Final Course
(Revised Scheme of Education and Training)
Study Material
(Modules 1 to 4)

Paper 7

Direct Tax Laws and International Taxation

Part – I : Direct Tax Laws
[As amended by the Finance (No. 2) Act, 2019]
Assessment Year 2020-21

Module – 1
(Relevant for May, 2020 and November, 2020 examinations)
This study material has been prepared by the faculty of the Board of Studies. The objective of the study material is to provide teaching material to the students to enable them to obtain knowledge in the subject. In case students need any clarifications or have any suggestions for further improvement of the material contained herein, they may write to the Director of Studies.

All care has been taken to provide interpretations and discussions in a manner useful for the students. However, the study material has not been specifically discussed by the Council of the Institute or any of its Committees and the views expressed herein may not be taken to necessarily represent the views of the Council or any of its Committees.

Permission of the Institute is essential for reproduction of any portion of this material.

© The Institute of Chartered Accountants of India

All rights reserved. No part of this book may be reproduced, stored in a retrieval system, or transmitted, in any form, or by any means, electronic, mechanical, photocopying, recording, or otherwise, without prior permission, in writing, from the publisher.

Edition : October, 2019
Website : www.icai.org
E-mail : bosnoida@icai.in
Committee/Department : Board of Studies
ISBN No. :
Price (All Modules) : ₹
Published by : The Publication Department on behalf of The Institute of Chartered Accountants of India, ICAI Bhawan, Post Box No. 7100, Indraprastha Marg, New Delhi 110 002, India.

© The Institute of Chartered Accountants of India
BEFORE WE BEGIN …

Revised Scheme of Education and Training: Bridging the competence gap

The role of a chartered accountant is evolving continually to assume newer responsibilities in a dynamic environment. There has been a notable shift towards strategic decision making and entrepreneurial roles that add value beyond traditional accounting and auditing. The causative factors for the change include globalisation leading to increase in cross border transactions and consequent business complexities, significant developments in information and technology and financial scams underlining the need for a stringent regulatory set up. These factors necessitate an increase in the competence level of chartered accountants to bridge the gap in competence acquired and competence expected from stakeholders. Towards this end, the scheme of education and training is being continuously reviewed so that it is in sync with the requisites of the dynamic global business environment; the competence requirements are being stepped up to enable aspiring chartered accountants to acquire the requisite professional competence to take on new roles.

Concurrent Practical Training along with academic education: Key to achieving the desired level of Professional Competence

Under the Revised Scheme of Education and Training, at the Final Level, you are expected to apply the professional knowledge acquired through academic education and the practical exposure gained during articleship training in addressing issues and solving practical problems. The integrated process of learning through academic education and practical training should also help you inculcate the requisite technical competence, professional skills and professional values, ethics and attitudes necessary for achieving the desired level of professional competence.

Direct Tax Laws: Dynamic Subject Area

Direct Tax Laws is one of the dynamic subjects of the chartered accountancy course. The subject “Direct Tax Laws and International Taxation” at the Final level is divided into two parts, namely, Part I: Direct Tax Laws for 70 marks and Part II: International Taxation for 30 marks. Part I: Direct tax laws comprises of the law and procedures under the Income-tax Act, 1961. The direct tax laws of the country undergo significant changes every year with the passing of the annual Finance Act. Apart from these significant amendments ushered in every year through the Finance Act, notifications and circulars are also issued from time to time by the Central Board of Direct Taxes (CBDT), the statutory authority in charge with the administration of direct taxes, to implement the provisions of the Act and clarify issues regarding the meaning and scope of certain provisions. Further, decisions are pronounced by various Courts interpreting the provisions of tax laws.

With increased cross border transactions and the whole world virtually becoming one market, there is a need for chartered accountants to enhance their knowledge base in international taxation. Countries across the globe are entering into tax treaties to avoid double taxation of a single transaction. In a highly advanced IT enabled business scenario where an entity operates from many establishments spread throughout the globe, chartered accountants have to be well versed...
with the nuances of international taxation to be able to give an informed and correct advice and ensure compliance with tax laws. With this objective, a dedicated part on International Taxation has been introduced in the Revised Scheme of Education and Training for 30 marks in Paper 7 - Direct Tax Laws and International Taxation.

**The relevant Finance Act and Assessment Year**

This Study Material is based on the provisions of direct tax laws, as amended by the Finance Act, 2019, the Finance (No.2) Act, 2019 and other legislations; as well as the significant notifications and circulars issued up to 30th September, 2019. The computational problems have been solved on the basis of the provisions of direct tax laws applicable for A.Y.2020-21. The Study Material is, therefore, relevant for May 2020 and November, 2020 examinations. The amendments made by the Finance Act, 2019, the Finance (No.2) Act, 2019 and other legislations as well as the latest notifications/circulars are indicated in *italics/bold italics* in the Study Material. The significant circulars and notifications issued up to 31st October, 2019 and 30th April, 2020, but not covered in this Study Material, would be webhosted as Statutory Update in the BoS Knowledge Portal on the Institute’s website www.icai.org. Likewise, the Judicial Update containing latest significant court rulings relevant for May, 2020 and November, 2020 examinations, not covered in this Study Material, would also be webhosted at the BoS Knowledge Portal.

The amendments by the Taxation Laws (Amendment) Ordinance, 2019 have also been incorporated in the Study Material. Further changes, if any, at the time of enactment of the same would be webhosted as Statutory Update at the BoS Knowledge Portal.

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

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

**Applicability of the Study Material for Final (Old) Paper 7 Direct Tax Laws**

This Study Material is also relevant for Final (Old) Paper 7 Direct Tax Laws, with the exception of chapters 6, 7 and 8 in Module 4. In effect, all chapters in Modules 1, 2 and 3 and Chapters 1 to 5 in Module 4 are relevant for Final (Old) Paper 7 Direct Tax Laws for May, 2020 and November, 2020 examinations.

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

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

© The Institute of Chartered Accountants of India
Each chapter of the Study Material has been structured uniformly and comprises of the following components:

<table>
<thead>
<tr>
<th>Components of each Chapter</th>
<th>About the component</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Learning Outcomes</td>
<td>Learning outcomes which you need to demonstrate after learning each topic have been detailed in the first page of each chapter. Demonstration of these learning outcomes would help you achieve the desired level of technical competence.</td>
</tr>
<tr>
<td>2. Content</td>
<td>The concepts and provisions of direct tax laws and international taxation are explained in student-friendly manner with the aid of examples/illustrations/diagrams/flow charts. Diagrams and Flow charts would help you understand and retain the concept/provision learnt in a better manner. Examples and illustrations would help you understand the application of concepts/provisions. These value additions would, thus, help you develop conceptual clarity and get a good grasp of the topic.</td>
</tr>
<tr>
<td>3. Exercise Questions with Answers</td>
<td>The exercise questions and answers would help you to analyse the provisions of direct tax laws and international taxation and apply the same in problem solving, thus, sharpening your application skills. In effect, these questions would test your ability to analyse and apply the concepts/provisions learnt in solving problems and addressing issues. Small case scenarios have also been given to test your analytical ability and interpretational skills.</td>
</tr>
<tr>
<td>4. Significant Select Cases</td>
<td>The recent significant select Supreme Court and High Court rulings have been reported at the end of each chapter to help you appreciate the interpretation of the provisions of tax laws by the Courts.</td>
</tr>
</tbody>
</table>

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

*Happy Reading and Best Wishes!*
Objective:
To acquire the ability to analyze and interpret the provisions of direct tax laws and recommend solutions to practical problems.

Contents:
Law and Procedures under the Income-tax Act, 1961,
1. Basis of charge, residential status, income which do not form part of total income, heads of income, income of other persons included in assessees’s total income, aggregation of income, set-off and carry forward of losses, deductions from gross total income, rebates and reliefs
2. Special provisions relating to companies and certain persons other than a company
3. Provisions relating to charitable and religious trust and institutions, political parties and electoral trusts
4. Tax Planning, Tax Avoidance & Tax Evasion
5. Collection & Recovery of Tax, Refunds
6. Income-tax Authorities, Procedure for assessment, Appeals and Revision
7. Settlement of Tax Cases, Penalties, Offences & Prosecution
8. Liability in Special Cases

---

1 Including firms, LLPs, Trusts, AOPs, BOIs, Securitsation Trusts, Business Trusts, Investment Fund etc.
2 Representative assessees, Executors etc.
3 The entire income-tax law is included at the Final level. Any residuary provision under the Income-tax Act, 1961, not covered under any of the above specific provisions or under Part II: International Taxation would be covered under “Other Provisions”. Further, if any new Chapter is included in the Income-tax Act, 1961, the syllabus will accordingly include the provisions relating thereto.
Part II: International Taxation (30 Marks)

Objective:

To develop an understanding of the concepts, principles and provisions of International Taxation and acquire the ability to apply such knowledge to make computations and to address application-oriented issues.

Contents:

1. Taxation of international transactions and Non-resident taxation
   (i) The provisions under the Income-tax Act, 1961, including
       a) Specific provisions relating to Non-residents
       b) Double Taxation Relief
       c) Transfer Pricing & Other Anti-Avoidance Measures
       d) Advance Rulings
   (ii) Equalisation levy
2. Overview of Model Tax Conventions – OECD & UN
3. Application and interpretation of Tax Treaties
4. Fundamentals of Base Erosion and Profit Shifting

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

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

MODULE – 1

Chapter 1 : Basic Concepts
Chapter 2 : Residence and Scope of Total Income
Chapter 3 : Incomes which do not form part of Total Income
Chapter 4 : Salaries
Chapter 5 : Income from House Property
Chapter 6 : Profits and Gains of Business or Profession
Chapter 7 : Capital Gains
Chapter 8 : Income from Other Sources

MODULE – 2

Chapter 9 : Income of Other Persons included in assessee’s Total Income
Chapter 10 : Aggregation of income; set-off, or carry forward and set-off, of Losses
Chapter 11 : Deductions from Gross Total Income
Chapter 12 : Assessment of Various Entities
Chapter 13 : Assessment of Charitable or Religious Trusts or Institutions, Political Parties and Electoral Trusts
Chapter 14 : Tax Planning, Tax Avoidance & Tax Evasion

MODULE – 3

Chapter 15 : Deduction, Collection and Recovery of tax
Chapter 16 : Income-tax Authorities
Chapter 17 : Assessment Procedure
Chapter 18 : Appeals and Revision
Chapter 19 : Settlement of Tax Cases
Chapter 20: Penalties
Chapter 21: Offences and Prosecution
Chapter 22: Liability in Special Cases
Chapter 23: Miscellaneous Provisions

PART II: INTERNATIONAL TAXATION

MODULE – 4

Chapter 1: Transfer Pricing & Other Anti-Avoidance Measures
Chapter 2: Non-resident Taxation
Chapter 3: Double Taxation Relief
Chapter 4: Advance Rulings
Chapter 5: Equalisation levy
Chapter 6: Application and Interpretation of Tax Treaties
Chapter 7: Fundamentals of Base Erosion and Profit Shifting
Chapter 8: Overview of Model Tax Conventions
# DETAILED CONTENTS: MODULE - 1

## CHAPTER 1 – BASIC CONCEPTS

### Learning Outcomes
- Overview of Income-tax law in India
- Important definitions
- Previous year and Assessment year
- Charge of Income-tax
- Rates of Tax
- Surcharge
- Rebate of up to ₹12,500 for resident individuals having total income of up to ₹5 lakh [Section 87A]

### Contents:
1.1 Overview of Income-tax law in India
1.2 Important definitions
1.3 Previous year and Assessment year
1.4 Charge of Income-tax
1.5 Rates of Tax
1.6 Surcharge
1.7 Rebate of up to ₹12,500 for resident individuals having total income of up to ₹5 lakh [Section 87A]

### Exercise
- Significant Select Cases

### Significant Select Cases

## CHAPTER 2 – RESIDENCE AND SCOPE OF TOTAL INCOME

### Learning Outcomes
- Residential status [Section 6]
- Scope of total income

### Contents:
2.1 Residential status [Section 6]
2.2 Scope of total income

### Exercise

## CHAPTER 3 - INCOMES WHICH DO NOT FORM PART OF TOTAL INCOME

### Learning Outcomes
- Introduction

### Contents:
3.1 Introduction

© The Institute of Chartered Accountants of India
3.2 Incomes not included in total income [Section 10] ................................................................. 3.5
3.3 Tax Holiday for units established in Special Economic Zones [Section 10AA] .............................. 3.36
3.4 Restrictions on allowability of expenditure [Section 14A] ............................................................ 3.45
Exercise ............................................................................................................................................. 3.48
Significant Select Cases .................................................................................................................. 3.51

CHAPTER 4 - SALARIES

Learning Outcomes ......................................................................................................................... 4.1

Contents:
4.1 Introduction ............................................................................................................................... 4.2
4.2 Basis of charge (Section 15) ...................................................................................................... 4.4
4.3 Salary, Perquisite and Profits in lieu of salary (Section 17) ......................................................... 4.5
4.4 Deductions from salary ............................................................................................................. 4.69
4.5 Relief under section 89 ............................................................................................................ 4.71
4.6 Salary from United Nations Organisation .................................................................................. 4.73
Exercise ............................................................................................................................................. 4.74
Significant Select Cases .................................................................................................................. 4.79

CHAPTER 5 – INCOME FROM HOUSE PROPERTY

Learning Outcomes ......................................................................................................................... 5.1

Contents:
5.1 Chargeability [Section 22] ........................................................................................................ 5.2
5.2 Conditions for chargeability .................................................................................................... 5.2
5.3 Composite rent ........................................................................................................................ 5.3
5.4 Income from house property situated outside India ................................................................. 5.4
5.5 Determination of Annual Value [Section 23] .......................................................................... 5.5
5.6 Deductions from Annual Value [Section 24] .......................................................................... 5.10
5.7 Computation of “Income from house property” for different categories of property ............ 5.14

© The Institute of Chartered Accountants of India
5.8 Inadmissible deductions [Section 25].................................................................................... 5.23
5.9 Provision for arrears of rent and unrealized rent received subsequently [Section 25A].................................................................................... 5.23
5.10 Treatment of income from co-owned property [Section 26].................................................. 5.25
5.11 Deemed ownership [Section 27]........................................................................................... 5.26
5.12 Cases where income from house property is exempt from tax ............................................. 5.28

Exercise ............................................................................................................................................. 5.29

Significant Select Cases .................................................................................................................. 5.34

CHAPTER 6 – PROFITS AND GAINS OF BUSINESS OR PROFESSION

Learning Outcomes ............................................................................................................................................. 6.1

Contents:

6.1 Meaning of ‘Business’ and ‘Profession’ .................................................................................. 6.2
6.2 Method of Accounting ............................................................................................................. 6.3
6.3 Income chargeable under this head [Section 28]..................................................................... 6.16
6.4 Speculation business .............................................................................................................. 6.19
6.5 Computation of Profits and Gains from business or profession [Section 29]...................... 6.22
6.6 Admissible deductions ............................................................................................................ 6.22
6.7 Inadmissible deductions [Section 40]...................................................................................... 6.118
6.8 Expenses or payments not deductible in certain circumstances [Section 40A].................. 6.128
6.9 Profits chargeable to tax [Section 41].................................................................................... 6.135
6.10 Other provisions .................................................................................................................... 6.136
6.11 Compulsory maintenance of accounts [Section 44AA]......................................................... 6.149
6.12 Audit of accounts of certain persons carrying on business or profession [Section 44AB]........................................................................................... 6.153
6.13 Special provisions for computing profits and gains of business on presumptive basis [Section 44AD]........................................................................................... 6.154
6.14 Presumptive Taxation Scheme for assesses engaged in eligible profession [Section 44ADA]........................................................................................... 6.158

© The Institute of Chartered Accountants of India
Chapter 7 - Capital Gains

Learning Outcomes .................................................................................................................. 7.1

Contents:

7.1 Introduction ............................................................................................................................. 7.2
7.2 Capital Asset .............................................................................................................................. 7.2
7.3 Short-term and long-term capital assets .................................................................................. 7.5
7.4 Transfer: What its means? [Section 2(47)] ............................................................................. 7.12
7.5 Scope and year of chargeability [Section 45] ........................................................................... 7.13
7.6 Capital gains on distribution of assets by companies in liquidation [Section 46].............. 7.20
7.7 Capital gains on buyback of shares or securities [Section 46A] ........................................... 7.21
7.8 Transactions not regarded as transfer [Section 47] ............................................................... 7.23
7.9 Important definitions ............................................................................................................. 7.34
7.10 Withdrawal of exemption in certain cases ............................................................................ 7.37
7.11 Mode of computation of capital gains (Section 48) ............................................................... 7.38
7.12 Ascertainment of cost in specified circumstances [Section 49]......................................... 7.41
7.13 Cost of acquisition [Section 55] ............................................................................................ 7.51
7.14 Cost of improvement [Section 55] ......................................................................................... 7.60
7.15 Computation of capital gains in case of depreciable assets [Section 50 & 50A] ............... 7.63
7.16 Capital gains in respect of slump sale [Section 50B] ............................................................. 7.65

© The Institute of Chartered Accountants of India
CHAPTER 7 - INCOME FROM CAPITAL GAINS

Learning Outcomes ........................................................................................................................................ 8.1

Contents:

8.1 Introduction ........................................................................................................................................... 8.2
8.2 Incomes chargeable under this head [Section 56] ............................................................................... 8.2
8.3 Bond washing transactions and dividend stripping [Section 94] ..................................................... 8.25
8.4 Applicable rate of tax in respect of casual income [Section 115BB] ............................................ 8.26
8.5 Deductions allowable [Section 57] ................................................................................................. 8.26
8.6 Deductions not allowable [Section 58] ......................................................................................... 8.28
8.7 Deemed income chargeable to tax [Section 59] ........................................................................... 8.29
8.8 Method of accounting [Section 145] .............................................................................................. 8.29

Exercise .................................................................................................................................................. 8.30

Significant Select Cases .......................................................................................................................... 8.34

© The Institute of Chartered Accountants of India