



CA INTERMEDIATE

INCOME TAX

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PREFACE

A highly skilled professional team of CA Wallah works arduously to ensure that the students receive the best content for their CA-Intermediate exams.

A plethora of CA Study Material is available in the market but CA Wallah professionals at PW are continuously working to provide supreme quality study material for the CA-Intermediate students.

From the beginning, the content team comprising Subject Matter Experts, Content Creators, Reviewers, DTP operators, Proofreaders, and others is involved in shaping the material to their best knowledge and experience to produce powerful content for the students.

CA Wallah Faculties have adopted a novel style of presenting the content in easy-to-understand language and have provided the content team with expert guidance and supervision throughout the creation and curation of this book.

PW's CA Wallah strongly believes in conceptual and fun-based learning. CA Wallah provides highly exam-oriented content to bring quality and clarity to the students.

This book adopts a multi-faceted approach to mastering and understanding the concepts by having a rich diversity of questions asked in the CA-Intermediate examination and equipping the students with the knowledge for this highly competitive exam.

The main objective of this book is to provide an edge to your preparation with short & crisp yet high-quality content.

BOOK FEATURES

This book, especially designed for CA-Intermediate aspirants, contains:

- Syllabus coverage strictly as per ICAI study Material
- All ICAI Study Material Questions
- Detailed Theory with Exam prototype and Concept Applications Questions
- Short Notes and Solve Miscellaneous Examples
- Topic wise, Learning Plus and Advanced Level Questions covered in the Book
- Elaborated Solutions

ABOUT THE AUTHOR

Sir, CA Jasmeet Singh Arora is a highly qualified and experienced Chartered Accountant with a passion for teaching. With a strong academic background in both CA and B.Com, Jasmeet Sir has excelled in his field, passing his CA exams on the first attempt and receiving five exemptions in his CA Final exams. In addition to his impressive qualifications, he also possesses more than 10 years of experience in teaching, having mentored over 70,000 students both online and offline.

Jasmeet Sir is a firm believer in blended learning and adopts a learner-centric approach to his teaching. He understands that every student is unique and has different learning needs, and therefore aims to cater to those needs by providing a diverse range of teaching methods. With the use of real-life examples and innovative teaching techniques, he seeks to transform traditional pedagogical processes and make learning more accessible and enjoyable for his students.

Throughout his teaching career, Jasmeet Sir has been committed to providing high-quality education in subjects such as taxation and costing. His expertise in these areas has earned him a reputation as one of the best teachers in his field, and he has been recognized by the Institute of Company Secretaries of India (ICSI) and the Institute of Chartered Accountants of India (ICAI) Kanpur as a visiting faculty member. His dedication to his students is unwavering, and he strives to create a learning environment that is engaging, interactive, and challenging.

Jasmeet Sir's success as a teacher is due to his passion for his subject matter, his commitment to his students, and his ability to adapt to new teaching techniques and technologies. He believes that education is the key to unlocking the potential of young minds and creating a better future for all. His mission is to inspire and empower his students to achieve their full potential and to make a positive impact on society.

Jasmeet Singh Arora is a highly qualified and experienced Chartered Accountant with a passion for teaching. With a learner-centric approach to his teaching, he seeks to transform traditional pedagogical processes and make learning more accessible and enjoyable for his students. Through his expertise in subjects such as taxation and costing, he has earned a reputation as one of the best teachers in his field. His dedication to his students is unwavering, and he strives to create a learning environment that is engaging, interactive, and challenging. His mission is to inspire and empower his students to achieve their full potential and make a positive impact on society.

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CHAPTER 1A: BASIC CONCEPTS

Introduction

- In a Welfare State, the Government takes primary responsibility for the welfare of its citizens, as in matters of health care, education, employment, infrastructure, social security and other development needs. To facilitate these, Government needs revenue.
- The taxation is the primary source of revenue to the Government for incurring such public welfare expenditure.
- In other words, Government is taking taxes from public through its one hand and through another hand; it incurs welfare expenditure for public at large.
- However, no one enjoys handing over his hard-earned money to the government to pay taxes. Thus, taxes are compulsory or enforced contribution to the Government revenue by public.
- Government may levy taxes on income, business profits or wealth or add it to the cost of some goods, services, and transactions.

DIRECT TAX & INDIRECT TAX

There are two types of taxes: Direct Tax and Indirect Tax

- Tax, of which incidence and impact fall on the same person, is known as Direct Tax, such as Income Tax.
- On the other hand, tax, of which incidence and impact fall on two different persons, is known as Indirect Tax, such as GST.

Direct Tax	Indirect Tax
• Incidence and impact fall on the same person	• Incidence and impact fall on two different persons
• Assessee, himself bears such taxes. Thus, it pinches the taxpayer.	• Tax is recovered from the assessee, who passes such burden to another person.
• Levied on income	• Levied on goods and services.
• E.g. Income Tax	• E.g. GST, Customs Duty, etc.
• Progressive in nature i.e., higher tax are levied on person earning higher income and vice versa.	• Regressive in nature i.e., all persons will bear equal wrath of tax on goods or service consumed by them irrespective of their ability.

CONSTITUTIONAL VALIDITY OF TAXES

The Constitution of India is the supreme law of India. It consists of a Preamble, 22 parts containing 444 articles and 12 schedules. Any tax law, which is not in conformity with the

Constitution, is called ultra vires the Constitution and held as illegal and void. Some of the provisions of the Constitution are given below:

Article 265 of the Constitution lays down that no tax shall be levied or collected except by the authority of law. It means tax proposed to be levied must be within the legislative competence of the legislature imposing the tax.

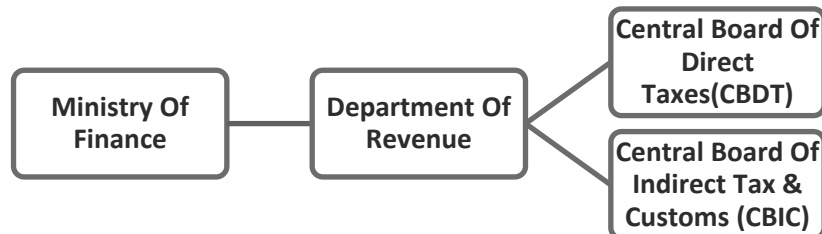
Article 246 read with Schedule VII divides subject matter of law made by legislature into three categories:

- Union list (only Central Government has power of legislation on subject matters covered in the list)
- State list (only State Government has power of legislation on subject matters covered in the list)
- Concurrent list (both Central & State Government can pass legislation on subject matters).

Entry 82 of Union List – Taxes on income other than agricultural income i.e. Income-tax.

Entry 46 of State List – Gives power to state Govt to make laws on tax on Agriculture Income.

ADMINISTRATION OF TAX LAWS



- Both of the Boards have been constituted under the Central Board of Revenue Act, 1963.
- CBDT deals with levy and collection of all direct tax
- CBIC Deals with levy and collection of Central indirect tax.

SOURCES OF INCOME TAX LAW IN INDIA

1. Income tax Act, 1961 (Amended up to date)

The provisions of income tax extends to the whole of India and became effective from 1/4/1962 (Sec. 1). It contains sections 1 to 298 and schedules I to XIV. The Act contains provisions for determination of taxable income; determination of tax liability; procedure for assessment, appeals, penalties and prosecutions; and powers and duties of Income tax authorities.

2. The Finance Act (Annual Amendments)

- Every year, a Finance Bill is presented before the Parliament by the Finance Minister. The Bill contains various amendments which are sought to be made in the areas of direct and indirect taxes levied by the Central Government.
- When the Finance Bill is approved by both the Houses of Parliament and receives the assent of the President, it becomes the Finance Act. The provisions of such Finance Act are thereafter incorporated in the Income Tax Act.

3. Income tax Rules, 1962 (Amended up to date)

- As per Sec. 295, the Board may, subject to the control of the Central Government, make rules for the whole or any part of India for carrying out the purposes of the Act.
- Such rules are made applicable by notification in the Gazette of India.
- These rules were first made in 1962 and are known as Income tax Rules, 1962.

4. Circulars and Notifications

Circulars

- Circulars are issued by the CBDT from time to time to deal with certain specific problems and to clarify doubts regarding the scope and meaning of certain provisions of the Act.
- Circulars are issued for the guidance of the officers and/or assessees.
- The department is bound by the circular While such circulars are not binding on the assessees, they can take advantage of beneficial circular

Notifications

Notifications are issued by the Central Government to give effect to the provisions of the Act. The CBDT is also empowered to make and amend rules for the purposes of the Act by issue of notifications.

5. Judicial Decision

- a) **Decision of the Supreme Court:** Any decision given by the Supreme Court shall be applicable as law till there is any change in law by the Parliament. Such decision shall be binding on all the Courts, Tribunals, Income tax authorities, assessee, etc.
- b) **Decisions given by a High Court or ITAT:** Decisions given by a High Court or ITAT are binding on all assessees and Income tax authorities, which fall under their jurisdiction, unless it is over ruled by a higher authority.

Levy of Income-tax

As per Section 4, Income of the previous year of a person is charged to tax in the immediately following assessment year.

PREVIOUS YEAR [SECTION 3]

- Previous Year means the financial year immediately preceding the Assessment Year.
- Income earned in a year is assessed in the next year.
- The year in which income is earned is known as Previous Year and the next year in which income is assessed is known as Assessment Year.
- It is mandatory for all assessee to follow financial year (from 1st April to 31st March) as previous year for Income-Tax purpose.

Business or profession newly set up during the financial year

In such a case, the previous year shall be the period beginning on the date of setting up of the business or profession and ending with 31st March of the said financial year.

If a source of income comes into existence in the said financial year, then, the previous year will commence from the date on which the source of income newly comes into existence and will end with 31st March of the financial year.

ASSESSMENT YEAR (A.Y.) [SECTION 2(9)]

- Assessment year means the period of 12 months commencing on the 1st day of April every year.
- It is the year (just after the previous year) in which income earned in the previous year is charged to tax.
- E.g., A.Y.2025-26 is a year, which commences on April 1, 2025 and ends on March 31, 2026. Income of an assessee earned in the PY 2024-25 is assessed in the A.Y. 2025-26.

PERSON [SECTION 2(31)]

The term person includes the following:

- i) An Individual;
- ii) A Hindu Undivided Family (HUF);
- iii) A Company;
- iv) A Firm (Including LLP);
- v) An Association of Persons (AOP) or a Body of Individuals (BOI);
- vi) A Local authority; &
- vii) Every artificial juridical person not falling within any of the preceding categories.

ASSESSEE [SECTION 2(7)]

“Assessee” means,

- a. a person by whom any tax or any other sum of money (i.e., penalty or interest) is payable under this Act

- b. every person in respect of whom any proceeding under this Act has been taken (whether or not he is liable for any tax, interest or penalty) for the assessment of his income or loss or the Amount of refund due to him;
- c. a person who is assessable in respect of income or loss of another person;
- d. a person who is deemed to be an 'assessee in default' under any provision of this Act. E.g. A person, who was liable to deduct tax but has failed to do so, shall be treated as an 'assessee in default'.

Situations Where Income is Taxed in the Same Year (Previous Year Itself)

1. **Section 172 - Shipping Business of Non-Residents (NR):**
If a non-resident's ship, carrying passengers, livestock, mail, or goods, arrives at an Indian port, the ship cannot leave the port until all applicable taxes are paid.
Example: A foreign shipping company's vessel arrives in Mumbai to deliver cargo. Before the ship can depart, it must settle any tax liabilities on the income earned from that voyage.
2. **Section 174 - Person Leaving India:**
If the Assessing Officer (AO) believes that an individual is leaving India with no intention of returning, the income earned by that person up until their expected departure date is taxed in the current year itself.
Example: Mr. X, an Indian resident, plans to move abroad permanently in October 2024. The AO may tax his income up to October 2024 in the same year i.e. 2024-25.
3. **Section 174A - AOP/BOI/AJP Formed for a Specific Event or Purpose:**
If an Association of Persons (AOP), Body of Individuals (BOI), or Artificial Juridical Person (AJP) is created for a specific event or purpose, and the AO expects it to dissolve within the same year, the income up to the date of dissolution is taxed in that year.
Example: A group of investors forms an AOP to organize a one-time international sports event in India. If the event concludes in August 2024 and the AOP is dissolved, the income earned will be taxed in the same PY i.e. 2024-25.
4. **Section 175 - Persons Likely to Transfer Property to Avoid Tax:**
If the AO suspects that a person is likely to sell, transfer, or dispose of assets to avoid paying taxes, the AO can tax that person's total income in the current year itself.
Example: Mrs. Y plans to sell her property in December 2023 to avoid tax liabilities. If the AO suspects this, her income from the property sale might be taxed in the assessment year 2024-25.
5. **Section 176 - Discontinued Business:**
If a business or profession is discontinued, the income earned up until the date of discontinuance may be taxed in the current year at the AO's discretion.
Example: A company decides to shut down its operations in India by September 2024. The income earned until the shutdown date can be taxed in the same year itself.

HEADS OF INCOME [SECTION 14]

According to Sec.14 of the Act, all income of a person shall be classified under the following five heads:

1. Salaries;
2. Income from house property;
3. Profits and gains of business or profession;
4. Capital gains;
5. Income from other sources.

For computation of income, all taxable income should fall under any of the five heads of income as mentioned above. If any type of income does not become part of any one of the above mentioned first four heads, it should be part of the 5th head, i.e. Income from other sources, which may be termed as the residual head.

Difference between Heads of income and Sources of income

- There are only five heads of income as per Sec. 14 of the Act, but the assessee may generate the income from various sources. In the same head of income, there may be various sources of income.
- E.g. under the head 'Income from house property', there may be two or more house properties and each house property shall be termed as a source of income.
- The source of income decides under which head (among the five heads) income shall be taxable.

Computation of Income

Step 1: Determine Residential Status

Step 2: Compute Income Under Each Head Of Income

Step 3: Apply Clubbing of Income Provisions

Step 4: Set-off/carry forward and set-off of losses as per the provisions of the Act

Step 5: After Applying Step 2, 3 & 4 You will arrive at Gross total Income

Step 6: Claim Deductions Under Section 80C to 80U (if any From GTI)

Step 7: Total Income (Taxable Income) is arrived after claiming deductions from GTI

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

Example

- (i) ₹5,28,456 shall be rounded off as 5,28,460
- (ii) ₹5,28,455 shall be rounded off as 5,28,460
- (iii) ₹5,28,454 shall be rounded off as 5,28,450
- (iv) ₹5,28,454.88 shall be rounded off as 5,28,450

Computation Of Tax Liability (Old Regime/Alternate Scheme/Normal Provisions)

In case of Individual/Hindu Undivided Family/AOP/BOI/Artificial Judicial Person

A. Any other Individual & HUF or AOP/BOI or Artificial Judicial Person

Income	Tax Rate
On First ₹ 2,50,000	Nil
Next ₹ 2,50,000	5%
Next ₹ 5,00,000	20%
Balance Income	30%

B. Resident individual of the age of 60 years or more at any time upto the end of relevant previous year but less than eighty years (senior citizen)

Income	Tax Rate
On First ₹ 3,00,000	Nil
Next ₹ 2,00,000	5%
Next ₹ 5,00,000	20%
Balance Income	30%

C. Resident individual of the age of 80 years or more at any time upto the end of relevant previous year (Very senior citizen)

Income	Tax Rate
On First ₹ 5,00,000	Nil
Next ₹ 5,00,000	20%
Balance Income	30%

Note: Any resident individual whose 60th/80th birthday falls on 1st April 2025 shall be treated as having completed the age of 60/80 years on 31st March 2025. Therefore such individual shall be entitled for higher basic exemption limit of ₹ 3,00,000 & ₹ 5,00,000.

DEFAULT TAX REGIME

Tax On Income of Individuals/Hindu Undivided family/AOPs/BOIs/Artificial Judicial Person [Section 115BAC]

Income	Tax Rate
On First ₹ 3,00,000	Nil
More than ₹ 3,00,000 but upto ₹ 7,00,000	5%
More than ₹ 7,00,000 but upto ₹ 10,00,000	10%
More than ₹ 10,00,000 but upto ₹ 12,00,000	15%

More than ₹ 12,00,000 but upto ₹ 15,00,000	20%
Exceeding ₹ 15,00,000	30%

Health and Education Cess

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

ROUNDING OFF OF TAX [SECTION 288B]

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

Illustration 1: Compute the income the tax liability Of Binod under old regime (Res. 45 Years).

Particulars	Amount
Income Under The Head Salary	4,00,000
Income Under Head House Property	5,00,000
Profits & Gains From Business & Profession	6,10,603
Deductions U/s 80C to 80U	1,50,000

Illustration 2: Suppose Age of Binod Is 60 Years

Illustration 3: Suppose Age of Binod Is 80 Years

Illustration 4: Calculate tax liability in following cases under Both Regimes

- Mr. X (Resident Age 40 Years) has total income of ₹9,00,000
- Mr. X (Resident Age 60 Years) has total income of ₹9,00,000
- Mr. X (Resident Age 80 Years) has total income of ₹9,00,000
- Mr.X (Non-Resident Age 40 Years) has total income of ₹9,00,000
- Mr.X (Non-Resident Age 60 Years) has total income of ₹11,00,000
- Mr.X (Non-Resident Age 80 Years) has total income of ₹12,00,000

Surcharge

Surcharge is an additional tax payable over and above the incometax. Surcharge is levied as a percentage of income-tax, where total income exceeds ₹ 50 lakhs.

A. In case the Individual/HUF/AOP /BOI and Artificial Judicial Person pays tax under default tax regime under section 115BAC

Income	Rate
Total income does not exceed ₹ 50 lacs	Nil
Total income exceeds ₹ 50 lacs but does not exceed ₹ 1 crore	10% of tax
Total income exceeds ₹ 1 crorebut does not exceed ₹ 2 crores	15% of tax

Total income exceeds ₹ 2 crores including Income u/s 112, 112A, 111A or dividend income then:	
• Income u/s 112, 112A, 111A or dividend income	15% of tax
• Other Income is Upto ₹ 2 crores	15% of tax
• Other Income is more than ₹ 2 crores	25% of tax

Analysis

S.No	Total Income (₹)	Income u/s 112,112A,111A & dividend Income (₹)	Other Income (₹)	Surcharge On Tax on Special Income u/h CG & Dividend Income (%)	Surcharge On Tax On Other Income (%)
1	48 Lakhs	10 Lakhs	38 Lakhs	NA	NA
2	60 Lakhs	15 Lakhs	45 Lakhs	10%	10%
3	1.20 Cr.	20 Lakhs	1 Cr.	15%	15%
4	2.50 Cr.	60 Lakhs	1.90 Cr.	15%	15%
5	2.90 Cr.	70 Lakhs	2.20 Cr.	15%	25%
6	3.90 Cr.	1.20 Cr.	2.70 Cr.	15%	25%
7	5.80 Cr.	60 Lakhs	5.20 Cr.	15%	25%

B. In case the Individual/HUF/AOP /BOI and Artificial Judicial Person pays tax under optional regime (Old regime)

Income	Rate
Total income does not exceed ₹ 50 lacs	Nil
Total income exceeds ₹ 50 lacs but does not exceed ₹ 1 crore	10% of tax
Total income exceeds ₹ 1 crore but does not exceed ₹ 2 crores	15% of tax
Total income exceeds ₹ 2 crores including Income u/s 112, 112A, 111A or dividend income then:	
• Income u/s 112, 112A, 111A or dividend income	15% of tax
• Other Income is Upto ₹ 2 crores	15% of tax
• Other Income is more than ₹ 2 crores but upto ₹ 5 crores	25% of tax
• Other Income is exceeding ₹ 5 crores	37% of tax

Analysis

S.No	Total Income (₹)	Income u/s 112,112A,111A & dividend Income (₹)	Other Income (₹)	Surcharge On Tax on Special Income u/h CG & Dividend Income (%)	Surcharge On Tax On Other Income (%)
1	48 Lakhs	10 Lakhs	38 Lakhs	NA	NA
2	60 Lakhs	15 Lakhs	45 Lakhs	10%	10%
3	1.20 Cr.	20 Lakhs	1 Cr.	15%	15%
4	2.50 Cr.	60 Lakhs	1.90 Cr.	15%	15%
5	2.90 Cr.	70 Lakhs	2.20 Cr.	15%	25%
6	3.90 Cr.	1.20 Cr.	2.70 Cr.	15%	25%
7	5.80 Cr.	60 Lakhs	5.20 Cr.	15%	37%
8	6 Cr.	1.50 Cr.	4.50 Cr.	15%	25%

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

Note: An AOP consisting of only companies as members then Maximum Surcharge applicable is 15%.

Illustration 5: Calculate Income tax Liability in Following Cases under both the Tax Regime:

- Mr. X (Resident Age 40 Years) has total income of ₹67,00,000
- Mr. X (Resident Age 60 Years) has total income of ₹1,67,00,000
- MR.X (Resident Age 80 Years) has total income of ₹3,67,00,000
- MR.X (Non-Resident Age 60 Years) has total income of ₹6,67,00,000

Marginal Relief

- If due to applicability of surcharge (or higher surcharge is levied)
- Tax liability increases more than the increase in income
- Then assessee is eligible for Marginal Relief equals to Difference of Increase in Tax and Increase in Income.

Rebate [Section 87A]

A. Rebate Under Default Regime (New Regime)

1. Applicable to: Resident Individual
2. Conditions to be satisfied: Total income of the assessee does not exceed ₹ 7,00,000.
3. Quantum of Rebate: Lower of the following:
 - a. 100% of tax liability as computed above; or
 - b. ₹ 25,000/-

Also If total income exceeds ₹ 7,00,000, then rebate shall be allowed If tax liability increases more than increase in income.

Rebate u/s 87A = Increase in Tax – Increase income

B. Rebate Under Old Regime (Normal Provisions)

1. **Applicable to:** Resident Individual
2. **Conditions to be satisfied:** Total income of the assessee does not exceed ₹ 5,00,000.
3. **Quantum of Rebate:** Lower of the following:
 - a. 100% of tax liability as computed above; or
 - b. ₹ 12,500/-

Illustration 6: Mr. J (Resident Age 40 Years) has gross total income ₹ 5,40,000 and deduction allowed under section 80C to 80U are ₹ 40,000. Compute his tax liability under Normal Provisions.

Illustration 7: Presume Age of Mr. J is 60 Years.

Illustration 8: Presume Age of Mr. J is 82 Years and He is Non-Resident

Taxability of Casual Income

- Casual income shall be taxable under the head Other Sources and it will be included in the gross total income and also total income but while computing tax liability, casual income shall be separated from total income and shall be taxable @ 30%.
- If any expense has been incurred to earn the casual income, then such expense shall not be allowed to deducted.
- As per section 58(4), deduction under section 80C to 80U shall not be allowed from casual income however as per section 87A, rebate shall be allowed.

Illustration 9: Mr. X has income under the head Salary ₹5,00,000 and casual income ₹3,00,000 and deduction under section 80C to 80U ₹2,00,000. Calculate his tax liability

Illustration 10: If in the above case deduction allowed under section 80C to 80U is ₹6,00,000, tax liability shall be?

Illustration 11: Mr. J has casual income of ₹102,00,000 and deduction allowed under section 80C to 80U are ₹5,00,000, in this case his tax liability shall be?

Taxability of Capital Gains

There are two Types of Capital Gains

- a) Long Term Capital Gains
- b) Short Term Capital Gains

Further Long term and Short Term capital gain is divided as follows:

1. Long Term Capital Gains

Section	Prior to 23 rd July 2024	W.e.f. 23 rd July 2024
112	20%	12.5%
112A (Listed Equity Shares)	10%	12.5%

However, capital gains u/s 112A are exempt upto ₹ 1,25,000 (aggregate).

2. Short Term Capital Gains

Section	Prior to 23 rd July 2024	W.e.f. 23 rd July 2024
111A (Listed Equity Shares)	15%	20%
Other STCG	Slab Rate	Slab Rate

- Deduction u/s 80C to 80U shall not be allowed from capital gain u/s 112, 112A & 111A.
- Rebate u/s 87A shall not be allowed from income u/s 112A.

Special provision for resident individual/HUF

In case of a resident individual/HUF if total income excluding

- long term capital gains u/s 112/u/s 112A
- short term capital gain covered under section 111A, and

is below the Amount which is exempt from income tax (i.e. 2,50,000/3,00,000/5,00,000), in such cases deficiency in the exemption shall be allowed from LTCG u/s 112 or STCG u/s 111A or LTCG u/s 112A as the case may be.

Illustration 12: From The Following Information Calculate tax liability under both regimes of Mr. J (Res. 40 Years)

Particulars	Amount
Income Under The Head Salaries	6,00,000
Long Term Capital Gain u/s 112 on sale of GOLD on 1/08/2024	1,00,000
Long Term Capital Gain u/s 112A	1,50,000
Short Term Capital Gain	25,000
Short Term Capital Gain u/s 111A	1,25,000
Casual Income	2,00,000
Deductions u/s 80C to 80U	2,50,000

Illustration 13: From The Following Information Calculate tax liability of Mr. J (Resident Age 40 Years)

Particulars	Amount
Income Under The Head Salaries	3,00,000
Long Term Capital Gain u/s 112 on sale of Paintings on 11/08/2024	6,00,000
Long Term Capital Gain u/s 112A	50,000
Deductions u/s 80C to 80U	2,50,000

Illustration 13A: Suppose In Above Question Mr.J is of 80 Year

Illustration 14: Calculate tax liability of Mr.J (Resident Age 40 Years), if he has Income From LTCG u/s 112A of ₹ 50,50,000 (Under Both Regimes)

Illustration 15: Mr. X (Age 64 Years) is a resident individual, Details of his income is as follows:

- (a) LTCG ₹ 30,00,000
 - (b) LTCG u/s 112A ₹ 10,00,000
 - (c) STCG u/s 111A ₹ 3,00,000
 - (d) Other Income ₹ 28,00,000
 - (e) Deduction u/s 80C to 80U ₹ 2,00,000
- Calculate His Tax Liability.

Illustration 16: Suppose in above question Other income is Rs 1,72,00,000. Calculate His Tax Liability.

Illustration 17: Mr. X (Age 64 Years) is a resident individual, Details of his income is as follows:

- (a) LTCG ₹ 2,00,000
 - (b) LTCG u/s 112A ₹ 1,10,00,000
 - (c) STCG u/s 111A ₹ 1,13,00,000
 - (d) Other Income ₹ 20,00,000
 - (e) Deduction u/s 80C to 80U ₹ 2,00,000
- Calculate His Tax Liability

Unexplained money, investments etc. [Section 115BBE]

- Such deemed income shall be taxed at the rate of 60% plus surcharge @25% of tax. Thus, the effective rate of tax (including surcharge@25% of tax and cess@4% of tax and surcharge) is 78%.
 - No basic exemption or allowance or expenditure shall be allowed to the assessee under any provision of the Income-tax Act, 1961 in computing such deemed income.
 - Further, no set off of any loss shall be allowable against such income.
- (a) **Cash Credits [Section 68]** Where any sum is found credited in the books of the assessee and the assessee offers no explanation about the nature and source or the explanation offered is not satisfactory in the opinion of the Assessing Officer, the sum so credited may be charged as income of the assessee of that previous year.
- (b) **Unexplained Investments [Section 69]** Where in the financial year immediately preceding the assessment year, the assessee has made investments which are not recorded in the books of account and the assessee offers no explanation about the nature and the source of investments or the explanation offered is not satisfactory in the opinion of the Assessing Officer, the value of the investments are taxed as deemed income of the assessee of such financial year.

- (c) **Unexplained money etc. [Section 69A]** Where in any financial year the assessee is found to be the owner of any money, bullion, jewellery or other valuable article and the same is not recorded in the books of account and the assessee offers no explanation about the nature and source of acquisition of such money, bullion etc. or the explanation offered is not satisfactory in the opinion of the Assessing Officer, the money and the value of bullion etc. may be deemed to be the income of the assessee for such financial year.
- (d) **Amount of investments etc., not fully disclosed in the books of account [Section 69B]** Where in any financial year the assessee has made investments or is found to be the owner of any bullion, jewellery or other valuable article and the Assessing Officer finds that the amount spent on making such investments or in acquiring such articles exceeds the amount recorded in the books of account maintained by the assessee and he offers no explanation for the difference or the explanation offered is unsatisfactory in the opinion of the Assessing Officer, such excess may be deemed to be the income of the assessee for such financial year.
Example If the assessee is found to be the owner of say 300 gms of gold (market value of which is ₹25,000) during the financial year ending 31.3.2023 but he has recorded to have spent ₹15,000 in acquiring it, the Assessing Officer can add ₹10,000 (i.e., the difference of the market value of such gold and ₹15,000) as the income of the assessee, if the assessee offers no satisfactory explanation thereof.
- (e) **Unexplained expenditure [Section 69C]** Where in any financial year an assessee has incurred any expenditure and he offers no explanation about the source of such expenditure or the explanation is unsatisfactory in the opinion of the Assessing Officer, Assessing Officer can treat such unexplained expenditure as the income of the assessee for such financial year. Such unexplained expenditure which is deemed to be the income of the assessee shall not be allowed as deduction under any head of income.
- (f) **Amount borrowed or repaid on hundi [Section 69D]** Where any amount is borrowed on a hundi or any amount due thereon is repaid other than through an account-payee cheque drawn on a bank, the amount so borrowed or repaid shall be deemed to be the income of the person borrowing or repaying for the previous year in which the amount was borrowed or repaid, as the case may be.

In case of Partnership Firm Including LLP

Tax	30%
Surcharge	12% provided total income is exceeding ₹ 1 crore.
Marginal Relief	Marginal relief shall be allowed if income has exceeded ₹ 1 crore.

In case of Domestic Company

Tax	30%. However, if Total Turnover or gross receipts of the previous year 2022-23 does not exceed 400 Crore then 25% Tax Shall be levied	
Surcharge	Income	Rate
	Exceeds 1 Crore but upto 10 Crore	7%
	Exceeds 10 Crore	12%
Marginal Relief	Allowed	

In Case Of Foreign Company

Tax	35%	
Surcharge	Income	Rate
	Exceeds 1 Crore but upto 10 Crore	2%
	Exceeds 10 Crore	5%
Marginal Relief	Allowed	

In case of Co-operative Societies

Old Regime	
Income	Rate
First 10,000	10%
Next 10,000	20%
Balance	30%
Surcharge	
Income Exceeds 1 crore but upto 10 crore	7%
Income Exceeds 10 crore	12%

CHAPTER 1B: AGRICULTURE INCOME

Meaning of Agricultural Income Section 2(1A)

1. **Income from leasing out of agricultural land Section 2(1A) (a)**
If any person has given any agricultural land on rent, rent so received (either in cash or in kind) shall be considered to be agricultural income and shall be exempt from income tax.
However if any interest is recovered for late payment of rent then such interest will be taxable under head other sources.
2. **Income from Agricultural Operations Section 2(1A)(b)**
If any person is engaged in agricultural activities, income derived from such agricultural operations shall be considered to be agricultural income.

Agriculture Operation

Operation	Income
Only Basics Operations	Agriculture income
Basics Operations & Subsequent operations	Agriculture income
Only Subsequent operations	Non Agriculture income

Note:

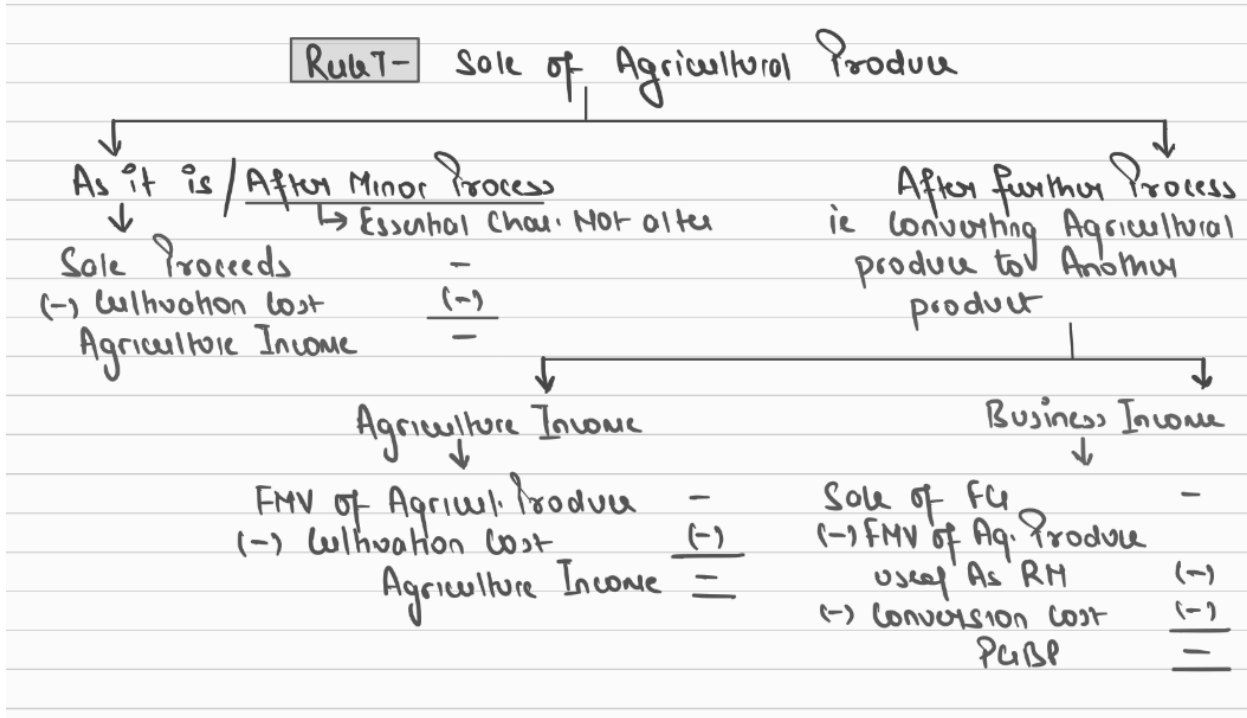
- a) If any shareholder has received dividend from a company having income from agricultural activities, such dividend income shall not be considered to be agricultural income
 - b) If any partnership firm has agricultural income and firm has paid any salary or interest to the partners, it will be considered to be agricultural income to the partners.
3. **Any income derived from any building Section 2(1A)(c)**
Income from building shall be agriculture income if all the following conditions are satisfied.
 - (i) The building is on or in the immediate vicinity of agricultural land.
 - (ii) It is occupied by the cultivator or receiver of rent or revenue.
 - (iii) It is used as a dwelling house or as a store-house or other out-house.
 - (iv) The land is assessed to land revenue or it is situated in rural area.

Note: Income derived from nursery shall be deemed to be an Agriculture income.

Income which is partially agricultural and partially from business

Rule	Business	Agriculture %	Non- Agriculture %
7A	Manufacture of Rubber	65%	35%

7B(1)	Sale of coffee grown and cured by seller.	75%	25%
7B(1A)	Sale of coffee grown, cured, roasted and grounded by seller in India with or without mixing chicory or other flavouring ingredients	60%	40%
8	Growing and manufacturing tea in India.	60%	40%



Partial integration of agricultural income with non-agricultural income

Addition of agricultural income to non agricultural income for computation of tax is known as partial integration.

Conditions

1. The assessee is an individual or HUF or BOI, or AOP or artificial juridical person.
2. Non-agricultural income exceeds basic exemption limit; and
3. Agricultural income exceeds ₹5,000.

Step 1	Calculate tax on total income including agriculture income	-
Step 2	Calculate tax on (Basic Exemption Limit + Agriculture Income)	-
Step 3	Tax Payable Before Rebate u/s 87A or Surcharge (Step 2 - Step 3)	-
Step 4	Apply Rebate u/s 87A or Surcharge if TI exceeds 50 lacs	-
Step 5	Levy 4% HEC	-
	Tax Liability	-

Example 1.

Ramu is a residential individual of age 25 years. He has earned following income during PY 2024-25 :-

Income from House Property = ₹7,50,000

Agricultural Income = ₹5,00,000

Compute his Tax Liability for AY 2025-26

Example 2.

Mr. X is a residential individual of age 30 years. He has earned following income during PY 2024-25 :-

Income from Salary = ₹5,50,000

Income from House Property = ₹3,50,000

Agricultural Income = ₹4,50,000

Deduction u/s 80c-80U = ₹1,00,000

Compute his Tax Liability for AY 2025-26

Example 3.

Mr. X is a residential individual of age 30 years. He has earned following income during PY 2024-25 :-

Income from Salary (Computed) = ₹5,00,000

LTCG u/s 112 = ₹4,00,000

Income from House Property = ₹2,00,000

Agricultural Income = ₹1,50,000

Deduction u/s 80c-80U = ₹1,00,000

Compute his Tax Liability for AY 2025-26 as per New Regime

Example 4.

Compute the tax liability of a residential individual having following income during PY 2024-25 :-

(a) Agricultural Income = ₹1,50,000

(b) Non-Agricultural Income = ₹11,00,000

Example 5.

Mr. Mukesh has cultivated 5,000 quintal of potatoes in his Farm. Cost of cultivation was ₹6,00,000 for the same. He sold 2,000 quintal of potatoes at the rate of ₹10,00,000 and transferred rest 3,000 quintal of potatoes to his chips factory. He has incurred processing cost of ₹15,00,000 and sold the Potato chips at ₹35,00,000. Compute his income from agriculture and business activities.

Illustration 1.

Compute tax liability. Business Income ₹ 9,00,000; LTCG ₹ 3,00,000. STCG STT 50,000, Lottery income ₹ 40,000. Deduction u/s 80C 1,00,000, Agricultural Income ₹ 1,50,000

Illustration 2.

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

- (i) Income under the head salary ₹ 3,40,000
- (ii) Income under the head house property ₹ 3,00,000
- (iii) Agricultural income from a land in Jaipur ₹ 1,80,000
- (iv) Expenses incurred for earning agricultural income ₹ 1,20,000

Compute his tax liability assuming his age is - (a) 45 years (b) 70 years

Illustration 3.

Mr. X grows sugarcane and uses the same for the purpose of manufacturing sugar in his factory. 30% of sugarcane produce is sold for ₹ 10 lacs, and the cost of cultivation of such sugarcane is ₹ 5 lacs. The cost of cultivation of the balance sugarcane (70%) is ₹ 14 lacs and the market value of the same is ₹ 22 lacs. After incurring ₹ 1.5 lacs in the manufacturing process on the balance sugarcane, the sugar was sold for ₹ 25 lacs. Compute Mr. X's business income and agricultural income and also compute Tax Liability

Illustration 4.

Mr. X is engaged in growing and manufacturing of rubber. These are then sold in the market for ₹ 30 lacs. The cost of growing rubber plants is ₹ 10 lacs and that of manufacturing rubber is ₹ 8 lacs. Compute his total income

CHAPTER 2: RESIDENTIAL STATUS

- Total income of an assessee can be computed only after ascertaining the residential status of the assessee during the previous year, as many provisions under income tax act are different for resident and for non resident assessee.
- Citizenship and residential status are both different concept. A person may be a citizen of India but may be Non resident for income tax purposes.
- Residential status is determined for every previous year, it is possible that person is resident in one year and non resident in another year.

Residential status of individuals Section 6(1)/6(6)(a)

Section 6(1), an individual is said to be resident, if he satisfies any one of the following two basic conditions:

- He stays in India for 182 days or more during the relevant previous year (RPY)
- He stays in India for 60 days or more in RPY and also for 365 days or more during 4 years preceeding the RPY.

Note:

1. Period of stay may not be continuous.
2. Date of departure and arrival both shall be considered for stay in india.

Example 1. Riya citizen of UK visited India during FY 2024-25 from 19.9.24 – 15.11.24

Her stay for last 4 years is as follows:

2023-24	100d	2021-22	200d
2022-23	50d	2020-21	150d

Determine the residential Status of Riya during AY 2025-26

Additional Condition

Section 6(6), An individual is said to be a resident and ordinarily resident if he satisfies both the following conditions:

- He is a resident in any 2 out of last 10 previous year, and
- His total stay in India in the last 7 years is 730 days or more.

Example 2.

Mr. X visit India for 110d every year since 2001. Determine Residential Status for PY 2024-25.

Example 3.

Mr. X visit India for 100d every year since 2020-21 before that he never visited India. Determine Residential status for FY 2024-25.

Exceptions to the basic condition - Check only 182 days

1. If an Indian Citizen leaves India for the purpose of employment
 2. If an Indian Citizen leaves India as a crew member of Indian Ship.
- Note: Date of Joining and Date of Signing Off As per continuous discharge certificate shall be considered as outside India in the case of crew member of foreign going Ship.

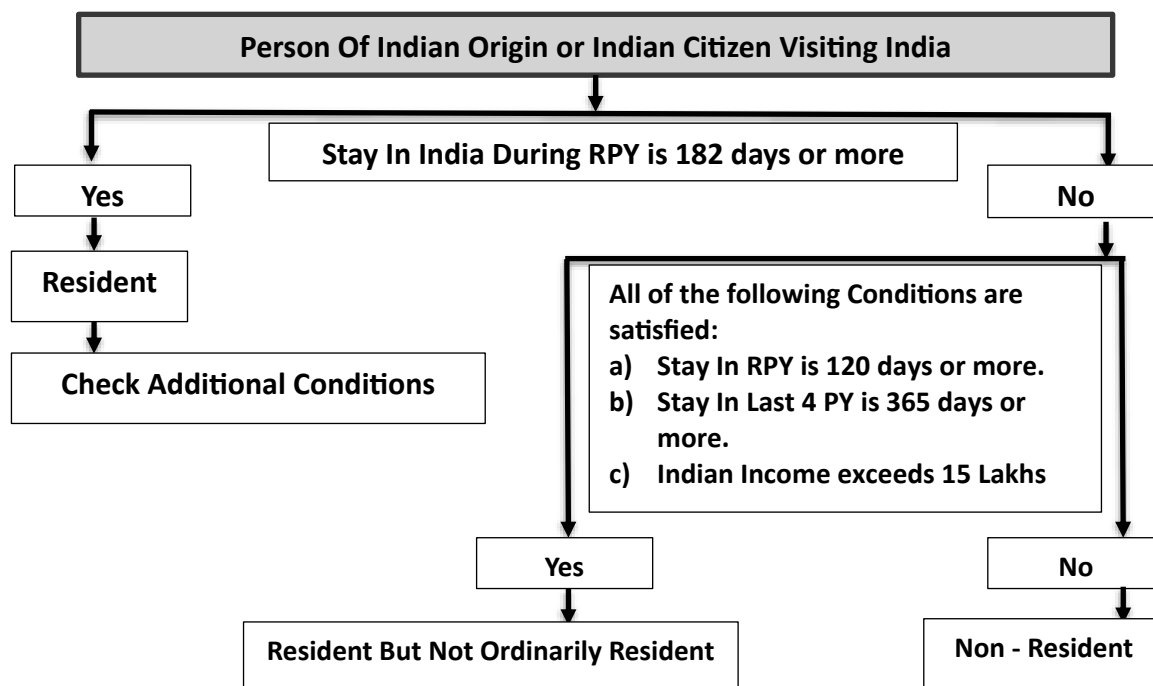
Example 4.

Mr. X (Indian Citizen) is a Crew member of foreign going Indian vessel.

Date of joining 15.7.24
Date of signing off 10.11.24

- Last 4 year stay in India = 400d
- Last 7 year stay in India = 790d
- He was Resident in each of last 5 year.

Determine Residential Status of FY 2024-25



* Indian Income includes Foreign business income whose control is in India or foreign professional income whose setup is in India

Deemed Resident Section 6(1A)

Individual Shall be NOR if all of the following conditions are satisfied:-

- a) Individual is Indian Citizen
- b) Total income excluding income from foreign sources but including foreign business income whose control is in India, exceeds 15 Lakh.
- c) Such person is not paying Tax In any Country due to his domicile, residence or

similar nature

Illustration 1: Determine residential status of Mr. X for the assessment year 2025-26, who stays in India during various financial years as under :

Previous Years	Stay
2024-25	100
2023-24	200
2022-23	91
2021-22	90
2020-21	89
2019-20	87
2018-19	91
2017-18	82
2016-17	90
2015-16	88
2014-15	89
2013-14	86
2012-13	87
2011-12	89
2010-11	90

Illustration 2: Mr.X an American citizen has come to India for the first time on 10.07.2020, as an employee of a multinational company. The particulars of his arrival and departure are as given below:

Date of Arrival	Date of Departure
10.07.2020	07.08.2021
07.10.2022	27.11.2022
01.03.2023	01.02.2024
10.05.2024	30.03.2025

Determine his residential status for previous year 2022-23 to 2024-25

Illustration 3: Mr. X, the Australian cricketer comes to India for 105 days every year. Find out his residential status for the A.Y. 2025-26.

Illustration 4: Mr. X, a Canadian citizen, comes to India for the first time during the P.Y.2020-21. During the financial years 2020-21, 2021-22, 2022-23, 2023-24 & 2024-25 he was in India for 55 days, 60 days, 90 days, 150 days and 70 days respectively. Determine his residential status for the A.Y. 2025-26.

Illustration 5: On 01.06.2022 Mr. X, a Malaysian citizen leaves India after stay of 10 year During the financial year 2023-24 he comes to India for a period of 46 days. Later, he returns to India for one year on 10.10.2024. Determine Mr. X's residential status for the assessment year 2025-26.

Illustration 6: Mr. X, an Indian citizen, leaves India on 22.09.2024 for the first time, to work as an officer of a company in France. Determine his residential status for the A.Y. 2025-26.

Illustration 7: Mr. X and Mrs. X are settled outside India for the purpose of employment and they came to India on 15.10.2024 on a visit for 7 months. Both of them are Indian citizens. In the earlier years they were in India as follows:

Year	Mr. X	Mrs. X
2023-24	235 Days	365 Days
2022-23	330 Days	30 Days
2021-22	Nil	28 Days
2020-21	118 Days	120 Days

Find out the residential status of Mr. X and Mrs. X for the assessment year 2025-26.

Illustration 8: Mr. Anand is an Indian citizen and a member of the crew of a Singapore bound Indian ship engaged in international traffic departing from Chennai port on 6th June, 2024. From the following details for the P.Y.2023-24, determine the residential status of Mr. Anand for A.Y. 2025-26, assuming that his stay in India in the last 4 previous years (preceding P.Y. 2024-25) is 400 days and last seven previous years (preceding P.Y. 2024-25) is 750 days:

Date entered into the Continuous Discharge Certificate in respect of joining the ship by Mr. Anand	6th June, 2024
Date entered into the Continuous Discharge Certificate in respect of signing off the ship by Mr. Anand	9th December, 2024

Illustration 9: Mr. J born in Lahore, Pakistan on 1st July 1943. He took the citizenship of Australia in the year 2000 and since then residing there with Family. He came to India on 10th November 2017 for the first time after 10/8/2000 and since then he is visiting India for 100 days but in the previous year 2024-25 he is present in India for 150 days. Determine his Residential status for the AY 2024-25 from the following information:

Source of Income	Case A	Case B
Indian	10 Lakh	18 Lakh
Foreign	6 Lakh	6 Lakh
Total Income	16 Lakh	24 Lakh

Residential status of HUF Section 6(2)/6(6)(b).

Section 6(2), an HUF would be resident in India if C&M of its affairs is situated wholly or partly in India. Otherwise, Non- resident.

Section 6(6)(b), An HUF is said to be ROR if Karta satisfies both additional conditions, Otherwise NOR

Example 5. R and Sons is a HUF in which Mr. R is Karta
 R and his family resides in Australia since 1.4.2013
 R visit India for 105 days every year to manage affairs of his business in Noida.
 Determine Residential Status of HUF and his Karta Mr. R

Example 6. R & sons is a HUF in which Mr. R is Karta who Resides in Australia since 1.4.2012
 During FY 2024-25, Mr. R visits India for 50 days to manage affairs of business and take some important policy matters.
 R was visiting India for 200 days every ear till last year i.e. FY 2023-24.
 Determine Residential Status of R and sons and Karta R.

Illustration 10: Karta of one Hindu Undivided Family comes to India every year for minimum 60 days and maximum 91 days. Determine residential status of the Hindu Undivided Family and also that of the Karta for the assessment year 2025-26.

Illustration 11: One Hindu Undivided Family is being managed partly from Mumbai and partly from Nepal. Mr. X (a foreign citizen), Karta of Hindu Undivided Family, comes on a visit to India every year since 1982 in month of April for 105 days. Determine residential status of the Hindu Undivided Family and also that of the Karta in his individual capacity for the assessment year 2025-26.

Residential status of partnership firm or BOI or AOP Section 6(2)

Resident if Control & Management is wholly or partially in India, otherwise Non Resident.

Residential Status Of Company Section 6(3)

Indian Company shall Always be a Resident.

Foreign company shall be a Resident if POEM (Place of effective management) is in India

Illustration 12: ABC Inc., a Swedish company headquartered at Stockholm, not having a permanent establishment in India, has set up a liaison office in Mumbai in April, 2021 in compliance with RBI guidelines to look after its day to day business operations in India, spread awareness about the company's products and explore further opportunities. The liaison office takes decisions relating to day to day routine operations and performs support functions that are preparatory and auxiliary in nature. The significant

management and commercial decisions are, however, in substance made by the Board of Directors at Sweden. Determine the residential status of ABC Inc. for A.Y.2025-26.

Illustration 13: Wipro Ltd. an Indian company has most of its business outside India. Determine its residential status.

Illustration 14: Shrine International Ltd. is incorporated in Mauritius and its place of effective management is in Mauritius. Determine its residential status for the assessment year 2025-26.

Scope of Total Income or Tax Incidence [Section 5]

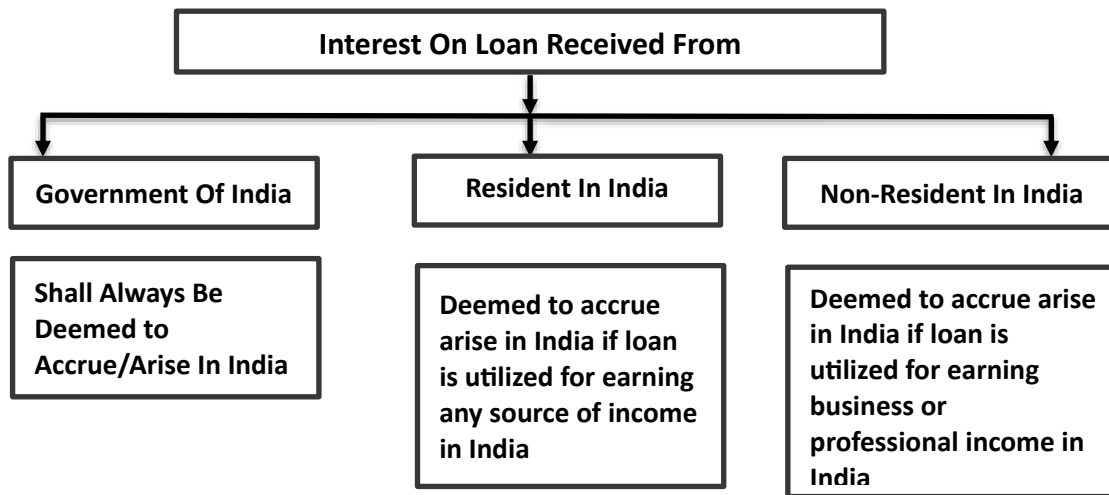
Income Accrue or Arise/Deemed To Accrue or Arise	Income Received/Deemed To Be Received	Income
India	India	Indian
India	Outside India	Indian
Outside India	India	Indian
Outside India	Outside India	Foreign

Income	ROR	NOR	NR
Indian	Taxable	Taxable	Taxable
Foreign	Taxable	Non – Taxable Exception : Following Foreign Incomes are Taxable. 1. Business Income – Business Controlled From India. 2. Professional Income – Profession Set Up in india	Non - Taxable

Income deemed to accrue or arise in India Section 9

1. Any income accruing or arising to an assessee in any place outside India whether directly or indirectly
 - (a) Through or from any business connection in India.
However, Following shall not be considered as business connection in India:
 - Purchase for export.
 - Collection of news in India for transmission outside India.
 - Shooting of film in India by foreign citizen or by a firm who doesn't have any partner who is Indian citizen/resident in India or by a company who doesn't have any shareholder who is a Indian citizen/resident in India.
 - In case of foreign company engaged in the business of mining of diamonds from the activities which are confined to display of uncut and unassorted diamonds in any special zone notified by CG.
 - (b) Through or from any property, any asset or source of income in India or

- (c) Through the transfer of a capital asset situated in India would be deemed to accrue or arise in India.
2. Income, which falls under the head “Salaries”, deemed to accrue or arise in India, if it is earned in India. Salary payable for service rendered in India would be treated as earned in India.
 3. Income from ‘Salaries’ which is payable by the Government to a citizen of India for services rendered outside India would be deemed to accrue or arise in India. However, allowances and perquisites paid or allowed outside India by the Government to an Indian citizen for services rendered outside India is exempt, by virtue of section 10(7).
 4. Dividend paid by Indian company outside india
 5. Interest On Loan



6. Royalty Or fees from technical services

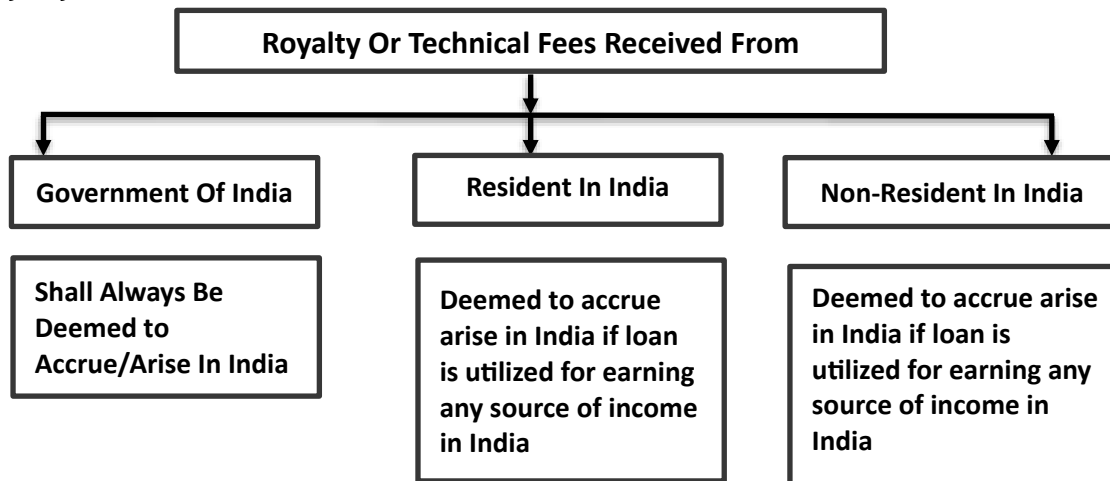


Illustration 15: Mr. X has income as under:

1. He has income from a business in Germany Amounting to ₹ 3,00,000 and half of it was received in India.

2. He has interest income of ₹ 1,00,000 from UK Development Bond and entire interest income was credited to a bank account in UK. Subsequently, the Amount was transferred in India.
 3. He has a business in Bombay and entire income of ₹ 3,00,000 was received in UK.
 4. He has one house property in Ghaziabad and income of ₹ 5,00,000 was received in UK.
 5. He has received salary income of ₹ 5,00,000 (computed) in India and half of the services were rendered in UK and half in India.
- (Presume all the above incomes are computed incomes)
Compute his income presuming that he is NOR, NR and ROR

Illustration 16: Mr. X earns the following income during the financial year 2024-25:
(Presume all the above incomes are computed incomes)

Particulars	Amount (₹)
Income from house property in London, received in India	60,000
Profits from business in Japan and managed from there (received in Japan)	9,00,000
Dividend from foreign company, received in India	30,000
Dividend from Indian company, received in England	50,000
Profits from business in Kenya, controlled from India, Profits received in Kenya	3,00,000
Profits from business in Delhi, managed from Japan	7,00,000
Capital gains on transfer of shares of Indian companies, sold in USA and gains were received there	2,00,000
Pension from former employer in India, received in Japan	50,000
Profits from business in Pakistan, deposited in bank there	20,000
Profit on sale of asset in India but received in London	8,000
Past untaxed profits of UK business of 2018-19 brought into India in 2020-21	90,000
Interest on Government securities accrued in India but received in Paris	80,000
Interest on USA Government securities, received in India	20,000
Salary earned in Bombay, but received in UK	60,000
Income from property in Paris, received there	1,00,000

Determine the gross total income of Mr. X if he is (i) resident and ordinarily resident, resident but not ordinarily resident, non-resident in India during the financial year 2024-25

Illustration 17: Determine the taxability of the following incomes in the hands of a resident and ordinarily resident, resident but not ordinarily resident, and non-resident for the A.Y. 2025-26

Particulars	Amount (₹)
Interest on UK Development Bonds, 50% of interest received in India	10,000
Income from a business in Chennai (50% is received in India)	20,000
Profits on sale of shares of an Indian company received in London	20,000
Dividend from British company received in London	5,000
Profits on sale of plant at Germany 50% of profits are received in India	40,000
Income earned from business in Germany which is controlled from Delhi (₹ 40,000 is received in India)	70,000
Profits from a business in Delhi but managed entirely from London	15,000
Income from property in London deposited in a Indian Bank at London, brought to India	50,000
Interest for debentures in an Indian company received in London	12,000
Fees for technical services rendered in India but received in London	8,000
Profits from a business in Bombay managed from London	26,000
Pension for services rendered in India but received in Burma	4,000
Income from property situated in Pakistan received there	16,000
Past foreign untaxed income brought to India during the previous year	5,000
Income from agricultural land in Nepal received there and then brought to India	18,000
Income from profession in Kenya which was set up in India, received there but spent in India	5,000
Gift received on the occasion of his wedding	20,000
Interest on savings bank deposit in State Bank of India	10,000
Income from a business in Russia, controlled from Russia	20,000
Dividend from Reliance Petroleum Limited, an Indian Company	5,000
Agricultural income from a land in Rajasthan	15,000

Illustration 18: Mr. Sarthak, an individual and Indian citizen living abroad (Dubai), a tax haven, since year 2005 and never came to India for a single day since then, earned the following incomes during previous year 2024-25:

Particulars	Amount
Income accrued and arisen in Dubai not taxable in Dubai (being tax haven)	20,00,000
Income accrued and arisen in India	5,00,000
Income deemed to accrue and arise in India	8,00,000
Income arising in Dubai from a profession set up in India	10,00,000

- Determine the residential status of Mr. Sarthak and taxable income for the previous year 2024-25 (assuming no other income arise during the previous year).
- What would be your answer if income arising in Dubai from a profession set up in India is ₹ 2 lakhs instead of ₹ 10 lakhs?

- c) What would be your answer, if Mr. Sarthak born in Dubai and his parents were born in India?

Illustration 19: Mrs. Shruti is an Indian citizen, is currently in employment with an overseas company located in UAE. During the previous year 2024-25, she comes to India for 157 days. She is in India for 200 days, 100 days, 76 days and 45 days in the financial years 2020-21, 2021-22, 2022-23 and 2023-24, respectively. Her annual income for the previous year 2023-24 is as follows:

Particulars	Amount
Income from salary earned and received in UAE	2,00,000
Income earned and received from a house property situated in UAE	5,00,000
Income deemed to be accrued and arise in India	5,00,000
Income from retail business (accrued and received outside India, controlled from India)	10,00,000
Income accrued and arise in India	3,00,000
Life insurance premium paid by cheque in India	1,50,000

Determine the residential status of Mrs. Shruti for the assessment year 2025-26. (Support your Answer with computation)

Illustration 20: Miss Asha is an Indian citizen. She is a lawyer by profession. She started her consultancy profession in India in 2020 with the name "New way associates". In May 2023, she got married to Mr. Ram, an American citizen. Mr. Ram came to India for the first time on 1st May 2022 when he joined an MNC in India. He got a promotion and was transferred to Dubai. He left for Dubai on 1st October, 2023. Mrs. Asha accompanied him to Dubai. She started providing consultancy there. Both of them came to India for 3 months from June to August in 2024 to spend time with Asha's family. Following incomes were earned by Mr. Ram and Mrs. Asha during the P.Y. 2024-25.

	Income of Mr. Ram	Amount
1	Salary from company in Dubai (not liable to tax in Dubai)	13,00,000
2	Long term capital gain on sale of shares of an Indian company	2,50,000
3	Income from house property in Delhi (computed)	4,60,000
4	Dividend from shares of an Indian company	65,000
	Income of Mrs. Asha	
1	Profit from consultancy profession in Dubai which was set up in India (not liable to tax in Dubai)	12,00,000
2	Profit from consultancy profession in India	3,00,000
3	Long term capital gain on sale of shares of British company, credited to her Dubai bank account	60,000
4	Short term capital loss on sale of listed shares of an Indian co.	(42,000)

Determine the residential status of Mr. Ram and Mrs. Asha and their total income for the A.Y. 2025-26

CHAPTER 3A: INCOME UNDER HEAD SALARIES

Important Concepts Relating To Salaries

- (1) **Employer-employee relationship:** Every payment made by an employer to his employee for service rendered would be chargeable to tax as salaries.
- (2) **Full-time or part-time employment:** It does not matter whether the employee is a full-time employee or a part time one.
- (3) **Foregoing of salary:** Once salary accrues, the subsequent waiver by the employee does not absolve him from liability to income-tax. Such waiver is only an application and hence, chargeable to tax.
- (4) **Surrender of salary:** Exempt while computing his taxable income.
- (5) **Salary paid tax-free:** This, in other words, means that the employer bears the burden of the tax on the salary of the employee. In such a case, the income from salaries in the hands of the employee will consist of his salary income and also the tax on this salary paid by the employer.
- (6) **Place of accrual of salary:** salary earned in India is deemed to accrue or arise in India even if it is paid outside India or it is paid or payable after the contract of employment in India comes to an end.

BASIS OF CHARGE (SECTION 15)

- (i) Section 15 deals with the basis of charge. 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 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.

Example 1: Pay Scale: 20,000 – 500 – 22,000 – 1000 – 26,000 – 1500 – 32,000

Raghav Join A Ltd. on above pay scale @ ₹ 21000 on 1/9/2019

Calculate salary of Raghav for year 2024– 25

Note:- Salary due on last day of same month.

Example 2: Pay Scale: 22,500 – 750 – 25,500 – 1500 – 30,000 – 2000 – 36,000

Mr. Satyam Join A Ltd. on above pay scale @ ₹ 24000 on 1/12/2018

Calculate salary of Raghav for year 2024– 25

(A) Salary due on last day of same month.

(B) Salary due on 1st day of next month.

Example 3: Pay Scale: 35,000– 1000 – 38000 – 1500 – 42500 – 2000 – 48500.

Mr. X join @ ₹35000 on 1/1/2018

Calculate salary for PY 2024 – 25

Assume salary due on 1st day of next month.

ALLOWANCES

1. Fully Taxable Allowances

Servant Allowance	Fixed Medical Allowance	Meal Allowance
Dearness allowance.	City Compensatory Allowance	Overseas allowance
Entertainment allowance	Telephone Allowance	Overtime allowance
Rural allowance	Project allowance (personal research)	High Cost of living Allowance
Holiday Home Allowance	Non-Practising Allowance	Marriage/Family Allowance

2. Fully exempted allowances

Following allowances are fully exempted from tax:

- A. Allowances paid to Supreme Court and High Court Judges.
- B. Any salary or allowance or perquisites paid to the employees of United Nation Organisation.
- C. Section 10(7). Any allowances or perquisites paid or allowed by Government of India to Indian citizen for rendering services outside India.

3. Official Allowances

For The Following Allowances, amount received or actually spent by Employee, whichever is lower shall be exempt from tax under Old Regime

Transfer Allowance	Helper Allowance
Daily Allowance	Conveyance Allowance
Academic Allowance	Research & Development Allowance(R & D)
Uniform Allowance	Travelling Allowance

Note: Under Default Regime exemption is allowed only for Travelling Allowance/Daily Allowance/Conveyance Allowance. Other official allowances are fully taxable.

4. Allowances For Personal Nature

Following Exemption is allowed only under old regime (under default regime no exemption is allowed for personal nature allowances)

- A. Children Education Allowance: exempt upto ₹100 p.m. per child upto two child.
- B. Hostel Allowance: exempt upto ₹300 p.m. per child upto two children.
- C. Transport Allowance: Fully Taxable. However, if granted to an employee, who is blind or orthopaedically handicapped with disability of lower extremities is exempt upto ₹3,200 p.m.
- D. Outstation Allowance: Granted to an employee working in any transport system to meet his personal expenditure. It is exempt to the extent of least of the following:
 - (i) 70% of the allowance received
 - (ii) ₹10,000 p.m.
- E. Underground Allowance: Allowance to the employees who are working in the mines. It is exempt upto ₹800 p.m.
- F. Tribal Area Allowance: exempt upto ₹200 p.m.
- G. Other notified allowances:
 - (i) Compensatory modified field area allowance. upto ₹ 1,000 p.m. is exempt.
 - (ii) Composite field area allowance. upto ₹ 2,600 p.m. is exempt.
 - (iii) Compensatory field area allowance. upto ₹ 2,600 p.m. is exempt.
 - (iv) Island Duty allowance. upto ₹ 3,250 p.m. is exempt.
 - (v) Counter insurgency allowance. upto ₹ 3,900 p.m. is exempt.
 - (vi) Special Compensatory highly active field area allowance. upto ₹4,200 p.m. is exempt.

Example 4. Helper allowance (official Allowance) = ₹ 10,000 pm.

Helper appointed @ ₹ 8000 pm from July 2024 to Month 25

Helper did work as follows:- 70% official help; 30% personal help

Compute Taxable Allowance

Illustration 1: Explain tax treatment following allowances

1. Mr. J is a Govt. employee and he receives entertainment allowance of 5,000 for the entertainment of clients of the Govt. He spend 3,000 p.m. for the entertainment of the clients of the Govt
2. Entertainment Allowance 300 p.m. (30% is used for official purpose)
3. Transport Allowance 3,400 p.m. Expenditure incurred in commuting 1,200 p.m. He is blind
4. Transport Allowance 3,600 p.m. Expenditure incurred in travelling from residence to office & back ₹ 300 p.m. He is dumb and deaf.
5. Transport Allowance 3,000 p.m. No expenditure is incurred. He is orthopaedic handicapped with lower extremities
6. Children Education Allowance for 3 children 120 p.m./each.

7. Children Education Allowance for 3 children 90 p.m./child
8. Special allowance to meet the cost of education and staying 500 p.m. for a child.
9. Hostel allowance for 3 child 400 p.m. per child for 4 months.
10. Children Education Allowance for 3 children 6,000. Actual school fees 3,000.
11. Hostel Allowance for a child 8,000. Actual hostel fees 9,000.
12. Children education allowance for his grandchild 4,000. Actual school fees 300.
13. Research and development allowance 4,000. 1,000 is spend wholly towards official purpose.
14. Meal Allowance 700. Expenditure on meal is 1,000.
15. Helper Allowance 1,500. 900 is spent wholly towards official purpose.
16. Conveyance Allowance 500 p.m. Whole of allowance is saved.
17. Mr. Abhay Jain, is a pilot in Jet Airways, He get a Flight Allowance of 10,000 p.m.
18. Mr. J is working in Delhi Transport Corporation. He gets a driver allowance of 6,000 p.m.
19. X is employed as a guard in railways. He is getting guard allowance of 24,000 p.a. He is not in receipt of daily allowance.
20. Hostel Allowance for 2 children 250 p.m./child. (actual expenditure incurred is 150 p.m./child).
21. Hostel Allowance for 4 children 320 p.m./each.
22. High cost of living allowance @ 50,000.
23. Tribal area allowance in Madhya Pradesh 300 p.m.
24. Daily allowance 6,000.
25. Medical allowance 800 p.m.
26. X is employed as a caretaker in a transport company at Chennai. he gets transport duty allowance 3,600 p.m.
27. Bonus disputed in court.
28. Clothing Allowance.
29. He has received fixed allowance of 2,500 p.m. for medical treatment for the entire family had incurred an expenditure of 12,500 actually.
30. Children education allowance • First child 70 p.m. • Second child 90 p.m. • Third child 4,800
31. Overseas allowance, Physically fit allowance.
32. Medical allowance 2,000 p.m. received by an employee, the entire Amount of which has been spent by him for medical treatment.
33. Hostel allowance for 3 children 3,500 each.

Illustration 2: Mr. J posted at Hyderabad draws the following emoluments from F Ltd. Basic Salary 6,000 p.m. Bonus 2,000 p.m. Commission 8,000 p.a. CCA 1,000 p.m. Telephone allowance 200 p.m. Medical Allowance 300 p.m. Entertainment allowance 4,800 (6,000 spend on entertainment of clients of companies). Academic allowance 16,000 (9,000 spend on his education). Conveyance allowance 6,000 (7,000 is spend on conveyance for official purpose). Travelling allowance 18,000 (17,000 is spend on conveyance for official purpose). Transport allowance 1,700 p.m. (Expenses incurred on commuting between residence to

office and back 2,500 p.m.) Children education allowance for 4 child 160 p.m. per child. Hostel allowance for 3 child 280 per month per child (expenditure incurred on child education and their hostel 1,100 per month per child). Compute Gross Salaries

5. Section 10(13A) & Rule 2a. House Rent Allowance

- Exemption is allowed only under old regime (under default regime no exemption is allowed for HRA)
- House rent allowance is exempt to the extent of the least of the following:
 - (i) (Rent Paid – 10% of salary)
 - (ii) 50% of retirement benefit salary in case of Mumbai, Kolkata, Chennai or Delhi.
Or
40% of retirement benefit salary in case of any other place.
 - (iii) House rent allowance received

Meaning of Salary for HRA (also known as Retirement Benefit salary)

Basic Salary + DA (RB) + Commission (% of TO)

Note: If There Is Change In HRA, Salary, Rent Paid and Location of Accommodation, then Exemption shall be computed separately for each such Change.

Example 5. HRA Received = 10,000 pm
Rent paid = ₹ 15000 pm in Kanpur
Retirement Benefit Salary = ₹ 7,50,000
Calculate HRA taxable under old regime.

Example 6. Suppose in above Ques, Assesses opted default regime
Calculate HRA Taxable

Illustration 3: Mr. J is employed in F Ltd. getting basic pay 20,000 p.m., dearness allowance 7,000 p.m. and half of the dearness allowance forms the part of salary for the purpose of retirement benefits. The employer has paid bonus @ 500 p.m., commission @ 1% on the sales turnover of 20 lakhs. The employer paid him house rent allowance 6,000 p.m. Employee has paid rent 7,000 p.m. and was posted at Agra. Compute Taxable HRA.

Illustration 4: Compute Gross Salary: Basic Salary 5,000 p.m. Dearness allowance (70% forms part of salary) 500 p.m. Commission 1% p.a. based on sales. Sales achieved by the employee 24 lakhs p.a. House rent allowance 4,000 p.m. Rent paid at Gurgaon 5,000 p.m.

Illustration 5: Mr. J 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 01.01.2025. He also got an increment of 1,000 p.m. in his basic salary with effect from 01.02.2025. Rent paid by him during the previous year 2024-25 is as under: April and May, 2024 - Nil, as he stayed with his parents.

June to October, 2024 - 6,000 p.m. for an accommodation in Ghaziabad. November, 2024 to March, 2025 - 8,000 p.m. for an accommodation in Delhi. Compute the gross salary for Assessment Year 2025-26.

Illustration 6: Mr. J is employed in Central Government getting basic pay 18,000 p.m., dearness allowance 6,000 p.m. Employer has paid children education allowance 700 p.m. per child w.e.f. 01.09.2024 and hostel allowance of 1,000 p.m. for one child w.e.f. 01.10.2024. Employer has paid transport allowance 1,700 p.m. w.e.f. 01.11.2024. Employer has paid house rent allowance 5,000 p.m. w.e.f. 01.01.2025. The employee has resigned from 01.02.2025 and has taken up a new job w.e.f. 01.03.2025. He is getting basic pay 27,000 p.m. and house rent allowance 4,000 p.m. Compute his Gross Salary

DEDUCTION U/S 16

- A. Standard Deduction [Section 16(ia)] - Allowed under Both Regimes**
 A deduction of 50,000 or the amount of the gross salary, whichever is less is allowed in case of old regime.
 However, Deduction of 75,000 or the amount of gross salary, whichever is less is allowed in case of default regime
- B. Entertainment Allowance [Section 16(ii)] - Allowed only under Old Regime**
 Deduction shall be allowed only in case of government employees to the extent of the least of the following:
- (i) 20% of basic salary
 - (ii) ₹ 5,000
 - (iii) The actual allowance received by the employee
- C. Professional Tax [Section 16(iii)] - Allowed only under Old Regime**
- Employee will be allowed to claim deduction Of professional tax paid by him
 - If the amount has been paid by the employer on behalf of the employee, it will be first included in gross salary and subsequently deduction is allowed
 - If the amount is due but not paid, deduction is not allowed.

Illustration 7: Mr. J is employed in central Government getting basic pay 30,000 p.m., dearness allowance 7,000 p.m., servant allowance 2,000 p.m., entertainment allowance 1,000 p.m., city compensatory allowance 600 p.m. In this case taxable salary of Mr. J shall be?

Illustration 8: Mr. J is employed in Central Government getting basic pay 14,000 p.m., dearness allowance 5,000 p.m., House rent allowance 4,000 p.m. w.e.f. 01.07.2024. However, employee is residing in the house of his parents. Employer has paid cash allowance 300 p.m., medical allowance 250 p.m. and entertainment allowance 400 p.m. Employer has paid professional tax 75 p.m. on behalf of the employee. Employee has saved 35 p.m. out of entertainment allowance. Compute employee's income under the head

Salary. What will be your answer if professional tax is paid by Employee.

RETIREMENT BENEFITS

1. Gratuity

- Gratuity Received During Employment Is Fully Taxable
- Gratuity Received at the time of retirement is to be treated as follows:

Employee	Exemption u/s 10(10) [Allowed under Both Regime]
Government	Fully Exempt
Other EE covered under POGA	Least Of Following is Exempt: a) ₹ 20 Lakh b) Gratuity Received c) $15/26 \times \text{Last Drawn Salary} \times \text{CY}$ Note: 1. CY = Completed year or partthereof in excess of 6m 2. Last Drawn Salary = Basic + DA
Other EE Not covered under POGA	Least Of Following is Exempt: a) ₹ 20 Lakh b) Gratuity Received c) $1/2 \times \text{Avg Salary} \times \text{CY}$ Note: 1. CY = Completed year 2. Salary = Basic + DA(RS) +Comm(%) 3. Avg Salary= 10 m Avg Salary Immediately Preceeding "month" of Retirement

Illustration 9: Mr. J retired on 1.06.2024 after completion of 26 years 8 months of service and received gratuity of 6,00,000. At the time of retirement his salary was:

- Basic Salary: 5,000 p.m.
- Dearness Allowance: 3,000 p.m. (60% of which is for retirement benefits)
- Commission: 1% of turnover (turnover in the last 12 months was 12,00,000)
- Bonus: 12,000 p.a.

Compute his taxable gratuity assuming:

- He is non-government employee and covered by the Payment of Gratuity Act 1972.
- He is non-government employee and not covered by Payment of Gratuity Act 1972.
- He is a Government employee.

Illustration 10: Mr. J was employed in F Ltd. getting basic pay 18,000 p.m. but it was increased to 24,000 p.m. w.e.f. 01-07-2024, dearness allowance 6,000 p.m. but it was increased to 9,000 p.m. w.e.f. 01-07-2024 (50% of DA forms part of salary). The employee was retired on 1.01.2025 after serving the employer for 20 years and 10 months. The employer has paid him gratuity of 9,10,000 and the employee was covered

under Payment of Gratuity Act, 1972. Compute GTI

(b) Presume Mr. J is not covered in Payment of Gratuity Act 1972

2. Pension

a) Uncommuted Pension – Fully Taxable

b) Commuted Pension

Received By	Exemption u/s 10(10A) [Allowed under Both Regime]
Govt. EE	Fully Exempt
Non Govt.EE	<u>Gratuity Received: 1/3 of Total Pension Is Exempt</u> <u>Gratuity Not Received: 1/2 of Total Pension Is Exempt</u>

Total Pension = [Commuted Pension ÷ Commutation %]

Example 7. Mr. X retired & Received ₹ 3,60,000 as commuted pension for 60 % of pension

Calculate Taxable pension

(a) Mr. X is Govt Employee

(b) Mr. X is Non-Govt Employee & also Received Gratuity

(c) Mr. X is Non – Govt Employee but no Gratuity has been received

Example 8. Mr. X Retired on 1/10/24 after serving employer for 26 years & 10 month.

He receives pension of ₹ 15000 p.m. w.e.f October 2024

On 1/2/25, He commuted 20% of his pension & Received 2,00,000

Calculate Taxable pension for PY 24-25

(a) Mr. X is Govt Employee

(b) Mr. X is Non-Govt Employee & also Received Gratuity

(c) Mr. X is Non – Govt Employee but no Gratuity has been received

Illustration 11: Mr. J is employed in F Ltd. getting basic pay 22,000 p.m., dearness allowance 5,000 p.m. He was retired on 1.12.2024. The employer has allowed him pension of 9,000 p.m. and the employee has requested for commutation of 52% of his pension. The employer has allowed him such commutation on 01.02.2025 and has paid 5,61,600. The employer has paid him gratuity of 6,95,000 and employee has completed service of 20 years and 11 months. Compute GTI.

Illustration 12: Mr. J retired w.e.f 01.10.2024 receiving 5,000 p.m. as pension. On 01.02.2025, he commuted 60% of his pension and received 3,00,000 as commuted pension. You are required to compute his taxable pension assuming:

1. He is a government employee.
2. He is a non-government employee, receiving gratuity of 5,00,000 at the time of retirement.
3. He is a non-government employee and is in receipt of no gratuity at the time of retirement

3. Leave Encashment (Exemption u/s 10(10AA)) - [Allowed under Both Regime]

Least Of Following Is Exempt:

- Leave Encashment Received
- ₹ 25,00,000
- 10 m x Average Salary
- Leave @ credit (in months) x Average Salary

Note:

(i) Leave @ Credit (In Months)

Leaves Available For Completed Year (Max = 30 leaves per Year)	xx
(-) Leaves Availed During Employment	xx
(-) Leaves Encashed During Employment	xx
Leaves @ credit (in days)	Xx
	÷ 30 days
Leaves @ credit (in months)	xx

(ii) Salary = Basic + DA(RB) + Commission (% of TO)

(iii) Avg Salary = 10 m Avg Salary Immediately Preceding "Day" of Retirement.

(iv) Leave Encashed During Employment Is Fully Taxable

Example 9. Mr. X has provided service for 27 years & 11 month.

Employer Granted 35 days leave for every year.

Employee availed 150 days leave during Employment

Employee encashed 50 days leave during Employment

Calculate leave at credit

Example 10. Suppose Employer Grant 25 days leave every year in above eg.

Example 11. Un-availed leaves as per Employer records = 475 days

Employer grant 32 days leave every year

Service period of Employee = 30 years & 10 Months

Calculate leave at credit

Example 12. Un-availed leaves as per Employer records = 475 days

Employer grant 28 days leave every year

Service period of Employee = 30 years & 10 Months

Calculate leave at credit

Example 13. Leave Encashment Received = 6,00,000

Available Leaves = 32 days/year

Un-availed leave as per Employer = 420 d.

Service period = 26 years & 11 Month.

Basic Salary = 50,000 w.e.f 1/7/24 before that it was ₹ 40,000

Dearness Allowance = 100% of Basic Salary (60% forms part of Retirement Benefit)

Retirement Date = 1/12/24

Calculate Taxable leave Encashment

Illustration 13: Mr. J is retired from F Ltd. on 1.11.2024 after serving the employer for 20 years and 10 months. The employer has paid him leave salary of 5,00,000. The employee was entitled for 2 month leave per year of service. During entire service, he has availed 6 month leave and has encashed 7 month leave. The employee was getting basic pay 27,000 p.m. but it was increased to 33,000 p.m. w.e.f. 01-07-2024. He was getting DA 9,000 per month but it was increased to 12,000 per month w.e.f. 01-07-2024. 50% of DA forms part of salary. Compute his GTI

Illustration 14: Mr. J is retired from F Ltd. w.e.f. 01.12.2024 after serving the employer for 20 years and 10 months. The employer has paid him leave salary of 3,75,000. The employee was entitled for 20 days leave per year of service. During entire service, he has availed 35 days of leave and has encashed 10 days of leave. The employee was getting basic pay 27,000 p.m. but it was increased to 30,000 p.m. w.e.f. 01-07-2024. The employer has allowed him pension of 6,000 p.m. and employee was allowed commutation of 1/3rd of his pension on 01.03.2025 Amounting to 2,40,000. Compute his GTI.

Illustration 15: Mr. J retired w.e.f 01.12.2024 after 20 years 10 months of service, receiving leave salary of 5,00,000. Other details of his salary income are:

- Basic Salary: 5,000 p.m. (1,000 was increased w.e.f. 01.04.2024)
- Dearness Allowance: 3,000 p.m. (60% of which is for retirement benefits)
- Commission: 500 p.m.
Bonus: 1,000 p.m.
- Leave availed during service: 480 days.

He was entitled to 30 days leave every year. You are required to compute his taxable leave salary assuming: (a) He is a government employee. (b) He is a non government employee

4. Retrenchment Compensation S. 10(10B) - [Allowed under Both Regime]

Least of the following is exempt:

- a) Compensation actually received
- b) ₹ 5,00,000
- c) $15/26 \times$ Completed years of service and part thereof in excess of 6 months.

Illustration 16: Mr. J received retrenchment compensation of 10,00,000 after 30 years 4 months of service. At the time of retrenchment, he was receiving basic salary of 20,000 p.m.; dearness allowance of 5,000 p.m. Compute his taxable retrenchment compensation

5. Voluntary Retirement Compensation S. 10(10C) - [Allowed under Both Regime]

Least of the following is exempt:

- (i) Compensation received

- (ii) ₹ 5,00,000
- (iii) 3 months' salary x completed years of service
- (iv) Last drawn salary x remaining months of services left

Illustration 17: Mr. J has taken voluntary retirement after completion of 18 years of service and at that time remaining service was 7 years and employer paid 6,00,000 on voluntary retirement and his retirement benefit salary at the time of voluntary retirement was 5,000 p.m., in this case taxable Amount shall be?

Illustration 18: Mr. J 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.

6. Provident Fund - [Allowed under Both Regime]

Particulars	SPF	RPF	URPF	PPF
ER Contribution	EXEMPT	Exempt Upto 12% of RBS	Taxable at the time of withdrawal	Not Applicable
EE Contribution	Deduction u/s 80C	Deduction u/s 80C	No Deduction allowed u/s 80C	Deduction u/s 80C
Interest Credited	EXEMPT (See Note 3)	Exempt Upto 9.5% (See Note 3)	Taxable at the time of withdrawal	EXEMPT (See Note 3)
Withdrawal	EXEMPT	EXEMPT (See Note 1)	See Note 2	EXEMPT

Note

1. Exempt, If any of the following condition satisfied:
 - a) 5 years of continuous service with same employer
 - b) retires before rendering 5 years of service because of ill health, contraction or discontinuance of employer's business or reason beyond the control of the employee
 - c) on cessation of employment with existing ER, accumulated balance in RPF is transferred to new employer or transferred to his NPS account referred to in section 80CCD

2. Withdrawal from URPF shall be treated as follows:

ER Contribution	EE Contribution	Int On EE Cont.	Int On ER Cont.
Taxable u/h salary	Exempt	Taxable u/h Other Source	Taxable u/h Salary

3. Int on EE's Contribution towards SPF/RPF

- a) Exemption u/s 10(11) and 10(12) not available for interest accrued during the PY to the extent it relates to the contribution made by EE exceeding ₹ 2,50,000 in any PY on or after 1/4/2021.
- b) However if ER do not contribute in that fund then exemption in respect of interest is allowed upto ₹ 5,00,000 instead of ₹ 2,50,000.

Example 14.

Basic Salary = 1,00,000

Dearness Allowance = 100% Basic Salary (70% forms Part of Retirement Benefit)

Both employer and employee contributes 20% each of Basic Salary to RPF

Interest credited to RPF (15%) is ₹ 18500

Show Tax implication

TAXABILITY OF PERQUISITES

1. Rent Free or Concessional accommodation Section 17(2)(i) Rule 3(1)

	Particulars	Amount
Step 1	Value of Accommodation	
	Case 1: Accommodation Is owned by Employer	
	Specified % of Salary (See Note 1)	XX
	Case 2: Accommodation Is Taken on Rent by Employer	
	Rent Paid by the ER or 10% of Salary – whichever is lower.	XX
	Case 3: Government Employees (Central or State Government)	
	Licence Fee determined by the Government	XX
Step 2	Add: 10% p.a of Cost of Asset (If Asset is owned by ER)	XX
Step 3	Add: Hire Charges paid by the ER (Asset taken on rent by ER)	XX
Step 4	Less: Amount Recovered From EE	XX

Note 1

Population	% Of Salary
Exceeds 40 Lakhs	10%
Exceeds 15 Lakhs but upto 40 Lakhs	7.5%
Upto 15 Lakhs	5%

- a) Meaning of Salary Rent free accommodation salary shall include:
- (i) Basic pay
 - (ii) Dearness Allowance/Dearness Pay. If it forms part of salary for retirement benefits as per service agreement.
 - (iii) Taxable portion of all allowances.
 - (iv) Bonus/Commission/Fees etc.
 - (v) Leave salary (when the employee is in employment)

It will not include

- (i) Taxable portion of perquisites whether monetary or non-monetary
- (ii) Taxable portion of provident fund
- (iii) Any payment after retirement like gratuity/commuted pension or provident fund etc.
- (iv) Arrear of salary or advance salary

Note: Salary only for the period for which rent free accommodation is provided shall be taken into consideration

Accommodation provided at two places

If any employee has been transferred and employer has provided him accommodation at the new place also, in such cases only one of the accommodation shall be taxable having lower perquisite value but only for a period of 90 days (three months) and thereafter both of the accommodations shall be taxable

Accommodation provided in a hotel

Perquisite value shall be 24% of salary or actual expenditure incurred whichever is less.

However, Perquisite shall not be taxable if both of the following conditions are satisfied:

1. Hotel accommodation is for a period not exceeding in aggregate 15 days
2. Employee has been transferred from one place to another

Illustration 19: Mr. J employed in F Ltd. and getting basic pay 20,000 p.m., dearness allowance 10,000 p.m. and 50% of DA forms part of salary. Employer has paid bonus 1,000 p.m. commission 2,000 p.m. children education allowance 150 p.m. per child for 3 children and hostel allowance 500 p.m. for one child and entertainment allowance 500 p.m., transport allowance 1,800 p.m. Employer has paid professional tax 200 p.m. on behalf of the employee. Employer has provided him club facility and has paid membership fee 1,000 p.m. Employer has provided him rent free accommodation for which rent paid by employer is 11,000 p.m. Compute his income and tax liability.

Illustration 20: Mr. J is employed in Central Government getting basic pay 73,000 p.m. Employer has provided him rent free accommodation and the rent determined as per Government rules is 6,000 p.m. The employer has provided him furniture with actual cost 1,00,000 and written down value 65,000. The employer has provided one air-conditioner also during April and May' 2024. Rent paid by the employer for the air-conditioner is 1,000 p.m. Compute GT.

Illustration 21: Mr. J is employed in F Ltd. getting basic pay 37,000 p.m., dearness allowance 32,000 p.m. The employer has provided him rent free accommodation at a place with population of 13 lakhs and the rent paid by the employer is 10,000 p.m. The employer has provided him furniture with original cost 1,50,000. However, the employer has

discontinued the facility of rent free accommodation and furniture both w.e.f. 1st March, 2025. He has paid him house rent allowance 7,000 p.m. The employee has shifted in his own house w.e.f. 01.03.2025. Compute GTI (b) Presume in the above illustration the accommodation is owned by the employer.

FRINGE BENEFITS UNDER SECTION 17(2)(viii)

1. Interest free or concessional loans Rule 3(7)(i)

Perquisite = Sum of Monthly Outstanding balance x (SBI Rate – ER Rate) x 1/12

Exception: No perquisite shall be computed in following cases:

- a) where aggregate amount of all such loan during a particular year is upto ₹20,000
- b) If employer has given loan for treatment of specified disease given under rule 3A, there is no perquisite value

Example 15.

Housing loan from employer = 50,00,000 @ 4% interest p.a.

interest rate of SBI as on 1st day of PY = 10%

Calculate the value of Perquisite

Example 16. Suppose in above question, Employer provided interest free loan.

Example 17.

Employee has taken car loan of ₹ 7,50,000 from Employer on 15/08/2024.

Employee Repays 25,000 every month on last day of each month.

Employer charged 2% Interest p.a. & SBI interest rate on 1/4/24 is 8%.

Calculate Preq. Value for AY 2025-26

Illustration 22: Mr. J is employed in F Ltd. and he has taken a loan of 10 lakh from employer on 20.04.2024 at a rate of 4% p.a. but SBI rate is 10% p.a. and loan was repaid in monthly installment of 2 lakh each starting from 10.07.2024, in this case, taxable Amount shall be?

Illustration 23: Mr. J is employed in F Ltd. and he has taken interest free loan of 3,00,000 on 10.07.2024 for purchasing a new motor car in Delhi and the loan is to be repaid in monthly instalments of 10,000 and repayment shall start with effect from 21.09.2024, in this case perquisite value for the loan shall be computed in the manner given below (Presume SBI Rate 10%)

Illustration 24: Mr. J is employed in F Ltd. and he has taken interest free loan of 13,000 on 10.07.2024 for personal purpose and the loan is to be repaid in monthly instalments of 1,300 and repayment shall start with effect from 21.09.2024, in this case, taxable Amount shall be?

2. Free food or refreshment Rule 3(7)(iii)
- Free refreshments Tea or Non-Alcoholic Beverages/Snacks during working hours are Exempt.
 - Free meals taxable as follows:
Perquisite = (Cost of Meal – Amount Recovered).
However, perquisite upto ₹ 50 per meal is exempt [If Assessee Opts Out From Default Regime].

Example 18.

Employer Provides 200 meals to Employee Raj

Cost of each meal = ₹ 210

Amount Recovered from Raj = ₹ 75/Meal

Calculate Perquisite value under both regimes

3. Facility of travelling, touring, accommodation (holiday home) etc. Rule 3(7)(ii)
- Perquisite value shall be actual expenditure incurred by the employer, reduced by the amount recovered from the employee
 - If the employee is on official tour and any member of his household has accompanied him, perquisite value is amount spent on Family Member
 - If official tour was extended for personal purpose, expenditure for the extended part of the tour shall be taxable.

Example 19.

X Ltd. (Employee) has got holiday facility to Singapore (4 days and 3 nights)

Facility is not maintained by Employer

X Ltd. spent ₹ 4,50,000 on such Tour of Employee & Recover ₹ 1,80,000 from Employee.

4. Gifts to the employees Rule 3(7)(iv)
- Cash Gift = Fully Taxable
 - Kind Gift = Exempt Upto Rs 5000 p.a.
5. Credit card facility Rule 3(7)(v)
Perquisite Value = Amount spent for personal use of employee.
6. Club facilities Rule 3(7)(vi)
Perquisite Value = Amount spent for personal use of employee.

7. Use of employer's assets by the employees Rule 3(7)(vii)

Asset	Perquisite
Laptop/Computer	NIL
Other	10% p.a. of actual cost of such asset (or hire charges paid by ER) Less: amount recovered from EE

Illustration 25: Mr. J, finance manager of KLM Ltd. Mumbai, furnishes the following particulars for the financial year 2023-24:

- (1) Salary 46,000 per month
- (2) Rent free accommodation owned by the company
- (3) Housing loan of 6,00,000 at the interest rate of 5% p.a. (No repayment made during the year, but the loan is repayable in tenth year) (Presume SBI Rate 10.5% p.a.)
- (4) Gifts made by the company in kind on the occasion of wedding anniversary of Mr. J 4,750
- (5) A wooden table and 4 chairs were provided to Mr. J at his residence. These were purchased on 01.05.2021 for 60,000 and put to use on 01.06.2021 and sold to Mr. J on 01.08.2024 for 30,000
- (6) Personal purchases through credit card provided by the
- (7) company Amounting to 10,000 was paid by the company. No part of the Amount was recovered from Mr. J.
- (8) An ambassador car which was purchased by the company on 16.07.2021 for 2,50,000 and put to use on the same date. It was sold to the assessee on 14.07.2024 for 80,000. Compute the Total Income of Mr. J.

8. Amount or the aggregate of amounts of any contribution made to the account of the assessee by employer in a recognised provident fund/NPS/approved superannuation fund [Section 17(2)(vii)]

The amount or aggregate of amounts of any contribution made

- a) in a recognised provident fund
- b) in NPS referred to in section 80CCD(1)
- c) in an approved superannuation fund

by the employer to the account of the assessee, to the extent it exceeds ₹ 7,50,000 shall be considered as perquisites

9. Annual accretion to the balance at the credit of the recognised provident fund/NPS/approved superannuation fund which relates to the employer's contribution and included in total income

$$TP = (PC/2)*R + (PC_1 + TP_1)*R$$

Where,

TP = Taxable Perquisite

PC = Amt or agg. of amt of ER's contribution in excess of ₹ 7.5 lakh

PC₁ = Amt or agg. of amt of ER's contribution in excess of ₹ 7.5 lakh for earlier years

TP₁ = Agg. of taxable perquisite under section 17(2)(vii) for earlier year

R = I/Favg.

Illustration 26: Mr. X is appointed as a CFO of ABC Ltd. in Mumbai from 1.9.2022. 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 1.4.2023, 31.3.2024 and 31.3.2025 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. 2024-25 and A.Y.. 2025-26. Prior to 1.9.2022, he was a consultant, whose professional fees was taxable under the head “Profits and gains of business or profession”.

10. Any other benefit Rule 3(7)(ix)

Perquisite = Cost to the employer – Amount Recovered

Note: If the employer has provided telephone facility including the mobile phone, it will be exempt. However if any telephone allowance has been received, then it shall be fully taxable.

11. Sale Of Movable Asset

Particulars	Amount	Asset	Depreciation
Cost of Asset	-	Computer & Peripherals	50 % WDV
(-) Depreciation	-	Motor Vehicle	20% WDV
(-) Amount Recovered From EE	-	Other Asset	10% SLM
Taxable Value	-		

Note: Depreciation in all cases is charged For Complete Year.

Example 20. Employer sold “Computer” to Employee on 16/7/24 for ₹ 15000

Employer purchased Computer for ₹ 1,20,000 on 18/7/21

Calculate Perquisite value

Example 21. Employer sold car to Employee for ₹ 75000 on 1/12/24

Car purchased by Employer for ₹ 4,00,000 15/5/2020

Employer changed Depreciation on car @15% WDV

Calculate Perquisite value

Example 22. Employer Purchased Music system for ₹ 55000 on 15/8/2020

Since then, Employee uses Music system for personal use.

On 1/8/2024 Employer sold Music system to Employee for ₹ 15000.

Calculate Taxable Perquisite value

12. Medical Facility

A. In India

Expenses Incurred/Facility Provided By ER	Treatment
In ER Hospital	Exempt
In Govt. Hospital	Exempt
In Approved hospital For Specified Disease	Exempt
Health Insurance Premium of EE & Family Member	Exempt
Any other	Taxable

B. Outside India

Expenses Incurred by ER	Treatment
Stay Abroad	Exempt upto Permitted By RBI
Treatment Abroad	Exempt upto Permitted By RBI
Travel Abroad	
a) GTI > 2L	Fully Taxable
b) GTI ≤ 2L	Fully Exempt

Note:

- Exemption is allowed for medical treatment of EE, Spouse, Children, Dependent family member (Parents, Brother & Sister)
- Exemption of stay and travel abroad is for patient and one attendant only.
- Exemption is allowed for COVID-19 treatment subject to conditions notified by CG.

Example 23.

Treatment of depended brother has done in Govt hospital in ₹ 15000
₹ 15000 is paid by Employer & then received reimbursement from Employer

Example 24.

Medical treatment of depended sister Rs. 25,000 paid by Employer
Employee Received Reimbursement 20,000.

Illustration 27: Compute the taxable value of the perquisite in respect of medical facilities received by Mr. G from his employer during the P.Y. 2024-25:

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

13. Leave Travel Concession [Section 10(5) Rule 2B] - [Allowed Only under OLD Regime]

Journey Performed By	Maximum Exemption
Air	Economy Fare
Other Than Air	1st Class AC Fare Of Railway
Places Not connected By Rail	
a) Recognised Transport System (RTS) Exist	Deluxe or First Class Fare of RTS
b) No Recognised Transport System (RTS)	1st Class AC Fare Of Railways on the

Exist	basis of KM Travelled
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Notes:

1. **Ceiling on number of journeys:** The exemption shall be available to an individual two times in each block of four calendar year (current block is 2022-25).
2. **Family”, shall include—**
 - A. the spouse and children however exemption shall be allowed maximum 2 children but in case of multiple birth after the birth of one child, exemption is allowed for all the children
 - B. wholly or mainly dependent parents, brothers and sisters

Illustration 28: Mr. J went on a holiday on 15.11.2024 to Delhi with his wife and three children (one son – age 5 years; twin daughters – age 2 years). They went by flight (economy class) and the total cost of tickets reimbursed by his employer was 60,000 (45,000 for adults and 15,000 for the three minor children). Compute the Amount of LTC exemption.

Illustration 29: In the above illustration, will there be any difference if among his three children the twins were 5 years old and the son 3 years old? Discuss.

Illustration 30: Mr. X, an employee of XYZ Ltd., submits the following information
 Salary: 2,56,000 , City compensatory allowance 8,000 , Bonus 10,200 , Education allowance 4,000 (for her grand children) , Income tax penalty paid by the employer 2,000 , Leave travel concession 1,000 (expenditure incurred by the employee nil) , Free residential telephone 4,000 , Free refreshment during office hours 4,000 , reimbursement of electricity bill by the employer 1,060 , reimbursement of gas bills 1,000 , Professional tax paid by the employer 300 on behalf of MR.X , Professional tax paid by MR.X 150. Determine the Total Income.

PERQUISITES ARE TAXABLE ONLY IN THE HANDS OF SPECIFIED EMPLOYEES

1. Gardener/watchman/sweeper or any other servant
 Perquisite = Amount Spent By ER less Amount Recovered from EE
2. Transport Facilities
 - a) ER business is carriage of goods or passengers
 - b) Perq. Shall be Fair Market Value as reduced by Amount Recovered From EE

Example 25.

XYZ passenger transports (Employer) Run Buses on different Routes in India
 Employee has availed Transport facility

Journey	Ticket	Employee
Kanpur – Delhi = 15 Journey	800	500
Delhi – Kanpur = 15 Journey	750	500

3. Education facility

Nature Of Expenditure	Perquisite
Training of Employees	Not Taxable
Education to Family Member	Fully Taxable
Education to Children of Employees	
a) school maintained by the ER or the school sponsored by the ER	Cost of education IN similar locality/institution as reduced by amount recovered from EE
b) Other Schools	Cost to the Employer as reduced by amount recovered from EE

Note: If the Cost of Education per Child does not exceed ₹ 1,000 p.m. then such benefit is Not Taxable, otherwise fully taxable.

Example 26. Mr. X Employed with A Ltd. And Employer provided following education facilities to Employee & his family member.

- 5 days training of Mr. X on Income Tax Amendments come into force w.e.f ₹ 1/11/24 – 15000/-
- Re-imbursed ₹ 7000/- coaching fees of his younger son.
- Daughter of Mr. X studied in Institute owned by A Lld.
- Cost of education in similar institute = ₹ 50,000
- Amount recovered from Employee = 35000.

Calculate taxable Perquisite

Illustration 31:

Mr. J is employed in F Ltd. and is a specified employee. Compute perquisite value of educational facilities in the following situations:

- The employer has deputed him on one day seminar on Industrial Finance and Corporate Taxation and has paid participation fees of 3,000.
- The employer has made arrangements for the education of his three children's in his own school and has incurred 1,500 per month per child and has recovered 300 per month per child from the employee.
- If the employee himself has made arrangements of the education of his three children in a public school and the employer has reimbursed 1,500 per month per child.

4. Service of Sweeper, Gardener or Watchman or Personal Attendant

Perquisite = Amount Spent By ER less Amount Recovered from EE

5. Gas/Electricity or Water Facility

Particulars	Perquisite
ER has his own business	Manufacturing cost to the employer
Sourced From Third Party	Amount Paid To Third Party

Amount recovered from EE Shall be Deducted

6. Sweat Equity Share/ESOP

- a) Perquisite = FMV on Exercise Date – Amount Paid by Employee
 b) FMV should be taken on the date on which option is exercised by the EE.

Example 27.

Employee received 1,000 shares from Employer

Fair Market Value on exercise date = ₹ 500/-

Amount recovered from Employee = ₹ 270/-

7. Payments Of Life Insurance Premium By The Employer

Premium so paid shall be taxable. However premium paid for personal accident policy or for staff group insurance scheme shall be exempt.

8. Motor car facility

Valuation of Motor Car facility			
Car Owned By ER And Used By EE			
Purpose	Expenses Met By	Perquisite Value	
Partly Official And Partly Personal (Amount Recovered From Ee Is Ignored)	Employer	Small Car- 1800 Pm	For Driver - 900 Pm
		Big Car- 2400 Pm	
Partly Official And Partly Personal (Amount Recovered From Ee Is Ignored)	Employee	Small Car- 600 Pm	For Driver - 900 Pm
		Big Car- 900 Pm	
Personal	Employer	Expenses Incurred By ER	-
		+ Driver Salary	-
		+ 10% P.A Of Cost Of Car	-
		+ Hire Charges Of Car	-
		(-) Amount Recovered From EE	-
		Perquisite Value	-
Car Owned By EE & Used By EE			
Purpose	Expenses Met By	Perquisite Value	
Partly Official And Partly Personal	Employer	Expenses Incurred By ER	-
		+ Driver Salary	-
		(-) Fixed Personal Expense	
		Small Car	(1,800)
		Big Car	(2,400)
		Driver	(900)
		Perquisite Value	-

Personal	Employer	Expenses Incurred By ER	-
		+ Driver Salary	-
		(-) Amount Recovered From EE	(-)
		Perquisite Value	-
Other Vehicle			
Purpose	Expenses Met By	Perquisite Value	
Partly Official And Partly Personal	Employer	Expenditure By Employer - ₹ 900 P.M	

Note 1: More than one motor car is provided to the employee for official/personal use – Any 1 car shall be treated as used for partly official and partly personal purpose and other car(s) shall be treated as used for personal.

Note 2: If car is used for 100% official use then it shall not be considered as perquisite.

Example 28. Employee uses car for official As well as personal Purpose

	₹
• Expenses Incurred by Employer on Running & Maintainance	25,000
• Driver salary	15,000
• Amt Recovered from Employee	12,000
• Cost of Car	5,00,000
• CC	1400 CC

Calculate Perquisite value

Car owned by ER

Car owned by EE

Illustration 32: Determine the value of perquisite in the following cases.

- Motor car (cubic capacity of engine below 1.60 litres) owned by employer and provided to employee. It is partly used for official and personal purposes by the employee. Expenditure fully met by the employer 25,600 (car is self-driven by the employee).
- The company has given a motor car of 1.8 litre both for personal and official use. The actual expenditure for running and maintenance of car is 25,000 plus 3,000 for salary of the driver.
- Mr. A was provided with company's car (self-driven) also for personal use and it is not possible to determine expenditure on personal use and all expenses were borne by the employer.
- Motor car running and maintenance charges fully paid by employer (motor car is owned and driven by employee. The engine cubic capacity is below 1.60 litres. The motor car is used for both official and personal purpose by the employee. Expenditure incurred by the Company 36,000. How much value of car is taxable.

Illustration 33: Mr. J is employed in F Ltd. getting basic pay 22,000 p.m. Employer has paid professional tax of 75 p.m. on behalf of the employee and employee himself has paid professional tax of 25 p.m. The employer has provided him rent free accommodation

which is owned by the employer himself and it is provided at a place with population of 5,00,000. The employer has provided him three motor cars for official as well as personal use with particulars as given below:

Particulars	I	II	III
Actual cost	4,00,000	3,00,000	2,50,000
Engine capacity	1.8 litres	1.6 litres	1.4 litres
Petrol expenses	3,000	10,000	15,000
Repairs	5,000	4,000	3,000
Driver	4,000 p.m	3,000 p.m.	No Driver

All the expenses met by the employer. Compute his Income under the head Salary

Illustration 34: F Ltd. provided the following perquisites to its employee Mr. Y for the Relevant Previous Year

- Accommodation taken on lease by F 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 F Ltd. is 3,000 p.m. No Amount is recovered from the employee in respect of the same.
- A Santro Car which is owned by F 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, assuming his salary for perquisite valuation to be 10 lakh.

Illustration 35: Mr. J is employed with F Ltd. on a monthly salary of 25,000 per month and an entertainment allowance and commission of 1,000 p.m. each. The company provides him with the following benefits:

- A company owned accommodation is provided to him in Delhi. Furniture costing 2,40,000 was provided on 01.08.2024.
- A personal loan of 5,00,000 on 01.07.2024 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.)
- His son is allowed to use a motor cycle belonging to the company. The company had purchased this motor cycle for 60,000 on 01.05.2021. The motor cycle was finally sold to him on 01.08.2024 for 30,000.
- Professional tax paid by Mr. J is 2,000

CHAPTER 3B: INCOME U/H HOUSE PROPERTY

Basis Of Charge (Section 22)

1. Property should consist of any building or land appurtenant thereto
2. Assessee must be the owner or Deemed Owner
3. HP Must be used for any purpose except business or profession of Assessee

Note: Annual value of HP held as SIT will also be taxable under this head. However, As per Section 23(5) NAV of HP held as SIT shall be Nil for 2 years from the end of FY in which completion certificate is issued, if Not Let Out for such period.

Computation of Income Under House Property

Particulars	Rs.
Gross Annual Value (GAV)	-
Less: Municipal Tax (MT) Paid by Owner	-
Net Annual Value (NAV)	-
Less: Standard Deduction u/s 24(a)	-
Less: Interest On Capital Borrowed u/s 24(b) – Due Basis	-
Income U/H House Property	-

Calculation Of GAV (Section 23)

1. Fair Rent	-
2. Municipal Value	-
3. Standard Rent	-
4. Expected Rent (Higher of 1 or 2 but restricted to 3)	-
5. Actual rent Received or Receivable	-
6. GAV (Higher of 4 or 5)	-

Note: Municipal Taxes

1. Deducted from GAV if paid by Owner during previous year.
2. Deductible in PY of Payment even if they relate to past years.

Example.1 Calculate GAV

Fair Rent= 2,40,000; Municipal Val. = 2,30,000; Stand. Rent = 1,90,000; Actual Rent = 2,25,000

Example.2 Calculate GAV

Fair Rent = 2,40,000; Municipal Valuation = 2,50,000; Actual Rent = 2,40,000

Example 3. Calculate GAV

Municipal Valuation = 50,000 p.m. ; Standard Rent = 45,000 p.m. ; Actual Rent = 42,000 pm

Illustration 1: Mr. X owns five houses in Chennai, all of which are let-out. Compute the GAV of each house from the information given below –

Particulars	House I	House II	House III	House IV	House V
Municipal Value	80,000	55,000	65,000	24,000	75,000
Fair Rent	90,000	60,000	65,000	25,000	80,000
Standard Rent	N.A.	75,000	58,000	N.A.	78,000
Actual rent received/receivable	72,000	72,000	60,000	30,000	72,000

Illustration 2: Mr. X has one house property which is let out @ 80,000 p.m. Fair rent 90,000 p.m., Municipal Valuation 70,000 p.m., Standard Rent 81,000 p.m. Municipal tax paid 60,000 and interest paid on loan for construction of house property is 50,000. Compute his Income.

Illustration 3: Mr. X has let out one House property @ 62,000 p.m., Municipal Valuation 72,000 p.m., Fair Rent 90,000 p.m., Standard Rent 1,00,000 p.m., Municipal Tax paid 40,000 and Interest on loan taken for construction 60,000 She has completed the age of 60 years on 01.04.2023. Compute Income

CASE A. Income of House Lying Vacant for Some Period

1. Calculate Expected Rent (ER) for whole year
2. Calculate Actual Rent (AR) for Let out period
3. Compare Expected Rent and AR

Situation 1: If $AR > ER$, then $GAV = AR$.

Situation 2: If $AR < ER$ due to vacancy i.e $AR+VR \geq ER$, then $GAV = AR$.

Situation 3: If $AR < ER$ due to other reason i.e. $AR+VR < ER$, then $GAV = ER$

Example.4 Calculate GAV

Expected Rent = ₹ 2,40,000; Actual Rent = 35,000 p.m.; Vacancy = 3 month

Example.5 Calculate GAV

Expected Rent = 2,40,000; Actual Rent = 25,000 p.m.; Vacancy = 3 Month

Example.6 Calculate GAV

Expected Rent = 2,40,000; Actual Rent = 18,000 p.m.; Vacancy = 3 Months

Illustration 4: Compute gross annual value in the following cases:

Particulars	Situation 1	Situation 2	Situation 3	Situation 4
Fair Rent (p.m.)	9,000	13,000	16,000	12,000
Municipal Valuation (p.m.)	10,000	9,000	18,000	19,000
Standard Rent (p.m.)	12,000	11,000	16,000	7,000
Rent received/receivable (p.m.)	7,000	11,500	16,000	20,000
Vacancy (Months)	1	1	2	2

Illustration 5: Mr. X constructed one house in 2020 and it is let out for 4 months and self occupied for 6 months and vacant for 2 months during previous year 2024-25. Municipal valuation of the house is 40,000 p.m. and fair rent 30,000 p.m. Standard rent of the house is 38,000 p.m. It was let out @ 32,000 p.m. Municipal tax levied is 6,000 out of which 2,000 was paid by the tenant and 2,000 by the assessee and balance 2,000 yet to be paid. Interest on the capital borrowed for construction of the house is 30,000. Compute his Income Under The Head House Property

CASE B. Income of House Let out For Part of the Year & Self Occupied for part of the year

1. Calculate Expected Rent (ER) for whole year
2. Calculate Actual Rent (AR) for Let out period
3. GAV = Higher of ER Or AR.

Example.7 Calculate income under head House Property

- Fair Rent = 2,40,000
- Municipal Valuation = 2,00,000
- Standard Rent = 2,20,000
- Actual Rent = 21,000 p.m.
- Let Out Period = 10 month
- Self Occupied = 2 month

Example.8 Calculate Income under head House property

- Fair Rent = 2,40,000
- Municipal Valuation = 2,50,000
- Actual Rent = 30,000 p.m.
- Let Out period = 6 month
- Vacancy = 2 months
- Self Occupied = 4 month

CASE C. Self-Occupied/Unoccupied House Property (For Maximum 2 House Property)

1. GAV = Nil for 2 houses
2. Deduction of MT Paid shall not be allowed
3. Thus NAV = Nil
4. Interest on capital borrowed allowed subject to maximum 2,00,000 or 30,000 as the case may be. (Only in case of Old regime)

Note: Under default regime, no deduction is allowed for interest on capital borrowed of Self occupied property. Hence, income of Self occupied property shall always be nil under default regime.

CASE D. More Than 2 House Self Occupied

1. Any 2 Houses Shall be considered as Self occupied and dealt with accordingly.
2. Remaining house(s) shall be Deemed to be Let Out and its GAV Shall be Expected Rent.

Illustration 6: Mr. X has 3 houses which are self occupied and the details of these houses is as under.

Particulars	House 1	House 2	House 3
Fair Rent	11,00,000	12,00,000	11,50,000
Municipal Valuation	11,24,000	11,78,000	11,25,000
Standard Rent	13,00,000	12,50,000	11,40,000
Municipal Taxes Paid	1,00,000	80,000	90,000
Interest on Capital Borrowed	3,20,000	2,90,000	1,90,000
Repair charges	10,000	3,000	8,000

Compute income under the head house property

CASE E. Part (Portion) of the house if Let Out And Other Part (Portion) Is Self Occupied

Let Out (LO) Portion	Self-Occupied Portion
<p>Compute income of let out portion normally considering Following:</p> <p>a) ER shall be Computed for the part of property LO.</p> <p>b) MT Allowed for the part of property LO.</p> <p>c) ICB shall be Allowed for the part of property LO.</p> <p>(Suppose 60% portion is LO and 40% Is Self Occupied, then above 3 points shall be calculated for 60% only)</p>	<ol style="list-style-type: none"> 1. GAV = Nil 2. Deduction of MT Paid shall not be allowed 3. Thus NAV = Nil 4. ICB Shall be allowed for the part of property Self Occupied only under old regime (Subject To Maximum 30,000/2,00,000)

Example.9

- Fair Rent = 2,40,000
- Municipal Valuation = 2,00,000
- Standard Rent = 2,10,000
- Municipal Taxes Paid for property = 10,000

- Interest on capital borrowed for construction of Property = ₹1,50,000
- 50% of House property is Let out & 50% of house property is Self-Occupied
- Calculate Income Under head House Property As per optional Regime.

Example.10 House property is 50% let out + 25% self occupied +25% used for Business

- Fair Rent 3,60,000
- Municipal Valuation 3,00,000
- Standard Rent 3,20,000
- Actual Rent from let out property is 15000 p.m. (2 month Vacancy)
- Municipal Taxes Paid ₹ 15,000
- Interest on Capital Borrowed for repair of HP = ₹2,10,000

Calculate the income Under head house property under optional regime.

Illustration 7: Mr. X owns a house in Madras. During the previous year 2024-25, 2/3rd portion of the house was self-occupied and 1/3rd portion was let out for residential purposes at a rent of 8,000 p.m. Municipal value of the property is 3,00,000 p.a., fair rent is 2,70,000 p.a. and standard rent is 3,30,000 p.a. He paid municipal taxes @ 10% of municipal value during the year. A loan of 25,00,000 was taken by him during the year 2019 for acquiring the property. Interest on loan paid during the previous year 2024-25 was ₹ 1,20,000. Compute Mr. X's income from house property for the A.Y. 2025-26. All the conditions for higher deduction of interest in case of self-occupied property is satisfied.

Treatment Of Unrealised Rent

Actual rent received/receivable should not include unrealised rent if all the conditions are satisfied:

- Tenancy is bona fide;
- defaulting tenant has vacated HP;
- defaulting tenant is not in occupation of another HP Of Assessee;
- Assessee initiated legal steps to recover unrealized rent or satisfy AO that such will be useless.

Example.11

- Expected Rent = 2,40,000
- Actual Rent = 30,000 p.m.
- Vacancy = 2 Month
- Unrecovered Rent = 1 Month

Calculate GAV (all condition are Rule 4 are satisfied)

Example.12

- Expected Rent = 2,40,000
- Actual Rent = 30,000 p.m.

- Vacancy = 2 Months
 - Unrecovered Rent = 3 Month
- Calculate GAV (Assume all Rule 4 conditions are satisfied)

Illustration 8: Mr. X owns a house property at Adyar in Chennai. The municipal value of the property is 5,00,000, fair rent is 4,20,000 and standard rent is 4,80,000. The property was let-out for 50,000 p.m. up to December 2024. Thereafter, the tenant vacated the property and Mr. X used the house for self-occupation. Rent for the months of November and December 2024 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 his Income Under the Head House Property.

Tax liability in respect of arrears of rent/Recovery of Unrealised Rent (Section 25A)

Recovery of unrealized rent or arrears of rent received shall be taxable in the year of receipt after standard deduction of 30%

Illustration 9: Mr. X has let out his house to State Bank @ 20,000 p.m. The bank has increased the rent on 1st July, 2023 to 27,000 p.m. retrospectively w.e.f. 01.11.2023. The assessee has paid municipal taxes of 7,000 during the previous year 2024-25. Compute income under the head House Property.

Statutory Deduction (Section 24(a))

Section 24(a), assessee shall be allowed a notional expenditure equals to 30% of NAV

Illustration 10: Mr. X, a British national, is a resident and ordinarily resident in India during the P.Y.2024-25. 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.2024-25. The value of one £ in Indian rupee to be taken at 82.50. Compute Mr. X's taxable income for the A.Y. 2025-26

Interest On Capital Borrowed (Section 24(b))

1) Pre- Construction Period Interest

It is the interest paid before the year in which construction is completed. Pre period interest is accumulated and allowed in 5 installments from the year in which construction is completed.

Eg. Loan is taken on 15/7/2021; construction is completed on 25/4/2024.

In this case interest for the period 15/7/2021 to 31/4/2024 shall be accumulated and allowed in 5 installments from 2024-25 till 2028-29.

2) Current Year interest (Relevant PY) – Allowed in same previous year on due basis.

Note:

1. Interest on loan is allowed as deduction if it is taken for the purpose of construction, repair, renovation, reconstruction etc of house property.
2. Loan can be raised from banks, FI, NBFC, friends, family etc.
3. Interest is allowed on due basis.
4. Interest on fresh loan taken to repay original loan taken for house property shall be allowed as deduction.
5. Brokerage/commission for Arrangement of loan is Not allowed.
6. Interest on unpaid interest is Not allowed.
7. If loan is taken from o/s India, Interest is deductible only if TDS is deducted.

Example.13 Loan of 15,00,000 @ 12% p.a. interest rate is taken on 1/12/21

Construction completion date = 21/1/25 (24–25)

Entire loan is outstanding

Calculate deduction u/s 24(b) for PY 2024–25

Example.14 Loan of ₹ 17,50,000 @ 12% p.a. interest rate is taken on 01/04/2018

Construction completion date = 15/12/20 (2020–21)

₹50,000 repay on 01/10 every year Since 1/10/19

Calculate deduction u/s 24(b) for PY 24–25

Example.15 Loan of 10,00,000 @ 12% p.a. Interest rate is taken on 1/7/22

Construction completion date = 31/12/24 (24–25)

Assume 100% of loan is outstanding

Calculate deduction of Interest on capital borrowing u/s 24(b)

Example.16 Loan of 20,00,000 @ 12% p.a. Interest rate is taken on 1/6/19

Construction completion date = 28/2/23 (22–23)

Assessee Repays 2,00,000 on 1/4 of every year since 1/4/22

Illustration 11: Mr. X took a loan of 5,00,000 on 01.10.2021 @ 10% p.a. for construction of house which was completed on 31.03.2024. Compute interest on capital borrowed for the previous year 2024-25.

Illustration 12: Mr. X has taken a loan of 15,00,000 on 01.07.2020 from State Bank of India @ 12% p.a. for construction of one house which was completed on 01.05.2024 and was let out @ 90,000 p.m. w.e.f 01.07.2024 and Fair rent is 1,25,000 p.m. and the assessee has paid municipal tax of 30,000 in P.Y. 2024-25 and the assessee has repaid the loan Amount in annual instalment of 1,00,000 starting from 01.01.2023. Compute his income for the assessment year 2025-26.

Illustration 13: Mr. X has taken a loan of 15,00,000 on 01.07.2020 from State Bank of India @ 12% p.a. for construction of one house which was completed on 01.04.2024 and was let out @ 90,000 p.m. w.e.f 01.05.2024 and Fair rent is 1,00,000 p.m. and the assessee has paid municipal tax of 30,000 in P.Y. 2024-25 and the assessee has repaid the loan Amount in annual instalment of 1,00,000 starting from 01.01.2023. Compute his income.

Illustration 14: Mr. X has constructed one house on 01.09.2023 and it was let out @ 1,25,000 p.m. and municipal taxes paid are 35,000. The house was constructed after taking a loan from outside India and interest allowed under section 24(b) is 2,10,000, but the assessee has not deducted tax at source. Compute assessee's GTI for the year ended 31st March 2025.

Illustration 15: MR. X 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 23,000 p.m. Municipal taxes paid is 8,000. The loan of 20,00,000 was taken on 01.01.2018 from SBI Housing Finance Ltd. The construction was completed on 30.11.2020. The accumulated interest up to 31.03.2020 is 3,00,000. During the previous year 2024-25, Mr. X paid 1,88,000 which included 1,44,000 as interest. Compute Mr X's income from house property for A.Y. 2025-26. All the conditions for higher deduction of interest in case of self-occupied property is satisfied.

Illustration 16: Mr. X has taken a loan of 5,00,000 on 01.10.2020 @ 10% p.a. for construction of a house which was completed on 01.10.2022 and the house remained self-occupied throughout the previous year 2024-25. The assessee has income under the head salary 4,00,000. Compute tax liability for assessment year 2025-26.

Restriction of deduction in case of Self Occupied House property

Situation	Max. Deduction
Loan for acquisition or construction of HP taken on/after 1.4.99 & such acquisition or construction is completed within 5 year from end of FY In Which loan is taken.	Rs. 2 Lakh
Other Cases	Rs. 30,000

Note: ICB in respect of SO property is allowed only under New regime.

Example.17

Particulars	HP-1	HP-2
	Self Occupied	Let Out
Fair Rent	1,00,000	1,50,000
Municipal Valuation	90,000	1,20,000

Standard Rent	1,50,000	1,60,000
Actual Rent	NA	1,80,000
Municipal Taxes Paid	10%	10%
Interest on Capital Borrowed	25,000	25,000

Calculate Income of Mr. X for PY24–25 under both regime.

Co-owned House Property

Co-owned Property Is Let Out	Co-owned Property is Self Occupied
<ol style="list-style-type: none"> 1. Calculate income of let out property normally as a single owner. 2. Income so calculated shall be divided between each co-owner on the basis of ownership right. 	<ol style="list-style-type: none"> 1. Calculated for each co-owner separately. 2. NAV= Nil 3. Each co-owner is entitled for deduction of ICB of Rs.30,000 or Rs.2 lakh respectively (only in case of old regime)

Illustration 17: Mr. X is a co-owner of a house property alongwith his brother. Municipal value of the Property 1,60,000; Fair Rent 1,50,000; Standard Rent under the Rent Control Act 1,70,000; Rent received 15,000 p.m. The loan for the construction of this property is jointly taken and the interest charged by the bank is 25,000 out of which 21,000 have been paid. Interest on the unpaid interest is 450. To repay this loan, X and his brother have taken a fresh loan and interest charged on this loan is 5,000. The Municipal taxes of 5,100 have been paid by the tenant. Mr. X has 50% share in the house property. Mr. X has income from Other Sources 2,60,000. Compute the income from this property chargeable in the hands of Mr. X.

Deemed Owner (Section 27)

a) Transfer of HP to Spouse for Inadequate consideration	Transferor Spouse is deemed to be owner of HP transferred. However, if Transferred under an agreement to live apart, then transferee spouse shall be considered as owner.
b) Transfer of HP to Minor Child for inadequate consideration	Transferor is deemed as owner of HP. However, HP is transferred to a minor married daughter, then deemed ownership not applied.
c) Member of a Co-operative Society	Member to whom a building or part thereof is allotted or leased under a House Building Scheme of a society/company/association, shall be deemed to be owner of that building.

d) Person in possession of a property	If possession is received for part performance of the contract, then person having the possession is deemed owner for income tax purpose.
e) Holder Of Impartible Estate	Deemed as owner of all properties in the estate.
f) Lease for 12 years or more	A person who acquires any building by way of lease for a period of 12 years or more shall be deemed to be the owner of that building.

CHAPTER 3C: PROFITS & GAINS FROM BUSINESS & PROFESSION

Section 28 Basis of Charge

1. The profit of any business or profession carried at any time during the relevant PY.
2. Export incentives. (Cash assistance/sale of import licence/duty drawback)
3. Profit on sale of Duty Entitlement Pass Book.
4. The value of any benefit or perquisite arising from business or Profession (Gift received from customers/client)
5. Any interest, salary, bonus, commission or remuneration, received by a partner of a firm from such firm.
6. Non - competing fees
 - a) for not carrying out any activity in relation to any Business
 - b) not sharing any know-how, patent, copyright, trademark, licence, franchise or any other business or commercial right
7. Any sum received by ER under a Keyman insurance policy
8. Income from speculative transaction
9. Amount received in connection with termination or modification of terms and conditions of any Business contracts.
10. If any person has converted any inventory or stock in trade in to a capital asset.(
Business Income = FMV on Date of Conversion
11. Any income from letting out of residential house or part thereof by the owner shall be chargeable under the head "Income from house property" rather than PGBP

Note:

Meaning of Speculative Transaction

It means a transaction in which a contract for the purchase or sale of any commodity including stocks and shares, is periodically or ultimately settled otherwise than by the actual delivery or transfer of the commodity or securities.

Transactions not deemed to be speculative transactions

The following forms of transactions shall not be deemed to be speculative transaction:

- a) Hedging contract in respect of raw materials or merchandise or stocks and shares
- b) Forward contract
- c) Trading in derivatives carried out electronically through SEBI registered stockbroker or sub broker or intermediary in a recognized stock exchange.
- d) Trading in commodity derivatives carried out electronically through a registered member or intermediary in a recognized stock exchange, which is chargeable to commodities transaction tax.

However, the requirement of chargeability of commodities transaction tax is not applicable in respect of trading in agricultural commodity derivatives.

Section 29 How to Compute PGBP

The income referred to in section 28 shall be computed in accordance with the provisions contained in sections 30 to 43D.

Rent, Rates, Taxes, Repairs and Insurance for Buildings [Section 30]

Building Used As	Expenses Allowed
Tenant	Rent, Current Repairs, Municipal Taxes & Insurance
Owner	Current Repairs, Taxes, Insurance and also Dep (u/s 32)

Note:

- Capital repairs incurred by the owner are not allowed as a deduction but instead, assessee can claim depreciation on such repairs.
- Capital repairs incurred by tenant is treated as deemed building and depreciation is allowed to tenant.
- If assessee is owner of building then assessee cannot claim notional rent.

Section 31 Deduction relating to plant, machinery & furniture

- Current Repairs and Insurance related to P/M & Furniture used in business is allowed u/s 31.
- Rent Paid for P/M & Furniture if taken on hire, shall also be allowed but in u/s 37.

Section 32 Depreciation

- Conditions for claiming Depreciation
 - Asset must be owned by the assessee, wholly or partly.
 - Asset must be used for the purpose of business or profession.
 - Asset must be used during the previous year.

If any of the above condition is not satisfied, depreciation shall not be allowed.

Note:

 - It is mandatory for Assessee to claim depreciation.
 - Depreciation is allowed when asset is put to use and not when it is ready to use.
- Methods Of Depreciation
 - Normal Depreciation For Block Of Assets on WDV basis
 - Additional Depreciation For Eligible Asset
 - Asset Wise Depreciation For An Undertaking Engaged In Generation or Generation & Distribution Of Power

3. Section 2(11): Block of Assets

It means a group of assets falling within a class of assets comprising:

- a) Tangible assets, being building, plant and machinery or furniture
- b) Intangible assets, being know how, patents, copyrights, trademarks etc. in respect of which same rate of depreciation is charged.

4. Rate Of Depreciation

Building	
• Residential Purpose Building other than Hotel	5%
• Non Residential Purpose Building including Hotel	10%
• Temporary erections	40%
Furniture and Fittings	10%
Machinery and Plant	
Machinery and Plant (General)	15%
• Motor cars	
• Used in a business of running them on hire	
Generally	30%
Acquired and Put To Use between 23/8/19 – 31/3/20	45%
• Other than Used in a business of running them on hire	
Generally	15%
Acquired and Put To Use between 23/8/19 – 31/3/20	30%
• Ships	20%
• Aeroplanes	40%
• Computers including computer software and computer peripherals (Excluding Mobile)	40%
• Books	40%
Intangible Assets other than Goodwill	25%

5. WDV For Charging Depreciation

Particulars	Amount
Opening WDV of Block	xxx
Add: Assets acquired During the previous year	
Put To Use for 180 days or more	xxx
Put To Use for Less than 180 days	xxx
Not Put To Use	xxx
Less: Money Payable (Selling Price Of Asset)	(xxx)
	Closing WDV Before Depreciation
Less: Depreciation actually Allowed	xxx

Note: If asset is acquired but not put to use, then depreciation on such asset shall not be allowed.

Example 1.

Block 15%	₹
Opening WDV (A/B/C) as on 1/4/24	10,00,000

Following assets are purchased & Put to use as follows :-

Assets	Value	Date of Purchase	Date of Put to Use
D	5,00,000	01/07/24	01/08/24
E	6,00,000	01/08/24	16/08/24
F	7,00,000	01/12/24	14/05/25

On 01/03/25 asset B was sold for ₹4,00,000

Calculate depreciation for PY 24-25 & Opening WDV for PY 25-26

Example 2.

Block 15%	₹
Opening WDV (A/B/C) as on 1/4/24	15,00,000

Following assets are purchased & Put to use as follows :-

Assets	Value	Date of Purchase	Date of Put to Use
D	6,00,000	01/07/24	01/08/24
E	4,00,000	01/03/25	01/04/25

On 15/12/24 asset C was sold for ₹2,50,000

Calculate depreciation for PY 24-25 & Opening WDV for next year.

Example 3. Suppose in above example , Machine E was sold instead of machine C for 2,50,000. Calculate Depreciation for PY 24-25

6. Depreciation allowed at Half Rate

Depreciation will be restricted to 50% of the normal depreciation , if the following conditions are satisfied:

1. Asset is purchased and put to use in the same Year.
2. Period of put to use for less than 180 days.

Example 4.

Block 15%	₹
Opening WDV (A/B/C) as on 1/4/24	10,00,000

Following assets are purchased & Put to use as follows :-

Assets	Value	Date of Purchase	Date of Put to Use
D	5,00,000	15/07/24	01/08/24
E	6,00,000	15/09/24	05/10/24

Asset B and C was sold for ₹7,00,000. Calculate depreciation for PY 24-25

Example 5.

Block 15%	₹
Opening WDV (A/B/C) as on 1/4/24	10,00,000

Following assets are purchased & Put to use as follows :-

Assets	Value	Date of Purchase	Date of Put to Use
P	2,00,000	16/07/24	18/08/24
Q	3,00,000	15/09/24	31/10/24
R	4,00,000	01/01/25	05/05/25
S	1,00,000	01/07/25	31/12/25

Following Assets were sold :-

1. B sold for 1,00,000 on 31/12/24
2. C sold for 70,000 on 31/01/26

Calculate depreciation for PY 2024-25 & PY 2025-26

7. When No Depreciation Shall Be Allowed

a) All the assets of the block are transferred (Block Ceases To Exist)

In case all the assets in any block are transferred during the previous year then the block shall cease to exist and no depreciation will be allowed. It can happen in the following two cases:

- i. Sale price exceeds (Op. WDV + Assets purchased during the year)
STCG u/s 50 = Sale Price - (Op. WDV + Assets purchased during the year)
- ii. Sale price < (Op. WDV+ Assets purchased during the year then)
STCL u/s 50 = Sale Price - (Op. WDV + Assets purchased during the year)

b) Part of block is sold and the sale consideration of assets exceeds block Value

- i. Sale price > (Op. WDV + Assets purchased during the year)
- ii. Although certain assets exist in block, but the WDV of the block shall be reduced to NIL and no Depreciation shall be allowed.
- iii. Excess shall be treated as short-term capital gain.

Example 6. Calculate depreciation from the following informations :-

Block 15%

Opening WDV A/B/C 12,00,000

D purchased and Put to use on 01/05/24 3,00,000

Asset B and C were sold for 16,00,000 on 01/12/24

8. Additional depreciation on new machinery or plant [Section 32(1)(iia)] – Only For Old Regime

A. Allowed to assessee engaged in manufacture of any article or generation or generation and distribution of power.

B Assets for which additional depreciation is allowed:

Any new machinery or plant which has been acquired and installed. However , additional depreciation shall not allowed for:

- (i) Ships and aircraft;
- (ii) Second Hand Plant/Machinery ;or
- (iii) Any machinery or plant installed office or residential accommodation or

- office appliances or road transport vehicles;
- (iv) Any machinery or plant, the whole of the actual cost of which is allowed as a deduction (whether by way of depreciation or otherwise)
- C. Additional depreciation shall be allowed @ 20% in the first year in which it is put to use.
- D. If the asset is put to use for less than 180 days, then additional depreciation is allowed @ 10% in the first year, and balance of 10% shall be allowed in next year.
- E. Notes:
- Printing or printing and publishing is treated as manufacturing business – eligible for additional dep.
 - Forklift used in factory is not treated as transport vehicle hence eligible for add. Dep.
 - Add. Dep. Shall not be allowed to power units if they opted SLM method.

Example 7.

Block 15%	₹
Opening WDV (A/B/C) as on 1/4/24	10,00,000

Assessee engaged in Manufacturing

Following assets are purchased & Put to use as follows :-

Assets	Value	Date of Purchase	Date of Put to Use
D (New)	3,00,000	10/07/24	10/08/24
E (Second Hand)	2,00,000	10/08/24	10/09/24
F (New)	3,00,000	10/09/24	10/10/24
G (New)	1,00,000	10/10/24	10/04/25

Asset B was sold for ₹3,60,000. Calculate depreciation for PY 24-25

9. Actual cost

It means,

- Actual cost of the asset to the assessee, and
- It should not include any portion of the cost which has been incurred directly or indirectly by any other person or authority.

Note:

- If the assessee makes a payment or aggregate of payment more than Rs.10,000 to a person in a day, by mode other than an A/c payee cheque, A/c payee bank draft, or electronic clearing system through a bank account, such payment shall be ignored for the purpose of determination of actual cost.
- Interest paid before commencement of production on amounts borrowed for acquisition and installation of machinery forms the part of actual cost.

Example 8. Loan of 15,00,000 was taken on 01/07/2023 @12% interest rate for construction of office building

- Construction completed on 01/12/24 and building put to use immediately
- Calculate Actual cost of building

- c) Calculate Depreciation of building for PY 2024-25
 d) Calculate interest on loan debited to profit and loss A/c

Actual cost in certain special situations [Explanations to section 43(1)]

Situation	Actual Cost
Acquisition of Asset: Where assessee himself acquires the asset.	Purchase Price Add: (a) Interest on Loan for the period upto the date of usage of the asset (b) Freight and Insurance (c) Loading, Unloading Charges (d) Installation and Erection Charges Less: (a) Any amount met by any Authority or any other person by way of Subsidy or Grant, (b) GST ITC Credit availed
Assets used in Scientific Research subsequently put into use for business.	Nil. As Asset Cost wholly deductible u/s 35
Conversion of Stock into Capital Asset	FMV which has been taken into account for the purpose of Sec.28(via)
Asset received under Gift, Will or Inheritance.	WDV to the Previous Owner.
Acquisition of Second Hand asset to claim depreciation on enhanced cost to reduce tax liability, in the opinion of A.O.	Cost as determined by the AO, having regard to circumstances of the case, with the prior approval of Joint Commissioner of Income Tax.
Transfer and Re-acquisition: Transfer of an asset and re-acquisition of the same.	WDV at the time of Original Transfer or repurchase price, whichever is less.
Sale and Lease Back: Sale of an asset to the Lessor and taking them back on lease.	WDV to the Transferor.
Building used for private purpose and subsequently put into use in business	Cost of Acquisition or Construction Less: Notional/Deemed Depreciation for the period of personal use.
Assets brought into India by a Non-Resident.	Actual Cost of Acquisition Less: Notional Depreciation for the period held outside India
Receipt of Subsidy/Grant/Reimbursement for the acquisition of asset from Central Government or State Government	Actual Cost shall be reduced by cost as related with such Subsidy/Grant/Reimbursement

10. Depreciation On SLM Basis

Assessee	Engaged in Generation, transmission, Distribution of Power
Time to Exercise	Before RFD u/s 139(1) of PY in which they begin to generate power. The option once exercised shall not be reversed.

Note: Option of SLM is For Tangible Assets only; For Intangible Assets only WDV is applicable. Depreciation can be charged on tangible assets individually; i.e SLM/WDV whichever is more beneficial.

Sale of Asset By Assessee Engaged In Power Generation

- Case 1: Sale Value < Book Value
Terminal Depreciation (Dr. to P/L) = Book Value – Sale Value
- Case 2: Sale Value > Book Value But ≤ Actual Cost
Balancing Charge (Cr. To P/L) = Sale Value – Book Value
- Case 3: Sale Value > Actual Cost
 - Balancing Charge (Cr. To P/L) = Actual Cost – Book Value
 - LTCG/STCG Depending on Period of Holding = Sale Value – Actual Cost

Example 9. Calculate depreciation

Asset was purchased on 01/04/2022 for 10,00,000 (life 10 years)

It was sold on 15/07/24

- Case-1 : Sale value = 7,50,000
- Case-2 : Sale value = 8,90,000
- Case-3 : Sale Value = 11,50,000

11. Unabsorbed Depreciation

- Where in any previous year profit before depreciation is not sufficient to absorb full depreciation expense, then depreciation is allowed to the extent of profit and balance depreciation shall be termed as unabsorbed depreciation.
- Such unabsorbed depreciation shall be carried forward to next year for adjustment.
- Unabsorbed dep shall be carried forward for indefinite years till it gets fully set off.

For example:

Profit before depreciation = 1,50,000

Depreciation = 2,10,000

In this case depreciation allowed shall be 1,50,000 (to the extent of profit) and balance 60,000 shall be treated as unabsorbed depreciation.

12. Carry forward and set off of unabsorbed depreciation

If Depreciation claim is more than profits before depreciation, then excess depreciation shall be deducted to the extent profits available and excess shall be c/f as unabsorbed depreciation.

After C/F Following shall be the order of setoff

- (i) PY Depreciation
- (ii) B/f Business Loss
- (iii) C/F Unabsorbed Depreciation

Illustration 1: Written down value of 4 machines at the beginning of the previous year 2023-24, forming part of a block of assets carrying 15% rate of depreciation was 5,00,000. The following 4 machines of the same block were bought:

Machines	Date of Purchase	Date when put to use	Cost
P	5.1.2024	14.4.2024	50,000
Q	5.4.2024	15.5.2024	1,00,000
R	15.5.2024	31.7.2024	2,00,000
S	15.7.2024	27.8.2024	1,50,000

Calculate the depreciation for the assessment year 2024-25 and 2025-26

Illustration 2: written down value of 4 machines at the beginning of the previous year 2024-25, forming part of a block of assets carrying 15% rate of depreciation was 5,00,000. The following 4 machines of the same block were bought:

Machines	Date of Purchase	Date when put to use	Cost
P	5.1.2024	14.1.2024	50,000
Q	5.4.2024	15.5.2024	1,00,000
R	15.5.2024	31.1.2025	2,00,000
S	15.11.2024	27.3.2025	1,50,000

Four machines of this block (other than those which were acquired and put to use for less than 180 days) were sold for 4,00,00.

- (e) Calculate the depreciation for the assessment year 2025-26.
 (f) What will be the answer if four machines were sold for 7,00,000 instead of 4,00,000?

Illustration 3: W.D.V of the block having two machines namely X & Y as on 1.4.2024 is 6,00,000. Machine Z was acquired on 5.11.2024 for 3,00,000 and put to use on the same date . machine Z is sold on 28.3.2025 for 4,00,000.

- (a) Compute the depreciation allowable for the assessment year 2025-26.
 (b) What will be the Amount of depreciation allowed, if machine 'X' is sold instead of machine 'Z'
 (c) What will be the Amount of depreciation allowed if both 'X' and Y machines are sold instead of machine Z.

Illustration 4: The written down value of a block of asset as on 1.4.2024 was 8,00,000. An asset of the same block was acquired during the year for 3,00,000. Thereafter, all the assets of the block are sold for 12,00,000. Compute the depreciation for the assessment year 2025-26 and also indicate if there is any short-term capital gain/loss.

would your answer change if the sale consideration is 9,00,000.

- (b) Part of block is sold and the sale consideration of assets exceed value of the block

Illustration 5: X owns the following machinery as on 1.4.2024:

Machinery	WDV as on 1.4.2024	Rate of Depreciation (%)
Machinery A	70,000	15
Machinery B	1,64,000	15
Machinery C	84,000	15

He acquired a new machinery i.e. machinery D For 60,000 on 2.11.2024. Machine B & C are sold on 31st January 2025 for 5,00,000 . Compute the depreciation for the assessment year 2025-26 and also indicate if there is any short-term capital gain/loss.

What Will Be your answer if Machinery B and machinery C are sold on 15.3.2025 for consideration of 80,000 and 40,000 respectively.

Illustration 6: R Ltd. Has started a new business of manufacturing paints on 1-4-2021. The company has purchased the following assets during the financial year 2024-25:

Asset	Actual cost of Acquisition	Date of Purchase	Rate of Depreciation	Date on which the asset is put to use
Furniture	2,00,000	10-4-2024	10%	10-4-2024
Air –conditioner installed in office	1,00,000	16-6-2024	15%	18-6-2024
Car	8,00,000	12-4-2024	15%	12-7-2024
Plant A	50,00,000	11-4-2024	15%	28-4-2024
Plant B	20,00,000	15-9-2024	15%	16-11-2024
Plant C	80,000	1-8-2024	40%	15-9-2024
Computer for office	1,00,000	1-7-2024	40%	1-7-2024
Computer for factory	1,50,000	2-7-2024	40%	4-7-2024

Compute the Amount of normal and additional depreciation for the assessment year 2025-26.

Illustration 7: R furnishes the following particulars of his income for the previous year 2024-25:

Particulars	Amount
Business income (before providing for depreciation)	72,000
Depreciation	94,000
Income from house property	60,000
Income from other source	6,000
Income from salary	3,00,000

Compute the taxable income of R for the assessment year 2025-26

Illustration 8: An electricity company which was charging depreciation on straight line method and whose actual cost of the asset was 5,00,000 and written down value 4,50,000 sold the said asset during 2024-25 after 2 years. What will be the tax treatment if the asset is sold for:

- (i) 3,50,000
- (ii) 4,80,000
- (iii) 6,00,000

Section 35 Scientific Research

1. In-house Research (Research – Related To Business)

Assessee	All Assesseees
Research During PY	100% of revenue as well as capital expenditure incurred during the previous year shall be allowed as deduction except capital expenditure on purchase of LAND.
Research before commencement of business	<ul style="list-style-type: none"> • Exp Incurred upto 3 years before the commencement of business shall be allowed in the year of commencement of business. • Revenue Expenditure – Only Salary (Excluding Perq) + Material Note: Other Revenue Exp Not Allowed • Capital Expenditure – Allowed Except LAND

2. Sale of assets used for scientific research Section 41(3)

- **Asset Sold Without Being Put to use for business purpose:**
 - a) Sale Value \leq Actual Cost, then sale value is Business Income
 - b) Sale Value $>$ Actual Cost, then actual value is business income and difference between sale value and actual cost shall be STCG/LTCG depending upon period of holding
- **Asset Sold After Being Put to use for business purpose:**
Asset will be added to the respective block with NIL value and deducted from the block with sale value

Example 10. Calculate income under head PGBP

1. Profit before depreciation for PY 2024-25 = 5,00,000
 2. Opening WDV of block of machine = 6,00,000
 3. Scientific research machine was purchased in year 2021-22 for 5,00,000 and put to use in business on 01/04/24
 4. Machine is sold for 1,50,000 on 31/12/2024
- #### 3. Carried forward of unadjusted capital expenditure of scientific research
- If profit before deducting capital expenditure on scientific research is less than capital expenditure on scientific research, then excess capital expenditure is carried forward.
 - Revenue expenditure on Scientific Research is always allowed irrespective of availability of profits.

Example 11.	Case 1	Case 2	Case 3
• Profit before S/R Exp.	10,00,000	6,00,000	1,00,000
• Revenue Exp. of S/R	4,00,000	4,00,000	4,00,000
• Capital Exp. of S/R	5,50,000	5,50,000	5,50,000

Show Tax Implications

4. Contribution To Outside Agency (Research – Business Relation not compulsory) – Old Regime

Donation given to an Approved scientific research association	100%
Donation is given to an Indian company approved for the purpose of scientific research or to any approved institution social science or statistical research.	100%
Donation is given to IIT/National Laboratory for scientific research	100%

Note:

Deduction shall not be denied if after making donation by the assessee, approval of such institution has been withdrawn.

Illustration 9: X Ltd. purchased one plant and machinery for 30 lakhs on 01.10.2023 for scientific research and entire Amount was debited to the Profit and loss account, subsequently the asset was sold for 33 lakhs in the year 2024-25. WDV of machine as on 1st april 2024 is 60 lakhs. Profit before depreciation is 40 lakhs. Show tax implications if:

- Asset is sold after being put to use in business.
- Asset is sold without being put to use in business.

Illustration 10: Mr. X has furnished the following particulars relating to payments made towards scientific research for the year ended 31.03.2025:

Particulars	Amount(in Lakhs)
Payments made to K Research Ltd	20
Payment made to LMN College	15
Payment made to OPQ College	10
Payment made to National Laboratory	8
Machinery purchased for in-house scientific research	25
Salaries to research staff engaged in in-house scientific research	12

Note: K Research Ltd. and LMN College are approved research institutions and these payments are to be used for the purposes of scientific research.

Compute the Amount of deduction available under section 35 of the Income-tax Act, 1961 while arriving at the business income of the assessee.

Illustration 11: XY Bio-medicals Ltd. is engaged in the business of manufacture of bio-medical items. The following expenses were incurred in respect of activities connected with scientific research:

Year Ended	Item	Amount
31.03.2022 (Incurred after 01.09.2021)	Land	10,00,000

31.03.2023	Plant and machinery	5,00,000
31.03.2024	Raw materials	2,20,000

The business was commenced on 01.09.2024 and expenditure incurred on raw materials and salaries is 1,80,000. In view of availability of better model of plant and machinery, the existing plant and machinery were sold for 8,00,000 on 01.03.2025.

Discuss the implications of the above for the Assessment Year 2025-26 along with brief computation of deduction permissible under section 35 assuming that necessary conditions have been fulfilled.

Illustration 12: A Ltd. which is engaged in manufacturing, furnishes the following particulars for the P.Y.2024-25. Compute the deduction allowable under section 35 for A.Y. 2025-26, while computing its income under the head “Profits and gains of business or profession”.

- Amount paid to Indian Institute of Science, Bangalore, a notified research organisation for scientific research is 1,00,000
- Amount paid to IIT, Delhi for an approved scientific research programme is 2,50,000)
- Amount paid to X Ltd., a company registered in India which has as its main object scientific research and development, as is approved by the prescribed authority is 4,00,000
- Expenditure incurred on in-house research and development facility as approved by the prescribed authority
 - Revenue expenditure on scientific research is 3,00,000
 - Capital expenditure (including cost of acquisition of land 5,00,000) on scientific research is ₹ 7,50,000

Section 35AD Deduction in case of Specified Businesses – Only For Old Regime

1. Specified business means

Specified Business	Commencement
(a) Laying & 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.	on or after 01.04.2007
(b) Setting up and operating a Cold Chain Facility,	on or after 01.04.2009
(c) Setting up and operating a Warehousing Facility for storage of Agricultural Produce.	on or after 01.04.2009
(d) Building and operating a Hotel of two star or above category as classified by the Central Government.	on or after 01.04.2010
(e) Building and operating a Hospital with atleast 100 beds for patients.	on or after 01.04.2010
(f) Developing and building a Housing Project under a scheme for Affordable Housing Slum Redevelopment or Rehabilitation Scheme framed by Central or State Government and notified by CBDT.	on or after 01.04.2010

(g) Developing and building a Housing Project under a scheme for Affordable Housing framed by the Central Government or State Government and notified by CBDT	on or after 01.04.2010
(h) New Plant or in newly installed capacity in an existing Plant, for production of Fertilizer.	on or after 01.04.2010
(i) Setting up and operating an Inland Container Depot or Container Freight Station notified or approved under the Customs Act.	on or after 01.04.2012
(j) Bee-keeping and production of Honey and Beeswax.	on or after 01.04.2012
(k) Setting up and operating a Warehousing Facility for storage of Sugar.	on or after 01.04.2012
(l) Laying and operating a Slurry Pipeline for the transportation of Iron Ore.	on or after 01.04.2014
(m) Setting up and operating Semi-Conductor Wafer Fabrication Manufacturing Unit notified by CBDT.	on or after 01.04.2014
(n) Business of developing or maintaining and operating or developing, maintaining and operating a New Infrastructure Facility	On or after 01.04.2017

2. Deduction: 100% of capital expenditure except (Land, Goodwill and financial instrument). Also expenses incurred before commencement of business shall be allowed if capitalized in books of accounts.
3. However, Any Expenditure for Acquisition of any Asset for which aggregate payment made to A Person in A Day, otherwise than by A/c Payee Cheque/Draft or Electronic clearing system is more than Rs. 10,000 , then such payment Not Eligible for Deduction u/s 35AD
4. Conditions and Notes:
 - a) Business Not Formed by Splitting/Reconstruction of Existing Business
 - b) Not Formed by Transfer of Used P&M (However, Used P&M is Allowed upto 20%)
 - c) Depreciation shall not be allowed if deduction is allowed u/s 35AD.
 - d) Loss of specified business can be adjusted only against specified business income.
 - e) Loss of Specified business can be carried forward for indefinite period.
 - f) Asset must be used in business for 8 AY for which deduction is claimed u/s 35AD otherwise, in the year of sale or put to use in other business shall be business income which is equals to:

$$\text{PGBP Income} = \text{Total Deduction Claimed (i.e. Cost of Asset)} - \text{Deemed Depreciation.}$$
 - g) If asset is sold after 8 years then entire sales consideration shall be treated as business income as per section 28.

Illustration 13: An Assessee starts business of setting up and operating a warehousing facility for agricultural produce on 01.06.2024. Following information is given to you:

1. Profits from operating warehousing facility 40,00,000

2. The following assets have been purchased for warehousing facility and the profit of 40,00,000 is computed without giving effect to the following:

- (i) Machinery purchased on 31.07.2024 10,00,000
 - (ii) Land purchased on 31.07.2024 10,00,000
 - (iii) Machinery purchased on 31.10.2024 6,00,000
 - (iv) Building purchased on 31.8.2024 4,00,000
 - (v) Building Constructed on 31.05.2024 19,00,000
- Compute income or loss for the assessment year 2025-26

Illustration 14: Mr. Ram commenced operations of the businesses of setting up a warehousing facility for storage of food grains, sugar and edible oil on 01.04.2024. He incurred capital expenditure of 80 lakh, 60 lakh and 50 lakh, respectively, on purchase of land and building during the period January, 2024 to March, 2024 exclusively for the above businesses, and capitalized the same in its books of account as on 1st April, 2024. The cost of land included in the above figures are 50 lakh, 40 lakh and 30 lakh, respectively. Further, during the P.Y.2024-25, it incurred capital expenditure of 10 lakh, 20 lakh and 12 lakh, respectively, for extension/reconstruction of the building purchased and used exclusively for the above businesses. Compute the income under the head “Profits and gains of business or profession” for the A.Y.2025-26 and the loss to be carried forward, assuming that Mr. X has fulfilled all the conditions specified for claim of deduction under section 35AD. The profits from the business of setting up a warehousing facility (before claiming deduction under section 35AD and section 32 for the A.Y. 2025-26 is 16 lakhs, 14 lakhs and 31 lakhs, respectively.

Illustration 15: 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) under section 35AD for A.Y.2024-25. However, in February, 2025, Unit A transferred one of its buildings to Unit B. Examine the tax implications of such transfer in the hands of Mr. Arnav

Section 35D Preliminary Expenditure

1. **Meaning:** Preliminary expenses are expenses incurred before setting up of the business; or the expenses are incurred in connection with extension (same line of business) of an undertaking or in connection with setting up a new business. (Setting up new factory, opening a new branch)
2. **Assessee:** The Assessee should be an -Indian Company, or Non-Corporate Resident Assessee.
3. **Eligible Expenses:**
 - (i) Preparation of feasibility report

- (ii) Conducting market survey or any other survey necessary for the business.
- (iii) Preparation of project report.
- (iv) Engineering services relating to the business.
- (v) Legal charges for drafting any agreement relating to the setting up or conduct of the business.
- (vi) Legal charges for drafting and printing of Memorandum of Association (MOA) and Articles of Association (AOA).
- (vii) Registration fees of a company paid to Registrar of Companies.
- (viii) Expenses and legal charges incurred in drafting, printing and advertising of prospectus.
- (ix) Expenditure incurred on issue of shares or debentures like underwriting commission, brokerage, advertisement etc.

Note: Salary to employees, rent of premises, interest on borrowed capital are not treated as preliminary expenses hence deduction never allowed. These are treated as dead expenses.

4. Deduction

- (i) An Indian company
Lower of following shall be allowed as deduction in 5 equal installments
 - (a) Aggregate Amount of eligible expenditure or
 - (b) 5% of the cost of project or 5% of the capital employed- whichever is higher
- (ii) a resident non-corporate assessee.
 - (a) Aggregate Amount of eligible expenditure or
 - (b) 5% of the cost of project
whichever is lower is allowed as deduction in 5 equal installments

5. Note:

- a) Cost of project includes actual cost of the fixed assets, being land, buildings, leaseholds, plant, machinery, furniture, fittings and railway sidings (including expenditure on development of land and buildings).
- b) Capital employed is the aggregate of the issued share capital, debentures and long-term borrowings
- c) Reserve and Surplus including security premium shall not be part of Capital Employed.

Example 12.

X Ltd. (Indian Co.) commences business in 2024 – 25

Capital Employed = 50,00,000

Cost of Project = 40,00,000

Eligible P/E = 90,000

Calculate Deduction u/s 35D

Example 13.

Mr. X commences business in 2024 – 25

Cost of Project = 15,00,000

Eligible P/E = 90,000

Calculate Deduction u/s 35D

Illustration 16: X Ltd. is an existing Indian company which sets up a new industrial unit. It incurs the following expenditure in connection with the new unit:

1. Preparation of project report - 4,00,000
2. Market survey - 5,00,000
3. Legal and other charges for issue of additional capital required for the new unit - 2,00,000

The following further data is given: Cost of project 30,00,000 Capital employed in the new unit 40,00,000 What is the deduction admissible to the company under section 35D?

Solution

Illustration 17: Presume Assessee is Mr. X.

Section 35DDA Amortisation of expenditure incurred under Voluntary Retirement Scheme

If any employer has given voluntary retirement to the employees and has paid any Amount in connection with such voluntary retirement, such payment shall be allowed to assessee in 5 annual equal installments commencing from the year in which payment is made.

Illustration 18: XYZ Ltd. has given voluntary retirement to 100 employees and has paid 5,00,000 to each of the employee and total payment made is 500 lakhs . Show the Tax treatment of expenditure

Section 36 Other Deductions

The following expenses are allowed to be debited in the profit & Loss Account

1. Insurance Premium
 - a) Stock (including livestock)
 - b) Medical Insurance of EE (provided not paid in cash)
2. Bonus Or Commission Paid to the EEs [not payable as dividend], subject to section 43B. Note: there is no restriction on the amount of the bonus, it may exceed the bonus payable under the Payment Of Bonus Act, 1965
3. Interest On Loan taken for business or profession. However, if a loan is taken from a scheduled bank or financial institution including NBFC, deduction is allowed subject to section 43B.

Note: loan taken for asset – Interest prior to the date the asset is put to use is capitalized and depreciation is allowed.

4. Discount on Zero coupon bonds is allowed on a pro-rata basis over the life of ZCB.

Example 14.

Zero Coupon Bonds issued @ 25/bond

Face Value = 100/Bond

No. of bonds = 1,00,000 bonds

It is redeemable after 20 years

Calculate deduction u/s 36.

5. ER contribution to

1. Statutory Provident Fund	Allowed subject to the provisions of Section 43B i.e. if paid upto RFD
2. Recognized Provident Fund	
3. Approved superannuation fund	
4. Approved gratuity fund	
5. Any other Approved Fund	

6. ER Contribution to NPS referred u/s 80CCD, lower of following shall be allowed as deduction:

- i) Amount contributed
- ii) 10% of RBS

However, in case of Default tax regime, lower of following shall be allowed as deduction :

- i) Amount contributed
- ii) 14% of RBS

7. EE contribution deducted by the ER from his salary will be allowed if ER Deposited the amount in the relevant account upto the due date in the relevant Act (i.e. 15th of Next Month)

Note: if the amount is deposited after the due date of the Fund, then such amount shall be considered as PGBP income of ER and never be allowed as deduction to ER.

8. Bad Debts

Bad debts written off from the books of accounts – allowed as a deduction

Note: Such debts have been taken into account for computing income of PY or any earlier PY.

Provision for bad debts is not allowed as a deduction.

Bad Debts recovered – Income of recovery year, whether or not business or profession is in existence.

Example 15.

During PY 2022-23, Bad debts claimed by assessee = 50,000

But A.O. allowed only 42,000 as an expense
 During PY 2024-25, Assessee recovered 35,000
 What shall be the business income?

9. Family planning Expenditure is allowed to company assessee as follows

Revenue Expenditure	Full
Capital Expenditure	In 5 Installments

If Sufficient profit is not available then expenditure (R/C) shall be deducted to the extent of profit available.

10. STT/CTT paid is allowed as deduction if securities/commodities are held as stock in trade.

SECTION 37(1) GENERAL DEDUCTIONS

If any expenditure is not covered under section 30 to 36, then such expense shall be allowed under this section subject to following conditions:

- Expenditure is of revenue nature
- Expenditure is incurred for the purpose of business and profession.

Various expenditure which may be allowed under section 37(1) are as given below:

- Expenditure in connection with advertisement. If the expenditure incurred is capital nature, depreciation is allowed.
- Expenditure on travelling including the expenses of boarding and lodging in connection with business/profession.
- Salary paid to the employees.
- Expenditure in connection with entertainment of the employees or the customer
- Expenditure in connection with opening ceremony (Mahurat) of the business/profession.
- Expenditure on the occasion of various festivals like Diwali etc. for employees or customer
- Interest on late payment of GST.
- Expenditure in connection with legal proceedings.
- Professional tax paid by a person carrying on business or profession.
- Expenditure on the filing of return of income, filing of appeal or audit fee etc. is allowed.
- Expenditure incurred on Keyman insurance policy
- Any other expenditure which is revenue in nature and it is related to business or profession.

Following expenses are not allowed as deduction:

- CSR expenses incurred by company.

- b) Advertisement in any souvenir, brochure, tract, pamphlet or the like published by a political party.
- c) Penalty for breach of law.
Note: Penalty for breach of contract – Allowed as deduction.
- d) Interest on loan taken for payment of income tax
- e) Illegal expenses like, hafta, bribe etc.
- f) Expenditure incurred to settle proceedings related to legal contraventions as notified by the Central Government

Illustration 19: Determine admissibility of following expenditure

1. Expenditure incurred for repairing a property taken on lease for business.
2. Current repairs
3. Capital repairs
4. The Amount of rent includes an Amount 1,800 being rent of office premises, the premises belong to the proprietor.
5. Insurance of premises used for the purposes of the business.
6. The car was used both for business and personal purposes. 2/3rd is for the business purposes.
7. The property tax of 4,000 was in respect of her self - occupied house whose rental value is 18,000.
8. Health Insurance premium of employees.
9. Salary includes bonus paid Amounting to 1,80,000. However, bonus payable under the Payment of Bonus Act, 1965 works out to 1,20,000. Payment made by the Company was in pursuance of settlement approved by the Labour Court.
10. Purchased a building for 5,00,000, to be used exclusively as a family planning center for the employees.

Illustration 20: Show Tax Implication for the Following cases:

1. Purchased a new plant costing 3,00,000 on deferred payment (interest payable for the period subsequent to the installation Amounting to 1,00,000 has been capitalised along with the cost).
2. Interest on own capital.
3. Interest on overdraft facility.
4. Interest on loan taken for business.
5. Interest on loan before the asset is put to use.
6. Interest includes an Amount of 50,000 paid to the bank for loan taken for purchase of new machinery. It includes an interest of 4,000 till the asset is put to use.
7. The interest includes 10,000 paid on late payment of GST
8. X raised a loan from LIC of India on the security of his life insurance policy and used the same for the payment of expenses relating to repairs of machinery.

Illustration 21: How will you deal with the following in computing the business income?

1. Profit on transfer of Duty Entitlement Pass Book Scheme.
2. Profit on sale of securities

3. The Manager admitted that during the year purchases to the extent of 10 lakhs were not recorded in the books and also sales to the extent of 5 lakhs were kept out.
4. Gift from Father-in-law
5. Dividend on Shares of Indian company.
6. Profit from Business of dealing in equity shares.
7. Sales includes a sum of 6,000 representing the value of goods withdrawn by Mr. Rocky for his personal use. These goods were purchased at a cost of 4,000.
8. Loss by theft occurred as embezzlement by the employees.
9. Paid interest of 30,000 for shortfall in advance tax paid.
10. The Amount of interest on loan includes an Amount of 1,300 being interest on loan taken from wife of X. She gave this loan from her stridhan. The Amount of loan taken from wife was utilised for the payment of arrears of income tax.
11. Anticipated loss on forward contract for purchase of raw material as a result of fall in market price.
12. Provision of CGST and SGST.

Illustration 22: How will you deal with the following in computing the total income of the company

1. Donation in Temple.
2. Donation of ₹ 25,000 to a political party.
3. The donation includes 1 lakh to an approved Scientific Research Association.
4. Administrative charges include expenses in respect of donation of 1,000 to the trade association for the purpose of an advertisement in the souvenir published by it.
5. Opening stock overvalued by 2,00,000.
6. Closing stock undervalued by 50,000.
7. It was found, some stocks were omitted to be included in both the opening and closing stock, the values of which were—opening stock: 9,000; closing stock: 18,000.
8. Penalty levied by GST department for non-compliance of GST laws.
9. Miscellaneous Expenses include 30,000 paid towards penalty for non-fulfilment of delivery conditions of a contract of sale for reasons beyond control.
10. Purchases also include 10,000 paid by way of compensation to a supplier as the assessee was unable to take the delivery of goods due to lack of storage space and finances.
11. Rent, rates and taxes also include a penalty of 10,000 levied for non-payment of sales tax.
12. Penalty levied for non-fulfilment of listing laws.

SECTION 38 EXPENDITURE WHICH ARE PARTLY IN BUSINESS USE AND PARTLY IN PERSONAL USE

If any person has any asset in business or profession as well as in personal use, expenditure is allowed only to the extent the asset is in the use of the business or profession.

Expenses Not Allowed As Deduction

Payments on Which TDS Provisions Apply

Disallowance will be attracted if any of the following conditions are satisfied:

- a) TDS not Deducted upto last day of Relavant PY
- b) TDS Not deposited with govt. upto return filing date u/s 139(1).

Return filling due date as per section 139(1)

Audit - 31/10/AY

No Audit - 31/7/AY

Disallowance shall be:

Section	Payment To	Disallowance
40(a)(i)	Payment to any person O/S India or in India to Non-resident	100%
40(a)(ia)	Payment In India To Resident	30%

Disallowed amount shall be allowed in the year in which TDS is deposited with GOVT.

Note:

However no disallowance shall be attracted if payee has furnished the return of income taking into account such amount in total income and has paid tax on such amount.

Example 16.

Mr. X made payment outside India to Mr. John during 2024-25

Show TDS implication in the following cases :-

1. Commission = 5,00,000
Date of payment = 15/07/2024
TDS Deducted on 14/07/24
TDS deposited on 31/12/24
Return Filing Date = 31/10/25
2. Commission = 5,00,000
Date of payment = 15/03/2025
TDS Deducted on 31/03/25
TDS deposited on 31/12/25
Return Filing Date = 31/10/25
3. Commission = 5,00,000
Date of payment = 15/03/2025
TDS Deducted on 15/04/25
TDS deposited on 15/07/25
Return Filing Date = 31/07/25
4. Commission = 5,00,000
Date of payment = 15/03/2025

TDS Deducted on 15/03/25
 TDS deposited 60% on 15/07/25 and 40% on 16/08/25
 Return Filing Date = 31/07/25

Example 17.

Mr. X made following payments in India to Resident. Show TDS implications

- Rent paid to Ram 4,00,000 on 01/03/25
 TDS deducted on 01/03/25
 TDS deposited on 16/08/25
 Return Filing date = 31/07/25
- Commission paid 5,00,000 on 15/03/25
 TDS deducted on 15/03/25
 TDS deposited 50% on 16/07/25 , 30% on 01/12/25 and 20% on 01/04/2026
 Return Filing date = 31/07/25

Section 40(a)(iii)

Any sum which is chargeable under the head 'Salaries' if it is payable outside India or to a non-resident and if the tax has not been paid thereon nor deducted.

Section 40(a)(v)

Tax paid on perquisites on behalf of employees is not deductible- In case of an employee, deriving income in the nature of perquisites (other than monetary payments), the amount of tax on such income paid by his employer is exempt from tax in the hands of that employee. Correspondingly, such payment is not allowed as deduction from the income of the employer.

Illustration 23: Mr. Ram has paid 20 lakhs as interest outside India in the P.Y. 2024-25. Determine whether deduction is allowed or not in the following cases:

TDS Deduction date	TDS Deposit date	Analysis
3/1/2025	10/03/2025	
1/4/2025	10/04/2025	
31/1/2025	10/12/2025	

Illustration 24: Mr. Ram has paid 20 lakhs as interest to Mr. Shawn in India in the P.Y. 2024-25. Determine whether deduction is allowed or not in the following cases:

TDS Deduction date	TDS Deposit date	Analysis
3/1/2025	10/03/2025	
1/4/2025	10/04/2025	
31/1/2025	40% on 10/07/2025 50% on 10/10/2025 Balance on 10/04/2026	

SECTION 40(b) PAYMENT OF SALARY OR INTEREST TO THE PARTNERS

- (a) Interest to the partner is allowed if mentioned in the partnership deed but maximum @ 12% p.a.
- (b) Payment of salary, bonus, commission or any other remuneration is allowed to the working partner subject to the following limits:

Book Profit(BP)	Max. Remuneration
Upto Rs. 6,00,000	90% of BP or Rs. 3 Lakh, whichever is higher
Beyond Rs. 6,00,000	60% of BP

Meaning of BP

Particulars	Amount
Profit as per Income Tax	-
Add: Remuneration to Partner (if debited to P/L)	-
Less: Brought forward Depreciation (Unabsorbed Dep)	(-)
Book Profit	-

Note: Brought forward losses shall not be adjusted for calculation of Book Profit.

Example 18. Calculate income under head PGBP

Profit as per Income Tax before dr. following items	15,00,000
Depreciation u/s 32 PY 24-25	3,50,000
Int on capital to partners (15%)	1,80,000
B/F unabsorbed Depreciation	1,70,000
Brought Forward loss	75,000
Salary paid by firm to partners	9,00,000

Illustration 25: Calculate maximum salary deduction allowed to XYZ partnership firm in following cases:

- (a) 6,00,000 (b) 2,90,000 (c) 1,10,000

Section 40A(2) Payment Made To Relatives

If A.O is of the opinion that having regard to FMV, payment is excessive or unreasonable, then such excessive or unreasonable payment shall be disallowed.

Meaning of Related Person

- For An individual → An individual who is relative of the assessee.
Relative, in relation to an “individual”, means the spouse, brother or sister or any lineal ascendant or descendant of that individual [Section 2(41)].
- For A Company → Director of the company or any relative of a director
- For A Firm → Partner of the firm or relative of a partner
- For An AOP → Member of the AOP or relative of a member
- For An HUF → Member of the family or relative of such person

Section 40A(3) Payment by Non Specified Mode

- A Payment or Aggregate of Payments made to A Person in A Day for An Expenditure exceeds Rs. 10,000 (Rs. 35,000 to Transporter for Goods Carriages],
- Entire payment shall be disallowed
- If it is made through any mode other than A/C payee cheque/Draft or an Electronic clearing system through bank A/C, Debit/Credit Card, IMPS, NEFT, RTGS, Net Banking, UPI etc.

Rule 6DD (exception to S.40A(3)) no disallowance for following payments:

1. Payments made to Cultivator, Grower or Producer of agricultural produce & related products etc
2. Payment made to Government, Banks, RBI, LIC
3. Payment to person residing @ place which is not served by bank.
4. Where the payment is made by any person to his agent who is required to make payment in cash for goods or services on behalf of such person;
5. Payment to employee for retirement benefit not exceeding Rs.50,000.
6. Payment of salary to EE who is posted to any other place or ship (not a normal place of duty) for a period of 15 days or more.
7. Where the payment is made for the purchase of the products manufactured in a cottage industry without the aid of power., to the producer of such products.
8. Where the payment is made by transferring funds from one bank account to the other or payment is being made by any credit card/a debit card/letter of credit etc., payment is allowed.
9. Payment by book entry i.e. adjustment entry passed in books.

Note:

1. If Expenditure has been allowed as deduction in any earlier PY on accrual basis (if assessee is following accrual basis) & payment for such expenditure has been made in any subsequent PY exceeding Rs. 10,000/35,000 in cash to a person in a day, then such payment shall be deemed to be the income of PY in which payment is made [Section 40A(3A)]
2. Sec 40A(3) does not Apply for Repayment of Loans (Capital Expenditure). But it applies to interest payments since interest is a Revenue expenditure.

Illustration 26: Following cash payments are found debited in P & L A/c. Discuss tax implications

1. June 11, 2024 5,000 paid to Mr. Ram
2. June 11, 2024 9,000 paid to Mr. Shyam
3. June 11, 2024 19,000 paid to Mr. Ram
4. June 12, 2024 8,000 paid to Mr. Shyam

Illustration 27: Discuss Tax Implications

1. If PQR Ltd. has paid 65,000 in cash

2. Mr. Rocky has paid 11,000 by a bearer cheque
3. If PQR Ltd. has paid 10,050 by a crossed cheque
5. PQR Ltd. has paid 35,000 by an account payee cheque
6. Mr. Rocky pays a salary to his employee 15,000 by crossed cheque
7. PQR Ltd. has paid 32,000 in cash to a goods transport agency for transportation of goods
8. Mr. Rocky purchases goods worth 75,000 on 01.01.2025 and payment was made 60,000 on 03.01.2025 by account payee cheque and 8,000 in cash on 03.01.2025 and 7,000 in cash on 05.01.2025
9. Mr. Rocky purchases goods worth 8,000 and 5,000 against two bills from Mr. Shawn and makes the payment 13,000 in cash in a single day
10. Mr. Rocky purchases goods worth 15,000 from Mr. Shawn against one bill but makes payment of 7,500 and 7,500 at different times on the same date.

Section 40A(7) Deductibility in respect of provision for Gratuity Fund

If provision (contribution) is made towards approved gratuity fund, then such provision is allowed as per Section 36(1)(v) subject to section 43B. However If provision (contribution) is made towards unapproved gratuity fund, then such provision is disallowed under Section 40A(7).

Section 43B Certain Payments Allowed On Payment Basis

Following expenditures are allowed if paid on or before the due date mentioned u/s 139(1):

- a) Tax, Duty, Cess or Fee (by whatever name called) levied under any law.
- b) Employer's Contribution to any SPF, RPF, Approved Superannuation Fund, Approved Gratuity Fund, Notified Pension Scheme or any recognized fund
- c) Leave Salary, Bonus/Commission to employees.
- d) Interest on any Loan or borrowing from any Bank, Financial Institution including NBFC.
- e) Any Sum Payable to Indian Railways for the use of Railways Assets.

Note:

1. If the payment is made after due date of filing of return of income, expenditure is allowed in the year in which the assessee has made the payment.
2. If outstanding interest on any loan or borrowing or advance, is converted into a new loan or borrowing or advance, shall not be considered as paid and hence not eligible for deduction. However, deduction shall be allowed for installments actually paid in respect of new loan.
3. Similarly if outstanding interest is converted into debentures, such conversion is not to be considered as actual payment.

Amendment By FA 2023

Any sum payable by the assessee to micro and small enterprise beyond the time limit specified in section 15 of the MSME Development Act, 2006 would be allowed as deduction only in that previous year in which such sum is actually paid.

As per section 15 of the MSME Development Act, 2006, payment is to be made to the supplier as follows:

- (a) in case of written agreement- as per agreement subject to maximum 45 days from the date of acceptance of goods and service
- (b) in case of no written agreement- maximum 15 days.

Example 19. Following amounts are payable to MSME . Determine amount of deduction during PY 2024-25

Enterprise	Invoice date	Due date as per agreement	Date of Payment
Micro	15/01/25	15/03/25	25/01/25
Small	15/02/25	25/03/25	01/04/25
Micro	19/03/25	No agreement	10/04/25
Small	25/03/25	No agreement	01/04/25
Medium	20/03/25	No agreement	25/06/25

Illustration 28: Debit side of the profit and loss account of X Ltd. shows the following expenses, which have been due but are outstanding as on March 31, 2025:

1. Leave encashment expenses 65,000. First payment on June 1, 2025 15,000. Second payment on Dec. 25, 2025 50,000.
2. GST payable 14,000. First payment on June 10, 2024 3,000. Second payment on April 1, 2025 11,000.
3. GST payable 48,000. First payment on Sept. 5, 2025 48,000.
4. Bonus payable to employees 87,000. First payment on May 2, 2025 30,000. Second payment on September 30, 2025 57,000.
5. Interest payable to LIC on loan 75,000. First payment on May 13, 2025 50,000. Second payment on January 10, 2026 25,000.
6. Municipal tax payable 5,000. Not yet paid.
7. Interest on loan taken from Z Ltd 5,00,000. Paid on 7-11-2025. Due date of filing return of income is 31/10/2025.

Find out the previous years in which the aforesaid payment are deduction. The company maintains book of account on the basis of mercantile system of accounting.

Section 44AA Compulsory Maintenance Of Books Of Accounts

1. Assessee engaged in Specified Professions

Gross receipts exceeds INR 1.5 Lakh in each of the last three PY	Gross receipts doesn't exceeds INR 1.5 Lakh in each of the last three PY
Prescribed Books as per Rule 6f	Necessary books to enable AO to assess the income.

Specified Profession

- | | |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <ol style="list-style-type: none"> 1. Legal profession 2. Medical profession 3. Engineering profession 4. Architectural profession 5. Profession of accountancy 6. Technical consultancy | <ol style="list-style-type: none"> 7. Interior decoration 8. Authorised representatives 9. Film artists 10. Company Secretary 11. Information Technology |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|

2. Assessee engaged in other Profession or Business

Required to maintain such books of a/c which will enable ao to compute their taxable income if any of the following conditions are satisfied in ANY ONE of the last 3 PY:

	Individual/HUF	Other Assessee
1. Income exceeds	INR 2.5 Lakh	INR 1.20 Lakh
2. Turnover or Gross Receipts exceeds	INR 25 Lakh	INR 10 Lakh

3. If a person fails to maintain books of account as required by section 44AA → penalty of Rs. 25,000 would be attracted u/s 271A.
4. Prescribe books as per Rule 6F
 - (i) a cash book;
 - (ii) a journal
 - (iii) a ledger;
 - (iv) Carbon copies of bills and receipts in relation to sums exceeding Rs. 25;
 - (v) Original bills and receipts of expenditure.
5. Preservation of the books of accounts The books of accounts are to be kept and maintained for the period of atleast 6 years from the end of the relevant assessment year.

Example 20. Mr. X Provides details of his turnover & Income of last 3 PY. Decide whether requirement of S.44AA is applicable or not ?

PY	Turnover	Income
23-24	24,00,000	2,50,000
22-23	25,00,000	2,40,000
21-22	19,00,000	2,10,000

Example 21. Suppose In above Q. if income of PY 23-24 = 2,60,000

Section 41 Deemed PGBP Income

1. Refund/Recovery of Deduction/Remission/Cessation of Trading Liability
Eg. Discount received while making payment to creditors; stock in trade is destroyed and allowed as trading loss and subsequently insurance claim is received.
2. Recovery of Bad Debt Allowed as deduction
3. Sale of Scientific Research Asset
4. Balancing Charge (In case of assessee engaged in Power Generation)

Section 44AB Compulsory Audit Of Books Of Accounts

Assessee Engaged In	Audit Requirement
Business	Turnover exceeds 1 Crore Proviso to Section 44AB(a) Inserted : NO AUDIT Upto 10 Crore Turnover if : a) If Turnover of assessee is more than 1 crore but upto 10 crore b) Aggregate of all Amounts received in cash is not more than 5% of total Receipts during the PY, and c) Aggregate of all Amounts paid in cash is not more than 5 % of total payments during the year.
Profession	Gross Receipts exceeds 50 Lakh
Persons covered under S. 44AD, 44ADA,44AE	If such person claims that his income is LOWER than Income computed on Presumptive basis & his Income Exceeds Basic exemption limit.

Penalty for failure to get books of account audited u/s 271B:

- a) 0.5% of Total Sales, Turnover Or Gross Receipts
- b) Rs. 1,50,000

Analysis

Turnover	Total Receipts	Cash Receipts	Total Payments	Cash Payments	Audit Requirement
85,00,000	90,00,000	45,00,000	70,00,000	55,00,000	
1,50,00,000	1,20,00,000	3,60,000	1,00,00,000	4,00,000	
5,00,00,000	4,50,00,000	31,50,000	4,00,00,000	20,00,000	
8,00,00,000	7,50,00,000	30,00,000	7,00,00,000	56,00,000	
10,00,00,000	9,00,00,000	45,00,000	8,00,00,000	32,00,000	
10,00,00,000	9,00,00,000	46,00,000	8,00,00,000	40,00,000	
11,00,00,000	10,00,00,000	50,00,000	9,00,00,000	45,00,000	

Presumptive Taxation

Section 44AD PROFITS AND GAINS OF BUSINESS ON PRESUMPTIVE BASIS

1. **Eligible Assessee:** Resident Individual/HUF/Firm except LLP
2. Section 44AD is applicable only to business and not to specified profession and also it is not applicable for the persons having earning as commission or brokerage or Agency Business.
3. Turnover of eligible assessee doesn't Exceed 2 crore
(3 crore, if aggregate cash receipts in relevant P.Y. is upto 5% of T.O. or G.R.)
4. **Presumptive Income = 8% of Turnover or Gross Receipts.** No further deduction is allowed under section 30 to 38.
Rate of 6% shall be applied instead of 8% if the Amount of total turnover or gross receipts which is received through specified mode upto RFD as per section 139(1).
5. Brought forward business loss is allowed to be adjusted from such income but brought forward depreciation is not allowed to be adjusted from such income.
6. If Assessee opts Section 44AD, then assessee shall be exempt from maintaining books of accounts as well as from audit requirement.
7. Such assessee shall be required to pay advance tax to the extent of 100% of tax liability on or before 15th March of the relevant previous year
8. If an assessee has opted for presumptive income under section 44AD and in the subsequent 5 years he has rejected presumptive income, in that case he will not be allowed to opt for presumptive income for next 5 year If assessee has rejected the presumptive income, he will be required to maintain any books of accounts and also audit is required.

Example 22. Calculate Income under head PGBP if

(a) S.44AD opted

(b) S.44AD not opted

- Turnover = 1,90,00,000 (80% received through specified mode)
- Expenses = 1,72,00,000
- B/F unabsorbed depreciation = 1,50,000
- B/F loss = 72,000

Illustration 29: Mr. X is engaged in a business with turnover 170,00,000 (all payments received by account payee cheque, bank draft or through electronic clearing) and expenses incurred in connection with earning of income are 160,00,000. He has LTCG 5,00,000. He has donated 4,00,000 to Rajiv Gandhi Foundation by cheque. He has brought forward loss of business 1,00,000 of previous year 2019-20. Compute his Income and Tax Liability for previous year 2024-25, in two situations–

- (i) He has opted for section 44AD.
- (ii) He has not opted for section 44AD.

Illustration 30: Mr. X engaged in Retails Trade, reports a turnover of 58,50,000 (all payments received in account payee cheque) for the financial year 2024-25. His income from the said business as per books of account is computed at 2,90,000. Retail trade is the only source of income for Mr. X.

- (i) Is Mr. X eligible to opt for presumptive determination of his income chargeable to tax for the Assessment Year 2025-26?
- (ii) Is so, determine his income from retail trade as per the applicable presumptive provision.
- (iii) In case, Mr. X has not opted for presumptive taxation of income 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?

SECTION 44ADA PRESUMPTIVE SCHEME FOR SPECIFIED PROFESSION

1. **Eligible Assessee:** Resident Individual or Partnership excluding LLP having specified profession
2. Section 44ADA shall be available if G.R. of PY is upto Rs. 50 Lakhs (75 akhs if aggregate cash receipts in relevant P.Y. \leq 5% of total gross receipts)
3. Presumptive Income = 50% of Gross Receipts. No further deduction is allowed under section 30 to 38.
4. Brought forward business loss is allowed to be adjusted from such income but brought forward depreciation is not allowed to be adjusted from such income.
5. If Assessee opts Section 44ADA, then assessee shall be exempt from maintaining books of accounts as well as from audit requirement.
6. Such assessee shall be required to pay advance tax to the extent of 100% of tax liability on or before 15th March of the relevant previous year.
7. Assessee can change the option on a year-to-year basis.

Section 44AE BUSINESS OF PLYING, HIRING OR LEASING GOODS

1. If any person is engaged in the business of plying, hiring or leasing goods carriages, he will have the option to compute PGBP on presumptive basis:
 - a) Heavy goods Vehicle (Gross Weight > 12,000 Kgs or 12 Tons) \rightarrow Rs. 1,000 per ton per month or part thereof.
 - b) Other vehicle: Rs. 7,500 per month or part thereof.

Note: income is calculated on the basis of ownership of vehicle. It is irrelevant whether assessee actually runs the vehicle or not.

2. Assessee should not own more than 10 vehicles at anytime during the year.
3. No further deduction is allowed under section 30 to 38 but in case of a firm interest and salary to partners is allowed as per section 40(b).
4. The assessee shall be exempt from maintaining books of accounts or audit.
5. The assessee has the option to reject presumptive income but in that case assessee should maintain any books of accounts and also audit is required.
6. An assessee, who is in possession of a goods carriage, whether taken on hire purchase or on instalments, shall be deemed to be the owner of such goods carriage.
7. Assessee can change the option on year-to-year basis.
8. Brought forward depreciation shall not be allowed to be adjusted but brought forward business loss shall be allowed to be adjusted.

Example 23. Mr. X own 7 Trucks during PY 24-25. Details of which are as follows.

Trucks	Gross Weight	Owned for
2	14 MT	7 Month + 10 days
3	10 MT	9 Month + 5 days
2	9 MT	11 Month + 20 days

Illustration 31: Mr. X retired from Govt. service in March 2024. He got 20,00,000 on account of retirement benefits. Out of the aforesaid sum, he purchased on 23rd April 2024 a few motor vehicles and got their delivery on that date. The particulars of the vehicles are given below–

Vehicle	Number	Cost of the vehicle
Heavy goods Vehicle (15 ton)	2	9,00,000
Medium goods Vehicle (8 ton)	4	4,50,000
Light commercial Vehicle (4 ton)	3	3,20,000

He started plying the vehicles from 04.06.2024. On an average every vehicle remains off the road for about a week for repairs and maintenance. He maintains a rough record of the receipts and outgoings which is given below–

Receipts	3,70,000
Less: Expenses (Excluding depreciation and salaries to Mr. Y)	(60,000)
Profit	3,10,000

You are required to compute the Total Income of Mr. X from the business of goods carriage for the previous year 2024-25.

Illustration 32: An assessee owns a heavy commercial vehicle having gross vehicle weight of 15 ton each for 9 months 15 days, a medium goods vehicle having gross vehicle weight of 8 ton for 9 months and a light goods vehicle having gross vehicle weight of 5 ton for 12 months during the previous year. Compute his income applying the provisions of section 44AE

Illustration 33: Mr. Chauhan is having a trading business and his Trading and Profit & Loss Account for the financial year 2024-25 is as under:

Particulars	Amount (₹)	Particulars	Amount (₹)
To Opening stock	1,50,000	By Sales	2,70,00,000
To Purchase	2,49,00,000	By Closing stock	1,00,000
To Gross profit	20,50,000		
Total	2,71,00,000	Total	2,71,00,000
Salary to employees (Including Contribution to PF)	5,00,000	By Gross Profit b/d	20,50,000
Donation to Prime Minister Relief Fund	1,00,000		
Provision for bad debts	50,000		
Bonus to employees	50,000		
Interest on bank loan	50,000		
Family planning expenditure incurred on employees	20,000		
Depreciation	30,000		
Income-tax	1,00,000		
To Net profit	11,50,000		
Total	20,50,000	Total	20,50,000

Other information:

- He incurred expenditure on furniture & fixtures of ₹ 35,000, which is paid in cash on 25.7.2024 to M/s Décor World.
- Depreciation allowable ₹ 40,000 [excluding depreciation on furniture & fixtures refer in (i) above] as per Income-tax Rules, 1962.
- No deduction of tax at source on payment of interest on bank loan has been made.
- Out of salary, ₹ 25,000 pertains to his contributions to recognized provident fund which was deposited after the due date of filing return of income. Further, employees contribution of ₹ 25,000 was also deposited after the due date of filing return of income.

Compute business income of Mr. Chauhan for the Assessment Year 2025-26.

Illustration 34: You are required to compute the business income of Mr. Anoop, a resident individual aged 55 years, for the Assessment Year 2024-25 from the following information shown in his Profit and Loss Account for the year ended 31st March 2024:

- The net profit was ₹ 8,40,000.

- (ii) Depreciation debited in the books of account was ` 1,05,000.
- (iii) The following incomes were credited in the Profit & Loss Account :
 - (a) Interest on notified government securities ` 32,000
 - (b) Dividend from a foreign company ` 28,000.
 - (c) Gold chain worth ` 78,000 received as gift from his mother.
- (iv) Interest on loan amounting to ` 82,000 was paid in respect of capital of ₹ 8,20,000 borrowed for the purchase of new plant & machinery which has been put to use on 12th April, 2023.
- (v) General expenses included:
 - (a) An expenditure of ` 18,500 which was paid by a bearer cheque.
 - (b) Compensation of ` 4,500 paid to an employee while terminating his services in business unit.
- (vi) Depreciation allowable as per Income-tax Act, 1961 was ₹ 1,16,000 [without considering depreciation on new plant & machinery referred to in (iv) above].

CHAPTER 3D: INCOME UNDER THE HEAD CAPITAL GAINS

Chargeability of capital Gains [Section 45(1)]

Any profits or gains arising from the transfer of a capital asset effected in the previous year shall be deemed to be the income of the previous year in which the transfer took place.

Capital assets Section 2(14)

“Capital asset” includes all assets Except

- i) any stock-in-trade
- ii) Personal movable effects. However, following personal movable assets shall be capital asset—
 - (a) jewellery;
 - (b) archaeological collections;
 - (c) drawings;
 - (d) paintings;
 - (e) sculptures; or
 - (f) any work of art.

- iii) Rural Agriculture Land.
Meaning of Urban Area

- a) Any area (municipality, cantonment board etc) which has a population of 10,000 or more.
- b) In the following area within the distance measured aerially

Shortest Distance	Population according to latest census
Upto 2 Km	More than 10,000 but upto 1,00,000
Upto 6 Km	More than 1,00,000 but upto 10,00,000
Upto 8 Km	More than 10,00,000

- iv) Gold Deposit Bonds, 1999 or deposit certificate issued under the gold monetization scheme, 2015.

Types Of Capital Assets

Short-term capital asset = Capital asset held by an assessee for not more than 24 months, except in the following cases:

Short Term Upto 12 Months

- (a) Shares Listed in Recognised Stock Exchange;
- (b) A unit of the Unit Trust of India or an equity oriented mutual fund;
- (c) A zero coupon bond
- (d) Any other security listed in a recognized stock exchange in India

Example 1

Identify which of the following is capital Asset

1. Yacht owned by Akshay Kumar
2. Gold watch owned by Ranbir Kapoor
3. MF Hussain Painting in Mukesh Ambani Guest room
4. Chartered Aircraft owned by Reliance Ltd
5. Land owned by Reliance Ltd.
6. Land owned by Shahrukh Khan
7. Jewellery held by Nita Ambani

Computation of Short term Capital Gains & Long Term Capital Gains [Section 48]

Short Term Capital Gain	Amount	Long Term Capital Gain	Amount
Full Value Of Consideration	-	Full Value Of Consideration	-
Less: Transfer Expenses	-	Less: Transfer Expenses	-
Net Consideration	-	Net Consideration	-
Less: Cost Of Acquisition (COA)	-	Less: Indexed COA	-
Less: Cost of Improvement (COI)	-	Less: Indexed COI	-
Gain Before Exemption	-	Gain Before Exemption	-
Less Exemption Claimed	-	Less Exemption Claimed	-
STCG Taxable	-	LTCG Taxable	-

- Expenditure incurred on transfer of asset is allowed as deduction. For example Brokerage on transfer of asset etc. However STT paid at the time of purchase as well as at the time of transfer of share shall be ignored.
- Land & Building are separate assets under capital gain. If land is purchased before 2 years and building has been constructed within 2 years then while calculating capital gain, we have to calculate separate capital gain for both assets. Being land is held for more than 24 months there shall be LTCG, whereas building is held for upto 24 months there shall be STCG.

Asset purchased before 01.04.2001

If any capital asset has been purchased or constructed before 01.04.2001, in that case cost

of acquisition shall be Higher of:

- a. Actual Cost of Acquisition.
- b. FMV as on 1/4/2001.

Note: In case of land and building, COA shall not exceed SDV as on 1/4/2001

- COI Shall be Considered only if incurred on/after 1/4/2001
- COI by Previous Owner shall also be Considered If incurred after 1/4/2001

Indexation Factor

Year	C.I.I	Year	C.I.I	Year	C.I.I
2001-02	100	2009-10	148	2017-18	272
2002-03	105	2010-11	167	2018-19	280
2003-04	109	2011-12	184	2019-20	289
2004-05	113	2012-13	200	2020-21	301
2005-06	117	2013-14	220	2021-22	317
2006-07	122	2014-15	240	2022-23	331
2007-08	129	2015-16	254	2023-24	348
2008-09	137	2016-17	264	2024-25	363

Example 2

Calculate Capital Gain for PY 24-25

1. Land and building purchased on 15/10/2010 for 50,00,000
2. Improvement cost incurred 10,00,000 on 15/11/2020
3. Land and Building transferred on 15/03/25 for 98,00,000
4. Brokerage paid on transfer @1% of sale value

Example 3

Calculate Capital Gain for PY 24-25

1. Land and building purchased 5,00,000 on 01/04/95
2. FMV and SDV as on 01/04/2001 are 7,50,000 and 7,00,000 respectively
3. Improvement cost incurred 3,00,000 on 01/04/2010
4. On 01/11/24 it was sold for 1,25,00,000 and Transfer expenses @1%

Example 4

Calculate Capital Gain for PY 24-25

1. Land and building was purchased on 01/07/1997 for 10,00,000
2. Ground floor constructed on 01/11/1999 for 5,00,000
3. FMV and SDV as on 01/04/2001 are 19,00,000 and 16,00,000 respectively
4. First floor constructed on 01/04/2016 for 15,00,000
5. On 01/07/2024, House was sold for 1,50,00,000 @ 1% transfer expenses

Section 2(47) Meaning of Transfer

1. The sale, exchange or relinquishment of the asset.
2. The extinguishment of any rights therein. Extinguishment covers destruction of the assets. E.g. Termination of a lease; redemption of preference shares/debentures.
3. The compulsory acquisition of the asset by the govt.
4. Conversion of asset into stock-in-trade.
5. Possession of any immovable property in part performance of a contract.
6. Any transaction which has the effect of transferring, or enabling the enjoyment of, any immovable property. [it is by becoming a member in a co-operative society, company or other association of persons]
7. Maturity or redemption of zero coupon bond.

Section 47. What is not transfer

- (i) Gift, will or inheritance of property
- (ii) Distribution of capital assets on the partition of a Hindu Undivided Family.
- (iii) Conversion of bonds/debentures into shares of that company
Notes:
 - a) COA of shares shall be COA of that part of debentures which is so converted.
 - b) POH of shares shall include POH of debentures.
- (iv) Conversion of preference shares into equity shares of that company.
Notes:
 - a) COA of equity shares shall be COA of that part of preference shares which is so converted.
 - b) POH of equity shares shall include POH of preference shares.
- (v) Transfer of capital asset in a transaction of reverse mortgage.
Note: any amount received by senior citizen under this scheme is fully exempt.

Example 5

Calculate Capital Gain for PY 24-25

1. Jewellery purchased ₹15,00,000 on 01/04/2000
2. FMV as on 01/04/2001 is ₹14,00,000
3. Improvement cost incurred ₹5,00,000 on 01/04/2016
4. On 01/04/24 It was sold for ₹70,00,000

Illustration 1

Mr. X purchased house 01.04.2001 for ₹2,00,000 and incurred ₹3,00,000 on improvement on 01.07.2002 and it was received by his son Mr. Y on 01.07.2012 and Mr. Y incurred ₹4,00,000 on improvement 01.07.2014 and house was sold by him on 01.07.2024 for ₹100,00,000, in this case tax liability of Mr. Y shall be?

Illustration 2

Mr. X purchased one house property on 01.07.2002 for 2,00,000 and it was gifted to Mr. Y on 01.11.2020 and value for the purpose of charging stamp duty was 5,00,000 and subsequently the house property was sold by Mr. Y on 01.01.2025 for 25,00,000, in this case tax liability of Mr. Y shall be?

Section 49(1). Deemed cost of acquisition

In case the asset is acquired through a mode given in section 47 (Gift to relative or will) then cost of acquisition is cost to the previous owner. Previous owner is the person who acquires the asset by paying the price. Period of holding shall be computed from the date the previous owner acquires the asset.

Example 6

Calculate Capital Gain for PY 24-25

1. On 01/10/95, Mr. R purchased house property for 15,00,000
2. On 01/10/2000, he incurred improvement cost of 5,00,000
3. On 01/10/2020, he incurred improvement cost of 15,00,000
4. On 01/04/2022, property was gifted to Mr. K (son)
5. On 01/10/2023, he incurred improvement cost of 20,00,000
6. On 01/12/2024, property is sold by Mr. K for 1cr @ 2% transfer expense.
7. FMV and SDV on 01/04/2001 was 22,00,000 and 21,00,000 respectively.

Conversion of Asset into Stock-in-trade [Section 45(2)]

1. Conversion of capital asset into stock shall be deemed to be transfer and capital gain shall be arise in the year of such conversion.
2. For this purpose FMV on date of conversion shall be considered as full value of consideration.
3. Capital gain shall be taxable in the year in which such SIT is sold.

Capital Gain	Amount	PGBP	Amount
FMV on conversion Date	-	Sale Value	-
Less: COA/ICOA	-	FMV on conversion date	-
Less: COI/ICOI	-		
STCG/LTCG	-	PGBP	-

Example 7

Calculate Capital Gain for PY 24-25

Jewellery was purchased for 10,00,000 on 01/07/2012

It was converted into Stock-in-Trade on 01/03/2024 (FMV = 19,00,000)

Such Stock-in-trade was sold on 16/07/2024 for 23,00,000

Example 8

Calculate Capital Gain for PY 24-25

Land was purchased on 01/10/10 for 75,00,000

It was converted into Stock-in-Trade on 01/11/2023 (FMV = 1,80,00,000)

On 01/11/2024, 20 flats constructed @ cost of 15,00,000 each

On 01/03/2025, 15 flats sold @ 40,00,000 each

On 01/05/2025, 5 flats are sold for 42,00,000 each

Example 9

Calculate Capital Gain for PY 24-25

Mr. X is a dealer of residential flats has 100 flats held as stock in trade

On 01/10/2021, it was converted into capital asset (i.e. put to use for personal purpose of Mr. X)

Cost of such flat was 50,00,000 and FMV on date of conversion is 60,00,000

On 01/03/2025, Mr. X sold this flat for 95,00,000

Illustration 3

Mr. X purchased Gold on 01.10.1991 for ₹2,00,000 and its fair market value on 01.04.2001 is 3,00,000 and he converted it into stock-in-trade on 01.10.2009 and market value of the gold on the date of conversion was ₹11,00,000 and subsequently half of the stock-in-trade was sold on 01.10.2021 for 6,50,000 and balance half was sold on 01.10.2024 for ₹7,50,000. Compute his total income for various year

Illustration 4

A is the owner of a car. On 1-4-2023, he starts a business of purchase and sale of motor car He treats the above car as part of the stock-in-trade of his new business. He sells the same on 31-3-2024 and gets a profit of 1 lakh. Discuss the tax implication in his hands under the head "Capital gains".

Treatment of Insurance claim received

If any capital asset is destroyed due to fire, flood, earthquake, riot, civil disturbance etc and insurance claim is received, then capital gain is applicable and shall be calculated as follows

Particulars	Destruction of CA [Section 45(1A)]
Sale Consideration	Insurance Compensation
Deemed Transfer	In The PY of Destruction
Taxability	PY of Receipt of Money

Example 10

Calculate Capital Gain for PY 24-25

On 16/07/2012 Jewellery purchased for 10,00,000

Jewellery of FMV 25,00,000 was destroyed due to fire broke out on 15/03/2024

Insurance claim was filed on 16/03/2024

On 15/04/2024, Insurance claim of 24,50,000 was received

Example 11

Calculate Capital Gain for PY 24-25

Car was purchased 15,00,000 on 01/07/2020

On 15/03/2024 , Car destroyed . FMV = 5,00,000 and WDV of car = 3,90,000

Claim filed on 16/03/2024

Insurance claim 5,90,000 received on 01/04/2024.

Treatment Of Advance Money Forfeited

Forfeited Before 1.4.2014	Reduced from Original COA before Indexation
Forfeited on/after 1.4.2014	Taxable u/h IFOS u/s 56(2)(ix)

Transfer of capital asset to Firm

If any partner transfers capital asset to the firm as a capital contribution or otherwise, then capital gain shall be arise in the hands of such partner and shall be dealt as follows:

Particulars	Capital Contribution By Partner [Section 45(3)]
Sale Consideration	Value of CA recorded in Firm books.
Deemed Transfer	Year of contribution
Taxability	PY in which CA is givento firm

Illustration 5

Mr. X and Mr. Y are two partners of a firm X & Co. On 01.01.2025, Mr. Z joins the firm and brings shares in a company as his capital contribution. Fair market value of these shares on 01.01.2025 is ₹5,00,000 where as Amount credited in Mr. Z's account in the firm is ₹4,00,000. Assuming that cost of acquisition in 2007-08 of these shares was ₹48,000, find out the Amount of chargeable capital gain for the assessment year 2025-26 in the hands of Mr. Z

No Indexation In Following Cases

1. Zero Coupon Bonds
2. Debentures/Bonds
3. Slump Sale [Section 50B]
4. Depreciable Assets
5. Long term capital assets specified u/s 112A. [AY 2019-20].

Compulsory Acquisition of Capital Asset [Section 45(5)]

Full Value of Consideration	Compensation Fixed
Taxability	Year in which initial compensation is received. If compensation is received in installments, then also Entire Capital Gain on Total Compensation is taxable in PY of receipt of 1st Instalment
Transfer	Year In which asset is compulsorily acquired.
Indexation	Shall be done upto the year of transfer
Enhanced compensation	Taxable in the year of receipt after deducting litigation expenses.

Example 12

Calculate Capital Gain for various PY

- On 01/10/2016, Land was purchased for 40,00,000
- On 01/05/2022, it was compulsorily acquired by Govt. and compensation was fixed at 1,90,00,000
- On 01/05/2023, Initial compensation received 1Cr.
- On 01/11/2023, suit was filed against UP-Govt
- On 01/05/2024, Balance compensation received 90,00,000
- On 01/05/2025, Enhanced compensation 25,00,000 received with litigation expense of 5,00,000

Illustration 6

Mr. X (Date of birth 01.10.1946) has purchased one house on 01.04.1995 for ₹4,00,000 and incurred 2,00,000 on its improvement on 01.10.1998. Its market value on 01.04.2001 was ₹3,00,000. This house was acquired by the Government on 01.10.2014 and the compensation fixed was ₹50,00,000 and the Government has paid half of the compensation on 01.10.2024 and balance half on 01.10.2025. The assessee has filed an appeal for increasing the compensation and the court has given decision on 31.03.2026 directing the Government to pay additional compensation of 5,00,000. The Government has paid half of the Amount on 01.04.2027 and balance half on 01.04.2028. He has invested 72,000 in NSC in previous year 2024-25. Compute assessee's total income for the assessment year 2025-26 and also capital gains for various year

Illustration 7

Mr. X purchased one house on 01.07.1997 for ₹2,00,000 and incurred ₹1,00,000 on its improvement in 1998-99 and its market value as on 01.04.2001 is ₹2,50,000. She incurred ₹2,00,000 on its improvement in 2012-13 and the house was acquired by the Government on 01.07.2015 and compensation fixed is 60,00,000 and half of the Amount was paid by

the Government on 01.01.2025 and balance half on 01.01.2026. She has also received interest of ₹2,00,000 in previous year 2024- 25 from the Government for delay in payment of compensation. Income under the head Business/Profession was ₹20,03,990. Compute total income of Mr X for the Assessment Year 2025-26.

Capital Gain In Case Of Specified Agreement [Section (45(5A)]

Transaction	Cap. Gain on Transfer of L&B or Both under Specified Agreement
Applicable to	Individual & HUF
Taxability	Year In which completion certificate is received
Transfer	Date of handing over the possession to real estate developer
FVC	SDV of share in project as on date of receiving completion certificate as increased by money consideration (if any)

Consequences of Transfer before Date of Issue of Completion Certificate: Benefit u/s 45(5A) is not available if the assessee transfers his share in a project on/before the issue of the completion certificate to any person.

In such case, CG shall arise in the year of such transfer.

In such case, section 45(5A) will not apply and FVC shall be as per S.50C.

Example 13

Calculate Capital Gain for PY 24-25

1. Mr. J purchased land for 15,00,000 on 2010
2. Mr. X (Real estate developer) entered into Joint development agreement with Mr. J on 2022
3. 50 flats was constructed (30 flats for Mr. X and 20 flats to Mr. J)
4. Mr. X paid 5,00,000 to Mr. J at the time of taking possession of land
5. Land possession was hand over on 15/07/2022
6. Flats construction completed on 15/07/24 and completion certificate received.

FVC In Case of Transfer of Land or building or Both [Section 50C]

In case of land or building or both, If SDV exceeds 110% of sales consideration then SDV shall be considered as FVC.

If SDV Exceeds 110% of Sales Consideration	
Yes	No
FVC = SDV	FVC = Actual Sales Consideration

Example 14

Calculate Full Value of consideration (FVC) as per Section 50C

1. Sale value = 95,00,000 and SDV = 1,05,00,000
2. Sale value = 74,00,000 and SDV = 80,00,000
3. Sale value = 82,00,000 and SDV = 90,20,000

If the Date of agreement and date of registration is different and advance has been received by specified mode at the time of agreement

Yes	NO
SDV as on the 'agreement date' shall be considered	SDV as on the 'registration date' shall be Considered

Where assessee claims that SDV is more than the FMV of immovable property and such SDV is not disputed in any appeal then A.O may revert the case to valuation officer and FVC shall be determined as follows:

Value Adopted by Valuation Officer	FVC
Exceeds SDV	SDV i.e. Valuation Officer value is ignored.
Doesn't exceed SDV But Exceed Actual Sale Value	Value adopted by Valuation officer
Is less than Actual Sale Value	Actual Sales Consideration

Example 15

Calculate Capital Gain for PY 24-25

1. Mr. X purchased land on 01/04/1996 for 6,00,000
2. FMV and SDV as on 01/04/2001 are 5,00,000 and 7,00,000 respectively
3. On 01/04/2023, Building was constructed for 50,00,000
4. On 01/07/2024, agreement to sale this land and building for 2Cr. And received advance of 10,00,000 through crossed cheque (SDV = 2.05 cr)
5. On 01/10/2024, title transfer to buyer and received balance consideration of 1,90,00,000 through NEFT (SDV = 2.40 cr)
6. Brokerage @1% of sale value

Illustration 8

1. Mr. X who transferred his land and building on 10.02.2025, furnishes the following information:
2. Net consideration received 35,00,000.
3. Value adopted by stamp valuation authority, which was contested by Mr. X 50,00,000.
4. Value ascertained by Valuation Officer on reference by the Assessing Officer 52,00,000.
5. This land was distributed to Mr. X on the partial partition of his HUF on 01.04.2001. Fair market value of the land as on 01.04.2001 was 1,60,000.

6. A residential building was constructed on the above land by Mr. X at a cost of 3,50,000 (construction completed on 01.12.2012) during the financial year 2013-14.

Illustration 9

What will be your answer in above question if value adopted by valuation officer is 45,00,000

COA Of Self Generated Assets

	COA	COI
Brand name & Trademark associated with the business or profession	Nil	NA
Tenancy rights	Nil	NA
Goodwill of a business or profession	Nil	Nil
Right to manufacture, produce or process any article or thing, for aconsideration (Patent)	Nil	Nil
Right to carry on any business or profession	Nil	Nil

Note :

- i. If the asset is purchased then purchase price is the COA.
- ii. In case of goodwill of a business or profession on which depreciation is claimed upto PY 2019-20, the COA of such goodwill would be purchase price as reduced by the total amount of depreciation(upto P.Y.19-20
- iii. FMV as on 1-4-2001 is ignored.

Capital Gain In Case Of Slump Sale [Section 50B]

When whole unit is sold at lumpsum without valuing each asset individually is termed as slump Sale.

FVC	Higher of: Sales Consideration Received OR FMV of capital Asset transferred
COA	Net worth of unit. However, if any asset has been revalued, then such revaluation shall be ignored

Notes:

1. Net Worth = Total Assets – outside Liabilities
2. If any upward revaluation of asset has been done, then such revaluation shall be ignored.
3. If Net worth is negative then consider it as zero.
4. If stock is transferred in slump sale, then PGBP income shall be arise.
5. If unit is sold after holding for more than 24 months, then capital gain shall be long term capital gain otherwise short-term capital gain. However, no indexation benefit

shall be available even in the case of long-term capital gain.

Illustration 10

Mr. A is a proprietor of ABC Enterprises having 2 units started on 01.04.2014. He transferred on 01.04.2024 his unit 1 by way of slump sale for a total consideration of 90 Lacs whereas FMV of capital assets on the date of transfer is 92 Lacs. The expenses incurred for this transfer were 1,30,000/-. His Balance Sheet as on 31.03.2024 is as under:

Liabilities	Amount	Assets	Unit 1	Unit 2	Total
Share Capital	42,00,000	Building	30,00,000	8,00,000	38,00,000
Revaluation reserve Of building (unit 1)	12,00,000	Machinery	10,00,000	4,00,000	14,00,000
Bank Loan (70% for unit 1)	8,00,000	Debtors	6,00,000	1,40,000	7,40,000
Trade Creditors (25% for unit 1)	6,20,000	Other Assets	7,00,000	1,80,000	8,80,000

Compute the capital gain for the assessment year 2025-26.

Capital Gain In Case Of Depreciable Asset

- All the assets of the block are transferred:
In case all the assets in any block are transferred during the previous year then the block shall cease to exist and no depreciation will be allowed. It can happen in the following two cases:
 - STCG u/s 50 When Sale price > Block Value
 - STCL u/s 50 When Sale price < Block Value
- Part of block is sold and the sale consideration of assets exceed block Value
STCG u/s 50 When Sale price > Block Value

Capital Gain In Case Of Sale Of Share

- In case of original shares, cost of acquisition shall be the actual cost but if it was purchased before 1/4/2001, cost of acquisition shall be the actual cost or FMV as on 01.04.2001, whichever is higher.
- In case of bonus shares, cost of acquisition shall be nil but if bonus shares are issued before 01.04.2001, COA = FMV on 1/4/2001
- In case of right shares, cost of acquisition shall be the amount for which such shares have been purchased.
- If right to purchase right shares has been renounced, amount received shall be considered to be short term capital gains.
- Cost of acquisition for the right renouncee shall be the amount paid to the person renouncing the right and amount paid to the company.

Transfer of Equity Shares or Equity oriented units or units of business trust

LTCG u/s 112A

- LTCG on transfer of equity shares or equity oriented units or units of business trust, in excess of ₹ 1,25,000 shall be taxable at the rates specified below if following conditions are satisfied:

- STT is paid at the time of acquisition and transfer of equity shares
- STT is paid at the time of transfer of equity oriented units or units of business trust.

Transfer Date	Rate
Upto 22/7/2024	10%
W.e.f 23/7/2024	12.5%

- Cost of Acquisition in case of Capital Gains u/s 112A

As per section 55(2) (ac), In case of equity shares or units of equity oriented mutual funds or units of business trust which have been sold w.e.f. 01.04.2018 onwards, cost of acquisition shall be higher of:

- Cost of acquisition
 - Lower of
 - Fair market value of such asset on 31.01.2018 (Highest Quoted Price)
 - Actual sale value.
- Deduction u/s 80C to 80U and Rebate u/s 87A shall not be allowed in respect of CG u/s 112A.

STCG u/s 111A

- STCG on transfer of equity shares or equity oriented units or units of business trust shall be taxable at the rates specified below if STT is paid at the time of transfer of such assets:

Transfer Date	Rate
Upto 22/7/2024	15%
W.e.f 23/7/2024	20%

- Deduction u/s 80C to 80U and Rebate u/s 87A shall not be allowed in respect of CG u/s 112A.

Example 16

Calculate Capital Gain

- Mr. X is existing shareholder of A Ltd.
- A Ltd. Offer to buy 1000 right shares @50 each (FMV of share = 80 each)
- X Renounce right to Y for 10 per share (All share rights was transferred)

Example 17

Calculate Capital Gain for PY 24-25

1. On 01/04/1999, 100 shares were purchased @50 per share
2. 100 bonus shares were received on 01/04/2000
3. 200 bonus shares were received on 01/04/2005
4. On 01/04/2010, received 400 right shares options @500 per share out of which 100 shares were renounced @75 per share and rest were Purchased
5. On 01/11/2023, 500 fresh shares were acquired at 700 per share
6. On 01/07/2024, all shares are sold @900 each

Example 18

Calculate Capital Gain for PY 24-25

1. 1000 shares of A Ltd. Was purchased on 01/07/2016 @500 per share
2. 500 bonus shares were allotted on 01/04/2019
3. FMV as on 31/01/2018 was 750 per share
4. All shares are sold on 01/07/24 @1250 per share
 - (a) Shares sold through Recognized stock exchange and STT was paid both at the time of acquisition and transfer
 - (b) Shares sold privately (i.e. not on recognized stock exchange)

Illustration 11

Mr. X purchased 100 equity shares in ABC Ltd. on 01.10.1995 @₹10 per share. The company has issued 100 bonus shares on 01.10.1998 and market value of the shares on 01.04.2001 was 7 per share. The company has again issued 100 bonus shares on 01.10.2013. The company has offered 100 right shares on 01.04.2020 @₹140 per share though the market value is 250 per share. Mr. X purchased half of the shares and remaining half were renounced by him in favour of his friend Mr. Y. He has charged 20 per share from Mr. Y for renouncing the right. All the shares were sold by Mr. X and Mr. Y @ 300 per share on 01.01.2025. Mr. X has income under the head house property ₹2,20,000 and has causal income ₹50,000 and has invested 1,00,000 in NSC. Mr. Y has income under the head house property ₹3,50,000 and has invested ₹30,000 in NSC. Compute total income of Mr. X and Mr. Y.

Illustration 12

Mr. X purchases 1,000 equity shares in X Ltd. at a cost of 15 per share (brokerage 1%) in January 1998. She gets 100 bonus shares in August of ₹2000. She again gets 1100 bonus shares by virtue of her holding on February 2006. Fair market value of the shares of X Ltd. On April 1, 2001 is 25. In January 2025, she transfers all her shares @₹120 per share (brokerage 2%). (market value on 31-01-2018 is 70 per share) Compute the capital gains taxable in the hands of Mr X

- X Ltd. is an unlisted company and securities transaction tax was not applicable at the time of sale.
- X Ltd. is a listed company and the shares are sold in a recognized stock exchange and

securities transaction tax was paid at the time of sale.

Illustration 13

A Ltd. has issued 1,00,000 shares of ₹10 each and the company goes into liquidation on 01.10.2024 and distributable asset of the company are valued at ₹8 lakh. The company's accumulated profits on the date of liquidation are ₹3.5 lakhs which are included in ₹8 lakhs. Mr. X has purchased 100 shares in this company on 01.10.1998 for ₹10 each and market value of the shares on 01.04.2001 is ₹12 per share. Compute dividends in the hands of Mr. X and also capital gains

Conversion of Debentures

If debenture is converted into equity shares then such conversion shall not be considered as transfer and hence no capital gain shall arise. However, when such equity share received at the time of conversion is transferred then capital gain shall arise. For this purpose, COA of equity share shall be taken as cost of debenture and also period of holding of debenture shall be considered in period of holding of Equity shares.

Example 19

Calculate Capital Gain for PY 24-25

1. On 01/10/2020, 1000 10% debentures were purchased @₹500 per debenture
2. On 01/10/2023, they were converted into equity shares and received 4 shares for every debenture
3. On 31/12/2024, shares are sold @₹750 per share

Illustration 14

Mr. X has purchased 100 debentures in ABC Ltd. on 01.10.2002 @₹300 per debentures and subsequently these debentures were converted into shares on 01.10.2017 and 3 shares were issued for each debenture. The assessee has sold all the shares on 01.04.2024 @₹750 per share and market value as on 31-01-2018 500 per share. Compute capital gains for the assessment year 2025-26 in the following situations:

- a) STT not paid
- b) STT Paid

Capital Gain on Redemption of Zero Coupon Bonds

- Redemption of zero-coupon bond shall be treated as transfer.
- Amount received at the time of redemption shall be considered as FVC.
- No indexation benefit is available even if ZCB transferred are Long term.

Example 19

Calculate Capital Gain for PY 24-25

Purchased 1,000 Zero coupon bond at 25/- per bond on 01/07/2014
They were redeemed on 01/07/24 (Redemption value is 100 per bond)

Exemptions

	S. 54	S.54B	S.54D
Asset Transferred	LT – Residential House Property	Agriculture land (Urban)	L/B – Industrial Undertaking Compulsory Acquired
Assessee	Individual/HUF	Individual/HUF	Any Assessee
Investment	New Residential House Property (Note 1)	New Agriculture Land(Urban/Rural)	New Land/Buildingfor Industrial Undertaking
Time Limit for Invest.	Purchase – within 1 yr before or within 2 yearsfrom transfer date Construct – within 3 years from Transfer Date	Within 2 years from Transfer Date	Within 3 years from Date of Receipt of compensation
Quantum Of Exemption	Lower of: Amount Invested Capital Gain Rs. 10 Crore	Lower of Amount Invested Capital Gain	Lower of Amount Invested Capital Gain
Lock in period of new asset	3 Years. Otherwise, LTCGexempted earlier shall be reduced from COA of New Asset	Same as Sec. 54	Same as Sec. 54
CGAS	Available	Available	Available

Other Exemptions

	S.54 EC	S.54F
Asset Transferred	LT – Land/Building	Any LT Capital Asset Except Residential House Property
Assessee	Any Assessee	Individual/HUF
Investment	Specified Bonds	New RHP
Time Limit for Invest.	Within 6 months from the transfer date	Same as S.54

Quantum Of Exemption	Lower of: <ul style="list-style-type: none"> • Amount Invested • Capital Gain • Subject to Max = 50 Lacs 	Lower of: <ul style="list-style-type: none"> • $\frac{LTCG \times \text{Amount Invested (Max 10 Crore)}}{\text{Net Consideration}}$ • LTCG
Additional Condition	Not Applicable	1. Assessee should not own more than one RHP on the date of Transfer Of LTCA
		2. Should not purchase any other house within 2 years or construct within 3 years after date of transfer of original Asset.
Lock in period of new asset	5 Years. Otherwise, LTCG exempted earlier shall be Taxable in the year in which the asset is sold or converted into money	3 Years. Otherwise, LTCG exempted earlier shall be Taxable in the year in which the asset is sold
CGAS	Not Available	Available

Notes: If LTCG is upto 2 crore, then assessee can claim exemption u/s 54 for 2 house property. In other cases he can only purchase one house for claiming exemption under this section.

CAPITAL GAINS A/C SCHEME (CGAS):

- If Investment is not made before Due Date of filing of ROI, then to claim exemption assessee can deposit the amount in CGAS if not invested for the specified purpose.
- Such deposit in CGAS should be made before filing ROI or before Due Date of filing ROI, whichever is earlier.
- If amount deposited is not utilized for specified purpose within stipulated period, then unutilized amount shall be taxed as capital gain of PY in which specified period expires.
- If Individual dies before stipulated period, unutilized amount is not taxable in the hands of legal heirs of deceased individual

Illustration 15

Mr. X purchased one residential house on 01-07-2001 for ₹2,00,000 and it was sold by him on 01-07-2023 for 100 lakhs and he purchased one house in 01-07-2025 for ₹20,00,000. He sold this house on 01-07-2026 for ₹22,00,000. Compute capital gains for various year

Illustration 16

Mr. X purchased one house on 01.04.2001 for 2,00,000 and sold the house on 01.07.2024 for ₹70,00,000 and purchased one house on 01.09.2024 for 12,00,000 and it was sold by

him on 01.01.2025 for ₹15,00,000. He is aged 82 year Compute his income and tax liability for assessment year 2025-26.

Illustration 17

Mr. X Purchased one residential house on 01.04.2001 for ₹2,00,000 and it was sold by him on 01.07.2023 for ₹50,00,000 and he purchased a new house on 01.09.2024 for 55,00,000 and this house was sold by him on 01.07.2025 for ₹56,00,000. Compute his tax liability for AY 2024-25 and also capital gains for all the year

Illustration 18

Mr. X purchased agricultural land on 01.10.2002 for ₹3,00,000 and it was being used for agricultural purposes by him. It was sold on 01.01.2025 for 50,00,000. The assessee has purchased one agricultural land in the rural area on 10.01.2024 for ₹10,00,000 and this land was sold by him on 11.09.2025 for ₹11,00,000 and has invested 30,000 in National Saving Certificate. He is aged about 86 year

Compute his tax liability for assessment year 2025-26.

Presume the land was purchased in the urban area instead of rural area.

Illustration 19

Mr. X has an agricultural land (costing ₹6 lakh) in Lucknow and has been using it for agricultural purposes since 01.04.2004 till 01.08.2014 when the Government took over compulsory acquisition of this land. A compensation of ₹10 lakh was settled. The compensation was received by Mr. X on 01.07.2024. Compute the Amount of capital gains taxable in the hands of Mr. X.

Illustration 20

Will your answer be different if the land belonged to ABC Ltd. and not Mr. X and compensation on compulsory acquisition was received by the company? Explain.

Illustration 21

Mr. X has one industrial undertaking in panki industrial area and the building which is being used for industrial purposes was purchased on 01.10.2007. Since then it was being used for industrial purpose and was purchased for ₹23,00,000 and its w.d.v. as on 01.04.2015 is ₹10,38,000. This building was acquired by the Government on 01.01.2020 and compensation fixed was ₹25,00,000. Entire payment was released by the Government on 01.07.2024. The assessee has purchased one building for the purpose of industrial undertaking in Dada Nagar Industrial Area on 01.01.2024 for ₹6,00,000. Compute his tax liability for assessment year 2025-26.

Illustration 22

Mr. X purchased agricultural land in the urban area on 01.04.2001 for 3,00,000. It was being used for agricultural purposes since then and was sold by the assessee on 01.07.2024 for ₹1,23,00,000. He made following investments:

Bonds of National Bank for Agriculture and Rural Development on 01.10.2024 for 1,50,000 which are redeemable after 5 year

He purchased agricultural land on 01.11.2024 for 2,00,000.

He has invested 75,000 on 01.12.2024 in the bonds of National Highway Authority of India redeemable after five year

He sold the bonds of National Highway Authority of India on 15.04.2025 for 3,00,000.

Compute his capital gains for various years and also tax liability for assessment year 2026-27

Illustration 23

Mr. X purchased gold on 01.04.1991 for ₹3,00,000 and its market value on 01.04.2001 is 2,00,000. This gold was sold by him on 01.01.2025 for ₹35,00,000 and selling expenses are 37,000. He has purchased one house on 01.05.2024 for 4,00,000 because he did not have any house in his name and he deposited ₹3,00,000 in capital gain account scheme on 30.09.2025. Mr. X is also engaged in a business and he has turnover of his business ₹1,05,00,000 and cost of goods sold 100,00,000 and other expenses ₹5,10,000. He has withdrawn ₹2,00,000 from capital gain account scheme on 01.01.2025 and constructed 1st floor of the house which was purchased by him on 01.05.2024. Remaining Amount in the capital gain account scheme was unutilized. Compute assessee's tax liability for assessment year 2025-26 and capital gains for various year

Illustration 24

Mr. X sold gold for ₹5,50,000 on 01.10.2024 which had been acquired by him in October, 2004 for 55,000. He wants to utilize the said Amount of sale consideration for purchase or construction of a new residential house. He already owns one residential house at the time of sale of the gold on 01.10.2024. He has deposited ₹4,00,000 under the capital gains deposit scheme with a specified bank on 30.04.2025. Ascertain the capital gains taxable in Mr. X's hands for assessment year 2025-26 and advise him as to what further action he has to take to avail the exemption

CHAPTER 3E: INCOME UNDER THE HEAD OTHER SOURCES

Section 56 Basis OF Charge

1. Any income which is not charged under any other head is charged under this head.
2. Following incomes are always charged under this head.
 - a) Gifts;
 - b) Dividend;
 - c) Lottery, Betting, Gambling or any other casual income,;
 - d) Rent of Plant;
 - e) Income from owning and maintaining race horses.
 - f) Family pension less (1/3rd or ₹ 15,000/25,000 - whichever is lower).
 - g) Maturity proceeds of keyman insurance policy Received by Legal Hier.
 - h) Interest On Securities/Bank Deposits

Security Held As SIT	Income Under The head PGBP
Security Held As Investment	Income Under The head Other Sources

Interest on Post Office Savings Bank A/c Upto Rs. 3,500 in case of Individual A/c; & Upto Rs. 7,000 in case of Joint A/c is exempt as per section 10(15).

- i) Director's Fee
- j) MP's/MLA's salary;
- k) Rent from vacant land;
- l) Income from sub letting;
- m) Royalty
- n) Examinership remuneration
- o) Insurance commission
- p) Agricultural income from agricultural land situated outside India
- q) Interest on delayed refund of income tax

Casual Incomes

- Taxable @ 30% + SC (if any) + 4% HEC on tax u/s 115BB
- No deduction for any Expenditure incurred shall be allowed.
- No Deduction under chapter VI-A Shall be allowed and also no loss is allowed to be adjusted with this income.
- Adjustment of unexhausted Basic Exemption Limit is also NOT ALLOWED
- GROSSING UP of Winning from Lottery/Interest on securities:
If Net Amount is given, it shall be grossed up. Tax will be levied on Gross Income.

$$\text{Gross Amount} = \text{Net Amount} \div [1 - \text{Tax Rate}]$$

Illustration 1

Mr. X purchased one lottery ticket of ₹10,000 and there was a winning of ₹ 12,00,000. He has no other income. Calculate his tax liability

Interest On Enhanced Compensation

- Taxable in PY of Receipt;
- 50% of Receipt is Deductible u/s 57.
- Hence only 50% amount shall be chargeable to tax.

Illustration 2

Interest on enhanced compensation received by Mr. X during the previous year 2024- 25 is 5,00,000. Out of this interest, 1,50,000 relates to the previous year 2017-18, 1,65,000 relates to previous year 2017-18 and 1,85,000 relates to previous year 2019-20. Discuss the tax implication, if any, of such interest income for A.Y. 2025-26

Taxability Of Gift

- Any gift or benefit arising from business or profession shall be taxable under head PGBP
- Any gift received by EE from ER shall be taxable under head Salaries.
- Other Gifts are taxable as follows:

A. Money Gift

Aggregate Money Gift Received Exceeds Rs. 50,000	
Yes	No
Entire Gift Is Taxable	Not Taxable

B. Gift Of Movable Property**i. Without Consideration**

Aggregate FMV Exceeds Rs. 50,000	
Yes	No
Entire Gift Is Taxable	Not Taxable

ii. Inadequate Consideration

Aggregate of (FMV – Consideration Paid) Exceeds Rs. 50,000	
Yes	No
Aggregate (FMV – Consideration Paid) is taxable	Not Taxable

Movable Property Includes

- | | |
|--------------------------------|---------------|
| a) Shares & Securities | d) Sculptures |
| b) Jewellery including Bullion | e) Painting |
| c) Archaeological collection | f) Drawing |

g) Any Work Of Art

h) Virtual Digital Asset

C. Gift Of Immovable Property

i. Without Consideration

SDV Exceeds Rs. 50,000	
Yes	No
Entire Gift Is Taxable	Not Taxable

ii. Inadequate Consideration

SDV Exceeds 110% of Consideration Paid & (SDV – Consideration Paid) Exceeds Rs. 50,000	
Yes	No
(SDV – Consideration Paid) is taxable	Not Taxable

Exceptions

1. Received under a will or inheritance.
2. Received on the marriage of individual.
3. Received from any relative
4. Received in contemplation of death of the payer.
5. Received from registered charitable institute reg u/s 12ab, hospital, medical institutions, university or educational institution reg u/s 10(23c).
6. Received from any local authority u/s 10(20).

Meaning Of Relatives

A. For Individual

- i. Spouse of the Individual
- ii. Brother/sister of the Individual
- iii. Brother/sister of Spouse of Individual
- iv. Brother/sister of either of Parents of the Individual
- v. Lineal Ascendant/Descendant of the Individual.
- vi. Lineal Ascendant/Descendant of Spouse of the Individual
- vii. Spouse of any of the persons referred earlier

B. For HUF – Members of HUF are Relatives.

Example 1

Compute the Gift Taxable

Property	FMV	Consideration Paid
Jewellery	1,50,000	1,28,000
Drawings	75,000	70,000
Sculpture	95,000	1,00,000
Car	5,70,000	5,10,000

Shares	95000	70,000
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Example 2

Vaibhav received following Gifts from his Mitra & Mahila Mitra on his birthday :-

- Diamond Ring from Mahila Mitra = ₹ 95,600 (FMV)
- Cash from his friend Jaggu = ₹ 15,000
- Land and Building from his friend Mangu = ₹ 51,000 (SDV)
- Vaibhav also purchase painting for ₹ 61,000 (FMV = 90,000) to provide as return Gift to Mahila Mitra.

Show tax implication in hands of Vaibhav.

Example 3

Roman purchase land from Jaqat on 15/07/24 for ₹7,00,000 having SDV of ₹10,00,000

Jagat purchased this land on 01/01/24 for ₹6,00,000.

Show Tax implication in hands of Jaqat & Roman.

Example 4

Mihir purchase 1000, 10% debenture of A Ltd. from Karan on 15/7/24.

Company pays interest for 6 Months each on 30/9 & 31/3 every year.

Calculate interest taxable in hands of Mihir.

Example 5

Suppose in above example, Mihir purchased debenture directly from company on 15/7/24.

Illustration 3

Mr. X, a dealer in shares, received the following without consideration during the P.Y.2024-25 from his friend Mr. Y

1. Cash gift of 75,000 on his anniversary, 15th April, 2024.
2. Bullion, the fair market value of which was 60,000, on his birthday, 19th June, 2024.
3. A plot of land at Faridabad on 1st July, 2024, the stamp value of which is 5 lakh on that date. Mr. Y had purchased the land in April, 2016.
4. Mr. X purchased from his friend Z, who is also a dealer in shares, 1000 shares of X Ltd. @ 400 each on 19th June, 2024, the fair market value of which was 600 each on that date. Mr. X sold these shares in the course of his business on 23rd June, 2024.
5. On 1st November, 2024, Mr. X took possession of property (building) booked by him two years back at 20 lakh. The stamp duty value of the property as on 1st November, 2022 was 32 lakh and on the date of booking was 23 lakh. He had paid 1 lakh by cheque as down payment on the date of booking.

Compute the income of Mr. X chargeable under the head "Income from other sources" for A.Y. 2025-26.

Illustration 4

Discuss the taxability or otherwise of the following in the hands of the recipient under

section 56(2)(x) the Income-tax Act, 1961

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

Illustration 5

Compute the Amount charged under the head "Income from Other Sources"

1. Mr. X gifts immovable property to Mr Y. Its stamp duty value is 15,00,000. Market price 20,00,000.
2. Mr. X sells his immovable property to Mr Y for 25,00,000. Its stamp duty value is 30,00,000.
3. Mr. Y has received gift of agricultural land having stamp duty value of 45,000 from Mr. A and also a residential house from Mr. B having a stamp duty value of 2,00,000.
4. Mr. Y has received gift of industrial land having stamp duty value of 6,00,000 from his grandson.
5. Mr. X gifts immovable property to D Ltd. Its stamp duty value is 35,00,000. Market price 60,00,000.
6. X purchases building for 5,00,000 having stamp duty value of 5,50,000.
7. X purchases building for 12,00,000 having stamp duty value of 12,60,000.
8. Stamp duty value on the (a) date of agreement 8,00,000 (b) date of registration 8,70,000. Consideration for acquisition of property 7,62,000. Advance paid by cheque.
9. Stamp duty value on the (a) date of agreement ₹ 8,00,000 (b) date of registration ₹ 8,70,000. Consideration for acquisition of property 7,62,000. Advance not paid.

Illustration 6

Compute the Amount charged under the head "Income from Other Sources"

1. Mr. X gifts shares to Mr Y. Prescribed FMV is 4,00,000.
2. Mr. X sells his Jewellery to Mr Y for 8,00,000. Prescribed FMV is 9,00,000.
3. Mr. X sells his M. F. Hussain paintings to Mr Y for 7,00,000. Prescribed FMV is 7,30,000.
4. Mr. Y has received gift of Jewellery having prescribed FMV of 30,000 from Mr. A and also shares whose prescribed FMV 40,000 from Mr. B.
5. Mr. Y has received gift of M. F. Husain paintings having prescribed FMV of 80,000 from his father.
6. Mr. X received 50,000 by cheque from Mr. A. Immovable property of 30,000 from Mr. B. Jewellery of 35,000 from Mr. C.
7. Mr. X gifted Jewellery worth 2,00,000 to his friend's daughter on the occasion of her marriage. After 2 years, he gifted diamond of 50,000 on the birth of their first child.
8. Mr. X gifts Rolls Royce car to Mr Y. Prescribed FMV is 3.5 Cr.

9. Mr. Y has received gift of Jewellery having prescribed FMV of ₹ 50,000. Mr. Y has purchased shares of 2,00,000 whose prescribed Fair Market Value is ₹ 2,50,000.

Family Pension

After the death of employee, employer may pay some pension to family member of the employee which is called 'Family Pension'.

It is taxable under the head other sources but as per section 57 deduction is allowed equal to 1/3rd of such pension but maximum ₹15,000 [25,000 in default regime]

Exemption in Respect of Family Pension

1. Family Pension received by widow or children or nominated heirs, of a member of armed forces (including para-military forces) of the union, where death of such member has occurred in the course of operational duties is exempt
2. Family pension received by any member of family or individual who have been in the service of central or state govt. and have been awarded any notified gallantry awards is exempt.

Illustration 7

Mrs. X is getting family pension of 7,000 p.m. She also has dividend income from domestic company of 7,00,000. She has long term capital gain of 3,89,000. Compute her tax liability.

Dividend

1. Received from domestic company – Fully Taxable
2. Received from Foreign Company – Fully Taxable.
3. Dividend Includes Deemed dividend u/s 2(22) (a) to (e)
Note: Expenses Incurred for earning dividend shall not be allowed except Interest on loan subject to maximum 20% of dividend Income.

Section 2(22)(a)

Distribution by Company to Shareholder which Releases Company's Asset shall be deemed dividend to the extent of accumulated profits including capitalized Profits.

Example 6

A Ltd. Distributed silver coins Gift of 15,00,000 on occasion of Diwali

Compute deemed dividend if Accumulated profits (a) 25,00,000 (b) 12,00,000

Example 7

ABC Ltd. has share capital of 35 lakhs. The company has general reserve of 25 lakhs and has distributed Silver coins to shareholders on the occasion of Diwali. Determine Amount of dividend u/s 2(22)(a) if FMV of silver coins are:

- a) 20 Lakh
- b) 25 Lakh

c) 30 Lakh

Section 2(22)(b)

If any company has distributed Debentures/Deposit certificates to shareholders or bonus shares to preference shareholders it will be considered to be dividend but only to the extent of accumulated profits including capitalized profits

Section 2(22)(c)

If any company has distributed any amount to its shareholders in connection with its liquidation, it will be considered to be dividend but only to the extent of accumulated profits and any excess over it shall be considered to be full value of consideration as per section 46 and capital gains shall be computed accordingly.

Example 8

A Ltd went into liquidation on 15/7/24 on which Accumulated Profits was ₹ 15,00,000 and Capitalized profits was ₹ 5,00,000.

Mr. J Hold 5000 shares in A Ltd which is equivalent to 10% ownership in A Ltd.

Mr. J purchased 5000 share on 15/9/23 for ₹ 50/share.

On 12/12/24 After paying off all the liabilities, A Ltd. distributed ₹ 5,00,000 to Mr. J

Show tax implication.

Example 9

ABC Ltd. has 1,00,000 equity shares of 10 each and the company goes into liquidation on 31.07.2024 and company has net distributable Amount of 60 lakhs after discharging all the liabilities including income tax and additional income tax and it includes accumulated profits of 20 lakhs and the entire Amount was distributed among the shareholders and Mr. X is holding 10,000 equity shares which were purchased by him on 01.03.2024 for 1,10,000. Show tax implication.

Section 2(22)(d)

Any distribution to its shareholders by a company on the reduction of its capital, to the extent to which the company possesses accumulated profits

Section 2(22)(e)

Distribution of Accumulated Profits by Closely Held company by way of ADVANCE/LOAN to

- (i) Shareholders beneficially holding at least 10% equity shares in the company;
- (ii) Any person on behalf of such shareholders/for benefit of such shareholder;
- (iii) Any CONCERN in which such shareholder has substantial interest;
- (iv) Any CONCERN in which such shareholder is member/partner.

Exception:

Money lending is substantial business of company & loan is given in ordinary course

Following Payments shall not be treated as Deemed Dividend:

- (a) Trade Advances like commercial transactions

- (b) Payment on Buy-back of shares;
- (c) Distribution of shares in the scheme

Example 10

Mr. X holding 28% of equity shares in a company took a loan of 5,00,000 from the same company. On the date of granting the loan, the company had accumulated profit of 4,00,000. The company is engaged in some manufacturing activity.

- a) Is the Amount of loan taxable as deemed dividend in the hands of Mr. X, if the company is a company in which the public are substantially interested?
- b) What would be your answer, if the lending company is a private limited company i.e. a company in which the public are not substantially interested?

Life Insurance Policies Maturity Proceeds (Section 10(10D))

- a) **Maturity Amount Received at the time of Death**
Fully exempt in the hands of recipient as per Section 10(10D)
- b) **Otherwise**
 - i. **For Policies issued before 1/4/2023**
Maturity amount received by assessee shall be exempt u/s 10(10D) if premium paid is upto 10% of the capital sum assured
 - ii. **For Policies issued before 1/4/2023**
Maturity amount received by assessee shall be exempt if both of following conditions are satisfied:
 - a) Premium paid is upto 10% of the capital sum assured and
 - b) aggregate premium for all the policies taken after 1/4/2023 for the year is upto ₹5,00,000.
However, if aggregate premium exceeds ₹5,00,000, then assessee can claim the exemption for those policies whose aggregate premium is upto ₹5,00,000.

Example 14

Capital Sum Assured = 50,00,000

Premium paid p.a. = 3,00,000

Show Tax treatment

Example 15

Capital Sum Assured = 50,00,000

Premium paid p.a. = 6,00,000

Amount received on maturity = 50,00,000

Show Tax treatment

Example 16

Capital Sum Assured = 50,00,000

Premium paid p.a. = 6,00,000

Maturity proceeds of 50,00,000 received to legal heir on death of insured.

Show Tax treatment**Example 17**

Particulars	Policy A	Policy B	Policy C	Policy D	Team Insurance
Issue date	1/4/23	1/4/24	1/4/24	1/7/24	1/9/24
Capital sum assured	25L	20L	22L	25L	50L
Premium paid	2L	2L	1.90L	2L	1L

Determine which policy eligible for exemption so that assessee have maximum benefit.

Example 18

Following Policies issued on 1/7/24

Show Tax treatment

Policy	C.S.A.	Premium Paid (p.a.)
Policy 1	15,00,000	1,20,000
Policy 2	10,00,000	90,000
Policy 3	25,00,000	2,60,000
Policy 4	15,00,000	1,50,000

Inadmissible Deductions Section 58

- a) Personal Expenses
- b) Excessive Payment to Relative
- c) Cash Payment > Rs. 10,000 other than through specified mode.
- d) Payment on which TDS provisions applicable but TDS not deducted on time or deducted but not deposited on time.

CHAPTER 4: CLUBBING OF INCOME

- Under the Income-tax Act, 1961, an assessee is generally taxed in respect of his own income. However, there are certain cases where an assessee has to pay tax in respect of income of another person.
- The provisions for the same are contained in sections 60 to 64 of the Act.
- These provisions have been enacted to counteract the tendency on the part of the taxpayers to dispose of their property or transfer their income in such a way that their tax liability can be avoided or reduced

Section 60 – Transfer of income without transfer of Asset

If Only income is transferred without transfer of asset, then such income is to be clubbed in the hands of transferor.

Eg. Mr. A has two house and each house is let out for ₹ 10 lakh p.a. He has transferred income of one of the house to his wife Mrs. A. In this case, clubbing provision shall be applicable and income shall be taxable in the hands of Mr. A.

Section 61 - Revocable transfer of Asset

If only asset is transferred on revocable basis, then income from such assets shall be clubbed in the hands of transferor

Section 62 – Exception of Section 61

Section 61 will not apply to any income arising to any person if there is –

1. A transfer by way of trust which is not revocable during the lifetime of beneficiary; and
2. Any other transfer, which is not revocable during the lifetime of transferee
Provided the transferor does not derive any direct or indirect benefit.

If the transferor receives direct or indirect benefit from such income, such income is to be included in his total income even though the transfer may not be revocable during the life time of the beneficiary or transferee.

Example Mr. Ram has transferred one asset to Mr. Shyam with the condition that the asset shall be retained by Mr. Shyam as long as he is alive and after that the asset shall be taken back by Mr. Ram. In this case, clubbing provision shall not apply.

Section 63 – Meaning of Revocable Transfer

Transfer is deemed to be revocable if –

- (a) It contains any provision for the re-transfer, directly or indirectly, of the whole or any part of the income or assets to the transferor, or
- (b) It gives, in any way to the transferor, a right to reassume power, directly or indirectly, over the whole or any part of the income or the assets

Example 1

Mr. J transfer House Property for lifetime of Mr.F, who let out property at 50,000 per month Rent to Mr. S

Example 2

Mr. J transfer House Property for lifetime of Mr. F on a condition that Mr. F will pay 50,000 per month to Mr. J

Mr. F earns rental income of 1,20,000 from such house property

Illustration 1

Mr. A transferred 2,000 debentures of 100 each of W Ltd. to Mrs. A on 13.05.2024 without consideration. The company paid interest of 130,000 in September, 2024 which was given as a loan by Mrs. Ram to K in October, 2024. K paid interest of 13,000 upto March, 2025. How would both the interest income be charged to tax in assessment year 2025-26?

Section 64 – Provisions related to Spouse, Son's wife, HUF and Minor Child

Provisions related to Spouse:-

- Remuneration to Spouse
- Assets transferred to Spouse on non-revocable basis
- Capital invested in Spouse's business

Remuneration to Spouse

If the spouse of any individual receives any salary, commission, fees or other remuneration from a concern where such individual has substantial interest, then such remuneration shall be clubbed in hands of such individual

No Clubbing shall be done in the above case, if :-

- Such remuneration is paid because of technical or professional qualifications of the spouse, or
- Skills and experience possessed by the spouse

Meaning of Substantial Interest

If individual along with their relatives hold atleast 20% of ownership or has atleast 20% shares in profits of the concern at any time during the PY

Relative means –

- Spouse of the individual
- Brother/Sister of the individual
- Lineal ascendent or descendent of the individual

Notes:

1. In case if both husband and wife has substantial interest and both receives remuneration, then clubbing provisions will apply and income will be added in the hands of such spouse, whose income is higher before adding the clubbed income
2. In case if other income does not exist, then clubbing will apply to such individual whose income is higher
3. Once Such clubbing is applied in the hands of any of the spouse, then it will be continue to be clubbed in such hands in subsequent years also, irrespective of the level of income unless Assessing Officer is satisfied to club such income in the hands of other spouse

Example 3

Mr. C is 12th Pass and holding 21% equity in X Ltd. And gets salary of 6,00,000 per annum without having any prior knowledge and skills. Mrs.C (Wife) is 5th Fail and holding 22% equity in X Ltd. And gets salary of 7,00,000 per annum without having any prior knowledge and skills. Show Tax treatment

Illustration 2

Mr. Ram, entered into the following transactions during the previous year 2024–25:

- a) Mr. Ram had a fixed deposit of 4,00,000 with Bank of India. He instructed the bank to credit the interest on the deposit @ 9% from 01.04.2024 to 31.03.2025 to the savings bank account of Ms. Y, his niece, to help her in her higher education.
- b) Mr. Ram holds 51% share in a partnership firm. MR. Ram (wife of Mr. Ram) received a remuneration of 90,000 from the firm for writing its books of accounts. MR. Ram, being a fashion designer, does not possess any qualification or training in the accountancy field.
- c) Mr. Ram gifted a flat to Mrs. Ram on April 1, 2022. During the previous year 2024–25, she received rent of 18,500 p.m. from letting out of the flat.
- d) Mr. Ram gifted 4,00,000 to his minor son who invested the same in a business and he derived income of 80,000 from the investment.
- e) Mr. Ram's minor daughter derived an income of 25,000 from participation in music shows. During the year, Mr. Ram got a monthly pension of 18,000. He had no other income. Mrs. Ram received salary of 25,000 per month from a part time job as a fashion designer.

Discuss the tax implications of each transaction and compute the total income of Mr. R and MR. Ram.

Illustration 3

Mr. Ram is an employee of X Ltd. and he has 25% shares of that company. His salary is 50,000 p.m. Mrs. Ram is working as a computer software programmer in X Ltd. at a salary of 30,000 p.m. She is, however, not qualified for the job. Compute the gross total income of Mr. Ram and Mrs. Ram, assuming that they do not have any other income.

Illustration 4

Will your answer be different if Mrs. Ram was qualified for the job?

Illustration 5

Mr. Ram is an employee of Y Ltd. and has substantial interest in the company. His salary is 20,000 p.m. Mrs. Ram is also working in Y Ltd. at a salary of 12,000 p.m. without any qualifications. Mr. Ram also receives 30,000 as interest on securities. Mrs. Ram owns a house property which she has let out. Rent received from tenants is 6000 p.m. Compute the gross total income of Mr. Ram and Mrs. Ram.

Income from assets transferred to spouse on non-revocable basis

If the individual transfers any asset (Other than House Property) to the spouse, without consideration or inadequate consideration, then the income arising on such transferred asset shall be clubbed in the hands of transferor

- If there is inadequate consideration, clubbing provisions shall be applicable only with regard to the income relating to that part of consideration which is considered to be inadequate
- Provisions of clubbing shall be apply if the relationship of spouse exists both at the time of transfer of assets as well as at the time of accrual of income
- Income from Clubbed income shall not be clubbed
- If the asset is transferred under an agreement to live apart, clubbing provisions shall not apply
- If an individual transfers a house property to the spouse, then transferor shall be deemed to be the owner of the house property

Capital contribution in Spouse's business

Amount to be clubbed = $\frac{\text{Profit of the year} \times \text{Amount invested by the individual as on 1st day of PY}}{\text{Capital employed in the business as on 1st day of PY}}$

If any person has transferred the asset to the spouse and spouse has invested it in some partnership firm as capital contribution, in this case –

- Interest received from the partnership firm shall be clubbed
- If any salary has been received from firm, it will not be clubbed
- If any salary has been received from the profits of the firm, it will be exempt

Note : If any person has given loan to spouse, income earned by spouse, by investing such loan amount then clubbing provision shall not applied.

Example 4

Capital as on 01/04/24 was ₹5,00,000

Mr. A gifted ₹7,00,000 to Mrs. A on 01/04/24 which she Invested In business immediately

- a) Profit of PY 2024 -25 = 5,00,000
 b) Profit of PY 2025-26 = 7,00,000

Mrs. A transferred 50% of profit to Mr. A as Gift

Show Tax Implication

Illustration 6

A proprietary business was started by Smt. X in the year 2020. As on 01.04.2023, her capital in business was 4,00,000. Her husband gifted 3,00,000 on 01.04.2023, which Smt. X invested in her business on the same date. Smt. X earned profits from her proprietary business for the Financial year 2023–24 2,00,000 Financial year 2024–25 2,40,000 Financial year 2025–26 2,80,000. Amount of profit was further invested in the business. Compute Amount to be clubbed in the income of Husband of Smt. X in each of the year.

Transfer of asset for benefit of spouse

If any asset is transferred by any individual to any other person, but for the benefit of the spouse, then income from such assets shall also be clubbed in the hands of transferor

Provisions related to Son's wife

Same Provisions as that of spouse

Note :- The relation of Son's Wife must exist both at the time of transfer as well as accrual of income

Illustration 7

Mr. Ram gifts 1 lakh to his wife MR. Ram on April 1, 2024 which she invests in a firm on interest rate of 14% per annum. On January 1, 2025, MR. Ram withdraws the money and gift it to her son's wife. She claims that interest which has accrued to the daughter-in-law, from January 1, 2025 to March 31, 2025 on investment made by her is not assessable in her hands but in the hands of Mr. Ram. Is this correct?

What would be the position, if MR. Ram has gifted the money to minor grandson, instead of the daughter-in law?

Provisions related to minor

Income of minor child, including minor married daughter shall be clubbed in the hands of either of the parent whose before such clubbing is higher

Note :-

- Once such clubbing is done in any PY then it will continue to be clubbed in the hands of same parent in subsequent years also, irrespective of the level of income unless the Assessing Officer is satisfied to change
- If child is maintained by a single parent, then clubbing shall be apply in hands of that parent who maintains the child
- If parents of minor child is not alive then the income of minor child cannot be clubbed and guardian of minor child shall file the return of such income on behalf of the minor child
- Under optional tax regime – Whenever minor child's income is clubbed, exemption up to ₹1500 per child can be claimed

Minor child's income shall not be clubbed if :-

1. Income is earned by minor child through manual or physical work
2. Income earned by minor child through application of knowledge or skills

3. If minor child is suffering from any disability

Illustration 8

Mr. Ram 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. Ram.

Illustration 9

Mr. Ram, a mentally retarded minor, has a total income of 1,20,000. The total income of his father Mr. Shyam and of his mother MR. Shyam for the relevant assessment year is 2,40,000 and 1,80,000 respectively. Discuss the treatment to be accorded to the total income of Mr. Ram for the relevant assessment year

Section 64(2) – Provisions related to HUF

If any member of HUF transfers his property to their HUF without consideration, then income arising from such asset shall be clubbed in the hands of such member

During Partition of HUF – Clubbing provisions shall not be applicable However, income from that part of asset which has been received by the spouse and minor child of such person shall be clubbed in the income of such member

Section 65 – Liability of transferee in clubbing

A.O. has the power to collect the tax from transferee also, in case the tax cannot be recovered from transferor

Cross Transfer

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.

Example :-

A making gift of ₹ 50,000 to the wife of his brother B for the purchase of 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 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 are cross transfers to reduce their burden of Taxation Accordingly, the income arising to Mrs. B from the house property should be included to the total income of B and the dividend from the shares transferred to A's minor son would be taxable in the hands of A.

CHAPTER 5: SET-OFF AND CARRY FORWARD OF LOSSES

Set-off of Losses

Intra Head Adjustment (Section 70)

Set off of loss from one source of income against another source under the same head of income is known as Intra Head Adjustment. It is also known as Inter Source Adjustment.

Inter Head Adjustment (Section 71)

Set off of loss from one head of income against another head of income is known as Inter Head Adjustment.

Heads of Income	Intra Head Adjustment	Inter Head Adjustment
Loss under head House Property	Set off with any other income of house property.	Loss is allowed to be set off with Income under any head except from Casual Income Note: - 1. Loss of Maximum Rs. 2,00,000 is allowed to be adjusted and remaining loss shall be Carry forward 2. No Inter Head Adjustment is available under new regime with respect to loss under head House Property.
Loss under head PGBP		
<ul style="list-style-type: none"> Specified Business Loss (S.35AD) 	Can only be adjusted against specified business income	Not Applicable.
<ul style="list-style-type: none"> Speculative Business Loss 	Can only be adjusted against speculative business income	Not Applicable.
<ul style="list-style-type: none"> Non-Speculative Business Loss 	Can be adjusted against any other business income without any monetary restrictions	Can be adjusted against any other head except Income under head salary and Casual Income.

Loss under head Capital Gain		
<ul style="list-style-type: none"> • Short term capital loss 	Can be adjusted against any long-term Capital Gain (LTCG u/s 112 & LTCG u/s 112A) or Short term Capital Gain (STCG u/s 111A or other STCG)	Not Applicable.
<ul style="list-style-type: none"> • Long term capital loss 	Can be adjusted only against Long term Capital Gain (LTCG u/s 112 & LTCG u/s 112A)	Not Applicable.
Loss under head other sources		
<ul style="list-style-type: none"> • Loss of Owning & Maintaining Race Horses 	Can be adjusted only against Income from Owning and Maintaining Race Horses	Not Applicable.
<ul style="list-style-type: none"> • Any other loss under head other sources 	Can be adjusted against any other income from other sources except from Casual Income	Can be adjusted against any other head except from Casual Income

Notes :-

1. If there is income available then loss has to be adjusted against such income, i.e. Set-off is mandatory, not optional
2. Only Intra-Head Adjustment is allowed once loss is carried forward to next assessment year.
3. No loss is allowed to be set off against Casual Income, unexplained income, unexplained investment, cash credit etc

Order of Set-Off under head PGBP	
Current year Business income before Depreciation	-
(-) Depreciation of Current Year	(-)
(-) B/F Business loss	(-)
(-) Unabsorbed Depreciation/Scientific Research Expenditure/Family Planning Promotion Expenditure	(-)
Income/Loss under head PGBP	-

Carry Forward of Losses

Losses	Carry Forward
1. Loss under head house property	C/F for Maximum 8 AY
2. Specified Business Loss (S.35AD)	C/F Without any limit
3. Speculative Business Loss	C/F for Maximum 4 AY
4. Non-Speculative Business Loss	C/F for Maximum 8 AY
5. Long Term Capital Loss or Short Term Capital Loss	C/F for Maximum 8 AY
6. Loss from Owning & Maintaining Race Horses	C/F for Maximum 4 AY
7. Unabsorbed Depreciation/Scientific Research Expenditure/Family Planning Promotion Expenditure,	C/F Without any limit

Illustration 1

Mr. Rajeev submits the following information:

Particulars	Amount
Income under the head salary	6,50,000
Income from House-I	55,000
Loss from house-II (self-occupied property)	1,25,000
Loss from house-III	1,90,000
Loss from leather business	68,000
Profit from cloth business	1,70,000
Business loss of chemical business acquired by Inheritance	45,000
Brought forward loss of discontinued business of textile relating to financial year 2017-18	50,000
Long term capital gain on transfer of listed equity shares on which STT was paid	75,000
Short term capital loss in equity-oriented funds on which STT was paid	35,000
Income from crossword puzzles	12,000
Dividend from foreign company	8,500
Loss on owning and maintenance of race horses	7,500
Income from owning and maintenance of race bulls	9,000

Compute the gross total income and losses to be carried forward of Mr. Rajeev

Illustration 2

Mr. Shyam, a resident of Chandigarh, provides the following information for the financial year 2024-25:

Particulars	Amount
Income from textile business	4,60,000
Income from speculation business	25,000
Loss from gambling	12,000
Loss on maintenance of race horse	15,000
Eligible current year depreciation of textile business not adjusted in the income given above.	5,000

Unabsorbed depreciation of Assessment year 2022–23 brought forward	10,000
Speculation business loss of Assessment year 2022–23	30,000

Compute the Gross total Income of Mr. Shyam and any other item of expense or loss eligible for carry forward.

Illustration 3

Mr. X provides the following details for the previous year ending 31.03.2025.

1. Income under the head salary from XYZ Ltd. 6,00,000
2. Interest on FD with SBI for the Financial Year 72,000 (Net of TDS @10%)
3. Determined long term capital loss 96,000
4. Long term Capital gain 75,000
5. Loss of minor son 90,000 computed in accordance with the provisions of Income Tax Act. Mr. X transferred his own house to his minor son without adequate consideration few years back and minor son let it out and suffered loss.
6. Loss of his wife's business (2,00,000). She carried business with funds which Mr. X gifted to her.

You are required to compute taxable income.

Illustration 4

Mr. X, a resident individual, furnishes the following particulars of his income and other details for the previous year 2024–25.

Particulars	Amount
Income under the head salary	15,000
Income from Business	66,000
Long term capital gain on sale of Land	10,800
Loss on maintenance of Race Horses	15,000
Loss from Gambling	9100

The other details of unabsorbed depreciation and brought forward losses pertaining to Assessment Year 2024–25 are as follows:

1. Unabsorbed depreciation 11,000
2. Loss from Speculative business 22,000
3. Short term capital loss 9,800

Compute the Gross total income of Mr. X for the Assessment Year 2025–26 and the Amount of loss, if any, that can be carried forward, or not.

Illustration 5

Mr. X an assessee aged 61 years gives the following information for the previous year 31.03.2025 :

Particulars	Amount
Loss from profession	1,05,000

Capital loss on the sale of property-short term	55,000
Capital gains on sale of shares-long term	2,05,000
Loss in respect of self occupied property	15,000
Loss in respect of let out property	30,000
Share of loss from firm	1,60,000
Income from card games	55,000
Winnings from lotteries	1,00,000
Loss from horse races in Mumbai	40,000
Medical insurance premium paid by cheque	18,000

Compute the total income of Mr. X.

Illustration 6

Mr. X furnishes the following details for year ended 31.03.2025.

Particulars	Amount
Short term capital gain	1,40,000
Loss from speculative business	(60,000)
Long term capital gain on sale of land	30,000
Long term capital loss on sale of shares (STT not paid)	1,00,000
Income from business of textile (after allowing C.Y. depreciation)	50,000
Income from activity of owning and maintaining race horses	15,000
Income under the head salary	1,00,000
Loss from house property	(40,000)

Following are the carry forward losses:

1. Losses from activity of owning and maintaining race horses-pertaining to A.Y. 2020–21 25,000
2. Carry forward loss from business of textile 60,000-Loss pertains to A.Y. 2018-19.

CHAPTER 6: DEDUCTION FROM GROSS TOTAL INCOME

- Deduction is allowed from Gross Total Income. If GTI is less than deduction then, deduction is restricted to the amount of GTI.
- No Deduction is allowed from STCG u/s 111A , LTCG u/s 112, LTCG u/s 112A and casual income.

SECTION 80C DEDUCTION IN RESPECT OF CERTAIN PAYMENTS/INVESTMENTS

1. Assesee - Individual/HUF
2. Deduction - Amount Invested or ₹ 1.5 lacs – Whichever is lower.
3. Payment Is Made Towards
 - (i) Life Insurance Policy for self, spouse & child. Subject to a maximum of 10% of the actual capital sum assured. (15% for person who is a person with disability as referred to in section 80U or suffering from disease as specified in section 80DDB).
 - (ii) In respect of policy issued before 01.04.2012, 10% shall be taken as 20%.
 - (iii) Contribution made in Unit Linked insurance Plan (ULIP) of UTI or mutual fund. (self, spouse and any child or any member of HUF).
 - (iv) Investment in fixed deposit for a period of 5 years or more.
 - (v) Invested in five-year post-office time deposit account.
 - (vi) Contribution by individual to SPF/RPF.
 - (vii) Contribution made by individual or HUF to Public Provident Fund (self, spouse and any child or any member of HUF).
 - (viii) Deduction shall be allowed if amount has been invested in National Saving Certificate (NSC).
 - (ix) Interest accrued on NSC shall be income under the head other sources also deduction is allowed for such interest u/s 80C. However, no deduction shall be allowed for Interest accrued in last year.
 - (x) Repayment of Principle amount of Housing Loan.
 - (xi) Stamp duty, registration fee or other charges paid for acquisition of house property.
 - (xii) Payment of tuition fees (maximum two children and it should be whole time education).
 - (xiii) Senior Citizens Savings Scheme.
 - (xiv) Investment in Sukanya Samridhi Account.
 - (xv) Contribution to any notified pension scheme of Mutual fund or UTI.
 - (xvi) Contribution to NPS Tier-2 account by CG EE for a fixed period of 3 years or more.

Example.1

Basic Salary is 75,000 per month

DA is 50% of Basic Salary which forms part of retirement benefit

Both Employer & Employee contributes 15% of Basic Salary & DA to NPS

Employee also contributed following Amounts

- NSE = 50,000
- PPF = 50,000
- Tuition fees = 70,000 (for 2 child)
- Pension scheme of LIC = 30,000

Calculate Taxable Income under old regime.

Example 2.

Calculate Total income of Mr. X, non-resident having age 65 years

- Salary income (Computed) 5,00,000
- Interest on Saving A/c 50,000
- Interest on FD A/c 70,000
- Investment in PPF 75,000
- Investment in Pension Scheme 50,000

Illustration 1

Compute deduction u/s 80C available to X from the following informations :

1. Own contribution towards the statutory provident fund.
2. Life insurance premium paid on self-life — to American life insurance company in USA.
3. Fixed deposit in Canara Bank for 5 years (Specified)
4. LIP paid by employer on behalf of employee.
5. Subscription to units of Mutual Fund to be invested in development of infrastructure.
6. Un-recognized Provident Fund.
7. Tuition Fees for three children (10,000/- per child).
8. Interest of 7,000 has accrued to him on old National Savings Certificate purchased in past year
9. Purchased equity linked saving scheme of UTI.
10. Repayment of loan to LIC for purchase of new residential house property.
11. Subscription to equity shares of power company.
12. Contribution to National relief bond.
13. Purchased Kisan Vikas Patra.
14. Deposits in Post Office (CTD) Scheme.
15. Mr. Z has paid a sum of 65,000 as tuition fees to a university in Australia.

Illustration 2

Date of Issue of Policy	Person Insured	Actual Capital Sum Assured	Insurance Premium Paid during Year
01.06.2011	Mr. X	4,00,000	75,000
01.05.2017	MR. X	1,00,000	25,000

01.07.2018	Ms. Y, his handicapped daughter (section 80U disability)	5,00,000	60,000
01.07.2018	Mr. Z, his son	1,00,000	25,000

SECTION 80CCC DEDUCTION IN RESPECT OF CONTRIBUTION TO CERTAIN PENSION FUNDS

- Assesee – Individual.
- Deduction - Amount Invested or ₹ 1.5 lacs – Whichever is lower.
- Payment Is Made Towards
 - a. Pension plan of Life Insurance Corporation (LIC) also known as annuity scheme; or
 - b. Pension Plan of any other Private Insurer as approved by Controller of Insurance.

Illustration 3.

Mr. X has income under the head Business/Profession 19,90,000 .His investments are as given below:

1. Investment in NSC 50,000
2. Investment in PPF in name of MR. X 5,000
3. Payment of premium for LIC policy taken in the name of dependent father on 16.06.2022 and its premium paid is 11,000
4. Payment of premium for LIC policy taken in the name of independent son on 15.04.2023 and its premium paid is 6,000 (sum assured 1,00,000)
5. Payment of premium for LIC policy taken in the name of independent married daughter on 11.01.2024 and its premium paid is 21,000 (sum assured 1,00,000)

Compute Income Tax liability.

Illustration 4

Mr. X has income under the head business/profession 3,35,000. He has made the following investments: -

1. NSC 10,000
2. Investment in post office 5 year time deposit account 15,000
3. Payment of premium for life policy in the name of major married independent son on 10.10.2021 30,000 (sum assured 90,000)
4. Paid premium of 11,000 for Jeeven Suraksha policy (Pension Scheme U/s 80CCC) taken in name of Mr. X on 11.11.2022.

Compute income tax liability.

Section 80CCD Deduction in respect of contribution to Pension Scheme of Central Government

1. Assesee - Individual
2. Assessee's own contribution
 - Section 80CCD(1)
 - a) Salaried EE = EE's Contribution subject to maximum 10% Of RBS

- b) Other Individual = Assessee's Contribution subject to maximum 20% of GTI
- Section 80CCD(1B)
 - An additional deduction of upto ₹ 50,000 is allowed over and above u/s 80CCD (1)
 - Note: Always claim deduction under 80CCD(1B) first and then balance under 80CCD (1)
3. ER Contribution to EE's NPS [Section 80CCD(2)]
- a) Amount contributed by ER is Added to Gross Salary
 - b) Also Deduction is allowed for such contribution subject to maximum 10% Of RBS (14% of RBS in case contribution is made by CG/SG)
 - However, Deduction is allowed for such contribution subject to maximum 14% of RBS (In case of Default Tax Regime to both Govt. and Non-Govt. Employees)

Example 3

Compute deduction u/s 80CCD in following cases :-

1. Retirement benefit salary = 12,40,000
Contribution to NPS = 1,40,000
2. Retirement benefit salary = 12,40,000
Contribution to NPS = 1,20,000
3. Retirement benefit salary = 18,00,000
Contribution to NPS = 2,00,000
4. Retirement benefit salary = 18,00,000
Contribution to NPS = 2,50,000

Example 4

Basic Salary is 1,00,000 per month

DA is 100% of Basic Salary of which 50% forms part of Retirement benefit

Both Employer & Employee contributes 20% of Basic salary to NPS (Tier I)

Calculate taxable income of Employee under both regime

Example 5

Mr. X Basic Salary is 70,000 per month

DA is 80% of Basic Salary (50% forms part of Retirement benefit)

Employer & Employee both contribute 20% of Basic Salary to NPS

Calculate Total Income under Old Regime

Illustration 5

MR. X is employed in Central Government since 01.01.2024 and is getting basic pay of 1,00,000 p.m. She has contributed 10,000 p.m. to the notified pension scheme of Central Government and employer has also contributed an equal Amount. She has paid premium of Jeevan Suraksha Policy 3,000 and invested 1,00,000 in NSC. Compute her tax liability.

Illustration 6

The basic salary of Mr. X is 80,000 p.m. Both Mr. A and his employer contribute 10% 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. X.

SECTION 80 CCE RESTRICTION ON DEDUCTION

- Maximum deduction allowed under section 80C + 80CCC + 80CCD(1) shall be ₹1,50,000.
- Note: ER Contribution u/s 80CCD(2) and Additional Deduction u/s 80CCD(1B) is not covered u/s 80CCE. In other words, these are allowed separately to assessee

SECTION 80CCH DEDUCTION IN RESPECT OF CONTRIBUTION TO AGNIPATH SCHEME

1. Agnipath scheme is a Central Government scheme launched in 2022 for enrolment of Indian youth in the Indian Armed Forces
2. Each Agniveer is to contribute 30% of his monthly customized Agniveer Package to the individual's Agniveer Corpus Fund. Further, the Government will also contribute a matching amount to the 'Agniveer Corpus Fund.
3. The Agniveer Corpus Fund means a fund in which consolidated contributions of all the Agniveers and matching contributions of the Central Government along with interest on both these contributions are held.
4. Deduction
 - a) Assessee's own contribution Section 80CCH (1)
Agniveer is eligible for contribution made to individual's Agniveer Corpus Fund.
 - b) Contribution made by CG Section 80CCH (2)
Central Government's contribution to the Agniveer Corpus Fund would be included in the salary of the assessee and then whole amount of contribution is allowed as a deduction.

SECTION 80 D DEDUCTION IN RESPECT OF FAMILY INSURANCE PREMIUM

1. Assessee - Individual/HUF
2. Payment Made For –
 - a) Health insurance premium
 - b) Contribution in Central Govt. Health Scheme
 - c) Preventive Health Checkup (PHC)
3. Deduction
 - i. Self/Spouse/dependant Children - Amount paid Subject to max 25,000. (In case of Resident Senior Citizen max ₹ 50,000)
 - ii. Parents (dependent/Not dependent) - Amount paid Subject to max 25,000. (In case of Resident Senior Citizen max ₹ 50,000)
4. In case of Resident senior citizen, Deduction of ₹ 50,000 is allowed in case of medical expenditure even if no insurance premium is paid
5. Maximum Deduction for Preventive Health-Check up of Family & Parents is ₹ 5,000 which is included in overall limit of ₹25,000/₹ 50,000.
6. No Deduction is allowed for the payment of premium made in cash. PHC payment can

be made by any mode.

7. Where medical insurance is paid in lumpsum for more than 1 year, deduction shall be allowed for each PY as follows:

$$\text{Deduction per year} = \frac{\text{Lumpsum Premium}}{\text{PY for Which Insurance is Valid}}$$

Example 6

Mr. X (Age 62 Years –Resident) incurred following amounts

1. ₹30,000 on his Medical Treatment
2. ₹25,000 on medical insurance of his wife (age = 58years)
3. ₹35,000 on medical treatment of his father (age = 79 years and resident)
4. ₹26,000 on medical insurance of his mother (age = 79 years and resident)

Calculate deduction u/s 80D.

Example 7

Mr. X Incurred following exp. During PY 2024-25 . Calculate Deduction permissible from GTI.

- Medical insurance premium paid for self spouse & dependent child = ₹ 21,000
- Cont. to C.G. Health scheme on his own name = ₹ 1500
- Medical insurance of Father (70 Years) = 30,000 & Mother (59 Years) = 15,000
- Preventive health check up of Self = 4,000 & Parents = 3,000

Calculate deduction u/s 80D.

Example 8

Suppose in above e.g., Mrs. X Medical Treatment = 25,000

Illustration 7

Mr. X, aged 40 years, paid medical insurance premium of 18,000 by cheque during the P.Y. 2024–25 to insure his health as well as the health of his spouse. He also paid medical insurance premium of 26,000 by cheque during the year to insure the health of his father, aged 63 years, who is not dependent on him. He contributed 5,000 by cheque to Central Government Health Scheme during the year. He has incurred 3,000 in cash on preventive health check-up of himself and his spouse and 4,000 by cheque on preventive health check-up of his father. Compute the deduction allowable under section 80D for the A.Y. 2025–26.

Illustration 8

Mr. X, aged 40 years, paid medical insurance premium of 20,000 by cheque during the P.Y. 2024–25 to insure his health as well as the health of his spouse and dependent children. He also paid medical insurance premium of 51,000 by cheque during the year to insure the health of his father, aged 67 years, who is not dependent on him. He contributed 6,000 by cheque to Central Government Health Scheme during the year. Compute the deduction allowable under section 80D for the A.Y. 2025–26

Illustration 9 Mr. Arjun (52 years old) furnishes the following particulars in respect of the following payments:

Particulars	Amount
Premium paid for insuring the health of –	
Self	10,000
Spouse	8,000
Dependent son	4,000
Mother	18,000
Paid for Preventive Health Check-up of	
Himself	2,000
Spouse	1,500
Mother	4,000
Incurred medical expenditure of 25,000 and 15,000 for his mother, aged 80 years and father, aged 85 year .Both mother and father are resident in India.	

Compute the deduction available to Mr. Arjun under section 80D for the A.Y. 2025–26.

Illustration 10

Compute the eligible deduction under Chapter VI-A for the Assessment year 2025–26 of Ms. Roma, who has a gross total income of 15,00,000 for the previous year 2024–25 and provide the following information about his investments/payments during the financial year:

Particulars	Amount
Life Insurance premium paid (Policy taken on 01.01.2012 and sum assured is 1,50,000)	35,000
Public Provident Fund contribution.	90,000
Repayment of Housing loan to Bhartiya Mahila Bank, Bangalore.	20,000
Payment to L.I.C. Pension Fund	25,000
Mediclaime Policy taken for self, spouse and dependent children, premium paid by cheque	20,000
Medical Insurance premium paid for parents (Senior Citizen), premium paid by cheque	25,000

SECTION 80DD DEDUCTION IN RESPECT OF MAINTENANCE OF DISABLED DEPENDANT

1. Assessee - Resident Individual/HUF
 2. Deduction - ₹75,000 irrespective of the expenditure (₹ 1,25,000 in case of severe disability)
 3. Dependiant -
 - a) For Individual - Spouse, children, parents, brothers and sisters who are dependent on the individual
 - b) For HUF - Any member of the Hindu Undivided Family
- Note: Assessee should incur expenses on medical treatment including nursing or

paid/deposited amount in LIC scheme for the maintenance of dependent disabled.

Illustration 11

Mr. X is a resident individual. He deposits a sum of 25,000 with Life Insurance Corporation every year for the maintenance of his handicapped grandfather. A copy of the certificate from the medical authority is submitted. Compute the Amount of deduction available under section 80DD

SECTION 80DDB MEDICAL TREATMENT OF SPECIFIED DISEASE

1. Assessee - Resident Individual/HUF
2. Expenditure - Treatment of disease specified in the rule 11DD
3. Incurred On –
 - a) For Individual – Self or a Dependent Spouse, children, parents, brothers and sisters
 - b) For HUF- Any member dependent on the Hindu Undivided Family
4. Deduction –
 - a) Amount incurred or ₹40,000 whichever is less.
 - b) For senior citizen - Amount incurred or ₹1,00,000 whichever is less.

SECTION 80E PAYMENT OF INTEREST ON LOAN TAKEN FOR HIGHER EDUCATION

1. Assessee – Individual
2. Deduction - Payment of interest on loan taken by him from any financial institutions for pursuing higher education (any course after class XIIth)
3. Education of - self or spouse or children or any person for whom the assessee is legal guardian
4. No deduction shall be allowed for repayment of the principal loan amount
5. Deduction is allowed for a maximum period of 8 years starting from the year in which first payment of interest was given

SECTION 80EE INTEREST ON LOAN TAKEN FOR CERTAIN HOUSE PROPERTY

1. Assessee – Individual
2. Deduction - Interest payable on loan taken from any financial institution for acquisition of a residential house property (Max deduction = ₹ 50,000).
3. Conditions:
 - a) Loan has been sanctioned during 1/4/2016 – 31/3/2017
 - b) Value of house should not exceed ₹ 50 Lakh.
 - c) Loan amount is upto ₹ 35 lakh
 - d) Assessee doesn't own any RHP on the date of loan sanction
4. Assessee shall claim deduction u/s 24(b) first and then remaining interest shall be allowed under this section.

Note: Loan should be taken from banks or financial institutions.

Illustration 12

Mr. A purchased a residential house property for self-occupation at a cost of 45 lakh on 01.04.2019, 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 Income-tax Act, 1961, assuming that the entire loan was outstanding as on 31.03.2025 and he does not own any other house property.

SECTION 80EEA INTEREST ON LOAN TAKEN FOR CERTAIN HOUSE PROPERTY

1. Assessee – Individual
2. Deduction - Interest payable on loan taken from any financial institution for acquisition of a residential house property (Max deduction = 1.5 Lacs).
3. Conditions:
 - a) Loan has been sanctioned during 1/4/19 – 31/3/22
 - b) SDV ≤ 45 Lakh.
 - c) Assessee doesn't own any RHP on the date of loan sanction
 - d) Assessee shall claim deduction u/s 24(b) first and then remaining interest shall be allowed under this section.

Note: Loan should be taken from banks or financial institutions.

Illustration 13

Mr. X has taken a loan on 01.05.2024 from State Bank of India 40,00,000 @ 10% p.a. and purchased one house which is self-occupied. He has submitted a certificate confirming the Amount of interest. He repaid 2,00,000 on 01.03.2025 he don't have any other house. He paid municipal tax 30,000. He has income under the head salary 10,00,000. Compute his total income and tax liability.

What Will be your answer if it is let out @ 10,000 per month from 01.05.2024.

SECTION 80EEB INTEREST ON LOAN TAKEN FOR PURCHASE OF ELECTRIC VEHICLE

1. Assessee – Individual
2. Deduction - Interest payable on loan taken from any financial institution for purchase of electric vehicle (Max deduction = 1.5 Lacs).
3. Conditions: Loan has been sanctioned during 1/4/19 – 31/3/23
4. Deduction is allowed irrespective of fact whether e-vehicle is purchased for official or personal use.

Note: Loan should be taken from banks or financial institutions.

Illustration 14

The following are the particulars relating to Mr. A, Mr. B, Mr. C and Mr. D, salaried individuals for A.Y. 2025–26–

Particulars	Mr. A	Mr. B	Mr. C	Mr. D
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Amount 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	01.03.2022	01.03.2022	01.04.2022	30.03.2021
Date of disbursement of loan	01.05.2022	01.05.2022	01.05.2022	01.05.2021
Purpose of loan	Acquisition of residential house property for self occupation	Acquisition of residential house property for self-occupation	Purchase of electric vehicle for personal use	Purchase of electric vehicle for personal use
Stamp duty value of house property	45 lakhs	48 lakhs	—	—
Cost of electric vehicle	—	—	22 lakhs	18 lakhs
Rate of interest	9%	9%	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. 2025–26 in the hands of Mr. A, Mr. B, Mr. C and Mr. D. Assume that there has been no principal repayment upto 31/3/2025.

SECTION 80G DONATIONS TO CERTAIN FUNDS, CHARITABLE INSTITUTIONS ETC.

1. Deduction is available to all the assesses for donation made to eligible funds or institutions
2. Donations in kind shall not qualify for deduction.
3. No deduction shall be allowed in respect of donation of exceeding ₹ 2,000 unless such sum is paid by any mode other than cash.
4. Quantum of deduction:
There are four categories of deductions

Category 1: Donation qualifying for 100% deduction, without any qualifying limit

- (1) The National Defence Fund set up by the Central Government
- (2) Prime Minister's National Relief Fund.
- (3) Prime Minister's Armenia Earthquake Relief Fund
- (4) The National Children's Fund
- (5) The National Foundation for Communal Harmony
- (6) Approved University or educational institution of national eminence

- (7) Chief Minister's Earthquake Relief Fund, Maharashtra
- (8) Any Zila Saksharta Samiti
- (9) Any State Government Fund set up to provide medical relief to the poor
- (10) The Army Central Welfare Fund or Indian Naval Benevolent Fund or Air Force Central Welfare Fund established by the armed forces of the Union for the welfare of past and present members of such forces or their dependents.
- (11) The National Illness Assistance Fund
- (12) The Chief Minister's Relief Fund or Lieutenant Governor's Relief Fund in respect of any State or Union Territory
- (13) The National Sports Fund set up by the Central Government
- (14) The National Cultural Fund set up by the Central Government
- (15) The Fund for Technology Development and Application set up by the Central Government
- (16) The Swachh Bharat Kosh
- (17) The Clean Ganga Fund
- (18) The National Fund for Control of Drug Abuse

Category 2: Donation qualifying for 50% deduction, without any qualifying limit
Prime Minister's Drought Relief Fund

Category 3: Donation qualifying for 100% deduction, subject to qualifying limit

- (1) The Government or to any approved local authority, institution or association for promotion of family planning
- (2) Sum paid by a company as donation to the Indian Olympic Association or any other association/institution established in India.

Category 4: Donation qualifying for 50% deduction, subject to qualifying limit.

- (1) Any Institution or Fund established in India for charitable purposes
- (2) The Government or any local authority for utilisation for any charitable purpose other than the purpose of promoting family planning
- (3) An authority constituted in India by or under any other law enacted either for dealing with and satisfying the need for housing accommodation or for the purpose of planning, development or improvement of cities, towns and villages, or both
- (4) Any Corporation established by the Central Government or any State Government for promoting the interests of the members of a minority community.
- (5) for renovation or repair of Notified temple, mosque, gurdwara, church or any other similar place

Qualifying limit: The eligible donations referred to in category 3 and 4 should be aggregated and the sum total should be limited to 10% of the adjusted gross total income.

Adjusted Total Income Means GTI as reduced by LTCG (u/s 112/112A) & STCG u/s 111A & All Deductions except 80G

Example 9.

Following donations has been made

Category 1 : 1,00,000

Category 2 : 70,000

Category 3 : 90,000

Category 4 : 50,000

Qualifying limit = 1,70,000

Calculate deduction u/s 80G

Illustration 15

Mr. X, aged 62 years, earned professional income (computed) of 5,50,000 during the year ended 31.03.2025. He has earned interest of 14,500 on the saving bank account with State Bank of India during the year. Compute the total income of Mr. X for the assessment year 2025-26 from the following particulars:

- (i) Life insurance premium paid to Birla Sun life Insurance in cash Amounting to 25,000 for insurance of life of his dependent parents. The insurance policy was taken on 15.07.2023 and the sum assured on life of his dependent parents is 1,25,000.
- (ii) Life insurance premium of 25,000 paid for the insurance of life of his major son who is not dependent on him. The sum assured on life of his son is 1,75,000 and the life insurance policy was taken on 18.04.2011.
- (iii) Life insurance premium paid by cheque of 22,500 for insurance of his life. The insurance policy was taken on 08.09.2023 and the sum assured is 2,00,000.
- (iv) Premium of 16,000 paid by cheque for health insurance of self and his wife (8,000 for self and 8,000 for spouse).
- (v) 1,500 paid in cash for his health check-up and 4,500 paid in cheque for health checkup for his parents.
- (vi) Paid interest of 6,500 on loan taken from bank for MBA course pursued by his daughter.
- (vii) A sum of 15,000 donated in cash to an institution approved for purpose of section 80G for promoting family planning.
- (viii) Contribution 10,500 made in cheque to an electoral trust

Illustration 16

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:

- (i) Premium paid to insure the life of her major daughter (policy taken on 01.04.2019) (Assured value 1,80,000) – 20,000.
- (ii) Medical Insurance premium for self – 12,000; Spouse –14,000.
- (iii) Donation to a public charitable institution registered under 80G 50,000 by way of cheque.
- (iv) LIC Pension Fund – 60,000.
- (v) Donation to National Children's Fund – 25,000 by way of cheque
- (vi) Donation to Jawaharlal Nehru Memorial Fund – 25,000 by way of cheque

- (vii) Donation to approved institution for promotion of family planning – 40,000 by way of cheque
- (viii) Deposit in PPF – 1,00,000

Compute the total income of Mr. Shiva for A.Y. 2025–26.

Illustration 17

Mr. X declares gross total income 4,00,000 for the assessment year 2025–26. The gross total income includes taxable long term capital gain 65,000 and short term capital gain 35,000 which is taxable @ 15% under section 111A of the Income-tax Act, 1961. The details of fund investment made during the year 2024–25 are:

- 1) Medical insurance premium paid by cheque – (a) in the name of Mr. X 4,000 (b) in name of MR. X 5,000
- 2) Contribution made to –
 - i) Indira Gandhi Memorial Trust by cheque 7,000
 - ii) Delhi University (declared as an institution of national eminence) by cheque 3,000
 - iii) Zila Saksharta Samiti by cheque 5,000
 - iv) An approved charitable institute by cheque 30,000
 - v) Government by cheque for the purpose of promoting family planning 10,000
 - vi) Hanuman Temple in Mohalla by cheque 20,000

Compute the total income of Mr. X chargeable to tax for the Assessment year 2025–26.

Illustration 18

Mr. Rohan, a resident individual has Gross Total Income of 7,50,000 comprising of Income from Salary and income from house property for the assessment year 2025–26. He provides the following information:

- 1) Paid 70,000 towards premium on life insurance policy of his Handicapped Son (Section 80U disability). Sum assured 4,00,000; and date of issue of policy 01.08.2020.
- 2) Deposited 90,000 in tax saver deposit in the name of his major son in State Bank of India.
- 3) Contributed by cheque 25,000 to The Clean Ganga Fund, set up by the Central Government.

Compute the Total Income and deduction under Chapter VI-A for the Assessment year 2025–26.

SECTION 80GG DEDUCTION IN CASE OF PAYMENT OF RENT

1. Assessee - Individual (Must Not be receiving HRA/RFAC)
2. Deduction – Lower of following shall be allowed as deduction:
 - a) ₹ 5,000 Per Month
 - b) Rent paid - 10% of Adjusted GTI
 - c) 25% of Adjusted GTI
3. Adjusted GTI Means GTI as reduced by LTCG (u/s 112/112A) & STCG u/s 111A & All Deductions except 80GG.

4. Other Conditions:

- Individual should not have any house in his name or spouse name or minor child name or in the name of HUF of which he is a member, at a place of his duty.
- Assessee may have house at any other place but it should not be self occupied i.e. it may be let out or vacant

Example 10

Anmol (Age 25Years) having Gross total income of ₹9,00,000 (Including LTCG of ₹2,00,000 and STCG u/s 111A of ₹50,000)

He is paying rent of ₹20,000 p.m.

Following deductions are available :-

- u/s 80C = 75,000
- u/s 80CCC = 25,000
- u/s 80D = 15,000
- u/s 80E = 70,000

Calculate Dep u/s 80GG & Total income.

Illustration 19

Mr. X has income under the head Business/Profession 5,00,000 and LTCG of 2,00,000, STCG u/s 111A 3,00,000 and casual income of 1,00,000. He is paying rent for a house of 40,000 p.m. He has deposited 30,000 in home loan account scheme of National Housing Bank. He has complied with all the condition of section 80GG. Compute income tax liability

SECTION 80GGB CONTRIBUTIONS TO POLITICAL PARTIES OR ELECTORAL TRUST

1. Assessee - Indian Company
2. Deduction – 100% of Amount Contributed

SECTION 80GGC CONTRIBUTIONS TO POLITICAL PARTIES OR ELECTORAL TRUST

1. Assessee – Any person other than Indian Company
2. Deduction – 100% of Amount Contributed

SECTION 80JJAA DEDUCTION IN CASE OF NEW EMPLOYMENT

1. Assessee - All Assessee's whose accounts are required to be audited u/s 44AB (i.e. TO > ₹ 1cr/10cr).
2. Deduction - 30% of additional employee cost incurred. Deduction is allowed for 3 assessment years including the assessment year in which such employment is provided.
3. Conditions
 - a) Emoluments should be paid through account payee cheque, an account payee bank draft or by use of electronic clearing system

- b) Additional employee” means an employee who has been employed during the previous year 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.
- c) Additional EE does not include —
- (i) an employee whose total emoluments are more than ₹ 25,000 per month; or
 - (ii) an employee employed for a period of less than 240 days during PY (in case of business of manufacturing of apparel or footwear or leather products, 150 days shall be considered).
 - (iii) an employee who does not participate in the recognised provident fund.
4. If an EE is employed for less than 240/150 days as the case may be during the PY, but is employed for a period of 240/150 days or more in the immediately succeeding year, then he shall deemed to be employed in succeeding year and accordingly ER shall be entitled for deduction under this section for such EEs in the succeeding year.

Illustration 20

Mr. Satya is a manufacturer of household goods in a factory located in Navi Mumbai and commenced his business on 1st April 2022 and he employed 120 new work men during the previous year 2024–25 which included:

- a) 20 employee whose total emoluments paid @ 30,000 p.m. per employee
- b) 40 worker employed on 01st April, 2024
- c) 35 worker employed on 1st May, 2024
- d) 25 worker employed on 5th October, 2024

Compute the Deduction under Section 80JJAA, if available to Mr. Satya for Assessment year 2025–26, if wages are paid to each worker @ 3,000 per month. His profit from the manufacture of goods for Assessment year 2025–26 is 9.50 lakhs. The Assessee is liable to Audit his accounts. What will be your answer is assessee is engaged in manufacturing of leather products business

SECTION 80QQB ROYALTY INCOME, ETC., OF AUTHORS OF BOOKS OTHER THAN TEXT BOOKS

1. Assessee - Resident individual
2. Deduction – Royalty income or ₹3,00,000 whichever is less.
However, Royalty received in excess of 15% of the value of books sold during the previous year shall be ignored
3. Royalty from Foreign Country: Deduction allowed if Royalty brought to India in convertible foreign exchange within 6 Months from the end of previous year.

Example 11

Salary (Computed)	6,00,000
Royalty from fiction book (20% of value of Book)	4,00,000
Exp. Incurred to earn royalty	1,00,000
PPF Contribution	75,000
Medical Insurance	15,000

Calculate Deduction u/s 80QQB & Total Income**Illustration 21**

Mr. X, a writer and a professional furnishes the following particulars for the previous year ended 31.03.2025:

- a) Royalty on books (eligible for deduction u/s 80QQB) 42,000
- b) Expenditure on books 8,000
- c) Income from profession 3,80,000
- d) Deposited in public provident fund (15.03.2021) 70,000

You are required to compute

- (i) Taxable income
- (ii) Tax payable for assessment year 2025–26.

SECTION 80RRB DEDUCTION IN RESPECT OF ROYALTY ON PATENTS

1. Assessee - Resident individual
2. Deduction – Royalty income or ₹3,00,000 whichever is less.
3. Royalty from Foreign Country: Deduction allowed if Royalty brought to India in convertible foreign exchange within 6 Months from the end of previous year.

SECTION 80TTA INTEREST ON DEPOSITS IN SAVINGS ACCOUNT

1. Assessee - Individual/HUF (other than senior citizen)
2. Deduction – Lower of Following is allowed as deduction
 - a) Interest Amount
 - b) ₹ 10,000
3. Interest income on saving bank accounts with any Bank/Post Office is eligible for deduction under this section.
4. No deduction is allowed from interest on time deposit/fixed deposit.

Note: As per section 10(15), Interest on Post Office Savings Bank Account to the extent of ₹3,500 per year shall be exempt from income tax and in the case of joint account, exemption shall be allowed upto ₹7,000 per year.

SECTION 80TTB INTEREST ON DEPOSITS IN CASE OF SENIOR CITIZENS

1. Assessee - Senior citizen
2. Deduction – Lower of Following is allowed as deduction
 - a) Interest Amount
 - b) ₹ 50,000
3. Interest income on Saving, fixed, time, recurring or any other deposit is eligible for deduction under this section.

Example 12

Income Under head House Property (Computed)	6,00,000
Post Office Savings A/c interest	15,000
Saving A/c with Bank-Interest	10,000
FD Interest	25,000
Recurring Deposit interest	10,000

Calculate Taxable income under old Regime of Mr. X , who is a resident individual of age 65Years

SECTION 80U DEDUCTION FOR HANDICAPPED ASSESSEE

1. Assessee – Resident Individual
2. Deduction – ₹ 75,000 (₹ 1,25,000 for severe Disability)

SECTION 10AA DEDUCTION IN RESPECT OF SEZ UNIT

- 1) In computing the total income of an undertaking which begins to manufacture or produce articles or things or computer software in SEZ unit.
- 2) Deduction shall be allowed only if SEZ unit has received approval up to 31/03/2020 and manufacturing is commenced up to 31/03/2021
- 3) Deduction u/s 10AA shall be allowed as follows:
 - a) For the first 5 years -100% of export profit
 - b) For the next 5 years -50% of export profit
 - c) For the next 5 years lower of the following :-
 - i) 50% of export profit or
 - ii) Amount credited in Re-investment allowance reserve A/c
- 2) Export profit = (Profit of SEZ unit x Export turnover) ÷ Total turnover
- 3) Export turnover means consideration received in India in convertible foreign exchange within 6 months from end of previous year.
- 4) Export turnover does not include freight, insurance, telecommunication charges or other expenses for providing services outside India.
- 5) Above mentioned expenses shall also be excluded from total turnover.
- 6) Deduction u/s 10AA shall be allowed only under old regime.
- 7) Deduction under this section shall be allowed after claiming all the deduction u/s 80c-80u from GTI
- 8) P&M used in the business should be new, except:
 - a) 20% of total value of P&M used in the undertaking can be second hand.
 - b) P&M imported from outside India for the first time shall be treated as New P&M.

Example 13

Compute deduction u/s 10AA if business Commenced in SEZ 6 Yrs ago.

Total turnover of SEZ Unit	=	100 lakhs
Export turnover of SEZ Unit	=	75 lakhs
Profit of SEZ Unit	=	15 lakhs

Illustration 22

Krishna furnishes the following particulars for the previous year 2024-25 in respect of an industrial undertaking established in “Special Economic Zone” during the financial year 2019-20.

Particulars	Amount
Total sales	85,00,000
Export sales	55,00,000
Domestic sales	30,00,000
Money received in or brought to India in convertible foreign exchange up to 30-09-2025	40,00,000
Profit from the above undertaking	10,00,000

Total Sales includes freight of 5 lacs for delivery of goods outside India. Compute the amount of deduction available to Mr. Krishna under section 10AA for PY 2024-25

Illustration 23

Mrs. Vibha Gupta, a resident individual is running a SEZ unit, as well as a unit in Domestic Tariff Area (DTA). She furnishes the following details relating to the year ended 31-3-2025, pertaining to these two units (in lakhs)

Particulars	DTA Unit (₹)	SEZ Unit (₹)
Export turnover	100	1000
Total turnover	400	1100
Net profit	50	220

Compute the deduction available u/s 10AA:

- 1) When the SEZ unit had been set up on 12-3-202
- 2) When the SEZ unit had been set up on 12-3-2021

CHAPTER 7A: ADVANCE PAYMENT OF TAX

Liability to pay Advance Tax

- Tax shall be payable in advance during any financial year in respect of an assessee's current income
- Obligation to pay advance tax arises in every case where the tax payable is ₹ 10,000 or more

Note :- In case of senior citizens who have passive source of income like interest, rent, etc., exemption from payment of advance tax has been provided to a resident individual-

- (i) not having any income chargeable under the head PGBP and
- (ii) of the age of 60 years or more.

Such senior citizens need not pay advance tax and are allowed to discharge their tax liability (other than TDS) by payment of self-assessment tax.

Calculation of Advance Tax

The amount of advance tax payable in the financial year calculated by –

- (i) the assessee himself based on his estimation of current income or
- (ii) the Assessing Officer as a result of an order

Installments of Advance Tax (Other than Presumptive basis)

Due date of Installment	Amount Payable
On or before 15th June	15% of advance tax liability
On or before 15th September	45% of advance tax liability, as reduced by the amount, if any, paid in the earlier instalment
On or before 15th December	75% of advance tax liability, as reduced by the amount or amounts, if any, paid in the earlier instalments
On or before 15th March	The whole amount of advance tax liability as reduced by the amounts, if any, paid in the earlier instalments

Note - Any amount paid by way of advance tax on or before 31st March shall also be treated as advance tax paid during each financial year ending on 31st March.

Interest u/s 234C

If any person has defaulted in payment of advance tax, interest shall be charged @ 1% per month for a period of 3 months on the Amount of default in each installment, but for the last installment, interest shall be charged only for one month.

Circumstances	Amount On which Interest is to be Paid
Where advance tax paid on or before 15/06 is less than 12% of the tax due	15% of tax due on income less advance tax paid upto 15/06
Where advance tax paid on or before 15/09 is less than 36% of the tax due	45% of tax due on income less advance tax paid upto 15/09
Where advance tax paid on or before 15/12 is less than 75% of the tax due	75% of tax due on income minus advance tax paid upto 15/12
Where advance tax paid on or before 15/03 is less than 100% of the tax due	100% of tax due on income minus advance tax paid upto 15/03

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

Interest u/s 234B

If advance tax paid is less than 90% of actual tax liability, assessee shall be required to pay interest @ 1% per month or part of a month from 1st April of assessment year upto the date of payment.

Interest u/s 234A

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

Rule 119A

As per rule 119A, the principal Amount shall be rounded off in the multiples of ₹ 100 and for this purpose any fraction of ₹ 100 shall be ignored

Example 1.

Calculate Interest u/s 234C for AY 2025-26

Paid advance tax installment as follows :-

Upto 15/06/24 : 10,000
 Upto 15/09/24 : 25,000
 Actual Tax liability = 1,50,000

Upto 15/12/24 : 45,000
 Upto 15/03/25 : 1,20,000

Example 2.

Calculate Interest u/s 234C for AY 2025-26

Paid advance tax installment as follows :-

Upto 15/06/24 : 15,000
 Upto 15/09/24 : 60,000
 Actual Tax liability = 1,50,000

Upto 15/12/24 : 1,00,000
 Upto 15/03/25 : 1,40,000

Illustration 1.

Mr. X has paid advance tax as given below:

Upto 15.06.2024 15,000

Upto 15.12.2024 95,000

Upto 15.09.2024 45,000

Upto 15.03.2025 1,70,000

He had long term capital gains of 3,00,000 on 01.01.2025 and his income under the head business/ Profession is 11,00,000. He has filed return of income on 10.12.2025 and has paid difference of the tax on 10.12.2025. Last date for filing of return is 31.07.2025. Compute interest payable under section 234A, 234B and 234C.

Illustration 2.

C Ltd. has estimated its tax liability for assessment year 2025–26 4,40,000 and has paid advance tax accordingly but actual tax liability was found to be 10,00,000. The company has paid balance Amount on 02.01.2026 and filed return of income on the same date.

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

Illustration 3.

C Ltd. has paid advance tax for the previous year 2024–25 as given below:

Upto 15.06.2024 50,000

Upto 15.12.2024 3,00,000

Upto 15.09.2024 1,50,000

Upto 15.03.2025 6,00,000

Actual tax liability was found to be 7,00,000 and balance tax was paid on 10.12.2025.

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

Illustration 4.

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

Upto 15th June 2024 15,000

Upto 15th Dec 2024 75,000

Upto 15th Sept 2024 45,000

Upto 15th March 2025 1,00,000

Balance Amount of tax was paid on 10th Dec 2025 and return of income filed on the same date and due date for filing return of income is 31.07.2025. Compute her tax liability for the Assessment Year 2025–26 and also interest under section 234A, 234B and 234C.

CHAPTER 7B: TAX DEDUCTION AT SOURCE

Section 192 TDS On Salary

Payment	Payer	Payee	Rate
Salary	Any Person (ER)	Any Person (EE)	Slab Rate
Additional Points			
<ol style="list-style-type: none"> 1. TDS to be deducted @ the time of payment 2. If any person is working with two or more employers, in that case he should submit the particulars of his salary from all the employers to one of the employer who will deduct TDS on total Salary from all the Employers 3. For taxability of Salary under normal scheme (i.e. old regime) EE has to submit declaration to ER, then ER shall deduct TDS under Normal Scheme. 4. If any employee has income under any other head, the employee may report such incomes to the employer and the employer shall take it into consideration while deducting TDS. 5. If employee has loss under the head house property, he shall be allowed to report such loss to the employer. 6. If any tax has been deducted or collected under any other section then EE is allowed to report such details to ER. 7. EE has to give evidence/proof of deductions, Rent Paid for HRA Exemption, Travel expenses for LTC exemption. 8. If the ER bears the tax on non-monetary perq, then such tax shall not be deducted from salary of EE. Note: Tax on non-monetary perq paid by ER is exempted in hands of EE u/s 10(10CC) and ER is not allowed to dr. such expense to P/L. 9. Where firm pays salary to partner, then section 192 is not applicable. 			

Example 01

Mr. X is an employee and gets following emoluments:-

Basic Salary ₹5,00,000

Dearness Allowance ₹5,00,000

Rent free accommodation ₹1,00,000

Tax on rent free accommodation is paid by employer

Calculate TDS to be deducted every month under default regime

Example 02

Mr. A is an employee and gets following emoluments :-

From A Ltd. (April – July) @ ₹60,000 p.m.

From B Ltd. (Aug – March) @ ₹90,000 p.m.

Deduction u/s 80C : Life Insurance Premium = ₹50,000

Calculate TDS to be deducted every month under old regime

Section 192A Withdrawal From Employees Provident Fund

Payment	Payer	Payee	Rate
Accumulated Balance of PF	Any Person	Any Person (EE)	10%
Additional Points			
<ol style="list-style-type: none"> 1. TDS to be deducted @ the time of payment 2. No TDS, if payment is less than 50,000 3. No TDS if Withdrawal from PF is Exempt (Refer Salary Chap.) 4. If EE fails to furnish the PAN, then TDS is deducted @ MMR (30% + 37% + 4% i.e. 42.744%) 			

Section 193 Interest on Securities

Payment	Payer	Payee	Rate
Interest on Securities	Any Person	Resident Person	10%
Additional Points			
<p>No TDS in Following Cases</p> <ol style="list-style-type: none"> (a) 7 Years NSC; (b) National Development/Defence Bond; (c) 54EC Bonds: PFCL & IRFCL; (d) Listed DEMAT Securities; (e) Interest is payable to LIC/GIC/Insurance co. (f) Interest on Debentures of Public Co. to Resident Ind/HUF by A/c payee cheque in FY is upto ₹ 5,000. (g) CG/SG Securities Note: TDS Shall be deducted on 8% saving (taxable) bonds & 7.75% Savings (Taxable) Bonds if interest is more than ₹ 10,000 (h) Individual holding 6.5% Gold Bonds,1977 or 7% gold bonds,1980 provided that nominal value of bond is upto ₹ 10,000 			

Section 194 Dividend

Payment	Payer	Payee	Rate
Dividend	Domestic Company	Resident Person	10%
Additional Points			
<ol style="list-style-type: none"> 1. TDS to be deducted @ the time of payment 2. No TDS where dividend is payable to LIC/GIC/Insurance co. 3. No TDS If dividend is upto ₹ 5,000 in a FY is paid to individual by any mode other than cash. 			

Section 194A Interest Other Than Interest On Securities

Payment	Payer	Payee	Rate
Interest Other Than Securities Interest	Any Person Other Than Ind/HUF	Resident Person	10%
Additional Points			
<ol style="list-style-type: none"> 1. Ind/HUF shall deduct TDS if Last year TO exceeds 1cr in case of business or GR exceeds 50L in case of profession. 2. No TDS In Following Cases: <ol style="list-style-type: none"> a) Interest Paid by Bank/Post Office on time deposits (FD) not exceeding ₹ 40,000 (₹ 50,000 for Senior Citizen) Limit of 40K/50K → Branch wise; However, if CBS exist, limit of 40K/50K is for Whole bank (All Braches) b) Interest on savings account. c) Other Interest upto ₹5,000 d) Interest to banks, Financial corporation, LIC, UTI, Co-op Banks; e) Interest paid by firm to its partne ₹ f) Exempted interest u/s 10(15) g) Interest paid by primary agricultural credit society on deposits made with them. h) Interest on tax refund by Government i) Interest on Zero Coupon Bonds 			

Example 03

Mr. X has 3 Fixed Deposit Accounts of ₹3,00,000 each in 3 branches of Bank of Baroda

Branch 1	-	₹3,00,000 @ 9%
Branch 2	-	₹3,00,000 @ 9%
Branch 3	-	₹3,00,000 @ 9%

Note :- FD Matures in 12 months

Calculate TDS implications if

- (a) CBS exists
- (b) CBS does not exist

Illustration 01

- a) Examine the TDS implications under section 194A in the cases mentioned hereunder—
On 1.10.2024, Mr. Harish made a six-month fixed deposit of 10 lakh @ 9% p.a. with ABC Co-operative Bank. The fixed deposit matures on 31.3.2025.
- b) On 1.6.2024, Mr. Ganesh made three nine months fixed deposits of 3 lakh each, carrying interest@9% p.a. with Dwarka Branch, Janakpuri Branch and Rohini Branch of XYZ Bank, a bank which has adopted CBS. The fixed deposits mature on 28.2.2025.
- c) On 1.10.2024, Mr. Rajesh started a six months recurring deposit of 2,00,000 per month@8% p.a. with PQR Bank. The recurring deposit matures on 31.3.2025.

Section 194B WINNING FROM LOTTERIES OR CROSS WORD PUZZLES, ETC.

Payment	Payer	Payee	Rate
Winning from lotteries or cross word puzzles, etc.	Any Person	Any Person	30%
Additional Points			
<ol style="list-style-type: none"> 1. TDS required to be deducted @ time of payment 2. No TDS if winning amount is upto ₹ 10,000 3. If prize is given partly in cash and partly in kind then tax on whole prize (i.e. aggregate of cash and value of prize in kind) shall be deducted from the cash prize. 4. If prize is given in kind only (or cash prize is not sufficient), then payer should ensure that tax has been paid on such income before releasing such prize. 5. If prize money is paid in instalments, then tax shall be deducted at the time of payment of each instalment. 6. Where an agent receives the prize money on unsold ticket or becomes entitled to an unclaimed prize, it shall form part of his business income and therefore not liable for tax deduction u/s 194B 			

Section 194BA Winnings From Online Games

Payment	Payer	Payee	Rate
Winnings From Online Games	Any Person	Any Person	30%
Additional Points			
<ol style="list-style-type: none"> 1. TDS is to be deducted at the end of the FY. In case, there is withdrawal from user account during the FY, tax would be deducted at the time of such withdrawal on net winnings comprised in such withdrawal. Net winnings = A-(B+C), where A = Amount withdrawn from the user account; B = Aggregate amount of non-taxable deposit made in the user account by the owner of such account during the financial year, till the time of such withdrawal; and C = Opening balance of the user account at the beginning of the financial year. 2. Any deposit in the form of bonus, referral bonus, incentives etc would form part of net winnings and tax under section 194BA of the Act is liable to be deducted at the time of withdrawal as well as at the end of the financial year. 3. If some incentives/bonus which is credited in user account only for the purposes of playing and they cannot be withdrawn or used for any other purposes, then such deposit shall be ignored for calculation of net winnings. However when these incentive/bonus are recharacterised and they are allowed to be withdrawn, they will become part of net winnings for the year in which they are withdrawn. 4. No TDS where net winnings withdrawn does not exceed Rs 100 in a month 			

5. If prize is given partly in cash and partly in kind then tax on whole prize (i.e. aggregate of cash and value of prize in kind) shall be deducted from the cash prize.
6. If prize is given in kind only (or cash prize is not sufficient), then payer should ensure that tax has been paid on such income before releasing such prize.

Section 194BB Winning From Horse Races

Payment	Payer	Payee	Rate
Winnings From Horse Races	Any Person	Any Person	30%
Additional Points			
1. TDS required to be deducted @ time of payment			
2. No TDS if winning amount is upto ₹ 10,000.			

SECTION 194C PAYMENT TO CONTRACTOR

Payment	Payer	Payee	Rate
Payment to contractor. Works/labour contract ; Advertising contract, Catering, TV, Transporters, Job Work.	Any Person Other Than Ind/HUF/AOP/BOI	Resident Person	Payee Ind/HUF – 1% Other – 2%
Additional Points			
1. Ind/HUF/AOP/BOI shall deduct TDS if Last year TO exceeds 1cr in case of business or GR exceeds 50L in case of profession.			
2. NO TDS in following Cases:			
(a) If Single payment is upto ₹ 30,000 & Aggregate payment upto ₹ 1,00,000 during FY.			
(b) Personal contract of Individual/HUF			
(c) Payment to contractor in transport business owning not more than 10 trucks during FY & furnishes PAN			
3. Works Includes			
a) advertising			
b) broadcasting and telecasting including production of programmes for such broadcasting or telecasting;			
c) carriage of goods and passengers by any mode of transport other than by railways;			
d) catering.			
e) manufacturing or supplying a product according to the requirement or specification of a customer by using material purchased from such customer or its associate, being a person placed similarly in relation to such customer as is the person placed in relation to the assessee u/s 40A(2). but does not include manufacturing or supplying a product according to the requirement or specification of a customer by using material purchased from a person, other than such customer or associate of such customer			

4. In case of Job work, TDS shall be applied on the invoice value excluding the value of material purchased from the customer, provided bifurcation is given in the invoice. Otherwise, TDS is applied on entire value.
5. Payment by broadcaster or telecasters (TV Channels/OTT) to production houses for the production of content for broadcasting/Telecasting:
 - a) Content is produced as per broadcasters requirement and Copyright of such content is with broadcaster → Covered under definition of work → TDS u/s 194C is Applicable
 - b) Broadcaster acquires telecast rights of the content already produced → Not covered under definition of work → No TDS u/s 194C is Applicable.
6. Payment for transportation of gas:
If seller sells as well as transports the gas to the buyer till the point of delivery, nature of such contract remains “contract of sale” and not a works contract. It is irrelevant whether transportation charges are included in cost of gas or it is shown separately. However, if transportation facility is availed from third person, then transport charges are liable for tds u/s 194C.

Illustration 02

ABC Ltd. makes the following payments to Mr. X, a contractor, for contract work during the P.Y.2024-25 :-

- ₹20,000 on 01-05-2024
- ₹25,000 on 01-08-2024
- ₹28,000 on 1.12.2024

On 1.3.2025, a payment of ₹30,000 is due to Mr. X on account of a contract work.

Discuss whether ABC Ltd. is liable to deduct tax at source under section 194C from payments made to Mr. X.

Illustration 03

Moon TV, a television channel, made payment of 50 lakhs to a production house for production of programme for telecasting as per the specifications given by the channel. The copyright of the programme is also transferred to Moon TV. Would such payment be liable for tax deduction at source under section 194C? Discuss.

Also, examine whether the provisions of tax deduction at source under section 194C would be attracted if the payment was made by Moon TV for acquisition of telecasting rights of the content already produced by the production house.

Section 194D Insurance Commission

Payment	Payer	Payee	Rate
Insurance Commission	Any Person	Resident Person	5%
Additional Points			
No TDS if Commission is upto ₹ 15,000.			

Section 194DA Maturity of Life Insurance Policy

Payment	Payer	Payee	Rate
Maturity of Life Insurance Policy	Any Person	Resident Person	5% of Income Received. w.e.f. 1/10/2024 – 2%
Additional Points			
1. TDS required to be deducted @ time of payment 2. No TDS if maturity Amount Received is less than ₹ 1,00,000 3. No TDS if maturity Amount is Exempt u/s 10(10D)			

Illustration 04

Examine the applicability of the provisions for tax deduction at source under section 194DA in the following cases -

- Mr. X, a resident, is due to receive ₹4.50 lakhs on 31.3.2024, towards maturity proceeds of LIC policy taken on 1.4.2020, for which the sum assured is 4 lakhs and the annual premium is 1,25,000.
- 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 30,100.
- Mr. Z, a resident, is due to received ₹95,000 on 1.8.2023 towards maturity proceeds of LIC policy taken on 1.8.2015 for which the sum assured is 90,000 and the annual premium was ₹10,000.

Section 194E Payment To Non Resident Sportsman/Entertainer Or Sports Associations

Payment	Payer	Payee	Rate
Payment To Non Resident Sportsman Or Sports Associations	Any Person	Non Resident Sportsman Or Sports Associations	20.8% (20% + 4%)
Additional Points			
Income Received by NR Sportsperson by way of (a) Participation in India in any game (excluding card game or gambling) or sport (b) Advertising (c) Contribution of articles relating to any game or sports in any newspaper, magazine or journal. (d) Income received for performing in India by NR entertainer.			

Illustration 05

Calculate the amount of tax to be deducted at source (TDS) on payment made to Ricky Ponting, an Australian cricketer non-resident in India, by a newspaper for contribution of articles ₹ 25,000.

Section 194G Commission On Sale Of Lottery Tickets

Payment	Payer	Payee	Rate
Commission on Sale of Lottery Tickets	Any Person	Any Person	5% w.e.f. 1/10/2024 – 2%
Additional Points			
No TDS if Commission is upto ₹ 15,000			

Section 194H Commission & Brokerage

Payment	Payer	Payee	Rate
Commission & Brokerage	Any Person Other Than Ind/HUF	Resident Person	5% w.e.f. 1/10/2024 – 2%
Additional Points			
<ol style="list-style-type: none"> Ind/HUF shall deduct TDS if Last year TO exceeds 1cr in case of business or GR exceeds 50L in case of profession. No TDS if Commission is upto ₹ 15,000 No TDS on any commission or brokerage payable by BSNL or MTNL to their public call office franchisees. NO TDS if commission or brokerage related to security like commission to underwriter, brokerage on public issue etc. 			

Section 194-I TDS ON RENT

Payment	Payer	Payee	Rate	
Rent of Land & Building, Plant & Machinery, Furniture & Fixture	Any Person Other Than Ind/HUF	Resident Person	P&M	2%
			L&B	10%
			F&F	10%
Additional Points				
<ol style="list-style-type: none"> Ind/HUF shall deduct TDS if Last year TO exceeds 1cr in case of business or GR exceeds 50L in case of profession. No TDS if Rent is upto ₹ 2,40,000 Lump sum lease premium or one-time upfront lease charges, which are not adjustable against periodic rent, paid or payable for acquisition of long-term leasehold rights are not payments in the nature of rent within the meaning of sec. 194-I. Therefore, NO TDS. Passenger Service Fees paid by airline company to airport operator is not treated as rent. Therefore, NO TDS u/s 194-I. No TDS on refundable deposit. Advance rent is liable for TDS @ the time of payment. Warehousing Charges are covered under this section. 				

Section 194-IA TRANSFER OF CERTAIN IMMOVABLE PROPERTY

Payment	Payer	Payee	Rate
Transfer of Immovable Property other Than Rural Agriculture Land	Any Person (Buyer)	Resident Person (Seller)	1% of consideration paid or SDV, whichever is higher.
Additional Points			
<ol style="list-style-type: none"> 1. No TDS Where the consideration for the transfer of an immovable property is less than ₹ 50 lakh. 2. Consideration for transfer of any immovable property shall include all charges of the nature of club membership fee, car parking fee, electricity or water facility fee, maintenance fee, advance fee, or any other charges of similar nature, which are incidental to transfer of the immovable property. 			

Example 04

Mr. X sold land to Mr. Y on 01/12/2024 for ₹80,00,000

SDV of land on 01/12/2024 was ₹90,00,000

Mr. X purchased land on 01/04/2024 for ₹79,00,000

Show Tax implications in hands of Mr. X and Mr. Y

Illustration 05

Mr. 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 1.8.2024. He has purchased the house property and the land in the year 2022 for ₹40 lakh and ₹10 lakh, respectively. The stamp duty value on the date of transfer, i.e., 1.8.2024, 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.

Section 194-IB Rent of Immovable Property

Payment	Payer	Payee	Rate
Rent of Immovable Property	Ind/HUF (Not covered u/s 194-I)	Resident Person	5% w.e.f. 1/10/2024 – 2%
Additional Points			
<ol style="list-style-type: none"> 1. NO TDS Where rent for a month or part thereof does not exceed ₹ 50,000 2. TDS is to be deducted 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) to the account of the payee or at the time of payment, whichever is earlier. 3. If payee fails to provide his PAN, TDS is required to be deducted @ 20%. However, deduction under this section shall not exceed the amount of rent payable for the last month 			

Illustration 06

Mr. X, a salaried individual, pays rent of ₹55,000 per month to Mr. Y from June, 2024. 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, 2024? Also, what would be your answer if Mr. Y does not provide his PAN to Mr. X?

Section 194J Fees For Professional Or Technical Services

Payment	Payer	Payee	Rate	
Fees for technical service; Professional Fees; Royalty; Non-Compete Fee; Director's Remuneration	Any Person Other Than Ind/HUF	Resident Person	Payee	%
			Call Center	2%
			FTS/Royalty for Cinem. Films	2%
			Other	10%
Additional Points				
<ol style="list-style-type: none"> Ind/HUF shall deduct TDS if Last year TO exceeds 1cr in case of business or GR exceeds 50L in case of profession. No TDS to be deducted if Amount paid is upto ₹30,000 each in the case of Fees for technical service; Professional Fees; Royalty; Non-Compete Fee. TDS is always deducted from Directors Remuneration. NO TDS on Fees for professional service by Ind/HUF if made for Personal Purpose. Ind/HUF is not required to deduct tax on royalty or NCF even if last year TO/GR exceeds Threshold. Payments made to sportsperson, Umpire, Commentator, Referee, Physiotherapist, team physician, Anchor, Event Manager will also be regarded as professional fee and liable to TDS u/s 194J. 'fees for technical services' means consideration for rendering of any managerial, technical or consultancy services but does not include consideration for any construction, assembly, mining or like project undertaken by the recipient. TPAs (Third Party Administrator's) who are making payment on behalf of insurance companies to hospitals for settlement of medical/insurance claims etc. are liable to deduct tax at source under section 194J on all such payments to hospitals etc 				

Illustration 07

XYZ Ltd. makes a payment of 28,000 to Mr. Ganesh on 2.8.2024 towards fees for professional services and another payment of ₹25,000 to him on the same date towards fees for technical services. Discuss whether TDS provisions under section 194J are attracted

Section 194K Income In Respect Of Units

Payment	Payer	Payee	Rate
Income In Respect Of Units	Any Person (UTI/MF)	Resident Person	10%
Additional Points			

NO TDS If the aggregate amounts of income credited during the FY to the payee does not exceed ₹ 5,000

Section 194LA Compensation On Acquisition Of Immovable Property

Payment	Payer	Payee	Rate
Compensation On Compulsory Acquisition Of Immovable Property	Any Person	Resident Person	10%
Additional Points			
1. TDS is required to Deduct only @ the time of Payment. 2. NO TDS if payment is upto ₹ 2,50,000 during a FY. 3. No TDS if Urban Agricultural Land is compulsory acquired as capital gain on this transaction is Exempted u/s 10(37) and RAL is not a Capital Asset			

Section 194M Payment Of Certain Sums By Ind/HUF

Payment	Payer	Payee	Rate
Payment Of Works Contract, Commission, Fees for Professional Services	Ind/HUF – Not Covered u/s 194C, 194H & 194J	Resident Person	5% w.e.f. 1/10/2024 – 2%
Additional Points			
1. No TDS if amount paid is upto ₹ 50,00,000 2. Sec. 194M is applicable if Sec. 194C/194H/194J is NOT Applicable to Resident Individual/HUF			

Illustration 08

Examine whether TDS provisions would be attracted in the following cases, and if so, under which section. Also specify the rate of TDS applicable in each case. Assume that all payments are made to residents.

S.No.	Particulars of the Payer	Nature of Payment	Aggregate of Payments Made in the F.Y.2023-24
1.	Mr. Ganesh, an individual carrying on retail business with turnover of 2.5 crores in the P.Y. 2024-25	1.Contract Payment for repair of residential house 2.Payment of commission to Mr. Vallish for business purposes	₹5 lakhs ₹80,000
2.	Mr. Rajesh, a wholesale trader whose turnover was 95 lakhs in P.Y. 2024-25.	Contract Payment for reconstruction of residential house (made during the period January– March, 2024)	20 lakhs in January, 2025, 15 lakhs in Feb 2024 and 20 lakhs in March 2025.

3.	Mr. Satish, a salaried individual	Payment of brokerage for buying a residential house in March, 2025	51 Lakhs
4.	Mr. Dheeraj, a pensioner	Contract payment made during October-November 2024 for reconstruction of residential house	48 Lakhs

Section 194N Cash Withdrawal From Bank

Payment	Payer	Payee	Rate
Cash Withdrawal From Bank	Bank, Co-op Bank, Post Office	Any Person	Refer Note 2
Additional Points			
1. TDS is to be deducted @ time of payment			
2. TDS Rate			
In case of Defaulter			
Aggregate payment exceeds ₹ 20 lakh but does not exceed ₹ 1 crore			2%
Aggregate payment exceeds ₹ 1 crore			5%
In any other case			
Aggregate payment exceeds ₹ 1 crore			2%
3. Defaulter means the recipient who has not filed the returns of income last 3 previous years, for which the time limit to file return of income u/s 139(1) has expired.			
4. No TDS if payment is made to:			
a) the Government;			
b) Any bank, co-op bank, post office or their business correspondent			
c) Any white label automated teller machine operator			

Example 06

Mr. X withdrawn following amount from his two banks as follows :-

Month	Canara Bank		Yes Bank
	Current A/c	Savings A/c	Savings A/c
April	20,00,000	10,00,000	5,00,000
May	10,00,000	2,00,000	10,00,000
July	6,00,000	7,00,000	4,00,000
August	10,00,000	2,00,000	1,00,000
September	15,00,000	6,00,000	7,00,000
October	6,00,000	2,00,000	1,00,000
November	7,00,000	2,00,000	4,00,000
December	8,00,000	9,00,000	1,00,000
January	-	-	-
February	6,00,000	-	-

March	-	4,00,000	1,00,000
Total	88,00,000	44,00,000	34,00,000

1. Calculate TDS u/s 194N
2. What will be your answer if assessee has failed to file ITR for last 3 years and due date has been lapsed?

Section 194O Payment of Certain Sums By E-Commerce Operator

Payment	Payer	Payee	Rate
Payment By E-Commerce Operator to E-Commerce Participant for Sale of Goods or Services	E-Com Operator (Eg. Flipkart, Amazon, Meesho etc.)	Resident Person (E-com participant selling goods or service through E-com operator)	1% of gross amount of sale. w.e.f. 1/10/2024 – 0.1%
Additional Points			
<ol style="list-style-type: none"> 1. Any payment made by a purchaser of goods or recipient of services directly to an e-commerce participant, shall be deemed to be the amount credited or paid by the e-commerce operator to the e-commerce participant and shall be included in the gross amount of such sale or services for the purpose of TDS. 2. No TDS if following conditions are satisfied: <ol style="list-style-type: none"> a) e-com participant is an individual or Hindu undivided family. b) The gross amount of such sale or services during the PY is upto ₹ 5,00,000 c) Such e-com participant has furnished his PAN or Aadhaar to the e-com operator. 3. A transaction in respect of which TDS deducted u/s 194O (or which is not liable to deduction i.e. upto 5 Lakhs), shall not be liable to TDS under any other provisions. 4. However, TDS shall be deducted under any other provision if any amount received by an e-com operator for hosting advertisements or providing any other services which are not in connection with the sale or services. 			

Section 194P TDS by Bank In case of Specified Senior Citizen

Payment	Payer	Payee	Rate
Pension From ER and Interest On Deposit with Bank	Specified Bank	Resident Individual Age is 75 years or more	Slab Rate
Additional Points			
<ol style="list-style-type: none"> 1. This section is applicable if specified senior citizen <ol style="list-style-type: none"> a) is having pension income [Also, he should have no other income except interest income from any account maintained in the same specified bank in which he is receiving his pension income] b) has furnished a declaration to the specified bank containing such particulars, in the prescribed form and verified in the prescribed manner 			

2. The specified senior citizen is exempted from filing his return of income for the assessment year relevant to the previous year in which the tax has been deducted under this section.

Illustration 09

Mr. Sharma, a resident Indian aged 77 years, gets pension of 52,000 per month from the UP State Government. The same is credited to his savings account in SBI, Lucknow Branch. In addition, he gets interest @8% on fixed deposit of 20 lakh with the said bank. Out of the deposit of 20 lakh, 2 lakh represents five year term deposit made by him on 1.4.2024.

Interest on savings bank credited to his SBI savings account for the P.Y.2024-25 is ₹9,500.

1. From the above facts, compute the total income and tax liability of Mr. Sharma for the A.Y. 2025-26, assuming that he has not opted for section 115BAC.
2. What would be the amount of tax deductible at source by SBI, assuming that the same is a specified bank? Is Mr. Sharma required to file his return of income for A.Y.2025-26, if tax deductible at source has been fully deducted? Examine.
3. Would your answer to Q.2 be different if the fixed deposit of 20 lakh was with Canara Bank instead of SBI, other facts remaining the same?

Section 194 Q Purchase of Goods

Payment	Payer	Payee	Rate
Purchase of goods of the value exceeding ₹ 50 lakhs in a PY	Buyer [LY TO is more than 10 Cr]	Resident Seller	0.1% of sum paid in excess of 50 lakhs
Additional Points			
<ol style="list-style-type: none"> 1. TDS is to be deducted at the time of payment or crediting the seller, whichever is earlier. 2. No TDS in this section in respect of a transaction on which – <ol style="list-style-type: none"> (a) TDS under any of the provisions of this Act; and (b) TCS under the provisions of section 206C, other than section 206C(1H) 3. In case of a transaction to which both section 206C(1H) and section 194Q applies, tax is required to be deducted under section 194Q. 4. If PAN of PAYEE is not available then, TDS rate is 5% 5. TDS u/s 194Q is not applicable on GST/VAT/Sales Tax/Excise Duty (i.e in short it is not applicable on indirect tax). However if advance payment is made then TDS should be deducted on entire advance amount paid including IDT. 6. In case of purchase return where money is returned by the seller, TDS may be adjusted against the next purchase from the seller. 7. If business is commenced by the buyer in the current year, then his last year TO is NIL and hence this section shall not be applicable. 8. No TDS if seller is department of Govt. (i.e. CG/SG shall not be considered as Seller for this section) 			

Illustration 10

Mr. Gupta, a resident Indian, is in retail business and his turnover for F.Y.2023-24 was 12 crores. He regularly purchases goods from another resident, Mr. Agarwal, a wholesaler, and the aggregate payments during the F.Y.2024-25 was ₹95 lakh (20 lakh on 1.6.2024, 25 lakh on 12.8.2024, ₹22 lakh on 23.11.2024 and ₹28 lakh on 25.3.2025). 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.2023-24 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.2023-24 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?

194R Benefit Or Perquisite In Respect Of Business Or Profession

Payment	Payer	Payee	Rate
Benefit Or Perquisite In Respect Of Business Or Profession	Any Person Other Than Ind/HUF	Resident Person	10%
Additional Points			
<ol style="list-style-type: none"> 1. Ind/HUF shall deduct TDS if Last year TO exceeds 1cr in case of business or GR exceeds 50L in case of profession. 2. valuation of benefit/perquisite Benefit/Perq Purchased by Payer → Purchase price shall be the value of Benefit/Perq Benefit/Perq Manuf. By Payer → Price Charged from customer GST would not be included for the valuation of benefit/perq for TDS u/s 194R 3. NO TDS if amount of benefit or perq provided to a person is upto ₹ 20,000 in PY. 4. In a case where the benefit or perquisite, is wholly in kind or partly in cash and partly in kind but the part in cash is not sufficient to meet the TDS Liability the payer shall, before releasing the benefit or perquisite, ensure that TDS has been paid in respect of the benefit or perquisite by way of <ol style="list-style-type: none"> a) Payer has collected TDS amount from Payee b) Payer pays TDS by his own (i.e. Benefit or perq paid is treated as Net amount itself) c) Payee deposit TDS to govt by way of advance tax and submit proof to payer. 5. Note: <ol style="list-style-type: none"> a) NO TDS on sales disc./cash disc./rebates allowed to customer. b) The deductor is not required to check whether the amount of benefit or perquisite would be taxable in the hands of the recipient u/s 28. The amount could be taxable under any other section like section 41(1) etc. 			

- c) one-time loan settlement with borrowers or waiver of loan granted by Bank, Co-op Bank, PFI, NBFC etc would not be considered as benefit or perq for TDS u/s 194R
- d) Product is given to Influencer for advertisement/awareness of product:
 - i. product is returned to the manufacturing company – NO TDS u/s 194R
 - ii. Product is retained by influencer – Considered as Benefit/Perq & TDS is attracted.
- e) If capital asset has been provided as benefit/perq to payee and payer has deducted TDS u/s 194R, then FMV of such benefit/perq shall be treated as actual cost of asset for payee and dep is allowed u/s 32 on such FMV.
- f) Issue of bonus shares and right shares by the widely held company to all shareholders are outside the scope of section 194R

Other Provisions

1. TDS requirement arise

- a) At the time of payment
- b) At the time of crediting the payee, Whichever is earlier.

However, in following cases TDS is deducted at the time of payment:

- | | |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <ul style="list-style-type: none"> a) Salary (Section 192) b) EPF Payment (Section 192A) c) Dividend (Section 194) d) Winnings (194B/BA/BB) e) Maturity Of LIP (Section 194DA) | <ul style="list-style-type: none"> f) Compulsory Acquisition of Immovable Prop. (Section 194LA) g) Cash Withdrawal from bank (section 194N) h) Benefit or Perquisites (Section 194R) |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|

2. Section 197 Lower Deduction Certificate

- Section 197 allows an assessee to apply to the AO for a certificate of lower or nil TDS. If the AO is satisfied that the total income of the assessee justifies the TDS at a lower rate or no TDS at all, the AO may issue a certificate to that effect.
- The application for this certificate is made in Form 13.
- The certificate is usually granted when the assessee's estimated income and existing deductions/credits suggest that their total tax liability will be less than the TDS being deducted.

3. Section 197A Declaration in form 15G/15H

Where total income of resident is below BEL during the year, then no TDS shall be deducted u/s 192, 193, 194, 194A, 194DA, 194-I, 194K if assessee file declaration to the "PAYER" in form 15G.

However, senior citizen can file declaration u/s 15H for No TDS deduction if TAX PAYABLE during the year is NIL.

4. Section 206AA TDS Rate If Payee Fails To Furnish A PAN

If payee doesn't furnish a PAN, then TDS shall be deducted:

- (a) Rate prescribed in the relevant section
- (b) 20% Whichever is higher.

Note: for section 194-O/194-Q maximum TDS rate is 5%

5. **Section 206AB- Higher rate of TDS in case of specified person**
 If payee has not filed return of income for preceeding year for which due date u/s 139(1) has been expired and aggregate of TDS & TCS is ₹ 50,000 or more during the previous year, then applicable rate shall be higher of:
- a) Twice the TDS/TCS Rate
 - b) 5%.

However, section 206AB is not applicable in case of tax deductible at source under sections 192, 192A, 194B, 194BA, 194BB, 194-IA, 194-IB, 194M11 or 194N

Note: In case where section 206AA and Section 206AB both are applicable then TDS shall be deducted @ higher of the two rates provided in section 206AA and section 206AB

6. **Due Dates for Payment of TDS**
- a. For the months of April to February - 7th of the following month.
 - b. For the month of March - 30th of April of the following financial year.'

However, TDS must be deposited within 30 days from the end of the month in which the deduction is made u/s 194-IA, 194-IB & 194M

7. **Consequences of Failure to Deduct or Pay [Section 201]**

Assessee in Default: If payer has not deducted the TDS or after deduction has not been deposited to Govt, then such person is treated as assessee in default and required to pay penalty u/s 221 and that can be upto 100% of TDS amount.

Non-applicability of deeming provision:

Payer shall not be treated as assessee in default if payee-

- a) has furnished his return of income under section 139;
- b) has taken into account such sum for computing income in such return of income; and
- c) has paid the tax due on the income declared by him in such return of income, and the payer furnishes a certificate to this effect from an accountant in such form as may be prescribed.

Interest Liability

Late deduction- Payer is liable to pay simple interest @ 1% for every month or part of month on the amount of such tax from the date on which tax was deductible to the date on which such tax was actually deducted

Late Deposit- Payer is liable to pay simple interest @ 1.5% for every month or part of month from the date on which tax was deducted to the date on which such tax is actually paid

8. TDS Returns Due Dates:

Q1 (April to June)	:	31st July of the financial year
Q2 (July to September)	:	31st October of the financial year
Q3 (October to December)	:	31st January of the financial year
Q4 (January to March)	:	31st May of the financial year

Illustration 11

An amount of 40,000 was paid to Mr. X on 1.7.2024 towards fees for professional services without deduction of tax at source. Subsequently, another payment of ₹50,000 was due to Mr. X on 28.2.2025, 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 22.6.2025. Compute the interest chargeable under section 201(1A).

Illustration 12

Discuss the liability of tax deduction at source under the Income-tax Act, 1961 in respect of the following cases with reference to A.Y. 2025-26.

- XY a partnership firm is selling its product 'R' through the E-commerce Platform provided by AB Ltd. (E-commerce Operator). AB Ltd., credited in its books of account, the account of XY on 28th February, 2025 by sum of ₹ 4,90,000 for the sale of product R, made during the month February, 2025. Mr. Rai, who purchased product 'R' through the platform provided by AB Ltd. made payment of ₹ 60,000 directly to XY on 21st February, 2025
- ABC Ltd is a producer of natural gas. During the year it sold natural gas worth ₹ 26,50,000 to M/s Deep Co., a partnership firm. It also incurred ₹ 1,70,000 as freight for the transportation of gas. It raised the invoice and clearly segregated the value of gas as well as the transportation charges
- ABC LLP paid job charges to XYZ, a partnership firm for doing embroidery work on the fabric supplied by the ABC LLP during the previous year 2024-25 as under:

BILL NO.	DATE	AMOUNT (₹)
01	30-04-2024	27,000
57	30-06-2024	25,000
105	30-09-2024	28,000
151	30-12-2024	32,000

[PYQ May 22]

Illustration 13

Answer the following: -

1. Miss Tara, resident individual aged 32 years, is a social media influencer. She makes videos reviewing various electronic items and posts those videos on social media. On 1st December 2024, XYZ Ltd., an Indian company manufacturer of electronic cars gave her a brand-new car having fair market value of ₹ 6 lakhs to promote on her social media page. She used that car for 7 months for her personal purposes, recorded a video reviewing the car and then returned the car to the company. You are required to discuss the applicable provisions in the Income-tax Act regarding the deduction of tax at source in respect of such transaction
2. Ms. Aruna is a Chief Executive Officer of a multi-national company. She hires Mr. Suresh for supply of her housing staff (like gardener, chefs and drivers etc.) and makes the following payments to him: ₹ 25,00,000/- on 10th August, 2024 and ₹ 30,00,000 on 22nd November, 2025. Determine the amount of tax to be deducted/collected at source, if any. Would your answer be different, if Ms. Aruna is a business woman and her books are not audited in immediately preceding financial year and payment to Mr. Suresh is for business purposes
3. By virtue of an agreement with Nationalized Bank, M/s ABC Pvt Ltd., a company engaged in catering business received ₹ 60,000 p.m. towards supply of food, water, snacks, etc. during office hours to the employees of the bank. Discuss the TDS implication of this transaction/agreement.

[PYQ May 23]

Illustration 14

ABC Limited paid rent of ₹ 75,000 + 18% GST per month to Mr. Ram for the office premises from 01.04.2024 to 31.03.2025. Mr. Ram has furnished his PAN and also filed his return of income before due date regularly.

[PYQ May 24]

Illustration 15

Examine the applicability and the amount of TDS to be deducted in the following cases for F.Y. 2024-25:

1. S and Co. Ltd. paid ₹ 25,000 to one of its directors as sitting fees on 02-02-2025
2. ₹ 2,20,000 paid to Mr. Mohan, a resident individual, on 28-02-2025 by the State of Haryana on compulsory acquisition of his urban land
3. Mr. Purushotham, a resident Indian, dealing in hardware goods has a turnover of ₹ 12 crores in the previous year 2023-24. He purchased goods from Mr. Agarwal a resident seller, regularly in the course of his business. The aggregate purchase made during the previous year 2024-25 on various dates is ₹ 80 lakhs which are as under:

10-06-2024	₹ 25,00,000
20-08-2024	₹ 27,00,000
12-10-2024	₹ 28,00,000

He credited Mr. Agarwal's account in the books of accounts on the same date and made the payment on the 28-02-2025 ₹ 80 lakh. Mr. Agarwal's turnover for the financial year 2023-24 is ₹ 20 crores.

[PYQ Nov 22]

Illustration 16

Discuss the liability of tax deduction at source under the Income-tax Act, 1961 in respect of the following cases with reference to A.Y. 2025- 26. (State applicable provision and give brief reasons for your answer, wherever applicable)

- XYZ, a resident partnership firm is in retail business buying fabric material regularly from ABC, a resident proprietorship firm. Details of transactions during P.Y. 2023-24 are as given:

Particulars	Date of Payment	Amt (₹)
Advance payment	1.4.2024	40,00,000
Payment for supplies	2.7.2024	20,00,000
Advance payment	4.8.2024	12,00,000

XYZ achieved gross turnover of ₹ 12 crore from the business during the financial year 2023-24 and the gross business turnover for financial year 2024-25 turns out to be ₹ 9 crores. Gross business turnover of ABC for the financial year 2022-23 was ₹ 6 crores. Will your answer be same, if the gross turnover of XYZ during the financial year 2023-24 includes ₹ 4 crore towards supply of material for charitable purposes?

- MJ, a part time director of ABZ Pvt. Ltd. was paid an amount of ₹ 2,49,000 as commission on sales (which was not in the nature of Salary) for the period 01.04.2024 to 31.03.2025
- Mr. Kumar, a resident senior citizen, aged 86 years, is a retired State Govt. employee. He gets pension of ₹ 72,000 p.m. He has his saving account with Bank of Baroda, a bank notified by the Central Govt. u/s 194P, has received the interest on saving account ₹ 15,000 during the P.Y. 2024-25. His pension is also credited in this account. In the same bank he has deposited ₹ 10 Lakh in a Term Deposit @7% simple interest on 01.07.2024. He has no other income. He has not opted section 115BAC. Discuss requirement of filing of income tax return also.

[PYQ Nov 23]

CHAPTER 7C: TAX COLLECTION AT SOURCE

APPLICABILITY AND RATES

1. Sale of certain goods

Under section 206C (1), sellers of Following goods are required to collect tax from the buyers at the specified rates.

Goods (MAST – Timber)	Rate
Alcoholic liquor for human consumption	1%
Scrap	1%
Minerals, being coal or lignite or iron ore	1%
Tendu leaves	5%
Timber & other forest produce	2.5%

However, No TCS If following Conditions are satisfied

- a) Buyer is Resident
- b) Buyer Furnishes declaration that goods referred above 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.

Note: If buyer turnover is more than 10 crores in last year, then buyer required to deduct TDS u/s 194Q

2. Lease or a license of parking lot, toll plaza or mine or a quarry

Section 206(1C) provides for collection of 2% TCS by every person who grants a lease or a license 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).

Example 01

M/s XYZ sold coal of value 70,00,000 to A Ltd. Show TCS implications u/s 206C (1) in following cases

1. Whether TCS is applicable, when A Ltd. Is dealer of Coal?
2. What will be your answer if A Ltd. Filed declaration that coal will be used for generation of power
3. Whether provisions of S.206C(1) or S.194Q is applicable if A Ltd. is a Dealer of coal and his Last year Turnover was 15Cr.?
4. Whether provisions of S.206C(1) or S.194Q is applicable if A Ltd. Purchased coal for generation of power and his Last year Turnover was 15Cr.?

Illustration 01

State Government of Madhya Pradesh grants a lease of coal mine to ABC Co. Ltd., an Indian company, on 1.10.2022 and charged ₹ 8 crores for the lease. ABC Co. Ltd. sold coal for ₹ 2 crores to Mahapower Ltd., another Indian company, during the previous year 2022-23. Mahapower Ltd. furnishes a declaration to ABC Co. Ltd. that the coal is to be utilized for the purpose of generation of power. The turnover of ABC Co. Ltd. and Mahapower Ltd. for the F.Y. 2021-22 amounted to ₹ 11 crores and ₹ 12 crores, respectively. What is the amount of tax required to be deducted or collected at source in respect of the above transactions, if any?

[RTP Nov 22]

3. Sale of motor vehicle of value exceeding ₹ 10 lakhs.

Section 206C(1F) provides that a seller, shall collect tax from the buyer @1% of the sale consideration where value of a motor vehicle or other notified goods exceeds ₹ 10 lakhs. Note: No TCS shall be collected by manufacturer when they sell cars to dealer or distributor.

Illustration 2

XYZ Pvt. Ltd sells two cars to Mrs. Anju costing ₹ 4,00,000 and ₹ 12,00,000 respectively on 01.05.2024 and 25.12 2024. Mrs. Anju has furnished her PAN and filed her return of income regularly before the due date.

[PYQ May 24]

4. Overseas remittance or an overseas tour package**A. Overseas Remittance Under Liberalised Remittance scheme**

Particulars	Rate of TCS
Remittance for the purpose of education or medical treatment	5%
Remittance out of Loan obtained from any Financial Institution for pursuing education	0.5%
Other Purpose	20%
NO TCS on above three remittances upto aggregate amount of Rs. 7 Lakhs	

B. Overseas Tour Package

Particulars	Rate of TCS
Tour Package	5% upto 7 Lakhs & 20% above 7 Lakhs

Overseas tour package means tour package which offers visit to a country or countries or territories outside India and includes expenses for travel as well as for stay or any other expenses of similar nature.

Example 02

Mr. X has remitted following amounts outside India . Show TCS implications

Date	Purpose	Amount
15/04/2024	Education	2,00,000
15/07/2024	Medical Treatment	3,00,000
15/09/2024	P.G. Rent	3,00,000
15/12/2024	Education	4,00,000
12/02/2025	Medical Treatment	3,00,000

Example 03

Mr. J purchased following tour packages during PY 2023-24. Show TCS implications :-

1.

Date	Purpose	Amount
15/07/24	Europe	4,00,000
15/10/24	America	5,00,000
15/02/25	Australia	4,00,000

5. Sale of goods of value exceeding ₹ 50 lakh section 206C(1H)

- TCS Shall be collected by a seller, who receives any amount as consideration for sale of goods of the value exceeding ₹ 50 lakhs (In aggregate) in a previous year [other than exported goods or goods covered under sub-sections (1)/(1F)/(1G)].
- Tax is to be collected at source @0.1% u/s 206C(1H) of the sale consideration exceeding ₹ 50 lakhs, at the time of receipt of consideration.
- No TCS if buyer is liable to deduct TDS u/s 194Q.

Notes:

- (a) Seller means any person whose last year turnover is more than ₹10 crore.
- (b) if buyer fails to furnish PAN, then TCS rate shall be 1%
- (c) under this section TCS is collected only at the time of receiving consideration in excess of Rs. 50 lakhs in PY.

CBDT Clarification

1. In case of motor vehicle if section 206C(1F) not applicable (like manufacturer to distributor) then section 206C(1H) applicable if other condition.
2. In case of sale of fuel to NR Airlines companies at Indian airport not liable for TCS under this section.
3. GST adjustment or sale return adjustment is not required, as TCS is applicable on receipt of consideration.

Time Of Collection of Tax

Tax shall be collected at the earlier of following

- a) Date of Debiting Buyer
- b) Date of Receiving Payment

However, as per section 206C(1F) and 206C(1H) TCS shall be collected at the time of receipt of payment.

Note: TCS must be deposited by the 7th of the following month in which the tax is collected.

Interest on late collection/deposit TCS [Section 206C(7)]

In case of any delay, interest shall be levied @ 1% per month or part thereof from the date on which TCS was collectible to date on which TCS is actually paid.

Due Date Of TCS Statement or Return

TCS Returns Due Dates:

- Q1 (April to June) : 15th July of the financial year
- Q2 (July to September) : 15th October of the financial year
- Q3 (October to December) : 15th January of the financial year
- Q4 (January to March) : 15th May of the financial year

TCS Rate If Collectee Fails to furnish PAN or AADHAR to Collector [Section 206CC]

TCS rate shall be higher of:

- (a) Twice the rate
- (b) 5%

Note: Maximum rate of TCS under sub section (1H) shall be 1%.

CHAPTER 8: RETURN OF INCOME

SECTION 139(1) COMPULSORY FILING OF RETURN OF INCOME

- a) It is compulsory for companies and firms to file a return of income or loss for every previous year
- b) For other assesses return filing is mandatory if GTI without giving effect to the provisions of section 54/54B/54D/54EC/54F exceeds BEL.
- c) For Following Person Return Filing is Mandatory
 1. ROR – Individual if at any time during the PY,
 - i. Is a beneficial owner of any asset (including any financial interest in any entity) located outside India or has a signing authority in any account located outside India
 - ii. is a beneficiary of any asset (including any financial interest in any entity) located outside India

Note: where income is already includes in the income of person referred in (i), then person in (ii) is not required to file the return.

“Beneficial Owner” means An individual who has provided, directly or indirectly, consideration for the asset for the immediate or future benefit, of himself or any other person.

“Beneficiary” means An individual who derives benefit from the asset during the previous year and the consideration for such asset has been provided by any person, other than such beneficiary

2. has deposited an amount or aggregate of the amounts exceeding ₹ 1 crore in one or more current accounts or 50 lakhs or more in one or more saving accounts.
3. has incurred Foreign travel expenditure of aggregate amount exceeding ₹ 2 lakh for himself or any other person.
4. has incurred expenditure of aggregate amount exceeding ₹ 1 lakh towards consumption of electricity
5. if his total sales, turnover or gross receipts, as the case may be, in the business exceeds ₹ 60 lakhs or total gross receipts in profession exceeds ₹ 10 lakhs, during the previous year
6. if the aggregate of TDS and TCS during the previous year, in the case of the person, is ₹ 25,000 or more (50,000 in case of Senior citizen).

d) Due Date

(a) A company (b) A person (other than a company) whose accounts are required to be audited any law; or (c) A partner of a firm whose accounts are required to be audited under any law	31 st October of AY
An assessee including the partners of the firm being such assessee who is required to furnish a report referred to in section 92E	30 th Nov Of AY
In the case of any other assessee	31 st July

SECTION 234F FEE FOR DEFAULT IN FURNISHING RETURN OF INCOME

Where a person, who is required to furnish a return of income fails to do so upto due date as per Section 139 (1), he shall pay, by way of fee, a sum of ₹ 5,000.

However, if the total income of the person does not exceed ₹ 5 lakhs, the fees payable shall not exceed ₹ 1,000.

SECTION 139(3) RETURN OF LOSS

1. Section 80 requires mandatory filing of return of loss u/s 139 (3) on or before the due date specified u/s 139 (1) for carry forward of the following losses –
 - (a) Business loss u/s 72 (1)
 - (b) Speculation business loss u/s 73 (2)
 - (c) Loss from specified business u/s 73A (2)
 - (d) Loss under the head “Capital Gains” u/s 74 (1)
 - (e) Loss from the activity of owning and maintaining race horses u/s 74A (3)

If return is not filed upto the due date as per section 139(1) then, above losses are not allowed to be carried forward.

Note: restriction is on carried forward and not on set-off i.e. if return is filed late, then set-off of above losses are allowed but not allowed to C/F.

2. However, loss under the head “Income from house property” u/s 71B and unabsorbed depreciation u/s 32 can be carried forward for set-off even though return of loss has not been filed before the due date.

SECTION 139(4) BELATED RETURN

Any person who has not furnished a return within the time allowed to him under section 139 (1) may furnish the return for any previous year at any time –

- (i) before 31/12/AY

- (ii) before the completion of the assessment, whichever is earlier

consequences of Belated return

- a) Not allowed to C/F losses as per section 80
- b) Interest u/s 234A @ 1% pm or part thereof
- c) Late fees u/s 234F.

SECTION 139(5) REVISED RETURN

If any person having furnished a return under section 139(1) or a belated return under section 139(4), discovers any omission or any wrong statement therein, he may furnish a revised return at any time –

- (i) before 31/12/AY
- (ii) before the completion of the assessment, whichever is earlier

Note:

- a) Revised return substitutes original return from the date original return was filed
- b) Assessee can revise the belated return as well
- c) Assessee can revise return any no. of times within the time limit.

SECTION 139(9) DEFECTIVE RETURN

1. Return shall be considered as defective, if –
 - a) Return is not filed in prescribed form
 - b) Tax proof is not provided along with return filed.
 - c) Audit report u/s 44AB is not submitted.
2. If return is defective then AO may intimate the defect to the assessee and give him an opportunity to rectify the defect within a period of 15 days or extended period at the discretion of AO.
3. If the defect is not rectified within the time allowed, then the return would be treated as an invalid return.

SECTION 139(8A) OPTION TO FILE UPDATED RETURN OF INCOME

1. Any person may furnish an updated return of his income or the income of any other person in respect of which he is assessable whether or not he has furnished a return under section 139(1) or belated return or revised return for that AY.
2. Updated return is to be filed within 24 months from the end of the relevant assessment year.
3. Not allow to file the updated return if –
 - a) It is a loss return
 - b) has the effect of decreasing the total tax liability determined on the basis of return furnished under section 139(1)/(4)/(5).

- c) results in refund or increases the refund due on the basis of return furnished under section 139(1)/(4)/(5).
 - d) An updated return has been filed earlier.
 - e) any proceeding for assessment or reassessment or recomputation or revision of income is pending or has been completed for the relevant assessment year
4. If the loss or any part thereof carried forward or unabsorbed depreciation carried forward or AMT credit carried forward is to be reduced for any subsequent previous year as a result of furnishing of updated return of income for a previous year, an updated return is required to be furnished for each such subsequent previous year.
5. Additional Income Tax Payable at the time of Updated Return.
- a) If such return is furnished after the expiry of time limit u/s 139(4)/(5) of the AY and before the expiry of 12 months from the end of Relevant AY
Additional Tax = 25% of (Tax + Interest)
 - b) If such return is furnished after the expiry of 12 months from the end of Relevant AY but before the end of 24 months from the end of Relevant AY
Additional Tax = 50% of (Tax + Interest)

PERMANENT ACCOUNT NUMBER (PAN) [SECTION 139A]

It is mandatory to furnish PAN in the following transactions :-

S.No.	Nature of Transaction	Value of Transaction
1.	Sale or purchase of a motor vehicle or vehicle	All such transactions
2.	Opening an account [other than a time-deposit and a Basic Savings Bank Deposit Account]	All such transactions
3.	Opening of a demat account with a depository, participant, custodian of securities	All such transactions
4.	Payment to a hotel or restaurant against a bill or bills at any one time	Payment in cash of an amount exceeding ₹ 50,000
5.	Payment in connection with travel to any foreign country or payment for purchase of any foreign currency at any one time	Payment in cash of an amount exceeding ₹ 50,000
6.	Payment to a Mutual Fund for purchase of its units	Amount exceeding ₹ 50,000
7.	Payment to a company or an institution for acquiring debentures or bonds issued by it	Amount exceeding ₹ 50,000
8.	Payment to the Reserve Bank of India for acquiring bonds issued by it	Amount exceeding ₹ 50,000

9.	Deposit with a banking company or a co-operative bank	Cash deposits exceeding ₹ 50,000 during any one day
10.	Purchase of bank drafts or pay orders or banker's cheques from a banking company or a co-operative bank	Payment in cash of an amount exceeding ₹ 50,000 during any one day
11.	Time Deposit with Banking company , post office or NBFC	Amount exceeding ₹ 50,000 or aggregating to more than ₹ 5 lakh during a financial year
12.	Payment as life insurance premium to an insurer	Amount aggregating to more than ₹ 50,000 in a financial year
13.	A contract for sale or purchase of securities (other than shares)	Amount exceeding ₹ 1 lakh per transaction
14.	Sale or purchase, by any person, of shares of a company not listed in a recognised stock exchange	Amount exceeding ₹ 1 lakh per transaction
15.	Sale or purchase of any immovable property.	Amount exceeding ₹ 10 lakh or valued by stamp valuation authority referred to in section 50C at an amount exceeding ₹ 10 lakh

Minor to quote PAN of parent or guardian

Minor shall quote the PAN of his father or mother or guardian, as the case may be, in the document while entering into the transactions mentioned above

Declaration by a person not having PAN

Any person who does not have a PAN and who enters into any transaction specified in this rule, shall make a declaration in Form No.60 giving therein the particulars of such transaction either in paper form or electronically under the electronic verification code

VERIFICATION OF RETURN [SECTION 140]

Assessee	Cases	Verified by
Individual	In General	Individual Himself
	Where the individual concerned is absent from India	Individual himself or by the duly authorized person of such individual
	Where the individual is mentally incapacitated	Guardian of such individual or any other person competent to act on his behalf
	Where by any other reason it is not possible for the individual to verify the return	Any person duly authorised by him
HUF	In general	Karta

	Where the 'karta' is absent from India or is mentally incapacitated	Any adult member of the family
Firm	In General	Managing partner
	If due to any reason it is not possible for managing partner to verify or where there is no managing partner	Any adult partner
Limited liability partnership	In General	Designated partner
	If due to any unavoidable reason such designated partner is not able to verify the return, or where there is no designated partner as such	Any partner or any other prescribed person
Local authority	Principal Officer	
Political Party	Chief Executive Officer	
Company	In General	Managing Director (MD)
	If due to any reason it is not possible for MD to verify or where there is no MD	Any director or any other prescribed person
	Where an application for corporate insolvency resolution process has been admitted by the Adjudicating Authority under Insolvency and Bankruptcy Code, 2016	Insolvency professional appointed by such Adjudicating Authority
	Non-resident company	A person holding a valid power of attorney. Copy of such power of attorney must be attached with the return
	Company in process of winding up	Liquidator of the company
	Where the management of the company has been taken over by the Central or State Government	Principal officer
Any other association	Any member or principal officer	

Any other person	Such person or any other person competent to act on its behalf	
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QUOTING OF AADHAAR NUMBER [SECTION 139AA]

(1) Mandatory quoting of Aadhaar Number

Every person who is eligible to obtain Aadhaar Number is required to mandatorily quote Aadhaar Number:

- a) in the application form for allotment of Permanent Account Number (PAN)
- b) in the return of income

Note :- CBDT has clarified that it is mandatory to quote Aadhaar number while filing the return of income unless specifically exempted. Thus, returns being filed either electronically or manually on or after 1.4.2019 cannot be filed without quoting the Aadhaar number.

(2) Mandatory quoting of Enrolment Id, where person does not have Aadhaar Number

If a person does not have Aadhaar Number, he is required to quote Enrolment ID of Aadhaar application form issued to him at the time of enrolment in the application form for allotment of Permanent Account Number (PAN) or in the return of income furnished by him.

Enrolment ID means a 28 digit Enrolment Identification Number issued to a resident at the time of enrolment

(3) Intimation of Aadhaar Number to prescribed Authority

Every person who has been allotted Permanent Account Number (PAN) as on 1st July, 2017, and who is eligible to obtain Aadhaar Number, shall intimate his Aadhaar Number to prescribed authority on or before 31st March, 2022.

(4) Consequences of failure to intimate Aadhaar Number

If a person fails to intimate the Aadhaar Number, the permanent account Number (PAN) allotted to such person shall be made inoperative and he would be liable for payment of fee in accordance with section 234H (Rs. 1000)

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

A person, whose PAN has become inoperative, would be liable for following further consequences: -

- (i) no refund of any amount of tax or part thereof, due under the provisions of the Act
- (ii) interest would not be payable on such refund
- (iii) where tax is deductible at source in case of such person, such tax shall be deducted at higher rate, in accordance with provisions of section 206AA
- (iv) where tax is collectible at source in case of such person, such tax shall be collected at higher rate, in accordance with provisions of section 206CC

EXCEPTIONS TO SECTION 139AA

Provisions of section 139AA relating to quoting of Aadhaar Number would not apply to an individual who does not possess the Aadhaar number or Enrolment ID and is:

- (i) residing in Assam, Jammu & Kashmir and Meghalaya
- (ii) a non-resident as per Income-tax Act, 1961
- (iii) of the age of 80 years or more at any time during the previous year
- (iv) not a citizen of India

Practice Questions

Illustration 01

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

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

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

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

Illustration 02

Mr. Vineet exercised the option of shifting out of the default tax regime provided under section 115BAC(1A) and submits his return of income under the optional tax regime (i.e., the normal provisions of the Act) on 12-09-2024 for A.Y 2024- 25 consisting of income under the head “Salaries”, “Income from house property” and bank interest. On 21-12-2024, he realized that he had not claimed deduction under section 80TTA in respect of his interest income on the Savings Bank Account. He wants to revise his return of income. Can he do so? Examine. Would your answer be different if he discovered this omission on 21- 03-2025?

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 under section 139(1), in his case, is 31st July, 2024. Since Mr. Vineet had submitted his return only on 12.9.2024, the said return is a belated return under section 139(4).

As per section 139(5), a return furnished under section 139(1) or a belated return u/s 139(4) can be revised. Thus, a belated return under section 139(4) can also be revised. Therefore, Mr. Vineet can revise the return of income filed by him under section 139(4) in December 2024, to claim deduction under section 80TTA, since the time limit for filing a revised return is three months prior to the end of the relevant assessment year, which is 31.12.2024. However, he cannot revise return had he discovered this omission only on 21- 03-2025, since it is beyond 31.12.2024

Illustration 03

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

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

Solution

- a) True: Section 139A(2) provides that the Assessing Officer may, having regard to the nature of transactions as may be prescribed, also allot a PAN to any other person, whether any tax is payable by him or not, in the manner and in accordance with the procedure as may be prescribed
- b) 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.

Illustration 04

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 carried forward, unless such losses are determined in pursuance of return filed under the provisions of section 139(3).

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

Following losses are covered by section 139(3):

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

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

Illustration 05

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

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

Solution

S.No.	Transaction	Is quoting of PAN mandatory in related documents?
1.	Payment of life insurance premium of ₹ 45,000 in the F.Y.2023-24 by	No, since the amount paid does not exceed ₹ 50,000 in the F.Y.2023-24.

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

Illustration 06

Mr. Rahul, an Indian citizen residing in Mumbai, files his return of income every year on time. He has Aadhaar number as well. He has not intimated his Aadhaar number to the prescribed authority till August 2023. He approached you on 1.9.2023 and asked you the consequences for not doing so and the effective date from which those consequences would become effective?

What would be your answer if Mr. Rahul wants to intimate his Aadhaar number to the prescribed authority now?

[RTP May 24]

Solution

Where a person, who has been allotted PAN and is required to intimate his Aadhaar number, has failed to intimate the same on or before the 31.3.2022, the PAN of such person shall become inoperative

Consequences of failure to intimate Aadhaar Number A person, whose PAN has become inoperative, would be liable for further consequences for the period commencing from the date specified by the Board till the date it becomes operative, namely –

- refund of any amount of tax or part thereof, due under the provisions of the Act shall not be made;
- interest shall not be payable on such refund for the period, beginning with the date specified and ending with the date on which it becomes operative;
- where tax is deductible under Chapter XVII B in case of such person, such tax shall be deducted at higher rate, in accordance with provisions of section 206AA;
- where tax is collectible at source under Chapter XVII-BB in case of such person, such tax shall be collected at higher rate, in accordance with provisions of section 206CC.

The consequences specified above will be effective from 1.7.2023.

If Mr. Rahul wants to intimate his Aadhaar number to the prescribed authority on 1.9.2023, he would be liable to pay a fee of ₹ 1,000 as specified under section 234H. His PAN would become operative within 30 days from the date of intimation of Aadhaar number and would not be liable for the above consequences once his PAN becomes operative

Illustration 07

Who is authorized to verify the return of income of the following assessees?

1. HUF whose Karta is absent from India
2. Company where the company is being wound up
3. Local authority
4. Individual who is mentally incapacitated from attending to his affairs

[RTP Nov 23]

Solution

Person authorized to verify return of income

S.No.	Assessee	Authorised Persons
1.	HUF whose karta is absent from India	Any other adult member of the HUF
2.	Company where the company is being wound up	Liquidator
3.	Local authority	The principal officer
4.	Individual who is mentally incapacitated from attending to his affairs	His guardian or any other person competent to act on his behalf

Illustration 08

Mr. Vikas, a resident in India aged 80 years, is having a house property in Mumbai. He has let out the house property to ABC Ltd. for a rent of ₹ 50,000 per month from 1.4.2021. He does not have any other source of income. Is Mr. Vikas required to file his return of income for A.Y. 2022-23. If yes, why?

[RTP Nov 22]

Solution

An individual whose total income exceeds the maximum amount not chargeable to tax i.e., ₹ 5,00,000 in this case since Mr. Vikas is of 80 years, is required to file a return of income on or before the due date under section 139(1) i.e., 31st July, 2022.

Clause (iv) of seventh proviso to section 139(1) provides that a person (other than a company or a firm) who is not required to furnish a return u/s 139(1) has to furnish return on or before the due date if the person fulfills such other conditions as may be prescribed. Accordingly, vide Notification no. 3/2022 dated 21.4.2022, the CBDT inserted Rule 12AB which prescribes, inter alia, that in case of resident individual who is aged 60 years or more at any time during the relevant P.Y. is required to file his return of income if the aggregate

of tax deducted at source and tax collected at source, in his case, during the P.Y. is ₹ 50,000 or more.

In this case, Mr. Vikas's total income would comprise of only income from house property from let out of house property in Mumbai. His total income would be ₹ 4,20,000 [₹ 6,00,000 – 30% under section 24(a)], which is below the basic exemption limit of ₹ 5,00,000. ABC Ltd. is required to deduct tax at source u/s 194-I @10% of ₹ 6,00,000. Tax deductible would be ₹ 60,000. Since tax deducted at source in case of Mr. Vikas is more than ₹ 50,000, he has to furnish his return of income for A.Y. 2022-23 on or before 31.07.2022, even though his total income is below the basic exemption limit of ₹ 5,00,000.

Illustration 09

Mr. Aakash has undertaken certain transactions during the F.Y.2022-23, which are listed below. You are required to identify the transactions in respect of which quoting of PAN is mandatory in the related documents –

S.No.	Transaction
1.	Opening a current account with HDFC Bank
2.	Sale of shares of ABC (P) Ltd. for ₹ 1,50,000
3.	Purchase of two wheeler motor vehicle of ₹ 1 lakh
4.	Purchase of a professional laptop of ₹ 3 lakhs

[RTP May 23]

Solution

S.No.	Transaction	Is quoting of PAN Mandatory in Related Documents?
1.	Opening a current account with HDFC Bank	Yes, quoting of PAN is mandatory on opening of a current account by a person with bank
2.	Sale of shares of ABC (P) Ltd. for ₹ 1,50,000	Yes, since the amount for sale of unlisted shares exceeds ₹ 1,00,000
3.	Purchase of two wheeler motor vehicle of ₹ 1 lakh	Since the purchase is of two wheeler motor vehicle, quoting of PAN is not mandatory
4.	Purchase of a professional laptop of ₹ 3 lakhs	Yes, since the amount paid exceeds ₹ 2,00,000

Illustration 10

Mrs. Shivani is a US Citizen. She got married to Mr. Sriram, an Indian citizen and resident of India, in the year 2015. Since then, she has been staying in India. She has a Bank account in US. She sold a residential house in US and earned a long term capital gain of ₹ 2 lakhs. She invested the whole sales consideration in Capital Gain bonds under section 54EC so that no long term capital gain is taxable. She does not have any source of income in India during the P.Y. 2021-22. Is she required to furnish her return of income? If yes, can she furnish a belated return?

[RTP May 22]

Solution

An individual whose total income without giving effect to, inter alia, section 54EC exceeds the maximum amount not chargeable to tax i.e., ₹ 2,50,000, is required to file a return of income on or before the due date under section 139(1) i.e., 31st July, 2022.

Every person, being a resident other than not ordinarily resident in India, would be required to file a return of income or loss for the previous year, even if his total income does not exceed the basic exemption limit, if such person, at any time during the previous year, inter alia, holds any asset located outside India or has a signing authority in any account located outside India.

In this case, Mrs. Shivani is a resident and ordinarily resident in India for A.Y. 2022-23 since she has been staying in India since the year 2015. Total income of Mrs. Shivani without giving effect to, inter alia, section 54EC is ₹ 2 lakhs, which is below the basic exemption limit. However, since she has a bank account in US, she has to furnish her return of income for A.Y. 2022-23 on or before 31.07.2022.

Yes, she can furnish a belated return under section 139(4), if she has not furnished her return on or before 31.7.2022, at any time before the –

1. three months prior to the end of the relevant assessment year i.e., 31.12.2022;
 2. completion of the assessment
- whichever is earlier.

Illustration 11

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:

1. Belated return filed under Section 139(4)
2. Return already revised twice under Section 139(5)
3. Return of loss filed under Section 139(3)

[PYQ May 22]

Solution

Any person who has furnished a return under section 139(1) or 139(4) can file a revised return at any time

- before three months prior to the end of the relevant assessment year or
- before the completion of assessment,

whichever is earlier, if he discovers any omission or any wrong statement in the return filed earlier. Accordingly,

1. A belated return filed under section 139(4) can be revised
2. A return revised earlier can be revised again as the first revised return replaces the original return; and the second revised return replaces the earlier return filed
3. A return of loss filed under section 139(3) is deemed to be return filed under section 139(1), and therefore, can be revised under section 139(5).

Illustration 12

What is the time limit within which an updated return can be filed? Also enumerate the circumstances in which updated return cannot be furnished.

[PYQ May 23]

Solution

Any person may 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.

Circumstances in which updated return cannot be furnished

No updated return can be furnished by any person for the relevant assessment year, where

- a) an updated return has been furnished by him for the relevant assessment year
- 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;
- c) he is such person or belongs to such class of persons, as may be notified by the CBDT.
- d) an updated return is a loss return
- e) the updated return has the effect of decreasing the total tax liability determined on the basis of return furnished under section 139(1)/(4)/(5) / original or revised return
- f) the updated return results in refund or increases the refund due on the basis of return furnished under section 139(1)/(4)/(5) / original or revised return.

Illustration 13

State with reason whether the following persons are required to file their return of income as per the provisions of the Income Tax Act, 1961 for the assessment year 2024-25:

- a) Mr. Aneesh aged 31 years, who opted for default tax regime u/s 115BAC(1A) had a total income of ₹ 2,90,000 for the previous year 2023-24
- b) Smt. Patel, aged 65 years, has a TDS credit of ₹ 55,000 during the previous year 2023-24
- c) The gross receipts of Mr. Ajit, aged 45 years, an architect for the previous year 2023-24 was ₹ 12,00,000, but his profit from profession was only ₹ 2,25,000 and he has no other income

[PYQ May 24]

Solution

- a) In this case, Mr. Aneesh is not required to file return of income, since his total income does not exceed ₹ 3,00,000, being the basic exemption limit as per the default tax regime u/s 115BAC, assuming Mr. Aneesh has not claimed any deduction u/s 54/54D/54EC or 54F and deduction allowable under Chapter VI-A
- b) In the present case, since Smt. Patel, a senior citizen has a TDS credit of ₹ 55,000, which exceeds the threshold limit of ₹ 50,000, she is required to file her return of income even if it is assumed that her total income does not exceed the basic exemption limit
- c) In this case, since Mr. Ajit's gross receipts from the profession of architect was ₹ 12,00,000 for the P.Y. 2023-24, which is in excess of ₹ 10 lakhs, hence, he is required to file his return of income though his total income is ₹ 2,25,000 which does not exceed the basic exemption limit.

Illustration 14

CBDT has vide Notification No. 37/2022 dated 21.04.2022, inserted Rule 12AB, notified which are all the person other than a company or firm who is not required to file return of income under Section 139(1) must file the return of Income. State who are required compulsorily to file return of Income.

[PYQ May 24]

Solution

The CBDT has, vide Notification No. 37/2022 dated 21.4.2022, inserted Rule 12AB to provide that a person, other than a company or a firm, who is not required to furnish a return under section 139(1), and who fulfils any of the following conditions during the previous year has to file their return of income on or before the due date in the prescribed form and manner –

- a) if his total sales, turnover or gross receipts, as the case may be, in the business > ₹ 60 lakhs during the previous year; or
- b) if his total gross receipts in profession > ₹ 10 lakhs during the previous year; or
- c) 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 (or senior citizen) would be required to file return of income only, if the aggregate of TDS and TCS during the previous year, in his case, is ₹ 50,000 or more
- d) the deposit in one or more savings bank account of the person, in aggregate, is ₹ 50 lakhs or more during the previous year.

Illustration 15

In the context of Tax Return Preparer Scheme, 2006, explain the following:

- a) Eligible Persons
- b) Educational Qualifications of Tax Return Preparer
- c) Persons not entitled to act as return preparer

[PYQ Nov 23]

Solution

In the context of Tax Return Preparer scheme, 2006

- a) Eligible Persons
Any person being an individual or a Hindu undivided family
- b) Educational Qualifications of Tax Return Preparer
An individual, who
 - holds a bachelor degree from a recognised Indian University or institution, or
 - has passed the intermediate level examination conducted by
 - the Institute of Chartered Accountants of India (ICAI) or
 - the Institute of Company Secretaries of India (ICSI) or
 - the Institute of Cost Accountants of India (ICWAI)
- c) Person not entitled to act as return preparer

An individual who is –

- **any officer of a scheduled bank with which the assessee maintains a current account or has other regular dealings**
- **a legal practitioner, entitled to practice in any civil court in India**
- **an accountant**
- **an employee of the “specified class or classes of persons” i.e., any person other than a company or a person whose accounts are required to be audited under section 44AB (tax audit) or under any other existing law, who is required to furnish a return of income under the Act.**

9

CHAPTER

Computation of Total Income and Tax Payable

to be cover with ICAI