

#CrackTaxwithAmit



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DIRECT TAX

QUESTION BANK

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- » Study Material Questions and Illustration
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DIRECT TAX

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Basic Concepts

Illustration 1

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

Solution

Computation of Tax liability of Mr. X for A.Y. 2024-25

Tax liability:

First Rs 3,00,000	- Nil	
Next Rs 3,00,001 – Rs 6,00,000	- @5% of Rs 3,00,000	Rs 15,000
Next Rs 6,00,001 – Rs 9,00,000	- @10% of Rs 3,00,000	Rs 30,000
Next Rs 9,00,001 – Rs 12,00,000	- @15% of Rs 3,00,000	Rs 45,000
Next Rs 12,00,001 – Rs 15,00,000	- @20% of Rs 3,00,000	Rs 60,000
Balance i.e., Rs 16,00,000 minus Rs 15,00,000	- @30% of Rs 1,00,000	<u>Rs 30,000</u>
		Rs 1,80,000
Add: Health and Education cess@4%		<u>Rs 7,200</u>
		<u>Rs 1,87,200</u>

Illustration 2

Mr. X has a total income of Rs 16,00,000 for P.Y.2023-24, comprising of income from house property and interest on fixed deposits. Compute his tax liability for A.Y.2024-25 assuming his age is –

- (a) 45 years
- (b) 63 years
- (c) 82 years

Assume that Mr. X has exercised the option to shift out/ opt out of the default tax regime.

Solution

(a) Computation of Tax liability of Mr. X (aged 45 years)

Tax liability:

First Rs 2,50,000	- Nil	
Next Rs 2,50,001 – Rs 5,00,000	- @5% of Rs 2,50,000	Rs 12,500
Next Rs 5,00,001 – Rs 10,00,000	- @20% of Rs 5,00,000	Rs 1,00,000
Balance i.e., Rs 16,L minus Rs 10L	- @30% of Rs 6,00,000	<u>Rs 1,80,000</u>
		Rs 2,92,500

Add: Health and Education cess@4%

Rs 11,700= Rs 3,04,200**(b) Computation of Tax liability of Mr. X (aged 63 years)**

Tax liability:

First	Rs 3,00,000	- Nil	
Next	Rs 3,00,001 – Rs 5,00,000	- @5% of Rs 2,00,000	Rs 10,000
Next	Rs 5,00,001 – Rs 10,00,000	- @20% of Rs 5,00,000	Rs 1,00,000
	Balance i.e., Rs 16L minus Rs 10L-	@30% of Rs 6,00,000	<u>Rs 1,80,000</u>
			Rs 2,90,000
	Add: Health and Education cess@4%		<u>Rs 11,600</u>
			<u>Rs 3,01,600</u>

(c) Computation of Tax liability of Mr. X (aged 82 years)

Tax liability:

First	Rs 5,00,000	- Nil	
Next	Rs 5,00,001 – Rs 10,00,000	- @ 20% of Rs 5,00,000 =	Rs 1,00,000
	Balance i.e., Rs 16L minus Rs 10L	- @ 30% of Rs 6,00,000 =	<u>Rs 1,80,000</u>
			Rs 2,80,000
	Add: Health and Education cess@4%		<u>Rs 11,200</u>
		₹	=Rs <u>2,91,200</u>

Illustration 3

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

Solution

Illustration 4

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

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

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

(E) Tax liability: lower of (A) & (D)

Rs 30,70,000

Add: Health and education cess @4%

Rs 1,22,800**Tax liability (including cess)**Rs 31,92,800**(F) Marginal relief (A-D)**

Rs 69,500

Alternative method:**(A) Income-tax (including surcharge) computed on total income of Rs 1,01,00,000**

Rs 3,00,000 – Rs 6,00,000@5% Rs 15,000

Rs 6,00,001 – Rs 9,00,000@10% Rs 30,000

Rs 9,00,001 – Rs 12,00,000@15% Rs 45,000

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

Rs 15,00,001 – Rs 1,01,00,000@30% Rs 25,80,000

Total Rs 27,30,000

Add: Surcharge @ 15% Rs 4,09,500 Rs 31,39,500**(B) Income-tax computed on total income of Rs 1 crore [(Rs 1,50,000 plus Rs 25,50,000) plus surcharge@10%]**Rs 29,70,000**(C) Excess tax payable (A)-(B)**

Rs 1,69,500

(D) Marginal Relief (Rs 1,69,500 – Rs 1,00,000, being the amount of income in excess of Rs 1,00,00,000)

Rs 69,500

(E) Tax liability (A) - (D)

Rs 30,70,000

Add: Health and education cess @4%

Rs 1,22,800**Tax liability (including cess)**Rs 31,92,800**Illustration 5**

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

Solution**Computation of tax liability of Mr. C for the A.Y. 2024-25****(A) Income-tax (including surcharge) computed on total income of Rs 2,01,00,000**

Rs 2,50,000 – Rs 5,00,000 @ 5% Rs 12,500

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

Rs 10,00,001 – Rs 2,01,00,000@30% Rs 57,30,000

Total Rs 58,42,500

Add: Surcharge @ 25% Rs 14,60,625

Rs 73,03,125

(B)	Income-tax computed on total income of Rs 2 crore (Rs 12,500 plus Rs 1,00,000 plus Rs 57,00,000) Add: Surcharge@15%	Rs 58,12,500 <u>Rs 8,71,875</u> Rs 66,84,375
(C)	Total Income Less Rs 2 crore	Rs 1,00,000
(D)	Income-tax computed on total income of Rs 2 crore <i>plus</i> the excess of total income over Rs 2 crore (B +C)	Rs 67,84,375
(E)	Tax liability (A) or (D), whichever is lower Add: Health and education cess @4%	Rs 67,84,375 <u>Rs 2,71,375</u> Rs 70,55,750
(F)	Marginal relief (A-D)	Rs 5,18,750

Alternative method

(A)	Income-tax (including surcharge) computed on total income of Rs 2,01,00,000	
	Rs 2,50,000 – Rs 5,00,000 @ 5%	Rs 12,500
	Rs 5,00,001 – Rs 10,00,000 @ 20%	Rs 1,00,000
	Rs 10,00,001 – Rs 2,01,00,000@30%	<u>Rs 57,30,000</u>
	Total	Rs 58,42,500
	Add: Surcharge@25%	<u>Rs 14,60,625</u>
		Rs 73,03,125
(B)	Income-tax computed on total income of Rs 2 crore [(Rs 12,500 plus Rs 1,00,000 plus Rs 57,00,000) <i>plus</i> surcharge@15%]	<u>Rs 66,84,375</u>
(C)	Excess tax payable (A)-(B)	Rs 6,18,750
(D)	Marginal Relief (Rs 6,18,750 – Rs 1,00,000, being the amount of income in excess of Rs 2,00,00,000)	<u>Rs 5,18,750</u>
(E)	Tax liability (A) - (D) Add: Health and education cess@4%	Rs 67,84,375 <u>Rs 2,71,375</u> Rs 70,55,750
	Tax liability (including cess)	<u>Rs 70,55,750</u>

Illustration 6

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

Solution

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

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

Rs 3,00,000 – Rs 6,00,000@5%	Rs 15,000	
Rs 6,00,001 – Rs 9,00,000@10%	Rs 30,000	
Rs 9,00,001 – Rs 12,00,000@15%	Rs 45,000	
Rs 12,00,001 – Rs 15,00,000@20%	Rs 60,000	
Rs 15,00,001 – Rs 5,01,00,000@30%	<u>Rs 1,45,80,000</u>	
Total	Rs 1,47,30,000	
Add: Surcharge@25%	<u>Rs 36,82,500</u>	Rs 1,84,12,500
Add: Health and education cess @4%		<u>Rs 7,36,500</u>
Tax liability		<u>Rs 1,91,49,000</u>

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

(A) Income-tax (including surcharge) computed on total income of Rs 5,01,00,000		
Rs 3,00,000 – Rs 5,00,000 @ 5%	Rs 10,000	
Rs 5,00,001 – Rs 10,00,000 @ 20%	Rs 1,00,000	
Rs 10,00,001 – Rs 5,01,00,000@30%	<u>Rs 1,47,30,000</u>	
Total	Rs 1,48,40,000	
Add: Surcharge @ 37%	<u>Rs 54,90,800</u>	Rs 2,03,30,800
(B) Income-tax computed on total income of Rs 5 crore (Rs 10,000 plus Rs 1,00,000 plus Rs 1,47,00,000)		
		Rs 1,48,10,000
Add: Surcharge@25%		<u>Rs 37,02,500</u>
		Rs 1,85,12,500
(C) Total Income Less Rs 5 crore		Rs 1,00,000
(D) Income-tax computed on total income of Rs 5 crore plus the excess of total income over Rs 5 crore (B +C)		Rs 1,86,12,500
(E) Tax liability (A) or (D), whichever is lower		Rs 1,86,12,500
Add: Health and education cess@4%		<u>Rs 7,44,500</u>
Tax liability (including cess)		<u>Rs 1,93,57,000</u>
(F) Marginal Relief (A – D)		Rs 17,18,300

Alternative method

(A) Income-tax (including surcharge) computed on total income of Rs 5,01,00,000		
Rs 3,00,000 – Rs 5,00,000@5%	Rs 10,000	
Rs 5,00,001 – Rs 10,00,000@20%	Rs 1,00,000	
Rs 10,00,001 – Rs 5,01,00,000@30%	<u>Rs 1,47,30,000</u>	
Total	Rs 1,48,40,000	

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

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

Illustration 7

Mr. Raghav aged 26 years and a resident in India, has a total income of Rs 6,50,000, comprising his salary income and interest on bank fixed deposit. Compute his tax liability for A.Y.2024-25 under default tax regime under section 115BAC.

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

Particulars	Rs
Tax on total income of Rs 6,50,000	
Tax@10%of Rs 50,000 + Rs 15,000	20,000
Less: Rebate u/s 87A (Lower of tax payable or Rs 25,000)	20,000
Tax Liability	Nil

If total income of such individual **exceeds** Rs **7,00,000** and income-tax payable on such total income exceeds the amount by which the total income is in excess of Rs 7,00,000, the rebate would be as follows.

Step 1 – Total income (-) Rs 7 lakhs (A)

Step 2 - Compute income-tax liability on total income (B)

Step 3 - If B>A, rebate under section 87A would be a B – A.

The amount of rebate under section 87A shall not exceed the amount of income-tax (as computed before allowing such rebate) on the total income of the assessee.

Illustration 8

Mr. Pawan aged 35 years and a resident in India, has a total income of Rs

7,15,000, comprising his salary income and interest on bank fixed deposit. Compute his Tax liability for A.Y.2024-25 under default tax regime under section 115BAC.

Solution

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

Particulars	Rs	
Step 1: Total Income of Rs 7,15,000 - Rs 7,00,000	15,000	(A)
Step 2: Tax on total income of Rs 7,15,000		
Tax@10% of Rs 1,15,000 + Rs 15,000	26,500	(B)
Step 3: Since B>A, rebate u/s 87A would be B-A [Rs 26,500 - Rs 15,000]	11,500	
	15,000	
Add: HEC@4%	600	
Tax Liability	15,600	

Illustration 9

Mr. Piyush, aged 35 years and a resident in India, has a total income of Rs 4,15,000, comprising his salary income and interest on bank fixed deposit. Compute his tax liability for A.Y.2024-25 if he exercises the option to shift out of the default tax regime.

Solution

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

Particulars	Rs
Tax on total income of Rs 4,15,000	
Tax@5% of Rs 1,65,000	8,250
Less: Rebate u/s 87A (Lower of tax payable or Rs 12,500)	8,250
Tax Liability	Nil

Illustration 10

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

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

1,70,000 Compute his tax liability for A.Y. 2024-25 assuming his age is -

(a) 45 years

(b) 70 years

Solution

Additional Questions

Question 1

Who is an “Assessee”?

Solution

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

In addition, the term includes –

- Every person in respect of whom any proceeding under the Act has been taken for the assessment of –
 - his income; or
 - the income of any other person in respect of which he is assessable; or
 - the loss sustained by him or by such other person; or
 - the amount of refund due to him or to such other person.
- Every person who is deemed to be an assessee under any provision of the Act;
- Every person who is deemed to be an assessee in default under any provision of the Act.

Question 2

State any four instances where the income of the previous year is assessable in the previous year itself instead of the assessment year.

Solution

The income of an assessee for a previous year is charged to income-tax in the assessment year following the previous year. However, in a few cases, the income is taxed in the previous year in which it is earned. These exceptions have been made to protect the interests of revenue. The exceptions are as follows:

- (i) Where a ship, belonging to or chartered by a non-resident, carries passengers, livestock, mail or goods shipped at a port in India, the ship is allowed to leave the port only when the tax has been paid or satisfactory arrangement has been made for payment thereof. 7.5% of the freight paid or payable to the owner or the charterer or to any person on his behalf, whether in India or outside India on account of such carriage is deemed to be his income which is charged to tax in the same year in which it is earned.
- (ii) Where it appears to the Assessing Officer that any individual may leave India during the current assessment year or shortly after its expiry and he has no present intention of returning to India, the total income of such individual for the period from the expiry of the respective previous year up to the probable date of his departure from India is chargeable to tax in that assessment year.
- (iii) If an AOP/BOI etc. is formed or established for a particular event or purpose and the Assessing Officer apprehends that the AOP/BOI is likely to be dissolved in the same year or in the next year, he can make assessment of the income up to the date of dissolution as income of the relevant assessment year.
- (iv) During the current assessment year, if it appears to the Assessing Officer that a person is likely to charge, sell, transfer, dispose of or otherwise part with any of his assets to avoid payment of any liability under this Act, the total income of such person for the period from the expiry of the previous year to the date, when the Assessing Officer commences proceedings under this section is chargeable to tax in that assessment year.

Where any business or profession is discontinued in any assessment year, the income of the period from the expiry of the previous year up to the date of such discontinuance may, at the discretion of the Assessing Officer, be charged to tax in that assessment year.

Question 3**What is the difference between an Association of Persons and Body of Individuals?****Solution**

In order to constitute an Association of Persons (AOP), persons must join for a common purpose or action and their object must be to produce income; it is not enough that the persons receive the income jointly.

Body of Individuals denotes the status of persons like executors or trustees who merely receive the income jointly and who may be assessable in like manner and to the same extent as the beneficiaries individually. Thus, co-executors or co-trustees are assessable as a BOI as their title and interest are indivisible.

The difference between an AOP and BOI is that in case of a BOI, only individuals can be the members, whereas in case of AOP, any person can be its member i.e. entities like company, firm etc. can be the member of AOP but not of BOI.

In case of an AOP, members voluntarily come together with a common will for a common intention or purpose, whereas in case of BOI, such common will may or may not be present.

Question 4

Mr. Sumit, a resident Indian, earns income of Rs 15 lakhs from sale of rubber manufactured from latex obtained from rubber plants grown by him in India and Rs 20 lakhs from sale of rubber manufactured from latex obtained from rubber plants grown by him in Malaysia during the A.Y.2024-25. What would be his business income, assuming he has no other business?

Solution

Since Mr. Sumit is a resident, his global income would be taxable in India. Income of Rs 20 lakhs from sale of rubber manufactured from latex obtained from rubber plants grown by him in Malaysia would be his business income since it is from rubber plants grown **outside India**. 35% income from sale of rubber manufactured from latex obtained from rubber plants grown by him in India would be taxable as business income and balance 65% would be exempt as agricultural income.

Question 5

Mr. Raja, a resident Indian, earns income of Rs 10 lakhs from sale of coffee grown and cured in India during the A.Y.2024-25. His friend, Mr. Shyam, a resident Indian, earns income of Rs 20 lakhs from sale of coffee grown, cured, roasted and grounded by him in India during the A.Y.2024-25. What would be the business income chargeable to tax in India of Mr. Raja and Mr. Shyam?

Solution

In case of income derived from the sale of coffee grown and cured by the seller in India, 25% income on such sale is taxable as business income. In case of income derived from the sale of coffee grown, cured, roasted and grounded by the seller in India, 40% income on such sale is taxable as business income.

Business income of Mr. Raja = 25% of Rs 10 lakhs = Rs 2.5 lakhs
Business income of Mr. Shyam = 40% of Rs 20 lakhs = Rs 8 lakhs

The Jain HUF in Assam comprises of Mr. Suresh Jain, his wife Mrs. Sapna Jain, his son Mr. Sarthak Jain, his daughter-in-law Mrs. Preeti Jain, his daughter Miss Seema Jain and his unmarried brother Mr. Pritam Jain. Which of the members of the HUF are eligible for coparcenary rights?

Solution

Dayabaga school of Hindu law is prevalent in Assam. In Dayabaga school of Hindu law, nobody acquires the right, share in the property by birth as long as the head of family is living.

Thus, the children do not acquire any right, share in the family property, as long as his father is alive and only on death of the father, the children will acquire right/share in the property.

Hence, Mr. Suresh Jain and his brother, Mr. Pritam Jain would be the coparceners of the Jain HUF and are eligible for coparcenary rights

Question 7

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

Solution

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

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

Tax liability

Rs 14,30,000**(F) Marginal Relief (A – D)**

Rs 2,750

Alternative method -**(A)** Tax payable including surcharge on total income of Rs 51,75,000

3,00,000 – 6,00,000 @5% 15,000

6,00,001 – 9,00,000 @10% 30,000

9,00,001 – 12,00,000 @15% 45,000

12,00,001 – 15,00,000 @20% 60,000

15,00,001 – 51,75,000 @30% 11,02,500

Total 12,52,500

Rs 13,77,750

Add: Surcharge@10% 1,25,250**(B)** Tax Payable on total income of Rs 50 lakhs

(Rs 1,50,000 plus Rs 10,50,000)

Rs 12,00,000

(C) Excess tax payable (A)-(B)

Rs 1,77,750

(D) Marginal Relief (Rs 1,77,750 – Rs 1,75,000, being the amount

of income in excess of Rs 50,00,000)

Rs **2,750****(E)** Tax payable (A)-(D)

Rs 13,75,000

Add: Health and education cess @4%

Rs 55,000

Tax liability

Rs 14,30,000**Question 8**

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

Question 9

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

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

Particulars		Rs
<u>Tax on total income of Rs 2,30,00,000</u>		
Tax@20% of Rs 52,00,000		10,40,000
Tax@15% of Rs 64,00,000		9,60,000
Tax on other income of Rs 1,14,00,000		

Rs 3,00,000 – Rs 6,00,000 @5%	15,000	
Rs 6,00,000 – Rs 9,00,000 @10%	30,000	
Rs 9,00,000 – Rs 12,00,000 @15%	45,000	
Rs 12,00,000 – Rs 15,00,000 @20%	60,000	
Rs 15,00,000 – Rs 1,14,00,000 @30%	29,70,000	31,20,000
		51,20,000
Add: Surcharge @15%		7,68,000
		58,88,000
Add: Health and education cess @4%		235,520
Tax Liability		61,23,520

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

under normal provisions of the Act

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

RESIDENCE AND SCOPE OF TOTAL INCOME

Conceptual Questions

Illustration 1

Mr. Anand is an Indian citizen and a member of the crew of a Singapore bound Indian ship engaged in carriage of passengers in international traffic departing from Chennai port on 6th June, 2022. From the following details for the FY 2023-24, determine the residential status of Mr. Anand for AY 2024-25, assuming that his stay in India in the last 4 previous years (preceding FY 2023-24) is 400 days:

Particulars	Date
Date entered into the Continuous Discharge Certificate in respect of joining the ship by Mr. Anand	6th June, 2023
Date entered into the Continuous Discharge Certificate in respect of signing off the ship by Mr. Anand	9th December, 2023

Solution

Illustration 2

Brett Lee, an Australian cricket player visits India for 100 days in every financial year. This has been his practice for the past 10 financial years.

- Find out his residential status for the AY 2024-25.
- Would your answer change if the above facts relate to Srinath, an Indian citizen who resides in Australia and represents the Australian cricket team?
- What would be your answer if Srinath had visited India for 120 days instead of 100 days every year, including FY 2023-24?

Solution**(a) Determination of Residential Status of Mr. Brett Lee for the AY 2024-25:-**

Period of stay during FY 2023-24 = 100 days

Calculation of period of stay during 4 preceding previous years ($100 \times 4 = 400$ days)

2020-21	100 days
2019-20	100 days
2018-19	100 days
2017-18	<u>100 days</u>
Total	<u>400 days</u>

Mr. Brett Lee has been in India for a period more than 60 days during FY 2023-24 and for a period of more than 365 days during the 4 immediately preceding previous years. Therefore, since he satisfies one of the basic conditions under section 6(1), he is a resident for the AY 2024-25.

Computation of period of stay during 7 preceding previous years = $100 \times 7 = 700$ days

2020-21	100 days
2019-20	100 days
2018-19	100 days
2017-18	100 days
2016-17	100 days
2015-16	100 days
2014-15	<u>100 days</u>
Total	<u>700 days</u>

Since his period of stay in India during the past 7 previous years is less than 730 days, he is a not-ordinarily resident during the AY 2024-25. (See Note below)

Therefore, Mr. Brett Lee is a resident but not ordinarily resident during the FY 2023-24 relevant to the AY 2024-25.

Note: An individual, not being an Indian citizen, would be not-ordinarily resident person if he satisfies any one of the conditions specified under section 6(6), i.e.,

- (i) If such individual has been non-resident in India in any 9 out of the 10 previous years preceding the relevant previous year, or
- (ii) If such individual has during the 7 previous years preceding the relevant previous year been in India for a period of 729 days or less.

In this case, since Mr. Brett Lee satisfies condition (ii), he is a not-ordinarily resident for the AY 2024-25.

- (b)** If the above facts relate to Mr. Srinath, an Indian citizen, who residing in Australia, comes on a visit to India, he would be treated as non-resident in India, irrespective of his total income (excluding income from foreign sources), since his stay in India in the current financial year is, in any case, less than 120 days.

- (c) In this case, if Srinath's total income (excluding income from foreign sources) exceeds Rs.15 lakh, he would be treated as resident but not ordinarily resident in India for FY 2023-24, since his stay in India is 120 days in the FY 2023-24 and 480 days (i.e., 120 days x 4 years) in the immediately four preceding previous years.

If his total income (excluding income from foreign sources) does not exceed Rs.15 lakh, he would be treated as non-resident in India for the FY 2023-24, since his stay in India is less than 182 days in the FY 2023-24.

Illustration 3

Mr. B, a Canadian citizen, comes to India for the first time during the P.Y. 2019-20. During the financial years 2019-20, 2020-21, 2021-22, 2022-23 and 2023-24, he was in India for 55 days, 60 days, 90 days, 150 days and 70 days, respectively. Determine his residential status for the AY 2024-25.

Solution

During the FY 2023-24, Mr. B was in India for 70 days and during the 4 years preceding the FY 2023-24, he was in India for 355 days (i.e. 55+ 60+ 90+ 150 days).

Thus, he does not satisfy the basic condition under section 6(1). Therefore, he is a non-resident for the FY 2023-24.

Illustration 4

The business of a HUF is transacted from Australia and all the policy decisions are taken there. Mr. E, the Karta of the HUF, who was born in Kolkata, visits India during the FY 2023-24 after 15 years. He comes to India on 1.4.2021 and leaves for Australia on 1.12.2021. Determine the residential status of Mr. E and the HUF for AY 2024-25.

Solution

- (a) During the FY 2023-24, Mr. E has stayed in India for 245 days (i.e. 30+31+30+31+31+30+31+30+1 days). Therefore, he is a resident. However, since he has come to India after 15 years, he does not satisfy the condition for being ordinarily resident.

Therefore, the residential status of Mr. E for the FY 2023-24 is resident but not ordinarily resident.

- (b) Since the business of the HUF is transacted from Australia and policy decisions are taken there, it is assumed that the control and management is in Australia i.e., the control and management is wholly outside India. Therefore, the HUF is a non-resident for the FY 2023-24.

Illustration 5

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

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

	Particulars	Rs.
(a)	Short term capital gains on sale of shares of an Indian Company received in Germany	15,000

(b)	Dividend from a Japanese Company received in Japan	10,000
(c)	Rent from property in London deposited in a bank in London, later on remitted to India through approved banking channels	75,000
(d)	Dividend from RP Ltd., an Indian Company	6,000
(e)	Agricultural income from land in Gujarat	25,000

Solution**Computation of total income of Mr. Anirudh for the AY 2024-25**

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

Notes:

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

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

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

Illustration 6

Mr. David, an Indian citizen aged 40 years, a government employee serving in the Ministry of External Affairs, left India for the first time on 31.03.2023 due to his transfer to High Commission of Canada. He did not visit India any time during the FY 2023-24. He has received the following income for the Financial Year 2022-23:

S. No.	Particulars	Rs.
--------	-------------	-----

(i)	Salary (Computed)	5,00,000
(ii)	Foreign Allowance [not included in (i) above]	4,00,000
(iii)	Interest on fixed deposit from bank in India	1,00,000
(iv)	Income from agriculture in Nepal	2,00,000
(v)	Income from house property in Nepal	2,50,000

Compute his Gross Total Income for AY 2024-25.

Solution

As per section 6(1), Mr. David is a non-resident for the AY 2024-25, since he was not present in India at any time during the FY 2023-24.

As per section 5(2), a non-resident is chargeable to tax in India only in respect of following incomes:

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

In view of the above provisions, income from agriculture in Nepal and income from house property in Nepal would not be chargeable to tax in the hands of David, assuming that the same were received in Nepal. Income from 'Salaries' payable by the Government to a citizen of India for services rendered outside India is deemed to accrue or arise in India as per section 9(1)(iii). Hence, such income is taxable in the hands of Mr. David, even though he is a non-resident.

However, allowances or perquisites paid or allowed as such outside India by the Government to a citizen of India for rendering service outside India is exempt under section 10(7). Hence, foreign allowance of Rs.4,00,000 is exempt under section 10(7) in the hands of Mr. David.

Gross Total Income of Mr. David for AY 2024-25

Particulars	Rs.
Salaries (computed)	5,00,000
Income from other sources (Interest on fixed deposit in India)	<u>1,00,000</u>
Gross Total Income	<u>6,00,000</u>

Illustration 7

Miss Vivitha paid a sum of 5000 USD to Mr. Kulasekhara, a management consultant practicing in Colombo, specializing in project financing. The payment was made in Colombo. Mr. Kulasekhara is a non-resident. The consultancy is related to a project in India with possible Ceylonese collaboration. Is this payment chargeable to tax in India in the hands of Mr. Kulasekhara, since the services were used in India?

Solution

A non-resident is chargeable to tax in respect of income received outside India only if such income accrues or arises or is deemed to accrue or arise to him in India.

The income deemed to accrue or arise in India under section 9 comprises, *inter alia*, income by way of fees for technical services, which includes any consideration for rendering of any

managerial, technical or consultancy services. Therefore, payment to a management consultant relating to project financing is covered within the scope of "fees for technical services".

The *Explanation* below section 9(2) clarifies that income by way of, *inter alia*, fees for technical services, from services utilized in India would be deemed to accrue or arise in India in case of a non-resident and be included in his total income, whether or not such services were rendered in India or whether or not the non-resident has a residence or place of business or business connection in India.

In the instant case, since the services were utilized in India, the payment received by Mr. Kulasekhara, a non-resident, in Colombo is chargeable to tax in his hands in India, as it is deemed to accrue or arise in India.

Illustration 8

Compute the total income in the hands of an individual aged 35 years, being a resident and ordinarily resident, resident but not ordinarily resident, and non-resident for the AY 2024-25 –

Particulars	Amount (Rs.)
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
Short term capital gains on sale of shares of an Indian company received in London	20,000
Dividend from British company received in London	5,000
Long term capital gains 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 (Rs.40,000 is received in India)	70,000
Profits from a business in Delhi but managed entirely from London	15,000
Income from house property in London deposited in a Bank at London, brought to India (Computed)	50,000
Interest on 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 Mumbai managed from London	26,000
Income from property situated in Nepal received there (Computed)	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	12,000

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

Solution

Additional Questions

Question 1

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

Answer

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

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

total period of 365 days or more and has been in India for at least 60 days in the previous year.

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

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

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

Question 2

Mr. Dey, a non-resident, residing in US since 1990, came back to India on 1.4.2023 for permanent settlement. What will be his residential status for AY 2024-25?

Answer

Mr. Dey is a resident in AY 2024-25 since he has stayed in India for a period of 365 days (more than 182 days) during the FY 2023-24.

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

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

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

For the FY 2023-24 (AY 2024-25), his status would be "Resident but not ordinarily resident" since he was non-resident in 9 out of 10 previous years immediately preceding the FY 2023-24. He can be resident but not ordinarily resident also due to the fact that he has stayed in India only for 365 days (i.e., less than 730 days) in 7 previous years immediately preceding the FY 2023-24.

Question 3

Mr. Ramesh & Mr. Suresh are brothers and they earned the following incomes during the financial year 2021-22. Mr. Ramesh settled in Canada in the year 1996 and Mr. Suresh settled in Delhi. Compute the total income for the AY 2024-25 assuming that both have exercised the option of shifting out of default tax regime provided under section 115BAC (1A).

Sr. No.	Particulars	Mr. Ramesh (Rs.)	Mr. Suresh (Rs.)
1.	Interest on Canada Development Bonds (only 50% of interest received in India)	35,000	40,000
2.	Dividend from British company received in London	28,000	20,000
3.	Profits from a business in Nagpur, but managed directly from London	1,00,000	1,40,000
4.	Short term capital gain on sale of shares of an Indian company received in India	60,000	90,000
5.	Income from a business in Chennai	80,000	70,000

6.	Fees for technical services rendered in India, but received in Canada	1,00,000	----
7.	Interest on savings bank deposit in UCO Bank, Delhi	7,000	12,000
8.	Agricultural income from a land situated in Andhra Pradesh	55,000	45,000
9.	Rent received in respect of house property at Bhopal	1,00,000	60,000
10.	Life insurance premium paid	---	30,000

Answer

Question 4

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

Answer

This statement is correct.

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

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

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

Question 5

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

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

India.

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

Answer

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

Question 6 – May 2018 RTP

Mr. Kavin, a NR, entered into the following transactions during FY 2023-24:

- (a) Received Rs. 20 Lacs from a NR for use of patent for a business in India.
 (b) Received foreign currency equivalent to Rs. 15 Lacs from a NR Indian for use of know-how for a business in Sri Lanka & this amount was received in Korea.

- (c) Received Rs. 7 Lacs from RR Ltd., an Indian company as fees for providing technical services in India.
- (d) Received Rs. 5 Lacs from R & Co., Mumbai, resident in India, for conducting the feasibility study for a new project in Nepal & the payment was made in Nepal.
- (e) Received Rs. 8 Lacs towards interest on moneys borrowed by a NR for the purpose of business within India. Amount was received in Korea.

Examine briefly whether the above receipts are chargeable to tax in India.

Answer

Question 7 – May 2019 RTP

Mr. Sumit is an Indian citizen & a member of the crew of an America bound Indian ship engaged in carriage of freight in international traffic departing from Kochi on 25.4.2021. Determine the residential status of Mr. Sumit for AY 2022-23, assuming that his stay in India in the last 4 PYs preceding FY 2023-24 is 365 days & last 7 PYs preceding FY 2023-24 is 730 days:

- Date entered in Continuous Discharge Certificate i.r.o. joining the ship: 25.4.2021.
- Date entered in Continuous Discharge Certificate i.r.o. signing off the ship:

24.10. 2021. Mr. Sumit has been filing his income tax return in India as a Resident for previous 2 years. What is his residential status for AY 2022-23:

- (a) Resident & ordinarily resident
- (b) Resident but not-ordinarily resident
- (c) Non-resident

Non-resident till 24.10.2021 & resident till 31.03.2022.

Question 8 – May 2019 RTP

Aashish earns the following income during the FY 2023-24:

- Interest on U.K. Development Bonds (1/4th being received in India): Rs. 4,00,000.
- Capital gain on sale of a building in India but received in Holland: Rs. 6,00,000.

Aashish is a RNOR in India, then what will be amount of income chargeable to tax in India for AY 2022-23?

- (a) Rs. 7 Lacs (b) Rs. 10 Lacs (c) Rs. 6 Lacs (d) Rs. 1 Lac

Question 9 – Nov 2019 RTP

Mr. Rajesh Sharma (aged 62 years), an Indian citizen, travelled frequently out of India for his business trip as well as for his outings. He left India from Delhi airport on 29th May 2021 as stamped in passport & returned on 27th April 2022. He has been in India for less than 365 days during the 4 yrs immediately preceding the PY. Determine his residential status & his total income for AY 2022-23 from following info.

- (1) STCG on the sale of shares of Tilt India Ltd., a listed Indian company, amounting to Rs. 58,000. The saleproceeds were credited to his bank account in Singapore.
- (2) Dividend amounting to Rs. 48,000 received from Treat Ltd., a Singapore based company, which was transferred to his bank account in Singapore. He had borrowed money from Mr. Abhay, a NR Indian, for the above-mentioned investment on 2nd April, 2021. Interest on the borrowed money for FY 2023-24 amounted to Rs. 5,800.
- (3) Interest on fixed deposit with Punjab National Bank, Delhi amounting to Rs. 9,500 was credited to his saving bank account.

Answer

Question 10 – RTP May 2021

Mr. Dhruv, a person of Indian origin & citizen of Country X, got married to Ms. Deepa, an Indian citizen residing in Country X, on 4th February, 2021 & came to India for the first time on 20-02-2021. He left for Country X on 12th August, 2021. He returned to India again on 20-01-2022 with his wife to spend some time with his parents-in law for 30 days & thereafter returned to Country X on 18.02.2022. He received the following gifts from his relatives & friends of her wife during 01-04-2021 to 31-03-2022 in India:

From parents of wife	Rs. 1,01,000
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From married sister of wife	Rs. 11,000
From very close friends of his wife	Rs. 2,82,000

Determine his residential status & compute the total income chargeable to tax along with the amount of tax payable on such income for the AY 2024-25.

Will your answer change if he has received Rs. 16,00,000 instead of Rs. 2,82,000 from very close friends of his wife during the FY 2023-24 & he stayed in India for 400 days during the 4 years preceding the FY 2023-24?

Answer

Question 11 – Nov 16

R, a citizen of India, serving in the Ministry of Finance in India was transferred to High Commission of Australia on 15.3.2021. He did not come to India during FY 2021-22. His income during FY 2021-22 is given hereunder:

Salary from Government of India	7,20,000
Foreign Allowances from Government of India	6,00,000
Rent from a house situated at London, received in London	3,60,000
Interest accrued on National Saving Certificate during the year 2021-22.	45,000

Compute Gross Total Income of R for AY 2022-23. Assume R:

(a) does not opt to be taxed u/s 115BAC

(b) opts to be taxed u/s 115BAC

Answer**Computation of Gross Total Income of R, a non-resident for AY 2022-23**

		Does not opt to be taxed u/s 115BAC	Opts to be taxed u/s 115BAC
Income from Salaries			
Salary from Government of India	7,20,000		
(Salary payable by the Government to a citizen of India for services rendered outside India is deemed to accrue/arise in India u/s 9(1)(iii).			
Foreign Allowance from Government of India exempt u/s 10(7)	Nil	7,20,000	7,20,000
Less: Standard deduction u/s 16(ia)		(50,000)	Nil
		6,70,000	7,20,000
Income from HP			
Rent from a house situated at London, received in London	Nil	Nil	Nil
(Not taxable as it neither accrues/arises in India nor deemed to accrue			

/arise in India)			
Income from Other Sources			
Interest accrued on National Savings Certificate		45,000	45,000
Gross Total Income		7,15,000	7,65,000

Question 12 – May 2017

A Korean Company D Ltd, entered in to following transactions during FY 2021-22:

- (A) 1Received 20 Lakhs from a NR for use of Patent for a business in India.
- (B) Received 15 Lakhs from a NR Indian for use of know-how for a business in Sri Lanka & this amount was received in Japan. [Assume that above amount is converted/stated in Indian Rupees].
- (C) Received 7 Lakhs from RR Co. Ltd, an Indian Company, for providing technical know-how in India.
- (D) Received 5 Lakhs from R & Co. Mumbai for conducting Feasibility Study for a new project in Nepal & the payment was made in Nepal.

Explain briefly whether, these receipts are chargeable to tax in India.

Answer

- (A) Chargeable to tax in India. In this case as the payer is a NR, income received for patent used for business in India, shall be deemed to accrue or arise in India.
- (B) Not chargeable to tax in India. In this case as the payer is a NR, income received for use of know-how for a business outside India, shall not be deemed to accrue or arise in India.
- (C) Chargeable to tax in India. In this case as the payer is an Indian Company, i.e., resident in India, & further technical know-how is used for business in India, the income shall be deemed to accrue or arise in India.
- (D) Not chargeable to tax in India. In this case as the payer, being an Indian company is a resident in India. However, as the fee is for feasibility study conducted for business outside India, it shall not be deemed to accrue or arise in India.

Question 13 – November 2019

Mr. Jagdish, aged 61 years, has set-up his business in Thailand & is residing in Thailand since last 20 years. He owns a HP in Bangkok, half of which is used as his residence & half is given on rent (such rent received, converted in INR is 6,00,000). Annual value of the house in Thailand is 50,00,000 i.e., converted value in INR.

He purchased a flat in Pune during FY 2014-15 which has been given on monthly rent of 27,500 since 1.7.2020. Annual property tax of Pune flat is 40,000 which is paid by Mr. Jagdish whenever he comes to India. Mr. Jagdish last visited India in July 2020. He has taken a loan from Union Bank of India for purchase of Pune flat amounting to 15,00,000. Interest on such loan for FY 2021-22 was 84,000. However, interest for March 2022 quarter has not yet been paid by Mr. Jagdish.

He had a house in Jaipur which was sold in May, 2018. In respect of this house, he received arrear of rent of 96,000 in February 2022 (not taxed earlier).

He also derived some other incomes during FY 2021-22 which are as follows: Profit from business in Thailand 2,75,000

Interest on bonds of a Japanese Co. ₹ 45,000 out of which 50% was received in India.

Income from Apple Orchid in Nepal given on contract & yearly contract fee of 5,00,000 for FY 2021-22 was deposited directly by the contractor in Kathmandu branch of Union Bank of India in Mr. Jagdish's bank A/c maintained with Union Bank of India's Pune Branch.

Compute the total income of Mr. Jagdish for AY 2022-23 chargeable to income tax in India.

Assume Mr. Jagdish:

- (i) does not opt to be taxed u/s 115BAC
- (ii) opts to be taxed u/s 115BAC

Answer

Since Mr. Jagdish is NR as he last visited India in July, 2020.

Computation of total income of Mr. Jagdish in India for AY 2022-23

	Does not opt to be taxed u/s 115BAC	Opts to be taxed u/s 115BAC
Income from HPs in Thailand & Bangkok	—	—
Income from HP in India [See Note (i) & (ii)]	2,14,200	2,14,200
Profit from business in Thailand	—	—
Interest on bond of a Japanese company, 50% received in India	22,500	22,500
Income from apple orchid in Nepal received in India, though deposited in Nepal but in an A/c maintained in India	5,00,000	5,00,000
Total income	7,36,700	7,36,700

Notes:

- (i) It has been assumed that rental income is the GAV of the property. Therefore, deduction @ 30% u/s 24, has been provided & net income so computed is taken into A/c for determining the total income of ROR.

Particulars	Amount	Amount	Amount
Rent received (assumed as GAV) (27,500 x 12)		3,30,000	
Less: Deduction u/s 24(a) (30% of 3,30,000)	99,000		
Less: Deduction u/s 24(b)	84,000	1,83,000	
Income from HP (let out)			1,47,000
Arrear of rent received of Jaipur house		96,000	
Less: Deduction u/s 24(a) (30% of 96,000)		28,800	67,200
Income from HP			2,14,200

- (ii) Interest allowable on accrual basis: Deduction u/s 24(b) for interest is available on accrual basis. Therefore, interest accrued but not paid during the year can also be claimed as deduction

INCOME FROM SALARY

Conceptual Questions

ILLUSTRATION 1

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

(1) Basic pay	Rs.40,000 p.m.
(2) Dearness allowance (D.A.)	Rs.6,000 p.m.
(3) Commission	Rs.50,000 p.a.
(4) Motor car for personal use (expenses met by the employer)	Rs.1,500 p.m.
(5) House rent allowance	Rs.15,000 p.m.

Find out the amount of HRA eligible for exemption to Mr. Raj Kumar assuming that he paid a rent of Rs.16,000 p.m. for his accommodation at Kanpur. DA forms part of salary for retirement benefits. Mr. Raj Kumar exercises the option of shifting out of the default tax regime provided under section 115BAC(1A).

Solution

HRA received Rs.1,80,000

Less: Exempt under section 10(13A) [Note] Rs.1,36,800

Taxable HRA Rs.43,200

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

- the actual amount received $(Rs.15,000 \times 12)$ = Rs.1,80,000
- excess of the actual rent paid by the assessee over 10% of his salary
 = Rent Paid (-) 10% of salary for the relevant period
 = $(Rs.16,000 \times 12) - 10\% \text{ of } [(Rs.40,000 + Rs.6,000) \times 12]$
 = Rs.1,92,000 - Rs.55,200 = Rs.1,36,800
- 40% salary as his accommodation is situated at Kanpur
 = 40% of $[(Rs.40,000 + Rs.6,000) \times 12]$ = Rs.2,20,800

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

ILLUSTRATION 2

Mr. Srikanth has two sons. He is in receipt of children education allowance of Rs.150 p.m. for his elder son and Rs.70 p.m. for his younger son. Both his sons are going to school. He also receives the following allowances:

Transport allowance : Rs.1,800 p.m.

Tribal area allowance : Rs.500 p.m.

Compute his taxable allowances.**Solution**

Taxable allowance in the hands of Mr. Srikant is computed as under –

Children Education Allowance:

Elder son [(Rs.150 – Rs.100) p.m. × 12 months] = Rs.600

Younger son [(Rs.70 – Rs.70) p.m. × 12 months] = Nil Rs.600

Transport allowance (Rs.1,800 p.m. × 12 months) Rs.21,600

Tribal area allowance [(Rs.500 – Rs.200) p.m. × 12 months] Rs.3,600

Taxable allowances **Rs.25,800**

If Mr Srikant pays tax under default tax regime under section 115BAC

Children Education Allowance [(150 + 70) p.m. x 12 months] Rs 2,640

Transport Allowance (Rs 1800 p.m. x 12 months) Rs 21,600

Tribal area allowance (Rs 500 p.m. x 12 months) Rs 6,000

Taxable allowances **Rs 30,240**

ILLUSTRATION 3

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

- (a) He is a government employee.**
- (b) He is a private sector employee and received gratuity of Rs.5,00,000 at the time of retirement.**
- (c) He is a private sector employee and did not receive any gratuity at the time of retirement.**

Solution**(a) He is a government employee**

Uncommuted pension received (October – March) Rs.24,000

[(Rs.5,000 × 4 months) + (40% of Rs.5,000 × 2 months)]

Commuted pension received Rs.3,00,000

Less: Exempt u/s 10(10A) Rs.3,00,000 NIL

Taxable pension **Rs.24,000**

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

Uncommuted pension received (October – March) Rs.24,000

[(Rs.5,000 × 4 months) + (40% of Rs.5,000 × 2 months)]

Commuted pension received Rs.3,00,000

Less: Exempt u/s 10(10A)

$$\left(\frac{1}{3} \times \frac{\text{Rs.}3,00,000}{60\%} \times 100\% \right) \quad \text{Rs.}1,66,667 \quad \text{Rs.}1,33,333$$

Taxable pension

Rs.1,57,333

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

Uncommuted pension received (October – March) Rs.24,000

[(Rs.5,000 × 4 months) + (40% of Rs.5,000 × 2 months)]

Commutated pension received Rs.3,00,000

Less: Exempt u/s 10(10A)

$$\left(\frac{1}{2} \times \frac{\text{Rs.}3,00,000}{60\%} \times 100\% \right) \quad \text{Rs.}2,50,000 \quad \text{Rs.}50,000$$

Taxable pension

Rs.74,000

Illustration 4

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

Basic Salary : Rs.50,000 p.m.

Dearness Allowance : Rs.10,000 p.m. (60% of which is for retirement benefits)

Commission : 1% of turnover (turnover in the last 12 months was Rs.1,20,00,000)

Bonus : Rs.25,000 p.a. Compute his taxable gratuity assuming:

(a) He is private sector employee and covered by the Payment of Gratuity Act, 1972.

(b) He is private sector employee and not covered by Payment of Gratuity Act, 1972.

(c) He is a government employee.

Solution

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

Gratuity received at the time of retirement Rs.15,00,000

Less: Exemption under section 10(10)

Least of the following:

- | | | |
|------|---|--------------|
| i. | Gratuity received | Rs.15,00,000 |
| ii. | Statutory limit | Rs.20,00,000 |
| iii. | 15 days' salary based on last drawn salary for each completed year of service or part thereof in excess of 6 months | |

$$\frac{15}{26} \times \text{last drawn salary} \times \text{years of service}$$

$$\frac{15}{26} \times (50,000 + 10,000) \times 27 =$$

 Rs. 9,34,615 Rs. 9,34,615

Taxable Gratuity
Rs. 5,65,385
(b) He is not covered by the Payment of Gratuity Act 1972

Gratuity received at the time of retirement Rs. 15,00,000

 Less: Exemption under section 10(10) **(Note)** Rs. 8,58,000
Taxable Gratuity
Rs. 6,42,000
Note: Exemption under section 10(10) is least of the following:

(i) Gratuity received Rs. 15,00,000

(ii) Statutory limit Rs. 20,00,000

(iii) Half month's salary based on average salary of last 10 months preceding the month of retirement for each completed year of service.

$$\text{i.e. } \frac{1}{2} \times \text{Average salary} \times \text{years of service}$$

$$= \frac{1}{2} \times \frac{[(50,000 \times 10) + (10,000 \times 60\% \times 10) + (1\% \times 1,20,00,000 \times \frac{10}{12})]}{10} \times 26$$

$$= \text{Rs. } 8,58,000$$

(c) He is a government employee

Gratuity received at the time of retirement Rs. 15,00,000

 Less: Exemption under section 10(10) Rs. 15,00,000
Taxable gratuity
Nil
ILLUSTRATION 5

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

Basic Salary : Rs. 5,000 p.m. (Rs. 1,000 was increased w.e.f. 1.4.2023)
Dearness Allowance : Rs. 3,000 p.m. (60% of which is for retirement benefits)
Commission : Rs. 500 p.m.
Bonus : Rs. 1,000 p.m.
Leave availed during service : 480 days
He was entitled to 30 days leave every year.
You are required to compute his taxable leave salary assuming:
(a) He is a government employee.
(b) He is a non-government employee.

SOLUTION**(a) He is a government employee**

Less: Exemption under section 10(10AA)	Rs.5,00,000
Less: Exemption under section 10(10AA)	Rs. <u>5,00,000</u>
Taxable Leave salary	<u>Nil</u>

(b) He is a non-government employee

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

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

(i) Leave salary received	Rs.5,00,000
(ii) Statutory limit	Rs.3,00,000
(iii) 10 months' salary based on average salary of last 10 months	
i.e. $\left[10 \times \frac{\text{Salary of last 10 months i.e. Feb. - Nov.}}{10 \text{ months}} \right]$	
$= \left[10 \times \frac{(5,000 \times 8) + (4,000 \times 2) + (60\% \times 3,000 \times 10)}{10 \text{ months}} \right]$	Rs.66,000

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

Leave Due = Leave allowed – Leave taken

= (30 days per year × 20 years) – 480 days = 120 days

i.e. $\left[\frac{\text{Leave due (in days)}}{30 \text{ days}} \times \text{Average Salary p. m.} \right]$

$= \left[\frac{120 \text{ days}}{30 \text{ days}} \times \frac{\text{Rs.66,000}}{10} \right]$ Rs.26,400

ILLUSTRATION 6

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

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

Out of the amount received from the unrecognised provident fund, the employer's contribution was Rs.2,20,000 and the interest thereon Rs.50,000. The employee's contribution was Rs.2,50,000 and the interest thereon Rs.60,000. What is the taxable

portion of the amount received from the unrecognized provident fund in the hands of Mr. A for the AY 2024-25?

SOLUTION

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

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

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

ILLUSTRATION 7

Will your answer be any different if the fund mentioned above was a recognised provident fund?

SOLUTION

Since the fund is a recognized one, and the maturity is taking place after a service of 25 years, the entire amount received on the maturity of the RPF will be fully exempt from tax.

ILLUSTRATION 8

Mr. B is working in XYZ Ltd. and has given the details of his income for the FY 2023-24. You are required to compute his gross salary from the details given below:

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

SOLUTION**Computation of Gross Salary of Mr. B for the AY 2024-25**

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

Note 1: Gratuity received during service is fully taxable.

Note 2: Employers contribution in the RPF is exempt up to 12% of the salary.

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

= 12% of Rs.1,73,000 = Rs.20,760

Note 3: Employee's contribution to RPF is not taxable. It is eligible for deduction under section 80C if he exercises the option of shifting out of the default tax regime provided under section 115BAC(1A).

ILLUSTRATION 9

Mr. Dutta received voluntary retirement compensation of Rs.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 Rs.20,000 p.m.; Dearness allowance (which forms part of pay) Rs.5,000 p.m. Compute his taxable voluntary retirement compensation, assuming that he does not claim any relief under section 89.

SOLUTION

Voluntary retirement compensation received	Rs.7,00,000
Less: Exemption under section 10(10C) [See Note below]	Rs.5,00,000
Taxable voluntary retirement compensation	Rs.2,00,000

Note: Exemption is to the extent of least of the following:

- | | | | |
|-------|---|---|-------------|
| (i) | Compensation actually received | = | Rs.7,00,000 |
| (ii) | Statutory limit | = | Rs.5,00,000 |
| (iii) | 3 months' salary × completed years of service | | |

$$= (\text{Rs.}20,000 + \text{Rs.}5,000) \times 3 \times 30 \text{ years}$$

$$= \text{Rs.}22,50,000$$

(iv) Last drawn salary \times remaining months of service left

$$= (\text{Rs.}20,000 + \text{Rs.}5,000) \times 6 \times 12 \text{ months}$$

$$= \text{Rs.}18,00,000$$

ILLUSTRATION 10

Mr. X is appointed as a CFO of ABC Ltd. in Mumbai from 1.9.2021. His basic salary is Rs 6,00,000 p.m. He is paid 8% as D.A. He contributes 10% of his pay and D.A. towards his recognized provident fund and the company contributes the same amount. The accumulated balance in recognized provident fund as on 1.4.2022, 31.3.2023 and 31.3.2024 is Rs 9,81,137, Rs 27,43,048 and Rs 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)(via) for the A.Y. 2023-24 and A.Y. 2024-25. Prior to 1.9.2021, he was a consultant, whose professional fees was taxable under the head "Profits and gains of business or profession".

SOLUTION

ILLUSTRATION 11

Mr. D went on a holiday on 25.12.2023 to Delhi with his wife and three children (one son – age 5 years; twin daughters – age 3 years). They went by flight (economy class) and the total cost of tickets reimbursed by his employer was Rs.60,000 (Rs.45,000 for adults and Rs.15,000 for the three minor children). Compute the amount of LTC exempt

if Mr. D exercises the option of shifting out of the default tax regime provided under section 115BAC(1A).

SOLUTION

Since the son's age is more than the twin daughters, Mr. D can avail exemption for all his three children. The restriction of two children is not applicable to multiple births after one child. The holiday being in India and the journey being performed by air (economy class), the entire reimbursement met by the employer is fully exempt in the hands of Mr. D, since he is exercising the option of shifting out of the default tax regime provided under section 115BAC(1A).

ILLUSTRATION 12

In the above illustration 11, will there be any difference if among his three children the twins were 5 years old and the son 3 years old? Discuss.

SOLUTION

Since the twins' age is more than the son, Mr. D cannot avail for exemption for all his three children. LTC exemption can be availed in respect of only two children. Taxable

$$\text{LTC} = 15,000 \times \frac{1}{3} = \text{Rs.}5,000.$$

LTC exempt would be only Rs.55,000 (i.e. Rs.60,000 – Rs.5,000)

ILLUSTRATION 13

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

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

SOLUTION

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

Particulars	Rs.	Rs.
Treatment of Mrs. G in a Government hospital		-
Treatment of Mr. G's father (75 years and dependent) abroad	50,000	

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

ILLUSTRATION 14

Mr. C is a Finance Manager in ABC Ltd. The company has provided him with rent- free unfurnished accommodation in Mumbai. He gives you the following particulars:

Basic salary Rs.6,000 p.m.

Dearness Allowance Rs.2,000 p.m. (30% is for retirement benefits)

Bonus Rs.1,500 p.m.

Even though the company allotted the house to him on 1.4.2023, he occupied the same only from 1.11.2023. Calculate the taxable value of the perquisite for AY 2024-25.

SOLUTION

Value of the rent free unfurnished accommodation

= 15% of salary for the relevant period

= 15% of [(Rs.6000 × 5) + (Rs.2,000 × 30% × 5) + (Rs.1,500 × 5)] **[See Note below]**

= 15% of Rs.40,500 = Rs.6,075.

Note: Since, Mr. C occupies the house only from 1.11.2023, we have to include the salary due to him only in respect of months during which he has occupied the accommodation. Hence salary for 5 months (i.e. from 1.11.2023 to 31.03.2024) will be considered.

ILLUSTRATION 15

Using the data given in the previous illustration 14, compute the value of the perquisite if Mr. C is required to pay a rent of Rs.1,000 p.m. to the company, for the use of this accommodation.

SOLUTION

First of all, we have to see whether there is a concession in the matter of rent. In the case of accommodation owned by the employer in cities having a population exceeding 25 lakh, there would be deemed to be a concession in the matter of rent

if 15% of salary exceeds rent recoverable from the employee.

In this case, 15% of salary would be Rs.6,075 (i.e. 15% of Rs.40,500). The rent paid by the employee is Rs.5,000 (i.e., Rs.1,000 × 5). Since 15% of salary exceeds the rent recovered from the employee, there is a deemed concession in the matter of rent. Once there is a deemed concession, the provisions of Rule 3(1) would be applicable in computing the taxable perquisite.

Value of the rent free unfurnished accommodation = Rs.6,075

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

Perquisite value of unfurnished accommodation

given at concessional rent = Rs.1,075

ILLUSTRATION 16

Using the data given in illustration 14, compute the value of the perquisite if ABC Ltd. has taken this accommodation on a lease rent of Rs.1,200 p.m. and Mr. C is required to pay a rent of Rs.1,000 p.m. to the company, for the use of this accommodation.

SOLUTION

Here again, we have to see whether there is a concession in the matter of rent. In the case of accommodation taken on lease by the employer, there would be deemed to be a concession in the matter of rent if the rent paid by the employer or 15% of salary, whichever is lower, exceeds rent recoverable from the employee.

In this case, 15% of salary is Rs.6,075 (i.e. 15% of Rs.40,500). Rent paid by the employer is Rs.6,000 (i.e. Rs.1,200 × 5). The lower of the two is Rs.6,000, which exceeds the rent paid by the employee i.e., Rs.5,000 (Rs.1,000 × 5). Therefore, there is a deemed concession in the matter of rent. Once there is a deemed concession, the provisions of Rule 3(1) would be applicable in computing the taxable perquisite.

Value of the rent-free unfurnished accommodation **[Note]** = Rs.6,000

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

Value of unfurnished accommodation given at concessional rent = Rs.1,000

Note: Value of the rent free unfurnished accommodation is lower of

(i) Lease rent paid by the company for relevant period = Rs.1,200 × 5 = Rs.6,000

(ii) 15% of salary for the relevant period (computed earlier) = Rs.6,075

ILLUSTRATION 17

Using the data given in illustration 14, compute the value of the perquisite if ABC Ltd. has provided a television (WDV Rs.10,000; Cost Rs.25,000) and two air conditioners. The rent paid by the company for the air conditioners is Rs.400 p.m. each. The television was provided on 1.1.2021. However, Mr. C is required to pay a rent of Rs.1,000 p.m. to the company, for the use of this furnished accommodation.

SOLUTION

Here again, we have to see whether there is a concession in the matter of rent. In the case of accommodation owned by the employer in a city having a population

exceeding Rs.25 lakh, there would be deemed to be a concession in the matter of rent if 15% of salary exceeds rent recoverable from the employee. In case of furnished accommodation, the excess of hire charges paid or 10% p.a. of the cost of furniture, as the case may be, over and above the charges paid or payable by the employee has to be added to the value arrived at above to determine whether there is a concession in the matter of rent.

In this case, 15% of salary is Rs.6,075 (i.e. 15% of Rs.40,500). The rent paid by the employee is Rs.5,000 (i.e. Rs.1,000 x 5). The value of furniture of Rs.4,625 (**see Note below**) is to be added to 15% of salary. The deemed concession in the matter of rent is Rs.6,075 + Rs.4,625 - Rs.5,000 = Rs.5,700. Once there is a deemed concession, the provisions of Rule 3(1) would be applicable in computing the taxable perquisite.

Value of the rent free unfurnished accommodation (computed earlier) = Rs.6,075

Add: Value of furniture provided by the employer [**Note**] = Rs.4,625

Value of rent free furnished accommodation = Rs.10,700

Less: Rent paid by the employee (Rs.1,000 x 5) = Rs.5,000

Value of furnished accommodation given at concessional rent = Rs.5,700

Note: Value of the furniture provided = (Rs.400 p.m. x 2 x 5 months) + (Rs.25,000 x 10% p.a. for 3 months) = Rs.4,000 + Rs.625 = Rs.4,625

ILLUSTRATION 18

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

SOLUTION

In the case of Government employees, the excess of licence fees determined by the employer as increased by the value of furniture and fixture over and above the rent recovered/ recoverable from the employee and the charges paid or payable for furniture by the employee would be deemed to be the concession in the matter of rent. Therefore, the deemed concession in the matter of rent is Rs.3,125 [i.e. Rs.3,500 (license fees: Rs.700 x 5) + Rs.4,625 (Value of furniture) – Rs.5,000 (Rs.1,000 x 5)]. Once there is a deemed concession, the provisions of Rule 3(1) would be applicable in computing the taxable perquisite.

Value of the rent-free unfurnished accommodation (Rs.700 x 5) = Rs.3,500

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

Value of rent-free furnished accommodation = Rs.8,125

Less: Rent paid by the employee (Rs 1,000 x 5) = Rs.5,000

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

ILLUSTRATION 19

Mr. X and Mr. Y are working for M/s. Gama Ltd. As per salary fixation norms, the following perquisites were offered:

- (i) For Mr. X, who engaged a domestic servant for Rs.500 per month, his employer reimbursed the entire salary paid to the domestic servant i.e. Rs.500 per month.
- (ii) For Mr. Y, he was provided with a domestic servant @ Rs.500 per month as part of remuneration package.

You are required to comment on the taxability of the above in the hands of Mr. X and Mr. Y, who are not specified employees.

SOLUTION

In the case of Mr. X, it becomes an obligation which the employee would have discharged even if the employer did not reimburse the same. Hence, the perquisite will be covered under section 17(2)(iv) and will be taxable in the hands of Mr. X. This is taxable in the case of all employees.

In the case of Mr. Y, it cannot be considered as an obligation which the employee would meet. The employee might choose not to have a domestic servant. This is taxable only in the case of specified employees covered by section 17(2)(iii). Hence, there is no perquisite element in the hands of Mr. Y.

ILLUSTRATION 20

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

- (i) **Gratuity Rs.6,00,000. He was covered under the Payment of Gratuity Act, 1972.**
- (ii) **Leave encashment of Rs.3,30,000 for 330 days leave balance in his account. He was credited 30 days leave for each completed year of service.**
- (iii) **As per the scheme of the company, he was offered a car which was purchased on 30.01.2021 by the company for Rs.5,00,000. Company has recovered Rs.2,00,000 from him for the car. Company depreciates the vehicles at the rate of 15% on Straight Line Method.**
- (iv) **An amount of Rs.3,00,000 as commutation of pension for 2/3 of his pension commutation.**
- (v) **Company presented him a gift voucher worth Rs.6,000 on his retirement.**
- (vi) **His colleagues also gifted him a Television (LCD) worth Rs 50,000 from their own contribution.**

Following are the other particulars:

- (i) **He has drawn a basic salary of Rs.20,000 and 50% dearness allowance per month for the period from 01.04.2023 to 31.01.2024.**
- (ii) **Received pension of Rs.5,000 per month for the period 01.02.2023 to 31.03.2024 after commutation of pension.**

Compute his gross total income from the above for FY 2023-24 assuming he exercises the option of shifting out of the default tax regime provided under section 115BAC(1A).

SOLUTION

Computation of Gross Total Income of Mr. X for A.Y. 2023-24

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

Notes:

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

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

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

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

Particulars	Rs.
Purchase price (30.1.2019)	5,00,000
Less: Depreciation @ 20%	1,00,000
WDV on 29.1.2020	4,00,000
Less: Depreciation @ 20%	80,000
WDV on 29.1.2021	3,20,000
Less: Depreciation @ 20%	64,000
WDV on 29.1.2023	2,56,000
Less: Amount recovered	2,00,000

Value of perquisite	56,000
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The rate of 15% as well as the straight line method adopted by the company for depreciation of vehicle is **not** relevant for calculation of perquisite value of car in the hands of Mr. X.

(3) Taxable gratuity

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

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

(4) Taxable leave encashment

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

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

(5) Commuted Pension

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

of the pension which he would have received had he commuted the whole of the pension.

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

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

ILLUSTRATION 21

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

- (i) **Domestic servant was provided at the residence of Bala. Salary of domestic servant is Rs.1,500 per month. The servant was engaged by him and the salary is reimbursed by the company (employer).**

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

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

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

SOLUTION

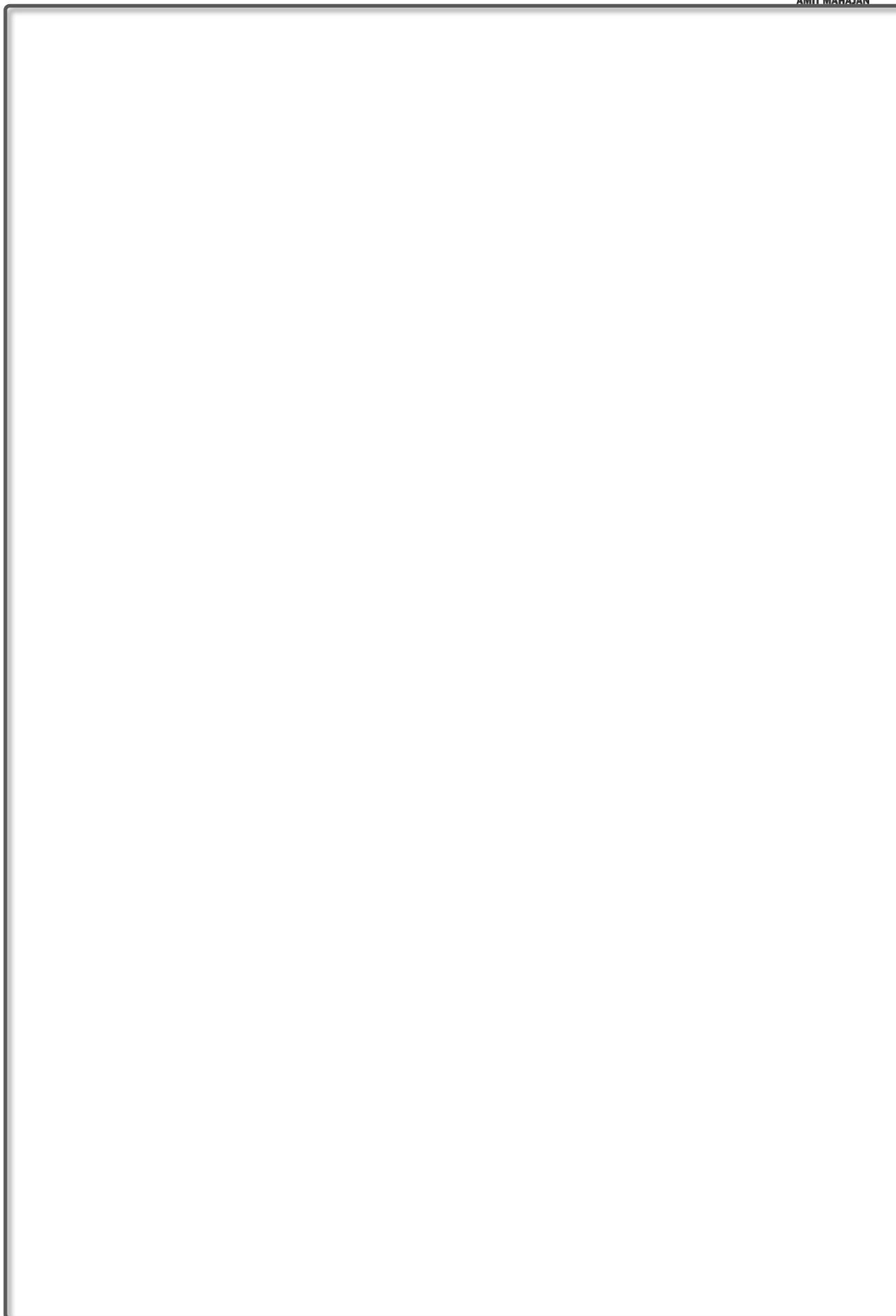


ILLUSTRATION 22

AB Co. Ltd. allotted 1000 sweat equity shares to Sri Chand in June 2023. The shares were allotted at Rs.200 per share as against the fair market value of Rs.300 per share on the date of exercise of option by the allottee viz. Sri Chand. The fair market value was computed in accordance with the method prescribed under the Act.

- (i) What is the perquisite value of sweat equity shares allotted to Sri Chand?**
- (ii) In the case of subsequent sale of those shares by Sri Chand, what would be the cost of acquisition of those sweat equity shares?**

SOLUTION

- (i) As per section 17(2)(vi), the value of sweat equity shares chargeable to tax as perquisite shall be the fair market value of such shares on the date on which the option is exercised by the assessee as reduced by the amount actually paid by, or recovered from, the assessee in respect of such shares.

Particulars	Rs.
Fair market value of 1000 sweat equity shares @ Rs.300 each	3,00,000
Less: Amount recovered from Sri Chand 1000 shares @ Rs.200 each	2,00,000
Value of perquisite of sweat equity shares allotted to Sri Chand	1,00,000

- (ii) As per section 49(2AA), where capital gain arises from transfer of sweat equity shares, the cost of acquisition of such shares shall be the fair market value which has been taken into account for perquisite valuation under section 17(2)(vi). (The provisions of section 49 are discussed in Unit 4: Capital Gains of this chapter)

Therefore, in case of subsequent sale of sweat equity shares by Sri Chand, the cost of acquisition would be Rs.3,00,000.

ILLUSTRATION 23

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

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

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

SOLUTION

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

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

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

ILLUSTRATION 24

Mr. Goyal receives the following emoluments during the previous year ending 31.03.2023. 25

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

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

Solution

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

section 115BAC

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

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

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

Particulars	Rs	Rs
Basic Salary		4,00,000
Dearness Allowance		1,50,000
Commission		1,00,000
Entertainment Allowance received		40,000
Employee's contribution to RPF [Note]		-
Medical expenses reimbursed		25,000
Professional tax paid by the employer		1,000
Gross Salary		7,16,000
Less: Deductions under section 16		
under section 16(ia) - Standard deduction of upto Rs50,000		50,000
under section 16(ii) - Entertainment allowance being		
lowest of :		
(a) Allowance received	40,000	
(b) One fifth of basic salary [$1/5 \times \text{Rs}4,00,000$]	80,000	
(c) Statutory amount	5,000	5,000

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

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

ILLUSTRATION 25

In the case of Mr. Hari, who turned 71 years on 28.3.2024, you are informed that the salary (computed) for the FY 2023-24 is Rs.10,20,000 and arrears of salary received is Rs.3,45,000. Further, you are given the following details relating to the earlier years to which the arrears of salary received is attributable to:

Previous year	Taxable Salary (Rs.)	Arrears now received (Rs.)
2010 – 2011	7,10,000	1,03,000
2011 – 2012	8,25,000	1,17,000
2012 – 2013	9,50,000	1,25,000

Compute the relief available under section 89 and the tax payable for the A.Y. 2023-24. Assume that Mr. Hari does not opt for section 115BAC.

Note: Rates of Taxes:

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

	Above Rs.10,00,000	30%	Above Rs.10,00,000	30%
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Note – Education cess@2% and secondary and higher education cess@1% was attracted on the income-tax for all above preceding years.

SOLUTION

Computation of tax payable by Mr. Hari for the AY 2024-25

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

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

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

Computation of relief under section 89

	Particulars	Rs.	Rs.
i.	Tax payable in AY 2024-25 on arrears:		
	Tax on income including arrears	2,28,280	
	Less : Tax on income excluding arrears	1,20,640	1,07,640
ii	Tax payable in respective years on arrears :		
	Tax on income including arrears (Rs.1,00,837 + Rs.1,38,638 + Rs.1,51,925)	3,91,400	
	Less: Tax on income excluding arrears (Rs.78,280 + Rs.1,02,485 + Rs.1,18,450)	2,99,215	92,185

Relief under section 89 - difference between tax on arrears in A.Y 2023-23 and tax on arrears in the respective years	15,455
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Tax payable for AY 2024-25 after relief under section 89

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

Additional Questions

Question 1

Mr. Mohit is employed with XY Ltd. on a basic salary of Rs.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 Rs.6,000 p.m. which was increased to Rs.7,000 p.m. with effect from 01.01.2023. He also got an increment of Rs.1,000 p.m. in his basic salary with effect from 01.02.2024. Rent paid by him during the FY 2023-24 is as under:

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

June to October, 2023 - Rs.6,000 p.m. for an accommodation in Ghaziabad

November, 2023 to March, 2024 - Rs.8,000 p.m. for an accommodation in Delhi

Compute his gross salary for A.Y.2024-25, assuming he exercises the option of shifting out of the default tax regime provided under section 115BAC(1A).

Answer

Computation of gross salary of Mr. Mohit for A.Y. 2023-24

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

Note: Computation of Taxable House Rent Allowance (HRA)

Particulars	April-May (Rs.)	June-Oct (Rs.)	Nov-Dec (Rs.)	Jan (Rs.)	Feb-March (Rs.)
Basic salary per month	10,000	10,000	10,000	10,000	11,000
Dearness allowance (included in salary as per terms of employment) (50% of basic salary)	5,000	5,000	5,000	5,000	5,500

Salary per month for the purpose of computation of house rent allowance	15,000	15,000	15,000	15,000	16,500
Relevant period (in months)	2	5	2	1	2
Salary for the relevant period (Salary per month × relevant period)	30,000	75,000	30,000	15,000	33,000
Rent paid for the relevant period	Nil	30,000 (Rs.6,000 × 5)	16,000 (Rs.8,000 × 2)	8,000 (Rs.8,000 × 1)	16,000 (Rs.8,000 × 2)
House rent allowance (HRA) received during the relevant period (A)	12,000 (Rs.6,000 × 2)	30,000 (Rs.6,000 × 5)	12,000 (Rs.6,000 × 2)	7,000 (Rs.7,000 × 1)	14,000 (Rs.7,000 × 2)
Least of the following is exempt [u/s 10(13A)]	N.A.				
1. Actual HRA received	-	30,000	12,000	7,000	14,000
2. Rent paid (–) 10% of salary	-	22,500	13,000	6,500	12,700
3. 40% of salary (Residence at Ghaziabad – June to Oct, 2021) 50% of salary (Residence at Delhi– Nov, 21 - March, 22)	-	30,000 (40% × Rs.75,000)	15,000 (50% × Rs.30,000)	7,500 (50% × Rs.15,000)	16,500 (50% × Rs.33,000)
Exempt HRA (B)	Nil	22,500	12,000	6,500	12,700
Taxable HRA [Actual HRA (–) Exempt HRA] (A-B)	12,000	7,500	Nil	500	1,300

Taxable HRA (total) = Rs.12,000 + Rs.7,500 + Rs.500 + Rs.1,300 = Rs.21,300

Question 2

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

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

3	Medical Allowance	2,000 p.m.
4	Medical expenses reimbursed on her son's treatment in a government hospital	5,000
5	Expenses incurred by company on the treatment of her minor son abroad including stay expenses	1,05,000
6	Expenses in relation to foreign travel of Rakhi and her son for medical treatment Note - Limit prescribed by RBI for expenditure on medical treatment and stay abroad is USD 2,50,000 per financial year under liberalized remittance scheme.	1,20,000

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

Answer

Tax treatment of medical benefits, allowances and Mediclaim premium in the hands of Ms. Rakhi for A.Y. 2023-24

	Particulars	
1.	Reimbursement of medical expenses incurred by Ms. Rakhi	
	(A)	The amount of Rs.4,000 reimbursed by her employer for treatment of her self-employed daughter in a private clinic is taxable perquisite.
	(B)	The amount of Rs.8,000 reimbursed by the employer for treatment of Ms. Rakhi by family doctor is taxable perquisite.
	(C)	The amount of Rs.5,000 reimbursed by her employer for treatment of her dependant mother-in-law in a nursing home is taxable perquisite.
	The aggregate sum of Rs.17,000, specified in (A), (B) and (C) above, reimbursed by the employer is taxable perquisite	
2.	Medical insurance premium of Rs.7,500 paid by the employer for insuring health of Ms. Rakhi is a tax-free perquisite as per clause (iii) of the first proviso to section 17(2).	
3.	Medical allowance of Rs.2,000 per month i.e., Rs.24,000 p.a. is a fully taxable allowance.	
4.	As per clause (ii)(a) of the first proviso to section 17(2), reimbursement of medical expenses of Rs.5,000 on her son's treatment in a hospital maintained by the Government is a tax-free perquisite.	

5. & 6.	<p>As per clause (vi) of the first proviso to section 17(2), the following expenditure incurred by the employer would be excluded from perquisite subject to certain conditions –</p> <p>(i) Expenditure on medical treatment of the employee, or any member of the family of such employee, outside India [Rs.1,05,000, in this case];</p> <p>(ii) Expenditure on travel and stay abroad of the employee or any member of the family of such employee for medical treatment and one attendant who accompanies the patient in connection with such treatment [Rs.1,20,000, in this case].</p>
	<p>The conditions subject to which the above expenditure would be exempt are as follows -</p>
	<p>(i) The expenditure on medical treatment and stay abroad would be excluded from perquisite to the extent permitted by Reserve Bank of India;</p>
	<p>(ii) The expenditure on travel would be excluded from perquisite only in the case of an employee whose gross total income, as computed before including the said expenditure, does not exceed Rs.2 lakh.</p>
	<p>Since the expenditure on medical treatment and stay abroad does not exceed the limit permitted by RBI, they would be fully exempt. However, the foreign travel expenditure of Ms. Rakhi and her minor son borne by the employer would be excluded from perquisite only if the gross total income of Ms. Rakhi, as computed before including the said expenditure, does not exceed Rs.2 lakh.</p>

Question 3

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

- 1. A company owned accommodation is provided to him in Delhi. Furniture costing Rs.2,40,000 was provided on 1.8.2023.**
- 2. A personal loan of Rs.5,00,000 on 1.7.2023 on which it charges interest @ 6.75% p.a. The entire loan is still outstanding. (Assume SBI rate of interest on 1.4.2023 was 12.75% p.a.)**
- 3. His son is allowed to use a motor cycle belonging to the company. The company had purchased this motor cycle for Rs.60,000 on 1.5.2020. The motor cycle was finally sold to him on 1.8.2023 for Rs.30,000.**
- 4. Professional tax paid by Mr. X is Rs.2,000.**

Compute the income from salary of Mr. X for the A.Y. 2023-24 assuming Mr. X has not opted for the provisions of section 115BAC.

Answer

Question 4

Mr. Balaji, employed as Production Manager in Beta Ltd., furnishes you the following information for the year ended 31.03.2023:

- (i) Basic salary upto 31.10.2023 Rs.50,000 p.m.**
Basic salary from 01.11.2023 Rs.60,000 p.m.
Note: Salary is due and paid on the last day of every month.
- (ii) Dearness allowance @ 40% of basic salary.**
- (iii) Bonus equal to one month salary. Paid in October 2023 on basic salary plus dearness allowance applicable for that month.**
- (iv) Contribution of employer to recognized provident fund account of the employee@16% of basic salary.**
- (v) Professional tax paid Rs.2,500 of which Rs.2,000 was paid by the employer.**
- (vi) Facility of laptop and computer was provided to Balaji for both official and personal use. Cost of laptop Rs.45,000 and computer Rs.35,000 were acquired by the company on 01.12.2023.**
- (vii) Motor car owned by the employer (cubic capacity of engine exceeds 1.60 litres) provided to the employee from 01.11.2023 meant for both official and personal use. Repair and running expenses of Rs.45,000 from 01.11.2023 to 31.03.2023, were fully met by the employer. The motor car was self-driven by the employee.**
- (viii) Leave travel concession given to employee, his wife and three children (one daughter aged 7 and twin sons aged 3). Cost of air tickets (economy class) reimbursed by the employer Rs.30,000 for adults and Rs.45,000 for three**

children. Balaji is eligible for availing exemption this year to the extent it is permissible in law.

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

Answer

Question 5

From the following details, find out the salary chargeable to tax for the A.Y.2024-25 assuming he exercises the option of shifting out of the default tax regime provided under section 115BAC(1A) -

Mr. X is a regular employee of Rama & Co., in Gurgaon. He was appointed on 1.1.2023 in the scale of Rs.20,000 - Rs.1,000 - Rs.30,000. He is paid 10% D.A. & Bonus equivalent to one month pay based on salary of March every year. He contributes 15% of his pay and D.A. towards his recognized provident fund and the company contributes the

same amount. DA forms part of pay for retirement benefits.

He is provided free housing facility which has been taken on rent by the company at Rs.10,000 per month. He is also provided with following facilities:

- (i) Facility of laptop costing Rs.50,000.
- (ii) Company reimbursed the medical treatment bill of his brother of Rs.25,000, who is dependent on him.
- (iii) The monthly salary of Rs.1,000 of a house keeper is reimbursed by the company.
- (iv) A gift voucher of Rs.10,000 on the occasion of his marriage anniversary.
- (v) Conveyance allowance of Rs.1,000 per month is given by the company towards actual reimbursement of conveyance spent on official duty.
- (vi) He is provided personal accident policy for which premium of Rs.5,000 is paid by the company.
- (vii) He is getting telephone allowance @ Rs.500 per month.

Answer

Computation of taxable salary of Mr. X for AY 2024-25

Particulars	Rs.
Basic pay [(Rs.20,000×9) + (Rs.21,000×3)] = Rs.1,80,000 + Rs.63,000	2,43,000
Dearness allowance [10% of basic pay]	24,300
Bonus	21,000
Employer's contribution to Recognized Provident Fund in excess of 12% (15%-12% =3% of Rs.2,67,300) [See Note 1 below]	8,019
Taxable allowances	
Telephone allowance	6,000
Taxable perquisites	
Rent-free accommodation [See Note 1 & 2 below]	44,145
Medical reimbursement	25,000
Reimbursement of salary of housekeeper	12,000
Gift voucher [See Note 5 below]	10,000
Gross Salary	3,93,464
Less: Deduction under section 16(ia) – Standard deduction	50,000
Salary income chargeable to tax	3,43,464

Notes:

- Since dearness allowance forms part of salary for retirement benefits, the perquisite value of rent-free accommodation and employer's contribution to recognized provident fund have been accordingly worked out.

2. Where the accommodation is taken on lease or rent by the employer, the value of rent-free accommodation provided to employee would be actual amount of lease rental paid or payable by the employer or 15% of salary, whichever is lower.

For the purposes of valuation of rent free house, salary includes:

- (i) Basic salary i.e., Rs.2,43,000
- (ii) Dearness allowance (assuming that it is included for calculating retirement benefits) i.e. Rs.24,300
- (iii) Bonus i.e., Rs.21,000
- (iv) Telephone allowance i.e., Rs.6,000

Therefore, salary works out to

$$\text{Rs.2,43,000} + \text{Rs.24,300} + \text{Rs.21,000} + \text{Rs.6,000} = \text{Rs.2,94,300.}$$

$$15\% \text{ of salary} = \text{Rs.2,94,300} \times 15/100 = \text{Rs.44,145}$$

Value of rent-free house = Lower of rent paid by the employer (i.e. Rs.1,20,000) or 15% of salary (i.e., Rs.44,145).

Therefore, the perquisite value is Rs.44,145.

3. Facility of use of laptop is not a taxable perquisite.
4. Conveyance allowance is exempt since it is based on actual reimbursement for official purposes.
5. The value of any gift or voucher or token in lieu of gift received by the employee or by member of his household below Rs.5,000 in aggregate during the previous year is exempt. In this case, the gift voucher was received on the occasion of marriage anniversary and the sum exceeds the limit of Rs.5,000.

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

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

6. Premium of Rs.5,000 paid by the company for personal accident policy is not liable to tax.

Question 6

1. **You are required to compute the income from salary of Mr. Raja under default tax regime from the following particulars for the year ended 31-03-2024:**
 - (i) **He retired on 31-12-2023 at the age of 60, after putting in 25 years and 9 months of service, from a private company at Delhi.**
 - (ii) **He was paid a salary of Rs 25,000 p.m. and house rent allowance of Rs 6,000 p.m. He paid rent of Rs 6,500 p.m., during his tenure of service.**
 - (iii) **On retirement, he was paid a gratuity of Rs 3,50,000. He was covered by the payment of Gratuity Act, 1972. He had not received any other**

gratuity at any point of time earlier, other than this gratuity.

- (iv) **He had accumulated leave of 15 days per annum during the period of his service; this was encashed by him at the time of his retirement. A sum of Rs 3,15,000 was received by him in this regard. Employer allowed 30 days leave per annum.**
- (v) **He is receiving Rs 5,000 as pension. On 1.2.2024, he commuted 60% of his pension and received Rs 3,00,000 as commuted pension.**
- (vi) **The company presented him with a gift voucher of Rs 5,000 on his retirement. His colleagues also gifted him a mobile phone worth Rs 50,000 from their own contribution**

Solution

Computation of income under the head "Salaries" of Mr. Raja for the A.Y.2024-25 under default tax regime

Particulars	Rs	Rs
Basic Salary = Rs 25,000 x 9 months		2,25,000
House Rent Allowance = Rs 6,000 x 9 months [Fully taxable under default tax regime]		54,000
Gratuity	3,50,000	
Less: Least of the following exempt under section 10(10)(ii)	3,50,000	Nil
(i) Actual Gratuity received Rs 3,50,000		
(ii) 15 days salary for every year of completed service $[15/26 \times \text{Rs } 25,000 \times 26] = \text{Rs } 3,75,000$		
(iii) Notified limit = Rs 20,00,000		
Leave encashment	3,15,000	
Less: Least of the following exempt under section 10(10AA)	2,50,000	65,000
(i) Rs 25,00,000		
(ii) Leave salary actually received Rs 3,15,000		
(iii) Rs 2,50,000, being 10 months' salary x Rs 25,000		
(iv) Cash equivalent of leave standing at the credit of the employee based on the average salary of last 10 months' (max. 30 days per year of service) for every year of actual service rendered for the employer from whose service he has retired $375/30 \times \text{Rs } 25,000 = \text{Rs } 3,12,500$ [Leave Due = Leave allowed – Leave taken] $= 750 (30 \text{ days per year} \times 25 \text{ years}) - 375$		

days (15 days x 25) = 375 days]		
Uncommuted Pension received [Rs 5,000 x 1) + (Rs 5,000 x 2 x 40%)		9,000
Commuted Pension received	3,00,000	
Less: Exempt under section 10(10A)		
1/3 x Rs 3,00,000/60% x 100%)	1,66,667	1,33,333
Gift Voucher [As per Rule 3(7)(iv), the value of any gift or voucher or token in lieu of gift received by the employee or by member of his household not exceeding Rs 5,000 in aggregate during the previous year is exempt]		Nil
Mobile Phone received as gift from colleagues (Neither taxable under the head "Salaries" nor "Income from other sources", since taxability provisions under section 56(2)(x) are not attracted in respect of mobile phone received from colleagues, as mobile phone is not included in the definition of "property" thereunder)		Nil
Gross Salary		4,86,333
Less: Standard deduction u/s 16 [Actual salary or Rs 50,000, whichever is less] [Allowable under default tax regime]		50,000
Net Salary		4,36,333

Question 7

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

Particulars	Rs
Basic salary	6,20,000
Dearness allowance	4,20,000
Commission	75,000
Entertainment allowance	9,000
Medical expenses reimbursed by the employer	18,000
Profession tax (of this, 50% paid by employer)	4,000
Health insurance premium paid by employer	8,000
Gift voucher given by employer on her birthday	10,000
Life insurance premium of Akansha paid by employer	26,000
Laptop provided for use at home. Actual cost of Laptop to	

employer	45,000
Children of the assesses are also using the Laptop at home]	
Employer company owns a Maruti Suzuki Swift car, which was provided to the assesses, both for official and personal use.	
Driver was also provided. (Engine cubic capacity more than 1.6 litres). All expenses are met by the employer	
Annual credit card fees paid by employer [Credit card is not exclusively used for official purposes; details of usage are not available]	7,000

You are required to compute the income chargeable under the head salaries for the assessment year 2024-25 if she pays tax under default tax regime

Solution

Question 8

Miss Riya has started working in a reputed company. This is her first job. She earned total income of Rs. 8 Lakhs in FY 2023-23. While filing her return of income she had a doubt with respect to deduction of transport allowance. Her father advised her that she cannot claim deduction of transport allowance while her friend told that maximum deduction of Rs. 1600 p.m. i.e. said allowance can be claimed. According to you,

what is the correct treatment for the same?

- (a) Transport allowance upto a maximum Rs. 1600 per month can be claimed.
- (b) Transport allowance upto a maximum Rs. 800 per month can be claimed.
- (c) No separate deduction for transport allowance is allowed. However, standard deduction of Rs. 50,000 is allowed to salaried assesseees.**
- (d) Deduction of transport allowance is allowed without any monetary limit.

Question 9 – May 2019 RTP

Ms. Aarohi is the HR manager in Shipra limited. She gives you the following particulars:

Basic Salary Rs. 70,000 p.m.

Dearness Allowance (30% forms part of retirement benefits) Rs. 24,000 p.m.

Bonus Rs. 21,000 p.m

- Her employer has provided her with an accommodation on 1st April 2021 at a concessional rent. House was taken on lease by Shipra Ltd. for Rs. 12,000 p.m. Ms. Aarohi occupied the house from 1st November 2021. Rs. 4,800 p.m. is recovered from the salary of Ms. Aarohi.
- Employer gave her a gift voucher of Rs. 10,000 on her birthday. She contributes 18% of her salary (Basic Pay + DA) towards RPF & company contributes the same amount.
- Company pays medical insurance premium to effect insurance on health of Ms. Aarohi Rs. 20,000.
- Motor car owned by the employer (Cubic capacity of engine exceeds 1.6 litres) provided to Ms. Aarohi from 1st Nov 2021 which is used for both official & personal purposes. Repair & running expenses of Rs. 70,000 were fully met by the company. Motor car was self-driven by the employee.

Compute income taxable u/h "Salaries" in the hands of Ms. Aarohi for AY 2023-23.

Solution

Question 10 – Nov 2018

Mr. Janaka raj, employed as General Manager in Rajus Refractories Pvt. Ltd. furnishes you the under- mentioned information for year ended 31.3.2023:

1. Basic salary up to 30.11.2021 70,000 p.m.

Basic salary from 1.12.2021 80,000 p.m.

Note: Salary is due & paid on the last day of every month.

2. Dearness allowance @ 50% of basic salary (not forming part of salary for retirement benefits).
3. Bonus equal to one-month salary. This was paid in November, 2021 on basic salary plus dearness allowance applicable for that month.
4. Contribution of employer to RPF A/c of the employee @ 18% of basic salary, employee also contribute an equivalent amount.
5. Profession tax paid 6,000 of which 3,000 was paid by the employer.
6. Facility of laptop was provided to Janaka raj for both official & personal use. Cost of laptop 65,000 & was purchased by the company on 11.10.2021.
7. Leave travel concession given to Janaka raj, his wife & three children (one daughter aged 6 & twin sons aged 4). Cost of air tickets (economy class) reimbursed by the employer 20,000 for adults & lump sum of 25,000 for three children. Janaka raj is eligible for availing exemption this year to the extent it is permissible under Income-tax Act, 1961.

Compute the taxable salary of Mr. Janaka raj. If he:

(a) does not opt to be taxed u/s 115BAC (b) opts to be taxed u/s 115BAC

Answer

Particulars		Does not opt to be taxed u/s 115BAC	Opts to be taxed u/s 115BAC

Basic Salary (70,000 x 8)+ (80,000 x 4)		8,80,000	8,80,000
Dearness Allowance (50% x 8,80,000)		4,40,000	4,40,000
Bonus (770,000 + 35,000)		1,05,000	1,05,000
Employer's Contribution to RPF (78,80,000 x 6%) (In excess of 12% shall be taxable)		52,800	52,800
Professional Tax paid by the employer section 17(2)(iv)		3,000	3,000
Facility of Laptop/computer [Section 17(2)(viii)/Rule 3(7)(vii)]		Nil	Nil
Leave Travel concession [Section 10(5)/Rule 2B]		Nil	45,000
Gross Salary		14,80,800	15,25,800
Less: Deduction u/s 16(ia)	50,000		
Less: Deduction of professional tax u/s 16(iii)	6,000	56,000	Nil
Income u/h Salary		14,24,800	15,25,800

INCOME FROM HOUSE PROPERTY

Conceptual Questions

Illustration 1

Jayashree owns five houses in India, all of which are let-out. Compute the GAV of each house from the information given below –

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

Solution

As per section 23(1), Gross Annual Value (GAV) is the higher of Expected rent and actual rent received. Expected rent is higher of municipal value and fair rent but restricted to standard rent.

Computation of GAV of each house owned by Jayashree

	Particulars	House I (Rs.)	House II (Rs.)	House III (Rs.)	House IV (Rs.)	House V (Rs.)
(i)	Municipal value	80,000	55,000	65,000	24,000	80,000
(ii)	Fair rent	90,000	60,000	65,000	25,000	75,000
(iii)	Higher of (i) & (ii)	90,000	60,000	65,000	25,000	80,000
(iv)	Standard rent	N.A.	75,000	58,000	N.A.	78,000
(v)	Expected rent [Lower of (iii) & (iv)]	90,000	60,000	58,000	25,000	78,000
(vi)	Actual rent received / receivable	72,000	72,000	60,000	30,000	72,000
	GAV [Higher of (v) & (vi)]	90,000	72,000	60,000	30,000	78,000

Illustration 2

Rajesh, a British national, is a resident and ordinarily resident in India during the FY 2023-24. He owns a house in London, which he has let out at £ 10,000 p.m. The municipal taxes paid to the Municipal Corporation of London is £ 8,000 during the FY 2023-24. The value of one £ in Indian rupee to be taken at Rs.95. Compute Rajesh's Net Annual Value of the property for the AY 2024-25.

Solution

For the FY 2023-24, Mr. Rajesh, a British national, is resident and ordinarily resident in India. Therefore, income received by him by way of rent of the house property located in London is to be included in the total income in India. Municipal taxes paid in London is to be allowed as deduction from the gross annual value.

Computation of Net Annual Value of the property of Mr. Rajesh for AY 2024-25

Particulars	Rs.
Gross Annual Value ($\text{₹ } 10,000 \times 12 \times 95$)	1,14,00,000
Less: Municipal taxes paid ($\text{₹ } 8,000 \times 95$)	7,60,000
Net Annual Value (NAV)	1,06,40,000

Illustration 3

Mr. Manas owns two house properties one at Bombay, wherein his family resides and the other at Delhi, which is unoccupied. He lives in Chandigarh for his employment purposes in a rented house. For acquisition of house property at Bombay, he has taken a loan of Rs.30 lakh@10% p.a. on 1.4.2022. He has not repaid any amount so far. In respect of house property at Delhi, he has taken a loan of Rs.5 lakh@11% p.a. on 1.10.2022 towards repairs. Compute the deduction which would be available to him under section 24(b) for AY 2024-25 in respect of interest payable on such loan if he exercises the option of shifting out of the default tax regime provided under section 115BAC(1A).

Solution

Mr. Manas can claim benefit of Nil Annual Value in respect of his house property at Bombay and Delhi, since no benefit is derived by him from such properties, and he cannot occupy such properties due to reason of his employment at Chandigarh, where he lives in a rented house.

Computation of deduction u/s 24(b) for AY 2024-25

Particulars	Rs.
I Interest on loan taken for acquisition of residential house property at Bombay $30,00,000 \times 10\% = \text{Rs.}3,00,000$ Restricted to Rs.2,00,000	2,00,000
II Interest on loan taken for repair of residential house property at Delhi $\text{Rs.}5,00,000 \times 11\% = \text{Rs.}55,000$ Restricted to Rs.30,000	30,000
Total interest	2,30,000
Deduction under section 24(b) in respect of (I) and (II) above to be restricted to	2,00,000

Illustration 4

Anirudh has a property whose municipal valuation is Rs.1,30,000 p.a. The fair rent is Rs.1,10,000 p.a. and the standard rent fixed by the Rent Control Act is Rs.1,20,000 p.a. The property was let out for a rent of Rs.11,000 p.m. throughout the previous year.

Unrealised rent was Rs.11,000 and all conditions prescribed by Rule 4 are satisfied. He paid municipal taxes @10% of municipal valuation. Interest on borrowed capital was Rs.40,000 for the year. Compute his income from house property for AY 2024-25.

Solution

Computation of Income from house property of Mr. Anirudh for AY 2024-25

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

Note – Alternatively, if as per income-tax returns, unrealized rent is deducted from GAV, then GAV would be Rs.1,32,000, being higher of expected rent of Rs.1,20,000 and actual rent of Rs.1,32,000. Thereafter, unrealized rent of Rs.11,000 and municipal taxes of Rs.13,000 would be deducted from GAV of Rs.1,32,000 to arrive at the NAV of Rs.1,08,000.

Illustration 5

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

Solution
Computation of income from house property of Ganesh for AY 2024-25

Particulars	Amount in Rs.	
Computation of GAV		
Step 1 Compute ER		

Higher of MV of Rs.2,50,000 p.a. & FR of Rs.2,00,000 p.a., but restricted to SR of Rs.2,10,000 p.a.	2,10,000	
Step 2 Compute Actual rent received / receivable		
Actual rent received / receivable for let out period less unrealized rent as per Rule 4 = Rs.2,00,000 – Rs.20,000	1,80,000	
Step 3 Compare ER & Actual rent received / receivable		
Step 4 In this case the actual rent of Rs.1,80,000 is lower than ER of Rs.2,10,000 owing to vacancy, since, had the property not been vacant the actual rent would have been Rs.2,20,000 (Rs.1,80,000 + Rs.40,000, being notional rent for February and March 2020). Therefore, actual rent is the GAV.	1,80,000	
Gross Annual Value (GAV)		1,80,000
Less: Municipal taxes (paid by the owner during the previous year) = 8% of Rs.2,50,000		20,000
Net Annual Value (NAV)		1,60,000
Less: Deductions under section 24		
(a) 30% of NAV = 30% of Rs.1,60,000	48,000	
(b) Interest on borrowed capital (actual without any ceiling limit)	65,000	1,13,000
Income from house property		47,000

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

Illustration 6

Poorna has one house property at Indira Nagar in Bangalore. She stays with her family in the house. The rent of similar property in the neighbourhood is Rs.25,000 p.m. The municipal valuation is Rs.2,80,000 p.a.. Municipal taxes paid is Rs.8,000. The house construction began in April 2017 with a loan of Rs.20,00,000 taken from SBI Housing Finance Ltd. @9% p.a. on 1.4.2017. The construction was completed on 30.11.2019. The accumulated interest up to 31.3.2019 is Rs.3,60,000. On 31.3.2024, Poorna paid Rs.2,40,000 which included Rs.1,80,000 as interest. There was no principal repayment prior to this date. Compute Poorna's income from house property for AY 2024-25.

SOLUTION

Computation of income from house property of Smt. Poorna for AY 2024-25

Particulars	Amount Rs.
Annual Value of house used for self-occupation under section 23(2)	Nil
Less: Deduction under section 24	

<p>Interest on borrowed capital</p> <p>Interest on loan was taken for construction of house on or after 1.4.99 and same was completed within the prescribed time - interest paid or payable subject to a maximum of Rs.2,00,000 (including apportioned pre- construction interest) will be allowed as deduction.</p> <p>In this case the total interest is Rs.1,80,000 + Rs.72,000 (Being 1/5th of Rs.3,60,000) = Rs.2,52,000. However, the interest deduction is restricted to Rs.2,00,000.</p>	2,00,000
Loss from house property	(2,00,000)

Illustration 7

Smt. Rajalakshmi owns a house property at Adyar in Chennai. The municipal value of the property is Rs.5,00,000, fair rent is Rs.4,20,000 and standard rent is Rs.4,80,000. The property was let-out for Rs.50,000 p.m. up to December 2023. Thereafter, the tenant vacated the property and Smt. Rajalakshmi used the house for self-occupation. Rent for the months of November and December 2023 could not be realised in spite of the owner's efforts. All the conditions prescribed under Rule 4 are satisfied. She paid municipal taxes @12% during the year. She had paid interest of Rs.25,000 during the year for amount borrowed for repairs for the house property. Compute her income from house property for the AY 2024-25.

Solution**Computation of income from house property of Smt. Rajalakshmi for AY 2024-25**

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

Less: Deductions under section 24		
(a) 30% of NAV = 30% of Rs.4,20,000	1,26,000	
(b) Interest on borrowed capital	25,000	1,51,000
Income from house property		2,69,000

Note – Alternatively, if as per income-tax returns, unrealized rent is deducted from GAV, then GAV would be Rs.4,80,000, being higher of expected rent of Rs.4,80,000 and actual rent of Rs.4,50,000. Thereafter, unrealized rent of Rs.1,00,000 and municipal taxes of Rs.60,000 would be deducted from GAV of Rs.4,80,000 to arrive at the NAV of Rs.3,20,000. The deduction u/s 24(a) would be Rs.96,000, being 30% of Rs.3,20,000. The income from house property would, therefore, be Rs.1,99,000.

Illustration 8

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

Particulars	House I	House II	House III
Municipal valuation p.a.	Rs.3,00,000	Rs.3,60,000	Rs.3,30,000
Fair rent p.a.	Rs.3,75,000	Rs.2,75,000	Rs.3,80,000
Standard rent p.a.	Rs.3,50,000	Rs.3,70,000	Rs.3,75,000
Date of completion/purchase	31.3.1999	31.3.2002	01.4.2015
Municipal taxes paid during the year	12%	8%	6%
Interest on money borrowed for repair of property during the current year	-	55,000	
Interest for current year on money borrowed in April, 2016 for purchase of property			1,75,000

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

Solution

Illustration 9

Prem owns a house in Madras. During the previous year 2023-24, 2/3rd portion of the house was self-occupied and 1/3rd portion was let out for residential purposes at a rent of Rs 8,000 p.m. Municipal value of the property is Rs.3,00,000 p.a., fair rent is Rs.2,70,000 p.a. and standard rent is Rs.3,30,000 p.a. He paid municipal taxes @10% of municipal value during the year. A loan of Rs.25,00,000 was taken by him during the year 2019 for acquiring the property. Interest on loan paid during the previous year 2023-24 was Rs.1,20,000. Compute Prem's income from house property for the AY 2024-25.

Solution

There are two units of the house. Unit I with 2/3rd area is used by Prem for self- occupation throughout the year and no other benefit is derived from that unit, hence it will be treated as self-occupied and its annual value will be Nil. Unit 2 with 1/3rd area is let-out throughout the previous year and its annual value has to be determined as per section 23(1).

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

Particulars	Amount in Rs.	
Unit I (2/3rd area – self-occupied)		
Annual Value		Nil
Less: Deduction under section 24(b) 2/3rd of Rs.1,20,000		80,000
Income from Unit I (self-occupied)		(80,000)
Unit II (1/3rd area – let out)		
Computation of GAV		
Step I Compute ER		
ER = Higher of MV and FR, restricted to SR However, in this case, SR of Rs.1,10,000 (1/3rd of Rs.3,30,000) is more than the higher of MV of Rs.1,00,000 (1/3rd of Rs.3,00,000) and FR of Rs.90,000 (1/3rd of Rs.2,70,000). Hence the higher of MV and FR is the ER. In this case, it is the MV.	1,00,000	
Step 2 Compute actual rent received/ receivable Rs.8,000 x 12 = Rs.96,000	96,000	
Step 3 Compare ER and Actual rent received / receivable		
Step 4 GAV is the higher of ER and actual rent received/ receivable i.e. higher of Rs.1,00,000 and Rs.96,000	1,00,000	
Gross Annual Value(GAV)		1,00,000
Less: Municipal taxes paid by the owner during the previous year relating to let-out portion 1/3rd of (10% of Rs.3,00,000) = Rs.30,000/3 = Rs.10,000		10,000
Net Annual Value(NAV)		90,000
Less: Deductions under section 24 (a) 30% of NAV = 30% of Rs.90,000	27,000	

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

Under the default tax regime, Prem would not be entitled to interest deduction of Rs 80,000 under section 24(b) in respect of self-occupied portion (Unit 1). Hence, income from house property would be Rs 23,000, being income from Unit II, which is let out.

Illustration 10

Mr. Anand sold his residential house property in March, 2023.

In June, 2023, he recovered rent of Rs 10,000 from Mr. Gaurav, to whom he had let out his house for two years from April 2017 to March 2019. He could not realise two months rent of Rs.20,000 from him and to that extent his actual rent was reduced while computing income from house property for A.Y.2019-20.

Further, he had let out his property from April, 2019 to February, 2023 to Mr. Satish. In April, 2021, he had increased the rent from Rs.12,000 to Rs.15,000 per month and the same was a subject matter of dispute. In September, 2023, the matter was finally settled and Mr. Anand received Rs.69,000 as arrears of rent for the period April 2021 to February, 2023.

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

Solution

Illustration 11

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

Compute the deduction which would be available to Ms. Aparna and Ms. Dimple under section 24(b) for AY 2024-25, if both exercise the option of shifting out of the default tax regime provided under section 115BAC(1A).

Solution**Computation of deduction u/s 24(b) available to Ms. Aparna for AY 2024-25**

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

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

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

Additional Questions

Question 1

Mr. Raman is a co-owner of a house property along with his brother holding equal share in the property.

Particulars	Rs.
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 Rs.25,000, out of which Rs.21,000 has been paid. Interest on the unpaid interest is Rs.450. To repay this loan, Raman and his brother have taken a fresh loan and interest charged on this loan is Rs.5,000.

The municipal taxes of Rs.5,100 have been paid by the tenant.

Compute the income from this property chargeable in the hands of Mr. Raman for the AY 2024-25.

Answer

Computation of income from house property of Mr. Raman for AY 2024-25

Particulars	Rs.	Rs.
Gross Annual Value (See Note 1 below)		1,80,000
Less: Municipal taxes – paid by the tenant, hence not deductible		Nil
Net Annual Value (NAV)		1,80,000
Less: Deductions under section 24		
(i) 30% of NAV	54,000	
(ii) Interest on housing loan (See Note 2 below)		
- Interest on loan taken from bank	25,000	
- Interest on fresh loan to repay old loan for this property	5,000	84,000
Income from house property		96,000
50% share taxable in the hands of Mr. Raman (See Note 3 below)		48,000

Notes:

1. Computation of Gross Annual Value (GAV)

GAV is the higher of Expected rent and actual rent received. Expected rent is the higher of municipal value and fair rent, but restricted to standard rent.

Particulars	Rs.	Rs.	Rs.	Rs.
(a) Municipal value	1,60,000			
(b) Fair rent	1,50,000			
(c) Higher of (a) and (b)		1,60,000		
(d) Standard rent		1,70,000		
(e) Expected rent [lower of (c) and (d)]			1,60,000	
(f) Actual rent [Rs.15,000 x 12]			1,80,000	1,80,000
(g) Gross Annual Value [higher of (e) and (f)]				

- Interest on housing loan is allowable as a deduction under section 24 on accrual basis. Further, interest on fresh loan taken to repay old loan is also allowable as deduction. However, interest on unpaid interest is not allowable as deduction under section 24.
- Section 26 provides that where a house property is owned by two or more persons whose shares are definite and ascertainable, the share of each such person in the income of house property, as computed in accordance with sections 22 to 25, shall be included in his respective total income. Therefore, 50% of the total income from the house property is taxable in the hands of Mr. Raman since he is an equal owner of the property.

Question 2

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

Standard rent	Rs.1,62,000 p.a.
Municipal valuation	Rs.1,90,000 p.a.
Fair rent	Rs.1,85,000 p. a
Municipal tax (Paid by Mr. X)	15% of municipal valuation
Light and water charges	Rs.500 p.m.
Interest on borrowed capital	Rs.1,500 p.m.
Lease money	Rs.1,200 p.a.
Insurance charges	Rs.3,000 p.a.
Repairs	Rs.12,000 p.a.

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

Answer

Computation of Income from house property for AY 2024-25

Particulars	Rs.	Rs.
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(A) Rented unit (50% of total area – See Note below)		
Step I - Computation of Expected Rent		
Municipal valuation (Rs.1,90,000 x ½)	95,000	
Fair rent (Rs.1,85,000 x ½)	92,500	
Standard rent (Rs.1,62,000 x ½)	81,000	
Expected Rent is higher of municipal valuation and fair rent, but restricted to standard rent	81,000	
Step II - Actual Rent		
Rent receivable for the whole year (Rs.8,000 x 10)	80,000	
Step III – Computation of Gross Annual Value		
Actual rent received owing to vacancy (Rs.96,000 – Rs.16,000)	80,000	
Since, owing to vacancy, the actual rent received is lower than the Expected Rent, the actual rent received is the Gross Annual Value		
Gross Annual Value		80,000
Less: Municipal taxes (5% of Rs.95,000)		4,750
Net Annual value		75,250
Less : Deductions under section 24 -		
(i) 30% of net annual value	22,525	
(ii) Interest on borrowed capital (Rs.750 x 12)	9,000	31,525
Taxable income from let out portion		43,675
(B) Self occupied unit (50% of total area – See Note below)		
Annual value	Nil	
Less : Deduction under section 24 -		
Interest on borrowed capital (Rs 750 x 12)	9,000	9,000
Loss from self occupied portion		(9,000)
Income from house property		34,675

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

Question 3

Mr. Vikas owns a house property whose Municipal Value, Fair Rent and Standard Rent are Rs.96,000, Rs.1,26,000 and Rs.1,08,000 (per annum), respectively.

During the Financial Year 2023-24, one-third of the portion of the house was let out for residential purpose at a monthly rent of Rs.5,000. The remaining two-third portion was self-occupied by him. Municipal tax @ 11% of municipal value was paid during the year.

The construction of the house began in June, 2016 and was completed on 31-5-2019. Vikas

took a loan of Rs.1,00,000 on 1-7-2016 for the construction of building.

He paid interest on loan @ 12% per annum and every month such interest was paid.

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

Answer

Question 4

Mrs. Rohini Ravi, a citizen of the U.S.A., is a resident and ordinarily resident in India during the financial year 2023-24. She owns a house property at Los Angeles,

U.S.A., which is used as her residence. The annual value of the house is \$ 20,000. The value of one USD (\$) may be taken as Rs.75.

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

Property Tax Rs.16,200

Sewerage Tax Rs.1,800

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

Particulars	Rs.
Period prior to 1.4.2023	49,200
1.4.2023 to 30.6.2023	50,800
1.7.2023 to 31.3.2024	1,31,300

She had a house property in Bangalore, which was sold in March, 2020. In respect of this house, she received arrears of rent of Rs.60,000 in March, 2024. This amount has not been charged to tax earlier.

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

Answer

Question 5

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

During the financial year 2022-23, each co-owner occupied one unit for residence and the balance of six units were let out at a rent of Rs.12,000 per month per unit. The municipal value of the house property is Rs.9,00,000 and the municipal taxes are 20% of municipal value, which were paid during the year. The other expenses were as follows:

Rs.

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

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

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

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

Compute the income under the head 'Income from House Property' and the total income of two brothers for the A.Y. 2024-25 if they pay tax under the default tax regime under section 115BAC. Also, show the computation of income under this head, if they both exercised the option of shifting out of the default tax regime provided under section 115BAC(1A).

Answer

Question 6

Mr. Ranjan owns a shop whose construction got completed in August 2021.

- He took a loan of Rs. 22 lacs from Bank of Baroda on 1.08.2020 & had been paying interest calculated at 9% p.a.
- During PY 2021-22, shop was let out at a monthly rent of Rs. 45,000.
- He paid municipal tax of Rs. 18,000 each for PY 2021-22 & 2022-23 on 25.05.2022 & 15.04.2023 respectively.

Compute income u/h 'House Property' of Mr. Ranjan for AY 2024-25, assuming that the entire amount of loan is outstanding on the last day of the current PY.

Answer - Computation of income u/h "House Property" of Mr. Ranjan for AY 2022-23

Working Notes:**(1) Municipal taxes deductible from Gross Annual Value**

Municipal taxes actually paid by the owner during PY is allowed to be deducted from GAV. Accordingly, only Rs. 18,000 paid on 25.05.2021 is allowed to be deducted from GAV while computing income from house property of PY 2022-23.

(2) Interest on housing loan allowable as deduction u/s 24

- Interest for Current year (Rs. 22,00,000 x 9%) = Rs. 1,98,000

- Pre-construction interest

For the period 1.8.2020 to 31.03.2021: (Rs. 22,00,000 x 9% x 8/12) = Rs. 1,32,000.

Rs. 1,32,000 allowed in 5 equal instalments (Rs. 1,32,000/5) from PY 2022-23 to PY 2025-26. Total Deduction u/s 24(b) = Rs. 1,98,000 + Rs. 26,400 = Rs. 2,24,400.

(3) Deduction u/s 24(b) i.r.o. interest for let out property, fully allowed without any limit

Question 7 – May 2018 RTP

In August 2017, Mr. Kailash, a first-time home buyer, borrowed a sum of Rs. 35 lakhs from the National Housing Bank for construction of a residential house for Rs. 48 lakhs. The loan was sanctioned on 12.5.2017. The loan amount was disbursed directly to the flat promoter by the bank. The construction was completed in May, 2021 & repayments towards principal and interest commenced immediately after disbursement of loan.

In the light of the above facts, examine:

(a) Whether Mr. Kailash can claim deduction u/s 24 i.r.o interest for AY 2022-23?

(b) Whether deduction u/s 80C and 80EE can be claimed by him for AY 2022-23?

Answer:

- (a)** As per section 24(b), interest payable on loans borrowed for acquisition, construction, repairs, renewal or reconstruction of house property can be claimed as deduction. Interest payable on borrowed capital for the period prior to the previous year in which the property has been acquired or constructed, can be claimed as deduction over a period of 5 years in equal annual installments commencing from the year of acquisition or completion of construction

It is stated that the construction is completed only in May, 2022. Hence, deduction u/s 24 i.r.o. interest on housing loan cannot be claimed in AY 2022-23.

(b) Deduction u/s 80C cannot be claimed

Clause (xviii) of section 80C is attracted where there is any payment for the purpose of purchase or construction of a residential house property, the income from which is chargeable to tax under the head 'Income from house property'. Such payment covers repayment of any amount borrowed from the National Housing Bank.

However, deduction is prima facie eligible only if the income from such property is chargeable to tax under the head "Income from House Property". During AY 2022-23, there is no such income chargeable under this head. Hence, deduction u/s 80C cannot be claimed for AY 2022-23.

Deduction u/s 80EE cannot be claimed

As per section 80EE, interest payable on loan taken for acquisition of a residential house from any financial institution qualifies for deduction, subject to a maximum of Rs. 50,000, provided:

- Such loan is sanctioned during the PY 2017-18.
- Value of the house does not exceed Rs. 50 lakhs
- Amount of loan sanctioned does not exceed Rs. 35 lacs &

- Assessee does not own any residential house on the date of sanction of loan

Since loan was sanctioned in PY 2017-18, interest on such loan would not qualify for deduction u/s 80EE.

However, deduction u/s 80EEA can be claimed.

Question 8 – May 2021 RTP

Mr. Roxx, a citizen of Country Y, is a RNOR in India during FY 2021-22. He owns two HPs in Country Y, one is used as his residence. Another HP is rented for a monthly rent of \$ 18,000. Fair rent of HP is \$ 20,000. The value of one CYD (\$) may be taken as 78.

He took ownership & possession of a flat in Delhi on 1.10.2021, which is used for self-occupation, while he is in India. The flat was used by him for 3 months at the time when he visited India during PY 2021-22. Municipal valuation is 4,58,000 p.a. & fair rent is 3,60,000 p.a. He paid property tax of 13,800 & 2,800 as sewerage tax to Municipal Corporation of Delhi.

He had taken a loan of 18,00,000 @ 9.5% from HDFC Bank on 1st August, 2019 for purchasing this flat. No amount is repaid by him till 31.03.2022.

He also had a HP in Bangalore which is let out on a monthly rent of 40,000. Fair rent of which is 4,58,000

p.a. & Municipal value of 3,58,000 p.a. & Standard Rent of 4,20,000 p.a. He had taken a loan of 25,00,000 @ 10% from one of his friends, residing in Country Y for this house. Municipal tax of 5,400 is paid by him i.r.o. this house during PY 2021-22.

Compute the income chargeable from HP of Mr. Roxx for AY 2022-23.

Answer

Question 9 – Nov 2018

Mrs. Disha Khanna, a resident of India, owns a HP at Bhiwani in Haryana. Municipal value of the property is Rs. 7,50,000, Fair Rent of the property is 6,30,000 & Standard Rent is 7,20,000 p.a. Property was let out for 75,000 p.m. for the period April 2021 to December 2021.

Thereafter, the tenant vacated the property & Mrs. Disha Khanna used the house for self-occupation. Rent for the months of November & December 2021 could not be realized from the tenant. The tenancy was bonafide but the defaulting tenant was in occupation of another property of the assessee, paying rent regularly. She paid municipal taxes @ 12% during the year & paid interest of 35,000 during the year for amount borrowed towards repairs of the HP. You are required to compute her income from HP for AY 2022-23

Answer**Computation of Income u/h HP for AY 2022-23**

Particulars	Amount	Amount
Gross Annual Value [See Working Note]		7,20,000
Less: Municipal taxes (12% of 7,50,000)		(90,000)
Net Annual Value		6,30,000
Less: Deduction u/s 24		
Standard deduction @ 30% of NAV u/s 24(a)	1,89,000	
Interest on capital borrowed u/s 24(b)	35,000	(2,24,000)
Income from HP		4,06,000

Working Note:

(a) Fair rent	6,30,000	
(b) Municipal Valuation	7,50,000	
(c) Higher of (a) or (b)	7,50,000	
(d) Standard Rent	7,20,000	
(e) Expected Rent [Lower of (c) or (d)]		7,20,000
(f) Actual rent (75,000 x 9)	6,75,000	
(g) GAV = Higher of (e) or (f)		7,20,000

CAPITAL GAINS

Illustration 1

	Area	Shortest aerial distance from the local limits of a municipality or cantonment board referred to in item (a)	Population according to the last preceding census of which the relevant figures have been published before the first day of the previous year.	Is the land situated in this area a capital asset?
(i)	A	1 km	9,000	No
(ii)	B	1.5 kms	12,000	Yes
(iii)	C	2 kms	11,00,000	Yes
(iv)	D	3 kms	80,000	No
(v)	E	4 kms	3,00,000	Yes
(v)	F	5 kms	12,00,000	Yes
(vi)	G	6 kms	8,000	No
(vii)	H	7 kms	4,00,000	No
(viii)	I	8 kms	10,50,000	Yes
(ix)	J	9 kms	15,00,000	No

Illustration 2

How will you calculate the period of holding in case of the following assets?

- (1) *Shares held in a company in liquidation*
- (2) *Bonus shares*
- (3) *Flat in a co-operative society*

Solution

- (1) **Shares held in a company in liquidation** - The period after the date on which the company goes into liquidation shall be excluded while calculating the period of holding. Therefore, the period of holding shall commence from the date of acquisition and end with the date on which the company goes into liquidation.
- (2) **Bonus shares** - The period of holding shall be reckoned from the date of allotment of bonus shares and will end with the date of transfer.
- (3) **Flat in a co-operative society** - The period of holding shall be reckoned from the date of allotment of shares in the society and will end with the date of transfer.

Note – Any transaction whether by way of becoming a member of, or acquiring shares in, a co-operative society or by way of any agreement or any arrangement or in any other manner whatsoever which has the effect of transferring, or enabling enjoyment of, any immovable property is a transfer as per section 2(47)(vi).

Hence, it is possible to take a view that any date from which such right is obtained may be taken as the date of acquisition.

Illustration 3

A is the owner of a car. On 1-4-2023, he starts a business of purchase and sale of motor cars. 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 Rs 1 lakh. Discuss the tax implication in his hands under the head "Capital gains".

Solution**ILLUSTRATION 4**

X converts his capital asset (acquired on June 10, 2005 for Rs 60,000) into stock-in-trade on March 10, 2023. The fair market value on the date of the above conversion was Rs 5,50,000. He subsequently sells the stock-in-trade so converted for Rs 6,00,000 on June 10, 2023. Discuss the year of chargeability of capital gain and business income.

Solution

Since the capital asset is converted into stock-in-trade during the previous year 2022-23 relevant to the A.Y. 2023-24, it will be a transfer u/s 2(47) during the P.Y. 2022-23. However, the profits or gains arising from the above conversion will be chargeable to tax during the A.Y. 2024-25, since the stock-in-trade has been sold only on June 10, 2023. For this purpose, the fair market value on the date of such conversion (i.e. 10th March, 2023) will be the full value of consideration for computation of capital gains. The business income of Rs 50,000 (i.e., Rs 6,00,000 (-) Rs 5,50,000, being the fair market value on the date of conversion) would also be taxable in the A.Y. 2024-25. Thus, both capital gains and business income would be chargeable to tax in the A.Y. 2024-25.

Illustration 5

M held 2000 shares in a company ABC Ltd., an Indian company. This company amalgamated with another Indian company XYZ Ltd. during the previous year ending 31-3-2024. Under the scheme of amalgamation, M was allotted 1000 shares in the new company. The market value of shares allotted is higher by Rs 50,000 than the value of holding in ABC Ltd. The Assessing Officer proposes to treat the transaction as an exchange and to tax Rs 50,000 as capital gain. Is he justified?

Solution**ILLUSTRATION 6**

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

- (i) Mr. A purchased gold in 1970 for Rs 25,000. In the P.Y. 2023-24, he gifted it to his son at the time of marriage. Fair market value (FMV) of the gold on the day the gift was made was Rs 1,00,000.
- (ii) A house property is purchased by a Hindu undivided family in 1945 for Rs 20,000. It is given to one of the family members in the P.Y. 2023-24 at the time of partition of the family. FMV on the date of partition was Rs 12,00,000.

- (iii) Mr. B purchased 50 convertible debentures for Rs 40,000 in 1995 which are converted into 500 shares worth Rs 85,000 in November 2023 by the company.

Solution

Illustration 7

Mr. Abhishek a senior citizen, mortgaged his residential house with a bank, under a notified reverse mortgage scheme. He was getting loan from bank in monthly installments. Mr. Abhishek did not repay the loan on maturity and hence gave possession of the house to the bank, to discharge his loan. How will the treatment of long-term capital gain be on such reverse mortgage transaction?

Solution

Illustration 8

Examine, with reasons, whether the following statements are True or False.

- (i) Alienation of a residential house in a transaction of reverse mortgage under a scheme made and notified by the Central Government is treated as "transfer" for the purpose of capital gains.
- (ii) Zero coupon bonds of eligible corporation, held for 14 months, will be long-term capital assets.
- (iii) Zero Coupon Bond means a bond on which no payment and benefits are received or receivable before maturity or redemption.

Solution

- (i) **False:** As per section 47(xvi), such alienation in a transaction of reverse mortgage under a scheme made and notified by the Central Government is not regarded as "transfer" for the purpose of capital gains.
- (ii) **True:** Section 2(42A) defines the term 'short-term capital asset'. Under the proviso to section 2(42A), zero coupon bond held for not more than 12 months will be treated as a short-term capital asset. Consequently, such bond held for more than 12 months will be a long-term capital asset.

- (iii) **True:** As per section 2(48), 'Zero Coupon Bond' means a bond issued by any infrastructure capital company or infrastructure capital fund or infrastructure debt fund or a public sector company, or Scheduled Bank on or after 1st June 2005, in respect of which no payment and benefit is received or receivable before maturity or redemption from such issuing entity and which the Central Government may notify in this behalf.

Illustration 9

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

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

Solution

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

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

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

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

Illustration 10

Singhanian & Co., a sole proprietorship owns six machines, put in use for business in March, 2022. The depreciation on these machines is charged @15%. The opening balance of these machines after providing depreciation for P.Y. 2022-23 was

Rs 8,50,000. Three of the old machines were sold on 10th June, 2023 for Rs 11,00,000. A second-hand plant was bought for Rs 8,50,000 on 30th November, 2023.

You are required to:

- determine the claim of depreciation for Assessment Year 2024-25.
- compute the capital gains liable to tax for Assessment Year 2024-25.
- If Singhanian & Co. had sold the three machines in June, 2023 for Rs 21,00,000, will there

be any difference in your above workings? Explain.

Solution

(i) Computation of depreciation for A.Y.2024-25

Particulars	Rs
Opening balance of the block as on 1.4.2023 [i.e., W.D.V. as on 31.3.2023 after providing depreciation for P.Y. 2022-23]	8,50,000
Add: Purchase of second-hand plant during the year	8,50,000
	17,00,000
Less: Sale consideration of old machinery during the year	11,00,000
W.D.V of the block as on 31.03.2024	6,00,000

Since the value of the block as on 31.3.2024 comprises of a new asset which has been put to use for less than 180 days, depreciation is restricted to 50% of the prescribed percentage of 15% i.e. depreciation is restricted to 7½%. Therefore, the depreciation allowable for the year is Rs 45,000, being 7½% of Rs 6,00,000.

(ii) The provisions under section 50 for computation of capital gains in the case of depreciable assets can be invoked only under the following circumstances:

- When one or some of the assets in the block are sold for consideration more than the value of the block.
- When all the assets are transferred for a consideration more than the value of the block.
- When all the assets are transferred for a consideration less than the value of the block.

Since in the first two cases, the sale consideration is more than the written down value of the block, the computation would result in short term capital gains.

In the third case, since the written down value of the block exceeds the sale consideration, the resultant figure would be a short-term capital loss of the block.

In the given case, capital gains will not arise as the block of asset continues to exist, and some of the assets are sold for a price which is lesser than the written down value of the block.

(iii) If the three machines are sold in June, 2023 for Rs 21,00,000, then short term capital gains would arise, since the sale consideration is more than the aggregate of the written down value of the block at the beginning of the year and the additions made during the year.

Particulars	Rs	Rs
Sale consideration		21,00,000
Less: Opening balance of the block as on 1.4.2023 [i.e., W.D.V. as on 31.3.2023 after providing depreciation for P.Y. 2022-23]	8,50,000	
Purchase of second plant during the year	8,50,000	17,00,000
Short term capital gains		4,00,000

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

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

Other information:

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

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

Solution

Illustration 12

Mr. Cee purchased a residential house on July 20, 2021 for Rs 10,00,000 and made some additions to the house incurring Rs 2,00,000 in August 2021. He sold the house property in April 2023 for Rs 20,00,000. Out of the sale proceeds, he spent Rs 5,00,000 to purchase another house property in September 2023.

What is the amount of capital gains taxable in the hands of Mr. Cee for the A.Y.2024-25?

Solution

The house is sold before 24 months from the date of purchase. Hence, the house is a short-term capital asset and no benefit of indexation would be available.

Particulars	Rs
Sale consideration	20,00,000
Less: Cost of acquisition	10,00,000
Cost of improvement	2,00,000
Short-term capital gains	8,00,000

Note - The exemption of capital gains under section 54 is available only in case of long-term capital asset. As the house is short-term capital asset, Mr. Cee cannot claim exemption under section 54. Thus, the amount of taxable short-term capital gains is Rs 8,00,000.

Illustration 13

Long term capital gain of Rs 75 lakh arising from transfer of building on 1.5.2023 will be exempt from tax if such capital gain is invested in the bonds redeemable after five years, issued by NHAI under section 54EC. Examine with reasons whether the given statement is true or false having regard to the provisions of the Income-tax Act, 1961.

Solution

False: The exemption under section 54EC has been restricted, by limiting the maximum investment in long term specified assets (i.e. bonds of NHAI or RECL or any other bond notified by Central Government in this behalf, redeemable after 5 years) to Rs 50 lakh, whether such investment is made during the relevant previous year or the subsequent previous year, or both. Therefore, in this case, the exemption under section 54EC can be availed only to the extent of Rs 50 lakh, provided the investment is made before 1.11.2023 (i.e., within six months from the date of transfer).

*The exemption under section 54EC is available in respect of capital gains on transfer of capital asset being land or building or both.

Illustration 14

Calculate the income-tax liability for the assessment year 2024-25 in the following cases:

Status	Mr. A (age 45)	Mrs. B (age 62)	Mr. C (age 81)	Mr. D (age 82)
	Resident	Non-resident	Resident	Non-resident
Total income other than long-term capital gain	2,40,000	3,10,000	5,90,000	4,80,000
Long-term capital gain	85,000 from sale of vacant site	10,000 from sale of listed equity shares (STT paid on sale and purchase of shares)	60,000 from sale of agricultural land in rural area	Nil

- (i) If Mr. A, Mrs. B, Mr. C and Mr. D pay tax under default tax regime u/s 115BAC.
- (ii) If Mr. A, Mrs. B, Mr. C and Mr. D exercise the option to shift out of the default tax regime and pay tax under the optional tax regime as per the normal provisions of the Act.

Solution

If Mr. A, Mrs. B, Mr. C and Mr. D pay tax under default tax regime u/s 115BAC.

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

Particulars	Mr. A (age 45)	Mrs. B (age 62)	Mr. C (age 81)	Mr. D (age 82)
Residential Status	Resident	Non-resident	Resident	Non-resident
Applicable basic exemption limit	Rs 3,00,000	Rs 3,00,000	Rs 3,00,000	Rs 3,00,000
Asset sold	Vacant site	Listed equity shares (STT paid on both sale and purchase of shares)	Rural agricultural land	-
Long-term capital gain (on sale of above asset)	Rs 85,000 [Taxable @20% u/s 112]	Rs 10,000 [exempt u/s 112A since it is less than Rs 1,00,000]	Rs 60,000 (Exempt – not a capital asset)	-

Other income	Rs 2,40,000	Rs 3,10,000	Rs 5,90,000	Rs 4,80,000
Tax liability				
On LTCG (after adjusting unexhausted basic exemption limit of Rs 60,000)	Rs 5,000	-	-	-
On Other income	Nil	Rs 500	Rs 14,500	Rs 9,000
	Rs 5,000	Rs 500	Rs 14,500	Rs 9,000
Less: Rebate u/s 87A	Rs 5,000	-	Rs 14,500	-
	Nil	Rs 500	Nil	Rs 9,000
Add: Health & education cess (HEC) @4%	Nil	Rs 20	Nil	Rs 360
Total tax liability	Nil	Rs 520	Nil	Rs 9,360

Note: Since Mr. A and Mr. C are residents whose total income does not exceed Rs 7 lakhs, they are eligible for rebate of Rs 25,000 or the actual tax payable, whichever is lower, under section 87A.

- (i) If Mr. A, Mrs. B, Mr. C and Mr. D exercise the option to shift out of the default tax regime and pay tax under the optional tax regime as per the normal provisions of the Act

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

Particulars	Mr. A (age 45)	Mrs. B (age 62)	Mr. C (age 81)	Mr. D (age 82)
Residential Status	Resident	Non-resident	Resident	Non-resident
Applicable	Rs 2,50,000	Rs 2,50,000	Rs 5,00,000	Rs 2,50,000
Asset sold	Vacant site	Listed equity shares (STT paid on both sale and purchase of shares)	Rural agricultural land	-
Long-term capital gain (on sale of above asset)	Rs 85,000 [Taxable @20% u/s 112] Rs 2,40,000 Rs 15,000	Rs 10,000 [exempt u/s 112A since it is less than Rs 1,00,000] Rs 3,10,000	Rs 60,000 (Exempt – not a capital asset) Rs 5,90,000	-
Other income		-	-	Rs 4,80,000
Tax liability				
On LTCG (after				-

adjusting unexhausted basic exemption limit of Rs 10,000)				
On Other income	Nil	Rs 3,000	Rs 18,000	Rs 11,500
	Rs 15,000	Rs 3,000	Rs 18,000	Rs 11,500
Less: Rebate u/s 87A	Rs 12,500	-	-	-
	2,500	Rs 3,000	Rs 18,000	Rs 11,500
Add: Health & education cess (HEC) @4%	100	Rs 120	Rs 720	Rs 460
Total tax liability	2,600	Rs 3,120	Rs 18,720	Rs 11,960

Notes:

1. Since Mrs. B and Mr. D are non-residents, they cannot avail the higher basic exemption limit of Rs 3,00,000 and Rs 5,00,000 for persons over the age of 60 years and 80 years, respectively. Also, they are not eligible for rebate under section 87A even though their total income does not exceed Rs 5 lakh.
2. Since Mr. A is a resident whose total income does not exceed Rs 5 lakh, he is eligible for rebate of Rs 12,500 or the actual tax payable, whichever is lower, under section 87A.

Additional Questions**Question 1**

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

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

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

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

Solution

Question 2

Aarav converts his plot of land purchased in July, 2004 for Rs 80,000 into stock-in-trade on 31st March, 2023. The fair market value as on 31.3.2023 was Rs 3,00,000. The stock-in-trade was sold for Rs 3,25,000 in the month of January, 2024.

Find out the taxable income, if any, and if so under which head of income and for which Assessment Year?

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

Solution

Conversion of a capital asset into stock-in-trade is a transfer within the meaning of section 2(47) in the previous year in which the asset is so converted. However, the capital gains will be charged to tax only in the year in which the stock-in-trade is sold.

The cost inflation index of the financial year in which the conversion took place should be considered for computing indexed cost of acquisition. Further, the fair market value on the date of conversion would be deemed to be the full value of consideration for transfer of the asset as per section 45(2). The sale price less the fair market value on the date of conversion would be treated as the business income of the year in which the stock-in-trade is sold.

Therefore, in this problem, both capital gains and business income would be charged to tax in the A.Y. 2024-25.

Particulars	Rs
Capital Gains	

Full value of consideration (Fair market value on the date of conversion)	3,00,000
Less: Indexed cost of acquisition (Rs 80,000 × 331/113)	2,34,336
Long-term capital gain	65,664
Profits & Gains of Business or Profession	
Sale price of stock-in-trade	3,25,000
Less: Fair market value on the date of conversion	3,00,000
	25,000

Computation of taxable income of Mr. Aarav for A.Y.2024-25

Particulars	Rs
Profits and gains from business or profession	25,000
Long term capital gains	65,664
Taxable Income	90,664

Question 3

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

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

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

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

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

[Cost Inflation Index: F.Y. 2004-05: 113; F.Y. 2022-23: 317; FY 2023-24: 348].

Answer

Computation of capital gains and business income of Harshita for A.Y. 2023-24

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

Capital gains chargeable to tax for A.Y.2024-25	21,65,192
Business Income	
Sale price of flats [10 × Rs.30 lakhs]	3,00,00,000
Less: Cost of flats	
Fair market value of land on the date of conversion [Rs.210 lacs × 2/3]	1,40,00,000
Cost of construction of flats [10 × Rs.10 lakhs]	1,00,00,000
Business income chargeable to tax for A.Y.2023-24	60,00,000

Notes:

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

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

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

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

Question 4

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

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

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

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

(i)	Towards loss of stock	Rs.4,80,000
(ii)	Towards damage of machinery	Rs.6,00,000
(iii)	Towards gold chain and diamond ring	Rs.1,80,000

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

Answer

Question 5

Mr. Sarthak entered into an agreement with Mr. Jaikumar to sell his residential house located at Kanpur on 16.08.2023 for Rs.1,50,00,000.

The sale proceeds were to be paid in the following manner:

- (i) 20% through account payee bank draft on the date of agreement.**
- (ii) 60% on the date of the possession of the property.**
- (iii) Balance after the completion of the registration of the title to the property.**

Mr. Jaikumar was handed over the possession of the property on 15.12.2023 and the registration process was completed on 14.01.2024. He paid the sale proceeds as per the sale agreement.

The value determined by the Stamp Duty Authority-

- (a) on 16.08.2023 was Rs.1,70,00,000;**
- (b) on 15.12.2023 was Rs.1,71,00,000; and**
- (c) on 14.01.2024 was Rs.1,71,50,000.**

Mr. Sarthak had acquired the residential house at Kanpur on 01.04.2001 for Rs.30,00,000. After recovering the sale proceeds from Jaikumar, he purchased two residential house properties, one in Kanpur for Rs.20,00,000 on 24.3.2024 and another in Delhi for Rs.35,00,000 on 28.5.2024.

Compute the income chargeable under the head "Capital Gains" of Mr. Sarthak for the Assessment Year 2024-25.

Cost Inflation Index for Financial Year(s): 2001-02 - 100; 2023-24 - 348

Answer

Question 6

Mrs. Yuvika bought a vacant land for Rs.80 lakhs in May 2005. Registration and other expenses were 10% of the cost of land. She constructed a residential building on the said land for Rs.100 lakhs during the financial year 2007-08.

She entered into an agreement for sale of the above said residential house with Mr. Johar (not a relative) in April 2015. The sale consideration was fixed at Rs.700 lakhs and on 23-4-2015, Mrs. Yuvika received Rs.20 lakhs as advance in cash by executing an agreement. However, due to failure on part of Mr. Johar, the said negotiation could not materialise and hence, the said amount of advance was forfeited by Mrs. Yuvika.

Mrs. Yuvika, again entered into an agreement on 01.08.2023 for sale of this house at Rs.810 lakhs. She received Rs.80 lakhs as advance by RTGS. The stamp duty value on the date of agreement was Rs.890 lakhs. The sale deed was executed and registered on 14-1-2024 for the agreed consideration. However, the State stamp valuation authority had revised the values, hence, the value of property for stamp duty purposes was Rs.900 lakhs. Mrs. Yuvika paid 1% as brokerage on sale consideration received.

Subsequent to sale, Mrs. Yuvika made following investments:

- (i) Acquired two residential houses at Delhi for Rs.130 lakhs and Rs.50 lakhs on 31.1.2024 and 15.5.2024
- (ii) Acquired a residential house at UK for Rs.180 lakhs on 23.3.2024.
- (iii) Subscribed to NHAI capital gains bond (approved under section 54EC) for Rs.50 lakhs on 29-3-2024 and for Rs.40 lakhs on 12-5-2024.

Compute the income chargeable under the head 'Capital Gains' of Mrs. Yuvika for A.Y.2024-25. The choice of exemption must be in the manner most beneficial to the assessee.

Cost Inflation Index: F.Y. 2005-06 – 117; F.Y. 2007-08 – 129; F.Y. 2023-24 - 348.

Answer

Computation of income chargeable under the head "Capital Gains" of Mrs. Yuvika for
A.Y.2022-23

Particulars	Rs. (in lakhs)	Rs. (in lakhs)
Capital Gains on sale of residential building		
Actual sale consideration Rs.810 lakhs		
Value adopted by Stamp Valuation Authority Rs.890 lakhs [Where the actual sale consideration is less than the value adopted by the Stamp Valuation Authority for the purpose of charging stamp duty, and such stamp duty value exceeds 110% of the actual sale consideration, then, the value adopted by the Stamp Valuation Authority shall be taken to be the full value of consideration as per section 50C.		
However, where the date of agreement is different from the date of registration, stamp duty value on the date of agreement can be considered provided the whole or part of the consideration is received by way of account payee cheque/bank draft or by way of ECS through bank account or through prescribed electronic modes on or before the date of agreement.		
In this case, since advance of Rs.80 lakh is received by RTGS, i.e., one of the prescribed modes, stamp duty value on the date of agreement can be adopted as the full value of consideration. However, in the present case since stamp duty value on the date of agreement does not exceed 110% of the actual consideration, actual sale consideration would be taken as the full value of consideration)		
Gross Sale consideration (actual consideration, since stamp duty value on the date of agreement does not exceed 110% of the actual consideration)		810.00
Less: Brokerage @1% of sale consideration (1% of Rs.810 lakhs)		8.10
Net Sale consideration		801.90
Less: Indexed cost of acquisition		
- Cost of vacant land, Rs.80 lakhs, <i>plus</i> registration and other expenses i.e., Rs.8 lakhs, being 10% of cost of land [Rs.88 lakhs × 348/117]	261.74	
- Construction cost of residential building (Rs.100 lakhs × 348/129)	269.77	531.51
Long-term capital gains		270.39
Since the residential house property was held by Mrs. Yuvika for more than 24 months immediately preceding the date of its transfer, the resultant gain is a long-term capital gain]		
Less: Exemption under section 54		130.00

<p>Where long-term capital gains exceed Rs.2 crore, the capital gain arising on transfer of a long-term residential property shall not be chargeable to tax to the extent such capital gain is invested in the purchase of one residential house property in India, one year before or two years after the date of transfer of original asset.</p> <p>Therefore, in the present case, the exemption would be available only in respect of the one residential house acquired in India and not in respect of the residential house in UK. It would be more beneficial for her to claim the cost of acquisition of residential house at Delhi, i.e., Rs.130 lakhs as exemption.</p>		
<p>Less: Exemption under section 54EC</p> <p>Amount invested in capital gains bonds of NHAI within six months after the date of transfer (i.e., on or before 13.7.2024), of long-term capital asset, being land or building or both, would qualify for exemption, to the maximum extent of Rs.50 lakhs, whether such investment is made in the current financial year or subsequent financial year.</p> <p>Therefore, in the present case, exemption can be availed only to the extent of Rs.50 lakh out of Rs.90 lakhs, even if the both the investments are made on or before 13.7.2024(i.e., within six months after the date of transfer).</p>		50.00
Long term capital gains chargeable to tax		90.39

Note: Advance of Rs.20 lakhs received from Mr. Johar, would have been chargeable to tax under the head "Income from other sources", in the A.Y. 2016-17, as per section 56(2)(ix), since the same was forfeited on or after 01.4.2014 as a result of failure of negotiation. Hence, the same should not be deducted while computing indexed cost of acquisition.

Question 7

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

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

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

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

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

CII for F.Y. 2001-02: 100; F.Y. 2008-09: 137; F.Y. 2015-16: 254; F.Y. 2021-22: 348

Answer –



PROFITS AND GAINS OF BUSINESS OR PROFESSION

Conceptual Questions

ILLUSTRATION 1

Mr. X, a proprietor engaged in manufacturing business, furnishes the following particulars:

	Particulars	Rs.
(1)	Opening balance of plant and machinery as on 1.4.2023 (i.e., WDV as on 31.3.2023 after reducing depreciation for FY 2022-23)	30,00,000
(2)	New plant and machinery purchased and put to use on 08.06.2023	20,00,000
(3)	New plant and machinery acquired and put to use on 15.12.2023	8,00,000
(4)	Computer acquired and installed in the office premises on 2.1.2024	3,00,000

Compute the amount of depreciation and additional depreciation for the A.Y. 2024-25, if Mr. X has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A). Assume that all the assets were purchased by way of account payee cheque.

SOLUTION

Computation of depreciation and additional depreciation for AY 2024-25

Particulars	Plant & Machinery (15%)	Computer (40%)
Normal depreciation		
@ 15% on Rs.50,00,000 [See Working Notes 1 & 2]	7,50,000	-
@ 7.5% (50% of 15%, since put to use for less than 180 days) on Rs.8,00,000	60,000	-
@ 20% (50% of 40%, since put to use for less than 180 days) on Rs.3,00,000	-	60,000
Additional Depreciation		
@ 20% on Rs.20,00,000 (new plant and machinery put to use for more than 180 days)	4,00,000	-
@ 10% (50% of 20%, since put to use for less than 180 days) on Rs.8,00,000	80,000	-
Total depreciation	12,90,000	60,000

Working Notes:**(1) Computation of written down value of Plant & Machinery**

Particulars	Plant & Machinery (Rs.)	Computer (Rs.)
Opening balance as on 1.4.2023	30,00,000	-
Add: Plant & Machinery purchased on 08.6.2023	20,00,000	-
Add: Plant & Machinery acquired on 15.12.2023	8,00,000	-
Computer acquired and installed in the office premises	-	3,00,000
Written down value as on 31.03.2023	58,00,000	3,00,000

(2) Composition of plant and machinery included in the WDV

Particulars	Plant & Machinery (Rs.)	Computer (Rs.)
Plant and machinery put to use for 180 days or more [Rs.30,00,000 (WDV)+ Rs.20,00,000 (purchased on 8.6.2023)]	50,00,000	-
Plant and machinery put to use for less than 180 days	8,00,000	-
Computers put to use for less than 180 days	-	3,00,000
	58,00,000	3,00,000

Notes:

- (1) As per the second proviso to section 32(1)(ii), where an asset acquired during the previous year is put to use for less than 180 days in that previous year, the amount of deduction allowable as normal depreciation and additional depreciation would be restricted to 50% of amount computed in accordance with the prescribed percentage.

Therefore, normal depreciation on plant and machinery acquired and put to use on 15.12.2023 and computer acquired and installed on 02.01.2023, is restricted to 50% of 15% and 40%, respectively. The additional depreciation on the said plant and machinery is restricted to Rs.80,000, being 10% (i.e., 50% of 20%) of Rs.8 lakh. Mr. X is eligible for additional depreciation since he has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A).

- (2) As per third proviso to section 32(1)(ii), the balance additional depreciation of Rs.80,000 being 50% of Rs.1,60,000 (20% of Rs.8,00,000) would be allowed as deduction in the A.Y.2025-26.

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

However, additional depreciation shall not be allowed in respect of, *inter alia*, any machinery or plant installed in office premises, residential accommodation or in any guest house.

Accordingly, additional depreciation is not allowable on computer installed in the office premises.

ILLUSTRATION 2

A car purchased by Dr. Soman on 10.08.2020 for Rs.5,25,000 for personal use is brought into professional use on 1.07.2023 by him, when its market value was Rs.2,50,000.

Compute the actual cost of the car and the amount of depreciation for the AY 2024-25 assuming the rate of depreciation to be 15%.

SOLUTION

As per section 43(1), the expression “actual cost” would mean the actual cost of asset to the assessee.

The purchase price of Rs.5,25,000 is, therefore, the actual cost of the car to Dr. Soman. Market value (i.e. Rs.2,50,000) on the date when the asset is brought into professional use is not relevant.

Therefore, amount of depreciation on car as per section 32 for the AY 2024-25 would be Rs.78,750, being Rs.5,25,000 x 15%.

Note: Explanation 5 to section 43(1) providing for reduction of notional depreciation from the date of acquisition of asset for personal use to determine actual cost of the asset is applicable only in case of building which is initially acquired for personal use and later brought into professional use. It is not applicable in respect of other assets.

ILLUSTRATION 3

A newly qualified Chartered Accountant Mr. Dhaval, commenced practice and has acquired the following assets in his office during FY 2023-24 at the cost shown against each item. Calculate the amount of depreciation that can be claimed from his professional income for AY 2024-25. Assume that all the assets were purchased by way of account payee cheque.

Sl. No.	Description	Date of acquisition	Date when put to use	Amount Rs.
1.	Computer including computer software	27 Sept., 23	1 Oct., 23	35,000
2.	Computer UPS	2 Oct., 23	8 Oct., 23	8,500
3.	Computer printer	1 Oct., 23	1 Oct., 23	12,500
4.	Books (other than annual publications are of Rs. 12,000)	1 Apr., 23	1 Apr., 23	13,000

5.	Office furniture (Acquired from a practicing C.A.)	1 Apr., 23	1 Apr., 23	3,00,000
6.	Laptop	26 Sep., 23	8 Oct., 23	43,000

SOLUTION**Computation of depreciation allowable for AY 2024-25**

Asset	Rate	Depreciation (Rs.)
Block 1 Furniture [See working note below]	10%	30,000
Block 2 Plant (Computer including computer software, Computer UPS, Laptop, Printers and Books) [See working note below]	40%	34,500
Total depreciation allowable		64,500

Working Note:**Computation of depreciation**

Block of Assets	Rs.
Block 1: Furniture – [Rate of depreciation - 10%]	
Put to use for more than 180 days [Rs.3,00,000 @ 10%]	30,000
Block 2: Plant [Rate of depreciation- 40%]	
(a) Computer including computer software (put to use for more than 180 days) [Rs.35,000 @ 40%]	14,000
(b) Computer UPS (put to use for less than 180 days) [Rs.8,500 @ 20%] [See note below]	1,700
(c) Computer Printer (put to use for more than 180 days) [Rs.12,500 @ 40%]	5,000
(d) Laptop (put to use for less than 180 days) [Rs.43,000 @ 20%] [See note below]	8,600
(e) Books (being annual publications or other than annual publications) (Put to use for more than 180 days) [Rs.13,000 @ 40%]	5,200
	34,500

Note - Where an asset is acquired by the assessee during the previous year and is put to use for the purposes of business or profession for a period of less than 180 days, the deduction on account of depreciation would be restricted to 50% of the prescribed rate. In this case, since Mr. Dhaval commenced his practice in the FY 2023-24 and acquired the assets during the same year, the restriction of depreciation to 50% of the prescribed rate would apply to those assets which have been put to use for less than 180 days in that year, namely, laptop and computer UPS.

ILLUSTRATION 4

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

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

SOLUTION**Computation of depreciation allowable for the AY 2024-25 in the hands of Mr. Gamma**

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

Notes:

- As per section 35(2)(iv), no depreciation shall be allowed in respect of plant and machinery purchased for scientific research relating to assessee's business, since deduction is allowable under section 35 in respect of such capital expenditure.
- Mr. Gamma is entitled to additional depreciation since he has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A). As per section 32(1)(ia), additional depreciation is allowable in the case of any new machinery or plant acquired and installed after 31.3.2005 by an assessee engaged in, *inter alia*, the business of manufacture or production of any article or thing, at the rate of 20% of the actual cost of such machinery or plant.

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

- (i) any machinery or plant which, before its installation by the assessee, was used either within or outside India by any other person;
- (ii) any machinery or plant, the whole of the actual cost of which is allowed as a deduction (whether by way of depreciation or otherwise) in computing the income chargeable under the head "Profit and gains of business or profession" of any one previous year.

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

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

ILLUSTRATION 5

Mr. A, furnishes the following particulars for the P.Y.2023-24. Compute the deduction allowable under section 35 for A.Y.2024-25, while computing his income under the head "Profits and gains of business or profession", if.

(i) he is paying tax under default tax regime under section 115BAC

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

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

SOLUTION

(i) If Mr. A is paying tax under default tax regime under section 115BAC

Computation of deduction under section 35 for the A.Y.2024-25

Particulars	₹	Section	Allowability	Amount of deduction (₹)
Payment for scientific research				
Indian Institute of Science, Bangalore	1,00,000	35(1)(ii)	Not allowable under default tax regime	Nil
IIT, Delhi	2,50,000	35(2AA)		Nil
X Ltd.	4,00,000	35(1)(iia)		Nil
Expenditure incurred on in-house research and development facility				
Revenue expenditure	3,00,000	35(1)(i)	Allowable under default tax regime	3,00,000
Capital expenditure (excluding cost of acquisition of land ₹ 5,00,000)	2,50,000	35(1)(iv) read with 35(2)(ia)		2,50,000
Deduction allowable under section 35				5,50,000

(ii) If Mr. A has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A)

Computation of deduction under section 35 for the A.Y.2024-25

Particulars	₹	Section	% of deduction	Amount of deduction (₹)
Payment for scientific research				
Indian Institute of Science	1,00,000	35(1)(ii)	100%	1,00,000
IIT, Delhi	2,50,000	35(2AA)	100%	2,50,000
X Ltd.	4,00,000	35(1)(iia)	100%	4,00,000
Expenditure incurred on in-house research and development facility				
Revenue expenditure	3,00,000	35(1)(i)	100%	3,00,000
Capital expenditure (excluding cost of acquisition of land ₹ 5,00,000)	2,50,000	35(1)(iv) read with 35(2)(ia)	100%	2,50,000
Deduction allowable under section 35				13,00,000

ILLUSTRATION 6

Mr. A commenced operations of the businesses of setting up a warehousing facility for storage of food grains, sugar and edible oil on 1.4.2023. He incurred capital expenditure of Rs.80 lakh, Rs.60 lakh and Rs.50 lakh, respectively, on purchase of land and building during the period January, 2023 to March, 2023 exclusively for the above businesses, and capitalized the same in its books of account as on 1st April, 2023. The cost of land included in

the above figures is Rs.50 lakh, Rs.40 lakh and Rs.30 lakh, respectively. During the FY 2023-24, he incurred capital expenditure of Rs.20 lakh, Rs.15 lakh & Rs.10 lakh, respectively, for extension/ reconstruction of the building purchased and used exclusively for the above businesses.

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

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

SOLUTION

Computation of profits and gains of business or profession for AY 2024-25

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

Particulars	Food Grains	Sugar	Total
	Rs. (in lakhs)		
(A) Profits from the specified business of setting up a warehousing facility (before providing deduction under section 35AD)	16	14	30
Less: Deduction under section 35AD			
(B) Capital expenditure incurred prior to 1.4.2021 (i.e., prior to commencement of business) and capitalized in the books of account as on 1.4.2021 (excluding the expenditure incurred on acquisition of land) = Rs.30 lakh (Rs.80 lakh – Rs.50 lakh) and Rs.20 lakh (Rs.60 lakh – Rs.40 lakh)	30	20	50

(C) Capital expenditure incurred during the FY 2023-24	20	15	35
(D) Total capital expenditure (B + C)	50	35	85
(E) Deduction under section 35AD			
100% of capital expenditure (food grains/ sugar)	50	35	85
Total deduction u/s 35AD for AY 2024-25	50	35	85
(F) Loss from the specified business of setting up and operating a warehousing facility (after providing for deduction under section 35AD) to be carried forward as per section 73A (A-E)	(34)	(21)	(55)

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

Notes:

- (i) Deduction of 100% of the capital expenditure is available under section 35AD for AY 2024-25 in respect of specified business of setting up and operating a warehousing facility for storage of sugar and setting up and operating a warehousing facility for storage of agricultural produce where operations are commenced on or after 01.04.2012 or on or after 01.04.2009, respectively.
- (ii) However, since setting up and operating a warehousing facility for storage of edible oils is not a specified business, Mr. A is not eligible for deduction under section 35AD in respect of capital expenditure incurred in respect of such business.
- (iii) Mr. A can, however, claim depreciation @10% under section 32 in respect of the capital expenditure incurred on buildings. It is presumed that the buildings were put to use for more than 180 days during the FY 2023-24.
- (iv) Loss from a specified business can be set-off only against profits from another specified business. Therefore, the loss of Rs.55 lakh from the specified businesses of setting up and operating a warehousing facility for storage of food grains and sugar cannot be set-off against the profits of Rs.28 lakh from the business of setting up and operating a warehousing facility for storage of edible oils, since the same is not a specified business. Such loss can, however, be carried forward indefinitely for set-off against profits of the same or any other specified business.

ILLUSTRATION 7

Mr. Suraj, a proprietor, commenced operations of the business of a new three-star hotel in Madurai, Tamil Nadu on 1.4.2023. He incurred capital expenditure of Rs.50 lakh during the period January, 2023 to March, 2023 exclusively for the above business, and capitalized the same in his books of account as on 1st April, 2023. Further, during the FY 2023-24, he incurred capital expenditure of Rs.2 crore (out of which Rs.1.50 crore was for acquisition of land) exclusively for the above business.

Compute the income under the head "Profits and gains of business or profession" for the A.Y.2024-25, assuming that he has fulfilled all the conditions specified under section 35AD and opted for claiming deduction under section 35AD; and he has not claimed any deduction under Chapter VI-A under the heading "C – Deductions in respect of certain

incomes". He has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A).

The profits from the business of running this hotel (before claiming deduction under section 35AD) for the AY 2024-25 is Rs.25 lakhs. Assume that he also has another existing business of running a four-star hotel in Coimbatore, which commenced operations fifteen years back, the profits from which are Rs.120 lakhs for the AY 2024-25. Also, assume that payments for capital expenditure were made by net banking.

SOLUTION

Computation of profits and gains of business or profession for AY 2024-25

Particulars	Rs.
Profits from the specified business of new hotel in Madurai (before providing deduction under section 35AD)	25 lakh
Less: Deduction under section 35AD	
Capital expenditure incurred during the FY 2023-24 (excluding the expenditure incurred on acquisition of land) = Rs.200 lakh – Rs.150 lakh	50 lakh
Capital expenditure incurred prior to 1.4.2023 (i.e., prior to commencement of business) and capitalized in the books of account as on 1.4.2023	50 lakh
Total deduction under section 35AD for AY 2024-25	100 lakh
Loss from the specified business of new hotel in Madurai	(75 lakh)
Profit from the existing business of running a hotel in Coimbatore	120 lakh
Net profit from business after set-off of loss of specified business against profits of another specified business under section 73A	45 lakh

ILLUSTRATION 8

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 Rs.100 lacs incurred on purchase of two buildings for Rs.50 lacs each (for operating a warehousing facility for storage of sugar) under section 35AD for A.Y.2023-24. However, in February, 2024, Unit A transferred one of its buildings to Unit B.

Examine the tax implications of such transfer in the hands of Mr. Arnav.

SOLUTION

Since the capital asset, in respect of which deduction of Rs.50 lacs was claimed under section 35AD, has been transferred by Unit A carrying on specified business to Unit B carrying on non-specified business in the FY 2023-24, the deeming provision under section 35AD(7B) is attracted during the AY 2024-25.

Particulars	Rs.
Deduction allowed under section 35AD for A.Y.2023-24	50,00,000
Less: Depreciation allowable u/s 32 for A.Y.2023-24 [10% of Rs.50 lacs]	5,00,000
Deemed income under section 35AD(7B)	45,00,000

Mr. Arnav, however, by virtue of *proviso to Explanation 13 to section 43(1)*, can claim depreciation under section 32 on the building in Unit B for AY 2024-25. For the purpose of claiming depreciation on building in Unit B, the actual cost of the building would be:

Particulars	Rs.
Actual cost to the assessee	50,00,000
Less: Depreciation allowable u/s 32 for A.Y.2023-24 [10% of Rs.50 lacs]	5,00,000
Actual cost in the hands of Mr. Arnav in respect of building in its Unit B	45,00,000

ILLUSTRATION 9

Delta Ltd. credited the following amounts to the account of resident payees in the month of March, 2024 without deduction of tax at source. What would be the consequence of non-deduction of tax at source by Delta Ltd. on these amounts during the FY 2023-24, assuming that the resident payees in all the cases mentioned below, have not paid the tax, if any, which was required to be deducted by Delta Ltd.?

	Particulars	Amount in Rs.
(1)	Salary to its employees (credited and paid in March, 2024)	12,00,000
(2)	Directors' remuneration (credited in March, 2024 and paid in April, 2024)	28,000

Would your answer change if Delta Ltd. has deducted tax on directors' remuneration in April, 2024 at the time of payment and remitted the same in July, 2024?

SOLUTION

Non-deduction of tax at source on any sum payable to a resident on which tax is deductible at source as per the provisions of Chapter XVII-B would attract disallowance u/s 40(a)(ia).

Therefore, non-deduction of tax at source on any sum paid by way of salary on which tax is deductible u/s 192 or any sum credited or paid by way of directors' remuneration on which tax is deductible under section 194J, would attract disallowance @30% u/s 40(a)(ia). Whereas in case of salary, tax has to be deducted u/s 192 at the time of payment, in case of directors' remuneration, tax has to be deducted at the time of credit of such sum to the account of the payee or at the time of payment, whichever is earlier. Therefore, in both the cases i.e., salary and directors' remuneration, tax is deductible in the FY 2023-24, since salary was paid in that year and directors' remuneration was credited in that year. Therefore, the amount to be disallowed u/s 40(a)(ia) while computing business income for AY 2024-25 is as follows –

Particulars		Amount paid in Rs.	Disallowance u/s 40(a)(ia) @30%
(1)	Salary [tax is deductible under section 192]	12,00,000	3,60,000
(2)	Directors' remuneration [tax is deductible under section 194J without any threshold limit]	28,000	8,400
Disallowance under section 40(a)(ia)			3,68,400

If the tax is deducted on directors' remuneration in the next year i.e., P.Y.2024-25 at the time of payment and remitted to the Government, the amount of Rs.8,400 would be allowed as deduction while computing the business income of A.Y. 2025-26.

In case, assessee fails to deduct the whole or any part of tax on any such sum but is not deemed as assessee in default under the first proviso to section 201(1) by reason that such payee –

- (i) has furnished his return of income under section 139;
- (ii) has taken into account such sum for computing income in such return of income; and
- (iii) 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,

it would be deemed that the assessee has deducted and paid the tax on such sum.

The date of deduction and payment of taxes by the payer shall be deemed to be the date on which return of income has been furnished by the payee.

Since the date of furnishing the return of income by the payee is taken to be the date on which the payer has deducted tax at source and paid the same, 30% of such expenditure/payment in respect of which the payer has failed to deduct tax at source shall be disallowed under section 40(a)(ia) in the year in which the said expenditure is incurred. However, 30% of such expenditure will be allowed as deduction in the subsequent year in which the return of income is furnished by the payee, since tax is deemed to have been deducted and paid by the payer in that year.

ILLUSTRATION 10

During the FY 2023-24, the following payments/expenditure were made/ incurred by Mr. Raja, a resident individual (whose turnover during the year ended 31.3.2023 was Rs.99 lacs):

- (i) *Interest of Rs.45,000 was paid to Rehman & Co., a resident partnership firm, without deduction of tax at source;*
- (ii) *Rs.10,00,000 was paid as salary to a resident individual without deduction of tax at source;*
- (iii) *Commission of Rs.16,000 was paid to Mr. Vidyasagar, a resident, on 2.7.2023 without deduction of tax at source.*

Briefly discuss whether any disallowance arises under the provisions of section 40(a)(ia) of the Income-tax Act, 1961 assuming that the payees in all the cases mentioned above, have not paid the tax, if any, which was required to be deducted by Mr. Raja?

SOLUTION

Disallowance under section 40(a)(ia) of the Income-tax Act, 1961 is attracted where the assessee fails to deduct tax at source as is required under the Act, or having deducted tax at source, fails to remit the same to the credit of the Central Government within the stipulated time limit.

- (i) The obligation to deduct tax at source from interest paid to a resident arises under section 194A in the case of an individual, whose total turnover in the immediately preceding previous year, i.e., P.Y.2021-22 exceeds Rs.1 crore. Thus, in present case, since the turnover of the assessee is less than Rs.1 crore, he is not liable to deduct tax at source. Hence, disallowance under section 40(a)(ia) is not attracted in this case.
- (ii) The disallowance of 30% of the sums payable under section 40(a)(ia) would be attracted in respect of all sums on which tax is deductible under Chapter XVII-B. Section 192, which requires deduction of tax at source from salary paid, is covered under Chapter XVII-B. The obligation to deduct tax at source under section 192 arises, in the hands all assessee-employer even if the turnover amount does not exceed Rs.1 crore in the immediately preceding previous year.

Therefore, in the present case, the disallowance under section 40(a)(ia) is attracted for failure to deduct tax at source under section 192 from salary payment. However, only 30% of the amount of salary paid without deduction of tax at source would be disallowed.

- (iii) The obligation to deduct tax at source under section 194-H from commission paid in excess of Rs.15,000 to a resident arises in the case of an individual, whose total turnover in the immediately preceding previous year, i.e., FY 2021-22 exceeds Rs.1 crore. Thus, in present case, since the turnover of the assessee is less than Rs.1 crore, he is not liable to deduct tax at source u/s 194-H. Mr. Raja is not required to deduct tax at source u/s 194M also since the aggregate of such commission to Mr. Vidyasagar does not exceed Rs.50 lakh during the FY 2023-24. Therefore, disallowance under section 40(a)(ia) is not attracted in this case.

ILLUSTRATION 11

A firm has paid Rs.7,50,000 as remuneration to its partners for the FY 2023-24, in accordance with its partnership deed, and it has a book profit of Rs.10 lakh. What is the remuneration allowable as deduction?

SOLUTION

The allowable remuneration calculated as per the limits specified in section 40(b)(v) would be –

Particulars	Rs.
On first Rs.3 lakh of book profit [Rs.3,00,000 × 90%]	2,70,000
On balance Rs.7 lakh of book profit [Rs.7,00,000 × 60%]	4,20,000

6,90,000

The excess amount of Rs.60,000 (i.e., Rs.7,50,000 – Rs.6,90,000) would be disallowed as per section 40(b)(v).

ILLUSTRATION 12

Rao & Jain, a partnership firm consisting of two partners, reports a net profit of Rs.7,00,000 before deduction of the following items:

- (1) Salary of Rs.20,000 each per month payable to two working partners of the firm (as authorized by the deed of partnership).
- (2) Depreciation on plant and machinery under section 32 (computed) Rs.1,50,000.
- (3) Interest on capital at 15% per annum (as per the deed of partnership). The amount of capital eligible for interest is Rs.5,00,000.

Compute:

- (i) Book-profit of the firm under section 40(b) of the Income-tax Act, 1961.
- (ii) Allowable working partner salary for the AY 2024-25 as per section 40(b).

SOLUTION

- (i) As per Explanation 3 to section 40(b), “book profit” shall mean the net profit as per the profit and loss account for the relevant previous year computed in the manner laid down in Chapter IV-D as increased by the aggregate amount of the remuneration paid or payable to the partners of the firm if the same has been already deducted while computing the net profit.

In the present case, the net profit given is before deduction of depreciation on plant and machinery, interest on capital of partners and salary to the working partners. Therefore, the book profit shall be as follows:

Computation of Book Profit of the firm under section 40(b)

Particulars	Rs.	Rs.
Net Profit (before deduction of depreciation, salary and interest)		7,00,000
Less: Depreciation under section 32	1,50,000	
Interest @ 12% p.a. [being the maximum allowable as per section 40(b)] (Rs.5,00,000 × 12%)	60,000	2,10,000
Book Profit		4,90,000

- (ii) Salary actually paid to working partners = Rs.20,000 × 2 × 12 = Rs.4,80,000.

As per the provisions of section 40(b)(v), the salary paid to the working partners is allowed subject to the following limits –

On the first Rs.3,00,000 of book profit or in case of loss	Rs.1,50,000 or 90% of book profit, whichever is more
On the balance of book profit	60% of the balance book profit

Therefore, the maximum allowable working partners' salary for the AY 2024-25 in this case would be:

Particulars	Rs.
On the first Rs.3,00,000 of book profit [(Rs.1,50,000 or 90% of Rs.3,00,000) whichever is more]	2,70,000
On the balance of book profit [60% of (Rs.4,90,000 - Rs.3,00,000)]	1,14,000
Maximum allowable partners' salary	3,84,000

Hence, allowable working partners' salary for the AY 2024-25 as per the provisions of section 40(b)(v) is Rs.3,84,000.

Illustration 13

X Ltd. contributes 20% of basic salary to the account of each employee under a pension scheme referred to in section 80CCD. Dearness Allowance is 40% of basic salary and it forms part of pay of the employees.

Compute the amount of deduction allowable under section 36(1)(iva), if the basic salary of the employees aggregate to Rs 10 lakh. Would disallowance under section 40A(9) be attracted, and if so, to what extent?

Solution

Computation of deduction u/s 36(1)(iva) and disallowance u/s 40A(9)

Particulars	Rs
Basic Salary	10,00,000
Dearness Allowance@40% of basic salary [DA forms part of pay]	4,00,000
Salary for the purpose of section 36(1)(iva) (Basic Salary + DA)	14,00,000
Actual contribution (20% of basic salary i.e., 20% of Rs 10 lakh)	2,00,000
Less: Permissible deduction under section 36(1)(iva) (10% of basic salary plus dearness pay = 10% of Rs 14,00,000 = Rs 1,40,000)	1,40,000
Excess contribution disallowed under section 40A(9)	60,000

ILLUSTRATION 14

Hari, an individual, carried on the business of purchase and sale of agricultural commodities like paddy, wheat, etc. He borrowed loans from Andhra Pradesh State Financial Corporation (APSFC) and Indian Bank and has not paid interest as detailed hereunder:

		Rs.
(i)	Andhra Pradesh State Financial Corporation (P.Y. 2022-23 & 2023-24)	15,00,000
(ii)	Indian Bank (FY 2023-24)	30,00,000
		45,00,000

Both APSFC and Indian Bank, while restructuring the loan facilities of Hari during the year 2023-24, converted the above interest payable by Hari to them as a loan repayable in 60 equal installments. During the year ended 31.3.2023, Hari paid 5 installments to APSFC and 3 installments to Indian Bank.

Hari claimed the entire interest of Rs.45,00,000 as an expenditure while computing the income from business of purchase and sale of agricultural commodities. Examine whether his claim is valid and if not what is the amount of interest, if any, allowable.

SOLUTION

According to section 43B, any interest payable on the term loans to specified financial institutions and any interest payable on any loans and advances to, *inter alia*, scheduled banks shall be allowed only in the year of payment of such interest irrespective of the method of accounting followed by the assessee. Where there is default in the payment of interest by the assessee, such unpaid interest may be converted into loan. Such conversion of unpaid interest into loan shall not be construed as payment of interest for the purpose of section 43B. The amount of unpaid interest so converted as loan shall be allowed as deduction only in the year in which the converted loan is actually paid.

In the given case of Hari, the unpaid interest of Rs.15,00,000 due to APSFC and of Rs.30,00,000 due to Indian Bank was converted into loan. Such conversion would not amount to payment of interest and would not, therefore, be eligible for deduction in the year of such conversion. Hence, claim of Hari that the entire interest of Rs.45,00,000 is to be allowed as deduction in the year of conversion is not tenable. The deduction shall be allowed only to the extent of repayment made during the financial year. Accordingly, the amount of interest eligible for deduction for the AY 2024-25 shall be calculated as follows:

	Interest outstanding	Number of Instalments	Amount per instalment	Instalments paid	Interest allowable (Rs.)
APSFC	15 lakh	60	25,000	5	1,25,000
Indian Bank	30 lakh	60	50,000	3	1,50,000
Total amount eligible for deduction					2,75,000

Clarification on non-applicability of section 43B on employee's Contribution to welfare funds
[Explanation 5 to section 43B]

As per section 2(24)(x), any sum received by an assessee, being an employer from his employee as contribution to any provident fund or superannuation fund or any fund set up

under Employee's State Insurance Act, 1948 or any other fund for the welfare of employees would be considered as the income of an employer.

The deduction in respect of above sum will be allowed to the assessee under section 36(1)(va) only if such sum is credited by the assessee to the employee's account in the relevant fund on or before the due date, being the date specified under the relevant Act, Rule, order or notification issued thereunder.

As per section 43B, any sum payable by the assessee as an employer by way of contribution to any provident fund or superannuation fund or gratuity fund or any other fund for the welfare of employees, would be allowable during any P.Y. if the same has been paid on or before the 'due date' applicable in his case for furnishing the return of income under section 139(1) in respect of that P.Y.

Explanation 5 clarifies that the provisions of section 43B regarding allowability of certain expenditure in a previous year only on actual payment basis (i.e., payment on or before the due date of filing of return of income for relevant assessment year), does not apply and would deemed never to be applied to employee's contribution received by employer towards any welfare fund. In effect, clause (b) of section 43B covers only employer's contribution to provident fund, superannuation fund, gratuity fund or any other fund for welfare of employees, for remittance of which extended time limit upto due date of filing return u/s 139(1) is available; however, it does not include within its scope, employees' contribution to such funds received by the employer, which has to be credited to the employee's account in the relevant fund on or before the due date specified under the relevant Act, Rule etc. Amount credited after the said due date but on or before the due date under section 139(1) would not be eligible for deduction.

ILLUSTRATION 15

Vinod is a person carrying on profession as film artist. His gross receipts from profession are as under:

Particulars	Rs.
Financial year 2020-21	1,15,000
Financial year 2021-22	1,80,000
Financial year 2022-23	2,10,000

What is his obligation regarding maintenance of books of accounts for AY 2024-25 under section 44AA of Income-tax Act, 1961?

SOLUTION

Section 44AA(1) requires every person carrying on any profession, notified by the Board in the Official Gazette (in addition to the professions already specified therein), to maintain such books of account and other documents as may enable the Assessing Officer to compute his total income in accordance with the provisions of the Income-tax Act, 1961.

As per Rule 6F, a person carrying on a notified profession shall be required to maintain specified books of accounts:

- (i) if his gross receipts in all the three years immediately preceding the relevant previous year has exceeded Rs.1,50,000; or

- (ii) if it is a new profession which is setup in the relevant previous year, it is likely to exceed Rs.1,50,000 in that previous year.

In the present case, Vinod is a person carrying on profession as film artist, which is a notified profession. Since his gross receipts have not exceeded Rs.1,50,000 in financial year 2018-19, the requirement under section 44AA to compulsorily maintain the prescribed books of account is not applicable to him.

Mr. Vinod, however, required to maintain such books of accounts as would enable the Assessing Officer to compute his total income.

ILLUSTRATION 16

Mr. Praveen engaged in retail trade, reports a turnover of Rs 2,98,50,000 for the financial year 2023-24. Amount received in cash during the P.Y. 2023-24 is Rs 14,00,000 and balance through prescribed electronic modes on or before 31st October 2024. His income from the said business as per books of account is Rs 15,00,000 computed as per the provisions of Chapter IV-D "Profits and gains from business or Profession" of the Income-tax Act, 1961. Retail trade is the only source of income for Mr. Praveen. A.Y. 2023-24 was the first year for which he declared his business income in accordance with the provisions of presumptive taxation u/s 44AD.

- (i) Is Mr. Praveen also eligible to opt for presumptive determination of his income chargeable to tax for the AY 2024-25?
- (ii) If so, determine his income from retail trade as per the applicable presumptive provision assuming that whole of the turnover represents cash receipts.
- (iii) In case Mr. Praveen does not opt 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?

SOLUTION

- (i) Yes. Since his cash receipts during the P.Y. does not 5% of the total turnover ($14,00,000/2,98,50,000 \times 100$) and his total turnover for the F.Y.2023-24 is below Rs 300 lakhs, he is eligible for presumptive taxation scheme under section 44AD in respect of his retail trade business.
- (ii) His income from retail trade, applying the presumptive tax provisions under section 44AD, would be Rs 18,19,000 (Rs 1,12,000, being 8% of Rs 14,00,000 + Rs 17,07,000, being 6% of Rs 2,84,50,000).
- (iii) Mr. Praveen had declared profit for the previous year 2022-23 in accordance with the presumptive provisions and if he wants to declare profits as per books of account which is lower than the presumptive income for any of the five consecutive assessment years i.e., A.Y. 2024-25 to A.Y. 2028-29, he would not be eligible to claim the benefit of presumptive taxation for five assessment years subsequent to the assessment year relevant to the previous year in which the profit has not been declared in accordance the presumptive provisions i.e. if he declares profits lower than the presumptive income in say P.Y. 2023-24 relevant to A.Y.2024-25, then he

would not be eligible to claim the benefit of presumptive taxation for A.Y. 2025-26 to A.Y. 2029-30.

Consequently, Mr. Praveen is required to maintain the books of accounts and get them audited under section 44AB, since his income exceeds the basic exemption limit.

- (iv) In case he opts for the presumptive taxation scheme under section 44AD, the due date would be 31st July, 2023. In case he does not opt for presumptive taxation scheme, he is required to get his books of account audited, in which case the due date for filing of return of income would be 31st October, 2023.

ILLUSTRATION 17

Mr. X commenced the business of operating goods vehicles on 1.4.2021. He purchased the following vehicles during the FY 2023-24. Compute his income under section 44AE for AY 2024-25.

	Gross Vehicle Weight (in kilograms)	Number	Date of purchase
(1)	7,000	2	10.04.2023
(2)	6,500	1	15.03.2024
(3)	10,000	3	16.07.2023
(4)	11,000	1	02.01.2024
(5)	15,000	2	29.08.2023
(6)	15,000	1	23.02.2024

Would your answer change if the goods vehicles purchased in April, 2023 were put to use only in July, 2023?

SOLUTION

Since Mr. X does not own more than 10 vehicles at any time during the previous year 2023-24, he is eligible to opt for presumptive taxation scheme under section 44AE. Rs.1,000 per ton of gross vehicle weight or unladen weight per month or part of the month for each heavy goods vehicle and Rs.7,500 per month or part of month for each goods carriage other than heavy goods vehicle, owned by him would be deemed as his profits and gains from such goods carriage.

Heavy goods vehicle means any goods carriage, the gross vehicle weight of which exceeds 12,000 kg.

(1)	(2)	(3)	(4)
Number of Vehicles	Date of purchase	No. of months for which vehicle is owned	No. of months × No. of vehicles [(1) × (3)]
For Heavy goods vehicle			
2	29.08.2023	8	16
1	23.02.2024	2	2

			18
For goods vehicle other than heavy goods vehicle			
2	10.4.2023	12	24
1	15.3.2024	1	1
3	16.7.2023	9	27
1	02.1.2024	3	3
			55

The presumptive income of Mr. X under section 44AE for AY 2024-25 would be -

Rs.6,82,500, i.e., $55 \times \text{Rs.}7,500$, being for other than heavy goods vehicle + $18 \times \text{Rs.}1,000 \times 15$ ton being for heavy goods vehicle.

The answer would remain the same even if the two vehicles purchased in April, 2023 were put to use only in July, 2023, since the presumptive income has to be calculated per month or part of the month for which the vehicle is owned by Mr. X.

ILLUSTRATION 18

Miss Vivitha, a resident and ordinarily resident in India, has derived the following income from various operations (relating to plantations and estates owned by her) during the year ended 31-3-2024:

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

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

SOLUTION

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

Sr. No.	Source of income	Gross (Rs.)	Business income		Agricultural income
			%	Rs.	Rs.
(i)	Sale of centrifuged latex from rubber plants grown in	3,00,000	35%	1,05,000	1,95,000

	India.				
(ii)	Sale of coffee grown and cured in India.	1,00,000	25%	25,000	75,000
(iii)	Sale of coffee grown, cured, roasted and grounded outside India. (See Note 1 below)	2,50,000	100%	2,50,000	-
(iv)	Sale of tea grown and manufactured in India	4,00,000	40%	1,60,000	2,40,000
(v)	Saplings and seedlings grown in nursery in India (See Note 2 below)	80,000		Nil	80,000
	Total			5,40,000	5,90,000

Notes:

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

Additional Questions**Question 1**

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

	(Rs. in lacs)
WDV of Plant and Machinery on 31.3.2023	30
Depreciation including additional depreciation for P.Y. 2022-23	4.75
New machinery purchased on 1-9-2023	10
New machinery purchased on 1-12-2023	8
Computer purchased on 3-1-2024	4

Additional information:

- All assets were purchased by A/c payee cheque.
- All assets were put to use immediately.

- New machinery purchased on 1-12-2023 and computer have been installed in the office.
- During the year ended 31-3-2023, a new machinery had been purchased on 31-10-2022, for Rs.10 lacs. Additional depreciation, besides normal depreciation, had been claimed thereon.
- Depreciation rate for machinery may be taken as 15%.
- The assessee has no brought forward business loss or unabsorbed depreciation as on 1.4.2023.

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

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

Answer

Computation of written down value of block of assets of Venus Ltd. as on 31.3.2023

Particulars	Plant & Machinery (Rs. in lacs)	Computer (Rs. in lacs)
Written down value (as on 31.3.2023)	30.00	Nil
Less: Depreciation including additional depreciation for P.Y. 2021-22	4.75	-
Opening balance as on 1.4.2023	25.25	
Add: Actual cost of new assets acquired during the year		
New machinery purchased on 1.9.2023	10.00	-
New machinery purchased on 1.12.2023	8.00	-
Computer purchased on 3.1.2023	-	4.00
	43.25	4.00
Less: Assets sold/discarded/destroyed during the year	Nil	Nil
Written Down Value (as on 31.03.2023)	43.25	4.00

Computation of Depreciation for AY 2024-25

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

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

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

Notes:

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

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

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

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

- (i) Machinery purchased on 1.12.2023, installed in office and

- (ii) Computer purchased on 3.1.2024, installed in office.
- (2) Balance additional depreciation @10% on new plant or machinery acquired and put to use for less than 180 days in the year of acquisition which has not been allowed in that year, shall be allowed in the immediately succeeding previous year.

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

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

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

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

Question 2

Mr. Abhimanyu is engaged in the business of generation and distribution of electric power. He opts to claim depreciation on written down value for income-tax purposes. From the following details, compute the depreciation allowable as per the provisions of the Income-tax Act, 1961 for the AY 2024-25, assuming that he does not opt for section 115BAC:

(Rs. in lacs)

- | | | |
|-------|---|------|
| (i) | WDV of block as on 31.3.2023 (15% rate) | 50 |
| (ii) | Depreciation for P.Y. 2021-23 | 7.50 |
| (iii) | New machinery purchased on 12-10-2023 | 10 |
| (iv) | Machinery imported from Colombo on 12-4-2023. | 9 |
| | This machine had been used only in Colombo earlier and the assessee is the first user in India. | |
| (v) | New computer installed in generation wing unit on 15-7-2023 | 2 |

All assets were purchased by A/c payee cheque.

Answer**Computation of depreciation under section 32 for AY 2024-25**

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

Note:-

Mr. Abhimanyu is eligible for additional depreciation since he has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A). The benefit of additional depreciation is available to new plant and machinery acquired and installed in

power sector undertakings. Accordingly, additional depreciation is allowable in the case of any new machinery or plant acquired and installed by an assessee engaged, *inter alia*, in the business of generation, transmission or distribution of power, at the rate of 20% of the actual cost of such machinery or plant.

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

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

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

Question 3

Examine with reasons, the allowability of the following expenses incurred by Mr. Manav, a wholesale dealer of commodities, under the Income-tax Act, 1961 while computing profit and gains from business or profession for the AY 2024-25.

- (i) Construction of school building in compliance with CSR activities amounting to Rs.5,60,000.
- (ii) Purchase of building for the purpose of specified business of setting up and operating a warehousing facility for storage of food grains amounting to Rs.4,50,000.
- (iii) Interest on loan paid to Mr. X (a resident) Rs.50,000 on which tax has not been deducted. The sales for the FY 2022-23 was Rs.202 lakhs. Mr. X has not paid the tax, if any, on such interest.
- (iv) Commodities transaction tax paid Rs.20,000 on sale of bullion.

Answer

Allowability of the expenses incurred by Mr. Manav, a wholesale dealer in commodities, while computing profits and gains from business or profession

(i) Construction of school building in compliance with CSR activities

Under section 37(1), only expenditure not being in the nature of capital expenditure or personal expense and not covered under sections 30 to 36, and incurred wholly and exclusively for the purposes of the business is allowed as a deduction while computing business income.

However, any expenditure incurred by an assessee on the activities relating to corporate social responsibility referred to in section 135 of the Companies Act, 2013 shall not be deemed to have been incurred for the purpose of business and hence, shall **not** be allowed as deduction under section 37.

Accordingly, the amount of Rs.5,60,000 incurred by Mr. Manav, towards construction

of school building in compliance with CSR activities shall **not** be allowed as deduction under section 37.

(ii) Purchase of building for setting up and operating a warehousing facility for storage of food grains

Mr. Manav, would be eligible for investment-linked tax deduction under section 35AD @100% in respect of amount of Rs.4,50,000 invested in purchase of building for setting up and operating a warehousing facility for storage of food grains which commences operation on or after 1st April, 2009 (FY 2023-24, in this case), if Mr. Manav does not opt for section 115BAC.

Therefore, the deduction under section 35AD while computing business income of such specified business would be Rs.4,50,000, if Mr. Manav opts for section 35AD.

(iii) Interest on loan paid to Mr. X (a resident) Rs.50,000 on which tax has not been deducted

As per section 194A, Mr. Manav, being an individual is required to deduct tax at source on the amount of interest on loan paid to Mr. X, since his turnover during the FY 2021-22 exceeds Rs.100 lacs.

Therefore, Rs.15,000, being 30% of Rs.50,000, would be disallowed under section 40(a)(ia) while computing the business income of Mr. Manav for non-deduction of tax at source under section 194A on interest of Rs.50,000 paid by it to Mr. X.

The balance Rs.35,000 would be allowed as deduction under section 36(1)(iii), assuming that the amount was borrowed for the purposes of business.

(iv) Commodities transaction tax of Rs.20,000 paid on sale of bullion

Commodities transaction tax paid in respect of taxable commodities transactions entered into in the course of business during the previous year is allowable as deduction, provided the income arising from such taxable commodities transactions is included in the income computed under the head "Profits and gains of business or profession".

Taking that income from this commodities transaction is included while computing the business income of Mr. Manav, the commodity transaction tax of Rs.20,000 paid is allowable as deduction under section 36(1)(xvi).

Question 4

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

- (i) For a dealer in shares and securities, securities transaction tax paid in a recognized stock exchange is permissible business expenditure.*
- (ii) Where a person follows mercantile system of accounting, an expenditure of Rs.25,000 has been allowed on accrual basis and in a later year, in respect of the said expenditure, assessee makes the payment of Rs.25,000 through a crossed cheque, Rs.25,000 can be the profits and gains of business under section 40A(3A) in the year of payment.*

- (iii) *It is mandatory to provide for depreciation under section 32 of the Income-tax Act, 1961, while computing income under the head "Profits and Gains from Business and Profession".*
- (iv) *The mediclaim premium paid to GIC by Mr. Lomesh for his employees, by a draft, on 27.12.2023 is a deductible expenditure under section 36.*
- (v) *Under section 35DDA, amortization of expenditure incurred under eligible Voluntary Retirement Scheme at the time of retirement alone, can be done.*
- (vi) *An individual engaged in trading activities and exercising the option of shifting out of the default tax regime provided under section 115BAC(1A) can claim additional depreciation under section 32(1)(iia) in respect of new plant acquired and installed in the trading concern, where the increase in value of such plant as compared to the approved base year is more than 10%.*

Answer

- (i) **True:** Section 36(1)(xv) allows a deduction of the amount of securities transaction tax paid by the assessee in respect of taxable securities transactions entered into in the course of business during the previous year as deduction from the business income of a dealer in shares and securities.
- (ii) **True:** As per section 40A(3A), in the case of an assessee following mercantile system of accounting, if an expenditure has been allowed as deduction in any previous year on due basis, and payment exceeding Rs.10,000 has been made in the subsequent year otherwise than by an account payee cheque or an account payee bank draft or use of ECS through a bank account or through such other prescribed electronic modes such as credit card, debit card, net banking, IMPS, UPI, RTGS, NEFT, and BHIM Aadhar Pay, then, the payment so made shall be deemed to be the income of the subsequent year in which such payment has been made.
- (iii) **True:** According to the *Explanation 5* to section 32(1), allowance of depreciation is mandatory. Therefore, depreciation has to be provided mandatorily while calculating income from business/ profession whether or not the assessee has claimed the same while computing his total income.
- (iv) **True:** Section 36(1)(ib) provides deduction in respect of premium paid by an employer to keep in force an insurance on the health of his employees under a scheme framed in this behalf by GIC or any other insurer. The medical insurance premium can be paid by any mode other than cash, to be eligible for deduction under section 36(1)(ib).
- (v) **False:** Expenditure incurred in making payment to the employee in connection with his voluntary retirement either in the year of retirement or in any subsequent year, will be entitled to deduction in 5 equal annual installments beginning from the year in which each payment is made to the employee.
- (vi) **False:** Additional depreciation can be claimed only in respect of eligible plant and machinery acquired and installed by an assessee engaged in the business of manufacture or production of any article or thing or in the business of generation or transmission or distribution of power.

In this case, the assessee is engaged in trading activities and the new plant has been acquired and installed in a trading concern. Hence, the assessee will not be entitled to claim additional depreciation under section 32(1)(iia).

Question 5

Examine, with reasons, the allowability of the following expenses under the Income-tax Act, 1961 while computing income from business or profession for the AY 2024-25:

- (i) Provision made on the basis of actuarial valuation for payment of gratuity Rs.5,00,000. However, no payment on account of gratuity was made before due date of filing return.
- (ii) Purchase of oil seeds of Rs.50,000 in cash from a farmer on a banking day.
- (iii) Tax on non-monetary perquisite provided to an employee Rs.20,000.
- (iv) Payment of Rs.50,000 by using credit card for fire insurance.
- (v) Salary payment of Rs.4,00,000 to Mr. X outside India by a company without deduction of tax assuming Mr. X has not paid tax on such salary income.
- (vi) Payment made in cash Rs.30,000 to a transporter in a day for carriage of goods

Answer

- (i) **Not allowable as deduction:** As per section 40A(7), no deduction is allowed in computing business income in respect of any provision made by the assessee in his books of account for the payment of gratuity to his employees except in the following two cases:

- (1) where any provision is made for the purpose of payment of sum by way of contribution towards an approved gratuity fund; or
- (2) where any provision is made for the purpose of making any payment on account of gratuity that has become payable during the previous year.

Therefore, in the present case, the provision made on the basis of actuarial valuation for payment of gratuity has to be disallowed under section 40A(7), since, no payment has been actually made on account of gratuity.

Note: It is assumed that such provision is not for the purpose of contribution towards an approved gratuity fund.

- (ii) **Allowable as deduction:** As per Rule 6DD, in case the payment is made for purchase of agricultural produce directly to the cultivator, grower or producer of such agricultural produce, no disallowance under section 40A(3) is attracted even though the cash payment for the expense exceeds Rs.10,000.

Therefore, in the given case, disallowance under section 40A(3) is not attracted since, cash payment for purchase of oil seeds is made directly to the farmer.

- (iii) **Not allowable as deduction:** Income-tax of Rs.20,000 paid by the employer in respect of non-monetary perquisites provided to its employees is exempt in the hands of the employee under section 10(10CC).

As per section 40(a)(v), such income-tax paid by the employer is not deductible while computing business income.

- (iv) **Allowable as deduction:** Payment for fire insurance is allowable as deduction under section 36(1). Since payment is made by credit card, which is a prescribed electronic mode, disallowance under section 40A(3) is not attracted in this case.
- (v) **Not allowable as deduction:** Disallowance under section 40(a)(iii) is attracted in respect of salary payment of Rs.4,00,000 outside India by a company without deduction of tax at source.
- (vi) **Allowable as deduction:** The limit for attracting disallowance under section 40A(3) for payment otherwise than by way of account payee cheque or account payee bank draft or use of ECS through a bank account or through such other prescribed electronic mode is Rs.35,000 in case of payment made for plying, hiring or leasing goods carriage. Therefore, in the present case, disallowance under section 40A(3) is not attracted for payment of Rs.30,000 made in cash to a transporter for carriage of goods.

Question 6

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

- (a) *Payment made in respect of a business expenditure incurred on 16th February, 2024 for Rs.25,000 through a crossed cheque is hit by the provisions of section 40A(3).*
- (b)
 - (i) *It is a condition precedent to write off in the books of account, the amount due from debtor to claim deduction for bad debt.*
 - (ii) *Failure to deduct tax at source in accordance with the provisions of Chapter XVII-B, inter alia, from the amounts payable to a non-resident as rent or royalty, will result in disallowance while computing the business income where the non-resident payee has not paid the tax due on such income.*

Answer

- (a) **True:** In order to escape the disallowance specified in section 40A(3), payment in respect of the business expenditure ought to have been made through an account payee cheque. Payment through a crossed cheque will attract disallowance under section 40A(3).
- (b)
 - (i) **True:** It is mandatory to write off the amount due from a debtor as not receivable in the books of account, in order to claim the same as bad debt under section 36(1)(vii). However, where the debt has been taken into account in computing the income of the assessee on the basis of ICDs notified under section 145(2), without recording the same in the accounts, then, such debt shall be allowed in the previous year in which such debt becomes irrecoverable and it shall be deemed that such debt or part thereof has been written off as irrecoverable in the accounts for the said purpose.
 - (ii) **True:** Section 40(a)(i) provides that failure to deduct tax at source from, *inter alia*, rent or royalty payable to a non-resident, in accordance with the

provisions of Chapter XVII-B, will result in disallowance of such expenditure, where the non-resident payee has not paid the tax due on such income.

Question 7

Mr. Sivam, a retail trader of Cochin gives the following Trading and Profit and Loss Account for the year ended 31st March, 2024:

Trading and Profit and Loss Account for the year ended 31.03.2023

Particulars	Rs.	Particulars	Rs.
To Opening stock	90,000	By Sales	1,12,11,500
To Purchases	1,10,04,000	By Closing stock	1,86,100
To Gross Profit	3,03,600		-
	1,13,97,600		1,13,97,600
To Salary	60,000	By Gross profit b/d	3,03,600
To Rent and rates	36,000	By Income from UTI	2,400
To Interest on loan	15,000		
To Depreciation	1,05,000		
To Printing & stationery	23,200		
To Postage & telegram	1,640		
To Loss on sale of shares (Short term)	8,100		
To Other general expenses	7,060		
To Net Profit	50,000		
	3,06,000		3,06,000

Additional Information:

- (i) It was found that some stocks were omitted to be included in both the Opening and Closing Stock, the values of which were:

Opening stock	Rs.9,000
Closing stock	Rs.18,000
- (ii) Salary includes Rs.10,000 paid to his brother, which is unreasonable to the extent of Rs.2,000.
- (iii) The whole amount of printing and stationery was paid in cash by way of one time payment to Mr. Ramesh.
- (iv) The depreciation provided in the Profit and Loss Account Rs.1,05,000 was based on the following information:

The opening balance of plant and machinery (i.e., the written down value as on 31.3.2023 minus depreciation for P.Y. 2021-22) is Rs.4,20,000. A new plant falling under

the same block of depreciation was bought on 01.7.2023 for Rs.70,000. Two old plants were sold on 1.10.2023 for Rs.50,000.

- (v) Rent and rates includes GST liability of Rs.3,400 paid on 7.4.2023.
- (vi) Other general expenses include Rs.2,000 paid as donation to a Public Charitable Trust.

You are required to compute the profits and gains of Mr. Sivam under presumptive taxation u/s 44AD and profits and gains as per the regular provisions of the Act assuming he has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A). Assume that the whole of the amount of turnover received by account payee cheque or use of electronic clearing system through bank account during the previous year.

Answer

Computation of business income of Mr. Sivam for the AY 2024-25

Particulars		Rs.	Rs.
Net Profit as per profit and loss account			50,000
Add: Inadmissible expenses/ losses			
	Under valuation of closing stock	18,000	
	Salary paid to brother – unreasonable [Section 40A(2)]	2,000	
	Printing and stationery – whole amount of printing & stationery paid in cash would be disallowed, since such amount exceeds Rs.10,000 [Section 40A(3)]	23,200	
	Depreciation (considered separately)	1,05,000	
	Short term capital loss on shares	8,100	
	Donation to public charitable trust	2,000	1,58,300
			2,08,300
Less: Items to be deducted:			
	Under valuation of opening stock	9,000	
	Income from UTI [Chargeable under the head “Income from Other Sources”]	2,400	11,400
	Business income before depreciation		1,96,900
Less:	Depreciation (See Note 1)		66,000
			1,30,900

Computation of business income as per section 44AD :

As per section 44AD, where the amount of turnover is received, *inter alia*, by way of account payee cheque or use of electronic clearing system through bank account or through such other prescribed electronic modes, the presumptive business income would be 6% of turnover, i.e., Rs.1,12,11,500 x 6 /100 = Rs.6,72,690

Notes:**1. Calculation of depreciation**

Particulars	Rs.
Opening balance of plant & machinery as on 1.4.2021 (i.e. WDV as on 31.3.2021 (-) depreciation for P.Y. 2020-21)	4,20,000
Add : Cost of new plant & machinery	70,000
	4,90,000
Less : Sale proceeds of assets sold	50,000
WDV of the block of plant & machinery as on 31.3.2023	4,40,000
Depreciation @ 15%	66,000
No additional depreciation is allowable as the assessee is not engaged in manufacture or production of any article.	

2. Since GST liability has been paid before the due date of filing return of income under section 139(1), the same is deductible.

Question 8

Mr. Sukhvinder is engaged in the business of plying goods carriages. On 1st April, 2023, he owns 10 trucks (out of which 6 are heavy goods vehicles, the gross vehicle weight of such goods vehicle is 15,000 kg each). On 2nd May, 2023, he sold one of the heavy goods vehicles and purchased a light goods vehicle on 6th May, 2023. This new vehicle could however be put to use only on 15th June, 2023.

Compute the total income of Mr. Sukhvinder for the AY 2024-25, taking note of the following data:

Particulars	Rs.	Rs.
Freight charges collected		12,70,000
Less : Operational expenses	6,25,000	
Depreciation as per section 32	1,85,000	
Other office expenses	15,000	8,25,000
Net Profit		4,45,000
Other business and non-business income		70,000

Answer

Section 44AE would apply in the case of Mr. Sukhvinder since he is engaged in the business of plying goods carriages and owns not more than ten goods carriages at any time during the previous year.

Section 44AE provides for computation of business income of such assessee on a presumptive basis. The income shall be deemed to be Rs.1,000 per ton of gross vehicle weight or unladen weight, as the case may be, per month or part of the month for each heavy goods vehicle and Rs.7,500 per month or part of month for each goods carriage other

than heavy goods vehicle, owned by the assessee in the previous year or such higher sum as declared by the assessee in his return of income.

Mr. Sukhvinder's business income calculated applying the provisions of section 44AE is Rs.13,72,500 (**See Notes 1 & 2 below**) and his total income would be Rs.14,42,500.

However, as per section 44AE(7), Mr. Sukhvinder may claim lower profits and gains if he keeps and maintains proper books of account as per section 44AA and gets the same audited and furnishes a report of such audit as required under section 44AB. If he does so, then his income for tax purposes from goods carriages would be Rs.4,45,000 instead of Rs.13,72,500 and his total income would be Rs.5,15,000.

Notes:

1. Computation of total income of Mr. Sukhvinder for AY 2024-25

Particulars	Presumptive income Rs.	Where books are maintained Rs.
Income from business of plying goods carriages [See Note 2 Below]	13,72,500	4,45,000
Other business and non-business income	70,000	70,000
Total Income	14,42,500	5,15,000

2. Calculation of presumptive income as per section 44AE

Type of carriage	No. of months	Rate per ton per month / per month	Ton	Amount Rs.
(1)	(2)		(3)	(4)
<u>Heavy goods vehicle</u>				
1 goods carriage upto 1st May	2	1,000	15 (15,000/1,000)	30,000
5 goods carriage held throughout the year	12	1,000	15 (15,000/1,000)	9,00,000
<u>Goods vehicle other than heavy goods vehicle</u>				
1 goods carriage from 6th May	11	7,500	-	82,500
4 goods carriage held throughout the year	12	7,500	-	3,60,000
Total				13,72,500

Question 9

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

Manufacturing, Trading and Profit & Loss Account for the year ended 31.03.2023

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

Following are the further information relating to the FY 2023-24:

- (i) Administrative charges include Rs.46,000 paid as commission to brother of the assessee. The commission amount at the market rate is Rs.36,000.
- (ii) The assessee paid Rs.33,000 in cash to a transport carrier on 29.12.2023. This amount is included in manufacturing expenses. (Assume that the provisions relating to TDS are not applicable to this payment)
- (iii) A sum of Rs.4,000 per month was paid as salary to a staff throughout the year and this has not been recorded in the books of account.
- (iv) Bank term loan interest actually paid upto 31.03.2023 was Rs.20,000 and the balance was paid in November 2023.
- (v) Housing loan principal repaid during the year was Rs.50,000 and it relates to residential property acquired by him in P.Y. 2021-22 for self-occupation. Interest on housing loan was Rs.23,000. Housing loan was taken from Canara Bank. These amounts were not dealt with in the profit and loss account given above.
- (vi) Depreciation allowable under the Act is to be computed on the basis of following

information:

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

Compute the total income of Mr. Raju for the AY 2024-25 assuming he has not opted for the provisions of section 115BAC.

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

Answer

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

Particulars	Rs.	Rs.
Profits and gains of business or profession		
Net profit as per profit and loss account		5,00,000
Add: Excess commission paid to brother disallowed under section 40A(2)	10,000	
Disallowance under section 40A(3) is not attracted since the limit for one time cash payment is Rs.35,000 in respect of payment to transport operators. Therefore, amount of Rs.33,000 paid in cash to a transport carrier is allowable as deduction.	Nil	
Salary paid to staff not recorded in the books (Assuming that the expenditure is in the nature of unexplained expenditure and hence, is deemed to be income as per section 69C and would be taxable @ 60% under section 115BBE – no deduction allowable in respect of such expenditure) [See Note 1 below]	48,000	
Bank term loan interest paid after the due date of filing of return under section 139(1) – disallowed as per section 43B	40,000	
State GST penalty paid disallowed [See Note 2 below]		
Depreciation debited to profit and loss account	5,000	
	2,00,000	3,03,000
		8,03,000
Less: Dividend from domestic companies [Chargeable to tax under the head “Income from Other Sources”]	15,000	
Income from agriculture [Exempt under section 10(1)]	1,80,000	
Depreciation under the Income-tax Act, 1961 (As per working note)	2,23,500	4,18,500
		3,84,500

Income from house property		
Annual value of self-occupied property	Nil	
Less: Deduction u/s 24(b) – interest on housing loan [Not allowable, since Mr. Raju is paying tax as per default tax regime]	Nil	Nil
Income from Other Sources		
Dividend from domestic companies		15,000
Gross Total Income		3,99,500
Less: Deduction u/s 80C [Not allowable, since Mr. Raju is paying tax as per default tax regime].		
Total Income		3,99,500

Working Note:**Computation of depreciation under the Income-tax Act, 1961**

Particulars	Rs.
Depreciation @15% on Rs.14 lakh (WDV as on 31.3.2023 of Rs.14 lakh less Depreciation for P.Y. 2021-22 of Rs.2.10 lakh plus assets purchased during the year and used for more than 180 days Rs.2 lakh)	2,08,500
Depreciation @7.5% on Rs.2 lakh (Assets used for < 180 days)	15,000
	2,23,500

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

Notes (Alternate views):

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

However, if the levy is compensatory in nature, it would be fully allowable. Where it is a composite levy, the portion which is compensatory is allowable and that portion which is penal is to be disallowed.

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

Question 10

Mr. Tenzingh is engaged in composite business of growing and curing (further processing) coffee in Coorg, Karnataka. The whole of coffee grown in his plantation is cured. Relevant information pertaining to the year ended 31.3.2023 are given below:

Particulars	Rs.
Opening balance of car (only asset in the block) as on 1.4.2023 (i.e. WDV as on 31.3.2023 (-) depreciation for P.Y. 2022-23)	3,00,000
Opening balance of machinery as on 1.4.2023 (i.e., WDV as on 31.3.2023 (-) depreciation for P.Y. 2021-22)	15,00,000
Expenses incurred for growing coffee	3,10,000
Expenditure for curing coffee	3,00,000
Sale value of cured coffee	22,00,000

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

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

Answer

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

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

Particulars	Rs.	Rs.	Rs.
Sale value of cured coffee			22,00,000
Less: Expenses for growing coffee		3,10,000	
Car expenses (80% of Rs.50,000)		40,000	
Depreciation on car (80% of 15% of Rs.3,00,000) [See Computation below]		36,000	
Total cost of agricultural operations		3,86,000	
Expenditure for coffee curing operations	3,00,000		
Add: Depreciation on machinery (15% of Rs.15,00,000) [See Computation below]	2,25,000		
Total cost of the curing operations		5,25,000	
Total cost of composite operations			9,11,000

Total profits from composite activities	12,89,000
Business income (25% of above)	3,22,250
Agricultural income (75% of above)	9,66,750

Computation of depreciation for FY 2023-24

Particulars	Rs.	Rs.
Car		
Opening balance as on 1.4.2023 (i.e., WDV as on 31.3.2021 (-) depreciation for P.Y.2021-22)		3,00,000
Depreciation thereon at 15%	45,000	
Less: Disallowance @20% for personal use	9,000	
Depreciation actually allowed		36,000
Machinery		
Opening balance as on 1.4.2023 (i.e., WDV as on 31.3.2023 (-) depreciation for P.Y.2021-22)		15,00,000
Depreciation @ 15% for FY 2023-24		2,25,000

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

Question 11 – November 2016

Mr. Raghu, a Resident Individual (age 35 years), furnished following information from his P&L A/c for PY 21-22:

- Net Profit as per books of A/c was Rs. 6,50,000.
- Following Incomes were credited in the P&L A/c:
 - Interest on Government Securities: Rs. 25,000.
 - Dividend from a Foreign Company: Rs. 50,000.
 - Gold Coins worth Rs. 55,000 received as Gift from his father.
- Interest on Loan amounting to Rs. 68,000 was paid i.r.o Capital borrowed for purchase of New Asset which has not been put to use till 31st March 2023.
- General Expenses includes: Compensation of Rs. 4,500 paid to an Employee while terminating his services.
- He contributed the following amounts by Cheque:

- Rs. 20,000 to the Swachh Bharat Kosh set up by the Central Government.
- Rs. 28,000 towards Premium for Health Insurance & Rs. 2,500 for Preventive Health Check up for Self & his wife.
- Rs. 35,000 on Medical Expenses of his father (Age 82 yrs) [No Insurance had been taken on health of his father] You are required to compute the Total Income of Mr. Raghu for AY 2023-24

Answer

Computation of Taxable Income & Tax Liability of Mr. Raghu

I Income u/h 'PGBP'				
Net profit as per P&L A/c			6,50,000	
Add: Expenses not deductible u/h 'PGBP' but debited to P&L A/c		68,000	68,000	
1. Interest on Loan [Disallowed u/s 36(1)(iii)] [Note 1]				
Less: Income which are taxable under other heads or Exempt Incomes but credited to P&L A/c				5,88,000
1. Interest on Government Securities (considered u/h 'IFOS')		(25,000)		
2. Dividend from Foreign Company (considered u/h 'IFOS')		(50,000)		
3. Gold Coins from Father (considered u/h 'IFOS')		(55,000)	(1,30,000)	
II Income u/h 'IFOS'				
1. Interest on Government Securities			25,000	75,000
2. Dividend from Foreign Company (Taxable since received from foreign company)			50,000	
3. Gold Coin from Father (not taxable since received from Relative)			Nil	
Gross Total Income				6,63,000
				(80,000)
Section 80D: Health Insurance Premium for Assessee & Spouse [Max. of Rs. 25,000]			(25,000)	
Section 80D: Medical Expense of his Father (82 Yr) [Senior & Max. Limit is Rs. 50,000]			(35,000)	
Section 80G: Swach Bharat Kosh [100% deduction allowed without restriction]			(20,000)	
Total (taxable) Income				5,83,000

Notes:

- 1) As per Sec. 36(1)(iii), Interest on Capital borrowed for the purchase of asset, paid from the date on which the capital was borrowed upto the date such asset was first put to use, shall not be allowed as a deduction.
- 2) Compensation to Employees for Termination is incurred for business & thus allowed u/s 37.

Question 12 – RTP May 2019

M/s ABC, an eligible assessee, following mercantile system of accounting, carrying on eligible business u/s 44AD provides the following details:

Total turnover for PY 2021-22 is Rs. 130 lacs. Out of the above:

- Rs. 25 lacs received by A/c payee cheque during PY 2021-22;

- Rs. 50 lacs received by cash during PY 2021-22;
- Rs. 25 lacs received by A/c payee bank draft before the due date of filing ROI of PY 2021-22;
- Rs. 30 lacs not received till due date of filing of return.

Compute the amount of deemed profits of M/s ABC u/s 44AD(1) for AY 2023-24.

(a) 10.4 lacs (b) 7.0 lacs (c) 5.5 lacs **(d) 9.4 lacs**

Question 13 – May 2020 RTP

Dr. Arjun runs a clinic in Delhi. As per new rule in the city, private cars can be plied in the city only on alternate days. He has purchased a car on 25.09.2021, for the purpose of his medical profession, as per following details:

Cost of car (excluding GST)	15,00,000
Add: Delhi GST at 14%	2,10,000
Add: Central GST at 14%	2,10,000
Total price of car	19,20,000

He put his car to use from 25.9.2021 itself. He estimates the usage of the car for personal purposes will be 25%. He is advised by his friends that since the car has run only on alternate days, half the depreciation, which is otherwise allowable, will be actually allowed. He has started using car immediately after purchase. Determine the depreciation allowable on car for the AY 2023-24, if this is the only asset in the block. If this car would also be used in the subsequent AY 2024-25 on the same terms and conditions above, what will be the depreciation allowable? Assume that there is no change in the legal position under the Income-tax Act, 1961.

Answer

Computation of depreciation allowance

Since the car was put to use for more than 180 days in the P.Y.2020-21, full depreciation@30% (higher rate of depreciation is allowable on the actual cost, since car is purchased during the period 23.8.2020 to 31.3.2021] of Rs. 19,20,000, which is the total price (inclusive of GST) would be allowable.

However, the depreciation actually allowed would be restricted to 75%, since 25% of usage is estimated for personal use, on which depreciation is not allowable

Depreciation for PY 2020-21 = 30% x Rs. 19,20,000 x 75% = Rs. 4,32,000. Written Down Value as on 1.4.2021 = Rs. 19,20,000 – Rs.4,32,000 = Rs.14,88,000.

Depreciation for PY 2021-22 = 30% x Rs.14,88,000 x 75% = Rs. 3,34,800.

Question 14 – November 2019

Mr. Prakash is in the business of operating goods vehicles. As on 1.4.2021, he had following

vehicles:Vehicle	Gross Vehicle Weight (Kgs)	Date of
Purchase Put to use during FY 21-22		
A 8500	2.4.2020	Yes
B 13000	15.5.2020	Yes
C 12000	4.8.2020	No (as under repairs)

During PY 2021-22, he purchased following vehicles:

Vehicle	Gross Vehicle Weight (Kgs)	Date of Purchase	Date on which put to
use D	11000	30.4.2021	10.5.2021
E	15000	15.5.2021	18.5.2021

Compute his income u/s 44 AE of the Income Tax Act, 1961 for AY 2023-24.

Answer

Since Mr. Prakash does not own more than 10 vehicles at any time during PY 2021-22, he is eligible to opt for presumptive taxation scheme u/s 44AE. 1,000 per ton of gross vehicle weight or unladen weight p.m. or part of the month for each heavy goods vehicle & 7,500 p.m. or part of month for each goods carriage other than heavy goods vehicle, owned by him would be deemed as his profits & gains from such goods carriage.

Heavy goods vehicle means any goods carriage, the gross vehicle weight of which exceeds 12,000 kg.

(1)	(2)	(3)	(4)	(5)	(6)
Name of Vehicles	Date of purchase	No. of months for which vehicle is owned	Gross vehicle weight (Kgs)	Presumptive income	Total taxable presumptive income
For Heavy goods vehicle:					
B	15.5.2020	12	13,000	1,56,000 (13 x 1,000 x 12)	1,56,000
E	15.5.2021	11	15,000	1,65,000 (15 x 1,000 x 11)	1,65,000
For goods vehicle other than heavy goods vehicle:					
A	2.4.2020	12	8,500	90,000 (7,500 x 12)	90,000
C	4.8.2020	12	12,000	90,000 (7,500 x 12)	90,000
D	30.4.2021	12	11,000	90,000 (7,500 x 12)	90,000
Total					5,91,000

INCOME FROM OTHER SOURCES

Conceptual Questions

ILLUSTRATION 1

Rahul, a resident Indian, holding 28% of equity shares in a company, took a loan of Rs.5,00,000 from the same company. On the date of granting the loan, the company had accumulated profit of Rs.4,00,000. The company is engaged in some manufacturing activity.

- (i) Is the amount of loan taxable as deemed dividend, if the company is a company in which the public are substantially interested?
- (ii) What would be your answer, if the lending company is a private limited company (i.e. which is not a company in which the public are substantially interested)?

SOLUTION

Any payment by a company, other than a company in which the public are substantially interested, of any sum by way of advance or loan to an equity shareholder, being a person who is the beneficial owner of shares holding not less than 10% of the voting power, is deemed as dividend under section 2(22)(e), to the extent the company possesses accumulated profits.

- (i) The provisions of section 2(22)(e), however, will not apply where the loan is given by a company in which public are substantially interested. In such a case, the loan would not be taxable as deemed dividend.
- (ii) However, if the loan is taken from a private company (i.e. a company in which the public are not substantially interested), which is a manufacturing company and not a company where lending of money is a substantial part of the business of the company, then, the provisions of section 2(22)(e) would be attracted, since Rahul holds more than 10% of the equity shares in the company.

The amount chargeable as deemed dividend cannot, however, exceed the accumulated profits held by the company on the date of giving the loan. Therefore, the amount taxable as deemed dividend would be limited to the accumulated profit i.e., Rs.4,00,000 and not the amount of loan which is Rs.5,00,000.

ILLUSTRATION 2

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

- (1) Cash gift of Rs.75,000 on his anniversary, 15th April, 2023.
- (2) Bullion, the fair market value of which was Rs.60,000, on his birthday, 19th June,

2023.

- (3) A plot of land at Faridabad on 1st July, 2023, the stamp value of which is Rs.5 lakh on that date. Mr. B had purchased the land in April, 2009.

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

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

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

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

SOLUTION

ILLUSTRATION 3

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

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

SOLUTION

	Taxable/ non- taxable	Amount liable to tax (Rs.)	Reason
(i)	Taxable	75,000	Sum of money exceeding Rs.50,000 received without consideration from a non-relative is taxable under section 56(2)(x). Daughter of Mr. Akhil's sister is not a relative of Akhil HUF, since she is not a member of Akhil HUF.
(ii)	Non-taxable	Nil	Immovable property received without consideration by a HUF from its relative is not taxable under section 56(2)(x). Since Nitisha is a member of the HUF, she is a relative of the HUF. However, income from such asset would be included in the hands of Nitisha under 64(2).
(iii)	Taxable	55,000	As per provisions of section 56(2)(x), in case the aggregate fair market value of property, other than immovable property, received without consideration exceeds Rs.50,000, the whole of the aggregate value shall be taxable. In this case, the aggregate fair market value of shares (Rs.10,000) and jewellery (Rs.45,000) exceeds Rs.50,000. Hence, the entire amount of Rs.55,000 shall

			be taxable.
(iv)	Non-taxable	Nil	Car is not included in the definition of property for the purpose of section 56(2)(x), therefore, the same shall not be taxable.

ILLUSTRATION 4

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

Would your answer be different if Hari was a share broker instead of a property dealer?

SOLUTION

ILLUSTRATION 5

Compensation on account of disaster received from a local authority by an individual or his / her legal heir is taxable. Examine the correctness of the statement with reference to the provisions of the Income-Tax Act, 1961

Solution

The statement is not correct. As per Section 10(10BC), any amount received or receivable as compensation by an individual or his / her legal heir on account of any disaster from the Central Government, State Government or a local authority is exempt from tax. However, the exemption is not available to the extent such individual or legal heir has already been allowed a deduction under this Act on account of such loss or damage caused by such disaster.

ILLUSTRATION 6

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

SOLUTION**Additional Questions****Question 1**

Examine under which heads the following incomes are taxable:

- (i) Rental income in case property held as stock-in-trade for 3 years**
- (ii) Dividend on shares in case of a dealer in shares**
- (iii) Salary received by a partner from his partnership firm**
- (iv) Rental income of machinery**
- (v) Winnings from lotteries by a person having the same as business activity**
- (vi) Salaries payable to a Member of Parliament**
- (vii) Receipts without consideration**

- (viii) In case of retirement, interest on employee's contribution if provident fund is unrecognized.
- (ix) Rental income in case of a person engaged in the business of letting out of properties.

Answer

	Particulars	Head of Income
(i)	Rental income in case property held as stock-in trade for 3 years	Income from house property
(ii)	Dividend on shares in case of a dealer in shares	Income from other sources
(iii)	Salary by partner from his partnership firm	Profits and gains of business or profession
(iv)	Rental income of machinery (See Note below)	Profits and gains of business or profession / Income from other sources
(v)	Winnings from lotteries by a person having the same as business activity	Income from other sources
(vi)	Salaries payable to a Member of Parliament	Income from other sources
(vii)	Receipts without consideration	Income from other sources
(viii)	In case of retirement, interest on employee's contribution if provident fund is unrecognized	Income from other sources
(xi)	Rental income in case of a person engaged in the business of letting out of properties	Profits and gains from business or profession

Note - As per section 56(2)(ii), rental income of machinery would be chargeable to tax under the head "Income from Other Sources", if the same is not chargeable to income-tax under the head "Profits and gains of business or profession".

Question 2

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

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

Answer

Sr.	Taxable /	Answer Amount	Reason
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No.	Not Taxable	liable to tax (Rs.)	
(i)	Taxable	1,20,000	The exemption from applicability of section 56(2)(x) would be available if, inter alia, gift is received from a relative or gift is received on the occasion of marriage of the individual himself. In this case, since gift is received by Mr. Raj from a non-relative on the occasion of marriage of his son, it would be taxable in his hands under section 56(2)(x).
(ii)	Taxable	48,000	As per section 145B(1), interest received by the assessee on enhanced compensation shall be deemed to be the income of the year in which it is received, irrespective of the method of accounting followed by the assessee. Interest of Rs.96,000 on enhanced compensation is chargeable to tax in the year of receipt i.e. P.Y. 2023-23 under section 56(2)(viii) after providing deduction of 50% under section 57(iv). Therefore, 48,000 is chargeable to tax under the head "Income from other sources".

Question 3

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

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

How much of interest on enhanced compensation would be chargeable to tax for the assessment year 2024-25?

Answer

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

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

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

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

Computation of interest on enhanced compensation taxable as “Income from other sources” for the A.Y 2023-24:

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

Question 4

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

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

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

Answer

Question 5

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

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

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

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

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

Answer

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

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

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

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

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

Question 6 – Imp

Mr. Amit furnishes the following particulars of his incomes for PY 2023-23. Compute his IFOS for AY 2023-24.

1	Dividend on equity shares	Rs. 6,000
2	Dividend on preference shares	Rs. 5,000
3	Dividend from a foreign company	Rs. 10,000
4	Dividends received from Assam Tea Ltd. (60% of the income is agricultural Income)	Rs. 25,000
5	Income from agricultural land in India	Rs. 12,000
6	Income from agricultural land in Pakistan	Rs. 10,000
7	Interest on Securities (Net)	Rs. 18,000
8	Winning from Horse-Race (Gross)	Rs. 13,000
9	Rent from sub-letting a house	Rs. 40,000
10	Rent payable by Mr. Mohan for the sub-let house	Rs. 25,000
11	Other expenses on sub-let-house	Rs. 5,000
12	Income from letting on hire of building & machinery under one composite lease	Rs. 22,000
13	Interest on Bank Deposits	Rs. 4,000
14	Directors sitting fees received	Rs. 10,000
15	Ground rent received from Land in Pathankot	Rs. 6,000
16	Income from undisclosed sources	Rs. 65,000
17	Amount received on account of winnings from lotteries	Rs. 25,000
Following deductions are claimed by him		
(a)	Allowable depreciation on Building & Machinery	Rs. 6,000
(b)	Fire Insurance on Building & Machinery	Rs. 1,000
(c)	Amount spent for buying lottery ticket	Rs. 5,000

Answer

Question 7 – May 2019 RTP

Mr. Suraj sold a house to his friend Mr. Ganesh on 18th Sep 2021 for Rs. 42 Lacs.

On DOR, SDV of the said property is Rs. 45 Lacs. However, on the DOA SDV of the said property was Rs. 44 Lacs.

Mr. Ganesh had paid 10% of the value of the property by way of A/c payee cheque at the time of agreement. Assume value of land is 70% of total value of the property.

What are the tax implications in the hands of Mr. Suraj & Mr. Ganesh for AY 2023-23? Mr. Suraj had purchased the land on 19th February, 2014 for Rs. 9,20,000 & completed the construction of house on 18th January 2020 for Rs. 15,50,000.

[CII: FY 2012-13: 200; FY 2016-17: 264; FY 2018-19: 289; FY 2019-20: 301]

Answer

Question 8 – November 2020

Ms. Julie received following amounts during PY 2021-22.

- (1) Received loan of 5,00,000 from ABC Private Limited, a closely held company engaged in textile business. She is holding 10% of equity share capital in said company. Accumulated profit of company was 2,00,000 on the date of loan.**
- (2) Received Interest on enhanced compensation of 5,00,000. Out of this interest 1,50,000 relates to PY 2018-19, 1,90,000 relates to PY 2019-20 & 1,60,000 relates to PY 2020-21. She paid 1 Lacs to her advocate for his efforts in the matter.**

Discuss tax implications, if any, arising from these transactions in her hand with reference to AY 2023-23.

Answer

- (1) Ms. Julie is a shareholder having substantial interest in the closely held company ABC Pvt. Ltd. As per section 2(22)(e), any loan received from a closely held company by a shareholder having substantial interest is deemed to be dividend in hands of the shareholder to the extent company possesses accumulated profits on date of loan. Hence, 2,00,000 shall be taxable as dividend in hands of Ms. Julie.
- (2) As per section 145B (1), any interest received by an assessee on compensation or enhanced compensation, as the case may be, shall be deemed to be income of year in which it is received. Further, as per section 56(2)(viii), income by way of interest received on compensation or on enhanced compensation referred to in section 145B(1) above shall be taxable u/h IFOS in PY in which such interest is received.

Further, as per section 57(iv), in case of above interest, a deduction of a sum equal to 50% of such income shall be allowed to assessee & no deduction shall be allowed under any other clause of section 57.

Particulars	Amounts
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Interest on enhanced compensation received	5,00,000
Less: Deduction @ 50%	(2,50,000)
Balance taxable	2,50,000

INCOME OF OTHER PERSONS INCLUDED IN ASSESSEE'S TOTAL INCOME

Conceptual Questions

ILLUSTRATION 1

Mr. Vatsan has transferred, through a duly registered document, the income arising from a godown to his son, without transferring the godown. In whose hands will the rental income from godown be charged?

SOLUTION

Section 60 expressly states that where there is transfer of income from an asset without transfer of the asset itself, such income shall be included in the total income of the transferor. Hence, the rental income derived from the godown shall be clubbed in the hands of Mr. Vatsan.

ILLUSTRATION 2

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

SOLUTION

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

Computation of Gross total income of Mr. A

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

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

ILLUSTRATION 3

Will your answer be different if Mrs. A was qualified for the job?

SOLUTION

If Mrs. A possesses professional qualifications for the job, then the clubbing provisions shall not be applicable.

Gross total income of Mr. A = Rs.7,00,000[other income].

Gross total income of Mrs. A = Salary received by Mrs. A [Rs.30,000 × 12] less Rs.50,000, being the standard deduction under section 16(iia) plus other income [Rs.4,00,000] = Rs.7,10,000.

ILLUSTRATION 4

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

SOLUTION

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

Computation of Gross total income of Mr. B

Particulars	Rs.
Income under the head salary of Mrs. B (Computed)	3,44,000
Income from other sources	
- Interest on securities	30,000
	3,74,000

Computation of Gross total income of Mrs. B

Particulars	Rs.	Rs.
Income from Salary		Nil
[clubbed in the hands of Mr. B]		
Income from house property		
Gross Annual Value [Rs.6,000 × 12]	72,000	
Less: Municipal taxes paid	-	
Net Annual Value (NAV)	72,000	
Less: Deductions under section 24		
- 30% of NAV i.e., 30% of Rs.72,000	21,600	
- Interest on loan	-	50,400
Gross total income		50,400

ILLUSTRATION 5

Mr. Vaibhav started a proprietary business on 01.04.2022 with a capital of Rs.5,00,000. He incurred a loss of Rs.2,00,000 during the year 2022-23. To overcome the financial position, his wife Mrs. Vaishaly, a software Engineer, gave a gift of Rs.5,00,000 on 01.04.2023, which was immediately invested in the business by Mr. Vaibhav. He earned a profit of Rs.4,00,000 during the year 2023-24. Compute the amount to be clubbed in the hands of Mrs. Vaishaly for the Assessment Year 2024-25. If Mrs. Vaishaly gave the said amount as loan, what would be the amount to be clubbed?

SOLUTION

Section 64(1)(iv) of the Income-tax Act, 1961 provides for the clubbing of income in the hands of the individual, if the income earned is from the assets (other than house property) transferred directly or indirectly to the spouse of the individual, otherwise than for adequate consideration or in connection with an agreement to live apart.

In this case, Mr. Vaibhav received a gift of Rs.5,00,000 on 1.4.2023 from his wife Mrs. Vaishaly, which he invested in his business immediately. The income to be clubbed in the hands of Mrs. Vaishaly for the A.Y. 2024-25 is computed as under:

Particulars	Mr. Vaibhav's capital contribution (Rs.)	Capital contribution out of gift from Mrs. Vaishaly (Rs.)	Total (Rs.)
Capital as on 1.4.2023	3,00,000 (5,00,000 – 2,00,000)	5,00,000	8,00,000
Profit for P.Y.2023-24 to be apportioned on the basis of capital employed on the first day of the previous year i.e. as on 1.4.2023 (3:5)	1,50,000 $\left(4,00,000 \times \frac{3}{8}\right)$	2,50,000 $\left(4,00,000 \times \frac{5}{8}\right)$	4,00,000

Therefore, the income to be clubbed in the hands of Mrs. Vaishaly for the A.Y.2024-25 is Rs.2,50,000.

In case Mrs. Vaishaly gave the said amount of Rs.5,00,000 as a *bona fide* loan, then, clubbing provisions would not be attracted.

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

ILLUSTRATION 6

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

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

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

SOLUTION

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

Therefore, income of Rs.36,000 meant for the benefit of daughter-in-law is chargeable to tax

in the hands of transferor i.e., Mrs. Kasturi in this case.

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

ILLUSTRATION 7

Mr. A has three minor children – two twin daughters, aged 12 years, and one son, aged 16 years. Income of the twin daughters is Rs.2,000 p.a. each and that of the son is Rs.1,200 p.a. Mrs. A has transferred her flat to her minor son on 1.4.2022 out of natural love and affection. The flat was let out on the same date and the rental income from the flat is Rs.10,000 p.m. Compute the income, in respect of minor children, to be included in the hands of Mr. A and Mrs. A u/s 64(1A) (assuming that Mr. A's total income is higher than Mrs. A's total income, before including the income of minor children and both Mr A and Mrs A exercise the option of shifting out of the default tax regime provided under section 115BAC(1A)).

SOLUTION

Taxable income, in respect of minor children, in the hands of Mr. A is:

Particulars	Rs.	Rs.
Twin minor daughters [Rs.2,000 × 2]	4,000	
Less: Exempt under section 10(32) [Rs.1,500 × 2]	3,000	1,000
Minor son	1,200	
Less: Exempt under section 10(32)	1,200	Nil
Income to be clubbed in the hands of Mr. A		1,000

Note – As per section 27(i), Mrs. A is the deemed owner of house property transferred to her minor son. Natural love and affection do not constitute adequate consideration for this purpose. Accordingly, the income from house property of Rs.84,000 [i.e., Rs.1,20,000 (-) Rs.36,000, being 30% of Rs.1,20,000] would be taxable directly in her hands as the deemed owner of the said property. Consequently, clubbing provisions under section 64(1A) would not be attracted in respect of income from house property, owing to which exemption u/s 10(32) cannot be availed by her.

ILLUSTRATION 8

Compute the gross total income of Mr. & Mrs. A from the following information:

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

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

required.

SOLUTION

As per the provisions of section 64(1A) of the Income-tax Act, 1961, all the income of a minor child has to be clubbed in the hands of that parent whose total income (excluding the income of the minor) is greater. The income of Mr. A is Rs.3,90,000 and income of Mrs. A is Rs.2,30,000. Since the income of Mr. A is greater than that of Mrs. A, the income of the minor children have to be clubbed in the hands of Mr. A. It is assumed that this is the first year when clubbing provisions are attracted.

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

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

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

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

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

ILLUSTRATION 9

Mr. Vasudevan gifted a sum of Rs.6 lakhs to his brother's wife on 14-6-2023. On 12-7-2023, his brother gifted a sum of Rs.5 lakhs to Mr. Vasudevan's wife. The gifted amounts were invested as fixed deposits in banks by Mrs. Vasudevan and wife of Mr. Vasudevan's brother on 01-8-2023 at 9% interest. Examine the consequences of the above under the provisions of the Income-tax Act, 1961 in the hands of Mr. Vasudevan and his brother.

SOLUTION

In the given case, Mr. Vasudevan gifted a sum of Rs.6 lakhs to his brother's wife on 14.06.2023 and simultaneously, his brother gifted a sum of Rs.5 lakhs to Mr. Vasudevan's wife on

12.07.2023. The gifted amounts were invested as fixed deposits in banks by Mrs. Vasudevan and his brother's wife. These transfers are in the nature of cross transfers. Accordingly, the income from the assets transferred would be assessed in the hands of the deemed transferor because the transfers are so intimately connected to form part of a single transaction and each transfer constitutes consideration for the other by being mutual or otherwise.

If two transactions are inter-connected and are part of the same transaction in such a way that it can be said that the circuitous method was adopted as a device to evade tax, the implication of clubbing provisions would be attracted. It was so held by the Apex Court in *CIT vs. Keshavji Morarji (1967) 66 ITR 142*.

Accordingly, the interest income arising to Mrs. Vasudevan in the form of interest on fixed deposits would be included in the total income of Mr. Vasudevan and interest income arising in the hands of his brother's wife would be taxable in the hands of Mr. Vasudevan's brother as per section 64(1), to the extent of amount of cross transfers i.e., Rs.5 lakhs.

This is because both Mr. Vasudevan and his brother are the indirect transferors of the income to their respective spouses with an intention to reduce their burden of taxation.

However, the interest income earned by his spouse on fixed deposit of Rs.5 lakhs alone would be included in the hands of Mr. Vasudevan's brother and not the interest income on the entire fixed deposit of Rs.6 lakhs, since the cross transfer is only to the extent of Rs.5 lakhs.

Additional Questions

Question 1

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

Compute the amount of income earned by minor children to be clubbed in hands of Mr. Sharma.

Answer

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

Under section 10(32), income of each minor child includible in the hands of the parent under section 64(1A) would be exempt to the extent of the actual income or Rs.1,500, whichever is lower. The remaining income would be included in the hands of the parent.

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

	Particulars	Rs.
(i)	Income of one daughter	9,000

	Less: Income exempt under section 10(32)	1,500
	Total (A)	7,500
(ii)	Income of two sons (Rs.6,200 + Rs.4,300)	10,500
	Less: Income exempt under section 10(32) (Rs.1,500 + Rs.1,500)	3,000
	Total (B)	7,500
	Total Income to be clubbed as per section 64(1A) (A+B)	15,000

Note: It has been assumed that:

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

Question 2

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

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

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

Examine the tax implications of each transaction and compute the total income of Mr. A, Mrs. A and their minor child assuming they do not wish to opt for section 115BAC.

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

Particulars	Mr. A (Rs.)		Mrs. A (Rs.)	Minor Son (Rs.)
Income under the head "Salaries"				
Salary income (of Mrs. A)		-	2,40,000	-
Pension income (of Mr. A) (Rs.10,000×12)		1,20,000	-	
Less: Standard deduction under section 16(ia)		50,000	50,000	
		70,000	1,90,000	
Income from House Property [See Note (3) below]		52,000	-	-
Income from other sources				
Interest on Mr. A's fixed deposit with Bank of India (Rs.5,00,000 × 9%) [See Note (1) below]	45,000		-	-
Commission received by Mrs. A from a partnership firm, in which Mr. A has substantial interest [See Note (2) below]	25,000	70,000	-	-
Income before including income of minor son under section 64(1A)		1,92,000	1,90,000	-
Income of the minor son from the investment made in the business out of the amount gifted by Mr. A [See Note (4) below]		18,500	-	-
Income of the minor son through a business activity involving application of his skill and talent [See Note (5) below]		-	-	20,000
Total Income		2,10,500	1,90,000	20,000

Notes:

- (1) As per section 60, in case there is a transfer of income without transfer of asset from which such income is derived, such income shall be treated as income of the transferor. Therefore, the fixed deposit interest of Rs.45,000 transferred by Mr. A to Mr. B shall be included in the total income of Mr. A.
- (2) As per section 64(1)(ii), in case the spouse of the individual receives any amount by way of income from any concern in which the individual has substantial interest (i.e. holding shares carrying at least 20% voting power or entitled to at least 20% of the profits of the concern), then, such income shall be included in the total income of the individual. The only exception is in a case where the spouse possesses any technical

or professional qualifications and the income earned is solely attributable to the application of her technical or professional knowledge and experience, in which case, the clubbing provisions would not apply.

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

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

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

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

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

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

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

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

Question 3

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

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

Answer

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

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

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

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

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

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

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

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

Question 4

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

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

Answer

Section 64(1) of the Income-tax Act, 1961 provides for the clubbing of income in the hands of the individual, if the income earned is from the assets transferred directly or indirectly to the

spouse of the individual, otherwise than for adequate consideration. In this case Smt. Rani received a gift of Rs.2,00,000 from her husband which she invested in her business. The income to be clubbed in the hands of Smt. Rani's husband for A.Y.2024-25 is computed as under:

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

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

Question 5

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

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

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

Answer

Clubbing of income and other tax implications

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

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

Tax implications

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

As per section 10(32), income of a minor child which is includible in the income of the parent shall be exempt to the extent of Rs.1,500 per child. The balance income would be clubbed in the hands of the parent as "Income from other sources".

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

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

Question 6 – Nov 2017

Kamal gifted Rs. 10 Lacs to his wife, Sulochana on her birthday on, 1.1.2021. Sulochana lent Rs. 5,00,000 out of gifted amount to Krishna on 1.4.2021 for 6 months on which she received interest of Rs. 50,000. The said sum of Rs. 50,000 was invested in shares of a listed company on 15.10.2021 which were sold for Rs. 75,000 on 30.12.2021. STT was paid on such sale. Balance amount of gift was invested as capital by Sulochana in a business. She suffered loss of Rs. 15,000 in the business in PY 2021-22. In whose hands the above income & loss shall be included in AY 2022-23.

Answer

As per section 64(1),

- If any person has transferred any asset to his or her spouse without adequate consideration in such case Income shall be clubbed in the income of transferor, hence Interest income of Rs. 50,000 shall be clubbed in income of Mr. Kamal.
- If asset received by the spouse has been invested in the proprietor business, income from the business shall be clubbed in the income of transferor & if there is any loss, it will also be clubbed. Thus, loss of Rs. 15,000 shall also be clubbed.

- If any person has transferred the asset to the spouse, income from the asset shall be clubbed but if same income is invested further, any subsequent income shall not be clubbed.

In the given case, Mrs. Sulochana has invested interest income in the shares & there was capital gain on the sale of shares, such capital gain shall not be clubbed rather it will be taxable in the hands of Mrs. Sulochana.

Question 7 – November 2012

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

(a) Income from B's profession	4,50,000
(b) Mrs. B's salary as fashion designer	7,60,000
(c) Minor son D (interest on FD with a bank which were gifted to him by his uncle)	10,000
(d) Minor daughter P's earnings from sports	95,000
(e) D's winnings from lottery (gross)	1,95,000

Answer

(a) Income of Rs. 4,50,000 from Mr. B's profession shall be taxable in the hands of Mr. B u/h PGBP.

(b) Salary of Rs. 7,60,000 received by Mrs. B as a fashion designer shall be taxable as salaries in hands of Mrs. B.

(c) Income from FD of Rs. 10,000 arising to the minor son D, shall be clubbed in the hands of mother, Mrs. B as Income u/h IFOS, since her income is greater than income of Mr. B before including the income of the minor child. As per Section 10(32), income of a minor child is exempt upto Rs. 1,500 per child (if clubbed).

(d) Income of Rs. 95,000 arising to the minor daughter P from sports shall not be included in the hands of the parent, since such income has arisen on account of an activity involving application of her skill.

(e) Income of Rs. 1,95,000 arising to minor son D from lottery shall be included in the hands of Mrs. B as "IFOS", since her income is greater than the income of Mr. B before including the income of minor child.

Note: She can reduce the TDS from such lottery income while computing her net tax liability.

Computation of income of Mr. B & Mrs. B

Particulars	Mr. B	Mrs. B
Income from X's Business	4,50,000	
Salary as fashion designer	-	7,60,000
Bank Interest to Minor Son D (10,000 - 1,500) [Rs. 1,500 exempt u/s 10(32)]	-	8,500
Income of Minor Daughter from Sports (since she is earning income from her own talent, sports income is not to be clubbed)	-	-
Lottery income to minor son D	-	1,95,000
Total	4,50,000	9,63,500

Question 8 – May 2014

Mr. X has 4 minor children consisting of three daughters & a son. Their annual income for AY 2022-23 are:

First daughter (including Scholarship received Rs. 5,000)	Rs. 10,000
Second Daughter	Rs. 8,500
Third Daughter (Suffering from disability specified U/s 80U)	Rs. 4,500
Minor Son	Rs. 40,000

Mr. X gifted 2 lacs to his minor Son who invested them in the business & derived income of 20,000 which is included above. Compute the Income earned by Minor Children to be clubbed in the hands of Mr. X.

Answer**Computation of Income of minor children to be clubbed in income of Mr. X**

(i) Income of First Daughter	10,000	
Less: Scholarship received exempt u/s 10(16) (assumed received for education)	(5,000)	
Less: Exempt u/s 10(32)	(1,500)	
Income to be clubbed		3,500
(ii) Income of Second Daughter	8,500	
Less: Exempt u/s 10(32)	(1,500)	
Income to be clubbed		7,000
(iii) Income of Third Daughter who is suffering from disability shall not be clubbed		Nil
(iv) Income of Son Less: Exempt u/s 10(32) [40,000 – 1,500]		38,500
Total Income to be clubbed (3,500 + 7,000 + 38,500)		49,000

Question 9 –May 2019 RTP

Ram owns 500, 15% debentures of Reliance Industries Ltd. of Rs. 500 each. Annual interest of Rs. 37,500 was declared on these debentures for PY 2021-22. He transfers interest income to his friend Shyam, without transferring the ownership of these debentures. While filing return of income for AY 2022-23, Shyam showed Rs. 37,500 as his income from debentures. As tax advisor of Shyam, do you agree with the tax treatment done by Shyam in his return of income?

- (a) Yes, since interest income was transferred to Shyam therefore, after transfer it becomes his income.
- (b) No, since Ram has not transferred debentures to Shyam, interest income on the debentures is not taxable income of Shyam.**
- (c) Yes, if debentures are not transferred, interest income on debentures can be declared by anyone, Ram or Shyam, as taxable income depending upon their discretion
- (d) No, since Shyam should have shown the income as interest income received from Mr. Ram and not as interest income earned on debentures.

Question 10 – May 2020 RTP

Rayaan gifted Rs. 15 lakhs to his wife, Sargam on her birthday on 23.2.2021. Sargam lent Rs. 8 lakhs out of the gifted amount to Karuna on 1.4.2021 for 6 months on which she received interest of Rs. 80,000. It was (Rs. 80,000) was invested in shares of a listed company on

5.10.2021, which were sold for Rs. 96,000 on 28.3.2022. STT was paid on purchase & sale of such shares. Balance amount of gift was invested on 1.4. 2021 as capital by Sargam in her new business. She suffered loss of Rs. 52,000 in the business in PY 2021-22. In whose hands the above income & loss shall be included in AY 2022-23, assuming that capital invested in the business was entirely out of the funds gifted by her husband.

Answer

Interest on loan: Accordingly, Rs. 80,000, being the amount of interest on loan received by Mrs. Sargam, wife of Mr. Rayaam, would be includible in the total income of Mr. Rayaam, since such loan was given out of the sum of money received by her as gift from her husband.

Loss from business: As per Explanation 2 to section 64, income includes loss. Thus, clubbing provisions would be attracted even if there is loss & not income. Thus, the entire loss of Rs. 52,000 from the business carried on by Mrs. Sargam would also be includible in the total income of Mr. Rayaam, since as on 1.4.2021, capital invested was entirely out of the funds gifted by her husband.

STCG: Income from the accretion of transferred asset shall not be clubbed & therefore, STCG of Rs. 16,000 [Rs. 96,000 - Rs. 80,000 (COA)] arising in hands of Mrs. Sargam from sale of shares acquired by investing the interest income of Rs. 80,000 earned by her (from the loan given out of the sum gifted by her husband), would not be included in hands of Mr. Rayaam. Thus, such income is taxable in hands of Mrs. Sargam.

Question 11 – November 2018

Mrs. & Mr. Vinod have 2 minor children M & N. Following receipts are of M & N during PY 2021-22:

- (i) M received a gift of 70,000 from her friend's father on occasion of her birthday.
- (ii) M won a prize money of 3,00,000 in National Quiz competition. This was invested in debentures of a company, from which interest of 19,000 (gross) accrued during the year.
- (iii) N won prize in lottery. Net amount received after deduction of TDS was 1,05,000.

Mr. Vinod Amin's income before considering clubbing provisions is higher than that of his wife. Discuss how these items will be considered for taxation under provisions of Income Tax Act, 1961. Detailed computation of income is not required.

Answer

As per section 64(1A), if any income accrues/arises to a minor child, such income shall be clubbed in income of mother/father whosoever has higher income before taking into consideration income to be clubbed. However, if any minor child has income through manual labour or has income through activity involving application of his skill, talent or specialized knowledge & experience, provisions of clubbing shall not apply. Such income will be considered to be the income of minor child & his tax liability shall be computed separately. Further, if the income of minor child is to be clubbed, exemption shall be allowed u/s 10(32) up to 1,500 p.a. per child, provided father does not opt to be taxed u/s 115BAC.

In the given case, income of father is higher than mother. Hence, income of both minor

children i.e. M & N shall be clubbed with the income of father.

- (i) Gift of 70,000 received by M from her friend is taxable as it is not received from any relative of M. The same would be clubbed in income of father.
- (ii) Prize money earned by M in National Quiz Competition shall not be clubbed as it is earned through application of her skill, talent or specialized knowledge & experience. However, interest income on debentures of 19,000 shall be clubbed in income of father.
- (iii) Prize Money earned by N shall be taxable on gross basis & same shall be clubbed with income of father i.e. $1,05,000/70\% = 1,50,000$ shall be clubbed.

Exemption u/s 10(32) up to 1,500 p.a. per child (not allowed if the father opts to be taxed u/s 115BAC).

SET-OFF AND CARRY FORWARD OF LOSSES

ILLUSTRATION 1

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

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

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

1. He has exercised the option of shifting out of the default tax regime u/s 115BAC
2. He pays tax under the default tax regime

SOLUTION

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

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

Notes:

- (i) Gross Total Income includes salary income of Rs.2,00,000 after adjusting loss of Rs.2,00,000 from house property. The balance loss of Rs.20,000 from house property to be carried forward to next assessment year for set-off against income from house property of that year.
- (ii) Business loss of Rs.1,00,000 is set off against bank interest of Rs.80,000 and remaining

business loss of Rs.20,000 will be carried forward as it cannot be set off against salary income.

Computation of total income of Mr A for the AY 2024-25 under default tax regime

Particulars	Amount	Amount
Income from Salary		4,00,000
Income from Other Sources (Interest on FD)	80,000	
Less: Business Loss of Rs 1,00,000 set off to the extent of Rs 80,000	(-) 80,000	-
Business loss of Rs 20,000 to be carried forward for set off against business income of the next AY		
Gross Total Income / Total Income		4,00,000

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

ILLUSTRATION 2

Mr. B, a resident individual, furnishes the following particulars for the P.Y.2023-24:

Particulars	Rs.
Income from salary (computed)	45,000
Income from house property	(24,000)
Income from non-speculative business	(22,000)
Income from speculative business	(4,000)
Short-term capital losses	(25,000)
Long-term capital gains taxable u/s 112	19,000

What is the total income chargeable to tax for the A.Y.2022-23, assuming that he pays the tax under Section 115BAC?

SOLUTION

Total income of Mr. B for the A.Y. 2022-23

Particulars	Amount (Rs.)	Amount (Rs.)
Income from salaries	45,000	
Income from house property to be carried forward (Note 1)	(24,000)	

Profits and gains of business and profession		
Business loss to be carried forward [Note (i)]	(22,000)	
Speculative loss to be carried forward [Note (ii)]	(4,000)	
Capital Gains		
Long term capital gain taxable u/s 112	19,000	
Short term capital loss Rs.25,000 set off against long- term capital gains to the extent of Rs.19,000 [Note (iii)]	(19,000)	
	Nil	
Balance short term capital loss of Rs.6,000 to be carried forward [Note (iii)]		
Taxable income		45,000

Notes:

- (i) Since Mr. B is paying tax under the default tax regime u/s 115BAC, loss from house property cannot be set off against income under any other head. Hence, such loss has to be carried forward to the next year for set-off against income from house property, if any
- (ii) Business loss cannot be set-off against salary income. Therefore, loss of Rs.22,000 from the non-speculative business cannot be set off against the income from salaries. Hence, such loss has to be carried forward to the next year for set- off against business profits, if any.
- (iii) Loss of Rs.4,000 from the speculative business can be set off only against the income from the speculative business. Hence, such loss has to be carried forward.
- (iv) Short term capital loss can be set off against both short term capital gain and long-term capital gain. Therefore, short term capital loss of Rs.25,000 can be set-off against long-term capital gains to the extent of Rs.19,000. The balance short term capital loss of Rs.6,000 cannot be set-off against any other income and has to be carried forward to the next year for set-off against capital gains, if any.

ILLUSTRATION 3

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

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

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

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

Particulars	Rs.	Rs.
Short term capital gains on sale of shares	1,50,000	
Less: Brought forward short term capital loss of the A.Y.2021-22	(37,000)	1,13,000
Long term capital gain	75,000	
Less: Brought forward long-term capital loss of A.Y.2020-21		
Rs.96,000 set off to the extent of Rs.75,000	(75,000)	Nil
[See Note below]		
Taxable short-term capital gains		1,13,000

Note: Long-term capital loss cannot be set off against short-term capital gain. Hence, the unadjusted long-term capital loss of A.Y.2020-21 of Rs.21,000 (i.e. Rs.96,000 – Rs.75,000) can be carried forward to the next year to be set-off against long-term capital gains of that year.

ILLUSTRATION 4

Mr. D has the following income for the P.Y.2023-24:

Particulars	Rs.
Income from the activity of owning and maintaining the race horses	75,000
Income from textile business	85,000
Brought forward textile business loss (relating to A.Y. 2023-24)	50,000
Brought forward loss from the activity of owning and maintaining the race horses (relating to A.Y.2021-22)	96,000

What is the total income in the hands of Mr. D for the A.Y. 2024-25?

SOLUTION**Total income of Mr. D for the A.Y. 2022-23**

Particulars	Rs.	Rs.
Income from the activity of owning and maintaining race horses	75,000	
Less: Brought forward loss of Rs.96,000 from the activity of owning and maintaining race horses set-off to the extent of Rs.75,000	75,000	
	Nil	
Balance loss of Rs.21,000 (Rs.96,000 – Rs.75,000) from the activity of owning and maintaining race horses to be carried forward to A.Y.2025-26		
Income from textile business	85,000	
Less: Brought forward business loss from textile business.	50,000	35,000

Total income		35,000
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Note: Loss from the activity of owning and maintaining race horses cannot be set-off against any other source/head of income.

ILLUSTRATION 5

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

Particulars	Rs.
Income from salaries (computed)	1,50,000
Income from speculation business	60,000
Loss from non-speculation business	(40,000)
Short term capital gain	80,000
Long term capital loss of A.Y.2020-21	(30,000)
Winning from lotteries (Gross)	20,000

What is the taxable income of Mr. E for the A.Y.2024-25?

SOLUTION

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

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

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

TEST YOUR KNOWLEDGE

Question 1

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

Particulars	Rs.
Income from house property (computed)	1,25,000
Income from business (before providing for depreciation)	1,35,000
Short term capital gains on sale of unlisted shares	56,000

Long term capital loss from sale of property (brought forward from A.Y. 2021-22)	(90,000)
Income from tea business	1,20,000
Dividends from Indian companies carrying on agricultural operations (Gross)	80,000
Current year depreciation	26,000
Brought forward business loss (loss incurred six years ago)	(45,000)

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

Particulars	Rs.	Rs.
Income from house property (Computed)		1,25,000
Income from business		
Profits before depreciation	1,35,000	
Less: Current year depreciation	26,000	
Less: Brought forward business loss	45,000	
	64,000	
Income from tea business (40% is business income)	48,000	1,12,000
Capital gains		
Short term capital gains		56,000
Income from Other Sources		
Dividend income (taxable in the hands of shareholders)		80,000
Gross Total Income		3,73,000

Note:

- (1) Dividend from Indian companies is fully taxable in the hands of shareholders at normal rates of tax.
- (2) 60% of the income from tea business is treated as agricultural income and therefore, exempt from tax;
- (3) Long-term capital loss can be set-off only against long-term capital gains. Therefore, long-term capital loss of Rs 90,000 brought forward from A.Y.2021-22 cannot be set-off in the A.Y.2022-23, since there is no long-term capital gains in that year. It has to be carried forward for set-off against long-term capital gains, if any, during A.Y.2023-24.

Question 2

Mr. Soohan submits the following details of his income for the assessment year 2024-25:

Particulars	Rs.
Income from salary (computed)	3,00,000
Loss from let out house property	(-) 40,000
Income from sugar business	50,000
Loss from iron ore business b/f (discontinued in P.Y. 2016-17)	(-) 1,20,000
Short term capital loss	(-) 60,000
Long term capital gain	40,000
Dividend	5,000
Income received from lottery winning (Gross)	50,000
Winnings from card games (Gross)	6,000
Agricultural income	20,000
Short-term capital loss under section 111A	(-) 10,000
Bank interest on Fixed deposit	5,000

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

Answer**Computation of Gross Total Income of Mr. Soohan for the A.Y.2022-23**

Particulars	Rs.	Rs.
Salaries		
Income from salary	3,00,000	
Less: Loss from house property set-off against salary income as per section 71	(40,000)	2,60,000
Profits and gains of business or profession		
Income from sugar business	50,000	
Less: Brought forward loss of Rs.1,20,000 from iron-ore business set-off as per section 72(1) to the extent of Rs.50,000	(50,000)	Nil
Balance business loss of Rs.70,000 of P.Y.2015-16 to be carried forward to A.Y.2023-24		
Capital gains		
Long term capital gain	40,000	
Less: Short term capital loss of Rs.60,000 set-off to the extent of Rs.40,000	(40,000)	Nil

Balance short-term capital loss of Rs.20,000 to be carried forward		
Short-term capital loss of Rs.10,000 u/s 111A also to be carried forward		
Income from other sources		
Dividend (fully taxable in the hands of shareholders)	5,000	
Winnings from lottery	50,000	
Winnings from card games	6,000	
Bank FD interest	5,000	66,000
Gross Total Income		3,26,000
Losses to be carried forward to A.Y.2023-24		
Loss of iron-ore business (Rs.1,20,000 – Rs.50,000)	70,000	
Short term capital loss (Rs.20,000 + Rs.10,000)	30,000	

Notes:

1. Agricultural income is exempt under section 10(1)
2. It is presumed that loss from iron-ore business relates to P.Y.2016-17, the year in which the business was discontinued.

Question 3

Mr. Batra furnishes the following details for year ended 31.03.2022:

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

Following are the brought forward losses:

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

Compute gross total income of Mr. Batra for the Assessment Year 2024-25, assuming that he exercised the option of shifting out of the default tax regime provided under Sec

115BAC(1A). Also determine the losses eligible for carry forward to the Assessment Year 2025-26.

Answer

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

Particulars	Rs.	Rs.
Salaries	1,00,000	
Less: Current year loss from house property	(40,000)	60,000
Profit and gains of business or profession		
Income from textile business	50,000	
Less: Loss of Rs.60,000 from textile business b/f from A.Y. 2014-15 set-off to the extent of Rs.50,000	50,000	NIL
Income from the activity of owning and maintaining race horses	15,000	
Less: Loss of Rs.25,000 from activity of owning and maintaining race horses b/f from A.Y. 2019-20 set-off to the extent of Rs.15,000	15,000	NIL
Balance loss of Rs.10,000 to be carried forward to A.Y. 2023-24 [See Note 2]		
Capital Gain		
Short term capital gain		1,40,000
Long term capital gain on sale of land	30,000	
Less: Long term capital loss of Rs.1,00,000 on sale of unlisted shares set-off to the extent of Rs.30,000	30,000	NIL
Balance loss of Rs.70,000 to be carried forward to A.Y. 2023-24 [See Note 3]		
Gross Total Income		2,00,000

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

Particulars	Rs.
Current year loss from speculative business [See Note-4]	60,000
Current year long term capital loss on sale of unlisted shares	70,000
Loss from activity of owning and maintaining of race horse pertaining to A.Y.2019-20	10,000

Notes:-

- (1) As per section 72(3), business loss can be carried forward for a maximum of eight assessment years immediately succeeding the assessment year for which the loss was first computed. Since the eight year period for carry forward of business loss of A.Y.

2016-17 expired in the A.Y. 2024-25, the balance unabsorbed business loss of Rs.10,000 cannot be carried forward to A.Y. 2025-26.

- (2) As per section 74A(3), the loss incurred on maintenance of race horses cannot be set-off against income from any source other than the activity of owning and maintaining race horses. Such loss can be carried forward for a maximum period of 4 assessment years.
- (3) Long-term capital loss on sale of unlisted shares can be set-off against long-term capital gain on sale of land. The balance loss of Rs.70,000 cannot be set-off against short term capital gain or against any other head of income. The same has to be carried forward for set-off against long-term capital gain of the subsequent assessment year. Such long-term capital loss can be carried forward for a maximum of eight assessment years.
- (4) Loss from speculation business cannot be set-off against any income other than profit and gains of another speculation business. Such loss can, however, be carried forward for a maximum of four years as per section 73(4) to be set-off against income from speculation business.

Question 4

Mr. A furnishes you the following information for the year ended 31.03.2024:

		(Rs.)
(i)	Income from plying of vehicles (computed as per books) (He owned 5 light goods vehicle throughout the year)	3,20,000
(ii)	Income from retail trade of garments (Computed as per books) (Sales turnover Rs.1,35,70,000) Mr. A had declared income on presumptive basis under section 44AD for the first time in A.Y. 2023-24. Assume 10% of the turnover during the previous year 2023-24 was received in cash and balance through A/c payee cheque and all the payments in respect of expenditure were also made through A/c payee cheque or debit card.	7,50,000
(iii)	He has brought forward depreciation relating to A.Y. 2022-23	1,00,000

Compute taxable income of Mr. A and his tax liability for the assessment year 2024- 25 with reasons for your computation, assuming that he exercised the option of shifting out of the default tax regime provided under Sec 115BAC(1A)

Answer

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

Particulars	Rs.
Income from retail trade – as per books (See Note 1 below)	7,50,000
Income from plying of vehicles – as per books (See Note 2 below)	3,20,000
	10,70,000

Less : Set off of b/f depreciation relating to A.Y. 2020-21	1,00,000
Total income	9,70,000
Tax liability	1,06,500
Add: Health and Education cess @4%	4,260
Total tax liability	1,10,760

Note:

1. **Income from retail trade:** Presumptive business income under section 44AD is Rs.8,41,340 i.e., 8% of Rs.13,57,000, being 10% of the turnover received in cash and 6% of Rs.1,22,13,000, being the amount of sales turnover received through A/c payee cheque. However, the income computed as per books is Rs.7,50,000 which is to be further reduced by the amount of unabsorbed depreciation of Rs 1,00,000. Since the income computed as per books is lower than the income deemed under section 44AD, the assessee can adopt the income as per books.

However, if he does not opt for presumptive taxation under section 44AD, he has to get his books of accounts audited under section 44AB, since his turnover exceeds Rs.1 crore (the enhanced limit of Rs 10 crore would not be available, since more than 5% of the turnover is received in cash). Also, his case would be falling under section 44AD(4) and hence tax audit is mandatory. It may further be noted that he cannot opt for section 44AD for next five A.Ys, if he does not opt for section 44AD this year.

2. **Income from plying of light goods vehicles:** Income calculated under section 44AE(1) would be Rs.7,500 x 12 x 5 which is equal to Rs.4,50,000. However, the income from plying of vehicles as per books is Rs.3,20,000, which is lower than the presumptive income of Rs.4,50,000 calculated as per section 44AE(1). Hence, the assessee can adopt the income as per books i.e. Rs.3,20,000, provided he maintains books of account as per section 44AA and gets his accounts audited and furnishes an audit report as required under section 44AB.

It is to be further noted that in both the above cases, had presumptive income provisions been opted, all deductions under sections 30 to 38, including depreciation would have been deemed to have been given full effect to and no further deduction under those sections would be allowable.

If the assessee opted for income to be assessed on presumptive basis, his total income would be as under:

Particulars	Rs.
Income from retail trade under section 44AD [Rs.13,57,000 @ 8% plus Rs.1,22,13,000 @6%]	8,41,340
Income from plying of light goods vehicles under section 44AE [Rs.7,500 x 12 x 5]	4,50,000
	12,91,340
Less: Set off of brought forward depreciation – not possible as it is deemed that it has been allowed and set off	Nil

Total income	12,91,340
Tax thereon	1,99,902
Add : Health and Education cess @4%	7,996
Total tax liability	2,07,898
Total tax liability (rounded off)	2,07,900

Question 5

Mr. Aditya furnishes the following details for the year ended 31-03-2022:

Particulars	Amount (Rs.)
Loss from speculative business A	25,000
Income from speculative business B	5,000
Loss from specified business covered under section 35AD	20,000
Income from salary (computed)	3,00,000
Loss from let out house property	2,50,000
Income from trading business	45,000
Long-term capital gain from sale of urban land	2,00,000
Long-term capital loss on sale of shares (STT not paid)	75,000
Long-term capital loss on sale of listed shares in recognized stock exchange (STT paid at the time of acquisition and sale of shares)	1,02,000

Following are the brought forward losses:

- (1) Losses from owning and maintaining of race horses pertaining to A.Y. 2022-23 Rs.2,000.
- (2) Brought forward loss from trading business Rs.5,000 relating to A.Y.2019-20.

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

Answer**Computation of total income of Mr. Aditya for the A.Y.2022-23**

Particulars	Rs.	Rs.
Salaries		
Income from Salary	3,00,000	
Less: Loss from house property set-off against salary income as per section 71(3A)	<u>2,00,000</u>	1,00,000

Loss from house property to the extent not set off i.e. Rs.50,000 (Rs.2,50,000 – Rs.2,00,000) to be carried forward to A.Y. 2023-24		
Profits and gains of business or profession		
Income from trading business	45,000	
Less: Brought forward loss from trading business of A.Y. 2017-18 can be set off against current year income from trading business as per section 72(1), since the eight year time limit as specified under section 72(3), within which set-off is permitted, has not expired.	5,000	40,000
Income from speculative business B	5,000	
Less: Loss of Rs.25,000 from speculative business A set-off as per section 73(1) to the extent of Rs.5,000	5,000	
Balance loss of Rs.20,000 from speculative business A to be carried forward to A.Y.2023-24 as per section 73(2)		Nil
Loss of Rs.20,000 from specified business covered under section 35AD to be carried forward for set-off against income from specified business as per section 73A.		
Capital Gains		
Long term capital gain on sale of urban land	2,00,000	
Less: Long term capital loss on sale of shares (STT not paid) set-off as per section 74(1)]	75,000	
Less: Long-term capital loss on sale of listed shares on which STT is paid can also be set-off as per section 74(1), since long-term capital arising on sale of such shares is taxable under section 112A	1,02,000	23,000
Total Income		1,63,000

Items eligible for carried forward to A.Y.2025-26

Particulars	Rs.
<u>Loss from House property</u>	50,000
As per section 71(3A), Loss from house property can be set-off against any other head of income to the extent of Rs.2,00,000 only.	
As per section 71B, balance loss not set-off can be carried forward to the next year for set-off against income from house property of that year. It can be carried forward for a maximum of eight assessment years i.e., upto A.Y.2032-33, in this case.	
<u>Loss from speculative business A</u>	20,000
Loss from speculative business can be set-off only against profits from any other speculation business. As per section 73(2), balance loss not set-off can be carried forward to the next year for set-off against speculative business income	

of that year. Such loss can be carried forward for a maximum of four assessment years i.e., upto A.Y.2028-29, in this case, as specified under section 73(4).

Loss from specified business

Loss from specified business under section 35AD can be set-off only against profits of any other specified business. If loss cannot be so set-off, the same has to be carried forward to the subsequent year for set off against income from specified business, if any, in that year. As per section 73A(2), such loss can be carried forward indefinitely for set-off against profits of any specified business .

20,000

Loss from the activity of owning and maintaining race horses Losses from the activity of owning and maintaining race horses (current year or brought forward) can be set-off only against income from the activity of owning and maintaining race horses. If it cannot be so set-off, it has to be carried forward to the next year for set-off against income from the activity of owning and maintaining race horses, if any, in that year. It can be carried forward for a maximum of four assessment years, i.e., upto A.Y.2026-27, in this case, as specified under section 74A(3).

2,000

Question 6

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

	Particulars	Rs.
(1)	Income from Salary (computed)	15,000
(2)	Income from business	66,000
(3)	Long term capital gain on sale of land	10,800
(4)	Loss on maintenance of race horses	15,000
(5)	Loss from gambling	9,100

The other details of unabsorbed depreciation and brought forward losses pertaining to Assessment Year 2023-24 are as follows:

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

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

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

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

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

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

Question 7

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

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

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

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

Particulars	Rs.	Rs.
Salaries		
Income from salaries	2,20,000	
Less: Loss from house property	1,90,000	30,000
Profits and gains of business or profession		
Income from speculation business	30,000	
Less: Loss from cloth business of Rs.2,40,000 set off to the extent of Rs.30,000	30,000	Nil
Capital gains		
Long-term capital gains from sale of urban land	2,50,000	
Less: Set-off of balance loss of Rs.2,10,000 from cloth business	2,10,000	40,000
Income from other sources		
Income from betting		45,000
Gross Total Income		1,15,000
Less: Deduction under section 80C (life insurance premium paid) [See Note (iv) below]		30,000

Total income		85,000
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Losses to be carried forward:

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

Notes:

- (i) Loss from specified business covered by section 35AD can be set-off only against profits and gains of any other specified business. Therefore, such loss cannot be set off against any other income. The unabsorbed loss has to be carried forward for set-off against profits and gains of any specified business in the following year.
- (ii) Business loss cannot be set off against salary income. However, the balance business loss of Rs.2,10,000 (Rs.2,40,000 – Rs.30,000 set-off against income from speculation business) can be set-off against long-term capital gains of Rs.2,50,000 from sale of urban land. Consequently, the taxable long-term capital gains would be Rs.40,000.
- (iii) Loss from card games can neither be set off against any other income, nor can be carried forward.
- (iv) For providing deduction under Chapter VI-A, gross total income has to be reduced by the amount of long-term capital gains and casual income. Therefore, the deduction under section 80C in respect of life insurance premium of Rs.45,000 paid has to be restricted to Rs.30,000 [i.e., Gross Total Income of Rs.1,15,000 – Rs.40,000 (LTCG) – Rs.45,000 (Casual income)].
- (v) Income from betting is chargeable at a flat rate of 30% under section 115BB and no expenditure or allowance can be allowed as deduction from such income, nor can any loss be set-off against such income.

Question 8

Mr. Rajat submits the following information for the financial year ending 31st March, 2024. He desires that you should:

- (a) Compute the total income and
- (b) Ascertain the amount of losses that can be carried forward.

Particulars	Rs.
(i) He has two houses:	
(a) House No. I – Income after all statutory deductions	72,000
(b) House No. II – Current year loss	(30,000)
(ii) He has three proprietary businesses:	
(a) Textile Business:	
(i) Discontinued from 31st October, 2023 – Current year loss	40,000
(ii) Brought forward business loss of A.Y. 2019-20	95,000
(b) Chemical Business:	
(i) Discontinued from 1st March, 2021 – hence no profit/loss	Nil
(ii) Bad debts allowed in earlier years recovered during this year	35,000
(iii) Brought forward business loss of A.Y. 2020-21	50,000
(c) Leather Business: Profit for the current year	1,00,000
(d) Share of profit in a firm in which he is partner since 2009	16,550
(iii) (a) Short-term capital gain	60,000
(b) Long-term capital loss	35,000
(iv) Contribution to LIC towards premium	10,000

Answer**Computation of total income of Mr. Rajat for the A.Y. 2024-25**

Particulars	Rs.	Rs.
1. Income from house property		
House No.1	72,000	
House No.2	(-) 30,000	42,000
2. Profits and gains of business or profession		
Profit from leather business	1,00,000	
Bad debts recovered taxable under section 41 (4)	35,000	
	1,35,000	
Less: Current year loss of textile business	(-) 40,000	

Less: Brought forward business loss of textile business for A.Y.2019-20 set off against the business income of current year	95,000	
	95,000	Nil
3. Capital Gains		
Short-term capital gain		60,000
Gross Total Income		1,02,000
Less: Deduction under Chapter VI-A		
Under section 80C – LIC premium paid		10,000
Total Income		92,000

Statement of losses to be carried forward to A.Y. 2025-26

Particulars	Rs.
Brought forward chemical business loss of A.Y. 2020-21 to be carried forward u/s 72	50,000
Long term capital loss of A.Y. 2024-25 to be carried forward u/s 74	35,000

Notes:

- (1) Share of profit from firm of Rs.16,550 is exempt under section 10(2A).
- (2) Long-term capital loss cannot be set-off against short-term capital gains. Therefore, it has to be carried forward to the next year to be set-off against long-term capital gains of that year.

Question 9

Ms. Geeta, a resident individual, provides the following details of her income / losses for the year ended 31.3.2024:

- (i) Salary received as a partner from a partnership firm Rs.7,50,000. The same was allowed to the firm.
- (ii) Loss on sale of shares listed in BSE Rs.3,00,000. Shares were held for 15 months and STT paid on sale and acquisition.
- (iii) Long-term capital gain on sale of land Rs.5,00,000.
- (iv) Rs.51,000 received in cash from friends in party.
- (v) Rs.55,000, received towards dividend on listed equity shares of domestic companies.
- (vi) Brought forward business loss of assessment year 2022-23 Rs.12,50,000.

Compute gross total income of Ms. Geeta for the Assessment Year 2024-25 and ascertain the amount of loss that can be carried forward.

Answer**Computation of Gross Total Income of Ms. Geeta for the Assessment Year 2024-25**

Particulars		Rs.
Profits and gains of business and profession		
Salary received as a partner from a partnership firm is taxable under the head "Profits and gains of business and profession"		7,50,000
Less: B/f business loss of A.Y. 2022-23 Rs.12,50,000 to be set-off to the extent of Rs.7,50,000		7,50,000
		Nil
(Balance b/f business loss of Rs.5,00,000 can be carried forward to the next year)		
Capital Gains		
Long term capital gain on sale of land	5,00,000	
Less: Long-term capital loss on shares on STT paid (See Note 2 below)	3,00,000	2,00,000
Income from other sources		
Cash gift received from friends - since the value of cash gift exceeds Rs.50,000, the entire sum is taxable	51,000	
Dividend received from a domestic company is fully taxable in the hands of shareholders	55,000	1,06,000
Gross Total Income		3,06,000

Notes:

- Balance brought forward business loss of assessment year 2022-23 of Rs.5,00,000 has to be carried forward to the next year.
- Long-term capital loss on sale of shares on which STT is paid at the time of acquisition and sale can be set-off against long-term capital gain on sale of land since long-term capital gain on sale of shares (STT paid) is taxable under section 112A. Therefore, it can be set-off against long-term capital gain on sale of land as per section 70(3).

Question 10

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

Sl. No.	Particulars	Rs.
(i)	Income from salary (computed)	18,000
(ii)	Net annual value of house property	70,000
(iii)	Income from business	80,000
(iv)	Income from speculative business	12,000

(v)	Long term capital gain on sale of land	15,800
(vi)	Loss on maintenance of race horse	9,000
(vii)	Loss on gambling	8,000

Depreciation allowable under the Income-tax Act, 1961, comes to Rs.8,000, for which no treatment is given above.

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

Sl. No.	Particulars	Rs.
(i)	Unabsorbed depreciation	9,000
(ii)	Loss from speculative business	16,000
(iii)	Short term capital loss	7,800

Compute the gross total income of Mr. P for the Assessment year 2024-25, and the amount of loss that can or cannot be carried forward.

Answer

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

Particulars	Rs.	Rs.
(i) Income from salary		18,000
(ii) Income from House Property		
Net Annual Value	70,000	
Less: Deduction under section 24 (30% of Rs.70,000)	21,000	49,000
(iii) Income from business and profession		
(a) Income from business	80,000	
Less : Current year depreciation	8,000	
	72,000	
Less : Unabsorbed depreciation	9,000	63,000
(b) Income from speculative business	12,000	
Less : B/f loss of Rs.16,000 from speculative business s/o to the extent of Rs.12,000	12,000	Nil
(Balance loss of Rs.4,000 (i.e. Rs.16,000 – Rs.12,000) can be carried forward to the next year)		
(iv) Income from capital gain		
Long-term capital gain on sale of land	15,800	
Less: Brought forward short-term capital loss	7,800	8,000
Gross total income		1,38,000

Amount of loss to be carried forward to the next year

Particulars	Rs.
Loss from speculative business (to be carried forward as per section 73)	4,000
Loss on maintenance of race horses (to be carried forward as per section 74A)	9,000

Notes:

- (i) Loss on gambling can neither be set-off nor be carried forward.
- (ii) As per section 74A(3), the loss incurred on maintenance of race horses cannot be set-off against income from any other source other than the activity of owning and maintaining race horses. Such loss can be carried forward for a maximum period of 4 assessment years.
- (iii) Brought forward speculative business loss can be set off only against income from speculative business of the current year and the balance loss can be carried forward to A.Y. 2025-26. It may be noted that speculative business loss can be carried forward for a maximum of four years as per section 73(4).

Question 11 – November 2018 RTP

From the following information for PY 2021-22, compute the total income of Mr. Arihant for AY 2022-23 & show eligible items for c/f & upto which AY:

Particulars	Amount
LTCG from sale of urban land	2,30,000
LTCG on sale of shares (STT not paid)	85,000
LTCL on sale of listed shares in RSE (STT paid at time of acquisition & sale)	1,02,000
Loss from speculative business X	25,000
Income from speculative business Y	15,000
Loss from specified business covered u/s 35AD	40,000
Income from salary	3,50,000
Loss from HP	2,20,000
Income from trading business	75,000

Following are details of unabsorbed depreciation & the b/f losses:

- (1) Unabsorbed depreciation of Rs. 11,000 pertaining to AY 2021-22.
- (2) Losses from owning & maintaining of race horses pertaining to AY 2021-22: Rs. 5,000.
- (3) Brought forward loss from trading business Rs. 8,000 relating to AY 2018-19.

Answer**Computation of total income of Mr. Arihant for AY 2022-23**

Particulars	Rs.	Rs.
Income from Salary	3,50,000	
Less: Loss from HP set-off against salary income	1,57,000	1,93,000
House Property (Loss)	2,20,000	
Less: Adjusted against Capital gains u/s 112	43,000	
Less: Adjusted against salary income	1,57,000	Nil
[Loss of Rs. 20,000 shall be c/f to next year]		
Profits & gains of business or profession		
Income from trading business	75,000	
Less: B/f loss from trading business of AY 2018-19 [8 years time limit within which set-off is permitted has not expired]	8,000	
Less: Unabsorbed depreciation	11,000	56,000
Income from speculative business Y	15,000	
Less: Loss from speculative business X	15,000	
Capital Gains		
LTCL on sale of urban land	2,30,000	
Less: LTCL on sale of shares (STT not paid)	85,000	
Less: LTCL u/s 112A on sale of listed shares [Note 1]	1,02,000	
Less: Loss from HP	43,000	Nil
Total Income	3,51,000	

Items eligible for carried forward to AY 2023-24

- Loss from HP: Rs. 20,000.
- Loss from speculative business X: Rs. 10,000.
- Loss from specified business u/s 35AD: Rs. 40,000.

Loss from the activity of owning & maintaining race horses: Rs. 5,000.

Question 12 – May 2019 RTP

Compute GTI of Mr. Avinash & show the items eligible for carry forward & AYs upto which such losses can be carry forward from following the information for PY 2021-22:

Particulars	Amount
Loss from speculative business MNO	12,000
Income from speculative business BPO	25,000
Loss from specified business covered u/s 35AD	45,000
Income from salary (computed)	4,18,000
Loss from HP	2,20,000
Income from trading business	2,80,000

Income from owning & maintaining race horses	8,000
LTCG from sale of urban land	2,05,000
LTCL on sale of equity shares (STT not paid)	85,000
LTCL on sale of listed equity shares in recognized stock exchange (STT paid at the time of acquisition & sale of shares)	1,10,000

Following are the brought forward (B/F) losses:

- Losses from owning & maintaining of race horses pertaining to AY 2020-21: Rs. 12,000.
- B/F loss from speculative business MNO 18,000 relating to AY 2019-20.
- B/F loss from trading business of Rs. 12,000 relating to AY 2018-19.

Assume Mr. Avinash has furnished his ROI before DD u/s 139(1) in all the above PYs.

Answer

Computation of Gross total income of Mr. Avinash for AY 2022-23

Particulars	Rs.	Rs.
Income from Salary	4,18,000	2,28,000
Less: Loss from HP set-off against salary	1,90,000	
House Property (Loss)	2,20,000	Nil
Less: Adjusted against LTCG u/s 112	10,000	
Less: Adjusted against salary income [Note 1]	1,90,000	
[Loss of Rs. 20,000 shall be c/f to next year]		
PGBP		
Income from trading business	2,80,000	
Less: B/f loss from trading business of AY 2018-19 [8 year time limit within which set-off is permitted has not expired]	12,000	2,68,000
Income from speculative business BPO	25,000	Nil
Less: Loss from speculative business MNO	12,000	
Less: B/f Loss from speculative business MNO of AY 2019-20	13,000	
Capital Gains		
Long term capital gain on sale of urban land	2,05,000	
Less: LTCL on sale of shares (STT not paid)	85,000	
Less: LTCL u/s 112A on sale of listed shares [Note 1]	1,10,000	
Less: Loss from HP set-off LTCG	10,000	Nil
Total Income		4,96,000

Items eligible for carried forward to AY 2022-23

- Loss from HP: Rs. 20,000.
- Loss from speculative business MNO: Rs. 5,000.
- Loss from specified business u/s 35AD: Rs. 45,000.
 - Loss from the activity of owning & maintaining race horses: Rs. 4,000

DEDUCTIONS FROM GROSS TOTAL INCOME

Conceptual Questions

Illustration 1

Examine the following statements with regard to the provisions of the Income-tax Act, 1961:

- (a) For grant of deduction under section 80JJAA, filing of audit report in prescribed form is must for a corporate assessee; filing of return within the due date laid down in section 139(1) is not required.
- (b) Filing of belated return under section 139(4) of the Income-tax Act, 1961 will debar an assessee from claiming deduction under section 80QCB if the assessee exercises the option of shifting out of the default tax regime provided under section 115BAC(1A) (i.e., he pays tax under the optional tax regime).

Solution

- (a) The statement is **not** correct. Section 80AC stipulates compulsory filing of return of income on or before the due date specified under section 139(1), as a pre-condition for availing the benefit of deduction, inter alia, under section 80JJAA.
- (b) The statement is **correct**. As per section 80AC, the assessee has to furnish his return of income on or before the due date specified under section 139(1), to be eligible to claim deduction under, inter alia, section 80QCB.

Illustration 2

Compute the eligible deduction under section 80C for A.Y.2024-25 in respect of life insurance premium paid by Mr. Ganesh during the P.Y.2023-24, the details of which are given hereunder, if the assessee has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A).

	Date of issue of policy	Person insured	Actual capital sum assured (Rs.)	Insurance premium paid during 2024-25 (Rs.)
(i)	30/3/2012	Self	8,00,000	48,000
(ii)	1/5/2018	Spouse	1,50,000	20,000
(iii)	1/6/2021	Handicapped son (section 80U disability)	4,00,000	80,000

Solution

	Date of issue of policy	Person insured	Actual capital sum assured (Rs.)	Insurance premium paid during 2024-25 (Rs.)	Deduction u/s 80C for A.Y. 2024-25 (Rs.)	Remark (restricted to % of sum assured) (Rs.)
(i)	30/3/2012	Self	8,00,000	48,000	48,000	20%
(ii)	1/5/2018	Spouse	1,50,000	20,000	15,000	10%
(iii)	1/6/2021	Handicapped son (section 80U disability)	4,00,000	80,000	60,000	15%

Total	1,23,000
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Illustration 3

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

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

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

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

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

Illustration 4

The basic salary of Mr. A is Rs.1,00,000 p.m. He is entitled to dearness allowance, which is 40% of basic salary. 50% of dearness allowance forms part of pay for retirement benefits. Both Mr. A and his employer, ABC Ltd., contribute 15% of basic salary to the pension scheme referred to in section 80CCD. Explain the tax treatment in respect of such contribution in the hands of Mr. A if the assessee has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A).

Solution

Tax treatment in the hands of Mr. A in respect of employer's and own contribution to pension scheme referred to in section 80CCD

- Employer's contribution to such pension scheme would be treated as salary since it is specifically included in the definition of "salary" under section 17(1)(viii). Therefore, Rs.1,80,000, being 15% of basic salary of Rs.12,00,000, will be included in Mr. A's salary.
- Mr. A's contribution to pension scheme is allowable as deduction under section 80CCD(1). However, the deduction is restricted to 10% of salary. Salary, for this purpose, means basic pay plus dearness allowance, if it forms part of pay.

Therefore, "salary" for the purpose of deduction under section 80CCD for Mr. A would be –

Particulars	Rs.
Basic salary = Rs.1,00,000 × 12 =	12,00,000

Dearness allowance = 40% of Rs.12,00,000 = Rs.4,80,000	
50% of Dearness Allowance forms part of pay = 50% of Rs.4,80,000	2,40,000
Salary for the purpose of deduction under section 80CCD	14,40,000
Deduction under section 80CCD(1) is restricted to 10% of Rs.14,40,000 (as against actual contribution of Rs.1,80,000, being 15% of basic salary of Rs.12,00,000)	1,44,000
As per section 80CCD(1B), a further deduction of upto Rs.50,000 is allowable. Therefore, deduction under section 80CCD(1B) is Rs.36,000 (Rs.1,80,000 - Rs.1,44,000).	36,000

Rs.1,44,000 is allowable as deduction under section 80CCD(1). This would be taken into consideration and be subject to the overall limit of Rs.1,50,000 under section 80CCE. Rs.36,000 allowable as deduction under section 80CCD(1B) is outside the overall limit of Rs.1,50,000 under section 80CCE.

In the alternative, Rs.50,000 can be claimed as deduction under section 80CCD(1B). The balance Rs.1,30,000 (Rs.1,80,000 – Rs.50,000) can be claimed as deduction under section 80CCD(1).

- (c) Employer's contribution to pension scheme would be allowable as deduction under section 80CCD(2), subject to a maximum of 10% of salary. Therefore, deduction under section 80CCD(2), would also be restricted to Rs.1,44,000, even though the entire employer's contribution of Rs.1,80,000 is included in salary under section 17(1)(viii). However, this deduction of employer's contribution of Rs.1,44,000 to pension scheme would be outside the overall limit of Rs.1,50,000 under section 80CCE i.e., this deduction would be over and above the other deductions which are subject to the limit of Rs.1,50,000.

Illustration 5

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

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

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

Solution

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

Particulars	Rs.
Deduction under section 80C	

- Contribution to PPF	1,10,000
- Payment of tuition fees to Apeejay School, New Delhi, for education of his son studying in Class XI	45,000
- Repayment of housing loan	25,000
	1,80,000
Restricted to Rs.1,50,000, being the maximum permissible deduction u/s 80C	1,50,000
Deduction under section 80CCC	
- Contribution to approved pension fund of LIC Rs.1,05,000	1,05,000
	2,55,000
As per section 80CCE, the aggregate deduction under section 80C, 80CCC and 80CCD(1) has to be restricted to Rs.1,50,000	
Deduction allowable under Chapter VIA for the A.Y. 2024-25	1,50,000

Illustration 6

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

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

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

		51,000	50,000
	Total deduction under section 80D (Rs.25,000 + Rs.50,000)		75,000

Notes:

- (1) The total deduction under A. (i), (ii) and (iii) above should not exceed Rs.25,000. Therefore, the expenditure on preventive health check-up for self and spouse would be restricted to Rs.1,400, being (Rs.25,000 – Rs.20,000 – Rs.3,600).
- (2) The total deduction under B. (i) and (ii) above should not exceed Rs.50,000. Therefore, the expenditure on preventive health check-up for father would be restricted to Rs.3,000, being (Rs.50,000 – Rs.47,000).
- (3) In this case, the total deduction allowed on account of expenditure on preventive health check-up of self, spouse and father is Rs.4,400 (i.e., Rs.1,400 + Rs.3,000), which is within the maximum permissible limit of Rs.5,000.

Illustration 7

Mr. Y, aged 40 years, paid medical insurance premium of Rs.22,000 during the P.Y. 2023-24 to insure his health as well as the health of his spouse and dependent children. He also paid medical insurance premium of Rs.33,000 during the year to insure the health of his mother, aged 67 years, who is not dependent on him. He incurred medical expenditure of Rs.20,000 on his father, aged 71 years, who is not covered under mediclaim policy. His father is also not dependent upon him. He contributed Rs.6,000 to Central Government Health Scheme during the year. Compute the deduction allowable under section 80D for the A.Y. 2024-25 if the assessee has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A).

Solution

Illustration 8

Mr. X is a resident individual. He deposits a sum of Rs.50,000 with Life Insurance Corporation every year for the maintenance of his disabled grandfather who is wholly dependent upon him. The disability is one which comes under the Persons with Disabilities (Equal Opportunities, Protection of Rights and Full Participation) Act, 1995. A copy of the certificate from the medical authority is submitted. Compute the amount of deduction available under section 80DD for the A.Y. 2024-25 if the assessee has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A).

Solution

Since the amount deposited by Mr. X was for his grandfather, he will not be allowed any deduction under section 80DD. The deduction is available if the individual assessee incurs any expense for a "dependant" disabled person. Grandfather does not come within the meaning of "dependant" as defined under section 80DD.

Illustration 9

What will be the deduction if Mr. X had made this deposit for his dependant father?

Solution

Since the expense was incurred for a dependant disabled person, Mr. X will be entitled to claim a deduction of Rs.75,000 under section 80DD, irrespective of the amount deposited. In case his father has severe disability, the deduction would be Rs.1,25,000.

Illustration 10

Mr. B has taken three education loans on April 1, 2023, the details of which are given below:

	Loan 1	Loan 2	Loan 3
For whose education loan was taken	B	Son of B	Daughter of B
Purpose of loan	MBA	B. Sc.	B.A.
Amount of loan (Rs.)	5,00,000	2,00,000	4,00,000
Annual repayment of loan (Rs.)	1,00,000	40,000	80,000
Annual repayment of interest (Rs.)	20,000	10,000	18,000

Compute the amount deductible under section 80E for the A.Y.2024-25 if the assessee has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A).

Solution

Deduction under section 80E is available to an individual assessee in respect of any interest paid by him in the previous year in respect of loan taken for pursuing his higher education or higher education of his spouse or children. Higher education means any course of study pursued after senior secondary examination.

Therefore, interest repayment in respect of all the above loans would be eligible for deduction.

Deduction under section 80E = Rs.20,000 + Rs.10,000 + Rs.18,000 = Rs.48,000.

Illustration 11

Mr. A purchased a residential house property for self-occupation at a cost of Rs.45 lakh on 1.4.2017, in respect of which he took a housing loan of Rs.35 lakh from Bank of India @11% p.a. on the same date. The loan was sanctioned on 28th March, 2017. Compute the eligible deduction in respect of interest on housing loan for A.Y.2024- 25 if the assessee has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A),

assuming that the entire loan was outstanding as on 31.3.2023 and he does not own any other house property.

Solution

Particulars	Rs.
Interest deduction for A.Y.2024-25	
(i) Deduction allowable while computing income under the head "Income from house property"	
Deduction under section 24(b) Rs.3,85,000 [Rs.35,00,000 × 11%]	
Restricted to	2,00,000
(ii) Deduction under Chapter VI-A from Gross Total Income	
Deduction under section 80EE Rs.1,85,000 (Rs.3,85,000 – Rs.2,00,000)	
Restricted to	50,000

Illustration 12

The following are the particulars relating to Mr. A, Mr. B, Mr. C and Mr. D, salaried individuals, for A.Y. 2024-25 –

Particulars	Mr. A	Mr. B	Mr. C	Mr. D
Amount of loan taken	Rs.43 lakhs	Rs.45 lakhs	Rs.20 lakhs	Rs.15 lakhs
Loan taken from	HFC	Deposit taking NBFC	Deposit taking NBFC	Public sector bank
Date of sanction of loan	1.4.2021	1.4.2020	1.4.2020	30.3.2019
Date of disbursement of loan	1.5.2021	1.5.2020	1.5.2020	1.5.2019
Purpose of loan	Acquisition of residential house property for self-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	Rs.45 lakhs	Rs.48 lakhs	-	-
Cost of electric vehicle	-	-	Rs.22 lakhs	Rs.18 lakhs
Rate of interest	9% p.a.	9% p.a.	10% p.a.	10% p.a.

Compute the amount of deduction, if any, allowable under the provisions of the Income-tax Act, 1961 for A.Y.2024-25 in the hands of Mr. A, Mr. B, Mr. C and Mr. D if the assessee has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A). Assume that there has been no principal repayment in respect of any of the above loans upto 31.3.2024.

Solution

Particulars	Rs.
Mr. A	

Interest deduction for A.Y.2024-25	
(i) Deduction allowable while computing income under the head "Income from house property" Deduction u/s 24(b) Rs.3,54,750 [$\text{Rs.}43,00,000 \times 9\% \times 11/12$] Restricted to	2,00,000
(ii) Deduction under Chapter VI-A from Gross Total Income Deduction u/s 80EEA Rs.1,54,750 ($\text{Rs.}3,54,750 - \text{Rs.}2,00,000$) Restricted to	1,50,000
Mr. B	
Interest deduction for A.Y.2024-25	
(i) Deduction allowable while computing income under the head "Income from house property" Deduction u/s 24(b) Rs.4,05,000 [$\text{Rs.}45,00,000 \times 9\%$] Restricted to	2,00,000
(ii) Deduction under Chapter VI-A Deduction u/s 80EEA is not permissible since: (i) loan is taken from NBFC (ii) stamp duty value exceeds Rs.45 lakh. Deduction under section 80EEA would not be permissible due to either violation listed above.	Nil
Mr. C	
Deduction under Chapter VI-A	
Deduction u/s 80EEB for interest payable on loan taken for purchase of electric vehicle [$\text{Rs.}20 \text{ lakhs} \times 10\% = \text{Rs.}2,00,000$, restricted to Rs.1,50,000, being the maximum permissible deduction]	1,50,000
Mr. D	
Deduction under Chapter VI-A	
Deduction u/s 80EEB is not permissible since loan was sanctioned before 1.4.2019.	Nil

Illustration 13

Mr. Shiva aged 58 years, has gross total income of Rs.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 1.4.2018) (Assured value Rs.1,80,000) – Rs.20,000.
- (ii) Medical Insurance premium for self – Rs.12,000; Spouse – Rs.14,000.
- (iii) Donation to a public charitable institution Rs.50,000 by way of cheque.
- (iv) LIC Pension Fund – Rs.60,000.

- (v) Donation to National Children's Fund – Rs.25,000 by way of cheque
- (vi) Donation to Jawaharlal Nehru Memorial Fund – Rs.25,000 by way of cheque
- (vii) Donation to approved institution for promotion of family planning – Rs.40,000 by way of cheque
- (viii) Deposit in PPF – Rs.1,00,000

Compute the total income of Mr. Shiva for A.Y. 2024-25 if the assessee has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A).

Solution

ILLUSTRATION 14

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

SOLUTION

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

- (i) Actual rent paid less 10% of total income

$$\text{Rs.1,44,000 (-) } \frac{(10 \times 4,60,000)}{100} = \text{Rs.98,000 (A)}$$

- (ii) 25% of total income = $\frac{25 \times 4,60,000}{100} = \text{Rs.1,15,000 (B)}$

- (iii) Amount calculated at Rs.5,000 p.m. = Rs.60,000 (C)

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

Illustration 15

During the P.Y. 2023-24, ABC Ltd., an Indian company,

- (1) contributed a sum of Rs.2 lakh to an electoral trust; and
- (2) incurred expenditure of Rs.25,000 on advertisement in a brochure of a political party.

Is the company eligible for deduction in respect of such contribution/expenditure, assuming that the contribution was made by cheque? If so, what is the quantum of deduction? Assessee does not opt for Sec 115BAA / Sec 115BAB

Solution

An Indian company is eligible for deduction under section 80GGB in respect of any sum contributed by it in the previous year to any political party or an electoral trust. Further, the word "contribute" in section 80GGB has the meaning assigned to it in section 293A of the Companies Act, 1956, and accordingly, it includes the amount of expenditure incurred on advertisement in a brochure of a political party.

Therefore, ABC Ltd. is eligible for a deduction of Rs.2,25,000 under section 80GGB in respect of sum of Rs.2 lakh contributed to an electoral trust and Rs.25,000 incurred by it on advertisement in a brochure of a political party.

It may be noted that there is a specific disallowance under section 37(2B) in respect of expenditure incurred on advertisement in a brochure of a political party. Therefore, the expenditure of Rs.25,000 would be disallowed while computing business income / gross total income. However, the said expenditure incurred by an Indian company is allowable as a deduction from gross total income under section 80GGB.

Illustration 16

Mr. A has commenced the business of manufacture of computers on 1.4.2023. He employed 350 new employees during the P.Y. 2023-24, the details of whom are as follows –

	No. of employees	Date of employment	Regular / Casual	Total monthly emoluments per employee (Rs.)
(i)	75	1.4.2022	Regular	24,000
(ii)	125	1.5.2022	Regular	26,000
(iii)	50	1.8.2022	Casual	24,500
(iv)	100	1.9.2022	Regular	24,000

The regular employees participate in recognized provident fund while the casual employees do not. Compute the deduction, if any, available to Mr. A for A.Y. 2024- 25, if the profits and gains derived from manufacture of computers that year is Rs.75 lakhs and his total turnover is Rs.10.16 crores.

What would be your answer if Mr. A has commenced the business of manufacture of footwear on 1.4.2023?

Solution

Mr. A is eligible for deduction under section 80JJAA since he is subject to tax audit under section 44AB for A.Y. 2024-25 and he has employed "additional employees" during the P.Y. 2023-24.

I If Mr. A is engaged in the business of manufacture of computers

Additional employee cost = Rs.24,000 × 12 × 75 [See Working Note below]

= Rs.2,16,00,000

Deduction under section 80JJAA = 30% of Rs.2,16,00,000 = Rs.64,80,000.

Working Note:

Number of additional employees

Particulars	No. of workmen	
Total number of employees employed during the year		350
Less: Casual employees employed on 1.8.2023 who do not participate in recognized provident fund	50	
Regular employees employed on 1.5.2023, since their total monthly emoluments exceed Rs.25,000	125	
Regular employees employed on 1.9.2023 since they have been employed for less than 240 days in the P.Y.2023-24.	100	275
Number of "additional employees"		75

Notes –

- (i) Since casual employees do not participate in recognized provident fund, they do not qualify as additional employees. Further, 125 regular employees employed on 1.5.2023 also do not qualify as additional employees since their monthly emoluments exceed Rs.25,000. Also, 100 regular employees employed on 1.9.2023 do not qualify as additional employees for the P.Y.2024-25, since they are employed for less than 240 days in that year.

Therefore, only 75 employees employed on 1.4.2023 qualify as additional employees, and the total emoluments paid or payable to them during the P.Y.2023-24 is deemed to be the additional employee cost.

- (ii) As regards 100 regular employees employed on 1.9.2023, they would be treated as additional employees for previous year 2024-25, if they continue to be employees in that year for a minimum period of 240 days. Accordingly, 30% of additional employee cost in respect of such employees would be allowable as deduction under section 80JJAA in the hands of Mr. A for the A.Y. 2025-26.

II If Mr. A is engaged in the business of manufacture of footwear

If Mr. A is engaged in the business of manufacture of footwear, then, he would be entitled to deduction under section 80JJAA in respect of employee cost of regular employees employed on 1.9.2022, since they have been employed for more than 150 days in the previous year 2023-24.

Additional employee cost = Rs.2,16,00,000 + Rs.24,000 × 7 × 100 = Rs.3,84,00,000

Deduction under section 80JJAA = 30% of Rs.3,84,00,000 = Rs.1,15,20,000

Illustration 17

Mr. Aakash received royalty of Rs.2,88,000 from a foreign country for a book authored by him, being a work of literary nature. The rate of royalty is 18% of value of books. The expenditure

incurred by him for earning this royalty was Rs.40,000. The amount remitted to India till 30th September, 2023 is Rs.2,30,000. The remaining amount was not remitted till 31st March, 2024. Compute the amount includible in the gross total income of Mr. Aakash and the amount of deduction which he will be eligible for under section 80QQB if the assessee has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A).

Solution

The net royalty of Rs.2,48,000 (i.e., royalty of Rs.2,88,000 less Rs.40,000, being expenditure to earn such income) is includible in gross total income.

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

Illustration 18

Mr. A, a resident individual aged 61 years, has earned business income (computed) of Rs.1,35,000, lottery income of Rs.1,20,000 (gross) during the P.Y. 2023-24. He also has interest on Fixed Deposit of Rs.30,000 with banks. He invested an amount of Rs.1,50,000 in Public Provident Fund account. What is the total income of Mr. A for the A.Y. 2024-25 if the assessee has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A).

Solution

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

Particulars	Rs.	Rs.
Profits and gains of business or profession		1,35,000
Income from other sources		
- Interest on Fixed Deposit with banks		30,000
- lottery income		1,20,000
Gross Total Income		2,85,000
Less: Deductions under Chapter VIA [See Note below]		
Under section 80C		
- Deposit in Public Provident Fund	1,50,000	
Under section 80TTB		
- Interest on fixed deposits with banks	30,000	
	1,80,000	
Restricted to		1,65,000

Total Income		1,20,000
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Note: In case of resident individuals of the age of 60 years or more, interest on bank fixed deposits qualifies for deduction upto Rs.50,000 under section 80TTB.

Though the aggregate of deductions under Chapter VI-A is Rs.1,80,000, however, the maximum permissible deduction cannot exceed the gross total income exclusive of long term capital gains taxable under section 112 and section 112A, short-term capital gains covered under section 111A and winnings from lotteries of the assessee.

Therefore, the maximum permissible deduction under Chapter VI-A = Rs.2,85,000 – Rs.1,20,000 = Rs.1,65,000.

Illustration 19

Mr. Gurnam, aged 42 years, has salary income (computed) of Rs.5,50,000 for the previous year ended 31.03.2024. He has earned interest of Rs.14,500 on the saving bank account with State Bank of India during the year. Compute the total income of Mr. Gurnam for the assessment year 2024-25 from the following particulars, assuming that he does not opt for section 115BAC:

- (i) Life insurance premium paid to Birla Sunlife Insurance in cash amounting to Rs.25,000 for insurance of life of his dependent parents. The insurance policy was taken on 15.07.2020 and the sum assured on life of his dependent parents is Rs.2,00,000.
- (ii) Life insurance premium of Rs.25,500 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 Rs.3,50,000 and the life insurance policy was taken on 30.3.2012.
- (iii) Life insurance premium paid by cheque of Rs.22,500 for insurance of his life. The insurance policy was taken on 08.09.2019 and the sum assured is Rs.2,00,000.
- (iv) Premium of Rs.26,000 paid by cheque for health insurance of self and his wife.
- (v) Rs.1,500 paid in cash for his health check-up and Rs.4,500 paid in cheque for preventive health check-up for his parents, who are senior citizens.
- (vi) Paid interest of Rs.6,500 on loan taken from bank for MBA course pursued by his daughter.
- (vii) A sum of Rs.5,000 donated in cash to an institution approved for purpose of section 80G for promoting family planning.

Solution

Additional Questions

Question 1

Examine the following statements with regard to the provisions of the Income-tax Act, 1961:

- (i) During the financial year 2023-24, Mr. Amit paid interest on loan availed by him for his son's higher education. His son is already employed in a firm. Mr. Amit will get the deduction under section 80E.
- (ii) Subscription to notified bonds of NABARD would qualify for deduction under section 80C.
- (iii) In order to be eligible to claim deduction under section 80C, investment / contribution / subscription etc. in eligible or approved modes, should be made from out of income chargeable to tax.
- (iv) Where an individual repays a sum of Rs.30,000 towards principal and Rs.14,000 as interest in respect of loan taken from a bank for pursuing eligible higher studies, the deduction allowable under section 80E is Rs.44,000.
- (v) Mrs. Sheela, widow of Mr. Satish (who was an employee of M/s. XYZ Ltd.), received Rs.7 lakhs on 1.5.2022, being amount standing to the credit of Mr. Satish in his NPS Account, in respect of which deduction has been allowed under section 80CCD to Mr. Satish in the earlier previous years. Such amount received by her as a nominee on closure of the account is deemed to be her income for A.Y.2024-25.
- (vi) Mr. Vishal, a Central Government employee, contributed Rs.50,000 towards Tier II account of NPS. The same would be eligible for deduction under section 80CCD.

Answer

- (i) **The statement is correct.** The deduction under section 80E available to an individual in respect of interest on loan taken for his higher education or for the higher education of his relative. For this purpose, relative means, inter alia, spouse and children of the individual. Therefore, Mr. Amit will get the deduction under section 80E in respect of interest on loan availed by him for his son's higher education. It is immaterial that his son is already employed in a firm. This would not affect Mr. Amit's eligibility for deduction under section 80E.
- (ii) **The statement is correct.** Under section 80C(2) subscription to such bonds issued by NABARD (as the Central Government may notify in the Official Gazette) would qualify for deduction under section 80C.
- (iii) **The statement is not correct.** There is no stipulation under section 80C that the investment, subscription, etc. should be made from out of income chargeable to tax.
- (iv) **The statement is not correct.** Deduction under section 80E is in respect of interest paid on education loan. Hence, the deduction will be limited to Rs.14,000.
- (v) **The statement is not correct.** The proviso to section 80CCD(3) provides that the amount received by the nominee, on closure of NPS account on the death of the assessee, shall not be deemed to be the income of the nominee. Hence, amount received by Mrs. Sheela would not be deemed to be her income for A.Y. 2024-25.
- (vi) **The statement is not correct.** Contribution to Tier II account of NPS would qualify for deduction under section 80C and not section 80CCD.

Question 2

Examine the allowability of the following if the assessee has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A)

- (i) **Rajan has to pay to a hospital for treatment Rs.62,000 and spent nothing for life insurance or for maintenance of dependent disabled.**
- (ii) **Raja, a resident Indian, has spent nothing for treatment in the previous year and deposited Rs.25,000 with LIC for maintenance of dependant disabled.**
- (iii) **Rajan has incurred Rs.20,000 for treatment and ` 25,000 was deposited with LIC for maintenance of dependant disabled.**
- (iv) **Payment of Rs.50,000 by cheque to an electoral trust by an Indian company.**

Answer

- (i) The deduction of Rs.75,000 under section 80DD is allowed, irrespective of the amount of expenditure incurred or paid by the assessee. If the expenditure is incurred in respect of a dependant with severe disability, the deduction allowable is Rs.1,25,000.
- (ii) The assessee Rajan has deposited Rs.25,000 for maintenance of dependent disabled. The assessee is, however, eligible to claim Rs.75,000 since the deduction of Rs.75,000 is allowed, irrespective of the amount deposited with LIC. In the case of dependant with severe disability, the deduction allowable is Rs.1,25,000.
- (iii) Section 80DD allows a deduction of Rs.75,000 irrespective of the actual amount spent on maintenance of a dependent disabled and/or actual amount deposited with LIC.

Therefore, the deduction will be Rs.75,000 even though the total amount incurred/deposited is only Rs.45,000. If the dependant is a person with severe disability the quantum of deduction is Rs.1,25,000.

- (iv) Amount paid by an Indian Company to an electoral trust is eligible for deduction under section 80GGB from gross total income, since such payment is made otherwise than by way of cash.

Question 3

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

Answer

Question 4

Mr. Rajmohan whose gross total income was Rs.6,40,000 for the financial year 2023-24 furnishes you the following information:

- (i) Repayment of loan taken from SBI for acquisition of residential house (self-occupied) – Rs.50,000.
- (ii) Five-year post-office time deposit – Rs.20,000.
- (iii) Donation to a recognized charitable trust Rs.25,000 which is eligible for deduction under section 80G at the applicable rate.
- (iv) Interest on loan taken for higher education of spouse paid during the year –Rs.10,000.

Compute the total income of Mr. Rajmohan for the Assessment year 2024-25 if Mr. Ganesh has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A).

Answer

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

Particulars	Rs.	Rs.
Gross Total Income		6,40,000

Less: Deduction under Chapter VI-A		
<u>Under section 80C</u>		
Stamp duty paid on acquisition of residential house	50,000	
Five year time deposit with Post Office	20,000	
	70,000	
<u>Under section 80E</u>		
Interest on loan taken for higher education of spouse, being a relative.	10,000	
<u>Under section 80G (See Note below)</u>		
Donation to recognized charitable trust (50% of Rs.25,000)	12,500	92,500
Total Income		5,47,500

Note: In case of deduction under section 80G in respect of donation to a charitable trust, the net qualifying amount has to be restricted to 10% of adjusted total income, i.e., gross total income less deductions under Chapter VI-A except 80G. The adjusted total income is, therefore, Rs.5,60,000 (i.e. 6,40,000 – Rs.80,000), 10% of which is Rs.56,000, which is higher than the actual donation of Rs.25,000. Therefore, the deduction under section 80G would be Rs.12,500, being 50% of the actual donation of Rs.25,000.

Question 5

Compute the eligible deduction under Chapter VI-A for the A.Y. 2024-25 of Ms. Roma, aged 40 years, who has a gross total income of Rs.15,00,000 for the A.Y. 2024-25 and provides the following information about her investments/payments during the P.Y. 2023-24:

Sl. No.	Particulars	Amount (Rs.)
1.	Life Insurance premium paid (Policy taken on 31-03- 2012 and sum assured is Rs.4,40,000)	35,000
2.	Public Provident Fund contribution	1,50,000
3.	Repayment of housing loan to Bhartiya Mahila Bank, Bangalore	20,000
4.	Payment to L.I.C. Pension Fund	1,40,000
5.	Mediclaim Policy taken for self, wife and dependent children, premium paid by cheque	30,000
6.	Medical Insurance premium paid by cheque for parents (Senior Citizens)	52,000

Answer

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

Particulars	Rs.	Rs.
Deduction under section 80C		

Life insurance premium paid Rs.35,000 (allowed in full since the same is within the limit of 20% of the sum assured, the policy being taken before 1.4.2012)	35,000	
Public Provident Fund	1,50,000	
Repayment of housing loan to Bhartiya Mahila Bank, Bangalore	20,000	
	2,05,000	
Restricted to a maximum of Rs.1,50,000	1,50,000	
Deduction under section 80CCC for payment towards LIC pension fund	1,40,000	
	2,90,000	1,50,000
As per section 80CCE, aggregate deduction under, inter alia, section 80C and 80CCC, is restricted to		
Deduction under section 80D		
Payment of medical insurance premium of Rs.30,000 towards medical policy taken for self, wife and dependent children restricted to	25,000	
Medical insurance premium paid Rs.52,000 for parents, being senior citizens, restricted to	50,000	75,000
Eligible deduction under Chapter VI-A		2,25,000

Question 6 – November 2019 RTP

Mr. Arihant, a resident individual aged 40 years, has GTI of Rs. 7,50,000 comprising of income from Salary & income from HP for AY 2024-25. He provides the following information:

- Paid Rs. 70,000 towards premium for life insurance policy of his handicapped son (section 80U disability). Sum assured Rs. 4,00,000 & date of issue of policy 01.08.2017.
- Deposited Rs. 90,000 in tax saver deposit in the name of his major son in Punjab National Bank of India.
- Paid Rs. 78,000 towards medical insurance for term of 3 years as a lumpsum payment for himself & his spouse. Also incurred Rs. 54,000 on medical expenditure of his father, a resident aged 68 years. No medical insurance policy is taken in the name of his father. His father earned Rs. 4,50,000 interest from fixed deposit.

Contributed Rs. 25,000 to the Clean Ganga Fund, set up by the CG. Compute the Total Income & deduction under Chapter VI-A for AY 2024-25.

Answer

Computation of Total Income of Mr. Arihant for AY 2024-25

Particulars	Rs.	Rs.	Rs.
GTI			7,50,000
Less: Deduction under Chapter VI-A			

Section 80C <ul style="list-style-type: none"> Life insurance premium of Rs. 70,000 (restricted to Rs. 60,000 i.e., 15% of Rs. 4,00,000 (sum assured), since policy has been taken on/ after 1.4.2013, i.r.o. his handicapped son suffering from disability u/s 80U) Tax saver deposit of Rs. 90,000 in the name of his major son – No deduction u/s 80C, since such deposit has to be made in name of assessee himself. 	60,000 Nil	 60,000	
Section 80D <ul style="list-style-type: none"> Medical insurance premium for self & his wife, pertaining to PY 2021-22 is Rs. 26,000, being 1/3rd of Rs. 78,000, lumpsum premium, since policy would be in force for 3 PYs. Said deduction would restrict to Deduction i.r.o medical expenditure of Rs. 54,000 for his father, being senior citizen is allowable, since no insurance policy is taken in his name, to the extent of 	25,000 50,000	 75,000	
Section 80G <ul style="list-style-type: none"> Contribution by a resident towards Clean Ganga Fundis for 100% deduction without any qualifying limit. 	25,000	25,000	
Total Income			5,90,000

Question 7 – November 2017

Mr. Srivastava, aged 40 years, a salaried employee of Nirja Ltd. was contributing to NPS Rs. 50,000 every year since 2018 & was claiming deduction u/s 80CCD. In December 2021, he opted out of the pension scheme & withdrew a lump sum amount of 2,00,000. Is the amount so withdrawn taxable? If yes, how much is taxable?

Answer

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

Conceptual Questions

ILLUSTRATION 1

Examine the TDS implications under section 194A in the cases mentioned hereunder–

- (i) *On 1.10.2023, Mr. Harish made a six-month fixed deposit of Rs.10 lakh @9% p.a. with ABC Co-operative Bank. The fixed deposit matures on 31.3.2024.*
- (ii) *On 1.6.2023, Mr. Ganesh made three nine months fixed deposits of Rs.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 28.2.2024.*
- (iii) *On 1.10.2023, Mr. Rajesh started a six months recurring deposit of Rs.2,00,000 per month@8% p.a. with PQR Bank. The recurring deposit matures on 31.3.2024.*

SOLUTION

- (i) ABC Co-operative Bank has to deduct tax at source@10% on the interest of Rs.45,000 ($9\% \times \text{Rs.10 lakh} \times \frac{1}{2}$) under section 194A. The tax deductible at source under section 194A from such interest is, therefore, Rs.4,500.
- (ii) XYZ Bank has to deduct tax at source @10% u/s 194A, since the aggregate interest on fixed deposit with the three branches of the bank is Rs.60,750 [$3,00,000 \times 3 \times 9\% \times 9/12$], which exceeds the threshold limit of Rs.40,000. Since XYZ Bank has adopted CBS, the aggregate interest credited/paid by all branches has to be considered. Since the aggregate interest of Rs.60,750 exceeds the threshold limit of Rs.40,000, tax has to be deducted @10% u/s 194A.
- (iii) No tax has to be deducted under section 194A by PQR Bank on the interest of Rs.28,000 falling due on recurring deposit on 31.3.2024 to Mr. Rajesh, since such interest does not exceed the threshold limit of Rs.40,000.

ILLUSTRATION 2

ABC Ltd. makes the following payments to Mr. X, a contractor, for contract work during the P.Y.2023-24–

Rs.20,000 on 1.5.2023

Rs.25,000 on 1.8.2023

Rs.28,000 on 1.12.2023

On 1.3.2024, a payment of Rs.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.

SOLUTION

In this case, the individual contract payments made to Mr. X does not exceed Rs.30,000. However, since the aggregate amount paid to Mr. X during the P.Y. 2022-22 exceeds Rs.1,00,000 (on account of the last payment of Rs.30,000, due on 1.3.2023, taking the total from Rs.73,000 to Rs.1,03,000), the TDS provisions under section 194C would get attracted. Tax has to be deducted @1% on the entire amount of Rs.1,03,000 from the last payment of Rs.30,000 and the balance of Rs 28,970 (i.e., Rs.30,000 – Rs.1,030) has to be paid to Mr. X.

ILLUSTRATION 3

Certain concessions are granted to transport operators in the context of cash payments u/s 40A(3) and deduction of tax at source u/s 194-C. Elucidate.

SOLUTION

Section 40A(3) provides for disallowance of expenditure incurred in respect of which payment or aggregate of payments made to a person in a day exceeds Rs.10,000, and such payment or payments are made otherwise than by account payee cheque or account payee bank draft or use of electronic clearing system through bank account or through other prescribed electronic modes.

However, in case of payment made to transport operators for plying, hiring or leasing goods carriages, the disallowance will be attracted only if the payment made to a person in a day exceeds Rs.35,000. Therefore, payment or aggregate of payments up to Rs.35,000 in a day can be made to a transport operator otherwise than by way of account payee cheque or account payee bank draft or use of electronic system through bank account or through other prescribed electronic modes, without attracting disallowance u/s 40A(3).

Under section 194C, tax had to be deducted in respect of payments made to contractors at the rate of 1%, in case the payment is made to individual or Hindu Undivided Family or at the rate of 2%, in any other case.

However, no deduction is required to be made from any sum credited or paid or likely to be credited or paid during the previous year to the account of a contractor, during the course of the business of plying, hiring or leasing goods carriages, if the following conditions are fulfilled:-

- (1) He owns ten or less goods carriages at any time during the previous year.
- (2) He is engaged in the business of plying, hiring or leasing goods carriages;
- (3) He has furnished a declaration to this effect along with his PAN.

ILLUSTRATION 4

Examine the applicability of the provisions for tax deduction at source under section 194DA in the following cases -

- (i) *Mr. X, a resident, is due to receive Rs.4.50 lakhs on 31.3.2023, towards maturity proceeds of LIC policy taken on 1.4.2020, for which the sum assured is Rs.4 lakhs and the annual premium is Rs.1,25,000.*
- (ii) *Mr. Y, a resident, is due to receive Rs.3.95 lakhs on 31.3.2023 on LIC policy taken on 31.3.2012, for which the sum assured is Rs.3.50 lakhs and the annual premium is Rs.30,100.*
- (iii) *Mr. Z, a resident, is due to receive Rs.95,000 on 1.8.2022 towards maturity proceeds of LIC policy taken on 1.8.2016 for which the sum assured is Rs.90,000 and the annual premium was Rs.10,000.*

SOLUTION**ILLUSTRATION 5**

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 Rs.25,000.

SOLUTION

Under section 194E, the person responsible for payment of any amount to a non-resident sportsman for contribution of articles relating to any game or sport in India in

a newspaper shall deduct tax @20%. Further, since Ricky Ponting is a non-resident, health and education cess @4% on TDS would also be added.

Therefore, tax to be deducted = Rs.25,000 x 20.8% = Rs.5,200.

ILLUSTRATION 6

Moon TV, a television channel, made payment of Rs.50 lakhs to a production house for production of programme for telecasting as per the specifications given by the channel. The copyright of the programme is also transferred to Moon TV. Would such payment be liable for tax deduction at source under section 194C? Discuss.

Also, examine whether the provisions of tax deduction at source under section 194C would be attracted if the payment was made by Moon TV for acquisition of telecasting rights of the content already produced by the production house.

SOLUTION

In this case, since the programme is produced by the production house as per the specifications given by Moon TV, a television channel, and the copyright is also transferred to the television channel, the same falls within the scope of definition of the term 'work' under section 194C. Therefore, the payment of Rs.50 lakhs made by Moon TV to the production house would be subject to tax deduction at source under section 194C.

If, however, the payment was made by Moon TV for acquisition of telecasting rights of the content already produced by the production house, there is no contract for "carrying out any work", as required in section 194C(1). Therefore, such payment would not be liable for tax deduction at source under section 194C.

ILLUSTRATION 7

Mr. X sold his house property in Bangalore as well as his rural agricultural land for a consideration of Rs.60 lakh and Rs.15 lakh, respectively, to Mr. Y on 1.8.2022. He has purchased the house property and the land in the year 2021 for Rs.40 lakh and Rs.10 lakh, respectively. The stamp duty value on the date of transfer, i.e., 1.8.2022, is Rs.85 lakh and Rs.20 lakh for the house property and rural agricultural land, respectively. Examine the tax implications in the hands of Mr. X and Mr. Y and the TDS implications, if any, in the hands of Mr. Y, assuming that both Mr. X and Mr. Y are resident Indians.

SOLUTION

(i)	<u>Tax implications in the hands of Mr. X</u>
	<p>As per section 50C, the stamp duty value of house property (i.e. Rs.85 lakh) would be deemed to be the full value of consideration arising on transfer of property, since the stamp duty value exceeds 110% of the consideration received. Therefore, Rs.45 lakh (i.e., Rs.85 lakh – Rs.40 lakh, being the purchase price) would be taxable as short-term capital gains in the A.Y.2023-24.</p> <p>Since rural agricultural land is not a capital asset, the gains arising on sale of</p>

	such land is not taxable in the hands of Mr. X.
(ii)	<u>Tax implications in the hands of Mr. Y</u>
	<p>In case immovable property is received for inadequate consideration, the difference between the stamp value and actual consideration would be taxable under section 56(2)(x), if such difference exceeds the higher of Rs.50,000 and 10% of the consideration.</p> <p>Therefore, in this case Rs.25 lakh (Rs.85 lakh – Rs.60 lakh) would be taxable in the hands of Mr. Y under section 56(2)(x).</p> <p>Since agricultural land is not a capital asset, the provisions of section 56(2)(x) are not attracted in respect of receipt of agricultural land for inadequate consideration, since the definition of “property” under section 56(2)(x) includes only capital assets specified thereunder.</p>
(iii)	<u>TDS implications in the hands of Mr. Y</u>
	<p>Since the sale consideration of house property exceeds Rs.50 lakh, Mr. Y is required to deduct tax at source under section 194-IA. The tax to be deducted under section 194-IA would be Rs.60,000, being 1% of Rs.60 lakh.</p> <p>TDS provisions under section 194-IA are not attracted in respect of transfer of rural agricultural land.</p>

ILLUSTRATION 8

Mr. X, a salaried individual, pays rent of Rs.55,000 per month to Mr. Y from June, 2023. Is he required to deduct tax at source? If so, when is he required to deduct tax? Also, compute the amount of tax to be deducted at source.

Would your answer change if Mr. X vacated the premises on 31st December, 2023?

Also, what would be your answer if Mr. Y does not provide his PAN to Mr. X?

SOLUTION

Since Mr. X pays rent exceeding Rs.50,000 per month in the F.Y. 2023-24, he is liable to deduct tax at source @5% of such rent for F.Y. 2022-23 under section 194-IB. Thus, Rs.27,500 [Rs.55,000 x 5% x 10] has to be deducted from rent payable for March, 2024.

If Mr. X vacated the premises in December, 2023, then tax of Rs.19,250 [Rs.55,000 x 5% x 7] has to be deducted from rent payable for December, 2023.

In case Mr. Y does not provide his PAN to Mr. X, tax would be deductible @20%, instead of 5%.

In case 1 above, this would amount to Rs.1,10,000 [Rs.55,000 x 20% x 10], but the same has to be restricted to Rs.55,000, being rent for March, 2024.

In case 2 above, this would amount to Rs.77,000 [Rs.55,000 x 20% x 7], but the same has to be restricted to Rs.55,000, being rent for December, 2023.

ILLUSTRATION 9

XYZ Ltd. makes a payment of Rs.28,000 to Mr. Ganesh on 2.8.2023 towards fees for professional services and another payment of Rs.25,000 to him on the same date towards fees for technical services. Discuss whether TDS provisions under section 194J are attracted.

SOLUTION

TDS provisions under section 194J would not get attracted, since the limit of Rs.30,000 is applicable for fees for professional services and fees for technical services, separately. It is assumed that there is no other payment to Mr. Ganesh towards fees for professional services and fees for technical services during the P.Y.2023-24.

ILLUSTRATION 10

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.

	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 Rs.2.5 crores in the P.Y.2022-23.	Contract Payment for repair of residential house	Rs.5 lakhs
		Payment of commission to Mr. Vallish for business purposes	Rs.80,000
2.	Mr. Rajesh, a wholesale trader whose turnover was Rs.95 lakhs in P.Y. 2022-23.	Contract Payment for reconstruction of residential house (made during the period January- March, 2024)	Rs.20 lakhs in January, 2024, Rs.15 lakhs in Feb 2024 and Rs.20 lakhs in March 2024.
3.	Mr. Satish, a salaried individual	Payment of brokerage for buying a residential house in March, 2024	Rs.51 lakhs
4.	Mr. Dheeraj, a pensioner	Contract payment made during October-November 2023 for reconstruction of residential house	Rs.48 lakhs

SOLUTION

ILLUSTRATION 11

Mr. Sharma, a resident Indian aged 77 years, gets pension of Rs.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 Rs.20 lakh with the said bank. Out of the deposit of Rs.20 lakh, Rs.2 lakh represents five-year term deposit made by him on 1.4.2023. Interest on savings bank credited to his SBI savings account for the P.Y.2022-23 is Rs.9,500.

- (1) From the above facts, compute the total income and tax liability of Mr. Sharma for the A.Y. 2024-25, 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.2024-25, if tax deductible at source has been fully deducted? Examine.
- (3) Would your answer to Q.2 be different if the fixed deposit of Rs.20 lakh was with Canara Bank instead of SBI, other facts remaining the same?

SOLUTION

- (1) Computation of total income of Mr. Sharma for A.Y.2023-24

Particulars		Rs.	Rs.
I	Salaries		
	Pension (52,000 x 12)	6,24,000	
	Less: Standard deduction u/s 16(ia)	50,000	5,74,000
II	Income from Other Sources		
	Interest on fixed deposit (Rs.20 lakh x 8%)	1,60,000	
	Interest on savings account	9,500	1,69,500
Gross total income			7,43,500
Less:	Deductions under Chapter VI-A		
	Under Section 80C		
	Five year term deposit (Rs.2 lakh, restricted to Rs.1.5 lakh)	1,50,000	
	Under section 80TTB		
	Interest on fixed deposit and savings account, restricted to 50,000, since Mr. Sharma is a resident Indian of the age of 77 years.	50,000	2,00,000
Total Income			5,43,500
Computation of tax liability for A.Y.2024-25			

Tax payable [Rs.43,500 x 20% + Rs.10,000]	18,700
Add: Health and Education Cess @4%	748
Tax liability	19,448
Tax liability (rounded off)	19,450

- (2) SBI, being a specified bank, is required to deduct tax at source u/s 194P (after considering the tax, if any, deducted on pension u/s 192) and remit the same to the Central Government. In such a case, Mr. Sharma would not be required to file his return of income u/s 139.
- (3) If the fixed deposit of Rs.20 lakh is with a bank other than SBI, which is the bank where his pension is credited, then, Mr. Sharma would not qualify as a "specified senior citizen", consequent to which SBI would not be liable to deduct tax under section 194P. In this case, Mr. Sharma would have to file his return of income u/s 139, since his total income (without giving effect to deduction under Chapter VI- A) exceeds the basic exemption limit.

It may be noted that in this case, TDS provisions u/s 192 would, in any case, be attracted in respect of pension income. Further, Canara Bank would, be liable to deduct tax @10% under section 194-A on interest on fixed deposit, since the same exceeds Rs.50,000.

ILLUSTRATION 12

Mr. Gupta, a resident Indian, is in retail business and his turnover for F.Y.2021-22 was Rs.12 crores. He regularly purchases goods from another resident, Mr. Agarwal, a wholesaler, and the aggregate payments during the F.Y.2022-23 was Rs.95 lakh (Rs.20 lakh on 1.6.2022, Rs.25 lakh on 12.8.2022, Rs.22 lakh on 23.11.2022 and Rs.28 lakh on 25.3.2023). 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.2020-21 was Rs.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.2021-22 was Rs.8 crores, all other facts remaining the same?**
- (3) **Would your answer to (1) and (2) change, if PAN has not been furnished by the buyer or seller, as required?**

SOLUTION

- (1) Since Mr. Gupta's turnover for F.Y.2021-22 exceeds 10 crores, and payments made by him to Mr. Agarwal, a resident seller exceed Rs.50 lakhs in the P.Y.2022-23, he is liable to deduct tax@0.1% of Rs.45 lakhs (being the sum exceeding Rs.50 lakhs) in the following manner –

No tax is to be deducted u/s 194Q on the payments made on 1.6.2022 and 12.8.2022, since the aggregate payments till that date i.e. 45 lakhs, has not exceeded the threshold of Rs.50 lakhs.

Tax of Rs.1,700 (i.e., 0.1% of Rs.17 lakhs) has to be deducted u/s 194Q from the payment/ credit of Rs.22 lakh on 23.11.2022 [Rs.22 lakh – Rs.5 lakhs, being the balance unexhausted threshold limit].

Tax of Rs.2,800 (i.e., 0.1% of Rs.28 lakhs) has to be deducted u/s 194Q from the payment/ credit of Rs.28 lakhs on 25.3.2023.

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

- (2) If Mr. Gupta's turnover for the F.Y.2021-22 was only Rs.8 crores, TDS provisions under section 194Q would not be attracted. However, TCS provisions under section 206C(1H) would be attracted in the hands of Mr. Agarwal, since his turnover exceeds Rs.10 crores in the F.Y.2021-22 and his receipts from Mr. Gupta exceed Rs.50 lakhs.

No tax is to be collected u/s 206C(1H) on 1.6.2022 and 12.8.2022, since the aggregate receipts till that date i.e. 45 lakhs, has not exceeded the threshold of Rs.50 lakhs.

Tax of Rs.1,700 (i.e., 0.1% of Rs.17 lakhs) has to be collected u/s 206C(1H) on 23.11.2022 (Rs.22 lakh – Rs.5 lakhs, being the balance unexhausted threshold limit).

Tax of Rs.2,800 (i.e., 0.1% of Rs.28 lakhs) has to be collected u/s 206C(1H) on 25.3.2023.

- (3) In case (1), if PAN is not furnished by Mr. Agarwal to Mr. Gupta, then, Mr. Gupta has to deduct tax @5%, instead of 0.1%. Accordingly, tax of Rs.85,000 (i.e., 5% of Rs.17 lakhs) and Rs.1,40,000 (5% of Rs.28 lakhs) has to be deducted by Mr. Gupta u/s 194Q on 23.11.2022 and 25.3.2023, respectively.

In case (2), if PAN is not furnished by Mr. Gupta to Mr. Agarwal, then, Mr. Agarwal has to collect tax@1% instead of 0.1%. Accordingly, tax of Rs.17,000 (i.e., 1% of Rs.17 lakhs) and Rs.28,000 (1% of Rs.28 lakhs) has to be collected by Mr. Agarwal u/s 206C(1H) on 23.11.2022 and 25.3.2023, respectively.

ILLUSTRATION 13

An amount of Rs.40,000 was paid to Mr. X on 1.7.2022 towards fees for professional services without deduction of tax at source. Subsequently, another payment of Rs.50,000 was due to Mr. X on 28.2.2023, from which tax@10% (amounting to Rs.9,000) on the entire amount of Rs.90,000 was deducted. However, this tax of Rs.9,000 was deposited only on 22.6.2023. Compute the interest chargeable under section 201(1A).

SOLUTION

Interest under section 201(1A) would be computed as follows –

Particulars	Rs.
1% on tax deductible but not deducted i.e., 1% on Rs.4,000 for 8 months	320
1½% on tax deducted but not deposited i.e. 1½% on Rs.9,000 for 4 months	540
	860

- (i) Such interest should be paid before furnishing the statements in accordance with section 200(3).
- (ii) Where the payer fails to deduct the whole or any part of the tax on the amount credited or payment made to a payee and is not deemed to be an assessee-in-default under section 201(1) on account of payment of taxes by such payee, interest under section 201(1A)(i) i.e., @1% p.m. or part of month, shall be payable by the payer from the date on which such tax was deductible to the date of furnishing of return of income by such payee. The date of deduction and payment of taxes by the payer shall be deemed to be the date on which return of income has been furnished by the payee.
- (iii) Where the tax has not been paid after it is deducted, the amount of the tax together with the amount of simple interest thereon shall be a charge upon all the assets of the person or the company, as the case may be.

CBDT Clarification relating to certain issues with respect to section 206C(1F)

These amendments in section 206C have given rise to certain issues relating to the scope and applicability of the provisions. Accordingly, the CBDT has, vide *Circular No. 22/2016 dated 8.6.2016*, clarified the following issues in "Question & Answer (Q&A)" format.

Q.1 Whether TCS @1% is on sale of motor vehicle at retail level or also on sale of motor vehicles by manufacturers to dealers/ distributors?

- A.** To bring high value transactions within the tax net, section 206C has been amended to provide that the seller shall collect the tax @ 1% from the purchaser on sale of motor vehicle of the value exceeding Rs.10 lakhs. This is brought to cover all transactions of retail sales and accordingly, it **will not apply on sale of motor vehicles by manufacturers to dealers/distributors.**

Q.2 Whether TCS @1% on sale of motor vehicle is applicable only to luxury cars?

- A.** No, as per section 206C(1F), the seller shall collect tax@1% from the purchaser on sale of any motor vehicle of the value exceeding Rs.10 lakhs.

Q.3 Whether TCS @1% is applicable in the case of sale to Government Departments, Embassies, Consulates and United Nation Institutions, of motor vehicle or any other goods or provision of services?

- A.** Government, institutions notified under United Nations (Privileges and

Immunities) Act 1947, and Embassies, Consulates, High Commission, Legation, Commission and trade representation of a foreign State shall not be liable to levy of TCS @1% under section 206C(1F).

Q.4 Whether TCS is applicable on each sale of motor vehicle or on aggregate value of sale during the year?

- A.** Tax is to be collected at source@1% on sale consideration of a motor vehicle exceeding Rs.10 lakhs. It is applicable to each sale and not to aggregate value of sale made during the year.

Q.5 Whether TCS @1% on sale of motor vehicle is applicable in case of an individual?

- A.** The definition of "Seller" as given in clause (c) of the *Explanation* below sub-section (11) of section 206C shall be applicable in the case of sale of motor vehicles also.

Q.6 How would the provisions of TCS on sale of motor vehicle be applicable in a case where part of the payment is made in cash and part is made by cheque?

- A.** The provisions of TCS on sale of motor vehicle exceeding Rs.10 lakhs is not dependent on mode of payment. Any sale of motor vehicle exceeding Rs.10 lakhs would attract TCS@1%.

ILLUSTRATION 14 - IMPORTANT

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

Solution

Gross salary, allowances and monetary perquisites	7,30,000
Non-Monetary perquisites	<u>1,20,000</u>
	8,50,000
Tax Liability	75,400
Average Rate of Tax (75,400 / 8,00,000 x 100)	9.425%

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

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

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

Balance to be deducted from salary Rs 64,090

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

Additional Questions

Question 1

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

Total turnover for the financial year

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

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

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

Answer

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

Interest paid to UCO Bank

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

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

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

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

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

Question 2

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

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

Answer

Question 3

Examine the applicability of TDS provisions and TDS amount in the following cases:

- (a) Rent paid for hire of machinery by B Ltd. to Mr. Raman Rs.2,60,000 on 27.9.2023.**
- (b) Fee paid on 1.12.2023 to Dr. Srivatsan by Sundar (HUF) Rs.35,000 for surgery performed on a member of the family.**
- (c) ABC and Co. Ltd. paid Rs.19,000 to one of its Directors as sitting fees on 01-01-2023.**

Answer

- (a)** Since the rent paid for hire of machinery by B. Ltd. to Mr. Raman exceeds Rs.2,40,000, the provisions of section 194-I for deduction of tax at source are attracted.

The rate applicable for deduction of tax at source under section 194-I on rent paid for hire of plant and machinery is 2%, assuming that Mr. Raman had furnished his permanent account number to B Ltd.

Therefore, the amount of tax to be deducted at source:

$$= \text{Rs.}2,60,000 \times 2\% = \text{Rs.}5,200.$$

Note: In case Mr. Raman does not furnish his permanent account number to B Ltd., tax shall be deducted @20% on Rs.2,60,000, by virtue of provisions of section 206AA.

- (b)** As per the provisions of section 194J, a Hindu Undivided Family is required to deduct tax at source on fees paid for professional services only if the total sales, gross receipts or turnover from the business or profession exceed Rs.1 crore in case of business or Rs.50 lakhs in case of profession, as the case may be, in the financial year preceding the current financial year and such payment made for professional services is not exclusively for the personal purpose of any member of Hindu Undivided Family.

Section 194M, provides for deduction of tax at source by a HUF (which is not required to deduct tax at source under section 194J) in respect of fees for professional service if such sum or aggregate of such sum exceeds Rs.50 lakhs during the financial year.

In the given case, the fees for professional service to Dr. Srivatsan is paid on 1.12.2023 for a personal purpose, therefore, section 194J is not attracted. Section 194M would have been attracted, if the payment or aggregate of payments exceeded Rs.50 lakhs in the P.Y.2023-24. However, since the payment does not exceed Rs.50 lakh in this case, there is no liability to deduct tax at source under section 194M also.

- (c) Section 194J provides for deduction of tax at source @10% from any sum paid by way of any remuneration or fees or commission, by whatever name called, to a resident director, which is not in the nature of salary on which tax is deductible under section 192. The threshold limit of Rs.30,000 upto which the provisions of tax deduction at source are not attracted in respect of every other payment covered under section 194J is, however, not applicable in respect of sum paid to a director.

Therefore, tax @10% has to be deducted at source under section 194J in respect of the sum of Rs.19,000 paid by ABC Ltd. to its director.

Therefore, the amount of tax to be deducted at source:

$$= \text{Rs.}19,000 \times 10\% = \text{Rs.}1,900$$

Question 4

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

- (1) ***Payment of Rs.27,000 made to Jacques Kallis, a South African cricketer, by an Indian newspaper agency on 02-07-2024 for contribution of articles in relation to the sport of cricket.***
- (2) ***Payment made by a company to Mr. Ram, sub-contractor, Rs.3,00,000 with outstanding balance of Rs.1,20,000 shown in the books as on 31-03-2024.***
- (3) ***Winning from horse race Rs.1,50,000 paid to Mr. Shyam, an Indian resident.***
- (4) ***Rs.2,00,000 paid to Mr. A, a resident individual, on 22-02-2024 by the State of Uttar Pradesh on compulsory acquisition of his urban land.***

Answer

- (1) Section 194E provides that the person responsible for payment of any amount to a non-resident sportsman who is not a citizen of India for contribution of articles relating to any game or sport in India in a newspaper has to deduct tax at source@20%. Further, since Jacques Kallis, a South African cricketer, is a non-resident, health and education cess @4% on TDS should also be added.

$$\text{Therefore, tax to be deducted} = \text{Rs.}27,000 \times 20.80\% = \text{Rs.}5,616.$$

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

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

$$\text{Tax to be deducted} = \text{Rs.}4,20,000 \times 1\% = \text{Rs.}4,200$$

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

Hence, tax to be deducted = Rs.1,50,000 x 30% = **Rs.5,000.**

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

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

Question 5

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

Answer

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

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

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

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

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

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

Question 6

Mr. Jay having total income of Rs.8,70,000, did not pay any advance tax during the previous year 2022-23. He wishes to pay the whole of the tax, along with interest if any, on filing the return in the month of July, 2023. What is total tax which Mr. Jay has to deposit as self-assessment tax along with interest, if he files the return on 29.07.2023? Assume that he does not exercise the option under section 115BAC.

Answer

Obligation to pay advance tax arises in every case, where the advance tax payable is Rs.10,000 or more. As a consequence of such failure, assessee may be charged with interest under section 234B and 234C.

In the given case, since Mr. Jay did not deposit any amount of advance tax during the previous year, he will need to pay the total tax due on his income along with interest for default in payment of advance tax [under section 234B] and interest for deferment of advance tax [under section 234C] before filing of his return.

Total tax due on returned income of Rs.8,70,000 is Rs.89,960 [(20% of Rs.3,70,000 + Rs.12,500) + cess@4%]

Interest under section 234B

Interest under section 234B is attracted - a) When the assessee, who is liable to pay advance tax has failed to pay such tax; or b) Where the advance tax paid by the assessee is less than 90% of the assessed tax.

Since, Mr. Jay did not pay any amount as advance tax, interest under section 234B at 1% per month or part of the month will be levied beginning from 1st April of the following year i.e., 01.04.2023 till the time he deposits the whole tax under self-assessment.

Interest will be levied on tax liability of Rs.89,900 (rounded off to nearest hundred, ignoring fraction) at 1% for four months i.e., from 1st April to 29th July.

The interest under section 234B amount to Rs.3,596

Interest under section 234C

Assessees, other than assessee who declare profits and gains in accordance with provision of section 44AD(1) or section 44ADA(1), are liable to pay advance tax in 4 installments during the previous year. Section 234C is attracted, if the actual installment paid by the assessee is the less than the amount required to be paid by him on such instalments. The interest shall be calculated at 1% per month or part of the month for short payment or non-payment of each instalment.

In the given scenario, since Mr. Jay, did not deposit any amount as advance tax, the interest under section 234C is calculated as under –

Date of Instalment	Specified % of estimated tax	Amount due and unpaid (rounded off to nearest Rs.100, ignoring fraction)	Period	Interest @ 1%
15th June 2022	15%	13,400	3 months	402
15th September 2022	45%	40,400	3 months	1,212
15th December 2022	75%	67,400	3 months	2,022

15th March 2023	100%	89,900	1 month	899
Total interest under section 234C				4,535

Mr. Jay needs to pay Rs.98,091 as total of tax and interest on or before filing of return in the month of July, 2023.

Question 7 – November 2020 RTP

Mr. Nihar maintains saving A/c & current A/c in Mera Bank Ltd. Details of withdrawals on various dates during PY 2022-22 are as follows:

Date of Cash withdrawal	Saving A/c	Current A/c
05.04.2022	15,00,000	-
10.05.2022	-	22,00,000
25.06.2022	20,00,000	-
17.07.2022	-	5,00,000
28.10.2022	35,00,000	-
10.11.2022	-	38,00,000
12.12.2022	25,00,000	-

Is Mera Bank Limited required to deduct TDS on withdrawals made by Mr. Nihar during PY 2022-22? If yes, what would the amount of TDS?

- (a) No, TDS is not required to be deducted as aggregate cash withdrawal on or after 1.9.2022 does not exceed 1 crore.
- (b) No, TDS is not required to be deducted as cash withdrawal does not exceed 1 crore neither in saving A/c nor in current A/c.
- (c) TDS of 60,000 is required to be deducted.
- (d) **TDS of 1,20,000 is required to be deducted.**

Question 8 – May 2022 RTP

Dr. Sargun, maintained two bank A/c, one current A/c with Canara Bank for her profession & a Saving Bank A/c with SBI. Following are details of her withdrawals from these A/c during PY 2022-22:

Date of withdrawals	Canara Bank	SBI
25.04.2022	25,00,000	
27.04.2022		15,50,000
31.08.2022	29,00,000	
01.09.2022	14,20,000	
05.09.2022		14,00,000
07.10.2022	18,21,000	
11.12.2022	26,23,000	
12.02.2023	7,56,000	
25.03.2023		16,13,000

She furnished her ROI for AY 2022-22 & AY 2020-21 on/before due date u/s 139(1). However, for AY 2019-20 & AY 2018-19, she has furnished her ROI belatedly. Is any TDS u/s 194N on the withdrawals made by Dr. Sargun from Canara Bank & SBI? If yes, at what rate & what amount?

- (a) TDS on 33,79,000 @ 5% by Canara Bank & no tax is deductible by SBI.
- (b) TDS on 20,20,000 @ 5% by Canara Bank & no tax is deductible by SBI.
- (c) **TDS on 20,20,000 @ 2% by Canara Bank & no tax is deductible by SBI.**
- (d) TDS on 75,00,000 @ 5% & on 20,20,000 @ 2% by Canara Bank & TDS @5% on 25,63,000 by SBI.

Question 9 – May 2022 RTP

(a) **Examine & explain TDS implications in following cases along with reasons thereof, assuming that the deductees are residents & having a PAN which they have duly furnished to the respective deductors.**

- **Mr. Kunal received a sum of 10,20,000 on 28.02.2023 as pre-mature withdrawal from EPF Scheme before continuous service of 5 years on account of termination of employment due to ill-health.**
- **Indian Bank sanctioned & disbursed a loan of 12 crores to B Ltd. on 31.12.2022. B Ltd. paid a sum of 1,20,000 as service fee to Indian Bank for processing the loan application.**
- **Mr. Agam, working in a private company, is on deputation for 5 months (from October, 2022 to February, 2023) at Mumbai where he pays a monthly house rent of 32,000 for those 5 months, totaling to 1,60,000. Rent is paid by him on 1st day of the relevant month.**

(b) **Mr. Subhash engaged in business of trading of electrical appliances. His turnover for FY 2020-21 & FY 2022-22 was 12 crore & 9.5 crore, respectively. During the PY, XYZ Ltd. placed order for purchase of electric appliances for 55 lakhs on 01.08.2022. He again placed order for 35 lakhs on 01.11.2022. Mr. Subhash delivered both the orders within 15 days of receipt of orders. Discuss, whether Mr. Subhash is required to collect tax at source, on the consideration received from XYZ Ltd.**

Answer

(a) TDS implications

- On pre-mature withdrawal from EPF: No tax is deductible u/s 192A even though the employee, Mr. Kunal, has not completed 5 years of continuous service, since termination of employment is on account of his ill-health. Hence, Rule 8 of Part A of the Fourth Schedule is applicable in this case.
- On payment of service fee to bank: Even though service fee is included in

definition of interest u/s 2(28A), no tax is deductible at source u/s 194A, since service fee is paid to a banking company.

- On payment of rent by a salaried individual: Mr. Agam, a salaried individual, is not liable to deduct TDS @5% u/s 194-IB on Rs. 1,60,000 (being rent for 5 months from October 2022 to February 2023) from the rent of Rs. 32,000 payable on 1st day of every month, since monthly rent < Rs. 50,000.

(b) As per section 206(1H), tax is required to be collected at source @0.1% on the sale consideration exceeding 50 lakhs at the time of receipt of consideration. Tax is required to be collected at source by a seller, being a person whose total turnover from the business exceeds 10 crores during the FY immediately preceding the FY in which sale of goods is carried out.

Since, section 206C(1H) is applicable w.e.f. 1st October, 2020, tax is not required to be collected at source on any sale consideration received before 1st October, 2020, even though such amount exceeds the threshold limit of 50 lakhs. Section 206C(1H), would apply on sale consideration (including advance received for sale) received on or after 1st October, 2020.

Since the threshold of 50 lakhs is with respect to the PY, calculation of receipt of sale consideration for triggering TCS u/s 206C(1H) shall be computed from 1st April, 2020.

Hence, in the present case, since Mr. Subhash has sold electric appliance for sale consideration or in aggregate of such consideration, exceeding 50 lakhs, TCS is required to be collected at source @0.1%, on amount of 35 lakhs, being the amount of consideration received.

Question 10 – May 2018 RTP

Mr. Sachal, a resident individual aged 54, furnishes his income & other details for the PY 22-23:

- **Income of Rs. 8,10,000 from wholesale cloth business, whose A/c are audited u/s 44AB.**
- **Income from other sources Rs. 2,70,000.**
- **Tax deducted at source Rs. 25,000.**
- **Advance tax paid Rs. 1,03,000 during PY 2022-23.**
- **Return of income filed on 11.12.2023.**

Calculate the interest payable u/s 234B. Assume that ROI would be processed on the same day of filing of return. What are the consequences for delay in furnishing ROI?

Answer

Question 11 - May 2019 RTP

Mr. Narayan is engaged in the retail business of groceries. During PY 2022-22, his turnover was Rs.1.65 crores. Out of this, receipt of Rs. 1.30 crore represents online transactions & Rs. 35 Lacs cash transactions. He opted for paying tax as per presumptive taxation scheme laid down in section 44AD. He has no other income during PY 2022-22. Is he liable to pay advance tax & if so, what is the minimum amount of advance tax to be paid & the due date for payment of such advance tax?

Answer

Advance tax liability in the hands of Mr. Narayan opting for presumptive taxation: As per section 211, eligible assessee, opting for computation of profits or gains of business on presumptive basis i.r.o an eligible business referred to in section 44AD, shall be required to pay advance tax of whole amount in one instalment on/before 15th March of PY. Thus, Mr. Narayan is required to pay advance tax by 15.03.2023. However, any amount paid by way of advance tax on/before 31st March shall also be treated as advance tax paid during that PY on/before 15th March 2023.

Advance tax liability = Business Income = (8% of 35 Lacs) + (6% of 130 Lacs) = Rs. 10,60,000.

I.r.o the amount of turnover received by A/c payee cheque/bank draft or use of ECS through a bank A/c, assessee can declare 6% (instead of 8%) of such turnover as

presumptive income u/s 44AD. Since Mr. Narayan does not have any other income during PY 2020-21, business income would be the total income.

Tax liability		
Upto Rs. 2,50,000	Nil	
Rs. 2,50,001 to Rs. 5,00,000 @ 5%	12,500	
Rs. 5,00,001 to Rs. 10,00,000 @ 20%	1,00,000	
Above Rs. 10,00,001 @ 30%	18,000	1,30,500
Add: Health & Education cess @ 4%		5,220
Total Tax Payable		1,35,720

He required pay Rs. 1,35,720 as minimum amount of advance tax by 15th March 2023.

Question 12 – November 2022 RTP

Mr. Ayaansh (aged 35 years), a resident individual, is a dealer of garments. During PY 2022-22, total turnover of his business was 105 lakhs (out of which 15 lakhs was received by way of A/c payee cheques & balance in cash). Mr. Ayaansh does not opt to pay tax as per section 115BAC. What would be your advice to Mr. Ayaansh relating to the provisions of advance tax with its due date along with the amount payable, assuming that he wishes to make maximum tax savings without getting his books of A/c audited.

Answer

Question 13 – November 2019

Examine & explain TDS implications in following cases along with reasons thereof, assuming that the deductees are residents & having a PAN which they have duly furnished to the respective deductors.

- (a) Mr. Tandon received a sum of 1,75,000 as pre-mature withdrawals from EPF Scheme before continuous service of 5 years on account of termination of employment due to ill-health.**
- (b) Rs. 42,000 has been credited as interest on RD by a banking company to A/c of Mr. Hasan (aged 63 years).**
- (c) Ms. Kaul won a lucky draw prize of 21,000. The lucky draw was organized by M/s. Maximus Retail Ltd. for its customer.**
- (d) Finance Bank Ltd. sanctioned & disbursed a loan of 10 crores to Borrower Ltd. on 31.3.2023. Borrower Ltd. paid a sum of 1,00,000 as service fee to Finance Bank Ltd. for processing loan application.**
- (e) Mr. Ashok, working in a private company, is on deputation for 3 months (from December, 2022 to February, 2023) at Hyderabad where he pays a monthly house rent of 52,000 for those three months, totaling to 1,56,000. Rent is paid by him on the first day of the relevant month.**

Answer

Question 14 – November 2016

Determine Advance Tax liability with due dates for PY 2022-22 of Mr. Barun

Estimated tax liability for FY 2022-22

65,000

TDS for this year

5,000

Answers**Question 15 – May 2017**

S, a resident individual aged 54, furnishes income details as under:

- Wholesale cloth business, whose turnover is 150 lakhs, for which A/c are audited u/s 44AB. Income from such business 8,10,000.
- IFOS is Rs. 2,70,000.
- TDS is Rs. 25,000.
- Advance tax paid Rs. 1,03,000 on 14.03.2023.

- ROI will be filed on 11.12.2023.

Assessee is willing to pay, requisite self-assessment tax. Calculate interest payable u/s 234B of Income-Tax Act, 1961. Assume, ROI would be processed on the same day of filing of return.

Answer

Particulars	Amount	Amount
Income from cloth business	8,10,000	
Income from other sources	2,70,000	
Total Income		10,80,000
Tax on Rs. 10,80,000		1,36,500
Add: Health & education cess @ 4%		5,460
Total tax payable		1,41,960
Less: TDS		(25,000)
Assessed Tax (rounded off)		1,16,960
Less: Advance Tax paid on 14.03.2023		(1,03,000)
Balance tax payable		13,960

Computation of Interest u/s 234B: Interest on 13,960 for 9 months @ 1% p.m.

Note: As advance tax paid is less than 90% of assessed tax, interest shall be payable u/s 234B – Rs 1,251

RETURN OF INCOME AND SELF ASSESSEMENT

Conceptual Questions

ILLUSTRATION 1

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

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

SOLUTION

An individual is required to furnish a return of income under section 139(1) if his total income, before giving effect to the deductions under Chapter VI-A or exemption under section or section 54/54B/54D/54EC or 54F, exceeds the maximum amount not chargeable to tax i.e. Rs.2,50,000 (for A.Y. 2024-25).

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

Particulars	Rs.
Income from other sources	
Interest earned from Non-resident (External) Account Rs.2,88,000 [Exempt under section 10(4)(ii), assuming that Mr. Paras has been permitted by RBI to maintain the aforesaid account]	NIL
Interest on fixed deposit with SBI	30,000
Interest on savings bank account	3,000
Gross Total Income	33,000
Less: Deduction u/s 80TTA (Interest on saving bank account)	3,000
Total Income	30,000

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

Since the total income of Mr. Paras for A.Y.2022-23, before giving effect, inter alia, to the deductions under Chapter VI-A, is less than the basic exemption limit of Rs.2,50,000, he is not required to file return of income for A.Y.2022-23.

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

Rs.2,50,000. Consequently, he would be required to file return of income for A.Y.2024-25.

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

ILLUSTRATION 2

Explain with brief reasons whether the return of income can be revised under section 139(5) of the Income-tax Act, 1961 in the following cases:

- (i) Belated return filed under section 139(4).
- (ii) Return already revised once under section 139(5).
- (iii) Return of loss filed under section 139(3).

SOLUTION

Any person who has furnished a return 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,

- (i) A belated return filed under section 139(4) can be revised.
- (ii) A return revised earlier can be revised again as the first revised return replaces the original return. Therefore, if the assessee discovers any omission or wrong statement in such a revised return, he can furnish a second revised return within the prescribed time i.e. at any time before three months prior to the end of the relevant assessment year or before the completion of assessment, whichever is earlier. It implies that a return of income can be revised more than once within the prescribed time.
- (iii) 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 3

Mrs. Hetal, an individual engaged in the business of Beauty Parlour, has got her books of account for the financial year ended on 31st March, 2022 audited under section 44AB. Her total income for the assessment year 2024-25 is Rs.6,35,000. She wants to furnish her return of income for assessment year 2024-25 through a tax return preparer. Can she do so?

SOLUTION

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

Additional Questions**Question 1**

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 Rs.160 lakhs (Rs.100 lakhs received in cash) for the year ended 31.03.2024, whether or not opting to offer presumptive income under section 44AD, is 31st October, 2024.

Answer**(a) Disagree**

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

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

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

(b) Disagree

In case Mr. A opts to offer his income as per the presumptive taxation provisions of section 44AD, 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 does not opt for presumptive taxation provisions under section 44AD, he has to get his accounts audited under section 44AB, since his turnover exceeds ` 1 crore, in which case, the due date for filing return would be 31st October, 2024.

Question 2

Mr. Vineet submits his return of income on 12-09-2022 for A.Y 2022-23 consisting of income under the head "Salaries", "Income from house property" and bank interest. On 21-12-2022, 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 21-03-2023?

Answer

Since Mr. Vineet has income only under the heads "Salaries", "Income from house property" and "Income from other sources", he does not fall under the category of a person whose accounts are required to be audited under the Income-tax Act, 1961 or any other law in force. Therefore, the due date of filing return for A.Y.2022-23 under section 139(1), in his case, is 31st July, 2022. Since Mr. Vineet had submitted his return only on 12.9.2022, 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

2022, 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 31.12.2022.

However, he cannot revise return had he discovered this omission only on 21-03- 2023, since it is beyond 31.12.2022.

Question 3

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

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

Answer

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

Question 4

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

Answer

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

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

Following losses are covered by section 139(3):

- business loss to be carried forward under section 72(1),
- speculation business loss to be carried forward under section 73(2),
- loss from specified business to be carried forward under section 73A(2).
- loss under the head “Capital Gains” to be carried forward under section 74(1); and
- loss incurred in the activity of owning and maintaining race horses to be carried forward under section 74A(3)

However, loss from house property to be carried forward under section 71B and unabsorbed depreciation under section 32 can be carried forward even if return of loss has not been filed

as required under section 139(3).

Question 5

Mr. Aakash has undertaken certain transactions during the F.Y.2021-22, 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 Rs.45,000 in the F.Y.2021-22 by account payee cheque to LIC for insuring life of self and spouse
2.	Payment of Rs.1,00,000 to a five-star hotel for stay for 5 days with family, out of which Rs.60,000 was paid in cash
3.	Payment of Rs.80,000 by ECS through bank account for acquiring the debentures of A Ltd., an Indian company
4.	Payment of Rs.95,000 by account payee cheque to Thomas Cook for travel to Dubai for 3 days to visit relatives
5.	Applied to SBI for issue of credit card.

Answer

	Transaction	Is quoting of PAN mandatory in related documents?
1.	Payment of life insurance premium of Rs.45,000 in the F.Y.2021-22 by account payee cheque to LIC for insuring life of self and spouse	No, since the amount paid does not exceed Rs.50,000 in the F.Y.2021-22.
2.	Payment of Rs.1,00,000 to a five-star hotel for stay for 5 days with family, out of which Rs.60,000 was paid in cash	Yes, since the amount paid in cash exceeds Rs.50,000
3.	Payment of Rs.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 Rs.50,000. Mode of payment is not relevant in this case.
4.	Payment of Rs.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 Rs.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.

Question 6 – November 2017

Mr. Sachin filed his ROI on 30.09.2022 related to AY 2022-23. In October 2022, his tax consultant found that the interest on FD was omitted in the tax return.

(a) What is the time limit for filing a belated return? (b) Can Mr. Sachin file a revised return?

Answer

- (a) As per sec 139(4), any person who has not furnished ROI within the time allowed to him u/s 139(1) may furnish ROI for any PY at any time before 3 months prior to the end of relevant AY or before completion of the assessment whichever is earlier. Therefore, in the given question, Mr. Sachin can file his belated return on or before 31.12.2022.
- (b) As per sec 139(5), if any person having furnished a return u/s 139(1) or belated return u/s 139(4), discover any omission/wrong statement, he may furnish a revised return at any time before 3 months prior to the end of the relevant AY or before completion of assessment, whichever is earlier. Hence Mr. Sachin can revise his return on/before 31.12.2022.

Question 7 – May 2014 and November 2016

Mr. X submits his ROI on 12.09.2022 for AY 2022-23 consisting of Income u/h 'HP' & 'IFOS'. On 21.12.2022, he realized that he had not claimed deduction u/s 80 TTA i.r.o. his interest on Savings Bank A/c. He wants to revise his ROI since one year has not elapsed from the end of relevant AY.

Answer

- Since Mr. X has income only u/h 'HP' & 'IFOS', he does not fall under the category of a person whose A/c are required to be audited.
- Therefore, the due date of filing return for AY 2022-23 u/s 139(1) is 31st July, 2022.
- Since Mr. X had submitted his return only on 12.09.2022, the said return is a belated return u/s 139(4).
- U/s 139(5), any Return filed u/s 139(1) or u/s 139(4) can be revised before 3 months prior to the end of relevant AY or completion of assessment whichever is earlier.
- Therefore, Mr. X can revise ROI filed by him u/s 139(4), to claim deduction u/s 80TTA.

Question 8 – May 2017

By whom should the return of income be signed in the case of following persons:

- (a) Political Party; (b) Company which is being wound up;
(c) HUF, when karta is unable to sign ; (d) Scientific research association;

Answer

As per section 140, Return should be signed by the authorised person, as given below:

- (a) Political Party: In the case of a political party, Return can be signed by Chief Executive Officer.
- (b) Company which is being wound up: If company is in liquidation, ROI can be signed by Official liquidator.
- (c) HUF when karta is unable to sign: By any other adult member (male/female) of such family.

Question 9 – May 2018 RTP

Ms. Geetha submits her ROI on 29.09.2022 for AY 2022-23 consisting of income u/h Salaries, Income from HP & bank interest. On 21.12.2022, she realized that she had not claimed deduction u/s 80D i.r.o. medical insurance premium of Rs. 15,000 paid for her mother. She wants to revise her ROI. Can she do so?

Would your answer be different if she discovered this omission on 21.03.2023?

Answer

- Since Ms. Geetha has income only u/s Salaries, Income from HP & Income from other sources, she does not fall under the category of a person whose A/c are required to be audited under the Income-tax Act, 1961. Therefore, due date of filing return for AY 2022-23 u/s 139(1), in her case, is 31st July, 2022.
- Since Ms. Geetha had submitted her ROI on 29.09.2022, the said return is a belated return u/s 139(4).
- As per section 139(5), a return furnished u/s 139(1) or a belated return u/s 139(4) can be revised, if she discovers any omission or wrong statement therein. Thus, belated return u/s 139(4) can also be revised.
- Therefore, Ms. Geetha can revise the ROI filed by her u/s 139(4) on/before 31.12.2022 to claim deduction u/s 80D, since time limit for filing revised ROI is 3 months prior to the end of the AY, which is 31.12.2022.
- However, she cannot revise return had she discovered this omission only on 21.03.2023, since it is beyond 31.12.2022.

Question 10 – November 2018 RTP

Mr. Atharv filed his ROI on 30th September 2022 related to AY 2022-23. In October 2022, his tax consultant found that interest on FD was omitted in ROI. Can Mr. Atharv file a revised return? Assume that the due date for furnishing return of income in his case, was 31st July 2022 & assessment was not completed till the month of October 2022.

Answer

- As per section 139(5), if any person, having furnished a return u/s 139(1), within the due date or a belated return u/s 139(4), discovers any omission or any wrong statement therein, he may furnish a revised return at any time:
 - (a) before 3 months prior to end of the relevant AY or
 - (b) before the completion of assessment, whichever is earlier.
- For AY 2022-23, belated return has to be furnished before 31st December 2022 or before completion of assessment, whichever is earlier.
- Since Mr. Atharv has filed his return after 31.7.2022, being due date of filing return of income u/s 139(1) in his case, but before 31.12.2022 or completion of assessment, it is a belated return
- Thus, Mr. Atharv can file a revised return, since he has found an omission in belated return filed by him for AY 2022-23 & assessment is yet to be completed.

Question 11 – May 2020 RTP

Arun's GTI of PY 2021-22 is Rs. 2,45,000. He deposits Rs. 45,000 in PPF. He pays electricity bills aggregating to Rs. 1.20 Lacs in PY 2021-22. Which of the statements is correct?

- (a) Arun is not required to file his ROI u/s 139(1) for PY 2021-22, since his total income before giving effect to deduction u/s 80C does not exceed the basic exemption limit.
- (b) Arun is not required to file his ROI u/s 139(1) for PY 2021-22, since his electricity bills do not exceed Rs. 2,00,000 for the PY 2021-22.
- (c) Arun is not required to file his ROI u/s 139(1) for PY 2021-22, since neither his total income before giving effect to deduction u/s 80C exceeds BEL nor his electricity bills exceed Rs. 2 lacs for PY 2021-22.

(d) Arun is required to file his ROI u/s 139(1) for PY 2021-22, since his electricity bills exceed Rs. 1 lac for PY 2021-22.

Question 12 – Nov 2021 RTP

Can Mr. Raghuram file his ROI for AY 2022-23 belatedly u/s 139(4) in PY 2023-24, if he has failed to file said return on/ before the due date of filing ROI for AY 2022-23, due to inadvertent reasons? Also, specify the consequences of non-filing of return within the due date u/s 139(1).

Answer

If any person fails to furnish return within the time allowed to him u/s 139(1), he may furnish belated return for any PY at any time –

- before 3 months prior to the end of relevant AY; or
- before the completion of the assessment, whichever is earlier.

The last date for filing ROI for AY 2022-23 is 31st Dec 2022. Thereafter, Mr. Raghuram cannot furnish his belated return in PY 2023-24. Since PY 2023-24 begins on 1st April, 2023, Mr. Raghuram cannot file his ROI for AY 2022-23 u/s 139(4) in PY 2023-24.

Consequences for non-filing return of Income within the due date u/s 139(1): Discussed Above.

Question 13 – May 2019

Discuss the provisions of section 139A (1) which provides the persons who are compulsorily required to apply for allotment of Permanent Account Number (PAN) with the assessing officer

Answer – Refer Rapid Revision book**Question 14 –**

Elaborate the conditions, non-fulfilment of which would render ROI filed by an assessee not maintaining regular books of A/c, defective.

Answer - Refer Rapid Revision book

COMPUTATION OF TOTAL INCOME AND TAX PAYABLE

Question 1

Miss Charlie, an American national, got married to Mr. Radhey of India in USA on 2.03.2023 and came to India for the first time on 16.03.2023. She left for USA on 19.9.2023. She returned to India again on 27.03.2024. While in India, she had purchased a show room in Mumbai on 30.04.2022, which was leased out to a company on a rent of Rs.25,000 p.m. from 1.05.2023. She had taken loan from a bank for purchase of this show room on which bank had charged interest of Rs.97,500 upto 31.03.2024. She had received the following cash gifts from her relatives and friends during 1.4.2023 to 31.3.2024:

- From parents of husband Rs.51,000
- From married sister of husband Rs.11,000
- From two very close friends of her husband (Rs.1,51,000 and Rs.21,000) Rs.1,72,000

- (a) Determine her residential status and compute the total income chargeable to tax along with the amount of tax liability on such income for the Assessment Year 2024-25.
- (b) Would her residential status undergo any change, assuming that she is a person of Indian origin and her total income from Indian sources is Rs.18,00,000 and she is not liable to tax in USA?

Answer

- I. Under section 6(1), an individual is said to be resident in India in any previous year, if he/she satisfies any one of the following conditions:

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

If an individual satisfies any one of the conditions mentioned above, he/she is a resident. If both the above conditions are not satisfied, the individual is a non-resident.

Therefore, the residential status of Miss Charlie, an American National, for A.Y.2024-25 has to be determined on the basis of her stay in India during the previous year relevant to A.Y. 2024-25 i.e., P.Y.2023-24 and in the preceding four assessment years.

Her stay in India during the previous year 2023-24 and in the preceding four years are as under:

P.Y. 2023-24

01.04.2023 to 19.09.2023	-	172 days
27.03.2024 to 31.03.2024	-	<u>5 days</u>
Total		<u>177 days</u>

Four preceding previous years

P.Y. 2023-24 [1.4.2023 to 31.3.2024]	-	16 days
P.Y.2021-22 [1.4.2021 to 31.3.2022]	-	Nil
P.Y.2020-21 [1.4.2020 to 31.3.2021]	-	Nil
P.Y.2019-20 [1.4.2019 to 31.3.2020]	-	<u>Nil</u>
Total		<u>16 days</u>

The total stay of the assessee during the previous year in India was less than 182 days and during the four years preceding this year was for 16 days. Therefore, due to non-fulfillment of any of the two conditions for a resident, she would be treated as non-resident for the Assessment Year 2023-24.

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

Particulars	Rs.	Rs.
Income from house property		
Show room located in Mumbai remained on rent from 01.05.2023 to 31.03.2024 @ Rs.25,000/- p.m.	2,75,000	
Gross Annual Value [Rs.25,000 x 11] (See Note 1 below)		
Less: Municipal taxes	Nil	
Net Annual Value (NAV)	2,75,000	
Less: Deduction under section 24		
30% of NAV	82,500	
Interest on loan	97,500	1,80,000
		95,000
Income from other sources		
Cash gifts received from non-relatives is chargeable to tax as per section 56(2)(x), if the aggregate value of such gifts exceeds Rs.50,000.		
- Rs.50,000 received from parents of husband would be exempt, since parents of husband fall within the definition of 'relative' and gifts from a relative are not chargeable to tax.	Nil	
- Rs.11,000 received from married sister of husband is exempt, since sister-in-law falls within the definition of relative and gifts from a relative are not chargeable to tax.	Nil	
- Gift received from two friends of husband Rs.1,51,000 and Rs.21,000 aggregating to Rs.1,72,000 is taxable under section 56(2)(x) since the aggregate of Rs.1,72,000 exceeds Rs.50,000. (See Note 2 below)	1,72,000	1,72,000
Total income		2,67,000

Computation of tax liability by Miss Charlie for the A.Y. 2024-25

Particulars	Rs.
Tax on total income of Rs.2,67,000	850
Add: Health and Education cess @4%	34
Total tax liability	884
Total tax liability (rounded off)	880

Notes:

- Actual rent received has been taken as the gross annual value in the absence of other information (i.e. Municipal value, fair rental value and standard rent) in the question.
- If the aggregate value of taxable gifts received from non-relatives exceed Rs.50,000 during the year, the entire amount received (i.e. the aggregate value of taxable gifts received) is taxable. Therefore, the entire amount of Rs.1,72,000 is taxable under section 56(2)(x).
- Since Miss Charlie is a non-resident for the A.Y. 2024-25, rebate under section 87A would not be available to her, even though her total income does not exceed Rs.5 lacs.
- The tax liability of Miss Charlie would be the same even if she opts to pay tax as per section 115BAC, since she would be eligible for deduction under section 24(b), for interest on housing loan in respect of let out property under regular provisions as well as under section 115BAC of the Income-tax Act, 1961.

II. Residential status of Miss Charlie in case she is a person of Indian origin and her total income from Indian sources exceeds Rs.18,00,000

If she is a person of Indian origin and her total income from Indian sources exceeds Rs.15,00,000 (Rs.18,00,000, in her case), the condition of stay in India for a period exceeding 120 days during the previous year and 365 days during the four immediately preceding previous years would be applicable for being treated as a resident. Since her stay in India exceeds 120 days in the P.Y.2023-24 but the period of her stay in India during the four immediately preceding previous years is less than 365 days (only 16 days), her residential status as per section 6(1) would continue to be same i.e., non-resident in India.

Further, since she is not a citizen of India, the provisions of section 6(1A) deeming an individual to be a citizen of India would not get attracted in her case, even though she is a person of Indian origin and her total income from Indian sources exceeds Rs.15,00,000 and she is not liable to pay tax in USA.

Therefore, her residential status would be non-resident in India for the previous year 2023-24.

Question 2

Dr. Niranjana, a resident individual, aged 60 years is running a clinic in Surat. Her Income and Expenditure Account for the year ending March 31st, 2024 is as under:

Expenditure	Rs.	Income	Rs.
To Medicine consumed	35,38,400	By Consultation and medical charges	58,85,850
To Staff salary	13,80,000	By Income-tax refund	5,450
To Clinic consumables	1,10,000	(principal Rs.5,000, interest Rs.450)	
To Rent paid	90,000	By Dividend from units of UTI (Gross)	10,500
To Administrative expenses		By Winning from game show on T.V. (net of TDS of Rs.15,000)	35,000
To Amount paid to scientific research association approved u/s 35	2,55,000		
	1,50,000	By Rent	27,000
To Net profit	4,40,400		
	59,63,800		59,63,800

- (i) Rent paid includes Rs.30,000 paid by cheque towards rent for her residential house in Surat.
- (ii) Clinic equipments are:
- | | | |
|-----------|---------------------------|---------------|
| 1.4.2023 | Opening W.D.V. | - Rs.5,00,000 |
| 7.12.2023 | Acquired (cost) by cheque | - Rs.2,00,000 |
- (iii) Rent received relates to residential house property situated at Surat. Gross Annual Value Rs.27,000. The municipal tax of Rs.2,000, paid in December, 2023, has been included in "administrative expenses".
- (iv) She received salary of Rs.7,500 p.m. from "Full Cure Hospital" which has not been included in the "consultation and medical charges".
- (v) Dr. Niranjana availed a loan of Rs.5,50,000 from a bank for higher education of her daughter. She repaid principal of Rs.1,00,000, and interest thereon Rs.55,000 during the previous year 2023-24.
- (vi) She paid Rs.1,00,000 as tuition fee (not in the nature of development fees/ donation) to the university for full time education of her daughter.
- (vii) An amount of Rs.28,000 has also been paid by cheque on 27th March, 2024 for her medical insurance premium.

From the above, compute the total income of Dr. Smt. Niranjana for the A.Y. 2024-25 under the default tax regime and optional tax regime under the normal provisions of the Act.

Answer

Computation of total income of Dr. Niranjana for A.Y. 2024-25

	Particulars	Rs.	Rs.	Rs.
I	Income from Salary			
	Basic Salary (Rs.7,500 x 12)		90,000	
	Less: Standard deduction u/s 16(ia)		50,000	40,000
II	Income from house property			
	Gross Annual Value (GAV)		27,000	
	Less : Municipal taxes paid		2,000	
	Net Annual Value (NAV)		25,000	
	Less: Deduction u/s 24@30% of Rs.25,000		7,500	17,500
III	Income from profession			
	Net profit as per Income & Expenditure account		4,40,400	
	Less: Items of income to be treated separately			
	(i) Rent received (taxable under the head "Income from house property")	27,000		
	(ii) Dividend from units of UTI (taxable under the head "Income from other sources")	10,500		
	(iii) Winning from game show on T.V.(net of TDS) – taxable under the head "Income from other sources"	35,000		
	(iv) Income tax refund	5,450	77,950	
			3,62,450	
	Less: Allowable expenditure			
	Depreciation on clinic equipments			
	on Rs.5,00,000 @15%	75,000		
	on Rs.2,00,000 @7.5%	15,000		
	(On equipments acquired during the year in December 2023, she is entitled to depreciation @50% of normal depreciation, since the same are put to use for less than 180 days during the year)			
	100% deduction is allowable in respect of the amount paid to scientific research association allowable, since whole of the amount is already debited to Income & Expenditure A/c, no further adjustment is required.	-		
			90,000	
			2,72,450	
	Add: Items of expenditure not allowable while			

	computing business income			
	(i) Rent for her residential accommodation included in Income and Expenditure A/c	30,000		
	(ii) Municipal tax paid relating to residential house at Surat included in administrative expenses	2,000	32,000	3,04,450
IV	Income from other sources			
	(a) Interest on income-tax refund		450	
	(b) Dividend from UTI (taxable in the hands of unit holders)		10,500	
	(c) Winnings from TV game show (Rs.35,000 + Rs.15,000)		50,000	60,950
	Gross Total Income			4,22,900
	Less: Deductions under Chapter VI-A:			
	(a) Section 80C - Tuition fee paid to university for full time education of her daughter		1,00,000	
	(b) Section 80D - Medical insurance premium (fully allowed since she is a senior citizen)		28,000	
	(c) Section 80E - Interest on loan taken for higher education is deductible		55,000	1,83,000
	Total income			2,39,900

Notes:

- (i) The principal amount received towards income-tax refund will be excluded from computation of total income. Interest received will be taxed under the head "Income from other sources".
- (ii) Winnings from game show on T.V. should be grossed up for the chargeability under the head "Income from other sources" (Rs.35,000 + Rs.15,000). Thereafter, while computing tax liability, TDS of Rs.15,000 should be deducted to arrive at the tax payable. Winnings from game show are subject to tax @30% as per section 115BB.
- (iii) Dr. Niranjana would not be eligible for deduction u/s 80GG, as she owns a house in Surat, a place where she is residing as well as carrying on her profession.

Question 3

Ms. Purvi, aged 55 years, is a Chartered Accountant in practice. She maintains her accounts on cash basis. Her Income and Expenditure account for the year ended March 31, 2024 reads as follows:

Expenditure	(Rs.)	Income	(Rs.)	(Rs.)
Salary to staff	15,50,000	Fees earned:		
Stipend to articled	1,37,000	Audit	27,88,000	

Assistants		Taxation services	15,40,300	
Incentive to articled Assistants	13,000	Consultancy	12,70,000	55,98,300
Office rent	12,24,000	Dividend on shares of X Ltd., an Indian company (Gross)		10,524
Printing and stationery	12,22,000	Income from UTI (Gross)		7,600
Meeting, seminar and conference	31,600	Honorarium received from various institutions		15,800
Purchase of car (for official use)	80,000	for valuation of answer papers		
Repair, maintenance and petrol of car	4,000	Rent received from residential flat let out		85,600
Travelling expenses	5,25,000			
Municipal tax paid in respect of house property	3,000			
Net Profit	9,28,224			
	57,17,824			57,17,824

Other Information:

- (i) Allowable rate of depreciation on motor car is 15%.
- (ii) Value of benefits received from clients during the course of profession is Rs. 10,500.
- (iii) Incentives to articled assistants represent amount paid to two articled assistants for passing IPCC Examination at first attempt.
- (iv) Repairs and maintenance of car include Rs. 2,000 for the period from 1-10-2023 to 30-09-2024.
- (v) Salary includes Rs. 30,000 to a computer specialist in cash for assisting Ms. Purvi in one professional assignment.
- (vi) The travelling expenses include expenditure incurred on foreign tour of Rs. 32,000 which was within the RBI norms.
- (vii) Medical Insurance Premium on the health of dependent brother and major son dependent on her amounts to Rs. 5,000 and Rs. 10,000, respectively, paid in cash.
- (viii) She invested an amount of Rs. 10,000 in National Saving Certificate.
- (ix) She has paid Rs. 70,000 towards advance tax during the P.Y. 2023-24.

Compute the total income and tax payable of Ms. Purvi for the assessment year 2024-25.

Answer

Computation of total income and tax payable of Ms. Purvi for the A.Y. 2024-25 under the regular provisions of the Act

Particulars	Rs.	Rs.
Income from house property (See Working Note 1)		57,820
Profit and gains of business or profession (See Working Note 2)		9,20,200
Income from other sources (See Working Note 3)		33,924
Gross Total Income		10,11,944
Less: Deductions under Chapter VI-A (See Working Note 4)		10,000
Total Income		10,01,944
Total Income (rounded off)		10,01,940
Tax on total income		
Upto Rs.2,50,000	Nil	
Rs.2,50,001 – Rs.5,00,000 @5%	12,500	
Rs.5,00,001 – Rs.10,00,000 @20%	1,00,000	
Rs.10,00,001 – Rs.10,01,940 @ 30%	582	1,13,082
Add: Health and Education cess @ 4%		4,523
Total tax liability		1,17,605
Less: Advance tax paid		70,000
Less: Tax deducted at source on dividend income from an Indian Company u/s 194	1,052	
Tax deducted at source on income from UTI u/s 194K	760	1,812
Tax Payable		45,793
Tax Payable (rounded off)		45,790

Computation of tax payable in accordance with the provisions of section 115BAC

Particulars	Rs.	Rs.
Gross Total Income		10,11,944
[Income under the "Income from house property" Profits and gains from business or profession" and "Income from other sources" would remain the same even if Ms. Purvi opts for special provisions under section 115BAC, since deduction claimed by her under these heads is allowable even under section 115BAC]		
Less: Deductions under Chapter VI-A [No deduction is allowable under Chapter VI-A, by virtue of section 115BAC(2)]		Nil

Total Income		10,11,944
Total Income (rounded off)		10,11,940
Tax on total income		
Upto Rs.2,50,000	Nil	
Rs.2,50,001 – Rs.5,00,000 @5%	12,500	
Rs.5,00,000 – Rs.7,50,000 @10%	25,000	
Rs.7,50,000 – Rs.10,00,000 @15%	37,500	
Rs.10,00,000 – Rs.10,11,940 @ 20%	2,388	77,388
Add: Health and Education cess @ 4%		3,096
Total tax liability		80,484
Less: Advance tax paid		70,000
Less: Tax deducted at source on dividend income from Indian Companies u/s 194	1,052	
Tax deducted at source on income from UTI u/s 194K	760	1,812
Tax Payable		8,672
Tax Payable (rounded off)		8,670

Since tax payable as per the provisions of section 115BAC is lower than the tax payable under the regular provisions of the Income-tax Act, 1961, it would be beneficial for Ms. Purvi to opt for section 115BAC. She has to exercise this option on or before the due date of furnishing the return of income i.e., 31st October 2023, in her case since she is liable to get her books of account audited. Further, since she is having income from business or profession during the previous year 2023-24, if she opts for section 115BAC for this previous year, the said provisions would apply for subsequent assessment years as well.

Working Notes:

(1) Income from House Property

Particulars	Rs.	Rs.
Gross Annual Value under section 23(1)	85,600	
Less: Municipal taxes paid	3,000	
Net Annual Value (NAV)	82,600	
Less: Deduction u/s 24@30% of NAV	24,780	57,820

Note - Rent received has been taken as the Gross Annual Value in the absence of other information relating to Municipal Value, Fair Rent and Standard Rent.

(2) Income under the head "Profits & Gains of Business or Profession"

Particulars	Rs.	Rs.
Net profit as per Income and Expenditure account		9,28,224
Add: Expenses debited but not allowable		
(i) Salary paid to computer specialist in cash disallowed under section 40A(3), since such cash payment exceeds Rs.10,000	30,000	
(ii) Amount paid for purchase of car is not allowable under section 37(1) since it is a capital expenditure	80,000	
(ii) Municipal Taxes paid in respect of residential flat let out	3,000	1,13,000
		10,41,224
Add: Value of benefit received from clients during the course of profession [taxable as business income under section 28(iv)]		10,500
		10,51,724
Less: Income credited but not taxable under this head:		
(i) Dividend on shares of X Ltd., an Indian company (taxable under the head "Income from other sources")	10,524	
(ii) Income from UTI (taxable under the head "Income from other sources")	7,600	
(iii) Honorarium for valuation of answer papers	15,800	
(iv) Rent received from letting out of residential flat	85,600	1,19,524
		9,32,200
Less: Depreciation on motor car @15% (See Note (i) below)		12,000
		9,20,200

Notes :

- (i) It has been assumed that the motor car was put to use for more than 180 days during the previous year and hence, full depreciation @ 15% has been provided for under section 32(1)(ii).

Note: Alternatively, the question can be solved by assuming that motor car has been put to use for less than 180 days and accordingly, only 50% of depreciation would be allowable as per the second proviso below section 32(1)(ii).

- (ii) Incentive to articled assistants for passing IPCC examination in their first attempt is deductible under section 37(1).

- (iii) Repairs and maintenance paid in advance for the period 1.4.2023 to 30.9.2023 i.e. for 6 months amounting to Rs.1,000 is allowable since Ms. Purvi is following the cash system of accounting.
- (iv) Rs.32,000 expended on foreign tour is allowable as deduction assuming that it was incurred in connection with her professional work. Since it has already been debited to income and expenditure account, no further adjustment is required.

(3) Income from other sources

Particulars	Rs.
Dividend on shares of X Ltd., an Indian company (taxable in the hands of shareholders)	10,524
Income from UTI (taxable in the hands of unit holders)	7,600
Honorarium for valuation of answer papers	15,800
	33,924

(4) Deduction under Chapter VI-A :

Particulars	Rs.
Deduction under section 80C (Investment in NSC)	10,000
Deduction under section 80D (See Notes (i) & (ii) below)	Nil
Total deduction under Chapter VI-A	10,000

Notes:

- (i) Premium paid to insure the health of brother is not eligible for deduction under section 80D, even though he is a dependent, since brother is not included in the definition of "family" under section 80D.
- (ii) Premium paid to insure the health of major son is not eligible for deduction, even though he is a dependent, since payment is made in cash.

Question 4

Mr. Y carries on his own business. An analysis of his trading and profit & loss for the year ended 31-3-2024 revealed the following information:

- (1) The net profit was Rs.11,20,000.
- (2) The following incomes were credited in the profit and loss account:
 - (a) Income from UTI Rs.22,000 (Gross)
 - (b) Interest on debentures Rs.17,500 (Gross)
 - (c) Winnings from horse races Rs.15,000 (Gross)
- (3) It was found that some stocks were omitted to be included in both the opening and closing stocks, the value of which were:

Opening stock Rs.8,000.

Closing stock Rs.12,000.

- (4) Rs.1,00,000 was debited in the profit and loss account, being contribution to a University approved and notified under section 35(1)(ii).
- (5) Salary includes Rs.20,000 paid to his brother which is unreasonable to the extent of Rs.2,500.
- (6) Advertisement expenses include 15 gift packets of dry fruits costing Rs.1,000 per packet presented to important customers.
- (7) Total expenses on car was Rs.78,000. The car was used both for business and personal purposes. $\frac{3}{4}$ th is for business purposes.
- (8) Miscellaneous expenses included Rs.30,000 paid to A & Co., a goods transport operator in cash on 31-1-2024 for distribution of the company's product to the warehouses.
- (9) Depreciation debited in the books was Rs.55,000. Depreciation allowed as per Income-tax Rules, 1962 was Rs.50,000.
- (10) Drawings Rs.10,000.
- (11) Investment in NSC Rs.15,000.

Compute the total income of Mr. Y for the assessment year 2024-25 under optional tax regime as per normal provisions of the Act.

Answer

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

Particulars	Rs.
Profits and gains of business or profession (See Working Note 1 below)	11,21,500
Income from other sources (See Working Note 2 below)	54,500
Gross Total Income	11,76,000
Less: Deduction under section 80C (Investment in NSC)	15,000
Total Income	11,61,000

Working Notes:

1. Computation of profits and gains of business or profession

Particulars	Rs.	Rs.
Net profit as per profit and loss account		11,20,000
Add: Expenses debited to profit and loss account but not allowable as deduction		
Salary paid to brother disallowed to the extent	2,500	

considered unreasonable [Section 40A(2)]		
Motor car expenses attributable to personal use not allowable (Rs.78,000 × ¼)	19,500	
Depreciation debited in the books of account	55,000	
Drawings (not allowable since it is personal in nature) [See Note (iii)]	10,000	
Investment in NSC [See Note (iii)]	15,000	1,02,000
		12,22,000
Add: Under statement of closing stock		12,000
		12,34,000
Less: Under statement of opening stock		8,000
Less: Contribution to a University approved and notified under section 35(1)(ii) is eligible for 100% deduction. Since whole of the actual contribution (100%) has been debited to profit and loss account, no further adjustment is required.		-
		12,26,000
Less: Incomes credited to profit and loss account but not taxable as business income		
Income from UTI [taxable under the head "Income from other sources"]	22,000	
Interest on debentures (taxable under the head "Income from other sources")	17,500	
Winnings from horse races (taxable under the head "Income from other sources")	15,000	54,500
		11,71,500
Less: Depreciation allowable under the Income- tax Rules, 1962		50,000
		11,21,500

Notes:

- (i) Advertisement expenses of revenue nature, namely, gift of dry fruits to important customers, is incurred wholly and exclusively for business purposes. Hence, the same is allowable as deduction under section 37.
- (ii) Disallowance under section 40A(3) is not attracted in respect of cash payment exceeding Rs.10,000 to A & Co., a goods transport operator, since, in case of payment made for plying, hiring or leasing goods carriages, an increased limit of Rs.35,000 is applicable (i.e. payment of upto Rs.35,000 can be made in cash without attracting disallowance under section 40A(3))

- (iii) Since drawings and investment in NSC have been given effect to in the profit and loss account, the same have to be added back to arrive at the business income.
- (iv) In point no. 9 of the question, it has been given that depreciation as per Income-tax Rules, 1962 is Rs.50,000. It has been assumed that, in the said figure of Rs.50,000, only the proportional depreciation (i.e., 75% for business purposes) has been included in respect of motor car.

2. Computation of "Income from Other Sources"

Particulars	Rs.
Dividend from UTI	22,000
Interest on debentures	17,500
Winnings from races	15,000
	54,500

Question 5

Balamurugan furnishes the following information for the year ended 31-03-2024:

Particulars	Rs.
Income from textile business	(1,35,000)
Income from house property	(15,000)
Lottery winning (Gross)	5,00,000
Speculation business income	1,00,000
Income by way of salary (Computed)	2,70,000
Long term capital gain u/s 112	70,000

Compute his total income, tax liability and advance tax obligations under default tax regime under section 115BAC.

Answer

Computation of total income of Balamurugan for the year ended 31.03.2024

Particulars	Rs.	Rs.
Salaries	2,70,000	
Less: Loss from house property (Can be set off from long term capital gain also)	Nil	
Net Salary (after set off of loss from house property)		2,70,000
Profits and gains of business or profession		
Speculation business income	1,00,000	

Less: Business loss of Rs.1,35,000 set-off to the extent of Rs.1,00,000	(1,00,000)	
	Nil	
Balance current year business loss of Rs.35,000 to be set-off against long-term capital gain		
Capital Gains		
Long term capital gain	70,000	
Less: Balance current year business loss set-off	(35,000)	
Long term capital gain after set off of business loss		35,000
Income from other sources		
Lottery winnings (Gross)		5,00,000
Total Income		8,05,000

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

Particulars	Rs.
On total income of Rs.27,0,000 (excluding lottery winning and LTCG)	Nil
On LTCG of Rs.5,000 @20% (unexhausted basic exemption limit of Rs. 30000 can be adjusted against LTCG taxable u/s 112)	1000
On lottery winnings of Rs.5,00,000 @ 30%	<u>1,50,000</u>
	1,51,000
Add: Health and Education cess @ 4%	6,040
Total tax liability	1,57,040

The assessee need not pay advance tax since the total income (excluding lottery income) liable to tax is below the basic exemption limit. Further, in respect of lottery income, tax would have been deducted at source @ 30% under section 194B. Since the remaining tax liability of Rs.6,000 (Rs.1,56,000 – Rs.1,50,000) is less than Rs.10,000, advance tax liability is not attracted.

Notes:

- (1) The basic exemption limit of Rs.2,50,000 has to be first exhausted against salary income of Rs.45,000. The unexhausted basic exemption limit of Rs.2,05,000 can be adjusted against long-term capital gains of Rs.35,000 as per section 112, but not against lottery winnings which are taxable at a flat rate of 30% under section 115BB.
- (2) The first proviso to section 234C(1) provides that since it is not possible for the assessee to estimate his income from lotteries, the entire amount of tax payable (after considering TDS) on such income should be paid in the remaining instalments of advance tax which are due. Where no such instalment is due, the entire tax should be paid by 31st March, 2024. The first proviso to section 234C(1) would be attracted only in case of non-deduction

or short-deduction of tax at source under section 194B. In this case, it has been assumed that tax deductible at source under section 194B has been fully deducted from lottery income. Since the remaining tax liability of Rs.6,000 (Rs.1,56,000 – Rs.1,50,000) is less than Rs.10,000, advance tax liability is not attracted.

Question 6

Mr. Rajiv, aged 50 years, a resident individual and practicing Chartered Accountant, furnishes you the receipts and payments account for the A.Y. 2024-25.

Receipts and Payments Account

Receipts	Rs.	Payments	Rs.
Opening balance (1.4.2023) Cash on hand and at Bank	12,000	Staff salary, bonus and stipend to articulated clerks	21,50,000
Fee from professional services (Gross)	59,38,000	Other administrative expenses	11,48,000
Rent	50,000	Office rent	30,000
Motor car loan from Canara Bank (@ 9% p.a.)	2,50,000	Housing loan repaid to SBI (includes interest of Rs.88,000)	1,88,000
		Life insurance premium (10% of sum assured)	24,000
		Motor car (acquired in Jan. 2024 by A/c payee cheque)	4,25,000
		Medical insurance premium (for self and wife)(paid by A/c Payee cheque)	18,000
		Books bought on 1.07.2023 (annual publications by A/c payee cheque)	20,000
		Computer acquired on 1.11.2023 by A/c payee cheque (for professional use)	30,000
		Domestic drawings	2,72,000
		Public provident fund subscription	20,000
		Motor car maintenance	10,000
		Closing balance (31.3.2024) Cash on hand and at Bank	19,15,000
	62,50,000		62,50,000

Following further information is given to you:

- (1) He occupies 50% of the building for own residence and let out the balance for residential use at a monthly rent of Rs.5,000. The building was constructed during the year 1997-98, when the housing loan was taken.
- (2) Motor car was put to use both for official and personal purpose. One-fifth of the motor car use is for personal purpose. No car loan interest was paid during the year.
- (3) The written down value of assets as on 1-4-2023 are given below:

Furniture & Fittings	Rs.60,000
Plant & Machinery	Rs.80,000
(Air-conditioners, Photocopiers, etc.)	
Computers	Rs.50,000

Note: Mr. Rajiv follows regularly the cash system of accounting.

Compute the total income of Mr. Rajiv for the assessment year 2024-25 assuming that he has shifted out of the default tax regime under section 115BAC.

Answer

Computation of total income of Mr. Rajiv for the assessment year 2023-24

Particulars	Rs.	Rs.	Rs.
Income from house property			
Self-occupied			
Annual value	Nil		
Less: Deduction under section 24(b) Interest on housing loan			
50% of Rs.88,000 = 44,000 but limited to	30,000		
Loss from self occupied property		(30,000)	
Let out property			
Annual value (Rent receivable has been taken as the annual value in the absence of other information)	60,000		
Less: Deductions u/s 24			
30% of Net Annual Value	18,000		
Interest on housing loan (50% of Rs.88,000)	<u>44,000</u>		
	62,000	(2,000)	
Loss from house property			(32,000)
Profits and gains of business or profession			
Fees from professional services		59,38,000	

Less: Expenses allowable as deduction			
Staff salary, bonus and stipend	21,50,000		
Other administrative expenses	11,48,000		
Office rent	30,000		
Motor car maintenance (10,000 x 4/5)	8,000		
Car loan interest – not allowable (since the same has not been paid and the assessee follows cash system of accounting)	Nil	33,36,000	
		26,02,000	
Motor car Rs.4,25,000 x 7.5% x 4/5	25,500		
Books being annual publications @40%	8,000		
Furniture and fittings @10% of Rs.60,000	6,000		
Plant and machinery @15% of Rs.80,000	12,000		
Computer @40% of Rs.50,000	20,000		
Computer (New) Rs.30,000 @ 40% x 50%	6,000	77,500	25,24,500
Gross Total income			24,92,500
Less: Deductions under Chapter VI-A			
Deduction under section 80C			
Housing loan principal repayment	1,00,000		
PPF subscription	20,000		
Life insurance premium	24,000		
Total amount of Rs.1,44,000 is allowed as deduction since it is within the limit of Rs.1,50,000		1,44,000	
Deduction under section 80D			
Medical insurance premium paid Rs.18,000		18,000	1,62,000
Total income			23,30,500

Question 7

From the following details, compute the total income and tax liability of Siddhant, aged 31 years, of Delhi both as per the regular provisions of the Income-tax Act, 1961 and as per section 115BAC for the A.Y.2024-25. Advise Mr. Siddhant whether he would opt for section 115BAC :

Particulars	Rs.
Salary including dearness allowance	4,35,000
Bonus	15,000

Salary of servant provided by the employer	12,000
Rent paid by Siddhant for his accommodation	49,600
Bills paid by the employer for gas, electricity and water provided free of cost at the above flat	11,000

Siddhant purchased a flat in a co-operative housing society in Delhi for Rs.4,75,000 in April, 2016, which was financed by a loan from Life Insurance Corporation of India of Rs.1,60,000@15% interest, his own savings of Rs.65,000 and a deposit from a nationalized bank for Rs.2,50,000 to whom this flat was given on lease for ten years. The rent payable by the bank was Rs.3,500 per month. The following particulars are relevant:

- (a) Municipal taxes paid by Mr. Siddhant Rs.4,300 (per annum)
- (b) House Insurance Rs.860
- (c) He earned Rs.2,700 in share speculation business and lost Rs.4,200 in cotton speculation business.
- (d) In the year 2020-21, he had gifted Rs.30,000 to his wife and Rs.20,000 to his son who was aged 11. The gifted amounts were advanced to Mr. Rajesh, who was paying interest @19% per annum.
- (e) Siddhant received a gift of Rs.30,000 each from four friends.
- (f) He contributed Rs.50,000 to Public Provident Fund

Answer

Computation of total income and tax liability of Siddhant under default tax regime under section 115BAC for the A.Y. 2024-25

Particulars	Rs.	Rs.
Salary Income		
Salary including dearness allowance		4,35,000
Bonus		15,000
Value of perquisites:		
(i) Salary of servant	12,000	
(ii) Free gas, electricity and water	11,000	23,000
		4,73,000
Less: Standard deduction under section 16(ia)		50,000
		4,23,000
Income from house property		
Gross Annual Value (GAV) (Rent receivable is taken as GAV in the absence of other information) (Rs.3,500 × 12)	42,000	
Less: Municipal taxes paid	4,300	

Net Annual Value (NAV)		37,700	
Less: Deductions under section 24			
(i) 30% of NAV	Rs.11,310		
(ii) Interest on loan from LIC @15% of Rs.1,60,000 [See Note 2]	Rs.24,000	35,310	2,390
Income from speculative business			
Income from share speculation business		2,700	
Less: Loss of Rs.4,200 from cotton speculation business set-off to the extent of Rs.2,700		2,700	Nil
Balance loss of Rs.1,500 from cotton speculation business has to be carried forward to the next year as it cannot be set off against any other head of income.			
Income from Other Sources			
(i) Income on account of interest earned from advancing money gifted to his minor son is includible in the hands of Siddhant as per section 64(1A)		3,800	
		2,300	
(ii) Interest income earned from advancing money gifted to wife has to be clubbed with the income of the assessee as per section 64(1)		5,700	
(iii) Gift received from four friends (taxable under section 56(2)(x) as the aggregate amount received during the year exceeds Rs.50,000)		1,20,000	1,29,500
Gross Total Income			5,54,890
Deduction under section 80C [No deduction under Chapter VI-A would be allowed as per section 115BAC(2)]			Nil
Total Income			5,54,890

Particulars	Rs.
Tax on Total Income (5% of Rs. 2,54,890) (Rs. 5,54,890- Rs. 3,00,000)	12,745
Less-	
Rebate u/s 87A, since total income does not	12,745
Tax liability	Nil

Computation of total income and tax liability of Siddhant for the A.Y. 2024-25 under normal provisions of the Act

Particulars	Rs.	Rs.
Gross Total Income		5,54,890
Less - Exemption u/s 10(32) in respect of interest income of minor son included in the hands of Siddhant		1,500
Gross Total Income (under the normal provisions of the Act)		5,53,390
Deduction under section 80C		50,000
Total Income		5,03,390

Particulars	Rs.
Tax on total income [5% of Rs.2,50,000 + 20% of Rs. 3,390]	13,178
Add: Health and education cess @4%	527
Tax liability	13,705
Tax liability (rounded off)	13,710

Since his total income as per the normal provisions of the Act exceeds Rs 5,00,000, he would not be eligible for rebate under section 87A.

Since Mr. Siddhant is not liable to pay any tax under default tax regime under section 115BAC, it would be beneficial for him to not to exercise the option of shift out of the default tax regime for A.Y.2024-25.

Notes:

- (1) It is assumed that the entire loan of Rs.1,60,000 is outstanding as on 31.3.2024;
- (2) Since Siddhant's own flat in a co-operative housing society, which he has rented out to a nationalized bank, is also in Delhi, he is not eligible for deduction under section 80GG in respect of rent paid by him for his accommodation in Delhi, since one of the conditions to be satisfied for claiming deduction under section 80GG is that the assessee should not own any residential accommodation in the same place.

Question 8

Ramdin, aged 33 years, working as Manager (Sales) with Frozen Foods Ltd., provides the following information for the year ended 31.03.2024:

- Basic Salary Rs.15,000 p.m.
- DA (50% of it is meant for retirement benefits) Rs.12,000 p.m.
- Commission as a percentage of turnover of the Company 0.5 %
- Turnover of the Company Rs.50 lacs
- Bonus Rs.50,000
- Gratuity Rs.30,000
- Own Contribution to R.P.F. Rs.30,000
- Employer's contribution to R.P.F. 20% of basic salary
- Interest credited in the R.P.F. account @ 15% p.a. Rs.15,000
- Gold Ring worth Rs.10,000 was given by employer on his 25th wedding anniversary.
- Music System purchased on 01.04.2023 by the company for Rs.85,000 and was given to him for personal use.
- Two old light goods vehicles owned by him were leased to a transport company against the fixed charges of Rs.6,500 p.m. Books of account are not maintained.
- Received interest of Rs.5,860 on bank FDRs on 24.4.2023 and interest of Rs.6,786 (Net) from the debentures of Indian Companies on 5.5.2023.
- Made payment by cheques of Rs.15,370 towards premium on Life Insurance policies and Rs.22,500 for Mediclaim Insurance policy for self and spouse.
- Invested in NSC Rs.30,000 and in FDR of SBI for 5 years Rs.50,000.
- Donations of Rs.11,000 to an institution approved u/s 80G and of Rs.5,100 to Prime Minister's National Relief Fund were given during the year by way of cheque.

Compute the total income and tax payable thereon for the A.Y. 2024-25, assuming that Mr. Ramdin has exercised his option to shift out of the default tax regime under section 115BAC.

Answer**Computation of Total Income for the A.Y.2024-25**

Particulars	Rs.	Rs.
Income from Salaries		
Basic Salary (Rs.15,000 x 12)		1,80,000
Dearness Allowance (Rs.12,000 x12)		1,44,000
Commission on Turnover (0.5% of Rs.50 lacs)		25,000

Bonus		50,000
Gratuity (See Note 1)		30,000
Employer's contribution to recognized provident fund		
Actual contribution [20% of Rs.1,80,000]	36,000	
Less: Exempt (See Note 2)	33,240	2,760
Interest credited in recognized provident fund account @15% p.a.	15,000	
Less: Exempt upto 9.5% p.a.	9,500	5,500
Gift of gold ring worth Rs.10,000 on 25th wedding anniversary by employer (See Note 3)		10,000
Perquisite value of music system given for personal use (being 10% of actual cost) i.e. 10% of Rs.85,000		8,500
		4,55,760
Less: Standard deduction under section 16(ia)		50,000
		4,05,760
Profits and Gains of Business or Profession		
Lease of 2 light goods vehicles on contract basis against fixed charges of Rs.6,500 p.m. In this case, presumptive tax provisions of section 44AE will apply i.e. Rs.7,500 p.m. for each of the two light goods vehicle (Rs.7,500 x 2 x 12). He cannot claim lower profits and gains since he has not maintained books of account.		1,80,000
Income from Other Sources		
Interest on bank FDRs	5,860	
Interest on debentures (Rs.6786 x 100/90)	7,540	13,400
Gross total Income		5,99,160
Less: Deductions under Chapter VI-A		
Section 80C		
Premium on life insurance policy	15,370	
Investment in NSC	30,000	
FDR of SBI for 5 years	50,000	
Employee's contribution to recognized provident fund	30,000	1,25,370
Section 80D – Mediclaim Insurance		22,500
Section 80G (See Note 4)		10,600
Total Income		4,40,690
Tax on total income		

Income-tax [5% of Rs.1,90,690 (i.e., Rs.4,40,690 – Rs.2,50,000)]	9,535
Add: Rebate u/s 87A, since total income does not exceed Rs.5,00,000	9,535
Tax liability	Nil
Less: Tax deducted at source (Rs.7,540 – Rs.6,786)	754
Net tax refundable	754
Tax refundable (rounded off)	750

Notes:

- Gratuity received during service is fully taxable.
- Employer's contribution in the recognized provident fund is exempt up to 12% of the salary i.e. 12% of (Basic Salary + DA for retirement benefits + Commission based on turnover)

$$= 12\% \text{ of } (\text{Rs.1,80,000} + (50\% \text{ of Rs.1,44,000}) + \text{Rs.25,000})$$

$$= 12\% \text{ of } 2,77,000 = \text{Rs.33,240}$$
- An alternate view possible is that only the sum in excess of ` 5,000 is taxable in view of the language of *Circular No.15/2001 dated 12.12.2001* that such gifts upto Rs.5,000 in the aggregate per annum would be exempt, beyond which it would be taxed as a perquisite. As per this view, the value of perquisite would be Rs.5,000. In such a case the Income from Salaries would be Rs.4,00,760.
- Deduction under section 80G is computed as under:

Particulars	Rs.
Donation to PM National Relief Fund (100%)	5,100
Donation to institution approved under section 80G (50% of Rs.11,000) (amount contributed Rs.11,000 or 10% of Adjusted Total Income i.e. Rs.45,129, whichever is lower)	5,500
Total deduction	10,600

Adjusted Total Income = Gross Total Income x Deductions under section 80C and 80D

$$= \text{Rs.5,99,160} - \text{Rs.1,47,870} = \text{Rs.4,51,290}.$$

Question 9

From the following particulars furnished by Mr. X for the year ended 31.3.2024, you are requested to compute his total income and tax payable for the assessment year 2024-25, assuming that he opts out of the default tax regime u/s 115BAC.

- Mr. X retired on 31.12.2023 at the age of 58, after putting in 26 years and 1 month of service, from a private company at Mumbai.
- He was paid a salary of Rs.25,000 p.m. and house rent allowance of Rs.6,000 p.m. He paid rent of Rs.6,500 p.m. during his tenure of service.

- (c) On retirement, he was paid a gratuity of Rs.3,50,000. He was covered by the payment of Gratuity Act. Mr. X had not received any other gratuity at any point of time earlier, other than this gratuity.
- (d) He had accumulated leave of 15 days per annum during the period of his service; this was encashed by Mr. X at the time of his retirement. A sum of Rs.3,15,000 was received by him in this regard. His average salary for last 10 months may be taken as Rs.24,500. Employer allowed 30 days leave per annum.
- (e) After retirement, he ventured into textile business and incurred a loss of Rs.80,000 for the period upto 31.3.2024.
- (f) Mr. X has deposited Rs.1,00,000 in public provident fund.

Answer**Computation of total income of Mr. X for A.Y.2024-25**

Particulars	Rs.	Rs.
Income from Salaries		
Basic salary (Rs.25,000 x 9 months)		2,25,000
House rent allowance:		
Actual amount received (Rs.6,000 x 9 months)	54,000	
Less : Exemption under section 10(13A)(Note 1)	36,000	18,000
Gratuity:		
Actual amount received	3,50,000	
Less: Exemption under section 10(10)(ii) (Note 2)	3,50,000	-
Leave encashment:		
Actual amount received	3,15,000	
Less : Exemption under section 10(10AA) (Note 3)	2,45,000	70,000
Gross Salary		3,13,000
Less: Standard deduction under section 16(ia)		50,000
		2,63,000
Profits and gains of business or profession		
Business loss of Rs.80,000 to be carried forward as the same cannot be set off against salary income		Nil
Gross Total income		2,63,000
Less : Deduction under section 80C		
Deposit in Public Provident Fund		1,00,000
Total income		1,63,000

Tax on total income (Nil, since it is lower than the basic exemption limit of Rs.2,50,000)

Nil

Notes:

- (1) As per section 10(13A), house rent allowance will be exempt to the extent of least of the following three amounts:

	Rs.
(i) HRA actually received (Rs.6,000 x 9)	54,000
(ii) Rent paid in excess of 10% of salary (Rs.6,500 – Rs.2,500) x 9 months	36,000
(iii) 50% of salary	1,12,500

- (2) Gratuity of Rs.3,50,000 is exempt under section 10(10)(ii), being the minimum of the following amounts:

	Rs.
(i) Actual amount received	3,50,000
(ii) Half month salary for each year of completed service [(Rs.25,000 x 15/26) x 26 years]	3,75,000
(iii) Statutory limit	20,00,000

- (3) Leave encashment is exempt upto the least of the following:

	Rs.
(i) Actual amount received	3,15,000
(ii) 10 months average salary (Rs.24,500 x 10)	2,45,000
(iii) Cash equivalent of unavailed leave calculated on the basis of maximum 30 days for every year of actual service rendered to the employer from whose service he retired (See Note 4 below)	3,18,500
(iv) Statutory limit	25,00,000

- (4) Since the leave entitlement of Mr. X as per his employer's rules is 30 days credit for each year of service and he had accumulated 15 days per annum during the period of his service, he would have availed/taken the balance 15 days leave every year.

Leave entitlement of Mr. X on the basis of 30 days for every year of actual service rendered by him to the employer

Less: Leave taken /availed by Mr. X during the period of his service

Earned leave to the credit of Mr. X at the time of his retirement

$$= 30 \text{ days/year} \times 26 = 780 \text{ days}$$

$$= 15 \text{ days/year} \times 26 = 390 \text{ days}$$

390 days

Cash equivalent of earned leave to the credit of Mr. X at the time of his retirement

$$= 390 \times \text{Rs.}24,500 / 30 = \text{Rs.}3,18,500$$

Question 10

Rosy and Mary are sisters, born and brought up at Mumbai. Rosy got married in 1982 and settled at Canada since 1982. Mary got married and settled in Mumbai. Both of them are below 60 years. The following are the details of their income for the previous year ended 31.3.2024:

S. No.	Particulars	Rosy Rs.	Mary Rs.
1.	Pension received from State Government	--	60,000
2.	Pension received from Canadian Government	20,000	--
3.	Long-term capital gain on sale of land at Mumbai	1,00,000	1,00,000
4.	Short-term capital gain on sale of shares of Indian listed companies in respect of which STT was paid	20,000	2,50,000
5.	LIC premium paid	--	10,000
6.	Premium paid to Canadian Life Insurance Corporation at Canada	40,000	--
7.	Mediclaime policy premium paid by A/c Payee Cheque	--	25,000
8.	Deposit in PPF	--	20,000
9.	Rent received in respect of house property at Mumbai	60,000	30,000

Compute the taxable income and tax liability of Mrs. Rosy and Mrs. Mary for the Assessment Year 2023-24 and tax thereon. Ignore the provisions of section 115BAC.

Answer

Computation of taxable income of Mrs. Rosy and Mrs. Mary for the A.Y.2023-24

S. No.	Particulars	Mrs. Rosy (Non-resident)	Mrs. Mary (ROR)
		Rs.	Rs.
(I)	Salaries		
	Pension received from State Govt. Rs.60,000		
	Less: Standard deduction u/s 16(ia) Rs.50,000	-	10,000
	Pension received from Canadian Government is not taxable in the case of a non-resident since it is earned and received outside India	-	-
		-	10,000
(II)	Income from house property		

	Rent received from house property at Mumbai (assumed to be the annual value in the absence of other information i.e. municipal value, fair rent and standard rent)	60,000	30,000
	Less: Deduction under section 24(a)@30%	18,000	9,000
		42,000	21,000
(III)	Capital gains		
	Long-term capital gain on sale of land at Mumbai	1,00,000	1,00,000
	Short term capital gain on sale of shares of Indian listed companies in respect of which STT was paid	20,000	2,50,000
		1,20,000	3,50,000
(A)	Gross Total Income [(I)+(II)+(III)]	1,62,000	3,81,000
	Less: Deductions under Chapter VIA		
1.	Deduction under section 80C		
	1. LIC Premium paid	-	10,000
	2. Premium paid to Canadian Life Insurance Corporation	40,000	-
	3. Deposit in PPF	-	20,000
		40,000	30,000
2.	Deduction under section 80D – Mediclaim premium paid		25,000
		40,000	55,000
(B)	Total deduction under Chapter VI-A is restricted to income other than capital gains taxable under sections 111A & 112	40,000	31,000
(C)	Total income (A-B)	1,22,000	3,50,000
	Tax liability of Mrs. Rosy for A.Y.2023-24		
	Tax on long-term capital gains @20% of Rs.1,00,000	20,000	
	Tax on short-term capital gains @15% of Rs.20,000	3,000	
	Tax on balance income of Rs.2,000	Nil	
		23,000	
	Tax liability of Mrs. Mary for A.Y.2023-24		
	Tax on STCG @15% of Rs.1,00,000 [i.e. Rs.2,50,000 less Rs.1,50,000, being the unexhausted basic exemption limit as per proviso to section 111A] [See Notes 3 & 4 below]		15,000
	Less: Rebate under section 87A would be lower of Rs.12,500 or tax liability, since total income does not exceed Rs.5,00,000		12,500

			2,500
Add: Health and Education cess@4%	920	100	
Total tax liability	23,920	2,600	

Notes:

- (1) Long-term capital gains on sale of land is chargeable to tax @20% as per section 112.
- (2) Short-term capital gains on transfer of equity shares in respect of which securities transaction tax is paid is subject to tax @15% as per section 111A.
- (3) In case of resident individuals, if the basic exemption limit is not fully exhausted against other income, then, the long-term capital gains u/s 112/short-term capital gains u/s 111A will be reduced by the unexhausted basic exemption limit and only the balance will be taxed at 20%/15%, respectively. However, this benefit is not available to non-residents. Therefore, while Mrs. Mary can adjust unexhausted basic exemption limit against long-term capital gains taxable under section 112 and short-term capital gains taxable under section 111A, Mrs. Rosy cannot do so.
- (4) Since long-term capital gains is taxable at the rate of 20% and short-term capital gains is taxable at the rate of 15%, it is more beneficial for Mrs. Mary to first exhaust her basic exemption limit of Rs.2,50,000 against long-term capital gains of Rs.100,000 and the balance limit of Rs.1,50,000 (i.e., Rs.2,50,000 – Rs.1,50,000) against short-term capital gains.
- (5) Rebate under section 87A would not be available to Mrs. Rosy even though her total income does not exceed Rs.5,00,000, since she is non-resident for the A.Y. 2024-25.

Question 11

Mr. X, an individual set up a unit in Special Economic Zone (SEZ) in the financial year 2019-20 for production of washing machines. The unit fulfills all the conditions of section 10AA of the Income-tax Act, 1961. During the financial year 2022-23 he has also set up a warehousing facility in a district of Tamil Nadu for storage of agricultural produce. It fulfills all the conditions of section 35AD. Capital expenditure in respect of warehouse amounted to Rs.75 lakhs (including cost of land Rs.10 lakhs). The warehouse became operational with effect from 1st April, 2023 and the expenditure of Rs.75 lakhs was capitalized in the books on that date.

Relevant details for the financial year 2024-25 are as follows:

Particulars	Rs.
Profit of unit located in SEZ	40,00,000
Export sales of above unit	80,00,000
Domestic sales of above unit	20,00,000
Profit from operation of warehousing facility (before considering deduction under Section 35AD)	1,05,00,000

Compute income-tax (including AMT under Section 115JC) liability of Mr. X for Assessment Year 2024-25 both as per regular provisions of the Income-tax Act and as per section 115BAC

for Assessment Year 2024-25. Advise Mr. X which scheme the assessee should opt?

Answer

Computation of total income and tax liability of Mr. X for A.Y.2024-25 (under the regular provisions of the Income-tax Act, 1961)

Particulars	Rs.	Rs.
Profits and gains of business or profession		
Profit from unit in SEZ	40,00,000	
Less: Deduction u/s 10AA [See Note (1) below]	32,00,000	
Business income of SEZ unit chargeable to tax		8,00,000
Profit from operation of warehousing facility	1,05,00,000	
Less: Deduction u/s 35AD [See Note (2) below]	65,00,000	
Business income of warehousing facility chargeable to tax		40,00,000
Total Income		48,00,000
Computation of tax liability (under the normal/ regular provisions)		
Tax on Rs.48,00,000		12,52,500
Add: Health and Education cess @4%		50,100
Total tax liability		13,02,600

Computation of adjusted total income of Mr. X for levy of Alternate Minimum Tax

Particulars	Rs.	Rs.
Total Income (computed above as per regular provisions of income tax)		48,00,000
Add: Deduction under section 10AA		32,00,000
		80,00,000
Add: Deduction under section 35AD	65,00,000	
Less: Depreciation under section 32		
On building @10% of Rs.65 lakhs ²	6,50,000	58,50,000
Adjusted Total Income		1,38,50,000
Alternate Minimum Tax @18.5%		25,62,250
Add: Surcharge @15% (since adjusted total income > Rs.1 crore)		3,84,338
		29,46,588
Add: Health and Education cess@4%		1,17,863
		30,64,451

Tax liability u/s 115JC (rounded off)

30,64,450

Since the regular income-tax payable is less than the alternate minimum tax payable, the adjusted total income shall be deemed to be the total income and tax is leviable @18.5% thereof *plus* surcharge@15% and cess@4%. Therefore, tax liability as per section 115JC is Rs.30,64,450.

Computation of total income and tax liability of Mr. X for A.Y.2024-25 (under the provisions of section 115BAC of the Income-tax Act, 1961)

Particulars	Rs.	Rs.
Profit from unit in SEZ		40,00,000
Profit from operation of warehousing facility	1,05,00,000	
Less: Depreciation under section 32		
On building @10% of Rs.65 lakhs (normal depreciation under section 32 is allowable)	6,50,000	98,50,000
Total Income		1,38,50,000
Computation of tax liability as per section 115BAC		
Tax on Rs.1,38,50,000		38,55,000
Add: Surcharge@15%		5,78,250
		44,33,250
Add: Health and Education cess@4%		1,77,330
Total tax liability		46,10,580

Notes:

- (1) Deductions u/s 10AA and 35AD are **not** allowable as per section 115BAC(2). However, normal depreciation u/s 32 is allowable.
- (2) Individuals or HUFs exercising option u/s 115BAC are **not** liable to alternate minimum tax u/s 115JC under default tax regime under section 115BAC.

Since the tax liability of Mr. X under section 115JC is lower than the tax liability as computed u/s 115BAC, it would be beneficial for him **to opt out of default tax regime under section 115BAC for A.Y. 2024-25**. Moreover, benefit of alternate minimum tax credit is also available to the extent of tax paid in excess over regular tax.

AMT Credit to be carried forward under section 115JEE

	Rs.
Tax liability under section 115JC	30,64,450
Less: Tax liability under the regular provisions of the Income- tax Act, 1961	13,02,600
	17,61,850

Notes:**(1) Deduction under section 10AA in respect of Unit in SEZ =**

$$\text{Profit of the Unit in SEZ} \times \frac{\text{Export turnover of the Unit in SEZ}}{\text{Total turnover of the Unit in SEZ}}$$

$$\text{Rs.}40,00,000 \times \frac{\text{Rs.}80,00,000}{\text{Rs.}1,00,00,000} = \text{Rs.}32,00,000$$

- (2)** Deduction @100% of the capital expenditure is available under section 35AD for A.Y.2023-24 in respect of specified business of setting up and operating a warehousing facility for storage of agricultural produce which commences operation on or after 01.04.2009.

Further, the expenditure incurred, wholly and exclusively, for the purposes of such specified business, shall be allowed as deduction during the previous year in which he commences operations of his specified business if the expenditure is incurred prior to the commencement of its operations and the amount is capitalized in the books of account of the assessee on the date of commencement of its operations.

Deduction under section 35AD would, however, **not** be available on expenditure incurred on acquisition of land.

In this case, since the capital expenditure of Rs.65 lakhs (i.e., Rs.75 lakhs – Rs.10 lakhs, being expenditure on acquisition of land) has been incurred in the F.Y.2021-22 and capitalized in the books of account on 1.4.2023, being the date when the warehouse became operational, Rs.65,00,000, being 100% of Rs.65 lakhs would qualify for deduction under section 35AD.

Question 12 – November 2020

Mr. A (aged 52 years), is a CEO of XYZ Enterprise Limited. During PY 2021-22, he earned salary of 1,65,00,000 & LTCG on sale of listed equity shares amounting to 1,06,500. He earned interest of 4,82,778 on saving A/c. Further, he has provided following other information for filing his ROI:

He does not receive HRA from his employer. Mr. A took a loan from SBI on 27th October 2019 for repairing his house (self-occupied) at Delhi & paid interest on such borrowings of 80,000 & 1,50,000 towards principal amount during PY 2021-22.

Mr. A has made following payments towards medical insurance premium for health policies taken for his family members:

Medical premium for his brother: 13,500 (by cheque) Medical premium for his parents: 17,670 (by cheque) Medical premium for self & his wife: 21,000 (by cheque)

He also incurred 6,400 towards preventive health check-up of his wife in cash. He deposited 1,00,000 towards PPF. He also deposited 50,000 & 2,50,000 towards Tier I & Tier II NPS A/c, respectively.

He has paid 5,30,000 as advance tax. His employer has deducted TDS of 51,89,000. He is of the opinion, balance amount of tax, if any he will pay on 27 July 2022 (i.e., before due date for filing of ROI). From the details given above, choose most appropriate option to the questions given below:

1. Compute amount of deduction available to Mr. A under Chapter VI-A for AY 2023-24:

- (a) Rs. 2,04,070 (b) Rs. 2,42,670 (c) Rs. 2,52,670 **(d) Rs. 2,02,670**

2. Assuming Mr. A pays rent of 65,000 p.m. for his rented house at Mumbai to Mr. C, a resident individual, is Mr. A liable to deduct TDS on such rent. If so, what would be the rate & amount of TDS?

- (a) Yes, Mr. A is liable to deduct TDS @ 5% amounting to 3,250 every month i.e., at the time of payment of such rent
 (b) Yes, Mr. A is liable to deduct TDS @ 10% amounting to 6,500 every month i.e., at the time of payment of such rent

(c) Yes, Mr. A is liable to deduct TDS @ 5% amounting to 39,000 in the month of March 2020

- (d) No, Mr. A is not liable to deduct TDS, since he is not required to get his books of A/c audited u/s 44AB

3. What would be the amount of net tax payable for AY 2023-24 in hands of Mr. A?

- (a) Tax payable of Rs. 78,230 (b) Tax payable of Rs. 60,290
(c) Tax payable of Rs. 49,530 (d) Tax payable of Rs. 67,470

4. Compute amount of interest chargeable u/s 234B on account of short payment of advance tax:

- (a) Rs. 1,980 **(b) Nil** (c) Rs. 3130 (d) Rs. 2410

Question 13 – November 2020

Ms. Chanchal, aged 45, provides following data of her gross receipts for PY 2020-21 & PY 2021-22. She is engaged in agency business along with providing services as tarot card reader.

	Receipts from business	Receipts from profession	Total Gross Receipts
PY 2020-21	78,00,000	43,00,000	1,21,00,000
PY 2021-22	85,00,000	47,00,000	1,32,00,000

During PY 2021-22, she paid an amount of 1,20,000 to a contractor for polishing her old furniture. She has taken services from renowned interior designers for her self-occupied residential HP for which she paid Rs. 2,50,000. Further on 28.05.2021 she sold one commercial property for Rs. 50,00,000. The value adopted for stamp duty was 52,00,000. It was purchased for 40,00,000 on 28.04.2019. Brought forward LTCL from unlisted shares of FY 2020-21 is 7,80,000. During the year, Ms. Chanchal incurred a loss of 70,00,000 while trading in agricultural commodity derivatives (no CTT paid).

- Is Ms. Chanchal liable to tax audit under Income-tax Act, 1961 for PY 2021-22?
 - Yes, as the total gross receipts exceeds 1,00,00,000
 - No, as the gross receipts from business or profession are below the specified threshold limits.**
 - Yes, as the gross receipts from business exceed 50,00,000
 - Yes, as the gross receipts from profession exceed 25,00,000
- What is the total amount of tax to be deducted by Ms. Chanchal for PY 2021-22?
 - Rs. 1200
 - Rs. 26200
 - Nil
 - Rs. 27400**
- What is the amount & nature of Capital gain chargeable to tax in hands of Ms. Chanchal?
 - 10,00,000 & STCG
 - 12,00,000 & STCG
 - 7,50,000 & LTCG**
 - 9,50,000 & LTCG
- What is the amount of losses which can be c/f to AY 2023-24, assuming that business income is 45,00,000 & income from profession is 25,00,000 for PY 2021-22?
 - 7,80,000 u/s 74
 - 70,00,000 u/s 73
 - 30,000 u/s 74**
 - 70 Lacs**

Question 14 – May 2021 – RTP

Mr. Sarthak, aged 38 years, working in Nobita Pvt. Ltd. as Senior Finance Manager. His yearly pay slip for FY 2021-22 is as follows:

Earnings	Total	Deduction	Total
Basic Pay	6,34,068	Employee's contribution to PF	1,14,132
Dearness allowance	1,26,814	Profession tax	2,400
HRA	3,17,040	Income-tax	2,32,830
Transport Allowance	19,200	Net Pay	13,03,848
Personal Allowance	5,09,088		
Children Education Allowance for 2 children	12,000		
Medical Allowance	15,000		
Bonus	20,000		
Total Earnings	16,53,210		16,53,210

- His employer also contributes equivalent amount of contribution towards PF.
- Dearness allowance forms part of retirement benefits.
- He has intimated to his company that he would opt for 115BAC for AY 2023-24. Consequently, he has not submitted any investment proof to company.
- He has paid 55,212 towards Mediclaim premium for his parents (aged above 65 years) by A/c payee cheque.
- He has purchased a house of 28,00,000 & taken a loan of Rs. 21 Lacs from HDFC. He is

paying EMI of Rs. 22,835. Possession of house received on 01.04.2021. He himself is occupying this house. Total principal & interest paid for full year is 55,037 & 2,18,983 respectively as per interest certificate received from bank for FY 2021-22.

- (f) He has 3 children, studying in Sandalwood International School. Following are the components of school fees paid for Academic Session 2021-22:

School Fees Component	Child 1	Child 2	Child 3	Total
Tuition fees	30,000	37,000	40,000	1,07,000
Admission fees	20,000	-	-	20,000
Books, stationery & uniform	8,000	12,000	15,000	35,000
Infrastructure Fund	25,000	30,000	35,000	90,000
Commute cost	8,000	8,000	8,000	24,000
Activity Fees	6,000	7,000	8,000	21,000
Total Fees	97,000	94,000	1,06,000	2,97,000

- (g) He has invested 5000 in HDFC ULIP & taken a LIC policy for his wife for 10,000.
- (h) He has invested 12,500 & 25,000 towards NPS Tier I A/c & Tier II A/c, respectively.
- (i) He has also donated 50,000 in PM Cares fund created for relief from COVID-19 pandemic in India.
- (j) He has invested 40,000 in listed equity shares of Shaktimaan Power Solution Ltd. on 01.03.2021 at 200 per share & sells 100 shares at 350 per share on 01.11.2021. STT is paid both at the time of sale & purchase of these shares. Based on the above facts, choose the most appropriate answer to Q Nos. (1) to (5):
- What would be amount of income chargeable to tax u/h Salaries in hands of Mr. Sarthak for AY 2023-24? (a) 16,53,210 (b) 16,21,236 (c) **16,76,036** (d) 16,71,236
 - Whether TDS by Nobita Pvt Ltd. on salary paid to Mr. Sarthak based on intimation submitted by him, is correct? (a) Yes, the amount of 2,32,830 deducted as tax at source is correct. (b) **No, the correct amount of tax to be deducted at source is 2,49,920.** (c) No, the correct amount of tax to be deducted at source is 2,42,800. (d) No, the correct amount of tax to be deducted at source is 2,41,300.
 - What would be the total income (without rounding off) of Mr. Ram for AY 2023-24, assume that he doesnot opt for section 115BAC? (a) **11,73,736** (b) 11,76,699 (c) 11,61,699 (d) 11,58,736
 - What would be tax liability of Mr. Sarthak for the AY 2021-22, if he does not opt for section 115BAC? (a) 1,66,530 (b) **1,68,870** (c) 1,71,210 (d) 1,67,450
 - Assuming for the purpose of answering this question only that no contribution is made by Mr. Sarthak & his employer towards PF, what amount of deduction is available to Mr. Sarthak under Chapter VI-A for PY 2021-22, if he does not opt for section 115BAC? (a) 2,62,500 (b) **2,59,537** (c) 2,50,000 (d) 2,04,500

Question 15 – November 2021

Mr. Animesh, an Indian citizen, age 61 years, has set-up his business in Canada & is residing in

Canada since 2009. He owns a House in Canada, half of which is used by him for his residence & half is given on rent (converted into Rs. is 12,00,000 p.a.).

He purchased a flat in Delhi on 13.10.2018 for 42,00,000. SDV of the flat was 35,00,000. He has taken a loan from Canara Bank in India of Rs. 34,00,000 for purchase of this flat. Interest on such loan for PY 2020-21 was Rs. 3,14,000 & principal repayment was Rs. 80,000. Mr. Animesh has given this flat on monthly rent of Rs. 32,500 since April, 2019.

Annual property tax of Delhi flat is Rs. 40,000 which is paid by Mr. Animesh, whenever he comes to India to meets his parents.

Mr. Animesh visited India for 124 days during the PY 2020-21. Before that he visited India in total for 366 days during the period 1.4.2016 to 31.3.2020.

He had a house in Ranchi which was sold in May 2017. In respect of this house, he received arrears of rent of Rs. 2,96,000 in February 2021 (not taxed earlier).

He also derived some other incomes during the FY 2020-21 which are as follows:

- Profit from business in Canada: Rs. 2,75,000.
- Interest on bonds of a Canadian Co. Rs. 6,20,000 out of which 50% was received in India.
- Income from Apple Orchid in Nepal given on contract & the yearly contract fee of Rs. 5,00,000 for PY 2021- 22, was received by Animesh in Nepal.
- Mr. Animesh has sold 10,000 listed shares @ Rs. 480 per share of A Ltd., an Indian company, on 15.9.2020, which he acquired on 05.04.2016 @ 100 per share. STT was paid both at the time of acquisition as well as at the time of transfer of such shares.
- On 31.01.2018, the shares of A Ltd. were traded on a recognized stock exchange as under: Highest price - 300 per share; Average price - 290 per share; Lowest price - 280 per share.

Based on the above facts, choose the most appropriate answer to Q. Nos. (1) to (5)

1. What would be the residential status of Mr. Animesh for the AY 2021-22?

(a) ROR in India	(b) RNOR	(c) NR	(d) Deemed resident
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2. What would be amount of income taxable u/h HP in the hands of Mr. Animesh for AY 2021-22?

(a) 2,52,200	(b) 1,38,200	(c) 9,78,200	(d) 10,92,200
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3. What amount of capital gain would arise in the hands of Mr. Animesh on transfer of shares of A Ltd?

(a) 18,00,000	(b) 19,00,000	(c) 20,00,000	(d) 38 Lacs
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4. What would be total income of Mr. Animesh for the AY 2021-22, if he does not opt to pay tax u/s 115BAC?

(a) 22,82,200	(b) 22,68,200	(c) 22,48,200	(d) 21,68,200
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5. What would be the tax liability of Mr. Animesh for AY 2021-22?

(a) 1,82,950	(b) 1,87,110	(c) 1,80,350	(d) 1,84,510
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Question 16 – November 2020

From the following particulars furnished by Mr. Ganesh, aged 58 years, a resident Indian for

PY ended 31.3.2022, you are requested to compute his total income & tax liability under normal as well as special provisions (AMT), if any, applicable to him for AY 2023-24.

- (1) He occupies ground floor of his residential building & has let out first floor for residential use at an annual rent of 2,28,000. He has paid municipal taxes of 60,000 for current FY.
- (2) He owns an industrial undertaking established in a SEZ & which had commenced operation during FY 2019-20. Total turnover of the undertaking was 200 lakhs, which includes 140 lakhs from export turnover. This industrial undertaking fulfills all the conditions of section 10AA of Income-Tax Act, 1961. Profit from this industry is 25 lakhs.
- (3) He received royalty of 2,88,000 from abroad for a book authored by him on the nature of artistic. The rate of royalty as 18% of value of books & expenditure made for earning this royalty was 40,000. The amount remitted to India till 30.9.2022 is 2,30,000.
- (4) Received 40,000 as interest on saving bank deposits.
- (5) Received 47,000 as share of profit from an AOP where all the members are individual & which had paid the tax by normal rates of income tax.
- (6) He also sold his vacant land on 10.11.2021 for 10 lakhs. SDV of land at the time of transfer was 14.64 lakhs. FMV of land as on 1.4.2001 was 4 lakhs. This land was acquired by him on 5.8.1995 for 1.80 lacs. He had incurred registration expenses of 10,000 at that time. Cost of inflation index for year 2021-22 & 2001-02 are 317 & 100 respectively.
- (7) He paid the following amounts, out of his taxable income:
 - (a) Insurance premium of 39,000 paid on life insurance policy of son, who is not dependent on him.
 - (b) Insurance premium of 48,000 on policy of his dependent father,
 - (c) Tuition fees of 42,000 for his three children to a school. The fees being 14,000 p.a. per child. Assume Mr. Ganesh: (a) does not opt for 115BAC (b) opts to be taxed u/s 115BAC.

Answer

Computation of total income of Mr. Ganesh for AY 2023-24

	Does not opt to betaxed u/s 115BAC	Opts to be taxed u/s 115BAC		
Income from HP				
(a) Income from house property let out				
Gross annual value	2,28,000		2,28,000	
Less: Municipal taxes for let out portion	30,000		30,000	
Net annual value	1,98,000		1,98,000	
Less: Standard deduction @ 30%	59,400	1,38,600	59,400	1,38,600
(b) Income from self-occupied property				
Net annual value	Nil		Nil	
Less: Deductions	Nil	Nil	Nil	Nil
Income from house property (1,38,600 + Nil)		1,38,600		1,38,600
Business income				
(a) Profit from unit in SEZ	25,00,000		25,00,000	
Less: Deduction u/s 10AA (25,00,000 x 140/200)	17,50,000	7,50,000	Nil	25,00,000
(b) Royalty received	2,88,000		2,88,000	
Less: Expenditure	40,000	2,48,000	40,000	2,48,000
Share of profit from AOP		47,000		47,000

LTCG				
Deemed sale consideration as per section 50C	14,64,000		14,64,000	
Less: Indexed cost of acquisition 4,00,000 x 317/100	12,68,000	1,96,000	12,68,000	1,96,000
IFOS: Bank interest		40,000		40,000
Gross Total Income		14,19,600		31,69,600
Less: Deduction u/s 80C (See Note 1)	67,000		Nil	
Deduction u/s 80QQB (See Note 2)	2,30,000		Nil	
Deduction u/s 80TTA	10,000	3,07,000	Nil	Nil
Total Income		11,12,600		31,69,600
Tax on 11,12,600 as per normal provisions				
Tax on LTCG 1,96,000 @ 20%	39,200		39,200	
Tax on balance income of 9,16,600/29,73,600 at slab rates	95,820	1,35,020	6,29,580	6,68,780
Less: Rebate of tax u/s 86 [1,35,020 x 47,000/11,12,600]/ [6,68,780 x 47,000/31,69,600]		5,704		9,917
		1,29,316		6,58,863
Add: Health & education cess @ 4%		5,173		26,355
Total tax (rounded off)		1,34,490		6,85,220
Tax as per AMT (Not applicable in case he opts to be taxed u/s 115BAC)			Not applicable	
Total income		11,12,600		
Add: Deduction u/s 10AA	17,50,000			
Deduction u/s 80QQB	2,30,000	19,80,000		
Adjusted Total Income		30,92,600		
AMT on Adjusted Total Income of ₹ 30,92,600 @ 18.5%		5,72,131		
Add: Health & education cess @ 4%		22,885		
Total tax as per AMT (rounded off)		5,95,020		

Notes:**1. Deduction u/s 80C has been calculated as under:**

LIP on life of son	39,000
LIP on life of dependent father (not allowed)	—
Tuition fee for 2 children	28,000
Total	67,000

2. Deduction u/s 80QQB

Royalty received, before allowing expenses, in excess of 15% of value of books sold during the year is to be ignored. Therefore, royalty eligible for deduction u/s 80QQB

shall be $2,88,000 \times 15/18 = 2,40,000$. Further, amount brought into India in convertible foreign exchange within a period of 6 months from the end of PY is only 2,30,000. Therefore, deduction u/s 80QQB shall be allowed only of Rs. 2,30,000.

3. If he does not opt for to be taxed u/s 115BAC, he shall be liable to pay tax as per special provisions (AMT) amounting to 5,95,020. However, he shall be allowed to c/f the tax credit amounting to 4,60,530 i.e., $5,95,020 - 1,34,490$ to claim it as set off in subsequent years.
4. If he opts to be taxed u/s he shall have to pay amounting to 6,85,220. Further, the provisions of AMT are not applicable in this case.

Question 17

Compute the tax liability of Mr. Kashyap (aged 35), having total income of Rs 51,75,000 for the A.Y. 2024-25. Assume that his total income comprises of salary income, income from house property and interest on fixed deposit. Assume that Mr. Kashyap has exercised the option of shift out of the default tax regime under section 115BAC.

Answer

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

(A) Income-tax (including surcharge) computed on total income of Rs 51,75,000	
2,50,000 – 5,00,000 @5%	Rs 12,500
5,00,001 – 10,00,000 @20%	Rs 1,00,000
10,00,001 – 51,75,000 @30%	<u>Rs 12,52,500</u>
Total	Rs 13,65,000
Add: Surcharge @ 10%	Rs <u>1,36,500</u>
	Rs 15,01,500
(B) Income-tax computed on total income of Rs 50 lakhs	
(Rs 12,500 plus Rs 1,00,000 plus Rs 12,00,000)	Rs 13,12,500
(A) Total Income Less ` 50 lakhs	Rs 1,75,000
(B) Income-tax computed on total income of ` 50 lakhs	
plus the excess of total income over `50 lakhs (B +C)	Rs 14,87,500
(C) Tax liability: lower of (A) and (D)	Rs 14,87,500
Add: Health and education cess @4%	Rs <u>59,500</u>
Tax liability (including cess)	Rs 15,47,000
(D) Marginal Relief (A – D)	Rs 14,000

Students Speaks

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@zuharahman2568 • 1 day ago

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R

@raginipandey23 • 1 day ago

Sir's teaching is very good, the way of covering the concepts is also excellent.....I will tell everyone to take it, it is just amazing.....

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@jasvindarsingh3617 • 7 minutes ago

@CrackTaxWithAmit Tnku sir ❤️ You are one of the best teacher of dt maina boht teacher se class li aj tk dt samaj nii aya ab apka YouTube lec se padh rha you r the best Aisa lagta apna koi frnd hi padha rha sidha dimag me ghus jata Tnku soo much sir ❤️ ❤️

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60 marks in 5-6 hours 🔥

Post



@satyamkumar-te9ik • 16 hours ago

he is a boon for us students directly from God, the one of the most awesome sir anyone can get, From the start I was very afraid of taxation, How can I do taxation, but the way he teaches, gives effort and every guidelines he gives to us is a boon, till now I have studied from him capital gain, salary, house property and as people say these are the most hardest chapter, but trust me I'm still thinking where is the hard part, it's so simple with CA AMIT MAHAJAN sir, sir ji for sure ye champ aapka naam roushan krega

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October 23
Bhaiya, can't thank you enough for today's session 🙏 Tax automatically becomes easy and interesting, when learning from you 😊 it really helped me in revising the whole IDT in detail 🙏 You are a real gem and not exaggerating, A TAX GURU 🙏 We need more teachers like you 🙏 You need to be appreciated for the efforts you put in for all of us ❤️ Charts you use for revision is just amazing 🙏 It was infact a comprehensive revision of full syllabus of GST, rather than just super 50, even the smallest and the most ignored sections were covered 🙏 Thank you once again bhaiya 🙏 I'm indebted to you, forever 🙏
edited 9:32 PM

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“

Hlw sir!
Sir aapke teaching style to ek no he koye aapka haat nhi pakd sakta, but jitna achha aap padhate Ho n vesehi aap is new generation ko humare culture ki imp bhi batata Ho Humare generation bohat coolness me jiti he but aap Hume sikhathe Ho the imp of our culture the sanskar. Jo is generation me kaam dikhta he. Humare isme ek shlok he Guru Hai Param Brahma 🙏 Oh bhagwan aap me dikhte he sir.
Word bhi kam he sir how best you are. I'm really glad ke me aapke students Ho. Love you sir 🙏
Aapke jyse guru Ho na India ki generation kabhi bighad nhi sakti. Miss you sir. Aap ko kabhi bhi jaroort Ho sir to aapke students he sir. Aap kabhi batate nhi aap kitne problem Ho us hasi ke piche chupa dete Ho but whenever u need us your students is there for u sir! ❤️

Akshat Jain - CA INTER student

”

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