 lakhs from Mr. Sandeep for the purpose of his manufacturing unit and credited him in books of account. Mr. Raju furnished a certificate to Mr. Sandeep that the scrap shall be utilized for manufacturing process carried on by him and shall not be used for trading purposes. Mr. Raju made the payment of ₹ 45 lakhs during the F.Y 2024-25 to Mr. Sandeep. Assume turnover of both Mr. Raju and Mr. Sandeep from the business carried on by them exceeds ₹ 10 crores in the financial year 2023-24.
  - (2) Mr. Rajat took a loan of ₹ 12 lakhs from his employer, Josh Private Limited, an Indian domestic manufacturing company for

sponsoring studies of his daughter in Australia. Out of the said loan, he remitted ₹ 9,75,000 towards fees to the University in Australia for his daughter's education on 01.10.2024.

The remittances were made through the same authorized dealer under the Liberalized Remittance Scheme of RBI.

17. Samaksh Ltd. filed its return of income under section 139(1) on 15<sup>th</sup> September, 2023 for A.Y. 2023-24. The return was found to be defective, and an intimation was issued on 10<sup>th</sup> May, 2024, directing the assessee to rectify the defects within 15 days. The defects were rectified on 19<sup>th</sup> May, 2024. The return was processed, and intimation was sent on 15<sup>th</sup> July, 2024. Subsequently, the Assessing Officer issued a notice under section 143(2) on 21<sup>st</sup> June, 2025.

CA. of Samaksh Ltd. contended that the notice was barred by limitation since it was issued beyond the permissible time limit. Examine the validity of the notice issued under section 143(2) by the Assessing Officer.

18. Mr. Kabir filed his return of income for A.Y.2025-26, declaring total income of ₹ 35 lakhs, on 2<sup>nd</sup> June, 2025. He has opted out of the default tax regime. On processing of return, the total income determined under section 143(1)(a) was ₹ 45 lakhs. Thereafter, on scrutiny, the Assessing Officer made some additions under section 40(a)(ia) and section 43B and passed an assessment order under section 143(3) assessing total income of ₹ 85 lakhs. Later on, the Assessing Officer noticed that certain income had escaped assessment and issued notice for reassessment under section 148. The total income reassessed under section 147 was ₹ 1.05 crores.

Considering that none of the additions or disallowances made in the assessment or re-assessment as above qualifies under section 270A(6), compute the amount of penalty to be levied under section 270A of the Income-tax Act, 1961 at the time of assessment under section 143(3) and at the time of reassessment under section 147 (Assume under-reporting of income is not on account of misreporting).

19. DiamondLux BV is a foreign company incorporated in Belgium. It is engaged in diamond mining and trading of raw diamonds. It sells raw

diamonds globally. During the P.Y. 2024-25, it sold raw diamonds to Indian buyers in Special Notified Zone (SNZ) in Surat, Gujarat for ₹ 100 crores. An exhibition was taken place in Special Notified Zone (SNZ) in Surat, Gujarat for display of uncut and unassorted diamonds. DiamondLux BV has income of ₹ 10 crores from activity of display of uncut and unassorted diamond in that exhibition. DiamondLux BV wants to exercise the option to apply for safe harbour rules. It wants to declare profits of ₹ 3 crores from trading of raw diamonds to Indian buyers and profit of ₹ 2 crores from display of diamonds in Special Notified Zone (SNZ) in Surat.

Whether DiamondLux BV is eligible to opt for the Safe Harbour Rules. If yes, can it declare profit of ₹ 3 crores and ₹ 2 crores from trading of raw diamonds to Indian buyers and from display of diamonds, respectively under safe harbour rules?

20. Ms. Kanika Tondon is a popular Indian pop singer. She has business interest in Country X and Y as well. She is a resident in India for the A.Y. 2025-26.

The details of income earned by Ms. Kanika Tondon from India as well as Country X and Country Y with which India does not have any DTAA, during the P.Y. 2024-25 are as under:

Type of Income	India	X	Y
	(₹ in crores)		
Income from house property (Computed)	4.3	(1.3)	-
Business/ Professional income:			
Singing profession	9	-	2
From being the owner of cricket team Delhi Super Players	5.5	-	-
Other business		7.2	2.9
Share income from partnership firm (not evidenced by an instrument in writing)		4.8	-
Agricultural income	1.5	-	1.2

Ms. Kanika has deposited ₹ 1.5 lakhs in PPF and paid Life Insurance premium of ₹ 1 lakh.

In Country X, share income is not exempt and loss from house property is not eligible for being set off against other income. In Country Y, agricultural income is chargeable to income-tax.

In Country X, Ms. Kanika has paid income-tax of ₹ 2.16 crores and in Country Y ₹ 2.44 crores on the total income earned in those countries.

Compute the net tax liability of Ms. Kanika for the A.Y.2025-26, assuming that she is paying tax under default tax regime under section 115BAC.

**SUGGESTED ANSWERS**

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

**14. Computation of total income of Rainbow Ltd. for A.Y.2025-26**

Particulars		₹	₹
I	<b>Profits &amp; Gains of Business of Profession</b>		
	Net Profit as per Statement of Profit & Loss		27,22,000
	<b>Add: Items debited but to be considered separately or to be disallowed</b>		
	- <b>Interest on money borrowed for purchase of land</b>	2,00,000	
	[As per section 36(1)(iii), interest on borrowed capital till the asset is put to use has to be capitalized. Hence, interest on moneys borrowed is not allowable under section 36(1)(iii). Since it is already debited to statement of profit and loss, the same has to be reduced.]		

-	<b>Commission paid in February, 2025</b> [Commission paid in February, 2025 after deduction of tax is allowable as deduction during the P.Y. 2024-25 since TDS has been deposited before the due date of filing return of income. Since commission is already debited to statement of profit and loss, no adjustment is required.]	Nil	
-	<b>Commission paid in March, 2025</b> [30% of commission paid in March 2025 on which TDS was deducted and paid in subsequent year would be disallowed during the P.Y. 2024-25 and would be allowed as deduction in the year in which such tax has been paid. Hence, 30% of commission debited to statement of profit and loss would be added back.]	37,500	
-	<b>Travelling expenses on foreign tour in connection with new line of business</b> [Travelling expenses incurred on foreign tour of a director for initiating a new line of business is a capital expenditure. The same is, therefore, not deductible under section 37(1). Since it is already debited to statement of profit and loss, the same has to be reduced.]	90,000	
-	<b>Interest on term loan converted into new term loan</b> [Under section 43B, interest on loan due to any scheduled bank, etc. is	2,50,000	

	<p>allowed as deduction, if such interest is actually paid irrespective of the method of accounting followed by the assessee. Conversion of arrear interest into a fresh loan by a bank cannot be considered as actual payment of interest. However, the amount of funded interest (i.e., converted loan) actually paid is allowable as deduction. Hence, out of ₹ 3 lakhs, only ₹ 50,000, being the funded interest was actually paid which is allowable as deduction while computing business income of P.Y.2024-25. The balance of ₹ 2,50,000 has to be added back.]</p>		
-	<p><b>Excess depreciation provided on EPABX &amp; Mobile phones not allowable as deduction</b></p> <p>[EPABX and mobile phones are not computers and therefore, are not entitled to depreciation @ 40%. It was so held by the Kerala High Court in <i>Federal Bank Ltd. v. ACIT (2011) 332 ITR 319</i>. Therefore, EPABX and mobile phones would be entitled to depreciation of ₹ 6,75,000, calculated by applying the rate of 15%, being the general rate applicable to plant and machinery, on the cost of ₹ 45,00,000 (₹ 18,00,000 × 100/40). The excess depreciation of ₹ 11,25,000 (being ₹ 18,00,000 – ₹ 6,75,000), debited to statement of profit and loss, has to be added back.]</p>	11,25,000	



-	<b>Contribution to S Ltd. (wholly owned subsidiary company)</b> [Contribution to a wholly owned subsidiary company for construction of a school for the benefit of its employees is allowable under section 37(1).]	-	
-	<b>Provision for gratuity ₹ 6,00,000</b> <b>Less: Gratuity paid ₹ 1,50,000</b> [Under section 40A(7), no deduction is allowed in respect of any provision made for the payment of gratuity to the employees on retirement or termination of employment for any reason. However, gratuity actually paid is admissible as deduction. Therefore, provision for gratuity of ₹ 6,00,000 is to be disallowed. Actual gratuity paid ₹ 1,50,000 debited to provision for gratuity account is allowable. Hence, only the net sum of ₹ 4,50,000 has to be added back.]	4,50,000	
-	<b>Depreciation on commercial vehicle</b> [Depreciation on commercial vehicle has been calculated @15% and, consequently, ₹ 1,20,000 has been debited to statement of profit and loss. Since it was acquired in March 2025 only, 50% of normal depreciation is allowable. The excess depreciation of ₹ 60,000 is, hence, disallowed.]	60,000	22,12,500
			49,34,500

	<p><b>Less: Items credited but to be considered separately and those not charged but to be allowed</b></p> <p>- <b>Long term capital gain on sale of equity shares</b> [Taxable under the head "Capital gains"]</p> <p>- <b>Bonus paid on 15.11.2024 in respect of previous year 2023-24 disallowed last year but allowable in P.Y. 2024-25</b> [Provision for bonus for the previous year 2023-24 would have been disallowed under section 43B for non-payment by due date for filing of return of income for assessment year 2024-25. Payment of bonus made after the said date is allowed in the year of actual payment. However, such deduction allowable in the year of payment is subject to the provisions of section 40A(3). Hence, the sum of ₹ 34,000, being bonus paid by bearer cheque shall not be allowed as deduction in the year of payment.]</p> <p>- <b>Dividend from P Ltd.</b> [Dividend is taxable under the head "Income from Other Sources"]</p>	<p>3,00,000</p> <p>64,000</p> <p>1,00,000</p>	<p></p> <p></p> <p>4,64,000</p>
<b>II</b>	<p><b>Capital Gains</b></p> <p><b>Long term capital gain on sale of equity shares [Taxable @12.5% on sum exceeding ₹ 1,25,000]</b></p> <p>Sale consideration [10,000 x ₹ 130]</p>	<p></p> <p>13,00,000</p>	<p>44,70,500</p>

	Less: Cost of acquisition	11,00,000	2,00,000
	Higher of		
	- Actual cost of ₹ 10 lakhs [10,000 x 100]		
	- Lower of fair market value as on 31.1.2018 of ₹ 11 lakhs or sale consideration of ₹ 13 lakhs		
<b>III</b>	<b>Income from Other Sources</b>		
	Dividend from P Ltd.		1,00,000
	[Dividend is taxable under the head "Income from Other Sources"]		
	<b>Total Income</b>		<b>47,70,500</b>

15. (i) As per *Explanation* to section 11, any sum payable by any trust or institution shall be treated as application of income only in the previous year when such sum is actually paid by it. This is irrespective of the previous year in which the liability to pay such sum was incurred or method of accounting regularly employed by it. Thus, expenditure is allowed as application only when the payment is actually made and not when the liability is incurred.

In the present case, though the Shaanti Foundation follows mercantile system of accounting, electricity expenses of ₹ 1,20,000 incurred during the P.Y. 2024-25 would be allowable as application of income only in the P.Y. 2025-26 as actual payment is made on 15<sup>th</sup> April, 2025.

- (ii) As per section 11(7), where a trust or an institution has been granted registration for purposes of availing exemption under section 12AB, such trust or institution cannot claim any exemption under any provision of section 10 [other than exemption of agricultural income under section 10(1)].

Accordingly, agricultural income of ₹ 10,00,000 would be exempt under section 10(1) in the hands of Shaanti Foundation registered under section 12AB.

- (iii) In case a trust is unable to apply the minimum of 85% of its income during the previous year from the reason that the whole or any part of the income has not been received during that year, the period of application is extended to cover the previous year in which the income is actually received or the previous year immediately following the previous year in which the income was received.

Accordingly, in the present case, income of ₹ 1,00,000 which was received on 31<sup>st</sup> August, 2025 can be applied during the P.Y. 2025-26, being the year in which such amount is received or in the P.Y. 2026-27, being the P.Y. immediately following the P.Y. 2025-26.

- 16.** (1) By virtue of section 206C(1A), Mr. Sandeep is not required to collect tax at source under section 206C(1), since Mr. Raju has furnished a certificate to Mr. Sandeep that the scrap purchased from him is for manufacturing process carried on by him and not for trading purposes.

However, TDS under section 194Q will be attracted in the hands of the buyer in such cases covered under section 206C(1A), if the conditions specified under section 194Q are fulfilled.

In this case, tax is required to be deducted at source under section 194Q by the buyer, Mr. Raju, since his turnover in the immediately preceding financial year i.e., F.Y.2023-24 exceeds ₹ 10 crores and he has purchased goods of the value or aggregate of such value exceeding ₹ 50 lakhs in the F.Y.2024-25. TDS u/s 194Q would be 0.1% of the sum exceeding ₹ 50 lakhs and the same has to be deducted at the time of payment or credit of such sum to the account of resident seller, whichever is earlier.

Therefore, in the present case, Mr. Raju is required to deduct tax at source @ 0.1% of ₹ 5,00,000, being the amount exceeding ₹ 50 lakhs at the time of credit.

- (2) Tax would be collectible at source under section 206C(1G) by the authorised dealer, who received an amount, under the Liberalised

Remittance Scheme of the RBI, for overseas remittance from Mr. Rajat at the rate of 5% of the sum exceeding ₹ 7 lakhs.

Tax of ₹ 13,750 (5% of ₹ 2,75,000, being the sum exceeding ₹ 7 lakhs) would be collectible by the authorised dealer on 1.10.2024 on remittance of ₹ 9,75,000 for education of Mr. Rajat's daughter out of the loan from his employer. The concessional rate of TCS of 0.5% would not be applicable, since the amount of remittance is not out of a loan obtained from any financial institution as referred under section 80E.

- 17.** The issue under consideration is whether, for the purpose of computing limitation period under section 143(2), the relevant date is the date of filing of the original return of income or the date of removal of defects in response to a notice issued under section 139(9)?

The same issue came up before Supreme Court in *DCIT vs Travel Designer India Pvt. Ltd. vs (2025) 482 ITR 283*. In this case, the High Court noted that since the return was defective, the assessee was called upon to remove such defects, which was removed on 19<sup>th</sup> May, 2024, which is within the time allowed by the Assessing Officer. Therefore, upon such defects being removed, the return would relate back to the date of filing original return i.e., 15<sup>th</sup> September, 2023. Consequently, the limitation for issuance of notice under section 143(2) would be 30<sup>th</sup> June, 2024 i.e., three months from the end of the financial year in which the return under section 139(1) was filed.

In the present case, notice under section 143(2) has been issued on 21<sup>st</sup> June, 2025, which is much beyond the period of limitation. Therefore, such notice is barred by limitation and cannot be sustained.

Accordingly, the notice issued under section 143(2) is not a valid notice.

- 18.** Mr. Kabir is deemed to have under-reported his income since:
- (1) his income assessed under 143(3) exceeds its income determined in a return processed under section 143(1)(a); and
  - (2) the income reassessed under section 147 exceeds the income assessed under section 143(3).

Therefore, penalty is leviable under section 270A for under-reporting of income.

## Computation of penalty leviable under section 270A

Particulars	₹	₹
<b><u>Assessment under section 143(3)</u></b>		
<b><u>Under-reported income:</u></b>		
Total income assessed under section 143(3)	85,00,000	
(-) Total income determined u/s 143(1)(a)	45,00,000	
	40,00,000	
Tax payable on under-reported income <i>plus</i> income determined u/s 143(1)(a) i.e., on ₹ 85 lakhs [(30% of ₹ 75 lakh + ₹ 1,12,500) + Surcharge @10% + HEC@4%]	27,02,700	
Less: Tax payable on income determined u/s 143(1)(a) i.e., on ₹ 45 lakhs [(30% of ₹ 35 lakh + ₹ 1,12,500) + HEC@4%]	12,09,000	
	14,93,700	
Penalty leviable@50% of tax payable		7,46,850
<b><u>Reassessment under section 147</u></b>		
<b><u>Under-reported income:</u></b>		
Total income reassessed under section 147	1,05,00,000	
(-) Total income assessed under section 143(3)	85,00,000	
	20,00,000	
Tax payable on under-reported income <i>plus</i> income determined u/s 143(3) i.e., on ₹ 1.05 crores [(30% of ₹ 95 lakh + ₹ 1,12,500) + Surcharge @15% + HEC@4%]	35,43,150	
Less: Tax payable on income determined u/s 143(3) i.e., on ₹ 85 lakhs [(30% of ₹ 75 lakh + ₹ 1,12,500) + Surcharge @10% + HEC@4%]	27,02,700	
	8,40,450	
Penalty leviable@50% of tax payable		4,20,225

19. Section 92CB(1) provides that the determination of income referred to in section 9(1)(i) shall be subject to safe harbour rules. Safe harbour means circumstances in which the income tax authorities shall accept the transfer price declared by the assessee. Section 92CB(2) empowers the CBDT to prescribe such safe harbour rules or circumstances under which the transfer price declared by the assessee shall be accepted by the Income-tax Authorities.

Accordingly, in exercise of the powers conferred by section 92CB read with section 295 of the Income-tax Act, 1961, the CBDT has, vide *Notification No.124/2024 dated 29.11.2024*, prescribed the safe harbour rules for income referred to in section 9(1)(i) chargeable to tax under the head "Profits and gains of business or profession".

DiamondLux BV is a foreign company engaged in the business of diamond mining, hence, it is an eligible assessee as per Rule 10TI and can apply for safe harbour rules.

An eligible business, for this purpose, means a business of selling raw diamonds in any notified special zone as referred to in clause (e) of *Explanation 1* to section 9(1)(i). Accordingly, display of uncut and unassorted diamonds is not an eligible business and DiamondLux BV cannot declare profits from such display under safe harbour rules.

Moreover, in case of a foreign company which is engaged in the business of mining of diamonds, no income shall be deemed to accrue or arise in India to it through or from the activities which are confined to display of uncut and unassorted diamonds in any notified special zone. Hence, profit of ₹ 2 crores from display of diamonds in Special Notified Zone (SNZ) in Surat shall not be deemed to accrue or arise in India and not taxable in India.

As per Rule 10TIA, if an eligible assessee declares 4% or more of the gross receipts as profits and gains of the eligible business chargeable to tax under the head "Profits and gains of business or profession", the option for safe harbour exercised by such eligible assessee in any relevant previous year shall be accepted by the income-tax authorities.

During the P.Y. 2024-25, DiamondLux BV wants to declare ₹ 3 crores from trading of raw diamonds to Indian buyers which is only 3% of gross

receipts of ₹ 100 crores. Hence, the option for safe harbour exercised by DiamondLux BV in P.Y. 2024-25 shall not be accepted by the income-tax authorities as the same is not in accordance with the circumstance mentioned in Rule 10TIA.

**20. Computation of net tax liability of Ms. Kanika Tondon for A.Y.2025-26**

	Particulars	₹	₹
<b>I</b>	<b>Income from house property</b>		
	Income from house property in India	4,30,00,000	
	Less: Loss from house property in Country X	<u>1,30,00,000</u>	3,00,00,000
<b>II</b>	<b>Profits and gains of business or profession</b>		
	Business/ Professional income in India		
	- From singing profession	9,00,00,000	
	- From being the owner of cricket team Delhi Super Players	<u>5,50,00,000</u>	
		14,50,00,000	
	<b>Business/ Professional income in Country X</b>		
	- Other business	7,20,00,000	
	- Share income from firm	<u>4,80,00,000</u>	12,00,00,000
	Business/Professional income in Country Y		
	- Singing	2,00,00,000	



	profession			
	- Other business	<u>2,90,00,000</u>	<u>4,90,00,000</u>	
				31,40,00,000
<b>III</b>	<b>Income from Other Sources</b>			
	Agricultural income from India [Exempt u/s 10(1)]		-	
	Agricultural income from Country Y	<u>1,20,00,000</u>	<u>1,20,00,000</u>	
	<b>Gross Total Income</b>			<b>35,60,00,000</b>
	<b>Less: Deductions under Chapter VI-A</b> [Not allowable since Ms. Kanika is paying tax under default tax regime]			<u>Nil</u>
	<b>Total Income</b>			<b>35,60,00,000</b>
	<b>Computation of tax liability:</b>			
	<b>Step 1:</b> Tax on ₹ 37,10,00,000, being non-agricultural income and agricultural income [30% x ₹ 36,95,00,000 + ₹ 1,40,000]		11,09,90,000	
	<b>Step 2:</b> Tax on ₹ 1,53,00,000, being agricultural income and basic exemption limit of ₹ 3,00,000 [30% x 1,38,00,000 + ₹ 1,40,000]		42,80,000	
	<b>Step 3:</b> Step 1 - Step 2			10,67,10,000
	Add: Surcharge@25% (since her total income exceeds ₹ 2 crore)			<u>2,66,77,500</u>
				13,33,87,500
	Add: HEC @4%			<u>53,35,500</u>
	<b>Tax liability</b>			<b>13,87,23,000</b>
	Less: Deduction under section 91 [See <b>Working Notes 1 &amp; 2 below</b> ]			<u>4,30,29,870</u>
	<b>Net Tax liability (rounded off)</b>			<b>9,56,93,130</b>

### Working Note 1: Computation of deduction under section 91

Particulars		₹	₹
	<b>Average rate of tax in India</b> [13,87,23,000 x 100/35,60,00,000]	38.967%	
	<b>Average rate of tax in Country X</b> [2,16,00,000 x 100/12,00,00,000]	18%	
	<b>Average rate of tax in Country Y</b> [2,44,00,000 x 100/6,10,00,000]	40%	
<b>I</b>	<b>Deduction under section 91 in respect of doubly taxed income in India and Country X</b>  <b>Doubly taxed income:</b> Country X (i.e., ₹ 7.2 crores, being business income (+) ₹ 4.8 crores, being taxable share income from firm (-) ₹ 1.3 crores, loss from house property)  Lower of Indian rate of tax of 38.967% and rate of tax in Country X of 18%  Deduction u/s 91 = 18% x ₹ 10.70 crores	10,70,00,000     <b>18%</b>	1,92,60,000
<b>II</b>	<b>Deduction under section 91 in respect of doubly taxed income in India and Country Y</b>  <b>Doubly taxed income:</b> Country Y (i.e., ₹ 2 crores, being professional income (+) ₹ 2.9 crores, being business income (+) ₹ 1.2 crores, being taxable agricultural income)  Lower of Indian rate of tax of	6,10,00,000     <b>38.967%</b>	

38.967% and rate of tax in Country X of 40%		
Deduction u/s 91 = 38.967% x ₹ 6.10 crores		2,37,69,870
<b>Deduction under section 91</b>		<b>4,30,29,870</b>