

PRACTICAL TAXATION

COURSE CODE: SGB24CM201SE

Bachelor of Commerce (Honours)

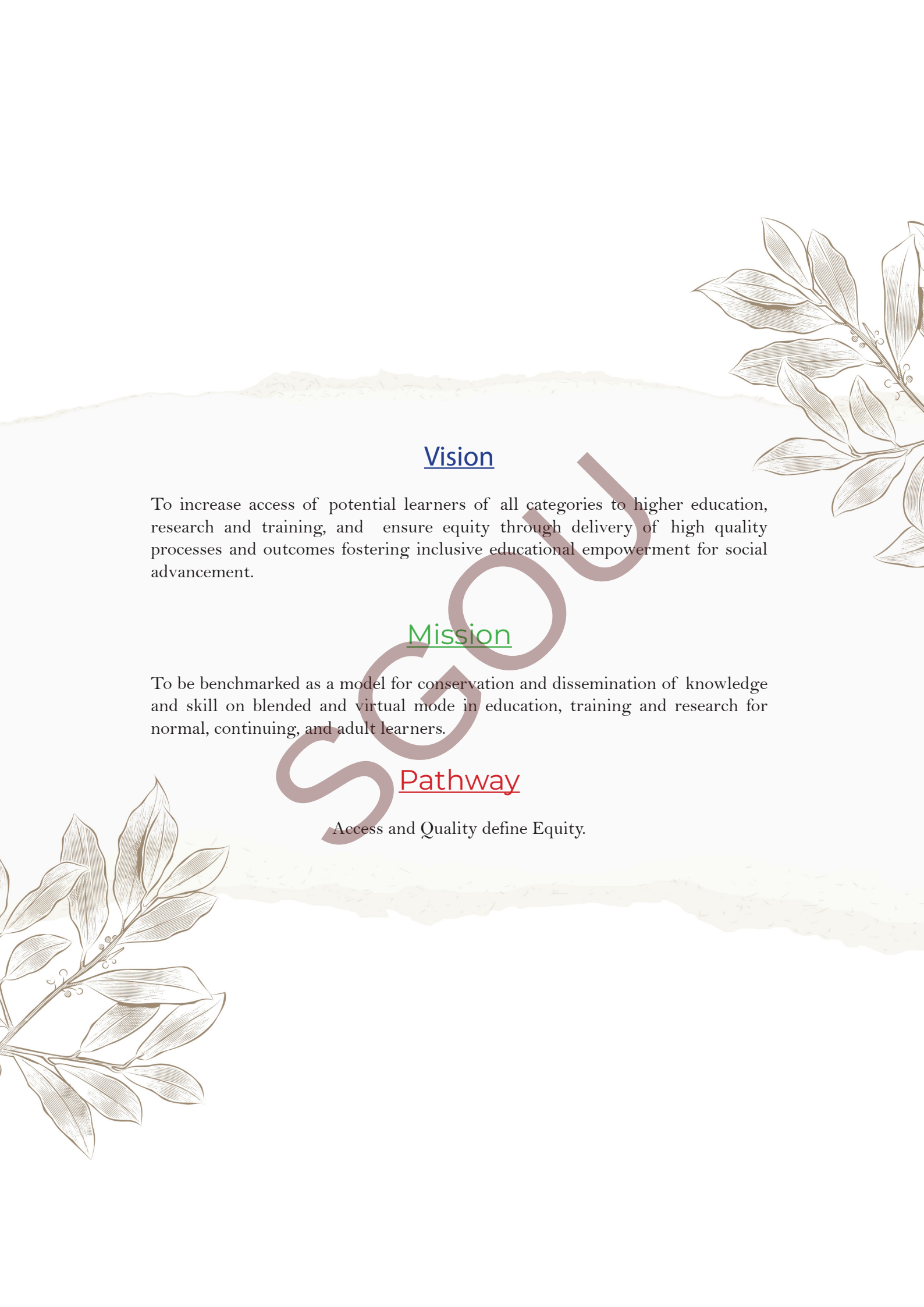
Skill Enhancement Course

Self Learning Material



SREENARAYANAGURU OPEN UNIVERSITY

The State University for Education, Training and Research in Blended Format, Kerala

The background features a stylized landscape with rolling hills in shades of light green and yellow. On the right side, there is a detailed illustration of a plant branch with several elongated, pointed leaves. On the left side, another similar plant branch is visible. A large, faint, brown watermark with the letters 'SQU' is oriented diagonally across the center of the page.

Vision

To increase access of potential learners of all categories to higher education, research and training, and ensure equity through delivery of high quality processes and outcomes fostering inclusive educational empowerment for social advancement.

Mission

To be benchmarked as a model for conservation and dissemination of knowledge and skill on blended and virtual mode in education, training and research for normal, continuing, and adult learners.

Pathway

Access and Quality define Equity.

Practical Taxation
Course Code: SGB24CM201SE
Semester - IV

Four Year Undergraduate Programme
Bachelor of Commerce (Honours)
Skill Enhancement Course
Self Learning Material
(With Model Question Paper Sets)



SREENARAYANAGURU
OPEN UNIVERSITY

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PRACTICAL TAXATION

Course Code: SGB24CM201SE

Semester- IV

Skill Enhancement Course

Bachelor of Commerce (Honours)

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MESSAGE FROM VICE CHANCELLOR

Dear Learner,

It is with great pleasure that I welcome you to the Four Year BCom Programme offered by Sreenarayanaguru Open University.

Established in September 2020, our university aims to provide high-quality higher education through open and distance learning. Our guiding principle, 'access and quality define equity', shapes our approach to education. We are committed to maintaining the highest standards in our academic offerings.

Our university proudly bears the name of Sreenarayanaguru, a prominent Renaissance thinker of modern India. His philosophy of social reform and educational empowerment serves as a constant reminder of our dedication to excellence in all our academic pursuits.

The Four Year BCom Programme covers all relevant areas aligned with modern business practices and economic principles. We have incorporated the latest trends in commercial studies to ensure a comprehensive and up-to-date curriculum. Moreover, the programme encompasses flexible options for learners to choose from a range of Ability Enhancement Courses, Multi-disciplinary Courses, Value Added Courses, and Skill Enhancement Courses, complemented by discipline-oriented Advanced and Additional Advanced Courses.

Our teaching methodology combines three key elements: Self Learning Material, Classroom Counselling, and Virtual modes. This blended approach aims to provide a rich and engaging learning experience, overcoming the limitations often associated with distance education. We are confident that this programme will enhance your understanding of commercial principles and practices, preparing you for various career paths and further academic pursuits.

Our learner support services are always available to address any concerns you may have during your time with us. We encourage you to reach out with any questions or feedback regarding the programme.

We wish you success in your academic journey with Sreenarayanaguru Open University.

Best regards,



Dr. Jagathy Raj V.P.
Vice Chancellor
Sreenarayanaguru Open University

01-05-2026

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Assessment of Firms

BLOCK

Unit 1

Computation of Firm's Income

Learning Outcomes

After completing the unit learners will be able to

- ◇ compute the income of a partner from a firm
- ◇ determine the remuneration of working partners
- ◇ calculate the firm's income

Prerequisites

Anil and Bhavna started a small organic food business they chose to run it together as partners rather than alone. They trusted each other, shared responsibilities, invested capital, and agreed to divide the profits equally. In the beginning, their focus was only on growing the business buying raw materials, serving customers, and earning profits. But as the business expanded, they realised that earning profit was only one part of the journey; they also had to understand how the government taxes their firm. Questions began to arise How is the firm's income calculated? Is the firm taxed separately from the partners? Can salary and interest pay to partners be deducted? This marked the beginning of their exploration into the taxation of partnership firms, where business decisions and tax laws go hand in hand.

Keywords

Assessment of Firms, Computation of Income, , Book Profit, Working Partners, Partner Remuneration, Taxable Income, Share of Profit, Partnership Deed, Section 40(b), Income of Partner, Deductible Expenses

Discussion

A partnership is a business relationship where two or more people agree to share the profits of a business carried on by any or all of them for the benefit of the group. These people are called partners and together they form a firm. For example, if two friends start a small café in Pune and agree to share the profits, they are partners in a partnership firm. Partnerships are mainly of two types:

- ◇ Limited liability partnerships and
- ◇ Unlimited liability partnerships.

In a limited liability partnership, each partner's risk is limited to the amount of money they have invested in the firm. For example, if an LLP owes ₹5,00,000 and a partner has invested ₹1,00,000, the partner will lose only ₹1,00,000. In an unlimited liability partnership, the partners are responsible for all the debts of the firm, even from their personal assets. For example, if the firm's assets are not enough to repay a loan, creditors can recover the remaining amount from the partners' personal savings or property. These two types of partnerships are further divided into following:

- ◇ Firms that fulfil Section 184 of the Income Tax Act and
- ◇ Firms that do not fulfil Section 184

If a firm fulfils Section 184, the interest and remuneration paid to partners, such as salary or commission, can be deducted from business income while computing tax under Section 40(b). For example, if a partner receives a monthly salary for managing the firm, the firm can deduct that salary before calculating taxable income. If a firm does not fulfil Section 184, Section 185 applies and the interest and remuneration paid to partners cannot be deducted, which means the firm will pay tax on a higher amount of income.

Any person who is an adult and mentally sound can become a partner. A minor cannot become a full partner, but can be admitted to the benefits of the partnership, which means the minor can receive a share of the profits but cannot take part in management decisions. For example, a 16-year-old child of a partner may get a share of profit but cannot sign business contracts. A Hindu Undivided Family cannot become a partner in a partnership firm. The family manager or Karta also cannot be a partner with the HUF in his personal capacity. However, the Karta or any member of the family may act as a partner on behalf of the family along with an outsider. In such cases only the representative is treated as the partner, but creditors may still recover dues from the joint family assets, including the shares of members who are not partners.

A company is not allowed to form a partnership with another company or with an individual. However, a person who is a partner in one firm may also become a partner in another firm. Similarly, all partners of two firms may come together to form a larger partnership. Whether the same partners running two businesses should be treated as



separate firms depends on their intention and on whether their management, finances and day to day operations are kept independent. For example, if the same partners run a grocery shop and a wholesale business but maintain separate accounts and separate decision making, they may be treated as two different firms.

1.1.1 Assessment of firm (Sec 184)

For a partnership to be officially recognised as a firm for income tax purposes, it must have a satisfies the following conditions under section 144:

- A partnership must have a written partnership deed that clearly states each partner's profit-sharing ratio.
- A certified copy of this partnership deed must be submitted along with the income tax return for the previous year in which the firm is assessed for the first time.
- Once the income tax department accepts the firm as a valid partnership firm in one assessment year, it will continue to be treated as a partnership firm in all later years, provided there is no change in the constitution of the firm.
- If any change takes place in the partnership, such as a new partner joining, a partner retiring or a change in the profit-sharing ratio, the firm must submit a certified copy of the revised partnership deed along with the income tax return for that particular year.

If the firm does not follow the requirements under section 144, the firm will still be assessed as a firm, but two consequences will follow. First, the firm cannot claim any deduction for interest, salary, bonus, commission or other remuneration paid to partners while computing income under the head Profits and Gains of Business or Profession. Second, the partners will also not be taxed on the interest, salary or remuneration they receive from the firm under the same head, meaning these amounts will not be added to their individual taxable income.

1.1.2 Assessment of firm when section 184 not complied with (Sec 185)

If a firm does not follow the rules of section 184 for an assessment year, the income tax department will still treat it as a firm, but it will not get certain benefits. In this situation, the firm cannot claim any deduction for salary, interest, bonus or commission paid to partners while calculating its taxable business income. For example, if the firm pays a partner ₹20,000 every month for managing the shop, the firm cannot deduct this amount from its income for tax purposes. At the same time, the partner who receives this money does not have to pay tax on it under business income. When the firm calculates its income, any salary, interest or commission that is not allowed under section 40(b) must be added back to the firm's income. Section 40(b) says that only payments authorised by the partnership deed are allowed. If the deed does not mention a salary or interest, the firm cannot claim it. For example, if a deed is signed on 1 April but the firm pays



salary for the earlier months, that salary will not be allowed as a deduction. Interest paid to partners is allowed only up to 12 percent per year; if the rate is higher, the extra interest is not allowed. Remuneration paid to working partners must also be within limits. For example, if the firm's book profit is ₹3,00,000, it can pay up to 90 percent of this profit or ₹1,50,000, whichever is higher. For profits above ₹3,00,000, the firm can pay up to 60 percent as remuneration. A working partner is someone who helps run the business daily, while a sleeping partner does not take part in management. Sometimes partnership deeds do not mention the exact amount of remuneration and say only that "remuneration will be paid as per law". This is not enough. The tax department has clearly said that the deed must either mention the exact amount of remuneration or show the method of calculating it. If this detail is missing, the firm cannot claim any deduction for remuneration paid to working partners. For example, if the deed does not state how much salary a partner will get or how it will be calculated, the firm cannot claim that salary as a tax deduction.

1.1.3 Determination of remuneration to working partners

The rules for deciding how much salary or remuneration a working partner can receive in a partnership firm are given in Section 40(b) of the Income Tax Act, 1961. These rules help the income tax department decide how much of the remuneration can be claimed as an expense by the firm. Conditions are as follows:

- 1. Only working partners can receive remuneration**

A working partner is someone who actually takes part in running the business every day. A silent partner (who only gives money to the firm and does not work) cannot receive a salary. If Raju works in the firm daily and Sita only invested money, then only Raju can receive a salary. Sita will only get a share of profit.

- 2. Remuneration must be written clearly in the partnership deed**

The partnership deed must clearly mention either the exact amount of remuneration or a clear method of calculating it. Simply writing "as per the Income Tax Act" is not accepted. If the deed says "Raju will get ₹30,000 per month", it is valid. But if the deed says "remuneration will be decided later", it is not valid for deduction.

- 3. Remuneration is allowed only from the date mentioned in the deed**

Remuneration cannot be claimed for any period before the deed is signed. If the deed is signed on 1 July, the firm cannot claim salary for April to June.

- 4. The remuneration must be within the limits set under Section 40(b)**

Even if the deed allows a high amount, the firm can claim only up to the maximum limit allowed by income tax law. Anything extra will not be allowed.

Maximum remuneration allowed depends on book profit, which is basically the net profit of the firm after adding back any partner remuneration already deducted.



**Table 1.1.1 Maximum deduction allowed For FY 2025–26 onwards
(AY 2026–27)**

Book Profit	Maximum Deduction Allowed
On the first ₹6,00,000 or in case of a loss	₹3,00,000 or 90% of book profit (whichever is higher)
On the remaining book profit	60% of the balance

Suppose the firm's book profit is ₹10,00,000.

- On the first ₹6,00,000 → 90% = ₹5,40,000 (this is allowed)
- On the remaining ₹4,00,000 → 60% = ₹2,40,000
- Total maximum allowed remuneration = ₹5,40,000 + ₹2,40,000 = ₹7,80,000

If the firm pays more than ₹7,80,000, the extra amount will not be allowed as an expense for the firm. (Earlier (before FY 2025–26), the limit was based on the first ₹3,00,000, not ₹6,00,000.)

The remuneration paid to working partners is treated as an expense for the firm, as long as it is within the limits allowed by law, and this helps reduce the firm's taxable income. After claiming all such deductions, the firm pays tax at the flat rate of 30 percent. In the hands of the partner, the allowed remuneration becomes part of their personal income and is taxed according to their own slab rate; for example, if a partner receives ₹5,00,000 as remuneration, this amount will be added to their total income and taxed accordingly. A new rule under Section 194T, effective from April 2025, requires the firm to deduct 10 percent TDS if the total payment to a partner during the year exceeds ₹20,000, such as deducting ₹5,000 when a partner receives ₹50,000. If the firm pays more remuneration than what Section 40(b) allows, the extra amount cannot be claimed as an expense by the firm, but this excess is also not taxed in the partner's hands, which prevents double taxation. Further, the partner's share of the firm's profit, after the firm pays tax on its income, is completely exempt for the partner under Section 10(2A); for example, if a partner's share of profit is ₹2,00,000, they do not pay tax on this amount.

Illustration

A, B and C are partners sharing profits equally. A and B are working partners, C is a sleeping partner. The Partnership Deed states:

- A's Salary = ₹1,20,000 per annum
- B's Commission = 10% of Book Profit
Book Profit before partner remuneration = ₹2,50,000



Compute allowable remuneration of partners.

Solution

Step 1 – Compute Book Profit (Sec 40(b))

Book Profit (before remuneration) = ₹2,50,000

Add: A's salary (to be allowed) = ₹1,20,000

Add: B's commission (10% of book profit) = 10% of book profit
but book profit depends on commission.

Let Commission = 10% of (Book Profit including Commission)
Let total book profit = X

$$X = ₹2,50,000 + ₹1,20,000 + 0.10X$$

$$0.90X = ₹3,70,000$$

$$X = ₹4,11,111 \text{ (Book Profit)}$$

$$\text{Commission} = 10\% \times 4,11,111 = ₹41,111$$

Step 2 – Total remuneration as per deed

Partner	Type	Amount
A	Salary	₹1,20,000
B	Commission	₹41,111

Total remuneration (deed) = ₹1,61,111

Step 3 – Maximum Allowable u/s 40(b)

Book Profit = ₹4,11,111

- 90% of first ₹3,00,000 = ₹2,70,000
- 60% of balance ₹1,11,111 = ₹66,667

Maximum allowable = ₹3,36,667

Since actual remuneration (₹1,61,111) < maximum allowable (₹3,36,667),
Full remuneration is allowable.

Illustration 1.1.2

Partners: P, Q and R. P and Q are working partners. Profit as per P&L A/c after debiting remuneration = ₹3,00,000

Partnership Deed:

- P's Salary = ₹1,50,000
- Q's Salary = ₹1,00,000
- Bonus to P @ 10% of book profit before remuneration



Calculate allowable remuneration.

Solution:

Step 1 – Compute Book Profit

Profit after debiting remuneration = ₹3,00,000

Add Salary:

P = ₹1,50,000

Q = ₹1,00,000

Add Bonus to P (depends on book profit)

Let Book Profit = X

$X = ₹3,00,000 + ₹1,50,000 + ₹1,00,000 + 0.10X$

$0.90X = ₹5,50,000$

$X = ₹6,11,111$ (Book Profit)

Bonus = $10\% \times 6,11,111 = ₹61,111$

Step 2 – Total remuneration as per deed

Partner	Type	Amount
P	Salary	₹1,50,000
Q	Salary	₹1,00,000
P	Bonus	₹61,111

Total = ₹3,11,111

Step 3 – Maximum allowable u/s 40(b)

Book Profit = ₹6,11,111

- 90% of ₹3,00,000 = ₹2,70,000
- 60% of ₹3,11,111 = ₹1,86,667

Maximum allowable = ₹4,56,667

Conclusion:

Actual remuneration = ₹3,11,111

Maximum allowable = ₹4,56,667

So, full amount is allowable.

Illustration 1.1.3

Partners A and B, both working. Book Profit = ₹4,00,000

No clause regarding remuneration in the partnership deed. Find the allowable remuneration.



Solution:

If the deed does not authorise remuneration, no remuneration is allowable, even if partners work full-time.

Illustration 1.1.4

Partners A and B, both working. Profit as per P&L after debiting salaries: Loss of ₹50,000

Partnership Deed:

- A's Salary = ₹1,00,000
- B's Salary = ₹1,00,000

Solution**Step 1 – Compute Book Profit**

Book Profit = Loss after remuneration + remuneration
= (-50,000) + 2,00,000
= ₹1,50,000

Step 2 – Total remuneration as per deed

A's Salary = 1,00,000
B's Salary = 1,00,000
Total = **₹2,00,000**

Step 3 – Maximum allowable u/s 40(b)

Book Profit = ₹1,50,000
On first ₹3,00,000 (since profit < 3 lakh):
Max = Higher of:

- ₹1,50,000
- 90% of ₹1,50,000 = ₹1,35,000

So allowable = ₹1,50,000

Conclusion: Actual remuneration = ₹2,00,000
Maximum allowable = ₹1,50,000

So, ₹1,50,000 is allowed, ₹50,000 is disallowed.

Illustration 1.1.5

Two working partners: X and Y

Book Profit (before remuneration) = ₹12,00,000

Partnership Deed:

- X's Salary = ₹4,00,000
- Y's Salary = ₹4,00,000
- Commission to X = 5% of Book Profit
- Commission to Y = 5% of Book Profit



Required:

Find allowable remuneration.

Solution

Step 1 – Compute Book Profit (circular)

Profit before remuneration = ₹12,00,000

Add Salaries = ₹8,00,000

Add Commission = 10% of Book Profit

Let Book Profit = X

$X = 12,00,000 + 8,00,000 + 0.10X$

$0.90X = 20,00,000$ (Note: Profit before remuneration and salaries compose 90 per cent of profit)

$X = ₹22,22,222$ (Book Profit)

Commission = $10\% \times 22,22,222 = ₹2,22,222$

Step 2 – Actual remuneration as per deed

Partner	Type	Amount
X	Salary	₹4,00,000
Y	Salary	₹4,00,000
X + Y	Commission	₹2,22,222

Total = ₹10,22,222

Step 3 – Maximum allowable u/s 40(b)

Book Profit = ₹22,22,222

- 90% of first ₹3,00,000 = ₹2,70,000
- 60% of remainder ₹19,22,222 = ₹11,53,333

Maximum allowable = ₹14,23,333

Particulars	Amount (₹)
Actual Remuneration (as per deed)	10,22,222
Maximum Permissible Remuneration (u/s 40(b))	14,23,333
Allowability Status	Full remuneration is allowable

1.1.4 Computation of Income of a Partner from the Firm

A partner earns income from the firm in different ways, such as share of profit, interest on capital, salary, bonus, or commission. The Income Tax Act has specific rules to decide how each of these amounts will be taxed in the hands of the partner. Some amounts are fully taxable, some are exempt, and some are partly taxable depending on the limits under Section 40(b). The following sections explain the treatment of each type of income in a clear and systematic manner.

1. Share of Profit from the Firm

A partner's share in the total profit of the firm is fully exempt under Section 10(2A) of the Income Tax Act. This exemption is granted because the firm already pays tax on its total income. To avoid taxing the same income twice, the partner's share is excluded from their taxable income. If a partner's share of profit is ₹2,00,000, the entire amount is exempt and will not be included in the computation of their taxable income.

2. Interest Received from the Firm

A partner may receive interest on the capital invested in the firm. Such interest is taxable in the hands of the partner under the head Profits and Gains of Business or Profession. However, the interest must satisfy two conditions:

- It must be authorised by the partnership deed.
- It must not exceed 12% per annum.

If the firm pays interest exceeding 12%, the excess is disallowed for the firm but is also not taxable for the partner to prevent double taxation.

3. Remuneration from the Firm: Salary, Bonus, Commission, etc.

A working partner may receive salary, bonus, commission, or other remuneration for contributing to the management of the firm. Such remuneration is not treated as salary income because a partner is not considered an employee of the firm. Instead, it is taxed as business income in the partner's hands. The remuneration must be:

- paid only to a working partner,
- authorised by the partnership deed, and
- within the limits prescribed under Section 40(b).

If the firm pays remuneration in excess of these limits, the excess amount is disallowed as an expenditure for the firm. However, this excess is also not taxable for the partner.

4. Other Types of Income Received by a Partner

a. Rent from Property Leased to the Firm

If a partner lets out their building to the firm and receives rent, the amount is taxed as Income from House Property, as the partner is receiving it in the capacity of a landlord, not as a partner.



b. **Rent-Free Accommodation and Free Electricity**

If the firm provides rent-free accommodation or free electricity to a partner, the expenditure is disallowed in the firm's accounts. The amount is not taxed in the hands of the partner to avoid double taxation.

5. Deductions Allowed to the Partner

While computing taxable income of a partner under Profits and Gains of Business or Profession, certain deductions are allowed:

1. Interest on Borrowed Capital:

If the partner borrows money to contribute capital to the firm, the interest paid on such borrowing is allowable as a deduction.

2. Interest Paid on Deficit Capital:

If the partnership deed requires the partner to maintain a minimum capital balance and the partner fails to do so, interest paid to the firm on the deficit balance is deductible.

3. Expenses Incurred to Earn Remuneration:

Any expenditure incurred by the partner for earning income from the firm can be claimed as a deduction. This may include motor car expenses, depreciation on car, or travel expenses incurred for firm-related work.

Illustration 1.1.6

A partner receives the following from the firm, Computation of Partner's Taxable Income

- Share of profit: ₹2,00,000
- Interest on capital (10%): ₹40,000
- Remuneration: ₹3,00,000
- Expenses incurred to earn remuneration: ₹20,000

Solution

- Share of profit → Exempt under Section 10(2A)
- Interest on capital → ₹40,000
- Remuneration → ₹3,00,000
- Less: Expenses → ₹20,000

Taxable income of partner = ₹3,20,000

Illustration 1.1.7

A partner receives the following amounts from the firm:

- Share of profit: ₹1,50,000



- Interest on capital (12%): ₹60,000
- Salary (as per deed): ₹2,40,000
- Expenses incurred to earn salary: ₹30,000

Compute the taxable income of the partner.

Solution:

- Share of profit → Exempt under Section 10(2A) = ₹0
- Interest on capital → ₹60,000
- Salary → ₹2,40,000
- Less: Expenses incurred to earn salary → ₹30,000

Taxable Income of partner = ₹60,000 + (2,40,000 – 30,000) = ₹2,70,000

Illustration 1.1.8

A partner receives the following from the firm:

- Share of profit: ₹3,20,000
- Interest on capital (8%): ₹25,000
- Commission from firm: ₹1,50,000
- Interest paid on borrowed capital invested in firm: ₹18,000

Solution:

- Share of profit → Exempt = ₹0
- Interest on capital → ₹25,000
- Commission → ₹1,50,000
- Less: Interest on borrowed capital → ₹18,000

Taxable Income of partner = ₹25,000 + (1,50,000 – 18,000) = ₹1,57,000

Illustration 1.1.9

A partner has the following items:

Share of profit: ₹90,000

Remuneration: ₹2,00,000

Interest on capital (15%, but allowable only up to 12%): ₹50,000

Car expenses incurred to earn remuneration: ₹22,000



Solution:

- Share of profit → Exempt = ₹0
- Interest on capital → Maximum 12% allowed to firm so that is taxable to partner → ₹40,000 ($\frac{50000}{15} \times 12 = 40000$)
- Remuneration → ₹2,00,000
- Less: Car expenses → ₹22,000

Taxable Income of partner = ₹40,000 + (2,00,000 – 22,000) = ₹2,18,000

Illustration 1.1.10

A partner receives the following from a partnership firm during the financial year:

- Share of profit: ₹3,50,000
- Remuneration: ₹4,20,000 (as per partnership deed)
- Interest on capital: ₹1,20,000 (deed allows 12% only, excess paid: ₹20,000)
- Rent-free accommodation provided by the firm: ₹60,000 (not taxable for partner, disallowed for firm)
- Interest on loan borrowed to invest in the firm: ₹50,000
- Expenses incurred to earn remuneration: ₹45,000
- Personal drawings interest paid to firm: ₹12,000

Other Information:

- Maximum permissible remuneration under Section 40(b) is ₹3,80,000.
- Taxable interest on capital is limited to 12% per partnership deed.

Compute the taxable income of the partner.

Solution**Step 1: Exempt Income**

- Share of profit → Exempt under Section 10(2A) = ₹0
- Rent-free accommodation → Exempt = ₹0

Step 2: Interest on Capital

- Deed allows 12% → ₹1,00,000 (₹1,20,000 – ₹20,000 excess not taxable)

Step 3: Remuneration

- Paid remuneration = ₹4,20,000
- Maximum allowable = ₹3,80,000

- Use allowed amount for computation → ₹3,80,000

Step 4: Deductible Expenses

- Expenses incurred to earn remuneration = ₹45,000
- Interest on borrowed capital = ₹50,000
- Interest on drawings = ₹12,000
- Total deductions = ₹45,000 + 50,000 + 12,000 = ₹1,07,000

Step 5: Compute Taxable Income

- Interest on capital = ₹1,00,000
- Remuneration = ₹3,80,000
- Less: deductions = ₹1,07,000

Taxable Income of partner = ₹1,00,000 + (3,80,000 – 1,07,000) = ₹3,73,000

Notes:

- Excess remuneration paid above Section 40(b) limit (₹4,20,000 – ₹3,80,000 = ₹40,000) is not taxable for the partner.
- Excess interest on capital above 12% (₹20,000) is not taxable for the partner.
- Rent-free benefits from firm are not taxable.
- Share of profit is fully exempt.

1.1.5 Computation of firm's income

Computation of firm's income is explained in below:

Step 1 - Calculate Total Revenue

The first step is to determine the total revenue earned by the firm during the financial year. This includes all business income, such as sales, services, and other receipts. A partnership firm earns ₹50,00,000 in total revenue for the year.

Step 2: Deduct Allowable Business Expenses

From the total revenue, the firm can deduct legitimate business expenses. These include operational costs such as rent, employee salaries (excluding partners), utilities, depreciation, and other costs incurred in running the business.

Business expenses for the year are ₹6,00,000.

Calculation so far:

- Total Revenue = ₹50,00,000
- Less: Business Expenses = ₹6,00,000
- Balance = ₹44,00,000



Step 3: Deduct Partner Payments

Next, authorised payments to partners are deducted. These include:

- **Remuneration:** Salary, bonus, or commission paid to working partners, subject to limits under Section 40(b) of the Income Tax Act.
- **Interest on Capital:** Interest paid to partners on their capital contributions, up to 12% per annum unless otherwise authorised by the partnership deed.

Payments exceeding these limits are not deductible, though the excess is not taxable for partners.

Example:

- Partner remuneration: ₹3,00,000
- Interest on capital: ₹1,00,000

Calculation:

- Balance after business expenses: ₹44,00,000
- Less: Partner Payments (Remuneration + Interest) = ₹4,00,000
- Net Taxable Income = ₹40,00,000

Step 4: Apply Tax Rate

Partnership firms in India are taxed at a flat rate of 30% on net taxable income.

Example :

- Net Taxable Income = ₹40,00,000
- Tax @ 30% = 30% of ₹40,00,000 = ₹12,00,000

Step 5: Add Surcharge and Cess

A Health and Education Cess of 4% is applied on the tax amount. Any surcharge may also be added if applicable.

Example:

- Cess = 4% of ₹12,00,000 = ₹48,000
- Total Tax Payable = ₹12,48,000

Table 1.1.3 computation of firm's income

Particulars	Amount (₹)
Total Revenue	50,00,000
Less: Business Expenses	6,00,000

Less: Partner Payments	4,00,000
Net Taxable Income	40,00,000
Tax @ 30%	12,00,000
Health & Education Cess @ 4%	48,000
Total Tax Payable	12,48,000

For the Assessment Year 2025–26, tax on different types of income is charged at special rates. Short-term capital gains on listed equity shares, equity-oriented mutual funds and business-trust units, where STT is paid, are taxed at 20% under Section 111A. Long-term capital gains on such equity assets under Section 112A are taxed at 12.5%, and this rate applies only on the amount of gain exceeding the exemption limit of ₹1.25 lakh. Long-term capital gains on all other assets such as property, unlisted shares and gold are also taxed at 12.5%, and the benefit of indexation is not allowed for transfers made on or after 23 July 2024. Income from winnings such as lotteries, card games, crossword puzzles and horse races continues to be taxed at a flat 30%. After calculating the base tax, applicable surcharge, based on income-level, and 4% Health and Education Cess are added to arrive at the final tax payable.

Table 1.1.4 Proforma of Computation of Total Income of the firm

	Amount
Book Profit of the Firm	xxx
Less: Remuneration paid to working partners:	xxx
Least of the following two:	xxx
Actual Remuneration or Statutory Limit u/s 40(b)	xxx
Profits and Gains of Business or Profession of the firm	xxx
Add: Income from all other sources	xxx
Gross Total Income	xxx
Less: Deductions u/s 80C to 80U	xxx
Total Income	xxx
Less: Tax payable by the firm	xxx
Distributable Income to be distributed among the partners according to their profit sharing ratio	xxx

Illustration 1.1.11

A firm has:

- Total Revenue: ₹60,00,000
- Business Expenses: ₹8,00,000
- Partner Remuneration (within 40(b) limits): ₹4,50,000
- Interest on Capital (within limit 12%): ₹1,50,000



Solution:

- Total Revenue – Business Expenses = 60,00,000 – 8,00,000 = ₹52,00,000
- Less: Partner Payments = 4,50,000 + 1,50,000 = 6,00,000
- Net Taxable Income = 46,00,000
- Tax @ 30% = 13,80,000
- Cess @ 4% = 55,200

Total Tax Payable = 14,35,200

Illustration 1.1.12

A partnership firm has the following details for the financial year:

- Total Revenue: ₹45,00,000
- Business Expenses: ₹7,50,000
- Partner Remuneration (within 40(b) limits): ₹3,00,000
- Interest on Capital (within limit 12%): ₹80,000

Compute:

1. Net taxable income of the firm
2. Tax payable including Health and Education Cess @ 4%

Solution:

- Total Revenue – Business Expenses = 45,00,000 – 7,50,000 = 37,50,000
- Less: Partner Payments = 3,00,000 + 80,000 = 3,80,000
- Net Taxable Income = 37,50,000 – 3,80,000 = 33,70,000
- Tax @ 30% = 30% of 33,70,000 = 10,11,000
- Cess @ 4% = 4% of 10,11,000 = 40,440

Total Tax Payable = 10,51,440

Illustration 1.1.13

A firm has:

- Total Revenue: ₹60,00,000
- Business Expenses: ₹10,00,000
- Partner Remuneration Paid: ₹5,00,000 (maximum allowed ₹4,00,000 under Section 40(b))
- Interest on Capital Paid: ₹1,50,000 (maximum allowed 12% = ₹1,20,000)



Compute:

- Net taxable income of the firm
- Excess payments
- Tax payable

Solution:

- Total Revenue – Business Expenses = 60,00,000 – 10,00,000 = 50,00,000
- Deduct allowable payments: Remuneration ₹4,00,000 + Interest ₹1,20,000 = 5,20,000
- Net Taxable Income = 50,00,000 – 5,20,000 = 44,80,000
- Excess Payments: Remuneration = 1,00,000; Interest = 30,000
- Tax @ 30% = 30% of 44,80,000 = 13,44,000
- Cess @ 4% = 4% of 13,44,000 = 53,760

Total Tax Payable = 13,97,760

(Note: Excess payments are not deductible for the firm but are not taxable for partners.)

Illustration 1.1.14

A partnership firm reports:

- Total Revenue: ₹70,00,000
- Business Expenses: ₹12,00,000 (includes ₹50,000 for rent-free accommodation given to a partner)
- Partner Remuneration: ₹4,50,000 (within 40(b) limits)
- Interest on Capital: ₹1,80,000 (within limit 12%)

Compute:

1. Net taxable income
2. Tax payable

Solution:

- Deduct business expenses excluding disallowed rent-free accommodation: 12,00,000 – 50,000 = 11,50,000
- Revenue – Expenses = 70,00,000 – 11,50,000 = 58,50,000
- Deduct partner payments: 4,50,000 + 1,80,000 = 6,30,000
- Net Taxable Income = 58,50,000 – 6,30,000 = 52,20,000
- Tax @ 30% = 15,66,000



- Cess @ 4% = 62,640
- Total Tax Payable = 16,28,640

(Note: Rent-free accommodation given to a partner is disallowed for the firm, but not taxable for the partner.)

Illustration 1.1.15

A partnership firm earns:

- Total Revenue: ₹80,00,000
- Business Expenses: ₹15,00,000
- Partner Remuneration Paid: ₹6,00,000 (allowable under 40(b) ₹5,00,000)
- Interest on Capital Paid: ₹2,50,000 (allowable 12% = ₹2,00,000)

Compute:

1. Net Taxable Income
2. Excess payments and treatment
3. Tax liability including cess

Solution:

- Revenue – Expenses = 80,00,000 – 15,00,000 = 65,00,000
- Deduct allowable partner payments: Remuneration ₹5,00,000 + Interest ₹2,00,000 = 7,00,000
- Net Taxable Income = 65,00,000 – 7,00,000 = 58,00,000
- Excess payments: Remuneration ₹1,00,000; Interest ₹50,000 (not deductible, not taxable to partner)
- Tax @ 30% = 17,40,000
- Cess @ 4% = 69,600
- Total Tax Payable = 18,09,600

Illustration 1.1.16

A firm reports:

- Total Revenue: ₹55,00,000
- Business Expenses: ₹8,00,000
- Partner Remuneration: ₹3,50,000 (within limit)
- Interest on Capital: ₹1,00,000
- Expenses incurred by partner to earn remuneration: ₹25,000



Compute Net Taxable Income and Tax Payable

Solution:

- Revenue – Expenses = $55,00,000 - 8,00,000 = 47,00,000$
- Deduct partner payments: $3,50,000 + 1,00,000 = 4,50,000$
- Net Taxable Income = $47,00,000 - 4,50,000 = 42,50,000$
- Tax @ 30% = 12,75,000
- Cess @ 4% = 51,000
- Total Tax Payable = 13,26,000

(Note: Expenses incurred by the partner to earn remuneration are deductible in the computation of partner's taxable income, not for the firm.)

Recap

- ◇ A partnership is a profit-sharing business where two or more individuals share responsibilities, risks, and rewards.
- ◇ Partnerships are of two types: LLP with limited liability, and traditional partnership with unlimited liability.
- ◇ Section 184-compliant firms can claim deductions for partner remuneration and interest.
- ◇ Section 185 firms cannot claim these deductions.
- ◇ Section 184 requires a written deed, submission of the deed with the first return, and a fresh deed if the partnership structure changes.
- ◇ Non-compliance under Section 185 leads to loss of deductions for the firm, while partners are not taxed on such payments.
- ◇ Section 40(b) allows deductions only for valid, deed-specified, post-deed, working-partner payments within limits, and interest up to 12%.
- ◇ From AY 2026–27, maximum remuneration is 90% of the first ₹6,00,000 or ₹3,00,000 (whichever is higher) and 60% of the balance, with no payment allowed if the deed is silent.
- ◇ Partner's share of profit is exempt, while interest, salary, bonus, and commission are taxed as Business Income; excess over limits is disallowed for the firm but not taxable for partners.



- ◇ Partners can claim deductions for expenses incurred to earn business income, such as interest on borrowed/deficit capital and firm-related travel or vehicle expenses.

Objective Questions

1. LLP offers What type of liability?
2. Which Section of firms can claim deductions for partner remuneration and interest?
3. Which Section of firms cannot claim deductions for partner payments?
4. Which Written document required Under sec184?
5. Section 40(b) deductions are allowed only for Which type of partners?
6. What is the rate of Interest allowable under Section 40(b)?
7. What percentage applies to the first ₹6,00,000 of book profit?
8. Which section exempts a partner's share of profit?
9. What is the tax treatment for excess remuneration for the firm?
10. What is the tax treatment for excess remuneration for the partner?

Answers

1. Limited liability.
2. 184
3. 185
4. Partnership deed
5. Working partners
6. 12
7. 90

8. 10(2A)
9. Disallowed
10. Non-taxable

Self-Assessment Questions

1. Explain the conditions for allowability of remuneration and interest to partners under Section 40(b).
2. A firm pays remuneration of ₹2,50,000 to working partners as per deed. Interest on capital of ₹1,00,000 @12% is also paid. Net profit before partner payments is ₹10,00,000. Compute the taxable income of the firm.
3. A partner receives salary of ₹1,20,000 and interest on capital of ₹80,000 (within limits). Share of profit is ₹2,50,000. Compute the taxable income of the partner.
4. A firm is non-compliant under Section 184. It paid remuneration of ₹3,00,000 and interest of ₹1,50,000. Explain and compute how the firm's taxable income will be calculated.
5. Explain comprehensively the tax treatment of partnership firms and partners, including the concepts of Section 184, Section 185, and Section 10(2A).
6. Firm reports net profit of ₹18,00,000 before partner payments. Remuneration allowed by deed is ₹6,00,000 but actual remuneration is ₹8,00,000. Interest allowed as per deed is 12%, but the firm paid interest @15% on capital of ₹10,00,000.
 - Compute allowable and disallowed partner payments, and
 - Compute taxable income of the firm, and
 - Compute taxable income of the partner receiving these payments.

Assignments

1. A firm has the following:

- Net profit before partner payments: ₹15,00,000
- Remuneration as per deed: ₹4,00,000
- Actual remuneration paid: ₹6,50,000
- Interest on capital allowable @12%: ₹90,000
- Actual interest paid: ₹1,20,000
- Rent paid to partner for building: ₹2,00,000

Required:

- Compute allowable deductions
 - Compute disallowed amounts
 - Compute taxable income of the firm
 - Classify the partner's income under proper heads
2. Explain in detail the provisions of Section 40(b) relating to remuneration and interest to partners. Discuss why these limits are necessary in the taxation framework of partnership firms.
3. "Partner's share of profit is exempt, but other payments like salary and interest are taxable." – Analyse this statement with reference to Section 10(2A) and explain the logic behind this tax treatment.
4. Explain how remuneration to partners is treated in the hands of the firm and the partner. Discuss the concepts of allowable remuneration, disallowed remuneration, and their tax implications.
5. Write a comprehensive essay on the principles governing the computation of income of a partnership firm. Include treatment of remuneration, interest, disallowed expenses, and exempt incomes.

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Unit 2

Book profit

Learning Outcomes

After completing this unit learners will be able to

- ◇ comprehend the legal provisions for calculate book profit
- ◇ calculate the income the firms
- ◇ estimate tax liability of firms
- ◇ compute the income of partners

Prerequisites

Assume two friends, Ravi and Arjun, starting a small bakery together in Pune. They form a partnership firm, agree to share profits, and start keeping proper accounts. Naturally, they want to know how much tax their business owes and how their individual incomes will be affected. This is where concepts like Book Profit, Taxable Income of the Firm, and Computation of Partners' Income become essential. Book Profit helps determine the maximum remuneration a working partner can legally receive, while taxable income and tax liability calculations ensure the firm complies with tax laws (these are we discussed in unit 1). Meanwhile, partners need to understand how their share of profits is treated for tax purposes, and the firm may also want to set off losses from previous years to reduce tax burdens. By exploring these concepts with real examples, learners can grasp not only the legal provisions but also the practical steps required for accurate accounting and tax planning in partnership firms.

Keywords

Book Profit, Section 40(b), Remuneration to Partners, Taxable Income of Firm, Partner's Share of Profit, Long-Term Capital Gain (LTCG), Set-off and Carry Forward of Losses, Working Partners, Inadmissible Expenses

Discussion

When a partnership firm earns profits, not all of it can be freely distributed to partners as remuneration or considered for tax purposes. The Income-tax Act, 1961 regulates how much can be allowed as a deduction for working partners' salaries, commissions, and interest on capital. This is done through the concept of Book Profit under Section 40(b).

1.2.1 Book Profit

Book Profit is essentially the net profit as per the firm's profit and loss account, after certain adjustments, which serves as the basis for calculating the maximum permissible remuneration for working partners. Only legitimate and reasonable payments, clearly mentioned in the partnership deed, are deductible. Payments exceeding these limits are disallowed for the firm but not taxable in the hands of the partner, preventing double taxation.

Legal Provisions for book profit include the following:

- ◇ Remuneration is allowed only for partners who work in the firm.
- ◇ The partnership deed must explicitly mention the amount or method of calculation of remuneration.
- ◇ From AY 2026–27 onwards, maximum remuneration is:
 - 90% of the first ₹6,00,000 of book profit or ₹3,00,000 (whichever is higher)
 - 60% of the remaining book profit
 - Interest on Capital: Only up to 12% per annum is allowed.
 - Timing: No deduction is allowed for payments made before the execution date of the partnership deed.

(These are discussed in detail in unit 1)

1.2.2 Computation of book profit

When computing a firm's income, it is essential to determine the book profit in accordance with the provisions of Section 40(b) of the Income Tax Act. Book profit serves as the basis for calculating the allowable remuneration of partners and other deductions.

Table 1.2.1 Proforma of Computation of Book Profit

	Amount
Net Profit as per Profit and Loss Account	xxx
Add: (i) Remuneration to partners if debited to Profit and Loss Account	xxx
(ii) Inadmissible items (not covered u/s 28 to 44DB)	xxx
(iii) Disallowance of interest in excess of 12% p.a.	xxx
	xxx
Less: (iv) Income from all other sources credited to Profit and Loss Account	xxx
(v) Admissible items which are disallowed in (i) above	xxx
Book Profit	xxx

The basic principle is that only business-related incomes and expenses are considered while computing book profit. Any non-business income, such as rent from a property unrelated to the business, or non-business expenses, such as personal expenses of the partners, are excluded. Similarly, brought forward unabsorbed business losses cannot be deducted while calculating book profit, as the focus is on the current year's operational performance. Suppose a partnership firm has a net profit as per the profit and loss account of ₹12,00,000. During the year, the firm earned ₹50,000 as interest from a fixed deposit (non-business income) and incurred ₹20,000 in personal expenses of partners (non-business expenses). The brought forward unabsorbed business loss is ₹30,000.

To compute book profit:

- Start with the net profit as per the profit and loss account: ₹12,00,000
- Add back non-business expenses: ₹20,000
- Subtract non-business income: ₹50,000

The book profit for the purpose of Section 40(b) will therefore be:

$$\text{Book Profit} = ₹12,00,000 + ₹20,000 - ₹50,000 = ₹11,70,000$$

Notice that the unabsorbed business loss of ₹30,000 is not deducted while computing book profit. This ensures that partner remuneration and other calculations adhere strictly to Section 40(b) provisions. Using a proforma or tabular method, as shown in Table 1.2.1, helps to systematically compute book profit without missing any adjustments. It also simplifies comparisons across multiple years for better financial analysis and planning.

Illustration 1.2.1

Bright Star Traders is a partnership firm consisting of three partners. The firm earned a net profit of ₹5,50,000 for the current assessment year before considering partner

remuneration. The firm paid the following during the year:

- Interest on capital: ₹50,000
- Remuneration to partners: ₹1,20,000
- Depreciation as per books: ₹40,000
- Income-tax paid: ₹60,000
- Prior year unabsorbed business loss: ₹25,000

Compute the book profit of Bright Star Traders for the assessment of partner remuneration under Section 40(b).

Solution :

Step 1: Start with net profit as per P&L account

Net profit before partner remuneration = ₹5,50,000

Step 2: Add back items not allowed for deduction under Section 40(b)

Particulars	Amount (₹)
Partner remuneration paid	1,20,000
Interest on capital	50,000
Depreciation as per books	40,000
Income-tax paid	60,000
Total Additions	2,70,000

Step 3: Compute book profit

Book Profit = Net profit + Additions
= ₹5,50,000 + ₹2,70,000
= ₹8,20,000

(note: Unabsorbed business loss = ₹25,000 is not deducted)

Illustration 1.2.2

Alpha & Co. earned a net profit of ₹6,00,000 during the year. It paid:

- Partner remuneration: ₹2,50,000
- Interest on capital: ₹60,000
- Depreciation: ₹50,000
- Income-tax: ₹70,000
- Prior unabsorbed business loss: ₹30,000

Compute the book profit for partner remuneration calculation under Section 40(b).

Solution:

Step 1: Start with net profit

Net profit = ₹6,00,000

Step 2: Add back items not deductible

Particulars	Amount (₹)
Partner remuneration	2,50,000
Interest on capital	60,000
Depreciation	50,000
Income-tax paid	70,000
Total Additions	4,30,000

Step 3: Compute Book Profit

Book Profit = 6,00,000 + 4,30,000 = ₹10,30,000

Illustration 1.2.3

A partnership firm has a net profit of ₹6,50,000. During the year, the following items were paid/charged:

- Partner remuneration: ₹1,20,000
- Interest on capital: ₹50,000
- Depreciation: ₹40,000
- Income-tax: ₹60,000
- Prior year unabsorbed business loss: ₹30,000

Compute the book profit under Section 40(b).

Solution:

Particulars	Amount (₹)
Net Profit as per P&L Account	6,50,000
Add: Partner Remuneration	1,20,000
Add: Interest on Capital	50,000
Add: Depreciation	40,000
Add: Income-tax Paid	60,000
Total Additions	2,70,000
Book Profit (Net Profit + Additions)	9,20,000

Illustration 1.2.4

XYZ & Co. is a partnership firm with three partners: A, B, and C. The firm earned a net profit of ₹18,00,000 for the current assessment year before considering partner remuneration. The following payments/charges were made during the year:



Particulars	Amount (₹)
Partner A Remuneration	3,00,000
Partner B Remuneration	2,50,000
Partner C Remuneration	2,00,000
Interest on Capital – A	80,000
Interest on Capital – B	60,000
Interest on Capital – C	40,000
Depreciation as per Books	1,00,000
Income-tax Paid	1,20,000
Prior Year Unabsorbed Business Loss	2,00,000

The partnership deed allows maximum 90% of book profit as partner remuneration.

Required:

- Compute the Book Profit for the current assessment year under Section 40(b).
- Determine the maximum allowable remuneration for partners.
- State whether the actual remuneration paid is fully allowable.

Solution

Particulars / Description	Amount (₹)
Net Profit as per P&L Account	18,00,000
Add: Partner A Remuneration	3,00,000
Add: Partner B Remuneration	2,50,000
Add: Partner C Remuneration	2,00,000
Add: Interest on Capital – A	80,000
Add: Interest on Capital – B	60,000
Add: Interest on Capital – C	40,000
Add: Depreciation	1,00,000
Add: Income-tax Paid	1,20,000
Total Additions	11,50,000
Book Profit (Net Profit + Total Additions)	29,50,000
Maximum remuneration allowed (90% of Book Profit)	26,55,000
Actual remuneration paid (300000+250000+200000)	7,50,000
Conclusion	Fully allowable

Illustration 1.2.5

ABC & Co. is a partnership firm with two partners, P and Q. The firm earned a net profit of ₹12,50,000 for the current assessment year before considering partner remuneration. During the year, the following payments/charges were made:

Particulars	Amount (₹)
Partner P Remuneration	3,00,000
Partner Q Remuneration	2,50,000
Interest on Capital – P	1,00,000
Interest on Capital – Q	70,000
Depreciation as per Books	80,000
Income-tax Paid	1,20,000
Prior Year Unabsorbed Business Loss	1,50,000

The partnership deed allows maximum 80% of Book Profit as partner remuneration.

Required:

1. Compute the Book Profit for the current assessment year under Section 40(b).
2. Determine the maximum allowable remuneration for partners.
3. State whether the actual remuneration paid is fully allowable.

Solution:

Particulars / Description	Amount (₹)
Net Profit as per P&L Account	12,50,000
Add: Partner P Remuneration	3,00,000
Add: Partner Q Remuneration	2,50,000
Add: Interest on Capital – P	1,00,000
Add: Interest on Capital – Q	70,000
Add: Depreciation	80,000
Add: Income-tax Paid	1,20,000
Total Additions	9,20,000
Book Profit (Net Profit + Total Additions)	21,70,000
Maximum remuneration allowed (80% of Book Profit)	17,36,000
Actual remuneration paid	5,50,000
Conclusion	Fully allowable

1.2.3 Computation of taxable income and tax liability of firms

The income of a partnership firm is essentially the net profit earned from its business operations after deducting all business expenses such as salaries, rent, depreciation, interest, and other operational costs. This net profit forms the basis for calculating the firm's taxable income. For the purpose of partner remuneration under Section 40(b), the firm first computes its Book Profit, which is calculated by adding back certain non-deductible items to the net profit. These items typically include partner remuneration, interest on capital, depreciation, and income-tax paid. Prior year unabsorbed business losses are not deducted while computing Book Profit. For the Assessment Year 2025–26, tax on different types of income is charged at special rates. Short-term capital gains on listed equity shares, equity-oriented mutual funds and business-trust units, where STT is paid, are taxed at 20% under Section 111A. Long-term capital gains on such equity assets under Section 112A are taxed at 12.5%, and this rate applies only on the amount of gain exceeding the exemption limit of ₹1.25 lakh. Long-term capital gains on all other assets such as property, unlisted shares and gold are also taxed at 12.5%, and the benefit of indexation is not allowed for transfers made on or after 23 July 2024. Income from winnings such as lotteries, card games, crossword puzzles and horse races continues to be taxed at a flat 30%. After calculating the base tax, applicable surcharge, based on income-level, and 4% Health and Education Cess are added to arrive at the final tax payable.

Consider a partnership firm, Bright Star Traders, which earned a net profit of ₹10,00,000 in the current assessment year. During the year, the firm paid partner remuneration of ₹2,00,000, interest on capital of ₹50,000, depreciation of ₹40,000, and income-tax of ₹60,000. To calculate Book Profit:

$$\text{Book Profit} = \text{Net Profit} + \text{Additions (non-deductible items)}$$

$$\text{Book Profit} = 10,00,000 + (2,00,000 + 50,000 + 40,000 + 60,000) = 13,50,000$$

If the partnership deed allows a maximum of 90% of Book Profit as partner remuneration, the maximum permissible remuneration would be:

$$\text{Maximum Remuneration} = 13,50,000 \times 90\% = 12,15,000$$

Since the firm paid only ₹2,00,000 as remuneration, the full amount is allowable. The taxable income of the firm is then calculated by deducting the allowable remuneration from the net profit:

$$\text{Taxable Income} = 10,00,000 - 2,00,000 = 8,00,000$$

The firm will pay tax on this amount, while partners are taxed separately on their share of profits. This approach ensures that partner remuneration adheres to Section 40(b) provisions and that the firm's taxable income is correctly determined, maintaining transparency and compliance with tax regulations.

Illustration 1.2.6



Consider a partnership firm, Greenfield Enterprises, which earned a net profit of ₹15,00,000 in the current assessment year. During the year, the firm paid partner remuneration of ₹3,00,000, interest on capital of ₹70,000, depreciation of ₹60,000, and income-tax of ₹90,000. calculate the taxable income of the firm.

Solution

Particulars	Amount (₹)
Net Profit	15,00,000
Add: Partner Remuneration	3,00,000
Add: Interest on Capital	70,000
Add: Depreciation	60,000
Add: Income-tax Paid	90,000
Total Additions	5,20,000
Book Profit (Net Profit + Total Additions)	20,20,000
Maximum Remuneration Allowed (90% of Book Profit)	18,18,000
Actual Remuneration Paid	3,00,000
Conclusion	Fully Allowable
Taxable Income (Net Profit – Allowable Remuneration 15,00,000 - 3,00,000 = 12,00,000)	12,00,000

Illustration 1.2.7

Consider a partnership firm, Sunrise Traders, which earned a net profit of ₹12,00,000 in the current assessment year. During the year, the firm paid partner remuneration of ₹2,50,000, interest on capital of ₹60,000, depreciation of ₹50,000, and income-tax of ₹70,000. Calculate the taxable income of the firm.

Solution:

Particulars	Amount (₹)
Net Profit	12,00,000
Add: Partner Remuneration	2,50,000
Add: Interest on Capital	60,000
Add: Depreciation	50,000
Add: Income-tax Paid	70,000

Total Additions	4,30,000
Book Profit (Net Profit + Total Additions)	16,30,000
Maximum Remuneration Allowed (85% of Book Profit)	13,85,500
Actual Remuneration Paid	2,50,000
Conclusion	Fully Allowable
Taxable Income (Net Profit – Allowable Remuneration 12,00,000 -250000= 950000)	9,50,000

Illustration 1.2.8

Golden Harvest Pvt. Ltd., which earned a net profit of ₹20,00,000 in the current assessment year. During the year, the firm paid partner remuneration of ₹5,00,000, interest on capital of ₹1,00,000, depreciation of ₹90,000, and income-tax of ₹1,50,000. Calculate the taxable income of the firm.

Solution:

Particulars	Amount (₹)
Net Profit	20,00,000
Add: Partner Remuneration	5,00,000
Add: Interest on Capital	1,00,000
Add: Depreciation	90,000
Add: Income-tax Paid	1,50,000
Total Additions	8,40,000
Book Profit (Net Profit + Total Additions)	28,40,000
Maximum Remuneration Allowed (95% of Book Profit)	26,98,000
Actual Remuneration Paid	5,00,000
Conclusion	Fully Allowable
Taxable Income (Net Profit – Allowable Remuneration)	15,00,000

Illustration 1.2.9 (Tax liability)

Gadha traders which earned a net profit of ₹12,00,000 in the current assessment year. During the year, the firm paid partner remuneration of ₹2,50,000, interest on capital of ₹60,000, depreciation of ₹50,000, and income-tax of ₹70,000. The partnership deed allows 85% of Book Profit as maximum remuneration. Calculate taxable income, and tax liability.

Solution



Particulars	Amount (₹)
Net Profit	12,00,000
Add: Partner Remuneration	2,50,000
Add: Interest on Capital	60,000
Add: Depreciation	50,000
Add: Income-tax Paid	70,000
Total Additions	4,30,000
Book Profit (Net Profit + Total Additions)	16,30,000
Maximum Remuneration Allowed (85% of Book Profit)	13,85,500
Actual Remuneration Paid	2,50,000
Conclusion	Fully Allowable
Taxable Income (Net Profit – Allowable Remuneration)	9,50,000
Tax Liability (30% + 4% Cess)	2,95,800

Illustration 1.2.10

Sharma & Co., a partnership firm, has a taxable income of ₹15,00,000 for AY 2025-26.

Calculate the tax liability.

Solution:

Step 1: Tax @ 30% = $15,00,000 \times 30\% = ₹4,50,000$

Step 2: Cess @ 4% = $4,50,000 \times 4\% = ₹18,000$

Total Tax Liability = $4,50,000 + 18,000 = ₹4,68,000$

Illustration 1.2.11

Mehta Traders earned a net profit such that after allowing partner remuneration, the taxable income is ₹12,50,000 for AY 2025-26.

Solution

Taxable Income: ₹12,50,000

Step 1: Tax @ 30% = $12,50,000 \times 30\% = ₹3,75,000$

Step 2: Cess @ 4% = $3,75,000 \times 4\% = ₹15,000$

Total Tax Liability = $3,75,000 + 15,000 = ₹3,90,000$

1.2.4 Treatment of Losses in the Firm



The Income Tax Act allows the firm to carry forward and set off its losses. These losses do not pass on to the partners. The treatment is as follows:

- Long-term capital losses can be set off against future long-term capital gains within eight years.
- Speculative losses can be set off against speculative income within four years.
- Non-speculative business losses can be set off against any business income within eight years.
- Short-term capital losses can be set off against both short-term and long-term capital gains within eight years.
- Unabsorbed depreciation can be carried forward for eight years and set off against any type of income.

Illustration 1.2.12

Profit and Loss Account for the year ended 31.3.2025

Particulars	Amount (₹)	Particulars	Amount (₹)
To Salaries	42,000	By Gross Profit	2,80,500
To Rent, Rates	10,000	By Discount Received	10,000
To Depreciation	7,000		
To Advertisement	15,000		
To Bad Debt Reserve	5,000		
To Fire Insurance Premium	2,500		
To Partners' Salary	A 15,000 B 10,000	25,000	
To Commission	A 10,000 C 5,000	15,000	
To Interest on Capital @ 9%	A 5,000 B 6,000 C 8,000	19,000	
To Net Profit	A 50,000 B 50,000 C 50,000	1,50,000	
Total	2,90,500	Total	2,90,500

Adjustments:

- Depreciation was overcharged by ₹3,000.
- Rent includes rent of C's godown ₹2,500.

Computation of taxable income for the Assessment Year 2025-26

Solution



Particulars	Amount (₹)
Net Profit as per P&L A/c	1,50,000
Add: Inadmissible Items	
Partners' Remuneration	A 15,000 + B 10,000 = 25,000
Partners' Commission	A 10,000 + C 5,000 = 15,000
Bad Debt Reserve	5,000
Depreciation (excess)	3,000
Interest on Capital in excess of 12%	NIL
Book Profit	1,98,000

Taxable income of the firm for the assessment year 25- 26

Particulars	Amount (₹)
Book Profit	1,98,000
Less: Remuneration to Working Partners (least of (a) and (b))	
a) Actual Remuneration to working partners only (A + B)	35,000
b) Statutory Limit (Higher of ₹1,50,000 or 90% of Book Profit)	1,78,200
Allowed Remuneration	35,000
Total Income of the Firm	1,63,000

Note:

- C is a sleeping partner, so salary/commission rules differ.
- Depreciation excess and personal rent of a partner are added back while computing Book Profit.
- Sec 184 rules are applied to determine the allowable remuneration of working partners.

Illustration 1.2.13

X, Y and Z are partners in a firm fulfilling the conditions of Section 184, sharing profits and losses in the ratio 3: 2: 1.

The firm's Profit & Loss Account for the year ended 31-03-2025 shows a net profit of ₹2,50,000, after debiting the following:

- Salary paid to Z @ ₹5,000 per month
- Commission paid to Y – ₹42,000
- Donation to an approved body – ₹4,000 (paid by cheque)
- Rent paid to X – ₹19,000 for using a portion of the building owned by X (Fair Rental Value = ₹10,000)



- Current repairs of the business premises belonging to X – ₹1,000
- Salary to Y's son – ₹62,000
(He is a qualified management graduate and earns ₹6,000 per month in another organisation)

Additional Information:

- The net profit of ₹2,50,000 includes ₹10,000 interest on Government Securities.
- The firm is a professional firm.
- AY applicable: Assessment Year 2025–26

Solution:

Particulars	Amount (₹)
Net Profit as per P&L A/c	2,50,000
Add: Inadmissible / Disallowed Items	
Salary to Z ($₹5,000 \times 12$)	60,000
Commission to Y	42,000
Donation to approved body	4,000
Excess rent paid to X ($19,000 - 10,000$)	9,000
Repairs to building belonging to X	1,000
Salary to Y's son (fully allowable → disallowed = NIL)	0
Total Additions	1,16,000
Adjusted Profit	3,66,000
Less: Interest on Government Securities (already included in NP)**	10,000
Book Profit	3,56,000
Less: Allowable Remuneration to Working Partners	
(a) Actual Remuneration (Z's salary 60,000 + Y's commission 42,000)	1,02,000
(b) Statutory Limit:	
90% of first ₹3,00,000 = ₹2,70,000	
60% of balance ₹56,000 = ₹33,600	
Total Limit = ₹3,03,600	
Allowable (Lower of a & b)	1,02,000
Income from Business	2,54,000
Add: Income from Other Sources (Interest on Govt. Securities)	10,000



Gross Total Income	2,64,000
Less: Deduction u/s 80G (50% of ₹4,000)	2,000
Total Income of the Firm (AY 2025–26)	₹2,62,000

Illustration 1.2.14

A, B, C and D are partners in a Limited Liability Partnership (LLP). A and B are active partners, while C and D are sleeping partners. The LLP's Profit & Loss Account for the year ended 31-03-2025 shows a net profit of ₹30,000. This net profit is after debiting the following salary and interest to partners as per the partnership deed:

Partner	Salary (₹)	Interest @ 12% (₹)
A	25,000	3,000
B	24,000	5,000
C	—	6,000
D	—	5,000

Additional Information:

- The LLP has **Long-Term Capital Gains (LTCG) of ₹50,000**.
- All partners share profits and losses **equally**.
- The LLP satisfies the conditions of **Section 184**.

You are required to compute the Total Income and Tax Liability of the LLP for the Assessment Year 2025–26, applying the new LTCG tax rate of 12.5%.

Solution:

Computation of Total Income of LLP Assessment Year 2025–26

Particulars	Amount (₹)
Net Profit as per P&L A/c	30,000
Add: Inadmissible Items	
Salary to partners (A + B) = 25,000 + 24,000	49,000
Book Profit	79,000
Less: Remuneration to Working Partners (A & B)	
(a) Actual Remuneration	49,000
(b) Statutory Limit (higher of):	
• ₹1,50,000 OR • 90% of Book Profit (90% × 79,000 = 71,100)	1,50,000
Allowable Remuneration (lower of a & b)	49,000



Income from Business	30,000
Add: LTCG	50,000
Total Income of LLP (AY 2025–26)	80,000

Computation of Tax Liability of LLP Assessment Year 2025–26

Particulars	Amount (₹)
Tax on LTCG @ 12.5% (₹50,000 × 12.5%)	6,250
Tax on Balance firms Income @ 30% (₹30,000 × 30%)	9,000
Total Tax Before Cess	15,250
Add: Health & Education Cess @ 4%	610
Total Tax Liability	₹15,860

Illustration 1.2.15

A, B and C are partners in a firm sharing profits and losses in the ratio 2: 2: 1. The Profit & Loss Account for the year ended 31-03-2025 is as follows:

Profit & Loss Account for the year ended 31-03-2025

Particulars	Amount (₹)	Particulars	Amount (₹)
To Sundry Expenses	1,00,000	By Gross Profit b/d	4,70,000
To Interest on Capital @15% (A–15,000, B–15,000, C–15,000)	45,000	By Interest on Securities	12,000
To Salary to B	70,000		
To Rent to B	30,000		
To Commis- sion to C	35,000		
To Net Profit	2,02,000		
Total	4,82,000	Total	4,82,000

Additional Information:



- The firm satisfies the conditions of Section 184.
- B and C are working partners, A is not.
- Interest on capital allowable only up to 12%.

Compute:

1. Total income of the firm (AY 2025–26)
2. Taxable business income of each partner

Solution

Particulars	Amount (₹)
Net Profit as per P&L A/c	2,02,000
Add: Inadmissible Items	
Remuneration to partners (Salary to B + Rent to B + Commission to C) = 70,000 + 30,000 + 35,000	1,35,000
Interest on Capital – excess (15% – 12% = 3%) × 45,000 = 1,350 × 3? Correct value = 9,000	9,000
Total Additions	1,44,000
Adjusted Profit	3,46,000
Less: Interest on Securities (Other Source Income)	12,000
Book Profit (for Sec 40(b))	3,34,000

Allowable Remuneration to Working Partners (B & C)

a. Actual Remuneration

- Salary to B = 70,000
 - Rent to B (treated as remuneration) = 30,000
 - Commission to C = 35,000
- Total Actual = 1,35,000

b. Statutory Limit (Sec 40(b))

- First ₹3,00,000 @ 90% = ₹2,70,000
 - Balance ₹34,000 @ 60% = ₹20,400
- Total Limit = ₹2,90,400

Allowable Remuneration = lower of (a) & (b) = ₹1,35,000



Particulars	Amount (₹)
Income from Business	3,34,000 – 1,35,000 = 1,99,000
Add: Income from Other Sources (Interest on Securities)	12,000
Total Income of the Firm (AY 2025–26)	₹2,11,000

Computation of Taxable Income from Business of Partners Assessment Year 2025–26

Partner	Interest on Capital (12%)	Remuneration	Total Income (₹)
A	12,000	—	12,000
B	12,000	Salary 70,000 + Rent 30,000 = 1,00,000	1,12,000
C	12,000	Commission 35,000	47,000

Total Income of the Firm = ₹2,11,000

Taxable Business Income of Partners:

- A = ₹12,000
- B = ₹1,12,000
- C = ₹47,000

Recap

- ◇ Partnership firm income is computed by adjusting net profit for admissible and inadmissible items under Section 40(b).
- ◇ Book profit forms the basis for calculating allowable remuneration to working partners.
- ◇ Interest on capital is allowable only up to 12% as per Income Tax Act provisions.
- ◇ Remuneration (salary, bonus, commission) is allowable only within statutory limits based on book profit.
- ◇ Long-term capital gains and other special incomes are taxed at separate



rates 12.5%

- ◇ The firm's taxable income is divided into business income and income from other sources.
- ◇ Tax liability of the firm is calculated using 30% for business income plus applicable cess.
- ◇ Partners' taxable income includes allowable interest and remuneration received from the firm.
- ◇ Share of profit received by partners from a firm is fully exempt from tax.
- ◇ The firm must fulfil Section 184 conditions for the remuneration and interest to be allowed.

Objective Questions

1. Maximum tax rate on firms (excluding cess)?
2. Tax rate on LTCG for AY 2025-26?
3. Section related to remuneration to partners?
4. Partner eligible for remuneration?
5. Document that governs salary and interest to partners?
6. Profit used for calculating partner remuneration?
7. Maximum interest rate allowable to partners?
8. Firm taxed as a separate?
9. Loss not allowed for adjustment against other income?
10. Cess applicable on firm's tax liability?

Answers

1. 30%
2. 12.5%
3. 40(b)
4. Working
5. Deed
6. Book Profit
7. 12%
8. Entity
9. Speculative
10. 4%

Self-Assessment Questions

1. Define “Book Profit” as per Section 40(b) and explain its importance in computing allowable remuneration to working partners.
2. What are the legal provisions under Section 40(b) for determining the maximum permissible remuneration to working partners of a partnership firm?
3. Explain the concept of “Tax Liability of Partnership Firms” and list the applicable tax rates for Assessment Year 2025-26.
4. Differentiate between admissible and inadmissible expenses while computing the business income of a partnership firm.
5. What is the treatment of Long-Term Capital Gains (LTCG) in a partnership firm? Explain the rate of tax applicable for AY 2025-26.
6. A, B and C are partners in a firm sharing profits in the ratio 3 : 2 : 1. B and C are working partners.



Profit & Loss Account for the year ended 31-03-2025:

Particulars	Amount (₹)	Particulars	Amount (₹)
Sundry Expenses	1,20,000	Gross Profit	6,00,000
Salary to B	80,000	Interest on Securities	20,000
Commission to C	50,000		
Interest on Capital (15% p.a.)			
A – 30,000, B – 30,000, C – 30,000	90,000		
Net Profit	2,80,000		
Total	6,20,000	Total	6,20,000

Additional Information:

Interest allowed as deduction only up to 12%

Firm satisfies conditions of Section 184

Compute:

- Total income of the firm for A.Y. 2025-26
- Taxable income from business for each partner

Assignments

1. Discuss the rules relating to carry forward and set-off of losses in the case of a partnership firm.
2. Write short notes on:
 - (a) Working partner
 - (b) Book profit adjustments
 - (c) Interest on capital to partners
3. Explain the procedure for computing remuneration allowable to partners when book profit is negative or below ₹3,00,000.
4. Explain the steps involved in the computation of total income of a partnership firm with suitable illustrations.
5. What is the significance of the partnership deed in determining salary and interest to partners under the Income-tax Act?

6. X, Y and Z are partners in an LLP sharing profits equally (1:1:1). X and Y are working partners, Z is a sleeping partner. Profit & Loss Account shows Net Profit of ₹1,20,000, after charging the following:

- Salary to X – ₹60,000
- Salary to Y – ₹50,000
- Interest to partners @ 15%:
 - X – ₹15,000
 - Y – ₹12,000
 - Z – ₹18,000
- Additional Information:
 - LTCG for the firm = ₹90,000 (tax @ 12.5% for A.Y. 2025-26)
 - Interest is allowable only up to 12%
 - Firm meets Section 184 condition

Required:

- Compute book profit
- Compute total income of the LLP for A.Y. 2025-26
- Calculate tax liability of the LLP

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BLOCK

Assessment of Companies

Unit 1

Assessment of Companies -Basics

Learning Outcomes

After completing this unit, the learner will be able to:

- ◇ explain the residential status of companies
- ◇ familiarise with the different types of companies
- ◇ gain knowledge of the concepts of Minimum Alternative Tax, Tax Credit and Marginal Relief

Prerequisites

A company is taxed at a uniform rate on its total income, without any basic exemption limit. Companies may be Indian, foreign, or those specifically notified by the Central Board of Direct Taxes (CBDT). They may also be classified as widely-held (greater public interest) or closely-held (limited public interest). A domestic company is an Indian company or any other company that has made proper arrangements for declaring and paying dividends within India. A foreign company is one that is not Indian and has not made such arrangements. An Indian company is one registered under the Companies Act, 2013, including those formed in Union Territories like Jammu & Kashmir, Dadra & Nagar Haveli, Goa, Daman & Diu, and Puducherry, and must have a registered office in India. The term "company" also includes foreign corporate bodies, entities assessed as companies until 1970–71, and institutions notified by the CBDT. A non-profit company operates for charitable or socially beneficial purposes and reinvests its profits into these objectives without distributing dividends to members.

The residential status of a company is determined by the Place of Effective Management (POEM)—the place where key management and commercial decisions necessary for the conduct of the business as a whole are made.

To ensure that companies with high book profits but low taxable income still contribute a minimum share of tax, the concept of Minimum Alternative Tax (MAT) was introduced under section 115JB. MAT ensures tax equity among companies by

prescribing a minimum amount of tax based on book profits. Companies paying MAT are also eligible for MAT Credit, which can be carried forward and set off in future years when normal tax becomes higher than MAT.

Additionally, the tax system incorporates Marginal Relief, providing relief to companies whose total income slightly exceeds the threshold for surcharge applicability, preventing a disproportionately high tax burden. Together, these concepts create a balanced and equitable corporate taxation structure, ensuring fairness, compliance, and predictability for businesses operating in India.

Keywords

Residential Status, Minimum Alternate Tax, Marginal Relief

Discussion

In the Indian taxation framework, understanding how companies are classified and taxed is essential for determining their legal obligations and financial planning. The Income-tax Act, 1961 provides detailed rules on the types of companies, their residential status, and the computation of corporate tax liability. A company's residence plays a crucial role in determining the scope of income taxable in India—whether global income or only Indian-sourced income.

2.1.1 COMPANY (Sec. 2(17))

A company must remit tax on every rupee of its total income at a uniform rate, with no exemption threshold applicable.

A company refers to:

- i. Any Indian company, or
- ii. Any corporate entity established under the legislation of a foreign country or
- iii. Any institution, association, or entity that was subject to assessment or assessed as a company for any Assessment Year up to 1970-71.
- iv. Any institution, association or entity regardless of incorporation status and nationality, designated by a general or special order of the Central Board of Direct Taxes as a company.

Principal Officer (Sec. 2(35))

A Principal Officer refers to:



- i. The secretary, treasurer, manager, or agent of the company, or
- ii. Any individual associated with the management or administration of the company who has received a notice from the Assessing Officer indicating the intention to designate him as the Principal Officer of the company.

Person who has substantial interest in the company

A person who is the beneficial owner of equity shares, carrying not less than 20 % of the voting power in a company is known as a person having substantial interest in the company.

2.1.1.1 Types Of Companies

1. Company in which the Public are Substantially Interested (Sec. 2(18))

A company is considered one in which the public holds significant interest in the following instances:

- a. It is a company owned by the Government or the Reserve Bank of India, or in which at least 40% of shares are held by the Government, the Reserve Bank of India, or a corporation owned by the Reserve Bank of India; or
- b. It is a company registered under Section 8 of the Companies Act, 2013; or
- c. It is a company, having no share capital and it is declared by order of the Central Board of Direct Taxes to be a company in which the public are substantially interested; or
- d. It is a mutual benefit finance company, i.e., a company which carries on, as its principal business, business of acceptance of deposits from its members and which is declared by the Central Government to be a Nidhi or Mutual Benefit Society; or
- e. It is a company wherein shares carrying not less than 50% of the voting power are held by one or more co-operative societies throughout the relevant previous year; or
- f. It is a company which is not a private company under the Companies Act, 2013, and its equity shares were, as on the last day of the relevant previous year, listed in a recognised stock exchange in India; or
- g. It is a company which is not a private company and whose equity shares carrying not less than 50% (40% in case of an industrial company) of the voting power were beneficially held throughout the previous year by the Government, a statutory corporation or any other company in which the public are substantially interested or a wholly owned subsidiary of such a company.

If a foreign company holds the majority of equity shares in a public company, in which the public has significant interest, that public company would be considered one in which the public has substantial interest.

A company in which the public holds significant interest is referred to as a Widely Held Company, whereas a company with minimal public interest is known as a Closely Held Company. An individual possessing beneficial ownership of equity shares with at least 20% of the voting power is considered to have a substantial interest in the company.

2. Indian Company (Sec. 2(26))

An Indian Company refers to a company established and registered in accordance with the Companies Act, 2013. It encompasses a corporation formed under a Central or State Act, as well as any institution, association, or entity designated by the Central Board of Direct Taxes as a company under Section 2(17). A company established and registered under any prevailing law in the State of Jammu and Kashmir is designated as an Indian company. A company established and registered under any prevailing law in Dadra and Nagar Haveli, Goa, Daman and Diu, and Pondicherry is referred to as an Indian company. The registered or principal office of the company, corporation, institution, association, or entity must be situated in India.

3. Domestic Company (Sec. 2(22A))

A domestic company refers to an Indian company or any other company that has established the requisite arrangements for the declaration and payment of dividends, derived from its income subject to taxation under this Act, within India.

4. Foreign Company (Sec. 2(23A))

A foreign company is defined as a company that is neither an Indian company nor has established the requisite arrangements for the declaration and payment of dividends in India.

5. Public Sector Company (Sec. 2(36A))

It refers to any corporation formed by or under any Central or State Act, or a Government Company as defined in section 2(71) of the Companies Act, 2013.

6. Company registered under Section 8 of Companies Act, 2013

The company is established to advance art, charity, commerce, religion, or other beneficial purposes, operating on a non-profit basis, with the intention of reinvesting any profits or income into the enhancement of these objectives, while forbidding the distribution of dividends to its members. A company may be incorporated under Section 8 of the Companies Act, 2013.

2.1.2 Residential Status of Companies Sec (3)

I. Resident (Ordinarily Resident)

A company is considered a resident in India for any previous year if:

- It is an Indian Company or
- Its place of effective management in that year is in India.



The place of effective management refers to the location where essential management and commercial decisions critical to the overall operation of an entity are fundamentally made

II. Not ordinarily Resident

A company is never Not ordinarily resident.

III. Non - resident

If a company fails to meet both aforementioned residency conditions, it is classified as a non-resident company. This indicates that the company is neither an Indian entity nor is its effective management is located in India.

Illustration 2.1.1

Starline Pvt. Ltd. is an Indian company engaged in business operations both in India and in Europe. During the Previous Year 2024–25, the company's income arising in Europe was significantly higher than the income earned in India. The profits earned in Europe were retained there for reinvestment. All key managerial and commercial decisions of the company were taken in India, where the Board of Directors met frequently. Based on these facts, determine the residential status of Starline Pvt. Ltd. for the Assessment Year 2025–26.

Solution:

Starline Pvt. Ltd. is a Resident Company for Assessment Year 2025–26.

Starline Pvt. Ltd. is a resident company for Assessment Year 2025–26 because it is incorporated in India. Although it earned more income in Europe, the residential status of an Indian company is determined by its incorporation in India, not by the location of income. Furthermore, all key managerial and commercial decisions were made in India, confirming that the place of effective management is in India. As a resident company, it is liable to pay tax in India on its global income.

2.1.3 Minimum Alternate Tax (MAT) (Sec. 115JB)

The purpose of implementing MAT is to incorporate "zero tax companies" into the tax system, which, despite generating significant book profits and distributing considerable dividends, do not pay any tax due to various concessions and incentives available under the Income Tax Law.

Basic provisions of Minimum Alternate Tax (MAT)

A company's tax liability will be determined by the higher of the following options:

The company's tax liability is calculated according to the standard provisions of the Income Tax Law, specifically by applying the applicable tax rate to the company's taxable income. The tax calculated in the aforementioned manner is referred to as the normal tax liability.

The tax calculated at a rate of 15% (in addition to applicable surcharge and cess) on book profit. The tax computed in this way by applying 15% (plus surcharge and cess as applicable) is known as Minimum Alternate Tax (MAT).

Applicability and non-applicability of Minimum Alternate Tax (MAT)

Every taxpayer being a company is obligated to pay Minimum Alternate Tax (MAT) if the income tax (including surcharge and cess) due on the total income, calculated according to the Income Tax Act for any given year, is less than 15% of its book profit plus surcharge plus health and education cess.

However, the provisions of MAT are not applicable on:

- a. Domestic companies that have selected tax regimes under Section 115BAA or Section 115BAB;
- b. Any revenue generated or derived by a company from the life insurance sector mentioned in Section 115B;
- c. Shipping company, the income of which is subject to tonnage taxation.

Moreover, the provisions of MAT shall not apply to a foreign company whose total income consists of profits and gains derived from businesses outlined in sections 44AB, 44BB, 44BBA, or 44BBB, provided that such income has been subjected to taxation at the rates stipulated in those sections.

Table 2.1.1 Computation of Book Profit

Particulars	Amount
Net profit as per statement of profit and loss prepared in accordance with Schedule III to the Companies Act, 2013	XXX

Add:

Following items (if they are debited to the statement of profit and loss) Income tax paid or payable and the corresponding provision

Amounts carried to any reserves by whatever name called (Other than reserve specified under Section 33AC)	XXX
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Provisions for unascertained liabilities	XXX
Provisions for losses of subsidiary companies	XXX
Dividends paid/proposed	XXX
Expenditure related to incomes which are exempt under section 10 [other than section 10(38)) section 11 and section 12	XXX
The expenditure amounts attributable to income, representing the taxpayer's share in the income of an association or collective entity, on which no income tax is due per the stipulations of section 86.	XXX
The amount or amounts of expenditure relatable to income accruing or arising to a taxpayer being a foreign company, from: - the capital gains arising on transactions in securities; or - the interest, dividends, royalties, or fees for technical services subject to taxation. if the income tax owed on the aforementioned income is lower than the rate of Minimum Alternate Tax (MAT).	XXX

The amount representing notional loss on transfer of a capital asset, being share of a special purpose vehicle to a business trust in exchange of units allotted by that trust or the amount representing notional loss resulting from any change in carrying amount of said units or the amount of loss on transfer of units.	XXX
Expenditure relatable to income by way of royalty in respect of patent chargeable to tax	XXX
Amount of depreciation	XXX
Deferred tax and the provision thereof	XXX
Provision for diminution in the value of any asset	XXX
The balance in the revaluation reserve associated with a revalued asset upon its retirement or disposal, if not recognized in the statement of profit and loss.	XXX
The gain from the transfer of units is determined by considering the cost of the exchanged shares or their carrying amount at the time of exchange, particularly when these shares are valued differently than their cost in the profit and loss statement, as applicable.	XXX

Less: Following items (if they are credited to the statement of profit and loss) Withdrawal from any reserve or provision if recorded in the statement of profit and loss	XXX
--	-----

Incomes which are exempt under section 10 , section 11 and section 12	XXX
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Amount of depreciation debited to statement of profit and loss (excluding the depreciation on revaluation of assets)	XXX
--	-----

The amount withdrawn from the revaluation reserve and credited to the statement of profits and loss shall not exceed the depreciation amount on the revaluation of assets.	XXX
--	-----

The portion of income attributable to the taxpayer from an association of individuals or entity, exempt from income tax, if such amount is recorded in the profit and loss statement.	XXX
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The amount of income accruing or arising to a taxpayer being a foreign company, from: a. The capital gains arising on transactions in securities; or b. The interest, dividend, royalty, or fees for technical services subject to taxation if such income is recorded in the profit and loss statement and the income tax due on the aforementioned income is lower than the MAT rate.	XXX
---	-----

amount representing

- a. Notional gain on transfer of a capital asset, being share of a special purpose vehicle to a business trust in exchange of units allotted by that trust or
- b. Notional gain resulting from any change in carrying amount of said units; or
- c. Gain on transfer of units .

XXX

The notional gain on the transfer of units is calculated by considering the cost of the exchanged shares or their carrying amount at the time of exchange, particularly when these shares are valued differently than their cost in the profit and loss statement, as applicable.

Income by way of royalty in respect of patent chargeable to tax. Aggregate amount of unabsorbed depreciation and loss brought forward in case of:

- a. company and its subsidiary and the subsidiary of such subsidiary, where, the Tribunal, on an application moved by the Central Government under Section 241 of the Companies Act, 2013 has suspended the Board of Directors of such company and has appointed new directors who are nominated by the Central Government under Section 242 of the said Act;
- b. company for which an application for corporate insolvency resolution process has been accepted by the Adjudicating Authority pursuant to Section 7, Section 9, or Section 10 of the Insolvency and Bankruptcy Code, 2016

XXX



The amount of brought forward loss or unabsorbed depreciation, whichever is less as per books of account (in case of a company other than the company undergoing insolvency proceedings)

XXX

Profits of a sick industrial company (Beginning from assessment year in which it has become sick and ending with assessment year in which the entire net worth equal to or exceeds the accumulated losses) Deferred tax, if credited to statement of profit and loss

XXX

Book profit to be used to calculate MAT

XXX

2.1.4 Tax Credit in respect of Minimum Alternative Tax (MAT) on Certain Companies (Sec. 115JAA)

If a company pays MAT for the Assessment Year 2006-07 or any subsequent assessment year (under Section 115JB), it will be permitted a tax credit in subsequent years as follows:

1. The tax credit will equal the disparity between the tax remitted under MAT and the tax due on the total income calculated according to other provisions of the Act.
2. The tax credit may be carried forward for a maximum of fifteen assessment years following the assessment year in which the credit is permitted.
3. The tax credit will be permitted in the year when the tax liability on total income exceeds the tax liability under the Minimum Alternate Tax as per Section 115JB.
4. The set-off will be permitted up to the amount equivalent to the difference between the tax due on total income and the tax due under MAT as per Section 115JB.
5. No interest will accrue on the tax credit.
6. If, due to assessment, reassessment, correction of error, settlement, appeal, or

revision, the tax payable is adjusted, the tax credit shall be correspondingly increased or decreased.

7. When a private company or unlisted public company is transformed into a limited liability partnership, the successor limited liability partnership shall not be entitled to the tax credit benefits.
8. The stipulations of this Section shall be inapplicable to a domestic corporation subject to taxation under section 115BAA.

2.1.5 Marginal Relief

The purpose of marginal relief is to ensure that the increase in amount of tax payable (including surcharge) due to increase in total income of an assessee beyond the prescribed limit should not exceed the amount of increase in total income.

So, Marginal relief ensures that when a company's income just crosses a surcharge threshold, the additional tax payable (due to surcharge) does not exceed the additional income earned beyond that threshold.

- **In the case of a domestic company**

Surcharge

- i. @7% on the amount of income tax, if total income exceeds ₹1 crore but does not exceed ₹10 crore;
- ii. @ 12% if total income exceeds ₹10 crore.

Marginal Relief

- i. If total income exceeds ₹1 crore but does not exceed ₹10 crore, the total income tax and surcharge payable on such income shall not exceed the income tax payable on ₹1 crore by more than the amount exceeding ₹1 Crore.
- ii. When total income exceeds ₹10 Crore, the total income tax and surcharge payable on that income shall not exceed the total income tax and surcharge applicable to ₹10 Crore by an amount greater than the income exceeding ₹10 Crore.

Health and Education Cess: On the amount of income-tax and surcharge @ 4% ie; For a company, Health & Education Cess (H&EC) is calculated at 4% on the aggregate of:

Income-tax + Surcharge (if any)

It is not calculated on total income, but only on the tax amount.

- In the case of a company that is not a domestic company



Surcharge

- i. @2% on the income tax amount if total income exceeds 1 Crore but does not exceed 10 Crore.
- ii. @ 5% if total income exceeds 10 Crore.

Marginal Relief

Where total income exceeds:

- i. ₹1 Crore but does not exceed ₹10 Crore The cumulative income tax and surcharge on such income shall not surpass the income tax payable on a total income of ₹ 1 Crore by more than the amount exceeding ₹ 1 Crore.
- ii. If total income exceeds ₹10 Crore, the total income tax and surcharge payable shall not exceed the amount applicable to a total income of ₹10 Crore by more than the income exceeding ₹10 Crore.

Health and Education Cess: On the amount of income tax and surcharge @ 4%.

Recap

- ◇ A company must remit tax on every rupee of its total income at a uniform rate, with no exemption threshold applicable.
- ◇ A company can be an Indian company, a corporate entity established under foreign legislation, an institution, association, or entity that was subject to assessment or assessed as a company for any Assessment Year up to 1970-71, or any institution, association, or entity designated by a general or special order of the Central Board of Direct Taxes.
- ◇ Minimum Alternate Tax (MAT) is a provision applicable to companies, to ensure that companies showing high book profits but low/zero taxable income pay a minimum amount of tax.
- ◇ Book profit means net profit as per Statement of Profit & Loss prepared in accordance with Companies Act, as increased or decreased by specific adjustments.
- ◇ When a company pays MAT (u/s 115JB) instead of normal tax, the extra tax paid is allowed as tax credit for future years.
- ◇ Marginal relief ensures that extra tax payable due to surcharge does not exceed the extra income earned beyond a specified limit.

Objective Questions

1. A company is defined under which section of the Income tax Act?
2. The residential status of a company is determined based on?
3. A company in which public are substantially interested is known as?
4. Who is responsible for compliance and tax matters of a company?
5. What tax ensures zero-tax companies pay minimum tax?
6. What relief prevents excessive surcharge burden?
7. What is the term used for companies with minimum public interest?
8. What profit figure is used for MAT calculation?

Answers

1. Section 2(17).
2. Place of Effective Management (POEM).
3. Widely held company
4. Principal officer
5. Minimum Alternate Tax
6. Marginal relief
7. Closely held company
8. Book profit.

Self-Assessment Questions

1. What are the criteria for a company to be considered as an Indian Company?
2. How is a company categorized if the public holds significant interest?
3. Under what circumstances a company is considered as Non-Resident?
4. How is the place of effective management defined in the context of company residency?
5. What conditions must a company meet to be classified as a Resident (Ordinarily Resident) in India?
6. Briefly explain Minimum Alternate Tax?
7. Explain the purpose of Marginal relief?

Assignments

1. A domestic company's total income increased from ₹10 crore to ₹10.05 crore. Analyze how marginal relief helps in reducing excessive tax burden.
2. Describe the role of MAT in preventing tax avoidance by companies.
3. Discuss the significance of POEM in determining the residential status of companies in the modern global business environment.

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Unit 2

Computation of Taxable Income of Companies

Learning Outcomes

After completing this unit, the learner will be able to

- ◇ compute the tax liability of the company
- ◇ recognize the scope of Tax Liability of Companies
- ◇ identify the significance of computation of Taxable Income of Companies

Prerequisites

ABC Ltd is a company that made a profit during the year and prepared its accounts in the normal way. However, when calculating tax, not all expenses deducted in the accounts are allowed by tax law, and some income included in the profit is not taxable. These items must therefore be adjusted to arrive at the profit that can be taxed. After making the necessary adjustments, the company is allowed to deduct capital allowance instead of depreciation. The remaining amount is the company's taxable income, and tax is then calculated on it at the applicable company income tax rate to determine the tax payable.

The Income Tax Act mandates companies to submit their income tax returns, with the principal officer submitting on their behalf. The Minimum Alternate Tax (MAT) aims to include "zero tax companies" in the tax system, despite generating significant profits and dividends. A company's tax liability is determined by either applying the standard Income Tax Law's standard tax liability or calculating 15% tax on book profit.

Keywords

Total Income, MAT, Tax Credit, Book Profit, Tax Liability.

Discussion

2.2.1 Assessment of Companies

A company must submit its income tax return in accordance with Section 139(1) of the Income Tax Act within the stipulated timeframe, similar to other assesseees. The company's principal officer submits the income tax return on the company's behalf. Subsequently, the Assessing officer adheres to the identical procedure for the company's assessment. The deadline for a company to file its income tax return is September 30th of the Assessment year

2.2.2 Important points regarding Assessment of Companies

- A company is liable to pay income tax on its aggregate income.
- In calculating Total Income, deductions under the following sections are permissible for a corporation from its Gross Total Income: 80G, 80GGA, 80GGB, 80-IA, 80-IAB, 80-IB, 80-IC, 80-IE, 80JJA, 80JJAA, 80LA, 80M, and 80PA.
- A company is evaluated under its own name. The tax remitted by a company is not considered to have been paid on behalf of its shareholders.
- Income tax is assessed on a company's total income at a uniform rate. Various types of companies are subject to distinct tax rates and income classifications, resulting in differing tax rates.
- If a company's tax liability is below 15% (plus any applicable surcharge and health and education cess) of its book profits, it must pay tax at the rate of 15% (plus any applicable surcharge and health and education cess) on its book profits.

A domestic corporation is obligated to pay tax under Section 115QA on distributed income resulting from share buy-backs.

2.2.3 Computation of Total Income of a Company

The total income of a company is calculated as follows:

- i. Determine the taxable income for each category after subtracting the losses and allowances carried forward from previous years.
- ii. The total of the balances in each head is referred to as Gross Total Income.
- iii. Deduct from the Gross Total Income the deductions specified under the



following Sections: 80G, 80GGA, 80GGB, 80-IA, 80-IAB, 80-IAC, 80-IB, 80-IBA, 80-IC, 80-IE, 80JJA, 80JJAA, 80LA, 80M, and 80PA.

- iv. The remaining balance constitutes the total income.

2.2.4 Computation of tax on Companies

A company is evaluated under its own designation, meaning it pays taxes on its income as an independent entity. The tax remitted by a corporation is not considered to have been paid on behalf of its shareholders. A company is obligated to pay income tax on its entire income, regardless of how minimal it may be. Income tax is levied on total income at a uniform rate, except for incomes subject to specific rates established by the Act.

2.2.5 Rates of Income Tax Applicable to Companies

The rates of income tax which are applicable to companies for the Assessment Years 2024-25 are as under:

I. In the case of a Domestic Company

Winnings from lotteries etc. u/s 115BB - 30%

Short-term capital gain specified in Sec. 111A - 15%

Long-term capital gains u/s 112 - 10%/20%

II. LTCG u/s 112A - 10%

III. Other income - 30%

Surcharge

- i. @7% on the amount of income tax, if total income exceeds ₹1 crore but does not exceed ₹10 crore;
- ii. @ 12% if total income exceeds ₹10 crore.

Marginal Relief

- i. If total income exceeds ₹1 crore but does not exceed ₹10 crore, the total income tax and surcharge payable on such income shall not exceed the income tax payable on ₹1 crore by more than the amount exceeding ₹1 Crore.
- ii. When total income exceeds ₹10 Crore, the total income tax and surcharge payable on that income shall not exceed the total income tax and surcharge applicable to ₹10 Crore by an amount greater than the income exceeding ₹10 Crore.

Health and Education Cess: On the amount of income-tax and surcharge @ 4%

In the case of a company that is not a domestic company

- i. On income derived from royalties received from the Government or an Indian entity in connection with an agreement executed after 31st March 1961, but before 1st April 1976 - 50%
- ii. On income derived from fees for technical services rendered to the Government or an Indian entity pursuant to an agreement established between 29th February 1964 and 1st April 1976 - 50%

Regarding income under (i) and (ii), an agreement must be established with the Government or an Indian entity, which requires approval from the Central Government.

- iii. Winnings from lotteries etc. u/s 115BB - 30%
- iv. Short-term capital gains u/s 111A - 15%
- v. Long-term capital gains u/s 112 - 10%/20%
- vi. LTCG u/s 112A - 10%
- vii. Other income - 40%

Surcharge

- i. @2% on the income tax amount if total income exceeds 1 Crore but does not exceed 10 Crore.
- ii. @ 5% if total income exceeds 10 Crore.

Marginal Relief

Where total income exceeds:

- i. ₹1 Crore but does not exceed ₹10 Crore The cumulative income tax and surcharge on such income shall not surpass the income tax payable on a total income of ₹ 1 Crore by more than the amount exceeding ₹ 1 Crore.
- ii. If total income exceeds ₹10 Crore, the total income tax and surcharge payable shall not exceed the amount applicable to a total income of ₹10 Crore by more than the income exceeding ₹10 Crore.

Health and Education Cess: On the amount of income tax and surcharge @ 4%.

Tax on Income of Certain Domestic Manufacturing Companies (Sec. 115BA) A domestic company is entitled to pay tax at a rate of 25% (plus any applicable surcharge and health and education cess) if it fulfills the following criteria:

Conditions:

- a. The company was established and registered on or after March 1, 2016.
- b. The company is solely involved in the manufacture or production of articles and related research or distribution of those manufactured articles and



- c. The company has not claimed deductions from its income in accordance with the following sections:
 - i. 10AA-Unit in special economic zone; or
 - ii. 32(1) (iia) Additional depreciation on plant or machinery, or
 - iii. 32AC-Investment in new plant or machinery; or
 - iv. 32AD-Investment in new plant or machinery in notified backward areas in certain cases.
 - v. 33AB-Deposit in Tea Development Account etc.; or
 - vi. 33ABA-Production of petroleum or natural gas in India; or
 - vii. 35-Payment to outsiders for research or expenditure on in-house research [Sec. 35(1)(ii)(iia)(iii)(2AA)(2AB)]; or
 - viii. 35AC-Expenditure on eligible projects or schemes; or
 - ix. 35AD-Capital expenditure on specified business; or
 - x. 35CCC-Expenditure on agricultural extension project; or
 - xi. 35CCD-Expenditure on any skill development project; or
 - xii. No deductions under chapter VI-A, except for those under Section 80JJAA, will be permitted.

Other Provisions

1. The depreciation u/s 32 (except additional depreciation) shall be determined in the manner as may be prescribed for this Section. Depreciation shall be allowed at the prescribed rate subject to a maximum of 40% on the W.D.V.
2. The option, to pay tax under the provisions of this Section, shall be exercised in the prescribed manner on or before the due date specified in Section 139(1) for furnishing the first return of income.
3. Once the option has been exercised for any previous year, it cannot be subsequently withdrawn for the same or any other previous year. However, where the person exercises option under Section 115BAA the option under this section may be withdrawn.
4. Tax on Income of Certain Domestic Companies (Sec. 115BAA) A domestic company may pay tax @22% + Surcharge @ 10% + Health and Education Cess @ 4% at its option if it fulfils the prescribed conditions

Conditions

1. The company has not claimed deductions from its income under the following Sections:



- i. 10AA-Unit in Special Economic Zone; or
- ii. 32(1) (iia) - Additional depreciation on plant or machinery; or
- iii. 32AD-Investment in new plant or machinery in notified backward areas in certain cases. iv. 33AB- Deposit in Tea Development Account etc.; or
- iv. 33ABA-Production of petroleum or natural gas in India; or
- v. 35-Payment to outsiders for research or expenditure on in house research (Sec. 35(1) (ii)(iia)(iii)(2AA)(2AB)]; or
- vi. 35AD-Capital expenditure on specified business; or
- vii. 35CCC-Expenditure on agricultural extension project; or (ix) 35CCD-Expenditure on any skill development project, or
- viii. 35CCD – Expenditure on any skill development projects.
- ix. No deduction under chapter VI-A except deduction u/s 80JJAA or 80M will be allowed. Brought forward loss if such loss is attributable to any aforesaid deduction or unabsorbed addition depreciation. Further, such loss or unabsorbed depreciation cannot be carried forward and set-off in any subsequent year.

Brought forward loss if such loss is attributable to any aforesaid deduction or unabsorbed addition depreciation. Further, such loss or unabsorbed depreciation cannot be carried forward and set-off in any subsequent year.

Other Provisions

1. The election to pay tax under this section must be executed in the designated manner by the due date outlined in Section 139(1) for submitting the income return for the Assessment Year beginning on or after April 1, 2020. A company subject to taxation under this section is exempt from paying Minimum Alternate Tax (MAT) as per Section 115JB. If a company's option exercised under Section 115BAB is deemed invalid due to non-compliance with stipulated conditions, the company may opt to exercise the option under this Section. Once the option has been exercised for any prior year, it cannot be retracted for that year or any other preceding year. If the company does not meet the aforementioned conditions in any prior year, the option will be rendered invalid for the assessment year pertinent to that prior year and for all subsequent assessment years, and other provisions of the Act will be applicable.
2. The depreciation under Section 32 (excluding additional depreciation) shall be ascertained in accordance with the prescribed methodology for this section. Depreciation will be permitted at the specified rate, capped at 40% of the Written Down Value (W.D.V.).



- Reduction in Corporate Tax Rate for all existing domestic companies

To promote growth and investment, the government implemented a landmark tax reform via the Taxation Laws (Amendment) Ordinance, 2019, which established a preferential tax rate of 22% for all existing domestic companies from the Financial Year 2019-20, contingent upon their forgoing any specified exemptions or incentives. Moreover, these companies have been granted an exemption from the Payment of Minimum Alternate Tax (MAT).

- Tax on Income of Certain new Domestic Manufacturing Companies (Sec. 115 BAB)

A newly established domestic manufacturing company may opt to pay a tax rate of 15%, along with a surcharge of 10% and a Health and Education Cess of 4%, provided it meets the specified criteria.

- Rate of tax on other income

Income that is not generated from or related to the manufacturing or production of an article, and for which no specific tax rate is established under this section, shall be taxed at a rate of 22%. Moreover, no deductions or allowances for expenses shall be permitted in the calculation of such income. Any profit exceeding the amount determined by the Assessing Officer shall be considered the company's income. An income tax of 30% shall be imposed on such income. Short-term capital gains from the transfer of a capital asset, for which depreciation is not permitted under the Act, shall be taxed at a rate of 22%.

Surcharge: On the amount of tax surcharge shall be charged @ 10%.

Cess: Health and education cess shall be charged @ 4%.

If the company does not meet the stipulated conditions in any prior year, the option will become invalid for the assessment year corresponding to that prior year and for all subsequent assessment years. In such instances, other provisions of the Act shall be applicable.

Conditions

- The company was established and registered on or after October 1, 2019, and began manufacturing on or before March 31, 2024.
- It is not created through the division or reorganization of an existing business.
- The manufacturing or production of an article includes the generation of electricity

Exception

If an industrial enterprise in India ceases operations in any preceding year due to significant damage or destruction of any building, plant, machinery, or furniture owned by the taxpayer and utilized for that business, as the direct result of:

- flood, typhoon, hurricane, cyclone, earthquake, or other natural disaster; or



- b. Riot or civil disturbance; or
 - c. accidental fire or explosion; or
 - d. Any action taken against an enemy, or in opposition to an adversary (regardless of a formal declaration of war), followed by the re-establishment or revival of the business by the assessee within three years from the conclusion of the preceding year, shall not be considered a reconstruction of an existing business.
- D.** It is not constituted by the transfer of machinery or equipment (exceeding 20%) previously utilized for any purpose.

Machinery or plant utilized outside India by individuals other than the assessee shall not be considered as previously employed machinery or plant for any purpose, provided the following conditions are met:

- a. Such machinery or equipment was not utilized in India prior to its installation by the assessee.
 - b. It is imported into India from abroad. and
 - c. No depreciation has been permitted or permitted under this Act for any duration preceding the installation of the Plant and Machinery by the assessee.
- E.** The company does not utilize buildings formerly employed as hotels or convention centers.
- F.** The company is exclusively involved in the manufacture or production of articles and their related research or distribution.

Explanation: The business of manufacturing or producing any article or item shall exclude the business of:

- i. Creation of computer software in any format or media;
 - ii. Mining;
 - iii. Transformation of marble blocks or similar materials into slabs;
 - iv. Bottling of gas into cylinder;
 - v. Publication of books or production of motion pictures; or
 - vi. Any additional matters communicated by the Central Government in this regard
- G.** The company has not claimed deductions from its income in accordance with the following sections.
- i. 10AA-Unit in special economic zone; or
 - ii. 32(1) (iia) Additional depreciation on plant or machinery; or
 - iii. 32AD-Investment in new plant or machinery in notified backward areas in



certain cases.

- iv. 33AB-Deposit in Tea Development Account etc.; or
 - v. 33ABA-Production of petroleum or natural gas in India; or
 - vi. 35-Payment to outsiders for research (Sec. 35 (1) (ii) (iia) (iii) (2AA) (2AB)); or
 - vii. 35AD-Capital expenditure on specified business; or
 - viii. 35CCC-Expenditure on agricultural extension project; or
 - ix. 35CCD-Expenditure on any skill development project; or
 - x. No deduction under chapter VI-A except deduction u/s 80JJAA or 80M will be allowed.
- H.** Brought forward loss if such loss is due to any aforementioned deduction or unutilized additional depreciation. Moreover, such losses or unabsorbed depreciation cannot be carried forward or setoff in any subsequent year.
- I.** The depreciation under Section 32 (excluding additional depreciation) shall be calculated in accordance with the prescribed methodology for this section. Depreciation will be permitted at the specified rate, capped at 40% of the Written Down Value (W.D.V.).
- ◇ The Assessing Officer shall ascertain the reasonable profits attributable to the business if, in his judgment, the close relationship between the assessee conducting the business and any other individual has resulted in an arrangement that yields the assessee profits exceeding the ordinary expectations for the business. The choice to remit tax under the stipulations of this section must be executed in the designated manner by the due date outlined in Section 139(1) for the fiscal year commencing on or after April 1, 2020. Once the option has been exercised for any prior year, it cannot be retracted for that year or any other preceding year.

2.2.6 Amalgamation:

In the event of the amalgamation of a company subject to taxation under section 115 BAB, the option shall remain valid for the amalgamated entity, provided that it meets the stipulated conditions. A company subject to taxation under this section is exempt from paying Minimum Alternate Tax (MAT) under Section 115 JB.

2.2.7 Incentive for new manufacturing domestic companies

To stimulate investment in the manufacturing sector, the Taxation Laws (Amendment) Ordinance, 2019 has significantly lowered the tax rate to 15% for new domestic manufacturing companies that do not utilize any specified exemptions or incentives.

These companies have also been granted exemption from the Payment of Minimum Alternate Tax (MAT).

Withdrawal of Concessional Rate of Tax on Dividend Received by Indian Companies from Specified Foreign Companies (Sec. 115BBD)

The concessional rate of 15% under section 115BBD will no longer be applicable starting from the Assessment Year 2023- 24. Consequently, dividends received by Indian companies from designated foreign companies will be subject to taxation at the standard rates applicable to those companies.

◇ Tax on Income from Transfer of Virtual Digital Assets (Sec. 115BBH)

1. Tax rate on transfer of Virtual Digital Asset: If an assessee's total income includes income from the transfer of any Virtual Digital Asset, such income will be taxed at 30% under section 115BBH.
2. No deduction allowed: In calculating the income from the transfer of a Virtual Digital Asset, no deductions shall be permitted under any provisions of the Act for any expenditures or allowances, except for the cost of acquisition, if applicable.
3. Virtual Digital Asset need not to be a capital asset: The definition of "transfer" in section 2(47) encompasses all virtual digital assets, regardless of their classification as capital assets.
4. Set-off or carry forward of loss from transfer of Virtual Digital Asset not allowed: Losses incurred from the transfer of Virtual Digital Assets cannot be offset against income calculated under any provision of this Act for the assessee, nor can such losses be carried forward to subsequent Assessment Years.

Minimum Alternate Tax (Mat) (Sec. 115JB)

The purpose of implementing MAT is to incorporate "zero tax companies" into the tax system, which, despite generating significant book profits and distributing considerable dividends, do not pay any tax due to various concessions and incentives available under the Income Tax Law.

Basic provisions of Minimum Alternate Tax (MAT)

A company's tax liability will be determined by the higher of the following options:

- ◇ The company's tax liability is calculated according to the standard provisions of the Income Tax Law, specifically by applying the applicable tax rate to the company's taxable income. The tax calculated in the aforementioned manner is referred to as the normal tax liability. The tax calculated at a rate of 15% (in addition to applicable surcharge and cess) on book profit is referred to as MAT.



Applicability and non-applicability of Minimum Alternate Tax (MAT)

Every taxpayer is obligated to pay Minimum Alternate Tax (MAT) if the income tax (including surcharge and cess) due on the total income, calculated according to the Income Tax Act for any given year, is less than 15% of its book profit plus surcharge and health and education cess.

However, the provisions of MAT are not applicable on:

- a. Domestic companies that have selected tax regimes under Section 115BAA or Section 115BAB;
- b. Any revenue generated or derived by a company from the life insurance sector mentioned in Section 115B;
- c. Any revenue generated or derived by a company from the life insurance sector mentioned in Section 115B; Moreover, the provisions of MAT shall not apply to a foreign company whose total income consists of profits and gains derived from businesses outlined in sections 44AB, 44BB, 44BBA, or 44BBB, provided that such income has been subjected to taxation at the rates stipulated in those sections.

Table 2.2.1 Computation of Book Profit

Particulars	Amount
Net profit as per statement of profit and loss prepared in accordance with Schedule III to the Companies Act, 2013	XXX
Add: Following items (if they are debited to the statement of profit and loss) Income tax paid or payable and the corresponding provision	XXX
Amounts carried to any reserves by whatever name called (Other than reserve specified under Section 33AC)	XXX
Provisions for unascertained liabilities	XXX
Provisions for losses of subsidiary companies	XXX
Dividends paid/proposed	XXX
Expenditure related to incomes which are exempt under section 10 [other than section 10(38)] section 11 and section 12	XXX

The expenditure amounts attributable to income, representing the taxpayer's share in the income of an association or collective entity, on which no income tax is due per the stipulations of section 86.

The amount or amounts of expenditure relatable to income accruing or arising to a taxpayer being a foreign company, from:

- a. the capital gains arising on transactions in securities; or
 - b. the interest, dividends, royalties, or fees for technical services subject to taxation. if the income tax owed on the aforementioned income is lower than the rate of Minimum Alternate Tax (MAT). XXX
-

The amount representing notional loss on transfer of a capital asset, being share of a special purpose vehicle to a business trust in exchange of units allotted by that trust or the amount representing notional loss resulting from any change in carrying amount of said units or the amount of loss on transfer of units. XXX

Expenditure relatable to income by way of royalty in respect of patent chargeable to tax XXX

Amount of depreciation XXX

Deferred tax and the provision thereof XXX

Provision for diminution in the value of any asset XXX

The balance in the revaluation reserve associated with a revalued asset upon its retirement or disposal, if not recognized in the statement of profit and loss. XXX

The gain from the transfer of units is determined by considering the cost of the exchanged shares or their carrying amount at the time of exchange, particularly when these shares are valued differently than their cost in the profit and loss statement, as applicable.	XXX
Less: Following items (if they are credited to the statement of profit and loss) Withdrawal from any reserve or provision if recorded in the statement of profit and loss	XXX
Incomes which are exempt under section 10 , section 11 and section 12	XXX
Amount of depreciation debited to statement of profit and loss (excluding the depreciation on revaluation of assets)	XXX
The amount withdrawn from the revaluation reserve and credited to the statement of profits and loss shall not exceed the depreciation amount on the revaluation of assets.	XXX
The portion of income attributable to the taxpayer from an association of individuals or entity, exempt from income tax, if such amount is recorded in the profit and loss statement.	XXX
The amount of income accruing or arising to a taxpayer being a foreign company, from: a. the capital gains arising on transactions in securities; or b. The interest, dividend, royalty, or fees for technical services subject to taxation if such income is recorded in the profit and loss statement and the income tax due on the aforementioned income is lower than the MAT rate.	XXX

amount representing

- a. Notional gain on transfer of a capital asset, being share of a special purpose vehicle to a business trust in exchange of units allotted by that trust or
 - b. Notional gain resulting from any change in carrying amount of said units; or
 - c. Gain on transfer of units . The notional gain on the transfer of units is calculated by considering the cost of the exchanged shares or their carrying amount at the time of exchange, particularly when these shares are valued differently than their cost in the profit and loss statement, as applicable.
- XXX

Income by way of royalty in respect of patent chargeable to tax. Aggregate amount of unabsorbed depreciation and loss brought forward in case of:

- a. company and its subsidiary and the subsidiary of such subsidiary, where, the Tribunal, on an application moved by the Central Government under Section 241 of the Companies Act, 2013 has suspended the Board of Directors of such company and has appointed new directors who are nominated by the Central Government under Section 242 of the said Act;
 - b. company for which an application for corporate insolvency resolution process has been accepted by the Adjudicating Authority pursuant to Section 7, Section 9, or Section 10 of the Insolvency and Bankruptcy Code, 2016
- XXX



The amount of brought forward loss or unabsorbed depreciation, whichever is less as per books of account (in case of a company other than the company undergoing insolvency proceedings)	XXX
Profits of a sick industrial company (Beginning from assessment year in which it has become sick and ending with assessment year in which the entire net worth equal to or exceeds the accumulated losses) Deferred tax, if credited to statement of profit and loss	XXX
Book profit to be used to calculate MAT	XXX

Tax Credit in respect of Minimum Alternative Tax (MAT) on Certain Companies (Sec. 115JAA)

If a company pays MAT for the Assessment Year 2006-07 or any subsequent assessment year (under Section 115JB), it will be permitted a tax credit in subsequent years as follows:

1. The tax credit will equal the disparity between the tax remitted under MAT and the tax due on the total income calculated according to other provisions of the Act.
2. The tax credit may be carried forward for a maximum of fifteen assessment years following the assessment year in which the credit is permitted.
3. The tax credit will be permitted in the year when the tax liability on total income exceeds the tax liability under the Minimum Alternate Tax as per Section 115JB.
4. The set-off will be permitted up to the amount equivalent to the difference between the tax due on total income and the tax due under MAT as per Section 115JB.
5. No interest will accrue on the tax credit.
6. If, due to assessment, reassessment, correction of error, settlement, appeal, or revision, the tax payable is adjusted, the tax credit shall be correspondingly increased or decreased.
7. When a private company or unlisted public company is transformed into a limited liability partnership, the successor limited liability partnership shall not be entitled to the tax credit benefits. 8. The stipulations of this Section shall be inapplicable to a domestic corporation subject to taxation under section 115BAA.

Illustration 1

Z Ltd is an Indian Company Manufacturing Textiles. For the year ended 31.3.2025, the Statement of Profit and Loss showed

- Net Profit of Rs. 10, 00,000 after deducting the following:
- Dividend Rs. 1,00,000 paid to shareholders.
- Interest Rs 10,000 paid on loan taken for the payment of company's income tax
- Rs. 10,000 paid to legal advisers in respect of proceedings before income tax authorities.
- Penalty of Rs. 20,000 for imparting yarn in contravention of import regulations.

Compute taxable income of company

Solution:

Computation of Taxable income of Company for the Assessment Year 2025-26.

	Amount	Amount
Net profit as per Statement of Profit and Loss Account		10,00,000
Add: Disallowed items		
Dividend paid to shareholders	1,00,000	
Interest on loan for payment of income tax	10,000	
Penalty in contravention of import regulation	20,000	1,30,000
Business Income being Gross Total Income/ Total Income		11,30,000

Illustration 2

ABC Ltd showed a net profit of 3,30,000 during 2024-25. Scrutiny of the accounts revealed the following items:

- Donation paid to an approved public charitable trust – 20,000 by cheque
- Provision for income tax – 1,00,000
- Family planning expenses – 25000



- Capital expenditure on family planning – 1,00,000
- Bad debts allowed earlier recovered during the previous year – 10000
- Interest on bank deposits – 30000
- Long term capital gains – 100000
- Dividend from an Indian company – 20000(gross)

There was (a) unabsorbed depreciation 35,000 and b) unabsorbed capital loss of Rs.40,000 brought forward from the earlier assessment year.

Compute total income of the company for the assessment year 2025-26.

Solution:

Particulars	Amount (₹)	Amount (₹)
Net profit		3,30,000
Add: Disallowed expenses		
Donation	20,000	
Provision for Income Tax	1,00,000	
Capital expenditure on Family Planning (This year allowed 20% or 1/5 of the expenditure)	80,000	2,00,000
		5,30,000
Less: incomes not chargeable under this head: Interest on Bank Deposits	30,000	
LTCG	1,00,000	
Dividend	20,000	1,50,000
		3,80,000
Less: unabsorbed depreciation		35,000
	Business Income (a)	3,45,000
Capital Gains:		
LTCG		1,00,000
Less: B/f Capital loss		40,000

	(b)	60,000
Income from other sources		
Interest on bank deposits		30,000
Dividend		20,000
	(c)	50,000
Gross Total Income (a+b+c)		4,55,000
Less Deduction u/s 80G (Donation): 50 % of ₹20,000		10,000
Total Income		4,45,000

Illustration 3

A domestic company in which public are substantially interested submits the following particulars of its income of the previous year ended 31.3.2025.

Profits of business after deduction of donations to approved charitable institutions – Rs 200,000

Donation to charitable institution by cheque – Rs 20,000

Interest on Government Securities –Rs 15,000

LTCG –Rs 50,000

Book Profit u/s 115JB –Rs 8,00,000

During the financial year 2023-24, the company deposited Rs 15,000 in Industrial Development Bank of India.

The company distributed gross dividend of Rs 1, 00,000 on 10-12-2024.

Compute the taxable income of the company and tax payable by it for the AY 2025-26

Particulars	Amount	Amount
Profit from business	2,00,000	
Add: disallowed expenses		
Donation by cheque	20,000	
Income from business		2,20,000
Income from Capital		
Gain:		
LTCG		50,000



Income from other sources:	
Interest on government securities	15,000
Gross Total Income	2,85,000
Less: deductions under Sec 80G Donation to charitable institution (50% of Qualifying Amount) (QA= 2,85,000- 50,000=2,35,000. 10% of 235,000 or actual Rs.20,000 whichever is less)	10,000
Total income	2,75,000

Note:

1. Total Income does not exceed Rs 1 Crore, hence surcharge is not payable. No deduction is available to the company regarding deposit in IDBI.
2. LTCG is excluded for computing 10% limit of the qualifying amount for deduction under section 80G for donations

Working Note:

Qualifying amount for donations under section 80G

$$= 2,85,000 - 50,000$$

$$= 2,35,000$$

$$= 10\% \text{ } 2,35,000 = 23,500 \text{ or actual amount ie; } 20,000 \text{ whichever is less}$$

$$= 20,000$$

$$\text{Deduction under sec 80 G} = 50\% \text{ of qualifying amount} = 20,000 * 50/100 = 10,000$$

Computation of Tax Payable on Total Income for the Assessment Year 2025-26

Tax on LTCG (50,000 x 20%)	10,000
Tax on other income (2,25,000 x 25%)	56250
Add: Surcharge	Nil
Health and Education Cess @ 4% (66250* 4/100)	2650
(A)	68,900

Tax on Book Profit @ 15% of Rs 8,00,000	1,20,000
Add: surcharge	Nil
Health and Education Cess @ 4% of Rs 1,20,000	4800
(B) Tax on Book Profit under MAT 115JB	1,24,800
A. Tax on Total Income	68900
B. Tax on Book Profit	1,24,800
(Whichever is high) (is Tax payable	1,24,800

Illustration 4

Following are the incomes of a domestic company for the year ended 31st march 2025.

Business profit	4,20,000
Income from mutual Fund (Gross)	5000
Royalty received from a foreign concern for providing technical	20,000
Fee from an Indian company for technical advice	15,000
Dividend from a foreign company	8000
Company has donated to National Rural Development Fund during the previous year.	9000

Compute the total income of the company for the assessment year 2025-26. Compute tax liability if the book profit of the company is 6,00,000 u/s 115JB.

Solution

Business profit	4,20,000
Less: Donation to NRDF (u/s 35CCA)	9000
	4,11,000
Income from other sources: Income from mutual fund	5000



Royalty from foreign Concern	20,000	
Fees from Indian Company	15,000	
Dividend From foreign company	8000	48,000
Gross Total Income		4,59,000
Less deduction	Nil	
Total Income		4,59,000

Computation of tax liability

Tax on Rs 4,59,000 @ 25%	1,14,750
Add: surcharge	Nil
Health and education cess @ 4 %	4590
(a)	1,19,340
Tax on book profit Rs 6,00,000 *15 %	90,000
Add: surcharge	Nil
Add health and education Cess @ 4 %	3600
(b)	93600

(a) or (b) whichever is more is tax payable. Hence tax payable = 1,19,340

Illustration 5

Compute the taxable income of P Ltd for the PY 2024-25 from the following Statement of Profit and Loss and additional information:

Statement of Profit and Loss for the year ended 31.3.2025

Particulars	Note No	Figures as at the end of current reporting period
I. Revenue from operations		5,00,000
II. Other income: Interest 10,000 STCG 15,000		25,000
III. Total Revenue (I+II)		5,25,000

IV. Expenses: Cost of materials consumed changes in inventories of finished goods, work in progress and stock in trade ---- Employee benefit expense: Salaries and Bonus 1,00,000 Other Expenses: Office rent 10,000 War risk insurance 10,000 Postage and Stationery 10,000 General charges 20,000 Reserve for depreciation 25,000 Provision for income tax 2,00,000	3,75,000
V. Profit before tax (III-IV)	1,50,000
VI. Tax expenses: Income tax paid	50,000
VII. Profit for the period ((V-VI))	1,00,000

Additional information:

- The general charges include Rs 5,000 for advertising, Rs 1,000 for charitable donation, Rs 3,000 paid to a Motor Car Company for exchanging the old car for a new one, Rs 1,000 for charity and Rs 5,000 for miscellaneous repairs
- The amount of depreciation admissible under IT Act is Rs 15,000 only.
- The amount of interest is from Government Securities.

Solution

Computation of Total income of Company for the Assessment Year 2025-26.

	Amount	Amount
Net profit as per Statement of Profit and Loss Account		1,00,000



Add: Disallowed items		
Reserve for depreciation	25,000	
Provision for Income Tax	2,00,000	
Income Tax	50,000	
Donation	1000	
Payment of car	3000	
Charity	1000	2,80,000
		3,80,000
Less: STCG	15,000	
Interest	10,000	
Depreciation admissible	15,000	40,000
Income from Business		3,40,000
Income from Capital Gain: STCG		15,000
Income from Other Source: Interest on Government Securities		10,000
Gross Total Income		3,65,000
Less: Deductions u/s 80G Donations on Charity (50%)		500
Total Income		3,64,500

Illustration 6

From the following, compute the tax payable by DC and Company keeping in view of the provisions of MAT u/s 115JB for the AY 2025-26.

Statement of Profit and Loss for the year ended 31.3.25

Particulars	Note No	Figures as at the end of current repeating period
I Revenue from operations		32,00,000
II Other income: Interest on Government Securities		25,000
III Total Revenue (I+II)		32,25,000

IV Expenses: Cost of materials consumed	1,50,000
Purchases of stock in trade	
Depreciation and	
amortization expenses	22,00,000
expenses related to sales	
Total expenses	23,50,000
V Profit before tax (III-IV)	8,75,000
VI Tax expenses: Income tax paid	1,00,000
VII Profit for the period (V-VI)	7,75,000

Surplus Statement

	Amount
Profit/Loss as per Balance Sheet (if any)	----
Current Year Profit	7,75,000
Less: Proposed Dividend	2,00,000
Balance of profit carried to Balance Sheet	5,75,000

Additional information:

The company revalued its assets from Rs 3,00,000 to Rs 6,00,000 and provided depreciation on Rs 6,00,000 @ 25%. The depreciation allowable under IT Act is Rs 80,000.

Brought Forward depreciation as per books of accounts is Rs 50,000.

Brought Forward unabsorbed depreciation Rs 1,00,000

Solution

Computation of Total income of Company for the Assessment year 2025-26

Profit as per Surplus Statement	5,75,000
Add: Disallowed items	
Depreciation and amortization expenses	1,50,000
Income tax paid	1,00,000



Proposed Dividend	2,00,000	4,50,000
		10,25,000
Less: Interest on Gov- ernment Securities	25,000	
Depreciation allowable under IT Act	80,000	1,05,000
Business Income		9,20,000
Less: Unabsorbed depreciation		1,00,000
Income from Business		8,20,000
Income from Other Source: Interest on Government Securities		25,000
Gross Total Income being Total Income		8,45,000

Computation of Tax Liability on Total Income for the AY 2025-26

Tax on Total Income 8,45,000 @ 25%	2,11,250
Add: Surcharge	Nil
Health and education Cess @ 4%	8450
Tax Payable	2,19,700

Computation of Book Profit for the AY 2025-26

	Amount	Amount
Balance as per Surplus Statement		5,75,000
Add: Disallowed items		
Depreciation and amortization expenses	1,50,000	
Income tax paid	1,00,000	
Proposed dividend	2,00,000	4,50,000
		10,25,000

Less: Depreciation (25% of Rs 3,00,000)	75,000	
B/F depreciation as per books of accounts	50,000	1,25,000
Book Profit		9,00,000

Computation of Tax Liability on Book Profit for the AY 2025-26

Tax on Book Profit Rs 9,00,000 @ 15%	1,35,000
Add: Surcharge	Nil
Health and educa- tion Cess @ 4%	5400
Tax Payable	1,38,400

Tax on Total Income Rs 2,19,700 and Tax on Book Profit Rs 1,38,400 whichever is high is tax payable. Hence, tax liability is Rs 2,19,700.

Illustration 7

The statement of Profit and loss of NYC Ltd. for the year ended 31st March, 2025 shows a net profit of Rs.16,00,000. The statement of Profit and Loss includes the following items among others:

dividend from an Indian company	1,00,000
Net rent from house property (let to outsiders) after debiting repairs Rs. 1000 and Muncipal tax Rs.3000	23,000
Provision for taxation	20,00,000
Cost of maintenance of a liaison office in New York for promoting exports	60,000
Legal expenses for contesting a suit for eviction from a premises used as a showroom	3000
Expenses for obtaining a loan from a financial institution for acquiring new machinery	20,000



Amount embezzled by the cashier of the company, which is irrecoverable	15,000
--	--------

Compute the total income of the company for the relevant assessment year

Solution

Computation of total income for the assessment year 2025-26

	Amount (in Rs.)	Amount (in Rs.)
Net profit		16,00,000
Less: income not taxable under the head 'Business or Profession'		
i. dividend	1,00,000	
ii. Rent from house property	23,000	1,23,000
Add: expenses disallowed		14,77,000
i. Provision for taxation	20,00,000	
ii. Expenses on office in New York (Allowable)		
iii. Legal expenses (allowable)		
iv. Expenses for obtaining loan (allowable)		
v. Amount embezzled by cashier (allowable)		20,00,000
	Business Income	34,77,000

Income from House Property: Gross Annual Value	27,000	
Less: Municipal Tax	3000	
Annual Value	24,000	
Less: Standard deduction u/s 24 (a) (equal to 30 % of the annual value)	7200	16,800
Income from other sources:		
Dividend		1,00,000
Gross total Income		35,93,800
Less: deduction		Nil
Total income		35,93,800

Recap

- ◇ A company must submit its income tax return under Section 139(1) of the Income Tax Act within the stipulated timeframe, with the principal officer submitting the return on the company's behalf.
- ◇ The tax remitted by a corporation is not considered to have been paid on behalf of its shareholders.
- ◇ Income tax is levied on total income at a uniform rate, except for incomes subject to specific rates established by the Act.
- ◇ The purpose of implementing Minimum Alternate Tax (MAT) is to incorporate "zero tax companies" into the tax system, which evade taxation due to various concessions and incentives available under the Income Tax Law.
- ◇ A company's tax liability is determined by the higher of two options: the normal tax liability, calculated according to the standard provisions of the Income Tax Law, or the 15% tax calculated on book profit.

- ◇ MAT is not applicable to domestic companies, revenue generated by life insurance companies, or foreign companies whose total income consists of profits and gains derived from businesses outlined in Sections 44AB, 44BB, 44BBA, or 44BBB.

Objective Questions

1. Residential status of a company depends on
2. Income tax paid by a company is
3. Depreciation allowed under the Income Tax Act is governed by
4. MAT is calculated on
5. Tax rate for a domestic company opting for section 115BAA is
6. Dividend income received by a domestic company is taxable under
7. Health and Education Cess is levied at what percentage?
8. MAT credit can be carried forward for how many assessment years?

Answers

1. Place of control and management
2. Fully disallowed
3. Section 32
4. Book profit
5. 22%
6. Income from other sources
7. 4%
8. 15 assessment years

Self-Assessment Questions

1. How is income tax levied on company's total income?
2. What is the purpose of implementing Minimum Alternative Tax?
3. How is a company's tax liability determined?
4. What does MAT aim to address within the tax system?
5. How is total income of a company calculated?
6. A Trading Co. Ltd. shows a loss of ₹ 54,000 for the Previous Year ending on 31.3.2025. On going through the accounts you find that the following adjustments were made in arriving at a loss:

Debits

- a. Penalty paid for breach of FEMA 1,25,000
- b. Donation paid to a Public Religious Trust 5,000
- c. Interest paid on a loan taken to pay Income tax for 2024-25 5,000

Credits

- a. Income on units from Mutual Fund (Gross) 5,000
- b. Gross rental income from a portion of the building let out by the company which has taken the building on lease, no expenses were incurred in respect of this rental income 8,000 (c) A sum of Rs 5,000 given by one of the shareholders towards the donation to the religious trust mentioned under (b) of above 5,000 –

Compute the total income of the company for the Assessment Year 2025-26

7. Arun Ltd. is an Indian Company manufacturing Textiles. For the year ending 31st March, 2025, the Statement of profit and loss showed a net profit of ₹ 9,00,000 after deducting the following:
 - a. Dividends ₹ 2,00,000 paid to shareholders for the Accounting Year 2023-24.
 - b. Interest ₹10,000 paid on loan taken for the payment of company's income tax.
 - c. ₹10,000 paid to legal advisers in respect of proceedings before income tax authorities.



- d. Penalty of ₹ 24,000 for importing yarn in contravention of import regulations.

Compute taxable income of the company.

8. A Ltd an Indian Company computed a loss of ₹ 1,20,000 for the Assessment Year 2025-26. In arriving at the loss the following adjustments have been made.

1. A speculation loss carried forward from Assessment Year 2021-22 is set-off to the extent of ₹ 5,00,000.
2. A donation of ₹ 1,00,000 given to a political party by cheque.
3. Insurance premium paid to insure the gold and jewellery in stock against risk of fire and theft- ₹2800
4. Advances made for the purchase of gold the value of which has not been taken into account on the ground that purchase has not been effected in the previous year ₹ 16, 00,000.

Discuss the admissibility or otherwise of the above deductions and arrive at the correct total income of the company.

9. From the following particulars of ABC Ltd., compute Taxable Income for AY 2025-26:

- Net profit as per P&L A/c: ₹18,00,000
- Depreciation as per books: ₹2,50,000
- Depreciation as per Income Tax Act: ₹3,80,000
- Income tax paid: ₹1,20,000
- Provision for doubtful debts: ₹40,000
- Interest on Government securities: ₹70,000

Assignments

1. The Total Income of LMN Ltd. before tax planning is ₹2,50,00,000.

The company has the following deductions:

- Additional depreciation: ₹12,00,000

- Deduction u/s 80G: ₹5,00,000
- Brought forward business loss: ₹18,00,000

You are required to calculate

Compute tax liability under old tax regime

Compute tax liability if company opts for section 115BAA

Advise which option is beneficial and justify your answer.

2. Discuss the heads of income applicable to companies. Can a company earn income under all the five heads of income? Explain with reasons.
3. “MAT ensures that companies with high book profits do not avoid tax.” Discuss this statement with suitable illustrations.

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BLOCK

Goods and Services Tax

Unit 1

Basics of Goods and Service Tax

Learning Outcomes

After completing this unit, the learner will be able to:

- ◇ explain the constitutional framework of indirect taxation in India
- ◇ differentiate between direct and indirect taxes and explain the concept of GST
- ◇ describe the structure and rate system of GST
- ◇ apply the provisions relating to levy, scope, and time of supply

Prerequisites

Taxation is the primary source of revenue for the government and is broadly classified into direct and indirect taxes. Direct taxes, such as income tax, are paid directly by individuals and organisations, while indirect taxes are levied on goods and services and are ultimately borne by consumers. Indirect taxes play a significant role in regulating consumption and generating revenue for public expenditure. Before the introduction of GST, India followed a multi-layered system of indirect taxation. The Central Government levied excise duty and service tax, while State Governments imposed value added tax (VAT), entry tax, and other local levies. The constitutional framework allocated taxation powers between the Union and the States through the Union List, State List, and Concurrent List. The coexistence of multiple taxes led to cascading effects, lack of uniformity in tax rates, compliance complexity, and barriers to the free flow of goods and services across state boundaries. GST was introduced as a comprehensive reform to simplify and unify the indirect tax structure. It is a destination-based consumption tax levied on the supply of goods and services at each stage of the value chain. The core objective of GST is to create a common national market by replacing multiple central and state taxes with a single integrated tax system. The structure of GST comprises CGST, SGST, IGST, and UTGST, ensuring appropriate sharing of revenue between the Centre and the States for intra-state and inter-state transactions.

Keywords

GST, Input Tax Credit, Time of Supply, Composite Supply, GSTIN

Discussion

3.1.1. Constitutional Framework of Indirect Taxes before GST

Before the introduction of the Goods and Services Tax (GST) in India, the indirect tax system was widely regarded as complex, multilayered, and fragmented. It consisted of numerous taxes levied by both the Central and State Governments, often on the same transaction at different stages. This resulted in overlapping tax levies, cascading effects, administrative inefficiencies, and lack of uniformity across the country. The constitutional framework governing this system was primarily based on the Constitution of India, especially the Seventh Schedule, and key constitutional provisions such as Articles 265, 269, and 286, which defined the authority, scope, and limitations of indirect taxation powers.

3.1.1.1. Constitutional Basis of Taxation

The foundation of India's taxation system is laid down in Article 265, which states that "no tax shall be levied or collected except by authority of law." This provision ensures legality, accountability, and constitutional validity of all taxes imposed by the government. It applies equally to both the Union and State Governments and prevents arbitrary taxation.

The Seventh Schedule of the Constitution provided the framework for dividing taxation powers between the Union and the States through three lists:

Union List (List I)

State List (List II)

Concurrent List (List III)

Most indirect taxes were allocated either to the Union List or the State List, while the Concurrent List played a limited role in indirect taxation.

3.1.1.2. Indirect Taxes under the Union Government

The Union Government had exclusive power to levy and collect several major indirect taxes under the Union List. One of the most significant was Customs Duty, imposed on imports and exports of goods. Customs duty served both as a revenue-generating measure and a tool for regulating international trade.

Another important central levy was Central Excise Duty, imposed on the manufac-



ture or production of goods within India. However, alcoholic liquor for human consumption was excluded from central excise and remained under the taxing powers of the States. In addition to basic excise duty, the Centre imposed Additional Excise Duties on specific goods such as textiles and tobacco.

The taxation of services posed a constitutional challenge, as services were not explicitly mentioned in the State List. Relying on its residuary powers under Article 248, the Union Government introduced Service Tax in 1994. Over time, service tax became a major source of revenue for the Centre and expanded to cover a wide range of services.

To counterbalance state-level taxes on imported goods, the Centre also levied Countervailing Duty (CVD) and Special Additional Duty (SAD). These duties aimed to ensure that imported goods faced a tax burden similar to domestically produced goods.

3.1.1.3. Indirect Taxes under the State Governments

The State Governments derived their taxation powers from the State List. The most significant state-level indirect tax was Sales Tax, later replaced by Value Added Tax (VAT). VAT was imposed on the intra-state sale of goods and allowed limited input tax credit within the state. Since VAT laws and rates differed from state to state, it led to non-uniform taxation across India.

States also levied State Excise Duty on alcoholic liquor for human consumption and certain narcotic substances. Other important state-level indirect taxes included Entertainment Tax, Luxury Tax, Entry Tax or Octroi, and Taxes on Betting and Gambling. These taxes varied widely among states in terms of rates, exemptions, and compliance procedures.

Role of Article 269: Central Sales Tax

Article 269 dealt with taxes levied and collected by the Union but assigned to the States. The most notable tax under this provision was the Central Sales Tax (CST) on inter-state sales of goods. Although CST was collected by the Centre, the revenue was assigned to the originating state. The CST system created several problems. Input tax credit was not available for CST, leading to tax cascading. It also discouraged inter-state trade, as businesses preferred to sell goods within their own states to avoid CST liability. This went against the idea of a common national market.

Role of Article 286: Restrictions on State Taxation

Article 286 imposed constitutional restrictions on the taxation powers of States. It prohibited States from taxing sales or purchases of goods that took place outside the state or in the course of import and export. The objective of this article was to protect inter-state and international trade from multiple taxation and ensure free flow of goods.

However, the interpretation of Article 286 often led to disputes between States and taxpayers, particularly regarding the determination of the place of sale. These disputes increased litigation and compliance costs.

Structural Weaknesses of the Pre-GST System



The constitutional division of taxation powers resulted in several structural deficiencies. One major issue was tax cascading, where taxes were levied on top of other taxes without allowing full credit. For example, VAT was charged on a value that already included excise duty, increasing the final price of goods.

Another weakness was the artificial separation between goods and services. Goods were taxed by both the Centre and the States, while services were taxed only by the Centre. This distinction became increasingly irrelevant in a modern economy where goods and services are often supplied together.

The presence of multiple taxes, different authorities, varying tax rates, and diverse compliance requirements increased the administrative burden on businesses, especially those operating in multiple states. The system also created economic barriers between states, weakening the concept of “one nation, one market.”

3.1.2. Types of Taxes

3.1.2.1. Direct Taxes

It is a tax where the burden cannot be shifted to another person. It is assessed on person, property, income, business and so on. Thus, the first burden (incidence) and the final burden (impact) of tax falls on the same person. In the case of direct taxes, the tax payer is the tax bearer. Income Tax, Corporate Tax, capital gains tax are the common types of direct taxes in India.

Features of Direct Taxes

3.1.2.2. Levied Directly on Income or Wealth

These taxes are imposed directly on individuals or entities based on their income, profits, or wealth. Income Tax, Corporate Tax are examples of Direct Taxes.

Burden Cannot Be Shifted

The burden of direct tax cannot be shifted to another person. So the first and final burden falls on the same person. For example, if you earn income, you must pay the income tax and you can't ask someone else to pay it for you.

Progressive in Nature

Direct taxes in India are generally progressive. It means that as level of income increases, the tax rate imposed also increases. People who earn more pay a higher percentage of tax.

Governed by Specific Laws

Direct taxes are imposed and collected as per legal provisions under acts such as the Income Tax Act, 1961, and the Finance Acts passed annually by the Parliament.

Governed by Specific Laws



They are imposed and collected as per legal provisions under acts such as the Income Tax Act 2025, and the Finance Acts passed annually by the Parliament.

3.1.2.3. Advantages of Direct Taxes

Distribution

Direct taxes are imposed based on the taxable capacity of the taxpayer and their burden is justifiably distributed.

Progressive

Direct taxes are progressive as higher rates of taxes are imposed on higher income groups and lower rates are imposed on lower income groups. Poor people are exempted under direct taxes.

Certain

The government can estimate the proceeds from taxes and can balance its income and expenditure. Assessee is also certain about the amount of tax.

Elastic

Direct taxes are considered elastic. It means that government revenue from these taxes increases as the income or wealth of individuals rises. Since these taxes are often progressive in nature, even a small increase in income can lead to a comparatively larger increase in tax collection. This elasticity allows the government to boost its earnings by adjusting tax rates.

Productive

Direct taxes are considered productive because they do not significantly impact a country's productive capacity in the short run. In contrast, indirect taxes tend to have a greater impact on productive capacity.

3.1.2.4. Disadvantages of Direct Taxes

Arbitrary

The tax rates are fixed arbitrarily by the governments.

Probability of Tax Evasion

Direct taxes are imposed on the income of the people. Tax burden increases with increase in income. So Direct taxes often induces the tax-payers to conceal their real income. It leads to the accumulation of black-money. Some Tax-payers also maintain bogus account for which they do not pay the taxes.

Reduce Saving

A significant part of the income is taken away in form of taxes in the case of direct taxes, Thus, high rates of direct taxes affects the saving capacity of the people. This also ultimately affects the rate of capital formation in the country.

Limited tax base

Direct taxes impact only a part of the society-salaried class. Business class avoid and evade direct taxes by manipulating accounts.

3.1.2.5. Types of Direct Taxes

i. Income Tax

It is a of direct tax which is imposed directly on the income of persons such as Individuals, Hindu Undivided Families (HUFs), Partnership Firms, Companies, Cooperative Societies, Trusts etc. Income tax is charged on taxable income.

ii. Corporate Tax

It is imposed on profits earned by the companies. Thus, both public and private companies, which are registered in India under the Companies (Amendment) Act, 2019 are liable to pay the Corporate Tax.

iii. Capital Gains Tax (CGT)

It is a tax levied on the profit earned from the sale of a from selling a Capital Asset.

iv. Securities Transaction Tax (STT)

It is a tax levied in connection with the purchase and sale of securities such as shares, bonds, mutual funds, etc. which are listed on recognized stock exchanges. STT is levied on the transaction value of securities. Thus, it is distinct from Capital Gains Tax, which applies to the profit you earn on the sale of securities. Securities Transaction Tax (STT) was introduced with the aim of curbing tax evasion on capital gains as the STT is taxed at source.

3.1.2.6. Indirect Taxes

These are taxes where the burden of tax can be shifted to others. In other words, the first burden (incidence) falls on one person while the final burden (impact) of tax falls on another person. Tax is imposed on one person and it is partly or wholly paid by another.

3.1.2.7. Features of Indirect Taxes

Tax on goods and services

Indirect tax is levied at the time of supply, manufacture, sale, purchase, import, or export of goods and services.

Incidence and Impact

In the case of Indirect taxes, although the incidence of tax (first burden) falls on one person, the impact (final burden) falls on another person. Indirect Taxes are first paid by the persons on whom these are levied. However, they shift the tax burden again and again until they reach the final consumers. Consumers are infact the true tax bearers.



Regressive in Nature

Indirect tax does not differentiate between rich and poor. All persons whether rich or poor will have to bear the burden of tax on the goods or services consumed by them regardless of their tax paying ability. So, in the case of goods and services of mass consumption, the poor people are also required to pay equal percentage of tax just like the rich. This will likely result in widen disparities between rich and poor.

Wider Tax Base

The tax base of indirect tax is much wider as compared to direct tax as majority of the goods and services are liable to indirect tax with very low threshold limits.

Inflationary in nature

Indirect taxes causes inflation as the cost of goods and services increases due to levy of indirect tax.

3.1.2.8. Advantages of Indirect Taxes

High revenue production:

As Indirect taxes cover a large number of essential goods and luxurious goods which are consumed by the mass both rich and poor people, they have a huge scope for generation of revenue. .

(No chance of tax evasion or tax avoidance:

As the indirect taxes are included in the price of the goods and services, there is no chance of tax evasion or avoidance.

Convenient

As the Indirect taxes are hidden in the price of goods and services, the tax payers do not directly feel the burden of these taxes.

Economy

Indirect taxes are economical in collection and the administrative costs of collection are very low. In addition to this, the procedure of collection of these taxes is very simple.

Wide coverage

Indirect taxes cover a wide range of commodities like essential commodities and also the luxuries.

3.2.1.9. Disadvantages of Indirect Taxes

Inequitability

They are considered unfair and unequitable as they have a regressive impact. These taxes are imposed on goods and services. So, regardless of the income level, every consumer pays the same tax amount for a particular product or service, regardless of

how much they earn these taxes are imposed at a uniform rate on commonly used goods and services, meaning. As a result, people with lower incomes end up bearing a heavier financial burden, since a larger share of their limited earnings goes towards paying these taxes compared to wealthier individuals.

Less Productive

As these taxes involve many stages, the cost of collection is usually high in relation to the revenue that is earned from them.

Inflationary Potentiality

Indirect taxes are inflationary in nature . In India, excessive indirect taxation on commodities of mass consumption can be considered as a contributing factor to the inflationary tend in the country.

Disincentive Effect on Savings

Indirect taxes discourage savings when the people have to spend more with a rise in the prices of commodities.

No Educative Value

Indirect taxes are not directly visible. As they are collected through middlemen like traders, hence, they do not promote any civic sense.

Structure of GST

India has implemented dual GST regime. Both Central Government and State/ Union Territories concurrently (simultaneously) charge the goods and services tax.

In dual GST regime,

- Both the Centre and the States/UT's have the power to tax Intra - State Supplies (i.e, supply of goods and services within the same state/UT). Accordingly, all the Intra-State/UT transactions of goods and services would attract two types of levies namely Central Goods and Services Tax (CGST) and State Goods and Services Taxes (SGST) or Union Territory Goods and Services Taxes (UTGST).
- In the case of Inter- State supplies (i.e, supply of goods and services between two or more states/ UTs), the power to levy the tax lies with the Central Government. This levy is referred to as Integrated Goods and Services Taxes (IGST)

3.1.3. Central Goods and Services Tax (CGST)

CGST has subsumed the earlier indirect taxes such as Central Excise Duty, Service Tax and other additional taxes. CGST is levied and collected by the Central Government. It is levied on the Intra state/UT supply of goods and services or both (Intra state/ UT supply refers to supply of goods and services within the same state/UT). The Constitution (101st Amendment) Act, 2016 contains suitable provisions that empowers Centre to tax sales. CGST would be administered by the Central Government under the Central Goods and Services Act, 2017 and rules made thereunder.



3.1.3.1. Features of CGST

1. It was implemented after subsuming Central indirect taxes such as Excise Duty, Service Tax and other additional taxes.
2. The Taxable Event in CGST is the Intra state/UT supply of goods and services.
3. It will be administered by the Central Government. CGST will be levied and collected by the Central Government.
4. In the Tax Invoice, the amount of CGST charged shall be shown separately. The same shall be deposited into account of the Central Government as per rules.
5. Half of the total GST chargeable will be the CGST component. For example, if GST rate 12%, the rate of CGST shall be 6%.
6. For administration, the CGST Act, 2017 and CGST Rules, 2017 have been notified having whole of the India, jurisdiction.

Example-Assuming 28% GST on A. C. and Fridge manufacturer will issue Tax Invoice after charging 14% CGST and 14% SGST, for which input tax credit shall be available to the dealers under distribution chain till the product reaches to the final consumer.

3.1.4. State Goods and Services Tax (SGST)

State GST has subsumed the previous indirect taxes such as State VAT, Entry tax, Octroi, Luxury tax, Entertainment tax, etc. It is levied by the respective State Governments. It is levied on the Intra State supply of goods and services (Intra state/UT supply refers to supply of goods and services within the same state/UT). SGST is levied under respective SGST Acts of different states. To enable taxing of services by the State, the Constitution (101st Amendment) Act, 2016 contains suitable provisions. SGST is to be administered by the State Governments as per the State Goods and Services Act, 2017.

3.1.4.1. Features of SGST

1. SGST has been implemented after subsuming State VAT, Entry Tax and other taxes and cesses which until then were levied by the State Governments.
2. States were charging various taxes and cesses arbitrarily at different rates before SGST. Now all the states in the country charge SGST at a uniform rate as prescribed.
3. Out of the total GST charged, half of the GST charged, is the component of SGST. If chargeable GST is 18%, 12% and 5%, SGST component shall be 9%, 6% and 2.5% respectively.
4. In the Tax Invoice, SGST charged shall be shown separately by the supplier

5. The state where supplier and recipient both are located shall utilise the amount collected under SGST.
6. Every State has enacted its own SGST Act, based upon Model GST laws

3.1.5. Union Territory Goods and Services Tax (UTGST)

UTGST is the GST applicable on the goods and services supply that takes place in any of the six Union Territories of India, (1) Andaman and Nicobar Islands, (2) Dadra and Nagar Haveli and Daman and Diu, (3) Chandigarh, (4) Lakshadweep, (5) Ladakh, (6) Jammu & Kashmir. The UTGST is imposed along with the Central GST (CGST) and is charged by the Central Government on the supply of goods and services within a Union Territory (intra-UT supply). Intra-UT supply refers to transactions that occur within the same Union Territory. So when the SGST cannot fulfil the needed provision there and for the same UTGST Act, 2017 has been enacted. The reason why a separate GST was implemented for the Union Territories is that the common State GST (SGST) cannot be applied in an Union Territories without legislature. Delhi and Puducherry, already have their own legislatures, so SGST is applicable to them. For any transaction of goods/service within a Union Territory-CGST + UTGST is levied.

3.1.5.1. Features

- i. It is levied by the Central Government.
- ii. It is levied on Intra UT transactions ie. transactions that take place within the same UT.
- iii. Taxable Event in UTGST is Intra UT supply of goods or services or both.
- iv. The VAT that was applicable earlier got subsumed in UTGST.
- v. It is levied under the UTGST Act, 2017 and is applicable on all UT's except Delhi and Puducherry, which have their own legislatures like state GST for all states.
- vi. Income from UTGST is levied & collected by the UT's without state legislatures.

3.1.6. Integrated Goods and Services Tax (IGST)

IGST comprises of CGST and SGST. (i.e, IGST is equal to CGST + SGST). It is levied on all supplies of goods and services in the course of Inter-State trade or commerce. It is applicable on import of goods or services from outside country as well. It will be levied and collected by Centre on all Inter State supply of goods and services. The proceeds of IGST will be apportioned among the states on the basis of the recommendations of the GST Council. A separate 'Integrated Goods and Services Tax (IGST) Act', 2017 has also been enacted to determine the position of such supply and levy GST on Inter-State supply. Inter-State supplier shall pay IGST on value addition after adjusting available credit of IGST, CGST and SGST on his inward supplies. The exporting State shall transfer to the Centre the credit of SGST used in payment of IGST. The importing dealer shall claim a credit of IGST while discharging his output tax



liability in his own State. The Centre shall transfer to the importing State the credit of IGST used in payment of SGST.

Features

- i. IGST is sum total of CGST and SGST.
- ii. It is levied by the Central Government.
- iii. It is levied on Inter State or Inter UT transactions (ie transactions that take place between two or more states or UT's).
- iv. Taxable Event in IGST is Inter state/UT supply of goods or services or both.
- v. It is levied under the IGST Act, 2017.
- vi. Income from IGST shall be apportioned between the centre and states on the recommendations of the GST council.

3.1.7. GST Rates in India

The Goods and Services Tax (GST) in India underwent significant reform in 2025, reshaping the tax structure that continues into 2026. The GST Council simplified the rate slabs to make taxation fairer, easier to comply with, and more growth-oriented. These changes were approved during the 56th GST Council meeting and implemented from 22 September 2025.

Under the new GST framework (GST 2.0), the rate slabs have been rationalised into four major categories: 0%, 5%, 18%, and 40%.

1. 0% GST (Nil-Rated)

Essential goods and services important for basic living are exempt from GST. Common examples include fresh vegetables and fruits, unbranded grains and cereals, educational materials, and certain life-saving medicines. Zero rating reduces the tax burden on the poorest segments of society.

2. 5% GST

This reduced rate applies to daily-use items and essentials. Goods like packaged foods, soaps, toiletries, and many services of basic necessity fall under this category. The lower rate supports affordability for ordinary consumers and small businesses.

3. 18% GST (Standard Rate)

The standard GST rate is applied to a vast range of goods and services that form the core of the economy. Consumer durables (e.g., computers, mobile phones), most services (like telecom, finance, and consulting), and mid-range products are taxed at this rate.

4. 40% GST (Luxury/Sin Goods)

A new higher slab at 40% is now reserved for luxury and sin goods, replacing the old 28% plus cess model. Products like high-end motorcycles, premium cars, aerated drinks, and tobacco products (from February 2026) attract this rate to discourage harmful consumption while boosting revenue.

Levy and Collection of Tax under GST

The levy and collection of tax form the foundation of the Goods and Services Tax (GST) system in India. The authority to levy and collect GST is derived from Article 246A and Article 265 of the Constitution of India, which provide that no tax shall be levied or collected except by authority of law. GST is a comprehensive indirect tax levied on the supply of goods and services and is administered jointly by the Central and State Governments.

3.1.8. Supply

The concept of "Supply" forms the foundation of the Goods and Services Tax (GST) regime in India. GST is a destination-based tax levied on the supply of goods or services or both. The term "supply" is defined under Section 7 of the CGST Act, 2017, and it encompasses a wide range of transactions, making it critical for determining tax liability.

According to Section 7(1), supply includes all forms of supply of goods or services such as sale, transfer, barter, exchange, license, rental, lease, or disposal made or agreed to be made for a consideration in the course or furtherance of business. It also includes the import of services for a consideration, whether or not in the course of business. Thus, both monetary and non-monetary exchanges are covered under the ambit of supply, provided there is a quid pro quo relationship.

Furthermore, Section 7(1)(c) read with Schedule I of the Act outlines certain activities that are considered supply even without consideration. Examples include the permanent transfer of business assets, supply between related persons, or supply between distinct persons (like branches in different states) in the course of business. This broadens the tax net to prevent avoidance through internal transfers.

Schedule II of the CGST Act helps in classifying whether a transaction constitutes a supply of goods or supply of services. For instance, leasing of land and buildings is treated as a supply of services, whereas the sale of goods is classified accordingly. This classification is essential as the rate of tax and compliance requirements differ between goods and services.

Section 7(1A) added by the CGST Amendment Act, 2018, further clarifies that certain activities or transactions specified in Schedule III are neither supply of goods nor supply of services, such as services by an employee to employer, transactions in money, and actionable claims.

The scope of supply under GST is vast and includes both traditional and non-traditional forms of transactions. It ensures that almost every economic activity with commercial value is brought within the tax framework, thereby ensuring a comprehensive and efficient taxation system. Understanding the scope of supply is essential for businesses



to determine tax obligations, compliance, and reporting under the GST regime.

3.1.8.1. Composite Supply

Under the Goods and Services Tax (GST) a composite supply means to a supply made by a taxable person consisting of two or more goods or services or any combination thereof, which are naturally bundled and supplied in conjunction with each other in the ordinary course of business. This concept is defined in Section 2(30) of the CGST Act, 2017. The supply include a principal supply, and all other supplies are considered ancillary or dependent upon it. As per Section 8(a) of the CGST Act, a composite supply shall be treated as the supply of the principal supply, and the applicable tax rate shall be that of the principal item. To determine whether a supply is composite, it must be seen whether the combination of goods or services is naturally bundled, meaning they are usually sold together in that line of business. The decision depends on industry practice and customer expectations.

3.1.8.2. Mixed supply

A mixed supply under GST refers to the combination of two or more individual supplies of goods or services made together for a single price, where such combination is not naturally bundled, and each component can be supplied independently. This is defined in Section 2(74) of the CGST Act, 2017. Unlike composite supply, the components of a mixed supply do not depend on one another and are not naturally packaged together in the ordinary course of business. The tax treatment of a mixed supply is specified in Section 8(b) of the CGST Act, which states that the entire supply shall be taxed at the highest rate applicable to any one of the individual items in the bundle. For instance, a festival gift box containing chocolates (18%), sweets (12%), and a small toy (28%) sold for a single price will be considered a mixed supply and taxed at the highest rate—28%. This rule prevents taxpayers from combining high-tax items with low-tax items to reduce the overall tax burden.

The critical distinction between mixed and composite supply lies in the intent and commercial nature of bundling. In a mixed supply, the goods or services are grouped together merely for promotional or convenience purposes and not out of necessity or business norms. For example, if a seller offers a combo deal of a shaving kit containing razors, aftershave, and a perfume bottle for a flat price, and these items are usually sold separately in the market, it is a mixed supply. Since each item maintains its independent utility and identity, and the bundle is not a regular business practice, the tax must be applied at the highest rate among them. Proper classification is crucial to avoid disputes and penalties. Businesses must document the purpose and nature of each bundled offering to determine whether it is a mixed or composite supply. Misjudging such classification can result in underpayment or overpayment of GST and compliance issues during audits. Mixed supply rules under GST ensure that businesses do not exploit pricing strategies to avoid higher taxes and uphold the integrity of the tax structure.

3.1.9. Valuation rules

Under the GST regime, the value of supply is generally the transaction value agreed

upon between the supplier and recipient. However, in specific situations where the transaction value cannot be determined normally, Rules 27 to 35 of the CGST Rules, 2017 provide structured methods for valuation.

When the consideration is not wholly in money (Rule 27)

When the consideration for a supply is partly or fully non-monetary, the value is first taken as the open market value of the supply. If that is unavailable, the value shall be the sum of money paid and the equivalent of non-monetary consideration. If even this cannot be determined, the value should be that of like kind and quality, and if all else fails, it must be based on cost or reasonable means.

Value of supply of goods or services or both between distinct or related persons, other than the supply through an agent (Rule 28)

For supplies between related persons or distinct persons (for example, between different GST-registered branches of the same business), the value is determined using the open market value. If this is not available, then it is based on goods or services of like kind and quality. If neither is available, the cost-based method or reasonable means must be used.

Value of supply of goods made or received through an agent (Rule 29)

In the case of supply between a principal and an agent, the value is the open market value. When goods are supplied for further sale by the recipient, 90% of the price charged by the recipient to an unrelated customer for similar goods can be used. If this is not determinable, the cost-based or reasonable method applies.

Value of supply of goods or services or both based on cost (Rule 30)

When none of the previous rules are suitable, the value of supply is taken as 110% of the cost of production, manufacturing, procurement, or provision of services.

Residual method for determination of value of supply of goods or services (Rule 31)

If value determination is still not possible, a reasonable method consistent with the GST principles and the provisions of the Act should be used. For service providers, this rule can be used directly instead of applying the cost-based rule.

Value of supply of services in relation to the purchase or sale of foreign currency, including money changing [Rule 32(2)]

For foreign currency exchange services, if one currency is Indian rupee, the value is calculated as the difference between the RBI reference rate and the exchange rate applied, multiplied by the total units exchanged. If the RBI rate is not available, the value is 1% of the total amount in rupees. If neither currency is in Indian rupees, the value is 1% of the lesser of the two amounts obtained by converting both currencies into rupees. Alternatively, a slab-based method can be chosen, where value is 1% of the exchanged amount or ₹250 (whichever is higher) up to ₹1 lakh, ₹1,000 plus 0.5% for amounts from ₹1 lakh to ₹10 lakh, and ₹5,500 plus 0.1% above ₹10 lakh, capped



at ₹60,000.

The value of supply of services in relation to booking of tickets for travel by air provided by an air travel agent - Rule 32(3)

For air travel agents, the value is calculated as 5% of the basic fare for domestic bookings and 10% for international bookings.

The value of supply of services in relation to life insurance business Rule 32(4)

In the case of life insurance services, if the investment portion is disclosed to the policyholder, the value is the gross premium minus the investment component. For single premium annuity policies, the value is 10% of the premium. In other cases, it is 25% of the premium for the first year and 12.5% for subsequent years.

Value for the supply of second hand goods - Rule 32(5)

For dealers in second-hand goods who do not change the nature of the goods during processing, the value is the selling price minus the purchase price, ignoring negative values. If the goods are repossessed from a defaulting borrower, the purchase price is reduced by 5% for every quarter or part thereof between the date of purchase and disposal.

In the case of redeemable vouchers, coupons, or tokens (excluding postage stamps), the value is the amount redeemable against them. *(Rule 32(6))*

When the government notifies certain services between distinct persons, the value of such services is treated as NIL, though the supplier can still claim input tax credit. *(Rule 32(7))*

Expenses incurred by a supplier as a pure agent of the recipient can be excluded from the value of supply if the payment is made under authorization, is separately mentioned in the invoice, and is incurred alongside the supplier's own services. *(Rule 33)*

For foreign currency conversion, the rate to be applied is the one notified by the Reserve Bank of India on the date of supply. *(Rule 34)*

When the value of supply is inclusive of taxes, the amount of tax is computed using the formula: $(\text{Value including tax} \times \text{tax rate}) \div (100 + \text{applicable tax rate})$. *(Rule 35)*

These valuation rules ensure consistency and compliance in various special supply scenarios, allowing taxpayers and authorities to arrive at a fair taxable value

Time of Supply of Goods and Time of Supply of Services under GST

Under the Goods and Services Tax (GST) law, the concept of Time of Supply is fundamental because it determines the point at which the liability to pay tax arises. GST is payable in the tax period in which the supply is deemed to have taken place. Hence, identifying the correct time of supply is essential for accurate tax payment, correct return filing, and avoidance of interest and penalties. The provisions relating to time of supply of goods and services are primarily contained in Sections 12 and 13 of the CGST

Act, 2017.

3.1.10. Time of Supply of Goods

The time of supply of goods generally depends on the date of issue of invoice or the date of receipt of payment, whichever occurs earlier. The GST law follows the principle that tax liability should arise at the earliest possible point connected with the supply. Accordingly, the liability to pay GST on goods arises at the earliest of the following events:

- The date of issue of invoice by the supplier
- The last date on which the invoice is required to be issued, or
- The date of receipt of payment, whichever is earlier

In the case of goods, the invoice must usually be issued before or at the time of removal of goods for supply. Removal refers to dispatch of goods for delivery to the recipient. If the supplier issues the invoice at the time of removal, the invoice date becomes the time of supply. However, if payment is received before issuing the invoice, the date of receipt of payment becomes the time of supply, even if the goods are supplied later.

For example, if a supplier receives an advance payment on 10th April and issues the invoice on 15th April, the time of supply will be 10th April. On the other hand, if the invoice is issued on 10th April and payment is received on 20th April, the invoice date will determine the tax liability. This rule ensures that GST is collected without unnecessary delay.

Thus, for goods, GST liability generally arises relatively early, as it is closely linked to physical movement of goods, invoice issuance, or receipt of payment.

Time of Supply of Services

The time of supply of services is also based on the date of invoice and receipt of payment, but the rules differ slightly because services are intangible and do not involve physical movement.

The general rule provides that the time of supply of services is the earliest of:

- The date of issue of invoice, provided the invoice is issued within the prescribed time, or
- The date of receipt of payment, whichever is earlier

If the invoice is not issued within the prescribed time, the time of supply becomes:

- The date of provision of service, or
- The date of receipt of payment, whichever is earlier

Under GST, an invoice for services must generally be issued within 30 days from the date of supply of service. In the case of banks, NBFCs, and financial institutions, this



period is extended to 45 days. If the supplier follows this timeline, the invoice date or payment date will determine the time of supply.

This provision ensures timely invoicing and avoids manipulation of tax liability by delaying invoices.

3.1.11. Input Tax Credit (ITC)

Input Tax Credit (ITC) is a mechanism under the GST system that permits businesses to claim credit for the tax paid on purchases (inputs) used for making taxable supplies. ITC ensures that tax is collected only on the value addition at each stage of the supply chain, effectively removing the cascading effect of taxes.

For example, if a manufacturer pays GST on raw materials used in production, they can claim credit for that tax while paying GST on the final product. This means the manufacturer only pays tax on the value added, not on the entire cost including tax paid on inputs.

To claim ITC, the following conditions must be met:

- The buyer must possess a tax invoice or debit note.
- Goods or services must be actually received.
- Tax must be paid by the supplier to the government.
- The buyer must have filed the GST return (GSTR-3B).

ITC cannot be claimed on certain items like personal use goods, motor vehicles (in most cases), and goods used for exempt supplies.

The ITC system brings transparency, decreases the cost of goods and services, and promotes better tax compliance. It helps to improve cash flow and working capital efficiency for businesses by reducing the effective tax liability.

3.1.11.1. Benefits of Input Tax Credit

1. **Elimination of Cascading Effect:** ITC eliminates the burden of tax on tax, which prevailed under the earlier indirect tax system. Thus the taxation process becomes efficient and lowers the final cost of goods and services.
2. **Reduction in Cost of Production:** Since taxes paid on inputs are credited back, the overall cost for businesses is reduced. This enhances competitiveness in the market.
3. **Boost to Working Capital:** By reducing the amount of tax payable in cash, ITC improves a business's cash flow. Businesses able to invest their resources more efficiently.
4. **Encouragement of Compliance:** To claim ITC, the buyer guarantees the seller files GST returns and pays the due tax. This mutual accountability improves tax

compliance throughout the supply chain.

5. **Transparency and Uniformity:** The ITC system promotes transparency in tax payments and simplifies tax administration. Businesses can track tax credits effortlessly, leading to more accurate financial reporting.
6. **Lower Consumer Prices:** As tax costs reduce for businesses, the benefit often gets passed on to end consumers through lower prices, thereby controlling inflation.
7. **Improved Exports:** ITC is available even for exported goods/services, making exports zero-rated. This enhances India's export competitiveness.

ITC is a cornerstone of the GST framework, offering fairness, efficiency, and economic benefits across sectors. It helps build a transparent and robust indirect tax system, aligned with international best practices

3.1.11.2. Recovery of Input Tax Credit (ITC)

Recovery of Input Tax Credit (ITC) means the action taken by tax authorities to reclaim or demand the amount of ITC that has been wrongly availed by a registered taxpayer. The GST law provides a structured framework for monitoring, verifying, and recovering such credits to ensure compliance and prevent revenue leakage.

As per the Central Goods and Services Tax (CGST) Act, 2017, ITC can be claimed when certain conditions are met, such as possession of a valid tax invoice, receipt of goods or services, actual payment of tax by the supplier to the government, and furnishing of suitable returns by the recipient. If any of these conditions are not fulfilled, or if ITC is claimed fraudulently, the Input Tax Credit becomes ineligible and is subject to recovery by the tax department. The GST law provides specific provisions for the demand and recovery of such amounts by the tax authorities

Tax invoice

A tax invoice is an important commercial document that serves as a detailed record of a transaction involving the sale of goods or services. Its primary purpose is to outline the amount of tax applicable to the transaction, in addition to the base price of the items or services

Section 31 of the CGST Act, 2017 deals with issuing of Tax Invoices or a Bill of Supply for every supply of goods or services. The term "invoice" or "tax invoice" means the tax invoice referred to in Section 31 of the CGST Act, 2017.

In India issuing a tax invoice is a legal obligation for businesses registered under GST rules. It ensures transparency and accountability in tax collection and payment. It allows the buyer to claim input tax credit on the taxes paid on their purchases, preventing a cascading effect of taxes.

A valid tax invoice must contain specific details to be legally compliant. These usually include:



1. Invoice Number: A unique, sequential number for identification and tracking.
2. Date of Issue: The date the invoice was generated.
3. Details of the seller: Legal name, address, and Goods and Services Tax Identification Number (GSTIN) or equivalent tax registration number.
4. Details of Buyer: Legal name, address, and GSTIN (if applicable) of the recipient of goods or services.
5. Description of Goods/Services: Clear and concise details of what was sold.
6. Quantity: The number of units for each item.
7. Unit Price: The price per unit before tax.
8. Taxable Value: The total value of goods/services before tax.
9. Applicable Tax Rate: The percentage of tax applied (e.g., 5%, 12%, 18%, 28% GST).
10. Amount of Tax: The calculated tax amount for each item or the total.
11. Total Invoice Value: The sum of the taxable value and the total tax amount.
12. Terms of Payment: Due date, payment methods, etc.
13. Signature: Though not always strictly required for electronic invoices, it's common for physical ones.

Unauthorised Collection of Tax under GST

Unauthorised collection of tax refers to the act of collecting any amount as tax without proper authority of law or in excess of what is legally prescribed. Under the Goods and Services Tax (GST) system, only registered persons are permitted to collect GST, and even they can collect tax only at the rates notified by the government. Any collection of tax contrary to the provisions of law is treated as unauthorised and is strictly prohibited.

Section 32 of the Central Goods and Services Tax (CGST) Act, 2017 clearly provides that a person who is not registered shall not collect any amount by way of tax. Similarly, a registered person shall not collect tax in excess of the amount prescribed under the Act and the rules made thereunder. This provision aims to protect consumers from exploitation and to ensure that tax collected from the public reaches the government treasury lawfully.

Unauthorised collection may arise in several situations. For example, an unregistered dealer charging GST on invoices, a registered supplier charging tax at a higher rate than applicable, or collecting GST on exempt or non-taxable supplies. In such cases, the amount collected does not have legal sanction and must not be retained by the person collecting it.

The law requires that any amount collected as tax, even if collected wrongly, must be deposited with the government. Section 76 of the CGST Act mandates that a person who has collected any amount as representing tax shall pay it to the government within the prescribed time. Failure to do so attracts interest and penalties. The person who has borne the burden of such tax is entitled to claim a refund, subject to the principles of unjust enrichment.

The Composition Scheme

The Composition Scheme under the Goods and Services Tax (GST) is a simplified taxation mechanism designed to reduce the compliance burden for small taxpayers. It allows eligible businesses to pay GST at a fixed rate on their turnover, instead of the regular rates applicable under the normal scheme. This scheme is available to manufacturers, traders, and restaurant service providers with an aggregate turnover up to ₹1.5 crore (₹75 lakh for certain special category states). Small service providers with turnover up to ₹50 lakh can also opt for a similar scheme under a separate notification. The tax rates under the composition scheme are significantly lower, 1% for traders and manufacturers, 5% for restaurant service providers, and 6% for service providers under the optional scheme. Businesses registered under the composition scheme are not allowed to collect tax from customers, nor are they eligible to claim input tax credit. They must issue a bill of supply instead of a tax invoice and mention “composition taxable person” on every notice and signboard. While this scheme simplifies compliance and reduces paperwork, it also limits certain activities such as inter-state sales and makes the dealer less competitive in B2B markets due to ineligibility for input credit.

3.1.12. GST Common Portal

Common GST Electronic Portal- www.gst.gov.in a website managed by Goods and Services Network (GSTN) has been set up by the Government to establish a uniform interface for the tax payer and a common and shared IT infrastructure between the Centre and States. The GST portal is accessible over Internet (by taxpayers and their CAs/Tax Advocates, etc.) and Intranet by Tax Officials, etc. The portal is one single common portal for all GST related services.

A common GST system provides linkage to all State/UT Commercial Tax Departments, Central Tax authorities, Taxpayers, Banks and other stakeholders. The eco-system consists of all stakeholders starting from taxpayer to tax professional to tax officials to GST portal to Banks to accounting authorities. Primarily, GSTN provides three front end services to the taxpayers namely registration payment and return through GST Common Portal.

The functions of the GSTN include:

- facilitating registration;
- forwarding the returns to Central and State authorities;
- computation and settlement of IGST
- matching of tax payment details with banking network,



- providing various MIS reports to the Central and the State Governments based on the taxpayer return information;
- providing analysis of taxpayers' profile, and running the matching engine for matching, reversal and reclaim of input tax credit.
- providing reliable, efficient and robust IT backbone for the smooth functioning of GST in India.

3.1.13. Harmonised System of Nomenclature

The Harmonised System of Nomenclature (HSN) is an internationally standardised system of naming and classifying goods, developed by the World Customs Organization (WCO). It is used globally to ensure uniform classification of products in international trade, customs procedures, taxation, and statistical reporting. Introduced in 1988, the HSN has become the foundation for customs tariffs and trade data collection in more than 200 countries and economies, covering over 98 percent of global merchandise trade.

HSN is based on a structured coding system. At the international level, it consists of a six-digit code. The first two digits represent the chapter, the next two digits indicate the heading, and the last two digits specify the sub-heading. This hierarchical structure allows products to be classified systematically from general to specific categories. Countries are permitted to extend this code by adding more digits for national or regional purposes, such as tariff classification or tax administration.

The primary objectives of HSN are uniformity, transparency, and efficiency in international trade. By adopting a common classification system, countries can reduce ambiguity in the identification of goods, avoid disputes related to product description, and facilitate smoother customs clearance. It also helps in determining applicable customs duties, import and export restrictions, and trade policies. HSN plays a vital role in compiling reliable international trade statistics, which are essential for economic analysis and policymaking.

In India, HSN has gained special importance after the introduction of the Goods and Services Tax (GST). Under GST, goods are classified using HSN codes to determine the applicable tax rate and to ensure consistency in tax reporting. Initially, small taxpayers were exempted from mentioning HSN codes on invoices, but gradually the requirement has been expanded to improve compliance and data accuracy. Large businesses are required to mention four, six, or eight-digit HSN codes depending on their turnover. This system has enhanced uniformity in tax administration and reduced classification-related disputes.

HSN offers several advantages. It simplifies international trade documentation, promotes standardisation, and reduces the risk of misclassification. It also supports automation in customs and taxation systems, making procedures faster and more transparent. For businesses, correct use of HSN ensures accurate tax calculation and compliance with legal requirements.

3.1.14. Services Accounting Code (SAC)



The Services Accounting Code (SAC) is a system of classification used to identify and categorise services for taxation and statistical purposes. In India, SAC plays a crucial role under the Goods and Services Tax (GST) regime, where services are taxed based on their classification under specific SAC codes. The system is derived from the international classification framework developed by the United Nations and adapted by the Central Board of Indirect Taxes and Customs (CBIC) to suit Indian conditions.

SAC consists of a six-digit numeric code. The first two digits represent the broad service category, the next two digits indicate the sub-category, and the last two digits specify the detailed nature of the service. This structured coding ensures uniformity and precision in identifying different types of services across sectors such as finance, transport, education, healthcare, information technology, hospitality, and professional services. Countries may further expand these codes for national use, but the core structure remains standard.

The main objective of SAC is to bring clarity and consistency in the classification of services for GST levy and compliance. Since GST is a destination-based consumption tax, correct classification of services is essential for determining the applicable tax rate, place of supply, exemptions, and eligibility for input tax credit. By using SAC codes, tax authorities and businesses can avoid ambiguity in describing services and reduce disputes related to classification and tax liability.

Under GST, the requirement to mention SAC on invoices depends on the turnover of the supplier. Large taxpayers are generally required to mention four or six-digit SAC codes on tax invoices, while small taxpayers may be allowed simplified reporting. This practice improves transparency, facilitates automated return processing, and strengthens tax administration.

3.1.15. Goods and Services Tax Identification Number (GSTIN)

The Goods and Services Tax Identification Number (GSTIN) is a unique identification number allotted to every taxpayer registered under the Goods and Services Tax (GST) regime in India. It serves as the primary means of identifying businesses and individuals for tax administration, compliance, and monitoring purposes. GSTIN plays a central role in ensuring transparency, accountability, and efficiency in the GST system.

GSTIN is a 15-character alphanumeric code with a well-defined structure. The first two digits represent the state code as per the Indian Census, indicating the state in which the taxpayer is registered. The next ten characters correspond to the Permanent Account Number (PAN) of the taxpayer, linking GST registration with income tax records. The thirteenth character denotes the number of registrations taken by the same PAN within a state. The fourteenth character is usually “Z” by default, and the fifteenth character is a checksum digit used for error detection. This structured format ensures uniqueness and reduces the possibility of duplication or fraud.

The main purpose of GSTIN is to create a unified and integrated system of tax identification across the country. Before GST, businesses had to obtain multiple registration numbers for different indirect taxes such as VAT, service tax, and excise duty. GSTIN



replaced these multiple identifiers with a single number, simplifying registration and compliance procedures. It also enables seamless flow of input tax credit by linking the tax paid by suppliers with the tax claimed by recipients.

GSTIN is mandatory for filing returns, issuing tax invoices, making tax payments, and claiming input tax credit. It helps tax authorities track transactions, verify compliance, and prevent tax evasion through data matching and analytics. For businesses, GSTIN enhances credibility, facilitates inter-state trade, and ensures smooth dealings with suppliers and customers.

Goods Outside the Scope of GST

Under the Goods and Services Tax (GST) system in India, most goods are covered and taxed at different rates. However, certain goods are kept outside the scope of GST, meaning GST is not applicable to their supply. These goods continue to be taxed under the earlier indirect tax laws or are exempted for policy and social reasons.

The major goods outside the scope of GST include petroleum products such as crude oil, petrol, diesel, aviation turbine fuel, and natural gas. These products are presently subject to central excise duty and state value added tax (VAT). They are kept outside GST mainly because they constitute a significant source of revenue for both the Central and State Governments, and bringing them under GST requires political consensus.

Another important category is alcoholic liquor for human consumption. It is constitutionally excluded from GST and continues to be taxed by the States through excise duty and other levies. This exclusion preserves the revenue autonomy of the States and allows them to regulate and tax alcohol independently.

Electricity is also outside the scope of GST and is taxed by States under their respective electricity duty laws. Since electricity is treated as neither goods nor services under GST, no GST credit is available on its purchase.

Recap

- ◇ Direct taxes are paid directly by the taxpayer to the government.
- ◇ Indirect taxes are collected by intermediaries from consumers.
- ◇ GST is a unified tax on goods and services.
- ◇ GST follows the destination-based principle of taxation.
- ◇ CGST is levied by the Central Government on intra-state supplies.
- ◇ SGST is levied by the State Government on intra-state supplies.
- ◇ IGST is levied on inter-state supplies and imports.
- ◇ UTGST applies in Union Territories without legislatures.

- ◇ GST rates are fixed based on the nature of goods and services.
- ◇ Composite supply includes a principal supply with ancillary supplies.
- ◇ Mixed supply consists of independent supplies offered together.
- ◇ Time of supply determines when tax liability arises.

Objective Questions

1. What is GST?
2. Who levies CGST?
3. Who levies SGST?
4. When is IGST applicable?
5. Which Article grants GST powers?
6. How many digits are in GSTIN?
7. What is mixed supply?
8. Which code classifies goods?
9. Which code classifies services?

Answers

1. A unified indirect tax on goods and services
2. The Central Government
3. The State Government.
4. On inter-state supplies
5. Article 246A.
6. Fifteen digits
7. Multiple independent supplies together
8. HSN.
9. SAC

Self Assessment Questions

1. Explain the constitutional basis of GST in India.
2. Distinguish between direct and indirect taxes.
3. Explain the structure of GST with suitable examples.
4. What is meant by scope of supply under GST?
5. Explain composite and mixed supplies.
6. Explain the mechanism of input tax credit.
7. What is the role of GSTIN in tax administration?
8. Why are certain goods kept outside the scope of GST?

Assignments

1. Visit the GST common portal and study the process of registration, return filing, and tax payment. Prepare a step-by-step note explaining the registration procedure and documents required.
2. Identify ten commonly used goods and services and list their applicable GST rates using the official rate schedule. Prepare a brief report explaining how GST rates influence consumer prices.
3. Prepare a simple case study showing purchase, sale, GST paid, GST collected, and calculation of input tax credit. Explain how GST avoids the cascading effect of taxes.
4. Select five goods and five services and identify their respective HSN and SAC codes. Explain the importance of proper classification in determining tax rates and ensuring legal compliance.

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Unit 2

Accounts and Records under GST

Learning Outcomes

After completing this unit, the learner will be able to

- ◇ learn the purpose and preparation of credit and debit notes under GST.
- ◇ explain the maintenance and retention of GST books and records.
- ◇ compute CGST, SGST, UTGST, IGST and Input Tax Credit accurately.
- ◇ analyze the functioning of electronic ledgers and E-way Bill system.

Prerequisites

Goods and Services Tax (GST) is a comprehensive indirect tax levied on the supply of goods and services in India. Understanding GST requires prior knowledge of its documentation, accounting system, tax computation, and compliance procedures. Key instruments such as credit notes and debit notes are used to adjust taxable value and tax charged in case of errors or returns. Proper maintenance of books of accounts and registers under GST is mandatory, and these records must be retained for the prescribed statutory period to ensure transparency and audit compliance.

The GST portal maintains three important electronic ledgers: the Electronic Cash Ledger, which records tax payments made in cash; the Electronic Credit Ledger, which reflects Input Tax Credit (ITC) available; and the Electronic Liability Ledger, which shows tax payable. Efficient management of these ledgers ensures proper tax settlement.

The E-way Bill system regulates the movement of goods beyond prescribed limits to prevent tax evasion. Provisions relating to Tax Deducted at Source (TDS) and Tax Collected at Source (TCS) enhance tax compliance and tracking of transactions. Refund provisions ensure that excess tax paid or unutilized ITC is returned to taxpayers under specified conditions.

Computation of CGST, SGST, UTGST, and IGST is essential for determining the correct tax liability depending on intra-state or inter-state supply. Accurate

calculation of Input Tax Credit and interest on delayed payment ensures financial discipline. Practical problem-solving ability is necessary to apply theoretical provisions effectively in real-world business situations.

Keywords

Input Tax Credit (ITC), Electronic Cash Ledger, Electronic Credit Ledger, E-Way Bill, Refund under GST

Discussion

3.2. 1. Debit Note

A Debit Note is a document issued by a seller to a buyer to show an increase in the value of goods or services supplied, after the original tax invoice has already been issued. It serves to inform the buyer that an additional amount is payable due to various reasons such as undercharging of tax, increase in quantity or value of goods, or correction of invoice errors.

Debit note is issued in the following cases

- a. When the amount payable by buyer to seller is increased, then a debit note will be issued by seller.
- b. When the tax invoice has a lower taxable value than the amount that should have been charged, then a debit note is issued.

A registered person issuing a debit note must declare its details in the return for the month in which the debit note is issued. The declaration should be made no later than the 30th of November following the end of the relevant financial year, or the date of filing the annual return, whichever is earlier.

Purpose of Debit Note:

- To account for additional charges not included in the original invoice.
- To adjust the tax liability when goods are supplied at a higher value than originally invoiced.
- To reflect upward revision in price after supply.

3.2.2. Contents of a Debit Note

- Name, address, and GSTIN of the supplier
- Nature of the document (clearly marked as “Debit Note”)



- Serial number and date of issue
- Name, address, and GSTIN of the recipient (if registered)
- Original tax invoice number and date
- Value of taxable supply and amount of tax (CGST, SGST/UTGST, IGST, Cess)
- Reason for issuing the debit note
- Signature of the supplier or authorized representative

3.2.3. Credit Note

A Credit Note is a document issued by a registered supplier under the Goods and Services Tax (GST) system when the value of the goods or services charged in the original tax invoice surpasses the actual amount payable by the recipient. It effectively reduces the taxable value and the corresponding tax liability of the supplier. This mechanism helps in correcting errors and maintaining transparency in post-sale adjustments.

Legal Provision

According to Section 34(1) of the CGST Act, 2017, a supplier is permitted to issue a credit note when.

- The taxable value or tax charged in the original invoice is more than the actual amount.
- The recipient returns the goods supplied.
- There is a deficiency in goods or services provided.
- A post-sale discount is offered and was not mentioned in the original invoice.

The credit note allows the supplier to adjust the excess tax charged and reduce the output tax liability in the corresponding GST return.

3.2.4. Contents of a Credit Note (as per Rule 53 of CGST Rules, 2017):

- Name, address, and GSTIN of the supplier
- Nature of the document (Credit Note)
- Consecutive serial number and date of issue
- Name, address, and GSTIN/UIN of the recipient (if registered)
- Reference to the original tax invoice number and date
- The value of the supply credited, the amount of tax reduced (CGST, SGST/UTGST, IGST, Cess)
- Reason for issuing the credit note

- Signature or digital signature of the supplier or authorized representative

The details of the credit note must be declared in Form GSTR-1 for the month in which it is issued. This must be done on or before the 30th of November following the end of the financial year or before filing the annual return, whichever is earlier. After this date, the supplier cannot reduce tax liability using the credit note.

3.2.5. Electronic Cash Ledger (Section 49(1) of CGST Act)

The Electronic Cash Ledger is an online account maintained on the GST portal for each registered taxpayer. It reveals all deposits made by the taxpayer toward tax, interest, penalty, fee, or any other amount payable under GST. It functions like a prepaid wallet from which payments can be made to discharge liabilities.

The ledger gets populated when the taxpayer deposits money using challan FORM GST PMT-06 via online banking, debit/credit card, NEFT, RTGS, or over-the-counter payment in authorized banks. Once deposited, the amount is shown under respective minor heads like tax, interest, penalty, fee, or others, and under major heads such as CGST, SGST/UTGST, IGST, and Cess. The amount in this ledger can be utilized only for making payments under GST law. This ledger does not allow adjustments or carry-forward of input tax credit, it is strictly for payments made in cash. It ensures accountability and real-time tracking of payments made by taxpayers.

3.2.6. Electronic Credit Ledger (Section 49(2) of CGST Act)

The Electronic Credit Ledger is maintained for every registered person eligible to claim Input Tax Credit (ITC). It shows the credit available to the taxpayer against purchases of goods or services used in the course of business. Electronic Credit Ledger automatically updates when the taxpayer files eligible inward supply details in Form GSTR-2B and ITC is claimed in GSTR-3B. It reflects the amount of credit that can be used to pay output tax liability. ITC is categorized under CGST, SGST/UTGST, IGST, and Cess.

Utilization of credit is subject to Section 49A and 49B, which prioritize usage of IGST first, followed by CGST and SGST. Credit in this ledger cannot be used to pay interest, penalty, or late fees, it is restricted only to paying tax liability.

The Electronic Credit Ledger helps to avoid tax cascading, promotes transparency, and provides a digital record of credit utilized. However, ineligible or wrongly claimed ITC must be reversed with interest. Thus, the Electronic Credit Ledger is crucial for managing input credits and ensuring proper tax utilization.

3.2.7. Electronic Liability Register

The Electronic Liability Register records all outstanding liabilities of a taxpayer under GST. These liabilities arise from self-assessment, returns, demand notices, interest, penalties, or mismatches. Electronic Liability Register acts as a consolidated account showing total dues payable by the taxpayer. Every registered person has this register maintained in Form GST PMT-01 on the GST portal. It reflects tax liability as



reported in GSTR-3B, demand notices under Section 73 or 74, or liabilities arising from proceedings under the GST Act.

This ledger has three main components:

- Self-assessed tax liability
- Liabilities from previous returns
- Liabilities due to assessment, audit, or adjudication

Payments from the Electronic Cash Ledger or Electronic Credit Ledger are used to offset liabilities recorded in this register. Once a payment is made, the liability reduces accordingly. It also reflects unpaid liabilities, making it a critical tool for compliance. The government recover dues shown in this ledger using provisions of demand and recovery under Sections 78 to 84. Any failure to pay lead to penalties or further legal action. The Electronic Liability Register gives a complete picture of the taxpayer's total dues under GST law, and enables systematic tracking of payment status.

3.2.8. E way bill

Under GST regime, for quick and easy movement of goods across India without any hindrance, all the check posts across the country are abolished. However, in order to monitor the movement of goods for controlling any tax evasion, e-way bill system has been introduced.

A waybill is a receipt or a document issued by a carrier giving details and instructions relating to the shipment of a consignment of goods and the details include name of consignor, consignee, the point of origin of the consignment, its destination, and route.

Electronic Way Bill (E-Way Bill) is a compliance mechanism wherein by way of a digital interface the person causing the movement of goods uploads the relevant information prior to the commencement of movement of goods and generates e-way bill on the GST portal. In other words, E-way bill is an electronic document generated on the GST portal evidencing movement of goods

Following are the benefits of e-way bill mechanism

1. Physical interface to pave way for digital interface resulting in elimination of state boundary check-posts
2. It will facilitate faster movement of goods
3. It will improve the turnaround time of trucks and help the logistics industry by increasing the average distances travelled, reducing the travel time as well as costs.

3.2.9. TDS

Tax Deducted at Source (TDS) is a system of collecting income tax at the very source of income. It is one of the most important mechanisms of direct tax collection

under the Income Tax Act, 1961. Under this system, the person responsible for making certain specified payments is required to deduct tax at the prescribed rate before making payment to the recipient and remit the same to the Central Government.

The main objective of TDS is to ensure regular and timely collection of tax and to prevent tax evasion. Instead of collecting tax in a lump sum at the end of the financial year, the government collects tax gradually as income is earned. This reduces the burden on the taxpayer and ensures a continuous flow of revenue to the government.

TDS is applicable to various types of payments such as salary, interest, commission, brokerage, professional fees, rent, contract payments, dividends, and purchase of immovable property. For example, under Section 192, an employer deducts TDS from the salary of employees based on the applicable income tax slab rates. Similarly, banks deduct TDS on interest earned on fixed deposits if it exceeds the prescribed limit under Section 194A.

The person who deducts tax is known as the “deductor,” and the person from whose income tax is deducted is called the “deductee.” The deductor must deposit the deducted tax with the government within the prescribed time and file quarterly TDS returns. After depositing the tax, the deductor issues a TDS certificate (such as Form 16 for salary and Form 16A for other payments) to the deductee. This certificate serves as proof of tax deducted and can be used while filing the income tax return.

TDS rates vary depending on the nature of payment and are specified in the Income Tax Act. If the deductee does not furnish a Permanent Account Number (PAN), TDS may be deducted at a higher rate as per Section 206AA.

TDS plays a crucial role in the Indian taxation system by ensuring early tax collection, widening the tax base, and promoting transparency. It simplifies tax compliance and reduces the chances of tax evasion, thereby strengthening the country’s fiscal system.

3.2.10 Tax Collected at Source (TCS) under GST

Tax Collected at Source (TCS) is a system of collecting tax by the seller from the buyer at the time of sale of specified goods. It is governed by the provisions of the Income Tax Act, 1961. Under this system, the seller collects a certain percentage of tax from the buyer in addition to the sale price and deposits it with the Central Government.

The main objective of TCS is to widen the tax base and ensure tax collection from transactions involving specified goods and high-value purchases. Unlike Tax Deducted at Source (TDS), where tax is deducted from income, TCS is collected on the sale of certain goods at the point of transaction. It helps the government track large transactions and prevent tax evasion.

TCS is applicable to specific goods such as alcoholic liquor for human consumption, tendu leaves, timber, forest produce, scrap, minerals like coal and lignite, and the sale of motor vehicles above a prescribed value. Under Section 206C, sellers are required to collect tax at prescribed rates from buyers at the time of debiting the amount payable or at the time of receipt, whichever is earlier. Recently, TCS provisions have also been



extended to foreign remittances and overseas tour packages under the Liberalised Remittance Scheme (LRS).

The person who collects tax is called the “collector,” and the buyer from whom tax is collected is known as the “collectee.” The collector must deposit the collected tax with the government within the prescribed time and file quarterly TCS returns. A TCS certificate (Form 27D) is issued to the buyer as proof of tax collected. The buyer can claim credit for the TCS amount while filing their income tax return.

TCS is an important mechanism for ensuring tax compliance and monitoring high-value transactions. It strengthens transparency in business transactions and supports efficient tax administration in India.

3.2.11. Central Goods and Services Tax (CGST)

Central Goods and Services Tax (CGST) is a component of the Goods and Services Tax (GST) system in India, levied by the Central Government under the provisions of the Central Goods and Services Tax Act, 2017. CGST is applicable on intra-state supply of goods and services, meaning transactions that take place within the same state or union territory (with legislature). It forms part of India’s dual GST model, where both the Central and State Governments simultaneously levy tax on the same transaction.

CGST is charged on the taxable value of goods or services, which includes the transaction value and any additional charges such as packing, commission, or incidental expenses, but excludes GST itself. The tax is calculated as:

$$\text{CGST} = \text{Taxable Value} \times \text{CGST Rate}$$

One of the important features of CGST is the availability of Input Tax Credit (ITC). A registered taxpayer can claim credit of CGST paid on purchases against the CGST payable on sales. However, CGST credit cannot be directly used to pay SGST liability. It can be utilized first against CGST liability and then against IGST liability, as per the prescribed order of set-off.

The main objectives of CGST include eliminating the cascading effect of taxes, ensuring transparency in taxation, broadening the tax base, and simplifying the indirect tax system. Before GST, the Central Government levied multiple indirect taxes such as Central Excise Duty and Service Tax. CGST replaced these taxes and unified them under a single system.

CGST plays a crucial role in India’s GST structure by ensuring centralized tax collection on intra-state supplies, facilitating seamless credit flow, and promoting uniformity in indirect taxation across the country.

3.2.12. State Goods and Services Tax (SGST)

State Goods and Services Tax (SGST) is a component of the Goods and Services Tax (GST) system in India that is levied by the State Government on intra-state supplies of goods and services. SGST is governed by the respective State GST Acts, which are framed in accordance with the Central Goods and Services Tax Act, 2017 and the

constitutional provisions relating to GST. It forms part of India's dual GST model, where both the Central and State Governments simultaneously levy tax on the same transaction occurring within a state.

SGST is calculated on the taxable value of goods or services. The formula is:

$$\text{SGST} = \text{Taxable Value} \times \text{SGST Rate}$$

One of the key features of SGST is the availability of Input Tax Credit (ITC). A registered taxpayer can claim credit of SGST paid on purchases and use it to offset SGST liability on sales. However, SGST credit cannot be used to pay CGST liability directly. It can first be utilized against SGST liability and then against IGST liability, as per the prescribed rules.

The introduction of SGST replaced several state-level indirect taxes such as VAT, luxury tax, and entertainment tax. Overall, SGST ensures a simplified, transparent, and uniform indirect tax system within each state under the GST regime.

3.2.13. Union Territory Goods and Services Tax (UTGST)

Union Territory Goods and Services Tax (UTGST) is a component of the Goods and Services Tax (GST) system in India that is levied on the supply of goods and services within Union Territories that do not have a legislative assembly. UTGST is governed by the Union Territory Goods and Services Tax Act, 2017. It operates in a manner similar to State Goods and Services Tax (SGST), but instead of being imposed by a State Government, it is levied and collected by the administration of the respective Union Territory.

UTGST is applicable in Union Territories such as Lakshadweep, Andaman and Nicobar Islands, Dadra and Nagar Haveli and Daman and Diu, Ladakh, and Chandigarh. In these territories, when goods or services are supplied within the same Union Territory, the total GST rate is divided into two equal parts: Central Goods and Services Tax (CGST) and UTGST. For example, if the applicable GST rate is 18 percent, it is split into 9 percent CGST and 9 percent UTGST. The CGST portion is collected by the Central Government, while the UTGST portion is collected by the Union Territory administration. This ensures that both the Centre and the Union Territory share tax revenue in a structured manner.

The calculation of UTGST is based on the taxable value of the supply. The formula is simple: UTGST equals taxable value multiplied by the applicable UTGST rate. The taxable value generally includes the transaction value along with incidental expenses such as packing, commission, and other charges related to the supply, but it excludes GST itself. Proper determination of taxable value is essential for accurate tax computation.

3.2.14. Integrated Goods and Services Tax (IGST)

Integrated Goods and Services Tax (IGST) is a component of the Goods and Services Tax (GST) system in India that is levied on inter-state supplies of goods and services, as well as on imports. IGST is governed by the Integrated Goods and Services Tax



Act, 2017. It plays a crucial role in ensuring the smooth flow of tax credit and revenue between different states and the Central Government under the GST regime.

IGST is applicable when the location of the supplier and the place of supply are in two different states or Union Territories. For example, if a dealer in Kerala sells goods to a buyer in Tamil Nadu, the transaction is considered an inter-state supply, and IGST is charged. Unlike intra-state transactions where tax is divided into CGST and SGST or UTGST, in inter-state transactions the full GST rate is charged as IGST. If the GST rate is 18 percent, the entire 18 percent is levied as IGST.

The formula for calculating IGST is

IGST equals Taxable Value multiplied by IGST Rate.

The taxable value includes the transaction value of goods or services along with incidental expenses such as packing, commission, and freight, but excludes GST itself. The supplier collects IGST from the buyer and remits it to the Central Government. The Central Government then apportions the tax revenue between the destination state and itself according to prescribed rules. This ensures that tax revenue ultimately goes to the state where the goods or services are consumed, following the destination-based principle of taxation.

3.2.15. Input Tax Credit (ITC)

Input Tax Credit (ITC) is a fundamental feature of the Goods and Services Tax (GST) system in India. It allows a registered taxpayer to claim credit for the GST paid on purchases (inputs) and use that credit to pay GST on sales (output). This system ensures that tax is levied only on the value added at each stage of the supply chain and prevents the cascading effect of tax.

Eligibility and Conditions for taking Input Tax Credit

Input tax refers to the tax paid by the supplier, on goods or services involved in supply. Output tax refers to tax collected at the time of supply of goods or services. The essence of mechanism of GST lies in allowing a supplier of goods or services to deduct the input tax from the output tax. The supplier is required to remit only the difference to the Government.

Therefore, GST to be remitted by a supplier = $t(O) - t(I)$ Where 't (O)' means output tax and 't (I)' means input tax.

Illustration 1

Mr. Patel, a registered GST dealer, purchased goods during January 2025 as follows:

Purchases

Date	Supplier	GST Rate	Amount	GST Amount (₹)	Total (₹)
Jan 1	A Ltd.	18%	100000	18,000	1,18,000
Jan 10	B Ltd.	12%	200000	24,000	2,24,000
Jan 15	C Ltd.	18%	300000	54,000	3,54,000
Total ITC			600000	96,000	

Sales

Date	Particulars	Taxable Value (₹)	GST (₹)	Total (₹)
Jan 12	Sale (1/2 of A Ltd.)	1,20,000	21,600	1,41,600
Jan 14	Sale (2/3 of B Ltd.)	2,20,000	26,400	2,46,400
Jan 18	Sale (3/4 of C Ltd.)	3,20,000	57,600	3,77,600
Total		6,60,000	1,05,600	7,65,600

Additionally, goods worth ₹2,00,000 were purchased from unregistered dealers, taxable at 5%, on which reverse charge is applicable.

Computation of input tax credit and GST payable

Particulars	Amount (₹)
Total Output Tax	1,05,600
Less: Input Tax Credit	(96,000)
GST Payable	9,600
Add: Reverse Charge (5% of ₹2,00,000)	10,000
Net GST Payable	19,600

Illustration 2

Mr. Arjun Traders, a registered dealer in Kerala, provides the following details for March 2025:

Purchases

1. Purchased goods within Kerala worth ₹2,00,000 @ 18% GST (intra-state).
2. Purchased goods from Tamil Nadu worth ₹1,00,000 @ 18% GST (inter-state).



Sales

1. Sold goods within Kerala worth ₹3,00,000 @ 18% GST (intra-state).
2. Sold goods to Karnataka worth ₹1,50,000 @ 18% GST (inter-state).

Find out the CGST, SGST, IGST payable and the net GST liability.

Answer

1. Calculation of Input Tax

Intra-state purchase (₹2,00,000 @ 18%)

$$\begin{array}{lclclcl} \text{GST} & = & ₹2,00,000 & \times & 18\% & = & ₹36,000 \\ \text{CGST} & & & = & & & ₹18,000 \\ \text{SGST} & = & ₹18,000 & & & & \end{array}$$

Inter-state purchase (₹1,00,000 @ 18%)

$$\text{GST} = ₹1,00,000 \times 18\% = ₹18,000 \text{ (IGST)}$$

Total	Input	Tax	Credit:
CGST	=		₹18,000
SGST	=		₹18,000
IGST = ₹18,000			

2. Calculation of Output Tax

Intra-state sale (₹3,00,000 @ 18%)

$$\begin{array}{lclclcl} \text{GST} & = & ₹3,00,000 & \times & 18\% & = & ₹54,000 \\ \text{CGST} & & & = & & & ₹27,000 \\ \text{SGST} & = & ₹27,000 & & & & \end{array}$$

Inter-state sale (₹1,50,000 @ 18%)

$$\text{GST} = ₹1,50,000 \times 18\% = ₹27,000 \text{ (IGST)}$$

Total	Output	Tax:
CGST	=	₹27,000
SGST	=	₹27,000
IGST = ₹27,000		

3. Adjustment of Input Tax Credit

IGST Credit Utilisation

$$\begin{array}{lclcl} \text{IGST} & \text{Credit} & = & ₹18,000 \\ \text{Set off against IGST Output} & = & ₹27,000 & \end{array}$$

$$\text{Balance IGST payable} = ₹9,000$$

CGST Credit Utilisation

CGST	Output	=	₹27,000
Less: CGST Credit = ₹18,000			

Balance CGST payable = ₹9,000

SGST Credit Utilisation

SGST	Output	=	₹27,000
Less: SGST Credit = ₹18,000			

Balance SGST payable = ₹9,000

4. Net GST Payable

Particulars	Amount (₹)
IGST Payable	9,000
CGST Payable	9,000
SGST Payable	9,000
Total GST Payable	27,000

Answer

IGST	payable	=	₹9,000
CGST	payable	=	₹9,000
SGST	payable	=	₹9,000

Total GST liability for March 2025 = ₹27,000

3.2.16. Refund of tax

Refund of tax under the Goods and Services Tax (GST) system refers to the return of excess tax paid by a registered person or any other eligible applicant. The refund mechanism ensures that taxpayers are not burdened with excess tax liability and that the principle of seamless flow of Input Tax Credit (ITC) is maintained. Refund provisions are governed by the Central Goods and Services Tax Act, 2017 and the relevant GST Rules.

Refunds may arise in several situations. One common situation is export of goods or services, where exports are treated as zero-rated supplies. Since exports are not taxed, the exporter can claim refund of unutilized input tax credit or claim refund of IGST paid on exported goods. This ensures that exports remain competitive in international markets. Similarly, supplies made to Special Economic Zones (SEZs) are also treated as zero-rated, and refund can be claimed.

Another important case is excess balance in electronic cash ledger. If a taxpayer deposits more tax than required, the excess amount can be claimed as a refund. Refund can also arise due to inverted duty structure, where the rate of tax on inputs is higher



than the rate of tax on output supplies. In such cases, the accumulated ITC can be claimed as refund, subject to certain restrictions.

Refund may also be granted in cases of tax paid on advances for services not provided, wrong payment of tax (for example, tax paid under CGST and SGST instead of IGST), or when tax is paid mistakenly due to clerical errors. In addition, refund is allowed for finalization of provisional assessment, tax paid under protest, or when an appellate authority orders refund.

The procedure for claiming refund requires filing an application in the prescribed form on the GST portal. The application must generally be filed within two years from the relevant date. The relevant date varies depending on the nature of refund, such as date of export, date of payment of tax, or date of finalization of assessment. Necessary supporting documents, including invoices, shipping bills, and statements of ITC, must be submitted.

After submission, the proper officer examines the application. In certain cases, a provisional refund of 90 percent of the claimed amount may be granted within seven days, particularly in export cases, subject to conditions. The balance amount is refunded after detailed verification. If the refund is not granted within sixty days from the date of receipt of application, interest is payable to the applicant.

However, refund is subject to the principle of unjust enrichment, which means that refund will not be granted if the incidence of tax has been passed on to another person. In such cases, the amount is credited to the Consumer Welfare Fund instead of being paid to the applicant.

3.2.17. Computation of Interest on Delayed Payment under GST

Interest on delayed payment of tax under the Goods and Services Tax (GST) system is levied when a registered person fails to pay tax within the prescribed due date. The provision relating to interest is contained in Section 50 of the Central Goods and Services Tax Act, 2017. The purpose of charging interest is compensatory in nature, meaning it compensates the Government for the loss of revenue due to delayed payment. It is not a penalty but a statutory liability.

Rate of Interest

Under GST, the standard rate of interest for delayed payment of tax is 18 percent per annum. However, in cases where undue or excess Input Tax Credit (ITC) has been claimed or utilized, the interest rate may be 24 percent per annum. Interest is calculated on a daily basis from the day immediately after the due date until the actual date of payment.

Basis of Calculation

Interest is calculated only on the portion of tax that is paid in cash, that is, through the electronic cash ledger. If tax liability is discharged using Input Tax Credit available in the electronic credit ledger, interest is not charged on that portion, provided the return

is filed within the prescribed time and the credit was available.

Formula for Interest Calculation

$$\text{Interest} = (\text{Tax Amount} \times \text{Rate of Interest} \times \text{Number of Days of Delay}) \div 365$$

The number of days of delay is counted from the day following the due date up to the date of actual payment.

Recap

- ◇ GST books must be maintained electronically or manually.
- ◇ Electronic cash ledger shows cash deposits.
- ◇ Credit ledger reflects ITC balance.
- ◇ Liability ledger shows tax payable.
- ◇ E-way bill is required for goods movement beyond threshold.
- ◇ Refund is allowed for excess payment.
- ◇ CGST and SGST apply to intra-state supply.
- ◇ IGST applies to inter-state supply.
- ◇ UTGST applies in Union Territories.

Objective Questions

1. What is a credit note?
2. Who maintains GST books?
3. How long should GST records be retained?
4. What does the Electronic Cash Ledger show?
5. Which ledger reflects ITC?
6. When is an E-way bill required?
7. Which tax applies to intra-state supply?
8. Which tax applies to inter-state supply?
9. What is ITC?
10. What reduces output tax liability?

Answers

1. A document issued to reduce tax liability.
2. Every registered taxpayer maintains GST books.
3. GST records should be retained for six years.
4. The Electronic Cash Ledger shows cash tax payments.
5. The Electronic Credit Ledger reflects ITC.
6. An E-way bill is required for movement of goods beyond the prescribed value.
7. CGST and SGST apply to intra-state supply.
8. IGST applies to inter-state supply.
9. ITC is credit for tax paid on inputs.
10. Input Tax Credit reduces output tax liability.

Self Assessment Questions

1. Explain the importance of credit and debit notes.
2. Discuss electronic ledgers under GST.
3. Explain E-way bill procedure.
4. Distinguish between TDS and TCS.
5. Explain refund provisions under GST.
6. Compute CGST and SGST with example.
7. Explain computation of Input Tax Credit.

Assignments

1. Explain the concept and functioning of electronic ledgers under GST. Distinguish between Electronic Cash Ledger, Electronic Credit Ledger, and Electronic Liability Ledger.

2. Explain the objectives and significance of the E-Way Bill system under GST. Discuss the procedure for generation, validity period, responsibilities of consignor and transporter, and penalties for non-compliance.
3. Explain the concept of refund under GST. Discuss various situations in which refund can be claimed, such as excess payment, export of goods and services, and unutilized Input Tax Credit.

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BLOCK

FILLING OF GST RETURNS

Unit 1

Introduction To Gst Returns

Learning Outcomes

After completing this unit, the learner will be able to:

- ◇ explain the meaning of GST returns
- ◇ describe the modes of filling GST Returns
- ◇ explain the types of returns under GST.
- ◇ analyse the role, responsibilities, and functions of GST Practitioners and assess their importance in supporting taxpayer compliance.

Prerequisites

Filing Goods and Services Tax (GST) returns is a key element of the indirect tax system, functioning as an organised method for maintaining records and ensuring compliance. In a constantly evolving tax environment, GST return filing captures the sales, purchases, and tax-related activities of businesses and individuals. Submitting these returns on time and with accuracy supports transparency, smoothens tax administration, and enables taxpayers to claim Input Tax Credit (ITC).

The process requires the use of different GST return forms, each tailored to a specific type of transaction. For businesses and taxpayers, understanding how these forms work is vital for meeting legal requirements and managing finances effectively. Developing the skill to file GST returns correctly and use the appropriate forms is therefore essential for staying compliant and maximising the advantages available under the GST system.

Keywords

GST Returns, Inward Supply, Input Service Distributors.

Discussion

Goods and Services Tax (GST) is a single indirect tax introduced in India by combining many central and state taxes. Its main purpose is to make the tax system simple, transparent, and efficient. To ensure proper tax collection and compliance, GST law requires registered taxpayers to regularly file returns. These returns help the government track business transactions, calculate tax liability, and allow input tax credit. Therefore, understanding GST returns is important to know how the GST system works. This unit examines GST returns and highlights the importance of filing GST returns in a timely and accurate manner.

4.1.1 Meaning of GST Returns

The term “return” ordinarily means a statement of information (facts) furnished by the taxpayer, to tax administrators, at regular intervals. The information to be furnished in the return generally comprises the details pertaining to the nature of activities/business operations forming the subject matter of taxation; the measure of taxation such as sale price, turnover, or value; deductions and exemptions; and determination and discharge of tax liability for a given period. A GST return is a document containing details of outward supplies and inward supplies, which a taxpayer is required to file with the tax administrative authorities. This is used by tax authorities to calculate tax liability. Under GST regime, a registered dealer has to file GST returns that include:

- Inward supply - i.e., Purchase., and Input services
- Outward supply – i.e., Sales and Output services
- Output GST (on outward supply)
- Input Tax Credit (GST paid on purchases)

4.1.2 Benefits of filing GST returns

Filing Goods and Services Tax (GST) returns is an essential legal obligation under the GST system. These returns serve as formal documentation of a taxpayer’s sales,

purchases, tax dues, and input tax credit entitlements. Consistent and accurate filing enhances transparency, improves the effectiveness of tax governance, and ensures smooth credit flow throughout the supply chain. Overall, timely return filing supports better business discipline and contributes to a more efficient and reliable indirect tax structure.

The following are the benefits of filing GST returns:

- Tracking of sales and purchase transactions.
- Assessment of tax liability.
- Checking of the GST compliances.
- Checking of the input tax credit.
- Prohibitory tool in tax evasion.

1. **Tracking Of Sales And Purchase Transactions.**

Filing GST returns creates a complete and systematic record of all sales and purchases made by a business. This helps the business monitor its day-to-day operations, analyse revenue patterns, and maintain accurate books of accounts. It also enables the tax authorities to verify whether the reported transactions are genuine.

2. **Assessment Of Tax Liability**

GST returns contain detailed information on outward supplies (sales) and inward supplies (purchases). Based on this data, the exact GST payable by the business can be calculated. Proper filing ensures that the tax liability is determined correctly, helping the business avoid underpayment or overpayment of tax.

3. **Checking Of GST Compliances**

Timely and accurate GST return filing ensures that the business is following all GST rules and regulations. The return-filing system automatically checks whether the business has complied with registration requirements, payment deadlines, documentation standards, and reporting obligations.

4. **Checking of Input Tax Credit (ITC)**

GST returns help match the ITC claimed by a business with the tax paid by its suppliers. This ensures that the credit claimed is valid and supported by proper invoices. Regular filing reduces errors, prevents wrongful claim of credits, and helps maintain the integrity of the ITC system.

5. **Prohibitory Tool In Tax Evasion**

Because every transaction must be reported in GST returns, it becomes difficult for businesses to hide sales or manipulate records. The matching of data between buyers and sellers acts as a strong deterrent against tax evasion. This improves transparency and strengthens the trustworthiness of the tax system.

In any tax law, “filing of returns” constitutes the most important compliance procedure



which enables the Government/ tax administrator to estimate the tax collection for a particular period and determine the correctness of the tax compliance of the taxpayers. The returns serve the following purposes:

- a. Mode for transfer of information to tax administration;
- b. Compliance verification program of tax administration;
- c. Finalisation of the tax liabilities of the taxpayer within stipulated period of limitation.
- d. Providing necessary inputs for taking policy decision;
- e. Management of audit and anti-evasion programs of tax administration

Chapter IX of the CGST Act [Sections 37 to 48] prescribes the provisions relating to filing of returns as under:

Table no:4.1.1

Section	Title under CGST Act
Section 37	Furnishing details of outward supplies
Section 38	Furnishing details of inward supplies
Section 39	Furnishing of returns
Section 40	First return
Section 41	Claim of input tax credit and provisional acceptance thereof
Section 42	Matching, reversal and re-claim of input tax credit
Section 43	Matching, reversal and re-claim of reduction in output tax liability
Section 44	Annual Return
Section 45	Final Return

Section 46	Notice to return defaulters
Section 47	Levy of late fee
Section 48	Goods and services tax practitioners

4.1.3 Return Mechanism In GST

The Goods and Services Tax (GST) return mechanism is the process through which registered taxpayers report their business transactions to the government. It includes details of sales, purchases, input tax credit (ITC), and tax payable. All GST returns are filed electronically through the GST Portal, making the system transparent and efficient.

Key aspects of the GST return mechanism:

- **Self-assessment system:** Taxpayers calculate their own tax liability and file returns accordingly.
- **Regular filing of returns:** Taxpayers must file returns periodically (monthly, quarterly, or annually), depending on their registration type.
- **Invoice-wise reporting:** Returns generally require invoice-level details of transactions to ensure accurate reporting and ITC flow.
- **Auto-generated statements:** Statements such as GSTR-2B help taxpayers verify eligible input tax credit based on suppliers' data.
- **Matching of ITC:** Purchases reported by recipients are matched with sales reported by suppliers to avoid incorrect or duplicate ITC claims.
- **Electronic filing:** All returns are submitted online through the GST Portal, reducing paperwork and improving efficiency.
- **Time-bound compliance:** Returns must be filed within prescribed due dates; delays attract late fees and interest.
- **No revised returns:** GST law does not allow revised returns; any mistakes must be corrected in subsequent returns.
- **Transparency and control:** The digital return system creates a proper audit trail and helps prevent tax evasion.

4.1.4 Filing of GST Returns Online

From manufacturers and suppliers to dealers and consumers, all taxpayers have to file their tax returns with the GST department every year. Under the new GST regime, filing tax returns has become automated. GST returns can be filed online using the software or apps provided by Goods and Service Tax Network (GSTN) which will auto-populate the details on each GSTR form:



Listed below are the steps for filing GST return online:

Step 1: Log in to the GST portal

To log in to the GST portal (<https://www.gst.gov.in/>), you need your GSTIN and password. Your GSTIN is a 15-digit unique number that is assigned to you when you register for GST. Your password is the one that you created when you registered for GST. If you have forgotten your password, you can click on the “Forgot Password?” link on the login page. You will then be asked to enter your GSTIN and email address. An email will be sent to your email address with a link to reset your password. Once you have logged in, you will be taken to the GST dashboard.

Step 2: Go to the Returns Dashboard

The Returns Dashboard displays all the returns that you need to file, along with the due dates for filing each return. To go to the Returns Dashboard, click on the “Services” tab in the GST dashboard. Then, select “Returns” from the drop-down menu. Finally, click on the “Returns Dashboard” option.

Step 3: Select the return you want to file

On the Returns Dashboard, select the return that you want to file for the corresponding financial year and return filing period. The most common types of GST returns are:

GSTR-1: This return contains the details of all your out-ward supplies (sales) during the month.

GSTR-3B: This return is a summary of your sales, purchases, and input tax credit claims for the month. It is used to calculate your GST liability.

Step 4: Prepare the return online

Once you have selected the return that you want to file, click on the “Prepare Online” button. This will open the return preparation form. The form will contain different sections, depending on the type of return that you are filing. You will need to enter the required details in each section of the form. Be sure to enter the correct information, as even a small error can lead to penalties. Here are some tips for preparing each section of the GSTR-1 and GSTR-3B returns:

GSTR-1

- **Sales:** Enter the details of all your sales during the month, including the invoice number, date of invoice, name and address of the customer, GSTIN of the customer, HSN/SAC code of the goods or services sold, quantity sold, rate of GST, and amount of GST charged.
- **Advances received:** Enter the details of any advances that you have received from customers for future supplies.
- **Debit notes:** Enter the details of any debit notes that you have issued to customers during the month.

GSTR-3B

- **Sales:** Enter the total value of your sales during the month, including taxable sales and exempt sales.
- **Purchases:** Enter the total value of your purchases during the month, including taxable purchases and exempt purchases.
- **Input tax credit:** Enter the total amount of input tax credit that you are claiming for the month.
- **Tax liability:** This section will automatically calculate your GST liability for the month, based on the information that you have entered in the previous sections.

Step 5: Submit the return

once you have entered all the required details in the return preparation form, review the return carefully to make sure that there are no errors. If you are satisfied with the return, click on the “Submit” button to submit it.

Step 6: Make the GST payment (if applicable)

If you are filing GSTR-3B, you will also need to make the GST payment. You can do this online using the GST portal. To make the GST payment, click on the “Payments” tab in the GST dashboard. Then, select “Make Payment” from the drop-down menu. Finally, select the “GSTR-3B” option and enter the required details. Once you have made the GST payment, you will receive a confirmation message.

4.1.5 Types of returns under GST

Table no: 4.1.2

Return No.	Description	Who Files?	Frequency	Due Date
GSTR-1	Statement of outward supplies of goods/ services	Regular taxpayers (including CTP)	Monthly / Quarterly	11th of next month / 13th of next quarter
GSTR-2 (Suspended)	Statement of inward supplies	Regular taxpayer	Monthly	Suspended
GSTR-3 (Suspended)	Monthly return after finalization of outward & inward supplies	Regular taxpayer	Monthly	Suspended
GSTR-3B	Summary return for outward liability, ITC, and tax payment	Regular taxpayer	Monthly	20th of next month
GSTR-3B (QRMP)	Quarterly summary return	QRMP taxpayers (ATO ≤ ₹5 crores)	Quarterly	22nd or 24th of next month

GSTR-4	Annual return for composition taxpayers	Composition taxpayers	Annually	30th April following financial year
CMP-08	Quarterly statement for self-assessed tax	Composition taxpayers	Quarterly	18th of next month
GSTR-5	Monthly return for non-resident taxable persons	Non-resident taxable person	Monthly	13th of next month or within 7 days of registration expiry
GSTR-5A	Return for OIDAR service providers	Foreign OIDAR service providers	Monthly	20th of next month
GSTR-6	Return for Input Service Distributor	ISD	Monthly	13th of next month
GSTR-7	Return for TDS	Tax deductors	Monthly	10th of next month
GSTR-8	Statement for TCS by e-commerce operators	E-commerce operators	Monthly	10th of next month
GSTR-9	Annual return	Regular taxpayers (except TDS/TCS/ISD/NRTP/CTP)	Annually	31 December of next Financial Year
GSTR-9A (Suspended)	Annual return for composition taxpayers	Composition dealers	Annually	31 December of next Financial Year.
GSTR-9B	Annual statement for e-commerce operators	E-commerce operators collecting TCS	Annually	31 December of next Financial Year
GSTR-9C	Reconciliation statement & audit certificate	Taxpayers with turnover > ₹5 crores	Annually	Filed along with GSTR-9
GSTR-10	Final Return	Taxpayer whose registration is cancelled or surrendered	One-time	Within 3 months from date of cancellation or cancellation order
GSTR-11	Details of inward supplies and refund claim by UIN holders	UIN holders: Embassies, UN bodies, Consulates, etc.	Monthly	28th of next month

(All GST returns are explained in detail in Unit 2).



4.1.6 GST Practitioner.

As per Section 2(55) of CGST Act, 2017 “goods and services tax practitioner” means any person who has been approved under Section 48 to act as such practitioner.

A GST practitioner or GSTP is a tax professional approved by the Central and State Governments to perform any or all of the following function, on behalf of a taxable person.

- File an application for fresh registration
- File an application for amendment or cancellation of registration
- Furnish details of outward and inward supplies
- Furnish monthly, quarterly, annual or final GST returns
- Make payments for credit into the electronic cash ledger, i.e. payments for tax, interest,
- penalty, fees or any other amount
- File a claim for refund
- Appear as an authorised representative before any officer of department, appellate authority or appellate tribunal
- As per Rule 84, No person shall be eligible to attend before any authority as a goods and services tax
- practitioner in connection with any proceedings under the Act on behalf of any registered or un-registered person unless he has been enrolled under rule 83.
- A single registration is sufficient to practice on all India basis.

Eligibility Criteria for enrolment as a GST Practitioner As per Rule 83, an application in FORM GST PCT01 may be made electronically through the common portal (www.gst.gov.in) either directly or through a Facilitation Centre notified by the Commissioner for enrolment as goods and services tax practitioner by any person who fulfils following conditions:

1. Basic condition

- One should be a citizen of India
- One should be a person of sound mind
- One should have not been declared as insolvent
- One should have not been convicted for an offence with imprisonment for more than two years.

2. Education & Work Experience

One should meet the required education or work experience as part of the



GST Practitioner Eligibility criteria, given below:

1. A retired officer of the Commercial Tax Department of any State Government or of the Central Board of Excise and Customs, having worked in a post not lower in rank than that of a Group-B gazetted officer, for a period not less than two years, OR
2. A Tax Return Preparer or a Sales Tax Practitioner registered for a period of not less than 5 years, OR
3. A graduate or postgraduate degree or its equivalent examination, having a degree in Commerce, Law, Banking including Higher Auditing, or Business Administration or Business Management from any Indian University established by any law for the time being in force, or from a recognised Foreign University, OR
4. One has passed any other examination notified by the Government for this purpose such as
 - Passed final examination of the Institute of Chartered Accountants of India OR
 - Passed final examination of the Institute of Cost Accountants of India OR
 - Passed final examination of the Institute of Company Secretaries of India

4.1.7 Forms Used for GST Practitioner.

Table no: 4.1.3

Form	Description
FORM GST PCT 01	Application for enrolment as GST Practitioner
FORM GST PCT 02	Certificate of enrolment as a GST practitioner, issued by an authorised officer
FORM GST PCT 03	Notice seeking additional information on application for enrolment or show cause notice
FORM GST PCT 04	Order of rejection of application for enrolment or disqualification of GST practitioner found guilty of misconduct
FORM GST PCT 05	Authorisation or withdrawal of authorisation to engage a GST practitioner by a taxable person

4.1.8 Activities by GST practitioner:

A goods and services tax practitioner can undertake any or all of the following activities on behalf of a registered person:

- a. furnish details of outward and inward supplies;
- b. furnish monthly, quarterly, annual or final return;
- c. make deposit for credit into the electronic cash ledger;
- d. file a claim for refund; and
- e. file an application for amendment or cancellation of registration.

But it has been provided that a confirmation from registered person shall be sought where an application relating to a claim for refund or an application for amendment or cancellation of registration has been submitted by the goods and services tax practitioner. In addition, a GST practitioner shall also be allowed to appear as authorised representative before any officer of department, Appellate Authority or Appellate Tribunal, on behalf of such registered person who has authorised him to be his GST practitioner.

Recap

- ◇ The term “return” ordinarily means a statement of information (facts) furnished by the taxpayer, to tax administrators, at regular intervals.
- ◇ goods and services tax practitioner mean any person who has been approved under Section 48 to act as such practitioner.
- ◇ The Goods and Services Tax (GST) return mechanism is the process through which registered taxpayers report their business transactions to the government.
- ◇ Under the new GST regime, filing tax returns has become automated.
- ◇ GSTR-1: This return contains the details of all your out-ward supplies (sales) during the month.

Objective Questions

1. What is a GST return?
2. What is meant by self-assessment under GST?



3. What is the GST Portal?
4. What is electronic filing of GST returns?
5. Who is a GST practitioner?
6. What is the role of a GST Practitioner?
7. What are the basic conditions for GST Practitioner?
8. What is GSTR-6?

Answers

1. A GST return is a statement filed by a registered taxpayer showing details of sales, purchases, tax liability, and input tax credit.
2. Self-assessment under GST means taxpayers calculate and declare their own tax liability.
3. The GST Portal is the official online platform for GST registration, return filing, and tax payment.
4. Electronic filing is the submission of GST returns online through the GST Portal.
5. A GST Practitioner is a person authorised to assist taxpayers in GST compliance and return filing.
6. The role of a GST Practitioner is to help taxpayers comply with GST laws and file returns correctly.
7. The basic conditions for becoming a GST Practitioner are that the person must be an Indian citizen, be of sound mind, not be declared insolvent, not be convicted of an offence with imprisonment of two years or more, and must possess the prescribed educational qualification or pass the GST Practitioner examination.
8. GSTR-6 is the monthly return filed by an Input Service Distributor to distribute ITC.

Self-Assessment Questions

1. Explain the meaning and objectives of GST returns. Describe the GST return mechanism in detail?
2. Discuss the modes of filing GST returns and explain the importance of electronic filing under the GST system?
3. Explain the role, responsibilities, and functions of GST Practitioners. Assess their importance in supporting taxpayer compliance under GST?
4. Discuss the concept of self-assessment under GST?
5. Explain the various types of GST returns?

Assignments

1. GST returns are not merely compliance documents but tools for ensuring transparency and accountability in the indirect tax system.” analyse this statement with reference to the structure and objectives of GST returns in India.
2. Analyse how the GST return filing mechanism supports the seamless flow of Input Tax Credit (ITC)
3. Critically examine the role of GSTR-1 and GSTR-3B in determining tax liability under GST
4. The introduction of GST Practitioners has strengthened the compliance framework under GST.”Assess this statement by analysing their roles, responsibilities, and importance, particularly for small businesses and unorganised sectors.
5. Evaluate the contribution of GST returns in curbing tax evasion and promoting digital governance in India.

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Unit 2

GSTR 1 TO 7 RETURN FILLING

Learning Outcomes

After completing this unit, the learner will be able to:

- ◇ explain different types of GST returns.
- ◇ describe the modes of filing GST returns.
- ◇ get an idea about annual return.
- ◇ explain QRMP scheme.

Prerequisites

The Goods and Services Tax (GST) system in India requires registered taxpayers to periodically report their business transactions through GST returns. These returns provide details of sales, purchases, tax liability, input tax credit, and tax payment, and form the backbone of GST compliance. With multiple types of returns, different modes of filing, annual return requirements, and special schemes such as the Quarterly Return Monthly Payment (QRMP) scheme, understanding GST returns is essential for effective tax administration and business compliance. This unit introduces these concepts through practical explanations and real-life case illustrations to help learners understand how GST return filing operates in actual business situations.

Keywords

GST Returns, Annual Return, IFF Facility, Input Service Distributor.



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Under the Goods and Services Tax (GST) regime, registered taxpayers are required to file various returns that capture details of their business transactions. GSTR-1 to GSTR-7 represent a structured set of returns designed to report outward supplies, inward supplies, input tax credit, monthly tax liabilities, and tax deductions at source. Each return serves a specific compliance function, enabling accurate tax assessment and ensuring transparency in the indirect tax system. Collectively, these returns form the backbone of GST reporting, supporting proper reconciliation, credit flow, and regulatory oversight.

4.2.1 Furnishing Details of Outward Supplies (Section 37 Read with Rule 59 of the CGST Rules)

The GST Act provides that the details of outward supplies of goods or services or both shall be furnished electronically in Form GSTR-1. The taxpayers can furnish these details through the common portal, either directly or from a notified facilitation centre. The Form GSTR-1 has to be filed even if there is no business activity in the tax period, and a nil return shall be filed. The Government has started a facility to file Nil GSTR-1 through SMS facility.

4.2.2 GSTR-1

GSTR-1 in GST is a monthly or quarterly return that provides details of all outward supplies made by a registered GST taxpayer during the tax period. It is a self-declaration form that must be filed electronically on the GST Portal.

The details of outward supplies of goods or services shall be furnished by every registered person, including casual registered persons in Form GSTR-1 except:

- Input Service Distributor
- Non-resident taxable person
- Person paying tax under Composition Scheme
- Person paying tax under Section 51, i.e., TDS Deductor.
- Person paying tax under Section 52, i.e., TCS Collector
- Supplier of Online Information and Database Access or Retrieval services (OIDAR)

The Form GSTR-1 is to be filed monthly or quarterly by the taxpayers on the basis of their turnover. The persons having turnover above ₹5 crores have to mandatorily file GSTR-1 on monthly basis but persons having turnover less than ₹5 crore have an option to file quarterly GSTR-1 if they opt for QRMP Scheme

QRMP Scheme

The persons having a turnover of less than ₹5 crores have an option to file quarterly GSTR-1 by opting Quarterly Return Monthly Payment (QRMP) Scheme. If they do not opt for QRMP scheme, then they will be deemed to be considered as monthly filers and required to file GSTR-1 on a monthly basis.

IFF Facility

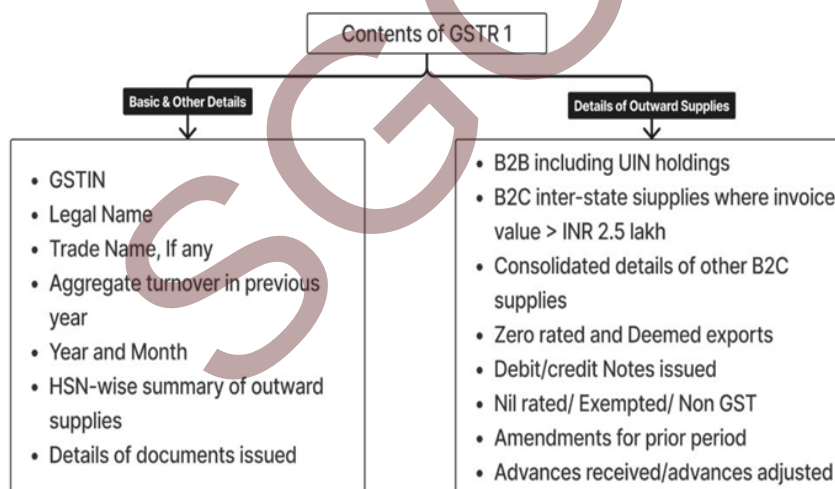
A person who has opted for QRMP scheme can use Invoice Furnishing Facility (IFF) to upload invoices on a monthly basis and does not require uploading those invoices again while filing quarterly GSTR-1 of that tax period.

Due date of filing of GSTR 1

The due date of filing of GSTR-1 or IFF facility is as follows:

Table no: 4.2.1

Particulars	Due date
Monthly Scheme (GSTR-1)	11th of next month
QRMP Scheme (IFF)	13th of next month
QRMP Scheme (GSTR-1)	13th of next month after end of quarter



The following information is required to be furnished in Form GSTR-1:

1. B2B Supplies

All outward supplies made to registered persons will be entered, and all invoices will have to be uploaded whether supplies are Intra-State or Inter-State supplies.

2. B2C Supplies

The Inter-State supplies to an unregistered person having an invoice value of more than ₹2.5 lakhs are to be considered as B2C supplies, and their invoices will have to

be uploaded. However, a summary shall be uploaded for inter-state supplies of value below ₹2.5 lakhs to unregistered persons and all intra-state supplies to unregistered persons. The tabulated form of the aforementioned data is as follows:

Table no: 4.2.2

Sl. No.	Invoice-wise* details of all:	Consolidated details of all:	Debit and credit notes
(i)	Inter-State and Intra-State supplies made to registered persons	Intra-State supplies made to unregistered persons for each rate of tax	Issued during the month for invoices issued previously
(ii)	Inter-State supplies made to unregistered persons with invoice value exceeding ₹250000	Inter-State supplies made to unregistered persons with invoice value up to ₹250000 for each rate of tax separately for each State	

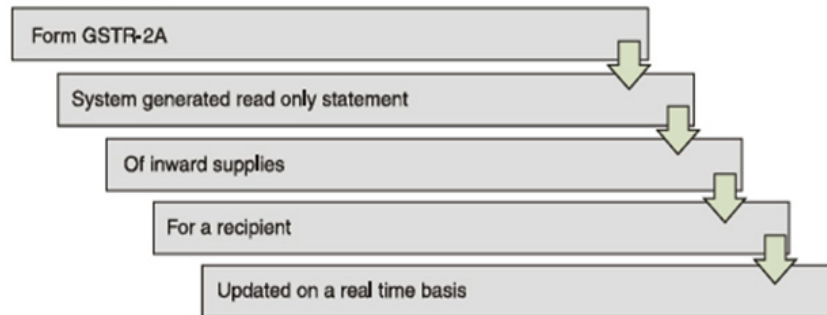
Late Fees for Delay in filing GSTR-1

When a registered taxpayer fails to file GSTR-1 within the prescribed due date, late fees are levied under the GST law. The applicable late fee is Rs. 50 per day of delay (Rs. 25 CGST + Rs. 25 SGST). In cases where the return is Nil, a reduced late fee of Rs. 20 per day (Rs. 10 CGST + Rs. 10 SGST) is charged. The total late fee is calculated from the day after the due date until the actual date of filing, subject to the maximum cap notified by the government from time to time. These penalties are intended to enforce timely compliance and ensure accurate reporting of outward supplies in the GST system.

4.2.3 GSTR- 2A and GSTR- 2B

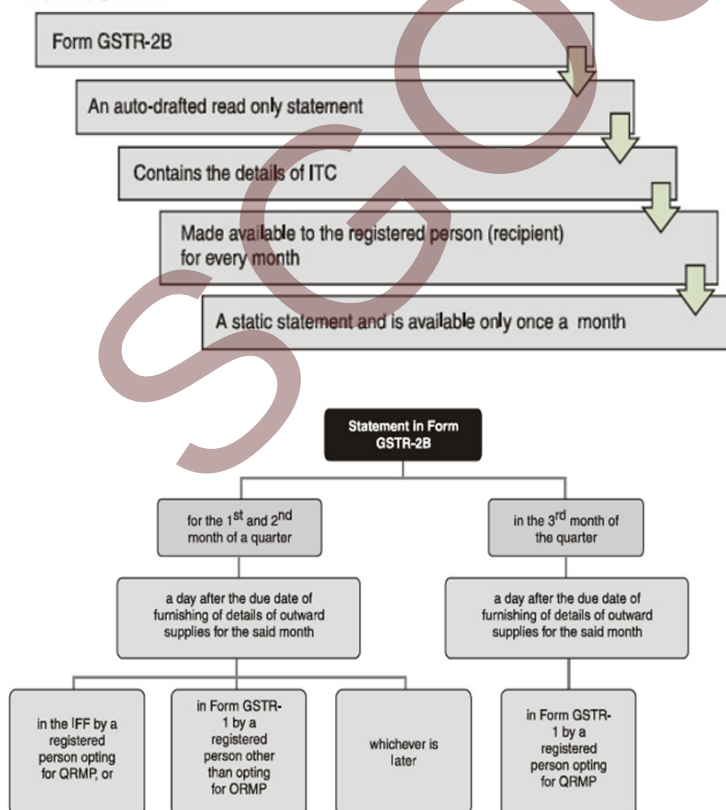
GSTR 2A is a purchase-related statement that is automatically generated for every GST registered business on the GST portal. It contains the details of all the inward supplies (purchases) of goods and/or services that have been declared by the suppliers in their GSTR-1 returns. GSTR 2A is a dynamic statement, which means that it is updated whenever the supplier makes any changes to their GSTR-1 return. GSTR 2A can be used by businesses to verify the details of their purchases and to ensure that they have claimed the correct amount of input tax credit (ITC). It is also used by the government to track the movement of goods and services across the country.

Form GSTR-2A



GSTR 2B is an auto-drafted Input Tax Credit (ITC) statement which is generated for every registered person on the basis of the information furnished by his/her suppliers in their respective GSTR-1 & GSTR-5 and ITC received through Form GSTR-6. The statement indicates availability of Input Tax Credit to the registered person against each document filed by his/her suppliers and the Input Service Distributor (ISD). GSTR 2B is a static statement, which means that it does not change once it is generated on the 14th day of the succeeding month. This makes it easier for businesses to reconcile their purchase records and to claim the correct amount of ITC.

Form GSTR-2B



4.2.4 GSTR-3B

Form GSTR-3B is a simplified summary return and the purpose of the return is for taxpayers to declare their summary GST liabilities for a particular tax period and discharge these liabilities. A normal taxpayer is required to file Form GSTR-3B returns for every tax period. Filing of Form GSTR-3B is mandatory for all normal and casual taxpayers, even if there is no business in that particular tax period.

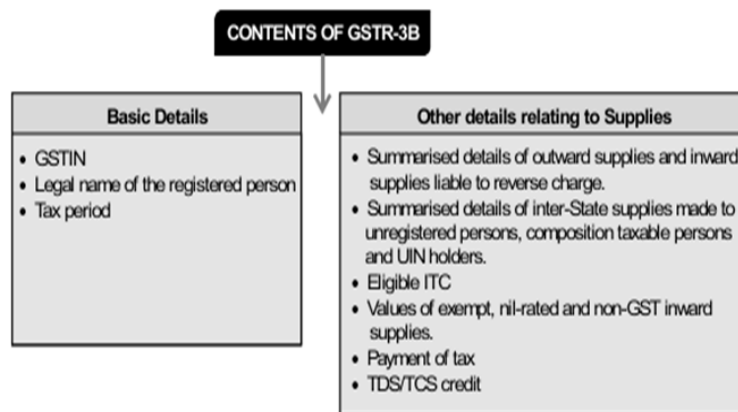
When to file form GSTR-3B?

- For monthly filers, the due date for filing Form GSTR 3B is the 20th day of the month following the month (tax period) for which the return pertains.
- For quarterly filers, the due date for filing of Form GSTR 3B, as notified for different States/UTs, is 22nd and 24th day of the month following the quarter for which the return pertains.
- However, the due date for filing of Form GSTR-3B can be extended by the Government through notification.

Table no: 4.2.3

Category of Registered Person	Form GSTR-3B	Due Date*
Normal taxpayers having turnover more than ₹5 Crores	Monthly	20th of the succeeding month
Small taxpayers (Turnover up to ₹5 Crore and not opting for QRMP scheme)	Monthly	20th of the succeeding month
Small taxpayers (Turnover up to ₹5 Crore and opting for QRMP scheme) [Specified States-I]	Quarterly	22nd of the month succeeding such quarter
Small taxpayers (Turnover up to ₹5 Crore and opting for QRMP scheme) [Specified States-II]	Quarterly	24th of the month succeeding such quarter

GSTR-3B can be submitted electronically through the common portal, either directly or through a notified Facilitation GSTR-3B is a simple return containing summary of outward supplies, inward supplies liable to reverse charge, eligible ITC, payment of tax etc. Thus, GSTR-3B does not require invoice-wise data of outward supplies.



Under the GST laws, Form GSTR3B is a self-declared consolidated summary return of inward and outward supplies which is required to be filed by a registered person electronically on the GST Common Portal. Section 39 of the Central Goods and Services Tax (CGST) Act, 2017 provides that every registered person is required to file a monthly return electronically. The particulars such as inward and outward supplies of goods or services, input tax credit availed, tax payable, tax paid, etc. are required to be declared in such return. In this regard, Rule 61 of the CGST Rules, 2017 prescribes Form GSTR 3B which is required to be filed by the registered person, monthly or quarterly, as the case may be.

Who is required to file Form GSTR 3B?

Every person who is registered under the GST laws is required to file Form GSTR3B except for the following persons:

- Taxpayers registered under the Composition Scheme
- Input Service Distributor
- Non-Resident Taxable Person
- Person liable to deduct tax at source.
- Person liable to collect tax at source.

Procedure to file Form GSTR3B

In order to file Form GSTR 3B, the registered person is required to follow the following steps after logging on to the GST Common Portal:

- Under the 'Returns Dashboard', select the period for which the return is required to be filed.
- Select 'Monthly Return GSTR 3B'.
- Fill the required data in the Form GSTR 3B.
- Discharge the liability towards tax, interest, penalty, fees, or any other amount payable by debiting the electronic cash/ credit ledger.
- Verify the return using an EVC (electronic verification code) or a DSC (digital

signature certificate of class 2 or higher).

- After verification, a success message will be displayed along with Acknowledgement Reference Number (ARN).

Information to be filled in GSTR 3B:

- Summary details of outward supplies and inward supplies liable to reverse charge and tax liability.
- Details of inter-State supplies made to unregistered persons/ composition taxable persons and UIN holders.
- Details of ITC available, ITC reversal, Net ITC available, Ineligible ITC, etc.
- Summary details of exempt, nil, and non-GST inward supplies
- Details of interest and late fee.
- Details of payment of tax and interest and late fee (if any).
- Details of TDS/TCS credit.

Late filing of Form GSTR3B

The late filing of Form GSTR3B attracts a late fee and interest. A late fee of ₹50 per day (₹20 in case of NIL liability) is charged for filing the return after the due date. In case, the GST dues are not paid within the due date, interest at 18% p.a. is payable on the amount of outstanding tax to be paid.

4.2.5 GSTR-4

The following persons are required to file an annual return in form GSTR-4:

- Every registered person paying tax under section 10 i.e., composition supplier; or
- Every registered person paying tax by availing the benefit of Notification No. 2/2019 CT (R) dated 07.03.2019.

GSTR-4 for a financial year or part of a financial year should be filed electronically through the common portal either directly or through a notified Facilitation Centre.

Quarterly statement for payment of self-assessed tax:

The persons required to file GSTR-4 are also required to furnish a statement in the form GST CMP-08 containing details of payment of self-assessed tax, for every quarter (or part of the quarter), by 18th day of the month succeeding such quarter.

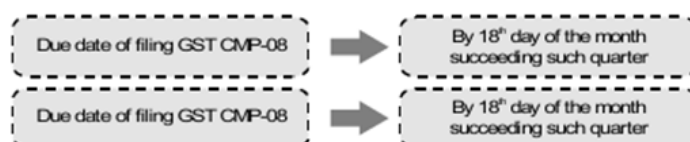
While a composition supplier and the person paying tax under notification No. 2/2019 CT (R) are required to file the return GSTR-4 annually, they are required to pay the tax quarterly.

Due date for filing GSTR-4 and Statement for payment of self-assessed tax.

GSTR-4 for a financial year should be furnished by 30 April of the succeeding financial year. GST CMP-08 (quarterly statement for payment of self-assessed tax) should be furnished by the 18th day of the month succeeding such quarter.

Due date for filing GSTR-4 and Statement for payment of self-assessed tax

GSTR-4 for a financial year should be furnished by 30 April of the succeeding financial year. GST CMP-08 (quarterly statement for payment of self-assessed tax) should be furnished by the 18th day of the month succeeding such quarter.



Consolidated details of outward supplies

Composition taxpayers and persons paying tax under Notification No. 2/2019 CT (R) are neither entitled for any ITC nor entitled to pass on any input tax credit to its customers (registered / unregistered). Therefore, composition taxpayers and persons paying tax under Notification No. 2/2019 CT (R) are required to provide consolidated details of outward supplies in GSTR-4 and not invoice-wise details. However, details of inter-State and intra-State inward supplies received from registered and un-registered persons are to be provided invoice-wise. The composition supplier and the person paying tax under Notification No. 2/2019 CT (R) will not be eligible to avail ITC on receipt of invoices or debit notes from the supplier for the period prior to their opting to pay tax under composition scheme/Notification No. 2/2019 CT (R). GSTR-4 for the period prior to exiting from the composition scheme. A registered person opting to withdraw from the composition scheme at his own motion or where option is withdrawn at the instance of the proper officer and a registered person who ceases to pay tax under Notification No. 2/2019 CT (R) will, where required, furnish form GSTR-4 for the period prior to exiting from the composition scheme GSTR-3B and GSTR-4 need to be filed even if there is no business activity (nil return) in the tax period.

4.2.6 GSTR-5

GSTR-5 is a monthly return that must be filed by Non-Resident Taxable Persons (NRTPs) who are registered under the Goods and Services Tax (GST) regime in India. It is a summary of all the taxable supplies made by the NRTP during the month, as well as the tax paid on those supplies.

Return for Non-Resident Taxable Persons [Section 39(5) read with rule 63 of the CGST Rules]: Non-Resident Taxable Persons (NRTPs) are those suppliers who do not have a business establishment in India and have come for a short period to make supplies in India. They would normally import their products into India and make local supplies.



- **Monthly return:** A registered NRTP is not required to file separately the Statement of Outward Supplies and applicable return for a normal tax payer.
- In place of the same, a simplified monthly tax return has been prescribed in Form GSTR-5 for a NRTP for every calendar month or part thereof. The details of outward supplies and inward supplies of a NRTP are incorporated in GSTR-5.
- **Last date of filing return:** GSTR-5 should be furnished within 13 days after the end of the calendar month or within 7 days after the last day of validity period of the registration, whichever is earlier.
- **Payment of interest, penalty, fees or any other amount payable:** A NRTP should pay the tax, interest, penalty, fees or any other amount payable under the GST law till the last date of filing GSTR-5.
- **Due date for payment of tax:** Due dates for payment of tax in respect of the persons required to file GSTR- 3B and GSTR-5 are linked with the due dates for filing of such re turns i.e., the last dates (due dates) of filing such returns are also the due dates for payment of tax in respect of persons required to file such returns. In other words, the last date for filing GSTR-3B or GSTR-5 is also the last date for paying the GST liability for the relevant tax period. For example, if the due date for filing GSTR-5 for the month of October 2023 is November 13, 2023, then the due date for paying the GST liability for the month of October 2023 is also November 13, 2023. It is important to note that if a taxpayer fails to pay the GST liability by the due date, they will be liable to pay interest and penalty.

4.2.7 GSTR 6

GSTR-6 is a monthly return prescribed under the Goods and Services Tax law for Input Service Distributors (ISDs). An ISD is typically a head office or corporate office that receives input services and distributes the Input Tax Credit (ITC) to its branches or units that operate under the same PAN. GSTR-6 ensures a transparent and systematic transfer of such credits.

GSTR6 due date

GSTR-6, the monthly return filed by Input Service Distributors (ISDs), must be submitted by the 13th of the month following the relevant tax period, ensuring timely distribution of Input Tax Credit to various units. Any delay in filing attracts a late fee of Rs. 50 per day (Rs. 25 CGST + Rs. 25 SGST), while a Nil return incurs a reduced fee of Rs. 20 per day (Rs. 10 CGST + Rs. 10 SGST). These penalties apply from the day after the due date until the return is filed, encouraging timely compliance and accurate ITC reporting within the GST framework.

4.2.8 GSTR 7

GSTR-7 is a monthly return that must be filed by entities that deduct tax at source (TDS) under the Goods and Services Tax (GST) system in India. This form

captures details about the TDS deducted, the amount payable, the amount paid, and any TDS refunds claimed by the taxpayer. Filing GSTR 7 ensures that the deducted tax is accurately reported and credited to the government, helping businesses comply with GST regulations.

The primary purpose of GSTR 7 in GST is to provide transparency in the tax deduction process. It enables the government to track the flow of TDS and ensure that the deducted amounts are remitted to the appropriate authorities. Moreover, it allows the suppliers (deductees) to claim input tax credit (ITC) for the tax deducted, thereby maintaining a seamless flow of credit in the GST ecosystem.

GSTR-7 Due Date

The due date for filing GSTR 7 is the 10th of the following month after the month in which TDS was deducted.

Who Must Deduct TDS and File GSTR-7?

GSTR-7 must be filed by entities whose contracts involve goods or services exceeding ₹2,50,000 (excluding GST), and are notified as TDS deductors. These include:

a. Government Bodies

- Central Government departments
- State Government departments

b. Authorities and Societies

- Local authorities
- Government agencies
- Statutory bodies
- Boards or corporations established under central/state Acts

c. Public Sector Undertakings (PSUs)

- Banks such as SBI, PNB
- Oil companies like ONGC, IOC

d. Other Notified Entities

- Any organization specifically notified by the Government.

4.2.9 GSTR8

The key purpose of filing GSTR-8 is to provide the tax authorities with a comprehensive and accurate record of the tax collected at source (TCS), suppliers from whom TCS is collected, and supplies made through the e-commerce platform. By doing so, e-commerce operators can ensure compliance with GST regulations, avoid



penalties for non-compliance, and help the tax authorities to detect any tax evasion or non-compliance.

The following are the key purpose of filing GSTR-8:

- **Reporting of TCS:** E-commerce operators who are required to collect tax at source under the GST Act are required to report the details of TCS collected during a particular month in the GSTR-8 return. This helps the tax authorities to reconcile the TCS collected by the e-commerce operator and to ensure compliance with GST regulations.
- **Reporting of Supplier Details:** E-commerce operators are also required to report the details of the suppliers from whom TCS is collected in the GSTR-8 return. This helps the tax authorities to track the compliance of the suppliers and to ensure that they are filing their GST returns correctly.
- **Reporting of Supplies made through E-commerce Platform:** E-commerce operators are also required to report the details of the supplies made through their platform in the GSTR-8 return. This helps the tax authorities to track the flow of goods and services through the e-commerce platform and to ensure that the correct amount of GST is being paid on such supplies.

Compliance with GST Regulations: By filing GSTR-8 returns on a monthly basis, e-commerce operators can ensure compliance with GST regulations and avoid penalties for non-compliance.

4.2.9.1 Who is liable for TCS collection under GST?

As per the provisions of the GST Act, e-commerce operators are liable to collect tax at source (TCS) from the suppliers who sell goods or services through their platform. E-commerce operators are defined under the GST Act as those who own, operate, or manage a digital or electronic platform for facilitating the supply of goods or services. This includes marketplace operators, such as Amazon, Flipkart, and Snapdeal.

In addition to tax collection at source from the suppliers, the e-commerce operators are also required to file GSTR-8 returns, reporting all the details of the collected tax, and the quantities of supplies made. It is important to note that e-commerce operators who are not required to collect TCS under GST are not required to file GSTR-8 returns. Both TCS collection and the filing of TCS returns are done on a monthly basis and are not applicable to exempt supplies or supplies on which the supplier has already collected GST.

4.2.9.2 Eligibility and Exemptions for filing GSTR-8:

To be eligible for filing GSTR-8 returns, e-commerce operators must meet certain requirements as specified under the Goods and Services Tax (GST) Act. Meeting these requirements is crucial to avoid any legal consequences, penalties, or fines imposed by the tax authorities. Therefore, e-commerce operators should carefully review this eligibility required and ensure that they meet all the conditions before filing GSTR-8

returns. Here is a complete list of all these requirements:

- **Operation of E-commerce Platform:** Only E-commerce operators who own, operate, or manage a digital or electronic platform for facilitating the supply of goods or services are eligible to collect TCS and file GSTR-8 returns.
- **Registration under GST:** E-commerce operators who are liable to collect tax at source and file GSTR-8 returns must be registered under the GST Act.
- **Collection of TCS:** Returns in GSTR 8 can only be filed after the E-commerce operator has collected the TCS payable from the suppliers.
- **Timely Payment of TCS:** E-commerce operators must have remitted the TCS collected from the suppliers to the government on a monthly basis before filing the corresponding GSTR-8 returns.
- **Accurate Reporting:** E-commerce operators must accurately report the details of TCS collected from suppliers, and supplies made through the e-commerce platform in the GSTR-8 before filing it to the concerned tax authority.

4.2.9.3 Exemption from GSTR-8 Filing

However, the two types of e-commerce operators who are exempted from filing GSTR-8 include those who have not made any taxable supplies through their e-commerce platform during the month for which the return is being filed, and those who are registered as non-resident taxable persons or as casual taxable persons.

4.2.9.4 Due Date for Filing GSTR-8:

Filing GSTR 8 due date is the 10th of the following month. This means that e-commerce operators which collect TCS are required to file their GSTR-8 returns by the 10th of the month following the month in which TCS was collected. For example, if TDS was collected in the month of January, the GSTR-8 return must be filed by the 10th of February.

It's important to note that failure to file GSTR-8 by the due date can result in penalties and interest charges. Therefore, it's essential to ensure that GSTR-8 returns are filed on time to avoid these penalties and ensure compliance with the GST regulations. Additionally, it's important to maintain accurate records of TCS collections and payments to make the filing process smoother and more efficient.

4.2.9.5 Penalty for not filing GSTR-8

The penalty for not filing the GSTR-8 return on time can lead to significant consequences for e-commerce operators. The penalty for non-filing of GSTR 8 includes late fees and/or interest charges on the outstanding tax amount. Here are the details of the penalties for non-filing and GSTR-8 late fees:

- **Late fee:** If an e-commerce operator fails to file the GSTR-8 return by the due date, a GSTR 8 late fee of Rs.100 per day (Rs.50 for CGST and Rs.50 for



SGST/UTGST) will be charged until the return is filed. However, the maximum late fee is capped at Rs. 5000. If there is no tax liability for the period, then the late fee is Rs. 20 per day (Rs.10 for CGST and Rs.10 for SGST/UTGST) with a cap at Rs,1000.

- **Interest:** If an e-commerce operator fails to file the GSTR-8 return by the due date, interest will be charged at a rate of 18% per annum on the outstanding tax liability. The interest will be calculated from the due date of filing the return until the date of payment of tax.
- **Penalty for non-filing:** If an e-commerce operator does not file or rectify the GSTR-8 return even after a notice is issued, it will qualify as an offense u/s 122 of the CGST Act, and a penalty of up to Rs.10,000 or an amount equal to the tax due / evaded, whichever is higher, will be levied.

4.2.10 Annual Return and GSTR 9

Every year after filing all monthly returns under GSTR1 and GSTR 3B, it is mandatory that a consolidated return incorporating all details of the said returns are to be consolidated in a specific Form GSTR 9 which is called annual return. It provides a detailed view regarding the outward and inward supplies made/received in a particular year so that the total dues that have been paid can be categorically shown under different heads namely CGST, SGST and IGST. It is a consolidated statement of all the monthly returns (GSTR-1, GSTR-2A, GSTR-3B) filed in that year. Annual Return in form GSTR-9 shall be submitted electronically through Common Portal either directly or through a Facilitation Centre by 31st day of December of the next financial year.

Annual Return shall be filed by every registered person, other than:

- Input Service Distributor
- Persons paying tax under section 51/52
- Casual Tax Persons, and
- Non-Resident taxable person.

4.2.10.1 GSTR-9 types

The CGST Rule 80 covers the provisions pertaining to the annual return forms under the GST law. Annual returns in GST are of four types as follows-

- **GSTR 9-** Regular GST taxpayers who file GSTR 1 and GSTR 3B must file this return, especially if they cross the GST annual return limit of Rs.2 crore turnover during the financial year.
- **GSTR 9A-** Composition taxable persons had to file this annual return until FY 2018-19. However, from FY 2019-20 onwards, it is replaced with GSTR-4 annual return due for every financial year on 30th April of the following year.
- **GSTR 9B-** This annual return is applicable under the GST law to e-commerce

operators collecting tax TCS (tax at source) and filing GSTR 8 each month. However, the filing of this annual return is put on hold.

- **GSTR 9C-** Annual Reconciliation Statement is an audit form that must be self-certified and filed by all taxpayers whose aggregate turnover exceeds Rs.5 crores in a financial year.

4.2.11 GSTR10

GSTR-10 is the Final Return that must be filed by a registered taxpayer whose GST registration has been cancelled or surrendered. This return ensures that all tax liabilities up to the date of cancellation are properly reported and settled. It captures details such as stock held on the day before cancellation, including input tax credit involved in such stock, outward supplies made prior to cancellation, and any outstanding tax dues. The due date for filing GSTR-10 is within three months from the date of cancellation or the date of the cancellation order, whichever is later. Filing this return is mandatory, and failure to submit it may result in penalties and further notices from the GST authorities, ensuring closure of GST obligations in a compliant manner.

Who should file GSTR-10?

GSTR 10 is required to be filed only by the persons whose registration under GST has been cancelled or surrendered. Further, all GST taxpayers except the following:

- Input Service Distributors (ISD)
- Composition scheme taxpayers
- Non-Resident Taxable Person (NRTP)
- Persons required to deduct TDS under Section 51 of the CGST Act
- Persons required to collect TCS at source under Section 52 of the CGST Act

4.2.12 QRMP Scheme (Quarterly Return Monthly Payment Scheme)

The QRMP Scheme is available to small taxpayers with an annual aggregate turnover of up to Rs. 5 crores in the preceding financial year. Under this scheme, taxpayers are required to file GSTR-3B and GSTR-1 on a quarterly basis, while tax payment is made monthly using fixed-sum or self-assessment methods. The scheme reduces compliance burden while maintaining regular tax payment. Taxpayers may optionally use the Invoice Furnishing Facility (IFF) in the first two months of the quarter to upload B2B invoices, enabling timely input tax credit to recipients.

4.2.13 Returns by Non-Resident Foreign Taxpayers (NRTPs)

Non-Resident Taxable Persons making taxable supplies in India must obtain temporary GST registration and comply with specific return filing requirements. They are required to file GSTR-5, which is a periodic return capturing details of outward supplies, inward supplies, and tax payments. The return must be filed monthly or within 7 days after the



validity of registration expires, whichever is earlier. Additionally, NRTPs must make an advance deposit of estimated tax liability at the time of registration, ensuring smooth compliance during their temporary business operations in India.

Together, the QRMP Scheme eases compliance for small domestic taxpayers, while the GSTR-5 framework ensures proper reporting and tax collection from non-resident foreign suppliers operating in India.

Recap

- GST returns are statutory electronic filings prescribed under the CGST Act for reporting supplies, tax liability, and input tax credit.
- GSTR-1 is filed to furnish details of outward supplies on a monthly or quarterly basis, depending on turnover and QRMP option.
- The QRMP scheme allows taxpayers with turnover up to ₹5 crore to file GSTR-1 and GSTR-3B quarterly while paying tax monthly, with optional use of the IFF facility.
- GSTR-2A (dynamic) and GSTR-2B (static) are auto-generated statements used for verification and availing eligible input tax credit.
- GSTR-3B is a mandatory summary return for declaring tax liability and making tax payment, even in case of nil transactions.
- GSTR-4 is an annual return for composition taxpayers, with quarterly tax payment through CMP-08.
- GSTR-5 is filed by non-resident taxable persons for reporting temporary business transactions in India.
- GSTR-6 is filed by Input Service Distributors for distributing ITC to their units.
- GSTR-7 is filed by notified persons deducting TDS under GST.
- GSTR-8 is filed by e-commerce operators for reporting tax collected at source (TCS).
- GSTR-9 is the annual return consolidating all returns filed during the financial year.
- GSTR-10 is the final return filed upon cancellation or surrender of GST registration.

Objective Questions

1. Which return is used to report outward supplies under GST?
2. Which GST return is a summary return for payment of tax?
3. GST returns are generally filed through:
4. GSTR-9 contains details relating to:
5. Which return is filed by Input Service Distributors under GST?
6. Which authentication is compulsory for companies while filing GST returns?

Answers

1. GSTR-1
2. GSTR-3B
3. GST common portal
4. One financial year
5. GSTR-6
6. DSC

Self-Assessment Questions

1. Explain the meaning and importance of GST returns under the CGST Act.
2. Distinguish between GSTR-2A and GSTR-2B.
3. What is GSTR-10? When is it required to be filed?
4. Explain the consequences of non-filing or delayed filing of GST returns.



5. Explain the concept and importance of the Annual Return (GSTR-9).
6. What is the Invoice Furnishing Facility (IFF)? Who can use it?
7. Describe the overall GST return filing framework in India

Assignments

1. Explain the concept of GST returns and discuss their role in ensuring tax compliance under the GST system.
2. Explain the QRMP Scheme and analyse how it reduces the compliance burden for small taxpayers.
3. Describe the return filing obligations of Non-Resident Taxable Persons under GST with reference to GSTR-5.
4. Analyse the consequences of non-filing or delayed filing of GST returns.
5. Assess how the GST return filing mechanism promotes transparency and seamless flow of input tax credit.

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MODEL QUESTION PAPER SETS





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FOUR YEARS B.COM UNDER GRADUATE DEGREE EXAMINATIONS,

Skill Enhancement Course

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MODEL QUESTION PAPER

SET 1

Time: 2 Hours

MaxMarks: 45

Section A

Answer any five of the following questions in a word or sentence each. Each question carries 1 mark.

1. What is meant by a partnership firm for tax purposes?
2. Define book profit of a firm.
3. What is Minimum Alternative Tax (MAT)?
4. What is marginal relief?
5. Expand IGST.
6. What is Input Tax Credit (ITC)?
7. What is a GST return?
8. What is GSTR-1

(1X5=5)



Section B

**Answer any five of the following questions in two or three sentences each.
Each question carries 2 marks.**

9. A partner receives a salary of ₹1,50,000 and interest on capital of ₹60,000 (within allowable limits). His share of profit from the firm is ₹3,20,000. Compute the taxable income of the partner.
10. What is an electronic liability ledger?
11. Define company?
12. What is the purpose of implementing MAT?
13. Briefly explain CGST.
14. Write a short note on TCS
15. What is GSTR-10? When is it required to be filed?
16. What is the Reverse Charge Mechanism (RCM) under GST?

(2X5=10)

Section C

Answer any four of the following questions in one page each. Each question carries 5 marks.

17. A domestic company in which the public are substantially interested furnishes the following details for the previous year ended 31-03-2025: business profit after deduction of donation ₹2,00,000, donation to approved charitable institution ₹20,000 (by cheque), interest on Government securities ₹15,000, long-term capital gain ₹50,000, and book profit under Section 115JB ₹8,00,000; the company also deposited ₹15,000 in IDBI during FY 2023–24 and declared dividend of ₹1,00,000 on 10-12-2024. Compute the taxable income of the company and the tax payable for the Assessment Year 2025–26.
18. Explain the concept of the Harmonised System of Nomenclature (HSN) and Services Accounting Code (SAC).
19. P, Q, and R are partners in a firm, where P and Q are working partners. The net profit as per Profit & Loss Account after debiting partner's remuneration is ₹3,00,000. The Partnership Deed provides for salary to P ₹1,50,000, salary to Q ₹1,00,000, and bonus to P at 10% of book profit before remuneration. Calculate the allowable remuneration to partners as per the provisions of the Income Tax Act.

20. Short note on GSTR -3B.
21. Discuss the basic conditions for GST Practitioner?
22. Mr. Patel, a registered GST dealer, provides the following details for January 2025: purchases from registered dealers amounting to ₹6,00,000 with GST of ₹96,000 at different rates, and purchases from unregistered dealers worth ₹2,00,000 taxable at 5% under reverse charge; sales during the month amounted to ₹6,60,000 with GST of ₹1,05,600. Compute the eligible Input Tax Credit (ITC) and determine the net GST payable after adjusting ITC and reverse charge liability.

(5X4=20)

Section D

Answer any one of the following questions in three pages each. Each question carries 10 marks.

23. Mr. Arjun Traders, a registered dealer in Kerala, provides the following details for the month of March 2025: Purchases include goods bought within Kerala worth ₹2,00,000 at 18% GST (intra-state) and goods purchased from Tamil Nadu worth ₹1,00,000 at 18% GST (inter-state). Sales include goods sold within Kerala worth ₹3,00,000 at 18% GST (intra-state) and goods sold to Karnataka worth ₹1,50,000 at 18% GST (inter-state). Compute the amount of CGST, SGST, and IGST payable and determine the net GST liability after adjusting input tax credit.
24. Explain in detail types of returns under GST.

(1X10=10)





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MODEL QUESTION PAPER

SET II

Time: 2 Hours

MaxMarks: 45

Section A

Answer any five of the following questions in a word or sentence each. Each question carries 1 mark.

1. Who is a working partner?
2. What is meant by taxable income of a firm?
3. What is MAT credit?
4. What is residential status of a company?
5. What is a composite supply?
6. What is an e-way bill?
7. Who is a GST practitioner?
8. What is GSTR-3B?

(1X5=5)



Section B

**Answer any five of the following questions in two or three sentences each.
Each question carries 2 marks.**

9. A partnership firm has the following details for the financial year:
- Total Revenue: ₹52,00,000
 - Business Expenses: ₹9,00,000
 - Partner Remuneration (within Section 40(b) limits): ₹3,50,000
 - Interest on Capital (within limit 12%): ₹1,20,000

Compute net taxable income of the firm.

10. Briefly explain how to treat losses in a firm?
11. Explain the computation of book profit.
12. Write a short note on residential status of companies?
13. Explain the purpose of Marginal relief?
14. What is a mixed supply under GST?
15. What do you mean by debit note?
16. Write down the steps to calculate the total income of a company?

(2X5=10)

Section C

Answer any four of the following questions in one page each. Each question carries 5 marks.

17. A, B, and C are partners sharing profits equally. A and B are working partners, while C is a sleeping partner. The Partnership Deed provides the following:
- Salary to A: ₹1,20,000 per annum
 - Commission to B: 10% of Book Profit
 - Book Profit before partner remuneration: ₹2,50,000

Required:

Compute the allowable remuneration to partners as per the provisions of the Income Tax Act.



18. Explain the features of indirect tax.
19. Short note on supply under GST
20. Briefly explain ITC and explain its benefits and recovery.
21. Detailed explanation on forms used for GST practitioner.
22. ABC Ltd reported a net profit of ₹3,30,000 for the financial year 2024–25. After scrutiny, the following items were identified: donation to an approved charitable trust ₹20,000 (by cheque), provision for income tax ₹1,00,000, family planning expenses ₹25,000, capital expenditure on family planning ₹1,00,000, bad debts recovered ₹10,000, interest on bank deposits ₹30,000, long-term capital gains ₹1,00,000, and dividend from an Indian company ₹20,000; the company also has unabsorbed depreciation of ₹35,000 and unabsorbed capital loss of ₹40,000 brought forward. Compute the total income of the company for the Assessment Year 2025–26.

(5X4 = 20)

Section D

Answer any one of the following questions in three pages each. Each question carries 10 marks

23. Describe the structure of GST in India, including the types of GST and the applicable rate system, along with the basis for levy and collection of tax.
24. A, B, and C are partners in a firm sharing profits and losses in the ratio 2:2:1. The Profit & Loss Account for the year ended 31-03-2025 shows net profit of ₹2,02,000 after charging sundry expenses ₹1,00,000, interest on capital @15% (₹15,000 each), salary to B ₹70,000, rent to B ₹30,000, and commission to C ₹35,000, with gross profit ₹4,70,000 and interest on securities ₹12,000; the firm satisfies the conditions of Section 184, B and C are working partners, A is not, and interest on capital is allowable only up to 12%. Compute the book profit, allowable remuneration under Section 40(b), total income of the firm for AY 2025–26, and taxable business income of each partner.

(1X 10=10)

സർവ്വകലാശാലാഗീതം

വിദ്യാൽ സ്വതന്ത്രരാകണം
വിശ്വപൗരരായി മാറണം
ഗ്രഹപ്രസാദമായ് വിളങ്ങണം
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സ്നേഹദീപ്തിയായ് വിളങ്ങണം
നീതിവൈജയന്തി പാറണം

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