UNIVERSITY OF DELHI

BUSINESS TAX PROCEDURES AND MANAGEMENT

DSE 5.8 | DSE 5.7

B.Com (Hons.) | B.Com (Prog.) — Third Year, Semester V

UNIT 5

GAAR, SECURITIES TRANSACTION TAX, TAN AND TIN

The Six Loose Ends of the Paper, Gathered in One Booklet

Notified Jurisdictional Area • GAAR • Tax Clearance • STT • TAN • TIN

Sections 176, 178 to 184, 274, 397(1) and 420 of the Income-tax Act, 2025
and Chapter VII of the Finance (No. 2) Act, 2004

Governed by the INCOME-TAX ACT, 2025
(Act No. 30 of 2025, as amended by the Finance Act, 2026)
read with the INCOME-TAX RULES, 2026

TAX YEAR 2026-27

1 April 2026 to 31 March 2027
Academic Year 2026-27
Compiled by

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The Prescribed Syllabus for this Unit

UNIT 5: GAAR, SECURITIES TRANSACTION TAX, TAN AND TIN

“Transactions with persons located in notified jurisdictional area; General anti-avoidance rule (GAAR);

Tax clearance certificate; Securities transaction tax; TAN (Tax Deduction and Collection Account

Number); TIN (Tax Information Network).”

Four hours in DSE 5.8 for B.Com (Hons.) and **five hours** in DSE 5.7 for B.Com (Prog.). The Exercises prescribed with the syllabus require the learner to “prepare case studies related to general anti-avoidance rules” and to “check the usage and importance of GAAR, TAN and TIN”.

THE AUTHORITY FOR THIS SYLLABUS

Resolution No. 4-1-15 — “Resolved that the Amendment to Income tax related papers for B.Com (H), B.Com (Prog), and B.A. (Commerce) papers (In the light of the Income Tax Act 2025 duly approved by the Govt of India) be accepted.” — **Appendix-103**

Placed before the **Executive Council of the University of Delhi, EC (1282) dated 29.04.2026**. The amended syllabus takes effect from the **Academic Year 2026-27**.

The amendment is what makes this paper a paper on the **Income-tax Act, 2025**. Every section reference in this material is in the numbering of the new Act. The corresponding provisions of the Income-tax Act, 1961 have no application to Tax Year 2026-27.

Unit 5 is the shortest unit in the paper and it gathers six subjects which have nothing in common except that they belong nowhere else. Two of them — the tax clearance certificate and the TAN — have already been met in Unit 1, and are restated here in the form this Unit requires.

#	Topic	Where the law is	Chapter
1	**Transactions with persons located in a notified jurisdictional area**	Section **176**	1
2	**General anti-avoidance rule**	Sections **178 to 184**, with the procedure in section **274**	2 to 5
3	**Tax clearance certificate**	Section **420**, Rules 227 to 229 — *also Unit 1 Part C*	6
4	**Securities transaction tax**	**Chapter VII of the Finance (No. 2) Act, 2004 — not** the Income- tax Act	7
5	**TAN** — Tax Deduction and Collection Account Number	Section **397(1)**, Rule 216 — *also Unit 1 Part B*	8
6	**TIN** — Tax Information Network	**Administrative**; its statutory hooks are in sections 397 and 399 and the Rules	9

TWO POINTS TO FIX AT THE OUTSET

- **Securities transaction tax is not part of the Income-tax Act.** It continues to be levied by **Chapter VII of the Finance (No. 2) Act, 2004**, and section 2(28) of the Act of 2025 simply borrows the expression from that Chapter. The charge of securities transaction tax is not found in any section of the Income-tax Act.
- **TIN is not a statutory expression at all.** The Tax Information Network is the **administrative infrastructure** through which challans, TDS statements and PAN and TAN applications flow. Its legal footing lies in the repeated references in the Rules to “the web portal specified by the **Director General of Income-**

tax (Systems)”.

A Word on the Numbering

Subject	Act of 1961	Act of 2025
Notified jurisdictional area	**94A**	**176**
Applicability of GAAR	95	178
Impermissible avoidance arrangement	**96**	**179**
Arrangement to lack commercial substance	97	180
Consequences of an impermissible avoidance arrangement	98	181
Connected person and accommodating party	99	182

Application of the Chapter 100 and 101 183

Subject

Act of 1961

Act of 2025

Definitions	102	184
Reference to the Principal Commissioner and the Approving Panel	**144BA**	**274**
Tax clearance certificate	230	420
Tax deduction and collection account number	203A	397(1)

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Page numbers refer to this booklet. Chapter headings are shown in bold.

The sources from which this material has been written

Source	What it settles in this Part
Income-tax Act, 2025 (Act No. 30 of 2025) — assent 21 August 2025, in force 1 April 2026	Sections **176**, **178 to 184**, **274**, **397(1)** and **420** — the notified jurisdictional area, the general anti-avoidance rule, the tax clearance certificate and the tax deduction and collection account number
Chapter VII of the Finance (No. 2) Act, 2004	The charge of securities transaction tax, the taxable securities transactions and the rates
Finance Act, 2026 — assent 30 March 2026 (Finance Bill No. 3 of 2026, introduced 1 February 2026)	The rates of securities transaction tax in force for Tax Year 2026-27
Income-tax Rules, 2026 — G.S.R. 198(E) dated 20 March 2026, in force 1 April 2026	**Rules 216 and 228**, and the forms for the tax clearance certificate and the application for a TAN

ABOUT THIS BOOKLET

This booklet has been prepared by **Artificial Intelligence — Claude Opus 5.0 (Anthropic)** — under the guidance and supervision of **Advocate Dr. S. B. Rathore** from the bare text of the **Income-tax Act, 2025** and the **Income-tax Rules, 2026** as downloaded from **incometaxindia.gov.in**.

Date: **11-08-26** (Original)   Updated on:

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Page numbers refer to this booklet. Chapter headings are shown in bold.

CHAPTER ONE

Transactions with Persons in a Notified Jurisdictional Area — Section 176

Section 176

A country that will not share information is put out of bounds — and every transaction with a person there is penalised in five separate ways.

1.1 The notification [section 176(1)]

"The Central Government may, by notification, specify any country or territory outside India as a notified **jurisdictional area** in relation to transactions entered into by any assessee, **having regard to the lack of effective exchange of information** with such jurisdiction."

The single criterion is the **lack of effective exchange of information**. The section is not aimed at low-tax jurisdictions as such — a country may have no income-tax at all and yet never be notified, provided it shares information. What the section punishes is opacity.

1.2 The five consequences

Where an assessee enters into a transaction one of the parties to which is a person located in a notified **jurisdictional area**, five consequences follow, each introduced by the words "irrespective of anything contrary in this Act".

Sub-section	Consequence
176(2)	**Transfer pricing is applied. (a)** All the parties are **deemed to be associated enterprises** within section 162; and **(b)** any transaction of the nature described in section 163(1) and (2) is **deemed to be an international transaction**. Sections 161, 162, 163, 165, 166, 167, 171, 172 and 173 apply accordingly — **but the benefit of the variation in section 165(3)(a)(ii) is expressly withheld**
176(3)(a)	**No deduction** for any **payment to a financial institution** located in the area, **unless the assessee furnishes an authorisation** in the prescribed form **authorising the Board to seek information** from that institution on his behalf
176(3)(b)	**No deduction** for **any other expenditure or allowance, including depreciation**, arising from a transaction with a person located in the area, **unless the assessee maintains the prescribed documents and furnishes the prescribed information**
176(4)	Any **sum received or credited from a person located in the area** is **deemed to be the income of the assessee** for that tax year, unless he **explains the source of the sum in the hands of that person** — or of the beneficial owner, if that person is not the beneficial owner — **to the satisfaction of the Assessing Officer**
176(5)	Where a person located in the area is entitled to a sum on which **tax is deductible** under Chapter XIX-B, the tax is deducted at the **highest** of — **(a)** the rates in force; **(b)** the rate in the relevant provision; or **(c) 30%**

> **NOTE HOW SEVERE SUB-SECTION (4) IS**
>
> It is the section 102 idea — an unexplained credit is income — but applied to a receipt whose source the assessee must prove **in the hands of the payer**, not merely his own. And it applies to a sum **received**, not only to one credited in the books. A remittance from a notified jurisdiction is therefore taxable in the recipient's hands unless he can prove where the payer got the money.

1.3 Who is a "person located in a notified jurisdictional area" [section 176(6)]

The expression **includes** —

- **(i)** a person who is a **resident** of the notified jurisdictional area;
- **(ii)** a person, **not being an individual, which is established** in the notified jurisdictional area; or

- **(iii)** a **permanent establishment**, in the notified jurisdictional area, of a person not falling within (i) or (ii).

“Permanent establishment” takes its meaning from section 173(c) and “transaction” from section 173(e). Note sub-clause (iii): a company resident anywhere in the world is caught to the extent it acts through a permanent establishment in the notified area.

1.4 Illustrations

ILLUSTRATION 1.1 — THE FIVE CONSEQUENCES ON ONE TRANSACTION

Meridian Ltd., an Indian company, pays ₹90,00,000 as consultancy fees to Zephyr Corp, a company established in a country which the Central Government has notified under section 176(1). Meridian Ltd. maintains no documentation of the transaction. In the same year it receives ₹40,00,000 from Zephyr Corp as a refund of an advance, and can say nothing about where Zephyr Corp obtained the money. *State the consequences.*

- **Transfer pricing.** The two are **deemed associated enterprises** and the payment a **deemed international transaction**; the arm's length price must be determined, and the benefit of the tolerance band in section 165(3)(a)(ii) is **not available** [section 176(2)].
- **The deduction of ₹90,00,000 is disallowed**, the prescribed documents not having been maintained [section 176(3)(b)].
- **The ₹40,00,000 is deemed to be Meridian's income** for the year, the source in Zephyr's hands being unexplained [section 176(4)].
- **Tax at source** on the ₹90,00,000 must be deducted at the **highest of the rates in force, the rate in the relevant provision and 30%** — here **30%**, exceeding the 20% that section 393(2) would otherwise require [section 176(5)].
- Failure to deduct at that rate makes Meridian an **assessee in default** under section 398(1), with interest, and adds a **100% disallowance** under section 35(b)(ii) — see Unit 1 Part B.

CHAPTER TWO

GAAR — Applicability and the Impermissible Avoidance Arrangement

Chapter XI — sections 178 and 179

A rule that allows the Department to disregard what the parties actually did, and tax what they would have done had tax not been the object.

2.1 What GAAR is, and why it exists

A **specific** anti-avoidance rule attacks a named device — thin capitalisation, transfer mispricing, a bonus-stripping transaction. A **general** anti-avoidance rule attacks the device that the draftsman has not thought of. It works by giving the Department power, in defined circumstances, to **look through the form of an arrangement to its substance**

and to tax accordingly.

The price of that power is uncertainty, and the Act contains it in four ways — a **definition** with four alternative tests (section 179); a set of **deeming rules** for want of commercial substance (section 180); an elaborate **procedure** with an independent Approving Panel headed by a High Court judge (section 274); and prescribed **guidelines and conditions** (section 183(b)).

2.2 Applicability [section 178]

- **178(1)** — irrespective of anything in the Act, an **arrangement entered into by an assessee may be declared to be an impermissible avoidance arrangement**, and the consequence in relation to tax determined, subject to the Chapter.
- **178(2)** — the Chapter may be applied to **any step in, or a part of, an arrangement** as it applies to the arrangement as a whole.

Sub-section (2) is the reason a single step in an otherwise commercial transaction can be struck down. The Department need not attack the whole restructuring; it may attack the one step inserted for tax.

2.3 The definition and the four tests [section 179(1)]

> THE DEFINITION, IN TWO LIMBS
>
> An impermissible avoidance arrangement means an arrangement —
>
> Limb 1 — the purpose test. The main purpose of which is to obtain a tax benefit; and
>
> Limb 2 — the tainted element test. Which satisfies any one of the following four —
>
> - **(a)** it **creates rights or obligations which are not ordinarily created between persons dealing at arm's**
>
> length;
>
> - **(b)** it results, directly or indirectly, in the **misuse or abuse of the provisions of this Act**;
> - **(c)** it **lacks commercial substance**, or is deemed to lack it under section 180, in whole or in part; or
> - **(d)** it is entered into or carried out **by means, or in a manner, which are not ordinarily employed for**
>
> bona fide purposes.
>
> **Both** limbs must be satisfied. An arrangement whose main purpose is commercial is not impermissible however odd its form; and an arrangement whose main purpose is a tax benefit is not impermissible unless it also bears one of the four taints.

2.4 The presumption [section 179(2)]

"An arrangement shall be presumed, unless it is proved to the contrary by the assessee, to have been entered into

or carried out for the main purpose of obtaining a tax benefit, if the main purpose of a step in, or a part of, the

arrangement is to obtain a tax benefit, irrespective of the fact that the main purpose of the whole arrangement is not to obtain a tax benefit."

The presumption reverses the burden and it does so at the level of the **step**. Once the Department shows that the main purpose of one step was a tax benefit, the **whole arrangement** is presumed to have that main purpose, and it is for the assessee to prove otherwise.

2.5 Tax planning, tax avoidance and tax evasion

Point	Tax planning	Tax avoidance	Tax evasion
What it is	Arranging affairs to attract a **benefit the Act intends to give**	Arranging affairs to obtain a benefit **the Act does not intend**, by means within its letter	**Concealment or misrepresentation** — a breach of the Act
Legality	**Lawful and encouraged**	Within the letter of the law, **but liable to be disregarded under GAAR**	**Unlawful**
Example	Investing in an instrument for which a deduction is expressly given	Routing an investment through an interposed company solely to obtain a treaty benefit	Not recording sales; claiming a bogus expense
Consequence	None	**GAAR** — the arrangement is disregarded or recharacterised under sections 178 to 184	Tax at 78% where sections 102 to 106 apply; **penalty at 200%** under section 439; **prosecution** under section 478

GAAR occupies the middle column. It does not make avoidance an offence; it makes it **ineffective**.

CHAPTER THREE

Arrangement to Lack Commercial Substance — Section 180

Section 180 The most used of the four tainted elements, and the only one the Act defines.

3.1 The four deeming clauses [section 180(1)]

An arrangement shall be deemed to lack commercial substance if —

Clause	Test
(a)	The **substance or effect of the arrangement as a whole is inconsistent with, or differs significantly from, the form of its individual steps or a part** — the **substance-over-form** test
(b)	It involves or includes — **(i) round trip financing**; **(ii)** an **accommodating party**; **(iii)** elements that have the effect of **offsetting or cancelling each other**; or **(iv)** a transaction **conducted through one or more persons which disguises the value, location, source, ownership or control** of the funds
(c)	It involves the **location of an asset, or of a transaction, or the place of residence of a party, which is without any substantial commercial purpose** other than obtaining a tax benefit
(d)	It **does not have a significant effect upon the business risks or net cash flows** of any party, apart from the effect attributable to the tax benefit

3.2 Round trip financing [section 180(2)]

Round trip financing **includes** any arrangement in which, through a **series of transactions** — **(a) funds are transferred among the parties**; and **(b)** those transactions **have no substantial commercial purpose** other than

obtaining the tax benefit.

AND IT IS TO BE JUDGED WITHOUT REGARD TO THREE THINGS

- **(A)** whether or not the funds can be **traced** to any funds transferred to or received by any party;
- **(B)** the **time or sequence** in which the funds are transferred or received; or
- **(C)** the **means, manner or mode** through which they are transferred or received.

The three exclusions destroy the usual defences. It is no answer that the money cannot be traced, that the legs of the transaction were months apart, or that different instruments were used at each stage.

3.3 The three factors that are relevant but not sufficient [section 180(3)]

The following **may be relevant but shall not be sufficient** for determining whether an arrangement lacks commercial substance —

- **(a)** the **period or time for which the arrangement exists**;
- **(b)** the fact of **payment of taxes**, directly or indirectly, under the arrangement;
- **(c)** the fact that an **exit route** — including the transfer of any activity, business or operations — is provided by the arrangement.

Sub-section (3) is the assessee's provision as much as the Department's. Longevity, the payment of some tax, and the existence of an exit route are all matters he may point to; but none of them, by itself, saves an arrangement.

CHAPTER FOUR

Consequences, Connected Persons and Interpretation — Sections 181 to 184

Sections 181 to 184 Once an arrangement is declared impermissible, the Act gives the widest remedial powers in the statute book.

4.1 The seven consequences [section 181]

Where an arrangement is declared impermissible, the consequences in relation to tax — **including the denial of a tax benefit or of a benefit under a tax treaty** — are determined **in the manner deemed appropriate in the circumstances**. They **include but are not limited to** —

Clause	Consequence
(a)	**Disregarding, combining or recharacterising** any step in, or a part or the whole of, the arrangement
(b)	Treating the arrangement **as if it had not been entered into or carried out**
(c)	**Disregarding any accommodating party**, or treating it and any other party as **one and the same person**
(d)	Deeming **connected persons** to be one and the same person for determining the tax treatment of any amount
(e)	**Reallocating** among the parties any **accrual or receipt of a capital or revenue nature**, or any **expenditure, deduction, relief or rebate**
(f)	Treating the **place of residence** of a party, or the **situs of an asset or transaction**, as being **somewhere other than** where the arrangement places it
(g)	**Looking through** the arrangement by **disregarding any corporate structure**

4.2 Recharacterisation [section 181(3)]

In determining the consequences —

- **(a) equity may be treated as debt, or debt as equity**;
- **(b)** an **accrual or receipt of a capital nature may be treated as of a revenue nature, or the reverse**; and
- **(c)** any **expenditure, deduction, relief or rebate may be recharacterised**.

4.3 Connected person and accommodating party [section 182]

In determining **whether a tax benefit exists** — a question logically prior to the declaration itself — the authority may **(a)** treat connected persons as one and the same person; **(b) disregard any accommodating party**; **(c)** treat the accommodating party and any other party as one; and **(d)** look through the arrangement by disregarding any corporate structure.

4.4 Application of the Chapter [section 183]

> **The Chapter applies — (a) in addition to, or in lieu of, any other basis for the determination of tax liability; and (b)**
> **as per such guidelines and subject to such conditions as may be prescribed.**

Clause (a) settles a much-argued question: GAAR is **not** a last resort. It may be invoked *in addition to* a specific anti-avoidance provision or a transfer pricing adjustment, or *in place of* them.

4.5 The definitions that matter [section 184]

Expression	Meaning
Arrangement	Any **step in, or a part or whole of, any transaction, operation, scheme, agreement or understanding, whether enforceable or not**, and includes the alienation of property in it

Expression	Meaning
Accommodating party	A party whose **main purpose of participation**, directly or indirectly and in whole or in part, is to obtain a **tax benefit for the assessee — whether or not** it is a connected person

Expression

Meaning

Tax benefit	Includes a **reduction, avoidance or deferral** of tax or other amount payable; an **increase in a refund**; the same two **as a result of a tax treaty**; and a reduction in total income or an increase in loss
Connected person	Any person connected directly or indirectly, and includes a **relative**; a **director** of a company and his relative; a **partner or member** of a firm, association or body and his relative; a **member of a Hindu undivided family** and his relative; and persons having a **substantial interest** in one another's business
Substantial interest	Beneficial ownership of equity shares carrying **at least 20% of the voting power** at any time in the financial year; or, in any other case, beneficial entitlement to **at least 20% of the profits**
Step	A **measure or action**, particularly one of a series, taken to achieve a particular object in the arrangement
Party	A person **or a permanent establishment** which participates or takes part in the arrangement

CHAPTER FIVE

The GAAR Procedure — Section 274

Section 274

Three stages, an independent panel headed by a High Court judge, and no appeal against its directions.

5.1 The reference by the Assessing Officer [section 274(1)]

The Assessing Officer may, at any stage of the assessment or reassessment proceedings, make a reference to the **Principal Commissioner or Commissioner** if, having regard to the material and evidence available, he considers it necessary to **(a)** declare an arrangement to be an impermissible avoidance arrangement and **(b)** determine its consequences under Chapter XI.

The Assessing Officer **cannot invoke GAAR himself**. That is the first and most important safeguard.

5.2 The Principal Commissioner's stage [section 274(2) to (5)]

Sub-section	Step
274(2)	If of the opinion that Chapter XI is required to be invoked, he shall **(a)** issue a **notice setting out the reasons and basis** of that opinion, for objections; and **(b)** give an **opportunity of being heard within a period not exceeding sixty days** specified in the notice
274(3)	If the assessee **files no objection** within the time specified, the Principal Commissioner **shall issue such directions as he deems fit** in respect of the declaration
274(4)	If the assessee **objects** and the Principal Commissioner, after hearing him, is **not satisfied**, he **shall refer the matter to the Approving Panel**
274(5)	If he **is satisfied** that Chapter XI is not to be invoked, he shall **by order in writing** communicate that to the Assessing Officer, with a copy to the assessee

Note the asymmetry in sub-section (3). An assessee who ignores the notice loses the right to have the matter examined by the independent Panel — the Principal Commissioner then decides it alone. Objecting is therefore always the right course.

5.3 The Approving Panel [section 274(6) to (9), (18) and (19)]

COMPOSITION [SECTION 274(18) AND (19)]

The Central Government shall constitute **one or more Approving Panels**, each of **three members including a Chairperson** —

- the **Chairperson** shall be a person **who is or has been a judge of a High Court**;
- **one member** shall be of the **Indian Revenue Service, not below the rank of Principal Chief Commissioner or Chief Commissioner**; and
- **one member** shall be an **academic or scholar** having special knowledge of direct taxes, business accounts or international trade practices.

- **274(6)** — the Panel shall **(a)** issue such directions as it deems fit on the declaration; and **(b) specify the tax year or years** to which the declaration applies.
- **274(7)** — **no direction shall be issued without an opportunity of being heard** — to the **assessee** on a direction prejudicial to him, and to the **Assessing Officer** on one prejudicial to the revenue.
- **274(8)** — before issuing directions the Panel may **(a)** direct a **further inquiry** and require a report; **(b)** call for and examine records; or **(c)** require the assessee to furnish documents and evidence.
- **274(9)** — where the members differ, the point is decided by the **majority**.

- **274(10) and (11)** — the Assessing Officer completes the proceedings in accordance with the directions; and where the directions cover **other tax years**, he applies them to those years **without seeking fresh directions**.
- **274(12) — no assessment order determining a tax consequence under Chapter XI shall be passed without the prior approval of the Principal Commissioner or Commissioner**.

5.4 The time limit [section 274(13) to (15)]

- **274(13)** — the Panel shall issue directions **within six months from the end of the month in which the reference was received**.
- **274(14)** — excluded from that period are — **(a)** the time taken for inquiries through a treaty partner, **or one year, whichever is less**; and **(b)** any period of a **stay by a court**.
- **274(15)** — if, after the exclusion, the remaining period is **less than sixty days**, it is **extended to sixty days**.

5.5 Binding effect, and no appeal [section 274(16) and (17)]

> **274(16) — the directions of the Approving Panel are binding on (a) the assessee and (b) the Principal Commissioner and the authorities subordinate to him.**
> **274(17) — no appeal under the Act shall lie against the directions of the Approving Panel, irrespective of** anything in any other provision.
> **But the resulting assessment order is appealable — and it goes directly to the Appellate Tribunal under section 362(1)(e)**, the first appeal being excluded by section 357(d) and (e). *See Unit 3 Part B, Chapter 2.*

5.6 The procedure on one page

Step	What happens	Provision
1	The **Assessing Officer** refers the matter to the Principal Commissioner during assessment or reassessment	274(1)
2	The **Principal Commissioner** issues a notice setting out reasons, and hears the assessee **within sixty days**	274(2)
3a	**No objection** filed → the Principal Commissioner issues directions himself	274(3)
3b	**Objection filed and not accepted** → reference to the **Approving Panel**	274(4)
3c	**Objection accepted** → order in writing; GAAR is not invoked	274(5)
4	The **Approving Panel** — three members, chaired by a serving or retired High Court judge — hears both sides and issues directions, specifying the years	274(6) to (9), (18), (19)
5	Directions issued **within six months** from the end of the month of the reference	274(13)
6	The Assessing Officer completes the assessment in conformity, **with the prior approval** of the Principal Commissioner	274(10), (12)
7	**No appeal against the directions**; but the assessment order goes **direct to the Appellate Tribunal**	274(17); 362(1)(e)

CHAPTER SIX

Tax Clearance Certificate — Section 420

Section 420 · Rules 227 to 229 · Forms No. 154 to 159

Restated here for this Unit. The full treatment, with the liability of the ship or aircraft, is in Unit 1 Part C, Chapter 11.

6.1 The person not domiciled in India

No person who (a) is not domiciled in India; (b) has come to India in connection with business, profession or employment; and (c) has income derived from any source in India, shall leave the territory of India by land,

sea or air unless he furnishes to the prescribed authority an **undertaking from his employer or payer** that the tax payable by him **will be paid by that employer or person**. On receipt of the undertaking the authority shall **immediately** give him a **no objection certificate** [section 420(1)].

The three conditions are **cumulative**. And **section 420(2)** puts the tourist beyond doubt: nothing in sub-section (1)

applies to a person not domiciled in India who visits India as a foreign tourist, or for any purpose not connected with business, profession or employment.

6.2 The person domiciled in India

- **420(3)** — every person **domiciled in India** shall, on departure, furnish his **Permanent Account Number**, the **purpose** of his visit, and the **estimated period** of his stay abroad.
- **420(4)** — where no PAN has been allotted, or his income is not chargeable, or he is not required to obtain a PAN, he furnishes a **certificate** in the prescribed form instead.
- **420(5)** — he may be required to obtain a **tax clearance certificate** stating that he has **no liability** under this Act, the Wealth-tax Act, the Gift-tax Act, the Income-tax Act, 1961, the Expenditure-tax Act or the Black Money Act, or that satisfactory arrangements have been made — but **only where circumstances exist which, in the opinion of an income-tax authority, render it necessary**.
- **420(6)** — and no authority shall so require unless it **(a) records the reasons** and **(b) obtains the prior approval of the Principal Chief Commissioner or Chief Commissioner**.

6.3 The forms, and the liability of the carrier

Form	What it is	Provision
154	Undertaking by the employer or payer of a person not domiciled in India	420(1); Rule 228(1)
155	**No objection certificate** for leaving India	420(1); Rule 228(2)
156	Information furnished by a person **domiciled in India**	420(3); Rule 228(3)
157	Application where **no PAN** has been allotted	420(4); Rule 228(4)
158	Application for a tax clearance certificate	420(5); Rule 228(5)
159	**Tax clearance certificate**	420(5); Rule 228(6)

420(7) and (8) — the owner or charterer of a ship or aircraft who allows a person to travel without first

satisfying himself that he holds the required certificate is **personally liable** for the tax as the Assessing Officer may determine; he is **deemed to be an assessee in default**, and the sum is recoverable as an **arrear of tax**. Under **Rule**

229, any person leaving India shall produce the certificate **at the request of any Customs Officer**.

CHAPTER SEVEN

Securities Transaction Tax

Chapter VII of the Finance (No. 2) Act, 2004, as amended by the Finance Act, 2026

A separate tax under a separate Act, collected by the exchange, and — this year — sharply increased on derivatives.

7.1 Where the law is

NOT IN THE INCOME-TAX ACT

Securities transaction tax is levied by Chapter VII of the Finance (No. 2) Act, 2004 (Act 23 of 2004). It was not
brought into the Income-tax Act, 2025, and section **2(28)** of that Act simply provides that "securities transaction
tax" shall have the meaning assigned to it under Chapter VII of the Finance (No. 2) Act, 2004.
The reference is not to "section 98 of the Income-tax Act, 2025". The charging section is **section 98 of**
the Finance (No. 2) Act, 2004.

7.2 The charge, and the taxable securities transaction

STT is a tax on the **transaction**, not on the income. It is charged on the **value of a taxable securities transaction** at the rates in the Table to section 98, and is payable by the **purchaser or the seller** as that Table specifies. Its principal features are —

- It is levied **whether or not the transaction results in a profit.** A loss-making sale bears the same STT as a profitable one.
- It is **collected by the recognised stock exchange, the Mutual Fund or the lead merchant banker**, as the case may be, and paid to the credit of the Central Government.
- The transaction must ordinarily be **entered into on a recognised stock exchange** in India — an off-market transfer bears no STT, which is why the exemptions in the Income-tax Act that depend on STT do not extend to it.

7.3 The rates for Tax Year 2026-27

Sl.	Taxable securities transaction	Rate for TY 2026-27	Payable by
1	**Purchase** of an equity share in a company, or a unit of a business trust, entered into on a recognised stock exchange and **settled by actual delivery**	0.1%	Purchaser
2	**Sale** of an equity share in a company, or a unit of a business trust, so entered into and **settled by actual delivery**	0.1%	Seller
3	**Sale** of an equity share, or a unit of an equity oriented fund or of a business trust, **not settled by actual delivery** — the intra-day trade	0.025%	Seller
4(a)	**Sale of an option in securities**	**0.15%** of the option premium *raised from 0.1%*	Seller
4(b)	**Sale of an option in securities, where the option is exercised**	**0.15%** of the intrinsic price *raised from 0.125%*	Purchaser
4(c)	**Sale of a futures in securities**	**0.05%** of the price at which the futures are traded *raised from 0.02%*	Seller
5	**Sale of a unit of an equity oriented fund to the Mutual Fund** — a redemption	0.001%	Seller

Sl.

Taxable securities transaction

Rate for TY 2026-27

Payable by

6	**Sale of unlisted equity shares under an offer for sale to the public** in an initial public offer, where the shares are subsequently listed	0.2%	Seller

> **WHAT THE FINANCE ACT, 2026 CHANGED — AND A CAUTION**
>
> **Clause 143 of the Finance Bill, 2026** amends serial number 4 of the Table to section 98, with effect from **1 April 2026**, so as to raise —
>
> - the rate on the **sale of an option** from **0.1% to 0.15%** of the option premium;
> - the rate on the **sale of an option where it is exercised** from **0.125% to 0.15%** of the intrinsic price; and
> - the rate on the **sale of futures** from **0.02% to 0.05%** of the traded price.
>
> Those three changes are the examinable ones for Tax Year 2026-27, and they are the answer to any question on “recent changes in STT”. The remaining entries in the Table were not amended. Because Chapter VII of the Finance (No. 2) Act, 2004 is a separate enactment, students should verify the unamended rates in serial numbers 1, 2, 3, 5 and 6 against the bare text of section 98 before the examination.

7.4 Collection, payment and return

Step	What is required
Collection	By the **recognised stock exchange**, the **Mutual Fund** or the **lead merchant banker**, from the purchaser or seller as the Table requires
Payment	To the credit of the Central Government **by the seventh day of the month following** the month of collection
Return	An **annual return** of taxable securities transactions, in the prescribed form, by the prescribed date
Failure	**Interest** on delayed payment, a **penalty** for failure to collect or to pay, and a penalty for failure to furnish the return — all under Chapter VII of the Finance (No. 2) Act, 2004, not under the Income-tax Act

7.5 How STT interacts with the Income-tax Act

Provision of the Act of 2025	Effect
Section **2(28)**	Borrows the definition of “securities transaction tax” from Chapter VII of the Finance (No. 2) Act, 2004
Section **198**	The concessional rate of **12.5%** on a long-term capital gain on listed equity, above the exempt threshold, is available only where the transaction of sale **is chargeable to STT**
Section **196**	The concessional rate on a **short-term** capital gain on listed equity likewise depends on the payment of STT
Section **34** group	STT paid is **allowed as a deduction** in computing business income where the securities are held as **stock-in-trade** — that is, for a dealer in securities
Sections 67 and 72 group	STT is **not** deductible in computing a **capital gain**. It is neither cost of acquisition nor expenditure on transfer

The distinction in the last two rows is the one most often tested. For an **investor**, STT is a dead cost — it buys the concessional rate but is not itself deductible. For a **trader**, it is a business expense.

7.6 Illustrations

ILLUSTRATION 7.1 — THE DERIVATIVE TRADER AFTER THE FINANCE ACT, 2026

Shri Rohit, who trades in derivatives on a recognised stock exchange, during Tax Year 2026-27 — **(a)** sells options for a total premium of ₹80,00,000; **(b)** exercises options whose intrinsic price aggregates ₹20,00,000; and **(c)** sells futures at a traded price of ₹6,00,00,000. *Compute his securities transaction tax, and compare it with the old rates.*

(a) Sale of options — 0.15% of ₹80,00,000 *(0.1% previously = ₹8,000)*	12,000
(b) Options exercised — 0.15% of ₹20,00,000, payable by the **purchaser** *(0.125% previously = ₹2,500)*	3,000
(c) Sale of futures — 0.05% of ₹6,00,00,000 *(0.02% previously = ₹12,000)*	30,000
Total STT for Tax Year 2026-27	**₹45,000**
The same transactions at the pre-amendment rates	*₹22,500*

*The cost has doubled. And because Shri Rohit is a **trader** holding the securities as stock-in-trade, the ₹45,000 is **deductible** in computing his business income — an investor would get no such deduction.*

CHAPTER EIGHT

TAN — Tax Deduction and Collection Account Number

Section 397(1) · Rule 216 · Forms No. 134 and 135 Restated for this Unit. The full treatment, with the deposit and statement machinery, is in Unit 1 Part B, Chapter 9.

8.1 The obligation [section 397(1)]

- **397(1)(a) — every person deducting or collecting tax shall apply for allotment of a tax deduction and collection account number** to the Assessing Officer within the prescribed time, if one has not already been allotted.
- **397(1)(b)** — once allotted, he shall **quote it in all challans, statements and certificates** referred to in Chapter XIX-B, and in all prescribed documents pertaining to such transactions.

8.2 Who need not obtain one

> **THE EXEMPTIONS IN SECTION 397(1)(C)**
>
> The requirement does **not** apply to —
>
> - a person deducting under section 393(1) (Table: Sl. Nos. **2(i) rent**, **3(i) transfer of immovable property** and 6(ii) payments by an individual or Hindu undivided family);
> - a person referred to in section 393(4) (Table: Sl. No. 12.C(a)) — the small individual or HUF paying for a virtual digital asset; and
> - a person **notified** by the Central Government.
>
> **With effect from 1 October 2026** the Finance Act, 2026 substitutes clause (c) to add a fourth case — a **resident individual or Hindu undivided family** deducting tax on consideration for the transfer of **immovable property from a non-resident** under section 393(2) (Table: Sl. No. 17). Until 30 September 2026 such a buyer still needs a TAN.

Those exempted use their **PAN** in place of a TAN, deposit the tax with a **challan-cum-statement in Form No. 141** within thirty days, and issue the certificate in **Form No. 132**.

8.3 The forms, the time and the penalty

Question	Answer
In what form?	**Form No. 134** for a **Government entity**; **Form No. 135** for any other person [Rule 216(1)]. It may also be made through the **common application form** notified by the Central Government
To whom?	The officer to whom the function has been assigned by the **Director General of Income-tax (Systems)** [Rule 216(3)]
By when?	**Before** the deduction or collection; and where not so made, **within thirty days from the end of the month in which the tax was deducted or collected** [Rule 216(4)]
Government entity?	An entity of the Central or a State Government, or a local authority of either — **but not** a company or a statutory or autonomous body [Rule 216(6)]
Penalty	**₹10,000** for failure to comply with section 397; and **₹10,000** for quoting a TAN known or believed to be false [section 468]

8.4 TAN and PAN compared

Point	PAN — section 262	TAN — section 397(1)
Purpose	To **identify the assessee** and link every transaction to him	To **identify the deductor or collector** and link every deduction to him

Point	PAN — section 262	TAN — section 397(1)
Who must obtain it	Any person crossing the thresholds in section 262(1) — chiefly income above the maximum not chargeable to tax, or turnover above ₹5,00,000	Every person **deducting or collecting tax at source**, subject to the exemptions
Form	**93, 94, 95 or 96**, by category of applicant [Rule 158]	**134** for a Government entity; **135** for any other person [Rule 216]
Where quoted	In all returns and correspondence with any income-tax authority, and in all challans [section 262(3)]	In all **challans, statements and certificates** under Chapter XIX-B [section 397(1)(b)]
Consequence of not furnishing it	The payee suffers deduction at the **higher rate** — generally 20% [section 397(2)]	The deductor cannot file his statements at all, and is liable to **₹10,000** under section 468
May a person hold two?	**No** — section 262(8)	No; one number serves for both deduction and collection
Penalty section	**467**	**468**

CHAPTER NINE

TIN — Tax Information Network

Administrative; the statutory hooks are in sections 397 and 399 and in the Rules The plumbing of the tax system. The syllabus asks the learner to "check the usage and importance" of it, and that is what this chapter does.

9.1 What it is

The Tax Information Network is the national repository of tax-related information established by the Income-tax Department and operated through a managed service provider under the supervision of the **Director General of Income-tax (Systems)**. It is not a statutory body and no section of the Act creates it. It is the **infrastructure** through which the obligations imposed by the Act are actually discharged. Its purpose is simple to state and hard to achieve: to ensure that **every rupee of tax deducted, collected or paid is matched to the person entitled to credit for it**, and that the matching happens automatically.

9.2 The three components

Component	What it does
OLTAS *On-Line Tax Accounting System*	Carries the **challan** data — every payment of advance tax, self-assessment tax, tax deducted or collected at source, and demand — from the collecting bank to the Department, keyed to the **Challan Identification Number** (the BSR code of the branch, the date of deposit and the challan serial number)
e-TDS / e-TCS	Receives the **quarterly statements** of tax deducted and collected — Forms No. 138, 140, 143 and 144 — and the challan-cum-statement in Form No. 141, and reconciles them against the OLTAS challan data
PAN and TAN services	Receives and processes applications for the **Permanent Account Number** (Forms No. 93 to 96) and the **Tax Deduction and Collection Account Number** (Forms No. 134 and 135), and issues the numbers

The output of the three, taken together, is the **Annual Information Statement in Form No. 168** [Rule 245] — the statement which shows an assessee every payment reported against his PAN and every rupee of tax credited to him.

9.3 Its statutory hooks

Provision	The hook
Section **397(3)(b)**	Statements of tax deducted and collected are delivered to "the **prescribed income-tax authority or the person authorised by such authority**" — in the Rules, the **Director General of Income-tax (Systems)**
Rule **215(1)**	Certificates in Forms No. 130 to 133 are **generated and downloaded from the web portal specified by the Director General of Income-tax (Systems)**
Rule **218(7) and (8)**	The **Book Identification Number** and the **Account Office Identification Number** for Government deductors are generated by the Director General (Systems)
Rule **216(3)**	The application for a TAN is made to the officer to whom the function has been assigned by the Director General (Systems)
Section **399**	Statements of tax deducted or collected are **processed** — arithmetical errors and incorrect claims adjusted, interest and fee computed, and an **intimation** generated. This is a computerised process carried out on the Network's data
Section **390(6)** and Rule **203(8)**	Credit for tax deducted or collected is given **on the basis of the information furnished by the deductor**, subject to verification under the Board's **risk management strategy**

9.4 Why it matters — the usage and importance

SIX THINGS THE NETWORK MAKES POSSIBLE

1. **Credit without paper.** Rule 203(1) gives credit on the basis of the information furnished by the deductor — not on production of a certificate. Without the Network, every certificate would have to be examined by hand. 2. **Reconciliation.** The challan data in OLTAS is matched against the statement data in e-TDS, so that a deductor who files a statement but never paid, or pays but never files, is identified automatically.

3. **Pre-filled returns.** The Annual Information Statement in Form No. 168 supplies the figures from which a return is now largely pre-filled.

4. **Processing under sections 270(1) and 399.** Both are computerised processes that depend on the Network's data — which is why an intimation now issues within months rather than years.

5. **Selection for scrutiny.** The "risk management strategy formulated by the Board", referred to in Rule 203(8) and in section 280(6)(a), operates on Network data. A mismatch between the return and Form No. 168 is the commonest trigger for a notice.

6. **The higher rate for want of PAN.** Section 397(2) works only because the Network can tell, at the moment of deduction, whether the payee's PAN is valid and operative.

The practical lesson for an assessee is short: **check Form No. 168 before filing the return**. A credit that does not appear there will not be allowed, and the remedy — persuading the deductor to file a correction statement under section 397(3)(f) — takes time.

CHAPTER TEN

Practical Problems with Solutions

Seven problems, including the GAAR case studies the prescribed Exercises require.

PROBLEM 1 — A GAAR CASE STUDY: THE INTERPOSED COMPANY

Alpha Ltd., an Indian company, wishes to sell its shareholding in Beta Ltd., also Indian, to an unrelated buyer, and would make a capital gain of ₹120 crore. Three months before the sale it transfers the shares to Gamma Inc., a company incorporated in a treaty jurisdiction, which has **no employees, no office and no activity**, and whose only asset is those shares. Gamma Inc. then sells them to the buyer and claims exemption from Indian capital gains tax under the treaty. *Advise the Department.*

Step 1 — is there an arrangement? Yes. Section 184(2) defines "arrangement" to include **any step in, or a part or whole of, any transaction, operation, scheme, agreement or understanding**. The transfer to Gamma and the sale by it together form the arrangement.

Step 2 — is the main purpose a tax benefit? The transfer produced no commercial change; the same shares were sold to the same buyer at the same price. The **only** effect was to obtain the treaty exemption, which is a **tax benefit** within section 184(11)(c). And section 179(2) raises a **presumption**: the main purpose of the interposed step being a tax benefit, the whole arrangement is presumed to have that main purpose unless Alpha proves otherwise.

Step 3 — is there a tainted element? At least three —

- **Section 179(1)(c)** with **section 180(1)(b)(ii)** — Gamma is an **accommodating party**, its participation being solely to obtain a tax benefit for Alpha [section 184(1)];
- **Section 180(1)(c)** — the **location of the transaction and the residence of a party** is without any substantial commercial purpose other than the tax benefit; and
- **Section 180(1)(d)** — the arrangement has **no significant effect on the business risks or net cash flows** of any party apart from the tax benefit.

Step 4 — the consequence. Under section 181(2)(c) the accommodating party may be **disregarded**, or Gamma and Alpha treated as **one and the same person**; under clause (g) the **corporate structure may be looked through**; and under section 181(1) the **treaty benefit may be denied**. The gain of ₹120 crore is then assessed in Alpha's hands.

Step 5 — the procedure. The Assessing Officer refers the matter to the Principal Commissioner under section 274(1); notice and sixty days to object; on objection, reference to the **Approving Panel**; directions within six months; assessment with the prior approval of the Principal Commissioner. **No appeal lies against the Panel's directions**, but the assessment order goes **direct to the Appellate Tribunal**.

PROBLEM 2 — A GAAR CASE STUDY: ROUND TRIP FINANCING

Delta Ltd. lends ₹50 crore to an unconnected offshore entity at 2%. That entity lends the same sum, on the same day, to Epsilon Pte, which lends it back to Delta Ltd.'s wholly-owned subsidiary in India at 12%. The interest of ₹6 crore is claimed as a deduction by the subsidiary. Delta Ltd. says the funds cannot be traced through the chain and that the three legs were documented as independent loans on different instruments. *Advise.*

The arrangement is deemed to lack commercial substance under section 180(1)(b)(i) as round trip financing, which section 180(2) defines as an arrangement in which, through a **series of transactions**, funds are transferred among the parties and those transactions have **no substantial commercial purpose** other than the tax benefit.

> **DELTA'S THREE DEFENCES ALL FAIL**
>
> Section 180(2) directs that round trip financing be judged **without having any regard to** —
>
> - **(A)** whether the funds can be **traced** — so "the money cannot be followed through the chain" is no answer;
> - **(B)** the **time or sequence** of the transfers — so "the legs were on different dates" is no answer; and
> - **(C)** the **means, manner or mode** of transfer — so "different instruments were used" is no answer.

The consequence under section 181(2)(a) and (e) is that the steps may be **disregarded or recharacterised** and the interest deduction of ₹6 crore **denied**. Section 181(3)(a) would also permit the **debt to be treated as equity**.

PROBLEM 3 — A GAAR CASE STUDY: PLANNING, NOT AVOIDANCE

Shri Naveen invests ₹1,50,000 in a public provident fund before 31 March, and rearranges the timing of the sale of a long-held listed shareholding so that it falls after twelve months rather than before, in order to obtain the concessional rate on a long-term gain. *Is GAAR attracted?*

No. Both limbs of section 179(1) must be satisfied. The **purpose test** may well be made out — his main purpose in both acts is a tax benefit. But **no tainted element** is present —

- the transactions create **no rights or obligations unusual between parties at arm's length**;
- there is **no misuse or abuse** — the deduction and the concessional rate are benefits the Act **intends** to give on exactly these facts;
- there is **no want of commercial substance** — real money is invested and real shares are sold; and
- the means employed are **ordinary**.

*This is the answer to the standard objection that GAAR abolishes tax planning. It does not. It attacks the arrangement that **abuses** the Act, not the one that **uses** it.*

PROBLEM 4 — NOTIFIED JURISDICTIONAL AREA

Sagar Exports pays ₹25,00,000 to a bank located in a notified jurisdictional area as loan processing charges, and ₹15,00,000 to a consultant established there. It furnishes no authorisation to the Board and maintains no documentation. It also receives ₹8,00,000 from the consultant and cannot say where he got it. *State the consequences.*

Item	Consequence
₹25,00,000 paid to the **financial institution**	**Disallowed in full** — no authorisation to the Board to seek information was furnished [section 176(3)(a)]
₹15,00,000 paid to the **consultant**	**Disallowed in full** — no documents maintained and no information furnished [section 176(3)(b)]
₹8,00,000 **received**	**Deemed to be the income** of Sagar Exports for the tax year, the source in the payer's hands being unexplained [section 176(4)]
Tax at source on both payments	At the **highest of the rates in force, the specified rate and 30%** — that is, **30%** [section 176(5)]
Both transactions	**Deemed international transactions** between **deemed associated enterprises**; transfer pricing applies, **without** the tolerance band in section 165(3)(a)(ii) [section 176(2)]
Purchase with delivery — 0.1% of ₹40,00,000, payable by the **purchaser**	4,000
Sale with delivery — 0.1% of ₹52,00,000, payable by the **seller**	5,200
Intra-day sale — 0.025% of ₹18,00,000, payable by the seller	450
Redemption of units to the Mutual Fund — 0.001% of ₹30,00,000	300
Total securities transaction tax	**₹9,950**

PROBLEM 5 — SECURITIES TRANSACTION TAX

Smt. Uma, an **investor**, during Tax Year 2026-27 buys listed shares for ₹40,00,000 with delivery, sells listed shares for ₹52,00,000 with delivery, does an intra-day sale of ₹18,00,000, and redeems units of an equity oriented fund to the Mutual Fund for ₹30,00,000. *Compute her STT and state its treatment.*

Treatment. Smt. Uma is an **investor**, not a dealer. The STT is **not deductible** in computing her capital gains — it is neither cost of acquisition nor expenditure on transfer. What it buys her is the **concessional rate** under sections 196 and 198, both of which require the sale to be chargeable to STT.

Had she held the shares as stock-in-trade, the whole ₹9,950 would have been allowed as a business deduction.

PROBLEM 6 — TAN: WHO NEEDS ONE?

Case	Answer
(a) A company deducting tax on salaries and contract payments	**Yes** — Form No. 135, before the first deduction
(b) An individual, not in business, buying a flat for ₹80,00,000 from a resident	**No** — exempt under section 397(1)(c)(i), the deduction being under section 393(1) (Table: Sl. No. 3(i)). He uses his PAN and Form No. 141
(c) An individual paying shop rent of ₹70,000 a month, turnover below ₹1 crore	**No** — Sl. No. 2(i) is exempt
(d) A resident individual buying a flat from a **non-resident** on 20 August 2026	**Yes** — the exemption for this case takes effect only from **1 October 2026**
(e) The same purchase on 20 November 2026	**No** — the substituted section 397(1)(c)(iii) is then in force
(f) A Government department deducting tax on contract payments	**Yes** — and it applies in **Form No. 134**, being a Government entity
(g) A firm which has a TAN but quotes it wrongly on its certificates	Penalty of **₹10,000** under section 468; and a further ₹10,000 if the number quoted is **known to be false**

PROBLEM 7 — TAX CLEARANCE CERTIFICATE

Advise each of the following, all leaving India in November 2026.

1. A Japanese engineer who has worked in India for two years and draws an Indian salary. — Section 420(1) applies: his employer must furnish an undertaking in **Form No. 154**, and the prescribed authority will **immediately** issue a no objection certificate in **Form No. 155**.

2. A German national who has spent a fortnight in India on holiday. — Nothing is required; section 420(2) excludes a visit unconnected with business, profession or employment.

3. An Indian citizen domiciled in India going abroad on holiday, with nothing pending. — He furnishes only the information in **Form No. 156** — his PAN, the purpose and the estimated period of stay.

4. An Indian citizen domiciled in India against whom a demand of ₹4 crore is outstanding. — A certificate may be required under section 420(5), but only if the authority **records its reasons** and obtains the **prior approval of the Principal Chief Commissioner or Chief Commissioner**. He then applies in **Form No. 158** and the certificate issues in **Form No. 159**.

5. The airline that carried the engineer at (1) without checking his certificate. — The owner or charterer **is personally liable** for the tax as the Assessing Officer determines, is **deemed to be an assessee in default**, and the sum is recoverable as an arrear of tax [section 420(7) and (8)].

CHAPTER ELEVEN

Revision, Ready Reckoner and Question Bank

Everything in this Unit reduced to tables that can be revised in half an hour.

11.1 Old section to new section

Subject	Income-tax Act, 1961	Income-tax Act, 2025
Notified jurisdictional area	**94A**	**176**
Limitation on interest deduction — thin capitalisation	94B	177
Applicability of GAAR	95	178
Impermissible avoidance arrangement	**96**	**179**
Arrangement to lack commercial substance	97	180
Consequences of an impermissible avoidance arrangement	98	181
Connected person and accommodating party	99	182
Application of the Chapter	100, 101	183
Definitions	102	184
Reference to the Commissioner and the Approving Panel	**144BA**	**274**
Tax clearance certificate	230	420
Tax deduction and collection account number	203A	397(1)
Penalty for failure relating to TAN	272BB	468
Charge of securities transaction tax	**Section 98 of the Finance (No. 2) Act, 2004 — unchanged in location**	
Definition of "securities transaction tax"	—	2(28)
Concessional rate on long-term gains where STT paid	112A	198
Concessional rate on short-term gains where STT paid	111A	196
Annual Information Statement	Form 26AS / AIS	Form No. 168, Rule 245

11.2 Objective questions

A. State whether True or False, with reasons

1. A country is notified under section 176 because it has a low rate of tax.

False. The sole criterion in section 176(1) is the **lack of effective exchange of information**.

2. A payment to a person in a notified jurisdictional area is always disallowed.

False. It is disallowed **unless** the assessee furnishes the authorisation (for a financial institution) or maintains the prescribed documents and furnishes the prescribed information [section 176(3)].

3. Tax on a payment to a person in a notified jurisdictional area is deducted at 30%.

Partly false. It is deducted at the **highest** of the rates in force, the specified rate and 30% — so 30% is a **floor**, not a fixed rate.

4. An arrangement whose main purpose is a tax benefit is automatically impermissible.

False. Section 179(1) requires **both** the purpose test **and** one of the four tainted elements.

5. The burden of proving that the main purpose was not a tax benefit lies on the Department.

False. Section 179(2) raises a presumption against the assessee once the main purpose of a step is shown to be a tax

benefit.

6. An arrangement that has existed for many years cannot lack commercial substance.

False. Section 180(3)(a) makes the period of existence **relevant but not sufficient**.

7. GAAR may be invoked only where no other provision applies.

False. Section 183(a) provides that the Chapter applies **in addition to, or in lieu of**, any other basis of determination.

8. The Approving Panel is chaired by a Chief Commissioner.

False. The Chairperson is a person who is or has been a judge of a High Court [section 274(19)].

9. A foreign tourist must obtain a tax clearance certificate before leaving India.

False. Section 420(2) excludes a visit unconnected with business, profession or employment.

10. Securities transaction tax is levied by the Income-tax Act, 2025.

False. It is levied by **Chapter VII of the Finance (No. 2) Act, 2004**; section 2(28) merely borrows the expression.

11. STT is payable only where the transaction results in a profit.

False. It is a tax on the **transaction**, and is payable whether the transaction yields a profit or a loss.

12. Every deductor must obtain a TAN.

False. Section 397(1)(c) exempts the deductions under section 393(1) (Table: Sl. Nos. 2(i), 3(i) and 6(ii)), the small virtual digital asset payer, and — from 1 October 2026 — a resident individual or HUF buying immovable property from a non- resident.

B. Multiple choice

1. A notified jurisdictional area is notified having regard to —

(a) its rate of tax (b) **the lack of effective exchange of information** (c) its banking secrecy laws (d) its treaty network *Answer: (b), section 176(1)*

2. The minimum rate of deduction on a payment to a person in a notified jurisdictional area is —

(a) 10% (b) 20% (c) **30%** (d) 40% *Answer: (c), section 176(5)*

3. An impermissible avoidance arrangement is defined in —

(a) section 96 (b) section 178 (c) **section 179** (d) section 180 *Answer: (c)*

4. Round trip financing is dealt with in —

(a) section 179 (b) **section 180** (c) section 181 (d) section 182 *Answer: (b)*

5. A substantial interest means beneficial ownership of shares carrying at least —

(a) 10% (b) **20%** (c) 26% (d) 51% of the voting power *Answer: (b), section 184(9)*

6. The Approving Panel must issue its directions within —

(a) three months (b) **six months from the end of the month of the reference** (c) one year (d) no fixed period *Answer: (b), section 274(13)*

7. An appeal against an assessment giving effect to the Approving Panel's directions lies to —

(a) the Commissioner (Appeals) (b) **the Appellate Tribunal, directly** (c) the High Court (d) no one *Answer: (b), section 362(1)(e)*

8. The rate of STT on the sale of an option in securities for Tax Year 2026-27 is —

(a) 0.1% (b) 0.125% (c) **0.15%** (d) 0.05% *Answer: (c)*

9. The rate of STT on the sale of futures for Tax Year 2026-27 is —

(a) 0.02% (b) **0.05%** (c) 0.1% (d) 0.15% *Answer: (b)*

10. STT on an option that is exercised is payable by the —

(a) seller (b) **purchaser** (c) exchange (d) clearing member *Answer: (b)*

11. An application for a TAN by a Government entity is made in —

(a) Form No. 93 (b) **Form No. 134** (c) Form No. 135 (d) Form No. 141 *Answer: (b), Rule 216(1)*

12. The Tax Information Network is supervised by the —

(a) Central Board of Direct Taxes (b) **Director General of Income-tax (Systems)** (c) Principal Chief Commissioner (d) Ministry of Finance *Answer: (b)*

11.3 Fill in the blanks

1. A notified jurisdictional area is specified having regard to the lack of effective __ with that jurisdiction. — *exchange of information* [section 176(1)] 2. Tax on a payment to a person located in a notified jurisdictional area is deducted at the highest of the rates in force, the specified rate and __%. — *30* [section 176(5)] 3. An impermissible avoidance arrangement requires that the main purpose is to obtain a __ and that one of four tainted elements is present. — *tax benefit* [section 179(1)] 4. An arrangement is deemed to lack commercial substance if it involves __ financing. — *round trip* [section 180(1)(b)(i)] 5. A party whose main purpose of participation is to obtain a tax benefit for the assessee is an __. — *accommodating party* [section 184(1)] 6. A person has a substantial interest if he beneficially owns shares carrying at least __% of the voting power. — *20* [section 184(9)] 7. The Approving Panel consists of __ members, chaired by a person who is or has been a judge of a __. — *three; High Court* [section 274(18), (19)] 8. No __ under the Act lies against the directions of the Approving Panel. — *appeal* [section 274(17)] 9. Securities transaction tax is levied by Chapter VII of the __. — *Finance (No. 2) Act, 2004* 10. The rate of STT on the sale of an option in securities is __% of the option premium. — *0.15* 11. An application for a TAN must be made within __ days from the end of the month in which the tax was deducted, if not made earlier. — *thirty* [Rule 216(4)] 12. The tax clearance certificate under section 420(5) is issued in Form No. __. — *159* [Rule 228(6)]

11.4 Short answer questions

1. What is a notified jurisdictional area, and on what ground is a jurisdiction notified? 2. State the consequences of entering into a transaction with a person located in a notified jurisdictional area. 3. Define an impermissible avoidance arrangement. 4. When is an arrangement deemed to lack commercial substance? 5. What is round trip financing, and what three matters are to be disregarded in identifying it? 6. State the consequences of a declaration that an arrangement is impermissible. 7. Who is an accommodating party, and what may be done with him? 8. Describe the composition and the powers of the Approving Panel. 9. Distinguish tax planning, tax avoidance and tax evasion. 10. Who must obtain a tax clearance certificate, and in what form is it issued? 11. State the rates of securities transaction tax in force for Tax Year 2026-27 and the changes made this year. 12. What is the Tax Information Network, and what are its three components?

11.5 Long answer questions

1. Explain the special measures in respect of transactions with persons located in a notified jurisdictional area under section 176. 2. Explain the general anti-avoidance rule under sections 178 to 184, with the definition of an impermissible avoidance arrangement and the tests of commercial substance. 3. Describe the consequences that may follow a declaration that an arrangement is an impermissible avoidance arrangement. 4. Set out the procedure under section 274 for invoking the general anti-avoidance rule, from the reference by the Assessing Officer to the assessment order, with the time limits and the remedies. 5. "The general anti-avoidance rule does not abolish tax planning; it makes avoidance ineffective." Discuss, with examples. 6. Discuss the provisions relating to the tax clearance certificate under section 420, and the liability of the owner or charterer of a ship or aircraft. 7. Explain the charge, the rates and the collection of securities transaction tax, and its interaction with the Income-tax Act, 2025.

8. Explain the provisions relating to the tax deduction and collection account number, and compare it with the Permanent Account Number. 9. Describe the Tax Information Network, its components and its importance in the administration of the Income-tax Act. 10. Prepare a case study of an arrangement which would be declared an

impermissible avoidance arrangement, and set out the steps by which the Department would proceed and the consequences it would impose.

End of Unit 5, and of the study material for Business Tax Procedures and Management, DSE 5.8 and DSE 5.7, for Tax Year 2026-27.