PAPER - 15 : DIRECT TAX LAWS AND INTERNATIONAL TAXATION

SUGGESTED ANSWERS

SECTION – A

1.

(i) (C)

(ii) (B)

(iii) (B)

(iv) (C)

(v) (D)

(vi) (A)

(vii) (B)

(viii) (B)

(ix) (C)

(x) (B)

(xi) (A)

(xii) (D)

(xiii) (B)

(xiv) (B)

(xv) (C)

SECTION – B

2. (a)

Computation of total income of Happy Foundations for the A.Y. 2026-27

Particulars	₹ in lakhs	₹ in lakhs
Gross receipts from hospital		350
Gross receipts from Engineering college		141
Add: Dividend from Indian companies (Grossed up)		10
Agricultural income in India - exempt u/s 10(1)		Nil
		501
Less: 15% eligible for deduction without any condition		75.15
		425.85
Less: Amount applied for charitable purposes		
Hospital operating and admin expenses	65	
Engineering college admin and operating expenses	40	

Capital expenditure on account of purchase of land and building Note: Only the actual amount spent for acquiring the building will be treated as application [Section 56(2)(x) is not attracted in respect of value of property received by a trust registered u/s 12AB.]	180	
Corpus donation to Smile Foundations, a charitable trust registered u/s 12AB. (Donation to the corpus of other registered trust not allowable application. Explanation 2 to section 11(2))	Nil	
Donation to Sanskar Charitable Trust, a charitable trust registered under section 12AB. (85% of ₹ 20 lakhs) Non-corpus donation allowed at 85% as application- (Explanation 4(iii) to section 11(10)).	17	
		302
	Total income	123.85

2. (b)

Computation of Total Income and Tax Liability of Hardy Components (A.Y.2026-27)			
		₹	**₹**
	Profit and Gains from Business and Profession:		
	Net Profit as per P&L Account		8,50,000
	Add: Disallowances & Adjustments:		
(i)	Interest paid to partners without deduction of TDS – disallowed @30%.	3,00,000	
(ii)	Partners' Remuneration (added back for computing Book Profit)	12,00,000	
(iii)	30% Disallowance u/s 40(a)(ia) for TDS default [5L × 30%]	1,50,000	
(iv)	Disallowance u/s 43B(h) (MSE payment in the next financial year and after the agreed credit period)	2,00,000	
(v)	Depreciation as per P&L A/c	12,00,000	
			30,50,000
			39,00,000
	Allowable Deductions:		
(vi)	Depreciation as per IT Rules		(10,00,000)
	Book Profit u/s 40(b)		29,00,000
	Less: Allowable Remuneration u/s 40(b)		
	(A) Actually paid	12,00,000	
	(B) As per section 40(b) limits		
	- On first ₹6,00,000: (90% of ₹6L) or ₹3,00,000 whichever is higher	5,40,000	
	- On balance ₹23,00,000: (60% of ₹23 L)	13,80,000	
		19,20,000	
	(A) or (B) – whichever is less is deductible		(12,00,000)

	Total Income		17,00,000
	Tax Liability		
	Income Tax @ 30%		5,10,000
	Add: Cess @ 4%		20,400
	Total tax payable		5,30,400

	Computation of Total Income of Mr.X (Partner) for A.Y.2026-27		
	Profit and Gains from Business and Profession:		**₹**
	Remuneration actually paid and allowed under section 40(b)		6,00,000
	Interest on capital allowed to the firm ₹ 4,20,000 proportionate share being ₹ 6,00,000 X 70 /100 Note: The amount which was disallowed in the firm's hands, will not be includible in the hands of Mr. X		4,20,000
	Share of Profit – Exempt U/s.10(2A)		Nil
		Total Income	10,20,000

3. (a)

Computation of total income and tax liability of Paras for the A.Y. 2026-27

Particulars		**₹**	**₹**
		Normal provisions	**Section 115BAC**
Salary Income			
Basic salary	12,00,000		
DA (40% of salary)	4,80,000		
Employer's contribution to pension scheme (15% of ₹12,00,000)	1,80,000		
		18,60,000	18,60,000
Less: Standard Deduction u/s 16(i)		50,000	75,000
Income under the head salary		18,10,000	17,85,000
Capital gains			
Sales consideration	20,00,000		
Less: Cost of acquisition	20,00,000		
Less: Cost of improvement	2,00,000		
Short term capital loss	(2,00,000)		
Short-term capital loss from equity oriented mutual funds (computed)	(2,00,000)		
(As the Holding period is less than 24 months, it is a loss associated with short-term capital asset)			
STCL eligible for carry forward	(4,00,000)		
Gross total income		18,10,000	17,85,000
Deduction under Chapter VI-A			
U/s 80CCD(2) : Restricted to – (Least of the following): Employer's Contribution, or 10% of "salary"		1,44,000	

14% of salary ₹ 2,01,600 or Actual contribution ₹ 1,80,000		1,80,000
Note: Salary for the purpose of section 80CCD means basic salary plus DA forming part of retirement benefits, i.e. ₹14,40,000		
[Basic salary ₹ 12,00,000 + ₹ 2,40,000 (50% of DA) =₹14,40,000]		
U/s 80DD: Since more than 80% disability Note: Deduction available is a flat amount, actual amount incurred is immaterial.	1,25,000	Nil
Total income	15,41,000	16,05,000
Tax on total income at the slab rates	2,74,800	1,21,000
Add: HEC @ 4%	10,992	4,840
Total tax liability	2,85,792	1,25,840
Total tax liability (rounded off)	2,85,790	1,25,840
Conclusion: The assessee Paras should opt section 115BAC, since the tax liability is lower.		

3. (b)

Computation of the total income of RST Ltd as per normal tax regime (AY 2026-27)		
Particulars	**₹**	**₹**
Profits and gains of business and profession		
Net profit as per Statement of Profit and Loss		80,00,000
Add		
Sales commission paid to Clive without deducting tax at source. 30% disallowed	5,10,000	
Depreciation as per Companies Act, 2013	9,40,000	
Cash payment to supplier disallowed under section 40A(3A). Supplier not having a bank account is NOT covered by Rule 6DD	20,000	
		14,70,000
		94,70,000
Less:		
Short term capital gain on sale of vacant land Taxable under 'Capital gains'.	1,20,000	
Depreciation as per Income-tax Rules, 1962	9,20,000	
		10,40,000
PGBP income		84,30,000
Capital Gains		
STCG on sale of vacant land		1,20,000
Gross total income		85,50,000
Less Deduction u/s 80JJAA		
35 regular employees with monthly wages of ₹ 22,000.	Eligible	
30% of (22,000 x 35 x 10 = ₹ 77,00,000)	23,10,000	
10 regular employees with monthly wages of ₹ 30,000	Not eligible	
200 Casual workers	Not eligible	
		23,10,000
Total Income		62,40,000
Tax on total income		
@25% since PY turnover does not exceed ₹400 crores		15,60,000
Surcharge		Nil
Cess@4%		62,400

Total tax		16,22,400

Computation of the total income and tax payable of RST Ltd as per Section 115BAA		
Particulars	**₹**	**₹**
Total Income as per normal provisions		62,40,000
Add: Ded under section 80JJA Allowed under section 115BAA also		Nil
Total income as per section 115BAA		62,40,000
Tax @22%		13,72,800
Add Surcharge @10%		1,37,280
Total		15,10,080
Add: Cess @4%		60,403
Total tax		15,70,483
Rounded off		15,70,480
Conclusion: Since the tax liability is lower when opted for section 115BAA, the assessee should opt for section 115BAA.		

Alternate presentation of computation of total income as per section 115BAA

Computation of the total income of RST Ltd as per section 115BAA(AY 2026-27)		
Particulars	**₹**	**₹**
Profits and gains of business and profession		
Net profit as per Statement of Profit and Loss		80,00,000
Add		
Sales commission paid to Clive without deducting tax at source. 30% disallowed	5,10,000	
Depreciation as per Companies Act, 2013	9,40,000	
Cash payment to supplier disallowed under section 40A(3A). Supplier not having a bank account is NOT covered by Rule 6DD	20,000	
		14,70,000
		94,70,000
Less:		
Short term capital gain on sale of vacant land Taxable under 'Capital gains'.	1,20,000	
Depreciation as per Income-tax Rules, 1962	9,20,000	
		10,40,000
PGBP income		84,30,000
Capital Gains		
STCG on sale of vacant land		1,20,000
Gross total income		85,50,000
Less Deduction u/s 80JJAA		
35 regular employees with monthly wages of ₹ 22,000.	Eligible	
30% of (22,000 x 35 x 10 = ₹ 77,00,000)	23,10,000	
10 regular employees with monthly wages of ₹ 30,000	Not eligible	
200 Casual workers	Not eligible	
		23,10,000
Total Income		62,40,000

Tax @ 22%		13,72,800
Add Surcharge @1 0%		1,37,280
Total		15,10,080
Add: Cess @4%		60,403
Total tax		15,70,483
Rounded off		15,70,480
Conclusion: Since the tax liability is lower when opted for section 115BAA, the assessee should opt for section 115BAA.		

4. (a)

Computation of net worth of unit 1 of Raj Ltd	₹ in lakhs	
(i) Land (Book value ₹3,000 lakhs less ₹ 1000 lakhs on account of revaluation)		2,000
Machinery		1,800
Patents acquired on 10.08.2024	400	
Less: Depreciation for FY 2024-25 @ 25%	100	
		300
Debtors		400
		4,500
Less: Trade creditors @30% of ₹2,000	600	
Bank loan @80% of ₹3,000	2,400	
		3,000
Net worth		1,500
Computation of full value of consideration:		
Fair market value of capital assets transferred by way of slump sale.		
Land, immovable property stamp duty value as on 01.04.2025		2,400
Machinery book value as appearing in the books of account		1,800
Debtors		400
Patents as appearing in the books of account		400
		5,000
Less: Liabilities		
Bank loan (80% of 3,000)	2,400	
Trade creditors (30% of 2,000)	600	
Liabilities may be arrived at in alternate manner also, and total 3000 may be computed.		3000
Fair market value of capital assets transferred by way of slump sale.		2,000
Fair market value of consideration received as a result of transfer of undertaking by way of slump sale.		1,600
Full value of consideration (FMV of assets transferred or FMV of consideration received whichever is higher is taken)		2,000
Computation of capital gain:		
Full value of consideration		2,000
Less: Net worth		1,500
Long term capital gain		500

4. (b)

Computation of total income of Ms Shopia (non-resident) for AY 2026-27

(assuming the assesse opts out of the default tax regime)

Particulars	(₹)	(₹)
Capital Gain		
Long-term capital gain on sale of bonds		3,00,000
PGBP		
Match fees received for playing in WPL matches in India (Expenditures are not allowed on special incomes covered by section 115BBA.) May also be shown as IFOS		12,00,000
Income from other sources		
Income from advertisement endorsements in India	5,00,000	
Interest on bonds of an Indian public company (purchased in foreign currency)	4,00,000	
Income received from units of UTI (purchased in foreign currency)	2,50,000	
Interest from savings bank account in India	60,000	
		12,10,000
GROSS TOTAL INCOME Special income Normal income	 26,50,000 60,000	27,10,000
Less: Deductions under Chapter VI-A		
U/s 80TTA	10,000	
u/s 80C restricted to ₹1,50,000	1,50,000	
u/s 80CCD(1B)	50,000	
Total eligible deductions	2,10,000	
But, deduction under Chapter VI-A are not allowed in respect of special incomes. Thus restricted to ₹ 60,000		60,000
	Total Income	26,50,000
Computation of tax liability		
Tax @20% u/s 115BBA on Match fees ₹12,00,000		2,40,000
Tax @20% u/s 115BBA on Income from advertisement endorsements in India ₹5,00,000		1,00,000
Tax @10% u/s 115AC on Interest on bonds of an Indian public company (purchased in foreign currency) ₹4,00,000		40,000
Tax @12.5% u/s 115AC on long-term capital gain on sale of such bonds ₹3,00,000		37,500
Tax @20% u/s 115A on Income received from units of UTI (purchased in foreign currency) ₹2,50,000		50,000
Total		4,67,500
Add: HEC @4%		18,700
Total tax liability		4,86,200

Alternative answer

Computation of total income of Ms Shopia (non-resident) for AY 2026-27

(as per the default tax regime)

Particulars	(₹)	(₹)
Capital Gain		
Long-term capital gain on sale of bonds		3,00,000

PGBP		
Match fees received for playing in WPL matches in India (Expenditures are not allowed on special incomes covered by section 115BBA.) May also be shown as IFOS		12,00,000
Income from other sources		
Income from advertisement endorsements in India	5,00,000	
Interest on bonds of an Indian public company (purchased in foreign currency)	4,00,000	
Income received from units of UTI (purchased in foreign currency)	2,50,000	
Interest from savings bank account in India	60,000	
		12,10,000
GROSS TOTAL INCOME		27,10,000
Less: Deductions under Chapter VI-A		
U/s 80TTA	10,000	
u/s 80C restricted to ₹1,50,000	1,50,000	
u/s 80CCD(1B)	50,000	
Total eligible deductions	2,10,000	
But, deduction under Chapter VI-A are not allowed under default tax regime		Nil
	Total Income	27,10,000
Computation of tax liability		
Tax @20% u/s 115BBA on Match fees ₹12,00,000		2,40,000
Tax @20% u/s 115BBA on Income from advertisement endorsements in India ₹5,00,000		1,00,000
Tax @10% u/s 115AC on Interest on bonds of an Indian public company (purchased in foreign currency) ₹4,00,000		40,000
Tax @12.5% u/s 115AC on long-term capital gain on sale of such bonds ₹3,00,000		37,500
Tax @20% u/s 115A on Income received from units of UTI (purchased in foreign currency) ₹2,50,000		50,000
Tax on remaining income ₹60,000		Nil
Total		4,67,500
Add: HEC @4%		18,700
Total tax liability		4,86,200

5.(a)

Validity of revision and possibility of approaching Dispute Resolution Committee

i) Section 263 provides that the Principal Commissioner/ Commissioner may call for and examine the records of any proceeding under the Act. If he considers that any order passed by the Assessing Officer is prejudicial to the interests of the Revenue, he can revise the assessment.

"Record" shall include all records relating to any proceeding under this Act available at the time of examination by the Principal Chief Commissioner or Chief Commissioner or Principal Commissioner or Commissioner. This means that any material, which was not available at the time of assessment but available at the time of examination by the Principal Commissioner or Commissioner, shall also be considered for revision under section 263.

Since, the valuation report was not in existence when the AO completed the assessment, such report can be considered by the Commissioner by invoking revisionary jurisdiction under section 263.

Further, the time limit for passing revision order is 2 years from the end of the financial year in which the order sought to be revised was passed.

Since in the present case, the notice under section 263 was issued in November 2025 for the assessment order passed in October, 2024, it is within the prescribed time limit.

Hence, the action of CIT is justified.

ii A person can opt for Dispute Resolution Committee under Chapter XIX-AA in respect of dispute arising from any variation in the specified order.

Specified order includes assessment order.

The following conditions are to be satisfied to avail DRC:

(i) aggregate sum of variations proposed or made in such order should not exceed ₹ 10 lakhs.

(ii) such order of assessment / reassessment is not based on
- search initiated u/s 132; or
- requisition u/s 132A in the case of assessee or any other person; or
- survey u/s 133A; or
- information received under an agreement referred to in sec. 90 or sec. 90A.

(iii) where return has been filed by the assessee for the assessment year relevant to such order, total income as per such return should not exceed ₹ 50 lakhs.

In the given case, since the variation made in the order is more than ₹ 10 lakhs (i.e. ₹ 18 lakhs) though the total income as per his return is ₹ 45 lakhs (which is less than ₹ 50 lakhs) the assessee cannot opt for dispute resolution through DRC.

5. (b)

Correct treatment as per ICDS

(i) Under ICDS III, contract revenue must be recognized under the Percentage of Completion Method. Revenue recognition cannot be deferred beyond the early stage of a contract.

The "early stage" is specifically defined as not exceeding 25% of the stage of completion.
Since the stage of completion is 15%, and the outcome cannot be estimated, revenue is recognized only to the extent of costs incurred.

(ii) ICDS VI requires that monetary items (like trade payables / debtors) denominated in foreign currency must be reported using the closing rate at the end of each previous year.

Any exchange difference arising on such reporting shall be recognized as income or expense. Hence, the ₹3,00,000 being exchange fluctuation loss, it is a deductible expense in the current year.

(iii) According to ICDS II, in case of dissolution of a partnership firm, the inventory on the date of dissolution of a firm shall be valued at Net Realizable Value (NRV), regardless of whether the business is continued or not. Thus, the firm must value stock at NRV, thereby increasing the profits of the firm.

(iv) ICDS I, states that expected losses or marked-to-market losses shall not be recognized unless the recognition is in accordance with the provisions of any other ICDS.

There is no ICDS which recognizes such provision for future losses.
Therefore, True Ltd ’s provision for future losses is to be disallowed and must be added back to the total income.

6. (a)

Double Taxation Avoidance Agreements (DTAA) and International Models

(i) Objectives of DTAA

1. To prevent the double taxation of the same income.
2. To prevent tax evasion and avoidance through the exchange of information between contracting states.
3. To promote mutual economic relations, cross-border trade, and the free flow of investment and technology.
4. To provide certainty regarding the taxing rights of the respective contracting States.

(ii) Types of DTAAs
Agreements to avoid double taxation are generally classified into two types:
Comprehensive Agreements: These agreements cover almost all types of incomes (such as business profits, property income, capital gains, royalties, dividends, salaries, etc.). They provide a complete framework for resolving jurisdictional conflicts across all heads of income. India's DTAAs with most countries (e.g., USA, UK, UAE) are comprehensive in nature.

Limited (or Specific) Agreements: These agreements are restricted to specific types of income or specific industries. For example, treaties covering only the income derived from the operation of international shipping or aircraft, or agreements restricted only to inheritance/estate taxes.

(iii) Prominent International Models of DTAA and their Philosophical Difference The prominent international models used globally as starting points for negotiating DTAAs are:
1. OECD Model Tax Convention
2. UN Model Double Taxation Convention
3. US Model Income Tax Convention

Key Philosophical Difference between the two major models (OECD vs. UN):
The OECD Model is generally preferred by developed (capital-exporting) countries. Its core philosophy heavily favors "Residence-based" taxation. It advocates that the primary right to tax income should rest with the country where the taxpayer is a resident, thereby restricting the taxing rights of the source country.

The UN Model is generally preferred by developing (capital-importing) countries, including India. Its core philosophy places much greater emphasis on "Source-based" taxation. It grants broader taxing rights to the country where the income is actually generated (the source country), ensuring a more equitable sharing of tax revenues between developed and developing nations.

6. (b)

Computation of total income and tax liability of Angad for the A.Y. 2026-27

Particulars	**₹**	**₹**
Income from house property		
Annual value of self-occupied house property in India	Nil	
Less: Interest on housing loan (not allowable u/s 115BAC)	Nil	
Income chargeable from this property	Nil	

Annual value of property in Country W	2,00,000	
Less: Deduction u/s 24(a) @30%	60,000	
Income from house property		1,40,000
Profits and gains from business and profession		
Business income in India		6,00,000
Income from other sources		
Dividend from Country T	1,80,000	
Royalty from Country W less expenses ₹ 1,20,000 May also be shown in PGBP	6,80,000	
		8,60,000
Gross total income		16,00,000
Less: Chapter VI-A Deductions		
80C- Deposit in PPF a/c of his wife (not allowed u/s 115BAC)		Nil
80QQB- not allowed u/s 115BAC)		Nil
Total Income		16,00,000
Tax on total income u/s 115BAC	1,20,000	
Add: HEC @4%	4,800	
		1,24,800
Less: Deduction u/s 91 (see the working note below)		78,000
Net tax liability		46,800
Working note: calculation of deduction u/s 91		
Indian average tax rate= ₹1,24,800 / 16,00,000 x 100 = 7.8%		
Average rate of tax in Country T is 20%		
Doubly taxed income pertaining to Country T		
Dividend income ₹ 1,80,000		
Deduction u/s 91= Lower of average rate of tax in Country T and Indian rate of tax) x Doubly taxed income = [7.8% x ₹ 1,80,000]	14,040	
Average rate of tax in Country W is 10%		
Doubly taxed income pertaining to Country W		
Royalty less expenses ₹ 6,80,000 + Rent after standard deduction ₹ 1,40,000	8,20,000	
Deduction u/s 91= Lower of average rate of tax in Country W and Indian rate of tax) x Doubly taxed income = [7.8% x ₹ 8,20,000]	63,960	
Total deduction u/s 91	78,000	

7. (a)

Computation of ALP under Cost Plus Method

Since Peter Inc. holds **26% or more** voting power in Laxman Ltd both are deemed to be associated enterprises and **the transaction between them is "international transaction".** Hence it needs to be valued at arm's length price.

Cost plus method is the most appropriate method for determination of ALP because it is an instance of developing a product where direct and indirect cost of production would be found. Also, the normal gross profit mark-up and the mark-up to the AE could be compared. The mark-up is adjusted taking into account functional and other differences.

Computation of Arms's Length Price

Particulars	%	%
Normal GP mark up		75
Less: Adjustment for differences		

Technical know-how from associated enterprises 8% of 75%	6	
Discount given to associated enterprises 12% of 75%	9	
		15
		60
Add: Cost of credit period to associated enterprise		2
Arm's length gross profit mark-up		62
Computation of increase in total income of Laxman Ltd.		**₹ in crore**
Cost of services provided to associated enterprises		50
Arm's length mark up 50 crore x 62%		31
Arm's length price		81

Alternate way of calculation of ALP

Computation of Arms's Length Price under Cost Plus Method

Particulars	**₹ in crore**	
Normal GP mark up (75% of ₹50 crore)		37.50
Less: Adjustment for differences		
Technical know-how from associated enterprises (8% of ₹37.50 crore)	3.00	
Discount given to associated enterprises (12% of ₹37.50 crore)	4.50	
		7.50
		30.00
Add: Cost of credit period to associated enterprise (2% of ₹50 crore)		1.00
Arm's length gross profit mark-up		31
Computation of increase in total income of Laxman Ltd.		
Cost of services provided to associated enterprises		50
Arm's length mark up (as calculated above)		31
Arm's length price		81

7. (b)

Legal provisions limiting interest deduction – Section 94B
As per section 94B of the Income-tax Act, 1961 where an Indian company or an Indian PE of a foreign company, being the borrower, incurs any expenditure by way of interest or of similar nature exceeding ₹ 1 crore, which is deductible under the head PGBP in respect of any debt issued by a non-resident, being an associated enterprise of such borrower, the interest shall not be deductible in computation of income under the said head to the extent that it arises from excess interest.
Provided that where the debt is issued by a lender which is not associated but an associated enterprise provides an implicit or explicit guarantee to such lender or deposits a corresponding and matching amount of funds with the lender, such debt shall be deemed to have been issued by an associated enterprise.
In the present case, the loan taken by Board (P) Ltd an Indian company from Crow Ltd of UK is guaranteed by Pity Ltd of USA. Moreover, Mr. Rubin holds more than 26% in both, Board (P) Ltd and Pity Ltd. Board (P) Ltd

and Pity Ltd will be deemed to be associated enterprises and the loan guaranteed by Pity Ltd will also be deemed to be borrowed from the associated enterprise.
Therefore, the provisions of section 94B will be applicable, since the amount of interest exceeds ₹1 crore (₹ 100 crore x 9% = ₹ 9 crore).
As per section 94B, the amount of excess interest shall be disallowed. Excess interest shall mean an amount of:
(i)The total interest paid or payable in excess of 30% of earnings before interest, tax, depreciation and amortisation (EBITDA) of the borrower in the previous year;
(ii) Interest paid or payable to associated enterprises for that previous year,
whichever is less.
Computation of disallowance of interest u/s 94B for the current year

Particulars	**₹ in crore**
Profit after interest, tax and depreciation	22
Add: interest	9
Income-tax	5
Depreciation	4
EBITDA	40
30% of EBITDA	12
Interest allowed (lower of Actual amount ₹ 9 crore or ₹ 12 crore)	9
Interest disallowed (since the interest paid is within 30% of EBITDA)	NIL

Hence, the entire interest of ₹9 crore is allowable as deduction and no amount is required to be carried forward.

8. (a)

Computation of Total Income of Eagle Ltd (A.Y.2026-27) (under normal provisions)

Particulars		**₹ (in Lakhs)**
Net Profit as per P&L		1,850
Add: Provision for Income Tax		120
Add: Proposed Dividend		80
Add: Provision for Doubtful Debts (Disallowed)		50
Add: Depreciation as per Books		1,300
		3,400
Less: Depreciation as per IT Act including additional depreciation (for the current year)	850	
Unabsorbed depreciation	300	
		1,150
		2,250
Less: Brought forward business Loss (AY 2024-25)		(250)
Income from business		2000
Gross Total Income (GTI)/ Total Income		2,000

Computation of Book Profit (u/s 115JB)

Particulars	₹ (in Lakhs)
Net Profit as per P&L	1,850
Add: Provision for Income Tax	120
Add: Proposed Dividend	80
Add: Provision for Doubtful Debts	50
Add: Depreciation as per Books ₹ 1300 lakhs of which amount attributable to revalued assets to be added back	300
	2,400
Less: Lower of B/f Loss as per books (NIL) or Unabsorbed Dep (₹150 L)	(NIL)
Book Profit	2,400

Computation of Final Tax Liability of Eagle Pharma Ltd.

Particulars	Normal Tax (₹ in Lakhs)	15% of Book Profit
Income-tax	2,000 @25% = 500.00	2,400 @15% = ₹360.00
Add: Surcharge	500 @ 12%= 60.00	360 @ 12%= 43.20
Add: HEC@4%	22.40	16.128
Total tax liability	582.40	419.328
Since, tax on total income is more than 15% of the book profits, the income as per normal provisions would be liable to tax.		

8. (b)

Associated and deemed associated enterprises in India

(i) Since Mano Ltd an Indian company does not hold 26% or more of the equity shares in PWR LLP of UAE, they cannot be deemed to be associated enterprise.

(ii) Since the manufacture by Blue Ltd. is wholly dependent on the patented technology owned by Red Pte. they are deemed as associated enterprises.

(iii) Since M/s Bounty Inc. of USA holds not less than 10% interest in Multi Associates, being an Indian partnership firm, they are to be deemed as associated enterprises i.e. Multi Associates and Bounty Inc.

(iv) Since Bihu Ltd., advanced a loan which was less than 51% of book value of total assets held by Ritu Ltd of UK, they cannot be deemed as associated enterprises.

(v) Since Mango Ltd., guarantees a loan taken by Banana Inc. of USA which is more than 10% (i.e., 15%) of total loan taken by Banana Inc., they are deemed to be associated enterprises.

(vi) Since Mr. Ranavijay does not appoint more than half of the Board of directors in one of the companies, i.e., Pigeon Ltd they cannot be deemed as associated enterprises. In other words, Pigeon Ltd and Cuckoo Inc. are not deemed to be associated enterprises.

(vii) Since one individual (Mr. Cooper), and his relative (wife of Mr. Cooper), control Carrot Ltd of India and Cucumber Inc. of USA, both Carrot Ltd and Cucumber Inc. are deemed to be associated enterprises.