



CA INTER

VIGHNAHARTA

LIST FOR

INCOME TAX

**MOST IMPORTANT
QUESTIONS with
ANSWERS**

By: Vinit Mishra Sir



ॐ गं गणपतये नमः



**सरस्वती महामाये दिव्य तेज स्वरूपिणी।
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BASIC CONCEPTS

Question - 1

Compute the tax liability of Mr. A (aged 42), having total income of ₹ 51 lakhs for the Assessment Year 2024-25. Assume that his total income comprises of salary income, Income from house property and interest on fixed deposit. Assume that Mr. A has exercised the option to shift out of section 115BAC.

SOLUTION:

Computation of tax liability of Mr. A for the A.Y.2024-25

(A)	Income-tax (including surcharge) computed on total income of ₹ 51,00,000		
	₹ 2,50,000 – ₹ 5,00,000 @5%	₹ 12,500	
	₹ 5,00,001 – ₹ 10,00,000 @20%	₹ 1,00,000	
	₹ 10,00,001 – ₹ 51,00,000 @30%	<u>₹ 12,30,000</u>	
	Total	₹ 13,42,500	
	Add: Surcharge @ 10%	<u>₹ 1,34,250</u>	₹ 14,76,750
(B)	Income-tax computed on total income of ₹ 50 lakhs (₹ 12,500 plus ₹ 1,00,000 plus ₹ 12,00,000)		₹ 13,12,500
(C)	Total Income Less ₹ 50 lakhs		₹ 1,00,000
(D)	Income-tax computed on total income of ₹ 50 lakhs plus the excess of total income over ₹ 50 lakhs (B + C)		₹ 14,12,500
(E)	Tax liability: lower of (A) and (D)		₹ 14,12,500
	Add: Health and education cess @4%		<u>₹ 56,500</u>
	Tax liability (including cess)		<u>₹ 14,69,000</u>
(F)	Marginal Relief (A – D)		₹ 64,250

Alternative method -

(A)	Income-tax (including surcharge) computed on total income of ₹ 51,00,000		
	₹ 2,50,000 – ₹ 5,00,000 @5%	₹ 12,500	
	₹ 5,00,001 – ₹ 10,00,000 @20%	₹ 1,00,000	
	₹ 10,00,001 – ₹ 51,00,000 @30%	<u>₹ 12,30,000</u>	
	Total	₹ 13,42,500	
	Add: Surcharge @ 10%	<u>₹ 1,34,250</u>	₹ 14,76,750
(B)	Income-tax computed on total income of ₹ 50 lakhs (₹ 12,500 plus ₹ 1,00,000 plus ₹ 12,00,000)		<u>₹ 13,12,500</u>
(C)	Excess tax payable (A) – (B)		₹ 1,64,250
(D)	Marginal Relief (₹ 1,64,250 – ₹ 1,00,000, being the amount of income in excess of ₹ 50,00,000)		₹ 64,250
(E)	Tax liability (A) – (D)		₹ 14,12,500
	Add: Health and education cess @ 4%		<u>₹ 56,500</u>
	Tax liability (including cess)		<u>₹ 14,69,000</u>

Question - 2

Compute the tax liability of Mr. B (aged 51) under the default tax regime, having total income of ₹ 1,01,00,000 for the Assessment Year 2024-25. Assume that his total income comprises of salary income, Income from house property and interest on fixed deposit.

SOLUTION:**Computation of tax liability of Mr. B for the A.Y.2024-25**

(A)	Income-tax (including surcharge) computed on total income of ₹ 1,01,00,000	
	₹ 3,00,000 – ₹ 6,00,000@5%	₹ 15,000
	₹ 6,00,001 – ₹ 9,00,000@10%	₹ 30,000
	₹ 9,00,001 – ₹ 12,00,000@15%	₹ 45,000
	₹ 12,00,001 – ₹ 15,00,000@20%	₹ 60,000
	₹ 15,00,001 – ₹ 1,01,00,000@30%	<u>₹ 25,80,000</u>
	Total	₹ 27,30,000
	Add: Surcharge @ 15%	<u>₹ 4,09,500</u>
	Tax liability without marginal relief	₹ 31,39,500
(B)	Income-tax computed on total income of ₹ 1 crore (₹ 1,50,000 plus ₹ 25,50,000)	₹ 27,00,000
	Add: Surcharge@10%	<u>₹ 2,70,000</u>
		₹ 29,70,000
(C)	Total Income Less ₹ 1 crore	₹ 1,00,000
(D)	Income-tax computed on total income of ₹ 1 crore plus the excess of total income over ₹ 1 crore (B + C)	₹ 30,70,000
(E)	Tax liability: lower of (A) & (D)	₹ 30,70,000
	Add: Health and education cess@4%	<u>₹ 1,22,800</u>
	Tax liability (including cess)	<u>₹ 31,92,800</u>
(F)	Marginal relief (A – D)	₹ 69,500

Alternative method:

(A)	Income-tax (including surcharge) computed on total income of ₹ 1,01,00,000	
	₹ 3,00,000 – ₹ 6,00,000@5%	₹ 15,000
	₹ 6,00,001 – ₹ 9,00,000@10%	₹ 30,000
	₹ 9,00,001 – ₹ 12,00,000@15%	₹ 45,000
	₹ 12,00,001 – ₹ 15,00,000@20%	₹ 60,000
	₹ 15,00,001 – ₹ 1,01,00,000@30%	<u>₹ 25,80,000</u>
	Total	₹ 27,30,000
	Add: Surcharge @ 15%	<u>₹ 4,09,500</u>
		₹ 31,39,500
(B)	Income-tax computed on total income of ₹ 1 crore [(₹ 1,50,000 plus ₹ 25,50,000) plus surcharge@10%]	<u>₹ 29,70,000</u>
(C)	Excess tax payable (A) – (B)	₹ 1,69,500
(D)	Marginal Relief (₹ 1,69,500 – ₹ 1,00,000, being the amount of income in excess of ₹ 1,00,00,000)	₹ 69,500

(E) Tax liability (A) – (D)	₹ 30,70,000
Add: Health and education cess @4%	₹ 1,22,800
Tax liability (including cess)	₹ 31,92,800

Question - 3

Compute the tax liability of Mr. C (aged 58), having total income of ₹ 2,01,00,000 for the Assessment Year 2024-25. Assume that his total income comprises of salary income, Income from house property and interest on fixed deposit. Assume that Mr. C has exercised the option to shift out of section 115BAC.

SOLUTION:

Computation of tax liability of Mr. C for the A.Y.2024-25

(A) Income-tax (including surcharge) computed on total income of ₹ 2,01,00,000		
₹ 2,50,000 – ₹ 5,00,000 @ 5%	₹ 12,500	
₹ 5,00,001 – ₹ 10,00,000 @ 20%	₹ 1,00,000	
₹ 10,00,001 – ₹ 2,01,00,000 @ 30%	₹ 57,30,000	
Total	₹ 58,52,500	
Add: Surcharge @ 25%	₹ 14,60,625	₹ 73,03,125
(B) Income-tax computed on total income of ₹ 2 crore (₹ 12,500 plus ₹ 1,00,000 plus ₹ 57,00,000)		₹ 58,12,500
Add: Surcharge @ 15%		₹ 8,71,875
		₹ 66,84,375
(C) Total Income Less ₹ 2 crore		₹ 1,00,000
(D) Income-tax computed on total income of ₹ 2 crore plus the excess of total income over ₹ 2 crore (B + C)		₹ 67,84,375
(E) Tax liability (A) or (D), whichever is lower		₹ 67,84,375
Add: Health and education cess @ 4%		₹ 2,71,375
Tax liability (including cess)		₹ 70,55,750
(F) Marginal relief (A – D)		₹ 5,18,750

Alternative method:

(A) Income-tax (including surcharge) computed on total income of ₹ 2,01,00,000		
₹ 2,50,000 – ₹ 5,00,000 @ 5%	₹ 12,500	
₹ 5,00,001 – ₹ 10,00,000 @ 20%	₹ 1,00,000	
₹ 10,00,001 – ₹ 2,01,00,000 @ 30%	₹ 57,30,000	
Total	₹ 58,42,500	
Add: Surcharge @ 25%	₹ 14,60,625	₹ 73,03,125
(B) Income-tax computed on total income of ₹ 2 crore [(₹ 12,500 plus ₹ 1,00,000 plus ₹ 57,00,000) plus surcharge @ 15%]		₹ 66,84,375
(C) Excess tax payable (A) – (B)		₹ 6,18,750
(D) Marginal Relief (₹ 6,18,750 – ₹ 1,00,000, being the amount of income in excess of ₹ 2,00,00,000)		₹ 5,18,750
(E) Tax liability (A) – (D)		₹ 67,84,375

Add: Health and education cess @ 4%

₹ 2,71,375

Tax liability (including cess)

₹ 70,55,750

Question - 4

Compute the tax liability of Mr. D (aged 65) in a most beneficial manner. He is having total income of ₹ 5,01,00,000 for the Assessment Year 2024-25. Assume that his total income comprises of salary income, Income from house property and interest on fixed deposit and is the same under both tax regimes.

SOLUTION:

Computation of tax liability of Mr. D under default tax regime for the A.Y. 2024-25

Income-tax (including surcharge) computed on total income of ₹ 5,01,00,000

₹ 3,00,000 – ₹ 6,00,000@5% ₹ 15,000

₹ 6,00,001 – ₹ 9,00,000@10% ₹ 30,000

₹ 9,00,001 – ₹ 12,00,000@15% ₹ 45,000

₹ 12,00,001 – ₹ 15,00,000@20% ₹ 60,000

₹ 15,00,001 – ₹ 5,01,00,000@30% ₹ 1,45,80,000

Total ₹ 1,47,30,000

Add: Surcharge@25% ₹ 36,82,500 ₹ 1,84,12,500

Add: Health and education cess @4% ₹ 7,36,500

Tax Liability ₹ 1,91,49,000

Computation of tax liability of Mr. D under optional tax regime for the A.Y. 2024-25

(A) Income-tax (including surcharge) computed on total income of ₹ 5,01,00,000

₹ 3,00,000 – ₹ 5,00,000 @ 5% ₹ 10,000

₹ 5,00,001 – ₹ 10,00,000 @ 20% ₹ 1,00,000

₹ 10,00,001 – ₹ 5,01,00,000@30% ₹ 1,47,30,000

Total ₹ 1,48,40,000

Add: Surcharge @ 37% ₹ 54,90,800 ₹ 2,03,30,800

(B) Income-tax computed on total income of ₹ 5 crore (₹ 10,000 plus ₹ 1,00,000 plus ₹ 1,47,00,000) ₹ 1,48,10,000

Add: Surcharge@25% ₹ 37,02,500

₹ 1,85,12,500

(C) Total Income Less ₹ 5 crore ₹ 1,00,000

(D) Income-tax computed on total income of ₹ 5 crore plus the excess of total income over ₹ 5 crore (B + C) ₹ 1,86,12,500

(E) Tax liability (A) or (D), whichever is lower ₹ 1,86,12,500

Add: Health and education cess@4% ₹ 7,44,500

Tax liability (including cess) ₹ 1,93,57,000

(F) Marginal relief (A – D) ₹ 17,18,300

Alternative method:

(A) Income-tax (including surcharge) computed on total income of ₹ 5,01,00,000

₹ 3,00,000 – ₹ 5,00,000@5%	₹ 10,000	
₹ 5,00,001 – ₹ 10,00,000@20%	₹ 1,00,000	
₹ 10,00,001 – ₹ 5,01,00,000@30%	<u>₹1,47,30,000</u>	
Total	₹ 1,48,40,000	
Add: Surcharge @ 37%	<u>₹ 54,90,800</u>	₹ 2,03,30,800
(B) Income-tax computed on total income of ₹ 5 crore [(₹ 10,000 plus ₹ 1,00,000 plus ₹ 1,47,00,000) plus surcharge@25%]		<u>₹ 1,85,12,500</u>
(C) Excess tax payable (A) – (B)		₹ 18,18,300
(D) Marginal Relief (₹ 18,18,300 – ₹ 1,00,000, being the amount of income in excess of ₹ 5,00,00,000)		₹ 17,18,300
(E) Tax liability (A) – (D)		₹ 1,86,12,500
Add: Health and education cess @ 4%		<u>₹ 7,44,500</u>
Tax liability (including cess)		<u>₹ 1,93,57,000</u>

It is beneficial for Mr. D to pay tax under default tax regime under section 115BAC, since his tax liability would be lower by ₹ 2,08,000 (₹ 1,93,57,000 - ₹ 1,91,49,000).

Question - 5

Mr. X, a resident, has provided the following particulars of his income for the P.Y. 2023-24.

(i) Income from salary (computed)	- ₹ 4,80,000
(ii) Income from house property (computed)	- ₹ 2,50,000
(iii) Agricultural income from a land in Jaipur	- ₹ 4,80,000
(iv) Expenses incurred for earning agricultural income	- ₹ 1,70,000

Compute his tax liability for A.Y. 2024-25 assuming his age is –

- 45 years
- 70 years

SOLUTION:

- Computation of tax liability (age 45 years)

Computation of total income of Mr. X for the A.Y. 2024-25 under default tax regime under section 115BAC

For the purpose of partial integration of taxes, Mr. X has satisfied both the conditions i.e.

- Net agricultural income exceeds ₹ 5,000 p.a., and
- Non-agricultural income exceeds the basic exemption limit of ₹ 3,00,000.

His tax liability is computed in the following manner:

Particulars	₹	₹
Income from salary		4,80,000
Income from house property		2,50,000
Net agricultural income [₹ 4,80,000 - ₹ 1,70,000]	3,10,000	
Less: Exempt under section 10(1)	<u>(3,10,000)</u>	—
Gross Total Income		7,30,000
Less: Deductions under Chapter VI-A		—
Total Income		<u>7,30,000</u>

- Step 1** : ₹ 7,30,000 + ₹ 3,10,000 = ₹ 10,40,000
 Tax on ₹ 10,40,000 = ₹ 66,000
 (i.e., 5% of ₹ 3,00,000 plus 10% of ₹ 3,00,000 plus 15% of ₹ 1,40,000)
- Step 2** : ₹ 3,10,000 + ₹ 3,00,000 = ₹ 6,10,000
 Tax on ₹ 6,10,000 = ₹ 16,000
 (i.e. 5% of ₹ 3,00,000 plus 10% of ₹ 10,000)
- Step 3** : ₹ 66,000 - ₹ 16,000 = ₹ 50,000
- Step 4 & 5** : Total tax payable = ₹ 50,000
 = ₹ 50,000 + 4% of ₹ 50,000 = ₹ 52,000.

Computation of total income of Mr. X for the A.Y. 2024-25 under normal provisions of the Act

For the purpose of partial integration of taxes, Mr. X has satisfied both the conditions i.e.

3. Net agricultural income exceeds ₹ 5,000 p.a., and
4. Non-agricultural income exceeds the basic exemption limit of ₹ 2,50,000.

His tax liability is computed in the following manner:

Particulars	₹	₹
Income from salary		4,80,000
Income from house property		2,50,000
Net agricultural income [₹ 4,80,000 - ₹ 1,70,000]	3,10,000	
Less: Exempt under section 10(1)	(3,10,000)	--
Gross Total Income		7,30,000
Less: Deductions under Chapter VI-A		--
Total Income		<u>7,30,000</u>

- Step 1** : ₹ 7,30,000 + ₹ 3,10,000 = ₹ 10,40,000
 Tax on ₹ 10,40,000 = ₹ 1,24,500
 (i.e., 5% of ₹ 2,50,000 plus 20% of ₹ 5,00,000 plus 30% of ₹ 40,000)
- Step 2** : ₹ 3,10,000 + ₹ 2,50,000 = ₹ 5,60,000
 Tax on ₹ 5,60,000 = ₹ 24,500
 (i.e. 5% of ₹ 2,50,000 plus 20% of ₹ 60,000)
- Step 3** : ₹ 1,24,500 - ₹ 24,500 = ₹ 1,00,000
- Step 4 & 5** : Total tax payable = ₹ 1,00,000
 = ₹ 1,00,000 + 4% of ₹ 1,00,000 = ₹ 1,04,000.

(b) Computation of tax liability (age 70 years)

Computation of total income of Mr. X for the A.Y. 2024-25 under default tax regime under section 115BAC

Tax liability of Mr. X would be same under default tax regime whether he is of age of 45 years of 70 years i.e., ₹ 52,000.

Computation of total income of Mr. X for the A.Y. 2024-25 under normal provisions of the Act

His tax liability is computed in the following manner:

Step 1	:	$\text{₹ } 7,30,000 + \text{₹ } 3,10,000 = \text{₹ } 10,40,000$
		Tax on ₹ 10,40,000 = ₹ 1,22,000
		(i.e., 5% of ₹ 2,00,000 plus 20% of ₹ 5,00,000 plus 30% of ₹ 40,000)
Step 2	:	$\text{₹ } 3,10,000 + \text{₹ } 3,00,000 = \text{₹ } 6,10,000$
		Tax on ₹ 6,10,000 = ₹ 32,000
		(i.e. 5% of ₹ 2,00,000 plus 20% of ₹ 1,10,000)
Step 3	:	$\text{₹ } 1,22,000 - \text{₹ } 32,000 = \text{₹ } 90,000$
Step 4 & 5	:	Total tax payable = ₹ 90,000
		= ₹ 90,000 + 4% of ₹ 1,00,000 = ₹ 93,600.

Question - 6

Compute the tax liability under default tax regime of Mr. Kashyap (aged 35), having total income of ₹ 51,75,000 for the Assessment Year 2024-25. Assume that his total income comprises of salary income, income from house property and interest on fixed deposit.

ANSWER

Computation of tax liability of Mr. Kashyap for the A.Y.2024-25 under default tax regime

(A)	Tax payable including surcharge on total income of ₹ 51,75,000	
	₹ 3,00,000 – ₹ 6,00,000 @5%	₹ 15,000
	₹ 6,00,001 – ₹ 9,00,000 @10%	₹ 30,000
	₹ 9,00,001 – ₹ 12,00,000 @15%	₹ 45,000
	₹ 12,00,001 – ₹ 15,00,000 @20%	₹ 60,000
	₹ 15,00,001 – ₹ 51,75,000 @30%	<u>₹ 11,02,500</u>
	Total	₹ 12,52,500
	Add: Surcharge @ 10%	<u>₹ 1,25,250</u>
		₹ 13,77,750
(B)	Tax Payable on total income of ₹ 50 lakhs (₹ 1,50,000 plus ₹ 10,50,000)	₹ 12,00,000
(C)	Total Income Less ₹ 50 lakhs	₹ 1,75,000
(D)	Tax payable on total income of ₹ 50 lakhs plus the excess of total income over ₹ 50 lakhs (B + C)	₹ 13,75,000
(E)	Tax payable: lower of (A) and (D)	₹ 13,75,000
	Add: Health and education cess @4%	<u>₹ 55,000</u>
	Tax liability	<u>₹ 14,30,000</u>
(F)	Marginal relief (A – D)	₹ 2,750

Alternative method:

(A)	Tax payable including surcharge on total income of ₹ 51,75,000	
	₹ 3,00,000 – ₹ 6,00,000 @5%	₹ 15,000
	₹ 6,00,001 – ₹ 9,00,000 @10%	₹ 30,000
	₹ 9,00,001 – ₹ 12,00,000 @15%	₹ 45,000
	₹ 12,00,001 – ₹ 15,00,000 @20%	₹ 60,000
	₹ 15,00,001 – ₹ 51,75,000 @30%	<u>₹ 11,02,500</u>

Total	₹ 12,52,500	
Add: Surcharge @ 10%	₹ 1,25,250	₹ 13,77,750
(B) Tax Payable on total income of ₹ 50 lakhs (₹ 1,50,000 plus ₹ 10,50,000)		<u>₹ 12,00,000</u>
(C) Excess tax payable (A) – (B)		₹ 1,77,750
(D) Marginal Relief (₹ 1,77,750 – ₹ 1,75,000, being the amount of income in excess of ₹ 50,00,000)		₹ 2,750
(E) Tax liability (A) – (D)		₹ 13,75,000
Add: Health and education cess @ 4%		<u>₹ 55,000</u>
Tax liability		<u>₹ 14,30,000</u>

Question - 7

Mr. Agarwal, aged 40 years and a resident in India, has a total income of ₹ 6,50,00,000, comprising long term capital gain taxable under section 112 of ₹ 55,00,000, short term capital gain taxable under section 111A of ₹ 65,00,000 and other income of ₹ 5,30,00,000. Compute his tax liability for A.Y.2024-25 under the default tax regime and optional tax regime as per the normal provisions of the Act assuming that the total income and its components are the same in both tax regimes.

ANSWER

Computation of tax liability of Mr. Agarwal for the A.Y. 2024-25 under default tax regime

Particulars	₹
<u>Tax on total income of ₹ 6,50,00,000</u>	
Tax@20% of ₹ 55,00,000	11,00,000
Tax@15% of ₹ 65,00,000	9,75,000
Tax on other income of ₹ 5,30,00,000	
₹ 3,00,000 - ₹ 6,00,000 @5%	15,000
₹ 6,00,000 - ₹ 9,00,000 @10%	30,000
₹ 9,00,000 – ₹ 12,00,000 @15%	45,000
₹ 12,00,000 – ₹ 15,00,000 @20%	60,000
₹ 15,00,000 – ₹ 5,30,00,000 @30%	1,54,50,000
	1,76,75,000
Add: Surcharge @ 15% on ₹ 20,75,000	3,11,250
@25% on ₹ 1,56,00,000	39,00,000
	2,18,86,250
Add: Health and education cess @4%	8,75,450
Tax Liability	2,27,61,700

Computation of tax liability of Mr. Agarwal for the A.Y.2024-25 under normal provisions of the Act

Particulars	₹
<u>Tax on total income of ₹ 6,50,00,000</u>	
Tax@20% of ₹ 55,00,000	11,00,000

Tax@15% of ₹ 65,00,000		9,75,000
Tax on other income of ₹ 5,30,00,000		
₹ 2,50,000 – ₹ 5,00,000 @5%	12,500	
₹ 5,00,000 – ₹ 10,00,000 @20%	1,00,000	
₹ 10,00,000 – ₹ 5,30,00,000 @30%	1,56,00,000	1,57,12,500
		1,77,87,500
Add: Surcharge @ 15% on ₹ 20,75,000	3,11,250	
@37% on ₹ 1,57,12,500	58,13,625	61,24,875
		2,39,12,375
Add: Health and education cess @ 4%		9,56,495
Tax Liability		2,48,68,870

Question - 8

Mr. Sharma aged 62 years and a resident in India, has a total income of ₹ 2,30,00,000, comprising long term capital gain taxable under section 112 of ₹ 52,00,000, short term capital gain taxable under section 111A of ₹ 64,00,000 and other income of ₹ 1,14,00,000. Compute his tax liability for A.Y.2024-25 under the default tax regime and optional tax regime as per the normal provisions of the Act assuming that the total income and its components are the same in both tax regimes.

ANSWER

Computation of tax liability of Mr. Sharma for the A.Y.2024-25 under default tax regime

Particulars	₹
<u>Tax on total income of ₹ 2,30,00,000</u>	
Tax@20% of ₹ 52,00,000	10,40,000
Tax@15% of ₹ 64,00,000	9,60,000
Tax on other income of ₹ 1,14,00,000	
₹ 3,00,000 – ₹ 6,00,000 @5%	15,000
₹ 6,00,000 – ₹ 9,00,000 @10%	30,000
₹ 9,00,000 – ₹ 12,00,000 @15%	45,000
₹ 12,00,000 – ₹ 15,00,000 @20%	60,000
₹ 15,00,000 – ₹ 1,14,00,000 @30%	29,70,000
	31,20,000
	51,20,000
Add: Surcharge @ 15%	7,68,000
	58,88,000
Add: Health and education cess @4%	235,520
Tax Liability	61,23,520

Computation of tax liability of Mr. Sharma for the A.Y.2024-25 under normal provisions of the Act

Particulars	₹
<u>Tax on total income of ₹ 2,30,00,000</u>	

Tax@20% of ₹ 52,00,000		10,40,000
Tax@15% of ₹ 64,00,000		9,60,000
Tax on other income of ₹ 1,14,00,000		
₹ 3,00,000 – ₹ 5,00,000 @5%	10,000	
₹ 5,00,000 – ₹ 10,00,000 @20%	1,00,000	
₹ 10,00,000 – ₹ 1,14,00,000 @30%	31,20,000	32,30,000
		52,30,000
Add: Surcharge @ 15%		7,84,500
		60,14,500
Add: Health and education cess @4%		2,40,580
Tax Liability		62,55,080



CA DREAMERS
THE AVENGER

RESIDENCE AND SCOPE OF TOTAL INCOME

Question - 1

From the following particulars of income furnished by Mr. Anirudh pertaining to the year ended 31.3.2024, compute the total income for the A.Y. 2024-25, if he is:

- (i) Resident and Ordinary resident;
- (ii) Resident but not ordinarily resident;
- (iii) Non-resident

	Particulars	₹
(a)	Short term capital gains on sale of shares of an Indian Company, received in Germany	15,000
(b)	Dividend from a Japanese Company, received in Japan	10,000
(c)	Rent from property in London deposited in a bank in London, later on remitted to India through approved banking channels	75,000
(d)	Dividend from RP Ltd., an Indian Company	6,000
(e)	Agricultural income from land in Gujarat	25,000

ANSWER

Computation of total income of Mr. Anirudh for the A.Y. 2024-25

Particulars	Resident & ordinarily resident	Resident but not ordinarily resident	Non-Resident
	₹	₹	₹
(1) Short term capital gains on sale of shares of an Indian company, received in Germany	15,000	15,000	15,000
(2) Dividend from a Japanese company, received in Japan	10,000	-	-
(3) Rent from property in London deposited in a bank in London [See Note (i) below]	52,500	-	-
(4) Dividend from RP Ltd., an Indian Company	6,000	6,000	6,000
(5) Agricultural income from land in Gujarat [See Note (ii) below]	-	-	-
Total Income	83,500	21,000	21,000

Notes:

- (i) It has been assumed that the rental income is the gross annual value of the property. Therefore, deduction @30% under section 24, has been provided and the net income so computed is taken into account for determining the total income of a resident and ordinarily resident.

	₹
Rent received (assumed as gross annual value)	75,000
Less: Deduction under section 24 (30% of ₹ 75,000)	22,500
Income from house property	52,500

(ii) Agricultural income is exempt under section 10(1).

Question - 2

Mr. Ram, an Indian citizen, left India on 22.09.2023 for the first time to work as an officer of a company in Germany. Determine the residential status of Ram for the A.Y. 2024-25.

ANSWER

Under section 6(1), an individual is said to be resident in India in any previous year if he satisfies any one of the following conditions –

- (i) He has been in India during the previous year for a total period of 182 days or more, or
- (ii) He has been in India during the 4 years immediately preceding the previous year for a total period of 365 days or more and has been in India for at least 60 days in the previous year.

In the case of Indian citizens leaving India for employment, the period of stay during the previous year must be 182 days instead of 60 days given in (ii) above.

During the previous year 2023-24, Mr. Ram, an Indian citizen, was in India for 175 days only (i.e., 30+31+30+31+31+22 days). Thereafter, he left India for employment purposes.

Since he does not satisfy the minimum criteria of 182 days stay in India during the relevant previous year, he is a non-resident for the A.Y. 2024-25.

Question - 3

Mr. Dey, residing in US since 1990, visits India for 30 days every year. He came back to India on 1.4.2022 for permanent settlement. What will be his residential status for A.Y. 2024-25?

ANSWER

Mr. Dey is a resident in A.Y. 2024-25 since he has stayed in India for a period of 366 days (more than 182 days) during the P.Y. 2023-24.

As per section 6(6), a person will be “Not ordinarily Resident” in India in any previous year, if such person, inter alia,:

- (a) has been a non-resident in 9 out of 10 previous years preceding the relevant previous year; or
- (b) has during the 7 previous years immediately preceding the relevant previous year been in India for 729 days or less.

If he does not satisfy either of these conditions, he would be a resident and ordinarily resident.

For the previous year 2023-24 (A.Y. 2024-25), his status would be “Resident but not ordinarily resident” since he was non-resident in 9 out of 10 previous years immediately preceding the P.Y. 2023-24. He was resident only in the P.Y. 2022-23. Prior to that, he was non-resident in all the years since his stay in India was only for 30 days each year.

He can be resident but not ordinarily resident also due to the fact that he has stayed in India only for 545 days [365 days in P.Y. 2022-23 + (30 days x 6 years)] in 7 previous years immediately preceding the P.Y. 2023-24, which is less than 730 days.

Question - 4

Mr. Ramesh & Mr. Suresh are brothers and they earned the following incomes during the F.Y. 2023-24. Mr. Ramesh settled in Canada in the year 1996 and Mr. Suresh settled in Delhi. Compute the total income for the A.Y. 2024-25 assuming that both have exercised the option of shifting out of the default tax regime provided under section 115BAC(1A).

S. No.	Particulars	Mr. Ramesh (₹)	Mr. Suresh (₹)
1.	Interest on Canada Development Bonds (only 50% of interest received in India)	35,000	40,000
2.	Dividend from British company, received in London	28,000	20,000
3.	Profits from a business in Nagpur, but managed directly from London	1,00,000	1,40,000

4.	Short term capital gain on sale of shares of an Indian company, received in India	60,000	90,000
5.	Income from a business in Chennai	80,000	70,000
6.	Fees for technical services rendered in India, but received in Canada	1,00,000	-
7.	Interest on savings bank deposit in UCO Bank, Delhi	7,000	12,000
8.	Agricultural income from a land situated in Andhra Pradesh	55,000	45,000
9.	Rent received in respect of house property at Bhopal	1,00,000	60,000
10.	Life insurance premium paid	----	30,000

ANSWER

Computation of total income of Mr. Ramesh & Mr. Suresh for the A.Y. 2024-25

S. No.	Particulars	Mr. Ramesh (Non-Resident) (₹)	Mr. Suresh (Resident) (₹)
1.	Interest on Canda Development Bond (See Note 2)	17,500	40,000
2.	Dividend from British Company received in London (See Note 3)	-	20,000
3.	Profits from a business in Nagpur but managed directly from London (See Note 2)	1,00,000	1,40,000
4.	Short term capital gain on sale of shares of an Indian company received in India (See Note 2)	60,000	90,000
5.	Income from a business in Chennai (See Note 2)	80,000	70,000
6.	Fees for technical services rendered in India, but received in Canda (See Note 2)	1,00,000	-
7.	Interest on savings bank deposit in UCO Bank, Delhi (See Note 2)	7,000	12,000
8.	Agricultural income from a land situated in Andhra Pradesh (See Note 4)	-	-
9.	Income from house property at Bhopal (See Note 5)	70,000	42,000
	Gross Total Income	4,34,500	4,14,000
	Less: Deduction under Chapter VI-A		
	Section 80C – Life insurance premium	-	30,000
	Section 80TTA (See Note 6)	7,000	10,000
	Total Income	4,27,500	3,74,000

Notes:

- Mr. Ramesh is a non-resident since he has been living in Canada since 1996. Mr. Suresh, is settled in Delhi, and thus, assumed as a resident and ordinarily resident.
- In case of a resident and ordinarily resident, his global income is taxable as per section 5(1). However, as per section 5(2), in case of a non-resident, only the following incomes are chargeable to tax:
 - Income received or deemed to be received in India; and
 - Income accruing or arising or deemed to accrue or arise in India.

Therefore, fees for technical services rendered in India would be taxable in the hands of Mr. Ramesh, even though he is a non-resident.

The income referred to in Sl. No. 3,4,5 and 7 are taxable in the hands of both Mr. Ramesh and Mr. Suresh since they accrue or arise/ deemed to accrue or arise in India.

Interest on Canada Development Bond would be fully taxable in the hands of Mr. Suresh, whereas only 50%, which is received in India, is taxable in the hands of Mr. Ramesh.

3. Dividend received from British company in London by Mr. Ramesh, a non-resident, is not taxable since it is accrued and received outside India. However, such dividend received by Mr. Suresh is taxable, since he is a resident and ordinarily resident.
4. Agricultural income forms a land situated in India is exempt under section 10(1) in the case of both non-residents and residents.
5. Income from house property –

	Mr. Ramesh (₹)	Mr. Suresh (₹)
Rent received	1,00,000	60,000
Less: Deduction u/s 24(a) @ 30%	30,000	18,000
Net income from house property	70,000	42,000

The net income from house property in India would be taxable in the hands of both Mr. Ramesh and Mr. Suresh, since the accrual and receipt of the same are in India.

6. In case of an individual, interest upto ₹ 10,000 from savings account with, inter alia, a bank is allowable as deduction under section 80TTA.

Question - 5

Examine the correctness or otherwise of the statement - "Income deemed to accrue or arise in India to a non-resident by way of interest, royalty and fees for technical services is to be taxed irrespective of territorial nexus".

ANSWER

This statement is correct.

As per Explanation to section 9, income by way of interest, royalty or fees for technical services which is deemed to accrue or arise in India by virtue of clauses (v), (vi) and (vii) of section 9(1), shall be included in the total income of the non-resident, whether or not –

- (i) Non-resident has a residence or place of business or business connection in India; or
- (ii) The non-resident has rendered services in India.

In effect, the income by way of fees for technical services, interest or royalty from services utilised in India would be deemed to accrue or arise in India in case of a non-resident and be included in his total income, whether or not such services were rendered in India and irrespective of whether the non-resident has a residence or place of business or business connection in India.

Question - 6

Examine with reasons whether the following transactions attract income-tax in India in the hands of recipients:

- (i) Salary payable by Central Government to Mr. John, a citizen of India of ₹ 7,00,000 for the services rendered outside India considering that he pays tax as per the provisions of section 115BAC.
- (ii) Interest on moneys borrowed from outside India ₹ 5,00,000 by a non-resident for the purpose of business within India say, at Mumbai.
- (iii) Post office savings bank interest of ₹ 19,000 received by a resident assessee, Mr. Ram, aged 46 years if he exercises the option of shifting out of the default tax regime provided under section 115BAC(1A).
- (iv) Royalty paid by a resident to a non-resident in respect of a business carried on outside India.

- (v) Legal charges of ₹ 5,00,000 paid in Delhi to a lawyer of United Kingdom who visited India to represent a case at the Delhi High Court.

ANSWER

Taxability of receipts

	Taxable/ Not Taxable	Amount liable to tax (₹)	Reason
(i)	Taxable	6,50,000	As per section 9(1)(iii), salaries payable by the Government to a citizen of India for service rendered outside India shall be deemed to accrue or arise in India. Therefore, salary paid by Central Government to Mr. John for services rendered outside India would be deemed to accrue or arise in India since he is a citizen of India. He would be entitled to standard deduction of ₹ 50,000 under section 16(ia).
(ii)	Taxable	5,00,000	As per section 9(1)(v)(c), interest payable by a non-resident on moneys borrowed and used for the purposes of business carried on by such person in India shall be deemed to accrue or arise in India in the hands of the recipient.
(iii)	Partly Taxable	5,500	The interest on Post office savings bank a/c would be exempt u/s 10(15)(i) only to the extent of ₹ 3,500 in case of an individual a/c. Further, interest upto ₹ 10,000, would be allowed as deduction u/s 80TTA from Gross Total Income. Balance ₹ 5,500 i.e., ₹ 19,000 - ₹ 3,500 - ₹ 10,000 would be taxable in the hands of Mr. Ram, a resident.
(iv)	Not Taxable	-	Royalty paid by a resident to a non-resident in respect of a business carried outside India would not be taxable in the hands of the non-resident provide the same is not received in India. This has been provided as an exception to deemed accrued mentioned in section 9(1)(vi)(b).
(v)	Taxable	5,00,000	In case of a non-resident, any income which accrues or arises in India or which is deemed to accrue or arise in India or which is received in India or is deemed to be received in India or is deemed to be received in India is taxable in India. Therefore, legal charges paid in India to a non-resident lawyer of UK, who visited India to represent a case at the Delhi High Court would be taxable in India.

SALARIES

Question - 1

Mr. Sagar who retired on 1.10.2023 is receiving ₹ 5,000 p.m. as pension. On 1.2.2024, he commuted 60% of his pension and received ₹ 3,00,000 as commuted pension. You are required to compute his taxable pension assuming:

- He is a government employee.
- He is a private sector employee and received gratuity of ₹ 5,00,000 at the time of retirement.
- He is a private sector employee and did not receive any gratuity at the time of retirement.

ANSWER

- (a) He is a government employee

Uncommuted pension received (October – March)		₹ 24,000
[(₹ 5,000 × 4 months) + (40% of ₹ 5,000 × 2 months)]		
Commuted pension received	₹ 3,00,000	
Less: Exempt u/s 10(10A)	<u>₹ 3,00,000</u>	<u>NIL</u>
Taxable pension		<u>₹ 24,000</u>

- (b) He is a private sector employee and received gratuity ₹ 5,00,000 at the time of retirement

Uncommuted pension received (October – March)		₹ 24,000
[(₹ 5,000 × 4 months) + (40% of ₹ 5,000 × 2 months)]		
Commuted pension received	₹ 3,00,000	
Less: Exempt u/s 10(10A)		
$\left(\frac{1}{3} \times \frac{₹ 3,00,000}{60\%} \times 100\%\right)$	<u>₹ 1,66,667</u>	<u>₹ 1,33,333</u>
Taxable pension		<u>₹ 1,57,333</u>

- (c) He is a private sector employee and did not receive any gratuity at the time of retirement

Uncommuted pension received (October – March)		₹ 24,000
[(₹ 5,000 × 4 months) + (40% of ₹ 5,000 × 2 months)]		
Commuted pension received	₹ 3,00,000	
Less: Exempt u/s 10(10A)		
$\left(\frac{1}{2} \times \frac{₹ 3,00,000}{60\%} \times 100\%\right)$	<u>₹ 2,50,000</u>	<u>₹ 50,000</u>
Taxable pension		<u>₹ 74,000</u>

Question - 2

Mr. Gupta retired on 1.12.2023 after 20 years of service and received leave salary of ₹ 5,00,000. Other details of his salary income are:

Basic Salary	: ₹ 5,000 p.m. (₹ 1,000 was increased w.e.f. 1.4.2023)
Dearness Allowance	: ₹ 3,000 p.m. (60% of which is for retirement benefits)
Commission	: ₹ 500 p.m.
Bonus	: ₹ 1,000 p.m.
Leave availed during service	: 480 days

He was entitled to 30 days leave every year.

You are required to compute his taxable leave salary assuming:

- (a) He is a government employee.
 (b) He is a non-government employee.

ANSWER

(a) He is government employee

Leave Salary received at the time of retirement	₹ 5,00,000
Less: Exemption under section 10(10AA)	₹ 5,00,000
Taxable Leave Salary	Nil

(b) He is a non-government employee

Leave Salary received at the time of retirement	₹ 5,00,000
Less: Exempt under section 10(10AA) [See Note below]	₹ 26,400
Taxable Leave Salary	₹ 4,73,600

Note: Exemption under section 10(10AA) is least of the following:

- (i) Leave salary received ₹ 5,00,000
 (ii) Statutory limit ₹ 25,00,000
 (iii) 10 months' salary based on average salary of last 10 months

$$\begin{aligned} \text{i.e. } & \left[10 \times \frac{\text{Salary of last 10 months i.e. Feb. - Nov.}}{10 \text{ months}} \right] \\ & = \left[10 \times \frac{(5000 \times 8) + (4000 \times 2) + (60\% \times 3000 \times 10)}{10 \text{ months}} \right] \quad \text{₹ 66,000} \end{aligned}$$

- (iv) Cash equivalent of leave standing at the credit of the employee based on the average salary of last 10 months' (max. 30 days per year of service)

$$\begin{aligned} \text{Leave Due} &= \text{Leave allowed} - \text{Leave taken} \\ &= (30 \text{ days per year} \times 20 \text{ years}) - 480 \text{ days} = 120 \text{ days} \\ \text{i.e. } & \left[\frac{\text{Leave due (in days)}}{30 \text{ days}} \times \text{Average salary p. m.} \right] \\ &= \left[\frac{120 \text{ days}}{30 \text{ days}} \times \frac{\text{₹ } 66,000}{10} \right] \quad \text{₹ 26,400} \end{aligned}$$

Question - 3

Compute the taxable value of the perquisite in respect of medical facilities received by Mr. G from his employer during the P.Y. 2023-24:

Medical premium paid for insuring health of Mr. G	₹ 7,000
Treatment of Mr. G by his family doctor	₹ 5,000
Treatment of Mrs. G in a Government hospital	₹ 25,000
Treatment of Mr. G's grandfather in a private clinic	₹ 12,000
Treatment of Mr. G's mother (68 years and dependant) by family doctor	₹ 8,000
Treatment of Mr. G's sister (dependant) in a nursing home	₹ 3,000
Treatment of Mr. G's brother (independent)	₹ 6,000
Treatment of Mr. G's father (75 years and dependent) abroad	₹ 50,000

ANSWER**Computation of taxable value of perquisite in the hands of Mr. G**

Particulars	₹	₹
Treatment of Mrs. G in a Government Hospital		-
Treatment of Mr. G's father (75 years and dependent) abroad	50,000	
Expenses of staying abroad of the patient and attendant	30,000	
	80,000	
Less: Exempt up to limit specified by RBI	75,000	5,000
Medical premium paid for insuring health of Mr. G		-
Treatment of Mr. G by his family doctor		5,000
Treatment of Mr. G's mother (dependent) by family doctor		8,000
Treatment of Mr. G's sister (dependent) in a nursing home		3,000
Treatment of Mr. G's grandfather in a private clinic		12,000
Treatment of Mr. G's brother (independent)		6,000
Taxable value of perquisite		39,000

Question - 4

Using the data given in illustration 17 above, compute the value of the perquisite if Mr. C is a government employee. The licence fees determined by the Government for this accommodation was ₹ 700 p.m.

ANSWER

In the case of Government employees, the accommodation would be deemed to have been provided at a concessional rate, if the licence fees determined by the employer as increased by the value of furniture and fixture exceeds the rent recovered/ recoverable from the employee.

In this case, ₹ 3,500 (licence fees: ₹ 700 × 5) + ₹ 4,625 (Value of furniture) is the value of furnished accommodation. The rent paid by the employee is ₹ 5,000 (i.e. ₹ 1,000 × 5). Therefore, the accommodation would be deemed to have been provided at a concessional rate.

Value of the accommodation (₹ 700 × 5) = ₹ 3,500

Add: Value of furniture provided by the employer (computed earlier) = ₹ 4,625

Value of furnished accommodation = ₹ 8,125

Less: Rent paid by the employee (₹ 1,000 × 5) = ₹ 5,000

Perquisite value of furnished accommodation given at concessional rent = ₹ 3,125

Question - 5

Mr. X retired from the services of M/s Y Ltd. on 31.01.2024, after completing service of 30 years and one month. He had joined the company on 1.1.1994 at the age of 30 years and received the following on his retirement:

- Gratuity ₹ 6,00,000. He was covered under the Payment of Gratuity Act, 1972.
- Leave encashment of ₹ 3,30,000 for 330 days leave balance in his account. He was credited 30 days leave for each completed year of service.
- As per the scheme of the company, he was offered a car which was purchased on 30.01.2021 by the company for ₹ 5,00,000. Company has recovered ₹ 2,00,000 from him for the car. Company depreciates the vehicles at the rate of 15% on Straight Line Method.

- (iv) An amount of ₹ 3,00,000 as commutation of pension for 2/3 of his pension commutation.
- (v) Company presented him a gift voucher worth ₹ 6,000 on his retirement.
- (vi) His colleagues also gifted him a Television (LCD) worth ₹ 50,000 from their own contribution.

Following are the other particulars:

- (i) He has drawn a basic salary of ₹ 20,000 and 50% dearness allowance per month for the period from 01.04.2023 to 31.01.2024.
- (ii) Received pension of ₹ 5,000 per month for the period 01.02.2024 to 31.03.2024 after commutation of pension.

Compute his gross total income from the above for Assessment Year 2024-25 assuming he exercises the option of shifting out of the default tax regime provided under section 115BAC(1A).

ANSWER

Computation of Gross Total Income of Mr. X for A.Y. 2024-25

Particulars	₹
Basic Salary = ₹ 20,000 × 10	2,00,000
Dearness Allowances = 50% of basic salary	1,00,000
Gift Voucher (See Note - 1)	6,000
Transfer of car (See Note - 2)	56,000
Gratuity (See Note - 3)	80,769
Leave encashment (See Note - 4)	1,30,000
Uncommuted Pension (₹ 5000 × 2)	10,000
Computed pension (See Note - 5)	1,50,000
Gross Salary	7,32,769
Less: Standard deduction u/s 16(ia)	50,000
Taxable Salary / Gross Total Income	6,82,769

Notes:

- (1) As per Rule 3(7)(iv), the value of any gift or voucher or token in lieu of gift received by the employee or by member of his household not exceeding ₹ 5,000 in aggregate during the previous year is exempt. In this case, the amount was received on his retirement and the sum exceeds the limit of ₹ 5,000.

Therefore, the entire amount of ₹ 6,000 is liable to tax as perquisite.

Note – An alternate view possible is that only the sum in excess of ₹ 5,000 is taxable. In such a case, the value of perquisite would be ₹ 1,000 and gross total income would be ₹ 7,27,769.

- (2) **Perquisite value of transfer of car:** As per Rule 3(7)(viii), the value of benefit to the employee, arising from the transfer of an asset, being a motor car, by the employer is the actual cost of the motor car to the employer as reduced by 20% of WDV of such motor car for each completed year during which such motor car was put to use by the employer. Therefore, the value of perquisite on transfer of motor car, in this case, would be:

Particulars	₹
Purchase price (30.1.2021)	5,00,000
Less: Depreciation @ 20%	1,00,000
WDV on 29.1.2022	4,00,000
Less: Depreciation @ 20%	80,000

WDV on 29.1.2023	3,20,000
Less: Depreciation @ 20%	64,000
WDV on 29.1.2024	2,56,000
Less: Amount recovered	2,00,000
Value of Perquisite	56,000

The rate of 15% as well as the straight-line method adopted by the company for depreciation of vehicle is **not** relevant for calculation of perquisite value of car in the hands of Mr. X.

(3) Taxable Gratuity

Particulars	₹
Gratuity Received	6,00,000
Less: Exempt under section 10(10) – Least of the following:	
(i) Notified Limit = ₹ 20,00,000	
(ii) Actual Gratuity = ₹ 6,00,000	
(iii) $15/26 \times \text{last drawn salary} \times \text{no. of completed years of services or part in excess of 6 months}$	
$15/26 \times ₹ 30,000 \times 30 = ₹ 5,19,231$	5,19,231
Taxable Gratuity	80,769

Note: As per the Payment of Gratuity Act, 1972, D.A. is included in the meaning of salary. Since in this case, Mr. X is covered under payment of Payment of Gratuity Act, 1972, D.A. has to be included within the meaning of salary for computation of exemption under section 10(10).

(4) Taxable leave encashment

Particulars	₹
Leave Salary received	3,30,000
Less: Exempt under section 10(10AA) - Least of the following:	
(i) Notified Limit	₹ 25,00,000
(ii) Actual leave	₹ 3,30,000
(iii) 10 months \times ₹ 20,000	₹ 2,00,000
(iv) Cash equivalent of leave to his credit	₹ 2,20,000
$\left(\frac{330}{30} \times 20,000\right)$	2,00,000
Taxable Leave encashment	1,30,000

Note – It has been assumed that dearness allowance does not form part of salary for retirement benefits. In case it is assumed that dearness allowance forms part of pay for retirement benefits, then, the third limit for exemption under section 10(10AA) in respect of leave encashment would be ₹ 3,00,000 (i.e. $10 \times ₹ 30,000$) and the fourth limit ₹ 3,30,000, in which case, the taxable leave encashment would be ₹ 30,000 ($₹ 3,30,000 - ₹ 3,00,000$). In such a case, the gross total income would be ₹ 6,32,769.

(5) Commuted Pension

Since Mr. X is a non-government employee in receipt of gratuity, exemption under section 10(10A) would be available to the extent of 1/3rd of the amount of the pension which he would have received had he commuted the whole of the pension.

Particulars	₹
-------------	---

Amount received	3,00,000
Less: Exemption under section 10(10A) = $\frac{1}{3} \times \left[3,00,000 \times \frac{3}{2} \right]$	1,50,000
Taxable amount	1,50,000

- (6) The taxability provisions under section 56(2)(x) are not attracted in respect of television received from colleagues, since television is not included in the definition of property therein.

Question - 6

Shri Bala employed in ABC Co. Ltd. as Finance Manager gives you the list of perquisites provided by the company to him for the entire financial year 2023-24:

- Domestic servant was provided at the residence of Bala. Salary of domestic servant is ₹ 1,500 per month. The servant was engaged by him and the salary is reimbursed by the company (employer).
In case the company has employed the domestic servant, what is the value of perquisite?
- Free education was provided to his two children Arthy and Ashok in a school maintained and owned by the company. The cost of such education for Arthy is computed at ₹ 900 per month and for Ashok at ₹ 1,200 per month. No amount was recovered by the company for such education facility from Bala.
- The employer has provided movable assets such as television, refrigerator and air-conditioner at the residence of Bala. The actual cost of such assets provided to the employee is ₹ 1,10,000.
- A gift voucher worth ₹ 10,000 was given on the occasion of his marriage anniversary. It is given by the company to all employees above certain grade.
- Telephone provided at the residence of Shri Bala and the bill aggregating to ₹ 25,000 paid by the employer.
- Housing loan @ 6% per annum. Amount outstanding on 1.4.2023 is ₹ 6,00,000. Shri Bala pays ₹ 12,000 per month towards principal, on 5th of each month.

Compute the chargeable perquisite in the hands of Mr. Bala for the A.Y. 2024-25.

The lending rate of State Bank of India as on 1.4.2023 for housing loan may be taken as 10%.

ANSWER

Taxability of perquisites provided by ABC Co. Ltd. to Shri Bala

- Domestic servant was employed by the employee and the salary of such domestic servant was paid/ reimbursed by the employer. It is taxable as perquisite for all categories of employees.

Taxable perquisite value = ₹ 1,500 × 12 = ₹ 18,000.

If the company had employed the domestic servant and the facility of such servant is given to the employee, then the perquisite is taxable only in the case of specified employees. The value of the taxable perquisite in such a case also would be ₹ 18,000.

- Where the educational institution is owned by the employer, the value of perquisite in respect of free education facility shall be determined with reference to the reasonable cost of such education in a similar institution in or near the locality. However, there would be no perquisite if the cost of such education per child does not exceed ₹ 1,000 per month.

Therefore, there would be no perquisite in respect of cost of free education provided to his child Arthy, since the cost does not exceed ₹ 1,000 per month.

However, the cost of free education provided to his child Ashok would be taxable, since the cost exceeds ₹ 1,000 per month. The taxable perquisite value would be ₹ 14,400 (₹ 1,200 × 12).

Note – An alternate view possible is that only the sum in excess of ₹ 1,000 per month is taxable. In such a case, the value of perquisite would be ₹ 2,400.

- Where the employer has provided movable assets to the employee or any member of his household, 10% per annum of the actual cost of such asset owned or the amount of hire charges incurred by the employer shall be the value of

perquisite. However, this will not apply to laptops and computers. In this case, the movable assets are television, refrigerator and air conditioner and actual cost of such assets is ₹ 1,10,000.

The perquisite value would be 10% of the actual cost i.e., ₹ 11,000, being 10% of ₹ 1,10,000.

- (iv) The value of any gift or voucher or token in lieu of gift received by the employee or by member of his household not exceeding ₹ 5,000 in aggregate during the previous year is exempt. In this case, the amount was received on the occasion of marriage anniversary and the sum exceeds the limit of ₹ 5,000.

Therefore, the entire amount of ₹ 10,000 is liable to tax as perquisite.

Note – An alternate view possible is that only the sum in excess of ₹ 5,000 is taxable. In such a case, the value of perquisite would be ₹ 5,000

- (v) Telephone provided at the residence of the employee and payment of bill by the employer is a tax-free perquisite.
- (vi) The value of the benefit to the assessee resulting from the provision of interest-free or concessional loan made available to the employee or any member of his household during the relevant previous year by the employer or any person on his behalf shall be determined as the sum equal to the interest computed at the rate charged per annum by the State Bank of India (SBI) as on the 1st day of the relevant previous year in respect of loans for the same purpose advanced by it. This rate should be applied on the maximum outstanding monthly balance and the resulting amount should be reduced by the interest, if any, actually paid by him.

“Maximum outstanding monthly balance” means the aggregate outstanding balance for loan as on the last day of each month.

The perquisite value for computation is $10\% - 6\% = 4\%$

Month	Maximum outstanding balance as on last date of month (₹)	Perquisite value at 4% for the month (₹)
April, 2023	5,88,000	1,960
May, 2023	5,76,000	1,920
June, 2023	5,64,000	1,880
July, 2023	5,52,000	1,840
August, 2023	5,40,000	1,800
September, 2023	5,28,000	1,760
October, 2023	5,16,000	1,720
November, 2023	5,04,000	1,680
December, 2023	4,92,000	1,640
January, 2024	4,80,000	1,600
February, 2024	4,68,000	1,560
March, 2024	4,56,000	1,520
Total value of this perquisite		20,880

Total value of taxable perquisite

= ₹ 74,280 [i.e. ₹ 18,000 + ₹ 14,400 + ₹ 11,000 + ₹ 10,000 + ₹ 20,880].

Note - In case the alternate views are taken for items (ii) & (iv), the total value of taxable perquisite would be ₹ 57,280 [i.e., ₹ 18,000 + ₹ 2,400 + ₹ 11,000 + ₹ 5,000 + ₹ 20,880].

Question - 7

Mr. Goyal receives the following emoluments during the previous year ending 31.03.2024.

Basic pay	₹ 4,00,000
Dearness Allowance	₹ 1,50,000

Commission	₹ 1,00,000
Entertainment allowance	₹ 40,000
Medical expenses reimbursed	₹ 25,000
Professional tax paid	₹ 2,000 (₹ 1,000 was paid by his employer)

Mr. Goyal contributes ₹ 5,000 towards recognized provident fund. He has no other income. Determine the income from salary for A.Y. 2024-25, if Mr. Goyal is a State Government employee.

ANSWER

Computation of salary of Mr. Goyal for the A.Y. 2024-25 under default tax regime under section 115BAC

Particulars	₹
Basic Salary	4,00,000
Dearness Allowance	1,50,000
Commission	1,00,000
Entertainment Allowance received	40,000
Employee's contribution to RPF [Note]	-
Medical expenses reimbursed	25,000
Professional tax paid by the employer	1,000
Gross Salary	7,16,000
Less: Deductions under section 16(ia) – Standard deduction of upto ₹ 50,000	50,000
Income from Salary	6,66,000

Note: Employee's contribution to RPF is not taxable. It is eligible for deduction u/s 80C. However, such deduction shall not be available under the default tax regime under section 115BAC.

Computation of salary of Mr. Goyal for the A.Y. 2024-25 under the optional tax regime (normal provisions of the Act)

Particulars	₹	₹
Basic Salary		4,00,000
Dearness Allowance		1,50,000
Commission		1,00,000
Entertainment Allowance received		40,000
Employee's contribution to RPF [Note]		-
Medical expenses reimbursed		25,000
Professional tax paid by the employer		1,000
Gross Salary		7,16,000
Less: Deductions under section 16		
under section 16(ia) – Standard deduction of upto ₹ 50,000		50,000
under section 16(ii) – Entertainment allowance being lowest of:		
(a) Allowance received	40,000	
(b) One fifth of basis salary [$1/5 \times ₹ 4,00,000$]	80,000	
(c) Statutory amount	5,000	5,000

under section 16(iii) – Professional tax paid		2,000
Income from Salary		6,59,000

Note: Employee's contribution to RPF is not taxable. It is eligible for deduction u/s 80C.

Question - 8

Mr. Balaji, employed as Production Manager in Beta Ltd., furnishes you the following information for the year ended 31.03.2024:

- (i) **Basic salary upto 31.10.2023 ₹ 50,000 p.m.**
Basic salary from 01.11.2023 ₹ 60,000 p.m.
Note - Salary is due and paid on the last day of every month.
- (ii) **Dearness allowance @ 40% of basic salary.**
- (iii) **Bonus equal to one month salary. Paid in October 2023 on basic salary plus dearness allowance applicable for that month.**
- (iv) **Contribution of employer to recognized provident fund account of the employee@16% of basic salary.**
- (v) **Professional tax paid ₹ 2,500 of which ₹ 2,000 was paid by the employer.**
- (vi) **Facility of laptop and computer was provided to Balaji for both official and personal use. Cost of laptop ₹ 45,000 and computer ₹ 35,000 were acquired by the company on 01.12.2023.**
- (vii) **Motor car owned by the employer (cubic capacity of engine exceeds 1.60 litres) provided to the employee from 01.11.2023 meant for both official and personal use. Repair and running expenses of ₹ 45,000 from 01.11.2023 to 31.03.2024, were fully met by the employer. The motor car was self-driven by the employee.**
- (viii) **Leave travel concession given to employee, his wife and three children (one daughter aged 7 and twin sons aged 3). Cost of air tickets (economy class) reimbursed by the employer ₹ 30,000 for adults and ₹ 45,000 for three children. Balaji is eligible for availing exemption this year to the extent it is permissible in law.**

Compute the salary income chargeable to tax in the hands of Mr. Balaji for the A.Y. 2024-25 assuming he exercises the option of shifting out of the default tax regime provided under section 115BAC(1A).

ANSWER

Computation of Taxable Salary of Mr. Balaji for A.Y. 2024-25

Particulars	₹
Basic salary [(₹ 50,000 × 7) + (₹ 60,000 × 5)]	6,50,000
Dearness Allowances (40% of basic salary)	2,60,000
Bonus (₹ 50,000 + 40% of ₹ 50,000) (See Note 1)	70,000
Employers contribution to recognised provident fund in excess of 12% of salary = 4% of ₹ 6,50,000 (See Note 2)	26,000
Professional tax paid by employer	2,000
Perquisite of Motor Car (₹ 2,400 for 5 months) (See Note 4)	12,000
Gross Salary	10,20,000
Less: Deduction under section 16	
Standard deduction u/s 16(ia)	₹ 50,000
Professional tax u/s 16(iii) (See Note 6)	₹ 2,500
Taxable Salary	9,67,500

Notes:

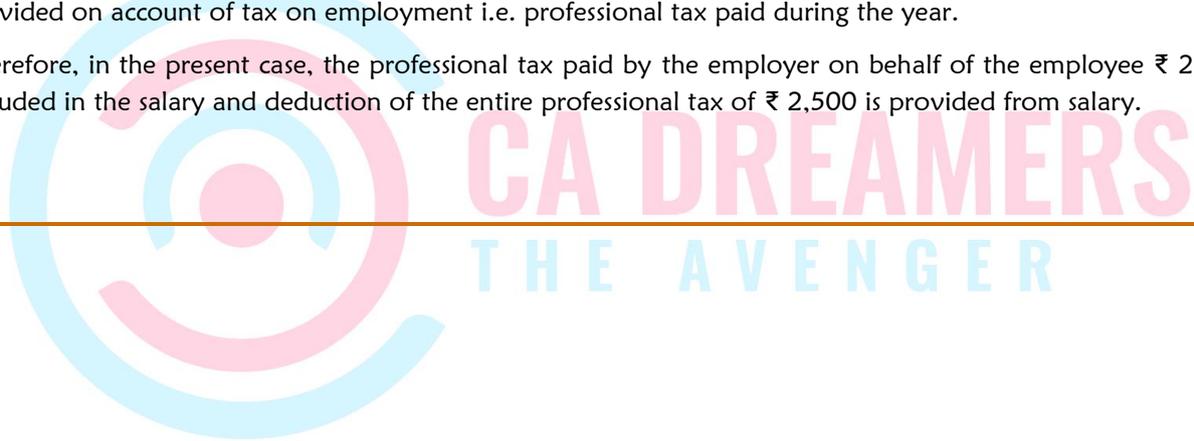
1. Since bonus was paid in the month of October, the basic salary of ₹ 50,000 for the month of October is considered for its calculation.
2. It is assumed that dearness allowance does not form part of salary for computing retirement benefits.
3. As per Rule 3(7)(vii), facility of use of laptop and computer is a tax-free perquisite, whether used for official or personal purpose or both.
4. As per the provisions of Rule 3(2), in case a motor car (engine cubic capacity exceeding 1.60 liters) owned by the employer is provided to the employee without chauffeur for personal as well as office use, the value of perquisite shall be ₹ 2,400 per month. The car was provided to the employee from 01.1.2023, therefore the perquisite value has been calculated for 5 months.
5. Mr. Balaji can avail exemption under section 10(5) on the entire amount of ₹ 75,000 reimbursed by the employer towards Leave Travel Concession since the same was availed for himself, his wife and three children and the journey was undertaken by economy class airfare. The restriction imposed for two children is not applicable in case of multiple births which take place after the first child.

It is assumed that the Leave Travel Concession was availed for journey within India.

He is eligible to claim benefit of exemption u/s 10(5) since he has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A).

6. As per section 17(2)(iv), a “perquisite” includes any sum paid by the employer in respect of any obligation which, but for such payment, would have been payable by the assessee. Therefore, professional tax of ₹ 2,000 paid by the employer is taxable as a perquisite in the hands of Mr. Balaji. As per section 16(iii), a deduction from the salary is provided on account of tax on employment i.e. professional tax paid during the year.

Therefore, in the present case, the professional tax paid by the employer on behalf of the employee ₹ 2,000 is first included in the salary and deduction of the entire professional tax of ₹ 2,500 is provided from salary.



INCOME FROM HOUSE PROPERTY

Question - 1

Ganesh has three houses, all of which are self-occupied. The particulars of the houses for the P.Y. 2023-24 are as under:

Particulars	House I	House II	House III
Municipal valuation p.a.	₹ 3,00,000	₹ 3,60,000	₹ 3,30,000
Fair rent p.a.	₹ 3,75,000	₹ 2,75,000	₹ 3,80,000
Standard rent p.a.	₹ 3,50,000	₹ 3,70,000	₹ 3,75,000
Date of completion/purchase	31.3.2000	31.3.2002	01.04.2016
Municipal taxes paid during the year	12%	8%	6%
Interest on money borrowed for repair of property during the current year	-	₹ 55,000	
Interest for current year on money borrowed in April, 2016 for purchase of property			₹ 1,75,000

Compute Ganesh's income from house property for A.Y.2024-25 and suggest which houses should be opted by Ganesh to be assessed as self-occupied so that his tax liability is minimum.

ANSWER

Let us first calculate the income from each house property assuming that they are deemed to be let out.

Computation on income from house property of Ganesh for the A.Y.2024-25

Particulars	Amount in ₹		
	House I	House II	House III
Gross Annual Value (GAV)			
ER is the GAV of house property			
ER = Higher of MV and FR, but restricted to SR	3,50,000	3,60,000	3,75,000
Less: Municipal taxes (paid by the owner during the previous year)	36,000	28,800	19,800
Net Annual Value (NAV)	3,14,000	3,31,200	3,55,200
Less: Deductions under section 24			
(a) 30% of NAV	94,200	99,360	1,06,560
(b) Interest on borrowed capital	-	55,000	1,75,000
Income from house property	2,19,800	1,76,840	73,640

Ganesh can opt to treat any two of the above house properties as self-occupied.

Question - 2

Ms. Aparna co-owns a residential house property in Calcutta along with her sister Ms. Dimple, where her sister's family resides. Both of them have equal share in the property and the same is used by them for self-occupation. Interest is payable in respect of loan of ₹ 50,00,000@10% taken on 1.4.2022 for acquisition of such property. In addition, Ms. Aparna owns a flat in Pune in which she and her parents reside. She has taken a loan of ₹ 3,00,000@12% on 1.10.2022 for repairs of this flat. Compute the deduction which would be available to Ms.

Aparna and Ms. Dimple under section 24(b) for A.Y.2024-25, if both exercise the option of shifting out of the default tax regime provided under section 115BAC(1A).

ANSWER

Computation of deduction u/s 24(b) available to Ms. Aparna for A.Y. 2024-25

Particulars	₹
I. Interest on loan taken for acquisition of residential house property at Calcutta ₹ 50,00,000 × 10% = ₹ 5,00,000 Ms. Aparna's share = 50% of ₹ 5,00,000 = ₹ 2,50,000 Restricted to ₹ 2,00,000	2,00,000
II. Interest on loan taken for repair of flat at Pune ₹ 3,00,000 × 12% = ₹ 36,000 Restricted to ₹ 30,000	30,000
Total interest	2,30,000
Deduction under section 24(b) in respect of (I) and (II) above to be restricted to	2,00,000

Computation of deduction u/s 24(b) available to Ms. Dimple for A.Y. 2024-25

Particulars	₹
Interest on loan taken for acquisition of residential house property at Calcutta ₹ 50,00,000 × 10% = ₹ 5,00,000 Ms. Dimple's share = 50% of ₹ 5,00,000 = ₹ 2,50,000 Restricted to ₹ 2,00,000	2,00,000
Deduction under section 24(b)	2,00,000

Question - 3

Mr. X owns one residential house in Mumbai. The house is having two identical units. First unit of the house is self-occupied by Mr. X and another unit is rented for ₹ 8,000 p.m. The rented unit was vacant for 2 months during the year. The particulars of the house for the previous year 2023-24 are as under:

Standard rent	₹ 1,62,000 p.a.
Municipal valuation	₹ 1,90,000 p.a.
Fair rent	₹ 1,85,000 p. a
Municipal tax (Paid by Mr. X)	5% of municipal valuation
Light and water charges	₹ 500 p.m.
Interest on borrowed capital	₹ 1,500 p.m.
Lease money	₹ 1,200 p.a.
Insurance charges	₹ 3,000 p.a.
Repairs	₹ 12,000 p.a.

Compute income from house property of Mr. X for the A.Y. 2024-25 if he exercise the option of shifting out of the default tax regime provided under section 115BAC(1A).

ANSWER

Computation of Income from House property for A.Y. 2024-25

Particulars	₹	₹
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(A) Rented unit (50% of total area – See Note below)		
Step I – Computation of Expected Rent		
Municipal valuation (₹ 1,90,000 × ½)	95,000	
Fair rent (₹ 1,85,000 × ½)	92,500	
Standard rent (₹ 1,62,000 × ½)	81,000	
Expected Rent is higher of municipal valuation and fair rent, but restricted to standard rent	81,000	
Step II – Actual Rent		
Rent received/receivable for the let out period (₹ 8,000 × 10)	80,000	
Step III – Computation of Gross Annual Value		
The actual rent of ₹ 80,000 is lower than ER of ₹ 81,000 owing to vacancy, since, had the property not been vacant the actual rent would have been ₹ 96,000 (₹ 80,000 + ₹ 16,000, being notional rent for two months. Therefore, actual rent is the GAV.	80,000	
Gross Annual Value		80,000
Less: Municipal taxes (5% of ₹ 95,000)		4,750
Net Annual value		75,250
Less: Deduction under section 24 -		
(i) 30% of net annual value	22,575	
(ii) Interest on borrowed capital (₹ 750 × 12)	9,000	31,575
Taxable income from let out portion		43,675
(B) Self-occupied unit (50% of total area – See Note Below)		
Annual value	Nil	
Less: Deduction under section 24 -		
Interest on borrowed capital (₹ 750 × 12)	9,000	9,000
Loss from self-occupied portion		(9,000)
Income from house property		34,675

Note: No deduction will be allowed separately for light and water charges, lease money paid, insurance charges and repairs.

Question - 4

Mr. Vikas owns a house property whose Municipal Value, Fair Rent and Standard Rent are ₹ 96,000, ₹ 1,26,000 and ₹ 1,08,000 (per annum), respectively. During the F.Y. 2023-24, one-third of the portion of the house was let out for residential purpose at a monthly rent of ₹ 5,000. The remaining two-third portion was self-occupied by him. Municipal tax @11% of municipal value was paid during the year.

The construction of the house began in June, 2016 and was completed on 31-5-2019. Vikas took a loan of ₹ 1,00,000 on 1-7-2016 for the construction of building. He paid interest on loan @ 12% per annum and every month such interest was paid.

Compute income from house property of Mr. Vikas for the A.Y. 2024-25 if he has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A).

ANSWER

Computation of income from house property of Mr. Vikas
for the A.Y. 2024-25

Particulars	₹	₹
Income from house property		
I. Self-occupied portion (Two third)		
Net Annual value		Nil
Less: Deduction under section 24(b)		
Interest on loan (See Note below) (₹ 18,600 × 2/3) [Allowable since he has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A)]		12,400
Loss from self-occupied property		(12,400)
II. Let-out portion (One third)		
Gross Annual Value		
(a) Actual rent received (₹ 5,000 × 12)	₹ 60,000	
(b) Expected rent	₹ 36,000	
[higher of municipal valuation (i.e., ₹ 96,000) and fair rent (i.e., ₹ 1,26,000) but restricted to standard rent (i.e., ₹ 1,08,000)] = ₹ 1,08,000 × 1/3		
Higher of (a) of (b)	60,000	
Less: Municipal taxes (₹ 96,000 × 11% × 1/3)	3,520	
Net Annual Value	56,480	
Less: Deductions under section 24		
(a) 30% of NAV	16,944	
(b) Interest on loan (See Note below) (₹ 18,600 × 1/3)	6,200	33,336
Income from house property		20,936

Note: Interest on loan taken for construction of building

Interest for the year (1.4.2023 to 31.3.2024) = 12% of ₹ 1,00,000 = ₹ 12,000

Pre-construction period interest = 12% of ₹ 1,00,000 for 33 months (from 1.07.2016 to 31.3.2019) = ₹ 33,000

Pre-construction period interest to be allowed in 5 equal annual installments of ₹ 6,600 from the year of completion of construction i.e., from F.Y. 2019-20 till F.Y. 2023-24.

Therefore, total interest deduction under section 24 = ₹ 12,000 + ₹ 6,600 = ₹ 18,600.

Question - 5

Mrs. Rohini Ravi, a citizen of the U.S.A., is a resident and ordinarily resident in India during the financial year 2023-24. She owns a house property at Los Angeles, U.S.A., which is used as her residence. The annual value of the house is \$20,000. The value of one USD (\$) may be taken as ₹ 75.

She took ownership and possession of a flat in Chennai on 1.7.2023, which is used for self-occupation, while she is in India. The flat was used by her for 7 months only during the year ended 31.3.2024. The municipal valuation is ₹ 3,84,000 p.a. and the fair rent is ₹ 4,20,000 p.a. She paid the following to Corporation of Chennai:

Property Tax ₹ 16,200

Sewerage Tax ₹ 1,800

She had taken a loan from Standard Chartered Bank in June, 2021 for purchasing this flat. Interest on loan was as under:

Particulars	₹
Period prior to 1.4.2023	49,200

1.4.2023 to 30.6.2023	50,800
1.7.2023 to 31.3.2024	1,31,300

She had a house property in Bangalore, which was sold in March, 2020. In respect of this house, she received arrears of rent of ₹ 60,000 in March, 2024.

This amount has not been charged to tax earlier.

Compute the income chargeable from house property of Mrs. Rohini Ravi for the A.Y. 2024-25 if she has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A).

Would your answer change if she pays tax under the default tax regime under section 115BAC?

ANSWER

(i) Since the assessee is a resident and ordinarily resident in India, her global income would form part of her total income i.e., income earned in India as well as outside India will form part of her total income.

She possesses a self-occupied house at Los Angeles as well as at Chennai. She can take the benefit of “Nil” Annual Value in respect of both the house properties.

As regards the Bangalore house, arrears of rent will be chargeable to tax as income from house property in the year of receipt under section 25A. It is not essential that the assessee should continue to be the owner. 30% of the arrears of rent shall be allowed as deduction.

Accordingly, the income from house property of Mrs. Rohini Ravi for A.Y.2024-25 will be calculated as under:

Particulars	₹	₹
1. Self-occupied house at Los Angeles		
Annual value		Nil
Less: Deduction under section 24		Nil
Chargeable income from this house property		Nil
2. Self-occupied house property at Chennai		
Annual value		Nil
Less: Deduction under section 24 Interest on borrowed capital (See Note below)		1,91,940
		(1,91,940)
3. Arrears in respect of Bangalore property (Section 25A)		
Arrears of rent received	60,000	
Less: Deduction @30% u/s 25A(2)	18,000	42,000
Loss under the head “Income from house property”		(1,49,940)

Note: Interest on borrowed capital

Particulars	₹
Interest for the current year (₹ 50,800 + ₹ 1,31,300)	1,82,100
Add: 1/5 th of Pre-construction interest (₹ 49,200 x 1/5)	9,840
Interest deduction allowable under section 24	1,91,940

Interest deduction under section 24(b) is allowable since she has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A).

(ii) Yes, the answer would change if she pays tax under the default tax regime under section 115BAC. Under the default tax regime, deduction under section 24(b) for interest is not available. Hence, she cannot claim deduction of ₹ 1,91,940 in respect of the Chennai house. Accordingly, income from house property would be ₹ 42,000.

Question - 6

Two brothers Arun and Bimal are co-owners of a house property with equal share. The property was constructed during the financial year 2015-2016. The property consists of eight identical units and is situated at Cochin.

During the financial year 2023-24, each co-owner occupied one unit for residence and the balance of six units were let out at a rent of ₹ 12,000 per month per unit. The municipal value of the house property is ₹ 9,00,000 and the municipal taxes are 20% of municipal value, which were paid during the year. The other expenses were as follows:

	₹
(i) Repairs	40,000
(ii) Insurance premium (paid)	15,000
(iii) Interest payable on loan taken for construction of house	3,00,000

One of the let out units remained vacant for four months during the year.

Arun could not occupy his unit for six months as he was transferred to Chennai. He does not own any other house.

The other income of Mr. Arun and Mr. Bimal are ₹ 2,90,000 and ₹ 1,80,000, respectively, for the financial year 2023-24.

Compute the income under the head 'Income from House Property' and the total income of two brothers for the A.Y. 2024-25 if they pay tax under the default tax regime under section 115BAC.

Also, show the computation of income under this head, if they both exercised the option of shifting out of the default tax regime provided under section 115BAC(1A).

ANSWER

(i) If Arun and Bimal pay tax under the default tax regime under section 115BAC

Computation of total income for the A.Y. 2024-25

Particulars	Arun (₹)	Bimal (₹)
Income from house property		
I. Self-occupied portion (25%)		
Annual value	Nil	Nil
Less: Deduction under section 24(b)	Nil	Nil
Loss from self-occupied property	Nil	Nil
II. Let-out portion (75%) – See Working Note below	1,25,850	1,25,850
Income from house property	1,25,850	1,25,850
Other Income	2,90,000	1,80,000
Total Income	4,15,850	3,05,850

Working Note – Computation of Income from Let-Out Portion of House Property

Particulars	₹	₹
Let-out portion (75%)		
Gross Annual Value		
(a) Municipal value (75% of ₹ 9 lakh)	6,75,000	
(b) Actual rent [(₹ 12,000 × 6 × 12) – (₹ 12,000 × 1 × 4)]	8,16,000	
= ₹ 8,64,000 - ₹ 48,000		
– whichever is higher		8,16,000

Less: Municipal taxes 75% of ₹ 1,80,000 (20% of ₹ 9 lakh)		1,35,000
Net Annual Value (NAV)		6,81,000
Less: Deduction under section 24		
(a) 30% of NAV	2,04,300	
(b) Interest on loan taken for the house [75% of ₹ 3 lakh]	2,25,000	4,29,300
Income from let-out portion of house property		2,51,700
Share of each co-owner (50%)		1,25,850

(ii) If Arun and Bimal have exercised the option of shifting out of the default tax regime provided under section 115BAC(1A)

Computation of total income for the A.Y. 2024-25

Particulars	Arun (₹)	Bimal (₹)
Income from house property		
I. Self-occupied portion (25%)		
Annual value	Nil	Nil
Less: Deduction under section 24(b)		
Interest on loan taken for construction ₹ 37,500 (being 25% of ₹ 1.5 lakh) [Allowable since they have exercised the option of shifting out of the default tax regime provided under section 115BAC(1A)]	37,500	37,500
Loss from self-occupied property	(37,500)	(37,500)
II. Let-out portion (75%) – See Working Note below	1,25,850	1,25,850
Income from house property	88,350	88,350
Other Income	2,90,000	1,80,000
Total Income	3,78,350	2,68,350

PROFITS AND GAINS OF BUSINESS OR PROFESSION

Question - 1

Mr. Gamma, a proprietor started a business of manufacture of tyres and tubes for motor vehicles on 1.1.2023. The manufacturing unit was set up on 1.5.2023. He commenced his manufacturing operations on 1.6.2023. The total cost of the plant and machinery installed in the unit is ₹ 120 crore. The said plant and machinery included second hand plant and machinery bought for ₹ 20 crore and new plant and machinery for scientific research relating to the business of the assessee acquired at a cost of ₹ 15 crore.

Compute the amount of depreciation allowable under section 32 of the Income-tax Act, 1961 in respect of the assessment year 2024-25. Assume that all the assets were purchased by way of account payee cheque and Mr. Gamma has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A).

ANSWER

Computation of depreciation allowable for the A.Y. 2024-25 in the hands of Mr. Gamma

Particulars	₹ in crore	
Total cost of plant and machinery	120.00	
Less: Used for Scientific Research (Note 1)	15.00	
	105.00	
Normal Depreciation at 15% on ₹ 105 crore		15.75
Additional Depreciation:		
Cost of plant and machinery	120.00	
Less: Second-hand plant and machinery (Note 2)	20.00	
Plant and machinery used for scientific research, the whole of the actual cost of which is allowable as deduction u/s 35(1)(iv) read with section 35(2)(ia) (Note 2)	15.00	35.00
	85.00	
Additional Depreciation at 20%		17.00
Depreciation allowable for A.Y. 2024-25		32.75

Notes:

- As per section 35(2)(iv), no depreciation shall be allowed in respect of plant and machinery purchased for scientific research relating to assessee's business, since deduction is allowable under section 35 in respect of such capital expenditure.
- Mr. Gamma is entitled to additional depreciation since he has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A). As per section 32(1)(ia), additional depreciation is allowable in the case of any new machinery or plant acquired and installed after 31.3.2005 by an assessee engaged in, inter alia, the business of manufacture or production of any article or thing, at the rate of 20% of the actual cost of such machinery or plant. However, additional depreciation shall not be allowed in respect of, inter alia, --
 - Any machinery or plant which, before its installation by the assessee, was used either within or outside India by any other person;

- (ii) Any machinery or plant, the whole of the actual cost of which is allowed as a deduction (whether by way of depreciation or otherwise) in computing the income chargeable under the head “Profit and gains of business or profession” of any one previous year.

In view of the above provisions, additional depreciation cannot be claimed in respect of –

- (i) Second hand plant and machinery;
- (ii) New plant and machinery purchased for scientific research relating to assessee’s business in respect of which the whole of the capital expenditure can be claimed as deduction under section 35(1)(iv) read with section 35(2)(ia) & (iv).

Question - 2

Mr. A commenced operations of the businesses of setting up a warehousing facility for storage of food grains, sugar and edible oil on 1.4.2023. He incurred capital expenditure of ₹ 80 lakh, ₹ 60 lakh and ₹ 50 lakh, respectively, on purchase of land and building during the period January, 2023 to March, 2023 exclusively for the above businesses, and capitalized the same in its books of account as on 1st April, 2023. The cost of land included in the above figures is ₹ 50 lakh, ₹ 40 lakh and ₹ 30 lakh, respectively. During the P.Y. 2023-24, he incurred capital expenditure of ₹ 20 lakh, ₹ 15 lakh & ₹ 10 lakh, respectively, for extension/reconstruction of the building purchased and used exclusively for the above businesses.

Compute the income under the head “Profits and gains of business or profession” for the A.Y.2024-25 and the loss to be carried forward, assuming that Mr. A is exercising the option of shifting out of the default tax regime provided under section 115BAC(1A) and has fulfilled all the conditions specified under section 35AD and wants to claim deduction under section 35AD and has not claimed any deduction under Chapter VI-A under the heading “C – Deductions in respect of certain incomes”.

The profits from the business of setting up a warehousing facility for storage of food grains, sugar and edible oil (before claiming deduction under section 35AD and section 32) for the A.Y. 2024-25 is ₹ 16 lakhs, ₹ 14 lakhs and ₹ 31 lakhs, respectively. Also, assume in respect of expenditure incurred, the payments are made by account payee cheque or use of ECS through bank account.

ANSWER

Computation of profits and gains of business or profession for A.Y.2024-25

Particulars	₹ (in lakhs)
Profit from business of setting up of warehouse for storage of edible oil (before providing for depreciation under section 32)	31
Less: Depreciation under section 32	
10% of ₹ 30 lakh, being (₹ 50 lakh – ₹ 30 lakh + ₹ 10 lakh)	3
Income chargeable under “Profits and gains from business or profession”	28

Computation of income/loss from specified business under section 35AD

Particulars	Food Grains	Sugar	Total
	₹ (in lakhs)		
(A) Profits from the specified business of setting up a warehousing facility (before providing deduction u/s 35AD)	16	14	30
Less: Deduction under section 35AD			
(B) Capital expenditure incurred prior to 1.4.2023 (i.e., prior to commencement of business) and capitalized in the books of account as on 1.4.2023 (excluding the expenditure incurred on acquisition of land) = ₹ 30 lakh (₹ 80 lakh – ₹ 50 lakh) and ₹ 20 lakh (₹ 60 lakh – ₹ 40 lakh)	30	20	50
(C) Capital expenditure incurred during the P.Y. 2023-24	20	15	35

(D)	Total capital expenditure (B + C)	50	35	85
(E)	Deduction under section 35AD 100% of capital expenditure (food grains/sugar)	50	35	85
	Total deduction u/s 35AD for A.Y.2024-25	50	35	85
(F)	Loss from the specified business of setting up and operating a warehousing facility (after providing for deduction under section 35AD) to be carried forward as per section 73A (A-E)	(34)	(21)	(55)

Notes:

- Deduction of 100% of the capital expenditure is available under section 35AD for A.Y.2024-25 in respect of specified business of setting up and operating a warehousing facility for storage of sugar and setting up and operating a warehousing facility for storage of agricultural produce where operations are commenced on or after 1.4.2012 or on or after 1.4.2009, respectively.
- However, since setting up and operating a warehousing facility for storage of edible oils is not a specified business, Mr. A is not eligible for deduction under section 35AD in respect of capital expenditure incurred in respect of such business.
- Mr. A can, however, claim depreciation@10% under section 32 in respect of the capital expenditure incurred on buildings. It is presumed that the buildings were put to use for more than 180 days during the P.Y.2023-24.
- Loss from a specified business can be set-off only against profits from another specified business. Therefore, the loss of ₹ 55 lakh from the specified businesses of setting up and operating a warehousing facility for storage of food grains and sugar cannot be set-off against the profits of ₹ 28 lakh from the business of setting and operating a warehousing facility for storage of edible oils, since the same is not a specified business. Such loss can, however, be carried forward indefinitely for set-off against profits of the same or any other specified business.

Question - 3

Miss Vivitha, a resident and ordinarily resident in India, has derived the following income from various operations (relating to plantations and estates owned by her) during the year ended 31.3.2024:

S. No.	Particulars	₹
(i)	Income from sale of centrifuged latex processed from rubber plants grown in Darjeeling.	3,00,000
(ii)	Income from sale of coffee grown and cured in Yercaud, Tamil Nadu.	1,00,000
(iii)	Income from sale of coffee grown, cured, roasted and grounded, in Colombo. Sale consideration was received at Chennai.	2,50,000
(iv)	Income from sale of tea grown and manufactured in Shimla.	4,00,000
(v)	Income from sapling and seedling grown in a nursery at Cochin. Basic operations were not carried out by her on land.	80,000

You are required to compute the business income and agricultural income of Miss Vivitha for the A.Y.2024-25.

ANSWER

Computation of business income and agricultural income of Ms. Vivitha for the A.Y. 2024-25

Sr. No.	Source of income	Gross (₹)	Business income		Agricultural income
			%	₹	₹
(i)	Sale of centrifuged latex from rubber plants grown in India.	3,00,000	35%	1,05,000	1,95,000
(ii)	Sale of coffee grown and cured in India.	1,00,000	25%	25,000	75,000

(iii)	Sale of coffee grown, cured, roasted and grounded outside India. (See Note 1 below)	2,50,000	100%	2,50,000	--
(iv)	Sale of tea grown and manufactured in India	4,00,000	40%	1,60,000	2,40,000
(v)	Saplings and seedlings grown in nursery in India (See Note 2 below)	80,000		Nil	80,000
	Total			5,40,000	5,90,000

Notes:

- Where income is derived from sale of coffee grown, cured, roasted and grounded by the seller in India, 40% of such income is taken as business income and the balance as agricultural income. However, in this question, these operations are done in Colombo, Sri Lanka. Hence, there is no question of such apportionment and the whole income is taxable as business income. Receipt of sale proceeds in India does not make this agricultural income. In the case of an assessee, being a resident and ordinarily resident, the income arising outside India is also chargeable to tax.
- Explanation 3 to section 2(1A) provides that the income derived from saplings or seedlings grown in a nursery would be deemed to be agricultural income whether or not the basic operations were carried out on land. Therefore, such income would be exempt u/s 10(1).

Question - 4

Mr. Venus., engaged in manufacture of pesticides, furnishes the following particulars relating to its manufacturing unit at Chennai, for the year ending 31-3-2024:

	(₹ in lakhs)
WDV of Plant and Machinery on 31.3.2023	30.00
Depreciation including additional depreciation for P.Y. 2022-23	4.75
New machinery purchased on 1-9-2023	10.00
New machinery purchased on 1-12-2023	8.00
Computer purchased on 3-4-2024	4.00

Additional information:

- All assets were purchased by A/c payee cheque.
- All assets were put to use immediately.
- New machinery purchased on 1-12-2023 and computer have been installed in the office.
- During the year ended 31-3-2023, a new machinery had been purchased on 31-10-2022, for ₹ 10 lakhs. Additional depreciation, besides normal depreciation, had been claimed thereon.
- Depreciation rate for machinery may be taken as 15%.
- The assessee has no brought forward business loss or unabsorbed depreciation as on 1.4.2023.

Compute the depreciation available to the assessee as per the provisions of the Income-tax Act, 1961 and the WDV of different blocks of assets as on 31-3-2024 if –

- He exercises the option of shifting out of the default tax regime provided under section 115BAC(1A)
- He pays tax under the default tax regime under section 115BAC.

ANSWER

Computation of written down value of block of assets of Venus Ltd. as on 31.3.2024

Particulars	Plant & Machinery (₹ in lakhs)	Computer (₹ in lakhs)
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Written down value (as on 31.3.2023)	30.00	Nil
Less: Depreciation including additional depreciation for P.Y. 2022-23	4.75	--
Opening balance as on 1.4.2023	25.25	
Add: Actual cost of new assets acquired during the year		
New machinery purchased on 1.09.2023	10.00	--
New machinery purchased on 1.12.2023	8.00	--
Computer purchased on 3.1.2024	--	4.00
	43.25	4.00
Less: Assets sold/discarded/destroyed during the year	Nil	Nil
Written Down Value (as on 31.03.2024)	43.25	4.00

(i) **If Mr. Venus exercises the option of shifting out of the default tax regime provided under section 115BAC(1A)**

In this case, since his income would be computed under the optional tax regime as per the normal provisions of the Act, he would be entitled for normal depreciation and additional depreciation, subject to fulfilment of conditions.

Computation of depreciation for A.Y.2024-25

Particulars		Plant & Machinery (₹ in lakhs)	Computer (₹ in lakhs)
I.	Assets put to use for more than 180 days, eligible for 100% depreciation calculated applying the eligible rate of normal depreciation and additional depreciation		
	<u>Normal Depreciation</u>		
	WDV of plant and machinery (₹ 25.25 lacs x 15%)	3.79	-
	New Machinery purchased on 1.9.2023 (₹ 10 lacs x 15%)	1.50	-
	(A)	5.29	-
	Additional Depreciation		
	New Machinery purchased on 1.9.2023 (₹ 10 lakhs x 20%)	2.00	-
	Balance additional depreciation in respect of new machinery purchased on 31.10.2022 and put to use for less than 180 days in the P.Y. 2022-23 (₹ 10 lakhs x 20% x 50%)	1.00	-
	(B)	3.00	-
II.	Assets put to use for less than 180 days, eligible for 50% depreciation calculated applying the eligible rate of normal depreciation and additional depreciation, if any		
	<u>Normal Depreciation</u>		
	New machinery purchased on 1.12.2023 [₹ 8 lacs x 7.5% (i.e., 50% of 15%)]	0.60	-
	Computer purchased on 3.1.2023 [₹ 4 lacs x 20% (50% of 40%)]	-	0.80
	(C)	0.60	0.80
	Total Depreciation (A+B+C)	8.89	0.80

Note:

- (1) As per section 32(1)(iia), additional depreciation is allowable in the case of any new machinery or plant acquired and installed after 31.3.2005, by an assessee engaged, inter alia, in the business of manufacture or production of any article or thing, at the rate of 20% of the actual cost of such machinery or plant.

However, additional depreciation shall not be allowed in respect of, inter alia,–

- (i) any office appliances or road transport vehicles;
(ii) any machinery or plant installed in, inter alia, office premises.

In view of the above provisions, additional depreciation cannot be claimed in respect of -

- (i) Machinery purchased on 1.12.2023, installed in office and
(ii) Computer purchased on 3.1.2024, installed in office.

- (2) Balance additional depreciation@10% on new plant or machinery acquired and put to use for less than 180 days in the year of acquisition which has not been allowed in that year, shall be allowed in the immediately succeeding previous year.

Hence, in this case, the balance additional depreciation@10% (i.e., ₹ 1 lakhs, being 10% of ₹ 10 lakhs) in respect of new machinery which had been purchased during the previous year 2022-23 and put to use for less 180 days in that year can be claimed in P.Y. 2023-24 being immediately succeeding previous year.

(ii) If Mr. Venus pays tax under default tax regime under section 115BAC

In this case, under the default tax regime as per section 115BAC, he would be entitled only for normal depreciation but not additional depreciation.

Computation of depreciation for A.Y.2024-24

Particulars		Plant & Machinery (₹ in lakhs)	Computer (₹ in lakhs)
I.	Assets put to use for more than 180 days, eligible for 100% depreciation calculated applying the eligible rate of normal depreciation		
	Normal Depreciation		
	WDV of plant and machinery (₹ 25.25 lacs x 15%)	3.79	-
	New Machinery purchased on 1.9.2023 (₹ 10 lacs x 15%)	1.50	-
	(A)	5.29	-
II.	Assets put to use for less than 180 days, eligible for 50% depreciation calculated applying the eligible rate of normal depreciation		
	Normal Depreciation		
	New machinery purchased on 1.12.2023 [₹ 8 lacs x 7.5% (i.e., 50% of 15%)]	0.60	-
	Computer purchased on 3.1.2023 [₹ 4 lacs x 20% (50% of 40%)]	-	0.80
	(C)	0.60	0.80
Total Depreciation (A+B+C)		5.89	0.80

Question - 5

Mr. Abhimanyu is engaged in the business of generation and distribution of electric power. He opts to claim depreciation on written down value for income-tax purposes. From the following details, compute the

depreciation allowable as per the provisions of the Income-tax Act, 1961 for the A.Y. 2024-25, assuming he has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A):

	Particulars	(₹ in lakhs)
(i)	WDV of block as on 31.3.2023 (15% rate)	50.00
(ii)	Depreciation for P.Y.2022-23	7.50
(iii)	New machinery purchased on 12-10-2023	10.00
(iv)	Machinery imported from Colombo on 12-4-2023. This machine had been used only in Colombo earlier and the assessee is the first user in India.	9.00
(v)	New computer installed in generation wing unit on 15-7-2023	2.00

All assets were purchased by A/c payee cheque.

ANSWER

Computation of depreciation under section 32 for A.Y.2024-25

Particulars	(₹)	(₹)
Normal Depreciation		
Depreciation@15% on ₹ 51,50,000, being machinery put to use for more than 180 days [WDV as on 31.3.2023 of ₹ 50,00,000 – Depreciation for P.Y. 2022-23 of ₹ 7,50,000+ Purchase cost of imported machinery of ₹ 9,00,000]	7,72,500	
Depreciation@7.5% on ₹ 10,00,000, being new machinery put to use for less than 180 days	75,000	
	8,47,500	
Depreciation@40% on computers purchased ₹ 2,00,000	80,000	9,27,500
Additional Depreciation (Refer Note below)		
Additional Depreciation@10% of ₹ 10,00,000 [being actual cost of new machinery purchased on 12-10-2023]	1,00,000	
Additional Depreciation@20% on new computer installed in generation wing of the unit [20% of ₹ 2,00,000]	40,000	1,40,000
Depreciation on Plant and Machinery		10,67,500

Note:-

Mr. Abhimanyu is eligible for additional depreciation since he has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A). The benefit of additional depreciation is available to new plant and machinery acquired and installed in power sector undertakings. Accordingly, additional depreciation is allowable in the case of any new machinery or plant acquired and installed by an assessee engaged, inter alia, in the business of generation, transmission or distribution of power, at the rate of 20% of the actual cost of such machinery or plant.

Therefore, new computer installed in generation wing units eligible for additional depreciation@20%.

Since the new machinery was purchased only on 12.10.2023, it was put to use for less than 180 days during the previous year, and hence, only 10% (i.e., 50% of 20%) is allowable as additional depreciation in the A.Y.2024-25. The balance additional depreciation would be allowed in the next year.

However, additional depreciation shall not be allowed in respect of, inter alia, any machinery or plant which, before its installation by the assessee, was used either within or outside India by any other person. Therefore, additional depreciation is not allowable in respect of imported machinery, since it was used in Colombo, before its installation by the assessee.

Question - 6

Mr. Raju, a manufacturer at Chennai, gives the following Manufacturing, Trading and Profit & Loss Account for the year ended 31.03.2024:

Manufacturing, Trading and Profit & Loss Account for the year ended 31.03.2024

Particulars	₹	Particulars	₹
To Opening Stock	71,000	By Sales	2,32,00,000
To Purchase of Raw Materials	2,16,99,000	By Closing Stock	2,00,000
To Manufacturing Wages & Expenses	5,70,000		
To Gross Profit	10,60,000		
	2,34,00,000		2,34,00,000
To Administrative	3,26,000	By Gross Profit	10,60,000
To SGST penalty	5,000	By Dividend from domestic companies	15,000
To GST Paid	1,10,000	By Income from agriculture (net)	1,80,000
To General Expenses	54,000		
To Interest to Bank (On machinery term loan)	60,000		
To Depreciation	2,00,000		
To Net Profit	5,00,000		
	12,55,000		12,55,000

Following are the further information relating to the financial year 2023-24:

- (i) Administrative charges include ₹ 46,000 paid as commission to brother of the assessee. The commission amount at the market rate is ₹ 36,000.
- (ii) The assessee paid ₹ 33,000 in cash to a transport carrier on 29.12.2023. This amount is included in manufacturing expenses. (Assume that the provisions relating to TDS are not applicable to this payment)
- (iii) A sum of ₹ 4,000 per month was paid as salary to a staff throughout the year and this has not been recorded in the books of account.
- (iv) Bank term loan interest actually paid upto 31.03.2024 was ₹ 20,000 and the balance was paid in November 2024.
- (v) Housing loan principal repaid during the year was ₹ 50,000 and it relates to residential property acquired by him in P.Y. 2022-23 for self-occupation. Interest on housing loan was ₹ 23,000. Housing loan was taken from Canara Bank. These amounts were not dealt with in the profit and loss account given above.
- (vi) Depreciation allowable under the Act is to be computed on the basis of following information:

Plant & Machinery (Depreciation rate@15%)	₹
WDV as on 31.03.2023 minus Depreciation for P.Y.2022-23	11,90,000
Additions during the year (used for more than 180 days)	2,00,000
Total additions during the year	4,00,000

Compute the total income of Mr. Raju for the A.Y. 2024-25 assuming he pays tax under default tax regime.

Note: Ignore application of section 14A for disallowance of expenditures in respect of any exempt income.

ANSWER

Computation of total income of Mr. Raju for the A.Y. 2024-25

Particulars	₹	₹
Profits and gains of business or profession		
Net profit as per profit and loss account		5,00,000
Add: Excess commission paid to brother disallowed under section 40A(2)	10,000	
Disallowance under section 40A(3) is not attracted since the limit for one-time cash payment is ₹ 35,000 in respect of payment to transport operators. Therefore, amount of ₹ 33,000 paid in cash to a transport carrier is allowable as deduction.	Nil	
Salary paid to staff not recorded in the books (Assuming that the expenditure is in the nature of unexplained expenditure and hence, is deemed to be income as per section 69C and would be taxable @ 60% under section 115BBE – no deduction allowable in respect of such expenditure) [See Note 1 below]	48,000	
Bank term loan interest paid after the due date of filing or return under section 139 (1) – disallowed as per section 43B	40,000	
State GST penalty paid disallowed [See Note 2 below]	5,000	
Depreciation debited to profit and loss account	2,00,000	3,03,000
		8,03,000
Less: Dividend from domestic companies [Chargeable to tax under the head “Income from Other Sources”]	15,000	
Income from agriculture [Exempt under section 10(1)]	1,80,000	
Depreciation under the Income-tax Act, 1961 (As per working note)	2,23,500	4,81,500
		3,84,500
Income from house property		
Annual value of self-occupied property	Nil	
Less: Deduction u/s 24(b) – interest on housing loan [Not allowable, since Mr. Raju is paying tax as per default tax regime]	Nil	Nil
Income from Other Sources		
Dividend from domestic companies		15,000
Gross Total Income		3,99,500
Less: Deduction u/s 80C [Not allowable, since Mr. Raju is paying tax as per default tax regime]		Nil
Total Income		3,99,500

Working Note:

Computation of depreciation under the Income-tax Act, 1961

Particulars	₹
Depreciation@15% on ₹ 13.90 lakhs (WDV as on 31.3.2023 less depreciation for P.Y. 2022-23 i.e., ₹ 11.90 lakh plus assets purchased during the year and used for more than 180 days ₹ 2 lakh)	2,08,500
Depreciation @7.5% on ₹ 2 lakh (Assets used for < 180 days)	15,000
	2,23,500

Since Mr. Raju is paying tax as per default tax regime, additional depreciation u/s 32(1)(ia) would not be available to him.

Notes (Alternate views):

- It is also possible to take a view that the salary not recorded in the books of account was an erroneous omission and that the assessee has offered satisfactory explanation for the same. In such a case, the same should not be added back as unexplained expenditure, but would be allowable as deduction while computing profits and gains of business and profession.
- Where the imposition of penalty is not for delay in payment of sales tax or VAT or GST but for contravention of provisions of the Sales Tax Act or VAT Act or GST Law, the levy is not compensatory and therefore, not deductible. However, if the levy is compensatory in nature, it would be fully allowable. Where it is a composite levy, the portion which is compensatory is allowable and that portion which is penal is to be disallowed.

Since the question only mentions “GST penalty paid” and the reason for levy of penalty is not given, it has been assumed that the levy is not compensatory and therefore, not deductible. It is, however, possible to assume that such levy is compensatory in nature and hence, allowable as deduction. In such a case, the total income would be ₹ 3,94,500.

Question - 7

Mr. Tenzingh is engaged in composite business of growing and curing (further processing) coffee in Coorg, Karnataka. The whole of coffee grown in his plantation is cured. Relevant information pertaining to the year ended 31.3.2024 are given below:

Particulars	₹
Opening balance of car (Only asset in the block) as on 1.4.2023 (i.e. WDV as on 31.3.2023 (-) depreciation for P.Y. 2022-23)	3,00,000
Opening balance of machinery as on 1.4.2023 (i.e., WDV as on 31.3.2023 (-) depreciation for P.Y. 2022-23)	15,00,000
Expenses incurred for growing coffee	3,10,000
Expenditure for curing coffee	3,00,000
Sale value of cured coffee	22,00,000

Besides being used for agricultural operations, the car is also used for personal use; disallowance for personal use may be taken at 20%. The expenses incurred for car running and maintenance are ₹ 50,000. The machines were used in coffee curing business operations.

Compute the income arising from the above activities for the A.Y. 2024-25.

ANSWER

Where an assessee is engaged in the composite business of growing and curing of coffee, the income will be segregated between agricultural income and business income, as per Rule 7B of the Income-tax Rules, 1962.

As per the above Rule, income derived from sale of coffee grown and cured by the seller in India shall be computed as if it were income derived from business, and 25% of such income shall be deemed to be income liable to tax. The balance 75% will be treated as agricultural income.

Particulars	₹	₹
Sale value of cured coffee		22,00,000
Less: Expenses for growing coffee	3,10,000	
Car expenses (80% of ₹ 50,000)	40,000	
Depreciation on car (80% of 15% of ₹ 3,00,000) [See Computation below]	36,000	
Total cost of agricultural operations	3,86,000	
Expenditure on coffee curing operations	3,00,000	

Add: Depreciation on machinery (15% of ₹ 15,00,000)	2,25,000		
[See Computation below]			
Total cost of the curing operations		5,25,000	
Total cost of composite operations			9,11,000
Total profits from composite activities			12,89,000
Business income (25% of above)			3,22,250
Agricultural income (75% of above)			9,66,750

Computation of depreciation for P.Y.2023-24

Particulars	₹	₹
Car		
Opening balance as on 1.4.2023 (i.e., WDV as on 31.3.2023 (-) depreciation for P.Y.2022-23)		3,00,000
Depreciation thereon at 15%	45,000	
Less: Disallowance @20% for perianal use	9,000	
Depreciation actually allowed		36,000
Machinery		
Opening balance as on 1.4.2023 (i.e., WDV as on 31.3.2023 (-) depreciation for P.Y.2022-23)		15,00,000
Depreciation @ 15% for P.Y.2023-24		2,25,000

Explanation 7 to section 43(6) provides that in cases of 'composite income', for the purpose of computing written down value of assets acquired before the previous year, the total amount of depreciation shall be computed as if the entire composite income of the assessee (and not just 25%) is chargeable under the head "Profits and gains of business or profession". The depreciation so computed shall be deemed to have been "actually allowed" to the assessee.

CAPITAL GAINS

Question - 1

Mr. A converts his capital asset acquired for an amount of ₹ 50,000 in June, 2003 into stock-in-trade in the month of November, 2022. The fair market value of the asset on the date of conversion is ₹ 4,50,000. The stock-in-trade was sold for an amount of ₹ 6,50,000 in the month of September, 2023. What will be the tax treatment?

Financial year	Cost Inflation Index
2003-04	109
2022- 23	331
2023-24	348

ANSWER

The capital gains on the sale of the capital asset converted to stock-in-trade is taxable in the given case. It arises in the year of conversion (i.e. P.Y. 2022-23) but will be taxable only in the year in which the stock-in-trade is sold (i.e. P.Y. 2023-24). Profits from business will also be taxable in the year of sale of the stock-in-trade (P.Y. 2023-24).

The LTCG and business income for the A.Y.2024-25 are calculated as under:

Particulars	₹	₹
Profits and Gains from Business or Profession		
Sale proceeds of the stock-in-trade	6,50,000	
Less: Cost of the stock-in-trade (FMV on the date of conversion)	4,50,000	2,00,000
Long Term Capital Gains		
Full value of the consideration (FMV on the date of the conversion)	4,50,000	
Less: Indexed cost of acquisition (₹ 50,000 × 331/109)	1,51,835	2,98,165

Note: For the purpose of indexation, the cost inflation index of the year in which the asset is converted into stock-in-trade should be considered.

Question - 2

Mr. A is a proprietor of Akash Enterprises having 2 units. He transferred on 1.4.2023 his Unit 1 by way of slump sale for a total consideration of ₹ 25 lacs. The fair market value of capital assets of unit 1 on 1.4.2023 is ₹ 30 lacs. Unit 1 was started in the year 2005-06. The expenses incurred for this transfer were ₹ 28,000. His Balance Sheet as on 31.3.2023 is as under:

Liabilities	Total (₹)	Assets	Unit 1 (₹)	Unit 2 (₹)	Total (₹)
Own Capital	15,00,000	Building	12,00,000	2,00,000	14,00,000
Revaluation	3,00,000	Machinery	3,00,000	1,00,000	4,00,000
Reserve (for building of unit 1)	2,00,000	Debtors	1,00,000	40,000	1,40,000
Bank loan (70% for unit)		Other assets	1,50,000	60,000	2,10,000
Trade creditors (25% for unit 1)	1,50,000				
Total	21,50,000	Total	17,50,000	4,00,000	21,50,000

Other information:

- (i) Revaluation reserve is created by revising upward the value of the building of Unit 1.
- (ii) No individual value of any asset is considered in the transfer deed.
- (iii) Other assets of Unit 1 include patents acquired on 1.7.2021 for ₹ 50,000 on which no depreciation has been charged.

Compute the capital gain for the assessment year 2024-25.

ANSWER

Compute the capital gain for the assessment year 2024-25.

Particulars	₹
Full value of consideration [Higher of FMV of capital assets of Unit 1 on 1.4.2023 or FMV of monetary consideration received]	30,00,000
Less: Expenses for transfer	28,000
	29,72,000
Less: Net worth (See Note 1 below)	12,50,625
Long-term capital gain	17,21,375

Note:

1. Computation of net worth of Unit 1 of Akash Enterprises

Particulars	₹	₹
Building (excluding ₹ 3 lakhs on account of revaluation)		9,00,000
Machinery		3,00,000
Debtors		1,00,000
Patents (See Note 2 below)		28,125
Other assets (₹ 1,50,000 - ₹ 50,000)		1,00,000
Total assets		14,28,125
Less: Creditors (25% of ₹ 1,50,000)	37,500	
Bank Loan (70% of ₹ 2,00,000)	1,40,000	1,77,500
Net worth		12,50,625

2. Computation of net worth of Unit 1 of Akash Enterprises

Particulars	₹
Cost as on 1.7.2021	50,000
Less: Depreciation @ 25% for Financial Year 2021-22	12,500
Balance as on 1.4.2022	37,500
Less: Depreciation for Financial Year 2022-23	9,375
Balance as on 1.4.2023	28,125

For the purposes of computation of net worth, the written down value determined as per section 43(6) has to be considered in the case of depreciable assets. The problem has been solved assuming that the Balance Sheet values of ₹ 3 lakh and ₹ 9 lakh (₹ 12 lakh – ₹ 3 lakh) represent the written down value of machinery and building, respectively, of Unit 1.

3. Since the Unit is held for more than 36 months, capital gain arising would be long term capital gain. However, indexation benefit is not available in case of slump sale.

Question - 3

Mr. Mithun purchased 100 equity shares of M/s Goodmoney Co. Ltd. on 01-04-2007 at rate of ₹ 1,000 per share in public issue of the company by paying securities transaction tax.

Company allotted bonus shares in the ratio of 1:1 on 01.12.2022. He has also received dividend of ₹ 10 per share on 01.05.2023.

He has sold all the shares on 01.10.2023 at the rate of ₹ 4,000 per share through a recognized stock exchange and paid brokerage of 1% and securities transaction tax of 0.02%.

Compute his total income and tax liability for A.Y. 2024-25 if Mr. Mithun pays tax under default tax regime, assuming that he is having no income other than given above. Fair market value of shares of M/s Goodmoney Co. Ltd. on 31.1.2018 is ₹ 2,000.

ANSWER**Computation of total income & tax liability of Mr. Mithun for A.Y. 2024-25**

Particulars	₹
Long term capital gains on sale of original shares	
Gross sale consideration (100 × ₹ 4,000)	4,00,000
Less: Brokerage@1%	4,000
Net sale consideration	3,96,000
Less: Cost of acquisition (100 × ₹ 2,000) (Refer Note 2)	2,00,000
Long term capital gains	1,96,000
Short term capital on sale of bonus shares	
Gross sale consideration (100 × ₹ 4,000)	4,00,000
Less: Brokerage@1%	4,000
Net sale consideration	3,96,000
Less: Cost of acquisition of bonus shares	NIL
Short term capital gains	3,96,000
Income from other sources	
Dividend received from M/s Goodmoney Co. Ltd. is taxable in the hands of shareholders [200 shares × 10 per share]	2,000
Total Income	5,94,000
Tax Liability	
Tax on dividend (since it is lower than the basic exemption limit)	Nil
Tax on STCG u/s 11A	
15% of (₹ 3,96,000 - ₹ 2,98,000, being unexhausted basic exemption limit)	14,700
Tax on LTCG u/s 112A	
10% of (₹ 1,96,000 - ₹ 1,00,000)	9,600
	24,300
Less: Rebate u/s 87A	14,700
	9,600
Add: Health and education cess @4%	384
Tax liability	9,984

Notes:

- (1) Long-term capital gains exceeding ₹ 1 lakh on sale of original shares through a recognized stock exchange (STT paid at the time of acquisition and sale) is taxable under section 112A at a concessional rate of 10%, without indexation benefit.
- (2) Cost of acquisition of such equity shares acquired before 1.2.2018 is higher of
 - Cost of acquisition i.e., ₹ 1,000 per share and
 - Lower of
 - Fair market value of such assets i.e., ₹ 2,000 per share and full value of consideration i.e., ₹ 4,000 per share.
 - Therefore, the cost of acquisition of original share is ₹ 2,000 per share.
- (3) Since bonus shares are held for less than 12 months before sale, the gain arising therefrom is a short-term capital gain chargeable to tax@15% as per section 111A after adjusting the unexhausted basic exemption limit (₹ 3,00,000 less ₹ 2,000, being the amount of dividend). Since Mr. Mithun is paying tax under default tax regime, he is entitled for a basic exemption limit of ₹ 3,00,000 for A.Y. 2024-25.
- (4) Brokerage paid is allowable since it is an expenditure incurred wholly and exclusively in connection with the transfer. Hence, it qualifies for deduction under section 48(i).
- (5) Cost of bonus shares will be Nil as such shares are allotted after 1.04.2001.
- (6) Securities transaction tax is not allowable as deduction.

Question - 4

Mrs. Harshita purchased a land at a cost of ₹ 35 lakhs in the F.Y. 2004-05 and held the same as her capital asset till 20th March, 2023.

She started her real estate business on 21st March, 2023 and converted the said land into stock-in-trade of her business on the said date, when the fair market value of the land was ₹ 210 lakhs.

She constructed 15 flats of equal size, quality and dimension. Cost of construction of each flat is ₹ 10 lakhs. Construction was completed in February, 2024. She sold 10 flats at ₹ 30 lakhs per flat in March, 2024. The remaining 5 flats were held in stock as on 31st March, 2024.

She invested ₹ 50 lakhs in bonds issued by National Highways Authority of India on 31st March, 2024 and another ₹ 50 lakhs in bonds of Rural Electrification Corporation Ltd. in April, 2024.

Compute the amount of chargeable capital gain and business income in the hands of Mrs. Harshita arising from the above transactions for A.Y. 2024-25 indicating clearly the reasons for treatment for each item.

[Cost Inflation Index: F.Y. 2004-05: 113; F.Y. 2022-23: 331; F.Y. 2023-24: 348].

ANSWER

**Computation of capital gains and business income of Harshita for
A.Y.2024-25**

Particulars	₹
Capital Gains	
Fair market value of land on the date of conversion deemed as the full value of consideration for the purposes of section 45(2)	2,10,00,000
Less: Indexed cost of acquisition [₹ 35,00,000 x 331/113]	1,02,52,212
	1,07,47,788
Proportionate capital gains arising during A.Y. 2024-25 [₹ 1,07,47,788 x 2/3]	71,65,192
Less: Exemption under section 54EC	50,00,000

Capital gains chargeable to tax for A.Y.2024-25	21,65,192
Business Income	
Sale price of flats [10 x ₹ 30 lakhs]	3,00,00,000
Less: Cost of flats	
Fair market value of land on the date of conversion [₹ 210 lacs x 2/3]	1,40,00,000
Cost of construction of flats [10 x ₹ 10 lakhs]	1,00,00,000
Business income chargeable to tax for A.Y.2024-25	60,00,000

Notes:

- (1) The conversion of a capital asset into stock-in-trade is treated as a transfer under section 2(47). It would be treated as a transfer in the year in which the capital asset is converted into stock-in-trade (i.e., P.Y.2022-23, in this case).
- (2) As per section 45(2), the capital gains arising from the transfer by way of conversion of capital assets into stock-in-trade will be chargeable to tax only in the year in which the stock-in-trade is sold.
- (3) The indexation benefit for computing indexed cost of acquisition would, however, be available only up to the year of conversion of capital asset into stock-in-trade (i.e., P.Y.2022-23) and not up to the year of sale of stock-in-trade (i.e., P.Y.2023-24).
- (4) For the purpose of computing capital gains in such cases, the fair market value of the capital asset on the date on which it was converted into stock-in-trade shall be deemed to be the full value of consideration received or accruing as a result of the transfer of the capital asset.

In this case, since only 2/3rd of the stock-in-trade (10 flats out of 15 flats) is sold in the P.Y.2023-24, only proportionate capital gains (i.e., 2/3rd) would be chargeable to tax in the A.Y.2024-25.

- (5) On sale of such stock-in-trade, business income would arise. The business income chargeable to tax would be the difference between the price at which the stock-in-trade is sold and the fair market value on the date of conversion of the capital asset into stock-in-trade.
- (6) In case of conversion of capital asset into stock-in-trade and subsequent sale of stock-in-trade, the period of 6 months is to be reckoned from the date of sale of stock-in-trade for the purpose of exemption under section 54EC [CBDT Circular No.791 dated 2.6.2000]. In this case, since the investment in bonds of NHAI has been made within 6 months of sale of flats, the same qualifies for exemption under section 54EC. With respect to long-term capital gains arising on land or building or both in any financial year, the maximum deduction under section 54EC would be ₹ 50 lakhs, whether the investment in bonds of NHAI or RECL are made in the same financial year or next financial year or partly in the same financial year and partly in the next financial year.

Therefore, even though investment of ₹ 50 lakhs has been made in bonds of NHAI during the P.Y. 2023-24 and investment of ₹ 50 lakhs has been made in bonds of RECL during the P.Y. 2024-25, both within the stipulated six month period, the maximum deduction allowable for A.Y. 2024-25, in respect of long-term capital gain arising on sale of long-term capital asset(s) during the P.Y. 2023-24, is only ₹ 50 lakhs.

Question - 5

Mr. A is an individual carrying on business. His stock and machinery were damaged and destroyed in a fire accident.

The value of stock lost (total damaged) was ₹ 6,50,000. Certain portion of the machinery could be salvaged. The opening balance of the block as on 1.4.2023 (i.e., WDV as on 31.3.2023 after providing depreciation for P.Y. 2022-23) was ₹ 10,80,000.

During the process of safeguarding machinery and in the fire fighting operations, Mr. A lost his gold chain and a diamond ring, which he had purchased in April, 2005 for ₹ 1,20,000. The market value of these two items as on the date of fire accident was ₹ 1,80,000.

Mr. A received the following amounts from the insurance company:

- (i) Towards loss of stock ₹ 4,80,000

(ii) Towards damage of machinery	₹ 6,00,000
(iii) Towards gold chain and diamond ring	₹ 1,80,000

You are requested to briefly comment on the tax treatment of the above three items under the provisions of the Income-tax Act, 1961.

ANSWER

(i) **Compensation towards loss of stock:** Any compensation received from the insurance company towards loss/damage to stock in trade is to be construed as a trading receipt. Hence, ₹ 4,80,000 received as insurance claim for loss of stock has to be assessed under the head “Profit and gains of business or profession”.

Note - The assessee can claim the value of stock destroyed by fire as revenue loss, eligible for deduction while computing income under the head “Profits and gains of business or profession”.

(ii) **Compensation towards damage to machinery:** The question does not mention whether the salvaged machinery is taken over by the Insurance company or whether there was any replacement of machinery during the year. Assuming that the salvaged machinery is taken over by the Insurance company, and there was no fresh addition of machinery during the year, the block of machinery will cease to exist. Therefore, ₹ 4,80,000 being the excess of written down value (i.e. ₹ 10,80,000) over the insurance compensation (i.e. ₹ 6,00,000) will be assessable as a short-term capital loss.

Note – If new machinery is purchased in the next year, it will constitute the new block of machinery, on which depreciation can be claimed for that year.

(iii) **Compensation towards loss of gold chain and diamond ring:** Gold chain and diamond ring are capital assets as envisaged by section 2(14). They are not “personal effects”, which alone are to be excluded. If any profit or gain arises in a previous year owing to receipt of insurance claim, the same shall be chargeable to tax as capital gains. The capital gains has to be computed by reducing the indexed cost of acquisition of jewellery from the insurance compensation of ₹ 1,80,000.

Question - 6

Mr. Shiva purchased a house property on February 15, 1979 for ₹ 3,24,000. In addition, he has also paid stamp duty value @10% on the stamp duty value of ₹ 3,50,000.

In April, 2008, Mr. Shiva entered into an agreement with Mr. Mohan for sale of such property for ₹ 14,35,000 and received an amount of ₹ 1,11,000 as advance. However, the sale consideration did not materialize and Mr. Shiva forfeited the advance. In May 2015, he again entered into an agreement for sale of said house for ₹ 20,25,000 to Ms. Deepshikha and received ₹ 1,51,000 as advance. However, as Ms. Deepshikha did not pay the balance amount, Mr. Shiva forfeited the advance. In August, 2015, Mr. Shiva constructed the first floor by incurring a cost of ₹ 3,90,000.

On November 15, 2023, Mr. Shiva entered into an agreement with Mr. Manish for sale of such house for ₹ 30,50,000 and received an amount of ₹ 1,50,000 as advance through an account payee cheque. Mr. Manish paid the balance entire sum and Mr. Shiva transferred the house to Mr. Manish on February 20, 2024. Mr. Shiva has paid the brokerage @1% of sale consideration to the broker.

On April 1, 2001, fair market value of the house property was ₹ 11,85,000 and Stamp duty value was ₹ 10,70,000. Further, the Valuation as per Stamp duty Authority of such house on 15th November, 2023 was ₹ 39,00,000 and on 20th February, 2024 was ₹ 41,00,000.

Compute the capital gains in the hands of Mr. Shiva for A.Y.2024-25.

CII for F.Y. 2001-02: 100; F.Y. 2008-09: 137; F.Y. 2015-16: 254; F.Y. 2023-24: 348

ANSWER

Computation of Capital gains in the hands of Mr. Shiva for A.Y. 2024-25

Particulars	Amount (₹)	Amount (₹)
Actual sale consideration	30,50,000	

Valuation as per Stamp duty Authority on the date of agreement (Where the actual sale consideration is less than the value adopted by the Stamp Valuation Authority for the purpose of charging stamp duty, and such stamp duty value exceeds 110% of the actual sale consideration then, the value adopted by the Stamp Valuation Authority shall be taken to be the full value of consideration as per section 50C. However, where the date of agreement is different from the date of registration, stamp duty value on the date of agreement can be considered, provided the whole or part of the consideration is received by way of account payee cheque/bank draft or by way of ECS through bank account or such other electronic mode as may be prescribed on or before the date of agreement. In the present case, since part of the payment is made by account payee cheque on the date of agreement, the stamp duty value on the date of agreement would be considered as full value of consideration)	39,00,000	
Deemed Full value of consideration [Since stamp duty value on the date of agreement exceeds 110% of the actual consideration, stamp duty value would be deemed as Full Value of Consideration]		39,00,000
Less: Expenses on transfer (Brokerage@1% of ₹ 30,50,000)		30,500
Net sale consideration		38,69,500
Less: Indexed cost of acquisition (Note 1)	33,37,320	
Less: Indexed cost of improvement (Note 2)	5,34,331	38,71,651
Long term capital loss		(2,151)

Notes:

(1) Computation of indexed cost of acquisition

Particulars	Amount (₹)	Amount (₹)
Cost of acquisition, Being the higher or		10,70,000
(i) Lower of Fair market value i.e., ₹ 11,85,000 and Stamp duty value i.e., ₹ 10,70,000, on April 1, 2001	10,70,000	
(ii) Actual cost of acquisition (₹ 3,24,000 + ₹ 35,000, being stamp duty @10% of ₹ 3,50,000)	3,59,000	
Less: Advance money taken from Mr. Mohan and forfeited		1,11,000
Cost of acquisition for indexation		9,59,000
Index cost of acquisition (₹ 9,59,000 × 348/100)		33,37,320

(2) Computation of indexed cost of improvement

Particulars	Amount (₹)
Cost of construction of first floor in August, 2015	3,90,000
Indexed cost of improvement (₹ 3,90,000 × 348/254)	5,34,331

- (3)** Where advance money has been received by the assessee, and retained by him, as a result of failure of the negotiations, section 51 will apply. The advance retained by the assessee will go to reduce the cost of acquisition. Indexation is to be done on the cost of acquisition so arrived at after reducing the advance money forfeited [i.e. ₹ 10,70,000 – ₹ 1,11,000 (being the advance money forfeited during the P.Y.2008-09) = ₹ 9,59,000]. However, where the advance money is forfeited during the previous year 2014-15 or thereafter, the amount forfeited would be taxable under the head "Income from Other Sources" and such amount will not be deducted from the cost of acquisition of such asset

while calculating capital gains. Hence, ₹ 1,51,000, being the advance received from Ms. Deepshikha and retained by him, would have been taxable under the head “Income from other sources” in the hands of Mr. Shiva in A.Y.2016-17.



INCOME FROM OTHER SOURCES

Question - 1

Mr. A, a dealer in shares, received the following without consideration during the P.Y. 2023-24 from his friend Mr. B, -

- (1) Cash gift of ₹ 75,000 on his anniversary, 15th April, 2023.
- (2) Bullion, the fair market value of which was ₹ 60,000, on his birthday, 19th June, 2023.
- (3) A plot of land at Faridabad on 1st July, 2023, the stamp value of which is ₹ 5 lakh on that date. Mr. B had purchased the land in April, 2009.

Mr. A purchased from his friend Mr. C, who is also a dealer in shares, 1000 shares of X Ltd. @ ₹ 400 each on 19th June, 2023, the fair market value of which was ₹ 600 each on that date. Mr. A sold these shares in the course of his business on 23rd June, 2023.

Further, on 1st November, 2023, Mr. A took possession of property (office building) booked by him two years back at ₹ 20 lakh. The stamp duty value of the property as on 1st November, 2023 was ₹ 32 lakh and on the date of booking was ₹ 23 lakh. He had paid ₹ 1 lakh by account payee cheque as down payment on the date of booking.

On 1st March, 2024, he sold the plot of land at Faridabad for ₹ 7 lakh.

Compute the income of Mr. A chargeable under the head "Income from other sources" and "Capital Gains" for A.Y. 2024-25.

ANSWER

Computation of "Income from other sources" of Mr. A for the A.Y.2024-25

Particulars	(₹)
(1) Cash gift is taxable under section 56(2)(x), since it exceeds ₹ 50,000	75,000
(2) Since bullion is included in the definition of property, therefore, when bullion is received without consideration, the same is taxable, since the aggregate fair market value exceeds ₹ 50,000	60,000
(3) Stamp value of plot of land at Faridabad, received without consideration, is taxable under section 56(2)(x)	5,00,000
(4) Difference of ₹ 2 lakh in the value of shares of X Ltd. purchased from Mr. C, a dealer in shares, is not taxable as it represents the stock-in-trade of Mr. A. Since Mr. A is a dealer in shares and it has been mentioned that the shares were subsequently sold in the course of his business, such shares represent the stock-in-trade of Mr. A.	--
(5) Difference between the stamp duty value of ₹ 23 lakh on the date of booking and the actual consideration of ₹ 20 lakh paid is taxable under section 56(2)(x) since the difference exceeds ₹ 2,00,000, being the higher of ₹ 50,000 and 10% of consideration	3,00,000
Income from Other Sources	9,35,000

Computation of "Capital Gains" of Mr. A for the A.Y.2024-25

Particulars	₹
Sale Consideration	7,00,000
Less: Cost of acquisition [deemed to be the stamp value charged to tax under section 56(2)(x) as per section 49(4)]	5,00,000

Short-term capital gains

2,00,000

Note – The resultant capital gains will be short-term capital gains since for calculating the period of holding, the period of holding of previous owner is not to be considered.

Question - 2

Interest on enhanced compensation received by Mr. G during the previous year 2023-24 is ₹ 5,00,000. Out of this interest, ₹ 1,50,000 relates to the previous year 2019-20, ₹ 1,65,000 relates to previous year 2020-21 and ₹ 1,85,000 relates to previous year 2021-22. Discuss the tax implication, if any, of such interest income for A.Y.2024-25.

ANSWER

The entire interest of ₹ 5,00,000 would be taxable in the year of receipt, namely, P.Y.2023-24.

Particulars	₹
Interest on enhanced compensation taxable u/s 56(2)(viii)	5,00,000
Less: Deduction under section 57(iv)@50%	2,50,000
Interest chargeable under the head "Income from other sources"	2,50,000

Question - 3

Examine whether the following are chargeable to tax and the amount liable to tax:

- A sum of ₹ 1,20,000 was received as gift from non-relatives by Raj on the occasion of the marriage of his son Pravin.
- Interest on enhanced compensation of ₹ 96,000 received on 12-3-2024 for acquisition of urban land, of which 40% relates to P.Y.2022-23.

ANSWER

Taxability of Receipts

S.No.	Taxable/Non-taxable	Amount liable to tax (₹)	Reason
(i)	Taxable	1,20,000	The exemption from applicability of section 56(2)(x) would be available if, inter alia, gift is received from a relative or gift is received on the occasion of marriage of the individual himself. In this case, since gift is received by Mr. Raj from a non-relative on the occasion of marriage of his son, it would be taxable in his hands under section 56(2)(x).
(ii)	Taxable	48,000	As per section 145B(1), interest received by the assessee on enhanced compensation shall be deemed to be the income of the year in which it is received, irrespective of the method of accounting followed by the assessee. Interest of ₹ 96,000 on enhanced compensation is chargeable to tax in the year of receipt i.e. P.Y. 202324 under section 56(2)(viii) after providing deduction of 50% under section 57(iv). Therefore, ₹ 48,000 is chargeable to tax under the head "Income from other sources".

Question - 4

On 10.10.2023, Mr. Govind (a bank employee) received ₹ 5,00,000 towards interest on enhanced compensation from State Government in respect of compulsory acquisition of his land effected during the financial year 2015-16.

Out of this interest, ₹ 1,50,000 relates to the financial year 2016-17; ₹ 1,65,000 to the financial year 2017-18; and ₹ 1,85,000 to the financial year 2018-19. He incurred ₹ 50,000 by way of legal expenses to receive the interest on such enhanced compensation.

How much of interest on enhanced compensation would be chargeable to tax in the A.Y.2024-25?

ANSWER

Section 145B provides that interest received by the assessee on enhanced compensation shall be deemed to be the income of the assessee of the year in which it is received, irrespective of the method of accounting followed by the assessee and irrespective of the financial year to which it relates.

Section 56(2)(viii) states that such income shall be taxable as 'Income from other sources'.

50% of such income shall be allowed as deduction by virtue of section 57(iv) and no other deduction shall be permissible from such Income.

Therefore, legal expenses incurred to receive the interest on enhanced compensation would not be allowed as deduction from such income.

Computation of interest on enhanced compensation taxable as "Income from other sources" for the A.Y. 2024-25:

Particulars	₹
Interest on enhanced compensation taxable u/s 56(2)(viii)	5,00,000
Less: Deduction under section 57(iv) (50% x ₹ 5,00,000)	2,50,000
Taxable interest on enhanced compensation	2,50,000

Question - 5

The following details have been furnished by Mrs. Hemali pertaining to the year ended 31.3.2024:

- (i) Cash gift of ₹ 51,000 received from her friend on the occasion of her "Shastiapha Poorthi", a wedding function celebrated on her husband completing 60 years of age. This was also her 25th wedding anniversary.
- (ii) On the above occasion, a diamond necklace worth ₹ 2 lacs was presented by her sister living in Dubai.
- (iii) When she celebrated her daughter's wedding on 21.2.2024, her friend assigned in Mrs. Hemali's favour, a fixed deposit held by the said friend in a scheduled bank; the value of the fixed deposit and the accrued interest on the said date was ₹ 52,000.

Compute the income, if any, assessable as "Income from other sources" for A.Y.2024-25.

ANSWER

- (i) Any sum of money received by an individual on the occasion of the marriage of the individual is exempt. This provision is, however, not applicable to a cash gift received during a wedding function celebrated on completion of 60 years of age.

The gift of ₹ 51,000 received from a non-relative is, therefore, chargeable to tax under section 56(2)(x) in the hands of Mrs. Hemali, since the same exceeds ₹ 50,000.

- (ii) The provisions of section 56(2)(x) are not attracted in respect of any sum of money or property received from a relative. Thus, the gift of diamond necklace received from her sister, being a relative, is not taxable under section 56(2)(x), even though jewellery falls within the definition of "property".

- (iii) To be exempt from applicability of section 56(2)(x), the property should be received on the occasion of the marriage of the individual, not that of the individual's son or daughter. Therefore, this exemption provision is not attracted in this case.

Any sum of money received without consideration by an individual is chargeable to tax under section 56(2)(x), if the aggregate value exceeds ₹ 50,000 in a year. "Sum of money" has, however, not been defined under section 56(2)(x).

Therefore, there are two possible views in respect of the value of fixed deposit assigned in favour of Mrs. Hemali –

- (1) The first view is that fixed deposit does not fall within the meaning of “sum of money” and therefore, the provisions of section 56(2)(x) are not attracted. It may be noted that fixed deposit is also not included in the definition of “property”.
- (2) However, another possible view is that fixed deposit assigned in favour of Mrs. Hemali falls within the meaning of “sum of money” received.

Income assessable as “Income from other sources”

If the first view is taken, the total amount chargeable to tax as “Income from other sources” would be ₹ 51,000, being cash gift received from a friend on her Shastiaptha Poorthi. As per the second view, the provisions of section 56(2)(x) would also be attracted in respect of the fixed deposit assigned and the “Income from other sources” of Mrs. Hemali would be ₹ 1,03,000 (₹ 51,000 + ₹ 52,000).

Question - 6

Examine the following transactions in the context of Income-tax Act, 1961:

- (i) **Mr. B transferred 500 shares of R (P) Ltd. to M/s. B Co. (P) Ltd. on 10.10.2023 for ₹ 3,00,000 when the fair market value was ₹ 5,00,000. The indexed cost of acquisition of shares for Mr. B was computed at ₹ 4,45,000. The transfer was not subjected to securities transaction tax.**

Determine the income chargeable to tax in the hands of Mr. B and M/s. B Co. (P) Ltd. because of the above said transaction.

- (ii) **Mr. Chezian is employed in a company with taxable salary income of ₹ 5,00,000. He received a sum of ₹ 1,00,000 from Atma Charitable Trust (registered under section 12AB) by account payee cheque in December 2023 for meeting his medical expenses.**

Is the sum of money so received from the trust chargeable to tax in the hands of Mr. Chezian?

ANSWER

- (i) Any movable property received for inadequate consideration by any person is chargeable to tax under section 56(2)(x), if the difference between aggregate Fair Market Value of the property and consideration exceeds ₹ 50,000.

Thus, share received by M/s B. Co. (P) Ltd. from Mr B for inadequate consideration is chargeable to tax under section 56(2)(x) to the extent of ₹ 2,00,000.

As per section 50CA, since, the consideration is less than the fair market value of unquoted shares of R (P) Ltd., fair market value of shares of the company would be deemed to be the full value of consideration. It is presumed that the shares of R (P) Ltd are unquoted shares.

The full value of consideration (₹ 5,00,000) less the indexed cost of acquisition (₹ 4,45,000) would result in a long-term capital gains of ₹ 55,000 in the hands of Mr. B.

- (ii) The provisions of section 56(2)(x) would not apply to any sum of money or any property received from any trust or institution registered under section 12AB. Therefore, the sum of ₹ 1 lakh received from Atma Charitable Trust, being a trust registered under section 12AB, for meeting medical expenses would not be chargeable to tax under section 56(2)(x) in the hands of Mr. Chezian.

INCOME OF OTHER PERSONS INCLUDED IN ASSESSEE'S TOTAL INCOME

Question - 1

Mr. A holds shares carrying 25% voting power in X (P) Ltd. Mrs. A is working as a computer software programmer in X (P) Ltd. at a salary of ₹ 30,000 p.m. She is, however, not qualified for the job. The other income of Mr. A & Mrs. A are ₹ 7,00,000 & ₹ 4,00,000, respectively. Compute the gross total income of Mr. A and Mrs. A for the A.Y.2024-25.

ANSWER

Mr. A holds shares carrying 25% voting power in X (P) Ltd i.e., a substantial interest in the company. His wife is working in the same company without any professional qualifications for the same. Thus, by virtue of the clubbing provisions of the Act, the salary received by Mrs. A from X (P) Ltd. will be clubbed in the hands of Mr. A.

Computation of Gross total income of Mr. A

Particulars	₹	₹
Salary received by Mrs. A (₹ 30,000 × 12)	3,60,000	
Less: Standard deduction under section 16(ia)	50,000	3,10,000
Other Income		7,00,000
Gross total income		10,10,000

The gross total income of Mrs. A is ₹ 4,00,000.

Question - 2

Mr. B holds shares carrying 30% voting power in Y (P) Ltd. Mrs. B is working as account in Y (P) Ltd. getting income under the head salary (computed) of ₹ 3,44,000 without any qualification in accountancy. Mr. B also receives ₹ 30,000 as interest on securities. Mrs. B owns a house property which she has let out. Rent received from tenants is ₹ 6,000 p.m. Compute the gross total income of Mr. B and Mrs. B for the A.Y.2024-25.

ANSWER

Since Mrs. B is not professionally qualified for the job, the clubbing provisions shall be applicable.

Computation of Gross total income of Mr. B

Particulars	₹
Income under the head "Salary" of Mrs. B (Computed)	3,44,000
Income from other sources	
- Interest on securities	30,000
Gross total income	3,74,000

Computation of Gross total income of Mrs. B

Particulars	₹	₹
Income from Salary [Clubbed in the hands of Mr. B]		Nil
Income from house property		

Gross Annual Value [₹ 6,000 x 12]	72,000	
Less: Municipal taxes paid	-	
Net Annual Value (NAV)	72,000	
Less: Deductions under section 24		
– 30% of NAV i.e., 30% of ₹ 72,000	21,600	
– Interest on loan	-	50,400
Gross total Income		50,400

Question - 3

Mrs. Kasturi transferred her immovable property to ABC Co. Ltd. subject to a condition that out of the rental income, a sum of ₹ 36,000 per annum shall be utilized for the benefit of her son's wife.

Mrs. Kasturi claims that the amount of ₹ 36,000 (utilized by her son's wife) should not be included in her total income as she no longer owned the property.

Examine with reasons whether the contention of Mrs. Kasturi is valid in law.

ANSWER

The clubbing provisions under section 64(1)(viii) are attracted in case of transfer of any asset, directly or indirectly, otherwise than for adequate consideration, to any person to the extent to which the income from such asset is for the immediate or deferred benefit of son's wife. Such income shall be included in computing the total income of the transferor-individual.

Therefore, income of ₹ 36,000 meant for the benefit of daughter-in-law is chargeable to tax in the hands of transferor i.e., Mrs. Kasturi in this case.

The contention of Mrs. Kasturi is, hence, not valid in law.

In order to attract the clubbing provisions under section 64(1)(viii), the transfer should be otherwise than for adequate consideration. In this case, it is presumed that the transfer is otherwise than for adequate consideration and therefore, the clubbing provisions are attracted. Moreover, the provisions of section 56(2)(x) would also get attracted in the hands of ABC Co Ltd., if the conditions specified thereunder are satisfied.

Note – If the transfer was for adequate consideration, the provisions of section 64(1)(viii) would not be attracted.

Question - 4

Compute the gross total income of Mr. A & Mrs. A from the following information assuming both exercise the option of shifting out of the default tax regime provided under section 115BAC(1A):

Particulars	₹
(a) Salary income (computed) of Mrs. A	2,30,000
(b) Income from profession of Mr. A	3,90,000
(c) Income of minor son B from company deposit	15,000
(d) Income of minor daughter C from special talent	32,000
(e) Interest from bank received by C on deposit made out of her special talent	3,000
(f) Gift received by C on 30.09.2023 from friend of Mrs. A	2,500

Brief working is sufficient. Detailed computation under various heads of income is not required.

ANSWER

As per the provisions of section 64(1A) of the Income-tax Act, 1961, all the income of a minor child has to be clubbed in the hands of that parent whose total income (excluding the income of the minor) is greater. The income of Mr. A is ₹ 3,90,000 and income of Mrs. A is ₹ 2,30,000. Since the income of Mr. A is greater than that of Mrs. A, the income of the minor

children have to be clubbed in the hands of Mr. A. It is assumed that this is the first year when clubbing provisions are attracted.

Income derived by a minor child from any activity involving application of his/her skill, talent, specialised knowledge and experience is not to be clubbed. Hence, the income of minor child C from exercise of special talent will not be clubbed.

However, interest from bank deposit has to be clubbed even when deposit is made out of income arising from application of special talent.

The Gross Total Income of Mrs. A is ₹ 2,30,000. The total income of Mr. A giving effect to the provisions of section 64(1A) is as follows:

Computation of gross income of Mr. A for the A.Y. 2024-25

Particulars	₹	₹
Income from profession		3,90,000
Income of minor son B from company deposit	15,000	
Less: Exemption under section 10(32)	1,500	13,500
Income of minor daughter C		
From special talent – not to be clubbed	--	
Interest from bank	3,000	
Gift of ₹ 2,500 received from a non-relative is not taxable under section 56(2)(x) being less than the aggregate limit of ₹ 50,000	Nil	
	3,000	
Less: Exemption under section 10(32)	1,500	1,500
Gross total Income		4,05,000

Question - 5

Mr. Sharma has four minor children - 2 daughters and 2 sons. The annual income of 2 daughters were ₹ 9,000 and ₹ 4,500 and of sons were ₹ 6,200 and ₹ 4,300, respectively. The daughter who has income of ₹ 4,500 was suffering from a disability specified under section 80U.

Compute the amount of income earned by minor children to be clubbed in hands of Mr. Sharma assuming he has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A).

ANSWER

As per section 64(1A), in computing the total income of an individual, all such income accruing or arising to a minor child shall be included. However, income of a minor child suffering from disability specified under section 80U would not be included in the income of the parent but would be taxable in the hands of the minor child. Therefore, in this case, the income of daughter suffering from disability specified under section 80U should not be clubbed with the income of Mr. Sharma.

Under section 10(32), income of each minor child includible in the hands of the parent under section 64(1A) would be exempt to the extent of the actual income or ₹ 1,500, whichever is lower. Mr. Sharma would be eligible for exemption u/s 10(32) since he has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A). The remaining income would be included in the hands of the parent.

Computation of income earned by minor children to be clubbed with the income of Mr. Sharma

Particulars		₹
(i)	Income of one daughter	9,000
	Less: Income exempt under section 10(32)	1,500
	Total (A)	7,500
(ii)	Income of two sons (₹ 6,200 + ₹ 4,300)	10,500

Less: Income exempt under section 10(32) (₹ 1,500 + ₹ 1,500)	3,000
Total (B)	7,500
Total Income to be clubbed as per section 64(1A) (A+B)	15,000

Note: It has been assumed that:

- (1) The income does not accrue or arise to the minor children on account of any manual work done by them or activity involving application of their skill, talent or specialized knowledge and experience;
- (2) The income of Mr. Sharma, before including the minor children's income, is greater than the income of Mrs. Sharma, due to which the income of the minor children would be included in his hands; and
- (3) This is the first year in which clubbing provisions are attracted.

Question - 6

During the previous year 2023-24, the following transactions occurred in respect of Mr. A.

- (a) Mr. A had a fixed deposit of ₹ 5,00,000 in Bank of India. He instructed the bank to credit the interest on the deposit @ 9% p.a. from 1-4-2023 to 31-3-2024 to the savings bank account of Mr. B, son of his brother, to help him in his education.
- (b) Mr. A holds 75% profit share in a partnership firm. Mrs. A received a commission of ₹ 25,000 from the firm for promoting the sales of the firm. Mrs. A possesses no technical or professional qualification.
- (c) Mr. A gifted a flat to Mrs. A on April 1, 2023. During the previous year 2023-24, Mrs. A's "Income from house property" (computed) was ₹ 52,000 from such flat.
- (d) Mr. A gifted ₹ 2,00,000 to his minor son who invested the same in a business and he derived income of ₹ 20,000 from the investment.
- (e) Mr. A's minor son derived an income of ₹ 20,000 through a business activity involving application of his skill and talent.

During the year, Mr. A got a monthly pension of ₹ 10,000. He had no other income. Mrs. A received salary of ₹ 20,000 per month from a part time job.

Examine the tax implications of each transaction and compute the total income of Mr. A, Mrs. A and their minor child assuming that they exercise the option of shifting out of the default tax regime provided under section 115BAC(1A).

ANSWER

Computation of total income of Mr. A, Mrs. A and their minor son for the
A.Y.2024-25

Particulars	Mr. A (₹)	Mrs. A (₹)	Minor Son (₹)
Income under the head "Salaries"			
Salary income (of Mrs. A)	-	2,40,000	-
Pension income (or Mr. A (₹ 10,000 × 12))	1,20,000	-	
Less: Standard deduction under section 16(ia)	50,000	50,000	
	70,000	1,90,000	
Income from House Property [See Note (3) below]	52,000	-	-
Income from other sources			
Interest on Mr. A's fixed deposit with Bank of India (₹ 5,00,000×9%) [See Note (1) below]	45,000	-	-

Commission received by Mrs. A from a partnership firm, in which Mr. A has substantial interest [See Note (2) below]	25,000	70,000	-	-
Income before including income of minor son under section 64(1A)		1,92,000	1,90,000	--
Income of the minor son from the investment made in the business out of the amount gifted by Mr. A [See Note (4) below]		18,500	-	-
Income of the minor son through a business activity involving application of his skill and talent [See Note (5) below]		-	-	20,000
Total Income		2,10,500	1,90,000	20,000

Notes:

(1) As per section 60, in case there is a transfer of income without transfer of asset from which such income is derived, such income shall be treated as income of the transferor. Therefore, the fixed deposit interest of ₹ 45,000 transferred by Mr. A to Mr. B shall be included in the total income of Mr. A.

(2) As per section 64(1)(ii), in case the spouse of the individual receives any amount by way of income from any concern in which the individual has substantial interest (i.e. holding shares carrying at least 20% voting power or entitled to at least 20% of the profits of the concern), then, such income shall be included in the total income of the individual. The only exception is in a case where the spouse possesses any technical or professional qualifications and the income earned is solely attributable to the application of her technical or professional knowledge and experience, in which case, the clubbing provisions would not apply.

In this case, the commission income of ₹ 25,000 received by Mrs. A from the partnership firm has to be included in the total income of Mr. A, as Mrs. A does not possess any technical or professional qualification for earning such commission and Mr. A has substantial interest in the partnership firm as he holds 75% profit share in the firm.

(3) According to section 27(i), an individual who transfers any house property to his or her spouse otherwise than for adequate consideration or in connection with an agreement to live apart, shall be deemed to be the owner of the house property so transferred. Hence, Mr. A shall be deemed to be the owner of the flat gifted to Mrs. A and hence, the income arising from the same shall be computed in the hands of Mr. A.

Note: The provisions of section 56(2)(x) would not be attracted in the hands of Mrs. A, since she has received immovable property without consideration from a relative i.e., her husband.

(4) As per section 64(1A), the income of the minor child is to be included in the total income of the parent whose total income (excluding the income of minor child to be so clubbed) is greater. Further, as per section 10(32), income of a minor child which is includible in the income of the parent shall be exempt to the extent of ₹ 1,500 per child.

Therefore, the income of ₹ 20,000 received by minor son from the investment made out of the sum gifted by Mr. A shall, after providing for exemption of ₹ 1,500 under section 10(32), be included in the income of Mr. A, since Mr. A's income of ₹ 1,92,000 (before including the income of the minor child) is greater than Mrs. A's income of ₹ 1,90,000. Therefore, ₹ 18,500 (i.e., ₹ 20,000 – ₹ 1,500) shall be included in Mr. A's income. It is assumed that this is the first year in which clubbing provisions are attracted.

Note: The provisions of section 56(2)(x) would not be attracted in the hands of the minor son, since he has received a sum of money exceeding ₹ 50,000 without consideration from a relative i.e., his father.

(5) In case the income earned by the minor child is on account of any activity involving application of any skill or talent, then, such income of the minor child shall not be included in the income of the parent, but shall be taxable in the hands of the minor child.

Therefore, the income of ₹ 20,000 derived by Mr. A's minor son through a business activity involving application of his skill and talent shall not be clubbed in the hands of the parent. Such income shall be taxable in the hands of the minor son.

Question - 7

Mr. A has gifted a house property valued at ₹ 50 lakhs to his wife, Mrs. B, who in turn has gifted the same to Mrs. C, their daughter-in-law. The house was let out at ₹ 25,000 per month throughout the year. Compute the total income of Mr. A and Mrs. C.

Will your answer be different if the said property was gifted to his son, husband of Mrs. C?

ANSWER

As per section 27(i), an individual who transfers otherwise than for adequate consideration any house property to his spouse, not being a transfer in connection with an agreement to live apart, shall be deemed to be the owner of the house property so transferred.

Therefore, in this case, Mr. A would be the deemed owner of the house property transferred to his wife Mrs. B without consideration.

As per section 64(1)(vi), income arising to the son's wife from assets transferred, directly or indirectly, to her by an individual otherwise than for adequate consideration would be included in the total income of such individual.

Income from let-out property is ₹ 2,10,000 [i.e., ₹ 3,00,000, being the actual rent calculated at ₹ 25,000 per month less ₹ 90,000, being deduction under section 24@30% of ₹ 3,00,000]

In this case, income of ₹ 2,10,000 from let-out property arising to Mrs. C, being Mr. A's son's wife, would be included in the income of Mr. A, applying the provisions of section 27(i) and section 64(1)(vi). Such income would, therefore, not be taxable in the hands of Mrs. C.

In case the property was gifted to Mr. A's son, the clubbing provisions under section 64 would not apply, since the son is not a minor child. Therefore, the income of ₹ 2,10,000 from letting out of property gifted to the son would be taxable in the hands of the son.

It may be noted that the provisions of section 56(2)(x) would not be attracted in the hands of the recipient of house property, since the receipt of property in each case was from a "relative" of such individual. Therefore, the stamp duty value of house property would not be chargeable to tax in the hands of the recipient of immovable property, even though the house property was received by her or him without consideration.

Note - The first part of the question can also be answered by applying the provisions of section 64(1)(vi) directly to include the income of ₹ 2,10,000 arising to Mrs. C in the hands of Mr. A. [without first applying the provisions of section 27(i) to deem Mr. A as the owner of the house property transferred to his wife Mrs. B without consideration], since section 64(1)(vi) speaks of clubbing of income arising to son's wife from indirect transfer of assets to her by her husband's parent, without consideration. Gift of house property by Mr. A to Mrs. C, via Mrs. B, can be viewed as an indirect transfer by Mr. A to Mrs. C.

Question - 8

A proprietary business was started by Smt. Rani in the year 2021. As on 1.4.2022 her capital in business was ₹ 3,00,000.

Her husband gifted ₹ 2,00,000 on 10.4.2022 to her and such sum is invested by Smt. Rani in her business on the same date. Smt. Rani earned profits from her proprietary business for the Financial year 2022-23, ₹ 1,50,000 and Financial year 2023-24 ₹ 3,90,000. Compute the income, to be clubbed in the hands of Rani's husband for the Assessment year 2024-25 with reasons.

ANSWER

Section 64(1) of the Income-tax Act, 1961 provides for the clubbing of income in the hands of the individual, if the income earned is from the assets transferred directly or indirectly to the spouse of the individual, otherwise than for adequate consideration. In this case Smt. Rani received a gift of ₹ 2,00,000 from her husband which she invested in her business. The income to be clubbed in the hands of Smt. Rani's husband for A.Y.2024-25 is computed as under:

Particulars	Smt. Rani's Capital Contribution (₹)	Capital Contribution Out of gift from husband (₹)	Total (₹)
Capital as at 1.4.2022	3,00,000	-	3,00,000

Investment on 10.04.2022 out of gift received from her husband		2,00,000	2,00,000
	3,00,000	2,00,000	5,00,000
Profit for F.Y. 2022-23 to be apportioned on the basis of capital employed on the first day of the previous year i.e., on 1.4.2022	1,50,000		1,50,000
Capital employed as at 1.4.2023	4,50,000	2,00,000	6,50,000
Profit for F.Y.2023-24 to be apportioned on the basis of capital employed as at 1.4.2023 (i.e., 45 : 20)	2,70,000	1,20,000	3,90,000

Therefore, the income to be clubbed in the hands of Smt. Rani's husband for A.Y.2024-25 is ₹ 1,20,000.

Question - 9

Mr. B is the Karta of a HUF, whose members derive income as given below:

Particulars	₹
(i) Income from B's profession	45,000
(ii) Mrs. B's Salary as fashion designer	76,000
(iii) Minor son D (interest on fixed deposits with a bank which were gifted to him by his uncle)	10,000
(iv) Minor daughter P's earnings from sports	95,000
(v) D's winnings from lottery (gross)	1,95,000

Examine the tax implication in the hands of Mr. and Mrs. B.

ANSWER

Clubbing of income and other tax implications

As per the provisions of section 64(1A), in case the marriage of the parents subsist, the income of a minor child shall be clubbed in the hands of the parent whose total income, excluding the income of the minor child to be clubbed, is greater. In this problem, it has been assumed that the marriage of Mr. B and Mrs. B subsists.

Further, in case the income arises to the minor child on account of any manual work done by the child or as a result of any activity involving application of skill, talent, specialized knowledge or experience of the child, then, the same shall not be clubbed in the hands of the parent.

Tax implications

- Income of ₹ 45,000 from Mr. B's profession shall be taxable in the hands of Mr. B under the head "Profits and gains of business or profession".
- Salary of ₹ 26,000 (₹ 76,000 less standard deduction under section 16(ia) of ₹ 50,000) shall be taxable as "Salaries" in the hands of Mrs. B.
- Income from fixed deposit of ₹ 10,000 arising to the minor son D, shall be clubbed in the hands of the father, Mr. B as "Income from other sources", since Mr. B's income is greater than income of Mrs. B before including the income of the minor child.

As per section 10(32), income of a minor child which is includible in the income of the parent shall be exempt to the extent of ₹ 1,500 per child if such parent exercises the option of shifting out of the default tax regime provided under section 115BAC(1A). The balance income would be clubbed in the hands of the parent as "Income from other sources".

- Income of ₹ 95,000 arising to the minor daughter P from sports shall not be included in the hands of the parent, since such income has arisen to the minor daughter on account of an activity involving application of her skill.
- Income of ₹ 1,95,000 arising to minor son D from lottery shall be included in the hands of Mr. B as "Income from other sources", since Mr. B's income is greater than the income of Mrs. B before including the income of minor child.

Note – Mr. B can reduce the tax deducted at source from such lottery income while computing his net tax liability.



CA DREAMERS

THE AVENGER

AGGREGATION OF INCOME, SET-OFF AND CARRY FORWARD OF LOSSES

Question - 1

Mr. A, aged 35 years, submits the following particulars pertaining to the A.Y. 2024-25:

Particulars	₹
Income from salary (computed)	4,00,000
Loss from let-out property	(-) 2,20,000
Business loss	(-) 1,00,000
Bank interest (FD) received	80,000

Compute the total income of Mr. A for the A.Y. 2024-25, assuming that

- (i) He has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A).
- (ii) He pays tax under the default tax regime.

ANSWER

- (i) **Computation of total income of Mr. A for the A.Y.2024-25 under normal provisions of the Act**

Particulars	Amount (₹)	Amount (₹)
Income from salary	4,00,000	
Less: Loss from house property of ₹ 2,20,000 to be restricted to ₹ 2 lakhs by virtue of section 71(3A)	(-) 2,00,000	2,00,000
Balance loss of ₹ 20,000 from house property to be carried forward to next assessment year		
Income from other sources (interest on fixed deposit with bank)	80,000	
Less: Business loss of ₹ 1,00,000 set-off to the extent of ₹ 80,000	(-) 80,000	-
Business loss of ₹ 20,000 to be carried forward for set-off against business income of the next assessment year		
Gross total income [See Note below]		2,00,000
Less: Deduction under Chapter VI-A		Nil
Total Income		2,00,000

Notes:

- (i) Gross Total Income includes salary income of ₹ 2,00,000 after adjusting loss of ₹ 2,00,000 from house property. The balance loss of ₹ 20,000 from house property to be carried forward to next assessment year for set-off against income from house property of that year.
- (ii) Business loss of ₹ 1,00,000 is set off against bank interest of ₹ 80,000 and remaining business loss of ₹ 20,000 will be carried forward as it cannot be set off against salary income.

- (ii) **Computation of total income of Mr. A for the A.Y.2024-25 under default tax regime**

Particulars	Amount (₹)	Amount (₹)
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Income from salary		4,00,000
Income from other sources (interest on fixed deposit with bank)	80,000	
Less: Business loss of ₹ 1,00,000 set-off to the extent of ₹ 80,000	(-) 80,000	-
Business loss of ₹ 20,000 to be carried forward for set-off against business income of the next assessment year		
Gross total income/Total Income		4,00,000

Notes:

- Under the default tax regime, loss from house property cannot be set off against income under any other head. Therefore, the loss of ₹ 2,20,000 from house property to be carried forward to next assessment year for set-off against income from house property of that year.
- Business loss of ₹ 1,00,000 is set off against bank interest of ₹ 80,000 and remaining business loss of ₹ 20,000 will be carried forward as it cannot be set off against salary income.

Question - 2

During the P.Y.2023-24, Mr. C has the following income and the brought forward losses:

Particulars	₹
Short term capital gains on sale of shares	1,50,000
Long term capital loss of A.Y.2022-23	(96,000)
Short term capital loss of A.Y.2023-24	(37,000)
Long term capital gains u/s 112	75,000

What is the capital gain taxable in the hands of Mr. C for the A.Y. 2024-25?

ANSWER

Taxable capital gains of Mr. C for the A.Y.2024-25

Particulars	₹	₹
Short term capital gains on sale of shares	1,50,000	
Less: Brought forward short-term capital loss of the A.Y.2023-24	(37,000)	1,13,000
Long term capital gain	75,000	
Less: Brought forward long-term capital loss of A.Y.2022-23 ₹ 96,000 set off to the extent of ₹ 75,000 [See Note below]	(75,000)	Nil
Taxable short-term capital gains		1,13,000

Note: Long-term capital loss cannot be set off against short-term capital gain. Hence, the unadjusted long-term capital loss of A.Y.2022-23 of ₹ 21,000 (i.e. ₹ 96,000 – ₹ 75,000) can be carried forward to the next year to be set-off against long-term capital gains of that year.

Question - 3

Mr. E has furnished his details for the A.Y.2024-25 as under:

Particulars	₹
Income from salaries (computed)	1,50,000
Income from speculation business	60,000
Loss from non-speculation business	(40,000)
Short term capital gain	80,000

Long term capital loss of A.Y.2022-23	(30,000)
Winning from lotteries (Gross)	20,000

Computation the total income of Mr. E for the A.Y.2024-25.

ANSWER

Computation of total income of Mr. E for the A.Y. 2024-25

Particulars	₹	₹
Income from salaries		1,50,000
Income from speculation business	60,000	
Less: Loss from non-speculation business	(40,000)	20,000
Short-term capital gain		80,000
Winnings from lotteries		20,000
Taxable income		2,70,000

Note: Long term capital loss can be set off only against long term capital gain. Therefore, long term capital loss of ₹ 30,000 has to be carried forward to the next assessment year.

Question - 4

Compute the gross total income of Mr. F for the A.Y. 2024-25 from the information given below-

Particulars	₹
Income from house property (computed)	1,2,50,000
Income from business (before providing for depreciation)	1,35,000
Short term capital gains on sale of unlisted shares	56,000
Long term capital loss from sale of property (brought forward from A.Y.2023-24)	(90,000)
Income from tea business	1,20,000
Dividends from Indian companies carrying on agricultural operations (Gross)	80,000
Current year depreciation	26,000
Brought forward business loss (loss incurred six years ago)	(45,000)

ANSWER

Gross Total Income of Mr. F for the A.Y. 2024-25

Particulars	₹	₹
Income from house property (Computed)		1,25,000
Income from business		
Profits before depreciation	1,35,000	
Less: Current year depreciation	26,000	
Less: Brought forward business loss	45,000	
	64,000	
Income from tea business (40% is business income)	48,000	1,12,000
Capital gains		
Short-term capital gains		56,000

Income from Other Sources		
Dividend income (taxable in the hands of shareholders)		80,000
Gross Total Income		3,73,000

Notes:

- (1) Dividend from Indian companies is taxable at normal rates of tax in the hands of resident shareholders.
- (2) 60% of the income from tea business is treated as agricultural income and therefore, exempt from tax;
- (3) Long-term capital loss can be set-off only against long-term capital gains. Therefore, long-term capital loss of ₹ 90,000 brought forward from A.Y.2023-24 cannot be set-off in the A.Y.2024-25, since there is no long-term capital gains in that year. It has to be carried forward for setoff against long-term capital gains, if any, during A.Y.2025-26.

Question - 5

Mr. Soohan submits the following details of his income for the A.Y.2024-25:

Particulars	₹
Income from salary (computed)	3,00,000
Loss from let out house property	(-) 40,000
Income from sugar business	50,000
Loss from iron ore business for P.Y.2018-19 (discontinued in P.Y. 2019-20)	(-) 1,20,000
Short term capital loss	(-) 60,000
Long term capital gain	40,000
Dividend	5,000
Income received from lottery winning (Gross)	50,000
Winnings from card games (Gross)	6,000
Agricultural income	20,000
Short-term capital loss under section 111A	(-) 10,000
Bank interest on Fixed deposit	5,000

Calculate gross total income and losses to be carried forward, assuming that he has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A).

ANSWER

Computation of Gross Total Income of Mr. Soohan for the A.Y.2024-25

Particulars	₹	₹
Salaries		
Income from salary	3,00,000	
Less: Loss from house property set-off against salary income as per section 71	(40,000)	2,60,000
Profits and gains of business or profession		
Income from sugar business	50,000	
Less: Brought forward loss of ₹ 1,20,000 from iron-ore business set-off as per section 72(1) to the extent of ₹ 50,000	(50,000)	Nil
Balance business loss of ₹ 70,000 of P.Y.2018-19 to be carried forward to A.Y.2025-26		
Capital gains		

Long term capital gain	40,000	
Less: Short term capital loss of ₹ 60,000 set-off to the extent of ₹ 40,000	(40,000)	Nil
Balance short-term capital loss of ₹ 20,000 to be carried forward		
Short-term capital loss of ₹ 10,000 u/s 111A also to be carried forward		
Income from other sources		
Dividend (fully taxable in the hands of shareholders)	5,000	
Winnings from lottery	50,000	
Winnings from card games	6,000	
Bank FD interest	5,000	66,000
Gross Total Income		3,26,000
Losses to be carried forward to A.Y.2025-26		
Loss of iron-ore business (₹ 1,20,000 – ₹ 50,000)	70,000	
Short term capital loss (₹ 20,000 + ₹ 10,000)	30,000	

Note: Agricultural income is exempt under section 10(1).

Question - 6

Mr. Batra furnishes the following details for year ended 31.03.2024:

Particulars	₹
Short term capital gain	1,40,000
Loss from speculative business	60,000
Long term capital gain on sale of land	30,000
Long term capital loss on sale of unlisted shares	1,00,000
Income from business of textile (after allowing current year depreciation)	50,000
Income from activity of owning and maintaining race horses	15,000
Income from salary (computed)	1,00,000
Loss from house property	40,000

Following are the brought forward losses:

- Losses from activity of owning and maintaining race horses-pertaining to A.Y.2021-22 - ₹ 25,000.
- Brought forward loss from business of textile ₹ 60,000 - Loss pertains to A.Y. 2016-17.

Compute gross total income of Mr. Batra for the Assessment Year 2024-25, assuming that he has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A). Also determine the losses eligible for carry forward to the A.Y. 2025-26.

ANSWER

Computation of Gross Total Income of Mr. Batra for the A.Y.2024-25

Particulars	₹	₹
Salaries	1,00,000	
Less: Current year loss from house property	(40,000)	60,000
[Since Mr. Batra has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A)]		

Profit and gains of business or profession		
Income from textile business	50,000	
Less: Loss of ₹ 60,000 from textile business b/f from A.Y. 2016-17 set-off to the extent of ₹ 50,000	50,000	NIL
Income from the activity of owning and maintaining race horses		
Less: Loss of ₹ 25,000 from activity of owning and maintaining race horses b/f from A.Y. 2021-22 setoff to the extent of ₹ 15,000	15,000	
Balance loss of ₹ 10,000 to be carried forward to A.Y. 2025-26 [See Note 2]	15,000	NIL
Capital Gain		
Short term capital gain		1,40,000
Long term capital gain on sale of land	30,000	
Less: Long term capital loss of ₹ 1,00,000 on sale of unlisted shares set-off to the extent of ₹ 30,000	30,000	NIL
Balance loss of ₹ 70,000 to be carried forward to A.Y. 2025-26 [See Note 3]		
Gross Total Income		2,00,000

Losses to be carried forward to A.Y. 2025-26

Particulars	₹
Current year loss from speculative business [See Note-4]	60,000
Current year long term capital loss on sale of unlisted shares	70,000
Loss from activity of owning and maintaining of race horse pertaining to A.Y.2021-22	10,000

Notes:-

- As per section 72(3), business loss can be carried forward for a maximum of eight assessment years immediately succeeding the assessment year for which the loss was first computed. Since the eight-year period for carry forward of business loss of A.Y. 2016-17 expired in the A.Y. 2024-25, the balance unabsorbed business loss of ₹ 10,000 cannot be carried forward to A.Y. 2025-26.
- As per section 74A(3), the loss incurred on maintenance of race horses cannot be set-off against income from any source other than the activity of owning and maintaining race horses. Such loss can be carried forward for a maximum period of 4 assessment years.
- Long-term capital loss on sale of unlisted shares can be set-off against long-term capital gain on sale of land. The balance loss of ₹ 70,000 cannot be set-off against short term capital gain or against any other head of income. The same has to be carried forward for set-off against long-term capital gain of the subsequent assessment year. Such long-term capital loss can be carried forward for a maximum of eight assessment years.
- Loss from speculation business cannot be set-off against any income other than profit and gains of another speculation business. Such loss can, however, be carried forward for a maximum of four years as per section 73(4) to be set-off against income from speculation business.

Question - 7

Mr. Garg, a resident individual, furnishes the following particulars of his income and other details for the P.Y. 2023-24.

Particulars	₹
(1) Income from Salary (computed)	15,000
(2) Income from business	66,000
(3) Long term capital gain on sale of land	10,800

(4)	Loss on maintenance of race horses	15,000
(5)	Loss from gambling	9,100

The other details of unabsorbed depreciation and brought forward losses pertaining to A.Y.2023-24 are as follows:

Particulars		₹
(1)	Unabsorbed depreciation	11,000
(2)	Loss from Speculative business	22,000
(3)	Short term capital loss	9,800

Compute the Gross total income of Mr. Garg for the A.Y. 2024-25 and the amount of loss, if any that can be carried forward or not.

ANSWER

Computation of Gross Total Income of Mr. Garg for the A.Y.2024-25

Particulars		₹	₹
(i)	Income from salary		15,000
(ii)	Profits and gains of business or profession	66,000	
Less:	Unabsorbed depreciation brought forward from A.Y.2023-24 (Unabsorbed depreciation can be set-off against any head of income other than "salary")	11,000	55,000
(iii)	Capital gains		
	Long-term capital gain on sale of land	10,800	
Less:	Brought forward short-term capital loss [Short term capital loss can be set-off against both short-term capital gains and long-term capital gains as per section 74(1)]	9,800	1,000
Gross Total Income			71,000

Amount of loss to be carried forward to A.Y.2025-26

Particulars		₹
(1)	Loss from speculative business [to be carried forward as per section 73] [Loss from a speculative business can be set off only against income from another speculative business. Since there is no income from speculative business in the current year, the entire loss of ₹ 22,000 brought forward from A.Y.2023-24 has to be carried forward to A.Y. 2025-26 for set-off against speculative business income of that year. It may be noted that speculative business loss can be carried forward for a maximum of four years as per section 73(4), i.e., upto A.Y.2027-28]	22,000
(2)	Loss on maintenance of race horses [to be carried forward as per section 74A] [As per section 74A(3), the loss incurred in the activity of owning and maintaining race horses in any assessment year cannot be set-off against income from any other source other than the activity of owning and maintaining race horses. Such loss can be carried forward for a maximum of four assessment years i.e., upto A.Y.2028-29]	15,000
(3)	Loss from gambling can neither be set-off nor be carried forward.	

Question - 8

The following are the details relating to Mr. Srivatsan, a resident Indian, aged 57, relating to the year ended 31.3.2024:

Particulars	Amount (₹)
Income from salaries (computed)	2,20,000
Loss from house property	1,90,000
Loss from cloth business	2,40,000
Income from speculation business	30,000
Loss from specified business covered by section 35AD	20,000
Long-term capital gains from sale of urban land	2,50,000
Loss from card games	32,000
Income from betting (Gross)	45,000
Life Insurance Premium paid (10% of the capital sum assured)	45,000

Compute the total income and show the items eligible for carry forward, assuming that he has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A).

ANSWER

Computation of total income of Mr. Srivatsan for the A.Y.2024-25

Particulars	₹	₹
Salaries		
Income from salaries	2,20,000	
Less: Loss from house property since Mr. Srivatsan has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A)	1,90,000	30,000
Profits and gains of business or profession		
Income from speculation business	30,000	
Less: Loss from cloth business of ₹ 2,40,000 set off to the extent of ₹ 30,000	30,000	Nil
Capital gains		
Long-term capital gains from sale of urban land	2,50,000	
Less: Set-off of balance loss of ₹ 2,10,000 from cloth business	2,10,000	40,000
Income from other sources		
Income from betting		45,000
Gross Total Income		1,15,000
Less: Deduction under section 80C (life insurance premium paid) [See Note (iv) below]		30,000
Total income		85,000

Losses to be carried forward:

Particulars	₹
1. Loss from cloth business (₹ 2,40,000 – ₹ 30,000 – ₹ 2,10,000)	Nil
2. Loss from specified business covered by section 35AD	20,000

Notes:

- (i) Loss from specified business covered by section 35AD can be set-off only against profits and gains of any other specified business. Therefore, such loss cannot be set off against any other income. The unabsorbed loss has to be carried forward for set-off against profits and gains of any specified business in the following year. Mr. Srivatsan is entitled to deduction u/s 35AD, since he has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A).

Therefore, he can carry forward loss of ₹ 20,000 from specified business referred u/s 35AD indefinitely for set off against profits of any specified business.

- (ii) Business loss cannot be set off against salary income. However, the balance business loss of ₹ 2,10,000 (₹ 2,40,000 – ₹ 30,000 set-off against income from speculation business) can be set-off against long-term capital gains of ₹ 2,50,000 from sale of urban land. Consequently, the taxable long-term capital gains would be ₹ 40,000.
- (iii) Loss from card games can neither be set off against any other income, nor can be carried forward.
- (iv) For providing deduction under Chapter VI-A, gross total income has to be reduced by the amount of long-term capital gains and casual income. Therefore, the deduction under section 80C in respect of life insurance premium of ₹ 45,000 paid has to be restricted to ₹ 30,000 [i.e., Gross Total Income of ₹ 1,15,000 – ₹ 40,000 (LTCG) – ₹ 45,000 (Casual income)]. Mr. Srivatsan is entitled to deduction u/s 80C, since he has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A).
- (v) Income from betting is chargeable at a flat rate of 30% under section 115BB and no expenditure or allowance can be allowed as deduction from such income, nor can any loss be set-off against such income.



DEDUCTIONS FROM GROSS TOTAL INCOME

Question - 1

An individual assessee, resident in India, has made the following deposit//payment during the previous year 2023-24:

Particulars	₹
Contribution to the public provident fund	1,50,000
Insurance premium paid on the life of the spouse (policy taken on 1.4.2018) (Assured value ₹ 2,00,000)	25,000

What is the deduction allowable under section 80C for A.Y.2024-25 if the assessee has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A)?

ANSWER

Computation of deduction under section 80C for A.Y.2024-25

Particulars	₹
Deposit in public provident fund	1,50,000
Insurance premium paid on the life of the spouse (Maximum 10% of the assured value ₹ 2,00,000, as the policy is taken after 31.3.2012)	20,000
Total	1,70,000
However, the maximum permissible deduction u/s 80C is restricted to	1,50,000

Question - 2

The gross total income of Mr. X for the A.Y. 2024-25 is ₹ 8,00,000. He has made the following investments/payment during the F.Y.2023-24 –

Particulars	₹
(1) Contribution to PPF	1,10,000
(2) Payment of tuition fees to Apeejay School, New Delhi, for education of his son studying in Class XI	45,000
(3) Repayment of housing loan taken from Standard Chartered Bank	25,000
(4) Contribution to approved pension fund of LIC	1,05,000

Compute the eligible deduction under Chapter VI-A for the A.Y.2024-25 if Mr. X exercises the option of shifting out of the default tax regime provided under section 115BAC(1A).

ANSWER

Computation of deduction under Chapter VI-A for the A.Y.2024-25

Particulars	₹
Deduction under section 80C	
– Contribution to PPF	1,10,000

– Payment of tuition fees to Apeejay School, New Delhi, for education of his son studying in Class XI	45,000
– Repayment of housing loan	25,000
	1,80,000
Restricted to ₹ 1,50,000, being the maximum permissible deduction u/s 80C	1,50,000
Deduction under section 80CCC	
– Contribution to approved pension fund of LIC	1,05,000
	2,55,000
As per section 80CCE, the aggregate deduction under section 80C, 80CCC and 80CCD(1) has to be restricted to ₹ 1,50,000	
Deduction allowable under Chapter VIA for the A.Y. 2024-25	1,50,000

Question - 3

Mr. A, aged 40 years, paid medical insurance premium of ₹ 20,000 during the P.Y. 2023-24 to insure his health as well as the health of his spouse. He also paid medical insurance premium of ₹ 47,000 during the year to insure the health of his father, aged 63 years, who is not dependent on him. He contributed ₹ 3,600 to Central Government Health Scheme during the year. He has incurred ₹ 3,000 in cash on preventive health check-up of himself and his spouse and ₹ 4,000 by cheque on preventive health check-up of his father. Compute the deduction allowable under section 80D for the A.Y. 2024-25 if Mr. A has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A).

ANSWER

Deduction allowable under section 80D for the A.Y.2024-25

	Particulars	Actual Payment (₹)	Maximum deduction allowable (₹)
A.	Premium paid and medical expenditure incurred for self and spouse		
(i)	Medical insurance premium paid for self and spouse	20,000	20,000
(ii)	Contribution to CGHS	3,600	3,600
(iii)	Exp. On preventive health check-up of self & spouse	3,000	1,400
		26,600	25,000
B.	Premium paid or medical expenditure incurred for father, who is a senior citizen		
(i)	Mediclaime premium paid for father, who is over 60 years of age	47,000	47,000
(ii)	Expenditure on preventive health check-up of father	4,000	3,000
		51,000	50,000
	Total deduction under section 80D (₹ 25,000 + ₹ 50,000)		75,000

Notes:

- The total deduction under A. (i), (ii) and (iii) above should not exceed ₹ 25,000. Therefore, the expenditure on preventive health check-up for self and spouse would be restricted to ₹ 1,400, being (₹ 25,000 – ₹ 20,000 – ₹ 3,600).
- The total deduction under B. (i) and (ii) above should not exceed ₹ 50,000. Therefore, the expenditure on preventive health check-up for father would be restricted to ₹ 3,000, being (₹ 50,000 – ₹ 47,000).

- (3) In this case, the total deduction allowed on account of expenditure on preventive health check-up of self, spouse and father is ₹ 4,400 (i.e., ₹ 1,400 + ₹ 3,000), which is within the maximum permissible limit of ₹ 5,000.

Question - 4

Mr. Ganesh, a businessman, whose total income (before allowing deduction under section 80GG) for A.Y.2024-25 is ₹ 4,60,000, paid house rent at ₹ 12,000 p.m. in respect of residential accommodation occupied by him at Mumbai. Compute the deduction allowable to him under section 80GG for A.Y.2024-25 if he has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A).

ANSWER

The deduction under section 80GG will be computed as follows:

- (i) Actual rent paid less 10% of total income
 $\text{₹ } 1,44,000 (-) \frac{(10 \times 4,60,000)}{100} = \text{₹ } 98,000 \text{ (A)}$
- (ii) 25% of total income = $\frac{25 \times 4,60,000}{100} = \text{₹ } 1,15,000 \text{ (B)}$
- (iii) Amount calculated at ₹ 5,000 p.m. = ₹ 60,000 (C)]

Deduction allowable u/s 80GG [least of (i), (ii) and (iii)] = ₹ 60,000

Question - 5

Mr. Aakash earned royalty of ₹ 2,88,000 from a foreign country for a book authored by him, being a work of literary nature. The rate of royalty is 18% of value of books. The expenditure incurred by him for earning this royalty was ₹ 40,000. The amount remitted to India till 30th September, 2024 is ₹ 2,30,000. The remaining amount was not remitted till 31st March, 2025. Compute the amount includible in the gross total income of Mr. Aakash and the amount of deduction which he will be eligible for under section 80QQB if he has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A).

ANSWER

The net royalty of ₹ 2,48,000 (i.e., royalty of ₹ 2,88,000 less ₹ 40,000, being expenditure to earn such income) is includible in gross total income. Deduction u/s 80QQB would be ₹ 1,90,000 as calculated hereunder –

Particulars	₹
Royalty ₹ 2,88,000 × 15/18 = ₹ 2,40,000	
Restricted to	
Amount brought into India in convertible foreign exchange within the prescribed time	2,30,000
Less: Expenses already allowed as deduction while computing royalty income	40,000
Deduction u/s 80QQB	1,90,000

Question - 6

For the A.Y. 2024-25, the Gross total income of Mr. Chaturvedi, a resident in India, was ₹ 8,18,240 which includes long-term capital gain of ₹ 2,45,000 taxable under section 112 and Short-term capital gain of ₹ 58,000. The Gross total income also includes interest income of ₹ 12,000 from savings bank deposits with banks and ₹ 40,000 interest on fixed deposits with banks. Mr. Chaturvedi has invested in PPF ₹ 1,20,000 and also paid a medical insurance premium ₹ 51,000. Mr. Chaturvedi also contributed ₹ 50,000 to Public Charitable Trust eligible for deduction under section 80G by way of an account payee cheque. Compute the total income and tax thereon of Mr. Chaturvedi, who is 70 years old as on 31.3.2024, in a tax efficient manner.

ANSWER

Computation of total income and tax liability of Mr. Chaturvedi for the A.Y.
2024-25 under default tax regime

Particulars	₹
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Gross total income incl. long term capital gain	8,18,240
Less: Deductions under Chapter VI-A	-
No deduction would be available under default tax regime u/s 115BAC	
Total income	8,18,240
Tax on total income	
LTCC ₹ 2,45,000 × 20%	49,000
Balance total income ₹ 5,73,240	13,662
	62,662
Add: Health and Education cess @ 4%	2,506
Total tax liability	65,168
Total tax liability (Rounded off)	65,170

**Computation of total income and tax liability of Mr. Chaturvedi for the A.Y.
2024-25 under the optional tax regime
(i.e., the normal provisions of the Act)**

Particulars	₹	₹
Gross total income incl. long term capital gain		8,18,240
Less: Long term capital gain		2,45,000
		5,73,240
Less: Deductions under Chapter VI-A		
Under section 80C in respect of PPF deposit	1,20,000	
Under section 80D (it is assumed that premium of ₹ 51,000 is paid by otherwise than by cash. The deduction would be restricted to ₹ 50,000, since Mr. Chaturvedi is a senior citizen)	50,000	
Under section 80G (See Notes 1 & 2 below)	17,662	
Under section 80TTB (See Note 3 below)	50,000	2,37,662
Total income (excluding long term capital gains)		3,35,578
Total income (including long term capital gains)		5,80,578
Total income (rounded off)		5,80,580
Tax on total income (including long-term capital gains of ₹ 2,45,000)		
LTCC ₹ 2,45,000 × 20%		49,000
Balance total income ₹ 3,35,580 (See Note 4 below)		1,779
		50,779
Add: Health and Education cess @4%		2,031
Total tax liability		52,810

Since the tax liability is lower under the optional tax regime (i.e., normal provisions of the Act) as compared to the default tax regime, Mr. Chaturvedi should exercise the option of shifting out of the default tax regime provided under section 115BAC(1A).

Notes:

1. Computation of deduction under section 80G:

Particulars	₹
Gross total income (excluding long term capital gains)	5,73,240
Less: Deduction under section 80C, 80D & 80TTB	2,20,000
	3,53,24
10% of the above	35,324
Contribution made	50,000
Lower of the two eligible for deduction under section	35,324
Deduction under section 80G – 50% of ₹ 35,324	17,662

- Deduction under section 80G is allowed only if amount is paid by any mode other than cash, in case of amount exceeding ₹ 2,000. Therefore, the contribution made to public charitable trust is eligible for deduction since it is made by way of an account payee cheque.
- Deduction of upto ₹ 50,000 under section 80TTB is allowed to a senior citizen if gross total income includes interest income on bank deposits, both fixed deposits and savings account.
- Mr. Chaturvedi, being a senior citizen is eligible for a higher basic exemption of ₹ 3,00,000.

Question - 7

Compute the eligible deduction under Chapter VI-A for the A.Y. 2024-25 of Ms. Roma, aged 40 years, who has a gross total income of ₹ 15,00,000 for the A.Y. 2024-25 and has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A). She provides the following information about her investments/payments during the P.Y. 2023-24:

Sl. No.	Particulars	Amount (₹)
1.	Life Insurance premium paid (policy taken on 31.03.2012 and sum assured is ₹ 4,40,000)	35,000
2.	Public Provident Fund contribution	1,50,000
3.	Repayment of housing loans to Bhartiya Mahila Bank, Bangalore	20,000
4.	Payment to L.I.C. Pension Fund	1,40,000
5.	Mediclaime Policy taken for self, wife and dependent children, premium paid by cheque	30,000
6.	Medical Insurance premium paid by cheque for parents (Senior Citizens)	52,000

ANSWER

Computation of eligible deduction under Chapter VI-A of Ms. Roma for A.Y. 2024-25

Particulars	₹	₹
Deduction under section 80C		
Life insurance premium paid ₹ 35,000 (allowed in full since the same is within the limit of 20% of the sum assured, the policy being taken before 1.4.2012)	35,000	
Public Provident Fund	1,50,000	
Repayment of housing loan to Bhartiya Mahila Bank, Bangalore	20,000	
	2,05,000	

Restricted to a maximum of ₹ 1,50,000	1,50,000	
Deduction under section 80CCC for payment towards LIC pension fund	1,40,000	
As per section 80CCE, aggregate deduction under, inter alia, section 80C and 80CCC, is restricted to	2,90,000	1,50,000
Deduction under section 80D		
Payment of medical insurance premium of ₹ 30,000 towards medical policy taken for self, wife and dependent children restricted to	25,000	
Medical insurance premium paid ₹ 52,000 for parents, being senior citizens, restricted to	50,000	75,000
Eligible deduction under Chapter VI-A		2,25,000

Question - 8

Mr. Rudra has one unit at Special Economic Zone (SEZ) and other unit at Domestic Tariff Area (DTA). He provides the following details for the previous year 2023-24.

Particulars	Mr. Rudra (₹)	Unit in DTA (₹)
Total Sales	6,00,00,000	2,00,00,000
Export Sales	5,60,00,000	1,60,00,000
Net Profit	80,00,000	20,00,000

Proceeds from export sales in SEZ received in convertible foreign exchange by 30.9.2024 is ₹ 3,00,00,000. He has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A). Calculate the eligible deduction under section 10AA of the Income-tax Act, 1961, for the Assessment Year 2024-25, in the following situations:

- If both the units were set up and start manufacturing from 22-05-2015.
- If both the units were set up and start manufacturing from 14-05-2019.

ANSWER

Computation of deduction u/s 10AA of the Income-tax Act, 1961

As per section 10AA, in computing the total income of Mr. Rudra from his unit located in a Special Economic Zone (SEZ), which begins to manufacture or produce articles or things or provide any services during the previous year relevant to the assessment year commencing on or after 01.04.2006 but before 01.04.2021, there shall be allowed a deduction of 100% of the profit and gains derived from export of such articles or things or from services for a period of five consecutive assessment years beginning with the assessment year relevant to the previous year in which the Unit begins to manufacture or produce such articles or things or provide services, as the case may be, and 50% of such profits for further five assessment years.

Since Mr. Rudra has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A), he would be eligible for deduction u/s 10AA.

The deduction u/s 10AA would be available only if Mr. Rudra furnishes report of chartered accountant before the date specified in section 44AB and files return of income on or before due date u/s 139(1).

Computation of eligible deduction under section 10AA:

- If Unit in SEZ was set up and began manufacturing from 22-05-2015:**

Since A.Y. 2024-25 is the 9th assessment year from A.Y. 2016-17, relevant to the previous year 2015-16, in which the SEZ unit began manufacturing of articles or things, it shall be eligible for deduction of 50% of the profits derived from export of such articles or things, assuming all the other conditions specified in section 10AA are fulfilled.

$$= \text{Profit of Unit in SEZ} \times \text{Export turnover of Unit in SEZ} \times 50\%$$

Tota turnover of Unit in SEZ

$$= 60 \text{ lakhs} \times \frac{300 \text{ lakhs}}{400 \text{ lakhs}} \times 50\% = ₹ 22.50 \text{ lakhs}$$

Export turnover of Unit in SEZ is the export sales in SEZ received in convertible foreign exchange by 30.9.2024 which is ₹ 3,00,00,000.

(ii) **If Unit in SEZ was set up and began manufacturing from 14-05-2019:**

Since A.Y. 2024-25 is the 5th assessment year from A.Y. 2020-21, relevant to the previous year 2019-20, in which the SEZ unit began manufacturing of articles or things, it shall be eligible for deduction of 100% of the profits derived from export of such articles or things, assuming all the other conditions specified in section 10AA are fulfilled.

$$\begin{aligned} &= \text{Profits of Unit in SEZ} \times \frac{\text{Export turnover of Unit in SEZ}}{\text{Total turnover of Unit in SEZ}} \times 100\% \\ &= 60 \text{ lakhs} \times \frac{300 \text{ Lakhs}}{400 \text{ Lakhs}} \times 100\% = ₹ 45 \text{ lakhs} \end{aligned}$$

The unit set up in Domestic Tariff Area is not eligible for the benefit of deduction u/s 10AA in respect of its export profits, in both the situations.

Working Note:

Computation of total sales, export sales and net profit of unit in SEZ

Particulars	Rudra Ltd. (₹)	Unit in DTA (₹)	Unit in SEZ (₹)
Total Sales	6,00,00,000	2,00,00,000	4,00,00,000
Export Sales	4,60,00,000	1,60,00,000	3,00,00,000
Net Profit	80,00,000	20,00,000	60,00,000

CA DREAMERS
THE AVENGER

ADVANCE TAX, TAX DEDUCTION AT SOURCE AND TAX COLLECTION AT SOURCE

Question - 1

Mr. A, the employer, pays gross salary including allowances and monetary perquisites amounting to ₹ 7,30,000 to his General Manager. Besides, the employer provides non-monetary perquisites to him whose value is estimated at ₹ 1,20,000. The General Manager is exercising the option to shift out of the default tax regime and pay tax under the optional tax regime as per the normal provisions of the Act. What is the tax implication in the hands of Mr. A, the employer and General Manager, the employee?

ANSWER

Particulars	₹
Gross salary, allowances and monetary perquisites	7,30,000
Non-Monetary perquisites	1,20,000
	8,50,000
Less: Standard deduction under section 16(ia)	50,000
	8,00,000
Tax Liability	75,400
Average rate of tax ($\frac{₹ 75,400}{₹ 8,00,000} \times 100$)	9.425%

Mr. A can deduct ₹ 75,400 at source from the salary of the General Manager at the time of payment.

Alternatively, Mr. A can pay tax on non-monetary perquisites as under –

Tax on non-monetary perquisites = 9.425% of ₹ 1,20,000 = ₹ 11,310

Balance to be deducted from salary = ₹ 64,090

If Mr. A pays tax of ₹ 11,310 on non-monetary perquisites, the same is not a deductible expenditure as per section 40(a). The amount of tax paid towards non-monetary perquisite by the employer, however, is not chargeable to tax in the hands of the employee as per section 10(10CC).

Question - 2

XYZ Ltd. pays ₹ 50,000 per month as rent to the Mr. Kishore for a building in which one of its branches is situated. Discuss whether TDS provisions under section 194-I are attracted.

ANSWER

Section 194-I, which governs the deduction of tax at source on payment of rent, exceeding ₹ 2,40,000 p.a., is applicable to all taxable entities except individuals and HUFs, whose total sales, gross receipts or turnover from the business or profession carried on by him does not exceed ₹ 1 crore in case of business and ₹ 50 lakhs in case of profession during the financial year immediately preceding financial year in which such rent was credited or paid, is liable to deduct tax at source.

Since the rent paid by XYZ Ltd. to Mr. Kishore exceeds ₹ 2,40,000, the provisions of section 194-I for deduction of tax at source attracted.

The rate applicable for deduction at source under section 194-I on rent paid is 10%, assuming that Mr. Kishore had furnished his PAN to XYZ Ltd.

Therefore, the amount of tax to be deducted at source

= ₹ 6,00,000 × 10% = ₹ 60,000

Question - 3

Mr. Gupta, a resident Indian, is in retail business and his turnover for F.Y.2022-23 was ₹ 12 crores. He regularly purchases goods from another resident, Mr. Agarwal, a wholesaler, and the aggregate payments during the F.Y.2023-24 was ₹ 95 lakh (₹ 20 lakh on 1.6.2023, ₹ 25 lakh on 12.8.2023, ₹ 22 lakh on 23.11.2023 and ₹ 28 lakh on 25.3.2024). Assume that the said amounts were credited to Mr. Agarwal's account in the books of Mr. Gupta on the same date. Mr. Agarwal's turnover for F.Y.2022-23 was ₹ 15 crores.

- (1) Based on the above facts, examine the TDS/TCS implications, if any, under the Income-tax Act, 1961.
- (2) Would your answer be different if Mr. Gupta's turnover for F.Y.2022-23 was ₹ 8 crores, all other facts remaining the same?
- (3) Would your answer to (1) and (2) change, if PAN has not been furnished by the buyer or seller, as required?

ANSWER

- (1) Since Mr. Gupta's turnover for F.Y.2022-23 exceeds 10 crores, and payments made by him to Mr. Agarwal, a resident seller exceed ₹ 50 lakhs in the P.Y.2023-24, he is liable to deduct tax@0.1% of ₹ 45 lakhs (being the sum exceeding ₹ 50 lakhs) in the following manner –

No tax is to be deducted u/s 194Q on the payments made on 1.6.2023 and 12.8.2023, since the aggregate payments till that date i.e. 45 lakhs, has not exceeded the threshold of ₹ 50 lakhs.

Tax of ₹ 1,700 (i.e., 0.1% of ₹ 17 lakhs) has to be deducted u/s 194Q from the payment/ credit of ₹ 22 lakh on 23.11.2023 [₹ 22 lakh – ₹ 5 lakhs, being the balance unexhausted threshold limit].

Tax of ₹ 2,800 (i.e., 0.1% of ₹ 28 lakhs) has to be deducted u/s 194Q from the payment/ credit of ₹ 28 lakhs on 25.3.2024.

Note – In this case, since both section 194Q and 206C(1H) applies, tax has to be deducted u/s 194Q.

- (2) If Mr. Gupta's turnover for the F.Y.2022-23 was only ₹ 8 crores, TDS provisions under section 194Q would not be attracted. However, TCS provisions under section 206C(1H) would be attracted in the hands of Mr. Agarwal, since his turnover exceeds ₹ 10 crores in the F.Y.2022-23 and his receipts from Mr. Gupta exceed ₹ 50 lakhs.

No tax is to be collected u/s 206C(1H) on 1.6.2023 and 12.8.2023, since the aggregate receipts till that date i.e. 45 lakhs, has not exceeded the threshold of ₹ 50 lakhs.

Tax of ₹ 1,700 (i.e., 0.1% of ₹ 17 lakhs) has to be collected u/s 206C(1H) on 23.11.2023 (₹ 22 lakh – ₹ 5 lakhs, being the balance unexhausted threshold limit).

Tax of ₹ 2,800 (i.e., 0.1% of ₹ 28 lakhs) has to be collected u/s 206C(1H) on 25.3.2024.

- (3) In case (1), if PAN is not furnished by Mr. Agarwal to Mr. Gupta, then, Mr. Gupta has to deduct tax@5%, instead of 0.1%. Accordingly, tax of ₹ 85,000 (i.e., 5% of ₹ 17 lakhs) and ₹ 1,40,000 (5% of ₹ 28 lakhs) has to be deducted by Mr. Gupta u/s 194Q on 23.11.2023 and 25.3.2024, respectively.

In case (2), if PAN is not furnished by Mr. Gupta to Mr. Agarwal, then, Mr. Agarwal has to collect tax@1% instead of 0.1%. Accordingly, tax of ₹ 17,000 (i.e., 1% of ₹ 17 lakhs) and ₹ 28,000 (1% of ₹ 28 lakhs) has to be collected by Mr. Agarwal u/s 206C(1H) on 23.11.2023 and 25.3.2024, respectively.

Question - 3

Ashwin doing manufacture and wholesale trade furnishes you the following information:

Total turnover for the financial year –

Particulars	₹
2022 -23	1,05,00,000
2023-24	95,00,000

Examine whether tax deduction at source provisions are attracted for the below said expenses incurred during the financial year 2023-24:

Particulars	₹
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Interest paid to UCO Bank on 15.8.2023	41,000
Contract payment to Raj (2 contracts of ₹ 12,000 each) on 12.12.2023	24,000
Shop rent paid (one payee) on 21.1.2024	2,50,000
Commission paid to Balu on 15.3.2024	7,000

ANSWER

As the turnover of business carried on by Ashwin for F.Y. 2022-23, has exceeded ₹ 1 crore, he has to comply with the tax deduction provisions during the financial year 2023-24, subject to, the exemptions provided for under the relevant sections for applicability of TDS provisions.

Interest paid to UCO Bank

TDS under section 194A is not attracted in respect of interest paid to a banking company.

Contract payment of ₹ 24,000 to Raj for 2 contracts of ₹ 12,000 each

TDS provisions under section 194C would not be attracted if the amount paid to a contractor does not exceed ₹ 30,000 in a single payment or ₹ 1,00,000 in the aggregate during the financial year. Therefore, TDS provisions under section 194C are not attracted in this case.

Shop Rent paid to one payee – Tax has to be deducted @10% under section 194-I as the annual rental payment exceeds ₹ 2,40,000.

Commission paid to Balu – No, tax has to be deducted under section 194H in this case as the commission does not exceed ₹ 15,000.

Question - 4

Compute the amount of tax deduction at source on the following payments made by M/s S Ltd. during the financial year 2023-24 as per the provisions of the Income-tax Act, 1961.

S. No.	Date	Nature of Payment
(i)	1-10-2023	Payment of ₹ 2,00,000 to Mr. R, a transporter who owns 8 goods carriages throughout the previous year and furnishes a declaration to this effect along with his PAN.
(ii)	1-11-2023	Payment of fee for technical services of ₹ 25,000 and Royalty of ₹ 20,000 to Mr. Shyam who is having PAN.
(iii)	30-06-2023	Payment of ₹ 25,000 to M/s X Ltd. for repair of building.
(iv)	01-01-2024	Payment of ₹ 2,00,000 made to Mr. A for purchase of diaries made according to specifications of M/s S Ltd. However, no material was supplied for such diaries to Mr. A by M/s S Ltd or its associates.
(v)	01-01-2024	Payment of ₹ 2,30,000 made to Mr. Bharat for compulsory acquisition of his house as per law of the State Government.
(vi)	01-02-2024	Payment of commission of ₹ 14,000 to Mr. Y.

ANSWER

- (i) No tax is required to be deducted at source under section 194C by M/s S Ltd. on payment to transporter Mr. R, since he satisfies the following conditions:
- (1) He owns ten or less goods carriages at any time during the previous year.
 - (2) He is engaged in the business of plying, hiring or leasing goods carriages;
 - (3) He has furnished a declaration to this effect along with his PAN.
- (ii) As per section 194J, liability to deduct tax is attracted only in case the payment made as fees for technical services and royalty, individually, exceeds ₹ 30,000 during the financial year. In the given case, since, the individual payments for

fee of technical services i.e., ₹ 25,000 and royalty ₹ 20,000 is less than ₹ 30,000 each, there is no liability to deduct tax at source. It is assumed that no other payment towards fees for technical services and royalty were made during the year to Mr. Shyam.

- (iii) Provisions of section 194C are not attracted in this case, since the payment for repair of building on 30.06.2023 to M/s X Ltd. is less than the threshold limit of ₹ 30,000.
- (iv) According to section 194C, the definition of “work” does not include the manufacturing or supply of product according to the specification by customer in case the material is purchased from a person other than the customer or associate of such customer.

Therefore, there is no liability to deduct tax at source in respect of payment of ₹ 2,00,000 to Mr. A, since the contract is a contract for ‘sale’.

- (v) As per section 194LA, any person responsible for payment to a resident, any sum in the nature of compensation or consideration on account of compulsory acquisition under any law, of any immovable property, is responsible for deduction of tax at source if such payment or the aggregate amount of such payments to the resident during the financial year exceeds ₹ 2,50,000.

In the given case, no liability to deduct tax at source is attracted as the payment made does not exceed ₹ 2,50,000.

- (vi) As per section 194H, tax is deductible at source if the amount of commission or brokerage or the aggregate of the amounts of commission or brokerage credited or paid during the financial year exceeds ₹ 15,000.

Since the commission payment made to Mr. Y does not exceed ₹ 15,000, the provisions of section 194H are not attracted.

Question - 5

Examine the applicability of tax deduction at source provisions, the rate and amount of tax deduction in the following cases for the F.Y. 2023-24:

- (1) Payment made by a company to Mr. Ram, sub-contractor, ₹ 3,00,000 with outstanding balance of ₹ 1,20,000 shown in the books as on 31.3.2024.
- (2) Winning from horse race ₹ 1,50,000 paid to Mr. Shyam, an Indian resident.
- (3) ₹ 2,00,000 paid to Mr. A, a resident individual, on 22-02-2024 by the State of Uttar Pradesh on compulsory acquisition of his urban land.

ANSWER

- (1) Provisions of tax deduction at source under section 194C are attracted in respect of payment by a company to a sub-contractor. Under section 194C, tax is deductible at the time of credit or payment, whichever is earlier @ 1% in case the payment is made to an individual.

Since the aggregate amount credited or paid during the year is ₹ 4,20,000, tax is deductible @ 1% on ₹ 4,20,000.

Tax to be deducted = ₹ 4,20,000 × 1% = ₹ 4,200

- (2) Under section 194BB, tax is to be deducted at source, if the winnings from horse races exceed ₹ 10,000. The rate of deduction of tax at source is 30%.

Hence, tax to be deducted = ₹ 1,50,000 × 30% = ₹ 45,000.

- (3) As per section 194LA, any person responsible for payment to a resident, any sum in the nature of compensation or consideration on account of compulsory acquisition under any law, of any immovable property, is required to deduct tax at source, if such payment or the aggregate amount of such payments to the resident during the financial year exceeds ₹ 2,50,000.

In the give case, there is no liability tod deduct tax at source as the payment made to Mr. A does not exceed ₹ 2,50,000.

Question - 6

Briefly discuss the provisions relating to payment of advance tax on income arising from capital gains and casual income.

ANSWER

The proviso to section 234C contains the provisions for payment of advance tax in case of capital gains and casual income.

Advance tax is payable by an assessee on his/its total income, which includes capital gains and casual income like income from lotteries, crossword puzzles, etc.

Since it is not possible for the assessee to estimate his capital gains, or income from lotteries etc., it has been provided that if any such income arises after the due date for any instalment, then, the entire amount of the tax payable (after considering tax deducted at source) on such capital gains or casual income should be paid in the remaining instalments of advance tax, which are due.

Where no such instalment is due, the entire tax should be paid by 31st March of the relevant financial year.

No interest liability on late payment would arise if the entire tax liability is so paid.

Note: In case of casual income the entire tax liability is fully deductible at source @30% under section 194B, 194BA and 194BB. Therefore, advance tax liability would arise only if the surcharge, if any, and health and education cess@4% in respect thereof, along with tax liability in respect of other income, if any, is 10,000 or more.



PROVISIONS FOR FILING RETURN OF INCOME AND SELF ASSESSMENT

Question - 1

Paras aged 55 years is a resident of India. During the F.Y. 2023-24, interest of ₹ 2,88,000 was credited to his Non-resident (External) Account with SBI. ₹ 30,000, being interest on fixed deposit with SBI, was credited to his saving bank account during this period. He also earned ₹ 3,000 as interest on this saving account. Is Paras required to file return of income?

What will be your answer, if he has incurred ₹ 3 lakhs as travel expenditure of self and spouse to US to stay with his married daughter for some time?

ANSWER

An individual is required to furnish a return of income under section 139(1) if his total income, before giving effect to the deductions under Chapter VI-A or exemption under section or section 54/54B/54D/54EC or 54F, exceeds the maximum amount not chargeable to tax i.e. ₹ 3,00,000 under default tax regime u/s 115BAC and ₹ 2,50,000 if exercises the option of shifting out of the default tax regime provided under section 115BAC(1A) (for A.Y. 2024-25).

Computation of total income of Mr. Paras for A.Y.2024-25

Particulars	₹
Income from other sources	
Interest earned from Non-resident (External) Account ₹ 2,88,000 [Exempt under section 10(4)(ii), assuming that Mr. Paras has been permitted by RBI to maintain the aforesaid account]	NIL
Interest on fixed deposit with SBI	30,000
Interest on savings bank account	3,000
Gross Total Income	33,000
Less: Deduction under Chapter VI-A (not available under the default tax regime under section 115BAC)	--
Total Income	33,000

In case he exercises the option of shifting out of the default tax regime provided under section 115BAC(1A), he would be eligible for deduction of ₹ 3,000 under section 80TTA. Accordingly, his total income would be ₹ 30,000. However, in both regimes, total income of ₹ 33,000, before giving effect to deductions under Chapter VI-A, would be considered.

Since the total income of Mr. Paras for A.Y.2024-25, before giving effect to the deductions under Chapter VI-A, is less than the basic exemption limit in both regimes, he is not required to file return of income for A.Y.2024-25.

Note: In the above solution, interest of ₹ 2,88,000 earned from Non-resident (External) account has been taken as exempt on the assumption that Mr. Paras, a resident, has been permitted by RBI to maintain the aforesaid account. However, in case he has not been so permitted, the said interest would be taxable. In such a case, his total income, before giving effect to, inter alia, the deductions under would be ₹ 3,21,000 (₹ 30,000 + ₹ 2,88,000 + ₹ 3,000), which is higher than the basic exemption limit of ₹ 3,00,000 or ₹ 2,50,000, as the case may be. Consequently, he would be required to file return of income for A.Y.2024-25.

If he has incurred expenditure of ₹ 3 lakhs on foreign travel of self and spouse, he has to mandatorily file his return of income on or before the due date under section 139(1), even if his income is less than basic exemption limit.

Question - 2

Mrs. Hetal, an individual engaged in the business of Beauty Parlour, has got her books of account for the financial year ended on 31st March, 2024 audited under section 44AB. Her total income for the A.Y. 2024-25 is ₹ 6,35,000. She wants to furnish her return of income for A.Y. 2024-25 through a tax return preparer. Can she do so?

ANSWER

Section 139B provides a scheme for submission of return of income for any assessment year through a Tax Return Preparer. However, it is not applicable to persons whose books of account are required to be audited under section 44AB. Therefore, Mrs. Hetal cannot furnish her return of income for A.Y.2024-25 through a Tax Return Preparer.

Question - 3

State with reasons whether you agree or disagree with the following statements:

- (a) Return of income of Limited Liability Partnership (LLP) could be verified by any partner.
- (b) Time limit for filing return under section 139(1) in the case of Mr. A having total turnover of ₹ 160 lakhs (₹ 100 lakhs received in cash) for the year ended 31.03.2024 whether or not declaring presumptive income under section 44AD, is 31st October, 2024.

ANSWER

- (a) Disagree

The return of income of LLP should be verified by a designated partner.

Any other partner can verify the Return of Income of LIP only in the following cases: -

- (i) where for any unavoidable reason such designated partner is not able to verify the return, or,
- (ii) where there is no designated partner.

- (b) Disagree

In case Mr. A offers his business income as per the presumptive taxation provisions of section 44AD (₹ 11.60 lakhs or more), then, the due date under section 139(1) for filing of return of income for the year ended 31.03.2024, shall be 31st July, 2024.

In case, Mr. A wants to declare business income lower than ₹ 11.60 lakhs, he has to get his accounts audited under section 44AB, since his turnover exceeds ₹ 1 crore, in which case, the due date for filing return would be 31st October, 2024.

Question - 4

Mr. Vineet exercised the option of shifting out of the default tax regime provided under section 115BAC(1A) and submits his return of income under the optional tax regime (i.e., the normal provisions of the Act) on 12-09-2024 for A.Y 202425 consisting of income under the head "Salaries", "Income from house property" and bank interest. On 21-12-2024, he realized that he had not claimed deduction under section 80TTA in respect of his interest income on the Savings Bank Account. He wants to revise his return of income. Can he do so? Examine. Would your answer be different if he discovered this omission on 2103-2025?

ANSWER

Since Mr. Vineet has income only under the heads "Salaries", "Income from house property" and "Income from other sources", he does not fall under the category of a person whose accounts are required to be audited under the Income-tax Act, 1961 or any other law in force. Therefore, the due date of filing return for A.Y.2024-25 under section 139(1), in his case, is 31st July, 2024. Since Mr. Vineet had submitted his return only on 12.9.2024, the said return is a belated return under section 139(4).

As per section 139(5), a return furnished under section 139(1) or a belated return u/s 139(4) can be revised. Thus, a belated return under section 139(4) can also be revised. Therefore, Mr. Vineet can revise the return of income filed by him under section 139(4) in December 2024, to claim deduction under section 80TTA, since the time limit for filing a revised return is three months prior to the end of the relevant assessment year, which is 31.12.2024.

However, he cannot revise return had he discovered this omission only on 2103-2025, since it is beyond 31.12.2024.

Question - 5

Examine with reasons, whether the following statements are true or false, with regard to the provisions of the Income-tax Act, 1961:

- (i) The Assessing Officer has the power, inter alia, to allot PAN to any person by whom no tax is payable.
- (ii) Where the Karta of a HUF is absent from India, the return of income can be verified by any male member of the family.

ANSWER

- (i) **True:** Section 139A(2) provides that the Assessing Officer may, having regard to the nature of transactions as may be prescribed, also allot a PAN to any other person, whether any tax is payable by him or not, in the manner and in accordance with the procedure as may be prescribed.
- (ii) **False:** Section 140(b) provides that where the Karta of a HUF is absent from India, the return of income can be verified by any other adult member of the family; such member can be a male or female member.

Question - 6

Explain the term “Return of loss” under the Income-tax Act, 1961. Can any loss be carried forward even if return of loss has not been filed as required?

ANSWER

A return of loss is a return which shows certain losses. Section 80 provides that the losses specified therein cannot be carried forward, unless such losses are determined in pursuance of return filed under the provisions of section 139(3).

Section 139(3) states that to carry forward the losses specified therein, the return should be filed within the time specified in section 139(1).

Following losses are covered by section 139(3):

- Business loss to be carried forward under section 72(1),
- Speculation business loss to be carried forward under section 73(2),
- Loss from specified business to be carried forward under section 73A(2), in case the assessee has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A).
- Loss under the head “Capital Gains” to be carried forward under section 74(1); and
- Loss incurred in the activity of owning and maintaining race horses to be carried forward under section 74A(3)

However, loss from house property to be carried forward under section 71B and unabsorbed depreciation under section 32 can be carried forward even if return of loss has not been filed as required under section 139(3).

Question - 7

Mr. Aakash has undertaken certain transactions during the F.Y.2023-24, which are listed below. You are required to identify the transactions in respect of which quoting of PAN is mandatory in the related documents –

S. No.	Transaction
1.	Payment of life insurance premium of ₹ 45,000 in the F.Y.2023-24 by account payee cheque to LIC for insuring life of self and spouse
2.	Payment of ₹ 1,00,000 to a five-star hotel for stay for 5 days with family, out of which ₹ 60,000 was paid in cash
3.	Payment of ₹ 80,000 by ECS through bank account for acquiring the debentures of A Ltd., an Indian company
4.	Payment of ₹ 95,000 by account payee cheque to Thomas Cook for travel to Dubai for 3 days to visit relatives
5.	Applied to SBI for issue of credit card.

ANSWER

	Transaction	Is quoting of PAN mandatory in related documents?
1.	Payment of life insurance premium of ₹ 45,000 in the F.Y.2023-24 by account payee cheque to LIC for insuring life of self and spouse	No, since the amount paid does not exceed ₹ 50,000 in the F.Y.2023-24.
2.	Payment of ₹ 1,00,000 to a five-star hotel for stay for 5 days with family, out of which ₹ 60,000 was paid in cash	Yes, since the amount paid in cash exceeds ₹ 50,000
3.	Payment of ₹ 80,000, by ECS through bank account, for acquiring the debentures of A Ltd., an Indian company	Yes, since the amount paid for acquiring debentures exceeds ₹ 50,000. Mode of payment is not relevant in this case.
4.	Payment of ₹ 95,000 by account payee cheque to Thomas Cook for travel to Dubai for 3 days to visit relatives	No, since the amount was paid by account payee cheque, quoting of PAN is not mandatory even though the payment exceeds ₹ 50,000
5.	Applied to SBI for issue of credit card.	Yes, quoting of PAN is mandatory on making an application to a banking company for issue of credit card.



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