



INCOME TAX

CA / CMA INTER **NEW SYLLABUS**

INCOME

TAX

QUESTIONNAIRE

For May/Nov 24 and June/Dec 24 exams

By CA. CS. VIJAY SARDA



About Author

CA. CS. Vijay Sarda

- ▶ Most Dynamic & Dedicated Faculty of Direct Tax, SM, Economics.
- ▶ Most preferred faculty for CA Inter & CA Final Direct Tax.
- ▶ Provides Interactive classes & Colour Notes, Charts, Questionnaire
- ▶ Teaching Experience 10+ years.
- ▶ Taught more than 1,00,000 Students.
- ▶ Member of ICAI & qualified Company secretary.
- ▶ Tax Consultant of big Export / Import Companies.
- ▶ 1st choice of CA Inter Students for Income Tax classes



About Co-author

CA. Pallavi Sarda

- ▶ Chartered Accountant & Author to many Books for CA & CM
- ▶ Founder of Vlearn Classes & Shree Publications.
- ▶ Passionate about Arts & Cooking as a Hobby.
- ▶ Always an Exemption Holder in DT & IDT at all professional exams.
- ▶ Topper in Academics and Cultural Activities.

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Dear Students

It gives us immense pleasure to present before you a Comprehensive book on Direct Taxes. This book would not have been a reality if not from the Tremendous support of **Pallavi Sarda**.

Special Thanks to **Ekatvam team**, who has been involved “day & night literally” to fulfill this dream book without whom this would not have been the light of the day.

I have been blessed to have an extraordinary support terms of colleagues, friends & family who have helped me in every sphere of my journey called this life. All these people deserve much more than a deep thank and love. I express all my gratitude to each and everyone of them for assisting me in all my endeavors. Thanks to the student community; For inviting me into your academics & making me your teacher. I am grateful for the opportunity to be of service to you. The love & affection you have shown is immense & invaluable.

“Padho ton Haddh kardo warna Program uadh kardo”

I express my respect, love and gratitude to **My Parents & My Family** for not only giving me life but giving your entire life to me. I am indebted to all of you a lot, indeed more than my life & to my wife to bear with me in all times I spent on making notes. And last to all my CRITICS because your criticism continuously keep me grounded and gave me power to do even better. Every care has been taken to make the presentation in this book from blemish. Nevertheless, it is conceded that no one is infallible, unintended error or omission may have crept in. The user of this book are requested to bring these to the notice of the author & offer, without inhibition, their suggestion for further improvement.

Let us remind you two important things

1. This book is not a substitute for study material issued by ICAI, it's only an aid.
2. There is no short cut to success, it is resolute hard work that pays.

“Quality is what I serve, & my Passion drives it”

Vijay Sarda

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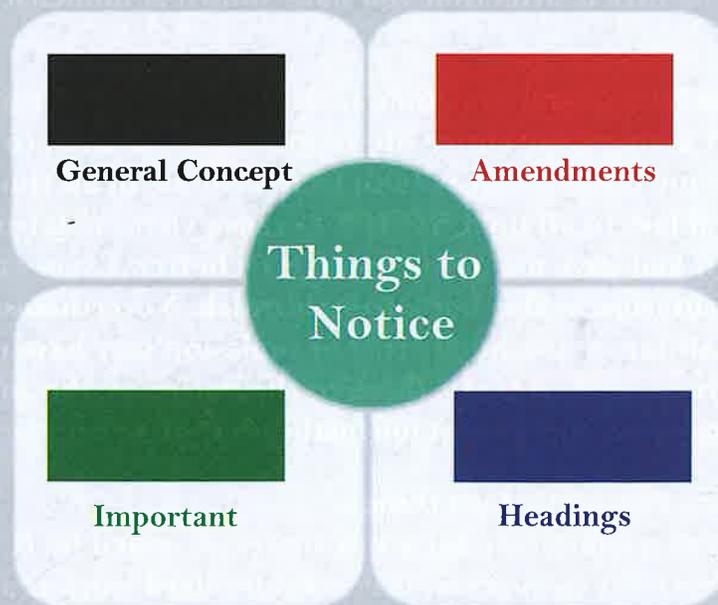
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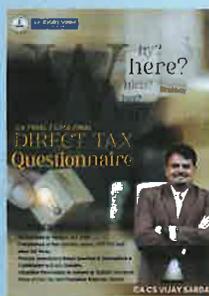
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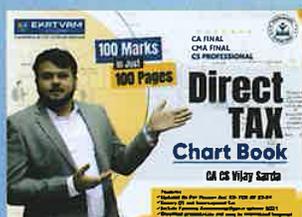
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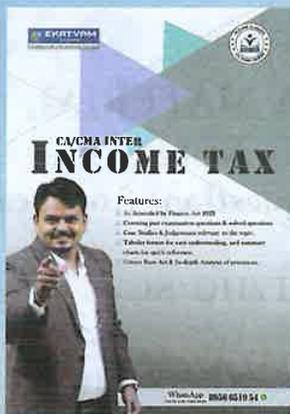


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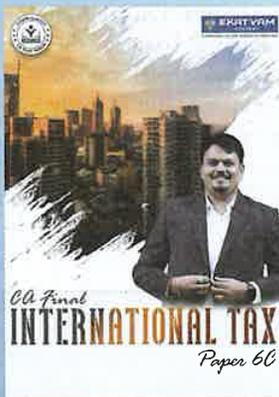
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Student Reviews

Hello Gurujiii...

I'm Chandrashekhar M Rokhadi From Belgaum, Karnataka. Your CA-Inter Nov 21 Pendrive class student. Today I have completed your lectures, first of all a big respect for your dedication, hardwork really I love your teaching skill u taught us every concept very clearly with history of concept. U motivate us in every lecture for our dreams, ur such extraordinary person in my life I Lv u sir then last lecture may apka story sunkar asu aya sir your struggles, efforts for learning, vo sab sunane ke bad such may muje bahut motivation huva. Apka vo tagline hy na sir "padhoo toh hadda kardo varna program raddh kardo" it's such a wonderful tagline. Full respect Bhai...Totally u r my motivation, inspiration, strength....

Need ur blessings

Keep motivate us and Always stay happy and healthy Guruji.

Hi sir

First of all a big big thank you sir Jo aap lecture k liye itni mehnat krte ho kitna efforts Igaa kr hme pdaate ho salute h sir aapki teaching ko Maine aapka *CA Final DT and international taxation ka course purchase kiya hai Ab tak ka smart decision h jo maine aapse pdne ka decide kiya. M kbhi soch bhi nhi skta ki koi is tarah se bhi pdaa skta Love you sir Aap bahut achhe ho

~Sachin Ghasolia From-Sikar Rajasthan

Sir 300 pages k notes aapk abhi 3rd module chalra hai maza aara hai sir gajab sir.... words hi nahi h books questionnaire charts dene k baad b sir aap short notes... self reading k liye and sir jo aap likhware ho uski language alag h sir alag matlb sir bilkul

NASHA HAI SIR DT NASHA PAR YE NASHA CHADAYA
AAPNE HAI SIR BY V

Hlo sir how ru?

Just now finished Final module 1 and had a great experience in that specially in 2 chapters

Search and seizure

Clubbing

In search chapter my father also listened some of your points and he also shared the survey experience he had before So thanku☐

Hello Sir. My name is Gouri Sanadhya, CA Inter Nov21 batch. I just got done with last lecture of DT. Lecture ki starting m socha tha k ek accha sa pyaara saa voice note bhejungi aapko pr ab ending k baad samajh nhi aa rha k kya bolu. M jaanti hu k mere lecture April m hi khatam ho jane chahiye the. Pr haalat kuch aise the k m ab jaa kr khatam kr payi. Abhi aankhein nam h aur neend se bhari hui h aur samajh nhi aa rha k kya bolu pr Sir its been the best lecture I have EVER watched till date. Your style of teaching, your sense of humor, your jokes and YOU ARE AMAZING SIR. Aaj k lecture m to Igaa k aap pr to biopic bann skti h. I live in Ratlam, MP. I don't drink tea but really wish k aap Ratlam aao aur m aapko m khud chai b naa kr pilau along with sev jo ki yha ki speciality h. I really look forward to meet you and also Pallavi aunty and Swastik in person whether it be in Ratlam, Pune or anywhere else. Aur haan m koshish krungi k m puri koshish kru k Mai aapki firm m partner bann jau. Aap bnaoge na Sir apna partner? At last, SIR RESPECT

Sir I am very big fan of urs...I am ur CMA Final student from Delhi. Nd I loved to watch ur DT lectures.. The way u speak, teach,stand even the way u dress up nd ur motivation between the lectures I loved all...Thanks for that motivation....being a student in final the level of pressure u know nd the way u releases that is next level When I was in inter I was afraid of this subject but now I loved this subject because of uh only Thankew sir for teaching us in superr way. No one teaches like uh..

Hope to meet uh soon..

Sir exactly Today's batch was mind blowing & emotional Also I'm from this batch the FAMOUS PERSIAN BATCH ek sach baat bolu sir, saaab sir hi acche padhate hain, lekin aap ek average Students ke liye Bhagwaan ho Sir.. Aap ek tarah bohut acche se concept clear kaarte ho, waise hi kaise ek 3 hrs ka lecture ek rhythm mein parallely maintain kaarna chahiye woh bhi student ko enjoy de ke, ye may be aap ko saab se alag kar rahe hain Love You Sir... FULLLL RESPECT& aaj jo routine aap set kar diye wo follow karna start kiya. Hope for the best 2 din pehle main sochi thi, shayad ek backup plan rakhna zaroori tha, agar mein CA nahi ho sakti toh. But literally SIR aaj appka pura story sunkar mujhe laga, jo insaan itne difficulties ke wagair bhi khud dedicated ho kaar khudki dream achieve kaar sakte hain, toh main without any difficulties kyun nahi ho sakti.. Thaaank You A looottttt Sirrrr.. Thank You a Looottttt VIJJU BHAIYA

Student Reviews

I have taken DT classes from Vijay sir for may 22 and believe me it's one of the best decision I had made. Needless to say sir but you are the best. The way u teach concepts is amazing. I have fallen in love with tax and it's all just because of you. "Padhai me bhi masti ho skti h" you proved this statement. Vo 3.5 hrs din ka best samay hota tha sir. I really miss the class sir. Okay Keeping this apart anyone can surely go for him without hesitation. I'm sure u will also start loving tax and him also the service of vlearn team is at its best. The technical team is very much supportive. Books were also delivered on time as promised by sir Thank you so much sir I really had an awesome experience.

If I would ever suggest a single teacher in my life that would be Vijay sir, personally to me he is God big brother, everything I aspire to be, the biggest motivator, the role model. Teaching something complicated like Direct Tax is a challenge in itself, but the way he teaches, he makes it easier than subject, To be honest, he is the biggest supporter one will ever have, I will suggest you to every student who is struggling in finding classes for direct tax, value for money.

Very best experience. Best CA inter and SM classes throughout India. Vijay sir's teaching is too good, excellent understanding and clear all doubts and also guide for future plans. Vlearn classes technical team is also supportive and solve problems regarding technical services. Vijay sir is like a family

Vlearn classes is an amazing platform to take CA coaching from. Vijay sir is really good as a teacher and also as a mentor he used to motivate us in the class when we used to feel low and also his teaching is just amazing. I'm very glad that I purchased the lectures from Vijay sir. And their technical team is also very helpful and very quickly the problem is resolved.

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My experience was fantastic. Best teacher i have ever seen in my life. He will surely help you in making your ca journey easy & best part is that you don't feel boredom in his classes, i must say fastrack lectures are much better than other teachers regular classes.

The best teacher for DT as well as for life lessons. I'm super clear with all my concepts. The teaching style is best as students can easily correlate the things from any topic. I am super happy and satisfied with my decision to choose Vijay sarda sir

Best ever teacher for tax. The way he teach no one can. And also modules, colour charts, questioner every thing is awesome. 3 hrs of DT lecture are the most energetic hours. Thank so much VJ sir for every thing.

Classes are excellent especially Vijay Sir his teaching style is simple and relatable, furthermore my experience with Vlearn classes have been great!

INDEX

No.	Chapter Name	Page No.
1.	Basics of Income Tax	1.1 - 1.15
2.	Residential Status	2.1 - 2.10
3.	Exemptions	3.1 - 3.9
4.	Income From House Property	4.1 - 4.19
5.	Income From Salary	5.1 - 5.33
6.	Income from other sources	6.1 - 6.14
7.	Capital Gains	7.1 - 7.41
8.	Profits & Gains from Business/Profession	8.1 - 8.50
9.	Clubbing Of Income	9.1 - 9.10
10.	Set-Off & Carry Forward	10.1 - 10.11
11.	Deduction	11.1 - 11.24
12.	Advance Tax, TDS, TCS	12.1 - 12.35
13.	Alternate Minimum Tax	13.1 - 13.2
14.	Return of Income	14.1 - 14.10
15.	Computation Of Total Income	15.1 - 15.56

Summary

1. Income tax covered in Entry no 82 Union List
2. Income-tax is a **TAX** levied on the **TOTAL INCOME** of the **PREVIOUS YEAR** of every **PERSON**.

Components of Income Tax

- Income-tax Act, 1961
- Income-tax Rules, 1962
- Annual Finance Act
- Circulars
- Notifications
- Court decisions

(1) Total Income: Total income has to be computed as per the provisions contained in the Income-tax Act, 1961. The following steps has to be followed for computing the total income of an assessee:

Step 1 – Determination of residential status

Step 2 – Classification of income under different heads

Step 3 – **Computation of income under each head after providing for permissible deductions/ exemptions.**

In this step, it is necessary to consider whether the individual is paying tax under the default tax regime or exercising the option to shift out of the default tax regime and pay tax under the optional tax regime as per the normal provisions of the Act. Certain deductions which are allowable under the normal provisions of the Act are not permissible under the default tax regime.

Step 4 – Clubbing of income of spouse, minor child etc.

Step 5 – Set-off or carry forward and set-off of losses

Step 6 – Computation of Gross Total Income

Step 7 – Providing Deductions from Gross Total Income

Here again, only very select deductions, namely, 80CCD(2), 80CCH(2) and 80JJAA, are allowable under the default tax regime under section 115BAC.

Step 8 – Computation of Total income

Step 9 - Application of the rates of tax on the total income

For default tax regime, concessional tax rates are provided under section 115BAC. For optional tax regime as per the normal provisions of the Act, the tax rates are provided in the Annual Finance Act. The special rates u/s 111A, 112, 112A, 115BB, 115BBJ, etc. would apply under both tax regimes.

Step 10 – Add Surcharge, if applicable/ Deduct Rebate under section 87A, if applicable

Step 11 – Add Health and education cess on income-tax

Step 12 – Compute AMT, if applicable, [under the optional tax regime]

Step 13 - Examine whether to pay tax under default tax regime u/s 115BAC or pay tax under the regular provisions of the Act, by comparing the tax liability under both regimes.

Step 14 – Deduct Advance tax and tax deducted/ collected at source

Step 15 – The resultant figure would be Tax Payable/Tax Refundable

Person: A person includes an individual, Hindu Undivided Family (HUF), Association of Persons (AOP), Body of Individuals (BOI), a firm, a company etc.

Concept of Previous year (P.Y.) and Assessment Year (A.Y.): Previous year is the financial year immediately preceding the assessment year

In case of a newly set-up business, the previous year will start from date of commencement

Assessment year (A.Y.): Assessment year means the period of twelve months commencing on the 1st April every year.

Exceptions to the rule that income is charged to income-tax in the Assessment Year following the previous year:

- (i) Shipping business of non-resident [Section 172]
- (ii) Persons leaving India [Section 174]
- (iii) AOP/BOI/Artificial Juridical Person formed for a particular event or purpose [Sec 174A]
- (iv) Persons likely to transfer property to avoid tax [Section 175]
- (v) Discontinued business [Section 176]

Rate of tax for Undisclosed Sources of Income: The following undisclosed incomes are chargeable to tax @78% [i.e.,60% + surcharge @25% plus cess @4%] as specified u/s 115BBE:

- (i) Cash Credits [Section 68]
- (ii) Unexplained Investments [Section 69]
- (iii) Unexplained money etc. [Section 69A]
- (iv) Amount of investments etc., not fully disclosed in the books of account[Section 69B]
- (v) Unexplained expenditure [Section 69C]
- (vi) Amount borrowed or repaid on hundi [Section 69D]

Tax Liability: Tax has to be computed by applying the rates of tax mentioned in the Annual Finance Act and the rate specified under the Income- tax Act, 1961, as the case may be.

If an Individual/ Hindu Undivided Family (HUF)/ Association of Persons (AOP)/ Body of Individuals (BOI)/ Artificial Juridical Person is paying tax under default tax regime, concessional tax rates are prescribed u/s 115BAC. However, if he/it exercises the option to shift out of the default tax regime, tax rates prescribed by the Annual Finance Act of that year would apply.

Persons	Rates of taxes	
Individual/HUF/ AOP/BOI/ Artificial Juridical Person (Under default taxregime)	Total income (in ₹)	Rate of Tax
	Upto ₹ 3,00,000	Nil
	₹ 3,00,001 to ₹ 6,00,000	5%
	₹ 6,00,001 to ₹ 9,00,000	10%
	₹ 9,00,001 to ₹ 12,00,000	15%
	₹ 12,00,001 to ₹ 15,00,000	20%
	Above ₹ 15,00,000	30%
Individual (As per the normal provisions of the Act under the optional tax regime)	Total Income (in Rs.)	Rates of Tax
	(i) Upto ₹ 2,50,000 (below 60 years)	Nil
	(ii) Upto ₹ 3,00,000 (60 years or above but less than 80 years and resident in India)	
	(iii) Upto ₹ 5,00,000 (above 80 years and resident in India)	
	₹ 2,50,001/ ₹ 3,00,001, as the case may be, to ₹ 5,00,000 [in cases (i) and (ii) above, respectively]	5%
	₹ 5,00,001 to ₹ 10,00,000	20%
Above ₹ 10,00,000	30%	
HUF/AOP/BOI/ Artificial Juridical Person (As per the normal	Total income (in ₹)	Rate of Tax
	Upto ₹ 2,50,000	Nil
	₹ 2,50,001 to ₹ 5,00,000	5%

provisions of the Act under the optional tax regime)	₹ 5,00,001 to ₹ 10,00,000	20%
	Above ₹ 10,00,000	30%
Firm/LLP/Local Authority	30% + Surcharge @ 12% (if IT > 1Cr) + HEC @ 4%	
Co-operative Society (not opting for the provisions of Section 115 BAD or section 115BAE)	Total Income In (₹)	
	Upto ₹ 10,000	10%
	₹ 10,001 to ₹ 20,000	20%
	Above ₹ 20,000	30%
Company (not opting for the provisions of section 115BAA/ 115BAB)	Domestic Company	
	Total turnover or gross receipts in the P.Y. 2021 - 22 ≤ ₹ 400 crore	Other domestic companies
	25%	30%
		Foreign Company
		40%
Surcharge:		
Under the default tax regime		
Individual/HUF/AOP/(other than an AOP consisting of only companies as members)/ BOI/ Artificial juridical person		
(i)	Where the total income (including dividend income and capital gains chargeable to tax u/s 111A, 112A, & 112) > ₹ 50 lakh but is ≤ ₹ 1 crore	10%
(ii)	Where the total income (including dividend income and capital gains chargeable to tax u/s 111A, 112A, & 112) > ₹ 1 crore but is ≤ ₹ 2 crore	15%
(iii)	- Where the total income (excluding dividend income and capital gains chargeable to tax u/s 111A, 112A, & 112) > ₹ 2 crore but is ≤ ₹ 5 crore - Rate of surcharge on the income-tax payable on the portion of dividend income and capital gains chargeable to tax u/s 111A, 112A, & 112	25% Not exceeding 15%
(iv)	Where the total income (including dividend income and capital gains chargeable to tax u/s 111A, 112A, & 112) > ₹ 2 crore in cases not covered in (iii) above	15%
Under the optional tax regime as per the normal provisions of the Act		
Individual/ HUF/ AOP (other than an AOP consisting of only companies as members)/ BOI/ Artificial juridical person		
(i)	Where the total income (including dividend income and capital gains chargeable to tax u/s 111A, 112A, & 112) > ₹ 50 lakh but is ≤ ₹ 1 crore	10%
(ii)	Where the total income (including dividend income and capital gains chargeable to tax u/s 111A, 112A, & 112) > ₹ 1 crore but is ≤ ₹ 2 crore	15%
(iii)	- Where the total income (excluding dividend income and capital gains chargeable to tax u/s 111A, 112A, & 112) > ₹ 2 crore but is ≤ ₹ 5 crore - Rate of surcharge on the income-tax payable on the portion of dividend income and capital gains chargeable to tax u/s 111A,	25% Not exceeding 15%

	112A, & 112	
(iv)	- Where the total income (excluding dividend income and capital gains chargeable to tax u/s 111A, 112A, & 112) \leq ₹ 5 crore - Rate of surcharge on the income-tax payable on the portion of dividend income and capital gains chargeable to tax u/s 111A, 112A, & 112	37% Not exceeding 15%
(v)	- Where the total income (including dividend income and capital gains chargeable to tax u/s 111A, 112A, & 112) $>$ ₹ 2 crore in cases not covered in (iii) and (iv) above	15%

In case of an AOP consisting of only companies as members

(i)	Where total income $>$ ₹ 50 lakhs but is \leq ₹ 1 crore	10%
(ii)	Where the total income $>$ ₹ 1 crore	15%

Firm/Limited Liability Partnership/Local Authorities

	Where the total income $>$ ₹ 1 crore	12%
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Co-operative societies (other than a co-operative society opting for section 115BAD or section 115BBE)

	Total income $>$ ₹ 1 crore but is \leq ₹ 10 crore	7%
	Total income is $>$ ₹ 10 crore	12%

Domestic company (other than a domestic company opting for section 115BAA or section 115BAB)

	Total income $>$ ₹ 1 crore but is \leq ₹ 10 crore	7%
	Total income is $>$ ₹ 10 crore	12%

Foreign company

	Total income $>$ ₹ 1 crore but is \leq ₹ 10 crore	2%
	Total income is $>$ ₹ 10 crore	5%

Rebate under section 87A:

Under default tax regime

- (i) Where total income \leq ₹ 7,00,000 - Rebate of up to ₹ 25,000 for resident individuals
(ii) Where total income $>$ ₹ 7,00,000 and income-tax payable on such total income exceeds the amount by which the total income is in excess of ₹ 7,00,000 - Rebate of tax on total income as reduced by the total income exceeding ₹ 7,00,000 for resident individuals.

Under normal provisions of the Act

Rebate of up to ₹ 12,500 for resident individuals having total income of up to ₹ 5 lakh.

“Health and Education cess” on Income-tax: 4% of income-tax and surcharge, if applicable

Agricultural income is exempt under section 10(1).

However, agricultural income has to be aggregated with non-agricultural income for determining the rate at which non-agricultural income would be subject to tax, in case of individuals, HUF, AOPs & BOIs etc., where the –

- agricultural income exceeds ₹ 5,000 p.a. and
- non-agricultural income exceeds basic exemption limit.

The following are the steps to be followed in computation of tax-

Step 1: Tax on non-agricultural income plus agricultural income

Step 2: Tax on agricultural income plus basic exemption limit

Step 3: Tax payable by the assessee = Step 1 – Step 2

Step 4: Add Surcharge/Deduct Rebate u/s 87A, if applicable.

Step 5: Add Health and Education Cess @4%.

Question 1: Based on Tax liability & Marginal relief

Compute the tax liability of Mr. Raja (aged 42 years), having total income of ₹51.5 lakhs for the AY 2024-25. Assume that his total income comprises of salary income, income from house property and interest from saving bank account. Also, assume that Mr. Raja has not opted for the provisions of section 115BAC.

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

	Particulars	₹	₹
(A)	Tax payable including surcharge on total income of ₹ 51,50,000		
	₹2,50,000 – ₹ 5,00,000 @5%	12,500	
	₹ 5,00,000 – ₹ 10,00,000 @20%	1,00,000	
	₹ 10,00,000 – ₹ 51,50,000 @30%	12,45,000	
	Total	13,57,500	
	Add: Surcharge @10%	1,35,750	14,93,250
(B)	Tax Payable on total income of ₹50 lakhs (₹12,500 plus ₹1,00,000 plus ₹12,00,000)		13,12,500
(C)	Total Income less ₹50 lakhs		1,50,000
(D)	Tax payable on total income of ₹50 lakhs plus the excess of total income over ₹50 lakhs (B+C)		14,62,500
(E)	Tax payable: Lower of (A) and (D)		14,62,500
	Add: Health and education cess @4%		58,500
	Tax Liability		15,21,000
(F)	Marginal Relief (A – D)		30,750

Question 2: Based on Marginal Relief

Compute the tax liability of Mr. Akash (aged 55 years), having total income of ₹ 1,02,00,000 for the AY 2024-25. Assume that his total income comprises of salary income, income from house property and interest from fixed deposit account. Also, assume that Mr. Akash has not opted for the provisions of section 115BAC.

Solution: Computation of tax liability of Mr. Akash for the AY 2024-25

	Particulars	₹	₹
(A)	Tax payable including surcharge on total income of ₹1,02,00,000		
	₹ 2,50,000 – ₹5,00,000 @ 5%	12,500	
	₹ 5,00,000 – ₹10,00,000 @20%	1,00,000	
	₹ 10,00,000 – ₹1,02,00,000 @30%	27,60,000	
	Total	28,72,500	
	Add: Surcharge @ 15%	4,30,875	33,03,375
(B)	Tax payable on total income of 1 crore (₹ 12,500 + ₹1,00,000 + ₹27,00,000)		28,12,500
	Add: Surcharge @ 10%		2,81,250
	Total		30,93,750
(C)	Total income (-) ₹1 crore		2,00,000
(D)	Tax payable on total income of ₹1 crore (+) excess of total income over ₹1 crore (B+C)		32,93,750
(E)	Tax payable: Lower of (A) and (D)		32,93,750
	Add: Health and education cess @ 4%		1,31,750
	Tax liability		34,25,500
(F)	Marginal relief (A-D)		9625

Question 3: Based on Tax liability & Marginal relief

Compute the tax liability of Mr. Deepak (aged 57 years), having total income of ₹2,02,00,000 for the AY 2024-25. Assume that his total income comprises of salary income, income from house property and interest from fixed deposit account. Also, assume that Mr. Deepak has not opted for the provisions of section 115BAC.

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

	Particulars	₹	₹
(A)	Tax payable including surcharge on total income of ₹ 2,02,00,000		
	₹ 2,50,000 – ₹ 5,00,000 @5%	12,500	
	₹ 5,00,000 – ₹ 10,00,000 @20%	1,00,000	
	₹ 10,00,000 – ₹ 2,02,00,000 @30%	57,60,000	
	Total	58,72,500	
	Add: Surcharge @25%	14,68,125	73,40,625
(B)	Tax Payable on total income of ₹2 crore (₹12,500 plus ₹1,00,000 plus ₹57,00,000)		58,12,500
	Add: Surcharge @15%		8,71,875
	Total		66,84,375
(C)	Total Income (-) ₹2 crore		2,00,000
(D)	Tax payable on total income of ₹2 crore plus the excess of total income over ₹2 crore(B+C)		68,84,375
(E)	Tax payable: Lower of (A) and (D)		68,84,375
	Add: Health and education cess @4%		2,75,375
	Tax Liability		71,59,750
(F)	Marginal Relief (A – D)		4,56,250

Question 4: Based on Marginal relief of domestic company

Compute the marginal relief available to X Ltd., a domestic company, assuming that the total income of X Ltd. is ₹ 1, 01,00,000 for A.Y.2024-25 and the total income does not include any income in the nature of capital gains. Assume that the company has not exercised option under section 115BAA or 115BAB.

[Note - The gross receipts of X Ltd. for the P.Y.2021-22 is ₹402 crore]

Solution:

The tax payable on total income of ₹1,01,00,000 of X Ltd. computed @32.1% (including surcharge @7%) is ₹32,42,100. However, the tax cannot exceed ₹31,00,000 (i.e. the tax of ₹30,00,000 payable on total income of ₹1 crore plus ₹1,00,000, being the amount of total income exceeding ₹1 crore). Therefore, the tax payable on ₹1,01,00,000 would be ₹31,00,000. The marginal relief is ₹ 1,42,100 (i.e., ₹32,42,100 - ₹31,00,000).

(HEC @ 4%)

Question 5: Who is an “Assessee”?

Solution:

As per section 2(7), assessee means a person by whom any tax or any other sum of money is payable under the Income-tax Act, 1961.

In addition, the term includes –

1. Every person in respect of whom any proceeding under the Act has been taken for the assessment of –
 - His income; or

- The income of any other person in respect of which he is assessable; or
 - The loss sustained by him or by such other person; or
 - The amount of refund due to him or to such other person.
2. Every person who is deemed to be an assessee under any provision of the Act;
 3. Every person who is deemed to be an assessee in default under any provision of the Act.

Question 6: Based on tax liability

Find out the tax liability in the cases given below for the AY 2024-25 [these tax payers do not want to opt for the alternative tax regime u/s 115BAC] Assume that, applicable tax rate u/s 112 is 20 per cent

Different taxpayers ₹	Dividend ₹	Capital gain under section			Other Income ₹	Total ₹
		111A	112	112A		
X (46 years) resident	-	6,00,000	3,00,000	7,00,000	59,00,000	75,00,000

Solution:

Tax liability in case of X – Total income of X (including income taxable u/s 111A, 112 and 112A) exceeds Rs 50 lakh but does not exceed Rs 1 crore. Applicable surcharge in this case is 10% (on the income tax pertaining to income taxable u/s 111A, 112 and 112A as well as other income). Tax liability will be as follows-

Particulars	Section 111A (IT rate: 15%)	Section 112 (IT rate: 20%)	Section 112A (IT rate: 10% on capital gain exceeding Rs 1 lakh)	Other income ₹	Total ₹
Income tax	90,000	60,000	60,000	15,82,500	17,92,500
Surcharge	9,000	6,000	6,000	1,58,250	1,79,250
Income tax & surcharge	99,000	66,000	66,000	17,40,750	19,71,750
HEC @4%	3,960	2,640	2,640	69,630	78,870
Tax liability	1,02,960	68,640	68,640	18,10,380	20,50,620

Question 7: Based on tax liability

Find out the tax liability in the cases given below for the AY 2024-25 [these tax payers do not want to opt for the alternative tax regime u/s 115BAC] Assume that, applicable tax rate u/s 112 is 20 per cent

Different taxpayers ₹	Dividend ₹	Capital gain under section			Other Income ₹	Total ₹
		111A	112	112A		
Y (62 years) resident	-	8,00,000	2,00,000	14,00,000	1,56,00,000	1,80,00,000

Solution:

Tax liability in case of Y– TI of Y (including income taxable u/s 111A, 112 and 112A) exceeds Rs 1 crore but does not exceed Rs 2 crore. Applicable surcharge in this case is 15% (on the income tax pertaining to income taxable u/s 111A, 112 and 112A as well as other income). Tax liability will be as follows-

Particulars	Section 111A (IT rate: 15%)	Section 112 (IT rate: 20%)	Section 112A (IT rate: 10% on capital gain exceeding Rs 1 lakh)	Other income ₹	Total ₹
Income tax	1,20,000	40,000	1,30,000	44,90,000	47,80,000
Surcharge	18,000	6,000	19,500	6,73,500	7,17,000
Income tax & surcharge	1,38,000	46,000	1,49,500	51,63,500	54,97,000
HEC @4%	5,520	1,840	5,980	2,06,540	2,19,880
Tax liability	1,43,520	47,840	1,55,480	53,70,040	57,16,880

Question 8: Based on tax liability

Find out the tax liability in the cases given below for the or 2024-25 [these tax payers do not want to opt for the alternative tax regime under section 115BAC]

Different taxpayers ₹	Dividend ₹	Capital gain under section			Other Income ₹	Total ₹
		111A	112	112A		
Z (24 years) resident	13,00,000	3,00,000	1,00,000	2,00,000	3,34,00,000	3,53,00,000

Assume that, applicable tax rate under section 112 is 20 per cent

Solution:

Tax liability in case of Z- TI of Z (including income taxable u/s 111A, 112 and 112A) exceeds Rs 2 crore but does not exceed Rs 5 crore. Applicable surcharge in this case is 15% on the income tax pertaining to income taxable u/s 111A, 112 and 112A and dividend income and 25% on other incomes. Tax liability will be as follows-

Particulars	Rs
Dividend Income	13,00,000
Short term capital gain [sec. 111A]	3,00,000
Long term capital gain [sec. 112]	1,00,000
Long term capital gain [sec. 112A]	2,00,000
Other Income	3,34,00,000
Net Income	3,53,00,000
Tax on net income	
Short term capital gain [sec. 111A] (15% of Rs 3,00,000)	45,000
Long term capital gain [sec. 112] (20% of Rs 1,00,000)	20,000
Long term capital gain [sec. 112A] (10% of Rs 1,00,000)	10,000
Other Income	
- Normal tax on Rs 3,47,00,000	1,02,22,500
▪ Tax on dividend income (Rs 13,00,000 ÷ Rs 3,47,00,000 x Rs 1,02,22,500)	3,82,976
▪ Tax on balance of Rs 3,34,00,000 (Rs 3,34,00,000 ÷ Rs 3,47,00,000 x Rs 1,02,22,500)	98,39,524
Income tax	1,02,97,500
Add: Surcharge	
Surcharge on dividend income (15% of Rs 3,52,976)	57,446
Surcharge on Short term capital gain (15% of Rs 45,000)	6,750
Surcharge on Long term capital gain (15% of Rs 20,000)	3,000
Surcharge on Long term capital gain (15% of Rs 10,000)	1,500
Surcharge on balance (25% of Rs 98,39,524)	24,59,881
Total surcharge	25,28,577
Income tax and surcharge	1,28,26,077

Add: Health and education cess @4%	5,13,043
Tax liability (rounded off)	1,33,39,120

Question 9: Based on tax liability

Find out the tax liability in the cases given below for the AY 2024-25 [these tax payers do not want to opt for the alternative tax regime under section 115BAC] Assume that, applicable tax rate under section 112 is 20 per cent

Different taxpayers ₹	Dividend ₹	Capital gain under section			Other Income ₹	Total ₹
		111A	112	112A		
A (52 years) resident	49,00,000	1,00,000	2,00,000	8,00,00,000	6,59,00,000	15,11,00,000

Solution:

Tax liability in case of A – TI of A (excluding dividend income and income taxable u/s 111A, 112 and 112A) exceed Rs 5 crore. Applicable surcharge in this case is 15% on the income tax pertaining to income taxable u/s 111A, 112 and 112A and dividend income and 37% on other incomes. Tax liability will be as follows-

Particulars	Rs
Dividend Income	49,00,000
Short term capital gain [sec. 111A]	1,00,000
Long term capital gain [sec. 112]	2,00,000
Long term capital gain [sec. 112A]	8,00,00,000
Other Income	6,59,00,000
Net Income	15,11,00,000
Tax on net income	
Short term capital gain [sec. 111A](15% of Rs 1,00,000)	15,000
Long term capital gain [sec. 112] (20% of Rs 2,00,000)	40,000
Long term capital gain [sec. 112A] (10% of Rs 7,99,00,000)	79,90,000
Other Income	
- Normal tax on Rs 7,08,00,000	(2,10,52,500)
▪ Tax on dividend income (Rs 49,00,000 ÷ Rs 7,08,00,000 x Rs 2,10,52,500)	14,57,023
▪ Tax on balance of Rs 3,34,00,000 (Rs 6,59,00,000 ÷ Rs 7,08,00,000 x Rs 2,10,52,500)	1,95,95,477
Income tax	2,90,97,500
Add: Surcharge	
Surcharge on dividend income (15% of Rs 14,57,023)	2,18,553
Surcharge on Short term capital gain (15% of Rs 15,000)	2,250
Surcharge on Long term capital gain (15% of Rs 40,000)	6,000
Surcharge on Long term capital gain (15% of Rs 7,99,00,000)	11,98,500
Surcharge on balance (37% of Rs 1,95,95,477)	72,50,326
Total surcharge	86,75,629
Income tax and surcharge	3,77,73,129
Add: Health and education cess @4%	15,10,925
Tax liability (rounded off)	3,92,84,050

Question 10: Based on tax liability

Find out the tax liability in the cases given below for the AY 2024-25 [these tax payers do not want to opt for the alternative tax regime u/s 115BAC] Assume that, applicable tax rate u/s 112 is 20 per cent

Different taxpayers ₹	Dividend ₹	Capital gain under section			Other Income ₹	Total ₹
		111A	112	112A		
B (41 years) resident	-	1,00,00,000	68,00,000	2,00,000	70,00,000	2,40,00,000

Solution:

Tax liability in case of B – TI of B (including income taxable u/s 111A, 112 and 112A) exceed Rs 2 crore. His TI (excluding income taxable u/s 11A, 112 and 112A) does not exceed Rs 2 crore. Applicable surcharge in this case is 15% on the income tax pertaining to income taxable u/s 111A, 112 and 112A and 15% on other incomes. Tax liability will be as follows-

Particulars	Section 111A (IT rate: 15%)	Section 112 (IT rate: 20%)	Section 112A (IT rate: 10% on capital gain exceeding Rs 1 lakh)	Other income ₹	Total ₹
Income tax	15,00,000	13,60,000	10,000	19,12,500	47,82,500
Surcharge	2,25,000	2,04,000	1,500	2,86,875	7,17,375
Income tax & surcharge	17,25,000	15,64,000	11,500	21,99,375	54,99,875
HEC @4%	69,000	62,560	460	87,975	2,19,995
Tax liability	17,94,000	16,26,560	11,960	22,87,350	57,19,870

Question 11: Based on tax liability

Find out the tax liability in the cases given below for the AY 2024-25 [these tax payers do not want to opt for the alternative tax regime under section 115BAC]

Different taxpayers ₹	Dividend ₹	Capital gain under section			Other Income ₹	Total ₹
		111A	112	112A		
C (40 years) resident	-	7,00,00,000	1,90,00,000	-	60,00,000	9,50,00,000

Assume that, applicable tax rate under section 112 is 20 per cent

Solution:

Tax liability in case of C – TI of C (including income taxable u/s 111A, 112 and 112A) exceed Rs 5 crore. Surcharge in this case is 15% on the income tax pertaining to income taxable u/s 111A, 112 and 112A and 15% on other incomes. Tax liability will be as follows-

Particulars	Section 111A (IT rate: 15%)	Section 112 (IT rate: 20%)	Section 112A (IT rate: 10% on capital gain exceeding Rs 1 lakh)	Other income ₹	Total ₹
Income tax	1,05,00,000	38,00,000	Nil	16,12,500	1,59,12,500
Surcharge	15,75,000	5,70,000	Nil	2,41,875	23,86,875
Income tax & surcharge	1,20,75,000	43,70,000	Nil	18,54,375	1,82,99,375
HEC @4%	4,83,000	1,74,800	Nil	74,175	7,31,975
Tax liability	1,25,58,000	45,44,800	Nil	19,28,550	1,90,31,350

Question 12: Based on tax liability

Find out the tax liability in the cases given below for the AY 2024-25 [these tax payers do not want to opt for the alternative tax regime under section 115BAC] Assume that, applicable tax rate under section 112 is 20 per cent

Different taxpayers ₹	Dividend ₹	Capital gain under section			Other Income ₹	Total ₹
		111A	112	112A		
D (32 years) resident	-	80,000	10,000	5,10,000	48,00,000	54,00,000

Solution:

Tax liability in case of D – Total income of D (including income taxable u/s 111A, 112 and 112A) exceeds Rs 50 lakh but does not exceed Rs 1 crore. Surcharge in this case is 10% on the income tax pertaining to income taxable u/s 111A, 112 and 112A and as well as other incomes. Tax liability will be as follows-

Particulars	Section 111A (IT rate: 15%)	Section 112 (IT rate: 20%)	Section 112A (IT rate: 10% on capital gain exceeding Rs 1 lakh)	Other income ₹	Total ₹
Income tax	10,000	2,000	41,000	12,52,500	13,07,500
Surcharge	1,200	200	4,100	1,25,250	1,30,750
Income tax & surcharge	13,200	2,200	45,100	13,77,750	14,38,250
HEC @4%	528	88	1,804	55,110	57,530
Tax liability	13,728	2,288	46,904	14,32,860	14,95,780

Question 13: Based on tax liability

Find out the tax liability in the cases given below for the AY 2024-25 [these tax payers do not want to opt for the alternative tax regime under section 115BAC] Assume that, applicable tax rate under section 112 is 20 per cent

Different taxpayers ₹	Dividend ₹	Capital gain under section			Other Income ₹	Total ₹
		111A	112	112A		
E (64 years) non-resident	-	4,10,000	1,70,000	1,20,000	97,00,000	1,04,00,000

Solution:

Tax liability in case of E – Total income of E (including income taxable u/s 111A, 112 and 112A) exceeds Rs 1 lakh but does not exceed Rs 2 crore. Surcharge in this case is 15% on the income tax pertaining to income taxable u/s 111A, 112 and 112A and as well as other incomes. He is non-resident. Tax liability will be as follows-

Particulars	Section 111A (IT rate: 15%)	Section 112 (IT rate: 20%)	Section 112A (IT rate: 10% on capital gain exceeding Rs 1 lakh)	Other income ₹	Total ₹
Income tax	61,500	34,000	2,000	27,22,500	28,20,000
Surcharge	9,225	5,100	300	4,08,375	4,23,000
Income tax & surcharge	70,725	39,100	2,300	31,30,875	32,43,000

HEC @4%	2,829	1,564	92	1,25,235	1,29,720
Tax liability	73,554	40,664	2,392	32,56,110	33,72,720

Question 14: Based on tax liability

Find out the tax liability in the cases given below for the AY 2024-25 [these tax payers do not want to opt for the alternative tax regime u/s 115BAC] Assume that, applicable tax rate u/s 112 is 20 per cent

Different taxpayers ₹	Dividend ₹	Capital gain under section			Other Income ₹	Total ₹
		111A	112	112A		
F (28 years) resident	-	39,00,000	3,00,000	70,000	6,00,000	48,70,000

Solution:

Tax liability in case of F – TI of F (including income taxable u/s 111A, 112 and 112A) does not exceed Rs 50 lakh. Surcharge is not applicable in this case. Tax liability will be as follows-

Particulars	Section 111A (IT rate: 15%)	Section 112 (IT rate: 20%)	Section 112A (IT rate: 10% on capital gain exceeding Rs 1 lakh)	Other income ₹	Total ₹
Income tax	5,85,000	60,000	Nil	32,500	6,77,500
Surcharge	Nil	Nil	Nil	Nil	Nil
Income tax & surcharge	5,85,000	60,000	Nil	32,500	6,77,500
HEC @4%	23,400	2,400	Nil	1,300	27,100
Tax liability	6,08,400	62,400	Nil	33,800	7,04,600

Question 15: Based on tax liability

Find out the tax liability in the cases given below for the AY 2024-25 [these tax payers do not want to opt for the alternative tax regime u/s 115BAC] Assume that, applicable tax rate under section 112 is 20 per cent

Different taxpayers ₹	Dividend ₹	Capital gain under section			Other Income ₹	Total ₹
		111A	112	112A		
G (59 years) resident	-	-	-	6,01,00,000	9,00,000	6,10,00,000

Solution:

Tax liability in case of F – Total income of F (including income taxable u/s 111A, 112 and 112A) does not exceed Rs 5 crore. Surcharge in this case is 15% (on income-tax pertaining to section 112A as well as other income). Tax liability will be as follows-

Particulars	Section 111A (IT rate: 15%)	Section 112A (IT rate: 10% on capital gain exceeding Rs 1 lakh)	Other income ₹	Total ₹
Income tax	-	60,00,000	92,500	60,92,500
Surcharge	-	9,00,000	13,875	9,13,875
Income tax & surcharge	-	69,00,000	1,06,375	70,06,375
HEC @4%	-	2,76,000	4,255	4,255
Tax liability	-	71,76,000	1,10,630	72,86,630

Question 16: Based on tax liability

Mr. X has a total income of ₹ 16,00,000 for P.Y.2023-24, comprising of income from house property and interest on fixed deposits. Compute his tax liability for A.Y.2024-25 under the default tax regime under section 115BAC.

Solution: Tax liability: Computation of tax liability of Mr. X for AY 2024-25

Particulars	₹	₹	₹
First	₹ 3,00,000	Nil	-
Next	₹ 3,00,001 – ₹ 6,00,000	@5% of ₹3,00,000	15,000
Next	₹ 6,00,001 – ₹ 9,00,000	@10% of ₹3,00,000	30,000
Next	₹ 9,00,000 - ₹ 12,00,000	@15% of ₹3,00,000	45,000
Next	₹ 12,00,000 - ₹ 15,00,000	@20% of ₹3,00,000	60,000
Balance = ₹16,00,000 (-) ₹ 15,00,000		@30% of ₹ 1,00,000	30,000
			1,80,000
Add: Health and Education cess@4%			7,200
Total			1,87,200

Question 17: Based on sec 115BAC

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

Solution: Computation of tax liability of Mr. B for the AY 2024-25

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

Question 18: Based on tax liability under both tax regime

Compute the tax liability of Mr. D (aged 65) in a most beneficial manner total income of ₹ 5,01,00,000 for AY 2024-25. Assume that his total income comprises of salary income, income from HP ad interest on fixed deposit & is same under both tax regime.

Solution: Computation of tax liability of Mr. D under the default tax regime the default tax regime for AY 2024-25

Particulars	₹	₹
IT including surcharge on total income of ₹ 5,01,00,000		
₹3,00,000 – ₹ 6,00,000 @5%	15,000	
₹ 6,00,000 – ₹ 9,00,000 @10%	30,000	
₹ 9,00,000 – ₹ 12,00,000 @15%	45,000	
₹ 12,00,000 - ₹ 15,00,000 @20%	60,000	
₹ 15,00,000 - ₹ 5,01,00,000@30%	1,45,80,000	
Total	1,47,30,000	
Add: Surcharge 25%	36,82,500	1,84,12,500
Add: Health and education cess @4%		7,36,500
Tax Liability		1,91,49,000

Computation of tax liability of Mr. D under the optional tax regime the default tax regime for AY 2024-25

	Particulars	₹
(A)	IT including surcharge on total income of ₹ 5,01,00,000	
	₹3,00,000 – ₹ 5,00,000 @5%	10,000
	₹ 5,00,000 – ₹ 10,00,000 @20%	1,00,000
	₹ 10,00,000 - ₹ 5,01,00,000 @30%	1,47,30,000
	Total	1,48,40,000
	Add: Surcharge @37%	54,90,800
		2,03,30,800
(B)	IT computed on total income of ₹ 5 crore (₹ 10,000 + ₹ 1,00,000 + ₹ 1,47,00,000)	1,48,10,000
	Add: Surcharge @25%	37,02,500
	Total	1,85,12,500
(C)	Total Income less ₹ 5 crore	1,00,000
(D)	IT on total income of ₹ 5 crore plus the excess of total income over ₹ 5 crore (B+C)	1,86,12,500
(E)	Tax liability Lower of (A) and (D)	1,86,12,500
	Add: Health and education cess @4%	7,44,500
	Tax Liability	1,93,57,000
(F)	Marginal Relief (A – D)	17,18,300

Question 19: Based on tax liability u/s 115BAC

Mr. Pawan aged 35 years and a resident in India, has a total income of ₹ 7,15,000, comprising his salary income and interest on bank fixed deposit. Compute his tax liability for A.Y.2024-25 under default tax regime under section 115BAC.

Solution: Computation of tax liability of Mr. Pawan for A.Y 2024-25

Particulars	₹	
Step 1: Total Income of ₹ 7,15,000 - ₹ 7,00,000	15,000	A
Step 2: Tax on total income of ₹ 7,15,000		
Tax@10%of ₹ 1,15,000 + ₹ 15,000	26,000	B
Step 3: Since B>A, rebate u/s 87A would be B-A [₹ 26,500 - ₹ 15,000	11,500	
	15000	
Add: Health and education cess @4%	600	
Tax Liability	15,600	

Summary					
(1) Section	(2) 6(1)	(3) 6(1)	(4) 6(1)	(5) 6(1)	(6) 6(1A)
Main conditions	All individuals [Other than (3), (4) and (5)] [Either (a) or (b) should be satisfied for being a resident]	Indian citizen leaving India in relevant P.Y. for employment or as member of crew of Indian ship	Indian citizen or PIO residing outside India visiting India during the relevant P.Y. and having total income (excl. Income from foreign sources) \leq ₹ 15 lakh	Indian citizen or PIO residing outside India visiting India during the relevant P.Y. and having total income (excl. Income from foreign sources) $>$ ₹ 15 lakh	Deemed resident – Indian citizen whose total income (excl. Income from foreign sources) $>$ ₹ 15 lakh, who is not liable to tax in any other country
(a) \geq 182 days in the relevant P.Y.	✓ (OR)	✓	✓	✓	x
(b) \geq 60 days in the relevant P.Y. + \geq 365 days in 4 immediately preceding PYs	✓	x	x	\geq 120 days in the relevant P.Y. + \geq 365 days in 4 immediately preceding PYs	x
Additional conditions	Section 6(6)			Section 6(6)	Section 6(6)
(i) \geq 730 days in in 7 immediately preceding PYs	If both (i) and (ii) are satisfied, ROR. Otherwise RNOR i.e., if either (i) or (ii) are satisfied or neither (i) nor (ii) are satisfied, RNOR.			By default RNOR, if individual becomes resident due to the fulfillment of modified	By default RNOR
(ii) Resident for \geq 2 years out of the 10					

Immediately preceding PYs		second condition above	
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Notes -		
<p>(1) Section 6(1A) would not apply in case of an individual who is said to be resident in India in the previous year under section 6(1).</p> <p>(2) A person is said to be of Indian origin if he or either of his parents or either of his grandparents was born in undivided India</p> <p>(3) "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) and which is not deemed to accrue or arise in India.</p>		
(II)	HUF [ROR/RNOR/non-resident]	<p>A HUF would be resident in India if the control and management of its affairs is situated wholly or partly in India.</p> <p>If the control and management of the affairs is situated wholly outside India, it would become a non-resident.</p> <p>If the HUF is resident, then the satisfaction or otherwise of additional conditions by Karta would determine whether the HUF is ROR or RNOR.</p> <p>If Karta satisfies both the additional conditions [(i) & (ii)] in (I) above, then, the HUF would be ROR. Otherwise, the HUF would be RNOR.</p>
(III)	Firms, AOPs and BOIs [Resident/Non-resident]	<p>(i) A firm, AOP or BOI would be resident in India, if the control and management of its affairs is situated wholly or partly in India.</p> <p>(ii) If the control and management of the affairs is situated wholly outside India, they would become a non-resident.</p>
(IV)	Companies [Resident/Non-resident]	<p>(i) A company would be resident in India in any previous year, if it is an Indian company or its place of effective management (POEM) in that year, is in India.</p> <p>(ii) If the company is not an Indian Company and its POEM is also not in India in that year, it would become a non-resident for that year.</p>

Section 5 [Scope of Total Income]		
Resident and Ordinarily Resident	Resident but not Ordinarily Resident	Non-Resident
<p>Income received/ deemed to be received/ accrued or arisen/ deemed to accrue or arise in or outside India.</p> <p>In short, the global income is taxable.</p>	<p>Income which is received/ deemed to be received/ accrued or arisen/ deemed to accrue or arise in India;</p> <p>AND</p> <p>Income which accrues or arises outside India being derived from a business controlled in or profession set up in India.</p>	<p>Income received/ deemed to be received/ accrued or arisen/ deemed to accrue or arise in India.</p>

Question 1: Based on ship crew member

Mr. Anand is an Indian citizen & a member of the crew of a Singapore bound Indian Ship engaged in carriage of passengers in International traffic departing from Chennai port on 6th June 2023. From the following details for the PY 2023-24, determine the residential status of Mr. Anand for AY 2024-25, assuming that his stay in India in the last 4 PYs (Preceeding PY 2023-24) is 400 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

Solution:

In this case, since Mr. Anand is an Indian Citizen & leaving India during PY 2023-24 as a crew member of the Indian Ship, he would be resident in India if he stayed in India for 182 days or more. The voyage is undertaken by Indian Ship engaged in the carriage of passengers in international traffic, originating from a port in India (i.e Chennai Port) & having its destination at a port outside India (i.e Singapore Port). Hence, the voyage is an eligible voyage for the purpose of Sec 6(1). Therefore, the period beginning from 06th June 2023 & ending on 9th December, 2023 being the date entered into the Continuous Discharge Certificate in respect of joining the ship & 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 stay in India. Accordingly, 187 days (25+31+31+30+31+30+9) have to be excluded from the period of stay in India. Consequently, Mr Anand's period of stay in India during the PY 2023-24 would be 179 days (366 days – 187 days). Since his period of stay in India during the PY 2023-24 is less than 182 days, he is a non-resident for AY 2024-25.

Question 2: Based on services render outside India & salary received by GOI

J, a citizen of India, employed in the Indian Embassy at Tokyo, Japan. He received salary and allowances at Tokyo from the Government of India for the year ended 31.3.2024 for services rendered by him in Tokyo. Besides, he was allowed perquisites by the Government. He is a non- resident for the AY 2024-25. Examine the taxability of salary, allowances and perquisites for the AY 2024-25.

Solution:

As per sec 9(1)(iii), salaries payable by the Government to a citizen of India for services rendered outside India shall be deemed to accrue or arise in India. As such, salary received by J is chargeable to tax, even though he was a non-resident for A.Y. 2024-25.

As per section 10(7), all allowances or perquisites paid or allowed as such outside India by the Government to a citizen of India for rendering services outside India is exempt from tax. Therefore, the allowances and perquisites received by J are exempt as per section 10(7).

Question 3: Based on sec 9

Examine with reasons whether the following transactions attract income-tax in India, in the hands of recipients u/s 9 of IT Act, 1961:

1. A NR German company, which did not have a permanent establishment in India, entered into an agreement for execution of electrical work in India. Separate payments were made towards drawings & designs, which were described as "Engineering Fee". The assessee contended that such business profits should be taxable in Germany as there is no business connection within the meaning of sec 9(1)(i) of the IT Act, 1961.
2. A firm of solicitors in Mumbai engaged a barrister in UK for arguing a case

before Supreme Court of India. A payment of 5000 pounds was made as per terms of professional engagement.

3. Amount paid by Government of India for use of a patent developed by Mr. A, who is a non-resident.
4. Sai Engineering, a NR foreign company entered into a collaboration agreement on 25/6/2023, with an Indian Co. and was in receipt of interest on 8% debentures for Rs.20 lakhs, issued by Indian Co., in consideration of providing technical know-how utilised in its business in Mumbai during PY 2023-24.

Solution:

1. Fees for technical services is taxable u/s 9(1)(vii). In this case, the separate payments made towards drawings and designs (described as “engineering fee”) are in the nature of fee for technical services and, therefore, it is taxable in India by virtue of section 9(1)(vii), since the services are utilized for execution of electrical work in India.
As per Explanation below section 9(2), where income is deemed to accrue or arise in India u/s 9(1)(vii), such income shall be included in the total income of the NR German company, regardless of whether it has a residence or place of business or business connection in India.
2. As per section 9(1)(i), all income accruing or arising, whether directly or indirectly, through or from any business connection in India is deemed to accrue or arise in India.
In this case, there was a professional connection between the firm of solicitors in Mumbai and the barrister in UK. The expression “business” includes not only trade and manufacture; it includes, within its scope, “profession” as well. Therefore, the existence of professional connection amounts to existence of “business connection” under section 9(1)(i). Hence, the amount of 5,000 pounds paid to the barrister in UK as per the terms of the professional engagement constitutes income which is deemed to accrue or arise in India u/s 9(1)(i). Hence, it is taxable in India.
3. As per section 9(1)(vi), income by way of royalty payable by the Government of India is deemed to accrue or arise in India. “Royalty” means consideration for, inter alia, use of patent. Therefore, the amount paid by Government of India for use of patent developed by Mr. A, a non-resident, is deemed to accrue or arise in India. Hence, it is taxable in India in the hands of Mr. A.
4. ₹ 20 lakhs, being the value of debentures issued by an Indian company in consideration of providing technical know-how for use in its business in India, is in the nature of fee for technical services, deemed to accrue or arise in India to Sai Engineering, a non-resident foreign company, u/s 9(1)(vii). Hence, it is taxable in India.
Further, as per section 9(1)(v), income by way of interest payable by a person who is a resident of India is deemed to accrue or arise in India. Therefore, interest income from debentures of an Indian company is deemed to accrue or arise in India in the hands of Sai Engineering by virtue of section 9(1)(v). Hence, it is taxable in India.

Question 4: Based on Residential status of HUF

The business of an HUF is transferred from Australia & all the policy decisions are taken there. Mr E, the Karta of the HUF, who was born in Kolkata, visits India during the PY after 15 years. He comes to India on 01.04.2023 & leaves for Australia on 01.12.2023. Determine the residential status of Mr. E & HUF for the AY.

Solution:

During the PY, Mr E has stayed in India for 245 days (i.e. 30+31+30+31+31+30+31+30+1 days). Therefore, he is a resident. However, since he has come to India after 15 years, he does not satisfy the condition for being ordinarily resident. Therefore, the residential status of Mr. E for the PY 23-24 is RNOR. Since the business of the HUF is transacted from Australia &

policy decisions are taken there, it is assumed that the control & management is in Australia i.e the control & management is wholly outside India. Therefore, the HUF is a non-resident for the PY 2023-24.

Question 5: Based on ROR, RNOR, NR

Mr. X earns the following income during the PY ended 31st March, 2024. Determine the income liable to tax for the AY 2024-25 if Mr. X is

(a) ROR, (b) RNOR, and (c) NR during the PY ended 31st Mar., 2024.

1. Profits on sale of a building in India but received in Holland – Rs. 20,000
2. Pension from former employer in India received in Holland – Rs. 14,000
3. Interest on U.K. Development Bonds (1/4 being received in India) – Rs. 20,000
4. Income from property in Australia and received in U.S.A. – Rs. 15,000
5. Income earned from a business in Abyssinia which is controlled from Zambia (Rs. 30,000 received in India) – Rs. 70,000
6. Dividend on shares of an Indian company but received in Holland – Rs. 10,000
7. Profits not taxed previously brought into India – Rs. 40,000
8. Profits from a business in Nagpur which is controlled from Holland – Rs. 27,000.

Solution:

Particulars	ROR	RNOR	NR
Profits on sale of a building in India but received in Holland (accrued in India received outside India)	20,000	20,000	20,000
Pension from former employer in India received in Holland (accrued in India, received out of India)	14,000	14,000	14,000
Interest on U.K. Development Bonds (Accrued out of India, 1/4th received in India)	5,000	5,000	5,000
Interest on U.K. Development Bonds (Accrued out of India, 3/4th received out of India)	15,000	NIL	NIL
Income from property in Australia and received in U.S.A. (Accrued and received out of India)	15,000	NIL	NIL
Income earned from a business in Abyssinia which is controlled from Zambia (Business controlled outside India)	70,000	30,000	30,000
Dividend on shares of an Indian company but received in Holland (Accrued in India)	10,000	10,000	10,000
Profits not taxed previously brought into India (Not an income so not taxable)	Nil	Nil	Nil
Profits from a business in Nagpur which is controlled from Holland (Accrued in India)	27,000	27,000	27,000
Total	1,76,000	1,06,000	1,06,000

Question 6: Based on ROR, RNOR, NR

A had the following income during the previous year ended 31st March, 2024:

1. Salary Received in India for three Months - Rs. 9,000 (Computed)
2. Income from house property in India - Rs. 13,470 (Computed)
3. Interest on Saving Bank Deposit in State Bank of India - Rs. 1,000
4. Amount brought into India out of the past untaxed profits earned in Germany -

Rs. 20,000

5. Income from agriculture in Indonesia being invested there - Rs. 12,350

6. Income from business in Bangladesh, being controlled from India - Rs. 10,150

7. Dividends received in Belgium from French companies, out of which Rs. 2,500 were remitted to India- Rs. 23,000

You are required to compute his total income for the AY 2024-25 if he is: (i) a resident; (ii) a not ordinarily resident, and (iii) a Non-resident.

Solution:

Particulars	ROR	RNOR	NR
Salary Received in India for three Months (Indian received in India)	9,000	9,000	9,000
Income from house property in India (Income accrue or arise in India)	13,470	13,470	13,470
Interest on Saving Bank Deposit in State Bank of India (Income accrue or arise in India)	1,000	1,000	1,000
Amount brought into India out of the past untaxed profits earned in Germany (not an income, hence not taxable)	Nil	Nil	Nil
Income from agriculture in Indonesia being invested there (Income accrue or arise in outside India)	12,350	Nil	Nil
Income from business in Bangladesh, being controlled from India (it is supposed that the money is not received in India) (Income accrued outside India from a business controlled from India)	10,150	10,150	Nil
Dividends received in Belgium from French companies (Income accrue outside India remittance is irrelevant)	23,000	Nil	Nil
Total	68,970	33,620	23,470

Question 7: Based on Sec, 6(1)

Mr. Guddu Pandit is an Indian citizen staying in Canada from past 10 years. He comes to visit in India during the PY on 16th June 2023 & earned the income from India amounting to ₹19,20,000 after all deductions. What will be his Residential Status for the AY 2024-25.

Solution:

As per Sec 6(1), an Indian Citizen who comes to visit in India or a person of Indian origin who visit India & earn more than 15 lakhs would be treated as resident if any of the following conditions are satisfied:

1) They stay in India for 182 days in PY or

2) Stay in India for 120 days or more in PY & 365 days or more in 4 Preceding PY

Since, Mr. Guddu Pandit stays for more than 182 days in PY, he would be regarded as Resident. Further, he will be treated as ROR if he satisfies both the conditions of Sec 6(6), otherwise he will be treated as RNOR.

Question 8: Based on Sec 6(1A)

Mr. Munna Bhaiya is an Indian citizen staying in Canada but not liable to tax either in Canada or any other country. He visited India on 04th July 2023. His earning from India amounts to ₹35,15,000 after all deductions. What will be his Residential Status for the AY 24-25

Solution:

As per Sec 6(1A), An Individual who is an Indian Citizen, having total income exceeding 15 lakhs other than from Foreign Sources, shall deemed to be resident in India if he is not liable to tax in any other country by reason of his Domicile or residence or any other criteria of similar nature. Further as per Sec 6(6), he will be treated as RNOR.

Hence, Munna Bhaiya will be treated as RNOR in India.

Question 9: Based on GTI of Govt. employee

Mr. David, an Indian citizen aged 40 years, a Government employee serving in the Ministry of External Affairs, left India for the first time on 31.03.2023 due to his transfer to High Commission of Canada. He did not visit India any time during the PY 2023-24. He has received the following income for the FY 2023-24:

Sr.no	Particulars	₹
(i)	Salary (Computed)	5,00,000
(ii)	Foreign Allowance	4,00,000
(iii)	Interest on fixed deposit from bank in India	1,00,000
(iv)	Income from agriculture in Nepal	2,00,000
(v)	Income from house property in Nepal	2,50,000

Compute his Gross Total Income for AY 2024-25.

Solution:

As per section 6(1), Mr. David is a NR for the A.Y. 2024-25, since he was not present in India at any time during the PY 2023-24. As per section 5(2), a NR is chargeable to tax in India only in respect of following incomes:

- (i) Income received or deemed to be received in India; and
- (ii) Income accruing or arising or deemed to accrue or arise in India.

In view of the above provisions, income from agriculture in Nepal and income from house property in Nepal would not be chargeable to tax in the hands of David, assuming that the same were received in Nepal. Income from 'Salaries' payable by the Government to a citizen of India for services rendered outside India is deemed to accrue or arise in India as per sec9(1)(iii). Hence, such income is taxable in the hands of Mr. David, even though he is a NR. However, allowances or perquisites paid or allowed as such outside India by the Government to a citizen of India for rendering service outside India is exempt u/s 10(7). Hence, foreign allowance of ₹4,00,000 is exempt u/s 10(7) in the hands of Mr. David.

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

Particulars	₹
Salaries (computed)	5,00,000
Income from other sources (Interest on fixed deposit in India)	1,00,000
Gross Total Income	6,00,000

Question 10: Based on Sec 6(1)

X is an Indian Citizen (or he is a person of Indian origin). He wants to know his residential status in India for the PY 2023-24 in the following different possible situations-

- a. If he visits India during the PY.2023-24 for less than 120 days; or
- b. If he visits India during the PY.2023-24 for 150 Days; or
- c. If he visits India during the PY.2023-24 for 180 Days or more.

Solution:

The table given below highlights the impact of amendment made by the Finance Act, 2020 in the case of an Indian citizen or person of Indian origin who visits India during the relevant PY.

How many days an Indian citizen /a person of Indian origin visits India during the relevant PY.		
Less than 120 Days	120 days or more but not more than 181 days	182 days or more
Non-resident in India	<ul style="list-style-type: none"> ❖ If he satisfies both of the following conditions, he will be RNOR – (i) During preceding 4 years, he was in India for 365 Days or more; and (ii) His taxable income (other than the income from foreign sources) exceeds Rs.15,00,000 During the relevant PY. 	<ul style="list-style-type: none"> ❖ If he satisfies both of the following conditions, he will be ROR (i) He has been resident in India in at least 2 out of 10 PY. Immediately Preceding the relevant PY; and (ii) He has been in India for a period of 730 days or more during 7 years immediately preceding the relevant previous year.
	<ul style="list-style-type: none"> ❖ If he satisfies one or none of the above two conditions, he will be Non-resident of India. 	<ul style="list-style-type: none"> ❖ If he satisfies one or none of the above two conditions, he will be RNOR

Question 11: Based on RS & total income

Mr. Dhanush, an Indian citizen aged 35 years, worked in ABC Ltd. in Mumbai. He got a job offer from XYZ Inc., USA on 01.06.2022. He left India for the first time on 31.07.2022 and joined XYZ Inc. on 08.08.2022. During the P.Y. 2023-24, Mr. Dhanush visited India from 25.05.2023 to 22.09.2023. He has received the following income for the PY 2023-24:

Particulars	₹
Salary from XYZ Inc., USA received in USA	7,00,000
Dividend from Indian companies	5,50,000
Agricultural income from land situated in Punjab	55,000
Rent received/receivable from house property in Lucknow	4,00,000
Profits from a profession in USA, which was set up in India, received there	6,00,000

Determine the residential status of Mr. Dhanush and compute his total income for the A.Y. 2023-24

Solution:

As per sec 6(1), an Indian citizen or a person of Indian origin who, being outside India, comes on a visit to India would be resident in India if he or she stays in India for a period of 182 days or more during the relevant PY in case such person has TI, other than the income from foreign sources, not exceeding ₹ 15 lakhs. However, if such person has total income, other than the income from foreign sources, exceeding ₹15 lakhs, he would also be a resident if he has been in India for at least 120 days during the relevant and has been in India during the 4 years immediately preceding the for a total period of 365 days or more. In such a case, he would be RNOR.

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) and which is not deemed to accrue or arise in India.

In this case, total income, other than the income from foreign sources, of Mr. Dhanush for P.Y. 2023-24 would be

Particulars		Amt (₹)
Salary from XYZ Inc., USA received in USA (Not included in total income, since it is income from foreign source)		-
Dividend from Indian companies (Included in total income, since deemed to accrue or arise in India)		5,50,000
Agricultural income from land situated in Punjab [Exempt u/s 10(1)]		-
Rent received/receivable from house property in Lucknow (Included in total income, since deemed to accrue or arise in India)	4,00,000	
Less: Standard Deduction (30% of ₹ 4 lakhs)	(1,20,000)	2,80,000
Profits from a profession in USA, which was set up in India, received there		6,00,000
Total income, other than the income from foreign sources		14,30,000

Question 12: Based on sec 6(1) & 6(1A)

Mr. Sarthak, an individual and Indian citizen living in Dubai, since year 2006 and never came to India for a single day since then, earned the following incomes during PY 2023-24:

Particulars	₹
(i) Income accrued and arisen in Dubai but he is not liable to tax in Dubai	20,00,000
(ii) Income accrued and arisen in India	5,00,000
(iii) Income deemed to accrue and arise in India	8,00,000
(iv) Income arising in Dubai from a profession set up in India	10,00,000

- I. Determine the residential status of Mr. Sarthak and taxable income for the PY 2023-24 (assuming no other income arise during the PY).
- II. What would be your answer if income arising in Dubai from a profession set up in India is ₹ 2 lakhs instead of ₹ 10 lakhs?
- III. What would be your answer, if Mr. Sarthak is not an Indian citizen but his parents were born in India?

Solution:

- I. Mr. Sarthak is an Indian citizen living in Dubai since 2005 who never came to India for a single day since then, he would not be a 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 Dubai,

he would be deemed resident in India for the P.Y. 2023-24 by virtue of section 6(1A). A deemed resident is always a resident but not ordinarily resident in India (RNOR).

Computation of Total Income for A.Y.2024-25

Particulars	₹
(i) Income accrued and arisen in Dubai (not taxable in case of an RNOR)	-
(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 Dubai from a profession set up in India would be taxable in case of RNOR	10,00,000
Total income	23,00,000

II. If income arising in Dubai from a profession set up in India is ₹ 2 lakhs instead of ₹ 10 lakhs, his TI (excluding income from foreign sources) would be only ₹ 15 lakhs. Since the same does not exceed the threshold limit of ₹ 15 lakhs, he would not be deemed resident.

Accordingly, he would be NR in India for the P.Y. 2023-24 and hence, his total income would be only ₹ 13 lakhs (aggregate of (ii) and (iii) above i.e., ₹ 5 lakhs + ₹ 8 lakhs).

III. If Mr. Sarthak is not an Indian citizen and his parents were born in India, he would be 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.

Summary	
Sections	Particulars of exempt income
10(1)	<p>Agricultural income is exempt under section 10(1). However, agricultural income has to be aggregated with non- agricultural income for determining the rate at which non- agricultural income would be subject to tax, in case of individuals, HUF, AOPs & BOIs etc., where the –</p> <ul style="list-style-type: none"> • agricultural income exceeds ₹ 5,000 p.a. and • non - agricultural income exceeds basic exemption limit. <p>The following are the steps to be followed in computation of tax-</p> <p>Step 1: Tax on non-agricultural income plus agricultural income Step 2: Tax on agricultural income plus basic exemption limit Step 3: Tax payable by the assessee = Step 1 – Step 2 Step 4: Add Surcharge/Deduct Rebate u/s 87A, if applicable. Step 5: Add Health and Education Cess@4%.</p>
10(2)	Since the HUF is taxed in respect of its income, the share income is exempt from tax in the hands of the member.
10(2A)	The partner's share in the total income of the firm or LLP is exempt from tax.
10(4)	Income by way of interest on moneys standing to his credit in a Non-resident (External) Account (NRE A/c), is exempt in the hands of an individual, being a person resident outside India as per the FEMA, 1999 or in the hands of an individual who has been permitted by the RBI to maintain such account.
10(6)	<p>Remuneration received by an individual, who is not a citizen of India, as an official of an embassy, high commission, legation, consulate or the trade representation of a foreign State or as a member of the staff of any of these officials would be exempt, subject to satisfaction of certain conditions:</p> <p>(i) such members of staff are subjects of the country represented and not engaged in any business or profession or employment in India otherwise than as members of such staff.</p> <p>(ii) remuneration of corresponding officials of the Government or members of the staff resident for similar purposes enjoy similar exemption in the other Country.</p>
10(10BC)	Compensation received or receivable from the Central Government, State Government or local authority by an individual or his legal heir on account of any disaster is exempt except to the extent of loss or damage allowed as deduction under the Act.
10(11A)	Any payment from Sukanya Samriddhi Account
10(16)	The value of scholarship granted to meet the cost of education would be exempt from tax in the hands of the recipient irrespective of the amount or source of scholarship.
10(17)	Daily allowance received by any Member of Parliament or of State Legislatures or any Committee thereof are exempt.
10(17A)	Payment, whether in cash or kind, in pursuance of an award instituted in public interest by the Govt or reward by the Govt. for approved purposes is exempt.
10(18)	Pension received by an individual who has been in service of Central or State Government and has awarded "ParamVir Chakra" or "Maha Vir Chakra" or "Vir Chakra" such other gallantry award as the Central Government notifies is exempt from tax.

10(26AAA)	Income from any source in the state of Sikkim, dividend income and interest on securities is exempt in the hands of a Sikkimese individual. This exemption is not available to a Sikkimese woman who, on or after 1st April, 2008, marries a non-Sikkimese individual.
10AA	Tax holiday for unit established in Special Economic Zones (SEZs), which begins to manufacture or produce articles or things or provide any service on or after 1.4.2005 but before 1.4.2021, for 15 consecutive assessment years in respect of its profits derived from exports of such articles or things or export of services (including computer software).

Question 1: Based on various exemption

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

- 1) Arvind received ₹20,000 as his share from the income of HUF.
- 2) Mr. Xavier, a 'Param Vir Chakra' awardee, who was formerly in service of Central Govt, received pension of ₹. 2,20,000 during FY 2023-24.
- 3) A political party registered u/s 29 A of the Representation of People Act, 1951 earned rental income of ₹. 6,00,000 by letting out premises.
- 4) Agricultural income to a resident of India from a land situated in Malaysia.
- 5) Allowance received by an employee working in a transport system at ₹. 10,000 per month to meet his personal expenditure while on duty. He is not receiving any daily allowance.
- 6) Rent of ₹72,000 received for letting out agricultural land for a movie shooting.

Solution:

Sr. No.	Taxable/Not Taxable	Amount liable to tax (₹)	Reason
1)	Not Taxable	-	Share received by member out of the income of the HUF is exempt u/s 10(2).
2)	Not Taxable	-	Pension received by Mr. Xavier, a former Central Government employee who is a, "Param Vir Chakra" awardee, is exempt under section 10(18).
3)	Not Taxable	-	Any income of a political party registered u/s 29A of the Representation of the People Act, 1951 which is chargeable, inter alia, under the head "Income from house property" is exempt u/s 13A provided the political party maintains such books of account as would enable the AO to properly deduce its income therefrom and the accounts are audited by a chartered accountant.
4)	Taxable	-	Agricultural income from a land in any foreign country is taxable in the case of a resident taxpayer as income under the head "IFOS". Exemption u/s 10(1) is not available in respect of such income.
5)	Partly Taxable	36,000	U/s 10(14), any allowance granted to employee working in a transport system to meet his personal expenditure during his duty is exempt, provided he is not in receipt of daily allowance. The exemption is 70% of such allowance (i.e., ₹. 7,000 p.m., being 70% of ₹. 10,000) or ₹. 10,000 p.m., whichever is less. Hence, ₹. 84,000 (i.e., ₹. 7,000 ×

			12) is allowable as deduction u/s 10(14). Balance ₹. 36,000 (₹. 1,20,000 - ₹. 84,000) shall be taxable.
6)	Taxable	72,000	Agricultural income is exempt from tax as per sec 10(1). Agricultural income means, inter alia, 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. In effect, the land is not being put to use for agricultural purposes. Therefore, ₹. 72,000, being rent received from letting out of agricultural land for movie shooting, is not exempt u/s 10(1). The same is chargeable to tax under the head "IFOS".

Question 2: Based on agricultural and non-agricultural income

Discuss the taxability of agricultural income under the IT Act, 1961.

How will income be computed where an individual derives agricultural and non-agricultural income?

Solution:

Agricultural income is exempt from tax as per sec 10(1). However, aggregation of agricultural and non-agricultural income is to be done to determine the rate at which the non - agricultural income shall be chargeable to tax. In case the agricultural income is not more than ₹. 5,000 or the tax-payer has non-agricultural income less than the basic exemption limit, then no such aggregation needs to be done. Further, such aggregation has to be done only if the tax-payer is an individual, HUF, AOP, BOI or an AJP, since the Finance Act prescribes slab rates of income-tax for these assessees. In the case of other assessees such as partnership firms, companies etc, whose income is chargeable to tax at a flat rate, aggregation of agricultural income would have no effect.

Since the second part of the question requires the manner of computation of income where an individual derives agricultural and non-agricultural income, the same can be answered on the basis of Rules 7A, 7B and 8 of the Act dealing with composite income.

Rule	Particulars	Business Income	Agricultural Income
Rule 7A	Income from manufacture of rubber in India	35%	65%
Rule 7B	Income from manufacture of coffee - grown and cured by the seller in India	25%	75%
	- grown, cured, roasted and grounded by the seller in India	40%	60%
Rule 8	Income from manufacture of tea in India	40%	60%

Thereafter, income-tax shall be computed by aggregating the agricultural income & the non - agricultural income in the manner described below:

- (1) Aggregate the agricultural income with non-agricultural income and determine tax payable on such amount.
- (2) Aggregate the agricultural income with the basic exemption limit of the assessee i.e., ₹2,50,000 / ₹3,00,000 / ₹5,00,000, as the case may be, and determine tax on such amount.

- (3) Compute the difference between the tax computed in Step (1) and Step (2), which shall be the tax payable in respect of non-agricultural income.
- (4) The tax payable so computed in step (3) shall be increased by surcharge @10%/15%, if the total income exceeds ₹50L/1 crore or reduced by rebate under section 87A, if the total income does not exceed ₹3.5 lakh. Thereafter, education cess 4% has to be added to compute the total tax liability.

Question 3: Based on saplings or seedlings grown in a nursery
Whether the income derived from saplings or seedlings grown in a nursery is taxable under the Income-tax Act, 1961?

Solution:

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.

Question 4: Based on various exemption
State with reasons in brief whether the following statements are true or false with reference to the provisions of the Income-tax Act, 1961:

- (i) Exemption is available to a Sikkimese individual, only in respect of income from any source in the State of Sikkim.
- (ii) Pension received by a recipient of gallantry award is exempt from tax.
- (iii) Mr. A, a member of a HUF, received ₹. 10,000 as his share from the income of the HUF. The same is to be included in his chargeable income.
- (iv) Voluntary contributions received by charitable trusts, universities and educational institutions are not taxable as the definition of income in section 2(24) does not cover the same.
- (v) Compensation on account of disaster received from a local authority by an individual or his/her legal heir is taxable.

Solution:

- (i) **False:** Exemption u/s 10(26AAA) is available to a Sikkimese individual not only in respect of the said income, but also in respect of income by way of dividend or interest on securities.
- (ii) **True:** Section 10(18) exempts any income by way of pension received by individual who has been awarded “Param Vir Chakra” or “Maha Vir Chakra” or “Vir Chakra” or such other gallantry award as the Central Government, may, by notification in the Official Gazette, specify in this behalf.
- (iii) **False:** Section 10(2) exempts any sum received by an individual as a member of a HUF where such sum has been paid out of the income of the family. Therefore, ₹. 10,000 should not be included in Mr. A’s chargeable income.
- (iv) **False:** Section 2(24) defining the term “income” includes voluntary contributions received by any trust, university or educational institution. Hence, the statement is not correct.
- (v) **False:** As per section 10(10BC), any amount received or receivable as compensation by an individual or his/her legal heir on account of any disaster from the Central Government, State Government or a local authority is exempt from tax . However, the exemption is not available to the extent such individual or legal heir has already been allowed a deduction under this Act on account of such loss or damage caused by such disaster.

Question 5: Based on Sec 10(10BC)

Explain the provisions regarding exemption of compensation received on account of disaster u/s 10(10BC) of the Income-tax Act, 1961.

Solution:

Exemption of compensation received on account of disaster u/s 10(10BC)

- (i) Section 10(10BC) exempts any amount received or receivable as compensation by an individual or his / her legal heir on account of any disaster.
- (ii) Such compensation should be granted by the Central or State Government or by a local authority.
- (iii) Exemption would not be available in respect of the compensation for alleviating any damage or loss, which has already been allowed as deduction under the Act.
- (iv) "Disaster" means a catastrophe, mishap, calamity or grave occurrence in any area, arising from natural or man-made causes, or by accident or negligence.
- (v) It should have the effect of causing substantial loss of life or human suffering, or damage to, and destruction of, property, or damage to, or degradation of, environment.
- (vi) It should be of such a nature or magnitude, which is beyond the coping capacity of the community of the affected area.

Question 6: Based on sec 10AA

Rudra Ltd. has one unit at Special Economic Zone (SEZ) & other unit at Domestic Tariff Area (DTA). The company provides the following details for the PY 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 u/s 10AA of the Act, for the AY 2024-25, in the following situations:

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

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

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

Computation of eligible deduction u/s 10AA [See Working Note below]:**(i) If Unit in SEZ was set up and began manufacturing from 22-05-2015:**

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

$$= \text{Profits of Unit in SEZ} \times \frac{\text{Export turnover of Unit in SEZ}}{\text{Total turnover of Unit in SEZ}} \times 50\%$$

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

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

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

$$= \text{Profits of Unit in SEZ} \times \frac{\text{Export turnover of Unit in SEZ}}{\text{Total turnover of Unit in SEZ}} \times 100\%$$

$$= 60 \text{ lakhs} \times \frac{300 \text{ Lakhs}}{400 \text{ Lakhs}} \times 100\% = ₹ 45 \text{ lakhs}$$

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

Working Note:

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

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

Question 7: Based on sec 10AA

ABC LLP, a LLP in India is engaged in development of software and providing IT enabled services through two units, one of which is located in a notified Special Economic Zone (SEZ) in Chennai. The particulars relating to AY 2024-25 furnished by the assessee are as follows: (Assuming unit started on 31-01-2022)

Total Turnover: SEZ unit ₹120 lakhs and the other unit ₹100 lakhs

Export Turnover: SEZ unit ₹100 lakhs and the other unit ₹60 lakhs

Profit: SEZ unit ₹50 lakhs and the other unit ₹40 lakhs.

The assessee has no other income during the year.

i. Compute tax payable by ABC LLP for the AY 2024-25.

ii. Will the amount of tax payable change, if ABC LLP is an overseas entity

Solution:

(i) Computation of total income and tax liability of ABC LLP as per the normal provisions of the Act for AY 2024-25:

Particulars	₹ (In Lakhs)
Business income (before deduction u/s 10AA) (₹50 lacs + ₹40 lacs)	90.00
Less: Deduction under section 10AA	
Profit of unit in SEZ x Export turnover of unit in SEZ/Total turnover of unit in SEZ = ₹50 lacs x ₹100 lacs / ₹120 lacs	41.67
Total Income	48.33
Tax on total income @ 30%	14.50
Add: Health & Education cess @ 4%	0.58
Tax liability (as per normal provisions)	15.08

Computation of ATI and AMT of ABC LLP as per the provisions of section 115JC for AY 2024-25

Particulars	₹ (In Lakhs)
Total income as per the normal provisions	48.33
Add: Deduction under section 10AA	41.67
Adjusted total income	90.00
Tax @18.5% of Adjusted total income	16.6500
Add: Health & Education cess @ 4%	0.6660
Alternate minimum tax as per section 115JC	17.3160

Since the tax payable as per the normal provisions of the Act is less than the AMT, the ATI shall be deemed to be the TI of ABC LLP and the tax payable for A.Y. 2024-25 shall be ₹17.3160 lakh

(ii) In case ABC LLP is an overseas entity, the amount of tax payable shall remain the same.

Note:

While computing the deduction u/s 10AA, it has been assumed that AY 2024-25 falls within first five-year period commencing from the year of provision of services by the Unit in SEZ of ABC LLP and therefore, deduction @ 100% of the profit derived from export of such services has been provided.

Question 8: Based on Partial integration

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

Particulars	Amount ₹
i. Income from salary (computed)	3,00,000
ii. Income from house property (computed)	2,80,000
iii. Agricultural income from a land in Jaipur	4,50,000
iv. Expenses incurred for earning agricultural income	1,60,000

Compute his tax liability assuming Mr. X does not opt for the provisions of Sec 115BAC and his age is - a) 45 years b) 70 years

Solution: Computation of total income of Mr. X for the A.Y. 2024-25

Particulars	Amount ₹
Income of salary	3,00,000
Income from house property	2,80,000
Net agricultural income [₹4,50,000 – ₹1,60,000]	2,90,000
Less: Exemption u/s 10 (1)	(2,90,000)
Gross Total Income	5,80,000
Less: Deduction under Chapter VI A	-
Total income	5,80,000

(a) Computation of tax liability (age 45 years)

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

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

His tax liability is computed in the following manner:

$$\begin{aligned} \text{Step 1: } & ₹ 5,80,000 + ₹ 2,90,000 &= ₹ 8,70,000 \\ & \text{Tax on } 8,70,000 &= ₹ 86,500 \end{aligned}$$

(i.e., 5% of ₹ 2,50,000 plus 20% of = ₹ 3,70,000)
Step 2: ₹ 2,90,000 + ₹ 2,50,000 = ₹ 5,40,000
 Tax on ₹ 5,40,000 = ₹ 20,500
 (i.e., 5% ₹2,50,000 plus 20% of ₹ 40,000)
Step 3: ₹ 86,500 – ₹ 20,500 = ₹ 66,000
Step 4: Total tax payable = ₹ 66,000 + 4% of ₹ 66,000 = ₹68,640.

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

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

1. Net agricultural income exceeds ₹. 5,000 p.a., and
2. Non-agricultural income exceeds the basic exemption limit of ₹3,00,000. His tax liability is computed in the following manner:

Step 1: ₹ 5,80,000 + ₹ 2,90,000 = 8,70,000
 Tax on ₹ 8,70,000 = ₹ 84,000 (i.e. 5% of 2,00,000 + 20% of ₹ 90,000)
Step 2: ₹ 2,90,000 + ₹ 3,00,000 = ₹ 5,90,000
 Tax on ₹ 5,90,000 = ₹ 28,000 (i.e., 5% of 2,00,000 + 20% of ₹ 90,000)
Step 3: ₹ 84,000 - ₹ 28,000 = ₹ 56,000
Step 4 & 5: Total Tax Payable = ₹ 56,000 + 4% of ₹ 56,000 = ₹ 58,240.

Question 9: Based on Business & Agricultural income

Mr. B 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 business income and agricultural income.

Solution: Computation of Business Income and Agriculture Income of Mr. B

Particulars	Business Income		Agricultural Income	
	₹		₹	₹
Sale of Sugar				
Business income				
Sale Proceeds of sugar	25,00,000			
Less: Market value of sugar (70%)	22,00,000			
Less: Manufacturing exp.	1,50,000			
	1,50,000			
Agricultural income				
Market value of sugar (70%)			22,00,000	
Less: Cost of cultivation			14,00,000	
				8,00,000
Sale of sugarcane				
Agricultural Income				
Sale proceeds of sugarcane (30%)			10,00,000	
Less: Cost of cultivation			5,00,000	5,00,000
Total				13,00,000

Question 10: Based on sale of rice

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:

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.

Summary	
Sec.	Contents
22	<p>Basis of charge The annual value of any property comprising of buildings or lands appurtenant thereto, of which the assessee is the owner, is chargeable to tax under the head "Income from house property".</p> <p>(i) Property should consist of any buildings or lands appurtenant thereto Income from letting out of vacant land is, however, taxable under the head "IFOS" or "PGBB", as the case may be.</p> <p>(ii) Assessee must be the owner of the property</p> <p>(iii) The property may be used for any purpose, but it should not be used by the owner for the purpose of any business or profession carried on by him, the profit of which is chargeable to tax. Further, the income earned by an assessee engaged in the business of letting out of properties on rent would be taxable as business income.</p> <p>(iv) Property held as stock-in-trade etc. Annual value of house property will be charged under the head "Income from HP", where it is held by the assessee as stock-in-trade of a business also.</p>
23(1)	<p>Annual Value of let-out property Annual value is the amount arrived after deducting the municipal taxes actually paid by the owner during the previous year from the Gross Annual Value (GAV). The GAV of Let-out property would be determined in the following manner: Step 1: Compare fair rent with municipal value whichever is higher Step 2: Compare step 1 value with standard rent whichever is lower is the Expected Rent. Step 3: Compare the Expected rent determined above with actual rent Actual rent > Expected Rent → Actual rent is GAV Actual rent < Expected Rent → Actual rent < Expected Rent because of vacancy → Actual rent is GAV Actual rent < Expected Rent → Actual rent < Expected Rent because of any other reason → Expected Rent is GAV</p>
23(2)	<p>Annual Value of self-occupied property Where the property is self-occupied for own residence or unoccupied throughout the previous year owing to his employment, business or profession carried on at any other place and residing at that other place in a building not belonging to him, its Annual Value will be Nil, provided no other benefit is derived by the owner from such property. An assessee can claim benefit of "Nil" Annual Value in respect of one or two residential house properties self-occupied by him.</p>
23(4)	<p>Annual Value of deemed to be let-out property If more than two properties are so self-occupied/unoccupied, the assessee may claim benefit of Nil annual value in respect of any two properties at his option. The other property(s) would be deemed to be let out, in respect of which Expected Rent would be the GAV.</p>
23(5)	<p>Annual Value of deemed to be let-out property If more than two properties are so self-occupied/unoccupied, the assessee may claim benefit of Nil annual value in respect of any two properties at his option. The other</p>

	property(s) would be deemed to be let out, in respect of which Expected Rent would be the GAV.
24	<p>Deductions from Annual Value</p> <p>1. 30% of Annual Value [Section 24(a)]</p> <p>2. Interest on borrowed capital [Section 24(b)]: Interest payable on loans borrowed for the purpose of acquisition, construction, repairs, renewal or reconstruction can be claimed as deduction.</p> <p>Pre-construction interest: Interest for the period prior to the previous year in which property is acquired or construction is completed.</p> <p>Pre-construction interest is allowable as deduction in 5 equal installments from the previous year of completion of construction or acquisition.</p> <p>(a) Let out property: Whole of the amount of interest on borrowed capital payable during the previous year and apportioned pre-construction interest without any ceiling limit would be allowed as deduction.</p> <p>(b) Self-occupied property:</p> <p>(i) Interest on loan taken for acquisition or construction of house on or after 1.4.99, where such construction is completed within 5 years from the end of the financial year in which capital was borrowed, aggregate interest paid or payable for one or two self-occupied properties subject to a maximum of ₹ 2,00,000 (including apportioned pre-construction interest).</p> <p>In case of loan taken for repair, renovation or reconstruction at any point of time, aggregate interest paid or payable for one or two self-occupied properties subject to a maximum of ₹ 30,000 (including apportioned pre-construction interest).</p> <p>Notes –</p> <p>(1) Total amount of interest deduction under (i) and (ii) in respect of one or two self-occupied properties owned by the assessee cannot exceed ₹ 2,00,000.</p> <p>(2) Interest deduction in respect of self-occupied property(ies) would be available only if the assessee exercises the option of shifting out of the default tax regime provided u/s 115BAC(1A). If the assessee pays tax under default tax regime u/s 115BAC, deduction u/s 24(b) in respect of interest on loan for self-occupied property is not allowed.</p>
25	<p>Inadmissible deductions</p> <p>Interest chargeable under this Act which is payable outside India shall not be deducted if –</p> <p>(a) tax has not been paid or deducted from such interest and</p> <p>(b) in respect of which there is no person in India who may be treated as an agent</p>
25A	<p>Taxability of recovery of unrealised Rent & Arrears of rent received</p> <p>(i) Taxable in the year of receipt/realisation</p> <p>(ii) Deduction @30% of rent received/realised</p> <p>(iii) Taxable even if assessee is not the owner of the property in the financial year of receipt/realization</p>
26	<p>Co-owned property</p> <p>(i) Self-occupied property: The annual value of the property of each co-owner will be Nil and each co-owner shall be entitled to a deduction of ₹ 30,000/ ₹ 2,00,000, as the case may be, on account of interest on borrowed capital if they exercise the option of shifting out of the default tax regime provided under section 115BAC(1A).</p> <p>However, aggregate deduction of interest to each co-owner in respect of co-owned self-occupied property and any other self-occupied house property, if any, cannot exceed ₹ 30,000/ ₹ 2,00,000, as the case may be.</p>

	<p>No deduction would be allowed in respect of interest on loan taken for purchase/construction/reconstruction/repairs of self occupied property where the assessee pays tax under the default tax regime.</p> <p>(ii) Let-out property: The income from such property shall be computed as if the property is owned by one owner and thereafter the income so computed shall be apportioned amongst each co-owner as per their specific share.</p>
27	<p>Deemed Ownership: The following persons, though not legal owners of a property, are deemed to be the owners:</p> <p>(i) Transferor of the property, where the property is transferred to the spouse or to minor child except minor married daughter, without adequate consideration</p> <p>(ii) Holder of an impartible estate</p> <p>(iii) Member of a co-operative society etc.</p> <p>(iv) Person in possession of a property.</p> <p>(v) Person having right in a property for a period not less than 12 years</p>
Other important points	
(i)	<p>The Actual rent received/receivable should not include any amount of rent which is not capable of being realized i.e., unrealized rent while determining gross annual value in case let-out property, provided the conditions specified in Rule 4 are satisfied.</p> <p>Note - The income-tax returns, however, permit deduction of unrealized rent from gross annual value. If this view is taken, the unrealized rent should be deducted only after computing gross annual value.</p>
(ii)	<p>If a portion of a property is let-out and a portion is self-occupied, then, the income will be computed separately for let out and self-occupied portion.</p>

Question 1: Based on unrealized rent

Explain the treatment of unrealized rent and its recovery in subsequent years under the provisions of Income-tax Act, 1961

Solution:

Unrealised rent refers to the rent payable but not paid by the tenant and which the owner is also not able to realize from the tenant. As per Explanation below sec 23(1), the amount of rent which the owner cannot realize shall not be included in the actual rent while determining the annual value of the property, subject to fulfilment of following conditions prescribed under

Rule 4 of the Income-tax Rules, 1962:

- (a) The tenancy must be bonafide;
- (b) The defaulting tenant has vacated the property or steps have been taken to compel him to vacate the property;
- (c) The defaulting tenant does not occupy any other property of the assessee;
- (d) The assessee has taken all reasonable steps to institute legal proceedings for the recovery of unpaid rent or satisfies the A/O that the legal proceedings would be useless.

When unrealized rent is received, it is taxable in the year of receipt and 30% is allowed as deduction from aforesaid income.

Question 2: House property situated in foreign country.

Solution:

A resident assessee is taxable u/s 22 in respect of annual value of a house property situated in foreign country. A RNOR or a NR is taxable in respect of income from such property if the income is received in India during the PY. Once incidence of tax is attracted u/s 22, the annual value will be computed as if property is situated in India

Question 3: Based on ownership

Ownership itself is the criteria for assessment under the head income from house property. Discuss.

Solution:

Section 27 enumerates certain cases, where the legal ownership may vest with one person whereas the taxability is cast on another person who is deemed to be the owner. Exception

- 1) Transfer to spouse for Inadequate Consideration
- 2) Transfer to minor child for inadequate Consideration
- 3) Holder of an impartible estate
- 4) Lease for more than 12 years
- 5) Transfer as per Transfer of property Act.

Therefore, legal ownership itself is not the criteria for assessment of income under the head "Income from house property". Also, the provisions of sec 25AA and 25B dealing with receipt of unrealised rent and arrears of rent also fall in this category. The receipt is considered as income under the head „house property“ though the recipient may not have legal ownership of the property to which the receipt relates.

Question 4: Properties which are used for agricultural purposes?

Solution:

If the property is used for agricultural purposes, the annual value of such property would be treated as "Agricultural Income" as per section 2(1A)(c) and it is exempt under section 10(1) of the Act. However, if the house property is used for purpose other than agriculture the annual value of such property cannot be treated as agricultural income.

Question 5: Based on sublet concept

X let out his property to Y. Y sublets it. How is sub-letting receipt to be assessed in the hands of Y?

Solution:

Sub-letting receipt in the hands of Y can be assessed as "Income from Other Sources" or as "Profits and gains from business or profession depending upon the facts and circumstances of each case. It is not assessable as income from house property

Question 6: Based on arrears of rent

Discuss the tax liability in respect of arrears of rent.

Solution:

As per section 25B, where the assessee receives any amount by way of arrears of rent in respect of any property consisting of buildings or land appurtenant thereto of which he is the owner, the amount so received shall be chargeable to tax under the head "Income from House Property". It shall be charged to tax as the income of the previous year in which such rent is received even if the assessee is no longer the owner of such property. In computing the income

chargeable to tax in respect of the arrears so received, 30% shall be allowed as a deduction, irrespective of the actual expenditure incurred.

Question 7: Based on computation of HP

Anirudh has a property whose MV is ₹. 1,30,000 p.a. The fair rent is ₹. 1,10,000 p.a. and the standard rent fixed by the Rent Control Act is ₹. 1,20,000 p.a. The property was let out for a rent of ₹. 11,000 p.m. throughout the PY. Unrealised rent was ₹. 11,000 and all conditions prescribed by Rule 4 are satisfied. He paid municipal taxes @10% of municipal valuation. Interest on borrowed capital was ₹. 40,000 for the year. Compute the income from HP of Anirudh for A.Y.2024-25.

Solution: Computation of Income from HP of Mr. Anirudh for A.Y. 2024-25

Particulars	Amount in ₹.	
Computation of GAV		
Step 1 Compute ER		
ER = Higher of MV of ₹. 1,30,000 p.a. and FR of ₹ 1,10,000 p.a., but restricted to SR of ₹ 1,20,000 p.a.	1,20,000	
Step 2 Compute actual rent received/receivable		
Actual rent received/ receivable less unrealized rent as per Rule 4 = ₹. 1,32,000 - ₹. 11,000	1,21,000	
Step 3 Compare ER of ₹. 1,20,000 and Actual rent received/receivable of ₹.1,21,000		
Step 4 GAV is the higher of ER and Actual rent received/receivable	1,21,000	
Gross Annual Value (GAV)		1,21,000
Less: Municipal taxes (paid by the owner during the PY) = 10% of ₹. 1,30,000		(13,000)
Net Annual Value (NAV)		1,08,000
Less: Deductions u/s 24	32,400	
(a) 30% of NAV		
(b) Interest on borrowed capital (actual without any ceiling limit)	40,000	72,400
Income from house property		35,600

Question 8: Based on computation of HP

Ganesh has a property whose municipal valuation is ₹. 2,50,000 p.a. The fair rent is ₹. 2,00,000 p.a. and the standard rent fixed by the Rent Control Act is ₹. 2,10,000 p.a. The property was let out for a rent of ₹. 20,000 p.m. However, the tenant vacated the property on 31.1.2024. Unrealised rent was ₹. 20,000 and all conditions prescribed by Rule 4 are satisfied. He paid municipal taxes @8% of municipal valuation. Interest on borrowed capital was ₹. 65,000 for the year. Compute Income from HP of Ganesh for A.Y. 2024-25.

Solution: Computation of Income from house property of Ganesh for A.Y. 2024-25.

Particulars	Amount in ₹.	
Computation of GAV		
Step 1 Compute ER		
ER = Higher of MV of ₹ 2,50,000 p.a. and FR of ₹ 2,00,000p.a., but restricted to SR of ₹. 2,10,000 p.a.	2,10,000	
Step 2 Compute Actual rent received/ receivable		
Actual rent received/ receivable for let out period less unrealized	1,80,000	

rent as per Rule 4 = ₹ 2,00,000 – ₹. 20,000		
Step 3 Compare ER and Actual rent received/receivable		
Step 4 In this case the actual rent of ₹. 1,80,000 is lower than ER of ₹. 2,10,000 owing to vacancy, since, had the property not been vacant actual rent would have been ₹ 2,20,000 (₹. 1,80,000 + ₹. 40,000, being notional rent for February and March 2021). Therefore, actual rent is the GAV.	1,80,000	
Gross Annual Value (GAV)		1,80,000
Less: Municipal taxes (paid by the owner during the PY) =8% of ₹. 2,50,000		20,000
Net Annual Value (NAV)		1,60,000
Less: Deductions under section 24		
(a) 30% of NAV = 30% of ₹. 1,60,000	48,000	
(b) Interest on borrowed capital (actual without any ceiling limit)	65,000	
		1,13,000
Income from house property		47,000

Note: Alternatively, if as per Income Tax returns, unrealized rent is deducted from GAV then GAV would be 2,00,000 being the actual rent, since the actual rent is lower than expected rent 2,10,000 owing to vacancy. Thereafter the unrealized rent of 20,000 and municipal tax of 20,000 would be deducted from GAV of 2,00,000 to arrive at NAV 1,60,000.

Question 9: Based on sec 24

Poorna has one house property at Indira Nagar in Bangalore. She stays with her family in the house. The rent of similar property in the neighbourhood is ₹25,000 p.m. The municipal valuation is ₹ 280,000 p.a. Municipal taxes paid is ₹ 8,000. The house construction began in April 2016 with a loan of ₹ 20,00,000 taken from SBI Housing Finance Ltd. @9% p.a. on 1.4.2016. The construction was completed on 30.11.2019. The accumulated interest up to 31.3.2019 is ₹3,60,000. On 31.3.2024, Poorna paid ₹2,40,000 which included ₹1,80,000 as interest. There was no principal repayment prior to this date. Compute Poorna's income from HP for A.Y. 2024-25.

Solution: Computation of Income from HP of Smt. Poorna for A.Y. 24-25

Particulars	Amount ₹
Annual Value of one house used for self-occupation u/s 23(2)	Nil
Less: Deduction u/s 24 Interest on borrowed capital Interest on loan was taken for construction of house on or after 1.4.99 and same was completed within the prescribed time - interest paid or payable subject to a maximum of ₹. 2,00,000 (including apportioned pre-construction interest) will be allowed as deduction. In this case the total interest is ₹. 1,80,000 + ₹. 72,000 (Being 1/5 th of ₹. 3,60,000) = ₹. 2,52,000. However, the interest deduction is restricted to ₹. 2,00,000.	2,00,000
Loss from house property	(2,00,000)

Question 10: Based on foreign property

Rajesh, a British national, is a ROR 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 ₹. 95. Compute Rajesh's Net Annual Value of the property for A.Y. 2024-25.

Solution:

For the P.Y. 2023-24, Mr. Rajesh, a British national, is ROR 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 Net Annual Value of the property of Mr. Rajesh for A.Y. 2024-25

Particulars	₹.
Gross Annual Value (£ 10,000 x 12 x 95)	1,14,00,000
Less: Municipal taxes paid (£ 8,000 x 95)	7,60,000
Net Annual Value (NAV)	1,06,40,000

Question 11: Based on HP Calculation

Smt. Rajalakshmi 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 Smt. Rajalakshmi 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. Compute her income from house property for the A.Y. 2024-25.

Solution: Computation of Income from HP of Smt. Rajalakshmi for the AY 2024-25

Particulars	Amount in ₹.	
Computation of GAV		
Step 1 Compute ER for the whole year ER = Higher of MV of ₹. 5,00,000 and FR of ₹. 4,20,000, but restricted to SR of ₹. 4,80,000	4,80,000	
Step 2 Compute Actual rent received/ receivable Actual rent received/ receivable for the period let out less unrealized rent as per Rule 4 = (₹. 50,000 x 9) - (₹. 50,000 x 2) = ₹. 4,50,000 - ₹. 1,00,000	3,50,000	
Step 3 Compare ER for the whole year with the actual rent received/ receivable for the let out period i.e. ₹. 4,80,000 and ₹. 3,50,000		
Step 4 GAV is the higher of ER computed for the whole year and Actual rent received/ receivable computed for the let-out period Gross Annual Value (GAV)	4,80,000	4,80,000
Less: Municipal taxes (paid by the owner during the previous year) = 12% of ₹. 5,00,000		(60,000)
Net Annual Value (NAV)		4,20,000

Less: Deductions under section 24		
(a) 30% of NAV = 30% of ₹. 4,20,000	1,38,000	
(b) Interest on borrowed capital	25,000	(1,51,000)
Income from house property		2,69,000

Note: Alternatively, if as per ITR unrealized rent is deducted from GAV then GAV would be 480,000. Thereafter unrealized rent of 1,00,000 and municipal tax of 60,000 would be deducted from GAV to arrive at NAV 3,20,000. The deduction u/s 24(a) would be 96,000 and the Income from HP would be 1,99,000.

Question 12: Based on deemed to be let out property
Ganesh has 3 houses, all of which are self-occupied. The particulars of the houses for the P.Y. 2023-24. are as under:

Particulars	House I	House II	House III
Municipal valuation p.a.	₹3,00,000	₹3,60,000	₹3,30,000
Fair rent p.a.	₹3,75,000	₹2,75,000	₹3,80,000
Standard rent p.a.	₹3,50,000	₹3,70,000	₹3,75,000
Date of completion/purchase	31.3.2000	31.3.2002	01.4.2016
Municipal taxes paid during the year	12%	8%	6%
Interest on money borrowed for repair of property during the current year	-	55,000	
Interest for current year on money borrowed in July 2016 for purchase of property			1,75,000

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

Solution:

Let us first calculate the income from each house property assuming that they are deemed to be let out. **Computation of income from house property of Ganesh for the A.Y. 24-25**

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

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

OPTION 1 (House I and II- self-occupied and House III – deemed to be let out)

If House I and II are opted to be self-occupied, the income from house property shall be:

Particulars	Amount in ₹.
House I (Self-occupied)	Nil
House II (Self-occupied) (No interest deduction)	Nil
House III (Deemed to be let-out)	73,640
Income from house property	73,640

OPTION 2 (House I and III – self-occupied and House II – deemed to be let out)

If House I and III are opted to be self-occupied, the income from HP shall be:

Particulars	Amt in ₹.
House I (Self-occupied)	Nil
House II (Deemed to be let-out)	1,76,840
House III (Self-occupied) (No interest deduction)	-
Income from house property	1,76,840

OPTION 3 (House II and III – self-occupied and House I – deemed to be let out)

If House II and III are opted to be self-occupied, the income from HP shall be:

Particulars	Amt in ₹.
House I (Deemed to be let-out)	2,19,800
House II (SO) (No interest deduction)	-
House III (Self-Occupied)	-
Income from house property	2,19,800

Since option 1 is most beneficial, Ganesh should opt to treat House I and II as self-occupied and House III as deemed to be let out. His income from house property would be ₹ 73,640 for the AY 2024-25 under the default tax regime under section 115BAC.

If Mr. Ganesh has exercised the option of shifting out of the default tax regime provided u/s 115BAC(1A).

OPTION 1 (House I and II- self-occupied and House III – deemed to be let out)

If House I and II are opted to be self-occupied, the income from house property shall be:

Particulars	Amount in ₹.
House I (Self-occupied)	Nil
House II (SO) (Interest deduction restricted to ₹ 30,000)	(30,000)
House III (Deemed to be let-out)	73,640
Income from house property	43,640

OPTION 2 (House I and III – self-occupied and House II – deemed to be let out)

If House I and III are opted to be self-occupied, the income from HP shall be:

Particulars	Amt in ₹.
House I (Self-occupied)	Nil
House II (Deemed to be let-out)	1,76,840
House III (Self-occupied)	(1,75,000)
Income from house property	1,840

OPTION 3 (House II and III – self-occupied and House I – deemed to be let out)

If House II and III are opted to be self-occupied, the income from HP shall be:

Particulars		Amt in ₹.
House I (Deemed to be let-out)		2,19,800
House II (SO) (Interest deduction restricted to ₹ 30,000)	(30,000)	-
House III (Self-Occupied) (No interest deduction)	(1,75,000)	-
(Total interest deduction restricted to ₹ 2,00,000)		(2,00,000)
Income from house property		19,800

Question 13: Based on portion let-out and portion self-occupied

Prem owns a house in Madras. During the PY 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 PY 2023-24 was ₹. 1,20,000. Compute Prem's income from house property for the A.Y. 2024-25.

Solution:

There are two units of the house. Unit I with 2/3rd area is used by Prem for self-occupation throughout the year and no other 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 throughout the previous year and its annual value has to be determined as per section 23(1).

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

Particulars		Amount in ₹
Unit I (2/3 rd area – self-occupied)		
Annual Value		Nil
Less: Deduction u/s 24(b) 2/3 rd of ₹ 1,20,000		80,000
Income from Unit I (self-occupied)		(80,000)
Unit II (1/3 rd area – let out)		
Computation of GAV		
Step 1	Compute ER	
	ER = Higher of MV and FR, restricted to SR However, in this case, SR of ₹1,10,000 (1/3rd of ₹3,30,000) is more than the higher of MV of ₹ 1,00,000 (1/3rd of ₹ 3,00,000) & FR of ₹90,000 (1/3rd of ₹2,70,000). Hence the higher of MV and FR is the ER. In this case, it is the MV.	1,00,000
Step 2	Compute actual rent received / receivable ₹ 8,000 x 12 = ₹ 96,000	96,000
Step 3	Compare ER and actual rent received/receivable	
Step 4	GAV is the higher of ER and actual rent received/receivable i.e. higher of ₹ 1,00,000 and ₹ 96,000	1,00,000
Gross Annual Value (GAV)		1,00,000
Less:	Municipal taxes paid by the owner during the previous year relating to let-out portion 1/3rd of (10% of ₹3,00,000) = ₹30,000/3 = ₹10,000	(10,000)
Net Annual Value (NAV)		90,000
Less:	Deductions under section 24	

(a) 30% of NAV = 30% of ₹ 90,000	27,000	
(b) Interest paid on borrowed capital (relating to let out portion) 1/3rd of ₹ 1,20,000	40,000	(67,000)
Income from Unit II (let-out)		23,000
Loss under the head "Income from house property" = (₹ 80,000) + ₹ 23,000 = (₹ 57,000)		

Question 14: Based on unrealized rent and arrears of rent

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 unrealized rent and arrears of rent be taxable in the hands of Mr. Anand, and if so in which year?

Solution:

Since the unrealized rent was recovered in the P.Y. 2023-24, the same would be taxable in the A.Y. 2024-25 u/s 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 u/s 25A, even though Mr. Anand was not the owner of the house in that year. A deduction of 30% of unrealized 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

Particulars	₹.
(i) Unrealized rent recovered	10,000
(ii) Arrears of rent received	69,000
Total	79,000
Less: Deduction @30%	(23,700)
Income from house property	55,300

Question 15: Based on GAV

Mr. A owns two houses. The expected rent of the house one is ₹. 65,000. This house was let out for ₹. 7,500 p.m. But the rent for the months of February and March, 2023 could not be realized.

The expected rent of another house is ₹. 1,50,000. This house was let out for ₹.12,000 p.m. But the rent for the last three months could not be realized.

In the both cases, Mr. A fulfills the conditions of Rule 4. You are required to compute the Gross Annual Value of both the houses.

Solution:

Particulars	House 1	House 2
Expected Rent	65,000	1,50,000
Annual Rent	90,000	144,000
unrealized Rent	15,000	36,000

Computation of Gross Annual Value

Particulars	House 1 ₹	House 2 ₹
Step 1: Expected Rent	65,000	1,50,000
Step 2: Actual Rent (After deducting unrealized rent) if higher than Expected Rent then Actual rent otherwise Expected rent	75,000	N.A.
Step 3: Applicable only in case of vacancy	N.A.	N.A.
Gross annual Value	75,000	1,50,000

Question 16: Based on GAV

Find out gross annual value in case of following properties for AY.2024-25

(₹. in thousands)

Particulars	P	Q	R	S
Expected Rent	70	55	85	125
Rent Per Month (if let out)	7	5	8	8
Let out period (in months)	11	0	9	10
Vacancy (in months)	1	12	3	2

Further all rent were realized for year by the assessee. Calculate GAV of Mr. X for AY. 2024-25

Solution:

(₹. in thousands)

Particulars	P	Q	R	S
Annual Rent (if let out for 12 months)	84	60	96	96
Loss due to vacancy	7	60	24	16
Unrealized rent	NIL	NIL	NIL	NIL
Actual Rent (For let our period)	77	NIL	72	80

Calculation of Gross annual Value

Particulars	P	Q	R	S
Step 1: Expected Rent	70	50	85	125
Step 2: If actual rent is more than expected Rent then Actual rent otherwise expected Rent	77	NA	NA	NA
Step 3: If property remain vacant then decline due to vacancy shall be considered	77	-	72	109
Gross annual value	77	-	72	109

Question 17: Based on vacant concept

Mr. X is the owner of a house property. He lets this property during the PY 2023-24. for ₹. 7,000 p.m. The house was occupied from 1.4.2023 to 31.1.2024. From 1.2.2024, it remained vacant. Mr. X fails to realize ₹.10,000 from the tenant. The Expected rent of the house is ₹. 82,000 p.a. Calculate the GAV of the house.

Solution:

Particulars	₹
Expected Rent	82,000
Annual Rent (Actual for the whole year - 7000 x 12)	84,000
Actual Rent (7,000 x 10)	70,000
Unrealized rent	10,000
Realized rent (70,000 - 10,000)	60,000
Loss Due to vacancy (7,000 x 2)	14,000
Decline due to vacancy (82,000 - 14,000) but not less than actual rent received	68,000
Calculation of gross annual value	
Step 1: Expected Rent	82,000
Step 2: if actual rent is more than expected rent than actual rent	NA
Step 3: Decline due to vacancy in Expected Rent (i.e. Expected Rent minus Loss due to vacancy but not less than actual rent received)	68,000
Gross annual Value	68,000

Question 18: Based on sec 115BAC

Mr. R owns a house which uses for residential purposes throughout the PY 2023-24. Municipal Value: ₹. 2,40,000. Fair Rent: ₹.3,00,000. Compute income from house property assuming following expenditure are incurred by him:

Municipal taxes paid: ₹. 15,000 Repairs: ₹. 12,000 Depreciation: ₹. 10,000

Interest on borrowed capital: ₹. 2,00,000 (loan taken on 1.1.2006). House was purchased on 1.5.2007.

Solution:**Option1: Assessee has not opted for Sec 115BAC**

Income from House Property:

Particulars	₹
Net annual Value	Nil
Less: Interest on borrowed capital	2,00,000
(Lower of actual interest or 2,00,000; as conditions are satisfied)	
Loss from House Property	(2,00,000)

Option2: Assessee has opted for Sec 115BAC

Income from house property

Particulars	₹
Net annual value	Nil
Less: Interest on borrowed capital	NA
Loss from HP	Nil

Question 19: Based on computation of annual value

M is the owner of a house. The municipal value of the house is ₹. 40,000. He paid ₹. 8,000 as local taxes during the year. He was using this house for his residential purposes but let out w.e.f. 1.1.2024 @ ₹. 4,000 p.m. Compute the annual value of the house.

Solution:

Particulars	₹.
Annual rent or municipal valuation (whichever is higher)	48,000
Less: Local taxes	8,000
Annual value of the house (No benefit shall be given for self-occupied period as the house did not remain vacant during the previous year)	40,000
Note: If fair rent is not given, then assume actual rent as fair rent.	

Question 20: Computation of Taxable Income & Tax Liability for NRI

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. 2018-2019, which has been given on monthly rent of 27,500 since 01.07.2021. 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 2020. 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. 2023-2024. 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 2018. In respect of this house he received arrear of rent of 96,000 in Feb.2024 (not taxed earlier). Details of other incomes during F.Y. 2023-2024. 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. 2023-2024 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 in Mr. Jagdish's bank account maintained with Union Bank of India's Pune Branch. Compute the total income for AY: 2024-2025 Chargeable to income tax in India.

Solution:

Assessee: Mr. Jagdish PY.2023-24, AY.2024-25

During the PY 2023-24, Mr. Jagdish has not stayed in India. Therefore, he is a Non-Resident. For a NR only Income accrued or earned in India is taxable. Foreign Income is not Taxable.

Computation of Total Income

Particulars	₹	₹
1. Income from House Property in Pune:		
Actual Rent (₹ 27,500 x 12) is taken as GAV	3,30,000	
Less: Municipal Taxes Paid (not allowed since it is not paid)	NIL	
Net Annual Value	3,30,000	
Less: Deduction u/s 24: (a) 30% of NAV	(99,000)	
(b) Interest on Housing Loan (Note 2)	(84,000)	1,47,000

2. Income from House Property in Jaipur		
Arrears of Rent Received	96,000	
Less: Standard Deduction u/s 24	(28,800)	67,200
3. Profits and Gains of Business or Profession:		
Profit from business in Thailand (Foreign Income)		NIL
Income from Apple orchid in Nepal (Indian Income since received in Indian Bank Account)		5,00,000
4. Income from Other Sources:-		
Interest from Japanese Bonds (50% received in India is taxable)		22,500
Gross Total Income		7,36,700

Note:

- Income from HP in Thailand is not Considered since the Same is a foreign Income.
- Interest is allowed on accrual basis. Actual payment is not necessary for claiming deduction

Question 21: Based on GAV

Smt. Shanti Devi has a house property in Kolkata. The Municipal Valuation for the same is ₹ 10,00,000. The Fair Rental for the property is ₹ 7,50,000. The Standard Rent per the Rent Control Act is ₹ 8,00,000. She let out the property until 30th Nov 23 for a monthly rent of ₹. 75,000 per month. Thereafter, the tenant vacated the property and she used the house for self-occupation. Rent for the months of Oct & Nov 23 couldn't be realized despite all efforts, and all the conditions for unrealized rent were satisfied. She paid Municipal Taxes @ 12% during the year. She also paid Interest of ₹ 25,000 during the year for amount borrowed for repairs. Compute the income from House Property for AY 24-25.

Solution:

Computation of GAV

Particulars	₹	₹
Estimated Rent		
Higher of:		
1) Fair Rent	7,50,000	
2) Municipal Value	10,00,000	
Limited to Standard Rent		8,00,000
Annual Rent	6,00,000	
Less: Unrealized Rent	1,50,000	
		4,50,000
GAV (partly let out and partly self-occupied)		8,00,000
Less: Municipal taxes paid by the owner during the PY		1,20,000
NAV		6,80,000
Less: Deductions u/s 24		
30% NAV	2,04,000	
Interest on borrowed capital	25,000	2,29,000
Income from House Property		4,51,000

Question 22: Based on co-ownership

Two sisters, Seema and Rashmi, are co-owners of a house property, with 50% share each in the property. The property was constructed prior to 1st April 1999. the property has 7 equal units and is situated in Bangalore. During the FY 2023-24, each co-owner occupied one unit each and the balance were let out @ a rental of ₹ 20,000 per unit per month. The Municipal Valuation was ₹ 7,00,000 and the Municipal Taxes were @ 10% of the MV. Interest payable on loan taken for

construction was ₹ 400,000. One of the let-out units was vacant for 6 months in the year. Compute the income from House Property for each of the sisters.

Solution:

Computation of GAV

Particulars	₹	₹
Estimated Rent		
Higher of:		
1) Fair Rent		
2) Municipal Value	5,00,000	
Limited to Standard Rent		5,00,000
Annual Rent	12,00,000	
Less: Unrealised Rent	<u>1,20,000</u>	
		10,80,000
GAV (partly let out and partly self-occupied)		10,80,000
less: Municipal taxes paid by owner during the PY		<u>50,000</u>
NAV		10,30,000
Less: Deductions u/s 24		
30% NAV	3,09,000	
Interest on borrowed capital	<u>2,85,714</u>	
		5,94,714
Income from House Property		4,35,286
Share of each Co-owner		2,17,643
Loss from House Property (self-occupied portions)		(30,000)
Income from House Property (each co-owner)		1,87,643

Notes:

- 1) Observe that the computation has been done for the 5 let out and 2 self-occupied portions separately and commensurately
- 2) Note that the IOBC for let out proportions is fully allowable as deduction without any cap.
- 3) Note that the AV for SOP is NIL and the IOBC is restricted to ₹ 30,000 for each co-owner

Question 23: Based on taxable income

For the previous year 2023-24, Sonu submits the following information

Particulars	₹	₹
Income from business (speculative)		₹. 40,000
Property income	House i	House ii
	₹.	₹.
Municipal valuation	35,000	80,000
Rent received	38,000	68,000
Municipal taxes paid by tenant	3,000	4,000
Repairs paid by tenant	500	18,000
land revenue paid	2,000	16,000
Insurance premium paid	500	2,000
Interest on borrowed capital for payment of municipal tax of HP	200	400
Nature of occupation	let out or residence	let out for business
Date of completion of construction	1.4.1997	1.7.1995

Determine the taxable income of Sonu for the AY 2024-25.

Solution: Computation of taxable income of Sonu for AY 2024-25

Particulars	₹
House i	
Gross annual Value	38000
Less: Municipal taxes - not deductible since paid by tenant	Nil
Net annual Value	38000
Less: 30% of Net annual Value taxable income	11,400
Total	26,600
House ii	
Gross annual Value	80,000
Less: Taxes - not deductible, paid by tenant	Nil
Net annual Value	80,000
Less: 30% of Net annual Value taxable income	24,000
Total	56,000

Total Income = ₹. 26,600 + ₹. 56,000 + ₹. 40,000 = ₹. 1,22,600.

Note: IOBC for payment of municipal tax is not allowed as deduction u/s 24 of the Act.

Question 24: Based on RNOR

Mr. Roxx, a citizen of the Country Y, is a RNOR in India during the FY 2023-24. He owns two house properties in Country Y, one is used as his residence. Another house property is rented for a monthly rent of \$ 18,000. Fair rent of the house property is \$ 20,000. The value of one CYD (\$) may be taken as ₹ 78.

He took ownership and possession of a flat in Delhi on 1.10.2023, which is used for self-occupation, while he is in India. The flat was used by him for 3 months at the time when he visited India during the PY 2023-24. The municipal valuation is ₹ 4,58,000 p.a. and the fair rent is ₹ 3,60,000 p.a. He paid property tax of ₹ 13,800 and ₹ 2,800 as Sewerage tax to Municipal Corporation of Delhi.

He had taken a loan of ₹ 18,00,000 @9.5% from HDFC Bank on 1st August, 2021 for purchasing this flat. No amount is repaid by him till 31.03.2024. Flat construction was done on 31.3.2024.

He also had a house property in Bangalore which is let out on a monthly rent of ₹ 40,000. The fair rent of which is ₹ 4,58,000 p.a. and Municipal value of ₹ 3,58,000 p.a. and Standard Rent of ₹ 4,20,000 p.a. He had taken a loan of ₹ 25,00,000 @ 10% from one of his friends, residing in Country Y for this house. Municipal tax of ₹ 5,400 is paid by him in respect of this house during the previous year 2023-24.

Compute the income chargeable from house property of Mr. Roxx for the AY 24-25.

Solution:

Since Mr. Roxx, is a RNOR in India, only the income in respect of properties situated in India would be taxable in his hands.

Thus, the rental income which accrues or arises in Country Y from the LOP and annual value of SOP would not be taxable in his hands. However, income arising from properties in India are taxable in the hands of Mr. Roxx.

Accordingly, the income from HP of Mr. Roxx for A.Y.2024-25 will be calculated as under:

Particulars	₹	₹
1. Self-occupied house at Delhi		
Annual value		Nil
Less: Deduction under section 24	Nil	
Interest on borrowed capital (See Note below)		2,00,000
Chargeable income from this house property		(2,00,000)

2.	Let out house property at Bangalore		
	Expected rent, being higher of ₹ 3,58,000 municipal value and fair rent of ₹ 4,58,000 but restricted to Standard rent of ₹ 4,20,000	4,20,000	
	Actual rent [40,000 x 12]	4,80,000	
	Gross Annual Value, being higher of expected rent and actual rent		4,80,000
	Less: Municipal taxes		<u>5,400</u>
	Net Annual Value		4,74,600
	Less: Deduction under section 24		
	- 30% of net annual value [30% x 4,74,600]	1,42,380	
	- Interest on borrowed capital (actual allowable as deduction without any ceiling limit)	<u>2,50,000</u>	<u>3,92,380</u>
			82,220
	Loss under the head "Income from house property" (₹ 2,00,000 - ₹ 82,220)		(1,17,780)

Note: Interest on borrowed capital

Particulars		₹
	Interest for the current year [18,00,000 x 9.5%]	1,71,000
	Add: 1/5th of pre-construction interest (₹2,85,000 x 1/5)	57,000
	1.8.2021 to 31.03.2022 – (₹ 18,00,000 x 9.5% x 8/12)	1,14,000
	1.4.2022 to 31.03.2023 – (₹ 18,00,000 x 9.5%)	1,71,000
	Interest deduction allowable under section 24, restricted to	2,00,000

Question 25: Based on foreign property

(a) Mr. Varun is a RNOR in India during the AY 2024-25. He furnishes the following information regarding his income/expenditure pertaining to his house properties for the PY 2023-24:

- He owns two houses, one in Australia and the other in Delhi.
- The house in Australia is let out there at a rent of SGD 3,000 p.m. The entire rent is received in India. He paid Property tax of SGD 1000 and Sewerage Tax SGD 500 there. (1SGD=INR 55)
- The house in Delhi is self-occupied. He had taken a loan of ₹ 20,00,000 to construct the house on 1st June, 2019 @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 ₹ 2,500.

Compute the income chargeable under the head HP for the AY 2024-25. Assume not opted for 115BAC.

Solution: Tax consequences in the hands of Mr. Varun

Particulars	₹	₹
Income from let-out property in Australia [See Note 1 below]		
Gross Annual Value (SGD 3,000 p.m. x 12 months x ₹ 55)		19,80,000
Less: Municipal taxes paid during the year [SGD 1,500 (SGD 1,000 + SGD 500) x ₹ 55]2		82,500
Net Annual Value (NAV)		18,97,500
Less: Deductions under section 24		

30% of NAV	5,69,250	
Interest on housing loan	=	5,69,250
Income from self-occupied property in Delhi		13,28,250
Annual Value [Nil, since the property is self-occupied]		Nil
[No deduction is allowable in respect of municipal taxes paid in respect of self-occupied property]		Nil
Less: Deduction in respect of interest on housing loan [See Note 2 below]		2,00,000
Income from house property [₹ 13,28,250 – ₹ 2,00,000]		(2,00,000)
		11,28,250

Notes:

(1) Since Mr. Varun is a RNOR in India for A.Y. 2024-25, income which is, inter alia, received in India shall be taxable in India, even if such income has accrued or arisen outside India by virtue of the provisions of sec 5(1). Accordingly, rent received from house property in Australia would be taxable in India since such income is received by him in India.

(2) Interest on housing loan for construction of self-occupied property allowable as deduction under section 24.

Interest for the current year (₹ 20,00,000 x 12%) ₹ 2,40,000

Pre-construction interest

For the period 01.06.2019 to 31.03.2022 (₹ 20,00,000 x 12% x 34/12) = ₹ 6,80,000

₹ 6,80,000 allowed in 5 equal installments (₹ 6,80,000/5) ₹ 1,36,000

₹ 3,76,000

In case of self-occupied property, interest deduction to be restricted to ₹ 2,00,000

Summary			
Basis of Charge [Section 15]			
(i)	Salary is chargeable to tax either on 'due' basis or on 'receipt' basis, whichever is earlier.		
(ii)	However, where any salary, paid in advance, is assessed in the year of payment, it cannot be subsequently brought to tax in the year in which it becomes due.		
(iii)	If the salary paid in arrears has already been assessed on due basis, the same cannot be taxed again when it is paid.		
If an employee works with more than one employer, salaries received from all the employers would be clubbed and brought to charge for the relevant previous year.			
Taxability/Exemption of certain Allowances			
Section	Allowance	Exemption	
10(13A)	House Rent Allowance	Least of the following is exempt: (a) HRA actually received (b) Rent paid less 10% of salary (c) 50% of salary, if accommodation is located in Mumbai, Kolkata, Delhi or Chennai 40% of salary, if the accommodation is located in any other city. Note - Exemption would be available to an assessee only if he exercises the option of shifting out of the default tax regime provided u/s 115BAC(1A).	
10(14)(ii)	Children education allowance	₹ 100 p.m. per child upto maximum of two children Note - Exemption would be available to an assessee only if he exercises the option of shifting out of the default tax regime provided u/s 115BAC(1A).	
	Transport allowance for commuting between the place of residence and the place of duty	₹ 3,200 p.m. for an employee who is blind or deaf and dumb or orthopedically handicapped Note - Exemption in respect of transport allowance would be available to an assessee irrespective of the regime under which he pays tax.	
	Hostel expenditure of employee's children	₹ 300 p.m. per child up to a maximum of two children Note - Exemption would be available to an assessee only if he exercises the option of shifting out of the default tax regime provided u/s 115BAC(1A).	
Exemption of Terminal Benefits [Exemption would be available to an assessee irrespective of the tax regime under which he pays tax]			
Section	Component of salary	Category of employee	Particulars [Taxability / Exemption u/s 10]
10(10)	Gratuity	CG employees/ Members of Civil Services/ local authority employees etc.	Fully exempt u/s 10(10)(i)
		Other employees	Least of the foll. is exempt: (i) Gratuity actually received In case of employees

			<u>covered by the Payment of Gratuity Act, 1972</u> (ii) $15/26 \times$ last drawn salary \times number of completed years or part in excess of six months ₹ 20,00,000
			<u>In case of employees not covered by the Payment of Gratuity Act, 1972</u> (ii) $1/2 \times$ average salary of last 10 months \times number of completed years of service (fraction to be ignored). ₹ 20,00,000
10(10A)	Pension		
	Uncommuted pension	Government & Non-Government employees	Fully taxable
	Commuted pension	Employees of CG/ local authorities/ Statutory corporation/ members of Civil services/ All-India services/ Defence Services	Fully exempt u/s 10(10A)(i)
		Other Employees	<u>If the employee is in receipt of gratuity</u> $1/3 \times$ (commuted pension received \div commutation %) \times 100
			<u>If the employee is not in receipt of gratuity</u> $1/2 \times$ (commuted pension received \div commutation %) \times 100
10(10AA)	Leave Salary		
	Received during service	Govt. & Non- Govt.	Fully taxable
	Received at the time of retirement, (whether on superannuation or otherwise)	Government	Fully exempt u/s 10(10AA)(i)
		Non- Government	Least of the foll. is exempt: (i) ₹ 25,00,000 (ii) Leave salary actually received (iii) Cash equivalent of leave standing at the credit of the employee

			[based on average salary of last 10 months] (maximum 30 days for every year of service) (iv) 10 months salary (based on average salary of last 10 months preceding retirement)
10(10B)	Retrenchment Compensation		Least of the following is exempt: (i) Compensation actually received (ii) ₹ 5,00,000 (iii) 15 days average pay × Completed years of service and part thereof in excess of 6 months
10(10C)	Voluntary Retirement Compensation	Central & State Government, Public sector company, any other company, local authority, co- operative society, IIT etc.	Least of the foll. is exempt: (i) Compensation actually received (ii) ₹ 5,00,000 (iii) 3 months salary x completed years of service (iv) Last drawn salary x remaining months of services left

Section 10(5) [Leave Travel Concession]

Exemption is available for 2 trips in a block of 4 calendar years. Exemption would be available to an assessee only if he exercises the option of shifting out of the default tax regime provided u/s 115BAC(1A).

S. No.	Journey performed by	Exemption
1	Air	Amount not exceeding air economy fare by the shortest route.
2	Any other mode: (i) Where rail service is available (ii) Where rail service is not available a) and public transport does not exist b) but public transport exists.	Amount not exceeding air-conditioned first- class rail fare by the shortest route to the place of destination Amount equivalent to air-conditioned first class rail fares by the shortest route, as if the journey had been performed by rail Amount not exceeding the first class or deluxe class fare by the shortest route to the place of destination

Provident Funds - Exemption & Taxability provisions

Particulars	Recognized PF	Unrecognized PF	Statutory PF	Public PF
Employer's Contribution	Contribution in excess of 12% of salary is taxable as "salary" u/s 17(1)	Not taxable at the time of contribution	Fully exempt	N.A. (as there is only assessee's own contribution)
Employee's Contribution	Eligible for deduction u/s 80C, where an employee exercises the option of shifting out of the default tax regime provided u/s 115BAC(1A)	Not eligible for deduction	Eligible for deduction u/s 80C, where an employee exercises the option of shifting out of the default tax regime provided u/s 115BAC(1A)	Eligible for deduction u/s 80C, where an employee exercises the option of shifting out of the default tax regime provided u/s 115BAC(1A)
Interest Credited on Employer's Contribution	Amount in excess of 9.5% p.a. is taxable as "salary" u/s 17(1)	Not taxable at the time of credit of interest	Fully exempt	N.A.
Interest Credited on Employee's Contribution	Amount in excess of 9.5% p.a. is taxable as "salary" u/s 17(1) [see note below]	Not taxable at the time of credit of interest	Exempt upto certain limit of contribution [see note below]	Fully exempt
Amount withdrawn on retirement/termination	Exempt from tax if: (i) employee served a continuous period of 5 yrs or more; or retires before rendering 5 yrs of service because of ill health, contraction or discontinuance of employer's business or reason beyond the control of the employee; or (ii) on cessation of employment, the employee obtains employment with any other employer, to the	Employer's contribution and interest thereon is taxable as salary. Employee's contribution is not taxable. Interest on employee's contribution is taxable under income from	Fully exempt u/s 10(11)	Fully exempt u/s 10(11)

	<p>extent the accumulated balance in RPF is transferred to his RPF account maintained by the new employer.</p> <p>(iv) The entire balance standing to the credit of the employee is transferred to his NPS account referred to in sec 80CCD and notified by the CG</p> <p>In other cases, it will be taxable</p>	other source.		
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As per section 10(11), any payment from a Provident Fund (PF) to which Provident Fund Act, 1925, applies or from Public Provident Fund would be exempt.

Accumulated balance due and becoming payable to an employee participating in a Recognized Provident Fund (RPF) would be exempt u/s 10(12).

However, the exemption u/s 10(11) or 10(12) would not be available in respect of income by way of interest accrued during the PY to the extent it relates to the amount or the aggregate of amounts of contribution made by that person/employee exceeding ₹ 2,50,000 in any PY in that fund, on or after 1st April, 2021.

If the contribution by such person/employee is in a fund in which there is no employer's contribution, then, a higher limit of ₹ 5,00,000 would be applicable for such contribution, and interest accrued in any PY in that fund, on or after 1st April, 2021 would be exempt upto that limit.

It may be noted that interest accrued on contribution to such funds upto 31st March, 21 would be exempt without any limit, even if the accrual of income is after that date.

Valuation of Perquisites [Section 17(2) read with Rule 3]

(I) Rent-free residential accommodation/ Accommodation provided to an employee at concessional rate

S. No. (A)	Category of Employee (B)	Unfurnished accommodation (C)	Furnished accommodation (D)				
1	Government employee	License fee determined as per Government rules as reduced by the rent actually paid by the employee.	Value determined under column (C) Add: 10% p.a. of the furniture cost. However, if the furniture is hired; then hire charges payable/paid should be added to the value determined under column (C), as reduced by charges recovered from employee.				
2	Non-government employee	<p>Where accommodation is owned by employer</p> <table border="1"> <thead> <tr> <th>Location</th> <th>Perquisite value</th> </tr> </thead> <tbody> <tr> <td>In cities having a population > 25 lacs as per 2001</td> <td>15% of salary</td> </tr> </tbody> </table>	Location	Perquisite value	In cities having a population > 25 lacs as per 2001	15% of salary	Value determined under column (C) Add: 10% p.a. of the furniture cost. However, if the furniture is hired, then hire charges payable/paid should be added to the value determined under column (C), as reduced by charges recovered from employee.
Location	Perquisite value						
In cities having a population > 25 lacs as per 2001	15% of salary						

		census		
		In cities having a population > 10 lacs ≤ 25 lacs as per 2001 census	10% of salary	
		In other areas	7.5% of salary	
		The perquisite value should be arrived at by reducing the rent, if any, actually paid by the employee, from the above value.		

		<p><u>Where the accommodation is taken on lease or rent by employer</u></p> <p>Lower of the following is taxable:</p> <p>(a) actual amount of lease rent paid or payable by employer or</p> <p>(b) 15% of salary</p> <p>The lower of the above should be reduced by the rent, actually paid by the employee, to arrive at the perquisite value.</p>	<p>Value determined under column (C)</p> <p>Add: 10% p.a. of the furniture cost.</p> <p>However, if the furniture is hired, then hire charges payable/paid should be added to the value determined under column (C), as reduced by charges recovered from employee.</p>
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(II) Interest free or concessional loan

In respect of any loan given by employer to employee or any member of his household (excluding for medical treatment for specified ailments or where loans amount in aggregate does not exceed ₹ 20,000), the interest at the rate charged by SBI as on the first day of the relevant PY at maximum outstanding monthly balance (aggregate outstanding balance for each loan as on the last day of each month) as reduced by the interest, if any, actually paid by him or any member of his household.

(III) Use of movable assets by employee/ any member of his household

Asset given	Value of benefit
(a) Use of laptops & computers	Nil
(b) Movable assets, other than - (i) Laptops and computers; and (ii) ssets already specified	10% p.a. of the actual cost of such asset, or the amount of rent or charge paid, or payable by the employer, as the case may be (-) Amt paid by/ recovered from an employee

(IV) Transfer of movable assets

Actual cost of asset to employer (-) cost of normal wear and tear (-) amount paid or recovered from employee

Assets transferred	Value of perquisite
Computers and electronic items	@50% on WDV for each completed year of usage
Motor cars	@20% on WDV for each completed year of usage
Any other asset	@10% of actual cost of such asset to employer for each completed year of usage [on SLM basis]

(V) Motor car					
S. No.	Car owned/hired by	Expenses met by	Wholly official use	Partly personal use (c)	
				cc of engine	Perquisite value
1	Employer	Employer	Not a perquisite*	upto 1.6 litres	₹ 1,800 p.m.
				above 1.6 litres	₹ 2,400 p.m.
				If chauffeur is also provided, ₹ 900 p.m. should be added to the above value.	
2	Employee	Employer	Not a perquisite*	Actual amount of expenditure incurred by the employer as reduced by the perquisite value arrived at in (1) above.	
3	Employer	Employee	-	upto 1.6 litres	₹ 600 p.m.
				above 1.6 litres	₹ 900 p.m.
				If chauffeur is also provided, ₹ 900 p.m. should be added to the above value	

* Provided employer maintains the complete details of such journey and expenditure thereon and gives a certificate that such expenditure are incurred wholly for official use.

Note: Where car is owned by employer and expenses are also met by the employer, the taxable perquisites in case such car is used wholly for personal purposes of the employee would be equal to the actual expenditure incurred by the employer on running and maintenance expenses and normal wear and tear (calculated @10% p.a. of actual cost of motor car) less amount charged from the employee for such use.

Meaning of Salary:

S. No.	Calculation of exemption of Allowance/Terminal benefit/Valuation of perquisite	Meaning of salary
1	Gratuity (in case of non-Government employees covered by the Payment of Gratuity Act, 1972)	Basic salary and dearness allowance.
2	a) Gratuity (in case of non-Government employee not covered by Payment of Gratuity Act, 1972) b) Leave Salary c) House Rent Allowance d) Recognized Provident Fund	Basic salary and dearness allowance, if provided in terms of employment, and commission calculated as a fixed percentage of turnover.

	e) Voluntary Retirement Compensation	
3	➤ Rent free accommodation and Accommodation provided to an employee at a concessional rate	All pay, allowance, bonus or commission or any monetary payment by whatever name called but excludes- (1) Dearness allowance not forming part of computation of superannuation or retirement benefit (2) Employer's contribution to the provident fund account of the employee; (3) Allowances which are exempted from the payment of tax; (4) Value of the perquisites specified in section 17(2) (5) Any payment or expenditure specifically excluded under the proviso to section 17(2) i.e., payment of medical insurance premium specified therein. (6) Lump-sum payments received at the time of termination of service or superannuation or voluntary retirement, like gratuity, leave encashment, voluntary retirement benefits, commutation of pension and similar payments.

Deduction from gross salary [section 16]

(1)	Standard deduction [section 16(ia)] Standard deduction of upto Rs 50,000 Note- deduction would be available to assessee irrespective of the regime under which he pays tax.
(2)	Entertainment allowance (allowable only in the case of government employees) [Section 16(ii)] Least of the following is allowed as deduction: (1) ₹ 5,000 (2) 1/5 th of basic salary (3) Actual entertainment allowance received Note - Deduction would be available to an assessee only if he exercises the option of shifting out of the default tax regime provided under section 115BAC(1A).
(3)	Professional tax [Section 16(iii)] Any sum paid by the assessee on account of tax on employment is allowable as deduction. In case professional tax is paid by employer on behalf of employee, the amount paid shall be included in gross salary as a perquisite and then deduction can be claimed. Note - Deduction would be available to an assessee only if he exercises the option of shifting out of the default tax regime provided under section 115BAC(1A).

Relief when salary is paid in arrears or in advance [Section 89]

Step 1:	Calculate tax payable of the previous year in which the arrears/advance salary is received by considering:
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	(1) Total income inclusive of additional salary (2) Total salary exclusive of additional salary
Step 2:	Compute the difference the tax calculated in Step 1 and Step 2 [i.e., (a) – (b)]
Step 3:	Calculate the tax payable of every previous year to which the additional salary relates: (a) On total income including additional salary of that pervious year (b) On total income excluding additional salary
Step 4:	Calculate the difference between (a) and (b) in Step 3 for every previous year to which the additional salary relates and aggregate the same
Step 5:	Relief under section 89(1) = Amt calculated in Step 2 – Amt calculated in Step 4

Question 1: Based on housing loan Perk

What is the Perquisite in Respect of Housing Loan given by Employer?

Solution:

Perquisite value for housing loan: The value of the benefit to the assessee resulting from the provision of interest-free or concessional loan made available to the employee or any member of his household during the relevant previous year by the employer or any person on his behalf shall be determined as the sum equal to the interest computed at the rate charged per annum by the State Bank of India (SBI) as on the 1st day of the relevant previous year in respect of loans for the same purpose advanced by it. This rate should be applied on the maximum outstanding monthly balance and the resulting amount should be reduced by the interest, if any, actually paid by him. "Maximum outstanding monthly balance" means the aggregate outstanding balance for loan as on the last day of each month.

Question 2: Based on HRA

Mr. Raj Kumar has the following receipts from his employer:

	Particulars	₹
1	Basic Pay	40,000 p.m.
2	Dearness Allowance (DA)	6,000 p.m.
3	Commission	50,000 p.a.
4	Motor car for personal use (expenses met by the employer)	1,500 p.m.
5	House rent allowance	15,000 p.m.

Find out the amount of HRA exempt in the hands of Mr. Raj Kumar assuming that he paid a rent of ₹ 16,000 p.m. for his accommodation at Kanpur. DA forms part of salary for retirement benefits. Mr. Raj Kumar exercises the option of shifting out of the default tax regime provided u/s 115BAC(1A).

Solution:

	Particulars	₹
	HRA received	1,80,000
	Less: Exempt u/s 10(13A)	136,800
	Taxable HRA	43,200

Note: Exemption shall be least of the following three limits:

(a) the actual amount received (₹ 15,000 × 12) = ₹ 1,80,000

(b) excess of the actual rent paid by the assessee over 10% of his salary

= Rent Paid (-) 10% of salary for the relevant period

= (₹ 16,000×12) (-) 10% of [(₹ 40,000+₹ 6,000) × 12]

= ₹ 1,92,000 - ₹ 55,200

= ₹ 1,36,800

(c) 40% salary as his accommodation is situated at Kanpur

$$= 40\% \text{ of } [(\text{₹ } 40,000 + \text{₹ } 6,000) \times 12] = \text{₹ } 2,20,800$$

Note: For the purpose of exemption under section 10(13A), salary includes DA only when the terms of employment so provide, but excludes all other allowances and perquisites.

Question 3: Based on perquisite

Mr. X is appointed as a CFO of ABC Ltd. in Mumbai from 1.9.2021. His basic salary is ₹ 6,00,000 p.m. He is paid 8% as D.A. He contributes 10% of his pay and D.A. towards his recognized provident fund and the company contributes the same amount. The accumulated balance in recognized provident fund as on 1.4.2022, 31.3.2023 and 31.3.2024 is ₹ 9,81,137, ₹ 27,43,048 and ₹ 46,48,555, respectively. Compute the perquisite value chargeable to tax in the hands of Mr. X u/s 17(2)(vii) and 17(2)(viia) for the A.Y. 2023-24 and A.Y. 2024-25. Prior to 1.9.2021, he was a consultant, whose professional fees was taxable under the head "PGBP".

Solution:

Computation of perquisite value taxable u/s 17(2)(vii) and 17(2)(viia) for A.Y. 23-24

1. Perquisite value taxable u/s 17(2)(vii) = ₹ 7,77,600, being employer's contribution to recognized provident fund during the P.Y. 2022-23 – ₹ 7,50,000 = ₹ 27,600
2. Perquisite value taxable u/s 17(2)(viia) = Annual accretion on perquisite taxable u/s 17(2)(vii) = $(PC/2)*R + (PC1 + TP1)*R$
 $= (27,600/2) \times 0.111 + 0$
 $= \text{₹ } 1,532$

PC ABC Ltd.'s contribution in excess of ₹ 7.5 lakh to recognized provident fund during P.Y. 2022-23 = ₹ 27,600

PC1 Nil since employer's contribution is less than ₹ 7.5 lakh to recognized provident fund in P.Y. 2021-22 and there is no employer's contribution in P.Y. 2020-21.

TP1 Nil

R $I/F_{avg} = 2,06,711/18,62,093 = 0.111$

I RPF balance as on 31.3.2023 – employee's and employer's contribution during the year – RPF balance as on 1.4.2022 = ₹ 2,06,711 (₹ 27,43,048 – ₹ 7,77,600 – ₹ 7,77,600 – ₹ 9,81,137)

Favg Balance to the credit of recognized provident fund as on 1st April, 2022 + Balance to the credit of recognized provident fund as on 31st March, 2023)/2 = (₹ 9,81,137 + ₹ 27,43,048)/2 = ₹ 18,62,093

Note – Interest on the aggregate of following will also be chargeable to tax during A.Y. 2023-24 –

- (i) ₹ 2,03,600 [Employee's contribution exceeding ₹ 2,50,000 during P.Y. 2021-22]
- (ii) ₹ 5,27,600 [Employee's contribution exceeding ₹ 2,50,000 during P.Y. 2022-23]
- (iii) Interest accrued on ₹ 2,03,600 being excess employee's contribution of P.Y. 2021-22

Computation of perquisite value taxable u/s 17(2)(vii) and 17(2)(viia) for AY 2024-25

1. Perquisite value taxable u/s 17(2)(vii) = ₹ 7,77,600, being employer's contribution to recognized provident fund during the P.Y. 2023-24 – ₹ 7,50,000 = ₹ 27,600
2. Perquisite value taxable u/s 17(2)(viia) = Annual accretion on perquisite taxable u/s 17(2)(vii) = $(PC/2)*R + (PC1 + TP1)*R$
 $= (27,600/2) \times 0.09479 + (27,600 + 1,532) \times 0.09479$
 $= \text{₹ } 1,308 + \text{₹ } 2,761 = \text{₹ } 4,069$

PC ABC Ltd.'s contribution in excess of ₹ 7.5 lakh to recognized provident fund during P.Y. 2023-24 = ₹ 27,600

PC1 Amount of employer's contribution in excess of ₹ 7,50,000 to RPF in P.Y. 2020-21 and P.Y. 2021-22 = ₹ 27,600

TP1 Taxable perquisite under section 17(2)(viia) for the P.Y. 2022-23 = ₹ 1,532

$$R \quad I/\text{Favg} = 3,50,307/36,95,802 = 0.09479$$

I RPF balance as on 31.3.2024 – employee's and employer's contribution during the year – RPF balance as on 1.4.2023 = ₹ 3,50,307 (₹ 46,48,555 – ₹ 7,77,600 – ₹ 7,77,600 – ₹ 27,43,048)

Favg Balance to the credit of recognized provident fund as on 1st April, 2023 + Balance to the credit of recognized provident fund as on 31st March, 2024)/2 = (₹ 27,43,048 + ₹ 46,48,555)/2 = ₹ 36,95,802

Note – Interest on the aggregate of following will also be chargeable to tax during A.Y. 2024-25 –

- (i) ₹ 2,03,600 [Employee's contribution exceeding ₹ 2,50,000 during P.Y. 2021-22]
- (ii) ₹ 5,27,600 [Employee's contribution exceeding ₹ 2,50,000 during P.Y. 2022-23]
- (iii) ₹ 5,27,600 [Employee's contribution exceeding ₹ 2,50,000 during P.Y. 2023-24]
- (iv) Interest accrued on ₹ 2,03,600 being excess employee's contribution of P.Y. 2021-22
- (v) Interest accrued on ₹ 5,27,600 being excess employee's contribution of P.Y. 2022-23.

Question 4: Based on medical facilities

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

Particulars	₹
Medical premium paid for insuring health of Mr. G	7,000
Treatment of Mr. G by his family doctor	5,000
Treatment of Mrs. G in a Government hospital	25,000
Treatment of Mr. G's grandfather in a private clinic	12,000
Treatment of Mr. G's mother (68 yrs and dependant) by family doctor	8,000
Treatment of Mr. G's sister (dependant) in a nursing home	3,000
Treatment of Mr. G's brother (independent)	6,000
Treatment of Mr. G's father (75 years and dependent) abroad	50,000
Expenses of staying abroad of the patient	30,000
Limit specified by RBI	75,000

Solution: Computation of taxable value of perquisite in the hands of Mr. G

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

Question 5: Based on gratuity

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

- a) He is a government employee.
- b) He is a private sector employee, receiving gratuity of ₹ 5,00,000 at the time of retirement.

c) He is a private sector employee and is not in receipt of gratuity at the time of retirement.

Solution: a) He is a government employee:

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

b) He is a private sector employee, receiving gratuity ₹ 5,00,000 at the time of retirement:

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

c) He is a private sector employee and is not in receipt of gratuity at the time of retirement:

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

Question 6: Based on gratuity

Mr. Ravi retired on 15.6.2023 after completion of 26 years 8 months of service and received gratuity of ₹ 15,00,000. At the time of retirement, his salary was:

Basic Salary	₹ 50,000 p.m.
DA	₹ 10,000 p.m. (60% of which is for retirement benefits)
Commission	1% of turnover (turnover in the last 12 months was ₹12L)
Bonus	₹ 25,000 p.a.

Compute his taxable gratuity assuming:

- He is private sector employee and covered by Payment of Gratuity Act 1972.
- He is private sector employee & not covered by Payment of Gratuity Act 1972.
- He is a Government employee.

Solution: a) He is covered by the Payment of Gratuity Act 1972

Particulars	₹	₹
Gratuity received at the time of retirement		15,00,000
Less: Exemption u/s 10(10) Least of the following:		
(i) Gratuity received	15,00,000	
(ii) Statutory limit	20,00,000	
(iii) 15 days' salary based on last drawn salary for each completed year of service/part thereof excess of 6M		
15		
— X last drawn salary x years of service		
26		
15		
$\frac{15}{26} \times (\text{₹ } 50,000 + \text{₹ } 10,000) \times 27 =$	<u>9,34,615</u>	<u>9,34,615</u>
Taxable Gratuity		<u>5,65,385</u>

b) He is not covered by the Payment of Gratuity Act 1972

Particulars	₹
Gratuity received at the time of retirement	15,00,000
Less: Exemption under section 10(10) (Note)	8,58,000
Taxable gratuity	6,42,000

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

- i) Gratuity received 15,00,000
 ii) Statutory limit 20,00,000
 iii) Half month's salary based on average salary of last 10 months preceding the month of retirement for each completed year of service
 i.e. $\frac{1}{2} \times \text{average salary} \times \text{years of service}$

$$= \frac{1}{2} \times \frac{[(50,000 \times 10) + (10,000 \times 60\% \times 10) + (1\% \times 12,00,000 \times 10/12)] \times 26}{10} = 8,58,000$$

a) He is a government employee

Particulars	₹
Gratuity received at the time of retirement	15,00,000
Less: Exemption under section 10(10)	15,00,000
Taxable Gratuity	Nil

Question 7: Based on leave salary

Mr. Gupta retired on 1.12.2023 after 20 years 10 months of service, receiving leave salary of ₹ 5,00,000. Other details of his salary income are:

Particulars
Basic Salary: ₹ 5,000 p.m. (₹ 1,000 was increased w.e.f. 1.4.2023)
Dearness Allowance: ₹ 3,000 p.m. (60% of which is for retirement benefits)
Commission: ₹ 500 p.m. (not based on %)
Bonus: ₹ 1,000 p.m.
Leave availed during service: 480 days

He was entitled to 30 days leave every year. You are required to compute his taxable leave salary assuming:

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

Solution:

Particulars	Amount ₹
a) He is a government employee	
Leave Salary received at the time of retirement	5,00,000
Less: Exemption under section 10(10AA)	<u>5,00,000</u>
Taxable Leave salary	<u>Nil</u>
b) He is a non-government employee	
Leave Salary received at the time of retirement	5,00,000
Less: Exempt under section 10(10AA) [See Note below]	<u>26,400</u>
Taxable Leave Salary	<u>4,73,600</u>
Note: Exemption under section 10(10AA) is least of the following:	
(i) Leave salary received	5,00,000
(ii) Statutory limit	25,00,000
(iii) 10 months' salary based on average salary of last 10 months	
i.e. $10 \times \left[\frac{\text{salary of last 10 months i.e. Feb-Nov}}{10 \text{ months}} \right]$	
$= 10 \times \left[\frac{(5000 \times 8) + (4000 \times 2) + (60\% \times 3000 \times 10)}{10 \text{ Months}} \right]$	66,000
(iv) Cash equivalent of leave standing at the credit of the employee based on the average salary of last 10 months' (max. 30 days per year of service)	
Leave Due = Leave allowed – Leave taken	
= (30 days per year × 20 years) – 480 days	
= 120 days	
i.e. $\left[\text{Leave due (in days)} \times \text{Average salary p.m. 30 days} \right]$	
$= \left[\frac{120 \text{ days}}{30 \text{ days}} \times \frac{66000}{10 \text{ m}} \right]$	26,400

Question 8: Based on URPF Adjustment

Mr. A retires from service on December 31, 2023, after 25 years of service. Following are the particulars of his income/investments for PY 2023-24

Particulars	₹
Basic pay @ ₹ 16,000 per month for 9 months	1,44,000
Dearness pay (50% forms part of the retirement benefits) ₹ 8,000 per month for 9 months	72,000
Lumpsum payment received from Unrecognized PF.	6,00,000
Deposits in the PPF account	40,000

Out of the amount received from the unrecognised provident fund, the employer's contribution was ₹ 2,20,000 and the interest thereon ₹ 50,000. The employee's contribution was ₹ 2,70,000 and the interest thereon ₹ 60,000. What is the taxable portion of the amount received from the unrecognized provident fund in the hands of Mr. A for the AY 2024-25?

Solution: Taxable portion of the amount received from the URPF in the hands of Mr. A for the A.Y. 2024-25 is computed here under:

Particulars	₹
Amount taxable under the head "Salaries":	
Employer's share in the payment received from the URPF	2,20,000
Interest on the employer's share	50,000
Total	2,70,000
Amount taxable under the head "Income from Other Sources":	
Interest on the employee's share	60,000
Total amount taxable from the amount received from the fund	3,30,000

Note: Since the employee is not eligible for deduction under section 80C for contribution to URPF at the time of such contribution, the employee's share received from the URPF is not taxable at the time of withdrawal as this amount has already been taxed as his salary income

Question 9: Based on Total salary

Mr. B is working in XYZ Ltd. and has given the details of his income for the P.Y. 2023-24. Required to compute his gross salary from given below

Particulars	₹
Basic Salary	10,000 p.m.
D.A. (50% is for retirement benefits)	8,000 p.m.
Commission as a percentage of turnover	0.1%
Turnover during the year	50,00,000
Bonus	40,000
Gratuity	25,000
His own contribution in the RPF	20,000
Employer's contribution to RPF	20% of his basic salary
Interest accrued in the RPF @ 13% p.a.	13,000

Solution: Computation of Gross Salary of Mr. B for the A.Y.2024-25

Particulars	₹	₹
Basic Salary [₹ 10,000 × 12]		1,20,000
Dearness Allowance [₹ 8,000 × 12]		96,000
Commission on turnover [0.1% × ₹ 50,00,000]		5,000
Bonus		40,000
Gratuity [Note 1]		25,000
Employee's contribution to RPF [Note 2]		-
Employers contribution to RPF [20% of ₹ 1,20,000]	24,000	
Less: Exempt [Note 3]	20,760	3,240
Interest accrued in the RPF @ 13% p.a.	13,000	
Less: Exempt @ 9.5% p.a.	9,500	3,500
Gross Salary		2,92,740

Note 1: Gratuity received during service is fully taxable.

Note 2: Employee's contribution to RPF is not taxable. It is eligible for deduction u/s 80C.

Note 3: Employer's contribution in the RPF is exempt up to 12% of the salary.

i.e., 12% of [Basic Salary + Dearness Allowance forming part of retirement benefits + Commission based on turnover] = 12% of [₹ 1,20,000 + (50% × ₹ 96,000) + ₹ 5,000] = 12% of ₹ 1,73,000 = ₹ 20,760.

Question 10: Based on VRS

Mr. Dutta received voluntary retirement compensation of ₹ 7,00,000 after 30 years 4 months of service. He still has 6 years of service left. At the time of voluntary retirement, he was drawing basic salary ₹ 20,000 p.m.; Dearness allowance (which forms part of pay) ₹ 5,000 p.m. Compute his taxable voluntary retirement compensation, assuming that he does not claim any relief u/s 89.

Solution:

Particulars	Amount ₹
Voluntary retirement compensation received	7,00,000
Less: Exemption under section 10(10C) [See Note below]	<u>5,00,000</u>
Taxable voluntary retirement compensation	<u>2,00,000</u>
Note: Exemption is to the extent of least of the following:	
(i) Compensation actually received	7,00,000
(ii) Statutory limit	5,00,000
(iii) 3 months' salary × completed years of service = (₹ 20,000 + ₹ 5,000) × 3 × 30 years	22,50,000
(iv) Last drawn salary × remaining months of service left = (₹ 20,000 + ₹ 5,000) × 6 × 12 months	18,00,000

Question 11: Based on perks

X Ltd. provided the following perquisites to its employee Mr. Y for the P.Y. 2023-24 –

- Accommodation taken on lease by X Ltd. for ₹ 15,000 p.m. ₹ 5,000 p.m. is recovered from the salary of Mr. Y.
- Furniture, for which the hire charges paid by X Ltd. is ₹ 3,000 p.m. No amount is recovered from the employee in respect of the same.
- A Santro Car of 1200cc which is owned by X Ltd. and given to Mr. Y to be used both for official and personal purposes. All running and maintenance expenses are fully met by the employer. He is also provided with a chauffeur.
- A gift voucher of ₹ 10,000 on his birthday.

Compute the value of perquisites chargeable to tax for the A.Y.2024-25, assuming his salary for perquisite valuation to be ₹ 10 lakh.

Solution: Computation of the value of perquisites chargeable to tax for A.Y.2024-25

Particulars	Amount in ₹	
A) Value of concessional accommodation		
Actual amount of lease rental paid by X Ltd.	1,80,000	
15% of salary i.e., 15% of ₹ 10,00,000	1,50,000	
	1,50,000	
Lower of the above		
Less: Rent paid by Mr. Y (₹ 5,000 × 12)	60,000	
	90,000	
Add: Hire charges paid by X Ltd. for furniture provided for the use of Mr. Y (₹ 3,000 × 12)	36,000	1,26,000
C) Perquisite value of Santro car owned by X Ltd. and provided to Mr. Y for his personal and of official use		32,400

$[(\text{₹ } 1,800 + \text{₹ } 900) \times 12]$		
D) Value of gift voucher		10,000
Value of perquisites chargeable to tax		1,68,400

*An alternative view possible is that only the sum in excess of Rs 5,000 is taxable. In such case, the value of perquisite would be Rs 5,000

Question 12: Based on RPF & 115BAC

Mr. Goyal receives the following emoluments during the PY ending 31.03.2024.

Particulars	₹
Basic pay	4,00,000
Dearness Allowance	1,50,000
Commission	1,00,000
Entertainment allowance	40,000
Medical expenses reimbursed	25,000
Professional tax paid	2,000 (₹ 1,000 was paid by his employer)

Mr. Goyal contributes ₹ 5,000 towards RPF. He has no other income. Determine the income from salary for A.Y. 2024-25, if Mr. Goyal is a State Government employee. Also determine the income from salary of Mr. Goyal if he opts for 115BAC.

Solution: Computation of salary for the AY 2024-25 under the normal provisions of the Act

Particulars	₹	₹
Basic Salary		4,00,000
Dearness Allowance		1,50,000
Commission		1,00,000
Entertainment Allowance received		40,000
Employee's contribution to RPF [Note]		-
Medical expenses reimbursed		25,000
Professional tax paid by the employer		1,000
Gross Salary		7,16,000
Less: Deductions under section 16		
under section 16(ia) - Standard deduction of upto ₹ 50,000		50,000
under section 16(ii) - Entertainment allowance		
being lower of :		
(a) Allowance received	40,000	
(b) One fifth of basic salary $[1/5 \times ₹ 40,000]$	80,000	5,000
(c) Statutory amount	5,000	
under section 16(iii) - Professional tax paid		2,000
Income from Salary		6,59,000

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

Computation of salary for the A.Y.2024-25 under default tax regime u/s 115BAC

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

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

Question 13: Based on relief

In the case of Mr. Hari, who turned 68 years on 28.3.2024, you are informed that the salary for the PY 2023-24 is ₹ 10,20,000 and arrears of salary received is ₹ 3,45,000. Further, you are given the following details relating to the earlier years to which the arrears of salary received is attributable to:

Previous year	Taxable Salary	Arrears now received
2011-2012	7,10,000	1,03,000
2012-2013	8,25,000	1,17,000
2013-2014	9,50,000	1,25,000

Compute the relief available u/s 89 and the tax payable for the A.Y. 2024-25.

Note: Rates of Taxes:

Assessment Year	Slab rates of income-tax			
	For resident individuals of the age of 60 years or more at any time during the previous year		For other resident individual	
	Slabs	Rate	Slabs	Rate
2011-12	Upto Rs 2,40,000	Nil	Upto Rs	Nil
	Rs 2,40,001 - Rs	10%	Rs 1,60,001 - Rs	10%
	Rs 5,00,001 - Rs	20%	Rs 5,00,001 - Rs	20%
	Above Rs 8,00,000	30%	Above Rs	30%
2012-13	Upto Rs 2,50,000	Nil	Upto Rs	Nil
	Rs 2,50,001 - Rs	10%	Rs 1,80,001 - Rs	10%
	Rs 5,00,001 - Rs	20%	Rs 5,00,001 - Rs	20%
	Above Rs 8,00,000	30%	Above Rs	30%
2013-14	Upto Rs 2,50,000	Nil	Upto Rs	Nil
	Rs 2,50,001 - Rs	10%	Rs 2,00,001 - Rs	10%
	Rs 5,00,001 - Rs	20%	Rs 5,00,001 - Rs	20%
	Above Rs 10,00,000	30%	Above Rs	30%

Note – Education cess@2% and secondary and higher education cess@1% was attracted on the income-tax for all above preceding years

Solution: Computation of tax payable by Mr. Hari for the A.Y.2024-25

Particulars	Incl. arrears of Salary ₹	Excl. arrears of Salary ₹
Current year salary	10,20,000	10,20,000
Add: Arrears of salary	3,45,000	-
Taxable Salary	13,65,000	10,20,000
Income-tax thereon	2,19,500	1,16,000
Add: HEC @ 4%	8,780	4,640
Total payable	2,28,280	1,20,640

Computation of tax payable on arrears of salary if charged to tax in the respective AYs

Particulars	A.Y. 2011-12		A.Y. 2012-13		A.Y. 2013-14	
	Incl. arrears (₹)	Excl. arrears (₹)	Incl. arrears (₹)	Excl. arrears (₹)	Incl. arrears (₹)	Excl. arrears (₹)
Taxable salary	7,10,000	7,10,000	8,25,000	8,25,000	9,50,000	9,50,000
Add: Arrears of salary	1,03,000	-	1,17,000	-	1,25,000	-
Taxable	8,13,000	7,10,000	9,42,000	8,25,000	10,75,000	9,50,000
Tax on the above	97,900	76,000	1,34,600	99,500	1,47,500	1,15,000
Add: HEC@3%	2,937	2,280	4,038	2,985	4,425	3,450
Tax payable	1,00,837	78,280	1,38,638	1,02,485	1,51,925	1,18,450

Computation of relief under section 89

Particulars		₹	₹
i	Tax payable in A.Y.2023-24 on arrears:		
	Tax on income including arrears	2,28,280	
	Less: Tax on income excluding arrears	1,20,640	1,07,640
ii	Tax payable in respective years on arrears:		
	Tax on income including arrears (₹ 1,00,837 + ₹ 1,38,638 + ₹ 1,51,925)	3,91,400	
	Less: Tax on income excluding arrears (₹ 78,280 + ₹ 1,02,485 + ₹ 1,18,450)	2,99,215	92,185
	Relief u/s 89 - difference between tax on arrears in A.Y 2023-24 and tax on arrears in the respective yrs		15,455

Tax payable for A.Y.2024-25 after relief u/s 89

Particulars	₹
Income-tax payable on total income including arrears of salary	2,28,280
Less: Relief under section 89 as computed above	15,455
Tax payable after claiming relief	2,12,825

Question 14: Based on perks

Mr. X, employed with AB Ltd. on monthly salary of ₹ 25,000 p.m & entertainment allowance & commission of ₹ 1,000 p.m. each. Company provides following benefits:

1. A company owned accommodation is provided to him in Delhi. Furniture costing ₹ 2,40,000 was provided on 1.8.2023.
2. A personal loan of ₹ 5,00,000 on 1.7.2023 on which it charges interest @ 6.75% p.a. The entire loan is still outstanding. (Assume SBI rate of interest to be 12.75% p.a.)
3. His son is allowed to use a motor cycle belonging to the company. The company had purchased this motor cycle for ₹ 60,000 on 1.5.2020. The motor cycle was finally sold to him on 1.8.2023 for ₹ 30,000.
4. Professional tax paid by Mr. X is ₹ 2,000.

Compute the income from salary of Mr. X for the A.Y. 2024-25. Assuming opt out of 115BAC.

Solution:

Particulars		Amount ₹
Basic salary [₹ 25,000 × 12]		3,00,000
Commission [₹ 1,000 × 12]		12,000
Entertainment allowance [₹ 1,000 × 12]		12,000
Rent free accommodation [Note 1]	48,600	
Add: Value of furniture [₹ 2,40,000 × 10% p.a. for 8 months]	16,000	
Total		64,600
Interest on personal loan [Note 2]		22,500
Use of motor cycle [₹ 60,000 × 10% p.a. for 4 M]		2000
Transfer of motor cycle [Note 3]		12,000
Gross Salary		
Less: Deduction under section 16		4,25,100
Under section 16(ia) – Deduction of upto ₹50,000	50,000	
Under section 16(iii) - Professional tax paid	2,000	52,000
Income from Salary		3,73,100

Note 1: Value of rent free unfurnished accommodation
 = 15% of salary for the relevant period
 = 15% of (₹ 3,00,000 + ₹ 12,000 + ₹ 12,000) = ₹ 48,600

Note 2: Value of perquisite for interest on personal loan
 = [₹ 5,00,000 × (12.75% - 6.75%) for 9 months] = ₹ 22,500

Note 3: Depreciated value of the motor cycle = Original cost – Depreciation @ 10% p.a. for 3 completed years.
 = ₹ 60,000 – (₹ 60,000 × 10% p.a. × 3 years) = ₹ 42,000.
 Perquisite = ₹ 42,000 – ₹ 30,000 = ₹ 12,000.

Question 15: Gross salary & HRA

Mr. Mohit is employed with XY Ltd. on a basic salary of ₹ 10,000 p.m. He is also entitled to dearness allowance @100% of basic salary, 50% of which is included in salary as per terms of employment. The company gives him house rent allowance of ₹ 6,000 p.m. which was increased to ₹ 7,000 p.m. with effect from 01.01.2024. He also got an increment of ₹ 1,000 p.m. in his basic salary with effect from 01.02.2024. Rent paid by him during the PY 2023-24 is as under:

- a. April and May, 2023 - Nil, as he stayed with his parents

b. June to October, 2023 - ₹ 6,000 p.m. for an accommodation in Ghaziabad
c. November, 2023 to March, 2024 - ₹ 8,000 p.m. for an accommodation in Delhi
Compute his gross salary for AY 2024-25 assuming he has not opted for the provisions of section 115BAC.

Solution: Computation of Gross salary of Mr. Mohit for A.Y. 2024-25

Particulars	₹
Basic salary [(₹10,000 × 10) + (₹11,000 × 2)]	1,22,000
Dearness Allowance (100% of basic salary)	1,22,000
House Rent Allowance (See Note below)	21,300
Gross Salary	2,65,300

Note: Computation of Taxable House Rent Allowance (HRA)

Particulars	April-May (₹)	June-Oct (₹)	Nov-Dec (₹)	Jan (₹)	Feb March (₹)
Basic salary p.m.	10,000	10,000	10,000	10,000	11,000
DA (included in salary as per terms of employment) (50% of basic salary)	5,000	5,000	5,000	5,000	5,500
Salary p.m. for the purpose of computation of house rent allowance	15,000	15,000	15,000	15,000	16,500
Relevant period (in months)	2	5	2	1	2
Salary for the relevant period (Salary per month × relevant period)	30,000	75,000	30,000	15,000	33,000
Rent paid for the relevant period	Nil	30,000 (₹6,000×5)	16,000 (₹8,000×2)	8,000 (₹8,000×1)	16,000 (₹8,000×2)
House rent allowance (HRA) received during the relevant period (A)	12,000 (₹6,000×2)	30,000 (₹6,000×5)	12,000 (₹6,000×2)	7,000 (₹7,000×1)	14,000 (₹7,000×2)
Least of the foll. is exempt [u/s 10(13A)]	N.A.				
1. Actual HRA received	-	30,000	12,000	7,000	14,000
2. Rent paid (-) 10% of salary	-	22,500	13,000	6,500	12,700
3. 40% of salary (Residence at Ghaziabad - June to Oct, 2023) 50% of salary (Residence at Delhi- Nov, 23 - March, 24)	-	30,000 (40% × ₹ 75,000)	15,000 (50% × ₹ 30,000)	7,500 (50% × ₹ 15,000)	16,500 (50% × ₹ 33,000)
Exempt HRA (B)	Nil	22,500	12,000	6,500	12,700

Taxable HRA [Actual HRA (-) Exempt HRA] (A-B)	12,000	7,500	Nil	500	1,300
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Taxable HRA (total) = ₹12,000 + ₹7,500 + ₹500 + ₹1,300 = ₹21,300

Question 16: Based on various perquisite

X Ltd. provided the following perquisites to its employee Mr. Y for the P.Y. 2023-24 –

- (1) Accommodation taken on lease by X Ltd. for ₹ 15,000 p.m. ₹ 5,000 p.m. is recovered from the salary of Mr. Y.
- (2) Furniture, for which the hire charges paid by X Ltd. is ₹ 3,000 p.m. No amount is recovered from the employee in respect of the same.
- (3) A car of 1,200 cc which is owned by X Ltd. and given to Mr. Y to be used both for official and personal purposes. All running and maintenance expenses are fully met by the employer. He is also provided with a chauffeur.
- (4) A gift voucher of ₹ 10,000 on his birthday.

Compute the value of perquisites chargeable to tax for the A.Y.2024-25, assuming his salary for perquisite valuation to be ₹ 10 lakh.

Solution: Computation of the value of perquisites chargeable to tax in the hands of Mr. Y for the A.Y.2024-25

Particulars		Amount on ₹	
(1)	Value of accommodation at concessional rate Actual amount of lease rental paid by X Ltd.	1,80,000	
	15% of salary i.e., 15% of ₹ 10,00,000	1,50,000	
	Lower of the above		1,50,000
	Less: Rent paid by Mr. Y (₹ 5,000 × 12)		60,000
	Total		90,000
	Add: Hire charges paid by X Ltd. for furniture provided for the use of Mr. Y (₹ 3,000 × 12)		36,000
			1,26,000
(2)	Perquisite value of Santro car owned by X Ltd. and provided to Mr. Y for his personal and official use [(₹ 1,800 + ₹ 900) × 12]		32,400
(3)	Value of gift voucher*		10,000
	Value of perquisites chargeable to tax		1,68,400

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

Question 17: Based on medical benefits

Ms. Rakhi is an employee in a private company. She receives the following medical benefits from the company during the previous year 2023-24:

Particulars		₹
1	Reimbursement of following medical expenses incurred by Ms. Rakhi	
(A)	On treatment of her self-employed daughter in a private clinic	4,000
(B)	On treatment of herself by family doctor	8,000
(C)	On treatment of her mother-in-law dependent on her, in a nursing home	5,000
2	Payment of premium on Mediclaim Policy taken on her health	7,500
3	Medical Allowance	2,000 p.m.
4	Medical expenses reimbursed on her son's treatment in a	5,000

	government hospital	
5	Expenses incurred by company on the treatment of her minor son abroad including stay expenses	1,05,000
6	Expenses in relation to foreign travel of Rakhi and her son for medical treatment Note - Limit prescribed by RBI for expenditure on medical treatment and stay abroad is USD 2,50,000 per FY under liberalized remittance scheme.	1,20,000

Examine the taxability of the above benefits and allowances in the hands of Rakhi.

Solution: Tax treatment of medical benefits, allowances and mediclaim premium in the hands of Ms. Rakhi for A.Y. 2024-25

Particulars	
1.	Reimbursement of medical expenses incurred by Ms. Rakhi
(A)	The amount of ₹ 4,000 reimbursed by her employer for treatment of her self-employed daughter in a private clinic is taxable perquisite.
(B)	The amount of ₹ 8,000 reimbursed by the employer for treatment of Ms. Rakhi by family doctor is taxable perquisite.
(C)	The amount of ₹ 5,000 reimbursed by her employer for treatment of her dependant mother-in-law in a nursing home is taxable perquisite. The aggregate sum of ₹ 17,000, specified in (A), (B) and (C) above, reimbursed by the employer is taxable perquisite
2.	Medical insurance premium of ₹ 7,500 paid by the employer for insuring health of Ms. Rakhi is a tax free perquisite as per clause (iii) of the first proviso to section 17(2).
3.	Medical allowance of ₹ 2,000 per month i.e., ₹ 24,000 p.a. is a fully taxable allowance.
4.	As per clause (ii)(a) of the first proviso to section 17(2), reimbursement of medical expenses of ₹ 5,000 on her son's treatment in a hospital maintained by the Government is a tax-free perquisite.
5. & 6.	As per clause (vi) of the first proviso to section 17(2), the following expenditure incurred by the employer would be excluded from perquisite subject to certain conditions – (i) Expenditure on medical treatment of the employee, or any member of the family of such employee, outside India including stay expenses [₹ 1,05,000, in this case]; (ii) Expenditure on travel of the employee or any member of the family of such employee for medical treatment and one attendant who accompanies the patient in connection with such treatment [₹ 1,20,000, in this case]. The conditions subject to which the above expenditure would be exempt are as follows – (i) The expenditure on medical treatment and stay abroad would be excluded from perquisite to the extent permitted by Reserve Bank of India; (ii) The expenditure on travel would be excluded from perquisite only in the case of an employee whose gross total income, as computed before including the said expenditure, does not exceed ₹ 2 lakh. Since the expenditure on medical treatment and stay abroad does not exceed the limit permitted by RBI, they would be fully exempt. However, the foreign travel expenditure of Ms. Rakhi and her minor son borne by the employer would be excluded from perquisite only if the gross total income of Ms. Rakhi, as computed before including the said expenditure, does not exceed ₹ 2 lakh.

Question 18: Based on perks

Mr. X is employed with AB Ltd. on a monthly salary of ₹ 25,000 p.m. and an entertainment allowance and commission of ₹ 1,000 p.m. each. The company provides him with the following benefits:

(i) A company owned accommodation is provided to him in Delhi. Furniture

- costing ₹ 2,40,000 was provided on 1.8.2023.
- (ii) A personal loan of ₹ 5,00,000 on 1.7.2023 on which it charges interest @ 6.75% p.a. The entire loan is still outstanding (Assume SBI rate of interest on 1.4.2023 was 12.75% p.a.)
- (iii) His son is allowed to use a motor cycle belonging to the company. The company had purchased this motor cycle for ₹ 60,000 on 1.5.2020. The motor cycle was finally sold to him on 1.8.2023 for ₹ 30,000.
- (iv) Professional tax paid by Mr. X is ₹ 2,000.
- Compute the income from salary of Mr. X for the A.Y. 2024-25 assuming Mr. X exercises the option of shifting out of the default tax regime provided u/s 115BAC(1A).

Solution: Computation of Income from Salary of Mr. X for the AY 2024-25

Particulars	₹	₹
Basic salary [₹ 25,000 x 12]		3,00,000
Commission [₹ 1,000 x 12]		12,000
Entertainment allowance [₹ 1,000 x 12]		12,000
Rent free accommodation [Note 1]	48,600	
Add: Value of furniture [₹ 2,40,000 x 10% p.a. for 8 mths]	16,000	64,600
Interest on personal loan [Note 2]		22,500
Use of motor cycle [₹ 60,000 x 10% p.a. for 4 months]		2,000
Transfer of motor cycle [Note 3]		12,000
Gross Salary		4,25,100
Less: Deduction under section 16		
Under section 16(ia) – Standard deduction	50,000	
Under section 16(iii) - Professional tax paid	2,000	52,000
Income from Salary		3,73,100

Notes:

- Value of rent-free unfurnished accommodation
= 15% of salary for the relevant period
= 15% of (₹ 3,00,000 + ₹ 12,000 + ₹ 12,000) = ₹ 48,600
- Value of perquisite for interest on personal loan
= [₹ 5,00,000 x (12.75% - 6.75%) for 9 months] = ₹ 22,500
- Depreciated value of the motor cycle
= Original cost – Depreciation @ 10% p.a. for 3 completed years.
= ₹ 60,000 – (₹ 60,000 x 10% p.a. x 3 years) = ₹ 42,000.
Perquisite = ₹ 42,000 – ₹ 30,000 = ₹ 12,000.

Question 18: Based on compute the income from salary.

You are required to compute the income from salary of Mr. Raja under default tax regime from the following particulars for the year ended 31-03-2024:

- He retired on 31-12-2023 at the age of 60, after putting in 25 years and 9 months of service, from a private company at Delhi.
- He was paid a salary of ₹ 25,000 p.m. and house rent allowance of ₹ 6,000 p.m. He paid rent of ₹ 6,500 p.m., during his tenure of service.
- On retirement, he was paid a gratuity of ₹ 3,50,000. He was covered by the payment of Gratuity Act, 1972. He had not received any other gratuity at any point of time earlier, other than this gratuity.
- He had accumulated leave of 15 days per annum during the period of his service; this was encashed by him at the time of his retirement. A sum of ₹ 3,15,000 was received by him in this regard. Employer allowed 30 days leave p.a.
- He is receiving ₹ 5,000 as pension. On 1.2.2024, he commuted 60% of his pension

and received ₹ 3,00,000 as commuted pension.
 (vi) The company presented him with a gift voucher of ₹ 5,000 on his retirement. His colleagues also gifted him a mobile phone worth ₹ 50,000 from their own contribution.

Solution: Computation of income under the head “Salaries” of Mr. Raja for the AY 2024-25 under default tax regime

Particulars	₹	₹
Basic Salary ₹ 25,000 x 9 months		2,25,000
HRA ₹ 6,000 x 9 months [Fully taxable under default tax regime]		54,000
Gratuity	3,50,000	
Less: Least of the following exempt under section 10(10)(ii)	3,50,000	Nil
(i) Actual Gratuity received = ₹ 3,50,000		
(ii) 15 days salary for every year of completed service [15/26 x ₹ 25,000 x 26] = ₹ 3,75,000		
(iii) Notified limit = ₹ 20,00,000		
Leave encashment	3,15,000	
Less: Least of the following exempt under section 10(10AA)	2,50,000	
(i) ₹ 25,00,000		
(ii) Leave salary actually received ₹ 3,15,000		
(iii) ₹ 2,50,000, being 10 months' salary x ₹ 25,000		
(iv) Cash equivalent of leave standing at the credit of the employee based on the average salary of last 10 months' (max. 30 days per year of service) for every year of actual service rendered for the employer from whose service he has retired $375/30 \times ₹ 25,000 = ₹ 3,12,500$ [Leave Due = Leave allowed – Leave taken] = 750 (30 days per year × 25 years) – 375 days (15 days x 25) = 375 days]		
Uncommuted Pension received [₹ 5,000 x 1] + (₹ 5,000 x 2 x 40%)		9,000
Commuted Pension received	3,00,000	
Less: Exempt under section 10(10A) 1/3 x ₹ 3,00,000/60% x 100%)	1,66,667	
Gift Voucher [As per Rule 3(7)(iv), the value of any gift or voucher or token in lieu of gift received by the employee or by member of his household not exceeding ₹ 5,000 in aggregate during the previous year is exempt]		Nil
Mobile Phone received as gift from colleagues (Neither taxable under the head “Salaries” nor “Income from other sources”, since taxability provisions under section 56(2)(x) are not attracted in respect of mobile phone received from colleagues, as mobile phone is not included in the definition of “property” thereunder)		Nil
Gross Salary		4,86,333
Less: Standard deduction u/s 16 [Actual salary or ₹ 50,000, whichever is less] [Allowable under default tax regime]		50,000
Net Salary		4,36,333

Question 19: based on Total salary

Raman, an employee of the Gas Supply Ltd., Agra, receives the following emoluments during the previous year 2023-24.

Particulars	(₹.)
Basic pay	10,000

Project allowance	1,800
Arrears of project allowance of May, 2019	150
Professional tax paid by the employer	200
Rent free furnished house	
- Fair rent of the house	2,000
- Rent of furniture	500
Free gas supply	400
Service of sweeper	600
Services of gardener	1,000
Service of cook	800
Free lunch	2,400

Free use of chauffeur driven Fiat car which is used partly for official and partly for private purposes.

He is a member of recognised provident fund to which he contributes ₹.1,500. His employer also contributes an equal amount. He deposits ₹. 600 p.m. in 10 year account under the Post Office Savings Bank (CTD) Rules. Determine his taxable income and tax payable thereon for the AY 2024-25.

- (a) If Raman is a director in the employer company and the rent-free house is owned by it,
 (b) If Raman is neither a director nor a shareholder in the employer company & the rent-free house is not owned by it. Assuming the assessee has not opted for sec115BAC.

Solution: His taxable income will be computed as under:

Particulars	If Raman is a director and rent-free house is owned by the Company 'A'	If Raman is neither a director nor a shareholder and rent-free house is not owned by the Company 'B'
(1)	(2)	(3)
	₹.	₹.
Basic Pay	10,000	10,000
Project allowance	1,800	1,800
arrears of project allowance of May, 2019	150	150
Professional tax paid by the employer	200	200
Rent free furnished house:		
– 15% of Salary	1,770	1,770
– Rent of furniture	500	500
Free gas supply	400	Nil
Service of sweeper	600	Nil
Service of gardener	1,000	Nil
Service of cook	800	Nil
Free lunch	Nil	Nil

excess of employer's contribution towards provident fund over 12% of salary (1,500 - 12% of 10,000)	300	300
Gross salary	17520	14,720
Less: Deduction u/s 16 Standard deduction	17,520	14,720
Net income from Salary	Nil	Nil
Tax on total income	Nil	Nil

Notes:

- (1) It is assumed that the arrears of project allowance are taxable on receipt basis.
- (2) Perquisite in respect of Rent Free house is taxable in the hands of all the assesseees. In this case fair market value has no relevancy (w.e.f. AY 2024-25) and assumed that the house is owned by the employer. Since the house is provided in Agra, population is assumed as exceeding 25 lakhs. Salary for valuation of perquisite is (10,000 + 1,800).
- (3) The free sweeper, gardener, cook, lunch, car etc. are not taxable in the second case, because Raman does not fall in the category of specified employee under Section 17(2)(iii) of the Act i.e., he is neither a director nor his salary is ₹. 50,000 p.a. or more.
- (4) Free lunch provided is not taxable to the extent of ₹. 50 per day.
- (5) Since Raman is employed in a Gas supply company, the value of gas supplied is taxable as cost to the employer. And it is assumed that the cost of supply is same as ₹. 400 as given.
- (6) No adjustment for car was done on account of insufficient details.

Question 20: Based on optional tax scheme

For the FY 2023-24, 'A', a CG Officer receives salary of ₹. 77,000 (including dearness allowance of ₹. 42,000) and entertainment allowance of ₹.18,000. His contribution to provident fund during this period is ₹. 7,200. In addition, he has purchased National Savings Certificates (VIII Issue) for ₹. 6,000. He has been provided with accommodation by the Govt for which the rent determined is ₹. 375 p.m. and this is recovered from A's salary. Compute A's tax liability for the AY 2024-25 assuming that he has no other income.

Option1: Assessee has not opted for sec 115BAC

Option2: Assessee has opted for sec 115BAC

Solution:

Option1: Assessee has not opted for sec 115BAC.

Name of assessee: Mr. A AY: 2024-25

Status: Resident/Individual

Statement of assessable income

Particulars	₹	₹
Salary from Central Government		77,000
Entertainment allowance		18,000
Gross Salary		95,000
Entertainment allowance		(5,000)
Less: Standard Deduction under section 16(ia)		(50,000)
Gross total income		40,000
Less: Deduction under Section 80C (7,200 + 6,000)		(13,200)
Total income		26,800

Tax liability		Nil
Net tax payable		Nil

Option2: Assessee has opted for sec 115BAC

Name of assessee : Mr. A: AY: 2024-25

Status: Resident/Individual

Statement of assessable income

Particulars	₹	₹
Salary from Central Government		77,000
Entertainment allowance		18,000
Less: Standard Deduction u/s 16(ia)		50,000
Gross total income		45,000
Less: Deduction under Section 80C		NIL

Question 21: Based on SPF, RPF & URP

Jayesh, (40 Years) Posted in Pune, gets salary of Rs. 70,000 per month during 2023-24 from Vlearn Ltd. He contributes Rs. 1,20,000 to the provident fund. His employer contributes Rs. 1,05,000. His other allowances are project allowance: Rs. 30,000 and medical allowance: Rs. 3,000 and 0.5 per cent commission on sales achieved by him. During the year, turnover achieved by Jayesh is Rs. 4,80,000. Employer provides a Maruti 800 car with a chauffeur for his private and official purposes. The amount of interest credited to the provident fund on May 10, 2023 @ 12 percent per annum comes to Rs.3,49,000. He pays Rs. 4,000 as premium on a life insurance policy taken in 2005 of Rs. 15,000 taken on his own life. He pays tuition fees of Rs. 40,000 for his daughter. Income of Jayesh from other sources is Rs. 3,23,000. Determines the Taxable income and tax liability for Jayesh for the AY 2024-25 on the assumption that PF is (a) statutory provident fund (SPF), (b) Recognised provident fund (RPF), or (c) unrecognised provident fund (UPF).

Ignore section 115BAC pertaining to the alternative tax regime.

Solution:

Particulars	SPF	RPF	URPF
Salary	8,40,000	8,40,000	8,40,000
Project allowance	30,000	30,000	30,000
Medical Allowance	3,000	3,000	3,000
Commission (0.5% of 4,80,000)	2,400	2,400	2,400
Free Motor (1800 x 12)	21,600	21,600	21,600
Free Chauffeur (900 x 12)	10,800	10,800	10,800
Employer's contribution to PF in Excess of 12% of salary		3,912	
Interest Credited In PF in excess of 9.5% (3,49,000 x 2.5/12) =		72,708	
Gross Salary	9,07,800	9,84,420	9,07,800
Less: Standard Deduction u/s 16	(50,000)	(50,000)	(50,000)
Salary Income	8,57,800	9,34,420	8,57,800
Other income	3,23,000	3,23,000	3,23,000
Gross Total Income	11,80,800	12,57,420	11,80,800
Less: Deduction u/s 80C	(1,50,000)	(1,50,000)	(43,000)
Net income (R/off)	10,30,800	11,07,420	11,37,800
Tax	1,21,740	1,44,726	1,53,840

Add: HEC@4%	4,870	5,789	6,154
Tax Liability	1,26,610	1,50,520	1,59,990

Question 22: Taxable Income from salary

Mr. Honey is working with a Domestic Company having a production unit in the USA for last 15 years. he has been regularly visiting India for export promotion of Company's product. He has been staying in India for at least 184 days every year. He submits the following information:

Salary received outside India (For 6 Months) 50,000 P.M. Salary received in India (For 6 months) 50,000 P.M.

He has been given rent free accommodation in U.S.A for which company pays 15,000 per month as rent, but when he comes to India, he stays in the guest house of the company. During this Period he is given free lunch facility. During the previous year company incurred an expenditure of 48,000 on this facility.

He has been provided a car of 2,000 cc capacity in U.S.A which is used by him for both office and private purposes. The actual cost of the car is 8,00,000. But when he is in India, the car is used by him and the members of his family only for personal purpose. The monthly expenditure of car is 5,000. His elder son is studying in India for which his employer spends 12,000 per year where as his younger son studying in U.S.A and stays in a hostel for which Mr. Honey gets 3,000 per month as combined allowance.

The Company has taken an accident insurance policy and a life insurance policy. During the year the company paid premium of 5,000 and 10,000 respectively

Compute the Taxable Income from salary for the AY. 2024-25..

Solution:

Particulars	₹
Basic Salary	6,00,000
RFA In USA	95,400
RFA In India	NIL
Lunch Facility (48,000-(50 x184 =9,200)	38,800
Motor Car in USA (2,400 x6)	14,400
Motor Car In India (5,000 x 6)+(8L x 10%) x (6÷12)	70,000
Education Expenditure	12,000
Education Allowance (3,000 x12)	36,000
Accidental Insurance	NIL
Life Insurance	10,000
Gross Salary	8,76,600
Less: Deduction u/s 16	(50,000)
Income from salary	8,26,600

Note:-

- ✓ Salary for the purpose of RFA = Basic + All taxable Allowance =6,36,000
- ✓ Taxable RFA In USA = 15% of salary or actual rent paid whichever is lower = 95,400
- ✓ Being 15% of 6,36,000 or Actual Rent 1,80,000 pa.
- ✓ Taxable RFA in India since accommodation is for official purpose it is not taxable

Question 23: Gross total Income, Leave encashment, pension, gratuity

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

- (i) Gratuity ₹ 6,00,000. He was covered under the Payment of Gratuity Act, 1972.
- (ii) Leave encashment of ₹ 3,30,000 for 330 days leave balance in his account. He

- was credited 30 days leave for each completed year of service.
- (iii) As per the scheme of the company, he was offered a car which was purchased on 30.01.2021 by the company for ₹ 5,00,000. Company has recovered ₹ 2,00,000 from him for the car. Company depreciates the vehicles at the rate of 15% on Straight Line Method.
- (iv) An amount of ₹ 3,00,000 as commutation of pension for 2/3 of his pension commutation.
- (v) Company presented him a gift voucher worth ₹ 6,000 on his retirement.
- (vi) His colleagues also gifted him a Television (LCD) worth ₹ 50,000 from their own contribution.
- Following are the other particulars:
- (i) He has drawn a basic salary of ₹ 20,000 and 50% dearness allowance per month for the period from 01.04.2023 to 31.01.2024.
- (ii) Received pension of ₹ 5,000 per month for the period 01.02.2024 to 31.03.2024 after commutation of pension.
- Compute his GTI from the above for AY 2024-25 assuming he exercises the option of shifting out of the default tax regime provided u/s 115BAC(1A).

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

Particulars	₹
Basic Salary = 20,000 x 10	2,00,000
Dearness allowance = 50% of basic salary	1,00,000
Gift voucher (note 1)	6,000
Transfer of car (note 2)	56,000
Gratuity (note 3)	80,769
Leave encashment (note 4)	1,30,000
Uncommuted pension (5000 x 2)	10,000
Commutated pension (note 5)	1,50,000
Gross Salary	7,32,769
Less: Standard deduction u/s 16(ia)	50,000
Taxable Salary/ Gross total Income	6,82,769

Notes:

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

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

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

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

Particulars	₹
Purchase price (30.1.3021)	5,00,000
Less: Depreciation @ 20%	1,00,000
WDV on 29.1.2022	4,00,000
Less: Depreciation @ 20%	80,000

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

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

(3) Taxable gratuity

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

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

(4) Taxable leave encashment

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

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

(5) Commuted Pension

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

Particulars	₹
Amount received	3,00,000
Less: Exemption under section 10(10A) $= 1/3 \times [3,00,000 \times 3/2]$	1,50,000
Taxable amount	1,50,000

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

Question 24: Computation of income under the head salaries

Ms. Akansha, a salaried employee, furnishes the following details for the FY 2023-24

Particulars	₹
Basic salary	6,20,000
Dearness allowance	4,20,000
Commission	75,000
Entertainment allowance	9,000
Medical expenses reimbursed by the employer	18,000
Profession tax (of this, 50% paid by employer)	4,000
Health insurance premium paid by employer	8,000
Gift voucher given by employer on her birthday	10,000
Life insurance premium of Akansha paid by employer	26,000
Laptop provided for use at home. Actual cost of Laptop to employer	45,000
Children of the assessee are also using the Laptop at home]	
Employer company owns a Maruti Suzuki Swift car, which was provided to the assessee, both for official and personal use. Driver was also provided. (Engine cubic capacity more than 1.6 litres). All expenses are met by the employer	
Annual credit card fees paid by employer [Credit card is not exclusively used for official purposes; details of usage are not available]	7,000

You are required to compute the income chargeable under the head Salaries for the AY 2024-25 if she pays tax under default tax regime.

Solution: Computation of income chargeable under the head “Salaries” of Ms. Akansha for A.Y.2024-25 under default tax regime

Particulars	₹
Basic salary	6,20,000
Dearness allowance	4,20,000
Commission	75,000
Entertainment allowance	9,000
Medical expenses reimbursed by the employer	18,000
Professional tax paid by the employer is a taxable perquisite as per section 17(2)(iv), since it is an obligation of the employee which is paid by the employer	2,000
Health insurance premium of ₹ 8,000 paid by the employer is an exempt perquisite [Clause (iii) of proviso to section 17(2)]	Nil
Gift voucher given by employer on Ms. Akansha birthday (entire amount is taxable since the perquisite value exceeds ₹ 5,000) as per Rule 3(7)(iv)	10,000
Life insurance premium of Ms. Akansha paid by employer is a taxable perquisite as per section 17(2)(v)	26,000
Laptop provided for use at home is an exempt perquisite as per Rule 3(7)(vii)	Nil
Provision of motor car with driver (engine cubic capacity more than 1.6 litres) owned by employer to employee, the perquisite value would be ₹ 39,600 [₹ (2,400+ 900) ×12] as per Rule 3(2)	39,600
Annual credit card fees paid by employer is a taxable perquisite as per Rule 3(7)(v) since the credit card is not exclusively used for official purposes and details of usage are not available	7,000
Gross Salary	12,26,600
Less: Deductions under section 16	

- Standard Deduction as per section 16(ia)	50,000
Income chargeable under the head "Salaries"	11,76,600

Note: As per Rule 3(7)(iv), the value of any gift or voucher received by the employee or by member of his household on ceremonial occasions or otherwise from the employer shall be determined as the sum equal to the amount of such gift. However, the value of any gift or voucher received by the employee or by member of his household below ₹ 5,000 in aggregate during the previous year would be exempt as per the proviso to Rule 3(7)(iv). In this case, the gift voucher of ₹ 10,000 was received by Ms. Akansha from her employer on the occasion of her birthday.

Since the value of the gift voucher exceeds the limit of ₹ 5,000, the entire amount of ₹ 10,000 is liable to tax as perquisite. The above solution has been worked out accordingly.

An alternate view possible is that only the sum in excess of ₹ 5,000 is taxable in view of the language of Circular No.15/2001 dated 12.12.2001, which states that such gifts upto ₹ 5,000 in the aggregate per annum would be exempt, beyond which it would be taxed as a perquisite. As per this view, the value of perquisite would be ₹ 5,000. Accordingly, the gross salary and net salary would be ₹ 12,21,600 and ₹ 11,71,600, respectively.

Summary

Where any income, profits or gains includible in the total income of an assessee, cannot be included under any of the other heads, it would be chargeable under the head 'Income from other sources'. Hence, this head is the residuary head of income [Section 56(1)] Specific Incomes Chargeable under this head [Section 56(2)]

- (1) Dividend Income
- (2) Casual income (winnings from lotteries, cross word puzzles, races including horse races, card games and other games, gambling, betting etc.). Such winnings are chargeable to tax at a flat rate of 30% u/s 115BB and no expenditure or deduction under Chapter VIA can be allowed from such income. No loss can be set-off against such income and even the unexhausted basic exemption limit cannot be exhausted against such income.
- (3) **Sum of money or property received by any person [Section 56(2)(x)]**

	Nature of asset	Particulars	Taxable value
1	Money	Without consideration	The whole amount, if the same exceeds ₹ 50,000.
2	Movable property	Without consideration	The aggregate FMV of the property, if it exceeds ₹ 50,000.
3	Movable property	Inadequate consideration	The difference between the aggregate FMV and the consideration, if such difference exceeds ₹ 50,000.
4	Immovable property	Without consideration	The stamp value of the property, if it exceeds ₹ 50,000.
5	Immovable property	Inadequate consideration	The difference between the SDV and the consideration, if such difference exceeds the higher of ₹ 50,000 and 10% of consideration.

Receipts exempted from the applicability of section 56(2)(x)

Any sum of money or value of property received -

- (a) from any relative; or
- (b) on the occasion of the marriage of the individual; or
- (c) under a will or by way of inheritance; or
- (d) in contemplation of death of the payer or donor, as the case may be; or
- (e) from any local authority; or
- (f) from any fund or university or other educational institution or hospital or other medical institution or any trust or institution; or
- (g) from or by any registered trust or institution
- (h) by any fund or trust or institution or any university or other educational institution or any hospital or other medical institution.
- (i) by way of transaction not regarded as transfer under specified clauses of section 47
- (j) from an individual by a trust created or established solely for the benefit of relative of the individual.
- (k) from such class of persons and subject to such conditions, as may be prescribed
- (l) Received by an Individual, from any person, for medical treatment or treatment of any member of his family, for any illness related to COVID-19 subject to such conditions, as CG may notify. (During FY 2023-24 or onwards)

- (m) Received By a member of the family of a deceased person
 (A) from the employer of the deceased person; or
 (B) from any other person or persons to the extent that such sum or aggregate of such sums does not exceed 10 lakh rupees,
 Where the cause of death of such person is illness related to COVID-19 and the payment is
 (i) Received within 12 months from the date of death of such person; and
 (ii) Subject to such other conditions, CG may notify.

(4) Other receipts chargeable under this head

Section	Provision
56(2)(viib)	Consideration received in excess of FMV of shares issued by a closely held company to any person, being a resident, to be treated as income of such company, where shares are issued at a premium
56(2)(viii)	Interest received on compensation/enhanced compensation deemed to be income in the year of receipt and taxable under the head "Income from Other Sources".
56(2)(ix)	Any sum of money received as an advance or otherwise in the course of negotiations for transfer of a capital asset, if such sum is forfeited and the negotiations do not result in transfer of such asset (in a case where advance is received and forfeited on or after 1.4.2014).
56(2)(xi)	Compensation or other payment, due to or received by any person, by whatever name called, in connection with termination of his employment or the modification of the terms and conditions relating thereto.
56(2)(xii)	Sum received, including the amount allocated by way of bonus, under a LIP other than under a ULIP and keyman insurance policy, which is not exempt u/s 10(10D).

Deductions allowable [Section 57]

Particulars	Deduction
In case of dividend or income in respect of units of mutual fund or income in respect of units from a specified company	Interest expenditure to earn such income. However, such interest expenses cannot exceed 20% of such income included in total income, without deduction under this section.
In case of interest on securities	Any reasonable sum paid by way of commission or remuneration to a banker or any other person.
Income consists of recovery from employees as contribution to any PF, superannuation fund etc.	Amount of contribution remitted before the due date under the respective Acts, in accordance with the provisions of section 36(1)(va)
Income from letting on hire of machinery, plant and furniture, with or without building	Current repairs to the machinery, plant, furniture or building, insurance premium, depreciation/unabsorbed depreciation
Family Pension	Sum equal to - 33 1/3% of such income or - ₹ 15,000, whichever is less
Interest on compensation/enhanced compensation received	50% of such interest income

Deductions not allowable [Section 58]

S. No.	Deductions not allowable
1.	Any personal expense of the assessee

2.	Any interest chargeable to tax under the Act which is payable outside India on which tax has not been paid or deducted at source.
3.	Any payment chargeable to tax under the head "Salaries", if it is payable outside India unless tax has been paid thereon or deducted at source.
4.	Any expenditure in respect of which a payment is made to a related person, to the extent the same is considered excessive or unreasonable by the Assessing Officer, having regard to the FMV.
5.	Any expenditure in respect of which a payment or aggregate payments exceeding ₹ 10,000 is made to a person in a day otherwise than by account payee cheque or draft or ECS through bank account or through such other prescribed electronic mode such as credit card, debit card, net banking, IMPS, UPI, RTGS, NEFT, and BHIM Aadhar Pay.
6.	Any expenditure or allowance in connection with income by way of earnings from lotteries, cross word puzzles, races including horse races, card games and other games of any sort or from gambling or betting of any form or nature
7.	30% of expenditure in respect of sum which is payable to a resident on which tax is deductible at source, if such tax has not been deducted or after deduction has not been paid on or before the due date of return specified in section 139(1)

Question 1: Based on dividend income

When would the dividend income be taxed in the hands of a shareholder?

Solution:

The provisions relating to the year of taxability of dividend are contained in section 8 of the Income-tax Act, 1961.

- (a) Any dividend declared by a company or distributed or paid by it within the meaning of section 2(22) shall be deemed to be the income of the PY in which it is so declared, distributed or paid, as the case may be.
- (b) Any interim dividend shall be deemed to be the income of the PY in which the amount of such dividend is unconditionally made available by the company to the member who is entitled to it. any dividend which is liable for dividend distribution

From Finance Act, 2020 dividend income is taxable in the hands of shareholders at normal rate and no deduction shall be allowed except interest u/s 57.

Question 2: Based on IFOS & CG

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

- (1) Cash gift of ₹ 75,000 on his anniversary, 15th April, 2023.**
- (2) Bullion, the FMV of which was ₹60,000, on his birthday, 19th June, 23**
- (3) A plot of land at Faridabad on 1st July, 2023, the stamp value of which is ₹5 lakh on that date. Mr. B had purchased the land in April, 2011.**

Mr. A purchased from his friend Mr. C, who is also a dealer in shares, 1000 shares of X Ltd. @ ₹ 400 each on 19th June, 2023, the FMV of which was ₹ 600 each on that date. Mr. A sold these shares in the course of his business on 23rd June, 2023. Further, on 1st November, 2023, Mr. A took possession of property (building) booked by him two years back at ₹20 lakh. The SDV of the property as on 1st November, 2023 was ₹ 32 lakh and on the date of booking was ₹23 lakh. He had paid ₹ 1 lakh by account payee cheque as down payment on the date of booking. On 1st

March, 2024, he sold the plot of land at Faridabad for ₹ 7 lakh.
 Compute the income of Mr. A chargeable under the head IFOS and CG for AY 24-25.

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

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

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

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

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

Question 3: Based on SEC 56(2)(x)

Discuss the taxability or otherwise of the following in the hands of the recipient u/s 56(2)(x) the IT Act, 1961 -

- (i) Akhil HUF received ₹75,000 in cash from niece of Akhil (i.e., daughter of Akhil's sister). Akhil is the Karta of the HUF.
- (ii) Nitisha, 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. Akshat received 100 shares of A Ltd. from his friend as a gift on occasion of his 25th marriage anniversary. The FMV on that date was ₹100 per share. He also received jewellery worth ₹45,000 (FMV) from his nephew on the same day.
- (iv) Kishan 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 u/s 56(2)(x). Daughter of Mr. Akhil's sister is not a relative of Akhil HUF, since she is not a member of Akhil HUF.
(ii)	Non-taxable	Nil	Immovable property received without consideration by a HUF from its relative is not taxable u/s 56(2)(x). Since Nitisha is a member of the HUF, she is a relative of the HUF. However, income from such asset would be included in the hands of Nitisha under 64(2).
(iii)	Taxable	55,000	As per provisions of sec 56(2)(x), in case the aggregate FMV 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 FMV of shares (₹10,000) & 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.

Question 4: Based on Enhanced compensation

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

Solution: The entire interest of ₹5L would be taxable in year of receipt, namely,

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

Question 5: Based on

Mr. Hari, a property dealer, sold building in course of his business to his friend Rajesh, who is dealer in automobile spare parts, for ₹ 90 lakh on 1.1.2024, when stamp duty value was ₹150 lakh. The agreement was, however, entered into on 1.9.2023 when SDV was ₹140 lakh. Mr. Hari had received down payment of ₹15 lakh by a crossed cheque from Rajesh on the date of agreement. Discuss the tax implications in hands of Hari & Rajesh, assuming that Mr. Hari has purchased the building for ₹75 lakh on 12th July, 2022. Would your answer be different if Hari was a share broker instead of a property dealer?

Solution: Case 1: Tax implications if Mr. Hari is a property dealer

In the hands of Mr. Hari	In the hands of Mr. Rajesh
<p>In the hands of Hari, the provisions of sec 43CA would be attracted, since the building represents his stock-in-trade and he has transferred the same for a consideration less than the SDV; and the SDV exceeds 110% of consideration.</p> <p>U/s 43CA, the option to adopt the SDV on the date of agreement can be exercised only if whole or part of the consideration has been received on or before the date of agreement by way of account payee cheque or draft or by use of ECS through a bank account or through 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) Aadhar Pay on or before the date of agreement. In this case, since the down payment of ₹15 lakh is received on the date of agreement by crossed cheque and not account payee cheque, the option cannot be exercised. Therefore, ₹75 lakh, being the difference between the stamp duty value on the date of transfer i.e., ₹150 lakh, and the purchase price i.e., ₹75 lakh, would be chargeable as business income in the hands of Mr. Hari, since SDV exceeds 110% of the consideration.</p>	<p>Since Mr. Rajesh is a dealer in automobile spare parts, the building purchased would be a capital asset in his hands. The provisions of sec 56(2)(x) would be attracted in the hands of Mr. Rajesh who has received immovable property, being a capital asset, for inadequate consideration and the difference between the consideration and SDV exceeds ₹9,00,000, being the higher of ₹50,000 and 10% of consideration.</p> <p>Therefore, ₹60 lakh, being the difference between the SDV of the property on the date of registration (i.e., ₹150 lakh) and the actual consideration (i.e., ₹90 lakh) would be taxable u/s 56(2)(x) in the hands of Mr. Rajesh, since the payment on the date of agreement is made by crossed cheque and not account payee cheque/draft or ECS or through 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) Aadhar Pay.</p>

Case 2: Tax implications if Mr. Hari is a stock broker

In the hands of Mr. Hari	In the hands of Mr. Rajesh
<p>In case Mr. Hari is a share broker and not a property dealer, the building would represent his capital asset and not stock-in-trade. In such a case, the provisions of sec 50C would be attracted in the hands of Mr. Hari, since building is transferred for a consideration less than the SDV; and the SDV exceeds 110% of consideration.</p> <p>Thus, ₹ 75 lakh, being the difference between the SDV on the date of registration (i.e., ₹150 lakh) and the purchase price (i.e., ₹75 lakh) would be chargeable as STCG.</p> <p>It may be noted that u/s 50C, the option to adopt the SDV on the date of agreement</p>	<p>There would be no difference in the taxability in the hands of Mr. Rajesh, whether Mr. Hari is a property dealer or a stock broker. Therefore, the provisions of sec 56(2)(x) would be attracted in the hands of Mr. Rajesh who has received immovable property, being a capital asset, for inadequate consideration & the difference between the consideration & the SDV exceeds ₹9,00,000 being the higher of 50,000 & 10% of consideration. Therefore, 60lakhs being the difference between SDV of the property on the date of registration (i.e 150 lakhs) U& the actual consideration (i.e 90 lakhs) would be taxable u/s 56(2)(x) in the hands of Mr Rajesh, since the payment on the date of agreement is made</p>

can be exercised only if whole or part of the consideration has been received on or before the date of agreement by way of account payee cheque or draft or by use of ECS through a bank account or through 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) Aadhar Pay on or before the date of agreement. In this case, since the down payment of ₹15 lakhs has been received on the date of agreement by crossed cheque and not account payee cheque, the option cannot be exercised.

by crossed cheque and not account payee cheque / draft / ECS / through credit cards, debit cards, Net Banking, IMPS, RTGS, UPI, NEFT & BHIM, Aadhar Pay.

Question 6: Based on HP, PGBP, IFOS

Examine under which heads the following incomes are taxable:

- (i) Rental income in case property held as stock-in-trade for 3 years
- (ii) Dividend on shares in case of a dealer in shares
- (iii) Salary received 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
- (viii) In case of retirement, interest on employee's contribution if provident fund is unrecognized.
- (ix) Rental income in case of a person engaged in the business of letting out of properties.

Solution:

	Particulars	Head of Income
(i)	Rental income in case property held as stock-in trade for 3 years	Income from house property
(ii)	Dividend on shares in case of a dealer in shares	Income from other sources
(iii)	Salary by partner from his partnership firm	Profits 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

(viii)	In case of retirement, interest on employee's contribution if provident fund is unrecognized	Income from other sources
(xi)	Rental income in case of a person engaged in the business of letting out of properties	Profits and gains of business or profession

Note - As per section 56(2)(ii), 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".

Question 7: Based on Section 56(2)(x), 145B

Examine whether following are chargeable to tax & tax amount:

- (i) A sum of ₹1,20,000 was received as gift from non-relatives by Raj on the occasion of the marriage of his son Pravin.
- (ii) Interest on enhanced compensation of ₹ 96,000 received on 12-3-2024 for acquisition of urban land, of which 40% relates to P.Y.2021-22.

Solution:

S. No.	Taxable /Not Taxable	Amount liable to tax (₹)	Reason
(i)	Taxable	1,20,000	The exemption from applicability of sec 56(2)(x) would be available if, inter alia, gift is received from a relative or gift is received on the occasion of marriage of the individual himself. In this case, since gift is received by Mr. Raj from a non- relative on the occasion of marriage of his son, it would be taxable in his hands u/s 56(2)(x).
(ii)	Taxable	48,000	As per sec 145B (1), interest received by the assessee on enhanced compensation shall be deemed to be the income of the year in which it is received, irrespective of the method of accounting followed by the assessee. Interest of ₹ 96,000 on enhanced compensation is chargeable to tax in the year of receipt i.e., P.Y. 2023-24 u/s 56(2)(viii) after providing deduction of 50% under section 57(iv). Therefore, ₹ 48,000 is chargeable to tax under the head "Income from other sources".

Question 8: Based on Exemption from Gift

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

- (i) Mr. B transferred 500 shares of R (P) Ltd. to M/s. B Co. (P) Ltd. on 10.10.2023 for ₹3,00,000 when the market price was ₹5,00,000. The ICOA of shares for Mr. B was computed at ₹4,45,000. The transfer was not subjected to STT.
Determine income chargeable to tax in the hands of Mr. B and M/s. B Co. (P) Ltd. because of the above said transaction.
- (ii) Mr. Chezian is employed in a company with taxable salary income of ₹5,00,000. He received a cash gift of ₹1,00,000 from Atma Charitable Trust (registered u/s 12AA) in December 2023 for meeting his medical expenses.

Is the cash gift so received from the trust chargeable to tax for Mr. Chezian?

Solution:

- (i) Any movable property received for inadequate consideration by any person is chargeable to tax u/s 56(2)(x), if the difference between aggregate FMV of the property and consideration exceeds ₹ 50,000.

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

As per sec 50CA, since, the consideration is less than the FMV of unquoted shares of R (P) Ltd., FMV of shares of the company would be deemed to be the FVOC. It is presumed that the shares of R (P) Ltd are unquoted shares.

The FVOC (₹5,00,000) less the ICOA (₹ 4,45,000) would result in a LTCG of ₹ 55,000 in the hands of Mr. B.

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

Question 9: Based on gift

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

- (i) Cash gift of ₹51,000 received from her friend on the occasion of her “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 21.2.2024, her friend assigned in Mrs. Hemali's favour, a fixed deposit held by the said friend in a scheduled bank; the value of the fixed deposit and the accrued interest on the said date was ₹52,000.

Compute the income, if any, assessable as income from other sources

Solution:

- (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 u/s 56(2)(x) in the hands of Mrs. Hemali, since the same exceeds ₹50,000.

- (ii) The provisions of sec 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 u/s 56(2)(x), even though jewellery falls within the definition of “property”.

- (iii) To be exempt from applicability of sec 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 u/s 56(2)(x), if the aggregate value exceeds ₹50,000 in a year. “Sum of money has, however, not been defined u/s 56(2)(x).

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

- (1) The first view is that fixed deposit does not fall within the meaning of “sum of money” and therefore, the provisions of section 56(2)(x) are not attracted. It may be noted that fixed

deposit is also not included in the definition of “property”.

- (2) However, another possible view is that fixed deposit assigned in favour of Mrs. Hemali falls within the meaning of “sum of money” received.

Income assessable as Income from other sources

If the first view is taken, the total amount chargeable to tax as “Income from other sources” would be ₹51,000, being cash gift received from a friend on her Shastiaptha Poorthi.

As per the second view, the provisions of sec 56(2)(x) would also be attracted in respect of the fixed deposit assigned and the “IFOS” of Mrs. Hemali would be ₹1,03,000 (₹51,000 + ₹52,000).

Question 10: Based on Enhanced compensation

On 10.10.2023, Mr. Govind (a bank employee) received ₹ 5,00,000 towards interest on enhanced compensation from State Government in respect of compulsory acquisition of his land effected during the FY 2016-17.

Out of this interest, ₹ 1,50,000 relates to the FY 2017-18; ₹ 1,65,000 to the FY 2018-19; and ₹ 1,85,000 to the FY 2019-20. He incurred ₹ 50,000 by way of legal expenses to receive the interest on such enhanced compensation. How much of interest on enhanced compensation would be chargeable to tax for the AY 2024-25?

Solution:

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

Section 56(2)(viii) states that such income shall be taxable as ‘IFOS’. 50% of such income shall be allowed as deduction by virtue of sec 57(iv) and no other deduction shall be permissible from such Income.

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

Computation of interest on enhanced compensation taxable as Income From Other Sources for the A.Y 2024-25:

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

Question 11: Based on gifts

Discuss the taxability or otherwise of the following gifts received by M, an individual, during the FY 2023-24:

- (i) ₹ 24,000 each from his four friends on the occasion of his birthday in the month of Oct, 2023.
(ii) Wrist watch valued at ₹60,000 on the occasion of New Year.

Solution:

- (i) Sec 56(2)(x) of the IT Act, 1961 provides for taxability of gifts, which reads as under:
Where any sum of money, the aggregate value of which exceeds 50,000, is received without consideration, by any person, in any PY from any person or persons, the whole of the aggregate value of such sum is taxable under the head IFOS.
Provided that this clause shall not apply to any sum of money or any property received from, inter-alia, any relative; or on the occasion of the marriage of the individual.

Gift received from friends on birthday party do not fall in proviso to section 56(2)(x) and therefore taxable.

In the present question, ₹ 96,000 (i.e., ₹24,000 X 4) is chargeable to tax in the hands of M as income from other sources.

- (ii) Section 56(2) (x) provides for the taxability of the gift received by way of money, or immovable property or movable property being shares 86 securities, jewellery, archaeological collections, drawings, paintings, sculptures, and any work of art and bullion.

Gift of watch is not covered by the provisions of section 56(2)(x) and is therefore, not chargeable to tax.

Question 12: Based on Gift + cross transfer

Mayur gifted amount of ₹5,00,000 to the wife of his brother which was used by her for the purchase of a house and simultaneously on the same day brother of Mayur gifted shares owned by him in a foreign company worth ₹5,00,000 to the minor son of Mayur. What will be the impact of such transfers in the hands of both the transferors and the transferees?

Solution:

As per section 56(2) (x), husband’s brother is relative. Father’s brother is also a relative.

In view of section 56(2)(x), in the present case, the gift of ₹5,00,000 to the brother’s wife by Mayur is exempt from tax, since the husband’s brother is relative within the definition of relative as specified under section 56(2)(x).

Where the brother of Mayur gifted shares of ₹5,00,000 to the son of Mayur, section 56(2)(x) is not attracted in the hands of Mayur’s Son since father’s brother falls in the definition of relative. However, there will not be any tax implication in the hands of Mayur’s brother since the gift of capital asset does not regarded as transfer as per section 47 of the Income Tax Act.

In the present case, there is an indirect transfer of assets by Mayur's brother to his wife i.e., ₹5,00,000 without any consideration. The income from house property received by wife of Mayur's brother shall be clubbed with the income of Mayur's brother under section 64.

Question 13: Based on sec 56(2)(x) + enhanced compensation

From the following particulars, compute the gross total income of Mr. Z for the AY 2024-25:

- (i) Mr. Y transferred his residential house to Mr. Z for ₹10 lakh on 1.4.2023. The value of the said house as per stamp valuation authority was ₹ 18 lakhs. Mr. Z is a childhood friend of Mr. Y.
- (ii) Mr. Z received a car from his cousin on payment of ₹2,50,000 fair market value of which was ₹4,00,000.
- (iii) Land of Mr. Z was acquired by railways in 2012. On 15.12.2023, he received ₹ 1,70,000 as interest on enhanced compensation on the order of the Court.
- (iv) On a fixed deposit of ₹10 lakhs, in a bank, Mr. Z received an interest of ₹90,000. He had also borrowed ₹50 lakhs from the same bank, on security of the fixed deposit and was liable to pay ₹50,000 by way of interest to the bank. He therefore, offered the difference between the two amounts i.e., ₹40,000 as IFOS

Solution: Computation of Gross Total Income of Mr. Z for the AY 2024-25

Particulars	(₹)
Income from Other Sources	
Receipt of immovable property for inadequate consideration as per the provisions of section 56(2) (x). The difference between the stamp duty value (₹18	8,00,000

lakhs) and the actual consideration (₹10 lakhs) would be taxable.	
Since car is not included in the definition of property Under Section 56(2)(x), receipt of car for inadequate consideration would not attract the provisions of Section 56(2)(x).	Nil
Interest on enhanced compensation amounting to ₹1,70,000 would be taxable under section 56(2) (viii) in the year of receipt. Deduction 50% is allowable under section 57(iv). Hence, the taxable interest is ₹85,000 (i.e., ₹1,70,000 - ₹85,000).	85,000
Interest of ₹90,000 received on fixed deposit is income of Mr. Z. The interest of ₹50,000 on loan taken by Mr. Z from the same bank on security of the fixed deposit will not go to reduce the income by way of interest on fixed deposit.	90,000
Gross Total Income	9,75,000

Question14: Based on dividened + deduction

ABC Ltd. An Indian co., receives the following dividend income during PY 2023-24:

- i) From shares held in CBD-Inc., Danish Co. in which it holds 25% of nominal value of equity share capital- ₹65,000.
- ii) From shares held in FEG-Inc., an English Co. in which it holds 31% of nominal value of equity share capital- ₹1,50,000
- iii) From shares held in JEH-Inc., a Dutch co. in which it holds 62% of nominal value of equity share capital – ₹1,07,000.
- iv) From shares held in Indian subsidiaries ₹47,000

ABC Ltd. Has paid remuneration of 16,000 for realising dividend, the break-up of which is as follows:

- 1) ₹4000 (CBD-Inc.)
- 2) ₹7000 (FEG-Inc.)
- 3) ₹5000 (Indian subsidiaries)

The business income of ABC ltd. Computed as under is ₹48,00,000.

Compute the total income and tax liability of ABC ltd., ignoring MAT.

Assuming that ABC Ltd. Has distributed dividend of ₹4,20,000 in February,2024. Ignore the provisions of Double Taxation Avoidance Agreement, if any, applicable in this regard. Turnover of the Co. for PY 23-24 is ₹450 crores. Ignore the provisions of Sec 115BAA.

Solution:

With effect from A.Y. 23–24 the tax rate u/s 115 BBD is at normal rate applicable to company.

∴ In below situation the answer will change according.

Computation of Total Income of ABC Ltd. for AY 24-25

Particulars	Amount (₹)
PGBP	48,00,000
Income from other sources (See note)	3,69,000
Gross Total Income	51,69,000
Less: Deduction u/s 80M	
1)Dividend from domestic and foreign Co.	3,69,000
2)Dividend distributed by ABC Ltd whichever is lower	4,20,000
	(3,69,000)
Total Income/ Net taxable income	48,00,000

Computation of tax liability of ABC Ltd for AY 24-25

Particulars	Amount (₹)
Tax @ 30% on balance income of ₹ 45,43,000	13,62,900
Add: HEC @ 4%	54,516
Tax liability	14,17,416

NOTE:

Particulars	Amount (₹)
From CBD-Inc.- dividend taxable at normal rates (no deduction allowed in respect of any expenses except as per Sec 57)	65,000
From FEG-Inc. – gross dividend is taxable @ 15% u/s 115BBD [no deduction allowable in respect of expenses as per sec 115BBD (2)]	1,50,000
From JEH-Inc. – gross dividend is taxable @ 15% u/s 115BBD [no deduction allowable in respect of expenses as per sec 115BBD (2)]	1,07,000
From shares in Indian subsidiaries (no deduction allowed except interest expense)	47,000
Total	3,69,000

NOTE: The foreign Dividend which is subject to Tax u/s 115BBD shall be taxable @ 15 %. Therefore, Tax on 2,57,000 Shall be @ 15%. Which is equal to 38,550. + HEC @ 4% = 40092. Therefore, Total Tax Liability 14,57,510 (after r/off).

Question 15: Sec.56(2)(viib)

MLX Investments (P) Ltd. Was incorporated during PY.23-24 having paid up capital of ₹10L. in order to increase capital the company further issued 1,00,000 shares having face value of ₹ 100 each. During the year at par as on 01/08/2023. The FMV as on such date was ₹ 85 Determine the tax implications of the above transactions.

In the hands of company assuming it is the only transaction made during the year.

Will Your answer change if the shares were issued @ ₹ 105 each.

Will Your answer change if the shares were issued @ ₹ 105 each and FMV of shares was ₹ 120 as on 01/08/2023

Solution:

Situation	No. of Shares	Face value of shares (₹)	FMV of shares (₹)	Issue Price of shares (₹)	Applicability of Sec.56(2)(viib)	Taxable Value
Case-1	1,00,000	100	85	100	No, Shares are issued at face value without premium.	Nil
Case-2	1,00,000	100	85	105	Yes, Shares are issued at a premium	The excess of the issue price of the Shares over the FMV is taxable in the hands of MLX Pvt Ltd. Taxable Amount = ₹ 30 (₹ 105 - ₹ 85)
Case-3	1,00,000	100	120	105	Yes. Shares are issued at a premium	Taxable value in the hands of MLX investments Pvt Ltd is Nil as the Shares are issued at a price <than the FMV of shares

Question 16: Based on Sec 43CA and 56(2)(x).

X Purchases a newly constructed residential unit of 4,500 square feet (under first allotment) from DEF Builders Ltd. The following information is available –

Particulars	Situation 1	Situation 2	Situation 3
Date of agreement	October 14, 2021	October 14, 2021	October 14, 2021
Agreed consideration	Rs. 2 crore	Rs. 2 crore	Rs. 2 crore
Advance paid on October 14, 2021 through NEFT	Rs. 20 lakh	Rs. 20 lakh	Rs. 20 lakh
Stamp duty value on October 14, 2021	Rs. 2.4 crore	Rs. 2.7 crore	Rs. 2.3 crore
Date of conveyance deed and its registration in favour of X	March 6, 2022	June 30, 2022	July 25, 2022
Stamp duty value on the date of registration	Rs. 2.5 crore	Rs. 2.4 crore	Rs. 2.6 crore

X and DEF Builders Ltd. want to know tax implications of the aforesaid transaction under sections 43CA and 56(2)(x).

Solution:

In the above cases, a part of consideration is paid through NEFT on the (late of agreement. Consequently, SDV on the date of agreement shall be taken for the purpose of safe harbour limit. Moreover, safe harbour limit for the purpose of sec 43CA and 56(2)(x) has been increased from 10% to 20% if a few conditions are satisfied. These conditions are discussed in the table (infra) along with the data given in the case study –

Particulars	Whether conditions for applying the safe harbour limit of 20% are satisfied-		
	Situation 1	Situation 2	Situation 3
Condition I - Residential unit is transferred during November 12, 2021 and June 30, 2022	Yes	Yes	No
Condition 2 - Residential unit is transferred by way of first allotment	Yes	Yes	Yes
Condition 3-Consideration does not exceed Rs. 2 crore	Yes	Yes	Yes
What is safe harbour limit under sections 43CA and 56(2)(x)	20%	20%	10%
Sale consideration	Rs. 2 crore	Rs. 2.1 crore	Rs. 2 crore
Sale consideration as increased by safe harbour limits	Rs. 2.4 crore	Rs. 2.4 crore	Rs. 2.2 crore
Stamp duty value on the date of agreement (as a part of consideration is paid through NEFT on the before the date of agreement)	Rs. 2.4 Crore	Rs. 2.7 Crore	Rs. 2.3 Crore
Whether stamp duty value exceeds 20%. of sale consideration	No	Yes	Yes
Full value of consideration in the hands of DEF Ltd. under section 43CA	Rs. 2 Crore	Rs. 2.7 Crore	Rs. 2.3 Crore
Amount taxable in the hands of X u/s 56(2)(x)	NIL	Rs. 70 Lakh	Rs. 30 lakh

Summary			
Scope and year of chargeability [Section 45]			
Any profits or gains arising from the transfer of a capital asset effected in the PY will be chargeable to tax under the head 'Capital Gains', and shall be deemed to be the income of the previous year in which the transfer took place [Section 45(1)]			
Section	Profits and gains arising from the following transactions chargeable as income	P.Y. in which income is chargeable to tax	Deemed Full Value of consideration for computation of capital gains under sec. 48
45(1A)	Money or other asset received under an insurance from an insurer on account of Damage /destruction of any capital asset, as a result of, flood, hurricane, cyclone, earthquake or other convulsion of nature, riot or Civil disturbance, accidental fire or explosion, action by an enemy or action taken in combating an enemy	The PY in which such money or other asset is received.	The value of money or the FMV of other asset received.
45(2)	Transfer by way of conversion by the owner of a capital asset into stock-in-trade of a business carried on by him.	The PY in which such stock-in-trade is sold or otherwise transferred by him	The FMV of the capital asset on the date of such conversion
45(5)	Transfer by way of compulsory acquisition under any law, or a transfer, the consideration for which was determined or approved by the CG or RBI. If the compensation or consideration is further enhanced by any court, Tribunal or other authority,	The PY in which the consideration or part thereof is first received. The in which the Amount was received by the assessee.	Compensation or consideration determined or approved in the first instance by the CG or RBI Amount by which the compensation or consideration is enhanced or further enhanced. For this purpose cost of acquisition and

<p>the enhanced amount will be deemed to be the income. However, any amount of compensation received in pursuance of an interim order of a court, Tribunal or other authority shall be deemed to be income chargeable under the head "Capital Gains" of the previous year in which the final order of such court, Tribunal or other authority is made.</p>		<p>cost of improvement shall be taken as 'Nil'.</p>
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Definitions (Section 2)				
Section	Term	Definition		
2(14)	Capital Assets	<p>Capital Asset means –</p> <p>(a) property of any kind held by an assessee, whether or not connected with his business or profession;</p> <p>(b) any securities held by a Foreign Institutional Investor which has invested in such securities in accordance with the regulations made under the SEBI Act, 1992.</p>		
		<p>Exclusions from the definition of Capital Asset:</p> <ul style="list-style-type: none"> ➤ Stock in trade [other than securities referred to in (b) above], raw materials or consumables held for the purposes of business or profession; ➤ Personal effects except jewellery, archeological collections, drawings, paintings, sculptures or any work of art; ➤ Rural agricultural land in India i.e. agricultural land not situated within specified urban limits. <p>The agricultural land described in (a) and (b) below, being land situated within the specified urban limits, would fall within the definition of "capital asset", and transfer of such land would attract capital gains tax -</p> <ul style="list-style-type: none"> ➤ Agricultural land situated in any area within the jurisdiction of a municipality or cantonment board having population of not less than ten thousand, or ➤ Agricultural land situated in any area within such distance, measured aerially, in relation to the range of population as shown hereunder - <table border="1" data-bbox="673 1816 1315 2005"> <tr> <td data-bbox="673 1816 1055 2005">Shortest aerial distance from the local limits of municipality or cantonment</td> <td data-bbox="1055 1816 1315 2005">Population according to the latest preceding census of which</td> </tr> </table>	Shortest aerial distance from the local limits of municipality or cantonment	Population according to the latest preceding census of which
Shortest aerial distance from the local limits of municipality or cantonment	Population according to the latest preceding census of which			

		board referred to in item (A)	the relevant fig. have been published before the first day of PY.
		i) ≤ 2 Kms	> 10,000
		ii) > 2 Kms but ≤ 6 Kms	> 1,00,000
		iii) > 6 kms but ≤ 8 kms	> 10,00,000
		<ul style="list-style-type: none"> ➤ Gold Deposits Bonds issued under the Gold Deposit Scheme, 1999 or deposit certificates issued under the Gold Monetization Scheme, 2015 and Gold Monetization Scheme, 2018 notified by the Central Government; ➤ 6½% Gold Bonds, 1977 or 7% Gold Bonds, 1980 or National Defence Gold Bonds, 1980, issued by the Central Government; ➤ Special Bearer Bonds, 1991 issued by the Central Government. <p>Note: 'Property' includes and shall be deemed to have always included any rights in or in relation to an Indian company, including rights of management or control or any other rights whatsoever.</p>	
2(42A)	Short-term capital gain	Asset	Period of holding to be treated as STCA
		A security (other than a unit) listed in a recognized stock exchange in India (other than market linked debenture and unit of a specified mutual fund) a unit of UTI or a unit of an equity oriented fund or a zero coupon bond	not more than 12 months immediately preceding the date of its transfer
		A share of a company (not being a share listed in a recognized stock exchange in India)	not more than 24 months immediately preceding the date of its transfer
		An immovable property, being land or building or both	not more than 24 months immediately preceding the date of its transfer
		Any other capital asset	not more than 36 months immediately preceding the date of its transfer
		Note – Capital gains arising from transfer of market linked debenture and unit of a specified mutual fund would always be capital gains arising from transfer of short-term capital assets, irrespective of the period of holding of such assets. This is provided in section 50AA.	
2(29A)	Long-term capital gain	Capital asset which is not a short-term capital asset is a long-term capital asset.	

	Asset	Period of holding to be treated as LTCA
	A security (other than a unit) listed in a recognized stock exchange in India (other than market linked debenture and unit of a specified mutual fund) a unit of UTI or a unit of an equity oriented fund or a zero coupon bond	More than 12 months immediately preceding the date of its transfer
	A share of a company (not being a share listed in a recognized stock exchange in India)	More than 24 months immediately preceding the date of its transfer
	An immovable property, being land or building or both	More than 24 months immediately preceding the date of its transfer
	Any other capital asset	More than 36 months immediately preceding the date of its transfer
<p>Note – Capital gains arising from transfer of market linked debenture and unit of a specified mutual fund would always be capital gains arising from transfer of short-term capital assets, irrespective of the period of holding of such assets. This is provided in section 50AA.</p>		

Transactions not regarded as transfer [Section 47]: Some Examples

- ❖ Any distribution of capital assets on the **total or partial partition of a HUF**
- ❖ Any transfer of capital asset under a **gift or will or an irrevocable trust**
- ❖ Any transfer of capital asset by a **holding company to its 100% subsidiary Indian company or by a subsidiary company to its 100% holding Indian company**
- ❖ Any transfer or **issue of shares by the resulting company, in a scheme of demerger** to the shareholders of the demerged company
- ❖ Any transfer **by a shareholder in a scheme of amalgamation** of shares held by him in the amalgamating company
- ❖ Any transfer by an individual of **sovereign gold bonds issued by RBI by way of redemption**
- ❖ Any transfer by way of **conversion of bonds, debentures, debenture stock, deposit certificates of a company, into shares or debentures of that company.**
- ❖ Any transfer by way of **conversion of preference shares of a company into equity shares** of that company
- ❖ Any transfer of a capital asset in a **transaction of reverse mortgage** under a scheme made and notified by the Central Government

Mode of computation of Capital Gains [Section 48]

Computation of long-term capital gains

Full value of consideration received or accruing as a result of transfer	xx
Less: Expenditure incurred wholly and exclusively in connection with such Transfer (e.g. brokerage on sale)	<u>xx</u>

However, the cost of acquisition of the asset or the cost of improvement thereto would not include the deductions claimed in respect of interest u/s 24(b) or under the provisions of Chapter VI-A [i.e., under sections 80EE/ 80EEA]

(Note: Deduction on account of STT paid will not be allowed)

Net Sale Consideration	XX
Less: Indexed cost of acquisition	
And indexed cost of improvement	XX
Less: Exemption under sections 54/54B/54D/54EC/54F	XX
Long-term capital gains	XX

Notes:-

(i) Deduction on account of securities transactions tax paid will not be allowed.

(ii) Indexed cost of acquisition =

$$\text{Cost of Acquisition} \times \frac{\text{CII for the Year in which Asset is transferred}}{\text{CII For the year in which asset was first held by the assessee or 2001-02, Whichever is later}}$$

(iii) Indexed cost of improvement =

$$\text{Cost of Improvement} = \frac{\text{CII for the Year in which Asset is transferred}}{\text{CII For the year in which the Improvement took place}}$$

(iv) Benefit of indexation will, however, not be available in respect of long term capital gains from transfer of bonds or debentures other than capital indexed bonds issued by the Government and sovereign gold bonds issued by RBI and in respect of long-term capital gains chargeable to tax under section 112A.

Computation of Short-Term Capital Gains

Full value of consideration received or accruing as a result of transfer	xxx
Less: Expenditure incurred wholly and exclusively in connection with such transfer (e.g. brokerage on sale)	xxx
However, the cost of acquisition of the asset or the cost of improvement thereto would not include the deductions claimed in respect of interest u/s 24(b) or under the provisions of Chapter VI-A [i.e., under sections 80EE/ 80EEA]	
(Note: Deduction on account of STT paid will not be allowed)	
Net Sale Consideration	xxx
Less: Cost of acquisition and cost of improvement	xxx
Less: Exemption under sections 54B/54D	xxx
Short-term capital gains	xxx

Capital gain: Special provision

Sec	Particulars
50	Any income from transfer of depreciable assets is deemed to be capital gains arising from transfer of short-term capital assets , irrespective of the period of holding (i.e., indexation benefit would not be available even if the period of holding of such assets is more than 36 months).
50AA	Any income from transfer of unit of a Specified Mutual Fund or Market Linked Debenture is deemed to be capital gains arising from transfer of STCG.
50B	Capital Gains on Slump Sale Any profits and gains arising from slump sale effected in the PY shall be chargeable to income-tax as capital gains arising from the transfer of capital assets and shall be deemed to be the income of the PY in which the transfer took place. Where the undertaking being transferred under slump sale is held for more than 36 months, the resultant gain is long-term; However, no indexation benefit would be available. If the undertaking is held for less than 36 months, the resultant gain is short-term.

Net worth is deemed to be the cost of acquisition and the cost of improvement - 'Net worth' shall be aggregate value of total assets minus value of liabilities of such undertaking as per books of account.

Fair market value is deemed to be the full value of consideration - Fair market value of the capital asset as on the date of transfer, calculated in the prescribed manner, shall be deemed to be the FVOC received or accruing as a result of the transfer of such capital asset.

Accordingly, the CBDT has prescribed that, for the purpose of section 50B(2)(ii), the fair market value (FMV) of capital assets would be the higher of –

- (i) **FMV 1**, being the fair market value of capital asset transferred by way of slump sale (determined on the date of slump sale); and
- (ii) **FMV 2**, being the fair market value of the consideration (monetary and non-monetary) received or accruing as a result of transfer by way of slump sale

Capital gains = Fair market value – Net Worth

Aggregate value of total assets would be the aggregate of the following:

- i) Written Down Value of depreciable assets;
- ii) Nil, in case of self-generated goodwill
- iii) Nil, in case of capital assets in respect of which the whole of the expenditure has been allowed or is allowable as deduction under section 35AD; and
- iv) Book value for other assets.

Revaluation of assets shall be ignored for computing Net Worth.

50C

Computation of capital gains on sale of land or building or both

Sl. No.	Condition	Deemed Sale Consideration
1.	Stamp Duty Value > Actual Consideration If Stamp Duty Value > 110% of actual consideration If Stamp Duty Value ≤ 110% of actual sale consideration	Stamp Duty Value Actual sale consideration
2.	Actual Consideration > Stamp Duty Value	Actual Sale Consideration
3.	Value ascertained by Valuation Officer > Stamp Duty Value	Stamp Duty Value
4.	Value ascertained by Valuation Officer < Stamp Duty Value	Value ascertained by Valuation Officer

Note – If the date of agreement is different from the date of transfer, stamp duty value on the date of agreement can be considered, if whole or part of the consideration is received by way of account payee cheque/bank draft or ECS or prescribed electronic modes (IMPS, UPI, RTGS, NEFT, Net banking, debit card, credit card or BHIM Aadhar Pay) on or before the date of agreement. Otherwise, stamp duty value on the date of transfer has to be considered.

50CA

Fair Market Value deemed to be full value of consideration in case of transfer of unlisted shares in certain cases

If consideration received or accruing as a result of transfer of unquoted share < FMV of such share determined in the prescribed manner. The provisions of this section would not, however, be applicable to any consideration received or accruing as a result of FMV of such share determined in the prescribed manner would be deemed as the full value of consideration

	transfer by such class of persons and subject to such conditions as may be prescribed.	
50D	Fair Market Value deemed to be full value of consideration in certain cases	
	Where the consideration received or accruing as a result of the transfer of a capital asset by an assessee is not ascertainable or cannot be determined	FMV of the said asset on the date of transfer would be deemed as the full value of consideration
51	<p><u>Advance money received and forfeited upto 31.3.2014</u> Where the assessee has received advance money on an earlier occasion for transfer of capital asset, but the transfer could not be effected due to failure of negotiations, then, the advance money forfeited by the assessee has to be reduced from the cost of acquisition (and indexation would be calculated on the cost so reduced) while computing capital gains, when the capital asset is transferred or sold.</p> <p><u>Advance money received and forfeited on or after 1.4.2014</u> Such advance money received on or after 1.4.2014 would be taxable under section 56(2) under the head "Income from other sources". Therefore, advance money received and forfeited on or after 1.4.2014 should not be deducted from the cost for determining the indexed cost of acquisition while computing capital gains arising on transfer of the asset.</p>	
111A	<p>Tax on short-term capital gains on transfer of equity shares and units of equity oriented fund on which STT is chargeable</p> <ul style="list-style-type: none"> ➤ Any short-term capital gains on transfer of equity shares or units of an equity oriented fund shall be liable to tax @15%, if securities transaction tax has been paid on such sale. ➤ In case of resident individuals and HUF, the short-term capital gain shall be reduced by the unexhausted basic exemption limit and the balance shall be taxed at 15%. ➤ No deduction under Chapter VI-A can be claimed in respect of such short-term capital gain. ➤ Short-term capital gains arising from transaction undertaken in foreign currency on a recognized stock exchange located in an International Financial Services Centre (IFSC) would be taxable at a concessional rate of 15% even when STT is not paid in respect of such transaction. 	
112	<p>Tax on long-term capital gains</p> <ul style="list-style-type: none"> ➤ Any long-term capital gains, other than long term capital gains taxable under section 112A, shall be liable to tax @20%. ➤ In case of resident individuals and HUFs, the long-term capital gain shall be reduced by the unexhausted basic exemption limit, and the balance shall be subject to tax at 20%. ➤ In case of non-corporate non-resident or foreign company, capital gains arising from the transfer of a capital asset, being unlisted securities, or shares of a closely held company shall be chargeable to tax @10% without giving effect to the indexation provision under second proviso to section 48 and currency conversion under first proviso to section 48. ➤ Capital gains on transfer of listed securities (other than units) or zero coupon bonds shall be chargeable to tax @10% computed without the benefit of indexation or @20% availing the benefit of indexation, whichever is more beneficial to the assessee. ➤ No deduction under Chapter VI-A can be claimed in respect of long-term capital gains. 	
112A	Tax on long-term capital gains on certain assets	

	<ul style="list-style-type: none"> ➤ Any long-term capital gains exceeding ₹1,00,000 on transfer of equity shares or units of an equity oriented fund shall be liable to tax @10% on such capital gain, if securities transaction tax has been paid on acquisition and such sale in case of equity share, and on such sale in case of units of an equity oriented mutual fund. ➤ In case of resident individuals and HUF, the long-term capital gain shall be reduced by the unexhausted basic exemption limit and the balance shall be taxed at 10%. ➤ No deduction under Chapter VI-A or rebate under section 87A can be claimed in respect of such long-term capital gain. ➤ Long-term capital gains (in excess of ₹1,00,000) arising from transaction undertaken on a recognized stock exchange located in an International Financial Services Centre (IFSC) would be taxable at a concessional rate of 10%, where the consideration for transfer is received or receivable in foreign currency, even when STT is not paid in respect of such transaction.
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Cost of Acquisition (Section 55)	
Nature of asset	Cost of acquisition
<p>1. Goodwill of business or profession, trademark, brand name etc.,</p> <ul style="list-style-type: none"> - Self generated - Acquired from previous owner <p>However, in case of capital asset, being goodwill of a business or profession, in respect of which depreciation u/s 32(1) has been obtained by the assessee in any P.Y. (upto P.Y.2019-20)</p> <ul style="list-style-type: none"> - became the property of the assessee by way of distribution of assets on total or partial partition of HUF, under a gift or will, by succession, inheritance, distribution of assets on liquidation of a company, etc. and previous owner has acquired it by purchase <p>However, in case of capital asset, being goodwill of a business or profession which was acquired by the previous owner by purchase and in respect of which depreciation u/s 32(1) has been obtained by the assessee in any P.Y. (upto P.Y.2019-20)</p> <p>The cost of improvement of such assets would be Nil.</p>	<p>Nil</p> <p>Purchase price</p> <p>Purchase price as reduced by the total amount of depreciation obtained by the assessee under section 32(1).</p> <p>Purchase price for such previous owner</p> <p>Purchase price as reduced by the total amount of depreciation obtained by the assessee under section 32(1).</p>
2. Bonus shares	

<p>If bonus shares are allotted before 1.4.2001</p> <p>If bonus shares are allotted on or after 1.4.2001</p> <p>Bonus shares allotted before 1.2.2018, on which STT has been paid at the time of transfer</p>	<p>FMV on 1.4.2001</p> <p>Nil</p> <p>The higher of –</p> <p>(i) Actual cost of acquisition (i.e., Nil, in case of bonus shares allotted on or after 1.4.2001; and FMV on 1.4.2001, in case of bonus shares allotted before 1.4.2001)</p> <p>(ii) Lower of –</p> <p>(a) FMV as on 31.1.2018; and</p> <p>(b) Actual sale consideration</p>
<p>3. Rights Shares</p> <p>Original shares (which forms the basis of entitlement of rights shares)</p> <p>Rights shares subscribed for by the assessee</p> <p>Rights entitlement (which is renounced by the assessee in favour of a person)</p> <p>Rights shares which are purchased by the person in whose favour the assessee has renounced the rights entitlement</p>	<p>Amount actually paid for acquiring the original shares</p> <p>Amount actually paid for acquiring the rights shares</p> <p>Nil</p> <p>Purchase price paid to the renouncer of rights entitlement as well as the amount paid to the Co. which has allotted the rights shares</p>
<p>4. Long term capital assets being,</p> <p>✓ equity shares in a company on which STT is paid both at the time of purchase and transfer or</p> <p>✓ Unit of equity oriented fund on which STT is paid at the time of transfer.</p> <p>acquired before 1st February, 2018</p>	<p>Cost of acquisition shall be the higher of -</p> <p>(i) cost of acquisition of such asset; and</p> <p>(ii) lower of</p> <ul style="list-style-type: none"> - the FMV of such asset on 31.1.2018; and - the full value of consideration recd or accruing as a result of the transfer of the capital asset.
<p>5. Any other capital asset</p> <p>Where such capital asset became the property of the assessee before 1.4.2001</p>	<p>Cost of the asset to the assessee, or FMV as on 1.4.2001, at the option of the assessee. However, in case of capital asset being land or building, FMV as on 1.4.2001 shall not exceed stamp duty value as on 1.4.2001.</p>
<p>Where capital assets became the property of the assessee by way of distribution of assets on total or partial partition of HUF, under a gift or will, by succession, inheritance, distribution of assets on liquidation of a company, etc and the capital asset became the property of the previous owner before 1.4.2001.</p>	<p>Cost to the previous owner or FMV as on 1.4.2001, at the option of the assessee.</p> <p>However, in case of capital asset being land or building, FMV as on 1.4.2001 shall not exceed stamp duty value as on 1.4.2001.</p>

The provisions contained in (5) above shall also apply to the assets mentioned in (3) and (4) above

Cost of the property in the hands of previous owner cannot be ascertained	The FMV on the date on which the capital asset become the property of the previous owner would be considered as cost of acquisition
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Cost of Improvement of Certain Assets [Section 55]

Sr. no	Nature of Assets	Cost of improvement
1.	Goodwill of a business, right to manufacture, produces or process any article or thing. right to carry on any business or profession	Nil
2.	Where the capital asset became the property of the previous owner or the assessee before 1-4-2001	All expenditure of a capital nature. incurred in making any addition or alteration to the capital asset on after 1.4.2001 by the previous owner. or the assessee.
3.	In relation to any other capital asset	All capital expenditure incurred in making additions or alterations to the capital asset on or after 1.4.2001 - ✓ by the assessee after it became his property, and ✓ by the previous owner [in a case where the assessee acquired the property by modes specified in section 49(1)]

Capital Gains: Exemptions under section 10

Section	Particulars
Sec. 10(37)	Where any individual or HUF owns urban agricultural land which has been used for agricultural purposes for a period of two years immediately preceding the date of transfer by such individual or a parent of his or by such HUF and the same is compulsorily acquired under any law or the consideration for such transfer is determined or approved by the Central Government or the RBI, resultant capital gain will be exempt provided the compensation or consideration for such transfer is received on or after 1.4.2004.
Sec. 10(43)	The amount received by the senior citizen as a loan, either in lump sum or in installments, in a transaction of reverse mortgage would be exempt from income-tax.

Exemption of Capital Gains [Sections 54 to 54F]

S. No	Particulars	Section 54	Section 54B	Section 54D	Section 54EC	Section 54F
1	Eligible Assessee	Individual/HUF	Individual/HUF	Any assessee	Any assessee	Individual/HUF
2	Asset transferred	Residential House (LTCA)	Urban Agricultural Land	Land & building forming part of an industrial undertaking	Land or Building or both (LTCA)	Any LTCA other than Residential House.

				g		
3	Other Conditions	Income from Such house should be chargeable under the head "Income from house property"	Land should be used for Agricultural purposes by assessee or his parents or HUF for 2 years immediately preceding the date of transfer	Land & building have been used for business of undertaking for at least 2 years immediately preceding the date of transfer. The transfer should be by way of compulsory acquisition of the industrial undertaking	-	Assessee should not own more than one residential house on the date of transfer. He should not purchase within 2 years or construct within 3 years after the date of transfer, another residential house.
4	Qualifying asset i.e., asset in which capital gains has to be invested	One Residential House situated in India/Two residential houses in India, at the option of the assessee, where capital gains does not exceed ₹2 crore	Land for being use for agricultural purpose (Urban/ Rural	Land or Building or right in land or building	Bonds of NHAI or RECL or any other bond notified by C.G. (Redeemable after 5 years)	One Residential House situated in India
5	Time limit for purchase and construction	Purchase before 1 year before or 2 years after the date of transfer (or) construct within 3 years after the date of transfer	Purchase within a period of 2 years after the date of transfer	Purchase/ construct within 3 years after the date of transfer, for shifting or re-establishing the existing undertaking or setting	Purchase within a period of 6 months after the date of transfer	Purchase within 1 year before or 2 years after the date of transfer (or) Construct within 3 years after the date of transfer

up a new industrial undertaking.

6	Amount of Exemption	Cost of new Residential House or two houses, as the case may be or Capital Gain, whichever is lower, is exempt. However, if the cost of new residential house exceeds ₹ 10 crore the amount exceeding ₹ 10 crore would not be taken into account for exemption. The maximum exemption that can be claimed by the assessee is ₹ 10 crore.	Cost of new Agricultural Land or Capital Gain, whichever is lower, is exempt	Cost of new asset or Capital Gain, whichever is lower.	Capital Gain or amount invested in specified bonds, whichever is lower. Maximum permissible investment out of capital gains arising in any financial year is ₹ 50 lakhs, whether such investment is made in the current FY or subsequent FY or both.	Cost of new Residential House \geq Net sale consideration of original asset, entire Capital gain is exempt. Cost of new Residential House $<$ Net sale consideration of original asset, proportionate capital gain is exempt. However, if the cost of new residential house exceeds ₹ 10 crore the amount exceeding ₹ 10 crore would not be taken into account for exemption.
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Question 1: Amount Received in Reverse Mortgage Scheme?

Solution:

As per section 47(xvi), any transfer of a capital asset in a transaction of Reverse Mortgage under a scheme made and notified by the Central Government will not be regarded as a transfer. Therefore, capital gains tax liability is not attracted. Section 10(43) provides that the amount received by a senior citizen as a loan, either in lump sum or in instalments, in a transaction of Reverse Mortgage would be exempt from income-tax. Therefore, the amount received by Sachin in a transaction of Reverse Mortgage of his residential building is exempt under section 10(43).

**Question 2: Based on Conversion of a capital asset into stock -in- trade
Discuss the tax implications arising consequent to conversion of a capital asset into stock -in- trade of business and its subsequent sale.**

Solution:

The conversion of a capital asset into stock-in-trade is treated as a transfer u/s 2(47). It would be treated as a transfer in the year in which the capital asset is converted into stock-in-trade. However, as per section 45(2), the profits or gains arising from the transfer by way of conversion of capital assets into stock-in-trade will be chargeable to tax only in the year in which the stock-in-trade is sold. For the purpose of computing capital gains in such cases, the fair market value of the capital asset on the date on which it was converted into stock-in-trade shall be deemed to be the full value of consideration received or accruing as a result of the transfer of the capital asset. Indexation benefit is available upto the year of conversion of capital asset in stock-in-trade

On subsequent sale of such stock-in-trade, business profits would arise. The business income chargeable to tax would be the difference between the price at which the stock -in-trade is sold and the fair market value on the date of conversion of the capital asset into stock -in-trade.

**Question 3: Based on Conversion of a capital asset into stock -in- trade
X converts his capital asset (acquired on June 10, 2004 for ₹. 60,000) into stock-in-trade on March 10, 2023. The fair market value on the date of the above conversion was ₹. 5,50,000. He subsequently sells the stock-in-trade so converted for ₹. 6,00,000 on June 10, 2023. Discuss the year of chargeability of capital gain.**

Solution:

Since the capital asset is converted into stock-in-trade during the PY, it will be a transfer u/s 2(47) during the P.Y. 2023-24. However, the profits or gains arising from the above conversion will be chargeable to tax during the A.Y. 2024-25, since the stock-in-trade has been sold only on June 10, 2023. For this purpose, the FMV on the date of such conversion (i.e. 10th March, 2023) will be the full value of consideration.

Question 4: Based on Sec 47

In which of the following situations capital gains tax liability does not arise?

- (i) Mr. A purchased gold in 1970 for ₹. 25,000. In the P.Y. 2023-24, he gifted it to his son at the time of marriage. FMV of the gold on the day the gift was made was ₹. 1,00,000.**
- (ii) A house property is purchased by a HUF in 1945 for ₹. 20,000. It is given to one of the family members in the P.Y 2023-24 at the time of partition of the family. FMV on the day of partition was ₹. 12,00,000.**
- (iii) Mr. B purchased 50 convertible debentures for ₹. 40,000 in 1995 which are converted in to 500 shares worth ₹. 85,000 in November 2023 by the company.**

Solution:

We know that capital gains arise only when we transfer a capital asset. The liability of capital gains tax in the situations given above is discussed as follows:

- (i) As per the provisions of section 47(iii), transfer of a capital asset under a gift is not regarded as transfer for the purpose of capital gains. Therefore, capital gains tax liability does not arise in the given situation.
- (ii) As per the provisions of section 47(i), transfer of a capital asset (being in kind) on the total or partial partition of Hindu undivided family is not regarded as transfer for the purpose of capital gains. Therefore, capital gains tax liability does not arise in the given situation.
- (iii) As per the provisions of section 47(x), transfer by way of conversion of bonds or debentures, debenture stock or deposit certificates in any form of a company into shares or debentures of that company is not regarded as transfer for the purpose of capital gains. Therefore, capital gains tax liability does not arise in the given situation.

Question 5: Based on Conversion of a capital asset into stock -in- trade

Mr. A converts his capital asset acquired for an amount of ₹. 50,000 in June, 2005 into stock-in-trade in the month of Nov., 2018. The FMV of the asset on the date of conversion is ₹.4,50,000. The stock-in-trade was sold for an amount of ₹. 6,50,000 in the month of September, 2023. What will be the tax treatment?

Financial year	Cost Inflation Index
2005-06	117
2018-19	280

Solution:

The capital gains on the sale of the capital asset converted to stock-in-trade is taxable in the given case. It arises in the year of conversion (i.e. P.Y. 2018-19) but will be taxable only in the year in which the stock-in-trade is sold (i.e. P.Y. 2023-24). Profits from business will also be taxable in the year of sale of the stock-in-trade (P.Y. 2023-24).

The long-term capital gains and business income for the A.Y.2024-25 are calculated as under:

Particulars	₹.	₹.
Profits and Gains from Business or Profession		
Sale proceeds of the stock-in-trade	6,50,000	
Less: Cost of the stock-in-trade (FMV on the date of conversion)	(4,50,000)	2,00,000
Long Term Capital Gains		
Full value of the consideration (FMV on the date of the conversion)	4,50,000	
Less: Indexed cost of acquisition (50,000 x 280/117)	(1,19,658)	3,30,342

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

Question 6: Based on Self-generated goodwill

On January 31, 2024, Mr. A has transferred self-generated goodwill of his profession for a sale consideration of ₹. 70,000 and incurred expenses of ₹. 5,000 for such transfer. You are required to compute the capital gains chargeable to tax in the hands of Mr. A for the A.Y. 2024-25.

Solution:

The transfer of self-generated goodwill of profession is not chargeable to tax. It is based upon the Supreme Court's ruling in CIT vs. B.C. Srinivasa Shetty.

Question 7: Based on STCG

Mr. Cee purchased a residential house on July 20, 2021 for ₹ 10,00,000 and made some additions to the house incurring ₹ 2,00,000 in August 2021. He sold the house property in April 2023 for ₹ 20,00,000. Out of the sale proceeds, he spent ₹ 5,00,000 to purchase another house property in September 2023. What is the amount of capital gains taxable in the hands of Mr. Cee for the A.Y. 2024-25?

Solution:

The house is sold before 24 months from the date of purchase. Hence, the house is a short-term capital asset and no benefit of indexation would be available

Particulars	₹
Sale Consideration	20,00,000
Less: Cost of Acquisition	10,00,000
Cost of Improvement	2,00,000
Short Term Capital Gains	8,00,000

Note: The exemption of capital gains u/s 54 is available only in case of LTCG. As the house is short-term capital asset, Mr. Cee cannot claim exemption u/s 54. Thus, the amount of taxable STCG is ₹ 8,00,000.

Question 8: Based on CG based on shares

Mr. Mithun purchased 100 equity shares of M/s Goodmoney Co. Ltd. on 01-04-2007 at rate of ₹ 1,000 per share in public issue of the company by paying securities transaction tax. Company allotted bonus shares in the ratio of 1:1 on 01.12.2022. He has also received dividend of ₹ 10 per share on 01.05.2023. He has sold all the shares on 01.10.2023 at the rate of ₹ 4,000 per share through a recognized stock exchange and paid brokerage of 1% and securities transaction tax of 0.02% to celebrate his 75th birthday. Compute his total income and tax liability for AY 2024-25, assuming that he is having no income other than given above. FMV of shares of M/s Goodmoney Co. Ltd. on 31.1.2018 is ₹ 2,000 per share.

Solution: Computation total income and tax liability of Mr. Mithun for A.Y. 2024-25

Particulars	₹
Long term capital gains on sale of original shares	
Gross sale consideration (100 x ₹ 4,000)	4,00,000
Less: Brokerage@1%	4,000
Net sale consideration	3,96,000
Less: Cost of acquisition (100 x ₹ 2,000) (Refer Note 2)	2,00,000
Long term capital gains	1,96,000
Short term capital gains on sale of bonus shares	
Gross sale consideration (100 x ₹ 4,000)	4,00,000
Less: Brokerage@1%	4,000
Net sale consideration	3,96,000
Less: Cost of acquisition of bonus shares	Nil
Short term capital gains	3,96,000
Income from other sources	2000

Dividend received from M/S Goodmoney Co. ltd. Is taxable in the hands of shareholders (200 shares x 10 per share)	
Total Income	5,94,000
Tax Liability	
Tax on dividend (Since it is lower than basic exemption limit)	Nil
Tax on STCG u/s 111A	
15% of (₹ 3,96,000 - ₹ 2,98,000, being unexhausted basic exemption limit)	14,700
Tax on LTCG u/s 112A	
10% of (₹ 1,96,000 - ₹ 1,00,000)	9,600
	24,300
Less: Rebate u/s 87A	14,700
Total	9,600
Add: Health and education cess @4%	384
Tax payable	9,984
Tax payable (rounded off)	9,980

Notes:

- (1) LTCG exceeding ₹ 1 lakh on sale of original shares through a recognized stock exchange (STT paid at the time of acquisition and sale) is taxable u/s 112A at a concessional rate of 10%, without indexation benefit.
- (2) Cost of acquisition of such equity shares acquired before 1.2.2018 is higher of
 - Cost of acquisition i.e., ₹ 1,000 per share and
 - lower of Fair market value of such asset i.e., ₹ 2,000 per share and Full value of consideration i.e., ₹ 4,000 per share.
 So, the cost of acquisition of original share is ₹ 2,000 per share.
- (3) Since bonus shares are held for less than 12 months before sale, the gain arising there from is a STCG chargeable to tax @15% as per section 111A after adjusting the unexhausted basic exemption limit. Since Mr. Mithun is over 60 years of age, he is entitled for a higher basic exemption limit of ₹ 3,00,000 for A.Y. 2024-25.
- (4) Brokerage paid is allowable since it is an expenditure incurred wholly and exclusively in connection with the transfer. Hence, it qualifies for deduction under section 48(i).
- (5) Cost of bonus shares will be Nil as such shares are allotted after 1.04.2001.
- (6) Securities transaction tax is not allowable as deduction.

Question 9: Based on Conversion of debentures into shares

Mr. B purchased convertible debentures for ₹. 5,00,000 during August 2004. The debentures were converted into equity shares in September 2014. These shares were sold for ₹. 17,00,000 in August, 2023. The brokerage expenses are ₹. 50,000. You are required to compute the capital gains in case of Mr. B for the AY 2024-25

Financial Year	Cost Inflation Index
2004-05	113
2014-15	240
2023-24	348

Solution: Computation of Capital Gains of Mr. B for the A.Y.2024-25

Particulars	₹.
Sale consideration	17,00,000
Less: Expenses on transfer i.e. Brokerage paid	50,000

Net consideration	16,50,000
Less: Indexed Cost of Acquisition (₹5,00,000 x 348/113)	15,39,823
Long term capital gain	1,10,177

Note: For determining the period of holding of a capital asset, being a share of a company, which becomes the property of the assessee by way of conversion of debentures of that company, the period for which the debenture was held by the assessee before conversion shall also be considered.

Question 10: Based on CG & depreciation

Singhania & Co., a sole proprietorship owns six machines, put in use for business in March, 2022. The depreciation on these machines is charged @ 15%. The WDV of these machines as on 1st April, 2023 was ₹ 8,50,000. Three of the old machines were sold on 10th June, 2023 for ₹ 11,00,000. A second-hand plant was bought for ₹ 8,50,000 on 30th November, 2023.

You are required to:

- Determine the claim of depreciation for AY 2024-25.
- Compute the capital gains liable to tax for AY 2024-25.
- If Singhania & Co. had sold the three machines in June, 2023 for ₹ 21,00,000, will there be any difference in your above workings? Explain.

Solution: (i) Computation of depreciation for A.Y.2024-25

Particulars	₹.
W.D.V. of the block as on 1.4.2023	8,50,000
Add: Purchase of second hand plant during the year	8,50,000
	17,00,000
Less: Sale consideration of old machinery during the year	11,00,000
W.D.V of the block as on 31.03.2024	6,00,000
Total	

Since the value of the block as on 31.3.2024 comprises of a new asset which has been put to use for less than 180 days, depreciation is restricted to 50% of the prescribed percentage of 15% i.e. depreciation is restricted to 7½%. Therefore, the depreciation allowable for the year is ₹. 45,000, being 7½% of ₹. 6,00,000.

- The provisions u/s 50 for computation of capital gains in the case of depreciable assets can be invoked only under the following circumstances
 - When one or some of the assets in the block are sold for consideration more than the value of the block.
 - When all the assets are transferred for a consideration more than the value of the block.
 - When all the assets are transferred for a consideration less than the value of the block.

Since in the first two cases, the sale consideration is more than the WDV of the block, the computation would result in short term capital gains.

In the third case, since the WDV of the block exceeds the sale consideration, the resultant figure would be a STCL of the block.

In the given case, capital gains will not arise as the block of asset continues to exist, and some of the assets are sold for a price which is lesser than the WDV of the block.

- If the three machines are sold in June, 2023 for ₹. 21,00,000, then STCG would arise, since the sale consideration is more than the aggregate of the WDV of the block at the beginning of the year and the additions made during the year.

Question 11: Based on Forfeited the advance

Mr. X purchases a house property in December 1994 for ₹. 5,25,000 and an amount of ₹. 1,75,000 was spent on the improvement and repairs of the property in March, 1998. The property was proposed to be sold to Mr. Z in the month of May, 2009 and an advance of ₹. 40,000 was taken from him. As the entire money was not paid in time, Mr. X forfeited the advance and subsequently sold the property to Mr. Y in the month of March, 2024 for ₹. 52,00,000. The fair value of the property on April 1, 2001 was ₹. 11,90,000 and SDV on the said date was ₹10,20,000. What is the capital gain chargeable in the hands of Mr. X for the A.Y. 2024-25?

Financial year	Cost Inflation Index
2001-02	100
2009-10	148
2023-24	348

Particulars		₹.
Sale consideration		21,00,000
Less: W.D.V. of machines as on PY	8,50,000	
Purchase of second plant during the year	8,50,000	17,00,000
Short term capital gains		4,00,000

Solution: Capital gains in the hands of Mr. X for A.Y. 2024-25 is computed as under:

Particulars	₹.
Sale proceeds	52,00,000
Less: Indexed cost of acquisition [Note 1]	34,10,400
Indexed cost of improvement [Note 2]	-
Long term capital gains	17,89,600

Note 1: Computation of indexed cost of acquisition

Particulars	₹
Cost of acquisition (higher of fair market value as on April 1, 2001 and the actual cost of acquisition)	10,20,000
Less: Advance taken and forfeited	40,000
Cost for the purposes of indexation	9,80,000
Indexed cost of acquisition (₹. 9,80,000 x 348/100)	34,10,400

Note 2: Any improvement cost incurred prior to 1.4.2001 is to be ignored.

Note 3: If SDV as on 1-4-2001 is available then FMV cannot exceed SDV.

Note 4: Forfeiture prior to 2004 is reduced for COA.

Question 12: Sec 54EC

Long term capital gain of ₹ 75 lakh arising from transfer of building on 1.5.2023 will be exempt from tax if such capital gain is invested in the bonds redeemable after five years, issued by NHAI u/s 54EC. Examine with reasons whether the given statement is true or false having regard to the provisions of the IT Act, 1961.

Solution:

FALSE: The exemption u/s 54EC has been restricted, by limiting the maximum investment in long term specified assets (i.e., bonds of NHAI or RECL or any other bond notified by Central Government in this behalf, redeemable after 5 years) to ₹ 50 lakh, whether such investment is made during the relevant PY or the subsequent previous year, or both. Therefore, in this case, the exemption u/s 54EC can be availed only to the extent of ₹ 50 lakh, provided the investment is made before 1.11.2023 (i.e., within six months from the date of transfer).

Question 13: Based on Converted Capital asset into stock-in-trade

Aarav converts his plot of land purchased in July, 2005 for ₹ 80,000 into stock-in-trade on 31st March, 2023. The FMV as on 31.3.2023 was ₹ 3,00,000. The stock-in-trade was sold for ₹ 3,25,000 in the month of January, 2024.

Find out the taxable income, if any, and if so under which 'head of income' and for which AY? Cost Inflation Index: F.Y. 2005-06:117; F.Y. 2022-23: 331.

Solution:

Conversion of a capital asset into stock-in-trade is a transfer within the meaning of sec 2(47) in the PY in which the asset is so converted. However, the capital gains will be charged to tax only in the year in which the stock-in-trade is sold.

The cost inflation index of the FY in which the conversion took place should be considered for computing indexed cost of acquisition. Further, the FMV on the date of conversion would be deemed to be the FVOC for transfer of the asset as per section 45(2). The sale price less the FMV on the date of conversion would be treated as the business income of the year in which the stock-in-trade is sold.

Therefore, in this problem, both capital gains and business income would be charged to tax in the A.Y. 2024-25.

Particulars	₹
Capital Gains	
Sale consideration (FMV on the date of conversion)	3,00,000
Less: Indexed cost of acquisition (₹ 80,000 × 331/117)	2,26,325
Long-term capital gain	73,675
Profits & Gains of Business or Profession	
Sale price of stock-in-trade	3,25,000
Less: Fair market value on the date of conversion	3,00,000
Income from PGBP	25,000

Computation of taxable income of Mr. Aarav for A.Y.2024-25

Particulars	₹
Profits and gains from business or profession	25,000
Long term capital gains	73,675
Taxable Income	98,675

Question14: Based on 45(1A) Insurance Compensation

Mr. A is an individual carrying on business. His stock and machinery were damaged and destroyed in a fire accident. The value of stock lost (total damaged) was ₹ 6,50,000. Certain portion of the machinery could be salvaged. The opening WDV of the block as on 1-4-2023 was ₹ 10,80,000.

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

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

(i) Towards loss of stock ₹ 4,80,000

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

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

Solution:

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

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

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

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

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

Question 15: Based on LTCG

From the following particulars, compute the taxable capital gains of Mr. D for A.Y.24-25

Particulars	Amount ₹
Cost of jewellery [Purchased in F.Y. 07- 08]	4,52,000
Sale price of jewellery sold in January 2024	12,50,000
Expenses on transfer	7,000
Residential house purchased in March 2024	5,00,000

The cost inflation Index are as follows:

Financial Year	Cost Inflation
2007-08	129
2023-24	348

Solution: Computation of taxable capital gains for A.Y.24-25

Particulars	Rs.
Gross consideration	12,50,000
Less: Expenses on transfer	(7,000)

Net consideration	12,43,000
Less: Indexed cost of acquisition (Rs. 4,52,000 × 338/129)	12,19,349
Capital Gain	23,651
Less: Exemption under section 54F (Rs. 23,651 × Rs. 5,00,000/ Rs. 12,43,000)	9,514
Taxable long-term capital gains	14,137

Question 16: Based on tax liability

Calculate the income-tax liability for the AY 2024-25 in the following cases:

	Mr. A (age 45)	Mrs. B (age 62)	Mr. C (age 81)	Mr. D (age 82)
Status	Resident	Non- resident	Resident	Non- resident
Total income other than long- term capital gain	2,40,000	3,10,000	5,90,000	4,80,000
Long-term capital gain	85,000 from sale of vacant site	10,000 from sale of listed equity shares (STT paid on sale and purchase of shares)	60,000 from sale of agricultural land in rural area	Nil

(i) If Mr. A, Mrs. B Mr. C and Mr. D exercise the option to shift out of the default tax regime as per the normal provision of the act.

Solution: Computation of income-tax liability for the A.Y.24-25

Particulars	Mr. A (age 45)	Mrs. B (age 62)	Mr. C (age 81)	Mr. D (age 82)
Residential Status	Resident	Non-resident	Resident	Non-resident
Applicable basic exemption limit	₹2,50,000	₹2,50,000	₹5,00,000	₹2,50,000
Asset sold	Vacant site	Listed equity shares (STT paid on both sale and purchase of shares)	Rural agricultural land	-
Long-term capital gain (on sale of above asset)	₹85,000 [Taxable @20% u/s 112]	₹10,000 [exempt u/s 112A since it is less than 1,00,000]	₹60,000 (Exempt – not a capital asset)	-
Other income	₹2,40,000	₹3,10,000	₹5,90,000	₹4,80,000
Tax liability				

On LTCG (after adjusting BEL)	₹15,000	-	-	-
On Other income	Nil	₹3,000	₹18,000	₹11,500
	₹15,000	₹3,000	₹18,000	₹11,500
Less: Rebate u/s 87A	₹12,500	-	-	-
	2,500	₹3,000	₹18,000	₹11,500
Add: HEC@4%	100	₹120	₹720	₹460
Total tax liability	2600	₹3,120	₹18,720	₹11,960

Notes:

- 1) Since Mrs. B and Mr. D are non-residents, they cannot avail the higher basic exemption limit of ₹3,00,000 and ₹5,00,000 for persons over the age of 60 years and 80 years, respectively.
- 2) Since Mr. A is a resident whose total income does not exceed ₹5 lakhs, he is eligible for rebate of ₹12,500 or the actual tax payable, whichever is lower, under section 87A.

Question 17: Based on Slump sale sec 50B

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

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

Other information:

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

Compute the capital gain for the AY 2024-25.

Solution: Computation of capital gains on slump sale of Unit 1

Particulars	₹
FMV	30,00,000
Less: Expenses on sale	28,000

Net sale consideration	29,72,000
Less: Net worth (See Note 1 below)	12,50,625
Long-term capital gain	17,21,375

Notes:

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

Particulars	₹	₹
Building (excluding ₹ 3 lakhs on account of revaluation)		9,00,000
Machinery		3,00,000
Debtors		1,00,000
Patents (See Note2 below)		28,125
Other assets (₹1,50,000 – ₹ 50,000)		1,00,000
Total assets		14,28,125
Less: Creditors (25% of ₹ 1,50,000)	37,500	
Bank Loan (70% of ₹ 2,00,000)	1,40,000	1,77,500
Net worth		12,50,625

2. Written down value of patents as on 1.4.2023

Particulars	₹
Value of patents:	₹
Cost	50,000
Less: Depreciation @ 25% for Financial Year	12,500
WDV	37,500
Less: Depreciation for Financial Year	9,375
WDV as on 1.4.2023	28,125

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

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

Question 18: Based on equity & bonus shares

Mr Srinivasan, purchases 2000 equity shares in ABC Ltd., for ₹ 50 per share (Brokerage 1%), in Feb 1998. He gets 200 Bonus shares in Sep 2000. He again gets 2200 bonus shares in Sep 2009. FMV of the Shares on 1st Apr'01 was ₹ 125.

In Jan'24, he sells all the shares for ₹ 500 per share (Brokerage 2%).

Compute the Capital Gains tax in the hands of Srinivasan in FY 2023-24.

Solution:

Cost of acquisition	Nos.	Per Share	Total ₹
Original	2,000	50.50	101,000
Bonus Shares prior to 1st Apr'01	200	-	25,000
Bonus Share post 1st Apr'01	2,200	-	-
Full value of Consideration (SV-Brokerage)	4,400	490.00	21,56,000
Indexed Cost of acquisition			
Original (2000 x 125 x 348/100)		8,70,000	
Bonus (200 x 125 x 348/100)		87,000	9,57,000
Capital gains (long term)			11,99,000

Note:

- The brokerage is netted against the costs and sales vales
- The Cost of acquisition of Bonus Shares acquired prior to 1st apr'01 is the FMV on 1st apr'01 and for the ones acquired post 1st apr'01 is Nil
- For the Original Shares, since the acquisition cost (₹ 50) is less than the FMV (₹ 125) as on 1st Apr 2001, the FMV as on 1st apr'01 is considered for computing the indexed cost of acquisition
- Refer to the tables for the Indices used in the computation

Question 19:

M & sons, HUF, had purchased a land for ₹ 150,000 in 2004-05. In the PY 2008-09, a partition takes place and the Coparcener, Mr. B, gets this plot, valued at ₹ 200,000. In PY 2009-10, he incurs expenses of ₹ 250,000 on the plot towards fencing of the plot of land. Mr. B then sells this plot at ₹ 15,00,000 in PY 2023-24. You are required to compute the capital gains for AY 2024-25.

Solution:

Particulars	₹
Cost of acquisition	1,50,000
Cost of improvement	2,50,000
Full Value of Consideration	15,00,000
Indexed Cost	
Acquisition (NOTE b)	4,61,947
Improvement (NOTE c)	5,87,838
Capital gains	4,50,215

Note:

- a) Although the cost of acquisition for the land, in case of partition of HUF would be the cost to the previous Owner, the year would be the year in which he gets the asset upon partition, that is FY 2008-09
- b) Indexed Cost of Acquisition therefore is ₹ (150,000/113) * 348= 4,61,947
- c) Indexed Cost of Improvement therefore is ₹ (250,000/148) * 348= 5,87,838

Question 20:

Mr. X purchases a property for ₹ 50,000 on 3rd May 1976. The following expenses were incurred by him:

- Improvement of property in 2000-2001 ₹ 2,50,000
- Construction of two floors in 2004-05 ₹ 8,00,000
- Reconstruction and refurbishment of property in 2014-15 ₹ 15,00,000

FMV of property on 1st Apr'01 is 10,00,000. He sells the house on 9th Sep 23 for ₹ 85,00,000 and incurs ₹ 250,000 on transfer. Compute the Capital Gains taxable in his hands in AY 2024-25

Solution:

	Particulars	₹
	Full value of consideration (85L-2.5L)	82,50,000
Less:	Indexed Cost of acquisition (10L * 348/100)	34,80,000
	Indexed Cost of improvement (8L * 348/113)	24,63,717
	Indexed Cost of improvement (15L * 348/240)	21,75,000
	Capital gains/(loss)	1,31,283

Note:

The improvement to the property only after 1st Apr'01 are considered.

Question 21: Based on conversion into stock-in trade

Mrs. Harshita purchased a land at a cost of ₹ 35 lakhs in the FY 2005-06 and held the same as her capital asset till 20th March, 2023.

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

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

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

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

[Cost Inflation Index: F.Y. 2005-06: 117; F.Y. 2022-23: 331; F.Y. 2023-24-348].

Solution:

Computation of Harshita for A.Y. 2024-25

Particulars	(₹)
Capital Gains	
Fair market value of land on the date of conversion deemed as the full value of consideration for the purposes of section 45(2)	2,10,00,000
Less: Indexed cost of acquisition [₹ 35,00,000 × 331/117]	99,01,709
Proportionate capital gains arising during A.Y. 2024-25 [₹1,10,98,291 × 2/3]	1,10,98,291 73,98,860
Less: Exemption under section 54EC	50,00,000
Capital gains chargeable to tax for A.Y.2024-25	
Business Income	23,98,860

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

Notes:

- 1) The conversion of a capital asset into stock-in-trade is treated as a transfer u/s 2(47). It would be treated as a transfer in the year in which the capital asset is converted into stock-in-trade (i.e., P.Y.2022-23, in this case).
- 2) However, as per sec 45(2), the capital gains arising from the transfer by way of conversion of capital assets into stock-in-trade will be chargeable to tax only in the year in which the stock-in-trade is sold.
- 3) The indexation benefit for computing indexed cost of acquisition would, however, be available only up to the year of conversion of capital asset into stock-in-trade (i.e., P.Y.2022-23) and not up to the year of sale of stock-in-trade (i.e., P.Y.2023 - 24).
- 4) For the purpose of computing capital gains in such cases, the FMV of the capital asset on the date on which it was converted into stock-in-trade be deemed to be full value of consideration received or accruing as a result of the transfer of the capital asset.
In this case, since only 2/3rd of the stock-in-trade (10 flats out of 15 flats) is sold in the P.Y.2023-24, only proportionate capital gains (i.e., 2/3rd) would be chargeable to tax in the A.Y.2024-25.
- 5) On sale of such stock-in-trade, business income would arise. The business income chargeable to tax would be the difference between the price at which the stock-in-trade is sold and the FMV on the date of conversion of the capital asset into stock-in-trade.
- 6) In case of conversion of capital asset into stock-in-trade and subsequent sale of stock-in-trade, the period of 6 months is to be reckoned from the date of sale of stock-in-trade for the purpose of exemption u/s 54EC [CBDT Circular No.791 dated 2.6.2000]. In this case, since the investment in bonds of NHAI has been made within 6 months of sale of flats, the same qualifies for exemption u/s 54EC. With respect to LTCG arising on land or building or both in any FY, the maximum deduction u/s 54EC would be ₹ 50 lakhs, whether the investment in bonds of NHAI or RECL are made in the same FY or next FY or partly in the same FY and partly in the next FY.
Therefore, even though investment of ₹ 50 lakhs has been made in bonds of NHAI during the P.Y. 2023-24 and investment of ₹ 50 lakhs has been made in bonds of RECL during the P.Y. 2024-25, both within the stipulated six month period, the maximum deduction allowable for A.Y. 2024-25, in respect of LTCG arising on sale of long-term capital asset(s) during the P.Y. 2023-24, is only ₹ 50 lakhs.

Question 22: Based on 112A

Mr. Raman is a salaried employee. In the month of January, 2016 he purchased 100 shares of X Ltd. @ ₹. 1,400 per share from Bombay Stock Exchange. These shares were sold through BSE in April, 2023 @ ₹. 2,600 per share. The highest price of X Ltd. Share quoted on the stock exchange on January 31, 2018 was ₹. 1,800 per share. What will be the nature of capital gain in this case?

Solution:

Shares were purchased in January, 2016 and were sold in April, 2023, i.e., sold after holding them for a period of more than 12 months and, hence, the gain will be LTCG. In the given case, shares are sold after holding them for a period of more than 12 months, shares are sold through recognised stock exchange and the transaction is liable to STT. Therefore, section 112A is applicable in this case.

The cost of acquisition of X Ltd. Shares shall be higher of:

a) Cost of acquisition i.e., 1,40,000 (1,400 × 100)

b) Lower of:

I). Highest price quoted as on 31-1-2019 i.e., 1,80,000 (1,800 × 100);

II). Sales consideration i.e., 2,60,000 (2600 × 100)

Thus, the cost of acquisition of shares shall be ₹. 1,80,000. Accordingly, LTCG in hands of Mr. Raman would be ₹. 80,000 (i.e., 2,60,000 – 1,80,000). Since LTCG doesn't exceed ₹. 1,00,000, nothing is taxable in hands of Mr. Raman .

Question 23: Based on both tax regime

Mr. Kapoor (age 67 years and resident) is a retired person earning total pension of ₹. 1,00,000. He purchased gold in December, 2012 and sold the same in April, 2023. Taxable LTCG amounted to ₹. 2,80,000. What will be his tax liability for the AY 24-25

Option 1: Assessee has opted for sec115BAC.

Option 2: Assessee has not opted for sec 115BAC

Solution:

Option 1: Assessee has opted for sec115BAC

Computation of tax liability for the AY 24-25 is as under:

Particulars	₹
Gross Salary (pension income)	1,00,000
Less: Standard deduction u/s 16 (ia)	N/A
Income under the head Salary	1,00,000
LTCG on sale gold	2,80,000
Total income	3,80,000
Tax on LTCG u/s 112 on ₹. 1,30,000 @ 20%*	26,000
Less: Rebate as per section 87A	12,500
Tax after Rebate	13,500
Add: Health & education cess @ 4%	540
Net tax payable	14,040

* U/S 115BAC basic exemption limit is 2,50,000 irrespective of age. Unutilised exemption limit of Rs. 250,000-100,000 i.e., Rs.150,000 can be adjusted against LTCG of Rs.280,000. Hence the balance LTCG taxable will come to Rs.1,30,000 @ 20%.

Option 2: Assessee has not opted for sec 115BAC

Computation of tax liability for the AY 24- 25 is as under:

Particulars	Rs.
Gross Salary (pension income)	100,000
Less: Standard deduction U/s 16 (ia)	50,000
Income under the head Salary	50,000
LTCG on sale gold	2,80,000
Total income	3,30,000
Tax on LTCG U/s 112 on Rs. 30,000 @ 20%*	6,000
Less: Rebate as per section 87A	6,000
Tax after Rebate	NIL

*Resident individual above 60 years but below 80 years of age has basic exemption limit of ₹. 3,00,000. Which can be adjusted against LTCG of ₹. 2,70,000 but after the adjustment of salary income of ₹. 60,000. Hence, the balance LTCG taxable will come to ₹. 30,000 @ 20%.

Question 24: Based on tax liability of NR

Mr. Gagan (age 69 years and non-resident) is a retired person earning total pension of ₹. 1,00,000 from Indian employer. He purchased a piece of land in Delhi in December, 2012 and sold the same in April, 2023. Taxable LTCG amounted to ₹. 2,30,000. What will be his tax liability for the year 2024-25? Assuming the assessee has not opted for sec115BAC.

Solution: Computation of tax liability for the A.Y. 2024 - 25 is as under:

Particulars	Amount
Gross Salary (pension income)	₹. 1,00,000
Less: Standard deduction u/s 16 (ia)	₹. 50,000
Income under the head Salary	₹. 50,000
LTCG on sale gold	₹. 2,30,000
Total income	₹. 2,80,000
Tax on LTCG u/s 112 on ₹. 2,30,000 @ 20%*	₹. 46,000
Less: Rebate as per section 87A (Not available to non-resident)	NIL
Tax after Rebate	₹. 46,000
Add: Health & education cess @ 4%	₹. 1,840
Net tax payable	₹. 47,840

*Non-Resident individual (of any age) has basic exemption limit of ₹. 2,50,000. Which cannot be adjusted against LTCG of ₹. 2,30,000 but the same can be adjusted against salary income of ₹. 50,000. Hence, the whole amount of LTCG is taxable @ 20%.

Question 25: Based on Compute the Capital Gains and tax liability

Mrs. Shanti Devi, a resident individual, aged 82 years sold her residential property on 18th Jul'23 for ₹ 75,00,000. She had purchased the same for ₹ 25,00,000 on 3rd May 2008. She paid ₹ 100,000 towards brokerage for the sale. The stamp duty valuation was ₹ 100,00,000.

She bought another property for ₹ 20,00,000 on 14th Dec'23 and deposited another ₹ 5,00,000 on 21st Jun'23 in the capital gain deposit scheme with SBI for construction of an additional floor in the property. She also deposited ₹ 5,00,000 on 30th Nov'23 in the NHAI Bonds. Compute the Capital Gains and tax liability. Assuming not opted for section 115BAC.

Solution:

Particulars	₹
Full Value of Consideration	1,00,00,000
Brokerage	1,00,000
Net Sale Consideration	99,00,000
Less: indexed COA (25 lakhs x 348/137)	63,50,365
LTCG	35,49,635
Exemption u/s 54 (20Lakh + 5 lakh)	25,00,000
Exemption u/s 54ec	5,00,000
Taxable LTCG (total income)	5,49,635
Tax Payable	-

Rebate u/s 87A	-
Tax Payable	-
Add: Health and education cess@4%	-
Total tax liability	-

Notes:

Exemptions u/s 54 are towards purchase of another house within 2 years of date of transfer and deposit in Capital Gains Accounts Scheme (CGAS) on or before the due date of filing return of Income.

Exemption u/s 54EC is towards investment in specified bonds (NHAI) within 6 months from date of transfer.

Since the Taxable LTCG, which is less than basic exemption limit of ₹. 5,00,000, therefore no tax will be payable.

Question 26: Based on CG

Discuss the following:

- X entered into an agreement with Y for the purchase of a property for ₹100 lakh and paid ₹10,00,000 as earnest money. On Y failing to execute a conveyance in respect of the property, a suit for specific performance was filed by X. The suit was compromised and X agreed to receive ₹30,00,000 by way of damages and gave up his right to specific performance. What will be the tax implications of this amount?**
- An assessee acquired 1,000 shares of XYZ Ltd. at ₹100 per share on April 1, 1999. The company issued bonus shares in the ratio of 1:1 in April 2008 and a further issue in the ratio of 1:2 in April 2013. The assessee sold in June 2023 the bonus shares allotted to him in April 2013 at ₹175 per share. The market value of the shares as on April 1, 2001 is ₹250 per share. What is the capital gain assessable in the hands of the assessee?**

Solution:

- According to section 2(14), the expression “capital asset” means property of any kind held by an assessee, whether or not connected with his business or profession.

As per section 2(47), transfer, in relation to a capital asset, includes sale, exchange or relinquishment of the asset or the extinguishment of any rights therein or the compulsory acquisition thereof under any law.

This Question is based on the case decided by Madras High Court in **K. R. Srinath**, where the court held that:

“The right to obtain a conveyance of immovable property falls within the expression “property of any kind” used in section 2(14) of the Income-tax Act, 1961, and is, consequently, a capital asset. The payment of earnest money in order to obtain such a right constitutes its cost of acquisition. Where such a right is given up, there is a transfer of a capital asset.”

In view of the afore said case, the tax liability of Mr. X is be calculated as follows:

Particulars	Amount (₹)
Full value of consideration	30,00,000
Less: Cost of acquisition	10,00,000
Capital Gains	20,00,000

2. Computation of capital gains for Assessment Year 2024-25

Particulars		₹
Sales Price proceeds of 1,000 shares:	175 X 1,000	1,75,000
Less: Cost of Acquisition [see Note]:		NIL
Long term Capital Gains		1,75,000

Note 1: According to section 55, the cost of acquisition of bonus shares shall be taken to be NIL. If however, the bonus shares are allotted before 01-04-2001, then the fair market value as on 01-04-2001 shall be the cost of acquisition of the bonus shares.

Note 2: In the absence of information, it is assumed that section 112A is not applicable.

Question 27: Based on Sec 47

X received a house in May 2010 by way of gift from Y who had purchased the same in April 2000 for ₹12,00,000. The cost of improvements incurred by Y were ₹2,55,000 in March 2001 and ₹3,40,000 in November 2008. The fair market value of the house as on April 1, 2001 was ₹9,14,000. The house was sold by X in March 2024 for ₹2,50,00,000. Ascertain the capital gains chargeable to tax.

Solution:

As per section 47 any transfer of a capital asset under a gift shall not be regarded as a transfer for the purposes of sec 45 and therefore no capital gains will arise. Hence no capital gains shall arise on gift of House Property by Mr. Y to Mr. X. Sec 49(1) provides that where the capital asset became the property of the assessee under a gift, then the COA of the asset shall be deemed to be the cost for which previous owner acquired it as increased by the cost of improvements incurred by the previous owner and the assessee. Sec 55 defines Cost of improvement as “Where the capital asset became the property of the previous owner or the assessee before 01-04-2001, Cost of Improvement means all expenditure of capital nature incurred on improvement of the asset by the previous owner and the assessee on or after 01-04-2001”. Therefore, cost of improvement incurred before 01-04-2001 is to be ignored. Section 55 also defines cost of acquisition as “Where the capital asset became the property of the assessee by any of the modes specified in section 49(1) [it includes a gift] and the capital asset became the property of previous owner before 01-04-2001, then cost of acquisition means the cost of capital asset to the previous owner or the FMV of the asset as on 01-04-2001, at the option of the assessee.” Section 2 (42A) provides that for determining the nature of capital gains in the hands of the assessee who acquired the capital asset by way of a transaction referred to in section 49(1). [it includes a gift], the period for which the asset was held by the previous owner shall also be considered. Therefore, capital gains in hands of Mr. X in Assessment Year 2023-24 shall be computed as under:

Period of holding as per Sec 2(42A): April,2000 to March,2024 (**Long term**)

Particulars		Amount (₹)
Sales Price:		2,50,00,000
Less: Indexed Cost of: Acquisition as per section 49(1) read with section 55	$12,00,000 \times 348/100$	41,76,000
Less: Cost of Improvements as: per sec 55	$3,40,000 \times 348/137$	8,63,650
Long term Capital Gain		1,99,60,350

Question 28: Based on Sec 50C

Mr. Sarthak entered into an agreement with Mr. Jaikumar to sell his residential house located at Kanpur on 16.08.2023 for ₹ 1,50,00,000.

The sale proceeds were to be paid in the following manner:

- (i) 20% through account payee bank draft on the date of agreement.
- (ii) 60% on the date of the possession of the property.
- (iii) Balance after the completion of the registration of the title to the property.

Mr. Jaikumar was handed over the possession of the property on 15.12.2023 and the registration process was completed on 14.01.2024. He paid the sale proceeds as per the sale agreement.

The value determined by the Stamp Duty Authority-

- (a) on 16.08.2023 was ₹ 1,70,00,000;
- (b) on 15.12.2023 was ₹ 1,71,00,000; and
- (c) on 14.01.2024 was ₹ 1,71,50,000.

Mr. Sarthak had acquired the residential house at Kanpur on 01.04.2001 for ₹ 30,00,000. After recovering the sale proceeds from Jaikumar, he purchased two residential house properties, one in Kanpur for ₹ 20,00,000 on 24.3.2024 and another in Delhi for ₹ 35,00,000 on 28.5.2024.

Compute the income chargeable under the head CG of Mr. Sarthak for the AY 24-25.

Cost Inflation Index for Financial Year(s): 2001-02 - 100; 2023-24 - 348

Solution: Computation of income chargeable of Mr. Sarthak for A.Y. 2023-24

Particulars	(₹)
Capital Gains on sale of residential house	
Actual sale consideration	₹ 1,50,00,000
Value adopted by Stamp Valuation Authority on the date of agreement	₹ 1,70,00,000
<p>[As per section 50C, where the actual sale consideration is less than the value adopted by the Stamp Valuation Authority for the purpose of charging stamp duty, and such stamp duty value exceeds 110% of the actual sale consideration, then, the value adopted by the Stamp Valuation Authority shall be taken to be the full value of consideration. In a case where the date of agreement is different from the date of registration, stamp duty value on the date of agreement can be considered provided the whole or part of the consideration is paid by way of account payee cheque/bank draft or by way of ECS through bank account or through such other electronic mode as may be prescribed, on or before the date of agreement. In this case, since 20% of ₹ 150 lakhs is paid through account payee bank draft on the date of agreement, stamp duty value on the date of agreement would be considered for determining the full value of consideration]</p>	
Full value of sale consideration [Stamp duty value on the date of agreement, since it exceeds 110% of the actual sale consideration]	1,70,00,000
Less: Indexed cost of acquisition of residential house [₹ 30 lakhs x 348/100]	1,04,40,000
Long-term capital gains [Since the residential house property was held by Mr. Sarthak for more than 24 months immediately preceding the date of its transfer]	65,60,000
Less: Exemption u/s 54	55,00,000
Since, long-term capital gains does not exceed ₹ 2 crore, he would be eligible for exemption in respect of both the residential house properties purchased in India. The capital gain arising on transfer of a long-term residential property shall not be chargeable to tax to the extent such capital gain is invested in the purchase of these residential house properties in India within one year before or two years after the date of transfer of original asset. Thus, he would be eligible for exemption of ₹	

55,00,000 being ₹ 20,00,000 and ₹ 35,00,000 invested on acquisition of residential house property in Kanpur and Delhi, respectively.	
Long term capital gains chargeable to tax	10,60,000

Question 29: Based on compulsory acquisition

A piece of land owned by Mr. Mishra located on Jaipur-Delhi highway was acquired by NHA in the FY 2015-16, but the award ordered in FY 2023-24 was paid in the FY 2023-24. This land was purchased by him on 2.4.2000 for ₹1,000. The fair market value of the land as on 1.4.2001 was ₹900. Compensation paid was ₹ 5 lakhs.

Other piece of land located in Chennai purchased in April, 2007 was also sold by him in February, 2024 for ₹45 lakhs, but sale deed thereof could not be executed by 31.3.2024. The value for the purpose of stamp duty applied by the stamp valuation authority was ₹55 lakhs. Indexed cost of acquisition is given as ₹51,50,905.

Compute the income chargeable to tax arising as a result of these transactions in the AY 2024-25.

Solution: Computation of Income of Mr. Mishra for the AY 2024-25:

Land at Delhi Jaipur Highway		
Period of holding:	2.4.2000 to 2015-16	(Long term)
Initial compensation:		₹5,00,000
Less: Indexed Cost of Acquisition:	1,000 x 254/100	₹2,540
Long Term Capital Gain		₹4,97,460
Land at Chennai		
Period of holding:	April, 2007 to Feb., 20223	(Long term)
Full Value of consideration: (Sec. 50C)		₹55,00,000
Less: Indexed Cost of Acquisition:		₹51,50,905
Long Term Capital Gain		₹3,49,095

Question 30: Based on Sec 50C & 54/EC

Mrs. Yuvika bought a vacant land for ₹ 80 lakhs in May 2005. Registration and other expenses were 10% of the cost of land. She constructed a residential building on the said land for ₹ 100 lakhs during the FY 2007-08.

She entered into an agreement for sale of the above said residential house with Mr. Johar (not a relative) in April 2015. The sale consideration was fixed at ₹ 700 lakhs and on 23-4-2015, Mrs. Yuvika received ₹ 20 lakhs as advance in cash by executing an agreement. However, due to failure on part of Mr. Johar, the said negotiation could not materialise and hence, the said amount of advance was forfeited by Mrs. Yuvika.

Mrs. Yuvika, again entered into an agreement on 01.08.2023 for sale of this house at ₹ 810 lakhs. She received ₹ 80 lakhs as advance by RTGS. The SDV on the date of agreement was ₹ 890 lakhs. The sale deed was executed and registered on 14-1-2024 for the agreed consideration. However, the State stamp valuation authority had revised the values, hence, the value of property for stamp duty purposes was ₹ 900 lakhs. Mrs. Yuvika paid 1% as brokerage on sale consideration received.

Subsequent to sale, Mrs. Yuvika made following investments:

(i) Acquired two residential houses at Delhi for ₹ 130 lakhs and ₹ 50 lakhs on 31.1.2024 and 15.5.2024

(ii) Acquired a residential house at UK for ₹ 180 lakhs on 23.3.2024.

(iii) Subscribed to NHA capital gains bond (approved under section 54EC) for ₹ 50

lakhs on 29-3-2024 and for ₹ 40 lakhs on 12-5-2024.
Compute the income chargeable under the head CG of Mrs. Yuvika for A.Y.2024-25.
The choice of exemption must be in the manner most beneficial to the assessee.
Cost Inflation Index: F.Y. 2005-06 – 117; F.Y. 2007 -08 – 129; F.Y. 2023-24 - 348.

Solution: Computation of income chargeable of Mrs. Yuvika for A.Y.2024-25

Particulars	(₹) in lakhs	(₹) in lakhs
Capital Gains on sale of residential building		
Actual sale consideration ₹ 810 lakhs		
Value adopted by Stamp Valuation Authority ₹ 890 lakhs [Where the actual sale consideration is less than the value adopted by the Stamp Valuation Authority for the purpose of charging stamp duty, and such stamp duty value exceeds 110% of the actual sale consideration, then, the value adopted by the Stamp Valuation Authority shall be taken to be the FVOC as per section 50C. However, where the date of agreement is different from the date of registration, SDV on the date of agreement can be considered provided the whole or part of the consideration is received by way of account payee cheque/bank draft or by way of ECS through bank account or through prescribed electronic modes on or before the date of agreement. In this case, since advance of ₹ 80 lakh is received by RTGS, i.e., one of the prescribed modes, SDV on the date of agreement can be adopted as the FVOC. However, in the present case since SDV on the date of agreement does not exceed 110% of the actual consideration, actual sale consideration would be taken as the FVOC)		
Gross Sale consideration (actual consideration, since SDV on the date of agreement does not exceed 110% of the actual consideration)		810
Less: Brokerage @1% of sale consideration (1% of ₹ 810 lakhs)		8.10
Net Sale consideration		801.90
Less: Indexed cost of acquisition		
- Cost of vacant land, ₹ 80 lakhs, plus registration and other expenses i.e., ₹ 8 lakhs, being 10% of cost of land [₹ 88 lakhs × 348/117]	261.74	
- Construction cost of residential building (₹ 100 lakhs x 348/137)	269.77	531.51
Long-term capital gains		270.39

<p>Since the residential house property was held by Mrs. Yuvika for more than 24 months immediately preceding the date of its transfer, the resultant gain is a long-term capital gain]</p> <p>Less: Exemption under section 54</p> <p>Where LTCG exceed ₹ 2 crore, the capital gain arising on transfer of a long-term residential property shall not be chargeable to tax to the extent such capital gain is invested in the purchase of one residential house property in India, one year before or two years after the date of transfer of original asset.</p> <p>Therefore, in the present case, the exemption would be available only in respect of the one residential house acquired in India and not in respect of the residential house in UK. It would be more beneficial for her to claim the cost of acquisition of residential house at Delhi, i.e., ₹ 130 lakhs as exemption.</p> <p>Less: Exemption under section 54EC</p> <p>Amount invested in capital gains bonds of NHAI within six months after the date of transfer (i.e., on or before 13.7.2023), of long-term capital asset, being land or building or both, would qualify for exemption, to the maximum extent of ₹ 50 lakhs, whether such investment is made in the current FY or subsequent FY.</p> <p>Therefore, in the present case, exemption can be availed only to the extent of ₹ 50 lakh out of ₹ 90 lakhs, even if the both the investments are made on or before 13.7.2024 (i.e., within six months after the date of transfer).</p>	130
	50
Long term capital gains chargeable to tax	90.39

Note: Advance of ₹ 20 lakhs received from Mr. Johar, would have been chargeable to tax under the head "IFOS", in the A.Y. 2016- 17, as per sec 56(2)(ix), since the same was forfeited on or after 01.4.2014 as a result of failure of negotiation. Hence, the same should not be deducted while computing indexed cost of acquisition.

Question 31: Based on LTCG

Aerochem, a partnership firm, transfers a piece of land situated in Thane district on 17.8.2023 for ₹ 70 lacs. The land purchased on 6.3.2001 for ₹1 lac got registered on 3.4.2005 on payment of stamp duty of ₹20,000. Expenses on land development and construction of boundary wall incurred in August, 2005 were of ₹1,50,000. The charges for the transfer of land paid to the broker was ₹ 1,75,000. Fair market value of the land as on 1.4.2001 was ₹ 1,50,000.

The firm invested ₹25 lacs on 1.12.2023 in the bonds issued by National Highways Authority of India redeemable after a period of 60 months. Compute the amount of capital gain chargeable to tax for AY 2024-25 with the help of cost inflation index for F.Y. 2005-06 and 2023-24 of 117 and 348. respectively. Also give in brief the reasons and the provisions of the Act for each of the items dealt with.

Solution: Computation of Capital Gains in the hands of Aerochem for AY 2024-25.

Particulars	Amount (₹)
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Full value of consideration	70,00,000
Less: Expenses on transfer	1,75,000
Net Consideration	68,25,000
Less: Indexed cost of acquisition ($\text{₹}1,50,000 \times 348/100$)	5,22,000
Indexed cost of improvement [$(\text{₹}20,000 + \text{₹}1,50,000) \times 348/117$]	5,05,641
Long term capital gain	57,97,359
Less: Exemption under section 54EC	25,00,000
Long-term capital Gain	32,97,359

Question 32: Based on section 56(2) (x)

Kala purchased a residential flat from her friend Bala at ₹10 lacs in the city of Jaipur on 3rd October, 2023. The value determined by the Stamp Duty Authority for stamp duty purpose amounted to ₹15 lacs. Bala had purchased the flat on 1st January, 2022 at a cost of ₹3.50 lacs. Kala sold the flat for ₹ 20 lacs on 30th March, 24.

Determine the effects of the above transactions on the assessments of Bala and Kala for AY 2024-25, assuming that value for stamp duty purpose in case of the second sale was not more than the sale consideration.

Solution: Tax treatment in the hands of Kala for AY 2024-25

Particulars	Amount (₹)	Amount (₹)
Capital Gain		
Period of Holding: 3rd October, 2023 to 30th March, 2024	(Short Term)	
Sale consideration of flat	20,00,000	
Less: Cost of acquisition [Section 49(4) attracted as section 56(2) (x) is applicable]	15,00,000	
Short term capital gain		5,00,000
Income from other source		
Section 56(2) (x) attracted		5,00,000
Gross Total Income		10,00,000

Tax treatment in the hands of Bala for AY 2024-25

Particulars	Amount (₹)
Period of Holding: 1st Jan. 2022 to 2nd Oct. 2023	(Short term)
Sales consideration (As per section 50C, stamp duty value which is more than the actual consideration, shall be taken as full value of consideration)	15,00,000
Less: Cost of acquisition	3,50,000
Short-term capital gain	11,50,000

Question 33: Based on CG & IFOS

Mr. X transferred his residential house to Mr. Y for ₹10 lakh on 1st April, 2023. The value of the said house as per Stamp Valuation Authority was ₹16 lakh Mr. Y is a childhood friend of Mr. X. Mr. X gifted a plot of land (purchased by him on 1st August, 2009) to Mr. Y on 1st July, 2023. The value as per Stamp Valuation Authority is ₹ 8 lakh Mr. Y sold the land on 1st March, 2024 at ₹14 lakh. Compute the income of Mr. Y chargeable under the heads CG and IFOS for AY 2024-25.

Solution: Computation of under the heads CG and IFOS for AY 2024-25

Particulars	Amount (₹)
Income chargeable under the head Capital Gains	
Sale consideration	14,00,000

Less: Cost of acquisition [deemed to be the stamp duty value charged to tax as per section 49(4)] (See Note 3)	8,00,000
Short term capital gains (See Note 4)	6,00,000
Income from other sources	
Difference between SDV and purchase price taxable under section 56(2) (x) (See Note 1)	6,00,000
Stamp duty value of plot of land received without consideration taxable is under section 56(2)(x) (See Note 2)	8,00,000

Note:

- Transfer of immovable property for inadequate consideration is covered by sec 56(2)(x). Therefore, the provisions of sec 56(2)(x) are attracted in respect of transfer of residential house by Mr. X to Mr. Y for inadequate consideration. ₹6,00,000 is income from other sources in the hands of Mr. Y u/s 56(2)(x).
- The provisions of sec 56(2)(x) are attracted in respect of transfer of immovable property without consideration. In this case, since Mr. Y has received a plot of land from Mr. X, a non-relative, without consideration and the SDV exceeds ₹50,000, the entire SDV of ₹8 lakh is chargeable to tax u/s 56(2)(x).
- Section 49(4) provides that where the capital gain arises from the transfer of such property which has been charged to tax u/s 56(2) (x), then the SDV shall be treated as the cost of acquisition. Therefore, ₹8 lakh would be cost of acquisition in this case.
- The resultant capital gains will be STCG since for calculating the period of holding, in a case where cost is computed u/s 49(4), the period of holding of the previous owner is not to be included. As per sec 2(42A), the period of holding will include the period of holding of the previous owner only in the case of a capital asset which becomes the property of the assessee in the circumstances mentioned in sec 49(1) [i.e., where cost to previous owner is taken as the cost of acquisition]. Section 50C is attracted in the hands of Mr. X.]

Question 34: Based on Forfeited the advance

Mr. Ramesh purchased a plot of land in Chennai in June 2007 for ₹48 lakhs. He decided to sell the property to Mr. Rakesh for ₹95 lakhs and received an advance of ₹2.50 lakhs in August 2023. Mr. Rakesh was unable to complete the agreement and hence, the entire advance was forfeited by Mr. Ramesh.

On 4th January, 2024, the property was finally sold to Mr. Mukesh for ₹105 lakhs and the SDV on that date was ₹140 lakhs. During FY 2023-24, Mr. Ramesh earned business income of ₹30 lakhs.

He acquired a new residential property for ₹145 lakhs by investing entire sale consideration and his business income. Determine the total income of Mr. Ramesh for the AY 2024-25. Cost inflation index are 2007-08 - 129; 2023-24 -348.

Solution: Computation of Total Income of Mr. Ramesh for AY 2024-25

Particulars		₹ (in Lakhs)	₹ (in Lakhs)
Business Income			30.00
Capital Gain			
Full value of consideration		140.00	
As per section 50C, the full value of consideration would be the higher of-			
Actual Consideration	₹105.00		
Stamp Duty Value	₹140.00		

Less: Index Cost of acquisition (₹48 lakhs x 348 /129)	129.49	
	10.51	
Less: Exempted under section 54F (See Note-1)	(10.51)	
Long-term capital gain		Nil
Income from other sources (See Note-3)		2.50
Total Income		32.50

Notes:

- (1) When capital gain is assessed on notional basis as per the provisions of sec 50C, and the higher value i.e., the SDV of ₹140 lakhs u/s 50C has been adopted as the FVOC, the entire amount of ₹145 lakhs reinvested in the residential house within the prescribed period should be considered for the purpose of exemption u/s 54F, irrespective of the source of funds for such reinvestment [**Gouli Mahadevappa**]
In this case, since the cost of the new residential property acquired (₹145 lakhs) is more than the stamp duty value of ₹140 lakhs of the land transferred, the whole of the capital gain of ₹9.94871 would be exempt u/s 54F.
- (2) Advance of ₹2.50 lakhs received by Mr. Ramesh from Mr. Rakesh in August, 2023 which was forfeited due to the transfer not having materialized, is taxable as per section 56(2)(ix) under the head "Income from other sources".

Question 35: Based on Sec 50C
Mr. Shiva purchased a house property on February 15, 1980 for ₹ 3,24,000. In addition, he has also paid SDV @10% on the stamp duty value of ₹ 3,50,000. In April, 2009, Mr. Shiva entered into an agreement with Mr. Mohan for sale of such property for ₹ 14,35,000 and received an amount of ₹ 1,11,000 as advance. However, the sale consideration did not materialize and Mr. Shiva forfeited the advance. In May 2016, he again entered into an agreement for sale of said house for ₹ 20,25,000 to Ms. Deepshikha and received ₹ 1,51,000 as advance. However, as Ms. Deepshikha did not pay the balance amount, Mr. Shiva forfeited the advance. In August, 2016, Mr. Shiva constructed the first floor by incurring a cost of ₹ 3,90,000. On November 15, 2023, Mr. Shiva entered into an agreement with Mr. Manish for sale of such house for ₹ 30,50,000 and received an amount of ₹ 1,50,000 as advance through an account payee cheque. Mr. Manish paid the balance entire sum and Mr. Shiva transferred the house to Mr. Manish on February 20, 2024. Mr. Shiva has paid the brokerage @1% of sale consideration to the broker. On April 1, 2001, FMV of the house property was ₹ 11,85,000 and Stamp duty value was ₹ 10,70,000. Further, the Valuation as per Stamp duty Authority of such house on 15th November, 2023 was ₹ 39,00,000 and on 20th February, 2024 was ₹ 41,00,000. Compute the capital gains in the hands of Mr. Shiva for A.Y.2024-25. CII for F.Y. 2001-02: 100; F.Y. 2009-10: 148; F.Y. 2016-17: 264; F.Y. 2023-24: 348

Solution: Computation of Capital Gains of Mr. Shiva for AY 2024-25

Particulars	Amount (₹)	Amount (₹)
Actual sale consideration	30,50,000	
Valuation as per Stamp duty Authority on the date of agreement	39,00,000	
(Where the actual sale consideration is less than the value adopted by the Stamp Valuation Authority for the purpose of charging stamp duty, and such SDV exceeds 110% of the actual sale consideration then, the value adopted by the Stamp Valuation Authority shall be taken to be the FVOC as per		

section 50C. However, where the date of agreement is different from the date of registration, SDV on the date of agreement can be considered provided the whole or part of the consideration is received by way of account payee cheque / bank draft or by way of ECS through bank account or such other electronic mode as may be prescribed on or before the date of agreement. In the present case, since part of the payment is made by account payee cheque on the date of agreement, the SDV on the date of agreement would be considered as FVOC)		
Deemed FVOC [Since SDV on date of agreement exceeds 110% of the actual consideration, SDV would be deemed as FVOC]		39,00,000
Less: Expenses on transfer (Brokerage @ 1% of ₹ 30,50,000)		30,500
Net sale consideration		38,69,500
Less: Indexed cost of acquisition (Note 1)	33,37,320	
Less: Indexed cost of improvement (Note 2)	5,14,090	38,51,410
Long term capital gain		18,090

Notes:

(1) Computation of indexed cost of acquisition

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

(2) Computation of indexed cost of improvement

Particulars	Amount (₹)
Cost of construction of first floor in August, 2015	3,90,000
Indexed cost of improvement (₹ 3,90,000 x 348/264)	5,08,228

(3) Where advance money has been received by the assessee, and retained by him, as a result of failure of the negotiations, section 51 will apply. The advance retained by the assessee will go to reduce the cost of acquisition. Indexation is to be done on the cost of acquisition so arrived at after reducing the advance money forfeited [i.e. ₹ 10,70,000 – ₹ 1,11,000 (being the advance money forfeited during the P.Y.2009-10) = ₹ 9,59,000]. However, where the advance money is forfeited during the PY 2016-17 or thereafter, the amount forfeited would be taxable under the head “IFOS” and such amount will not be deducted from the cost of acquisition of such asset while calculating capital gains. Hence, ₹ 1,51,000, being the advance received from Ms. Deepshikha and retained by him, would have been taxable under the head “IFOS” in the hands of Mr. Shiva in A.Y.2017-18

Question 36: Based on HP, salary, PGBP, IFOS

During the previous year 2023-24, following transactions took place in respect of Mr. Raghav who is 56 years old.

(i) Mr. Raghav owns two house properties in Mumbai. The details in respect of these properties are as under -

	House 1 Self-occupied	House 2 Let-out
Rent received per month	Not applicable	₹ 60,000
Municipal taxes paid	₹ 7,500	Nil
Interest on loan (taken for purchase of property)	₹ 3,50,000	₹ 5,00,000
Principal repayment of loan (taken from HDFC bank)	₹ 2,00,000	₹ 3,00,000

(ii) Mr. Raghav had a house in Delhi. During FY 2012-13, he had transferred the house to Ms. Vamika, daughter of his sister without any consideration. House would go back to Mr. Raghav after the life time of Ms. Vamika. The transfer was made with a condition that 10% of rental income from such house shall be paid to Mrs. Raghav. Rent received by Mrs. Vamika during the previous year 2023-24 from such house property is ₹ 5,50,000.

(iii) Mr. Raghav receives following income from

M/s M Pvt. Ltd. during P.Y. 2023 - 24:

- Interest on Debentures of ₹ 7,50,000; and
- Salary of ₹ 3,75,000. He does not possess the adequate professional qualification commensurate with the salary received by him.

Shareholding of M/s M Pvt. Ltd. as on 31.3.2024 is as under

Particulars	Equity shares	Preference shares
Mr. Raghav	Nil	Nil
Mrs. Raghav	2%	2%
Mr. Jai Kishan (brother of Mrs. Raghav)	98%	75%

(iv) Mr. and Mrs. Raghav forms a partnership firm with equal share in profits. Mr. Raghav transferred a fixed deposit of ₹ 1 crore to such firm. Firm had no income or expense other than the interest of ₹ 9,00,000 received from such fixed deposit. Firm distributed the entire surplus to Mr. and Mrs. Raghav at the end of the year.

(v) Mr. Raghav holds preference shares in M/s K Pvt. Ltd. He instructed the company to pay dividends to Ms. Geetanshi, daughter of his servant. The transfer is irrevocable for the life time of Geetanshi. Dividend received by Ms. Geetanshi during the PY 2023-24 is ₹ 13,00,000.

(vi) Other income of Mr. Raghav includes

- Interest from saving bank account of ₹ 2,00,000 -

Cash gift of ₹ 75,000 received from daughter of his sister on his birthday.

Compute the total income of Mr. Raghav for the AY 2024-25.

Solution:

(a) Computation of Total Income of Mr. Raghav for A.Y. 2024-25.

Particulars	Amount (₹)	Amount (₹)
Income from Salary		

[Since Mrs. Raghav along with her brother holds shares carrying 100% voting power in M/s M Pvt. Ltd., they have a substantial interest in the company. Since Mr. Raghav is working in the same company without any professional qualifications commensurate with his salary, the salary of ₹ 3,75,000 received by him would be included in the hands of Mrs. Raghav.		
Income from house property		
House 1 [Self-occupied]		
Net annual value	2,00,000	(2,00,000)
Less: Interest on loan [upto ₹2,00,000]		
House 2 [Let out]	7,20,000	
Gross annual value (Note-1) [₹60,000 x 12]	-	
Less: Municipal taxes	7,20,000	
Net annual value		
Less: Deductions from Net Annual Value	2,16,000	
(a) 30% of Net Annual Value	5,00,000	4,000
(b) Interest on loan		
House in Delhi [Since Mr. Raghav receives direct or indirect benefit from income arising to his sister's daughter, Ms. Vamika, from the transfer of house to her without consideration, such income is to be included in the total income of Mr. Raghav as per proviso to section 62(1), even though the transfer may not be revocable during lifetime of Ms. Vamika's]	5,50,000	
Gross Annual Value (Note-2)	-	
Less: Municipal taxes	5,50,000	
Net Annual Value		
Less: Deductions from Net Annual Value	1,65,000	
(a) 30% of Net Annual Value	-	<u>3,85,000</u>
(b) Interest on loan		<u>1,89,000</u>
Income from Profits and gains from business or profession		
Share of profit from firm [Exempt u/s 10(2A)]		
Exempt income cannot be clubbed	3,00,000	
Income from other sources		
Dividend on preference shares exceeding ₹ 10,00,000 taxable under section 115BBDA [Taxable in the hands of Mr. Raghav as per section 60, since he transferred the income, i.e., dividend, without transferring the asset, i.e., preference shares]	7,50,000	
Interest on debentures	2,00,000	
Interest from saving bank account	<u>75,000</u>	<u>13,25,000</u>
Cash gift [Taxable, since sum of money exceeding ₹ 50,000 is received from his niece, who is not a relative as per section 56(2)]		<u>15,14,000</u>
Gross Total Income	1,50,000	
Less: Deduction under Chapter VI-A		
Deduction under section 80C [Principal repayment of loan ₹ 5 lakh, restricted to ₹ 1,50,000]	10,000	<u>1,60,000</u>
Deduction under section 80TTA [Interest from savings bank account]		<u>13,54,000</u>
Total Income		

(b)

- i) The rent or revenue derived from land situated in India and used for agricultural purposes would be agricultural income u/s 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). As per section 14A, no deduction is allowable in respect of exempt income.

- 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(1)(vi)(b), 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 u/s 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.

Note- 1. Rent receivable has been taken as the gross annual value in the absence of other information

Note-2. Rent receivable has been taken as the gross annual value in the absence of other information

Summary

Method of Accounting [Section 145]

Income chargeable under this head shall be computed in accordance with the method of accounting, either cash or mercantile basis, regularly and consistently employed by the assessee.

Income chargeable under this head [Section 28]

- (i) The profits and gains of any business or profession carried on by the assessee at any time during the previous year.
- (ii) Any compensation or other payment due to or received by a person, at or in connection with-
 - (a) Termination of his management or modification of the terms and conditions relating thereto, in case the person is managing the whole or substantially the whole of the affairs of an Indian company.
 - (b) Termination of his office or modification of the terms and conditions relating thereto, in case the person is managing the whole or substantially the whole of the affairs in India of any other company.
 - (c) Termination of agency or modification of the terms and conditions relating thereto, in case the person is holding an agency in India for any part of the activities relating to the business of any other person.
 - (d) Vesting in the Government or in any corporation owned and controlled by the Government, under any law for the time being in force, of the management of any property or business.
 - (e) Termination or the modification of the terms and conditions, of any contract relating to his business
- (iii) Income derived by a trade, professional or similar association from specific services performed for its member
- (iv) In the case of an assessee carrying on export business, the following incentives –
 - (a) Profit on sale of import entitlements;
 - (b) Cash assistance against exports under any scheme of GoI;
 - (c) Customs duty or excise re-paid or repayable as drawback;
 - (d) Profit on transfer of Duty Free Replenishment Certificate.
- (v) Value of any benefit or perquisite arising from business or the exercise of profession, whether
 - (a) convertible into money or not; or
 - (b) in cash or in kind or partly in cash and partly in kind.
- (vi) Any interest, salary, bonus, commission or remuneration due to, or received by, a partner of a firm from such firm (to the extent allowed as deduction in the hands of the firm). However, the partner's share in the total income of the firm or LLP is exempt from tax [Section 10(2A)].
- (vii) Any sum, received or receivable, in cash or kind under an agreement for –
 - (a) not carrying out any activity in relation to any business or profession; or
 - (b) not sharing any know-how, patent, copyright, trademark, licence, franchise or any other business or commercial right of similar nature or information or technique likely to assist in the manufacture or processing of goods or provision of services.
- (viii) Any sum received under a Keyman insurance policy including the sum allocated by way of bonus on such policy.
- (ix) Fair market value of inventory as on date on which it is converted into or treated as a capital asset.
- (x) Any sum, whether received or receivable, in cash or kind, on account of any capital asset (other than land or goodwill or financial instrument) being demolished, destroyed, discarded or transferred, in respect of which the whole of the expenditure had been allowed as deduction under section 35AD.

Computation of income under the head "Profits and gains of business or profession"

As per section 29, the income referred to in section 28 has to be computed in accordance with the provisions contained in sections 30 to 43D.

Admissible Deductions

Sec	Deduction
30	Amount paid on account of rent, rates, taxes, repairs (not including expenditure in the nature of capital expenditure) and insurance for buildings used for the purpose of business or profession. In case the premises are occupied by the assessee as a tenant, the amount of repairs would be allowed as deduction only if he has undertaken to bear the cost of repairs to the premises.
31	Amount paid on account for current repairs and insurance of machinery, plant and furniture used for the purpose of business or profession.

32	<p>Depreciation Depreciation is mandatorily allowable as deduction.</p> <p>Conditions for claiming depreciation</p> <ul style="list-style-type: none"> Asset must be used for the purpose of business or profession at any time during the previous year. <p>Note: If the asset is acquired during the previous year and is put to use for less than 180 days during that previous year then, only 50% of the depreciation calculated at the rates prescribed will be allowed.</p> <ul style="list-style-type: none"> The asset should be owned (wholly or partly) by the assessee. The depreciation shall be allowed on the written down value of block of assets at the prescribed rates (except in the case of assets of power generating units, in respect of which depreciation has to be calculated as a percentage of actual cost). <p>As per section 2(11), block of assets means a group of assets falling within a class of assets comprising:</p> <ol style="list-style-type: none"> tangible assets, being buildings, machinery, plant or furniture, intangible assets, being know-how, patents, copyrights, trademarks, licences, franchises or any other business or commercial rights of similar nature, not being goodwill of a business or profession; <p>in respect of which, the same rate of depreciation is prescribed.</p>
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Written Down Value of Assets (W.D.V.) [Section 43(6)]

(1)	W.D.V. of the block of assets in immediately preceding PY	xxx
(2)	Less: Depreciation actually allowed in respect of that block of assets in said preceding PY	xxx
Opening balance as on 1st April of the current P.Y.		xxx
Increased by		
(3)	Actual cost of assets acquired during the previous year, not being on account of acquisition of goodwill of a business or profession	xxx
(4)	Total (1) - (2) + (3)	xxx
Reduced by		
(5)	Money receivable in respect of any asset falling within the block which is sold, discarded, demolished or destroyed during that previous year together with scrap value. However, such amount cannot exceed the amount in (4).	xxx

(6)	In case of slump sale , actual cost of the asset (-) amount of depreciation that would have been allowable to the assessee for any assessment year as if the asset was the only asset in the block. However, such amount of reduction cannot exceed the WDV.	xxx
(7)	WDV at the end of the year (on which depreciation is allowable) [(4) – (5) – (6)]	xxx
(8)	Depreciation at the prescribed rate (Rate of Depreciation × WDV arrived at in (7) above)	xxx

Note – If the actual cost includes cost of asset put to use for less than 180 days in the relevant P.Y. of acquisition, then, depreciation on such cost would be 50% of the prescribed rate.

32(1)
(ia)

In case of an assessee exercising the option of shifting out of the default tax regime provided under section 115BAC(1A), additional depreciation at the rate of 20% of actual cost of plant or machinery acquired and installed by an assessee engaged in the business of manufacture or production of any article or thing or in the business of generation, transmission or distribution of power, shall be allowed. If plant and machinery is acquired and put to use for the purpose of business or profession for less than 180 days during the previous year in which it is acquired, additional depreciation will get restricted to 10% of actual cost (i.e., 50% of 20%). The balance additional depreciation @10% of actual cost will be allowed in the immediately succeeding previous year. However, additional depreciation will **not** be allowed on the following plant or machinery:

- Ships, aircraft, road transport vehicles, office appliances;
- Machinery previously used by any other person;
- Machinery installed in any office premises, residential accommodation, or guest house;
- Machinery in respect of which, the whole of the actual cost is fully allowed as deduction (whether by way of depreciation or otherwise) of any one previous year.

35

Expenditure on Scientific Research

Expenditure incurred by assessee [Allowable both under the default tax regime u/s 115BAC and the optional tax regime i.e., normal provisions of the Act]

1. Any revenue and capital expenditure (other than cost of acquisition of land) on scientific research for in-house research **related to its business** is allowable as deduction [Section 35(1)(i) & Section 35(1)(iv) read with section 35(2)].
2. Deduction is also allowed in respect of payment of salary or purchase of material inputs for such scientific research during 3 years immediately preceding the year of commencement of business. Such expenditure is deemed to have been incurred in the year of commencement of business and is, hence, allowed as deduction in that year [Section 35(1)(i)].
3. Capital expenditure incurred during 3 years immediately preceding the year of commencement of the business is also deemed to have been incurred in the year in which the business commences, and is hence, allowed as deduction in that year [Section 35(1)(iv) read with section 35(2)].

Unabsorbed capital expenditure on scientific research can be carried forward indefinitely for set-off against any income of the assessee other than Salaries.

Contributions to Outsiders [Allowable only if the assessee exercises the option of shifting out of the default tax regime provided under section 115BAC(1A)]

In case of an assessee exercises the option of shifting out of the default tax regime

provided under section 115BAC(1A) and paying tax as per the optional tax regime under the normal provisions of the Act, contributions made by any assessee to certain specified/ approved institutions shall be entitled to deduction of 100% of contribution made to:

Section	Association/University/Company/College/IIT
35(1)(ii)	Notified approved research association/university/college/ other institution for scientific research
35(1)(iia)	Approved notified Company for scientific research
35(1)(iii)	Notified approved research association/university/ college/ other institution for research in social science or statistical research
35(2AA)	Approved National Laboratory/ University/ IIT/ specified person to be used for scientific research undertaken under an approved programme

Note – Contribution to outsiders for scientific/ social science/ statistical research is not allowable under the default tax regime u/s 115BAC.

35AD This section provides for **investment-linked tax deduction** in respect of the following specified businesses commencing operations on or after the dates specified thereto, **if the assessee exercises the option of shifting out of the default tax regime provided u/s 115BAC(1A)** -

- setting-up and operating 'cold chain' facilities for specified products (commencing operations on or after 1.4.2009);
- setting-up and operating warehousing facilities for storing agricultural produce (commencing operations on or after 1.4.2009);
- laying and operating a cross-country natural gas or crude or petroleum oil pipeline network for distribution, including storage facilities being an integral part of such network (commencing operations on or after 1.4.2007);
- building and operating a hotel of two-star or above category, anywhere in India (commencing operations on or after 1.4.2010);
- building and operating a hospital, anywhere in India, with at least 100 beds for patients (commencing operations on or after 1.4.2010);
- developing and building a housing project under a notified scheme for slum redevelopment or rehabilitation framed by the Central Government or a State Government (commencing operations on or after 1.4.2010);
- developing and building a housing project under a notified scheme for affordable housing framed by the Central Government or State Government (commencing operations on or after 1.4.2011);
- production of fertilizer in India (commencing operations on or after 1.4.2011);
- setting up and operating an inland container depot or a container freight station notified or approved under the Customs Act, 1962 (commencing operations on or after 1.4.2012);
- bee-keeping and production of honey and beeswax (commencing operations on or after 1.4.2012);
- setting up and operating a warehousing facility for storage of sugar (commencing operations on or after 1.4.2012);
- laying and operating a slurry pipeline for transportation of iron-ore (commencing operations on or after 1.4.2014);
- setting up and operating a semiconductor wafer fabrication manufacturing unit, if such unit is notified by the Board in accordance with the prescribed guidelines (commencing operations on or after 1.4.2014).
- developing or maintaining and operating or developing, maintaining and operating a new infrastructure facility (commencing operations on or after 1.4.2017)

Quantum of deduction - 100% of the capital expenditure (other than expenditure on acquisition of any land, goodwill or financial instrument)

incurred during the previous year, **wholly and exclusively for the above specified businesses** would be allowed as deduction from the business income of an assessee, if he has opted for the provisions of section 35AD.

Further, the expenditure incurred, wholly and exclusively, for the purpose of specified business **prior to commencement of operation** would be allowed as deduction during the previous year in which the assessee commences operation of his specified business, provided the amount incurred prior to commencement has been **capitalized in the books of account of the assessee on the date of commencement of its operations.**

Payment exceeding ₹ 10,000 to be made through prescribed electronic modes to qualify for deduction u/s 35AD - Any expenditure in respect of which payment or aggregate of payment made to a person of an amount exceeding ₹ 10,000 in a day otherwise than by account payee cheque drawn on a bank or an account payee bank draft or use of electronic clearing system through a bank account or through such other prescribed electronic modes would not be eligible for deduction.

Non-eligibility for deduction u/s 10AA or Chapter VI-A - An assessee availing investment-linked tax deduction u/s 35AD in respect of any specified business in any assessment year, is not eligible for claiming profit-linked deduction under Chapter VI-A or section 10AA for the same or any other A.Y. in respect of such specified business if the assessee has claimed or opted for section 35AD and deduction thereunder has been allowed to him.

Asset to be used only for specified business for 8 years - Any asset in respect of which a deduction is claimed and allowed under section 35AD shall be **used only for the specified business**, for a period of 8 years beginning with the previous year in which such asset is acquired or constructed. If such asset is used for any purpose other than the specified business, **the total amount of deduction so claimed and allowed u/s 35AD** in any previous year in respect of such asset, as **reduced by the depreciation** allowable under section 32 as if no deduction had been allowed under section 35AD, shall be **deemed to be the business income of the assessee** of the previous year in which the asset is so used.

Note – This deduction is not allowable under the default tax regime u/s 115BAC.

35D **Preliminary expenditure incurred by Indian companies and other resident non-corporate assessee**s shall be allowed as deduction over a period of **5 years** beginning with the previous year in which business commences or in which extension of the undertaking is completed or the new unit commences operation or productions.

Examples of Preliminary expenses – expenses on preparation of project report, feasibility report, market survey, engineering services, legal charges for drafting agreement.

In case of a Company, preliminary expenses would include, in addition to the above, legal charges for drafting MOA, AOA, printing of MOA and AOA, fee for registration of Co., expenditure in connection with issue of shares or debentures of Co. (i.e. underwriting commission, brokerage and charges for drafting, typing, printing and advertisement of the prospectus)

Qualifying amount - Maximum aggregate amount of the qualifying expenses that can be amortized is **5% of the cost of project** (i.e., actual cost of fixed assets in the books of account on the last day of the P.Y.).

In case of an Indian company, **5% of the cost of project or at its option, 5% of the capital employed by the company** (aggregate of issued share capital, debentures, long-term borrowings as on the last day of the P.Y.), **whichever is higher.**

35 DDA	One-fifth of the expenditure incurred by an assessee- employer in any previous year in the form of payment to any employee in connection with his voluntary retirement in accordance with a scheme of voluntary retirement, shall be allowed as deduction in that previous year and the balance in four equal installments in the immediately four succeeding previous year
36(1) (iii)	Interest paid in respect of capital borrowed for the purposes of business or profession. However, any interest paid for acquisition of an asset (whether capitalized in the books of account or not) for any period beginning from the date on which the capital was borrowed for acquisition of the asset till the date on which such asset was first put to use, shall not be allowed as deduction. Such amount of interest would be added to the actual cost of asset.
36(1) (iv)	Any sum paid by the assessee as an employer by way of contribution towards a recognized provident fund or approved superannuation fund.
36(1) (iva)	Any sum paid by the assessee as an employer by way of contribution towards a pension scheme referred to in sec. 80CCD, to the extent of 10% of salary of any employee. Salary includes DA, if the terms of employment so provide. Correspondingly, sec 40A(9) disallows the sum paid in excess of 10% of the salary of any employee.
36(1) (v)	Any sum paid by the assessee as an employer by way of contribution towards an approved gratuity fund created by him for the exclusive benefit of his employees under an irrevocable trust.
36(1) (va)	Amount received by assessee-employer as contribution from his employees towards their welfare fund to be allowed as deduction only if such amount is credited by the assessee to the employee's account in the relevant fund on or before due date under the relevant Act/Rule/order/notification. Amount credited after the said due date but on or before the due date under section 139(1) would not be eligible for deduction.
36(1) (vii)	Any bad debts written off as irrecoverable in the accounts of the assessee for the previous year, provided the debt has been taken into account in computing the income of the previous year or any earlier previous year. Amount of debt taken into account in computing the income of the assessee on the basis of notified ICDSs to be allowed as deduction in the previous year in which such debt or part thereof becomes irrecoverable. If a debt, which has not been recognized in the books of account as per the requirement of the accounting standards but has been taken into account in the computation of income as per the notified ICDSs, has become irrecoverable, it can still be claimed as bad debts under section 36(1)(vii) since it shall be deemed that the debt has been written off as irrecoverable in the books of account by virtue of the second proviso to section 36(1)(vii). This is because some ICDSs require recognition of income at an earlier point of time (prior to the point of time such income is recognised in the books of account). Consequently, if the whole or part of such income recognised at an earlier point of time for tax purposes becomes irrecoverable, it can be claimed as bad debts on account of the second proviso to section 36(1)(vii).
36(1) (ix)	Any bona fide expenditure incurred by a company for the purpose of promoting family planning amongst its employees. In case the expenditure or part thereof is of capital nature, one-fifth of such expenditure shall be deducted for the previous year in which it was incurred; and the balance in four equal installments in four succeeding previous year Family planning expenses, whether revenue or capital, is not allowable as deduction for non-corporate assesses, like individuals, HUFs, firms, LLPs.
36(1) (xv)	An amount equal to the securities transaction tax (STT) paid by the assessee in respect of taxable securities transactions entered into in the course of his business during the previous year, if the income arising from such taxable securities transactions is included in the income computed under the head "Profits and gains of business or profession".

36(1) (xvi)	An amount equal to commodities transaction tax (CTT) paid in respect of taxable commodities transactions entered into the course of business during the previous year, if the income arising from such taxable commodities transactions is included in the income computed under the head "Profits and gains of business or profession".
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General

37(1)	<p>An expenditure shall be allowed under section 37, provided:</p> <ul style="list-style-type: none"> it is not in the nature of expenditure described under sections 30 to 36; it is not in the nature of capital expenditure; it is not a personal expenditure of the assessee; it is laid out and expended wholly and exclusively for the purpose of business/profession; it is not incurred for any purpose which is an offence or which is prohibited by law; and it is not an expenditure incurred by the assessee on CSR activities referred to in section 135 of the Companies Act, 2013. <p>Expenditure incurred for any purpose which is an offence or which is prohibited by law" would include and would be deemed to have always included the expenditure incurred by an assessee, -</p> <ol style="list-style-type: none"> for any purpose which is an offence under any law for the time being in force, in India or outside India or which is prohibited by any law for the time being in force, in India or outside India; or to provide any benefit or perquisite to a person, whether or not carrying on a business or exercising a profession, and acceptance of such benefit or perquisite by such person is in violation of any law or rule or regulation or guidelines, as the case may be, for the time being in force, governing the conduct of such person; or to compound an offence under any law for the time being in force, in India or outside India.
37 (2B)	Any expenditure incurred for advertisement in any souvenir, brochure, tract, pamphlet etc. published by a political party is not allowable as deduction.

Amounts not deductible

Sec.	Particulars
In hands of assessee	
40(a) (i)	Any interest, royalty, fees for technical services or other sum chargeable under the Act, which is payable outside India or in India to a non-corporate non-resident or to a foreign company, on which tax deductible at source has not been deducted or after deduction has not been paid on or before the due date specified u/s 139(1) . However, if such tax has been deducted in any subsequent year or has been deducted in the previous year but paid in the subsequent year after the due date specified under section 139(1), such sum shall be allowed as deduction in computing the income of the previous year in which such tax is paid.
40(a) (ia)	30% of any sum payable to a resident on which tax is deductible at source under Chapter XVII-B and such tax has not been deducted or, after deduction has not been paid on or before the due date for filing of return of income u/s 139(1) . However, if such tax has been deducted in any subsequent year or has been deducted in the previous year but paid in the subsequent year after the due date specified under section 139(1), 30% of such sum shall be allowed as deduction in computing the income of the previous year in which such tax is paid.
40(a) (ii)	Any sum paid on account of income-tax including surcharge & cess

40(a) (iii)	Any payment chargeable under the head “Salaries”, if it is payable outside India or to a non-resident, if tax has not been paid thereon nor deducted therefrom
40(a) (v)	Tax paid by the employer on non-monetary perquisites provided to its employees, which is exempt under section 10(10CC) in the hands of the employee.

In case of partnership firms or LLPs -

40(b) (i)	(i) Salary, bonus, commission or remuneration, by whatever name called, paid to any partner who is not a working partner;						
	(ii) Payment of remuneration to a working partner or interest to any partner, which is not – <ul style="list-style-type: none"> • authorized by the partnership deed; or • in accordance with the terms of the partnership deed. 						
	(iii) Payment of remuneration to a working partner or interest to any partner authorized by and in accordance with the terms of the partnership deed, but relates to a period falling prior to the date of such partnership and is not authorized by the earlier partnership deed.						
	(iv) Payment of interest to any partner authorised by and in accordance with the terms of the partnership deed and falling after the date of the partnership deed to the extent of the excess of the amount calculated at 12% simple interest per annum.						
	(v) Payment of remuneration to a working partner which is authorized by and in accordance with the partnership deed to the extent the aggregate of such payment to working partners exceed the following limits –						
	<table border="1"> <tr> <td>(a)</td> <td>On the first ₹ 3,00,000 of the book-profit or in case of a loss</td> <td>₹ 1,50,000 or 90% of the book-profit, whichever is more.</td> </tr> <tr> <td>(b)</td> <td>On the balance of book- profit</td> <td>60%</td> </tr> </table>	(a)	On the first ₹ 3,00,000 of the book-profit or in case of a loss	₹ 1,50,000 or 90% of the book-profit, whichever is more.	(b)	On the balance of book- profit	60%
(a)	On the first ₹ 3,00,000 of the book-profit or in case of a loss	₹ 1,50,000 or 90% of the book-profit, whichever is more.					
(b)	On the balance of book- profit	60%					

Meaning of Book profit:

Book profit means the **net profit as shown in the P & L A/c** for the relevant PY computed in accordance with the provisions for computing income from profits and gains. The above amount should be **increased by the remuneration** paid or payable to all partners of the firm if the same has been deducted while computing net profit.

Expenses or payments not deductible in certain circumstances

Sec	Particulars												
40A (2)	Any expenditure incurred in respect of which a payment is made to a related person or entity , to the extent it is considered excessive or unreasonable by the Assessing Officer . Few examples of related persons are as under: <table border="1"> <thead> <tr> <th>Assessee</th> <th>Related Person</th> </tr> </thead> <tbody> <tr> <td>Individual</td> <td>Any relative of the individual (husband or wife, brother or sister, any lineal ascendant or descendant of the individual)</td> </tr> <tr> <td>Firm</td> <td>Any partner of the firm or relative of such partner</td> </tr> <tr> <td>HUF or AOP</td> <td>Any member of the AOP or HUF or any relative of such member</td> </tr> <tr> <td>Company</td> <td>Director of the company or any relative of the director</td> </tr> <tr> <td>Any assessee</td> <td>Any individual who has a substantial interest (20% or more voting power or beneficial entitlement to 20% of profits) in the business or profession of the assessee; or A relative of such individual.</td> </tr> </tbody> </table>	Assessee	Related Person	Individual	Any relative of the individual (husband or wife, brother or sister, any lineal ascendant or descendant of the individual)	Firm	Any partner of the firm or relative of such partner	HUF or AOP	Any member of the AOP or HUF or any relative of such member	Company	Director of the company or any relative of the director	Any assessee	Any individual who has a substantial interest (20% or more voting power or beneficial entitlement to 20% of profits) in the business or profession of the assessee; or A relative of such individual.
Assessee	Related Person												
Individual	Any relative of the individual (husband or wife, brother or sister, any lineal ascendant or descendant of the individual)												
Firm	Any partner of the firm or relative of such partner												
HUF or AOP	Any member of the AOP or HUF or any relative of such member												
Company	Director of the company or any relative of the director												
Any assessee	Any individual who has a substantial interest (20% or more voting power or beneficial entitlement to 20% of profits) in the business or profession of the assessee; or A relative of such individual.												
40A (3)	Any expenditure, in respect of which a payment or aggregate of payments made to a person in a single day otherwise than by account payee cheque or account payee bank												

	<p>draft or ECS through bank account or through such other prescribed electronic modes exceeds ₹ 10,000.</p> <p>In case of payments made to transport operator for plying, hiring or leasing goods carriages, an enhanced limit of ₹ 35,000 shall apply.</p> <p>If the payment/payments exceed this limit, the entire expenditure would be disallowed. However, disallowance would not be attracted if the cases and circumstances in which payment is made otherwise than by way of an account payee cheque or bank draft are covered in Rule 6DD.</p> <p>Few Examples of exceptions covered in Rule 6DD:</p> <p>Payment to RBI, SBI, Co-operative banks</p> <p>Payment made to Government, which according to its Rules, has to be made in legal tender</p> <p>Payment for purchase of agricultural produce, forest produce, fish and fish products, productions of horticulture or apiculture to the cultivator, grower or producer of such produce or products.</p>
40A (3A)	<p>Where an expenditure has been allowed as deduction on accrual basis in any previous year, and payment is made in a subsequent previous year otherwise than by account payee cheque or account payee bank draft or ECS through bank account or through such other prescribed electronic modes and such payment (or aggregate of payments made to a person in a day is made in a subsequent previous year) is in excess of the limits of ₹ 10,000/ ₹ 35,000 specified above, the payment/aggregate of payments so made shall be deemed as profits and gains of the business or profession and charged to tax as income of the subsequent previous year.</p> <p>However, the deeming provision will not apply in the cases and circumstances covered in Rule 6DD.</p>
40A (7)	<p>Provision for payment of gratuity to employees.</p> <p>However, disallowance would not be attracted if provision is made for contribution to approved gratuity fund or for payment of gratuity that has become payable during the year.</p>
Profits chargeable to tax [Section 41]	
41(1)	<p>Where deduction was allowed in respect of loss, expenditure or trading liability for any year and subsequently, during any previous year, the assessee or successor of the business has obtained any amount in respect of such loss or expenditure or some benefit in respect of such trading liability by way of remission or cessation thereof, the amount obtained or the value of benefit accrued shall be deemed to be income of the P.Y. in which such benefit was obtained.</p>
41(3)	<p>Amount realized on transfer of an asset used for scientific research without being used for other purposes is taxable as business income in the year of sale to the extent of lower of –</p> <ul style="list-style-type: none"> - deduction allowed under section 35(1)(iv); and - sale proceeds.
41(4)	<p>Any amount recovered by the assessee against bad debt earlier allowed as deduction shall be taxed as income in the year in which it is received.</p>
Certain Deductions to be allowed only on Actual Payment [Section 43B]	
<p>In respect of the following sums payable by an assessee during the P.Y., deduction is allowable only if the sum is actually paid on or before the due date of filing of return u/s 139(1) for the said P.Y. Otherwise, the same would be allowed only in the year in which the sum is actually paid.</p>	
(i)	<p>Tax, duty, cess or fee, under any law for the time being in force; or</p>

(ii)	Contribution to any provident fund or superannuation fund or gratuity fund or any other fund for the welfare of employees; or
(iii)	Bonus or commission for services rendered by employees, where such sum would not have been payable to him as profits or dividend if it had not been paid as bonus or commission; or
(iv)	Interest on any loan or borrowing from any public financial institution or a State Financial Corporation or a State Industrial Investment Corporation , in accordance with the terms and conditions of the agreement governing such loan or borrowing; or
(v)	Interest on any loan or borrowing from notified class of non-banking financial companies , in accordance with the terms and conditions of the agreement governing such loan or borrowing
(vi)	Interest on any loan or advance from a scheduled bank or co-operative bank other than a primary agricultural credit society or a primary co-operative agricultural and rural development bank in accordance with the terms and conditions of the agreement governing such loan or advances; or
(vii)	Payment in lieu of any leave at the credit of his employee.
(viii)	Any sum payable to the Indian Railways for use of Railway assets.

However, any sum payable by the assessee to a micro or small enterprise beyond the time-limit specified in section 15 of the Micro, Small and Medium Enterprises Development Act, 2006 would be allowed as deduction only in the P.Y. in which the sum is actually paid.

Section 15 of the of the Micro, Small and Medium Enterprises Development Act, 2006 mandates payment of goods or services to supplier, being a micro or small enterprises on or before the date as per the written agreement, which cannot be more than 45 days. If there is no such written agreement, the payment shall be made before the appointed day i.e., within 15 days.

If the sum is paid within the said period, deduction would be allowed in the year of accrual. If it is paid after the said period, then, deduction would be allowed only in the year of actual payment, even if it is paid on or before the due date of filing return of income u/s 139(1).

Other Provisions

Sec.	Particulars
43CA	Where the consideration for the transfer of an asset (other than capital asset), being land or building or both, is less than the stamp duty value, the value so adopted or assessed or assessable (i.e., the stamp duty value) shall be deemed to be the full value of the consideration for the purposes of computing income under the head "Profits and gains of business or profession". However, if the stamp duty value does not exceed 110% of the actual consideration received or accruing then, such consideration shall be deemed to be the full value of consideration for the purpose of computing profits and gains from transfer of such asset. Further, where the date of an agreement fixing the value of consideration for the transfer of the asset and the date of registration of the transfer of the asset are not same, the stamp duty value may be taken as on the date of the agreement for transfer instead of on the date of registration for such transfer, provided at least a part of the consideration has been received by way of an account payee cheque/ account payee bank draft or use of ECS through a bank account or through such other prescribed electronic modes on or before the date of the agreement.
44 AB	Mandatory audit of accounts of certain persons
(1)	Category of person (2)
(1)	Condition for applicability of section 44AB (3)

I		In case of person carrying on business
(a)	In case of a person carrying on business	If his total sales, turnover or gross receipts in business > ₹ 1 crore in the relevant PY Note – The requirement of audit u/s 44AB does not apply to a person who declares profits and gains for the previous year on presumptive basis u/s 44AD(1).
	If in case of such person carrying on business – (i) Aggregate cash receipts in the relevant PY ≤ 5% of total receipts (incl. receipts for sales, turnover, gross receipts); and (ii) Aggregate cash payments in the relevant PY ≤ 5% of total payments (incl. amount incurred for expenditure)	If his total sales, turnover or gross receipts in business > ₹ 10 crore in the relevant PY
	Note – For this purpose, the payment or receipt, as the case may be, by a cheque drawn on a bank or by a bank draft, which is not account payee, would be deemed to be the payment or receipt, as the case may be, in cash.	
(b)	In case of an assessee covered u/s 44AE i.e., an assessee engaged in the business of plying, hiring or leasing goods carriages who owns not more than 10 goods carriages at any time during the P.Y.	If such assessee claims that the profits and gains from business in the relevant P.Y. are lower than the profits and gains computed on a presumptive basis u/s 44AE [i.e., ₹ 1000 per ton of gross vehicle weight or unladen weight in case of each heavy goods vehicle and ₹ 7,500 for each vehicle, other than heavy goods vehicle, for every month or part of the month for which the vehicle is owned by the assessee].
(c)	In case of an eligible assessee carrying on business, whose total turnover, sales, gross receipts ≤ ₹ 200 lakhs, and who has opted for section 44AD in any earlier PY (say, P.Y.2022-23)	If he declares profit for any of the five successive PYs (say, P.Y.2023-24) not in accordance with section 44AD (i.e., he declares profits lower than 8% or 6% of total turnover, sales or gross receipts, as the case may be, in that year), then he cannot opt for section 44AD for five successive PYs after the year of such default (i.e., from P.Y.2024-25 to P.Y.2028-29). For the year of default (i.e., P.Y.2023-24) and five successive previous years (i.e., P.Y.2024-25 to P.Y.2028-29), he has to maintain books of account u/s 44AA and get them audited u/s 44AB, if his income exceeds the basic exemption limit.
	In case of an eligible assessee carrying on business, whose aggregate cash receipts in the relevant PY ≤ 5% of total turnover or gross receipts and whose total turnover, sales, gross receipts ≤ ₹ 300 lakhs, and who has opted for section 44AD in any earlier PY (say, P.Y.2022-23)	
II		In case of persons carrying on profession
(a)	In case of person carrying on profession	If his gross receipts in profession > ₹ 50 lakh in the relevant PY Note – The requirement of audit u/s 44AB does not apply to a person who declares profits and gains for the previous year on presumptive basis u/s 44ADA(1).

(b)	In case of an assessee carrying on a notified profession under section 44AA(1) i.e., legal medical, engineering, accountancy, architecture, interior decoration, technical consultancy, whose gross receipts \leq ₹ 50 lakhs	If such resident assessee claims that the profits and gains from such profession in the relevant PY are lower than the profits and gains computed on a presumptive basis u/s 44ADA (50% of gross receipts) and his income exceeds the basic exemption limit in that PY.
	In case of an assessee carrying on a notified profession u/s 44AA(1) i.e., legal medical, engineering, accountancy, architecture, interior decoration, technical consultancy, whose aggregate cash receipts in the relevant PY \leq 5% of total gross receipts and whose gross receipts \leq ₹ 75 lakhs.	

Presumptive Income provisions		
Sec.	Particulars	Deemed Profits and Gains
44 AD	<p>Any individual, HUF or firm who is a resident (other than LLP) who has not claimed deduction under section 10AA or Chapter VI-A under the heading "C – Deductions in respect of certain incomes" engaged in any business (except the business of plying, hiring or leasing goods carriages referred to in section 44AE) and whose total turnover or gross receipts in the previous year does not exceed ₹ 2 crore. If aggregate cash receipts in the relevant PY \leq 5% of total turnover or gross receipts of the assessee, higher turnover threshold of ₹ 3 crore would be applicable.</p> <p>Non-applicability of section 44AD This section will not apply to –</p> <p>(i) a person carrying on specified professions referred to in section 44AA(1),</p> <p>(ii) a person earning income in the nature of commission or brokerage;</p> <p>(iii) a person carrying on agency business.</p>	<p>8% of gross receipts or total turnover or such higher sum claimed to have been earned by him</p> <p>However, the presumptive income would be 6% (instead of 8%) of total turnover or sales, in respect of amount which is received</p> <ul style="list-style-type: none"> • by an account payee cheque or • by an account payee bank draft or • by use of electronic clearing system through a bank account or • through such other prescribed electronic modes <p>during the previous year or before the due date of filing of return u/s 139(1) in respect of that previous year.</p>
44A DA	<p>An assessee, being an individual or a partnership firm (other than LLP) resident in India, who is engaged –</p> <p>in any profession referred to in section 44AA(1) such as legal, medical, engineering or architectural profession or the profession of accountancy or technical consultancy or interior decoration or any other profession as is</p>	<p>50% of the gross receipts or such higher sum claimed to have been earned by him.</p>

	<p>notified by the Board in the Official Gazette; and whose total gross receipts does not exceed ₹ 50 lakhs in a previous year.</p> <p>If aggregate cash receipts in the relevant PY \leq 5% of total turnover or gross receipts of the assessee, a higher gross receipts threshold of ₹ 75 lakhs would be applicable.</p>	
44 AE	<p>Any assessee who owns not more than ten goods carriages at any time during the previous year and who is engaged in the business of plying, hiring and leasing goods carriages.</p>	<p>For each heavy goods vehicle, ₹ 1,000 per ton of gross vehicle weight or unladen weight, as the case may be, for every month or part of a month during which the vehicle is owned by the assessee.</p> <p>For each vehicle, other than heavy goods vehicle, ₹ 7,500 per month or part of a month during which such vehicle is owned by the assessee (or) an amount claimed to have been actually earned from such vehicle, whichever is higher.</p>

Taxability in case of composite income

In cases where income is derived from the sale of rubber manufactured or processed from rubber plants grown by the seller in India, coffee grown and cured/grown, cured, roasted and grounded by the seller in India, or tea grown and manufactured by the seller in India, the income shall be computed as if it were income derived from business, and a specified percentage of such income, as given in the table below, shall be deemed to be income liable to tax -

Rule	Nature of composite income	Business income (Taxable)	Agricultural Income (Exempt)
7A	Income from sale of rubber products derived from rubber plants grown by the seller in India	35%	65%
7B	Income from sale of coffee - grown and cured by the seller in India - grown, cured, roasted and grounded by the seller in India	25% 40%	75% 60%
8	Income from sale of tea grown and manufactured by the seller in India	40%	60%

Question 1: Based on additional depreciation

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

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

Solution: Computation of depreciation allowable for the A.Y. 2024-25

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

Notes:

- As per section 35(2)(iv), no depreciation shall be allowed in respect of plant and machinery purchased for scientific research relating to assessee's business, since deduction is allowable under section 35 in respect of such capital expenditure.
- Mr. Gamma is entitled to additional depreciation since he has exercised the option of shifting out of the default tax regime provided u/s 115BAC(1A). As per section 32(1)(ia), additional depreciation is allowable in the case of any new machinery or plant acquired and installed after 31.3.2005 by an assessee engaged in, inter alia, the business of manufacture or production of any article or thing, at the rate of 20% of the actual cost of such machinery or plant.
However, additional depreciation shall not be allowed in respect of, inter alia, –
 - any machinery or plant which, before its installation by the assessee, was used either within or outside India by any other person;
 - any machinery or plant, the whole of the actual cost of which is allowed as a deduction (whether by way of depreciation or otherwise) in computing the income chargeable under the head "Profit and gains of business or profession" of any one previous year.
 In view of the above provisions, additional depreciation cannot be claimed in respect of -
 - Second hand plant and machinery;
 - New plant and machinery purchased for scientific research relating to assessee's business in respect of which the whole of the capital expenditure can be claimed as deduction under section 35(1)(iv) read with section 35(2)(ia) & (iv).

Question 2: What are the conditions to be satisfied for the allowability of expenditure u/s 37 of the IT Act, 1961?

Solution:

The following conditions are to be fulfilled for the allow ability of expenditure under section 37

- The expenditure should not be of the nature described in section 30 to 36;
- It should not be in the nature of personal expenditure of the assessee;
- The expenditure should have been laid out or expended wholly or exclusively for the purposes of the business or profession;
- It should not be in the nature of a capital expenditure;
- It should not have been incurred for any propose which is an offence.

No deduction is allowable for expenditure incurred by the assessee on advertisement in any souvenir, brochure, tract pamphlet or the like published by a political party [Section 37(2B)]

As per Explanation 2 to Section 37(1), any expenditure incurred by the assessee on the activities relating to Corporate Social Responsibility referred to in Section 135 of the Companies Act,

2013 shall not be deemed to be an expenditure incurred for the purpose of business or profession. Hence, such expenditure shall be disallowed while computing total income.

Question 3: Based on Deduction u/s 36, 40A(3), 43B

State, with reasons, the allowability of the following expenses under the IT Act, 1961, as deduction, while computing income from PGBP for the AY 2024-25:

- (i) XYZ Credit Corporation, a non-banking finance company, made provision for bad and doubtful debts in the books of account for the year ended 31.3.2024.
- (ii) On 14.5.2023, ABC Ltd. paid 45,000 to the Indian Railways for the use of railway assets pertaining to PY 2023-24.
- (iii) MNO Ltd. Paid 55,000 as tax on non-monetary perquisite provided to an employee.
- (iv) 32,000 paid by S Ltd. in cash on 28.3.2024 to a transporter (owning 8 goods carriages throughout the PY) for carriage of goods, without deduction of tax at source.
- (v) P Ltd. paid 80,000 in cash for purchase of wheat from a farmer on a banking day.

Solution:

- (i) **Allowable as deduction:** As per sec. 36(1)(viiia)(d), deduction is allowed to a non-banking financial company on account of provision for bad and doubtful debts of an amount not exceeding 5% of total income (before making any deduction u/s 36(1)(viiia) & Chapter VI-A). Accordingly, XYZ Credit Corporation, a non-banking finance company would be eligible for deduction in respect of provision for bad and doubtful debt provided such amount does not exceed 5% of total Income (before making any deduction u/s 36(1)(viiia) and Chapter VI-A).
- (ii) **Allowable as deduction:** As per section 43B, the allowability of deduction in respect of any sum payable by an assessee to the Indian Railways for use of Railway Assets is subject to actual payment of such sum on or before the due date of filing return of income u/s 139(1). Thus, in the present case, 45,000 paid by ABC Ltd. to Indian Railways for use of railway assets would be allowed as deduction while computing the business income for the previous year, since such payment is made on or before the due date for filing return of income for the previous year, being the year in which such liability incurred.
- (iii) **Not allowable as deduction:** Income-tax paid by the employer in respect of non-monetary perquisites provided to its employees is exempt in the hands of the employee u/s 10(10CC). As per section 40(a)(v), such income-tax paid by the employer is not deductible while computing business income.
Therefore, income-tax of 55,000 paid by the MNO Ltd. in respect of non-monetary perquisites provided to an employee would not be allowed as deduction while computing its business income.
- (iv) **Allowable as deduction:** The limit for attracting disallowance under section 40A(3) for payment otherwise than by way of account payee cheque or account payee bank draft is 35,000 in case of payment made for plying, hiring or leasing goods carriage to a transporter. Therefore, in the present case, no disallowance u/s 40A(3) would be attracted in the hands of S Ltd. in respect of payment of ₹ 32,000 made in cash for carriage of goods to a transporter. Further, disallowance u/s 40(a)(ia) for non-deduction of tax at source would also not be attracted, since the provisions for deduction of tax at source under section 194C are not applicable, in case of a transporter owning not more than 10 goods carriages at any time during the previous year.
- (v) **Allowable as deduction:** As per Rule 6DD, in case the payment is made for purchase of agricultural produce directly to the cultivator, grower or producer of such agricultural produce, no disallowance u/s 40A(3) is attracted even if the cash payment for the expense exceeds ₹ 10,000. Therefore, disallowance u/s 40A(3) would not be attracted in this case, since cash payment for purchase of wheat is made directly to the farmer.

Question 4: Based on Depreciation

Mr. X, a proprietor engaged in manufacturing business, furnishes the following particulars:

	Particulars	₹
(1)	Opening WDV of plant and machinery as on 1.4.2023	30,00,000
(2)	New plant and machinery purchased and put to use on 8.06.2023	20,00,000
(3)	New plant and machinery acquired and put to use on 15.12.2023	8,00,000
(4)	Computer acquired and installed in the office premises on 2.1.2023	3,00,000

Compute the amount of depreciation and additional depreciation as per the IT Act, 1961 for the A.Y. 2024-25. Assume that all the assets were purchased by way of account payee cheque.

Solution: Computation of depreciation and additional depreciation for A.Y. 2024-25

Particulars	P&M ₹ (15%)	Computer ₹ (40%)
Normal depreciation		
@15% on ₹ 50,00,000 [See Working Notes 1& 2]	7,50,000	-
@7.5% (50% of 15%, since put to use for less than 180 days) on ₹ 8,00,000	60,000	-
@20% (50% of 40%, since put to use for less than 180 days) on ₹ 3,00,000	-	60,000
Additional Depreciation		
@20% on ₹ 20,00,000 (new plant and machinery put to use for more than 180 days)	4,00,000	-
@10% (50% of 20%, since put to use for less than 180 days) on ₹ 8,00,000	80,000	-
Total depreciation	12,90,000	60,000

WN: (1) Computation of written down value of Plant & Machinery as on 31.03.2024.

Particulars	P & M (₹)	Computer (₹)
Written down value as on 1.4.2023	30,00,000	-
Add: Plant & Machinery purchased on 08.6.2023	20,00,000	-
Add: Plant & Machinery acquired on 15.12.2023	8,00,000	-
Computer acquired and installed in the office premises	-	3,00,000
Written down value as on 31.03.2024	58,00,000	3,00,000

(2) Composition of plant and machinery included in the WDV as on 31.3.2024.

Particulars	P & M (₹)	Computer (₹)
Plant and machinery put to use for 180 days or more [₹ 30,00,000 (Opening WDV) + ₹ 20,00,000 (purchased on 8.6.2023)]	50,00,000	-
Plant and machinery put to use for less than 180 days	8,00,000	-
Computers put to use for less than 180 days	-	3,00,000
Total	58,00,000	3,00,000

Notes:

1. As per the second proviso to section 32(1)(ii), where an asset acquired during the previous year is put to use for less than 180 days in that previous year, the amount of deduction allowable as normal depreciation and additional depreciation would be restricted to 50% of amount computed in accordance with the prescribed percentage.

Therefore, normal depreciation on plant and machinery acquired and put to use on 15.12.2023 and computer acquired and installed on 02.01.2024, is restricted to 50% of 15% and 40%, respectively. The additional depreciation on the said plant and machinery is restricted to ₹ 80,000, being 10% (i.e., 50% of 20%) of ₹ 8 lakh

2. As per third proviso to section 32(1)(ii), the balance additional depreciation of ₹ 80,000 being 50% of ₹ 1,60,000 (20% of ₹ 8,00,000) would be allowed as deduction in the A.Y.2024-25.

3. As per section 32(1)(ia), additional depreciation is allowable in the case of any new machinery or plant acquired and installed after 31.3.2006 by an assessee engaged, inter alia, in the business of manufacture or production of any article or thing, @20% of the actual cost of such machinery or plant.

However, additional depreciation shall not be allowed in respect of, inter alia, any machinery or plant installed in office premises, residential accommodation or in any guest house.

Accordingly, additional depreciation is not allowable on computer installed in the office premises.

Question 5: Based on Depreciation

A newly qualified Chartered Accountant Mr. Dhaval, commenced practice and has acquired the following assets in his office during F.Y. 2023-24 at the cost shown against each item. Calculate the amount of depreciation that can be claimed from his professional income for A.Y.2024-25. Assume that all the assets were purchased by way of account payee cheque.

Sl. No.	Description	Date of acquisition	Date when put to use	Amount ₹
1.	Computer including computer software	27 Sept.23	1 Oct. 23	35,000
2.	Computer UPS	2 Oct.23	8 Oct. 23	8,500
3.	Computer printer	1 Oct.23	1 Oct. 23	12,500
4.	Books (other than annual publications are of ₹ 12,000)	1 Apr.23	1 Apr. 23	13,000
5.	Office furniture (Acquired from a practicing C.A.)	1 Apr.23	1 Apr. 23	3,00,000
6.	Laptop	26 Sep.23	8 Oct. 23	43,000

Solution: Computation of depreciation allowable for A.Y.2024-25

Asset	Rate	Depreciation (₹)
Block 1 Furniture [See working note below]	10%	30,000
Block 2 Plant (Computer including computer software, Computer UPS, Laptop, Printers and Books) [See working note below]	40%	34,500
Total depreciation allowable		64,500

Working Note:**Computation of depreciation:**

Block of Assets	₹
Block 1: Furniture – [Rate of depreciation - 10%] Put to use for more than 180 days [₹3,00,000@10%]	30,000
Block 2: Plant [Rate of depreciation- 40%]	30,000
(a) Computer including computer software (put to use for more than 180 days) [₹ 35,000 @ 40%]	14,000
(b) Computer UPS (put to use for less than 180 days) [₹ 8,500@ 20%] [See note below]	1,700
(c) Computer Printer (put to use for more than 180 days) [₹ 12,500 @ 40%]	5,000
(d) Laptop (put to use for less than 180 days) [₹ 43,000 @ 20%] [See note below]	8,600
(e) Books (being annual publications or other than annual publications) (Put to use for more than 180 days) [₹ 13,000 @ 40%]	5,200
TOTAL	34,500

Note - Where an asset is acquired by the assessee during the previous year and is put to use for the purposes of business or profession for a period of less than 180 days, the deduction on account of depreciation would be restricted to 50% of the prescribed rate. In this case, since Mr. Dhaval commenced his practice in the P.Y. 2023-24 and acquired the assets during the same year, the restriction of depreciation to 50% of the prescribed rate would apply to those assets which have been put to use for less than 180 days in that year, namely, laptop and computer UPS.

Question 6: Based u/s 35

Mr. A, furnishes the following particulars for the P.Y.2023-24. Compute the deduction allowable under section 35 for A.Y.2024-25, while computing his income under the head “PGBP”, if.

- (i) he is paying tax under default tax regime under section 115BAC
- (ii) he has exercised the option of shifting out of the default tax regime provided u/s 115BAC(1A)

Particulars	Amt
1. Amount paid to notified approved Indian Institute of Science, Bangalore, for scientific research	1,00,000
2. Amount paid to IIT, Delhi for an approved scientific research programme	2,50,000
3. Amount paid to X Ltd., a company registered in India which has as its main object scientific research & development, as is approved by prescribed authority	4,00,000
4. Expenditure incurred on in-house research & development facility as approved by the prescribed authority related to his business	
a) Revenue expense on scientific research	3,00,000
b) Capital expense (incl. cost of acquisition of land ₹5,00,000) on scientific research	7,50,000

Solution: (i) If Mr. A is paying tax under default tax regime u/s 115BAC.

Computation of deduction u/s 35 for AY 2024-25

Particulars	₹	Section	Allowability	Amt of Deduction (₹)
Payment for Scientific Research				
Indian Institute of Science	1,00,000	35(1)(ii)	Not allowable under default tax regime	1,00,000
IIT, Delhi	2,50,000	35(2AA)		2,50,000
X Ltd	4,00,000	35(1)(ia)		4,00,000
Expenditure incurred on in-house research & development facility				
Revenue expenditure	3,00,000	35(1)(i)	Allowable under default tax regime	3,00,000
Capital expenditure (excl. cost of acquisition of land 5,00,000)	2,50,000	35(1)(iv) read with 35(2)(ia)		2,50,000
Deduction allowable u/s 35				5,50,000

(ii) If Mr. A has exercised the option of shifting out of default tax regime u/s 115BAC.

Computation of deduction u/s 35 for AY 2024-25

Particulars	₹	Section	% of Deduction	Amt of Deduction (₹)
Payment for Scientific Research				
Indian Institute of Science	1,00,000	35(1)(ii)	100%	1,00,000
IIT, Delhi	2,50,000	35(2AA)	100%	2,50,000
X Ltd	4,00,000	35(1)(ia)	100%	4,00,000
Expenditure incurred on in-house research & development facility				
Revenue expenditure	3,00,000	35(1)(i)	100%	3,00,000
Capital expenditure (excl. cost of acquisition of land 5,00,000)	2,50,000	35(1)(iv) read with 35(2)(ia)	100%	2,50,000
Deduction allowable u/s 35				13,00,000

Question 7: Based on 35AD

Mr. A commenced operations of the businesses of setting up a warehousing facility for storage of food grains, sugar and edible oil on 1.4.2023. He incurred capital expenditure of ₹80 lakh, ₹60 lakh and ₹50 lakh, respectively, on purchase of land and building during the period January, 2023 to March, 2023 exclusively for the above businesses, and capitalized the same in its books of account as on 1st April, 2023. The cost of land included in the above figures is ₹50 lakh, ₹40 lakh and ₹30 lakh, respectively. During the P.Y. 2023-24, he incurred capital expenditure of ₹20 lakh, ₹15 lakh & ₹10 lakh, respectively, for extension/ reconstruction of the building purchased and used exclusively for the above businesses. Compute the income under the head "PGBP" for the A.Y.2024-25 and the loss to be carried forward, assuming that Mr. A has fulfilled all the conditions specified for claim of deduction under section 35AD and has not claimed any deduction under Chapter VI-A under

the heading “C – Deductions in respect of certain incomes”. The profits from the business of setting up a warehousing facility for storage of food grains, sugar and edible oil (before claiming deduction u/s 35AD and section 32) for the A.Y. 2024-25 is ₹16 lakhs, ₹14 lakhs and ₹31 lakhs, respectively. Also, assume in respect of expenditure incurred, the payments are made by account payee cheque or use of ECS through bank account.
Assuming assessee has opted for 35AD.

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

Particulars	₹ (in lakhs)
Profit from business of setting up of warehouse for storage of Edible oil (before providing for depreciation under section 32)	31
Less: Depreciation under section 32	
10% of ₹ 30 lakh, being (₹ 50 lakh – ₹ 30 lakh + ₹ 10 lakh)	3
Income chargeable under PGBP	28

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

Particulars	Food Grains	Sugar	Total
	₹ (in lakhs)		
(A) Profits from the specified business of setting up a warehousing facility (before providing deduction under section 35AD) Less: Deduction under section 35AD	16	14	30
(B) Capital expenditure incurred prior to 1.4.2021 (i.e., prior to commencement of business) and capitalized in the books of account as on 1.4.2023 (excluding the expenditure incurred on acquisition of land) = ₹ 30 lakh (₹ 80 lakh – ₹ 50 lakh) and ₹ 20 lakh (₹ 60 lakh – ₹ 40 lakh)	30	20	50
(C) Capital expenditure incurred during the P.Y.	20	15	35
(D) Total capital expenditure	50	35	85
(E) Deduction under section 35AD			
100% of capital expenditure (food grains/sugar)	50	35	85
Total deduction u/s 35AD for A.Y.2024-25	50	35	85
(F) Loss from the specified business of setting up and operating a warehousing facility (after providing for deduction u/s 35AD) to be c/f as per section 73A(A-E)	(34)	(21)	(55)

Notes:

- Deduction of 100% of the capital expenditure is available under section 35AD for A.Y.2024-25 in respect of specified business of setting up and operating a warehousing facility for storage of sugar and setting up and operating a warehousing facility for storage of agricultural produce where operations are commenced on or after 01.04.2012 or on or after 01.04.2009, respectively.
- However, since setting up and operating a warehousing facility for storage of edible oils is not a specified business, Mr. A is not eligible for deduction under section 35AD in respect of capital expenditure incurred in respect of such business.

- (iii) Mr. A can, however, claim depreciation@10% under section 32 in respect of the capital expenditure incurred on buildings. It is presumed that the buildings were put to use for more than 180 days during the P.Y.2023-24
- (iv) Loss from a specified business can be set-off only against profits from another specified business. Therefore, the loss of ₹ 55 lakh from the specified businesses of setting up and operating a warehousing facility for storage of food grains and sugar cannot be set-off against the profits of ₹ 28 lakh from the business of setting and operating a warehousing facility for storage of edible oils, since the same is not a specified business. Such loss can, however, be carried forward indefinitely for set-off against profits of the same or any other specified business provided Mr. A file his return of income on or before the due date as specified u/s 139.

Question 8: Based on 35AD

Mr. Suraj, a proprietor, commenced operations of the business of a new three-star hotel in Madurai, Tamil Nadu on 1.4.2023. He incurred capital expenditure of ₹ 50 lakh during the period January, 2023 to March, 2023 exclusively for the above business, and capitalized the same in his books of account as on 1st April, 2023. Further, during the P.Y. 2023-24, he incurred capital expenditure of ₹ 2 crore (out of which ₹ 1.50 crore was for acquisition of land) exclusively for the above business. Compute the income under the head “PGBP” for the A.Y.2024-25, assuming that he has fulfilled all the conditions specified u/s 35AD and opted for claiming deduction under section 35AD; and he has not claimed any deduction under Chapter VI-A under the heading “C – Deductions in respect of certain incomes”. He has exercised the option of shifting out of the default tax regime provided u/s 115BAC(1A). The profits from the business of running this hotel (before claiming deduction u/s 35AD) for the A.Y.2024-25 is ₹ 25 lakhs. Assume that he also has another existing business of running a four-star hotel in Coimbatore, which commenced operations fifteen years back, the profits from which are ₹ 120 lakhs for the A.Y.2024-25. Also, assume that payments for capital expenditure were made by net banking.

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

Particulars	₹
Profits from the specified business of new hotel in Madurai (before providing deduction under section 35AD)	25 lakh
Less: Deduction under section 35AD	
Capital expenditure incurred during the P.Y.2022-23 (excluding the expenditure incurred on acquisition of land)	
= ₹ 200 lakh – ₹ 150 lakh	50 lakh
Capital expenditure incurred prior to 1.4.2023 (i.e., prior to commencement of business) and capitalized in the books of account as on 1.4.2023	50 lakh
Total deduction under section 35AD for A.Y.2024-25	100 lakh
Loss from the specified business of new hotel in Madurai	(75 lakh)
Profit from the existing business of running a hotel in Coimbatore	120 lakh
Net profit from business after set-off of loss of specified business against profits of another specified business u/s 73A	45 lakh

Question 9: Based on sec 40(b)

Rao & Jain, a partnership firm consisting of two partners, reports a net profit of ₹ 7,00,000 before deduction of the following items:

- (1) Salary of ₹ 20,000 each per month payable to two working partners of the firm (as authorized by the deed of partnership).
- (2) Depreciation on plant and machinery under section 32 (computed) ₹ 1,50,000.
- (3) Interest on capital at 15% per annum (as per the deed of partnership). The amount of capital eligible for interest ₹ 5,00,000.

Compute:

- (i) Book-profit of the firm under section 40(b) of the Income-tax Act, 1961.
- (ii) Allowable working partner salary for the AY 2024-25 as per section 40(b).

Solution:

- (i) As per Explanation 3 to section 40(b), —book profit shall mean the net profit as per the profit and loss account for the relevant PY computed in the manner laid down in Chapter IV-D as increased by the aggregate amount of the remuneration paid or payable to the partners of the firm if the same has been already deducted while computing the net profit.

In the present case, the net profit given is before deduction of depreciation on plant and machinery, interest on capital of partners and salary to the working partners. Therefore, the book profit shall be as follows:

Computation of Book Profit of the firm under section 40(b)

Particulars	₹	₹
Net Profit (before deduction of depreciation, salary and interest)		7,00,000
Less: Depreciation under section 32	1,50,000	
Interest @ 12% p.a. [being the maximum allowable as per section 40(b)] (₹ 5,00,000 × 12%)	60,000	2,10,000
Book profit		4,90,000

- (ii) Salary actually paid to working partners = ₹ 20,000 × 2 × 12 = ₹ 4,80,000.

As per the provisions of section 40(b)(v), the salary paid to the working partners is allowed subject to the following limits –

On the first ₹ 3,00,000 of book profit or in case of loss ₹ 1,50,000 or 90% of book profit, whichever is more

On the balance of book profit 60% of the balance book profit

Therefore, the maximum allowable working partner's salary for the A.Y. 2024-25 in this case would be:

Particulars	₹
On the first ₹ 3,00,000 of book profit [(₹ 1,50,000 or 90% of ₹ 3,00,000) whichever is more]	2,70,000
On the balance of book profit [60% of (₹ 4,90,000 - ₹ 3,00,000)]	1,14,000
Maximum allowable partners' salary	3,84,000

Hence, allowable working partner's salary for the A.Y. 2024-25 as per the provisions of section 40(b)(v) is ₹ 3,84,000.

Question 10: Based on Sec.43B Interest on Borrowed Capital

Hari, an individual, carried on the business of purchase and sale of agricultural commodities like paddy, wheat, etc. He borrowed loans from Andhra Pradesh State Financial Corporation (APSFC) and Indian Bank and has not paid interest as detailed hereunder:

Particulars	₹
Andhra Pradesh State Financial Corporation (P.Y. 22-23) & (2023-24)	15,00,000

Indian Bank (P.Y. 2023-24)	30,00,000
Total	45,00,000

Both APSFC and Indian Bank, while restructuring the loan facilities of Hari during the year 2023-24, converted the above interest payable by Hari to them as a loan repayable in 60 equal installments. During the year ended 31.3.2024, Hari paid 5 installments to APSFC and 3 installments to Indian Bank.

Hari claimed the entire interest of ₹ 45,00,000 as an expenditure while computing the income from business of purchase and sale of agricultural commodities. Discuss whether his claim is valid and if not, what is the amount of interest, if any, allowable.

Solution:

According to section 43B, any interest payable on the term loans to specified financial institutions and any interest payable on any loans and advances to, inter alia, scheduled banks shall be allowed only in the year of payment of such interest irrespective of the method of accounting followed by the assessee. Where there is default in the payment of interest by the assessee, such unpaid interest may be converted into loan. Such conversion of unpaid interest into loan shall not be construed as payment of interest for the purpose of section 43B. The amount of unpaid interest so converted as loan shall be allowed as deduction only in the year in which the converted loan is actually paid.

In the given case of Hari, the unpaid interest of ₹ 15,00,000 due to APSFC and of ₹ 30,00,000 due to Indian Bank was converted into loan. Such conversion would not amount to payment of interest and would not, therefore, be eligible for deduction in the year of such conversion. Hence, claim of Hari that the entire interest of ₹ 45,00,000 is to be allowed as deduction in the year of conversion is not tenable. The deduction shall be allowed only to the extent of repayment made during the FY. Accordingly, the amount of interest eligible for deduction for the A.Y.2024-25 shall be calculated as follows:

Particulars	Interest outstanding	Number of Instalments	Amount per instalment	Instalment paid	Interest allowable(₹)
APSFC	15lakh	60	25,000	5	1,25,000
Indian Bank	30lakh	60	50,000	3	1,50,000
Total amount eligible for deduction					2,75,000

Question 11: Based on Transfer of asset u/s 35AD

Mr. Arnav is a proprietor having two units – Unit A carries on specified business of setting up and operating a warehousing facility for storage of sugar; Unit B carries on non-specified business of operating a warehousing facility for storage of edible oil. Unit A commenced operations on 1.4.2022 and it claimed deduction of ₹ 100 lacs incurred on purchase of two buildings for ₹ 50 lacs each (for operating a warehousing facility for storage of sugar) u/s 35AD for A.Y.2024-25. However, in February, 2024, Unit A transferred one of its buildings to Unit B.

Examine the tax implications of such transfer in the hands of Mr. Arnav.

Solution:

Since the capital asset, in respect of which deduction of ₹ 50 lacs was claimed under section 35AD, has been transferred by Unit A carrying on specified business to Unit B carrying on non-specified business in the P.Y.2023-24, the deeming provision under section 35AD(7B) is attracted during the A.Y.2024-25

Particulars	₹
Deduction allowed under section 35AD for A.Y.2022-23	50,00,000
Less: Depreciation allowable u/s 32 for AY 2022-23 [10% of ₹ 50 lacs]	5,00,000
Deemed income under section 35AD(7B)	45,00,000

Mr. Arnav, however, by virtue of proviso to Explanation 13 to section 43(1), can claim depreciation under section 32 on the building in Unit B for A.Y.2024-25. For the purpose of claiming depreciation on building in Unit B, the actual cost of the building would be:

Particulars	₹
Actual cost to the assessee	50,00,000
Less: Depreciation allowable u/s 32 for A.Y.2023-24 [10% of ₹ 50 lacs]	5,00,000
Actual cost in the hands of Mr. Arnav in respect of building in its Unit B	45,00,000

Question 12: Based on book profit

A firm has paid ₹ 7,50,000 as remuneration to its partners for the P.Y.2023-24, in accordance with its partnership deed, and it has a book profit of ₹ 10 lakh. What is the remuneration allowable as deduction?

Solution:

The allowable remuneration calculated as per the limits specified in section 40(b)(v) would be

Particulars	₹
On first ₹ 3 lakh of book profit [$₹ 3,00,000 \times 90\%$]	2,70,000
On balance ₹ 7 lakh of book profit [$₹ 7,00,000 \times 60\%$]	4,20,000
Total	6,90,000

The excess amount of ₹ 60,000 (i.e., ₹ 7,50,000 – ₹ 6,90,000) would be disallowed as per section 40(b)(v).

Question 13: Based on sec 44AE

Mr. X commenced the business of operating goods vehicles on 1.4.2023. He purchased the following vehicles during the P.Y.2023-24. Compute his income under section 44AE for A.Y.2024-25.

	Gross Vehicle Weight (in)	Number	Date of purchase
(1)	7,000	2	10.04.2023
(2)	6,500	1	15.03.2024
(3)	10,000	3	16.07.2023
(4)	11,000	1	02.01.2024
(5)	15,000	2	29.08.2023
(6)	15,000	1	23.02.2024

Would your answer change if the goods vehicles purchased in April, 2022 were put to use only in July, 2023?

Solution:

Since Mr. X does not own more than 10 vehicles at any time during the previous year 2023-24, he is eligible to opt for presumptive taxation scheme under section 44AE. ₹ 1,000 per ton of gross vehicle weight or unladen weight per month or part of the month for each heavy goods vehicle and ₹ 7,500 per month or part of month for each goods carriage other than heavy goods vehicle, owned by him would be deemed as his profits and gains from such goods carriage. Heavy goods vehicle means any goods carriage, the gross vehicle weight of which exceeds 12,000 kg.

(1)	(2)	(3)	(4)
Number of Vehicles	Date of purchase	No. of months for which vehicle is owned	No. of months × No. of vehicles[(1) × (3)]
For Heavy goods vehicle			
2	29.08.2023	8	16
1	23.02.2024	2	2
Total			18
For goods vehicle other than heavy goods vehicle			
2	10.4.2023	12	24
1	15.3.2024	1	1
3	16.7.2023	9	27
1	2.1.2024	3	3
Total			55

The presumptive income of Mr. X under section 44AE for A.Y.2024-25 would be ₹ 6,82,500, i.e., $55 \times ₹ 7,500$, being for other than heavy goods vehicle (+) $18 \times ₹ 1,000 \times 15$ ton being for heavy goods vehicle.

The answer would remain the same even if the two vehicles purchased in April, 2023 were put to use only in July, 2023, since the presumptive income has to be calculated per month or part of the month for which the vehicle is owned by Mr. X.

Question 14: Based on Agricultural & business income

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

Particulars	₹
WDV of car as on 1.4.2023	3,00,000
WDV of machinery as on 1.4.2023 (15% rate)	15,00,000
Expenses incurred for growing coffee	3,10,000
Expenditure for curing coffee	3,00,000
Sale value of cured coffee	22,00,000

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

Compute the income arising from the above activities for the AY 2024-25. Show the WDV of the assets as on 1.4. 2024.

Solution:

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

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

Particulars	₹	₹	₹
Sale value of cured coffee			22,00,000
Less: Expenses for growing coffee Car expenses (80% of ₹ 50,000)		3,10,000	
Depreciation on car (80% of 15% of ₹ 3,00,000) [See Computation below]		40,000	
Total cost of agricultural operations		3,86,000	
Expenditure for coffee curing operations	3,00,000		
Add: Depreciation on machinery (15% of ₹ 15,00,000) [See Computation below]	2,25,000		
Total cost of the curing operations		5,25,000	
Total cost of composite operations			9,11,000
Total profits from composite activities			12,89,000
Business income (25% of above)			3,22,250
Agricultural income (75% of above)			9,66,750

Computation of value of depreciable assets as on 31.3.2024

Particulars	₹	₹	₹
Car			
Opening value as on 1.4.2023		3,00,000	
Depreciation thereon at 15%	45,000		
Less: Disallowance @20% for personal use	9,000		
Depreciation actually allowed		36,000	
WDV as on 1.4.2024			2,64,000
Machinery			
Opening value as on 1.4.2023		15,00,000	
Less: Depreciation @ 15%		2,25,000	
WDV as on 1.4.2024			12,75,000

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

Question 15: Based on Depreciation

Ms. Priya is engaged in the business of generation and distribution of power and opts the WDV method for claiming Depreciation. She has an opening block of ₹ 50,00,000. She acquired new machinery for ₹ 25,00,000 on 15th Nov 2023. She also imported a new machinery from Zurich for ₹ 10,00,000 on 14th Apr 2023. This machine was used there earlier and she is the first user in India. Additionally, she bought computers for ₹ 500,000 on 9th Sep 2023. You are required to compute the allowable depreciation under IT Act, 1961 for AY 2024-25

Solution:

Items	Date	₹	Category	Rate	Depreciation
Opening WDV	1st Apr 2023	50,00,000	Full	15%	7,50,000
New Machinery	15th Nov23	25,00,000	Half	15%	1,87,500
Imported Machinery	14th Apr 23	10,00,000	Full	15%	1,50,000
Computers	9th Sep 2023	5,00,000	Full	40%	2,00,000

Total depreciation					12,87,500
Add depreciation					
New Machinery		25,00,000	Half	20%	2,50,000
Computers		5,00,000	Full	20%	1,00,000
Additional depreciation					3,50,000
Annual depreciation					16,37,500

Note: The machinery that was imported was first used therein at Zurich, earlier before being imported in to India and hence no depreciation will be allowable on the same.

Question 16: Based on 44AD

Mr. Praveen engaged in retail trade, reports a turnover of ₹ 2,98,50,000 for the FY 2023-24. Amount received in cash during the P.Y. 2023-24 is ₹ 14,00,000 and balance through prescribed electronic modes on or before 31st October 2024. His income from the said business as per books of account is ₹ 15,00,000 computed as per the provisions of Chapter IV-D “PGBP” of the Income-tax Act, 1961. Retail trade is the only source of income for Mr. Praveen. A.Y. 2023-24 was the first year for which he declared his business income in accordance with the provisions of presumptive taxation u/s 44AD.

- (i) Is Mr. Praveen also eligible for presumptive determination of his income chargeable to tax for the AY 2024-25?
- (ii) If so, determine his income from retail trade as per the applicable presumptive provision.
- (iii) In case Mr. Praveen wants to declare profits as per books of account from retail trade, what are his obligations under the Income-tax Act, 1961?
- (iv) What is the due date for filing his return of income under both the options?

Solution:

- (i) Yes. Since his cash receipts during the P.Y. does not 5% of the total turnover $(14,00,000/2,98,50,000 \times 100)$ and his total turnover for the F.Y.2023-24 is below ₹ 300 lakhs, he is eligible for presumptive taxation scheme u/s 44AD
- (ii) His income from retail trade, applying the presumptive tax provisions under section 44AD, would be ₹ 18,19,000 (₹ 1,12,000, being 8% of ₹ 14,00,000 + ₹ 17,07,000, being 6% of ₹ 2,84,50,000).
- (iii) Mr. Praveen had declared profit for the PY 2022-23 in accordance with the presumptive provisions and if he wants to declare profits as per books of account which is lower than the presumptive income for any of the five consecutive AY i.e., A.Y. 2024-25 to A.Y. 2028-29, he would not be eligible to claim the benefit of presumptive taxation for five assessment years subsequent to the AY relevant to the PY in which the profit has not been declared in accordance the presumptive provisions i.e. if he declares profits lower than the presumptive income in say P.Y. 2023 -24 relevant to A.Y.2024-25, then, he would not be eligible to claim benefit of presumptive taxation for A.Y. 2025-26 to A.Y. 2029-30.

Consequently, Mr. Praveen is required to maintain the books of accounts and get them audited under section 44AB, since his income exceeds the basic exemption limit.

- (iv) In case he declares presumptive income u/s 44AD, the due date would be 31st July, 2024. In case he declares profits as per books of account which is lower than the presumptive income, he is required to get his books of account audited, in which case the due date for filing of return of income would be 31st October, 2024.

Question 17: Based on depreciation

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

Particulars	₹
WDV of Plant and Machinery on 31.3.2023	30.00
Depreciation including additional depreciation for P.Y. 2022-23	4.75
New machinery purchased on 1.9.2023	10.00
New machinery purchased on 1.12.2023	8.00
Computer purchased on 3-1-2024	4.00

Additional information:

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

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

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

Solution:

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

Particulars	P&M (₹ in lakhs)	Computer (₹ in lakhs)
Written down value (as on 31.3.2023)	30.00	Nil
Less: Depreciation including additional depreciation for P.Y. 2022-23	4.75	-
Opening balance as on 1.4.2023		
Add: Actual cost of new assets acquired during the year	25.25	
New machinery purchased on 1.9.2023	10.00	
New machinery purchased on 1.12.2023	8.00	
Computer purchased on 3.1.2024	-	4.00
	43.25	4.00
Less: Assets sold/discarded/destroyed during the year	Nil	Nil
Written down value (as on 31.3.2024)	43.25	4.00

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

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

Computation of depreciation for A.Y. 2024-25

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

Notes:

- (1) As per section 32(1)(iia), additional depreciation is allowable in the case of any new machinery or plant acquired and installed after 31.3.2005, by an assessee engaged, inter alia, in the business of manufacture or production of any article or thing, at the rate of 20% of the actual cost of such machinery or plant.
However, additional depreciation shall not be allowed in respect of, inter alia,—
(i) any office appliances or road transport vehicles;
(ii) any machinery or plant installed in, inter alia, office premises.

In view of the above provisions, additional depreciation cannot be claimed in respect of -
(i) Machinery purchased on 1.12.2023, installed in office and
(ii) Computer purchased on 3.1.2024, installed in office.

- (2) Balance additional depreciation@10% on new plant or machinery acquired and put to use for less than 180 days in the year of acquisition which has not been allowed in that year, shall be allowed in the immediately succeeding previous year.
Hence, in this case, the balance additional depreciation@10% (i.e., ₹ 1 lakhs, being 10% of ₹ 10 lakhs) in respect of new machinery which had been purchased during the PY 2023-24 being immediately succeeding PY.

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

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

Computation of depreciation for A.Y. 2024-25

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

Question 18: Based on Sec 44AB, 44AA

X, who was not an assessee earlier, commenced business on September 1, 2023. His total income for the year ended March 31, 2024 from gross turnover of ₹2,00,00,000 is only ₹ 30,000. Though his income is below the taxable limit, what are his obligations under the Income-tax Act? (Assume that the conditions in proviso to section 44AB(a) are not satisfied)

Solution:

The obligations of X arises from the following sections under the Income-tax Act.

As per section 44AA, Mr. X being individual is required to maintain books of accounts since his turnover exceeds ₹ 25 lakhs.

According to section 44AB, every person carrying on business shall get his accounts compulsorily audited by a chartered accountant if the total sales, turnover or gross receipts in business for the previous year relevant to the assessment year exceed ₹ 1 crore and obtain a report of audit in the prescribed form duly signed and verified by the accountant before the specified date (i.e the date one month prior to the due date for filing return of income).

According to section 139A(1)(ii), every person carrying on any business or profession whose sales or turnover is likely to exceed ₹ 5,00,000 in any previous year and who has not been allotted a permanent account number shall within such time as may be prescribed, apply to the Assessing Officer for the allotment of a permanent account number.

Therefore Mr. X is under the following obligations:

1. To maintain such books of account and other documents as will enable the AO to compute his total income [Section 44AA]
2. To get the accounts audited u/s 44AB and obtain a report of such audit [Section 44 AB]
3. To apply to the Assessing Officer for PAN [Section 139A]
4. To furnish the tax audit report by 30th September, 2022 in order to avoid penalty u/s 27IB.
5. As per Finance Act, 2019, Mr .X is compulsorily required to furnish return of income if aggregate of amounts deposited in current accounts with one or more banks exceed ₹ 1 crore.

Question 19: Based on Sec 36

P Limited has two divisions, engineering division and tea division. It has transferred Engineering division to Q. Limited pursuant to a scheme of demerger which satisfies the conditions of section 2(19AA). P. Limited had a debt of ₹5 lakhs in engineering division which stood transferred to Q. Limited. The said debt has been written off as bad debts in the accounts of Q. Ltd. Can Q. Limited claim deduction on account of the bad debt?

Solution:

As per the provisions of section 36(1) (vii), bad debts written off as irrecoverable by the assessee shall be allowed as deduction while computing income under the head "Profit and gains from business or profession" in case such debt has been taken into account in computing the income of the assessee in the current previous year or any of the earlier previous year.

However, as per the Supreme Court's ruling in **CIT v. T. Veerabhadra Rao** a successor to a business will be entitled to claim an allowance for bad debt under section 36(1)(vii) even though the debt was not incurred by it (i.e., the successor) but was incurred by the predecessor before takeover of the business by the successor.

Therefore, the claim for bad debts will be allowed even if the relevant debt had been taken into account in computing the income of the predecessor only and not in computing income of the successor assessee.

Therefore, in the present case, deduction under section 36(1)(vii) on account of bad debts of ₹5 lakh shall be allowed to Q Limited in relation to a debt incurred by P. Limited for the engineering division transferred to Q Limited.

Question 20: Based on HP, PGBP

A & Co. Limited, engaged in the business of manufacturing, shows a net profit of ₹ 65.00 lacs for the FY ended 31-03-2024. A scrutiny of the Profit & Loss Account revealed the following:

- (i) Rent of ₹2.40 lakhs from a commercial property owned by the company and let out to a bank was included in the profit.
- (ii) Loss of ₹ 5 lakhs due to non-realisation of advances given to a wholly owned subsidiary Company engaged in the business of hire-purchase financing charged to Profit & Loss Account.
- (iii) The Company used to include interest costing in valuation of its finished stock upto the financial year 2022-23. During the financial year 2023-24 the Company changed its accounting policy to adopt AS-2 (Valuation of Inventories) issued by the ICAI and excluded interest cost in valuation of finished stock. This has resulted in a decrease in the year's profit by ₹15.40 lacs.
- (iv) Municipal taxes on commercial property debited is ₹0.22 lacs, which were ultimately paid on 1.12.2024.
- (v) The Company has received equity shares of AB Ltd. Valued at ₹1.25 lacs in exchange of equity shares of CD Ltd., in a scheme of amalgamation during the year. The shares in CD Ltd. were acquired in 2008-09 at a cost of ₹0.40 lacs. The surplus has been credited to P&L A/c. Both AB and CD are Indian companies.
- (vi) An executive, while on business trip abroad, died and gratuity paid voluntarily amounted to ₹6.00 lacs.
- (vii) As restructuring of its debt, the company has converted arrears of interest of ₹ 5.00 lakhs on term loan into a new term loan with a revised payment schedule. The company has paid ₹0.50 lacs towards such funded interest during the year.
- (viii) Legal charges in connection with alteration of the Articles of Association is ₹ 1.50 lacs and for issue of bonus shares is ₹5.00 lacs.

- (ix) The company has purchased scrap materials amounting to ₹0.60 lacs. The payment for which was made in cash on 15th August, 2023.
- (x) The profit, as shown above, includes ₹5.00 lacs received from a Foreign Government for use of company's product. This was, however, not brought into India.
- Compute the net income of the company for the AY 2024-25 clearly indicating the basis of treatment of each item

Solution: Computation of Net Income of A & Co. Ltd. for the AY 2024-25

	Particulars	₹ (In Lacs)	
I.	Income from House Property (Working Note 1)	1.68	
II.	Profits and gains of business or profession (Working Note 2)	66.47	
	Gross Total Income	68.15	
	Less: Deduction under Chapter VI-A	-	
	Total Income	68.15	
	Working Note 1: Computation of Income from house property		
	Gross annual value	2.40	
	Less: Municipal taxes are not allowable as deduction since they were not paid in the previous year	-	
	Net Annual value (NAV)	2.40	
	Less: 30% of NAV	0.72	
	Income from house property	1.68	
	Working Note 2: Computation of income under the head PGBP		
	Net profit as per profit and loss account	65.00	
	Add: Inadmissible expenditure		
(i)	Loss on non-realization of advance to wholly owned subsidiary company does not arise in the normal course of business, since the wholly owned subsidiary company is engaged in providing finance to other borrowed As far as A & Co. is concerned, its business is manufacturing and not financing. Hence, loss is to be disallowed.	5.00	
(ii)	Municipal taxes on commercial property is not allowable as deduction under this head of income.	0.22	
(iii)	Legal expenses of ₹1.50 lacs for amendment of Articles of Association is an allowable expenditure. [Allahabad High Court in CIT vs. Modi Spinning & Weaving Mills Co. Ltd.]		
(iv)	Expense on bonus shares is allowable as per CIT v. General Insurance Corporation (SC)		5.22
	Less: Admissible deductions and income not taxable/ considered separately		70.22
(i)	Rent of commercial property let out on rent to a bank. This is taxable under the head "Income from House Property" and has been considered separately.	2.40	
(ii)	Surplus on exchange of shares on amalgamation of companies (See note 2 below)	0.85	
(iii)	Interest on term loan would have been disallowed under section 43B in the earlier assessment years due to non-payment. Such interest has been converted into term loan. Conversion of loan into interest is not treated as actually paid and hence no deduction for the same. Since the company has paid ₹0.50 lacs in the current	0.50	3.75

year, the same is allowable as deduction in the light of the provisions of 43B.		
Income under the head PGBP		66.47

Notes:

- Under section 47 any transfer by a shareholder, in a scheme of amalgamation, of a capital asset, being shares held by him in the amalgamating company does not attract capital gains tax, if the transfer is made in consideration of the allotment of any shares in the amalgamated company and the amalgamated company is an Indian company.
- Rent of commercial property has been taken as its gross annual value in the absence of other information.
- A company can change its method of valuation of stock provided the change is made for bona fide reason and is followed consistently in future. The assessee changed its method of valuation of stock in line with the pronouncement of a professional body. Therefore, the genuineness of the change in method of valuation of stock cannot be questioned. Hence, even though the profit is lower by ₹15.40 lacs, it would not have any impact on the computation of income.
- Payment of gratuity ₹6.00 lacs on account of death of an executive while on business trip is allowable as deduction. Since it has already been debited to the profit and loss account, no further adjustments are required.
- Payment for scrap materials was made on 15th August, 2023, being the “Independence Day” on which banks are closed. Such payment is covered by Rule 6DD(j) of the Income-tax Rules. Therefore, the expenditure cannot be disallowed under section 40A(3).

Question 21: Based on Total Income

X Ltd. is engaged in the manufacture and sale of textiles. It's net profit for the year ending March 31, 2024 after debit/ credit of the following items to the profit and loss account was ₹ 75,00,000.

- Preliminary expenditure ₹ 5,00,000
- Charges of ₹2,00,000 paid for advertisement in souvenir published by a political party registered with the Election Commission of India.
- Retrenchment compensation paid to employees of one of the units closed down during the year ₹ 10,00,000.
- Capital expenditure incurred for the purpose of promoting family planning amongst its employees ₹ 3,00,000.
- Interest paid under section 234B for short payment of advance tax pertaining to the assessment year 2024-25 ₹1,10,000.
- Loss incurred in transactions of purchase and sale of shares of various companies ₹ 3,00,000.
- Compensation received from supplier for delay in supply of raw materials ₹ 1,00,000.
- Dividend received from a foreign company ₹ 2,00,000.

The total sales of X Ltd. for the year was ₹30 crores out of which export sales amounted to ₹10 crores. Compute the total income of X Ltd. for the AY 2024-25.

Solution: Computation of Total Income of X Ltd. for AY 2024-25

Particulars	₹
Net Profit as per Profit & Loss Account	75,00,000
Add:	
(i) Preliminary expenditure exceeding limit. (Note 1)	4,00,000
(ii) Advertisement charges in souvenir of registered political parties. (Note 2)	2,00,000
(iii) Retrenchment Compensation on closure of one of the units (Note 3)	-

(iv) Capital expenditure incurred for promoting family planning amongst employees (Note 4)	2,40,000
(v) Interest paid under section 234B (Disallowed)	1,10,000
(vi) Loss incurred in transactions of purchase and sale of shares [Note5]	3,00,000
Less: Dividend received from foreign company [considered separately as income from other sources]	2,00,000
Business Income	85,50,000
Income from other sources	2,00,000
Gross Total Income	87,50,000
Deduction under section 80GGB	2,00,000
Total Income	85,50,000

Notes:

- Under Section 35D, 4/5 of ₹5,00,000 will be disallowed.
- Advertisement in souvenir of registered political party will be disallowed u/s 37(2B).
- Retrenchment compensation is an allowable deduction.
- Under Section 36(1)(ix), 4/5 of ₹3,00,000 will be disallowed.
- Disallowed as speculation loss. Speculation loss of ₹3,00,000 will be carried forward u/s 73 to be set off against speculation income of next assessment year.
- Compensation received from supplier for delay in supply of raw material is taxable under head PGBP
- The amount of ₹2,00,000 paid to political party shall be allowed as deduction u/s 80GGB.

Question 22: Based on Tax liability

The Net Profit of 'Simran Ltd' for the year ended 31.3.2024 is arrived at ₹50 lacs after debit of the following:

- Amount of ₹1,50,000 contributed to Employees Welfare Trust.
- Amount of ₹15,00,000 paid for college fee and hostel expense for the MBA course of a close relative of a director.
- Amount of ₹3,00,000 incurred on installation of a traffic signal, so as to facilitate its employees coming to office to overcome traffic jam and save office time.
- Amount of ₹5,00,000 on the gift articles distributed to various dealers under sale incentive scheme.
- Expenses of ₹5,00,000 incurred on the travelling of the wife of Managing Director, who accompanied him on a tour to U.K. on the invitation of Trade and Commerce, London.
- Amount of ₹3,00,000 paid on 11.5.2023 consequent upon change in currency rate due to exchange fluctuation in excess of the amount due to the suppliers of machinery.

Following further information are also provided by the company:

- Both the employees and employers' contribution towards PF amounting of ₹2 lacs each for the month of March, 2024 were deposited on 1.7.2024.
- Provision for audit fees of ₹5 lakhs made in the books for the year ended 31.03.2024 was paid to the auditors in October, 2024 after deducting tax under section 194J and the tax so deducted was remitted by 7.10.2024.
- A contractor who carried out repairing work in the office was paid in cash on 25.9.2023 by two vouchers No. 175 of ₹17,000 and No. 180 of ₹8,000.
- TDS made out of payment of interest of ₹1 lakh in February, 2024 and of ₹2 lakhs in March, 2024 was remitted to the Government in July, 2024.

Compute the income chargeable to tax in A.Y. 2024-25 and work out the amount of tax payable on such income.

Solution:**Computation of Tax Liability of M/s Simran Ltd. For the AY 2024-25**

Particulars	Amount (₹)
Net Profit as per Profit & Loss A/c	50,00,000
Add: Items disallowed or considered separately	
Amount Contributed to the Employees Welfare Trust [Note-1]	1,50,000
Amount paid for college fee and hostel expenses of close relative of director [Note-2]	15,00,000
Installation of Traffic Signal [Note-3]	Nil
Gift articles distributed to various dealers - sales incentive scheme [Note-4]	Nil
Travelling Expenses of wife of M.D. [Note-5]	Nil
Exchange Fluctuation on payment to supplier of machinery [Note-6]	3,00,000
Employee contribution towards PF for month of March 2024 deemed as income [Note-7]	2,00,000
Payment to contractor for repairing work [Note-8]	25,000
Interest paid in Feb 2024 and March 2024 [Note-9]	Nil
Depreciation on ₹3,00,000 @15% [Note-6]	45,000
Audit Fees [Note-10]	1,50,000
Employee contribution to PF allowed as deduction as per AIMIL Ltd. (Note-7)	2,00,000
Total Income	67,80,000
Tax on Total Income	16,95,000
Add: Health & Education Cess 4%	67,800
Total Tax Liability	17,62,800

Notes:

1. It is assumed that Employees Welfare Trust is neither an approved Superannuation Fund nor Recognised Provident Fund nor Approved Gratuity Fund. As per section 40A(9) any contribution to Employees Welfare Trust other than the above three is to be disallowed.
2. Amount Paid for college fees and hostel expenses of close relative of a director is not for the purpose of business and is not allowable under section 37(1). It is in the nature of personal expenses and cannot be said to be legitimately incurred for the purpose of business.
3. Expenditure incurred on installation of traffic signal to facilitate employees coming to office to avoid traffic jams and save office time is expenditure for the purpose of carrying on business. Such expenditure increases the efficiency of employees and saves cost of the assessee since employees come in time. The expenditure is allowable under section 37(1).
4. Gift articles to various dealers under sale incentive scheme is an expenditure for promoting sales and is allowable as business expenditure. (Assuming it is not a drug or pharmaceutical company)
5. Since the wife has accompanied the M.D. on the official invitation of Trade of Commerce London, travelling expenses are allowed. It is customary that wife accompanies the M.D. on such invitation.
6. ₹ 3,00,000 paid consequent to change in currency rate due to exchange fluctuation to supplier of machines shall be added to the WDV of Block of assets as per section 43A and is eligible for depreciation.
7. (i) Employer's contribution of ₹2,00,000 for month of March 2024 paid on 1-7-2024 is allowed as deduction since it has been paid before the due date of filing of return under section 139(1). This is as per provision of section 43B.
(ii) Employees contribution for March 2023 is deemed as income of employer. Deduction under section 36(l)(va) is available since the same has been paid on or before the due date of filing of return. (AIMIL Ltd.)

8. As per section 40A(3) if the aggregate of payments made to a person in a single day exceeds ₹10,000 and the payment is made otherwise than by an account payee cheque, then such payment shall be disallowed under section 40 A(3).
9. As per section 40(a)(ia), the interest of ₹1,00,000 paid in February 2024 and interest of ₹2,00,000 paid in March, 2024 is to be allowed as deduction since the TDS on the same can be paid upto the due date of filing of return. Since TDS is paid in July, 2024 i.e. before the due date of 30-10-2024 the interest of ₹3,00,000 is allowable and cannot be disallowed under section 40(a)(ia).
10. 30% of such audit fees would have been disallowed in Previous year 31-3-2024 since TDS was not paid by 30-11-2024 as per section 40(a)(ia). The said 30% of audit fee is allowable in previous year 31-3-2024 when TDS has been deducted and paid.

Question 23: Based on various cases

Explain in brief, the treatment as to their taxability and or allowability, under the provisions of IT Act, 1961, for the AY 2024-25 in the following cases:

- (a) 'A' Ltd., an Investment Company received dividend income of ₹ 20,00,000 on its investment in shares. It incurred interest expenditure of ₹ 2,00,000 on the borrowed capital utilized in the investment of shares.
- (b) 'B' Ltd. is a Company engaged in the business of Financing and Investment in Shares. It suffered loss in an amount of ₹ 3,00,000 on account of futures and options, a transaction in the form of derivatives in which the underlying asset was shares.
- (c) 'C' Ltd., which did not have any active business carried on by it incurred capital expenditure on Scientific Research amounting to ₹ 5,00,000 that related to its Subsidiary Companies.

Solution:

The treatment in each case shall be as under:

- (a) The dividend received of ₹ 20,00,000 from investment in shares is taxable in hands of A Ltd. Further proviso to section 57 inserted by Finance Act, 2020 states as under:
Provided that no deduction shall be allowed from the dividend income, or income in respect of units of Mutual Fund specified under clause (23D) of section 10 or income in respect of units from a specified company defined in the Explanation to clause (35) of section 10, other than deduction on account of interest expense, and in any previous year such deduction shall not exceed 20% of the dividend income, or income in respect of such units, included in the total income for that year, without deduction under this section.
Therefore, in view of proviso section 57, allowable interest expenditure shall be limited to 20% of the dividend income i.e. ₹4,00,000 (20% of ₹2,00,000). Therefore, the interest expenditure of ₹2,00,000 is deductible in computation of total income.
- (b) Section 43(5) defines a speculative transaction to mean a transaction in which a contract for purchase or sale of any commodity, including stocks and shares is periodically or ultimately settled otherwise than by actual delivery or transfer of the commodity or scrip.
Section 43(5) provides that an eligible transaction in respect of trading in derivatives carried out in a recognised stock exchange shall not be deemed to be a speculative transaction.
Therefore, in view of section 43(5), the loss incurred of ₹3,00,000 on account of future and options of shares, is not a speculative loss. The same shall be treated as normal business loss which can be adjusted with income under any other head except salary. And the unadjusted loss can be carried forward to next 8 Assessment Year
- (c) Section 35(l)(iv) provides that any capital expenditure on scientific research related to the business carried on by the assessee shall be allowed as deduction. Therefore, only if scientific research related to the business of assessee is done, then the capital expenditure shall be allowed as deduction.
Capital expenditure on scientific research relating to business of subsidiary companies

is not deductible under section 35(1)(iv) as it does not relate to the business of 'C' Ltd. which is the holding company.

Question 24: Based on Sec 43B

Explain in brief, the treatment as to their taxability and/or allowability, under the provisions of the IT Act, 1961, for the AY 2024-25, in the following cases:

- (i) S Ltd, receives a sum of ₹10 lakhs from K Ltd, on 3rd January, 2024 for agreeing not to carry on any business relating to computer software in India for the next three years,
- (ii) A company had an inventory of closing stock on 31.03.2024, the cost of manufacturing of which was ₹50 lakhs and the Excise duty payable was ₹6 lakhs, Since the Excise duty was eligible for deduction only on actual payment, the company valued the closing stock at ₹50 lakhs only, The company paid duty amounting to ₹ 4 lakhs on such stock on clearances upto the date of filing the return.
- (i) **Can the following transactions be covered under section 43B for disallowance?**
- (a) **A bank guarantee given by a company towards disputed tax liabilities.**
- (b) **Interest payable to Sales Tax Department but not paid before filing of return**

Solution:

- (i) As per section 28, any sum received under an agreement for not carrying out any activity in relation to any business (i.e. non-compete fee) is chargeable to income-tax under the head "Profits and gains of business or profession",
Accordingly, ₹10 lakhs received by S Ltd, from K Ltd, for agreeing not to carry on any business relating to computer software in India for the next three years is chargeable to income-tax under the head "Profits and gains of business or profession".
- (ii) Excise duty liability arises at the time of manufacture of goods and therefore, the same has to be included in the value of closing stock as per section 145A, Therefore, the closing stock has to be valued at ₹56 lakhs (i.e. including excise duty payable of ₹ 6 lakhs),
As per section 43B, deduction can be claimed for ₹4 lakhs, being excise duty paid on or before the due date of filing the return.
- (iii) (a) For claiming deduction of any expense listed under section 43B, the requirement stipulated in that section is the actual payment and not deemed payment. Furnishing of bank guarantee cannot be equated with actual payment, Actual payment requires that money must flow from the assessee to the public exchequer as such as specified in section 43B. Therefore, deduction of an expense covered under section 43B cannot be claimed by merely furnishing a bank guarantee [McDowell & Co, Ltd, (SC)]
- (b) The amount of interest payable is not part of the sales tax and, therefore, the provisions of section 43B are not attracted in respect of such interest,
Therefore, interest payable to sales tax department, which is not paid before the due date of filing of return of income, would not attract disallowance under section 43B.

Question 25: Based on Computation of total income

Moon India Ltd, engaged in manufacturing activity furnishes the foll. details:

Net Profit as per Profit and Loss Account ₹ 50,00,000.

- (i) **The company took a loan of ₹ 12,00,000 in the financial year 2017-18 for the purpose of relocation of its office premises. The lender waived ₹8,00,000 in the financial year 2023-24 and it is credited in the profit and loss account.**
- (ii) **Depreciation charged to profit and loss account is ₹ 16,00,000. Depreciation as per Income tax Act, 1961 amounts to ₹ 28,00,000 which includes the following:**
Depreciation rate meant for computers have been adopted for
- (i) **accessories like printers and scanners; and**

(ii) EPABX

1. The written down value of these as on 1-4- 2023 is given below:

- (a) Printers and Scanners ₹50,000
- (b) EPABX ₹3,60,000

2. Assume that there were no additions during the year.

- (iii) It incurred ₹2,50,000 as expenditure for public issue of shares. The public issue could not materialise on account of non-clearance by SEBL. This amount is charged to Profit and Loss Account.
- (iv) It incurred expenditure of ₹2,00,000 towards issue of debentures, This amount has been capitalised in the books.
- (v) The company paid ₹1,00,000 as compounding fee for violations in the pollution control regulations. This has been charged as revenue expenditure.
- (vi) The company lost cash of ₹25,00,000 when it was withdrawn from bank and taken to administrative office. It is not insured and hence, fully charged as revenue expenditure.
- (vii) ₹ 5,00,000 was spent during the year towards permitted CSR activities as per section 135 of the Companies Act; 2013. This is charged to Profit and Loss Account.
- (viii) It paid ₹ 2,00,000 to share broker for transacting shares listed in stock exchange and ₹ 1,00,000 to commodity broker for commodity transactions at MCX, Both the amounts are debited to Profit and Loss Account and no tax was deducted at source on these payments.
- (ix) The company during the year employed 115 new workers in the factory which was 20% of the existing workforce and 18 employees in the registered office which was equal to 10% of the existing employee strength, It paid ₹ 12,00,000 and ₹ 8,00,000 respectively, as additional wages and salary.
- (x) It paid ₹ 50,000 to an electoral trust by cash and ₹ 1,00,000 by cheque to a Registered political party. Both these are debited to Profit and Loss Account.

Compute the total income of the company for the AY 2024-25. Give reasons in brief for treatment of each of the above items. Ignore MAT provision.

Solution: Computation of Total Income of Moon India Ltd, for the AY 2024-25

Particulars	Amount (₹)	
Profits and Gains from Business and Profession		
Net Profit as per profit and loss account		50,00,000
Add: Items debited but to be considered separately/		
Disallowed		
Depreciation as per books of account (Note-1)	16,00,000	
Expenditure on public issue of shares which could not materialise due to non-clearance by SEBI (Note-2)	2,50,000	
Compounding fee paid for violating regulations (Note-3)	1,00,000	
Loss of cash in transit from bank to administrative office on account of theft (Note-4)	-	
Expenditure towards permitted CSR activities as per 135 of the Companies Act, 2014 (Note-5)	5,00,000	
Payment to share-broker without deducting tax (Note-6)	-	
Payment to commodity broker without deducting tax (Note-6)	30,000	
Donation to electoral trust and registered Political party (Note-7)	1,50,000	26,30,000

		76,30,000
Less: Items credited but to be considered separately/ Expenditure to be allowed		
Depreciation allowable under IT Act, 1961 (Note 1)	27,10,000	
Waiver of Loan taken for relocation of office premises (Note 8)	Nil	
Expenditure on issue of debentures (Note-9)	2,00,000	29,10,000
Gross Total Income		47,20,000
Less: Deduction under Chapter VI-A		
u/s 80GGB [Donation to registered Political Party] Note 7	1,00,000	
u/s 80JJAA (Note-10)	6,00,000	7,00,000
Total Income		40,20,000

Notes:

- (1) Depreciation as per books of account charged to Profit and Loss Account (i.e., ₹16 Lakhs) has to be added back and depreciation calculated as per Income-Tax Rules, 1962 (i.e., ₹27.10 Lakhs) is allowable as deduction under Section 32. Computer accessories and peripherals like printer and scanner form an integral part of the computer system and they cannot be used without the computer, they are eligible for depreciation @ 40%. [CIT vs BSES Yamuna Powers Ltd,]

However, EPABX is not a computer and is, hence, not entitled to higher depreciation @ 40% [Federal Bank Ltd,]

Therefore, depreciation as per IT Act, 1961 would be is 27.10 lakhs, and computed as follows

Particulars	₹
Depreciation computed as per Income-tax Act, 1961	28,00,000
Less: Depreciation @ 40% wrongly provided in respect of EPABX = 40% of ₹3,60,000	1,44,000
	26,56,000
Add: Depreciation @ 15% on EPABX = 15% of ₹3,60,000	54,000
Correct Depreciation as per Income-Tax Act, 1961	27,10,000

- Share issue expenses incurred by the company constitute a capital expenditure, even though it could not go in for public issue on account of non-clearance by SEBI. Though the efforts were aborted, the fact remains that the expenditure incurred was only for the purpose of expansion of the capital base, Since the expenditure has been charged to profit and loss account, the same has to be added back.
- The amount paid for compounding an offence is inevitably a penalty and the mere fact that it has been described as compounding fee cannot, in any way, alter the character of the payment, which is in the nature of penalty, Hence, he same is not allowable as revenue expenditure.
- In order to determine whether any loss from theft, dacoity, embezzlement, etc, is deductible or not, what is material is whether the loss incurred by theft, dacoity, etc., is incidental to the carrying on of the business, It does not make much difference whether such act is committed by the employees of the assessee or by strangers, In this case the loss due to theft took place when cash was withdrawn from the bank and taken to administrative office. Hence, it is incidental to business and thus, allowable as revenue expenditure, Since the same has already been charged as revenue expenditure, no further adjustment is required.
- Any expenditure incurred by an assessee on the activities relating to corporate social responsibility referred to in Section 135 of the Companies Act, 2013 shall not be deemed to have been incurred for the purpose of business and hence, shall not be allowed as deduction under section 37, Since the expenditure has been charged to profit and loss account, the same has to be added back for computing business income, It is assumed that the CSR

- expenditure is not of the nature described in Section 30 to 36 of Income Tax Act, 1961, and hence, does not qualify for deductions under those sections.
5. The payments to share broker and commodity broker are in the nature of commission, However, payment for transaction in securities has been particularly excluded from the scope of Section 194H, Hence, payment of ₹2 Lakh to a share broker for transacting shares listed in stock exchange (which falls within the meaning of securities) would not be disallowed for non-deduction of tax at source,*
 6. However, payment of ₹1 Lakh to commodity broker for commodity transactions at MCX would attract disallowance @ 30% under section 40(a)(ia), due to non-deduction of tax at source under section 194H.
 7. *Since the income from transacting in shares has not been separately mentioned in the question, it is assumed that such income is included in the net profit of ₹50 lacs in the profit and loss account and therefore, commission paid to share broker has been allowed as deduction from such income.
 8. Donation to an electoral trust and a registered political party is not an allowable expenditure under section 37 since it is not laid out wholly or exclusively for the purposes of business or profession. Hence, the same has to be added back while computing business income.
 9. However, donation made by a company to an electoral trust or registered political party is allowable deduction under section 80GGB from gross total income, subject to the condition that payment is made otherwise than by way of cash. Since the donation to electoral trust is made in cash, the same does not qualify for deduction under section 80GGB. However, donation of ₹1 lakh by cheque to a registered political party would be eligible for deduction under section 80GGB.
 10. Waiver of loan is an income under section 2(24)(xviii), Since the same has been credited to profit and loss account, no treatment is required.
 11. The expenditure on issue of debentures is not in the nature of capital expenditure and is laid out or expended wholly and exclusively for the purpose of the assessee's business and is therefore, allowable as a deduction.
 12. Since the said expenditure has been capitalized in the books of account, the same has to be deducted to compute business income.
 13. Deduction of 30% of additional wages paid to the new regular employees employed by the assessee is allowable u/s 80JJAA. Deduction is therefore 30% of ₹20,00,000 i.e., ₹6,00,000.

Question 26: Based on Sec 44ADA

Dr. Juhi reports to you that her gross receipt from her medical profession for the year ended 31-03-2024 is ₹49,20,000, Her net income as per income and expenditure account is ₹ 26,40,000 before adjustment of depreciation of ₹ 2,10,000, She did not pay any amount by way of advance tax during the FY 2023-24, She has two residential house properties, of which one is self-occupied for residence and another is let out for the monthly rent of ₹10,000 during the FY 2023-24, Advise Dr, Juhi with reference to section 44ADA on filling of return with optimal tax liability besides compliance cost, Assume that she approached you in April'23 and you have given your advice then.

Solution:

Since gross receipts of ₹ 49,20,000 of Dr, Juhi from her medical profession is less than ₹ 50,00,000, she can opt for presumptive tax provisions under section 44ADA, In such a case, her income from medical profession would be ₹24,60,000, being 50% of ₹49,20,000, Since all deductions allowable under sections 30 to 38 are deemed to have been given full effect to, no deduction in respect of depreciation would be allowable from the income computed on presumptive basis under section 44ADA,

[1] Where Dr. Juhi declares income profession on presumptive basis u/s 44ADA
Computation of Total Income of Dr, Juhi

Particulars	₹	₹
Income from HP Self-occupied property Let-out Property: Annual Value [₹ 10,000 x 12]	Nil 1,20,000	
Less: Deduction u/s 24 [30% of ₹1,20,000]	36,000	84,000
Profits and sains from business or profession		
Income from medical profession [50% of ₹49,20,000]		24,60,000
Total Income		25,44,000

Computation of tax liability of Dr. Juhi

Particulars	₹
Tax on total income = [30% of ₹15,44,000 + ₹1,12,500]	5,75,700
Add: Health & Education cess @ 4%	23,028
Total tax liability	5,98,728
Add: Interest under section 234B [1% of ₹5,98,700]	5,987
Interest under section 234C [1% of ₹5,98,700, since the advance tax liability has to be paid in one instalment on or before 5.3.2024]	5,987
Total tax and interest liability	6,10,702
Total tax and interest liability (rounded off)	6,10,700

Dr, Juhi can, however, declare lower profits than the presumptive profits of ₹24,60,000, if she maintains books of accounts under section 44AA and gets the same audited under section 44AB, In such case, she can file return on or before 31.10.2024.

[2], Where Dr. Juhi declares income from profession as per books of account
Computation of Total Income of Dr, Juhi

Particulars	₹	₹
Income from house property Self-occupied property Let-out property: Annual Value [₹ 10,000 x 12]	Nil 1,20,000	
Less: Deduction u/s 24 [30% of ₹1,20,000]	36,000	84,000
Profits and gains from business or profession		24,30,000
Income from medical profession [₹ 26,40,000 - ₹2,10,000]		
Total Income		25,14,000

Computation of Tax Liability:

Particulars	₹
Tax on total income = [30% of ₹15,14,000 + ₹1,12,500]	5,66,700
Add: Health & Education cess @ 4%	22,668
Total tax liability	5,89,368
Add: Interest under section 234B [1% of ₹5,89,300]	5,893
Interest under section 234C [See working Note below]	29,761
Total tax and interest liability	6,25,022
Total tax and interest liability (rounded off)	6,25,020

Although the income from profession computed as per books of account is lower than the income from profession computed on presumptive basis under section 44ADA, however, the cumulative tax and interest liability would be higher by 14,320

(i.e, 625,020 - ₹6,10,700) in case of the former, Therefore, Dr. Juhi should opt to declare income on presumptive basis under section 44ADA, in which case she has to file her tax return on or before 31st July, 2024,

Working Note:

Computation of interest under section 234C

Date	Advance tax payable till date	Short-fall ₹	Rate of interest [1% per month]	Interest
15.06.2023	15%	88,405	3% [1%×31]	2,652
15.09.2023	45%	2,65,215	3% [1%×31]	7,956
15.12.2023	75%	4,42,026	3% [1%×31]	13,260
15.03.2024	100%	5,89,300	1%	5,893
Total				29,761

Note - The above solution has been worked out by considering that Dr. Juhi pays the advance tax required to be paid in April, 2023 itself, after consulting the tax advisor in the month of April, 2023.

Question 27: Based on TDS

VJ Ltd. credited the following amounts to the account of resident payees in the month of March 2024 without the deduction of tax at source. What would be the consequence of non-deduction of tax at source by VJ Ltd. on these amounts during the FY 2023-24, assuming that the resident payees in all the cases mentioned below, have not paid the tax, if any, which was required to be deducted by VJ Ltd?

	Particulars	Amount in ₹
1	Salary to its employees (credited & paid in March 2024)	12,00,000
2	Directors' remuneration (credited in March 2024 & paid in April 2024)	28,000

Would your answer change if VJ Ltd has deducted tax on directors' remuneration in April 2024 at the time of payment & remitted the same in July 2024?

Solution:

Non deduction of tax at source on any sum payable to a resident on which tax is deductible at source as per the provisions of Chap XVII-B would attract disallowance u/s 40(a)(ia).

Therefore, non-deduction of tax at source on any sum paid by way of salary on which tax is deductible u/s 192 any sum credited or paid by way of directors' remuneration on which tax is deductible u/s 194J, would attract disallowance @ 30% u/s 40(a)(ia). Whereas in case of a salary, tax has to be deducted u/s 192 at the time of payment, in case of directors' remuneration, tax has to be deducted at the time of credit of such sum to the account of the payee or at the time of payment, whichever is earlier. Therefore, in both the cases ie salary & directors' remuneration, tax is deductible in PY 23-24, since salary was paid in that year & directors' remuneration was credited in that year. Therefore, the amount to be disallowed u/s 40(a)(ia) while computing business income for AY 24-25 is as follows:

Particulars	Amount in ₹	Disallowance u/s 40(a)(ia) @ 30%
Salary (tax is deductible u/s 192)	12,00,000	3,60,000
Directors' Remuneration (tax is deductible u/s 194J without any threshold limit)	28,000	8,400
Disallowance u/s 40(a)(ia)		3,68,400

If the tax deducted on Directors' remuneration in the next year i.e. PY 23-24 at the time of payment & remitted to the Government, the amount of 8,400 would be allowed as deduction while computing the business income of AY 24-25.

Question 28: Based on Compute PGBP

Examine with reasons, the allowability of the following expenses incurred by Mr. Manav, a wholesale dealer of commodities, under the Income-tax Act, 1961 while computing profit and gains from business or profession for the AY 2024-25.

- (i) Construction of school building in compliance with CSR activities amounting to ₹ 5,60,000.
- (ii) Purchase of building for the purpose of specified business of setting up and operating a warehousing facility for storage of food grains amounting to ₹ 4,50,000.
- (iii) Interest on loan paid to Mr. X (a resident) ₹50,000 on which tax has not been deducted. The sales for the previous year 2023-24 was ₹ 202 lakhs. Mr. X has not paid the tax, if any, on such interest.
- (iv) Commodities transaction tax paid ₹20,000 on sale of bullion.

Solution:

Allowability of the expenses incurred by Mr. Manav, a wholesale dealer in commodities, while computing profits and gains from business or profession

- (i) **Construction of school building in compliance with CSR activities**

Under section 37(1), only expenditure not being in the nature of capital expenditure or personal expense and not covered under sections 30 to 36, and incurred wholly and exclusively for the purposes of the business is allowed as a deduction while computing business income.

However, any expenditure incurred by an assessee on the activities relating to corporate social responsibility referred to in section 135 of the Companies Act, 2013 shall not be deemed to have been incurred for the purpose of business and hence, shall not be allowed as deduction under section 37.

Accordingly, the amount of ₹5,60,000 incurred by Mr. Manav, towards construction of school building in compliance with CSR activities shall not be allowed as deduction under section 37.

- (ii) **Purchase of building for setting up and operating a warehousing facility for storage of food grains.**

Mr. Manav, would be eligible for investment-linked tax deduction under section 35AD @100% in respect of amount of ₹4,50,000 invested in purchase of building for setting up and operating a warehousing facility for storage of food grains which commences operation on or after 1st April, 2010 (P.Y.2023- 24, in this case).

Therefore, the deduction under section 35AD while computing business income of such specified business would be ₹4,50,000, if Mr. Manav opts for section 35AD.

- (iii) **Interest on loan paid to Mr. X (a resident) ₹50,000 on which tax has not been deducted**

As per section 194A, Mr. Manav, being an individual is required to deduct tax at source on the amount of interest on loan paid to Mr. X, since his turnover during the previous year 2022-23 exceeds ₹100 lacs.

Therefore, ₹15,000, being 30% of ₹50,000, would be disallowed under section 40(a)(ia) while computing the business income of Mr. Manav for non- deduction of tax at source under section 194A on interest of ₹50,000 paid by it to Mr. X.

The balance ₹35,000 would be allowed as deduction under section 36(1)(iii), assuming that the amount was borrowed for the purposes of business.

- (iv) **Commodities transaction tax of ₹ 20,000 paid on sale of bullion**

Commodities transaction tax paid in respect of taxable commodities transactions entered into in the course of business during the previous year is allowable as deduction, provided the income arising from such taxable commodities transactions is included in the income computed under the head "Profits and gains of business or profession".

Taking that income from this commodities transaction is included while computing the business income of Mr. Manav, the commodity transaction tax of ₹20,000 paid is allowable as deduction under section 36(1)(xvi).

Question 29: Based on sec 44AD

Let us consider the following particulars relating to a resident individual, Mr. A, being an eligible assessee carrying on retail trade business whose total turnover do not exceed ₹ 2 crore in any of the PY's relevant to AY 2024-25 to AY 2025-26.

Particulars	A.Y.2023-24	A.Y.2024-25	A.Y.2025-26
Total turnover (₹)	1,80,00,000	1,90,00,000	2,00,00,000
Amount received Through prescribed electronic modes on or before 31st October of the A.Y.	1,60,00,000	1,45,00,000	1,80,00,000
Income offered for taxation (₹)	11,20,000	12,30,000	10,00,000
% of gross receipts	6% on ₹1.60 crore and 8% on ₹20 lakhs	6% on ₹1.45 Cr and 8% on ₹45L	5% on ₹2 crore
Offered income as per presumptive taxation scheme u/s 44AD	Yes	Yes	No

Solution:

In the above case, Mr. A, an eligible assessee, opts for presumptive taxation under section 44AD for A.Y.2024-25 and A.Y.2025-26 and offers income of ₹11.20 lakh and ₹12.30 lakh on gross receipts of ₹1.80 crore and ₹1.90 crore, respectively.

However, for A.Y.2025-26, he offers income of only ₹10 lakh on turnover of ₹2 crore, which amounts to 5% of his gross receipts. He maintains books of account under section 44AA and gets the same audited under section 44AB. Since he has not offered income in accordance with the provisions of section 44AD(1) for five consecutive assessment years, after A.Y. 2024-25, he will not be eligible to claim the benefit of section 44AD for next five assessment years succeeding A.Y.2025-26 i.e., from A.Y.2026-27 to 2030-31.

Question 30: Based on 40A(3), 40(a)(i)

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

(a) Payment made in respect of a business expenditure incurred on 16th February, 2024 for ₹25,000 through a cheque duly crossed as "& Co." is hit by the provisions of section 40A(3).

(b)

(i) It is a condition precedent to write off in the books of account, the amount due from debtor to claim deduction for bad debt.

(ii) Failure to deduct tax at source in accordance with the provisions of Chapter XVII-B, inter alia, from the amounts payable to a non-resident as rent or royalty, will result in disallowance while computing the business income where the non-resident payee has not paid the tax due on such income.

Solution:

(a) **True:** In order to escape the disallowance specified in section 40A(3), payment in respect of the business expenditure ought to have been made through an account payee

cheque. Payment through a cheque crossed as "& Co." will attract disallowance under section 40A(3).

- (b) (i) **True:** It is mandatory to write off the amount due from a debtor as not receivable in the books of account, in order to claim the same as bad debt under section 36(1)(vii). However, where the debt has been taken into account in computing the income of the assessee on the basis of ICDSs notified under section 145(2), without recording the same in the accounts, then, such debt shall be allowed in the previous year in which such debt becomes irrecoverable and it shall be deemed that such debt or part thereof has been written off as irrecoverable in the accounts for the said purpose.
- (ii) **True:** Section 40(a)(i) provides that failure to deduct tax at source from rent or royalty payable to a non-resident, in accordance with the provisions of Chapter XVII-B, will result in disallowance of such expenditure, where the non-resident payee has not paid the tax due on such income.

Question 31: Based on Computation of total income

Dr. Niranjana, a resident individual, aged 60 years is running a clinic in Surat. Her Income and Expenditure Account for the year ending March 31st, 2024 is as under

Expenditure	₹	Income	₹
To Medicine consumed	35,38,400	By Consultation and medical charges	58,85,850
To Staff salary	13,80,000	By Income-tax refund (principal ₹5,000, interest ₹450)	5,450
To Clinic consumables	1,10,000	By Dividend from units of UTI (Gross)	10,500
To Rent paid	90,000	By Winning from game show on T.V. (net of TDS of ₹15,000)	35,000
To Administrative expenses	2,55,000	By Rent	27,000
To Amount paid to scientific research association approved u/s 35	1,50,000		
To Net profit	4,40,400		
	59,63,800		59,63,800

- (i) Rent paid includes ₹30,000 paid by cheque towards rent for her residential house in Surat.
- (ii) Clinic equipment's are:
 1.4.2023 Opening W.D.V. - ₹5,00,000
 7.12.2023 Acquired (cost) by cheque ₹2,00,000
- (iii) Rent received relates to property situated at Surat. Gross Annual Value ₹27,000. The municipal tax of ₹2,000, paid in December, 2023, has been included in "administrative expenses".
- (iv) She received salary of ₹7,500 p.m. from "Full Cure Hospital" which has not been included in the "consultation and medical charges".
- (v) Dr. Niranjana availed a loan of ₹ 5,50,000 from a bank for higher education of her daughter. She repaid principal of ₹1,00,000, and interest thereon ₹55,000 during the previous year 2023-24.
- (vi) She paid ₹1,00,000 as tuition fee (not in the nature of development fees/ donation) to the university for full time education of her daughter.
- (vii) An amount of ₹28,000 has also been paid by cheque on 27th March, 2024 for her medical insurance premium.

From the above, compute the total income of Dr. Smt. Niranjana for the AY 2024-25 under the regular provisions of the IT Act, 1961, assuming that she has not opted for to pay tax u/s 115BAC.

Solution: Computation of total income of Dr. Niranjana for AY 24-25

	Particulars	₹	₹	₹
I	Income from Salary			
	Basic Salary (₹7,500 x 12)		90,000	
	Less: Standard deduction u/s 16(ia)		50,000	40,000
II	Income from house property			
	Gross Annual Value (GAV)		27,000	
	Less: Municipal taxes paid		2,000	
	Net Annual Value (NAV)		25,000	
	Less: Deduction u/s 24 @ 30% of ₹25,000		7,500	17,500
III	Income from profession			
	NP as per Income and Expenditure account		4,40,400	
	Less: Items of income to be treated separately			
	(i) Rent received (taxable under the head "Income from HP)	27,000		
	(ii) Dividend from units of UTI (taxable under the head IFOS)	10,500		
	(iii) Winning from game show on TV (net of TDS) – taxable under the head IFOS	35,000		
	(iv) Income tax refund	5,450	77,950	
	Less: Allowable expenditure		3,62,450	
	Depreciation on clinic equipment's			
	on ₹5,00,000 @ 15%	75,000		
	on ₹2,00,000 @ 7.5%	15,000		
	(On equipment's acquired during the year in December 2023, she is entitled to depreciation @50% of normal depreciation, since the same are put to use for less than 180 days during the year)			
IV	100% deduction is allowable in respect of the amount paid to scientific research association allowable, since whole of the amount is already debited to Income & Expenditure A/c, no further adjustment is required.		90,000	
	Add: Items of expenditure not allowable while computing business income		2,72,450	

(i) Rent for her residential accommodation included in Income and Expenditure A/c	30,000		
(ii) Municipal tax paid relating to residential house at Surat included in administrative expenses	2,000	32,000	3,04,450
Income from other sources			
(a) Interest on income-tax refund		450	
(b) Dividend from UTI (taxable in the hands of unit holders)		10,500	
(c) Winnings from TV game show (₹35,000 + ₹15,000)		50,000	60,950
Gross Total Income			4,22,900
Less: Deductions under Chp VI-A:			
(a) Section 80C - Tuition fee paid to university for full time education of her daughter		1,00,000	
(b) Section 80D - Medical insurance premium (fully allowed since she is a senior citizen)		28,000	
(c) Section 80E - Interest on loan taken for higher education is deductible		55,000	1,83,000
Total income			2,39,900

Notes:

- (i) The principal amount received towards income-tax refund will be excluded from computation of total income. Interest received will be taxed under the head "Income from other sources".
- (ii) Winnings from game show on T.V. should be grossed up for the chargeability under the head "Income from other sources" (₹ 35,000 + ₹ 15,000). Thereafter, while computing tax liability, TDS of ₹ 15,000 should be deducted to arrive at the tax payable. Winnings from game show are subject to tax @ 30% as per section 115BB.
- (iii) Dr. Niranjana would not be eligible for deduction u/s 80GG, as she owns a house in Surat, a place where she is residing as well as carrying on her profession.

Question 32: Sec 44AB

X & Co. (a Partnership firm engaged in manufacturing and trading of silk year) gives the following information pertaining to the PY ending March 2024.

(₹ in lakh)

	Receipts				Payment			
	Cash	Other than Cash	Total	Cash as % of Total	Cash	Other than Cash	Total	Cash as % of Total
Purchased of Raw Material	-	-	-	-	2	31	312	0.64
Purchase of finished goods	-	-	-	-	2	149	151	1.32

Sale of Goods	37	630	668	5.69	-	-	-	-
Sale/ purchase of car	-	48	48	0.00	-	23	23	0.00
Sale /purchase of machine	-	115	115	0.00	5	41	46	10.87
Sale/ purchase of land	1	96	97	1.03	-	-	-	-
Income-tax refund	-	11	11	0.00	-	-	-	-
Other receipts / other payments	6	38	44	13.64	-	26	26	0.00
Total	45	938	983	4.58	9	549	558	1.61

For the AY. 2023-24, X & Co. has long-term Capital loss of ₹ 20.5 lakh. It wants to know whether it requires audit under section 44AB for the AY. 2024-25. What are the consequences if the firm gets its account audited under section 44AB for the AY. 2024-25 and submits audit report/ return of income during September 2024?

Solution:

Total Receipts is ₹ 983 lakh. Out of which cash receipts is less than 5%. Moreover, out of the total payment of ₹558 lakh, cash payment is less than 5%. Turnover of the firm is more than ₹ 1 Crore but not more than ₹ 10 Crore. Consequently, Tax audit under section 44AB is not required. Due date of submission of return of income is July 31, 2024. If return is submitted after July 31,2024, it will be belated return and long-term capital loss of ₹ 20.5 lakh cannot be carried forward. In this case, even if the firm gets its account audited under section 44AB, the due date of submission of return of income will be July 31,2024.

Question 33: Based on Sec 44AE

Mr. Prakash is in the business of operating goods vehicles. As on 1st April, 2023, he had the following vehicles.

Vehicle	Gross Vehicle Weight (in Kgs.)	Date of Purchase	Put to use during F.Y 2023-2024
A	8500	02.04.2023	Yes
B	13000	15.05.2023	Yes
C	12000	04.08.2023	No (As under repairs)

During P.Y. 2022-2023, he purchased the following vehicles;

Vehicle	Gross vehicle weight (in Kgs)	Date of purchase	Date on which put to use
D	11000	30.04.2023	10.05.2023
E	15000	15.05.2023	18.05.2023

Compute his income u/s 44AE of the Income Tax Act, 1961 for AY 2024-25.

Solution: Computation of presumptive Income of Mr. Prakash for AY. 2024-25

Name of vehicle	Period	Months	Weight (in Tonnes)	Rate P.M	Computation	Presumptive Income
A	01.04.2023-31.03.2024	12	8.5	Rs. 7,500	7,500 x 12	90,000
B	01.04.2023-31.03.2024	12	13	Rs. 1,000/Tonne	13 x 1,000 x 12	1,56,000
C	01.04.2023-31.03.2024	12	12	Rs. 7,500	7,500 x 12	90,000
D	30.4.2023-31.03.2024	12	11	Rs. 7,500	7,500 x 12	90,000
E	15.05.2023-31.03.2024	11	15	Rs. 1,000/Tonne	15 x 1,000 x 11	1,65,000
Income u/s 44AE						5,91,000

Note:- Under Section 44AE, Presumptive Income Shall be computed based on period of ownership. Actual usage is irrelevant. If Any vehicle is used for any month or part thereof, it shall be considered as full month only.

Question 34: Based on sec 43CA

Mr. Ramesh, a property dealer, has developed an independent floor of 4 residential units. He sold one of its residential units to Mr. Vikas, who is a dealer in spare parts, for ₹ 55 lakhs on 01.06.2023. The agreement was, however, entered into on 01.04.2023. Mr. Ramesh had received a down payment of ₹ 5 lakhs by an account payee cheque from Mr. Vikas on the date of agreement.

Mr. Ramesh sold remaining 3 residential units to Mr. Raj, Mr. Ashok and Mr. Ashish for ₹ 60 lakhs each on 01.12.2023. All the units were transferred by way of first time allotment.

The stamp duty value of each residential unit on various dates are as follows – 01.04.2023 – ₹ 65 lakhs 01.06.2023 – ₹ 68 lakhs 01.12.2023 – ₹ 70 lakhs

Discuss the tax consequences of above transactions, in the hands of each one of them, viz, Mr. Ramesh, Mr. Vikas, Mr. Raj, Mr. Ashok and Mr. Ashish.

Solution:

Particulars	
I	Tax consequences in the hands of Mr. Ramesh
	<p>In the hands of Mr. Ramesh, the provisions of section 43CA would be attracted, since he is a property dealer and he has transferred the residential units for a consideration less than the stamp duty value.</p> <p>The consideration received would be the full value of consideration if the stamp duty value does not exceed 110% of the consideration received.</p> <p>In case of transfer of a residential unit by way of first time allotment between 12.11.2022 to 30.06.2023, where the consideration does not exceed ₹ 2 crores, the consideration received would be the full value of consideration if the stamp duty value does not exceed 120% of the consideration received.</p> <p>Under section 43CA, the option to adopt the stamp duty value on the date of agreement can be exercised only if whole or part of the consideration has been received on or before the date of agreement by way of, inter alia, account payee cheque.</p> <p>In respect of residential unit sold to Mr. Vikas</p> <p>In case of residential unit sold to Mr. Vikas, since the down payment of ₹ 5 lakhs is received on the date of agreement by account payee cheque, stamp duty value on the date of agreement would be considered.</p>

	<p>Accordingly, in this case, business income would be computed in the hands of Mr. Ramesh for A.Y.2024-25, taking the consideration of ₹ 55 lakhs as the full value of consideration arising on transfer of residential unit, since the stamp duty value of ₹ 65 lakhs on the date of agreement does not exceed 120% of the actual consideration of ₹ 55 lakhs and all the other conditions are satisfied.</p>
	<p>In respect of residential unit sold to Mr. Raj, Mr. Ashok and Mr. Ashish In case of residential unit sold to Mr. Raj, Mr. Ashok and Mr. Ashish, business income would be computed in the hands of Mr. Ramesh for A.Y.2024-25, taking the stamp duty value of ₹ 70 lakhs as the full value of consideration arising on transfer of each residential unit, since the same exceeds 110% of the actual consideration of ₹ 60 lakhs. Therefore, the full value of consideration would be ₹ 210 lakhs (₹ 70 lakhs x 3).</p>
II	Tax consequences in the hands of Mr. Vikas
	<p>In case, immovable property is received for inadequate consideration, the difference between the stamp duty value and actual consideration would be taxable under section 56(2)(x) in the hands of the recipient, if such difference exceeds the higher of ₹ 50,000 or 10% of actual sales consideration. However, in case of a residential unit purchased by way of first time allotment between 12.11.2022 to 30.06.2023, where the consideration does not exceed ₹ 2 crores, difference would be taxable if such difference exceeds the higher of ₹ 50,000 or 20% of actual sales consideration.</p> <p>The option to adopt the stamp duty value on the date of agreement can be exercised only if whole or part of the consideration has been paid on or before the date of agreement by way of, inter alia, account payee cheque.</p> <p>In this case, since the down payment of ₹ 5 lakhs is paid on the date of agreement by account payee cheque, stamp duty value on the date of agreement would be considered. No income would be taxable in the hands of Mr. Vikas under the head “Income from Other Sources” in A.Y.2024-25 since the difference between the stamp duty value of ₹ 65 lakhs and actual consideration of ₹ 55 lakhs does not exceed ₹ 11,00,000, being the higher of ₹ 50,000 and 20% of actual sale consideration of ₹ 55 lakhs.</p>
III	Tax consequences in the hands of Mr. Raj, Mr. Ashok and Mr. Ashish
	<p>In case, immovable property is received for inadequate consideration, the difference between the stamp duty value and actual consideration would be taxable under section 56(2)(x) in the hands of the recipient, if such difference exceeds the higher of ₹ 50,000 or 10% of actual sales consideration.</p> <p>In this case, ₹ 10 lakhs would be taxable in the hands of Mr. Raj, Mr. Ashok and Mr. Ashish each under the head “Income from Other Sources” in A.Y. 2023-24 since the difference between the stamp duty value of ₹ 70 lakhs and actual consideration of ₹ 60 lakhs exceeds ₹ 6,00,000, being the higher of ₹ 50,000 and 10% of actual sale consideration of ₹ 60 lakhs.</p>

Summary		
Section	Income to Be clubbed	Content
60	Income transferred without transfer of asset	When a person transfers the income accruing to an asset without the transfer of the asset itself, such income is to be included in the total income of the transferor, whether the transfer is revocable or irrevocable.
61	Income arising from revocable transfer of assets	Such income is to be included in the hands of the transferor. A transfer is deemed to be revocable if it – i contains any provision for re-transfer of the whole or any part of the income or assets to the transferor; or ii gives right to re-assume power over the whole or any part of the income or the asset.
64(1)(ii)	Income arising to spouse by way of remuneration from a concern in which the individual has substantial interest	Such income arising to spouse is to be included in the total income of the individual. However, if remuneration received is attributable to the application of technical or professional knowledge and experience of spouse, then, such income is not to be clubbed.
64(1)(iv)	Income arising to spouse from assets transferred without adequate consideration	Income arising from an asset (other than house property) transferred otherwise than for adequate consideration or not in connection with an agreement to live apart, from one spouse to another shall be included in the total income of the transferor. However, this provision will not apply in the case of transfer of house property, since the transferor-spouse would be the deemed owner as per section 27.
64(1)(vi)	Income arising to son's wife from an asset transferred without adequate consideration	Income arising from an asset transferred otherwise than for adequate consideration, by an individual to his or her son's wife shall be included in the total income of the transferor.
64(1)(vii)/ 64(1)(viii)	Income arising from transfer of assets for the benefit of spouse or son's wife	All income arising to any person or association of persons from assets transferred without adequate consideration is includible in the income of the transferor, to the extent such income is used by the transferee for the immediate or deferred benefit of the transferor's spouse or son's wife.
64(1A)	Income of minor child	All income arising or accruing to a minor

child (including a minor married daughter) shall be included in the total income of his or her parent.

The income of the minor child shall be included with the income of that parent, whose total income, before including minor's income, is higher.

Where the marriage of the parents does not subsist, the income of the minor will be includible in the income of that parent who maintains the minor child in the relevant previous year.

The parent, in whose total income, the income of the minor child or children are included, shall be entitled to exemption of such income subject to a maximum of ₹ 1,500 per child under section 10(32), available to an assessee only if he exercises the option of shifting out of the default tax regime provided under section 115BAC(1A).

The following income of a minor child shall, however, not be clubbed in the hands of his or her parent –

- A Income from manual work done by him or activity involving application of minor's skill, talent or specialized knowledge and experience; and
- B Income of a minor child suffering from any disability specified in section 80U.

In case the asset transferred to a minor child (not being a minor married daughter) without consideration or for inadequate consideration is house property, then, by virtue of section 27(i), the transferor-parent will be the deemed owner of the house property. Therefore, the income from house property will be taxable in the hands of the transferor-parent, being the deemed owner and not in the hands of the minor child. Consequently, clubbing provisions u/s 64(1A) would not be attracted in respect of such income, due to which the benefit of exemption u/s 10(32) cannot be availed against such income.

However, if the house property is transferred by a parent to his or her minor married daughter without consideration or for inadequate consideration, then, section 27(i) is not attracted. In such a case, the income from house property will be included u/s 64(1A) in the hands of that

		parent, whose total income before including minor child's income is higher; and benefit of exemption u/s 10(32) can be availed by that parent in respect of the income so included if he or she opts to shift out of 115BAC.
64(2)	Conversion of self- acquired property into the property of a HUF	<p>Where an individual, who is a member of the HUF, converts his individual property into property of the HUF of which he is a member, directly or indirectly, to the family otherwise than for adequate consideration, the income from such property shall continue to be included in the total income of the individual.</p> <p>Where the converted property has been partitioned, either by way of total or partial partition, the income derived from such converted property as is received by the spouse on partition shall also be included in the total income of the individual who effected the conversion of such property.</p> <p>Note: As per Explanation 2 to section 64 'income' includes 'loss'. Therefore, clubbing provisions would be attracted in all the above cases, even if there is a loss and not income.</p>

Question 1: Based on clubbing of minor with disability

State True or False, with reasons:

Mr. Y, who is a physically handicapped minor (suffering from a disability of the nature specified in section 80U), earns bank interest of ₹. 50,000 and ₹. 60,000 from marking bags manually by himself. The total income of Mr. Y shall be computed in his hands separately.

Solution:

True. The clubbing provisions of section 64(1A) are not applicable in a case where the minor child is suffering from any disability of the nature specified in section 80U. The income of such minor child will not be clubbed in the hands of either of the parents. Consequently, the total income of Mr. Y will be assessed in his hands.

Question 2: Based on transfer of immovable property for benefit of son's wife

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

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

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

Solution:

The clubbing provisions u/s 64(1)(viii) are attracted in case of transfer of any asset, directly or indirectly, otherwise than for adequate consideration, to any person to the extent to which the

income from such asset is for the immediate or deferred benefit of son's wife. Such income shall be included in computing the total income of the transferor-individual.

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

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

Note –

In order to attract the clubbing provisions u/s 64(1)(viii), the transfer should be otherwise than for adequate consideration. In this case, it is presumed that the transfer is otherwise than for adequate consideration and therefore, the clubbing provisions are attracted. If it is presumed that the transfer was for adequate consideration, the provisions of section 64(1)(viii) would not be attracted.

Question 3: Based on section 64(1)(ii)

Explain the provisions of the Income-tax Act, 1961, with regard to clubbing of income of spouse under section 64.

Solution:

As per section 64(1)(ii), any income arising directly or indirectly to the spouse of an individual by way of salary, commission, fees or any other form of remuneration, whether in cash or in kind, from a concern in which such individual has a substantial interest, would be clubbed.

However, such rule does not apply where the spouse possesses technical or professional qualification and the income of the spouse is solely attributable to the application of his or her technical or professional knowledge and experience.

Where both husband and wife have substantial interest in a concern and both are in receipt of salary etc. from the said concern, such income will be clubbed with the income of the spouse whose total income, excluding such income, is greater.

An individual shall be deemed to have substantial interest in a concern under the following circumstances:

- (a) If the concern is a company, equity shares carrying not less than 20% of the voting power are, at any time during the previous year, owned beneficially by such person or partly by such person and partly by one or more of his relatives.
- (b) In any other case, if such person is entitled, or such person and one or more of his relatives are entitled in the aggregate, at any time during the previous year, to not less than 20% of the profits of such concern.

As per section 64(1)(iv), where there is a transfer of an asset other than house property, directly or indirectly from one spouse to another, otherwise than for adequate consideration or in connection with an agreement to live apart, any income that arises either directly or indirectly to the transferee from the transfer of the asset shall be included in the total income of the transferor.

However, any income from the accretion of transferred asset is not liable to be clubbed. It may be noted that natural love and affection will not constitute adequate consideration for the purpose of section 64(1).

Question 4: Based on Transfer of income without transfer of asset

Mr. Vatsan has transferred, through a duly registered document, the income arising from a godown to his son, without transferring the godown. In whose hands will the rental income from godown be charged?

Solution:

Section 60 expressly states that where there is transfer of income from an asset without transfer of the asset itself, such income shall be included in the total income of the transferor. Hence, the rental income derived from the godown shall be clubbed in the hands of Mr. Vatsan.

Question 5: Based on cross transfer

Mr. Kabir gifted a sum of 9 lakhs to his brother's minor son on 20-5-2023. On 25-5-2023, his brother gifted debentures worth 10 lakhs to Mrs. Kabir. Son of Mr. Kabir's brother invested the amount in fixed deposit with Bank of India @ 9% p.a. interest and Mrs. Kabir received interest of 81,000 on debentures received by her. Discuss the tax implications under the provisions of the Income-tax Act, 1961.

Solution:

In the given case, Mr. Kabir gifted a sum of 9 lakhs to his brother's minor son on 20.5.2023 and simultaneously, his brother gifted debentures worth 10 lakhs to Mr. Kabir's wife on 25.5.2023. Mr. Kabir's brother's minor son invested the gifted amount of 9 lakhs in fixed deposit with Bank of India.

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.

As per section 64(1A), all income of a minor child is includible in the hands of the parent, whose total income, before including minor's income is higher. Accordingly, the interest income arising to Mr. Kabir's brother's son from fixed deposits would be included in the total income of Mr. Kabir's brother, assuming that Mr. Kabir's brother's total income is higher than his wife's total income, before including minor's income. Mr. Kabir's brother can claim exemption of ₹ 1,500 under section 10(32).

Interest on debentures arising in the hands of Mrs. Kabir would be taxable in the hands of Mr. Kabir as per section 64(1)(iv).

This is because both Mr. Kabir and his brother are the indirect transferors of the income to their spouse and minor son, respectively, with an intention to reduce their burden of taxation. In the hands of Mr. Kabir, interest received by his spouse on debentures of ₹ 9 lakhs alone would be included and not the entire interest income on the debentures of ₹ 10 lakhs, since the cross transfer is only to the extent of ₹ 9 lakhs.

Hence, only proportional interest (i.e., 9/10th of interest on debentures received) 72,900 would be includible in the hands of Mr. Kabir.

The provisions of section 56(2)(vii) are not attracted in respect of sum of money transferred or value of debentures transferred, since in both the cases, the transfer is from a relative.

Question 6: What is cross transfer?**Solution:**

In the case of cross transfers (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), the income from the assets transferred would be assessed in the hands of the deemed transferor if the transfers are so intimately connected as to form part of a single transaction, and each transfer constitutes consideration for the other by being mutual or otherwise. Thus, in the instant case, the transfers have been made by A and B to persons who are not their spouse or minor child so as to circumvent the provisions of this section, showing that such transfers constituted consideration for each other.

If Two transactions are inter-connected and are parts 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. Accordingly, 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. This is because A and B are the indirect transferors to their minor child and spouse, respectively, of income-yielding assets, so as to reduce their burden of taxation.

Question 7: 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. A = ₹ 7,00,000 [other income].

Gross total income of Mrs. A = Salary received by Mrs. A

[₹ 30,000×12] less 50,000, being the standard deduction under section 16(ia) plus other income [₹ 4,00,000] = ₹ 7,10,000

Question 8: Computation of Gross total income

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

Solution:

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

Computation of Gross total income of Mr. B

Particulars	₹
Income from Salary of Mrs. B (Computed)	3,44,000
Income from other sources	30,000
- Interest on securities	3,74,000

Computation of Gross total income of Mrs. B

Particulars	₹	₹
Income from Salary [clubbed in the hands of Mr. B]		Nil
Income from house property Gross Annual Value [₹ 6,000 × 12]	72,000	
Less: Municipal taxes paid	-	
Net Annual Value (NAV)		
Less: Deductions under section 24 -30% of NAV i.e., 30% of ₹ 72,000	72,000	
-Interest on loan	21,600	
Gross total income		50,400

Question 9: Clubbing of minor's income

Mr. A has three minor children – two twin daughters and one son. Income of the twin daughters is ₹ 2,000 p.a. each and that of the son is ₹ 1,200 p.a. Compute the income, in respect of minor children, to be clubbed in the hands of Mr. A.

Solution: Taxable income, in respect of minor children, in the hands of Mr. A is:

Particulars	₹	₹
Twin minor daughters [₹ 2,000 × 2]	4,000	
Less: Exempt under section 10(32) [₹ 1,500 × 2]	3,000	1,000
Minor son	1,200	
Less: Exempt under section 10(32)	1,200	Nil
Income to be clubbed in the hands of Mr. A		1,000

Question 10: Based on Cross transfer

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 IT Act, 1961 in the hands of Mr. Vasudevan and his brother.

Solution:

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.

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.

Question 11: Based on Section 64(1)(vi)

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 p.m 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?

Solution:

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 u/s 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 u/s 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 SDV of house property would not be chargeable to tax in the hands of the recipient of immovable property, even though the house property was received by her or him without consideration.

Note –

The first part of the question can also be answered by applying the provisions of section 64(1)(vi) directly to include the income of ₹ 2,10,000 arising to Mrs. C in the hands of Mr. A.

[without first applying the provisions of section 27(i) to deem Mr. A as the owner of the house property transferred to his wife Mrs. B without consideration], since section 64(1)(vi) speaks of clubbing of income arising to son's wife from indirect transfer of assets to her by her husband's parent, without consideration. Gift of house property by Mr. A to Mrs. C, via Mrs. B, can be viewed as an indirect transfer by Mr. A to Mrs. C

Question 12: Based on interest income

Mr Sharma invests ₹ 10 lakh in a fixed deposit (FD) at a bank, in his wife's name. Interest of ₹ 1 lakh arises on this income. Mrs Sharma invests the interest on periodic basis and interest for an amount of ₹. 5,000 arises on the interest deposited by her in bank. Analyse the clubbing provisions and fix out the taxability of interest accrued.

Solution:

₹. 1 lakhs in the Now Interest income on FD will be clubbed with his (Mr. Sharma) income. Interest of ₹. 5,000 Aroused out of investment made by Mrs. Sharma will be taxed as her own income.

Question 13: Computation of total income and tax liability

Red holds 40% of shares in Company. Mrs. Red (a CS) is employed in company as a CS & getting salary of ₹ 15,000 pm. Compute total income & tax payable by Red & Mrs. Red for AY 24-25 assuming other income of Red is ₹. 2,00,000 from a business & dividend income from company is ₹. 3,00,000.

Solution:

Mrs. Red's salary income will be taxable in her hands only as she is earning the same through her professional qualification.

Computation of total income and tax liability for AY 2024-25.

Particulars	Red	Mrs.
Income from Salary	Nil	1,80,000
Income from Business	2,00,000	Nil
Income from other sources: Dividend Income	3,00,000	Nil
Gross total income (or total income)	5,00,000	1,80,000
Tax Liability (as total income does not exceed ₹ 2,50,000)	12,500	Nil

Question 14: Based on gifted money invest in business

Nishant gifted ₹ 10 lakhs to his wife, Nisha on her birthday on, 1st January, 2023. Nisha lent ₹ 5,00,000 out of the gifted amount to Krish on 1st April, 2023 for six months on which she received interest of ₹ 50,000. The said sum of ₹ 50,000 was invested in shares of a listed company on 15th October, 2023, which were sold for ₹ 75,000 on 30th December, 2023. Securities transaction tax was paid on such sale. The balance amount of gift was invested as capital by Nisha in a newly business started on 1.4.2023. She suffered loss of ₹ 15,000 in the business in FY 2023-24. In whose hands the above income and loss shall be included in AY 2024 -25? Support your answer with brief reasons.

Solution**Interest on loan**

As per section 64(1)(iv), in computing the total income of any individual, there shall be included all such income as arises directly or indirectly, to the spouse of such individual from assets transferred directly or indirectly, to the spouse by such individual otherwise than for adequate consideration or in connection with an agreement to live apart.

Accordingly, ₹ 50,000, being the amount of interest on loan received by Ms. Nisha, wife of Mr. Nishant, would be includible in the total income of Mr. Nishant, since such loan was given by her out of the sum of money received by her as gift from her husband.

Loss from business

Since the capital was invested in business by Ms. Nisha on 1st April, 2023, and capital invested was entirely out of the funds gifted by her husband, the entire loss of ₹ 15,000 from the business carried on by Ms. Nisha would also be includible in the total income of Mr. Nishant.

Since income includes loss as per Explanation 2 to section 64, clubbing provisions would be attracted even if there is loss and not income.

Capital Gain on sale of shares of listed company

The STCG of ₹ 25,000 (₹ 75,000, being the sale consideration less ₹ 50,000, being the cost of acquisition) arising in the hands of Ms. Nisha from sale of shares acquired by investing the interest income of ₹ 50,000 earned by her (from the loan given out of the sum gifted to her by her husband), would not be included in the hands of Mr. Nishant.

Income from the accretion of the transferred asset is not liable to be included in the hands of the transferor and therefore such income is taxable in the hands of Ms. Nisha. Since securities transaction tax has been paid, such STCG on sale of listed shares is taxable@15% in the hands of Ms. Nisha.

Summary		
Inter-source and Inter-head set-off of losses [Sections 70 & 71]		
Sec	Provisions	Exceptions
70	<p>Inter-source set-off of losses under the same head of income Any loss in respect of one source shall be set-off against income from any other source under the same head of income. For example,</p> <ul style="list-style-type: none"> - loss from textile business can be set-off against profit from printing business. - loss from one house property can be set-off against income - short-term capital loss (STCL) can be set-off against both STCG and LTCG. 	<ul style="list-style-type: none"> (i) Loss from speculation business can be set-off only against profits from another speculation business. (ii) Long term capital loss (LTCL) can be set-off only against (LTCG). (iii) Loss from the activity of owning and maintaining race horses can be set-off only against income from the activity of owning and maintaining race horses. (iv) An assessee carrying on specified business u/s 35AD and exercising the option of shifting out of the default tax regime provided u/s 115BAC(1A), would be eligible for deduction u/s 35AD. In such a case, loss from specified business under section 35AD can be set-off only against profits from any other specified business.
71	<p>Inter head adjustment Loss under one head of income can be set-off against income assessable under any other head of income. For example, business loss can be set-off against income from house property.</p>	<ul style="list-style-type: none"> (i) Loss under the head "Profits and gains of business or profession" cannot be set off against income under the head "Salaries" (ii) Loss under the head "Capital gains" cannot be set-off against income under any other head. (iii) Speculation loss, losses from specified business under section 35AD and loss from the activity of owning and maintaining race horses cannot be set-off against income under any other head. In case of an assessee exercising the option of shifting out of the default tax regime provided under section 115BAC(1A) and claiming deduction u/s 35AD, loss from specified business u/s 35AD cannot be set off against income under any other head. (iv) The loss under the head "Income from house property" would not be allowable to be set-off against income under the other head if the assessee pays tax at concessional rate u/s 115BAC. (v) However, if the assessee exercises the option of shifting out of the default tax regime provided under section 115BAC(1A), loss from house property can be set-off against income under any other head only to the extent of ₹ 2 lakhs. The remaining loss can be carried forward for set-off against income from house

			property of the succeeding year(s).
Losses which cannot be set-off or carried forward			
Loss from gambling, betting, card games etc. Loss from an exempt source [for example, share of loss of partnership firm cannot be set-off against any other business income]			
Maximum period of carry forward of losses & Manner of set-off of brought forward losses			
Sec	Nature of loss to be carried forward	Income against which the brought forward loss can be set-off	Maximum period [from the end of the relevant assessment year] for carry forward of losses
32(2)	Unabsorbed depreciation	Income Under any head other than Salaries	Indefinite period
71B	Unabsorbed loss from house property	Income property from house	8 assessment years
72	Unabsorbed business loss	Profits and gains from business or profession	8 assessment years
73	Loss from speculation business	Income from any speculation business	4 assessment years
73A	Loss from specified business under section 35AD ,in case of an assessee shifting out of the default tax regime provided under section 115BAC(1A)	Profit from any specified business, irrespective of whether such business is eligible for deduction u/s 35AD.	Indefinite period
74	Long-term capital loss	Long-term capital gains	8 assessment years
	Short-term capital loss	Short-term/Long-term capital gains	8 assessment years
74A	Loss from the activity of owning and maintaining race horses	Income from the activity of owning and maintaining race horses.	4 assessment years
Order of set-off of losses			
<ol style="list-style-type: none"> 1. Current year depreciation / Current year capital expenditure on scientific research and current year expenditure on family planning, to the extent allowed. 2. Brought forward loss from business/profession [Section 72(1)] 3. Unabsorbed depreciation [Section 32(2)] 4. Unabsorbed capital expenditure on scientific research [Section 35(4)]. 5. Unabsorbed expenditure on family planning [Section 36(1)(ix)] 			
Note - As per section 80, filing of loss return under section 139(3) within the due date specified under section 139(1) is mandatory for carry forward of the above losses except loss from house property and unabsorbed depreciation.			

Question 1: Based on total income

Mr. A (aged 35 years) submits the following particulars pertaining to A.Y. 24-25:

Particulars	Amt (₹)
Income from salary (computed)	4,00,000
Loss from self-occupied	(70,000)
Loss from let-out property	(1,50,000)
Business loss	(1,00,000)
Bank interest (FD) received	80,000

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

Solution: Computation of total income of Mr. A for the A.Y. 2024-2025

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

Note: Gross Total Income includes salary income of ₹ 2,00,000 after adjusting loss of ₹ 2,00,000 from house property. The balance loss of ₹ 20,000 from house property to be carried forward to next AY for set-off against income from house property of that year.

Business loss of ₹ 1,00,000 is set off against bank interest of ₹ 80,000 and remaining business loss of ₹ 20,000 will be carried forward as it cannot be set off against salary income.

Question 2: Based on total income

Mr. B, a resident individual, furnishes the following particulars for the P.Y. 2023-24:

Particulars	₹
Income from salary (computed)	45,000
Income from house property	(24,000)
Income from business - non- speculative	(22,000)
Income from speculative business	(4,000)
Short-term capital losses	(25,000)
Long-term capital gains	19,000

What is the total income chargeable to tax for the A.Y.2024-25?

Solution: Computation of Total income of Mr. B for the A.Y. 2024-25

Particulars	Amt (₹)	Amt (₹)
Income from salaries	45,000	
Income from house property	(24,000)	21,000
Profits and gains of business and profession		
Business loss to be carried forward [Note 1]	(22,000)	
Speculative loss to be carried forward [Note 2]	(4,000)	
Capital Gains		
Long term capital gain	19,000	
Short term capital loss	(25,000)	
Short term capital loss to be carried forward [Note 3]	(6,000)	
Taxable income		21,000

Note 1: Business loss cannot be set-off against salary income. Therefore, loss of ₹ 22,000 from the non-speculative business cannot be set off against the income from salaries. Hence, such loss has to be c/f to the next year for set-off against business profits, if any.

Note 2: Loss of ₹ 4,000 from the speculative business can be set off only against the income from the speculative business. Hence, such loss has to be carried forward.

Note 3: Short term capital loss can be set off against both STCG and LTCG. Therefore, short term capital loss of ₹ 25,000 can be set-off against LTCG to the extent of ₹ 19,000. Balance STCL of ₹ 6,000 cannot be set-off against any other income and has to be c/f to the next year for set-off against capital gains, if any.

Question 3: Based on CG

During the PY 23-24, Mr. C has the following income and the brought forward losses

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

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

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

Particulars	₹	₹
Short term capital gains on sale of shares	1,50,000	
Less: Brought forward short-term capital loss of AY 24-25	(37,000)	1,13,000
Long term capital gain	75,000	
Less: B/f long-term capital loss of AY 22-23 [See Note below]	(75,000)	Nil
Taxable short-term capital gains		1,13,000

Note: LTCL cannot set off against STCG. Hence, unadjusted LTCL of A.Y.2024-25 of ₹ 21,000 (i.e., ₹ 96,000 – ₹ 75,000) has to be c/f to the next year to set-off against LTCG of that year.

Question 4: Based on Brought forward losses

Mr. D has the following income for the P.Y. 2023-24:

Particulars	₹
Income from the activity of owning and maintaining the race horses	75,000
Income from textile business	85,000
Brought forward textile business loss	50,000
Brought forward loss from the activity of owning and maintaining the race horses (relating to A.Y. 2021-2022)	96,000

What is the total income in the hands of Mr. D for the A.Y. 2024-25?

Solution: Total income of Mr. D for the A.Y. 2024-25

Particulars	₹	₹
Income from the activity of owning and maintaining race horses	75,000	
Less: Brought forward loss from the activity of owning and maintaining race horses	96,000	
Loss from the activity of owning and maintaining race horses to be carried forward to A.Y.2024-25	(21,000)	
Income from textile business	85,000	
Less: B/f business loss from textile business.	50,000	35,000
Total income		35,000

Note: Loss from the activity of owning and maintaining race horses cannot be set-off against any other source/head of income.

Question 5: Based on Computation of taxable income

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

Particulars	₹
Income from salaries (computed)	1,50,000
Income from speculation business	60,000
Loss from non-speculation business	(40,000)
Short term capital gain	80,000
Long term capital loss of A.Y. 2021-22	(30,000)
Winning from lotteries	20,000

What is the taxable income of Mr. E for the A.Y.2024-25?

Solution: Computation of taxable income of Mr. E for the AY 2024-25

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

Note: LTCL can be set off only against LTCG. Therefore, LTCL of Rs 30,000 has to be carried forward to the next AY.

Question 6: Based on Computation of tax liability

Mr. A furnishes you the following information for the year ended 31.03.2024

	Particulars	(₹)
(i)	Income from plying of vehicles (computed as per books) (He owned 5 light goods vehicle throughout the year)	3,20,000
(ii)	Income from retail trade of garments (Computed as per books) (Sales turnover ₹ 1,35,70,000) Mr. A had declared income on presumptive basis u/s 44AD for the first time in AY 2024-25. Assume 10% of the turnover during PY 23-24 was received in cash and balance through A/C payee cheque and all payments in respect of expenditure were also made through A/C payee cheque or debit card.	7,50,000
(iii)	He has brought forward depreciation relating to AY 2021-22	1,00,000

Compute taxable income of Mr. A and his tax liability for the AY 2024- 25 with reasons for your computation.

Solution: Computation of total income and tax liability of Mr. A for the A.Y. 2024-25

Particulars	₹
Income from retail trade – as per books (See Note 1 below)	7,50,000
Income from plying of vehicles – as per books (See Note 2 below)	3,20,000
Total	10,70,000
Less: Set off of b/f depreciation relating to A.Y. 2021-22	1,00,000
Total income	9,70,000
Tax liability	1,06,500
Add: Health and Education cess @4%	4,260
Total tax liability	1,10,760

Note:

- Income from retail trade:** Presumptive business income u/s 44AD is ₹ 8,41,340 i.e., 8% of turnover of ₹ 13,57,000, being 10% of the turnover received in cash and 6% of ₹1,22,13,000, being the amount of turnover received through A/C payee cheque. However, the income computed as per books is ₹ 7,50,000 which is to be further reduced by the amount of unabsorbed depreciation of ₹ 1,00,000. Since the income computed as per books is lower than the income deemed u/s 44AD, the assessee can adopt the income as per books. However, if he does not opt for presumptive taxation u/s 44AD, he has to get his books of accounts audited u/s 44AB, since his turnover exceeds ₹ 1 crore. Also, his case would be falling u/s 44AD (4) and hence tax audit is mandatory.
- Income from plying of light goods vehicles:** Income calculated u/s 44AE (1) would be ₹ 7,500 x 12 x 5 which is equal to ₹ 4,50,000. However, the income from plying of vehicles as per books is ₹ 3,20,000, which is lower than the presumptive income of ₹ 4,50,000 calculated as per sec 44AE (1). Hence, the assessee can adopt the income as per books i.e., ₹ 3,20,000, provided he maintains books of account as per sec 44AA and gets his accounts audited and furnishes an audit report as required u/s 44AB. It is to be further noted that in both the above cases, had presumptive income provisions been opted, all deductions u/s 30 to 38, including depreciation would have been deemed to have been given full effect to and no further deduction under those sections would be allowable.

If the assessee opted for income to be assessed on presumptive basis, his total income would be as under:

Particulars	₹
Income from retail trade u/s 44AD [₹ 13,57,000 @ 8% (+) ₹1,22,13,000 @ 6%]	8,41,340
Income from plying of light goods vehicles u/s 44AE [₹ 7,500 x 12 x 5]	4,50,000
Total	12,91,340
Less: Set off of brought forward depreciation – not possible as it is deemed that it has been allowed and set off	Nil
Total income	12,91,340
Tax thereon	1,99,902
Add: Health and Education cess @4%	7,996
Total tax liability	2,07,898
Total tax liability (rounded off)	2,07,900

Question 7: Compute the total income & items eligible for c/f.

Mr. Aditya furnishes the following details for year ended 31-03-2024:

Particulars	Amount
Loss from speculative business A	25,000
Income from speculative business B	5,000
Loss from specified business covered under section 35AD	20,000
Income from salary (computed)	3,00,000
Loss from house property	2,50,000
Income from trading business	45,000
Long-term capital gain from sale of urban land	2,00,000
Long-term capital loss on sale of shares (STT not paid)	75,000
Long-term capital loss on sale of listed shares in recognized stock exchange (STT paid at the time of acquisition and sale of shares)	1,02,000

Following are the brought forward losses:

- (1) Losses from owning and maintaining of race horses pertaining to A.Y. 2022-23 ₹ 2,000.
- (2) Brought forward loss from trading business ₹ 5,000 relating to A.Y. 2019-20.

Compute the total income of Mr. Aditya and show the items eligible for c/f.

Solution: Computation of total income of Mr. Aditya for the A.Y.2024-25

Particulars	₹	₹
Salaries		
Income from Salary	3,00,000	
Less: Loss from house property set-off against salary income as per section 71(1) & 71(3A)	2,00,000	1,00,000
Loss from house property to the extent not set off i.e., ₹50,000 (2,50,000 – 2,00,000) to be carried forward to AY 25-26	50,000	
Profits and gains of business or profession		
Income from trading business	45,000	
Less: Brought forward loss from trading business of AY 2019-20 can be set off against CY income from trading business as per sec 72(1), since the 8 year time limit as specified u/s 72(3), within which set-off is permitted, has not expired.	5,000	40,000
Income from speculative business B	5,000	
Less: Loss from speculative business A set-off as per sec 73(1)	25,000	

Loss from speculative business A to be carried forward to A.Y.2024-25 as per section 73(2)	20,000	
Loss from specified business covered under section 35AD to be carried forward for set-off against income from specified business as per section 73A.	20,000	
Capital Gains		
Long term capital gain on sale of urban land	2,00,000	
Less: Long term capital loss on sale of shares (STT not paid) set-off as per section 74(1)]	75,000	
Less: Long-term capital loss on sale of listed shares on which STT is paid can also be set-off as per section 74(1),since long-term capital arising on sale of such shares is taxable under section 112A	1,02,000	23,000
Total Income		1,63,000

Items eligible for carried forward to A.Y.2024-25

Particulars	₹
<p>Loss from House property As per section 71(3A), Loss from house property can be set-off against any other head of income to the extent of ₹ 2,00,000 only. As per sec 71B, balance loss not set-off can be c/f to the next year for set-off against income from house property of that year. It can be c/f for a maximum of eight AYs i.e., up to A.Y. 2031-32, in this case.</p>	50,000
<p>Loss from speculative business A Loss from speculative business can be set-off only against profits from any other speculation business. As per sec 73(2), balance loss not set-off can be c/f to the next year for set-off against speculative business income of that year. Such loss can be c/f for a maximum of 4 AYs i.e., up to A.Y. 2027-28, in this case, as specified u/s 73(4).</p>	20,000
<p>Loss from specified business Loss from specified business u/s 35AD can be set-off only against profits of any other specified business. If loss cannot be so set-off, the same has to be c/f to the subsequent year for set off against income from specified business, if any, in that year. As per section 73A (2), such loss can be carried forward indefinitely for set-off against profits of any specified business .</p>	20,000
<p>Loss from the activity of owning and maintaining race horses Losses from the activity of owning and maintaining race horses (current year or brought forward) can be set-off only against income from the activity of owning and maintaining race horses. If it cannot be so set-off, it has to be c/f to the next year for set-off against income from the activity of owning and maintaining race horses, if any, in that year. It can be c/f for a maximum of 4 AYs, i.e., up to AY 2025-26, in this case, as u/s 74A (3).</p>	2,000

Question 8: Based on Compute the total income & items eligible for c/f.
Mr. Rajat submits the following information for the FY ending 31st March 2024. He desires that you should:

- (a) Compute the total income and
 (b) Ascertain the amount of losses that can be carried forward.

Particulars	₹
(i) He has two houses:	
(A) House No. I – Income after all statutory deductions	72,000
(B) House No. II – Current year loss	(30,000)
(ii) He has three proprietary businesses:	
(A) Textile Business:	
(i) Discontinued from 31st October, 2022 – Current year loss	40,000
(ii) Brought forward business loss of A.Y.2018-19	95,000
(B) Chemical Business:	
(i) Discontinued from 1st March, 2020– hence no profit/loss	NIL
(ii) Bad debts allowed in earlier years recovered during this year	35,000
(iii) Brought forward business loss of A.Y. 2019-20	50,000
(C) Leather Business: Profit for the current year	1,00,000
(D) Share of profit in a firm in which he is partner since 2008	16,550
(iii)	
(a) Short Term Capital Gain	60,000
(b) Long-Term Capital Loss	35,000
(iv) Contribution to LIC towards Premium	10,000

Solution: Computation of total income of Mr. Rajat for the A.Y. 2024-25

Particulars	₹	₹
1. Income from house property		
House No.1	72,000	
House No.2	(30,000)	42,000
2. Profits and gains of business or profession		
Profit from leather business	1,00,000	
Bad debts recovered taxable u/s 41(4)	35,000	
	1,35,000	
Less: Current year loss of textile business		
	(40,000)	
Less: Brought forward business loss of textile business for A.Y.2018-19 set off against the business income of current year	95,000	
	95,000	Nil
3. Capital Gains		
Short-term capital gain		60,000
Gross Total Income		1,02,000
Less: Deduction under Chapter VI-A		
Under section 80C – LIC premium paid		10,000
Total Income		92,000

Statement of losses to be carried forward to A.Y. 2024-25

Particulars	₹
Business loss of A.Y. 2019-20 to be carried forward u/s 72	50,000
Long term capital loss of AY 2024-25 to be c/f u/s 74	35,000

Notes:

- (1) Share of profit from firm of ₹ 16,550 is exempt under section 10(2A).
- (2) LTCL cannot be set-off against STCG. Therefore, it has to be c/f to the next year to be set-off against LTCG of that year.

Question 9: Compute the total income & items eligible for c/f.

Ms. Geeta, a resident individual, provides the following details of her income / losses for the year ended 31.3.2023:

- (i) Salary received as a partner from a partnership firm ₹ 7,50,000. The same was allowed to the firm.
- (ii) Loss on sale of shares listed in BSE ₹ 3,00,000. Shares were held for 15 months and STT paid on sale and acquisition.
- (iii) Long-term capital gain on sale of land ₹ 5,00,000.
- (iv) ₹ 51,000 received in cash from friends in party.
- (v) ₹ 55,000, received towards dividend on listed equity shares of domestic Co.
- (vi) Brought forward business loss of Assessment Year 2021-22 ₹ 12,50,000.

Compute gross total income of Ms. Geeta for the AY 24-25 and ascertain the amount of loss that can be carried forward.

Solution: Computation of Gross Total Income of Ms. Geeta for AY 2024-25

Particulars	Amount ₹
Profits and gains of business and profession	
Salary received as a partner from a partnership firm is taxable under the head "Profits and gains of business and profession"	7,50,000
Less: Brought forward business loss of AY 2021-22 to be set-off against business income	(7,50,000)
Capital Gains	
Long term capital gain on sale of land	5,00,000
Less: LTCL on shares on STT paid (See Note 2)	(3,00,000)
	2,00,000
Income from other sources	
Cash gift received from friends – since the value of cash gift exceeds ₹ 50,000, the entire sum is taxable	51,000
Dividend received from a domestic	55,000
	1,06,000
Gross Total Income	3,06,000

Notes:

1. Balance brought forward business loss of AY 2021-22 of ₹ 12,50,000 has to be c/f to the next year.
2. LTCL on sale of shares on which STT is paid at the time of acquisition and sale can be set-off against LTCG on sale of land since LTCG on sale of shares (STT paid) is taxable u/s 112A. Therefore, it can be set-off against LTCG on sale of land as per section 70(3).

Question 10: Based on unabsorbed depreciation

X discontinued his proprietary business in the AY 2023-24 for which year he had unabsorbed depreciation of ₹25,000. For the AY 2024-25, his only source of income is from other sources. Can X claim the set off of unabsorbed depreciation carried forward against income from other sources in the AY 2024-25? Discuss.

Solution:

According to the provisions regulating set off and c/f of depreciation, c/f of unabsorbed depreciation is possible even if the business or profession for which the allowance was originally computed is not in existence during the PY relevant of the AY in which he wants to set off the unabsorbed depreciation.

There is no fixed time-limit for the purpose of c/f of unabsorbed depreciation, it can be c/f for indefinite period, if necessary. The unabsorbed depreciation can be set off against any income whether chargeable under the head "PGBP" or under any other head in the subsequent years. In the present Question, in view of the aforesaid provisions, X can claim set off of unabsorbed depreciation c/f against income from other sources in the AY 2024-25.

Summary			
Deductions in respect of certain payments			
Section	Eligible Assessee	Eligible Payments	Permissible Deduction
80C	Individual or HUF	<p>Contribution to PPF, Payment of LIC premium, etc.</p> <p>Sums paid or deposited in the previous year by way of</p> <ul style="list-style-type: none"> ➤ Life insurance premium ➤ Contribution to PPF/ SPF/RPF and approved superannuation fund ➤ Repayment of housing loan taken from Govt., bank, LIC, specified employer etc. ➤ Tuition fees to any Indian university, college, school for full-time education of any two children ➤ Term deposit for a fixed period of not less than 5 years with schedule bank ➤ Subscription to notified bonds of NABARD ➤ Five year post office time deposit ➤ Senior Citizen's Savings Scheme Account etc. ➤ Contribution by Central Govt. employee to additional account (Tier II A/c) of NPS referred to u/s 80CCD 	<p>Sum paid or deposited, subject to a maximum of ₹1,50,000</p> <p>[Note- Deduction would be available only if the individual/HUF exercises the option of shifting out of the default tax regime provided u/s 115BAC(1A)]</p>
80CCC	Individual	<p>Contribution to certain pension funds</p> <p>Any amount paid or deposited to keep in force a contract for any annuity plan of LIC of India or any other insurer for receiving pension from the fund.</p>	<p>Amount paid or deposited, subject to a maximum of ₹1,50,000</p> <p>[Note- Deduction would be available only if the individual exercises the option of shifting out of the default tax regime provided u/s 115BAC(1A)]</p>
80CCD	Individuals employed by the Central Government or any other employer; Any other individual assessee	<p>Contribution to Pension Scheme of Central Government</p> <p>An individual employed by the Central Government on or after 1.1.2004 or any other employer or any other assessee, being an individual, who has paid or deposited any amount in his account under a notified pension scheme [to</p>	<p>Employee's Contribution/ Individual' Contribution</p> <p>In case of a salaried individual, deduction of own contribution under section 80CCD(1) is restricted to 10% of his salary.</p>

		his individual pension account [Tier I A/c] under National Pension Scheme & Atal Pension Yojana]	<p>In any other case, deduction under section 80CCD(1) is restricted to 20% of gross total income. Further, additional deduction of upto ₹50,000 is available under section 80CCD(1B).</p> <p>[Deduction u/s 80CCD(1) and 80CCD(1B) would be available only if the individual exercises the option of shifting out of the default tax regime provided u/s 115BAC(1A)]</p> <p>Employer's Contribution The entire employer's contribution would be included in the salary of the employee. The deduction of employer's contribution under section 80CCD(2) would be restricted to 14% of salary, where the employer is the Central Government; and 10%, in case of any other employer. [Deduction u/s 80CCD(2) would be available irrespective of the regime under which he pays tax.]</p>
<p>Note – As per section 80CCE, maximum permissible deduction u/s 80C, 80CCC & 80CCD(1) is ₹1,50,000. However, the limit ₹1.50 lakh under section 80CCE does not apply to deduction under section 80CCD(2) and 80CCD(1B).</p>			
80CCH	Individual	<p>Contribution to Agniveer Corpus Fund: An individual enrolled in the Agnipath Scheme and subscribing to the Agniveer Corpus Fund on or after 1.11.2022, who has paid or deposited any amount in his account in the Agniveer Corpus Fund</p>	<p>Individual Contribution Whole of the amount paid or deposited. [Deduction would be available only if the individual exercises the option of shifting out of the default tax regime provided under section 115BAC(1A)]</p> <p>Central Government's Contribution The entire Central Government's contribution to the Agniveer Corpus</p>

			Fund would be included in the salary of the assessee. Thereafter, deduction u/s 80CCH(2) would be available for the same. [Deduction u/s 80CCH(2) would be available irrespective of the regime under which he pays tax]
80D	Individual and HUF	<p>Medical Insurance Premium</p> <p>(1) Any premium paid, otherwise than by way of cash, to keep in force an insurance on the health of –</p> <p>* In case of Individual –Self, Spouse, and dependent children</p> <p>* In case of HUF – Family Members</p> <p>(2) In case of an individual, contribution, otherwise than by way of cash, to CGHS or any other scheme as notified by Central Government.</p> <p>(3) Any premium paid, otherwise than by way of cash, to keep in force an insurance on the health of parents, whether or not dependent on the individual.</p> <p>Notes:</p> <p>(i) Any amount paid, otherwise than by way of cash, on account of medical expenditure incurred on the health of the assessee or his family member or his parent, who is a senior citizen and no amount has been paid to effect or to keep in force an insurance on the health of such person.</p> <p>(ii) Payment, including cash payment, for preventive health check-up of himself, spouse, dependent children and parents.</p>	<p>Maximum ₹ 25,000 (₹50,000, in case the individual or his or her spouse is a senior citizen)</p> <p>Maximum ₹25,000 (₹50,000, in case either or both of the parents are senior citizen(s))</p> <p>Amount paid subject to a cap of ₹ 50,000 (in case one parent is a senior citizen, in respect of whom insurance premium is paid, and the other is a senior citizen on whom medical expenditure is incurred, the total deduction cannot exceed ₹ 50,000)</p> <p>Amount paid subject to a cap of ₹5,000, in aggregate (subject to the overall individual limits of ₹25,000/ ₹50,000, as the case may be).</p> <p>[Deduction would be available only if the individual/HUF exercises the option of shifting out of the default tax regime provided u/s 115BAC(1A)]</p>
80DD	Resident Individual or HUF	<p>Maintenance including medical treatment of a dependant disabled</p> <p>Any amount incurred for the</p>	<p>Flat deduction of ₹ 75,000.</p> <p>In case of severe disability (i.e. person with 80% or</p>

		<p>medical treatment (including nursing), training and rehabilitation of a dependent disabled</p> <p style="text-align: center;">and / or</p> <p>Any amount paid or deposited under the scheme framed in this behalf by the LIC or any other insurer or Administrator or Specified Company and approved by Board.</p> <p>Meaning of Dependant</p> <table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr style="background-color: #4a7ebb; color: white;"> <th style="width: 50%; text-align: center;">(1) In case of</th> <th style="width: 50%; text-align: center;">(2) Dependant</th> </tr> </thead> <tbody> <tr> <td>An individual</td> <td>Spouse, children, parents, brothers, sisters</td> </tr> <tr> <td>A HUF</td> <td>Any member</td> </tr> </tbody> </table> <p>Persons mentioned in (2) should be wholly or mainly dependant on the person mentioned in corresponding (1) for support and maintenance. Such persons should not have claimed deduction under section 80U in computing total income of that year.</p>	(1) In case of	(2) Dependant	An individual	Spouse, children, parents, brothers, sisters	A HUF	Any member	<p>more disability) the flat deduction shall be ₹1,25,000.</p> <p>[Deduction would be available only if the individual/HUF exercises the option of shifting out of the default tax regime provided u/s 115BAC(1A)]</p>
(1) In case of	(2) Dependant								
An individual	Spouse, children, parents, brothers, sisters								
A HUF	Any member								
80DDB	Resident Individual or HUF	<p>Deduction for medical treatment of specified diseases or ailments Amount paid for specified diseases or ailment.</p> <table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr style="background-color: #4a7ebb; color: white;"> <th style="width: 50%; text-align: center;">Assessee</th> <th style="width: 50%; text-align: center;">Amount spent</th> </tr> </thead> <tbody> <tr> <td>An individual</td> <td>For himself or his dependant being spouse, children, parents, brothers or sisters wholly or mainly dependant on the individual for support and maintenance</td> </tr> <tr> <td>A HUF</td> <td>For any member</td> </tr> </tbody> </table>	Assessee	Amount spent	An individual	For himself or his dependant being spouse, children, parents, brothers or sisters wholly or mainly dependant on the individual for support and maintenance	A HUF	For any member	<p>Actual sum paid or ₹ 40,000 (₹1,00,000, if the payment is for medical treatment of a senior citizen), whichever is less, minus the amount received from the insurance company or reimbursed by the employer.</p> <p>[Deduction would be available only if the individual/HUF exercises the option of shifting out of the default tax regime provided u/s 115BAC(1A)]</p>
Assessee	Amount spent								
An individual	For himself or his dependant being spouse, children, parents, brothers or sisters wholly or mainly dependant on the individual for support and maintenance								
A HUF	For any member								
80E	Individual	<p>Interest on loan taken for higher education</p> <p>Interest on loan taken from any financial institution or approved charitable institution.</p> <p>Such loan is taken for pursuing his</p>	<p>The deduction is available for interest payment in the initial AY (year of commencement of interest payment) &</p>						

		higher education or higher education of his or her relative i.e., spouse or children of the individual or the student for whom the individual is the legal guardian.	7 AY's immediately succeeding the initial AY (or) until the interest is paid in full by the assessee, whichever is earlier. [Deduction would be Available only if the individual exercises the option of shifting out of the default tax regime provided under section 115BAC(1A)]
80EE	Individuals	Deduction for interest on loan borrowed from any financial institution [bank/housing finance company (HFC)] for acquisition of residential house property	Deduction of upto ₹ 50,000 would be allowed in respect of interest on loan taken from a financial institution Conditions: Loan should be sanctioned during P.Y.2016-17 Loan sanctioned ≤ ₹35 lakhs Value of house ≤ ₹50 lakhs The assessee should not own any residential house on the date of sanction of loan. [Deduction would be available only if the individual exercises the option of shifting out of the default tax regime provided u/s 115BAC(1A)]
80EEA	Individual	Deduction in respect of interest payable on loan taken from a FI (bank or HFC) for acquisition of residential house property	Deduction of upto ₹1,50,000 would be allowed in respect of interest payable on loan taken from a FI for acquisition of house property. Conditions: <ul style="list-style-type: none"> • Loan should be sanctioned by a FI during the period between 1st April 2019 to 31st March 2022. • Stamp Duty Value of house ≤ ₹45 lakhs • The individual should not own any residential house on the

			<p>date of sanction of loan.</p> <ul style="list-style-type: none"> The individual should not be eligible to claim deduction u/s 80EE. <p>[Deduction would be available only if the individual exercises the option of shifting out of the default tax regime provided u/s 115BAC(1A)]</p>															
80EEB	Individual	Deduction in respect of interest payable on loan taken from a FI (bank or certain NBFCs) for purchase of electric vehicle	<p>Deduction of upto ₹1,50,000 would be allowed in respect of interest payable on loan taken for purchase of electric vehicle. Loan should be sanctioned by a FI during the period from 1.4.2019 to 31.3.2023</p> <p>[Deduction would be available only if the individual exercises the option of shifting out of the default tax regime provided u/s 115BAC(1A)]</p>															
80G	All assessees	<p>Donations to certain funds, charitable institutions etc. There are four categories of deductions –</p> <table border="1"> <thead> <tr> <th></th> <th>Category</th> <th>Donations</th> </tr> </thead> <tbody> <tr> <td>(i)</td> <td>100% deduction of amount donated, without any qualifying limit</td> <td>Prime Minister's National Relief Fund, National Children's Fund, Swachh Bharat Kosh, National Defence Fund, PM CARES Fund etc.</td> </tr> <tr> <td>(ii)</td> <td>50% deduction of amount donated, without any qualifying limit</td> <td>Prime Minister's Drought Relief Fund, Jawaharlal Nehru Memorial Fund, Indira Gandhi Memorial Trust, Rajiv Gandhi Foundation.</td> </tr> <tr> <td>(iii)</td> <td>100% deduction of amount donated, subject to qualifying limit</td> <td>Government or local authority, institution for promotion of family planning etc.</td> </tr> <tr> <td>(v)</td> <td>50% deduction of amount donated, subject to qualifying limit.</td> <td>Government or any local authority to be used for charitable purpose, other than promotion of family planning, notified temple, church, gurudwara, mosque, etc.</td> </tr> </tbody> </table>			Category	Donations	(i)	100% deduction of amount donated, without any qualifying limit	Prime Minister's National Relief Fund, National Children's Fund, Swachh Bharat Kosh, National Defence Fund, PM CARES Fund etc.	(ii)	50% deduction of amount donated, without any qualifying limit	Prime Minister's Drought Relief Fund, Jawaharlal Nehru Memorial Fund, Indira Gandhi Memorial Trust, Rajiv Gandhi Foundation.	(iii)	100% deduction of amount donated, subject to qualifying limit	Government or local authority, institution for promotion of family planning etc.	(v)	50% deduction of amount donated, subject to qualifying limit.	Government or any local authority to be used for charitable purpose, other than promotion of family planning, notified temple, church, gurudwara, mosque, etc.
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		<p>Calculation of Qualifying limit for Category III & IV donations:</p> <p>Step 1: Compute adjusted total income, i.e., the gross total income as reduced by the following:</p> <ol style="list-style-type: none"> 1. Deductions under Chapter VI-A, except u/s 80G 2. Short term capital gains taxable u/s 111A 3. Long term capital gains taxable u/s 112& 112A <p>Step 2: Calculate 10% of adjusted total income.</p> <p>Step 3: Calculate the actual donation, which is subject to qualifying limit</p> <p>Step 4: Lower of Step 2 or Step 3 is the maximum permissible deduction.</p> <p>Step 5: The said deduction is adjusted first against donations qualifying for 100% deduction (i.e., Category III donations). Thereafter, 50% of balance qualifies for deduction under section 80G.</p> <p>Note - No deduction shall be allowed for donation in excess of ₹2,000, if paid in cash. [In case of individuals, HUF, AoP (other than a co-operative society) or BoI or an artificial juridical person, deduction would be available only if they exercise the option of shifting out of the default tax regime provided under section 115BAC(1A)]</p>	
80GG	Individual not in receipt of house rent allowance	Rent paid for residential accommodation	<p>Least of the following is allowable as deduction:</p> <ol style="list-style-type: none"> (1) 25% of total income; (2) Rent paid – 10% of total income (3) ₹ 5,000 p.m. <p>No deduction if any residential accommodation is owned by the assessee/his spouse/minor child/HUF at the place where he ordinarily resides or performs the duties of his office or employment or carries on his business or profession. [Deduction would be available only if the individual exercises the option of shifting out of the default tax regime provided u/s 115BAC(1A)]</p>
80GGA	Any assessee not having income	Donations for scientific research and rural development	<p>Actual donation [No deduction shall be allowed for donation in</p>

	chargeable under the head "Profits and gains of business or profession"		excess of ₹ 2,000, if paid in cash] [Deduction would be available to individual, HUF, AOP (other than a co-operative society) or BOI or an artificial juridical person only if they exercise the option of shifting out of the default tax regime provided u/s 115BAC(1A)]
80GGB	Indian company (not opting for Sec.115BAA / 115BAB)	Contributions to political parties Any sum contributed by it to a registered political party or an electoral trust.	Actual contribution (otherwise than by way of cash)
80GGC	Any person, other than local authority and an artificial juridical person funded by the Government.	Contributions to political parties Amount contributed to a registered political party or an electoral trust.	Actual contribution (otherwise than by way of cash). [An individual, HUF, AoP (other than a co-operative society) or BoI would be eligible for deduction u/s 80GGC only if the assessee exercise the option of shifting out of the default tax regime provided u/s 115BAC(1A)]

Deductions in respect of Certain Incomes

As per section 80AC, furnishing return of income on or before due date is mandatory for claiming deduction in respect of certain incomes.

Section	Eligible Assessee	Eligible Income	Permissible Deduction
80JJAA	An assessee to whom section 44AB applies, whose Gross total income includes profits and gains derived from business.	Deduction in respect of employment of new employees	30% of additional employee cost incurred in the PY. Deduction is allowable for 3 AY's including AY relevant to the PY in which such employment is provided. [Deduction would be available irrespective of the regime under which the employer pays tax]
80QQB	Resident individual, being an author	Royalty income, etc., of authors of certain books other than text books Consideration for assignment or grant of any of his interests in the	Income derived in the exercise of profession or ₹3,00,000, whichever is less. In respect of royalty or copyright fee received

		copyright of any book, being a work of literary, artistic or scientific nature or royalty or copyright fee received as lumpsum or otherwise.	otherwise than by way of lumpsum, income to be restricted to 15% of value of books sold during the relevant previous year. [Deduction would be available only if the individual exercises the option of shifting out of the default tax regime provided under section 115BAC(1A)]
80RRB	Resident individual, being a patentee	Royalty on patents Any income by way of royalty on patents registered on or after 1.4.2003	Whole of such income or ₹ 3,00,000, whichever is less. [Deduction would be available only if the individual exercises the option of shifting out of the default tax regime provided under section 115BAC(1A)]

Deductions in respect of Other Income

Section	Eligible Assessee	Eligible Income	Permissible Deduction
80TTA	Individual or a HUF, other than a resident senior citizen	Interest on deposits in savings account Interest on deposits in a savings account with a bank, a co-operative society or a post office (not being time deposits, which are repayable on expiry of fixed periods)	Actual interest subject to a maximum of ₹10,000. [Deduction would be available only if the individual/HUF exercises the option of shifting out of the default tax regime provided u/s 115BAC(1A)]
80TTB	Resident senior citizen (i.e. an individual of the age of 60 years or more at any time during the previous year)	Interest on deposits Interest on deposits (both fixed deposits and saving accounts) with banking company, co-operative society engaged in the business of banking or a post office.	Actual interest or ₹50,000, whichever is less. [Deduction would be available only if the individual exercises the option of shifting out of the default tax regime provided u/s 115BAC(1A)]

Other deductions

Section	Eligible assessee	Condition for deduction	Permissible deduction
80U	Resident Individual	Deduction in case of a person with disability Any person, who is certified by the medical authority to be a person with disability.	Flat deduction of ₹75,000, in case of a person with disability. Flat deduction of ₹1,25,000, in case of a person with severe disability (80% or more disability).

Deduction under section 10AA			
Section	Eligible Assessee	Eligible Income	Permissible Deduction
10AA	An assessee who derives profits from an under-taking, being a Unit established in SEZ, which begins to manufacture or produce articles or things or provide any service on or after 1.4.2005 but before 1.4.2021	Profits derived from exports of such articles or things or export of services (including computer software). Conditions for deduction 1. Proceeds to be received in convertible foreign exchange within 6 months from the end of the P.Y. or such further period as the competent authority may allow in this behalf. 2. The report of chartered accountant certifying that the deduction has been correctly claimed should be furnished before the date specified in section 44AB. 3. Return of income to be filed on or before due date u/s 139(1).	Deduction for 15 consecutive assessment years Amount of deduction = Profits of Unit in SEZ x Export turnover of Unit SEZ Total turnover of Unit SEZ Years 1 to 5 - 100% of such profits would be exempt in the first five years; Years 6 to 10 - 50% of such profits in the next five years; and Years 11 to 15 - In the last five years, 50% of such profits subject to transfer to SEZ Re-investment Reserve Account. [In case of individuals, HUF, AoP (other than a co-operative society), BoI or an artificial juridical person, deduction would be available only if they exercise the option of shifting out of the default tax regime provided u/s 115BAC(1A)]

Question 1: Based on SEC 80GGB, 80GGC

Explain how contributions to political parties are deductible in the hands of corporate and non-corporate assessee under the income-tax law.

Solution:

Section 80GGB provides for deduction of any sum contributed in the PY by an Indian company to a political party.

Section 80GGC provides for deduction of any sum contributed by any other person to a political party. However, this deduction will not be available in respect of sum contributed by a local authority and every AJP, wholly or partly funded by the Government.

It may be noted that cash donations to political parties would not qualify for deduction under section 80GGB and section 80GGC.

Note: Contribution Includes:

- (a) 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;

- (b) 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.

However, it may be noted that **as per section 37(2B), no allowance shall be allowed** in respect of expenses incurred by him on advertisement in any souvenir, brochure, tract or the like published by any political party. It is only after computation of gross total income, contribution to a registered political party is allowed as deduction under section 80GGB to an Indian company.

Question 2: Based on Sec. 80C, 80E

State with proper reasons whether the following statements are True/False with regard to the provisions of the Income-tax Act, 1961:

- 1. During the FY, Mr. Amit paid interest on loan availed by him for his son's higher education. His son is already employed in a firm. Mr. Amit will get the deduction u/s 80E.**
- 2. Subscription to notified bonds of NABARD would qualify for deduction u/s 80C.**
- 3. In order to be eligible to claim deduction u/s 80C, investment/contribution/ subscription etc. in eligible or approved modes, should be made from out of income chargeable to tax.**
- 4. Where an individual repays a sum of ₹. 30,000 towards principal and ₹. 14,000 as interest in respect of loan taken from a bank for pursuing eligible higher studies, the deduction allowable u/s 80E is ₹ 44,000.**

Assuming not opted for 115BAC.

Solution:

- 1. True:** The deduction u/s 80E available to an **individual** in respect of interest on loan taken for his higher education or for the higher education of his relative. For this purpose, relative means, inter alia, spouse and children of the individual. Therefore, Mr. Amit will get the deduction u/s 80E. **It is immaterial that his son is already employed in a firm.** This would not affect Mr. Amit's eligibility for deduction u/s 80E.
- 2. True:** U/s 80C(2) subscription to such bonds issued by NABARD (as the Central Government may notify in the Official Gazette) would qualify for deduction under section 80C.
- 3. False:** There is no stipulation u/s 80C that the investment, subscription, etc. should be made from out of income chargeable to tax.
- 4. False:** Deduction under section 80E is in respect of interest paid on education loan. Hence, the deduction will be limited to ₹. 14,000

Question 3: Based on Sec 80DD, 80GGB

Discuss the allowability of the following:

- 1. Rajan has to pay to a hospital for treatment ₹. 62,000 and spent nothing for life insurance or for maintenance of handicapped dependent.**
 - 2. Raja, a resident Indian, has spent nothing for treatment in the PY and deposited ₹. 25,000 with LIC for maintenance of handicapped dependant.**
 - 3. Rajan has incurred ₹. 20,000 for treatment and ₹. 25,000 was deposited with LIC for maintenance of handicapped dependant.**
 - 4. Payment of ₹. 50,000 by cheque to an electoral trust by an Indian company**
- Assuming not opted for 115BAC.**

Solution:

1. The deduction of ₹. 75,000 u/s 80DD is allowed in full, **irrespective of the amount of expenditure incurred or paid by the assessee**. If the expenditure is incurred in respect of a dependant with severe disability, the deduction allowable is ₹. 1,25,000.
2. The assessee Rajan has deposited ₹. 25,000 for maintenance of handicapped dependent. The assessee is, however, eligible to claim ₹. 75,000 since the deduction of ₹. 75,000 is allowed in full, irrespective of the amount deposited with LIC. In the case of dependant with severe disability, the deduction allowable is ₹. 1,25,000.
3. Section 80DD allows a deduction of ₹. 75,000 irrespective of the actual amount spent on maintenance of handicapped dependent and/or actual amount deposited with LIC. Therefore, the deduction will be ₹. 75,000 even though the total amount incurred/deposited is ₹. 45,000. If the dependant is a person with severe disability the quantum of deduction is ₹. 1,25,000.
4. Amount paid by **an Indian Company** to an electoral trust is eligible for deduction under section 80GGB from gross total income, since such payment is made otherwise than by way of cash

Question 4: Based on Sec 80C

Compute the eligible deduction u/s 80C for AY 2024-25 in respect of life insurance premium paid by Mr. Ganesh during the PY the details of which are given hereunder –

	Date of issue of policy	Person insured	Actual capital sum assured (₹)	Insurance premium paid during PY (₹)
(i)	30/3/2014	Self	5,00,000	51,000
(ii)	1/5/2017	Spouse	1,50,000	20,000
(iii)	1/6/2019	Handicapped Son (section 80U disability)	4,00,000	80,000

Solution:

	Date of issue of policy	Person insured	Actual capital sum assured (₹)	Insurance premium paid during P.Y. (₹)	Deduction u/s 80C for A.Y. (₹)	Remark (restricted to % of sum assured) (₹)
I	30/3/2014	Self	5,00,000	51,000	50,000	10%
II	1/5/2017	Spouse	1,50,000	20,000	15,000	10%
III	1/6/2019	Handicapped son (section 80U disability)	4,00,000	80,000	60,000	15%
Total					1,25,000	

Question 5: Based on Sec 80CCD

The basic salary of Mr. A is ₹ 1,00,000 p.m. He is entitled to DA, which is 40% of basic salary. 50% of dearness allowance forms part of pay for retirement benefits. Both Mr. A and his employer contribute 15% of basic salary to the pension scheme referred to in section 80CCD. Explain the tax treatment in respect of such contribution in the hands of Mr. A if he has exercised the option of shifting out of

the default tax regime u/s 115BAC(1A). What would be your answer if Mr. A pays tax under the default tax regime u/s 115BAC.

Solution:

- (i) Tax treatment in the hands of Mr. A in respect of employer's and own contribution to pension scheme referred to in sec 80CCD, where Mr. A has exercised the option of shifting out of the default tax regime provided u/s 115BAC(1A) [i.e., where Mr. A pays tax under the normal provisions of the Act]
- (a) Employer's contribution to such pension scheme would be treated as salary since it is specifically included in the definition of "salary" under section 17(1)(viii). Therefore, ₹ 1,80,000, being 15% of basic salary of ₹ 12,00,000, will be included in Mr. A's salary.
- (b) Mr. A's contribution to pension scheme is allowable as deduction u/s 80CCD(1). However, the deduction is restricted to 10% of salary. Salary, for this purpose, means basic pay plus dearness allowance, if it forms part of pay.

Therefore, "salary" for the purpose of deduction under section 80CCD for Mr. A would be

Particulars	₹
Basic salary = ₹ 1,00,000 × 12 =	12,00,000
Dearness allowance = 40% of ₹ 12,00,000 = ₹ 4,80,000	
50% of Dearness Allowance forms part of pay =	2,40,000
50% of ₹ 4,80,000	
Salary for the purpose of deduction under section 80CCD	14,40,000
Deduction u/s 80CCD (1) is restricted to 10% of ₹ 14,40,000 (as against actual contribution of ₹ 1,80,000, being 15% of basic salary of ₹ 12,00,000)	1,44,000
As per section 80CCD(1B), a further deduction of upto ₹ 50,000 is allowable. Therefore, deduction u/s 80CCD(1B) is ₹ 36,000 (₹ 1,80,000 - ₹ 1,44,000).	36,000

₹1,44,000 is allowable as deduction u/s 80CCD(1). This would be taken into consideration and be subject to the overall limit of ₹ 1,50,000 u/s 80CCE. ₹ 36,000 allowable as deduction u/s 80CCD(1B) is outside the overall limit of ₹ 1,50,000 u/s 80CCE.

In the alternative, ₹ 50,000 can be claimed as deduction u/s 80CCD(1B). The balance ₹ 1,30,000 (₹ 1,80,000 - ₹ 50,000) can be claimed as deduction u/s 80CCD(1).

- (c) Employer's contribution to pension scheme be allowable as deduction u/s 80CCD(2), subject to a maximum of 10% of salary. Therefore, deduction u/s 80CCD(2), would also be restricted to ₹ 1,44,000, even though the entire employer's contribution of ₹ 1,80,000 is included in salary u/s 17(1)(viii). However, this deduction of employer's contribution of ₹ 1,44,000 to pension scheme would be outside the overall limit of ₹1,50,000 u/s 80CCE i.e., this deduction would be over and above the other deductions which are subject to the limit of ₹ 1,50,000.

- (ii) Where Mr. A pays tax under the default tax regime u/s 115BAC

Mr. A would not be eligible for deduction u/s 80CCD(1)/(1B) in respect of his contribution to pension scheme under the default tax regime u/s 115BAC. However, he would be allowed deduction of ₹ 1,44,000 u/s 80CCD(2) in respect of employer's contribution to pension scheme.

Question 6: Based on sec 80D

Mr. A, aged 40 years, paid medical insurance premium of ₹ 20,000 during the P.Y. to insure his health as well as the health of his spouse. He also paid medical insurance premium of ₹ 47,000 during the year to insure the health of his father, aged 63 years, who is not dependent on him. He contributed ₹ 3,600 to Central Government Health Scheme during the year. He has incurred ₹ 3,000 in cash on preventive health check-up of himself and his spouse and ₹ 4,000 by cheque on preventive health check-up of his father. Compute the deduction allowable u/s 80D for the A.Y.

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

Notes:

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

Question 7: Based on Sec 80DD

Mr. X is a resident individual. He deposits a sum of ₹ 50,000 with Life Insurance Corporation every year for the maintenance of his handicapped grandfather who is wholly dependent upon him. The disability is one which comes under the Persons with Disabilities (Equal Opportunities, Protection of Rights and Full Participation) Act, 1995. A copy of the certificate from the medical authority is submitted. Compute the amount of deduction available u/s 80DD for the A.Y.

Solution:

Since the amount deposited by Mr. X was for his grandfather, he will not be allowed any deduction u/s 80DD. The deduction is available if the individual assessee incurs any expense for a dependent disabled person. Grandfather does not come within the definition of dependent.

Question 8: Based on Sec 80E

Mr. B has taken 3 education loans on April 1, 2023, the details of which are given below: Compute the amount deductible u/s 80E for the A.Y 2024-25. If Mr. B has exercised the option of shifting out of the default tax regime provided u/s 115BAC(1A).

Particulars	Loan 1	Loan 2	Loan 3
For whose education loan was taken	B	Son of B	Daughter of B
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 (Rs)	20,000	10,000	18,000

Solution:

Deduction u/s 80E is available to an individual assessee in respect of any interest paid by him in the PY 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 u/s 80E = ₹ 20,000 + ₹ 10,000 + ₹ 18,000 = ₹ 48,000.

Question 9: Based on 80EE

Mr. A purchased a residential house property for self-occupation at a cost of ₹ 45 lakh on 1.4.2019, in respect of which he took a housing loan of ₹ 35 lakh from Bank of India@11% p.a. on the same date. The loan was sanctioned on 28th March, 2019. Compute the eligible deduction in respect of interest on housing loan for A.Y.2024-25 under the provisions of the IT Act, 1961, assuming that the entire loan was outstanding as on 31.3.2024 and he does not own any other house property.

Solution:

Particulars	₹
Interest deduction for A.Y.2024-25	
(i) Deduction allowable while computing income under the head "Income from house property"	2,00,000
Deduction u/s 24(b) ₹ 3,85,000 [₹35,00,000 × 11%] Restricted to	
(ii) Deduction under Chapter VI-A from GTI	
Deduction u/s 80EE ₹ 1,85,000 (₹ 3,85,000 – ₹ 2,00,000)	
Restricted to	50,000

Question 10: Computation of total income

Mr. Shiva aged 58 years, has gross total income of ₹ 7,75,000 comprising of income from salary and house property. He has made the following payments and investments:

- Premium paid to insure the life of her major daughter (policy taken on 1.4.2018) (Assured value ₹ 1,80,000) – ₹ 20,000.
- Medical Insurance premium for self – ₹ 12,000; Spouse – ₹ 14,000.
- Donation to a public charitable institution registered u/s 80G ₹ 50,000 by way of cheque.
- LIC Pension Fund – ₹ 60,000.
- Donation to National Children's Fund - ₹ 25,000 by way of cheque
- Donation to Jawaharlal Nehru Memorial Fund - ₹ 25,000 by way of cheque
- Donation to approved institution for promotion of family planning - ₹ 40,000 by way of cheque
- Deposit in PPF – ₹ 1,00,000

Compute the total income of Mr. Shiva for A.Y.

Solution: Computation of Total Income of Mr. Shiva for A.Y. 2024-25

Particulars	₹	₹
Gross Total Income		7,75,000
Less: Deduction under section 80C		
Deposit in PPF	1,00,000	
Life insurance premium paid for insurance of major daughter (Maximum 10% of the assured value ₹ 1,80,000, as the policy is taken after 31.3.2012)	18,000	
Deduction under section 80CCC in respect of LIC pension fund	60000	

	1,78,000	
As per sec 80CCE, deduction u/s 80C & 80CCC is restricted to		1,50,000
Deduction under section 80D		
Medical Insurance premium in respect of self and spouse & restricted to	25,000	25000
Deduction under section 80G (See Working Note below)		87,500
Total income		512500

Working Note: Computation of deduction under section 80G

	Particulars of donation	Amount donated (₹)	% of deduction	Deduction u/s 80G (₹)
(i)	National Children's Fund	25,000	100%	25,000
(ii)	Jawaharlal Nehru Memorial Fund	25,000	50%	12,500
(iii)	Approved institution for promotion of family planning	40,000	100%, subject to qualifying limit	40,000
(iv)	Public Charitable Trust	50,000	50% subject to qualifying limit (See Note below)	10,000
Total				87,500

Note - Adjusted total income = GTI – Amount of deductions u/s 80C to 80U except sec 80G i.e., ₹ 6,00,000, in this case. ₹ 60,000, being 10% of ATI is the qualifying limit, in this case. Firstly, donation of ₹ 40,000 to approved institution for family planning qualifying for 100% deduction subject to qualifying limit, has to be adjusted against this amount. Thereafter, donation to public charitable trust qualifying for 50% deduction, subject to qualifying limit is adjusted. Hence, the contribution of ₹ 50,000 to public charitable trust is restricted to ₹ 20,000 (being, ₹ 60,000 - ₹ 40,000), 50% of which would be the deduction u/s 80G. Therefore, the deduction under section 80G in respect of donation to public charitable trust would be ₹ 10,000, which is 50% of ₹ 20,000.

Question 11: Based on Sec 80GG

Mr. Ganesh, a businessman, whose total income (before allowing deduction u/s 80GG) for A.Y.2024-25 is ₹ 4,60,000, paid house rent at ₹ 12,000 p.m. in respect of residential accommodation occupied by him at Mumbai. Compute the deduction allowable to him u/s 80GG for A.Y.

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

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

Question 12: Based on 80E, 80C, 80CCD

Examine the following statements with regard to the provisions of the IT Act, 1961:

1. During the FY 2023-24, Mr. Amit paid interest on loan availed by him for his son's higher education. His son is already employed in a firm. Mr. Amit will get the deduction u/s 80E.
2. Subscription to notified bonds of NABARD would qualify for deduction u/s 80C.
3. In order to be eligible to claim deduction u/s 80C, investment/ contribution/ subscription etc. in eligible or approved modes, should be made from out of income chargeable to tax.
4. Where an individual repays a sum of ₹ 30,000 towards principal and ₹ 14,000 as interest in respect of loan taken from a bank for pursuing eligible higher studies, the deduction allowable under section 80E is ₹ 44,000.
5. Mrs. Sheela, widow of Mr. Satish (who was an employee of M/s. XYZ Ltd.), received ₹ 7 lakhs on 1.5.2023, being amount standing to the credit of Mr. Satish in his NPS Account, in respect of which deduction has been allowed under section 80CCD to Mr. Satish in the earlier previous years. Such amount received by her as a nominee on closure of account is deemed to be her income for A.Y.

Solution:

1. **The statement is correct.** The deduction u/s 80E available to an individual in respect of interest on loan taken for his higher education or for the higher education of his relative. For this purpose, relative means, inter alia, spouse and children of the individual. Therefore, Mr. Amit will get the deduction u/s 80E. It is immaterial that his son is already employed in a firm. This would not affect Mr. Amit's eligibility for deduction u/s 80E.
2. **The statement is correct.** Under section 80C(2) subscription to such bonds issued by NABARD (as the Central Government may notify in the Official Gazette) would qualify for deduction under section 80C.
3. **The statement is not correct.** There is no stipulation u/s 80C that the investment, subscription, etc. should be made from out of income chargeable to tax.
4. **The statement is not correct.** Deduction u/s 80E is in respect of interest paid on education loan. Hence, the deduction will be limited to ₹14,000.
5. **The statement is not correct.** The proviso to section 80CCD(3) provide that the amount received by the nominee, on closure of NPS account on the death of the assessee, shall not be deemed to be the income of the nominee. Hence, amount received by Mrs. Sheela would not be deemed to be her income for A.Y. 2024-25.

Question 13: Based on Sec 80JJAA

Mr. A has commenced the business of manufacture of computers on 1.4.2023. He employed 350 new employees during the P.Y.2023-24, the details of whom are as follows

	No. of employees	Date of employment	Regular/ Casual	Total monthly emoluments per employee (₹)
(i)	75	1.4.2023	Regular	24,000
(ii)	125	1.5. 2023	Regular	26,000
(iii)	50	1.8. 2023	Casual	24,500
(iv)	100	1.9. 2023	Regular	24,000

The regular employees participate in recognized provident fund while the casual employees do not. Compute the deduction, if any, available to Mr. A for A.Y. 2024-25, if the profits and gains derived from manufacture of computers that year is ₹ 75 lakhs and his total turnover is ₹ 10.16 crores.

What would be your answer if Mr. A has commenced the business of manufacture of

footwear on 1.4.2023?**Solution:**

Mr. A is eligible for deduction u/s 80JJAA since he is subject to tax audit u/s 44AB for A.Y. 2024-25 and he has employed “additional employees” during the P.Y. 2023-24.

If Mr. A is engaged in the business of manufacture of computers

Additional employee cost = ₹ 24,000 × 12 × 75 [See Working Note below]
= ₹ 2,16,00,000

Deduction under section 80JJAA = 30% of ₹ 2,16,00,000 = ₹ 64,80,000.

Working Note:

Number of additional employees:

Particulars	No. of workmen	
Total number of employees employed during the year		350
Less: Casual employees employed on 1.8.2023 who do not participate in recognized provident fund	50	
Regular employees employed on 1.5.2023, since their total monthly emoluments exceed ₹ 25,000	125	
Regular employees employed on 1.9.2023 since they have been employed for less than 240 days in the P.Y.2023-24	100	275
Number of “additional employees”		75

Notes-

- (i) Since casual employees do not participate in RPF, they do not qualify as additional employees. Further, 125 regular employees employed on 1.5.2023 also do not qualify as additional employees since their monthly emoluments exceed ₹ 25,000. Also, 100 regular employees employed on 1.9.2023 do not qualify as additional employees for the P.Y.2023-24, since they are employed for less than 240 days in that year.

Therefore, only 75 employees employed on 1.4.2023 qualify as additional employees, and the total emoluments paid or payable to them during the P.Y.2023-24 is deemed to be the additional employee cost.

- (ii) As regards 100 regular employees employed on 1.9.2023, they would be treated as additional employees for PY 2024-25, if they continue to be employees in that year for a minimum period of 240 days. Accordingly, 30% of additional employee cost in respect of such employees would be allowable as deduction u/s 80JJAA in the hands of Mr. A for the A.Y. 2025-26

If Mr. A is engaged in the business of manufacture of footwear

If Mr. A is engaged in the business of manufacture of footwear, then, he would be entitled to deduction u/s 80JJAA in respect of employee cost of regular employees employed on 1.9.2022, since they have been employed for more than 150 days in the PY 2023-24.

Additional employee cost = ₹ 2,16,00,000 + ₹ 24,000 × 7 × 100	₹ 3,84,00,000
Deduction under section 80JJAA = 30% of ₹ 3,84,00,000	₹ 1,15,20,000

Question 14: Based on Computation of total income

Mr. Gurnam, aged 42 years, has salary income (computed) of ₹ 5,50,000 for the PY 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. Gurnam for the AY 2024-25 from the following particulars:

- Life insurance premium paid to Birla Sunlife Insurance in cash amounting to ₹ 25,000 for insurance of life of his dependent parents. The insurance policy was taken on 15.07.2020 and the sum assured on life of his dependent parents is ₹ 2,00,000.
- 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 ₹ 2,50,000 and the life insurance policy was taken on 30.3.2014

- c. Life insurance premium paid by cheque of ₹ 22,500 for insurance of his life. The insurance policy was taken on 08.09.2019 and the sum assured is ₹ 2,00,000.
- d. Premium of ₹ 26,000 paid by cheque for health insurance of self and his wife.
- e. ₹ 1,500 paid in cash for his health check-up and ₹ 4,500 paid in cheque for preventive health check-up for his parents, who are senior citizens.
- f. Paid interest of ₹ 6,500 on loan taken from bank for MBA course pursued by his daughter.
- g. A sum of ₹ 5,000 donated in cash to an institution approved for purpose of section 80G for promoting family planning.

Solution: Computation of total income of Mr. Gurnam for the A.Y. 2024-25

Particulars	₹	₹
Salary income		550000
Interest on saving Bank deposit		14500
Total		5,64,500
Less: Deduction under Chapter VIA		
Under section 80C (See Note 1)		
Life insurance premium paid for life insurance of:		
Major Son	25,500	
Self ₹ 22500 restricted to 10% of 2 lakh	20,000	45,500
Sec80D Medical Insurance for self & wife restricted	25000	
Health checkup for parents	4500	29,500
Sec.80E Interest on Loan	6500	6500
Sec. 80TTA Interest on saving bank account	10,000	10,000
Total income		473000

Question 15: Computation of total liability

For the AY 2024-25, the Gross Total Income of Mr. Chaturvedi, a resident in India, was ₹ 8,18,240 which includes LTCG of ₹ 2,45,000 taxable u/s 112 and STCG of ₹ 58,000. The GTI 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 u/s 80G by way of an A/c payee cheque. Compute the total income and tax thereon of Mr. Chaturvedi, who is 70 years old as on 31.3.2024. Ignore 115BAC

Solution: Computation for Mr. Chaturvedi for A.Y. 2024-25

Particulars	₹	₹
Gross total income including long term capital gain		8,18,240
Less: Long term capital gain		2,45,000
Less: Deductions under Chapter VI-A:		5,73,240
Under section 80C in respect of PPF deposit	1,20,000	
U/s 80D (assumed that premium of ₹ 51,000 is paid by otherwise than by cash. The deduction would be restricted to ₹ 50,000, since Mr. Chaturvedi is a senior citizen)	50,000	
Under section 80G (See Notes 1 & 2 below)	17,662	
Under section 80TTB (See Note 3 below)	50,000	2,37,662

Total income (excluding long term capital gains)	3,35,578
Total income (including long term capital gains)	5,80,578
Total income (rounded off)	5,80,580
Tax on total income (including long-term capital gains of ₹ 2,45,000)	
LTCG ₹ 2,45,000 x 20%	49,000
Balance total income ₹ 3,35,580	1,779
Total	50,779
Add: Health and Education cess @4%	2,031
Total tax liability	52,810

Notes:

1. **Computation of deduction under section 80G:**

Particulars	₹
Gross total income (excluding long term capital gains)	5,73,240
Less: Deduction under section 80C, 80D & 80TTB	2,20,000
	3,53,240
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

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

Question 16: Eligible deduction under Chapter VI-A

Compute the eligible deduction under Chapter VI-A for the AY 2024-25 of Ms. Roma, who has a gross total income of ₹ 15,00,000 for the AY 2024-25 and provides the following information about her investments/ payments during the year 2023-24:

SRN	Particulars	Amount (₹)
1.	Life Insurance premium paid (Policy taken on 01-01-2013 and sum assured is ₹ 3,40,000)	35,000
2.	Public Provident Fund contribution	1,50,000
3.	Repayment of housing loan to Bhartiya Mahila Bank,	20,000
4.	Payment to LIC Pension Fund	1,40,000
5.	Mediclaim Policy taken for self, wife and dependent children, premium paid by cheque	30,000
6.	Medical Insurance premium paid by cheque for parents (Senior Citizen)	52,000

Solution: Computation deduction under Chap VI-A of Ms. Roma for A.Y. 24-25

Particulars	₹	₹
Deduction under section 80C		
Life insurance premium paid ₹ 35,000 (allowed in full since the same is within the limit of 20% of the sum assured, the policy being taken before 1.4.2013)	35,000	
Public Provident Fund	1,50,000	
Repayment of housing loan to Bhartiya Mahila Bank, Bangalore	20,000	
	2,05,000	
Restricted to a maximum of ₹ 1,50,000	1,50,000	
Deduction under section 80CCC for payment towards LIC pension fund	1,40,000	
	2,90,000	
As per section 80CCE, aggregate deduction under, inter alia, section 80C and 80CCC, is restricted to		1,50,000
Deduction under section 80D		
Payment of medical insurance premium of ₹ 30,000 towards medical policy taken for self, wife and dependent children restricted to	25,000	
Medical insurance premium paid ₹ 52,000 for parents, being senior citizen, restricted to	50,000	75,000
Eligible deduction under Chapter VI-A		2,25,000

Question 17: Based on Sec 80QQB

Mr X receives royalty on books ₹. 1,00,000 at a rate of 18 percent and incurs ₹.10, 000 as expenditure for earning royalty. The books are covered u/s 80QQB and royalty is received from abroad and ₹. 50,000 are remitted to India till September 30, 2024. Determine deduction u/s 80QQB for the AY 2024-25.

Solution: Eligible income (before deducting expenditure incurred) is lower of

Sr.No.	Particulars	Amt ₹
1.	Lump sum consideration	Nil
2.	Royalty not exceeding 15% (1,00,000/18) x 15	83,334
3.	Income brought to India in convertible foreign exchange	50,000

Eligible income ₹. 50,000

Expenditure incurred ₹. 10,000

Deduction under section 80 QQB ₹. 40,000 (subject to a maximum of ₹. 3,00,000).

Question 18: Based on Section 80JJAA

M/s. XYZ commenced the business of manufacturing iron rods on 1st April, 2023. It had employed 200 workmen during the year which included the following:

Workmen	No of person	Salary PM
Casual Worker	50	5000
Employed through Contractor	25	7500
Skilled Labour	50	12500
Semi-Skilled	50	6000
Skilled Labour	25	12500

Compute deduction available to M/s. XYZ if the profits derived during the FY 2024-25 is ₹ 100 lakhs.

Solution:

Section 80JJAA states as under:

SECTION 80JJAA: DEDUCTION IN RESPECT OF EMPLOYMENT OF NEW EMPLOYEES
Where the GTI of an assessee to whom sec 44AB applies, includes any profits and gains derived from business, there shall, subject to the conditions, be allowed a deduction of an amount equal to 30% of additional employee cost incurred in the course of such business in PY, for three AY including the AY relevant to the PY in which such employment is provided.

Note 1: "additional employee cost" means total emoluments paid or payable to additional employees employed during the previous year:

In the first year of a new business, emoluments paid or payable to employees employed during that previous year shall be deemed to be the additional employee cost;

Note 2: "additional employee" means an employee who has been employed during the PY and whose employment has the effect of increasing the total number of employees employed by the employer as on the last day of the preceding year, but does not include, —

- a. an employee whose total emoluments are more than 25 thousand rupees per month; or
 - b. an employee employed for a period of less than 240 during the previous year; or
 - c. an employee who does not participate in the recognised provident fund;
- No deduction under section 80JJAA shall be available in respect of salary paid to
- (i) Casual Labour Since they do not participate in recognized provident fund
 - (ii) Workmen employed through contractor → Since they do not participate in recognized provident fund.
 - (iii) Skilled Labour employed from 01-10-2023 → Since employed for less than 240 days.

Deduction

Skilled Labour	12 x 50 x 12500	75,00,000
Semi-Skilled	12x 50 x 6000	36,00,000
Total		1,11,00,000

Deduction every year i.e. from AY 2024-25 to AY 2026-27 = 33,30,000.

Question 19: Based on 80EEB

The following are the particulars relating to Mr. A, Mr. B, Mr. C and Mr. D, salaried individuals, for A.Y.2024-25 –

Particulars	Mr. A	Mr. B	Mr. C	Mr. D
Amt of Loan taken	₹ 43 lakhs	₹ 45 lakhs	₹ 20 lakhs	₹ 15 lakhs
Loan taken from	HFC	Deposit taking NBFC	Deposit taking NBFC	Public sector bank
Date of sanction of loan	1.4.2021	1.4.2020	1.4.2020	30.3.2019
Date of disbursement of loan	1.5.2021	1.5.2020	1.5.2020	1.5.2019
Purpose of loan	Acquisition of residential house property for self-	Acquisition of residential house property for self-	Purchase of electric vehicle for personal use	Purchase of electric vehicle for personal

	occupation	occupation		use
Stamp duty value of house property	₹ 45 lakhs	₹ 48 lakhs	-	-
Cost of EV	-	-	₹ 22 lakhs	₹ 18 lakhs
Rate of interest	9% p.a.	9% p.a.	10% p.a.	10% p.a.

Compute the amount of deduction, if any, allowable under the provisions of the Income-tax Act, 1961 for A.Y.2024-25 in the hands of Mr. A, Mr. B, Mr. C and Mr. D if they have exercised the option of shifting out of the default tax regime provided under section 115BAC(1A). Assume that there has been no principal repayment in respect of any of the above loans upto 31.3.2024.

Solution:

Particulars	₹
Mr. A Interest deduction for A.Y.2024-25	
(i) Deduction allowable while computing income u/h "Income from HP" Deduction u/s 24(b) ₹ 3,87,000 [₹ 43,00,000 × 9%] Restricted to	2,00,000
(ii) Deduction under Chapter VI-A from Gross Total Income Deduction u/s 80EEA ₹ 1,87,000 (₹ 3,87,000 – ₹ 2,00,000) Restricted to	1,50,000
Mr. B Interest deduction for A.Y.2024-25	
(i) Deduction allowable while computing income u/h "Income from HP" Deduction u/s 24(b) ₹ 4,05,000 [₹ 45,00,000 × 9%] Restricted to	2,00,000
(ii) Deduction under Chapter VI-A Deduction u/s 80EEA is not permissible since: (i) loan is taken from NBFC (ii) stamp duty value exceeds ₹ 45 lakh. Deduction under section 80EEA would not be permissible due to either violation listed above.	Nil
Mr. C Deduction under Chapter VI-A from Gross Total Income	
Deduction u/s 80EEB for interest payable on loan taken for purchase of electric vehicle [₹ 20 lakhs x 10% = ₹ 2,00,000, restricted to ₹ 1,50,000, being the maximum permissible deduction]	1,50,000
Mr. D Deduction under Chapter VI-A from Gross Total Income	
Deduction u/s 80EEB is not permissible since loan was sanctioned before 1.4.2019.	Nil

Question 20: Based on royalty

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

Solution:

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

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

Summary						
Sec.	Nature of Payment	Threshold Limit for deduction of tax at source	Payer	Payee	Rate of TDS	Time of Deduction
192	Salary	Basic exemption limit This is taken care of in computation of the average rate of income-tax.	Any person responsible for paying any income chargeable under the head "Salaries"	Individual (Employee)	Average rate of income-tax	At the time of payment.
192A	Premature withdrawal from Employees Provident Fund	Payment or aggregate payment \geq ₹ 50,000	Trustees of the EPF Scheme or any authorized person under the Scheme	Individual (Employee)	10% on premature taxable withdrawal	At the time of payment
193	Interest on Securities	> ₹ 10,000 in a F.Y., in case of interest on 8% Savings (Taxable) Bonds, 2003/7.75% Savings (Taxable) Bonds, 2018. > ₹ 5,000 in a F.Y., in case of interest on debentures issued by a Co. in which the public are substantially interested, paid or credited to a resident individual or	Any person responsible for paying any income by way of interest on securities	Any resident	10%	time of payment, whichever is earlier

		HUF by an A/c payee cheque > No threshold specified in any other case.				
194	Dividend (including dividends on preference shares	> ₹ 5,000 in a F.Y., in case of dividend paid or credited to an individual shareholder by any mode other than cash > No threshold in other cases	The Principal Officer of a domestic company	Resident shareholder	10%	Before making any payment by any mode in respect of any dividend or before making any distribution or payment of dividend.
194A	Interest other than interest on securities	> ₹ 40,000 in a F.Y., in case of interest credited or paid by – (i) a banking company; (ii) a co-operative society engaged in banking business; and (iii) a post office on any deposit under a notified Scheme. In all the above cases, if payee is a resident senior citizen, tax deduction limit is > ₹ 50,000. > ₹ 5,000 in	Any Person (other than an individual or HUF whose total sales, gross receipts or turnover from business or profession do not exceed ₹ 1 crore in case of business or ₹ 50 lakhs in case of profession during the immediately preceding F.Y.) responsible for paying interest other than interest on securities.	Any Resident	10%	At the time of credit of such income to the account of the payee or at the time of payment, whichever is earlier

		a F.Y., in other cases.				
194B	Winnings from any lottery, crossword puzzle or card game or other game of any sort or from gambling or betting of any form or nature	Amount or amounts ₹ 10,000 in a F.Y.	The person responsible for paying income by way of such winnings	Any Person	30%	At the time of payment
194BA	Winnings from online games	On the person's account computed in prescribed manner.	Any person Responsible for paying income by way of such winnings from any online game.	Any Person	30%	At the end of the F.Y. In case there is withdrawal from user account during the F.Y., tax would be deducted at the time of such withdrawal on net winnings comprised in such withdrawal. In addition, tax would also be deducted on the remaining amount of net winnings in the user account as computed in prescribed manner at the end of the F.Y.

194BB	Winnings from horse race	Amount or amounts ₹ 10,000 in a F.Y.	Book Maker or a person holding license for horse racing or for Arranging for wagering or betting in any race course.	Any Person	30%	At the time of payment
194C	Payments to Contractors	Single sum credited or paid > ₹ 30,000 (or) The aggregate of sums credited or paid to a contractor during the F.Y. > ₹ 1,00,000 Individual/HUF need not deduct tax where sum is credited or paid exclusively for personal purposes	Central/State Govt., Local authority, Central/State/ Provincial Corpn., company, firm, trust, registered society, co-operative society, university established under Central/State/ Provincial Act, declared university under the UGC Act, Govt. of Foreign State or a foreign enterprise individual/HUF whose total sales, gross receipts or turnover from business or profession exceeds ₹ 1 crore in case of business or ₹ 50 lakhs in case of profession during the immediately preceding F.Y.	Any Resident contractor for carrying out any work (including supply of labour)	1% of sum paid or credited, if the payee is an Individual or HUF 2% of sum paid or credited, if the payee is any other person.	At the time of credit of such sum to the account of the contractor or at the time of payment, whichever is earlier.
194D	Insurance Commission	Amount or aggregate amount > ₹ 15,000 in	Any person responsible for paying any income by way	Any Resident	5% if the payee is a non-corporate	At the time of credit of such income to the

		a financial year	of remuneration or reward for Soliciting or procuring insurance business		resident 10%, if the payee is a domestic company	account of the payee or at the time of payment, whichever is earlier
194DA	Any sum under a Life insurance policy not fulfilling the conditions specified u/s 10(10D)	Amount or aggregate $\geq ₹ 1,00,000$ in a financial year	Any person responsible for paying any sum under a LIP, including the sum allocated by way of bonus	Any resident	5% of the amount of income comprised	At the time of payment.
194G	Commission on sale of lottery tickets	$> ₹ 15,000$ in a financial year	Any person responsible for Paying any income by way of commission, remuneration or prize (by whatever name called) on lottery tickets	Any person stocking, distributing, purchasing or selling lottery tickets.	5%	At the time of credit of such income to the account of the payee or at the time of payment, whichever is earlier.
194H	Commission or brokerage	$> ₹ 15,000$ in a financial year	Any person (other than an Individual or HUF whose total sales, gross receipts or turnover from business or profession do not exceed ₹ 1 crore in case of business or ₹ 50 lakhs in case of profession during the immediately preceding FY) responsible for paying commission or brokerage.	Any resident	5%	At the time of credit of such income to the account of the payee or at the time of payment, whichever is earlier.
194-I	Rent	$> ₹ 2,40,000$ in a financial year	Any person (other than an individual or	Any resident	For P & M or equipment-2%	At the time of credit of such income

		year	HUF whose total sales, gross receipts or turnover from business or profession carried on by him do not exceed ₹ 1 crore in case of business or ₹ 50 lakhs in case of profession during the immediately preceding F.Y.) Responsible for paying rent.		For land or building, land appurtenant to a building, furniture or fittings -10%	to the account of the payee or at the time of payment, whichever is earlier.
194-IA	Payment on transfer of certain immovable property other than agricultural land	Consideration of Immovable property & SDV of such property both Exceed 50 Lakh.	Any person, being a transferee (other than a person referred to in section 194LA responsible for paying compensation for compulsory acquisition of immovable property other than rural agricultural land)	Resident transferor	1% of consideration or stamp duty value of such property, whichever is higher	At the time of credit of such sum to the account of the transferor or at the time of payment, whichever is earlier.
194-IB	Payment of rent by certain individuals or HUF	> ₹ 50,000 for a month or part of a month	Individual/HUF (other than Individual/HUF whose total sales, gross receipts or turnover from business or profession carried on by him exceeds ₹ 1 crore in case of business or ₹ 50 lakhs in case of profession	Any Resident	5%	At the time of credit of rent, for the last month of the previous year or the last month of tenancy, if the property is vacated during the year, as the case may be, to the account of

			during the immediately preceding F.Y.) responsible for paying rent.			the payee or at the time of payment, whichever is earlier
194J	Fees for professional or technical services/ Royalty/ Non – compete fees/Director's remuneration	>₹ 30,000 In a financial year, for each category of income. (However, this limit does not apply in case of payment made to director of a company).	Any person, other than an individual or HUF; However, in case of fees for professional or technical services paid or credited, individual/HUF, whose total sales, gross receipts or turnover from business or profession exceeds ₹ 1 crore in case of business or ₹ 50 lakhs in case of profession during the immediately preceding F.Y., is liable to deduct tax u/s 194J, except where fees for professional services is credited or paid exclusively for his personal purposes.	Any Resident	2% - Payee engaged only in the business of operation of call centre 2% - In case of fees for technical services or royalty, where such royalty is in the nature of consideration for sale, distribution or exhibition of cinematographic films 10% - Other payments	At the time of credit of such sum to the account of the payee or at the time of payment, whichever is earlier.
194K	Income on units other than in the nature of capital gains	Amount or aggregate >₹ 5,000 in a financial year	Any person responsible for paying any income in respect of units of a mutual fund/Administrator of the specified undertaking/ specified company	Any resident	10%	At the time of credit of such sum to the account of the payee or at the time of payment, whichever is earlier.
194LA	Compensation	Amount or	Any person	Any	10%	At the time

	on on acquisition of certain immovable property other than agricultural land	aggregate amount > ₹ 2,50,000 in a financial year	responsible for paying any sum in the nature of compensation or enhanced compensation on compulsory acquisition of immovable property	Resident		of payment
194M	- Payments to Contractors - commission or brokerage - Fees for professional services	> ₹ 50,00,000 in a financial year	Individual or HUF other than those who are required to deduct tax at source under section 194C or 194H or 194J	Any Resident	5%	At the time of credit of such sum to the account of the payee or at the time of payment, whichever is earlier.
194N	Cash withdrawals	> ₹ 3 crore if the recipient is a co-operative society ₹ 1 crore in case of others	- a banking company or any bank or banking institution - a co-operative society engaged in carrying on the business of banking or - 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 ₹ 1 crore during the previous year, to any person from one or more accounts maintained by the recipient	Any person	@2% of such sum In case the recipient has not filed ROI for all the 3 immediately preceding P.Y.s, for which time limit u/s 139(1) has expired, such sum shall be the amt or agg. of amts, in cash >₹ 20 lakh during the P.Y. TDS - @2% of the sum, where cash withdrawal > > ₹ 20 lakhs but ≤ ₹ 1 crore/ ₹ 3 crore in case the recipient is a co-operative	At the time of payment of such sum

					<p>society > -@5% of sum, where cash withdrawal exceeds ₹1 crore/ ₹ 3 crore in case therecipient is a co- operative society</p>	
194P	Pension (along with interest on bank account)	<p>Basic exemption limit ₹ 3,00,000 (in case specified senior citizen pays tax under default tax regime u/s 115BAC), ₹ 3,00,000 /₹ 5,00,000, as the case may be, if specified senior citizen exercised the option of shifting out of the default tax regime providing u/s 115BAC [i.e., total income after giving effect to the deduction allowable under Chapter VI-A should exceed the basic exemption</p>	Notified specified bank	<p>Specified senior citizen i.e., An individual , being a resident in India, who</p> <ul style="list-style-type: none"> - is of the age of 75 years or more at any time during the PY; - is having pension income and no other income except interest income receive or receivable from any account maintained by such individual in the same specified bank in which he is 	<p>Rates in force, where the individual has exercised the option of shifting out of the default tax regime.</p> <p>Rates specified in section 115BAC, Where the individual pays tax Under the Default tax regime.</p>	

		limit. Further, in case the individual is entitled to rebate under section 87A from tax payable, then the same should be given effect to]		receiving his pension income; and - has furnished a declaration to the specified bank		
194Q	Purchase of goods	> ₹ 50 lakhs in a previous year	Buyer, who is responsible for paying any sum to any resident for purchase of goods. Buyer means a person whose total sales, gross receipts or turnover from business exceeds ₹ 10 crores during the FY immediately preceding the FY in which the purchase of goods is carried out.	Any resident	0.1% of sum exceeding ₹ 50 lakhs	At the time of credit of such sum to the account of the payee or at the time of payment, whichever is earlier.
194R	Any benefit or perquisite, whether convertible into money Or not, arising from business or the exercise of a profession The provisions	Value or aggregate of value of benefit or perquisite > ₹ 20,000 in a financial year	Any person (other than an individual or HUF) whose total sales, gross receipts or turnover do not exceed ₹ 1 crore in case of business or ₹ 50 lakhs in case of profession during the immediately preceding	Any resident	10% of value or aggr. of value of such benefit or perquisite	Before providing such benefit & perquisite

	would apply to any benefit or perquisite, whether in cash or in kind or partly in cash and partly in kind.		F.Y.) responsible providing to a resident, any benefit or perquisite. In case of a company, "person responsible for paying" means the company itself including Principal Officer thereof.			
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Notes –

- (1) Section 206AA requires furnishing of PAN by the deductee to the deductor, failing which the deductor has to deduct tax at the higher of the following rates, namely, -
- (i) at the rate specified in the relevant provision of the Income-tax Act, 1961; or
 - (ii) at the rate or rates in force; or
 - (iii) at the rate of 20% and in case of section and 194-Q, 5%

- (2) Section 206AB requires tax to be deducted at source under the provisions of this Chapter on any sum or income or amount paid, or payable or credited, by a person (deductee) to a specified person, at higher of the following rates –
- (i) at twice the rate prescribed in the relevant provision of the Act;
 - (ii) at twice the rate or rates in force i.e., the rate mentioned in the Finance Act; or
 - (iii) at 5%

However, section 206AB is not applicable in case of tax deductible at source under sections 192, 192A, 194B, 194BA, 194BB, 194IA, 194IB, 194M or 194N.

Meaning of “specified person” – A person who has not filed the returns of income for both of the two assessment years relevant to the two previous years immediately prior to the previous year in which tax is required to be deducted, for which the time limit of filing return of income under section 139(1) has expired, and the aggregate of tax deducted at source and tax collected at source in his case is ₹ 50,000 or more in each of these two previous year.

However the specified person would not include-

- A non-resident who does not have a permanent establishment in India; or
- A person who is not required to furnish the return of income for the assessment year relevant to the said previous year and notified by the Central Government in this behalf.

- (3) In case the provisions of section 206AA are also applicable to the specified person, in addition to the provisions of this section, then, tax is required to be deducted at higher of the two rates provided in section 206AA and section 206AB.

- (4) The threshold limit given in column (3) of the table is with respect to each payee.

II Advance Payment of Tax

Liability for payment of advance tax [Sections 207 & 208]

- Tax shall be payable in advance during any financial year in respect of the total income (TI) of the assessee which would be chargeable to tax for the A.Y. immediately following that financial year.
- Advance tax is payable during a financial year in every case where the amount of such tax payable by the assessee during the year is ₹ 10,000 or more.
- However, an individual resident in India of the age of 60 years or more at any time during the previous year, who does not have any income chargeable under the head “Profits and gains of business or profession” (PGBP), is not liable to pay advance tax.

Installments of advance tax and due dates [Section 211]

Advance tax payment schedule for corporates and non-corporates (other than an assessee computing profits on presumptive basis under section 44AD or section 44ADA) – Four installments

Due date of installment	Amount payable
On or before 15th June	Not less than 15% of advance tax liability.
On or before 15th September	Not less than 45% of advance tax liability (-) amount paid in earlier installment.
On or before 15th December	Not less than 75% of advance tax liability (-) amount paid in earlier installment or installments.
On or before 15th March	The whole amount of advance tax liability (-) amount paid in earlier installment or installments.

Advance tax payment by assessee computing profits on presumptive basis under section 44AD(1) or section 44ADA(1)

An eligible assessee, opting for computation of profits or gains of business or profession on presumptive basis in respect of eligible business referred to in section 44AD(1) or in respect of eligible profession referred to in section 44ADA(1), shall be required to pay advance tax of the whole amount on or before 15th March of the F.Y.

However, any amount paid by way of advance tax on or before 31st March shall also be treated as advance tax paid during the F.Y. ending on that day.

Interest for defaults in payment of advance tax [Section 234B]

(1)	Interest under section 234B is attracted for non-payment of advance tax or payment of advance tax of an amount less than 90% of assessed tax.
(2)	The interest liability would be 1% per month or part of the month from 1st April following the F.Y. up to the date of determination of total income u/s 143(1) and where regular assessment is made, up to the date of such regular assessment.
(3)	Such interest is calculated on the amount of difference between the assessed tax and the advance tax paid.
(4)	“Assessed tax” means the tax on total income determined u/s 143(1)/under regular assessment, as the case may be, less TDS & TCS, any relief of tax allowed u/s 89, any tax credit allowed to be set off in accordance with the provisions of section 115JD.

- (5) Where self-assessment tax is paid by the assessee under section 140A or otherwise, interest shall be calculated upto the date of payment of such tax and reduced by the interest, if any, paid under section 140A towards the interest chargeable under this section. Thereafter, interest shall be calculated at 1% on the amount by which the tax so paid together with the advance tax paid falls short of the assessed tax.

Interest for deferment of advance tax [Section 234C]

(1) **Manner of computation of interest u/s 234C for deferment of advance tax by corporate and non-corporate assessees:**

In case an assessee, other than an assessee who declares profits and gains in accordance with the provisions of section 44AD(1) or section 44ADA(1), who is liable to pay advance tax u/s 208 has failed to pay such tax or the advance tax paid by such assessee on its current income on or before the dates specified in column (1) below is less than the specified percentage [given in column (2) below] of tax due on returned income, then simple interest@1% per month for the period specified in column (4) on the amount of shortfall, as per column (3) is leviable u/s 234C.

Specified date	Specified %	Shortfall in advance tax	Period
(1)	(2)	(3)	(4)
15th June	15%	15% of tax due on returned income (-) advance tax paid up to 15th June	3 months
15th September	45%	45% of tax due on returned income (-) advance tax paid up to 15th September	3 months
15th December	75%	75% of tax due on returned income (-) advance tax paid up to 15th December	3 months
15th March	100%	100% of tax due on returned income (-) advance tax paid up to 15th March	1 months

Note – However, if the advance tax paid by the assessee on the current income, on or before 15th June or 15th September, is not less than 12% or 36% of the tax due on the returned income, respectively, then, the assessee shall not be liable to pay any interest on the amount of the shortfall on those dates.

Tax due on returned income = Tax chargeable on total income declared in the return of income – TDS – TCS - any relief of tax allowed u/s 89 - any tax credit allowed to be set off in accordance with the provisions of section 115JD, in case the assessee exercises the option of shifting out of the default tax regime provided under section 115BAC(1A).

(2) **Computation of interest under section 234C in case of an assessee who declares profits and gains in accordance with the provisions of section 44AD(1) or section 44ADA(1):**

In case an assessee who declares profits and gains in accordance with the provisions of section 44AD(1) or section 44ADA(1), who is liable to pay advance tax u/s 208 has failed to pay such tax or the advance tax paid by the assessee on its current income on or before 15th March is less than the tax due on the returned income, then, the assessee shall be liable to pay simple interest at the rate of 1% on the amount of the shortfall from the tax due on the returned income.

(3) **Non-applicability of interest under section 234C in certain cases:**

Interest under section 234C shall not be leviable in respect of any shortfall in payment of tax

due on returned income, where such shortfall is on account of under-estimate or failure to estimate –

- (i) the amount of capital gains;
- (ii) income of nature referred to in section 2(24)(ix) i.e., winnings from lotteries, crossword puzzles etc.;
- (iii) income under the head “Profits and gains of business or profession” in cases where the income accrues or arises under the said head for the first time.
- (iv) the amount of dividend income u/s 2(22)(a)/(b)/(c)/(d)

However, the assessee should have paid the whole of the amount of tax payable in respect of such income referred to in (i), (ii), (iii) and (iv), as the case may be, had such income been a part of the total income, as part of the remaining instalments of advance tax which are due or where no such instalments are due, by 31st March of the financial year.

Tax Collection at source [Section 206C]

- (1) **Sale of certain goods [Section 206C(1)]**- Sellers of certain goods are required to collect tax from the buyers at the specified rates. The specified percentage for collection of tax at source is as follows:

	Nature of Goods	Percentage
(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 (iii)	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%

The tax should be collected at the time of debiting of the amount payable by the buyer to his account or at the time of receipt of such amount from the buyer, whichever is earlier.

However, no collection of tax shall be made in the case of a resident buyer, if such buyer furnishes a declaration in writing in duplicate to the effect that goods are to be utilised for the purpose of manufacturing, processing or producing articles or things or for the purposes of generation of power and not for trading purposes [Section 206C(1A)]

- (2) **Lease or a licence of parking lot, toll plaza or mine or a quarry [Section 206C(1C)]** - Every person who grants a lease or a licence or enters into a contract or otherwise transfers any right or interest in any
- parking lot or - toll plaza or - a mine or a quarry
to another person (other than a public sector company) for the use of such parking lot or toll plaza or mine or quarry for the purposes of business. The tax shall be collected as provided, from the licensee or lessee of any such licence, contract or lease of the specified nature, at the rate of 2%, at the time of debiting of the amount payable by the licensee or lessee to his account or at the time of receipt of such amount from the licensee or lessee in cash or by the issue of a cheque or draft or by any other mode, whichever is earlier.

- (3) **Sale of motor vehicle of value exceeding ₹ 10 lakhs [Section 206C(1F)]**- Every person, being a seller, who receives any amount as

consideration for sale of a motor vehicle of the value exceeding ₹ 10 lakhs, shall, at the time of receipt of such amount, collect tax from the buyer @1% of the sale consideration.

(4)

Remittance under LRS of RBI or purchase of an overseas tour package [Section 206C(1G)] – Every person,

- being an authorized dealer, who receives amount under the Liberalised Remittance Scheme of the RBI for overseas remittance from a buyer, being a person remitting such amount out of India,
 - being seller of an overseas tour programme package who receives any amount from the buyer who purchases the package
- has to collect tax at the rate of 5% of such amount at the time of debiting of the amount payable by the buyer or at the time of receipt of such amount from the said buyer by any mode, whichever is earlier.

Rate of TCS in case of collection by an authorized dealer/ seller of an overseas tour programme package

S. No.	Amount and purpose of remittance	Rate of TCS upto 30.9.2023	Rate of TCS on or after 1.10.2023
(i)	Where the amount is for purchase of an overseas tour programme package	5% of such amount (without any threshold limit)	5% till ₹7 lakhs, 20% thereafter
(ii)	(a) Where the amount is remitted for the purpose of education or medical treatment; and (b) the amount or aggregate of the amounts being remitted by a buyer is less than ₹ 7 lakhs in a financial year	Nil (No tax to be collected at source)	Nil (No tax to be collected at source)
(iii)	(a) Where the amount is remitted for the purpose other than mentioned in (ii) above; and (b) the amount or aggregate of the amounts being remitted by a buyer is less than ₹ 7 lakhs in a financial year	Nil (No tax to be collected at source)	Nil (No tax to be collected at source)
(iv)	(a) where the amount is remitted for the purpose of education or medical treatment; and (b) the amount or aggregate of the amounts in excess of ₹ 7 lakhs is remitted by the buyer in a FY	5% of the amt or agg. of amts in excess of ₹ 7 lakh	5% of the amt or agg. of amts in excess of ₹ 7 lakh
(v)	(a) where the amount is remitted for the purpose other than mentioned in (iv) above; and (b) the amount or aggregate of the amounts in excess of ₹ 7 lakhs is remitted by the buyer in a FY	5% of the amt or agg. of amts in excess of ₹ 7 lakh	20% of the amt or agg. Of amts in excess of ₹ 7 lakh

(vi)	<p>(a) where the amount being remitted out is a loan obtained from any financial institution as defined in section 80E, for the purpose of pursuing any education; and</p> <p>(b) the amount or aggregate of the amounts in excess of ₹ 7 lakhs is remitted by the buyer in a FY</p>	0.5% of the amt or agg. of amts in excess of ₹ 7 lakh	0.5% of the amt or agg. of amts in excess of ₹ 7 lakh
<p>Cases where no tax is to be collected</p> <p>(i) No TCS by the authorized dealer on an amount in respect of which the sum has been collected by the seller</p> <p>(ii) No TCS, if the buyer is liable to deduct tax at source under any other provision of the Act and has deducted such tax</p> <p>(iii) No TCS, if the buyer is the Central Government, a State Government, an embassy, a High Commission, a legation, a commission, a consulate, the trade representation of a foreign State, a local authority or any other person notified by the Central Government, subject to fulfillment of conditions stipulated thereunder</p> <p>Accordingly, the CBDT has, vide notification no. 99/2022 dated 17.8.2022, notified that the provisions of section 206C(1G) would not apply to a person (being a buyer) who is a non-resident in terms of section 6 and does not have a permanent establishment in India.</p>			
(5)	<p>Sale of goods of value exceeding ₹ 50 lakh [Section 206C(1H)]- Every person, being a seller, who receives any amount as consideration for sale of goods of the value exceeding ₹ 50 lakhs in a previous year, other than exported goods or goods covered in (a)/(c)/(d), is required to collect tax at source, at the time of receipt of such amount, @0.1% of the sale consideration exceeding ₹ 50 lakhs. However, tax is not required to be collected if the buyer is liable to deduct tax at source under any other provision of the Act on the goods purchased by him from the seller and has deducted such tax.</p>		
(6)	<p>In case of non-furnishing of PAN [PAN or Aadhaar number in case of section 206C(1H)] by the collectee to the collector, tax is required to be collected at the higher of –</p> <p>(i) twice the rate specified in the relevant provisions of the Act; or</p> <p>(ii) at 5% [1%, in case tax is required to be collected at source u/s 206C(1H)]. [Section 206CC]</p> <p>However, the maximum the rate of TCS under this section shall not exceed 20%. The provisions of section 206CC do not apply to a non-resident who does not have a permanent establishment in India.</p>		
(7)	<p>Section 206CCA requires tax to be collected at source on any sum or amount received by a person from a specified person, at higher of the following rates –</p> <p>(a) at twice the rate specified in the relevant provision of the Act;</p> <p>(b) at 5%</p> <p>However, the maximum the rate of TCS under this section shall not exceed 20%. In case the provisions of section 206CC are also applicable to the specified person, in addition to the provisions of section 206CCA, then, tax is required to be collected at higher of the two rates provided in section 206CC and section 206CCA.</p>		

Question 1: Based on 194-I & 194J

State the applicability of TDS provisions and TDS amount in the following cases:

- (a) Rent paid for hire of machinery by B Ltd. to Mr. Raman ₹. 2,60,000 on 27.09.2023.**
- (b) Fee paid on 1.12.2023 to Dr. Srivatsan by Sundar (HUF) ₹. 35,000 for surgery performed on a member of the family.**
- (c) ABC and Co. Ltd. paid ₹. 19,000 to one of its directors as sitting fees on 01.01.23.**

Solution:

- (a) Since the rent paid for hire of machinery by B. Ltd. to Mr. Raman exceed ₹. 2,40,000, the provisions of section 194-I for deduction of tax at source are attracted. The rate applicable for deduction of tax at source u/s 194-I on rent paid for hire of plant and machinery is 2% assuming that Mr. Raman had furnished his permanent account number to B Ltd.

Therefore, the amount of tax to be deducted at source: = ₹. 2,60,000 x 2% = ₹ 5,200

Note: In case Mr. Raman does not furnish his permanent account number to B Ltd., tax shall be deducted @ 20% on ₹. 2,60,000, by virtue of provisions of section 206AA.

- (b) As per the provisions of section 194J, a HUF is required to deduct tax at source on fees paid for professional services only if Total sales or gross receipts exceed 50L in case of profession during PFY.

However, if such payment made for professional services is exclusively for the personal purpose of any member of HUF, then, the liability to deduct tax is not attracted.

Therefore, in the given case, even if Sundar (HUF) is liable to tax audit in the immediately preceding FY, the liability to deduct tax at source is not attracted in this case since, the fees for professional service to Dr. Srivatsan is paid for a personal purpose i.e. the surgery of a member of the family.

Section 194M, provides for deduction of tax at source by a HUF (which is not required to deduct tax at source u/s 194J) in respect of fees for professional service if such sum or aggregate of such sum exceeds Rs.50 lakhs during the financial year.

In the given case, the fees for professional service to Dr. Srivatsan is paid on 1.12.2023 for a personal purpose, therefore, section 194J is not attracted. Section 194M would have been attracted, if the payment or aggregate of payments exceeded Rs.50 lakhs in the P.Y.2023-24. However, since the payment does not exceed Rs.50 lakh in this case, there is no liability to deduct tax at source under section 194M also.

- (c) Section 194J provides for deduction of tax at source @10% from any sum paid by way of any remuneration or fees or commission, by whatever name called, to a resident director, which is not in the nature of salary on which tax is deductible under section 192. The threshold limit of ₹ 30,000 upto which the provisions of tax deduction at source are not attracted in respect of every other payment covered under section 194J is, however, not applicable in respect of sum paid to a director.

Therefore, tax @10% has to be deducted at source under section 194J in respect of the sum of ₹.19,000 paid by ABC Ltd. to its director.

Therefore, the amount of tax to be deducted at source: = ₹19,000 x 10% = ₹1,900

Question 2: Based on 194-IA

X sold his house property in Bangalore as well as his rural agricultural land for a consideration of ₹60 lakh and ₹15 lakh, respectively, to Mr. Y on 1.8.2023. He has purchased the house property and the land in the year 2021 for ₹ 40 lakh and ₹10 lakh, respectively. The stamp duty value on the date of transfer, i.e., 1.8.2023, is ₹85 lakh and ₹20 lakh for the house property and rural agricultural land, respectively. Examine the tax implications in the hands of Mr. X and Mr. Y and the TDS implications, if any, in the hands of Mr. Y, assuming that both Mr. X

and Mr. Y are resident Indians.

Solution:

Tax implications in the hands of Mr. X

As per section 50C, the SDV of house property (i.e. ₹85 lakh) would be deemed to be the FVOC arising on transfer of property, since the SDV exceeds 110% of the consideration received. Therefore, ₹45 lakh (i.e., ₹ 85 lakh – ₹40 lakh. being the purchase price) would be taxable as STCG in the A.Y.2024-25.

Since rural agricultural land is not a capital asset, the gains arising on sale of such land is not taxable in the hands of Mr. X.

Tax implications in the hands of Mr. Y

In case immovable property is received for inadequate consideration, the difference between the stamp value and actual consideration would be taxable u/s 56(2)(x), if such difference exceeds the higher of ₹50,000 and 10% of the consideration.

Therefore, in this ₹25 lakh (₹85 lakh – ₹60 lakh) would be taxable in the hands of Mr. Y under section 56(2)(x).

Since agricultural land is not a capital asset, the provisions of section 56(2)(x) are not attracted in respect of receipt of agricultural land for inadequate consideration, since the definition of “property” u/s 56(2)(x) includes only capital assets specified thereunder.

TDS implications in the hands of Mr. Y

Since the sale consideration of house property exceeds ₹50 lakh, Mr. Y is required to deduct tax at source u/s 194-IA. The tax to be deducted u/s 194-IA would be ₹60,000, being 1% of ₹60 lakh.

TDS provisions under section 194-IA are not attracted in respect of transfer of rural agricultural land

Question 3: Based on 194BB, 194C & 194-I

State in brief the applicability of tax deduction at source provisions, the rate and amount of tax deduction in the following cases for the FY.

1. **Winning by way of jackpot in a horse race ₹. 1,00,000.**
2. **Payment made by a firm to sub-contractor ₹. 3,00,000 with outstanding balance of ₹. 1,20,000 shown in the books as on 31st March.**
3. **Rent paid for plant and machinery ₹. 1,50,000 by a partnership firm having sales turnover of ₹. 20,00,000 and net loss of ₹. 15,000.**

Solution:

1. Provisions for tax deduction at source u/s 194BB @ 30% are attracted if the amount exceeds ₹. 10,000 in respect of income arising by way of winning a jackpot in horse races. Tax to be deducted = ₹. 1,00,000 x 30% = ₹. 30,000
2. Provisions of tax deduction at source u/s 194C are attracted in respect of payment by a firm to a sub-contractor. U/s 194C, tax is deductible at the time of credit or payment, whichever is earlier @ 1% if the payment is made to an individual or HUF and 2% for others.
Assuming that sub-contractor to whom payment has been made is an individual and the aggregate amount credited during the year is ₹. 4,20,000, tax is deductible @ 1% on ₹. 4,20,000. Tax to be deducted = ₹. 4,20,000 x 1% = ₹. 4,200.
3. As per section 194-I, tax is to be deducted @ 2% on payment of rent for plant and machinery, only if the payment exceeds ₹. 2,40,000 during the FY. Since rent of ₹. 1,50,000 paid by partnership firm does not exceed ₹. 2,40,000, tax is not deductible.

Question 4: Based on 194-I

A Ltd, has taken a building on lease, It has sub-leased the building along with furniture and fixtures to B Ltd, from April 1, 2017 and receives the following amounts as consideration for the sub-lease during the financial year 2023-24:

Particulars	₹
Arrears of rent for the period September 1, 2020 to March 31, 24	70,000
Rent for the period April 1, 2023 to March 31, 2024	2,40,000
Furniture hire charges for the period April 1, 2023 to March 31, 2024	12,000
Non-refundable deposit received during the year	50,000

What is the liability of B Ltd, for deduction of tax at source under section 194-1?

Solution:

Any person (not being an individual or a HUF) responsible for paying rent is required to deduct tax at source under the provisions of sec 194-I. No tax is deductible if the amount of rent credited/paid during the FY does not exceed ₹2,40,000.

According to section 194-I, rent is defined as under -

"Rent" means any payment, by whatever name called, under any lease, sublease, tenancy or any other agreement or arrangement for the use of (either separately or together) any, (a) land; or (b) building (including factory building); or (c) land appurtenant to a building (including factory building); or (d) machinery; or (e) plant; or (f) equipment; or (g) furniture; or (h) fittings,

whether or not any or all of the above are owned by the payee;.

The following are essential features of rent –

- Payment is made under any lease, sub-lease, tenancy or any other agreement or arrangement.
- Payment is made either for the use of only land or building (including factory building) or for the use of any land or building (including factory building) separately or together with furniture, fittings, plant, machinery, equipment and the land appurtenant thereto.
- It is immaterial whether or not such building is owned by the person to whom rent is paid.

In cases where the tenant makes a non-refundable deposit tax would have to be deducted at source as such deposit represents the consideration for the use of the land or the building, etc., and therefore, partakes the nature of rent as defined in section 194-1.

Even the arrears of tax are subject to tax deduction as per various court decisions, Total Payment made to A Ltd, is -

Particulars	Amount ₹
Arrears of rent	70000
Rent	240000
Furniture and hire charges	12000
Non-refundable deposit	50000
Total	372000

Tax to be deducted at source should be 10% of ₹ 3,72,000= 37,200.

Question 5: Based on 194, 194J

Discuss the liability for tax deduction at source in the following cases:

1. An Indian company pays dividends on preference shares to a shareholder of the amount of ₹ 10,000 on September 30, 2023.
2. A foreign enterprise enters into a contract for the fabrication and supply of components for machinery with X & Co, a firm in India on April 1, 2023 X & Co, in turn sub-contracts the work to Y & Co., and pays it ₹20 lakhs on May 10, 2023.

3. A company pays to a doctor a monthly retainership of ₹.2,000 for attending an outpatient clinic at its factory premises.

Solution:

1. Sec. 194 requires the company to Deducted TDS @10% since Dividend is paid. Therefore TDS = 1,000.
2. According to section 194C, the term contract includes sub-contract. In case payment is made by a contractor to a sub-contractor for carrying out the whole or any part of the work undertaken by the contractor, then tax has to be deducted at source by the contractor at the following rates:
 - (i) 1% where the payment is being made or credit is being given to an individual or a Hindu undivided family;
 - (ii) 2% where the payment is being made or credit is being given to a person other than an individual or a Hindu undivided family,In the present problem, in view of the aforesaid provision, X & Co., is liable to deduct tax at source of ₹40,000 [i.e, 2% of ₹20 lakhs] in respect to payment to Y & Co.

3. According to section 194J, any person (not being an individual or a Hindu undivided family) who is responsible for paying to a resident any sum by way of fees for professional services or technical services shall deduct tax at source at the rate of 10% on total payment. However, no tax shall be deducted where the amount of such sum or, as the case may be, the aggregate of the amount of such sums credited or paid or likely to be credited or paid during the FY by the aforesaid person to the account of, or to, the payee, does not exceed ₹30,000 in case of fees for professional services or technical services.

In the present problem, in view of the aforesaid provision, since the total fee for professional services paid by the company to the doctor is ₹ 24,000 (i.e ₹2,000 X 12), **no tax shall be deducted at source.**

Question 6: Based on 192, 194C & 194J

Examine the obligation of the person responsible for paying income to deduct tax at source and indicate the due date for payment of such tax wherever applicable in respect of the following items:

1. X Ltd, the employer credited salary due for the FY 2023-24 amounting to ₹ 3,90,000 to the account of Q, the employee, in its books of account on March 31, 2024. Q has not furnished any information about his income/ loss from any other head or proof of investments/ payments qualifying for deduction u/s 80C.
2. Y, an individual whose total sales in business during the year ending March 31, 2023 was ₹ 1.20 crore, paid ₹ 9 lakh by cheque on January 1, 2024 to a contractor for construction of his business premises in full and final settlement. No amount was credited earlier to the account of the contractor in the books of Y.
3. X Ltd, credited ₹ 28,000 towards fees for professional services and ₹22,000 towards fees for technical services to the account of HG in its books of account on October 6, 2023. The total sum of ₹50,000 was paid by cheque to HG on December 18, 2023.

Solution:

1. Section 192 Any person responsible for paying any income chargeable under the head "Salaries", shall, at the time of payment, deduct income-tax on the amount payable at the average rate of income tax computed on the basis of the rates in force for the FY in which the payment is made, on the estimated income of the assessee under this head for that FY.

Therefore, in the given problem tax is deductible only at the time of payment of salary and not when salary is credited to the account of an employee in the books of account of employer.

Further provisions of section 192(2D) may be noted which states as follows:

The person responsible for making the payment of salary shall, for the purposes of estimating income of the assessee or computing tax deductible at source, obtain from the assessee the evidence or proof or particulars of prescribed claims (including claim for set-off of loss) under the provisions of the Act in such form and manner as may be prescribed.

At the time of payment, X Ltd, will not give benefit of losses or deductions u/s 80C etc, for which proofs are not given for purposes of computing TDS.

2. Any person responsible for paying any sum to any resident (hereafter in this section referred to as the contractor) for carrying out any work (including supply of labour for carrying out any work) in pursuance of a contract between the contractor and a specified person shall, at the time of credit of such sum to the account of the contractor or at the time of payment thereof in cash or by issue of a cheque or draft or by any other mode, whichever is earlier, deduct an amount equal to

- (i) 1% where the payment is being made or credit is being given to an individual or HUF;
- (ii) 2% where the payment is being made or credit is being given to a person other than an individual or a Hindu undivided family, of such sum as income-tax on income comprised therein, (on gross amount of receipt)

[Sec 194M] No individual or a HUF shall be liable to deduct income- tax on the sum credited or paid to the account of the contractor where such sum is credited or paid exclusively for personal purposes of such individual or any member of HUF.

NO Individual/ HUF shall be liable to deduct TDS on sum paid or credited to contractor where such sum is paid for personal use of Individual or HUF members unless such sum exceed ₹50L.

An Individual is required to Deduct TDS if total Sales/ gross receipt exceed 1crore from business or 5 Lakh in case of profession in preceding FY. In the given problem since total sales exceed 1crore, he is required to deduct TDS on payment made to contractor i.e., 1% of ₹9L.

3. Any person, not being an individual or a HUF, who is responsible for paying to a resident any sum by way of :

- (a) fees for professional services, or
- (b) fees for technical services, or
- (c) royalty, or
- (d) any sum referred to in clause (va) of section 28,
- (e) any remuneration or fees or commission by whatever name called, other than those on which tax is deductible u/s 192, to a director of a company, shall, at the time of credit of such sum to the account of the payee or at the time of payment thereof in cash or by issue of a cheque or draft or by any other mode, whichever is earlier, deduct an amount equal to 2% in case of payment in respect of Royalty & Fees for technical services, where such royalty is in the nature of consideration for sale, distribution or Exhibition of cinematographic film & 10% of such other sum as income-tax on income comprised therein.

However, no deduction shall be made under this section where the amount of such sum or, as the case may be, the aggregate of the amounts of such sums credited or paid or likely to be credited or paid during the FY by the aforesaid person to the account of or to, the payee, does not exceed -

- (i) ₹ 30,000 in the case of fees for professional services referred to in clause(a), or
- (ii) ₹ 30,000 in the case of fees for technical services referred to in clause (b), or

(iii) ₹ 30,000 in the case of royalty referred to in clause (c), or

(iv) ₹ 30,000 in the case of sum referred to in clause (d),

X Ltd, is not liable to deduct tax at source as payment to HG in each of the two categories, i.e, professional services and technical services does not exceed ₹ 30,000 even though the aggregate amount credited with respect to rendering both category of services exceeds ₹ 30,000.

Question 7: Based on Section 194 -I

ABC Ltd, took on sub-lease a building from J, an individual, with effect from 1.11.2023 on a rent of ₹ 40,000 per month. It also took on hire machinery from J with effect from 1.12.2023 on hire charges of ₹ 18,000 per month. ABC Ltd, entered into two separate agreements with J for sub-lease of building and hiring of machinery. The rent of building and hire charges of machinery for the FY 2023-24 amounting to 2,50,000 and ₹72,000 respectively were credited by ABC Ltd, to the account of J in its books of accounts on 31,3,2024. Examine the obligation of ABC Ltd, to deduct tax at source in respect of the rent and hire charges.

Solution:

Section 194 -I

Any person, not being an individual or a HUF, who is responsible for paying to a resident any income by way of rent, shall, at the time of credit of such income to the account of the payee or at the time of payment thereof in cash or by the issue of a cheque or draft or by any other mode, whichever is earlier, deduct income-tax thereon at the rate of :

(a) 2% for the use of any machinery or plant or equipment; and

(b) 10% for the use of any land or building (including factory building) or land appurtenant to a building (including factory building) or furniture or fittings.

KEY NOTES:

a. However, no deduction shall be made under this section where the amount of such income or, as the case may be, the aggregate of the amounts of such income credited or paid or likely to be credited or paid during the FY by the aforesaid person to the account of, or to, the payee, does not exceed ₹2,40,000,

b. For purposes of this section, - "Rent" means any payment, by whatever name called, under any lease, sublease, tenancy or any other agreement or arrangement for the use of (either separately or together) any,

i. land; or

ii. building (including factory building); or

iii. land appurtenant to a building (including factory building); or

iv. machinery; or

v. plant; or

vi. equipment; or

vii. furniture; or

viii. fittings,

whether or not any or all of the above are owned by the payee, In the present problem, in case of two separate agreements (one for building and another for machinery), the composite rent is subject to tax deduction under section 194 -I. Therefore, ABC Ltd, is required to deduct TDS @ 10% on ₹2,50,000 and @ 2% on ₹72,000 upto March 31, 2024 and deposit the same on or before 30.4.2024.

Question 8: Based on Circular No, 23/2017 under Section 194-I

Mahanadi Limited has taken a 3,000 sq, ft, flat on rent from Jamuna Limited to set up its Branch Office. The rent payable to Jamuna Limited for the flat is ₹ 60,000 per

month plus applicable GST. Mahanadi Limited wishes to know whether tax is required to be deducted at source under Section 194-I from gross amount of rent including GST. Give your advice.

Solution:

Circular No, 23/2017 the CBDT has clarified as under:

In the light of the fact that even under the new GST regime, the rationale of excluding the tax component from the purview of TDS remains valid, the Board hereby clarifies that wherever in terms of the agreement or contract between the payer and the payee, the component of 'GST on services' comprised in the amount payable to a resident is indicated separately, tax shall be deducted at source under **Chapter XVII-B of the Act** on the amount paid or payable without including such 'GST on services' component.

Therefore, in the present case the **TDS is not to be deducted** on the gross amount including GST, It shall be deducted only on the rent excluding GST i.e, ₹7,20,000.

Question 9: Based on 194C, 194J & salary to NR

Explain the applicability of the provisions relating to the deduction of tax at source in the following transactions:

- i. Max Limited pays ₹ 1 lac to Mini Limited, a resident contractor, who under the contract dated 15th October, 2023, manufactures the products according to specification of Max Limited by using materials purchased from Max Limited.**
- ii. A Company operating a Television Channel makes payment of ₹5 lacs to a former cricketer for making running commentary of a one-day cricket match.**
- iii. EL Limited, a Foreign Company pays outside India salary to its employee, Mr. Raghavan, a Foreign national and a non-resident for services rendered in India.**

Solution:

1. Payment to a contractor - **According to section 194C**, a person responsible for paying any sum to a resident contractor for carrying out any work shall deduct **TDS @ 1%/2%**, as the case may be. The definition of work include manufacturing or supplying a product according to the requirement or specification of a customer by using material purchased from such customer, 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.

Where any sum is paid or credited for carrying out any work mentioned in subclause (e) of clause (iv) of the Explanation, tax shall be deducted at source:

- a) on the invoice value excluding the value of material, if such value is mentioned separately in the invoice; or
- b) on the whole of the invoice value, if the value of material is not mentioned separately in the invoice,

Therefore, Max Ltd, shall deduct TDS @ 2% on payment of ₹1,00,000 made to Mini Ltd, If the value of material is separately mentioned in bill, then TDS shall not be deducted on the value of material.

2. Payment to a cricket commentator - Under section 194-J, TDS is required to be deducted on fees for professional services if it exceeds ₹30,000 @ 10%, CBDT has notified commentators to be the professionals under section 194-J and therefore TDS @ 10% shall be deducted on ₹ 5 lakhs.
3. Salary to a non-resident - The facts of this case are similar to Supreme Court judgement in **CIT Vs, Eli Lilly & Co, (India) P, Ltd.**

The **Supreme Court** held that if the home salary and special allowance payment made by the foreign company abroad is for rendition of services in India and if no work is found to have been performed for foreign company, then such payment would certainly come under section 192 (1) of the Income tax Act.

The Supreme Court held that the tax-deductor-assessee was duty bound to deduct tax at source under section 192(1) from the home salary/special allowance(s) paid abroad by the foreign company, particularly when no work stood performed for the foreign company and the total remuneration stood paid only on account of services rendered in India during the period in question.

Therefore, the Indian Company has to deduct TDS on the payment made by foreign company under section 192 to Mr. Raghwan.

Question 10: Based on Section 206C

What are the consequences of not collecting Tax at Source (TCS) in respect of sale of scrap by the manufacturing Company? State the circumstances under which the TCS provisions are not applicable in the above case.

Solution:

If any person who is liable to collect TCS does not collect the whole or any part of the tax or after collecting fails to pay the whole or any part of the tax, then, he shall be deemed to be an assessee in default in respect of the tax not so collected or not so paid. Consequently, he shall be liable to pay interest under section 220 and penalty under section 221 for being an assessee in default.

Section 206C shall not apply where the buyer, who is a resident in India, furnishes to the person responsible for collecting tax, a declaration in writing in duplicate in the prescribed form and verified in the prescribed manner to the effect that the goods referred to above are to be utilized for the purposes of manufacturing, processing or producing articles or things or for the purposes of generation of power and not for trading purposes.

Question 11: Based on 194D, 194J

Explain in the context of provisions contained in Chapter XVII of the Act and also work out the amount of tax to be deducted by the payer of income in the foll. cases:

- a. Payment of ₹ 5 lacs made by JCP & Co, to Pingu Events Co, Ltd, for organization of a debate competition on the subject "Preservation of Rural Heritage of Rajasthan" on 8th May 2023
- b. "Profit Commission" of ₹1 lac paid by a re-insurance company to the insurer company after the expiry of the term of insurance where there was no claim during the treaty.
- c. KD, a part time director of DAF Pvt, Ltd, was paid an amount of ₹ 2,25,000 as fees which was actually in the nature of commission on sales for the period 01-04-2023 to 30.06.2024.

Solution:

- a) The services of Event Managers in relation to sports activities alone have been notified by the CBDT as "professional services" for the purpose of sec 194J. In this case, payment of ₹5 lacs has been made to an event management company for organization of a debate competition. Hence, the TDS provisions under section 194J would not be attracted in this case. However, TDS provisions u/s 194C relating to payment to contractors would be attracted and consequently, tax has to be deducted @ 2% u/s 194C. The tax deductible u/s 194C would be ₹10,000, being 2% of ₹5 lacs.

b) Section 194D requires deduction of tax at source @ 5% from insurance commission, Reinsurance, however, differs from insurance since there is no direct contractual relationship between the person insured and the reinsurer.

In order to attract section 194D, the commission or any other payment covered under the section should be a remuneration or reward for soliciting or procuring the insurance business; the insurance companies do not procure business for the reinsurance company nor does the reinsurer pay commission or other payment for soliciting the business from the insurance companies; therefore, section 194D has no application.

Hence, when profit commission is paid by a reinsurance company to an insurance company, after the expiry of the term of insurance, in respect of such cases where there is no claim during the operation of the reinsurance treaty, TDS u/s 194D is not attracted.

c) Section 194J provides for deduction of tax at source @10% on any remuneration or fees or commission, by whatever name called, paid to a director, which is not in the nature of salary on which tax is deductible at source u/s 192.

Hence, tax is to be deducted at source u/s 194J @10% by DAF Pvt, Ltd, on the commission of ₹2,25,000 paid to KD, a part-time director. The tax deductible u/s 194J would be ₹22,500, being 10% of ₹ 2,25,000.

Question 12: Based on 194DA

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 31.3.2024, towards maturity proceeds of LIC policy taken on 1.4.2021, for which the sum assured is ₹ 4 lakhs and the annual premium is ₹ 1,25,000.
- (ii) Mr. Y, a resident, is due to receive ₹ 3.95 lakhs on 31.3.2024 on LIC policy taken on 31.3.2012, for which the sum assured is ₹ 3.50 lakhs and the annual premium is ₹ 26,100.
- (iii) Mr. Z, a resident, is due to receive ₹ 95,000 on 1.8.2023 towards maturity proceeds of LIC policy taken on 1.8.2017 for which the sum assured is ₹ 90,000 and the annual premium was ₹ 10,000.

Solution:

- (i) Since the annual premium exceeds 10% of sum assured in respect of a policy taken after 31.3.2012, the maturity proceeds of ₹ 4.50 lakhs due on 31.3.2024 are not exempt u/s 10(10D) in the hands of Mr. X. Therefore, tax is required to be deducted @5% u/s 194DA on the amount of income comprised therein i.e., on ₹ 75,000 (₹ 4,50,000, being maturity proceeds - ₹ 3,75,000, being the aggregate amount of insurance premium paid).
- (ii) Since the annual premium is less than 20% of sum assured in respect of a policy taken before 1.4.2012, the sum of ₹ 3.95 lakhs due to Mr. Y would be exempt u/s 10(10D) in his hands. Hence, no tax is required to be deducted at source u/s 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 31.3.2012, and consequently, the maturity proceeds of ₹ 95,000 due on 1.8.2023 would not be exempt u/s 10(10D) in the hands of Mr. Z, the tax deduction provisions u/s 194DA not attracted since the maturity proceeds are less than ₹ 1 lakh.

Question 13: Based on sec. 200 & 234E

Mr, Madhusudan is regular in deducting tax at source and depositing the same. In respect of the quarter ended 31st December, 2023, a sum of ₹ 75,000 was deducted at source from the contractors. The statement of tax deducted at source under section 200 was filed on 23rd March, 2024 for the quarter ended 31.12.2023

(i) Is there any delay on the part of Mr, Madhusudan infilling the statement of TDS?

- (ii) If the answer to (i) above is in the affirmative, how much amount can be levied on Mr. Madhusudan for such default under section 234E.
- (iii) Is there any remedy available to him for reduction/ waiver of the levy of interest of 234E?

Solution:

- (i) Yes, there has been a delay on the part of Mr. Madhusudan in filling the statement of TDS. As per section 200(3) read with Rule 31 A, the Statement of TDS for the quarter ended 31st December, 2023 has been filed on before 31st January, 2024. However, the same has been filed only on 23rd March, 2024. Hence, there has been 51 days delay on the part of Mr, Madhusudan in filling the statement of TDS.
- (ii) As per section 234E of the IT Act 1961, where a person fails to file or deliver the statement of TDS within the prescribed time then, he shall be liable to pay, by way of fee, a sum of ₹200 for every day during which the failure continues. The amount of fee shall not however, exceed the amount of tax deductible.
In this case, since Mr, Madhusudhan has delayed filling the statement of TDS by 51 days, he would be liable to pay a fee of ₹10,200 (₹200 x 51 days) under section 234E. The said fee does not exceed the tax deductible (₹75,000 in this case).
- (iii) The assessee cannot file any appeal / revision application against the fee levied u/s 234E. However, he can move an application to CBDT for waiver of the fee u/s 234E.

Question 14: Based on Sec 206C(1) & 194J

State the rate at which the tax either is to be deducted or collected under the provisions of the Act in the following cases:

1. A partnership firm making sales of the timber which was procured and obtained under a forest lease during the PY.
2. A nationalized bank receiving professional services from a registered society made provision on 31-03-2024 of an amount of ₹25 lacs against the service charges bills to be received.
3. Payment of ₹ 5 lacs made to Mr. Phelps who is an athlete by a manufacturer of a swim wear for brand ambassador on 01.05.2023

Solution:

1. Partnership firm selling timber obtained under forest lease is required to collect TCS @ 2.5%. As per sec 206C(1), tax has to be collected at source @ 2.5%/1.875% the partnership firm, being a seller, at the time of debiting of the amount payable by the buyer to the account of the buyer or at the time of receipt of such amount, whichever is earlier.
2. Tax has to be deducted at source @10% u/s 194J, by the nationalized bank at the time of credit of fees for professional services to the account of the registered society (i.e., on 31.3.2024), even though payment is to be made after that date.
3. Tax has to be deducted at source @ 10% u/s 194J in respect of income of ₹5 lacs paid to Mr, Phelps, athlete, for advertisement, on the presumption that Mr, Phelps is a resident. Alternatively, if Mr, Phelps is assumed to be a NR, who is not a citizen of India, tax has to be deducted at source @ 20.80% (20% plus cess 4%) u/s 194E in respect of income of ₹5 lacs paid to Mr, Phelps, an athlete, for advertisement referred u/s 115BBA.

Question 15: Based on section 194LA, 194-I

Discuss the liability for TDS in the following cases for the AY 2024-25:

- (i) Wings Ltd, has paid amount of ₹15 lacs during the year ended 31-3-2024 to Airports Authority of India towards landing and parking charges.
- (ii) Ramesh gave a building on sub-lease to Mac Ltd, with effect from 1-7-2023 on a rent of 15,000 per month. The company also took on hire machinery from

Ramesh with effect from 1-11-2023 on hire charges of ₹25,000 per month. The rent of building and hire charges of machinery for the year 2023-24 were credited by the company to the account of Ramesh in its books of account on 31-3-2024.

- (iii) ₹1,95,000 paid to Mr, X on 01-02-2024 by Karnataka State Government on compulsory acquisition of his urban land. What would be your answer if land is agriculture land?

Solution:

- (i) **TDS on landing and parking charges:** The landing and parking charges which are fixed by the Airports Authority of India are not merely for the "use of the land". These charges are also for services and facilities offered in connection with the aircraft operation at the airport which include providing of air traffic services, ground safety services, aeronautical communication facilities, installation and maintenance of navigational aids and meteorological services at the airport. **Therefore, TDS is not deductible under section 194-I, (Singapore Airlines Ltd, (SC)**

Tax is deductible @ 1.5% u/s 194C by the airline company, Wings Ltd, on payment of ₹15 lacs made towards landing and parking charges to the Airports Authority of India for the previous.

- (ii) **TDS on rent for building and machinery:** Tax is deductible on rent u/s 194-I, if the aggregate amount of rental income paid or credited to a person exceeds ₹1,80,000. Rent includes payment for use of, inter alia, building and machinery. The aggregate payment made by Mac Ltd, to Ramesh towards rent in P.Y.2023-24 is ₹2,60,000 (i.e. ₹1,35,000 for building and ₹125,000 for machinery). Hence, Mac Ltd, has to deduct tax @10% on rent paid for building and tax @ 2% on rent paid for machinery.

- (iii) **TDS on compensation for compulsory acquisition:** Tax is deductible at source @10% u s 194LA, where payment is made to a resident as compensation or enhanced compensation on compulsory acquisition of any immovable property (other than agricultural loan). However, no tax deduction is required if the aggregate payments in a year does not exceed ₹2,50,000. Therefore, no tax is required to be deducted at source on payment of ₹ 1,95,000 to Mr, X, since the aggregate payment does not exceed ₹2,50,000 lakh. Since the definition of immovable property specifically excludes agricultural land, no tax is deductible at source on compensation paid for compulsory acquisition of agricultural land even if compensation exceeded ₹2,50,000.

Question 16: Based on Set off, total income TDS

Examine the applicability of provisions relating to deduction of tax at source and compute the liability, if any, for deduction of tax at source in the following cases for the FY ended 31-03-2024:

- ₹80,000 towards interest on compensation credited to the account of the payee by Motor Accidents Claim Tribunal on 30-11-2023.
- ₹3,00,000 paid on 11.05.2023 as consideration to Mr, B, a resident in India, on account of compulsory acquisition of his residential building acquired for laying railway tracks.
- Ravi Kumar aged 67 years derived ₹6,90,000 as salary from his employer, XYZ Ltd, for the year ended 31-03-2024, The following details are provided by him to the employer:

Particulars	Amount
Loss from self-occupied house property at Mumbai	200000
Net loss from let-out property	200000

Net loss from business activity	100000
Interest income from bank	320000

Solution:

- As per sec 194A, tax has to be deducted at source @10% from interest on the compensation amount awarded by the Motor Accidents Claims Tribunal at the time of payment, if the amount of interest payment or the aggregate amount of such interest payments during the FY exceeds ₹50,000. In the present case, since the amount of ₹80,000 towards interest on compensation is only credited to the account of the payee by the Motor Accidents Claims Tribunal, no tax is deductible at source.
- As per sec 194LA, tax has to be deducted @ 10% on any sum paid to a resident in respect of compensation on account of compulsory acquisition of any immovable property (other than agricultural land), where the amount of payment or aggregate amount of such payments during the FY exceeds ₹ 2,50,000. Thus, in the present case, tax is deductible @ 10% on ₹ 3,00,000 i.e., ₹ 30,000, being the amount paid to Mr. B, a resident in India, on account of compulsory acquisition of residential building for laying railway tracks.
- As per section 192(2B), XYZ Ltd is required to deduct tax at source at the time of payment of income under the head "Salaries" after considering the information furnished by Ravi Kumar for the FY in respect of income under any other head of income but not loss, except loss from house property. Therefore, XYZ Ltd, is not required to consider the loss of ₹1 lakh from business activity for determining the TDS liability.

Particulars	Amount ₹
Income from salaries [post deduction]	640000
Less:	
Loss from self-occupied property- 200000	
Loss from Let out property – 200000 [restricted to 200000]	200000
Balance	440000
Add: Interest income	320000
Gross Total Income	760000
Less: Deduction u/s 80TTB	50000
Total Income	710000
Total Tax	
Upto 3 lakh- Nil	
3,00,000-5,00,000 @5% = 10000	
5,00,000 – 7,10,000 @20% = 42000	52000
Add Health & Education Cess @4%	2080
Tax Liability	54080
Less: TDS on Bank Interest	32000
TDS	22080

Assuming that assessee has not opted for 115BAC.

Question 17: Based on 194-I, 201(1)

Discuss the liability for TDS in the following cases for the AY 2024-25:

- M/s Avtar Limited entered in to an agreement for the warehousing of its products with ABC Warehousing and deducted tax at source as per the provisions of section 194C out of warehousing charges paid during the year

ended on 31.03.2024 The AO, while completing the assessment for AY of Avtar Limited, asked the company by treating the warehousing charges as rent, as defined in section 194-I, to make payment of difference amount of TDS with interest. It was submitted by the company that the recipient had already paid tax on the entire amount of warehousing charges and therefore, now the difference amount of TDS be not recovered. However, it was prepared to make the payment of due interest of the difference amount TDS. Examine critically the correctness of the action or the treatment given.

- (ii) Ram gave a building on sub-lease to M Ltd, with effect from 1-6-2022 on a rent of ₹ 20,000 p.m. The company also took on hire machinery from Ram with effect from 1-10-2023 on hire charges of ₹ 20,000 per month. The rent for building and hire charges of machinery for the year 2023-24 were credited by the company to the account of Ram in its books of account on 31-3-2024.

Solution:

- (i) As per the first proviso to section 201(1), any person who fails to deduct the whole or any part of the tax on the amount credited or payment made to a resident payee shall not be deemed to be an assessee-in-default in respect of such tax if such resident payee has included the warehouse charges for computing its income, paid tax thereon and filed its return of income under section 139.

Thus, the difference amount of TDS cannot be recovered from Avtar Ltd, since ABC Warehousing has paid tax on the entire amount of warehousing charges,

However, Avtar Ltd, has to pay interest u/s 201(1A)(i) i.e., @1% p.m. or part of month, from the date on which such tax was deductible to the date of furnishing of ROI by such resident payee i.e., ABC Warehousing,

- (ii) Tax is deductible u/s 194-I on rent, if the aggregate amount of rental income paid or credited to a person exceeds ₹ 2,40,000, Tax is deductible at the time of payment or credit, whichever is earlier, Rent includes payment under any lease or sub-lease for use of, inter alia, building and machinery, The aggregate amount credited by M Ltd, to the account of Ram in its books of account on 31.3.2023 towards rent for the P.Y. is ₹3,20,000 [i.e., ₹2,00,000 (₹20,000 x 10) for building and ₹1,20,000 (20,000 x 6) for machinery), Hence, M Ltd, has to deduct tax @10% on rent credited for building and tax @ 2% on rent credited for machinery.

Question 18: Based on Section 194-IA, 194J

Discuss the TDS/TCS applicability in context of AY 2024-25 in the following cases and state the amount of the TDS/TCS as per IT Act, 1961, (All issues as under are independent)

- (i) Mr. Shan an individual, whose turnover from the business carried on by him during the FY immediately preceding the financial year exceed ₹100 lakh, paid fee to an architect of ₹50,000 for furnishing his residential house.
- (ii) Mr. Shyam purchased a house in Mumbai for consideration of ₹90 lakh by cheque from the builder for the use of his residence 29.04.2023.
- (iii) Mr. Soham purchased licensed copy of computer software from the software vendor (resident of India) along with all right to use it for ₹50,000 to be used for business purposes 05.05.2023

Solution:

- (i) As per sec 194J, an individual is liable to deduct TDS on fees per professional services exceeding ₹30,000 if his turnover in the preceding FY exceeds ₹1 crore. However, the section also provides that individual is not required to deduct tax at source on fees for

professional services in case the sum is paid exclusively for personal purposes of such individual. Except where sum exceeds ₹50L [194M]

Therefore, in present case, Mr, Shah is not required to deduct tax at source on ₹50,000 since the fees to architect has been paid for his personal purposes i.e, for furnishing of residential house.

(ii) Section 194-IA provides that every person is liable to deduct tax at source @ 1% on payment for purchase of immovable property to a person resident in India, except for:

(i) rural agricultural land (which is not coming in definition of capital asset), and(ii) where the sale consideration for the property is less than ₹50 lakh, Therefore, if the immovable property is purchased from a NR person for any value, no TDS is required to be deducted under this section. However, TDS shall be deducted under section 195.

However, TDS is required to be deducted on payment made for purchase of an agricultural land which falls in definition of capital asset if purchase price is ₹50 lakhs or more.

Therefore, Mr, Shyam has to deduct TDS @1% on ₹90,00,000 i.e. TDS of ₹ 90,000 from the sale consideration of ₹ 90,00,000 paid to builder. Section 194 – IA is applicable even if house is purchased from builder even if house is purchased for own residence.

(iii) As per sec 194J any person not being individual or HUF who is responsible for paying to a resident any sum by way of royalty exceeding ₹ 30,000 shall deduct TDS @10%

An individual is however required to deduct TDS u/s 194J if his turnover in preceding FY exceeded ₹ 1 crore. As per section 194J, royalty means as defined in sec 9. Sec 9 provides that royalty includes any payment for transfer of all or any rights to use a computer software including granting of a License for Computer Software. Therefore Mr, Sohan, will deduct TDS @ 10% on ₹50,000 if his turnover in PY exceeded ₹ 1 crore, will not deduct TDS if his turnover in PY 31.03.2023 was ₹ 1 crore or less.

Question 19: Section 194-IB, 194BB, 206C(1F), 194J Circular No. 8/2009

Discuss the TDS/TCS implications if any, for the following transactions What is the amount payable to the payee:

- (i) X is a bookmaker and Mr, Y is a punter, on 22-01-2024, B has won ₹50,000 in Horse Race 1 and suffered a loss of ₹20,000 in Horse Race 2.
- (ii) Mr, Santosh has let out his house property on a monthly rent of ₹60,000 from 15- 01-2024 to Mrs. Preeti.
- (iii) H. Ltd a manufacturer of luxury cars sold 50 cars on 11-05-2023 to NMP Ltd, its dealer, each car cost ₹20 Lakhs.
- (iv) AKL Ltd, a third-party administrator on behalf of an Insurance Company has settled medical bills of ₹5,00,000 submitted by Kay Hospitals Ltd. from a patient under a cashless scheme.

Solution:

- (i) Any person, being a bookmaker, who is responsible for paying to any person any income exceeding ₹10,000 by way of winnings from horse races is liable to deduct tax @ 30% at the time of payment as per sec 194BB. In a case where the book-maker credits such winnings and debits the losses to the individual account of the punter, tax would be deducted on the winnings before set - off of losses. Thereafter, the net amount, i.e., the winnings after deduction of tax and losses, would be paid to the individual. Thus, in the present case, Mr, X is liable to deduct tax of ₹15,000 (₹50,000 x 30%) from winnings of ₹50,000. The net amount payable to Mr, B would be ₹15,000 (i.e., ₹50,000 - ₹20,000, being loss - ₹15,000, being TDS).
- (ii) Section 194-IB requires any individual responsible for paying to a resident any income by way of rent exceeding ₹50,000 per month shall deduct tax @ 5% of such income at the time of credit or payment of rent for the last month of the PY, whichever is earlier. Since

Mrs. Preeti, an individual, pays rent exceeding ₹50,000 per month in the F.Y. 2023-24 to Mr. Santosh, she is liable to deduct tax at source @5% of such rent for F.Y. 2023-24 u/s 194-IB. Thus, ₹7,500 [$₹60,000 \times 5\% \times 2.5$ month] has to be deducted from rent payable for March, 2023. The rent payable to Mr. Santosh for March, 2023 would be ₹52,500.

- (iii) Every person, being a seller, who receives any amount as consideration for sale of a motor vehicle of the value exceeding ₹10 lakhs, shall collect tax from the buyer @ 1% of the sale consideration as per sec 206C(1F). However, this provision applies only in respect of transactions of retail sales and does not apply to sale of motor vehicles by manufacturers to dealers. Therefore, H Ltd, a manufacturer, is not required to collect tax at source from NMP Ltd, the dealer, on receipt of consideration for sale of motor cars. Hence, the amount payable by MMP Ltd, to H Ltd, is ₹1,000 lakhs i.e., ₹20 lakhs x 50. **206C[1H] specifically excludes the transaction governed by Sec 206C[1F] from its preview. Therefore, no TCS shall be deductible under 206C[1H] even on such sales worth ₹1000Lakh.**
- (iv) Every person, who is responsible for paying to a resident any sum by way of fees for professional services exceeding ₹30,000 shall deduct tax at source at the rate of 10% at the time of credit to the account of the payee or at the time of payment, whichever is earlier, as per section 194J. "Professional services" include services rendered by a person in the course of carrying on medical profession. The CBDT has, vide **Circular No. 8/2009**, clarified that since the services rendered by hospitals to various patients are primarily medical services, TPAs (Third Party Administrator's), who are making payment on behalf of insurance companies to hospitals for settlement of medical/insurance claims etc, under It is assumed that Mr. Santosh is resident in India, various schemes including cashless schemes are liable to deduct tax at source on all such payments to hospitals.

Thus, AKL Ltd, a TPA is liable to deduct tax of ₹50,000, being 10% of ₹5,00,000 from the payment made to Kay Hospitals Ltd. Hence, the amount payable by AKL Ltd, to Kay Hospitals Ltd, would be ₹4,50,000 [$₹5,00,000 - ₹50,000$].

Question 20: Based on u/s 194A

Examine the TDS implications u/s 194A in the cases mentioned hereunder –

- i. On 1.10.2023, Mr. Harish, aged 45 years, 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 1.6.2023, Mr. Ganesh, aged 35 years, made three nine months fixed deposits of ₹3 lakh each, carrying interest @ 9% with Dwarka Branch, Janakpuri Branch and Rohini Branch of XYZ Bank, a bank which has adopted CBS. The fixed deposits mature on 28.2.2024**
- iii. On 1.10.2023, Mr. Rajesh, aged 40 years, started a six months recurring deposit of ₹2,00,000 per month @ 8% p.a. with PQR Bank. The recurring deposit matures on 31.3.2024.**

Solution:

- (i) ABC Co-operative Bank has to deduct tax at source @ 10% on the interest of ₹45,000 ($9\% \times ₹10 \text{ lakh} \times \frac{1}{2}$) u/s 194A. The tax deductible at source u/s 194A from such interest is, therefore, ₹.4,500.
- (ii) XYZ Bank has to deduct tax at source @ 10% u/s 194A, since the aggregate interest on fixed deposit with the 3 branches of the bank is ₹60,750 [$3,00,000 \times 3 \times 9\% \times 9/12$], 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 ₹60,750 exceeds the threshold limit of ₹40,000, tax has to be deducted @ 7.5% u/s 194A.

- (iii) No tax has to be deducted u/s 194A by PQR Bank on the interest of ₹28,000 falling due on recurring deposit on 31.3.2024 to Mr. Rajesh, since such interest does not exceed the threshold limit of ₹40,000.

Question 21: Based on Sec 194C

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 u/s 194C? Discuss.

Also, examine whether the provisions of tax deduction at source u/s 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 TDS u/s 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 sec 194C. Therefore, such payment would not be liable for tax deduction at source u/s 194C.

Question 22: Based on Sec 201, 200

An amount of ₹40,000 was paid to Mr. X on 1.7.2023 towards fees for professional services without deduction of tax at source. Subsequently, another payment of ₹50,000 was due to Mr. X on 28.2.2024, 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 22.6.2024. Compute the interest chargeable under section 201(1A).

Solution:

Interest under section 201(1A) would be computed as follows –

Particulars	₹
1% on tax deductible but not deducted i.e., 1% on ₹ 4,000 for 8 months	320
1½% on tax deducted but not deposited i.e. 1½% on ₹ 9,000 for 4 months	540
Total	860

- I. Such interest should be paid before furnishing statements in accordance with sec 200(3).
- II. Where the payer fails to deduct the whole or any part of the tax on the amount credited or payment made to a payee and is not deemed to be an assessee-in-default u/s 201(1) on account of payment of taxes by such payee, interest u/s 201(1A)(i) i.e., @1% p.m. or part of month, shall be payable by the payer from the date on which such tax was deductible to the date of furnishing of ROI by such payee. The date of deduction and payment of taxes by the payer shall be deemed to the date on which ROI has been furnished by the payee.
- III. Where the tax has not been paid after it is deducted, the amount of the tax together with the amount of simple interest thereon shall be a charge upon all the assets of the person or the company, as the case may be.

Question 23: Based on section 194A, 193, 194DA

Examine TDS/TCS implications in case of following transactions, briefly explaining provisions involved assuming that all the payees are residents; state the rate and amount to be deducted, in case TDS/TCS is required to be deducted/collected.

- (i) On 1.5.2022, Mr. Brijesh made three fixed deposits of nine months each of Rs. 3 lakh each, carrying interest @ 9% with Mumbai Branch, Delhi Branch and Chandigarh Branch of CBZ Bank, a bank which had adopted CBS. These Fixed Deposits mature on 31.01.2024.
- (ii) Mr. Marwah, aged 80 years, holds 6½ % Gold Bonds, 1977 of Rs. 2,00,000 and 7% Gold Bonds 1980 of Rs. 3,00,000. He received yearly interest on these bonds on 28.02.2024.
- (iii) M/s AG Pvt. Ltd. took a loan of Rs. 50,00,000 from Mr. Haridas. It credited interest of Rs.79,000 payable to Mr. Haridas during the PY 2023-24. M/s AG Pvt. Ltd. is not liable for tax audit during PY 2021-22 and 2022-23.
- (iv) Mr. Prabhakar is due to receive Rs. 6 lakh on 31.3.2024 towards maturity proceeds of LIC policy taken on 1.4.2019, for which the sum assured is Rs. 5 lakhs and the annual premium is Rs. 1,40,000.

Solution:

- (i) CBZ 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 ₹ 60,750 [3,00,000 x 9% x 3 x 9/12], which exceeds the threshold limit of ₹ 40,000.
Since CBZ Bank has adopted core banking solution (CBS), the aggregate interest credited/paid by all branches has to be considered.
Tax to be deducted at source = ₹ 60,750 x 10% = ₹ 6,075
- (ii) Tax @10% u/s 193 is to be deducted on interest on 6½ Gold Bonds, 1977 and 7% Gold Bonds 1980, since nominal value of bonds by Mr. Marwah i.e., ₹ 5,00,000 exceed ₹ 10,000.
Interest on 6½ Gold Bonds, 1977 = ₹ 2,00,000 x 6.5% = ₹ 13,000
Interest on 7% Gold Bonds 1980 = ₹ 3,00,000 x 7% = ₹ 21,000
TDS = ₹ 34,000 x 10% = ₹ 3,400
- (iii) M/s AG Pvt. Ltd. has to deduct TDS @10% u/s 194A, since the interest on loan payable is ₹ 79,000 which exceeds the threshold limit of ₹ 5,000. M/s AG Pvt. Ltd., being a company, has to deduct TDS irrespective of the fact that it is not liable to tax audit during P.Y. 2021-22 and 2022-23.
Tax to be deducted at source = ₹ 79,000 x 10% = ₹ 7,900
- (iv) Since the annual premium exceeds 10% of sum assured in respect of a policy taken after 31.3.2014, the maturity proceeds of ₹ 6 lakhs due on 31.3.2024 are not exempt u/s 10(10D) in the hands of Mr. Prabhakar. Therefore, tax is required to be deducted @5% under section 194DA on the amount of income comprised therein i.e., on ₹ 40,000 [₹ 6,00,000, being maturity proceeds - ₹ 5,60,000, being the amount of insurance premium paid. Tax to be deducted at source = ₹ 40,000 x 5% = ₹ 2,000

Question 24: Based on sec 206C(1G), 206C(1H)

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 AY. 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. Anuj doing business of textile as a proprietor. His turnover in the business is 11 crores in the PY 2022-23. He received payment against sale of textile goods from Mr. Ram of 75 lakhs against the sales made to him in the PY 2022-23. Mr. Ram's turnover for the P.Y. 2022-23 was 5 crores. (Assuming all the sales are domestic sales).

Solution

TCS implications

- (i) Tax @ 5% is required to be collected u/s 206C(1G) 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. Anuj is required to collect tax @ 0.1% u/s 206C(1H) 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.2022-23 exceeds 50 lakhs. Tax has to be collected by Mr. Anuj on 25 lakhs, being the amount exceeding 50 lakhs, at the time of receipt.

$$\text{TCS} = 0.1\% \times 25 \text{ lakhs} = 2,500.$$

Question 25: Based on 194-IB

Mr. X, a salaried individual, pays rent of ₹ 55,000 per month to Mr. Y from June, 2023. Is he required to deduct tax at source? If so, when is he required to deduct tax? Also, compute the amount of tax to be deducted at source.

Would your answer change if Mr. X vacated the premises on 31st December, 2023? Also, what would be your answer if Mr. Y does not provide his PAN to Mr. X?

Solution:

Since Mr. X pays rent exceeding ₹ 50,000 per month in the F.Y. 2023-24, he is liable to deduct tax at source @5% of such rent for F.Y. 2023-24 u/s 194-IB. Thus, ₹ 27,500 [₹ 55,000 x 5% x 10] has to be deducted from rent payable for March, 2024.

If Mr. X vacated the premises in December, 2023, then tax of ₹ 19,250 [₹ 55,000 x 5% x 7] has to be deducted from rent payable for December, 2023.

In case Mr. Y does not provide his PAN to Mr. X, tax would be deductible@20%, instead of 5%.

In case 1 above, this would amount to ₹ 1,10,000 [₹ 55,000 x 20% x 10], but the same has to be restricted to ₹ 55,000, being rent for March, 2024.

In case 2 above, this would amount to ₹ 77,000 [₹ 55,000 x 20% x 7], but the same has to be restricted to ₹ 55,000, being rent for December, 2023.

Question 26: Based on 206C(1H)

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

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

Solution:

- (1) Since Mr. Gupta's turnover for F.Y.2022-23 exceeds 10 crores, and payments made by him to Mr. Agarwal, a resident seller exceed ₹ 50 lakhs in the P.Y.2023-24, he is liable to

deduct tax@0.1% of ₹ 45 lakhs (being the sum exceeding ₹ 50 lakhs) in the following manner –

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

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

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

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

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

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

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

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

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

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

Question 1: Based on AMT credit

Particulars	Normal provision of the Act	MAT/AMT (₹)
Tax liability	200	500
FTC admissible/allowable	200	260
Balance tax payment	N.A.	240

Solution:

Particulars	₹
Tax liability as per MAT/AMT (A)	500
Tax liability as per normal provision of law (B)	200
MAT/AMT credit available (A-B=C)	300
Less: Excess foreign tax credit (260-200) (D)	60
Actual MAT/AMT credit allowed to be c/f (C-D)	240

Question 2: Based on MAT/AMT credit

Particulars	Normal provision of the Act	MAT/AMT (₹)
Tax liability	200	500
FTC admissible/allowable	200	200
Balance tax payment	N.A.	300

Solution:

Particulars	₹
Tax liability as per MAT/AMT (A)	500
Tax liability as per normal provision of law (B)	200
MAT/AMT credit available (A-B=C)	300
Less: Excess foreign tax credit (200-200) (D)	0
Actual MAT/AMT credit allowed to be c/f (C-D)	300

Question 3: Based on tax liability + AMT

Mr. Rajesh has income of ₹45 lakhs under the head "PGBP". One of his businesses is eligible for deduction @ 100% of profits under section 80-IB for A.Y. 2024-25. The profit from such business included in the business income is ₹20 lakhs. Compute the tax payable by Mr. Rajesh, assuming that he has no other income during the PY 2023-24 assuming he has not opted for sec 115BAC.

Solution: Computation of regular income-tax payable under provisions of the Act

Particulars	₹
Profits and gains of business or profession	45,00,000
Less: Deduction under section 80-IB	20,00,000
Total Income	25,00,000
Tax payable	
Up to ₹2,50,000	Nil
5% on next ₹2,50,000	12,500
20% on next ₹5,00,000	1,00,000
30% on balance ₹15,00,000	4,50,000
Total	5,62,500
Add: Health & Education Cess @ 4%	22,500
Tax liability	5,85,000

Computation of Alternate Minimum Tax (AMT)

Particulars	₹
Total Income as per the Income-tax Act, 1961	25,00,000
Add: Deduction under section 80-IB	20,00,000
Adjusted Total Income	45,00,000
AMT = 18.5% × 45,00,000	8,32,500
Add: Health & Education Cess @ 4%	33,300
AMT Liability	8,65,800

Since the regular income-tax payable as per the provisions of the Act is less than the AMT, the ATI of ₹45 lakhs would be deemed to be the TI of Mr. Rajesh and he would be liable to pay tax @ 18.5% thereof. The tax payable by Mr. Rajesh for the A.Y.2024-25 would, therefore, be ₹8,32,500 plus HEC @ 4%, totalling ₹8,65,800. Mr. Rajesh would be eligible for credit to the extent of ₹2,80,800 [₹8,65,800 – ₹5,85,000 (i.e., ₹5,62,500 + 4% cess)] to be set-off in the year in which tax on total income computed under the regular provisions of the Act exceeds the AMT. Such credit can be carried forward for succeeding 15 assessment years.

Summary	
Section	Particulars
139(1)	<p><u>Assessees required to file return of income compulsorily</u></p> <p>(i) Companies and firms (whether having profit or loss or nil income);</p> <p>(ii) a person, being a resident other than not ordinarily resident, having any asset (including any financial interest in any entity) located outside India held as a beneficial owner or beneficiary or who has a signing authority in any account located outside India, whether or not having income chargeable to tax;</p> <p>(iii) Individuals, HUF, AOPs or BOIs and artificial juridical persons whose total income before giving effect to the provisions of Chapter VI-A and sections 54, 54B, 54D, 54EC or 54F exceeds the basic exemption limit.</p> <p>(iv) Any person other than a company or a firm, who is not required to furnish a return under section 139(1), who during the previous year –</p> <ul style="list-style-type: none"> - has deposited more than ₹ 1 crore in one or more current accounts maintained with a banking company or a co-operative bank; or - has incurred expenditure of more than ₹ 2 lakh for himself or any other person for travel to a foreign country; or - has incurred expenditure of more than ₹ 1 lakh towards consumption of electricity; or - fulfils such other conditions as may be prescribed <p>Accordingly, the CBDT has notified that any person other than a company or a firm, who is not required to furnish a return under section 139(1) has to file their return of income on or before due date –</p> <p>(i) if his total sales, turnover or gross receipts, as the case maybe, in the business > ₹ 60 lakhs during the previous year; or</p> <p>(ii) if his total gross receipts in profession > ₹ 10 lakhs during the previous year; or</p> <p>(iii) if the aggregate of TDS and TCS during the previous year, in the case of the person, is ₹ 25,000 or more; or However, a resident individual who is of the age of 60 years or more, at any time during the relevant previous year, if the aggregate of TDS and TCS during the previous year, in his case, is ₹ 50,000 or more</p> <p>(iv) the deposit in one or more savings bank account of the person, in aggregate, is ₹ 50 lakhs or more during the previous year.</p> <p><u>Due date of filing return of income</u></p> <p>(i) 31st October of the assessment year, in case the assessee (other than an assessee referred to in (ii) below) is:</p> <ul style="list-style-type: none"> (a) a company; (b) a person (other than company) whose accounts are required to be audited; or (c) a partner of a firm whose accounts are required to be audited. <p>(ii) 30th November of the assessment year, in the case of an assessee including the partners of the firm being such assessee who is required to furnish a report referred to in section 92E.</p> <p>(iii) 31st July of the assessment year, in case of any other assessee</p>
139(3)	<u>Return of loss</u>

	<p>An assessee can carry forward or set off his/its losses provided he/it has filed his/its return under section 139(3), within the due date specified under section 139(1).</p> <p><u>Exceptions</u> Loss from house property and unabsorbed depreciation can be carried forward for set-off even though return has not been filed before the due date.</p>						
139(4)	<p><u>Belated Return</u> A return of income for any previous year, which has not been furnished within the time allowed u/s 139(1), may be furnished at any time before the:</p> <ul style="list-style-type: none"> (i) three months prior to the end of the relevant assessment year (i.e., 31.12.2024 for P.Y. 2023-24); or (ii) completion of the assessment, whichever is earlier. 						
139(5)	<p><u>Revised Return</u> If any omission or any wrong statement is discovered in a return furnished u/s 139(1) or belated return u/s 139(4), a revised return may be furnished by the assessee at any time before the:</p> <ul style="list-style-type: none"> (i) three months prior to the end of the relevant AY (i.e., 31.12.2024 for P.Y. 2023-24); or (ii) completion of assessment, whichever is earlier. <p>Thus, belated return can also be revised</p>						
234A	<p><u>Interest for default in furnishing return of income</u> Interest under section 234A is payable where an assessee furnishes the return of income after the due date or does not furnish the return of income. Assessee shall be liable to pay simple interest @1% per month or part of the month for the period commencing from the date immediately following the due date and ending on the following dates –</p> <table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="text-align: center;">Circumstances</th> <th style="text-align: center;">Ending on the following dates</th> </tr> </thead> <tbody> <tr> <td>When the return furnished after due date is</td> <td>The date of furnishing of the return</td> </tr> <tr> <td>Where no return is furnished</td> <td>The date of completion of assessment</td> </tr> </tbody> </table>	Circumstances	Ending on the following dates	When the return furnished after due date is	The date of furnishing of the return	Where no return is furnished	The date of completion of assessment
Circumstances	Ending on the following dates						
When the return furnished after due date is	The date of furnishing of the return						
Where no return is furnished	The date of completion of assessment						
	<p>However, where the assessee has paid taxes in full on or before the due date, interest under section 234A is not leviable.</p>						
140A	<p><u>Self-Assessment tax</u> Where any tax is payable on the basis of any return required to be furnished under section 139, after taking into account –</p> <ul style="list-style-type: none"> (i) the amount of tax, already paid, (ii) the tax deducted or collected at source (iii) any relief of tax claimed under section 89 (iv) any tax credit claimed to be set-off in accordance with the provisions of section 115JD, in case the assessee has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A); and (v) any tax and interest payable as per the provisions of section 191(2) <p>the assessee shall be liable to pay such tax together with interest and fee payable under any provision of this Act for any delay in furnishing the return or any default or delay in payment of advance tax before furnishing the return. Where the amount paid by the assessee under section 140A(1) falls short of the aggregate of the tax, interest and fee as aforesaid, the amount so paid shall first be adjusted towards the fee payable and thereafter, towards interest and the balance shall be adjusted towards the tax payable.</p>						

<p>139(8A)</p>	<p><u>Updated Return</u></p> <p>Any person may, whether or not he has furnished a return under section 139(1) or belated return under section 139(4) or revised return under section 139(5) for that assessment year, furnish an updated return of his income or the income of any other person in respect of which he is assessable, for the previous year relevant to the assessment year at any time within 24 months from the end of the relevant assessment year.</p> <p>The provisions of updated return would not apply, if the updated return of such person for that assessment year –</p> <ul style="list-style-type: none"> (i) is a loss return; or (ii) has the effect of decreasing the total tax liability determined on the basis of return furnished under section 139(1) or section 139(4) or section 139(5); or (iii) results in refund or increases the refund due on the basis of return furnished under section 139(1) or section 139(4) or section 139(5). <p>No updated return can be furnished by any person for the relevant AY, where-</p> <ul style="list-style-type: none"> (a) an updated return has been furnished by him under this sub-section for the relevant assessment year; or (b) any proceeding for assessment or reassessment or recomputation or revision of income is pending or has been completed for the relevant assessment year in his case; or (c) he is such person or belongs to such class of persons, as maybe notified by the CBDT
<p>140B</p>	<p><u>Tax on Updated Return</u></p> <p>Payment of tax, additional tax, interest and fee before furnishing updated return of income if no return is furnished earlier - Where no return of income has been furnished by an assessee and tax is payable, on the basis of updated return to be furnished by such assessee under section 139(8A), the assessee would be liable to pay such tax together with interest and fee payable under any provision of this Act for any delay in furnishing the return or any default or delay in payment of advance tax, along with the payment of additional tax computed under section 140B(3), before furnishing the return.</p> <p>The updated return shall be accompanied by proof of payment of such tax, additional income-tax, interest and fee.</p> <p>The tax payable is to be computed after taking into account the following</p> <ul style="list-style-type: none"> (i) the amount of tax, if any, already paid, as advance tax (ii) the tax deducted or collected at source (iii) any relief of tax claimed under section 89; and (iv) any tax credit claimed to set-off in accordance with the provisions of section 115JD, in case the assessee has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A). <p>In a case, where no earlier return has been furnished, the interest payable under section 234A has to be computed on the amount of the tax on the total income as declared in the updated return under section 139(8A), in accordance with the provisions of section 140A(1A).</p> <p>Payment of tax, additional tax, interest and fee before furnishing updated return of income if return is furnished earlier</p> <p>Where, return of income under section 139(1) or 139(4) or 139(5) has been furnished by an assessee and tax is payable, on the basis of updated return to be furnished by such assessee under section 139(8A), the assessee would be liable to</p>

	<p>pay such tax together with interest payable under any provision of this Act for any default or delay in payment of advance tax, along with the payment of interest paid under the provisions of this Act in the earlier return, before furnishing the return.</p> <p>The updated return shall be accompanied by proof of payment of such tax, additional income-tax and interest.</p> <p>The tax payable has to be computed after taking into account the following -</p> <ul style="list-style-type: none"> (i) the amount of relief or tax referred to in section 140A(1), the credit for which has been taken in the earlier return (ii) the tax deducted or collected at source, in accordance with the provisions of Chapter XVII-B, on any income which is subject to such deduction or collection and which is taken into account in computing total income and which has not been included in the earlier return (iii) any tax credit claimed, to set-off in accordance with the provisions of section 115JD, which has not been claimed in the earlier return, in case the assessee has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A). <p>The aforesaid tax would be increased by the amount of refund, if any, issued in respect of such earlier return.</p> <p>Additional income-tax payable at the time of updated return The additional tax payable at the time of furnishing the updated return under section 139(8A) would be –</p> <ul style="list-style-type: none"> (i) 25% of aggregate of tax and interest payable, as determined above, if such return is furnished after expiry of the time available under section 139(4) or 139(5) and before completion of the period of 12 months from the end of the relevant assessment year; or (ii) 50% of aggregate of tax and interest payable, as determined above, if such return is furnished after the expiry of 12 months from the end of the relevant A.Y. but before completion of the period of 24 months from the end of the relevant A.Y
139(9)	<p><u>Defective Return</u></p> <p>Where the Assessing Officer considers that the return of income is defective, he may intimate the defect to the assessee and give him an opportunity to rectify the defect within 15 days from the date of intimation or within such further period, which, the Assessing Officer may allow in his discretion on an application made by the assessee in this behalf.</p> <p>If the defect is not rectified within such period, the return would be treated as an invalid return. Consequently, the provisions of the Income-tax Act, 1961 would apply as if the assessee had failed to furnish the return.</p> <p>However, where the assessee rectifies the defect after the expiry of 15 days or further period allowed by the Assessing Officer but before the assessment is made, the Assessing Officer may condone the delay and treat the return as a valid return.</p>
234F	<p><u>Fee for default in furnishing return of income</u></p> <p>Where a person who is required to furnish a return of income under section 139, fails to do so within the prescribed time limit under section 139(1), he shall pay, by way of fee, a sum of ₹5,000.</p> <p>However, if the total income of the person does not exceed ₹ 5 lakhs, the fees payable shall not exceed ₹1,000</p>
139A	<p><u>Permanent Account Number (PAN)</u></p> <p>Quoting of PAN is mandatory in all documents pertaining to the following</p>

	<p>prescribed transactions :</p> <p>(a) in all returns to, or correspondence with, any income-tax authority;</p> <p>(b) in all challans for the payment of any sum due under the Act;</p> <p>(c) in all documents pertaining to such transactions entered into by him, as may be prescribed by the CBDT in the interests of revenue. For example, sale or purchase of a motor vehicle, payment in cash of an amount exceeding ₹ 50,000 to a hotel against a bill or bills at any one time, etc.</p> <p><u>Inter-changeability of PAN with the Aadhaar number</u></p> <p>Every person who is required to furnish or intimate or quote his PAN may furnish or intimate or quote his Aadhaar Number in lieu of the PAN if he</p> <ul style="list-style-type: none"> - has not been allotted a PAN but possesses the Aadhaar number - has been allotted a PAN and has intimated his Aadhaar number to prescribed authority in accordance with therequirement contained in section 139AA(2).
139AA	<p><u>Quoting of Aadhaar Number</u></p> <p>To be quoted by every person on or after 1.7.2017 in the application for allotment of PAN and in return of income.</p> <p>If a person does not have Aadhaar Number, the Enrolment ID of Aadhaar application form issued to him at the time of enrolment shall be quoted.</p> <p>Every person who has been allotted PAN as on 1.7.2017 and who is eligible to obtain Aadhaar Number, has to intimate his Aadhaar Number to the prescribed authority on or before 31.3.2022.</p> <p>If such person has failed to intimate the same on or before 31st March, 2022, the PAN of such person would become inoperative and he would be liable for payment of fee in accordance with section 234H read with Rule 114(5A) i.e., ₹ 1,000.</p> <p>Where such person who has not intimated his Aadhaar number on or before 31st March, 2022, has intimated his Aadhaar number under section 139AA(2) after 31st March, 2022, after payment of fee specified in section 234H read with Rule 114(5A), his PAN would become operative within 30 days from the date of intimation of Aadhaar number.</p> <p>The consequences of inoperative PAN would be effective from the date specified by the Board i.e., 1.7.2023 [Circular No. 3/2023 dated 28th March, 2023]</p>

Question 1: Based on sec. 140

Can an individual, who is not in India, verify the return of income from outside India? Is there any other option?

Solution:

As per section 140, ROI can be verified by an individual even if he is absent from India. Hence, an individual can himself verify the ROI from a place outside India. Alternatively, any person holding a valid power of attorney and duly authorised by the individual can also verify the return of income. However, such power of attorney should be attached along with the ROI.

Question 2: Based on sec. 139

Enumerate the circumstances in which an individual assessee is empowered to verify his ROI u/s 139 by himself or otherwise by any authorized person.

Solution:

The following table enumerates the specific circumstances and the authorized persons empowered to verify the ROI of an individual assessee filed u/s 139(1) in each such circumstance

	Circumstance	Return of income, to be verified by
(i)	Where he is absent from India	<ul style="list-style-type: none"> the individual himself; or any person duly authorised by him in this behalf holding a valid power of attorney from the individual. (Such power of attorney should be attached to the return of income)
(ii)	Where he is mentally incapacitated from attending to his affairs	<ul style="list-style-type: none"> his guardian; or any other person competent to act on his behalf.
(iii)	Where, for any other reason, it is not possible for the individual to verify the return	<ul style="list-style-type: none"> any person duly authorised by him in this behalf holding a valid power of attorney from the individual (Such power of attorney should be attached to the return of income)
(iv)	In circumstances not covered under (i), (ii) & (iii) above	<ul style="list-style-type: none"> the individual himself

Question 3: Based on return of loss

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

Solution:

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

Section 139(3) states that to c/f the losses specified therein the return should be filed within the time specified in section 139(1).

Following losses are covered by section 139(3):

- business loss to be carried forward under section 72(1),
- speculation business loss to be carried forward under section 73(2),
- loss under the head “Capital Gains” to be carried forward under section 74(1); and
- loss incurred in the activity of owning and maintaining race horses to be c/f u/s 74A(3)

The following losses can be c/f even if return of loss has not been filed as required under section 139(3) –

- loss from house property to be carried forward under section 71B; and
- unabsorbed depreciation to be carried forward.

Question 4: Based on ROI

Paras aged 55 years is resident of India. During the F.Y. 2023-24, interest of ₹ 2,88,000 was credited to his Non-resident (External) Account with SBI. ₹ 30,000, being interest on fixed deposit with SBI, was credited to his saving bank account during this period. He also earned ₹ 3,000 as interest on this saving A/c. Is Paras required to file ROI? What will be your answer, if he has incurred ₹ 3lakhs as travel expenditure of self & spouse to US to stay with his married daughter for some time?

Solution:

An individual is required to furnish a ROI under section 139(1) if his total income, before giving effect to the deductions under Chapter VI-A or exemption u/s or sec 54/54B/54D/54EC or 54F, exceeds the maximum amount not chargeable to tax i.e. ₹ 2,50,000 (for A.Y. 2024-25).

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

Particulars	₹
Income from other sources	
Interest earned from Non-resident (External) Account ₹ 2,88,000 [Exempt u/s 10(4)(ii), assuming that Mr. Paras has been permitted by RBI to maintain the aforesaid account]	NIL
Interest on fixed deposit with SBI	30,000
Interest on savings bank account	3,000
Gross Total Income	33,000
Less: Deduction under section 80TTA (Interest on saving bank account)	3,000
Total Income	30,000

Since the TI of Mr. Paras for A.Y.2024-25, before giving effect to the deductions under Chapter VI-A, is less than the basic exemption limit of ₹ 2,50,000, he is not required to file return of income for A.Y.2024 - 25.

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

If he has incurred expenditure of 3lakhs on foreign travel of self & spouse, he has to mandatorily file his return of income on or before the due date mentioned u/s 139(1).

Question 5: Based on sec. 139

Explain with brief reasons whether the return of income can be revised under section 139(5) of the Income-tax Act, 1961 in the following cases:

- (i) Belated return filed under section 139(4).
- (ii) Return already revised once under section 139(5).
- (iii) Return of loss filed under section 139(3).

Solution:

Any person who has furnished a return u/s 139(1) or 139(4) can file a revised return at any time before the end of the relevant AY or before the completion of assessment, whichever is earlier, if he discovers any omission or any wrong statement in the return filed earlier. Accordingly,

- (i) A belated return filed under section 139(4) can be revised.
- (ii) A return revised earlier can be revised again as the first revised return replaces the original return. Therefore, if the assessee discovers any omission or wrong statement in such a revised return, he can furnish a second revised return within the prescribed time i.e. within the end of the relevant AY or before the completion of assessment, whichever is earlier. It implies that a ROI can be revised more than once within the prescribed time.
- (iii) A return of loss filed u/s 139(3) is deemed to be return filed u/s 139(1), and therefore, can be revised under section 139(5).

Question 6: Based on tax return preparer

Mrs. Hetal, an individual engaged in the business of Beauty Parlour, has got her books of account for the FY ended on 31st March 2023 audited u/s 44AB. Her total income for the AY 2024-25 is ₹ 6,35,000. She wants to furnish her return of income

for AY 2024-25 through a tax return preparer. Can she do so?

Solution:

Section 139B provides a scheme for submission of ROI for any AY through a tax return preparer. However, it is not applicable to persons whose books of account are required to be audited u/s 44AB. Therefore, Mrs. Hetal cannot furnish her ROI for A.Y.2024-25 through a tax return preparer.

Question 7: Based on ROI of LLP & time limit u/s 139

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

- (a) ROI of Limited Liability Partnership (LLP) could be verified by any partner.
(b) Time limit for filing return u/s 139(1) in the case of Mr. A having total turnover of ₹160 lakhs (₹100 lakhs received in cash) for the year ended 31.03.2024, whether or not opting to offer presumptive income u/s 44AD, is 31st October 24.

Solution:

(a) Disagree

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

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

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

(b) Disagree

In case Mr. A opts to offer his income as per the presumptive taxation provisions of sec 44AD, then, the due date u/s 139(1) for filing of ROI for the year ended 31.03.2024, shall be 31st July 2024.

In case Mr. A does not opt for presumptive taxation provisions u/s 44AD and, has to get his accounts audited u/s 44AB, since his turnover exceeds ₹ 1 crore, the due date for filing return would be 31st October 2024.

Question 8: Based on revise return

Mr. Vineet submits his return of income on 12-09-2024 for A.Y 2024-25 consisting of income under the head salaries, “Income from house property” and bank interest. On 21-01-2024, he realized that he had not claimed deduction under section 80TTA in respect of his interest income on the Savings Bank Account. He wants to revise his return of income. Can he do so? Examine. Would your answer be different if he discovered this omission on 21-04-2025?

Solution:

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

As per section 139(5), a return furnished under section 139(1) or a belated return u/s 139(4) can be revised maximum 3 months. Prior to the end of FY. Or before completion of Assessment Whichever is earlier. Thus, a belated return u/s 139(4) can also be revised. Therefore, Mr. Vineet cannot revise the return of income filed by him u/s 139(4) in January 2025, to claim deduction u/s 80TTA, since the time limit for filing a revised return is upto the end of the relevant assessment or upto 31st Dec.2024. Further, he cannot revise return had he discovered this omission only on 21-04-2025, since it is beyond 31.12.2024.

Question 9: Based on sec 139 & HUF

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

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

Solution:

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

Question 10: Based on filling ROI

State with reasons whether ROI is to be filed in the following cases for the AY 24-25 Mr. X, a resident individual, aged 80 years, has a total income of ₹ 2,85,000. He has claimed deduction of ₹ 1,50,000 u/s 80C. LTCG of ₹ 80,000 is not taxable by virtue of the exemption available upto specified threshold u/s 112A. Assume that he has not opted for the special provisions u/s 115BAC.

Would your answer change if Mr. X has incurred ₹1,05,000 towards payment of electricity bills for F.Y.2023-24?

Solution:

No, he is not required to file Return of Income for AY 2024-25.

As per the provisions of sec 139(1), every person, whose total income without giving effect to the provisions of Chapter VI-A exceeds the maximum amount not chargeable to tax, is required to furnish the ROI for the relevant AY on or before the due date. The gross total income of Mr. X before giving effect to deduction of ₹ 1,50,000 u/s 80C is ₹ 4,35,000, which is less than the basic exemption limit of ₹ 5,00,000 applicable to an individual aged 80 years or more. Therefore, Mr. X need not furnish his ROI for the A.Y. 2024-25.

Note – Yes, the answer would change, since Mr. X has incurred expenditure of an amount exceeding ₹1 lakh towards consumption of electricity. In such a case, he would have to file his return for A.Y.2024-25 on or before the due date u/s 139(1).

Question 11: Based on updated return

Mr. X would like to furnish his updated return for the AY 2022-23. In case he furnished his updated ROI, he would be liable to pay ₹ 2,50,000 towards tax and ₹ 35,000 towards interest after adjusting tax and interest paid at the time filing earlier return. You are required to examine whether Mr. X can furnish updated return

- (i) as on 31.3.2024
- (ii) as on 28.2.2025
- (iii) as on 31.5.2025

If yes, compute the amount of additional income-tax payable by Mr. X at the time of filing his updated return.

Solution

Mr. X may furnish an updated return of his income for A.Y. 2022-23 at any time within 24 months from the end of the relevant AY i.e., 31.3.2025.

Accordingly, Mr. X can furnish updated return for A.Y. 2022-23 as on 31.3.2024 and on 28.2.2025. However, he cannot furnish such return as on 31.5.2025, since such date falls after 31.3.2025.

Mr. X would be liable to pay additional income-tax

- @25% of tax and interest payable, if updated return is furnished after the expiry of the time limit available u/s 139(4) or 139(5) i.e., 31st December 2023 and before the expiry of 12 months from end of relevant AY i.e., 31.3.2024
- @50% of tax and interest payable, if updated return is furnished after the expiry of 12 months from end of relevant AY i.e., 31.3.2024 and before the expiry of 24 months from end of relevant AY i.e., 31.3.2025.

Accordingly, Mr. X is liable to pay additional income-tax in case he furnished his updated return as on

- (i) 31.3.2024 - ₹ 71,250 [25% of 2,85,000, being tax of ₹ 2,50,000 plus interest of ₹ 35,000]
- (ii) 28.2.2025 of ₹ 1,42,500 [50% of 2,85,000, being tax of ₹ 2,50,000 plus interest of ₹ 35,000]

Question 12: Based on defective return

Mr. Ram furnished his return of income for the A.Y. 2024-25 on 20.07.2023. Due to missing information for payment of taxes in the ROI, the AO considers it defective u/s 139(9) of the IT Act, 1961.

- (i) What are the consequences if defect is not rectified within the time allowed?**
- (ii) Specify the remedies available if not rectified within time allowed by the AO?**

Solution:

- (i) If the defect is not rectified within the period of 15 days or such further extended period, then, the return would be treated as an invalid return. The consequential effect would be the same as if the assessee had failed to furnish the return.
- (ii) The AO has the power to condone the delay and treat the return as a valid return, if the assessee has rectified the return after the expiry of 15 days or the further extended period, but before the assessment is made.

Summary

Computation of Total Income and Tax liability of Individuals:

Income-tax is levied on an assessee's total income. Total income has to be computed as per the provisions contained in the Income-tax Act, 1961. The following steps has to be followed for computing the total income of an assessee:

Step 1 – Determination of residential status

- Resident • Resident and ordinarily resident
- Resident but not ordinarily resident • Non-resident

Note – An Indian citizen who is a deemed resident in India would be a RNOR in India.

Step 2 – Classification of income under five heads

- Salaries • Income from house property
- Profits and gains of business or profession • Capital Gains
- Income from other sources

Step 3– Computation of income under each head

- Income under each head – exemptions - deductions

Step 4 – Clubbing of income of spouse, minor child etc.**Step 5 – Set-off current year losses and brought forward losses**

- Inter-source set-off of losses • Inter-head set-off of losses
- Set-off of brought forward losses • Set-off of unabsorbed depreciation
- Carry forward of losses and unabsorbed depreciation

Step 6 – Computation of Gross Total Income

Gross Total Income Add income computed under each head → Apply clubbing provisions
→ Apply the provisions for set- off and carry forward of losses

Step 7 – Deductions from Gross Total Income

- Deductions in respect of certain payments
- Deductions in respect of certain incomes
- Deduction in respect of other incomes
- Other deductions

Step 8 – Computation of Total income

- Gross Total Income – Deduction under Chapter VI-A
- Rounded off to the nearest multiple of ₹ 10

Step 9 – Application of rates of tax on total income in case of an individual

Total income (in ₹)		Rate of Tax
Upto ₹ 2,50,000 (below 60 years)		Nil
Upto ₹ 3,00,000 (60 years or above but less than 80 years and resident in India)		
Upto ₹ 5,00,000 (above 80 years and resident in India)		
₹ 2,50,001/ ₹ 3,00,001, as the case may be, to ₹ 5,00,000		5%
₹ 5,00,001 to ₹ 10,00,000		20%
Above ₹ 10,00,000		30%
(i)	Upto ₹ 3,00,000	Nil
(ii)	From ₹ 3,00,001 to ₹ 6,00,000	5%
(iii)	From ₹ 6,00,001 to ₹ 9,00,000	10%
(iv)	From ₹ 9,00,001 to ₹ 12,00,000	15%
(v)	From ₹ 12,00,001 to ₹ 15,00,000	20%
(vi)	Above ₹ 15,00,000	30%

Step 10 – Surcharge and Rebate Surcharge

Total Income (assuming that the same does not include dividend, LTCG u/s 112, LTCG u/s 112A and STCG u/s 111A)	Surcharge
> ₹ 50 lakhs ≤ ₹ 1 crore	10% of income-tax
> ₹ 1 crore ≤ ₹ 2 crore	15% of income-tax
> ₹ 2 crore ≤ ₹ 5 crore	25% of income-tax
> ₹ 5 crore	37% of income-tax

It may be noted that the enhanced rates of surcharge@25% and 37% will not apply in respect of dividend income, long-term capital gains taxable u/s 112A and short-term capital gains taxable u/s 111A.

Rebate under section 87A:

- (I) Rebate of up to ₹ 12,500 for resident individuals having total income of up to ₹ 5 lakh. However, rebate under section 87A is not available in respect of tax payable @10% on long-term capital gains taxable under section 112A.
- (II) If Total income of such individual does not exceed ₹ 7,00,000 the rebate shall be equal to the amount of income- tax payable on his total income for any assessment year or an amount of ₹ 25,000, whichever is less.

Step 11 – Health and Education cess on Income-tax:

Health and Education cess= 4% of income-tax and surcharge, if applicable

Total Tax Liability= Tax on Total Income at Applicable rates + Surcharge (Applicable rates) –Rebate (If any) +HEC @ 4%

Step 12 – Examine the applicability of AMT

- If an individual is claiming deduction under section 10AA or under section 35AD or section 80JJAA, 80QQB & 80RRB and his adjusted total income exceeds ₹ 20 lakhs, AMT provisions will apply.
- Compute AMT [18.5% of adjusted total income plus surcharge, if applicable plus HEC @4%]
- If AMT >tax computed as per regular provisions, adjusted total income would be deemed to be total income.
- Tax is leviable @18.5% of adjusted total income plus surcharge, if applicable plus HEC @ 4%
- Tax credit to be c/f = AMT less Tax computed as per regular provisions
- Individuals or HUFs exercising option u/s 115BAC are not liable to alternate minimum tax u/s 115JC.

Step 13- Examine whether to pay tax under default regime under section 115BAC or pay tax under default regime as per the regular provisions of the Act.

In case of assessee not having income from business or profession

In case of individual not having income from business or profession, the total income and tax liability may be computed every year, both in accordance with default tax regime under section 115BAC and regular provisions of the Act (including provisions relating to AMT, if applicable), in order to determine which is more beneficial and accordingly, decide whether or not to shift out of the default regime under section 115BAC.

In case of an assessee having income from business or profession:

In case of individuals having income from business or profession, the total income and tax liability may be computed, both in accordance with default tax regime under section 115BAC and regular provisions of the act (including provisions relating to AMT if applicable), in order to determine which is more beneficial.

Step 14 – Credit for advance tax, TDS and TCS

Net Tax Liability= Total Tax Liability- TDS-TCS-Advance Tax

Step 15 – Tax payable/ Tax refundable

- Net tax liability should be rounded off to the nearest multiple of ₹ 10.
- The assessee has to pay the amount of tax payable (called self- Assessment tax) at the time of filing of the return
- If any refund is due, assessee will get the same after filing the return of income.

Question 1: Based on taxable income and tax liability

Rosy and Mary are sisters, born and brought up at Mumbai. Rosy got married in 1983 and settled at Canada since 1983. Mary got married and settled in Mumbai. Both of them are below 60 year. The following are the details of their income for the PY ended 31.3.2024.

Sr.	Particulars	Rosy	Mary
1.	Pension received from State Government	-	60,000
2.	Pension received from Canadian Government	20,000	-
3.	Long-term capital gain on sale of land at Mumbai	1,00,000	1,00,000
4.	Short-term capital gain on sale of shares of Indian listed companies in respect of which STT was paid	20,000	2,50,000
5.	LIC premium paid	-	10,000
6.	Premium paid to Canadian Life Insurance Corporation at Canada	40,000	-
7.	Mediclaim policy premium paid by A/c Payee Cheque	-	25,000
8.	Deposit in PPF	-	20,000
9.	Rent received in respect of house property at Mumbai	60,000	30,000

Compute the taxable income and tax liability of Mrs. Rosy and Mrs. Mary for the AY 2024-25 and tax thereon. Ignore the provisions of section 115BAC.

Solution: Computation of taxable income of Mrs. Rosy and Mrs. Mary for the A.Y.2024-25

Sr No	Particulars	Rosy	Mary
1.	Salaries Pension received from State Govt. ₹60,000 Less: Standard deduction u/s 16(ia) ₹50,000 Pension received from Canadian Government is not taxable in the case of a NR since it is earned and received outside India	-	10,000
		-	10,000
2.	Income from house property Rent received from house property at Mumbai (assumed to be the annual value in the absence of other information i.e. municipal value, fair rent and standard rent) Less: Deduction u/s 24(a) @ 30%	60,000 18,000 42,000	30,000 9,000 21,000
3.	Capital Gains Long-term capital gain on sale of land at Mumbai Short term capital gain on sale of shares of Indian listed companies in respect of which STT was paid	1,00,000 20,000 1,20,000	1,00,000 2,50,000 3,50,000
A	Gross Total Income [(I)+(II)+(III)]	1,62,000	3,81,000
	Less: Deduction u/c VI-A		
1.	Deduction under section 80C		

	1. LIC Premium paid	-	10,000
	2. Premium paid to Canadian Life Insurance Corp	40,000	-
	3. Deposit in PPF	-	20,000
		40,000	30,000
2.	Deduction u/s 80D – Mediclaim	-	25,000
		40,000	55,000
B	Total deduction under Chapter VIA is restricted to income other than capital gains taxable under sections 111A & 112	40,000	31,000
C	Total Income (A-B)	1,22,000	3,50,000
	Tax liability of Mrs. Rosy for A.Y.2024-25		
	Tax on long-term capital gains @20% of ₹1,00,000	20,000	
	Tax on short-term capital gains @15% of ₹20,000	3,000	
	Tax on balance income of ₹2,000	Nil	23,000
	Tax liability of Mrs. Mary for A.Y.2024-25		
	Tax on STCG @15% of ₹1,00,000 [i.e. ₹2,50,000 less ₹1,50,000, being the unexhausted basic exemption limit as per proviso to section 111A] [See Notes 3 & 4 below]		15,000
	Less: Rebate under section 87A would be lower of ₹12,500 or tax liability, since total income does not exceed ₹ 5,00,000	-	12,500
	Total	23,000	2,500
	Add: HEC @ 4%	920	100
	Total Tax Liability	23,920	2,600

Notes:

- (1) LTCG on sale of land is chargeable to tax @20% as per section 112.
- (2) STCG on transfer of equity shares in respect of which securities transaction tax is paid is subject to tax @15% as per sec 111A.
- (3) In case of resident individuals, if the basic exemption limit is not fully exhausted against other income, then, the LTCG/STCG will be reduced by the unexhausted basic exemption limit and only the balance will be taxed at 20%/15%, respectively. However, this benefit is not available to NR. Therefore, while Mrs. Mary can adjust unexhausted basic exemption limit against LTCG taxable u/s 112 and STCG taxable u/s 111A, Mrs. Rosy cannot do so.
- (4) Since LTCG is taxable at the rate of 20% and STCG is taxable at the rate of 15%, it is more beneficial for Mrs. Mary to first exhaust her basic exemption limit of ₹ 2,50,000 against LTCG of ₹100,000 and the balance limit of ₹ 1,50,000 (i.e., ₹2,50,000 – ₹1,50,000) against STCG.
- (5) Rebate u/s 87A would not be available to Mrs. Rosy even though her total income does not exceed ₹5,00,000, since she is non-resident for the A.Y. 2024-25.

Question 2: Based on total income and tax payable

From the following particulars furnished by Mr. X for the year ended 31.3.2024, you are requested to compute his TI and tax payable for the AY 2024-25, assuming that he does not opt for paying tax u/s 115BAC.

- (a) Mr. X retired on 31.12.2023 at the age of 58, after putting in 25 years and 9 months of service, from a private company at Mumbai.
- (b) He was paid a salary of ₹ 25,000 p.m. and HRA of ₹6,000 p.m. He paid rent of ₹ 6,500 p.m. during his tenure of service.
- (c) On retirement, he was paid a gratuity of ₹ 3,50,000. He was covered by the payment of Gratuity Act. Mr. X had not received any other gratuity at any point of time earlier, other than this gratuity.
- (d) He had accumulated leave of 15 days per annum during the period of his

service; this was encashed by Mr. X at the time of his retirement. A sum of ₹ 3,15,000 was received by him in this regard. His average salary may be taken as ₹ 24,500. Employer allowed 30 days leave per annum.

- (e) After retirement, he ventured into textile business and incurred a loss of ₹ 80,000 for the period upto 31.3.2024.
 (f) Mr. X has deposited ₹ 1,00,000 in public provident fund.

Solution: Computation of total income of Mr. X for A.Y.2024-25

Particulars	₹	₹
Income from Salaries		
Basic salary (₹25,000 x 9 months)		2,25,000
House rent allowance:		
Actual amount received (₹6,000 x 9 months)	54,000	
Less: Exemption under section 10(13A) (Note 1)	<u>36,000</u>	18,000
Gratuity:		
Actual amount received	3,50,000	
Less: Exemption under section 10(10)(ii) (Note 2)	<u>3,50,000</u>	-
Leave encashment:		
Actual amount received	3,15,000	
Less: Exemption under section 10(10AA) (Note 3)	<u>2,45,000</u>	70,000
Gross Salary		3,13,000
Less: Standard deduction under section 16(ia)		50,000
Total		2,63,000
Profits and gains of business or profession		Nil
Business loss of ₹80,000 to be carried forward as the same cannot be set off against salary income		
Gross Total income		2,63,000
Less: Deduction under section 80C		
Deposit in Public Provident Fund		1,00,000
Total Income		1,63,000
Tax on Total Income		Nil

Notes:

- (1) As per section 10(13A), house rent allowance will be exempt to the extent of least of the following three amounts

Particulars	₹
i) HRA actually received (6,000 X 9)	54,000
ii) Rent paid in excess of 10% of salary (6,500 – 2,500) X 9 months	36,000
iii) 50% of salary	1,12,500

- (2) Gratuity of ₹3,50,000 is exempt under section 10(10)(ii), being the minimum of the following amounts

Particulars	₹
(i) Actual amount received	3,50,000
(ii) Half month salary for each year of completed service [(25,000 x 15/26) x 26 years]	3,75,000
(iii) Statutory limit	2,00,000

(3) Leave encashment is exempt upto the least of the following:

Particulars	₹
Actual amount received	3,15,000
10 months average salary (₹ 24,500 x 10)	2,45,000
Cash equivalent of unavailed leave calculated on the basis of maximum 30 days for every year of actual service rendered to the employer from whose service he retired (See Note 4 below)	3,06,250
Statutory limit	25,00,000

(4) Since the leave entitlement of Mr. X as per his employer's rules is 30 days credit for each year of service and he had accumulated 15 days per annum during the period of his service, he would have availed/taken the balance 15 days leave every year.

Particulars	₹
Leave entitlement of Mr. X on the basis of 30 days for every year of actual service rendered by him to the employer	=30 days/year X 25 = 750 days
Less: Leave taken /availed by Mr. X during the period of his service	=15 days /year X 25 =375 days
Earned leave to the credit of Mr. X at the time of his retirement	375 days
Cash equivalent of earned leave to the credit of Mr. X at the time of his retirement	= 375 X ₹24,500 /30= ₹3,06,250

Question 3: Based on total income and tax liability & adv. tax
Balamurugan furnishes the following information for the year ended 31-03-2024:

Particulars	₹
Income from textile business	(1,35,000)
Income from house property	(15,000)
Lottery winning (Gross)	5,00,000
Speculation business income	1,00,000
Income by way of salary (Computed)	60,000
Long term capital gain u/s 112	70,000

Compute his total income, tax liability and advance tax obligations. Assume he does not opt for section 115BAC.

Solution: Computation of total income of Balamurugan for the year ended 31.03.2024.

Particulars	₹	₹
Income from Salaries	60,000	
Less: Loss from house property	(15,000)	
Net Salary (after set off of loss from house property)		45,000
Profits and gains of business or profession		
Speculation business income	1,00,000	
Less: Business loss set-off	(1,35,000)	
Net business loss to be set-off against LTCG	(35,000)	
Capital Gains		
Long term capital gain	70,000	
Less: Business loss set-off	(35,000)	
LTCG after set off of business loss		35,000
Income from other sources		
Lottery winnings (Gross)		5,00,000
Total Income		5,80,000

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

Particulars	₹
On total income of ₹ 80,000 (excluding lottery winning)	Nil
On lottery winnings of ₹ 5,00,000 @ 30%	1,50,000
Total	1,50,000
Add: Health & education cess @ 4%	6,000
Total tax Liability	1,56,000

The assessee need not pay advance tax since the TI (excluding lottery income) liable to tax is below the basic exemption limit. Further, in respect of lottery income, tax would have been deducted at source @ 30% u/s 194B. Since the remaining tax liability of ₹6,000 (₹1,56,000 – ₹1,50,000) is less than ₹10,000, advance tax liability is not attracted.

Notes:

- (1) The basic exemption limit of ₹ 2,50,000 has to be first exhausted against salary income of ₹ 45,000. The unexhausted basic exemption limit of ₹ 2,05,000 can be adjusted against LTCG of ₹ 35,000 as per section 112, but not against lottery winnings which are taxable at a flat rate of 30% u/s 115BB.
- (2) The first proviso to sec 234C(1) provides that since it is not possible for the assessee to estimate his income from lotteries, the entire amount of tax payable (after considering TDS) on such income should be paid in the remaining instalments of advance tax which are due. Where no such instalment is due, the entire tax should be paid by 31st March, 2023. The first proviso to sec 234C(1) would be attracted only in case of non-deduction or short-deduction of tax at source u/s 194B. In this case, it has been assumed that tax has been deducted at source from lottery income.

Question 4: Based on residential status & total income

Miss Charlie, an American national, got married to Mr. Radhey of India in USA on 2.03.2023 and came to India for the first time on 16.03.2023. She left for USA on 19.9.2023. 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 1.05.2023. 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 cash gifts from her relatives and friends during 1.4.2023 to 31.3.2024:

- 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

- (a) Determine her residential status and compute the total income chargeable to tax along with the amount of tax liability on such income for the AY 2024-25.
- (b) Would her residential status undergo any change, assuming that she is a person of Indian origin and her total income from Indian sources is 18,00,000 and she is not liable to tax in USA?

Solution:

I. Under section 6(1), an individual is said to be resident in India in any PY, if he satisfies any one of the following conditions:

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

If an individual satisfies any one of the conditions mentioned above, he is a resident. If both the above conditions are not satisfied, the individual is a non- resident.

Therefore, the residential status of Miss Charlie, an American National, for A.Y.2024-25 has to be determined on the basis of her stay in India during the PY relevant to A.Y. 2024-25 i.e. P.Y.2023-24 and in the preceding four AY 2024-25.

Her stay in India during the PY 2023-24 and in the preceding four years are as under:

PY 2023-24	
01.04.2023 to 19.09.2024	172 days
27.03.2023 to 31.03.2024	5 days
Total	177 days
Four preceding PYs	
P.Y. 2022-23 [1.4.2022 to 31.3.2023]	16 days
P.Y.2021-22 [1.4.2021 to 31.3.2022]	Nil
P.Y.2020-21[1.4.2020 to 31.3.2021]	Nil
P.Y.2019-20 [1.4.2019 to 31.3.2020]	Nil
Total	16 days

The total stay of the assessee during the PY in India was less than 182 days and during the four years preceding this year was for 16 days. Therefore, due to non-fulfillment of any of the two conditions for a resident, she would be treated as non-resident for AY 2024-25.

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

Particulars	₹	₹
Income from house property		
Show room located in Mumbai remained on rent from 01.05.2023 to 31.03.2024 @ ₹25,000/- p.m.	2,75,000	
Gross Annual Value [₹25,000 x 11] (See Note 1 below)		
Less: Municipal taxes	Nil	
Net Annual Value (NAV)	2,75,000	
Less: Deduction under section 24		
30% of NAV	82,500	
Interest on Loan	97,500	
	1,80,000	95,000
Income from other sources		
Cash gifts received from non-relatives is chargeable to tax as per sec 56(2)(x), if the aggregate value of such gifts exceeds ₹50,000.		
- ₹50,000 received from parents of husband would be exempt, since parents of husband fall within the definition of 'relative' and gifts from a relative are not chargeable to tax.	Nil	
- ₹11,000 received from married sister of husband is exempt, since sister-in-law falls within the definition of relative and gifts from a relative are not chargeable to tax.	Nil	
- Gift received from two friends of husband ₹1,51,000 & ₹ 21,000 aggregating to ₹1,72,000 is taxable under section 56(2)(x) since the aggregate of ₹1,72,000 exceeds ₹50,000. (See Note 2 below)	1,72,000	1,72,000
Total Income		2,67,000

Computation of tax liability by Miss Charlie for the A.Y. 2024-25

Particulars	₹
On total income of ₹2,67,000	850
Add: Health & education cess @ 4%	34
Total tax Liability	884
Total tax Liability (Rounded off)	880

Notes:

1. Actual rent received has been taken as the GAV in the absence of other information (i.e. Municipal value, fair rental value and standard rent) in the question.
 2. If the aggregate value of taxable gifts received from non-relatives exceed ₹50,000 during the year, the entire amount received (i.e. the aggregate value of taxable gifts received) is taxable. Therefore, the entire amount of ₹1,72,000 is taxable u/s 56(2)(x).
If he has incurred expenditure of 3lakhs on foreign travel of self & spouse, he has to mandatorily file his ROI on or before the due date mentioned u/s 139(1).
 3. Since Miss Charlie is a NR for the A.Y. 2024-25, rebate u/s 87A would not be available to her, even though her total income does not exceed ₹ 5 lacs.
 4. The tax liability of Miss Charlie would be the same even if she opts to pay tax as per sec 115BAC, since she would be eligible for deduction u/s 24(b), for interest on housing loan in respect of let out property under regular provisions as well as u/s 115BAC of the Act, 1961.
- II. Residential status of Miss Charlie in case she is a person of Indian origin and her total income from Indian sources exceeds ₹ 18,00,000
If she is a person of Indian origin and her TI from Indian sources exceeds ₹15,00,000 (₹18,00,000, in her case), the condition of stay in India for a period exceeding 120 days during the PY and 365 days during the four immediately PPY would be applicable for being treated as a resident. Since her stay in India exceeds 120 days in the P.Y. 2023-24. but period of her stay in India during the 4 immediately PPY is less than 365 days (only 16 days), her residential status as per sec 6(1) would continue to be same i.e., NR in India. Further, since she is not a citizen of India, the provisions of sec 6(1A) deeming an individual to be a citizen of India would not get attracted in her case, even though she is a person of Indian origin and her total income from Indian sources exceeds ₹15,00,000 and she is not liable to pay tax in USA. Therefore, her residential status would be non-resident in India for the PY 2023-24.

Question 5: Computation of Total Income and Tax Liability

Computation of Total Income and Tax Liability -

Ms. Vaishali, employed in a Private Sector Company, furnishes following information for the year ended 31.03.2024.

	(₹)
Income from Salary (computed)	5,00,000
Bank Interest on Fixed Deposits	15,000
Tax on Non-Monetary Perquisite paid by Employer	20,000
Amount contributed by her during the year are given below:	
- Contribution to Recognised Provident Fund	60,000
- Health Insurance Premium - on self (paid by crossed cheque)	7,000
- Medical Expenditure for dependent sister with disability	20,000

Compute the Taxable Income and tax liability of Ms. Vaishali for the AY 2024-2025

Solution: Computation for Ms. Vaishali for AY: 2024-25.

Particulars	(₹)	(₹)
Salaries (Given)		5,00,000
Income from other sources =Bank FD Interest		15,000
Gross Total Income		5,15,000
Less: Deduction under Chapter VIA		
u/s 80 C Contribution to RPF	60,000	
u/s 80 D Medical Insurance Premium paid by cheque	7,000	
u/s 80 DD Medical treatment of handicapped dependent	75,000	(1,42,000)

(WN-2)		
Total Income		3,73,000
Tax there on (3,73,000-2,50,000) x 5%		6,150
Less: Rebate u/s 87A (Max ₹ 12,500) for resident individual if income ≤ ₹ 5 Lakhs		(6,150)
Net Tax Liability (Rounded off)		Nil

Note:-

1. Tax on Non-Monetary perquisite paid by the employer is exempt from Tax u/s 10(10CC).
2. U/s 80 DD Expenditure incurred for medical treatment of dependent relative is allowed a fixed deduction of ₹ 75,000 irrespective of the amount paid.

Question 6: Based on Tax liability

Shri Madan (age 67 Years) gifted a building owned by him to his son's wife Smt. Hema on 01.01.2023, The Building fetched a rental Income of ₹ 10,000 per month throughout the year. Municipal Tax for the first half year of ₹ 5,000 was paid in June 2023 and the municipal tax for the second half year was not paid till 30.09.2023. Income of Shri Madan and Smt. Hema other than Income from House Property are given below:

Name	Business Income	Capital Gain	Other Sources
Shri. Madan	1,00,000	50,000 (Long-term)	1,50,000
Smt. Hema	(75,000)	2,00,000 (ShortTerm)	50,000

Note- Capital Gain does not relate to Gain from shares and securities
Compute the Total income of Shri. Madan and Smt. Hema taking into account Income from Property given above and also compute their income tax liability for the AY.2024-25

Solution: Computation of TI and Tax on Total Income of Shri Madan for AY. 2024-25

Particulars	₹	₹
Income From House Property (Note-1)		
Annual Value=Rental income for 12 months = (₹ 10,000 x 6 + ₹ 10,000 x 6)	1,20,000	
Less- Municipal Tax paid only allowed as deduction	(5,000)	
Net Annual Value	1,15,000	
Less- Deduction us 24 = 30% of Net Annual Value = 1,15,000 x 30%	(34,500)	80,500
Profits and Gains of Business or Profession (given)		1,00,000
Income from Capital Gain (Long Term)		50,000
Income From Other Sources		1,50,000
Gross Total Income		3,80,500
Less: Deduction under Chapter VI-A		NIL
Total Income		3,80,500
Tax on Total Income-		
On Long Term Capital Gain (₹ 50,000 x 20%)	10,000	
On Balance Income of ₹ 3,30,500 (3,30,500 – 3L) x 5%	1,525	11,525
Tax Payable		11,525
Less: Rebate u/s 87A (max ₹ 12500) for resident individual TI ≤ ₹5L		(11,525)
Total Tax Liability		Nil

Computation of Total income and Tax on Total Income of Smt. Hema for AY. 2024-25

Particulars	₹
Profits and Gains of Business or Profession: Loss from Business	(75,000)
Income from Capital Gain: Short Term Capital Gains	2,00,000
Income From other Sources	50,000
Gross Total Income	1,75,000
Less: Deduction under chapter VI-A	NIL
Total Income	1,75,000
Total Tax Liability	Nil

Note:-

- U/s 64(1)(vi), Income from assets transferred to Son's wife shall be clubbed in the hands of the Transferor, Hence, the Rental Income from the building transferred to Smt. Hema by Shri. Madan Shall be clubbed in the hands of Shri. Madan.
- Business Loss of the Current year, can be set-off under any head other than securities.

Question 7: Total income- Business income, chapter VI-A

Mr. Vidyasagar, Resident Individual aged 64, is a partner in Oscar Musicals & co, a Partnership firm. He also runs a wholesale business in medical products. The following details are made available for the year ended 31.03.2024:

Particulars	₹	₹
1. Interest on Capital Received from Oscar Musical & Co at 15%		1,50,000
2. Interest from Bank on Fixed Deposit (Net of TDS ₹ 1,500)		13,500
3. I.T. Refund received including interest of ₹ 2,300		
4. Net Profit from wholesale Business		34,500
Amount Debited include the following:		5,60,000
Depreciation as per Books		
Motor Car Expenses	34,000	
Municipal Taxes for the shop	40,000	
(For Two half years, payment for one half year made on 12.06.2024 & for other, on 14.11.2024)	7,000	
Salary to Manager for whom single cash payment was made for		
	21,000	
5. WDV of Assets (As on 01.04.2023 used in above business is as under;		
Computers	1,20,000	
Motor car (20% used for personal use)	3,20,000	
6. LIP Paid for major son	60,000	
PPF of his wife	70,000	
NSC	30,000	

Computer the Total Income of the assessee for the AY. 2024-25. The Computation should show the proper heads of Income. Also compute the WDV of the different Blocks of Assets as on 31.03.2024.

Solution: Computation of Total Income of MR. Vidyasagar for AY. 2024-25.

Particulars			₹	₹
Profits and Gains from Business or profession (7,50,000-89,900)				6,60,100
Particulars	Deduction from Profit	Addition to Profit		
Net Profit as per P&L A/c		5,60,000		
Depreciation as per Books		34,000		
Depreciation as per IT Act (WN-1)	86,400			
Municipal Taxes				
Municipal Taxes paid before due date for filling of return	3,500	7,000		
Salary to Manager (WN-2)		21,000		
Interest on Capital, upto 12% Taxable = 1,50,000 x 12% / 15%		1,20,000		
Motor car Expenses (20% for personal purposes disallowed)		8,000		
Sub-Total	89,900	7,50,000		
Income From Other Sources				
Interest from Fixed Deposits (13,500 + 1,500)			15,000	
Interest on I.T Refund			2,300	17,300
Gross Total Income				6,77,400
Less:- Dedn. Under Chapter VI-A				
u/s 80C – LIP for major son- irrespective of dependent or not		60,000		
u/s 80C – NSC		30,000		
u/s 80C – Contribution to PPF for his wife		70,000		(1,50,000)
Restricted to ₹ 1,50,000 (u/s 80 CCE)		1,60,000		
Total Income				5,27,400

Working Notes-

(1) Computation of WDV

Particulars	Computer (40%)	Motor Car (15%)
Opening WDV as on 01.04.2023	1,20,000	3,20,000
Less: Current Year Depreciation	(1,20,000 x 40%) = 48,000	(3,20,000 x 15% x 80%) = 38,400
Closing WDV as on 31.03.2024	72,000	2,81,600

Total Depreciation for the year = ₹ 48,000 (computer) + 80% of ₹ 48,000 (Car) = ₹ 86,400.
20% of Depreciation on Motor Car used for Personal purpose is not allowed as deduction.

2. **Payment made in cash:** u/s 40A(3), where an Assessee incurs any expenditure in respect of which aggregate of payment on a single day in excess of ₹ 10,000 is made, otherwise than by a n Account Payee Cheque drawn on a bank or an Account Payee Bank Draft or payment by an another electronic mode as prescribed, whole of such expenditure shall not be allowed as a deduction. In the given case, salary payment of ₹ 21,000 to Manager is made in cash, hence the entire amount is not allowed as a deduction.

3. **Income Tax Refund:** Income tax refund is not treated as Income. Interest on income Tax Refund is Taxable under “Income From Other Sources”.

Question 8: Based on total income

Mr. Y Carries on his Own business, An analysis of his Trading and Profit & Loss for the year ended 31.03.2024 revealed the following information:

- i) The Net profit was ₹ 1,11,20,000.
The following incomes were credited in the profit and loss Account:
 - ii) Dividend ₹ 2,20,000
 - iii) Interest on Debentures ₹ 1,75,000
 - iv) Winnings from Races ₹ 1,50,000
 - v) It was found that some Stocks were omitted to be included in both the Opening the Closing Stocks, the value of which were:
Opening Stock ₹ 80,000
Closing Stock ₹ 1,20,000
 - vi) ₹ 10,00,000 was debited in the Profit and Loss Account being contribution to a University approved and notified under Sec. 35(1)(ii).
 - vii) Salary includes ₹ 2,00,000 paid to his brother which is unreasonable to the extent of ₹ 25,000.
 - viii) Advertisement Expenses include 15 gift packets of dry fruits costing ₹ 10,000 per packet presented to important customer
 - ix) Total expenses on car was ₹ 7,80,000. The Car was used both for Business and Personal purposes. $\frac{3}{4}$ th is for Business purposes.
 - x) Miscellaneous Expenses included ₹ 30,000 paid to A & Co., Goods Transport Operator in Cash on 31.01.2024 for Distribution of the company's product to the Warehouse.
 - xi) Depreciation debited in the books Was ₹ 5,50,000. Depreciation allowed as per IT Rules was ₹ 7,50,000.
 - xii) Drawing ₹ 1,00,000.
 - xiii) Investment in NSC ₹ 1,50,000.
- Compute the Total Income of Mr. Y for the AY. 2024-25.

Solution: Computation of Taxable Income and Tax Liability of Mr. Y For AY.24-25

Particulars			₹
1. Profits and Gains of Business or Profession	Deduction from Profit	Addition to Profit	
Net Profit as per Profit & Loss A/c		1,11,20,000	
Dividend (considered under "IFOS")	2,20,000		
Interest on Debentures (Considered under "IFOS")	1,75,000		
Winning from Races (Considered under "IFOS")			
Opening Stock (Earlier omitted, to be included)	1,50,000		
Closing Stock (Earlier omitted, to be included)			
Amount paid to Approved University u/s 35(1)(ii)= Eligible at 100% of the Amount donated (₹ 10,00,000 x 100%) – ₹10,00,000 (already debited in Income & Expenditure A/c)	80,000		
Salary to Brother [unreasonable or excess amount disallowed u/s 40A(2)]		1,20,000	
Car Expenses disallowed to the extent of personal use (7,80,000 x $\frac{1}{4}$)		25,000	
Depreciation as per books		1,95,000	
Depreciation as per IT Act		5,50,000	
Drawings disallowed being Personal in Nature		1,00,000	
Investment in NSC	7,50,000	1,50,000	
Sub-Total	13,75,000	1,22,60,000	1,08,85,000

2. Income from other sources			
Dividend		2,20,000	
Interest on Debentures		1,75,000	
Winnings from Races		1,50,000	5,45,000
Gross Total Income			1,14,30,000
Less:- Deduction under chapter VI-A u/s 80C- Investment in NSC (Restricted to ₹ 1.5 lakh)			(1,50,000)
Total Income			1,12,80,000
Tax thereon:			
Special Rate of tax. Form winning from horse Races [₹ 150000 x 30%]		45,000	
Normal Rate of Tax:- [₹ 11280000 -1000000] x 30% + ₹ 1,12,500		31,51,500	31,96,500
Add: Surcharge @ 15% (see Note 3)			4,79,475
Tax including Surcharge			36,75,975
Add: HEC @ 4%			1,47,039
Tax liability (Rounded off)			38,23,010

Notes:

- 1) As per Sec. 40A(3), any payment in cash made to any Transporter for the purpose of plying, hiring or leasing goods carriage shall be disallowed if it exceeds ₹ 35,000 on any day. In the given case, the Assessee makes a payment of ₹ 30,000 in cash to A & Co., a Transport operator on 31.01.2024. It is an allowable expenditure.
- 2) Advertisement Expenses is incurred for the purpose of business and hence allowed u/s 37. So, no adjustment is required to be made for the same.
- 3) When the Total Income of the Assessee exceeds ₹ 1 Crore and less than ₹ 2 crores, Tax payable shall be increased by a surcharge @ 15%.

Question 9: Computation of Total Income -Taxation of Individuals -

Mr. Raghuveer, a Resident Individual aged 35 years, furnished the following information from P&L A/c for the year ended 31st March 2024:

- (i) The Net Profit was 6,50,000.
- (ii) The following Incomes were credited in the P&L A/c:
 - (a) Interest on Government Securities 25,000.
 - (b) Dividend from a Foreign Company 18,000.
 - (c) Gold Coins worth 55,000 received as Gift from his father.
- (iii) Depreciation debited in the books of a/c was 85,000. Depreciation allowed as per IT Act, 1961 was 96,000.
- (iv) Interest on Loan amounting to 68,000 was paid in respect of Capital borrowed for the purchase of the New Asset which has not been put to use till 31st March 2024.
- (v) General Expenses included:
 - (a) An expenditure of 20,500 which was paid by a Bearer Cheque.
 - (b) Compensation of 4,500 paid to an Employee while terminating his services in Business Unit
- (vi) He contributed the following amounts by Cheque:
 - (a) 45,000 in Sukanya Samridhi Scheme in the name of his minor daughter Alpa.
 - (b) 20,000 to the Swachh Bharat Kosh set up by the Central Government.
 - (c) ₹ 28,000 towards Premium for Health Insurance & 2,500 on account of Preventive Health Checkup for Self and his wife.
 - (d) ₹ 35,000 on account of Medical Expenses of his father aged 82 years (no Insurance Scheme had been availed on the health of his father).

You are required to compute the Total Income of Mr. Raghuveer.

Solution:**Computation of Taxable Income and Tax Liability of Mr. Raghuveer for AY. 2024-25.**

Particulars			₹
1. PGBP	Deduction from Profit	Addition to Profit	
Net Profit as per Profit & Loss A/c		6,50,000	
Interest on Govt. Securities (considered u/h "IFOS")	25,000		
Dividend from foreign Company (Considered u/h "IFOS")	18,000		
Gold Coins from Father (Considered u/h "IFOS")	55,000		
Depreciation as per Books	-	85,000	
Depreciation as Per IT Act	96,000		
Interest on Loan [Disallowed u/s 36(1)(iii) see note-1]	-	68,000	
General Expenses [Disallowed u/s 40A(3)] See note-2	-	20,500	
Compensation to Employees for Termination [For the business – allowed u/s 37]	-	-	
Sub-total	(1,94,000)	8,23,500	6,29,500
2. Income from Other Sources			
Interest on Government Securities		25,000	
Dividend from Foreign company (See note-3)		18,000	
Gold coin from Father (not taxable since, it is received from relative) See Note-4		-	43,000
Gross Total Income			6,72,500
Less:-Deduction under chapter VI-A			
(a) Sukanya samridhi scheme [u/s 80C]		45,000	
(b) For Assessee and Spouse (Assuming premium payment by A/c payee cheque) [Preventive Checkup is also included within the overall limit of ₹ 25,000] – 80D		25,000	
(c) Medical Expenses of Father 82y Assuming payment by A/c payee cheque- 80D Max.		35,000	
(d) Contribution to Swachh Bharat kosh [100% allowed without restriction]		20,000	(1,25,000)
Total Income			5,47,500

NOTES:

- As per Sec.36(1)(iii), IOBC for the purchase of asset, paid from the date on which the capital was borrowed upto the date such asset was first put to use, shall not be allowed as a deduction.
- As per Sec.40A(3), Expenditure in respect of which aggregate payments made to a person in a day, in excess of 10,000, made otherwise than by way of Account Payee Cheque / Demand Draft / payment by any other electronic mode as prescribed is disallowed in full.
- Dividend from Domestic Companies and Foreign Company is Taxable u/h "IFOS".
- As per Sec.56, Gift received from a Relative (Father) is exempt from tax.
- Note: Depreciation as per Income Tax is allowed.

Question 10: Based on Sec. 115BAC

1. Mr. Anmol (aged 67 years), a manufacturer, reported a profit of ₹ 3,95,11,290 for the PY 2023-24 after debiting/crediting the following items:

Debits:

- (a) ₹ 15,000 paid to a Gurudwara registered u/s 80G of the IT Act, 1961 in cash where no checks are accepted.
- (b) ₹ 35,500 contributed to a university approved and notified u/s 35(1)(ii) to be used for scientific research.
- (c) Interest paid ₹ 1,75,000 on loan taken for purchase of E-vehicle on 15-07-2023 from a bank. The E-vehicle was purchased for the personal use of his wife.
- (d) He has purchased timber under a forest lease of ₹ 25,00,000 for the purpose of business.

Credits:

- (i) Income of ₹ 3,50,000 from royalty on patent registered under the Patent Act received from different resident clients. No TDS was needed to be deducted by any of the clients.
- (ii) He received ₹ 3,00,000 from a debtor which was written off as bad in the year 2019-20. Amount due from the debtor (which was written off as bad) was ₹ 4,00,000, out of which the tax officer had only allowed ₹ 2,50,000 as deduction in computing the total income for AY 2020 - 21.
- (iii) He sold some goods to his brother for ₹ 6,00,000. The fair market value of such goods was ₹ 9,00,000.

Other information:

- I. Depreciation in books of accounts is computed by applying the rates prescribed under the Income tax laws.
 - II. Mr. Anmol purchased a new car of ₹ 14,00,000 on 1st August, 2023 and the same was put to use in the business on the same day. No depreciation for the same has been taken on car in the books of account.
 - III. Mr. Anmol had sold a house on 25th March, 2023 and deposited the LTCG of ₹ 20,00,000 in capital gain account scheme by the due date of filing ROI for that year. On 11th March, 2024, he sold another house property in which he resided for ₹ 1 crore. He earned a LTCG of ₹ 55,00,000 on sale of this property. On 25th March, 2024, he withdrew money out of his capital gain account and invested ₹ 1 crore on construction of one house.
 - IV. Mr. Anmol also made the following payments during the PY 2023-24
 - V. Lump-sum premium of ₹ 1,20,000 paid on 30th March, 2024 for the medical policy taken for self and spouse. The policy shall be effective for five years i.e. from 30th March, 2024 to 29th March, 2029.
- ₹ 8,000 paid in cash for preventive health check-up of self and spouse.

Compute the total income and tax payable by Mr. Anmol for the AY 2024-25 assuming he does not opt for section 115BAC.

Solution: Computation of total income of Mr. Anmol for A.Y. 2024-25

Particulars		₹	₹	₹
I	Income from PGBP			
	Net profit as per P&L A/c		3,95,11,290	
	Add: Items of expenditure debited but not allowable while computing business income			

(a) Donation to Gurudwara in cash [not allowable as deduction since it is not incurred wholly and exclusively for business purpose. Since the amount is already debited, the same has to be added back while computing business income]	15,000		
(b) Contribution to an university approved and notified u/s 35(1)(ii) for scientific research [Eligible for deduction @100%. Since, 100% of the expenditure is already debited to profit and loss account, no adjustment is required]			
(c) Interest on loan taken for purchase of e-vehicle [Interest on loan for purchase of e-vehicle for personal purpose is not allowed as deduction from business income since the same is not incurred wholly and exclusively for business purpose. Since it is already debited, the same has to be added back while computing business income]	1,75,000		
(iii) Sale of goods to brother at less than FMV [The provisions of sec 40A(2) are not applicable in case of sale transaction, even if the same is to a related party. Therefore, no adjustment is necessary in respect of difference of ₹ 3 lakh]		1,90,000	
Total		3,97,01,290	
Less: Items of income credited but not taxable or taxable under any other head of income			
(i) Royalty on patent [Not taxable as business income since Mr. Anmol is engaged in manufacturing business. Since the amount is already credited to profit and loss account, the same has to be reduced while computing business income]	3,50,000		
(ii) Bad debt recovered [Actual bad debt is ₹ 1 lakhs i.e., ₹ 4 lakhs less ₹ 3 lakh, being the amount of bad debt recovered. Bad debt written off is ₹ 2.50 lakhs. Bad debt recovered to the extent of ₹ 1.50 lakh being excess of bad debt recovered over actual bad debt would be deemed to be business income. Since the whole ₹ 3 lakhs is credited to the profit and loss account, ₹ 1.50 lakhs has to be reduced]	1,50,000	5,00,000	
		3,92,01,290	
Less: Allowable expenditure			
7. Depreciation on car [₹ 14 lakh x 15%, since car is put to use for more than 180 days in the P.Y.2023-24]		2,10,000	3,89,91,290
2 Capital Gain			
Long term capital gain on sale of house property		55,00,000	

	Less: Exemption under section 54 [Since whole amount of LTCG is invested in construction of house within the stipulated time limit.] [Capital gain of ₹ 20 lakhs in capital gain account scheme is not taxable in P.Y. 2023-24, since the same is withdrawn and invested in construction of house within the stipulated time limit. The remaining amount of ₹80 lakhs invested in construction of house is eligible for exemption u/s 54, subject to a maximum of ₹55 lakhs being LTCG on sale of house property during the P.Y.2023-24]		55,00,000	-
3	Income from Other Sources			
	Royalty on patent [Taxable as “income from other sources”, since he is engaged in business of manufacturing]			3,50,000
	Gross Total Income			3,93,41,290
	Less: Deduction under Chapter VI-A			
	Deduction under section 80D - Medclaim premium for self and spouse [In case of lump sum premium for medical policy, deduction is allowed for equally for each relevant PYs. [₹ 1,20,000/6 years, being relevant PYs in which the insurance is in force] - Preventive health check up of self and spouse [Preventive health check up paid in cash allowed to the extent of ₹ 5,000]	20,000		
		5,000	25,000	
	Deduction under section 80EEB [Since the loan is sanctioned by Bank during the P.Y. 2023-24, interest on loan taken for purchase of e-vehicle is allowed to the extent of ₹ 1,50,000]		1,50,000	
	Deduction under section 80G [Donation of ₹ 15,000 to Gurudwara not allowable as deduction since amount exceeding ₹ 2,000 paid in cash]			
	Deduction u/s 80RRB [Deduction in respect of royalty on patent registered under the Patent Act subject to a maximum of ₹ 3 lakh]		3,00,000	4,75,000
	Total income			3,88,66,290

Computation of tax payable by Mr. Anmol for A.Y.2024-25

Particulars	₹	₹
Tax on total income of ₹ 3,88,66,290		
Upto ₹3,00,000	Nil	
₹3,00,001 – ₹5,00,000 [@5% of ₹2 lakh]	10,000	
₹5,00,001 – ₹10,00,000 [@20% of ₹5,00,000]	1,00,000	
₹10,00,001- ₹ 3,88,66,290 [@30% of ₹ 3,78,66,290]	1,13,59,887	1,14,69,887

Add: Surcharge @ 25%, since total income exceeds ₹ 2,00,00,000 but does not exceed ₹ 5,00,00,000		28,67,472
Total		1,43,37,359
Add: Health and education cess@4%		5,73,494
Total tax liability		1,49,10,853
Less: TCS u/s 206C(1) @ 2.5% on ₹ 25 lakh i.e., timber	62,500	
TCS u/s 206C(1F)@1% of ₹14 lakh i.e., sale of motor car where consideration exceeds ₹10 lakh	14,000	
TDS u/s 194-IA@1% of ₹1 crore i.e., sale of immovable property where consideration is ₹ 50 lakh or more	1,00,000	1,76,500
Tax payable		1,47,34,353
Tax payable (rounded off)		1,47,34,350

Question 11: Total Income- Professional, Cash basis Accounting

Mr. Rajiv (aged 50 years,) a Resident Individual and Practicing Chartered Accountant furnishes you the receipts and payments Account for the PY. 2023-24.

Receipts	₹	Payments	₹
Op. Bal- Cash in Hand & Cash at Bank 1 st April	12,000	Staff Salary, Bonus and Stipend to Articled Clerks	21,50,000
Fees from Professional Services	59,38,000	Other Administrative Expenses	11,48,000
Motor Car Loan from Canara Bank @ 9.5% P.a.	2,50,000	Office Rent	30,000
Rent	50,000	Housing Loan repaid to SBI (Incl. Int. of ₹ 88,000)	1,88,000
		Life Insurance Premium	24,000
		Motor Car (acquired in January 2022)	4,25,000
		Medical Insurance Premium (for Self and Wife)	18,000
		Books bought of Annual Publications	20,000
		Computer acquired (professional use)	30,000
		Domestic Drawings	2,72,000
		Public Provident Fund subscription	20,000
		Motor Car Maintenance	10,000
		Cl. Bal- Cash in Hand & Cash at Bank 31 st march	19,15,000
Total	62,50,000	Total	62,50,000

Following Further information is given to you:

- 1) He Occupies 50% of the building for own residence and let –out the balance for residential use at a monthly rent of ₹ 5,000. The building was constructed during the year 1999-2000.
- 2) Motor Car was put to use both for official and Personal purpose. One-Fifth of the Motor Car use is for personal purpose. No Car Loan Interest was paid during the year.
- 3) The Written Down Value of Assets as on 01.04.2023 are given below:

Particulars	₹
Furniture & Fittings	60,000
Plant & Machinery (Air-Conditioners, Photocopiers, etc)	80,000

Computers**50,000**

Mr. Rajiv follows regularly the Cash System of Accounting. Compute the Total income of Mr. Rajiv for the AY. 2024-25. Assume shifts out of 115BAC.

Particulars	₹	₹	₹
Income from house property			
Self-occupied			
Annual value	Nil		
Less: Deduction under section 24(b)			
Interest on housing loan	30,000		
50% of ₹ 88,000 = 44,000 but limited to			
Loss from self-occupied property		(30,000)	
Let out property			
Annual value (Rent receivable has been taken as the annual value in the absence of other information)	60,000		
Less: Deductions u/s 24			
30% of Net Annual Value	18,000	62,000	(2,000)
Interest on housing loan	44,000		
Loss from house property			(32,000)
PGBP			
Fees From Professional Services		59,38,000	
Less: Expenses allowable			
Staff Salary, Bonus and Stipend paid to Articled Clerks	21,50,000		
Other Administrative Expenses	11,48,000		
Office Rent	30,000		
Motor Car Maintenance [10,000 x 4/5]	8,000		
Car loan interest – not allowable (since the same has not been paid and the assessee follows cash system of accounting)	Nil	33,36,000	
		26,02,000	
Less: Depreciation			
Motor car ₹ 4,25,000 x 7.5% x 4/5	25,500		
Books being annual publications@40%	8,000		
Furniture and fittings@10% of ₹ 60,000	6,000		
Plant and machinery@15% of ₹ 80,000	12,000		
Computer@40% of ₹ 50,000	20,000		
Computer (New) ₹ 30,000 @ 40% x 50%	6,000	77,500	25,24,500
Gross Total Income			24,92,500
Less: Deductions under Chapter VI-A			
Housing loan principal repayment	1,00,000		
PPF subscription	20,000		
Life insurance premium	24,000		
Total amount of ₹ 1,44,000 is allowed as deduction since it is within the limit of ₹ 1,50,000		1,44,000	
Deduction under section 80D		18,000	1,62,000
Medical insurance premium paid			
Total Income			23,30,500

Question 12: Salaries, Capital Gains, Deductions and Total Income-
Mr. Pankaj, aged 58 years, who retired from the services of the CG on 30.06.2023, furnishes particulars of his Income and other details as under:

1. Salary at ₹18,000 p.m.
2. Pension at ₹ 9,000 p.m. for July 2023 to November 2023.
3. On 01.12.2023, he got 1/3rd of his Pension commuted for ₹ 3,60,000.
4. A house plot at Ernakulam sold on 01.02.2024 for ₹ 15,00,000 has been purchased by him on 03.11.2005 for ₹ 30,000. Stamp Valuation Authority had assessed the value of said plot at ₹ 18,00,000 which was neither disputed by the Buyer nor by him.
5. Received Interest on Bank FD of ₹ 2,17,500, Dividend on Mutual Fund Units of ₹ 45,000 and Interest on Maturity of NSC of ₹ 1,50,000 out of which ₹ 1,20,000 was already disclosed by him on accrual basis in the Returns up to AY 2024-2025.
6. Investment in purchase of NSC for ₹ 90,000 and payment for Mediclaim Insurance for self and wife of ₹ 37,500. Made investment in Tax Magnum Units of Mutual Fund of SBI of 2,40,000.

(a) Compute the Total Income of Mr. Pankaj for the AY 2024-2025.

(b) In the event of Mr. Pankaj being ready to make appropriate investment for b availing exemption in respect of Capital Gain arising from sale of House Plot, what will be the amount to be invested and the period within which the same should be invested?

- If he wishes to avail exemption u/s 54F by constructing a new Residential House

- If he wants to avail exemption u/s 54EC.

[CII for PY 2004-2005 is 113; CII for AY-2024-2025 is 348]

Solution: Computation of Total Income of Mr. Pankaj for AY.2024-25

Particulars	₹	₹
1. Salaries: Basic Salary (₹ 18,000 x 3 Months)	54,000	
Pension [W.N-1]	69,000	
Less: Gross Salary	1,23,000	
Deductions u/s 16(ia) Standard Deduction	(50,000)	
Income under the head of "Salaries"		73,000
2. Capital Gains Net Sale consideration [WN.2]	18,00,000	
Less: Indexed Cost of Acquisition [₹ 30,000 x 348/113]	(92,398)	
Long Term Capital Gain		17,09,602
3. Income From Other Sources		
Bank Interest	2,17,500	
NSC Interest [₹ 1,50,000 – 1,20,000]	30,000	
Dividend from Mutual Fund Units	45,000	2,92,500
Gross Total Income		20,75,102
Less: Deductions under Chapter VI-A		
- u/s 80C NSC including Accrued Interest [W.N. 3]	90,000	
Units of Mutual Fund of SBI	2,40,000	
Total Deduction ₹ 3,30,000 Restricted to ₹ 1,50,000 (u/s 80CCE)	1,50,000	
- U/s 80D Medical Insurance Premium paid (restricted to ₹ 25,000)	25,000	(1,75,000)
Total Income (Rounded off)		19,00,102

Amount to be invested for Capital Gain Exemption is as under:

For Exemption U/s	Amount to be invested	For conditions to be fulfilled for claiming exemption for Long Term Capital Gains u/s 54EC and 54F refer Chapter 7.
54EC	Capital Gains = ₹ 17,09,602	
54F	Net Consideration = ₹ 18,00,000	

Working Notes:

1. Taxable Value of Pension

Particulars	₹	₹
(i) Uncommuted Pension – Fully Taxable July to Nov. (₹ 9,000 x 5 months)	45,000	69,000
Dec to March – (₹ 9,000 x 2/3 x 4 months)	24,000	
(ii) Commuted Pension – Fully Exempt for Government Employees u/s 10(10A)	3,60,000 (3,60,000)	NIL
Taxable value of Pension		69,000

2. Determination of Sale Consideration for the purposes of Capital Gains: U/S.50C, where 10% on sale consideration is less than the value adopted by the Stamp Valuation Authority, the value adopted by the Stamp Valuation authority shall be considered for the purposes of Capital Gains.

3. Interest on NSC is taxable under "IFOS" but interest on maturity of NSC does not qualify for deduction u/s 80C. Therefore, only ₹ 90,000 (Purchase in the current year) is allowed as a deduction u/s 80C.

4. Sec.80TTA is applicable only for Deposits in a Savings Account. Since he received Interest of ₹ 2,17,500 on Time Deposits (FD), he is not entitled for deduction of ₹ 10,000.

Question 13: Computation of Total Income and Tax thereon-Resident Individual Mrs. Rani, a resident aged 50 years is running an acupuncture clinic. Her Income and Expenditure Account and other relevant information for the year ending 31 March 2024 are given below:

Expenditure	₹	Income	₹
To Staff Salary	2,40,000	By Fees Receipts	10,00,000
To Clinic Rent	1,20,000	By Dividend from Indian Companies	10,500
To Medicines and Needles	1,05,000	By Winning from Lotteries net of TDS (TDS 3,000)	7,000
To Depreciation	81,000	By Income Tax Refund	1,750
To Administrative Expenses	1,52,00		
To Donation to Prime Minister's National Relief Fund	20,000		
To Excess of Expenditure	3,01,250		
Total	10,19,250	Total	10,19,250

(i) Depreciation in respect of all assets has been ascertained at ₹ 60,000 as per Income Tax Rules.

(ii) Medicines & Needles of ₹ 22,000 have been used for her family.

(iii) Fees Receipts include ₹ 24,000 being honorarium for valuing acupuncture examination answer books.

(iv) She has also received 57,860 on maturity of one LIC Policy, not included in the above and Expenditure Account.

(v) She has paid an LIC premium of ₹ 12,000 for Self (Sum Assured 50,000).

(vi) She has paid ₹ 2,500 for purchase of Lottery Tickets.

From the above, compute Total Income and Tax Payable PY: 2023-2024

Solution: Computation of Total Income of Mrs. Rani For AY. 2024-25.

Particulars		₹	₹
Profits and Gains of Business and Profession:			
Income as per Income & Expenditure A/c			3,01,250
Particulars	Deduction from profit	Addition to profit	
Depreciation as per Books		81,000	
Depreciation as per Income Tax Act, 1961	60,000		
Medicines for Personal use		22,000	
Donations to Prime Minister's National Relief Fund		20,000	
Items considered under "IFOS"			
- Dividend from Indian Company	10,500		
- Winnings from Lotteries (net of TDS)	7,000		
- Income from Honorarium (included in fees)	24,000		
Income Tax Refund (not chargeable to tax)	1,750		
Sub total	(1,03,250)	1,23,000	19,750
Total			3,21,000

Particulars		₹	₹
Income from Other Sources:			
Receipt on LIC Policy.	57,860		
Less: Exempt us 10(10)	(57,860)		
Dividend from Indian Company		10,500	
Honorarium for Valuing Answer Books		24,000	
Winnings from Lotteries (W.N.1)	7,000		
Add: Tax Deducted at Source	3,000	10,000	44,500
Gross Total Income			3,65,500
Less: Deduction under Chapter VI-A			
u/s 80C-LIC Premium (subject to 10% of sum assured =10% of ₹ 50,000)		(5,000)	
Premium exceeding 10% of Sum Assured is not eligible for deduction u/s 80C u/s.			
80G-Donations to Prime Minister's National Relief Fund		(20,000)	(25,000)
Total Income			3,40,500
Total Tax Payable			
Special Rates-Winnings from Lotteries- 30% of ₹ 10,000		3,000	
Normal Rates-[(3,30,500 - 2,50,000) 5%]		4,025	7,025
Less: Rebate u/s 87A (W.N.2)			(7,025)
Total Income Tax Payable			Nil
Add: HEC 4%			Nil
Total Tax Payable (Round off)			Nil
Less: Tax Deducted at Source on Lotteries			(3,000)
Balance Tax Refundable			(3,000)

Note:

1. The Cost of Lottery Ticket of ₹ 2.500 is not an admissible expenditure u/s 58
2. When Total Income of Resident individual does not exceed ₹ 5 Lakhs, Rebate u/s 87A-100% of Tax payable or ₹ 12,500 whichever is less.

Question 14: Computation of Total Income and Tax payable

Dr. Shashank is a Child Specialist of Mumbai. His Income and Expenditure A/c for the FY ended 31-03-2024 is given below:

Expenditure	₹	Income	₹
To Staff Salary	2,78,000	By Fees Receipts	16,76,000
To Administrative Expenses	1,64,000	By Winning at TV Game Show Net of TDS (TDS 15,000)	35,000
To Medicine Consumed	3,95,800	By LIC Policy matured	1,15,000
To Consumables	57,500	By Honorarium for giving Lectures at Seminars	24,000
To Depreciation	1,25,000		
To Rent of Clinic	1,20,000		
To Donation Children's Fund	51,000		
To Net Profit	6,58,700		
Total	18,50,000	Total	18,50,000

1. Depreciation computed as per IT Rules, 1962 has been ascertained at ₹ 75,000.
2. Medicines Consumed include Cost of Medicine for self and family of ₹ 18,000 and for treating poor patients of ₹ 24,000 form whom he did not charged any Fee either.
3. Salary includes ₹ 30,000 paid in cash to a Computer Specialist, on 1st August at 3 p.m., who computerized his Patients' data.
4. Donation to National Children's Fund been made by A/c Payee Cheque.
5. He has paid a sum of ₹ 25,000 for a Life Insurance Policy (Sum Assured ₹ 2,00,000) of himself, which was taken on 1-07-2016.
6. He also contributed ₹ 1,20,000 towards Public Provident Fund.
7. Dr. Shashank also paid interest of ₹ 10,000 on Loan taken for higher education of his daughter.
8. Dr. Shashank also made Donation of ₹ 1,00,000 to a Charitable Trust registered & eligible for deduction under IT Act, 1961.

You are required to compute the TI and Tax Payable for the AY 2024-25

Solution: Computation of Total Income of Dr. Shashank For AY. 2024-25

Particulars	₹	₹	₹
Profits and Gains of Business and Profession:			
Income as per Income & Expenditure A/c			6,58,700
Particulars	Deduction from profit	Addition to profit	
Depreciation as per Books		1,25,000	
Depreciation as per Income Tax Act, 1961	75,000		
Medicines for Personal use [Note: Cost of Medicines consumed for treating poor patients is an admissible expenditure u/s 37.]		18,000	
Salary disallowed u/s 40A(3) - Paid in Cash, Hence disallowed.		30,000	
Donations to National Children's Fund		51,000	
Items considered under "Income from Other Sources"			
LIC Policy Matured	1,15,000		
Winnings from TV Game Show (net of TDS)	35,000		
Income from Honorarium for giving Lectures at Seminars	24,000		
Sub total	(2,49,000)	2,24,000	(25,000)
Income from Other Sources:			6,33,700

Receipt on LIC Policy Less:-Exempt u/s 10(10D)	1,15,000 (1,15,000)		
Income from Honorarium for giving Lectures at Seminars Winnings from TV Game Show (TDS at 30%, hence received= 70%) Add: TDS = Deemed Income = 35,000 × 30/70	35,000 15,000	24,000	74,000
Gross Total Income			7,07,700
Less: Deduction under Chapter VI A - 80CCC- LIC Premium (subject to 10% of Sum Assured 10% of ₹ 2,00,000) Premium exceeding 10% of Sum Assured is not eligible for deduction u/s 80C 80C- PPF 80E -Interest on Loan taken for higher education of his daughter 80G-Donation to National Children's Fund-100% of Amount paid, no Ceiling Limit 80G-Donation to Charitable Trusts (as per Note below)		(20,000) (1,20,000) (10,000) (51,000) (27,885)	(2,28,885)
Total Income			4,78,815
Total Income (Rounded Off)			4,78,820
Total Tax Payable Special Rates – Winnings from TV Game Show - 30% of ₹ 50,000 Normal Rates -[(4,78,820-50,000- 2,50,000) × 5%] Total Income Tax Payable Less: Rebate u/s 87A (Max ₹ 12,500) For Resident Individual if Income ≤5 Lakhs.		15,000 8,941	23,941 (12,500)
Total Tax Payable (Round off)			11,441
Less: Tax Deducted at Source on TV Game Show			(15,000)
Balance Tax Refundable			(3,559)

Note: Computation of 10% of Adjusted Total Income

Particulars	₹
Gross Total Income	7,07,700
Less: Deduction u/s 80C to 80U, excluding Sec.80G (20,000+ 1,20,000+ 10,000).	(1,50,000)
Adjusted Total Income	5,57,700
10% of Adjusted Total Income (10% x ₹ 5,57,700)	55,770
Deduction u/s 80G 50% of (Amount Contributed or 10% of Adjusted Total income, whichever is less (50% × 55,770))	27,885

Question 15: Computation of Total Income with Salary and House Property Income
Mrs. Deepali (aged 40 years) is working with M/s Good Company Ltd, a manufacturer of tyres based at Mumbai, has received the following payments during the PY 2023-2024. from her employer:

- Basic Salary-₹ 60,000 per month.
- Dearness Allowance - 40% of Basic Salary.

Her employer has taken on rent her own house on a monthly rent of ₹ 15,000 and the same has been provided for residence of Mrs. Deepali. Company is recovering ₹ 2,000 per month as rent of house.

Mrs. Deepali has further furnished the following details:

- Contribution to PPF ₹ 60,000.
- She has paid Professional Tax of ₹ 6,000 during FY 2023-2024.

- (iii) She is owning only one house and payment of Interest of ₹ 1,85,000 and Principal of ₹ 1,00,000 was made for Housing Loan taken for purchase of House.
- (iv) She has also taken a Loan of 2,00,000 from her employer for study of her son. SBI Rate for such Loan is 10%. Her employer has recovered 10,000 as Interest from her Salary for such Loan during the year.
- Compute Taxable Income and Tax Liability for AY 2024-25.**

Solution: Computation for Mrs. Deepali for AY. 2024-25.

Particulars	₹	₹
Income under the head Salary		
Basic (60,000 x12)	7,20,000	
DA (40% of 7,20,000)	2,88,000	
Value of Accommodation taken on Lease by the Employer		
Least of:		
(i) Rent paid by employer (15,000 x 12)	1,80,000	
(ii) 15% of Salary (15% of 10,08,000)	1,51,200	
Less: Amount Recovered from Employee (2,000, x12)	(24,000)	1,27,200
Taxable Value of Concessional Loan 9 lakh o/s @ SBI Rate – Actual Rate is Taxable) = (2,00,000 x 10%) – 10,000		10,000
Gross Salary	11,45,200	
Less: Deductions u/s 16(ia) Standard Deduction	(50,000)	
Less: Deduction u/s 16(iii) – Professional Tax	(6,000)	10,89,200
Income Under Head HP– Let out Property		
Annual Value u/s 23(2) (15,000 x 12)	1,80,000	
Less: Deduction u/s 24		
Deduction at 30% of NAV	(54,000)	
Interest on Housing Loan	(1,85,000)	(59,000)
Gross Total Income		10,30,200
Less: Deduction under chapter VI A		
u/s 80C- Housing Loan Principal ₹ 1,00,000+ PPF ₹ 60,000	(1,50,000)	
(Maximum restricted to ₹ 1,50,000 u/s 80CCE.)		(1,50,000)
Total Taxable Income		8,80,200
Tax on Total Income = 12,500 + (TI -5,00,000) x 20%		88,540
= 12,500 + (9,00,200 – 5L) x 20%		
Add: HEC @4%		3,542
Net Tax Payable [Rounded off u/s 288b]		92,080

Question 16: Based on Total income + sett-off

1. Mr. Kabir, a resident individual aged 45 years, furnishes the following particulars of his income and other details for the PY 2023-24:

Particulars	Amount (₹)
Income from tea business	5,00,000
Losses from sugar business	4,00,000
Dividend from Indian company carrying on agricultural operations (gross)	1,00,000
Agricultural income	55,000
Salary received as a partner from a partnership firm. The same was allowed to the firm.	4,50,000
Net annual value of house property	4,20,000

Loss from gambling	1,00,000
Short term capital gains on sale of land	75,000
Loss on sale of shares listed in BSE. Shares were held for 15 months and STT paid on sale and acquisition	3,00,000
Life insurance premium paid (10% of the capital sum assured)	80,000
Bank interest on Fixed deposit (gross)	55,000
Interest on savings bank account	13,000

The other details of brought forward losses pertaining to A.Y. 2024-25 are as follow:

Particulars	Amount (₹)
Brought forward business loss from sugar business	1,00,000
Brought forward short-term capital loss	45,000
Brought forward loss from house property	3,00,000
Brought forward loss from maintenance of race horses	60,000

Compute the total income of Mr. Kabir for the AY 2024-25 and the amount of loss, if any, that can be carried forward, if he does not opt for section 115BAC.

Solution: Computation of total income of Mr. Kabir for A.Y. 2024-25

Particulars	Amount (₹)	Amount (₹)
Income from house property		
Net annual value	4,20,000	
Less: Deduction under section 24 (30% of ₹ 4,20,000)	1,26,000	
Less: Brought forward loss of ₹ 3 lakhs from house property set off to the extent of ₹ 2,94,000	2,94,000	-
Profit and gains from business or profession		
Income from tea business (40% is business income)	2,00,000	
Salary received as partner from a partnership firm is taxable under the head "Profits and gains from business or profession"	4,50,000	
	6,50,000	
Less: Losses from sugar business	4,00,000	
	2,50,000	
Less: Brought forward business loss from sugar business	1,00,000	1,50,000
Capital Gains		
Short term capital gains on sale of land	75,000	
Less: Brought forward short term capital loss	45,000	30,000
Income from Other Sources		
Dividend from Indian company	1,00,000	
Agricultural income (exempt)	-	
Bank interest on fixed deposit	55,000	
Interest on savings bank account	13,000	1,68,000
Gross Total Income		3,48,000
Less: Deduction u/s 80C (life insurance premium paid)	80,000	
Less: Interest on savings bank account u/s 80TTA, to the extent of	10,000	90,000
Total Income		2,58,000

Losses to be carried forward to A.Y. 2024-25

Particulars	Amount (₹)
Loss from house property of A.Y. 2023-24	6,000
Loss from maintenance of race horses of A.Y. 2023-24	60,000
Long term capital loss on sale of STT paid listed shares	3,00,000

Notes –

- 60% of the income from tea business is treated as agricultural income and therefore, exempt from tax.
- Agricultural income is exempt under section 10(1).
- Loss from gambling can neither be set off against any other income, nor can it be c/f.
- LTCL on sale of shares on which STT is paid at the time of acquisition and sale can be set off against long term capital gain only. Since there is no LTCG in A.Y. 2024-25, it has to be c/f for set-off against LTCG, if any, during A.Y. 2025-26.
- As per section 74A(3), loss from maintenance of race horses (current year or brought forward) can be set-off only against income from the activity of owning and maintaining race horses. Since there is no income from the activity of owning and maintaining race horses in A.Y. 2024-25, it has to be set off against the income from the activity of owning and maintaining race horses, if any, in A.Y. 2025-26.

Question 17: Property Income - Business Income - Deductions

Mr. Ashok (Aged 52 Years) owns a property consisting of two blocks of identical size. The first block is used for business purposes. The other block has been let out from 01.04.2023 to his cousin for ₹ 30,000 p.m. The cost of construction of each block is 15 Lakhs (fully met from Bank Loan), rate of interest on Bank Loan is 10% p.a. The construction was completed on 31.03.2022. During the year ended 31.03.2024, he had to pay a penal interest of ₹ 6,000 in respect of each block on account of delayed payments to the bank for the borrowings. The normal interest paid by him in respect of each block was ₹ 1,26,000. Principal repayment for each block was ₹ 69,000. An identical block in the same neighborhood fetches a rent of ₹ 45,000 p.m. Municipal Tax paid in respect of each block was ₹ 36,000.

Following are the additional information provided:

- Income from business prior to adjustment towards depreciation on any asset is ₹ 6,60,000. He follows mercantile system of accounting.
- Depreciation on equipments used for business is ₹ 90,000.
- On 23.03.2024, he sold shares of B Ltd. a listed share in BSE for ₹ 9,90,000. The share had been purchased 10 months back for ₹ 5,40,000. STT paid may be taken as ₹ 660.
- Brought forward business loss of a business discontinued on 12.01.2019 is ₹ 2,40,000. This loss has been determined in pursuance of a ROI filed in time.
- The following payments were effected by him during the year:
 - LIP of ₹ 20,000 on his life and ₹ 12,00 for his son aged 22, engaged as a software engineer and drawing salary of ₹ 25,000 p.m.
 - Mediclaim premium of ₹ 26,000 for himself and ₹ 10,000 for his son. The premiums were paid by cheque.

Compute the Total Income for the AY 2024-2025 and the tax payable. The various heads of income should be properly shown. Ignore the interest on bank loan for the period prior to 01.04.2023, as the bank had waived the same.

Solution:**Computation for Mr. Ashok for AY. 2024-25.**

Particulars	₹	₹	₹
Income from House Property [W.N. 1]			
Annual Value u/s 23(1)(a)/(b) - Higher of the following			
(a) Fair Rent [45,000 × 12]	5,40,000		
(b) Actual Rent [30,000 × 12]	3,60,000	5,40,000	
Less: Municipal Tax Paid		(36,000)	
Net Annual Value		5,04,000	
Less: Deduction u/s 24 = 30% of Net Annual Value	1,51,200		
Interest	1,26,000	(2,77,200)	2,26,800
Profits and Gains from Business or Profession [W.N. 2]			
Income from Business prior to adjustment towards depreciation		6,60,000	
Depreciation on Equipment	90,000		
Depreciation on Building (15,00,000 × 10%)	1,50,000	(2,40,000)	
Business Income for Current Year		4,20,000	
Less: Unabsorbed Business Loss		(2,40,000)	1,80,000
Capital Gains			
Short Term Capital Gain [W.N. 3]			
Sale Consideration		9,90,000	
Less: Cost of Acquisition		(5,40,000)	4,50,000
Gross Total Income			8,56,800
Less: Deduction under Chapter VI-A u/s 80C [W.N. 4]			
Life Insurance for self & son		32,000	
Housing Loan Repayment [Let out - Portion]		69,000	
[Deduction restricted to ₹ 1,50,000 u/s 80CCE]			(1,26,000)
Mediclaim [Restricted to ₹ 25,000 u/s 80D]		25,000	
Total Income			7,30,800
Tax payable			
Income on which tax is payable at Special Rates –		67,500	
-Short Term Capital Gains [₹ 4,50,000 x 15%]		1,540	69,040
Balance Chargeable at normal Rates [(₹ 2,80,800 – ₹ 2,50,000) x 5%]			
Add: HEC @ 4%			2,760
Net Tax Payable (Rounded off)			71,800

Working Notes:

1. House Property Income:

- Rent of neighbourhood identical block is the Fair Rental Value.
- Penal interest paid shall not be allowable as deduction.
- Since both Interest and Principal has been paid on account of Housing Loan, it is assumed that the interest paid is interest accrued.

2. Profits and Gains from Business or Profession:

- It is assumed that interest portion relating to House Property is not charged in the P & L A/c and also Interest / Penal interest relating to building used for business purpose is already charged to P & L A/c.
- If it is assumed that interest and penal interest is not charged to Profit and Loss account then the same should be deducted in computing income from Business or Profession.
- Penal interest relating to Building used for business purpose is an allowable expenditure u/s 37.

3. Computation of Capital Gains: Since the holding period of the shares is not more than 12 months, the Capital Asset is a Short-Term Capital Asset. STT paid shall not be allowed as deduction.
4. Deduction under Chapter VI-A:
 - Deduction u/s 80C:
 - The principal portion of the Housing Loan, paid towards the building used for business purposes is not allowed as deduction u/s 80C.
 - Life Insurance paid for both self and son is allowed as deduction.

Question 18: Based on total income

Ramdin, aged 33 years, working as Manager (Sales) with Frozen Foods Ltd., provides the following information for the year ended 31.03.2024:

- Basic Salary ₹ 15,000 p.m.
 - DA (50% of it is meant for retirement benefits) ₹ 12,000 p.m.
 - Commission as a percentage of turnover of the Company 0.5 %
 - Turnover of the Company ₹ 50 lacs
 - Bonus ₹ 50,000
 - Gratuity ₹ 30,000
 - Own Contribution to R.P.F. ₹ 30,000
 - Employer's contribution to R.P.F. 20% of basic salary
 - Interest credited in the R.P.F. account @ 15% p.a. ₹ 15,000
 - Gold Ring worth ₹ 10,000 was given by employer on his 25th wedding anniversary.
 - Music System purchased on 01.04.2023 by the company for ₹ 85,000 and was given to him for personal use.
 - Two old light goods vehicles owned by him were leased to a transport company against the fixed charges of ₹ 6,500 p.m. Books of account are not maintained.
 - Received interest of ₹ 5,860 on bank FDRs on 24.4.2023 and interest of ₹ 6,786 (Net) from the debentures of Indian Companies on 5.5.2023.
 - Made payment by cheques of ₹ 15,370 towards premium on Life Insurance policies and ₹ 22,500 for Mediclaim Insurance policy for self and spouse.
 - Invested in NSC ₹ 30,000 and in FDR of SBI for 5 years ₹ 50,000.
 - Donations of ₹ 11,000 to an institution approved u/s 80G and of ₹ 5,100 to Prime Minister's National Relief Fund were given during the year by way of cheque.
- Compute his total income and tax payable thereon for the A.Y. 2024-25.
Assume that Mr. Ramdin has exercised the option to shift out of the default tax regime under section 115BAC.

Solution: Computation of Total Income of Mr. Ramdin for the A.Y.2024-25 under normal provisions of the Act

Particulars	₹	₹
Income from Salaries		
Basic Salary (₹ 15,000 x 12)		1,80,000
Dearness Allowance (₹ 12,000 x12)		1,44,000
Commission on Turnover (0.5% of ₹ 50 lacs)		25,000
Bonus		50,000
Gratuity (See Note 1)		30,000
Employer's contribution to recognized provident fund		
Actual contribution [20% of ₹ 1,80,000]	36,000	
Less: Exempt (See Note 2)	33,240	2,760
Interest credited in recognized provident fund account @15% p.a.	15,000	
Less: Exempt upto 9.5% p.a.	9,500	5,500
Gift of gold ring worth ₹ 10,000 on 25th wedding anniversary by		10,000

employer (See Note 3)		
Perquisite value of music system given for personal use (being 10% of actual cost) i.e. 10% of ₹ 85,000		8,500
		4,55,760
Less: Standard deduction under section 16(ia)		50,000
		4,05,760
Profits and Gains of Business or Profession		
Lease of 2 light goods vehicles on contract basis against fixed charges of ₹ 6,500 p.m. In this case, presumptive tax provisions of section 44AE will apply i.e. ₹ 7,500 p.m. for each of the two light goods vehicle (₹ 7,500 x 2 x 12). He cannot claim lower profits and gains since he has not maintained books of account.		1,80,000
Income from Other Sources		
Interest on bank FDRs	5,860	
Interest on debentures (₹ 6786 x 100/90)	7,540	13,400
Gross Total Income		5,99,160
Less: Deductions under Chapter VI-A		
Section 80C		
Premium on life insurance policy	15,370	
Investment in NSC	30,000	
FDR of SBI for 5 years	50,000	
Employee's contribution to recognized provident fund	30,000	1,25,370
Section 80D – Mediclaim Insurance		22,500
Section 80G (See Note 4)		10,600
Total Income		4,40,690
Tax on total income		
Income-tax [5% of ₹ 1,90,690 (i.e., ₹ 4,40,690 – ₹ 2,50,000)]		9,535
Less: Rebate u/s 87A, since total income does not exceed ₹ 5,00,000		9,535
Tax liability		Nil
Less: Tax deducted at source (₹ 7,540 – ₹ 6,786)		754
Net tax refundable		754
Tax refundable (rounded off)		750

Notes:

- Gratuity received during service is fully taxable.
- Employer's contribution in the recognized provident fund is exempt up to 12% of the salary i.e. 12% of (Basic Salary + DA for retirement benefits + Commission based on turnover)
= 12% of (₹ 1,80,000+ (50% of ₹ 1,44,000)+ ₹ 25,000)
= 12% of 2,77,000 = ₹ 33,240
- An alternate view possible is that only the sum in excess of ₹ 5,000 is taxable in view of the language of Circular No.15/2001 dated 12.12.2001 that such gifts upto ₹ 5,000 in the aggregate per annum would be exempt, beyond which it would be taxed as a perquisite. As per this view, the value of perquisite would be ₹ 5,000. In such a case the Income from Salaries would be ₹ 4,00,760.
- Deduction under section 80G is computed as under:

Particulars	₹
Donation to PM National Relief Fund (100%)	5,100
Donation to institution approved u/s 80G (50% of ₹ 11,000) (amount contributed ₹ 11,000 or 10% of Adjusted Total Income i.e. ₹ 45,129, whichever is lower)	5,500
Total deduction	10,600

Adjusted Total Income = Gross Total Income – Deductions under section 80C and 80D = ₹ 5,99,160 – ₹ 1,47,870 = ₹ 4,51,290.

Question 19: Computation of Gross Total Income-
From the following details furnished by Mr. Dinesh, a Marketing Manager of XL Corporation Ltd Delhi, compute the Gross Total Income for the AY 2024-2025.

Particulars	(₹)
Salary including Dearness Allowance	6,60,000
Conveyance Allowance of ₹ 900 p.m.	10,800
Bonus	50,000
Salary of Servant provided by Employer	48,000
Bills paid by the Employer for Gas, Electricity and Water provided free of cost at the Residence of Mr. Dinesh.	82,000

Dinesh purchased a Flat in a Co-Operative Housing Society in Dwarka, Delhi for self-occupation for ₹ 35,00,000 in April 2019, which was financed by a loan from Bank of India of ₹ 20,00,000 @ 11% interest and his own savings of ₹ 5,00,000 and a deposit of ₹ 10,00,000 from Bank of Baroda, to whom he let out his another house in Rohini, Delhi on lease for ten year The Rent Payable by Bank of Baroda is ₹ 35,000 p.m. Other relevant particulars are given below:

- Municipal Taxes paid by Dinesh for his Flat in Dwarka are ₹ 18,000 p.a. and for his house in Rohini are ₹ 12,000 p.a.
- Principal Loan Amount outstanding as on 01-04-2023 was ₹ 18,50,000.
- He also paid ₹ 8,000 towards Insurance of the Houses.
- In the FY 2023-2024, he had gifted ₹ 40,000 each to his wife and Minor Son. The gifted amounts were advanced to Mr. Sandeep, who is paying interest @ 18% per annum.
- Mr. Dinesh's son is studying in a school run by the Employer Company throughout the FY 2023-2024. The Education Facility was provided free of cost. The cost of such education in similar school is ₹ 2,500 p.m.
- Dinesh also received gifts of ₹ 45,000 each from his two friends during the FY 2023-2024.

Solution: Computation of Gross Total Income of Mr. Dinesh For AY. 2024-25

Particulars	₹	₹
Salaries (W.N.1)		8,20,000
Income from House Property (W N.2)		85,600
Income from Other Sources (W.N 3)		1,02,900
Gross Total Income		10,08,500

Working Note-1:

Particulars	₹
Salary and Dearness Allowance	6,60,000
Conveyance Allowance (₹ 900x12-₹ 10,800)-Fully Exempt u/s 10(14)	NIL
Bonus	50,000
Perquisites:	
Salary of Servant provided by Employer	48,000
(Since Assessee earns a Salary more than ₹ 50,000, he is a Specified Employee)	
Gas, Electricity & Water provided by Employer	
Cost of Education for Son (₹ 2,500 × 12)-since amount exceeds 71.000 pm, entire amount is taxable.	82,000
	30,000
Income From Salaries	8,70,000
Less: Deductions u/s 16(ia) Standard Deduction.	(50,000)

Income under the head "Salaries"	8,20,000
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Working Note: 2 Computation of income From House Property

Particulars	Dwarka	Rohini
Nature	Self-Occupied	Let-out
Lease Rent (₹ 35,000 x 12 Months)	NIL	4,20,000
Less: Municipal Taxes Paid (Deduction allowable only for Let out Property)	NA	(12,000)
Net Annual Value	NIL	4,08,000
Less: Deduction u/s 24		
(a) 30% of Net Annual Value	NA	(1,22,400)
(b) Interest on Loan (₹ 18,50,000 x 11%) (Note= ₹ 2,03,500 restricted to)	(2,00,000)	NIL
Income from House Property	(2,00,000)	2,85,600
Income from House Property	85,600	

Note:- In the absence of information, it is assumed that there is no repayment of principal during the PY.

Insurance Premium paid on House Property is not eligible for Deduction u/s 24.

Working Note-3 Income from Other Sources/ Clubbing of Income

Particulars	₹	₹
Interest earned from Gift to Wife (₹ 40,000 x 18%)		7,200
Interest earned from Gift to Minor Child (₹ 40,000 x 18%)	7,200	
Less: Exemption u/s 10(32) Minor Income	(1,500)	5,700
Gifts from Friends (₹ 45,000 x 2), fully taxable since amount exceeds ₹ 50,000 [Sec. 57(2)]		90,000
Clubbing Income		1,02,900

Note: Where Original Asset is converted into any other form, Income from Converted Asset is clubbed (Expl.) To Sec. 64 Mohini Thapar [1972] 83 ITR 208 (SC).

Question 20: Based on Trading P&L A/c

Mr. Kamal, having business of manufacturing of consumer items and other products, gives the following Trading and P&L Account for the year ended 31.3.24:

Trading and Profit & Loss Account

Particulars	₹	Particulars	₹
Opening Stock	5,62,500	Sales	2,33,25,000
Purchases	1,88,62,500	Closing Stock	6,75,000
Gross profit	43,86,000		
	2,40,00,000		2,40,00,000
Bonus to staff	71,250	Gross profit	43,86,000
Rent of premises	80,250	Income-tax refund	30,000
Advertisement	7,500	Warehousing charges	22,50,000
Bad Debts	1,12,500		
Interest on loans	2,51,250		
Depreciation	1,07,250		
GST demand paid	1,62,525		

Miscellaneous exp	7,88,475		
Net profit of the year	50,85,000		
Total	66,66,000	Total	66,66,000

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

- (i) Income-tax refund includes amount of ₹ 4,570 of interest allowed thereon.
- (ii) Bonus to staff includes an amount of ₹ 7,500 relating to P.Y. 2023-24, paid in the month of December 2024.
- (iii) Advertisement expenses include an amount of ₹ 2,500 paid for advertisement published in the souvenir issued by a political party. The payment is made by way of an account payee check.
- (iv) Miscellaneous expenses include:
 - (a) Amount of ₹ 15,000 paid towards penalty for non-fulfillment of delivery conditions of a contract of sale for the reasons beyond control,
 - (b) Amount of ₹ 1,00,000 paid to Political Party by cheque.
- (iii) Goods and Services Tax demand paid includes an amount of ₹ 5,300 charged as penalty for delayed filing of returns and ₹ 12,750 towards interest for delay in deposit of tax.
- (iv) Mr. Kamal had purchased a warehouse building of ₹ 20 lakhs in rural area for the purpose of storage of agricultural produce. This was made available for use from 15.07.2023 and the income from this activity is credited in the Profit and Loss account under the head "Warehousing charges".
- (v) Depreciation under the Income-tax Act, 1961 works out at ₹ 65,000.
- (x) Interest on loans includes an amount of ₹ 80,000 paid to Mr. X, a resident, on which tax was not deducted.

Compute the total income and tax liability of Mr. Kamal for the A.Y. 2024-25 in a most beneficial manner.

Solution: Computation of total income of Mr. Kamal for the A.Y.2024-25

Particulars		₹
	Net profit as per profit and loss account	50,85,000
Less:	Income-tax refund credited in the profit and loss account, out of which interest on such refund is only taxable, which is to be considered separately under the head "IFOS"	30,000
Add:	Expenses either not allowable or to be considered separately but charged in the profit & loss account	50,55,000
	- Advertisement in the souvenir of political party not allowable as per section 37(2B) (See Note 2)	2,500
	- Payment made to political party by check (See Note 4)	1,00,000
	- Penalty levied by the GST department for delayed filing of returns not allowable as being paid for infraction of law (See Note 5)	5,300
	- Depreciation as per books	1,07,250
	- 30% of interest paid on loan paid to Mr. X, a resident, without deduction of tax at source not allowable as per section 40(a)(ia)	24,000
		52,94,050
Less:	Depreciation allowable as per Income-tax Act, 1961	65,000
	Income from specified business (warehousing charges)	52,29,050

Less:	credited to profit and loss account, to be considered separately	22,50,000
Income from business (other than specified business)		29,79,050
Computation of income/loss from specified business		
Income from specified business		₹ 22,50,000
Less:	Deduction under section 35AD @ 100% of ₹ 20 lakhs (See Note 6)	₹ 20,00,000
Income from specified business		2,50,000
Profits and gains from business or profession		32,29,050
Income from Other Sources		
Interest on income-tax refund		4,570
Gross Total Income		32,33,620
Less:	Deduction under section 80GGC	
	Contribution to Political Party (See Note 4)	1,00,000
Total Income		31,33,620

Notes –

- (1) Bonus for the PY 2023-24 paid after the due date for filing return for that year would have been disallowed u/s 43B for the P.Y.2023-24. However, when the same has been paid in December 2024, it should be allowed as deduction in the P.Y.2023-24 (A.Y.2024-25). Since it is already included in the figure of bonus to staff debited to profit and loss account of this year, no further adjustment is required.
- (2) The amount of ₹ 2,500 paid for advertisement in the souvenir issued by a political party attracts disallowance under section 37(2B).
- (3) The penalty of ₹ 15,000 paid for non-fulfilment of delivery conditions of a contract for reasons beyond control is not for the breach of law but was paid for breach of contractual obligations and therefore, is an allowable expense.
- (4) Payment to political party qualifies for deduction u/s 80GGC since the payment is made by way of a cheque. However, since the amount has been debited to profit and loss account, the same has to be added back for computing business income.
- (5) The interest of ₹ 12,750 paid on the delayed deposit of goods and services tax is for breach of contract and hence, is allowable as deduction. However, penalty of ₹ 5,300 for delay in filing of returns is not allowable since it is for breach of law.
- (6) Deduction @ 100% of the capital expenditure is available u/s 35AD in respect of specified business of setting up and operating a warehouse facility for storage of agricultural produce which commences operation on or after 1.04.2009.

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

Particulars	₹	₹
Tax on total income of ₹ 31,33,620		
Upto ₹ 2,50,000	Nil	
₹ 2,50,001 – ₹ 5,00,000 [@5% of ₹ 2.50 lakh]	12,500	
₹ 5,00,001 – ₹ 10,00,000 [@20% of ₹ 5,00,000]	1,00,000	
₹ 10,00,001- ₹ 31,33,620 [@30% of ₹ 21,33,620]	6,40,086	7,52,586
Add: Health and education cess@4%		30,103
Total tax liability		7,82,689
Total tax liability (rounded off)		7,82,690

Computation of adjusted total income and AMT of Mr. Kamal for A.Y. 2024-25

Particulars	₹	₹
Total Income (computed above as per regular provisions of income tax)		31,33,620
Add: Deduction under section 35AD	20,00,000	
Less: Depreciation under section 32 on building [₹ 20 lakhs x 10%]	(2,00,000)	18,00,000
Adjusted Total Income		49,33,620
Alternative Minimum Tax@18.5%		9,12,720
Add: Health and education cess@4%		36,509
Total tax liability		9,49,229
Total tax liability (rounded off)		9,49,230

Since the regular income-tax payable is less than the AMT payable, the ATI shall be deemed to be the TI and tax leviable @18.5% thereof + cess@4%. Therefore, liability as per sec 115JC is ₹ 9,49,230.

Computation of total income of Mr. Kamal as per section 115BAC for A.Y. 2024-25

Particulars	₹	₹
Gross Total Income as per regular provisions of the IT Act		32,33,620
Add: Deduction under section 35AD	20,00,000	
Less: Depreciation on building [₹ 20 lakhs x 10%]	(2,00,000)	<u>18,00,000</u>
Gross Total Income/TI as per sec. 115BAC		50,33,620
[No deduction under Chapter VI-A allowable]		

Computation of tax liability as per section 115BAC

Particulars	₹	₹
Tax on total income of ₹ 50,33,620		
Upto ₹ 3,00,000	Nil	
₹ 3,00,001 – ₹ 6,00,000 @5%	15,000	
₹ 6,00,001 – ₹ 9,00,000 @10%	30,000	
₹ 9,00,001 – ₹ 12,00,000 @15%	45,000	
₹ 12,00,001 – ₹ 15,00,000 @20%	60,000	
Above ₹ 15,00,001 @30%	10,60,086	12,10,086
Add: Surcharge @10% [Since, the total income exceeds ₹ 50 lakhs but does not exceed ₹ 1 crore]		1,21,008
		13,31,094
Less: Marginal relief (See computation below)		97,474
		12,33,620
Add: Health and education cess@4%		49,344
Total tax liability		12,82,964
Total tax liability (rounded off)		12,82,960

Computation of marginal relief

Particulars		₹
(A)	Tax payable including surcharge on total income of ₹ 50,33,620 as per section 115BAC	13,31,094
(B)	Tax payable on total income of ₹ 50 lakhs as per section 115BAC	12,00,000
(C)	Excess tax payable (A-B)	<u>1,31,094</u>
(D)	Marginal relief (₹ 1,31,094 – ₹ 33,620, being the amount of income in excess of ₹ 50 lakhs)	97,474

Notes:

- (1) Deduction u/s 35AD is not allowable as per section 115BAC(2). However, normal depreciation u/s 32 is allowable.
- (2) An individual exercising option u/s 115BAC is not liable to alternate minimum tax u/s 115JC.

Since the tax liability of Mr. Kamal u/s 115JC is lower than the tax liability as computed u/s 115BAC, it would be beneficial for him not to opt for sec 115BAC for A.Y. 2024-25. Moreover, benefit of AMT credit is also available to the extent of tax paid in excess of regular tax.

AMT credit to be carried forward under section 115JEE:

Particulars		₹
	Tax liability under section 115JC	9,49,230
	Less: Tax liability under the regular provisions of the Income-tax Act, 1961	7,82,690
	Total	1,66,540

Question 21: Computation of Total Income & Tax Liability-

Ms. Rekha, a Resident Individual aged 50, provides the following information for the FY 2023-2024.

- (i) She is a Partner in AK & Co. and received the following amounts from the firm:
 - Share of Profit from the Firm = 35,000
 - Interest on Capital @ 15% p.a. = 3,00,000
 - Salary as Working Partner (Fully allowed in the hand of the firm) = 1,00,000
- (ii) She is running a Rice Mill as Proprietor. The Net Profit as ₹ 4,50,000. The following items are debited to Profit and Loss Account:
 - Advance Income-Tax Paid = ₹ 1,00,000
 - Personal Drawings = ₹ 50,000

The following items are credited to Profit and Loss Account:

 - Interest on Saving Bank Account and SBI 12,000
 - Interest on Saving Account with Post Office ₹ 5,000
 - Dividend from Listed Indian Company (DDT) ₹ 80,000
- (iii) She owned a House Property in Mumbai which was sold in January 2023. She received ₹ 90,000 by way of Arrear Rent in respect of the said property in October 2023.
- (iv) She made the following Investments:
 - Life Insurance Premium on a policy in the name of her married daughter ₹ 60,000. (The Policy was taken on 01-10-2019 and the sum assured being 5,00,000).
 - Health Insurance Premium on a Policy covering her mother aged 75. She is not dependent on Ms. Rekha. Premium paid by cheque ₹ 35,000.

Compute the Total Income and the Tax Liability of Ms. Rekha for the AY 2024-25

Solution: Computation for Mrs. Rekha for AY.2024 - 2025.

Particulars	₹
Income from House Property (WN 1)	63,000
Profits and Gains of Business or Profession	
i) From AK & Co.-as Partner (WN-2)	3,40,000
ii) From Rice Mill Business as Proprietor (WN 3)	5,03,000
Income from Other Sources (WN 4)	93,500
Gross Total Income	9,99,500
Less: Deductions under Chapter VI-A (WN 5)	(90,000)
Total Income (Rounded off)	9,09,500
Tax on the above: (9,09,500-5,00,000) 20 % + 12,500	94,400
Add: HEC at 4%	3,776
Total Tax Payable	98,176

WN 1: Income from House Property:

[Note: Arrears of Rent- taxable in the year of receipt, even if the Assessee is not the Owner of that Property at the time of receipt of Rent Arrears]

Particulars	₹
Arrears of Rent Received	90,000
Less: Standard Deduction (30% × 90,000)	(27,000)
Income from House Property	63,000

WN-2: PGBP – Income from Partnership Firm AK & Co.

Particulars	₹
(a) Share of Profit from Partnership Firm Exempt us 10(2A)	Nil
(b) Interest on Capital = 3,00,0000/15% x 12% (Note)	2,40,000
(c) Salary as Working Partner (as allowed in the Assessment of the Firm)	1,00,000
Total of above	3,40,000

Note: In computing the Permissible Remuneration in the Firm's Assessment, Interest on Capital is allowed deduction only to the extent of 12% p.a. Hence, the amount of Interest on Capital allowed

As Expenditure in the hands of the Firm will be taxable in the Partners' assessment

WN 3: Profits and Gains of Business or Profession-Income from Rice Mill

Particulars	Deductions	Additions
Net Profit as per P & L		4,50,000
Add: Advance Tax paid-disallowed u/s 40(a)(ii)		1,00,000
Add: Drawings Personal Item not deductible u/s 37		50,000
Less: Interest on Savings Bank-considered under Income from Other Sources	(12,000)	
Less: Interest on PO Savings A/c considered under Income from Other Sources	(5,000)	
Less: Dividend from Companies	(80,000)	
Total	(97,000)	6,00,000
Income from Rice Mill Business	5,03,000	

WN 4: Income from Other Sources

Particulars	₹	₹
1. Interest on Post Savings Ac	5,000	
Less:- Exempt Interest U/s 10(15) upto ₹ 3,500 for an Individual Account	(3,500)	1,500
2. Interest on Savings Bank A/c		12,000
3. Dividend		80,000
Total of above		93,500

WN 5: Deductions under Chapter VI-A

Particulars	₹
80C Life Insurance Policy - issued after 31.03.2012 - deductible only upto 10% of Sum Assured 5,00,000	50,000
80D Health Insurance Premium in name of Parent (it is not necessary Parent has to be	30,000
Even if amount paid is 35,000, maximum deduction for a Senior Citizen is 30,000 only	10,000
80TTA Savings Bank Interest - maximum deduction is 10,000 only	
Total of above (Note: Maximum Deduction u/s 80C is within limits ₹ 1.50,000)	90,000

Question 22: Computation of Taxable income and Tax Liability-

Mrs. Mitul, a resident individual, aged 63 years, is a qualified medical practitioner. She runs her own clinic. Income & Expenditure A/c of Mrs. Mitul for the year ending March 31, 2024 is as under:

Expenditure	₹	Income	₹
To Salary to Staff	1,20,000	By Consultation Fees	12,00,000
To Administrative Exp.	2,90,000	By Salary received from	1,80,000
To Conveyance Expenses	24,000	True Care Hospital (P) Ltd.	
To Power & Fuel	24,000	By Rental Income from	78,000
To Interest on Housing Loan	1,00,000	House Property	
To Interest on Education Loan for son	26,000	By Dividend from Foreign	10,000
To Amount paid to scientific research association approved & Notified u/s 35	25,000	Companies	
To net profit	8,59,000		
Total	14,68,000	Total	14,68,000

Explanatory Information:

She is working part-time with True Care Hospital (P) Ltd. Her salary details are :
Basic Pay = ₹ 13,000 p.m.

Transport Allowance Total = Rs 2,000 p.m.

Further, during P.Y. 2023-2024, her son had undergone a medical treatment in True Care Hospitals (P) Ltd. free of cost. The hospital would have charged a sum of ₹ 60,000 for a similar treatment to unrelated patients. (i) She owns a residential house. Ground floor of the house is self-occupied by her while first floor has been rented out since 01/10/2023. The reconstruction of the house was started on 01.04.2022 and was completed on 30.09.2023. the monthly rent is ₹ 10,000. The tenant also pays ₹ 3,000p.m. as power back-up charges. She took a housing loan of ₹ 12 Lakhs on 01.04.2023. Interest on housing loan for the period 01.04.2022 to 30.09.2023 was ₹ 60,000 and for the period 01.10.2023 to 31.03.2024 was ₹ 40,000. During the year, she also paid municipal taxes for the F.Y. 2021-2022 5,000 and for F.Y. 2023-2024 ₹ 5,000.

• **Other information:**

- ✓ Conveyance expenses include a sum of ₹ 12,000 incurred for conveyance from house to True Care Hospitals (P) Ltd and vice-versa in relation to her employment.
- ✓ Power & fuel expenses include a sum of Rs .6,000 incurred for generator fuel for providing power back-up to the tenant.
- ✓ Administrative expenses include a sum of ₹ 10,000 paid as Municipal Taxes for her house.
- ✓ Clinic equipment's' details are:
- ✓ Opening W.D.V. of clinic equipment as on on 01.04.2023 was ₹ 1,00,000 and fresh purchase made on 28.08.2022 is ₹ 25,000 which was paid in cash.
- ✓ She also paid tuition fee of ₹ 40,000 for her grand-daughter, which is debited to her Capital A/c
- ✓ She availed a loan of ₹ 8,00,000 from bank for higher education of her son. She repaid principal of ₹ 50,000 and interest of ₹ 26,000 during P.Y. 2023-24.

You are required to compute her net taxable income and next tax liability for the AY 2024-25.

Solution: Computation of Taxable Income and Tax Liability

Particulars			₹
Income From Salaries [W.N-1]			1,30,000
Income from House Property [W.N-2]			(41,500)
Profits and Gains from Business or Profession (10,13,000-2,83,000)			7,30,000
Particulars	Deduction from Profit	Addition to Profit	
Net profit as per Profit & Loss A/c		8,59,000	
Less: Salary received from True care hospitals considered in income from Salaries	1,80,000		
Less: Rental Income from house property since it is considered in Income from HP and IFOS	78,000		
Less: Dividends from foreign Companies (Considered in Income from Other Sources)	10,000		
Less: Depreciation [Opening WDV ₹ 1,00,000 x 15%] (Depreciation on new equipment purchased is not considered since payment for the same is made in excess of ₹ 10,000 in a single day by way of cash)	15,000		
Add: Conveyance Expense to the extent it is not incurred for business or profession purpose		12,000	
Add: Power & Fuel incurred to the extent utilized for HP		6,000	
Add: Administrative expense incurred to the extent utilized for HP		10,000	
Add: Interest on housing and Education loans [Since same is not related to the Business]		1,26,000	
Less: Amount paid to Scientific Research Association. (Already 100% is claimed. No further deduction)			
Sub-Total	2,83,000	10,13,000	
Income from other Sources (W. N-3)			22,000
Gross Total Income			8,40,500
Less: Deductions under Chapter VI-A [W.N. 4]			(26,000)

Total Income		8,14,500
Tax payable=[(8,14,500 - 5,00,000) × 20% +10,000]		72,900
Add: Education and Health cess (@4%		2,916
Net tax liability (Rounded off)		75,820

1. Working Notes: Income from salary

Particulars	₹	₹
Basic Salary (₹ 13,000 × 12)		1,56,000
Transport allowance (Rs 2,000×12)		24,000
Gross salary		1,80,000
Less: Standard deduction us 16		(50,000)
Income from Salary		1,30,000

2. Income from House Property:

Particulars	₹	₹
Nature: 50% Self Occupied		
Annual Value u/s 23(2)	NIL	
Less: Deduction u/s 24: Interest on Borrowed Capital	(30,000)	(30,000)
[(60,000+40,000)/2= 50,000]		
(Restricted to 30,000)		
Nature: 50% Let-Out		
Annual Value u/s 23(1)(a)/(b) Actual Rent (10,000 × 6= 60,000)	60,000	
Less: Municipal Taxes paid [(5,000+5,000) 50 %]	5,000	
Net Annual Value	55,000	
Less: Deduction u/s 24		
(a) 30% of Net Annual Value	(16,500)	
(b) Interest on borrowed Capital [(60,000+40,000)/2 = 50,000]	(50,000)	(11,500)
Net Income from House Property		(41,500)

Note: (It is assumed that reconstruction activity is for the entire house property and SOP is 50% Since purpose of loan is towards reconstruction deduction is restricted to 30,000)

3. Income from other Sources

Particulars	₹
(a) Dividend from foreign Companies	10,000
(b) Power Backup charges received from Tenant	18,000
Less: Power and fuel charges incurred	(6,000)
Total	22,000

4. Deduction under Chapter VI-A:

Particulars	₹
Tuition fee for Grand Daughter (Not eligible U/s 80C)	NIL
Interest on educational Loan	26,000
Principal Repayment of Educational Loan (Not allowed u/s 80E)	NIL
Total	26,000

Question 23: Computation of Gross Total Income

Following are the details of incomes/losses of Mr. Rishi for the F.Y. 2023-2024:

Particulars (figures in brackets represents losses)	₹
Taxable salary income (computed)	3,60,000
Taxable income from house property (computed) from rented house property X	1,20,000

from rented house property Y	(3,40,000)	
Taxable profit from business (computed)		
-business P	2,30,000	
-business Q	(12,000)	
-business R (speculative business)	15,000	
-business T (speculative business)	(25,000)	
Taxable Income from other sources:		
-from card games	16,000	
-from owning and maintenance of race horses	(40,000)	
-interest on securities	5,000	

You are required to determine the Gross total income of Mr. Rishi for AY 2024-2025.

Solution:

Particulars	₹	₹
Income from Salary		3,60,000
Income from House Property:		
Profit from House property X	1,20,000	
Loss from House Property Y	(3,40,000)	(2,00,000)
Note: Loss c/f for set-off in future years-(₹ 2.40,000 - 2,00,000)= ₹20,000		
Profits and Gains of Business or Profession:		
Profit from Non speculative Business P	2,30,000	
Loss from Non speculative Business Q	(12,000)	2,18,000
Profit from Speculative Business R	15,000	
Loss from Speculative Business T	(15,000)	
Income from Other Sources:		
Income from Card Games -	16,000	
Interest on securities	5,000	21,0002
Gross Total Income		3,99,000

Note: Loss from Owning and maintaining Horse Races ₹ 40,000 can be set-off only against Income from such Income.

Question 24: Based on Clubbing Provisions

Examine the tax implication of each transaction and compute the total income of Mr. Tushar and Mrs. Tushar and their minor son for the AY 2024-25, assuming they do not wish to opt for section 115BAC.

- Mr. Tushar has a fixed deposit of ₹ 6,00,000 in State bank of India. He instructed the bank to credit the interest on the deposit @9% from 1st April, 2022 to 31st March, 2024 to the savings bank account of Mr. Raj, son of his brother, to help him in his education.
- Mr. Tushar started a proprietary business on 1st May, 2023 with capital of ₹ 6,00,000. His wife, Mrs. Tushar, a software Engineer, gave cash of ₹ 5,00,000 on 1st May, 2023, which was immediately invested in the business by Mr. Tushar. He earned a profit of ₹ 4,00,000 during the PY 2022-23.
- Mr. Tushar's minor son derived an income of ₹ 20,000 through a business activity involving application of his skill and talent.

Solution: Computation of total income of Mr. Tushar and Mrs. Tushar and minor son for the A.Y. 2024-25

Particulars	₹ Mr. Tushar	₹ Mrs. Tushar	₹ Minor Son
Interest on Mr. Tushar fixed Deposit with State bank of India (₹ 6,00,000 x 9%) As per sec 60, in case there is a transfer of income without transfer of assets from which such income is derived, such income shall be treated as income of the transferor. Therefore, the fixed deposit interest of ₹ 54,000 transferred by Mr. Tushar to Mr. Raj shall be included in the total income of Mr. Tushar	54,000		
Profit for P.Y.2022-23 to be apportioned on the basis of capital employed on the first day of PY i.e. as on 1st May, 2023, since business started on 1.5.2023 (6:5)	2,18,182	1,81,818	
Share of income of Mr. Tushar [₹ 4,00,000 x 6/11] Share of Income of Mrs. Tushar [₹ 4,00,000 x 5/11] Sec 64(1)(iv) of the Act provided for the clubbing of income in the hands of the individual, if the income earned is from the assets (other than house property) transferred directly or indirectly to the spouse of the individual, otherwise than for adequate consideration or in connection with an agreement to live apart.			
Income of minor son through a business activity involving application his skill and talent. In case the income earned by minor child is on account of any activity involving application of any skill or talent, then, such income of the minor child shall not be included in the income of the parent, but shall be taxable in the hands of the minor child. Therefore, the income of ₹ 20,000 derived by minor son through a business activity involving the application of his skill and talent shall not be clubbed in the hands of the parent. Such income will be taxable in the hands of the minor son.			20,000
Total Income	2,72,182	1,81,818	20,000

Question 25: Compute total income and tax liability

Mr. Kamal, a resident individual aged 48 years, is working at a senior management position in a private bank since past 20 years. During the PY 2023-24, he received the following emoluments from the employer:

- Basic Salary ₹ 3,50,000 per month.**
- Client entertainment reimbursement of ₹ 20,000 per month out of which he submitted bills for ₹ 2,00,000 for the relevant year.**
- Leave travel allowance of ₹ 4,00,000 per annum. He took a trip to Goa with his spouse and two children in December 2023, for which plane boarding tickets of**

₹ 1,00,000 and hotel bookings of ₹ 3,00,000 were submitted to the employer.

- (d) Performance bonus amounting to 20% of annual basic salary.
- (e) He is eligible to take a staff housing loan upto ₹ 20,00,000 at a concessional rate of 2.5% p.a. He availed a housing loan of ₹ 15,00,000 out of the same on 1st June 2023. No repayment of loan has been made during the F.Y. 2023-24. The lending rate of SBI as on 1.4.2023 for housing loan may be taken as 8% p.a.
- (f) The Bank also allotted 1,500 sweat equity shares to Mr. Kamal in May 2023 at the rate of ₹ 1,300 per share. The Fair market value of the share was ₹ 1,500 per share on the date of exercise of option by Mr. Kamal. He sold all the shares for ₹ 2,100 per share on 31.03.2024 on recognised stock exchange. Assume STT has been paid.

The following transactions were made by Mr. Kamal during the PY 2023-24:

- (a) He earned rental income of ₹ 35,000 per month from a 3 BHK residential flat situated at Delhi. He purchased the said flat for ₹ 45 Lakhs in June, 2023 using the housing loan availed from the employer and his own savings. It was let out from July, 2023. MT of ₹ 12,000 for F.Y. 2023-24 was paid by Mr. Kamal.
- (b) He invested ₹ 30,00,000 in RBI Floating Rate Savings Bonds on 1st September 2023 earning an interest of 7% p.a. Interest is credited half yearly on 1st January and 1st July every year. (Assume receipt basis for taxation)
- (c) He also paid LIC premium of ₹ 15,000 for self, ₹ 20,000 for wife and ₹ 30,000 for dependent father, aged 75 years. Medical insurance premium paid on the health of dependent brother and major dependent son amounted to ₹ 5,000 (paid by cheque) and ₹ 10,000 (paid in cash), respectively.
- (d) In December 2023, he earned dividend income of ₹ 5,00,000 (gross) on shares of the bank held by him.

You are required to compute his total income and tax liability for the AY 2024-25, clearly showing all workings. (Ignore section 115BAC provisions)

Solution: Computation of total income of Mr. Kamal for the A.Y. 2024-25

Particulars	₹	₹
I Income from salaries		
Basic Salary [₹ 3,50,000 x 12]	42,00,000	
Client entertainment reimbursement [₹ 2,40,000 - ₹ 2,00,000]	40,000	
Leave Travel Allowance [₹ 4,00,000 - ₹ 1,00,000] [Note 1]	3,00,000	
Performance Bonus (20% of Basic Salary)	8,40,000	
Interest on Housing loan [₹ 15,00,000 x (8% - 2.5%) x 10/12]	68,750	
Sweat Equity allotted by the employer (₹ 1,500 - ₹ 1,300) x 1,500	3,00,000	
Gross Salary	57,48,750	
Less: Standard deduction	50,000	
Taxable Salary		56,98,750
II Income from house property		
Gross Annual Value u/s 23(1) [Rent received for 9 months has been taken as the Gross Annual Value in the absence of other information relating to Municipal Value, Fair Rent and Standard Rent] [₹ 35,000 x 9]	3,15,000	
Less: Municipal taxes paid [Paid by Mr. Kamal]	12,000	
Net Annual Value (NAV)	3,03,000	
Less: Deduction u/s 24		
(a) @30% of NAV	90,900	
(b) Interest on borrowed capital [15,00,000 x 2.5% x 10/12]	31,250	1,80,850
III Capital gains		

STCG on sale of sweat equity shares [1,500 X (₹ 2,100 - ₹ 1,500)]		9,00,000
IV Income from other sources		
Dividend Income	5,00,000	
Interest on RBI bonds [₹ 30,00,000 X 7% X 4/12]	70,000	5,70,000
Gross total Income		73,84,600
V Less: Deduction under Chapter VI-A		
Deduction u/s 80C for LIC premium paid for self and wife [Note 2]	35,000	
Deduction u/s 80 D [Note 3]	Nil	35,000
Total Income		73,49,600

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

Particulars	₹	₹
Tax on STCG u/s 111A @15% on ₹ 9,00,000		1,35,000
Tax on other income of ₹ 64,14,600		
Upto ₹ 2,50,000	Nil	
₹ 2,50,001 - ₹ 5,00,000 @5%	12,500	
₹ 5,00,001 - ₹ 10,00,000 @20%	1,00,000	
₹ 10,00,001 - ₹ 64,14,600 @30%	16,24,380	17,36,880
		18,71,880
Add: Surcharge@10% since total income exceeds ₹ 50 lakhs but does not exceed ₹ 1 crore		<u>1,87,188</u>
		20,59,068
Add: Health and Education cess @ 4%		<u>82,363</u>
Tax Liability		<u>21,41,431</u>
Tax Liability (Rounded off)		21,41,430

Notes:

- Hotel Bookings and lodgings are not covered under leave travel facility. Hence, only ₹ 1,00,000 of cost of tickets would be exempt under section 10(5).
- Premium for life insurance policy of father is not allowed as deduction u/s 80C.
- Medical insurance premium on the health of brother is not allowable since brother does not come within the meaning of family u/s 80D. In case of son, premium is paid in cash, hence, the same is not allowed.

Question 26: Based on Income & Expenditure A/c

Mr. Samar, a resident individual, aged 43 years, provides professional services in the field of interior decoration. His Income & Expenditure A/c for the year ended 31st March, 2024 is as under:

Expenditure	₹	Income	₹
To Employees' Remuneration & Benefits	13,66,000	By Consultancy Charges	58,80,000
To Office & Administrative Exp.	3,14,000	By Interest on PPF Account	60,000
To General Expenses	75,000	By Interest on Savings Bank Account	20,000
To Electricity Expenses	65,000	By Interest on National Savings Certificates VIII Issue (for 3rd year)	21,000
To Medical Expenses	80,000		
To Purchase of Furniture	48,000		
To Depreciation	90,000		
To Excess of income over exp.	39,43,000		
Total	59,81,000	Total	59,81,000

The following other information relates to financial year 2023-24:

- The expenses on Employees' Remuneration & Benefits includes:

- (a) Family Planning expenditure of 20,000 incurred for the employees which was revenue in nature. The same was paid through account payee cheque.
- (b) Payment of salary of 25,000 per month to sister-in-law of Mr. Samar, who was in-charge of the Accounts & Receivables department. However, in comparison to similar work profile, the reasonable salary at market rates is 20,000 per month.
- (ii) Amount received by Mr. Samar as Employees' Contribution to EPF for the month of February, 2024 - 10,000 was deposited after the due date under the relevant Act relating to EPF.
- (iii) Medical Expenses of 80,000 as appearing in the Income & Expenditure A/c was expensed for the treatment of father of Mr. Samar. His father was 72 years old and was not covered by any health insurance policy. The said payment of 80,000 was made through account payee cheque.
- (iv) General expenses as appearing in the Income & Expenditure A/c, includes a sum of 25,000 paid to Ms. Anjaleen on 5th January, 2024 as commission for securing work from new clients. This payment was made to her without deduction of tax at source.
- (v) WDV of the depreciable assets as on 1st April, 2023 were as follows:
Professional Books 90,000
Computers 35,000
- (vi) The new Furniture as appearing in the Income & Expenditure A/c was purchased on 31st August, 2023 and was put to use on the same day. The payment was made as under:
- 18,000 paid in cash at the time of purchase of new furniture on 31.08.2023.
19,000 paid by account payee cheque on 05.09.2023 as balance cost of new furniture and
- 11,000 paid in cash on 31.08.2023 to the transporter as freight charges for the new furniture.
- (vii) Mr. Samar purchased a car on 02.04.2022 for 3,35,000 for personal use. However, on 30.04.2023 he brought the said car for use in his profession. The fair market value of the car as on 30.04.2023 was 2,50,000
- (viii) Mr. Samar made a contribution of 1,00,000 in his PPF A/c on 31.01.2024.
- (ix) The Gross Professional Receipts of Mr. Samar for P. Y. 2023-24 was 52,00,000. Compute the total income and tax liability of Mr. Samar for AY. 2024-25, assuming that he has not opted for payment of tax under section 115BAC. Ignore provisions u/s 14A relating to disallowance of expenditure incurred in relation to income not includible in total income.

Solution Computation of total income of Mr. Samar for AY. 2024-25

Particulars		₹	₹	₹
I	Income from business or profession			
	Excess of income over expenditure		39,43,000	
	Add: Items debited but not allowable while computing business income			
	- Family planning expenditure incurred for employees [not allowable as deduction since expenditure on family planning for employees is allowed only to a company assessee / not allowed in case of individuals. Since the amount is debited to Income and Expenditure Account, the same has to be added back for computing business income]	20,000		
	- Salary payment to sister-in-law in excess of market rate [Any expenditure incurred for which payment is	Nil		

made to a relative, to the extent it is considered unreasonable is disallowed. However, sister-in-law is not included in the definition of "relative" ¹ for the purpose of section 40A(2).Therefore, no adjustment is required for excess salary paid to Mr. Samar's sister-in-law]			
- Medical expenses for the treatment of father [Not allowed as deduction since it is a personal expenditure / not an expenditure incurred for the purpose of business of Mr. Samar. Since the amount is debited to Income and Expenditure Account, the same has to be added back for computing business income]	80,000		
- Commission to Ms. Anjaleen without deduction of tax at source [Mr. Samar would be liable to deduct tax at source on commission since his gross receipts from profession exceeded 50 lakhs during F.Y.2022-23. Since commission has been paid without deduction of tax at source, hence 30% of 25,000, being commission paid without deducting tax at source, would be disallowed under section 40(a)(ia) while computing the business income of A. Y .2024-25]	7,500		
- Depreciation as per books of account	90,000		
- Purchase of Furniture [not allowable, since it is a capital expenditure]	<u>48,000</u>	<u>2,45,500</u>	
		41,88,500	
Add: Employees' Contribution to EPF [Sum received by the assessee from his employees as contribution to EPF is income of the employer. Since the amount is not credited to Income and Expenditure Account, the same has to be added for computing business income. Deduction in respect of such sum is allowed only if such amount is credited to the employee's account on or before due date under the relevant Act. Since, the employees contribution to EPF for February 2024 is deposited after the due date under the relevant Act, no deduction would be available]			10,000
Less: Depreciation as per Income-tax Rules			
- On Professional Books 90,000 x 40%	36,000		
- On Computers 35,000 x 40%	14,000		
- On Furniture 19,000 x 10%, since it has been put to use for more than 180 days during the year] [Any expenditure for acquisition of any asset in respect of which payment or aggregate of payment made to a person, otherwise than by an A/c payee cheque/ bank draft or use of ECS or through prescribed electronic mode, exceeds 10,000 in a day, such expenditure would not form part of actual cost of such asset. Hence,18,000 and 11,000 paid on 31.8.2023 in cash would not be included in the actual cost of furniture]	1,900		
- On Car [3,35,000 x 15%] [Actual cost of car would be the purchase price of the car to Mr. samar,	<u>50,250</u>	<u>(1,02,150)</u>	

	i.e.,3,35,000]		40,96,350	
	Less: Items of income credited but not taxable or taxable under any other head of income			
	- Interest on Public Provident Fund [Exempt]			
	- Interest on savings bank account [Taxable under the head "Income from other sources"]	60,000		
		20,000		
	- Interest on National Savings Certificates VIII Issue (3rd Year) [Taxable under the head "Income from other sources"]	<u>21,000</u>	<u>1,01,000</u>	
				39,95,350
	Income from Other Sources			
	Interest on savings bank account			
II	Interest on National Savings Certificates VIII Issue (3rd Year)		20,000	<u>41,000</u>
			<u>21,000</u>	
	Gross Total Income			<u>40,36,350</u>
	Less: Deduction under Chapter VI-A			
	<u>Deduction under section 80C</u>			
	Contribution to PPF	1,00,000		
	Interest on NSC (3rd Year) (Reinvested)	<u>21,000</u>		
	<u>Deduction under section 80D</u>		1,21,000	
	Medical expenses for the treatment of father [Since Mr. Samar's father is a senior citizen and not covered by any health insurance policy, payment for medical expenditure by a mode other than cash would be allowed as deduction to the extent of 50,000]		50,000	
	<u>Deduction under section 80TTA</u>			<u>1,81,000</u>
	Interest on savings bank account to the extent of 10,000		<u>10,000</u>	
	Total Income			38,55,350

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

Particulars	₹	₹
Tax on total income of 38,55,350		
Upto ₹ 2,50,000	Nil	
₹2,50,000 - ₹5,00,000[@ 5% of ₹2.50 lakh]	12,500	
₹5,00,001- ₹10,00,000[@ 20% of ₹5 lakh]	1,00,000	
₹10,00,001 - ₹38,55,350[@ 30% of ₹ 28,55,350]	<u>8,56,605</u>	
		9,69,105
Add: Health and education cess@4%		38,764
Tax liability		10,07,869
Tax liability (rounded off) Nil		10,07,870

Question 27: Based on both tax regime

Ms. Purvi, aged 55 years, is a CA in practice. She maintains her accounts on cash basis. Her Income and Expenditure account for the year ended March 31, 2024 reads as follows:

Expenditure	₹	Income	₹
Salary to staff	15,50,000	Fees earned:	
Stipend to articled assistants	1,37,000	Audit	27,88,000
		Taxation services	15,40,300

Incentive to articled assistants	13,000	Consultancy	12,70,000	
Office rent	12,24,000			55,98,300
Printing and stationery	12,22,000	Dividend on shares of X ltd., on Indian company (Gross)		10,524
Meeting, seminar and conference	31,600	Income from UTI (gross)		7,600
Purchase of car (for official use)	80,000	Honorarium received from various institutions for valuation of answer papers		15,800
Repair, maintenance and petrol of car	4,000	Rent received from residential flat let out		85,600
Travelling expenses	5,25,000			
Municipal tax paid in respect of house property	3,000			
Net profit	9,28,224			
	57,17,824			57,17,824

Other Information:

- (i) Allowable rate of depreciation on motor car is 15%.
 - (ii) Value of benefits received from clients during the course of profession is 10,500.
 - (iii) Incentives to articled assistants represent amount paid to two articled assistants for passing CA Intermediate Examination at first attempt.
 - (iv) Repairs and maintenance of car include 2,000 for the period from 1-10-2023 to 30-09-2024.
 - (v) Salary includes 30,000 to a computer specialist in cash for assisting Ms. Purvi in one professional assignment.
 - (vi) The travelling expenses include expenditure incurred on foreign tour of 32,000 which was within the RBI norms.
 - (vii) Medical Insurance Premium on the health of dependent brother and major son dependent on her amounts to 5,000 and 10,000, respectively, paid in cash.
 - (viii) She invested an amount of 10,000 in National Saving Certificate.
 - (ix) She has paid 70,000 towards advance tax during the P.Y. 2023-24.
- Compute the total income and tax payable by Ms. Purvi for the A.Y. 2024-25 in a most beneficial manner.

Solution: Computation of total income and tax payable by Ms. Purvi for the A.Y. 2024-25 under the default tax regime under section 115BAC

Particulars	₹	₹
Income from house property (see working note 1)		57,820
PGBP (see working note 2)		9,20,200
Income from other sources (see working note 3)		33,924
Gross Total Income		10,11,944
Less: deductions under Chapter VI-A (not allowable under default tax regime)		-
Total Income		10,11,944
Total Income (rounded off)		10,11,940

Tax on total income		
Upto ₹ 3,00,000	Nil	
₹ 3,00,001 - ₹ 6,00,000 @ 5%	15,000	
₹ 6,00,001 - ₹ 9,00,000 @ 10%	30,000	
₹ 9,00,001 - ₹ 10,11,940 @ 15%	16,791	61,791
Add: Health and education cess @ 4%		2,472
Total tax liability		64,263
Less: Advance tax paid		70,000
Less: Tax deducted at source on dividend income from an Indian company u/s 194	1,052	
Tax deducted at source on income from UTI u/s 194K	760	1,812
Tax Payable/ (Refundable)		(7,549)
Tax Payable/ (Refundable) (rounded off)		(7,550)

Computation of total income and tax payable by Ms. Purvi for the A.Y. 2024-25 under normal provisions of the Act

Particulars	₹	₹
Gross Total Income		10,11,944
[Income under the "HP" "PGBP" and "IFOS" would remain the same even if Ms. Purvi opts out of the default tax regime under section 115BAC]		
Less: Deductions under Chapter VI – A (See WN-4)		10,000
Total Income		10,01,944
Total Income (rounded off)		10,01,940
Tax on total income		
Upto ₹ 2,50,000	Nil	
₹ 2,50,000 - ₹ 5,00,000 @ 5%	12,500	
₹ 5,00,001 - ₹ 10,00,000 @ 20%	1,00,000	
₹ 10,00,001 - ₹ 10,01,940 @ 30%	582	1,13,082
Add: Health and education cess @ 4%		4,523
Total tax liability		1,17,605
Less: Advance tax paid		70,000
Less: TDS u/s 194 on dividend	1,052	
TDS u/s 194K on income from UTI	760	1,812
Tax Payable		45,793
Tax Payable (rounded off)		45,790

Since there is tax refundable under default tax regime u/s 115BAC and tax payable under the regular provisions of the Act it would be beneficial for Ms. Purvi to pay tax under default tax regime u/s 115BAC.

Working Notes:

(1) Income from House Property

Particulars	₹	₹
Gross Annual Value	85,600	
Less: Municipal taxes paid	3,000	
Net Annual value (NAV)	82,600	
Less: Deduction u/s 24 @ 30% of NAV	24,780	57,820

Note - Rent received has been taken as the Gross Annual Value in the absence of other information relating to Municipal Value, Fair Rent and Standard Rent.

(2) Income under the head “Profits & Gains of Business or Profession”

Particulars	₹	₹
Net profit as per Income and Expenditure account		9,28,224
Add: Expenses debited but not allowable		
(i) Salary paid to computer specialist in cash disallowed u/s 40A(3), since such cash payment exceeds ₹ 10,000	30,000	
(ii) Amount paid for purchase of car is not allowable u/s 37(1) since it is a capital expenditure	80,000	
(ii) Municipal taxes paid in respect of residential flat let out	3,000	1,13,000
Total		10,41,224
Add: Value of benefit received from clients during the course of profession [taxable as business income under section 28(iv)]		10,500
Total		10,51,724
Less: Income credited but not taxable under this head:		
(i) Dividend on shares of X Ltd., an Indian company (taxable under the head “Income from other sources”)	10,524	
(ii) Income from UTI (taxable under the head “Income from other sources”)	7,600	
(iii) Honorarium for valuation of answer papers	15,800	
(iv) Rent received from letting out of residential flat	85,600	1,19,524
Total		9,32,200
Less: Depreciation on motor car @15% (See Note (i) below)		12,000
Total		9,20,200

Notes:

- (i) It has been assumed that the motor car was put to use for more than 180 days during the PY and hence, full depreciation @ 15% has been provided for u/s 32(1)(ii).

Note: Alternatively, the question can be solved by assuming that motor car has been put to use for less than 180 days and accordingly, only 50% of depreciation would be allowable as per the second proviso below section 32(1)(ii).

- (ii) Incentive to articled assistants for passing CA Intermediate examination in their first attempt is deductible under section 37(1).
- (iii) Repairs and maintenance paid in advance for the period 1.4.2024 to 30.9.2024 i.e. for 6 months amounting to ₹1,000 is allowable since Ms. Purvi is following the cash system of accounting.
- (iv) ₹ 32,000 expended on foreign tour is allowable as deduction assuming that it was incurred in connection with her professional work. Since it has already been debited to income and expenditure account, no further adjustment is required.

(3) Income from other sources

Particulars	₹
Dividend on shares of X ltd., an Indian company (taxable in the hands of shareholders)	10,524
Income from UTI (taxable in the hands of unit holders)	7,600
Honorarium for valuation of answer papers	15,800
Income from IFOS	33,924

(4) Deduction under Chapter VI-A :

Particulars	₹
Deduction under 80C (Investment in NSC)	10,000
Deduction under section 80D (see notes (i) & (ii) below)	Nil
Total deduction under Chapter VI-A	10,000

Notes:

- (i) Premium paid to insure the health of brother is not eligible for deduction u/s 80D, even though he is a dependent, since brother is not included in definition of "family" u/s 80D.
- (ii) Premium paid to insure the health of major son is not eligible for deduction, even though he is a dependent, since payment is made in cash.

Question 28: Based on sec. 10AA under both tax regime + AMT

Mr. X, an individual set up a unit in SEZ in the FY 2019-20 for production of washing machines. The unit fulfills all the conditions of section 10AA of the IT Act, 1961. During the FY 2022-23, he has also set up a warehousing facility in a district of Tamil Nadu for storage of agricultural produce. It fulfills all the conditions of Sec. 35AD. Capital expenditure in respect of warehouse amounted to ₹ 75 lakhs (including cost of land ₹ 10 lakhs). The warehouse became operational with effect from 1st April, 2023 and the expenditure of ₹ 75 lakhs was capitalized in the books on that date.

Relevant details for the F.Y. 2023-24 are as follows:

Particulars	₹
Profit of unit located in SEZ	40,00,000
Export turnover received in India in convertible foreign exchange on or before 30.9.2024	80,00,000
Domestic sales of above unit	20,00,000
Profit from operation of warehousing facility (before considering deduction under section 35AD)	1,05,00,000

Compute income-tax (including AMT u/s 115JC) liability of Mr. X for A.Y. 2024-25 both as per section 115BAC and as per regular provisions of the Act for A.Y. 2024-25. Advise Mr. X whether he should pay tax under default tax regime or normal provisions of the Act.

Solution: Computation of total income and tax liability by Mr. X for the A.Y. 2024-25 (under the default tax regime under section 115BAC)

Particulars	₹	₹
Profits and gains of business or profession		
Profit from unit in SEZ	40,00,000	
Profit from operation of warehousing facility	1,05,00,000	
Less: Depreciation under section 32		
On building @ 10% of ₹ 65 lakhs ¹ (normal depreciation under section 32 is allowable)	6,05,000	98,50,000
Total income		1,38,50,000
Computation of tax liability as per section 115BAC		
Tax on 1,38,50,000		38,55,000
Add: Surcharge @ 15%		5,78,250
		44,33,250
Add: Health and Education cess @ 4%		1,77,330
Total tax liability		46,10,580

Notes:

- (1) Deductions u/s 10AA and 35AD are not allowable as per section 115BAC(2). However, normal depreciation u/s 32 is allowable.
- (2) Mr. X is not liable to AMT u/s 115JC under default tax regime u/s 115BAC.

¹Assuming the capital expenditure of ₹ 65 lakhs is incurred entirely on buildings

**Computation of total income and tax liability of Mr. X for A.Y.2024-25
(under the regular provisions of the Income-tax Act, 1961)**

Particulars	₹	₹
Profits and gains of business or profession		
Profit from unit in SEZ	40,00,000	
Less: Deduction u/s 10AA [See note (1) below]	32,00,000	
Business income if SEZ unit chargeable to tax		8,00,000
Profit from operation of warehousing facility	1,05,00,000	
Less: Deduction u/s 35AD [See note (2) below]	65,00,000	
Business income of warehousing facility chargeable to tax		40,00,000
Total income		48,00,000
Computation of tax liability (under the normal/regular provisions)		
Tax on ₹ 48,00,000		12,52,500
Add: Health and Education cess @ 4%		50,100
Total tax liability		13,02,600

Computation of adjusted total income of Mr. X for levy of Alternate Minimum Tax

Particulars	₹	₹
Total income (computed above as per regular provisions of income tax)		48,00,000
Add: Deduction under section 10AA		32,00,000
Total		80,00,000
Add: Deduction under section 35AD	65,00,000	
Less: Depreciation under section 32 On building @ 10% of ₹ 65 lakhs ⁵	6,50,000	58,50,000
Adjusted total income		1,38,50,000
Alternate minimum tax @ 18.5%		25,62,250
Add: Surcharge @ 15% (since adjusted total income > 1 crore)		3,48,338
Total		29,46,588
Add: Health and Education cess @ 4%		1,17,863
Total		30,64,451
Tax liability u/s 115JC (rounded off)		30,64,450

⁵Assuming the capital expenditure of ₹65 lakhs is incurred entirely on buildings

Since the regular income-tax payable is less than the AMT payable, the ATI shall be deemed to be the total income and tax is leviable @18.5% thereof plus surcharge@15% and cess@4%. Therefore, tax liability as per section 115JC is ₹ 30,64,450.

Since the tax liability of Mr. X u/s 115JC is lower than the tax liability as computed u/s 115BAC, it would be beneficial for him to opt out of the default tax regime u/s 115BAC for A.Y. 2024-25. Moreover, benefit of AMT credit is also available to the extent of tax paid in excess over regular tax.

AMT Credit to be carried forward under section 115JEE

Particulars	₹
Tax liability under section 115JC	30,64,450
Less: Tax liability under the regular provisions of the Income tax Act 1961	13,02,600
Total	17,61,850

Notes:

(1) Deduction under section 10AA in respect of Unit in SEZ =

$$\text{Profit of the Unit in SEZ} \times \frac{\text{Export turnover of the Unit in SEZ}}{\text{Total turnover of the Unit in SEZ}}$$

$$\begin{aligned} & ₹ 40,00,000 \times \frac{₹ 80,00,000}{₹ 1,00,00,000} \\ & = ₹ 32,00,000 \end{aligned}$$

(2) Deduction @100% of the capital expenditure is available u/s 35AD for A.Y.2024-25 in respect of specified business of setting up and operating a warehousing facility for storage of agricultural produce which commences operation on or after 01.04.2009.

Further, the expenditure incurred, wholly and exclusively, for the purposes of such specified business, shall be allowed as deduction during the PY in which he commences operations of his specified business if the expenditure is incurred prior to the commencement of its operations and the amount is capitalized in the books of account of the assessee on the date of commencement of its operations.

Deduction u/s 35AD would, however, not be available on expenditure incurred on acquisition of land.

In this case, since the capital expenditure of ₹ 65 lakhs (i.e., ₹ 75 lakhs – ₹ 10 lakhs, being expenditure on acquisition of land) has been incurred in the F.Y.2022-23 and capitalized in the books of account on 1.4.2023, being the date when the warehouse became operational, ₹ 65,00,000, being 100% of ₹ 65 lakhs would qualify for deduction u/s 35AD.

Question 29: HP, PGBP & Interest on loan

Mr. Akash owns a residential house property whose Municipal Value, Fair Rent and Standard Rent are ₹ 1,60,000, ₹ 1,70,000 and ₹ 1,90,000, respectively. The house has two independent units. Unit I (25% of floor area) is utilized for the purpose of his profession and Unit II (75% of floor area) is let out for residential purposes at a monthly rent of ₹ 8,500. Municipal taxes @8% of the Municipal Value were paid during the year by Mr. Akash. He made the following payments in respect of the house property during the PY 2023-24:

Light and Water charges ₹ 2,000, Repairs ₹ 1,45,000, Interest on loan taken for the repair of property ₹ 36,000. Mr. Akash has taken a loan of ₹ 5,00,000 in July, 2017 for the construction of the above house property. Construction was completed on 30th June, 2020. He paid interest on loan @12% per annum and every month such interest was paid. No repayment of loan has been made so far.

Income of Mr. Akash from his profession amounted to ₹ 8,00,000 during the year (without debiting house rent and other incidental expenditure including admissible depreciation of ₹ 8,000 on the portion of house used for profession).

Determine the Gross total income of Mr. Akash for the A.Y. 2024-25 ignoring the provisions of section 115BAC.

Solution: Computation of Gross total income of Mr. Akash for the A.Y. 2024-25:

Particulars		₹	₹
I	Income from House Property		
	Unit-II (75% of floor area)		
	Gross Annual Value		
(a)	Actual rent received (₹ 8,500 x 12)	₹ 1,02,000	
(b)	Expected rent	₹ 1,27,500	
	[Higher of municipal value (i.e. ₹ 1,60,000) and fair		

rent (i.e. ₹ 1,70,000) but restricted to standard rent (i.e. ₹ 1,90,000) ₹ 1,70,000 x 75%			
Higher of (a) or (b) is GAV		1,27,500	
Less: Municipal taxes (₹ 1,60,000 x 8% x 75%)		<u>9,600</u>	
NAV		1,17,900	
Less: Deductions u/s 24			
(a) 30% of NAV	35,370		
(b) Interest on loan (See note)	<u>96,750</u>	<u>1,32,120</u>	(14,220)
II Profits & Gains of business & profession			
Income from Profession		8,00,000	
Less: Light & Water Charges (25% of ₹ 2,000)	500		
Municipal taxes (25% of ₹ 12,800)	3,200		
Repairs (25% of ₹ 1,45,000)	36,250		
Interest on loan taken for repair (25% of ₹ 36,000)	9,000		
Interest on loan taken for construction of house property (25% of ₹ 60,000)	15,000		
Depreciation	8,000	71,950	7,28,050
Gross Total Income			7,13,830

Note: Computation of Interest on loan

Particulars	₹
Interest for the year (₹ 5,00,000 x 12%)	60,000
Pre-construction period Interest- 12% of ₹ 5,00,000 for 33 months = ₹ 1,65,000	
To be allowed in 5 equal instalments from the year of completion (₹ 1,65,000 x 1/5)	33,000
Interest on loan taken for repair (no restriction for let out property)	36,000
Total Interest deduction u/s 24(b)	<u>1,29,000</u>
Total Interest deduction u/s 24(b) for let out property (75% x ₹ 1,29,000)	96,750

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Opp. Chinchechi Talim, Shukrawar Peth, Pune 411002
Email : contactekatvamacademy@gmail.com