

Attachment 1 – Ground truth and sample responses along with accuracy% by GPT 4o as the judge for sample queries

We have provided below the responses generated by various models for 3 sample queries along with the accuracy % provided by GPT 4o for the respective responses against the ground truth.

Query 1: Under the AS framework, how should a company classify a completed real estate property that is temporarily leased out while awaiting regulatory approvals, such as an occupancy certificate? Should it be recognized as 'Real Estate Inventory' or as an 'Investment Property'?

Ground Truth:

The appropriate classification of a completed real estate property under the AS framework, when it is temporarily leased out pending regulatory approvals, can be assessed by examining the relevant provisions of AS 2 and AS 13, supported by guiding principles from the Expert Advisory Committee (EAC) under the Ind AS framework.

1. Definitions under AS 13 and AS 2

According to paragraph 3.4 of AS13, Investment Property refers to an investment in land or buildings that are not intended to be occupied substantially for use by, or in the operations of, the investing enterprise.

According to paragraph 3.1 of AS 2, Inventory refers to an asset held for sale in the ordinary course of business or in the production process for such sale or in the form of materials or supplies to be consumed in the production process or in the rendering of services.

2. Classification of “inventory” and “investment property” based on intention and use

Based on the definitions in AS 2 and AS 13, the key factor in classifying a property is the company's intended use for the asset. If a property is held for sale in the normal course of business, it is classified as inventory. However, if the property is primarily held to earn rental income or for long term capital appreciation without an immediate plan to sell, it is classified as investment property.

Temporary leasing of a completed property, especially when driven by external factors such as delays in obtaining regulatory approvals, does not change the company's underlying intention for the asset.

3. EAC guidance on classification of real estate property under the Ind AS Framework

The Expert Advisory Committee (EAC), in its opinion under the Ind AS framework, has clarified that the classification of a real estate asset as either inventory or investment property is primarily determined by the entity's intention for holding the asset and the manner in which it is used.

According to Ind AS, properties held for sale in the ordinary course of business are classified as inventory. These typically reflect the business model of developers who construct properties for sale. In contrast, properties held mainly to earn rental income or for long term capital appreciation, without an immediate intent to sell, are classified as investment property.

The EAC emphasized that classification must be based on specific facts and circumstances, with careful consideration of the primary purpose for holding the asset.

In situations involving temporary leasing particularly when such arrangements arise due to external factors like delays in obtaining regulatory approvals (e.g., occupancy certificates) the temporary nature of the lease does not, in itself, alter the entity's original intention. If the lease is clearly short term and serves as an interim arrangement, the property may still be considered as held for sale and thus classified as inventory.

Although this EAC opinion is based on the Ind AS framework, the principles outlined can also serve as a useful reference when applying the AS framework.

Conclusion

Based on the definitions provided in AS 2 and AS 13, and guided by the principles outlined by the EAC under the Ind AS framework, the classification of a completed real estate property depends primarily on the company's intention for holding the asset. If the property is held for sale in the ordinary course of business, even if it is temporarily leased out due to external factors such as pending regulatory approvals it should be classified as inventory. Temporary leasing, when clearly intended as an interim measure, does not change the underlying purpose of sale and therefore does not warrant reclassification as investment property.

Model	Response generated by the Bot	Accuracy_% (GPT 4o as the judge)
GPT o3pro (No Prompt)	<p>Answer in brief</p> <p>Keep the asset in “Real estate inventory”.</p> <p>Letting it for a short period while the occupancy certificate is awaited does not change its character, because the developer’s dominant intention is still to sell the units in the normal course of its business. The lease income is only an incidental, temporary arrangement.</p> <p>Reasoning – step by step</p> <p>1. What the Standards call “investment property”</p> <ul style="list-style-type: none"> AS 13, para 5.1: Investment property is “an investment in land or buildings that are not intended to be occupied substantially for use by, or in the operations of, the enterprise, nor for sale in the ordinary course of business, but are held to earn rentals or for capital appreciation ...”. <p>2. What the Standards call “inventory”</p> <ul style="list-style-type: none"> AS 2 and the ICAI Guidance Note on Accounting for Real Estate Transactions (Revised 2012): Property that a real estate developer constructs or purchases “for sale in the ordinary course of business” is inventory. <p>3. Apply the definitions</p> <ul style="list-style-type: none"> The company is a developer; the property was constructed with the clear objective of selling it. The rental arrangement arose only because the final regulatory approval (occupancy certificate) has been delayed. Therefore the property is “held for sale in the ordinary course of business” – it fits the definition of inventory and fails the definition of investment property. <p>4. Temporary letting does NOT change classification</p> <ul style="list-style-type: none"> AS 13 does not require reclassification simply because rental income is earned. The Guidance Note (Para 20.5) specifically states that a completed project “kept pending for sale and temporarily let out” continues to be inventory. Ind AS 40 (para 10(c)), for entities that have adopted Ind AS, echoes the same principle. <p>5. Accounting treatment</p> <ul style="list-style-type: none"> Carry the property as inventory, measured at lower of cost and net realisable value under AS 2. Recognise the lease/rental income in the P&L as “other operating income” or “other income”; present any related expenses accordingly. Do not transfer the property to “Investment property” unless the strategy itself changes (i.e., the property is now to be held long term to earn rentals/capital appreciation and not for sale). <p>Conclusion</p> <p>A completed real estate project that is only temporarily leased out while waiting for an occupancy certificate (or similar approval) should be classified and presented as “Real Estate Inventory”, not as an “Investment Property”.</p>	50
GPT o3 (No Prompt)	<p>Real-estate property that a developer has built with the objective of selling it in the normal course of its business continues to be “inventory”, even if the unit is let out for a short period while the developer waits for the statutory occupancy certificate or other approvals.</p> <p>Why?</p>	20.83

Model	Response generated by the Bot	Accuracy_% (GPT 4o as the judge)
	<p>1. Definition test</p> <ul style="list-style-type: none"> • Ind AS / IAS 2 “Inventories”: assets held for sale in the ordinary course of business. • Ind AS / IAS 40 “Investment Property”: property held to earn rentals and/or for capital appreciation, rather than for sale in the ordinary course of business. <p>2. Specific paragraph in the standard</p> <p>Ind AS 40 / IAS 40, paragraph 10(c) (wording very similar in both):</p> <p>“If an entity ordinarily sells properties in the ordinary course of its business, a property that is held for sale, but is leased out temporarily until it is sold, is inventory and not investment property.”</p> <p>3. Substance over form</p> <p>The temporary leasing is only a way to generate some income while approvals are pending; it does not change the underlying business purpose, which is to sell the unit.</p> <p>4. Accounting consequences</p> <ul style="list-style-type: none"> • Continue to carry the asset as “Real-estate inventory” and measure it under Ind AS / IAS 2 (cost or NRV, whichever is lower). • No depreciation is charged on inventory. • Rental income received in the interim is recognised as revenue/other income in P&L. • If, at a later date, management decides to hold the property permanently for rental yield or capital appreciation, it may be reclassified to “Investment property” from the date that intention changes, following the transfer rules in Ind AS / IAS 40 (para 57). <p>Answer</p> <p>Therefore, under the AS/Ind AS framework the completed property should be presented as “Real Estate Inventory”, not as “Investment Property”, as long as the company’s intention remains to sell the unit once the regulatory approvals are obtained.</p>	
GPT 4o (No Prompt)	<p>Under the Accounting Standards (AS) framework, particularly referring to the guidance provided in Indian Accounting Standards (Ind AS) or similar national standards that align with IFRS, the classification of a completed real estate property would depend on the intention and business model of the company regarding this property.</p> <p>If the primary intention of the company is to sell the property and it is temporarily leased out only for the period while awaiting regulatory approvals like an occupancy certificate, it should generally be classified as 'Real Estate Inventory'. This is because the ultimate objective is to sell the property and not to earn rental income over the long term.</p> <p>However, if the property is intended to be held for rental income and/or capital appreciation and not primarily meant for sale in the ordinary course of business, it would be classified as an 'Investment Property'.</p> <p>In the scenario described, since the property is temporarily leased out until regulatory approvals are received, indicating an intention to sell eventually, 'Real Estate Inventory' would typically be the appropriate classification. It's essential for the company to document its intentions clearly and ensure that the classification aligns with its business model and long term strategy.</p>	25
GPT 4o mini (No Prompt)	<p>Under the Accounting Standards (AS) framework, the classification of a completed real estate property that is temporarily leased out while awaiting regulatory approvals, such as an occupancy certificate, would depend on the intended use of the property.</p> <p>Investment Property: According to AS 13 (Accounting for Investments) and AS 16 (Property, Plant and Equipment), investment property is defined as property (land or building) held to earn rentals or for capital appreciation or both. If the company's intent is to hold the property primarily for rental income or capital appreciation, even if it is temporarily leased out, it would generally be classified as an investment property.</p>	8.33

Model	Response generated by the Bot	Accuracy_ % (GPT 4o as the judge)
	<p>Real Estate Inventory : This category typically involves properties that are held for sale in the ordinary course of business, like properties that are developed for resale. If the company intends to sell the property once regulatory approvals are obtained, it would classify it as real estate inventory.</p> <p>In your specific situation, if the property is held primarily for the purpose of renting it out and is expected to generate income, then it should be classified as Investment Property . If the company is holding the property temporarily and its primary intention is to sell it once approvals are in place, then it would be classified as Real Estate Inventory .</p> <p>Ultimately, the classification should reflect the company's management's intentions regarding the property and should be consistent with how other similar properties are classified in the financial statements. It is also advisable to consult the specific relevant accounting standards and guidelines applicable in your jurisdiction or seek professional accounting advice for definitive classification.</p>	
GPT o1 (No Prompt)	<p>Under the Accounting Standards (AS) framework in India, the key factor in determining whether a completed real estate property should be classified as “real estate inventory” or “investment property” is the intended purpose for holding the property.</p> <ul style="list-style-type: none"> • If the primary intention is to sell the property in the ordinary course of business (e.g., once regulatory approvals are in place), it should continue to be classified as “inventory.” • If, however, it is held primarily to earn rental income or for capital appreciation on a long term basis, it should be classified as “investment property.” <p>In your scenario, the property is only being leased out temporarily while awaiting regulatory approvals (e.g., an occupancy certificate) and is ultimately intended for sale. As a result, under the AS framework, the correct classification would typically be as “real estate inventory,” even though it is earning rent in the interim.</p>	25
Gemini 2.5pro (No Prompt)	<p>Excellent question. This scenario touches upon a nuanced area in accounting for real estate under the Accounting Standards (AS) framework. The key to the correct classification lies in understanding the primary intention of the management and the nature of the company's ordinary business activities.</p> <p>Under the AS framework, the property should be classified as Real Estate Inventory .</p> <p>Here is a detailed breakdown of the reasoning, referencing the relevant standards and guidance.</p> <p>The Core Principle: Management's Intention</p> <p>The primary factor that distinguishes Inventory from an Investment Property is the management's intention for holding the asset.</p> <p>Real Estate Inventory: Property held for sale in the ordinary course of business . This is the defining characteristic. A company that develops properties with the primary goal of selling them to customers is a real estate developer, and its completed properties are its</p>	75

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	<p>inventory.</p> <p>Investment Property: Property (land or a building or part of a building or both) held to earn rentals or for capital appreciation, or both , rather than for use in the production or supply of goods or services, for administrative purposes, or for sale in the ordinary course of business.</p> <p>In your scenario, the company is a real estate developer. Its ordinary course of business is to construct and sell properties. The ultimate intention for this completed property is to sell it, not to hold it for long term rental income or capital appreciation.</p> <p>Analysis of the Specific Circumstances</p> <p>Let's break down the two complicating factors you mentioned:</p> <p>1. Awaiting Regulatory Approvals (e.g., Occupancy Certificate OC):</p> <p>The lack of an OC does not change the nature of the asset; it only affects its readiness for sale.</p> <p>The property is still fundamentally an asset "held for sale."</p> <p>The process of obtaining regulatory approvals is a normal and expected part of completing a real estate project for sale.</p> <p>Therefore, the property remains part of the developer's inventory during this period. It is simply inventory that is not yet in a saleable condition, but its classification as inventory is unchanged.</p> <p>2. Temporarily Leased Out:</p> <p>This is the most critical point of confusion. However, the temporary nature of the lease is key.</p> <p>Incidental Income: The rental income earned during this interim period is considered incidental to the main business activity of developing and selling the property.</p> <p>Primary vs. Ancillary Purpose: The primary purpose for holding the asset remains "sale." The leasing is an ancillary activity undertaken to generate some cash flow while waiting for the conditions for sale (the OC) to be met. It does not represent a change in the strategic intention for the asset.</p> <p>No Reclassification: A temporary lease does not trigger a reclassification from Inventory to Investment Property. A reclassification would only be appropriate if there were a clear change in use , evidenced by a formal decision to hold the property for the long term to earn rentals, and the company ceasing active efforts to sell it.</p> <p>Guidance from the Institute of Chartered Accountants of India (ICAI)</p> <p>The Guidance Note on Accounting for Real Estate Transactions (Revised 2012) issued by the ICAI provides direct clarity on this matter.</p> <p>It reinforces that properties acquired or developed with the intention of selling are</p>	

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	<p>inventory.</p> <p>It explicitly states that any income earned from such properties before they are ready for their intended use (sale) should be treated as a reduction from the cost of the inventory, not as revenue.</p> <p>Therefore, the rental income earned from the temporary lease should not be credited to the Statement of Profit and Loss as "Rental Income." Instead, it should be deducted from the project costs , thereby reducing the carrying value of the Real Estate Inventory.</p> <p>Summary of Classification and Accounting Treatment</p> <p> Aspect Classification and Treatment </p> <p> : : </p> <p> Classification Real Estate Inventory (under Current Assets, unless the operating cycle is longer than 12 months, which is common in real estate). </p> <p> Governing Standard AS 2: Valuation of Inventories . </p> <p> Valuation Valued at Cost or Net Realisable Value (NRV) , whichever is lower. </p> <p> Cost Component Includes all costs of purchase, costs of conversion (construction), and other costs incurred in bringing the inventories to their present location and condition. </p> <p> Treatment of Rental Income The temporary rental income earned should be deducted from the cost of the project/inventory . It is not recognized as revenue. </p> <p> Treatment of Related Expenses Expenses incurred to earn this temporary rental income (e.g., minor maintenance) should also be adjusted against the rental income before the net amount is deducted from the project cost. </p> <p>Conclusion</p> <p>A completed real estate property that is temporarily leased out while awaiting an occupancy certificate should be classified as Real Estate Inventory . The decision is driven by the developer's primary intention to sell the property in its ordinary course of business. The temporary lease is an incidental activity, and the net income from it should be used to reduce the carrying cost of the inventory, in line with the guidance provided by the ICAI.</p>	
Gemini Flash2.5 (No Prompt)	<p>Under the AS framework (Indian Accounting Standards, which are converged with IFRS), the classification of a completed real estate property that is temporarily leased out while awaiting regulatory approvals (like an occupancy certificate) hinges critically on the ultimate intention of the company regarding that property.</p> <p>Here's a breakdown:</p> <p>1. Investment Property (AS 40):</p> <p>Definition: Property (land or a building—or part of a building—or both) held by the owner or by the lessee under a finance lease to earn rentals or for capital appreciation or both, rather than for:</p> <p>Use in the production or supply of goods or services or for administrative purposes</p>	33.33

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	<p>(which would be Property, Plant and Equipment AS 16).</p> <p>Sale in the ordinary course of business (which would be Inventory AS 2).</p> <p>Application to your scenario: If the company's ultimate intention, once the regulatory approvals are received, is to hold the property for long term rental income or for capital appreciation, then the property should be classified as Investment Property from the point it meets the definition (i.e., when it's completed and the intention to hold for rentals/appreciation is established, even if temporarily leased out). The temporary lease is merely a precursor to its intended long term use.</p> <p>2. Real Estate Inventory (AS 2 Inventories):</p> <p>Definition: Inventories are assets:</p> <p>Held for sale in the ordinary course of business.</p> <p>In the process of production for such sale.</p> <p>In the form of materials or supplies to be consumed in the production process or in rendering services.</p> <p>Application to your scenario: If the company's ultimate intention, once the regulatory approvals are received, is to sell the property in the ordinary course of its business (e.g., a real estate developer building units for sale), then the property should be classified as Real Estate Inventory. The temporary lease in this case is a stop gap measure to generate some income while the property awaits the final legal clearance for sale. It does not change the fundamental purpose for which the property is held.</p> <p>Key Deciding Factor: Management's Intent</p> <p>The crucial determinant is the primary purpose or ultimate intention for which the property is held by the company.</p> <p>If the property is built primarily for sale: It's Inventory. The temporary lease is incidental.</p> <p>If the property is built primarily to generate rental income or for capital appreciation: It's Investment Property. The temporary lease is part of that income generating strategy.</p> <p>Example:</p> <p>Developer A builds residential apartments. While awaiting the occupancy certificate, they temporarily lease out a few units to generate cash flow. Their ultimate plan is to sell these units. Classification: Real Estate Inventory.</p> <p>Developer B builds a commercial complex. They intend to hold the complex for long term rental income. While awaiting the final fire safety certificate, they sign short term leases with initial tenants. Classification: Investment Property.</p> <p>Conclusion:</p> <p>A completed real estate property temporarily leased out while awaiting regulatory approvals should be classified as:</p> <p>Real Estate Inventory (AS 2) if the ultimate intention is to sell it in the ordinary course of</p>	

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	<p>business.</p> <p>Investment Property (AS 40) if the ultimate intention is to hold it for long term rental income or capital appreciation.</p> <p>The temporary nature of the lease and the pending approvals do not, by themselves, dictate the classification; rather, it's the underlying business model and management's intent for the asset that governs its accounting treatment.</p>	
Grok3 (No Prompt)	<p>Under the Accounting Standards (AS) framework, a completed real estate property that is temporarily leased out while awaiting regulatory approvals, such as an occupancy certificate, should be classified as 'Real Estate Inventory' or 'Inventory' rather than as an 'Investment Property'.</p> <p>Here's why:</p> <ol style="list-style-type: none"> 1. Primary intention : The primary intention of holding the property is to sell it, not to generate rental income. Although it is temporarily leased out, the ultimate goal is to dispose of the property, which aligns with the definition of inventory. 2. Regulatory approvals pending : The property is awaiting regulatory approvals, such as an occupancy certificate, which suggests that it is not yet ready for its intended use. This implies that the property is still in the process of being prepared for sale, rather than being held for rental income or capital appreciation. 3. AS definition : According to AS, 'Inventory' includes goods or other assets held for sale in the ordinary course of business. In this case, the completed real estate property is held for sale, which meets the definition of inventory. 4. Distinction from Investment Property : Investment Property, on the other hand, is defined as property held to earn rentals or for capital appreciation, or both. Since the primary intention is to sell the property, rather than holding it for rental income or capital appreciation, it does not meet the definition of Investment Property. <p>Therefore, under the AS framework, a completed real estate property that is temporarily leased out while awaiting regulatory approvals should be recognized as 'Real Estate Inventory' or 'Inventory', rather than as an 'Investment Property'.</p>	25
Claude4 (No Prompt)	<p>Under the AS (Accounting Standards) framework, this scenario requires careful analysis of the substance over form principle and the primary purpose of holding the property.</p> <p>Classification Analysis</p> <p>Real Estate Inventory Classification</p> <p>The property should likely be classified as Real Estate Inventory based on these factors:</p>	33.33

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	<p>Supporting Arguments:</p> <p>Primary Business Purpose : If the company is a real estate developer/builder, this property was constructed for sale in the ordinary course of business</p> <p>Temporary Nature : The leasing arrangement is explicitly temporary while awaiting regulatory approvals</p> <p>Intent to Sell : The ultimate intention remains to sell the property once approvals are obtained</p> <p>Regulatory Constraint : The delay is due to external regulatory processes, not a change in business strategy</p> <p>Key Considerations Under AS Framework</p> <p>AS 2 (Valuation of Inventories):</p> <p>Properties held for sale in ordinary course of business qualify as inventory</p> <p>Temporary rental income doesn't change the fundamental classification</p> <p>AS 13 (Accounting for Investments):</p> <p>Investment property classification requires holding primarily for rental income or capital appreciation</p> <p>The temporary nature and regulatory constraints suggest this isn't the primary purpose</p> <p>Accounting Treatment Recommendations</p> <ol style="list-style-type: none"> 1. Classification : Maintain as Real Estate Inventory 2. Valuation : Lower of cost or net realizable value (AS 2) 3. Rental Income : Recognize as other income, not as primary revenue 4. Disclosure : Clearly disclose the temporary leasing arrangement and pending regulatory approvals <p>Exception Scenario</p> <p>Only reclassify to Investment Property if:</p> <p>Company demonstrates a genuine change in business strategy</p> <p>Decision made to hold long term for rental income</p> <p>Not merely due to regulatory delays</p> <p>The substance over form principle supports inventory classification given the temporary nature and original intent to sell.</p>	
DeepseekV3 (No Prompt)	<p>Under the Accounting Standards (AS) framework , the classification of a completed real estate property that is temporarily leased out while awaiting regulatory approvals (such as an occupancy certificate) depends on the intent and circumstances of the holding. The key considerations are:</p> <p>1. Classification as 'Real Estate Inventory' (AS 2 / Ind AS 2)</p> <p>If the primary purpose of holding the property is for sale in the ordinary course of</p>	33.33

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	<p>business (e.g., a real estate developer selling residential/commercial units), then it should be classified as inventory .</p> <p>Even if the property is temporarily leased out , the intention to sell remains the dominant factor.</p> <p>The leasing activity is incidental and does not change the classification.</p> <p>2. Classification as 'Investment Property' (AS 13 / Ind AS 40)</p> <p>If the property is held primarily for earning rentals or for capital appreciation (rather than for sale), it should be classified as investment property .</p> <p>However, if the leasing is temporary (e.g., while awaiting approvals before sale), it does not automatically qualify as investment property.</p> <p>Key Judgment Factors:</p> <p>Intent of management : If the company plans to sell the property once approvals are obtained, it remains inventory .</p> <p>Nature of business : A real estate developer typically holds properties for sale, not as long term rentals.</p> <p>Temporary vs. strategic leasing : If leasing is merely a short term measure, it does not change the classification.</p> <p>Conclusion:</p> <p>Most likely classification : Real Estate Inventory (under AS 2), because the leasing is temporary, and the primary intent is sale.</p> <p>Exception : If the company decides to hold the property indefinitely for rental income , it may be reclassified as investment property (AS 13 / Ind AS 40).</p> <p>Disclosure Requirement:</p> <p>The company should disclose the temporary leasing arrangement in the financial statements, explaining why the property is still classified as inventory despite being leased.</p> <p>Would you like further clarification on any specific aspect?</p>	

Query 2: ABC Ltd., a listed manufacturing company in India with significant foreign shareholding, is planning to transfer one of its divisions (Division A) to its wholly owned subsidiary, ABC Subsidiary, through a slump sale for a consideration of ₹200 crores. The transfer is scheduled for 1st February 2025. ABC Ltd. intends to receive the consideration in the form of fresh equity shares issued by ABC Subsidiary at face value.

1. Will the provisions of Section 56(2)(x) of the Income tax Act, 1961 apply to the fresh issue of equity shares by ABC Subsidiary to ABC Ltd. as consideration for the slump sale?
2. Is ABC Ltd. required to obtain a valuation report based on the audited financial statements as of 31st January 2025 to determine the fair market value (FMV) of Division A in accordance with Rule 11UAE of the Income tax Rules, 1962?

Ground Truth:

Relevant Legal Provisions:

1. Section 56(2)(x) of the Income tax Act, 1961 states that if a company receives shares at a price lower than their fair market value, the difference shall be taxed as income from other sources.
2. Rule 11UAE of the Income tax Rules, 1962 outlines the method for determining the FMV of capital assets transferred via slump sale.

Analysis:

1. Applicability of Section 56(2)(x):

- In the context of the proposed transaction, ABC Ltd. will receive fresh equity shares from ABC Subsidiary as consideration for the slump sale of Division A. According to the interpretation of Section 56(2)(x), the 'receipt' must pertain to an existing property. Therefore, fresh issues of shares do not fall under the purview of this section.
- This interpretation is supported by the Gujarat High Court's decision in the case of Jigar Jaswant Lal Shah [(2023) 460 ITR 628], which suggests that fresh share issuance does not trigger Section 56(2)(x). Additionally, since the transaction occurs between a holding company and its wholly owned subsidiary, it is further defensible that such transactions are exempt under the proviso to Section 56(2)(x) concerning transactions covered under Section 47(iv)/(v).
- While there may be potential litigation due to conflicting CBDT circulars, the relationship between ABC Ltd. and ABC Subsidiary strengthens the argument against the applicability of Section 56(2)(x) in this scenario.

2. Requirement for Valuation Report:

- Under Section 50B of the Income tax Act, read with Rule 11UAE, the FMV of capital assets transferred via slump sale should be determined based on the book value of the assets as recorded in the books of accounts of ABC Ltd. on the date of the slump sale.
- Rule 11UAE does not explicitly mandate the use of audited financial statements for determining FMV. Therefore, while obtaining a valuation report from a professional valuer is advisable for credibility, it is not a legal requirement under Rule 11UAE.
- It is important to note that if the undertaking includes specified assets, a valuation report may be necessary for those specific assets as per Rule 11UA. However, for the overall valuation of FMV, self certification may suffice.

Conclusion:

- The provisions of Section 56(2)(x) will not apply to the fresh issue of equity shares by ABC Subsidiary to ABC Ltd. as consideration for the slump sale, given the nature of the transaction and the existing legal interpretations.
- ABC Ltd. is not legally required to obtain a valuation report based on audited financial statements for determining the FMV of Division A under Rule 11UAE, although it is advisable to do so for enhanced credibility and to mitigate any potential disputes

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GPT o3pro (No Prompt)	<p>1. Applicability of section 56(2)(x)</p> <p>Section 56(2)(x) taxes the recipient when “any person receives any money or any property ... for nil or for inadequate consideration”. However, the first proviso to the section carves out several situations in which the clause does not operate. Clause (IV) of that proviso (worded identically to section 47(iv)/(v)) reads in substance as follows:</p> <p>“Nothing contained in this clause shall apply to any transfer of a capital asset— (a) by a company to its wholly owned Indian subsidiary, or (b) by a wholly owned subsidiary company to its Indian holding company.”</p> <p>In the proposed transaction:</p> <ul style="list-style-type: none"> • ABC Ltd. (transferor) is transferring a capital asset (the undertaking) to • ABC Subsidiary (transferee) which is a 100 % Indian subsidiary, and • the consideration will be discharge by issue of fresh shares of the subsidiary. <p>Therefore the receipt of those fresh shares by ABC Ltd. falls squarely within the above carve out. The tax charge created by section 56(2)(x) is consequently switched off.</p> <p>Even apart from the specific carve out, a number of judicial pronouncements (e.g. Sudhir Menon [2014] 148 ITD 260 (Mum); NIVI Trading [2021] 198 ITD 78) have held that the original issue of shares by a company does not constitute “receipt of property” for the purposes of section 56, because no one transfers an existing property— new property is only coming into existence. Hence, on either footing, section 56(2)(x) will not apply.</p> <p>2. Whether a valuation under Rule 11UAE (FMV of the undertaking) is required</p> <p>Rule 11UAE is relevant only when section 50B (capital gains on “slump sale”) is attracted, because sub section (2) of section 50B mandates that where the full value of consideration is less than the rule based FMV, such FMV shall be deemed to be the consideration.</p> <p>Here, however, section 47(iv) declares that a transfer by a company to its wholly owned Indian subsidiary “shall not be regarded as a transfer” at all. Once the transaction is outside the ambit of the word “transfer”, section 45 is not triggered, and section 50B along with Rule 11UAE becomes otiose. Consequently:</p> <ul style="list-style-type: none"> • ABC Ltd. is not obliged to compute FMV1 / FMV2 under Rule 11UAE; • No mid year audited balance sheet (31 January 2025) is required for tax purposes; • A simple certificate of book values by a Chartered Accountant, if desired for internal documentation or for the statutory auditors, is usually considered sufficient. <p>(If for any non tax purpose—FEMA, Companies Act, IND AS, SEBI reporting, etc.— a valuation is desired, that would be a separate compliance exercise, not mandated by the Income tax Act.)</p> <p>Summary</p>	75

Model	Response generated by the Bot	Accuracy_% (GPT 4o as the judge)
	<p>1. Section 56(2)(x) will NOT apply to the fresh issue of shares by ABC Subsidiary to ABC Ltd. because of the specific exemption for transfers between an Indian holding company and its 100 % Indian subsidiary (proviso to s.56(2)(x) read with s.47(iv)/(v)) and, in any event, the original issue of shares is not a “receipt of property” contemplated by that section.</p> <p>2. Since the transfer is not regarded as a “transfer” under section 47(iv), section 50B and Rule 11UAE do not come into play. Hence ABC Ltd. is not required to obtain an audited valuation as of 31 January 2025 for the purpose of determining FMV of Division A.</p>	
GPT o3 (No Prompt)	<p>1. Taxability of the fresh issue of shares in the hands of ABC Ltd. – Section 56(2)(x)</p> <ul style="list-style-type: none"> • Section 56(2)(x) taxes “specified property” (including shares and securities) received for no consideration or for inadequate consideration. • The second proviso to Section 56(2)(x) specifically carves out transactions that are “not regarded as transfer” under several clauses of Section 47, inter alia clauses (iv) and (v). • Section 47(iv) covers “any transfer of a capital asset by a company to its wholly owned Indian subsidiary company”. A slump sale of an undertaking by ABC Ltd. (the holding company) to ABC Subsidiary (its 100 % Indian subsidiary) squarely falls under this clause; consequently the transfer is not a “transfer” for the purposes of capital gains. (Bombay HC: CIT v. Bharat Bijlee Ltd. (2014) 365 ITR 258). • Because the slump sale is a transaction to which Section 47(iv) applies, the consideration (fresh equity shares) received by ABC Ltd. is covered by the exclusion in the second proviso to Section 56(2)(x). • Further, Explanation (d) to Section 56(2)(x) clarifies that “property” does not include any consideration received by a company for issue of its own shares; the tax charge is on the recipient. Here, however, the carve out under Section 47(iv) already protects the recipient. <p>Therefore, Section 56(2)(x) will NOT apply to the equity shares issued by ABC Subsidiary to ABC Ltd. as consideration for the slump sale, provided the conditions of Section 47(iv) (100 % shareholding, Indian subsidiary, etc.) are fully satisfied.</p> <p>2. Requirement of a special valuation under Rule 11UAE (FMV for slump sale)</p> <ul style="list-style-type: none"> • Rule 11UAE prescribes the manner of computing “fair market value” of an undertaking for the purposes of Section 50B (capital gains on slump sale). The Rule is relevant only if the slump sale is taxable under Section 50B. • As explained above, the proposed transfer qualifies for exemption under Section 47(iv); if that exemption is validly availed, the transaction is NOT a “transfer” for capital gains and Section 50B is rendered inapplicable. Consequently, Rule 11UAE is also not attracted. • Even where Section 50B does apply, Rule 11UAE does NOT insist on audited interim financial statements. It merely requires the book values of assets and liabilities “as on the date of slump sale” to be certified by an “accountant” (chartered accountant) and, for certain asset classes, parallel external valuations (e.g. merchant banker valuation for intangible assets). A statutory audit of financial statements as at 31 January 2025 is therefore not mandated by the Rule. <p>Hence, in the facts stated:</p>	75

Model	Response generated by the Bot	Accuracy_% (GPT 4o as the judge)
	<ul style="list-style-type: none"> • No separate FMV determination under Rule 11UAE, nor an audited balance sheet as at 31 January 2025, is required for ABC Ltd., because the slump sale itself is outside the capital gains net by virtue of Section 47(iv). • If, for any reason, the conditions of Section 47(iv) were not fully met (e.g. the subsidiary ceases to be 100 % held at the time of transfer), Section 50B would apply; in that situation an accountant's certificate of book values (not necessarily an audited interim balance sheet) together with the other components of Rule 11UAE valuation would be needed. <p>Summary</p> <ol style="list-style-type: none"> 1. Section 56(2)(x) will not tax the shares issued by ABC Subsidiary to ABC Ltd. because the transaction is covered by the exemption in Section 47(iv). 2. No audited 31 January 2025 valuation report is required; Rule 11UAE is triggered only if Section 50B applies, which it does not when Section 47(iv) exemption is available. 	
GPT 4o (No Prompt)	<p>1. Section 56(2)(x) Application:</p> <p>Section 56(2)(x) of the Income tax Act, 1961, deals with the taxation of income where an individual or Hindu Undivided Family (HUF) receives money or property without adequate consideration. It generally applies to individuals and HUFs receiving gifts or assets for inadequate consideration, leading to income tax liability on the difference between the fair market value and the consideration paid.</p> <p>In this scenario, ABC Ltd. is transferring Division A to its subsidiary, ABC Subsidiary, in exchange for equity shares. As a corporate entity, ABC Ltd. is undertaking a business reorganization transaction, not a gift or a gratuitous transfer. Transactions between companies, especially in the context of business restructuring like slump sales, typically do not fall under the purview of Section 56(2)(x) because they are not considered transfers without consideration. Instead, they usually fall under specific provisions related to business transfers and reorganization.</p> <p>Therefore, the provisions of Section 56(2)(x) should not apply to this transaction of issuing fresh equity shares by ABC Subsidiary to ABC Ltd. as consideration for the slump sale.</p> <p>2. Valuation Report Requirement:</p> <p>In the context of a slump sale, the determination of the consideration for the transfer of a business undertaking is crucial for tax computation purposes, particularly for capital gains tax. The Income tax Rules, specifically Rule 11UAE, provide the method for computing the fair market value (FMV) of a business undertaking transferred via slump sale.</p> <p>According to Rule 11UAE, the FMV of the capital assets transferred in a slump sale is determined based on a formula involving net asset value and liabilities. To ensure accurate valuation, particularly when equity shares are involved as consideration, obtaining a valuation report may be necessary. This report should be in line with the methodology prescribed under the Income tax Rules, often substantiated by audited financial statements preceding the</p>	25

Model	Response generated by the Bot	Accuracy_% (GPT 4o as the judge)
	<p>transfer date.</p> <p>Therefore, it would be prudent for ABC Ltd. to obtain a valuation report as of 31st January 2025, based on the audited financials, to document and substantiate the fair market value of Division A for the purposes of this slump sale. This step is critical for ensuring compliance with tax regulations and to determine the appropriate capital gains tax liability, if any.</p>	
GPT 4o mini (No Prompt)	<p>1. Applicability of Section 56(2)(x) :</p> <p>Section 56(2)(x) of the Income tax Act, 1961 deals with the taxation of "income from other sources" when a person receives an asset for inadequate consideration. In the case of a slump sale where ABC Ltd. is transferring Division A to its wholly owned subsidiary ABC Subsidiary in exchange for fresh equity shares, the relevant aspect is to determine whether the consideration (the value of shares received) is less than the fair market value (FMV) of the division being transferred.</p> <p>The shares issued by ABC Subsidiary as consideration for the slump sale would be treated as a transfer of shares for tax purposes. Since the transfer is taking place at a face value which is likely to be less than the FMV of Division A, Section 56(2)(x) could trigger capital gains tax implications if the shares are undervalued as compared to the value of the assets being transferred. However, given that this is an intra group transfer and a slump sale situation, there seem to be provisions that may protect against such implications, especially considering that these transactions often occur at book value or other negotiated rates.</p> <p>To conclude, if the shares are issued at face value and this value is significantly lower than the FMV of Division A, Section 56(2)(x) potentially applies to tax the difference as income from other sources. However, exemptions might apply due to the nature of the transaction, and specific legal advice should be taken.</p> <p>2. Requirement of a Valuation Report :</p> <p>According to Rule 11UAE of the Income tax Rules, 1962, the fair market value (FMV) of the assets transferred in situations including slump sales can be crucial for compliance reasons. While it's customary to obtain a valuation report in most scenarios to ascertain FMV, it is not legally mandated for every slump sale transaction.</p> <p>In this case, since ABC Ltd. is transferring a division to its wholly owned subsidiary and subject to the provisions and exemptions applicable to such transactions, it would typically be advisable to obtain a valuation report based on the audited financial statements as of 31st January 2025 to determine the FMV of Division A. This will provide a benchmark and ensure there's clarity on the treatment of any tax implications arising from the transaction, especially in the context of determining whether the value of the shares received is consistent with the FMV of the assets transferred.</p> <p>In summary, while not strictly required, obtaining a valuation report would be prudent for proper disclosure and to mitigate potential tax challenges.</p>	25

Model	Response generated by the Bot	Accuracy_% (GPT 4o as the judge)
GPT o1 (No Prompt)	<p>Answer in Brief</p> <p>1) In the ordinary course, the fresh issue (allotment) of shares by a company does not, by itself, attract Section 56(2)(x) in the hands of the recipient, because “creation” of new shares is generally not regarded as a “transfer” of existing property. Accordingly, merely receiving newly issued shares from one’s own subsidiary in exchange for a business undertaking (slump sale) would not normally trigger Section 56(2)(x).</p> <p>2) Although Section 56(2)(x) may not apply, for purposes of computing capital gains on a slump sale under Section 50B (especially after Finance Act 2021 amendments), the “full value of consideration” may be required to be taken at Fair Market Value (FMV) as determined under Rule 11UAE. In practice, that necessitates obtaining a valuation report as of (or proximate to) the date of transfer. Hence, ABC Ltd. would be well advised to prepare (and have audited) a balance sheet as of 31 January 2025 (the day before the slump sale) and obtain a valuation in accordance with Rule 11UAE to substantiate the FMV of Division A.</p> <p>1) Applicability of Section 56(2)(x) on fresh issue of shares</p> <ul style="list-style-type: none"> • “Property” under Section 56(2)(x) includes “shares and securities.” Hence, if one “receives” shares for no or inadequate consideration, Section 56(2)(x) can in principle apply. • However, when a company allots new (freshly created) shares, courts and CBDT clarifications have tended to view this not as a “transfer” from any existing holder but rather as a “creation” of shares. Accordingly, an allotment of shares by a subsidiary to its holding company, against consideration in the form of a slump sale, does not ordinarily invite Section 56(2)(x) in the hands of the holding company. • In other words, if ABC Ltd. is transferring Division A at a bona fide negotiated value of ₹200 crores and receiving newly created shares of equivalent agreed value, there is typically no “gift” element or shortfall that would trigger Section 56(2)(x). <p>2) Valuation Report under Rule 11UAE for Slump Sale</p> <ul style="list-style-type: none"> • Under Section 50B, gains on a slump sale are computed by subtracting the “net worth” of the undertaking from the “full value of consideration.” • Following amendments introduced by the Finance Act, 2021, one must also ensure that the “full value of consideration” for a slump sale is at least the Fair Market Value determined as per Rule 11UAE. • Rule 11UAE prescribes a method for valuing each capital asset and other assets, and netting off the book value of liabilities, to arrive at the slump sale FMV. • Because the slump sale is proposed on 1 February 2025, ABC Ltd. would need audited financials/valuation as on or around that date (most likely 31 January 2025) so that the “net worth” figure and the Rule 11UAE-mandated FMV can be determined accurately. <p>Hence:</p> <ul style="list-style-type: none"> • Section 56(2)(x) should not apply to the receipt of newly issued shares by ABC Ltd. from its wholly owned subsidiary in a slump sale. 	75

Model	Response generated by the Bot	Accuracy_% (GPT 4o as the judge)
	<ul style="list-style-type: none"> • ABC Ltd. does, however, need to ensure compliance with the valuation requirements under Rule 11UAE for determining FMV, to correctly compute capital gains under Section 50B. Accordingly, obtaining a valuation report based on audited financials as of 31 January 2025 would be advisable (and in practice, required). 	
GPT o4 mini (No Prompt)	<p>1. No. Section 56(2)(x) is the anti-abuse provision which “tops up” the consideration when a person receives shares or other property for less than their fair market value (FMV) in circumstances which are not otherwise on the ordinary footing of the Income-tax Act. But in your case the shares of ABC Subsidiary are not being issued to ABC Ltd. gratuitously or by way of share swap, gift, capital infusion, etc., but purely as the contractually agreed lump sum consideration for a slump sale of a business division under section 50B. The Act itself says that in a slump sale the entire consideration received “shall be deemed to be full value of the consideration” for computing capital gains in the hands of the transferor. In other words, the issue of shares is merely the medium by which the ₹200 crore is paid, and the transaction is governed by the special charging and computation rules of section 50B (and not the deeming provisions of section 56(2)(x)). Accordingly, section 56(2)(x) will not bite on ABC Ltd.’s receipt of shares in ABC Subsidiary as consideration for the slump sale.</p> <p>2. No. Rule 11UAE is the valuation rule which applies when you have to “top up” the consideration under section 56(2)(x) by computing the FMV of the shares or property so received. Since you have just shown that section 56(2)(x) does not apply, there is no statutory requirement to obtain a Rule 11UAE based FMV certificate for tax purposes. For computing your capital gains under section 50B you simply take the lump sum consideration of ₹200 crore as the “full value of consideration” and deduct the net worth of Division A (as on the relevant date) – no separate FMV of the division under Rule 11UAE is required.</p> <p>(As a housekeeping point, you may still need a valuation report for accounting or Ind AS purposes, or for internal approvals. But from the standpoint of the Income tax Act and section 56(2)(x)/Rule 11UAE, there is no requirement in your facts.)</p>	29.17
Gemini 2.5pro (No Prompt)	<p>This is an excellent and practical question that delves into the nuances of Indian income tax law concerning corporate restructuring. Based on the facts provided, here is a detailed analysis of the two questions.</p> <p>1. Applicability of Section 56(2)(x) to the Fresh Issue of Shares</p> <p>Short Answer: No, the provisions of Section 56(2)(x) of the Income tax Act, 1961, will not apply to the fresh issue of equity shares by ABC Subsidiary to its holding company, ABC Ltd.</p> <p>Detailed Analysis:</p> <p>Section 56(2)(x) is an anti abuse provision designed to tax the receipt of property (including shares) for inadequate consideration. It states that if a person receives any property for a consideration that is less than its Fair Market Value (FMV), the difference between the FMV and the consideration paid is taxed as "Income from Other Sources" in the hands of the recipient, provided the difference exceeds ₹50,000.</p>	75

Model	Response generated by the Bot	Accuracy_% (GPT 4o as the judge)
	<p>In this transaction, ABC Ltd. is receiving shares from ABC Subsidiary. However, the transaction is specifically carved out from the ambit of Section 56(2)(x) due to the relationship between the parties.</p> <ol style="list-style-type: none"> 1. The Proviso to Section 56(2)(x): The proviso to Section 56(2)(x) explicitly states that this clause shall not apply to any property received from a person referred to in Section 47. 2. Relevance of Section 47: Section 47 lists transactions that are not considered as "transfers" for the purpose of calculating capital gains. Specifically: <ul style="list-style-type: none"> Section 47(iv) exempts the transfer of a capital asset by a holding company to its 100% Indian subsidiary company. Section 47(v) exempts the transfer of a capital asset by a 100% subsidiary company to its Indian holding company. 3. Application to the Current Case: <ul style="list-style-type: none"> The transaction involves ABC Ltd. (holding company) and ABC Subsidiary (a wholly owned subsidiary). The property being received by ABC Ltd. is shares, which are issued by its wholly owned subsidiary. While the receipt of shares is not directly covered under Section 47(iv) or (v), the underlying transaction (the slump sale) is a transfer between a holding company and its wholly owned subsidiary. More importantly, the proviso to Section 56(2)(x) has been interpreted to mean that any transaction between a holding company and its 100% subsidiary (and vice versa) is outside the purview of this section. The intent is to facilitate genuine intra group restructuring without adverse tax consequences under this provision. <p>Therefore, even if the fair market value of the shares issued by ABC Subsidiary is higher than the consideration effectively paid for them (i.e., the value of Division A), Section 56(2)(x) will not be triggered in the hands of ABC Ltd.</p> <p>2. Requirement of a Valuation Report under Rule 11UAE</p> <p>Short Answer: Yes, ABC Ltd. is required to obtain a valuation report from a merchant banker to determine the Fair Market Value (FMV) of Division A. However, this valuation should be based on the audited financial statements as of the date of the slump sale (1st February 2025) or a date not more than 180 days prior to the date of the slump sale.</p> <p>Detailed Analysis:</p> <p>The requirement for a valuation report stems from the provisions governing the taxation of a slump sale, specifically Section 50B of the Income tax Act.</p> <ol style="list-style-type: none"> 1. Section 50B Computation of Capital Gains in case of Slump Sale: 	

Model	Response generated by the Bot	Accuracy_% (GPT 4o as the judge)
	<p>Section 50B provides the mechanism for calculating capital gains arising from a slump sale. Capital Gains = Sale Consideration - Net Worth of the Undertaking.</p> <p>Explanation 2 to Section 50B defines "fair market value" for the purpose of determining the full value of consideration. It states that the FMV of the capital assets being transferred in a slump sale shall be the higher of:</p> <ul style="list-style-type: none"> FMV of the capital assets transferred, determined as per Rule 11UAE. FMV of the consideration received or accruing from the transfer. <p>2. Rule 11UAE Determination of Fair Market Value:</p> <p>Rule 11UAE prescribes the formula for calculating the FMV of the undertaking or division being transferred under a slump sale. It provides a specific formula ($FMV = A+B+C+D - L$), which calculates the aggregate fair value of all assets of the undertaking as if they were transferred individually.</p> <p>Sub rule (2) of Rule 11UAE mandates that this FMV must be determined on the date of the slump sale .</p> <p>Sub rule (3) of Rule 11UAE requires that the valuation report determining the FMV must be obtained from a Merchant Banker . This report must be furnished along with the return of income.</p> <p>3. Application to the Current Case:</p> <p>The transfer of Division A is a slump sale. Therefore, Section 50B is applicable for calculating capital gains in the hands of ABC Ltd.</p> <p>To compute the "full value of consideration" for this slump sale, ABC Ltd. must determine the FMV of Division A as per Rule 11UAE.</p> <p>This requires a valuation report from a merchant banker.</p> <p>Regarding the date: The user mentions obtaining a report based on audited financials as of 31st January 2025. While the valuation must be as of the date of the slump sale (1st February 2025) , valuers often rely on the most recent available financial statements. Using financials as of 31st January 2025 would be appropriate and practical for a valuation as of 1st February 2025. The key is that the valuation certificate itself must state the FMV as on the date of the slump sale .</p> <p>Conclusion:</p> <p>While ABC Ltd. is safe from the provisions of Section 56(2)(x) on the receipt of shares, it must comply with the valuation requirements under Section 50B read with Rule 11UAE for the slump sale itself. This is a mandatory compliance step to correctly compute the capital gains arising from the transfer of Division A. Failure to do so could lead to the tax authorities disputing the capital gains computation.</p>	
Gemini Flash2.5 (No Prompt)	<p>Let's analyze both questions based on the provisions of the Income tax Act, 1961, and the Income tax Rules, 1962.</p> <p>1. Will the provisions of Section 56(2)(x) of the Income tax Act, 1961 apply to the fresh issue</p>	29.17

Model	Response generated by the Bot	Accuracy_% (GPT 4o as the judge)
	<p>of equity shares by ABC Subsidiary to ABC Ltd. as consideration for the slump sale?</p> <p>Understanding Section 56(2)(x): Section 56(2)(x) of the Income tax Act, 1961, aims to tax the recipient of certain properties (including shares and securities) if they are received for a consideration less than their Fair Market Value (FMV). The difference between the FMV and the consideration paid is taxed as "Income from Other Sources" in the hands of the recipient.</p> <p>Application to the Scenario:</p> <ol style="list-style-type: none"> 1. Recipient: ABC Ltd. is the recipient of the fresh equity shares of ABC Subsidiary. 2. Property Received: Equity shares of ABC Subsidiary. 3. Consideration Paid by Recipient: ABC Ltd. is transferring Division A (via slump sale) for a consideration of ₹200 crores. This ₹200 crores is being paid in the form of fresh equity shares. Therefore, the consideration paid by ABC Ltd. for these shares is the value of Division A, which is ₹200 crores. 4. The Crux: Section 56(2)(x) would apply if the Fair Market Value (FMV) of the shares received by ABC Ltd. is greater than the consideration paid for them (i.e., ₹200 crores). <p>Analysis of "issued at face value": The statement "ABC Ltd. intends to receive the consideration in the form of fresh equity shares issued by ABC Subsidiary at face value" means that the issue price of each share is its face value. However, the total value of the shares issued will amount to ₹200 crores.</p> <p>If the FMV of the shares of ABC Subsidiary (a wholly owned subsidiary) is indeed equal to or less than the face value at which they are issued, then there would be no difference to be taxed under Section 56(2)(x).</p> <p>However, it is more likely that the FMV of the shares of a going concern (even a subsidiary) would be higher than their face value. If the FMV of the shares received by ABC Ltd. is, say, ₹250 crores, but ABC Ltd. is effectively "paying" ₹200 crores (by transferring Division A for that consideration), then the difference of ₹50 crores could potentially be taxed under Section 56(2)(x) in the hands of ABC Ltd.</p> <p>Important Exception: Section 56(2)(x) has certain exceptions. One key exception is for transactions between a holding company and its wholly owned subsidiary, or vice versa, for the transfer of capital assets. However, this exception typically applies to the transfer of the asset itself (e.g., if ABC Ltd. transferred shares of another company to ABC Subsidiary for inadequate consideration).</p> <p>In this case, the issue is about ABC Ltd. receiving shares from its subsidiary. There is no specific exemption under Section 56(2)(x) for the receipt of shares by a holding company from its wholly owned subsidiary for inadequate consideration.</p> <p>Conclusion for Question 1:</p> <p>Yes, the provisions of Section 56(2)(x) could potentially apply to the fresh issue of equity shares</p>	

Model	Response generated by the Bot	Accuracy_% (GPT 4o as the judge)
	<p>by ABC Subsidiary to ABC Ltd. if the Fair Market Value (FMV) of the shares received by ABC Ltd. is determined to be greater than the consideration of ₹200 crores for which they are issued.</p> <p>ABC Ltd. would need to ensure that the FMV of the shares of ABC Subsidiary received by it is not significantly higher than the ₹200 crores consideration. If the FMV of the shares is higher, the difference could be taxed as "Income from Other Sources" in the hands of ABC Ltd.</p> <p>2. Is ABC Ltd. required to obtain a valuation report based on the audited financial statements as of 31st January 2025 to determine the fair market value (FMV) of Division A in accordance with Rule 11UAE of the Income tax Rules, 1962?</p> <p>Understanding Rule 11UAE: Rule 11UAE of the Income tax Rules, 1962, primarily deals with the determination of Fair Market Value (FMV) of unquoted equity shares for the purpose of Section 56(2)(x) (receipt of shares for inadequate consideration) and Section 50CA (computation of capital gains on transfer of unquoted shares below FMV). It also covers the valuation of other assets for specific purposes.</p> <p>Application to the Scenario:</p> <ol style="list-style-type: none"> 1. What is being valued? The question asks about the valuation of Division A (the undertaking being transferred via slump sale). 2. Purpose of Valuation: The valuation of Division A is crucial for determining the "net worth" for the purpose of computing capital gains under Section 50B (slump sale). However, Section 50B itself does not mandate a specific valuation report for the undertaking based on Rule 11UAE. 3. Rule 11UAE's Scope: Rule 11UAE primarily provides methods for valuing: <ul style="list-style-type: none"> Unquoted equity shares (for Section 56(2)(x) and 50CA). Other property (like immovable property, jewellery, archaeological collections, drawings, paintings, sculptures, any work of art, or bullion) for Section 56(2)(x). It does not explicitly prescribe a method for valuing an entire "undertaking" or "division" for the purpose of a slump sale under Section 50B. <p>Slump Sale and Consideration: In a slump sale, the entire undertaking is transferred for a lump sum consideration. The consideration for the slump sale is ₹200 crores, as stated. This consideration is the "sale consideration" for the purpose of computing capital gains under Section 50B.</p> <p>Valuation for Slump Sale (Section 50B): Section 50B requires the computation of capital gains based on the "net worth" of the undertaking. The "net worth" is calculated as the aggregate value of total assets of the undertaking or division as appearing in the books of account, less the aggregate value of liabilities as appearing in the books of account. This calculation is based on book values, not FMV, unless specific assets (like revalued assets) are involved, in which case the revaluation is ignored.</p>	

Model	Response generated by the Bot	Accuracy_% (GPT 4o as the judge)
	<p>Conclusion for Question 2:</p> <p>No, ABC Ltd. is not required to obtain a valuation report based on the audited financial statements as of 31st January 2025 to determine the Fair Market Value (FMV) of Division A in accordance with Rule 11UAE of the Income tax Rules, 1962, for the purpose of computing capital gains on the slump sale.</p> <p>Rule 11UAE does not prescribe the valuation methodology for an "undertaking" or "division" for a slump sale under Section 50B. The capital gains under Section 50B are computed based on the "net worth" derived from the book values of assets and liabilities, not their FMV.</p> <p>While a valuation might be prudent for commercial reasons or for other regulatory compliances (e.g., Companies Act, SEBI regulations, FEMA for foreign shareholding implications), it is not a specific requirement under Rule 11UAE for the income tax computation of a slump sale.</p>	
Grok3 (No Prompt)	<p>1. Application of Section 56(2)(x) of the Income tax Act, 1961:</p> <p>Section 56(2)(x) of the Income tax Act, 1961, pertains to the taxation of income from other sources, specifically dealing with the receipt of assets (including shares) by a person without consideration or for a consideration less than the fair market value (FMV) of such assets. However, in the context of a slump sale where one company transfers a division to another company in exchange for shares, the primary consideration is whether the transfer and the issuance of shares are at arm's length and reflect the true value of the division being transferred.</p> <p>For the provisions of Section 56(2)(x) to apply, the transaction must involve the receipt of shares (in this case, by ABC Ltd. from ABC Subsidiary) for a consideration that is less than the fair market value of such shares. Given that the transaction involves a slump sale and the issuance of fresh equity shares at face value as consideration, the critical aspect is whether the face value of the shares issued by ABC Subsidiary accurately reflects the fair market value of Division A being transferred.</p> <p>If the face value of the shares issued by ABC Subsidiary as consideration is deemed to be at or near the fair market value of Division A, then Section 56(2)(x) may not be directly applicable, as the transaction would not involve the receipt of shares for a consideration less than their fair market value. However, the intent and genuineness of the transaction, including the valuation of the shares and the division, are subject to scrutiny by tax authorities to ensure that the transaction is not devised to avoid taxes.</p> <p>2. Requirement for Valuation Report under Rule 11UAE:</p> <p>Rule 11UAE of the Income tax Rules, 1962, pertains to the valuation of assets for the purpose of slump sale. According to this rule, the fair market value of the assets being transferred in a slump sale is to be determined based on the audited financial statements as of the date of transfer or as of a date closest to the date of transfer but not more than two years prior to the date of transfer. The rule essentially requires that a valuation report be obtained to ascertain the fair market value of the assets (in this case, Division A) being transferred.</p>	25

Model	Response generated by the Bot	Accuracy_% (GPT 4o as the judge)
	<p>Given that the transfer is scheduled for 1st February 2025, and considering the requirement for the valuation to be based on audited financial statements, ABC Ltd. would indeed need to obtain a valuation report. However, the specific requirement for the valuation to be based on the audited financial statements as of 31st January 2025 may depend on whether such statements are available and considered relevant for determining the fair market value as of the transfer date.</p> <p>Typically, the valuation should be based on the most recent audited financial statements available closest to the date of transfer. If the audited financial statements as of 31st March 2024 are available, these might be used for valuation purposes, assuming no significant changes in the value of Division A between the last audit date and the transfer date. The critical aspect is that the valuation must reflect the fair market value of Division A as of the date of transfer, necessitating a valuation report based on the most relevant and recent financial data available.</p> <p>In conclusion, while the direct applicability of Section 56(2)(x) may depend on the specifics of the transaction, including the valuation of the shares and Division A, ABC Ltd. is likely required to obtain a valuation report to determine the fair market value of Division A in accordance with Rule 11UAE, using the most recent and relevant audited financial statements available.</p>	
Claude4 (No Prompt)	<p>I'll analyze both questions regarding the slump sale transaction and its tax implications.</p> <p>1. Applicability of Section 56(2)(x) to Fresh Equity Issue</p> <p>Answer: No, Section 56(2)(x) will NOT apply.</p> <p>Reasoning:</p> <p>Section 56(2)(x) deals with taxation of shares received at below fair market value. However, this provision has specific exemptions under Rule 11AC of the Income tax Rules, 1962.</p> <p>Key Exemption Rule 11AC(1)(a): Shares issued by a company to its holding company are exempt from Section 56(2)(x) Since ABC Ltd. is the holding company (100% owner) of ABC Subsidiary, this exemption applies The consideration being in the form of fresh equity shares at face value falls under this exemption</p> <p>Additional Considerations: The transaction is a slump sale for business consideration, not a gratuitous transfer The shares are issued as consideration for a genuine business transfer Parent subsidiary transactions have specific exemptions to avoid double taxation</p> <p>2. Requirement for Valuation Report under Rule 11UAE</p> <p>Answer: Yes, ABC Ltd. is required to obtain a valuation report.</p>	8.33

Model	Response generated by the Bot	Accuracy_% (GPT 4o as the judge)
	<p>Reasoning:</p> <p>Rule 11UAE Requirements: Applies to slump sales where consideration is ₹50 lakhs or more Since the consideration is ₹200 crores, this threshold is exceeded Requires valuation by a merchant banker or chartered accountant</p> <p>Valuation Date: The valuation should be based on financial statements as of 31st January 2025 (day before transfer) This ensures the valuation reflects the most recent financial position of Division A</p> <p>Compliance Requirements:</p> <ol style="list-style-type: none"> Valuation Report must include: Fair market value of Division A as a going concern Methodology used for valuation Key assumptions and factors considered Qualified Valuers: Merchant banker registered with SEBI, or Chartered accountant Documentation: Valuation report must be obtained before the transfer date Should be based on audited/latest available financial statements <p>Additional Compliance Points: The valuation will help determine if there's any capital gain/loss on the slump sale Proper documentation is crucial for tax compliance and potential scrutiny Given the significant foreign shareholding, transfer pricing regulations may also apply</p> <p>Recommendation: Engage a qualified valuer immediately to ensure compliance with Rule 11UAE requirements and complete the valuation process before the February 1, 2025 transfer date.</p>	

Query 3: An Indian company sends its employees on an international assignment to the USA from May 1, 2022, to December 31, 2022. These employees remain ordinary residents of India and continue to receive their salaries from the Indian entity. The income earned during this period is taxable in both India and the USA. The foreign taxes in the USA were paid in October 2023. Can these employees claim a Foreign Tax Credit (FTC) under Section 90 of the Income Tax Act, 1961, for the taxes paid in the USA in the financial year 2022 23, when the income was offered to tax in India, or must the claim be made in the year the taxes were actually paid?

Ground Truth:

To address the query regarding the Foreign Tax Credit (FTC) under Section 90 of the Income Tax Act, 1961, we refer to the relevant legal provisions and the analysis of the situation.

According to Rule 128(1) of the Income Tax Rules, 1962, an assessee who is a resident shall be allowed a credit for the amount of any foreign tax paid in a country outside India in the year in which the income corresponding to such tax has been offered to tax in India. In this case, the employees' income earned during the assignment in the USA is taxable in India for the financial year 2022 23, as they are residents of India.

The critical issue here is whether the FTC can be claimed in the year the income is offered to tax in India (FY 2022 23) or if it must be claimed in the year the foreign taxes were actually paid (FY 2023 24).

View 1 suggests that the FTC can be claimed in the year of the doubly taxed income, even if the foreign tax liability was computed and paid in a subsequent year. This view is supported by the interpretation that there is no explicit requirement in the law that taxes must be paid in the same year in which the income is offered to tax. Once the foreign taxes are paid, they relate back to the year in which the corresponding income was offered to tax in India. This aligns with the guidance provided in various past responses, which indicate that the credit should not be denied merely because the payment occurred in a different year.

View 2, on the other hand, posits that since the foreign taxes were paid in October 2023, which is beyond the end of the previous year 2022 23, the FTC should only be claimed in the year the taxes were paid. This perspective argues that without corresponding income during the year the taxes were paid, there is no basis for claiming the FTC.

Conclusion:

While both views present valid arguments, View 1 is more aligned with the provisions of the Income Tax Act and the principles of tax credit relief. Therefore, the employees can claim the FTC for the taxes paid in the USA in the return for the financial year 2022 23, as the income was offered to tax in that year, irrespective of the timing of the tax payment in the USA. This interpretation supports the objective of avoiding double taxation and is consistent with the legal framework provided under Section 90 of the Act.

Model	Response generated by the Bot	Accuracy_% (GPT 4o as the judge)
GPT o3pro (No Prompt)	<p>Yes – the credit has to be claimed in the Indian return for the year in which the salary is taxed in India (F.Y. 2022 23 / A.Y. 2023 24) and not in the year in which the U.S. tax is actually paid.</p> <p>Why?</p> <ol style="list-style-type: none"> Section 90(2) of the Income tax Act grants relief from double taxation “in accordance with” the tax treaty. Article 25 (Relief from Double Taxation) of the India USA DTAA gives the resident country (India) the obligation to grant the credit when the “income was taxed” in the source country. Rule 128 of the Income tax Rules, 1962 operationalises the credit: <ul style="list-style-type: none"> Rule 128(2) – “The credit shall be allowed in the year in which the income 	75

Model	Response generated by the Bot	Accuracy_% (GPT 4o as the judge)
	<p>corresponding to such foreign tax has been offered to tax or assessed to tax in India, whichever is earlier.”</p> <p>There is no condition that the foreign tax must already have been paid in that same year.</p> <ul style="list-style-type: none"> • Rule 128(8) – the credit is allowed on furnishing Form 67 on or before the due date under section 139(1). <p>3. What if the foreign tax is paid after the Indian return has been filed?</p> <p>Finance Act, 2021 inserted section 155(14A) (w.e.f. 1 4 2022). Where credit “has not been given on the ground that such tax was not paid within the time specified in Rule 128,” the Assessing Officer must amend the earlier assessment order once proof of payment is produced, if the assessee so applies within six months from the end of the month in which the foreign tax is actually paid.</p> <p>Practical consequence for your employees</p> <p>a) Salary for the period 1 5 2022 to 31 12 2022 is part of their global income and must be offered in the return for A.Y. 2023 24.</p> <p>b) They are entitled to claim the U.S. taxes as FTC against the Indian tax on that salary in the same return.</p> <p>Two ways to implement it:</p> <p>1. Pay the U.S. tax before the Indian due date (31 July 2023 for a salaried individual without audit) and file the Indian return with:</p> <ul style="list-style-type: none"> • Form 67, • certificate of tax paid (Form 1040/ W 2/ Form 26 from the U.S. employer or the IRS receipt). <p>2. If the U.S. tax is paid only in October 2023 (after the Indian due date):</p> <ol style="list-style-type: none"> File the Indian return for A.Y. 2023 24 on or before the due date without claiming the credit, or claim it provisionally if you have the figures. After paying the U.S. tax, furnish Form 67 and the documentary proof and apply for rectification under section 155(14A) / section 154. <p>The credit will then be allowed in A.Y. 2023 24. If any excess Indian tax has been paid, it will be refunded.</p> <p>Postponing the claim to A.Y. 2024 25 is not permissible; Rule 128(2) and section 90 read with the treaty mandate that the credit be linked to the year in which the income is taxed in India.</p> <p>Therefore, FTC in respect of the U.S. salary tax should, and can only, be claimed for FY. 2022 23 (A.Y. 2023 24); a delayed payment of the U.S. tax is taken care of through the rectification mechanism provided in section 155(14A).</p>	
GPT o3 (No Prompt)	<p>No.</p> <p>The credit has to be taken in the year in which the income that suffered tax abroad is</p>	75

Model	Response generated by the Bot	Accuracy_% (GPT 4o as the judge)
	<p>included in the Indian return, i.e. in the return for F.Y. 2022 23 (A.Y. 2023 24) and not in the year in which the U.S. tax is actually paid.</p> <p>Why?</p> <p>1. Section 90(1)(a) read with Explanation 2 and Rule 128 of the Income tax Rules governs the mechanics of the foreign tax credit (FTC).</p> <p>2. Rule 128(2) is categorical:</p> <p>“The credit of any foreign tax shall be allowed in the year in which the income corresponding to such tax has been offered to tax or assessed to tax in India, whichever is earlier.”</p> <p>Hence the relevant “year” is the year of accrual / offer of the income in India, not the year of payment of the foreign tax.</p> <p>3. Rule 128(8) & (9) prescribe that the credit is allowed only after the assessee furnishes – on or before the due date of filing the return –</p> <ul style="list-style-type: none"> • Form 67, and • evidence of actual payment / withholding of the foreign tax. <p>Therefore the tax must in fact be paid before credit can be availed, but the credit still has to be slotted into the same assessment year in which the income is taxed in India.</p> <p>4. If the foreign tax is paid after the original Indian return is filed, the employee has two statutory routes:</p> <p>a) file the original return after the payment is made (belated return – last date 31 December 2023 for A.Y. 2023 24), or</p> <p>b) if the return was already filed, file a revised return / seek rectification u/s 154, submitting Form 67 and proof of payment.</p> <p>Rule 128(9) specifically empowers rectification when the amount of foreign tax paid undergoes change.</p> <p>5. What cannot be done is to claim the credit in the next year (F.Y. 2023 24 / A.Y. 2024 25). In that year there is no “corresponding income” and Rule 128(2) bars the credit. Courts have also held (e.g. Wipro Ltd. v. DCIT 82 taxmann.com 293 (Bang. Trib), Credit Lyonnais 69 taxmann.com 56 (Mum. Trib)) that FTC is not available if it is claimed in a year different from the year in which the income is offered.</p> <p>Conclusion</p>	

Model	Response generated by the Bot	Accuracy_% (GPT 4o as the judge)
	<p>The employees must claim the U.S. FTC in their Indian return for FY. 2022 23 (A.Y. 2023 24). If the U.S. tax was paid only in October 2023 they should either:</p> <ul style="list-style-type: none"> • file a belated return after payment but before 31 12 2023, or • file a revised return / seek rectification after payment, enclosing Form 67 and proof of payment. <p>Claiming the credit in FY. 2023 24 (A.Y. 2024 25) is not permissible.</p>	
GPT 4o (No Prompt)	<p>Under the Income Tax Act, 1961, particularly in the context of claiming a Foreign Tax Credit (FTC) under Section 90 (relating to double taxation avoidance agreements), taxpayers can claim a credit for foreign taxes paid against taxes in India to avoid double taxation on the same income.</p> <p>However, the FTC can be claimed in India in the year in which the income is offered to tax in India, provided that the foreign taxes on that income have also been paid. Since, in this scenario, the employees paid foreign taxes in the USA in October 2023 for income earned during the period May 1, 2022, to December 31, 2022, the critical factor is whether they offered this income to tax in India in the financial year 2022 23 (April 2022 to March 2023).</p> <p>According to the rules concerning the FTC, if the foreign tax payment (in this case, October 2023) occurs after filing the Indian income tax return for the relevant financial year, the taxpayer can file a revised return or rectification request to claim the FTC once the foreign taxes are paid. Thus, they can claim the FTC for the financial year 2022 23, provided that they meet all other procedural requirements, such as documentation evidence covering the tax payment receipt from the United States and a valid tax residency certificate, if necessary.</p> <p>Therefore, these employees would be eligible to claim the FTC for the financial year 2022 23 but would need to ensure compliance by furnishing necessary evidence and possibly revising their tax return after foreign taxes have been paid.</p>	33.33
GPT 4o mini (No Prompt)	<p>Under the provisions of the Income Tax Act, 1961, specifically Section 90, an individual can claim a Foreign Tax Credit (FTC) for taxes paid to a foreign government if their income is taxable in India as well. However, the timing for claiming FTC is crucial.</p> <p>In your scenario, the employees earned income while they were on assignment in the USA, and that income is taxable in both countries. They will declare this income in India for the financial year 2022 23. However, the foreign taxes were paid in October 2023.</p> <p>According to the provisions of Section 90, the credit for foreign taxes can only be claimed for the year in which the foreign tax is actually paid, whether or not the income has already been offered to tax in India. This means that the employees would be able to claim the FTC only in the financial year when the tax is paid to the USA, which in this case is the assessment year following the financial year 2023 24 (for the payment made in October 2023).</p>	25

Model	Response generated by the Bot	Accuracy_% (GPT 4o as the judge)
	Therefore, the employees cannot claim the FTC for the taxes paid in the USA in the financial year 2022 23; they must claim it in the financial year 2023 24 when the taxes were actually paid.	
GPT o1 (No Prompt)	<p>Under Indian tax law (particularly section 90 read with rule 128 of the Income tax Rules, 1962), the foreign tax credit (FTC) must be claimed in the same tax year (assessment year) in which the doubly taxed income is offered to tax in India. In other words, the employees should claim the FTC in their return for FY 2022–23 (AY 2023–24), the year in which the salary was taxed in India—regardless of the fact that the US taxes were actually paid in October 2023.</p> <p>If foreign taxes are paid after filing the original Indian return and proof of payment (e.g., a tax receipt from the foreign jurisdiction) was not available by the due date, the employees would typically either:</p> <ul style="list-style-type: none"> • File a revised return (if still within the statutory timelines), or • Seek rectification under section 154 once the proof of payment becomes available, <p>so as to properly claim the foreign tax credit in AY 2023–24. The credit is not shifted to the year of actual payment of foreign taxes; instead, it must be tied to the assessment year in which the corresponding income was subjected to tax in India.</p>	50
GPT o4 mini (No Prompt)	<p>Under Indian law (both the domestic “Section 91” route and the treaty-based “Section 90” route) the right to take credit for foreign tax arises only in the year in which that tax is actually paid or deducted abroad, and not simply in the year in which the underlying income arises. In your facts:</p> <ol style="list-style-type: none"> 1. Income period <ul style="list-style-type: none"> • The salary was earned May 1 2022–Dec 31 2022, i.e. FY 2022 23 (AY 2023 24). 2. Foreign tax payment <ul style="list-style-type: none"> • U.S. tax on that salary was actually paid in October 2023 (that falls in Indian FY 2023 24, i.e. AY 2024 25). 3. When to claim FTC <ul style="list-style-type: none"> • You cannot claim the U.S. tax credit in your FY 2022 23 return simply because the income arose in that year. • You must claim it in the return for the year in which the tax was paid/deducted—here FY 2023 24 (AY 2024 25). 4. One narrow exception – withholding <ul style="list-style-type: none"> • If the U.S. taxes had in fact been deducted at source (withheld) from your pay in calendar 2022, and you have a U.S. withholding certificate (Form W 2 or 1042 S) showing tax withheld in 2022, you could treat the credit as arising in FY 2022 23. 	25

Model	Response generated by the Bot	Accuracy_% (GPT 4o as the judge)
	<ul style="list-style-type: none"> • Absent any withholding in 2022, the first time Indian law sees a “payment” or “deduction” is October 2023, pushing the credit into FY 2023 24. <p>5. Practical takeaway</p> <ul style="list-style-type: none"> • Verify whether any U.S. withholding occurred in 2022. • If not, plan to claim the foreign tax credit only in your FY 2023 24 (AY 2024 25) Indian return, supported by the U.S. payment receipt or foreign tax certificate. <p>References you may wish to review:</p> <ul style="list-style-type: none"> – Section 90(4) read with Rule 128 of the Income tax Rules, 1962 (foreign tax credit only for tax “paid or deducted” abroad in that year) – CBDT Clarification Circulars on the timing of foreign tax credit – India–U.S. DTAA Article 24 (credit method) 	
Gemini 2.5pro (No Prompt)	<p>Excellent question. This is a very common and practical issue faced by employees on international assignments. The core of the problem is the timing mismatch between when the income is taxed in India and when the foreign taxes are actually paid.</p> <p>Here is a detailed analysis based on the provisions of the Income Tax Act, 1961, and the relevant rules.</p> <p>The Short Answer</p> <p>The employees can and must claim the Foreign Tax Credit (FTC) for the US taxes in the Financial Year 2022 23 (Assessment Year 2023 24) . This is the year in which the corresponding income was offered to tax in India, even though the US taxes were paid in the subsequent financial year.</p> <p>The Detailed Explanation</p> <p>The claim for FTC is governed by Section 90 of the Income Tax Act, 1961, and more specifically by Rule 128 of the Income Tax Rules, 1962 . The rules provide a clear answer to this timing issue.</p> <p>1. The Governing Principle: Matching Income with Credit</p> <p>Rule 128(2) is the key provision here. It states:</p> <p>> "The credit for foreign tax shall be allowed in the year in which the income corresponding to such tax has been offered to tax or assessed to tax in India."</p> <p>This rule establishes the "matching principle." The credit for the foreign tax must be claimed in the same year that the income on which that tax was levied is included in the total income in India.</p> <p>Income Earned: May 1, 2022, to December 31, 2022 (falls in FY 2022 23).</p>	75

Model	Response generated by the Bot	Accuracy_% (GPT 4o as the judge)
	<p>Income Offered to Tax in India: In the Income Tax Return (ITR) for FY 2022 23 (AY 2023 24).</p> <p>Conclusion: Therefore, the FTC for the US taxes paid on this income must be claimed in the ITR for AY 2023 24 .</p> <p>The law intentionally delinks the year of payment of foreign tax from the year of claim of FTC, precisely to handle situations like this where tax systems have different timelines.</p> <p>2. The Procedural Requirement: Form 67</p> <p>To claim the FTC, the employee must file Form 67 electronically. This form is a statement of income from a foreign country and the foreign tax paid or deducted.</p> <p>The Challenge: The original deadline for filing Form 67 was on or before the due date of filing the ITR (e.g., July 31, 2023, for AY 2023 24). In your scenario, the US taxes were paid in October 2023, which is after this deadline. This created a practical impossibility.</p> <p>The Solution (Recent CBDT Relaxation):</p> <p>Recognizing this genuine hardship, the Central Board of Direct Taxes (CBDT) has provided significant relief.</p> <p>Original Rule: The original rule was very strict, and failure to file Form 67 by the ITR due date could lead to the denial of the FTC claim.</p> <p>Judicial Rulings: Several court rulings (e.g., by the Bangalore ITAT in the case of Ms. Brinda Rama Krishna) held that the filing of Form 67 is a procedural requirement, and a delay should not result in the denial of a substantive benefit like FTC, especially if the delay was due to reasons beyond the taxpayer's control.</p> <p>CBDT Circular No. 19/2022 and Subsequent Instructions: The CBDT has now formally relaxed this condition. The current position is that Form 67 can be filed on or before the end of the relevant assessment year .</p> <p>For your case (AY 2023 24), this means the employees can file Form 67 anytime up to March 31, 2024 .</p> <p>Step by Step Action Plan for the Employees</p> <p>1. File the Original ITR for AY 2023 24: The employees should have filed their ITR for AY 2023 24 by the due date (e.g., July 31, 2023). In this return, they should have declared their global income (including the US salary) and claimed the FTC, even if the proof of payment was not yet available. They would have paid the Indian tax liability calculated after provisionally claiming the FTC.</p> <p>2. Pay the US Taxes: As planned, the US taxes were paid in October 2023. The employees must obtain proof of this payment. This could be:</p> <p>A tax payment challan or receipt.</p>	

Model	Response generated by the Bot	Accuracy_% (GPT 4o as the judge)
	<p>A statement from the US tax authority (IRS). Proof of deduction by the employer, if applicable.</p> <p>3. File Form 67: Once the proof of payment is available, the employees must immediately file Form 67 on the income tax portal. This must be done before March 31, 2024 .</p> <p>4. File a Revised or Updated ITR: If the original ITR due date has not passed: They could have waited to file the original ITR until they had the proof, as long as it was before the due date. If the original ITR is already filed (most likely scenario): They should file a Revised ITR for AY 2023 24 to formally submit the FTC claim with the details from the now filed Form 67. The due date for a revised return for AY 2023 24 was December 31, 2023. If the deadline for revising the ITR has also passed: The employees can file an Updated Return (ITR U) for AY 2023 24. An ITR U can be filed within 24 months from the end of the relevant assessment year. This provides an additional window to correctly claim the FTC if other deadlines are missed.</p> <p>Conclusion</p> <p>The employees can and should claim the Foreign Tax Credit in FY 2022 23 (AY 2023 24) . The law is designed to match the credit to the year the income was taxed in India. The procedural difficulty of the US tax payment occurring after the ITR filing due date has been addressed by the CBDT's relaxation, allowing Form 67 to be filed later. The employees should ensure they file Form 67 and a revised/updated ITR for AY 2023 24 to correctly and legally claim the credit. Claiming it in the next financial year (FY 2023 24) would be incorrect as there would be no corresponding foreign income in that year's tax return to match the credit against.</p>	
Gemini Flash2.5 (No Prompt)	<p>This is a common scenario involving Foreign Tax Credit (FTC) under the Indian Income Tax Act, 1961, specifically governed by Section 90 (for DTAA countries like the USA) read with Rule 128 of the Income Tax Rules, 1962.</p> <p>Let's break down the situation:</p> <ol style="list-style-type: none"> 1. Income Period: May 1, 2022, to December 31, 2022. This income falls in the Financial Year (FY) 2022 23 , which corresponds to Assessment Year (AY) 2023 24 . 2. Indian Tax Filing: The employees would have offered this income to tax in their Indian Income Tax Return (ITR) for FY 2022 23 (AY 2023 24), typically filed by July 31, 2023. 3. US Tax Payment: The foreign taxes in the USA were paid in October 2023 . This falls in FY 2023 24 (AY 2024 25). <p>Key Provisions of Rule 128 for Foreign Tax Credit:</p> <p>Rule 128(2): This rule explicitly states that "the credit of foreign tax shall be allowed in the assessment year in which the income subject to tax in India has been offered to tax or assessed to tax in India."</p>	75

Model	Response generated by the Bot	Accuracy_% (GPT 4o as the judge)
	<p>Rule 128(8): This rule mandates that a statement of foreign income and tax referred to in sub rule (9) (i.e., Form 67) and the certificate or statement specified in sub rule (9) shall be furnished by the assessee on or before the due date of furnishing the return of income under sub section (1) of section 139.</p> <p>Proviso to Rule 128(8): This is the crucial part for your scenario. It states: "Provided that where the foreign tax is paid subsequent to the filing of the return of income in India, the statement in Form No. 67 referred to in sub rule (9) may be furnished within thirty days from the date of payment of the foreign tax ."</p> <p>Conclusion for your scenario:</p> <p>Based on Rule 128, particularly sub rule (2) and the proviso to sub rule (8):</p> <p>1. Year of Claim: The employees must claim the Foreign Tax Credit in the financial year 2022 23 (Assessment Year 2023 24) , as this is the year in which the income was offered to tax in India. The credit is linked to the year the income is taxed in India, not the year the foreign tax is paid.</p> <p>2. Filing Form 67: Since the US taxes were paid in October 2023 (which is after the typical due date for filing the ITR for FY 2022 23, i.e., July 31, 2023), the employees can still claim the FTC. They need to:</p> <p>File their ITR for FY 2022 23 (AY 2023 24) by the due date, showing the foreign income and indicating their intention to claim FTC (even if the exact amount isn't known or paid yet).</p> <p>Furnish Form 67 along with proof of foreign tax payment (e.g., tax return, payment challan from the USA) within 30 days from the date of payment of the US tax. So, if paid in October 2023, they would have had until approximately end of November 2023 to file Form 67.</p> <p>In summary:</p> <p>The employees can and should claim the Foreign Tax Credit for the taxes paid in the USA in the financial year 2022 23 (AY 2023 24) , which is the year the income was offered to tax in India. Even though the US taxes were paid later, the specific proviso in Rule 128 allows for the delayed filing of Form 67 to substantiate the claim for the correct assessment year.</p>	
Grok3 (No Prompt)	<p>To answer this question, let's break down the key components and relevant provisions of the Income Tax Act, 1961, particularly Section 90, which deals with the Double Taxation Relief.</p> <p>1. Double Taxation Relief : Section 90 of the Income Tax Act, 1961, provides relief to taxpayers from double taxation. When income is taxable in both India and another country (in this case, the USA), and the taxpayer has paid tax in the other country, the taxpayer can claim a Foreign Tax Credit (FTC) in India for the taxes paid abroad.</p> <p>2. Timing of Claiming FTC : The critical aspect here is the timing of when the FTC can be</p>	25

Model	Response generated by the Bot	Accuracy_% (GPT 4o as the judge)
	<p>claimed. According to the provisions and guidelines related to Section 90, the FTC can be claimed in the year in which the income is offered to tax in India, provided the foreign tax has been paid or deducted. The payment or deduction of foreign tax is a prerequisite for claiming the FTC, but the claim itself is linked to the year in which the income is taxed in India.</p> <p>3. Application to the Given Scenario : In the scenario provided, the employees earned income from May 1, 2022, to December 31, 2022, which makes the income taxable in the financial year 2022 23 (Assessment Year 2023 24). Although the foreign taxes were paid in October 2023, the income was offered to tax in India in the financial year 2022 23.</p> <p>Given the above points, the employees can claim the Foreign Tax Credit (FTC) under Section 90 of the Income Tax Act, 1961, for the taxes paid in the USA in the financial year 2022 23, provided they have proof that the foreign tax was paid before the due date of filing the return of income for the assessment year 2023 24 or within the time allowed under the relevant Double Taxation Avoidance Agreement (DTAA) between India and the USA. The claim is made in the year the income is offered to tax in India, which is 2022 23, regardless of when the taxes were actually paid, as long as the payment condition is met within the stipulated time frame.</p> <p>It's essential for the employees to ensure they follow the correct procedure and provide necessary documentation to support their claim for the FTC as per the provisions of the Income Tax Act, 1961, and any applicable DTAA. Consulting a tax professional may be advisable to ensure compliance with all regulatory requirements.</p>	
Claude4 (No Prompt)	<p>Based on the provisions of Section 90 of the Income Tax Act, 1961, and relevant judicial precedents, the employees can claim Foreign Tax Credit (FTC) in FY 2022 23 when the income was offered to tax in India , even though the foreign taxes were actually paid later in October 2023.</p> <p>Key Legal Principles:</p> <ol style="list-style-type: none"> 1. Accrual vs. Payment Basis FTC under Section 90 operates on accrual basis , not payment basis The credit is available for the year in which the income is offered to tax in India, regardless of when foreign taxes are actually paid 2. Section 90 Framework Section 90(1A) allows credit for foreign taxes paid on income that is also taxable in India The provision focuses on the liability to pay foreign tax , not the actual payment date 3. Judicial Support Several court decisions support this position: CIT vs. Mitsubishi Corporation : Established that FTC can be claimed based on accrual of foreign tax liability Vodafone India Services : Reinforced the accrual principle for FTC claims 	50

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	<p>Practical Application:</p> <p>For FY 2022 23:</p> <p>Income earned in USA (May December 2022) is taxable in India</p> <p>USA tax liability accrued for the same period</p> <p>FTC can be claimed in FY 2022 23 based on the accrued foreign tax liability</p> <p>Documentation Required:</p> <ol style="list-style-type: none"> 1. Evidence of foreign tax liability (tax assessment/computation) 2. Proof of actual payment when made (October 2023) 3. Certificate from foreign tax authorities (if required) 4. Form 67 (if applicable under DTAA provisions) <p>Important Considerations:</p> <p>1. DTAA Provisions</p> <p>India USA DTAA Article 25 provides relief from double taxation</p> <p>The method and timing of relief should align with DTAA provisions</p> <p>2. Amended Returns</p> <p>If FTC wasn't claimed initially in FY 2022 23, amended returns can be filed</p> <p>Time limit for filing amended returns must be observed</p> <p>3. Carry Forward</p> <p>If excess foreign tax credit arises, it can be carried forward as per Section 90 provisions</p> <p>Recommendation:</p> <p>The employees should claim FTC in FY 2022 23 when filing their returns, based on the accrued foreign tax liability. They should maintain proper documentation of both the liability and subsequent payment to support their claim.</p> <p>This approach aligns with the legislative intent of preventing double taxation and ensures relief is available in the year when the income burden exists in India.</p>	