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BBA | Semester 6 | UK6DSCMGT304

Business Tax Planning

Course Code: UK6DSCMGT304 • Module 1 Notes

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Module 1: Corporate Tax Planning Framework

Legal Concepts, Corporate Rates, POEM, Minimum Alternate Tax, and Dividend Regime

Chapter 1: The Jurisprudential Architecture of Direct Corporate Taxation

1.1 Definitional Foundations and Philosophical Spectrum

In modern industrial commerce, corporate taxation represents one of the largest single cash outflows incurred by a business enterprise. Corporate financial officers and management accountants must navigate direct tax liabilities with strategic foresight. Within fiscal jurisprudence, corporate actions aimed at reducing fiscal levies fall along a wide ethical, legal, and operational spectrum encompassing four distinct concepts: **Tax Planning**, **Tax Management**, **Tax Avoidance**, and **Tax Evasion**.

Analytical Dimension	Tax Planning	Tax Management	Tax Avoidance	Tax Evasion
Core Meaning	Arranging financial affairs in scientific conformity with statutory provisions to claim allowable exemptions, deductions, and rebates.	Compliance with procedural tax mandates (timely filing of returns, accurate advance tax payments, correct TDS deductions).	Exploiting statutory ambiguities and loopholes in the letter of the law to defeat the underlying legislative intent.	Deliberate, illegal concealment, misrepresentation, or falsification of facts to defraud the government exchequer.
Legal Status	**100% Legal, Legitimate, and Encouraged** by the state to foster investment.	**Compulsory Compliance Mandate** under tax statutes.	**Technically Legal** in letter, but commercially impermissible under judicial scrutiny and GAAR.	**Strictly Illegal, Criminal, and Punitive** under civil and penal law.
Primary Objective	Optimizing post-tax corporate profitability and capital accumulation.	Avoiding statutory penal interest, late fees, prosecution, and search actions.	Unjust fiscal enrichment by subverting legislative policy.	Unlawful retention of taxable wealth via fraudulent accounting.
Operational Horizon	Long-term prospective strategic decision-making.	Continuous routine clerical and procedural compliance.	Short-term opportunistic legal structuring.	Clandestine, fraudulent transaction execution.

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1.2 Evolution of Indian Judicial Jurisprudence on Tax Avoidance

The boundary separating legitimate tax planning from illegitimate tax avoidance has evolved through landmark judicial rulings across English and Indian constitutional courts:

1. **The Duke of Westminster Principle (1936, House of Lords):** Established the classical common-law doctrine: "Every man is entitled, if he can, to order his affairs so that the tax attaching under the appropriate Acts is less than it otherwise would be." Under this doctrine, transactions could not be penalized if they complied with the strict literal wording of the statute, regardless of economic artificiality.
2. **The McDowell Doctrine (1985, Supreme Court of India):** In *McDowell & Co. Ltd. v. Commercial Tax Officer*, the Constitutional Bench of the Supreme Court of India departed sharply from the Westminster doctrine. Justice Chinnappa Reddy declared: "Tax planning may be legitimate provided it is within the framework of law. Colorable devices cannot be part of tax planning and it is wrong to encourage or entertain the belief that it is honorable to avoid the payment of tax by resorting to dubious methods." The court established that artificial, circular devices possessing zero commercial substance are void.
3. **The Vodafone International Judgment (2012, Supreme Court of India):** In *Vodafone International Holdings B.V. v. Union of India*, the Supreme Court clarified the McDowell precedent, establishing the **'Look-At' Doctrine** versus the **'Look-Through' Doctrine**. The court held that revenue authorities must view a corporate holding structure in its commercial totality, respecting bona fide foreign direct investment holding entities, unless the corporate structure is proven to be a fraudulent sham or conduit created exclusively for tax avoidance. This ruling ultimately accelerated the statutory introduction of the General Anti-Avoidance Rules (GAAR) under Chapter X-A of the Income Tax Act.

Chapter 2: The Modern Corporate Tax Structure in India

2.1 Normal Corporate Tax Regime versus Concessional Regimes

Under the Income Tax Act, 1961, domestic Indian corporate entities are taxed under two alternative paradigms: the classical normal regime or the concessional regimes introduced via the Taxation Laws (Amendment) Act, 2019:

1. The Classical Normal Corporate Tax Regime

- **Small and Medium Domestic Companies:** For domestic companies whose total gross turnover or gross receipts in the relevant prior financial year did not exceed **Rs. 400 Crores**, the baseline corporate income tax rate is **25%**.
- **Large Domestic Companies:** For domestic companies whose gross turnover exceeded **Rs. 400 Crores**, the baseline corporate income tax rate is **30%**.
- Companies under the normal regime remain fully eligible to claim specific profit-linked deductions (such as Section 80-IA, 80-IAB, 80-IAC, and Section 10AA in SEZs), accelerated depreciation, and investment allowances, but are subject to **Minimum Alternate Tax (MAT)** under Section 115JB.

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2. The Concessional Corporate Tax Regimes (Sections 115BAA and 115BAB)

- **Section 115BAA (Existing Domestic Companies):** Provides an irrevocable option for any domestic company to pay corporate income tax at a concessional flat baseline rate of **22%** (effective tax rate of **25.168%** inclusive of mandatory 10% surcharge and 4% cess). To avail of Section 115BAA, the company must forgo specific holiday exemptions (Section 10AA, 80-IA, 80-IB, 80-IC, additional depreciation, and Section 35 deductions). Crucially, *companies opting for Section 115BAA are 100% exempt from Minimum Alternate Tax (MAT)* under Section 115JB.
- **Section 115BAB (New Manufacturing Domestic Companies):** Provides a highly competitive flat baseline rate of **15%** (effective tax rate of **17.16%** inclusive of 10% surcharge and 4% cess) for newly incorporated domestic manufacturing entities that commence commercial production, subject to specified capital and operational conditions.

2.2 Applicable Surcharges and Health & Education Cess

The total corporate income tax liability is computed by applying progressive statutory surcharges and the mandatory universal cess:

Corporate Assessee Category	Total Taxable Income Slab	Applicable Surcharge Rate	Health & Education Cess
Domestic Company (Normal Regime)	Up to Rs. 1 Crore	**Nil (0%)**	4% on Total Tax
Domestic Company (Normal Regime)	Exceeding Rs. 1 Crore up to Rs. 10 Crores	**7%** on Base Tax	4% on (Tax + Surcharge)
Domestic Company (Normal Regime)	Exceeding Rs. 10 Crores	**12%** on Base Tax	4% on (Tax + Surcharge)
Domestic Company (Section 115BAA / 115BAB)	Any Income Level (Flat)	**10% Flat** on Base Tax	4% on (Tax + Surcharge)
Foreign Company Operating in India	Up to Rs. 1 Crore	**Nil (0%)**	4% on Total Tax
Foreign Company Operating in India	Exceeding Rs. 1 Crore up to Rs. 10 Crores	**2%** on Base Tax	4% on (Tax + Surcharge)
Foreign Company Operating in India	Exceeding Rs. 10 Crores	**5%** on Base Tax	4% on (Tax + Surcharge)

> Marginal Relief: Ensures that incremental tax payable does not exceed the increme

Chapter 3: Typology and Classification of Corporate Tax Assessees

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3.1 Domestic Companies versus Foreign Companies

Under Section 2(22A) and Section 2(23A) of the Income Tax Act, corporate entities are categorized based on their incorporation origin and dividend arrangements:

- **Domestic Company:** An Indian company incorporated under the Companies Act, 2013 (or earlier corporate statutes), or any other company which, in respect of its income liable to income-tax in India, has made the statutory prescribed arrangements for the declaration and payment of dividends within India.
- **Foreign Company:** A corporate entity incorporated under the corporate laws of a foreign jurisdiction that has not made prescribed arrangements for the declaration and payment of dividends within India. Foreign companies are taxed at a standard baseline rate of **40%** (reduced to 35% for specified foreign corporate streams in recent fiscal reforms), plus applicable surcharges (2% or 5%) and 4% cess.

3.2 Widely-Held Companies versus Closely-Held Companies

Section 2(18) of the Act classifies domestic companies into two operational governance groups:

- **Company in Which the Public Are Substantially Interested (Widely-Held Company):** Encompasses: (a) publicly listed companies whose equity shares are listed on a recognized stock exchange in India; (b) government companies where at least 51% of equity share capital is held by the Central or State Government; (c) Section 8 non-profit charitable corporate entities; and (d) public utilities. Widely-held companies enjoy complete freedom from deeming provisions under Section 2(22)(e).
- **Company in Which the Public Are NOT Substantially Interested (Closely-Held / Private Company):** Private limited corporations and unlisted public companies where dominant equity ownership and voting control are concentrated among family members or a small promoter clique. Closely-held companies are subject to rigorous anti-abuse provisions, including deemed dividend taxation on shareholder loans under Section 2(22)(e) and restriction on carrying forward business losses upon major shareholding shifts under Section 79.

Chapter 4: Residential Status of Companies and the POEM Regime

4.1 Statutory Criteria for Corporate Residential Status

Under Section 6(3) of the Income Tax Act, 1961, a company is classified as a **Resident Indian Entity** during a financial year if:

1. It is an **Indian Company** (incorporated in India under the Companies Act); OR
2. Its **Place of Effective Management (POEM)** in that financial year is in India.

An Indian-incorporated company is **always and unconditionally a tax resident** of India, regardless of where its factories, board meetings, or executives reside. Conversely, a foreign-incorporated company is classified as an Indian tax resident *if and only if its POEM is located within India* during the relevant prior year.

4.2 The Place of Effective Management (POEM) Framework

Under the statutory explanation to Section 6(3), **POEM** is defined as: "a place where key management and commercial decisions that are necessary for the conduct of the business of an entity as a whole are, in substance, made." The Central Board of Direct Taxes (CBDT) issued comprehensive circular guidelines governing POEM determination:

1. The Active Business Outside India (ABOI) Test

A foreign company is recognized as having an Active Business Outside India if: (a) its passive income (dividends, interest, royalties, capital gains) is not more than 50% of its total income; (b) less than 50% of its total assets are located in India; (c) less than 50% of its total employees are situated in India or resident in India; and (d) the payroll expense incurred on Indian employees is less than 50% of its total payroll expenditure.

For a foreign company meeting the ABOI test, the POEM is presumed to be **Outside India** as long as the majority of board meetings are held outside India. If the ABOI test is failed, POEM determination proceeds to a two-stage factual inquiry: identifying the persons who actually make key commercial decisions, and determining the physical location where those decisions are de facto finalized.

4.3 Scope of Total Income (Tax Incidence)

- **Resident Company:** Taxed on its **Global (Worldwide) Income**, encompassing income received, accrued, or arising in India, as well as income accruing or arising outside India.
- **Non-Resident Company:** Taxed strictly on its **Territorial Indian-Sourced Income**—encompassing income received in India, deemed to be received in India, accruing or arising in India, or deemed to accrue or arise in India (under Section 9, via business connection, property, or source in India).

Chapter 5: Minimum Alternate Tax (MAT) under Section 115JB

5.1 Legislative Rationale: The Phenomenon of 'Zero-Tax Companies'

Prior to the introduction of MAT, many large, highly profitable blue-chip corporate conglomerates reported substantial accounting profits in their audited annual reports and distributed lavish dividends to shareholders, while simultaneously reporting zero taxable income for income-tax purposes. This occurred because these corporations took aggressive advantage of statutory accelerated depreciation allowances, investment allowances, backward-area deductions, and export incentives permitted under the Income Tax Act.

To eliminate this inequity and ensure that profitable corporate entities contribute to the public exchequer, Parliament enacted **Minimum Alternate Tax (MAT)** under Section 115JB. Under Section 115JB, if the normal income tax payable by a domestic company on its total taxable income is less than **15% of its Book Profits**, the book profit itself is deemed to be the total income of the company, and tax is levied at the rate of 15% (plus applicable surcharge and 4% cess).

5.2 Step-by-Step Computation of 'Book Profits' under Section 115JB

The starting baseline for computing Book Profits is the **Net Profit as shown in the Statement of Profit and Loss** prepared in strict accordance with Schedule III of the Companies Act, 2013 and applicable Accounting Standards.

Statutory Additions (Amounts Debited to Profit and Loss to be Added Back):

- Income-tax paid or payable, and the provision therefor (including dividend tax, interest, surcharge, and cess).
- Amounts carried to any reserves, by whatever name called (excluding specified shipping reserves).
- Amounts set aside to provisions made for meeting liabilities, other than ascertained liabilities (e.g., general provision for bad debts, contingent warranty provisions).
- Provisions made for losses of subsidiary companies.
- Dividends paid or proposed.
- Expenditure relatable to any income exempt under Section 10 (excluding Section 10AA).
- Amount of depreciation debited to the Statement of Profit and Loss.
- Deferred tax and the provision therefor.
- Amounts set aside for diminution in the value of any asset (e.g., provision for diminution in value of investments).

Statutory Deductions (Amounts to be Subtracted from Net Profit):

- Amount withdrawn from any reserve or provision, if previously added back in computing book profits.
- Incomes exempt from tax under Section 10 (such as agricultural income under Section 10(1)).
- Amount of depreciation debited to Profit and Loss *excluding the depreciation attributable to revaluation of assets*.
- Amount withdrawn from revaluation reserve to the extent it does not exceed the depreciation on revalued assets.
- **Brought Forward Business Loss OR Unabsorbed Depreciation, Whichever Is Less**, as per the audited books of accounts (excluding current year depreciation). If either loss or unabsorbed depreciation is nil, zero deduction is permitted.
- Profits of sick industrial companies during rehabilitation.

> $$\text{MAT Payable} = 15\% \times \text{Adjusted Book Profits} + \text{Surcharge} + \text{Cess}$$
>
> **Final Tax Obligation:** The company pays the **HIGHER** of: (a) Normal Corporate Income Tax, OR (b) Minimum Alternate Tax under Section 115JB.

5.3 MAT Credit Mechanism under Section 115JAA

When an enterprise is compelled to pay MAT because its MAT liability exceeds its normal tax liability, Section 115JAA grants relief through **MAT Credit**:

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> MAT Credit Generated = Tax Paid under Section 115JB − Normal Income Tax Liability

Rules Governing MAT Credit Utilization:

1. MAT Credit can be carried forward for set-off across a maximum duration of **15 consecutive Assessment Years** immediately succeeding the assessment year in which it was generated.
2. MAT Credit can be set off in a subsequent assessment year *if and only if* the normal tax liability in that future year exceeds the MAT liability of that year.
3. The maximum credit set-off allowed in any year is restricted to the surplus of Normal Tax over MAT (Normal Tax − MAT).
4. No interest is payable by the Income Tax Department on carried-forward MAT credit balances.

Chapter 6: The Regime of Dividend Taxation and Share Buybacks

6.1 Abolition of Dividend Distribution Tax (DDT) and the Classical System

Prior to April 1, 2020, domestic companies declaring dividends were required to pay **Dividend Distribution Tax (DDT)** under Section 115-O at an effective rate of 20.56% on grossed-up dividend amounts. Under that historical regime, dividends were completely tax-free in the hands of recipient shareholders (subject only to a 10% tax on super-rich individuals under Section 115BBDA). This structure penalized low-income retail investors and hindered foreign investors from claiming foreign tax credits in their home countries.

Via the Finance Act, 2020, the Indian Parliament dismantled the DDT regime, returning to the **Classical System of Dividend Taxation**:

- Dividends are taxed directly in the hands of recipient shareholders at their applicable slab rates (for individuals) or normal corporate tax rates (for corporate shareholders) under the head **'Income from Other Sources'**.
- **Expense Deductions:** The recipient shareholder is permitted to deduct *only interest expenditure* incurred to earn the dividend income, with the total deduction strictly capped at **20% of the gross dividend income**. No deduction is allowable for administrative or collection charges.

6.2 Tax Deduction at Source (TDS) on Dividends

Under Section 194 of the Act, a domestic company paying dividends to a resident individual shareholder is required to deduct tax at source at the rate of **10%** if the aggregate dividend paid during the financial year exceeds **Rs. 5,000**. For non-resident shareholders, tax is deducted under Section 195 at 20% (plus surcharge and cess) or the beneficial Double Taxation Avoidance Agreement (DTAA) treaty rate, whichever is lower.

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6.3 Inter-Corporate Dividend Relief under Section 80M

To prevent the cascading effect of double taxation when a subsidiary company distributes dividends to a parent company, which subsequently distributes dividends to its own shareholders, the Finance Act, 2020 enacted **Section 80M**:

$$\text{Section 80M Deduction} = \text{Minimum of: [Dividend Received from Other Companies, Dividend Distributed to Own Shareholders]}$$

Timing Constraint: The dividend must be distributed by the parent company at least **one month prior** to the due date for filing its income tax return under Section 139(1).

6.4 Taxation of Share Buybacks under Section 115QA

To prevent closely-held and listed companies from disguising dividend distributions as share repurchases (capital gains), Section 115QA levies an additional corporate income tax of **20%** (effective rate of **23.296%** inclusive of 12% surcharge and 4% cess) on the **Distributed Income** of the company on buyback of shares. Distributed income represents the excess of the buyback consideration over the amount received by the company for the issuance of those shares.

Chapter 7: Comprehensive Worked Numerical Problems in Corporate Tax and MAT

7.1 Worked Problem 1: Full Computation of Normal Tax, MAT, and MAT Credit

Zenith Industrial Technologies Ltd., an Indian domestic manufacturing company whose gross turnover in the prior year was Rs. 280 Crores (taxable under normal regime at 25%), provides the following financial results for the financial year ended 31st March (Assessment Year):

Particulars	Amount (Rs.)
Net Profit as per Statement of Profit and Loss (Schedule III)	85,00,000
Amounts Debited to Profit and Loss:	
- Provision for Income Tax	12,00,000
- Transfer to General Reserve	8,00,000
- Proposed Dividend	10,00,000
- Depreciation (including revaluation depreciation Rs. 3,00,000)	18,00,000
- Provision for Contingent Liability (Unascertained)	4,00,000
Amounts Credited to Profit and Loss:	

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Particulars	Amount (Rs.)
- Agricultural Income (Exempt under Section 10(1))	5,00,000
- Withdrawal from General Reserve (credited to P&L)	6,00,000
Additional Tax Records:	
- Depreciation allowable under Income Tax Rules (Section 32)	24,00,000
- Brought Forward Business Loss as per Books	12,00,000
- Brought Forward Unabsorbed Depreciation as per Books	9,00,000
- Total Taxable Income computed under normal provisions of Act	42,00,000

Step-by-Step Mathematical Resolution:

Step 1: Compute Normal Corporate Tax Liability:

> $$\text{Taxable Income under Normal Provisions} = \text{Rs. } 42,00,000$$
> $$\text{Baseline Corporate Tax } (25\%) = 42,00,000 \times 0.25 = \text{Rs. } 10,50,000$$
> $$\text{Surcharge: Taxable income is below Rs. 1 Crore} \implies \text{Nil } (0\%)$$
> $$\text{Add: Health and Education Cess } (4\%) = 10,50,000 \times 0.04 = \text{Rs. } 42,000$$
> $$\text{Total Normal Tax Liability} = 10,50,000 + 42,000 = \text{Rs. } 10,92,000$$

Step 2: Computation of Book Profits under Section 115JB:

Particulars	Amount (Rs.)
Net Profit as per Statement of Profit and Loss	85,00,000
Add: Items to be added back under Section 115JB:	
- Provision for Income Tax	12,00,000
- Transfer to General Reserve	8,00,000
- Proposed Dividend	10,00,000
- Full Depreciation debited to P&L	18,00,000
- Provision for Unascertained Liability	4,00,000
Subtotal Additions	**52,00,000**

Particulars	Amount (Rs.)
Total Adjusted Subtotal	**1,37,00,000**
Less: Permissible Deductions under Section 115JB:	
- Depreciation excluding revaluation depreciation (18L - 3L)	(15,00,000)
- Agricultural Income exempt under Section 10(1)	(5,00,000)
- Withdrawal from Reserve (to the extent of credit)	(6,00,000)
- Lower of Brought Forward Business Loss (12L) or Unabsorbed Depreciation (9L)	(9,00,000)
Subtotal Deductions	**(35,00,000)**
Adjusted Book Profits under Section 115JB	**1,02,00,000**

Step 3: Compute Minimum Alternate Tax (MAT) Liability:

$$\text{Base MAT Rate } (15\%) = 1,02,00,000 \times 0.15 = \text{Rs. } 15,30,000$$

$$\text{Surcharge: Book Profits exceed Rs. 1 Crore (Rs. 1.02 Cr)} \implies 7\% \text{ Surcharge}$$

$$\text{Surcharge Amount} = 15,30,00,000 \times 0.07 = \text{Rs. } 1,07,100$$

$$\text{Tax plus Surcharge} = 15,30,000 + 1,07,100 = \text{Rs. } 16,37,100$$

$$\text{Add: Health and Education Cess } (4\%) = 16,37,100 \times 0.04 = \text{Rs. } 65,484$$

$$\text{Total MAT Liability under Section 115JB} = 16,37,100 + 65,484 = \text{Rs. } 17,02,584$$

Step 4: Determine Final Tax Payable and MAT Credit Carried Forward:

$$\text{Normal Tax Liability} = \text{Rs. } 10,92,000$$

$$\text{MAT Liability under Section 115JB} = \text{Rs. } 17,02,584$$

Statutory Final Tax Payable: Because MAT liability exceeds Normal Tax liability, Zenith Industrial Technologies must pay **Rs. 17,02,584** (rounded off to Rs. 17,02,580 under Section 288B).

$$\text{MAT Credit Generated (Section 115JAA)} = 17,02,584 - 10,92,000 = \text{Rs. } 6,10,584$$

Carry Forward Horizon: Rs. 6,10,584 is carried forward for a maximum of **15 Assessment Years**, available for set-off in future years when normal tax exceeds MAT.

7.2 Worked Problem 2: Strategic Evaluation of Migrating to Section 115BAA

Precision Engineering Ltd., an established domestic company with a turnover of Rs. 600 Crores, is evaluating whether to remain under the classical normal tax regime (30% base tax + 12% surcharge + 4% cess = effective 34.944%) or migrate irrevocably to the concessional regime under Section 115BAA (22% base tax + 10% surcharge + 4% cess = effective 25.168%). The audited estimates for the upcoming financial year are:

- Estimated Gross Total Income before chapter VI-A deductions and additional depreciation: Rs. 10,00,00,000 (Rs. 10 Crores).
- Allowable Additional Depreciation under Section 32(1)(iia) on newly installed machinery: Rs. 1,50,00,000.
- Deduction under Section 80-JJAA (new employee employment generation): Rs. 50,00,000. (Note: Section 80-JJAA remains allowable under Section 115BAA).
- Accumulated unutilized MAT credit available on books: Rs. 45,00,000.
- Book profits for MAT under Section 115JB: Rs. 8,50,00,000.

Required: Advise management whether Precision Engineering Ltd. should exercise the option under Section 115BAA.

Step-by-Step Mathematical Resolution:

Option A: Remaining under the Normal Tax Regime:

> $\text{Gross Income} = \text{Rs. } 10,00,00,000$
>
> $\text{Less: Additional Depreciation Section } 32(1)(\text{iia}) = \text{Rs. } 1,50,00,000$
>
> $\text{Less: Section 80-JJAA Deduction} = \text{Rs. } 50,00,000$
>
> $\text{Total Taxable Income} = 10,00,00,000 - 1,50,00,000 - 50,00,000 = \text{Rs. } 8,00,00,000$
>
> $\text{Normal Tax Rate (Income between 1 Cr and 10 Cr)} = 30\% + 7\% \text{ Surcharge} + 4\% \text{ Cess} = 33.384\%$
>
> $\text{Base Tax } (30\%) = 8,00,00,000 \times 0.30 = \text{Rs. } 2,40,00,000$
>
> $\text{Surcharge } (7\%) = 2,40,00,000 \times 0.07 = \text{Rs. } 16,80,000$
>
> $\text{Cess } (4\%) = (2,40,00,000 + 16,80,000) \times 0.04 = \text{Rs. } 10,27,200$
>
> $\text{Gross Normal Tax} = 2,40,00,000 + 16,80,000 + 10,27,200 = \text{Rs. } 2,67,07,200$
>
> $\text{Less: Set-off of Carried Forward MAT Credit} = \text{Rs. } 45,00,000$
>
> $\text{Net Tax Payable under Normal Regime} = 2,67,07,200 - 45,00,000 = \text{Rs. } 2,22,07,200$

Option B: Exercising Option under Section 115BAA:

> Under Section 115BAA, Additional Depreciation is FORFEITED (Not allowed)
>
> Deduction under Section 80-JJAA remains ALLOWED $= \text{Rs. } 50,00,000$
>
> Taxable Income under Section 115BAA $= 10,00,00,000 - 50,00,000 = \text{Rs. } 9,50,00,000$
>
> Flat Effective Tax Rate under Section 115BAA $= 22\% \times 1.10 \times 1.04 = 25.168\%$
>
> Tax Payable under Section 115BAA $= 9,50,00,000 \times 0.25168 = \text{Rs. } 2,39,09,600$
>
> **Crucial Legal Invariant:** Under Section 115BAA, accumulated MAT credit cannot be set off and is completely forfeited or lapses during the concessional regime.

Strategic Managerial Recommendation:

In the current year, remaining under the normal regime requires cash tax outflow of **Rs. 2,22,07,200** (utilizing the Rs. 45 lakhs MAT credit), whereas migrating to Section 115BAA requires a higher cash tax outflow of **Rs. 2,39,09,600**. Precision Engineering should **remain in the normal regime until the accumulated Rs. 45 lakhs MAT credit is fully liquidated**, and thereafter exercise the irrevocable option to migrate to Section 115BAA.

Chapter 8: Corporate Tax Risk Governance and Penal Consequences

8.1 The Penalty Regime under Section 270A

Finance Act 2016 introduced Section 270A, establishing a clear statutory demarcation between under-reporting of income and misreporting of income:

1. **Under-Reporting of Income:** When assessed income exceeds processed income without fraudulent concealment, a standard civil penalty of **50% of the tax payable on under-reported income** is levied.
2. **Misreporting of Income:** Involves deliberate malfeasance (misrepresentation of facts, failure to record investments, claims of expenditure not substantiated by evidence, false entries in books). A punitive penalty of **200% of the tax payable on misreported income** is mandatorily imposed.

8.2 Unexplained Cash Credits and Investments under Section 115BBE

To eliminate black money practices, Sections 68 to 69D tax unexplained cash credits, unexplained investments, and unexplained money at a punitive flat rate of **60% base tax + 25% surcharge + 4% cess**, resulting in an effective tax rate of **78.0%**, accompanied by an additional penalty of 10% under Section 271AAC, leaving zero economic benefit for tax evaders.

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