

M.K.G

CA EDUCATION

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INCOME TAX

(Volume – 1)

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Author

This Book is the result of combined efforts of
Chartered Accountants/ company executives /
other professionals / feedback of our thousands of students

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PAPER – 3 : TAXATION
(One paper – Three hours – 100 Marks)

SECTION A: INCOME TAX LAW (50 MARKS)

Objective:

- (a) To develop an understanding of the provisions of income-tax law
- (b) To acquire the ability to apply such provisions to solve problems and address application-oriented issues.

Contents:

1. Basic Concepts
 - (i) Income-tax law: An introduction
 - (ii) Significant concepts in income-tax law, including person, assessee, previous year, assessment year, income, agricultural income
 - (iii) Basis of Charge
 - (iv) Procedure for computation of total income and tax payable in case of individuals
2. Residential status and scope of total income
 - (i) Residential status
 - (ii) Scope of total income
3. Heads of income and the provisions governing computation of income under different heads
 - (i) Salaries
 - (ii) Income from house property
 - (iii) Profits and gains of business or profession
 - (iv) Capital gains
 - (v) Income from other sources
4. Provisions relating to clubbing of income, set-off or carry forward and setoff of losses, deductions from gross total income
5. Advance Tax, Tax deduction at source and tax collection at source
6. Provisions for filing return of income and self-assessment
7. Computation of total income and income-tax payable by an individual under the alternative tax regimes under the Income-tax Act, 1961 to optimise tax liability

Note: If any new legislation(s) are enacted in place of an existing legislation(s), the syllabus will accordingly include the corresponding provisions of such new legislation(s) in the place of the existing legislation(s) with effect from the date to be notified by the Institute. Similarly, if any existing legislation(s) on income tax law ceases to be in force, the syllabus will accordingly exclude such legislation(s) with effect from the date to be notified by the Institute.

Further, the specific inclusions/exclusions in any topic covered in the syllabus will be effected by way of Study Guidelines every year, if required. Specific inclusions/exclusions in a topic may also arise due to additions/deletions made every year by the Annual Finance Act.

SECTION B: GOODS AND SERVICES TAX (50 MARKS)**Objective:**

- (a) To develop an understanding of the provisions of goods and services tax law.
- (b) To acquire the ability to apply such provisions to address/solve issues in moderately complex scenarios.

Contents:

1. GST Laws: An introduction including Constitutional aspects
2. Levy and collection of CGST and IGST
 - (i) Application of CGST/IGST law
 - (ii) Concept of supply including composite and mixed supplies
 - (iii) Charge of tax including reverse charge
 - (iv) Exemption from tax
 - (v) Composition levy
3. Basic concepts of:
 - (i) Classification
 - (ii) Place of supply
 - (iii) Time of supply
 - (iv) Value of supply
 - (v) Input tax credit
4. Computation of GST liability
5. Registration
6. Tax invoice; Credit and Debit Notes; Electronic way bill
7. Accounts and Records
8. Returns
9. Payment of tax

Note – If any new legislation(s) is enacted in place of an existing legislation(s), the syllabus will accordingly include the corresponding provisions of such new legislation(s) in place of the existing legislation(s) with effect from the date to be notified by the Institute. Similarly, if any existing legislation ceases to have effect, the syllabus will accordingly exclude such legislation with effect from the date to be notified by the Institute. Students shall not be examined with reference to any particular State GST Law.

Consequential/corresponding amendments made in the provisions of the Goods and Services Tax laws covered in the syllabus of this paper which arise out of the amendments made in the provisions not covered in the syllabus will not form part of the syllabus. Further, the specific inclusions/exclusions in the various topics covered in the syllabus will be effected every year by way of Study Guidelines. The specific inclusions/exclusions may also arise due to additions/ deletions every year by the annual Finance Act.

ETI AGARWAL

ALL INDIA TOPPER OF CA-IPC (NOV-13)

ROLL NO. - 366539

MARKS IN TAXATION:89%
(HIGHEST MARKS IN TAXATION ALL OVER INDIA)
(AGGREGATE MARKS 79.71%)

(FEEDBACK)

A man for whom teaching is neither a business nor a profession, rather a passion for doing good, great and unique in the field of teaching is none other than MK Gupta Sir.

Sir's unmatched style of teaching coupled with his patience and calmness in dealing with students is simply excellent.

The structure of learning pattern, regular mock tests, motivational cash prizes and student friendly study material covering practical illustrations, past year questions and bare act.. all contributed to making this journey easy and building up the confidence needed for IPCC.

Moreover, the vast knowledge and experience of the faculty assisted in making the concepts crystal clear and handling each n every doubt of students.

The administration and management stands second to none.

MK GUPTA classes is a place which can change the word impossible 2 I M POSSIBLE. It made me a better person both personally n professionally.

I think 4 success 4 elements are necessary-desire, dedication, direction and discipline...and all the 4 i got from Sir..

THANK YOU so much Sir..

In the end i would just like to say MK GUPTA SIR NOT ONLY MAKES CA. HE MAKES HUMANS!!

ETI AGARWAL

AKSHAY JAIN

ALL INDIA TOPPER OF CA-IPC (NOV-13)

ROLL NO.- 368162

MARKS IN TAXATION : 87%

(SECOND HIGHEST MARKS IN TAXATION ALL OVER INDIA)

(AGGREGATE MARKS 79.71%)

(FEEDBACK)

Experience of those four months with M.K. GUPTA SIR was out of the world.

As a teacher, M.K. GUPTA SIR is just like a sea of knowledge & you get each and everything from very beginning to end from him.

Sir is really a nice person. He is very motivational and his words of motivation can influence anybody to work hard & make their parents proud.

M.K. GUPTA CA EDUCATION is the only place where the provisions of tax laws are combined with the practical knowledge. Study material provided is excellent and it contains numerous problems covering all aspects and such type of problems are not available anywhere. Sir is not giving any home work rather home work is done in the class itself and students are invited to solve the problem before the entire class.

Be honest towards your studies & Sir will show you the way of success. The way, Sir is making students ready for the professional world is praiseworthy. Exposure given by sir to face interview of Big four CA Firms is excellent.

The test Series conducted by the Sir in all the subjects of IPC is very nice Scheme to score such good marks and exam are conducted in the similar manner as it is conducted by ICAI.

I would like to express my gratitude to Sir because it was only his efforts that helped me reach this position.

Sir its your Success.

A Message to all : -

“COME & HAVE A TIME THAT YOU WILL CHERISH THROUGHOUT YOUR LIFE”.

AKSHAY JAIN

VIJENDER AGGARWAL
ALL INDIA TOPPER OF CA-IPCC (NOV-10)
ROLL NO. - 174639

MARKS IN TAXATION:92%
(HIGHEST MARKS IN TAXATION ALL OVER INDIA)
(AGGREGATE MARKS 83.71%)

(FEEDBACK)

A person who possesses such vast knowledge in the field of taxation, that we people can only dream of, is none other than M. K. Gupta Sir.

He possesses the rare ability to teach this procedural subject with utmost ease, enabling his students to grasp all the provisions without any confusion.

The quality of study material provided is such that a good study of it helped me score 92 marks. The variety and complexity of practical problems covered in the books are not available anywhere else.

One can find many places where taxation is being taught but it is hardly possible to find a better place where tax laws are combined with their practical applicability to ensure that all concepts are crystal clear.

Sir is extremely generous. Money-making doesn't appear to be his priority and it is clearly reflected in his classes, where the infrastructure and administration stands second to none and students are awarded handsome cash-prizes not only in classes but also in tests, which are regularly conducted.

Thanking Sir for all what he has done would be an insult since it was only his efforts that helped me reach this position. Sir, its your success. The relationship between us started in CPT only and continued in IPCC and I hope it will continue forever.

VIJENDER AGGARWAL

PRACHI JAIN

ALL INDIA TOPPER OF CA-PCC (MAY-10)

ROLL NO. - 66312

MARKS IN TAXATION:88%

(HIGHEST MARKS IN TAXATION ALL OVER INDIA)

(AGGREGATE MARKS 77.67%)

(FEEDBACK)

M. K. Gupta Sir is an outstanding teacher. He is not only a good teacher but a good person by heart. His way of teaching is excellent. There are many provisions in tax but Sir repeats every provision atleast two times. This helps in understanding those provisions easily.

His books are very good. Everything from theory to PRACTICAL ILLUSTRATION, EXAMINATION QUESTIONS and BARE ACT is covered in his books.

Sir's staff and management is also very good. Everything is handled in a systematic manner and on time. Overall it was a good experience.

Thanks Sir !! :-

PRACHI JAIN

RESULTS

(CA-Intermediate)

NO OTHER TEACHER OF TAXATION IN INDIA HAS BETTER RESULT THAN OURS

OPINION OF OUR STUDENTS

1. AKSHAY (Roll No. 685445) (Total Marks- 607) AIR-6 (Taxation-80)

Firstly, I want to thank M.K. Gupta Sir for teaching me the tax in the easiest manner many students can think. Tax is a very hard subject but the way Sir teaches it is excellent. I also want to say one more thing that the staff of MKG is very supporting. They listen to the students' problems very patiently and help them to solve their problems. At last, I want to say that no one in this CA field can teach so nicely that MK Gupta Sir teaches.

Thank You

2. DEEPANSHU GOYAL (Roll No. 625914) (Total Marks- 570) AIR-17 (Taxation-75)

MK Gupta Sir is a powerhouse of knowledge. I can't thank him enough for providing me with vast exposure about taxation. His mock tests are so good that I was eager to attempt them. He is proactive in solving doubts. This subject became so light & interesting that I started gaining knowledge in it. It was my best experience with MKG with rank in both foundation & intermediate. Recorded classes were very helpful for me, I used to reach at 6:30 am and continued till 11 am and studied taxation. It was a beautiful journey altogether, and with 10 views, you can view the lectures many times. It helped me revise many concepts. It became my interest rather than a burden. I was so excited to give a mock test so that I can build my confidence.

3. SHIVAM MISHRA (Roll No. 624937) (Total Marks- 560) AIR-20 (Taxation-83)

MK Gupta Sir has a very unique style of teaching. He teaches every concept very clearly and correlates every provision with practical life. Taxation is a very vast subject you cannot learn every provision rather you can understand them. Talking about study material, it covers all types of questions. You do not need to refer study material as it is incorporated in Sir's books. I would recommend every one to join MK Gupta CA Education.

4. PRASHANT YADAV (Roll No.354233) 92 Marks

M.K. Gupta Sir is an outstanding teacher. He possesses very vast knowledge of taxation. Sir repeats every concept at least three times which makes all concepts crystal clear. Study material provided is very good, it covers everything from illustration to examination problem and from theory to Bare Act. Staff and infrastructure facilities of MKG Classes are incomparable. Thank you Sir for your love and support.

5. MOHIT SHARMA (Roll No.353392) 89 Marks

A brilliant personality in my life who has motivated the student to a good path. He is very different from others. Sir concentrates not only on the marks but also on the overall development of the student. I am truly glad that I studied from Sir. He taught me how to compete in life. Every student gets very good marks with a little effort, if he is a student of M.K. Gupta CA Education.

6. MANISHA BHAMBRI (Roll No.456626) 89 Marks

M.K. Gupta Sir is the best teacher I have ever met. His study material being the best helped me a lot in my exams. He is the most sincere teacher who never wastes a single moment and gives his best towards his profession. He teaches not only the theoretical portion but the practical approach too. He teaches us how to be a good human being and how to live life happily. Thank you Sir for your support every time I needed.

7. ANISH SHRESTHA (Roll No.344028) 88 Marks

M.K. Gupta Sir is a very excellent teacher. The way he is dedicated towards teaching make us to be dedicated towards our study. Every concept and every doubt of taxation whichever do I had, he has make clear. The best thing about Sir is, he use to revise the concept more than 3 times which makes student very easy for preparing their exam.

You will have all the sufficient material for study and lots of questions with answers for practice a systematically designed materials.

Thank a lot to Sir for being so much helpful and lot of love.

8. KAPIL KHANNA (Roll No.341539) 85 Marks

Sir 'M.K. Gupta' is the best teacher for Taxation. I feel fortunate to be his student, the amount of knowledge he imparts is fantastic and uncomparable. He is a person who burns himself up like a candle to light the path of his dearest students to the road of success. I wish Sir teaches all the subjects of IPCC, since he is simply the best. Thank you for everything Sir. It you and only you who can guide students like us to reach the zenith.

9. JITENDRA (Roll No.337780) 85 Marks

Before joining CA, I was so much scary about the "Taxation" but after joining M.K. Gupta CA Education for taking taxation class my scary converted into my strength now. This is just because of Sir's knowledge & teaching style with practicality. Study material provided by Sir is also awesome for study.

10. PUNEET WASAN (Roll No.368537) 84 Marks

M.K. Gupta Sir has a vast knowledge in the subject. The topics taken in the class are very well planned. I found the book really very good. Infact, I practiced all the previous attempts questions of each chapter and every small question was covered in the chapter. I recommend the students to be thorough with book and one will score undoubtedly high marks in tax. All the best!! Thank you so much Sir.

11. ISHA MALIK (Roll No.339842) 84 Marks

I do not have words to express my gratefulness for M.K. Gupta Sir. He really possesses vast knowledge and rich experience in taxation. Study material provided by Sir is also very good which covers everything for getting through the exam. There is no doubt that due to excellent coaching given by Sir, I have been able to secure good marks. I pray to God for his long, happy and prospective life. I wish him to continue give coaching to the prospective students for a longer period. I appeal to all the students who qualify CPT to take coaching from Gupta Sir for getting sure success. Thank you Sir.

12. RUPAL GARG(Roll No.393844) 84 Marks

M.K. Gupta Sir is, as I believe, the best teacher for Taxation. He is so knowledgeable that I was totally awe inspired by him. Every day in the class was exciting as he explains everything with real examples and full depth. The books are superb with lots of practical questions. Thank you Sir.

13. AKANSHA GOEL (Roll No.336693) 84 Marks

It was a great experience studying from M.K. Gupta Sir. He has a vast pool of the knowledge of the subject. The book is a comprehensive one too.

14. PRASIT SHARMA (Roll No.344702) 84 Marks

Taking about the coaching, the teaching style of M.K. Gupta Sir is too much excellent. He has good dealing with student in every situation. If anyone asked about the taxes coaching, I prefer M.K. Gupta Sir because he is the one & only best teacher in Taxation.

15. MANSI BAJAJ (Roll No.354329) 83 Marks

Sir teaches so well and clarifies all our queries. He makes us understand the whole concept very clearly. He is an amazing teacher and the best teacher in the field of Taxation.

16. RASHI GUPTA (Roll No.337864) 83 Marks

M.K. Gupta Sir is a very friendly and helping teacher. He always answered my queries well. His coaching classes are very knowledgeable and books are also very good.

17. HARSH AGARWAL (Roll No.491097) 83 Marks

M.K. Gupta Sir is a good teacher. He teaches all aspects of Taxation whether it is practical knowledge or theoretical knowledge. He teaches every point for 2-3 times and it gets learn in class only. His practical knowledge about the subject is very good.

18. RAHUL ARORA (Roll No.337403) 83 Marks

M.K. Gupta Sir is a great mentor. Sir has excellent knowledge about the subject. He makes every concept crystal clear. Every concept is explained atleast twice in the class. He connect every topic with practical life. Study material is excellent. Bare Act is covered in the study material. Three months experience with M.K. Gupta Sir is memorable moments of my life. Thank you Sir, for your guidance and encouragement.

19. SEJAL MEHTA (Roll No.353096) 83 Marks

Coaching for Taxation was an enriching experience in terms of the conceptual clarity which I gained on each and every topic. Learning tax became so easy with the simplified notes provided.

Also, the kind of knowledge that Sir shares with the students is very commendable and useful in understanding the practical aspects of Taxation. Attending the coaching is worth the time spent.

20. ANU SETHI (Roll No.353491) 83 Marks

I have never seen teacher like M.K. Gupta Sir. His way to teaching, knowledge and experience is awesome i.e. brilliant. Overall regards for such marks is only M.K. Gupta Sir.

21. ASHISH GUPTA (Roll No.353575) 82 Marks

M.K. Gupta Sir is a very good teacher and he has a very vast knowledge of taxation. He gives his best to every student in a class. The atmosphere of the class when he was teaching in a class is very awesome. I am giving all my credit to M.K. Gupta Sir for securing marks in Taxation.

22. RAGHAV GUPTA (Roll No.491122) 82 Marks

M.K. Gupta Sir is an outstanding teacher. He possesses a very vast knowledge about the subject. His way of teaching is fabulous. Every concept is explained with help of an example. Study material is all exhaustive that he provides. Also, queries are taken up promptly. Thank you Sir for your guidance.

23. SHREYA MALIK (Roll No.340228) 82 Marks

M.K. Gupta Sir is the best teacher I have ever come across. His level of knowledge is tremendous. The way he teaches, with so much patience and willingness, keeps every student motivated. The marks I have scored in tax is all because of him. Thank you so much Sir. I am a student of video class and I have never met Sir in person. I would be grateful if I would be given a chance to meet him in person.

24. PRABHAW KUMAR AGARWALLA (Roll No.369428) 82 Marks

Teaching was excellent and queries handled were excellent. Teaching methodology was really excellent and helped a lot to me.

25. PRABHAT RANJAN (Roll No.347926) 81 Marks

M.K. Gupta Sir has a very deep knowledge about the subject and his practical approach towards the subject. Sir repeats every provision atleast twice. This helps in understanding those provision easily. The books notes and all the management is done very properly and in a smooth manner. All in all the best way to study tax.

26. ANKIT KHEMKA (Roll No.338055) 81 Marks

M.K. Gupta Sir is excellent teacher of Tax. He repeats the provision two to three times and doubts are also taken by the faculty. His books are also very good. Bare Act is covered in his books for more understanding about the Act. Sir also provide regular test and prize also given by him motivates the student to work hard. Environment provided by M.K. Gupta Classes is also very good to study.

27. ARTI SRIVASTAVA (Roll No.347859) 80 Marks

Sir's unmatched style of teaching. Regular mock test, also help in to achieve good marks in Taxation. Sir's books contain illustration. Past year question also help to achiever to good marks. Sir's build confidence in every student to achieve success in life. Thank you, so much Sir.

28. SHIVANGI GUPTA (Roll No.337956) 80 Marks

M.K. Gupta Sir is an amazing teacher. The tax subject is all about provisions so many sections but Sir makes it simpler for us out of all the subjects, I found Taxation to be the most interesting one. Sir's study material and notes are sufficient. Study material covers all the past year exam questions, practice questions with solutions. His practical experiences help our understanding level to reach new heights. Thank you Sir for everything.

COMPUTATION OF TOTAL INCOME AND TAX LIABILITY

BASIS OF CHARGE AND RATES OF TAXES

SECTIONS	PARTICULARS
15 to 17	Salary
22 to 27	House Property
28 to 44DB	Business/Profession
45 to 55A	Capital Gains
56 to 59	Other Sources
288A	Rounding off of Total Income
288B	Rounding off of Tax
87A	Rebate from Income Tax
2(24)(ix)	Meaning of Casual Income
115BB	Rate of tax on Casual Income
112	Long Term Capital Gains
112A	Long Term Capital Gains when STT has been paid
111A	Short Term Capital Gains when STT has been paid
2(31)	Meaning of Person
10(1)	Agricultural Income
115BAC	Default Tax Regime

Question 1: Write a note on Computation of Total Income.

Answer: Computation of Total Income

If the income is taxable, it will be further divided into five different categories of income which are called heads of income i.e. if the income is received from the employer, it will be considered to be income under the head salary; if the income is in connection with letting out of house property, income is taxable under the head house property; if the income is from any business or profession, it is taxable under the head profits and gains of business/profession; if any capital asset (gold, land, house etc.) has been transferred, income is taxable under the head capital gains; if there is any other income like interest or winnings from a lottery etc, it is covered under the head other sources.

Income shall be computed under each head i.e. expenses incurred shall be deducted from the gross receipt as per the provisions of the relevant head.

Income computed under each head shall be added up to compute the gross total income.

Certain concessions are allowed from the gross total income which are called deduction from gross total income under chapter VI-A.

After permitting the deductions, remaining income is called total income.

Computation of total income can be shown mathematically in the manner given below:

Total Income of an assessee shall be computed in the following steps:

Compute the income of the assessee under all the five heads, permitting exemption/deductions of each head.

	₹
(i) Income from Salaries (Section 15 to 17)
(ii) Income from House Property (Section 22 to 27)
(iii) Profits and gains of Business or Profession (Section 28 to 44DB)
(iv) Capital Gains (Section 45 to 55A)
(v) Income from Other Sources (Section 56 to 59)
Gross Total Income
Deductions from gross total income [under chapter VI-A]
Total Income

Total Income shall be rounded off u/s 288A in the multiples of 10 and for this purpose, any paisa shall be ignored and if the last digit is 5 or more, it will be rounded off to the higher multiple otherwise it will be rounded off to the lower multiple.

Example

- (i) ₹6,28,456 shall be rounded off as 6,28,460
- (ii) ₹6,28,455 shall be rounded off as 6,28,460
- (iii) ₹6,28,454 shall be rounded off as 6,28,450
- (iv) ₹6,28,455.99 shall be rounded off as 6,28,460
- (v) ₹6,28,454.99 shall be rounded off as 6,28,450

Question 2: Write a note on Computation of Tax Liability of individual.

Answer: Computation of Tax Liability

Default Tax Regime Section 115BAC

Tax liability of an individual shall be computed at the slab rates given in the relevant Finance Act i.e. Finance Act, 2023 and the rates are as given below:

If total Income upto ₹3,00,000	Nil
On next ₹3,00,000	5%
On next ₹3,00,000	10%
On next ₹3,00,000	15%
On next ₹3,00,000	20%
On Balance amount	30%

Example

- (i) Mr. X has total income of ₹9,00,000
- (ii) Mr. X has total income of ₹8,00,000
- (iii) Mr. X has total income of ₹10,00,000
- (iv) Mr. X has total income of ₹15,00,000
- (v) Mr. X has total income of ₹20,00,000

Solution:

(i)

Total income	9,00,000
On first ₹3,00,000	Nil
On next ₹3,00,000 @ 5%	15,000
On next ₹3,00,000 @ 10%	30,000
Tax before health and education cess	45,000
Add: health & education cess @ 4%	1,800
Tax Liability	46,800

(ii)

Total income	8,00,000
On first ₹3,00,000	Nil
On next ₹3,00,000 @ 5%	15,000
On next ₹2,00,000 @ 10%	20,000
Tax before health and education cess	35,000
Add: health & education cess @ 4%	1,400
Tax Liability	36,400

(iii)

Total income	10,00,000
On first ₹3,00,000	Nil
On next ₹3,00,000 @ 5%	15,000
On next ₹3,00,000 @ 10%	30,000

On balance ₹1,00,000 @ 15%	15,000
Tax before health and education cess	60,000
Add: health & education cess @ 4%	2,400
Tax Liability	62,400

(iv)

Total income	15,00,000
On first ₹3,00,000	Nil
On next ₹3,00,000 @ 5%	15,000
On next ₹3,00,000 @ 10%	30,000
On next ₹3,00,000 @ 15%	45,000
On next ₹3,00,000 @ 20%	60,000
Tax before health and education cess	1,50,000
Add: health & education cess @ 4%	6,000
Tax Liability	1,56,000

(v)

Total income	20,00,000
On first ₹3,00,000	Nil
On next ₹3,00,000 @ 5%	15,000
On next ₹3,00,000 @ 10%	30,000
On next ₹3,00,000 @ 15%	45,000
On next ₹3,00,000 @ 20%	60,000
On balance ₹5,00,000 @ 30%	1,50,000
Tax before health and education cess	3,00,000
Add: health & education cess @ 4%	12,000
Tax Liability	3,12,000

Illustration 1:

(i)

Mr. X has income as given below:

Income under the head Salary	4,00,000
Income under the head House Property	5,00,000
Income under the head Business/Profession	6,30,253

Deductions allowed under chapter VI-A are ₹1,10,000.
 Compute the income and the tax liability for previous year 2023-24.

(ii)

Mr. X has income as given below:

Income under the head Salary	26,10,000
Income under the head House Property	6,00,000
Income under the head Business/Profession	3,30,500

Deductions allowed under chapter VI-A are ₹3,10,000.
 Compute the total income and tax liability for previous year 2023-24.

Solution:

(i)

Computation of Total Income of Mr. X
Previous Year 2023-24, Assessment Year 2024-25

	₹
Income under the head Salary	4,00,000.00
Income under the head House Property	5,00,000.00
Income under the Business/Profession	6,30,253.00
Gross Total Income	15,30,253.00

Less: Deduction under chapter VI-A	1,10,000.00
Total Income	14,20,253.00
Rounded off u/s 288A	14,20,250.00

Computation of Tax Liability

On first ₹3,00,000	Nil
On next ₹3,00,000 @ 5%	15,000
On next ₹3,00,000 @ 10%	30,000
On next ₹3,00,000 @ 15%	45,000
On next ₹2,20,250 @ 20%	44,050
Tax before health and education cess	1,34,050
Add: health & education cess @ 4%	5,362
Tax Liability	1,39,412
Rounded off u/s 288B	1,39,410

(ii)

Computation of Total Income of Mr. X
Previous Year 2023-24, Assessment Year 2024-25

	₹
Income under the head Salary	26,10,000.00
Income under the head House Property	6,00,000.00
Income under the Business/Profession	3,30,500.00
Gross Total Income	35,40,500.00
Less: Deduction under chapter VI-A	3,10,000.00
Total Income	32,30,500.00

Computation of Tax Liability

On first ₹3,00,000	Nil
On next ₹3,00,000 @ 5%	15,000
On next ₹3,00,000 @ 10%	30,000
On next ₹3,00,000 @ 15%	45,000
On next ₹3,00,000 @ 20%	60,000
On balance ₹17,30,500 @ 30%	5,19,150
Tax before health and education cess	6,69,150
Add: health & education cess @ 4%	26,766
Tax Liability	6,95,916
Rounded off u/s 288B	6,95,920

Question 3: Explain Health and Education Cess**Answer: Health and Education Cess**

If any tax is charged for any specific purpose, it is called Cess. Health and Education Cess shall be charged @ 4% on the amount of income tax.

Rounding off of Tax Section 288B

Any amount payable, and the amount of refund due, shall be rounded off in the multiples of ₹10 in the similar manner as in case of total income under section 288A.

Question 4: Explain Previous Year and Assessment Year

Answer: Every person has to pay tax on Income of a particular financial year and such year is called previous year. Further computation of income and tax liability is computed in the subsequent year and it is called assessment year, e.g. if income is to be computed for financial year 2023-24, it will be called previous year and subsequent year i.e. 2024-25 shall be called assessment year. The term previous year is defined u/s 3 and assessment year is defined u/s 2(9).

Question 5: Explain Budget / Finance Bill / Finance Act**Answer: Budget / Finance Bill / Finance Act**

Every year budget is presented in general in February and all the amendments are given in general in the budget e.g. Budget presented in 2023 shall be called budget 2023 and subsequently it will be called Finance Bill 2023 and after it has been passed by the parliament and signed by the President, it will be called Finance Act 2023 and its provisions shall be applicable from previous year 2023-24/ assessment year 2024-25.

For the students appearing in May/Nov-2024, previous year shall be 2023-24 and assessment year shall be 2024-25.

Practice Problem 1:

- (i) Mr. X has total income ₹9,00,000
- (ii) Mr. X has total income ₹25,00,000
- (iii) Mr. X has total income ₹37,50,000
- (iv) Mr. X has total income ₹41,32,000
- (v) Mr. X has total income ₹50,00,000
- (vi) Mr. X has total income ₹36,66,000
- (vii) Mr. X has total income ₹26,32,300
- (viii) Mr. X has total income ₹21,22,220
- (ix) Mr. X has total income ₹32,42,405
- (x) Mr. X has total income ₹49,49,495

Question 6: Explain surcharge in case of individual.

Answer: Surcharge shall be applicable

Default Tax Regime Section 115BAC

- @ 10% provided total income is exceeding ₹ 50 lakhs but it is upto ₹ 100 lakhs.
- @ 15% provided total income is exceeding ₹ 100 lakhs but it is upto ₹ 200 lakh.
- @ 25% provided total income is exceeding ₹ 200 lakhs.

Health & education cess shall be charged on the total of tax plus surcharge.

Illustration 2:

Mr. X has total income

- (i) ₹50 lakh
- (ii) ₹70 lakh
- (iii) ₹100 lakh
- (iv) ₹200 lakh
- (v) ₹500 lakh
- (vi) ₹1000 lakh

Solution:

(i)	
Total income	50,00,000
On first ₹3,00,000	Nil
On next ₹3,00,000 @ 5%	15,000
On next ₹3,00,000 @ 10%	30,000
On next ₹3,00,000 @ 15%	45,000
On next ₹3,00,000 @ 20%	60,000
On balance ₹35,00,000 @ 30%	10,50,000
Tax before health and education cess	12,00,000
Add: health & education cess @ 4%	48,000
Tax Liability	12,48,000

(ii)

Total income	70,00,000
On first ₹3,00,000	Nil
On next ₹3,00,000 @ 5%	15,000
On next ₹3,00,000 @ 10%	30,000
On next ₹3,00,000 @ 15%	45,000
On next ₹3,00,000 @ 20%	60,000
On balance ₹55,00,000 @ 30%	16,50,000
Tax before surcharge	18,00,000
Add: Surcharge @ 10%	1,80,000
Tax before health and education cess	19,80,000
Add: health & education cess @ 4%	79,200
Tax Liability	20,59,200

(iii)

Total income	100,00,000
On first ₹3,00,000	Nil
On next ₹3,00,000 @ 5%	15,000
On next ₹3,00,000 @ 10%	30,000
On next ₹3,00,000 @ 15%	45,000
On next ₹3,00,000 @ 20%	60,000
On balance ₹85,00,000 @ 30%	25,50,000
Tax before surcharge	27,00,000
Add: Surcharge @ 10%	2,70,000
Tax before health and education cess	29,70,000
Add: health & education cess @ 4%	1,18,800
Tax Liability	30,88,800

(iv)

Total income	200,00,000
On first ₹3,00,000	Nil
On next ₹3,00,000 @ 5%	15,000
On next ₹3,00,000 @ 10%	30,000
On next ₹3,00,000 @ 15%	45,000
On next ₹3,00,000 @ 20%	60,000
On balance ₹185,00,000 @ 30%	55,50,000
Tax before surcharge	57,00,000
Add: Surcharge @ 15%	8,55,000
Tax before health and education cess	65,55,000
Add: health & education cess @ 4%	2,62,200
Tax Liability	68,17,200

(v)

Total income	500,00,000
On first ₹3,00,000	Nil
On next ₹3,00,000 @ 5%	15,000
On next ₹3,00,000 @ 10%	30,000
On next ₹3,00,000 @ 15%	45,000
On next ₹3,00,000 @ 20%	60,000
On balance ₹485,00,000 @ 30%	1,45,50,000
Tax before surcharge	1,47,00,000
Add: Surcharge @ 25%	36,75,000
Tax before health and education cess	1,83,75,000

Add: health & education cess @ 4%	7,35,000
Tax Liability	1,91,10,000

(vi)

Total income	1000,00,000
On first ₹3,00,000	Nil
On next ₹3,00,000 @ 5%	15,000
On next ₹3,00,000 @ 10%	30,000
On next ₹3,00,000 @ 15%	45,000
On next ₹3,00,000 @ 20%	60,000
On balance ₹985,00,000 @ 30%	2,95,50,000
Tax before surcharge	2,97,00,000
Add: Surcharge @ 25%	74,25,000
Tax before health and education cess	3,71,25,000
Add: health & education cess @ 4%	14,85,000
Tax Liability	3,86,10,000

Marginal Relief

If there is marginal increase in income over ₹50 lakhs/ ₹100 lakhs/ ₹200 lakhs, surcharge is applicable on entire amount of income tax and as a result increase in tax is more than the increase in income. In order to remove this defect, assessee shall be allowed relief to the extent increase in tax is more than the increase in income and it is called marginal relief and it can be shown in the manner given below:

e.g.

(i) If Mr. X has total income of ₹51,00,000, his tax liability shall be computed in the manner given below:

Total Income	51,00,000.00
Tax on ₹51,00,000 at slab rate	12,30,000.00
Add: Surcharge @ 10%	1,23,000.00
Tax before marginal relief	13,53,000.00
Less: Marginal Relief	(53,000.00)

Working Note:

Tax + surcharge @10% on income of ₹51,00,000	13,53,000
Tax on income of ₹50,00,000	(12,00,000)
Increase in tax	1,53,000
Increase in income	1,00,000
Marginal Relief (1,53,000 – 1,00,000)	53,000

Tax after marginal relief	13,00,000.00
Add: HEC @ 4%	52,000.00
Tax Liability	13,52,000.00

(ii) If Mr. X has total income of ₹102,00,000, his tax liability shall be computed in the manner given below:

Total Income	102,00,000.00
Tax on ₹102,00,000 at slab rate	27,60,000.00
Add: Surcharge @ 15%	4,14,000.00
Tax before marginal relief	31,74,000.00
Less: Marginal Relief	(4,000.00)

Working Note:

Tax + surcharge @15% on income of ₹102,00,000	31,74,000
Tax + surcharge @10% on income of ₹100,00,000	(29,70,000)
Increase in tax	2,04,000
Increase in income	2,00,000
Marginal Relief (2,04,000 – 2,00,000)	4,000

Tax after marginal relief	31,70,000.00
Add: HEC @ 4%	1,26,800.00

Tax Liability 32,96,800.00

(iii) If Mr. X has total income of ₹101,80,000, his tax liability shall be computed in the manner given below:

Total Income	101,80,000.00
Tax on ₹101,80,000 at slab rate	27,54,000.00
Add: Surcharge @ 15%	4,13,100.00
Tax before marginal relief	31,67,100.00
Less: Marginal Relief	(17,100.00)

Working Note:

Tax + surcharge @15% on income of ₹101,80,000	31,67,100
Tax + surcharge @10% on income of ₹100,00,000	(29,70,000)
Increase in tax	1,97,100
Increase in income	1,80,000
Marginal Relief (1,97,100 – 1,80,000)	17,100

Tax after marginal relief	31,50,000.00
Add: HEC @ 4%	1,26,000.00
Tax Liability	32,76,000.00

Limit for marginal relief

A person having total income from ₹50 lakhs to ₹100 lakhs shall be eligible for marginal relief upto total income of ₹51,79,100 and afterwards he will not be eligible for marginal relief.
A person having total income from ₹100 lakhs to ₹200 lakhs shall be eligible for marginal relief upto total income of ₹102,06,100 and afterwards he will not be eligible for marginal relief.
A person having total income from ₹200 lakhs to ₹500 lakhs shall be eligible for marginal relief upto total income of ₹209,12,000 and afterwards he will not be eligible for marginal relief.

Practice Problem 2:

- (i) Mr. X has total income ₹70,00,000
- (ii) Mr. X has total income ₹150,00,000
- (iii) Mr. X has total income ₹200,00,000
- (iv) Mr. X has total income ₹300,00,000
- (v) Mr. X has total income ₹700,00,000
- (vi) Mr. X has total income ₹1000,00,000
- (vii) Mr. X has total income ₹51,00,000
- (viii) Mr. X has total income ₹101,00,000
- (ix) Mr. X has total income ₹201,00,000
- (x) Mr. X has total income ₹501,00,000

Question 7: Write a note on Rebate under section 87A.

Answer:

Rebate in case of Resident Individual Section 87A

Default Tax Regime Section 115BAC

- ❖ Rebate i.e. concession from income tax shall be allowed only to **RESIDENT INDIVIDUAL** (not to non-resident individual or any other person).
- ❖ Rebate shall be allowed only if total income is upto ₹7,00,000
- ❖ Rebate shall be allowed upto ₹25,000.
- ❖ Health & education cess shall be applied only after permitting rebate under section 87A.

Illustration 3:

Mr. X has total income

- (i) ₹6,00,000
- (ii) ₹7,00,000
- (iii) ₹7,40,000

(iv) ₹8,00,000

Solution:

(i)

Total income	6,00,000
On first ₹3,00,000	Nil
On next ₹3,00,000 @ 5%	15,000
Tax before Rebate	15,000
Less: Rebate u/s 87A	(15,000)
Tax before health & education cess	Nil
Add: HEC @ 4%	Nil
Tax Liability	Nil

(ii)

Total income	7,00,000
On first ₹3,00,000	Nil
On next ₹3,00,000 @ 5%	15,000
On next ₹1,00,000 @ 10%	10,000
Tax before Rebate	25,000
Less: Rebate u/s 87A	(25,000)
Tax before health & education cess	Nil
Add: HEC @ 4%	Nil
Tax Liability	Nil

(iii)

Total income	7,40,000
On first ₹3,00,000	Nil
On next ₹3,00,000 @ 5%	15,000
On next ₹1,40,000 @ 10%	14,000
Tax before Rebate	29,000
Less: Rebate u/s 87A	Nil
Tax before health & education cess	29,000
Add: HEC @ 4%	1,160
Tax Liability	30,160

(iv)

Total income	8,00,000
On first ₹3,00,000	Nil
On next ₹3,00,000 @ 5%	15,000
On next ₹2,00,000 @ 10%	20,000
Tax before Rebate	35,000
Less: Rebate u/s 87A	Nil
Tax before health & education cess	35,000
Add: HEC @ 4%	1,400
Tax Liability	36,400

Marginal Relief

If income is exceeding ₹7,00,000 and increase in tax is more than increase in income in comparison to ₹7,00,000, relief shall be allowed equal to the amount of tax which is exceeding the amount of income.

e.g. Mr. X has income of ₹7,05,000, in this case his tax liability shall be

Tax on ₹7,05,000	25,500
Less : Marginal relief	20,500

Working Note:

Tax on ₹7,05,000	25,500
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Tax on ₹7,00,000	Nil
Increase in tax	25,500
Increase in income	5,000
Marginal Relief (25,500 – 5,000)	20,500

Tax after marginal relief	5,000
Add: HEC @ 4%	200
Tax Liability	5,200

e.g. Mr. X has income of ₹7,10,000, in this case his tax liability shall be

Tax on ₹7,10,000	26,000
Less : Marginal relief	16,000

Working Note:	
Tax on ₹7,10,000	26,000
Tax on ₹7,00,000	Nil
Increase in tax	26,000
Increase in income	10,000
Marginal Relief (26,000 – 10,000)	16,000

Tax after marginal relief	10,000
Add: HEC @ 4%	400
Tax Liability	10,400

e.g. Mr. X has income of ₹7,22,000, in this case his tax liability shall be

Tax on ₹7,22,000	27,200
Less : Marginal relief	5,200

Working Note:	
Tax on ₹7,22,000	27,200
Tax on ₹7,00,000	Nil
Increase in tax	27,200
Increase in income	22,000
Marginal Relief (27,200 – 22,000)	5,200

Tax after marginal relief	22,000
Add: HEC @ 4%	880
Tax Liability	22,880

Limit for Marginal Relief

Marginal relief shall be allowed upto **7,27,770**

Practice Problem 3:

- (i) Mr. X has total income ₹6,00,000
- (ii) Mr. X has total income ₹7,00,000
- (iii) Mr. X has total income ₹7,02,000
- (iv) Mr. X has total income ₹7,19,000
- (v) Mr. X has total income ₹7,26,000
- (vi) Mr. X (non-resident) has total income ₹4,00,000
- (vii) Mr. X (non-resident) has total income ₹5,00,000
- (viii) Mr. X (non-resident) has total income ₹6,90,000
- (ix) Mr. X (non-resident) has total income ₹7,10,000
- (x) Mr. X (non-resident) has total income ₹5,20,000

Question 8: Explain taxability of Casual Income.

Answer: As per section 115BB, casual income shall be taxable @ 30%.

As per section 2(24)(ix), casual income means any winnings from lotteries, crossword puzzles, races including horse races, card games and other games of any sort or from gambling or betting of any form or

nature whatsoever.

Lottery includes winnings from prizes awarded to any person by draw of lots or by chance or in any other manner whatsoever, under any scheme or arrangement by whatever name called.

Card game and other game of any sort includes any game show, an entertainment programme on television or electronic mode, in which people compete to win prizes or any other similar game.

Casual income shall be taxable under the head Other Sources and it will be included in the gross total income and also total income but while computing tax liability, casual income shall be separated from total income and shall be taxable @ 30%.

If assessee has incurred any expenditure in connection with earning of casual income, such expenditure shall not be allowed to be deducted, eg. Mr. X purchased lottery tickets of ₹10,000 and he had a winning of ₹1,00,000, in this case expenditure of ₹10,000 shall not be allowed to be deducted and income of ₹1,00,000 shall be taxable @ 30%.

As per section 58(4), deduction under chapter VI-A shall not be allowed from casual income however as per section 87A, rebate shall be allowed.

Illustration 4:

Mr. X has casual income

- (i) ₹5,00,000 and deduction allowed under chapter VI-A is ₹1,00,000
 - (ii) ₹7,00,000 and deduction allowed under chapter VI-A is ₹1,00,000
 - (iii) ₹10,00,000 and deduction allowed under chapter VI-A is ₹1,00,000
 - (iv) ₹51,00,000 and deduction allowed under chapter VI-A is ₹1,00,000
 - (v) ₹102,00,000 and deduction allowed under chapter VI-A is ₹1,00,000
 - (vi) ₹7,10,0000 and deduction allowed under chapter VI-A is ₹1,00,000
 - (vii) ₹7,15,0000 and deduction allowed under chapter VI-A is ₹1,00,000
 - (viii) ₹7,20,0000 and deduction allowed under chapter VI-A is ₹1,00,000
- Compute tax liability for A.Y. 2024-25.

Solution:

(i)	
Income under the Other Sources (Casual income)	5,00,000.00
Gross Total Income	5,00,000.00
Less: Deduction under chapter VI-A	Nil
Total Income	5,00,000.00
Computation of Tax Liability	
Tax on casual income ₹5,00,000 @ 30%	1,50,000.00
Less: Rebate u/s 87A	(25,000.00)
Tax before health & education cess	1,25,000.00
Add: HEC @ 4%	5,000.00
Tax Liability	1,30,000.00

(ii)	
Income under the Other Sources (Casual income)	7,00,000.00
Gross Total Income	7,00,000.00
Less: Deduction under chapter VI-A	Nil
Total Income	7,00,000.00
Computation of Tax Liability	
Tax on casual income ₹7,00,000 @ 30%	2,10,000.00
Less: Rebate u/s 87A	(25,000.00)
Tax before health & education cess	1,85,000.00
Add: HEC @ 4%	7,400.00
Tax Liability	1,92,400.00

(iii)	
Income under the Other Sources (Casual income)	10,00,000.00
Gross Total Income	10,00,000.00
Less: Deduction under chapter VI-A	Nil
Total Income	10,00,000.00
Computation of Tax Liability	
Tax on casual income ₹10,00,000 @ 30%	3,00,000.00
Add: HEC @ 4%	12,000.00
Tax Liability	3,12,000.00

(iv)	
Income under the Other Sources (Casual income)	51,00,000.00
Gross Total Income	51,00,000.00
Less: Deduction under chapter VI-A	Nil
Total Income	51,00,000.00
Computation of Tax Liability	
Tax on casual income ₹51,00,000 @ 30%	15,30,000.00
Add: Surcharge @ 10%	1,53,000.00
Tax before marginal relief	16,83,000.00
Less: Marginal Relief	(83,000.00)

Working Note:	
Tax + surcharge @10% on income of ₹51,00,000	16,83,000
Tax on income of ₹50,00,000	(15,00,000)
Increase in tax	1,83,000
Increase in income	1,00,000
Marginal Relief (1,83,000 – 1,00,000)	83,000

Tax after marginal relief	16,00,000.00
Add: HEC @ 4%	64,000.00
Tax Liability	16,64,000.00

(v)	
Income under the Other Sources (Casual income)	102,00,000.00
Gross Total Income	102,00,000.00
Less: Deduction under chapter VI-A	Nil
Total Income	102,00,000.00
Computation of Tax Liability	
Tax on casual income ₹102,00,000 @ 30%	30,60,000.00
Add: Surcharge @ 15%	4,59,000.00
Tax before marginal relief	35,19,000.00
Less: Marginal Relief	(19,000.00)

Working Note:	
Tax + surcharge @15% on income of ₹102,00,000	35,19,000
Tax + surcharge @10% on income of ₹100,00,000	(33,00,000)
Increase in tax	2,19,000
Increase in income	2,00,000
Marginal Relief (2,19,000 – 2,00,000)	19,000

Tax after marginal relief	35,00,000.00
Add: HEC @ 4%	1,40,000.00
Tax Liability	36,40,000.00

(vi)	
Income under the Other Sources (Casual income)	7,10,000.00
Gross Total Income	7,10,000.00

Less: Deduction under chapter VI-A	Nil
Total Income	7,10,000.00

Computation of Tax Liability

Tax on casual income ₹7,10,000 @ 30%		2,13,000.00
Less: Rebate u/s 87A		Nil
Less: Marginal Relief		(18,000.00)
Tax on ₹7,10,000	2,13,000	
Tax on ₹7,00,000 (2,10,000 – 25,000)	1,85,000	
Increase in Tax	28,000	
Increase in Income	10,000	
Marginal Relief	18,000	
Tax before health & education cess		1,95,000.00
Add: HEC @ 4%		7,800.00
Tax Liability		2,02,800.00

(vii)

Income under the Other Sources (Casual income)	7,15,000.00
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Gross Total Income	7,15,000.00
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Less: Deduction under chapter VI-A	Nil
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Total Income	7,15,000.00
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Computation of Tax Liability

Tax on casual income ₹7,15,000 @ 30%		2,14,500.00
Less: Rebate u/s 87A		Nil
Less: Marginal Relief		(14,500.00)
Tax on ₹7,15,000	2,14,500	
Tax on ₹7,00,000 (2,10,000 – 25,000)	1,85,000	
Increase in Tax	29,500	
Increase in Income	15,000	
Marginal Relief	14,500	
Tax before health & education cess		2,00,000.00
Add: HEC @ 4%		8,000.00
Tax Liability		2,08,000.00

(viii)

Income under the Other Sources (Casual income)	7,20,000.00
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Gross Total Income	7,20,000.00
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Less: Deduction under chapter VI-A	Nil
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Total Income	7,20,000.00
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Computation of Tax Liability

Tax on casual income ₹7,20,000 @ 30%		2,16,000.00
Less: Rebate u/s 87A		Nil
Less: Marginal Relief		(11,000.00)
Tax on ₹7,20,000	2,16,000	
Tax on ₹7,00,000 (2,10,000 – 25,000)	1,85,000	
Increase in Tax	31,000	
Increase in Income	20,000	
Marginal Relief	11,000	
Tax before health & education cess		2,05,000.00
Add: HEC @ 4%		8,200.00
Tax Liability		2,13,200.00

Question 9: Explain taxability of Capital Gains.

Answer: If any capital asset has been transferred like land, building, gold etc. profit shall be called capital gains and if the asset has been transferred within a period of three years, capital gains shall be short term and shall be taxable at the normal rate and if asset is sold after 3 years, it will be long term capital gain and as per section 112, it shall be taxable @ 20% and also deductions under chapter VI-A, shall not be allowed from long term capital gains.

In case of listed shares or units of equity oriented mutual fund etc., period of three years shall be taken as one year.

If any person has transferred listed equity shares or listed units of equity oriented mutual funds and has paid securities transaction tax, in such cases long term capital gain shall be taxable @ 10% u/s 112A but only amount in excess of ₹1,00,000 and short term capital gains shall be covered under section 111A and shall be taxable @ 15% and deductions under chapter VI-A, shall not be allowed from such long term or short term capital gains.

Rebate u/s 87A shall be allowed from tax on LTCG or STCG 111A. (No Rebate u/s 87A from LTCG 112A)

Special provision for resident individual

In case of a resident individual if total income excluding long term capital gains 112/112A and short term capital gain covered under section 111A and casual income, is below the amount which is exempt from income tax (i.e.3,00,000), in such cases deficiency in the exemption shall be allowed from long term capital gains 112 or short term capital gain under section 111A or long term capital gains under section 112A, in that order. Such benefit is not allowed to a non-resident.

Illustration 5:

Compute Tax Liability in the following cases:

- (i) Mr. X has LTCG ₹7,00,000 and deduction allowed under chapter VI-A ₹1,00,000
- (ii) Mr. X has LTCG 112A ₹7,00,000 and deduction allowed under chapter VI-A ₹1,00,000
- (iii) Mr. X has STCG 111A ₹7,00,000 and deduction allowed under chapter VI-A ₹1,00,000
- (iv) Mr. X has casual income ₹7,00,000 and deduction allowed under chapter VI-A ₹1,00,000
- (v) Mr. X has income under the head House Property ₹7,00,000 and deduction allowed under chapter VI-A ₹1,00,000
- (vi) Mr. X has casual income ₹300,00,000 and deduction allowed under chapter VI-A ₹1,00,000
- (vii) Mr. X has income under the head House Property ₹300,00,000 and deduction allowed under chapter VI-A ₹1,00,000
- (viii) Mr. X has short term capital gains u/s 111A ₹7,12,000 and deduction allowed under chapter VI-A ₹1,00,000
- (ix) Mr. X has long term capital gains u/s 112A ₹7,15,000 and deduction allowed under chapter VI-A ₹1,00,000
- (x) Mr. X has long term capital gains u/s 112 ₹7,22,000 and deduction allowed under chapter VI-A ₹1,00,000

Solution:

(i)		
	Income under the Capital Gains (LTCG)	7,00,000.00
	Gross Total Income	7,00,000.00
	Less: Deduction under chapter VI-A	Nil
	Total Income	7,00,000.00
	Computation of Tax Liability	
	Tax on LTCG ₹4,00,000 (7,00,000-3,00,000) @ 20%	80,000.00
	Less: Rebate u/s 87A	(25,000.00)
	Tax before health & education cess	55,000.00
	Add: HEC @ 4%	2,200.00
	Tax Liability	57,200.00

(ii)	
Income under the Capital Gains (LTCG 112A)	7,00,000.00
Gross Total Income	7,00,000.00
Less: Deduction under chapter VI-A	Nil
Total Income	7,00,000.00
Computation of Tax Liability	
Tax on LTCG 112A ₹3,00,000 (7,00,000-3,00,000-1,00,000) @ 10%	30,000.00
Less: Rebate u/s 87A	Nil
Tax before health & education cess	30,000.00
Add: HEC @ 4%	1,200.00
Tax Liability	31,200.00
(iii)	
Income under the Capital Gains (STCG 111A)	7,00,000.00
Gross Total Income	7,00,000.00
Less: Deduction under chapter VI-A	Nil
Total Income	7,00,000.00
Computation of Tax Liability	
Tax on STCG 111A ₹4,00,000 (7,00,000-3,00,000) @ 15%	60,000.00
Less: Rebate u/s 87A	(25,000.00)
Tax before health & education cess	35,000.00
Add: HEC @ 4%	1,400.00
Tax Liability	36,400.00
(iv)	
Income under the Other Sources (Casual income)	7,00,000.00
Gross Total Income	7,00,000.00
Less: Deduction under chapter VI-A	Nil
Total Income	7,00,000.00
Computation of Tax Liability	
Tax on casual income ₹7,00,000 @ 30%	2,10,000.00
Less: Rebate u/s 87A	(25,000.00)
Tax before health & education cess	1,85,000.00
Add: HEC @ 4%	7,400.00
Tax Liability	1,92,400.00
(v)	
Income under the House Property	7,00,000.00
Gross Total Income	7,00,000.00
Less: Deduction under chapter VI-A	1,00,000.00
Total Income	6,00,000.00
Computation of Tax Liability	
Tax on ₹6,00,000 at slab rate	15,000.00
Less: Rebate u/s 87A	(15,000.00)
Tax before health & education cess	Nil
Add: HEC @ 4%	Nil
Tax Liability	Nil
(vi)	
Tax on casual income ₹300,00,000 @ 30%	90,00,000.00
Tax before surcharge	90,00,000.00
Add: Surcharge @ 25%	22,50,000.00
Tax before health & education cess	112,50,000.00

Add: HEC @ 4%	4,50,000.00
Tax Liability	117,00,000.00

(vii)

Income under the House Property	300,00,000.00
Gross Total Income	300,00,000.00
Less: Deduction under chapter VI-A	1,00,000.00
Total Income	299,00,000.00

Computation of Tax Liability

Tax on ₹299,00,000 at slab rate	86,70,000.00
Add: Surcharge @ 25%	21,67,500.00
Tax before health & education cess	108,37,500.00
Add: HEC @ 4%	4,33,500.00
Tax Liability	112,71,000.00

(viii)

Income under the Capital Gains (short term capital gains u/s 111A)	7,12,000.00
Gross Total Income	7,12,000.00
Less: Deduction under chapter VI-A	Nil
Total Income	7,12,000.00

Computation of Tax Liability

Tax on STCG u/s 111A (₹7,12,000 – 3,00,000) @ 15%	61,800.00
Less: Rebate u/s 87A	Nil
Less: Marginal Relief	(14,800.00)
Tax on ₹7,12,000	61,800
Tax on (7,00,000 – 3,00,000) @ 15% (60,000 – 25,000)	35,000
Increase in Tax	26,800
Increase in Income	12,000
Marginal Relief	14,800
Tax before health & education cess	47,000.00
Add: HEC @ 4%	1,880.00
Tax Liability	48,880.00

(ix)

Income under the Capital Gains (long term capital gains u/s 112A)	7,15,000.00
Gross Total Income	7,15,000.00
Less: Deduction under chapter VI-A	Nil
Total Income	7,15,000.00

Computation of Tax Liability

Tax on LTCG u/s 112A (₹7,15,000 – 3,00,000 – 1,00,000) @ 10%	31,500.00
Less: Rebate u/s 87A	Nil
Tax before health & education cess	31,500.00
Add: HEC @ 4%	1,260.00
Tax Liability	32,760.00

(x)

Income under the Capital Gains (long term capital gains u/s 112)	7,22,000.00
Gross Total Income	7,22,000.00
Less: Deduction under chapter VI-A	Nil
Total Income	7,22,000.00

Computation of Tax Liability

Tax on LTCG u/s 112 (₹7,22,000 – 3,00,000) @ 20%	84,400.00
Less: Rebate u/s 87A	Nil

Less: Marginal Relief		7,400.00
Tax on ₹7,22,000	84,400	
Tax on (7,00,000 – 3,00,000) @ 20% (80,000 – 25,000)	55,000	
Increase in Tax	29,400	
Increase in Income	22,000	
Marginal Relief	7,400	
Tax before health & education cess		77,000.00
Add: HEC @ 4%		3,080.00
Tax Liability		80,080.00

Practice Problem 4

- (i) Mr. X has income under the head House Property ₹1,00,000 and LTCG ₹2,00,000 and STCG 111A ₹5,00,000. Compute his income and tax liability for A.Y. 2024-25.
- (ii) Mr. X has income under the head House Property ₹50,000 and LTCG ₹1,00,000 and STCG 111A ₹50,000 LTCG 112A ₹8,00,000. Compute his income and tax liability for A.Y. 2024-25.
- (iii) Mr. X has income under the head House Property ₹50,000 and LTCG ₹1,00,000 and STCG 111A ₹50,000 LTCG 112A ₹5,00,000. Compute his income and tax liability for A.Y. 2024-25.
- (iv) Mr. X has income under the head House Property ₹4,00,000 and LTCG ₹1,00,000 and STCG 111A ₹50,000 LTCG 112A ₹1,00,000. Compute his income and tax liability for A.Y. 2024-25.
- (v) Mr. X has LTCG ₹51,00,000. Compute his income and tax liability for A.Y. 2024-25.
- (vi) Mr. X has LTCG 112A ₹200,00,000. Compute his income and tax liability for A.Y. 2024-25.
- (vii) Mr. X has STCG 111A ₹102,00,000. Compute his income and tax liability for A.Y. 2024-25.

Special Provision of Surcharge for short term 111A , Long term 112, Long term 112A and Dividend Income

Surcharge @ 25% shall never be applicable on short term capital gain 111A, Long term capital gains 112 and Long term capital gains 112A and dividend income i.e. surcharge of 25% shall be applicable only if total income excluding short term capital gain under section 111A, long term capital gain section 112, long term capital gain under section 112A and dividend income is exceeding ₹ 200 Lakhs.

The calculations shall be done in the manner given below:

- (i) Compute total income taking into consideration all the taxable incomes and if such total income is upto ₹50,00,000, no surcharge is applicable but if it is more than ₹50,00,000 but upto ₹100,00,000, surcharge is applicable @ 10% and if it is more than ₹100,00,000, surcharge is applicable @ 15%.
- (ii) Surcharge of 25% shall be applicable only if total income minus specified income (i.e. short term capital gain 111A, Long term capital gains 112 and Long term capital gains 112A and dividend income) is exceeding ₹200,00,000.

Illustration 6:

- (i) Mr. X has income under the head House Property ₹70,00,000 and LTCG 112 ₹100,00,000 LTCG 112A ₹50,00,000 STCG 111A ₹150,00,000. Compute income and tax A.Y. 2024-25.
- (ii) Mr. X has income under the head House Property ₹220,00,000 and LTCG 112 ₹100,00,000 LTCG 112A ₹50,00,000 STCG 111A ₹150,00,000. Compute income and tax A.Y. 2024-25.
- (iii) Mr. X has income under the head House Property ₹80,00,000 and LTCG 112 ₹40,00,000 LTCG 112A ₹90,00,000 STCG 111A ₹30,00,000. Compute income and tax A.Y. 2024-25.
- (iv) Mr. X has LTCG 112A ₹202,00,000. Compute income and tax A.Y. 2024-25.
- (v) Mr. X has STCG 111A ₹202,00,000. Compute income and tax A.Y. 2024-25.
- (vi) Mr. X has income under head House Property ₹202,00,000. Compute income and tax A.Y. 2024-25.
- (vii) Mr. X has LTCG ₹51,00,000 and income under the head House Property ₹205,00,000. Compute income and tax A.Y. 2024-25.
- (viii) Mr. X has LTCG ₹101,00,000 and income under the head House Property ₹204,00,000. Compute income and tax A.Y. 2024-25.
- (ix) Mr. X has LTCG 112A ₹101,00,000. Compute income and tax A.Y. 2024-25.

- (x) Mr. X has STCG 111A ₹300,00,000. Compute income and tax A.Y. 2024-25.
 (xi) Mr. X has dividend income ₹100,00,000 and income under the head House Property ₹300,00,000.
 (xii) Mr. X has LTCG ₹300,00,000 and deduction allowed under chapter VI-A ₹1,00,000
 (xiii) Mr. X has LTCG 112A ₹300,00,000 and deduction allowed under chapter VI-A ₹1,00,000
 (xiv) Mr. X has STCG 111A ₹300,00,000 and deduction allowed under chapter VI-A ₹1,00,000
 Compute income and tax A.Y. 2024-25.

Solution:

(i)

Income under the House Property	70,00,000.00
Income under the Capital Gains (LTCG 112)	100,00,000.00
Income under the Capital Gains (LTCG 112A)	50,00,000.00
Income under the Capital Gains (STCG 111A)	150,00,000.00
Gross Total Income	370,00,000.00
Less: Deduction under chapter VI-A	Nil
Total Income	370,00,000.00

Computation of Tax Liability

Tax on normal income at slab rate	18,00,000.00
Tax on LTCG 112 ₹100,00,000 @ 20%	20,00,000.00
Tax on LTCG 112A (₹50,00,000 – ₹1,00,000) @ 10%	4,90,000.00
Tax on STCG 111A ₹150,00,000 @ 15%	22,50,000.00
Tax before Surcharge	65,40,000.00
Add: Surcharge @ 15%	9,81,000.00
Tax before health & education cess	75,21,000.00
Add: HEC @ 4%	3,00,840.00
Tax Liability	78,21,840.00

(ii)

Income under the House Property	220,00,000.00
Income under the Capital Gains (LTCG 112)	100,00,000.00
Income under the Capital Gains (LTCG 112A)	50,00,000.00
Income under the Capital Gains (STCG 111A)	150,00,000.00
Gross Total Income	520,00,000.00
Less: Deduction under chapter VI-A	Nil
Total Income	520,00,000.00

Computation of Tax Liability

Tax on normal income at slab rate	63,00,000.00
Tax on LTCG ₹100,00,000 @ 20%	20,00,000.00
Tax on STCG 111A ₹150,00,000 @ 15%	22,50,000.00
Tax on LTCG 112A ₹49,00,000 (50,00,000-1,00,000) @ 10%	4,90,000.00
Tax before surcharge	1,10,40,000.00
Add: Surcharge @ 25% on ₹63,00,000	15,75,000.00
Add: Surcharge @ 15% on ₹47,40,000	7,11,000.00
Tax before HEC	133,26,000.00
Add: HEC @ 4%	5,33,040.00
Tax Liability	138,59,040.00

(iii)

Income under the House Property	80,00,000.00
Income under the Capital Gains (LTCG)	40,00,000.00
Income under the Capital Gains (STCG 111A)	30,00,000.00
Income under the Capital Gains (LTCG 112A)	90,00,000.00
Gross Total Income	240,00,000.00

Less: Deduction under chapter VI-A Nil
 Total Income 240,00,000.00

Computation of Tax Liability

Tax on normal income at slab rate 21,00,000.00
 Tax on LTCG 40,00,000 @ 20% 8,00,000.00
 Tax on STCG 111A 30,00,000 @ 15% 4,50,000.00
 Tax on LTCG 112A 89,00,000 (90,00,000-1,00,000) @ 10% 8,90,000.00
 Tax before surcharge 42,40,000.00
 Add: Surcharge @ 15% on ₹42,40,000 6,36,000.00
 Tax before HEC 48,76,000.00
 Add: HEC @ 4% 1,95,040.00
 Tax Liability 50,71,040.00

(iv)

Income under the Capital Gains (LTCG 112A) 202,00,000.00
 Gross Total Income 202,00,000.00
 Less: Deduction under chapter VI-A Nil
 Total Income 202,00,000.00

Computation of Tax Liability

Tax on LTCG 112A ₹198,00,000 (202,00,000-3,00,000-1,00,000) @ 10% 19,80,000.00
 Tax before surcharge 19,80,000.00
 Add: Surcharge @ 15% 2,97,000.00
 Tax before health & education cess 22,77,000.00
 Add: HEC @ 4% 91,080.00
 Tax Liability 23,68,080.00

(v)

Income under the Capital Gains (STCG 111A) 202,00,000.00
 Gross Total Income 202,00,000.00
 Less: Deduction under chapter VI-A Nil
 Total Income 202,00,000.00

Computation of Tax Liability

Tax on STCG 111A ₹199,00,000 (202,00,000-3,00,000) @ 15% 29,85,000.00
 Tax before surcharge 29,85,000.00
 Add: Surcharge @ 15% 4,47,750.00
 Tax before health & education cess 34,32,750.00
 Add: HEC @ 4% 1,37,310.00
 Tax Liability 35,70,060.00

(vi)

Income under the House Property 202,00,000.00
 Gross Total Income 202,00,000.00
 Less: Deduction under chapter VI-A Nil
 Total Income 202,00,000.00

Computation of Tax Liability

Tax on normal income at slab rate 57,60,000.00
 Tax before surcharge 57,60,000.00
 Add: Surcharge @ 25% 14,40,000.00
 Tax before marginal relief 72,00,000.00
 Less: Marginal Relief (4,45,000.00)

Working Note:

Tax + surcharge @25% on income of ₹202,00,000 72,00,000

Tax + surcharge @15% on income of ₹200,00,000	(65,55,000)
Increase in tax	6,45,000
Increase in income	2,00,000
Marginal Relief (6,45,000 – 2,00,000)	4,45,000

Tax after marginal relief	67,55,000.00
Add: HEC @ 4%	2,70,200.00
Tax Liability	70,25,200.00

(vii)

Income under the House Property	205,00,000.00
Income under the head Capital Gains (LTCG)	51,00,000.00
Gross Total Income	256,00,000.00
Less: Deduction under chapter VI-A	Nil
Total Income	256,00,000.00

Computation of Tax Liability

Tax on normal income ₹205,00,000 at slab rate	58,50,000.00
Add: Surcharge @ 25% on ₹58,50,000	14,62,500.00
Total	73,12,500.00
Less: Marginal Relief	
Tax + Surcharge on ₹205,00,000	73,12,500
Tax + Surcharge on ₹200,00,000	65,55,000
Increase in Tax	7,57,500
Less: Increase in income	5,00,000
Tax after marginal relief	70,55,000.00
Tax on LTCG ₹51,00,000 @ 20%	10,20,000.00
Add: Surcharge @ 15% on ₹10,20,000	1,53,000.00
Tax before HEC	82,28,000.00
Add: HEC @ 4%	3,29,120.00
Tax Liability	85,57,120.00

(viii)

Income under the House Property	204,00,000.00
Income under the head Capital Gains (LTCG)	101,00,000.00
Gross Total Income	305,00,000.00
Less: Deduction under chapter VI-A	Nil
Total Income	305,00,000.00

Computation of Tax Liability

Tax on normal income ₹204,00,000 at slab rate	58,20,000.00
Add: Surcharge @ 25% on 58,20,000	14,55,000.00
Total	72,75,000.00
Less: Marginal Relief	
Tax + Surcharge on ₹204,00,000	72,75,000
Tax + Surcharge on ₹200,00,000	65,55,000
Increase in Tax	7,20,000
Less: Increase in income	4,00,000
Tax after marginal relief	69,55,000.00
Tax on LTCG 101,00,000 @ 20%	20,20,000.00
Add: Surcharge @ 15% on 20,20,000	3,03,000.00
Tax before HEC	92,78,000.00
Add: HEC @ 4%	3,71,120.00
Tax Liability	96,49,120.00

(ix)	
Income under the Capital Gains (LTCG 112A)	101,00,000.00
Gross Total Income	101,00,000.00
Less: Deduction under chapter VI-A	Nil
Total Income	101,00,000.00
Computation of Tax Liability	
Tax on LTCG 112A ₹97,00,000 (101,00,000-3,00,000-1,00,000) @ 10%	9,70,000.00
Add: Surcharge @ 15%	1,45,500.00
Tax before HEC	11,15,500.00
Add: HEC @ 4%	44,620.00
Tax Liability	11,60,120.00
(x)	
Income under the Capital Gains (STCG 111A)	300,00,000.00
Gross Total Income	300,00,000.00
Less: Deduction under chapter VI-A	Nil
Total Income	300,00,000.00
Computation of Tax Liability	
Tax on STCG 111A ₹297,00,000 (300,00,000-3,00,000) @ 15%	44,55,000.00
Tax before surcharge	44,55,000.00
Add: Surcharge @ 15%	6,68,250.00
Tax before health & education cess	51,23,250.00
Add: HEC @ 4%	2,04,930.00
Tax Liability	53,28,180.00
(xi)	
Income under the House Property	300,00,000.00
Income under the Other sources (Dividend)	100,00,000.00
Gross Total Income	400,00,000.00
Less: Deduction under chapter VI-A	Nil
Total Income	400,00,000.00
Computation of Tax Liability	
Tax on normal income at slab rate	117,00,000.00
Tax before surcharge	117,00,000.00
Add: Surcharge @ 25% on 117,00,000/400,00,000 x 300,00,000	21,93,750.00
Add: Surcharge @ 15% on 117,00,000/400,00,000 x 100,00,000	4,38,750.00
Tax before HEC	143,32,500.00
Add: HEC @ 4%	5,73,300.00
Tax Liability	149,05,800.00
(xii)	
Income under the Capital Gains (LTCG)	300,00,000.00
Gross Total Income	300,00,000.00
Less: Deduction under chapter VI-A	Nil
Total Income	300,00,000.00
Computation of Tax Liability	
Tax on LTCG ₹297,00,000 (300,00,000-3,00,000) @ 20%	59,40,000.00
Add: Surcharge @ 15%	8,91,000.00
Tax before health & education cess	68,31,000.00
Add: HEC @ 4%	2,73,240.00
Tax Liability	71,04,240.00

(xiii)	
Income under the Capital Gains (LTCG 112A)	300,00,000.00
Gross Total Income	300,00,000.00
Less: Deduction under chapter VI-A	Nil
Total Income	300,00,000.00

Computation of Tax Liability

Tax on LTCG 112A ₹296,00,000 (300,00,000-3,00,000-1,00,000) @ 10%	29,60,000.00
Add: Surcharge @ 15%	4,44,000.00
Tax before health & education cess	34,04,000.00
Add: HEC @ 4%	1,36,160.00
Tax Liability	35,40,160.00

(xiv)	
Income under the Capital Gains (STCG 111A)	300,00,000.00
Gross Total Income	300,00,000.00
Less: Deduction under chapter VI-A	Nil
Total Income	300,00,000.00

Computation of Tax Liability

Tax on STCG 111A ₹297,00,000 (300,00,000-3,00,000) @ 15%	44,55,000.00
Add: Surcharge @ 15%	6,68,250.00
Tax before health & education cess	51,23,250.00
Add: HEC @ 4%	2,04,930.00
Tax Liability	53,28,180.00

Question 10: Write a note on taxability of income of Partnership Firm/Limited Liability Partnership Firm.**Answer: Partnership firm/LLP**

Long term capital gains are taxable @ **20%**, STCG u/s 111A shall be taxable @ **15%**, LTCG u/s 112A shall be taxable in excess of 1,00,000 @ **10%** and casual income @ **30%** and other incomes are also taxable @ **30%**.

Surcharge shall be applicable @ **12%** provided total income is exceeding **₹ 1 crore**.

Marginal Relief

Marginal relief shall be allowed if income has exceeded ₹100 lakhs.

Health & education cess is applicable @ **4%**

Deductions under chapter VI-A shall be allowed in the normal manner.

Partnership firm is regulated through Partnership Act, 1932 and Limited Liability Partnership firm is regulated through Limited Liability Partnership Act, 2008.

Question 11: Write a note on taxability of income of domestic company.**Answer: Domestic Company**

Long term capital gains are taxable @ **20%**, STCG u/s 111A shall be taxable @ **15%**, LTCG u/s 112A shall be taxable in excess of 1,00,000 @ **10%** and casual income @ **30%** and other incomes are also taxable @ **30%**.

Surcharge shall be applicable

- @ **7%** provided total income is exceeding **₹100 lakhs but it is upto ₹1000 lakhs**
- @ **12%** provided total income is exceeding **₹1000 lakhs**.

Marginal relief shall be allowed if income has exceeded ₹100 lakhs / 1000 lakhs

Health & education cess is applicable @ **4%**

Deductions under chapter VI-A shall be allowed in the normal manner.

Example

Compute the tax liability of X Ltd., a domestic company, assuming that the total income of X Ltd. is ₹1,01,00,000 and the total income does not include any income in the nature of capital gains.

Answer

Total income	1,01,00,000
Tax on @ 30%	30,30,000
Add: Surcharge @ 7%	2,12,100
Tax before marginal relief	32,42,100
Less: Marginal Relief	(1,42,100)

Working Note:

Tax + surcharge on income of ₹101,00,000	32,42,100
Tax on income of ₹100,00,000	(30,00,000)
Increase in tax	2,42,100
Increase in income	1,00,000
Marginal Relief (2,42,100 – 1,00,000)	1,42,100

Tax after marginal relief	31,00,000
Add: HEC @ 4%	1,24,000
Tax Liability	32,24,000

Example

Compute the tax liability of X Ltd., a domestic company, assuming that the total income of X Ltd. is ₹10,01,00,000 and the total income does not include any income in the nature of capital gains.

Answer:

Total income	10,01,00,000
Tax on @ 30%	300,30,000
Add: Surcharge @ 12%	36,03,600
Tax before marginal relief	336,33,600
Less: Marginal Relief	(14,33,600)

Working Note:

Tax + surcharge @ 12% on income of ₹10,01,00,000	336,33,600
Tax + surcharge @ 7% on income of ₹1000,00,000	(321,00,000)
Increase in tax	15,33,600
Increase in income	1,00,000
Marginal Relief (15,33,600 – 1,00,000)	14,33,600

Tax after marginal relief	322,00,000
Add: HEC @ 4%	12,88,000
Tax Liability	334,88,000

Question 12: Write a note on taxability of income of Foreign company.

Answer: Foreign Company

Long term capital gains are taxable @ **20%**, STCG u/s 111A shall be taxable @ **15%**, LTCG u/s 112A shall be taxable in excess of 1,00,000 @ **10%** and casual income @ **30%** and other incomes are taxable @ **40%**.

Surcharge shall be applicable

- @ **2%** provided total income is exceeding **₹100 lakhs but it is upto ₹1000 lakhs.**
- @ **5%** provided total income is exceeding **₹1000 lakhs**

Marginal relief shall be allowed if income has exceeded ₹100 lakhs / 1000 lakhs

Health & education cess is applicable @ **4%**

Deductions under chapter VI-A shall be allowed in the normal manner.

Question 13: Explain meaning of domestic company.

Answer: Meaning of domestic company

As per section 2(22A), "Domestic company" means an Indian company. Any other company i.e. foreign

company shall also be considered to be domestic company if it has complied with all the three conditions given below:

- (1) The share-register of the company for all shareholders shall be regularly maintained at its principal place of business within India throughout the year.
- (2) The Annual General meeting is held in India.
- (3) The dividends declared, if any, shall be payable only within India to all shareholders.

If any foreign company has complied with all the above conditions, it will be considered to be domestic company otherwise it will be considered to be foreign company.

Illustration 7: Compute tax liability of ABC Ltd. a domestic company in the following situations:

- (i) The company has income under the head Business/Profession ₹50,000.
- (ii) The company has income under the head Business/Profession ₹1,00,000.
- (iii) The company has income under the head Business/Profession ₹500,00,000.
- (iv) The company has income under the head Business/Profession ₹100,00,000.
- (v) The company has long term capital gains of ₹50,000.
- (vi) The company has long term capital gains of ₹200,00,000.
- (vii) The company has long term capital gains of ₹5,00,000.
- (viii) The company has long term capital gains of ₹10,20,000.
- (ix) The company has income under the head Business/Profession ₹11 crore.

Solution:

(i) Computation of Tax Liability

	₹
Income under the head Business/Profession	50,000
Total Income	50,000
Tax on ₹50,000 @ 30%	15,000
Add: HEC @ 4%	600
Tax Liability	15,600

(ii) Computation of Tax Liability

Income under the head Business/Profession	1,00,000
Total Income	1,00,000
Tax on ₹1,00,000 @ 30%	30,000
Add: HEC @ 4%	1,200
Tax Liability	31,200

(iii) Computation of Tax Liability

Income under the head Business/Profession	500,00,000
Total Income	500,00,000
Tax on ₹500,00,000 @ 30%	150,00,000
Add: Surcharge @ 7%	10,50,000
Add: HEC @ 4%	6,42,000
Tax Liability	166,92,000

(iv) Computation of Tax Liability

Income under the head Business/Profession	100,00,000
Total Income	100,00,000
Tax on ₹100,00,000 @ 30%	30,00,000
Add: HEC @ 4%	1,20,000
Tax Liability	31,20,000

(v) Computation of Tax Liability

Income under the head Capital Gains (long term capital gains)	50,000
Total Income	50,000
Tax on ₹50,000 @ 20%	10,000

Add: HEC @ 4%	400
Tax Liability	10,400

(vi) Computation of Tax Liability

Income under the head Capital Gains (long term capital gains)	200,00,000
Total Income	200,00,000
Tax on ₹200,00,000 @ 20%	40,00,000
Add: Surcharge @ 7%	2,80,000
Add: HEC @ 4%	1,71,200
Tax Liability	44,51,200

(vii) Computation of Tax Liability

Income under the head Capital Gains (long term capital gains)	5,00,000
Total Income	5,00,000
Tax on ₹5,00,000 @ 20%	1,00,000
Add: HEC @ 4%	4,000
Tax Liability	1,04,000

(viii) Computation of Tax Liability

Income under the head Capital Gains (long term capital gains)	10,20,000
Total Income	10,20,000
Tax on ₹10,20,000 @ 20%	2,04,000
Add: HEC @ 4%	8,160
Tax Liability	2,12,160

(ix) Computation of Tax Liability

Income under the head Business/profession	11,00,00,000
Total Income	11,00,00,000
Tax on ₹11,00,00,000 @ 30%	330,00,000
Add: Surcharge @ 12%	39,60,000
Tax before health & education cess	369,60,000
Add: HEC @ 4%	14,78,400
Tax Liability	384,38,400

Illustration 8: Presume in all the above situations the assessee is a partnership firm .

Solution:

₹

(i) Computation of Tax Liability

Income under the head Business/Profession	50,000
Total Income	50,000
Tax on ₹50,000 @ 30%	15,000
Add: HEC @ 4%	600
Tax Liability	15,600

(ii) Computation of Tax Liability

Income under the head Business/Profession	1,00,000
Total Income	1,00,000
Tax on ₹1,00,000 @ 30%	30,000
Add: HEC @ 4%	1,200
Tax Liability	31,200

(iii) Computation of Tax Liability

Income under the head Business/Profession	500,00,000
Total Income	500,00,000

Tax on ₹500,00,000 @ 30%	150,00,000
Add: Surcharge @ 12%	18,00,000
Tax before health & education cess	168,00,000
Add: HEC @ 4%	6,72,000
Tax Liability	174,72,000

(iv) Computation of Tax Liability

Income under the head Business/Profession	100,00,000
Total Income	100,00,000
Tax on ₹100,00,000 @ 30%	30,00,000
Add: HEC @ 4%	1,20,000
Tax Liability	31,20,000

(v) Computation of Tax Liability

Income under the head Capital Gains (long term capital gains)	50,000
Total Income	50,000
Tax on ₹50,000 @ 20%	10,000
Add: HEC @ 4%	400
Tax Liability	10,400

(vi) Computation of Tax Liability

Income under the head Capital Gains (long term capital gains)	200,00,000
Total Income	200,00,000
Tax on ₹200,00,000 @ 20%	40,00,000
Add: Surcharge @ 12%	4,80,000
Tax before health & education cess	44,80,000
Add: HEC @ 4%	1,79,200
Tax Liability	46,59,200

(vii) Computation of Tax Liability

Income under the head Capital Gains (long term capital gains)	5,00,000
Total Income	5,00,000
Tax on ₹5,00,000 @ 20%	1,00,000
Add: HEC @ 4%	4,000
Tax Liability	1,04,000

(viii) Computation of Tax Liability

Income under the head Capital Gains (long term capital gains)	10,20,000
Total Income	10,20,000
Tax on ₹10,20,000 @ 20%	2,04,000
Add: HEC @ 4%	8,160
Tax Liability	2,12,160

(ix) Computation of Tax Liability

Income under the head Business/profession	11,00,00,000
Total Income	11,00,00,000
Tax on ₹11,00,00,000 @ 30%	330,00,000
Add: Surcharge @ 12%	39,60,000
Tax before health & education cess	369,60,000
Add: HEC @ 4%	14,78,400
Tax Liability	384,38,400

Illustration 9: Presume in all the above situations the assessee is a foreign company.

Solution:

₹

(i) Computation of Tax Liability

Income under the head Business/Profession	50,000
Total Income	50,000
Tax on ₹50,000 @ 40%	20,000
Add: HEC @ 4%	800
Tax Liability	20,800

(ii) Computation of Tax Liability

Income under the head Business/Profession	1,00,000
Total Income	1,00,000
Tax on ₹1,00,000 @ 40%	40,000
Add: HEC @ 4%	1,600
Tax Liability	41,600

(iii) Computation of Tax Liability

Income under the head Business/Profession	500,00,000
Total Income	500,00,000
Tax on ₹500,00,000 @ 40%	200,00,000
Add: Surcharge @ 2%	4,00,000
Add: HEC @ 4%	8,16,000
Tax Liability	212,16,000

(iv) Computation of Tax Liability

Income under the head Business/Profession	100,00,000
Total Income	100,00,000
Tax on ₹100,00,000 @ 40%	40,00,000
Add: HEC @ 4%	1,60,000
Tax Liability	41,60,000

(v) Computation of Tax Liability

Income under the head Capital Gains (long term capital gains)	50,000
Total Income	50,000
Tax on ₹50,000 @ 20%	10,000
Add: HEC @ 4%	400
Tax Liability	10,400

(vi) Computation of Tax Liability

Income under the head Capital Gains (long term capital gains)	200,00,000
Total Income	200,00,000
Tax on ₹200,00,000 @ 20%	40,00,000
Add: Surcharge @ 2%	80,000
Add: HEC @ 4%	1,63,200
Tax Liability	42,43,200

(vii) Computation of Tax Liability

Income under the head Capital Gains (long term capital gains)	5,00,000
Total Income	5,00,000
Tax on ₹5,00,000 @ 20%	1,00,000
Add: HEC @ 4%	4,000
Tax Liability	1,04,000

(viii) Computation of Tax Liability

Income under the head Capital Gains (long term capital gains)	10,20,000
Total Income	10,20,000
Tax on ₹10,20,000 @ 20%	2,04,000
Add: HEC @ 4%	8,160
Tax Liability	2,12,160

(ix) Computation of Tax Liability

Income under the head Business/profession	11,00,00,000
Total Income	11,00,00,000
Tax on ₹11,00,00,000 @ 40%	440,00,000
Add: Surcharge @ 5%	22,00,000
Tax before health & education cess	462,00,000
Add: HEC @ 4%	18,48,000
Tax Liability	480,48,000

Problem 5:

Compute tax liability of ABC Ltd. a domestic company in the following situations for assessment year 2024-25:

- The company has income under the head Business/Profession ₹70,000.
- The company has income under the head Business/Profession ₹150,00,000.
- The company has income under the head Business/Profession ₹6,00,000.
- The company has income under the head Business/Profession ₹10,30,000.
- The company has long term capital gains of ₹700,00,000.
- The company has long term capital gains of ₹1,50,000.
- The company has long term capital gains of ₹6,00,000.
- The company has long term capital gains of ₹10,30,000.
- The company has casual income ₹400,00,000.

Answer = (i) Tax Liability: ₹21,840; (ii) ₹50,07,600; (iii) ₹1,87,200; (iv) ₹3,21,360; (v) ₹155,79,200; (vi) ₹31,200; (vii) ₹1,24,800; (viii) ₹2,14,240; (ix) ₹133,53,600

(b) Presume all the above situations the company is a foreign company.

Answer = (i) Tax Liability: ₹29,120; (ii) ₹63,64,800; (iii) ₹2,49,600; (iv) ₹4,28,480; (v) ₹148,51,200; (vi) ₹31,200; (vii) ₹1,24,800; (viii) ₹2,14,240; (ix) ₹127,29,600

Question 14: Write a note on Computation of Tax Liability of HUF.**Answer: Tax liability of Hindu undivided family**

Hindu undivided family means any family which is Hindu by religion and its senior most male member is called karta and karta is responsible for control and management of HUF. Parental property / business etc received by karta shall be considered to be common property and taxability shall be as given below: Normal income of Hindu undivided family shall be computed at the normal slab rate as given below:

Income shall be taxable at the slab rates given below:

If total Income upto ₹3,00,000	Nil
On next ₹3,00,000	5%
On next ₹3,00,000	10%
On next ₹3,00,000	15%
On next ₹3,00,000	20%
On Balance amount	30%

Surcharge shall be applicable

@ 10% if total income has exceeded ₹50 lakhs but upto ₹100 lakhs.

@ 15% if total income has exceeded ₹100 lakhs but upto ₹200 lakhs.

@ 25% if total income has exceeded ₹200 lakhs.

Surcharge of 25% shall be applicable only if total income excluding short term capital gain under section 111A and long term capital gain under section 112 and long term capital gain under section 112A and dividend income, is exceeding ₹ 200 Lakhs

All other provisions shall be similar to individual but rebate under section 87A is not allowed. Tax rates for LTCG /LTCG 112A/ STCG u/s 111A and casual income are the same for all the persons.

If normal income of resident HUF is less than the exemption limit, the difference of the amount shall be allowed to be deducted from long term capital gain and if long term capital gains are not sufficient, it will be allowed to be adjusted from short term capital gains under section 111A or long term capital gains u/s 112A but it will not be allowed to be adjusted from casual income.

(What is HUF is given in the Hindu Law and it is not covered in the syllabus)

Example

XY HUF has income under the head business/profession ₹20 lakhs and its Karta Mr. X has individual income ₹12 lakhs, in this case tax liability of HUF and that of Karta shall be

Tax liability of HUF ₹20 lakhs at slab rate	3,00,000
Add: HEC @ 4%	12,000
Tax Liability	3,12,000
Tax Liability of Karta ₹12 lakhs at slab rate	90,000
Add: HEC @ 4%	3,600
Tax Liability	93,600

Question 15: Write a note on Computation of Tax Liability of Body of Individuals/Association of Persons.

Answer: Tax liability of BOI/AOP

Body of individual means a group of individuals which is neither a company nor a partnership firm. If it is registered in some other Act, it will be called incorporated BOI. E.g. Trust etc. If such a group includes persons other than individual also, it will be called AOP.

In general normal income shall be taxable at normal slab rate but rate may change as per provisions of section 167B. (NOT COVERED IN SYLLABUS)

Surcharge shall be applicable

@ 10% if total income has exceeded ₹50 lakhs but upto ₹100 lakhs.

@ 15% if total income has exceeded ₹100 lakhs but upto ₹200 lakhs.

@ 25% if total income has exceeded ₹200 lakhs.

Surcharge of 25% shall be applicable only if total income excluding short term capital gain under section 111A and long term capital gains under section 112 and long term capital gain under section 112A and dividend income, is exceeding ₹ 200 Lakhs.

Deductions under section 80C to 80U shall be allowed in the normal manner.

Question 16: Write a note on Computation of Tax Liability of Local Authority.

Answer: Tax liability of local authority

In order to maintain any town or city, there is always some authority responsible and such authority is called local authority e.g. MCD in Delhi. Such authority is allowed to collect house tax with regard to every type of house property and also some other tax are collected by such authority. In general income of such authority is exempt from income tax under section 10(20) but if such authority is doing any business, its income is taxable just like a partnership firm. Deductions under section 80C to 80U shall be allowed in the normal manner.

Question 17: Explain meaning of Person Section 2(31).

Answer: Meaning of Person Section 2(31)

“Person” includes—

(i) an individual,

- (ii) a Hindu undivided family,
- (iii) a company,
- (iv) a firm,
- (v) an association of persons or a body of individuals, whether incorporated or not,
- (vi) a local authority,
- (vii) every artificial juridical person, not covered above and income is taxable as slab rate (juridical means legal) e.g. ICAI or Delhi University etc.

Question 18 [V. Imp.]: Discuss Partial Integration of Agricultural Income?

Or

Discuss Indirect Taxing of Agricultural Income?

Or

Under the Constitution, the power to levy a tax on agricultural income vests in the States. However, Parliament has also levied a tax on such income. Explain how this has been achieved?

Answer:

Agricultural Income Section 10(1)

Under section 10(1), any **agricultural income in India is fully exempt** from income tax but if the agricultural income is from outside India, it is chargeable to tax. (As per entry no. 82 of Union List, Central Government has the power to levy income tax on income except agricultural income and power to levy tax on agricultural income has been given to the State Government vide entry no. 46 of State List)

Indirect taxing of agricultural income or partial integration of agricultural income (Under the constitution, the power to levy a tax on agricultural income vests in the states. However, parliament has also levied a tax on such income. Explain how this has been achieved?)

If any person has agricultural income as well as non-agricultural income, his tax liability shall be computed in the manner given below:

1. Compute tax on the total of agricultural income and non- agricultural income considering it to be total income of the assessee.
2. Compute tax on exemption limit (₹3,00,000) and agricultural income considering it to be total income.
3. Deduct tax computed under Step 2 from Step 1 and apply surcharge if any and allow rebate if any and health & education cess.
4. Long term capital gain, casual income and short term capital gain u/s 111A shall not be taken into consideration for the purpose of partial integration
5. If Agricultural income is upto ₹5,000, or non-agricultural income is upto the limit not chargeable to tax (₹3,00,000), partial integration is not applicable.
6. Partial integration is not applicable in case of a partnership firm or a company.

Power to levy taxes

Constitution of India gives the power to levy and collect taxes, whether direct or indirect, to the Central and State Government. The Parliament and State Legislatures are empowered to make laws on the matters enumerated in the Seventh Schedule which contains three lists under which the Parliament and the State Legislatures have the authority to make laws for the purpose of levy of taxes.

The following are the lists:

- (i) **Union List:** Parliament has the exclusive power to make laws on the matters contained in Union List.
- (ii) **State List:** The Legislatures of any State has the exclusive power to make laws on the matters contained in the State List.
- (iii) **Concurrent List:** Both Parliament and State Legislatures have the power to make laws on the matters contained in the Concurrent list.

Income-tax is the most significant direct tax. Entry 82 of the Union List of the Constitution of India has given the power to the Parliament to make laws on taxes on income other than agricultural income.

Illustration 10:

- (i) Mr. X has income under the head House Property ₹7,00,000 and agricultural income ₹3,00,000
- (ii) Mr. X has income under the head House Property ₹10,00,000 and agricultural income ₹3,00,000
- (iii) Mr. X has income under the head House Property ₹15,00,000 and agricultural income ₹3,00,000
- (iv) Mr. X has income under the head House Property ₹2,00,000 and agricultural income ₹5,00,000
- (v) Mr. X has income under the head House Property ₹7,00,000 and agricultural income ₹4,000
- (vi) Mr. X has LTCG ₹7,00,000 and agricultural income ₹3,00,000
- (vii) Mr. X has income under the head House Property ₹8,00,000 and deduction allowed under chapter VI-A ₹1,00,000 and agricultural income ₹3,00,000
- (viii) Mr. X has income under the head House Property ₹101,00,000 and agricultural income ₹6,00,000

Solution:

(i)

Computation of Total Income

Income under the head House Property	7,00,000.00
Gross Total Income	7,00,000.00
Less: Deduction under chapter VI-A	Nil
Total Income	7,00,000.00
Agricultural Income	3,00,000.00

Computation of Tax Liability

Normal income 7,00,000	
Step 1. Tax on (7,00,000 + 3,00,000) at slab rate	60,000.00
Step 2. Tax on (₹3,00,000 + 3,00,000) at slab rates	(15,000.00)
Step 3. Deduct Tax at Step 2 from Tax at Step 1	45,000.00
Less: Rebate u/s 87A	(25,000.00)
Tax before health & education cess	20,000.00
Add: HEC @ 4%	800.00
Tax Liability	20,800.00

(ii)

Computation of Total Income

Income under the head House Property	10,00,000.00
Gross Total Income	10,00,000.00
Less: Deduction under chapter VI-A	Nil
Total Income	10,00,000.00
Agricultural Income	3,00,000.00

Computation of Tax Liability

Normal income 10,00,000	
Step 1. Tax on (10,00,000 + 3,00,000) at slab rate	1,10,000.00
Step 2. Tax on (₹3,00,000 + 3,00,000) at slab rates	(15,000.00)
Step 3. Deduct Tax at Step 2 from Tax at Step 1	95,000.00
Tax before health & education cess	95,000.00
Add: HEC @ 4%	3,800.00
Tax Liability	98,800.00

(iii)

Computation of Total Income

Income under the head House Property	15,00,000.00
Gross Total Income	15,00,000.00

Less: Deduction under chapter VI-A	Nil
Total Income	15,00,000.00
Agricultural Income	3,00,000.00

Computation of Tax Liability

Normal income 15,00,000	
Step 1. Tax on (15,00,000 + 3,00,000) at slab rate	2,40,000.00
Step 2. Tax on (₹3,00,000 + 3,00,000) at slab rates	(15,000.00)
Step 3. Deduct Tax at Step 2 from Tax at Step 1	2,25,000.00
Tax before health & education cess	2,25,000.00
Add: HEC @ 4%	9,000.00
Tax Liability	2,34,000.00

(iv)**Computation of Total Income**

Income under the head House Property	2,00,000.00
Gross Total Income	2,00,000.00
Less: Deduction under chapter VI-A	Nil
Total Income	2,00,000.00
Agricultural Income	5,00,000.00

There will be no partial Integration as normal income is less than the exemption limit and Tax Liability is Nil.

(v)**Computation of Total Income**

Income under the head House Property	7,00,000.00
Gross Total Income	7,00,000.00
Less: Deduction under chapter VI-A	Nil
Total Income	7,00,000.00
Agricultural Income	4,000.00

In this case, Agricultural income is upto ₹5000/-, thereby, partial integration shall not be applicable.

Computation of Tax Liability

Tax on ₹7,00,000 at slab rate	25,000
Less: Rebate u/s 87A	(25,000)
Tax Liability	Nil

(vi) There will be no partial integration as normal income is Nil**Computation of Total Income**

Income under the head Capital Gains	7,00,000.00
Gross Total Income	7,00,000.00
Less: Deduction under chapter VI-A	Nil
Total Income	7,00,000.00
Agricultural Income	3,00,000.00

Computation of Tax Liability

Tax on LTCG 4,00,000 (7,00,000 - 3,00,000) @ 20%	80,000.00
Less: Rebate u/s 87A	(25,000.00)
Tax before health & education cess	55,000.00
Add: HEC @ 4%	2,200.00
Tax Liability	57,200.00

(vii)

Computation of Total Income

Income under the head House Property	8,00,000.00
Gross Total Income	8,00,000.00
Less: Deduction under chapter VI-A	(1,00,000.00)
Total Income	7,00,000.00
Agricultural Income	3,00,000.00

Computation of Tax Liability

Normal income 7,00,000	
Step 1. Tax on (7,00,000 + 3,00,000) at slab rate	60,000.00
Step 2. Tax on (₹3,00,000 + 3,00,000) at slab rates	(15,000.00)
Step 3. Deduct Tax at Step 2 from Tax at Step 1	45,000.00
Less: Rebate u/s 87A	(25,000.00)
Tax before health & education cess	20,000.00
Add: HEC @ 4%	800.00
Tax Liability	20,800.00

(viii)

Computation of Total Income

Income under the head House Property	101,00,000.00
Gross Total Income	101,00,000.00
Less: Deduction under chapter VI-A	Nil
Total Income	101,00,000.00
Agricultural Income	6,00,000.00

Computation of Tax Liability

Normal income 101,00,000	
Step 1. Tax on (101,00,000 + 6,00,000) at slab rate	29,10,000.00
Step 2. Tax on (₹3,00,000 + 6,00,000) at slab rates	(45,000.00)
Step 3. Deduct Tax at Step 2 from Tax at Step 1	28,65,000.00
Tax before surcharge	28,65,000.00
Add: Surcharge @ 15%	4,29,750.00
Tax before marginal relief	32,94,750.00
Less: Marginal Relief	(76,250.00)

Working Note:

Tax + surcharge 15% on income of ₹101,00,000	32,94,750
Tax + surcharge 10% on income of ₹100,00,000	(31,18,500)
Tax on 100,00,000 + 6,00,000 =	28,80,000
Tax on 3,00,000 + 6,00,000 =	45,000
Balance =	28,35,000
Add: Surcharge @ 10%	2,83,500
Total	31,18,500
Increase in tax	1,76,250
Increase in income	1,00,000
Marginal Relief (1,76,250 – 1,00,000)	76,250

Tax after marginal relief	32,18,500.00
Add: HEC @ 4%	1,28,740.00
Tax Liability	33,47,240.00

Practice Problem 6:

- (i) Mr. X has income under the head House Property ₹7,20,000 and agricultural income ₹5,00,000
- (ii) Mr. X has income under the head House Property ₹15,00,000 and agricultural income ₹10,00,000
- (iii) Mr. X has income under the head House Property ₹3,00,000 and agricultural income ₹5,00,000

- (iv) Mr. X has income under the head House Property ₹10,00,000 and agricultural income ₹4,000
 (v) Mr. X has LTCG ₹7,00,000 and agricultural income ₹6,00,000
 (vi) Mr. X has income under the head House Property ₹9,00,000 and deduction allowed under chapter VI-A ₹1,00,000 and agricultural income ₹3,00,000

Optional Tax Regime

(i) Income shall be taxable at the slab rates given below:

If total Income upto ₹2,50,000	NIL
On next ₹2,50,000	5%
On next ₹5,00,000	20%
On Balance amount	30%

(ii) Senior Citizen (60 and above)

If total income is upto ₹3,00,000	NIL
On next ₹2,00,000	5%
On next ₹5,00,000	20%
On Balance amount	30%

(iii) Very Senior Citizen (80 and above)

If total income is upto ₹5,00,000	NIL
On next ₹5,00,000	20%
On Balance amount	30%

Rebate u/s 87A

Rebate shall be allowed if total income is upto ₹5,00,000 (instead of ₹7,00,000). Maximum amount of rebate shall be ₹ 12,500 (instead of ₹25,000)

Surcharge

- @ **10%** provided total income is exceeding **₹ 50 lakhs but it is upto ₹ 100 lakhs.**
- @ **15%** provided total income is exceeding **₹ 100 lakhs but it is upto ₹ 200 lakh.**
- @ **25%** provided total income is exceeding **₹ 200 lakhs but it is upto ₹ 500 lakh.**
- @ **37%** provided total income is exceeding **₹ 500 Lakhs.**

SOLUTIONS

TO

PRACTICE PROBLEMS

Solution 1:

(i)

Total income	9,00,000
On first ₹3,00,000	Nil
On next ₹3,00,000 @ 5%	15,000
On next ₹3,00,000 @ 10%	30,000
Tax before health and education cess	45,000
Add: health & education cess @ 4%	1,800
Tax Liability	46,800

(ii)

Total income	25,00,000
On first ₹3,00,000	Nil
On next ₹3,00,000 @ 5%	15,000
On next ₹3,00,000 @ 10%	30,000
On next ₹3,00,000 @ 15%	45,000
On next ₹3,00,000 @ 20%	60,000
On balance ₹10,00,000 @ 30%	3,00,000
Tax before health and education cess	4,50,000
Add: health & education cess @ 4%	18,000
Tax Liability	4,68,000

(iii)

Total income	37,50,000
On first ₹3,00,000	Nil
On next ₹3,00,000 @ 5%	15,000
On next ₹3,00,000 @ 10%	30,000
On next ₹3,00,000 @ 15%	45,000
On next ₹3,00,000 @ 20%	60,000
On balance ₹22,50,000 @ 30%	6,75,000
Tax before health and education cess	8,25,000
Add: health & education cess @ 4%	33,000
Tax Liability	8,58,000

(iv)

Total income	41,32,000
On first ₹3,00,000	Nil
On next ₹3,00,000 @ 5%	15,000
On next ₹3,00,000 @ 10%	30,000
On next ₹3,00,000 @ 15%	45,000
On next ₹3,00,000 @ 20%	60,000
On balance ₹26,32,000 @ 30%	7,89,600
Tax before health and education cess	9,39,600

Add: health & education cess @ 4%	37,584
Tax Liability	9,77,184
Rounded off u/s 288B	9,77,180

(v)

Total income	50,00,000
On first ₹3,00,000	Nil
On next ₹3,00,000 @ 5%	15,000
On next ₹3,00,000 @ 10%	30,000
On next ₹3,00,000 @ 15%	45,000
On next ₹3,00,000 @ 20%	60,000
On balance ₹35,00,000 @ 30%	10,50,000
Tax before health and education cess	12,00,000
Add: health & education cess @ 4%	48,000
Tax Liability	12,48,000

(vi)

Total income	36,66,000
On first ₹3,00,000	Nil
On next ₹3,00,000 @ 5%	15,000
On next ₹3,00,000 @ 10%	30,000
On next ₹3,00,000 @ 15%	45,000
On next ₹3,00,000 @ 20%	60,000
On balance ₹21,66,000 @ 30%	6,49,800
Tax before health and education cess	7,99,800
Add: health & education cess @ 4%	31,992
Tax Liability	8,31,792
Rounded off u/s 288B	8,31,790

(vii)

Total income	26,32,300
On first ₹3,00,000	Nil
On next ₹3,00,000 @ 5%	15,000
On next ₹3,00,000 @ 10%	30,000
On next ₹3,00,000 @ 15%	45,000
On next ₹3,00,000 @ 20%	60,000
On balance ₹11,32,300 @ 30%	3,39,690
Tax before health and education cess	4,89,690
Add: health & education cess @ 4%	19,587.60
Tax Liability	5,09,277.60
Rounded off u/s 288B	5,09,280.00

(viii)

Total income	21,22,220
On first ₹3,00,000	Nil
On next ₹3,00,000 @ 5%	15,000
On next ₹3,00,000 @ 10%	30,000
On next ₹3,00,000 @ 15%	45,000
On next ₹3,00,000 @ 20%	60,000
On balance ₹6,22,220 @ 30%	1,86,666
Tax before health and education cess	3,36,666
Add: health & education cess @ 4%	13,466.64
Tax Liability	3,50,132.64

Rounded off u/s 288B	3,50,130.00
 (ix)	
Total income	32,42,405
Rounded off u/s 288A	32,42,410
On first ₹3,00,000	Nil
On next ₹3,00,000 @ 5%	15,000
On next ₹3,00,000 @ 10%	30,000
On next ₹3,00,000 @ 15%	45,000
On next ₹3,00,000 @ 20%	60,000
On balance ₹17,42,410 @ 30%	5,22,723
Tax before health and education cess	6,72,723
Add: health & education cess @ 4%	26,908.92
Tax Liability	6,99,631.92
Rounded off u/s 288B	6,99,630.00

 (x)	
Total income	49,49,495
Rounded off u/s 288A	49,49,500
On first ₹3,00,000	Nil
On next ₹3,00,000 @ 5%	15,000
On next ₹3,00,000 @ 10%	30,000
On next ₹3,00,000 @ 15%	45,000
On next ₹3,00,000 @ 20%	60,000
On balance ₹34,49,500 @ 30%	10,34,850
Tax before health and education cess	11,84,850
Add: health & education cess @ 4%	47,394
Tax Liability	12,32,244
Rounded off u/s 288B	12,32,240

Solution 2:

 (i)	
Total Income	70,00,000.00
Computation of Tax Liability	
Tax on normal income at slab rate	18,00,000.00
Tax before surcharge	18,00,000.00
Add: Surcharge @ 10%	1,80,000.00
Tax before HEC	19,80,000.00
Add: HEC @ 4%	79,200.00
Tax Liability	20,59,200.00

 (ii)	
Total Income	150,00,000.00
Computation of Tax Liability	
Tax on normal income at slab rate	42,00,000.00
Tax before surcharge	42,00,000.00
Add: Surcharge @ 15%	6,30,000.00
Tax before HEC	48,30,000.00
Add: HEC @ 4%	1,93,200.00
Tax Liability	50,23,200.00

(iii)	
Total Income	200,00,000.00
Computation of Tax Liability	
Tax on normal income at slab rate	57,00,000.00
Tax before surcharge	57,00,000.00
Add: Surcharge @ 15%	8,55,000.00
Tax before HEC	65,55,000.00
Add: HEC @ 4%	2,62,200.00
Tax Liability	68,17,200.00

(iv)	
Total Income	300,00,000.00
Computation of Tax Liability	
Tax on normal income at slab rate	87,00,000.00
Tax before surcharge	87,00,000.00
Add: Surcharge @ 25%	21,75,000.00
Tax before HEC	108,75,000.00
Add: HEC @ 4%	4,35,000.00
Tax Liability	113,10,000.00

(v)	
Total Income	700,00,000.00
Computation of Tax Liability	
Tax on normal income at slab rate	207,00,000.00
Tax before surcharge	207,00,000.00
Add: Surcharge @ 25%	51,75,000.00
Tax before HEC	258,75,000.00
Add: HEC @ 4%	10,35,000.00
Tax Liability	269,10,000.00

(vi)	
Total Income	1000,00,000.00
Computation of Tax Liability	
Tax on normal income at slab rate	297,00,000.00
Tax before surcharge	297,00,000.00
Add: Surcharge @ 25%	74,25,000.00
Tax before HEC	371,25,000.00
Add: HEC @ 4%	14,85,000.00
Tax Liability	386,10,000.00

(vii)	
Total Income	51,00,000.00
Computation of Tax Liability	
Tax on normal income at slab rate	12,30,000.00
Add: Surcharge @ 10%	1,23,000.00
Tax before marginal relief	13,53,000.00
Less: Marginal Relief	(53,000.00)

Working Note:	
Tax + surcharge @ 10% on income of ₹51,00,000	13,53,000
Tax on income of ₹50,00,000	(12,00,000)
Increase in tax	1,53,000
Increase in income	1,00,000
Marginal Relief (1,53,000 – 1,00,000)	53,000

Tax after marginal relief	13,00,000.00
Add: HEC @ 4%	52,000.00
Tax Liability	13,52,000.00

(viii)

Total Income	101,00,000.00
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Computation of Tax Liability

Tax on normal income at slab rate	27,30,000.00
Add: Surcharge @ 15%	4,09,500.00
Tax before marginal relief	31,39,500.00
Less: Marginal Relief	(69,500.00)

Working Note:

Tax + surcharge @ 15% on income of ₹101,00,000	31,39,500
Tax + surcharge @ 10% on income of ₹100,00,000	(29,70,000)
Increase in tax	1,69,500
Increase in income	1,00,000
Marginal Relief (1,69,500 – 1,00,000)	69,500

Tax after marginal relief	30,70,000.00
Add: HEC @ 4%	1,22,800.00
Tax Liability	31,92,800.00

(ix)

Total Income	201,00,000.00
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Computation of Tax Liability

Tax on normal income at slab rate	57,30,000.00
Add: Surcharge @ 25%	14,32,500.00
Tax before marginal relief	71,62,500.00
Less: Marginal Relief	(5,07,500.00)

Working Note:

Tax + surcharge @ 25% on income of ₹201,00,000	71,62,500
Tax + surcharge @ 15% on income of ₹200,00,000	(65,55,000)
Increase in tax	6,07,500
Increase in income	1,00,000
Marginal Relief (6,07,500 – 1,00,000)	5,07,500

Tax after marginal relief	66,55,000.00
Add: HEC @ 4%	2,66,200.00
Tax Liability	69,21,200.00

(x)

Total Income	501,00,000.00
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Computation of Tax Liability

Tax on normal income at slab rate	147,30,000.00
Add: Surcharge @ 25%	36,82,500.00
Tax before HEC	184,12,500.00
Add: HEC @ 4%	7,36,500.00
Tax Liability	1,91,49,000.00

Solution 3:

(i)

Total income	6,00,000
On first ₹3,00,000	Nil
On next ₹3,00,000 @ 5%	15,000
Tax before Rebate	15,000

Less: Rebate u/s 87A (15,000)
 Tax Liability Nil

(ii)
 Total income 7,00,000
 On first ₹3,00,000 Nil
 On next ₹3,00,000 @ 5% 15,000
 On next ₹1,00,000 @ 10% 10,000
 Tax before Rebate 25,000
 Less: Rebate u/s 87A (25,000)
 Tax Liability Nil

(iii)
 Total income 7,02,000
 On first ₹3,00,000 Nil
 On next ₹3,00,000 @ 5% 15,000
 On next ₹1,02,000 @ 10% 10,200
 Tax before Rebate 25,200
 Less: Rebate u/s 87A Nil
 Less: Marginal Relief (23,200)

Working Note:	
Tax on income of ₹7,02,000	25,200
Tax on income of ₹7,00,000	(Nil)
Increase in tax	25,200
Increase in income	2,000
Marginal Relief (25,200 – 2,000)	23,200

Tax before HEC 2,000
 Add: HEC@ 4% 80
 Tax Liability 2,080

(iv)
 Total income 7,19,000
 On first ₹3,00,000 Nil
 On next ₹3,00,000 @ 5% 15,000
 On next ₹1,19,000 @ 10% 11,900
 Tax before Rebate 26,900
 Less: Rebate u/s 87A Nil
 Less: Marginal Relief (7,900)

Working Note:	
Tax on income of ₹7,19,000	26,900
Tax on income of ₹7,00,000	(Nil)
Increase in tax	26,900
Increase in income	19,000
Marginal Relief (26,900 – 19,000)	7,900

Tax before HEC 19,000
 Add: HEC@ 4% 760
 Tax Liability 19,760

(v)
 Total income 7,26,000
 On first ₹3,00,000 Nil
 On next ₹3,00,000 @ 5% 15,000
 On next ₹1,26,000 @ 10% 12,600

Tax before Rebate	27,600
Less: Rebate u/s 87A	Nil
Less: Marginal Relief	(1,600)

Working Note:	
Tax on income of ₹7,26,000	27,600
Tax on income of ₹7,00,000	(Nil)
Increase in tax	27,600
Increase in income	26,000
Marginal Relief (27,600 – 26,000)	1,600

Tax before HEC	26,000
Add: HEC@ 4%	1,040
Tax Liability	27,040

(vi)

Total income	4,00,000
On first ₹3,00,000	Nil
On next ₹1,00,000 @ 5%	5,000
Tax before Rebate	5,000
Less: Rebate u/s 87A	(Nil)
Tax before HEC	5,000
Add: HEC @ 4%	200
Tax Liability	5,200

Note: Rebate u/s 87A is not allowed in case of non- resident.

(vii)

Total income	5,00,000
On first ₹3,00,000	Nil
On next ₹2,00,000 @ 5%	10,000
Tax before Rebate	10,000
Less: Rebate u/s 87A	(Nil)
Tax before HEC	10,000
Add: HEC @ 4%	400
Tax Liability	10,400

Note: Rebate u/s 87A is not allowed in case of non- resident.

(viii)

Total income	6,90,000
On first ₹3,00,000	Nil
On next ₹3,00,000 @ 5%	15,000
On next ₹90,000 @ 10%	9,000
Tax before Rebate	24,000
Less: Rebate u/s 87A	(Nil)
Tax before HEC	24,000
Add: HEC @ 4%	960
Tax Liability	24,960

Note: Rebate u/s 87A is not allowed in case of non- resident.

(ix)

Total income	7,10,000
On first ₹3,00,000	Nil

On next ₹3,00,000 @ 5%	15,000
On next ₹1,10,000 @ 10%	11,000
Tax before Rebate	26,000
Less: Rebate u/s 87A	(Nil)
Tax before HEC	26,000
Add: HEC @ 4%	1,040
Tax Liability	27,040

Note: Rebate u/s 87A is not allowed in case of non- resident.

(x)	
Total income	5,20,000
On first ₹3,00,000	Nil
On next ₹2,20,000 @ 5%	11,000
Tax before Rebate	11,000
Less: Rebate u/s 87A	(Nil)
Tax before HEC	11,000
Add: HEC @ 4%	440
Tax Liability	11,440

Note: Rebate u/s 87A is not allowed in case of non- resident.

Solution 4:

(i)	
Income under the House Property	1,00,000.00
Income under the Capital Gains (LTCG)	2,00,000.00
Income under the Capital Gains (STCG 111A)	5,00,000.00
Gross Total Income	8,00,000.00
Less: Deduction under chapter VI-A	Nil
Total Income	8,00,000.00

Computation of Tax Liability

Tax on normal income Nil at slab rate (1,00,000-1,00,000)	Nil
Tax on LTCG Nil (2,00,000-2,00,000) @ 20%	Nil
Tax on STCG 111A 5,00,000 @ 15%	75,000.00
Less: Rebate u/s 87A	Nil
Tax before health & education cess	75,000.00
Add: HEC @ 4%	3,000.00
Tax Liability	78,000.00

(ii)	
Income under the House Property	50,000.00
Income under the Capital Gains (LTCG)	1,00,000.00
Income under the Capital Gains (STCG 111A)	50,000.00
Income under the Capital Gains (LTCG 112A)	8,00,000.00
Gross Total Income	10,00,000.00
Less: Deduction under chapter VI-A	Nil
Total Income	10,00,000.00

Computation of Tax Liability

Tax on normal income Nil at slab rate (50,000-50,000)	Nil
Tax on LTCG Nil (1,00,000-1,00,000) @ 20%	Nil
Tax on STCG 111A Nil (50,000-50,000) @ 15%	Nil
Tax on LTCG 112A 6,00,000 (8,00,000-1,00,000-1,00,000) @ 10%	60,000.00
Less: Rebate u/s 87A	Nil

Tax before health & education cess	60,000.00
Add: HEC @ 4%	2,400.00
Tax Liability	62,400.00

(iii)

Income under the House Property	50,000.00
Income under the Capital Gains (LTCG)	1,00,000.00
Income under the Capital Gains (STCG 111A)	50,000.00
Income under the Capital Gains (LTCG 112A)	5,00,000.00
Gross Total Income	7,00,000.00
Less: Deduction under chapter VI-A	Nil
Total Income	7,00,000.00

Computation of Tax Liability

Tax on normal income Nil at slab rate (50,000-50,000)	Nil
Tax on LTCG Nil (1,00,000-1,00,000) @ 20%	Nil
Tax on STCG 111A Nil (50,000-50,000) @ 15%	Nil
Tax on LTCG 112A 3,00,000 (5,00,000-1,00,000-1,00,000) @ 10%	30,000.00
Less: Rebate u/s 87A	Nil
Tax before health & education cess	30,000.00
Add: HEC @ 4%	1,200.00
Tax Liability	31,200.00

(iv)

Income under the House Property	4,00,000.00
Income under the Capital Gains (LTCG)	1,00,000.00
Income under the Capital Gains (STCG 111A)	50,000.00
Income under the Capital Gains (LTCG 112A)	1,00,000.00
Gross Total Income	6,50,000.00
Less: Deduction under chapter VI-A	Nil
Total Income	6,50,000.00

Computation of Tax Liability

Tax on normal income at slab rate	5,000
Tax on LTCG 1,00,000 @ 20%	20,000
Tax on STCG 111A 50,000 @ 15%	7,500
Tax on LTCG 112A (1,00,000-1,00,000) @ 10%	Nil
Less: Rebate u/s 87A	(25,000.00)
Tax before health & education cess	7,500.00
Add: HEC @ 4%	300.00
Tax Liability	7,800.00

(v)

Income under the Capital Gains (LTCG)	51,00,000.00
Gross Total Income	51,00,000.00
Less: Deduction under chapter VI-A	Nil
Total Income	51,00,000.00

Computation of Tax Liability

Tax on LTCG ₹48,00,000 (51,00,000-3,00,000) @ 20%	9,60,000.00
Less: Rebate u/s 87A	Nil
Tax before surcharge	9,60,000.00
Add: Surcharge @ 10%	96,000.00
Tax before marginal relief	10,56,000.00
Less: Marginal Relief	(16,000.00)

Working Note:		
Tax + surcharge @10% on income of ₹51,00,000	10,56,000	
Tax on income of ₹50,00,000	(9,40,000)	
Increase in tax	1,16,000	
Increase in income	1,00,000	
Marginal Relief (1,16,000 – 1,00,000)	16,000	
Tax after marginal relief		10,40,000.00
Add: HEC @ 4%		41,600.00
Tax Liability		10,81,600.00

(vi)		
Income under the Capital Gains (LTCG 112A)		200,00,000.00
Gross Total Income		200,00,000.00
Less: Deduction under chapter VI-A		Nil
Total Income		200,00,000.00

Computation of Tax Liability		
Tax on LTCG 112A ₹196,00,000 (200,00,000-3,00,000-1,00,000) @ 10%		19,60,000.00
Tax before surcharge		19,60,000.00
Add: Surcharge @ 15%		2,94,000.00
Tax before health & education cess		22,54,000.00
Add: HEC @ 4%		90,160.00
Tax Liability		23,44,160.00

(vii)		
Income under the Capital Gains (STCG 111A)		102,00,000.00
Gross Total Income		102,00,000.00
Less: Deduction under chapter VI-A		Nil
Total Income		102,00,000.00

Computation of Tax Liability		
Tax on STCG 111A ₹99,00,000 (102,00,000-3,00,000) @ 15%		14,85,000.00
Less: Rebate u/s 87A		Nil
Tax before surcharge		14,85,000.00
Add: Surcharge @ 15%		2,22,750.00
Tax before Health and education cess		17,07,750.00
Add: HEC @ 4%		68,310.00
Tax Liability		17,76,060.00

Solution 5:

(i) Computation of Tax Liability

Income under the head Business/Profession		70,000
Total Income		70,000
Tax on ₹70,000 @ 30%		21,000
Add: HEC @ 4%		840
Tax Liability		21,840

(ii) Computation of Tax Liability

Income under the head Business/Profession		150,00,000
Total Income		150,00,000
Tax on ₹150,00,000 @ 30%		45,00,000
Add: Surcharge @ 7%		3,15,000
Add: HEC @ 4%		1,92,600
Tax Liability		50,07,600

(iii) Computation of Tax Liability

Income under the head Business/Profession	6,00,000
Total Income	6,00,000
Tax on ₹6,00,000 @ 30%	1,80,000
Add: HEC @ 4%	7,200
Tax Liability	1,87,200

(iv) Computation of Tax Liability

Income under the head Business/Profession	10,30,000
Total Income	10,30,000
Tax on ₹10,30,000 @ 30%	3,09,000
Add: HEC @ 4%	12,360
Tax Liability	3,21,360

(v) Computation of Tax Liability

Income under the head Capital Gains (long term capital gains)	700,00,000
Total Income	700,00,000
Tax on ₹700,00,000 @ 20%	140,00,000
Add: Surcharge @ 7%	9,80,000
Add: HEC @ 4%	5,99,200
Tax Liability	155,79,200

(vi) Computation of Tax Liability

Income under the head Capital Gains (long term capital gains)	1,50,000
Total Income	1,50,000
Tax on ₹1,50,000 @ 20%	30,000
Add: HEC @ 4%	1,200
Tax Liability	31,200

(vii) Computation of Tax Liability

Income under the head Capital Gains (long term capital gains)	6,00,000
Total Income	6,00,000
Tax on ₹6,00,000 @ 20%	1,20,000
Add: HEC @ 4%	4,800
Tax Liability	1,24,800

(viii) Computation of Tax Liability

Income under the head Capital Gains (long term capital gains)	10,30,000
Total Income	10,30,000
Tax on ₹10,30,000 @ 20%	2,06,000
Add: HEC @ 4%	8,240
Tax Liability	2,14,240

(ix) Computation of Tax Liability

Income under the head Other Sources (Casual Income)	400,00,000
Total Income	400,00,000
Tax on ₹400,00,000 @ 30%	120,00,000
Add: Surcharge @ 7%	8,40,000
Add: HEC @ 4%	5,13,600
Tax Liability	133,53,600

Solution 5(b):

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(i) Computation of Tax Liability

Income under the head Business/Profession	70,000
Total Income	70,000
Tax on ₹70,000 @ 40%	28,000
Add: HEC @ 4%	1,120
Tax Liability	29,120

(ii) Computation of Tax Liability

Income under the head Business/Profession	150,00,000
Total Income	150,00,000
Tax on ₹150,00,000 @ 40%	60,00,000
Add: Surcharge @ 2%	1,20,000
Add: HEC @ 4%	2,44,800
Tax Liability	63,64,800

(iii) Computation of Tax Liability

Income under the head Business/Profession	6,00,000
Total Income	6,00,000
Tax on ₹6,00,000 @ 40%	2,40,000
Add: HEC @ 4%	9,600
Tax Liability	2,49,600

(iv) Computation of Tax Liability

Income under the head Business/Profession	10,30,000
Total Income	10,30,000
Tax on ₹10,30,000 @ 40%	4,12,000
Add: HEC @ 4%	16,480
Tax Liability	4,28,480

(v) Computation of Tax Liability

Income under the head Capital Gains (long term capital gains)	700,00,000
Total Income	700,00,000
Tax on ₹700,00,000 @ 20%	140,00,000
Add: Surcharge @ 2%	2,80,000
Add: HEC @ 4%	5,71,200
Tax Liability	148,51,200

(vi) Computation of Tax Liability

Income under the head Capital Gains (long term capital gains)	1,50,000
Total Income	1,50,000
Tax on ₹1,50,000 @ 20%	30,000
Add: HEC @ 4%	1,200
Tax Liability	31,200

(vii) Computation of Tax Liability

Income under the head Capital Gains (long term capital gains)	6,00,000
Total Income	6,00,000
Tax on ₹6,00,000 @ 20%	1,20,000
Add: HEC @ 4%	4,800
Tax Liability	1,24,800

(viii) Computation of Tax Liability

Income under the head Capital Gains (long term capital gains)	10,30,000
Total Income	10,30,000
Tax on ₹10,30,000 @ 20%	2,06,000
Add: HEC @ 4%	8,240
Tax Liability	2,14,240

(ix) Computation of Tax Liability

Income under the head Other Sources (Casual Income)	400,00,000
Total Income	400,00,000
Tax on ₹400,00,000 @ 30%	120,00,000
Add: Surcharge @ 2%	2,40,000
Add: HEC @ 4%	4,89,600
Tax Liability	127,29,600

Solution 6:

(i)

Computation of Total Income

Income under the head House Property	7,20,000.00
Gross Total Income	7,20,000.00
Less: Deduction under chapter VI-A	Nil
Total Income	7,20,000.00
Agricultural Income	5,00,000.00

Computation of Tax Liability

Normal income 7,20,000	
Step 1. Tax on (7,20,000 + 5,00,000) at slab rate	94,000.00
Step 2. Tax on (₹3,00,000 + 5,00,000) at slab rates	(35,000.00)
Step 3. Deduct Tax at Step 2 from Tax at Step 1	59,000.00
Less: Marginal Relief	9,000.00
Step 1. Tax on (7,00,000 + 5,00,000) at slab rate	90,000.00
Step 2. Tax on (₹3,00,000 + 5,00,000) at slab rates	(35,000.00)
Step 3. Deduct Tax at Step 2 from Tax at Step 1	55,000.00
Less: Rebate u/s 87A	(25,000.00)
Balance amount of Tax	30,000.00
Increase in Tax $59,000 - 30,000 = 29,000$	
Increase in income	20,000
Marginal Relief	9,000
Tax before health & education cess	50,000.00
Add: HEC @ 4%	2,000.00
Tax Liability	52,000.00

(ii)

Computation of Total Income

Income under the head House Property	15,00,000.00
Gross Total Income	15,00,000.00
Less: Deduction under chapter VI-A	Nil
Total Income	15,00,000.00
Agricultural Income	10,00,000.00

Computation of Tax Liability

Normal income 15,00,000	
Step 1. Tax on (15,00,000 + 10,00,000) at slab rate	4,50,000.00
Step 2. Tax on (₹3,00,000 + 10,00,000) at slab rates	(1,10,000.00)
Step 3. Deduct Tax at Step 2 from Tax at Step 1	3,40,000.00

Less: Rebate u/s 87A	(Nil)
Tax before health & education cess	3,40,000.00
Add: HEC @ 4%	13,600.00
Tax Liability	3,53,600.00

(iii)**Computation of Total Income**

Income under the head House Property	3,00,000.00
Gross Total Income	3,00,000.00
Less: Deduction under chapter VI-A	Nil
Total Income	3,00,000.00
Agricultural Income	5,00,000.00

There will be no partial Integration as normal income is upto the exemption limit and Tax Liability is Nil.

(iv)**Computation of Total Income**

Income under the head House Property	10,00,000.00
Gross Total Income	10,00,000.00
Less: Deduction under chapter VI-A	Nil
Total Income	10,00,000.00
Agricultural Income	4,000.00

In this case, Agricultural income is upto ₹5000/-, thereby, partial integration shall not be applicable.

Computation of Tax Liability

Tax on normal income at slab rate	60,000.00
Tax before health & education cess	60,000.00
Add: HEC @ 4%	2,400.00
Tax Liability	62,400.00

(v) There will be no partial integration as normal income is Nil**Computation of Total Income**

Income under the head Capital Gains	7,00,000.00
Gross Total Income	7,00,000.00
Less: Deduction under chapter VI-A	Nil
Total Income	7,00,000.00
Agricultural Income	6,00,000.00

Computation of Tax Liability

Tax on LTCG 4,00,000 (7,00,000 - 3,00,000) @ 20%	80,000.00
Less: Rebate u/s 87A	(25,000.00)
Tax before health & education cess	55,000.00
Add: HEC @ 4%	2,200.00
Tax Liability	57,200.00

(vi)**Computation of Total Income**

Income under the head House Property	9,00,000.00
Gross Total Income	9,00,000.00
Less: Deduction under chapter VI-A	(1,00,000.00)
Total Income	8,00,000.00
Agricultural Income	3,00,000.00

Computation of Tax Liability

Normal income 8,00,000	
Step 1. Tax on (8,00,000 + 3,00,000) at slab rate	75,000.00
Step 2. Tax on (₹3,00,000 + 3,00,000) at slab rates	(15,000.00)

Computation of Total Income And Tax Liability

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Step 3. Deduct Tax at Step 2 from Tax at Step 1	60,000.00
Less: Rebate u/s 87A	(Nil)
Tax before health & education cess	60,000.00
Add: HEC @ 4%	2400.00
Tax Liability	62,400.00

EXAMINATION QUESTIONS

MAY – 2019

Question 5 (a)**(3 Marks)**

Miss Himanshi (68 years) is a resident individual. During the assessment year 2024-25, she has income from Long-term capital gain on transfer of equity shares ₹3,80,000 (Securities transaction has been paid on acquisition and transfer of the said shares) and income from Other sources ₹ 2,75,000.

Compute her tax liability for Assessment year 2024-25.

Solution:***Computation of Total Income***

	₹
Long term capital gains u/s 112A	3,80,000
Income from other sources	2,75,000
Gross Total Income	6,55,000
Less: Deduction under chapter VI-A	Nil
Total Income	6,55,000

Computation of Tax Liability

Tax on Long term capital gains 2,55,000 (3,80,000-1,00,000-25,000) @ 10% u/s 112A	25,500
Tax on normal income Nil (2,75,000-2,75,000)	Nil
Tax before health & education cess	25,500
Add: HEC @ 4%	1,020
Tax Liability	26,520

Note: No rebate u/s 87A from tax on LTCG 112A

TAXABILITY OF GIFT

SECTION 56

TAXABILITY OF GIFT

SECTION 56(2)(x)

Question 1: Explain taxability of gift.

Answer:

Gift received by *any person* shall be taxable and the gifts shall be divided into 3 parts.

1. Gift of sum of money
2. Gift of any property other than immovable property
3. Gift of immovable property

Taxability is as given below:

1. Gift of sum of money

If any *person* has received any **sum of money** from one or more persons without consideration and the aggregate value of all such gifts received during the year exceeds fifty thousand rupees, the whole of the aggregate value of such sum shall be taxable under the head Other Sources but if the aggregate value is upto ₹50,000, entire amount shall be exempt from income tax. E.g. Mr. X has received 3 gifts of ₹15,000 each from his 3 friends, entire amount of ₹45,000 is exempt from income tax but if he has received 3 gifts of ₹20,000 each, entire amount of ₹60,000 shall be taxable. Further it will be considered to be normal income.

2. Gift of any property other than immovable property

If any *person* has received gift of any property other than immovable property without consideration and the aggregate fair market value of such properties received during a particular year exceeds ₹50,000, it will be taxable under the head Other Sources but if aggregate value of all such properties is upto ₹50,000, it will be exempt from income tax.

If the consideration is less than the aggregate fair market value of such properties by an amount exceeding ₹50,000, aggregate fair market value as exceeds such consideration shall be taxable under the head Other Sources. Further it will be considered to be normal income.

3. Gift of immovable property

If any *person* has received any **immovable property** without consideration, it will be exempt if stamp duty value is upto ₹50,000 but if the stamp duty value exceeds fifty thousand rupees, entire stamp duty value shall be taxable under the head Other Sources. Value of individual immovable property shall be taken into consideration instead of aggregate value of all such properties.

(If any person is selling immovable property, its **Conveyance Deed** shall be prepared in the office of Registrar and some tax has to be paid to the State Government for transferring the property and it is called stamp duty and the value on which such duty is charged is called stamp duty value (also called circle rate). A person may not disclose the right value hence the value is determined by State Government.)

If immovable property has been received for a consideration which is less than the stamp duty value of the property by an amount exceeding fifty thousand rupees and also stamp duty value is exceeding by more than **10% of the actual consideration**, in such cases taxable amount shall be the stamp duty value of such property as exceeds such consideration.

Example

(i) Mr. X purchased immovable property for ₹3,00,000 but stamp duty value is ₹5,00,000, taxable amount shall be ₹2,00,000

(ii) Mr. X has sold immovable property to Mr. Y for ₹100,00,000 but stamp duty value is ₹110,00,000, in this taxable amount shall be Nil because stamp duty value is not exceeding the actual consideration by more

than 10% but if stamp duty value is ₹ 111,00,000, taxable amount shall be ₹ 11,00,000 because stamp duty is exceeding by more than 10% of actual consideration.

If the date of the agreement fixing the amount of consideration for the transfer of immovable property and the date of registration are not the same and in such cases, the stamp duty value on the date of the agreement shall be taken into consideration but part of consideration should have been paid by account payee cheque, an account payee bank draft or by use of electronic clearing system through a bank account or through such other electronic modes as may be prescribed. (Other electronic mode means Credit Card, Debit Card, Net Banking, IMPS (Immediate Payment Service), UPI (Unified Payment Interface), RTGS (Real Time Gross Settlement), NEFT (National Electronic Funds Transfer), and BHIM (Bharat Interface for Money) Aadhaar Pay) on or before the date of agreement. E.g. Mr. X has entered into agreement with a builder ABC Limited on 01.07.2016 for purchase of one building for ₹20,00,000 but stamp duty value was ₹27,00,000 and advance of ₹3,00,000 was given by account payee cheque but property was transferred in his name on 01.07.2023 and on that date stamp duty value was ₹35,00,000, in this case amount of gift shall be ₹7,00,000 (27,00,000 – 20,00,000). (Difference amount is more than ₹50,000 and more than 10% of the consideration). Similarly, it will also be considered to be normal income.

The gift is exempt in the following cases

(a) If any individual has received any gift from any of his relative, it will be exempt from income tax. The term relative shall include

- (a) spouse of the individual;
- (b) brother or sister of the individual;
- (c) brother or sister of the spouse of the individual;
- (d) brother or sister of either of the parents of the individual;
- (e) any lineal ascendant or descendant of the individual; (ascendant means mother/ father/ grand mother / grand father and so on: Descendant means son / daughter / grand son / grand daughter etc.
- (f) any lineal ascendant or descendant of the spouse of the individual;
- (g) spouse of the person referred to in items (b) to (f)

Whether mother's parents shall be included in lineal ascended is a question of law.

(b) If any individual has received any gift from any person of any amount on the occasion of his/her marriage. If gift is received by the parents of such individual, in that case it will be taxable. If any individual has received gift on the occasion of anniversary, it will be taxable.

(c) If any person has received any gift under a will/ inheritance, it will be exempt from income tax.

(d) in contemplation of death of the payer or donor (Contemplation of Death means the apprehension of an individual that his life will end in the immediate future by a particular illness etc.)

(e) from any local authority or charitable hospital or charitable educational institution or charitable trust or other similar organisation.

(f) Payment received for treatment of COVID-19

If any individual has received any amount from any person for treatment of illness related to COVID-19, it will be exempt from income tax. Payment may be received even for the treatment of family member of such individual. The individual must have a record of the COVID-19 positive report and should also mention all necessary documents of treatment of the disease upto a period of 6 months from the date of declaring COVID-19 positive.

The details of the amount so received in any financial year has to be furnished in the prescribed form to the Income-tax Department within 9 months from the end of such financial year or 31.12.2022, whichever is later.

(g) Payment in connection with death from COVID-19

If a member of the family of a deceased person has received,—

(A) from the employer of the deceased person (any amount); or

(B) from any other person or persons to the extent that such sum or aggregate of such sums does not exceed ten lakh rupees,

where the cause of death of such person is illness related to COVID-19, it will be exempt from income tax but the payment is received within twelve months from the date of death of such person; and death should be

within 6 months from the date of testing positive. The person should mention detail of COVID positive report and also he should retain death certificate in which it is mentioned reason of death is COVID-19. The details of the amount so received in any financial year has to be furnished in the prescribed form to the Income-tax Department within 9 months from the end of such financial year or 31.12.2022, whichever is later.

Question 2: Explain meaning of property.

Answer:

"PROPERTY" means the following capital asset of the assessee, namely:—

- (i) immovable property being land or building or both;
- (ii) shares and securities;
- (iii) jewellery;
- (iv) archaeological collections (relating to past/ ancient)
- (v) drawings (a picture or diagram made with a pencil, pen, or crayon without paint.)
- (vi) paintings;
- (vii) sculptures;
- (viii) any work of art; or
- (ix) bullion (Gold and silver in the form of biscuits / bricks / bars)

If any person has received gift of any other property, it will not be taxable e.g. motor car or plant and machinery or a watch or a mobile phone etc.

E.g. Mr. X received a mobile phone valued ₹70,000 from his friend, in this case, it will be exempt from income tax.

Question 3: Write a note on Taxability of gift received by HUF from its members.

Answer:

If any **Hindu undivided family** has received any gift from any of its members, it will be exempt from income tax. E.g. One HUF has received cash gift of ₹10,00,000 from one of its members, it will be exempt from income tax.

If HUF has given gift to its member, it will be taxable.

Question 4: Write a note on Taxability of stock-in-trade.

Answer:

If any person has received any asset as stock-in-trade, it will not be taxable as gift e.g. Mr. X is a dealer in gold and he has purchased gold for ₹20 lakhs but market value is ₹ 27 lakhs, in this case it will not be taxable as gift (because cost will be shown in the books as ₹20 lakhs and entire profit on sale shall be taxable under the head business/profession.)

Illustration 1: Mr. X, a dealer in shares, received the following without consideration during the P.Y.2023-24 from his friend Mr. Y, -

- (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. Y had purchased the land in April, 2015.

Mr. X purchased from his friend Z, 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.

- (4) Mr. X sold these shares in the course of his business on 23rd June, 2023.
- (5) On 1st November, 2023, Mr. X took possession of property (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.

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

Solution:

	Particulars	₹
(1)	Cash gift is taxable	75,000
(2)	Since bullion is included in the definition of property, it is taxable.	60,000
(3)	Stamp duty value of plot of land at Faridabad is taxable.	5,00,000
(4)	Difference of ₹ 2 lakh in the value of shares of X Ltd. purchased from Mr. Z, a dealer in shares, is not taxable as it represents the stock-in-trade of Mr. X. Since Mr. X 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. X.	-
(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. (Difference amount is more than ₹50,000 and more than 10% of the consideration)	3,00,000
	Income from Other Sources	9,35,000

Illustration 2: Discuss the taxability or otherwise of the following in the hands of the recipient under section 56(2)(x) the Income-tax Act, 1961 -

- (i) X HUF received ₹ 75,000 in cash from niece of Mr. X (i.e., daughter of Mr. X's sister). Mr. X is the Karta of the HUF.
- (ii) Miss. X, a member of her father's HUF, transferred a house property to the HUF without consideration. The stamp duty value of the house property is ₹ 9,00,000.
- (iii) Mr. X received 100 shares of A Ltd. from his friend as a gift on occasion of his 25th marriage anniversary. The fair market value on that date was ₹ 100 per share. He also received jewellery worth ₹45,000 (FMV) from his nephew on the same day.
- (iv) X HUF gifted a car to son of Karta for achieving good marks in XII board examination. The fair market value of the car is ₹ 5,25,000.

Solution:

	Taxable/ Non-taxable	Amount liable to tax (₹)	Reason
(i)	Taxable	75,000	Sum of money exceeding ₹50,000 received without consideration from a non-relative is taxable under section 56(2)(x). Daughter of Mr. X's sister is not a relative of X HUF, since she is not a member of X HUF.
(ii)	Non-taxable	Nil	Immovable property received without consideration by a HUF from its relative is not taxable under section 56(2)(x). Since Miss. X is a member of the HUF, she is a relative of the HUF.
(iii)	Taxable	55,000	As per provisions of section 56(2)(x), in case the aggregate fair market value of property, other than immovable property, received without consideration exceeds ₹50,000, the whole of the aggregate value shall be taxable. In this case, the aggregate fair market value of shares (₹10,000) and jewellery (₹45,000) exceeds ₹50,000. Hence, the entire amount of ₹55,000 shall be taxable.
(iv)	Non-taxable	Nil	Car is not included in the definition of property for the purpose of section 56(2)(x), therefore, the same shall not be taxable.

Illustration 3: Discuss taxability in the following cases:

- (i) Mr. X has received three gifts from his three friends
 - (a) ₹55,000 in cash
 - (b) Land with market value ₹5,00,000 but the value for the purpose of charging stamp duty ₹4,00,000.
 - (c) Jewellery with market value ₹3,00,000
 In this case, taxable amount shall be $55,000 + 4,00,000 + 3,00,000 = 7,55,000$
- (ii) Mr. X has received gift of ₹50,000 in cash from his friend, in this case it will not be considered to be his income.
- (iii) Mr. X has received gift of ₹1,50,000 in cash from his brother, in this case it will not be considered to be his income.

- (iv) Mr. X has received gift of ₹1,50,000 in cash from his mother's sister, in this case it will not be considered to be his income.
- (v) Mr. X has received gift of ₹1,50,000 in cash from his father's brother, in this case it will not be considered to be his income.
- (vi) Mr. X has received gift of ₹1,50,000 in cash from his cousin, in this case it will be chargeable to tax.
- (vii) Mr. X has received gift of ₹1,50,000 in cash from brother of his spouse, in this case it will not be considered to be his income.
- (viii) Mr. X has received gift of ₹1,50,000 in cash from his grand father, in this case it will not be considered to be his income.
- (ix) Mr. X has received gift of ₹1,50,000 in cash from spouse of his brother, in this case it will not be considered to be his income.
- (x) Mr. X has received gift of ₹1,50,000 in cash from husband of his sister, in this case it will not be considered to be his income.
- (xi) Mr. X has received gift of ₹1,50,000 in cash from sister of his brother's wife, in this case it will be considered to be his income.
- (xii) Mr. X has received gift of ₹1,50,000 in cash from the sister of his spouse, in this case it will not be considered to be his income.
- (xiii) Mr. X has received gift of ₹5,000 in cash on his birthday from each of his eleven friends, in this case it will be considered to be his income because the total amount is exceeding ₹50,000.
- (xiv) Mr. X has received gift of property valued ₹1,50,000 from his friend, in this case it will be considered to be his income.
- (xv) Mr. X has received gift of ₹1,50,000 in cash from his friend on the occasion of his marriage, in this case it will not be considered to be his income.
- (xvi) Mr. X has received gift of ₹75,000 in cash and property ₹75,000 from his fiancée, in this case gift in cash will be considered to be his income and the gift as property shall also be considered to be his income.

Question 5: Explain taxability of gift received from employer.

Answer: Gifts to the Employees Section 17(2)(viii) Rule 3(7)(iv)

Gift given by the employer in kind upto ₹5,000 in aggregate during a particular year is exempt and excess over it is taxable. If the employer has given any voucher or token in lieu of which such gift may be received, it will also be exempt in the similar manner.

Gifts in cash or gifts convertible into cash i.e. gift cheques etc. shall be fully chargeable to tax.

E.g. Mr. X is employed in ABC Ltd. and he has received a cash gift of ₹11,000 from his employer, in this case taxable amount shall be ₹11,000 and it will be income under the head Salary and shall be taxable at the normal rate but if Mr. X has received one wrist watch of ₹11,000 from his employer, taxable amount shall be ₹6,000.

Question 6: Explain Taxability of gift received in connection with business/profession.

Answer: Gifts or Perquisites from Clients Section 28

The value of any benefit or perquisite, whether convertible into money or not, arising from business or the exercise of a profession, shall be taxable under the head business profession.

If any person has received any gift or perquisite or benefit either in cash or in kind from any of his clients, it will be considered to be business receipt and shall be taken into consideration while computing income under the head business/profession.

Example: A Doctor has received a gift of ₹ 40,000 from one of his clients, in this case it will be considered to be income under the head business/profession.

Question 7: Explain taxability of scholarship/ award / reward.

Answer: Scholarship Section 10(16)

Any scholarship received by a person for meeting the cost of education shall be exempt from income tax.

Award/ Reward Section 10(17A)

Any award or reward whether in cash or in kind instituted by the Central Government or the State Government shall be exempt from income tax. Similarly any private award or reward shall be exempt from income tax if approved by the Central Government.

MULTIPLE CHOICE QUESTIONS

1. Gift of sum of money is exempt if

- (a) aggregate value during particular year is less ₹50,000
- (b) aggregate value during particular year is upto ₹50,000
- (c) if value of individual gift is upto ₹50,000
- (d) aggregate value during particular year is less ₹1,00,000

2. In case of gift of immovable property, value to be taken into consideration shall be

- (a) market value of individual property
- (b) market value of all the properties
- (c) stamp duty value of individual property
- (d) stamp duty value of all the properties

3. For the purpose of gift, the term relative shall include

- (a) grand father of individual
- (b) brother's son of individual
- (c) brother of father of spouse
- (d) all the above

4. Property for the purpose of gift shall include

- (a) shares and securities
- (b) jewellery
- (c) mobile phone
- (d) work of art
- (e) (a), (b) and (d)

5. Which of the statement is correct

- (a) gift received by an employee is exempt upto ₹10,000
- (b) cash gift received by an employee upto ₹5,000 is exempt
- (c) gift in kind received by an employee upto ₹5,000 is exempt
- (d) gift in kind received by an employee upto ₹50,000 is exempt

6. Which of the statement is correct

- (a) scholarship received by any person is exempt u/s 10(17A)
- (b) award or reward of central government is taxable u/s 28
- (c) gift received by a professional from his client is taxable as per section 28
- (d) gift received by an employee exceeding ₹5,000 is taxable u/h other sources

7. which of the statement is false

- (a) gift received by HUF from its member is exempt
- (b) gift received from sister of spouse is exempt
- (c) gift of motor car received from a friend is exempt
- (d) cash gift upto ₹5,000 received from employer is exempt

8. The term relative do not include

- (a) lineal ascendant or descendant of individual
- (b) lineal ascendant or descendant of spouse of individual
- (c) lineal ascendant or descendant of brother of individual
- (d) none of the above

9. If any person has purchased immovable property for ₹20 lakh but stamp duty value is ₹23 lakhs, in this case taxable amount of gift shall be

- (a) 3 lakh
- (b) 1 lakh
- (c) Nil
- (d) 23 lakh

10. Which of the following gift is taxable

- (a) Mr. X received cash gift ₹51,000 from his friend
- (b) Mr. Y received cash gift ₹51,000 from his fiancée

- (c) Mr. Z received cash gift ₹51,000 from his friend's father
- (d) all the above
- (e) none of the above

11. Mr. Kashyap has acquired a building from his friend on 10.10.2023 for ₹15,00,000. The stamp duty value of the building on the date of purchase is ₹15,70,000. Income chargeable to tax in the hands of Mr. Kashyap is

- (a) ₹ 70,000
- (b) ₹ 50,000
- (c) Nil
- (d) ₹ 20,000

12. Ganesh received ₹60,000 from his friend on the occasion of his birthday

- (a) The entire amount of ₹60,000 is taxable
- (b) ₹50,000 is taxable
- (c) The entire amount is exempt
- (d) ₹10,000 is taxable

13. Mr. Y has received a sum of ₹51,000 on 24.10.2023 from relatives on the occasion of his marriage.

- (a) Entire ₹51,000 is chargeable to tax.
- (b) Only ₹ 1,000 is chargeable to tax
- (c) Entire ₹ 51,000 is exempt from tax
- (d) Only 50% i.e., ₹ 25,500 is chargeable to tax

14. Mr. Mayank has received a sum of ₹ 75,000 on 24.10.2023 from his friend on the occasion of his marriage anniversary.

- (a) Entire ₹ 75,000 is chargeable to tax.
- (b) Entire ₹75,000 is exempt from tax
- (c) Only ₹ 25,000 is chargeable to tax
- (d) Only 50% i.e., ₹ 37,500 is chargeable to tax

15. Ashok took possession of property on 31st August 2023 booked by him three years back at ₹25 lakhs, The Stamp Duty Value (SDV) of the property as on 31st August 2023 was ₹31 lakh and on date of booking it was ₹29 lakh. He had paid ₹2 lakh by A/c payee cheque as down payment on date of booking. Which of the following will be considered as income, if any, and in which previous year

- (a) ₹4 lakhs in P.Y. 2023-24
- (b) ₹4 lakhs in P.Y. 2020-21
- (c) ₹6 lakhs in P.Y. 2022-23

(d) No income shall be taxable, since down payment was paid by A/c payee cheque while booking the property

16. Mr. Kishore celebrated his 50th marriage anniversary. On this occasion, his wife received a diamond necklace worth ₹5,00,000 from Kishore's brother. Kishore's son gifted him a luxurious car worth ₹15,00,000, His grandchildren gifted them a new furniture set worth ₹3,00,000. Also, he received cash gifts from his friends amounting collectively to ₹80,000. Which of them the following statements stand true on taxability.

- (a) Neither Mr. Kishore nor Mrs. Kishore will be liable for tax for any gifts since they have been received on occasion of marriage anniversary
- (b) Mr. Kishore & Mrs. Kishore will jointly share the tax liability on all the gifts
- (c) Mrs. Kishore will be liable to pay tax on diamond set and Mr. Kishore will bear tax for the cash gifts received
- (d) Mr. Kishore will be liable for tax on cash gifts only.

17. Sujata, aged 16 years, received scholarship of ₹50,000 during the previous year 2023-24. Which of the following statements are true regarding taxability of such income:

- (a) Such income shall be assessed in hands of Sujata
- (b) Such income to be included with the income of parent whose income before such clubbing is higher
- (c) Such income is completely exempt from tax
- (d) Such income to be clubbed with father's income

18. Mr. X received cash gift ₹ 51,000 and gift of jewelry valued ₹ 49,000, in this case taxable amount shall be

- (a) ₹ 51,000
- (b) ₹ 49,000
- (c) ₹ 1,00,000
- (d) Nil
- (e) none of these

19. Mr. X received cash gift ₹ 40,000, gift of land stamp duty value ₹ 40,000 and gift of building stamp duty value ₹ 40,000, in this case taxable amount shall be

- (a) ₹ 40,000
- (b) ₹ 80,000
- (c) ₹ 1,20,000
- (d) Nil
- (e) none of these

20. Mr. X purchased one house property for ₹ 3,00,000 market value ₹ 7,00,000 stamp duty value ₹ 3,40,000, in this case taxable amount shall be

- (a) ₹ 4,00,000
- (b) ₹ 40,000
- (c) Nil
- (d) ₹ 3,40,000
- (e) none of these

Answer:

1. (b); 2. (c); 3. (a); 4. (e); 5. (c); 6. (c); 7. (d); 8. (c); 9. (a); 10. (d); 11.(c); 12.(a);13.(c); 14. (a) 15. (a) ; 16. (d) ; 17. (c); 18. (a); 19. (d); 20. (c)

PRACTICE PROBLEMS

TOTAL PROBLEMS 5

Problem 1.

Discuss taxability in the following cases:

- (i) Mr. X has received gift of ₹ 50,000 in cash from his friend.
- (ii) Mr. X has received gift of ₹ 2,50,000 in cash from his brother.
- (iii) Mr. X has received gift of ₹ 2,50,000 in cash from his mother's sister.
- (iv) Mr. X has received gift of ₹ 2,50,000 in cash from his father's brother.
- (v) Mr. X has received gift of ₹ 2,50,000 in cash from his cousin.
- (vi) Mr. X has received gift of ₹ 2,50,000 in cash from brother of his spouse.
- (vii) Mr. X has received gift of ₹ 2,50,000 in cash from his grand father.
- (viii) Mr. X has received gift of ₹ 2,50,000 in cash from spouse of his brother.
- (ix) Mr. X has received gift of ₹ 2,50,000 in cash from husband of his sister.
- (x) Mr. X has received gift of ₹ 2,50,000 in cash from sister of his brother's wife.
- (xi) Mr. X has received gift of ₹ 2,50,000 in cash from the sister of his spouse.
- (xii) Mr. X has received gift of ₹6,000 in cash on his birthday from each of his eleven friends.
- (xiii) Mr. X has received gift of ₹ 2,50,000 as property from his friend.
- (xiv) Mr. X has received gift of ₹2,50,000 in cash from his friend on the occasion of his marriage.
- (xv) Mr. X has received gift of ₹1,00,000 in cash and ₹1,00,000 as property from his fiancée.

Problem 2.

Mr. X submits the particulars for the previous year 2023-24 as given below:

1. He has received a gift of ₹27,000 from one of his friend on 01.09.2023.
2. He has received a gift of ₹11,000 on 01.10.2023 from his wife Mrs. X.
3. He has received a gift of ₹29,000 from his step daughter on 01.01.2024.
4. He has received a gift of ₹27,000 from grand mother of Mrs. X on 07.01.2024.
5. He has received a gift of ₹70,000 in kind from his employer on 01.03.2024.
6. He has received gold as gift from his friend on 01.12.2023 with value ₹2,00,000.
7. He has received ₹27,000 as gift from his maternal aunt (mother's sister) on 10.12.2023.
8. He has received two gifts of ₹30,000 each from his neighbours on 01.06.2023.

Compute his tax liability for assessment year 2024-25.

Answer = Tax Liability: Nil

Problem 3.

Mr. X received gift in cash ₹5,00,000 from son of his father's brother and gift of ₹1,00,000 in cash from brother of father of Mrs. X. He has agricultural income ₹5,00,000.

Compute his tax liability for Assessment Year 2024-25.

Answer = Tax Liability: ₹15,600

Problem 4.

Mr. X received jewellery valued ₹8,00,000 from brother of his grand father and his agricultural income is ₹1,00,000.

Compute his income and tax liability for Assessment Year 2024-25.

Answer = Total Income: ₹8,00,000; Tax Liability: ₹41,600

Problem 5.

Following gifts are received by Mrs. X, who is carrying on jewellery business, during the previous year 2023-24:

- (i) On the occasion of her marriage on 07.09.2023, she has received ₹1,20,000 as gift out of which ₹85,000 are from relatives and balance from friends.
- (ii) On 03.10.2023, she has received cash gift of ₹2,50,000 from cousin of her mother.
- (iii) A mobile phone worth ₹15,000 is gifted by her friend on 21.09.2023.
- (iv) She gets a cash gift of ₹2,40,000 from the elder brother of her husband's grandfather on 10.12.2023.

(v) She has received a cash gift of ₹6,00,000 from her friend on 27.01.2024.

(vi) She has received bullion, the fair market value of which was ₹4,75,000 on her birthday, 19.01.2024.

Mrs. X purchased from her friend, who is also carrying jewellery business, jewellery at ₹ 2,50,000 on 25.01.2024, the fair market value of which was ₹5,00,000 on that date.

Compute total income and tax liability of Mrs. X for A.Y.2024-25.

Answer = Total Income: ₹15,65,000; Tax Liability: ₹1,76,280

SOLUTIONS

TO

PRACTICE PROBLEMS

Solution 1:

- (i) Mr. X has received gift of ₹50,000 in cash from his friend, in this case it will not be considered to be his income.
- (ii) Mr. X has received gift of ₹2,50,000 in cash from his brother, in this case it will not be considered to be his income.
- (iii) Mr. X has received gift of ₹ 2,50,000 in cash from his mother's sister, in this case it will not be considered to be his income.
- (iv) Mr. X has received gift of ₹2,50,000 in cash from his father's brother, in this case it will not be considered to be his income.
- (v) Mr. X has received gift of ₹2,50,000 in cash from his cousin, in this case it will be chargeable to tax.
- (vi) Mr. X has received gift of ₹2,50,000 in cash from brother of his spouse, in this case it will not be considered to be his income.
- (vii) Mr. X has received gift of ₹2,50,000 in cash from his grand father, in this case it will not be considered to be his income.
- (viii) Mr. X has received gift of ₹2,50,000 in cash from spouse of his brother, in this case it will not be considered to be his income.
- (ix) Mr. X has received gift of ₹2,50,000 in cash from husband of his sister, in this case it will not be considered to be his income.
- (x) Mr. X has received gift of ₹2,50,000 in cash from sister of his brother's wife, in this case it will be considered to be his income.
- (xi) Mr. X has received gift of ₹2,50,000 in cash from the sister of his spouse, in this case it will not be considered to be his income.
- (xii) Mr. X has received gift of ₹6,000 in cash on his birthday from each of his eleven friends, in this case it will be considered to be his income because the total amount is exceeding ₹50,000.
- (xiii) Mr. X has received gift of ₹2,50,000 in kind from his friend, in this case it will be considered to be his income.
- (xiv) Mr. X has received gift of ₹2,50,000 in cash from his friend on the occasion of his marriage, in this case it will not be considered to be his income.
- (xv) Mr. X has received gift of ₹1,00,000 in cash and ₹1,00,000 as property from his fiancée, in this case gift in cash will be considered to be his income and the gift in kind shall also be considered to be his income.

Solution 2:

Computation of income under the head Salary

	₹
Gift in kind from his employer (70,000 – 5,000)	65,000.00
Less: Standard deduction u/s 16(ia)	(50,000.00)
Income under the head Salary	15,000.00

Computation of income under the head Other Sources

Gift received from friend	27,000.00
Gifts received from neighbours	60,000.00
Gift received from friend in kind	2,00,000.00
Income under the head Other Sources	2,87,000.00
Gross Total Income	3,02,000.00
Less: Deduction under chapter VI-A	Nil
Total Income	3,02,000.00

Computation of Tax Liability

Tax on ₹3,02,000 at slab rate	100.00
Less: Rebate u/s 87A	(100.00)
Tax before health & education cess	Nil
Add: HEC @ 4%	Nil
Tax Liability	Nil

Solution 3:

₹

Computation of income under the head Other Sources

Gift received from son of his father's brother	5,00,000
Gift received from brother of father's of Mrs. X	1,00,000
Income under the head Other Sources	6,00,000
Gross Total Income	6,00,000
Less: Deduction under chapter VI-A	Nil
Total Income	6,00,000
Agricultural Income	5,00,000

Computation of Tax Liability

Step 1. Tax on (6,00,000 + 5,00,000) at slab rates	75,000
Step 2. Tax on (₹3,00,000 + 5,00,000) at slab rates	(35,000)
Step 3. Deduct Tax at Step 2 from Tax at Step 1	40,000
Tax before health & education cess	40,000
Less: Rebate u/s 87A	(25,000)
Tax before health & education cess	15,000
Add: HEC @ 4%	600
Tax Liability	15,600

Solution 4:

₹

Computation of income under the head Other Sources

Gift in kind from brother of his grand father	8,00,000
Income under the head Other Sources	8,00,000
Gross Total Income	8,00,000
Less: Deduction under chapter VI-A	Nil
Total Income	8,00,000
Agricultural Income	1,00,000

Computation of Tax Liability

Step 1. Tax on (8,00,000 + 1,00,000) at slab rates	45,000
Step 2. Tax on (₹3,00,000 + 1,00,000) at slab rates	(5,000)
Step 3. Deduct Tax at Step 2 from Tax at Step 1	40,000
Tax before health & education cess	40,000
Add: HEC @ 4%	1,600
Tax Liability	41,600

Solution 5:**Computation of Total Income of Mrs. X for the A.Y. 2024-25**

₹

Gift received on the occasion of marriage are exempt	--
Cash gift received from cousin of Mrs. X's mother is taxable under section 56(2)(x) (Cousin of Mrs. X's mother is not a relative)	2,50,000
Mobile phone gifted by her friend is not taxable since it is not included in the definition of "property" under section 56(2)(x)	--
Cash gift received from elder brother of husband's grandfather is taxable (Brother of husband's grandfather is not a relative)	2,40,000
Cash gift from friend is taxable	6,00,000
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	4,75,000
Difference of ₹2.5 lakh in the value of jewellery purchased from her friend, is not taxable as it represents the stock-in-trade of Mrs. X. Since Mrs. X is carrying jewellery business and it has been mentioned that the jewellery were subsequently sold in the course of her business, such jewellery represent the stock-in-trade of Mrs. X.	Nil
Income under the head Other Sources	15,65,000
Gross Total Income	15,65,000
Less: Deduction under chapter VI-A	Nil
Total Income	15,65,000
Computation of Tax Liability	
Tax on ₹ 15,65,000 at slab rate	1,69,500
Add: HEC @ 4%	6,780
Tax Liability	1,76,280

EXAMINATION QUESTIONS

MAY – 2018 (NEW COURSE)

Question 5 (a)**Marks 3**

Discuss the taxability of the following receipts in the hands of Mr. Sanjay Kamboj under the Income Tax Act, 1961 for A.Y.2024-25:

- (i) ₹51,000 received from his sister living in US on 1-6-2023.
- (ii) Received a car from his friend on payment of ₹2,50,000 the FMV of which was ₹5,50,000.

Provisions of taxability or Non-taxability must be discussed.

Answer:

- (i) As per section 56(2), Gift received from relative is not taxable. In the given case, Sister is covered under the definition of relative and Gift received from her is not taxable.
- (ii) As per section 56(2), Gift in Kind exceeding ₹50,000 received from non - relative is taxable but in the given case Car is not covered under the definition of Gift in Kind hence Car received from non-relative is not taxable.

MAY – 2016

Question 4(a)**(2 x 2 = 4 Marks)**

Discuss the taxability or otherwise in the hands of the recipients, as per the provisions of the Income-tax Act, 1961:

- (i) Mr. N, a member of his father's HUF, transferred a house property to the HUF without consideration. The value of the house is ₹10 lacs as per the Registrar of stamp duty.
- (ii) Mr. Kumar gifted a car to his sister's son (Sunil) for achieving good marks in CA Final exam. The fair market value of the car is ₹5,00,000.

Answer:

- (i) Non-Taxable: As per sec 56(2)(x), if HUF has received any Gift from its member, it will be exempt from Income tax. In the given case, HUF has received a Gift of house property from its member Mr. N hence it will be exempt from income tax and what is the value of house property shall not matter.
- (ii) Non-Taxable: If any person has received a gift from brother of mother, it will be covered in the definition of relative and shall be exempt from income tax further if a gift is taxable it should be covered in the definition of property as given u/s 56(2)(x). In the given case gift is from relative and further gift is of motor car which is not covered in the definition of property hence it will be exempt from Income Tax.

MAY – 2012

Question 1**(1 Marks)**

State 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 Mr. X on the occasion of the marriage of his son Mr. Y.

Answer: As per section 56(2)(x), if any gift has been received on the occasion of marriage, it will be exempt from income tax but if gift has been received by the parents of the person getting married, such gift shall be taxable hence in this case gift received by Mr. X is taxable because marriage is that of his son Mr. Y.

MAY – 2011

Question 7**(4 Marks)**

The following details have been furnished by Mrs. X, pertaining to the year ended 31.03.2024:

- (i) Cash gift of ₹51,000 received from her friend on the occasion of her “Shastiaptha 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 21.02.2024, her friend assigned in Mrs. X'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 ₹51,000.

(iv) She has short term capital gains under section 111A ₹10 lakhs.

Compute total income and tax liability for assessment year 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. X.

(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 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. X—

(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. 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. X 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 be attracted in respect of the fixed deposit assigned and the "Income from other sources" of Mrs. X would be ₹1,02,000 (₹51,000 + ₹51,000).

Tax liability as per first view

Income under the head Other Sources	51,000.00
Income under the head Capital Gains (STCG u/s 111A)	10,00,000.00
Gross Total Income	10,51,000.00
Less: Deduction under chapter VI-A	Nil
Total Income	10,51,000.00

Computation of Tax Liability

Tax on ₹51,000 at slab rate	Nil
Tax on ₹7,51,000 (₹10,00,000 – ₹2,49,000) @ 15%	1,12,650.00
Add: HEC @ 4%	4,506.00
Tax Liability	1,17,156.00
Rounded off u/s 288B	1,17,160.00

Tax liability as per second view

Income under the head Other Sources	1,02,000.00
Income under the head Capital Gains (STCG u/s 111A)	10,00,000.00
Gross Total Income	11,02,000.00
Less: Deduction under chapter VI-A	Nil
Total Income	11,02,000.00

Computation of Tax Liability

Tax on ₹1,02,000 at slab rate	Nil
Tax on ₹8,02,000 (₹10,00,000 – ₹1,98,000) @ 15%	1,20,300.00

Add: HEC @ 4%	4,812.00
Tax Liability	1,25,112.00
Rounded off u/s 288B	1,25,110.00

NOV – 2008**Question 2****(4 Marks)**

Mrs. X has received the following gifts during previous year 2023-24.

- (i) On the occasion of her marriage on 14.08.2023, she has received ₹90,000 as gift out of which ₹70,000 are from relatives and balance from friends.
 - (ii) On 12.09.2023, she has received gift of ₹18,000 from cousin of her mother.
 - (iii) A cell phone of ₹71,000 is gifted by her employer on 15.08.2023.
 - (iv) She gets a gift of ₹25,000 from the elder brother of her husband's grandfather on 25.10.2023.
 - (v) She has received a gift of ₹2,000 from her friend on 14.04.2023.
 - (vi) She has won ₹4 lakh from a game show on electronic media.
- Compute her tax liability for assessment year 2024-25.

Answer:**Computation of taxable income of Mrs. X from gifts for A.Y. 2024-25**

Particulars	Taxable amount ₹	Reason for taxability or otherwise of each gift
• Relatives and friends	Nil	Gifts received on the occasion of marriage are not taxable.
• Cousin of Mrs. X's mother	18,000	Cousin of Mrs. X's mother is not a relative. Hence, the gift is taxable.
• Elder brother of husband's grandfather	25,000	Brother of husband's grandfather is not a relative. Hence, the gift is taxable.
• Friend	2,000	Gift from friend is taxable.
Aggregate value of gifts	45,000	

Since the aggregate value of gifts received by Mrs. X during the previous year 2023-24 does not exceed ₹50,000, the same is not chargeable to tax under section 56(2)(x) of the Income-Tax Act, 1961.

Gift received from the employer in kind upto ₹5,000 is exempt from income tax but excess over it is taxable hence in this case taxable amount of gift shall be ₹66,000 (71,000 – 5,000) and it will be taxable under the head Salary.

Gross Salary	66,000
Less: Standard deduction u/s 16(ia)	(50,000)
Income under the head Salary	16,000

Income under the head Other Sources	4,00,000
Gross Total Income	4,16,000
Less: Deduction under chapter VI-A	Nil
Total Income	4,16,000

Computation of Tax Liability

Tax on ₹16,000 at slab rate	Nil
Tax on ₹4,00,000 @ 30%	1,20,000
Less: Rebate u/s 87A	(25,000)
Tax before HEC	95,000
Add: HEC @ 4%	3,800
Tax Liability	98,800

MAY – 2008**Question 3****(1 Marks)**

Choose the correct answer with reference to the provisions of the Income-tax Act, 1961:

Mr. X received ₹70,000 from his friend on the occasion of his birthday.

- (a) The entire amount of ₹70,000 is taxable
- (b) ₹25,000 is taxable
- (c) The entire amount is exempt
- (d) None of the above.

Answer:

- (a) The entire amount of ₹70,000 is taxable.

MAY – 2005

Question 1

(1 Marks)

Gift of ₹5,00,000 received on 10th July, 2023 through account payee cheque from a non-relative regularly assessed to income-tax, is

- (a) A capital receipt not chargeable to tax
- (b) Chargeable to tax as income from other sources
- (c) Chargeable to tax as business income
- (d) Exempt upto ₹50,000 and balance chargeable to tax as income from other sources.

Answer:

- (b) Chargeable to tax as income from other sources

ADVANCE PAYMENT OF TAX OR PAY AS YOU EARN SCHEME

SECTION 207 TO 219

SECTIONS	PARTICULARS
207	Liability for payment of advance tax
208	Conditions of liability to pay advance tax
211	Instalments of advance tax and due dates
234A	Computation of interest in case of payment of tax after last date of filing of ROI
234B	Computation of interest in case of payment of tax after end of previous year
234C	Computation of interest in case of default in payment of advance tax
Rule 119A	Rounded off of the amount on which interest is to be computed

Question 1: Write a note on advance payment of income tax.

Answer: As per section 207, every person shall pay tax in advance as per the provisions of advance tax i.e. in general every person should estimate his income and pay tax however exact amount of income tax shall be calculated at the end of the year.

As per section 208, advance tax shall be payable during a financial year in every case where the amount of such tax payable by the assessee during that year, is ten thousand rupees or more.

As per section 211, all assessee have to pay advance tax in the manner given below:

Due date of installment	Amount payable
Upto 15 th June of P.Y.	15% of tax payable
Upto 15 th September of P.Y.	45% of tax payable
Upto 15 th December of P.Y.	75% of tax payable
Upto 15 th March of P.Y.	100% of tax payable

Example

For the previous year 2023-24, ABC Ltd. has estimated its tax payable to be ₹2,00,000, in this case advance tax shall be paid by the company as given below:

Upto 15.06.2023	30,000
Upto 15.09.2023	90,000
Upto 15.12.2023	1,50,000
Upto 15.03.2024	2,00,000

If the last day for payment of any installment of advance tax is a day on which the receiving bank is closed, the assessee can make the payment on the next immediately following working day.

Question 2: Write a note on payment of interest for late payment of income tax

Answer: As per section 234C, if any person has defaulted in payment of advance tax, interest shall be charged @ 1% per month for a period of 3 months on the amount of default in each installment, but for the last installment, interest shall be charged only for one month.

Income tax paid upto 31st March of previous year is also called advance tax.

As per section 234B, if advance tax paid is less than 90% of actual tax liability, assessee shall be required to pay interest @ 1% per month or part of a month from 1st April of assessment year upto the date of payment. If advance tax paid is 90% or more of actual tax liability, no interest is payable.

As per section 234A, if any person has paid income tax after expiry of the last date of filing of return of income, interest shall be payable @ 1% p.m. or part of the month for the period subsequent to the last date of filing of return of income.

Illustration 1: ABC Ltd. has estimated its tax liability for assessment year 2024-25 ₹4,40,000 and has paid advance tax accordingly but actual tax liability was found to be ₹10,00,000.

The company has paid balance amount on 02.12.2024 and filed return of income on the same date.

Compute interest payable under section 234A, 234B, and 234C.

Solution:

Estimated Tax = 4,40,000 Actual Tax = 10,00,000

Interest under section 234C shall be computed in the manner given below:

	Tax Payable	Tax Paid	Default
15.06.2023	1,50,000	66,000	84,000
Interest u/s 234C =	84000 x 1% x 3 = 2,520		
15.09.2023	4,50,000	1,98,000	2,52,000
Interest u/s 234C =	2,52,000 x 1% x 3 = 7,560		
15.12.2023	7,50,000	3,30,000	4,20,000
Interest u/s 234C =	4,20,000 x 1% x 3 = 12,600		
15.03.2024	10,00,000	4,40,000	5,60,000
Interest u/s 234C =	5,60,000 x 1% x 1 = 5,600		
Total interest payable u/s 234C			28,280

Interest under section 234B shall be computed from 01.04.2024 to 02.12.2024 and is as given below:

10,00,000 – 4,40,000 = 5,60,000 x 1% x 9 = 50,400

Interest under section 234A shall be computed from 01.11.2024 to 02.12.2024 and is as given below:

5,60,000 x 1% x 2 = 11,200

Total interest payable (28,280 + 50,400 + 11,200) 89,880

Illustration 2: ABC Ltd. has tax liability of ₹7,00,000 for the previous year 2023-24 and the company has not paid any advance tax and entire tax amount was paid by the company on 31.12.2024. In this case, interest shall be calculated in the manner given below:

1. Interest u/s 234C

		₹
15.06.2023	1,05,000 x 1% x 3 =	3,150
15.09.2023	3,15,000 x 1% x 3 =	9,450
15.12.2023	5,25,000 x 1% x 3 =	15,750
15.03.2024	7,00,000 x 1% x 1 =	7,000
Total interest payable		35,350

2. Interest u/s 234B (01-04-2024 to 31-12-2024)

7,00,000 x 1% x 9 = 63,000

3. Interest u/s 234A (01-11-2024 to 31-12-2024)

7,00,000 x 1% x 2 = 14,000

Total Interest Payable 1,12,350

Question 3: Explain Special Provision for all assessee.

Answer: Special Provision for all assessee

If the advance tax paid by the assessee upto 15th June is 12% of the tax payable and upto 15th September, is 36% of the tax payable, in such cases no interest shall be charged for default in such instalment.

Illustration 3: ABC Ltd. has estimated its tax payable to be ₹5,00,000 for previous year 2023-24 and has paid advance tax accordingly but actual tax liability of the company was found to be ₹5,50,000 and difference of tax amount was paid on 10.12.2024. Compute interest under section 234A, 234B and 234C.

Solution:

Interest under section 234C shall be computed in the manner given below:

	Tax Payable	Tax Paid	Default
15.06.2023	82,500	75,000	7,500
Interest u/s 234C = Nil (because advance tax paid is at least 12%)			
15.09.2023	2,47,500	2,25,000	22,500
Interest u/s 234C = Nil (because advance tax paid is at least 36%)			
15.12.2023	4,12,500	3,75,000	37,500
Interest u/s 234C = $37,500 \times 1\% \times 3 = 1,125$			
15.03.2024	5,50,000	5,00,000	50,000
Interest u/s 234C = $50,000 \times 1\% \times 1 = 500$			
Total interest payable u/s 234C			1,625

Interest under section 234B

Advance tax paid is more than 90% of actual tax liability, no interest is payable

Interest under section 234A shall be computed from 01.11.2024 to 10.12.2024 and is as given below:

$50,000 \times 1\% \times 2 =$	1,000
Total interest payable (1,625 + 1,000)	2,625

A senior citizen who do not have income under the head business/profession shall be exempt from payment of advance tax. **In this case, interest u/s 234B & 234C shall not be payable but Interest u/s 234A shall be payable.**

Question 4: Explain Payment of advance tax in case of capital gains/casual income/ newly setup business/ profession/dividend income.

Answer: Payment of advance tax in case of capital gains/casual income/newly setup business/ profession/ dividend income Section 234C

In case of capital gains, casual income and *dividend income*, no advance tax is payable on estimated basis but if there is actual accrual of casual income or capital gains or *dividend income*, advance tax is to be paid in the subsequent installments and if such accrual is after 15th March, advance tax is to be paid upto 31st March of previous year otherwise interest shall be charged under section 234C.

Illustration 4: Mr. X has paid advance tax as given below:

Upto 15.06.2023	₹ 15,000
Upto 15.09.2023	₹ 45,000
Upto 15.12.2023	₹ 95,000
Upto 15.03.2024	₹1,70,000

He had long term capital gains of ₹3,00,000 on 01.01.2024 and his income under the head business/Profession is ₹20,00,000

He has filed return of income on 10.12.2024 and has paid difference of the tax on 10.12.2024.

Last date for filing of return is 31.07.2024.

Compute interest payable under section 234A, 234B and 234C.

Solution:

Computation of Tax Liability

	₹
Normal Income	20,00,000
Long term capital gains	3,00,000
Total Income	23,00,000
Tax on ₹20,00,000 at slab rate	3,00,000
Tax on ₹3,00,000 @ 20%	60,000
Tax before health & education cess	3,60,000
Add: HEC @ 4%	14,400

Tax Liability 3,74,400
 (Tax liability excluding capital gains i.e. ₹23,00,000 - ₹3,00,000 = ₹20,00,000 at slab rate + HEC @ 4%
 3,12,000)

Interest u/s 234C

Since capital gains arises on 1st January 2024, installments for 15th June, 15th September and 15th December shall be checked without including tax on capital gain and shall be as given below:

	Amount payable ₹	Amount actually paid ₹	Shortfall ₹
Upto 15.06.2023 (3,12,000 x 15%) Interest u/s 234C = 31,800 x 1% x 3 = 954	46,800.00	15,000	31,800.00
Upto 15.09.2023 (3,12,000 x 45%) Interest u/s 234C = 95,400 x 1% x 3 = 2,862	1,40,400.00	45,000	95,400.00
Upto 15.12.2023 (3,12,000 x 75%) Interest u/s 234C = 1,39,000 x 1% x 3 = 4,170	2,34,000.00	95,000	1,39,000.00
Installment for 15 th March shall be including tax on capital gains and is as given below: Upto 15.03.2024 (3,74,400 x 100%) Interest u/s 234C = 2,04,400 x 1% x 1 = 2,044	3,74,400	1,70,000	2,04,400.00
Total Interest u/s 234C			₹10,030

Interest u/s 234B (01-04-2024 to 10-12-2024)

2,04,400 x 1% x 9 ₹18,396

Interest u/s 234A (01-08-2024 to 10-12-2024)

2,04,400 x 1% x 5 ₹10,220

Similar provision shall be applicable in case of a newly setup Business/Profession

If any Assessee has started Business/Profession in the current year, assessee shall be exempt from payment of advance tax prior to commencement of Business/Profession i.e. advance tax has to be paid in installments subsequent to commencement of Business/Profession.

If Business/Profession has been started after 15th March, advance tax should be paid upto 31st March otherwise Interest shall be charged under section 234C for one month @ 1%.

Example: Mr. X started his business on 01.10.2023 and had income ₹10,00,000 upto 31.03.2024, In this case, he will be required to pay advance tax in the manner given below:

Income under the head Business/ Profession	₹ 10,00,000
Gross Total Income/Total Income	10,00,000
Computation of Tax Liability	
Tax on 10,00,000 at slab rate	60,000
Add: HEC @ 4%	2,400
Tax Liability	62,400

Advance Tax Payment

15.06.2023	Nil
15.09.2023	Nil
15.12.2023 (62,400 x 75%)	46,800.00
15.03.2024 (62,400 x 100%)	62,400.00

Illustration 5: ABC Ltd. started his business on 01.10.2023 and had earning from business from 01.10.2023 to 31.03.2024 ₹20,00,000, in this case company need not pay advance tax upto 15.09.2023 but advance tax is to be paid in subsequent installments. Company should pay advance tax on 15.12.2023 equal to (20,00,000 x 30% + HEC) x 75% = 4,68,000 and company should pay total advance tax on 15.03.2024 equal to (20,00,000 x 30% + HEC) x 100% = 6,24,000.

Illustration 6: A partnership firm made the following payments of advance tax during the financial year 2024-25:

	₹
Upto June 15, 2023	4,15,000
Upto September 15, 2023	8,25,000
Upto December 15, 2023	16,64,000
Upto March 15, 2024	26,23,000

Return of income filed by the firm is ₹88,00,000 under the head “profits and gains of business or profession” and ₹9,50,000 by way of long term capital gains on sale of a property effected on December 1, 2023. What is the interest payable by the assessee under section 234B and section 234C for assessment year 2024-25? Assume that the return of income was filed on 31.10.2024 i.e. the due date and tax was fully paid on self assessment.

Solution:

Computation of Tax Liability

	₹
Business income	88,00,000
Long term capital gains	9,50,000
Total Income	97,50,000
Tax on ₹88,00,000 @ 30%	26,40,000
Tax on ₹9,50,000 @ 20%	1,90,000
Add: HEC @ 4%	1,13,200
Tax Liability	29,43,200
(Tax liability excluding capital gains ₹97,50,000 - ₹9,50,000 = ₹88,00,000 x 30% + HEC@ 4%)	
27,45,600)	

Interest u/s 234C

Since capital gains arises on 1st December 2023, installment for 15th June and 15th September shall be checked without including tax on capital gain and shall be as given below:

	Amount payable ₹	Amount actually paid ₹	Shortfall ₹
Upto 15.06 2023 (27,45,600 x 15%)	4,11,840	4,15,000	NIL
Interest u/s 234C = Nil			
Upto 15.09 2023 (27,45,600 x 45%)	12,35,520	8,25,000	4,10,520
Rounded off under rule 119A = 4,10,500			
Interest u/s 234C = 4,10,500 x 1% x 3 month = 12,315			

Installments for 15th December and 15th March shall be including tax on capital gains and is as given below:

Upto 15.12.2023 (29,43,200 x 75%)	22,07,400	16,64,000	5,43,400
Interest u/s 234C = 5,43,400 x 1% x 3 month = 16,302			
Upto 15.03.2024 (29,43,200 x 100%)	29,43,200	26,23,000	3,20,200
Interest u/s 234C = 3,20,200 x 1% x 1 month = 3,202			

Total Interest u/s 234C ₹31,819

Interest u/s 234B (01-04-2024 to 31-10-2024)

3,20,200 x 1% x 7 ₹22,414

Rounding off for the purpose of calculating Interest Rule 119A

As per rule 119A, the principal amount shall be rounded off in the multiples of ₹100 and for this purpose any fraction of ₹100 shall be ignored. E.g. ₹1,60,275 shall be rounded off as 1,60,200.

Illustration 7: ABC Ltd. has paid advance tax for the previous year 2023-24 as given below:

1. Upto 15.06.2023 ₹ 50,000

2. Upto 15.09.2023	₹1,50,000
3. Upto 15.12.2023	₹3,00,000
4. Upto 15.03.2024	₹6,00,000

Actual tax liability was found to be ₹7,00,000 and balance tax was paid on 10.12.2024. Compute interest payable under section 234A, 234B, 234C.

Solution:

Interest under section 234C shall be computed in the manner given below:

	Tax Payable	Tax Paid	Shortfall
15.06.2023	1,05,000	50,000	55,000
Interest u/s 234C = $55,000 \times 1\% \times 3 =$	1,650		
15.09.2023	3,15,000	1,50,000	1,65,000
Interest u/s 234C = $1,65,000 \times 1\% \times 3 =$	4,950		
15.12.2023	5,25,000	3,00,000	2,25,000
Interest u/s 234C = $2,25,000 \times 1\% \times 3 =$	6,750		
15.03.2024	7,00,000	6,00,000	1,00,000
Interest u/s 234C = $1,00,000 \times 1\% \times 1 =$	1,000		
Total interest payable u/s 234C			14,350
Interest under section 234B shall be computed from 01.04.2024 to 10.12.2024 and is as given below:			
$7,00,000 - 6,00,000 = 1,00,000 \times 1\% \times 9 =$			9,000
Interest under section 234A shall be computed from 01.11.2024 to 10.12.2024 and is as given below:			
$1,00,000 \times 1\% \times 2 =$			2,000
Total interest payable (14,350 + 9,000 + 2,000)			25,350

(b) Presume actual tax liability is ₹6,50,000.**Solution:**

Interest under section 234C shall be computed in the manner given below:

	Tax Payable	Tax Paid	Shortfall
15.06.2023	97,500	50,000	47,500
Interest u/s 234C = $47,500 \times 1\% \times 3 =$	1,425		
15.09.2023	2,92,500	1,50,000	1,42,500
Interest u/s 234C = $1,42,500 \times 1\% \times 3 =$	4,275		
15.12.2023	4,87,500	3,00,000	1,87,500
Interest u/s 234C = $1,87,500 \times 1\% \times 3 =$	5,625		
15.03.2024	6,50,000	6,00,000	50,000
Interest u/s 234C = $50,000 \times 1\% \times 1 =$	500		
Total interest payable u/s 234C			11,825
Interest under section 234B			
Advance tax paid is more than 90% of actual tax liability, no interest is payable			
Interest under section 234A shall be computed from 01.11.2024 to 10.12.2024 and is as given below:			
$50,000 \times 1\% \times 2 =$			1,000
Total interest payable (11,825 + 1,000)			12,825

Due date for filing the return of income Section 139(1)

Return is to be filed in general upto 31st July of the assessment year, however, in the following cases, the last date shall be 31st October of the assessment year.

1. Every company assessee

Example

For the previous year 2023-24, ABC Ltd. has to file its return of income upto 31.10.2024.

2. Any other person who is required to get his accounts audited either under Income Tax Act or under any other Act.

Example

Mr. X has his own business and his turnover for previous year 2023-24 is ₹102 lakhs. In this case, the last

date of filing the return of income shall be 31.10.2024, but if turnover is ₹97 lakhs, the last date shall be 31.07.2024.

Similarly if a partnership firm XY has turnover of its business ₹ 65 lakhs for previous year 2023-24, in this case, the last date of filing of return of income shall be 31.07.2024.

Audit u/s 44AB

1. As per Section 44AB, Audit is compulsory for every person carrying on business and sales turnover or gross receipts exceeds ₹ 1 crore during the previous year and every person carrying on profession and gross receipts is exceeding ₹50 lakh during the previous year.

2. Every person carrying on business, if his total sales turnover or gross receipts, in business exceeds **₹10 Crore** during the previous year provided that in the case of a person whose—

(a) aggregate of all amounts received including amount received for sales, turnover or gross receipts during the previous year, in cash, does not exceed five per cent. of the said amount. and

(b) aggregate of all payments made including amount incurred for expenditure, in cash, during the previous year does not exceed five per cent. of the said payment

If tax liability is less than ₹ 10,000 then interest u/s 234B & 234C shall not be payable but Interest u/s 234A shall be payable.

Eg. Mr. X has Income under LTCG 112A is ₹ 4,50,000 and he paid income tax on 10/12/2024. Compute Interest u/s 234A, 234B & 234C. In this case, His Tax Liability shall be :

	₹
Income under the head Capital Gains	4,50,000
Gross Total Income/Total Income	4,50,000
Computation of Tax Liability	
Tax on ₹50,000 (4,50,000-1,00,000-3,00,000) @ 10% u/s 112A	5,000
Add: HEC @ 4%	200
Tax Liability	5,200

Since Tax Liability is less than ₹ 10,000 hence Interest u/s 234B & 234C is not payable.

Interest u/s 234A = 5,200 x 1% x 5 = ₹260

Question 5: Explain Powers of Assessing officer to direct the Assessee to pay Advance Tax.

Answer: Powers of Assessing Officer to direct the Assessee to pay Advance Tax Section 209, 210

If any person has not paid advance tax and Assessing Officer is of the opinion that such person has to pay advance tax, in such cases Assessing Officer may issue him a notice in Form No.28 directing such person to pay advance tax but notice can be given only if such person has already been assessed through regular assessment in any of the earlier years. Regular assessment shall include scrutiny assessment under section 143(3) or Best judgement assessment under section 144. If Assessing Officer has issue notice, estimated income for such year shall be the income of the latest previous year in respect of which the assessee has been assessed by way of regular assessment but if assessee has filed any return subsequently and income reported in such return is higher than the income selected above, in that case income reported by the assessee shall be considered to be estimated income of current year.

If the assessee do not pay the advance tax even after receiving such notice, he will be considered to be assessee in-default as per section 218 and penalty can be imposed equal to the amount not paid as per section 221.

If the assessee finds that his tax liability shall be less than the amount computed by the Assessing Officer, assessee may give a reply in Form No.28A and can pay tax as per his own estimate.

Example

For the previous year 2023-24, ABC Ltd. has not paid any advance tax till 10.10.2023 and in the earlier years the company was assessed in the manner given below:

2020-21	143(3) (Scrutiny Assessment)	7,00,000
2021-22	144 (Best Judgement Assessment)	10,00,000

2022-23

ROI

8,00,000

In this case Assessing officer shall have the powers to give notice to the assessee and its estimated income shall be considered to be ₹10,00,000. If any assessee has received a notice in form no. 28 but he finds that his tax liability shall be less than the amount computed by the Assessing Officer, in that case he can give a reply in form no. 28A and can pay tax as per his own estimate.

MULTIPLE CHOICE QUESTIONS

1. Which of the following statement is not correct.

- (a) advance tax is payable only if tax payable during a particular year is ₹10,000 or more
- (b) a senior citizen is always exempt from payment of advance tax
- (c) upto 15th Dec of previous year, advance tax payable is atleast 75%
- (d) in case of default in payment of advance tax interest shall be charged @ 1% p.m.

2. Which of the following statement is not correct.

- (a) if atleast 12% of actual tax has been paid upto 15th June, interest u/s 234C is not payable
- (b) if atleast 24% of actual tax has been paid upto 15th Sept, interest u/s 234C is not payable
- (c) if atleast 75% of actual tax has been paid upto 15th Dec, interest u/s 234C is not payable
- (d) last date for Filing of ROI in case of a company is 31st Oct of the assessment year

3. Which of the following statement is not correct.

- (a) advance tax payable upto 15th June of the previous year is atleast 15%
- (b) advance tax payable upto 15th Sept of the previous year is atleast 45%
- (c) advance tax payable upto 15th Dec of the previous year is atleast 70%
- (d) advance tax payable upto 15th March of the previous year is atleast 100%

4. In case of default in payment of advance tax, interest shall be charged

- (a) 2% p.m. u/s 234C
- (b) 1% p.m. u/s 234B
- (c) 1.5% p.m. u/s 234A
- (d) 1% p.m. u/s 234C

5. In case of default in payment of Self assessment tax, interest shall be charged

- (a) 2% p.m. u/s 234C , (b) 1% p.m. u/s 234B ,(c) 1.5% p.m. u/s 234A , (d) 1% p.m. u/s 234C

6. In case of default in payment of self assessment tax after last date of filing of ROI, interest shall be charged

- (a) 2% p.m. u/s 234C
- (b) 1% p.m. u/s 234B
- (c) 1% p.m. u/s 234A + 1% p.m. u/s 234B
- (d) 1% p.m. u/s 234C

7. Advance tax is payable by a senior citizen only when

- (a) he has income u/h capital gains
- (b) he has income u/h house property
- (c) he has income u/h business/profession
- (d) he has income u/h casual income

8. Which of the statement is correct

- (a) a company has to pay advance tax irrespective of tax payable
- (b) a partnership firm has to pay advance tax if tax payable is ₹1,00,000 or more
- (c) all the assesseees are required to pay advance tax if tax payable is ₹10,000 or above
- (d) an individual is exempt from payment of advance tax

9. Audit is required

- (a) if turnover of business exceeding ₹100 lakhs
- (b) if turnover of profession exceeding ₹50 lakhs
- (c) (a) or (b)
- (d) if income of business is exceeding ₹10 lakhs

10. Assessing Officer can issue a notice for payment of advance tax

- (a) to any assessee
- (b) any assessee who has been assessed through regular assessment
- (c) any assessee who paid tax of ₹10 lakh or more in the earlier years
- (d) any assessee who has not paid advance tax for last three year

Answer

1. (b); 2. (b); 3. (c); 4. (d); 5. (b); 6. (c); 7. (c); 8. (c); 9. (c); 10. (b)

PRACTICE PROBLEMS

TOTAL PROBLEMS 3

Problem 1.

Mr. X has incomes as given below:

1. Income under the head house property ₹15,00,000
2. Gift of a painting from a friend with market value ₹2,00,000
3. Gift of shares and securities from Mrs. X valued ₹3,00,000
4. Agricultural income ₹3,00,000

He has paid advance tax as given below:

Upto 15 th June 2023	₹15,000
Upto 15 th Sept 2023	₹30,000
Upto 15 th Dec 2023	₹50,000
Upto 15 th March 2024	₹60,000

Balance amount of tax was paid and return of income was filed on 10th Sept 2024.

Compute his tax liability for the Assessment Year 2024-25 and also interest under section 234A, 234B and 234C.

Answer = Tax Liability: ₹2,96,400; Interest under section 234A: ₹4,728; Interest under section 234B: ₹14,184; Interest under section 234C: ₹11,514

Problem 2.

ABC Ltd. (an Indian Company) has income as given below:

1. Income from Business ₹20,00,000
2. Income under the head House Property ₹7,00,000

The company has paid advance tax as given below:

Upto 15 th June 2023	₹ 20,000
Upto 15 th Sept 2023	₹ 30,000
Upto 15 th Dec 2023	₹ 80,000
Upto 15 th March 2024	₹1,00,000

Balance amount of tax was paid and return of income was filed on 10th Dec 2024.

Due date for filing of ROI in case of ABC Ltd. is 31.10.2024.

Compute tax liability for the Assessment Year 2024-25 and also interest under section 234A, 234B and 234C.

Answer = Tax Liability: ₹8,42,400; Interest under section 234A: ₹14,848; Interest under section 234B: ₹66,816; Interest under section 234C: ₹37,637

Problem 3.

Mrs. X has income under the head house property ₹18,00,000 and she has received gift of ₹3,00,000 in cash from her husband's sister and ₹1,00,000 from her sister's husband and ₹1,20,000 from sister of her mother in law. She has agricultural income of ₹4,00,000. She has paid advance tax as given below:

Upto 15 th June 2023	₹ 15,000
Upto 15 th Sept 2023	₹ 45,000
Upto 15 th Dec 2023	₹ 75,000
Upto 15 th March 2024	₹1,00,000

Balance amount of tax was paid on 10th Dec 2024 and return of income filed on the same date and due date for filing return of income is 31.07.2024.

Compute her tax liability for the Assessment Year 2024-25 and also interest under section 234A, 234B and 234C.

Answer = Tax Liability: ₹3,85,840; Interest under section 234A: ₹14,290; Interest under section 234B: ₹25,722; Interest under section 234C: ₹14,429

SOLUTIONS

TO

PRACTICE PROBLEMS

Solution 1:**Computation of Total Income**

Income under the head House Property	15,00,000
Income under the head Other Sources	
Gift in kind received from a friend	2,00,000
Gross Total Income	17,00,000
Less: Deduction under Chapter VI-A	Nil
Total Income	17,00,000
Agricultural Income	3,00,000

Computation of Tax Liability

Step 1. Tax on (17,00,000 + 3,00,000) at slab rates	3,00,000
Step 2. Tax on (₹3,00,000 + 3,00,000) at slab rates	(15,000)
Step 3. Deduct Tax at Step 2 from Tax at Step 1	2,85,000
Add: HEC @ 4%	11,400
Tax Liability	2,96,400

Interest u/s 234C

	Amount payable ₹	Amount actually paid ₹	Shortfall ₹
Upto 15.06 2023 (2,96,400 x 15%)	44,460	15,000	29,460
Rounded off under rule 119A = 29,400			
Interest u/s 234C = 29,400 x 1% x 3 month =	882		
Upto 15.09 2023 (2,96,400 x 45%)	1,33,380	30,000	1,03,380
Rounded off under rule 119A = 1,03,300			
Interest u/s 234C = 1,03,300 x 1% x 3 month =	3,099		
Upto 15.12.2023 (2,96,400 x 75%)	2,22,300	50,000	1,72,300
Interest u/s 234C = 1,72,300 x 1% x 3 month =	5,169		
Upto 15.03.2024 (2,96,400 x 100%)	2,96,400	60,000	2,36,400
Interest u/s 234C = 2,36,400 x 1% x 1 month =	2,364		

Interest liability under section 234C

₹11,514

Interest under section 234B (01-04-2024 to 10-09-2024)

2,36,400 x 1% x 6

₹14,184

Interest under section 234A (01-08-2024 to 10-09-2024)

2,36,400 x 1% x 2

₹ 4,728

Solution 2:

Total Income	₹ 27,00,000
Computation of Tax Liability	
Tax on ₹27,00,000 @ 30%	8,10,000
Add: HEC @ 4%	32,400
Tax Liability	8,42,400

Interest u/s 234C

	Amount payable ₹	Amount actually paid ₹	Shortfall ₹
Upto 15.06 2023 (8,42,400 x 15%)	1,26,360	20,000	1,06,360
Rounded off under rule 119A = 1,06,300			
Interest u/s 234C = 1,06,300 x 1% x 3 month =	3,189		
Upto 15.09 2023 (8,42,400 x 45%)	3,79,080	30,000	3,49,080
Rounded off under rule 119A = 3,49,000			
Interest u/s 234C = 3,49,000 x 1% x 3 month =	10,470		
Upto 15.12.2023 (8,42,400 x 75%)	6,31,800	80,000	5,51,800
Interest u/s 234C = 5,51,800 x 1% x 3 month =	16,554		
Upto 15.03.2024 (8,42,400 x 100%)	8,42,400	1,00,000	7,42,400
Interest u/s 234C = 7,42,400 x 1% x 1 month =	7,424		

Interest liability under section 234C

₹37,637

Interest under section 234B (01-04-2024 to 10-12-2024)

7,42,400 x 1% x 9

₹66,816

Interest under section 234A (01-11-2024 to 10-12-2024)

7,42,400 x 1% x 2

₹14,848

Solution 3:

₹

Computation of Total Income

Income under the head House Property	18,00,000
Income under the head Other Sources	
Gift received from sister of her mother in law	1,20,000
Gross Total Income	19,20,000
Less: Deduction under Chapter VI-A	Nil
Total Income	19,20,000
Agricultural Income	4,00,000

Computation of Tax Liability

Step 1. Tax on (19,20,000 + 4,00,000) at slab rates	3,96,000
Step 2. Tax on (₹3,00,000 + 4,00,000) at slab rates	(25,000)
Step 3. Deduct Tax at Step 2 from Tax at Step 1	3,71,000
Add: HEC @ 4%	14,840
Tax Liability	3,85,840

Interest u/s 234C

	Amount payable ₹	Amount actually paid ₹	Shortfall ₹
Upto 15.06 2023 (3,85,840 x 15%)	57,876	15,000	42,876
Rounded off under rule 119A = 42,800			
Interest u/s 234C = 42,800 x 1% x 3 month =	1,284		
Upto 15.09 2023 (3,85,840 x 45%)	1,73,628	45,000	1,28,628
Rounded off under rule 119A = 1,28,600			
Interest u/s 234C = 1,28,600 x 1% x 3 month =	3,858		

Advance Payment of Income Tax

92

Upto 15.12.2023 (3,85,840 x 75%)	2,89,380	75,000	2,14,380
Rounded off under rule 119A = 2,14,300			
Interest u/s 234C = 2,14,300 x 1% x 3 month = 6,429			
Upto 15.03.2024 (3,85,840 x 100%)	3,85,840	1,00,000	2,85,840
Rounded off under rule 119A = 2,85,800			
Interest u/s 234C = 2,85,800 x 1% x 1 month = 2,858			
Interest liability under section 234C			₹14,429
<u>Interest under section 234B (01-04-2024 to 10-12-2024)</u>			
2,85,800 x 1% x 9			₹25,722
<u>Interest under section 234A (01-08-2024 to 10-12-2024)</u>			
2,85,800 x 1% x 5			₹14,290

CHALLAN NO./ ITNS 280	Tax Applicable (Tick One)* (0020) INCOME-TAX ON COMPANIES <input type="checkbox"/> (CORPORATION TAX) (0021) INCOME TAX (OTHER THAN <input type="checkbox"/> COMPANIES)	Assessment Year _____ - _____
Permanent Account Number _____		
Full Name _____		
Complete Address with City & State _____		
Tel. No. _____		Pin _____
Type Of Payment (Tick One)		
Advance Tax (100) <input type="checkbox"/>		
Self Assessment Tax (300) <input type="checkbox"/>		Tax on Distributed Profits of Domestic Companies (106) <input type="checkbox"/>
Tax on Regular Assessment (400) <input type="checkbox"/>		Tax on Distributed Income to Unit Holders (107) <input type="checkbox"/>
DETAILS OF PAYMENTS		FOR USE IN RECEIVING BANK
	Amount (in Rs. Only)	Debit to A/c / Cheque credited on
Income Tax	_____	_____ - _____ - _____
Surcharge	_____	D D M M Y Y
Health & education cess	_____	
Interest	_____	
Penalty	_____	
Others	_____	
Total	_____	SPACE FOR BANK SEAL
Total (in words)	_____	
CRORES	LACS	THOUSANDS HUNDREDS TENS UNITS
_____	_____	_____
Paid in Cash/Debit to A/c /Cheque No. _____		Dated _____
Drawn on _____		
(Name of the Bank and Branch)		
Date: _____	Signature of person making payment	
Taxpayers Counterfoil (To be filled up by tax payer)		SPACE FOR BANK SEAL
PAN	_____	
Received from	_____	
	(Name)	
Cash/ Debit to A/c /Cheque No. _____	For Rs. _____	
Rs. (in words) _____		
Drawn on _____		
(Name of the Bank and Branch)		
on account of	Companies/Other than Companies/Tax	
Income Tax on	(Strike out whichever is not applicable)	
Type of Payment	(To be filled up by person making the payment)	
for the Assessment Year	_____ - _____	Rs.

EXAMINATION QUESTIONS**NOV – 2022****Question 4(b)****(Marks 4)**

Ms. Priya, aged 61 years, has total income of ₹12,00,000, including income from profession, for AY 2024-2025, and has paid advance tax of ₹10,000 on 13.12.2023. She has filed her return of income on 15.06.2024. Calculate the self-assessment tax payable and the interest thereon u/s 234A, 234B and 234C, if any by Ms. Priya.

Solution:

Tax on ₹ 12,00,000 at slab rate		90,000
Add: Health and education cess @ 4%		3,600
Total tax		93,600
Self Assessment Tax	93,600 – 10,000	83,600

Computation of Interest u/s 234C

15.06.2023	14,000 [15% of ₹ 93,600] x 1% x 3	420
15.09.2023	42,100 [45% of ₹ 93,600] x 1% x 3	1,263
15.12.2023	60,200 [(75% of ₹ 93,600) – ₹10,000] x 1% x 3	1,806
15.03.2024	83,600 x 1% x 1	836
Total interest under section 234C		4,325

Computation of Interest u/s 234B (01.04.2024 to 15.06.2024)

83,600 x 1% x 3	2,508
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Computation of Interest u/s 234A

Total Interest (4,325 + 2,508)	6,833
Rounded off u/s 288B	6,830

RESIDENTIAL STATUS & SCOPE OF TOTAL INCOME

SECTION 5 TO 9

PARTICULARS	SECTIONS
Scope of total income/incidence of tax	5
Residential status of an individual Deemed Resident	6(1), 6(6)(a), 6(6)(c) 6(1A), 6(6)(d)
Residential status of an Hindu Undivided Family	6(2), 6(6)(b)
Residential status of Firm/ Association of person/Body of individual	6(2)
Residential status of a company	6(3)
Residential status of any other person	6(4)
Incomes deemed to be received	7
Income deemed to accrue or arise in India	9

Question 1: How to determine Residential status of individuals Section 6(1)/6(6)(a)

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 stays in India for 182 days or more during the relevant previous year
- (ii) He stays in India for 60 days or more and also for 365 days or more during 4 years preceding the relevant previous year.

If the individual satisfies any one of the conditions mentioned above, he is a resident, otherwise the individual is a non-resident.

e.g. Mr. X stayed in India for 200 days in previous year 2023-24, in this case he will be considered to be resident in India.

If Mr. X stayed in India for 100 days in previous year 2023-24 and also for 365 days during 4 years preceding the previous year 2023-24, he will be considered to be resident in India.

If Mr. X stayed in India during previous year 2023-24 for 59 days, he will be considered to be non-resident in previous year 2023-24.

Meaning of Not-ordinarily resident Section 6(6)(a)

An individual who is resident of India shall be considered to be NOR if he has complied with at least one of the conditions given below:

- (i) If such individual has during the 7 previous years preceding the relevant previous year been in India for a period of 729 days or less or
- (ii) If such individual has been non-resident in India in 9 years out of 10 previous years preceding the relevant previous year

If he has not complied with even a single condition, he will be considered to be ROR.

Income Tax Act has defined NOR but we can define ROR in the manner given below:

An individual is said to be a resident and ordinarily resident if he satisfies both the following conditions:

- (i) He is a resident in any 2 out of the last 10 years preceding the relevant previous year, and

(ii) His total stay in India in the last 7 years preceding the relevant previous year is 730 days or more. If the individual satisfies both the conditions mentioned above, he is a resident and ordinarily resident but if only one or none of the conditions are satisfied, the individual is a resident but not ordinarily resident.

The term “stay in India” includes stay in the territorial waters of India (i.e. 12 nautical miles into the sea from the Indian coastline). Even the stay in a ship or boat in the territorial waters of India shall be considered to be stay in India. (1 nautical mile = 1.1515 miles = 1.852 Kms).

It is not necessary that the period of stay must be continuous nor is it essential that the stay should be at the usual place of residence, business or employment of the individual.

For the purpose of counting the number of days stayed in India, both the date of departure as well as the date of arrival are considered to be in India.

Illustration 1: Determine residential status of Mr. X for the assessment year 2024-25, who stays in India during various financial years asunder:

Previous Years	Stay
2023-24	100
2022-23	200
2021-22	91
2020-21	90
2019-20	89
2018-19	87
2017-18	82

2016-17	91
2015-16	90
2014-15	88
2013-14	89
2012-13	86
2011-12	87
2010-11	89
2009-10	90

Solution:

As per section 6(1), Stay in India is 60 days plus 365 days during 4 years preceding the relevant previous year, hence he is resident.

His stay during 7 years is 730 hence he is not able to comply with first condition of section 6(6)(a). He is able to comply with second condition of 6(6)(a) i.e. he is non-resident in atleast 9 years out of 10 years preceding the relevant previous year hence he is NOR.

Years	Status
2023-24	Resident
2022-23	Resident
2021-22	Non-resident
2020-21	Non-resident
2019-20	Non-resident

2018-19	Non-resident
2017-18	Non-resident
2016-17	Non-resident
2015-16	Non-resident
2014-15	Non-resident
2013-14	Non-resident

Illustration 2: Determine residential status of Mr. X for the assessment year 2024-25, who stays in India during various financial years asunder:

Previous Years	Stay
2023-24	75
2022-23	197
2021-22	94
2020-21	89
2019-20	90
2018-19	89
2017-18	91

2016-17	80
2015-16	91
2014-15	86
2013-14	85
2012-13	89
2011-12	72
2010-11	69
2009-10	92

Solution:

As per section 6(1), Stay in India is 60 days plus 365 days during 4 years preceding the relevant previous year, hence he is resident.

His stay during 7 years is 730 hence he is not able to comply with first condition of section 6(6)(a). He is able to comply with second condition of 6(6)(a) i.e. he is non-resident in atleast 9 years out of 10 years

preceding the relevant previous year hence he is NOR.

Years	Status
2023-24	Resident
2022-23	Resident
2021-22	Non-resident
2020-21	Non-resident
2019-20	Non-resident

2018-19	Non-resident
2017-18	Non-resident
2016-17	Non-resident
2015-16	Non-resident
2014-15	Non-resident
2013-14	Non-resident

Illustration 3: Mr. X an American citizen has come to India for the first time on 10.07.2019, as an employee of a multinational company. The particulars of his arrival and departure are as given below:

Date of arrival

10.07.2019
07.10.2020
01.03.2022
10.05.2023
Not yet returned

Date of departure

07.08.2020
27.11.2021
01.02.2023
30.03.2024

Not yet returned

Determine his residential status for previous year 2019-20 to 2023-24.

Solution:

Previous Year 2019-20

{July – 22, August – 31, September 30, October 31, November 30, December 31, January 31, February – 29, March – 31}

Days of stay in India are 266.

As per section 6(1), Stay in India is 182 days or more during the relevant previous year, hence he is resident. and his stay during 7 years is Nil hence he is able to comply with first condition of section 6(6)(a). hence he is NOR.

Previous Year 2020-21

{April – 30, May – 31, June – 30, July – 31, August – 7, October – 25, November – 30, December – 31, January – 31, February – 28, March – 31}

Days of stay in India are 305.

As per section 6(1), Stay in India is 182 days or more during the relevant previous year, hence he is resident. and his stay during 7 years is 265 days hence he is able to comply with first condition of section 6(6)(a). hence he is NOR.

Previous Year 2021-22

{April – 30, May – 31, June – 30, July – 31, August – 31, September – 30, October – 31, November – 27, March – 31}

Days of stay in India are 272, so Mr. X is Resident.

As per section 6(1), Stay in India is 182 days or more during the relevant previous year, hence he is resident. and his stay during 7 years is 570 days hence he is able to comply with first condition of section 6(6)(a). hence he is NOR.

Previous Year 2022-23

{April – 30, May – 31, June – 30, July – 31, August – 31, September – 30, October – 31, November – 30, December – 31, January – 31, February – 1}

Days of stay in India are 307.

As per section 6(1), Stay in India is 182 days or more during the relevant previous year, hence he is resident. and his stay during 7 years is more than 729 days hence he is not able to comply with first condition of section 6(6)(a) and he is not able to comply second condition also i.e. non-resident in atleast 9 years out of 10 years preceding the relevant previous year. hence he is ROR.

Previous Year 2023-24

{May – 22, June – 30, July – 31, August – 31, September – 30, October – 31, November – 30, December – 31, January – 31, February – 29, March - 30}

Days of stay in India are 326.

As per section 6(1), Stay in India is 182 days or more during the relevant previous year, hence he is resident.

and his stay during 7 years is more than 729 days hence he is not able to comply with first condition of section 6(6)(a) and he is not able to comply second condition of section 6(6)(a) also i.e. non-resident in atleast 9 years out of 10 years preceding the relevant previous year. hence he is ROR.

Illustration 4: Mr. X an American citizen has come to India for the first time on 01.07.2020 as an executive of a multinational company. His employer has allowed him to visit USA every year and for this purpose he will be leaving India every year on 1st November and shall come back on 31st December, besides that he has visited Hong Kong on several occasions in connection with the official work, because he is looking after the employer's operations in Hong Kong also, with details asunder:

Date of leaving India	Date of arriving in India
10.09.2020	30.09.2020
07.02.2021	08.05.2021
11.07.2021	21.10.2021
10.02.2022	23.07.2022
11.02.2023	12.06.2023
01.02.2024	10.04.2024

Determine his residential status for the previous years 2020-21 to 2023-24.

Solution:

Previous Year 2020-21

{July – 31, August – 31, September – 11, October – 31, November – 1, December – 1, January – 31, February – 7}

Days of stay in India are 144

As per section 6(1), Stay in India is less than 182 days but more than 60 days during the relevant previous year but Stay in India is less than 365 days during 4 years preceding the relevant previous year, hence he is not complying even a single condition of section 6(1) hence he is Non – resident.

Previous Year 2021-22

{May – 24, June – 30, July – 11, October – 11, November – 1, December – 1, January – 31, February – 10}

Days of stay in India are 119.

As per section 6(1), Stay in India is less than 182 days but more than 60 days during the relevant previous year but Stay in India is less than 365 days during 4 years preceding the relevant previous year, hence he is not complying even a single condition of section 6(1) hence he is Non – resident.

Previous Year 2022-23

{July – 9, August – 31, September – 30, October – 31, November – 1, December – 1, January – 31, February – 11}

Days of stay in India are 145

As per section 6(1), Stay in India is less than 182 days but more than 60 days during the relevant previous year but Stay in India is less than 365 days during 4 years preceding the relevant previous year, hence he is not complying even a single condition of section 6(1) hence he is Non – resident.

Previous Year 2023-24

{June – 19, July – 31, August – 31, September – 30, October – 31, November – 1, December – 1, January – 31, February – 1}

Days of stay in India are 176. During the preceding 4 years, his stay is for 365 days or more so he is resident. His stay during 7 years is 729 days or less, hence he is resident but not ordinarily resident.

Illustration 5: Mr. X, the Australian cricketer comes to India for 105 days every year. Find out his residential status for the A.Y. 2024-25.

Solution: He has complied with condition of $60 + 365$ days hence he is resident further stay in 7 years is more than 729 days and also condition of non-resident in 9 years out of 10 years is not complied with hence he is ROR.

Illustration 6: Mr. X, a Canadian citizen, comes to India for the first time during the P.Y.2019-20. During the financial years 2019-20, 2020-21, 2021-22, 2022-23 and 2023-24 he was in India for 55 days, 60 days, 90 days, 150 days and 70 days respectively. Determine his residential status for the A.Y.2024-25.

Solution:

During the previous year 2023-24, Mr. B was in India for 70 days and during the 4 years preceding the previous year 2023-24, he was in India for 355 days (i.e. 55 + 60 + 90 + 150 days).

Thus, he does not satisfy section 6(1). Therefore, he is a non-resident for the previous year 2023-24.

Illustration 7: On 01.06.2021 Mr. X, a Malaysian citizen leaves India after stay of 10 years. During the financial year 2022-23 he comes to India for a period of 46 days. Later, he returns to India for one year on 10.10.2023.

Determine Mr. X's residential status for the assessment year 2024-25.

Solution:

No. of days of stay in India

P.Y. 2023-24	174 Days
{22 + 30 + 31 + 31 + 29 + 31}	
P.Y. 2022-23	46 Days
P.Y. 2021-22	62 Days
{30 + 31 + 1}	
P.Y. 2020-21	365 Days
P.Y. 2019-20	366 Days
P.Y. 2018-19	365 Days
P.Y. 2017-18	365 Days
P.Y. 2016-17	365 Days
P.Y. 2015-16	366 Days
P.Y. 2014-15	365 Days
P.Y. 2013-14	365 Days

The person is **resident and ordinarily resident**. Mr. X was in India for 60 days in 2023-24 and for 365 days or more in the 4 years immediately preceding the relevant previous year and he does not satisfy even a single condition of section 6(6)(a).

Question 2: Write a note on determination of residential status of Individual covered in special category.

Answer: Special category: explanation to section 6(1)

Certain individuals are covered in the special category and they will be considered to be resident only if they stay in India for 182 days or more i.e. second condition of 60 plus 365 days shall not be applicable and such individuals are:

1. Any individual who is a citizen of India and has left India for taking up any business or profession or employment outside India e.g. Mr. X is a citizen of India and has left India on 01.09.2023 for taking up an employment in Germany, in this case he will be covered in the special category and his status shall be non-resident. If any such person is employed in India and he has been transferred outside India, he will also be covered in the special category. E.g. Mr. X is employed in Punjab National Bank in India and he has been transferred to the London branch, in this case he will be covered in the special category. If any person has business or profession in India and he is going out of India in connection with business or profession, he will not be covered in special category.

2. Any individual who is a citizen of India or is a person of Indian origin and is having business/profession/employment outside India and has come to India on a visit shall also be covered in the special category e.g. Mr. X is a citizen of India and is settled as a doctor in USA and has come to India on a visit for 181 days, he will be covered in the special category and his status shall be non-resident.

A person is said to be of Indian origin if he or either of his parents or either of his grandparents (including parents of mother) were born in undivided India. e.g. Mr. X has taken birth in UK and is a citizen of UK but his grand father has taken birth in India in 1942, in this case Mr. X will be considered to be person of Indian origin.

Further in case of citizen of India or person of Indian origin having total income other than income from foreign sources, exceeding 15 lakhs during the year, such individual shall be resident in India if he stays for 120 days during the year and also for 365 days during 4 years preceding the relevant previous year. Further

as per section 6 (6)(c), he will be considered to be NOR, if his stay is maximum upto 181 days. If stay is 182 days or more, he will be ROR/NOR as per section 6(6)(a) i.e. such person can stay in India for maximum 119 days to maintain his status of Non Resident. e.g. Mr. X is a citizen of India and is settled outside India. (he has total income other than income from foreign sources exceeding 15 lakhs) He visits India 120 days and earlier 4 years, he was in India for 365 days, now he will be NOR but earlier he was NR and impact shall be his income accruing / arising abroad and received abroad but from a business controlled from India or from a profession setup in India shall be taxable. If his total income other than income from foreign sources is upto 15 lakhs, he will be non resident. E.g. Mr. X is a citizen of India and is a doctor having practice in India but in the year 2015 he opened a hospital outside India also and closed the hospital in India on 31.03.2018 and left India on 01.04.2018 he visits India every year for 100 days but in the previous year 2023-24 he visited India for 120 days. He has income from hospital outside India ₹500 lakhs, in this case his status shall be NOR because he visited for 120 days and also for 365 days or more during 4 years preceding the relevant previous year. He income accruing/arising abroad but from a profession setup in India shall be taxable but if he has visited for maximum 119 days, he will be Non-resident and his income shall not be taxable.

"income from foreign sources" means income which accrues or arises outside India (except income derived from a business controlled in or a profession set up in India).

Example

Mr. X has income accruing/arising abroad ₹ 25 lakh, out of which income from a business controlled from India or profession set up in India is ₹ 18 lakh. He has income accruing/arising in India 13 lakh, in this case income from foreign sources is ₹ 7 lakh (25-18) and income other than income from foreign sources is ₹ 31 lakh (18+13)

3. Any individual who is a citizen of India and has left India as a member of crew of an Indian ship, shall also be covered in special category. The time period mentioned in Continuous Discharge Certificate shall be considered to be the period of stay outside India and remaining time period shall be considered to be stay in India.

4. Deemed Resident Section 6(1A)

As per section 6(1A), If any individual is a citizen of India and has total income other than the income from foreign sources, exceeding 15 lakhs during the previous year, he shall be considered to be resident in India if he is not liable to tax in any other country or territory by reason of his domicile or residence or any other criteria of similar nature. Further as per section 6 (6)(d), he will be NOR. This clause shall not apply in case of an individual who is resident in India in the previous year under section 6(1) E.g. Mr. X is a citizen of India and is settled in a country where he is not liable to tax (he has total income other than income from foreign sources exceeding 15 lakhs) and he has not visited India during the current year, in this case he will be considered to be resident and further as per section 6(6)(d), he will be considered to be NOR. (purpose is to tax stateless persons in India provided they are Indian citizens) If his total income other than income from foreign sources is upto 15 lakhs, he will be non resident.

Example

Mr. Anand is an Indian citizen and a member of the crew of a Singapore bound Indian ship engaged in international traffic departing from Chennai port on 6th June, 2023. From the following details for the P.Y.2023-24, determine the residential status of Mr. Anand for A.Y.2024-25, assuming that his stay in India in the last 4 previous years (preceding P.Y.2023-24) is 400 days and last seven previous years (preceding P.Y.2023-24) is 750 days:

Particulars

Date

Date entered into the Continuous Discharge Certificate in respect of joining the ship by Mr. Anand	6 th June, 2023
Date entered into the Continuous Discharge Certificate in respect of signing off the ship by Mr. Anand	9 th December, 2023

Answer.

In this case, the voyage is undertaken by an Indian ship engaged in international traffic, originating from a port in India (i.e., the Chennai port) and having its destination at a port outside India (i.e., the Singapore port). Hence, the voyage is an eligible voyage for the purposes of section 6(1). Therefore, the period beginning from 6th June, 2023 and ending on 9th December, 2023, being the dates entered into the Continuous Discharge Certificate in respect of joining the ship and signing off from the ship by Mr. Anand, an Indian citizen who is a member of the crew of the ship, has to be excluded for computing the period of his stay in India. Accordingly, 187 days [25+31+31+30+31+30+9] have to be excluded from the period of his stay in India. Consequently, Mr. Anand's period of stay in India during the P.Y.2023-24 would be 178 days [i.e., 365 days – 187 days]. Since his period of stay in India during the P.Y.2023-24 is less than 182 days, he is a non-resident for A.Y.2024-25.

Note - Since the residential status of Mr. Anand is “non-resident” for A.Y.2024-25 consequent to his number of days of stay in P.Y.2023-24 being less than 182 days, his period of stay in the earlier previous years become irrelevant.

Illustration 8: Mr. X, an Indian citizen, leaves India on 22.09.2023 for the first time, to work as an officer of a company in France. Determine his residential status for the A.Y. 2024-25.

Solution:

During the previous year 2023-24, Mr. X, an Indian citizen, was in India for 175 days (i.e. 30 + 31 + 30 + 31 + 31 + 22 days). He does not satisfy the minimum criteria of 182 days. Also, since he is an Indian citizen leaving India for the purposes of employment, the second condition under section 6(1) is not applicable to him. Therefore, Mr. X is a non-resident for the A.Y.2024-25.

Illustration 9: Mr. X and Mrs. X are settled outside India for the purpose of employment and they came to India on 15.10.2023 on a visit for 7 months. Both of them are Indian citizens. In the earlier years they were in India as follows:

Year	Mr. X	Mrs. X
2022 – 2023	235 Days	365 Days
2021 – 2022	330 Days	30 Days
2020 – 2021	Nil	28 Days
2019 – 2020	118 Days	120 Days

Find out the residential status of Mr. X and Mrs. X for the assessment year 2024-25.

Solution:

Both are NR for the assessment year 2024-25

Stay of Mr. X in India

Previous Year 2023-24 169 Days

{17 + 30 + 31 + 31 + 29 + 31}

Stay of Mrs. X in India

Previous Year 2023-24 169 Days

{17 + 30 + 31 + 31 + 29 + 31}

Since they are covered in special category they will be resident only if their stay in India in relevant previous year is 182 days or more, hence they are non-resident.

Question 3: Explain how to determine residential status of HUF Section 6(2)/6(6)(b).

Answer: As per section 6(2), an HUF would be resident in India if the control and management of its affairs is situated wholly or partly in India. If the control and management of the affairs is situated wholly outside India it will be considered to be non-resident. Since control and management of HUF is in the hands of its Karta hence place of stay of Karta shall be taken into consideration i.e. if Karta is out of India throughout the year, HUF shall be Non-resident but if Karta has come to India for a few days, HUF shall be resident.

The expression 'control and management' refers to the central control and management and not to the carrying on of day-to-day business by servants, employees or agents.

Meaning of Not-ordinarily resident Section 6(6)(b)

If an HUF is resident, as per section 6(6)(b), it will be considered to be NOR if its Karta has complied with at least one of the conditions given below:

- (i) If the karta is in India during the 7 previous years preceding the relevant previous year for a period of 729 days or less.
- (ii) If the karta is non-resident in India in any 9 out of the 10 previous years preceding the relevant previous year, or

If karta has not complied with even a single condition, HUF shall be ROR.

Illustration 10: Karta of one Hindu Undivided Family comes to India every year for minimum 60 days and maximum 91 days. Determine residential status of the Hindu Undivided Family and also that of the Karta for the assessment year 2024-25.

Solution:

Hindu Undivided Family is resident since the Karta has come to India for at least 60 days but the stay of Karta during seven years can be maximum 637 days hence Hindu Undivided Family shall be considered to be resident but not ordinarily resident.

Karta in his individual capacity is non-resident because he cannot comply with even one of the two conditions given under section 6(1).

Illustration 11: One Hindu Undivided Family is being managed partly from Mumbai and partly from Nepal. Mr. X (a foreign citizen), Karta of Hindu Undivided Family, comes on a visit to India every year since 1982 in month of April for 105 days.

Determine residential status of the Hindu Undivided Family and also that of the Karta in his individual capacity for the assessment year 2024-25.

Solution:

For the previous year 2023-24, the control and management of the affairs of Hindu Undivided Family is being partly managed from India. Hence Hindu Undivided Family is resident but Mr. X cannot comply with any of the conditions of section 6(6)(b), hence Hindu Undivided Family is resident and ordinarily resident.

Karta shall be considered to be resident and ordinarily resident because his stay during 7 years is 735 days. Also, he will not be non-resident in nine years out of ten years preceding the relevant previous year.

Question 4: Explain how to determine residential status of partnership firm or Body of Individual or Association of Persons.

Answer:

Firms and Association of Persons Section 6(2)

A firm and an AOP would be resident in India if the control and management of its affairs is situated wholly or partly in India. Where the control and management of the affairs is situated wholly outside India, the firm and AOP would become a non-resident. There are no ROR or NOR in case of persons other than individual or HUF. E.g. XY partnership firm has two partners Mr. X and Mr. Y and Mr. X is working partner and is in USA throughout the year and Mr. Y is a dormant partner and is in India throughout the year, in this case partnership firm shall be non-resident but if Mr. X has come to India for a few days, partnership firm shall be resident.

Question 5: Explain how to determine residential status of a Company.

Answer:

Companies Section 6(3)

An Indian company is always resident in India even if its control and management is outside India or its business is outside India.

A foreign company shall be resident in India if its place of effective management, at any time in that year, is in India.

“Place of effective management” means a place where key management and commercial decisions are made for the conduct of the business of an entity.

e.g. Micromax Informatics Ltd. was incorporated in India and it has business in many countries outside India, in this case company shall be considered to be resident.

e.g. HCL Technologies Ltd. was incorporated in India and it has its control and management outside India also, in this case company shall be considered to be resident.

e.g. ABC Ltd. was incorporated outside India and place of effective management is in India, in this case company shall be considered to be resident.

e.g. Videocon Industries Ltd. was incorporated in India, in this case company shall be considered to be resident.

e.g. Samsung Electronics Co., Ltd. was incorporated in South Korea and place of effective management is also in South Korea, in this case company shall be considered to be non-resident.

e.g. BlackBerry Ltd. was incorporated in Canada and place of effective management is also in Canada, in this case company shall be considered to be non-resident.

Illustration 12: ABC Inc., a Swedish company headquartered at Stockholm, not having a permanent establishment in India, has set up a liaison office in Mumbai in April, 2023 in compliance with RBI guidelines to look after its day to day business operations in India, spread awareness about the company's products and explore further opportunities. The liaison office takes decisions relating to day to day routine operations and performs support functions that are preparatory and auxiliary in nature. The significant management and commercial decisions are, however, in substance made by the Board of Directors at Sweden. Determine the residential status of ABC Inc. for A.Y.2024-25.

Answer.

As per Section 6(3), a company would be resident in India in any previous year, if-

(i) it is an Indian company; or

(ii) its place of effective management, in that year, is in India.

In this case, ABC Inc. is a foreign company. Therefore, it would be resident in India for P.Y.2023-24 only if its place of effective management, in that year, is in India.

Explanation to section 6(3) defines "place of effective management" to mean a place where key management and commercial decisions that are necessary for the conduct of the business of an entity as a whole are, in substance made. In the case of ABC Inc., its place of effective management for P.Y.2023-24 is not in India, since the significant management and commercial decisions are, in substance, made by the Board of Directors outside India in Sweden.

ABC Inc. has only a liaison office in India through which it looks after its routine day to day business operations in India. The place where decisions relating to day to day routine operations are taken and support functions that are preparatory or auxiliary in nature are performed are not relevant in determining the place of effective management.

Hence, ABC Inc., being a foreign company is a non-resident for A.Y.2024-25, since its place of effective management is outside India in the P.Y.2023-24.

Illustration 13: Wipro Ltd. an Indian company has most of its business outside India. Determine its residential status.

Solution:

An Indian company shall always be considered to be resident in India.

Illustration 14: Afcons Infrastructure International Ltd. is incorporated in Mauritius and its place of effective management is in Mauritius. Determine its residential status for the assessment year 2024-25.

Solution:

Foreign company shall be resident in India only if its place of effective management, at any time in that year, is in India. Hence, Afcons Infrastructure International Ltd. is a non-resident company.

Illustration 15: Bista Ltd., a foreign company and it carries on majority of its operations and decision making activities from Calcutta and Assam but some part of operational activities and few decisions are being taken from the place at which registered office of Bista Ltd. is located, i.e. Dhaka.

Determine its residential status for the assessment year 2024-25.

Solution:

Bista Ltd. is a foreign company and its place of effective management is in India. Hence Bista Ltd. is resident in India for the assessment year 2024-25.

Question 6: Explain how to determine residential status of other persons.

Answer:

Local Authorities and Artificial Juridical Persons Section 6(4)

Local authorities and artificial juridical persons would be resident in India if the control and management of its affairs is situated wholly or partly in India. Where the control and management of the affairs is situated wholly outside India, they would become non-residents.

TAX INCIDENCE / SCOPE OF TOTAL INCOME

Question 7: Write a note on scope of total income or tax incidence.

Answer: As per section 5, scope of total income or tax incidence in various status shall be as given below:

(1) Resident and ordinarily resident – In case of ROR, the following incomes shall be taxable.

- (i) income accruing / arising in India.
- (ii) income received or deemed to be received in India even if accruing /arising abroad.
- (iii) income accruing / arising aboard and received aboard.

In simpler terms, ROR has to pay tax on his world income in India.

(2) Resident but not ordinarily resident – The following incomes shall be taxable.

- (i) income accruing / arising in India.
- (ii) income received or deemed to be received in India even if accruing /arising abroad.
- (iii) income accruing / arising aboard and received aboard but from a business controlled from India or from a profession which was set up in India.

Meaning of profession setup in India

Profession set up in India means that it was originally setup in India and subsequently there was an expansion outside India. E.g. Mr. X started his profession of an advocate in Delhi and subsequently he opened his branch outside India, it will be called profession setup in India.

(3) Non-resident – The following incomes shall be taxable.

- (i) income accruing /arising in India.
- (ii) income received or deemed to be received in India even if accruing /arising abroad.

Meaning of income received in India

Income shall be considered to be received in India if it has been received directly in India from its source i.e. if the income has been received outside India and after that it was transferred to India, it will not be considered to be income received in India rather it is income received abroad.

Therefore, when once an amount is received as income, remittance or transmission of that amount from one place or person to another does not constitute receipt of income in the hands of the subsequent recipient or at the place of subsequent receipt.

Example

Mr. X has one house in USA and rent has been received directly in India. It will be considered to be income received in India and it is chargeable to tax in case of all the three status, but if Mr. X has one bank account with Bank of America, New York and rent has been deposited in that account and subsequently the bank has transferred the amount to Mr. X in India, it will be considered to be income received outside India, because income has already been received outside India and subsequently it was remitted to India.

Similarly, if Mr. X has income in Nepal and it was deposited in the branch of an Indian bank in Nepal, subsequently the amount was remitted in India, it will be considered to be income received outside India.

Illustration 16: Mr. X has income asunder:

1. He has income from a business in Germany amounting to ₹3,00,000 and half of it was received in India.
2. He has interest income of ₹1,00,000 from UK Development Bond and entire interest income was credited to a bank account in UK. Subsequently, the amount was transferred in India.
3. He has a business in Bombay and entire income of ₹3,00,000 was received in UK.
4. He has one house property in Ghaziabad and income of ₹5,00,000 was received in UK.
5. He has received salary income of ₹5,00,000 (computed) in India and half of the services were rendered in UK and half in India.

(Presume all the above incomes are computed incomes)

Compute his income presuming that he is NOR, NR and ROR.

Solution:

	ROR	NOR	NR
1. Income received in India	1,50,000	1,50,000	1,50,000
Income accruing/arising abroad and received abroad	1,50,000	xxxxxx	xxxxxx
2. Income accruing/arising abroad and received abroad	1,00,000	xxxxxx	xxxxxx
3. Income accruing/arising in India	3,00,000	3,00,000	3,00,000
4. Income accruing/arising in India	5,00,000	5,00,000	5,00,000
5. Income received in India	5,00,000	5,00,000	5,00,000
Total	17,00,000	14,50,000	14,50,000

Illustration 17: Mr. X had following income during the previous year ended 31st March, 2024: ₹

(1) Salary accruing and arising abroad and also received abroad but brought to India (being computed income)	25,000
(2) Income from house property in India	20,000
(3) Interest on savings bank deposit in SBI, in India	10,000
(4) Income from business in Bangladesh, received there but controlled from India	2,00,000
(5) Income from a profession in USA and received there but profession was set up in India	4,00,000

You are required to compute his gross total income for the assessment year 2024-25, if he is a

- resident and ordinarily resident;
- not ordinarily resident; and
- non-resident.

Presume all the above income is computed income.

Solution:

	ROR	NOR	NR
(1) Salary income accruing/arising abroad and also received abroad	25,000	Nil	Nil
(2) Income from house property in India <ul style="list-style-type: none"> Income accruing/arising in India 	20,000	20,000	20,000
(3) Interest on savings bank deposit in SBI, in India <ul style="list-style-type: none"> Income accruing/arising in India 	10,000	10,000	10,000
(4) Income from business in Bangladesh being controlled from India <ul style="list-style-type: none"> Not taxable in case of non resident 	2,00,000	2,00,000	—
(5) Income from profession set up in India	4,00,000	4,00,000	Nil
Gross Total Income	6,55,000	6,30,000	30,000

Illustration 18: Mr. X earns the following income during the financial year 2023-24: ₹

(1) Income from house property in London, received in India	60,000
(2) Profits from business in Japan and managed from there (received in Japan)	9,00,000
(3) Profits from business in Kenya, controlled from India, Profits received in Kenya	3,00,000
(4) Profits from business in Delhi, managed from Japan	7,00,000
(5) Capital gains on transfer of shares of Indian companies, sold in USA and gains were received there	2,00,000
(6) Pension from former employer in India, received in Japan	50,000
(7) Profits from business in Pakistan, deposited in bank there	20,000
(8) Profit on sale of asset in India but received in London	8,000
(9) Interest on Government securities accrued in India but received in Paris	80,000
(10) Interest on USA Government securities, received in India	20,000
(11) Salary earned in Bombay, but received in UK	60,000
(12) Income from property in Paris, received there	1,00,000

(Presume all the above incomes are computed incomes)

Determine the gross total income of Mr. X if he is (i) resident and ordinarily resident, resident but not

ordinarily resident, non-resident in India during the financial year 2023-24.

Solution:

	ROR	NOR	NR
(1) Income received in India	60,000	60,000	60,000
(2) Income accruing/arising and received outside India	9,00,000	—	—
(3) Income accruing/arising and received outside India, but business controlled from India	3,00,000	3,00,000	—
(4) Income accruing/arising in India	7,00,000	7,00,000	7,00,000
(5) Income accruing/arising in India	2,00,000	2,00,000	2,00,000
(6) Income accruing/arising in India	50,000	50,000	50,000
(7) Income accruing/arising and received outside India	20,000	—	—
(8) Income accruing/arising in India	8,000	8,000	8,000
(9) Income accruing/arising in India	80,000	80,000	80,000
(10) Income received in India	20,000	20,000	20,000
(11) Income accruing/arising in India	60,000	60,000	60,000
(12) Income accruing/arising and received outside India	1,00,000	—	—
Gross Total Income	24,98,000	14,78,000	11,78,000

Illustration 19: Mr. X, a foreign citizen (not being a person of Indian origin) came to India for the first time on 2nd December, 2023 for a visit of 210 days. Mr. X had the following income during the previous year ended 31st March, 2024:

(1) Salary (computed) received in India for three months	₹ 1,00,000
(2) Income from house property in London (received there)	2,75,200
(3) Amount brought into India out of the past-untaxed profits earned in Germany	80,000
(4) Income from agriculture in Sri Lanka, received and invested there	12,300
(5) Income from business in Nepal, being controlled from India	35,000
(6) Income from house property in USA received in USA (₹76,000 is used in Canada for meeting the educational expenses of Mr. X's daughter and ₹ 10,000 is later on remitted in India)	86,000

You are required to compute his total income for the assessment year 2024-25.

Solution:

Mr. X is a foreign citizen. He was in India during the previous year 2023-24 for 121 (30 + 31 + 29 + 31) days. Thus, he does not satisfy the first condition of 182 days. The second condition is also not satisfied as Mr. X came to India for first time during the previous year 2023-24.

Mr. X is therefore non-resident in India. The total income of Mr. X for the assessment year 2024-25 will be:

(1) Salary (computed) received in India for three months	
• Taxable on receipt basis	1,00,000
(2) Income from house property in London (received there)	
• Not taxable as income is accruing & arising outside India and is also received outside India	—
(3) Amount brought in India out of the past untaxed-profits earned in Germany	
• Not taxable as it is not income	—
(4) Income from agriculture in Sri Lanka being invested there	
• Income accrued and received outside India	—
(5) Income from business in Nepal, being controlled from India	
• Not taxable in the case of non-resident	—
(6) Income from house property in USA received in USA (₹ 76,000 is used in Canada or meeting the educational expenses of Mr. X's daughter and ₹ 10,000 is later on received in India)	
• Income accrued and received outside India	—
Gross Total Income	1,00,000

Less: Deduction under chapter VI-A
Total Income

Nil
1,00,000

Illustration 20: Mr. X earns the following incomes during the financial year 2023-24.

₹

(1) Profits from a business in Japan, controlled from India, (half of the profits received in India)	40,000
(2) Income from property in Bombay, received in UK	70,000
(3) Income from a property in USA, received there but subsequently remitted to India	2,00,000
(4) Income from property in USA, received there (₹50,000 remitted in India)	80,000
(5) Salary received in India for services rendered in USA	50,000
(6) Income from profession in Paris, which was set up in India, received in Paris	80,000
(7) Interest from deposit with an Indian company, received in Japan	9,000
(8) Income from profession in Bombay received in Paris	30,000
(9) Profits of business in Iran, deposited in a bank there, business controlled from India (out of ₹4,00,000, ₹ 1,00,000 is remitted in India)	4,00,000
(10) Interest on German development bonds, half of which is received in India	10,000
(11) Income from property in Canada, one-fifth is received in India	50,000

(Presume all the above incomes are computed income i.e. all the exemptions and deductions have already been allowed)

Determine the gross total income of Mr. X if he is (i) resident and ordinarily resident, (ii) resident but not ordinarily resident, (iii) non-resident in India during the financial year 2023-24.

Solution:

	ROR	NOR	NR
(1) Income accruing/arising outside India from a business controlled in India, half of the income received in India	40,000	40,000	20,000
(2) Income accruing/arising in India	70,000	70,000	70,000
(3) Income accruing/arising outside India and received outside India	2,00,000	—	—
(4) Income accruing/arising outside India and received outside India	80,000	—	—
(5) Income received in India	50,000	50,000	50,000
(6) Income accruing/arising and received outside India, but profession set up in India	80,000	80,000	—
(7) Income accruing/arising in India	9,000	9,000	9,000
(8) Income accruing/arising in India	30,000	30,000	30,000
(9) Income accruing/arising outside India and received outside India, but business controlled from India	4,00,000	4,00,000	—
(10) Income accruing/arising outside India, half received outside India and half in India	10,000	5,000	5,000
(11) Income accruing/arising outside India, 4/5 th received outside India and 1/5 th in India	50,000	10,000	10,000
Gross Total Income	10,19,000	6,94,000	1,94,000

Illustration 21: Mr. X is a citizen of India and is employed in ABC Limited and getting salary ₹1,00,000 p.m. and he was transferred out of India on 01.09.2023 and he left India for first time from 01.09.2023 and he visiting in India from 26.01.2024 to 15.02.2024 and salary for January 2024 was received in India and at the time of departure he received 3 gifts ₹20,000 from 3 friends each and also a phone of ₹70,000.

He has agricultural income in India ₹4,00,000

Compute his tax liability for assessment year 2024-25.

Solution:

Mr. X shall be covered in special category so therefore his status shall be non-resident.

₹

(30 + 31 + 30 + 31 + 31 + 1 + 6 + 15) 175 days.

Income under the head Salary accruing / arising in India

1,00,000 x 5	5,00,000
Income received in India	
1,00,000 x 1	1,00,000
Gross Salary	6,00,000
Less: Deduction u/s 16(ia)	(50,000)
Income under the head salary	5,50,000
Income under the head Other Sources	60,000
Gross Total Income	6,10,000
Less: Deduction under chapter VI-A	Nil
Total Income	6,10,000
Agricultural Income	4,00,000
Computation of Tax Liability	
Step 1. Tax on (6,10,000 + 4,00,000 = 10,10,000) at slab rate	61,500
Step 2. Tax on (4,00,000 + 3,00,000 = 7,00,000) at slab rate	(25,000)
Deduct step 2 from step 1	36,500
Add: HEC 4%	1,460
Tax Liability	37,960

Note: Rebate not allowed to Non-resident.

Illustration 22: ABC partnership firm has an income of ₹3 lakhs in India and income accruing/arising abroad and also received abroad ₹23 lakhs. It consists of two partners. Mr. X who is an active partner, is staying outside India throughout the year. Mr. Y is a dormant partner and is staying in India throughout the year.

Compute tax liability of the partnership firm in India for the assessment year 2024-25.

(b) Also compute tax liability of the firm if Mr. Y is also an active partner.

Solution:

₹

(a) Partnership firm is non-resident

Income from business/profession in India	3,00,000
Gross Total Income	3,00,000
Less: Deduction u/s under chapter VI-A	Nil
Total Income	3,00,000
Tax @ 30% + HEC @ 4%	93,600

(b) Partnership firm is resident

Income from business/profession	26,00,000
Gross Total Income	26,00,000
Less: Deduction under chapter VI-A	Nil
Total Income	26,00,000
Tax @ 30% + HEC @ 4%	8,11,200

Illustration 23: ABC Pvt. Ltd., an Indian company has an income of ₹30 lakhs from a business in India. This company has a business income of ₹12 lakhs from outside India. Out of which 7 lakhs were received in India and balance outside India.

Compute tax liability of the Indian company for the assessment year 2024-25.

Solution:

₹

Income from business in India	30,00,000
Income from outside India	12,00,000
Income under the head Business/Profession	42,00,000
Gross Total Income	42,00,000
Less: Deductions under chapter VI-A	Nil
Total Income	42,00,000
Computation of Tax Liability	
Tax on ₹42,00,000 @ 30%	12,60,000

Add: HEC @ 4%	50,400
Tax Liability	13,10,400

Note: Indian company is always considered to be resident in India and its incomes even earned and received outside India shall be chargeable to tax in India.

Illustration 24: Mr. X is a citizen of India and is employed in ABC Limited and getting salary ₹1,00,000 p.m. He was transferred out of India on 01.09.2023 and he left India for first time on 01.09.2023. He visited India from 26.01.2024 to 15.02.2024 and salary for January 2024 was received in India. At the time of departure, he received 3 gifts ₹20,000 (each) from his 3 friends and also a mobile phone of ₹70,000.

He has agricultural income in India ₹4,00,000

Compute his tax liability for assessment year 2024-25.

(i) Default regime

(ii) Optional regime

Solution:

(i) Default regime

Mr. X shall be covered in special category, therefore as per section 6(1), his status shall be non-resident.

(30 + 31 + 30 + 31 + 31 + 1 + 6 + 15) 175 days.

Income under the head Salary	₹
Accruing / arising in India	
1,00,000 x 5	5,00,000
Income received in India	
1,00,000 x 1	1,00,000
Gross Salary	6,00,000
Less: Deduction u/s 16(ia)	(50,000)
Income under the head salary	5,50,000
Income under the head Other Sources	60,000
Gross Total Income	6,10,000
Less: Deduction under Chapter VI-A	Nil
Total Income	6,10,000
Agricultural Income	4,00,000
Computation of Tax Liability	
Step 1. Tax on (6,10,000 + 4,00,000 = 10,10,000) at slab rate	61,500
Step 2. Tax on (4,00,000 + 3,00,000 = 7,00,000) at slab rate	(25,000)
Deduct step 2 from step 1	36,500
Add: HEC 4%	1,460
Tax Liability	37,960

(ii) Optional regime

Mr. X shall be covered in special category so therefore his status shall be non-resident.

(30 + 31 + 30 + 31 + 31 + 1 + 6 + 15) 175 days.

Income under the head Salary	₹
Accruing / arising in India	
1,00,000 x 5	5,00,000
Income received in India	
1,00,000 x 1	1,00,000
Gross Salary	6,00,000
Less: Deduction u/s 16(ia)	(50,000)
Income under the head salary	5,50,000
Income under the head Other Sources	60,000
Gross Total Income	6,10,000
Less: Deduction 80C to 80U	Nil

Total Income	6,10,000
Agricultural Income	4,00,000
Computation of Tax Liability	
Step 1. Tax on (6,10,000 + 4,00,000 = 10,10,000) at slab rate	1,15,500
Step 2. Tax on (4,00,000 + 2,50,000 = 6,50,000) at slab rate	(42,500)
Deduct step 2 from step 1	73,000
Add: HEC 4%	2,920
Tax Liability	75,920

Question 8: Explain meaning of income deemed to accrue or arise in India Section 9.

Answer:

Income deemed to the accruing/arising in India shall be taxable in all the three status i.e. ROR/NOR/NR.

As per section 9, the following incomes shall be deemed to be accruing / arising in India.

1. If any income has its source in India, such income shall be considered to be accruing / arising in India i.e. employment/house property/business/profession/capital asset or any other source of income is in India but if source is partly in India and partly outside India, income shall be accruing / arising in India only to the extent the source is in India e.g. Mr. X is employed in Punjab National Bank and is posted in Delhi branch on a salary of ₹1,00,000 p.m. In this case, his income shall be deemed to be accruing/arising in India but if he is transferred to the London branch w.e.f 01.01.2024, his income accruing/arising in India shall be ₹9,00,000 i.e. salary upto 31.12.2023 and the income which is accruing/arising abroad shall be ₹3,00,000 (i.e. salary from 01.01.2024 to 31.03.2024)

2. Business connection

If any person has business in India as well as outside India, it will be called business connection and in case of such business, the income of the business deemed to accrue or arise in India shall be only such part of the income as is reasonably attributable to the operations carried out in India and as per rule 10, assessing officer shall have the powers to determine the extent upto which income is accruing/arising in India.

There will be a business connection if any non-resident has business outside India but has agent in India who

(a) habitually **secures orders in India**, for the non-resident.

(b) habitually **maintains in India a stock of goods** from which he regularly delivers goods on behalf of the non-resident or

(c) habitually **concludes contracts on behalf of the non-resident** or plays the principal role leading to conclusion of contracts and the contracts are in the name of non - resident or the contracts are for the transfer of ownership or for granting of right to use property owned by that non- resident or the provision of services by the non - resident.

Significant economic presence

Significant economic presence of a non-resident in India shall also constitute business connection in India.

Significant economic presence means-

(a) in respect of any goods, services or property carried out by a non-resident with any person in India including provision of download of data or software in India and aggregate of payments arising from such transaction or transactions during the previous year is exceeding ₹ 2 crores.

OR

(b) systematic and continuous soliciting of business activities or engaging in interaction with users in India and the number of users should be atleast 3 lakhs.

Further, the above transactions or activities shall constitute significant economic presence in India, whether or not,—

(i) the agreement for such transactions or activities is entered in India;

(ii) the non-resident has a residence or place of business in India; or

(iii) the non-resident renders services in India:

Business connection shall also include

The income attributable to the operations carried out in India for the purpose of business connection, shall include income from—

- (i) such advertisement which targets a customer who resides in India or a customer who accesses the advertisement through internet protocol address located in India;
- (ii) sale of data collected from a person who resides in India or from a person who uses internet protocol address located in India; and
- (iii) sale of goods or services using data collected from a person who resides in India or from a person who uses internet protocol address located in India.”

There is **no business connection in the following three cases:**

(a) If any non-resident has business outside India but such person is purchasing goods from India and do not have any other activity in India, in this case there is no business connection but if such person has any other activity in India, it will be considered to be business connection. e.g. Mr. X a non-resident has one shop in New York for selling Indian goods and all these goods are purchased from India. In this case, there is no business connection. However, if assessee is carrying out any other activity in India, it will be considered to be business connection.

If in the above case the assessee has manufacturing unit in India, it will be considered to be a business connection.

(b) If any non-resident has the **business of running a news agency or of publishing newspapers, magazines or journals etc.** outside India, no income shall be deemed to accrue or arise in India to him from activities which are confined to the collection of news and views in India for transmission out of India but if newspaper etc. is being sold in India, there will be business connection or if there is telecasting or broadcasting of such news/views etc. in India, there will be business connection and income shall be taxable to that extent.

(c) If any non-resident is doing shooting of any **cinematograph film in India**, there is no business connection but if such film is being shown in India, there will be business connection.

2. If any person is holding shares of any Indian company, any capital gain on transfer of such shares shall be considered to be income accruing/arising in India even if shares were sold outside India.

In case of shares of a foreign company, capital gains shall be accruing / arising in India if the value of the shares is because of the assets located in India or because of business in India (the amendment is to overrule the judgment in Vodafone case).

3. If any individual is a citizen of India and is an employee of the government and is posted outside India, his salary income shall be accruing / arising in India e.g. Mr. X is citizen of India and is an IFS. He is posted in Indian embassy in USA, in this case, his salary income shall be accruing/arising in India.

4. If any loan has been taken by the government from outside India, interest paid by the government shall be considered to be income of the person who has received such interest and it is accruing / arising in India and it do not matter whether loan was used in India or outside India. e.g. If Central Government has taken a loan from an agency in USA, equivalent to Indian ₹1,000 lakh @ 10%, in this case, interest of ₹100 lakhs paid by the Government to such agency shall be considered to be the income of such agency accruing/arising in India.

If such loan has been taken by a person who is resident in India, interest income shall be accruing / arising in India only if loan amount has been used in India but if loan amount has been utilized outside India it will be accruing / arising abroad. E.g. ABC Ltd. an Indian company has taken a loan from an agency in USA and the amount was utilized in USA. In this case, interest income shall be accruing/arising in USA but if loan amount is used in India in any source, it will be accruing / arising in India

If such loan has been taken by a non-resident, interest income shall be accruing / arising in India only if loan amount has been utilised in India in business/profession but if loan amount is utilised in any other source in India or it has been used outside India, interest income shall be accruing / arising abroad. E.g. X Ltd. a non-

resident company has taken a loan from outside India and loan amount was utilized in India in house property. In this case, interest paid by the company shall be income of the recipient accruing/arising abroad but if loan amount was utilised in India in business/profession, interest income shall be considered to be accruing/arising in India. The person receiving interest shall be liable to pay income tax on such income even if such person do not have any Territorial Nexus with India i.e. such non-resident do not have a residence or place of business or business connection in India

MAY – 2006 (2 Marks)

Mr. X, left for USA on 01.05.2023. He has not visited India thereafter. Mr. X borrows money from his friend Mr. Y, who left India one week before Mr. X's departure, to the extent of ₹10 lakhs and buys shares in X Ltd., an Indian company. Discuss the taxability of the interest charged @ 10% in Mr. Y's hands where the same has been received in New York.

Answer: Stay of Mr. X and Mr. Y during the previous year 2023-24 is less than 60 days hence both of them are non-residents as per section 6(1).

As per section 9, if any non-resident has taken loan from outside India and the loan was utilized in India in any source other than business or profession, interest received by the person who has given the loan shall not be considered to be accruing/arising in India and is not taxable in India. In the given case, loan amount was invested in the shares of an Indian company hence interest received by Mr. Y shall not be considered to be income accruing/arising in India.

5. If government has taken any patent right or any technical services from outside India and has paid royalty or technical fee for such patent right etc., it will be considered to be income of the person who has received it and it is accruing / arising in India even if the patent right etc. has been used outside India.

If such payment is being given by any resident or non-resident, it will be income of the recipient accruing / arising in India only if such patent right etc. has been used in India otherwise it will be accruing / arising abroad.

Royalty means amount payable in connection with patent, invention, model, design, formula, process, trade marks etc.

Fees for Technical Services means any consideration for the rendering of Managerial, Technical or Consultancy Services.

If any income is accruing and arising in India relating to royalty or technical fees etc., it will be taxable in India even if the person receiving income is non-resident and even if such non-resident do not have any Territorial Nexus with India i.e. such non-resident do not have a residence or place of business or business connection in India and also the non-resident has not rendered services in India.

6. If any person has received pension, it will be deemed to be accruing/arising in India if the employer is in India. E.g. Mr. X is settled in Canada and is getting a pension of ₹30,000 p.m. from Punjab National Bank, in this case his pension income shall be accruing/arising in India.

7. Income arising outside India shall be taxable if it is a gift of some of money covered u/s 56(2)(x) and it is given by a person resident in India to any person who is NOR or non-resident.

Question 9: Explain income deemed to be received in India.

Answer: Such incomes is taxable in all the three status. Under section 7, employer's contribution to Recognised Provident Fund in excess of 12% of salary of the employee shall be considered to be income deemed to be received in India. Similarly, interest on the provident fund balance in excess of 9.5% p.a. shall be considered to be income deemed to be received in India.

Illustration 25: Mrs. X is a citizen of India and is employed in ABC Ltd. in India and is getting salary of ₹60,000 p.m. and she was transferred out of India w.e.f 01.09.2023 and for this purpose she left India on 01.09.2023 for the first time and she visited India from 27.12.2023 to 07.01.2024 and her salary for the month of Dec' 2023 was received in India. Employer and employee both have contributed @ 13% (each) of salary to the recognized provident fund and during the year interest of ₹50,000 was credited to the recognized provident fund @ 10% p.a.

Compute her total income and tax liability in India for assessment year 2024-25.

(i) Default regime

(ii) Optional regime

(b) Presume she was transferred w.e.f 01.11.2023 and she left India on 01.11.2023 for the first time.

Solution:**(i) Default regime**

As per section 6(1), in this case, Mrs. X is covered in special category and her stay in India is less than 182 days hence she will be non-resident and her incomes taxable in India shall be

	₹
Income under the head Salary	
Accruing/arising in India	3,00,000.00
60,000 x 5	
Income received in India	60,000.00
60,000 x 1	
Income deemed to be received in India	
Employer contribution	7,200.00
(60,000 x 12) x 1% (13% - 12%)	
Interest in excess of 9.5%	
50,000 /10% x 0.5% = 2,500	
Interest on employer contribution	1,250.00
2,500 /2	
(Interest on employee contribution i.e. ₹1,250 shall be taxable under the head Other Sources)	
Gross Salary	3,68,450.00
Less: Standard Deduction u/s 16(ia)	(50,000.00)
Income under the head Salary	3,18,450.00
Income under the head Other Sources	1,250.00
Gross Total Income	3,19,700.00
Less: Deduction under Chapter VI-A	Nil
Total Income	3,19,700.00
Computation of Tax Liability	
Tax on ₹3,19,700 at slab rate	985.00
Add: HEC 4%	39.40
Tax Liability	1,024.40
Rounded off u/s 288B	1,020.00

Solution (b):

In this case, Mrs. X is covered in special category and her stay in India is more than 182 days hence she will be ROR and her incomes taxable in India shall be

	₹
Income under the head Salary	
Accruing/arising in India	4,20,000.00
60,000 x 7	
Income received in India	60,000.00
60,000 x 1	
Income accruing/arising abroad / received abroad	2,40,000.00
60,000 x 4	
Income deemed to be received in India	
Employer contribution	7,200.00
(60,000 x 12) x 1% (13% - 12%)	
Interest in excess of 9.5%	
50,000 /10% x 0.5% = 2,500	
Interest on employer contribution	1,250.00
2,500 /2	
(Interest on employee contribution i.e. ₹1,250)	

shall be taxable under the head Other Sources)

Gross Salary	7,28,450.00
Less: Deduction u/s 16(ia)	(50,000.00)
Income under the head Salary	6,78,450.00
Income under the head Other Sources	1,250.00
Gross Total Income	6,79,700.00
Less: Deduction under Chapter VI-A	Nil
Total Income	6,79,700.00

Computation of Tax Liability

Tax on ₹6,79,700 at slab rate	22,970.00
Less: Rebate u/s 87A	(22,970.00)
Tax Liability	Nil

(ii) Optional regime

As per section 6(1), in this case, Mrs. X is covered in special category and her stay in India is less than 182 days hence she will be non-resident and her incomes taxable in India shall be

₹

Income under the head Salary	
Accruing/arising in India	3,00,000.00
60,000 x 5	
Income received in India	60,000.00
60,000 x 1	
Income deemed to be received in India	
Employer contribution	7,200.00
(60,000 x 12) x 1% (13% - 12%)	
Interest in excess of 9.5%	
50,000 / 10% x 0.5% = 2,500	
Interest on employer contribution	1,250.00
2,500 / 2	
(Interest on employee contribution i.e. ₹1,250 shall be taxable under the head Other Sources)	
Gross Salary	3,68,450.00
Less: Standard Deduction u/s 16(ia)	(50,000.00)
Income under the head Salary	3,18,450.00
Income under the head Other Sources	1,250.00
Gross Total Income	3,19,700.00
Less: Deduction u/s 80C	(93,600.00)
Contribution to recognized provident fund	
(60,000 x 12) x 13%	
Total Income	2,26,100.00

Computation of Tax Liability

Tax on ₹2,26,100 at slab rate	Nil
Tax Liability	Nil

Solution (b):

In this case, Mrs. X is covered in special category and her stay in India is more than 182 days hence she will be ROR and her incomes taxable in India shall be

₹

Income under the head Salary	
Accruing/arising in India	4,20,000.00
60,000 x 7	
Income received in India	60,000.00
60,000 x 1	

Income accruing/arising abroad / received abroad 60,000 x 4	2,40,000.00
Income deemed to be received in India	
Employer contribution (60,000 x 12) x 1% (13% - 12%)	7,200.00
Interest in excess of 9.5% 50,000 / 10% x 0.5% = 2,500	
Interest on employer contribution 2,500 / 2 (Interest on employee contribution i.e. ₹1,250 shall be taxable under the head Other Sources)	1,250.00
Gross Salary	7,28,450.00
Less: Deduction u/s 16(ia)	(50,000.00)
Income under the head Salary	6,78,450.00
Income under the head Other Sources	1,250.00
Gross Total Income	6,79,700.00
Less: Deduction u/s 80C	(93,600.00)
Contribution to recognized provident fund (60,000 x 12) x 13%	
Total Income	5,86,100.00
Computation of Tax Liability	
Tax on ₹5,86,100 at slab rate	29,720.00
Add: HEC @ 4%	1,188.80
Tax Liability	30,908.80
Rounded off u/s 288B	30,910.00

If any Seafarer (crew member of ship) is Non-resident and Income is accruing/arising abroad and his income has been received directly in his bank account in India, such income shall not be taxable.

Any past untaxed profits shall not be considered to be the income of the current year in any status i.e. ROR, NOR, NR.

Example

Mr. X had income of ₹3,00,000 in the year 2020-21 but he has not disclosed the income. It was detected in the previous year 2023-24. In this case, it will not be considered to be income of 2023-24 in any status, rather it will be considered to be income of the year 2020-21.

Illustration 26: Determine the taxability of the following incomes in the hands of a resident and ordinarily resident, resident but not ordinarily resident, and non-resident for the A.Y. 2024-25 –

Particulars	Amount (₹)
(1) Interest on UK Development Bonds, 50% of interest received in India	10,000
(2) Income from a business in Chennai (50% is received in India)	20,000
(3) Profits on sale of shares of an Indian company received in London	20,000
(4) Profits on sale of plant at Germany 50% of profits are received in India	40,000
(5) Income earned from business in Germany which is controlled from Delhi (₹40,000 is received in India)	70,000
(6) Profits from a business in Delhi but managed entirely from London	15,000
(7) Income from property in London deposited in a Indian Bank at London, brought to India	50,000
(8) Interest for debentures in an Indian company received in London.	12,000
(9) Fees for technical services rendered in India but received in London	8,000
(10) Profits from a business in Bombay managed from London	26,000
(11) Pension for services rendered in India but received in Burma	4,000
(12) Income from property situated in Pakistan received there	16,000

(13) Past foreign untaxed income brought to India during the previous year	5,000
(14) Income from agricultural land in Nepal received there and then brought to India	18,000
(15) Income from profession in Kenya which was set up in India, received there but spent in India	5,000
(16) Gift received on the occasion of his wedding	20,000
(17) Interest on savings bank deposit in State Bank of India	10,000
(18) Income from a business in Russia, controlled from Russia	20,000
(19) Agricultural income from a land in Rajasthan	15,000

Solution: **Computation of Gross Total Income for the A.Y.2024-25**

Particulars	Resident and ordinarily resident ₹	Resident but not ordinarily resident ₹	Non resident ₹
(1) Interest on UK Development Bonds, 50% of interest received in India	10,000	5,000	5,000
(2) Income from a business in Chennai (50% is received in India)	20,000	20,000	20,000
(3) Profits on sale of shares of an Indian company received in London	20,000	20,000	20,000
(4) Profits on sale of plant at Germany 50% of profits are received in India	40,000	20,000	20,000
(5) Income earned from business in Germany which is controlled from Delhi, out of which ₹40,000 is received in India	70,000	70,000	40,000
(6) Profits from a business in Delhi but managed entirely from London	15,000	15,000	15,000
(7) Income from property in London deposited in a Bank at London, later on remitted to India	50,000	-	-
(8) Interest for debentures in an Indian company received in London.	12,000	12,000	12,000
(9) Fees for technical services rendered in India but received in London	8,000	8,000	8,000
(10) Profits from a business in Bombay managed from London	26,000	26,000	26,000
(11) Pension for services rendered in India but received in Burma	4,000	4,000	4,000
(12) Income from property situated in Pakistan received there	16,000	-	-
(13) Past foreign untaxed income brought to India during the previous year	-	-	-
(14) Income from agricultural land in Nepal received there and then brought to India	18,000	-	-
(15) Income from profession in Kenya which was set up in India, received there but spent in India	5,000	5,000	-
(16) Gift received on the occasion of his wedding [not an income]	-	-	-
(17) Interest on savings bank deposit in State Bank of India	10,000	10,000	10,000
(18) Income from a business in Russia, controlled from Russia	20,000	-	-
(19) Agricultural income from a land in Rajasthan [it is exempt u/s 10(1)]	-	-	-
Gross Total Income	3,44,000	2,15,000	1,80,000

MULTIPLE CHOICE QUESTIONS

1. If Anirudh has stayed in India in the P.Y. 2023-24 for 181 days, and he is non-resident in 9 out of 10 years immediately preceding the current previous year and he has stayed in India for 365 days in all in the 4 years immediately preceding the current previous year and 420 days in all in the 7 years immediately preceding the current previous year, his residential status for the A.Y.2024-25 would be-

- (a) Resident and ordinarily resident
- (b) Resident but not ordinarily resident
- (c) Non-resident
- (d) Cannot be ascertained with the given information

2. Raman was employed in Hindustan Lever Ltd. He received a salary of ₹40,000 p.m. from 1.4.2023 to 27.9.2023. He resigned and left for Dubai for the first time on 1.10.2023 and got salary of rupee equivalent of ₹80,000 p.m. from 1.10.2023 to 31.3.2024. His salary for October to December 2023 was credited in his Dubai bank account and the salary for January to March 2024 was credited in his Bombay account directly. He is liable to tax in respect of -

- (a) Income received in India from Hindustan Lever Ltd;
- (b) Income received in India and in Dubai;
- (c) Income received in India from Hindustan Lever Ltd. and income directly credited in India;
- (d) Income received in Dubai

3. A company would be a resident in India for the P.Y. 2023-24, if

- (a) it is an Indian company
- (b) during the year, majority of its directors are resident in India
- (c) during the year, its Place of Effective Management is in India
- (d) both (a) and (c)

4. Income accruing in London and received there is taxable in India in the case of-

- (a) resident and ordinarily resident only
- (b) both resident and ordinarily resident and resident but not ordinarily resident
- (c) both resident and non-resident
- (d) non-resident

5. Incomes which accrue or arise outside India but received directly in India are taxable in case of-

- (a) resident and ordinarily resident only
- (b) both resident and ordinarily resident and resident but not ordinarily resident
- (c) non-resident
- (d) All the above

6. Income earned from a contract negotiated by an agent in India in the name of a non-resident and approved by such non-resident shall:

- (a) be taxable in India as such income is deemed to accrue or arise in India
- (b) not be taxable in India as there is no business connection in India
- (c) be taxable in India only if it is received in India
- (d) not taxable in India as such income accrues or arises outside India

7. Fees for technical services paid by the Central Government will be taxable in case of –

- (a) resident and ordinarily resident only
- (b) both resident and ordinarily resident and resident but not ordinarily resident
- (c) non-resident
- (d) All the above

8. Short term capital gains on sale of shares of an Indian company received in Australia is taxable in case of–

- (a) resident and ordinarily resident only
- (b) both resident and ordinarily resident and resident but not ordinarily resident
- (c) non-resident only
- (d) All the above

9. Income from a business in Canada, controlled from Canada is taxable in case of –

- (a) resident and ordinarily resident only

- (b) both resident and ordinarily resident and resident but not ordinarily resident
- (c) non-resident
- (d) All the above

10. Income from Australian company received in Australia in the year 2022, brought to India during the previous year 2023-24 is taxable in case of –

- (a) resident and ordinarily resident only
- (b) resident but not ordinarily resident
- (c) non-resident
- (d) None of the above

11. If Mr. Akash has stayed in India in the P.Y. 2023-24 for 100 days, and he is non-resident in 9 out of 10 years immediately preceding the current previous year and he has stayed in India for 365 days in all in the 4 years immediately preceding the current previous year and 730 days in all in the 7 years immediately preceding the current previous year, his residential status for the A.Y.2024 - 25 would be-

- (a) Resident and ordinarily resident
- (b) Resident but not ordinarily resident
- (c) Non-resident
- (d) Cannot be ascertained with the given information

12. If Mr. A has stayed in India in the P.Y. 2023-24 for 100 days, and he is non-resident in 8 out of 10 years immediately preceding the current previous year and he has stayed in India for 365 days in all in the 4 years immediately preceding the current previous year and 710 days in all in the 7 years immediately preceding the current previous year, his residential status for the A.Y.2024 - 25 would be-

- (a) Resident and ordinarily resident
- (b) Resident but not ordinarily resident
- (c) Non-resident
- (d) Cannot be ascertained with the given information

13. Mr. A, a Canadian citizen, comes to India for the first time during the P.Y. 2019-20. He was in India during 2019-20- 55 days, 2020-21 – 60 days, 2021-22 – 90 days, 2022-23 – 150 days, 2023-24 – 70 days. Residential status for the previous year 2023-24 shall be

- (a) Resident and ordinarily resident
- (b) Resident but not ordinarily resident
- (c) Non-resident
- (d) Cannot be ascertained with the given information

14. Karta of one HUF comes to India every year for minimum 10 days and maximum 104 days, residential status of HUF shall be

- (a) Resident and ordinarily resident
- (b) Resident but not ordinarily resident
- (c) Non-resident
- (d) Cannot be ascertained with the given information

15. ABC Ltd. an Indian company has most of its business outside India and also control and management outside India. Residential status of company shall be

- (a) Resident
- (b) Resident but not ordinarily resident
- (c) Non-resident
- (d) None of the above

16. A Korean company received ₹20 lakhs from a non – resident for use of patent for a business in India is _____

- (a) taxable in India
- (b) not taxable in India
- (c) None of the above

17. A non-resident received ₹15 lakhs from a Foreign Company outside India, it is _____

- (a) taxable in India

- (b) not taxable in India
- (c) partly taxable in India
- (d) None of the above

18. John is a foreign citizen born in USA. His father was born in Delhi in 1960 and his grand-father was born in Lahore in 1935 but his mother was born in UK in 1963. John came to India for the first time on 1st June, 2023 and stayed in India for 183 days and then left for USA. His residential status for the A.Y. 2024-25 shall be :

- (a) Resident and ordinarily resident
- (b) Resident but not ordinarily resident
- (c) Non-resident
- (d) Foreign National

19. The following income of Ms. Nargis who is a non-resident shall be included in her total income:

(i) Salary for 2 months received in Delhi ₹40,000.

(ii) Interest on Savings Bank Account in Mumbai ₹2,100.

(iii) Agricultural income in Bangladesh and Invested in shares in Bangladesh.

(iv) Amount brought into India out of past non-taxed profits earned in USA.

- (a) (i), (iii) and (iv)
- (b) (i) and (ii)
- (c) (i), (ii) and (iv)
- (d) All the four above

20. The income earned during the previous year is subject to tax under the Act on the basis of residential status of an assessee. However, the residential status of an assessee every year.

- (a) will not change
- (b) will certainly change
- (c) may change
- (d) None of the above

21. Mr. Rajiv, born and brought up in India left for employment in Belgium on 15-10-2023. He has never gone out of India, previously. What is his residential status for the assessment year 2024-25?

- (a) Non-resident
- (b) Not ordinarily resident
- (c) Resident and ordinarily resident in India
- (d) Indian citizen

22. Mr. Ramji (age 55) is Karta of HUF doing textile business at Nagur. Mr. Ramji is residing in Dubai for the past 10 years and visited India for 20 days every year for filing the income tax return of HUF. His two major sons take care of the day to day affairs of the business in India. The residential status of HUF for the assessment year 2024-25 is :

- (a) Non-resident
- (b) Resident and ordinarily resident in India
- (c) Not ordinarily resident
- (d) None of the above

23. Past untaxed profit of the previous year 2018-19 brought to India in 2023-24 is chargeable to tax in the assessment year 2024-25 in the hands of

- (a) All the assesseees
- (b) Resident and ordinarily resident in India
- (c) Non-resident in India
- (d) None of the above.

24. Total income of a person is determined on the basis of his

- (a) Residential status in India
- (b) Citizenship in India
- (c) Both (a) and (b) above
- (d) None of the above.

25. Alpha Ltd. is an Indian company. It carries its business in Delhi and London. Total control and management of the company is situated in London. More than 85% of its business income is from the business in England. If so, its residential status will be —

- (a) Resident
- (b) Non-resident
- (c) Not ordinarily resident
- (d) Foreign company.

Answer:

1. (b); 2. (b); 3. (d); 4. (a); 5. (d); 6. (a); 7. (d); 8. (d); 9. (a); 10. (d); 11. (b); 12. (b); 13. (c); 14. (b); 15. (a); 16. (a); 17. (b); 18. (b); 19. (b); 20. (c); 21. (c); 22. (c); 23. (d); 24. (a); 25. (a)

PRACTICE PROBLEMS

TOTAL PROBLEMS 24

Problem 1 TO 10

Determine residential status of Mr. X for the assessment year 2024-25, who stays in India during various financial years as under:

Previous Years	1	2	3	4	5	6	7	8	9	10
2023-24	65	183	181	69	300	70	72	95	180	93
2022-23	91	90	87	110	97	99	94	92	91	90
2021-22	190	78	98	91	103	104	101	100	99	80
2020-21	89	120	189	196	110	98	97	96	95	90
2019-20	87	91	92	93	94	95	94	93	92	100
2018-19	86	99	92	95	99	100	101	100	99	90
2017-18	84	66	93	94	365	210	209	208	207	80
2016-17	105	210	91	93	—	0	91	92	91	90
2015-16	110	110	92	92	362	300	200	100	—	100
2014-15	112	94	93	91	10	99	88	77	66	110
2013-14	100	96	91	90	310	100	99	92	94	120
2012-13	91	199	90	89	210	92	94	96	98	130
2011-12	94	81	89	8	92	80	70	60	50	100
2010-11	97	82	88	87	88	55	65	75	85	80
2009-10	99	83	87	86	84	40	50	60	70	60

Answer = (1) ROR; (2) ROR; (3) ROR; (4) ROR; (5) ROR; (6) NOR; (7) ROR; (8) ROR; (9) ROR; (10) NR

Problem 11.

Mr. X, a citizen of USA, has come to India for the first time on 01.07.2019. The particulars of his arrival and departure are as given below:

Date of arrival

01.07.2019
27.03.2020
10.09.2020
01.01.2022
01.02.2023
11.02.2024

Date of departure

11.12.2019
21.07.2020
01.03.2021
23.09.2022
01.07.2023
—

Determine his residential status for various years.

Answer = 2019-20 – Non-Resident (NR)
2020-21 – Resident but not ordinarily resident (NOR)
2021-22 – Resident but not ordinarily resident (NOR)
2022-23 – Resident but not ordinarily resident (NOR)
2023-24 – Resident and ordinarily resident (ROR)

Problem 12.

Mr. X, a citizen of U.K., has come to India for the first time on 01.07.2019. The particulars of his arrival and departure are as given below:

Date of arrival

01.07.2019
01.01.2020
11.07.2020

Date of departure

07.09.2019
08.03.2020
20.09.2020

10.02.2021
01.01.2022
11.03.2023
27.03.2024

09.05.2021
20.05.2022
21.06.2023

Determine his residential status for various years.

Answer = 2019-20 – Non-Resident (NR)
2020-21 – Non-Resident (NR)
2021-22 – Non-Resident (NR)
2022-23 – Resident but not ordinarily resident (NOR)
2023-24 – Resident but not ordinarily resident (NOR)

Problem 13.

Mr. X goes out of India every year for 274 days.

Determine his residential status for the previous year 2023-24.

Answer = Resident but not ordinarily resident (NOR)

Problem 14.

Mr. X, a citizen of Japan, has come to India for the first time on 01.10.2023 for 200 days.

Determine his residential status for the assessment year 2024-25.

Answer = Resident but not ordinarily resident (NOR)

Problem 15.

Mr. X, a citizen of U.K. came to India for the first time on 01.07.2013 in connection with his employment. He left India on 01.11.2022 for taking up a job in USA. He again came to India on 01.01.2024 on a visit and left India on 01.03.2024.

Determine his residential status for the assessment year 2024-25.

Answer = Resident and ordinarily resident (ROR)

Problem 16.

Mr. X, a German citizen, came to India on 23.05.2022 and left India on 30.05.2023.

Determine his residential status for the assessment year 2023-24, 2024-25.

Answer = Assessment Year 2023-24: Resident but not ordinarily resident (NOR)
Assessment Year 2024-25: Non- Resident (NR)

Problem 17.

Mr. X, a citizen of India, is employed in Soliton Technologies, an Indian company. His employer has transferred him to his branch in Japan. Mr. X left India on 29.09.2023 for his new posting in Japan.

Determine his residential status for the assessment year 2024-25.

Prior to this, Mr. X was posted outside India for 11 months in the previous year 2018-19 and for 10.5 months in the year 2014-15.

Answer = Resident and ordinarily resident (ROR)

Problem 18.

Dr. Reddy's Labs is an Indian company and has borrowed funds from Bank of America, New York for investing it in one of its projects in USA. In this case, interest paid by Dr. Reddy's Labs to Bank of America shall be accruing/arising _____.

Answer = Outside India

Problem 19.

Calculate taxable income of an individual on the basis of the following informations, for the assessment year 2024-25, if he is:

- (a) Ordinarily Resident
- (b) Not Ordinarily Resident; and

(c) Non-Resident

	₹
(i) Profit from business in Japan received in India.	10,000
(ii) Income from agriculture in Pakistan – it is all spent on the education of children there	5,000
(iii) Income accrued in India but received in England	10,000
(iv) Income from house property in Pakistan deposited in a bank there	2,000
(v) Profits of business in America deposited in a bank there. This business is controlled from India	50,000
(vi) Profits earned from business in Meerut	12,000
(vii) Past untaxed foreign income brought into India during the previous year	10,000
(Presume that all the incomes are computed incomes)	
Answer:	
Taxable Income: Resident and ordinarily resident (ROR): ₹89,000;	
Resident but not ordinarily resident (NOR) : ₹82,000;	
Non-Resident (NR) : ₹32,000	

Problem 20.

Mr. X earns the following income during the previous year 2023-24.

Compute his gross total income for assessment year 2024-25 if he is

(i) resident and ordinarily resident.

(ii) resident but not ordinarily resident.

(iii) non-resident.

	₹
(1) Income from agricultural land in Bhutan received there and remitted to India later on	40,000
(2) Pension for service rendered in India, but received in Paris	15,000
(3) Past untaxed profits of 2022-23 brought into India in 2023-24	50,000
(4) Profits from business in Paris, deposited in bank there	1,00,000
(5) Profits from business in Canada, controlled from India, profits received there	1,75,000
(6) Interest on saving bank deposit in Punjab National Bank, in India	20,000
(7) Capital gain on sale of a house in Delhi, amount received in Paris	2,00,000

Answer: Resident and ordinarily resident (ROR): ₹5,50,000
 Resident but not ordinarily resident (NOR): ₹4,10,000
 Non-Resident (NR): ₹2,35,000

Problem 21.

Mr. X earns the following income during the previous year 2023-24.

Compute his Gross total income for assessment year 2024-25 if he is

(i) resident and ordinarily resident.

(ii) resident but not ordinarily resident.

(iii) non-resident.

	₹
(1) Profit on sale of machinery in India, but received in Japan	1,20,000
(2) Profits from business in Bombay, managed from Japan	2,25,000
(3) Profits from business in Japan, managed from there, received there	1,45,000
(4) Income from house property in India	1,50,000
(5) Income from property in Japan and received there	1,50,000
(6) Income from agriculture in Japan being invested there	75,000
(7) Fees for technical services rendered in India but received in Japan	65,000
(8) Interest on Government securities accrued in India but received in Japan	80,000
(9) Interest on Japan Government securities, received in India	40,000

(Presume that all the incomes are computed incomes)

Answer: Resident and ordinarily resident (ROR): ₹10,50,000
 Resident but not ordinarily resident (NOR): ₹6,80,000
 Non-Resident (NR): ₹6,80,000

Problem 22.

Mr. X earns the following incomes during the financial year 2023-24.

	₹
(1) Profits from a business in Japan, controlled from India, half of the profits received in India	60,000
(2) Income from agriculture in Nepal, brought to India	10,000
(3) Income u/h house property in Bombay, received in UK	1,70,000
(4) Income u/h house property in USA, received there but subsequently remitted to India	2,20,000
(5) Income u/h house property in USA, received there (₹50,000 remitted in India)	1,00,000
(6) Salary received in India for services rendered in USA	60,000
(7) Income from profession in Paris, which was set up in India, received in Paris	90,000
(8) Interest from deposit with an Indian company, received in Japan	19,000
(9) Income from profession in Bombay received in Paris	39,000
(10) Profits of business in Iran, deposited in a bank there, business controlled from India (out of ₹4,80,000, ₹ 1,00,000 is remitted in India)	4,80,000
(11) Interest on German development bonds, half of which is received in India	12,000
(12) Income under the head house property in Canada, one-fifth is received in India	50,000

(Presume all the above incomes are computed income i.e. all the exemptions and deductions have already been allowed)

Determine the gross total income of Mr. X if he is

- (i) resident and ordinarily resident,
- (ii) resident but not ordinarily resident,
- (iii) non-resident in India during the financial year 2023-24.

Answer: Resident and ordinarily resident (ROR): ₹13,10,000

Resident but not ordinarily resident (NOR): ₹9,34,000

Non-Resident (NR): ₹3,34,000

Problem 23.

Mr. X is a citizen of India and is employed in ABC Ltd and is getting a salary of ₹60,000 p.m. He purchased one building in India on 1st May, 2023 for ₹10,00,000 and its market value is ₹22,00,000 and value for the purpose of charging stamp duty is ₹13,00,000. He purchased gold for ₹8,00,000 and its market value is ₹11,00,000. He was transferred out of India w.e.f. 1st Sept, 2023 and he left India on 1st Sept, 2023 and one of his friend gifted him one colour TV on this occasion, market value ₹1,00,000.

He has gone out of India in earlier years also.

P.Y. 2022-23 100 days

P.Y. 2021-22 200 days

He visited India from 01.02.2024 to 14.02.2024 and salary for January, 2024 was received in India.

He has purchased one house property in USA in December 2023 and sold in March 2024 and there were short term capital gain of ₹6,00,000 and the amount was received in USA.

Compute his tax liability for the A.Y.2024-25.

Answer: Tax Liability: ₹48,360

Problem 24.

Mrs. X is employed in ABC Ltd in India and she is an American citizen and is getting a salary of ₹2,00,000 p.m.

She received gift of one painting in India from her friend on 01.07.2023 and its market value is ₹49,000 and she also received gift in cash of ₹49,000 from the same friend and gift of immovable property with value for the purpose of charging stamp duty is ₹51,000 from the same friend.

She purchased UK Development bond and interest equivalent of ₹2,00,000 was received in USA.

She visited USA for 182 days during P.Y.2023-24.

In the earlier year her stay in India was

P.Y. 2022-23 110 days

P.Y. 2021-22 120 days

P.Y. 2020-21	300 days
P.Y. 2019-20	182 days
P.Y. 2018-19	185 days
P.Y. 2017-18	200 days
P.Y. 2016-17	300 days

Compute her tax liability in India for the A.Y. 2024-25.

Answer: Tax Liability: ₹4,99,510

SOLUTIONS

TO

PRACTICE PROBLEMS

Solution 1:

2023-24	Resident
2022-23	Resident
2021-22	Resident
2020-21	Non-Resident
2019-20	Resident
2018-19	Resident
2017-18	Resident
2016-17	Resident
2015-16	Resident
2014-15	Resident
2013-14	Resident

Total stay in 7 years preceding the relevant previous year is 732 days.

Since the assessee is not able to comply with any of the conditions of section 6(6)(a), as listed below, he will be considered to be ROR.

1. He is **non resident in India** in at least **nine out of ten previous years** preceding that year.

or

2. He has **during the seven previous** years preceding that year been in India for a period of 729 days or less.

Solution 2:

2023-24	Resident
2022-23	Resident
2021-22	Resident
2020-21	Resident
2019-20	Resident
2018-19	Resident
2017-18	Resident
2016-17	Resident
2015-16	Resident
2014-15	Resident
2013-14	Resident

Total stay in 7 years preceding the relevant previous year is 754 days.

Since the assessee is not able to comply with any of the conditions of section 6(6)(a), as listed below, he will be considered to be ROR.

1. He is **non resident in India** in at least **nine out of ten previous years** preceding that year.

or

2. He has **during the seven previous** years preceding that year been in India for a period of 729 days or less.

Solution 3:

2023-24	Resident
2022-23	Resident
2021-22	Resident
2020-21	Resident
2019-20	Resident
2018-19	Resident
2017-18	Resident
2016-17	Resident
2015-16	Non-Resident
2014-15	Non-Resident
2013-14	Non-Resident

Total stay in 7 years preceding the relevant previous year is 742 days.

Since the assessee is not able to comply with any of the conditions of section 6(6)(a), as listed below, he will be considered to be ROR.

1. He is **non resident in India** in at least **nine out of ten previous years** preceding that year.

or

2. He has **during the seven previous** years preceding that year been in India for a period of 729 days or less.

Solution 4:

2023-24	Resident
2022-23	Resident
2021-22	Resident
2020-21	Resident
2019-20	Resident
2018-19	Resident
2017-18	Resident
2016-17	Non-Resident
2015-16	Non-Resident
2014-15	Non-Resident
2013-14	Non-Resident

Total stay in 7 years preceding the relevant previous year is 772 days.

Since the assessee is not able to comply with any of the conditions of section 6(6)(a), as listed below, he will be considered to be ROR.

1. He is **non resident in India** in at least **nine out of ten previous years** preceding that year.

or

2. He has **during the seven previous** years preceding that year been in India for a period of 729 days or less.

Solution 5:

2023-24	Resident
2022-23	Resident
2021-22	Resident
2020-21	Resident
2019-20	Resident
2018-19	Resident
2017-18	Resident
2016-17	Non-Resident
2015-16	Resident
2014-15	Non-Resident
2013-14	Resident

Total stay in 7 years preceding the relevant previous year is 868 days.

Since the assessee is not able to comply with any of the conditions of section 6(6)(a), as listed below, he will be considered to be ROR.

1. He is **non resident in India** in at least **nine out of ten previous years** preceding that year.

or

2. He has **during the seven previous** years preceding that year been in India for a period of 729 days or less.

Solution 6:

2023-24	Resident
2022-23	Resident
2021-22	Resident
2020-21	Resident
2019-20	Resident
2018-19	Resident
2017-18	Resident
2016-17	Non-Resident
2015-16	Resident
2014-15	Non-Resident
2013-14	Non-Resident

Total stay in 7 years preceding the relevant previous year is 706 days.

Since the assessee is able to comply with any of the conditions of section 6(6)(a), as listed below, he will be considered to be NOR.

1. He is **non resident in India** in at least **nine out of ten previous years** preceding that year.

or

2. He has **during the seven previous** years preceding that year been in India for a period of 729 days or less.

Solution 7:

2023-24	Resident
2022-23	Resident
2021-22	Resident
2020-21	Resident
2019-20	Resident
2018-19	Resident
2017-18	Resident
2016-17	Resident
2015-16	Resident
2014-15	Non-Resident
2013-14	Non-Resident

Total stay in 7 years preceding the relevant previous year is 787 days.

Since the assessee is not able to comply with any of the conditions of section 6(6)(a), as listed below, he will be considered to be ROR.

1. He is **non resident in India** in at least **nine out of ten previous years** preceding that year.

or

2. He has **during the seven previous** years preceding that year been in India for a period of 729 days or less.

Solution 8:

2023-24	Resident
2022-23	Resident
2021-22	Resident
2020-21	Resident
2019-20	Resident

2018-19	Resident
2017-18	Resident
2016-17	Resident
2015-16	Non-Resident
2014-15	Non-Resident
2013-14	Non-Resident

Total stay in 7 years preceding the relevant previous year is 781 days.

Since the assessee is not able to comply with any of the conditions of section 6(6)(a), as listed below, he will be considered to be ROR.

1. He is **non resident in India** in at least **nine out of ten previous years** preceding that year.

or

2. He has **during the seven previous** years preceding that year been in India for a period of 729 days or less.

Solution 9:

2023-24	Resident
2022-23	Resident
2021-22	Resident
2020-21	Resident
2019-20	Resident
2018-19	Non-Resident
2017-18	Resident
2016-17	Non-Resident
2015-16	Non-Resident
2014-15	Non-Resident
2013-14	Non-Resident

Total stay in 7 years preceding the relevant previous year is 774 days.

Since the assessee is not able to comply with any of the conditions of section 6(6)(a), as listed below, he will be considered to be ROR.

1. He is **non resident in India** in at least **nine out of ten previous years** preceding that year.

or

2. He has **during the seven previous** years preceding that year been in India for a period of 729 days or less.

Solution 10:

Mr. X is in India for 60 days or more in 2023-24 but for less than 365 days in 4 years immediately preceding 2023-24, so he is non-resident in 2023-24.

Solution 11:

Stay of Mr. X in various years is as given below.

In P.Y. 2019-20

{July – 31, August – 31, September – 30, October – 31, November – 30, December – 11, March – 5}

Days of stay in India are 169, so Mr. X is non-resident.

In P.Y. 2020-21

{April – 30, May – 31, June – 30, July – 21, September – 21, October – 31, November – 30, December – 31, January – 31, February – 28, March – 1}

Days of stay in India are 285. So, he is resident and also he is non-resident in at least 9 years out of 10 years preceding the relevant previous year, hence he is NOR.

In P.Y. 2021-22

{January – 31, February – 28, March – 31}

Days of stay in India are 90. So, he is resident and also he is non-resident in at least 9 years out of 10 years preceding the relevant previous year, hence he is NOR.

In P.Y. 2022-23

{April – 30, May – 31, June – 30, July – 31, August – 31, September – 23, February – 28, March – 31}
Days of stay in India are 235. So, he is resident and also his stay during seven years preceding the relevant previous year is 729 days or less, hence he is NOR.

In P.Y. 2023-24

{April – 30, May – 31, June – 30, July – 1, February – 19, March – 31}

Days of stay in India are 142 and during the previous 4 years his stay is for 365 days or more so he is resident and also he is ROR because he is not able to fulfil any of the conditions of section 6(6)(a). i.e.

1. He is **non resident in India** in at least **nine out of ten previous years** preceding that year.

or

2. He has **during the seven previous years** preceding that year been in India for a period of 729 days or less.

Hence he is ROR .

Solution 12:**In P.Y. 2019-20**

{July – 31, August – 31, September – 7, January – 31, February – 29, March – 8}

Days of stay in India are 137, so Mr. Daniel is non-resident.

In P.Y. 2020-21

{July – 21, August – 31, September – 20, February – 20, March – 31}

Days of stay in India are 123, so, he is non-resident.

In P.Y. 2021-22

{April – 30, May – 9, January – 31, February – 28, March – 31}

Days of stay in India are 129, so, he is non-resident.

In P.Y. 2022-23

{April – 30, May – 20, March – 21}

Days of stay in India are 71 and also he stays for 365 days or more during 4 years preceding the relevant previous year and also he is able to comply with at least one of the conditions of section 6(6)(a) as given below.

1. He is **non resident in India** in at least **nine out of ten previous years** preceding that year.

or

2. He has **during the seven previous years** preceding that year been in India for a period of 729 days or less.

Hence he is NOR.

In P.Y. 2023-24

{April – 30, May – 31, June – 21, March – 5}

Days of stay in India are 87 and during the previous 4 years his stay is more than 365 days. So he is resident but not ordinarily resident because he is able to fulfill at least one of the two condition given u/s 6(6)(a).

Solution 13:

Since he is out of India every year for 274 days so his days of stay in India are –

In 2023-24 92 Days

In 2022-23 91 Days

In 2021-22 91 Days

In 2020-21 91 Days

In 2019-20 92 Days

So his stay in India during the seven years immediately preceding the relevant previous year is less than 729 days, so he is resident but not ordinarily resident.

Solution 14:

Days of stay in India in P.Y. 2023-24 are 183.

{October – 31, November – 30, December – 31, January – 31, February – 29, March – 31}

So he is resident and also he will be able to comply with at least one of the conditions of section 6(6)(a) as given below.

1. He is **non resident in India** in at least **nine out of ten previous years** preceding that year.

or

2. He has **during the seven previous years** preceding that year been in India for a period of 729 days or less.

Hence he is NOR.

Solution 15:

His days of stay in India are as under –

In P.Y. 2013-14 274 days

{July – 31, August – 31, September – 30, October – 31, November – 30, December – 31, January – 31, February – 28, March – 31}

In P.Y. 2014-15 365

In P.Y. 2015-16 366

In P.Y. 2016-17 365

In P.Y. 2017-18 365

In P.Y. 2018-19 365

In P.Y. 2019-20 366

In P.Y. 2020-21 365

In P.Y. 2021-22 365

In P.Y. 2022-23 215

{April – 30, May – 31, June – 30, July – 31, August – 31, September – 30, October – 31, November – 1}

In P.Y. 2023-24 61

{January – 31, February – 29, March – 1}

He is resident in 2023-24 but he is not able to comply with any of the conditions of section 6(6)(a) hence he is resident and ordinarily resident.

Solution 16:

His days of stay in India in year 2022-23 are 313.

{May – 9, June – 30, July – 31, August – 31, September – 30, October – 31, November – 30, December – 31, January – 31, February – 28, March – 31}

So he is resident and he is also able to comply with one of the condition of section 6(6)(a) hence he will be considered to be resident but not ordinarily resident.

His days of stay in India in 2023-24 are 60.

{April – 30 and May – 30}

So he is non-resident in the year 2023-24.

Solution 17:

His days of stay in India during 2023-24 are 182.

{April – 30, May – 31, June – 30, July – 31, August – 31, September – 29}

So Mr. X is resident in previous year 2023-24 and also he is not able to comply with any of the conditions of section 6(6)(a) hence he will be considered to be ROR.

Solution 18:

It will be accruing arising abroad because if any loan has been taken by a person resident in India from outside India then interest income shall be accruing arising in India only if such resident has utilized the loan amount in India.

Solution 19:

Particulars	ROR	NOR	NR
(i) Income accruing/arising outside India but received in India	10,000	10,000	10,000
(ii) Income accruing/arising outside India and also received abroad.	5,000	-----	-----
(iii) Income accruing/arising in India	10,000	10,000	10,000
(iv) Income accruing/arising outside India and also received abroad.	2,000	-----	-----

(v) Income accruing/arising outside India and also received outside India but from a business controlled from India	50,000	50,000	-----
(vi) Income accruing/arising in India	12,000	12,000	12,000
(vii) Past profits	-----	-----	-----
Taxable Income	89,000	82,000	32,000

Solution 20:

Particulars	ROR	NOR	NR
(1) Income accruing/arising outside India and received outside India	40,000	-----	-----
(2) Income accruing/arising in India	15,000	15,000	15,000
(3) Past profits	-----	-----	-----
(4) Income accruing/arising and received outside India	1,00,000	-----	-----
(5) Income accruing/arising and received outside India, but business controlled from India	1,75,000	1,75,000	-----
(6) Income deemed to be accruing/ arising in India	20,000	20,000	20,000
(7) Income deemed to be accruing/ arising in India	2,00,000	2,00,000	2,00,000
Gross Total Income	5,50,000	4,10,000	2,35,000

Solution 21:

Particulars	ROR	NOR	NR
(1) Income accruing /arising in India	1,20,000	1,20,000	1,20,000
(2) Income accruing/arising in India	2,25,000	2,25,000	2,25,000
(3) Income accruing/arising and received outside India	1,45,000	-----	-----
(4) Income accruing/arising in India	1,50,000	1,50,000	1,50,000
(5) Income accruing/arising outside India and received outside India	1,50,000	-----	-----
(6) Income accruing/arising outside India and received outside India	75,000	-----	-----
(7) Income accruing/arising in India	65,000	65,000	65,000
(8) Income accruing/arising in India	80,000	80,000	80,000
(9) Income received in India	40,000	40,000	40,000
Gross Total Income	10,50,000	6,80,000	6,80,000

Solution 22:

	ROR	NOR	NR
(1) Income accruing/arising outside India from a business controlled in India, half of the income received in India	60,000	60,000	30,000
(2) Income accruing/arising outside India and received outside India	10,000	-----	-----
(3) Income accruing/arising in India	1,70,000	1,70,000	1,70,000
(4) Income accruing/arising outside India and received outside India	2,20,000	-----	-----
(5) Income accruing/arising outside India and received outside India	1,00,000	-----	-----
(6) Income received in India	60,000	60,000	60,000
(7) Income accruing/arising and received outside India, but profession set up in India	90,000	90,000	-----
(8) Income accruing/arising in India	19,000	19,000	19,000
(9) Income accruing/arising in India	39,000	39,000	39,000
(10) Income accruing/arising outside India and received outside India, but business controlled from India	4,80,000	4,80,000	-----
(11) Income accruing/arising outside India, half received outside India and half in India	12,000	6,000	6,000

(12) Income accruing/arising outside India, 4/5 th received outside India and 1/5 th in India	50,000	10,000	10,000
Gross Total Income	13,10,000	9,34,000	3,34,000

Solution 23:

Since Mr. X is covered in special category and will be resident, if his stay in India in relevant previous year is 182 days or more, hence Mr. X is a non-resident as his stay in India is less than 182 days and his income taxable in India shall be

Income under the head Salary

Income accruing/arising in India (60,000 x 5)	3,00,000.00
Income received in India (60,000 x 1)	60,000.00
Gross Salary	3,60,000.00
Less: Standard Deduction u/s 16(ia)	(50,000.00)
Gross Salary	3,10,000.00

Income under the head Other Sources

Gift of gold (₹11,00,000 – ₹8,00,000)	3,00,000.00
Gift of building (₹13,00,000 – ₹10,00,000)	3,00,000.00
Income under the head Other Sources	6,00,000.00
Gross Total Income	9,10,000.00
Less: Deduction under Chapter VI-A	Nil
Total Income	9,10,000.00

Computation of Tax Liability

Tax on ₹9,10,000 at slab rate	46,500.00
Add: HEC @ 4%	1,860.00
Tax Liability	48,360.00

Note: STCG is received in USA is not taxable in India as the assessee is a non-resident.

Solution 24:

In this case, Mrs. X stays in India for more than 182 days during the previous year 2023-24 and also she is not able to comply with any of the conditions of section 6(6)(a), she will be considered to be ROR.

Her incomes taxable in India shall be

Income under the head Salary

Income accruing/arising in India (2,00,000 x 12)	24,00,000.00
Gross Salary	24,00,000.00
Less: Standard deduction u/s 16(ia)	(50,000.00)
Income under the head Salary	23,50,000.00

Income under the head Other Sources

Gift from friend (immovable property)	51,000.00
Interest from UK Development bond (Received in USA)	2,00,000.00
Income under the head Other Sources	2,51,000.00
Gross Total Income	26,01,000.00
Less: Deduction under Chapter VI-A	Nil
Total Income	26,01,000.00

Computation of Tax Liability

Tax on ₹26,01,000 at slab rate	4,80,300.00
Add: HEC @ 4%	19,212.00
Tax Liability	4,99,512.00
Rounded off u/s 288B	4,99,510.00

EXAMINATION QUESTIONS

NOV– 2023

Question 2(a)**(3 Marks)**

State (Yes/No) whether the following transactions can be treated as income deemed to accrue or arise in India:

- (i) Hire charges paid outside India for the use of machinery situated in India.
- (ii) Income of a non-resident and non-citizen of India from the shooting of cinematograph film in India.
- (iii) Capital gain arising through a transfer of a house property situated in India, the place of registration and the place of payment of consideration being outside India.
- (iv) Salary paid by the Government to a citizen of India for the services rendered outside India.
- (v) Past period foreign untaxed income brought to India during the previous year.
- (vi) Gift received by a non-resident on the occasion of his wedding in India.

Solution:

- (i) Hire charges paid outside India for the use of machinery situated in India. It is accruing/arising in India because source of income is in India.
- (ii) Income of a non-resident and non-citizen of India from the shooting of cinematograph film in India. It is income accruing/arising abroad, provided the film is shown outside India.
- (iii) Capital gain arising through a transfer of a house property situated in India, the place of registration and the place of payment of consideration being outside India. It is accruing/arising in India because source of income is in India.
- (iv) Salary paid by the Government to a citizen of India for the services rendered outside India. It is accruing/arising in India.
- (v) Past period foreign untaxed income brought to India during the previous year. Such income is not taxable, hence not accruing/arising in India.
- (vi) Gift received by a non-resident on the occasion of his wedding in India. It is accruing/arising in India however it is exempt from income tax.

NOV– 2023

Question 2(b)**(4 Marks)**

Mr. Sanjay has following incomes during the previous year 2022-23. Compute taxable income of Mr. Sanjay for the assessment year 2023-24 if he is a

- (i) Not Ordinarily resident (ii) Non resident
- (i) Interest on England Development Bonds (1/3 received in India) ₹ 60,000.
- (ii) Interest received from a non-resident ₹ 5,000 against a loan given to him to run a business in India.
- (iii) Royalty received from Akhil, a resident, for technical services given to run a business outside India ₹20,000.
- (iv) Income from business in Sri Lanka ₹ 25,000 out of which ₹ 15,000 were received in India. The business is controlled from India.

Solution:

	NOR	NR
(i)(a) Income accruing/arising abroad and received abroad ₹40,000	Nil	Nil
(i)(b) Income received in India ₹20,000	20,000	20,000
(ii) Interest received from a non-resident ₹ 5,000 against a loan given to him to run a business in India.	5,000	5,000
(iii) Royalty received from Akhil, a resident, for technical services given to run a business outside India ₹20,000.	20,000	20,000
(iv)(a) Income accruing/arising abroad and received abroad ₹10,000	10,000	Nil
(iv)(b) Income received in India ₹15,000	15,000	15,000
Taxable Income	70,000	60,000

MAY– 2023**Question 2(a)(i)****(3 Marks)**

Mr. Jai Chand (an Indian citizen) left India for doing a business in country X on 5th June, 2014. He regularly visited India and stayed for 119 days in every previous year since then. He has business in country X which is controlled from India and income from such business is ₹600 lakhs.

Country X does not tax any individual on their income as there is no personal income-tax regime there.

Determine the residential status of Mr. Jai Chand for the Assessment year 2024-25.

Solution:**Determination of residential status of Mr. Jai Chand for A.Y. 2024-25**

Since Mr. Jai Chand, an Indian citizen is coming to India every year for 119 days, he is non-resident for P.Y. 2023-24 as per section 6(1).

However, since he is an Indian citizen having total income (excluding income from foreign sources) of ₹600 lakhs which exceeds the threshold of ₹ 15 lakhs during the previous year; and not liable to tax in Country X, he would be deemed resident in India for the P.Y. 2023-24 as per section 6(1A)

A deemed resident is always a resident but not ordinarily resident in India (RNOR) as per section 6(6)(d) and his income shall be taxable in India

MAY– 2023**Question 2(a)(ii) (Modified)****(4 Marks)**

Mr. Prashant (aged 35 years) is an Australian citizen (but he is a person of Indian origin) who is settled in Australia and visits India for 125 days in every financial year since past 11 years. During the F.Y. 2023-24, he visited India for a total period of 181 days. The purpose of his visit was to meet his family members who are settled in India and also for managing his family members who are settled in India and also for managing his business in Sri Lanka through his office in Chennai, India.

During the P.Y. 2023-24, he has the following incomes:

(A) Income from business in Australia controlled form Australia - ₹ 20,00,000

(B) Income from business in Sri Lanka controlled form Chennai - ₹ 16,00,000

(C) Short-term capital gains on sale of shares of an Indian company received in Australia - ₹ 50,000.

(The shares were sold online from Australia.)

(D) Income from agricultural land in Australia, received there and then brought to India - ₹ 2,00,000

Find out the residential status of Mr. Prashant and compute his total income for Assessment Year 2024-25.

Solution:

As per section 6(1) Mr. Prashant is covered in special category and his income other than income from foreign sources is exceeding ₹15,00,000 and he comes to India for atleast 120 days and also for 365 days during 4 years preceding the relevant previous year hence he is resident and further as per section 6(6)(c) he is NOR. Tax incidence for various incomes shall be as given below:

(A) Income from business in Australia controlled from Australia (not taxable in case of RNOR, since it accrues and arises outside India)	Nil
(B) Income from business in Sri Lanka (taxable since it is controlled from India)	16,00,000
(C) Short-term capital gains on sale of shares of an Indian company	50,000
(D) Income from agricultural land in Australia would not be taxable in case of RNOR (since it accrues and arises outside India)	Nil

Total Income**16,50,000****NOV– 2022****Question 2(a)****(6 Marks)**

Mr. Sarthak, an individual and Indian citizen living abroad (UAE), a tax haven, since year 2016 and never came to India for a single day since then, earned the following incomes during previous year 2023-24:

	PARTICULARS	Amount (in ₹)
(i)	Income accrued and arised in UAE not taxable in UAE (being tax haven)	20,00,000
(ii)	Income accrued and arised in India	5,00,000
(iii)	Income deemed to accrue and arise in India	8,00,000
(iv)	Income arising in UAE from a profession set up in India	10,00,000

I. Determine the residential status of Mr. Sarthak and taxable income for the previous year 2023-24 (assuming no other income arised during the previous year).

II. What would be your answer if income arising in UAE from a profession set up in India is ₹2 lakhs instead of ₹10 lakhs?

III. What would be your answer, if Mr. Sarthak born in UAE and his parents were born in undivided India?

Solution:

I. Mr. Sarthak is an Indian citizen living in UAE since 2016 who never came to India for a single day since then, he would be non-resident in India for the P.Y. 2023 -24 on the basis of number of days of his stay in India as per section 6(1). However, since he is an Indian citizen having total income (excluding income from foreign sources) of ₹ 23 lakhs, which exceeds the threshold of ₹ 15 lakhs during the previous year and not liable to tax in UAE, he would be deemed resident in India for the P.Y. 2023-24 u/s 6(1A) and further u/s 6(6)(d), he will be NOR and his total income shall be as given below:

(i)	Income accrued and arisen in UAE (not taxable in case of an RNOR)	Nil
(ii)	Income accrued and arisen in India (taxable)	5,00,000
(iii)	Income deemed to accrue or arise in India (taxable)	8,00,000
(iv)	Income arising in UAE from a profession set up in India	10,00,000
	Total income	23,00,000

II. If income arising in UAE from a profession set up in India is ₹ 2 lakhs instead of ₹ 10 lakhs, his total income (excluding income from foreign sources) would be only ₹ 15 lakhs. Since the same does not exceed the threshold limit of ₹ 15 lakhs, he would be non-resident and his total income would be only ₹13 lakhs (₹ 5 lakhs + ₹ 8 lakhs).

III. If Mr. Sarthak is born in UAE and his parents were born in India, he would not be an Indian citizen, but he may qualify as person of Indian origin. In such case, the provisions relating to deemed resident would not apply to him. Accordingly, he would be non-resident in India during the P.Y. 2023-24 and his total income would be ₹13 lakhs.

DEC – 2021

Question 2(a) (modified)

(5 Marks)

Examine the tax implications of the following transactions for the assessment year 2024-25: (Give brief reason)

- (i) Ms. Juhi, a non-resident in India is engaged in operations which are confined to purchase of goods in India for the purpose of export. She has earned ₹2,50,000 during the previous year 2023-24.
- (ii) Mr. Naveen, a non-resident in India, has earned ₹3,00,000 as royalty for a patent right made available to Mr. Rakesh who is also a non-resident. Mr. Rakesh has utilized patent rights for development of a product in India and 50% royalty is received in India and 50% outside India.
- (iii) Mr. James, a NRI, borrowed ₹10,00,000 on 01.04.2023 from Mr. Akash who is also non-resident and invested such money in the shares of an Indian Company. Mr. Akash has received interest @ 12% per annum.

Answer

- (i) In the case of a non-resident, no income shall be deemed to accrue or arise in India to him through or

from operations which are confined to the purchase of goods in India for the purpose of export.

Thus, income of ₹ 2,50,000 arising in the hands of Ms. Juhi would not be taxable in her hands in India, since her operations are confined to purchase of goods in India for the purpose of export.

- (ii) Royalty payable by a non-resident would be deemed to accrue or arise in India in the hands of the recipient only when such royalty is payable in respect of any right, property or information used for the purposes of a business or profession carried on by such non-resident in India or earning any income from any source in India.

In the present case, since Mr. Rakesh, a non-resident, paid the royalty of ₹ 3,00,000 for a patent right used for development of a product in India, the same would be taxable in India in the hands of the recipient, Mr. Naveen, a non-resident, irrespective of the fact that only 50% of the royalty is received in India.

- (iii) Interest payable by a non-resident on the money borrowed for any purpose other than a business or profession in India, would not be deemed to accrue or arise in India.

In the present case, since Mr. James, a non-resident borrowed the money for investment in shares of an Indian company, the interest on such borrowing of ₹ 1,20,000 (₹ 10,00,000 x 12%) payable to Mr. Akash, a non-resident would not be deemed to accrue or arise to him in India. Hence, the same would not be taxable in India in the hands of Mr. Akash.

MAY – 2021

Question 3(b)

(4 Marks)

Mrs. Shruti is an Indian citizen, is currently in employment with an overseas company located in USA. During the previous year 2023-24, she comes to India for 157 days. She is in India for 200 days, 100 days, 76 days and 45 days in the financial years 2019-20, 2020-21, 2021-22 and 2022-23 respectively. Her annual income for the previous year 2023-24 is as follows:

Particulars	Amount (₹)
Income from salary earned and received in USA	2,00,000
Income earned and received from a house property situated in USA	5,00,000
Income deemed to be accrued and arise in India	5,00,000
Income from retail business (accrued and received outside India, controlled from India)	10,00,000
Income accrued and arise in India	3,00,000
Life insurance premium paid by cheque in India	1,50,000

Determine the residential status of Mrs. Shruti for the assessment year 2024-25. (Support your Answer with computation)

Answer:

Mrs. Shruti is an Indian citizen in employment in USA and she comes on a visit to India during the P.Y. 2023-24, she is covered in special category and her total income other than income from foreign sources is exceeding ₹15 lakh, she will be resident if her stay in India is 120 days or more and also for 365 days or more during 4 years preceding the relevant previous year.

Stay in previous year 2023-24 is 157 days and during 4 years preceding previous year 2023-24 is 421 days (200 + 100 + 76 + 45). She is resident and also as per section 6(6)(c) is NOR.

Working Note:

Computation of Total Income of Mrs. Shruti (excluding income from foreign sources)

Particulars

₹

Income from salary earned and received in USA (income from a foreign source, hence,

to be excluded)	Nil
Income earned and received from a house property situated in USA (income from a foreign source, hence, to be excluded)	Nil
Income deemed to accrue or arise in India	5,00,000
Income from retail business (to be included since the business is controlled from India, even though such income accrues and is received outside India)	10,00,000
Income accrued and arising in India	3,00,000
	18,00,000
Less: Deduction under chapter VI-A	Nil
Total income (excluding income from foreign sources)	18,00,000

NOV – 2020

Question 4 (a)

(5 Marks)

Mr. Thomas, a non-resident and citizen of Japan entered into following transactions during the previous year ended 31.03.2024. Examine the tax implications in the hands of Mr. Thomas for the Assessment Year 2024-25 as per Income Tax Act, 1961. (Give brief reasoning)

- (1) Interest received from Mr. Marshal, a non-resident outside India (The borrowed fund is used by Mr. Marshal for investing in Indian company's debt fund for earning interest)
- (2) Received ₹10 lakhs in Japan from a business enterprise in India for granting license for computer software (not hardware Specific).
- (3) He is also engaged in the business of running news agency and earned income of ₹10 lakhs from collection of news and views in India for transmission outside India.
- (4) He entered into an agreement with SKK & Co., a partnership firm for transfer of technical documents and design and for providing services relating thereto, to set up a Denim Jeans manufacturing plant, in Surat (India). He charged ₹10 lakhs for these services from SKK & Co.

Solution:

(1) As per section 9, If loan has been taken by a non-resident, interest income shall be accruing / arising in India only if loan amount has been utilised in India in business/profession but if loan amount is utilised in any other source in India or it has been used outside India, interest income shall be accruing / arising abroad. In the given case, loan amount is used for investing in Indian company debt fund for earning interest and not for business purpose hence interest income shall not be considered to be accruing arising from India and shall not be taxable in India.

(2) As per section 9, If any income is accruing and arising in India relating to royalty or technical fees etc., it will be taxable in India even if the person receiving income is non-resident and even if such non-resident do not have any Territorial Nexus with India i.e. such non-resident do not have a residence or place of business or business connection in India and also the non-resident has not rendered services in India. In the given case, income received for granting licence for computer software shall be deemed to be income accruing arising in India and shall be taxable in India.

(3) As per section 9, If any non-resident has the **business of running a news agency or of publishing newspapers, magazines or journals etc.** outside India, no income shall be deemed to accrue or arise in India to him from activities which are confined to the collection of news and views in India for transmission out of India but if newspaper etc. is being sold in India, there will be business connection or if there is telecasting or broadcasting of such news/views etc. in India, there will be business connection and income shall be taxable to that extent.

In the given case, income is from transmission outside India hence income shall not be deemed to accrue arise in India and shall not be taxable in India.

(4) As per section 9, income by way of fees for technical services payable by a person who is a non-resident, where the fees are payable in respect of services utilised in a business or profession carried on by such person in India or for the purposes of making or earning any income from any source in India.

In the given case, services utilized in a business in India hence income shall be accruing arising from India and same shall be taxable in India.

MAY – 2019**Question 2 (a)****(7 Marks)**

The following are the income of Shri Subhash Chandra, a citizen of India for the previous year 2023-24:

- (i) Income from business in India ₹ 2,00,000. The business is controlled from London and ₹ 60,000 were remitted to London.
- (ii) Profits from business earned in Japan ₹ 70,000 of which ₹ 20,000 were received in India. This business is controlled from India.
- (iii) Untaxed income of ₹ 1,30,000 for the year 2020-21 of a business in England which was brought in India on 3rd March, 2024.
- (iv) Royalty of ₹ 4,00,000 received from Shri Ramesh, a resident for technical service provided to run a business outside India.
- (v) Agricultural income ₹ 90,000 in Bhutan.
- (vi) Income of ₹ 73,000 from house property in Dubai, which was deposited in bank at Dubai.

Compute Gross total income of Shri Subhash Chandra for the A.Y. 2024-25, if he is –

- (1) A resident and Ordinarily Resident, and
- (2) A resident and Not Ordinarily Resident

Solution 2(a) :

As per section 5, All Global Income of ROR shall be taxable in India but in case of NOR income accruing arising in India or received in India shall be taxable in India. In case of NOR, income accruing / arising aboard and received aboard but from a business controlled from India or from a profession which was set up in India shall be taxable in India.

S.No.	Particulars	ROR	NOR
(i)	Income from business in India, controlled from London	2,00,000	2,00,000
(ii)	Profit from business in Japan, controlled from India	70,000	70,000
(iii)	Past years untaxed foreign income brought to India	-	-
(iv)	Royalty Income from a resident for technical service to run business outside India (assumed amount received in India)	4,00,000	4,00,000
(v)	Agriculture Income from Bhutan (i.e. outside India) assumed received in Bhutan	90,000	-
(vi)	Income from house property in Dubai received in Dubai	73,000	-
	Gross Total Income	8,33,000	6,70,000

Note: Student can take assumption that royalty received outside India, in such case royalty shall be taxable in case of ROR only.

Note: In the above solution income of 73,000 is presumed to be computed income under the head house property. Student can also presume such amount as rent received (as the amount is deposited in bank account) and standard deduction u/s 24(a) @ 30% shall be allowed from 73,000 and taxable amount shall be 51,100.

MAY – 2019**Question 2(a)****Marks 4**

Mr. Bachhan has provided the following details of his income for the year ended 31-3-2024.

Particulars	₹
(1) Short term capital gains on sale of shares in Indian company received in Japan.	85,000
(2) Rent from property in Bangladesh deposited in a bank at Dhaka, later on remitted to India through approved banking channels.	96,000

Compute his total income for the Assessment Year 2024-25 in case of he is:

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

Solution 2(a):

As per section 5, All Global Income of ROR shall be taxable in India but in case of NOR/NR income accruing arising in India or received in India shall be taxable in India. In case of NOR, income accruing / arising abroad and received abroad but from a business controlled from India or from a profession which was set up in India shall be taxable in India.

S.No.	Particulars	ROR	NOR	NR
(i)	Short term capital gains on sale of shares in Indian company received in Japan (income accruing/arising from India)	85,000	85,000	85,000
(ii)	Rent from property in Bangladesh deposited in a bank at Dhaka, later on remitted to India through approved banking channels (income accruing arising abroad received abroad) (96,000 – 30% of 96,000)	67,200	-	-
	Gross Total Income	1,52,200	85,000	85,000
	Less: Deduction under chapter VI-A	-	-	-
	Total Income	1,52,200	85,000	85,000

NOV – 2014**Question 2(a).****(5 Marks)**

Mrs. X and Mrs. Y are sisters and they earned the following income during the Financial Year 2023-24. Mrs. X is settled in Malaysia since 2018 and visits India for a month every year. Mrs. Y is settled in Indore since her marriage in 2018. Compute the total income of Mrs. X and Mrs. Y for the assessment year 2024-25:

Sl. No.	Particulars	Mrs. X ₹	Mrs. Y ₹
(i)	Income from Profession in Malaysia, (set up in India) received there	15,000	-
(ii)	Profit from business in Delhi, but managed directly from Malaysia	40,000	-
(iii)	Rent (computed) from property in Malaysia deposited in a Bank at Malaysia, later on remitted to India through approved banking channels.	1,20,000	-
(iv)	Cash gift received from a friend on Mrs. Y's 50 th birthday	-	51,000
(v)	Agricultural income from land in Maharashtra	7,500	4,000
(vi)	Past foreign untaxed income brought to India	5,000	-
(vii)	Fees for technical services rendered in India received in Malaysia	25,000	-
(viii)	Income from a business in Pune (Mrs. X receives 50% of the income in India)	12,000	15,000
(ix)	Interest on debentures in an Indian company (Mrs. X received the same in Malaysia)	18,500	14,000
(x)	Short-term capital gain on sale of shares of an Indian company	15,000	25,500
(xi)	Interest on Fixed Deposit with SBI in India	12,000	8,000

Solution: Computation of Total Income of Mrs. X and Mrs. Y for the A.Y. 2024-25

Sl.No.	Particulars	Mrs. X NR	Mrs. Y ROR
(i)	Income from Profession in Malaysia, (set up in India) received there	-	-
(ii)	Profit from business in Delhi, but managed directly from Malaysia	40,000	-
(iii)	Rent (computed) from property in Malaysia deposited in a Bank at Malaysia, later on remitted to India through approved banking channels.	-	-
(iv)	Cash gift received from a friend on Mrs. Y's 50 th birthday	-	51,000

(v)	Agricultural income from land in Maharashtra (exempt u/s 10(1))	-	-
(vi)	Past foreign untaxed income brought to India	-	-
(vii)	Fees for technical services rendered in India received in Malaysia	25,000	-
(viii)	Income from a business in Pune (Mrs. X receives 50% of the income in India)	12,000	15,000
(ix)	Interest on debentures in an Indian company (Mrs. X received the same in Malaysia)	18,500	14,000
(x)	Short-term capital gain on sale of shares of an Indian company	15,000	25,500
(xi)	Interest on fixed deposit with SBI in India	12,000	8,000
	Total Income	1,22,500	1,13,500

MAY – 2013

Question 2(a).**(4 Marks)**

Mr. X and Mr. Y are brothers and they earned the following incomes during the financial year 2023-24. Mr. X settled in America in the year 2018 and Mr. Y settled in Mumbai. Mr. X visits India for 20 days every year. Mr. Y also visits America every year for a month. Compute their total income for the Assessment year 2024-25 from the following information.

Sl. No.	Particulars	Mr. X ₹	Mr. Y ₹
1.	Interest on American Development bonds, 50% of interest received in India.	46,000	18,000
2.	Short term capital gains on sale of shares of an Indian company received in India.	45,000	75,000
3.	Profit from a business in Mumbai, but managed directly from America.	10,000	-
4.	Income from a business in Mumbai.	32,000	28,000
5.	Fees for technical services rendered in America and received in America. The services were, however, utilized in India.	1,50,000	-
6.	Interest on fixed deposit with State Bank of India, Mumbai.	4,500	12,000
7.	Income from house property at Mumbai.	67,200	38,500

Solution:**Computation of Total Income of Mr. X & Mr. Y for the A.Y. 2024-25**

Sl. No.	Particulars	Mr. X NR (₹)	Mr. Y ROR (₹)
1.	Interest on American Development Bonds	23,000	18,000
2.	Short term capital gains on sale of shares of an Indian company received in India	45,000	75,000
3.	Profit from a business in Mumbai but managed directly from America	10,000	-
4.	Income from a business in Mumbai	32,000	28,000
5.	Fees for technical services rendered in America, and received in America, but services utilized in India	1,50,000	-
6.	Interest on fixed deposit with State Bank of India, Mumbai	4,500	12,000
7.	Income from house property at Mumbai	67,200	38,500
	Total Income	3,31,700	1,71,500

MAY – 2012

Question 2**(5 Marks)**

Mr. X & Mr. Y are brothers and they earned the following incomes during the financial year 2023-24. Mr. X settled in Canada in the year 2018 and Mr. Y settled in Delhi. Compute the total income for the assessment year 2024-25.

Sl.	Particulars	Mr. X	Mr. Y
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No.			
1.	Interest on Canada Development Bond, (only 50% of interest received in India)	35,000	40,000
2.	Profit from a business in Nagpur, but managed directly from London	1,00,000	1,40,000
3.	Short term capital gain on sale of shares of an Indian company received in India	60,000	90,000
4.	Income from a business in Chennai	80,000	70,000
5.	Fees for technical services rendered in India, but received in Canada	1,00,000	-----
6.	Interest on fixed deposit in UCO Bank, Delhi	7,000	12,000
7.	Agricultural income from a land situated in Andhra Pradesh	55,000	45,000
8.	Income under the head house property at Bhopal	1,00,000	60,000

Answer: Computation of Total Income of Mr. X and Mr. Y for the A.Y. 2024-25

Sl. No.	Particulars	Mr. X Non-Resident	Mr. Y ROR
1.	Interest on Canada Development Bond, (only 50% of interest received in India)	17,500	40,000
2.	Profit from a business in Nagpur, but managed directly from London	1,00,000	1,40,000
3.	Short term capital gain on sale of shares of an Indian company received in India	60,000	90,000
4.	Income from a business in Chennai	80,000	70,000
5.	Fees for technical services rendered in India, but received in Canada	1,00,000	-----
6.	Interest on fixed bank deposit in UCO Bank, Delhi	7,000	12,000
7.	Agricultural income from a land situated in Andhra Pradesh	-----	-----
8.	Income under the head house property at Bhopal	1,00,000	60,000
	Total Income	4,64,500	4,12,000

Notes:

1. Agricultural income from a land situated in Andhra Pradesh (in India), is exempted under section 10(1) of Income tax Act, 1961 in case of both non-resident and resident assessee.

MAY-2012 (3 Marks)

Discuss 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: As per section 9, if any non-resident has provided any patent right or any managerial, technical services and such patent right etc. was used in India, in such cases any royalty or fee received by non-resident shall be considered to be income accruing/arising in India and shall be taxable and it do not matter that the non-resident do not have residence or place of business or business connection in India i.e. there is no territorial nexus or non-resident has not rendered services in India. E.g. If Suzuki Incorporation of Japan a non-resident company has provided technical know-how in Japan to Maruti Udyog Limited for use in India and has received ₹300,00,000 in this case, such income is deemed to be accruing/arising in India and is taxable in India even if Suzuki Incorporation do not have any Territorial Nexus with India i.e. the company do not have place of residence or place of business in India. Similarly if any loan was given by a non-resident to some other non-resident and such other non-resident has utilized loan amount in India in business/profession, interest received by the non-resident shall be considered to be his income accruing/arising in India even if such non-resident do not have any territorial nexus with India.

MAY – 2011 (3 Marks)

Miss Vivitha paid a sum of 5000 USD to Mr. Kulasekhara, a management consultant practicing in Colombo, specializing in project financing. The payment was made in Colombo. Mr. Kulasekhara is a non-resident.

The consultancy related to a project in India with possible Ceylonese collaboration. Is this payment chargeable to tax in India in the hands of Mr. Kulasekhara, since the services were used in India?

Answer: As per section 9, if any non-resident has provided any patent right or any managerial, technical services and such patent right etc. was used in India, in such cases any royalty or fee received by non-resident shall be considered to be income accruing/arising in India and shall be taxable and it do not matter that the non-resident do not have residence or place of business or business connection in India i.e. there is no territorial nexus or non-resident has not rendered services in India. In the instant case, since the services were utilized in India, the payment received by Mr. Kulasekhara, a non-resident, in Colombo is chargeable to tax in his hands in India, as it is deemed to accrue or arise in India.

NOV – 2009 (4 Marks)

Determine the taxability of income of US based company ABC Ltd., in India on entering following transactions during the financial year 2023-24:

- (i) ₹5 lacs received from an Indian domestic company for providing technical know how in India.
- (ii) ₹6 lacs from an Indian firm for conducting the feasibility study for the new project in Finland.
- (iii) ₹4 lacs from a non-resident for use of patent for a business in India.
- (iv) ₹8 lacs from a non-resident Indian for use of know how for a business in Singapore.
- (v) ₹10 lacs for supply of manuals and designs for the business to be established in Singapore.

Explain the rate of tax applicable on taxable income for US based company, ABC Ltd., in India.

Answer: A non resident is chargeable to tax in India in respect of following incomes:

- (i) Income received or deemed to be received in India.
- (ii) Income accruing or arising or deemed to accrue or arise in India.

In view of the above provisions, taxability of income is determined in following manner:

S. No.	Transaction details	Amount (₹)
(i)	Amount received from an Indian domestic company for providing technical know how in India is taxable in India	5 Lacs
(ii)	Conducting the feasibility study for the new project in Finland for the Indian firm is not taxable in India as it is for the business outside India.	Nil
(iii)	Money received from a non resident for use of patent for a business in India is taxable in India	4 Lacs
(iv)	Money received from a non resident Indian for use of know-how for a business in Singapore is for the business outside India, therefore not taxable in India.	Nil
(v)	Payment received for supply of manuals and designs for the business to be established in Singapore is not taxable in India.	Nil
Total Income in India		9 Lacs

The basic normal rate applicable for the US based company who is a foreign company is 40% In case the taxable income is more than 1 crore but upto ₹10 crore in the previous year, the surcharge @ 2% is applicable. The HEC is payable @ 4%.

MAY – 1998 (4 Marks)

Mr. Nixon, an American citizen, is appointed by a multi-national company to its branch in New Delhi in 2020. Mr. Nixon has never been to India before this appointment. He arrives in Bombay on 15th April, 2020 and joins the New Delhi office on 20th April, 2020. His wife and children join him in India on 20th October, 2020. The company allotted him a leased residence for purposes of his stay. This residence is occupied by him from the beginning of October, 2020.

On 10th February, 2021, he is transferred by his employer, on deputation basis, to be the Regional Chief of his employer's operations in South East Asia having headquarters in Hongkong. He leaves New Delhi on 11th February and arrives in Hongkong on 12th February, 2021. Mr. Nixon leaves behind his wife and children in India till 14th August, 2022, when they leave along with him for Hongkong. Mr. Nixon had come to India earlier on 15th June, 2022, on two months' leave. The members of the family occupied the residence till date of departure to Hongkong.

At the end of the period of deputation, Mr. Nixon is reposted to India and joins the New Delhi office of his

employer as Chief of Indian operations on 2nd February, 2024.

In what residential status Mr. Nixon will be assessable, for the various years, to income tax in India?

Answer:

The period of stay of Mr. Nixon for various years is given below:

P.Y. 2020-21 (April – 16, May -31, June – 30, July – 31, August – 31, September – 30, October – 31, November – 30, December – 31, January – 31, February – 11)	Period of stay	303 days
P.Y. 2021-22	Period of stay	Nil
P.Y. 2022-23 (June – 16, July – 31, August – 14)	Period of stay	61 days
P.Y. 2023-24 (February – 27, March – 31)	Period of stay	58 days

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

- (i) is in India in the previous year for a period of 182 days or more ;
- (ii) is in India for a period of 60 days or more in the previous year and 365 days or more during the four years preceding the previous year.

A person will be considered to be ‘not ordinarily resident’ if he satisfies any of the following two conditions viz;

- (i) he has been in India for a period of 729 days or less in 7 previous years preceding the relevant previous year.
- (ii) he has been a non resident in India in 9 out of 10 previous years preceding the relevant previous year ; or Maintenance of a residence in India or the stay of the wife and children in India are not relevant for determining the residential status of Mr. Nixon.

In the above background, Mr. Nixon’s case will be decided as under:

- (i) **P.Y. 2020-21:** has been in India for 303 days. He will be a resident under the basic conditions. Since his stay in seven years preceding the relevant previous year is Nil i.e. 729 days or less, hence he will be NOR
- (ii) **P.Y. 2021-22:** has not been in India at all ; though his wife and children continue to reside in New Delhi, he will be a non-resident for this year.
- (iii) **P.Y. 2022-23:** has been in India for 61 days and for 303 days in 4 years preceding the relevant previous year hence he will be non-resident.
- (iv) **P.Y. 2023-24:** has been in India for 58 days, he will be non-resident.

INCOME UNDER THE HEAD HOUSE PROPERTY

SECTION 22 TO 27

PARTICULARS	SECTIONS
Income from house property—Chargeability and meaning of house property	22
Annual value—	
House let out throughout the year/partly let out/partly vacant	23(1)
One house which is self-occupied	23(2)
House partly self-occupied/partly let out, may or may not be vacant	23(3)
More than one house which are self-occupied	23(4)
Municipal tax	Proviso to sec 23(1)
Treatment of unrealised rent	Explanation to 23(1)
Statutory Deduction/Standard Deduction	24(a)
Interest on capital borrowed	24(b)
Interest in case of loan taken from outside India	25
Recovery of unrealised rent / Arrears of rent	25A
Property owned by co-owners	26
Deemed ownership	27
Meaning of unrealised rent	Rule 4

Question 1: Explain chargeability of income under the head house property.

Answer: Chargeability of income under the head house property Section 22

Income from letting out of house property is chargeable to tax under the head House Property. If the income is from sale or purchase of house property, it will be taxable under the head Capital Gains, however if the sale or purchase is part of a business, income is taxable under the head Business/Profession.

House property shall include all types of house properties i.e. residential houses, shops, godowns, cinema building, workshop building, hotel buildings etc.

The term house property shall include not only the buildings but also the lands appurtenant thereto i.e. the term house property shall include even any open land which is part and parcel of the building. E.g. Mr. X has one big house and it includes vast open area within its boundaries. The house has been let out at a rent of ₹1,00,000 p.m., out of which rent of ₹25,000 p.m. is attributable to the open land. In this case, entire rental income is taxable under the head house property.

If any person has let out only land, which is not essential part of any building, income is taxable under the head other sources. E.g. Mr. X has one big piece of land which is let out for arranging exhibitions or for the purpose of marriage parties etc., rent received or receivable is taxable under the head other sources (It is also called vacant site lease rent). If any person has business of letting out of open land, income shall be taxable under the head business profession

Income from property held as stock-in-trade/ from business of letting out house property

If any person is holding house property as stock-in-trade i.e. for sale/purchase of house property, income shall be taxable under the head Business/Profession. Similarly if any person has business of letting out of house property, income shall be taxable under the head Business/Profession. E.g. ABC Ltd. is holding 500 flats for the purpose of letting out, income shall be taxable under the head business/profession.

If any person is holding house property for the purpose of sale/purchase but it has been let out for some time, income shall be taxable under the head House Property.

Computation of Income under the head House Property	
Gross Annual Value (GAV)	₹.....
Less: Municipal Taxes	₹.....
Net Annual Value (NAV)	₹.....
Less:	
Deduction allowed under section 24	
- Statutory deduction / standard deduction @ 30% of NAV [Section 24(a)]	₹.....
- Interest on borrowed capital for construction etc. [Section 24(b)]	₹.....
Income under the head "House Property"	₹.....

Question 1: Write a note on computation of income of a house property which is let out throughout the year.

Answer: As per section 23(1)(a)/(b), gross annual value i.e. reasonable rental value shall be computed in the manner given below:

1. Compare Fair Rent and Municipal Valuation and select the higher.
2. Compare the rent so selected with Standard Rent and the lower of the two shall be considered to be Expected Rent. (It is also called Annual Letting Value)
3. Compare Expected Rent with Rent Received or Receivable and the higher shall be considered to be Gross Annual Value.

Fair rent i.e. the rent of similar types of buildings in the same locality.

Municipal valuation i.e. rental value determined by the municipality for the purpose of charging municipal tax. It is also called rateable value.

Standard rent i.e. the highest possible rent as per Rent Control Act.

Rent received or receivable

Illustration 1: Mr. X has one house property which is let out @ ₹1,80,000 p.m. Fair rent ₹1,90,000 p.m., Municipal Valuation ₹1,70,000 p.m., Standard Rent ₹1,81,000 p.m. Municipal tax paid ₹60,000 and interest paid on loan for construction of house property is ₹ 50,000.

Compute his Income Tax Liability for A.Y 2024-25.

Solution:

₹

Computation of income under the head House Property

Gross Annual Value 21,72,000.00

Working Note:	₹
(a) Fair Rent (1,90,000 x 12)	22,80,000
(b) Municipal Value (1,70,000 x 12)	20,40,000
(c) Higher of (a) or (b)	22,80,000
(d) Standard Rent (1,81,000 x 12)	21,72,000
(e) Expected Rent {Lower of c or d}	21,72,000
(f) Rent received /receivable (1,80,000 x 12)	21,60,000
GAV shall be higher of (e) or (f)	21,72,000

Less: Municipal Tax (60,000.00)

Net Annual Value 21,12,000.00

Less: 30% of NAV u/s 24(a) (6,33,600.00)

Less: Interest on capital borrowed u/s 24(b) (50,000.00)

Income under the head House Property 14,28,400.00

Gross Total Income 14,28,400.00

Less: Deduction under Chapter VI-A NIL

Total Income 14,28,400.00

Computation of Tax Liability

Tax on ₹14,28,400 at slab rate 1,35,680.00

Add: HEC @ 4%	5,427.20
Tax Liability	1,41,107.20
Rounded off u/s 288B	1,41,110.00

Illustration 2: Mrs. X has let out one House property @ ₹62,000 p.m., Municipal Valuation ₹72,000 p.m., Fair Rent ₹90,000 p.m., Standard Rent ₹1,00,000 p.m., Municipal Tax paid ₹40,000 and Interest on loan taken for construction ₹60,000. She has income under the head Business/Profession ₹10,00,000.

She has completed the age of 60 years on 31.03.2025.

Compute Income Tax Liability for the A.Y 2024-25.

Solution:

₹

Computation of income under the head House Property

Gross Annual Value 10,80,000.00

Working Note:	₹
(a) Fair Rent (90,000 x 12)	10,80,000
(b) Municipal Value (72,000 x 12)	8,64,000
(c) Higher of (a) or (b)	10,80,000
(d) Standard Rent (1,00,000 x 12)	12,00,000
(e) Expected Rent {Lower of c or d}	10,80,000
(f) Rent received /receivable (62,000 x 12)	7,44,000
GAV shall be higher of (e) or (f)	10,80,000

Less: Municipal Tax (40,000.00)

Net Annual Value 10,40,000.00

Less: 30% of NAV u/s 24(a) (3,12,000.00)

Less: Interest on capital borrowed u/s 24(b) (60,000.00)

Income from house property 6,68,000.00

Income under the head Business/Profession 10,00,000.00

Gross Total Income 16,68,000.00

Less: Deduction under Chapter VI-A NIL

Total Income 16,68,000.00

Computation of Tax Liability

Tax on ₹16,68,000 at slab rate 2,00,400.00

Add: HEC @ 4% 8,016.00

Tax Liability 2,08,416.00

Illustration 3: Mr. X owns five houses in Chennai, all of which are let-out. Compute the GAV of each house from the information given below –

Particulars	House I	House II	House III	House IV	House V
Municipal Value	80,000	55,000	65,000	24,000	75,000
Fair Rent	90,000	60,000	65,000	25,000	80,000
Standard Rent	N.A.	75,000	58,000	N.A.	78,000
Actual rent received/ receivable	72,000	72,000	60,000	30,000	72,000

Solution:

GAV	90,000	72,000	60,000	30,000	78,000
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MAY – 2012 (5 Marks)

Mr. X owns five houses at Cochin. Compute the gross annual value of each house from the information given below:

	House-I	House-II	House-III	House-IV	House –V
Municipal value	1,20,000	2,40,000	1,10,000	90,000	75,000
Fair rent	1,50,000	2,40,000	1,14,000	84,000	80,000
Standard rent	1,08,000	N.A.	1,44,000	N.A.	78,000
Actual rent received/	1,80,000	2,10,000	1,20,000	1,08,000	72,000

receivable					
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Answer:

House I ₹

Computation of Gross Annual Value

(a) Fair Rent	1,50,000
(b) Municipal Valuation	1,20,000
(c) Higher of (a) or (b)	1,50,000
(d) Standard Rent	1,08,000
(e) Expected Rent {Lower of (c) or (d)}	1,08,000
(f) Rent Received/Receivable	1,80,000
(g) Higher of (e) or (f) shall be GAV	1,80,000

House II ₹

Computation of Gross Annual Value

(a) Fair Rent	2,40,000
(b) Municipal Valuation	2,40,000
(c) Higher of (a) or (b)	2,40,000
(d) Standard Rent	N.A
(e) Expected Rent {Lower of (c) or (d)}	2,40,000
(f) Rent Received/Receivable	2,10,000
(g) Higher of (e) or (f) shall be GAV	2,40,000

House III ₹

Computation of Gross Annual Value

(a) Fair Rent	1,14,000
(b) Municipal Valuation	1,10,000
(c) Higher of (a) or (b)	1,14,000
(d) Standard Rent	1,44,000
(e) Expected Rent {Lower of (c) or (d)}	1,14,000
(f) Rent Received/Receivable	1,20,000
(g) Higher of (e) or (f) shall be GAV	1,20,000

House IV ₹

Computation of Gross Annual Value

(a) Fair Rent	84,000
(b) Municipal Valuation	90,000
(c) Higher of (a) or (b)	90,000
(d) Standard Rent	N.A
(e) Expected Rent {Lower of (c) or (d)}	90,000
(f) Rent Received/Receivable	1,08,000
(g) Higher of (e) or (f) shall be GAV	1,08,000

House V ₹

Computation of Gross Annual Value

(a) Fair Rent	80,000
(b) Municipal Valuation	75,000
(c) Higher of (a) or (b)	80,000
(d) Standard Rent	78,000
(e) Expected Rent {Lower of (c) or (d)}	78,000
(f) Rent Received/Receivable	72,000
(g) Higher of (e) or (f) shall be GAV	78,000

Question 2: Explain deductibility of property taxes (municipal taxes).**Answer: Property Taxes (municipal taxes) Proviso to Section 23(1)**

In order to maintain any particular town or city, there is always some authority and it is called local authority e.g. MCD in Delhi and such authority is allowed to charge certain tax in connection with house property and

such tax are called municipal tax or house tax or property tax. If an assessee has paid such tax, deduction shall be allowed for the tax so paid from GAV but if tax is due but not paid, deduction is not allowed.

If tax has been paid by the tenant, in that case tax shall not be allowed to be deducted.

Example

During the previous year 2023-24 municipality has levied taxes ₹20,000, but the assessee has paid ₹15,000. In this case, amount allowed to be deducted is ₹15,000. In the next year, municipality has levied taxes of ₹45,000 but the assessee has paid ₹ 55,000 which includes ₹5,000 for the earlier year and ₹5,000 for the subsequent year. In this case, amount allowed to be deducted in previous year 2024-25 shall be ₹55,000.

Question 3: Write a note on computation of income of house lying vacant for some period.

Answer: House lying vacant for some period Section 23(1)(c)

If the house is partly let out and partly vacant, in such cases expected rent shall be computed for 12 months but while computing rent received/receivable, rent for the period for which the house was vacant shall be excluded and GAV shall be higher of expected rent and rent received/receivable but if the rent received/receivable is less than the expected rent owing to vacancy, in that case rent received/receivable shall be gross annual value. e.g. If expected rent is ₹20,000 p.m. and rent received/receivable is ₹15,000 p.m. and there is vacancy for 5 months, in this case GAV shall be the expected rent because even if there was no vacancy, still rent received/receivable was less than expected rent.

If in this case rent received/receivable is ₹25,000 p.m. and it is vacant for 5 months, gross annual value shall be the rent received/receivable because if there was no vacancy, rent R/R would have been higher than expected rent accordingly in the given case, R/R is lower than expected rent owing to vacancy.

Illustration 4: Compute gross annual value in the following cases for the assessment year 2024-25:

Particulars	Situation 1	Situation 2	Situation 3	Situation 4
Fair Rent (p.m.)	9,000	13,000	16,000	12,000
Municipal Valuation (p.m.)	10,000	9,000	18,000	9,000
Standard Rent (p.m.)	12,000	11,000	16,000	7,000
Rent received/ receivable (p.m.)	7,000	11,500	16,000	20,000
Vacancy	1 month	1 month	2 months	2 month

Solution:

Situation 1

₹

Computation of Gross Annual Value

(a) Fair Rent (9,000 x 12)	1,08,000
(b) Municipal Valuation (10,000 x 12)	1,20,000
(c) Higher of (a) or (b)	1,20,000
(d) Standard Rent (12,000 x 12)	1,44,000
(e) Expected Rent {Lower of (c) or (d)}	1,20,000
(f) Rent Received/Receivable (7,000 x 11)	77,000

If there was no vacancy, in that case rent received/receivable would have been ₹7000 x 12 = ₹84,000 and it is still less than expected rent, therefore GAV shall be expected rent.

Gross Annual Value 1,20,000

Situation 2

₹

Computation of Gross Annual Value

(a) Fair Rent (13,000 x 12)	1,56,000
(b) Municipal Valuation (9,000 x 12)	1,08,000

(c) Higher of (a) or (b)	1,56,000
(d) Standard Rent (11,000 x 12)	1,32,000
(e) Expected Rent {Lower of (c) or (d)}	1,32,000
(f) Rent Received/Receivable (11,500 x 11)	1,26,500

In this case, if there was no vacancy, rent received/receivable would have been ₹11500 x 12 = ₹1,38,000 hence rent received/receivable is lower in this case due to vacancy, therefore GAV shall be the rent received/receivable.

Gross Annual Value	1,26,500
	₹

Situation 3**Computation of Gross Annual Value**

(a) Fair Rent (16,000 x 12)	1,92,000
(b) Municipal Valuation (18,000 x 12)	2,16,000
(c) Higher of (a) or (b)	2,16,000
(d) Standard Rent (16,000 x 12)	1,92,000
(e) Expected Rent {Lower of (c) or (d)}	1,92,000
(f) Rent Received/Receivable (16,000 x 10)	1,60,000

In this case, if there was no vacancy, rent received/receivable would have been ₹16,000 x 12 = ₹1,92,000 hence rent received/receivable is lower in this case owing to vacancy, therefore GAV shall be the rent received/receivable.

Gross Annual Value	1,60,000
	₹

Situation 4**Computation of Gross Annual Value**

(a) Fair Rent (12,000 x 12)	1,44,000
(b) Municipal Valuation (9,000 x 12)	1,08,000
(c) Higher of (a) or (b)	1,44,000
(d) Standard Rent (7,000 x 12)	84,000
(e) Expected Rent {Lower of (c) or (d)}	84,000
(f) Rent Received/Receivable (20,000 x 10)	2,00,000

In this case, rent R/R is higher than the expected rent, GAV shall be Rent R/R

Gross Annual Value	2,00,000
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Question 4: Write a note on House lying vacant for full year.

Answer: As per section 23(1)(c), if any House Property is lying vacant throughout the year, it will be considered to be deemed to be let out and income shall be computed in the similar manner as in case of a let out house. Expected Rent shall be considered to be Gross annual value.

As per section 23 (5), Where the property consisting of any building or land appurtenant thereto is held as stock-in trade and the property or any part of the property is not let during the whole of the previous year, the annual value of such property or part of the property, for the period up to two year from the end of the financial year in which the certificate of completion of construction of the property is obtained from the competent authority, shall be taken to be nil.

Question 5: Write a note on unrealized rent.**Answer: Treatment of unrealised rent Explanation to Section 23(1)/Rule 4**

Unrealised rent means such rent which is irrecoverable and is considered to be lost i.e. bad debt and in such cases, expected rent shall be computed for full year and while computing rent received or receivable, such unrealised rent shall be excluded and GAV shall be higher of expected rent and rent received/receivable (no special treatment like vacancy).

e.g. Mr. X has let out one house ₹50,000 p.m. , fair rent ₹45,000 p.m., municipal valuation ₹40,000 p.m. standard rent ₹70,000 p.m. and there was unrealized rent for 3 months, in this case GAV of the house shall be

Expected rent (45,000 x 12)	5,40,000
Rent received /receivable (50,000 x 9)	4,50,000
GAV	5,40,000

Rent shall be considered to be unrealised rent only if all the conditions of Rule 4 have been complied with and such conditions are:

- the assessee should take legal steps to get the house property vacated from the tenant including any other property of the assessee occupied by the same tenant.
- the assessee has taken legal steps for recovery of rent or satisfies the Assessing Officer that legal proceedings would be useless.
- the tenancy is bona fide (genuine)

Recovery of unrealised rent Section 25A

If any assessee has recovered unrealized rent in subsequent years, rent so recovered shall be considered to be income of the assessee under the head house property and it do not matter whether the assessee has any house property in his name in that year or not. If assessee has received any interest, it will be considered to be income of the assessee under the head other sources. If assessee has incurred any expenses on legal proceedings, it will not be allowed to be deducted.

A sum equal to thirty per cent of the unrealised rent shall be allowed as deduction.

Illustration 5: Compute gross annual value in the following cases for the assessment year 2024-25:

Particulars	Situation 1	Situation 2	Situation 3	Situation 4
Fair Rent (p.m.)	11,000	13,000	16,000	14,000
Municipal Valuation (p.m.)	12,000	11,000	18,000	9,000
Standard Rent (p.m.)	13,000	12,000	17,000	8,000
Rent received/ receivable (p.m.)	8,000	12,500	17,000	21,000
Vacancy	-	2 months	3 month	1 month
Unrealised rent	1 month	-	1 month	3 month

Solution:**Situation 1**

₹

Computation of Gross Annual Value

(a) Fair Rent (11,000 x 12)	1,32,000
(b) Municipal Valuation (12,000 x 12)	1,44,000
(c) Higher of (a) or (b)	1,44,000
(d) Standard Rent (13,000 x 12)	1,56,000
(e) Expected Rent {Lower of (c) or (d)}	1,44,000
(f) Rent Received/Receivable (8,000 x 11)	88,000
GAV = Higher of (e) or (f)	1,44,000
Gross Annual Value	1,44,000

Situation 2**Computation of Gross Annual Value**

(a) Fair Rent (13,000 x 12)	1,56,000
(b) Municipal Valuation (11,000 x 12)	1,32,000
(c) Higher of (a) or (b)	1,56,000
(d) Standard Rent (12,000 x 12)	1,44,000
(e) Expected Rent {Lower of (c) or (d)}	1,44,000
(f) Rent Received/Receivable (12,500 x 10)	1,25,000

In this case, if there was no vacancy, rent received/receivable would have been ₹12,500 x 12 = ₹1,50,000 hence rent received/receivable is lower in this case due to vacancy, therefore GAV shall be the rent received/receivable.

Gross Annual Value 1,25,000

Situation 3**Computation of Gross Annual Value**

(a) Fair Rent (16,000 x 12)	1,92,000
(b) Municipal Valuation (18,000 x 12)	2,16,000
(c) Higher of (a) or (b)	2,16,000
(d) Standard Rent (17,000 x 12)	2,04,000
(e) Expected Rent {Lower of (c) or (d)}	2,04,000
(f) Rent Received/Receivable (17,000 x 8)	1,36,000

If there was no vacancy, in that case rent received/receivable would have been ₹17,000 x 11 = ₹1,87,000 and It was still less than expected rent, therefore GAV shall be expected rent.

Gross Annual Value 2,04,000

Situation 4**Computation of Gross Annual Value**

(a) Fair Rent (14,000 x 12)	1,68,000
(b) Municipal Valuation (9,000 x 12)	1,08,000
(c) Higher of (a) or (b)	1,68,000
(d) Standard Rent (8,000 x 12)	96,000
(e) Expected Rent {Lower of (c) or (d)}	96,000
(f) Rent Received/Receivable (21,000 x 8)	1,68,000

In this case, rent R/R is higher than the expected rent, GAV shall be Rent R/R

Gross Annual Value 1,68,000

Illustration 6: Mr. X has let out one house property to Mr. Y @ ₹ 80,000 p.m. Fair rent ₹90,000 p.m. Municipal valuation ₹80,000 p.m. and Standard rent of the house ₹76,000 p.m. The house remained vacant for 2 months and there was unrealised rent for 3 months. Mr. X has paid municipal tax of ₹60,000 and interest on loan for construction of house property is ₹69,000. He has causal income ₹2,00,000. Compute his Income and Tax Liability for A.Y.2024-25.

Solution:

₹

Computation of income under the head house property

Gross Annual Value 9,12,000.00

Working Note:	₹
(a) Fair Rent (90,000 x 12)	10,80,000
(b) Municipal Valuation (80,000 x 12)	9,60,000
(c) Higher of (a) or (b)	10,80,000
(d) Standard Rent (76,000 x 12)	9,12,000
(e) Expected Rent {Lower of (c) or (d)}	9,12,000
(f) Rent received /receivable (80,000 x 7)	5,60,000
If there was no vacancy, in that case rent received receivable would have been ₹7,20,000 and it was still less than expected rent ,therefore GAV shall be expected rent	
GAV	9,12,000

Less: Municipal Tax	(60,000.00)
Net Annual Value	8,52,000.00
Less: 30% of NAV u/s 24(a)	(2,55,600.00)
Less: Interest on capital borrowed u/s 24(b)	(69,000.00)
Income under the head House Property	5,27,400.00
Income under the head Other Sources (Causal Income)	2,00,000.00
Gross Total Income	7,27,400.00
Less: Deduction under Chapter VI-A	NIL
Total Income	7,27,400.00

Computation of Tax Liability

Tax on ₹ 5,27,400 at slab rate	11,370.00
Tax on casual income ₹2,00,000 @ 30%	60,000.00
Tax before HEC	71,370.00
Add: HEC @ 4%	2,854.80
Tax Liability	74,224.80
Rounded off u/s 288B	74,220.00

Illustration 7: Mr. X has let out one house at ₹70,000 per month fair rent ₹80,000 per month municipal valuation ₹60,000 per month, Standard Rent ₹ 65,000 per month. Municipal tax paid ₹40,000, Interest u/s 24 (b) ₹50,000. Assessee has recovered unrealized rent of ₹60,000 plus interest ₹7,000. He has incurred legal expenses ₹12,000 compute his Income and Tax Liability A.Y.2024-25. He has income from STCG u/s 111A ₹5,00,000

Solution:**Computation of income under the head house property**

₹

Gross Annual Value 8,40,000.00

Working Note:	₹
(a) Fair Rent (80,000 x 12)	9,60,000
(b) Municipal Valuation (60,000 x 12)	7,20,000
(c) Higher of (a) or (b)	9,60,000
(d) Standard Rent (65,000 x 12)	7,80,000
(e) Expected Rent {Lower of (c) or (d)}	7,80,000
(f) Rent received /receivable (70,000 x 12)	8,40,000
(g) Higher of (e) or (f) shall be GAV	8,40,000

Less: Municipal Tax	(40,000.00)
Net Annual Value	8,00,000.00
Less: 30% of NAV u/s 24(a)	(2,40,000.00)
Less: Interest on capital borrowed u/s 24(b)	(50,000.00)
Income under the head House Property	5,10,000.00
Add: Recovery of Unrealised rent u/s 25A	60,000.00
Less: Deduction @ 30%	(18,000.00)
	42,000.00

Income under the head House Property	5,52,000.00
Income under the head other sources	
Interest from unrealized rent	7,000.00
Income under the head Capital Gains	
Income from STCG u/s 111A	5,00,000.00
Gross Total Income	10,59,000.00
Less: Deduction under Chapter VI-A	NIL
Total Income	5,59,000.00
Computation of Tax Liability	
Tax on ₹ 5,59,000 at slab rate	12,950.00
Tax on STCG u/s 111A ₹5,00,000 @ 15%	75,000.00
Tax before health and education cess	87,950.00
Add: HEC @ 4%	3,518.00
Tax Liability	91,468.00
Rounded off u/s 288B	91,470.00

Question 6: Write a note on Statutory Deduction or Standard Deduction.

Answer: Statutory Deduction or Standard Deduction Section 24(a)

Under section 24(a), every assessee shall be allowed a notional expenditure equal to thirty per cent of the net annual value of the house for the various expenditures incurred by him.

Actual expenditure incurred by the assessee shall not be taken into consideration.

Example

Net annual value of one house is ₹3,00,000 and actual expenditure incurred on repairs are ₹75,000, deduction allowed under section 24(a) shall be ₹90,000.

Question 7: Write a note on deduction for interest on the capital borrowed.

Answer: Interest on borrowed capital is allowed as deduction under section 24(b)

If any assessee has taken a loan or advance for purchase/ construction / renovation / addition / alteration / substitution or repair etc. of the house property, interest on such loan shall be allowed to be deducted under section 24(b) from NAV and interest is allowed on due basis but only simple interest is allowed i.e. interest on interest is not allowed. The assessee can take any number of loan. Interest for the year for which income is being computed shall be allowed in the same year and shall be called current period interest. Interest for the period prior to the year in which the house was purchased or constructed shall be called prior period interest and such interest shall be allowed in 5 annual equal instalments starting from the year in which the house was purchased or constructed. E.g. If Mr. X had taken a loan of ₹5,00,000 for construction of property on 01.10.2022 and interest is payable @ 10% p.a. and the construction was completed on 30.06.2023, in this case interest allowed under section 24(b) shall be:

Interest for the year (01.04.2023 to 31.03.2024) = 10% of ₹ 5,00,000 = ₹ 50,000

Prior period interest = 10% of ₹ 5,00,000 for 6 months (from 01.10.2022 to 31.03.2023) = ₹ 25,000

Prior period interest to be allowed in 5 equal annual installments of ₹ 5,000 from the year of completion of construction i.e. in this case, P.Y.2023-24.

Therefore, total interest deduction under section 24(b) = 50,000 + 5000 = ₹ 55,000.

If any assessee has taken a new loan to repay the original loan, in such cases interest for such new loan shall be allowed in the similar manner.

Unpaid purchase price would be considered as capital borrowed:

Where a buyer enters into an arrangement with a seller to pay the sale price in installments along with interest due thereon, the seller becomes the lender in relation to the unpaid purchase price and the buyer becomes the borrower. In such a case, unpaid purchase price can be treated as capital borrowed for acquiring property and interest paid thereon can be allowed as deduction under section 24.

Illustration 8: Mr. X has taken a loan of ₹15,00,000 on 01.07.2019 from State Bank of India @ 12% p.a. for construction of one house which was completed on 01.05.2023 and was let out @ ₹90,000 p.m. w.e.f 01.07.2023 and Fair rent is ₹1,25,000 p.m. and the assessee has paid municipal tax of ₹30,000 in P.Y. 2023-24 and the assessee has repaid the loan amount in annual instalment of ₹1,00,000 starting from 01.01.2022. Compute his income tax liability for the assessment year 2024-25. He has dividend income ₹10,00,000.

Solution:

₹

Computation of income under the head House Property

Gross Annual Value 13,75,000.00

Working Note:	₹
(a) Fair Rent (1,25,000 x 11)	13,75,000
(b) Expected Rent	13,75,000
(c) Rent received /receivable (90,000 x 9)	8,10,000
If there was no vacancy, in that case rent received/receivable would have been ₹9,90,000 and it was still less than expected rent ,therefore GAV shall be expected rent	
GAV	13,75,000

Less: Municipal Tax (30,000.00)

Net Annual Value 13,45,000.00

Less: 30% of NAV u/s 24(a) (4,03,500.00)

Less: Interest on capital borrowed u/s 24(b) (2,84,400.00)

Working Note:	₹
Current period Interest	
From 01.04.2023 to 31.03.2024	
$(13,00,000 \times 12\% \times 9/12) + (12,00,000 \times 12\% \times 3/12) = 1,53,000$	
Prior period interest	
From 01.07.2019 to 31.03.2023	
$15,00,000 \times 12\% \times 30/12 = 4,50,000$	
$14,00,000 \times 12\% \times 12/12 = 1,68,000$	
$13,00,000 \times 12\% \times 3/12 = 39,000$	
Instalment = $6,57,000 / 5 =$	1,31,400
Total Interest = ₹1,53,000 + ₹1,31,400=	2,84,400

Income under the head house property 6,57,100.00

Income under the head Other Sources 10,00,000.00

Gross Total Income 16,57,100.00

Less: Deduction under Chapter VI-A Nil

Total Income 16,57,100.00

Computation of Tax Liability

Tax on normal income ₹16,57,100 at slab rate 1,97,130.00

Add: HEC @ 4% 7,885.20

Tax Liability 2,05,015.20

Rounded off u/s 288B 2,05,020.00

Illustration 9: Mr. X has taken a loan of ₹15,00,000 on 01.07.2019 from State Bank of India @ 12% p.a. for construction of one house which was completed on 01.04.2022 and was let out @ ₹90,000 p.m. w.e.f 01.05.2022 and Fair rent is ₹1,00,000 p.m. and the assessee has paid municipal tax of ₹30,000 in P.Y. 2023-24 and the assessee has repaid the loan amount in annual instalment of ₹1,00,000 starting from 01.01.2022. Compute his income tax liability for the assessment year 2024-25. He has income from Business/Profession ₹8,00,000.

Solution:

₹

Computation of income under the head House Property

Gross Annual Value 12,00,000.00

Working Note:	₹
----------------------	---

(a) Fair Rent (1,00,000 x 12)	12,00,000
(b) Expected Rent	12,00,000
(c) Rent received /receivable (90,000 x 12)	10,80,000
GAV	12,00,000

Less: Municipal Tax	(30,000.00)
Net Annual Value	11,70,000.00
Less: 30% of NAV u/s 24(a)	(3,51,000.00)
Less: Interest on capital borrowed u/s 24(b)	(2,51,400.00)

Working Note:	₹
Current period Interest	
<u>From 01.04.2023 to 31.03.2024</u>	
$(13,00,000 \times 12\% \times 9/12) + (12,00,000 \times 12\% \times 3/12) = 1,53,000$	
Prior period interest	
<u>From 01.07.2019 to 31.03.2022</u>	
$15,00,000 \times 12\% \times 30/12 = 4,50,000$	
$14,00,000 \times 12\% \times 3/12 = 42,000$	
Instalment = $4,92,000 / 5 =$	98,400
Total Interest = ₹1,53,000 + ₹98,400=	2,51,400

Income under the head house property	5,67,600.00
Income under the head Business/Profession	8,00,000.00
Gross Total Income	13,67,600.00
Less: Deduction under Chapter VI-A	Nil
Total Income	13,67,600.00
Computation of Tax Liability	
Tax on normal income ₹13,67,600 at slab rate	1,23,520.00
Add: HEC @ 4%	4,940.80
Tax Liability	1,28,460.80
Rounded off u/s 288B	1,28,460.00

Illustration 10: Mr. X took a loan of ₹5,00,000 on 01.10.2020 @ 10% p.a. for construction of house which was completed on 31.03.2024.

Compute interest on capital borrowed for the previous year 2023-24.

Solution:

Prior period interest

From 01.10.2020 to 31.03.2023

$= 5,00,000 \times 10\% \times 30/12 = ₹1,25,000$

Installment = $₹1,25,000/5 = ₹25,000$

Current year interest

From 01.04.2023 to 31.03.2024

$= 5,00,000 \times 10\% = ₹50,000$

Total Interest = ₹25,000 + ₹50,000 = ₹75,000

Illustration 11: Mr. X has taken a loan of ₹10,00,000 from SBI on 01/04/2021 @ 10% p.a. for construction of one house which was completed on 01/07/2023 and was let out at a rent of ₹30,000 per month paid municipal taxes ₹40,000. He has taken loan of ₹10,00,000 from PNB on 01/10/2023 @ 12% p.a. to repay the original loan compute his income and tax liability for Assessment year 2024-25. He has LTCG u/s 112 ₹16,00,000.

Solution:

₹

Computation of income under the head House Property

Gross Annual Value (30,000 X 9)	2,70,000.00
Less: Municipal Tax	(40,000.00)
Net Annual Value	2,30,000.00
Less: 30% of NAV u/s 24(a)	(69,000.00)

Less: Interest on capital borrowed u/s 24(b) (1,50,000.00)

Working Note:		₹
Current period Interest		
<u>From 01.04.2023 to 31.03.2024</u>		
$(10,00,000 \times 10\% \times 6/12) + (10,00,000 \times 12\% \times 6/12) = 1,10,000$		
Prior period interest		
<u>From 01.04.2021 to 31.03.2023</u>		
$10,00,000 \times 10\% \times 2 = 2,00,000$		
Instalment = $2,00,000 / 5 =$		40,000
Total Interest = ₹1,10,000 + ₹40,000=		1,50,000

Income under the head house property	11,000.00
Income under the head Capital gains (LTCG u/s 112)	16,00,000.00
Gross Total Income	16,11,000.00
Less: Deduction under Chapter VI-A	Nil
Total Income	16,11,000.00
Computation of Tax Liability	
Tax on normal income ₹11,000 at slab rate	Nil
Tax on LTCG u/s 112 (16,00,000 – 2,89,000) @ 20%	2,62,200.00
Add: HEC @ 4%	10,488.00
Tax Liability	2,72,688.00
Rounded off u/s 288B	2,72,690.00

Tax Liability Nil

Illustration 12: Mr. X has taken a loan of ₹10,00,000 from SBI on 01/04/2020 @ 10% p.a. for construction of one house. The Assessee has taken a loan of 6,00,000 from PNB on 01/10/2022 @ 12% p.a. to repay loan to SBI. House was completed on 01/07/2023 and was let out at a rent of ₹1,00,000 per month paid municipal taxes ₹10,000. Compute his income and tax liability for Assessment year 2024-25.

Solution: ₹

Computation of income under the head House Property

Gross Annual Value (100,000 X 9)	9,00,000.00
Less: Municipal Tax	(10,000.00)
Net Annual Value	8,90,000.00
Less: 30% of NAV u/s 24(a)	(2,67,000.00)
Less: Interest on capital borrowed u/s 24(b)	(1,73,200.00)

Working Note:		₹
Current period Interest		
<u>From 01.04.2023 to 31.03.2024</u>		
$(4,00,000 \times 10\%) + (6,00,000 \times 12\%) = 1,12,000$		
Prior period interest		
<u>From 01.04.2020 to 31.03.2023</u>		
$10,00,000 \times 10\% \times 30/12 = 2,50,000$		
$4,00,000 \times 10\% \times 6/12 = 20,000$		
$6,00,000 \times 12\% \times 6/12 = 36,000$		
Instalment = $3,06,000 / 5 =$		61,200
Total Interest = ₹1,12,000 + ₹61,200=		1,73,200

Income under the head house property	4,49,800.00
Gross Total Income	4,49,800.00
Less: Deduction under Chapter VI-A	Nil
Total Income	4,49,800.00
Computation of Tax Liability	
Tax on ₹4,49,800 at slab rate	7,490.00

Less: Rebate u/s 87A	(7,490.00)
Tax Liability	Nil

Loan from outside India

As per section 25 if loan is taken from outside India, in that case also interest is allowed but the person making payment of interest should deduct tax at source or the person receiving interest should have an agent in India.

Illustration 13: Mr. X has constructed one house on 01.09.2023 and it was let out @ ₹2,25,000 p.m. and municipal taxes paid are ₹35,000. The house was constructed after taking a loan from outside India and interest allowed under section 24(b) is ₹2,10,000, but the assessee has not deducted tax at source.

Compute assessee's tax liability for assessment year 2024-25.

Solution:

	₹
Gross Annual Value (2,25,000 x 7)	15,75,000.00
Less: Municipal Taxes	(35,000.00)
Net Annual Value	15,40,000.00
Less: 30% of NAV u/s 24(a)	(4,62,000.00)
Less: Interest on capital borrowed u/s 24(b)	Nil
Income under the head House Property	10,78,000.00

Computation of Tax Liability

Tax on ₹10,78,000 at slab rate	71,700.00
Add: HEC @ 4%	2,868.00
Tax Liability	74,568.00
Rounded off u/s 288B	74,570.00

(b) Presume in the above question, the person who has given the loan has one agent in India as per section 163.

Compute tax liability for the assessment year 2024-25.

Solution:

	₹
Gross Annual Value (2,25,000 x 7)	15,75,000.00
Less: Municipal Taxes	(35,000.00)
Net Annual Value	15,40,000.00
Less: 30% of NAV u/s 24(a)	(4,62,000.00)
Less: Interest on capital borrowed u/s 24(b)	(2,10,000.00)
Income under the head House Property	8,68,000.00

Computation of Tax Liability

Tax on ₹8,68,000 at slab rate	41,800.00
Add: HEC @ 4%	1,672.00
Tax Liability	43,472.00
Rounded off u/s 288B	43,470.00

(c) Presume in the above question, the assessee has deducted tax at source.

Compute tax liability for the assessment year 2024-25.

Solution:

	₹
Gross Annual Value (2,25,000 x 7)	15,75,000.00
Less: Municipal Taxes	(35,000.00)
Net Annual Value	15,40,000.00
Less: 30% of NAV u/s 24(a)	(4,62,000.00)
Less: Interest on capital borrowed u/s 24(b)	(2,10,000.00)
Income under the head House Property	8,68,000.00

Computation of Tax Liability

Tax on ₹8,68,000 at slab rate	41,800.00
Add: HEC @ 4%	1,672.00
Tax Liability	43,472.00

Rounded off u/s 288B

43,470.00

Question 8: Write a note on house which is self-occupied.**Answer: House which is self-occupied Section 23(2)(a)**

If any person has house which is self-occupied (maximum two house), its GAV shall be nil and municipal tax are not allowed to be deducted and NAV shall also be nil and deduction under section 24(a) is not allowed and deduction under section 24(b) is also not allowed.

If the house is self occupied as well as vacant, its income shall be computed as if it is self occupied house. E.g. Mr. X has one house which is vacant for 3 months and self occupied for 9 months, its income shall be computed considering it to be self occupied house.

Question 9: Write a note on more than two house which are self-occupied (deemed to be let out property).**Answer: More than two house which are self-occupied (deemed to be let out property) Section 23(4)**

If any assessee has more than two house which are self-occupied, in such cases only two of these houses shall be considered to be self-occupied and income shall be nil under section 23(2) and all other houses shall be deemed to be let out and income shall be computed in the similar manner as in case of let out house. Expected rent shall be considered to be GAV of the house.

Illustration 14: Mr. X has 3 houses which are self occupied and the details of these houses is as under.

Particulars	House I (In ₹)	House II (In ₹)	House III (In ₹)
Fair rent	11,00,000	12,00,000	11,50,000
Municipal valuation	11,24,000	11,78,000	11,25,000
Standard rent	13,00,000	12,50,000	11,40,000
Municipal taxes paid	1,00,000	80,000	90,000
Interest on capital borrowed on 01.04.2018 and all the necessary conditions are complied with to avail higher amount of interest.	3,20,000	2,90,000	1,90,000
Repair charges	10,000	3,000	8,000
Date of completion of house	01.10.2020	01.10.2020	01.10.2020

Compute income under the head house property.

Solution:**Option I**

₹

House I & II is Self Occupied

Income

Nil

House III is deemed to be Let Out

Gross Annual Value

11,40,000

Working Note:

₹

(a) Fair rent	11,50,000
(b) Municipal valuation	11,25,000
(c) Higher of (a) or (b)	11,50,000
(d) Standard rent	11,40,000
(e) Expected rent {Lower of (c) or (d)}	11,40,000
GAV = Expected rent	11,40,000

Less: Municipal Taxes

(90,000)

Net Annual Value

10,50,000

Less: 30% of NAV u/s 24(a)

(3,15,000)

Less: Interest on capital borrowed u/s 24(b)

(1,90,000)

Income Under The Head House Property

161

Income	5,45,000
Income under Option I [Nil + 5,45,000]	5,45,000

Option II**House II & III is Self Occupied**

Income	Nil
--------	-----

House I is deemed to be Let Out

Gross Annual Value	11,24,000
--------------------	-----------

Working Note:	₹
(a) Fair rent	11,00,000
(b) Municipal valuation	11,24,000
(c) Higher of (a) or (b)	11,24,000
(d) Standard rent	13,00,000
(e) Expected rent {Lower of (c) or (d)}	11,24,000
GAV = Expected rent	11,24,000

Less: Municipal Taxes	(1,00,000)
Net Annual Value	10,24,000
Less: 30% of NAV u/s 24(a)	(3,07,200)
Less: Interest on capital borrowed u/s 24(b)	(3,20,000)
Income	3,96,800
Income under Option II [3,96,800 + Nil]	3,96,800

Option III**House I & III is Self Occupied**

Income	Nil
--------	-----

House II is deemed to be Let Out

Gross Annual Value	12,00,000
--------------------	-----------

Working Note:	₹
(a) Fair rent	12,00,000
(b) Municipal valuation	11,78,000
(c) Higher of (a) or (b)	12,00,000
(d) Standard rent	12,50,000
(e) Expected rent {Lower of (c) or (d)}	12,00,000
GAV = Expected rent	12,00,000

Less: Municipal Taxes	(80,000)
Net Annual Value	11,20,000
Less: 30% of NAV u/s 24(a)	(3,36,000)
Less: Interest on capital borrowed u/s 24(b)	(2,90,000)
Income	4,94,000
Income under Option III [4,94,000 + Nil]	4,94,000
Second Option is the best	
Income under the head House Property	3,96,800

Question 10: Write a note on computation of Income of Unoccupied House.**Answer: Income of unoccupied house section 23(2)(b)**

As per section 23(2)(b), if any house cannot actually be occupied by the owner by reason of the fact that owing to his employment, business or profession carried on at any other place, he has to reside at that other place in a building not belonging to him, in such cases assessee shall have the option to compute income of such house as if it is self-occupied.

Question 11: Write a note on house property which is divided into different portions/units.

Answer: If any house property is divided into different portions, every portion shall be considered to be a separate house and income shall be computed accordingly. There is no need to treat the whole property as a single unit for computation of income from house property.

Municipal valuation/fair rent/standard rent, if not given separately, shall be apportioned between the let-out portion and self-occupied portion either on plinth area or built-up floor space or on such other reasonable basis.

Property taxes, if given on a consolidated basis can be bifurcated as attributable to each portion or floor on a reasonable basis.

Illustration 15: Mr. X owns a house in Madras. During the previous year 2023-24, 2/3rd portion of the house was self-occupied and 1/3rd portion was let out for residential purposes at a rent of ₹ 8,000 p.m. Municipal value of the property is ₹3,00,000 p.a., fair rent is ₹2,70,000 p.a. and standard rent is ₹ 3,30,000 p.a. He paid municipal taxes @ 10% of municipal value during the year. A loan of ₹25,00,000 was taken by him during the year 2019 for acquiring the property. Interest on loan paid during the previous year 2023-24 was ₹1,20,000. Compute Mr. X's income from house property for the A.Y. 2024-25. All the conditions for higher deduction of interest in case of self-occupied property is satisfied.

Solution:

There are two units of the house. Unit I with 2/3rd area is used by Mr. X for self-occupation throughout the year and no benefit is derived from that unit, hence it will be treated as self-occupied and its annual value will be nil. Unit 2 with 1/3rd area is let-out through out the previous year and its annual value has to be determined as per section 23(1).

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

Particulars	₹
Unit I (2/3rd area – self-occupied)	
Annual Value	Nil
Less: Deduction under section 24(b)	Nil
Loss from Unit I (self-occupied)	Nil
Unit II (1/3rd area – let out)	
Gross Annual Value	1,00,000
Working Note:	₹
(a) Fair rent	90,000
(b) Municipal valuation	1,00,000
(c) Higher of (a) or (b)	1,00,000
(d) Standard rent	1,10,000
(e) Expected rent {Lower of (c) or (d)}	1,00,000
(f) Rent received/ receivable (8,000 x 12)	96,000
GAV = Expected rent	1,00,000
Less: Municipal Taxes	(10,000)
Net Annual Value	90,000
Less: 30% of NAV u/s 24(a)	(27,000)
Less: Interest on capital borrowed u/s 24(b)	(40,000)
Income under the head House Property	23,000

Question 12: Write a note on house property owned by the assessee and used for own business/profession.

Answer: House property owned by the assessee and used for own business/profession Section 22/section 30

If any person owns any house property and it is being used by him in his own business/profession, income of such building shall not be computed under the head house property rather income shall be computed under the head business/profession and as per section 30, for this purpose, while computing the income under the head business/profession, no rent shall be allowed to be debited to the profit & loss account in connection

with such building. All the expenses of the house property shall be debited to the profit and loss account and deduction under section 24(a) is not allowed rather actual expenditure shall be debited to the profit and loss account. Such expenditure may be municipal tax, repairs, depreciation, land revenue, ground rent etc.

Illustration 16: Mrs. X aged 62 years is engaged in a business in her own building and furnishes the following information.

Market rent of the building is ₹1,00,000 p.m. and expenses incurred on repairs are ₹37,000 and interest on loan taken for construction of the building is ₹65,000 and depreciation ₹30,000 and municipal tax paid ₹30,000 and land revenue paid ₹10,000 and premium paid for insurance of the house ₹7,000. ground rent paid ₹8,000.

Income from business before debiting any expense of house property is ₹16,00,000.

Compute her income tax liability for Assessment Year 2024-25.

Solution:

	₹
Income from business before debiting any expense of house property	16,00,000.00
Less: Repair of Building	(37,000.00)
Less: Interest on loan taken for construction of building	(65,000.00)
Less: Depreciation	(30,000.00)
Less: Municipal Taxes	(30,000.00)
Less: Land revenue	(10,000.00)
Less: Insurance premium of the house	(7,000.00)
Less: Ground rent	(8,000.00)
Income under the head Business/Profession	14,13,000.00
Gross Total Income	14,13,000.00
Less: Deduction under Chapter VI-A	Nil
Total Income	14,13,000.00

Computation of Tax Liability

Tax on ₹14,13,000 at slab rate	1,32,600.00
Add: HEC @ 4%	5,304.00
Tax Liability	1,37,904.00
Rounded off u/s 288B	1,37,900.00

Question 13: Write a note on a house property which is let-out for part of the year and self-occupied for part of the year and may or may not be vacant.

Answer: A house property which is let-out for part of the year and self-occupied for part of the year and may or may not be vacant Section 23(3)

If any house property is let out as well as self-occupied, in such cases expected rent (also called annual letting value) shall be computed for full year but Rent received/receivable shall be only for the period the house was let out and GAV shall be the higher. There will not be any such adjustment as in case of vacancy.

Illustration 17: Mr. X constructed one house in 2022 and it is let out for 4 months and self occupied for 6 months and vacant for 2 months during previous year 2023-24. Municipal valuation of the house is ₹40,000 p.m. and fair rent ₹30,000 p.m. Standard rent of the house is ₹38,000 p.m. It was let out @ ₹32,000 p.m. Municipal tax levied is ₹6,000 out of which ₹2,000 was paid by the tenant and ₹2,000 by the assessee and balance ₹2,000 yet to be paid.

Interest on the capital borrowed for construction of the house is ₹30,000.

Long Term Capital Gains is ₹2,10,000

Compute his income and tax Liability for the assessment year 2024-25.

Solution:

Computation of income from House Property of Mr. X

Gross Annual Value	₹ 4,56,000
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Working Note:

(a) Fair Rent (30,000 x 12)	₹ 3,60,000
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(b) Municipal Valuation (40,000 x 12)	4,80,000
(c) Higher of (a) or (b)	4,80,000
(d) Standard Rent (38,000 x 12)	4,56,000
(e) Expected Rent {Lower of (c) or (d)}	4,56,000
(f) Rent Received/Receivable (32,000 x 4)	1,28,000
If there was no vacancy, in that case rent received/receivable would have been ₹1,92,000 and it was still less than expected rent, therefore GAV shall be expected rent.	
GAV	4,56,000

Less: Municipal Taxes	(2,000)
Net Annual Value	4,54,000
Less: 30% of NAV u/s 24(a)	(1,36,200)
Less: Interest on capital borrowed u/s 24(b)	(30,000)
Income under the head House Property	2,87,800
Long Term Capital Gains	2,10,000
Gross Total Income	4,97,800
Less: Deduction under Chapter VI-A	Nil
Total Income	4,97,800

Computation of Tax Liability

Tax on ₹1,97,800 (2,10,000 – 12,200) @ 20% u/s 112	39,560.00
Tax on ₹2,87,800 at slab rate	Nil
Less: Rebate u/s 87A	(25,000.00)
Tax before health & education cess	14,560.00
Add: HEC @ 4%	582.40
Tax Liability	15,142.40
Rounded off u/s 288B	15,140.00

Illustration 18: Mrs. X owns a house property at Adyar in Chennai. The municipal value of the property is ₹5,00,000, fair rent is ₹ 4,20,000 and standard rent is ₹ 4,80,000. The property was let-out for ₹50,000 p.m. up to December 2023. Thereafter, the tenant vacated the property and Mrs. X used the house for self-occupation. Rent for the months of November and December 2023 could not be realised in spite of the owner's efforts. All the conditions prescribed under Rule 4 are satisfied. She paid municipal taxes @ 12% during the year. She had paid interest of ₹ 25,000 during the year for amount borrowed for repairs for the house property. She has LTCG ₹110,00,000. She has completed age of 80 years as on 31.03.2024. Compute her tax liability for the A.Y. 2024-25.

Solution:**Computation of income from house property of Mrs. X for the A.Y.2024-25**

Gross Annual Value	4,80,000.00
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Working Note:		₹
(a) Fair rent	4,20,000	
(b) Municipal valuation	5,00,000	
(c) Higher of (a) or (b)	5,00,000	
(d) Standard rent	4,80,000	
(e) Expected rent {Lower of (c) or (d)}	4,80,000	
(f) Rent received/ receivable (50,000 x 7)	3,50,000	
(unrealised rent 2 months and self occupied 3 months)		
GAV = Expected rent	4,80,000	

Less: Municipal Taxes	(60,000.00)
Net Annual Value	4,20,000.00
Less: 30% of NAV u/s 24(a)	(1,26,000.00)
Less: Interest on capital borrowed u/s 24(b)	(25,000.00)
Income under the head House Property	2,69,000.00

LTCG	110,00,000.00
Total Income	112,69,000.00
Computation of Tax Liability	
Tax on Normal income at slab rate	Nil
LTCG (110,00,000 – 31,000) x 20%	21,93,800.00
Add: Surcharge @ 15%	3,29,070.00
Tax before health & education cess	25,22,870.00
Add: HEC @ 4%	1,00,914.80
Tax Liability	26,23,784.80
Rounded off u/s 288B	26,23,780.00

Illustration 19: Mr. X has one big house. 25% of it is being used by the assessee in his own business/profession and 50% of the house is let out @ ₹10,000 p.m. However, it remained vacant for one month and there is unrealised rent for 1½ month. Remaining 25% is self occupied throughout the year. Fair rent of the entire house is ₹25,000 p.m., municipal valuation ₹22,000 p.m. and municipal tax paid is ₹22,000. Insurance premium paid is ₹6,000, repair charges ₹8,000, land revenue paid ₹4,000, ground rent is ₹3,000 and depreciation of the house is ₹12,000. Assessee's income under the head business/profession before charging expenditure relating to house property is ₹8,00,000. Compute his total income and tax liability for assessment year 2024-25.

Solution:

₹

Computation of income under the head House Property**Income from self occupied portion**

Income of self occupied portion

Nil

Income of let out portion

Gross Annual Value

1,50,000.00

Working Note:

₹

(a) Fair Rent (12,500 x 12)	1,50,000
(b) Municipal Valuation (11,000 x 12)	1,32,000
(c) Expected rent {Higher of (a) or (b)}	1,50,000
(d) Rent Received/Receivable (10,000 x 9.5)	95,000
If there was no vacancy, in that case rent received/receivable would have been ₹1,05,000 and it was still less than expected rent, therefore GAV shall be expected rent	
GAV	1,50,000

Less: Municipal taxes

(11,000.00)

Net Annual Value

1,39,000.00

Less: 30% of NAV u/s 24(a)

(41,700.00)

Less: Interest on capital borrowed u/s 24(b)

Nil

Income under the head House Property

97,300.00

Computation of income under the head Business/Profession

Income before debiting any expense of the house property

8,00,000.00

Less: Municipal taxes

(5,500.00)

Less: Insurance premium

(1,500.00)

Less: Repairs charges

(2,000.00)

Less: Land revenue

(1,000.00)

Less: Ground Rent

(750.00)

Less: Depreciation

(3,000.00)

Income under the head Business/Profession

7,86,250.00

Computation of Total Income

Income under the head House Property

97,300.00

Income under the head Business/Profession

7,86,250.00

Gross Total Income

8,83,550.00

Less: Deductions under Chapter VI-A

Nil

Total Income	8,83,550.00
Computation of Tax Liability	
Tax on ₹8,83,550 at slab rate	43,355.00
Add: HEC @ 4%	1,734.20
Tax Liability	45,089.20
Rounded off u/s 288B	45,090.00

Question 14: Write a note on composite rent.**Answer: Composite Rent**

A person may let out a house property alongwith some facilities like generator or security etc. and rent may be charged combined for the house property as well as facility, such rent is called composite rent and in such cases rent for house property shall be taxable under the head house property and rent for facilities shall be taxable under the head other sources but after deducting all the expenses relating to such facility.

If there are so many facilities and bifurcation is not possible, income shall be taxable under the head business/profession or other sources e.g. in case of hotel business/paying guest accommodation/warehousing or auditorium etc., income is taxable under the head business/profession.

Illustration 20: Mr. X has let out one house alongwith generator facility and has charged a sum of ₹40,000 p.m. as rent, out of which ₹3,000 p.m. is attributable to the generator. He has paid ₹2,300 and the tenant has paid ₹900 towards municipal taxes. The interest on the capital borrowed for construction of the house is ₹7,000. Mr. X has paid repair charge of the generator ₹3,400, fuel charges ₹5,600 and operator's salary ₹300 p.m. Mr. X has income from Business/Profession ₹12,00,000.

Compute the tax liability of Mr. X for assessment year 2024-25.

Solution:

₹

Computation of income under the head House Property

Gross Annual Value (37,000 x 12)	4,44,000.00
Less: Municipal Taxes	(2,300.00)
Net Annual Value	4,41,700.00
Less: 30% of NAV u/s 24(a)	(1,32,510.00)
Less: Interest on capital borrowed u/s 24(b)	(7,000.00)
Income under the head House Property	3,02,190.00

Computation of income under the head Other Sources

Income from generator (3,000 x 12)	36,000.00
Less: Repair charges	(3,400.00)
Less: Fuel charges	(5,600.00)
Less: Operator Salary (300 x 12)	(3,600.00)
Income under the head Other Sources	23,400.00

Computation of Total Income

Income under the head House Property	3,02,190.00
Income under the head Other Sources	23,400.00
Income under the head Business/Profession	12,00,000.00
Gross Total Income	15,25,590.00
Less: Deduction under chapter VI-A	Nil
Total Income	15,25,590.00

Computation of Tax Liability

Tax on ₹15,25,590 at slab rate	1,57,677.00
Add: HEC @ 4%	6,307.08
Tax Liability	1,63,984.08
Rounded off u/s 288B	1,63,980.00

Question 15: Write a note on letting out of building which is supplementary to the business.

Answer: Letting out of building which is supplementary to the business

If any person has let out any house property for any purpose which is supplementary to the business of the assessee, in such cases rental income shall be taxable under the head business/profession and all expenses of such house property shall be debited to the profit and loss account. E.g. If a Public school has let out a part of its building to a Bank, in this case rent received shall be considered to be income under the head Business/Profession and all expenses of such house property shall be debited to profit and loss account. Similarly, if any company has constructed houses for the employees in their premises and it is let out to the employees, rental income is taxable under the head Business/Profession.

Question 16: Write a note on tax liability in respect of arrears of rent.

Answer: Tax liability in respect of arrears of rent Section 25A

Sometimes rent of a house property may be increased from retrospective effect i.e. from back date and the assessee may receive arrear of rent, such arrears are taxable in the year in which arrears have been received, however deduction shall be allowed @ 30% of such arrears and only the balance amount shall be taxable. It do not matter that the assessee do not have any house property in his name in that year.

There is no specific provision given in the Income Tax Act relating to advance payment of rent.

Illustration 21: Mr. X has let out his house to State Bank @ ₹20,000 p.m. The bank has increased the rent on 1st July, 2023 to ₹27,000 p.m. retrospectively w.e.f. 01.11.2022. The assessee has paid municipal taxes of ₹7,000 during the previous year 2023-24.

Compute income under the head House Property for assessment year 2024-25.

Solution:

Computation of income under the head House Property

	₹	₹
Gross Annual Value (27,000 x 12)		3,24,000
Less: Municipal Taxes		(7,000)
Net Annual Value		3,17,000
Less: 30% of NAV u/s 24(a)		(95,100)
Less: Interest on capital borrowed u/s 24(b)		Nil
		2,21,900
Add: Arrears of rent (Sec 25A) (7,000 x 5)	35,000	
Less: 30% of ₹35,000	(10,500)	24,500
Income under the House Property		2,46,400

Question 17: Write a note on sub-letting of house property.

Answer: Sub-letting of house property Section 56

If any person has let out any house property and the tenant has further given the same house property on rent, it is called sub-letting and in this case, income of the person who has sub-let the house property, shall be computed under the head Other Sources and income shall be equal to gross rent received – expenses incurred for such house property.

Example

Mr. X has let out one house to Mr. Y at a rent of ₹1,00,000 p.m. and has paid municipal tax of ₹1,00,000. Mr. Y has sub-let 50% of the house property to Mr. Z at a rent of ₹70,000 p.m., in this case income of Mr. X and Mr. Y shall be computed in the manner given below:

Income of Mr. X shall be computed under the head House Property

GAV (1,00,000 x 12)	12,00,000
Less: Municipal Tax	(1,00,000)
NAV	11,00,000
Less: Deduction u/s 24(a)	(3,30,000)
Income under the head House Property	7,70,000

Income of Mr. Y shall be computed under the head Other Sources

Gross Rent received (70,000 x 12)	8,40,000
Less: Rent paid by him (1,00,000 x 50% x 12)	(6,00,000)

Income under the head Other Sources 2,40,000

Question 18: Write a note on computation of income from house property situated outside India.

Answer:

Income of house property situated outside India shall be computed in the similar manner as in case of house property situated in India and such income shall be taxable in the case of ROR. In case of NR or NOR such income is exempt provided income is received outside India i.e. if income is received in India, it will be taxable in case of NR/NOR also.

Illustration 22: Mr. X, a British national, is a resident and ordinarily resident in India during the P.Y.2023-24. He owns a house in London, which he has let out at £ 10,000 p.m. The municipal taxes paid to the Municipal Corporation of London is £ 8,000 during the P.Y.2023-24. The value of one £ in Indian rupee to be taken at ₹ 100. Compute Mr. X's taxable income for the A.Y. 2024-25.

Solution:

For the P.Y.2023-24, Mr. X, a British national, is resident and ordinarily resident in India. Therefore, income received by him by way of rent of the house property located in London is to be included in the total income in India. Municipal taxes paid in London is to be allowed as deduction from the gross annual value.

Computation of Income from house property of Mr. X for A.Y. 2024-25

Particulars	₹
Gross Annual Value (£ 10,000 × 12 × 100)	1,20,00,000
Less: Municipal taxes paid (£ 8,000 × 100)	<u>(8,00,000)</u>
Net Annual Value (NAV)	1,12,00,000
Less: Deduction under section 24 (a) 30% of NAV	<u>(33,60,000)</u>
Income from house property	78,40,000

Question 19: Write a note on treatment of income from co-owned property.

Answer: Treatment of income from co-owned property Section 26

If any house property is owned by co-owners and their shares are given, in such cases each such co-owner has to pay tax on his share in the income of house property but if shares are not given, it will be considered to be income of co-owners (BOI/AOP) e.g. Mr. X and Mr. Y are co-owners of a house property and their shares are not given and income is ₹20 lakhs, in this case it will be taxable as income of co-owners but if share of each one is 50%, Mr. X will pay tax on income of ₹10 lakh and Mr. Y will pay tax on income of ₹10 lakh.

If any house property is owned by a partnership firm or company, it will be considered to be income of partnership firm or company and not that of partners or shareholders.

Where the house property owned by co-owners is self occupied by each of the co-owners and share of individual co-owner is not given, income shall be nil of the BOI and if the share is given, income shall be nil for each of the co-owner.

Question 20: Write a note on owner / deemed owner.

Answer: Owner / deemed owner Section 22 / 27

As per section 22, the owner of house property shall be liable to pay income tax and if the title of the ownership of the property is under dispute in a court of law, the decision as to who will be the owner chargeable to income-tax under section 22 will be of the Income-tax Department till the court gives its decision to the suit filed in respect of such property. E.g. Ownership of a house property is disputed among two brothers Mr. X and Mr. Y and rent is being received by Mr. X, in this case Mr. X shall be considered to be the owner of the house property till decision is given by the Court and after that amount of tax shall be adjusted as per court decision.

As per section 27, the following persons, are deemed to be the owners.

(i) Transfer of a house property to spouse – In case of transfer of house property by an individual to his or her spouse otherwise than for adequate consideration, the transferor is deemed to be the owner of the transferred property. In case of transfer to spouse in connection with an agreement to live apart, the transferor will not be deemed to be the owner. The transferee will be the owner of the house property. In case of transfer of house property by an individual to his or her minor child, the transferor is deemed to be the owner of the house property transferred. In case of transfer to a minor married daughter, the transferor is not deemed to be the owner. E.g. Mr. X has two house property each having income of ₹10 lakh and Mr. X has gifted one house property to Mrs. X, in this case income from such house property shall be taxable in the hands of Mr. X but if Mr. X has sold the house property to Mrs. X and has taken full payment, in that case income from house property shall be taxable in the hands of Mrs. X.

(ii) Person in possession of a property – If any person has given possession of house property and has taken full payment but ownership in documents has not yet been transferred, in such cases the proposed buyer is the deemed owner and shall be liable to pay income tax and it is called part performance of a contract of the nature referred to in section 53A of the Transfer of Property Act. E.g. Mr. X has sold his house property to Mr. Y for ₹50 lakhs and has taken full payment and possession has been given to Mr. Y but conveyance deed is not prepared in the name of Mr. Y, in this case Mr. Y is the deemed owner.

(iii) Member of a co-operative society etc. – A member of a co-operative society, company or other association of persons to whom a building or part thereof is allotted or leased under a House Building Scheme of a society/company/association, shall be deemed to be owner of that building or part thereof allotted to him although the co-operative society/company/ association is the legal owner of that building.

(iv) Holder of an impartible estate – The impartible estate is a property which is not divisible. The holder of an impartible estate shall be deemed to be the individual owner of all properties comprised in the estate.

Illustration 23: Mr. Anand sold his residential house property in March, 2023. In June, 2023, he recovered rent of ₹10,000 from Mr. Gaurav, to whom he had let out his house for two years from April 2017 to March 2019. He could not realise two months rent of ₹20,000 from him and to that extent his actual rent was reduced while computing income from house property for A.Y.2019-20.

Further, he had let out his property from April, 2019 to February, 2023 to Mr. Satish. In April, 2021, he had increased the rent from ₹12,000 to ₹15,000 per month and the same was a subject matter of dispute. In September, 2023, the matter was finally settled and Mr. Anand received ₹69,000 as arrears of rent for the period April 2021 to February, 2023. Would the recovery of unrealised rent and arrears of rent be taxable in the hands of Mr. Anand, and if so in which year?

Solution:

Since the unrealised rent was recovered in the P.Y.2023-24, the same would be taxable in the A.Y.2024-25 under section 25A, irrespective of the fact that Mr. Anand was not the owner of the house in that year. Further, the arrears of rent was also received in the P.Y.2023-24, and hence the same would be taxable in the A.Y.2024-25 under section 25A, even though Mr. Anand was not the owner of the house in that year. A deduction of 30% of unrealised rent recovered and arrears of rent would be allowed while computing income from house property of Mr. Anand for A.Y.2024-25.

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

Recovery of Unrealised Rent	10,000
Add: Arrear of Rent Received	69,000
Total	79,000
Less: Deduction @ 30%	(23,700)
Income under the head House Property	55,300

Illustration 24: 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 ₹ 65.

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 ₹32,000 p.m. 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:

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

Certificate confirming the amount of Interest has been deposited.

She had a house property in Bangalore, which was sold in March, 2019. 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 assessment year 2024-25.

Solution: 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 will be calculated as under:

Self - occupied house at Los Angeles

Gross Annual Value	Nil
Less: Municipal taxes	<u>Nil</u>
Net Annual Value	Nil
Less: Statutory deduction under section 24(a) @ 30% of NAV	Nil
Less: Interest on Housing Loan u/s 24(b)	Nil
Loss from House property	Nil

Self - occupied property at Chennai

Gross Annual Value	Nil
Less: Municipal taxes	<u>Nil</u>
Net Annual Value	Nil
Less: Statutory deduction under section 24(a) @ 30% of NAV	Nil
Less: Interest on Housing Loan u/s 24(b)	Nil
Loss from House property	Nil

Arrears in respect of Bangalore Property (Section 25A)

Arrears of rent received	60,000.00
Less: Deduction under section 25A @ 30%	<u>(18,000.00)</u>
Income from House property	42,000.00

Note: Calculation of Interest

Interest for the current year (50,800+1,31,300)	1,82,100.00
Add: 1/5 th of Prior period interest (49,200 x 1/5)	9,840.00
Interest deduction allowed u/s 24(b)	1,91,940.00

Optional Regime

In case of a self occupied house, interest shall be allowed to be deducted u/s 24(b) maximum to the extent of ₹30,000 but interest shall be allowed maximum upto ₹2,00,000 if all the four conditions mentioned below have been complied with:

- (i) If loan has been taken w.e.f. 01.04.1999 onwards
- (ii) The loan is only for purchase or construction of house property
- (iii) The house has been purchased or constructed within 5 years from the end of the year in which loan or advance was taken
- (iv) The assessee has submitted a certificate confirming the amount of interest.

MULTIPLE CHOICE QUESTIONS

1. Vacant site lease rent is taxable as

- (a) Income from house property
- (b) Business income or income from house property, as the case may be
- (c) Income from other sources or business income, as the case may be
- (d) Income from other sources or income from house property, as the case may be

2. Treatment of unrealized rent for determining income from house property

- (a) To be deducted from expected rent
- (b) To be deducted from actual rent
- (c) To be deducted under section 24 from annual value
- (d) To be deducted from both expected rent and actual rent

3. Municipal taxes to be deducted from GAV should be

- (a) Paid by the tenant during the previous year
- (b) Paid by the owner during the previous year
- (c) Accrued during the previous year
- (d) Paid during the previous year either by tenant or owner

4. Deduction under section 24(a) is

- (a) 1/3rd of NAV
- (b) repairs actually incurred by the owner
- (c) 30% of NAV
- (d) Interest on borrowed capital

5. Interest on borrowed capital accrued up to the end of the previous year prior to the year of completion of construction is

- (a) allowed as a deduction in the year of completion of construction
- (b) allowed in 5 equal annual installments from the year of completion of construction
- (c) allowed in the respective year in which the interest accrues
- (d) not allowed

6. Leena received ₹30,000 as arrears of rent during the P.Y. 2023-24. The amount taxable under section 25A would be -

- (a) ₹30,000
- (b) ₹21,000
- (c) ₹20,000
- (d) ₹15,000

7. Vidya received ₹90,000 in May, 2023 towards recovery of unrealised rent, which was deducted from actual rent during the P.Y. 2021-22 for determining annual value. Legal expense incurred in relation to unrealized rent is ₹20,000. The amount taxable under section 25A for A.Y.2024-25 would be -

- (a) ₹70,000
- (b) ₹63,000
- (c) ₹60,000
- (d) ₹49,000

8. Ganesh and Rajesh are co-owners of a self-occupied property. They own 50% share each. The interest paid by each co-owner during the previous year on loan (taken for acquisition of property during the year 2004) is ₹2,05,000. The amount of allowable deduction in respect of each co-owner is -

- (a) ₹2,05,000
- (b) ₹1,02,500
- (c) ₹2,00,000
- (d) ₹1,00,000

9. Mr. Zen owns a flat in Mumbai which was let out by him in the previous year 2023 – 24 on a rent of ₹20,000 p.m. upto December, 2023 and for ₹30,000 p.m. thereafter. The annual municipal value is of ₹3,00,000, Fair Rent is ₹2,50,000 and Standard Rent is ₹2,90,000. The Gross Annual Value of the flat shall be taken as:

- (a) ₹ 2,70,000

- (b) ₹ 3,00,000
- (c) ₹ 2,50,000
- (d) ₹ 2,90,000

10. A borrowed ₹5,00,000 @ 12% p.a. on 1-4-2019 for construction of house property which was completed on 15-3-2023. The amount is still unpaid. The deduction of interest for previous year 2023-24 shall be :

- (a) ₹60,000
- (b) ₹96,000
- (c) ₹1,80,000
- (d) ₹2,40,000

11. Ms. Padmaja let out a property for ₹20,000 per month during the year 2023-24. The municipal tax on the let-out property was enhanced retrospectively. Hence, she paid ₹60,000 as municipal tax which included arrears of municipal tax of ₹45,000. Her income from house property is —

- (a) ₹1,80,000
- (b) ₹1,57,500
- (c) ₹1,26,000
- (d) ₹1,36,500

12. The construction of a house was completed on 31st January, 2024. The owner of the house took a loan of ₹20,00,000 @ 6% p.a. on 1st May, 2023. In this case the deduction allowable for the previous year 2023-24 towards interest on borrowings is —

- (a) 22,000
- (b) 24,000
- (c) 1,10,000
- (d) None of the above.

13. Standard Deduction u/s 24(a) shall be

- (a) 25% of NAV
- (b) 30% of NAV
- (c) 25% of GAV
- (d) 30% of GAV

14. GAV shall be

- (a) Higher of expected rent and rent received/receivable
- (b) Lower of expected rent and rent received/receivable
- (c) Higher of municipal value and fair rent
- (d) NAV minus municipal taxes

15. Expected rent shall be

- (a) Higher of municipal value and fair rent but restricted to Standard rent
- (a) Lower of municipal value and fair rent but maximum to Standard rent
- (c) Higher of municipal value and fair rent
- (d) Lower of municipal value and fair rent

16. Prior Period Interest shall be allowed in

- (a) 5 annual equal installments
- (a) 4 annual equal installments
- (c) 3 annual equal installments
- (d) 2 annual equal installments

17. The Ceiling limit of deduction u/s 24(b) in respect of interest on loan taken for let out property shall be

- (a) ₹ 30,000 p.a.
- (a) ₹ 1,50,000 p.a.
- (c) ₹ 2,00,000 p.a.
- (d) No limit

18. Recovery of unrealized rent shall be taxable under the head

- (a) House Property
- (b) Business/Profession

- (c) Other sources
(d) None of the above

19. If any person is engaged in the business of letting out of house property, income shall be taxable under the head

- (a) Business/profession
(b) House property
(c) Other sources
(d) Capital gains
(e) None of these

20. If loan has been taken on 01.04.2022 and house was completed on 31.03.2023, in this case

- (a) no prior period installment in p.y. 2023-24
(b) there is prior period installment in p.y. 2023-24

Answer

1.(c); 2.(b); 3. (b); 4. (c); 5. (b); 6. (b); 7. (b); 8. (c); 9. (d); 10. (b); 11. (c); 12. (c); 13. (b); 14. (a); 15. (a); 16. (a); 17. (d); 18. (a); 19. (a); 20. (a)

Hint for answer 6.

Arrears of rent received	30,000.00
Less: Deduction under section 25A @ 30%	<u>(9,000.00)</u>
Income from House property	21,000.00

Hint for answer 7.

Recovery of Unrealised Rent	90,000
Less: Deduction @ 30%	(27,000)
Income under the head House Property	63,000

Hint for answer 9.

Gross Annual Value	₹	₹
		2,90,000

Working Note:

(a) Municipal value of property	3,00,000
(b) Fair rent	2,50,000
(c) Higher of (a) and (b)	3,00,000
(d) Standard rent	2,90,000
(e) Annual Letting Value / Expected Rent [lower of (c) and (d)]	2,90,000
(f) Actual rent [20,000 x 9] + [30,000 x 3]	2,70,000
(g) Gross Annual Value [higher of (e) and (f)]	2,90,000

Hint for answer 10.

Prior period interest
From 01.04.2019 to 31.03.2022
 = 5,00,000 x 12% x 3 = 1,80,000
 1,80,000 allowed in 5 equal instalments
 = 1,80,000 / 5 = ₹ 36,000 per annum
 Current period interest
From 01.04.2023 to 31.03.2024
 = 5,00,000 x 12% x 1 = ₹60,000
 Total Interest = ₹60,000 + ₹ 36,000 = ₹96,000

Hint for answer 11.

Computation of income under the head House Property

Gross Annual Value (20,000 X 12)	2,40,000.00
Less: Municipal Tax	(60,000.00)
Net Annual Value	1,80,000.00
Less: Standard Deduction u/s 24(a)	(54,000.00)

Less: Interest u/s 24(b)

NIL

Income from House Property

1,26,000.00

Hint for answer 12.

Prior period interest

NIL

Current period interest

From 01.05.2023 to 31.03.2024 $= 20,00,000 \times 6\% \times 11/12 = ₹1,10,000$

Total Interest = ₹1,10,000 + ₹ 0 = ₹1,10,000

PRACTICE PROBLEMS

TOTAL PROBLEMS 26

Problem 1:

Mr. X has let out one building @ ₹ 90,000 p.m. and fair rent is ₹ 80,000 p.m. standard rent ₹ 1,00,000 p.m. Municipal valuation ₹ 81,000 p.m., Municipal Tax paid ₹ 70,000 p.a., Interest on loan for construction of house property ₹ 82,000. Mr. X has causal income ₹11,00,000.

Compute his tax liability for assessment year 2024-25.

Answer: Tax Liability: ₹3,61,400

Problem 2:

X Ltd. has let out one building to ABC Ltd. @ ₹3,00,000 p.m. and X Ltd. has paid municipal tax of ₹6,00,000 p.a. X Ltd. has paid interest of ₹3,00,000 on loan taken for construction of building. Fair rent of the building is ₹2,50,000 p.m. and Municipal Valuation is ₹2,75,000 p.m. and Standard Rent is ₹2,80,000 p.m.

Compute Income Tax Liability for assessment year 2024-25.

Answer: Income Tax Liability: ₹5,61,600

Problem 3:

XYZ Ltd. has let out one building to ABC Ltd. @ ₹2,00,000 p.m. Fair rent is ₹1,80,000 p.m. and standard rent ₹2,20,000 p.m. The company paid municipal tax of ₹6,00,000 during the year.

Compute income tax Liability of XYZ Ltd.

Answer: Income Tax Liability: ₹3,93,120

Problem 4:

Mr. X has let out one house at a rent of ₹50,000 p.m. Fair rent ₹55,000 p.m. Municipal Valuation ₹52,000 p.m., standard rent ₹60,000 p.m.. The house remain vacant for 3 months. The assessee paid municipal tax ₹30,000. Interest on loan u/s 24(b) is ₹20,000. Mr. X has STCG u/s 111A ₹9,00,000. Compute Income and Tax Liability A.Y. 2024-25.

Answer: Income Tax Liability: 1,46,690

(b) Presume it is let out at a rent of ₹60,000 P.m.

Answer: Income Tax Liability: 1,42,320

(c) Presume it is let out at a rent of ₹55,000 P.m.

Answer: Income Tax Liability: 1,40,690

(d) Presume it is let out at a rent of ₹1,00,000 P.m.

Answer: Income Tax Liability: 1,55,430

Problem 5:

Mr. X has let out one house at a rent of ₹15,00,000 p.m. Fair rent ₹15,50,000 p.m. Municipal Valuation ₹15,20,000 p.m., standard rent ₹16,00,000 p.m.. The house remain vacant for 3 months. The assessee paid municipal tax ₹13,00,000. Interest on loan u/s 24(b) is ₹12,00,000. Compute Income and Tax Liability A.Y. 2024-25.

Answer: Income Tax Liability: ₹35,55,710

(b) Presume it is let out at a rent of ₹16,00,000 P.m.

Answer: Income Tax Liability: ₹23,92,100

(c) Presume it is let out at a rent of ₹15,60,000 P.m.

Answer: Income Tax Liability: ₹23,05,620

(d) Presume it is let out at a rent of ₹20,00,000 P.m.

Answer: Income Tax Liability: ₹34,05,010

Problem 6.

Compute gross annual value in the following cases for the assessment year 2024-25:

Particulars	Situation 1	Situation 2	Situation 3	Situation 4
Fair Rent (p.m.)	10,000	12,000	13,000	15,000
Municipal Valuation (p.m.)	11,000	10,000	8,000	17,000
Standard Rent (p.m.)	12,000	11,000	7,000	16,000
Rent received/ receivable (p.m.)	7,000	11,500	20,000	16,000
Vacancy	-	2 months	1 month	3 month
Unrealised rent	1 month	-	3 month	1 month

Answer = Gross Annual Value: Situation 1: ₹1,32,000; Situation 2: ₹1,15,000; Situation 3: ₹1,60,000; Situation 4: ₹1,92,000

Problem 7.

Mr. X has let out one house property @ ₹70,000 per month and there is unrealised Rent of 2 months and there is vacancy of 3 month. Fair rent ₹60,000 per month, municipal valuation ₹55,000 per month and standard rent ₹80,000 per month. Municipal tax paid ₹62,000. Interest on loan for construction of the house property is ₹75,000. The assessee has unrealised Rent of ₹2,00,000 in P.Y. 2021-22 and he has recovered ₹1,50,000 in P.Y. 2023-24 and interest of ₹18,000 and he has incurred ₹11,000 as legal expense. He has income from LTCG u/s 112 ₹4,00,000 and STCG u/s 111A ₹1,00,000.

Compute his tax liability for assessment year 2024-25.

Answer: Tax Liability: ₹1,09,650

Problem 8.

Mr. X (non-resident) has one house with fair rent ₹20,000 p.m., municipal valuation ₹10,000 p.m., standard rent ₹18,000 p.m. It was let out for ₹12,000 p.m. but it remains vacant for 1½ months and there was unrealised rent for 2 months. Municipal taxes paid are ₹11,000 and interest on capital borrowed for construction of the house is ₹3,00,000.

Mr. X has income under the head other sources ₹7,00,000.

Compute his total income and tax liability for the assessment year 2024-25.

Answer = Total Income: ₹5,43,500; Tax Liability: ₹12,660

Problem 9.

Mrs. X has taken a loan of ₹ 11,00,000 on 01.07.2017 at a rate of 10% per annum from SBI for construction of one house which was completed on 31.03.2019 and the house was let out at a rate of ₹80,000 per month w.e.f. 01.11.2022 and fair rent is ₹1,00,000 per month. Municipal taxes paid in previous year 2023-2024 ₹30,000. She has taken a fresh loan of ₹11,00,000 on 01.07.2022 @ 11% per annum and it was utilized to repay the original amount. She has income from Causal income ₹8,00,000.

Compute her income tax liability for assessment year 2024-25.

Answer: Income Tax Liability: ₹2,75,390

Problem 10.

Mr. X took a loan of ₹ 6,10,500 @ 7% p.a. on 01.09.2020 from his friend for construction of one house which was completed on 01.06.2023 and it was let out @ ₹9,000 p.m. It remained vacant for 1½ month and there is unrealised rent of ₹1,000. The fair rent of house is ₹10,000 p.m. Assessee has repaid half of the loan amount on 01.07.2022 and remaining amount on 01.02.2024. He has also paid municipal tax of ₹3,000. His income under the head salary ₹8,65,000.

Compute his total income and tax liability for the assessment year 2024-25.

Answer = Total Income: ₹8,96,220; Tax Liability: ₹46,410

Problem 11.

Mr. X has taken a loan on 01.07.2020 from SBI @ 11% p.a. of ₹15,00,000 for construction of one house which was completed on 01.11.2022 and was self occupied and municipal taxes paid in previous year

2023-24 ₹32,000. He has given repayment of loan of ₹70,000 on 01.01.2024. He has submitted a certificate confirming the amount of interest.

He has income under the head Salary ₹10,50,000

Compute income tax liability for assessment year 2024-25.

Answer: Tax Liability: ₹70,200

Problem 12.

Mrs. X has taken a loan on 01.11.2019 from PNB @ 10% p.a. of ₹10,00,000 for purchase of one house which was purchased on 01.01.2020 and was self occupied and municipal taxes paid in previous year 2023-2024 ₹30,000. She has repaid the loan amount in annual installments of ₹50,000 starting from 01.01.2021. The house was vacant for 1 month in previous year 2023-24. She has submitted a certificate confirming the amount of interest.

She has short term capital gains under section 111A ₹10,00,000.

Compute Income Tax Liability for assessment year 2024-25.

Answer: Tax Liability: ₹1,09,200

Problem 13.

Mr. X has taken a loan of ₹15,00,000 from State Bank on 01.07.2021 @ 10% p.a. and the residential house was completed on 01.05.2023 and was let out w.e.f. 01.06.2023 @ 80,000 p.m. and fair rent of the house is ₹90,000 p.m.

He repaid half of the loan amount on 01.01.2024. He has income under the head Business/Profession ₹6,00,000.

Compute his Income Tax Liability for assessment year 2024-25.

Answer = Total Income: ₹5,09,250; Tax Liability: ₹79,440

Problem 14.

Mr. X has taken a loan of ₹11,00,000 on 01.07.2020 @ 10% p.a. from his friend for construction of one house which was completed on 01.09.2022 and the house is self occupied during the previous year 2023-24 and Mr. X has paid municipal tax of ₹12,000.

The assessee has submitted a certificate confirming the amount of interest. Mr. X has short term capital gains under section 111A ₹120 lakhs.

Compute his income and Tax Liability for the assessment year 2024-25.

Answer: Total Income: ₹ 120,00,000; Tax Liability: ₹20,98,980

Problem 15.

Mr. X has 2 houses. First is self occupied with fair rent ₹20,000 p.a., municipal valuation is ₹55,000 p.a.. Fair rent as per Rent Control Act is ₹50,000 p.a.. However the house remains vacant for 2 months Architect has issued completion certificate on 01.07.2021. Mr. X has taken loan for addition to house ₹3,50,000 on 01.04.2023 @ 13% p.a. The loan was repaid on 01.03.2024 and assessee has submitted a certificate from the person from whom he has taken the loan certifying that the amount of interest claimed by Mr. X is correct. In the earlier years, the house was let out and the assessee has recovered unrealised rent of ₹2,000 in the previous year 2023-24. The assessee has also incurred legal expenses of ₹350.

The second house is also self-occupied. However its similar building rent is ₹64,000 p.a. and rent determined by municipality for charging house tax is ₹66,000 p.a. Its standard rent is ₹6,000 p.m. municipal tax payable are ₹5,000.

He has long term capital gains ₹20,00,000.

Compute his income tax liability for Assessment Year 2024-25.

Answer = Income Tax Liability: ₹3,53,890

Problem 16.

Mr. X has let out one house @ ₹45,000 p.m., but this house was vacated on 01.11.2023. The house was self occupied w.e.f. 01.01.2024. Fair rent of this house is ₹50,000 p.m., municipal valuation is ₹47,000 p.m. and standard rent is ₹48,000 p.m. The assessee has paid municipal taxes @ 10% of municipal valuation. Interest

on capital borrowed is ₹42,000. Land revenue paid by the assessee is ₹11,000 and ground rent paid by him is ₹3,000. The assessee has taken a loan for payment of municipal tax and interest paid on loan is ₹500. He has income from LTCG u/s 112 ₹7,50,000.

Compute his income under the head house property and tax liability for assessment year 2024-25.

Answer = Income under the head House Property: ₹3,21,720; Tax Liability: ₹1,57,130

Problem 17.

Mr. X has two houses one of which is self occupied throughout the year. Its fair rent is ₹10,000 p.m., municipal valuation ₹11,000 p.m. and standard rent is ₹10,500 p.m. Municipal taxes paid are ₹6,000 and interest on capital borrowed is ₹41,000. The assessee has taken the loan for construction of the house on 01.04.1998.

Second house is self occupied for 4 months and let out for 8 months @ of ₹45,000 p.m. Its fair rent is ₹20,000 p.m., municipal valuation is ₹18,000 p.m. and standard rent ₹15,000 p.m. Municipal taxes paid are ₹20,000 and interest on capital borrowed is ₹45,000. The assessee has taken the loan for construction of the house on 01.04.1998.

Compute his income under the head house property for the assessment year 2024-25.

Answer = Income under the head House Property: ₹ 1,93,000

Problem 18.

Mr. X has let out one showroom building in Pitam Pura @ 1,00,000 p.m. and has paid municipal tax ₹85,000 and fair rent of the house is ₹98,000 p.m.

He has received arrears of rent ₹3,00,000 relating to the previous year 2022-23.

He has also received unrealized rent of ₹4,00,000 of previous year 2021-22 and also interest of ₹20,000 on such unrealised rent and he has paid ₹27,000 to the advocate in connection with recovery of unrealized rent.

Compute his income tax liability for assessment year 2024-25.

Answer: Tax Liability: ₹1,12,420

Problem 19.

Mr. X occupied two flats for his residential purposes, particulars of which are as follows:

Particulars	Flat I (in ₹)	Flat II (in ₹)
Municipal Valuation	95,000 p.a.	50,000 p.a.
Fair Rent	1,25,000 p.a.	45,000 p.a.
Fair Rent under Rent Control Act	85,000 p.a.	Not available
Municipal taxes paid	10%	10%
Fire Insurance paid	1,500	650
Ground rent due	700	900
Land revenue paid	600	800
Interest payable on capital borrowed for purchase of flat	45,000	Nil

Income of Mr. X from his proprietary business—warehousing corporation is ₹12,00,000. Determine the total income and tax liability for the assessment year 2024-25, you are informed that Mr. X could not occupy flat for 2 months commencing from December 1st, 2023 and that he has attained the age of 82 on 23.08.2023.

Answer = Total Income: ₹12,00,000; Tax Liability: ₹93,600

Problem 20.

Mr. X and Mr. Y constructed their houses on a piece of land purchased by them at New Delhi. The built up area of each house was 1,000 sq. ft. ground floor and an equal area at the first floor.

Mr. X started construction of the house on 01.04.2022 and completed it on 31.03.2023. Mr. X occupied the entire house on 01.04.2023. Mr. X has availed a housing loan of ₹25 lakhs @ 12% p.a. on 01.04.2022 and has also submitted a certificate from the lender certifying the amount of interest.

Mr. Y started construction on 01.04.2022 and completed it on 30.06.2023. Mr. Y occupied the ground floor on 01.07.2023 and let out the first floor for a rent of ₹20,000 per month. However, the tenant vacated the house on 31.12.2023 and Mr. Y occupied the entire house during the period 01.01.2024 to 31.03.2024. Mr.

Y has availed a housing loan of ₹15 lakhs @ 10% p.a. on 01.07.2022 and has also submitted a certificate from the lender certifying the amount of interest.

Following are the other information:

		₹
(i) Fair rental value of each unit (Ground floor / first floor)		1,20,000 Per annum
(ii) Municipal value of each unit (Ground floor / first floor)		92,000 Per annum
(iii) Municipal taxes paid by	X	- 10,000
	Y	- 10,000
(iv) Repair and maintenance charges paid by	X	- 30,000
	Y	- 32,000

No repayment was made by either of them till 31.03.2024. Compute income from house property for Mr. X and Mr. Y for the previous year 2023-24 (assessment year 2024-25).

Answer = Mr. X: Nil; Mr. Y: ₹ (5,750)

Problem 21.

Mrs. X is the owner of a house property. She borrowed ₹60,000 from life insurance corporation of India on 1st September 2016 @ 15% p.a. for the construction of this house. The construction was completed on 31.03.2019. Since then the house is under her self-occupation. On 1st June 2023 the house was let out @ ₹3,000 p.m. The tenant vacated the house on 1st August 2023. She occupied the house for self-occupancy. The house is again let out @ ₹3,500 p.m. from 1st October 2023.

Other particulars of the house for the previous year 2023-24.

	₹
Municipal Valuation	22,000 p.a.
Municipal taxes disputed, hence not paid	2,200 p.a.
Ground rent for the previous year 2023-24 outstanding	3,200
Insurance premium paid	1,200
Refund of first loan instalment to LIC on 01.10.2023	15,000

Compute the income from house property for assessment year 2024-25.

Answer = Income under the head House Property: ₹11,025

Problem 22.

Mr. X owns a residential house property. It has two identical units—unit I and unit II. Unit I is self-occupied by Mr. X and his family members, unit II is let out (rent being ₹10,500 per month, this unit remained vacant for one month during which it was self-occupied). Municipal value of the property is ₹1,30,000. Standard rent is ₹1,40,000 and fair rent is ₹1,53,000. Municipal taxes is imposed @ 12% (on municipal value) which is paid by Mr. X. Other expenses for the previous year 2023-24 being repairs ₹5,100 and insurance ₹6,300.

Mr. X borrowed ₹9,00,000 on 01.07.2020 from LIC @ 12% p.a. to construct the property. Construction of the house was completed on 30.06.2022. The entire loan is still unpaid.

Compute the total income and tax liability of Mr. X for the assessment year 2024-25 on the assumption that income of Mr. X from other sources is ₹6,90,000.

Answer = Total Income: ₹8,92,490; Tax Liability: ₹46,020

Problem 23.

Mr. X has a house property situated in Mumbai which has two units. Unit I has a floor area of 70% whereas the unit II has a floor area of 30%. Both the units were self-occupied by the assessee. As the assessee was allowed a rent free accommodation by his employer w.e.f. 01.04.2023, he vacated both of the units and let out unit I at a rent of ₹13,000 p.m. and unit II for ₹5,000 p.m. unit I remained vacant for 1½ months whereas unit II was vacant for one month. Other particulars of the house property are asunder:

	₹
Municipal Valuation	1,55,000
Fair Rent	1,75,000
Standard Rent	1,65,000
Municipal taxes paid	35,000
Ground rent due	15,000

Compute income from house property for the assessment year 2024-25.

Answer = Income under the head House Property: ₹1,09,550

Problem 24.

Mr. X is the owner of a residential house whose construction was completed on 31.08.2019. It has been let out from 01.01.2020 for residential purposes. Its particulars for the financial year 2023-24 are given below:

	₹
(i) Municipal Valuation (p.a.)	68,000
(ii) Expected Fair Rent (p.a.)	75,000
(iii) Standard Rent under the Rent Control Act (p.m.)	7,200
(iv) Actual Rent (p.m.)	7,200
(v) Municipal taxes paid (including ₹7,000 paid by tenant)	21,000
(vi) Water/sewerage benefit tax, levied by State Government paid under protest	5,100
(vii) Interest on loan taken for the construction of the house. The interest has been paid outside India to a non-resident without deduction of tax at source	20,000
(viii) Stamp duty and registration charges incurred in respect of the lease agreement of the house	2,500
(ix) The unrealised rent for previous year 2022-23 amounts to ₹42,000. There is recovery of ₹22,000 from the defaulting tenant.	
Legal charges for the recovery of rent	4,500

Compute income from house property for the assessment year 2024-25.

Answer = Income under the head House Property: ₹66,080

Problem 25.

Mr. X has three houses with details given below:

House I

It is self occupied with fair rent of ₹20,000, municipal valuation ₹55,000, rent as per Rent Control Act is ₹50,000. However the house remains vacant for 2 months. Architect has issued completion certificate on 01.07.2021. Loan taken for addition to the house ₹5,00,000 on 01.04.2023 @ 13% p.a. and loan amount was repaid on 01.03.2024. The assessee has submitted a certificate from the person from whom he has taken the loan certifying the amount of the interest claimed.

In the earlier years the house was let out and the assessee has recovered unrealised rent of ₹2,000 in the previous year 2023-24 and interest on such unrealised rent also amounting to ₹250. However the assessee has incurred legal expenses of ₹350.

House II

It is self occupied. Its similar building rent is ₹64,000 and rent determined by municipality for charging house tax is ₹66,000 and its fair rent under Rent Control Act (p.m.) is ₹6,000. Municipal taxes payable ₹5,000.

The assessee has also recovered unrealised rent of ₹2,000 in the previous year 2021-22 but the expenses thereon are paid in the year 2023-24 amounting to ₹200.

House III

It is let out @ ₹50,000 p.m. and fair rent is ₹60,000 p.m. Water tax and house tax paid to municipality is ₹11,000. Insurance premium paid ₹6,500 and expenses on repairs ₹3,000.

Interest on capital borrowed for purchase of house is ₹55,000.

He has long term capital gains of ₹3,50,000.

Compute his total income and tax liability for assessment year 2024-25.

Answer = Total Income: ₹7,92,950; Tax Liability: ₹80,230

Problem 26.

Determine the income head under which the following incomes shall be taxable.

- (i) Mr. X has income from letting out house property.
- (ii) Mr. X has sold one house property.
- (iii) ABC Ltd. has 500 flats for the purpose of sale/purchase.

- (iv) Mr. X has let out an open land.
- (v) ABC Ltd. has 500 flats for the purpose of letting out and ABC Ltd. is engaged in the business of letting out.
- (vi) ABC Ltd. has constructed flats within its premises for letting out to the employees.
- (vii) Mr. X is engaged in the business of providing paying guest accommodation in his own building.
- (viii) Mr. X is engaged in the business of warehousing.
- (ix) Mr. X has sublet one house property.
- (x) Mr. X has let out his hotel building.

Answer = (i) House Property; (ii) Capital Gains; (iii) Business/Profession; (iv) Other Sources; (v) Business/Profession; (vi) Business/Profession; (vii) Business/Profession; (viii) Business/Profession; (ix) Other Sources; (x) House Property

SOLUTIONS

TO

PRACTICE PROBLEMS

Solution 1:

₹

Computation of income under the head House Property

Gross Annual Value

10,80,000

Working Note:

₹

(a) Fair Rent (₹ 80,000 x 12)	9,60,000
(b) Municipal Valuation (₹ 81,000 x 12)	9,72,000
(c) Higher of (a) or (b)	9,72,000
(d) Standard Rent (₹ 1,00,000 x 12)	12,00,000
(e) Expected Rent {Lower of (c) or (d)}	9,72,000
(f) Rent received (₹ 90,000 x 12)	10,80,000
GAV = Higher of (e) or (f)	10,80,000

Less: Municipal Tax

(70,000)

Net Annual Value

10,10,000

Less: 30% of NAV u/s 24(a)

(3,03,000)

Less: Interest on capital borrowed u/s 24(b)

(82,000)

Income under the head House Property

6,25,000

Income under the head Other Sources (Causal income)

11,00,000

Gross Total Income

17,25,000

Less: Deduction under Chapter VI-A

Nil

Total Income

17,25,000

Computation of Tax Liability

Tax on ₹6,25,000 at slab rate

17,500

Tax on causal income ₹11,00,000 @ 30%

3,30,000

Tax before health & education cess

3,47,500

Add: HEC @ 4%

13,900

Tax Liability

3,61,400

Solution 2:

₹

Computation of income under the head House Property

Gross Annual Value

36,00,000.00

Working Note:

₹

(a) Fair Rent (2,50,000 x 12)	30,00,000
(b) Municipal Value (2,75,000 x 12)	33,00,000
(c) Higher of (a) or (b)	33,00,000
(d) Standard Rent (2,80,000 x 12)	33,60,000
(e) Expected Rent {Lower of (c) or (d)}	33,00,000
(f) Rent received /receivable (3,00,000 x 12)	36,00,000
GAV shall be higher of (e) or (f)	36,00,000

Less: Municipal Tax

(6,00,000.00)

Net Annual Value

30,00,000.00

Less: 30% of NAV u/s 24(a)

(9,00,000.00)

Less: Interest on capital borrowed u/s 24(b)

(3,00,000.00)

Income under the head House Property	18,00,000.00
Gross Total Income	18,00,000.00
Less: Deduction under Chapter VI-A	Nil
Total Income	18,00,000.00
Computation of Tax Liability	
Tax on ₹18,00,000 @ 30%	5,40,000.00
Add: HEC @ 4%	21,600.00
Tax Liability	5,61,600.00

Solution 3.

₹

Computation of income under the head House Property

Gross Annual Value (2,00,000 x 12)	24,00,000.00
------------------------------------	--------------

Working Note:	₹
(a) Fair Rent (1,80,000 x 12)	21,60,000
(b) Standard Rent (2,20,000 x 12)	26,40,000
(c) Expected Rent (lower of (a) or (b))	21,60,000
(d) Rent Received/Receivable (2,00,000 x 12)	24,00,000
GAV = Higher of (c) or (d)	24,00,000

Less: Municipal Tax	(6,00,000.00)
Net Annual Value	18,00,000.00
Less: 30% of NAV u/s 24(a)	(5,40,000.00)
Less: Interest on capital borrowed u/s 24(b)	Nil
Income under the head House Property	12,60,000.00
Gross Total Income	12,60,000.00
Less: Deduction under Chapter VI-A	Nil
Total Income	12,60,000.00
Computation of Tax Liability	
Tax on ₹12,60,000 @ 30%	3,78,000.00
Add: HEC @ 4%	15,120.00
Tax Liability	3,93,120.00

Solution 4: Computation of Total Income & Tax Liability of Mr. X

₹

Gross Annual Value	6,60,000.00
--------------------	-------------

Working Note:	₹
(a) Fair Rent (₹55,000 x 12)	6,60,000
(b) Municipal Valuation (₹52,000 x 12)	6,24,000
(c) Higher of (a) or (b)	6,60,000
(d) Standard Rent (₹60,000 x 12)	7,20,000
(e) Expected Rent {Lower of (c) or (d)}	6,60,000
(f) Rent received /receivable (50,000 x 9)	4,50,000
If there was no vacancy, in that case rent received/receivable would have been (50,000 x 12) ₹6,00,000 which is not exceeding expected rent hence GAV shall be expected rent i.e. ₹6,60,000	
GAV	6,60,000

Less: Municipal Tax	(30,000.00)
Net Annual Value	6,30,000.00
Less: 30% of NAV u/s 24(a)	(1,89,000.00)
Less: Interest on capital borrowed u/s 24(b)	(20,000.00)
Income under the head House Property	4,21,000.00
Income under the head Capital Gains (STCG u/s 111A)	9,00,000.00
Total Income	13,21,000.00

Computation of Tax Liability

Tax on Normal Income ₹4,21,000 at slab rate	6,050.00
Tax on STCG u/s 111A ₹9,00,000 @ 15%	1,35,000.00
Tax before health & education cess	1,41,050.00
Add: HEC @ 4%	5,642.00
Tax Liability	1,46,692.00
Rounded off u/s 288B	1,46,690.00

Solution 4(b): Computation of Total Income & Tax Liability of Mr. X

₹

Gross Annual Value	5,40,000.00
--------------------	-------------

Working Note:	₹
(a) Fair Rent (₹55,000 x 12)	6,60,000
(b) Municipal Valuation (₹52,000 x 12)	6,24,000
(c) Higher of (a) or (b)	6,60,000
(d) Standard Rent (₹60,000 x 12)	7,20,000
(e) Expected Rent {Lower of (c) or (d)}	6,60,000
(f) Rent received /receivable (60,000 x 9)	5,40,000
If there was no vacancy, in that case rent received/receivable would have been (60,000 x 12) ₹7,20,000 which is exceeding expected rent hence GAV shall be Rent received/receivable i.e. ₹5,40,000	
GAV	5,40,000

Less: Municipal Tax	(30,000.00)
Net Annual Value	5,10,000.00
Less: 30% of NAV u/s 24(a)	(1,53,000.00)
Less: Interest on capital borrowed u/s 24(b)	(20,000.00)
Income under the head House Property	3,37,000.00
Income under the head Capital Gains (STCG u/s 111A)	9,00,000.00
Total Income	12,37,000.00

Computation of Tax Liability

Tax on Normal Income ₹3,37,000 at slab rate	1,850.00
Tax on STCG u/s 111A ₹9,00,000 @ 15%	1,35,000.00
Tax before health & education cess	1,36,850.00
Add: HEC @ 4%	5,474.00
Tax Liability	1,42,324.00
Rounded off u/s 288B	1,42,320.00

Solution 4(c): Computation of Total Income & Tax Liability of Mr. X

₹

Gross Annual Value	4,95,000.00
--------------------	-------------

Working Note:	₹
(a) Fair Rent (₹55,000 x 12)	6,60,000
(b) Municipal Valuation (₹52,000 x 12)	6,24,000
(c) Higher of (a) or (b)	6,60,000
(d) Standard Rent (₹60,000 x 12)	7,20,000
(e) Expected Rent {Lower of (c) or (d)}	6,60,000
(f) Rent received /receivable (55,000 x 9)	4,95,000
If there was no vacancy, in that case rent received/receivable would have been (55,000 x 12) ₹6,60,000 which is equal to expected rent hence GAV shall be Rent Received/ receivable i.e. ₹4,95,000	
GAV	4,95,000

Less: Municipal Tax	(30,000.00)
Net Annual Value	4,65,000.00
Less: 30% of NAV u/s 24(a)	(1,39,500.00)

Less: Interest on capital borrowed u/s 24(b)	(20,000.00)
Income under the head House Property	3,05,500.00
Income under the head Capital Gains (STCG u/s 111A)	9,00,000.00
Total Income	12,05,500.00

Computation of Tax Liability

Tax on Normal Income ₹3,05,500 at slab rate	275.00
Tax on STCG u/s 111A ₹9,00,000 @ 15%	1,35,000.00
Tax before health & education cess	1,35,275.00
Add: HEC @ 4%	5,411.00
Tax Liability	1,40,686.00
Rounded off u/s 288B	1,40,690.00

Solution 4(d): Computation of Total Income & Tax Liability of Mr. X

₹

Gross Annual Value	9,00,000.00
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Working Note:

₹

(a) Fair Rent (₹55,000 x 12)	6,60,000
(b) Municipal Valuation (₹52,000 x 12)	6,24,000
(c) Higher of (a) or (b)	6,60,000
(d) Standard Rent (₹60,000 x 12)	7,20,000
(e) Expected Rent {Lower of (c) or (d)}	6,60,000
(f) Rent received /receivable (1,00,000 x 9)	9,00,000
If there was no vacancy, in that case rent received/receivable would have been (1,00,000 x 12) ₹12,00,000 which is exceeding expected rent hence GAV shall be Rent received/receivable i.e. ₹9,00,000	
GAV	9,00,000

Less: Municipal Tax	(30,000.00)
Net Annual Value	8,70,000.00
Less: 30% of NAV u/s 24(a)	(2,61,000.00)
Less: Interest on capital borrowed u/s 24(b)	(20,000.00)
Income under the head House Property	5,89,000.00
Income under the head Capital Gains (STCG u/s 111A)	9,00,000.00
Total Income	14,89,000.00

Computation of Tax Liability

Tax on Normal Income ₹5,89,000 at slab rate	14,450.00
Tax on STCG u/s 111A ₹9,00,000 @ 15%	1,35,000.00
Tax before health & education cess	1,49,450.00
Add: HEC @ 4%	5,978.00
Tax Liability	1,55,428.00
Rounded off u/s 288B	1,55,430.00

Solution 5:

₹

Computation of Total Income & Tax Liability of Mr. X

Gross Annual Value	186,00,000.00
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Working Note:

₹

(a) Fair Rent (₹15,50,000 x 12)	186,00,000
(b) Municipal Valuation (₹15,20,000 x 12)	182,40,000
(c) Higher of (a) or (b)	186,00,000
(d) Standard Rent (₹16,00,000 x 12)	192,00,000
(e) Expected Rent {Lower of (c) or (d)}	186,00,000
(f) Rent received /receivable (15,00,000 x 9)	135,00,000
If there was no vacancy, in that case rent received/receivable would have been	

(15,00,000 x 12) ₹180,00,000 which is not exceeding expected rent hence GAV shall be expected rent i.e. ₹186,00,000	
GAV	186,00,000

Less: Municipal Tax	(13,00,000.00)
Net Annual Value	173,00,000.00
Less: 30% of NAV u/s 24(a)	(51,90,000.00)
Less: Interest on capital borrowed u/s 24(b)	(12,00,000.00)
Income under the head House Property	109,10,000.00
Total Income	109,10,000.00

Computation of Tax Liability

Tax on Normal Income ₹109,10,000 at slab rate	29,73,000.00
Add: Surcharge @ 15%	4,45,950.00
Tax before health & education cess	34,18,950.00
Add: HEC @ 4%	1,36,758.00
Tax Liability	35,55,708.00
Rounded off u/s 288B	35,55,710.00

Solution 5(b):

₹

Computation of Total Income & Tax Liability of Mr. X

Gross Annual Value	144,00,000.00
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Working Note:	₹
(a) Fair Rent (₹15,50,000 x 12)	186,00,000
(b) Municipal Valuation (₹15,20,000 x 12)	182,40,000
(c) Higher of (a) or (b)	186,00,000
(d) Standard Rent (₹16,00,000 x 12)	192,00,000
(e) Expected Rent {Lower of (c) or (d)}	186,00,000
(f) Rent received /receivable (16,00,000 x 9)	144,00,000
If there was no vacancy, in that case rent received/receivable would have been (16,00,000 x 12) ₹192,00,000 which is exceeding expected rent hence GAV shall be rent received/receivable i.e. ₹144,00,000	
GAV	144,00,000

Less: Municipal Tax	(13,00,000.00)
Net Annual Value	131,00,000.00
Less: 30% of NAV u/s 24(a)	(39,30,000.00)
Less: Interest on capital borrowed u/s 24(b)	(12,00,000.00)
Income under the head House Property	79,70,000.00
Total Income	79,70,000.00

Computation of Tax Liability

Tax on Normal Income ₹79,70,000 at slab rate	20,91,000.00
Add: Surcharge @ 10%	2,09,100.00
Tax before health & education cess	23,00,100.00
Add: HEC @ 4%	92,004.00
Tax Liability	23,92,104.00
Rounded off u/s 288B	23,92,100.00

Solution 5(c):

₹

Computation of Total Income & Tax Liability of Mr. X

Gross Annual Value	140,40,000.00
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Working Note:	₹
(a) Fair Rent (₹15,50,000 x 12)	186,00,000
(b) Municipal Valuation (₹15,20,000 x 12)	182,40,000

(c) Higher of (a) or (b)	186,00,000
(d) Standard Rent (₹16,00,000 x 12)	192,00,000
(e) Expected Rent {Lower of (c) or (d)}	186,00,000
(f) Rent received /receivable (15,60,000 x 9)	140,40,000
If there was no vacancy, in that case rent received/receivable would have been (15,60,000 x 12) ₹187,20,000 which is exceeding expected rent hence GAV shall be rent received/ receivable i.e. ₹140,40,000	
GAV	140,40,000

Less: Municipal Tax	(13,00,000.00)
Net Annual Value	127,40,000.00
Less: 30% of NAV u/s 24(a)	(38,22,000.00)
Less: Interest on capital borrowed u/s 24(b)	(12,00,000.00)
Income under the head House Property	77,18,000.00
Total Income	77,18,000.00
Computation of Tax Liability	
Tax on Normal Income ₹77,18,000 at slab rate	20,15,400.00
Add: Surcharge @ 10%	2,01,540.00
Tax before health & education cess	22,16,940.00
Add: HEC @ 4%	88,677.60
Tax Liability	23,05,617.60
Rounded off u/s 288B	23,05,620.00

Solution 5(d):

₹

Computation of Total Income & Tax Liability of Mr. X

Gross Annual Value	180,00,000.00
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Working Note:	₹
(a) Fair Rent (₹15,50,000 x 12)	186,00,000
(b) Municipal Valuation (₹15,20,000 x 12)	182,40,000
(c) Higher of (a) or (b)	186,00,000
(d) Standard Rent (₹16,00,000 x 12)	192,00,000
(e) Expected Rent {Lower of (c) or (d)}	186,00,000
(f) Rent received /receivable (20,00,000 x 9)	180,00,000
If there was no vacancy, in that case rent received/receivable would have been (20,00,000 x 12) ₹240,00,000 which is exceeding expected rent hence GAV shall be rent received/ receivable i.e. ₹180,00,000	
GAV	180,00,000

Less: Municipal Tax	(13,00,000.00)
Net Annual Value	167,00,000.00
Less: 30% of NAV u/s 24(a)	(50,10,000.00)
Less: Interest on capital borrowed u/s 24(b)	(12,00,000.00)
Income under the head House Property	104,90,000.00
Total Income	104,90,000.00

Computation of Tax Liability

Tax on Normal Income ₹104,90,000 at slab rate	28,47,000.00
Add: Surcharge @ 15%	4,27,050.00
Tax before health & education cess	32,74,050.00
Add: HEC @ 4%	1,30,962.00
Tax Liability	34,05,012.00
Rounded off u/s 288B	34,05,010.00

Solution 6:**Situation 1**

₹

Computation of Gross Annual Value

(a) Fair Rent (10,000 x 12)	1,20,000
(b) Municipal Valuation (11,000 x 12)	1,32,000
(c) Higher of (a) or (b)	1,32,000
(d) Standard Rent (12,000 x 12)	1,44,000
(e) Expected Rent {Lower of (c) or (d)}	1,32,000
(f) Rent Received/Receivable (7,000 x 11)	77,000
GAV = Higher of (e) or (f)	1,32,000
Gross Annual Value	1,32,000

Situation 2***Computation of Gross Annual Value***

(a) Fair Rent (12,000 x 12)	1,44,000
(b) Municipal Valuation (10,000 x 12)	1,20,000
(c) Higher of (a) or (b)	1,44,000
(d) Standard Rent (11,000 x 12)	1,32,000
(e) Expected Rent {Lower of (c) or (d)}	1,32,000
(f) Rent Received/Receivable (11,500 x 10)	1,15,000

In this case, if there was no vacancy, rent received/receivable would have been ₹1,38,000 hence rent received/receivable is lower in this case due to vacancy, therefore GAV shall be the rent received/receivable.

Gross Annual Value	1,15,000
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Situation 3***Computation of Gross Annual Value***

(a) Fair Rent (13,000 x 12)	1,56,000
(b) Municipal Valuation (8,000 x 12)	96,000
(c) Higher of (a) or (b)	1,56,000
(d) Standard Rent (7,000 x 12)	84,000
(e) Expected Rent {Lower of (c) or (d)}	84,000
(f) Rent Received/Receivable (20,000 x 8)	1,60,000

In this case, rent R/R is higher than the expected rent, GAV shall be Rent R/R

Gross Annual Value	1,60,000
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Situation 4***Computation of Gross Annual Value***

(a) Fair Rent (15,000 x 12)	1,80,000
(b) Municipal Valuation (17,000 x 12)	2,04,000
(c) Higher of (a) or (b)	2,04,000
(d) Standard Rent	1,92,000

(16,000 x 12)	
(e) Expected Rent {Lower of (c) or (d)}	1,92,000
(f) Rent Received/Receivable	1,28,000
(16,000 x 8)	
If there was no vacancy, in that case rent received/receivable would have been ₹1,76,000 and it was still less than expected rent, therefore GAV shall be expected rent.	
Gross Annual Value	1,92,000

Solution 7:

₹

Income under the head House Property

Gross annual value	7,20,000.00
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Working Note:

₹

(a) Fair rent (60,000 x 12)	7,20,000
(b) Municipal valuation (55,000 x 12)	6,60,000
(c) Higher of (a) or (b)	7,20,000
(d) Standard Rent (80,000 x 12)	9,60,000
(e) Expected Rent {Lower of (c) or (d)}	7,20,000
(f) Rent Received (70,000 x 7)	4,90,000

If there was no vacancy, then Rent Receivable shall be 70,000 x 10 = 7,00,000, which is lower than the expected rent, hence the GAV shall be 7,20,000

Less: Municipal taxes paid	(62,000.00)
Net Annual Value	6,58,000.00
Less: 30% of NAV u/s 24(a)	(1,97,400.00)
Less: Interest on capital borrowed u/s 24(b)	(75,000.00)
	3,85,600.00
Unrealised rent recovered of 2021-22 section 25A (1,50,000 – 45,000)	1,05,000.00
Income under the head House Property	4,90,600.00
Income from other sources	18,000.00
Income under the head Capital Gains	
Income from LTCG u/s 112	4,00,000.00
Income from STCG u/s 111A	1,00,000.00
Income under the head Capital Gains	5,00,000.00
Gross Total Income	10,08,600.00
Less: Deduction under Chapter VI-A	Nil
Total Income	10,08,600.00

Computation of Tax Liability

Tax on ₹5,08,600 at slab rate	10,430.00
Tax on LTCG u/s 112 ₹4,00,000 @ 20%	80,000.00
Tax on STCG u/s 111A ₹1,00,000 @ 15%	15,000.00
Tax before health & education cess	1,05,430.00
Add: HEC @ 4%	4,217.20
Tax Liability	1,09,647.20
Rounded off u/s 288B	1,09,650.00

Solution 8:

₹

Gross Annual Value	2,16,000.00
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Working Note:

₹

(a) Fair Rent (20,000 x 12)	2,40,000
(b) Municipal Valuation (10,000 x 12)	1,20,000
(c) Higher of (a) or (b)	2,40,000
(d) Standard Rent (18,000 x 12)	2,16,000

(e) Expected Rent {Lower of (c) or (d)}	2,16,000
(f) Rent Receivable = (12,000 x 8.5)	1,02,000
If there was no vacancy, in that case rent received/receivable would have been ₹1,20,000 and it was still less than expected rent, therefore GAV shall be expected rent.	
GAV	2,16,000

Less: Municipal Tax	(11,000.00)
Net Annual Value	2,05,000.00
Less: 30% of NAV u/s 24(a)	(61,500.00)
Less: Interest on capital borrowed u/s 24(b)	(3,00,000.00)
Loss under the head House Property	(1,56,500.00)
Income under the head Other Sources	7,00,000.00
Gross Total Income	5,43,500.00
Less: Deduction under Chapter VI-A	Nil
Total Income	5,43,500.00
Computation of Tax Liability	
Tax on ₹5,43,500 at slab rate	12,175.00
Add: HEC @ 4%	487.00
Tax Liability	12,662.00
Rounded off u/s 288B	12,660.00

Solution 9:

₹

Income under the head House Property

Gross annual value 12,00,000.00

Working Note:	₹
Fair rent (1,00,000 x 12)	12,00,000
Rent received (80,000 x 12)	9,60,000
Higher shall be the GAV i.e.	12,00,000

Less: Municipal taxes paid	(30,000.00)
Net Annual Value	11,70,000.00
Less: 30% of NAV u/s 24(a)	(3,51,000.00)
Less: Interest on capital borrowed u/s 24(b)	(1,21,000.00)

Working Note:	Nil
Prior period interest	Nil
Current year interest 11,00,000 x 11% = 1,21,000	

Income under the head House Property	6,98,000.00
Income under the head Other Sources (Casual income)	8,00,000.00
Gross Total Income	14,98,000.00
Less: Deduction under Chapter VI-A	Nil
Total Income	14,98,000.00

Computation of Tax Liability

Tax on ₹6,98,000 at slab rate	24,800.00
Tax on casual income ₹8,00,000 @ 30%	2,40,000.00
Tax before health & education cess	2,64,800.00
Add: HEC @ 4%	10,592.00
Tax Liability	2,75,392.00
Rounded off u/s 288B	2,75,390.00

Solution 10:

₹

Gross Annual Value

1,00,000.00

Working Note:

₹

(a) Fair Rent (10,000 x 10)	1,00,000
(b) Expected Rent	1,00,000
(c) Received/Receivable = 9,000 x 8.5 = 76,500 – 1,000 =	75,500
If there was no vacancy, in that case rent received/receivable would have been ₹89,000 and it was still less than expected rent, therefore GAV shall be expected rent.	
GAV	1,00,000

Less: Municipal taxes

(3,000.00)

Net Annual Value

97,000.00

Less: 30% of NAV u/s 24(a)

(29,100.00)

Less: Interest on capital borrowed u/s 24(b)

(36,680.88)

Working Note:

Current Period interest

From 01.04.2023 to 31.01.2024

= 3,05,250 x 7% x 10/12 = ₹17,806.25

Prior period interest

From 01.09.2020 to 31.03.2023**From 01.09.2020 to 30.06.2022**

= 6,10,500 x 7% x 22/12 = ₹78,347.5

From 01.07.2022 to 31.03.2023

= 3,05,250 x 7% x 9/12 = ₹16,025.63

Total = ₹94,373.13

Instalment = ₹94,373.13/5 = ₹18,874.63

Total interest = ₹17,806.25 + ₹18,874.63 = ₹36,680.88

Income under the head House Property

31,219.12

Income under the head Salary

8,65,000.00

Gross Total Income

8,96,219.12

Less: Deductions under Chapter VI-A

Nil

Total Income (rounded off u/s 288A)

8,96,220.00

Computation of Tax Liability

Tax on ₹8,96,220 at slab rate

44,622.00

Add: HEC @ 4%

1,784.88

Tax Liability

46,406.88

Rounded off u/s 288B

46,410.00

Solution 11:

₹

Income under the head House Property

Income under the head House Property

Nil

Income under the head Salary

10,50,000.00

Gross Total Income

10,50,000.00

Less: Deduction under Chapter VI-A

Nil

Total Income

10,50,000.00

Computation of Tax Liability

Tax on ₹10,50,000 at slab rate

67,500.00

Add: HEC @ 4%

2,700.00

Tax Liability

70,200.00

Solution 12:

₹

Income under the head House Property

Income under the head House Property	Nil
Income under the head capital gains (STCG u/s 111A)	10,00,000.00
Gross Total Income	10,00,000.00
Less: Deduction under Chapter VI-A	Nil
Total Income	10,00,000.00
Computation of Tax Liability	
Tax on ₹7,00,000 (₹10,00,000 – 3,00,000) @ 15%	1,05,000.00
Add: HEC @ 4%	4,200.00
Tax Liability	1,09,200.00

Solution 13:**Computation of income under the head House Property**

Gross Annual Value	9,90,000.00
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Working Note:

₹

(a) Fair Rent (90,000 x 11)	9,90,000
(b) Expected Rent	9,90,000
(c) Rent Received/Receivable (80,000 x 10)	8,00,000
If there was no vacancy, in that case rent received/receivable would have been ₹8,80,000 and it was still less than expected rent, therefore GAV shall be expected rent.	
GAV	9,90,000

Less: Municipal Tax	Nil
Net Annual Value	9,90,000.00
Less: 30% of NAV u/s 24(a)	(2,97,000.00)
Less: Interest on capital borrowed u/s 24(b)	(1,83,750.00)

Working Note:

Prior period interest

From 01.07.2021 to 31.03.2023

$$= (15,00,000 \times 10\% \times 1) + (15,00,000 \times 10\% \times 9/12)$$

$$= ₹1,50,000 + ₹1,12,500 = ₹2,62,500$$

$$\text{Installment} = ₹2,62,500/5 = ₹52,500$$

Current period interest

From 01.04.2023 to 31.03.2024

$$= (15,00,000 \times 10\% \times 9/12) + (7,50,000 \times 10\% \times 3/12)$$

$$= ₹1,12,500 + ₹18,750 = ₹1,31,250$$

Total interest on capital borrowed

$$= ₹52,500 + ₹1,31,250 = ₹1,83,750$$

Income under the head House Property	5,09,250.00
Income under the head Business/Profession	6,00,000.00
Gross Total Income	11,09,250.00
Less: Deduction under Chapter VI-A	Nil
Total Income	11,09,250.00
Computation of Tax Liability	
Tax on ₹11,09,250 at slab rate	76,387.50
Add: HEC @ 4%	3,055.50
Tax Liability	79,443.00
Rounded off u/s 288B	79,440.00

Solution 14:

₹

Computation of income under the head House Property

Income under the head House Property	Nil
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Income under the head capital gains	
Short term capital gains u/s 111A	120,00,000.00
Gross Total Income	120,00,000.00
Less: Deduction under Chapter VI-A	Nil
Total Income	120,00,000.00
Computation of Tax Liability	
Tax on ₹117,00,000 (₹120,00,000 – 3,00,000) @ 15%	17,55,000.00
Add: Surcharge @ 15%	2,63,250.00
Tax before health & education cess	20,18,250.00
Add: HEC @ 4%	80,730.00
Tax liability	20,98,980.00

Solution 15:

₹

As per the amendments now two house shall be treated as self-occupied.

House I & II is self-occupied

Income from house I & II	Nil
Income under the head House Property	Nil
Add: Unrealised rent received (2,000 – 600)	1,400.00
Income under the head House Property	1,400.00
Income under the head Capital Gains (LTCG)	20,00,000.00
Gross Total Income	20,01,400.00
Less: Deduction under Chapter VI-A	Nil
Total Income	20,01,400.00
Computation of Tax Liability	
Tax on ₹17,01,400 (₹20,01,400 – ₹3,00,000) @ 20%	3,40,280.00
Add: HEC @ 4%	13,611.20
Tax Liability	3,53,891.20
Rounded off u/s 288B	3,53,890.00

Solution 16:

₹

Gross Annual Value	5,76,000.00
--------------------	-------------

Working Note:		₹
(a) Fair Rent (50,000 x 12)		6,00,000
(b) Municipal Valuation (47,000 x 12)		5,64,000
(c) Higher of (a) or (b)		6,00,000
(d) Standard Rent (48,000 x 12)		5,76,000
(e) Expected rent {Lower of (c) or (d)}		5,76,000
(f) Rent Receivable (45,000 x 7)		3,15,000
If there was no vacancy, in that case rent received/receivable would have been ₹4,05,000 and it was still less than expected rent, therefore GAV shall be expected rent		
GAV		5,76,000

Less: Municipal Tax	(56,400.00)
Net Annual Value	5,19,600.00
Less: 30% of NAV u/s 24(a)	(1,55,880.00)
Less: Interest on capital borrowed u/s 24(b)	(42,000.00)
Income under the head House Property	3,21,720.00
Income under the head Capital Gains (LTCG u/s 112)	7,50,000.00
Gross Total Income	10,71,720.00
Less: Deduction under Chapter VI-A	Nil
Total Income	10,71,720.00

Computation of Tax Liability

Tax on ₹3,21,720 at slab rate	1,086.00
Tax on LTCG u/s 112 ₹7,50,0000 @ 20%	1,50,000.00
Tax before health & education cess	1,51,086.00
Add: HEC @ 4%	6,043.44
Tax Liability	1,57,129.44
Rounded off u/s 288B	1,57,130.00

Solution 17:

Income from self occupied house	₹ Nil
Income from partly self occupied and partly let out house	
Gross Annual Value	3,60,000

Working Note:

	₹
(a) Fair Rent (20,000 x 12)	2,40,000
(b) Municipal Valuation (18,000 x 12)	2,16,000
(c) Higher of (a) or (b)	2,40,000
(d) Standard Rent (15,000 x 12)	1,80,000
(e) Expected Rent	1,80,000
(f) Rent Receivable (45,000 x 8)	3,60,000
GAV = Higher of (e) or (f)	3,60,000

Less: Municipal taxes	(20,000)
Net Annual Value	3,40,000
Less: 30% of NAV u/s 24(a)	(1,02,000)
Less: Interest on capital borrowed u/s 24(b)	(45,000)
Income from House Property	1,93,000
Income under the head House Property	1,93,000
[₹1,93,000 + Nil]	

Solution 18:

Gross Annual Value	₹	₹ 12,00,000.00
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Working Note:

	₹
(a) Fair rent (98,000 x 12)	11,76,000
(b) Rent receivable (1,00,000 x 12)	12,00,000
GAV {Higher of (a) or (b)}	12,00,000

Less: Municipal Taxes	(85,000.00)
Net Annual Value	11,15,000.00
Less: 30% of NAV u/s 24(a)	(3,34,500.00)
Less: Interest on capital borrowed u/s 24(b)	Nil
	7,80,500.00
Add: Arrears of rent (Sec 25A)	3,00,000
Less: 30% of ₹3,00,000	(90,000)
	2,10,000.00
	9,90,500.00
Add: Unrealised Rent (4,00,000 – 1,20,000)	2,80,000.00
Income under the head House Property	12,70,500.00
Income under the head Other Sources	20,000.00
Gross Total Income	12,90,500.00
Less: Deduction under Chapter VI-A	Nil
Total Income	12,90,500.00
Computation of Tax Liability	
Tax on ₹12,90,500 at slab rate	1,08,100.00
Add: HEC @ 4%	4,324.00
Tax Liability	1,12,424.00

Rounded off u/s 288B 1,12,420.00

Solution 19:

₹

As per the amendments now two house shall be treated as self-occupied.

Flat I & II is self-occupied

Income Nil

Computation of Total Income

Income under the head House Property Nil

Income under the head Business Profession 12,00,000.00

Gross Total Income 12,00,000.00

Less: Deduction under Chapter VI-A Nil

Total Income 12,00,000.00

Computation of Tax Liability

Tax on ₹12,00,000 at slab rate 90,000.00

Add: HEC @ 4% 3,600.00

Tax Liability 93,600.00

Solution 20:

₹

Computation of income from House Property of Mr. X

Net annual value is Nil Nil

(Since house is self – occupied)

Computation of income from house property of Mr. Y**Ground Floor (Self Occupied)**

Income from house property Nil

First Floor (Let Out)

Gross Annual Value 1,20,000

Working Note:

₹

(a) Fair Rent (1,20,000 x 9/12) 90,000

(b) Municipal Value (92,000 x 9/12) 69,000

(c) Higher of (a) or (b) 90,000

(d) Expected Rent 90,000

(e) Rent Received/Receivable = 20,000 x 6 1,20,000

GAV = Higher of (d) or (e) 1,20,000

Less: Municipal taxes (5,000)

Net Annual Value 1,15,000

Less: 30% of NAV u/s 24(a) (34,500)

Less: Interest on capital borrowed u/s 24(b) (86,250)

Working Note:

Current period interest

From 01.04.2023 to 31.03.2024

= 15,00,000 x 10% x 1/2 = ₹75,000

Prior period interest

From 01.07.2022 to 31.03.2023

= 15,00,000 x 10% x 9 / 12 = 1,12,500

1,12,500 allowed in 5 equal instalments

= 1,12,500 / 5 = ₹ 22,500 per annum

= 22,500 / 2 = ₹11,250

Total Interest = ₹75,000 + ₹11,250 = ₹86,250

Loss from house property (5,750)

Loss under the head “income from house property” of Mr. Y

(Both ground floor and first floor) (5,750)

Solution 21:

₹

Computation of income under the head House Property

Gross Annual Value

27,000

Working Note:

₹

(a) Municipal Valuation	22,000
(b) Expected Rent	22,000
(c) Rent Received/Receivable (3,000 x 2) + (3,500 x 6)	27,000
GAV = Higher of (b) or (c)	27,000

Less: Municipal taxes

Nil

Net Annual Value

27,000

Less: 30% of NAV u/s 24(a)

(8,100)

Less: Interest on capital borrowed u/s 24(b)

(7,875)

Working Note:

= [(60,000 x 15% x 6/12) + (45,000 x 15% x 6/12)] = ₹7,875

Income under the head House Property

11,025

Solution 22:**Computation of income of Unit-I**

Since the unit is self-occupied throughout the year. Hence its income shall be

Nil

Computation of income of Unit-II

It will be considered to be partially self-occupied and partially let out and income shall be computed under section 23(3) in the manner given below:

₹

Gross Annual Value

1,15,500.00

Working Note:

₹

(a) Fair Rental Value	76,500
(b) Municipal Valuation	65,000
(c) Higher of (a) or (b)	76,500
(d) Standard Rent	70,000
Expected Rent {Lower of (c) or (d)}	70,000
(e) Expected Rent	70,000
(f) Rent Received/Receivable (10,500 x 11)	1,15,500
GAV = Higher of (e) or (f)	1,15,500

Less: Municipal taxes

(7,800.00)

Net Annual Value

1,07,700.00

Less: 30% of NAV u/s 24(a)

(32,310.00)

Less: Interest on capital borrowed u/s 24(b)

(72,900.00)

Working note:

Current period interest

From 01.04.2023 to 31.03.2024

= 9,00,000 x 12% = ₹1,08,000

Prior period interest

From 01.07.2020 to 31.03.2022

= 9,00,000 x 12% x 21 / 12 = 1,89,000

Installment = 1,89,000 / 5 = 37,800

Total interest = 1,08,000 + 37,800 = 1,45,800

Interest allowed for one unit = 1,45,800 / 2 = ₹72,900

Income from house property

2,490.00

Income under the head Other Sources

8,90,000.00

Gross Total Income

8,92,490.00

Less: Deductions under Chapter VI-A

Nil

Total Income

8,92,490.00

Computation of Tax Liability

Tax on ₹8,92,490 at slab rate	44,249.00
Add: HEC @ 4%	1,769.96
Tax Liability	46,018.96
Rounded off u/s 288B	46,020.00

Solution 23:

₹

Unit I

Gross Annual Value	1,36,500
--------------------	----------

Working Note:

₹

(a) Fair Rental Value (1,75,000 x 70%)	1,22,500
(b) Municipal Valuation (1,55,000 x 70%)	1,08,500
(c) Higher of (a) or (b)	1,22,500
(d) Standard Rent (1,65,000 x 70%)	1,15,500
(e) Expected Rent {Lower of (c) or (d)}	1,15,500
(f) Rent Received/Receivable (13,000 x 10.5)	1,36,500
In this case, rent R/R is higher than the expected rent, GAV shall be Rent R/R	
GAV	1,36,500

Less: Municipal taxes (35,000 x 70%)	(24,500)
Net Annual Value	1,12,000
Less: 30% of NAV u/s 24(a)	(33,600)
Less: Interest on capital borrowed u/s 24(b)	Nil
Income under the head House Property	78,400

Unit II

Gross Annual Value	55,000
--------------------	--------

Working Note:

₹

(a) Fair Rental Value (1,75,000 x 30%)	52,500
(b) Municipal Valuation (1,55,000 x 30%)	46,500
(c) Higher of (a) or (b)	52,500
(d) Standard Rent (1,65,000 x 30%)	49,500
(e) Expected Rent {Lower of (c) or (d)}	49,500
(f) Rent Received/Receivable (5,000 x 11)	55,000
In this case, rent R/R is higher than the expected rent, GAV shall be Rent R/R	
GAV	55,000

Less: Municipal taxes (35,000 x 30%)	(10,500)
Net Annual Value	44,500
Less: 30% of NAV u/s 24(a)	(13,350)
Less: Interest on capital borrowed u/s 24(b)	Nil
Income under the head house property	31,150
Total income from house property (78,400 + 31,150)	1,09,550

Solution 24:

₹

Gross Annual Value	86,400
--------------------	--------

Working Note:

₹

(a) Fair Rental Value	75,000
(b) Municipal Valuation	68,000
(c) Higher of (a) or (b)	75,000
(d) Standard Rent (7,200 x 12)	86,400
(e) Expected Rent {Lower of (c) or (d)}	75,000
(f) Rent Received/Receivable (7,200 x 12)	86,400
GAV = Higher of (e) or (f)	86,400

Less: Municipal taxes	(14,000)
-----------------------	----------

Income Under The Head House Property

198

Net Annual Value	72,400
Less: 30% of NAV u/s 24(a)	(21,720)
Less: Interest on capital borrowed u/s 24(b)	Nil
Interest paid to non-resident without deducting tax at source is not deductible	
Income from house property	50,680
Add: Recovery of unrealised rent sec 25A (22,000 – 6,600)	15,400
Income under the head House property	66,080

Solution 25:

₹

House I self-occupied

Income from house property I

Nil

House II Self Occupied

Income from house II

Nil

House III

Gross Annual Value

7,20,000

Working Note:

₹

(a) Fair rent (60,000 x 12)	7,20,000
(b) Expected Rent	7,20,000
(c) Rent Received/Receivable (50,000 x 12)	6,00,000
GAV = Expected Rent	7,20,000

Less: Municipal Taxes

(11,000.00)

Net Annual Value

7,09,000.00

Less: 30% of NAV u/s 24(a)

(2,12,700.00)

Less: Interest on capital borrowed u/s 24(b)

(55,000.00)

Income from house III

4,41,300.00

Income under the head House Property

House I and II

Nil

House III

4,41,300.00

Recovery of unrealised rent (house I)

1,400.00

(2,000 – 600)

Income under the head House Property**4,42,700.00****Computation of Total Income**

Income under the head House Property

4,42,700.00

Income under the head Capital Gains (long term capital gain)

3,50,000.00

Income from Other Sources

250.00

Gross Total Income

7,92,950.00

Less: Deduction under Chapter VI-A

Nil

Total Income

7,92,950.00

Computation of Tax Liability

Tax on ₹4,42,950 at slab rate

7,147.50

Tax on ₹3,50,000 @ 20% u/s 112

70,000.00

Tax before health & education cess

77,147.50

Add: HEC @ 4%

3,085.90

Tax Liability

80,233.40

Rounded off u/s 288B

80,230.00

Solution 26:

- (i) Income under the head House Property.
- (ii) Income under the head Capital Gains.
- (iii) Income under the head Business/Profession.
- (iv) Income under the head Other Sources.
- (v) Income under the head Business/Profession.
- (vi) Income under the head Business/Profession.
- (vii) Income under the head Business/Profession.
- (viii) Income under the head Business/Profession.
- (ix) Income under the head Other Sources.
- (x) Income under the head House Property.

EXAMINATION QUESTIONS

MAY – 2023

Question No.1 (Part)**(4 Marks)**

Mr. Bhasin owns a big house with 2 independent units.

Unit - 1 (with 50% floor area) has been let out for residential purposes at a monthly rent of ₹ 20,000 for the entire year.

Unit - 2 (with the balance 50% of the floor area) is used by Mr. Bhasin as his residence.

Other particulars of the house are:

Municipal Valuation - ₹ 3,60,000 p.a.

Fair Rent - ₹ 4,20,000 p.a.

Standard Rent under Rent Control Act - ₹ 4,00,000 p.a.

Interest on loan paid – ₹80,000

He has paid a sum of ₹ 10,000 as municipal taxes of the house. Interest expenses represent interest on capital borrowed from a nationalised bank for the construction of the house. The construction was completed in F.Y.2010-11. Neither the loan nor the interest was paid. He has LTCG 112A ₹5,00,000. Compute his income and tax.

Solution:**Computation of income of let out portion****₹**

Gross Annual Value 2,40,000

(a) Fair rent	₹2,10,000
(b) Municipal Valuation	₹1,80,000
(c) Higher of (a) or (b)	₹2,10,000
(d) Standard Rent	₹2,00,000
(e) Expected Rent {Lower of (c) or (d)}	₹2,00,000
(f) Rent received/receivable (20,000 x 12)	₹2,40,000
Gross annual value	₹2,40,000

Less: Municipal Taxes (10,000 x 50%) (5,000)

Net Annual Value 2,35,000

Less: 30% of NAV u/s 24(a) (70,500)

Less: Interest on capital borrowed u/s 24(b) (80,000 x 50%) (40,000)

Income from let out portion 1,24,500

Income from self-occupied portion Nil

Income under the head House Property 1,24,500

Income under the head Capital Gains (LTCG u/s 112A) 5,00,000

Gross Total Income/Total Income 6,24,500

Computation of Tax Liability

Tax on normal income ₹1,24,500 Nil

Tax on LTCG u/s 112A (5,00,000 – 1,00,000 – 1,75,500) x 10% 22,450

Add: HEC @ 4% 898

Tax Liability 23,348

Rounded off u/s 288B 23,350

DEC – 2021

Question 3(c)**(6 Marks)**

Mr. Ravi, a resident and ordinarily resident in India, owns a let out house property having different flats in Kanpur which has municipal value of ₹27,00,000 and standard rent of ₹29,80,000. Market rent of similar property is ₹30,00,000. Annual rent was ₹40,00,000 which includes ₹10,00,000 pertaining to different amenities provided in the building. One flat in the property (annual rent is 2,40,000) remains vacant for 4 months during the previous year. He has incurred following expenses in respect of aforesaid property:

Municipal taxes of ₹4,00,000 for the financial year 2023-24 (10% rebate is obtained for payment before due date.) Arrears of municipal tax of financial year 2022-23 paid during the year of ₹1,40,000 which includes interest on arrears of ₹25,000.

Lift maintenance expenses of ₹2,40,000 which includes a payment of ₹30,000 which made in cash.

Salary of ₹88,000 paid to staff for collecting house rent and other charges. .

Compute the total income of Mr. Ravi for the assessment year 2024-25.

Answer

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

Gross Annual Value		29,40,000
(a) Fair Rent	₹ 30,00,000	
(b) Municipal Value	₹ 27,00,000	
(c) Higher of (a) or (b)	₹ 30,00,000	
(d) Standard Rent	₹ 29,80,000	
(e) Expected Rent {Lower of (c) or (d)}	₹ 29,80,000	
(f) Rent Received/Receivable	₹ 29,40,000	
	[30,00,000 - (₹ 2,40,000 x 4/12 x 3/4)]	
In this case, if there was no vacancy, rent received/receivable would have been ₹30,00,000 hence rent received/receivable is lower in this case due to vacancy, therefore GAV shall be rent received/receivable		
Less: Municipal Taxes		(4,75,000)
	[₹ 4,00,000 – rebate of ₹ 40,000] = ₹ 3,60,000	
	[₹ 1,40,000 arrears – ₹ 25,000 interest] = ₹ 1,15,000	
Net Annual Value		24,65,000
Less: 30% of NAV u/s 24(a)		(7,39,500)
Less: Interest on capital borrowed u/s 24(b)		Nil
Income under the head House Property		17,25,500
Income from Other Sources		
Rent for amenities		10,00,000
Less: Loss due to vacancy [₹ 2,40,000 x 4/12 x ¼]		(20,000)
Less: Lift maintenance expenses		(2,40,000)
Less: Salary to staff [₹ 88,000 x 1/4, being the proportion pertaining to amenities]		(22,000)
Income under the head Other Sources		7,18,000
Gross Total Income		24,43,500
Less: Deduction under Chapter VI-A		Nil
Total Income		24,43,500

JULY – 2021

Question 3(a)

(6 Marks)

Mr. Ramesh constructed a big house (construction completed in Previous Year 2018-2019) with 3 independent units.

Unit-1 (50% of floor area) is let out for residential purpose at monthly rent of ₹15,000. A sum of 3,000 could not be collected from the tenant and a notice to vacate the unit was given to the tenant and also a suit was filed for recovery of rent. No other property of Mr. Ramesh is occupied by the tenant. Unit- 1 remains vacant for 2 months when it is not put to any use.

Unit – 2 (25% of the floor area) is used by Mr. Ramesh for the purpose of his business.

Unit – 3 (the remaining 25%) is utilized for the purpose of his residence.

Other particulars of the house are as follows: Municipal valuation - ₹ 1,88,000, fair rent - ₹2,48,000, Standard rent under the Rent Control Act - ₹ 2,28,000, Standard rent under the Rent Control Act - ₹2,28,000, Municipal taxes paid - ₹ 20,000, repairs - ₹ 5,000, Interest on capital borrowed for the construction of the property - ₹ 60,000, ground rent – 6,000 and fire the insurance premium paid - ₹60,000.

Income of Ramesh from the business is ₹ 1,40,000 (without debiting house rent and other incidental expenditure).

Determine the taxable of Mr. Ramesh for the assessment year 2024-25.

Solution:

Computation of Taxable Income of Mr. Ramesh for A.Y. 2024-25

Income from house property

Unit - 1 [50% of floor area - Let out]

Gross Annual Value 1,47,000

(a) Fair Rent	₹ 1,24,000
(b) Municipal Value	₹ 94,000
(c) Higher of (a) or (b)	₹ 1,24,000
(d) Standard Rent	₹ 1,14,000
(e) Expected Rent {Lower of (c) or (d)}	₹ 1,14,000
(f) Rent Received/Receivable	₹ 1,47,000

[(₹15,000 x 10) – unrealized rent ₹3000]

In this case, rent received/receivable is higher than expected rent hence rent received/receivable is GAV

Less: Municipal taxes [50% of ₹20,000] (10,000)

Net annual value 1,37,000

Less: 30% of NAV u/s 24(a) (41,100)

Less: Interest on capital borrowed u/s 24(b) (30,000)

Income from Unit – 1 65,900

Unit – 3 [25% of floor area – Self occupied]

Income from Unit – 3 Nil

Income under the head House Property 65,900

Profits and gains from business or profession

Business Income [without deducting expenditure on Unit – 2 1,40,000
25% floor area used for business purposes]

Less: Municipal taxes [25% of ₹ 20,000] (5,000)

Less: Repairs [25% of ₹ 5,000] (1,250)

Less: Interest on loan [25% of ₹ 60,000] (15,000)

Less: Ground rent [25% of ₹ 6,000] (1,500)

Less: Fire Insurance premium [25% of ₹ 60,000] (15,000)

Income under the head Business/Profession 1,02,250

Gross Total Income 1,68,150

Less: Deduction under Chapter VI-A Nil

Total Income 1,68,150

NOV – 2018 (NEW COURSE)

Question 3(a)

(7 Marks)

Mrs. Disha Khanna, a resident of India, owns a house property at Bhiwani in Haryana. The Municipal value of the property is ₹7,50,000, Fair Rent of the property is ₹6,30,000 and Standard Rent is ₹7,20,000 per annum.

The property was let out for ₹75,000 per month for the period April 2023 to December 2023.

Thereafter, the tenant vacated the property and Mrs. Disha Khanna used the house for self-occupation. Rent for the months of November and December 2022 could not be realized from the tenant. The tenancy was bonafide but the defaulting tenant was in occupation of another property of the assessee, paying rent regularly.

She paid municipal taxes @ 12% during the year and paid interest of ₹35,000 during the year for amount borrowed towards repairs of the house property.

You are required to compute her income from "House Property" for the A.Y. 2024-25.

Solution:**Computation of Income under the head House Property**

Gross Annual Value 7,20,000.00

Working Note:	₹
(a) Fair rent	6,30,000
(b) Municipal Valuation	7,50,000
(c) Higher of (a) or (b)	7,50,000
(d) Standard Rent	7,20,000
(e) Expected Rent {Lower of (c) or (d)}	7,20,000
(f) Rent Received/Receivable (75,000 x 9)	6,75,000
GAV = Higher of (e) or (f)	7,20,000

Less: Municipal taxes	(90,000.00)
Net Annual Value	6,30,000.00
Less: 30% of NAV u/s 24(a)	(1,89,000.00)
Less: Interest on capital borrowed u/s 24(b)	(35,000.00)
Income from house property	4,06,000.00

Note: As per explanation to section 23(1)/Rule 4, in case of unrealised rent expected rent shall be computed for full year and while computing rent received/receivable, such unrealised rent shall be excluded and GAV shall be higher of expected rent and rent received or receivable.

In the given case conditions of rule 4 has not been complied hence rent shall not be treated as unrealised and shall not be excluded.

NOV – 2018 (OLD COURSE)**Question 2(b)****(5 Marks)**

Mr. Chakrobarty, a resident, aged 35 years, works as a deputy manager in Dews Limited, located in Noida since April 2014. He own two houses and uses it for self-purpose. The following information relates to the houses for the previous year 2023-2024:

Location	House-1	House-II
	Noida	Gurgaon
	(He and his family reside)	(His parents reside)
Municipal value per annum (₹)	8,00,000	9,00,000
Fair rent (₹)	9,20,000	8,80,000
Standard rent per annum (₹)	8,40,000	9,20,000
Actual rent (per month) (₹)	-	-
Municipal taxes paid during the year	8%	10%
Date of completion of construction of properties	31 st March, 2016	25 th May, 2022

He had taken a loan of ₹18,00,000 for the construction of the House-II on 1st April, 2020. Interest was payable @ 10% per annum. Certificate confirming interest has been submitted. Till date, no payment was made towards the principal amount.

Compute his income under the head House Property

Solution:

As per the amendments now two house shall be treated as self-occupied and after two house all house shall be treated as deemed to be let out.

House I is Self-Occupied

Income Nil

House II is Self-Occupied

Income Nil

Income under the head house property Nil

MAY – 2018 (OLD COURSE)

Question 3 (b)**Marks 5**

Mr. Rohan a residential individual, owns 3 houses in Chennai. One house is self-occupied by him, second house is self-occupied by his mjr son and the third house is vacant during the year.

You are required to highlight the steps involved to compute Income from House Property for Mr. Rohan under deemed to be let out concept.

Solution: Refer answer given in the book

NOV – 2017

Question 4(a)**(5 Marks)**

Mr. Aditya, a resident but not ordinarily resident in India during the Assessment Year 2024-25. He owns two houses, one in Dubai and the other in Mumbai. The house in Dubai is let out there at a rent of DHS 20,000 p.m. (1 DIRHAM=INR 18). The entire rent is received in India. He paid Property tax of DHS 2,500 and Sewerage Tax DHS 1,500 there, for the Financial Year 2023-24. The house in Mumbai is self-occupied. He has taken a loan of ₹25,00,000 to construct the house on 1st June, 2020 @ 12%. The construction was completed on 31st May, 2022 and he occupied the house on 1st June, 2022. The entire loan is outstanding as on 31st March, 2024. Property tax paid in respect of the second house is ₹2,400 for the Financial Year 2023-24. Compute the income chargeable under the head "Income from House property" in the hands of Mr. Aditya for the Assessment Year 2024-25.

Solution:

In the given Mr. Aditya is NOR Hence Income received in India is taxable in India.

Computation of Income from House Property of Mr. Aditya for the Assessment Year 2024-25

₹

GAV of the house in Dubai (20,000 p.m. x ₹18 per DHS x 12 months)	43,20,000.00
Less: Municipal taxes paid (1500 +2500) x ₹18 per DHS	<u>(72,000.00)</u>
Net Annual Value	42,48,000.00
Less: Statutory deduction under section 24(a) @ 30% of NAV	<u>(12,74,400.00)</u>
Income from House property	29,73,600.00
<u>GAV of house at Mumbai (self occupied)</u>	
Income from House property	Nil
Income from House property	29,73,600.00

MAY – 2017

Question 4(a) (ii)**(4 Marks)**

Mr. Ganesh owns a commercial building whose construction got completed in June 2022. He took a loan of ₹15 lakhs from his friend on 01.08.2021 and had been paying interest calculated at 15% per annum. He is eligible for pre-construction interest as deduction as per the provisions of the Income Tax Act.

Mr. Ganesh has let out the commercial building at a monthly rent of ₹40,000 during the financial year 2023-24. He paid municipal tax of ₹18,000 each for the financial year 2022-23 and 2023-24 on 1-5-2023 and 5-4-2024 respectively.

Compute income under the head. 'House Property' of Mr. Ganesh for the Assessment Year 2024-25.

Solution:

Computation of Income under the head House Property	₹
Gross Annual Value (40,000 x 12)	4,80,000
Less: Municipal Taxes	(18,000)
Net Annual Value	4,62,000
Less: 30% of NAV u/s 24(a)	(1,38,600)
Less: Interest on capital borrowed u/s 24(b)	(2,55,000)

Working Note:

Prior period interest

From 01.08.2021 to 31.03.2022 $= 15,00,000 \times 15\% \times 8 / 12 = 1,50,000$

1,50,000 allowed in 5 equal instalments

 $= 1,50,000 / 5 = 30,000$ per annum

Current period interest

From 01.04.2023 to 31.03.2024 $= 15,00,000 \times 15\% \times 1 = 2,25,000$

Total Interest = 30,000 + 2,25,000 = 2,55,000

Income under the head House Property

68,400

Note: As per proviso to section 23(1), Municipal Taxes actually paid by the owner during the previous year is allowed to be deducted from GAV.

NOV – 2015**Question 6(a).****(8 Marks)**

Mr. X constructed a shopping complex. He had taken a loan of ₹25 lakhs for construction of the said property on 01.08.2021 from SBI @ 10% for 5 years. The construction was completed on 30.06.2022. Rental income received from shopping complex ₹30,000 per month let out for the whole year. Municipal Taxes paid for shopping complex ₹8,000.

Arrears of rent received from shopping complex ₹1,20,000.

Interest paid on loan taken from SBI for purchase of house for use as own residence for the period 2023-2024 ₹3 lakhs. The loan was taken after 01.04.1999 and house was purchased within 5 years from the end of the year in which loan was taken and assessee has submitted certificate certifying the amount of interest.

You are required to compute Income from House property of Mr. X for AY 2024-2025 as per Income Tax Act, 1961.

Solution:**Income under the head House Property****Income from shopping Complex**

Gross Annual Value	3,60,000.00
Less: Municipal taxes paid	(8,000.00)
Net Annual Value	3,52,000.00
Less: 30% of NAV u/s 24(a)	(1,05,600.00)
Less: Interest on capital borrowed u/s 24(b)	(2,83,333.33)

Working Note:

₹

Prior period interest

From 01.08.2021 to 31.03.2022

 $25,00,000 \times 10\% \times 8/12 = 1,66,666.67$ Installment allowed = $1,66,666.67/5 = 33,333.33$ 33,333.33**Current year interest**

From 01.04.2023 to 31.03.2024

 $25,00,000 \times 10\% \times 1 = 2,50,000$ 2,50,000.00

Total 2,83,333.33

Loss from shopping complex (36,933.33)

Add: Arrear of Rent Received Section 25A 1,20,000

Less: Deduction @ 30% (36,000) 84,000.00

Income from shopping complex 47,066.67

Income from self-occupied property Nil

Income under the had House Property (47,066.67 + Nil) 47,066.67

MAY – 2014**(5 Marks)**

Mrs. X has two houses, both of which are self occupied. The particulars of these are given below:

Particulars	(Value in ₹)	
	House — I	House — II
Municipal Valuation per annum	1,20,000	1,15,000
Fair Rent per annum	1,50,000	1,75,000
Standard rent per annum	1,00,000	1,65,000
Date of completion	31-03-1999	31-03-2001
Municipal taxes payable during the year (paid for House II only)	12%	8%
Interest on money borrowed for repair of property during current year	-	55,000

Compute Mrs. X's income from the House Property for the Assessment Year 2024-25.

Solution:

In this case, Mrs. X has more than one house property for self-occupation. As per section 23(2), Mrs. X can avail the benefit of self-occupation (i.e., benefit of "Nil" Annual Value) in respect of both the house properties.

House I & II – Self-occupied

Income

₹
Nil**NOV – 2013****(5 Marks)**

Mr. X owns a residential house in Delhi. The house is having two identical units. First unit of the house is self-occupied by Mr. X and another unit is rented for ₹55,000 p.m. The rented unit was vacant for three months during the year. The particulars of the house for the previous year 2023-24 are as under:

Standard Rent	₹11,20,000 p.a.
Municipal Valuation	₹10,44,000 p.a.
Fair Rent	₹11,35,000 p.a.
Municipal tax paid by Mr. X	12% of the Municipal Valuation
Light and water charges	₹800 p.m.
Interest on borrowed capital	₹2,000 p.m.
Insurance charges	₹3,500 p.a.
Painting expenses	₹16,000 p.a.

Compute his income and tax liability of Mr. X for the assessment year 2024-25.

Answer:**Computation of Income from house property of Mr. X for A.Y. 2024-25**

Rented unit (50% of total area)

Gross Annual Value (GAV)

4,95,000

(a) Municipal valuation (₹ 10,44,000 x ½)	5,22,000
(b) Fair rent (₹ 11,35,000 x ½)	5,67,500
(c) Higher of (a) or (b)	5,67,500
(d) Standard rent (₹ 11,20,000 x ½)	5,60,000
(e) Expected rent lower of (c) or (d)	5,60,000
(f) Rent receivable for the whole year (₹ 55,000 x 9)	4,95,000

If there was no vacancy, rent received/receivable would have been 55,000 x 12 = 6,60,000, which is higher than Expected rent, hence GAV shall be rent received/receivable

Less: Municipal taxes (12% of ₹ 5,22,000)

(62,640)

Net Annual Value (NAV)

4,32,360

Less : Deductions

(a) 30% of NAV under section 24(a)

(1,29,708)

(b) Interest on borrowed capital (₹ 1,000 x 12) u/s 24(b)

(12,000)

Taxable income from let out portion	2,90,652
Self occupied unit (50% of total area)	
Annual value	Nil
Less : Deduction under section 24(b):	
Interest on borrowed capital	Nil
Income from house property	2,90,652
Gross Total Income	2,90,652
Less: Deduction under Chapter VI-A	Nil
Total Income (Rounded off u/s 288A)	2,90,650

Computation of Tax Liability

Tax on ₹2,90,650 at slab rate	Nil
Tax Liability	Nil

Note: No deduction will be allowed separately for light and water charges, insurance charges and painting expenses.

MAY – 2012**(4 Marks)**

Explain the treatment of unrealized rent and its recovery in subsequent years under the provisions of Income Tax Act, 1961.

Answer: Refer answer given in the book

NOV – 2010**(2 Marks each)**

Explain briefly the applicability of section 22 for chargeability of income tax for:

- House property situated in foreign country and
- House property with disputed ownership.

Answer:

Applicability of section 22 for chargeability of income-tax for –

(i) House property situated in foreign country

A resident and ordinarily assessee is taxable under section 22 in respect of a house property situated in foreign country. A resident but not ordinarily resident or a non resident is taxable in respect of income from such property if the income is received in India during the previous year.

(ii) House property with disputed ownership

If the title of ownership of the house property is under dispute in a court of law, the decision about who is the owner lies with the Court but till then income tax shall be required from the person who is the beneficial owner of the house property.

NOV – 2009**(4 Marks)**

Mrs. X, a resident and ordinarily resident individual, owns a house in U.S.A. She receives rent @ \$ 2,000 per month. She paid municipal taxes of \$ 1,500 during the financial year 2023-24.

She also owns a two storied house in Mumbai, ground floor is used for her residence and first floor is let out at a monthly rent of ₹10,000.

Municipal taxes paid for the house amounts to ₹7,500. Mrs. X had constructed the house by taking a loan from a nationalized bank on 20.06.2020. She repaid the loan of ₹54,000 including interest of ₹24,000 in the current year.

The value of one dollar is to be taken as ₹45.

Compute total income from house property and also tax liability of Mrs. X for assessment year 2024-25.

Answer.

Computation of Income from House Property of Mrs. X for the Assessment Year 2024-25 ₹

GAV of the house in USA	
(\$2000 p.m. x ₹45 per USD x 12 months)	10,80,000.00

Less: Municipal taxes paid (\$1500 x ₹45 per USD)	<u>(67,500.00)</u>
Net Annual Value	10,12,500.00
Less: Statutory deduction under section 24(a) @ 30% of NAV	<u>(3,03,750.00)</u>
Income from House property	7,08,750.00
<u>GAV of house at Mumbai (let out portion)- Ist Floor</u>	
Gross Annual Value (10,000 x 12)	1,20,000.00
Less: Municipal taxes paid (1/2 of ₹7,500)	<u>(3,750.00)</u>
Net Annual Value (NAV)	1,16,250.00
Less: Statutory deduction under section 24(a) @ 30% of NAV	(34,875)
Less: Interest on Housing loan (1/2 of ₹24,000) 24(b)	<u>(12,000)</u>
Income from House property	69,375.00
<u>House at Mumbai (self occupied portion) – Ground Floor</u>	
Income from House property	Nil
Income under the head House Property	7,78,125.00
Gross Total Income	7,78,125.00
Less: Deduction under chapter VI-A	Nil
Total Income (rounded off u/s 288A)	7,78,130.00
Computation of Tax Liability	
Tax on ₹7,78,130 at slab rate	32,813.00
Add: HEC @ 4%	1,312.52
Tax Liability	34,125.52
Rounded off u/s 288B	34,130.00

NOV – 2009**(4 Marks)**

Mr. X is a co-owner of a house property alongwith his brother.

Municipal value of the Property	1,60,000
Fair Rent	1,50,000
Standard Rent under the Rent Control Act	1,70,000
Rent received	15,000 p.m.

The loan for the construction of this property is jointly taken and the interest charged by the bank is ₹25,000 out of which ₹21,000 have been paid. Interest on the unpaid interest is ₹450. To repay this loan, X and his brother have taken a fresh loan and interest charged on this loan is ₹5,000.

The Municipal taxes of ₹5,100 have been paid by the tenant.

Mr. X has 50% share in the house property.

Mr. X has income from Other Sources ₹2,60,000.

Compute the income from this property chargeable in the hands of Mr. X and tax liability for A.Y. 2024-25.

Answer. Computation of income from house property of Mr. X for A.Y. 2024-25

	₹	₹
Gross Annual Value		1,80,000
Working Note:		
(a) Municipal value of property	1,60,000	
(b) Fair rent	1,50,000	
(c) Higher of (a) and (b)	1,60,000	
(d) Standard rent	1,70,000	
(e) Annual Letting Value / Expected Rent [lower of (c) and (d)]	1,60,000	
(f) Actual rent [15,000 x 12]	1,80,000	
(g) Gross Annual Value [higher of (e) and (f)]	1,80,000	
Less: Municipal taxes – paid by the tenant, hence not deductible		<u>Nil</u>
Net Annual Value (NAV)		1,80,000
Less: Standard deduction 30% of NAV u/s 24(a)		(54,000)
Less: Interest on housing loan u/s 24(b)		
Interest on loan taken from bank		(25,000)

Interest on fresh loan to repay old loan for this property	<u>(5,000)</u>
Income under the head house property	96,000
50% share taxable in the hands of Mr. X	48,000
Income under the head House Property	48,000
Income under the head Other Sources	2,60,000
Gross Total Income	3,08,000
Less: Deduction under chapter VI-A	Nil
Total Income	3,08,000
Computation of Tax Liability	
Tax on ₹3,08,000 at slab rate	400
Less: Rebate u/s 87A	(400)
Tax Liability	Nil

Note: Interest on housing loan is allowable as a deduction under section 24 on accrual basis. Further, interest on fresh loan taken to repay old loan is also allowable as deduction. However, interest on unpaid interest is not allowable as deduction under section 24.

NOV – 2008

(5 Marks)

Mr. X owns one residential house in Mumbai. The house is having two units. First unit of the house is self occupied by Mr. X and another unit is rented for ₹55,000 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	₹ 10,62,000 p.a.
Municipal valuation	₹ 8,90,000 p.a.
Fair rent	₹ 10,85,000 p. a
Municipal tax	15% of municipal valuation
Light and water charges paid by the tenant	₹ 500 p.m.
Interest on borrowed capital	₹ 1,500 p.m.
Insurance charges paid by Mr. X	₹ 3,000 p.a.
Repairs	₹ 12,000 p.a.

Compute income from house property of Mr. X and tax liability for the A.Y. 2024-25.

Answer.

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

(A) Rented unit (50% of total area)

Gross Annual Value ₹ **5,50,000**

Working note:

	₹
(a) Fair rent (₹10,85,000 x ½)	5,42,500
(b) Municipal valuation (₹8,90,000 x ½)	4,45,000
(c) Higher of (a) or (b)	5,42,500
(d) Standard rent (₹10,62,000 x ½)	5,31,000
(e) Expected rent (lower of (c) or (d))	5,31,000
(f) Rent received or receivable (₹55,000 x 10)	5,50,000

Since, the actual rent received is higher than the annual letting value, the actual rent received is the Gross Annual value i.e. ₹5,50,000

Less: Municipal taxes (15% of ₹4,45,000) (66,750)

Net Annual value **4,83,250**

Less: Deductions under section 24

(i) 30% of net annual value u/s 24(a) 1,44,975

(ii) Interest on borrowed capital (₹750 x 12) u/s 24(b) 9,000 (1,53,975)

Taxable income from let out portion **3,29,275**

(B) Self occupied unit (50% of total area)**Nil**

Income under the head House Property	3,29,275
Gross Total Income	3,29,275
Less: Deduction u under chapter VI-A	Nil
Total Income (rounded off u/s 288A)	3,29,280

Computation of Tax Liability

Tax on ₹3,29,280 at slab rate	1,464.00
Less: Rebate u/s 87A	(1,464.00)
Tax Liability	Nil

Notes:

(i) It is assumed that both the units are of identical size. Therefore, the rented unit would represent 50% of total area and the self-occupied unit would represent 50% of total area.

(ii) No deduction will be allowed separately for light and water charges, insurance charges and repairs.

MAY – 2007**(6 Marks)**

Miss Charlie, an American national, got married to Mr. Radhey of India in USA on 02.03.2023 and came to India for the first time on 16.03.2023. She left for USA on 23.09.2023.

She returned to India again on 27.03.2024. While in India, she had purchased a show room in Mumbai on 22.04.2023, which was leased out to a company on a rent of ₹25,000 p.m. from 01.05.2023. She had taken loan from a bank for purchase of this show room on which bank had charged interest of ₹97,500 upto 31.03.2024.

She had received the following gifts from her relatives and friends during 01.04.2023 to 30.06.2023:

- From parents of husband	₹ 51,000
- From married sister of husband	₹ 11,000
- From two very close friends of her husband, ₹1,51,000 and ₹21,000	₹1,72,000

Determine her residential status and compute the total income chargeable to tax alongwith the amount of tax payable on such income for the Assessment Year 2024-25.

Answer.

As per section 6(1), an individual is considered to be resident in India if he stays in India for 182 days or more or he stays in India for 60 days or more during the relevant previous year and also for 365 days or more during 4 years preceding the relevant previous year.

Since Miss Charlie is not able to comply with any of the condition mentioned above, she is non-resident in previous year 2023-24.

Her stay in India during the previous year 2023-24 and in the preceding four years is as under:-

P.Y. 2023-24

01.04.2023 to 23.09.2023	- 176 days
27.03.2024 to 31.03.2024	- <u>5 days</u>
Total	<u>181 days</u>

Four preceding previous years

P.Y. 2022- 2023 [16.03.2023 to 31.03.2023]	- 16 days
P.Y. 2021- 2022 [01.04.2021 to 31.03.2022]	- Nil
P.Y. 2020- 2021 [01.04.2020 to 31.03.2021]	- Nil
P.Y. 2019- 2020 [01.04.2019 to 31.03.2020]	- <u>Nil</u>
Total	<u>16 days</u>

Computation of total income of Miss. Charlie for the A.Y. 2024-25**₹****Income from house property**

Gross Annual Value [25,000 x 11]	2,75,000
Less: Municipal taxes	Nil
Net Annual Value	2,75,000

Less: Standard deduction 30% of NAV u/s 24(a)	(82,500)
Less: Interest on loan 24(b)	(97,500)
Income under the Head House Property	95,000
Income from other sources	
- ₹51,000 received from parents of husband would be exempt	Nil
- ₹11,000 received from married sister of husband is exempt	Nil
- From two friends of husband ₹1,51,000 and ₹21,000 aggregating to ₹1,72,000.	1,72,000
Income under the head Other Sources	1,72,000
Total Income	2,67,000

Computation of tax payable by Miss. Charlie for the A.Y. 2024-25

Tax on total income of ₹2,67,000	Nil
Tax Liability	Nil

Notes –

1. Actual rent received has been taken as the gross annual value in the absence of other information (i.e. Municipal value, fair rental value and standard rent) in the question.

NOV – 2003**(5 Marks)**

Mr. A and B constructed their houses on a piece of land purchased by them at New Delhi. The built up area of each house was 1,000 sq. ft. ground floor and an equal area in the first floor.

A started construction on 01.04.2022 and completed on 31.03.2023. A occupied the entire house on 01.04.2023. A has availed a housing loan of ₹20 lakhs @ 12% p.a. on 01.04.2022 and has also submitted a certificate from the lender certifying the amount of interest.

B started construction on 01.07.2022 and completed on 01.07.2023. B occupied the ground floor on 01.07.2023 and let out the first floor for a rent of ₹15,000 per month. However, the tenant vacated the house on 31.12.2023 and B occupied the entire house during the period 01.01.2024 to 31.03.2024. B has availed a housing loan of ₹12 lakhs @ 10% p.a. on 01.07.2022 and has also submitted a certificate from the lender certifying the amount of interest.

Following are the other information:

(i) Fair rental value of each unit (Ground floor / First floor)			₹	6,00,000 per annum
(ii) Municipal value of each unit (Ground floor / First floor)				3,00,000 per annum
(iii) Municipal taxes paid by	A	-	8,000	
	B	-	8,000	
(iv) Repair and maintenance charges paid by	A	-	28,000	
	B	-	30,000	

No repayment was made by either of them till 31.03.2024.

Compute tax liability for the assessment year 2024-25.

Answer:**Computation of income from House Property of Mr. A**

Income under the head "House Property"	Nil
Tax Liability	Nil

Computation of income from House Property of Mr. B**Ground floor (self occupied)**

Income from House Property	Nil
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First floor (Let out)

Gross Annual Value	4,50,000
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Working Note:

(a) Fair Rent (6,00,000 x 9/12)	₹	4,50,000
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(b) Municipal Valuation (3,00,000 x 9/12)	2,25,000
(c) Higher of (a) or (b)	4,50,000
(d) Expected Rent	4,50,000
(e) Rent Received/Receivable (15,000 x 6)	90,000
GAV = Higher of (d) or (e)	4,50,000

Less: Municipal taxes	(4,000)
Net Annual Value	4,46,000
Less: 30% of NAV u/s 24(a)	(1,33,800)
Less: Interest on capital borrowed u/s 24(b)	(69,000)

Working Note:

Prior period interest

From 01.07.2022 to 31.03.2023

= 12,00,000 x 10% x 9 / 12 = 90,000

90,000 allowed in 5 equal instalments

= 90,000 / 5 = ₹ 18,000 per annum

= 18,000 / 2 = ₹9,000

Current period interest

From 01.04.2023 to 31.03.2024

= 12,00,000 x 10% x 1/2 = ₹60,000

Total Interest = ₹60,000 + ₹ 9,000 = ₹69,000

Income from House Property	2,43,200
Income under the head "Income from House Property" of Mr. B (Both ground floor and first floor)	2,43,200
Tax Liability	Nil

MAY – 2002**(4 Marks)**

Mr. X owns a house property which is let out. During the previous year ending 31.03.2024 he receives (i) arrears of rent of ₹30,000 and (ii) unrealised rent of ₹20,000.

You are requested to

- (a) state, how they should be dealt with as per the provisions of the Act, and
(b) compute the income chargeable under the head "Income from house property".

Answer:

(a) As per provisions of section 25A, arrears of rent will be charged to tax as income from house property in the previous year in which such rent is received, after deducting a sum equal to 30% of such amount. The taxability shall be there whether Mr. X remains as the owner of the property in the concerned year or not. In this case, it shall be taxed as income from house property in the year of receipt of such arrear rent.

(b) As per the provisions of section 25A, the unrealised rent when received, it shall be deemed to be the income chargeable under the head "Income from house property" and shall be charged to tax in the year of receipt, after deducting a sum equal to 30% of such amount. In this case also, the taxability shall be there, irrespective of the fact whether Mr. X is the owner of property or not in the year of receipt.

Computation of income from house property

Arrears of rent	₹ 30,000
Less : Deduction @ 30% of ₹30,000/- u/s 25A	(9,000)
	21,000
Add : Unrealised rent received	20,000
Less : Deduction @ 30% of ₹20,000/- u/s 25A	(6,000)
	14,000
Income from house property	35,000

NOV – 2001**(4 Marks)**

From the following particulars furnished by Mr. X for the previous year ending 31.03.2024. Compute the taxable income and tax liability for assessment year 2024-25:

(i) He owns a house property at metro city. The fair rental value per annum is ₹ 47,000 and the municipal value is ₹ 44,000.

(ii) The house was let out from 01.04.2023 to 31.08.2023 @ ₹12,100 per month. From 01.09.2023 Mr. X occupies the house for his residence.

(iii) Expenditure incurred on property and paid:

(a) Municipal tax	₹4,000
(b) Fire insurance	₹2,500
(c) Land revenue	₹4,600
(d) Repairs	₹1,000

(iv) Interest paid on borrowings for construction:

(a) For the current year	₹21,600
(b) Instalment of prior period	₹12,960

He has long term capital gains of ₹5,00,000.

Answer:

Computation of income under the head House Property

Gross Annual Value

₹
60,500.00**Working Note:**

	₹
(a) Fair Rent	47,000
(b) Municipal Valuation	44,000
(c) Higher of (a) or (b)	47,000
(d) Expected rent	47,000
(e) Rent Received/Receivable (12,100 x 5)	60,500
GAV = Higher of (d) or (e)	60,500

Less: Municipal taxes	(4,000.00)
Net Annual Value	56,500.00
Less: 30% of NAV u/s 24(a)	(16,950.00)
Less: Interest on capital borrowed u/s 24(b) (21,600 +12,960)	(34,560.00)
Income from house property	4,990.00
Income under the head Capital Gains (LTCG)	5,00,000.00
Gross Total Income	5,04,990.00
Less: Deduction under Chapter VI-A	Nil
Total Income	5,04,990.00

Computation of Tax Liability

Tax on ₹2,04,990 (₹5,04,990 – ₹3,00,000) @ 20% u/s 112	40,998.00
Less: Rebate u/s 87A	(25,000.00)
Tax before health and education cess	15,998.00
Add: HEC @ 4%	639.92
Tax Liability	16,637.92
Rounded off u/s 288B	16,640.00

NOV – 1999**(6 Marks)**

Mr. X occupied two flats for his residential purposes, particulars of which are as follows:

Particulars	Flat I(in ₹)	Flat II(in ₹)
Municipal Valuation	90,000	45,000
Fair Rent	1,20,000	40,000
Fair rent under Rent Control Act (i.e. Standard Rent)	80,000	Not available

Municipal taxes paid	10% of municipal valuation	10% of municipal valuation
Fire insurance paid	1,000	600
Interest payable on capital borrowed for purchase of flat	40,000	Nil

Income of Mr. X from his Proprietary business– XYZ Warehousing Corporation is ₹6,50,000.

Determine the taxable income and tax liability for the assessment year 2024-25. You are informed that Mr. X could not occupy flat for 2 months commencing from December 1st, 2023 and that he has attained the age of 60 on 23.08.2023.

Answer:

₹

As per the amendments, two house shall be treated as self-occupied instead of one house.

Income shall be computed as per Section 23(2)

Flat I & II is Self Occupied Sec 23(2)

Income

Nil

Computation of Gross Total Income

Income under the head House Property

Nil

Income under the head Business/Profession

6,50,000.00

Gross Total Income

6,50,000.00

Less: Deduction under Chapter VI-A

Nil

Total Income

6,50,000.00

Computation of Tax Liability

Tax on ₹6,50,000 at slab rate

20,000.00

Less: Rebate u/s 87A

(20,000.00)

Tax Liability

Nil

DEDUCTION FROM GROSS TOTAL INCOME CHAPTER VI-A SECTION 80C TO 80U

Under default regime all the deductions are allowed but under optional regime u/s 115BAC, only three deductions shall be allowed under Chapter VI-A.

1. Section 80JJAA
2. Section 80CCD(2)
3. Section 80CCH(2)

Default regime

Deductions under section 80C to 80U are allowed from gross total income to compute total income however such deduction is allowed only from normal income.

- ❖ As per section 112, such deductions are not allowed from long term capital gains.
- ❖ As per section 58(4), such deductions are not allowed from casual income.
- ❖ As per section 111A, such deduction are not allowed from short term capital gains on the sale of short term equity shares or short term units of equity oriented mutual funds provided securities transaction tax has been paid.
- ❖ As per section 112A, such deduction are not allowed from long term capital gains on the sale of long term equity shares or long term units of equity oriented mutual funds provided securities transaction tax has been paid.

Example

Mr. X has income under the head salary ₹75,000, income from long term capital gains ₹2,10,000 and casual income ₹35,000, in this case maximum amount of deductions allowed shall be ₹75,000.

Section 80C

Deduction under section 80C shall be allowed only to (i) an individual (ii) Hindu Undivided Family to the extent of the investment given below:

1. **Investment in NSC:** Deduction shall be allowed if amount has been invested in **National Saving Certificate (NSC)** and NSC are just like a fixed deposit with a bank. Amount can be invested in the name of self, spouse or minor children and HUF can invest the amount in the name of any of its members. Deduction shall be allowed equal to the amount invested and amount received on maturity shall be exempt from income tax but interest shall be taxable every year on accrual basis but payment of interest shall be received on maturity. Deduction under section 80C shall also be allowed for such accrued interest but no deduction shall be allowed for accrued interest of the year in which assessee has received payment. NSC are issued for 5 years.

Example

Mr. X has income under the head House Property ₹10 lakh and he invested ₹50,000 in NSC on 01.10.2023. He has invested ₹40,000 in previous year 2022-23 also and there is accrued interest of ₹4,000 in previous year 2023-24. He has also received ₹1,00,000 on maturity of NSC which were invested in the earlier year and original amount is ₹60,000 and interest for current year is ₹8,000, in this case his tax liability shall be

Income under the head House Property	10,00,000
Income under the head Other Sources (4,000+ 8,000)	12,000
Gross Total Income	10,12,000
Less: Deduction u/s 80C	
Investment in current year	50,000
Accrued interest	4,000
	(54,000)

(no deduction shall be allowed for interest received on maturity)

Total Income	9,58,000
Tax on ₹9,58,000 at slab rate	1,04,100
Add: HEC @ 4%	4,164
Tax Liability	1,08,264
Rounded off u/s 288B	1,08,260

2. **Investment in Public provident fund:** Public provident fund is a deposit scheme run by Central Government and account can be opened in the bank or post office and maturity shall be after 15 years and the account can be opened in the name of **self, spouse or children. HUF can open the account in the name of any of its members.** Amount received on maturity shall be exempt from income tax and also interest is exempt from income tax. No deduction is allowed under section 80C for interest.
3. **Investment in Five Year Post Office Time Deposit Account:** An assessee is allowed to invest the amount in **five year post office time deposit** account and deduction shall be allowed equal to the amount invested. **Interest shall be paid on annual basis** and it will be taxable and deduction under section 80C is not allowed. **Amount received on maturity shall be exempt.** Individual can invest the amount in his name and HUF can invest the amount in the name of any of its member. Pre-mature payment is allowed but **amount received on pre-mature payment shall be taxable.**
4. **Investment in fixed deposit for a period of 5 years or more with scheduled banks: Investment in fixed deposit for a period of 5 years or more with scheduled banks,** provided the term deposit are issued in accordance with a scheme notified by the Central Government. (Bank Term Deposit Scheme, 2006 – depositor can be **individual or Hindu Undivided Family.** The deposit should be for a **minimum period of 5 years.** Interest income shall be taxable on accrual basis and it will not qualify for deduction under section 80C.) Principal amount received on maturity shall be exempt. Individual can deposit the amount only in his own name and HUF can deposit the amount in the name of any of its member.
5. **Repayment of loan taken for purchase or construction of house:** If an assessee has taken a loan from a notified organization like banks or financial institution etc. for purchase or construction of a residential house, in such cases deduction shall be allowed equal to the amount re-paid by the assessee towards principal (not towards interest).

If loan has been taken for **Addition, Alteration, or Repairs etc** of the house property, no deduction is allowed.

If the assessee has transferred the house property **before the expiry of 5 years** from the end of the financial year in which possession of such properties was taken by him, no deduction shall be allowable in the previous year in which the house property has been transferred. The deduction allowed in the past years shall be considered to be income of the assessee of the previous year in which the house property is transferred.

Deduction shall also be allowed for stamp duty, registration fee and other expenses for the purpose of transfer of such house property to the assessee.

6. **Payment of premium for life insurance policy:** If any individual or HUF has taken life policy, deduction shall be allowed for the premium paid for such life policy and individual can take the policy in the name of **self, spouse and children and Hindu Undivided Family can take the policy in the name of any of its members.** (Children may be dependant or independent or may be married or unmarried or step or adopted.) Deduction is allowed equal to the premium paid but maximum upto **10% of capital sum assured**, i.e. if premium paid is more than 10% of capital sum assured, deduction shall be allowed only for 10% of sum assured. (In respect of policy issued before 01.04.2012, 10% shall be taken as 20%) If LIC policy has been taken in the name of a person who is suffering from disability given under section 80U or from a specified disease given under section 80DDB, 10% shall be taken as 15% but it is applicable for the policies taken w.e.f 01.4.2013 onwards. If an assessee has discontinued a life insurance policy before paying premium for a period of at least **2 years**, deduction allowed in the earlier years shall be considered to be income of the year in which policy has been discontinued.

As per section 10(10D), any payment received on maturity of insurance policy shall be exempt from income tax i.e. even the amount of bonus received shall be exempt from income tax. **If the policy holder has paid premium of more than the specified limit (10% / 15% / 20%) in any of the years, amount received on maturity shall be chargeable to tax** but if the amount has been received on the death of the policy holder, it will be exempt from income tax.

e.g. Mr. X has paid premium of one life policy ₹25,000 and sum assured is ₹ 1,00,000 and policy was taken on 01.04.2012 onwards, in this case deduction allowed shall be ₹10,000 but if policy was taken before 01.04.2012, deduction allowed shall be ₹20,000. If Mr. X is a handicapped person and policy was taken w.e.f 01.04.2013 onwards, deduction allowed shall be ₹15,000

7. **Payment of tuition fees to School, College, University or any other Educational Institution in India: Payment of tuition fees to School, College, University or any other Educational Institution in India** provided the fees has been paid in connection with the **children of the assessee** and further for **maximum two children** and it should be **whole time education**. Children shall include even adopted and step children also. Deduction is not allowed to HUF. If payment is made outside India, deduction is not allowed. Similarly if payment is given for part time education or correspondence course, deduction is not allowed.
8. **Employees contribution to recognised provident fund**
9. **Employees contribution to statutory provident fund**
10. **Investment in Units of Mutual Fund/ Unit trust of India.**
11. **Subscription to Notified Deposit Schemes of National Housing Bank**
12. **Investment in equity shares or debentures etc. of Infrastructure Development Companies**
13. **Investment in notified bonds issued by the National Bank for Agriculture and Rural Development.**
14. **Investment in Senior Citizens Savings Scheme: Senior Citizens Savings Scheme.** Amount should be invested in the name of self and amount received on maturity shall be exempt and interest shall be payable on quarterly basis and interest received is taxable. Deduction under section 80C for interest is not allowed.
15. **Investment in Sukanya Samridhi Account:** Investment in **Sukanya Samridhi Account** and amount can be invested by an individual as guardian in the name of girl child who is of the age of 10 years or less. Interest received is exempt. Amount received on maturity is exempt. Account can be closed after the completion of 21 years of age. In case of marriage, payment is allowed after completion of 18 years of age.
16. **Contribution to additional account under NPS**

Deduction shall be allowed to the extent of the investments listed above but as per section 80CCE, maximum deduction allowed shall be ₹1,50,000 (Including deduction under section 80CCC and section 80CCD(1)).

Illustration 1: Mr. X is employed in ABC Ltd. getting salary ₹2,00,000 p.m. The employer and employee each have contributed to recognised provident fund @ 12% of the salary of the employee, in this case tax liability of the employee shall be as given below:

Solution:

Default Regime

Income under the head Salary	
2,00,000 x 12	24,00,000
Employer's contribution	-
Gross Salary	24,00,000
Less: Standard Deduction u/s 16(i)	50,000
Income under the head Salary	23,50,000
Gross Total Income	23,50,000
Less: Deduction u/s 80C	Nil
Total Income	23,50,000

Computation of Tax Liability

Tax on ₹23,50,000 at slab rate	4,05,000
Add: HEC @ 4%	16,200
Tax Liability	4,21,200

Optional Regime

Income under the head Salary	
2,00,000 x 12	24,00,000
Employer's contribution	-
Gross Salary	24,00,000
Less: Standard Deduction u/s 16(i)	50,000
Income under the head Salary	23,50,000
Gross Total Income	23,50,000
Less: Deduction u/s 80C (Employee's contribution in RPF)	1,50,000
Total Income	22,00,000

Computation of Tax Liability

Tax on ₹22,00,000 at slab rate	4,72,500
Add: HEC @ 4%	18,900
Tax Liability	4,91,400

Illustration 2: Mr. X has income under the head Business/Profession ₹30,00,000 and he has made the following investments:

- (i) Investment in NSC ₹40,000.
- (ii) Investment in PPF ₹50,000.
- (iii) Investment in bank Fixed deposit for 5 year ₹10,000.
- (iv) Investment in Post office 5 years time deposit account ₹20,000.
- (v) Payment of premium of LIC policy ₹60,000.

Compute income and tax liability.

Solution:**Default Regime**

Income under the head Business/Profession	30,00,000
Gross Total Income	30,00,000
Less: Deduction u/s 80C	Nil
Total Income	30,00,000

Computation of Tax Liability

Tax on ₹30,00,000 at slab rate	6,00,000
Add: HEC @ 4%	24,000
Tax Liability	6,24,000

Optional Regime

Income under the head Business/Profession	30,00,000
Gross Total Income	30,00,000
Less: Deduction u/s 80C	1,50,000
(40,000 + 50,000 + 10,000 + 20,000 + 60,000 = 1,80,000 but maximum upto ₹1,50,000)	
Total Income	28,50,000

Computation of Tax Liability

Tax on ₹28,50,000 at slab rate	6,67,500
Add: HEC @ 4%	26,700
Tax Liability	6,94,200

Illustration 3: Mr. X, aged about 61 years, has earned a lottery income of ₹ 1,20,000 (gross) during the P.Y. 2023-24. He also has a business income of ₹6,00,000. He invested an amount of ₹10,000 in Public Provident Fund account and ₹ 24,000 in National Saving Certificates and ₹60,000 in eligible mutual funds. He has paid premium of ₹30,000 for a life policy having sum assured ₹2,00,000 and policy was taken after 01.04.2012. Compute his tax liability for assessment year 2024-25. (Optional Regime)

Solution:**Computation of total taxable income of Mr. X for A.Y.2024-25**

Income under the head business/profession	6,00,000
Income under the head Other Sources (casual income)	1,20,000
Gross Total Income	7,20,000
Less: Deduction u/s 80C	
1. Public Provident Fund	(10,000)
2. Investment in NSC	(24,000)
3. Mutual Fund	(60,000)
4. Payment of premium for LIC policy	(20,000)
Total Income	6,06,000

Computation of Tax Liability

Tax on casual income ₹1,20,000 @ 30%	36,000
Tax on ₹4,86,000 at slab rate	9,300
Tax before health & education cess	45,300
Add: HEC @ 4%	1,812
Tax Liability	47,112
Rounded off u/s 288B	47,110

Illustration 4: Mr. X has income under the head Business/Profession ₹19,90,000.

His investments are as given below:

1. Investment in NSC ₹50,000
 2. Investment in PPF in name of Mrs. X ₹5,000
 3. Payment of premium for LIC policy taken in the name of dependent father on 16.06.2023 and its premium paid is ₹11,000
 4. Payment of premium for LIC policy taken in the name of independent son on 15.04.2023 and its premium paid is ₹6,000 (sum assured ₹1,00,000)
 5. Payment of premium for LIC policy taken in the name of independent married daughter on 11.01.2024 and its premium paid is ₹21,000 (sum assured ₹1,00,000)
- Compute Income Tax liability for the A.Y. 2024-25. (Optional Regime)

Solution:

	₹
Income under the head business/profession	19,90,000
Gross Total Income	19,90,000
Less: Deduction u/s 80C	
1. Investment in NSC	(50,000)
2. Investment in PPF in the name of Mrs. X	(5,000)
3. Payment of premium for LIC policy taken in the name of dependent father	NIL
4. Payment of premium for LIC policy taken in the name of independent son	(6,000)
5. Payment of premium for LIC policy taken in the name of independent married daughter (allowed 10% of sum assured)	(10,000)
Total Income	19,19,000
Computation of Tax Liability	
Tax on ₹19,19,000 at slab rate	3,88,200
Add: HEC @ 4%	15,528
Tax Liability	4,03,728
Rounded off u/s 288B	4,03,730

Illustration 5: Mr. X furnishes you the following information:

Raw material purchased ₹5,00,000. Manufacturing expenses (revenue nature) ₹2,00,000.

Sale price ₹18,00,000. Plant & machinery acquired ₹2,60,000. Depreciation is allowed @ 15%.

He has made the investments as given below:

- (i) Fixed deposit with State Bank for two years ₹5,000.
- (ii) Investment in National Saving Certificates ₹5,000.
- (iii) Deposit in Public Provident Fund Account in the name of major married independent son ₹5,000.
- (iv) Deposit in Public Provident Fund Account in the name of minor son ₹5,000.
- (v) Payment of premium for LIC policy in name of major married independent daughter on 15.09.2023 ₹5,000. (sum assured ₹1,00,000).
- (vi) Payment of premium for LIC policy in name of major married independent son on 11.11.2023 ₹5,000. (sum assured ₹20,000)
- (vii) Investment in Home Loan Account Scheme of National Housing Bank ₹5,000 (Investment was made out of past savings).
- (viii) Investment in units of Mutual Funds notified under section 10(23D) ₹5,000. (Investment was made out of current income exempt from income tax).
- (ix) Investment in Equity Shares of Infrastructure Companies ₹5,000.
- (x) Payment of Tuition fees of his son to a private coaching centre for coaching in taxation ₹5,000.

Compute his income and tax liability for assessment year 2024-25. (Optional Regime)

Solution:

Computation of income under the head Business/profession

Sale price	18,00,000.00
Less: Purchase Price	(5,00,000.00)
Less: Manufacturing expenses	(2,00,000.00)
Less: Depreciation on plant and machinery (2,60,000 x 15%)	(39,000.00)
Income under the head Business/profession	10,61,000.00
Gross Total Income	10,61,000.00
Less: Deduction u/s 80C	
National Saving Certificate	(5,000.00)
Public Provident Fund	(10,000.00)
LIC policy in name of major married independent daughter	(5,000.00)
LIC policy in name of major married independent son	(2,000.00)
Home Loan Account Scheme	(5,000.00)
Units of Mutual Funds	(5,000.00)
Equity Shares of Infrastructure Companies	(5,000.00)
Total Income	10,24,000.00

Computation of Tax Liability

Tax on ₹10,24,000 at slab rate	1,19,700.00
Add: HEC @ 4%	4,788.00
Tax Liability	1,24,488.00
Rounded off u/s 288B	1,24,490.00

Illustration 6: Compute the eligible deduction under section 80C for A.Y.2024-25 in respect of life insurance premium paid by Mr. X during the P.Y.2023-24, the details of which are given hereunder –

	Date of issue of policy	Person insured	Actual capital sum assured (₹)	Insurance premium paid during 2023-24 (₹)
(i)	01.04.2011	Self	2,00,000	50,000
(ii)	01.05.2019	Spouse	1,50,000	20,000
(iii)	01.06.2020	Handicapped Son (section 80U disability)	3,00,000	60,000

Solution:

	Date of issue of policy	Person insured	Actual capital sum assured	Insurance premium paid during 2023-24	Deduction u/s 80C for A.Y.2024-25	Remark (restricted to % of sum assured)
(i)	01.04.2011	Self	2,00,000	50,000	40,000	20%
(ii)	01.05.2019	Spouse	1,50,000	20,000	15,000	10%
(iii)	01.06.2020	Handicapped Son (section 80U disability)	3,00,000	60,000	45,000	15%
				Total	1,00,000	

JULY – 2021 (6 Marks)

Mrs. Rohini, aged 62 years, was born and brought up in New Delhi. She got married in Russia in 1996 and settled there since then. Since her marriage, she visits India for 60 days each year during her summer break. The following are the details of her income for the previous year ended 31.03.2024:

S. No.	Particulars	Amount (in ₹)
1.	Pension received from Russian Government	65,000
2.	Long-term capital gain on sale of land at New Delhi (computed)	3,00,000
3.	Short-term capital gain on sale of share of Indian listed companies in respect of which STT was paid both at the time acquisition as well as at the time of sale (computed)	60,000
4.	Premium paid to Russian Life Insurance Corporation at Russia	75,000
5.	Rent received (equivalent to Annual Value) in respect of house property in New Delhi	90,000

You are required to ascertain the residential status of Mrs. Rohini and compute her total income and tax liability in India for Assessment year 2024-25. (Optional Regime)

Solution:

An Indian citizen or a person of Indian origin who, being outside India, comes on a visit to India (and whose total income, other than from foreign sources, does not exceed ₹ 15,00,000) would be resident in India only if he or she stays in India for a period of 182 days or more during the previous year.

Since Mrs. Rohini is a person of Indian origin who comes on a visit to India only for 60 days in the P.Y.2023-24 and her income other than from foreign sources does not exceed ₹ 15,00,000, she is non-resident for the A.Y. 2024-25.

A non-resident is chargeable to tax in respect of income received or deemed to be received in India and income which accrues or arises or is deemed to accrue or arise to her in India. Accordingly, her total income and tax liability would be determined in the following manner:

Computation of total income and tax liability of Mrs. Rohini for A.Y. 2024-25

Particulars	Amt (₹)
Salaries	
Pension received from Russian Government [Not taxable, since it neither accrues or arises in India nor is it received in India]	Nil
Income from House Property	

Annual Value [Rental Income from house property in New Delhi is taxable, since it is deemed to accrue or arise in India, as it accrues or arises from a property situated in India]	90,000	
Less: Deduction u/s 24(a) @ 30%	(27,000)	63,000
Capital Gains		
Long-term capital gains on sale of land at New Delhi [Taxable, since it is deemed to accrue or arise in India as it is arising from transfer of land situated in India]		3,00,000
Short-term capital gains on sale of shares of Indian listed companies in respect of which STT was paid [Taxable, since it is deemed to accrue or arise in India, as such income arises on transfer of shares of Indian listed companies]		60,000
Gross Total Income		4,23,000
Less: Deduction under Chapter VI-A		
Deduction under section 80C		(63,000)
- Life insurance premium of ₹ 75,000 [Premium paid to Russian Life Insurance Corporation allowable as deduction. However, the same has to be restricted to gross total income excluding LTCG and STCG, as Chapter VI-A deductions are not allowable against such income chargeable to tax u/s 112 and 111A, respectively]		
Total Income		3,60,000
Computation of Tax Liability		
Long-term capital gains taxable @20% u/s 112 [3,00,000 x 20%]		60,000
Short-term capital gains taxable @15% u/s 111A [60,000 x 15%]		<u>9,000</u>
		69,000
Add: Health and Education Cess @4%		<u>2,760</u>
Tax Liability		71,760

Note –

- Even if her total income exceeds ₹ 15 lakh, still, she would be non-resident since the minimum period of stay required in the current year for being a resident is 120 days.
- The benefit of adjustment of unexhausted basic exemption limit against long-term capital gains taxable u/s 112 and short-term capital gains taxable u/s 111A is not available in case of non-resident. Further, rebate u/s 87A is not allowable to a non-resident, even if his income does not exceed ₹ 5 lakh.
- It is assumed that such premium is paid for self or spouse or any child of Mrs. Rohini.

NOV – 2014 (2 Marks)

Determine the eligibility and quantum of deduction under Chapter VI-A in the following case:

Mr. X has paid life insurance premium of ₹70,000 during the year. (Sum Assured 3,50,000 policy issued on 31.03.2011)

Solution:

Deduction for Life Insurance Premium shall be available under section 80C of ₹70,000 (being maximum 20% of ₹3,50,000 as the policy was issued before 01.04.2012)

MAY – 2001 (5 Marks)

The particulars of income of Mrs. X. aged 55 years for the financial year 2023-24 are given below: ₹

(1) Income under the head salary received from M/s ABC Ltd. for the year	4,00,000
(2) Rental income received from a commercial complex	12,000 p.m.
(3) Arrears of rent received from the complex, which were not charged to tax in any earlier years	30,000
(4) Interest paid on loan taken for the purchase of a house from a scheduled bank for use as own residence	1,20,000
(5) Repayment of instalments of loan taken from the bank for the purchase of the above property	60,000
(6) Deposits in public provident fund account	
(i) Towards loan taken from public provident account	20,000
(ii) Out of current year's income	40,000
(7) Investment made in units of a mutual fund approved by the board under section 80C of the Income-Tax Act.	40,000

Compute the total income of Mrs. X and the tax payable thereon in respect of assessment year 2024-25. (Optional Regime)

Answer:

₹

₹

Computation of total income and tax liability Mrs. X

Income from under the head salary

Income under the head Salary 4,00,000.00

Income from house property

Let out commercial complex

Gross Annual Value (12,000 x 12) 1,44,000.00

Less: Municipal taxes Nil

Net Annual Value 1,44,000.00

Less: 30% of NAV u/s 24(a) (43,200.00)

Less: Interest on capital borrowed u/s 24(b) Nil

Income from let out property 1,00,800.00

Property self-occupied for residence

Net Annual Value Nil

Less: Interest on capital borrowed u/s 24(b) (30,000.00)

Loss from self-occupied property (30,000.00)

Arrears of rent Section 25A 30,000

Less: (30% of ₹30,000) (9,000) 21,000.00

Income under the head House Property 91,800.00

Gross Total Income 4,91,800.00

Less: Deduction u/s 80C (1,40,000.00)

Repayment of loan taken to purchase residential house property 60,000

Deposit in public provident fund out of current income 40,000

Investment made in units of mutual fund for infrastructure facility 40,000

Total Income 3,51,800.00

Computation of Tax Liability

Tax on ₹3,51,800 at slab rate 5,090.00

Less: Rebate u/s 87A (5,090.00)

Add: HEC @ 4% Nil

Tax Liability Nil

Contribution to Pension Fund Section 80CCC

In general in case of life insurance, lump sum amount is paid to the policyholder but in some of the life policies pension is given instead of lump sum amount e.g. Jeevan Suraksha policy. If any person has paid premium for such policy, deduction is allowed under section 80CCC instead of section 80C. Deduction is allowed only to an individual and individual can take the policy only in his name (and not in name of spouse or children). Any pension received shall be taxable under the head Other Sources. If the assessee has

surrendered the policy, amount received shall be taxable under the head Other Sources.

Illustration 8: Mr. X has income under the head business/profession ₹3,35,000.

He has made the following investments:-

- NSC ₹10,000
- Investment in post office 5 year time deposit account ₹15,000
- Payment of premium for life policy in the name of major married independent son on 10.10.2023 ₹30,000 (sum assured ₹90,000)
- Paid premium of ₹ 11,000 for Jeeven Suraksha policy taken in name of Mr. X on 11.11.2023.

Compute income tax liability for A.Y 2024-25. (Optional Regime)

Solution:

	₹
Income under the head Business/Profession	3,35,000.00
Gross Total Income	3,35,000.00
Less: Deduction u/s 80C	
NSC	(10,000.00)
Investment in 5 years post office	(15,000.00)
Payment of premium of LIC	(9,000.00)
Less: Deduction u/s 80CCC	(11,000.00)
Total Income	2,90,000.00

Computation of Tax Liability

Tax on ₹2,90,000 at slab rate	2,000.00
Less: Rebate u/s 87A	(2,000.00)
Tax Liability	Nil

Illustration 9: The gross total income of Mr. X for the A.Y.2024-25 is ₹ 5,00,000. He has made the following investments/payments during the F.Y.2023-24

	₹
(1) Contribution to PPF	90,000
(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	10,000

Compute the eligible deduction under Chapter VI-A for the A.Y.2024-25. (Optional Regime)

Solution:

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

Particular	₹
Deduction under section 80C	
(1) Contribution to PPF	90,000
(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	25,000
	1,60,000
Deduction under section 80CCC	
(1) Contribution to approved pension fund of LIC	10,000
	1,70,000
As per section 80CCE, the aggregate deduction under section 80C, 80CCC and 80CCD has to be restricted to ₹ 1,50,000	
Deduction allowable under Chapter VI-A for the A.Y.2024-25	1,50,000

Deduction in case of contribution to notified Pension scheme section 80CCD

Shall be discussed under the head Salary

Deduction in respect of contribution to *Agnipath* Scheme Section 80CCH

(1) Where an assessee, being an individual enrolled in the Agnipath Scheme and subscribing to the Agniveer Corpus Fund on or after the 1st day of November, 2022, has in the previous year paid or deposited any amount in his account in the said Fund, he shall be allowed a deduction in the computation of his total income, of the whole of the amount so paid or deposited.

(2) Where the Central Government makes any contribution to the account of an assessee in the Agniveer Corpus Fund referred to in sub-section (1), the assessee shall be allowed a deduction in the computation of his total income of the whole of the amount so contributed.

Explanation.—For the purposes of this section,—

- (a) "Agnipath Scheme" means the scheme for enrolment in Indian Armed Forces introduced vide letter No.1(23)2022/D(Pay/Services), dated the 29th December, 2022 of the Government of India in the Ministry of Defence;
- (b) "Agniveer Corpus Fund" means a fund in which consolidated contributions of all the Agniveers and matching contributions of the Central Government along with interest on both these contributions are held.

Under default regime only deduction u/s 80CCH(2) shall be allowed.

Section 80D

1. Deduction shall be allowed only to an individual or Hindu Undivided Family.
2. Deduction shall be allowed if the assessee has made payment towards
 - (i) Medical Insurance or
 - (ii) Central Government Health Scheme or such other scheme as may be notified by the Central Government in this behalf
 - (iii) Preventive Health Check-up
3. Individual can make payment for wife or husband or dependent children and deduction shall be allowed equal to the amount paid but subject to a maximum of ₹25,000 but in case of senior citizen deduction shall be allowed upto ₹50,000.

If the individual has taken policy in the name of parents (dependent or independent), additional deduction shall be allowed to the extent of the premium paid but maximum ₹25,000, however, if the policy has been taken in the name of senior citizen, deduction shall be allowed to the extent of ₹50,000.

Deduction for Preventive Health Check up shall be maximum ₹5,000 in aggregate for self, spouse, dependant children and parents. Parents may be dependant or independant

Hindu Undivided Family can take the policy in the name of any of its members and deduction shall be allowed in the similar manner.

Payment should be made otherwise than in cash but payment for preventive health check-up can be made in any manner.

In case of a senior citizen, in general medi-claim policy is not issued hence expenditure can be incurred on their medical treatment and deduction for such expenditure shall also be allowed but limit shall be the same as given above.

- e.g. (i) Mr. X has taken medi claim policy in his name and paid premium ₹27,000 by cheque, in this case deduction allowed shall be ₹25,000 but if Mr. X is a senior citizen, deduction allowed shall be ₹27,000
- (ii) Mr. X has paid ₹7,000 for self for preventive health checkup and ₹7,000 for preventive health checkup of his father, in this case deduction allowed shall be ₹5,000
- (iii) Mr. X paid premium of medi claim policy by cheque for self, spouse and children ₹22,000 and for parents ₹28,000, in this case deduction allowed shall be ₹47,000
- (iv) Mr. X paid premium of medi claim policy ₹15,000 in cash, deduction allowed shall be Nil
- (v) Mr. X paid premium of medi claim policy by cheque ₹18,000 in the name of his father who is not dependant on Mr. X, deduction allowed shall be ₹18,000

In case premium is paid for more than one year, proportionate deduction shall be allowed e.g. Mr. X paid

premium of ₹ 30,000 for 2 years, in this case deduction allowed shall be 15,000 for each of the year.

Illustration 10: Mr. X, aged 40 years, paid medical insurance premium of ₹18,000 by cheque 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 ₹26,000 by cheque during the year to insure the health of his father, aged 63 years, who is not dependent on him. He contributed ₹ 5,000 by cheque 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.

Solution:

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	18,000	18,000
(ii)	Contribution to CGHS	5,000	5,000
(iii)	Exp. on preventive health check-up of self & spouse	3,000	2,000
		26,000	25,000
B.	Premium paid and medical expenditure incurred for father, who is a senior citizen		
(i)	Mediclaime premium paid for father, who is 63 years of age	26,000	26,000
(ii)	Expenditure on preventive health check-up of father	4,000	3,000
		30,000	29,000
	Total deduction under section 80D (25,000 + 29,000)		54,000

Illustration 11: Mr. X, aged 40 years, paid medical insurance premium of ₹ 20,000 by cheque during the P.Y.2023-24 to insure his health as well as the health of his spouse and dependent children. He also paid medical insurance premium of ₹51,000 by cheque during the year to insure the health of his father, aged 67 years, who is not dependent on him. He contributed ₹6,000 by cheque to Central Government Health Scheme during the year. Compute the deduction allowable under section 80D for the A.Y.2024-25.

Solution:

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

Particulars		₹
(i)	Medical insurance premium paid for self, spouse and dependent children	20,000
(ii)	Contribution to CGHS	6,000
		<u>26,000</u>
	Deduction allowed	25,000
(iii)	Mediclaime premium paid for father, who is 67 years of age (restricted to 50,000)	50,000
		75,000

Note – The total deduction under (i) and (ii) above should not exceed ₹ 25,000. In this case, since the total of (i) and (ii) is exceeding ₹25,000 (i.e., ₹ 26,000) hence it is restricted to ₹ 25,000.

Illustration 12: Mr. Arjun (52 years old) furnishes the following particulars in respect of the following payments:

S. No.	Particulars	Amount (₹)
1.	Premium paid for insuring the health of – <ul style="list-style-type: none"> • Self • Spouse • Dependant son • Mother 	10,000 8,000 4,000 18,000
2.	Paid for Preventive Health Check-up of	

	<ul style="list-style-type: none"> • himself • spouse • mother 	2,000 1,500 4,000
3.	Incurred medical expenditure of ₹ 25,000 and ₹15,000 for his mother, aged 80 years and father, aged 85 years. Both mother and father are resident in India.	

Compute the deduction available to Mr. Arjun under section 80D for the A.Y. 2024-25.

Solution:

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

S. No.	Particulars	Amount (₹)
1.	I. In respect of premium paid for insuring the health of -	
	• Self	10,000
	• Spouse	8,000
	• Dependant son	4,000
		<u>22,000</u>
	II. In respect of expenditure on preventive health check-up of -	
• Self	2,000	
• Spouse	1,500	
	<u>3,500</u>	
	Restricted to [₹25,000 – ₹ 22,000, since maximum deduction is ₹25,000]	3,000
	Aggregate of deduction (I+II) under (1) restricted to	25,000
2.	I. In respect of payment towards health insurance premium for his mother	18,000
	II. In respect of preventive health check-up of his mother [₹4,000, restricted to ₹2,000, (₹5,000 – ₹3,000), since maximum deduction for preventive health check-up under section 80D is ₹5,000]	2,000
	III. Medical expenditure for father would only be eligible for deduction [See Note below]	<u>15,000</u>
		<u>35,000</u>
	Amount of deduction under (2)	35,000
	Total deduction under section 80D [(1) + (2)]	60,000

Note: Irrespective of the fact that the mother of Arjun is a very senior citizen the deduction under section 80D would not available to him in respect of the medical expenditure incurred for his mother, since Mr. Arjun has taken a health insurance policy for his mother.

MAY – 2015 (4 Marks)

Compute the eligible deduction under Chapter VI-A for the Assessment year 2024-25 of Ms. Roma, who has a gross total income of ₹15,00,000 for the assessment year 2024-25 and provide the following informations about his investments/payments during the financial year 2023-24:

Sl. No.	Particulars	Amount (₹)
1.	Life Insurance premium paid (Policy taken on 01.01.2012 and sum assured is ₹1,50,000)	35,000
2.	Public Provident Fund contribution.	90,000
3.	Repayment of Housing loan to Bhartiya Mahila Bank, Bangalore.	20,000
4.	Payment to L.I.C. Pension Fund	25,000
5.	Mediclaime Policy taken for self, spouse and dependent children, premium paid by cheque	20,000
6.	Medical Insurance premium paid for parents (Senior Citizen), premium paid by cheque	25,000

Solution:

Gross Total Income

₹ 15,00,000

Less:

Deduction u/s 80C

L.I.C. Premium paid (Paid ₹35,000, but maximum allowed 20% of ₹1,50,000)	30,000	
P.P.F. amount paid	90,000	
Repayment of housing loan to Bhartiya Mahila Bank	20,000	
<u>Deduction u/s 80 CCC</u>		
L.I.C. pension fund	<u>25,000</u>	
Total	1,65,000	
Maximum deduction allowed 80CCE		(1,50,000)
<u>Deduction u/s 80D</u>		
Mediclaime for self, spouse and dependent children (assumed amount paid through cheque)		(20,000)
Mediclaime premium for parents (assumed amount paid through cheque)		(25,000)
Total Income		13,05,000

NOV – 2011 (3 Marks)

The gross total income of Mr. X for the Assessment Year 2024-25, was ₹12,00,000. He has made the following investments/payments during the financial year 2023-24.

1. L.I.C. Premium paid (Policy value ₹1,00,000) (Policy taken after 01.04.2012)	25,000
2. P.P.F. amount paid	70,000
3. Repayment of housing Loan to Indian Bank	50,000
4. Payment made to L.I.C. pension fund	25,000
5. Medical insurance premium for self, wife and dependant Children.	18,000
6. Mediclaime premium for parents (aged over 80 years)	30,000

Compute eligible deduction under Chapter VI-A for the Assessment Year 2024-25 and also compute his tax liability. (Optional Regime)

Answer:	₹	₹
Gross Total Income		12,00,000
Less:		

Deduction u/s 80C

L.I.C. Premium paid (Paid ₹25,000, but maximum allowed 10% of ₹1,00,000)	10,000
P.P.F. amount paid	70,000
Repayment of housing loan to Indian Bank	50,000

Deduction u/s 80 CCC

L.I.C. pension fund	<u>25,000</u>
Total	1,55,000

Maximum deduction allowed 80CCE (1,50,000)

Deduction u/s 80D

Mediclaime for self, wife and dependant children (assumed amount paid through cheque)	(18,000)
Mediclaime premium for parents (assumed amount paid through cheque)	(30,000)
Total Income	10,02,000

Computation of Tax Liability

Tax on ₹10,02,000 at slab rate	1,13,100
Add: HEC @ 4%	4,524
Tax Liability	1,17,624
Rounded off u/s 288B	1,17,620

JUNE – 2009 (2 Marks)

Mr. X, an individual, made payment of health insurance premium to General Insurance Corporation in an approved scheme. Premium paid on his health is ₹10,000 and his spouse's health is ₹15,000 during the year 2023-24. He also paid health insurance premium of ₹25,000 on his father's health who is a senior citizen and not dependent on him. The payments have not been made by cash. Compute the amount of deduction under Chapter VI-A of the Act, available to Mr. X from his gross total income for the assessment year 2024-25.

Answer.

Mr. X will be eligible to claim deduction under section 80D on payment of health insurance premium. The premium is paid otherwise than by way of cash and hence qualifies for deduction under section 80D. Therefore, the amount of deduction under section 80D would be –

Particulars	Amount (₹)
On health insurance premium paid on the health of himself and his spouse (₹10,000 + ₹15,000 = ₹25,000)	25,000
On health insurance premium paid on the health of his father, ₹25,000 (whether dependent or not)	<u>25,000</u>
Total deduction under section 80D	<u>50,000</u>

Section 80DD

1. Deduction is allowed only to a resident individual and a resident Hindu Undivided Family.
2. Deduction is allowed if the assessee has incurred any expenditure for the medical treatment, training and rehabilitation etc. of a dependant disabled person, or has deposited any amount with LIC or any other insurer for the benefit of such dependant.
3. "Dependant" in the case of an individual, means the spouse, children, parents, brothers and sisters who are dependant on the individual and in the case of Hindu Undivided Family means any member of the Hindu Undivided Family who is dependant on such Hindu Undivided Family.
4. Deduction allowed shall be ₹75,000 irrespective of the expenditure incurred by the assessee and in case of severe disability, deduction allowed shall be ₹1,25,000.
5. The assessee should enclose a certificate with the return from prescribed medical authority.
6. The beneficiary should received the amount after the death of the person who has deposited the amount or when the person depositing the amount has completed the age of 60 years or more

Illustration 13: Mr. X is a resident individual. He deposits a sum of ₹25,000 with Life Insurance Corporation every year for the maintenance of his handicapped grandfather. A copy of the certificate from the medical authority is submitted. Compute the amount of deduction available under section 80DD for the A.Y. 2024-25.

Solution: Since the amount deposited by Mr. X was for his grandfather, he will not be allowed any deduction under section 80DD. The deduction is available if the individual assessee incurs any expense for a dependant disabled relative. Grandfather does not come within the definition of dependant relative.

Illustration 14: What will be the deduction if Mr. X had made this deposit for his dependant father?

Solution: Since the expense was incurred for a dependant disabled relative, Mr. X will be entitled to claim a deduction of ₹75,000 under section 80DD, irrespective of the amount deposited. In case his father has severe disability, the deduction would be ₹1,25,000.

MAY – 1997 (4 Marks)

In respect of assessment year 2024-25, an author of text-books for schools furnishes the following particulars and request you to work out his tax liability:

	₹	₹
1. Royalty from Printers Ltd. on publication of books		2,20,000
2. Capital gains long term		1,90,000
3. Other Sources:		
(a) Interest on Bank fixed Deposits	12,000	
(b) Dividend income from Indian company	3,000	
(c) Income from units of U.T.I.	5,000	20,000

Deductions: (i) Contributions towards:	
(a) LIC Pension Scheme	15,000
(b) LIC Premium	10,000
(ii) Contribution to public provident fund	10,000
(iii) Investment in National Savings Certificates	50,000
(iv) Medical treatment of handicapped dependent relative	20,000

(Optional Regime)

Answer:

Income under the head Capital Gains (LTCG) ₹ 1,90,000

Computation of income under the head Other Sources

Royalty income	2,20,000
Interest from bank fixed deposits	12,000
Dividend income	3,000
Interest from units of UTI	5,000

Income under the head Other Sources 2,40,000

Gross Total Income 4,30,000

Less: Deduction u/s 80C

 LIC Premium (10,000)

 Contribution in Public provident fund (10,000)

 National Saving Certificate (50,000)

Less: Deduction u/s 80CCC (15,000)

Less: Deduction u/s 80DD (75,000)

Total Income 2,70,000

Computation of Tax Liability

Tax on LTCG ₹20,000 (₹1,90,000 – ₹1,70,000) @ 20% u/s 112 4,000

Tax on ₹80,000 at slab rate Nil

Less: Rebate u/s 87A (4,000)

Tax Liability Nil

Section 80U

- (1) Deduction shall be allowed only to a resident individual who is a disabled person and deduction allowed shall be ₹75,000 but in case of severe disability, deduction allowed shall be ₹1,25,000.
- (2) The assessee should enclose a certificate with the return from prescribed medical authority.

e.g. (i) Mr. X is suffering from a disability and has income under the head salary ₹10,00,000 and he has invested ₹1,00,000 in NSC, in this case deduction allowed under section 80C shall be ₹1,00,000 and under section 80U shall be ₹75,000

(ii) Mr. X is suffering from a severe disability and has income under the head salary ₹10,00,000 and he has invested ₹2,00,000 in NSC, in this case deduction allowed under section 80C shall be ₹1,50,000 and under section 80U shall be ₹1,25,000.

Section 80DDB

1. Deduction is allowed only to a resident individual or resident Hindu Undivided Family.
2. Deduction is allowed if the assessee has incurred any amount for treatment of such disease as are specified in the rule 11DD.
3. The expenditure can be incurred for himself or a dependant person, and in case of an individual, such person may be spouse, children, parents, brothers or sisters who are dependant on such individual and in case of Hindu Undivided Family such person may be any member of the Hindu Undivided Family who is dependant on the Hindu Undivided Family.
4. Deduction allowed shall be the amount incurred or ₹40,000 whichever is less and if the amount has been paid with regard to a Senior Citizen, deduction allowed shall be upto ₹1,00,000.
5. Deduction allowed shall be reduced by the amount received under medi claim insurance and also by the amount which has been paid by the employer.
6. The assessee should enclose a certificate with the return from prescribed medical authority.

Example

Mr. X has incurred ₹1,25,000 on the treatment of a specified disease for himself, in this case deduction allowed shall be ₹40,000 but if a claim of ₹10,000 has been received under medi-claim policy, deduction allowed shall be ₹30,000. If Mr. X is a senior citizen, deduction allowed shall be $1,00,000 - 10,000 = 90,000$

Section 80E

1. Deduction is allowed only to an individual.
2. Deduction is allowed if the assessee has paid interest on loan taken by him from any financial institutions or any approved charitable institution.
3. The loan should have been taken for pursuing higher education which means any course of study pursued after passing the Senior Secondary Examination or its equivalent.
4. Education can be either of self or spouse or children or any person for whom the assessee is legal guardian.
5. The entire amount of interest paid by an individual is allowed as deduction.
6. No deduction shall be allowed for repayment of the principal loan amount.
7. Deduction is allowed for a maximum period of 8 years starting from the year in which first payment of interest was given.
8. Approved charitable institution means the institution notified by the Central Government.
Financial institution means banking company or other financial institution notified by the Government.
9. No deduction is allowed after the period of 8 years.

Example

Mr. X has taken a loan of ₹2,00,000 from State Bank on 01.10.2016 for pursuing MBBS course & after becoming a doctor he has given payment of interest of ₹45,000 on 01.10.2023, in this case deduction allowed shall be ₹45,000.

Illustration 15: Mr. X has taken three education loans on April 1st, 2023, the details of which are given below:

	Loan 1	Loan 2	Loan 3
For whose education loan was taken	Mr. X	Son of Mr. X	Daughter of Mr. X
Purpose of loan	MBA	B. Sc.	B.A.
Amount of loan (₹)	5,00,000	2,00,000	4,00,000
Annual repayment of loan (₹)	1,00,000	40,000	80,000
Annual repayment of interest (₹)	20,000	10,000	18,000

Compute the amount deductible under section 80E for the A.Y.2024-25.

Solution:

Deduction under section 80E is available to an individual assessee in respect of any interest paid by him in the previous year in respect of loan taken for pursuing his higher education or higher education of his spouse or children. Higher education means any course of study pursued after senior secondary examination.

Therefore, interest repayment in respect of all the above loans would be eligible for deduction.

Deduction under section 80E = ₹20,000 + ₹10,000 + ₹18,000 = ₹48,000

Section 80G

Deduction is allowed to all the assesseees if they have given any donation or contribution to any of the below mentioned institutions or funds and deduction allowed shall be in the manner given below:

Category A Deduction is allowed equal to 100% of donation

1. The Prime Minister's National Relief Fund
2. The Prime Minister's Armenia Earthquake Relief Fund
3. The National Foundation for Communal Harmony
4. The National Defence Fund
5. The National Children's Fund
6. The Africa Fund
7. A University or any educational institution of national eminence as may be approved by the prescribed authority in this behalf

8. The Chief Minister's Earthquake Relief Fund, Maharashtra
9. The Andhra Pradesh Chief Minister's Cyclone Relief Fund, 1996
10. Any fund set up by the State Government of Gujarat for providing relief to the victims of earthquake
11. The Chief Minister's Relief Fund
12. The Lieutenant Governor's Relief Fund in respect of any Union territory
13. Zila Saksharta Samiti.
14. The National Blood Transfusion Council
15. The State Blood Transfusion Council.
16. The National Illness Assistance Fund
17. The Army Central Welfare Fund
18. The Air Force Central Welfare Fund
19. The Indian Naval Benevolent Fund
20. The National Sports Fund
21. The National Cultural Fund
22. The Fund for Technology Development and Application
23. Any fund set up by a State Government to provide medical relief to the poor
24. The National Trust for Welfare of Persons suffering with Autism, Cerebral Palsy, Mental Retardation and Multiple Disabilities.
25. Swachh Bharat Kosh
26. Clean Ganga Fund
27. National Fund for Control of Drugs
28. The Prime Minister's Citizen Assistance and Relief in Emergency Situations Fund (PM CARES FUND)

Category B Deduction shall be allowed equal to 50% of Donation

1. The Prime Minister's Drought Relief Fund

Category C Deduction shall be allowed equal to 50% of Qualifying amount (Not Donation)

Donation can be given to any institution or fund which is notified by the government and such institution may be social, religious, charitable or other similar organisations including local authority.

Category D Deduction shall be allowed equal to 100% of Qualifying amount (Not Donation)

Donation can be given to government or to any local authority (e.g. MCD), Institution or association as may be approved by the central government for the purpose of promoting family planning. Similarly deduction shall be allowed to a company for donation to the Indian Olympic Association or to any other association or institution established in India notified by the government.

Qualifying amount = 10% of the adjusted gross total income or the donation (except donation to the above mentioned 28+1 funds) given, whichever is less.

Adjusted gross total income = Gross Total Income – Long term capital Gains (including LTCG u/s 112A) – Short term capital gains u/s 111A – All Deduction under section 80C to 80U except section 80G

No deduction shall be allowed under this section in respect of any donation unless such donation is of a sum of money i.e. if donation is given in kind, deduction is not allowed.

Donation can be given in cash upto ₹2,000.

Illustration 16: Mr. X has income from business/profession ₹6,00,000 and long term capital gain ₹4,00,000 and short term capital gain u/s 111A ₹2,00,000 and casual income ₹1,00,000.

He has paid premium of a mediclaim policy amounting to ₹20,000 taken in the name of his dependant grand father who is senior citizen and payment was made by a cheque on 09.01.2024.

He has given premium of Jeevan Suraksha policy ₹7,000, has donated ₹12,000 to the National Defence Fund, ₹4,000 to The Prime Minister's Drought Relief Fund and ₹3,00,000 to a charitable institution and ₹1,00,000 to a social organization and ₹4,00,000 to religious organization and all such organization are notified under section 80G. (all the donations was made by cheque)

Compute his total income and tax liability for A.Y. 2024-25. (Optional Regime)

(b) Presume in the above question the assessee has given donation of ₹10,000 by cheque for promotion of family planning also to the Government.

Compute his total income and tax liability for the assessment year 2024-25. (Optional Regime)

(c) Presume in part (b), donation to government for family planning is ₹2,00,000 by cheque. (Optional Regime)

Solution 16(a):

	₹
Income under the head Business/Profession	6,00,000.00
Income under the head Capital Gain (LTCG)	4,00,000.00
Income under the head Capital Gain (STCG u/s 111A)	2,00,000.00
Income under the head Other Sources (casual income)	1,00,000.00
Gross Total Income	13,00,000.00
Less: Deduction u/s 80CCC	(7,000.00)
Less: Deduction u/s 80G	
(i) National Defence Fund	(12,000.00)
(ii) The Prime Minister's Drought Relief Fund	(2,000.00)
(iii) Charitable Institution/ Social organization/ Religious organization	(34,650.00)

Working Note:

Charitable Institution	3,00,000
Social organization	1,00,000
Religious organization	<u>4,00,000</u>
	<u>8,00,000</u>

$$\begin{aligned} \text{AGTI} &= \text{GTI} - \text{LTCG} - \text{STCG u/s 111A} - \text{Deduction u/s 80C to 80U (except 80G)} \\ &= 13,00,000 - 4,00,000 - 2,00,000 - 7,000 \\ &= 6,93,000 \end{aligned}$$

$$\begin{aligned} \text{Qualifying amount} &= 10\% \text{ of AGTI or donation whichever is less} \\ &= 69,300 \text{ or } 8,00,000 \text{ whichever is less} \\ &= 69,300 \end{aligned}$$

$$50\% \text{ of the qualifying amount} = 34,650$$

Total Income

12,44,350.00

Computation of Tax Liability

Tax on casual income ₹1,00,000 @ 30% u/s 115BB	30,000.00
Tax on STCG ₹2,00,000 @ 15% u/s 111A	30,000.00
Tax on LTCG ₹4,00,000 @ 20% u/s 112	80,000.00
Tax on normal income ₹5,44,350 at slab rate	21,370.00
Tax before health & education cess	1,61,370.00
Add: HEC @ 4%	6,454.80
Tax Liability	1,67,824.80
Rounded off u/s 288B	1,67,820.00

Solution 16(b):

Computation of Total Income

Gross Total Income	13,00,000.00
Less: Deduction u/s 80CCC	(7,000.00)
Less: Deduction u/s 80G	
(i) National Defence Fund	(12,000.00)
(ii) The Prime Minister's Drought Relief Fund	(2,000.00)
(iii) Other Donations u/s 80G	(39,650.00)

Working Note:

	₹
Charitable Institution	3,00,000
Social organization	1,00,000

religious organization	4,00,000
Family planning	<u>10,000</u>
	<u>8,10,000</u>
AGTI = GTI – LTCG – STCG u/s 111A – Deduction u/s 80C to 80U (except 80G)	
= 13,00,000 – 4,00,000 – 2,00,000 – 7,000	
= 6,93,000	
Qualifying amount = 10% of AGTI or donation whichever is less	
= 69,300 or 8,10,000 whichever is less	
= 69,300	
Deduction of donation for family planning ₹10,000	
50% of balance amount (i.e. ₹59,300) ₹29,650	
Total deduction allowed 10,000 + 29,650 = 39,650	

Total Income 12,39,350.00

Computation of Tax Liability

Tax on casual income ₹1,00,000 @ 30% u/s 115BB	30,000.00
Tax on STCG ₹2,00,000 @ 15% u/s 111A	30,000.00
Tax on LTCG ₹4,00,000 @ 20% u/s 112	80,000.00
Tax on normal income ₹5,39,350 at slab rate	20,370.00
Tax before health & education cess	1,60,370.00
Add: HEC @ 4%	6,414.80
Tax Liability	1,66,784.80
Rounded off u/s 288B	1,66,780.00

Solution 16(c):

₹

Computation of Total Income

Gross Total Income	13,00,000.00
Less: Deduction u/s 80CCC	(7,000.00)
Less: Deduction u/s 80G	
(i) National Defence Fund	(12,000.00)
(ii) The Prime Minister's Drought Relief Fund	(2,000.00)
(iii) Other donations u/s 80G	(69,300.00)

Working Note:

₹

Charitable Institution	3,00,000
Social organization	1,00,000
religious organization	4,00,000
Family planning	<u>2,00,000</u>
	<u>10,00,000</u>
AGTI = GTI – LTCG – STCG u/s 111A – Deduction u/s 80C to 80U (except 80G)	
= 13,00,000 – 4,00,000 – 2,00,000 – 7,000	
= 6,93,000	
Qualifying amount = 10% of AGTI or donation whichever is less	
= 69,300 or 10,00,000 whichever is less	
= 69,300	
Donation for family planning is ₹2,00,000 but maximum deduction allowed shall be ₹69,300	

Total Income 12,09,700.00

Computation of tax liability

Tax on casual income ₹1,00,000 @ 30% u/s 115BB	30,000.00
Tax on STCG ₹2,00,000 @ 15% u/s 111A	30,000.00
Tax on LTCG ₹4,00,000 @ 20% u/s 112	80,000.00
Tax on normal income ₹5,09,700 at slab rate	14,440.00
Tax before health & education cess	1,54,440.00

Add: HEC @ 4%	6,177.60
Tax Liability	1,60,617.60
Rounded off u/s 288B	1,60,620.00

MAY – 2017**Question 6(a) (ii)****(4 Marks)**

Mr. Rohan, a resident individual has Gross Total Income of ₹7,50,000 comprising of Income from Salary and income from house property for the assessment year 2024-25. He provides the following information:

Paid ₹70,000 towards premium on life insurance policy of his Handicapped Son (Section 80U disability). Sum assured ₹4,00,000 ; and date of issue of policy 1-8-2019.

Deposited ₹90,000 in tax saver deposit in the name of his major son in State Bank of India.

Contributed by cheque ₹25,000 to The Clean Ganga Fund, set up by the Central Government. Compute the Total Income and deduction under Chapter VI-A for the Assessment year 2024-25.

Solution:**Computation of Total Income and deduction under chapter VI-A**

Gross Total Income	₹ 7,50,000
Less: Deduction under chapter VI-A	
Deduction u/s 80C for LIC Premium (15% of 4,00,000)	(60,000)
Deposited in Tax Saver Deposit in the name of major son	(Nil)
Deduction u/s 80G – Contribution in Clean Ganga Fund (100%)	(25,000)
Total Income	6,65,000

Note: Tax Saver deposits in the name of major son does not qualify for deduction u/s 80C since such deposits has to be made in the name of assessee himself.

NOV – 2008 (4 Marks)

Mr. X declares gross total income ₹4,00,000 for the assessment year 2024-25. The gross total income includes taxable long term capital gain ₹ 65,000 and short term capital gain ₹35,000 which is taxable @ 15% under section 111A of the Income-tax Act, 1961. The details of fund investment made during the year 2023-24 are:

(i) Medical insurance premium paid by cheque –	
(a) in the name of Mr. X	4,000
(b) in name of Mrs. X	5,000
(ii) Contribution made to –	
(a) Indira Gandhi Memorial Trust by cheque	7,000
(b) Delhi University (declared as an institution of national eminence) by cheque	3,000
(c) Zila Saksharta Samiti by cheque	5,000
(d) An approved charitable institute by cheque	30,000
(e) Government by cheque for the purpose of promoting family planning	10,000
(f) Hanuman Temple in Mohalla by cheque	20,000

Compute the total income of Mr. X chargeable to tax for the Assessment year 2024-25 and also compute his tax liability. (Optional Regime)

Answer.**(₹)****Computation of Total Income of Mr. X for the A.Y. 2024-25**

Gross Total Income	4,00,000.00
Less : Deduction	
Section 80D	
Medical insurance premium paid by cheque	
(i) in the name of Mr. Prasad	(4,000.00)
(ii) in name of Mrs. Prasad	(5,000.00)
Section 80G	

Donation to Indira Gandhi Memorial trust	Nil
Donation to Delhi University @ 100%	(3,000.00)
Donation to Zila Saksharta Samiti @ 100%	(5,000.00)
Other donations u/s 80G	(19,550.00)

Working Note:

Donation to approved Charitable Institute	30,000
Donation to Government for promoting family planning	<u>10,000</u>
	<u>40,000</u>

AGTI = GTI – LTCG – STCG u/s 111A – Deduction u/s
80C to 80U (Except 80G)

$$= 4,00,000 - 65,000 - 35,000 - 9,000$$

$$= 2,91,000$$

Qualifying amount = 10% of AGTI or donation whichever is less
= 29,100 or 40,000
= 29,100

Deduction for family planning ₹10,000

50% of balance amount (i.e. 19,100)
= 9,550

Total deduction = 10,000 + 9,550 = 19,550

Total Income 3,63,450.00

Computation of Tax Liability

Tax on LTCG ₹65,000 @ 20% u/s 112	13,000.00
Tax on STCG ₹35,000 @ 15% u/s 111A	5,250.00
Tax on ₹2,63,450 at slab rate	672.50
Less: Rebate u/s 87A	(12,500.00)
Tax before health & education cess	6,422.50
Add: HEC @ 4%	256.90
Tax Liability	6,679.40
Rounded off u/s 288B	6,680.00

NOV – 2002 (4 Marks)

For the assessment year 2024-25, the gross total income of Mr. X was ₹4,50,240 which includes long term capital gain of ₹45,000 and short term capital gain of ₹80,000. The gross total income also includes interest income (fixed deposits) from banks of ₹12,000.

Mr. X has invested in public provident fund ₹60,000 and also paid medical insurance premium ₹11,000 by cheque. Mr. X also contributed ₹15,000 by cheque to public charitable trust eligible for deduction u/s 80G.

Compute the total income and tax thereon of Mr. X, who is 50 years old as on 31.03.2024. (Optional Regime)

Answer:**Computation of Total Income**

	₹
Long Term Capital Gain	45,000.00
Short Term Capital Gain	80,000.00
Bank Interest	12,000.00
Other Income	3,13,240.00
Gross Total Income	4,50,240.00
Less: Deduction u/s 80C {Public Provident Fund}	(60,000.00)
Less: Deduction u/s 80D	(11,000.00)
Less: Deduction u/s 80G	(7,500.00)

Working Note:

AGTI = GTI – LTCG – Deductions u/s 80C to 80U (Except 80G)

$$= 4,50,240 - 60,000 - 45,000 - 11,000$$

$$= ₹3,34,240$$

Qualifying Amount = 10% of AGTI or Donation given whichever is less
 = ₹33,424 or 15,000
 = 15,000
 50% of qualifying amount = ₹7,500

Total Income	3,71,740.00
Computation of Tax Liability	
Tax on long term capital gain ₹45,000 @ 20% u/s 112	9,000.00
Tax on normal income ₹3,26,740 at slab rate	3,837.00
Less: Rebate u/s 87A	(12,500.00)
Tax before HEC	337.00
Add: HEC @ 4%	13.48
Tax liability	350.48
Rounded off u/s 288B	350.00

Section 80GG

1. Deduction is allowed only to an individual.
2. He should not be getting any house rent allowance and also he is not being provided with Rent Free Accommodation by his employer.
3. He should not have any house in his name or in the name of the spouse or in the name of minor child or in the name of Hindu Undivided Family of which he is a member, at a place where he ordinarily resides or performs duties of his office or carries on his business or profession.
4. The assessee may have house at any other place but it should not be self occupied i.e. it may be let out or vacant.
5. He has paid rent for the accommodation taken by him for his residence.
6. Deduction shall be allowed to such individual in case of payment of rent and deduction shall be allowed to the extent of the least of the following:
 - (i) Rent paid over 10% of the adjusted gross total income
 - (ii) ₹5,000 p.m.
 - (iii) 25% of the adjusted gross total income

Adjusted Gross Total Income = Gross Total Income – Long term capital gains (including LTCG u/s 112A)
 – Short term capital gains u/s 111A – All Deduction of section 80C to 80U except section 80GG.

- Deduction can be allowed even where the assessee is not an employee i.e. the persons having business/profession can also avail deduction under section 80GG.

Illustration 17: Mr. X has income under the head Business/Profession ₹5,00,000 and LTCG of ₹2,00,000, STCG u/s 111A ₹3,00,000 and casual income of ₹1,00,000.

He is paying rent for a house of ₹40,000 p.m. He has deposited ₹30,000 in home loan account scheme of National Housing Bank.

He has complied with all the condition of section 80GG.

Compute income tax liability for A.Y. 2024-25. (Optional Regime)

Solution:

	₹
Income under the head Business/Profession	5,00,000
Computation of income under the head Capital Gain	
Long Term Capital Gain	2,00,000
Short Term Capital Gain u/s 111A	3,00,000
Income under the head capital gain	5,00,000
Computation of income under the head Other Sources	
Casual income	1,00,000
Income under the head Other Sources	1,00,000
Gross Total Income	11,00,000
Less:	
Deduction u/s 80C	(30,000)
Deduction u/s 80GG	(60,000)

Working Note:

Least of the following:

1. ₹4,80,000 – 57,000 = 4,23,000

2. 60,000

3. 25% x 5,70,000 = 1,42,500

AGTI = GTI – LTCG – STCG 111A – Deduction u/s 80C to 80U

(except 80GG)

= 11,00,000 – 2,00,000 – 3,00,000 – 30,000

= 5,70,000

Total Income 10,10,000

Computation of Tax Liability

Tax on casual income ₹ 1,00,000 @ 30% 30,000

Tax on LTCG ₹2,00,000 @ 20% 40,000

Tax on STCG 111A ₹ 3,00,000 @ 15% 45,000

Tax on ₹4,10,000 at slab rate 8,000

Tax before health & education cess 1,23,000

Add: HEC @ 4% 4,920

Tax Liability 1,27,920

MAY – 2000 (4 Marks)

Mr. X is a retired Government officer aged 40 years, who derived the following income in respect of financial year 2023-24. He resides in Cochin: ₹

Salary 6,00,000

Interest from bank deposits (fixed deposits) 2,00,000

He has paid ₹28,000 as premium to effect an insurance on his health and it was paid by a cheque. He pays a rent of ₹10,000 per month in respect of furnished accommodation. He is eligible for deduction under Section 80GG. Compute his total income and tax liability for assessment year 2024-25. (Optional Regime)

What are the conditions to be satisfied by him to qualify for the deduction?

Answer:

Salary ₹ 6,00,000.00

Less: Deduction u/s 16(ia) (50,000.00)

Income under the head Salary 5,50,000.00

Income under the head Other Sources {Bank Interest} 2,00,000.00

Gross Total Income 7,50,000.00

Less: Deduction under section 80D (25,000.00)

Less: Deduction under section 80GG (47,500.00)

Working Note:

Least of the following:

1. ₹1,20,000 – ₹72,500 = ₹47,500

2. ₹60,000

3. 25% x 7,25,000 = ₹1,81,250

(AGTI = ₹7,50,000 – ₹25,000 = ₹7,25,000)

Total Income 6,77,500.00

Computation of Tax Liability

Tax on ₹6,77,500 at slab rate 48,000.00

Add: HEC @ 4% 1,920.00

Tax Liability 49,920.00

Section 80GGA

Deduction is allowed to all the assesseees except the assesseees whose gross total income includes income which is chargeable under the head “Profits and gains of business or profession”. (because such assesseees is allowed to debit the amount to profit and loss account of business/profession)

Deduction is allowed in case of donation or contributions to any of the below mentioned institutions.

Deduction allowed is equal to the amount of donations.

- (i) Donation given to an institution notified under section 35 for scientific research / research in social science or statistical research.
- (ii) Donation given to an institution notified under section 35AC for eligible project i.e. the projects of social or economic importance like construction of houses for the poor person or taking up drinking water project or other similar projects.
- (iii) Donation given to an institution notified under section 35CCA for rural development including donation to Rural Development Fund setup by central Government or donation to National Urban Poverty Eradication Fund.

Donation can be given in cash upto ₹2,000.

Example:

(i) Mr. X has donated ₹2,00,000 by cheque to an institution notified under section 35AC for eligible projects and Mr. X do not have any business/profession, in this case he will be allowed deduction under section 80GGA for ₹2,00,000 provided the payee has filed the statement but if he has business/profession, he will not be allowed deduction under section 80GGA rather he will be allowed to debit the amount to profit and loss account.

(ii) ABC Ltd. has donated ₹2,00,000 by cheque to an institution notified under section 35CCA for rural development and company has business/profession, in this case deduction under section 80GGA is not allowed but company can debit the amount to profit and loss account.

Illustration 18: Mr. X has income under the head salary ₹6,00,000 and income under the head house property ₹7,00,000 and he has submitted information as given below:

- (i) Paid premium of life policy ₹40,000 (sum assured ₹1,50,000) and policy has taken before 01.04.2012 in the name of Mr. X
 - (ii) Paid premium of life policy ₹40,000 (sum assured ₹1,50,000) and policy has taken after 01.04.2012 in the name of Mrs. X
 - (iii) Paid premium of life policy ₹40,000 (sum assured ₹1,50,000) and policy has taken before 01.04.2012 in the name of father of Mr. X who is dependant on Mr. X.
 - (iv) Paid premium of life policy ₹40,000 (sum assured ₹1,50,000) and policy has taken before 01.04.2012 in the name of son of Mr. X who is not dependant on Mr. X.
 - (v) He has donated ₹1,00,000 by cheque in rural development fund setup by government.
 - (vi) He has paid premium of Jeevan Suraksha Policy ₹10,000 by cheque in the name of Mrs. X.
 - (vii) He has paid ₹15,000 in cash in connection with preventive health checkup for his father.
 - (viii) He has donated ₹60,000 by cheque to a charitable institution notified under section 80G
- Compute his tax liability assessment year 2024-25. (Optional Regime)

Solution:

	₹
Income under the head Salary	6,00,000
Income under the head House Property	7,00,000
Gross Total Income	13,00,000
Less: Deduction u/s 80C	
Premium of life policy in name of Mr. X	(30,000)
Premium of life policy in name of Mrs. X	(15,000)
Premium of life policy in name of Son	(30,000)
Less: Deduction u/s 80D (Preventive Health Checkup)	(5,000)
Less: Deduction u/s 80GGA	(1,00,000)
Less: Deduction u/s 80G	
Charitable Institution	(30,000)

Working Note:

$$\begin{aligned}
 \text{AGTI} &= \text{GTI} - \text{Deductions u/s 80C to 80U (Except 80G)} \\
 &= 13,00,000 - 30,000 - 15,000 - 30,000 - 1,00,000 - 5,000 \\
 &= ₹11,20,000
 \end{aligned}$$

$$\begin{aligned}
 \text{Qualifying Amount} &= 10\% \text{ of AGTI or Donation given whichever is less} \\
 &= ₹1,12,000 \text{ or } 60,000
 \end{aligned}$$

= 60,000
50% of qualifying amount = ₹30,000

Total Income 10,90,000

Computation of Tax Liability

Tax on ₹10,90,000 at slab rate	1,39,500
Add: HEC @ 4%	5,580
Tax Liability	1,45,080

MAY – 2011 (3 Marks)

Mr. X having gross total income of ₹6,35,000 for the financial year 2023-24 furnishes you the following information:

- (i) Paid ₹25,000 towards premium on life insurance policy of his married daughter.
- (ii) Contributed ₹10,000 by cheque to Prime Minister's National Relief Fund.
- (iii) Donated ₹20,000 to a Government recognized institution (by cheque) for scientific research.

Note: Assume that the gross total income of Mr. X does not include any income under the head 'profits and gains of business or profession'.

Compute the total income of Mr. X for the assessment year 2024-25.

Answer.

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

Particulars	₹	₹
Gross Total Income		6,35,000
Less: Deductions under Chapter VI-A		
(i) Premium on life insurance policy of his married daughter - Eligible for deduction under section 80C	25,000	
(ii) Contribution of ₹10,000 to PM's National Relief Fund - Eligible for 100% deduction under section 80G	10,000	
(iii) Payment of ₹20,000 to a Government recognized institution for scientific research - Eligible for deduction under section 80GGA	20,000	
		<u>(55,000)</u>
Total Income		<u>5,80,000</u>

Donation to Political Party Section 80GGB

Deduction shall be allowed to an Indian Company in case of donation or contribution to a political party or electoral trust and deduction is allowed equal to the amount of donation or contribution. Donation is not allowed in cash. The word "contribute" has the same meaning as given in section 182 of the Companies Act, 2013, which provides that a donation or subscription or payment given by a company to a person for carrying on any activity which is likely to effect public support for a political party shall also be deemed to be contribution for a political purpose. The expenditure incurred, directly or indirectly, by a company on advertisement in any publication (being a publication in the nature of a souvenir, brochure, tract, pamphlet or the like) by or on behalf of a political party or for its advantage shall also be deemed to be a contribution to such political party or a contribution for a political purpose to the person publishing it.

Illustration 19: During the P.Y.2023-24, ABC Ltd., an Indian company,

- (1) contributed a sum of ₹2 lakh to an electoral trust; and
- (2) incurred expenditure of ₹25,000 on advertisement in a brochure of a political party.

Is the company eligible for deduction in respect of such contribution/expenditure, assuming that the contribution was made by cheque? If so, what is the quantum of deduction?

Solution:

An Indian company is eligible for deduction under section 80GGB in respect of any sum contributed by it in the previous year to any political party or an electoral trust. Further, the word "contribute" in section 80GGB has the meaning assigned to it in section 182 of the Companies Act, 2013, and accordingly, it includes the amount of expenditure incurred on advertisement in a brochure of a political party.

Therefore, ABC Ltd. is eligible for a deduction of ₹2,25,000 under section 80GGB in respect of sum of ₹2 lakh contributed to an electoral trust and ₹25,000 incurred by it on advertisement in a brochure of a political party.

Donation to Political Party Section 80GGC

If any other person has given donation/contribution to a political party/electoral trust, deduction shall be allowed equal to the amount of donation but donation in cash is not allowed.

Deduction in case of new employment Section 80JJAA

1. Deduction is allowed **to all assessee** whose accounts are required to be audited.
2. Deduction shall be allowed equal to **30% of the salary paid to the employees employed in the first year. In the second year or third year deduction shall be allowed @ 30% of salary but only for those employees whose employment has effect of increasing the number of employees employed as on the last day of the preceding year.** E.g. ABC Ltd. commenced business in the year 2023-24 and has given employment to 100 employees, in this case deduction shall be allowed @ 30% of the salary of the employees. In P.Y. 2024-25, 20 employees have left the job and 70 new have joined, in this case net increase is of 50 employees, they will be called additional employees and 30% of their salary shall be allowed as deduction and in third year also deduction shall be allowed in the similar manner.
3. Deduction is allowed for **3 assessment years** including the assessment year in which such employment is provided.
4. It should be a new business.
5. **Emoluments should be paid through** account payee cheque, an account payee bank draft or by use of electronic clearing system through a bank account or through such other electronic modes as may be prescribed. (Other electronic mode means Credit Card, Debit Card, Net Banking, IMPS (Immediate Payment Service), UPI (Unified Payment Interface), RTGS (Real Time Gross Settlement), NEFT (National Electronic Funds Transfer), and BHIM (Bharat Interface for Money) Aadhaar Pay)
7. **No deduction shall be allowed with regard to the employees given below:**
 - (a) an employee whose total emoluments are more than twenty-five thousand rupees per month; or
 - (b) an employee employed for a period of less than two hundred and forty days during the previous year.

In the case of an assessee who is engaged in the business of manufacturing of apparel or footwear or leather products, 240 days shall be taken as 150 days.

Where an employee is employed during the previous year for a period of less than two hundred and forty days or one hundred and fifty days, as the case may be, but is employed for a period of two hundred and forty days or one hundred and fifty days, as the case may be, in the immediately succeeding year, he shall be deemed to have been employed in the succeeding year and the provisions of this section shall apply accordingly.

The Assessee shall be required to submit a certificate from a Chartered Accountant in form No. 10DA certifying the amount of deduction claimed.

NOV-2016 (4 Marks)

Mr. Satya is a manufacturer of household goods in a factory located in Navi Mumbai and commenced his business on 1st April 2023 and he employed 120 new work men during the previous year 2023-24 which included:

- (a) 20 employee whose total emoluments paid @ ₹30,000 p.m. per employee;
- (b) 40 worker employed on 01st April, 2023
- (c) 35 worker employed on 1st May, 2023
- (d) 25 worker employed on 5th October, 2023

Compute the Deduction under Section 80JJAA, if available to Mr. Satya for Assessment year 2024-25, if wages are paid to each worker @ ₹3,000 per month. His profit from the manufacture of goods for Assessment year 2024-25 is ₹9.50 lakhs. (after debiting all the wages paid)

The Assessee is liable to Audit his accounts.

If in the previous year 2024-25, he has given employment to 35 workmen on 01-05-2024 and each getting salary 15,000 per month. Compute deduction allowed in previous year 2024-25.

If in the previous year 2025-26, he has given employment to 40 workmen on 01-05-2025 and each getting salary 12,000 per month. Compute deduction allowed in previous year 2025-26.

Solution:

Mr. Satya is eligible for deduction under section 80JJAA since he is liable to Audit of his accounts in the previous year 2023-24. Deduction allowed shall be as given below:

(a) 20 employee whose total emoluments paid @ ₹30,000 p.m. per employee	- Not eligible
(b) 40 worker employed on 01 st April, 2023	- Eligible – 3,000 x 12 x 40 = 14,40,000
(c) 35 worker employed on 1 st May, 2023	- Eligible – 3,000 x 11 x 35 = 11,55,000
(d) 25 worker employed on 5 th October, 2023	- will be considered next year
Total	25,95,000
Deduction allowed @ 30%	7,78,500

Previous year 2024-25

(a) 25 worker employed on 5 th October, 2023	- eligible – 3,000 x 12 x 25 =	9,00,000
(b) New Employed in P.Y. 2024-25 (01.05.2024)	eligible – 15,000 x 11 x 35=	57,75,000
Total		66,75,000
Deduction allowed @ 30%		20,02,500

Previous year 2025-26

(a) New Employed in P.Y. 2025-26 (01.05.2025)	eligible – 12,000 x 11 x 40=	52,80,000
Total		52,80,000
Deduction allowed @ 30%		15,84,000

Section 80QQB

1. Deduction is allowed only to a resident individual who is an author.
2. He should have income through his copyright in a book which is a work of literary, artistic or scientific nature but such should not be text-books for schools/colleges etc. and also it should not be any help book or guide etc. or any newspaper or magazine etc.
3. Deduction allowed shall be equal to the amount of royalty income or ₹3,00,000 whichever is less.
4. Royalty received by the author in excess of 15% of the value of such books sold during the previous year shall be ignored.
5. In respect of any income earned from any source outside India, so much of the income shall be taken into account for the purpose of this section as is brought into India by the assessee in convertible foreign exchange within a period of six months from the end of the previous year in which such income is earned or within such further period as the competent authority may allow in this behalf. E.g. Mr. X received a royalty of ₹4,00,000 from outside India in connection with a book of literary nature but amount brought in India within 6 months from the end of relevant previous year is ₹2,30,000, in this case amount to be added to income shall be ₹4,00,000 but deduction allowed shall be ₹2,30,000.
6. The Assessee should retain information with him in form no. 10CCD and it should be produced when demanded by the department.

Illustration 20: Mrs. X is author of one book of scientific nature and its print price is ₹500 and total copies sold are 2000 and she has received royalty @ 50%.

She has taken a loan from State Bank in 2015 for pursuing bachelor's degree in Engineering and she has given repayment of principal amount ₹80,000 and interest ₹20,000 to State Bank. (payment of interest was given for the first time in financial year 2020-21)

She has paid tuition fee of her son for whole time education ₹ 3,000 in India

Compute Income Tax liability A.Y. 2024-25. (Optional Regime)

Solution:

Income under the head Other Sources

₹

500 x 50% x 2000	5,00,000.00
Gross Total Income	5,00,000.00
Less: Deduction u/s 80C Tuition Fee	(3,000.00)
Less: Deduction u/s 80E Payment of Interest	(20,000.00)
Less: Deduction u/s 80QQB 500 x 15% x 2000	(1,50,000.00)
Total Income	3,27,000.00
Computation of tax liability	
Tax on ₹3,27,000 at slab rate	3,850.00
Less: Rebate u/s 87A	(3,850.00)
Tax Liability	Nil

Example 1: Mr. X received royalty of ₹2,00,000 from abroad for a book authored by him which is a work of artistic nature. The rate of royalty is 20% of value of books and expenditure made for earning this royalty was ₹50,000. The amount remitted to India till 30th September, 2024 is ₹1,20,000. Compute deduction u/s 80QQB and also compute income to be added in Gross Total Income.

Solution:

Amount to be added in Income (2,00,000-50,000) 1,50,000

Deduction allowed u/s 80QQB

Deductions u/s 80QQB 70,000

15% of value of books (2,00,000/20% x 15%) but cannot exceed amount brought in India within 6 months from the end of the previous year i.e. 1,20,000	1,50,000
Allowed	1,20,000
Less: Expenses	(50,000)
Deduction allowed	70,000

Example 2: Mr. X received royalty of ₹6,00,000 from abroad for a book authored by him which is a work of artistic nature. The rate of royalty is 25% of value of books and expenditure made for earning this royalty was ₹2,50,000. The amount remitted to India till 30th September, 2024 is ₹3,80,000. Compute deduction u/s 80QQB and also compute income to be added in Gross Total Income.

Solution:

Amount to be added in Income (6,00,000-2,50,000) 3,50,000

Deduction allowed u/s 80QQB

Deductions u/s 80QQB 1,10,000

15% of value of books (6,00,000/25% x 15%) but cannot exceed amount brought in India within 6 months from the end of the previous year i.e. 3,80,000	3,60,000
Allowed	3,60,000
Less: Expenses	(2,50,000)
Deduction allowed	1,10,000

Example 3: Mr. X received royalty of ₹10,00,000 from ABC Ltd. situated in India for a book authored by him which is a work of artistic nature. The rate of royalty is 10% of value of books and expenditure made

for earning this royalty was ₹5,00,000. Compute deduction u/s 80QQB and also compute income to be added in Gross Total Income.

Solution:

Amount to be added in Income (10,00,000-5,00,000) 5,00,000

Deduction allowed u/s 80QQB

Deductions u/s 80QQB 3,00,000

Royalty received	10,00,000
Less: Expenses	(5,00,000)
Deduction allowed	5,00,000
But maximum ₹3,00,000	

Example 4: Mr. X received royalty (lumpsum) of ₹6,00,000 from abroad for a book authored by him which is a work of artistic nature. Expenditure made for earning this royalty was ₹2,50,000. The amount remitted to India till 30th September, 2024 is ₹4,00,000. Compute deduction u/s 80QQB and also compute income to be added in Gross Total Income.

Solution:

Amount to be added in Income (6,00,000-2,50,000) 3,50,000

Deduction allowed u/s 80QQB

Deductions u/s 80QQB 1,50,000

Royalty received	6,00,000
but cannot exceed amount brought in India within 6 months from the end of the previous year i.e. 4,00,000	
Allowed	4,00,000
Less: Expenses	(2,50,000)
Deduction allowed	1,50,000

NOV – 2020

Mr. X received royalty of ₹2,88,000 from abroad for a book authored by him which is a work of artistic nature. The rate of royalty is 18% of value of books and expenditure made for earning this royalty was ₹40,000. The amount remitted to India till 30th September, 2024 is ₹2,30,000. Compute deduction u/s 80QQB. Also compute tax liability if he has income under the head House Property ₹7,00,000. (Optional Regime)

Solution: Deduction allowed u/s 80QQB

Deductions u/s 80QQB 1,90,000

15% of value of books (2,88,000/18% x 15%)	2,40,000
but cannot exceed amount received within 6 months from the end of the previous year i.e. 2,30,000	
Allowed	2,30,000
Less: Expenses	(40,000)
Deduction allowed	1,90,000

Computation of Total Income & Tax Liability

Income under the head house property	7,00,000
Income under the head other sources	
Royalty Received	2,88,000
Less: Expenses	(40,000)
Income under the head other sources	2,48,000
Gross Total Income	9,48,000
Less: Deduction u/s 80QQB	(1,90,000)
Total Income	7,58,000

Computation of Tax Liability

Tax on 7,58,000 at slab rate	64,100
Add: HEC @ 4%	2,564
Tax Liability	66,664
Rounded off u/s 288B	66,660

NOV – 2001 (3 Marks)

Mr. X, a writer and a professional furnishes the following particulars for the previous year ended 31.03.2024:

	₹
(a) Royalty on books (eligible for deduction u/s 80QQB)	42,000
(b) Expenditure on books	8,000
(c) Income from profession	3,80,000
(d) Deposited in public provident fund (15.03.2024)	70,000

You are required to compute

- (i) Taxable income,
- (ii) Tax payable for assessment year 2024-25. (Optional Regime)

Answer:

Computation of total income and tax payable by Mr. X

	₹
Income from business/profession	
Income from profession	3,80,000
Income under the head Business/Profession	3,80,000
Income under the head Other Sources	
Royalty on books	42,000
Less: Expenses	(8,000)
Income under the head Other Sources	34,000
Gross Total Income	4,14,000
Less: Deduction u/s 80C	(70,000)
Less: Deduction u/s 80QQB	(34,000)
Total Income	3,10,000

Computation of Tax Payable

Tax on ₹3,10,000 at slab rate	3,000
Less: Rebate u/s 87A	(3,000)
Tax Payable	Nil

Section 80RRB

1. Deduction is allowed only to resident individual.
2. His gross total income should include royalty in respect of a patent.
3. Deduction allowed shall be equal to the amount of royalty or ₹3,00,000 whichever is less.
4. In respect of any income earned from any source outside India, so much of the income, shall be taken into account for the purpose of this section as is brought into India by the assessee in convertible foreign exchange within a period of six months from the end of the previous year in which such income is earned or within such further period as the competent authority may allow in this behalf.
5. The Assessee should retain information with him in form no. 10CCE and it should be produced when demanded by the department.

Section 80TTA

1. Deduction is allowed only to an individual or HUF. (Other than those covered in 80TTB)
2. Deduction is allowed is the assessee has interest income on saving bank accounts with any bank/ Post Office.
3. No deduction is allowed from interest on time deposit/ fixed deposit.
4. Deduction is allowed to the extent of ₹10,000.

E.g. Mr. X has interest income ₹8,000 from savings bank account with State Bank and interest income of ₹13,000 from fixed deposit with State Bank, deduction allowed under section 80TTA shall be ₹8,000.

As per section 10(15), Interest on Post Office Savings Bank Account to the extent of ₹3,500 per year shall be exempt from income tax and in the case of joint account, exemption shall be allowed upto ₹7,000 per year.

Example: Mr. X has Income under the head salary ₹7,00,000 and interest on post office savings bank account ₹7,000 and interest on savings bank account with State Bank ₹9,000, in this case tax liability of Mr. X shall be (Optional Regime)

		₹
Income under the head Salary		7,00,000
Income under the head Other sources		
Interest on Post office Saving Bank Account	7,000	
Less: Exemption u/s 10(15)	<u>(3,500)</u>	3,500
Interest on Saving Bank Account with SBI		9,000
Income under the head other sources		12,500
Gross Total Income		7,12,500
Less: Deduction u/s 80TTA		(10,000)
Total Income		7,02,500
Computation of Tax Liability		
Tax on ₹ 7,02,500 at slab rate		53,000
Add: HEC @ 4%		2,120
Tax Liability		55,120

Section 80TTB

Deduction shall be allowed only to a senior citizen with regard to interest income from banks/cooperative bank/ cooperative society/post office and further it may be in connection with time deposits/saving bank account or any other deposits.

Deduction shall be allowed upto such income but maximum ₹ 50,000.
(Deduction 80TTA not allowed)

Illustration 21: Mr. X, aged 62 years, earned professional income (computed) of ₹5,50,000 during the year ended 31.03.2024. He has earned interest of ₹14,500 on the saving bank account with State Bank of India during the year. Compute the total income of Mr. X for the assessment year 2024-25 from the following particulars:

- (i) Life insurance premium paid to Birla Sun life Insurance in cash amounting to ₹25,000 for insurance of life of his dependent parents. The insurance policy was taken on 15.07.2023 and the sum assured on life of his dependent parents is ₹ 1,25,000.
- (ii) Life insurance premium of ₹ 25,000 paid for the insurance of life of his major son who is not dependent on him. The sum assured on life of his son is ₹1,75,000 and the life insurance policy was taken on 18.04.2011.
- (iii) Life insurance premium paid by cheque of ₹ 22,500 for insurance of his life. The insurance policy was taken on 08.09.2023 and the sum assured is ₹ 2,00,000.
- (iv) Premium of ₹ 16,000 paid by cheque for health insurance of self and his wife (₹8,000 for self and ₹8,000 for spouse).
- (v) ₹1,500 paid in cash for his health check-up and ₹ 4,500 paid in cheque for health checkup for his parents.
- (vi) Paid interest of ₹ 6,500 on loan taken from bank for MBA course pursued by his daughter.
- (vii) A sum of ₹ 15,000 donated in cash to an institution approved for purpose of section 80G for promoting family planning.
- (viii) Contribution ₹ 10,500 made in cheque to an electoral trust.

Solution: Computation of total income of Mr. X for the Assessment Year 2024-25

Particulars	₹
Professional Income (computed)	5,50,000
Interest on saving bank deposit	<u>14,500</u>
Gross Total Income	5,64,500

Less: Deduction under Chapter VIA	
Under section 80C	
Life insurance premium paid for life insurance of:	
- major son	(25,000)
- self ₹ 22,500 restricted to 10% of ₹ 2,00,000	(20,000)
Under section 80D	
Premium paid for health insurance of self and wife by cheque	(16,000)
Payment made for health check-up: - Self	(1,500)
Parents ₹ 4,500 (but maximum amount PHC is ₹5,000)	(3,500)
Under section 80E	
For payment of interest on loan taken from bank for MBA course of his daughter	(6,500)
Under section 80GGC	
Contribution to electoral trust	(10,500)
Under section 80TTB	
Interest on savings bank account	(14,500)
Total Income	4,67,000

Illustration 22: For the Assessment year 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. (Optional Regime)

Solution: **Computation of total income and tax payable by Mr. Chaturvedi for the A.Y. 2024-25**

Particulars	₹	₹
Gross total income including capital gain		8,18,240
Less: Long term capital gain u/s 112		(2,45,000)
		5,73,240
Less: Deductions under Chapter VI-A:		
Under section 80C in respect of PPF deposit 1,20,000	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 u/s 288A		5,80,580

Computation of Tax Liability

	₹
LTCG ₹2,45,000 @ 20% u/s 112	49,000.00
Balance total income ₹3,35,580 at slab rate	1,779.00
	50,779.00
Add: Health and Education cess @4%	2,031.16
Total tax liability (Rounded off u/s 288B)	52,810.00

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

Adjusted Gross Total Income	3,53,240
10% of the above	35,324
Contribution made	50,000
Lower of the two eligible for deduction under section 80G	35,324
Deduction under section 80G – 50% of ₹35,324	17,662

2. 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.

3. 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.

Illustration 23: Mr. Rajmohan whose gross total income was ₹6,40,000 for the financial year 2023–24, furnishes you the following information:

(i) Stamp duty paid on acquisition of residential house (self-occupied) - ₹50,000.

(ii) Five year post office time deposit - ₹20,000.

(iii) Donation to a recognized charitable trust ₹25,000 which is eligible for deduction under section 80G at the applicable rate.

(iv) Interest on loan taken for higher education of spouse paid during the year - ₹10,000.

Compute the total income of Mr. Rajmohan for the Assessment year 2024-25.

Answer

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

Gross Total Income	₹ 6,40,000
Less: Deduction under Chapter VI-A	
Under section 80C	
Stamp duty paid on acquisition of residential house	(50,000)
Five year time deposit with Post Office	(20,000)
Under section 80E	
Interest on loan taken for higher education of spouse, being a relative.	(10,000)
Under section 80G (See Note below)	
Donation to recognized charitable trust (50% of ₹25,000)	(12,500)
Total Income	₹ 5,47,500

Note: In case of deduction under section 80G in respect of donation to a charitable trust, the net qualifying amount has to be restricted to 10% of adjusted total income, i.e., gross total income less deductions under Chapter VI-A except 80G. The adjusted total income is, therefore, ₹5,60,000 (i.e. 6,40,000 – ₹80,000), 10% of which is ₹56,000, which is higher than the actual donation of ₹25,000. Therefore, the deduction under section 80G would be ₹12,500, being 50% of the actual donation of ₹25,000.

MAY – 2019 (OLD COURSE) 4 Marks

(i) Prakash is retired Government Officer aged 65 years, resides in Cochin, derived following income:

	₹
Pension	6,60,000
Interest from bank on fixed deposits (Gross)	55,000

Compute the total income of Mr. Prakash for the assessment year 2024-25 from the following particulars:

(i) Life insurance premium paid by cheque ₹22,500 for insurance of his life. The insurance policy was taken on 08-09-2020 and the sum assured is ₹2,00,000.

(ii) Premium of ₹ 26,000 paid by cheque for health insurance of self.

(iii) ₹ 1,500 paid in cash and ₹ 4,500 paid through cheque for preventive health check-up of his parents, who are senior citizens.

(iv) Paid interest ₹ 6,500 on loan taken from bank for MBA course pursued by his daughter.

(v) A sum of ₹ 15,000 donated in cash to an institution approved for purpose of section 80G for promoting family planning.

Solution:

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

Income under the head salary	₹
Pension	6,60,000
Gross salary	6,60,000
Less: Standard deduction u/s 16(ia)	(50,000)
Income under the head salary	6,10,000
Income under the head other sources	
Interest income on Fixed Deposits	55,000
Income under the head other sources	55,000
Gross Total Income	6,65,000
Less: Deduction u/s 80C- LIC (22,500 limited to 10% of 2,00,000)	(20,000)
Less: Deduction u/s 80D- Health Insurance	(26,000)
Less: Deduction u/s 80D- PHC of parents (6,000 limited to 5,000)	(5,000)
Less: Deduction u/s 80E Interest paid on higher studies	(6,500)
Less: Deduction u/s 80TTB - Interest on FD	(50,000)
Total Income	5,57,500

Note:

1. As per section 80D, Maximum deduction of PHC can be allowed is 5,000 whether paid in cash or by cheque.
2. As per section 80G, Deduction of Donation is not allowed if the payment is made in cash in excess of 2,000.
3. As per section 80TTB, Deduction shall be allowed in case of senior citizen receiving interest income from saving account or from FD. Maximum deduction can be 50,000.

Section 10AA

Units established in Special Economic Zone

1. Deduction shall be allowed to all the assesseees, may be individual, firm, company etc. provided the assessee has its unit in Special Economic Zone and it is engaged in manufacturing or in providing services including computer software

2. Quantum of deduction:

Deduction shall be allowed to the units in the Special Economic Zone for a continuous period of 15 years in the manner given below:

For first 5 Years	100% of export profits
For next 5 Years	50% of export profits
For next 5 Years	50% of export profit provided such profits have been credited to the Special Economic Zone Re-investment Reserve Account.

3. The amount credited to the Special Economic Zone Reinvestment Reserve Account should be utilised for acquiring a new plant and machinery within a period of 3 years. The period of 3 years shall be determined from the end of the previous year in which the reserve was created e.g. If amount has been transferred in reserve account in the previous year 2023-24, amount should be utilized for purchasing plant and machinery upto 31.03.2027.

If the amount credited to the Special Economic Zone Reinvestment Reserve Account is not utilised within 3 years, it will be taxable in the 4th year. Till the acquisition of plant and machinery amount will be utilized for the purpose of business/profession but it should not be used for distribution as dividends or for remittance out of India or for creation of asset out of India. After the assessee has purchased plant and machinery, information should be retained in form no.56FF

If the amount is misutilised within the period of 3 years, it will be taxable in the year in which it was misutilised.

$$4. \text{ Export profits} = \frac{\text{Profits of Business} \times \text{Export Turnover}}{\text{Total Turnover}}$$

5. Export turnover means the consideration in respect of export by the undertaking, being the Unit of articles or things or services received in, or brought into, India by the assessee in convertible foreign exchange within a period of 6 months from the end of the previous year or within the time allowed by the competent authority, but does not include freight, telecommunication charges or insurance attributable to the delivery of the articles or things outside India or expenses, if any, incurred in foreign exchange in rendering of services (including computer software) outside India.

6. No deduction shall be allowed to an assessee who does not furnish the return of income within the time allowed u/s 139(1).

MAY – 2019 (3 Marks)

Krishna furnishes the following particulars for the previous year 2022-23 and 2023-24 in respect of an industrial undertaking established in “Special Economic Zone” during the financial year 2018-19.

Particulars	2022-23 (₹)	2023-24 (₹)
Total sales	60,00,000	85,00,000
Export sales	48,00,000	55,00,000
Domestic sales	12,00,000	30,00,000
Money received in or brought to India in convertible foreign exchange up to 30-09-2023/30-09-2024.	43,20,000	40,00,000
Profit from the above undertaking	6,00,000	10,00,000

Total Sales of F.Y. of 2023-24 includes freight of ₹ 5 lacs for delivery of goods outside India. Compute the amount of deduction available to Mr. Krishna under section 10AA.

Solution:

Computation of the amount of deduction available to Mr. Krishna u/s 10AA

Since A.Y. 2024-25 is the 6th assessment year from A.Y. 2019-20, relevant to the previous year 2018-19, 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.

$$= (\text{Profit of Unit in SEZ} / \text{Total Turnover of Unit in SEZ} \times \text{Export turnover of Unit in SEZ}) \times 50\%$$

$$= (10,00,000 / 80,00,000 \times 35,00,000) \times 50\%$$

$$= 2,18,750$$

Working Note:

Export Turnover

Sale proceeds received in India	40,00,000
Less: Freight not includible in export turnover	(5,00,000)
	35,00,000

Total turnover

	85,00,000
Less: Freight not includible [Since freight has been excluded from export turnover, the same has to be excluded from total turnover also].	(5,00,000)
	80,00,000

NOV – 2018 (NEW COURSE) 6 Marks

Mrs. Vibha Gupta, a resident individual is running a SEZ unit, as well as a unit in Domestic Tariff Area (DTA). She furnishes the following details relating to the year ended 31-3-2024, pertaining to these two units (₹ in lakhs)

	DTA Unit	SEZ Unit
Export turnover	100	1000
Total turnover	400	1100
Net profit	50	220

Compute the deduction available u/s 10AA:

(i) When the SEZ unit had been set up on 12-3-2016, and

(ii) When the SEZ unit had been set up on 12-8-2021

Solution:

(i) 50% of the profit derived from export of articles or things or services is eligible for deduction under section 10AA, F.Y.2023-24 falls in the next five year period commencing from the year of manufacture or production of articles or things or provision of services by the Unit in SEZ. As per section 10AA, the profit derived from export of articles or things or services shall be

$$\begin{aligned}
 &= \text{Profit of the business of Unit in SEZ} \times \frac{\text{Export Turnover of Unit in SEZ}}{\text{Total Turnover of Unit in SEZ}} \\
 &= 50\% \text{ of } ₹ 220 \text{ lakhs} \times \frac{1000 \text{ Lakhs}}{1100 \text{ Lakhs}} \\
 &= 50\% \times ₹ 200 \text{ lakhs} \\
 &= ₹ 100 \text{ lakhs}
 \end{aligned}$$

(ii) 100% of the profit derived from export of articles or things or services is eligible for deduction under section 10AA, F.Y.2023-24 falls in the first five year period commencing from the year of manufacture or production of articles or things or provision of services by the Unit in SEZ. As per section 10AA, the profit derived from export of articles or things or services shall be

$$\begin{aligned}
 &= \text{Profit of the business of Unit in SEZ} \times \frac{\text{Export Turnover of Unit in SEZ}}{\text{Total Turnover of Unit in SEZ}} \\
 &= 100\% \text{ of } ₹ 220 \text{ lakhs} \times \frac{1000 \text{ Lakhs}}{1100 \text{ Lakhs}} \\
 &= 100\% \times ₹ 200 \text{ lakhs} \\
 &= ₹ 200 \text{ lakhs}
 \end{aligned}$$

MAY – 2016 (4 Marks)

Mr. Suresh has set up an undertaking in SEZ (Unit A) and another undertaking in DTA (Unit B) in the financial year 2018-19. In the Previous year 2023-24, total turnover of the unit A is ₹180 lacs and total turnover of Unit B is ₹120 lacs. Export Turnover of Unit A for the year is ₹150 lacs and Profit for the unit A is ₹60 lacs.

Calculate the deduction available, if any, to Mr. Suresh under section 10AA of the Income-tax Act, 1961, for the Assessment Year 2024-25, If the manufacturing started in Unit A in the Financial year 2018-19.

Solution:

As per Section 10AA, in case of a unit in SEZ, Deduction shall be allowed to the extent of 100% of Export Profits in the first five years and 50% of export profits in the next five years. In the given case Unit was setup in Financial year 2018-19 hence it is sixth year in Previous year 2023-24 and Deduction shall be allowed to the extent of 50% of export profit and shall be as given below:

$$\begin{aligned}
 &= \text{Profit of the business of Unit in SEZ} \times \frac{\text{Export Turnover of Unit in SEZ}}{\text{Total Turnover of Unit in SEZ}} \\
 &= ₹ 60 \text{ lacs} \times \frac{150 \text{ Lacs}}{180 \text{ Lacs}} \\
 &= ₹ 50 \text{ lacs}
 \end{aligned}$$

$$\begin{aligned}
 \text{Deduction allowed} &= 50\% \text{ of } ₹ 50 \text{ lacs} \\
 &= ₹ 25 \text{ lacs}
 \end{aligned}$$

$$\text{Taxable amount of Unit A} (\text{₹} 60 \text{ lacs} - \text{₹} 25 \text{ lacs}) = \text{₹} 35 \text{ lacs}$$

MAY – 2015 (4 Marks)

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

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

Calculate the eligible deduction under section 10AA of the Income-tax Act, 1961, for the Assessment Year 2024-25, in the following situations:

(i) If both the units were set up and start manufacturing from 22.05.2017.

(ii) If both the units were set up and start manufacturing from 14.05.2021.

Solution:

(i) 50% of the profit derived from export of articles or things or services is eligible for deduction under section 10AA, F.Y.2023-24 falls in the next five year period commencing from the year of manufacture or production of articles or things or provision of services by the Unit in SEZ. As per section 10AA, the profit derived from export of articles or things or services shall be

$$\begin{aligned}
 &= \text{Profit of the business of Unit in SEZ} \times \frac{\text{Export Turnover of Unit in SEZ}}{\text{Total Turnover of Unit in SEZ}} \\
 &= 50\% \text{ of ₹ 60 lakhs} \times \frac{300 \text{ Lakhs}}{400 \text{ Lakhs}} \\
 &= 50\% \times ₹45 \text{ lakhs} \\
 &= ₹22.5 \text{ lakhs}
 \end{aligned}$$

(ii) 100% of the profit derived from export of articles or things or services is eligible for deduction under section 10AA, F.Y.2023-24 falls in the first five year period commencing from the year of manufacture or production of articles or things or provision of services by the Unit in SEZ. As per section 10AA, the profit derived from export of articles or things or services shall be

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

NOV – 2013 (4 Marks)

Mr. X is running two industrial undertakings, one in a SEZ (Unit A) and another in a Domestic Tariff Area (Unit B). The brief details for the year ended 31.03.2024 are as under:

Particulars	Amount (₹ in lacs)	
	Unit A	Unit B
Domestic turnover	10	100
Export turnover	120	Nil
Gross Profit	20	10
Less: Expenses and depreciation	(07)	(05)
Profits derived from the units	13	05

The brought forward business loss pertaining to assessment year 2021-22 for Unit B is ₹3.2 lacs. Briefly compute the business income of the assessee.

Answer.

Computation of business income of Mr. X

Particulars	₹ (in lacs)
Profit derived from Units A (20 lacs -7 lacs)	13.0

Less: Deduction under section 10AA ($\frac{13 \times 120}{130}$)	(12.0)
Income from unit A	1.0
Profit derived from Units B (₹ 10 lacs - ₹ 5 lacs)	05.0
Less: Set-off of brought forward business loss as per section 72	(3.2)
Income from unit B	<u>1.8</u>
Total Income from unit A & B (1+1.8)	<u>2.8</u>

Note - 100% of the profit derived from export of articles or things or services is eligible for deduction under section 10AA, assuming that F.Y.2023-24 falls within the first five year period commencing from the year of manufacture or production of articles or things or provision of services by Unit A in SEZ.

MAY – 2011 (5 Marks)

ABC Ltd. is running two industrial undertakings, one in a SEZ (Unit S) and another in a normal area (Unit N). The brief summarized details for the year ended 31.03.2024 are as under:

	(₹ in lacs)	
	S	N
Domestic turnover	10	100
Export turnover	120	Nil
Gross profit	20	10
Less: Expenses and depreciation	(7)	(6)
Profits derived from the unit	13	4

The brought forward business loss pertaining to Unit N is ₹2 lacs. Briefly compute the business income of the assessee.

Answer. Computation of business income of ABC Ltd.

Particulars	₹ in lacs
Total profit derived from Units S & N (₹13 lacs + ₹4 lacs)	17
Less: Deduction under section 10AA ($\frac{13 \times 120}{130}$)	<u>(12)</u>
	5
Less: Brought forward business loss	<u>(2)</u>
	<u>3</u>

Note – 100% of the profit derived from export of articles or things or from services is eligible for deduction under section 10AA, assuming that F.Y. 2023-24 falls within the first five year period commencing from the year of manufacture or production of articles or things or provision of services by the Unit in SEZ.

MAY – 2011 (4 Marks)

	₹
Y Co. Ltd. Furnishes you the following information for the year ended 31.03.2024:	
Total turnover of Unit A located in Special Economic Zone	100 lakhs
Profit of the business of Unit A	30 lakhs
Export turnover of Unit A	50 lakhs
Total turnover of Unit B located in Domestic Tariff Area (DTA)	200 lakhs
Profit of the business of Unit B	20 lakhs
Compute deduction under section 10AA for the assessment year 2024-25.	

Answer.

100% of the profit derived from export of articles or things or services is eligible for deduction under section 10AA, assuming that F.Y.2023-24 falls within the first five year period commencing from the year of manufacture or production of articles or things or provision of services by the Unit in SEZ. As per section 10AA, the profit derived from export of articles or things or services shall be

$$= \text{Profit of the business of Unit A} \times \frac{\text{Export Turnover of Unit A}}{\text{Total Turnover of Unit A}}$$

$$= ₹ 30 \text{ lakhs} \times \frac{50}{100}$$

$$= ₹15 \text{ lakhs.}$$

EXAMINATION QUESTIONS

NOV – 2023

Question 4(b)**(3 Marks)**

Mr. Suraj, an Indian Citizen, gives the following details of his income and expenses during the year 2022-23:

	₹
Income from profession	11,70,000
Winnings from lottery	70,000
Contribution to ULIP 1971 plan for spouse	70,000
Cheque donation to National Defence Fund	60,000
Cheque donation to Government for promoting family planning	35,000
Cheque donation to approved public charitable institute	1,20,000

Compute the deduction under section 80G allowable to him for the assessment year 2023-24.

MAY – 2023

Question 4(b)**(4 Marks)**

Mr. Ray, a resident individual, aged 37 years gives the following information with respect to various loans taken by him from scheduled banks for various purposes-

- (i) A housing loan of ₹ 36,00,000/- taken on 15th March, 2022 for the purchase of a house to be used for self-residence at a cost of ₹ 47,00,000/-. The stamp duty value of the house was ₹ 42,00,000/- at the time of purchase. Amount of re-payment of loan during P.Y.2022-23 was:

(A) towards principal - ₹ 1,25,000/-

(B) towards interest - ₹ 3,65,000/-

This is the first and only residential house owned by Mr. Ray.

- (ii) A vehicle loan of ₹ 16,00,000/- taken on 31st October, 2021 for the purchase of electric vehicle for personal use. Amount of re-payment of loan during P.Y.2022-23 was:

(A) towards principal - ₹ 75,000/-

(B) towards interest - ₹ 1,90,000/-

Besides these loans, he has also paid a sum of ₹ 15,000 to a political party as contribution. The entire amount was paid in cash.

You are required to compute the amount of deduction(s) available to Mr. Ray under various provisions of Income-tax Act for A.Y.2023-24 so that he gets the maximum benefits assuming that he does not opt to pay tax under section 115BAC.

Answer:

Computation of amount of deductions available to Mr. Ray for A.Y. 2023-24

- (i) **Deduction allowable while computing income under the head “Income from house property”**
 Deduction under section 24(b) for interest on loan of ₹ 3,65,000 in respect of self-occupied property restricted to **2,00,000**
- (ii) **Deduction under Chapter VI-A from Gross Total Income**
Deduction under section 80C
 For repayment of loan of ₹ 1,25,000 to bank 1,25,000
Deduction under section 80EEA
 Since stamp duty value does not exceed ₹ 45 lakhs and Mr. Ray does not own any residential house, he is eligible for deduction of upto ₹ 1,50,000 in respect of such interest on loan since loan is sanctioned between 1.4.2019 and 31.3.2022.
 ₹ 3,65,000 – ₹ 2,00,000 [claimed as deduction u/s 24(b)] = ₹ 1,65,000 restricted to ₹ 1,50,000, being the maximum permissible deduction 1,50,000
Deduction under section 80EEB
 Deduction for interest on loan for purchase of electric vehicle of ₹1,90,000

Deduction From Gross Total Income

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restricted to ₹ 1,50,000, being the maximum permissible deduction, since loan is sanctioned between 1.4.2019 and 31.3.2023.

1,50,000

No deduction in respect of principal repayment of loan for purchase of electric vehicle is allowable

Deduction under section 80GGC

Contribution of ₹ 15,000 to political party not allowable since the sum is paid in cash

Nil

Deduction under Chapter VI-A from Gross Total Income

4,25,000

AGRICULTURAL INCOME

PARTICULARS	SECTIONS
Definition of agricultural income	2(1A)
• Rent or revenue derived from agricultural land	2(1A)(a)
• Income derived from agricultural land by agricultural operations	2(1A)(b)
• Income of a farm building	2(1A)(c)
Exemption of agricultural income	10(1)
Income which is partially agricultural and partially from business	Rule 7
Income from growing and manufacturing of rubber	Rule 7A
Income from growing and manufacturing of coffee	Rule 7B
Income from growing and manufacturing of tea	Rule 8

Question 1. [V. Imp.] Explain meaning of agricultural income.

Answer: Meaning of Agricultural Income Section 2(1A)

The term Agricultural Income is defined in three parts under Income Tax Act under section 2(1A) (a), 2(1A) (b), 2(1A) (c) as given below:

Income from leasing out of agricultural land Section 2(1A) (a)

If any person has given any agricultural land on rent, rent so received shall be considered to be agricultural income and shall be exempt from income tax e.g. Mr. X has ten acres of agricultural land in India which is given on lease at a rent of ₹ 2,00,000. It will be considered to be agricultural income.

If rent is received in kind, still it will be considered to be agricultural income e.g. Mr. X has leased out ten acres of agricultural land and has received wheat crop and it was sold for ₹2,00,000. In this case, ₹2,00,000 shall be considered to be his agricultural income.

The rent can either be received by the owner of the land or by the original tenant from the sub-tenant. It implies that ownership of land is not necessary. Thus, the rent received by the original tenant from sub-tenant would also be agricultural income.

If rent to be received has not been received in time and accordingly interest has been received, such interest shall not be considered to be agricultural income, rather it is his income under the head other sources.

If the agricultural land is situated outside India, income from agricultural land is taxable as income from other sources.

Rent received for letting out agricultural land for a movie shooting shall not be considered to be agricultural income.

Income from Agricultural Operations Section 2(1A)(b)

If any person is engaged in agricultural activities, income derived from such agricultural operations shall be considered to be agricultural income. If any company is doing agriculture, its income shall also be exempt.

Dividends received by a shareholder from the company having agricultural income

If any shareholder has received dividend from a company having income from agricultural activities, such income shall not be considered to be agricultural income rather it will be considered to be dividend income.

E.g. ABC Ltd. an Indian company has agricultural income of ₹500 lakhs and company has distributed dividend of ₹50 lakh and one of the shareholder Mr. X has received dividend of ₹8 lakh, in this case tax treatment shall be: Tax liability of ABC Ltd. Shall be nil as per section 10(1) and dividend received by Mr. X shall be taxable.

If any foreign company is doing agriculture, its agricultural income in India shall also be exempt and if the company has paid dividend, it will be taxable in the hands of the shareholder e.g. If in the above case it is a foreign company, its tax liability shall be nil and tax liability of shareholder shall be as given below:

Tax on ₹8,00,000 at slab rate	35,000
Add: HEC @ 4%	1,400
Tax Liability	36,400

Illustration 1: ABC Ltd. an Indian company has agricultural income ₹350 lakhs and company has distributed dividend of ₹60 lakhs to its shareholders and one of the shareholder Mr. X has received dividend of ₹7,00,000. Compute tax liability of the company and tax liability of shareholder.

Solution:

Tax liability of ABC Ltd. Shall be nil as per section 10(1),

Tax liability of shareholder shall be as given below:

Tax on ₹7,00,000 at slab rate	25,000
Less: Rebate u/s 87A	(25,000)
Tax Liability	Nil

(b) Presume it is foreign company.

Solution:

It is a foreign company, its tax liability shall be nil and tax liability of shareholder shall be as given below:

Tax on ₹7,00,000 at slab rate	25,000
Less: Rebate u/s 87A	(25,000)
Tax Liability	Nil

(c) Presume it is Indian company and income is from business and not from agriculture.

Solution:

Tax liability of the company shall be as given below:

Profit before tax	350,00,000.00
Income tax on ₹350,00,000 @ 30%	105,00,000.00
Add: Surcharge @ 7%	7,35,000.00
Add: HEC @ 4%	4,49,400.00
Income tax liability	116,84,400.00

Tax liability of the shareholder shall be as given below:

Tax on ₹7,00,000 at slab rate	25,000
Less: Rebate u/s 87A	(25,000)
Tax Liability	Nil

(d) Presume it is foreign company and income is from business and not from agriculture

Solution:

Tax liability of the company shall be as given below:

Profit before tax	350,00,000.00
Income tax on ₹350,00,000 @ 40%	140,00,000.00
Add: Surcharge @ 2%	2,80,000.00
Add: HEC @ 4%	5,71,200.00
Income tax liability	148,51,200.00

Tax liability of the shareholder shall be as given below:

Dividend from foreign company	7,00,000
Tax on ₹7,00,000 at slab rate	25,000
Less: Rebate u/s 87A	(25,000)
Tax Liability	Nil

Payments received by a partner from the partnership firm

If any partnership firm has agricultural income, it will be exempt from income tax and if partnership firm has paid any salary or interest to the partners, it will be considered to be agricultural income to the partners as decided in **R.M. Chidambaram Pillai v CIT (SC)**

If any partner has received any share out of profits of partnership firm, it will be exempt under section 10(2A) and it do not matter whether partnership firm has agricultural income or non-agricultural income.

If partnership firm has non-agricultural income, salary or interest received by a partner from the partnership firm shall be considered to be their income under the head business/profession as per section 28 and shall be taxable in the hands of partner e.g. XY partnership firm has two partners Mr. X and Mr. Y and profit sharing ratio is 1:1 and the firm has agricultural income ₹300 lakhs without debiting salary or interest to the partners. The firm has paid salary of ₹8 lakh to each of the partner and interest of ₹4 lakh to each of the partner. Mr. X has income under the head house property ₹6 lakh and Mr. Y has income under the head house property ₹7 lakh. Compute tax liability of the firm and also that of partners.

Solution:

Since partnership firm has agricultural income, it is exempt from income tax under section 10(1).

Tax liability of Mr. X shall be

Income under the head House Property	6,00,000
Agricultural income (₹8,00,000 + ₹4,00,000)	
12,00,000	
Partial integration	
Step 1. ₹6,00,000 + ₹12,00,000 = ₹18,00,000 at slab rate	2,40,000
Step 2. ₹3,00,000 + ₹12,00,000 = ₹15,00,000 at slab rate	(1,50,000)
Step 3. (₹2,40,000 – ₹1,50,000)	90,000
Less: Rebate u/s 87A	(25,000)
Tax before health & education cess	65,000
Add: HEC @ 4%	2,600
Tax Liability	67,600

Tax liability of Mr. Y shall be

Income under the head House Property	7,00,000
Agricultural income (8,00,000 + 4,00,000)	12,00,000
Partial integration	
7,00,000 + 12,00,000 = 19,00,000 at slab rate	2,70,000
3,00,000 + 12,00,000 = 15,00,000 at slab rate	(1,50,000)
(2,70,000 – 1,50,000)	1,20,000
Less: Rebate u/s 87A	(25,000)
Tax before health & education cess	95,000
Add: HEC @ 4%	3,800
Tax Liability	98,800

Share received out of profits is exempt under section 10(2A).

Presume in the above case partnership firm has income from business and not agricultural income.

Solution:

Tax Liability of partnership firm shall be as given below:

Profits before debiting salary and interest	300,00,000
Less: Salary and Interest	24,00,000
Income under the head Business/Profession	276,00,000
Gross Total Income/Total Income	276,00,000
Tax Liability 276,00,000 x 30%	82,80,000
Add: Surcharge @ 12%	9,93,600
Tax before health & education cess	92,73,600
Add: HEC @ 4%	3,70,944
Tax Liability	96,44,544
Rounded off u/s 288B	96,44,540
Tax Liability of Mr. X	
Income under the head Business/Profession (salary + interest)	12,00,000
Income under the head House Property	6,00,000
Gross Total Income/Total Income	18,00,000
Tax on ₹18,00,000 at slab rate	2,40,000
Add: HEC @ 4%	9,600
Tax Liability	2,49,600
Tax Liability of Mr. Y	
Income under the head Business/Profession (salary + interest)	12,00,000
Income under the head House Property	7,00,000
Gross Total Income/Total Income	19,00,000
Tax on ₹19,00,000 at slab rate	2,70,000
Add: HEC @ 4%	10,800

Tax Liability 2,80,800

Meaning of Agriculture: The term agriculture and agricultural purposes has not been defined under Income Tax Act, accordingly its meaning has been explained in **Raja Benoy Kumar Sahas Roy v CIT (SC)**. If any person has performed the following two operations, it will be called agriculture.

1. Basic Operations:

In order to constitute agriculture, there must be basic operations like ploughing of land, sowing of seeds, planting and similar kind of operations on the land.

2. Subsequent Operations:

After carrying out basic operations, there must be subsequent operations like **weeding, digging the soil around the growth, watering of the plant at regular intervals, using pesticides and insecticides to protect the crop and it will also include pruning, cutting, harvesting** etc.

(Pruning means to trim (a tree, shrub, or bush) by cutting away dead or overgrown branches or stems, especially to encourage growth.)

If there are basic and subsequent operations, it will be considered to be agricultural income even if what is produced is not food grains, example:

- (i) If a person is growing betel, coffee, tea, spices etc. through basic and subsequent operations, it will be agricultural income.
- (ii) If a person is growing commercial crops like cotton, flax, jute, indigo etc. through basic and subsequent operations, it will be considered to be agricultural income.
- (iii) If a person is growing trees like Sal, Seesam, Sangwan etc. for obtaining timber, it will be considered to be agricultural income, provided there are basic and subsequent operations.

Income which is partially agricultural and partially from business Rule 7

If any person is engaged in growing as well as manufacturing activity, in such cases it will be presumed that he has transferred his agricultural produce to his industrial undertaking at the market price and expenses on agriculture shall be deducted from such amount and balance shall be agricultural income. While computing income of business, such market price is allowed to be deducted as cost of raw material. E.g. Mr. X is engaged in growing of sugarcane and also has a sugar factory. He has incurred expenses of ₹3,00,000 in connection with growing of sugarcane crop. Entire sugarcane crop was transferred to the industrial unit when market price of sugarcane was ₹ 10,00,000. In this case, agricultural income of Mr. X shall be ₹ 7,00,000. While computing income of sugar factory, ₹ 10,00,000 shall be debited to profit and loss account as the cost of raw material.

Example

Mr. X grows sugarcane and uses the same for the purpose of manufacturing sugar in his factory. 50% of sugarcane produce is sold for ₹10 lacs, and the cost of cultivation of such sugarcane is ₹3 lacs. The cost of cultivation of the balance sugarcane (50%) is 3 lacs and the market value of the same is ₹10 lacs. After incurring ₹1.5 lacs in the manufacturing process on the balance sugarcane, the sugar was sold for ₹25 lacs.

Compute Mr. X's business income and agricultural income. Compute his Tax Liability.

Solution:

Agricultural income = Actual sale of sugarcane + Market value of sugarcane transferred to the manufacturing unit – Cost of cultivation
 = [₹10 lacs + ₹10 lacs] – [₹3 lacs + ₹3 lacs]
 = ₹20 lacs – ₹6 lacs
 = ₹14 lacs

Business income = Sales – Market value of 50% of sugarcane produce – Manufacturing expenses
 = ₹25 lacs – 10 lacs – 1.5 lacs
 = ₹13.5 lacs

Computation of tax liability

Step 1: Tax on (₹14,00,000 + ₹ 13,50,000 = ₹ 27,50,000)	5,25,000
Step 2: Tax on (₹ 3,00,000 + ₹ 14,00,000) = ₹ 17,00,000)	(2,10,000)
Step 3: ₹ 5,25,000 – ₹ 2,10,000	3,15,000
Tax before health & education cess	3,15,000
Add : HEC @ 4%	12,600

Tax Liability 3,27,600

Computation of income in case of growing and manufacturing of Rubber Rule 7A

If any person is engaged in growing and manufacturing of rubber, income shall be computed combined for agriculture as well as business and 35% of such income shall be business income and balance shall be agricultural income e.g. If income from growing + manufacturing is ₹100 lakhs, income from business shall be ₹35 lakhs and income from agriculture shall be ₹65 lakhs.

Computation of income from the growing and manufacturing of Coffee Rule 7B

If any person is engaged in growing and manufacturing of coffee, income shall be computed combined for agriculture as well as business and 40% of such income shall be business income and balance shall be agricultural income e.g. If income from growing + manufacturing is ₹100 lakhs, income from business shall be ₹40 lakhs and income from agriculture shall be ₹60 lakhs.

If any person is engaged in growing and curing of coffee, 25% of such income shall be business income and balance shall be agricultural income.

Computation of income in case of persons Growing and Manufacturing Tea Rule 8

If any person is engaged in growing and manufacturing of tea, income shall be computed combined for agriculture as well as business and 40% of such income shall be business income and balance shall be agricultural income e.g. If income from growing + manufacturing is ₹100 lakhs, income from business shall be ₹40 lakhs and income from agriculture shall be ₹60 lakhs.

Marketing operations /Marketing process

Process ordinarily employed to render the produce fit to be taken to the market: Sometimes, to make the agricultural produce a saleable commodity, it becomes necessary to perform some kind of process on the produce. The income from the process employed to render the produce fit to be taken to the market would be agricultural income.

However, it must be a process ordinarily employed by the cultivator or receiver of rent in kind and the process must be applied to make the produce fit to be taken to the market.

The ordinary process employed to render the produce fit to be taken to market includes threshing, winnowing, cleaning, drying, crushing etc.

For example, the process ordinarily employed by the cultivator to obtain the rice from paddy is to first remove the hay from the basic grain, and thereafter to remove the chaff from the grain. The grain has to be properly filtered to remove stones etc. and finally the rice has to be packed in gunny bags for sale in the market.

After such process, the rice can be taken to the market for sale. This process of making the rice ready for the market may involve manual operations or mechanical operations. All these operations constitute the process ordinarily employed to make the product fit for the market.

Example: Threshing is done in case of wheat crop to render it fit for sale, similarly, tobacco leaves are dried to make them fit for sale. In all such cases, it will continue to be agricultural income.

- **Income derived from animal husbandry, fisheries, poultry farming, dairy farming etc. shall not be considered to be agricultural income.**
- **Income derived from saplings or seedlings growing in a nursery shall be considered to be agricultural income. (whether basic and subsequent operations have been carried out or not)**
- **Income from sale of agricultural land shall not be considered to be agricultural income rather it will be considered to be capital gain.**

Illustration 2: Mr. X, a resident, has provided the following particulars of his income for the P.Y.2023-24.

i. Income under the head salary	₹3,40,000
ii. Income under the head house property	₹3,00,000
iii. Agricultural income from a land in Jaipur	₹1,80,000
iv. Expenses incurred for earning agricultural income	₹1,20,000

Compute his tax liability.

Solution: **Computation of total income and tax liability of Mr. X for the A.Y.2024-25**

Particulars	₹
Income under the head salary	3,40,000

Income under the head house property	3,00,000
Gross Total Income	6,40,000
Less: Deductions under Chapter VI-A	Nil
Total Income	6,40,000
Agricultural income (1,80,000 – 1,20,000) =	60,000
Computation of tax liability	
Step 1: Tax on (₹6,40,000 + ₹ 60,000 = ₹ 7,00,000)	25,000
Step 2: Tax on (₹ 3,00,000 + ₹ 60,000) = ₹ 3,60,000)	(3,000)
Step 3: ₹ 25,000 – ₹ 3,000	22,000
Tax before health & education cess	22,000
Add : HEC @ 4%	880
Tax Liability	22,880

Illustration 3: Mr. X grows sugarcane and uses the same for the purpose of manufacturing sugar in his factory. 30% of sugarcane produce is sold for ₹ 10 lacs, and the cost of cultivation of such sugarcane is ₹ 5 lacs. The cost of cultivation of the balance sugarcane (70%) is ₹14 lacs and the market value of the same is ₹22 lacs. After incurring ₹ 1.5 lacs in the manufacturing process on the balance sugarcane, the sugar was sold for ₹ 25 lacs. Compute Mr. X's business income and agricultural income.

Solution:

Income from sale of sugarcane gives rise to agricultural income and from sale of sugar gives rise to business income.

Business income = Sales – Market value of 70% of sugarcane produce – Manufacturing expenses
= ₹25 lacs – ₹22 lacs - ₹1.5 lacs = ₹1.5 lacs.

Agricultural income = Market value of sugarcane produce – Cost of cultivation
= [₹10 lacs + ₹22 lacs] – [₹5 lacs + ₹14 lacs]
= ₹32 lacs – ₹19 lacs
= ₹13 lacs.

Illustration 4: Mr. X is engaged in growing and manufacturing of rubber. These are then sold in the market for ₹30 lacs. The cost of growing rubber plants is ₹10 lacs and that of manufacturing rubber is ₹8 lacs. Compute his total income.

Solution:

The total income of Mr. X comprises of agricultural income and business income.

Total profits from the sale of rubber = ₹30 lacs – ₹10 lacs – ₹8 lacs = ₹12 lacs.

Agricultural income = 65% of ₹12 lacs. = ₹7.8 lacs

Business income = 35% of ₹12 lacs. = ₹4.2 lacs

Illustration 5: Mr. X has estates in rubber, tea and coffee. He derives income from them. He has a nursery wherein he grows and sells the plants. For the previous year ending 31.03.2024, he furnishes the following particulars of his income from estates and sale of plants. You are requested to compute the taxable income and tax liability for the assessment year 2024-25:

	₹
(i) Growing and manufacturing of rubber	5,00,000
(ii) Sale of coffee grown and cured	3,50,000
(iii) Growing and manufacturing of tea	7,00,000
(iv) Sale of plants from nursery	1,00,000

He has long term capital gain on the sale of agricultural land in Delhi ₹3,13,500. He has received rent of ₹9,000 p.m. by letting out one farm house near Delhi and he has incurred ₹20,000 on the repairs of the farm house. He has not paid municipal taxes for the last ten years in connection with farm house and MCD has issued him a notice for selling of farm house, hence he has paid municipal tax of ₹90,000.

Solution:

Agricultural Income Business Income

(a) Income from growing and manufacturing of Rubber {Rule 7A}		
[Agricultural income 65% and business income 35%]	3,25,000	1,75,000
(b) Income from Coffee grown and cured {Rule 7B}		

[Agricultural income 75% and business income 25%]	2,62,500	87,500
(c) Income from growing and manufacturing of Tea {Rule 8}		
[Agricultural income 60% and business income 40%]	4,20,000	2,80,000
(d) Income from growing and selling of plants	1,00,000	-----
Total	11,07,500	5,42,500

Computation of Income under the head House Property

Gross Annual Value (9,000 x 12)	1,08,000.00	₹
Less: Municipal Taxes	(90,000.00)	
Net Annual Value	18,000.00	
Less: 30% of NAV u/s 24(a)	5,400.00	
Less: Interest on capital borrowed u/s 24(b)	Nil	
Income under the head House Property	12,600.00	
Long term capital gains	3,13,500.00	
Income under the head Business/Profession	5,42,500.00	
Gross Total Income	8,68,600.00	
Less: Deduction under Chapter VI-A	Nil	
Total Income	8,68,600.00	

Computation of Tax Liability

Tax on long term capital gain ₹3,13,500 @ 20% u/s 112	62,700.00
Normal income ₹5,55,100	
Step 1. Tax on (5,55,100 + 11,07,500)	1,98,780.00
Step 2. Tax on (3,00,000 + 11,07,500)	(1,31,500.00)
Step 3. Tax on Normal Income (1,98,780 – 1,31,500)	67,280.00
Tax before health & education cess	1,29,980.00
Add: HEC @ 4%	5,199.20
Tax Liability	1,35,179.20
Rounded off u/s 288B	1,35,180.00

Income from a Farm Building Section 2(1A)(c)

If any building is in the agricultural field or is very near to the agricultural field and it is being used for **storing agricultural produce** or **for storing agricultural implements** or **it is being used as dwelling unit** by the farmer himself, such building is called farm building and its income shall be computed as per provisions given under the head house property and income shall be considered to be agricultural income however such land should be in the rural area. If it is in the urban area, its classification should be agricultural land.

If the rural area is very near to the urban area, it will be considered to be urban area in the manner given below:

- If population of urban area is more than 10,000 but upto 1,00,000, rural area within distance of 2 kms shall be considered to be urban area
- If population of urban area is more than 1,00,000 but upto 10,00,000, rural area within distance of 6 kms shall be considered to be urban area
- If population of urban area is more than 10,00,000, rural area within distance of 8 kms shall be considered to be urban area

Examples:

	Urban area with Population	Rural area is situated away from urban area at a distance of	Whether it will be rural area
(i)	20,000	3 km	Yes
(ii)	12,000	1.5 kms	No
(iii)	11,00,000	2 kms	No
(iv)	80,000	3 kms	Yes
(v)	3,00,000	4 kms	No
(vi)	12,00,000	5 kms	No

(vii)	8,000	6 kms	Yes
(viii)	4,00,000	7 kms	Yes
(ix)	10,50,000	8 kms	No
(x)	15,00,000	9 kms	Yes

Self Reading

Judicial Decisions

B. Gupta Private Ltd. v CIT, (HC)

Compensation received from an insurance company on account of damage caused to the crops is agricultural income.

Venkataswamy Naidu v CIT, (SC)

Income from butter and cheese making is not agricultural income.

Sri Ranga Vilas Ginning & Oil Mills v. CIT, (HC)

Income from supplying surplus water to other agriculturists is not agricultural income.

New Ambadi Estates Ltd. v CIT, (SC)

Harvest crops on purchased land is not agricultural income.

K. Lakshmansa & Co. v CIT, (SC)

If the assessee was growing mulberry leaves, feeding them to silkworms and obtaining silk cocoons, income from sale of silk cocoons would not be agricultural income.

Illustration 6: Mr. X is employed in MP Agricultural University and getting basic pay ₹20,000 p.m. He claims that it is his agricultural income. Discuss.

Solution: Income from an agricultural university cannot be considered to be agricultural income rather it is his income under the head salary.

Illustration 7: Mr. X has sold his agricultural land in Delhi and there are long term capital gains of ₹10,00,000. Mr. X claims it to be his agricultural income. Discuss.

Solution: Income from sale of agricultural land cannot be considered to be agricultural income and accordingly it is chargeable to tax under the head capital gains.

Illustration 8: Mr. X holds shares in ABC Ltd., an Indian Company, which is engaged in agricultural operations. He has received dividends of ₹1,20,000 from ABC Ltd. and claims that it is his agricultural income. Discuss.

Solution: Dividend from a company which is engaged in agricultural operations cannot be considered to be agricultural income rather it is dividend income of the recipient. *Such dividend income shall be taxable in the hands of shareholder.*

MULTIPLE CHOICE QUESTIONS

AGRICULTURAL INCOME

1. Which of the following would be agricultural income -

- (a) Income from breeding of livestock
- (b) Income from poultry farming
- (c) Rent received from land used for movie shooting
- (d) Rent received from land used for grazing of cattle required for agricultural activities

2. The proportion of agricultural and business income in case of income derived from the sale of coffee grown and cured by the assessee in India is -

- (a) 65% and 35%, respectively
- (b) 75% and 25%, respectively
- (c) 60% and 40%, respectively
- (d) 70% and 30%, respectively

3. The proportion of agricultural and business income in case of income derived by the assessee from growing of tea leaves in India and manufacturing of tea is -

- (a) 65% and 35%, respectively
- (b) 75% and 25%, respectively
- (c) 60% and 40%, respectively
- (d) 70% and 30%, respectively

4. In case of an individual aged 61 years, partial integration of agricultural income is not required if his-

- (a) Net agricultural income does not exceed ₹5,000.
- (b) Non-agricultural income does not exceed ₹2,50,000.
- (c) Non-agricultural income does not exceed ₹3,00,000.
- (d) Either (a) or (c) above.

5. Income derived from farm building situated in the immediate vicinity of an agricultural land (not assessed to land revenue) would be treated as agricultural income if such land is situated in -

- (a) an area at a distance of 3 kms from the local limits of a municipality which has a population of 80,000 as per last census
- (b) an area within 1.5 kms from the local limits of a municipality and has a population of 12,000 as per last census
- (c) an area within 2 kms from the local limits of a municipality and has a population of 11,00,000 as per last census
- (d) an area within 8 kms from the local limits of a municipality and has a population of 10,50,000 as per last census

6. Mr. Harini earned income of ₹4,00,000 from sale of tea grown and manufactured in Shimla. Income from sapling and seedling grown in nursery at Cochin is ₹80,000. Her agricultural income is

- (a) ₹4,80,000
- (b) ₹4,00,000
- (c) ₹2,40,000
- (d) ₹3,20,000

7. Mr. Prem earned income of ₹22 lakhs from manufacture and sale of coffee grown, cured, roasted and grounded by him in India. The business income chargeable to tax in his hands would be -

- (a) ₹8,80,000
- (b) ₹5,50,000
- (c) ₹13,20,000
- (d) ₹16,50,000

8. Mr. X has agricultural land which he has given on rent, in this case income shall be

- (a) taxable under the head other sources
- (b) taxable under the head house property
- (c) taxable under the head Business/Profession
- (d) Agricultural income
- (e) none of these

9. Which of the following statements is correct?

- (a) Dividend received from a domestic company doing agriculture is agricultural income
- (b) Share received by a partner out of profits of partnership firm doing agriculture is taxable under the head Business/Profession
- (c) Salary and interest received by a partner from partnership firm doing agriculture is taxable under the head Business/Profession
- (d) none of these

10. Which of the following statements is correct?

- (a) Dividend received from a foreign company doing agriculture is agricultural income
- (b) Share received by a partner out of profits of partnership firm doing agriculture is exempt u/s 10(2A)
- (c) Salary received by a partner from partnership firm doing agriculture is taxable under the head Salary
- (d) none of these

11. Which of the following statements is correct?

- (a) Dividend received from a foreign company doing agriculture is exempt.
- (b) Share received by a partner out of profits of partnership firm doing agriculture is taxable under the head other sources
- (c) Salary received by a partner from partnership firm doing agriculture is taxable under the head Salary
- (d) Interest received by a partner from partnership firm doing agriculture is taxable under the head other sources
- (e) none of these

12. Which of the following statements is correct?

- (a) in order to constitute agriculture there must be basic operations
- (b) in order to constitute agriculture there must be subsequent operations
- (c) in order to constitute agriculture there must be both basic and subsequent operations
- (d) in order to constitute agriculture there must be ploughing of field
- (e) in order to constitute agriculture there must be either basic or subsequent operations
- (f) none of these

13. Which of the following statements is not correct?

- (a) If any person is engaged in growing and manufacturing of rubber, income from business shall be 35%
- (b) If any person is engaged in growing and manufacturing of coffee, income from business shall be 35%
- (c) If any person is engaged in growing and manufacturing of tea, income from business shall be 40%
- (d) If any person is engaged in growing and curing of coffee, income from business shall be 25%
- (e) none of these

14. Which of the following statements is not correct?

- (a) Income from animal husbandry or fisheries etc. shall be considered to be agriculture income
- (b) Income from sale of sapling or seeding grown in nursery shall be considered to be agriculture income
- (c) Income from sale of agricultural land is taxable under the head capital gains
- (d) Rent received for letting out agriculture land for a movie shooting shall not be considered to be agriculture income
- (e) none of these

15. Which of the following statements is not correct?

- (a) If an individual has income from salary ₹ 3,50,000 and agricultural income ₹ 2,00,000, partial integration is applicable
- (b) If an individual has income from salary ₹ 5,00,000 and agricultural income ₹ 50,000, partial integration is applicable
- (c) If an individual has income from salary ₹2,00,000 and agricultural income ₹10,00,000, partial integration is applicable
- (d) If an individual has income from salary ₹ 3,00,000 and agricultural income ₹ 5,000, partial integration is applicable
- (e) (b) & (c)
- (f) (c) & (d)
- (g) none of these

Answer

1.(d); 2.(b); 3.(c); 4.(d); 5.(a); 6.(d); 7.(a); 8.(d); 9.(d); 10.(b); 11.(e); 12.(c); 13.(b); 14.(a); 15.(f)

PRACTICE PROBLEMS

TOTAL PROBLEMS 6

Problem 1.

Mr. X (non-resident, aged 68 years) has incomes as given below:

- (i) Income under the head Salary ₹3,00,000
- (ii) Income under the head House Property ₹1,20,000
- (iii) Income from long term capital gains ₹50,000
- (iv) Casual income ₹30,000
- (v) Agricultural income ₹60,000
- (vi) Deductions under chapter VI-A ₹1,40,000
- (vii) He has invested ₹40,000 in Kisan Vikas Patra, ₹20,000 in equity shares of infrastructure development companies.

Compute his total income and tax liability for the assessment year 2024-25.

Answer: Total Income: ₹5,00,000; Tax Liability: ₹26,000

Problem 2.

Mrs. X (aged 58 years) has income and losses as given below:

- (i) Income from growing and manufacturing of Rubber ₹3,00,000
- (ii) Income from growing and curing coffee ₹2,00,000
- (iii) Income under the head Salary ₹2,40,000
- (iv) Income under the head House Property ₹1,00,000
- (v) Income from short term capital gains ₹40,000
- (vi) Income from long term capital gains ₹50,000
- (vii) Casual income ₹60,000

Compute her total income and tax liability for the assessment year 2024-25.

Answer: Total Income: ₹6,45,000; Tax Liability: ₹27,560

Problem 3.

Mrs. X (resident but not ordinarily resident) have incomes as given below:

- (i) Income from growing and manufacturing of Tea in India ₹10,00,000
- (ii) Income from house property situated outside India ₹3,50,000, received outside India.
- (iii) Income from agriculture in Nepal ₹1,50,000, received in India
- (iv) Income from business in Paris and received in Paris ₹ 1,00,000

Compute her total income and tax liability for the assessment year 2024-25.

Answer: Total Income: ₹5,50,000; Tax Liability: ₹39,000

Problem 4.

Mr. X (resident but not ordinarily resident) have incomes and losses as given below:

- (i) Income from house I in India ₹80,000
- (ii) Income from house II in India ₹1,00,000
- (iii) Carried forward loss assessment year 2012-13 from house III in India ₹50,000
- (iv) Income under the head Business/Profession in India ₹2,20,000
- (v) Royalty received in the UK for use of formula in U.K. ₹30,000
- (vi) Long term capital gains in India ₹1,00,000
- (vii) Income from agriculture in Indonesia but received in India and subsequently invested it in Indonesia ₹50,000
- (viii) Income from agriculture in India ₹2,00,000

Compute his total income and tax liability for the assessment year 2024-25.

Answer: Total Income: ₹5,50,000; Tax Liability: ₹5,200

Problem 5.

A partnership firm XY has agricultural income ₹2,00,000, income under the head business/profession ₹1,00,000 and long term capital gains ₹10,000.

Compute its tax liability for the assessment year 2024-25.

Answer: Tax Liability: ₹33,280

Problem 6.

A partnership firm Z & Co. has agricultural income ₹20,00,000 and its partner Mr. Z has received ₹5,00,000 being his share in the profits of partnership. Mr. Z has income under the head house property ₹3,75,000. Compute tax liability of the partnership firm and also that of Mr. Z.

Answer: Tax Liability: Partnership Firm: Nil; Mr. Z: Nil

SOLUTIONS

TO

PRACTICE PROBLEMS

Solution 1:

	₹
Income under the head Salary	3,00,000
Income under the head House Property	1,20,000
Income under the head Capital Gains (LTCG)	50,000
Income under the head Other Sources (Casual Income)	30,000
Gross Total Income	5,00,000
Less: Deduction under Chapter VI-A	Nil
Total Income	5,00,000
Agricultural income	60,000

Computation of Tax Liability

Tax on casual income ₹30,000 @ 30% u/s 115BB	9,000
Tax on Long term capital gain ₹50,000 @ 20% u/s 112	10,000
Normal income ₹4,20,000	
Tax on (4,20,000 + 60,000) at slab rate	9,000
Tax on (3,00,000 + 60,000) at slab rate	(3,000)
Tax on normal income (9,000 – 3,000)	6,000
Tax before health & education cess	25,000
Add: HEC @ 4%	1,000
Tax Liability	26,000

Note: 1. Rebate u/s 87A is not allowed to non-resident.

Solution 2:

	Agricultural Income	Business Income
Income from growing and manufacturing of Rubber {Rule 7A}		
Agricultural income 65% and business income 35%	1,95,000	1,05,000
Income from Coffee grown and cured {Rule 7B}		
Agricultural income 75% and business income 25%	1,50,000	50,000
Total	3,45,000	1,55,000

	₹
Income under the head Salary	2,40,000
Income under the head House Property	1,00,000
Income under the head Business/Profession	1,55,000
Income under the head Capital Gains	
Short term capital gains	40,000
Long term capital gains	50,000
Income under the head Other Sources (Casual Income)	60,000
Gross Total Income	6,45,000
Less: Deductions under Chapter VI-A	Nil
Total Income	6,45,000
Agricultural income	3,45,000

Computation of Tax Liability

Tax on casual income ₹60,000 @ 30% u/s 115BB	18,000
Tax on Long term capital gain ₹50,000 @ 20% u/s 112	10,000

Normal income ₹5,35,000	
Tax on (5,35,000 + 3,45,000) at slab rate	43,000
Tax on (3,00,000 + 3,45,000) at slab rate	(19,500)
Tax on normal income (43,000 – 19,500)	23,500
Tax before Rebate u/s 87A	51,500
Less: Rebate u/s 87A	(25,000)
Tax before health & education cess	26,500
Add: HEC @ 4%	1,060
Tax Liability	27,560

Solution 3:

	Agricultural Income	Business Income
Income from growing and manufacturing of Tea {Rule 8}		
Agricultural income 60% and business income 40%	6,00,000	4,00,000
Total	6,00,000	4,00,000
		₹
Income under the head business/Profession		4,00,000
Income from agriculture in Nepal but received in India		1,50,000
Income under the head Other Sources		1,50,000
Gross Total Income		5,50,000
Less: Deductions under Chapter VI-A		Nil
Total Income		5,50,000
Agricultural income		6,00,000
Computation of Tax Liability		
Tax on (5,50,000 + 6,00,000) at slab rate		82,500
Tax on (3,00,000 + 6,00,000) at slab rate		(45,000)
Tax on normal income (82,500 – 45,000)		37,500
Add: HEC @ 4%		1,500
Tax Liability		39,000

Solution 4:

Income from House I	80,000
Income from House II	1,00,000
Income under the head House Property	1,80,000
Income under the head Business/Profession	2,20,000
Income under the head Capital Gains (LTCG)	1,00,000
Income under the head Other Sources	
{Income from agriculture in Indonesia, received in India}	50,000
Gross Total Income	5,50,000
Less: Deduction under Chapter VI-A	Nil
Total Income	5,50,000
Agricultural Income	2,00,000
Computation of Tax Liability	
Tax on Long term capital gain ₹1,00,000 @ 20% u/s 112	20,000
Normal income ₹4,50,000	
Tax on (₹4,50,000 + ₹2,00,000) at slab rate	20,000
Tax on (₹3,00,000 + ₹2,00,000) at slab rate	(10,000)
Tax on normal income (20,000 – 10,000)	10,000
Tax before Rebate u/s 87A	30,000
Less: Rebate u/s 87A	(25,000)
Tax before health & education cess	5,000
Add: HEC @ 4%	200
Tax Liability	5,200

Solution 5:

	₹
Income under the head Business/Profession	1,00,000
Income under the head Capital Gains (LTCG)	10,000
Gross Total Income	1,10,000
Less: Deduction under Chapter VI-A	Nil
Total Income	1,10,000
Agricultural income	2,00,000

Computation of Tax Liability

Tax on ₹1,00,000 @ 30%	30,000
Tax on Long term capital gain ₹10,000 @ 20% u/s 112	2,000
Tax before health & education cess	32,000
Add: HEC @ 4%	1,280
Tax Liability	33,280

Note: Partial integration is not applicable in case of a partnership firm or a company.

Solution 6:**Computation of Tax Liability of Partnership firm**

	₹
Agricultural income	20,00,000
Tax liability	Nil

Computation of Tax Liability of Mr. Z

Share of profit from partnership firm {exempt u/s 10(2A)}	Nil
Income under the head House Property	3,75,000
Gross Total Income	3,75,000
Less: Deduction under Chapter VI-A	Nil
Total Income	3,75,000
Tax on ₹3,75,000 at slab rate	3,750
Less: Rebate u/s 87A	(3,750)
Tax Liability	Nil

EXAMINATION QUESTIONS

JAN – 2021

Question 4(b)**(3 x 2 = 6 Marks)**

Discuss the taxability of the following transactions giving reasons, in the light of relevant provisions, for your conclusion.

Attempt any **two** out of the following **three** parts:

(i) Mr. Rajpal took a land on rent from Ms. Shilpa on monthly rent of ₹ 10,000. He sublets the land to Mr. Manish for a monthly rent of ₹ 11,500. Manish uses the land for agricultural activities (grazing of cattle). Mr. Rajpal wants to claim deduction of ₹ 10,000 (being rent paid by him to Ms. Shilpa) from the rental income received by it from Mr. Manish.

(ii) Mr. Pratham, a non-resident in India, received a sum of ₹ 1,14,000 from Mr. Rakesh, a resident and ordinarily resident in India. The amount was paid to Pratham on account of transfer of right to use the manufacturing process developed by Pratham. The manufacturing process was developed by Mr. Pratham in Singapore and Mr. Rakesh uses such process for his business carried on by him in Dubai.

(iii) Mr. Netram grows paddy on land. He then employs mechanical operations on grain to make it fit for sale in the market, like removing hay and chaff from the grain, filtering the grain and finally packing the rice in gunny bags. He claims that entire income earned by him from sale of rice is agricultural income not liable to income tax since paddy as grown on land is not fit for sale in its original form.

Solution:

(i) The rent or revenue derived from land situated in India and used for agricultural purposes would be agricultural income under section 2(1A)(a). Therefore, rent received from sub-letting of the land used for grazing of cattle required for agriculture activities is agricultural income. The rent can either be received by the owner of the land or by the original tenant from the sub-tenant.

Accordingly, rent received by Mr. Rajpal from Mr. Manish for using land for grazing of cattle required for agricultural activities is agricultural income exempt u/s 10(1). Further Mr. Rajpal can deduct ₹10,000 from the rental income received by him from Mr. Manish

(ii) Consideration for transfer of right to use the manufacturing process falls within the definition of royalty. Income by way royalty payable by Mr. Rakesh, a resident and ordinarily resident, is not deemed to accrue or arise in India in the hands of Mr. Pratham as per section 9, since royalty is payable in respect of right used for the purposes of a business carried on by Mr. Rakesh outside India i.e., in Dubai.

(iii) The income from the process ordinarily employed to render the produce fit to be taken to the market would be agricultural income under section 2(1A)(b)(ii). The process of making the rice ready from paddy for the market may involve manual operations or mechanical operations, both of which constitute processes ordinarily employed to make the product fit for the market.

Accordingly, the entire income earned by Mr. Netram from sale of rice is agricultural income.

MAY – 2018 (Old Course)

Question 2(a)**(5 Marks)**

Miss. Kavita, a resident and ordinarily resident in India, has derived the following income for the year ended 31-3-2024.

	₹
(i) Income from sale of centrifuged latex processed from rubber plants grown in Darjeeling.	1,00,000
(ii) Income from sale of coffee grown and cured in Yercaud, Tamil Nadu	2,00,000
(iii) Income from sale of coffee grown, cured in Colombo.	5,00,000
Sale Consideration was received in Chennai.	
(iv) Income from sale of tea grown and manufactured in Shimla.	10,00,000
(v) Income from sapling and seedling grown in a nursery at Cochin.	2,00,000
Basic operations were not carried out by her on land.	

You are required to compute the Income of Miss. Kavita for the Assessment Year 2024-25.

Solution:**Computation of Income**

Sources	Agricultural Income	Business Income	Other Sources
(i) Income from growing and manufacturing of Rubber {Rule 7A} Agricultural income 65% and business income 35%	65,000	35,000	-
(ii) Income from Coffee grown and cured {Rule 7B} Agricultural income 75% and business income 25%	1,50,000	50,000	
(iii) Income from Coffee grown and cured outside India		1,25,000	3,75,000
(iv) Income from growing and manufacturing of Tea {Rule 8} Agricultural income 60% and business income 40%	6,00,000	4,00,000	
(v) Income from sapling and seedling grown in a nursery at Cochin	2,00,000	-	-
Total	10,15,000	6,10,000	3,75,000

MAY – 2018 (New Course)**Question 5(b)****(7 Marks)**

Mr. Avani, a resident aged 25 years, manufactures tea from the tea plants grown by him in India. These are then sold in the Indian market for ₹40 lakhs. The cost of growing tea plants was ₹15 lakhs and the cost of manufacturing tea leaves was ₹10 lakhs.

Compute her tax liability for the Assessment year 2024-25.

Solution:

As per Rule 8, If any person is engaged in growing and manufacturing of tea, income shall be computed combined for agriculture as well as business and 40% of such income shall be business income and balance shall be agricultural Income. Combined income shall be as given below:

Sales – Cost of growing tea plants – cost of manufacturing tea leaves = ₹40 lacs – ₹15 lacs - ₹10 lacs = ₹15 lacs.

Business Income = 15,00,000 x 40% = 6,00,000

Agriculture Income = 15,00,000 x 60% = 9,00,000

Computation of Tax Liability

Tax on (6,00,000 + 9,00,000) at slab rate	₹ 1,50,000
Tax on (3,00,000 + 9,00,000) at slab rate	(90,000)
Tax on normal income (1,50,000 – 90,000)	60,000
Add: HEC @ 4%	2,400
Tax Liability	62,400

MAY – 2017**Question 2(a) (ii)****(4 Marks)**

Discuss with brief reasons, whether rent received for letting out agricultural land for a movie shooting and amounts received from sale of seedlings in a nursery adjacent to the agricultural lands owned by an assessee can be regarded as agricultural income, as per the provisions of the provisions of the Income tax Act, 1961.

Answer:

Rent received from letting out agricultural land for a movie shooting: As per section 2(1A) Agricultural income means, any rent or revenue derived from land which is situated in India and is used for agricultural purposes.

In the present case, rent is being derived from letting out of agricultural land for a movie shoot, which is not an agricultural purpose. Hence, Rent received from letting out agricultural land for a movie shooting is not Agricultural income

Amount received from sale of seedlings in a nursery: As per Section 2(1A), Income derived from sapling or seedling grown in nursery is deemed to be agricultural Income.

Therefore, Amount received from sale of seedlings in a nursery adjacent to the agricultural lands is Agricultural income.

NOV – 2016

Question 5(a)

(4 Marks)

Mr. Kamal grows paddy and uses the same for the purpose of manufacturing of rice in his own Rice Mill. The cost of cultivation of 50% of paddy produce is ₹7,00,000 which is sold for ₹15,00,000; and the cost of cultivation of balance 50% of paddy is ₹7,00,000 and the market value of such paddy is ₹15,00,000. To manufacture the rice, he incurred ₹5,00,000 in the manufacturing process on the balance (50%) paddy. The rice was sold for ₹32,00,000.

Compute the Business income and Agriculture Income of Mr. Kamal.

Solution:

As per Rule 7 of Income Tax Rules 1962, if any person is growing agricultural produce and is using it in his own factory to manufacture a product, in such cases it will be presumed that the assessee has sold his agricultural produce to his manufacturing unit at the market price and income shall be computed accordingly. In the given case, computation of income shall be as given below:

$$\begin{aligned} \text{Agricultural income} &= \text{Actual sale of paddy} + \text{Market value of paddy transferred to the} \\ &\quad \text{manufacturing unit} - \text{Cost of cultivation} \\ &= [\text{₹15 lacs} + \text{₹15 lacs}] - [\text{₹7 lacs} + \text{₹7 lacs}] \\ &= \text{₹30 lacs} - \text{₹14 lacs} \\ &= \text{₹16 lacs} \end{aligned}$$

$$\begin{aligned} \text{Business income} &= \text{Sales} - \text{Market value of 50\% of paddy produce} - \text{Manufacturing expenses} \\ &= \text{₹32 lacs} - \text{15 lacs} - \text{5 lacs} = \text{12 lacs} \end{aligned}$$

NOV – 2011

Question 4

(2 Marks)

Mr. X, a 60 years old individual, is engaged in growing and curing of coffee and derives income ₹50 lacs during the financial year 2023-24. Compute the tax payable by him assuming he has not earned any other income during the financial year 2023-24.

Answer:

As per Rule 7B, income from agricultural shall be 75% and income from business shall be 25% and tax liability shall be as given below:

Business income 50,00,000 x 25%	12,50,000
Agricultural income 50,00,000 x 75%	37,50,000

Computation of Tax Liability

Tax on (12,50,000 + 37,50,000) at slab rate	12,00,000
Tax on (3,00,000 + 37,50,000) at slab rate	(9,15,000)
Tax on normal income (1,50,000 – 90,000)	2,85,000
Add: HEC @ 4%	11,400
Tax Liability	2,96,400

MAY – 2011

Question 1

(2 Marks)

Mr. X earned ₹5,00,000 from sale of Coffee grown and cured by him. He claims the entire income as agricultural income, hence exempt from tax. Is he correct?

Answer.

Mr. X is not correct in claiming the entire income as agricultural income. As per rule 7B, in the case of income derived from the sale of coffee grown and cured by the seller in India, 25% of such income is taxable as business income under the head 'Profits and gains from business or profession' and the balance

(i.e. 75%) is agricultural income. Hence, only ₹3,75,000 (75% of ₹5,00,000) being agricultural income is exempt from tax.

JUNE – 2009

Question 1
(2 Marks)

Whether the income derived from saplings or seedlings grown in a nursery is taxable under the Income-tax Act, 1961?

Answer .

As per Explanation 3 to section 2(1A) of the Act, income derived from saplings or seedlings grown in a nursery shall be deemed to be agricultural income and exempt from tax, whether or not the basic operations were carried out on land.

NOV – 2004

Question 1
(3 Marks)

Mr. X has estates in Rubber, Tea and Coffee. He derives income from them. He has also a nursery wherein he grows plants and sells. For the previous year ending 31.03.2023, he furnishes the following particulars of his sources of income from estates and sale of Plants.

You are requested to compute the taxable income and tax liability for the assessment year 2023-24. ₹

(i) Manufacture of rubber	15,00,000
(ii) Manufacture of coffee grown and cured	13,50,000
(iii) Manufacture of tea	17,00,000
(iv) Sale of plants from nursery	1,00,000

Answer:

	Agricultural Income	Business Income
Income from growing and manufacturing of Rubber {Rule 7A}		
Agricultural income 65% and business income 35%	9,75,000	5,25,000
Income from Coffee grown and cured {Rule 7B}		
Agricultural income 75% and business income 25%	10,12,500	3,37,500
Income from growing and manufacturing of Tea {Rule 8}		
Agricultural income 60% and business income 40%	10,20,000	6,80,000
Income from growing and selling of plants	1,00,000	xxxxx
Total	31,07,500	15,42,500

Computation of Tax Liability

Normal income ₹15,42,500	
Tax on (15,42,500 + 31,07,500)	10,95,000.00
Tax on (3,00,000 + 31,07,500)	(7,22,250.00)
Tax before education cess (3,07,500 – 2,19,750)	3,72,750.00
Add: HEC @ 4%	14,910.00
Tax Liability	3,87,660.00

MAY – 1998

Question 2
(3 Marks)

From the following information, compute taxable income and tax liability of Mrs. X for the assessment year 2023-24.

	₹
Income from business – letting cycles on hire	2,40,000
Fixed deposit interest received from companies on deposits made of sale proceeds of land	18,000
Dividends from an Indian company having rubber plantations	6,000
Salary received as a partner from a firm growing and manufacturing tea	40,000
Sale of agricultural produce	1,75,000

Agricultural Income

275

Payment of government tax on agricultural lands	6,000
Expenses on power, irrigation cess and farm labour	10,000
Purchase of seeds	1,000
Tractor hire charges (for agricultural operations)	2,500

Answer:

Computation of income from agriculture

Salary from firm growing and manufacturing tea	24,000
40,000 x 60% (as per decision in R.M. Chidambaram Pillai v CIT)	
Sale of agricultural produce	1,75,000
Less : Government tax	(6,000)
Power, Irrigation cess etc.	(10,000)
Purchase of seeds	(1,000)
Tractor hire charges	(2,500)
Agricultural income	1,79,500

Computation of Non agricultural income :

Income from Business:

Cycle hire charges	2,40,000
Salary from firm (non –agricultural part – 40,000 x 40%)	16,000
Other sources:	
Dividends from Plantation company –	6,000
Interest on fixed deposit with companies:	18,000

Non-Agricultural Income

2,80,000

Computation of Tax Liability

Tax on (2,80,000 + 1,79,500) at slab rate	10,475
Tax on (2,50,000 + 1,79,500) at slab rate	(8,975)
Tax liability (10,475 – 8,975)	1,500
Less: Rebate u/s 87A	(1,500)
Tax Liability	Nil

CLUBBING OF INCOME

(INCOME OF OTHER PERSONS INCLUDED IN ASSESSEE'S TOTAL INCOME)

SECTION 60 TO 65

PARTICULARS	SECTIONS
Transfer of income without transfer of assets	60
Revocable transfer of assets	61
Transfer irrevocable for a specified period	62
Transfer and revocable transfer	63
Income from assets transferred to the spouse	64(1)
Income from assets transferred to son's wife	64(1)
Income from assets transferred to any person for the benefit of the spouse of the transferor/ son's wife of the transferor	64(1)
Remuneration of a spouse from a concern in which the other spouse has substantial interest	64(1)
Clubbing of income of a minor child	64(1A)
Income from self acquired property converted to joint family property	64(2)
Liability of person in respect of income included in the income of another person (Deleted from syllabus)	65

In general a person has to pay tax only on his own income but sometimes incomes of other persons is added to his income to charge tax from him, it is called 'clubbing of income'. Clubbing provision are applicable to check tax evasion.

Clubbing provision are applicable in the following cases: -

1. Transfer of income without transferring the asset Section 60

If any person has transferred any income without transferring the asset, in such cases clubbing provision shall be applicable.

Example

Mr. X has two deposits of ₹50 lakhs each and interest income of each deposit is ₹15 lakhs. He has transferred income of one of the deposit to his brother Mr. Y. In this case, clubbing provision shall be applicable and income shall be taxable in the hands of Mr. X.

2. Transfer of asset through revocable transfer Section 61

If any person has transferred any asset through revocable transfer, income from that asset shall be clubbed in the income of transferor.

Example

Mr. X has transferred a deposit of ₹10 lakhs to his friend Mr. Y with the condition that the deposit can be taken back by him at any time. In this case, clubbing provision shall be applicable.

3. Transfer of an asset through irrevocable transfer Section 62

If any person has transferred any asset through irrevocable transfer, in this case clubbing provision shall not apply. Similarly If any person has transferred any asset through a transfer which is not revocable during the life time of the beneficiary, clubbing provision shall not apply.

Example: Mr. X has transferred one asset to Mr. Y with the condition that the asset shall be retained by Mr.

Y as long as he is alive and after that the asset shall be taken back by Mr. X. In this case, clubbing provision shall not apply.

Provided that the transferor derives no direct or indirect benefit from such income in either case.

All income arising to any person by virtue of any such transfer shall be chargeable to income-tax as the income of the transferor as and when the power to revoke the transfer arises, and shall then be included in his total income

Meaning of revocable transfer Section 63

For the purposes of sections 60, 61 and 62 and of this section,—

A transfer shall be deemed to be revocable if—

- (i) it contains any provision for the re-transfer directly or indirectly of the whole or any part of the income or assets to the transferor, or
- (ii) it, in any way, gives the transferor a right to re-assume power directly or indirectly over the whole or any part of the income or assets

4. TRANSFER OF ASSETS TO SPOUSE SECTION 64(1)[V. IMP.]

- (i) If any person has transferred any asset, other than a house property to his or her spouse directly or indirectly without adequate consideration, in such cases, income of the asset shall be clubbed in the income of transferor.
- (ii) If the asset is transferred for adequate consideration, clubbing provisions are not applicable. Similarly if the asset is transferred under an agreement to live apart, clubbing provision shall not apply.

Example

Mr. X has transferred one deposit to his wife Mrs. X by charging full consideration of ₹10,00,000. In this case, interest income shall not be clubbed in the income of Mr. X.

- (iii) If there is inadequate consideration, clubbing provisions shall be applicable only with regard to the income relating to that part of the consideration which is considered to be inadequate.

Example

Mr. X has transferred one deposit of ₹10,00,000 for a consideration of ₹7,00,000 and there is interest income of ₹1,00,000 from the said deposit, in this case income of ₹30,000 shall be clubbed.

- (iv) In order to apply clubbing provision relationship of husband and wife must exist on the date of transfer of the asset and also on the date of accrual of income otherwise clubbing provision shall not be apply, as decided in **Philip Johan Plasket Thomas v. CIT (SC)**.

Example

Mr. X has transferred certain assets on 01.01.2024 to his would be wife. He got married on 10.01.2024, in this case clubbing provision shall not apply.

- (v) If any person has transferred the asset to the spouse and there is accretion to the asset, income from such accretion shall not be clubbed, as decided in case of **M. P. Birla (HC)**.e.g. Mr. X gifted certain shares to Mrs. X and Mrs. X has received bonus shares. In this case dividend or capital gains from original shares shall be clubbed in the hands of Mr. X but dividend or capital gains from bonus shares shall not be clubbed rather Mrs. X herself has to pay tax.

Similarly if any asset has been transferred to spouse, income from the asset shall be clubbed but if same income is invested further, income from such income shall not be clubbed e.g. Mr. X has gifted one fixed deposit to Mrs. X, interest income from such fixed deposit shall be clubbed but if interest income is invested further, any fresh income from such income shall not be clubbed.

Illustration 1: Mr. X transferred 2,000 debentures of ₹100 each of Wild Fox Ltd. to Mrs. X on 03.04.2023 without consideration. The company paid interest of ₹30,000 in September, 2023 which was deposited by Mrs. X with Kartar Finance Co. in October, 2023. Kartar Finance Co. paid interest of ₹3,000 upto March, 2024. How would both the interest income be charged to tax in assessment year 2024-25?

Solution:

As per section 64(1), income arising from assets transferred without adequate consideration by an individual to his spouse is liable to be clubbed in the hands of the individual, but if there is any further income from such income, it will not be clubbed.

Therefore, ₹30,000, being the interest on debentures received by Mrs. X in September, 2023 will be clubbed with the income of Mr. X, since he had transferred the debentures of the company without consideration to her.

However, the interest of ₹3,000 upto March 2024 earned by Mrs. X on the interest of the debentures deposited by her with Kartar Finance Company shall be taxable in her individual capacity and will not be clubbed with the income of Mr. X.

(vi) Where the asset transferred directly or indirectly by an individual to the spouse has been invested by the transferee in any business, the income arising out of the business to the transferee in any previous year shall be clubbed in the income of transferor but for this purpose capital as on first day of relevant previous year shall be taken into consideration.

Example

- (a) Mr. X has gifted ₹5,00,000 to Mrs. X on 01.04.2023 and She invested it in the proprietary business on the same date and there were profits of ₹2,00,000. In this case, entire income of ₹2,00,000 shall be clubbed in the income of Mr. X.
- (b) Mrs. X has one business on 01.04.2023 with capital of ₹5 lakh and Mr. X has gifted ₹5,00,000 to Mrs. X on 01.04.2023 and She invested it in the proprietary business on the same date and there were profits of ₹2,00,000. In this case, income of ₹1,00,000 shall be clubbed in the income of Mr. X.
- (c) Mrs. X has one business on 01.04.2023 with capital of ₹5 lakh and Mr. X has gifted ₹5,00,000 to Mrs. X on 20.04.2023 and She invested it in the proprietary business on the same date and there were profits of ₹2,00,000. In this case, income from business shall not be clubbed in the income of Mr. X because amount was transferred in business after first day of previous year .

Illustration 2: A proprietary business was started by Mrs. X in the year 2021. As on 01.04.2023 her capital in business was ₹4,00,000. Her husband gifted ₹3,00,000, on 01.04.2023, which Mrs. X invested in her business on the same date. Mrs. X earned profits from her proprietary business for the

Financial year 2023-24 ₹2,00,000

Financial year 2024-25 ₹2,40,000

Financial year 2025-26 ₹2,80,000

Financial year 2026-27 ₹3,00,000

Amount of profit was further invested in the business.

Compute amount to be clubbed in the income of Mr. X in each of the year.

Solution:

Amount to be clubbed in various years shall be as given below:

(i) **Previous Year 2023-24:** amount to be clubbed shall be as given below:

$$2,00,000 / 7,00,000 \times 3,00,000 = 85,714.29$$

(ii) **Previous Year 2024-25:** amount to be clubbed shall be

$$2,40,000 / 9,00,000 \times 3,00,000 = 80,000$$

(iii) **Previous Year 2025-26:** amount to be clubbed shall be

$$2,80,000 / 11,40,000 \times 3,00,000 = 73,684.21$$

(iv) **Previous Year 2026-27:** amount to be clubbed shall be

$$3,00,000 / 14,20,000 \times 3,00,000 = 63,380.28$$

(b) Presume amount was gifted on 10.04.2023.

Solution:

Amount to be clubbed in various years shall be as given below:

(i) **Previous Year 2023-24:** amount to be clubbed shall be Nil because amount was not invested in business on the first day of the previous year

(ii) **Previous Year 2024-25:** amount to be clubbed shall be

$$2,40,000 / 9,00,000 \times 3,00,000 = 80,000$$

(iii) **Previous Year 2025-26:** amount to be clubbed shall be
 $2,80,000 / 11,40,000 \times 3,00,000 = 73,684.21$

(iv) **Previous Year 2026-27:** amount to be clubbed shall be
 $3,00,000 / 14,20,000 \times 3,00,000 = 63,380.28$

(vii) If any person has transferred the asset to the spouse and the spouse has invested it in some partnership firm as capital contribution or otherwise, in this case interest received from the partnership firm shall be clubbed in the income of the transferor and capital as on first day of relevant previous year shall be taken into consideration.

If any salary has been received from partnership firm, it will not be clubbed.

If any share has been received from the profits of partnership firm, such shares shall be exempt under section 10(2A).

(viii). If any person has transferred any asset to the spouse and spouse has further transferred this asset, in this case, capital gain shall be considered to be the income of the transferor.

(ix) Cross-transfers are also covered

The Supreme Court, in case of Keshavji Morarji, observed that clubbing provisions shall be applicable in case of cross transfers also e.g. A making gift of ₹ 50,000 to the wife of his brother B for the purchase of a house by her and a simultaneous gift by B to A's minor son of shares in a foreign company worth ₹ 50,000 owned by him, in the case, the income arising to Mrs. B from the house property should be included in the total income of B and the dividend from shares transferred to A's minor son would be taxable in the hands of A.

Example: Mr. Vasudevan gifted a sum of ₹6 lakhs to his brother's wife on 14-6-2023. On 12-7-2023, his brother gifted a sum of ₹5 lakhs to Mr. Vasudevan's wife. The gifted amounts were invested as fixed deposits in banks by Mrs. Vasudevan and wife of Mr. Vasudevan's brother on 01-8-2023 at 9% interest. Examine the consequences of the above under the provisions of the Income-tax Act, 1961 in the hands of Mr. Vasudevan and his brother.

Answer: In the given case, Mr. Vasudevan gifted a sum of ₹6 lakhs to his brother's wife on 14.06.2023 and simultaneously, his brother gifted a sum of ₹5 lakhs to Mr. Vasudevan's wife on 12.07.2023. The gifted amounts were invested as fixed deposits in banks by Mrs. Vasudevan and his brother's wife. These transfers are in the nature of cross transfers.

Accordingly, the income from the assets transferred would be assessed in the hands of the deemed transferor because the transfers are so intimately connected to form part of a single transaction and each transfer constitutes consideration for the other by being mutual or otherwise.

If two transactions are inter-connected and are part of the same transaction in such a way that it can be said that the circuitous method was adopted as a device to evade tax, the implication of clubbing provisions would be attracted. It was so held by the Apex Court in CIT vs. Keshavji Morarji (1967) 66 ITR 142. Accordingly, the interest income arising to Mrs. Vasudevan in the form of interest on fixed deposits would be included in the total income of Mr. Vasudevan and interest income arising in the hands of his brother's wife would be taxable in the hands of Mr. Vasudevan's brother as per section 64(1), to the extent of amount of cross transfers i.e., ₹5 lakhs.

This is because both Mr. Vasudevan and his brother are the indirect transferors of the income to their respective spouses with an intention to reduce their burden of taxation. However, the interest income earned by his spouse on fixed deposit of ₹5 lakhs alone would be included in the hands of Mr. Vasudevan's brother and not the interest income on the entire fixed deposit of ₹6 lakhs, since the cross transfer is only to the extent of ₹5 lakhs.

(x) If there is indirect transfer, clubbing provisions shall be applicable in that case also e.g. Mr. X gifted certain cash/ asset to his major son and son gifted the same asset to mother, in this case it will be considered transfer and income shall be clubbed in the income of Mr. X.

(xi) If any person has given loan to the spouse, income from such loan shall not be clubbed.

Transfer of house property: In the case of transfer of house property, the provisions are contained in section 27. If an individual transfers a house property to his spouse, without adequate consideration or otherwise than in connection with an agreement to live apart, the transferor shall be deemed to be the owner of the house property and its annual value will be taxed in his hands.

5. Transfer of the asset to the son's wife Section 64(1)

If any person has transferred the asset to the son's wife, in this case, clubbing provision shall apply in the similar manner as in the case of transfer of the assets to the spouse. Such clubbing provisions are applicable from 01.06.1973.

6. Transfer of assets to any other person Section 64(1)

If any person has transferred the asset to any other person, clubbing provision shall not be applicable, but if the transferor has any right to receive any benefit from the asset or the benefit shall be received by the spouse of the transferor or by the son's wife of the transferor, in that case, clubbing provision shall be applicable.

7. Salary/commission/fee etc. from a concern in which the spouse has substantial interest Section 64(1)

(i) If any person is getting salary, commission, fee or any other remuneration whether in cash or in kind from a concern in which his or her spouse has substantial interest and further salary etc. is being received **without any technical or professional qualification**, in such case, salary etc. so received shall be clubbed in the income of the spouse having substantial interest. However clubbing shall not be applicable in relation to any income arising to the spouse where the spouse possesses technical or professional qualifications and the income is solely attributable to the application of his or her technical or professional knowledge and experience.

If the spouse has substantial interest along with his relative, even in that case clubbing provisions are applicable.

Example

Mr. X is holding 11% shares of ABC Ltd. and his father is holding 10% shares in ABC Ltd. and his wife Mrs. X is employed in ABC Ltd. without any technical or professional qualification, in this case, salary income of Mrs. X shall be clubbed in the income of Mr. X.

(ii) Technical and professional qualification shall include not only degree or membership but also any experience or expertise or any natural talent also, as decided in **Batta Kalyani v. CIT, (HC)**.

(iii) **As per section 2(41), Relative**, means the husband, wife, brother or sister or any lineal ascendant or descendant.

(iv) **As per section 2(32), Substantial Interest** means having 20% or more of the equity shares in a company or having 20% or more of the shares in profits in any other concern.

(v) **Both husband and wife have substantial interest in a concern:** Where both husband and wife have substantial interest in a concern and both are in receipt of income by way of salary etc. from the said concern, such income will be includible in the hands of that spouse, whose total income, excluding such income is higher. E.g. Mr. X has 12% shares in ABC limited and Mrs. X has 13% shares in ABC limited and both are getting salary of 13,00,000 and 10,00,000 from ABC limited without any technical or professional qualification. Mr. X has income under the head house property 6,00,000 and Mrs. X has income under the head house property 7,00,000, in this case salary income of both of them shall be clubbed in the income of Mrs. X. Tax liability of each one of them shall be:

Mr. X

Income under the head house property	6,00,000
Gross Total Income	6,00,000
Less: Deductions under Chapter VI-A	Nil
Total Income	6,00,000

Computation of Tax Liability

Tax on 6,00,000 at slab rate	15,000
Less: Rebate u/s 87A	(15,000)
Tax Liability	Nil

Mrs. X

Income under the head house property	7,00,000
Income under the head salary	
Salary of Mr. X	13,00,000
Salary of Mrs. X	10,00,000
Gross salary	23,00,000
Less: Standard Deduction u/s 16(ia)	(50,000)
Income under the head salary	22,50,000
Gross Total Income	29,50,000
Less: Deductions under Chapter VI-A	Nil
Total Income	29,50,000

Computation of Tax Liability

Tax on 29,50,000 at slab rate	5,85,000
Add: HEC @ 4%	23,400
Tax Liability	6,08,400

Illustration 3: Mr. X is an employee of X Ltd. and he has 25% shares of that company. His salary is ₹50,000 p.m. Mrs. X is working as a computer software programmer in X Ltd. at a salary of ₹30,000 p.m. She is, however, not qualified for the job. Compute the gross total income of Mr. X and Mrs. X for the A.Y.2024-25, assuming that they do not have any other income.

Solution:

Mr. X is an employee of X Ltd and has 25% shares of X 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. X from X Ltd. will be clubbed in the hands of Mr. X.

Computation of Gross Total Income of Mr. X

Particulars	₹
Salary received by Mr. X (₹ 50,000 x 12)	6,00,000
Salary received by Mrs. X (₹ 30,000 x 12)	3,60,000
Gross Salary	9,60,000
Less: Deduction u/s 16(ia)	(50,000)
Income under the head salary	9,10,000
Gross Total Income	9,10,000

The gross total income of Mrs. X is nil.

Illustration 4: Will your answer be different if Mrs. A was qualified for the job?

Solution:

If Mrs. A possesses professional qualifications for the job, then the clubbing provisions shall not be applicable.

Gross total income of Mr. X = Salary received by Mr. A [₹ 50,000 × 12] = ₹ 6,00,000 - 50,000 = 5,50,000

Gross total income of Mrs. X = Salary received by Mrs. A [₹ 30,000×12] = ₹ 3,60,000 - 50,000= 3,10,000

Illustration 5: Mr. X is an employee of Y Ltd. and has substantial interest in the company. His salary is ₹20,000 p.m. Mrs. X is also working in Y Ltd. at a salary of ₹12,000 p.m. without any qualifications. Mr. X also receives ₹30,000 as interest on securities. Mrs. X owns a house property which she has let out. Rent received from tenants is ₹6000 p.m. Compute the gross total income of Mr. X and Mrs. X for the A.Y.2024-25.

Solution:

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

Computation of Gross Total Income of Mr. X

Particulars	₹
Income from Salary	
Salary received by Mr. X (₹ 20,000 × 12)	2,40,000
Salary received by Mrs. X (₹ 12,000 × 12)	<u>1,44,000</u>
Gross salary	3,84,000
Less: Deduction u/s 16(ia)	(50,000)
Income from salary	3,34,000
Income from other sources	
Interest on securities	30,000
	3,64,000

Computation of Gross Total Income of Mrs. X

Particulars	₹	₹
Income from Salary		Nil
[clubbed in the hands of Mr. X]		
Income from house property		
Gross Annual Value [₹ 6,000 × 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

8. Asset held by Minor Child Section 64(1A) [V. IMP.]

- (i) If any income accrues or arises to a minor child, such income shall be clubbed in the income of mother or **father whosoever has higher income before** taking into consideration the income to be clubbed.
- (ii) **If the marriage of mother, father doesn't subsist**, in that case, income shall be clubbed in the income of mother or father whosoever maintains the minor child.
- (iii) Minor child for this purpose shall include even an adopted child and also step child, however, **it will not include the minor child suffering from a disability mentioned under section 80U**, e.g. Minor son of Mr. X has interest income of ₹2,00,000 and the minor child is suffering from a disability, in this case, clubbing provisions shall not be applicable.
- (iv) If any minor child has **income through**
- Manual labour or**
 - has income through activity involving application of his skill, talent or specialized knowledge and experience,**
- in this case, clubbing provision shall not apply, rather it will be considered to be the income of minor child and his tax liability shall be computed separately but the return shall be filed by his father as his guardian.
- (v) If any person has transferred any asset to minor married daughter, clubbing provision shall applicable in that case also e.g. Minor married daughter of Mr. X has interest income of ₹1,00,000 from bank deposit, in this case income shall be clubbed in the income of mother or father whosoever has higher income.
- (vi) If any minor child has income from manual labour or through activity involving application of his skill, talent or specialized knowledge and experience, such income shall not be clubbed but if such income has been invested further, any new income shall be clubbed in the income of mother or father.

Example

Minor son of Mr. X is a child actor. He has income of ₹5,00,000 from stage acting, this income will not be clubbed but if this amount was invested by him in a bank as fixed deposit, interest received by him shall be clubbed.

Illustration 6: Mr. X, a mentally retarded minor, has a total income of ₹1,20,000 for the assessment year 2024-25. The total income of his father Mr. Y and of his mother Mrs. Y for the relevant assessment year is ₹2,40,000 and ₹1,80,000 respectively. Discuss the treatment to be accorded to the total income of Mr. X for the relevant assessment year.

Solution: Section 64(1A) provides that all income accruing or arising to a minor child has to be included in the income of that parent, whose total income is greater. However, the income of a minor child suffering from any disability of the nature specified in section 80U shall not be included in the income of the parents but shall be assessed in the hands of the child. Thus, the total income of Mr. X has to be assessed in his hands and cannot be included in the total income of either his father or his mother.

9. Transfer of the asset by the member of Hindu Undivided Family to the Hindu undivided family

Section 64(2)(Conversion of self-acquired property into common property of HUF)

If any member of HUF has gifted any asset to the HUF, income from such asset shall be clubbed in the income of such member but if partition has been taken place, in that case clubbing provision shall not be applicable however income from that part of asset which has been received by the spouse of such person, shall be clubbed in the income of such member.

Rules for Clubbing of Income

Clubbing of income will also include clubbing of loss and income shall be clubbed in the following manner:

Step 1: Calculate the income/loss on the hands of recipient as if it is the income of recipient.

Step 2: The income or loss calculated as above will then be clubbed with the income of the transferor under the same head (i.e. the head to which such income belongs).

Step 3: Such clubbed income is the income of the transferor and provisions relating to set off and carry forward of losses shall apply in the normal manner.

Illustration 7: Mr. X gifts ₹1 lakh to his wife Mrs. X on April 1, 2023 which she invests in a firm on interest rate of 14% per annum. On January 1, 2024, Mrs. X withdraws the money and gift it to her son's wife. She claims that interest which has accrued to the daughter-in-law, from January 1, 2024 to March 31, 2024 on investment made by her is not assessable in her hands but in the hands of Mr. X. Is this correct? What would be the position, if Mrs. X has gifted the money to minor grandson, instead of the daughter-in-law?

Solution: Section 64(1) provides that in computing the total income of any individual, there shall be clubbed all such income as arises directly or indirectly to the son's wife, of such individual, from assets transferred directly or indirectly to the son's wife by such individual otherwise than for adequate consideration.

There is an indirect transfer by Mr. X to the daughter-in-law and therefore, the interest income shall be clubbed with income of Mr. X.

If Mrs. X had gifted the money to her minor grandson, then the interest income arising to the minor shall be clubbed under section 64(1A) in the total income of that parent (son/daughter-in-law) whose total income (before including such income) is higher.

Illustration 8: Mr. X, entered into the following transactions during the previous year 2024-25:

(a) Mr. X had a fixed deposit of ₹ 8,00,000 with State Bank of India. He instructed the bank to credit the interest on the deposit @ 9% from 01.04.2023 to 31.03.2024 to the savings bank account of Ms. Y, his niece, to help her in her higher education.

(b) Mr. X holds 51% share in a partnership firm. Mrs. X (wife of Mr. X) received a remuneration of ₹45,000 from the firm for writing its books of accounts. Mrs. X, being a fashion designer, does not possess any qualification or training in the accountancy field.

(c) Mr. X gifted a flat to Mrs. X on April 1, 2023. During the previous year 2023-24, she received rent of ₹8,500 p.m. from letting out of the flat.

(d) Mr. X gifted ₹ 4,00,000 to his minor son who invested the same in a business and he derived income of ₹40,000 from the investment.

(e) Mr. X's minor daughter derived an income of ₹ 25,000 from participation in music shows.

During the year, Mr. X got a monthly pension of ₹ 18,000. He had no other income. Mrs. X received salary of ₹ 25,000 per month from a part time job as a fashion designer.

Discuss the tax implications of each transaction and compute the total income of Mr. X and Mrs. X.

Solution:

₹

Computation of Total Income of Mr. X

(a) Interest income received by Miss. Y shall be clubbed in the income of Mr. X as per section 60 (8,00,000 x 9%)	72,000
(b) Remuneration of ₹45,000 received by Mrs. X shall be clubbed in the income of Mr. X as per section 64(1)	45,000
(c) Income from House Property gifted to Mrs. X shall be taxable in the hands of Mr. X because as per section 27 Mr. X is the deemed owner (Rent received (i.e. ₹ 1,02,000) is taken as Gross Annual Value. Deduction @ 30% of Net Annual Value is allowed u/s 24. The net income from house property would be ₹71,400 (i.e. ₹ 1,02,000- ₹30,600 being 30% of NAV)	71,400
(d) Income of minor child shall be clubbed in the income of Mr. X as per section 64(1A) because Mr. X has higher income	40,000
(e) Income of minor daughter from music show shall not be clubbed	Nil
Pension income of Mr. X (₹ 18,000×12)	2,16,000
Less: Standard deduction u/s 16(ia)	(50,000)
Income under the head salary	1,66,000
Total Income	3,94,400
Salary income of Mrs. X	3,00,000
Less: Standard deduction u/s 16(ia)	(50,000)
Income under the head salary	2,50,000

Illustration 9: 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.

Optional Regime

Under optional regime, exemption shall be allowed u/s 10(32) upto ₹1,500 per minor child while doing clubbing of income. E.g. Minor son of Mr. X has interest income of ₹3,00,000 from fixed deposit, in this case amount to be clubbed shall be ₹2,98,500.

MULTIPLE CHOICE QUESTIONS

1. Income of a minor child suffering from any disability of the nature specified in section 80U is -

- (a) to be assessed in the hands of the minor child
- (b) to be clubbed with the income of that parent whose total income, before including minor's income, is higher
- (c) completely exempt from tax
- (d) to be clubbed with the income of father

2. Income arising to a minor married daughter is -

- (a) to be assessed in the hands of the minor married daughter
- (b) to be clubbed with the income of that parent whose total income, before including minor's income, is higher
- (c) completely exempt from tax
- (d) to be clubbed with the income of her husband

3. Where a member of a HUF has converted or transferred his self-acquired property for inadequate consideration into joint family property, income arising therefrom is -

- (a) taxable as the income of the transferor-member.
- (b) taxable in the hands of the HUF.
- (c) taxable in the hands of the karta of the HUF.
- (d) exempt from tax.

4. If the converted property is subsequently partitioned among the members of the family, the income derived from such converted property as is received by the spouse of the transferor will be taxable -

- (a) as the income of the karta of the HUF
- (b) as the income of the spouse of the transferor
- (c) as the income of the HUF.
- (d) as the income of the transferor-member

5. Mr. A gifts a sum of ₹ 1,00,000 to his brother's wife Mrs. B. Mr. B gifts a sum of ₹ 1,00,000 to Mrs. A. From the sum gifted to her, Mrs. B invests in a fixed deposit, income therefrom is ₹10,000. Aforesaid ₹10,000 will be included in the total income of

- (a) Mr. A
- (b) Mrs. A
- (c) Mrs. B
- (d) Mr. B

6. Scholarship received by a minor child is -

- (a) to be assessed in the hands of the minor child
- (b) to be clubbed with the income of that parent whose total income, before including minor's income, is higher
- (c) completely exempt from tax u/s 10(16)
- (d) to be clubbed with the income of father

7. Income of a minor child from a fixed deposit with a bank, made out of income earned from scholarship is-

- (a) to be assessed in the hands of the minor child
- (b) to be clubbed with the income of that parent whose total income, before including minor's income, is higher
- (c) completely exempt from tax
- (d) to be clubbed with the income of father

8. Mr. X transfers income of ₹51,000 from rent to his major son without transfer of house property. Rent of ₹51,000 is -

- (a) taxable in the hands of the transferor-father
- (b) taxable in the hands of the his son
- (c) taxable in the hands of the that parent whose total income is higher
- (d) exempt from tax

9. Interest from a fixed deposit received by a minor married daughter is –

- (a) to be assessed in the hands of the minor child
- (b) to be clubbed with the income of that parent whose total income, before including minor's income, is higher
- (c) completely exempt from tax
- (d) to be clubbed with the income of her husband

10. Mr. Aarav gifted a house property valued at ₹50 lakhs to his wife, Geetha, who in turn has gifted the same to her daughter-in-law Deepa. The house was let out at ₹25,000 per month throughout the P.Y.2023-24. Compute income from house property for A.Y.2024-25.

In whose hands is the income from house property chargeable to tax?

- (a) ₹3,00,000 in the hands of Mr. Aarav
- (b) ₹2,10,000 in the hands of Mr. Aarav
- (c) ₹2,10,000 in the hands of Geetha
- (d) ₹2,10,000 in the hands of Deepa

11. As per section 60, which of the following statement is correct?

- (a) If any person has not transferred the asset but has transferred income from such asset to any person, such income shall be included in the income of transferor
- (b) If any person has not transferred the asset but has transferred income from such asset to any person, such income shall be included in the income of transferee
- (c) If any person has not transferred the asset but has transferred income from such asset to any person, such income is not taxable in the hands of transferor or transferee
- (d) none of these

12. Which of the following is correct as per section 61?

- (a) All income arising to any person by virtue of a revocable transfer of assets shall be chargeable to income-tax as the income of the transferee and shall be included in his total income.
- (b) All income arising to any person by virtue of a revocable transfer of assets shall be chargeable to income-tax as the income of the transferor and shall be included in his total income.
- (c) All income arising to any person by virtue of an irrevocable transfer of assets shall be chargeable to income-tax as the income of the transferor and shall be included in his total income.
- (d) none of these

13. Which of the following statement is correct as per section 64(1)?

- (a) If any individual has transferred any asset other than house property to the spouse, directly or indirectly, income from the asset transferred, directly or indirectly shall be included in the income of transferor provided the asset was transferred for adequate consideration or in connection with an agreement to live apart.
- (b) If any individual has transferred any asset other than house property to the spouse, directly or indirectly, income from the asset transferred, directly or indirectly shall be included in the income of transferee provided the asset was transferred otherwise than for adequate consideration or in connection with an agreement to live together.
- (c) If any individual has transferred any asset other than house property to the spouse, directly or indirectly, income from the asset transferred, directly or indirectly shall be included in the income of transferor provided the asset was transferred otherwise than for adequate consideration or in connection with an agreement to live apart.
- (d) none of these

14. Which of the following statements is correct?

- (a) As per section 64(1A), in computing the total income of any individual, there shall be included all such income as arises or accrues to his minor child, including a minor child suffering from any disability of the nature specified in section 80U:

Provided that nothing contained in this sub-section shall apply in respect of such income as arises or accrues to the minor child on account of any—

- (a) manual work done by him; or
- (b) activity involving application of his skill, talent or specialised knowledge and experience.

(b) As per section 64(1A), in computing the total income of any individual, there shall be included all such income as arises or accrues to his minor child, not being a minor child suffering from any disability of the nature specified in section 80U:

This section shall also apply in respect of such income as arises or accrues to the minor child on account of any—

(a) manual work done by him; or

(b) activity involving application of his skill, talent or specialised knowledge and experience.

(c) As per section 64(1A), in computing the total income of any individual, there shall be included all such income as arises or accrues to his minor child, not being a minor child suffering from any disability of the nature specified in section 80U:

Provided that nothing contained in this sub-section shall apply in respect of such income as arises or accrues to the minor child on account of any—

(a) manual work done by him; or

(b) activity involving application of his skill, talent or specialised knowledge and experience.

(d) As per section 64(1A), in computing the total income of any individual, there shall be included all such income as arises or accrues to his major child, not being a major child suffering from any disability of the nature specified in section 80U:

Provided that nothing contained in this sub-section shall apply in respect of such income as arises or accrues to the minor child on account of any—

(a) manual work done by him; or

(b) activity involving application of his skill, talent or specialised knowledge and experience.

(c) none of these

Answer

1.(a); 2.(b); 3. (a); 4.(d); 5.(d); 6.(c); 7.(b); 8. (a); 9.(b); 10.(b); 11. (a); 12(b); 13. (c); 14. (c)

EXAMINATION QUESTIONS

MAY – 2023

Question 4(a).**(6 Marks)**

Mr. Chaman who is 50 years old and his wife Mrs. Chaman who is 48 years old furnish the following information (all the amount of incomes/gains/losses are computed as per the provisions of Income-tax Act):

- (i) Mr. Chaman's salary income - ₹ 11,00,000
- (ii) Mrs. Chaman's income from Kathak performances - ₹ 2,50,000. She is a professional Kathak dancer and pursues dancing as her profession.
- (iii) Mrs. Chaman earned long-term capital gains of ₹ 5,50,000 from sale of shares.
- (iv) Mrs. Chaman gifted ₹ 2,00,000 to Mr. Chaman out of her Stridhan on 1.4.2023, Mr. Chaman invested the entire amount in stock market but suffered a short-term capital loss of ₹ 5,10,000
- (v) Miss Naina, their minor daughter, earned ₹ 3,56,000 by performing in various quiz competitions held online during the year 2022-23. She kept that amount in savings bank account and earned interest of ₹ 15,000 during the year 2022-23.
- (vi) Master Neelabh, their minor son earned ₹ 35,000 from fixed deposit which was made out of the cash he received on his birthday from his friends and family. Neelabh suffers from disability as mentioned under section 80U. The medical certificate shows a disability of upto 75%.

Compute the total income in the hands of Mr. and Mrs. Chaman and their minor children for the Assessment Year 2023-24. Ignore section 115BAC pertaining to alternative tax regime.

Solution:

Computation of total income of Mr. Chaman, Mrs. Chaman and their minor children for the A.Y.2023-24

Particulars	Mr. Chaman	Mrs. Chaman	Naina, minor daughter	Neelabh, minor son
	₹	₹	₹	₹
Income under the head "Salaries"				
Salaries (computed)	11,00,000			
Profits and gains from business or profession				
Income from Kathak performances		2,50,000		
Capital Gains				
Long term capital gains from sale of shares		5,50,000		
Less: Set off of short-term capital loss from long term capital gain [Short term capital loss to the extent of ₹ 2 lakhs would be included in the income of Mrs. Chaman, since the shares are purchased by Mr. Chaman from the amount of ₹ 2 lakhs gifted by Mrs. Chaman out of her Stridhan. Clubbing provisions would be attracted even if it is a loss and not income]		<u>(2,00,000)</u>		
[Refer Note 1 and 2 below]				
The balance short-term capital loss of ₹ 3,10,000 has to be carried forward by Mr. Chaman, since it cannot be set-off against salary income.		3,50,000		
Income [before considering income of minor son and minor daughter]	11,00,000	6,00,000		

Income of Naina, minor daughter, from performances in various quiz competitions would not be included in the hands of either parent, since such income arises from her own skills/talent.			3,56,000	
However, interest of ₹ 15,000 on saving bank account [after providing for deduction of ₹ 1,500, being exempt under section 10(32)] is to be included in the hands of Mr. Chaman, since his income is higher than that of his wife [₹ 15,000 - ₹ 1,500]	13,500			
Income of Neelabh, minor son suffering from disability u/s 80U, from fixed deposits would not be included in the income of parent but would be taxable in his hands.				35,000
Gross Total Income	11,13,500	6,00,000	3,56,000	35,000
Less: Deductions under Chapter VI-A				
- Under section 80TTA In respect of interest on saving bank account to the extent of	10,000			
- Under section 80U Flat deduction of ₹ 75,000 to a person with disability. However, deduction would be restricted to gross total income				35,000
Total Income	11,03,500	6,00,000	3,56,000	Nil

Note – (1) The question mentions that Mrs. Chaman gifted ₹ 2 lakh to Mr. Chaman out of her Stridhan on 1.4.2023 and that Mr. Chaman invested the entire amount in stock market but suffered a short-term capital loss of ₹ 5,10,000. It is not possible to invest ₹ 2 lakhs and incur short-term capital loss of ₹ 5.10 lakhs. Accordingly, in the above solution, it has been assumed that the remaining ₹ 3,10,000 is invested by Mr. Chaman and hence the same would be a short-term capital loss to be carried forward by him.

Due to the use of the words “invested the entire amount in the stock market” in the question, it is possible to take a view that the entire capital loss of ₹ 5,10,000 has to be set off against long-term capital gains of ₹ 5,50,000 in the hands of Mrs. Chaman. In which case the total income of Mrs. Chaman would be ₹ 2,90,000 instead of ₹ 6,00,000. Also, there would be no short-term capital loss in the hands of Mr. Chaman.

(2) Assumed that this is the first year of clubbing

Since the relevant assessment year for May 2023 examination is A.Y. 2023-24, accordingly, the relevant previous year is P.Y. 2022-23. The above solution has been worked out considering the date of gift as 1.4.2022.

(2) Item (iv) mentions that the gift was made by Mrs. Chaman to Mr. Chaman on 1.4.2023, which falls outside the P.Y. 2022-23. Since the date of gift has been mentioned as 1.4.2023 in the question, as per the plain reading, such short-term capital loss cannot be set-off against long-term capital gains of ₹ 5,50,000. In such a case, the total income of Mr. Chaman would be ₹ 8,00,000.

NOV – 2022

Question 4(c).

(4 Marks)

From the following transactions compute the total income of Mr. Raman and his wife Savita for the Assessment year 2024-25.

- (i) Mr. Raman had a fixed deposit of ₹5,00,000 in the bank. He instructed the bank to credit the interest on deposit @ 6% from 01.04.2023 to 31.03.2024 to the savings account of his brother's son for his education.
- (ii) Savita is a B.com graduate and working in the ABC Private Limited as an accountant with a monthly salary of ₹25,000. Raman holds 30% equity shares of the ABC Private Limited.
- (iii) Raman started proprietary business on 01.04.2022 with a capital of ₹10,00,000. He incurred a loss of ₹2,00,000 during the previous year 2022-23. To overcome the financial position, Savita gifted a sum of ₹4,00,000 to him on 01.04.2023 which was immediately invested in the business by Mr. Raman. He earned a profit of ₹3,00,000 during the previous year 2023-24.
- (iv) Sajan, younger son of Raman, aged 17 years won in a debate competition during the annual competitions held at his school and received a cash award of ₹10,000 and he also earned interest of ₹7,000 on balance maintained in his savings bank account.

Solution:**Computation of Total Income of Mr. Raman and Mrs. Savita for A.Y. 2024-25**

Particulars	Mr. Raman	Mrs. Savita
	Amount (₹)	
(i) Interest on fixed deposits [Income would be included in the hands of Raman, since he has transferred income to his brother's son without transfer of the asset, being fixed deposit] [₹ 5,00,000 x 6%]	30,000	
(ii) Salary income [₹ 3,00,000 (₹ 25,000 x 12) less standard deduction of ₹50,000] [Mrs. Savita's salary would not be included in the income of Raman, who has substantial interest in the company, since she possesses the relevant professional qualifications for working as an accountant]		2,50,000
(iii) Savita gifted ₹ 4,00,000 to Mr. Raman, which Mr. Raman has invested in the business. In such case, proportionate income (i.e., 1/3 x ₹3,00,000) arising from such investment is to be included in the total income of Savita.	2,00,000	1,00,000
Mr. Raman's contribution in capital as on 1.4.2023 = ₹ 8,00,000 [₹10,00,000 – ₹ 2,00,000] Mrs. Savita's contribution on 1.4.2023 = ₹4,00,000 ₹ 3,00,000, being the profit for P.Y.2023-24 to be apportioned on the basis of capital employed on the first day of the previous year i.e., as on 1.4.2023 (8:4 or 2:1)		
Total income [before considering minor income from interest on savings account]	2,30,000	3,50,000
(iv) Cash award won in a debate by Sajan, minor son, would not be included in the hands of either parent, since such income arises from his own skills/talent. However, interest of ₹ 7,000 on savings bank account is to be included in the hands of Mrs. Savita, since her income is higher than that of her husband	-	-
	_____ -	_____ <u>7,000</u>
Gross Total Income	2,30,000	3,57,000
Less: Deduction under Chapter VI-A	_____ -	_____ -
Total Income	<u>2,30,000</u>	<u>3,57,000</u>

MAY – 2022**Question 2(c).****(4 Marks)**

Mr. Sarthak is a member of HUF. It consists of himself, his wife Juhi and his major son Arjun and his minor daughter Aditi. Mr. Sarthak transferred his house property acquired through his personal income to the HUF without any consideration.

On 01.10.2023, HUF is partitioned and such property being divided equally. Net annual value of the property for the Previous Year 2023-24 is 1,00,000. Determine the tax implications.

Answer:

	₹
Since Mr. Sarthak, who is a member of the HUF, transfers the house property acquired by him out of his personal income to the HUF without any consideration, the income from such property would continue to be included in his total income upto the date of partition. Accordingly, income from such property for six months upto the date of partition i.e., 30.9.2023 (6/12 x ₹ 70,000 [Net Annual Value of ₹ 1,00,000 less deduction under section 24(a) @30%]) would be included in the total income of Mr. Sarthak.	35,000
Since the HUF was partitioned on 1.10.2023, the income derived from such converted house property as is received by Mr. Sarthak's spouse, Juhi, on partition will be deemed to arise to Mr. Sarthak from house property transferred indirectly by him to her and consequently, such income would also be included in the total income of Mr. Sarthak. Accordingly, Mr. Sarthak's share (25%) and Juhi's share (25%) would be included in the total income of Mr. Sarthak.	
Sarthak's Share [25% of ₹ 35,000 (₹ 70,000 x 6/12)]	8,750
Juhi's Share [25% of ₹ 35,000] included in the total income of Sarthak	8,750
Income from house property includible in the income of Mr. Sarthak	52,500
25% share of Sarthak's minor daughter, Aditi, i.e., ₹ 8,750, being 25% of ₹ 35,000, would be included in the total income of Mr. Sarthak or Juhi, whosoever's total income, before including Aditi's income, is higher.	
25% share of Sarthak's major son, Arjun, i.e., ₹ 8,750, being 25% of ₹ 35,000, would be included in Arjun's total income.	
Distribution of house property on partition of HUF is not a transfer for levy of capital gains tax.	

DEC – 2021**Question 4(a).****(4 Marks)**

Details of Income of Mr. R and his wife Mrs. R for the previous year 2023-24 are as under :

- (i) Mr. R transferred his self-occupied property without any consideration to the HUF of which he is a member. During the previous year 2023-24 the HUF earned an income of ₹50,000 from such property.
- (ii) Mr. R transferred ₹4,00,000 to his wife Mrs. R on 01.04.2006 without any consideration which was given as a loan by her to Mr. Girish. She earned ₹3,50,000 as interest during the earlier previous years which was also given as a loan to Mr. Girish. During the previous year 2023-24, she earned interest @ 11% per annum.
- (iii) Mr. R and Mrs. R both hold equity shares of 27% and 25% respectively in AMG Limited. They are also working as employees in such Company without technical or professional qualification. During the financial year 2023-24 they have withdrawn a salary of ₹3,20,000 and ₹ 2,70,000 respectively.
- (iv) Mrs. R transferred 5,000 equity shares of RSB Ltd. on 17.09.2013 to Mr. R without any consideration. The Company issued 3,000 bonus shares to Mr. R in 2016. On 04.03.2024, Mr. R sold entire share holdings and earned ₹5,20,000 as capital gains.

Apart from above income, Mr. R has income from commission ₹4,00,000 and Mrs. R has interest income of ₹3,30,000.

Compute Gross Total income of Mr. R and Mrs. R for the assessment year 2024-25.

Answer

Computation of Gross Total Income of Mr. R and Mrs. R for A.Y. 2024-25

	Particulars	Mr. R	Mrs. R
		Amount (₹)	
I.	Income from house property		
	Income from property transferred to HUF without consideration		
	Since Mr. R has transferred his property to his HUF without consideration, income of ₹ 50,000 from such property would be included in the total income of Mr. R as per section 64(2).	50,000	
II.	Capital Gains		
	Income from equity shares transferred by Mrs. R to Mr. R without consideration		
	Capital gains arising to Mr. R from transfer of equity shares of RSB Ltd. gifted to him by Mrs. R would be included in the hands of Mrs. R [₹ 5,20,000 x 5,000/8,000]		3,25,000
	Capital gains arising to Mr. R from transfer of bonus shares issued by RSB Ltd. on the basis of holding of the said equity shares would be included in the income of Mr. R and not Mrs. R, since income derived from accretion of the transferred asset cannot be clubbed with the income of transferor of the original asset i.e., Mrs. R [₹ 5,20,000 x 3,000/8,000]	1,95,000	
III.	Income from Other Sources		
	Income from commission	4,00,000	
	Interest income		3,30,000
	Interest income on ₹ 4 lakh transferred by Mr. R to Mrs. R without consideration		
	Income of ₹ 44,000, i.e., 11% of ₹4,00,000, being the amount transferred by Mr. R to Mrs. R without any consideration and loaned by her to Mr. Girish, would be included in the income of Mr. R	44,000	
	Income of ₹ 38,500 i.e., 11% of ₹ 3,50,000, being the interest earned by Mrs. R out of amount gifted by Mr. R and thereafter, given by her as loan to Mr. Girish, would be included in the income of Mrs. R, as income derived by Mrs. R from accretion of the amount gifted by Mr. R (i.e., interest income) cannot be included in the income of Mr. R.		38,500
	Total income [before considering adjustment on account of item (iii) i.e., salary income from a company in which both Mr. R and Mrs. R have substantial interest]	6,89,000	6,93,500
IV.	Salary income from a company in which both Mr. R and Mrs. R have substantial interest		

Since both Mr. R and Mrs. R have substantial interest in AMG Ltd. (on account of holding equity shares carrying 20% or more of voting power) and both are in receipt of income by way of salary from AMG Ltd., such salary income would be includible in the hands of that spouse, whose total income, before including such salary income, is higher. Accordingly, the salary income of both Mr. R and Mrs. R would be included in the hands of Mrs. R in this case, since her total income, before including such income, is higher than that of Mr. R.		
Salary income of Mr. R = ₹ 3,20,000 – ₹ 50,000 (standard deduction)		2,70,000
Salary income of Mrs. R = ₹ 2,70,000 – ₹ 50,000 (standard deduction)		2,20,000
Gross Total Income	6,89,000	11,83,500

Note: Whether salary income should be clubbed after standard deduction or before standard deduction is controversial.

JULY – 2021

Question 4(a).

(5 Marks)

Mr. Dharmesh who is 45 years old and his wife Mrs. Anandi who is 42 years old furnished the following information:

	Particulars	Amount (₹)
(i)	Salary income (computed) of Mrs. Anandi	9,60,000
(ii)	Income of minor Son “A” who suffers from disability specified in Section 80U	3,08,000
(iii)	Income of minor daughter “C” from script writing for Television Serials	1,86,000
(iv)	Income from garment trading business of Mr. Dharmesh	17,50,000
(v)	Cash gift received by minor daughter “C” on 02.10.2023 from friend of Mr. Anandi on winning of a story writing competition	45,000
(vi)	Income of minor son “B” from Scholarship received from his school	1,00,000
(vii)	Income of minor son “B” from fixed deposit with Punjab National Bank, made out of income earned from Scholarship	3,500

Compute the total income of Mr. Dharmesh and his wife Mrs. Anandi for Assessment Year 2024-25.

Answer:

Computation of Total Income of Mr. Dharmesh and Mrs. Anandi for A.Y. 2024-25

Particulars	Mr. Dharmesh	Mrs. Anandi
	Amount (₹)	
Salary income (computed)		9,60,000
Income from garment trading business	17,50,000	
Total Income before including income of minor children	17,50,000	9,60,000
<u>Income of minor son “A”</u>		
Income of ₹ 3,08,000 of minor son A who suffers from disability specified in section 80U [Since minor child A is		

suffering from disability specified under section 80U, hence, his income would not be included in the income of the parent but would be taxable in the hands of the minor child]		
<u>Income of minor son “B”</u>		
Income of ₹ 1,00,000 from scholarship [Exempt u/s 10(16)]		
Income from fixed deposit with PNB 3,500		
[Since Mr. Dharmesh’s income is greater than that of Mrs. Anandi, income of minor son B from fixed deposit would be included in the hands of Mr. Dharmesh. Interest from bank deposit has to be included in Mr. Dharmesh’s income, even if deposit is made out of income earned from scholarship]		3,500
<u>Income of minor daughter “C”</u>		
Income of ₹ 1,86,000 from script writing for television serials [Income derived by a minor child from any activity involving application of his/her skill, talent, specialized knowledge and experience is not to be included in the hands of the parent]		Nil
Hence, clubbing provisions will not apply in this case/no adjustment is required.		
Cash gifts of ₹ 45,000 received from friend of Mrs. Anandi [Gift not exceeding ₹ 50,000 received from a non-relative is not taxable under section 56(2)(x)]		
Hence, clubbing provisions will not apply in this case / no adjustment is required.		Nil
Gross Total Income/ Total Income	17,53,500	9,60,000

Note - As per section 10(16), scholarships granted to meet the cost of education is exempt from tax. The purpose of scholarship received by minor son B is explicitly not mentioned in the question. However, scholarships given by schools are generally in the form of financial assistance for meeting the cost of education. Hence, it is logical to assume that the scholarship to B has been granted to him to meet his cost of education. Based on this assumption, the same has been treated as exempt from tax u/s 10(16).

Alternate view - However, in absence of specific information, it is possible to assume that such scholarship has been granted on account of B’s exceptional academic achievements i.e., involving application of his skill, talent, specialised knowledge and experience and hence would be covered under the proviso to section 64(1A) and thus should not be included in the income of parent.

NOV – 2020

Question 3 (b)

6 Marks

Determine the Gross total income of Shri Ram Kumar and Smt. Ram Kumar for the assessment year 2024-25 from the following:

- (i) Salary received by Shri Ram Kumar from a company ₹1,80,000 per annum and Smt. Ram Kumar also doing job in a company and getting salary of ₹2,40,000 per annum
- (ii) Shri Ram Kumar transferred a flat to his wife Smt. Ram Kumar on 1st September, 2023 for adequate consideration. The rent received from this let-out flat is ₹9,000 per month.
- (iii) Shri Ram Kumar and his wife Smt. Ram Kumar both are partners in a firm. Shri Ram Kumar received ₹36,000 and Smt. Ram Kumar received ₹64,000 as interest from the firm and also had a share of profit of ₹12,000 and ₹26,000 respectively.

(iv) Smt. Ram Kumar transferred 10% debentures worth ₹3,00,000 to Shri Ram Kumar. The whole amount of ₹3,30,000 invested by Shri Ram Kumar in the similar investments and earned income of ₹39,000.

(v) Mother of Shri Ram Kumar transferred a property to Master Rohit (son of Shri Ram Kumar) in the year 2022. Master Rohit (Aged 13 years) received of ₹15,000 as income from this property on 20th February, 2024.

Solution: Computation of Gross Total Income of Shri Ram Kumar

Income under the head salary

Salary received	1,80,000.00
Less: Standard deduction u/s 16(ia)	(50,000.00)
Income under the head salary	1,30,000.00

Income under the head house property

Gross Annual value (9,000 x 5)	45,000.00
Less: Municipal taxes	Nil
Net Annual value	45,000.00
Less: Standard deduction @ 30% u/s 24(a)	(13,500.00)
Less: Interest on capital borrowed u/s 24(b)	Nil
Income from house property	31,500.00

Income under the business/Profession

Interest income from Firm	36,000.00
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Income under the head other sources

Interest income of debentures (39,000 / 3,30,000 x 30,000)	3,545.45
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Gross Total Income	2,01,045.45
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Computation of Gross Total Income of Smt. Ram Kumar

Income under the head salary

Salary received	2,40,000
Less: Standard deduction u/s 16(ia)	(50,000)
Income under the head salary	1,90,000

Income under the head house property (Transferred with adequate consideration)

Gross Annual value (9,000 x 7)	63,000
Less: Municipal taxes	Nil
Net Annual value	63,000
Less: Standard deduction @ 30% u/s 24(a)	(18,900)
Less: Interest on capital borrowed u/s 24(b)	Nil
Income from house property	44,100

Income under the business/Profession

Interest income from Firm	64,000
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Income of Minor son – Rohit

Income from house property	15,000
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Income under the head other sources

Interest on debentures (3,00,000 x 10%)	30,000.00
Interest income of debentures shall be clubbed u/s 64(1) (39,000 / 3,30,000 x 3,00,000)	35,454.55

Income under the head other sources	65,454.55
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Gross Total Income	3,78,554.55
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Note:

- (i) Mother of Shri Ram Kumar transferred a Property to master Rohit, it is not mentioned it is House Property, hence it is presumed that it is other than House Property. Accordingly income has been clubbed.
- (ii) In case of transfer of debentures date of transfer is not given and whether it is transferred for adequate consideration or not is not mentioned. Above solution is given on the assumption that it is transferred for inadequate consideration and clubbing provisions shall be applicable.

MAY – 2019 (Old Course)

Question 4(b).**(3 Marks)**

Briefly explain with example, the meaning of Cross Transfer, the objective to make such transactions and implications thereof under the Income Tax Laws.

Answer: Refer answer given in the book.

INCOME UNDER THE HEAD OTHER SOURCES

SECTION 56 TO 59

PARTICULARS	SECTIONS
Income from other sources	56
Deductions while computing income under the head other sources	57
Amounts not deductible	58
Deemed income chargeable to tax	59
Deemed dividend	2(22)
Method of accounting	145

Question 1: What are the incomes taxable under the head Other Sources.

Answer: Incomes taxable under the head Other Sources Section 56

If any income cannot be taxed under first 4 heads, such income shall be taxable under the head other sources and such income may be

1. Interest income
2. Dividend income
3. Casual income
4. Gift
5. Family pension
6. Payment received under keyman insurance policy to a person who is not an employee
7. Income from owning and maintaining of race horses
8. Forfeiture of advance money
9. Any other income which is not taxable under first four heads.

Question 2 [Imp.]: Discuss the deductions allowable under section 57 of the Income Tax Act, 1961, in respect of Income from Other Sources.

Answer:

Deductions allowable under Section 57

While computing income under the head other sources, expenses incurred in connection with earning of such income shall be allowed to be deducted. *However, in case of dividend income or income in respect of units of mutual fund specified u/s 10(23D) or units of UTI, deduction shall be allowed only for the interest expenses and that too shall also be restricted to 20% of the such income.* Mr. X has taken a loan of ₹10 Lakh and paid interest ₹1 lakh and amount was invested in shares of a company and dividend received is ₹2 lakh, in this case ₹1 lakh shall not be allowed to be deducted rather amount allowed to be deducted shall be ₹40,000 and income shall be considered to be ₹1,60,000.

Amounts not deductible Section 58

While computing income, any personal expense shall not be allowed to be deducted and also in case of capital expenditure only depreciation shall be allowed.

As per section 58(4), no deduction in respect of any expenditure or allowance shall be allowed in computing the income by way of any winnings from lotteries, crossword puzzles, races including horse races, card games and other games of any sort or from gambling or betting of any form or nature, whatsoever.

e.g. Mr. X purchased lottery tickets of ₹10,000 and he had a winning of ₹1,00,000, in this case, his income

shall be considered to be ₹1,00,000 and expenditure of ₹10,000 shall not be allowed.

Profits chargeable to tax Section 59

If the assessee has claimed any expenditure while computing income and subsequently he has recovered the same amount, the amount so recovered shall be considered to be income of the year in which amount has been recovered, e.g. Mr. X has received a cheque of ₹ 1,00,000 being interest from ABC Ltd. and cheque was deposited in his bank account and bank has deducted ₹ 1,000 being collection charge. His income was considered to be ₹ 99,000. In the next year bank has refunded ₹ 500 being excess charges collected, in this case ₹ 500 shall be considered to be income of the year in which the amount has been received.

Question 3: Write a note on Family Pension.

Answer: Family Pension

Regular payments given by the employer to the employee after retirement is called pension and it is taxable under the head Salary and standard deduction is allowed under section 16(ia), e.g. Mr. X is retired from ABC Ltd. and is getting pension ₹ 40,000 per month, in this case taxable amount under the head salary shall be $40,000 \times 12 - 50,000 = 4,30,000$.

After the death of the employee, employer may pay some pension to the family member of the employee and it is called family pension. It is taxable under the head Other Sources but as per section 57 deduction is allowed equal to $1/3^{\text{rd}}$ of such pension but maximum ₹15,000 E.g. Mrs. X is getting family pension of ₹5,000 p.m., in this case taxable amount shall be $(5,000 \times 12)$ minus $1/3$ of ₹60,000 or ₹15,000 whichever is less i.e. taxable amount shall be ₹45,000. If family pension is ₹ 3,000 per month, taxable amount shall be $36,000 - 12,000 = 24,000$

Illustration 1: Mrs. X is getting family pension of ₹7,000 p.m. She also has dividend income from domestic company of ₹31,000. She has long term capital gain under section 112A ₹4,00,000.

Compute her tax liability for assessment year 2024-25.

Solution:

	₹	₹
Income under the head Other Sources		
Family Pension	84,000	
(7,000 x 12)		
Less: Deduction u/s 57	(15,000)	69,000
$1/3$ of ₹84,000 or ₹15,000 whichever is less		
Dividend income		31,000
Income under the head Other Sources		1,00,000
Income under the head Capital Gains		
Long term capital gain 112A		4,00,000
Gross Total Income		5,00,000
Less: Deduction under Chapter VI-A		Nil
Total Income		5,00,000
<i>Computation of Tax Liability</i>		
Tax on LTCG 112A ₹4,00,000 – 2,00,000 – 1,00,000 @ 10%		10,000
Tax on ₹1,00,000 at slab rate		Nil
Tax before health & education cess		10,000
Add: HEC @ 4%		400
Tax Liability		10,400
Note: Rebate not allowed from LTCG 112A		

Question 4: Write a note on taxability of interest received on payment of compensation from the government.

Answer:

As per section 145B, interest received for payment of compensation from the Government or other similar agency in connection with compulsory acquisition of land or building shall be taxable in the year in which it has been received and it will be taxable under the head other sources however, **as per section 57 deduction shall be allowed @ 50% of such interest.** e.g. Government has acquired one land of Mr. X in

Noida in 2013 and payment was given by the Government in the year 2023-24 and has also paid interest of ₹1,00,000, in this case, taxable amount shall be ₹1,00,000 – ₹50,000 = ₹50,000.

Illustration 2: Interest on enhanced compensation received by Mr. X during the previous year 2023-24 is ₹6,50,000. Out of this interest, ₹ 2,00,000 relates to the previous year 2020-21, ₹2,15,000 relates to previous year 2021-22 and ₹2,35,000 relates to previous year 2022-23. Discuss the tax implication, if any, of such interest income for A.Y.2024-25.

Solution:

The entire interest of ₹ 6,50,000 would be taxable in the year of receipt, namely, P.Y.2023-24.

Particulars	₹
Interest on enhanced compensation taxable u/s 56	6,50,000
Less: Deduction under section 57 @ 50%	(3,25,000)
Interest chargeable under the head “Income from other sources”	3,25,000

Question 5 [V. Imp.]: Write a note on taxability of Dividend Income.

Answer: Dividend Income Section 56

Dividend income from the domestic company shall be **Taxable** in the hands of the shareholder. Dividends from a foreign company shall also be taxable in the hands of the shareholder.

If any such person is engaged in the business of sale purchase of shares , even in that case dividend income shall be taxable under the head other sources.

As per section 57, in case of dividend income, deduction shall be allowed only for the interest expenses and that too shall also be restricted to 20% of the dividend income.

MEANING OF DIVIDEND SECTION 2(22)

The term dividend has a very limited meaning under Companies Act but it has a very wide meaning under Income Tax Act and is called deemed dividend and it is divided into 5 parts:

- (i) **Distribution in cash or as assets Section 2(22)(a)**
- (ii) **Issue of bonus shares etc. Section 2(22)(b)**
- (iii) **Distribution on liquidation Section 2(22)(c)**
- (iv) **Distribution on reduction of share capital Section 2(22)(d)**
- (v) **Loan and advance by a closely held company Section 2(22)(e)**

(i) Distribution in cash or as assets Section 2(22)(a)

If any company has distributed any amount to its shareholders either in cash or in kind, it will be considered to be dividend but only to the extent of accumulated profits including capitalized profit.

Example

Balance sheet of ABC limited.

Liability	Amount	Assets	Amount
Share Capital (includes Bonus shares of ₹ 2 Lacs)	17,00,000	Assets	25,00,000
Reserve and Surplus	3,00,000		
Liability	5,00,000		
Total	25,00,000	Total	25,00,000

Company distributed assets having Book value of ₹3,00,000 to its shareholders. Calculate the Deemed Dividend u/s 2(22)(a) having market Value-

1. 5,00,000
2. 7,00,000

Solution:

Accumulated Profit of the Company (whether Capitalised or Not)
- Reserves and Surplus + Bonus Shares

- 3,00,000 + 2,00,000 = 5,00,000

Deemed Dividend u/s 2(22)(a) shall be as follows-

Market Value	Deemed Dividend
5,00,000	5,00,000
7,00,000	5,00,000

(ii) Issue of bonus shares etc. Section 2(22)(b)

If any company has issued bonus shares to the equity shareholders, it will not be considered to be dividend but if the bonus shares have been issued to the preference shareholders, it will be considered to be dividend but to the extent of accumulated profits whether capitalised or not. Further, market value of the bonus shares shall be taken into consideration.

Example

Mr. X is holding 100 preference share in ABC Ltd. The company has issued him 100 bonus shares and their market value is ₹1,200. In this case, it will be considered to be dividend but only to the extent of accumulated profits whether capitalized or not.

(iii) Distribution on liquidation Section 2(22)(c)

If any company has distributed any amount to its shareholders in connection with its liquidation, it will be considered to be dividend but only to the extent of accumulated profits and any excess over it shall be considered to be full value of consideration as per section 46 and capital gains shall be computed accordingly.

Example

ABC Ltd. has 1,00,000 equity shares of ₹10 each and the company goes into liquidation on 31.07.2023 and company has net distributable amount of ₹60 lakhs after discharging all the liabilities including income tax and it includes accumulated profits of ₹20 lakhs and the entire amount was distributed among the shareholders and Mr. X is holding 10,000 equity shares which were purchased by him on 01.03.2022 for ₹1,10,000, in this case, tax treatment shall be as given below:

Net Distributable Amount	₹ 60,00,000
Share of Mr. X (10%)	6,00,000
Share of Mr. X out of accumulated profits which is considered dividend u/s 2(22)(c)	(2,00,000)
Balance to be considered full value of consideration	4,00,000
Less: Cost of acquisition of shares	(1,10,000)
Short term Capital Gain	2,90,000
Dividend u/s 2(22)(c)	2,00,000
Tax liability on ₹ 4,90,000 at slab rate	9,500
Less: Rebate u/s 87A	(9,500)
Tax Liability	Nil

(iv) Distribution on reduction of share capital Section 2(22)(d)

Any distribution to its shareholders by a company on the reduction of its capital, to the extent to which the company possesses accumulated profits e.g. Mr. X is holding 100 shares in ABC Ltd. of ₹10 each and company has paid ₹5 per share in connection with reduction of share capital, in this case amount so received shall be considered to be dividend but only to the extent of accumulated profits including capitalized profits.

Example

Mr. X is holding 1000 shares of ABC Ltd. of ₹10 each and company has reduced its share capital and has refunded ₹5 per share to the shareholders, the amount so received by the shareholders shall be considered to be dividend to the extent of accumulated profit.

ABC Ltd. has share capital 50,00,000 and Reserve and Surplus ₹ 10,00,000 and company has distributed ₹15,00,000 in correction with reduction of share capital, in this case dividend under section 2(22)(d) shall be ₹ 10,00,000.

(v) Loan and advance by a closely held company Section 2(22)(e)

If any closely held company (also called company in which public are not substantially interested) has given any loan or advance to an equity shareholder who is holding not less than 10% of the voting power of the

company, in such cases such loan or advance shall be considered to be dividend in the hands of such shareholder but only to the extent of accumulated profits excluding capitalized profits e.g. ABC Pvt. Ltd. a closely held company has general reserves of ₹7,00,000 and current profits of ₹2,00,000. The company has given a loan of ₹3,00,000 to one such shareholder Mr. X. in this case, it will be considered to be dividend in the hands of Mr. X. If loan given by the company is ₹10,00,000, the amount of dividend shall be ₹9,00,000.

If the loan or advance has been given to any concern (Partnership firm, company, AOP, BOI etc.) in which such a shareholder has substantial interest, such loan or advance shall also be considered to be dividend in the hands of such concern but only to the extent of accumulated profits excluding capitalized profits .

Example

(i) Mr. X is the beneficial owner of 10% equity shares in ABC Pvt. Ltd. (A closely held company) and the company has general reserve of ₹10,00,000 and has given a loan of ₹6,00,000 to a partnership firm XY in which Mr. X is holding 20% shares. In this case, the loan so given shall be considered to be dividend in the hands of partnership firm .

(ii) Mr. X is a shareholder in a Company A (A Closely held company) as well as Company B. He has 10% shareholding in Company A and 20% shareholding in Company B. The accumulated profits of Company A = ₹10 lakh. A loan of ₹12 lakh is given by Company A to Company B.

This loan up to the extent of accumulated profits of ₹ 10 lakh is treated as dividend and is taxable in the hands of Company B.

If the loan or advance has been given to any person on behalf of such a shareholder, it will also be considered to be dividend.

Where a loan had been treated as dividend and subsequently, the company declares and distributes dividend to all its shareholders including the borrowing shareholder, and the dividend so paid is set off by the company against the previous borrowing, the adjusted amount will not be again treated as a dividend.

E.g. Mr. X is holding 10% shares in ABC private limited a closely held company and has taken a loan of 10,00,000 and it was considered to be dividend under section 2(22)(e) and in subsequent year the company has declared dividend of 10,00,000 which was deposited in the loan account of Mr. X, in this case it will not be considered to be dividend.

If any such company has the business of lending as substantial part of its business, in such cases the above provisions shall not apply e.g. ABC Pvt. Ltd. is a closely held company and is engaged in banking business (lending of money), in this case section 2(22)(e) is not applicable for ABC Pvt. Ltd.

As per section 2(22)(e), if any trade advance is given to the shareholder covered under section 2(22)(e), it will not be considered to be dividend, eg. Mr. X is holding 10% share in XYZ private limited a closely held company and Mr. X is supplying certain goods to the company and has received some advance, it will not be considered to be dividend.

Question 6 [V. Imp.]: Write a note on taxability of Casual Income.

Answer: Casual Income Section 56

Under section 2(24)(ix), casual income shall include card games, cross word puzzles, betting, races including horse races, any game show on electronic media or any other gambling.

While computing income from casual income, as per section 58(4) no expenditure or allowance or deductions shall be allowed and accordingly the gross receipt itself shall be considered to be income.

Example

Mr. X purchased one lottery ticket of ₹10,000 and there was a winning of ₹1,20,000. Deductions allowed under chapter VI-A ₹ 1,00,000. He has loss under the head house property ₹ 50,000, In this case, his taxable income shall be ₹1,20,000 and tax liability shall be

Tax on ₹1,20,000 @ 30%	36,000
Less: Rebate u/s 87A	(25,000)
Tax before HEC	11,000
Add: HEC @ 4%	440
Tax Liability	11,440

Note: No expenditure or deduction or loss is allowed to be adjusted from casual income however rebate is allowed from tax of casual income

Question 7. Write a note on taxability of income from Owning and Maintaining of Race Horses.

Answer: Income from Owning and Maintaining of Race Horses Section 56

If any person has income from owning and maintaining of race horses, such income shall be **taxable under the head other sources** and income shall be computed in the **normal manner** and will be taxed at the **normal rates**.

As per Section 74A, If any person has any loss from the activities of owning and maintaining race horse, such loss is not allowed to be set off from any income under any head. However, if the assessee has any other business of owning and maintaining race horses, loss of one such business can be set off from the income of other such business.

If the loss can not be set off, it will be allowed to be carried forward, but such carry forward is allowed for a maximum period of **four years** and brought forward loss can be set off only from the income of owning and maintaining race horses.

Income from owning and maintaining of any other animal

If the assessee is engaged in the business of owning and maintaining any other animal, his income shall be computed **under the head business/profession** because section 56 includes only income from owning and maintaining race horses. E.g. Mr. X has income from owning and maintaining of race camels, in this case income shall be taxable under the head business/profession.

E.g. (i) Mr. X has loss of ₹5,00,000 from owning and maintaining of race horses and income under the head house property ₹5,00,000, in this case loss is not allowed to be setoff, however its carry forward is allowed for a period of 4 years.

(ii) Mr. X has loss of ₹2,00,000 from house property and income from owning and maintaining of race horses ₹2,00,000, in this case loss is not allowed to be setoff.

(iii) Mr. X has loss of ₹5,00,000 from business/profession and income from owning and maintaining of race horses ₹5,00,000, in this case loss is allowed to be setoff.

(iv) Mr. X has loss of ₹5,00,000 from owning and maintaining of race horses and income under the head capital gains ₹5,00,000, in this case loss is not allowed to be setoff, however its carry forward is allowed for a period of 4 years.

Question 8 [Imp.]: Write a note on taxability of interest income.

Answer: Taxability of interest income Section 56

Any Interest income shall be taxable under the head Other Sources however some of the interest incomes shall be exempt from income tax under section 10(15) and are as given below:

1. Interest on Capital Investment Bonds issued by the Government.
2. Interest on Relief Bonds issued by RBI.
3. Interest on Post Office Savings Bank Account to the extent of ₹3,500 per year and in the case of joint account, exemption shall be allowed upto ₹7,000 per year.
4. Interest on Public Provident Fund Account
5. Any other interest income notified under section 10(15).

Question 9: Explain taxability of income from letting out of building alongwith furniture, fixtures etc.

Answer: If any person has let out any building alongwith plant and machinery and furniture, fixtures etc. and it is not a case of composite rent and also income is not taxable under the head business/profession, in such cases income shall be taxable under the head Other sources and while computing income all expenses incurred shall be allowed to be deducted e.g. Mr. X has one factory building along with machines and furniture in Bombay which has been let out @ ₹50,000 p.m. Repair charges of the building is ₹7,000 and that of furniture fixtures are ₹4,000, insurance premium paid ₹3,000 and depreciation is ₹27,000, in this case income shall be computed in the manner given below:

Solution:

Gross Rent (50,000 x 12)

₹
6,00,000

Less: Repair of building	(7,000)
Less: Repair of Furniture and fixtures	(4,000)
Less: Insurance premium	(3,000)
Less: Depreciation	(27,000)
Income under the head Other Sources	5,59,000

Question 10: Write a note on Books of Accounts.**Answer: Books of Accounts Section 145**

A person is not required to maintain any books of accounts under the head salary or house property or capital gains and income has to be computed as per the procedure given in the relevant head.

Books of accounts are required under the head Business/Profession and under the head Other Sources. An assessee has the option to maintain books of accounts either on the basis of mercantile system of accounting or on cash basis. Any system of accounting once adopted has to be followed consistently, however it can be changed with the permission of Assessing Officer.

Example

Mr. X has deposited ₹10,00,000 in ABC Ltd. @ 10% p.a. and interest income is due on yearly basis on 31st March every year. Interest income which was due on 31.03.2024 was received on 01.04.2024. In this case, if the assessee is maintaining books of account on the basis of mercantile system of accounting, income is taxable in previous year 2023-24, and if the books are maintained on cash basis, income is taxable in the previous year 2024-25

Question 11: Write a note on payment under keyman insurance policy.**Answer: Payment under Keyman Insurance Policy**

Sometimes employer may take a life policy in the name of any of his employees who are considered to be very important for business or profession and such policy is called keyman insurance policy and premium is paid by employer and employer is allowed to debit it to profit and loss account and amount received on maturity shall be considered to be income of employer as per section 28.

If any payment has been received by the employee, it will be considered to be income under the head salary. Similarly a policy may be taken in the name of any other person who is considered to be very important for the business of the employer, such policy is also called keyman insurance policy. If payment has been received by such other person, it will be considered to be his income under the head other sources as per section 56.

Question 12: Write a note on forfeiture of advance money.**Answer: Forfeiture of advance money**

If any person has entered into an agreement to sell any capital asset and some advance money was received but the buyer refused to purchase the capital asset and advance money was forfeited, in such cases the amount so forfeited shall be considered to be income under the head Other Sources. e.g. Mr. X has entered into agreement to sell a house property for ₹50 lakh to Mr. Y and advance money of ₹5,00,000 was received but Mr. Y refused to purchase the property and advance money was forfeited, in this case ₹5,00,000 shall be considered to be income of Mr. X under the head Other Sources.

Question 13 [Imp.]: Write short note on Set Off and Carry Forward of loss arising under the head “Income from Other Sources”.**Answer: Set Off and Carry Forward of Losses under the head “Income from Other Sources”**

As per section 70, if there is loss in one source under the head other sources, such loss can be set off from income of any other source under the same head.

However, as per section 58(4), no deduction or set off shall be allowed from the income by way of any winnings from lotteries, crossword puzzles, races including horse races, card games, and other games of any sort or from gambling or betting of any form whatsoever.

As per section 71, if the loss can not be set off under the same head, it can be set off from the incomes of

other heads.

If the loss can not be set off even from the incomes of other heads, its carry forward is not allowed.

e.g. (i) Mr. X has loss under the head other sources ₹2,00,000 and income under the head other sources ₹5,00,000, in this case loss is allowed to be setoff.

(ii) Mr. X has loss under the head other sources ₹2,00,000 and income under the head house property ₹5,00,000, in this case loss is allowed to be setoff.

(iii) Mr. X has loss under the head other sources ₹2,00,000 and income from owning and maintaining of race horses ₹5,00,000, in this case loss is allowed to be setoff.

(iv) Mr. X has loss under the head other sources ₹2,00,000 but do not have income under any other head, in this case carry forward of loss is not allowed.

Question 14: Write a note on income of closely held company by issue of Shares.

Answer:

As per section 56 (2) (viib), where a company, not being a company in which the public are substantially interested, receives, in any previous year, *from any person*, any consideration for issue of shares that exceeds the face value of such shares, the aggregate consideration received for such shares as exceeds the fair market value of the shares. In other words if shares are issued at a price which is higher than the market value and also higher than the face value, in that case taxable amount shall be the issue price less market price. E.g. ABC Pvt. Ltd. a closely held company has submitted information as given below:

1. Face value ₹ 100 per share, Market value ₹ 120 per share and issue price ₹ 150 per share, in this case taxable amount shall be ₹ 30 per share.
2. Face value ₹ 100 per share, Market value ₹ 80 per share and issue price ₹ 95 per share, in this case taxable amount shall be Nil because issue price is not exceeding the face value.
3. Face value ₹ 100 per share, Market value ₹ 80 per share and issue price ₹ 110 per share, in this case taxable amount shall be $110 - 80 = 30$ because issue price is exceeding the face value and also market value.

Question 15: Write a note on Bond Washing Transactions.

Answer: Bond Washing Transactions Section 94

If any person has transferred any security in the name of any other person sometimes before the due date and has reacquired it sometimes after the due date in order to evade tax, it will be considered to be a bond washing transaction and income shall be considered to be of the person who has manipulated in this manner.

Example

Mr. Yuvraj Arora has purchased security of ₹10,00,000 in ABC Ltd. on 01.04.2023 @ 10% and interest is due on half yearly basis i.e. on 30th Sept and 31st March of every year. If Mr. Yuvraj Arora has transferred this security just before the due date in the name of any other person through a fictitious sale transaction and has re-transferred it in his name after the due date through a fictitious purchase transaction so that he can evade tax, it will be called bond washing transaction and in such cases interest income is taxable in the hands of Mr. Yuvraj Arora.

[This practice is generally adopted by high-income class assesseees to evade the tax by transferring securities to low income class assessee on the eve of due date of payment of interest.]

Illustration 3: Mr. X has taken a loan of ₹1,00,000 @ 10%. The amount was invested by him in the securities of one company. During the year he has received gross interest of ₹18,000 and has paid collection charges to the bank ₹500. He has paid interest ₹10,000 on the loan taken by him for investment and has long term capital gain under section 112A of ₹4,00,000 and casual income ₹ 10,000. Deductions allowed under Chapter VI-A ₹ 10,000

Compute his tax liability for assessment year 2024-25.

Solution:

Gross Interest	₹ 18,000
Less:	
(i) Bank Charges u/s 57	(500)
(ii) Interest paid for borrowing the amount u/s 57	(10,000)

	7,500
Casual Income	10,000
Income under the head Other Sources	17,500
Income under the head Capital Gains (LTCG 112A)	4,00,000
Gross Total Income	4,17,500
Less: Deductions under Chapter VI-A	Nil
Total Income	4,17,500
<u>Computation of Tax Liability</u>	
Tax on Casual Income 10,000 X 30%	3,000
Tax on LTCG 112A (4,00,000 – 2,92,500 – 1,00,000) X 10%	750
Less: Rebate u/s 87A	(3,000)
Tax before HEC	750
Add: HEC @ 4%	30
Tax Liability	780

Note: Rebate is not allowed from tax on LTCG 112A

Question 16: Explain taxability of amount received on maturity of LIC policy.

Answer:

Guidelines u/s 10(10D) of the Income-tax Act, 1961 [Circular No. 15/2023 dated 16.08.2023]

Section 10(10D) provides for exemption of the sum received under a life insurance policy, including the sum allocated by way of bonus on such policy subject to the condition that the annual premium does not exceed 10% of actual capital sum assured.

W.e.f. A.Y. 2024-25, section 10(10D) amended by the Finance Act, 2023 to provide that -

(I) In case where an assessee has a single life insurance policy (other than ULIP) issued on or after 1.4.2023 - Exemption u/s 10(10D) would not be available with respect to any life insurance policy (other than ULIP) issued on or after 1.4.2023, if the amount of premium payable exceeds ₹ 5,00,000 for any of the previous years during the term of such life insurance policy.

(II) In case where an assessee has multiple life insurance policies (other than ULIPs) issued on or after 1.4.2023 - In a case where premium is payable by a person for more than one life insurance policies (other than ULIPs) issued on or after 1.4.2023 and the aggregate of premium payable on such life insurance policies exceed ₹ 5,00,000 for any of the previous years during the term of any such LIP(s), exemption u/s 10(10D) would be available in respect of any of those LIPs, at the option of the assessee, whose aggregate premium payable does not exceed ₹ 5,00,000 for any of the previous years during their term. However, to get exemption u/s 10(10D), the condition of annual premium not exceeding 10% of the actual capital sum assured also needs to be satisfied.

(III) Exemption in case of death of a person - In case any sum is received on the death of a person, exemption u/s 10(10D) would be available irrespective of the annual premium payable of the LIP.

Guidelines issued by the CBDT: In case any difficulty arises in giving effect to the provisions of this clause, the CBDT may issue guidelines for the purpose of removing the difficulty with the previous approval of the Central Government.

Accordingly, the CBDT has, with the approval of the Central Government, vide this circular, issued the following guidelines in respect of LIPs (other than ULIPs)–

Situation 1: No sum of any nature including bonus (such sum hereinafter referred as “consideration”) is received by the assessee on any LIPs which are issued on or after 1.4.2023 (such LIPs hereinafter referred as “eligible LIPs”) during any previous year preceding the current previous year (being the P.Y. in which consideration is received and its taxability is being examined) or consideration has been received on such eligible LIPs in an earlier previous year but has not been claimed exempt. In such a situation, the exemption u/s 10(10D) would be determined as under:

I. Where the assessee has received consideration, during the current P.Y., under one eligible LIP only

Circumstance	Eligibility for exemption u/s 10(10D)
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If the amount of premium payable on such eligible LIP does not exceed ₹ 5,00,000 for any of the PYs during the term of such eligible LIP and annual premium does not exceed 10% of actual capital sum assured	Such consideration would be eligible for exemption u/s 10(10D). [Refer Example 1 and 2 given below]
If the amount of premium payable on such eligible LIP > ₹ 5,00,000 for any of the PYs during the term of such eligible LIP	Such consideration would not be eligible for exemption u/s 10(10D). [Refer Example 3 given below]

Example 1:

LIP	A
Date of issue	1.4.2013
Annual premium	6,00,000
Sum assured	60,00,000
Consideration received as on 01.11.2023 on maturity	70,00,000
Note – The assessee did not receive any consideration under any other eligible LIPs in earlier P.Y. preceding the P.Y.2023-24.	

Eligibility for exemption u/s 10(10D) - The consideration received under LIP “A” would be exempt u/s 10(10D) in A.Y. 2024-25 since annual premium does not exceed 10% of the actual capital sum assured. Moreover, as the policy has been issued before 1.4.2023, limit of ₹ 5,00,000 of amount of premium payable is not applicable, since it is not an eligible ULIP.

Example 2:

LIP	A
Date of issue	1.4.2023
Annual premium	5,00,000
Sum assured	50,00,000
Consideration received as on 01.11.2033 on maturity	52,00,000
Note – The assessee did not receive any consideration under any other eligible LIPs in earlier P.Y. preceding the P.Y.2033-34.	

Eligibility for exemption u/s 10(10D) - The consideration received would be exempt u/s 10(10D) in A.Y. 2034-35, since the annual premium payable on the policy does not exceed ₹ 5,00,000 and also does not exceed 10% of actual capital sum assured.

Example 3:

LIP	A
Date of issue	1.4.2023
Annual premium	6,00,000
Sum assured	60,00,000
Consideration received as on 01.11.2033 on maturity	70,00,000
Note – The assessee did not receive any consideration under any other eligible LIPs in earlier P.Y. preceding the P.Y.2033-34.	

Eligibility for exemption u/s 10(10D) - The consideration received would **not** be exempt u/s 10(10D) in A.Y. 2034-35 since the annual premium payable on the eligible LIP exceeds ₹ 5,00,000.

II. Where the assessee has received consideration, during the current P.Y., under more than one eligible LIP

Circumstance	Eligibility for exemption u/s 10(10D)
If the aggregate of the amount of premium payable on such eligible LIPs does not exceed ₹ 5,00,000 for any of the PYs during the term of such eligible LIPs and the annual premium \leq 10% of actual capital sum assured	Such consideration would be eligible for exemption under u/s 10(10D). [Refer Example 4 given below]
If the aggregate of the amount of premium payable on such eligible LIPs $>$ ₹ 5,00,000 for any of the PYs during the term of such eligible LIP	Consideration in respect of any of those eligible LIPs whose aggregate amount of premium payable does not exceed ₹ 5,00,000 for any of the PYs during their term would be eligible for exemption u/s 10(10D), provided their annual premium \leq 10% of actual capital sum assured. [Refer Examples 5, 6 and 7 given below]

Example 4:

LIP	A	B
Date of issue	1.4.2023	1.4.2023
Annual premium	3,00,000	2,00,000
Sum assured	30,00,000	20,00,000
Consideration received as on 01.11.2033 on maturity	32,00,000	21,00,000

Note – The assessee did not receive any consideration under any other eligible LIPs in earlier P.Y. preceding the P.Y.2033-34.

Eligibility for exemption u/s 10(10D) – In this case, the aggregate of the annual premium payable for LIP “A” and LIP “B” does not exceed ₹ 5,00,000 during the term of these policies.

Further, annual premium payable in respect of LIP “A” and LIP “B” does not exceed 10% of actual capital sum assured. Therefore, the consideration received under LIP “A” and “B” would be exempt u/s 10(10D) in A.Y. 2034-35

Example 5:

LIP	A	B
Date of issue	1.4.2023	1.4.2023
Annual premium	4,50,000	5,50,000
Sum assured	45,00,000	55,00,000
Consideration received as on 01.11.2033 on maturity	52,00,000	60,00,000

Note – The assessee did not receive any consideration under any other eligible LIPs in earlier P.Y. preceding the P.Y.2033-34.

Eligibility for exemption u/s 10(10D) – In this case, the aggregate of the annual premium payable for LIP “A” and LIP “B” exceeds ₹ 5,00,000 during the term of these policies.

However, the consideration received under LIP “A” would be exempt u/s 10(10D) in A.Y. 2034-35, since its annual premium payable does not exceed ₹ 5,00,000 for any previous year during the term of the policy and also does not exceed 10% of actual capital sum assured.

Consequently, the consideration received under LIP “B” alone would **not** be exempt u/s 10(10D) in A.Y. 2034-35.

Example 6:

LIP	A	B	C
Date of issue	1.4.2023	1.4.2023	1.4.2023
Annual premium	1,00,000	3,50,000	6,00,000
Sum assured	10,00,000	35,00,000	60,00,000
Consideration received as on 01.11.2033 on maturity	12,00,000	40,00,000	70,00,000

Note – The assessee did not receive any consideration under any other eligible LIPs in earlier P.Y. preceding the P.Y.2033-34.

Eligibility for exemption u/s 10(10D) - The aggregate of annual premium payable for LIP “A”, LIP “B” and LIP “C” exceeds ₹ 5,00,000 during the term of these policies.

However, the consideration received under LIPs “A” and “B” would be exempt u/s 10(10D) in A.Y. 2034-35, since aggregate of annual premium payable for these two policies does not exceed ₹ 5,00,000 for any previous year during the term of these two policies and annual premium payable in respect of these policies does not exceed 10% of actual capital sum assured.

Consequently, the consideration received under LIP “C” alone would not be exempt u/s 10(10D) in A.Y. 2034-35.

Example 7:

LIP	X	A	B	C
Date of issue	1.4.2022	1.4.2023	1.4.2023	1.4.2023
Annual premium	5,50,000	1,00,000	3,50,000	6,00,000
Sum assured	55,00,000	10,00,000	35,00,000	60,00,000
Consideration received as on 01.11.2032 on maturity	62,00,000			
Consideration received as on 01.11.2033 on maturity		12,00,000	40,00,000	70,00,000

Note – The assessee did not receive any consideration under any other eligible LIPs in earlier P.Y. preceding the P.Y.2033-34, except LIP X in P.Y. 2032-33.

Eligibility for exemption u/s 10(10D) - The consideration received under LIP “X” would be exempt u/s 10(10D) in A.Y. 2032-33, since annual premium does not exceed 10% of the actual capital sum assured. Moreover, as the policy has been issued before 1.4.2023, limit of ₹ 5,00,000 on amount of premium payable is not applicable, since LIP “X” is not an eligible LIP.

The aggregate of annual premium payable for LIP “A”, LIP “B” and LIP “C” (being LIPs issued on or after 1.4.2023) exceeds ₹ 5,00,000 during the term of these policies.

However, the consideration received under LIPs “A” and “B” would be exempt u/s 10(10D) in A.Y. 2034-35, since aggregate of annual premium payable for these two policies does not exceed ₹ 5,00,000 for any previous year during the term of these two policies and annual premium payable in respect of these policies does not exceed 10% of actual capital sum assured.

Consequently, the consideration received under LIP “C” alone would not be exempt u/s 10(10D) in A.Y. 2034-35.

Situation 2: Consideration has been received by the assessee under any one or more eligible LIPs (i.e., issued on or after 1.4.2023) during any P.Y. preceding the current P.Y. and it has been claimed to be exempt u/s 10(10D). Such eligible LIPs are referred as “Earlier Exempt Eligible LIPs (EEE LIPs)” in this paragraph and corresponding examples and reference to eligible LIPs shall not include EEE LIPs. The exemption u/s 10(10D) would be determined as under:

I. Where the assessee has received consideration, during the current P.Y., under one eligible LIP only

Circumstance	Eligibility for exemption u/s 10(10D)
If aggregate amount of premium payable on such eligible LIP and EEE LIPs does not exceed ₹ 5,00,000 for any of the PYs during the term of such eligible LIP and annual premium in respect of eligible LIP does not exceed 10% of actual capital sum assured.	Consideration under such eligible LIP would be eligible for exemption u/s 10(10D).
If aggregate amount of premium payable on such eligible LIP and EEE LIPs > ₹ 5,00,000 for any of the PYs during the term of such eligible LIP	Consideration under such eligible LIP would not be eligible for exemption u/s 10(10D).

II. Where the assessee has received consideration, during the current P.Y., under more than one eligible LIP

Circumstance	Eligibility for exemption u/s 10(10D)
If aggregate of the amount of premium payable on such eligible LIPs and EEE LIPs does not exceed ₹ 5,00,000 for any of the PYs during the term of such eligible LIPs and annual premium in respect of eligible LIPs also does not exceed 10% of actual capital sum assured.	Consideration received would be eligible for exemption under u/s 10(10D).
If aggregate of the amount of premium payable on such eligible LIPs and EEE LIPs > ₹ 5,00,000 for any of the PYs during the term of such eligible LIPs	Consideration in respect of any of those eligible LIPs (whose aggregate amount of premium along with the aggregate amount of premium of EEE LIPs does not exceed ₹ 5,00,000 for any of the PYs during their term) would be eligible for exemption u/s 10(10D). [Refer Examples 8, 9 and 10 given below]

Example 8:

LIP	X	A	B	C
Date of issue	1.4.2023	1.4.2024	1.4.2024	1.4.2024
Annual premium	4,50,000	1,00,000	1,50,000	6,00,000
Sum assured	45,00,000	10,00,000	15,00,000	60,00,000
Consideration received as on 01.11.2033 on maturity	50,00,000			
Consideration received as on 01.11.2034 on maturity		12,00,000	18,00,000	70,00,000
Note – The assessee did not receive any consideration under any other eligible LIPs in earlier P.Y. preceding the P.Y.2034-35, except LIP X in P.Y. 2033-34.				

Eligibility for exemption u/s 10(10D) - The consideration under LIP “X” would be exempt u/s 10(10D) in P.Y. 2033-34, since the annual premium does not exceed ₹ 5,00,000 and also does not exceed 10% of actual capital sum assured.

In this case, the aggregate of the annual premium payable for LIP “A”, LIP “B” and LIP “C” along with the premium for LIP “X” exceeds ₹ 5,00,000 during the term of these policies.

The aggregate of the annual premium payable for LIP “A” and the premium for LIP “X” also exceeds ₹ 5,00,000 during the term of these policies.

Consequently, the consideration received under LIP “A”, LIP “B” and LIP “C” would not be exempt u/s 10(10D) in A.Y. 2035-36.

Example 9:

LIP	X	A	B	C
Date of issue	1.4.2023	1.4.2024	1.4.2024	1.4.2024
Annual premium	2,50,000	2,00,000	2,50,000	6,00,000
Sum assured	25,00,000	20,00,000	25,00,000	60,00,000
Consideration received as on 01.11.2033 on maturity	30,00,000			
Consideration received as on 01.11.2034 on maturity		24,00,000	38,00,000	70,00,000

Note – The assessee did not receive any consideration under any other eligible LIPs in earlier P.Y. preceding the P.Y.2034-35, except LIP X in P.Y. 2033-34.

Eligibility for exemption u/s 10(10D) - The consideration under LIP “X” would be exempt u/s 10(10D) in P.Y. 2033-34, since the annual premium does not exceed ₹ 5,00,000 and also does not exceed 10% of actual capital sum assured.

In this case, the aggregate of the annual premium payable for LIP “A”, LIP “B” and LIP “C” along with the premium for LIP “X” exceeds ₹ 5,00,000 during the term of these policies.

However, the consideration received under LIPs “A” or “B” (any one) can be claimed as exempt u/s 10(10D) in A.Y. 2035-36.

If the consideration received under LIP “A” is claimed to be exempt as aggregate of the annual premium payable for LIP “X” and “A” did not exceed ₹ 5,00,000 for any of the PYs., the consideration received under LIP “B” would not be exempt.

If the consideration received under LIP “B” is claimed to be exempt as aggregate of the annual premium payable for LIP “X” and “B” did not exceed ₹ 5,00,000 for any of the PYs., the consideration received under LIP “A” would not be exempt. Exemption for consideration received under LIP “B” is preferred as it is more beneficial to the assessee.

Alternative treatment: If the consideration under LIP “X” was not claimed to be exempt u/s 10(10D) in A.Y. 2034-35 by the assessee, then, the consideration received under LIP “A” and LIP “B” would be exempt u/s 10(10D) in A.Y. 2035-36 since the aggregate of the annual premium payable for the LIPs “A” and “B” together did not exceed ₹ 5,00,000 for any of the previous years during the term of these two policies. However, the most beneficial treatment is to claim LIP “X” and “B” as exempt.

It may be noted that in every case, the consideration received for LIP “C” would not be exempt u/s 10(10D).

Example 10:

LIP	X	Y	A	B	C
Date of issue	1.4.2023	1.4.2023	1.4.2024	1.4.2024	1.4.2024
Annual premium	2,00,000	2,00,000	2,00,000	3,00,000	6,00,000
Sum assured	20,00,000	20,00,000	20,00,000	30,00,000	60,00,000
Consideration received on surrender as on 1.7.2033	12,00,000				
Consideration received as on 01.11.2034 on maturity		24,00,000			
Consideration received as on 01.11.2035 on maturity			24,00,000	36,00,000	70,00,000

Note – The assessee did not receive any consideration under any other eligible LIPs in earlier P.Y. preceding the P.Y.2035-36, except LIP “X” and “Y”.

Eligibility for exemption u/s 10(10D) - The consideration under LIP “X” would be exempt u/s 10(10D) in A.Y.2034-35, since the annual premium does not exceed ₹ 5,00,000 and also does not exceed 10% of actual capital sum assured.

The consideration received under LIP “Y” would be exempt u/s 10(10D) in A.Y. 2035-36, since the aggregate of annual premium payable for LIP “X” and “Y” does not exceed ₹ 5,00,000 and annual premium payable for LIP “Y” does not exceed 10% of actual capital sum assured.

The consideration received under LIPs “A”, ULIP “B” and ULIP “C” would not be exempt u/s 10(10D) in A.Y. 2036-37, since aggregate of annual premium payable for these three policies and LIP “X” and “Y” exceeds ₹ 5,00,000.

Alternative treatment: If the consideration on surrender under LIP “X” was not claimed to be exempt u/s 10(10D) in A.Y. 2034-35 by the assessee, then the consideration received under LIP “Y” would be exempt and the consideration received under LIP “A” or LIP “B” (any one) can be exempt u/s 10(10D) in A.Y. 2036-37. If the consideration received under LIP “A” is claimed to be exempt, as aggregate of the annual premium payable for LIP “Y” and “A” did not exceed ₹ 5,00,000 for any of the PYs., the consideration received under LIP “B” would not be exempt.

If the consideration received under LIP “B” is claimed to be exempt as aggregate of the annual premium payable for LIP “Y” and “B” did not exceed ₹ 5,00,000 for any of the PYs., the consideration received under LIP “A” would not be exempt. Exemption for consideration received under LIP “B” is preferred as it is more beneficial to the assessee.

If the consideration on surrender of LIP “X” and on maturity of LIP “Y” were not claimed to be exempt under section 10(10D) in A.Y.2034-35 and A.Y.2035-36, respectively, then consideration received under both LIP “A” and LIP “B” would be exempt in A.Y.2036-37 (being LIPs issued on or after 1.4.2023, whose aggregate consideration does not exceed ₹ 5,00,000).

It may be noted that, in every case, consideration received under LIP “C” would not be exempt under section 10(10D).

Clarification on GST Component: It is also clarified by the CBDT that the premium payable/ aggregate premium payable for a life insurance policy/policies, other than a ULIP, issued on or after 1.4.2023, for any previous year, would be exclusive of the amount of GST payable on such premium.

Clarification on premium of Term life insurance policy: It is further clarified by the CBDT that the limit of ₹ 5,00,000 of amount of premium payable would not be applicable in case of a term life insurance policy i.e. where sum under a life insurance policy is only paid to the nominee in case of the death of the person insured during the term of the policy and no amount is paid to anyone if the insured person survives the policy tenure.

Hence, any sum received under a term insurance policy shall continue to be exempt under section 10(10D), irrespective of the amount of the premium payable in respect of such policy. Further the premium paid for such policies would not be counted for checking the limit of ₹ 5,00,000 of amount of premium payable.

Manner of computation of taxable income from LIP under section 56(2)(xiii) [Notification No. 61/2023 dated 16.08.2023]

Where any sum is received (including the amount allocated by way of bonus) at any time during a previous year, under a life insurance policy, other than the sum

(i) received under a ULIP

(ii) received under a Keyman insurance policy

which is not exempt under section 10(10D), the sum so received as exceeds the aggregate of the premium paid during the term of such life insurance policy, and not claimed as deduction under any other provision of the Act, computed in the prescribed manner, would be chargeable to tax under the head “Income from other sources” under section 56(2)(xiii).

Accordingly, the CBDT has, vide this notification, inserted Rule 11UACA to compute the income chargeable to tax under section 56(2)(xiii). Where any person receives at any time during any previous year any sum under such LIP, then, the income chargeable to tax under section 56(2)(xiii) during the previous year in which such sum is received has to be computed in the following manner –

	Situation	Income chargeable to tax during the previous year in which such sum is received
(i)	where the sum is received for the first time under the LIP during the previous year (first previous year)	A-B, where A = the sum or aggregate of sum received under the LIP during the first previous year; and B = the aggregate of the premium paid during the term of the LIP till the date of receipt of the sum in the first previous year that has not been claimed as deduction under any other provision of the Act.
(ii)	where the sum is received under the LIP during the previous year subsequent to the first previous year (subsequent previous year)	C-D, where C = the sum or aggregate of sum received under the LIP during the subsequent previous year; and D = the aggregate of the premium paid during the term of the LIP till the date of receipt of the sum in the subsequent previous year not being premium which – (a) has been claimed as deduction under any other provision of the Act; or (b) is included in “B” or “D” in any of the previous year(s).

“Sum received under a LIP” means any amount, by whatever name called, received under such policy which is not exempt under section 10(10D), other than the sum –

- (a) received under a ULIP; or
- (b) received under a Keyman insurance policy

MULTIPLE CHOICE QUESTIONS

1. Income from letting of machinery, plant and furniture is -

- (a) always chargeable to tax under the head “Profits and gains of business and profession”
- (b) always chargeable to tax under the head “Income from other sources”
- (c) chargeable under the head “Income from other sources” only if not chargeable under the head “Profits and gains of business and profession”
- (d) chargeable to tax under the head “Income from house property”

2. In respect of winnings from lottery, crossword puzzle or race including horse race or card game etc.

- (a) no deduction under Chapter VI-A is allowed and basic exemption limit cannot be exhausted
- (b) no deduction under Chapter VI-A is allowed but unexhausted basic exemption can be exhausted
- (c) both deduction under Chapter VI-A and basic exemption are allowed
- (d) deduction under Chapter VI-A is allowed but basic exemption limit cannot be exhausted

3. The deduction allowable in respect of family pension taxable under “Income from other sources” is

- (a) 33-1/3% of the pension
- (b) 30% of the pension or ₹15,000, whichever is less
- (c) 33-1/3% of the pension or ₹15,000, whichever is less
- (d) 30% of the pension

4. The deduction in respect of interest on enhanced compensation of ₹1,50,000 received during the previous year 2023-24, would be –

- (a) ₹ 1,50,000, being 100% of ₹ 1,50,000
- (b) ₹ 75,000, being 50% of ₹ 1,50,000
- (c) ₹ 45,000, being 30% of ₹ 1,50,000
- (d) Nil

5. Mr. Harish, aged 40 years, earned interest of ₹15,000 during P.Y. 2023-24 from post office savings bank account. What portion of such income would be ultimately included in his total income?

- (a) ₹15,000
- (b) ₹5,000
- (c) ₹1,500
- (d) Nil

6. Which of the following statement is not correct?

- (a) Loss from owning and maintaining of race horses cannot be set off from the income of house property
- (b) Loss from owning and maintaining of race horses cannot be set off from any income except income of owning and maintaining race horses
- (c) Loss from owning and maintaining of race horses is allowed to be carry forward for a period of 4 years
- (d) Loss from owning and maintaining of race horses is allowed to be carry forward for a period of 4 years and in subsequent years it can be set off from any income

7. Jenny has invested in debt securities of Haryali Pvt. Ltd., a company deriving its main source of income from business of growing and processing organic vegetables and fruits. Thus, the company has 80% of income exempt as agricultural income and 20% is taxable as business income. During the P.Y. 2023-24, Jenny derived ₹ 5,000 as interest income from the above investments. Which of the following statements are correct on taxability:

- (a) Interest will be exempt from tax to the extent of 80%, since Hariyali Pvt. Ltd has 80% exempted income.
- (b) Interest will be exempt from tax to the extent of 20%, since Hariyali Pvt. Ltd has claimed 80% of income as exempt.
- (c) Interest will be fully taxable
- (d) Interest will be fully exempt

8. Which of the following statements is not correct?

- (a) Issue of bonus shares to the preference shareholders shall be considered to be dividend
- (b) Issue of bonus shares to the equity shareholders shall be considered to be dividend
- (c) Distribution on the liquidation to the extent of accumulated profits shall be considered to be dividend
- (d) None of these

9. Loan or advance by a closely held company shall be dividend

- (a) If such loan and advance has been given to any equity shareholder who is holding not less than 20% of the voting power of the company
- (b) If such loan and advance has been given to any equity shareholder who is holding not less than 10% of the voting power of the company

- (c) If such loan and advance has been given to any equity shareholder who is holding not less than 15% of the voting power of the company
- (d) If such loan and advance has been given to any equity shareholder who is holding not less than 12% of the voting power of the company
- (e) None of these

10. Which is the correct statement.

- (a) Section (2)(22)(a), 2(22)(b) and 2(22)(e) is applicable only in case of a closely held company
- (b) Section (2)(22)(a), 2(22)(b) and 2(22)(e) is applicable only in case of a widely held company
- (c) Section (2)(22)(a), 2(22)(b) and 2(22)(c) is applicable only in case of a closely held company
- (d) Section (2)(22)(a), 2(22)(b) and 2(22)(c) is applicable in case of all the companies
- (e) None of these

11. Salary received by a member of parliament is taxable under the head

- (a) Salary
- (b) Business/Profession
- (c) Capital Gains
- (d) Other Sources
- (e) None of these

12. Salary and interest received by a partner from a partnership firm shall be

- (a) Exempt from Income tax
- (b) Salary taxable under the head salary and interest taxable under the head other sources
- (c) Salary taxable under the head Business/Profession and interest taxable under the head other sources
- (d) Salary taxable under the head salary and interest taxable under the head Business/Profession
- (e) Salary taxable under the head Business/Profession and interest taxable under the head Business/Profession
- (f) None of these

13. Mr. X has taken a loan and the amount was given as deposit to a company and interest received is less than interest paid, in this case loss can be

- (a) Set off within the same head including casual income
- (b) Set off within the same head excluding casual income and also its carry forward is allowed
- (c) Set off within the same head excluding casual income or it can be set off from the income of other heads but its carry forward is not allowed
- (d) None of these

14. Mr. X received a cell phone as a gift from his friend valued ₹ 1,00,000, in this case

- (a) It is taxable under the head Other Sources
- (b) It is taxable under the head Salary
- (c) It is taxable under the head Business/Profession
- (d) It is not taxable
- (e) None of these

Answer

1.(c); 2.(a); 3.(c); 4.(b); 5.(c); 6.(d); 7.(c); 8.(b); 9. (b); 10. (d); 11. (d); 12. (e); 13. (c); 14. (d)

PRACTICE PROBLEMS

TOTAL PROBLEMS 6

Problem 1.

Mr. X has income from business of owning and maintaining race camels ₹60,000, loss from owning and maintaining race horses ₹7,000 and income from horse races ₹7,000. He has brought forward business loss of ₹7,000 of the assessment year 2013-14 and brought forward business loss of ₹7,000 of the assessment year 2019-20.

Compute his tax liability for the assessment year 2024-25.

Answer = Total Income: ₹60,000; Tax Liability: Nil; Carry forward loss from owning and maintaining race horses: ₹7,000

Problem 2.

Mr. X has income from owning and maintaining of race horses ₹ 4 lakhs and loss from horse races ₹ 10 lakhs.

Determine his tax liability for the assessment year 2024-25.

Answer = Tax Liability: Nil

Problem 3.

Mr. X has loss from owning and maintaining of race horses ₹4 lakhs and income from owning and maintaining of race camels ₹4 lakhs.

Determine his tax liability for the assessment year 2024-25.

Answer = Tax Nil; Carry forward loss from owning and maintaining of race horses: ₹4,00,000

Problem 4.

Find the tax liability of Mrs. X (age 40 years), a resident individual, for the assessment year 2024-25. From the following particulars of her incomes and spending for the previous year ending March 31st, 2024.

	₹
Income from house property (Computed)	90,000
Dividend from UTI	35,000
Family pension (gross)	90,000
Interest on bank FD (gross)	14,000
Dividend from foreign company	36,000
Gift received from her sister	26,000
Winnings from lotteries (gross)	70,000
Long-term capital gain	1,20,000
Payment for purchase of National Savings Certificates	35,000
Answer = Tax Liability: ₹10,400	

Problem 5.

Mr. X has submitted information given below.

- i) Income from owning and maintaining of race horse ₹2,00,000.
- ii) Income from owning and maintaining of race camels ₹1,00,000.
- iii) He had winning of ₹1,60,000 from horse race on 01.12.2023 and winning from camel race ₹1,80,000 on 07.12.2023.
- iv) He purchased lottery tickets of ₹10,000 on 01.02.2024 and had winning of ₹2,00,000 on 12.02.2024.
- v) He has received Royalty of book of literary nature @ 50% of print price of ₹ 600 and total copies sold are 2,000
- vi) He has paid advance tax as given below:

Upto 15.06.2023	₹ 20,000
Upto 15.09.2023	₹ 35,000

Upto 15.12.2023 ₹ 80,000

Upto 15.03.2024 ₹ 1,30,000

Balance was paid on 10.06.2024

Compute tax liability for the A.Y 2024-25 and interest under section 234A, 234B and 234C.

Answer = Tax Liability: ₹2,15,280; Interest under section 234A: Nil; 234B: ₹2,556; 234C: ₹1,890

Problem 6.

ABC Ltd. has 1,00,000 equity shares of ₹10 each and Mr. X purchased 10,000 equity shares on 01.01.2023 of ₹10 each and the company goes into liquidation on 31.07.2023 and company has net distributable amount of ₹60 lakhs after discharging all the liabilities and it includes accumulated profits of ₹ 20 lakhs and the entire amount was distributed among the shareholders.

Minor son of Mr. X has interest income of ₹2 lakhs from one bank deposit which was gifted to him by his grand father.

Mrs. X has one business and income from business is ₹1 lakh entire capital was gifted by Mr. X.

Mr. X is growing flowers and has income of ₹ 7 lakh from sale of flowers.

Compute his tax liability for Assessment Year 2024-25.

Answer = Tax Liability: ₹93,600

SOLUTIONS

TO

PRACTICE PROBLEMS

Solution 1:

	₹
Income under the head Business/Profession	60,000
Less: Brought forward business less	(7,000)
Income under the head Business/Profession	53,000
Income under the head Other Sources (horse races)	7,000
Gross Total Income	60,000
Less: Deductions under Chapter VI-A	Nil
Total Income	60,000
Computation of tax liability	
Tax on ₹7,000 @ 30%	2,100
Tax on ₹53,000 at slab rate	Nil
Less: Rebate u/s 87A	(2,100)
Tax Liability	Nil
Carry forward loss from owning and maintaining race horses	7,000

Solution 2:

	₹
Income under the head Other Sources	4,00,000
Gross Total Income	4,00,000
Less: Deductions under Chapter VI-A	Nil
Total Income	4,00,000
Tax on ₹4,00,000 at slab rate	5,000
Less: Rebate u/s 87A	(5,000)
Tax Liability	Nil

Note: Loss from casual income has no tax treatment and hence it is dead loss.

Solution 3:

	₹
Income under the head Business/Profession	4,00,000
Gross Total Income	4,00,000
Less: Deductions under Chapter VI-A	Nil
Total Income	4,00,000
Tax on ₹4,00,000 at slab rate	5,000
Less: Rebate u/s 87A	(5,000)
Tax Liability	Nil
Carry forward loss from owning and maintaining race horses	4,00,000

Solution 4:

	₹
Income from House Property	90,000
Computation of income under the head Other Sources	
Dividend from UTI	35,000
Pension	75,000

Working Note:

Received = ₹90,000

Exempt = 1/3 of pension or ₹15,000, whichever is less
Taxable = ₹75,000

Interest on bank FD	14,000
Dividend from foreign company	36,000
Winning from lottery	70,000
Income under the head Other Sources	2,30,000
Income under the head Capital Gains (LTCG)	1,20,000
Gross Total Income	4,40,000
Less: Deduction under Chapter VI-A	Nil
Total Income	4,40,000
Computation of Tax Liability	
Tax on Long term capital gain ₹70,000 (1,20,000 – 50,000) @ 20% u/s 112	14,000
Tax on casual income ₹70,000 @ 30% u/s 115BB	21,000
Tax on ₹2,50,000 at slab rate	Nil
Less: Rebate u/s 87A	(25,000)
Tax before health & education cess	10,000
Add: HEC @ 4%	400
Tax Liability	10,400

Solution 5:**Computation of Total Income for the A.Y 2024-25**

₹

Income under head Other Source

Income from owning and maintaining race horse	2,00,000
Income from Royalty	6,00,000
Income from winning horse race (casual income)	1,60,000
Income from winning camel race (casual income)	1,80,000
Income from lottery income (casual income)	2,00,000
Income under head Other Sources	13,40,000

Income under head Business/Profession

Income from owning and maintaining race camel	1,00,000
Gross Total Income	14,40,000
Less: Deduction under Chapter VI-A	Nil
Total Income	14,40,000

Computation of Tax Liability

Tax on ₹9,00,000 at slab rate	45,000
Tax on casual income i.e. ₹5,40,000 @ 30%	1,62,000
Tax before health & education cess	2,07,000
Add: HEC @ 4%	8,280
Tax Liability	2,15,280
Tax Liability excluding amount of casual income	
Tax on ₹ 9,00,000 at slab rate	45,000
Add: HEC @ 4%	1,800
Total	46,800

Tax Liability including amount of casual income upto 15.12.2023

Tax on ₹ 9,00,000 at slab rate	45,000
Tax on casual income i.e. ₹ 3,40,000 @ 30%	1,02,000
Tax before health & education cess	1,47,000
Add: HEC @ 4%	5,880
Total	1,52,880

Interest u/s 234A

Nil

Interest u/s 234B

2,15,280 – 1,30,000 = 85,280 = 85,200 x 1% x 3

2,556

Interest u/s 234C

Date	Advance tax paid	Amount payable	Shortfall
upto 15.06.2023 Interest = NIL	20,000	7,020 (46,800 x 15%)	NIL
upto 15.09.2023 Interest = NIL	35,000	21,060 (46,800 x 45%)	NIL
upto 15.12.2023 Rounded off 119A = 34,600 Interest = 34,600 x 1% x 3 = 1,038	80,000	1,14,660 (1,52,880 x 75%)	34,660
upto 15.03.2024 Rounded off 119A = 85,200 Interest = 85,200 x 1% x 1 = 852	1,30,000	2,15,280	85,280
<u>Interest u/s 234C</u>			1,890
Total Interest Payable			4,446
Rounded off u/s 288B			4,450

Solution 6:

Net Distributable Amount	₹ 60,00,000
Share of Mr. X (10%)	6,00,000
Share of Mr. X out of accumulated profits which is considered dividend u/s 2(22)(c)	(2,00,000)
Balance to be considered full value of consideration	4,00,000
Less: Cost of acquisition of shares	(1,00,000)
Short term Capital Gain	3,00,000
Dividend u/s 2(22)(c)	2,00,000

Computation of Total Income of Mr. X for A.Y. 2024-25**Income under the head Capital Gains**

Short Term Capital Gains	3,00,000
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Income under the head Other Sources

Interest Income of Minor Son clubbed u/s 64(1A)	2,00,000
Dividend u/s 2(22)(c)	2,00,000
Income under the head Other Sources	4,00,000

Income under the head Business Profession

Income of Mrs. X clubbed u/s 64(1)	1,00,000
Gross Total Income	8,00,000
Less: Deduction under Chapter VI-A	Nil
Total Income	8,00,000
Agricultural Income	7,00,000

Computation of Tax Liability

Normal income ₹8,00,000	
Step 1. Tax on (₹8,00,000 + 7,00,000) at slab rate	1,50,000.00
Step 2. Tax on (₹3,00,000 + 7,00,000) at slab rates	(60,000.00)
Step 3. Deduct Tax at Step 2 from Tax at Step 1	90,000.00
Add: HEC @ 4%	3,600.00
Tax Liability	93,600.00

EXAMINATION QUESTIONS

NOV – 2023

Question 3 (c)
(4 Marks)

From the following calculate the taxable amount the under the proper head of income for the Financial Year 2022-23 of Mr. L, who is resident and 56 years old. The reasons should form part of your answer:

- (i) Dividend of ₹ 50,000 received in April 2022. The dividend was declared by the company- LMN Limited at its annual general meeting held in October 2021.
- (ii) Advance forfeited amounting to ₹ 1,00,000 on 01.05.2022 as the negotiation for transfer of capital asset did not result in transfer of Capital Asset.
- (iii) Cash Gift received from non-relative on the occasion of marriage of Son. ₹ 51,000.
- (iv) During the Financial Year 2022-23, he received ₹ 99,000 as pension from the employer of deceased wife.

NOV – 2020

Question 4 (c)
(4 Marks)

Ms. Julie received following amounts during the previous year 2023-24.

- (1) Received loan of ₹5,00,000 from ABC Private Limited, a closely held company engaged in textile business. She is holding 10% of the equity share capital in the said company. The accumulated profit of the company was ₹2,00,000 on the date of the loan.
- (2) Received Interest on enhanced compensation of ₹5,00,000. Out of this interest, ₹1,50,000 relates to the previous year 2020-21, ₹1,90,000 relates to previous year 2021-22 and ₹1,60,000 relates to previous year 2022-23. She paid 1 lakh to her advocate for his efforts in the matter.

Discuss the tax implications, if any, arising from these transactions in her hand with reference to Assessment Year 2024-25.

Answer:

(1) As per section 2(22)(e), If any closely held company (also called company in which public are not substantially interested) has given any loan or advance to an equity shareholder who is holding not less than 10% of the voting power of the company, in such cases such loan or advance shall be considered to be dividend in the hands of such shareholder but only to the extent of accumulated profits excluding capitalized profits.

In the given case, She is holding 10% and company is a closely held company, hence amount received to the extent of accumulated profits i.e. 2,00,000 shall be considered to be deemed dividend u/s 2(22)(e).

(2) **As per section 145B, interest received for late payment of compensation** from the Government or other similar agency in connection with compulsory acquisition of land or building shall be taxable in the year in which it has been received and it will be taxable under the head other sources however, **as per section 57 deduction shall be allowed @ 50% of such interest.**

Interest on enhanced compensation	5,00,000
Less: Deduction @ 50% u/s 57	(2,50,000)
Income under the head other sources	2,50,000

NOV – 2019

Question.2. (a)
(7 Marks)

Mr. Jagdish, aged 61 years, has set-up his business in Thailand and is residing in Thailand since last 20 years. He owns a house property in Bangkok, half of which is used as his residence and half is given on rent (such rent received, converted in INR is ₹6,00,000). The annual value of the house in Thailand is ₹50,00,000 i.e. converted value in INR.

He purchased a flat in Pune during F.Y. 2019-20, which has been given on monthly rent of ₹27,500 since 01.07.2022. The annual property tax of Pune flat is ₹ 40,000 which is paid by Mr. Jagdish whenever he comes to India. Mr. Jagdish last visited India in July 2022. He has taken a loan from Union Bank of India for purchase of the Pune flat amounting to ₹15,00,000. The interest on such loan for the F.Y. 2023-24 was ₹84,000. However, interest for March 2024 quarter has not yet been paid by Mr. Jagdish.

He had a house in Jaipur which was sold in May 2019. In respect of this house he received arrear of rent of ₹96,000 in Feb. 2024 (not taxed earlier).

He also derived some other incomes during F.Y. 2023-24 which are as follows.

Profit from business in Thailand ₹2,75,000

Interest on bonds of a Japanese Co. ₹45,000 out of which 50% was received in India.

Income from Apple Orchid in Nepal given on contract and the yearly contract fee of ₹5,00,000, for F.Y. 2023-24 was deposited directly by the contractor in Kathmandu branch of Union Bank of India in Mr. Jagdish's bank account maintained with Union Bank of India's Pune Branch.

Compute the total income of Mr. Jagdish for Assessment Year 2024-25 chargeable to income tax in India.

Solution:

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

Stay in India for a minimum period of 182 days in the relevant previous year or, in the alternative, 60 days in the relevant previous year and 365 days in the four immediately preceding previous years is required to qualify as a resident. In this case, since Mr. Jagdish has not visited India at any time during the P.Y.2023-24, he would be a non - resident for that year.

Income under the head house property

Flat in pune

GAV (Rent received/receivable) (27,500 x 12)	3,30,000
Less: Municipal tax paid	(Nil)
NAV	3,30,000
Less: Standard deduction u/s 24(a) @ 30%	(99,000)
Less: interest on loan u/s 24(b)	(84,000)
Income from flat in pune	1,47,000
Arrears of rent (96,000-28,800)	67,200
Income from house property	2,14,200

Income from other sources

Interest on bonds (50% received in India)	22,500
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Gross total Income

Income under the head house property	2,14,200
Income under the head other sources	22,500
Gross Total income	2,36,700
Less: Deductions under Chapter VI-A	Nil
Total Income	2,36,700

Notes:

1. Rent from Bangkok house property is assumed to be received in Bangkok.
2. Municipal tax paid in 22-23 and not paid in 23-24 hence not deducted from GAV.
3. Income from apple orchid is received in Nepal as deposited in Nepal hence not taxable in India in case of NR. Student can solve the answer by assuming received in India

NOV – 2019**Question.3. (c)****(4 Marks)**

MLX Investments (P) Ltd. was incorporated during P.Y. 2021-22 having a paid up capital of ₹ 10 Lakhs. In order to increase its capital, the company further issues, 1,00,000 shares (having face value of ₹100 each) during the year at par as on 01-08-2023. The FMV of such share as on 01-08-2023 was ₹ 85.

(i) Determine the tax implications of the above transaction in the hands of company, assuming it is the only transaction made during the year.

(ii) Will your answer change, if shares were issued at ₹105 each?

(iii) What will be your answer, if shares were issued at ₹105 and FMV of the share was ₹120 as on 01-08-2023?

Answer:

As per section 56(2)(viib), where a company, not being a company in which public are substantially interested, receives in any previous year, from any person, any consideration for issue of shares that exceeds the face value of the shares, aggregate consideration received for such shares as exceeds the Fair market value of the shares shall be taxable under the head other sources.

(i) In the given case, shares are issued at face value and does not issue in price exceeding face value of the shares. Hence no amount is taxable.

(ii) In the given case, shares are issued exceeding face value hence taxable amount shall be

$$\begin{aligned} & \text{(Issue price – FMV of the share) x No. of shares} \\ & = (105-85) \times 1,00,000 = 20,00,000 \end{aligned}$$

(iii) In the given case, shares are issued exceeding face value but shares are issued lower than FMV, hence no amount shall be taxable.

Question.4. (a)**(5 Marks)**

Mr. Mahadev, a noted bhajan singer of Rajasthan and his wife Mrs. Dariya furnish the following information relating to the Assessment Year 2024-25.

		₹
1	Income of Mr. Mahadev- professional bhajan singer (computed)	5,65,000
2	Income under the head salary of Mrs. Dariya (computed)	3,80,000
3	Loan received by Mrs. Dariya from Ramu & Jay (Pvt) Ltd. (Mrs. Dariya holds 35% shares of the Co. has incurred losses since its inception 2 years back)	2,50,000
4	Income of their minor son Golu winning signing reality show on T.V.	2,50,000
5	Cash gift received by Golu from friend of Mr. Mahadev on winning the show	21,000
6	Interest income received by minor married daughter Gudia from deposit with Ramu & Jay Pvt Ltd.	40,000

Compute total taxable income of Mr. Mahadev & Mrs. Dariya for the Assessment Year 2024-25.

Solution:**Computation of Taxable income of Mr. Mahadev for the A.Y. 2024-25****Income under the head business profession**

Professional income (computed)	5,65,000
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Income under the head other sources

Interest income of daughter Gudia	40,000
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Income under the head other sources	40,000
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Gross Total Income	6,05,000
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Less: Deduction under Chapter VI-A	Nil
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Total Income	6,05,000
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Computation of Taxable income of Mrs. Dariya for the A.Y. 2024-25

Income under the head salary (computed)	3,80,000
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Gross Total Income	3,80,000
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Less: Deduction under Chapter VI-A	Nil
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Total Income	3,80,000
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Notes:

1. Income of Minor shall be clubbed in the income of parents who have higher income before clubbing the income of minor. In the given case income of father is greater than mother's income hence amount shall be clubbed in the income of Father.
2. Loan amount would not be considered as deemed dividend u/s 2(22)(e) as company does not have accumulated profits.
3. Income from skill and talent shall not be clubbed in the income of the parents and shall be taxable in the hands of children itself.
4. As per section 56(2)(x), Gift shall be taxable if amount received during the year exceed 50,000 but in the given case, cash gift received is less than 50,000 hence nothing shall be clubbed in the hands of the parent.

MAY – 2018**Question 3(b)****(3 Marks)**

XYZ Ltd. A domestic company, declared dividend of ₹170 lakh for the Financial Year 2022-23 and distributed the same on 31-07-2023. Mr. A holding 10% share in XYZ Ltd. received dividend of ₹17 lakh in July, 2023. Mr. B holding 5 % share in XYZ Ltd. received dividend of ₹8.5 lakh in July 2023.

Discuss the tax liabilities in the hands of Mr. A and Mr. B assuming that Mr. A and Mr. B have not received dividend from any other domestic company during the year.

Solution:**Tax Liability of Mr. A**

Dividend received	17,00,000
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Income under the head Other Sources	17,00,000
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Total Income	17,00,000
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Computation of Tax Liability

Tax on ₹ 17,00,000 at slab rate	2,10,000
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Add: HEC @ 4%	8,400
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Tax Liability	2,18,400
Tax Liability of Mr. B	
Dividend received	8,50,000
Income under the head Other Sources	8,50,000
Total Income	8,50,000
Computation of Tax Liability	
Tax on ₹ 8,50,000 at slab rate	40,000
Add: HEC @ 4%	1,600
Tax Liability	41,600

NOV – 2016

Question 3(a) **(4 Marks)**

Mr. Rakesh has 15% share holding in RSL (P) Ltd and has also 50% share in Rakesh & Sons, a partnership firm.

The accumulated profit of RSL (P) Ltd. is 20 Lakh. Rakesh & Sons had taken a loan of ₹25 Lakh, from RSL (P) Ltd. Explain, whether the above loan is treated as dividend, as per the provision of Income Tax Act, 1961.

Solution:

As per Section 2(22)(e), If the loan or advance has been given to any concern in which shareholder has substantial interest, such loan or advance shall be considered to be dividend in the hands of such concern but only to the extent of accumulated profits excluding capitalized profits.

In this case dividend in the hands of the shareholder is nil and in hands of the firm are ₹20 lakhs.

MAY – 2016

Question 4(a) **(2 x 2 = 4 Marks)**

Discuss the taxability or otherwise in the hands of the recipients, as per the provisions of the Income-tax Act, 1961:

- (i) ABC Private Limited, a closely held company, issued 10,000 share at ₹130 per share. (The face value of the share is ₹100 per share and the fair market value of the share is ₹120 per share).
- (ii) Mr. A received an advance of ₹50,000 on 01.09.2022 against the sale of his house. However, due to non-payment of instalment in time, the contract has cancelled and the amount of ₹50,000 was forfeited.

Answer:

- (i) **Taxable:** As per section 56(2)(viib), If any closely held company receives any consideration for issue of shares that exceeds the face value of shares then the aggregate consideration received as exceeds the fair market value of shares is considered as income under the other sources. In the given case, ABC Private Ltd. issued shares at a price which exceeds the face value of shares. So the taxable amount shall be ₹1,00,000 (10,000 shares x (₹130-₹120))
- (ii) **Taxable:** If any person has entered into an agreement to sell any capital asset and some advance money was received but the buyer refused to purchase the capital asset and advance money was forfeited, in such cases the amount so forfeited shall be considered to be income under the head Other Sources. In the given case, Mr. A forfeited ₹50,000 against sale of his house shall be considered as income under the head other sources.

Question 7(a)(iii) **(2 Marks)**

Discuss **with reason**, whether the following transactions are true or false, as per the provisions of Income Tax Act, 1961:

Dividend received by a dealer in shares or one engaged in buying/selling of shares, is chargeable under the head “Income from other sources”. (Discussion must be on the head of income).

Answer:

True: Dividend received by a dealer of shares is chargeable under the head “Income from Other Sources”.

MAY – 2011 (2 Marks)

Mr. X holding 28% of equity shares in a company took a loan of ₹5,00,000 from the same company. On the date of granting the loan, the company had accumulated profit of ₹4,00,000. The company is engaged in some manufacturing activity.

- (i) Is the amount of loan taxable as deemed dividend in the hands of Mr. X, if the company is a company in which the public are substantially interested?
- (ii) What would be your answer, if the lending company is a private limited company (i.e.) a company in which the public are not substantially interested?

Answer:

Any payment by a company, other than a company in which the public are substantially interested, of any sum by way of advance or loan to an equity shareholder, being a person who is the beneficial owner of shares holding not less than 10% of the voting power, is deemed as dividend under section 2(22)(e), to the extent the company possesses accumulated profits.

(i) The provisions of section 2(22)(e), however, will not apply where the loan is given by a company in which public are substantially interested. In such a case, the loan would not be taxable as deemed dividend.

(ii) However, if the loan is taken from a private company (i.e. a company in which the public are not substantially interested), which is a manufacturing company and not a company where lending of money is a substantial part of the business of the company, then, the provisions of section 2(22)(e) would be attracted, since Mr. X holds more than 10% of the equity shares in the company.

The amount chargeable as deemed dividend cannot, however, exceed the accumulated profits held by the company on the date of giving the loan. Therefore, the amount taxable as deemed dividend would be limited to the accumulated profit i.e., ₹4,00,000 and not the amount of loan which is ₹5,00,000.

NOV – 2010

Question 7**(4 Marks)**

State under which heads the following incomes are taxable:

- (i) Rental income in case of a dealer engaged in business of letting out of house property
- (ii) Dividend on shares in case of a dealer in shares
- (iii) Salary by a partner from his partnership firm
- (iv) Rental income of machinery
- (v) Winnings from lotteries by a person having the same as business activity
- (vi) Salaries payable to a Member of Parliament
- (vii) Receipts without consideration

Answer.

Particulars	Head of Income
(i) Rental income in case of a dealer engaged in business of letting out of house property	Profit and gains of business or profession
(ii) Dividend on shares in case of a dealer in shares	Income from other sources
(iii) Salary by partner from his partnership firm	Profit and gains of business or profession
(iv) Rental income of machinery (See Note below)	Income from other sources/ Profits and gains of business or profession
(v) Winnings from lotteries by a person having the same as business activity	Income from other sources
(vi) Salaries payable to a Member of Parliament	Income from other sources
(vii) Receipts without consideration	Income from other sources

Note: As per section 56, rental income of machinery would be chargeable to tax under the head “Income from Other Sources”, if the same is not chargeable to income-tax under the head “Profits and gains of business or profession”.

DEDUCTION OF TAX AT SOURCE/ TAX COLLECTION AT SOURCE

SECTION 190 TO 206CCA

- **Section 190 Deduction at source and advance payment**
- **Section 191 Direct payment**
- **Section 192 Deduction of tax from salary income**
- **Section 192A Deduction of tax at source in case of payment from recognized provident fund**
- **Section 193 Deduction of tax from interest on securities**
- **Section 194 Deduction of Tax in case of Dividends**
- **Section 194A Deduction of tax from interest other than “interest on securities”**
- **Section 194B Deduction of tax from winnings from lottery, crossword puzzle, card game, etc.**
- **Section 194BA Deduction of tax in case of online gaming**
- **Section 194BB Deduction of tax from winnings from horse races**
- **Section 194C Deduction of tax from payment to contractors (V. Imp.)**
- **Section 194D Deduction of tax from insurance commission**
- **Section 194DA Payment in respect of life insurance policy**
- **Section 194E Payments to non-resident sportsmen or sports associations**
- **Section 194EE Payments in respect of deposits under National Savings Scheme, etc**
- **Section 194G Deduction of tax from commission, etc. on sale of lottery tickets**
- **Section 194H Commission or brokerage**
- **Section 194-I Deduction of tax from rent (V. Imp.)**
- **Section 194-IA Payment for purchase of immovable property**
- **Section 194-IB Payment of rent by certain individuals or HUF.**
- **Section 194-IC Payment under specified agreement.**
- **Section 194J Deduction of tax from fees for professional or technical services**
- **Section 194K Deduction of tax in case of Income on units of Mutual Fund**
- **Section 194LA Payment of compensation on acquisition of certain immovable property**
- **Section 194M Payment of certain sums by certain individuals or Hindu undivided family**
- **Section 194N Payment of certain amounts in cash**
- **Section 194-O TDS in case of Payment of certain sums by e-commerce operator to e-commerce participant**
- **Section 194P Deduction of tax in case of specified senior citizen**
- **Section 194Q Deduction of tax at source on payment of certain sum for purchase of goods**
- **Section 194R TDS in case of payment of benefit or perquisite in respect of business or profession**
- **Section 195 Payments to non-residents**
- **Section 196 Interest or dividend or other sums payable to Government, Reserve Bank or certain corporations**
- **Section 197 Certificate for deduction at lower rate (V. Imp.)**
- **Section 197A Declaration for not Deducting Tax at Source**
- **Section 200 Duty of person deducting tax (V. Imp.)**
- **Section 201 Consequences of failure to deduct or pay (V. Imp.)**
- **Section 203 Certificate for tax deducted**
- **Section 203A Tax deduction account number**
- **Section 206AA Requirements to furnish Permanent Account Number**

- **Section 206AB Special provision for deduction of tax at source for non-filers of income-tax return.**
- **Section 206C Collection of Tax Source**
- **Section 206CA Tax collection Account Number**
- **Section 206CC Requirement to furnish Permanent Account number by collectee**
- **Section 206CCA Special provision for collection of tax at source for non-filers of income-tax return**

Deduction at Source and Advance Payment Section 190

Every person shall be required to pay tax through TDS/TCS and advance tax and exact tax shall be computed in the assessment year and balance if any shall be paid in the assessment year and it is called self assessment tax.

Direct Payment Section 191

If tax is not to be deducted at source with regard to any income, assessee shall pay advance tax. Similarly if tax was to be deducted at source but it has not been deducted at source, in such cases also the assessee is required to pay advance tax.

Question 1: Write a note on Deduction of Tax at Source with regard to Salary Income.

Answer: Deduction of Tax at Source with regard to Salary Income Section 192

1. Every person (including individual and HUF even if limit prescribed under section 44AB has not exceeded in the preceding year) making payment of salary income to resident or non-resident shall deduct tax at source and for this purpose the employer shall estimate tax liability of the employee and tax so estimated shall be deducted in 12 monthly equal installments. While estimating tax liability, deduction under section 80C to 80U shall be allowed. It can be shown in the manner given below:

Mr. X is employed in ABC Ltd. and salary is ₹70,000 p.m. and he has invested ₹50,000 in NSC. In this case, tax to be deducted at source at the time of payment of salary shall be:

	₹
Gross Salary (70,000 x 12)	8,40,000.00
Less: Standard Deduction u/s 16(ia)	(50,000.00)
Income under the head Salary	7,90,000.00
Gross Total Income	7,90,000.00
Less: Deduction under Chapter VI-A	Nil
Total Income	7,90,000.00
Tax on ₹7,90,000 at slab rate	34,000.00
Add: HEC @ 4%	1,360.00
Tax Liability	35,360.00
Monthly installment shall be 35,360 / 12	2,946.67
If employer has deducted tax at source for the month of April and May and salary was increased to ₹80,000 p.m. w.e.f. 01.06.2023, tax to be deducted in subsequent installments shall be	
Gross Salary (70,000 x 2) + (80,000 x 10)	9,40,000.00
Less: Standard Deduction u/s 16(ia)	(50,000.00)
Income under the head Salary	8,90,000.00
Gross Total Income	8,90,000.00
Less: Deduction under Chapter VI-A	Nil
Total Income	8,90,000.00
Tax at slab rate including HEC	45,760.00
Tax deducted at source in April and May (2,946.67 x 2)	(5,893.34)
Balance amount of tax	39,866.66
Tax to be deducted in subsequent installments (39,866.66 / 10)	3,986.67

Rule 26C requires furnishing of evidence of the following claims by an employee to the person responsible for making payment in Form No.12BB for the purpose of estimating his income or computing the tax

deduction of tax at source:

2. If any person is working with two or more employers, in that case he should submit the particulars of his salary income from all the employers to one of the employer who will deduct tax at source taking into consideration income from all employers. (Information has to be given in Form 12B)

Example

Mr. X is working with two employer A Ltd. and B Ltd. and is getting basic pay of ₹30,000 p.m. from each of the employer. In this case, he must inform one of the employer regarding his salary income from other employer and such employer shall deduct tax at source taking into consideration income from other employer.

3. **If any employee has income under any other head**, the employee shall be allowed even to report such incomes to the employer and the employer shall take it into consideration. If employee has loss under the head house property, he shall be allowed to report such loss to the employer. The employee shall be required to give proof.

Question 2: Write a note on deduction of tax at source in case of payment from recognized provident fund.

Answer: Deduction of tax at source in case of payment from recognized provident fund Section 192A

The person responsible for making **payment of recognized provident fund** to any person shall deduct tax at source if the amount to be paid is taxable and tax shall be deducted at source @ **10%** provided the amount paid or payable during a particular year is **₹50,000 or more**.

Question 3: Write a note on TDS in case of interest on securities.

Answer: TDS in case of interest on securities Section 193

Every person responsible for making payment of interest on securities to any resident shall deduct tax at source @ 10%.

No tax shall be deducted at source in the following cases:

1. In case of, any interest payable to an individual or a Hindu undivided family, who is resident in India, on any debenture issued by a company in which the public are substantially interested, if the aggregate amount of such interest paid or likely to be paid on such debenture during the financial year by the company to such individual or Hindu undivided family does not exceed five thousand rupees; and such interest is paid by the company by an account payee cheque;]

2. Any interest payable on any security of the **Central Government or a State Government**.

3. Any interest being paid to Bank/LIC or other notified financial organizations.

4. Interest payable by a company in connection with **security held in dematerialised form**.

“Interest on securities” as per section 2(28B), interest on securities means interest on bond / debenture etc. issued by Government / local authority / company or statutory corporation etc.

Example

(i) ABC Ltd. has to pay interest of ₹2,00,000 to Mr. X in connection with listed debentures, amount of TDS shall be ₹ 20,000.

(ii) ABC Ltd. has to pay interest of ₹12,00,000 to Mr. X in connection with listed debentures, amount of TDS shall be ₹1,20,000

(iii) ABC Ltd. has to pay interest of ₹5,000 to Mr. X, no tax shall be deducted at source in this case.

Illustration 1: Mr. X has invested some amount in ABC Ltd. and the company has paid him interest of ₹5,40,000 after deducting tax at source @ 10%. The cheque was collected by the bank and the bank charges were 1%. He has income under the head house property ₹ 10,00,000

Compute his tax liability and tax refund for assessment year 2024-25.

Solution:

	₹
Income under the head House Property	10,00,000.00
Gross interest (5,40,000 x 100 /90)	6,00,000.00
Less: bank charges u/s 57 (1% of 5,40,000)	(5,400.00)
Income under the head Other Sources	5,94,600.00

Gross Total Income	15,94,600.00
Less: Deductions u/s under Chapter VI-A	Nil
Total Income	15,94,600.00
Computation of Tax Liability	
Tax on ₹15,94,600 at slab rate	1,78,380.00
Add: HEC 4%	7,135.20
Tax Liability	1,85,515.20
Less: TDS	(60,000.00)
Tax Payable	1,25,515.20
Rounded off u/s 288B	1,25,520.00

Illustration 2: Mr. X has invested some amount in ABC Ltd. and the company has paid him interest of ₹3,60,000 after deducting tax at source @ 10%. The cheque was collected by the bank and the bank charges were 1%.

Compute his tax liability and tax refund for assessment year 2024-25.

Solution:	₹
Gross interest (3,60,000 x 100 /90)	4,00,000.00
Less: bank charges u/s 57 (1% of 3,60,000)	(3,600.00)
Income under the head Other Sources	3,96,400.00
Total Income	3,96,400.00
Computation of Tax Liability	
Tax on ₹3,96,400 at slab rate	4,820.00
Less: Rebate u/s 87A	(4,820.00)
Tax Liability	Nil
Less: TDS	(30,000.00)
Refund	30,000.00
Assesse can take benefit of section 197 (not 197A)	

Illustration 3: Mr. X has invested some amount in ABC Ltd. and the company has paid him interest of ₹1,80,000 after deducting tax at source @ 10%. The cheque was collected by the bank and the bank charges were 1%.

Compute his tax liability and tax refund for assessment year 2024-25.

Solution:	₹
Gross interest (1,80,000 x 100 /90)	2,00,000.00
Less: bank charges u/s 57 (1% of 1,80,000)	(1,800.00)
Income under the head Other Sources	1,98,200.00
Total Income	1,98,200.00
Computation of Tax Liability	
Tax Liability	Nil
Less: TDS	(20,000.00)
Refund	20,000.00
In this case assessee can avail benefit of section 197 or 197A	

Illustration 4: Mr. X has borrowed ₹1,00,000 from the market. The amount was invested in security of some company and the assessee has received a cheque for ₹ 45,000 (after TDS @ 10%) being the amount of interest and assessee has paid interest of ₹ 11,000. He has casual income ₹ 2,00,000

The cheque was given for collection to a bank and the bank has deducted collection charges of 2%.

Mr. X has income under the head house property ₹ 2,50,000.

Compute his tax liability / tax payable for assessment year 2024-25.

Solution:	₹
Income under the head House Property	2,50,000.00
Income under the head other sources	
Interest income	38,100.00

(45,000 x 100 / 90) - 11,000 - 900}	
(50,000 – 11,000 – 900)	
Casual income	2,00,000.00
Income under the head other sources	2,38,100.00
Gross Total Income	4,88,100.00
Less: Deduction under Chapter VI-A	Nil
Total Income	4,88,100.00
Computation of Tax Liability	
Tax on Casual Income 2,00,000 X 30%	60,000.00
Tax on ₹2,88,100 at slab rate	Nil
Total Tax	60,000.00
Less: Rebate u/s 87A	(25,000.00)
Tax before HEC	35,000.00
Add: HEC @ 4%	1,400.00
Tax Liability	36,400.00
Less: TDS	(5,000.00)
Tax Payable	31,400.00

Question 4: Write a note on TDS in case of “Dividends”.**Answer: TDS in case of “Dividends” Section 194**

Every company making payment of dividends to any resident shareholder shall deduct tax at source @ 10%, however, no tax shall be deducted at source if the following conditions have been satisfied:

- dividend has been paid to an individual, and
- payment is made by any mode other than cash, and
- the amount being paid or payable during a particular year to such individual does not exceed ₹5,000.

No tax shall be deducted at source in case of payment of dividend to Life Insurance Corporation of India, General Insurance Corporation of India, or any other insurer

Question 5: Write a note on TDS in case of Interest other than “Interest on Securities”.**Answer: TDS in case of Interest other than “Interest on Securities” Section 194A**

Every person making payment of interest other than interest on securities to any resident shall deduct tax at source @ 10% provided the amount being paid or payable during a particular year to a particular person is exceeding ₹5,000 but if payment is being made by bank or post office or **Co-Operative Society**, tax shall be deducted only if interest being paid or payable is exceeding ₹40,000, however if the payee is senior citizen, ₹40,000 shall be taken as ₹50,000 .

Further TDS shall be only on time deposit including recurring deposit. Limit of ₹40,000 (₹50,000 for senior citizen) shall be per branch of the bank but if the bank has core banking solution, limit shall be per bank and not per branch.

An Individual or Hindu Undivided Family shall be required to deduct tax at source only if the turnover in case of business has exceeded ₹ 1 crore and gross receipts in case of profession has exceeded ₹ 50 lakhs, during the financial year immediately preceding the relevant year.

Example

- Punjab National Bank has to pay interest of ₹1,00,000 to Mr. X. In this case, amount of TDS shall be ₹10,000.
- Punjab National Bank has to pay interest of ₹10,00,000 to Mr. X. In this case, amount of TDS shall be ₹1,00,000.
- Punjab National Bank has to pay interest of ₹1,00,000 to X Ltd. In this case, amount of TDS shall be ₹10,000.
- Punjab National Bank has to pay interest of ₹1,00,000 to an Hindu Undivided Family. In this case, amount of TDS shall be ₹10,000.
- Punjab National Bank has to pay interest of ₹1,000 to a Hindu Undivided Family. In this case, amount of TDS shall be Nil.
- Punjab National Bank has to pay interest of ₹39,900 to Mr. X. In this case, amount of TDS shall be Nil.

No tax shall be deducted at source in the following cases:

- (1) Interest paid by a firm to a partner of the firm;
- (2) Any interest being paid to Bank/LIC or other notified financial organizations
- (3) Interest on income tax refund or wealth tax refund etc.
- (4) Income paid in relation to a Zero Coupon Bond.
- (5) Interest paid in respect of deposits under any scheme notified by the government.

"Zero Coupon Bond" Section 2(48)

means a bond which are issued by the specified companies and which are issued for minimum 10 years and maximum 20 years and in respect of which no payment and benefit is received before maturity or redemption from such specified company and further such bonds shall be notified by the Central Government.

Additional amount received on redemption shall be considered to be capital gain.

"Interest" Section 2(28A) means interest payable in any manner in respect of any moneys borrowed or debt incurred (including a deposit, claim or other similar right or obligation) and includes any service fee or other charge in respect of the moneys borrowed or debt incurred or in respect of any credit facility which has not been utilized

Illustration 5: Mrs. Nupur Sharma is getting a family pension of ₹7,000 p.m. She has also received interest on fixed deposit of ₹90,000 after deducting tax at source of ₹10,000. The bank has deducted collection charges @ 1.5%. She has short term capital gains under section 111A ₹ 4,00,000. Deductions under Chapter VI-A ₹ 67,650

Compute her tax liability for assessment year 2024-25.

Solution:

	₹	₹
Family Pension (7,000 x 12)	84,000	
Less: Deduction u/s 57 1/3 of ₹84,000 or ₹15,000 whichever is less	(15,000)	69,000
Interest	1,00,000	
Less: Bank Charges [90,000 @ 1.5 %]	(1,350)	98,650
Income under the head Other Sources		1,67,650
Income under the capital gains (STCG 111A)		4,00,000
Gross Total Income		5,67,650
Less: Deductions under Chapter VI-A		Nil
Total Income		5,67,650
<u>Computation of tax liability</u>		
Tax on Normal Income ₹ 1,67,650 at slab rate		Nil
Tax on STCG 111A (4,00,000 – 1,32,350) X 15%		40,147.50
Less: Rebate 87A		(25,000.00)
Tax before HEC		15,147.50
Add: HEC @ 4%		605.90
Tax Liability		15,753.40
Rounded off u/s 288B		15,750.00

Illustration 6 (From RTP): Examine the implications of tax deduction at source under section 194A in the cases mentioned hereunder, based on the provisions of the Income-tax Act, 1961.

(i) On 01.10.2023, Mr. Mohit made a six-month fixed deposit of ₹ 12 lakh @ 8% p.a. with Theta Co-operative Bank. The fixed deposit matures on 31.3.2024.

(ii) Mr. Harish made fixed deposits carrying interest @10% p.a. with the following branches of Omega Bank, a bank which has adopted CBS.

Branch	Amount (₹)	Date of deposit	Date of Maturity
Adyar	60,000	01.06.2023	31.03.2024
Anna Nagar	80,000	01.07.2023	31.03.2024
Nungambakkam	75,000	01.08.2023	31.03.2024

(iii) On 01.04.2023, Ms. Meena started a 1 year recurring deposit of ₹ 50,000 per month @ 10% p.a. with Gamma Bank. The recurring deposit matures on 31.3.2024. Gamma bank pays interest of ₹43,000.

Solution:

(i) Theta Co-operative Bank has to deduct tax at source @ 10% on the interest of ₹ 48,000 ($8\% \times ₹ 12 \text{ lakh} \times \frac{1}{2}$) under section 194A.

(ii) Since Omega Bank has adopted CBS, the aggregate interest credited/paid by all branches has to be considered, and if the same exceeds ₹ 40,000, tax is deductible under section 194A. Omega Bank is not required to deduct tax at source @10% under section 194A, since the aggregate interest on fixed deposit with the three branches of the bank is ₹ 16,000, which does not exceed the threshold limit of ₹ 40,000.

Branch	Amount of deposit (₹)	Rate of Interest	Period in months	Amount of Interest (₹)
Adyar	60,000	10%	10	5,000
Anna Nagar	80,000	10%	9	6,000
Nungambakkam	75,000	10%	8	5,000
Total				16,000

(iii) Tax has to be deducted @ 10% under section 194A by Gamma Bank on the interest of ₹43,000 on recurring deposit on 31.3.2024 to Ms. Meena, since –

- (1) —recurring deposit has been included in the definition of “time deposit”; and
- (2) such interest exceeds the threshold limit of ₹ 40,000.

Illustration 7 (From RTP): Examine the TDS implications under section 194A in the cases mentioned hereunder –

(i) On 1.10.2023, Mr. Harish made a six-month fixed deposit of ₹ 10 lakh @ 9% p.a. with ABC Co-operative Bank. The fixed deposit matures on 31.3.2024.

(ii) On 01.06.2023, Mr. Ganesh made three nine month fixed deposits of ₹ 2 lakh each carrying interest @ 9% per annum with Dwarka Branch, Janakpuri Branch and Rohini Branches of XYZ Bank, a bank which has adopted CBS. The fixed deposits mature on 29.2.2024.

(iii) On 01.04.2023, Mr. Rajesh started a 1 year recurring deposit of ₹ 60,000 per month @ 8% p.a. with PQR Bank. The recurring deposit matures on 31.03.2024. PQR bank pays interest of ₹50,400.

Answer:

(i) ABC Co-operative Bank has to deduct tax at source @10% on the interest of ₹ 45,000 ($9\% \times ₹ 10 \text{ lakh} \times \frac{1}{2}$) under section 194A. The tax deductible at source under section 194A from such interest is, therefore, ₹4,500.

(ii) XYZ Bank has to deduct tax at source@10% under section 194A, since the aggregate interest on fixed deposit with the three branches of the bank is ₹ 40,500 [$2,00,000 \times 3 \times 9\% \times 9/12$], which exceeds the threshold limit of ₹ 40,000. Since XYZ Bank has adopted CBS, the aggregate interest credited/paid by all branches has to be considered. Since the aggregate interest of ₹ 40,500 exceeds the threshold limit of ₹ 40,000, tax has to be deducted @ 10% under section 194A.

(iii) Tax has to be deducted under section 194A @ 10% by PQR Bank on the interest of ₹50,400 on recurring deposit on 31.03.2024 to Mr. Rajesh, since –

- (1) “recurring deposit” has been included in the definition of “time deposit”; and
- (2) such interest exceeds the threshold limit of ₹ 40,000.

Question 6: Write a note on TDS in case of Winnings from Lottery or Crossword Puzzle etc.

Answer: TDS in case of Winnings from Lottery or Crossword Puzzle etc. Section 194B

Every person (including individual and HUF) responsible for paying to any resident or non-resident, any income by way of winnings from any lottery or crossword puzzle or card game and other game of any sort or from gambling or betting of any form or nature whatsoever shall deduct tax at source @ 30% provided the amount or aggregate of amounts being paid or payable is exceeding ₹10,000 e.g. If ABC Ltd. has to pay ₹7,000 being winning of a lottery, no tax shall be deducted at source but if amount being paid is ₹7,000 and ₹8,000, tax to be deducted at source shall be ₹15,000 x 30% = ₹4,500.

similarly if amount being paid is ₹10 lakh, tax to be deducted at source shall be ₹10,00,000 x 30% = ₹3,00,000

If any such winning is in kind, winning shall be released only after collecting the amount of tax e.g. Mr. X has won a motor car valued ₹5,00,000, in this case the organizer should collect tax of ₹1,50,000 and only after that motor car shall be released.

'Provided further that nothing contained in this section shall apply to deduction of income-tax on winnings from any online game on or after the 1st day of April, 2023.'

Question 7: Write a note on TDS in case of Winnings from Online Games.

Answer: TDS in case of Winnings from Online Games Section 194BA

Every person responsible for making payment of any income from online game shall deduct tax at source @ 30% and tax shall be deducted at the end of the year but if winning are withdrawn during the year, tax shall be deducted at the time of withdrawal of such income. Also tax shall be deducted at source on the remaining amount of net winnings.

Guidelines to remove difficulties arising in implementation of the provisions of section 194BA [Circular No. 5/2023 dated 22.5.2023]

New section 194BA has been inserted by the Finance Act, 2023 requiring to deduct tax at source by any person responsible for paying to any person (whether resident or non-resident) any income by way of winnings from any online game during the financial year on the net winnings in his user account, computed in the manner as may be prescribed, at the end of the financial year at the rates in force i.e., 30%.

Such net winnings from online games during the previous year would be chargeable to tax @ 30% under section 115BBJ. The tax would be calculated on net winnings from such online games computed in the prescribed manner.

If any difficulty arises in giving effect to the provisions of section 194BA, the CBDT may, with the previous approval of the Central Government, issue guidelines for the purposes of removing the difficulty.

Accordingly, the CBDT has, vide this circular, issued the following guidelines:

Question 1: There are a large number of gamers who play with very insignificant amount and withdraw also very small amount. Deducting tax at source under section 194BA for each insignificant withdrawal would increase compliance for tax deductor. Can there be relaxation to ease compliance?

Answer: Tax may not be deducted on withdrawal on satisfaction of all of the following conditions, namely:-

- (i) net winnings comprised in the amount withdrawn does not exceed ₹ 100 in a month;
- (ii) tax not deducted on account of this concession is deducted at a time when the net winnings comprised in withdrawal exceeds ₹ 100 in the same month or subsequent month or if there is no such withdrawal, at the end of the financial year; and
- (iii) the deductor undertakes responsibility of paying the difference if the balance in the user account at the time of tax deduction under section 194BA is not sufficient to discharge the tax deduction liability.

Question 2: When the net winnings is in kind how will tax deduction under section 194BA operate?

Answer: At the outset, it may be clarified that where money in user account is used to buy an item in kind and given to user then it is net winnings in cash only and the deductor is required to deduct tax at source under section 194BA accordingly.

However, there could be a situation where the winning of the game is a prize in kind. In that situation provision of section 194BA(2) will operate.

According to this where the net winnings are wholly in kind or partly in cash, and partly in kind but the part in cash is not sufficient to meet the liability of deduction of tax in respect of whole of the net winnings. In these situations, the person responsible for paying, shall, before releasing the winnings, ensure that tax has been paid in respect of the net winnings. In the above situation, the deductor will release the net winnings in kind after the deductee provides proof of payment of such tax (e.g., Challan details etc.).

In the alternative, as an option to remove difficulty if any, the deductor may deduct the tax under section 194BA and pay to the Government.

Question 3: How will the valuation of winnings in kind required to be carried out?

Answer: The valuation would be based on fair market value of the winnings in kind except in following cases:-

(i) The online game intermediary has purchased the winnings before providing it to the user. In that case the purchase price shall be the value for winnings.

(ii) The online game intermediary manufactures such items given as winnings. In that case, the price that it charges to its customers for such items shall be the value for such winnings.

It is further clarified that **GST will not be included for the purposes of valuation** of winnings for TDS under section 194BA.

Question 8: Write a note on TDS in case of Winnings from Horse Race.

Answer: TDS in case of Winnings from Horse Race Section 194BB

Every person (including individual and HUF), responsible for paying to any resident or non-resident, shall be required to deduct tax at source @ 30% in case of payment of winning from horse races but tax shall be deducted at source only if amount *or aggregate of amounts* paid or payable during a particular year to a particular person is exceeding ₹10,000.

Example

ABC Ltd. has to pay winnings of horse race ₹3,00,000 to Mr. X, amount of TDS shall be ₹90,000 but if the amount to be paid is ₹2,000, amount of TDS shall be Nil.

Illustration 8: Mr. X purchased 20 lottery tickets of ₹ 250 each with a winning of ₹2.80 lakhs (after TDS @ 30%). He has also received interest of ₹72,000 after deducting tax at source @ 10% in connection with fixed deposit. and the cheque was collected by bank and service charges @ 2% was taken by the bank. He has income from subletting of house property ₹9,000 p.m. He has received family pension of ₹ 4,000 p.m. Compute his tax liability and also tax payable/refund for assessment year 2024-25.

Solution:

	₹	₹
Income from lottery (2,80,000 /70% x 100%)		4,00,000.00
Interest (72,000 / 90% X 100%)	80,000.00	
Less: Bank charges u/s 57 (2% of ₹72,000)	(1,440)	78,560.00
Sub-letting of house property (9,000 x 12)		1,08,000.00
Family pension	48,000	
Less: 1/3 of income or ₹15,000 whichever is less	(15,000)	33,000.00
Income under the head Other Sources		6,19,560.00

Computation of Tax Liability

Tax on casual income ₹4,00,000 @ 30% u/s 115BB	1,20,000.00
Tax on ₹2,19,560 at slab rate	Nil
Tax before health & education cess	1,20,000.00
Less: Rebate u/s 87A	(25,000.00)
Tax before health & education cess	95,000.00
Add: HEC @ 4%	3,800.00
Tax Liability	98,800.00
Less: TDS (1,20,000 + 8,000)	(1,28,000.00)
Tax Refund	29,200.00

Question 9: Write a note on TDS in case of Payments to Contractors.

Answer: TDS in case of Payments to Contractors Section 194C

1. Every person responsible for making payment to a **resident contractor** in connection with any work shall deduct tax at source @ **2%** and in case of payment to individual or Hindu Undivided Family, the rate of TDS shall be **1%**. Tax shall be deducted at source only if the amount being paid is exceeding **₹30,000** or the amount paid or payable during a particular financial year to a particular person exceeds **₹1,00,000**.

Example

ABC Ltd. makes the following payments to Mr. X, a contractor, for contract work during the P.Y.2023-24 – ₹ 15,000 on 01.05.2023

₹ 25,000 on 01.08.2023

₹ 30,000 on 01.12.2023

On 01.03.2024, a payment of ₹ 48,000 is due to Mr. X on account of a contract work.

Discuss whether ABC Ltd. is liable to deduct tax at source under section 194C from payments made to Mr. X.

Solution:

In this case, the individual contract payments made to Mr. X does not exceed ₹ 30,000. However, since the aggregate amount paid to Mr. X during the P.Y.2023-24 exceeds ₹ 1,00,000 (on account of the last payment of ₹48,000, due on 01.03.2024, taking the total from ₹ 70,000 to ₹ 1,18,000), the TDS provisions under section 194C would get attracted. Tax has to be deducted @ 1% on the entire amount of 1,18,000 from the last payment of ₹ 48,000 and the balance of ₹ 46,820 (i.e. ₹ 48,000 – ₹ 1,180) has to be paid to Mr. X.

Example

(i) If DDA has to pay a sum of ₹5,00,000 to Mr. X in connection with a particular contract, amount of TDS shall be ₹5,000.

(ii) If in the above case amount is to be paid to X Ltd. An Indian company, amount of TDS shall be ₹10,000.

2. An Individual or Hindu Undivided Family shall be required to deduct tax at source only if the turnover in case of business has exceeded ₹ 1 crore and gross receipts in case of profession has exceeded ₹ 50 lakhs, during the financial year immediately preceding the relevant year.

Example

If Mr. X is engaged in a business and turnover of business is ₹41,00,000 in the previous year 2022-23 and he has to pay ₹1,10,000 to Mr. Y in the previous year 2023-24 in connection with a contract, amount of TDS shall be Nil but if his turnover in previous year 2022-23 was ₹110,00,000, amount of TDS shall be ₹1,100 but if payment is to given to Y Ltd., amount of TDS shall be ₹2,200.

3. No individual or HUF shall deduct tax at source under this section, if the amount is paid for **personal purpose** of such **individual or HUF**.

Example

If in the above case, Mr. X has to pay ₹1,10,000 to Mr. Y in connection with a contract which is for personal purpose of Mr. X, TDS under section 194C, shall be Nil.

4. Contract for this purpose shall include every type of contract e.g. Advertising contract/Broadcasting and telecasting contract / Carriage of passenger by any mode of transport / Catering contract / Contract for construction / Contract for courier services / Contract of maintenance of plant and machinery etc.

5. If any person making payment for purchase of goods, no tax shall be deducted at source but TDS shall be applicable in case of manufacturing or supplying a product according to the requirement or specification of a customer by using material purchased from such customer or its associate, i.e. a person covered u/s 40A(2)(b), but does not include manufacturing or supplying a product according to the requirement or specification of a customer by using material purchased from a person, other than such customer or associate of such customer.

Further tax shall be deducted at source on the invoice value excluding the value of material, if such value is mention separately in the invoice. If value is not mention separately, tax shall be deducted at source on whole of the invoice value.

Example

ABC Ltd. has given orders to Mr. X to stitch uniform for their employees and Mr. X purchased material from the market and has stitched uniform for ABC Ltd. and has charged ₹7,00,000, in this case amount of TDS shall be nil but if material is supplied by ABC Ltd. or its associates and Mr. X has charged ₹1,10,000 as labour charge, tax shall be deducted at source @ 1% i.e. ₹1,100. If value of material and amount for labour is not shown separately, tax shall be deducted at source on the entire amount.

6. **No tax shall be deducted at source** in case of payment to a contractor in connection with **transportation of goods where such contractor do not own more than 10 goods carriages at any time during the year and also submitted a declaration in this regard and has also furnished permanent account number.**

Example

ABC Ltd. has paid ₹5,00,000 to Mr. X for transportation of goods and Mr. X do not have more than 10 goods carriages and he has furnished a declaration in this regard and has submitted permanent account

number, in this case no tax shall be deducted at source but if PAN has not been provided, tax shall be deducted at source @ 20%.

TDS provisions on payments by television channels and publishing houses to advertisement companies for procuring or canvassing for advertisements [Circular No. 05/2016, dated 29-2-2016]

There are two types of payments involved in the advertising business:

- (i) Payment by client to the advertising agency, and
- (ii) Payment by advertising agency to the television channel/newspaper company

The applicability of TDS on these payments has been dealt with in Circular No. 715 dated 8-8-1995, where it has been clarified that while TDS under section 194C (as work contract) will be applicable on the first type of payment, there will be no TDS under section 194C on the second type of payment e.g. payment by advertising agency to the media company.

However, another issue has been raised in various cases as to whether the fees/charges taken or retained by advertising companies from media companies for canvassing/booking advertisements (typically 15% of the billing) is 'commission' or 'discount' for attracting the provisions of section 194H.

The CBDT has clarified that no TDS is attracted on payments made by television channels/newspaper companies to the advertising agency for booking or procuring of or canvassing for advertisements.

TDS provisions on payments by broadcasters or Television Channels to production houses for production of content or programme for telecasting [Circular No. 04/2016, dated 29-2-2016]

The issue under consideration is whether payments made by the broadcaster/telecaster to production houses for production of content/programme are payments under a 'work contract' liable for tax deduction at source under section 194C or a contract for 'professional or technical services' liable for tax deduction at source under section 194J.

In this regard, the CBDT has clarified that while applying the relevant provisions of TDS on a contract for content production, a distinction is required to be made between:

- (i) a payment for production of content/programme as per the specifications of the broadcaster/telecaster; and
- (ii) a payment for acquisition of broadcasting/ telecasting rights of the content already produced by the production house.

In the first situation where the content is produced as per the specifications provided by the broadcaster/telecaster and the copyright of the content/programme also gets transferred to the telecaster/ broadcaster, such contract is covered by the definition of the term 'work' in section 194C and, therefore, subject to TDS under that section.

However, in a case where the telecaster/broadcaster acquires only the telecasting/ broadcasting rights of the content already produced by the production house, there is no contract for "carrying out any work", as required in section 194C. Therefore, such payments are not liable for TDS under section 194C. However, payments of this nature may be liable for TDS under other sections of Chapter XVII-B of the Act.

ILLUSTRATION

Moon TV, a television channel, made payment of ₹50 lakhs to a production house for production of programme for telecasting as per the specifications given by the channel. The copyright of the programme is also transferred to Moon TV. Would such payment be liable for tax deduction at source under section 194C? Discuss.

Also, examine whether the provisions of tax deduction at source under section 194C would be attracted if the payment was made by Moon TV for acquisition of telecasting rights of the content already produced by the production house.

SOLUTION:

In this case, since the programme is produced by the production house as per the specifications given by

Moon TV, a television channel, and the copyright is also transferred to the television channel, the same falls within the scope of definition of the term 'work' under section 194C. Therefore, the payment of ₹50 lakhs made by Moon TV to the production house would be subject to tax deduction at source under section 194C.

If, however, the payment was made by Moon TV for acquisition of telecasting rights of the content already produced by the production house, there is no contract for "carrying out any work", as required in section 194C. Therefore, such payment would not be liable for tax deduction at source under section 194C.

Question 10: Write a note on TDS in case of payment of Insurance Commission.

Answer: TDS in case of payment of Insurance Commission Section 194D

Every person responsible for making payment for insurance commission to a resident insurance agent shall deduct tax at source @ **5%** provided the amount paid or payable during a particular year to a particular agent is exceeding **₹15,000** e.g. If LIC has to pay commission of ₹5,00,000 to one of the agent Mr. X, amount of TDS shall be ₹5,00,000 x 5% = 25,000

Question 11: write a note on Payment on maturity of life insurance policy.

Answer: Payment on maturity of life insurance policy Section 194DA

In general payment on maturity of Life policy is exempt from income tax under section 10(10D) however sometimes the amount is taxable (if premium paid has exceeded the prescribed percentage (i.e. 10% / 15% / 20%)) and in that case tax has to deducted at source @ **5% on the amount of income** provided the amount paid or payable to any resident during a particular financial year is ₹1,00,000 or more.

Example

Examine the applicability of the provisions for tax deduction at source under section 194DA in the following cases -

- (i) Mr. X, a resident, is due to receive ₹ 4.50 lakhs on 31.03.2024, towards maturity proceeds of LIC policy taken on 01.4.2021, for which the sum assured is ₹ 3.75 lakhs and the annual premium is ₹ 1,25,000.
- (ii) Mr. Y, a resident, is due to receive ₹ 4.50 lakhs on 31.03.2024 on LIC policy taken on 01.04.2013, for which the sum assured is ₹ 3.50 lakhs and the annual premium is ₹35,000.
- (iii) Mr. Z, a resident, is due to receive ₹95,000 on 31.03.2024 towards maturity proceeds of LIC policy taken on 01.04.2020 for which the sum assured is ₹ 80,000 and the annual premium was ₹ 20,000.

Answer

- (i) Since the annual premium exceeds 10% of sum assured in respect of a policy taken on 01.04.2021, the maturity proceeds of ₹ 4.50 lakhs are not exempt under section 10(10D) in the hands of Mr. X. Therefore, tax is required to be deducted @ 5% under section 194DA on the amount of income of ₹75,000 (₹4,50,000-3,75,000).
- (ii) Since the annual premium is 10% of sum assured in respect of a policy taken w.e.f. 01.04.2012, the sum of ₹4.50 lakhs due to Mr. Y would be exempt under section 10(10D) in his hands. Hence, no tax is required to be deducted at source under section 194DA on such sum payable to Mr. Y.
- (iii) Even though the annual premium exceeds 10% of sum assured in respect of a policy taken after 31.03.2012, and consequently, the maturity proceeds of ₹95,000 due on 31.03.2024 would be taxable under section 10(10D) in the hands of Mr. Z, the tax deduction provisions under section 194DA are not attracted since the maturity proceeds are less than ₹ 1 lakh.

Question 12: Write a note on Payments to non-resident sportsmen or sports association.

Answer: Payments to non-resident sportsmen or sports association Section 194E

Every person (including individual and HUF) responsible for making payment to a non-resident sportman / athlete / entertainer shall deduct tax at source @ 20% plus HEC. Further such non-resident should not be a citizen of India. The incomes should be such as are covered under section 115BBA i.e. the incomes listed below:

- (a) participation in any game or sport in India or
- (b) advertisement; or
- (c) Contribution of articles relating to any game or sport in India in newspapers, magazines or journals.

Example: Madona, a non-resident, received ₹ 40 lakh for her stage shows in India from Optimistic Ltd., an event management company in India, on 26.12.2023, in this case, payments made to a non-resident entertainer, shall be subject to tax deduction @ 20% under the provisions of section 194E plus HEC @ 4%.
Tax deductible under section 194E = ₹ 40 lakh × 20.8% = ₹ 8,32,000

Question 13: Write a note on Payments in respect of deposits under National Savings Scheme, etc

Answer: Payments in respect of deposits under National Savings Scheme, etc Section 194EE

The person responsible for paying to any person any amount u/s 80CCA(2)(a) in connection with National Saving Scheme shall deduct tax at a rate of 10% provided the amount being paid during a financial year to a particular person is ₹ 2,500 or more.

No TDS in case of payment to the legal heirs of the assessee.

Investment u/s Section 80CCA has been discontinued w.e.f. 01.04.1992.

Question 14: Write a note on TDS in case of Commission, etc., on the Sale of Lottery Tickets.

Answer: TDS in case of Commission, etc., on the Sale of Lottery Tickets Section 194G

Every person (including individual and HUF) making payment of commission for sale of lottery tickets to any person resident or non-resident, shall deduct tax at source @ 5% provided the amount paid or payable to a particular person during a particular year is exceeding **₹15,000**.

Question 15: Write a note on TDS on payment of Commission or Brokerage.

Answer: TDS on payment of Commission or Brokerage Section 194H

Every person making payment of any **commission or brokerage** to a resident shall, deduct income-tax at the rate of **5%**, provided amount paid or payable during a particular year to a particular person is exceeding **₹15,000**.

An Individual or Hindu Undivided Family shall be required to deduct tax at source only if the turnover in case of business has exceeded ₹ 1 crore and gross receipts in case of profession has exceeded ₹ 50 lakhs, during the financial year immediately preceding the relevant year.

Example

Manoj trading limited rendered services in relation to sale of mustard oil to Ashish oils limited and commission charged is ₹7,00,000, in this case, tax to be deducted at source by Ashish oils limited shall be 7,00,000 × 5% = ₹35,000 and amount payable to Manoj trading limited shall be

Commission	7,00,000
Less: TDS(7,00,000 × 5%)	(35,000)
Amount Payable	6,65,000

Question 16: Write a note on TDS in case of payment of rent.

Answer: TDS in case of payment of rent Section 194-I

Every person making payment of rent to a resident shall deduct tax at source provided the amount paid or payable during a particular year is exceeding **₹2,40,000**. Tax shall be deducted at source @ 2% if rent is for plant and machinery but @ 10% if rent is for land/building / furniture / fixture etc.

An Individual or Hindu Undivided Family shall be required to deduct tax at source only if the turnover in case of business has exceeded ₹ 1 crore and gross receipts in case of profession has exceeded ₹ 50 lakhs, during the financial year immediately preceding the relevant year.

Illustration 9:

(i) Amount of TDS in the following cases shall be:

Person receiving the payment	Mr. A	Mr. B	Mr. C	Mr. D
Person making the payment	Individual (not exceeded the limit	Individual (exceeded the	Partnership firm	Company (Indian

	in P.Y. 2022-23)	limit in P.Y. 2022-23)		company)
Rent for house property	₹3,00,000	₹3,00,000	₹3,00,000	₹3,00,000
Amount of TDS	Nil	₹30,000	₹30,000	₹30,000
Rent for plant and machinery	₹3,00,000	₹3,00,000	₹3,00,000	₹3,00,000
Amount of TDS	Nil	₹6,000	₹6,000	₹6,000
Rent for house property	₹1,00,000	₹1,00,000	₹1,00,000	₹1,00,000
Amount of TDS	Nil	Nil	Nil	Nil
Rent for plant and machinery	₹1,00,000	₹1,00,000	₹1,00,000	₹1,00,000
Amount of TDS	Nil	Nil	Nil	Nil

Example 1.

XYZ Ltd. raised an invoice of ₹3,00,000/- to ABC Limited for renting of commercial building. The above figure includes ₹50,000/- of parking charges. The bill is raised on 30th June, 2023 and ABC Limited made the payment on the same date.

Compute the Amount of TDS required to be deducted by ABC Limited and the due date of deposit of TDS amount and last date of filing of quarterly Statement?

Solution:

Rent	3,00,000
Less: TDS(3,00,000 x 10%)	(30,000)
Amount payable	2,70,000

Last date of deposit = 7th July, 2023.

Last date of filing of quarterly Statement = 31st July, 2023.

Example 2

ABC limited has let out one commercial building to Idea cellular limited at Gurgaon and rent charged is ₹2,50,000 per month, in this case, tax to be deducted at source by Idea cellular limited shall be as given below:

Solution:

Rent (2,50,000 x 12)	30,00,000
Less: TDS(30,00,000 x 10%)	(3,00,000)
Amount payable	27,00,000

Question 17: Write a note on TDS in case of Payment for purchase of immovable property.

Answer: TDS in case of Payment for purchase of immovable property Section 194-IA

1. Every person (including individual and HUF) making **payment to a resident** for purchase of **immovable property and stamp duty value of ₹50 lakhs** or more shall deduct tax at source **@ 1%** of such sum **or the stamp duty value of such property, whichever is higher.**

2. Consideration for immovable property" shall include all charges of the nature of club membership fee, car parking fee, electricity or water facility fee, maintenance fee, advance fee or any other charges of similar nature, which are incidental to transfer of the immovable property.

3. No tax shall be deducted at source in case of payment for purchase of **agricultural land which is situated in the rural area.**

E.g. Mr. X has purchased one building for ₹65 lakhs, in this case amount of TDS shall be 65,00,000 x 1% = ₹65,000 but if building was purchased for ₹47 lakhs, amount of TDS shall be nil.

4. The person deducting tax at source shall not be required to obtain Tax Deduction Account Number as per section 203A.

Example: Mr. X sold his house property in Chennai for a consideration of ₹75 lakh to Mr. Y on 31.01.2024, in this case, Mr. Y is required to deduct tax at source under section 194-IA @ 1% of ₹75 lakh and tax deductible under section 194-IA shall be ₹ 75 lakh × 1% = ₹ 75,000

Question 18: Write a note on TDS in case of Payment of Rent by Certain Individual and HUF.

Answer: TDS in case of Payment of Rent by Certain Individual and HUF Section 194-IB

(1) Any person, being an individual or a Hindu undivided family **not covered under section 194-I**, responsible for paying to a resident any income by way of rent exceeding **₹50,000** for a month or part of a month during the previous year, shall deduct tax **@ 5%**.

(2) Tax shall be deducted at the time of making payment of rent for the last month of the previous year or the last month of tenancy whichever is earlier.

(3) No requirement to take tax deduction account number.

(4) If the person receiving payment of rent has not submitted PAN, tax shall be deducted @ 20% but maximum rent payable for the last month.

Example: Mr. X has taken a house on rent ₹60,000 p.m. not required to deduct tax at source under section 194-I, in this case he will be required to deduct tax at source @ 5% but tax is to be deducted in the last month instead of every month. While paying rent of ₹ 60,000 for March 2024 he should deduct tax at source ₹ 7,20,000 x 5% = 36,000 but if person receiving payment has not submitted PAN, amount of TDS shall be 7,20,000 x 20% = 1,44,000 but maximum ₹ 60,000.

Question 19: Write a note on TDS in case of Payment under specified agreement.

Answer: TDS in case of Payment under specified agreement Section 194-IC

Notwithstanding anything contained in section 194-IA, any person responsible for paying to a resident any sum by way of consideration, not being consideration in kind, under the agreement referred to in section 45 (5A), shall deduct tax @ 10%.

Question 20: Write a note on TDS in case of Fees for Professional or Technical Services.

Answer: TDS in case of Fees for Professional or Technical Services Section 194J

1. Every person, who is responsible for paying to a **resident** any sum by way of –

(i) fees for Professional services

(ii) any Remuneration or fees or commission to a director of a company (in case salary is being paid to a director, tax shall be deducted at source under section 192).

(iii) Royalty

(iv) Non-compete fee referred to in section 28

shall deduct tax at source at the rate of 10%, however rate of TDS shall be 2% in the following cases

(i) in case of Fees for Technical Services.

(ii) royalty where such royalty is in the nature of consideration for sale, distribution or exhibition of cinematographic films

(iii) in case of a payee engaged only in the business of operation of a call centre.

An Individual or Hindu Undivided Family shall be required to deduct tax at source only if the turnover in case of business has exceeded ₹ 1 crore and gross receipts in case of profession has exceeded ₹ 50 lakhs, during the financial year immediately preceding the relevant year.

2. No tax shall be deducted at source where the amount paid or payable during the year do not exceed **₹30,000**. (limit of ₹30,000 is applicable separately for each of the above payments). There is no such limit in case of payment to a director i.e. tax has to be deducted at source in case of payment to a director irrespective of the amount to be paid.

Illustration 10: XYZ Ltd. makes a payment of ₹28,000 to Mr. X on 02.08.2023 towards fees for professional services and another payment of ₹25,000 to him on the same date towards fees for technical services. Discuss whether TDS provisions under section 194J are attracted.

Solution:

TDS provisions under section 194J would not get attracted, since the limit of ₹30,000 is applicable for fees for professional services and fees for technical services, separately. It is assumed that there is no other payment to Mr. X towards fees for professional services and fees for technical services during the P.Y.2023-24.

Example: X Ltd. paid retainership fees of ₹25,000 to its Director, Mr. Ram Sharma, on 30.01.2024, as per section 194J, the company shall be liable to deduct tax at source @ 10% on any remuneration or fees or commission paid to a director, on which the tax is not deductible under section 192. **The limit of ₹30,000 under section 194J is not applicable on any remuneration or fees or commission payable to director of a company.**

Tax deductible under section 194J = ₹ 25,000 x 10% = ₹ 2,500

Example

- (i) If ABC Ltd. has to pay a sum of ₹2,00,000 to an architect, amount of TDS shall be ₹20,000.
- (ii) If ABC Ltd. has to pay ₹10,00,000 to a Chartered Accountant, amount of TDS shall be ₹1,00,000.
- (iii) If Mr. X has to pay ₹50,000 to an advocate, amount of TDS shall be Nil and if Turnover of Mr. X was exceeded the prescribed limit during 2022-23, amount of TDS shall be ₹5,000.
- (iv) If Z Ltd. has to pay ₹15,000 in connection with technical services, amount of TDS shall be Nil.

3. If individual or HUF is making payment for **professional services** and it is for personal purpose, no tax shall be deducted at source.

4. Meaning of “Professional services”

As per section 44AA, rule 6F, “Professional services” means:

- (a) Legal profession
- (b) Medical Profession
- (c) engineering Profession
- (d) architectural profession
- (e) profession of accountancy
- (f) technical consultancy
- (g) interior decoration
- (h) advertising
- (i) Profession of “authorised representatives”;
- (j) Profession of “film artist”;
- (k) Profession of “company secretary”;
- (l) Profession of “information technology”.

The CBDT has notified the services also as professional services

- (a) Sports Persons,
- (b) Umpires and Referees,
- (c) Coaches and Trainers,
- (d) Team Physicians and Physiotherapists,
- (e) Event Managers,
- (f) Commentators,
- (g) Anchors and
- (h) Sports Columnists.

Accordingly, the requirement of TDS as per section 194J would apply to all the aforesaid professions. The term “profession”, as such, is of a very wide import. However, the term has been defined in this section exhaustively. For the purposes of TDS, therefore, all other professions would be outside the scope of section 194J. For example, this section will not apply to professions of teaching, sculpture, painting etc. unless they are notified.

Meaning of “Fees for technical services”

The term ‘fees for technical services’ means any consideration (including any lump sum consideration) for rendering of any of the following services:

- (i) Managerial services;
- (ii) Technical services;
- (iii) Consultancy services;
- (iv) Provision of services of technical or other personnel.

It is expressly provided that the term 'fees for technical services' will not include following types of consideration:

- (i) Consideration for any construction, assembly, mining or like project, or
- (ii) Consideration which is chargeable under the head 'Salaries'.

Question 21: Write a note on TDS in case of "Income on units of Mutual Fund".

Answer: TDS in case of "Income on units of Mutual Fund" Section 194K

Any person making payment of Income on units of Mutual Fund to **a resident** shall **deduct tax at source @ 10%**, provided the amount being paid or payable during a particular year to a particular person is exceeding ₹5,000. Also TDS shall not be deducted, if the income is of the nature of capital gains.

Question 22: Write a note on TDS in case of Payment of Compensation on Acquisition of certain Immovable Property.

Answer: TDS in case of Payment of Compensation on Acquisition of certain Immovable Property Section 194LA

If any land or building has been acquired by the government or other similar agency, tax shall be deducted at source @ 10% provided the amount paid or payable to any resident is exceeding **₹2,50,000**. No tax shall be deducted at source if the payment relates to acquisition of agricultural land.

Example: If ₹3,00,000 is to be paid to Mr. X on 05.05.2023 by State Government on compulsory acquisition of his urban land, amount of TDS shall be $3,00,000 \times 10\% = 30,000$.

Question 23: Write a note on TDS in case of Payment of certain sums by certain individuals or Hindu undivided family.

Answer: TDS in case of Payment of certain sums by certain individuals or Hindu undivided family Section 194M

Any person, being an individual or a Hindu undivided family (other than those who are required to deduct income-tax as per the provisions of section 194C or section 194H or section 194J) responsible for paying any sum to any resident for carrying out any work (including supply of labour for carrying out any work) in pursuance of a contract or by way of fees for professional services during the financial year, shall, at the time of credit of such sum or at the time of payment of such sum in cash or by issue of a cheque or draft or by any other mode, whichever is earlier, deduct an amount equal to five per cent. of such sum as income -tax thereon:

Provided that no such deduction under this section shall be made if such sum or, as the case may be, aggregate of such sums, credited or paid to a resident during a financial year does not exceed fifty lakh rupees.

The provisions of section 203A shall not apply to a person required to deduct tax in accordance with the provisions of this section.

Illustration 11: Examine whether TDS provisions would be attracted in the following cases, and if so, under which section. Also specify rate of TDS applicable in each case. Assume that all payments are made to residents.

	Particulars of the payer	Nature of payment	Aggregate of payments made in the F.Y.2023-24
1.	Mr. Ganesh, an individual carrying on retail business with turnover of ₹ 2.5	Contract Payment for repair of residential house	₹5 lakhs

	crores in the P.Y.2022-23	Payment of commission to Mr. Vallish for business purposes	₹80,000
2.	Mr. Rajesh, a wholesale trader and turnover for P.Y.2022-23 is 95 lakhs and for P.Y.2023-24 105 lakhs	Contract payment for reconstruction of residential house (made during the period January-March, 2024)	₹20 lakhs in January, 2024, ₹15 lakhs in Feb 2024 and ₹20 lakhs in March 2024.
3.	Mr. Satish, a salaried individual	Payment of brokerage for buying a residential house in March, 2024	₹51 lakhs
4.	Mr. Dheeraj, a pensioner	Contract payment made during October–November 2023 for reconstruction of residential house	₹48 lakhs

Solution:

	Particulars of the payer	Nature of payment	Aggregate of payment in the F.Y. 2023-24	Whether TDS provisions are attracted?
1.	Mr. Ganesh, an individual carrying on retail business with turnover of ₹ 2.5 crores in the P.Y.2022-23	Contract Payment for repair of residential house	₹ 5 lakhs	No, TDS under section 194C is not attracted since the payment is for personal purpose and TDS under section 194M is not attracted as aggregate of contract payment to the payee in the P.Y.2023-24 does not exceed ₹ 50 lakh.
		Payment of commission to Mr. Vallish for business purposes	₹ 80,000	Yes, u/s 194H, since the payment exceeds ₹15,000, and Mr. Ganesh's turnover exceeds ₹1 crore in the P.Y.2022-23.
2.	Mr. Rajesh	Contract Payment for reconstruction of residential house	₹ 55 lakhs	Yes, under section 194M, since the aggregate of payments (i.e., ₹55 lakhs) exceed ₹50 lakhs, Since his turnover is below ₹100 lakhs in the P.Y.2022-23. Hence, TDS provisions under section 194C are not attracted in respect of payments made in the P.Y.2023-24.
3.	Mr. Satish, a salaried individual	Payment of brokerage for buying a residential house	₹ 51 lakhs	Yes, under section 194M, since the payment of ₹ 51 lakhs made in March 2024 exceeds the threshold limit of ₹50 lakhs. Since Mr. Satish is a salaried individual, the provisions of section 194H are not applicable in this case.
4.	Mr. Dheeraj, a pensioner	Contract payment for reconstruction of	₹ 48 lakhs	TDS provisions under section 194C are not attracted since Mr.

		residential house		Dheeraj is a pensioner and TDS provisions under section 194M are also not applicable in this case, since the payment of ₹ 48 lakhs does not exceed the threshold limit of ₹ 50 lakhs.
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Question 24: Write a note on TDS in case of Payment of certain amounts in cash.

Answer: TDS in case of Payment of certain amounts in cash Section 194N

Every person, being,—

- (i) a banking company to which the Banking Regulation Act, 1949 applies
- (ii) a co-operative society engaged in carrying on the business of banking; or
- (iii) a post office,

who is responsible for paying any sum, being the amount or the aggregate of amounts, as the case may be, in cash exceeding **one crore** rupees during the previous year, to any person (herein referred to as the recipient) from one or more accounts maintained by the recipient with it shall, at the time of payment of such sum, deduct an amount **equal to two per cent** of such sum, as income-tax:

Provided that in case of a recipient who has not filed the returns of income for all of the three previous years, for which the time limit to file return of income under sub-section (1) of section 139 has expired, in the year immediately preceding the previous year in which the payment of the sum is made to him, the provision of this section shall apply with the modification that-

- (i) the sum shall be the amount or the aggregate of amounts, as the case may be, in cash exceeding twenty lakh rupees during the previous year; and
- (ii) the deduction shall be—
 - (a) an amount equal to two per cent. of the sum where the amount or aggregate of amounts, as the case may be, being paid in cash exceeds twenty lakh rupees during the previous year but does not exceed one crore rupees; or
 - (b) an amount equal to five per cent. of the sum where the amount or aggregate of amounts, as the case may be, being paid in cash exceeds one crore rupees during the previous year:

Provided also that nothing contained in this section shall apply to any payment made to,—

- (i) the Government;
- (ii) bank or post office;
- (iii) any teller machine operator of a banking company, maintaining a separate bank account from which withdrawal is made only for the purposes of replenishing cash in the Automated Teller Machines.
- (iv) Commission agent or trader, operating under Agriculture Produce Market Committee (APMC).
- (v) The authorised dealer or Money Changer licensed by the RBI.

Example

Mr. X has withdrawn ₹120 Lakh in F.Y. 2023-24 in cash, amount of TDS shall be $120 \text{ lakh} \times 2\% = ₹2,40,000$ but if he has not filing return for last three years and time limit has expired in the preceding year, amount of TDS shall be $100 \text{ lakh} \times 2\%$ i.e. ₹2,00,000 and $20 \text{ lakh} \times 5\% = 1,00,000$. If amount withdrawn is ₹15 lakh, there is no TDS. If amount withdrawn is ₹70 lakh, there is no TDS but if return has not been filed for last three years, amount of TDS shall be $70 \text{ lakh} \times 2\% = ₹1,40,000$.

Question 25: Write a note on TDS in case of Payment of certain sums by e-commerce operator to e-commerce participant.

Answer: TDS in case of Payment of certain sums by e-commerce operator to e-commerce participant Section 194O

Every E-Commerce Operator shall deduct tax at source @ 1% while making payment to any E-Commerce participant for supply of goods or services however no tax shall be deducted at source if such E-Commerce participant is an individual or HUF and gross amount of sale or services is upto 5 lakh. If E-Commerce

participant has received any payment directly from buyer, it will also be considered to be a payment made by E-Commerce Operator and tax shall be deducted at source. If tax has been deducted by E-Commerce Operator or TDS is not applicable because sale is upto 5 lakh, in such case no TDS shall be applicable under any other TDS provision.

- (a) “electronic commerce” means the supply of goods or services or both, including digital products, over digital or electronic network;
- (b) “e-commerce operator” means a person who owns, operates or manages digital or electronic facility or platform for electronic commerce;
- (c) “e-commerce participant” means a person resident in India selling goods or providing services or both, including digital products, through digital or electronic facility or platform for electronic commerce;

Example 1

ABC Ltd. has sold 1,000 television sets at ₹50,000 each through Amazon on 01.12.2023. Amazon receives payment of ₹5,00,00,000 from various buyers and deducts commission of 10% and wants to remit ₹4,50,00,000 to ABC Ltd., in this case ABC Ltd. is the E-commerce Participant and Amazon is the E-commerce Operator. As per section 194-O, Amazon shall deduct TDS of 1% on ₹5,00,00,000 i.e. ₹5,00,000. Therefore Amazon will remit ₹4,45,00,000 to ABC Ltd. after deducting TDS of ₹5,00,000.

There is no liability of ABC Ltd. to deduct TDS under section 194H on the commission it pays to Amazon since:

- (i) Section 194-O overrules the entire chapter of TDS and
- (ii) As per section 194-O, a transaction on which tax has been deducted by e-commerce operator under section 194-O, shall not be liable to tax deduction under any other section. TDS has been deducted on the entire transaction of ₹5,00,00,000.

Example 2

Mr. A, a resident manufactures perfumes and sell through Flipkart. The total sales made by Mr. A through Flipkart are ₹5,00,000 in previous year 31.03.2024. Flipkart deducts commission @ 10% and remits ₹4,50,000 to Mr. A, in this case Section 194-O shall not be applicable since the gross sales do not exceeds ₹5,00,000. Hence Flipkart shall not deduct TDS provided that Mr. A gives his PAN/Aadhaar to Flipkart. If he does not give PAN/Aadhaar to Flipkart, then TDS shall be deducted @ 5% on ₹5,00,000. TDS on commission paid to Flipkart is also not required to be deducted.

Example 3

Will your answer be different if in example 2, M/s ABC Partnership was there instead of Mr. A.

Solution:

Section 194-O shall be applicable since exemption is only in case of individuals and HUF whose gross sales through E-Commerce Operator does not exceed ₹5,00,000.

Flipkart will deduct TDS @ 1% under section 194-O on ₹5,00,000. M/s ABC shall not deduct TDS on commission paid to Flipkart.

Example 4

A Chartered Accountant renders professional advices to various clients through “Consult-CA”, a website run by E-Commerce Operator. Various clients pays ₹1,00,00,000 to Consult-CA and Consult-CA deducts 20% commission and remits ₹80,00,000 to the Chartered Accountant for the financial year ending 31.03.2024

Solution:

As per section 194-O, “Services” include professional services. Therefore Consult-CA will deduct 1% TDS on ₹1,00,00,000 and remit ₹79,00,000 to the Chartered Accountant. Section 194J shall not apply and TDS shall not be deducted.

Question 26: Explain TDS in case of senior citizen.

Answer: TDS in case of specified senior citizen Section 194P

Section 194P shall be applicable only in case of senior citizen and senior citizen for this purpose means any resident individual who is of the age of 75 years or more. The individual should have only pension income or interest income and the incomes are received in the bank account held with a specified bank. The specified bank shall compute income and tax liability of such individual and same amount shall be deducted as tax at source. The senior citizen shall be exempt from filing the return of income.

Question 27: Write a note on Deduction of tax at source on payment of certain sum for purchase of goods.

Answer: TDS in case of payment of certain sum for purchase of goods Section 194Q

If any person is purchasing goods of aggregate value during a particular year exceeding ₹50 lakh, such person shall deduct tax at source @ 0.1% of the sum exceeding ₹50 lakh however such buyer should also be engaged in a business and turnover from such business should exceed ₹10 crores in financial year immediately preceding the year in which goods are being purchased. E.g. ABC Ltd. is engaged in the business of sale of generators and its turnover in F.Y. 2022-23 was ₹12 crore and company has purchased generators from the manufacturer in the year 2023-24 for ₹70 lakh, in this case amount of TDS shall be 0.1% of ₹20 lakh = ₹2,000. But if turnover of business in F.Y. 2022-23 is upto ₹10 crore, no tax shall be deducted at source.

If there is any transaction to which provisions of section 194Q is applicable and also provisions of some other section of TDS is applicable, in that case tax shall be deducted at source under the provisions of other section.

If any transaction is subject of tax collection at source and also TDS under section 194Q, in that case tax shall be collected at source and section 194Q shall not be applicable. E.g. ABC Ltd. is engaged in the sale of alcoholic liquor and it has sold alcoholic liquor of ₹70 lakh to XYZ Ltd. and XYZ Ltd. had turnover of ₹12 crore in P.Y. 2022-23, in this case ABC Ltd. shall collect tax from XYZ Ltd. @ 1% of ₹70 lakh and XYZ Ltd. shall not do any TDS under section 194Q.

If TCS provisions under section 206C(1H) are applicable and also 194Q is applicable, section 206C(1H) shall not apply rather section 194Q shall be applicable. E.g. ABC Ltd. has turnover of ₹12 crore and it has sold goods to XYZ Ltd. of the value of ₹70 lakh and XYZ Ltd. has turnover in P.Y. 2022-23 ₹12 crores, in this case XYZ Ltd. shall do TDS under section 194Q = 20 lakh x 0.1% = ₹2,000 and ABC Ltd. shall not collect tax at source.

Question 28: Write a note on Deduction of tax on benefit or perquisite in respect of business or profession

Answer: TDS in case of payment of benefit or perquisite in respect of business or profession Section 194R

Every person responsible for providing any benefit or perquisite to a resident person shall deduct tax at source @ 10% provided the aggregate amount during a particular year is exceeding ₹20,000 further turnover of the person providing such benefit should exceed 100 lakh in business or ₹50 lakh in profession in the immediately preceding year.

It is clarified that the provisions of sub-section shall apply to any benefit or perquisite, whether in cash or in kind or partly in cash and partly in kind.

E.g. Maruti Udyog Ltd. Has gifted one motor car value ₹5 lakh to one of its dealer for achieving the sales target, in this case gift has to be deducted at source @ 10%. Since the gift is in kind, it is a duty of Maruti Udyog Ltd. to ensure that tax has been deposited by the recipient.

Question 29: Write a note on TDS in case of Payment to Non-Resident or Foreign Company.

Answer: TDS in case of Payment to Non-Resident or Foreign Company Section 195

Every person making any payment to a non-resident or to a foreign company shall deduct tax at source at the prescribed rate.

Question 30: Explain TDS provision in case of payment to Government.

Answer: Interest or dividend or other sums payable to Government, Reserve Bank or certain corporations. Section 196

Notwithstanding anything contained in the foregoing provisions of this Chapter, no deduction of tax shall be made by any person from any sums payable to—

- (i) the Government, or
- (ii) the Reserve Bank of India, or
- (iii) a corporation established by or under a Central Act which is, under any law for the time being in force, exempt from income-tax on its income, or
- (iv) a Mutual Fund specified under clause (23D) of section 10, where such sum is payable to it by way of interest or dividend in respect of any securities or shares owned by it.

Question 31: Write a note on TDS in case of payment by individual or Hindu Undivided Family.

Answer: TDS in case of payment by individual or Hindu Undivided Family

An Individual or Hindu Undivided Family shall be required to deduct tax at source only if *the turnover in case of business has exceeded ₹ 1 crore and gross receipts in case of profession has exceeded ₹ 50 lakhs, during the financial year immediately preceding the relevant year.*

The above provisions are applicable for TDS under section 194A, 194C, 194H, 194I, 194J.

The above provisions are not applicable for TDS under other sections like 192, 192A, 193, 194, 194B, 194BA, 194BB, 194D, 194DA, 194E, 194G, 194-IA, 194-IB, 194LA, 194K, 194M, 194N, 194O, 195.

Question 32: Write a note on Deduction of tax at Lower Rate.

Answer: Deduction of tax at Lower Rate Section 197

If on income of any person, income-tax is required to be deducted at the time of payment under section 192, 193, 194, 194A, 194C, 194D, 194G, 194H, 194I, 194J, 194K, 194LA, 194M, 194O and 195 and the Assessing Officer is satisfied that the total income of the recipient justifies the deduction of income-tax at any lower rates or no deduction of income-tax, as the case may be, the Assessing Officer shall, on an application made by the assessee in this behalf, give to him such certificate as may be appropriate.

Application should be given in Form No. 13.

(Section 197 is not applicable in case of TDS under section 192A, 194B, 194BA, 194BB, 194DA, 194E, 194-IA, 194-IC, 194N)

Question 33: Write a note on self declaration for not deducting tax at source.

Answer: Self declaration for not deducting tax at source Section 197A

As per section 197A, if any individual or Hindu Undivided Family has total income not exceeding the exemption limit and also his tax liability is nil, such individual or HUF can furnish a declaration in Form No. 15G to the person making payment and in that case no tax shall be deducted at source. A senior citizen can give a declaration in Form No 15H if his tax liability is nil.

The above provision shall be applicable in case of section 192A, 193, 194, 194A, 194D, 194DA & 194I.

Question 34: Write a note on time period for depositing tax deducted at source.

Answer: Time period for depositing tax deducted at source Section 200 / Rule 30

As per Rule 30, the payment is to be made in general within 7 days from the last day of the month in which the deduction is made.

If the tax has been deducted in the month of March, tax should be deposited on or before 30th April.

In certain cases, Assessing Officer may permit the payments on quarterly basis.

Question 35: Write a note on filing of quarterly statement of TDS.

Answer: Filing of quarterly statement of TDS Section 200 / Rule 31A

Every person deducting tax at source has to submit quarterly statement containing details of the tax deducted at source. The statement should be submitted latest by 31st of the month succeeding the relevant quarter but statement for the quarter ending March can be submitted upto 31st May. e.g. Statement for quarter ending March, 2024 can be submitted upto 31st May, 2024.

Question 36: Write a note on Consequences of Failure to Deduct or Pay.**Answer: Consequences of Failure to Deduct or Pay Section 201**

1. If any person has failed to deduct tax at source, interest shall be charged **@ 1% p.m. or part of a month** for the period of delay. E.g. ABC Ltd. has made one payment on 03.01.2024 but tax was deducted at source on 20.01.2024, in this case interest shall be charged @ 1% for one month.

2. If person has deducted tax at source but tax was not deposited within the time allowed under section 200, interest shall be charged **@ 1.5% p.m. or part of a month** from date of deducting tax at source upto the date of depositing the amount

Example

Assessee deduct TDS on 10.10.2023 but pays TDS on 31.12.2023, Interest under section 201 shall be charged from 10.10.2023 to 31.12.2023 @ 1.5% per month i.e., for 3 months.

If in the above case assessee has not deducted tax at source on 10.10.2023 rather assessee deducted TDS on 31.12.2023 and assessee pays TDS on 17.01.2025, interest shall be charged in the manner given below:

- (i) Interest under section 201 shall be charged for 3 months @ 1% for the period 10.10.2023 to 31.12.2023.
- (ii) Interest under section 201 shall be charged @ 1.5% per month for one month from 31.12.2023 to 17.01.2024.

3. Assessee shall also be considered to be assessee in default and penalty may be imposed equal to the amount which he has failed to deduct or pay but in following two situations he will not be considered to be assessee in default

1. If there were sufficient reasons for not deducting tax at source
2. Payment was made to a *payee* and such *payee* has shown the amount in his income and has paid tax and also return has been filed and it has been confirmed by a Chartered Accountant.

In this case assessee shall pay interest from the date when tax was to be deducted upto the date of filing the return.

Example

ABC Ltd. paid certain amount on 05.01.2024 to Mr. X and tax was not deducted at source but Mr. X himself has paid his tax and return was filed on 31.07.2024, in this case interest shall be charged @ 1% p.m. for a period of 7 months i.e. from 05.01.2024 to 31.07.2024.

Illustration 12: An amount of ₹40,000 was paid to Mr. X on 01.07.2023 towards fees for professional services without deduction of tax at source. Subsequently, another payment of ₹50,000 was due to Mr. X on 29.02.2024, from which tax @ 10% (amounting to ₹9,000) on the entire amount of ₹ 90,000 was deducted. However, this tax of ₹ 9,000 was deposited only on 22.06.2024.

Compute the interest chargeable under section 201.

Solution:

Interest under section 201 would be computed as follows –

Particulars	₹
1% on tax deductible but not deducted i.e., 1% on ₹ 4,000 for 8 months (01.07.2023 to 29.02.2024)	320
1½% on tax deducted but not deposited i.e. 1½% on ₹ 9,000 for 4 months (29.02.2024 to 22.06.2024)	540
	860

Question 37: Write a note on Certificate for Tax Deducted.**Answer: Certificate for Tax Deducted Section 203/ Rule 31****TDS Certificate**

Every person deducting tax at source shall issue a certificate to the person with regard to whom tax has been deducted at source. In case of payment of salary, certificate shall be issued in Form No. 16 and in other cases it will be in Form No. 16A.

The certificate in Form No. 16 should be given upto 31st May of the succeeding year in case of an employee and it will be an annual certificate.

In other cases certificate in Form No. 16A should be issued on quarterly basis and it should be issued within

15 days from the last date of submitting the quarterly statement under section 200.

Question 38: Write a note on Tax Deduction Account Number (TAN).

Answer: Tax Deduction Account Number (TAN) Section 203A

Every person, deducting tax at source shall apply for allotment of tax deduction account number and application has to be given in **Form No.49B within one month from the end of the month in which tax was deducted for the first time.**

Application for allotment of a tax deduction and collection account number.

114A. An application under section 203A for the allotment of a tax deduction account number shall be made in duplicate in Form No. 49B and application should be given within one month from the end of the month in which tax was deducted for the first time

Question 39: Write a note on Requirement to Furnish Permanent Account Number.

Answer: Requirement to Furnish Permanent Account Number Section 206AA

Every person on whose behalf, tax is being deducted at source shall submit his PAN to the person deducting tax at source otherwise rate of TDS shall be the actual rate or 20% whichever is higher. The person deducting tax at source has to mention such PAN in the quarterly statement. *However, if the assessee, whose tax is required to be deducted under section 194-O or 194Q, does not submit his PAN or Aadhar, rate of TDS shall be 5% instead of 20%.*

Question 40: Write a note on Special provision for deduction of tax at source for non-filers of income-tax return.

Answer: Special provision for deduction of tax at source for non-filers of income-tax return Section 206AB

(1) Notwithstanding anything contained in any other provisions of this Act, where tax is required to be deducted at source under the provisions of Chapter XVIIIB, other than sections 192, 192A, 194B, **194BA**, 194BB, **194-IA**, **194-IB**, **194M** or **194N** on any sum or income or amount paid, or payable or credited, by a person to a specified person, the tax shall be deducted at the higher of the following rates, namely:—

at twice the rate in force or at the rate of five per cent.

(2) If the provisions of section 206AA is applicable to a specified person, in addition to the provision of this section, the tax shall be deducted at higher of the two rates provided in this section and in section 206AA.

(3) For the purposes of this section “specified person” means a person who has not furnished the return of income for the assessment year relevant to the previous year immediately preceding the financial year in which tax is required to be deducted, for which the time limit for furnishing the return of income under sub-section (1) of section 139 has expired and the aggregate of tax deducted at source and tax collected at source in his case is rupees fifty thousand or more in the said previous year.

TDS shall be on the amount excluding GST

As per Circular No. 23/2017, Dated 19-7-2017, wherever in terms of the agreement/contract between the payer and the payee, the GST component comprised in the amount payable to a resident is indicated separately, tax shall be deducted at source on the amount paid/payable without including such GST component.

Illustration 13: Mrs. X has received incomes as given below during the previous year 2023-24:

1. Interest on savings bank account with State Bank ₹50,000 (gross).
2. Interest from Government securities ₹1,00,000 on 01.01.2024 (collection charge paid to the bank @ 1.5%).
3. Interest from ABC Ltd on non listed debentures ₹3,60,000 (after TDS) on 01.03.2024 (collection charge paid to the bank ₹30).
4. Interest credited to post office savings bank account during the year ₹ 10,000.
5. Interest credited to public provident fund during the year ₹ 15,000.

6. Interest received from XYZ Ltd on listed debentures ₹ 1,35,000 (Net).
(Collection charge ₹30) The amount was invested by taking a loan of ₹15,00,000 @ 12% p.a.
7. Mrs. X received rent of house property ₹ 72,000 per month after TDS.
8. Winnings from a lottery ₹70,000 (after TDS)

Compute her tax liability and also tax payable for the assessment year 2024-25.

Solution:

Income under the head other sources

	₹
Gross interest from State Bank of India	50,000.00
Interest from Government securities {₹1,00,000 – ₹1,500}	98,500.00
Interest from ABC Ltd {(₹3,60,000 / 90 x 100) – ₹30}	3,99,970.00
Interest on P.O.S.B (10,000 – 3,500)	6,500.00
Interest on PPF (exempt u/s 10(15))	Nil
Interest from XYZ Ltd. {Gross interest = ₹1,35,000 / 90 x 100 = 1,50,000 Less: Collection charges = (₹30) Less: Interest paid on loan = (₹1,80,000)}	(30,030.00)
Winning from lottery (70,000 / 70 x 100)	1,00,000.00
Income under the head Other Sources	6,24,940.00
Income under the head House Property Gross Annual Value (72,000/90% x 12)	9,60,000.00
Less: Municipal Tax	(Nil)
Net Annual Value	9,60,000.00
Less: 30% of NAV u/s 24(a)	(2,88,000.00)
Less: Interest on capital borrowed u/s 24(b)	(Nil)
Income from house property	6,72,000.00

Gross Total Income	12,96,940.00
Less: Deduction under Chapter VI-A	Nil
Total Income	12,96,940.00

Computation of tax liability

Tax on winning from lottery ₹1,00,000 @ 30% u/s 115BB	30,000.00
Tax on ₹11,96,940 at slab rate	89,541.00
Tax before health & education cess	1,19,541.00
Add: HEC @ 4%	4,781.64
Tax Liability	1,24,322.64
Less: TDS u/s 193 on Non Listed Debentures	(40,000.00)
Less: TDS u/s 193 on Listed Debentures	(15,000.00)
Less: TDS u/s 194B on winning from lottery	(30,000.00)
Less: TDS u/s 194I	(96,000.00)
Refund	56,677.36
Rounded off u/s 288B	56,680.00

Illustration 14: Mr. X has let out one House property and rent received is ₹90,000 p.m. after TDS. He paid Municipal Tax ₹1,00,000 and Interest u/s 24 (b) is ₹2,00,000. He has received ₹ 12,60,000 in connection with professional services after TDS. The Assessee made the payment of tax on 10.05.2024. Compute Total Income and Tax Payable and also Compute Interest u/s 234A, 234B & 234C.

Solution:

Computation of income under the head House Property

	₹
Gross Annual Value (90,000/90% x 12)	12,00,000.00
Less: Municipal Tax	(1,00,000.00)

Net Annual Value	11,00,000.00
Less: 30% of NAV u/s 24(a)	(3,30,000.00)
Less: Interest on capital borrowed u/s 24(b)	(2,00,000.00)
Income from house property	5,70,000.00
Income under the head Business/Profession (12,60,000/90%)	14,00,000.00
Gross Total Income	19,70,000.00
Less: Deduction under Chapter VI-A	Nil
Total Income	19,70,000.00

Computation of Tax Liability

Tax on ₹ 19,70,000 at slab rate	2,91,000.00
Add: HEC @ 4%	11,640.00
Tax Liability	3,02,640.00
Less: TDS u/s 194I	(1,20,000.00)
Less: TDS u/s 194J	(1,40,000.00)
Tax Payable	42,640.00

Interest under section 234C shall be computed in the manner given below:

	Tax Payable	Tax Paid	Shortfall
15.06.2023	6,396 (42,640 x 15%)	Nil	6,396
Rounded off Rule 119A = 6,300			
Interest u/s 234C = $6,300 \times 1\% \times 3 = 189$			
15.09.2023	19,188 (42,640 x 45%)	Nil	19,188
Rounded off Rule 119A = 19,100			
Interest u/s 234C = $19,100 \times 1\% \times 3 = 573$			
15.12.2023	31,980 (42,640 x 75%)	Nil	31,980
Rounded off Rule 119A = 31,900			
Interest u/s 234C = $31,900 \times 1\% \times 3 = 957$			
15.03.2024	42,640 (42,640 x 100%)	Nil	42,640
Rounded off Rule 119A = 42,600			
Interest u/s 234C = $42,600 \times 1\% \times 1 = 426$			

Total interest payable u/s 234C 2,145

Interest under section 234B shall be computed from 01.04.2024 to 10.05.2024 and is as given below:

Tax Liability – TDS shall be considered to be tax payable i.e. 74,840	
$42,640 = 42,600 \times 1\% \times 2 =$	852
(Rounded off Rule 119A = 42,600)	
Total interest payable (2,145 + 852)	2,997
Rounded off u/s 288B	3,000

**TAX COLLECTION AT SOURCE
206C**

Question : Write a note on TCS under the Income- tax Act, 1961.

Answer:

If the person making the payment has deducted tax, it is called TDS but if the person collecting payment for goods or other purpose has also collected tax, it is called TCS and it is applicable in the following cases:

1. As per section 206C(1), every seller shall collect tax in the following cases:

(i) Alcoholic Liquor for human consumption	1%
(ii) Tendu leaves	5%
(iii) Timber obtained under a forest lease	2.5%
(iv) Timber obtained by any mode other than under a forest lease	2.5%
(v) Any other forest produce not being timber or tendu leaves	2.5%
(vi) Scrap	1%
(vii) Minerals, being coal or lignite or iron ore	1%

"Buyer" means any person but does not include,— a public sector company, the Central Government, a State Government, and an embassy, a High Commission, and a club. It will also not include a buyer in the retail sale of such goods purchased by him for personal consumption;

"seller" means the Central Government, a State Government or any local authority or corporation or authority established by or under a Central, State or Provincial Act, or any company or firm or co-operative society and also includes an individual or a Hindu undivided family whose total sales, gross receipts or turnover from the business or profession carried on by him exceed *one crore rupees in case of business or fifty lakh rupees in case of profession* during the financial year immediately preceding the financial year.

2. As per section 206C(1C), every person giving license shall collect tax in the following cases:

(i) Parking lot	2%
(ii) Toll plaza	2%
(iii) Mining and quarrying	2%

3. As per section 206C(1F), every seller of motor vehicle shall collect tax at source in the following cases:

Motor vehicle exceeding value ₹ 10 lakh	1%
---	----

"Buyer" means any person but does not include,— the Central Government, a State Government and an embassy, a High Commission, a local authority, a public sector company which is engaged in the business of carrying passengers.]

It will also not include sale by manufacturer to dealers and distributors

"Seller" means the Central Government, a State Government or any local authority or corporation or authority established by or under a Central, State or Provincial Act, or any company or firm or co-operative society and also includes an individual or a Hindu undivided family whose total sales, gross receipts or turnover from the business or profession carried on by him exceed *one crore rupees in case of business or fifty lakh rupees in case of profession* during the financial year immediately preceding the financial year.

Q.1 Whether TCS @ 1% is on sale of motor vehicle at retail level or also on sale of motor vehicles by manufacturers to dealers/ distributors?

A. To bring high value transactions within the tax net, section 206C has been amended to provide that the seller shall collect the tax @ 1% from the purchaser on sale of motor vehicle of the value exceeding ₹ 10 lakhs. This is brought to cover all transactions of retail sales and accordingly, it **will not apply on sale of motor vehicles by manufacturers to dealers/distributors.**

Q.2 Whether TCS @ 1% on sale of motor vehicle is applicable only to luxury cars?

A. No, as per section 206C(1F), the seller shall collect tax@1% from the purchaser on sale of any motor vehicle of the value exceeding ₹ 10 lakhs.

Q.3 Whether TCS @ 1% is applicable in the case of sale to Government Departments, Embassies, Consulates and United Nation Institutions, of motor vehicle or any other goods or provision of services?

A. Government, institutions notified under United Nations (Privileges and Immunities) Act 1947, and Embassies, Consulates, High Commission, Legation, Commission and trade representation of a foreign State shall not be liable to levy of TCS.

Q.4 Whether TCS is applicable on each sale of motor vehicle or on aggregate value of sale during the year?

A. Tax is to be collected at source @ 1% on sale consideration of a motor vehicle exceeding ₹ 10 lakhs. It is applicable to each sale and not to aggregate value of sale made during the year.

Q.5 Whether TCS @ 1% on sale of motor vehicle is applicable in case of an individual?

A. An individual who is liable to audit as per the provisions of section 44AB during the financial year immediately preceding the financial year in which the motor vehicle is sold shall be liable for collection of tax at source on sale of motor vehicle by him.

Q.6 How would the provisions of TCS on sale of motor vehicle be applicable in a case where part of the payment is made in cash and part is made by cheque?

A. The provisions of TCS on sale of motor vehicle exceeding ₹ 10 lakhs is not dependent on mode of payment. Any sale of motor vehicle exceeding ₹ 10 lakhs would attract TCS @ 1%.

4. As per section 206C(1G), tax shall be collected at source in the following cases:

1. In case of remittance out of India, authorized dealer shall collect tax at source on the amount exceeding ₹7 lakh at the rates given below:
 - (i) 20% on the amount exceeding 7 lakh
 - (ii) 5% on the amount exceeding 7 lakh if remittance is for the purpose of education or for medical treatment.
 - (iii) 0.5% on the amount exceeding 7 lakh if remittance is for the purpose of making repayment of education loan.

Further TCS shall be applicable in case of overseas tour programme and for this purpose every seller who is selling overseas tour program package shall collect at source at a rate of 5%, upto 7,00,000 and 20% on the amount exceeding 7,00,000

“Overseas tour programme package” means any tour package which offers visit to a country or territories outside India and includes expenses for travel or hotel stay or boarding or lodging or any other expenditure of similar nature or in relation thereto.

The provisions of section 206C(1G) shall not apply if the buyer is the Central Government, a State Government, an embassy, a High Commission, a local authority or any other person as the Central Government may notify.

5. As per 206C(1H), every seller whose turnover in the preceding year was exceeding ₹ 10 crores shall collect tax at source from a buyer at a rate of 0.1% provided sale consideration is exceeding ₹ 50 lakh and TCS shall be only on the amount exceeding ₹ 50 lakhs.

“Buyer” means a person who purchases any goods, but does not include,—the Central Government, a State Government, an embassy, a High Commission, a local authority, a person importing goods into India or any other person as the Central Government may notify.

Tax collection Account Number Section 206CA

Every person collecting tax as per section 206C shall apply for allotment of tax collection account number in the similar manner as in case of tax deduction account number.

Requirement to furnish Permanent Account number by collectee Section 206 CC

(1) Notwithstanding anything contained in any other provisions of this Act, any person paying any sum or amount, on which tax is collectible at source under Chapter XVII-BB shall furnish his Permanent Account Number to the person responsible for collecting such tax, failing which tax shall be collected at the higher of the following rates, namely:—

- (i) at twice the rate
- (ii) at the rate of five per cent. (In case of TCS u/s 206C(1H), rate of tax shall be twice the rate or 1% whichever is higher.)

However the maximum rate of TCS can be 20%.

The provisions of this section shall not apply to a non-resident who does not have permanent establishment in India.

Special provision for collection of tax at source for non-filers of income-tax return Section 206CCA

(1) Notwithstanding anything contained in any other provisions of this Act, where tax is required to be collected at source under the provisions of Chapter XVII-BB, on any sum or amount received by a person (hereafter referred to as collectee) from a specified person, the tax shall be collected at the higher of the following two rates, namely:—

at twice the rate in force or at the rate of five per cent.

However the maximum rate of TCS can be 20%.

(2) If the provisions of section 206CC is applicable to a specified person, in addition to the provisions of this section, the tax shall be collected at higher of the two rates provided in this section and in section 206CC.

(3) For the purposes of this section "specified person" means a person who has not furnished the return of income for the previous year immediately preceding the financial year in which tax is required to be collected, for which the time limit for furnishing the return of income under sub-section (1) of section 139 has expired in the preceding previous year and the aggregate of tax deducted at source and tax collected at source in his case is rupees fifty thousand or more in the said previous year:

MULTIPLE CHOICE QUESTIONS

1. The rate of TDS on rental payments of plant, machinery or equipment is -
 (a) 2% (b) 5% (c) 10% (d) 1%
2. Advance tax will not be paid if tax payable after TDS is less than—
 (a) ₹ 10,000 (b) ₹5,000 (c) ₹20,000 (d) ₹25,000
3. For deferment of advance tax -
 (a) interest is payable under section 234A
 (b) interest is payable under section 234B
 (c) interest is payable under section 234C
 (d) interest is payable under all the three sections 234A, 234B and 234C
4. Mr. X, a resident Indian, wins ₹10,000 in a lottery. Which of the statement is true?
 (a) Tax is deductible u/s 194B @ 30%
 (b) Tax is deductible u/s 194B @ 30.9%
 (c) No tax is deductible at source
 (d) None of the above
5. Mr. X paid fees for professional services of ₹40,000 to Mr. Y, who is engaged only in the business of operation of call centre, on 15.7.2023. Tax is to be deducted by Mr. X at the rate of –
 (a) 1% (b) 2% (c) 10% (d) 20%
6. Mr. A, a salaried individual, pays rent of ₹51,000 per month to Mr. B from June,2023. Which of the statement is true?
 (a) No tax is deductible at source since Mr. A is not liable to tax audit u/s 44AB.
 (b) Tax is deductible at source every month @ 10% on rent paid to Mr. B.
 (c) Tax is deductible at source every month @ 5% on rent paid to Mr. B.
 (d) Tax is deductible at source @ 5% on annual rent from the rent paid for March 2024.
7. ₹2 lakh is paid to Mr. Vallish, a resident individual on 15.3.2024 by the State of Haryana on compulsory acquisition of his urban agricultural land.
 (a) No tax is deductible at source (b) Tax is deductible@ 1%
 (c) Tax is deductible @ 5% (d) Tax is deductible@ 10%
8. Two motor cars of the value of ₹12 lakhs and ₹8 lakhs was sold by a dealer to two different customers.
 (a) Tax @ 1% has to be collected on ₹20 lakhs
 (b) Tax @ 1% has to be collected on ₹12 lakhs
 (c) Tax @ 1% has to be collected on ₹8 lakhs
 (d) No tax collection at source is required in this case
9. A registered firm pays salary and interest on capital to its resident partners. Which of the following statements is true?
 (a) Tax has to be deducted u/s 192 on salary and u/s 194A on interest
 (b) Tax has to be deducted u/s 192 on salary but no tax needs to be deducted on interest
 (c) No tax has to be deducted on salary but tax has to be deducted u/s 194A on interest
 (d) No tax has to be deducted at source on either salary or interest
10. M/S Mohan & Sons (liable to audit) paid ₹35,000 to Mr. Goel on 01.05.2023 towards fee for legal advisory services without deduction of tax at source. Another payment of ₹47,000 was due to Mr. Goel on 31.07.2023 and TDS on entire amount (i.e. ₹35,000 plus ₹47,000) was deducted and then the net amount was paid. However, the total tax deducted was deposited on 15.11.2023. The interest chargeable under section 201 will be:
 (a) ₹650
 (b) ₹433
 (c) ₹486
 (d) ₹597

11. Which of the following statement is correct.

- (a) As per section 192A tax shall be deducted at source @ 12% provided the amount paid or payable during a particular year is ₹ 50,000 or more
- (b) As per section 192A tax shall be deducted at source @ 10% provided the amount paid or payable during a particular year is ₹ 1,50,000 or more
- (c) As per section 192A tax shall be deducted at source @ 10% provided the amount paid or payable during a particular year is ₹ 50,000 or more
- (d) None of these

12. Which of the following statement is correct.

- (a) As per section 193 tax shall be deducted at source @ 10% provided the amount paid or payable during a particular year is exceeding ₹ 10,000
- (b) As per section 193 tax shall be deducted at source @ 10% provided the amount paid or payable during a particular year is exceeding ₹ 50,000
- (c) As per section 193 tax shall be deducted at source @ 10% provided the amount paid or payable during a particular year is exceeding ₹ 5,000
- (d) None of these

13. Which of the following statement is correct.

- (a) As per section 194A, in case of payment of interest on fixed deposit by a bank to a senior citizen, tax deducted at source @ 10% provided the amount paid or payable during a particular year is exceeding ₹50,000
- (b) As per section 194A, in case of payment of interest on fixed deposit by a bank to a senior citizen, tax deducted at source @ 10% provided the amount paid or payable during a particular year is exceeding ₹40,000
- (c) As per section 194A, in case of payment of interest on fixed deposit by a bank to a senior citizen, tax deducted at source @ 10% provided the amount paid or payable during a particular year is exceeding ₹1,50,000
- (d) None of these

14. Which of the following statement is correct.

- (a) As per section 194C, tax shall be deducted at source @ 2% in case of payment to individual or HUF and @ 1% in case of payment to any other person provided the amount being paid is exceeding ₹ 1,00,000
- (b) As per section 194C, tax shall be deducted at source @ 10% in case of payment to individual or HUF and @ 1% in case of payment to any other person provided the amount being paid is exceeding ₹ 30,000
- (c) As per section 194C, tax shall be deducted at source @ 1% in case of payment to individual or HUF and @ 2% in case of payment to any other person provided the amount being paid is exceeding ₹ 30,000
- (d) None of these

15. Which of the following statement is correct.

- (a) As per section 194H tax shall be deducted at source @ 5% provided the amount being paid or payable to a particular person during a particular year is ₹ 15,000 or more
- (b) As per section 194H tax shall be deducted at source @ 5% provided the amount being paid or payable to a particular person during a particular year is exceeding ₹ 15,000
- (c) As per section 194H tax shall be deducted at source @ 10% provided the amount being paid or payable to a particular person during a particular year is exceeding ₹ 15,000
- (d) None of these

Answer

1.(a); 2.(a); 3.(c); 4. (c); 5. (b); 6. (d); 7. (a); 8.(b); 9.(d); 10.(d); 11. (c); 12. (c); 13(a); 14. (c); 15. (b)

EXAMINATION QUESTIONS

NOV – 2023

Question.2.(c)

(3 + 1 + 3 = 7 Marks)

Discuss the liability of tax deduction at source under the Income Tax Act 1961 in respect of the following cases with reference to A.Y. 2023-24. (State applicable provision and give brief reasons for your answer, wherever applicable)

- (i) XYZ, a resident partnership firm is in retail business buying fabric material regularly from ABC, a resident proprietorship firm. Details of transactions during P.Y. 2022-23 are as given:

Particulars	Date of payment	Amt. (₹)
Advance payment	1.4.2022	40,00,000
Payment of supplies	2.7.2022	20,00,000
Advance payment	4.8.2022	12,00,000

XYZ achieved gross turnover of ₹ 12 crore from the business during the financial year 2021-22 and the gross business turnover for financial year 2022-23 turns out to be ₹ 9 crores. Gross business turnover of ABC for the financial year 2021-22 was ₹ 6 crores.

Will your answer be same, if the gross turnover of XYZ during the financial year 2021-22 includes ₹ 4 crores towards supply of material for charitable purposes?

- (ii) MJ, a part time director of ABZ Pvt. Ltd. was paid an amount of ₹ 2,49,000 as commission on sales (which was not in the nature of Salary) for the period 01.04.2022 to 31.03.2023.
- (iii) Mr. Kumar, a resident senior citizen, aged 86 years, is a retired State Govt. employee. He gets pension of ₹72,000 p.m. He has his saving account with Bank of Baroda, a bank notified by the Central Govt. u/s 194P, has received the interest on saving account ₹ 15,000 during the P.Y. 2022-23. His pension is also credited in this account. In the same bank he has deposited ₹ 10 lakh in a Term Deposit @ 7% simple interest on 01.07.2022. He has no other income. He has not opted Section 115BAC. Discuss requirement of filing of income tax return also.

NOV – 2023

Question.4.(c)

(4 Marks)

Explain the provisions of Tax collection at source for overseas remittance by an authorized dealer. Also enumerate the rate of tax to be collected and the amount on which no tax is to be collected.

Solution: Refer answer given in the book

MAY – 2023

Question.2.(b)

(6 Marks)

Answer the following:

- (i) Miss Tara, resident individual aged 32 years, is a social media influencer. She makes videos reviewing various electronic items and posts those videos on social media. On 1st December 2022, XYZ Ltd., an Indian company manufacturer of electronic cars gave her a brand new car having fair market value of ₹ 6 lakhs to promote on her social media page. She used that car for 7 months for her personal purposes, recorded a video reviewing the car and then returned the car to the company. You are required to discuss the applicable provisions in the Income-tax Act regarding the deduction of tax at source in respect of such transaction.
- (ii) Ms. Aruna is a Chief Executive Officer of a multi-national company. She hires Mr. Suresh for supply of her housing staff (like gardener, chefs and drivers etc.) and makes the following payments to him: ₹ 25,00,000/- on 10th August, 2022 and ₹ 30,00,000 on 22nd November, 2022. Determine the amount of tax to be deducted/ collected at source, if any.
- Would your answer be different, if Ms. Aruna is a business woman and her books are not audited in immediately preceding financial year and payment to Mr. Suresh is for business purposes.

- (iii) By virtue of an agreement with Nationalized Bank, M/s ABC Pvt Ltd., a company engaged in catering business received ₹ 60,000 p.m. towards supply of food, water, snacks, etc. during office hours to the employees of the bank. Discuss the TDS implication of this transaction/agreement.

Solution:

(i) Under section 194R, the person who is responsible for providing to a resident, any benefit or perquisite whether convertible into money or not, arising from business or the exercise of a profession by such resident, has to first ensure deduction of tax @10% of the value of such benefit or perquisite, if the same exceeds ₹20,000.

However, in case of benefit or perquisite being a product like car, mobile etc. if the product is returned to the manufacturing company after using for the purpose of rendering service, then it will not be treated as a benefit/perquisite for the purposes of section 194R.

Accordingly, in the present case, since Miss Tara has returned the car to XYZ Ltd., TDS provisions under section 194R would not apply.

(ii) The provisions of section 194C would not apply in the hands of Ms. Aruna since the amount paid to Mr. Suresh is for supply of her housing staff. Hence, it is used exclusively for her personal purposes.

In this case, tax is required to be deducted at source from such amount under section 194M @5%, since the aggregate payment made to Mr. Suresh for the said contract exceeds ₹ 50 lakhs during the P.Y.2022-23.

Accordingly, ₹ 2,75,000, being 5% of ₹ 55,00,000 [₹ 25,00,000 + ₹ 30,00,000], is required to be deducted at source.

In case Ms. Aruna made payment to Mr. Suresh for business purposes and she is not required to get her books of account audited [assuming her turnover from such business does not exceed ₹ 1 crore in P.Y. 2021-22], she is not required to deduct tax at source under section 194C. In such case also, she is required to deduct tax at source of ₹ 2,75,000 under section 194M.

Note – In the question, it is mentioned that Ms. Aruna is a business woman and her books are not audited in immediately preceding financial year. However, whether the provisions of section 194C would be attracted are dependent on whether the turnover of business carried on by her during the financial year immediately preceding the financial year in which the sum credited or paid exceeds ₹ 1 crore. In the absence of this information, it is possible that audit may not be required in her case due to the following reasons-

- her turnover exceeds ₹ 1 crore but does not exceed ₹ 10 crores and receipts and payments in cash does not exceed 5% of such receipts or payments, respectively.
- her turnover exceeds ₹ 1 crore but does not exceed ₹ 2 crore and she is declaring profits under the presumptive provisions of section 44AD.

Accordingly, following alternate answer is also possible based on the assumption that turnover of Ms. Aruna's business exceeds ₹ 1 crore.

Alternative answer - In case Ms. Aruna made payment to Mr. Suresh for business purposes during the P.Y. 2021-22, she would be required to deduct tax at source @1% under section 194C amounting to ₹ 55,000 (since payment is made to Mr. Suresh, an individual) of ₹ 55,00,000.

(iii) According to section 194C, the definition of "work" include catering. In the present case, nationalised bank is required to deduct tax source @2% on ₹ 7,20,000 [₹ 60,000 x 12] paid to ABC Pvt. Ltd. for providing catering services to the bank, since amount of ₹ 60,000 paid every month exceeds the threshold of ₹ 30,000.

Therefore, nationalised bank is required to deduct tax at source of ₹ 1,200 per month amounting to ₹14,400 for the year.

NOV – 2022

Question.3.(a)

(6 Marks)

Examine the applicability and the amount of TDS to be deducted in the following cases for F.Y. 2023-24:

- (i) S and Co. Ltd. paid ₹ 25,000 to one of its Directors as sitting fees on 02-02-2024.
- (ii) ₹ 2,20,000 paid to Mr. Mohan, a resident individual, on 29-02-2024 by the State of Haryana on compulsory acquisition of his urban land.

- (iii) Mr. Purushotham, a resident Indian, dealing in hardware goods has a turnover of ₹12 crores in the previous year 2022-23. He purchased goods from Mr. Agarwal a resident seller, regularly in the course of his business. The aggregate purchase made during the previous year 2023-24 on various dates is 80 lakhs which are as under:

10-06-2023	₹25,00,000
20-08-2023	₹27,00,000
12-10-2023	₹28,00,000

He credited Mr. Agarwal's account in the books of accounts on the same date and made the payment on 29.02.2024 ₹80 lakh. Mr. Agarwal's turnover for the financial year 2022-23 is ₹20 crores.

Solution:

- (i) Tax @10% has to be deducted by S and Co. Ltd. under section 194J on directors sitting fees of ₹25,000. The threshold limit of ₹ 30,000 is not applicable in respect of sum paid to a director.
The amount of tax to be deducted at source = ₹ 25,000 x 10% = ₹ 2,500
- (ii) There is no liability to deduct tax at source under section 194LA, since the payment to Mr. Mohan, a resident, by State of Haryana on compulsory acquisition of his urban land does not exceed ₹ 2,50,000.
- (iii) Since Mr. Purushotham's turnover for F.Y.2022-23 exceeds ₹ 10 crores, and value of goods purchased from Mr. Agarwal, a resident seller, exceeds ₹ 50 lakhs in the P.Y.2023-24, he is liable to deduct tax@0.1% on ₹ 30 lakhs (being the sum exceeding ₹ 50 lakhs), at the time of credit or payment, whichever is earlier.
On 10.6.23= Nil (No tax is to be deducted u/s 194Q on the purchases made on 10.6.2023 since the purchases made till that date has not exceeded the threshold of ₹ 50 lakhs and TDS provisions u/s 194Q was effective from 1.7.2023)
On 20.8.2023 = 0.1% of ₹ 2 lakhs (amount exceeding ₹ 50 lakhs) = ₹ 200
On 12.10.2023 = 0.1% of ₹ 28 lakhs = ₹ 2,800.

MAY – 2022

Question.2.(a)

(6 Marks)

Discuss the liability of tax deduction at source under the Income Tax Act, 1961 in respect of the following cases with reference to A.Y. 2024-25.

- (i) XY a partnership firm is selling its product 'R' through the E Commerce Platform provided by AB Ltd. (E-commerce Operator) AB Ltd., credited in its books of account, the account of XY on 29th February, 2024 by sum of ₹4,90,000 for the sale of product R, made during the month February-2024.
Mr. Rai, who purchased product 'R' through the platform provided by AB Ltd. made payment of ₹ 60,000 directly to XY on 21st February-2024.
- (ii) ABC Ltd is a producer of natural gas; During the year it sold natural gas worth ₹26,50,000 to M/s Deep Co., a partnership firm. It also incurred ₹1,70,000 as freight for the transportation of gas. It raised the invoice and clearly segregated the value of gas as well as the transportation charges.
- (iii) ABC LLP paid job charges to XYZ, a partnership firm for doing embroidery work on the fabric supplied by the ABC LLP during the previous year 2023-24 as under ;

BILL NO	DATE	AMOUNT ₹

1	30-04-2023	27,000
57	30-06-2023	25,000
105	30-09-2023	28,000
151	30-12-2023	32,000

Answer:

(i) AB Ltd, an e-commerce operator is required to deduct tax @ 1% under section 194-O on ₹ 5,50,000 (i.e., ₹ 4,90,000 credited on 29.2.2024 plus deemed payment of ₹ 60,000 on 21.2.2024, being payment directly made by Mr. Rai to the e-commerce participant XY), being the gross amount of sale of product 'R' of XY, an e-commerce participant, since such sale is effected in February, 2024 is facilitated by AB Ltd. through its e-commerce platform.

Hence, TDS u/s 194O = 1% on ₹ 5,50,000 = ₹ 5,500

(ii) Since ABC Ltd., being the producer of the natural gas, sells as well as transports the gas to M/s. Deep Co., the purchaser, till the point of delivery, where the ownership of gas is simultaneously transferred to M/s. Deep Co, the manner of raising the invoice (whether the transportation charges are embedded in the cost of gas or shown separately) does not alter the basic nature of such contract which remains essentially a 'contract for sale' and not a 'works contract' as envisaged in section 194C.

Therefore, in such circumstances, the TDS provisions would not be attracted on ₹1,70,000, being the component of gas transportation charges paid by M/s. Deep Co. to ABC Ltd.

Alternate Answer:

The above solution is based on Circular No. 9/2012 dated 17.10.2012, wherein it has been clarified that in case the Owner/Seller of the gas sells as well as transports the gas to the purchaser till the point of delivery, where the ownership of gas to the purchaser is simultaneously transferred, the manner of raising the sale bill, does not alter the basic nature of such contract which remains essentially a 'contract for sale' and not a 'works contract' as envisaged in section 194C of the Act.

Since, the question is silent on the timing of the transfer of ownership of the gas to the purchaser, an assumption that the ownership of the gas to the purchaser is transferred before its transportation is possible. In such a case, the transportation of gas after transfer of ownership may be considered as a separate contract for transportation of gas i.e. 'works contract' u/s 194C, and hence TDS @ 2% has to be deducted by M/s. Deep Co. on ₹ 1,70,000/- i.e. ₹ 3,400/-.

(iii) In this case, the individual contract payments (through the bills dated 30.4.2023, 30.6.2023 and 30.9.2023) made by ABC LLP to XYZ does not exceed ₹ 30,000. However, since the aggregate amount paid to XYZ during the P.Y. 2023-24 exceeds ₹ 1,00,000 (on account of the last payment of ₹ 32,000, due on 30.12.2023, taking the total from ₹ 80,000 to ₹ 1,12,000), the TDS provisions under section 194C would get attracted on the entire sum of ₹ 1,12,000.

Tax has to be deducted @ 2% (since payment is to a firm, XYZ) on the entire amount of ₹ 1,12,000, from the last payment of ₹ 32,000 on 30.12.2023.

Hence, TDS u/s 194C = ₹ 2,240.

DEC – 2021**Question.3.(a)****(4 Marks)**

State in brief the applicability of provisions of tax deduction at source, the rate and amount of tax deduction in the following cases for the financial year 2023-24 under Income Tax Act, 1961. Assume that all payments are made to residents:

(i) Mr. Mahesh has paid ₹6,00,000 on 15.10.2023 to M/s Fresh Cold Storage Pvt. Ltd. for preservation of fruits and vegetables. He is engaged in the wholesale business of fruits & vegetable in India having turnover of ₹3 Crores during the previous year 2022-23.

- (ii) Mr. Ramu, a salaried individual, has paid rent of ₹60,000 per month to Mr. Shiv Kumar from 1st July, 2023 to 31st March, 2024. Mr. Shiv Kumar has not furnished his Permanent Account Number.

Answer

(i) The arrangement between Mr. Mahesh, the customer, and M/s. Fresh Cold Storage Pvt. Ltd., the cold storage owner, is basically contractual in nature and main object of the cold storage is to preserve perishable goods by mechanical process and storage of such goods is only incidental. Hence, the provisions of section 194C will be applicable to the amount of ₹ 6 lakh paid by Mr. Mahesh to the cold storage company.

Accordingly, tax has to be deducted @ 2% on ₹ 6 lakh.

$$\text{TDS u/s 194C} = 2\% \times ₹ 6 \text{ lakh} = ₹ 12,000$$

(ii) Mr. Ramu, being a salaried individual, has to deduct tax at source @ 5% u/s 194-IB on the annual rent paid by him from the last month's rent (rent of March, 2024), since the rent paid by him exceeds ₹ 50,000 p.m.

Since his landlord Mr. Shiv Kumar has not furnished his PAN to Mr. Ramu, tax has to be deducted @ 20% instead of 5%. However, the same cannot exceed ₹ 60,000, being rent for March, 2024.

$$\text{TDS u/s 194-IB} = ₹ 5,40,000 (\text{₹ } 60,000 \times 9) \times 20\% = ₹ 1,08,000, \text{ but restricted to ₹ } 60,000, \text{ being rent for March, 2024.}$$

Question.3. (b)

(4 Marks)

Examine the following transactions with reference to applicability of the provision of tax collected at source and the rate and amount of the TCS for the Assessment year 2024-25.

- (i) Mr. Kalpit bought an overseas tour programme package for Singapore for himself and his family of ₹5 lakhs on 01.11.2023 from an agent who is engaged in organising foreign tours in course of his business. He made the payment by an account payee cheque and provided the permanent account number to the seller. Assuming Kalpit is not liable to deduct tax at source under any other provisions of the Act.
- (ii) Mr. Anu doing business of textile as a proprietor. His turnover in the business is ₹11 crores in the previous year 2022-23. He received payment against sale of textile goods from Mr. Ram ₹75 lakhs against the sales made to him in the previous year and preceding previous years. (Assuming all the sales are domestic sales and Mr. Ram is neither liable to deduct tax on the purchase from Mr. Anu nor he deducted any tax at source).

Answer

- (i) Tax @ 5% is required to be collected u/s 206C by the seller of an overseas tour programme package, from Mr. Kalpit, being the buyer of an overseas tour package, even if payment is made by account payee cheque.

Accordingly, tax has to be collected @ 5% on ₹ 5 lakh.

$$\text{TCS} = 5\% \times ₹ 5 \text{ lakh} = ₹ 25,000$$

- (ii) Mr. Anu is required to collect tax @ 0.1% u/s 206C from Mr. Ram, since his turnover in the P.Y.2022-23 exceeds ₹10 crores, and the sales receipts from Mr. Ram in the P.Y.2023-24 exceeds ₹ 50 lakhs. Tax has to be collected by Mr. Anu on ₹ 25 lakhs, being the amount exceeding ₹ 50 lakhs, at the time of receipt. Since receipt is in the P.Y.2023-24, TCS provisions are attracted even though part of the sales may relate to the preceding previous years.

$$\text{TCS} = 0.1\% \times ₹ 25 \text{ lakhs} = ₹ 2,500$$

JULY – 2021

Question. 2.(b)

(2 × 4 = 8 Marks)

Examine whether TDS provisions would be attracted in the following cases, and if so, under which section. Also specify the rate of TDS and amount required to be deducted at source as applicable in each case. Assume that all payment are made to residents.

S.No.	Particulars of the payer	Nature of Payment	Aggregate of payments made in the F.Y. 2023-24
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			(Amt. in ₹)
(A)	Mr. Kale, receiving pension from Central Government	Contractual payment made during April 2023 for reconstruction of his residential house in Arunachal Pradesh	52,50,000
(B)	Mr. Rahul, a wholesale trader of spices whose turnover was ₹ 5 crores in F.Y. 2022-23	Contract payment for Construction of Office godown during January to March, 2024 to Mr. Akhilesh, and individual	50,00,000
(C)	Mr. Golu, an individual carrying on garment trading business with turn-over of ₹ 95 lakhs in F.Y. 2022-23	Payment of commission to Mr. Vinay for securing a contract for big Business House in November 2023	1,20,000
(D)	XYZ Urban Co-operative bank	Payment by way of cash withdrawal, by ABC & Co. a partnership firm, amounting ₹ 1.2 crores during Financial year 2023-24 ABC & Co. has filed his tax returns for the last 3 financial year with in time.	1,20,00,000

Answer 2(b):

(i) Mr. Kale, being a pensioner, would not be liable to deduct tax at source under section 194C. However, he has to deduct tax at source @ 5% u/s 194M, since the aggregate amount of payment to the contractor for his personal purposes i.e., for reconstruction of his residential house in Arunachal Pradesh, exceeds the threshold limit of ₹ 50,00,000.

Therefore, TDS u/s 194M would be = ₹ 52,50,000 x 5% = ₹ 2,62,500.

(ii) Mr. Rahul is required to deduct tax at source u/s 194C, since his turnover from business in the financial year 2022-23, being the financial year immediately preceding F.Y.2023-24 in which such sum is paid, exceeds ₹ 1 crore. Tax is to be deducted at source at the rate 1% as the payment is made to an Individual.

Therefore, TDS u/s 194C would be = ₹ 50,00,000 x 1% = ₹ 50,000

(iii) Tax is required to be deducted u/s 194H, if the payer is an individual whose turnover from business carried on by him in the financial year immediately preceding the financial year in which commission is paid, exceeds ₹ 1 crore. However, where TDS u/s 194H is not applicable, tax is required to be deducted u/s 194M where payment of commission during the relevant previous year exceeds ₹ 50 lakhs.

In the present case, Mr. Golu is not required to deduct tax at source u/s 194H on the commission paid to Mr. Vinay in the P.Y.2023-24 since his turnover from his business does not exceed ₹ 1 crore during the P.Y. 2022-23.

Further, Mr. Golu is also not required to deduct tax at source u/s 194M on the said commission paid to Mr. Vinay since the commission paid does not exceed ₹ 50 lakhs during the P.Y. 2023-24.

(iv) A co-operative bank which is responsible for paying any sum, being the amount or aggregate of amounts, as the case may be, in cash exceeding ₹ 1 crore during the previous year, to any person from an account maintained by such person with it, has to deduct an amount equal to 2% of such sum, as income-tax at the time of payment. Accordingly, since XYZ Urban Co-operative is responsible for paying a sum exceeding ₹ 1 crore (₹ 1.2 crore, in this case) in cash to ABC & Co., a partnership firm, during the F.Y.2023-24, the bank is required deduct tax at source @ 2% of such sum.

Therefore, TDS u/s 194N would be = ₹ 20,00,000 x 2% = ₹ 40,000.

NOV – 2020

Question 2 (b)**(5 Marks)**

State in brief the applicability of tax deduction at source provisions, the rate and amount of tax deduction in the following cases for the financial year 2023-2024 under the Income -tax Act,1961. Assume that all payments are made to residents:

- (i) Sanjay, a resident individual, not deriving any income from business or profession makes payment of ₹12 lakhs in January, 2024, ₹20 lakh in February, 2024 and ₹20 lakh in March, 2024 to Mohan, a contractor for reconstruction of his residential house.
- (ii) ABC Ltd. makes the payment of ₹1,50,000 to Ramlal, an individual transporter who owned 6 goods carriages throughout the previous year, He does not furnish his PAN.
- (iii) Smt. Sarita paid ₹5,000 on 17th April,2023 to Smt. Deepa from the deposits in National savings Scheme account.

Answer:

(i) Yes, under section 194M since the aggregate of payments (i.e., ₹52 lakhs) exceeds ₹50 lakhs and his turnover is below ₹100 lakhs in the P.Y.2022-23. Hence, TDS provisions under section 194C are not attracted in respect of payments made in the P.Y.2023-24 and section 194M gets attracted as the aggregate payments exceeds 50 lakhs, hence he is liable to deduct TDS @ 5% on 52,00,000 = 2,60,000.

(ii) As per section 194C, No tax shall be deducted at source in case of payment to a contractor in connection with transportation of goods where such contractor do not own more than 10 goods carriages at any time during the year and also submitted a declaration in this regard and has also furnished permanent account number. But in the given case transporter has not furnished his PAN hence ABC limited can deduct TDS u/s 194C.

As transporter has not furnished his PAN then section 206AA shall also be applicable and TDS shall be deducted @ 20% on 1,50,000 = 30,000.

(iii) As per section 194EE, the person responsible for paying to any person any amount from deposits under National saving scheme shall, at the time of payment thereof, deduct income-tax thereon at the rate of 10% provided amount is exceeding 2,500 in a financial year. In the given case amount exceeds 2,500 hence TDS shall be deducted @ 10% on 5,000 = 500.

NOV -2020

Question 4 (c)**(4 Marks)**

Briefly explain the provisions relating to tax deduction at source on cash withdrawal under section 194N of the Income Tax Act, 1961.

Answer: Refer answer given in the chapter

NOV – 2019

Question. 2. (b)**(7 Marks)**

Examine & explain the TDS implications in the following cases along with reasons thereof, assuming that the deductees are residents and having a PAN which they have duly furnished to the respective deductors.

- (i) Mr. Tandon received a sum of ₹1,75,000 as pre-mature withdrawal from Employees Provident Fund Scheme before continuous service of 5 years on account of termination of employment due to ill-health.
- (ii) A sum of ₹42,000 has been credited as interest on recurring deposit by a banking company to the account of Mr. Hasan (aged 63 years).
- (iii) Ms. Kaul won a lucky draw prize of ₹21,000. The lucky draw was organized by M/s. Maximus Retail Ltd. for its customer.
- (iv) Finance Bank Ltd. sanctioned and disbursed a loan of ₹10 crores to Borrower Ltd. on 31-3-2024. Borrower Ltd. paid a sum of ₹1,00,000 as service fee to Finance Bank Ltd. for processing the loan application.
- (v) Mr. Ashok, working in a private company, is on deputation for 3 months (from December, 2023 to February, 2024) at Hyderabad where he pays a monthly house rent of ₹52,000 for those three months, totaling to ₹1,56,000. Rent is paid by him on the first day of the relevant month.

Answer:

(i) As per section 192A, If person responsible for making payment of recognized provident fund to any person shall deduct tax @ 10% if amount paid/payable is taxable and amount is exceeding ₹50,000 but if amount is withdrawn before continuous period of five years due to ill health then it is not taxable and TDS shall not be deducted.

In the given case amount is withdrawn from Employees provident fund before continuous period of 5 years due to ill health hence the amount is not taxable hence TDS shall not be deducted.

(ii) As per section 194A, Tax shall be deducted @ 10% if interest paid by banking company is exceeding ₹50,000 for senior citizens. In the given case, interest is paid to senior citizen and amount is not exceeding ₹50,000 hence banking company is not liable to deduct TDS.

(iii) As per section 194B, Every person responsible for paying resident any income by way of winning and amount paid or payable is exceeding ₹10,000 then tax shall be deducted @ 30%.

In the given case, amount paid is exceeding ₹10,000 hence liable to deduct tax @ 30% on ₹21,000 = ₹6,300.

(iv) As per section 2(28A), Interest means interest payable in any manner and includes service fee also.

As per section 194A, TDS is not deductible in case any payment is made to a banking company.

In the given case, Service fee is paid to banking company and interest includes service hence TDS is not deductible in case of payment to a banking company.

(v) As per section 194IB, any person responsible for paying rent to a resident exceeding ₹50,000 for a month shall deduct tax @ 5%, in the given case rent paid is exceeding ₹50,000 hence Mr. Ashok is liable to deduct tax @ 5% on ₹1,56,000 = ₹7,800

Question.4. (c)**(4 Marks)**

What are the clarifications made by CBDT with respect to Section 206 C (1F) relating to following issues:

(i) Whether TCS on sale of motor vehicle is applicable only to luxury car?

(ii) Whether TCS is applicable on each sale or aggregate value of sale motor vehicle, exceeding ₹ 10 lakhs?

(iii) Whether TCS is applicable in case of an individual?

(iv) Whether TCS on sale of motor vehicle is at retail level or only by manufacturer to distributor or dealer?

Answer:

(i) No. As per section 206C, TCS shall be applicable on sale of motor vehicle of the value exceeding 10 lakhs.

(ii) TCS @ 1% is collected on sale consideration of motor vehicle exceeding 10,00,000. It is applicable to each sale and not on aggregate value of sale during the year.

(iii) An individual who is liable to tax audit during the financial year immediately preceding the financial year in which the motor vehicle is sold shall be liable for collection of tax at source.

(iv) TCS on sale of motor vehicle is applicable on all transactions of retail sales only and not applicable on sale by manufacturer to distributor or dealer.

MAY – 2019**Question 2 (b)****(3 Marks)**

The following issues arise in connection with the deduction of tax at sources under chapter XVII-B. Discuss the liability for tax deduction in these cases:

(i) An employee of the Central Government receives arrears of salary for the earlier 3 years. He inquires whether amount will be received after deduction of tax at source during the current year.

(ii) A T.V. channel pays ₹ 10 lacs as prize money to the winner of a quiz programme.

- (iii) A Nationalized bank pays ₹ 50,000 per month as rent to ABC limited for a building in which one of its branch is situated.
- (iv) A television company pays ₹ 50,000 to a cameraman for shooting of a documentary film.

Answer:

(i) As per section 192, in respect of salary payments to employees of Government deduction of tax should be made after allowing relief under section 89. In the given case arrears of salary received in current year if the same was not taxed earlier year then same will be taxable and TDS is required to be deducted but if the same was considered earlier as part of salary then TDS is not required in the current year.

(ii) Every person (including individual and HUF even if limit prescribed has not exceeded in the preceding year) responsible for paying to any resident or non-resident, any income by way of **winnings from any lottery** or **crossword puzzle** or **card game** and **other game of any sort** shall deduct tax at source @ 30% provided the amount being paid or payable is exceeding ₹ 10,000.

In the given case a T.V. channel pays 10 lacs as prize hence TDS is required to be deducted @ 30%.

(iii) As per section 194I, TDS is required to be deducted in case of person responsible for paying to a resident any income by way of rent shall deduct tax @ 10% on renting of immovable property provided the amount paid or payable is more than ₹ 2,40,000 in a year.

In the given case Nationalized bank pays ₹ 50,000 per month which is more than ₹ 2,40,000 in a year hence TDS is required to be deducted @ 10% on ₹ 50,000 per month.

(iv) The television company is required to deduct tax at source @ 10% u/s 194J on the professional fees payable to the cameraman for shooting a documentary film, since such amount exceeds 30,000 during the year.

T.D.S./TCS TAX CHALLAN																
CHALLAN NO. ITNS 281		Tax Applicable(Tick One)*								Assessment Year						
		TAX DEDUCTED/COLLECTED AT SOURCE FROM														
		(0020) Company Deductees <input type="checkbox"/>				(0021) Non-Company Deductees <input type="checkbox"/>								-		
Tax Deduction Account No.(T.A.N.)																
Full Name																
Complete Address with City & State																
Tel. No.										Pin						
Type of Payment																
(Tick One)																
TDS/TCS Payable by Taxpayer										(200)						
TDS/TCS Regular Assessment (Raised by I.T. Deptt.)										(400)						
DETAILS OF PAYMENTS Amount (in Rs. Only)																
Income Tax																
Surcharge																
Health & education cess																
Interest																
Penalty																
Total																
Total (in words)																
CRORES		LACS		THOUSANDS			HUNDREDS			TENS		UNITS				
Paid in Cash/Debit to A/c /Cheque No.					Dated											
Drawn on																
		(Name of the Bank and Branch)														
Date:																
		Signature of person making payment														
		Rs.														
FOR USE IN RECEIVING BANK																
Debit to A/c / Cheque credited on																
D D		M M		Y Y												
SPACE FOR BANK SEAL																
SPACE FOR BANK SEAL																
Taxpayers Counterfoil (To be filled by the taxpayer)																
TAN																
Received From																
		(Name)														
Cash/Debit to A/c / Cheque No.					For Rs.											
Rs. (in words)																
drawn on																
		(Name of the Bank and Branch)														
		Company/Non-Company Deductees														
		on account of Tax Deducted at Source(TDS)/Tax Collected at Source(TCS)														
		from (Fill up Code)														
		(Strike out whichever is not applicable)														
For the Assessment Year																
		Rs.														

MISCELLANEOUS TOPICS

Assessee Section 2(7)

“Assessee” means

- Any person who is liable to pay income tax or interest or penalty or any other sum under Income Tax Act
- Any person with regard to whom any proceedings are pending under Income Tax Act for assessment of income or loss or refund or any other proceeding
- Any person who is assessable on behalf of any other assessee i.e. deemed assessee and any proceeding is pending with regard to such other person like assessment of income or loss or refund or any other proceeding e.g. Minor son of Mr. X has income from talent ₹5,00,000, in this case Mr. X shall be deemed to be an assessee.

Assessment year

As per section 2(9), assessment year means a period of 12 months starting from 01st April of every year ending with 31st March i.e. every financial year is an assessment year e.g. Financial year 2024-25 is one assessment year.

Previous year

As per section 3, previous year means financial year preceding the assessment year e.g. If financial year 2024-25 is one assessment year, financial year 2023-24 is the previous year for such assessment year. Income of previous year is taxable in its assessment year i.e. exact tax liability for previous year 2023-24 shall be determined in assessment year 2024-25 (however the person has to pay advance tax on estimated basis in previous year 2023-24.)

In general previous year shall be of full year but in case of a newly setup business or profession, first previous year will start from the date of commencement of business / profession e.g. If Mr. X started business on 01.07.2023, first previous year shall be from 01.07.2023 to 31.03.2024.

Income Section 2(24)

Every person shall be required to pay tax on his income as per section 4 and the term income is divided into 5 different categories which are called heads of income and such incomes shall include

1. Payment by employer to employee.
2. Rent received or receivable in connection with house property
3. Payments in connection with business/profession as per section 28
4. Profit and gains on the transfer of capital asset as per section 45(1)
5. Incomes under section 56 like, dividend, interest, casual income, gift etc.
6. Any other income given under section 2(24).

Charging section of Income-Tax Section 4

Every person shall be liable to pay income tax on his income. Normal income of every person shall be taxable at the rates given in the relevant Finance Act. Special incomes like Long term capital gains or Short term capital gains under section 111A or casual income shall be taxable at the rates given in the Income Tax Act. Tax shall be deducted at source as per the relevant provision also advance tax is to be paid as per the relevant provision.

Expenditure incurred in relation to income not includible in Total Income Section 14A

If any income is exempt from income tax, expenditure incurred in connection with such income shall not be allowed to be deducted either from same income or from some other income. If expenditure is incurred for taxable income as well as exempt income, only expenditure relating to taxable income shall be allowed to be deducted.

Question 1 [V. Imp.]: Discuss exceptions to the General Rule that the income of the Previous Year is taxed in the Assessment Year.

Answer: Exceptions to the General Rule that the income of the Previous Year is taxed in the Assessment Year

Generally the income of the Previous Year is taxable in the immediately succeeding year called the

assessment year. But, in the following cases, the income of the current year may be brought to tax in the same year—being exception to the general rule that incomes earned in the previous year are taxed in its assessment year following: -

1. Profits of non-resident from Shipping Business Section 172: If any ship owned by a non-resident has entered in India, the ship shall not be allowed to leave India unless tax has been paid and return has been filed

2. Assessment of persons Leaving India Section 174: If any person is leaving India with no present intention of returning to India, the total income of such individual up to the probable date of his departure from India shall be chargeable to tax in the previous year itself.

3. Assessment of association of persons or Body of Individuals or Artificial Juridical Person formed for a particular event or purpose Section 174A: If any association of persons or a body of individuals etc. has been incorporated for a particular event or purpose and it is likely to be dissolved in the same year in which it was formed, the total income of such association or body or juridical person for the period up to the date of its dissolution shall be chargeable to tax in that year itself.

4. Assessment of persons likely to transfer property to avoid tax Section 175: If it appears to the Assessing Officer that any person is likely to sell, transfer or otherwise part with any of his assets with a view to avoid payment of any liability under the provisions of this Act, the total income of such person shall be taxable in the same previous year.

5. Discontinued Business Section 176: If any person has closed down his business/profession, such person should inform Income Tax Department within 15 days of closing down such business/profession and the Department may direct such a person to pay tax and file return in the previous year itself.

NOV – 2022

Question 4(c)

(4 Marks)

Mr. X a resident, aged 56 years, till recently was a successful businessman filing his return of incomes regularly and promptly ever since he obtained PAN card. During the COVID-Pandemic period his business suffered severely and he incurred huge losses. He was not able to continue his business and finally on 1st January, 2024 he decided to wind-up his business which he also promptly intimated to the jurisdictional assessing officer about the closure of his business.

The Assessing officer sent him a notice to tax the income of AY 2024-25 during the AY 2023-24 itself. Does the Assessing Officer have the power to do so? Are there any exceptions to the general rule “Income of the previous year is assessed in the assessment year following the previous year”?

Solution:

Yes, he has the power to do so.

Since the business of Mr. X is discontinued on 1st January, 2024, the income of the period from 1.4.2023 to 1.1.2024 may, at the discretion of the Assessing Officer, be charged to tax in A.Y.2023-24 itself.

Following are the other exceptions to the general rule “Income of the previous year is assessed in the assessment year following the previous year” i.e., the income of the previous year is assessed in the previous year itself.

- (i) Shipping business of non-resident
- (ii) Persons leaving India with no present intention of returning
- (iii) AOP/BOI/Artificial Juridical Person formed for a particular event or purpose and likely to be dissolved
- (iv) Persons likely to transfer property to avoid tax.

10(2) Share received by a member of Hindu undivided family from income of Hindu Undivided Family

If any Hindu Undivided Family has paid income tax on the income of the family, such income shall not be taxable in the hands of its members. E.g. Mr. X is a member of one HUF and has received ₹3,00,000 from HUF as his share, it will be exempt from income tax under section 10(2).

10(10BC) Compensation received or receivable on account of any disaster

As per section 10(10BC), if any person has received any payment from government or other similar authority as compensation for loss or damage caused by any disaster whether natural calamity or any accident etc., such compensation shall be exempt from income tax.

10(26AAA) Exemption in case of Income of an Individual being Sikkimese

As per section 10(26AAA), income of an individual of Sikkim shall be exempt from income tax if such income is from Sikkim. If he has received dividend or interest on securities from any where, it will also be exempt from income tax.

Question 2: Explain the Treatment of Unexplained money, investments etc.**Answer: Unexplained money, investments etc. to attract tax @60% [Section 115BBE]**

(i) In order to control laundering of unaccounted money by availing the benefit of basic exemption limit, the unexplained money, investment, expenditure, etc. deemed as income under section 68 or section 69 or section 69A or section 69B or section 69C would be taxed at the rate of 60% plus surcharge @25% of tax. Thus, the effective rate of tax (including surcharge @25% of tax and HEC @4% of tax and surcharge) is 78%.

(ii) No basic exemption or allowance or expenditure shall be allowed to the assessee under any provision of the Income-tax Act, 1961 in computing such deemed income.

(iii) Further, no set off of any loss shall be allowable against income brought to tax under sections 68 or section 69 or section 69A or section 69B or section 69C.

(i) Cash Credits [Section 68]: Where any sum is found credited in the books of the assessee and the assessee offers no explanation about the nature and source or the explanation offered is not satisfactory in the opinion of the Assessing Officer, the sum so credited may be charged as income of the assessee of that previous year.

(ii) Unexplained Investments [Section 69]: Where in the financial year immediately preceding the assessment year, the assessee has made investments which are not recorded in the books of account and the assessee offers no explanation about the nature and the source of investments or the explanation offered is not satisfactory in the opinion of the Assessing Officer, the value of the investments are taxed as deemed income of the assessee of such financial year.

(iii) Unexplained money etc. [Section 69A]: Where in any financial year the assessee is found to be the owner of any money, bullion, jewellery or other valuable article and the same is not recorded in the books of account and the assessee offers no explanation about the nature and source of acquisition of such money, bullion etc. or the explanation offered is not satisfactory in the opinion of the Assessing Officer, the money and the value of bullion etc. may be deemed to be the income of the assessee for such financial year.

(iv) Amount of investments etc., not fully disclosed in the books of account [Section 69B]: Where in any financial year the assessee has made investments or is found to be the owner of any bullion, jewellery or other valuable article and the Assessing Officer finds that the amount spent on making such investments or in acquiring such articles exceeds the amount recorded in the books of account maintained by the assessee and he offers no explanation for the difference or the explanation offered is unsatisfactory in the opinion of the Assessing Officer, such excess may be deemed to be the income of the assessee for such financial year.

Example: If the assessee is found to be the owner of say 300 gms of gold (market value of which is ₹15,00,000) during the financial year ending 31.3.2024 but he has recorded to have spent ₹10,00,000 in acquiring it, the Assessing Officer can add ₹5,00,000 as the income of the assessee, if the assessee offers no satisfactory explanation thereof

(v) Unexplained expenditure [Section 69C]: Where in any financial year an assessee has incurred any expenditure and he offers no explanation about the source of such expenditure or the explanation is unsatisfactory in the opinion of the Assessing Officer, Assessing Officer can treat such unexplained expenditure as the income of the assessee for such financial year. Such unexplained expenditure which is deemed to be the income of the assessee shall not be allowed as deduction under any head of income.

INCOME-TAX RULES, 1962

The administration of direct taxes is looked after by the Central Board of Direct Taxes (CBDT).

- The CBDT is empowered to make rules for carrying out the purposes of the Act.
- For the proper administration of the Income-tax Act, 1961, the CBDT frames rules from time to time. These rules are collectively called **Income-tax Rules, 1962**.
- Rules also have sub-rules, provisos and *Explanations*. The proviso to a Rule/Sub-rule spells out the exception/conditions, to the Rule/Sub-rule. The *Explanation* gives clarification for the purposes of the Rule.

CIRCULARS AND NOTIFICATIONS

Circulars

- Circulars are issued by the CBDT from time to time to deal with certain specific problems and to clarify doubts regarding the scope and meaning of certain provisions of the Act.
- Circulars are issued for the guidance of the officers and/or assessees.

Notifications

Notifications are issued by the Central Government to give effect to the provisions of the Act. The CBDT is also empowered to make and amend rules for the purposes of the Act by issue of notifications.

Case Laws

Case Laws refer to decision given by courts. The study of case laws is an important and unavoidable part of the study of Income-tax law. It is not possible for Parliament to conceive and provide for all possible issues that may arise in the implementation of any Act. Hence the judiciary will hear the disputes between the assessees and the department and give decisions on various issues.

MULTIPLE CHOICE QUESTIONS

1. Which of the following income would be exempt in the hands of a Sikkimese Individual?

- (a) only income from any source in the State of Sikkim
- (b) only income by way of dividend
- (c) only income from interest on securities
- (d) All the above

2. In case of a Member of Parliament –

- (a) Daily allowance is exempt but constituency allowance received as per applicable Rules is taxable.
- (b) Constituency allowance received as per applicable Rules is exempt but daily allowance is taxable.
- (c) Both daily allowance and constituency allowance received as per applicable Rules are taxable.
- (d) Both daily allowance and constituency allowance received as per applicable Rules are exempt.

3. The quantum of deduction available under section 10AA in respect of profits and gains derived by a SEZ unit from export of articles is –

- (a) 100% of export profits for first 10 consecutive AYs and 50% for next 5 consecutive AYs
- (b) 100% of export profits for first 5 consecutive AYs and 50% for next 10 consecutive AYs
- (c) 100% of export profits for first 15 consecutive AYs
- (d) 100% of export profits for first 5 consecutive AYs, 50% for export profits for next 5 consecutive AYs and upto 50% of export profits for next 5 consecutive AYs, as is credited to Special Reserve Account

4. Which of the following income is not exempt under section 10?

- (a) Share income of a member from a HUF
- (b) Share income of a partner from a firm
- (c) Salary received by a partner from a firm
- (d) Both (b) and (c)

5. Income under the Income-tax Act, 1961, is to be computed under -

- (a) five heads
- (b) six heads
- (c) four heads
- (d) seven heads

6. Share of profit of Mr. P, who is a partner in M/s PQR, a firm resident in India, is –

- (a) exempt from tax
- (b) taxable as his business income
- (c) taxable as his salary
- (d) taxable as other sources

7. Mr. A, whose total sales is ₹201 lakhs, declare profit of ₹10 lakhs for the F.Y. 2023-24 . He is liable to pay advance tax-

- (a) in one instalment
- (b) in two instalments
- (c) in three instalments
- (d) in four instalments

8. Mr. Ramanan, a resident aged 40 years, has a total income of ₹3,25,000 for A.Y.2024-25, comprising of his salary income and income from house property. His tax liability for A.Y.2024-25 would be –

- (a) ₹3,900 , (b) ₹1,300, (c) ₹2,600, (d) Nil

9. Which of the following benefits are not allowable to Ms. Geetha, a non-resident, while computing her total income and tax liability for A.Y.2024-25 under the Income-tax Act, 1961?

- (a) Deduction of 30% of gross annual value while computing her income from house property in Bangalore, India
- (b) Tax rebate of ₹25,000 from tax payable on her total income of ₹7,00,000
- (c) Deduction for donation made by her to Prime Minister's National Relief Fund
- (d) Deduction for interest earned by her on NRO savings account.

Answer

- 1.(d); 2.(d); 3.(d); 4.(c); 5.(a); 6.(a); 7.(d); 8. (d); 9.(b)

EXAMINATION QUESTIONS

MAY – 2022

Question.3.(c)

(2 Marks)

The assessee is found to be the owner of the gold (market value of which is ₹50,00,000) during the financial year ending 31-03-2024 but he recorded to have spent ₹10,00,000 in acquiring the same. Explain how the assessing officer will deal with the issue.

Answer:

As per section 69B, if the assessee is found to be the owner of gold (market value of which is ₹ 50 lakhs) during the financial year ending 31.3.2024 but he has recorded to have spent only ₹ 10 lakhs in acquiring it, the Assessing Officer can add the difference of the market value of such gold and ₹ 10 lakhs i.e., ₹ 40 lakhs as the income of the assessee for A.Y.2024-25, if the assessee offers no satisfactory explanation thereof. Such income would be chargeable to tax @ 78% (@60% plus surcharge @25% and cess @ 4%).