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INCOME-TAX ACT, 2025

D: Profits and gains of business or profession

Section 42 - Capitalising the impact of foreign exchange fluctuation.

(1) Irrespective of anything contained in any other provision of this Act, where at the time of making payment during the tax year, there is a variation in liability of an assessee as expressed in Indian currency, due to change in rate of exchange, in relation to an asset acquired for the purpose of business or profession from a country outside India, it shall be dealt with in the manner specified in sub-sections (2) and (3).

(2) For this section, the liability shall exclude any part met directly or indirectly by any other person or authority and the “variation in liability” shall be computed as—

A = B - C

where,—

A = variation in liability;

B = payment expressed in Indian currency at the time when it is made—

(a) towards the whole or part of the cost of asset; or

(b) towards repayment of the whole or part of the moneys borrowed, directly or indirectly, along with interest in foreign currency, specifically for acquiring such asset;

C = liability, corresponding to the amount referred in B, in Indian currency at the time of acquisition of such asset.

(3) The variation in liability shall be added or reduced from the—

(a) actual cost of the asset as referred in section 39; or

(b) expenditure of capital nature referred to in section 32(i) or 45(1)(a)(i); or

(c) cost of acquisition of a capital asset (not being a capital asset referred to in section 74) for the purpose of section 72,

and the amount arrived at after such addition or deduction shall be taken to be the actual cost of the asset or the amount of expenditure of a capital nature or, as the case may be, the cost of acquisition of the capital asset.

(4) Where the assessee has entered into a contract with an authorised dealer as defined in section 2 of the Foreign Exchange Management Act, 1999, for providing him with a specified sum in a foreign currency on or after a stipulated future date at the rate of exchange specified in the contract to enable him to meet the whole or any part of the said liability, the amount, if any, to be added to, or deducted from, the actual cost of the asset or the amount of expenditure of a capital nature or, as the case may be, the cost of acquisition of the capital asset under this section shall, in respect of so much of the sum specified in the contract as is available for discharging the said liability, be computed with reference to the rate of exchange specified therein.

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