



P3A Income Tax - Question Bank

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Chapter No.	Chapter Name	Illustrations from ISM	TYK from ISM	Past Exam Papers	MTP & RTPs	Total
1	Basic Concepts	12	11	-	-	23
2	Residential status	8	5	6	9	28
3	Income from Salaries	25	7	3	5	40
4	House Propertu	11	5	-	4	20
5	PGBP	18	10	1	3	32
6	Capital Gains	13	7	3	4	27
7	Other Sources	6	5	2	1	14
8	Clubbing Provisions	9	5	1	1	16
9	Setoff and Carryforward	5	10	3	5	23
10	Chapter VIA Deductions	21	6	2	-	29
11	Advance Tax, TDS and TCS	13	5	5	8	31
12	Return of Income	3	5	7	13	28
13	Computation of Total Income	2	12	5	12	31
	Total	146	93	38	65	342

Covered 100% ICAI SM illustrations, TYK from Nov 2024 Edition [Applicable from May 2025 Exams onwards]

Covered Past Exam Questions from May 2023 to Sept 2024 Exams

Covered MTP & RTP from May 2024 to Jan 2025





1. Basic Concepts

Illustrations from ISM

ILLUSTRATION 1

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

Computation of Business Income and Agriculture Income of Mr. B

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



ILLUSTRATION 2

Mr. C manufactures latex from the rubber plants grown by him in India. These are then sold in the market for Rs.30 lakhs. The cost of growing rubber plants is Rs.10 lakhs and that of manufacturing latex is Rs.8 lakhs. Compute his total income.

The total income of Mr. C comprises of agricultural income and business income.
 Total profits from the sale of latex= Rs.30 lakhs – Rs.10 lakhs – Rs.8 lakhs= Rs.12 lakhs.
 Agricultural income = 65% of Rs.12 lakhs = Rs.7.8 lakhs
 Business income = 35% of Rs.12 lakhs = Rs.4.2 lakhs

ILLUSTRATION 3

Mr. X has a total income of Rs.16,00,000 for P.Y.2024-25, comprising of income from house property and interest on fixed deposits. Compute his tax liability for A.Y.2025-26 under the default tax regime under section 115BAC.

Computation of tax liability of Mr. X for A.Y. 2025-26 Tax liability:

First Rs.3,00,000	- Nil	
Next Rs.3,00,001 – Rs.7,00,000	- @5% of Rs.4,00,000	= Rs.20,000
Next Rs.7,00,001 – Rs.10,00,000	- @10% of Rs.3,00,000	= Rs.30,000
Next Rs.10,00,001 – Rs.12,00,000	- @15% of Rs.2,00,000	= Rs.30,000
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.1,70,000
Add: Health and Education cess@4%		= <u>Rs.6,800</u>
		= <u>Rs.1,76,800</u>

ILLUSTRATION 4

Mr. X has a total income of Rs.16,00,000 for P.Y.2024-25, comprising of income from house property and interest on fixed deposits. Compute his tax liability for A.Y.2025-26 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.

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.16,00,000 minus Rs.10,00,000	- @30% of Rs.6,00,000	= <u>Rs.1,80,000</u>
		= Rs.2,92,500
Add: Health and Education cess@4%		= <u>Rs.11,700</u>



		= 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.16,00,000 minus Rs.10,00,000-	@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>
		= Rs.3,01,600
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.16,00,000 minus Rs.10,00,000	- @ 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.2,91,200

ILLUSTRATION 5
Compute the tax liability of Mr. A (aged 42), having total income of Rs.51 lakhs for the Assessment Year 2025-26. 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.

Computation of tax liability of Mr. A for the A.Y.2025-26

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



Alternative method -

(A) Income-tax (including surcharge) computed on total income of Rs.51,00,000

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.51,00,000@30%	<u>Rs.12,30,000</u>	
Total	Rs.13,42,500	
Add: Surcharge@10%	<u>Rs.1,34,250</u>	Rs.14,76,750

(B) Income-tax computed on total income of Rs.50 lakhs

(Rs.12,500 plus Rs.1,00,000 plus Rs.12,00,000)	<u>Rs.13,12,500</u>
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(C) Excess tax payable (A)-(B)

Rs.1,64,250

(D) Marginal Relief (Rs.1,64,250 – Rs.1,00,000, being the amount of income in excess of Rs.50,00,000)

Rs.64,250

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

Rs.14,12,500

Add: Health and education cess @4%

Rs.56,500

Tax liability (including cess)

Rs.14,69,000

ILLUSTRATION 6

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 2025-26. Assume that his total income comprises of salary income, Income from house property and interest on fixed deposit.

Computation of tax liability of Mr. B for the A.Y. 2025-26

(A) Income-tax (including surcharge) computed on total income of Rs.1,01,00,000

Rs.3,00,000 – Rs.7,00,000@5%	Rs.20,000
Rs.7,00,001 – Rs.10,00,000@10%	Rs.30,000
Rs.10,00,001 – Rs.12,00,000@15%	Rs.30,000
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.27,20,000
Add: Surcharge@15%	<u>Rs.4,08,000</u>
Tax liability without marginal relief	Rs.31,28,000

(B) Income-tax computed on total income of Rs.1 crore (Rs.1,40,000 plus

Rs.25,50,000)	Rs.26,90,000
Add: Surcharge@10%	<u>Rs.2,69,000</u>
	Rs.29,59,000

(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.30,59,000

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

Rs.30,59,000



Add: Health and education cess @4%

Rs.1,22,360

Tax liability (including cess)

Rs.31,81,360

(F) Marginal relief (A-D)

Rs.69,000

Alternative method:

(A) Income-tax (including surcharge) computed on total income of Rs.1,01,00,000

Rs.3,00,000 – Rs.7,00,000@5%	Rs.20,000
Rs.7,00,001 – Rs.10,00,000@10%	Rs.30,000
Rs.10,00,001 – Rs.12,00,000@15%	Rs.30,000
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.27,20,000

Add: Surcharge @ 15% Rs.4,08,000 Rs.31,28,000

(B) Income-tax computed on total income of Rs.1 crore

[(Rs.1,40,000 plus Rs.25,50,000) plus surcharge@10%] Rs.29,59,000

(C) Excess tax payable (A)-(B) Rs.1,69,000

(D) Marginal Relief (Rs.1,69,000 – Rs.1,00,000, being the amount

of income in excess of Rs.1,00,00,000) **Rs.69,000**

(E) Tax liability (A) - (D) Rs.30,59,000

Add: Health and education cess @4% Rs.1,22,360

Tax liability (including cess) **Rs.31,81,360**

ILLUSTRATION 7

Compute the tax liability of Mr. C (aged 58), having total income of Rs.2,01,00,000 for the Assessment Year 2025-26. 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.

Computation of tax liability of Mr. C for the A.Y. 2025-26

(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% 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) Rs.58,12,500

Add: Surcharge@15% Rs.8,71,875

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 plus the excess of total income over Rs.2 crore (B +C)	Rs.67,84,375
Tax liability (A) or (D), whichever is lower	Rs.67,84,375
Add: Health and education cess @4%	<u>Rs.2,71,375</u>
Tax liability (including cess)	Rs.70,55,750
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) plus 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)		Rs.5,18,750
(E) Tax liability (A) - (D)		Rs.67,84,375
Add: Health and education cess@4%		<u>Rs.2,71,375</u>
Tax liability (including cess)		<u>Rs.70,55,750</u>

ILLUSTRATION 8

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 2025-26. 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.

Computation of tax liability of Mr. D under default tax regime for the A.Y. 2025-26

Income-tax (including surcharge) computed on total income of Rs.5,01,00,000	
Rs.3,00,000 – Rs.7,00,000@5%	Rs.20,000
Rs.7,00,001 – Rs.10,00,000@10%	Rs.30,000
Rs.10,00,001 – Rs.12,00,000@15%	Rs.30,000
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.1,47,20,000
Add: Surcharge@25%	<u>Rs.36,80,000</u>
	Rs.1,84,00,000

Add: Health and education cess @4%

Rs.7,36,000

Tax liability

Rs.1,91,36,000

Computation of tax liability of Mr. D under optional tax regime for the A.Y. 2025-26

(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% Rs.1,47,30,000

Total Rs.1,48,40,000

Add: Surcharge @ 37% Rs.54,90,800 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% Rs.37,02,500

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% Rs.7,44,500

Tax liability (including cess) Rs.1,93,57,000

(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% Rs.1,47,30,000

Total Rs.1,48,40,000

Add: Surcharge @ 37% Rs.54,90,800 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%] Rs.1,85,12,500

(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% Rs.7,44,500

Tax liability (including cess) **Rs.1,93,57,000**

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.2,21,000 (Rs.1,93,57,000 - Rs.1,91,36,000).

ILLUSTRATION 9

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.2025-26 under default tax regime under section 115BAC.

Computation of tax liability of Mr. Raghav for A.Y. 2025-26

Particulars	Rs.
Tax on total income of Rs.6,50,000	
Tax@5%of Rs.3,50,000	17,500
Less: Rebate u/s 87A (Lower of tax payable or Rs.25,000)	17,500
Tax Liability	Nil

ILLUSTRATION 10

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.2025-26 under default tax regime under section 115BAC.

Computation of tax liability of Mr. Pawan for A.Y. 2025-26

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.15,000 + Rs.20,000	21,500	(B)
Step 3: Since B>A, rebate u/s 87A would be B-A [Rs.21,500 - Rs.15,000]	6,500	
	15,000	
Add: HEC@4%	600	
Tax Liability	15,600	

ILLUSTRATION 11

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.2025-26 if he exercises the option to shift out of the default tax regime.

Computation of tax liability of Mr. Piyush for A.Y. 2025-26

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 12

Mr. X, a resident, has provided the following particulars of his income for the P.Y. 2024-25.

- i. Income from salary (computed) - Rs.10,80,000
- 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. 2025-26 assuming his age is -

- (a) 45 years
- (b) 70 years

a) Computation of tax liability (age 45 years)

Computation of total income of Mr. X for the A.Y. 2025-26 under default tax regime under section 115BAC

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

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

His tax liability is computed in the following manner:

Particulars	Rs.	Rs.
Income from salary		10,80,000
Income from house property		2,50,000
Net agricultural income [Rs.4,80,000 – Rs.1,70,000]	3,10,000	
Less: Exempt under section 10(1)	<u>(3,10,000)</u>	-
Gross Total Income		13,30,000
Less: Deductions under Chapter VI-A		-
Total Income		<u>13,30,000</u>

Step 1 : Rs.13,30,000 + Rs.3,10,000 = Rs.16,40,000

Tax on Rs.16,40,000 = Rs.1,82,000

(i.e., 5% of Rs.4,00,000 plus 10% of Rs.3,00,000 plus 15% of Rs.2,00,000 plus 20% of Rs.3,00,000 plus 30% of Rs.1,40,000)

Step 2 : Rs.3,10,000 + Rs.3,00,000 = Rs.6,10,000

Tax on Rs.6,10,000 = Rs.15,500

(i.e. 5% of Rs.3,10,000)

Step 3 : Rs.1,82,000 – Rs.15,500 = Rs.1,66,500

Step 4 & 5 : Total tax payable = Rs.1,66,500

= Rs.1,66,500 + 4% of Rs.1,66,500 = Rs.1,73,160.



Computation of total income of Mr. X for the A.Y. 2025-26 under normal provisions of the Act

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

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

His tax liability is computed in the following manner:

Particulars	Rs.	Rs.
Income from salary		10,80,000
Income from house property		2,50,000
Net agricultural income [Rs.4,80,000 – Rs.1,70,000]	3,10,000	
Less: Exempt under section 10(1)	<u>(3,10,000)</u>	-
Gross Total Income		13,30,000
Less: Deductions under Chapter VI-A		-
Total Income		<u>13,30,000</u>

Step 1 : Rs.13,30,000 + Rs.3,10,000 = Rs.16,40,000

Tax on Rs.16,40,000 = Rs.3,04,500

(i.e., 5% of Rs.2,50,000 plus 20% of Rs.5,00,000 plus 30% of Rs.6,40,000)

Step 2 : Rs.3,10,000 + Rs.2,50,000 = Rs.5,60,000

Tax on Rs.5,60,000 = Rs.24,500

(i.e. 5% of Rs.2,50,000 plus 20% of Rs.60,000)

Step 3 : Rs.3,04,500 – Rs.24,500 = Rs.2,80,000

Step 4 & 5 : Total tax payable = Rs.2,80,000

= Rs.2,80,000 + 4% of Rs.2,80,000 = Rs.2,91,200.

b) Computation of tax liability (age 70 years)

Computation of total income of Mr. X for the A.Y. 2025-26 under default tax regime under section 115BAC

Tax liability of Mr. X would be same under default tax regime whether he is of age of 45 years or 70 years i.e., Rs.1,73,160.

Computation of total income of Mr. X for the A.Y. 2025-26 under normal provisions of the Act

His tax liability is computed in the following manner:

Step 1 : Rs.13,30,000 + Rs.3,10,000 = Rs.16,40,000

Tax on Rs.16,40,000 = Rs.3,02,000

(i.e., 5% of Rs.2,00,000 plus 20% of Rs.5,00,000 plus 30% of Rs.6,40,000)

Step 2 : Rs.3,10,000 + Rs.3,00,000 = Rs.6,10,000

Tax on Rs.6,10,000 = Rs.32,000

(i.e. 5% of Rs.2,00,000 plus 20% of Rs.1,10,000)

Step 3 : Rs.3,02,000 – Rs.32,000 = Rs.2,70,000



Step 4 & 5 : Total tax payable = Rs.2,70,000
= Rs.2,70,000 + 4% of Rs.2,70,000 = Rs.2,80,800.

TYK from ISM

Question 1:

Who is an “Assessee”? Explain

Refer Concept Book

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.

Refer Concept Book

Question 3:

Whether the income derived from saplings or seedlings grown in a nursery is taxable under the Income-tax Act, 1961? Examine.

Refer Concept Book

Question 4: What are the two schools of Hindu law and where are they prevalent? Explain. Also, mention the difference between the two schools of Hindu Law.

Refer Concept Book

Question 5:

What is the difference between an Association of Persons and Body of Individuals?

Refer Concept Book

Question 6:

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.2025-26. What would be his business income, assuming he has no other business?

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.

Business income = 35% of Rs.15 lakhs + Rs.20 lakhs = Rs.25.25 lakhs

Question 7:

Mr. Raja, a resident Indian, earns income of Rs.10 lakhs from sale of coffee grown and cured in India during the A.Y.2025-26. 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.2025-26. What would be the business income chargeable to tax in India of Mr. Raja and Mr. Shyam?

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

Question 8:

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?

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 9:

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 2025-26. Assume that his total income comprises of salary income, income from house property and interest on fixed deposit.

Computation of tax liability of Mr. Kashyap for the A.Y.2025-26

under default tax regime

(A) Tax payable including surcharge on total income of Rs.51,75,000

Rs.3,00,000 – Rs.7,00,000 @5%	Rs.20,000
Rs.7,00,001 – Rs.10,00,000 @10%	Rs.30,000
Rs.10,00,001 – Rs.12,00,000 @15%	Rs.30,000
Rs.12,00,001 – Rs.15,00,000 @20%	Rs.60,000
Rs.15,00,001 – Rs.51,75,000 @30%	Rs. <u>11,02,500</u>



Total		Rs.12,42,500
Add: Surcharge @ 10%	<u>Rs.1,24,250</u>	Rs.13,66,750
(B) Tax Payable on total income of Rs.50 lakhs (Rs.1,40,000 plus Rs.10,50,000)		Rs.11,90,000
(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.13,65,000
(E) Tax payable: lower of (A) and (D)		Rs.13,65,000
Add: Health and education cess @4%		<u>Rs.54,600</u>
Tax liability		<u>Rs.14,19,600</u>
(F) Marginal Relief (A – D)		Rs.1,750
Alternative method -		
(A) Tax payable including surcharge on total income of Rs.51,75,000		
Rs.3,00,000 – Rs.7,00,000 @5%		Rs.20,000
Rs.7,00,001 – Rs.10,00,000 @10%		Rs.30,000
Rs.10,00,001 – Rs.12,00,000 @15%		Rs.30,000
Rs.12,00,001 – Rs.15,00,000 @20%		Rs.60,000
Rs.15,00,001 – Rs.51,75,000 @30%		Rs.11,02,500
Total		Rs.12,42,500
Add: Surcharge@10%		Rs.1,24,250
		Rs.13,66,750
(B) Tax Payable on total income of Rs.50 lakhs (Rs.1,40,000 plus Rs.10,50,000)		Rs.11,90,000
(C) Excess tax payable (A)-(B)		Rs.1,76,750
(D) Marginal Relief (Rs.1,76,750 – Rs.1,75,000, being the amount of income in excess of Rs.50,00,000)		Rs.1,750
(E) Tax payable (A)-(D)		Rs.13,65,000
Add: Health and education cess @4%		<u>Rs.54,600</u>
Tax liability		<u>Rs.14,19,600</u>

Question 10:

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 @20% under section 112 of Rs.55,00,000, short term capital gain taxable @15% under section 111A of Rs.65,00,000 and other income of Rs.5,30,00,000. Compute his tax liability for A.Y.2025-26 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. Agarwal for the A.Y.2025-26
under default tax regime**

Particulars		Rs.
<u>Tax on total income of Rs.6,50,00,000</u>		
Tax@20% of Rs.55,00,000		11,00,000
Tax@15% of Rs.65,00,000		9,75,000
Tax on other income of Rs.5,30,00,000		
Rs.3,00,000 – Rs.7,00,000 @5%	20,000	
Rs.7,00,000 – Rs.10,00,000 @10%	30,000	
Rs.10,00,000 – Rs.12,00,000 @15%	30,000	
Rs.12,00,000 – Rs.15,00,000 @20%	60,000	
Rs.15,00,000 – Rs.5,30,00,000 @30%	1,54,50,000	1,55,90,000
		1,76,65,000
Add: Surcharge @15% on Rs.20,75,000	3,11,250	
@25% on Rs.1,55,90,000	38,97,500	42,08,750
		2,18,73,750
Add: Health and education cess @4%		8,74,950
Tax Liability		2,27,48,700

**Computation of tax liability of Mr. Agarwal for the A.Y.2025-26
under normal provisions of the Act**

Particulars		Rs.
<u>Tax on total income of Rs.6,50,00,000</u>		
Tax@20% of Rs.55,00,000		11,00,000
Tax@15% of Rs.65,00,000		9,75,000
Tax on other income of Rs.5,30,00,000		
Rs.2,50,000 – Rs.5,00,000 @5%	12,500	
Rs.5,00,000 – Rs.10,00,000 @20%	1,00,000	
Rs.10,00,000 – Rs.5,30,00,000 @30%	1,56,00,000	1,57,12,500
		1,77,87,500
Add: Surcharge @15% on Rs.20,75,000	3,11,250	
@37% on Rs.1,57,12,500	58,13,625	61,24,875
		2,39,12,375
Add: Health and education cess @4%		9,56,495
Tax Liability		2,48,68,870

Question 11:

Mr. Sharma aged 62 years and a resident in India, has a total income of Rs.2,30,00,000, comprising long term capital gain taxable @12.5% under section 112 of Rs.52,00,000, short term capital gain taxable @20% under section 111A of Rs.64,00,000 and other income of Rs.1,14,00,000. Compute his tax liability for A.Y.2025-26 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.2025-26
under default tax regime**

Particulars		Rs.
<u>Tax on total income of Rs.2,30,00,000</u>		
Tax@12.5% of Rs.52,00,000		6,50,000
Tax@20% of Rs.64,00,000		12,80,000
Tax on other income of Rs.1,14,00,000		
Rs.3,00,000 – Rs.7,00,000 @5%	20,000	
Rs.7,00,000 – Rs.10,00,000 @10%	30,000	
Rs.10,00,000 – Rs.12,00,000 @15%	30,000	
Rs.12,00,000 – Rs.15,00,000 @20%	60,000	
Rs.15,00,000 – Rs.1,14,00,000 @30%	29,70,000	31,10,000
		50,40,000
Add: Surcharge @15%		7,56,000
		57,96,000
Add: Health and education cess @4%		2,31,840
Tax Liability		60,27,840

Computation of tax liability of Mr. Sharma for the A.Y.2025-26 under normal provisions of the Act

Particulars		Rs.
<u>Tax on total income of Rs.2,30,00,000</u>		
Tax@12.5% of Rs.52,00,000		6,50,000
Tax@20% of Rs.64,00,000		12,80,000
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
		51,60,000
Add: Surcharge @15%		7,74,000
		59,34,000



Add: Health and education cess @4%		2,37,360
Tax Liability		61,71,360





2. Residence And Scope Of Total Income

Illustrations from ISM

ILLUSTRATION 1

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

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

In this case, since Mr. Anand is an Indian citizen and leaving India during P.Y. 2024-25 as a member of the crew of the Indian ship, he would be resident in India if he stayed in India for 182 days or more.

The voyage is undertaken by an Indian ship engaged in the carriage of passengers in international traffic, originating from a port in India (i.e., the Chennai port) and having its destination at a port outside India (i.e., the Singapore port). Hence, the voyage is an eligible voyage for the purposes of section 6(1).

Therefore, the period commencing from 6th June, 2024 and ending on 9th December, 2024, being the dates entered into the Continuous Discharge Certificate in respect of joining the ship and signing off from the ship by Mr. Anand, an Indian citizen who is a member of the crew of the ship, has to be excluded for computing the period of his stay in India. Accordingly, 187 days [25+31+31+30+31+30+9] have to be excluded from the period of his stay in India. Consequently, Mr. Anand's period of stay in India during the

P.Y. 2024-25 would be 178 days [i.e., 365 days – 187 days]. Since his period of stay in India during the P.Y. 2024-25 is less than 182 days, he is a non-resident for A.Y. 2025-26.

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.

- (a) Find out his residential status for the assessment year 2025-26.
- (b) Would your answer change if the above facts relate to Srinath, an Indian citizen who resides in Australia and represents the Australian cricket team?
- (c) What would be your answer if Srinath had visited India for 120 days instead of 100 days





every year, including P.Y.2024-25?

(a) Determination of Residential Status of Mr. Brett Lee for the A.Y. 2025-26:-

Period of stay during previous year 2024-25 = 100 days

Calculation of period of stay during 4 preceding PYs (100 x 4 = 400 days)

2023-24	100 days
2022-23	100 days
2021-22	100 days
2020-21	100 days
Total	400 days

Mr. Brett Lee has been in India for a period more than 60 days during previous year 2024-25 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 A.Y. 2025-26.

Computation of period of stay during 7 preceding previous years = 100 x 7 = 700 days

2023-24	100 days
2022-23	100 days
2021-22	100 days
2020-21	100 days
2019-20	100 days
2018-19	100 days
2017-18	100 days
Total	700 days

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 A.Y. 2025-26 **(See Note below)**.

Therefore, Mr. Brett Lee is a resident but not ordinarily resident during the previous year 2024-25 relevant to the assessment year 2025-26.

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 A.Y. 2025-26.

(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 P.Y.2024-25, since his stay in India is 120 days in the P.Y.2024-25 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 P.Y.2024-25, since his stay in India is less than 182 days in the P.Y.2024-25.

ILLUSTRATION 3

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

During the P.Y. 2024-25, Mr. B was in India for 70 days and during the 4 years preceding the P.Y. 2024-25, he was in India for 355 days (i.e. 55+ 60+ 90+ 150days).

Thus, he does not satisfy the basic condition under section 6(1). Therefore, he is a non-resident for the P.Y. 2024-25.

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 P.Y. 2024-25 after 15 years. He comes to India on 1.4.2024 and leaves for Australia on 1.12.2024. Determine the residential status of Mr. E and the HUF for A.Y. 2025-26.

(a) During the P.Y. 2024-25, 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 P.Y. 2024-25 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 P.Y. 2024-25.

Note – If the control and management is in India, even partially, then, the HUF would be resident in India. In such a case, the residential status of HUF would be resident but not ordinarily resident, since the Karta's stay in India is for less than 730 days in the 7 previous

years immediately preceding the relevant previous year.

ILLUSTRATION 5

From the following particulars of income furnished by Mr. Anirudh pertaining to the year ended 31.3.2025, compute the total income for the A.Y. 2025-26, 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

Computation of total income of Mr. Anirudh for the A.Y. 2025-26

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	83,500	21,000	21,000

Notes:

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

	Rs.
Rent received (assumed as gross annual value)	75,000

Less: Deduction under section 24 (30% of Rs.75,000)	22,500
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 31.03.2024 due to his transfer to High Commission of Canada. He did not visit India any time during the P.Y. 2024-25. He has received the following income for the F.Y. 2024-25:

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 A.Y. 2025-26.

As per section 6(1), Mr. David is a non-resident for the A.Y. 2025-26, since he was not present in India at any time during the P.Y. 2024-25.

As per section 5(2), a non-resident is chargeable to tax in India only in respect of the 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 A.Y. 2025-26

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

ILLUSTRATION 7

Miss Vivitha paid a sum of 5000 USD to Mr. Kulasekhara, a management consultant practising 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?

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 A.Y. 2025-26, assuming that he has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A)–

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 gains are received in India	40,000
Income earned from business in Germany which is controlled in 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 in Russia	20,000
Dividend from Reliance Petroleum Limited, an Indian Company	5,000
Agricultural income from a land in Rajasthan	15,000

Computation of total income for the A.Y. 2025-26

Particulars	Resident and ordinarily resident Rs.	Resident but not ordinarily resident Rs.	Non-resident Rs.
Interest on UK Development Bonds, 50% of interest received in India	10,000	5,000	5,000
Income from a business in Chennai (50% is received in India)	20,000	20,000	20,000
Short term capital gains on sale of shares of an Indian company, received in London	20,000	20,000	20,000
Dividend from British company received in London	5,000	-	-
Long term Capital gains on sale of plant at Germany, 50% of gains are received in India	40,000	20,000	20,000
Income earned from business in Germany which is controlled in Delhi, out of which Rs.40,000 is received in India	70,000	70,000	40,000
Profits from a business in Delhi but managed entirely from London	15,000	15,000	15,000



Income from house property in London deposited in a Bank at London, later on remitted to India	50,000	-	-
Interest on debentures in an Indian company, received in London	12,000	12,000	12,000
Fees for technical services rendered in India but received in London	8,000	8,000	8,000
Profits from a business in Mumbai, managed from London	26,000	26,000	26,000
Income from property situated in Nepal and received there	16,000	-	-
Past foreign untaxed income brought to India during the previous year	-	-	-
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	5,000	-
Gift received on the occasion of his wedding [not taxable]	-	-	-
Interest on savings bank deposit in State Bank of India	12,000	12,000	12,000
Income from a business in Russia, controlled in Russia	20,000	-	-
Dividend from Reliance Petroleum Limited, an Indian Company	5,000	5,000	5,000
Agricultural income from a land in Rajasthan [Exempt under section 10(1)]	-	-	-
Gross Total Income	3,52,000	2,18,000	1,83,000
Less: Deduction under section 80TTA [Interest on savings bank account subject to a maximum of Rs.10,000]	10,000	10,000	10,000
Total Income	<u>3,42,000</u>	<u>2,08,000</u>	<u>1,73,000</u>



TYK from ISM

QUESTION 1

Mr. Ram, an Indian citizen, left India on 22.09.2024 for the first time to work as an officer of a company in Germany. Determine the residential status of Ram for the A.Y. 2025-26.

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

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

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

During the previous year 2024-25, Mr. Ram, an Indian citizen, was in India for 175 days only (i.e., 30+31+30+31+31+22 days). Thereafter, he left India for employment purposes.

Since he does not satisfy the minimum criteria of 182 days stay in India during the relevant previous year, he is a non-resident for the A.Y. 2025-26.

QUESTION 2

Mr. Dey, residing in US since 1990, visits India for 30 days every year. He came back to India on 1.4.2023 for permanent settlement. What will be his residential status for A.Y. 2025-26?

Mr. Dey is a resident in A.Y. 2025-26 since he has stayed in India for a period of 365 days (more than 182 days) during the P.Y. 2024-25.

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

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

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

For the previous year 2024-25 (A.Y. 2025-26), his status would be "Resident but not ordinarily resident" since he was non-resident in 9 out of 10 previous years immediately preceding the P.Y. 2024-25. He was resident only in the P.Y. 2023-24. Prior to that, he was non-resident in all the years since his stay in India was only for 30 days each year.

He can be resident but not ordinarily resident also due to the fact that he has stayed in India only for 546 days [366 days in P.Y. 2023-24 + (30 days x 6 years)] in 7 previous years immediately preceding the P.Y. 2024-25, which is less than 730 days.

QUESTION 3

Mr. Ramesh & Mr. Suresh are brothers, and they earned the following incomes during the F.Y. 2024-25. Mr. Ramesh settled in Canada in the year 1996 and Mr. Suresh settled in Delhi. Compute the total income for the A.Y. 2025-26 assuming that both have exercised the option of shifting out of the 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

**Computation of total income of Mr. Ramesh & Mr. Suresh
for the A.Y. 2025-26**

S. No.	Particulars	Mr. Ramesh (Non- Resident) (Rs.)	Mr. Suresh (Resident) (Rs.)
1.	Interest on Canada Development Bond (See Note 2)	17,500	40,000
2.	Dividend from British Company received in London (See Note 3)	-	20,000
3.	Profits from a business in Nagpur but managed directly from London (See Note 2)	1,00,000	1,40,000
4.	Short term capital gain on sale of shares of an Indian company received in India (See Note 2)	60,000	90,000
5.	Income from a business in Chennai (See Note 2)	80,000	70,000

6.	Fees for technical services rendered in India, but received in Canada (See Note 2)	1,00,000	-
7.	Interest on savings bank deposit in UCO Bank, Delhi (See Note 2)	7,000	12,000
8.	Agricultural income from a land situated in Andhra Pradesh (See Note 4)	-	-
9.	Income from house property at Bhopal (See Note 5)	70,000	42,000
	Gross Total income	4,34,500	4,14,000
	Less: Deduction under Chapter VI-A		
	Section 80C - Life insurance premium	-	30,000
	Section 80TTA (See Note 6)	7,000	10,000
	Total Income	4,27,500	3,74,000

Notes:

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

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

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

Interest on Canada Development Bond would be fully taxable in the hands of Mr. Suresh, whereas only 50%, which is received in India, is taxable in the hands of Mr. Ramesh.
- Dividend received from British company in London by Mr. Ramesh, a non-resident, is not taxable since it is accrued and received outside India. However, such dividend received by Mr. Suresh is taxable, since he is a resident and ordinarily resident.
- Agricultural income from a land situated in India is exempt under section 10(1) in the case of both non-residents and residents.
- Income from house property -

	Mr. Ramesh	Mr. Suresh
	(Rs.)	(Rs.)
Rent received	1,00,000	60,000
Less: Deduction u/s 24(a) @30%	30,000	18,000

Net income from house property	70,000	42,000
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The net income from house property in India would be taxable in the hands of both Mr. Ramesh and Mr. Suresh, since the accrual and receipt of the same are in India.

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

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".

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 payable by Central Government to Mr. John, a citizen of India of Rs.7,00,000 for the services rendered outside India considering that he pays tax as per the provisions of section 115BAC.
- (ii) Interest on moneys borrowed from outside India 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 the option of shifting out of the default tax regime provided under section 115BAC(1A).
- (iv) Royalty paid by a resident to a non-resident in respect of a business carried on outside India.
- (v) Legal charges of 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.



Taxability of receipts

	Taxable/Not Taxable	Amount liable to tax (Rs.)	Reason
(i)	Taxable	6,25,000	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.75,000 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.





Past Exam Questions

QUESTION 1

PEP MAY 23 (3 MARKS)

Mr. Jai Chand (an Indian citizen) left India for employment in country X on 5th June, 2014. He regularly visited India and stayed for 60 days in every previous year since then. However, in the financial year 2022-23, he did not come to India at all. He owns a commercial building in Delhi which is let out. He has also set a retail store in India which is controlled by his brother from India. He provides the following information to you regarding his income for the financial year 2022-23:

Income from commercial building in Delhi - Rs. 12,00,000 (computed as per the provisions of the Act).

Income from the retail store - Rs. 4,50,000 (computed as per the provisions of the Act)

Country X does not tax any individual on their income as there is no personal income-tax regime there.

Determine the residential status of Mr. Jai Chand for the Assessment year 2023-24.

Will your answer change if he is a citizen of Country X?

Determination of residential status of Mr. Jai Chand for A.Y. 2023-24

Since Mr. Jai Chand, an Indian citizen employed in Country X, did not come to India at all during the P.Y. 2022-23, he would not be a resident for A.Y. 2023-24 as per section 6(1).

However, since he is an Indian citizen

- having total income (excluding income from foreign sources) of Rs. 16,50,000 [Rs. 12,00,000, being income from commercial building in India + Rs. 4,50,000, being Income from retail store in India], which exceeds the threshold of Rs. 15 lakhs during the previous year; and
- not liable to tax in Country X, he would be deemed resident in India for the P.Y. 2022-23.

A deemed resident is always a resident but not ordinarily resident in India (RNOR).

Yes, in case Mr. Jai Chand is a citizen of Country X, he would be non-resident in India for the P.Y. 2022-23, since the provisions of deemed resident are applicable only to an Indian citizen.

QUESTION 2

PEP MAY 23 (4 MARKS)

Mr. Prashant (aged 35 years) is an Australian citizen who is settled in Australia and visits India for 125 days in every financial year since past 11 years. During the F.Y. 2022-23, he visited India for a total period of 200 days. The purpose of his visit was to meet his family members who are settled in India and also for managing his family members who are settled in India and also for managing his business in Sri Lanka through his office in Chennai, India.

During the P.Y. 2022-23, he has the following incomes:

(A) Income from business in Australia controlled form Australia - Rs. 20,00,000

(B) Income from business in Sri Lanka controlled form Chennai - Rs. 16,00,000

(C) Short-term capital gains on sale of shares of an Indian company received in Australia - Rs.





50,000. The shares were sold online from Australia.

(D) Income from agricultural land in Australia, received there and then brought to India - Rs. 2,00,000

Find out the residential status of Mr. Prashant and compute his total income for Assessment Year 2023-24.

Determination of Residential Status of Mr. Prashant

Mr. Prashant is an Australian citizen who comes on a visit to India for 125 days in every financial year since the past 11 years. During the P.Y. 2022 -23, he visited India for 200 days. Since he stayed in India for 182 days or more during the P.Y. 2022-23, he would be resident in India for the A.Y. 2023-24.

An individual is said to be “Resident and ordinarily resident [ROR]” in India in any previous year, if he satisfies both the following conditions:

- He is a resident in at least 2 out of 10 previous years preceding the relevant previous year; and
- His stay in India in the last 7 years preceding the relevant previous year is 730 days or more

[Refer Note 1 below for alternate presentation]

First condition

Residential status for P.Y.2021-22 (A.Y.2022-23) – Resident, since he has stayed in India for ≥ 60 days (125 days) in the said P.Y. and ≥ 365 days (500 days, being 125 days x 4) in the four immediately preceding PYs.

Residential status for P.Y.2020-21 (A.Y.2021-22) – Resident, since he has stayed in India for ≥ 60 days (125 days) in the said P.Y. and ≥ 365 days (500 days, being 125 days x 4) in the four immediately preceding PYs.

Therefore, he satisfies the first condition of being resident in India in atleast 2 out of 10 previous years preceding the relevant P.Y.

Second condition

Stay in India in 7 immediately preceding PYs = 7 x 125 days = 875 days > 730 days

Since both the conditions are satisfied, he is **Resident and Ordinarily Resident (ROR)**.

In case of ROR, global income would be taxable in India. Accordingly, his total income for A.Y. 2023-24 would as follows:

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

	Particulars	Rs.
(i)	Income from business in Australia	20,00,000
(ii)	Income from business in Sri Lanka	16,00,000
(iii)	Short-term capital gains on sale of shares of an Indian company	50,000
(iv)	Income from agricultural land in Australia [would not be exempt, since	



	it is not from an agricultural land in India]	<u>2,00,000</u>
	Total income	<u>38,50,000</u>

Notes –

(1) Alternative manner of determination of whether Mr. Prashant is ROR/ RNOR -

“An individual is said to be “Resident but not ordinarily resident [RNOR]” in India in any previous year, if he satisfies any one of the following conditions:

- He is a non-resident in at least 9 out of 10 previous years preceding the relevant previous year; or
 - His stay in India in the last 7 years preceding the relevant previous year is 729 days or less.
- Mr. Prashant does not satisfy either of the above conditions on account of being resident in more than 1 year out of 10 years and stay in India for 875 days in the 7 years preceding the P.Y.2022-23. Hence, he is a Resident and Ordinarily Resident in the P.Y.2022-23.

(2) In the absence of information relating to whether Mr. Prashant is a person of Indian origin, the above has been worked out assuming that Mr. Prashant is not a person of Indian origin. However, alternate assumption that Mr. Prashant is a person of Indian origin is also possible since the purpose of his visit was to meet his family members who are settled in India. Accordingly, if it is assumed that he is a person of Indian origin, then, for determining whether he is resident in P.Y.2020-21 and P.Y.2021-22, information relating to his total income (excluding income from foreign sources) for the said P.Y.s is required for ascertaining whether the condition of 120 days in the relevant P.Y. + 365 days in the 4 immediately preceding P.Ys would be attracted in his case. This information is not given in the question. Accordingly, assumptions would have to be made relating to the applicability of this condition.

It may be noted that the condition of 120 days in the P.Y. + 365 days in the four immediately preceding PYs for a PIO whose total income (other than income from foreign sources) exceed Rs. 15 lakhs for determination of residential status came into effect only from A.Y.2021-22.

Therefore, in the previous years prior to that, he would be non-resident irrespective of his total income since the number of days of his stay < 182 days each year.

In case if it is assumed that his total income (other than income from foreign sources) for the P.Y.2020-21 and P.Y.2021-22 > Rs. 15 lakhs, he would be ROR since he would be resident in 2 out of 10 years immediately preceding the current P.Y. and he stayed for 730 days or more in 7 previous years immediately preceding current P.Y.. In such case, his total income would be same as determined in the above.

In case if it assumed that he is a PIO whose total income (other than income from foreign sources) for the P.Y.2020-21 and P.Y.2021-22 ≤ Rs. 15 lakhs, he would be non-resident for P.Y.2020-21 and P.Y.2021-22, since his stay in India is for less than 182 days in those years. In such a case, for P.Y.2022-23, he would be RNOR, since he would be non-resident in all the 10

years immediately preceding the current P.Y.

In such case, the computation of total income for A.Y.2023-24 would be as follows –

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

	Particulars	Rs.
(i)	Income from business in Australia controlled from Australia (not taxable in case of RNOR, since it accrues and arises outside India)	-
(ii)	Income from business in Sri Lanka (taxable since it is controlled from India)	16,00,000
(iii)	Short-term capital gains on sale of shares of an Indian company (taxable, irrespective of residential status)	50,000
(iv)	Income from agricultural land in Australia [would not be taxable in case of RNOR since it accrues and arises outside India]	-
Total Income		16,50,000

QUESTION 3

PEP NOV 23 (3 MARKS)

State (Yes/No) whether the following transactions can be treated as income deemed to accrue or arise in India:

- (1) Hire charges paid outside India for the use of machinery situated in India.
- (2) Income of a non-resident and non-citizen of India from the shooting of cinematograph film in India.
- (3) Capital gain arising through a transfer of a house property situated in India, the place of registration and the place of payment of consideration being outside India.
- (4) Allowances paid by the Government to a citizen of India for the services rendered outside India.
- (5) Past period foreign untaxed income brought to India during the previous year.
- (6) Gift received by a non-resident on the occasion of his wedding in India.

- (1) Yes
- (2) No
- (3) Yes
- (4) Yes

Alternative answer – No, since allowances paid by the Government to a citizen of India for the services rendered outside India is exempt u/s 10(7).

- (5) No
- (6) No



QUESTION 4

PEP NOV 23 (4 MARKS)

Mr. Sanjay has following incomes during the previous year 2022 -23:

- (1) Interest on England Development Bonds (1/3 received in India) Rs. 60,000.
- (2) Interest received from a non-resident Rs. 5,000 against a loan given to him to run a business in India.
- (3) Royalty received from Akhil, a resident, for technical services given to run a business outside India Rs. 20,000.
- (4) Income from business in Sri Lanka Rs. 25,000 out of which Rs. 15,000 were received in India. The business is controlled from India.

Compute taxable income of Mr. Sanjay for the assessment year 2023 -24

- (I) if he is a Not ordinarily resident
- (II) Non-resident.

(a) Computation of taxable income of Mr. Sanjay for the A.Y. 2023-24

		Not ordinarily resident (RNOR)	Non-resident
(1)	Interest on England Development Bonds (1/3 received in India) , amount of Rs. 20,000 being received in India would be taxable in case of both RNOR and non-resident.	20,000	20,000
(2)	Interest received from non-resident against a loan given to him to run a business in India would be deemed to accrue or arise in India. Thus, such interest is taxable in case of both RNOR and non- resident	5,000	5,000
(3)	Royalty received from Akhil, a resident for technical services given to run a business outside India would not be deemed to accrue or arise in India, since such services are utilised for business carried outside India. Thus, royalty would not be taxable in case of both RNOR and non-resident.	-	-
(4)	Income from business in Sri Lanka of Rs. 25,000 out of which Rs. 15,000 were received in India. Whole of the income from business in Sri Lanka is taxable in case of RNOR, since business is controlled from India. However, in case of non-resident only the amount received in India would be taxable.	25,000	15,000



Taxable Income	50,000	40,000
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QUESTION 5

PEP MAY 2024 (6 MARKS)

Mr. Tilak aged 35 years, furnishes the following information regarding his income for the assessment year 2024-25. Compute the total income if he is:

- (1) Resident and Ordinarily Resident.
- (2) Resident but Not Ordinarily Resident (Ignore the provisions of Section 115BAC).
 - (a) Remuneration of Rs. 50,000 for service rendered in Malaysia, credited to his bank account in Malaysia and immediately remitted to his bank account in India.
 - (b) Profits from a business in England controlled from Bombay Rs. 3,00,000 (out of which Rs. 25,000 is received in India).
 - (c) Amount brought to India out of past untaxed profits earned in Singapore Rs. 1,00,000.
 - (d) Capital gain on sale of land in India but received in Malaysia Rs. 2,00,000.
 - (e) Income from agriculture land at Nepal of Rs. 18,000, received there and then brought to India.
 - (f) He paid Rs. 50,000 towards principal payment of loan taken for construction of his self-occupied house in India.
 - (g) Interest on saving bank deposit in State Bank of India of Rs. 12,000.

**Computation of total income of Mr. Tilak for the A.Y. 2024-25
(if he is Resident and Ordinarily Resident - ROR)**

	Particulars	Rs.
(a)	Remuneration for services rendered in Malaysia Global income is taxable in case of a ROR. [Note – Alternatively, remuneration for services rendered in Malaysia can be taxable as “Salaries”. In such case standard deduction of Rs. 50,000 would be reduced.]	50,000
(b)	Profit from business in England controlled from Bombay Global income is taxable in case of a ROR.	3,00,000
(c)	Past untaxed profits earned in Singapore and brought to India in current year	Nil
(d)	Capital gain on sale of land in India but received in Malaysia Deemed to accrue or arises in India, since the property is situated in India.	2,00,000
(e)	Income from agricultural land in Nepal, received there Global income is taxable in case of a ROR	18,000
(f)	Interest on saving bank deposit in SBI Taxable since it is deemed to accrue or arises in India.	<u>12,000</u>

Gross Total Income	5,80,000
Less: Deduction under Chapter VI-A	
Deduction under section 80C - For repayment of housing loan	50,000
Deduction under section 80TTA - Interest on savings bank account subject to a maximum of Rs. 10,000	<u>10,000</u>
Total Income	<u>5,20,000</u>

Computation of total income of Mr. Tilak for the A.Y. 2024-25 (if he is Resident but Not Ordinarily Resident - RNOR)

	Particulars	Rs.
(a)	Remuneration for services rendered in Malaysia In case of RNOR, remuneration would not be taxable in India since neither services are rendered in India nor remuneration received in India.	Nil
(b)	Profit from business in England controlled from Bombay In case of RNOR, whole profits of Rs. 3,00,000 from business in England is taxable since business is controlled from India.	3,00,000
(c)	Past untaxed profits earned in Singapore and brought to India in current year	Nil
(d)	Capital gain on sale of land in India but received in Malaysia Deemed to accrue or arises in India, since the property is situated in India.	2,00,000
(e)	Income from agricultural land in Nepal, received there In case of RNOR, it would not be taxable in India, since neither it is deemed to accrue or arise in India nor received in India.	Nil
(f)	Interest on saving bank deposit in SBI Taxable since it is deemed to accrue or arises in India.	<u>12,000</u>
	Gross Total Income	5,12,000
	Less: Deduction under Chapter VI-A	
	Deduction under section 80C - For repayment of housing loan	50,000
	Deduction under section 80TTA - Interest on savings bank account subject to a maximum of Rs. 10,000	<u>10,000</u>
	Total Income	<u>4,52,000</u>

QUESTION 6

PEP SEPT 24 (4 MARKS)

Mr. Madan, a citizen of India and the Karta of an HUF, is employed in M/s. PCS Pvt. Ltd. He is drawing monthly salary of Rs.65,500 in India. On June 1, 2023 he purchased one residential house property in Mumbai for Rs.18,00,000 in his individual capacity. The market value of the property is Rs.32,00,000 and value for the purpose of charging stamp duty is Rs.23,00,000. On August 31st, 2023 he was transferred to the branch office of M/s. PCS

Pvt. Ltd. in U.S.A. and he left India on September 1st, 2023. The overseas branch paid him a salary of \$ 2,500 per month in USA. He managed business of HUF from USA when he was not in India.

He had also gone out of India for 99 days and 201 days in previous years 2022-23 and 2021-22, respectively. He had never gone out of India prior to that.

He visited India from January 1, 2024 to January 15, 2024 for training on a project and received 15 days salary in India as per his Indian monthly salary before being transferred.

Mr. Rajeev, one of his friends, gifted him a sculpture in India on August 10, 2023. The market value is Rs.45,100.

Determine the residential status of Mr. Madan and his HUF and compute gross total income of Mr. Madan for the assessment year 2024-25 assuming he opted out of the default tax regime. The value of one USD (\$) may be taken as Rs.70.

Residential Status of Mr. Madan

Mr. Madan, an Indian citizen who left India on 1st September 2023 for the purpose of employment to USA, would be non-resident in India, since he stayed in India for 169 days (30 + 31 + 30 + 31 + 31 + 1 + 15) only during the P.Y. 2023-24 which is less than 182 days.

Residential Status of HUF

Since Mr. Madan is managing the HUF for part of the year from India, control and management of its affairs is situated partly in India.

Hence, the HUF would be resident in India for the P.Y. 2023-24.

A HUF is said to be “Resident and ordinarily resident” in India during the previous year 2023-24, if Karta (Mr. Madan, in this case) satisfies both the following conditions:

- He is a resident in at least 2 out of 10 previous years preceding the relevant previous year; and
- His stay in India in the last 7 years preceding the relevant previous year is 730 days or more.

Mr. Madan has satisfied both the above conditions as he had never gone out of India except for 99 days and 201 days in the P.Y. 2022-23 and P.Y. 2021-22, respectively, the HUF would be ROR in India.

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

	Amount in Rs.
Income under the head “Salaries”	
<u>Salary earned in India:</u> [Rs.65,500 x 5 + Rs.65,500 x15/31]	3,59,194
<u>Salary paid in USA:</u> [Not taxable as Mr. Madan is a non- resident and such income does not accrue or arise or received in India]	Nil
Less: Standard Deduction	50,000
	3,09,194
Income from other sources	



Difference between the consideration of Rs.18 lakhs and stamp duty value of Rs.23 lakhs of the residential property acquired [Taxable, since the difference of Rs.5 lakhs exceed Rs.1,80,000, being the higher of 10% of the consideration and Rs.50,000]	5,00,000
Sculpture received as gift from Rajeev, his friend in India [Not taxable as the value does not exceed Rs.50,000]	Nil
Gross Total Income	8,09,914





Questions from MTP, RTP

QUESTION 1

MTP 1 MAY 24 (6 MARKS)

Mr. Akash, an Indian citizen aged 45 years, worked in XYZ Ltd. in Delhi. He got a job offer from ABC Inc., California on 01.06.2022. He left India for the first time on 31.07.2022 and joined ABC Inc. on 08.08.2022. During the P.Y. 2023-24, Mr. Akash visited India from 25.05.2023 to 22.09.2023. He has received the following income for the previous year 2023-24:

Particulars	Rs.
Salary from ABC Inc., California received in California (Computed)	7,00,000
Dividend from Indian companies	5,00,000
Agricultural income from land situated in Nepal, received in Nepal	4,00,000
Rent received/receivable from house property in Delhi	5,50,000
Profits from a profession in California, which was set up in India, received there	6,00,000

Determine the residential status of Mr. Akash and compute his total income for the A.Y. 2024-25.

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

Income from foreign sources means income which accrues or arises outside India (except income derived from a business controlled in or a profession set up in India) and which is not deemed to accrue or arise in India.

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

Particulars	Amount (Rs.)
Salary from ABC Inc., California received in California (Computed) (Not included in total income, since it is income from foreign source)	-
Dividend from Indian companies (Included in total income, since it is deemed to accrue or arise in India)	5,00,000
Agricultural income from land situated in Nepal (Not included in total income, since it is accrued or arisen outside India and received outside India)	-
Rent received/receivable from house property in Delhi	5,50,000



(Included in total income, since it is deemed to accrue or arise in India)		
Less: 30% of Rs. 5.50 lakhs	<u>1,65,000</u>	3,85,000
Profits from a profession in California, which was set up in India, received there		6,00,000
Total income, other than the income from foreign sources		14,85,000

Since, Mr. Akash is an Indian citizen who comes on a visit to India only for 121 days in the P.Y. 2023-24 and his total income, other than income from foreign sources does not exceed Rs. 15 lakhs, he would be non-resident for the A.Y. 2024-25.

A non-resident is chargeable to tax in respect of income received or deemed to receive in India and income which accrues or arises or is deemed to accrue or arise to him in India. Accordingly, his total income would be as follow –

Particulars		Amount (Rs.)
Salary from ABC Inc., California received in California (Computed) (Not taxable, since it neither accrues or arises in India nor is it received in India)		-
Dividend from Indian companies (Taxable, since deemed to accrue or arise in India)		5,00,000
Agricultural income from land situated in Nepal (Not taxable, since it neither accrues or arises in India nor is it received in India)		-
Rent received/receivable from house property in Delhi (Taxable, since it is deemed to accrue or arise in India)	5,50,000	
Less: 30% of Rs. 5.50 lakhs	<u>1,65,000</u>	3,85,000
Profits from a profession in California, which was set up in India, received there		-
Gross Total Income/ Total income		8,85,000

QUESTION 2

MTP 2 MAY 24 (6 MARKS)

Mrs. Sia D'Souza is an American, got married to Mr. Kabir of India in New York on 14.02.2023 and came to India for the first time on 18.03.2023. She left for Australia on 16.08.2023. She returned to India again on 23.03.2024.

On 01.04.2023, she had purchased a Flat in Mumbai, which was let out to Mr. Sameer on a rent of Rs. 26,000 p.m. from 1.6.2023. She had taken loan from an Indian bank for purchase of this flat on which bank had charged interest of Rs. 2,05,000 upto 31.03.2024.

While in India, during the previous year 2023-24, she had received a gold chain from her in laws worth Rs. 1,50,000 and Rs. 1,65,000 from very close friends of her husband.

From the information given above, you are required to determine her the residential status and compute her total income chargeable to tax for the Assessment Year 2024-25 assuming she has

shifted out of the default tax regime under section 115BAC.

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.

If an individual satisfies any one of the conditions mentioned above, he is a resident. If both the above conditions are not satisfied, the individual is a non-resident.

Therefore, the residential status of Mrs. Sia D’Souza, an American, 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 16.08.2023	-	138 days
23.03.2024 to 31.03.2024	-	<u>9 days</u>
		Total <u>147 days</u>

Four preceding previous years

P.Y.2022-23 [1.4.2022 to 31.3.2023]	-	14 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>14 days</u>

The total stay of Mrs. Sia D’Souza during the previous year in India was less than 182 days and during the four years preceding this year was for 14 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 2024-25.

Computation of total income of Mrs. Sia D’Souza for the A.Y. 2024-25

Particulars	Rs.	Rs.
Income from house property		
Flat located in Mumbai let-out from 01.06.2023 to 31.03.2024 @ Rs. 26,000 p.m.		
Gross Annual Value [26,000 x 10] ¹	2,60,000	
Less: Municipal taxes	<u>Nil</u>	
Net Annual Value (NAV)	2,60,000	
Less: Deduction under section 24 30% of NAV		

Interest on loan [fully allowable as deduction, since property is let-out]	<u>2,05,000</u>	<u>2,83,000</u>	(23,000)
Income from other sources			
- Gold chain worth Rs. 1,50,000 received from parents of husband would be exempt, since parents of husband fall within the definition of relatives and gifts from a relative are not chargeable to tax.		Nil	
- Gift received from friends of her husband aggregating to Rs. 1,65,000 is taxable under section 56(2)(x) since the amount of cash gifts of Rs. 1,65,000 exceeds Rs. 50,000.		<u>1,65,000</u>	<u>1,65,000</u>
Gross Total income/ Total Income			<u>1,42,000</u>

QUESTION 3
MTP 1 SEPT 24 (6 MARKS)

Miss Geeta, a citizen of India, got married to Mr. Peter of Australia and left India for the first time on 20.8.2023. She has not visited India again during the P.Y. 2023-24. She has derived the following income for the year ended 31-3-2024:

	Particulars	Rs.
(i)	Income from sale of centrifuged latex processed from rubber plants grown in kanyakumari.	1,50,000
(ii)	Income from sale of coffee grown, cured, roasted and grounded in Colombo. Sale consideration was received in Chennai.	5,00,000
(iii)	Income from sale of tea grown and manufactured in West Bengal.	12,00,000
(iv)	Income from sapling and seedling grown in a nursery at Cochin. Basic operations were not carried out by her on land.	2,00,000

You are required to determine the residential status of Miss Geeta and compute the business income and agricultural income of Miss. Geeta for the Assessment Year 2024-25.

Miss Geeta is said to be resident if she satisfies any one of the following basic conditions:

(i) Has been in India during the previous year for a total period of 182 days or more

(or)

(ii) 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 during the previous year.

Miss Geeta's stay in India during the P.Y.2023-24 is 142 days [30+31+30+31+20] which is less than 182 days. However, her stay in India during the P.Y.2023-24 exceeds 60 days. Since, she left India for the first time, her stay in India during the four previous years prior to P.Y.2023-24 would be more than 365 days. Hence, she is a resident for P.Y.2023-24.

Further, Miss Geeta would be "Resident and ordinarily resident" in India in during the previous year 2023-24, since her stay in India in the last seven previous years prior to P.Y.2023-24 is more than

729 days and she must be resident in the preceding ten years.

Computation of business income and agricultural income of Miss Geeta for A.Y. 2024-25

Particulars		Income	Business Income Rs.	Agricultural Income Rs.
(i)	Income from sale of Centrifuged latex Processed from rubber Plants grown in Kanyakumari (Apportioned Between business and agricultural income in the ratio of 35:65 as per Rule 7A of Income-tax Rules, 1962)	1,50,000	52,500	97,500
(ii)	Income from sale of coffee grown, cured, roasted and grounded in Colombo and received in Chennai [See Note 1 below]	5,00,000	5,00,000	-
(iii)	Income from sale of tea grown and manufactured in West Bengal (Apportioned between business and agricultural income in the ratio of 40:60 as per Rule 8 of the Income-tax Rules, 1962)	12,00,000	4,80,000	7,20,000
(iv)	Income from sapling and seedling grown in a nursery at Cochin. Basic operations were not carried out on land [See Note 2 below]	<u>2,00,000</u>	-	<u>2,00,000</u>
		<u>20,50,000</u>	<u>10,32,500</u>	<u>10,17,500</u>

Notes:

- (1) Since Ms. Geeta is resident and ordinarily resident in India for A.Y. 2024-25, her global income is taxable in India. Entire income from sale of coffee grown, cured, roasted and grounded in Colombo is taxable as business income since such income is earned from sale of coffee grown, cured, roasted and grounded outside India i.e., in Colombo.
- (2) As per Explanation 3 to section 2(1A), income derived from sapling or seedlings grown in a nursery would be deemed to be agricultural income, whether or not the basic operations were carried out on land. Hence, income of Rs. 2,00,000 from sapling and seedling grown in a nursery at Cochin is agricultural income.

QUESTION 4

MTP 2 SEPT 24 (6 MARKS)

Sagar, a Chartered Accountant, is presently working in a firm in India. He has received an offer for the post of Chief Financial Officer from a company at New York. As per the offer letter, he should join the company at any time between 1st September, 2023 and 31st October, 2023. He approaches you for your advice on the following issues to mitigate his tax liability in India:

- (i) Date by which he should leave India to join the company;
- (ii) Direct credit of part of his salary to his bank account in Delhi maintained jointly with his mother to meet requirement of his family.

An Indian citizen, who leaves India in any previous year, inter alia, for purposes of employment outside India, would be resident in India during the relevant previous year if he stayed in India during that previous year for 182 days or more.

(i) Since Sagar is leaving India for the purpose of employment outside India, he will be treated as resident only if the period of his stay during the previous year amounts to 182 days or more. Therefore, Sagar should leave India on or before 28th September, 2023, in which case, his stay in India during the previous year would be less than 182 days and he would become non-resident for the purpose of taxability in India. In such a case, only the income which accrues or arises in India or which is deemed to accrue or arise in India or received or deemed to be received in India shall be taxable.

The income earned by him in New York would not be chargeable to tax in India for A.Y. 2024-25, if he leaves India on or before 28th September, 2023.

(ii) If any part of Sagar’s salary will be credited directly to his bank account in Delhi then, that part of his salary would be considered as income received in India during the previous year under section 5 and would be chargeable to tax under Income-tax Act, 1961, even if he is a non-resident. Therefore, Sagar should receive his entire salary in New York and then remit the required amount to his bank account in Delhi in which case, the salary earned by him in New York would not be subject to tax in India.

QUESTION 5

MTP 1 JAN 25 (6 MARKS)

Ms. Riya, aged 62 years, was born and brought up in New Delhi. She got married in Russia in 1996 and settled there since then. Since her marriage, she visits India for 60 days each year during her summer break. The following are the details of her income for the previous year ended 31.03.2024:

S.No.	Particulars	Amount (in Rs.)
1.	Pension received from Russian Government	65,000
2.	Long-term capital gain on sale of land at New Delhi (computed)	3,00,000
3.	Short-term capital gain on sale of shares of Indian listed companies in respect of which STT was paid both at the time of acquisition as	60,000

	well as at the time of sale (computed)	
4.	Premium paid for self to Russian Life Insurance Corporation at Russia	75,000
5.	Rent received (equivalent to Annual Value) in respect of house property in New Delhi	90,000

You are required to ascertain the residential status of MRs. Riya and compute her total income in India for Assessment Year 2024-25 under default tax regime.

An Indian citizen or a person of Indian origin who, being outside India, comes on a visit to India (and whose total income, other than from foreign sources, does not exceed Rs. 15,00,000) would be resident in India only if he or she stays in India for a period of 182 days or more during the previous year. Even if his total income, other than from foreign sources, exceeds Rs. 15,00,000, he would be resident in India if stays in India for 120 days or more during the relevant previous year and 365 days or more during the 4 previous years immediately preceding the relevant previous year.

Since Mrs. Riya is a person of Indian origin who comes on a visit to India only for 60 days in the P.Y.2023-24, she is non-resident for the A.Y. 2024-25.

A non-resident is chargeable to tax in respect of income received or deemed to be received in India and income which accrues or arises or is deemed to accrue or arise to her in India. Accordingly, her total income and tax liability would be determined in the following manner:

Computation of total income and tax liability of Mrs. Riya for A.Y. 2024-25

Particulars	Amt (Rs.)
Salaries	
Pension received from Russian Government [Not taxable, since it neither accrues or arises in India nor it is received in India]	Nil
Income from House Property	
Annual Value [Rental Income from house property in New Delhi is taxable, since it is 90,000 deemed to accrue or arise in India, as it accrues or arises from a property situated in India]	
Less: Deduction u/s 24(a) @ 30%	27,000
	63,000
Capital Gains	
Long-term capital gains on sale of land at New Delhi [Taxable, since it is deemed to accrue or arise in India as it is arising from transfer of land situated in India]	3,00,000
Short-term capital gains on sale of shares of Indian listed companies in respect of which STT was paid [Taxable, since it is deemed to accrue or arise in India, as such income arises on transfer of shares of Indian listed companies]	60,000
Gross Total Income	4,23,000
Less: Deduction under Chapter VI-A	

Deduction under section 80C [Not available under default tax regime]	Nil
Total Income	4,23,000

QUESTION 6
MTP 2 JAN 25 (3 MARKS)

Mr. Sudesh (aged 58 years), a citizen of India, serving in the Ministry of Finance in India, was transferred to Indian Embassy in UK on 15th March 2023. His income during the financial year 2023-24 is given hereunder:

Particulars	Rs.
Rent from a house situated at UK, received in UK. Thereafter, remitted to Indian bank account.	5,25,000
Salary from Government of India	9,25,000
Foreign Allowances from Government of India	8,00,000

Mr. Sudesh did not come to India during the financial year 2023-24. Compute his total income for the Assessment year 2024-25.

Mr. Sudesh is a non-resident for the A.Y.2024-25, since he was not present in India at any time during the previous year 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 income deemed to accrue or arise in India.

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

Particulars	Rs.
Salaries	
Salary from Government of India (Income chargeable under the head 'Salaries' payable by the Government to a citizen of India for services rendered outside India is deemed to accrue or arise in India under section 9(1)(iii). Hence, such income is taxable in the hands of Mr. Sudesh, a citizen of India, even though he is a non- resident and rendering services outside India)	9,25,000
Foreign Allowance from Government of India [Any 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)].	<u>Nil</u>
Gross Salary	9,25,000
Less: Standard Deduction under section 16(ia) of Rs. 50,000, being lower of gross salary or Rs. 50,000	<u>50,000</u>
Income from House Property	8,75,000

Rent from a house situated at UK, received in UK	Nil
(Income from property situated outside India would not be taxable in India in the hands of a non-resident, since it neither accrues or arises in India nor is it deemed to accrue or arise in India nor is it received in India)	
Gross Total Income/ Total Income	8,75,000

QUESTION 7

RTP MAY 24

Ms. Rita, an Indian citizen and an MBA from Howard University, was employed in AFL LLP of Country A since June, 2016. She came to India on 15.11.2023 and joined as CEO of Autofit Ltd. Ms. Rita was in India before she left for overseas education in May, 2012 and was subsequently employed outside India and never visited India thereafter. There is no income-tax in Country A. She has earned interest income of Rs.2,40,000 (net) in Country A and salary income from AFL LLP of Rs.15 lakhs up to the date of her return to India in the financial year 2023 -24. Salary income (computed) of Ms. Rita from Autofit Ltd. up to 31.03.2024 is Rs.13,50,000 and she earned dividend of Rs.3,00,000 from shares of an Indian company. What would be the residential status of Ms. Rita and her total income for the A.Y. 2024-25?

Determination of residential status of Ms. Rita for the A.Y. 2024 -25

As per section 6(1), in order to be a resident of India in the P.Y.2023 -24, Ms. Rita should satisfy either of the following two conditions -

- (1)** Her stay in India should be for a period of 182 days or more in the P.Y.2023-24; or
- (2)** Her stay in India should be for a period of 60 days or more in the P.Y.2023-24 and for a period of 365 days or more in the four immediately preceding previous years.

Ms. Rita’s stay in India in the P.Y.2023-24 is 138 days (i.e., 16 days + 31 days +31 days + 29 days + 31 days). She left India in May, 2012 and never visited India thereafter. Her stay in India in the four immediately preceding previous years would be Nil.

Therefore, she does not satisfy either condition (1) or condition (2) for being a resident.

As per section 6(1A), an individual who is a citizen of India would be deemed to be a resident of India if his total income, other than income from foreign sources, exceed Rs.15 lakh during the relevant previous year and he is not liable to tax in any other country by reason of his domicile or residence or any other criteria of similar nature.

Ms. Rita’s total income, other than income from foreign sources, would be Rs.16,50,000 for A.Y.2024-25 as shown below -

Particulars	Rs.
Salary income from Autofit Ltd. [Computed] [Accrues or arises in India]	13,50,000
Dividend from shares of an Indian company [Accrues or arises in India]	<u>3,00,000</u>

Since Ms. Rita is a citizen of India who is not liable to pay income-tax in Country A and her total income, other than income from foreign sources, exceed Rs.15 lakhs, she would be deemed resident in India under section 6(1A) for A.Y.2024-25. A deemed resident is, by default, a resident but not ordinarily resident.

In case of a resident but not ordinarily resident, income accrues or arises, deemed to accrue or arise and received or deemed to be received in India, is taxable. In addition, Income which accrues or arises outside India would also be taxable if it is derived from a business controlled in or a profession set up in India.

Ms. Rita's total income for A.Y. 2024-25

Particulars	Rs.
Salary income from AFL LLP [Not taxable since it accrues or arises outside India]	-
Salary income from Autofit Ltd. [Computed]	13,50,000
Interest income in Country A [Not taxable since it accrues or arises outside India]	-
Dividend from shares of an Indian company	<u>3,00,000</u>
Total Income	<u>16,50,000</u>

QUESTION 8

RTP SEPT 24

Mrs. Sarika, an Indian citizen, is in employment with an overseas company located in UAE. She is not liable to tax in UAE. During the P.Y. 2023-24, she comes to India for 121 days. She was in India for 50 days, 100 days, 76 days and 145 days in the financial years 2019-20, 2020-21, 2021-22 and 2022-23, respectively. Her annual income for the previous year 2023-24 is as follows:

	Particulars	Amount (Rs.)
(i)	Salary accrued or arisen in UAE	15,00,000
(ii)	Income accrued and arisen in India	2,00,000
(iii)	Income deemed to be accrued and arisen in India	7,00,000
(iv)	Income arising and received in UAE, from a business set up in India	5,00,000
(v)	Life Insurance premium paid by cheque in India	1,00,000

Mrs. Sarika has opted out of the default tax regime under section 115BAC. From the information given above,

- (i) You are required to determine the residential status and total income of Mrs. Sarika for the A.Y. 2024-25.
- (ii) What would be your answer if income arising and received in UAE, from a business set up in India is Rs. 10,00,000 instead of Rs. 5,00,000?
- (iii) In continuation to point (ii), what would be your answer if Mrs. Sarika comes to India in P.Y.



2022-23 for 45 days instead of 145 days?

Mrs. Sarika is an Indian citizen and in employment in UAE. She comes on a visit to India during the P.Y.2023-24 for 121 days. Her stay in India in the four immediately preceding previous years i.e., in P.Y. 2019-20 to P.Y. 2022-23 is 371 days (50 + 100 +76 + 145 days).

(i) Her total income, other than the income from foreign sources, during the P.Y. 2023-24 would be

Particulars	Amount (Rs.)
Salary accrued or arisen in UAE (income from a foreign source, hence, to be excluded)	-
Income accrued and arisen in India	2,00,000
Income deemed to be accrued and arisen in India	7,00,000
Income arising in UAE, from a business set up in India (to be included since the business is controlled from India, even though such income accrues and is received outside India)	5,00,000
	14,00,000
Less: Deduction u/s 80C (LIC premium paid by cheque in India)	1,00,000
Total income (excluding income from foreign sources)	13,00,000

Mrs. Sarika, an Indian citizen, having total income other than income from foreign sources not exceeding Rs. 15 lakhs and visiting India during the P.Y 2023-24, would be a resident in India for the A.Y.2024-25, if she has stayed in India for 182 days or more during the P.Y. 2023-24.

Since she has stayed only for 121 days in India during the P.Y. 2023-24, she is a non-resident for the A.Y. 2024-25. Her total income during the P.Y. 2023-24 would be –

Particulars	Amount (Rs.)
Salary accrued or arisen in UAE (income from a foreign source, hence, to be excluded)	-
Income accrued and arisen in India	2,00,000
Income deemed to be accrued and arisen in India	7,00,000
Income arising in UAE, from a business set up in India (not taxable)	-
Gross Total Income	9,00,000
Less: Deduction u/s 80C (LIC premium paid by cheque in India)	1,00,000
Total income	8,00,000

(ii) If Income arising and received in UAE, from a business set up in India is Rs. 10,00,000 instead of Rs. 5,00,000, her total income, other than the income from foreign sources, during the P.Y. 2023-24 would have been Rs. 18 lakhs.

In such a case, Mrs. Sarika, an Indian citizen, having total income other than income from foreign



sources exceeding Rs. 15 lakhs and visiting India during the P.Y 2023-24, can be a resident in India for A.Y.2024-25, if she has been in India for 120 days or more but less than 182 days in the P.Y. 2023-24 and during the 4 years immediately preceding the P.Y. 2023-24 for a total period of 365 days or more.

Since she has stayed in India for 121 days during the P.Y. 2023-24 and her stay in India in the four immediately preceding previous years is 371 days, she would be a resident in India for A.Y. 2024-25 and by default, she would be treated as resident but not ordinarily resident.

In such case, income arising and received in UAE, from a business set up in India would also form part of total income of Mrs. Sarika and her total income during the P.Y. 2023-24 would be Rs. 18 lakhs [Rs. 8,00,000 (computed in (i) above) plus Rs. 10,00,000].

(iii) If Mrs. Sarika comes to India in P.Y. 2022-23 for 45 days instead of 145 days, she would not be a resident in India for the P.Y. 2023-24 as per section 6(1) since her stay in India in the four immediately preceding previous years would be less than 365 days.

However, since she is an Indian citizen having total income (excluding income from foreign sources) of Rs. 18 lakhs, which exceeds the threshold of Rs. 15 lakhs during the previous year; and

not liable to tax in UAE, she would be a deemed resident in India for the P.Y. 2023-24 by virtue of section 6(1A).

A deemed resident is always a resident but not ordinarily resident. In such case, her total income during the P.Y. 2023-24 would be same i.e., Rs. 18 lakhs as computed in point (ii) above.

QUESTION 9

RTP JAN 25

Mr. Akshay (aged 59 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 20th April 2023 and returned on 15th October 2023. He has been in India for less than 700 days during the 7 years immediately preceding the previous year. Determine his residential status and his total income for the assessment year 2024-25 from the following information:

- (1) Long term capital gain on sale of shares of Shama India Ltd., a listed Indian company, amounting to Rs.1,12,000. The sale proceeds were credited to his bank account in UK.**
- (2) Dividend amounting to Rs.40,000 received from RIL Ltd., an Indian company. He had borrowed money from Mr. Abhay, a non-resident Indian, for the above-mentioned investment on 2nd April, 2023. Interest on the borrowed money for the P.Y. 2023-24 amounted to Rs.10,000.**
- (3) Interest on post office saving bank account amounting to Rs.9,500.**

Mr. Akshay has shifted out of the default tax regime and wants to pay tax under normal provisions of the Act.

Determination of residential status

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 for at least 60 days in the previous year and has been in India during the 4 years immediately preceding the relevant previous year for a total period of 365 days or more.

If the individual satisfies any one of the conditions mentioned above, he is a resident. If both the above conditions are not satisfied, the individual is a non-resident.

Mr. Akshay, an Indian citizen, has satisfied the first basic conditions for being a resident, since he was in India for 189 days (20+17+30+31+31+29+31) during the previous year 2023-24. Hence, he is a resident in India for A.Y.2024-25.

An individual would be resident but not ordinarily resident if he satisfies either one of the following conditions:

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

Since Mr. Akshay has been in India for less than 700 days during the 7 years immediately preceding the previous year, he would be a resident but not ordinarily resident for A.Y. 2024-25

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

	Particulars		Amount (Rs.)
(1)	Long-term capital gain on sale of shares of an Indian listed company is chargeable to tax in the hands of Mr. Akshay, since it has accrued and arisen in India even though the sale proceeds were credited to bank account in UK.		1,12,000
(2)	Dividend received from an Indian company taxable in the hands of the Akshay as Income from other sources since the income has accrued or arisen in India	40,000	
	<i>Less:</i> Interest expenditure restricted to 20% of dividend	<u>8,000</u>	32,000
(3)	Interest on post office saving bank account is taxable in the hands of Mr. Akshay as Income from other sources, since it has accrued and arisen in India and is also received in India.	9,500	
	<i>Less:</i> Exemption under section 10(15)	<u>3,500</u>	6,000
Gross Total Income			1,50,000



Less: Deduction under section 80TTA		6,000
Total Income		1,44,000





3. Income From Salaries

Illustrations from ISM

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 exempt in the hands of 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).

HRA received	Rs.1,80,000
Less: Exempt under section 10(13A) [Note]	<u>Rs.1,36,800</u>
Taxable HRA	<u>Rs.43,200</u>

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

- (a) the actual amount received (Rs.15,000 × 12) = Rs.1,80,000
- (b) excess of the actual rent paid by the assessee over 10% of his salary
 - = Rent Paid (-) 10% of salary for the relevant period
 - = (Rs.16,000×12) (-) 10% of [(Rs.40,000+Rs.6,000) × 12]
 - = Rs.1,92,000 - Rs.55,200 = Rs.1,36,800
- (c) 40% salary as his accommodation is situated at Kanpur = 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. Srikant 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



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

If Mr. Srikant exercises the option of shifting out of the default tax regime provided under section 115BAC

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]		<u>Rs.3,600</u>
Taxable allowances		<u>Rs.25,800</u>

If Mr. Srikant pays tax under default tax regime under section 115BAC Children Education

Allowance [(Rs.150 + Rs.70) p.m. × 12 months]		Rs.2,640
Transport allowance (Rs.1,800 p.m. × 12 months)		Rs.21,600
Tribal area allowance (Rs.500 p.m. × 12 months)		<u>Rs.6,000</u>
Taxable allowances		<u>Rs.30,240</u>

ILLUSTRATION 3

Mr. Sagar who retired on 1.10.2024 is receiving Rs.5,000 p.m. as pension. On 1.2.2025, 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.

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. <u>3,00,000</u>	<u>NIL</u>
Taxable pension		<u>Rs.24,000</u>

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)		
$\left(\frac{1}{3} \times \frac{\text{Rs.3,00,000}}{60\%} \times 100\% \right)$	Rs.1,66,667	<u>Rs.1,33,333</u>
Taxable pension		<u>Rs.1,57,333</u>

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

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

$[(Rs.5,000 \times 4 \text{ months}) + (40\% \text{ of } Rs.5,000 \times 2 \text{ months})]$

Committed pension received Rs.3,00,000

Less: Exempt u/s 10(10A)

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

Taxable pension Rs.74,000

ILLUSTRATION 4

Mr. Ravi retired on 15.6.2024 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.

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.

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

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

=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)	<u>Rs.15,00,000</u>
Taxable gratuity	<u>Nil</u>

ILLUSTRATION 5

Mr. Gupta retired on 1.12.2024 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. 1.4.2024)
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.**

(a) He is a government employee

Leave Salary received at the time of retirement	Rs.5,00,000
Less: Exemption under section 10(10AA)	<u>Rs.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]	<u>Rs.26,400</u>
Taxable Leave Salary	<u>Rs.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.25,00,000
(iii) 10 months' salary based on average salary of last 10 months	

$$\text{i.e. } \left[10 \times \frac{\text{Salary of last 10 months i.e. Feb. - Nov.}}{10 \text{ months}} \right]$$

$$\text{i.e. } \left[10 \times \frac{(5000 \times 8) + (4000 \times 2) + (60\% \times 3000 \times 10)}{10 \text{ months}} \right] = \text{Rs. } 66,000$$

(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

$$= (30 \text{ days per year} \times 20 \text{ years}) - 480 \text{ days} = 120 \text{ days}$$

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

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

ILLUSTRATION 6

Mr. A retires from service on December 31, 2024, after 25 years of service. Following are the particulars of his income/investments for the previous year 2024-25:

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.2,70,000 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 assessment year 2025-26?

Taxable portion of the amount received from the URPF in the hands of Mr. A for the A.Y. 2025-26 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?

Since the fund is a recognised 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 P.Y. 2024-25. 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

Computation of Gross Salary of Mr. B for the A.Y.2025-26

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
Employer's 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

Notes:

- Gratuity received during service is fully taxable.
- 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

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.

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

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 | |
| = (Rs.20,000 + Rs.5,000) × 3 × 30 years | = Rs.22,50,000 |
| (iv) Last drawn salary × remaining months of service left | |
| = (Rs.20,000 + Rs.5,000) × 6 × 12 months | = Rs.18,00,000 |

ILLUSTRATION 10

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

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

- Perquisite value taxable u/s 17(2)(vii) = Rs.7,77,600, being employer's contribution to recognized provident fund during the P.Y. 2023-24 – Rs.7,50,000 = Rs.27,600
- Perquisite value taxable u/s 17(2)(viia) = Annual accretion on perquisite taxable u/s 17(2)(vii) = $(PC/2)*R + (PC1 + TP1)*R$
 = $(27,600/2) \times 0.111 + 0$
 = Rs.1,532
 PC ABC Ltd.'s contribution in excess of Rs.7.5 lakh to recognized provident fund during P.Y. 2023-24 = Rs.27,600
 PC1 Nil since employer's contribution is less than Rs.7.5 lakh to recognized provident fund in

P.Y. 2022-23 and there is no employer's contribution in P.Y. 2020-21 and P.Y. 2021-22.

TP1 Nil

R $I/\text{Favg} = 2,06,711/18,62,093 = 0.111$

I RPF balance as on 31.3.2024 – employee's and employer's contribution during the year – RPF balance as on 1.4.2023 = Rs.2,06,711 (Rs.27,43,048 – Rs.7,77,600 – Rs.7,77,600 – Rs.9,81,137)

Favg Balance to the credit of recognized provident fund as on 1st April, 2023 + Balance to the credit of recognized provident fund as on 31st

March, 2024)/2 = (Rs.9,81,137 + Rs.27,43,048)/2 = Rs.18,62,093

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

(i) Rs.2,03,600 [Employee's contribution exceeding Rs.2,50,000 during P.Y. 2022-23]

(ii) Rs.5,27,600 [Employee's contribution exceeding Rs.2,50,000 during P.Y. 2023-24]

(iii) interest accrued on Rs. 2,03,600 being excess employee's contribution of

P.Y. 2022-23

Computation of perquisite value taxable u/s 17(2)(vii) and 17(2)(viia) for A.Y. 2025-26

1. Perquisite value taxable u/s 17(2)(vii) = Rs.7,77,600, being employer's contribution to recognized provident fund during the P.Y. 2024-25 – Rs.7,50,000 = Rs.27,600

2. Perquisite value taxable u/s 17(2)(viia) = Annual accretion on perquisite taxable u/s 17(2)(vii) = $(\text{PC}/2)*R + (\text{PC1} + \text{TP1})*R$

= $(27,600/2) \times 0.09479 + (27,600 + 1,532) \times 0.09479$

= Rs.1,308 + Rs.2,761 = Rs.4,069

PC ABC Ltd.'s contribution in excess of Rs.7.5 lakh to recognized provident fund during P.Y. 2024-25 = Rs.27,600

PC1 Amount of employer's contribution in excess of Rs.7,50,000 to RPF in P.Y. 2020-21, P.Y. 2021-22 and P.Y. 2022-23 = Rs.27,600

TP1 Taxable perquisite under section 17(2)(viia) for the P.Y. 2023-24 = Rs.1,532

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

I RPF balance as on 31.3.2025 – employee's and employer's contribution during the year – RPF balance as on 1.4.2024 = Rs.3,50,307 (Rs.46,48,555 – Rs.7,77,600 – Rs.7,77,600 – Rs.27,43,048)

Favg Balance to the credit of recognized provident fund as on 1st April, 2024 + Balance to the credit of recognized provident fund as on 31st March, 2025)/2 = (Rs.27,43,048 + Rs.46,48,555)/2 = Rs.36,95,802

Note – Interest on the aggregate of following will also be chargeable to tax during A.Y. 2025-26 –

(i) Rs.2,03,600 [Employee's contribution exceeding Rs.2,50,000 during P.Y. 2022-23]

(ii) Rs.5,27,600 [Employee's contribution exceeding Rs.2,50,000 during P.Y. 2023-24]

(iii) Rs.5,27,600 [Employee's contribution exceeding Rs.2,50,000 during P.Y. 2024-25]



(iv) interest accrued on Rs.2,03,600 being excess employee’s contribution of P.Y. 2022-23

(v) interest accrued on Rs. 5,27,600 being excess employee’s contribution of P.Y. 2023-24

ILLUSTRATION 11

Mr. D went on a holiday on 25.12.2024 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).

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.

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

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

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 P.Y. 2024-25:

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





In this case, 10% of salary would be Rs.5,300 (i.e. 10% of Rs.53,000). The rent paid by the employee is Rs.5,000 (i.e., Rs.1,000 x 5). Since 15% of salary exceeds the rent recovered from the employee, the accommodation would be deemed to have been provided at a concessional rate.

Value of the accommodation	= Rs.5,300
Less: Rent paid by the employee (Rs.1,000 x 5)	= <u>Rs.5,000</u>
Perquisite value of accommodation given at a concessional rent	= <u>Rs.300</u>

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.1,025 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.

Here again, we have to see whether the accommodation is provided at a concessional rate.

In the case of accommodation taken on lease by the employer, the accommodation would be deemed to have been provided at a concessional rate if the rent paid by the employer or 10% of salary, whichever is lower, exceeds rent recoverable from the employee.

In this case, 10% of salary is Rs.5,300 (i.e. 10% of Rs.53,000). Rent paid by the employer is Rs.5,125 (i.e. Rs.1,025 x 5). The lower of the two is Rs.5,125, which exceeds the rent paid by the employee i.e., Rs.5,000 (Rs.1,000 x 5). Therefore, the accommodation would be deemed to have been provided at a concessional rate.

Value of the accommodation [Note]	= Rs.5,125
Less: Rent paid by the employee (Rs.1,000 x 5)	= <u>Rs.5,000</u>
Value of accommodation given at a concessional rent	= <u>Rs.125</u>

Note: Value of the accommodation is lower of

- (i) Lease rent paid by the company for relevant period = Rs.1,025 x 5 = Rs.5,125
- (ii) 10% of salary for the relevant period (computed earlier) = Rs.5,300

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 1.1.2025. 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.

Here again, we have to see whether the accommodation is provided at a concessional rate. In the case of accommodation owned by the employer in a city having a population exceeding 40 lakhs, the accommodation would be deemed to have been provided at a concessional rate, if 10% 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 the accommodation is provided at a concessional rate.

In this case, 10% of salary is Rs.5,300 (i.e. 10% of Rs.53,000). The value of furniture of Rs.4,625 (**See Note below**) is to be added to 10% of salary. The rent paid by the employee is Rs.5,000 (i.e. Rs.1,000 x 5). Therefore, the accommodation would be deemed to have been provided at a concessional rate.

Value of the accommodation (computed earlier)	= Rs.5,300
Add: Value of furniture provided by the employer [Note]	= <u>Rs.4,625</u>
Value of furnished accommodation	= Rs.9,925
Less: Rent paid by the employee (Rs.1,000 x 5)	= <u>Rs.5,000</u>
Value of furnished accommodation given at a concessional rent	= Rs.4,925

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.

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

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

Value of the accommodation (Rs.700 x 5)	= Rs.3,500
Add: Value of furniture provided by the employer (computed earlier)	= <u>Rs.4,625</u>
Value of furnished accommodation	= Rs.8,125
Less: Rent paid by the employee (Rs.1,000 x 5)	= <u>Rs.5,000</u>
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.

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 31.01.2025, after completing service of 30 years and one month. He had joined the company on 1.1.1995 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 30.01.2022 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 01.04.2024 to 31.01.2025.**
- (ii) Received pension of Rs.5,000 per month for the period 01.02.2025 to 31.03.2025 after commutation of pension.**

Compute his gross total income from the above for Assessment Year 2025-26 assuming he exercises the option of shifting out of the default tax regime provided under section 115BAC(1A).

Computation of Gross Total Income of Mr. X for A.Y. 2025-26

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 total 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 (30.1.2022)	5,00,000
Less: Depreciation @ 20%	1,00,000
WDV on 29.1.2023	4,00,000
Less: Depreciation @ 20%	80,000
WDV on 29.1.2024	3,20,000
Less: Depreciation @ 20%	64,000
WDV on 29.1.2025	2,56,000
Less: Amount recovered	2,00,000
Value of perquisite	56,000

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

(3) Taxable gratuity

Particulars	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) $15/26 \times$ last drawn salary \times no. of completed years of services or part in excess of 6 months $15/26 \times$ Rs.30,000 \times 30 = 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.25,00,000
ii) Actual leave salary	Rs.3,30,000
iii) 10 months \times Rs.20,000	Rs.2,00,000
iv) Cash equivalent of leave to his credit	Rs.2,20,000
$\left(\frac{330}{30} \times 20,000 \right)$	2,00,000
Taxable Leave encashment	1,30,000

Note – It has been assumed that dearness allowance does not form part of salary for retirement benefits. In case it is assumed that dearness allowance forms part of pay for retirement benefits, then, the third limit for exemption under section 10(10AA) in respect of leave encashment would be Rs.3,00,000 (i.e. 10 \times 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 $1/3^{\text{rd}}$ 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
Less: Exemption under section 10(10A) = $\frac{1}{3} \times \left[3,00,000 \times \frac{3}{2} \right]$	1,50,000
Taxable amount	1,50,000

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

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 financial year 2024-25:

(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 1.4.2024 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. 2025-26.

The lending rate of State Bank of India as on 1.4.2024 for housing loan may be taken as 10%.

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

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

Taxable perquisite value = $\text{Rs.1,500} \times 12 = \text{Rs.18,000}$.

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

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

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

However, the cost of free education provided to his child Ashok would be taxable, since the cost exceeds Rs.1,000 per month. The taxable perquisite value would be Rs.14,400 ($\text{Rs.1,200} \times 12$).



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

(iii) Where the employer has provided movable assets to the employee or any member of his household, 10% per annum of the actual cost of such asset owned or the amount of hire charges incurred by the employer shall be the value of perquisite. However, this will not apply to laptops and computers. In this case, the movable assets are television, refrigerator and air conditioner and actual cost of such assets is Rs.1,10,000.

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

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

(v) Telephone provided at the residence of the employee and payment of bill by the employer is a tax free perquisite.

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

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

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

Month	Maximum outstanding balance as on last date of month (Rs.)	Perquisite value at 4% for the month (Rs.)
April, 2024	5,88,000	1,960
May, 2024	5,76,000	1,920
June, 2024	5,64,000	1,880
July, 2024	5,52,000	1,840
August, 2024	5,40,000	1,800
September, 2024	5,28,000	1,760
October, 2024	5,16,000	1,720



November, 2024	5,04,000	1,680
December, 2024	4,92,000	1,640
January, 2025	4,80,000	1,600
February, 2025	4,68,000	1,560
March, 2025	4,56,000	1,520
Total value of this perquisite		20,880

Total value of taxable perquisite

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

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

ILLUSTRATION 22

AB Co. Ltd. allotted 1000 sweat equity shares to Sri Chand in June 2024. 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?**

(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 P.Y. 2024-25 –

- (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 A.Y.2025-26, assuming his salary for perquisite valuation to be Rs.10 lakh.

**Computation of the value of perquisites chargeable to tax in the hands of
Mr. Y for the A.Y.2025-26**

	Particulars	Amount in Rs.		
(1)	Value of accommodation at concessional rate			
	Actual amount of lease rental paid by X Ltd.	1,80,000		
	10% of salary i.e., 10% of Rs.10,00,000	1,00,000		
	Lower of the above		1,00,000	
	Less: Rent paid by Mr. Y (Rs.5,000 × 12)		60,000	
			40,000	
	Add: Hire charges paid by X Ltd. for furniture provided for the use of Mr. Y (Rs.3,000 × 12)		36,000	76,000
(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
(3)	Value of gift voucher*			10,000
	Value of perquisites chargeable to tax			1,18,400

* 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 31.03.2025.

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. 2025-26, if Mr. Goyal is a State Government employee.

Computation of salary of Mr. Goyal for the A.Y.2025-26 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.75,000	75,000
Income from Salary	6,41,000

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.2025-26 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 Rs.50,000		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 72 years on 28.3.2025, you are informed that the salary (computed) for the previous year 2024-25 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. 2025-26. Assume that Mr. Hari exercises the option of shifting out of the default tax regime provided under section 115BAC(1A).

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%

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

Computation of tax payable by Mr. Hari for the A.Y.2025-26

Particulars	Incl. arrears of salary	Excl. arrears of salary
	Rs.	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 A.Y.2025-26 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. 2025-26 and tax on arrears in the respective years		15,455

**Tax payable for A.Y.2025-26 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





TYK from ISM

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 01.01.2025. He also got an increment of Rs.1,000 p.m. in his basic salary with effect from 01.02.2025. Rent paid by him during the P.Y.2024-25 is as under:

April and May, 2024- Nil, as he stayed with his parents

June to October, 2024 - Rs.6,000 p.m. for an accommodation in Ghaziabad

November, 2024 to March, 2025 - Rs.8,000 p.m. for an accommodation in Delhi

Compute his gross salary for A.Y.2025-26, assuming he exercises the option of shifting out of the default tax regime provided under section 115BAC(1A).

Computation of gross salary of Mr. Mohit for A.Y. 2025-26

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, 2024)	-	30,000 (40% × Rs.75,000)	15,000 (50% × Rs.30,000)	7,500 (50% × Rs.15,000)	16,500 (50% × Rs.33,000)
50% of salary (Residence at Delhi– Nov, 24 - March, 25)					
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 previous year 2024-25:

	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	5,000

	home	
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.

Tax treatment of medical benefits, allowances and mediclaim premium in the hands of Ms. Rakhi for A.Y. 2025-26

	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.	As per clause (vi) of the first proviso to section 17(2), the following expenditure incurred by the employer would be excluded from perquisite subject to certain conditions – (i) Expenditure on medical treatment of the employee, or any member of the family of such employee, outside India including stay expenses [Rs.1,05,000, in this case]; (ii) Expenditure on travel of the employee or any member of the family of such employee for medical treatment and one attendant who accompanies the patient in



	connection with such treatment [Rs.1,20,000, in this case] .
	The conditions subject to which the above expenditure would be exempt are as follows –
	(i) The expenditure on medical treatment and stay abroad would be excluded from perquisite to the extent permitted by Reserve Bank of India;
	(ii) The expenditure on travel would be excluded from perquisite only in the case of an employee whose gross total income, as computed before including the said expenditure, does not exceed Rs.2 lakh.
	Since the expenditure on medical treatment and stay abroad does not exceed the limit permitted by RBI, they would be fully exempt. However, the foreign travel expenditure of Ms. Rakhi and her minor son borne by the employer would be excluded from perquisite only if the gross total income of Ms. Rakhi, as computed before including the said expenditure, does not exceed Rs.2 lakh.

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:

- i) A company owned accommodation is provided to him in Delhi. Furniture costing Rs.2,40,000 was provided on 1.8.2024.
- ii) A personal loan of Rs.5,00,000 on 1.7.2024 on which it charges interest @ 6.75% p.a. The entire loan is still outstanding (Assume SBI rate of interest on 1.4.2024 was 12.75% p.a.)
- iii) His son is allowed to use a motor cycle belonging to the company. The company had purchased this motor cycle for Rs.60,000 on 1.5.2021. The motor cycle was finally sold to him on 1.8.2024 for Rs.30,000.
- iv) Professional tax paid by Mr. X is Rs.2,000.

Compute the income from salary of Mr. X for the A.Y. 2025-26 assuming Mr. X exercises the option of shifting out of the default tax regime provided under section 115BAC(1A).

Computation of Income from Salary of Mr. X for the A.Y. 2025-26

Particulars	Rs.	Rs.
Basic salary [Rs.25,000 × 12]		3,00,000
Commission [Rs.1,000 × 12]		12,000
Entertainment allowance [Rs.1,000 × 12]		12,000
Rent free accommodation [Note 1]	32,400	
Add : Value of furniture [Rs.2,40,000 × 10% p.a. for 8 months]	16,000	48,400
Interest on personal loan [Note 2]		22,500
Use of motor cycle [Rs.60,000 × 10% p.a. for 4 months]		2,000
Transfer of motor cycle [Note 3]		12,000



Gross Salary		4,08,900
Less : Deduction under section 16		
Under section 16(ia) – Standard deduction	50,000	
Under section 16(iii) - Professional tax paid	2,000	52,000
Income from Salary		3,56,900

Notes:

- 1. Value of rent-free unfurnished accommodation**
= 10% of salary for the relevant period
= 10% of (Rs.3,00,000 + Rs.12,000 + Rs.12,000) = Rs.32,400
- 2. Value of perquisite for interest on personal loan**
= [Rs.5,00,000 × (12.75% - 6.75%) for 9 months] = Rs.22,500
- 3. Depreciated value of the motor cycle**
= Original cost – Depreciation @ 10% p.a. for 3 completed years.
= Rs.60,000 – (Rs.60,000 × 10% p.a. × 3 years) = Rs.42,000.
Perquisite = Rs.42,000 – Rs.30,000 = Rs.12,000.

Question 4:

Mr. Balaji, employed as Production Manager in Beta Ltd., furnishes you the following information for the year ended 31.03.2025:

- Basic salary upto 31.10.2024 Rs.50,000 p.m.
Basic salary from 01.11.2024 Rs.60,000 p.m.
- Note - Salary is due and paid on the last day of every month.
- Dearness allowance @ 40% of basic salary.
 - Bonus equal to one month salary. Paid in October 2024 on basic salary plus dearness allowance applicable for that month.
 - Contribution of employer to recognized provident fund account of the employee@16% of basic salary.
 - Professional tax paid Rs.2,500 of which Rs.2,000 was paid by the employer.
 - 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 01.12.2024.
 - Motor car owned by the employer (cubic capacity of engine exceeds 1.60 litres) provided to the employee from 01.11.2024 meant for both official and personal use. Repair and running expenses of Rs.45,000 from 01.11.2024 to 31.03.2025, were fully met by the employer. The motor car was self-driven by the employee.
 - 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. 2025-26 assuming he exercises the option of shifting out of the default tax regime provided under section 115BAC(1A).

Computation of Taxable Salary of Mr. Balaji for A.Y. 2025-26

Particulars		Rs.
Basic salary [(Rs.50,000 × 7) + (Rs.60,000 × 5)]		6,50,000
Dearness Allowance (40% of basic salary)		2,60,000
Bonus (Rs.50,000 + 40% of Rs.50,000) (See Note 1)		70,000
Employers contribution to recognised provident fund in excess of 12% of salary = 4% of Rs.6,50,000 (See Note 2)		26,000
Professional tax paid by employer		2,000
Perquisite of Motor Car (Rs.2,400 for 5 months) (See Note 4)		12,000
Gross Salary		10,20,000
Less: Deduction under section 16		
Standard deduction u/s 16(ia)	Rs.50,000	
Professional tax u/s 16(iii) (See Note 6)	Rs.2,500	52,500
Taxable Salary		9,67,500

Notes:

1. Since bonus was paid in the month of October, the basic salary of Rs.50,000 for the month of October is considered for its calculation.
2. It is assumed that dearness allowance does not form part of salary for computing retirement benefits.
3. As per Rule 3(7)(vii), facility of use of laptop and computer is a tax free perquisite, whether used for official or personal purpose or both.
4. As per the provisions of Rule 3(2), in case a motor car (engine cubic capacity exceeding 1.60 liters) owned by the employer is provided to the employee without chauffeur for personal as well as office use, the value of perquisite shall be Rs.2,400 per month. The car was provided to the employee from 01.11.2024, therefore the perquisite value has been calculated for 5 months.
5. Mr. Balaji can avail exemption under section 10(5) on the entire amount of Rs.75,000 reimbursed by the employer towards Leave Travel Concession since the same was availed for himself, his wife and three children and the journey was undertaken by economy class airfare. The restriction imposed for two children is not applicable in case of multiple births which take place after the first child.

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

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

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

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

Question 5:

From the following details, find out the salary chargeable to tax for the A.Y.2025-26 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 1.1.2024 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.

Computation of taxable salary of Mr. X for A.Y. 2025-26

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]	29,430
Medical reimbursement	25,000
Reimbursement of salary of housekeeper	12,000
Gift voucher [See Note 5 below]	10,000
Gross Salary	3,78,749
Less: Deduction under section 16(ia) – Standard deduction	50,000
Salary income chargeable to tax	3,28,749

Notes:

1. 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 10% 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 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

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

$$10\% \text{ of salary} = \text{Rs.2,94,300} \times 10/100 = \text{Rs.29,430}$$

Value of rent-free house = Lower of rent paid by the employer (i.e. Rs.1,20,000) or 10% of salary (i.e., Rs.29,430).

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:

You are required to compute the income from salary of Mr. Raja under default tax regime from the following particulars for the year ended 31-03-2025:

- i) He retired on 31-12-2024 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 1.2.2025, 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.

**Computation of income under the head “Salaries”
of Mr. Raja for the A.Y.2025-26 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 x Rs.25,000 x 26] =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		

<p>year of service) for every year of actual service rendered for the employer from whose service he has retired $375/30 \times \text{Rs.}25,000 = \text{Rs.}3,12,500$</p> <p>[Leave Due = Leave allowed – Leave taken]</p> <p>= 750 (30 days per year \times 25 years) – 375 days (15 days \times 25)</p> <p>= 375 days]</p>		
Uncommuted Pension received [Rs.5,000 \times 1] + (Rs.5,000 \times 2 \times 40%)		9,000
Commuted Pension received	3,00,000	
Less: Exempt under section 10(10A)		
$1/3 \times \text{Rs.}3,00,000/60\% \times 100\%$)	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.75,000, whichever is less] [Allowable under default tax regime]		75,000
Net Salary		4,11,333

Question 7:

Ms. Akansha, a salaried employee, furnishes the following details for the financial year 2024-25:

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	

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

You are required to compute the income chargeable under the head Salaries for the assessment year 2025-26 if she pays tax under default tax regime.

**Computation of income chargeable under the head “Salaries” of
Ms. Akansha for A.Y.2025-26 under default tax regime**

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 is fully taxable	18,000
Professional tax paid by the employer is a taxable perquisite as per section 17(2)(iv), since it is an obligation of the employee which is paid by the employer	2,000
Health insurance premium of Rs.8,000 paid by the employer is an exempt perquisite [Clause (iii) of proviso to section 17(2)]	Nil
Gift voucher given by employer on Ms. Akansha birthday (entire amount is taxable since the perquisite value exceeds Rs.5,000) as per Rule 3(7)(iv)	10,000
Life insurance premium of Ms. Akansha paid by employer is a taxable perquisite as per section 17(2)(v)	26,000
Laptop provided for use at home is an exempt perquisite as per Rule 3(7)(vii)	Nil
Provision of motor car with driver (engine cubic capacity more than 1.6 litres) owned by employer to employee, the perquisite value would be Rs.39,600 [Rs.(2,400+ 900) ×12] as per Rule 3(2)	39,600
Annual credit card fees paid by employer is a taxable perquisite as per Rule 3(7)(v) since the credit card is not exclusively used for official purposes and details of usage are not available	7,000
Gross Salary	12,26,600
Less: Deductions under section 16	
- Standard Deduction as per section 16(ia)	75,000
Income chargeable under the head “Salaries”	11,51,600

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

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

An alternate view possible is that only the sum in excess of Rs.5,000 is taxable in view of the language of Circular No.15/2001 dated 12.12.2001, which states 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. Accordingly, the gross salary and net salary would be Rs.12,21,600 and Rs.11,46,600, respectively.

Past Exam Questions

QUESTION 1

PEP MAY 23 (7 MARKS)

Mr. Rohan retired from M/s. QRST Ltd. a private sector company, on 31st March, 2023 after completing 28 years and 3 months of service. He received the following sums/gifts on his retirement:

- (i) Gratuity of Rs. 7,50,000. He was covered under the Payment of Gratuity Act, 1972.
- (ii) Leave encashment of Rs. 3,25,000 for 210 days leave balance in his account. He was credited with 30 days leave for each completed year of service.
- (iii) Crockery set worth Rs. 4,500 from his employer at the farewell party which was organised by the HR department a day before his retirement.

He drew a basic salary of Rs. 25,000 per month alongwith 50% of basic salary as dearness allowance (not forming part of retirement benefits) for the period from 1st April, 2022 to 31st March, 2023.

Further, during the year, his employer provided him a motor car of 1800 cc which was used by him and his family solely for personal purposes. The cost of fuel and repairs were met by Mr. Rohan himself. The car was purchased by the employer on 1st April, 2021 at a cost of Rs. 8,00,000. Salary of driver amounting to Rs. 10,000 per month was met by the employer only. Upon retirement, he gave the car back to the employer.

You are required to compute the taxable salary of Mr. Rohan for A.Y.2023 -24 assuming that he neither claims any relief under section 89 nor does he opt to pay tax under section 115BAC.

Computation of taxable salary of Mr. Rohan for A.Y. 2023-24

Particulars	Rs.
Basic Salary Rs. 25,000 x 12	3,00,000
Dearness Allowance (50% of basic salary)	1,50,000
Gratuity [Rs. 7,50,000 – Rs. 6,05,769]	1,44,231
Less: Exempt under section 10(10) - Least of the following:	Rs.
(i) Notified limit	20,00,000
(ii) Actual gratuity received	7,50,000
(iii) 15/26 x last drawn salary x no. of completed years of services or part in excess of 6 months [15/26 x 37,5004 x 28]	6,05,769
Leave encashment [Rs. 3,25,000 – Rs. 1,75,000]	1,50,000
Less: Exempt under section 10(10AA) - Least of the following:	
(iv) Notified limit	3,00,000
(v) Actual leave salary received	3,25,000
(vi) 10 months x Rs. 25,000	2,50,000
(vii) Cash equivalent of leave to his credit [Rs. 25,000 x	1,75,000

210/30]		
Crockery set [not a perquisite, since value of gift does not exceed Rs. 5,000]		-
Perquisite value of car [Driver's salary met by employer Rs. 1,20,000 (i.e., Rs. 10,000 x 12) + Rs. 80,000 (10% of Rs. 8,00,000), being normal wear and tear on car]		2,00,000
Gross Salary		9,44,231
Less: Standard deduction u/s 16(ia)		50,000
Taxable Salary		8,94,231

QUESTION 2

PEP NOV 23 (6 MARKS)

Ms. Neelima, a resident of Delhi, was employed by LMN Ltd. upto 15, March, 1992. At the time of leaving LMN Ltd., she was paid Rs. 3,50,000 as leave salary out of which Rs. 59,000 was exempted from tax under section 10(10AA).

Thereafter, she joined CD (P) Ltd. and received Rs. 4,14,000 as leave salary at the time of retirement on December 31, 2022. In addition she received a gratuity of Rs. 12,00,000 from the employer (she is not covered by the Payment of Gratuity Act, 1972). The following information is available:

Average salary received during 11 months ending on December 31, 2022

From February 1 to July 31 (p.m.)	Rs. 22,600
From August 1 to December 31 (p.m.)	Rs. 22,900
Duration of service	14 years 7 months
Leave entitlement for every year of service	45 days
Leave availed while in service	90 days
Leave at her credit at the of retirement	18 months

She received Rs. 5,20,000 from unrecognized provident fund of which she was a member (This constitutes employee's contribution Rs. 2,00,000; employer's contribution Rs. 2,10,000; interest on employee's contribution Rs. 60,000; interest on employer's contribution Rs. 50,000).

You are required to compute her total income for the assessment year 2023 -24, clearly showing all workings. (Ignore section 115BAC provisions).

Computation of Total income of Ms. Neelima for A.Y. 2023-24

Particulars	Rs.	Rs.	Rs.
Income under the head "Salaries"			
Basic Salary [Rs. 22,600 x 4 + Rs. 22,900 x 5]		2,04,900	
Gratuity [Rs. 12,00,000 – Rs. 1,59,040]		10,40,960	
Less: Exempt under section 10(10) - Least of the			



following:

(i) Notified limit	20,00,000	
(ii) Actual gratuity received	12,00,000	
(iii) $1/2 \times 22,720 [(22,600 \times 6 + 22,900 \times 4)/102] \times 14$ [No. of completed years of services, ignore fraction]	1,59,040	
Leave encashment [Rs. 4,14,000 – Rs. 2,27,500]		1,86,500
Less: Exempt under section 10(10AA) - Least of the following:		
(i) Notified limit [Rs. 3,00,000 – Rs. 59,000, amount exempted earlier]	2,41,000	
(ii) Actual leave salary received	4,14,000	
(iii) $10 \text{ months} \times 22,750 [(Rs. 22,600 \times 5 + 22,900 \times 5)/103]$	2,27,500	
(iv) Cash equivalent of leave to his credit [Rs. $22,750 \times 11$ [420 days (30 days x 14 years of service) less 90 days of leave availed /30]	2,50,250	
Employer's contribution from unrecognized provident fund received on retirement		2,10,000
Interest on Employer's contribution from unrecognized provident fund received on retirement		<u>50,000</u>
Gross Salary		16,92,360
Less: Standard deduction u/s 16(ia)		<u>50,000</u>
Taxable Salary		16,42,360
Income from Other Sources		
Interest on employee's contribution from unrecognized provident fund		60,000
Employee's contribution from unrecognized provident fund received on retirement [Not Taxable]		<u>60,000</u>
Gross Total Income/Total Income		<u>17,02,360</u>





QUESTION 3

PEP SEPT 24 (6 MARKS)

The particulars given below are of Mr. Radhey's income (age 47 years) posted in a private company in Delhi, for the previous year 2023-24:

- (i) Basic Pay Rs.35,000 per month till January 31, 2024, Rs.40,000 p.m. from February 2024.
 - (ii) Dearness allowance 30% of basic salary (54% of DA forms part of retirement benefits)
 - (iii) Leave encashment for P.Y. 2023-24 Rs.10,000.
 - (iv) He received salary for the month of April 2024 in advance on 31st March 2024. Also, he received an arrear salary for the month of March 2023 on the same day.
 - (v) His employer gave him a rent-free accommodation (fully furnished) in Delhi from 01.04.2019. This house is owned by his employer. During the previous year 2019-20, the perquisite value of such rent-free furnished accommodation was valued at Rs.39,000. The employer also provided him with the facility of a gardener to maintain this house. The salary of gardener paid by the employer was Rs.1,000 p.m. The furniture and appliances provided with the house were bought by the employer at an aggregate cost of Rs.1,50,000 on 01.01.2020. Electricity and water bills of Rs.4,000 p.m. for the said house were paid by the employer.
- Cost Inflation Index**
- F.Y. 2019-20-289,
 - F.Y. 2020-21-301,
 - F.Y. 2023-24-348.
- (vi) The employer also spent Rs.50,000 on a refresher course for upgrading Mr. Radhey's skills.
 - (vii) During the previous year his wife had been admitted in a notified hospital for treatment of her kidney disease, the hospital bills amounting to Rs.3,50,000 were paid by the employer.

You are required to compute the taxable salary income of Mr. Radhey for the Assessment Year 2024-25 assuming that he has opted out of the default tax regime under section 115BAC.

Computation of taxable salary of Mr. Radhey for A.Y.2024-25

	Rs.	Rs.
Basic Pay [Rs.35,000 x 10 + Rs.40,000 x 2]		4,30,000
Dearness Allowance [Rs.4,30,000 x 30%]		1,29,000
Leave encashment for P.Y. 2023-24		10,000
Advance salary for April 2024 received on 31.3.2024		40,000
[Note - Alternatively, it is possible to assume that the advance salary is inclusive of DA. In such a case, advance salary for April 2024 would be Rs.52,000.]		





Arrear salary for March 2023, assumed it is taxed on due basis during the P.Y. 2022-23.			--
Value of Rent-free accommodation			
<u>From April 2023 to August 2023</u>			
Value of Rent-free accommodation {15% of Rs.2,07,515 i.e., [Rs.1,75,000 (35,000 x 5, basic salary) + Rs.28,350 (1,75,000 x 30% x 54%, DA) + 4,167 (10,000/12 x 5, leave encashment)]}	31,128		
Add: Value of furniture [Rs.1,50,000 x 10% p.a. for 5 months]	6,250		
		37,378	
<u>From September 2023 to March 2024</u>			
Value of Rent-free accommodation {10% of Rs.3,02,143 i.e., [Rs.2,55,000 (35,000 x 5+ 40,000 x 2, basic salary) + Rs.41,310 (2,55,000 x 30% x 54%, DA) + 5,833 (10,000/12 x 7, leave encashment)]}	30,214		
Add: Value of furniture [Rs.1,50,000 x 10% p.a. for 7 months]	8,750		
		38,964	76,342
<p>[Note - In the absence of the information of the month in which leave encashment is received, leave encashment is proportionated in 5:7 months period. Alternatively, it is possible to assume that the amount of Rs.10,000 is received either during the April to August month or September to March 2024. In such case, perquisite value of rent-free accommodation would undergo a change.</p>			
Facility of gardener [Salary of gardener paid by the employer would be taxable as perquisite] [Rs.1,000 x 12]			12,000
Facility of use of electricity [Electricity and water bills paid by the employer would be taxable as perquisite] [Rs.4,000 x 12]			48,000
Refresher course for upgrading skills [Tax free perquisite]			Nil
Value of medical treatment [Exempt, since medical treatment for wife is in notified hospital]			Nil
Gross Salary			7,45,342
Less: Deduction under section 16 - Standard deduction			50,000
Taxable Salary			6,95,342





Questions from MTP, RTP

QUESTION 1

MTP 1 MAY 24 (5 MARKS)

Mr. Sahil, a resident individual, aged 40 years, is an assistant manager of Fox Ltd. He is getting a salary of Rs. 55,000 per month. During the previous year 2023-24, he received the following amounts from his employer.

- (i) Dearness allowance (10% of basic pay which forms part of salary for retirement benefits).
- (ii) Bonus of Rs. 60,000.
- (iii) Fixed Medical allowance of Rs. 50,000 for meeting medical expenditure.
- (iv) He was also reimbursed the medical bill of his mother dependent on him amounting to Rs. 6,500.
- (v) Mr. Sahil was provided;
 - a laptop both for official and personal use. Laptop was acquired by the company on 1st June, 2021 at Rs. 35,000.
 - a domestic servant at a monthly salary of Rs. 8,000 which was reimbursed by his employer.
- (vi) Fox Ltd. allotted 700 equity shares in the month of October 2023 @ Rs. 170 per share against the fair market value of Rs. 280 per share on the date of exercise of option by Mr. Sahil. The fair market value was computed in accordance with the method prescribed under the Act.
- (vii) Professional tax Rs. 2,200 (out of which Rs. 1,400 was paid by the employer).

Compute the Income under the head “Salaries” of Mr. Sahil for the assessment year 2024-25 if he is paying tax under default tax regime under section 115BAC.

Computation of Income under the head “Salaries” in the hands of Mr. Sahil for the A.Y. 2024-25

Particulars	Rs.
Basic Salary [Rs. 55,000 x 12]	6,60,000
Dearness allowance [10% of basic salary]	66,000
Bonus	60,000
Fixed Medical Allowance [Taxable]	50,000
Reimbursement of Medical expenditure incurred for his father [Fully taxable]	6,500
Facility of laptop [Facility of laptop is an exempt perquisite, whether used for official or personal purpose or both]	Nil
Reimbursement of salary of domestic servant [Rs. 8,000 x 12] [Fully taxable, since perquisite includes any sum paid by the employer in respect of any obligation which would have been payable by the employee]	96,000
Value of equity shares allotted [700 equity shares x Rs. 110 (Rs. 280, being the fair market value – Rs. 170, being the amount recovered)]	77,000
Professional tax paid by the employer [Perquisite includes any sum paid by the	



employer in respect of any obligation which would have been payable by the employee]	1,400
Gross Salary	10,16,900
Less: Deduction under section 16	
Professional tax paid [Not allowed]	-
Standard Deduction (Lower of Rs. 50,000 or amount of salary)	50,000
Taxable Salary	9,66,900

QUESTION 2

MTP 2 MAY 24 (6 MARKS)

Ms. Priyanka, General Manager of ABC Ltd., Mumbai, furnishes the following particulars for the financial year 2023-24:

- (i) Salary Rs. 40,000 per month
- (ii) Value of medical facility in a hospital maintained by the company Rs. 10,000
- (iii) Rent free accommodation owned by the company
- (iv) Housing loan of Rs. 7,00,000 given on 01.04.2023 at the interest rate of 6% p.a. (No repayment made during the year). The rate of interest charged by State Bank of India (SBI) as on 01.04.2023 in respect of housing loan is 9.5%.
- (v) A dining table was provided to Ms. Priyanka at her residence. This was purchased on 1.6.2020 for Rs. 60,000 and sold to Ms. Priyanka on 1.5.2023 for Rs. 30,000.
- (vi) Personal purchases through credit card provided by the company amounting to Rs. 10,000 was paid by the company. No part of the amount was recovered from Ms. Priyanka.
- (vii) A Maruti Suzuki car which was purchased by the company on 16.7.2021 for Rs. 2,50,000 was sold to the assessee on 14.7.2023 for Rs. 1,60,000.

Other income received by the assessee during the previous year 2023-24:

	Particulars	Rs.
(a)	Interest on Fixed Deposits with a company	7,000
(b)	Income from specified mutual fund	3,000
(c)	Interest on bank fixed deposits of a minor married daughter	4,000

- (viii) Deposit in PPF Account made during the year 2023-24 Rs.40,000

Compute the gross total income of Ms. Priyanka for the Assessment year 2024-25 if she exercised the option to shift out of the default tax regime under section 115BAC.

Computation of gross total income of Ms. Priyanka for the A.Y. 2024-25 under normal provisions of the Act

	Particulars	Rs.	Rs.
(a)	Income from salaries (See Working Note below)		5,81,000
(b)	Income from Other Sources		
	(i) Interest on fixed deposit with a company	7,000	

	(ii) Income from specified mutual fund	3,000	
	(iii) Interest on Fixed Deposit received by minor daughter (Rs.4,000-Rs. 1500)	<u>2,500</u>	<u>12,500</u>
Gross total income			5,93,500

Working Note:
Computation of salary income of Ms. Priyanka for the A.Y. 2024-25

Particulars		Rs.
Salary [Rs. 40,000 x 12]		4,80,000
Medical facility [in the hospital maintained by the company is exempt]		–
Rent free accommodation		
15% of salary from 1.4.2023 to 31.8.2023 and 10% of salary from 1.9.2023 to 31.3.2024 (Rs. 4,80,000 × 15% x 5/12) + (Rs. 4,80,000 × 10% x 7/12)		58,000
Valuation of perquisite of interest on loan		
[Rule 3(7)(i)] – 9.5% is taxable which is to be reduced by actual rate of interest charged i.e. [9.5% - 6% = 3.5%]		24,500
Use of dining table for 1 month [Rs. 60,000 x 10/100 x 1/12]		500
Perquisite on sale of dining table		
Cost	60,000	
Less: Depreciation on straight line method @ 10% for 2 years	<u>12,000</u>	
Written Down Value	48,000	
Less: Amount paid by the assessee	<u>30,000</u>	18,000
Purchase through credit card		10,000
Perquisite on sale of car		
Original cost of car	2,50,000	
Less: Depreciation from 16.7.2021 to 15.7.2022 @ 20%	<u>50,000</u>	
Value as on 14.07.2023- being the date of sale to employee	2,00,000	
Less: Amount received from the assessee on 14.07.2023	<u>1,60,000</u>	<u>40,000</u>
Gross salary		6,31,000
Less: Standard deduction upto Rs. 50,000		<u>50,000</u>
Income from Salaries		<u>5,81,000</u>

QUESTION 3
MTP 1 SEPT 24 (6 MARKS)

Mr. Sailesh is a Marketing Manager in Smile Ltd. From the following information, you are required to compute his income chargeable under the head Salary for assessment year 2024-25.

(i) Basic salary is Rs.70,000 per month.

(ii) Dearness allowance @ 40% of basic salary

(iii) He is provided health insurance scheme approved by IRDA for which Rs.20,000 incurred by



- Smile Ltd.**
- (iv) Received Rs.10,000 as gift voucher on the occasion of his marriage anniversary from Smile Ltd.
 - (v) Smile Ltd. allotted 800 sweat equity shares in August 2023. The shares were allotted at Rs.450 per share and the fair market value on the date of exercising the option by Mr. Sailesh was Rs.700 per share.
 - (vi) He was provided with furniture during September 2019. The furniture is used at his residence for personal purpose. The actual cost of the furniture was Rs.1,10,000. On 31st March, 2024, the company offered the furniture to him at free of cost. No amount was recovered from him towards the furniture till date.
 - (vii) Received Rs.10,000 towards entertainment allowance.
 - (viii) Housing Loan@ 4.5% p.a. provided by Smile Ltd., amount outstanding as on 01.04.2023 is Rs.15 Lakhs. Rs.50,000 is paid by Mr. Sailesh every quarter towards principal starting from June 2023. The lending rate of SBI for similar loan as on 01.04.2023 was 8%.
 - (ix) Facility of laptop costing Rs.50,000

Computation of income under the head “Salaries” of Mr. Sailesh for the A.Y.2024-25

Particulars	Rs.	Rs.
Basic Salary [Rs. 70,000 x 12 months]		8,40,000
Dearness allowance [40% of Rs.8,40,000]		3,36,000
Entertainment allowance		10,000
Interest on housing loan given at concessional rate, would be perquisite, since the amount of loan exceeds Rs. 20,000, For computation, the lending rate of SBI on 1.4.2023 @8% has to be considered. Thus, perquisite value would be determined @ 3.5% (8% - 4.5%) [See Working Note]		49,291
Health insurance premium paid by the employer [tax free perquisite]		Nil
Gift voucher on the occasion of his marriage anniversary [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 exceeding Rs. 5,000 in aggregate during the previous year is fully taxable] (See note below)		10,000
Allotment of sweat equity shares		
Fair market value of 800 sweat equity shares @ Rs. 700 each	5,60,000	
Less: Amount recovered @ Rs. 450 each	<u>3,60,000</u>	2,00,000
Use of furniture by employee		
10% p.a. of the actual cost of Rs. 1,10,000		11,000
Use of Laptop		



Facility of use of laptop is not a taxable perquisite		Nil
Transfer of asset to employee		
Value of furniture transferred to Mr. Sailesh	1,10,000	
Less: Normal wear and tear @10% for each completed year of usage on SLM basis [1,10,000 x 10% x 4 years (from September 2019 to September 2023)]	<u>44,000</u>	<u>66,000</u>
Gross Salary		15,22,291
Less: Standard deduction u/s 16 [Actual salary or Rs. 50,000, whichever is less]		<u>50,000</u>
Net Salary		<u>14,72,291</u>

Working Note:

Computation of perquisite value of loan given at concessional rate

For computation, the lending rate of SBI on 1.4.2023 @8% has to be considered. Thus, perquisite value would be determined @ 3.5% (8% - 4.5%)

Month	Maximum outstanding balance as on last date of month (Rs.)	Perquisite value at 3.5% for the month (Rs.)
April, 2023	15,00,000	4,375
May, 2023	15,00,000	4,375
June, 2023	14,50,000	4,229
July, 2023	14,50,000	4,229
August, 2023	14,50,000	4,229
September, 2023	14,00,000	4,083
October, 2023	14,00,000	4,083
November, 2023	14,00,000	4,083
December, 2023	13,50,000	3,937.50
January, 2024	13,50,000	3,937.50
February, 2024	13,50,000	3,937.50
March, 2024	13,00,000	3,792
Total value of this perquisite		49,290.50

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 and gross salary and net salary would be Rs. 15,17,291 and Rs. 14,67,291, respectively.

QUESTION 4

RTP SEPT 24

Mr. Anshul, a salaried employee in a private company, furnishes you the following information for the year ended on 31-03-2024:

(i) Basic salary Rs. 75,000 p.m.



From 1st December 2023, basic salary increased to 85,000 p.m.

(ii) Dearness allowance @50% of basic salary (40% of D.A. forms part of salary for retirement benefits).

(iii) Entertainment allowance Rs. 10,000

(iv) Contribution of employer to recognized provident fund account of the employee @18% of basic salary. Employees also contribute an equivalent amount.

(v) Professional tax paid Rs. 2,200 of which Rs. 1,800 was paid by the employer.

(vi) House rent allowance of Rs. 16,000 p.m. He paid rent of Rs. 17,000 p.m. for accommodation in Meerut.

(vii) Conveyance allowance of Rs. 1,500 p.m. by the company towards actual reimbursement of conveyance spent on official duty.

(viii) Loan of Rs. 2,00,000 was taken from the employer on 1.7.2023 for medical treatment of his brother for tuberculosis treatment. Interest charged on such loan is 5%. The entire loan is outstanding as on 31.3.2024. No medical insurance has been taken for his brother. SBI rate of interest on 1.4.2023 was 11%.

(ix) Free education was provided to the sister of Mr. Anshul in a school maintained and owned by the company. The cost of such education facility is computed at Rs. 900 p.m. No amount was recovered by the company for such education facility from Anshul.

(x) Leave travel concession given to Anshul, his wife and three children (one daughter aged 6 and twin sons aged 4). Cost of air tickets (economy class) reimbursed by the employer Rs. 20,000 for adults and lumpsum of Rs. 25,000 for three children. Anshul is eligible for availing exemption this year to the extent it is permissible under the Income- tax Act, 1961.

Compute the taxable salary of Mr. Anshul if he has shifted out of the default tax regime under section 115BAC.

Computation of taxable salary of Mr. Anshul for the A.Y. 2024-25

Particulars	Rs.	Rs.
Basic Salary [(Rs. 75,000 x 8) + (Rs. 85,000 x 4)]		9,40,000
Dearness allowance [50% of basic salary]		4,70,000
Employer's contribution to recognized provident fund [18% x Rs. 9,40,000]	1,69,200	
<i>Less: Exempt upto 12% of basic salary and D.A. forms part of retirement benefit [12% x Rs. 11,28,000]</i>	1,35,360	33,840
Taxable allowances		
Entertainment allowance		10,000
Conveyance allowance [Exempt, since it is based on actual reimbursement for official purpose]		-



House rent allowance	1,92,000	
Less: Least of the following exempt under section 10(13A)	91,200	1,00,800
(i) HRA received	1,92,000	
(ii) Rent paid (-) 10% of salary [Rs. 2,04,000 – 10% x Rs. 11,28,000]	91,200	
(iii) 40% of salary [40% x Rs. 11,28,000]	4,51,200	
Taxable Perquisite		
Professional tax paid by the employer [Perquisite includes any sum paid by the employer in respect of any obligation which would have been payable by the employee]		1,800
Interest on loan [Not a perquisite, since loan is for medical treatment of his brother for tuberculosis treatment]		-
Provision of education facility [Rs. 900 x 12]		10,800
Leave travel concession	45,000	
Less: Exempt	45,000	-
[Mr. Anshul can avail exemption on the entire amount of Rs. 45,000 reimbursed by the employer towards leave travel concession since the leave travel concession was availed for himself, wife and three children and the journey was undertaken by economy class airfare. The restriction imposed for two children is not applicable in case of multiple birth which take place after the first child.]		
Gross Salary		15,67,240
Less: Deduction under section 16		
Professional tax paid	2,200	
Standard Deduction, lower of salary or Rs. 50,000	50,000	52,200
Taxable Salary		15,15,040

QUESTION 5
RTP JAN 25

Mr. Rohan, an employee of ABC Ltd. is posted at Mumbai. He was appointed on 1st March 2023 on the scale of Rs.60,000 - Rs.2,000 - Rs.80,000. Details of his other income for the previous year 2023-24 are as follows:

- (i) Dearness allowance: 40% of basic salary (60% forms part of pay for retirement benefits)
- (ii) Telephone allowance @ `500 per month
- (iii) Both Mr. Rohan and the company contribute 15% of basic salary to RPF. Interest accrued in this Fund@12% p.a. amounted to Rs.25,800.

- (iv) The company has provided him with the rent free unfurnished accommodation in Mumbai owned by the company.
- (v) The salary of Rs.2,500 p.m. of domestic servant is reimbursed by the company.
- (vi) Rohan has used his own motor car of 1.8 ltr engine capacity for both official and personal purposes. The running and maintenance costs of Rs.50,000 are borne by the company.
- (vii) Professional tax paid Rs.2,500 of which Rs.1,500 was paid by the employer.
- (viii) During the year 2022-23, Mr. Rohan gifted a sum of Rs.6,00,000 to Mrs. Rohan. She started a business by introducing such amount as her capital. On 1st April, 2023, her total investment in business was Rs.10,00,000. During the previous year 2023-24, she has suffered a loss of Rs.1,20,000 from such business Determine the gross total income of Mr. Rohan for the A.Y. 2024-25 under normal provisions of the Act.

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

Particulars		Amount (Rs.)	Amount (Rs.)
I	Salaries		
	Basic Salary (Rs.60,000 x 11 + Rs.62,000 x 1)		7,22,000
	Dearness Allowance (40% of Rs.7,22,000)		2,88,800
	Telephone allowance (Rs.500 x 12)		6,000
	Employer's contribution to RPF (15% of Rs.7,22,000)	1,08,300	
	Less: Exempt [12% of salary i.e., 12% x 8,95,280 (7,22,000 + 60% of 2,88,800)]	1,07,434	866
	Interest accrued in the RPF@12%	25,800	
	Less: Exempt @9.5% p.a.	20,425	5,375
	Value of Rent Free accommodation		
	<u>From April 2023 to August 2023</u>	56,175	
	[15% of Rs.3,74,500 i.e., Rs.3,00,000 (60,000 x 5) + 72,000 (Rs.3,00,000 x 40% x 60%) + Rs.2,500 (Rs.500 x 5)]		
	<u>From September 2023 to March 2024</u>		
	[10% of Rs.5,26,780 i.e., Rs.4,22,000 (60,000 x 6 + 62,000 x 1) + 1,01,280 (Rs.4,22,000 x 40% x 60%) + Rs.3,500 (Rs.500 x 7)]	52,678	1,08,853
	Reimbursement of salary of domestic servant [Rs.2,500 x 12]		30,000
	Perquisite value of motor car		
	Running and maintenance costs incurred by employer	50,000	

	Less: Specified as per Rule 3 [Rs.2,400 x 12]	28,800	21,200	
	Professional tax paid by employer		1,500	
	Gross Salary		11,84,594	
II	Less: Deduction under section 16			
	Standard deduction	50,000		
	Professional tax paid	2,500	52,500	
	Taxable Salary		11,32,094	
	Profit and gains from business or profession			
	Where the amount of Mr. Rohan (Rs.6 lakh, in this case) is invested by Mrs. Rohan in a business as her capital, proportionate share of profit or loss, as the case may be, computing taking into account the value of the investment as on 1.4.2023 to the total investment in the business (Rs.10 lakhs) would be included in the income of Mr. Rohan [loss of Rs.1,20,000 x 6/10]	(72,000)		-
	[Business loss of Rs.72,000 cannot be set off against salary income. It has to be carried forward to next year]			
	Gross Total Income		11,32,094	



4. Income From House Property

Illustrations from ISM

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

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 P.Y.2024-25. He owns a house in London, which he has let out at £ 10,000 p.m. The municipal taxes paid to the Municipal Corporation of London is £ 8,000 during the P.Y.2024-25. The value of one £ in Indian rupee to be taken at Rs. 95. Compute Rajesh's Net Annual Value of the property for the A.Y. 2025-26.

For the P.Y.2024-25, Mr. Rajesh, a British national, is resident and ordinarily resident in India.

Therefore, income received by him by way of rent of the house 2CIT v. R. Venugopala Reddiar (1965) 58 ITR 439 (Mad) property located in London is to be included in the total income in India. Municipal taxes paid in London is to be allowed as deduction from the gross annual value.



Computation of Net Annual Value of the property of Mr. Rajesh for A.Y.2025-26

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

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 1.4.2023. 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 1.10.2023 towards repairs. Compute the deduction which would be available to him under section 24(b) for A.Y.2025-26 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).

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. He is eligible for deduction under section 24(b) since he has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A).

Computation of deduction u/s 24(b) for A.Y.2025-26

Particulars	Rs.
I Interest on loan taken for acquisition of residential house property at Bombay 30,00,000 x 10% = 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 Rs. 5,00,000 x 11% = 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 A.Y.2025-26.

i. Computation of Income from house property of Mr. Anirudh for A.Y.2025-26

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.

ii) LET OUT PROPERTY VACANT FOR PART OF THE YEAR

Particulars		Amount
Computation of GAV		
Step 1	Compute ER	
	ER = Higher of MV and FR, but restricted to SR	
Step 2	Compute Actual rent received/receivable	
	Actual rent received/receivable for let out period less unrealized rent as per Rule 4 [See Note below for alternate view]	
Step 3	Compare ER and Actual rent received/receivable computed for the let-out period	

Step 4	If Actual rent is lower than ER owing to vacancy, then Actual rent is the GAV. If Actual rent is lower than ER due to other reasons, then ER is the GAV. However, in spite of vacancy, if the actual rent is higher than the ER, then Actual rent is the GAV.		
Gross Annual Value (GAV)			A
Less:	Municipal taxes (paid by the owner during the previous year)		B
Net Annual Value (NAV) = (A-B)			C
Less:	Deductions under section 24		
	(a) 30% of NAV	D	
	(b) Interest on borrowed capital (actual without any ceiling limit)	E	F
Income from house property (C-F)			G

Note - The income-tax returns, however, permit deduction of unrealized rent from gross annual value. If this view is taken, the unrealized rent should be deducted only after computing gross annual value.

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 31.1.2025. 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 A.Y.2025-26.

Computation of income from house property of Ganesh for A.Y.2025-26

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 2023).	1,80,000	

Therefore, actual rent is the GAV.		1,80,000
Gross Annual Value (GAV)		20,000
Less: Municipal taxes (paid by the owner during the previous year) = 8% of Rs. 2,50,000		1,60,000
Net Annual Value (NAV)		
Less: Deductions under section 24	48,000	
(a) 30% of NAV = 30% of Rs. 1,60,000	65,000	1,13,000
(b) Interest on borrowed capital (actual without any ceiling limit)		47,000
Income from house property		

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 2018 with a loan of Rs. 20,00,000 taken from SBI Housing Finance Ltd. @9% p.a. on 1.4.2018. The construction was completed on 30.11.2020. The accumulated interest up to 31.3.2020 is Rs. 3,60,000. On 31.3.2025, 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 A.Y. 2025-26 assuming that she has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A).

Computation of income from house property of Smt. Poorna for A.Y.2025-26

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



Loss from house property	(2,00,000)
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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 2024. Thereafter, the tenant vacated the property and Smt. Rajalakshmi used the house for self-occupation. Rent for the months of November and December 2024 could not be realised in spite of the owner's efforts. All the conditions prescribed under Rule 4 are satisfied. She paid municipal taxes @12% during the year. She had paid interest of Rs. 25,000 during the year for amount borrowed for repairs for the house property. Compute her income from house property for the A.Y. 2025-26.

Computation of income from house property of Smt. Rajalakshmi for A.Y.2025-26

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 P.Y.2024-25 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	31.3.2000	31.3.2002	01.4.2016
Municipal taxes paid during the year	12%	8%	6%
Interest on money borrowed for repair of property during the current year	-	Rs. 55,000	
Interest for current year on money borrowed in April, 2017 for purchase of property			Rs. 1,75,000

Compute Ganesh's income from house property for A.Y.2025-26 and suggest which houses should be opted by Ganesh to be assessed as self-occupied so that his tax liability is minimum.

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

Computation of income from house property of Ganesh for the A.Y. 2025-26

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

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

Under default tax regime under section 115BAC

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

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

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

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

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

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

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

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

Particulars	Amount in Rs.
House I (Deemed to be let-out)	2,19,800
House II (Self-occupied) (No interest deduction)	-
House III (Self-occupied) (No interest deduction)	-
Income from house property	2,19,800

Since Option 1 is most beneficial, Ganesh should opt to treat House I and II as self-occupied and House III as deemed to be let out. His income from house property would be Rs. 73,640 for the A.Y. 2025-26 under default tax regime under section 115BAC.

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

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

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

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

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

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

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

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

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

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

Since Option 2 is most beneficial in this case, Ganesh should opt to treat House I and III as self-occupied and House II as deemed to be let out. His income from house property would be Rs. 1,840 for the A.Y. 2025-26 under the optional tax regime i.e., the normal provisions of the Act.

ILLUSTRATION 9

Prem owns a house in Madras. During the previous year 2024-25, 2/3rd portion of the house was self-occupied and 1/3rd portion was let out for residential purposes at a rent of 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 2020 for acquiring the property. Interest on loan paid during the previous year 2024-25 was Rs. 1,20,000. Compute Prem's income from house property for the A.Y.2025-26 assuming that he has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A).

What would be Prem's income from house property under the default tax regime?

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

Computation of income from house property of Mr. Prem for A.Y.2025-26 under the optional tax regime (i.e., the normal provisions of the Act)

Particulars	Amount in Rs.
Unit I (2/3 rd area – self-occupied)	
Annual Value	Nil

Less:	Deduction under section 24(b) 2/3 rd 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 1	Compute ER		
	ER = Higher of MV and FR, restricted to SR However, in this case, SR of Rs. 1,10,000 (1/3 rd of Rs. 3,30,000) is more than the higher of MV of Rs. 1,00,000 (1/3 rd of Rs. 3,00,000) and FR of Rs. 90,000 (1/3 rd 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 1/3 rd 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) 1/3 rd 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, 2024.

In June, 2024, he recovered rent of Rs. 10,000 from Mr. Gaurav, to whom he had let out his house for two years from April 2018 to March 2020. 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.2020-21.

Further, he had let out his property from April, 2020 to February, 2024 to Mr. Satish. In April, 2022, 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, 2024, the matter was finally settled and Mr. Anand received Rs. 69,000 as arrears of rent for the period April 2022 to February, 2024.

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

Since the unrealised rent was recovered in the P.Y.2024-25, the same would be taxable in the A.Y.2025-26 under section 25A, irrespective of the fact that Mr. Anand was not the owner of the house in that year. Further, the arrears of rent was also received in the P.Y.2024-25, and hence the same would be taxable in the A.Y.2025-26 under section 25A, even though Mr. Anand was not the owner of the house in that year. A deduction of 30% of unrealised rent recovered and arrears of rent would be allowed while computing income from house property of Mr. Anand for A.Y.2025-26.

Computation of income from house property of Mr. Anand for A.Y.2025-26

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

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 1.4.2023 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 1.10.2023 for repairs of this flat. Compute the deduction which would be available to Ms. Aparna and Ms. Dimple under section 24(b) for A.Y.2025-26, if both exercise the option of shifting out of the default tax regime provided under section 115BAC(1A).

Computation of deduction u/s 24(b) available to Ms. Aparna for A.Y.2025-26

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 A.Y.2025-26

Particulars	Rs.
Interest on loan taken for acquisition of residential house property at Calcutta	
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



TYK from ISM

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 A.Y. 2025-26.

Computation of income from house property of Mr. Raman for A.Y. 2025-26

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		1,80,000
(e) Expected rent [lower of (c) and (d)]			1,60,000	
(f) Actual rent [Rs. 15,000 x 12]			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 2024-25 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)	5% 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 A.Y. 2025-26 if he exercises the option of shifting out of the default tax regime provided under section 115BAC(1A).

Computation of Income from house property for A.Y. 2025-26

Particulars	Rs.	Rs.
(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	81,000	

restricted to standard rent		
Step II - Actual Rent		
Rent received/receivable for the let out period (Rs. 8,000 x 10)	80,000	
Step III – Computation of Gross Annual Value		
The actual rent of Rs. 80,000 is lower than ER of Rs. 81,000 owing to vacancy, since, had the property not been vacant the actual rent would have been Rs. 96,000 (Rs. 80,000 + Rs. 16,000, being notional rent for two months. Therefore, actual rent is the GAV.	80,000	
Gross Annual Value		80,000
Less: Municipal taxes (5% of Rs. 95,000)		4,750
Net Annual value		75,250
Less : Deductions under section 24 -		
(i) 30% of net annual value	22,575	
(ii) Interest on borrowed capital (Rs. 750 x 12)	9,000	31,575
Taxable income from let out portion		43,675
(B) Self occupied unit (50% of total area – See Note below)		
Annual value	Nil	
Less : Deduction under section 24 -		
Interest on borrowed capital (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 F.Y. 2024-25, 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, 2017 and was completed on 31-5-2020. Vikas took a loan of Rs. 1,00,000 on 1-7-2017 for the construction of building. He paid interest on loan @ 12% per annum and every month such interest was paid.

Compute income from house property of Mr. Vikas for the A.Y. 2025-26 if he has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A).



Computation of income from house property of Mr. Vikas for the A.Y. 2025-26

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

Note: Interest on loan taken for construction of building

Interest for the year (1.4.2024 to 31.3.2025) = 12% of Rs. 1,00,000 = Rs. 12,000

Pre-construction period interest = 12% of Rs. 1,00,000 for 33 months (from 1.07.2017 to 31.3.2020) = Rs. 33,000

Pre-construction period interest to be allowed in 5 equal annual installments of Rs. 6,600 from the year of completion of construction i.e., from F.Y. 2020-21 till F.Y. 2024-25.

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



Question 4:

Mrs. Rohini Ravi, a citizen of the U.S.A., is a resident and ordinarily resident in India during the financial year 2024-25. 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 1.7.2024, 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 31.3.2025. 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, 2022 for purchasing this flat.

Interest on loan was as under:

Particulars	Rs.
Period prior to 1.4.2024	49,200
1.4.2024 to 30.6.2024	50,800
1.7.2024 to 31.3.2025	1,31,300

She had a house property in Bangalore, which was sold in March, 2021. In respect of this house, she received arrears of rent of Rs. 60,000 in March, 2025. This amount has not been charged to tax earlier.

Compute the income chargeable from house property of Mrs. Rohini Ravi for the A.Y. 2025-26 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?

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

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

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

Accordingly, the income from house property of Mrs. Rohini Ravi for A.Y.2025-26 will be calculated as under:

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

Note: Interest on borrowed capital

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

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

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

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 2016-2017. The property consists of eight identical units and is situated at Cochin.

During the financial year 2024-25, 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 2024-25.

Compute the income under the head 'Income from House Property' and the total income of two brothers for the A.Y. 2025-26 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).

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

Computation of total income for the A.Y. 2025-26

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

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

Particulars	Rs.	Rs.
Let-out portion (75%)		
Gross Annual Value		
(a) Municipal value (75% of Rs. 9 lakh)	6,75,000	
(b) Actual rent [(Rs. 12000 x 6 x 12) – (Rs. 12,000 x 1 x 4)] = Rs. 8,64,000 - Rs. 48,000	8,16,000	
- whichever is higher		8,16,000
Less: Municipal taxes 75% of Rs. 1,80,000 (20% of Rs. 9 lakh)		1,35,000
Net Annual Value (NAV)		6,81,000
Less: Deduction under section 24		
(a) 30% of NAV	2,04,300	

(b) Interest on loan taken for the house [75% of Rs. 3 lakh]	2,25,000	4,29,300
Income from let-out portion of house property		2,51,700
Share of each co-owner (50%)		1,25,850

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

Computation of total income for the A.Y. 2025-26

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



Past Exam Questions



Questions from MTP, RTP

QUESTION 1

MTP 1 MAY 24 (5MARKS)

Mr. Kushal is a resident but not ordinarily resident in India during the Assessment Year 2024-25. He furnishes the following information regarding his income/expenditure pertaining to his house properties for the previous year 2023-24:

- He owns two houses, one in New York and the other in Ahmedabad.
- The house in New York is let out there at a rent of \$ 5,000 p.m. The entire rent is received in India. He paid Property tax of \$ 1,250 and Sewerage Tax \$ 750 there. (\$ 1 = INR 81)
- The house in Ahmedabad is self-occupied. He had taken a loan of Rs. 30,00,000 to construct the house on 1st September, 2018 @10%. The construction was completed on 31st May, 2020 and he occupied the house on 1st June, 2020.

The entire loan is outstanding as on 31st March, 2024. Property tax paid in respect of the second house is Rs. 2,800.

Compute the income chargeable under the head "Income from House property" in the hands of Mr. Kushal for the Assessment Year 2024 -25 if he has opted out of the default tax regime under section 115BAC.

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

Particulars	Rs.	Rs.
1. Income from let-out property in New York [See Note 1 below]		
¹ Gross Annual Value (\$ 5,000 p.m. x 12 months x Rs. 81)		48,60,000
Less: Municipal taxes paid during the year [\$ 2,000 (\$ 1,250 + \$ 750) x Rs. 81] ²		<u>1,62,000</u>
Net Annual Value (NAV)		46,98,000
Less: Deductions under section 24		
(a) 30% of NAV	14,09,400	
(b) Interest on housing loan	=	<u>14,09,400</u>
		<u>32,88,600</u>
2. Income from self-occupied property		
in Ahmedabad		
Annual Value [Nil, since the property is self-occupied]		NIL
[No deduction is allowable in respect of municipal taxes paid in respect of self- occupied property]		
Less: Deduction in respect of interest on housing loan [See Note 2 below]		<u>2,00,000</u>

		<u>(2,00,000)</u>
Income from house property [Rs. 32,88,600 – Rs. 2,00,000]		30,88,600

Notes:

(1) Since Mr. Kushal is a resident but not ordinarily resident in India for A.Y. 2024-25, income which is, inter alia, received in India shall be taxable in India, even if such income has accrued or arisen outside India by virtue of the provisions of section 5(1). Accordingly, rent received from house property in New York would be taxable in India since such income is received by him in India.

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

Interest for the current year (Rs. 30,00,000 x 10%)	Rs. 3,00,000
Pre-construction interest	
For the period 01.09.2018 to 31.03.2020 (Rs. 30,00,000 x 10% x 19/12) = Rs. 4,75,000 Rs.4,75,000 allowed in 5 equal installments (Rs. 4,75,000/5)	<u>Rs. 95,000</u>
	Rs. 3,95,000
In case of self-occupied property, interest deduction to be restricted to	Rs. 2,00,000

QUESTION 2

MTP 2 SEPT 24 (5MARKS)

Mr. Kamal, a resident but not ordinarily resident in India during the Assessment Year 2024-25. He owns two houses, one in Dubai and the other in Mumbai. The house in Dubai is let out there at a rent of DHS 20,000 p.m. (1DHS=INR 22). The entire rent is received in India. He paid property tax of DHS 2,500 and Sewerage Tax DHS 1,500 there, for the Financial Year 2023-24. The house in Mumbai is self-occupied. He had taken a loan of Rs. 10,00,000 to construct the house on 1st June, 2020 @12%. The construction was completed on 31st May, 2022 and he occupied the house on 1st June, 2022. The entire loan is outstanding as on 31st March, 2024. Property tax paid in respect of the second house is Rs. 2,400 for the Financial Year 2023-24. Compute the income chargeable under the head "Income from House property" in the hands of Mr. Kamal for the Assessment Year 2024-25 under regular provisions of the Act.

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

Particulars	Rs.	Rs.
1. Income from let-out property in Dubai [See Note 1 below]		
Gross Annual Value (DHS 20,000 p.m. x 12 months x Rs. 22)		52,80,000
Less: Municipal taxes paid during the year [DHS 4,000 (DHS 2,500 + DHS 1,500) xRs. 22]		<u>88,000</u>
Net Annual Value (NAV)		51,92,000
Less: Deductions under section 24		
(a) 30% of NAV	15,57,600	

(b) Interest on housing loan	=	<u>15,57,600</u>
		<u>36,34,400</u>
2. Income from self-occupied property in Mumbai		
Annual Value [Nil, since the property is self-occupied]		NIL
[No deduction is allowable in respect of municipal taxes paid in respect of self-occupied property]		
Less: Deduction in respect of interest on housing loan [See Note 2 below]		<u>1,64,000</u>
		<u>(1,64,000)</u>
Income from house property [Rs. 36,34,400 – Rs. 1,64,000]		34,70,400

Notes:

- 1) Since Mr. Kamal is a resident but not ordinarily resident in India for A.Y. 2024-25, income which is, inter alia, received in India shall be taxable in India, even if such income has accrued or arisen outside India. Accordingly, rent received from house property in Dubai would be taxable in India since such income is received by him in India. Income from property in Mumbai would accrue or arise in India and consequently, interest deduction in respect of such property would be allowable while computing Mr. Kamal's income from house property because of self-occupied property.
- 2) **Interest on housing loan for construction of self-occupied property allowable as deduction under section 24**

Interest for the current year (Rs. 10,00,000 x 12%)	Rs. 1,20,000
Pre-construction interest	
For the period 01.06.2020 to 31.03.2022	
(Rs. 10,00,000 x 12% x 22/12) = Rs. 2,20,000	
Rs.2,20,000 allowed in 5 equal installments (Rs. 2,20,000/5)	<u>Rs. 44,000</u>
	Rs. 1,64,000

QUESTION 3

MTP 2 JAN 25 (5MARKS)

Mr. Yogesh constructed a house in P.Y. 2017-18 with 3 independent units. During the P.Y. 2023-24, Unit - 1 (50% of floor area) is let out for residential purpose at monthly rent of Rs.20,000. Rent of January, 2024 could not be collected from the tenant and a notice to vacate the unit was given to the tenant. No other property of Mr. Yogesh is occupied by the tenant. Unit - 1 remains vacant for February and March 2024 when it is not put to any use. Unit - 2 (25% of the floor area) is used by Mr. Yogesh for the purpose of his business, while Unit - 3 (the remaining 25%) is utilized for the purpose of his residence. Other particulars of the house are as follows:

Municipal valuation	- Rs.2,88,000
Fair rent	- Rs.2,98,000



Standard rent under the Rent Control Act	- Rs.2,78,000
Municipal taxes - Rs.30,000 paid by Mr. Yogesh	
Repairs	- Rs.7,000
Interest on capital borrowed for the construction of the property	- Rs.90,000,
Ground rent	- Rs.6,000 and
Fire insurance premium paid	- Rs.60,000.
Income of Yogesh from the business is Rs.2,40,000 (without debiting house rent and other incidental expenditure).	
Determine the taxable income of Mr. Yogesh for the assessment year 2024-25 if he pays tax under section 115BAC.	

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

Particulars	Amount (Rs.)	Amount (Rs.)
Income from house property (A)		
<u>Unit - 1 [50% of floor area - Let out]</u>		
Gross Annual Value, higher of		
➤ Expected rent Rs.1,39,000 [Higher of Municipal Value of Rs. 1,44,000 p.a. and Fair Rent of Rs. 1,49,000 p.a., but restricted to Standard Rent of Rs. 1,39,000 p.a.]		
➤ Actual rent Rs. 1,80,000 i.e., [Rs. 20,000 x 10] less unrealized rent of January, 2024 Rs. 20,000		
Gross Annual Value	1,80,000	
Less: Municipal taxes [50% of Rs. 30,000]	<u>15,000</u>	
Net Annual Value	1,65,000	
Less: Deductions from Net Annual Value		
(a) 30% of Net Annual Value	49,500	
(b) Interest on loan [50% of Rs. 90,000]	<u>45,000</u>	70,500
<u>Unit – 3 [25% of floor area – Self occupied]</u>		
Net Annual Value	-	
Less: Interest on loan [Not allowed as Mr. Yogesh is paying tax under section 115BAC.]	-	-
		70,500
Profits and gains from business or profession (B)		
Business Income [without deducting expenditure of Unit – 2, 25% floor area used for business purposes]	2,40,000	
Less: Expenditure in respect of Unit -2		



➤ Municipal taxes [25%of Rs. 30,000]	7,500		
➤ Repairs [25% of Rs. 7,000]	1,750		
➤ Interest on loan [25% of Rs. 90,000]	22,500		
➤ Ground rent [25% of Rs. 6,000]	1,500	<u>48,250</u>	<u>1,91,750</u>
➤ Fire Insurance premium [25% of Rs. 60,000]	<u>15,000</u>		
Taxable Income (A+B)			<u>2,62,250</u>

Note: Alternatively, if as per income-tax returns, unrealised rent is deducted from GAV, then GAV would be Rs. 2,00,000, being higher of unexpected rent of Rs. 1,39,000 and actual rent of Rs. 2,00,000. Thereafter, unrealised rent of Rs. 20,000 and municipal taxes of Rs. 15,000 would be deducted from GAV of Rs. 2,00,000 to arrive at the NAV of Rs. 1,65,000

QUESTION 4

RTP MAY 24

Mr. Raj, a resident in India, owns two house property, one in Delhi and another in Kanpur. The property in Kanpur is self-occupied by Mr. Raj, however, the property in Delhi is let out throughout the year. The particulars of the Delhi house for the P.Y. 2023-24 are as under:

Standard rent	Rs.1,72,000 p.a.
Municipal valuation	Rs.2,05,000 p.a.
Fair rent	Rs.1,95,000 p. a
Rent received	15,000 p.m.
Municipal tax (Paid by Mr. Raj)	5% of municipal valuation

Municipal tax paid by Mr. Raj on 10.6.2023 for Kanpur house is Rs.3,500. Mr. Raj had taken a loan from SBI of Rs.35 lakhs@12 p.a. in April, 2021 for purchase of Delhi house. The stamp duty value of this house was Rs.40 lakhs. Mr. Raj purchased a plot in Kanpur in May, 2021 and the construction of the Kanpur house was began in June, 2021 and was completed on December, 2022. Mr. Raj took a loan of Rs.25,00,000@10% on 1-7-2021 for the construction of this house. No repayment has been done so far for both the loans.

During the P.Y. 2023-24, Mr. Raj has earned a salary income of Rs.18,00,000. Compute total income of Mr. Raj for the A.Y. 2024-25 under both tax regimes.

Computation of total income of Mr. Raj for A.Y. 2024-25 under default tax regime

Particulars		Rs.	Rs.
I.	Salaries		
	Gross salary	18,00,000	
	Less: Standard deduction under section 16(ia)	<u>50,000</u>	17,50,000
II.	Income from house property		
	<u>Rented property at Delhi</u>		
	Step I - Computation of Expected Rent		

Expected Rent = Higher of Municipal Value of Rs.2,05,000 and Fair Rent of Rs.1,95,000, but restricted to Standard Rent of Rs.1,72,000	1,72,000	
Step II - Actual Rent		
Actual rent received or receivable (Rs.15,000 x 12)	1,80,000	
Step III – Computation of Gross Annual Value		
GAV is the higher of Expected Rent and Actual rent received/ receivable	1,80,000	
Gross Annual Value	1,80,000	
Less: Municipal taxes (5% of Rs.2,05,000)	<u>10,250</u>	
Net Annual value	1,69,750	
Less: Deductions under section 24 -		
(i) 30% of net annual value	50,925	
(ii) Interest on loan (Rs.35 lakhs x 12%)	<u>4,20,000</u>	(3,01,175)
<u>Self-occupied property at Kanpur</u>		
Annual value [No deduction for municipal taxes is allowed in respect of self-occupied property]	Nil	
Less: Deduction under section 24 - Interest on borrowed capital [Not allowable under section 115BAC]	<u>Nil</u>	<u>Nil</u>
Income from house property		<u>(3,01,175)</u>
Gross Total Income [Loss from house property is not allowed to be set off against income under any other head while computing income under section 115BAC]		17,50,000
Less: Deduction under section 80EEA [Not allowable under section 115BAC]		<u>Nil</u>
Total Income		17,50,000

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

Particulars		Rs.	Rs.
I.	Salaries		17,50,000
	Gross salary	18,00,000	
	Less: Standard deduction under section 16(ia)	<u>50,000</u>	
II.	Income from house property		
	<u>Rented property at Delhi</u>		
	Step I - Computation of Expected Rent		
	Expected Rent = Higher of Municipal Value of Rs.2,05,000		

and Fair Rent of Rs.1,95,000, but restricted to Standard Rent of Rs.1,72,000	1,72,000	
Step II - Actual Rent		
Actual rent received or receivable (Rs.15,000 x 12)	1,80,000	
Step III – Computation of Gross Annual Value		
GAV is the higher of Expected Rent and Actual rent received / receivable	1,80,000	
Gross Annual Value	1,80,000	
Less: Municipal taxes (5% of Rs.2,05,000)	<u>10,250</u>	
Net Annual value	1,69,750	
Less: Deductions under section 24 -		
(i) 30% of net annual value	50,925	
(ii) Interest on loan (Rs.35 lakhs x 12%) [Rs.4,20,000 - Rs.1,50,000, being the interest for which deduction under section 80EEA is claimed]	<u>2,70,000</u>	(1,51,175)
<u>Self occupied property at Kanpur</u>		
Annual value [No deduction for municipal taxes is allowed in respect of self-occupied property]	Nil	
Less: Deduction under section 24 -		
Interest on borrowed capital [Rs.2,50,000 (Rs.25,00,000 x 10%) plus pre construction interest of Rs.37,500, being 1/5 th of (Rs.25,00,000 x 10% x 9/12)] [Rs. 2,87,500, restricted to Rs.2,00,000]	2,00,000	(2,00,000)
Income from house property		<u>(3,51,175)</u>
Gross Total Income [As per section 71(3A), loss from house property can be set off against income under any other head to the extent of Rs.2,00,000 only. Balance loss of Rs.1,51,175 to be carried forward to A.Y. 2025-26]		15,50,000
Less: Deduction under section 80EEA [Since the loan is sanctioned between 1.4.2019 and 31.3.2022 and the stamp duty value of the property does not exceed Rs.45 lakhs, deduction of Rs.1,50,000 is allowed in respect of interest on loan for Delhi house]		<u>1,50,000</u>
Total Income		14,00,000

5. Profits And Gains Of Business Or Profession

Illustrations from ISM

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 1.4.2024 (i.e., WDV as on 31.3.2024 after reducing depreciation for P.Y. 2023-24)	30,00,000
(2)	New plant and machinery purchased and put to use on 8.06.2024	20,00,000
(3)	New plant and machinery acquired and put to use on 15.12.2024	8,00,000
(4)	Computer acquired and installed in the office premises on 2.1.2025	3,00,000

Compute the amount of depreciation and additional depreciation for the A.Y. 2025-26, 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.

Computation of depreciation and additional depreciation for A.Y. 2025-26

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 1.4.2024	30,00,000	-
Add: Plant & Machinery purchased on 08.6.2024	20,00,000	-
Add: Plant & Machinery acquired on 15.12.2024	8,00,000	-
Computer acquired and installed in the office premises	-	3,00,000
Written down value as on 31.03.2025	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 8.6.2024)]	50,00,000	
Plant and machinery put to use for < 180 days	8,00,000	-
Computers put to use for < 180 days	-	3,00,000
	58,00,000	3,00,000

Notes:

(1) 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 15.12.2024 and computer acquired and installed on 02.01.2025, 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. 2026-27.

(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 10.08.2021 for Rs. 5,25,000 for personal use is brought into professional use on 1.07.2024 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 A.Y. 2025-26 assuming the rate of depreciation to be 15%.

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 A.Y. 2025-26 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 F.Y. 2024-25 at the cost shown against each item.

Calculate the amount of depreciation that can be claimed from his professional income for A.Y. 2025-26. 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., 24	1 Oct., 24	35,000
2.	Computer UPS	2 Oct., 24	8 Oct., 24	8,500
3.	Computer printer	1 Oct., 24	1 Oct., 24	12,500
4.	Books (other than annual publications are of Rs. 12,000)	1 Apr., 24	1 Apr., 24	13,000
5.	Office furniture (Acquired from a practicing C.A.)	1 Apr., 24	1 Apr., 24	3,00,000
6.	Laptop	26 Sep., 24	8 Oct., 24	43,000

Computation of depreciation allowable for A.Y.2025-26

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) [Seeworking 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%] [Seenote 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 P.Y. 2024-25 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 1.1.2024. The manufacturing unit was set up on 1.5.2024. He commenced his manufacturing operations on 1.6.2024. 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 assessment year 2025-26. 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).

**Computation of depreciation allowable for the A.Y. 2025-26
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 u/s 35(1)(iv) read with section 35(2)(ia) (Note 2)	15.00	35.00	
		85.00	
Additional Depreciation at 20%			17.00
Depreciation allowable for A.Y.2025-26			32.75

Notes:

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

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

- Second hand plant and machinery;

- (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.2024-25. Compute the deduction allowable under section 35 for A.Y.2025-26, 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 scientific research and development facility as approved by the prescribed authority related to his business	
	(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

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

Computation of deduction under section 35 for the A.Y.2025-26

Particulars	Rs.	Section	Allowability	Amount of deduction (Rs.)
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)(ia)		Nil
Expenditure incurred on in-house research and development facility				
Revenue expenditure	3,00,000	35(1)(i)	Allowable under	3,00,000

Capital expenditure (excluding cost of acquisition of land Rs. 5,00,000)	2,50,000	35(1)(iv) read with 35(2)(ia)	default tax regime	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.2025-26

Particulars	Rs.	Section	% of deduction	Amount of deduction (Rs.)
Payment for scientific research				
Indian Institute of Science	1,00,000	35(1)(ii)	100%	1,00,000
IIT, Delhi	2,50,000	35(2AA)	100%	2,50,000
X Ltd.	4,00,000	35(1)(ia)	100%	4,00,000
Expenditure incurred on in-house research and development facility				
Revenue expenditure	3,00,000	35(1)(i)	100%	3,00,000
Capital expenditure (excluding cost of acquisition of land Rs. 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 1.4.2024. 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, 2024 to March, 2024 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 P.Y. 2024-25, 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.2025-26 and the loss to be carried forward, assuming that Mr. A is exercising the option of shifting out of the default tax regime provided under section 115BAC(1A) and has fulfilled

all the conditions specified under section 35AD and wants to claim deduction under section 35AD and has not claimed any deduction under Chapter VI-A under the heading “C – Deductions in respect of certain incomes”.

The profits from the business of setting up a warehousing facility for storage of food grains, sugar and edible oil (before claiming deduction under section 35AD and section 32) for the A.Y. 2025-26 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.

Computation of profits and gains of business or profession for A.Y.2025-26

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

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

Particulars		Food Grains	Sugar	Total
		Rs. (in lakhs)		
(A)	Profits from the specified business of setting up a warehousing facility (before providing deduction u/s 35AD)	16	14	30
	Less: Deduction under section 35AD			
(B)	Capital expenditure incurred prior to 1.4.2024 (i.e., prior to commencement of business) and capitalized in the books of account as on 1.4.2024 (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 P.Y. 2024-25	20	15	35
(D)	Total capital expenditure (B + C)	50	35	85
(E)	Deduction under section 35AD			
	100% of capital expenditure (food grains/ sugar)	50	35	85
	Total deduction u/s 35AD for A.Y.2025-26	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)
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Notes:

- (i) Deduction of 100% of the capital expenditure is available under section 35AD for A.Y.2025-26 in respect of specified business of setting up and operating a warehousing facility for storage of sugar and setting up and operating a warehousing facility for storage of agricultural produce where operations are commenced on or after 1.4.2012 or on or after 1.4.2009, respectively.
- (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 P.Y.2024-25.
- (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 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 1.4.2024. He incurred capital expenditure of Rs. 50 lakh during the period January, 2024 to March, 2024 exclusively for the above business, and capitalized the same in his books of account as on 1st April, 2024. Further, during the P.Y. 2024-25, 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.2025-26, 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 A.Y.2025-26 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 A.Y. 2025-26. Also, assume that payments for capital expenditure were made by net banking.

Computation of profits and gains of business or profession for A.Y. 2025-26

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 P.Y.2024-25 (excluding the expenditure incurred on acquisition of land) = Rs.200 lakh – Rs.150 lakh	50 lakh	
Capital expenditure incurred prior to 1.4.2024 (i.e.,prior to commencement of business) and capitalized in the books of account as on 1.4.2024	50 lakh	
Total deduction under section 35AD for A.Y.2025-26		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 1.4.2023 and it claimed deduction of Rs. 100 lakhs incurred on purchase of two buildings for Rs. 50 lakhs each (for operating a warehousing facility for storage of sugar) under section 35AD for A.Y.2024-25. However, in February,2025, Unit A transferred one of its buildings to Unit B.

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

Since the capital asset, in respect of which deduction of Rs. 50 lakhs was claimed u/s 35AD, has been transferred by Unit A carrying on specified business to Unit B carrying on non-specified business in the P.Y.2024-25, the deeming provision u/s 35AD(7B) is attracted during the A.Y.2025-26.

Particulars	Rs.
Deduction allowed u/s 35AD for A.Y.2024-25	50,00,000
Less: Depreciation allowable u/s 32 for A.Y.2024-25 [10% of Rs.50 lakhs]	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 u/s 32 on the building in Unit B for A.Y.2025-26. 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.2024-25 [10% of Rs.50 lakhs]	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, 2025 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 financial year 2024-25, 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 employee, Mr. X (credited and paid in March, 2025)	12,00,000
(2)	Directors' remuneration (credited in March, 2025 and paid in April, 2025)	28,000

Would your answer change if Delta Ltd. has deducted tax on directors' remuneration in April, 2025 at the time of payment and remitted the same in July, 2025?

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 u/s 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 P.Y.2024-25, 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 A.Y.2025-26 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.2025-26 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. 2026-27.

ILLUSTRATION 10

During the financial year 2024-25, the following payments/expenditure were made/ incurred by Mr. Raja, a resident individual (whose turnover during the year ended 31.3.2024 was Rs. 99 lakhs):

- (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 2.7.2024 without deduction of tax at source.

Briefly discuss whether any disallowance arises under the provisions of section 40(a)(ia) 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?

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 u/s 194A in the case of an individual, whose total turnover in the immediately preceding P.Y., i.e., P.Y.2023-24 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 u/s 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 194H 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., P.Y.2023-24 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 194H. 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 P.Y. 2024-25. Therefore, disallowance under section 40(a)(ia) is not attracted in this case.

ILLUSTRATION 11

A firm has paid Rs. 8,50,000 as remuneration to its partners for the P.Y.2024-25, in accordance with its partnership deed, and it has a book profit of Rs. 10 lakhs. What is the remuneration allowable as deduction?

The allowable remuneration calculated as per the limits specified in section 40(b)(v) would be –

Particulars	Rs.
On first Rs.6 lakh of book profit [Rs.6,00,000 × 90%]	5,40,000
On balance Rs.4 lakh of book profit [Rs.4,00,000 × 60%]	2,40,000
	7,80,000

The excess amount of Rs. 70,000 (i.e., Rs. 8,50,000 – Rs. 7,80,000) 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. 17,00,000 before deduction of the following items:

- (1) Salary of Rs. 40,000 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 A.Y. 2025-26 as per section 40(b).

(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)		17,00,000
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		14,90,000
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(ii) Salary actually paid to working partners = Rs.40,000 × 2 × 12 = Rs.9,60,000.

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. 6,00,000 of book profit or in case of loss	Rs. 3,00,000 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 A.Y. 2025-26 in this case would be:

Particulars	Rs.
On the first Rs. 6,00,000 of book profit [(Rs. 3,00,000 or 90% of Rs. 6,00,000) whichever is more]	5,40,000
On the balance of book profit [60% of (Rs. 14,90,000 - Rs. 6,00,000)]	5,34,000
Maximum allowable partners' salary	10,74,000

Hence, allowable working partners' salary for the A.Y.2025-26 as per the provisions of section 40(b)(v) is Rs.9,60,000.

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?

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) (14% of basic salary plus dearness pay = 14% of Rs. 14,00,000 = Rs. 1,96,000)	1,96,000
Excess contribution disallowed under section 40A(9)	4,000

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. 2023-24 & 2024-25)	15,00,000
(ii)	Indian Bank (P.Y. 2024-25)	30,00,000
		45,00,000

Both APSFC and Indian Bank, while restructuring the loan facilities of Hari during the year 2024-25, converted the above interest payable by Hari to them as a loan repayable in 60 equal installments. During the year ended 31.3.2025, 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.

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 A.Y. 2025-26 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

ILLUSTRATION 15

Vinod is a person carrying on profession as film artist. His gross receipts from profession are as under:

Particulars	Rs.
Financial year 2021-22	1,15,000
Financial year 2022-23	1,80,000
Financial year 2023-24	2,10,000

What is his obligation regarding maintenance of books of accounts for Assessment Year 2025-26 under section 44AA of Income-tax Act, 1961?

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 2021-22, 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 2024-25. Amount received in cash during the P.Y. 2024-25 is Rs. 14,00,000 and balance through prescribed electronic modes on or before 31st October 2025. 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. 2024-25 was the first year for which he declared his business income in accordance with the provisions of presumptive taxation u/s 44AD.

- (i) Is Mr. Praveen also eligible for presumptive determination of his income chargeable to tax for the assessment year 2025-26?
- (ii) If so, determine his income from retail trade as per the applicable presumptive provision.
- (iii) In case Mr. Praveen wants to declare profits as per books of account from retail trade, what



are his obligations under the Income-tax Act, 1961?
(iv) What is the due date for filing his return of income under both the options?

- (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.2024-25 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 2023-24 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. 2025-26 to A.Y. 2029-30, 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. 2024-25 relevant to A.Y.2025-26, then he would not be eligible to claim the benefit of presumptive taxation for A.Y. 2026-27 to A.Y. 2030-31.
 Consequently, Mr. Praveen is required to maintain the books of accounts and get them audited under section 44AB, since his income exceeds the basic exemption limit.
- (iv) In case he declares presumptive income under section 44AD, the due date would be 31st July, 2025.
 In case he declares profits as per books of account which is lower than the presumptive income, he is required to get his books of account audited, in which case the due date for filing of return of income would be 31st October, 2025.

ILLUSTRATION 17

Mr. X commenced the business of operating goods vehicles on 1.4.2024. He purchased the following vehicles during the P.Y.2024-25. Compute his income under section 44AE for A.Y.2025-26.

	Gross Vehicle Weight(in kilograms)	Number	Date of purchase
(1)	7,000	2	10.04.2024
(2)	6,500	1	15.03.2025
(3)	10,000	3	16.07.2024
(4)	11,000	1	02.01.2025
(5)	15,000	2	29.08.2024
(6)	15,000	1	23.02.2025



Would your answer change if the goods vehicles purchased in April, 2024 were put to use only in July, 2024?

Since Mr. X does not own more than 10 vehicles at any time during the previous year 2024-25, 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	29.08.2024	8	16
1	23.02.2025	2	2
			18
For goods vehicle other than heavy goods vehicle			
2	10.4.2024	12	24
1	15.3.2025	1	1
3	16.7.2024	9	27
1	02.1.2025	3	3
			55

The presumptive income of Mr. X under section 44AE for A.Y.2025-26 would be - Rs. 6,82,500, i.e., 55 × Rs. 7,500, being for other than heavy goods vehicle + 18 × Rs.1,000 × 15 ton being for heavy goods vehicle.

The answer would remain the same even if the two vehicles purchased in April, 2024 were put to use only in July, 2024, 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 31-3-2025:

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, TamilNadu.	1,00,000

(iii)	Income from sale of coffee grown, cured, roasted and grounded, in Colombo. Sale consideration was received at Chennai.	2,50,000
(iv)	Income from sale of tea grown and manufactured in Shimla.	4,00,000
(v)	Income from sapling and seedling grown in a nursery at Cochin. Basic operations were not carried out by her on land.	80,000

You are required to compute the business income and agricultural income of Miss Vivitha for the A.Y. 2025-26.

Computation of business income and agricultural income of Ms. Vivitha for the A.Y. 2025-26

Sr. No.	Source of income	Gross (Rs.)	Business income		Agricultural income
			%	Rs.	Rs.
(i)	Sale of centrifuged latex from rubber plants grown in India.	3,00,000	35%	1,05,000	1,95,000
(ii)	Sale of coffee grown and cured in India.	1,00,000	25%	25,000	75,000
(iii)	Sale of coffee grown, cured, roasted and grounded outside India. (See Note 1 below)	2,50,000	100%	2,50,000	-
(iv)	Sale of tea grown and manufactured in India	4,00,000	40%	1,60,000	2,40,000
(v)	Saplings and seedlings grown in nursery in India (See Note 2 below)	80,000		Nil	80,000
	Total			5,40,000	5,90,000

Notes:

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



TYK from ISM

Question 1:

Mr. Venus., engaged in manufacture of pesticides, furnishes the following particulars relating to its manufacturing unit at Chennai, for the year ending 31-3-2025:

	(Rs. in lakhs)
WDV of Plant and Machinery on 31.3.2024	30.00
Depreciation including additional depreciation for P.Y. 2023-24	4.75
New machinery purchased on 1-9-2024	10.00
New machinery purchased on 1-12-2024	8.00
Computer purchased on 3-1-2025	4.00

Additional information:

- All assets were purchased by A/c payee cheque.
- All assets were put to use immediately.
- New machinery purchased on 1-12-2024 and computer have been installed in the office.
- During the year ended 31-3-2024, a new machinery had been purchased on 31-10-2023, for Rs. 10 lakhs. Additional depreciation, besides normal depreciation, had been claimed thereon.
- Depreciation rate for machinery may be taken as 15%.
- The assessee has no brought forward business loss or unabsorbed depreciation as on 1.4.2024.

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 31-3-2025 if -

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

Computation of written down value of block of assets of

Venus Ltd. as on 31.3.2025

Particulars	Plant & Machinery (Rs. in lakhs)	Computer (Rs. in lakhs)
Written down value (as on 31.3.2024)	30.00	Nil
Less: Depreciation including additional depreciation for P.Y. 2023-24	4.75	-
Opening balance as on 1.4.2024	25.25	
Add: Actual cost of new assets acquired during the year New machinery purchased on 1.9.2024	10.00	-

New machinery purchased on 1.12.2024	8.00	-
Computer purchased on 3.1.2025	-	4.00
	43.25	4.00
Less: Assets sold/discarded/destroyed during the year	Nil	Nil
Written Down Value (as on 31.03.2025)	43.25	4.00

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

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

Computation of depreciation for A.Y. 2025-26

	Particulars	Plant & Machinery (Rs. in lakhs)	Computer (Rs. in lakhs)
I.	Assets put to use for more than 180 days, eligible for 100% depreciation calculated applying the eligible rate of normal depreciation and additional depreciation		
	<u>Normal Depreciation</u>		
	- WDV of plant and machinery (Rs. 25.25 lakhs x 15%)	3.79	-
	- New Machinery purchased on 1.9.2024 (Rs. 10 lakhs x 15%)	1.50	-
	(A)	5.29	-
	<u>Additional Depreciation</u>		
	New Machinery purchased on 1.9.2024 (Rs. 10 lakhs x 20%)	2.00	-
	Balance additional depreciation in respect of new machinery purchased on 31.10.2023 and put to use for less than 180 days in the P.Y. 2023-24 (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 1.12.2024 [Rs. 8 lakhs x 7.5% (i.e., 50% of 15%)]	0.60	-
Computer purchased on 3.1.2024 [Rs. 4 lakhs 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 1.12.2024, installed in office and
- (ii) Computer purchased on 3.1.2025, 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 previous year 2023-24 and put to use for less than 180 days in that year can be claimed in P.Y. 2024-25 being immediately succeeding previous year.

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

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

Computation of depreciation for A.Y. 2025-26

	Particulars	Plant & Machinery (Rs. in lakhs)	Computer (Rs. in lakhs)
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 lakhs x 15%)	3.79	-

	- New Machinery purchased on 1.9.2024 (Rs.10 lakhs x 15%)	1.50	-
	(A)	5.29	-
II.	Assets put to use for less than 180 days, eligible for 50% depreciation calculated applying the eligible rate of normal depreciation		
	Normal Depreciation		
	New machinery purchased on 1.12.2024 [Rs.8 lakhs x 7.5% (i.e., 50% of 15%)]	0.60	-
	Computer purchased on 3.1.2023 [Rs. 4 lakhs 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 A.Y. 2025-26, assuming he has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A):

	Particulars	(Rs. in lakhs)
(i)	WDV of block as on 31.3.2024 (15% rate)	50.00
(ii)	Depreciation for P.Y. 2023-24	7.50
(iii)	New machinery purchased on 12-10-2024	10.00
(iv)	Machinery imported from Colombo on 12-4-2024. This machine had been used only in Colombo earlier and the assessee is the first user in India.	9.00
(v)	New computer installed in generation wing unit on 15-7-2024	2.00

All assets were purchased by A/c payee cheque.

Computation of depreciation under section 32 for A.Y.2025-26

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 31.3.2024 of Rs. 50,00,000 – Depreciation for P.Y. 2023-24 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	
Depreciation@40% on computers purchased Rs. 2,00,000	80,000	9,27,500
Additional Depreciation (Refer Note below)		
Additional Depreciation@10% of Rs. 10,00,000 [being actual cost of new machinery purchased on 12-10-2024]	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 12.10.2024, it was put to use for less than 180 days during the previous year, and hence, only 10% (i.e., 50% of 20%) is allowable as additional depreciation in the A.Y.2025-26. 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 A.Y. 2025-26 if he has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A) -

- (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 P.Y. 2023-24 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.

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, since he has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A). The deduction u/s 35AD would be 100% of Rs. 4,50,000, being the amount 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 (P.Y.2024-25, in this case).

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 previous year 2023-24 exceeds Rs.100 lakhs.

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 commodity 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 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 an account payee cheque on 27.12.2024 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%.**

- (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 individual is engaged in trading activities and the new plant has been acquired and installed in a trading concern. Hence, he will not be entitled to claim additional depreciation under section 32(1)(ia), even though he has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A).

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 A.Y. 2025-26:

- (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. 10,00,000 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.**

- (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. 10,00,000 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, 2025 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.

(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 ICDSs notified under section 145(2), without recording the same in the accounts, then, such debt shall be allowed in the previous year in which such debt becomes irrecoverable and it shall be deemed that such debt or part thereof has been written off as irrecoverable in the accounts for the said purpose.

(ii) True: Section 40(a)(i) provides that failure to deduct tax at source from, 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, 2025:

Trading and Profit and Loss Account for the year ended 31.03.2025

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 31.3.2024 minus depreciation for P.Y. 2023-24) is Rs. 4,20,000. A new plant falling under the same block of depreciation was bought on 01.7.2024 for Rs. 70,000. Two old plants were sold on 1.10.2024 for Rs. 50,000.

(v) Rent and rates includes GST liability of Rs. 3,400 paid on 7.4.2025.

(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.

Computation of business income of Mr. Sivam for the A.Y. 2025-26

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.,

$$\text{Rs. } 1,12,11,500 \times 6 / 100 = \text{Rs. } 6,72,690$$

Notes:

1. Calculation of depreciation

Particulars	Rs.
Opening balance of plant & machinery as on 1.4.2024 (i.e. WDV as on 31.3.2024 (-) depreciation for P.Y. 2023-24)	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 31.3.2025	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, 2024, 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, 2024, he sold one of the heavy goods vehicles and purchased a light goods vehicle on 6th May, 2024. This new vehicle could, however, be put to use only on 15th June, 2024.

Compute the total income of Mr. Sukhvinder for the A.Y. 2025-26, 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

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 A.Y. 2025-26

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 1 st 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 6 th 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 31.03.2025:

Manufacturing, Trading and Profit & Loss Account for the year ended 31.03.2025

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	1,80,000
To General Expenses	54,000	(net)	
To Interest to Bank (On machinery term loan)	60,000		
To Depreciation	2,00,000		
To Net Profit	5,00,000		
	12,55,000		12,55,000

Following are the further information relating to the financial year 2024-25:

- (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 29.12.2024. 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 31.03.2025 was Rs. 20,000 and the balance was paid in November 2025.
- (v) Housing loan principal repaid during the year was Rs. 50,000 and it relates to residential property acquired by him in P.Y. 2023-24 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 31.03.2024 minus Depreciation for P.Y. 2023-24	11,90,000
Additions during the year (used for more than 180 days)	2,00,000
Total additions during the year	4,00,000

Compute the total income of Mr. Raju for the A.Y. 2025-26 assuming he pays tax under default tax regime.

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

Computation of total income of Mr. Raju for the A.Y. 2025-26

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	
	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]	5,000	
	Depreciation debited to profit and loss account	2,00,000	2,55,000

			7,55,000
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	
	Salary paid to staff not recorded in the books (Assumed it was an erroneous omission and that the assessee has offered satisfactory explanation for the same. In such a case, the same would be allowable as deduction while computing profits and gains of business and profession) [See Note 1 below]	48,000	
	Depreciation under the Income-tax Act, 1961 (As per working note)	2,23,500	4,66,500
			2,88,500
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			3,03,500
Less: Deduction u/s 80C [Not allowable, since Mr. Raju is paying tax as per default tax regime]			Nil
Total Income			3,03,500

Working Note:
Computation of depreciation under the Income-tax Act, 1961

Particulars	Rs.
Depreciation @15% on Rs. 13.90 lakhs (WDV as on 31.3.2024 less depreciation for P.Y. 2023-24 i.e., Rs. 11.90 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 paid to staff not recorded in the books is in the nature of unexplained expenditure and hence, would be deemed to be income as per section

69C and would be taxable @ 60% under section 115BBE. In such a case, no deduction allowable in respect of such expenditure.

- Where the imposition of penalty is not for delay in payment of sale 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 31.3.2025 are given below:

Particulars	Rs.
Opening balance of car (only asset in the block) as on 1.4.2024 (i.e. WDV as on 31.3.2024 (-) depreciation for P.Y. 2023-24)	3,00,000
Opening balance of machinery as on 1.4.2024 (i.e., WDV as on 31.3.2024 (-) depreciation for P.Y. 2023-24)	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 A.Y. 2025-26.

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.
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 on 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 P.Y. 2024-25

Particulars	Rs.	Rs.
Car		
Opening balance as on 1.4.2024 (i.e., WDV as on 31.3.2024 (-) depreciation for P.Y.2023-24)		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 1.4.2024 (i.e., WDV as on 31.3.2024 (-) depreciation for P.Y.2023-24)		15,00,000
Depreciation @ 15% for P.Y. 2024-25		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.

Past Exam Questions

QUESTION 1

PEP May 2024 (4 Marks)

Mr. Rao finished the following information regarding the payments made towards Scientific Research during the financial year 2023-24:

- (i) Revenue expenditure on Scientific Research incurred during the year Rs. 1,00,000.
- (ii) Capital Expenditure for Scientific Research Rs. 3,00,000.
- (iii) Contribution to Notified approved research association Rs. 1,50,000.
- (iv) Amount paid to H Limited an Indian company which has as its main object scientific research and approved by the prescribed authority Rs. 2,50,000.
- (v) Expenditure of Rs. 2,50,000 towards purchase of Land for scientific research.
- (vi) He also incurred revenue expenditure of Rs. 2,00,000 towards salary of research staff in the F.Y.2022-23 (before commencement of business) and certified by the prescribed authority.

Compute the deduction allowable u/s 35 for the assessment year 2024-25, assuming that he has not opted for default tax regime u/s 115BAC.

Computation of deduction allowable u/s 35 for the A.Y. 2024 -25

	Particulars	Rs.
(i)	Revenue expenditure on scientific research allowable as deduction u/s 35(1)(i), assuming such expenditure is related to his business.	1,00,000
(ii)	Capital expenditure allowable as deduction u/s 35(1)(iv), assuming such expenditure is incurred for his business.	3,00,000
(iii)	Contribution to notified approved research association for scientific research – 100% of the amount paid is allowed as deduction u/s 35(1)(ii).	1,50,000
(iv)	Amount paid to H Ltd., an Indian company approved by the prescribed authority - 100% of the amount paid is allowed as deduction u/s 35(1)(ia)	2,50,000
(v)	Expenditure towards purchase of land – not allowed as deduction	Nil
(vi)	Revenue expenditure towards salary of research staff incurred in the F.Y. 2022-23 (before commencement of business) – allowed as deduction u/s 35(1)(i) in the P.Y. 2023-24 as it was expended within the 3 years immediately preceding the commencement of business (assuming business is commenced during the P.Y. 2023-24).	2,00,000
	Note - Since the date of commencement of business is not given, an alternative view is possible that the business is commenced during the F.Y. 2022-23 itself. In that case, deduction for revenue expenditure incurred towards salary of research staff in F.Y. 2022-23 before commencement of business would have been allowed in the	



	F.Y. 2022-23 and accordingly, no deduction would be available in F.Y. 2023-24.	
Total deduction allowable		10,00,000





Questions from MTP, RTP

QUESTION 1

MTP 2 May 2024 (4 MARKS)

M/s. Ravi & sons, a partnership firm consisting of two partners, reports a net profit of Rs. 7,50,000 before deduction of the following items:

- Salary of Rs. 25,000 each per month payable to two working partners of the firm (as authorized by the deed of partnership)
- Depreciation on plant and machinery under section 32 is Rs. 2,50,000
- Interest on capital 15% per annum (as per the deed of partnership).
The amount of capital eligible for interest is Rs. 6,00,000 for both partners
- Carry forward loss of P.Y. 2022-23 - Rs. 50,000

Compute for A.Y. 2024-25:

(i) Book-profit of the firm under section 40(b) of the Income-tax Act, 1961.

Amount of salary that can be paid to working partners as per section 40(b).

(i) Computation of book profit of the firm under section 40(b)

Particulars	Amount (Rs.)	Amount (Rs.)
Net Profit (before deduction of depreciation, salary and interest)		7,50,000
Less: Depreciation under section 32	2,50,000	
Interest @ 12% p.a. [being the maximum allowable as per section 40(b)] (Rs. 6,00,000 × 12%)	<u>72,000</u>	<u>3,22,000</u>
Book profit		4,28,000

“Book profit” means 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. Hence, brought forward loss of Rs. 50,000 of P.Y.2022-23 is not allowed to be set off for computation of “book profit”.

(ii) Salary actually paid to working partners = Rs. 25,000 × 2 × 12 = Rs. 6,00,000 As per the provisions of section 40(b)(v), the maximum allowable working partners’ salary for the A.Y. 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. 4,28,000 – Rs. 3,00,000)]	76,800
Maximum allowable working partners’ salary	3,46,800




QUESTION 2
MTP 1 SEPT 2024 (4 MARKS)

Mr. Aman has furnished the following particulars relating to payments made and expenditure incurred towards scientific research for the year ended 31.3.2024:

Sl. No.	Particulars	Rs. (in lakhs)
(i)	Payment made to AB University, an approved University	15
(ii)	Payment made to Siya College	17
(iii)	Payment made to IIT, Bangalore (under an approved programme for scientific research)	12
(iv)	Machinery purchased for in-house scientific research	25

Compute the deduction available under section 35 of the Income-tax Act, 1961 for A.Y. 2024-25, while computing his income under the head "Profits and gains of business or profession" under default tax regime under section 115BAC.

Computation of deduction allowable under section 35

Particulars	Amount (Rs. in lakhs)	Section	% of deduction	Amount of deduction (Rs. in lakhs)
Payment for scientific research				
AB University, an approved University	15	35(1)(ii)	Nil	Nil
Siya College	17	-	Nil	Nil
IIT Bangalore (under an approved programme for scientific research)	12	35(2AA)	Nil	Nil
In-house research				
Capital expenditure – Purchase of Machinery	25	35(1)(iv) r.w. 35(2)	100%	<u>25</u>
Deduction allowable under section 35				<u>25</u>

Deduction under section 35(1)(ii) and 35(2AA) is not allowable under default tax regime under section 115BAC.

QUESTION 3
MTP 1 JAN 2025 (6 MARKS)

Mr. Piyush runs a sole proprietorship firm and owns four machines which was put in use for business in March, 2022. The depreciation on these machines is charged @ 15%. The written down value of these machines as on 1st April, 2023 was Rs.7,70,000. Two of the old machines were sold on 15th July, 2023 for Rs.10,00,000. A second hand plant was bought for Rs.6,10,000

on 30th December, 2023.

Further, Mr. Piyush has furnished the following particulars relating to payments made and expenditure incurred towards scientific research for the year ended 31.3.2024:

Sl.No.	Particulars	Rs.(in lakhs)
(i)	Payment made to UV University, an approved University	15
(ii)	Payment made to Satywati College	17

Compute the following for Assessment Year 2024-25

(i) Claim of depreciation

(ii) Capital gains liable to tax

(iii) Deduction available under section 35 if he has shifted out of the default tax regime

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

Particulars	Rs.
W.D.V. of the block as on 1.4.2023	7,70,000
Add: Purchase of second hand plant during the year [in December, 2023]	<u>6,10,000</u>
	13,80,000
Less: Sale consideration of old machinery during the year [in July, 2023]	<u>10,00,000</u>
W.D.V of the block as on 31.03.2024	<u>3,80,000</u>
Depreciation @ 15% but restricted to 50% thereon. Rs. 3,80,000 X 7.5% [Since the value of the block as on 31.3.2024 represents part of actual cost of second hand plant purchased in December, 2023, 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. 28,500 being 7½% of Rs. 3,80,000]	28,500

(ii) In the given case, no capital gains would arise, since 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 as increased by the actual cost of asset purchased during the year

(iii) Computation of deduction allowable under section 35

Particulars	Amount (Rs. in lakhs)	Section	% of weighted deduction	Amount of deduction (Rs. in lakhs)
Payment for scientific research				
UV University, an approved University	15	35(1)(ii)	100%	15
Satyawati College [Since it is not mentioned as an approved	17	-	NIL	NIL



University]				
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6. Capital Gains

Illustrations from ISM

ILLUSTRATION 1

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

(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 2

A is the owner of a car. On 1-4-2024, 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 31-3-2025 and gets a profit of Rs.1 lakh. Discuss the tax implication in his hands under the head “Capital gains”.

Since car is a personal asset, conversion or treatment of the same as the stock-in-trade of his business will not be trapped by the provisions of section 45(2). Hence, A is not liable to capital gains tax.

ILLUSTRATION 3

X converts his capital asset (acquired on June 10, 2006 for Rs.60,000) into stock-in-trade on March 10, 2024. 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, 2024. Discuss the year of chargeability of capital gain and business income.

Since the capital asset is converted into stock-in-trade during the previous year 2023-24 relevant to the A.Y. 2024-25, it will be a transfer u/s 2(47) during the P.Y. 2023-24. However, the profits or gains arising from the above conversion will be chargeable to tax during the A.Y. 2025-26, since the stock-in-trade has been sold only on June 10, 2024. For this purpose, the fair market value on the date of such conversion (i.e. 10th March, 2024) will be the full value of consideration for computation of capital gains. The capital gains would be computed by reducing the indexed cost of acquisition therefrom, since the transfer (i.e., conversion of capital asset into stock in trade) took place during the P.Y. 2023-24. 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.2025-26. Thus, both capital gains and business income would be chargeable to tax in the A.Y.2025-26.

ILLUSTRATION 4

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 31-3-2025. 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?

In the above example, the transaction is squarely covered by the exemption explained above and the proposal of the Assessing Officer to treat the transaction as a transfer is not justified.

ILLUSTRATION 5

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. 2024-25, 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. 2024-25 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 2024 by the company.**

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

- (i) As per the provisions of section 47(iii), gift of a capital asset by an individual is not regarded as transfer for the purpose of capital gains. Therefore, capital gains tax liability does not arise in the given situation.**
- (ii) As per the provisions of section 47(i), distribution of a capital asset (being in kind) on the total or partial partition of Hindu undivided family is not regarded as transfer for the purpose of capital gains. Therefore, capital gains tax liability does not arise in the given situation.**

(iii) As per the provisions of section 47(x), conversion of bonds or debentures, debenture stock or deposit certificates in any form of a company into shares or debentures of that company is **not** regarded as transfer for the purpose of capital gains. Therefore, capital gains tax liability does not arise in the given situation.

ILLUSTRATION 6

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?

Section 47(xvi) provides that any transfer of a capital asset in a transaction of reverse mortgage under a scheme made and notified by the Central Government shall not be considered as a transfer for the purpose of capital gain.

Accordingly, the mortgaging of residential house with bank by Mr. Abhishek will not be regarded as a transfer. Therefore, no capital gain will be charged on such transaction.

Further, section 10(43) provides that the amount received by the senior citizen as a loan, either in lump sum or in installment, in a transaction of reverse mortgage would be exempt from income-tax. Therefore, the monthly installment amounts received by Mr. Abhishek would not be taxable.

ILLUSTRATION 7

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.**

(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 bonds 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 8

Mr. A converts his capital asset acquired for an amount of Rs.50,000 in June, 2004 into stock-in-trade in the month of November, 2023. 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, 2024. What will be the tax treatment?

Financial year	Cost Inflation Index
2004-05	113
2023-24	348
2024-25	363

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. 2023-24) but will be taxable only in the year in which the stock-in-trade is sold (i.e. P.Y. 2024- 25). Profits from business will also be taxable in the year of sale of the stock-in- trade (P.Y. 2024-25).

The LTCG and business income for the A.Y.2025-26 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 348/113)	1,53,982	2,96,018

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.

Since the transfer (conversion into stock-in-trade) took place in the P.Y. 2023-24, the benefit of indexation would be available. The date of sale of stock-in trade is not relevant for determining whether benefit of indexation would be available.

ILLUSTRATION 9

Singhania & Co., a sole proprietorship owns six machines, put in use for business in March, 2023. The depreciation on these machines is charged@15%. The opening balance of these machines after providing depreciation for P.Y. 2023-24 was Rs.8,50,000. Three of the old machines were sold on 10th June, 2024 for Rs.11,00,000. A second-hand plant was bought for Rs.8,50,000 on 30th November, 2024.

You are required to:

- (i) determine the claim of depreciation for Assessment Year 2025-26.

- (ii) compute the capital gains liable to tax for Assessment Year 2025-26.
- (iii) If Singhania & Co. had sold the three machines in June, 2024 for Rs.21,00,000, will there be any difference in your above workings? Explain.

(i) Computation of depreciation for A.Y.2025-26

Particulars	Rs.
Opening balance of the block as on 1.4.2024 [i.e., W.D.V. as on 31.3.2024 after providing depreciation for P.Y. 2023-24]	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 31.03.2025	6,00,000

Since the value of the block as on 31.3.2025 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:

- (a) When one or some of the assets in the block are sold for consideration more than the value of the block.
- (b) When all the assets are transferred for a consideration more than the value of the block.
- (c) 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, 2024 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 1.4.2024 [i.e., W.D.V. as on 31.3.2024 after providing depreciation for P.Y. 2023-24]	8,50,000	
Purchase of second plant during the year	8,50,000	17,00,000
Short term capital gains		4,00,000

ILLUSTRATION 10

Mr. A is a proprietor of Akash Enterprises, having 2 units. He transferred on 1.4.2024 his Unit 1 by way of slump sale for a total consideration of Rs.25 lakhs. The fair market value of capital assets of unit 1 on 1.4.2024 is Rs.30 lakhs. Unit 1 was started in the year 2005-06. The expenses incurred for this transfer were Rs.28,000. His Balance Sheet as on 31.3.2024 is as under:

Liabilities	Total (Rs.)	Assets	Unit 1(Rs.)	Unit 2 (Rs.)	Total (Rs.)
Own Capital	15,00,000	Land	12,00,000	2,00,000	14,00,000
Revaluation Reserve (for land 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	0,000	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 land 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 1.7.2022 for Rs.50,000 on which no depreciation has been charged.
 - (iv) The value of machinery represents the written down value as per the Income- tax Act, 1961.
- Compute the capital gain for the assessment year 2025-26.

Computation of capital gains on slump sale of Unit 1

Particulars	Rs.
Full value of consideration [Higher of FMV of capital assets of Unit 1 on 1.4.2024 or FMV of monetary consideration received]	30,00,000
Less: Expenses for transfer	28,000
	29,72,000
Less: Net worth (See Note 1 below)	12,50,625
Long-term capital gain	17,21,375

Notes:

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

Particulars	Rs.	Rs.
Land (excluding Rs. 3 lakhs on account of revaluation)		9,00,000
Machinery		3,00,000
Debtors		1,00,000
Patents (See Note 2 below)		28,125

Other assets (Rs.1,50,000 – Rs.50,000)		1,00,000
Total assets		14,28,125
Less: Creditors (25% of Rs.1,50,000)	37,500	
Bank Loan (70% of Rs.2,00,000)	1,40,000	1,77,500
Net worth		12,50,625

2. Written down value of patents as on 1.4.2024

Value of patents:	Rs.
Cost as on 1.7.2022	50,000
Less: Depreciation @ 25% for Financial Year 2022-23	12,500
Balance as on 1.4.2023	37,500
Less: Depreciation for Financial Year 2023-24	9,375
Balance as on 1.4.2024	28,125

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

ILLUSTRATION 11

Mr. Cee purchased a residential house on July 20, 2022 for Rs.10,00,000 and made some additions to the house incurring Rs.2,00,000 in August 2022. He sold the house property in April 2024 for Rs.20,00,000. Out of the sale proceeds, he spent Rs.5,00,000 to purchase another house property in September 2024.

What is the amount of capital gains taxable in the hands of Mr. Cee for the A.Y.2025-26?

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 12

Long term capital gain of Rs.75 lakhs arising from transfer of building on 1.5.2024 will be exempt from tax if such capital gain is invested in the bonds redeemable after five years, issued by NHA 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.

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 lakhs, 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 lakhs, provided the investment is made before 1.11.2024 (i.e., within six months from the date of transfer).

ILLUSTRATION 13

Calculate the income-tax liability for the assessment year 2025-26 in the following cases:

	Mr. A (age 45)	Mrs. B (age 62)	Mr. C (age 81)	Mr. D (age 82)
Status	Non-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 [Assume transfer took place before 23.7.2024]	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.

(i) 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.2025-26

Particulars	Mr. A (age 45)	Mrs. B (age 62)	Mr. C (age 81)	Mr. D (age 82)
Residential Status	Non-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	Rural agricultural land	-

		shares)		
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.1,25,000]	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	Rs.17,000	-	-	-
On Other income	Nil	Rs.500	Rs.14,500	Rs.9,000
	Rs.17,000	Rs.500	Rs.14,500	Rs.9,000
Less: Rebate u/s 87A	-	-	Rs.14,500	-
	Rs.17,000	Rs.500	Nil	Rs.9,000
Add: Health & education cess (HEC) @4%	Rs.680	Rs.20	Nil	Rs.360
Total tax liability	Rs.17,680	Rs.520	Nil	Rs.9,360

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

(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

Computation of income-tax liability for the A.Y.2025-26

Particulars	Mr. A (age 45)	Mrs. B (age 62)	Mr. C (age 81)	Mr. D (age 82)
Residential Status	Non-resident	Non-resident	Resident	Non-resident
Applicable basic exemption limit	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	Rs.10,000 [exempt u/s 112A since it	Rs.60,000 (Exempt – not a capital	-

	112]	is less than Rs.1,25,000]	asset)	
Other income	Rs.2,40,000	Rs.3,10,000	Rs.5,90,000	Rs.4,80,000
Tax liability				
On LTCG	Rs.17,000	-	-	-
On Other income	Nil	Rs.3,000	Rs.18,000	Rs.11,500
	Rs.17,000	Rs.3,000	Rs.18,000	Rs.11,500
Less: Rebate u/s 87A	-	-	-	-
	Rs.17,000	Rs.3,000	Rs.18,000	Rs.11,500
Add: Health & education cess (HEC) @4%	Rs.680	Rs.120	Rs.720	Rs.460
Total tax liability	Rs.17,680	Rs.3,120	Rs.18,720	Rs.11,960

Notes:

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 along with Mr. A, being non-residents are not eligible for rebate under section 87A even though their total income does not exceed Rs.5 lakh.



TYK from ISM

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 01.12.2023. He has also received dividend of Rs.10 per share on 01.05.2024.

He has sold all the shares on 01.10.2024 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. 2025-26 if Mr. Mithun pays tax under default tax regime, assuming that he is having other income of Rs.8,00,000. Fair market value of shares of M/s Goodmoney Co. Ltd. on 31.1.2018 is Rs.2,000.

Computation of total income & tax liability of Mr. Mithun for A.Y. 2025-26

Particulars	Rs.
Long term capital gains on sale of original shares	
Gross sale consideration (100 x Rs.4,000)	4,00,000
Less: Brokerage@1%	4,000
Net sale consideration	3,96,000
Less: Cost of acquisition (100 x Rs.2,000) (Refer Note 1)	2,00,000
Long term capital gains	1,96,000
Short term capital gains on sale of bonus shares	
Gross sale consideration (100 x Rs.4,000)	4,00,000
Less: Brokerage@1%	4,000
Net sale consideration	3,96,000
Less: Cost of acquisition of bonus shares [Nil as such shares are allotted after 1.04.2001]	NIL
Short term capital gains [Since bonus shares are held for less than 12 months before sale]	3,96,000
Income from other sources	
Dividend received from M/s Goodmoney Co. Ltd. is taxable in the hands of shareholders [200 shares x 10 per share]	2,000
Other income	8,00,000
Total Income	13,94,000
Tax Liability	
Tax on STCG u/s 11A 20% of Rs.3,96,000	79,200
Tax on LTCG u/s 112A	



12.5% of (Rs.1,96,000 - Rs.1,25,000) since it is transferred on or after 23.7.2024		8,875
Tax on other income of Rs.8,02,000		
Rs.3,00,000 to Rs.7,00,000@5%	20,000	
Rs.7,00,000 to Rs.8,02,000 @10%	10,200	30,200
		1,18,275
Add: Health and education cess @4%		4,731
Tax liability		1,23,006
Tax liability (rounded off)		1,23,010

Notes:

(1) Cost of acquisition of such equity shares acquired before 1.2.2018 is higher of

- Cost of acquisition i.e., Rs.1,000 per share and
- lower of
 - Fair market value of such asset i.e., Rs.2,000 per share and
 - Full value of consideration i.e., Rs.4,000 per share.

Therefore, the cost of acquisition of original share is Rs.2,000 per share.

(2) Securities transaction tax is not allowable as deduction.

Question 2:

Aarav converts his plot of land purchased in July, 2004 for Rs.80,000 into stock-in-trade on 31st March, 2024. The fair market value as on 31.3.2024 was Rs.3,00,000. The stock-in-trade was sold for Rs.3,25,000 in the month of January, 2025.

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. 2023-24: 348; F.Y. 2024-25: 363.

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. 2025-26.

Particulars	Rs.	
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	
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 × 348/113)	2,46,372		
Long-term capital gain			53,628
Taxable Income			78,628

Question 3:

Mrs. Harshita purchased a land at a cost of Rs.35 lakhs in the F.Y. 2004-05 and held the same as her capital asset till 20th March, 2024.

She started her real estate business on 21st March, 2024 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, 2025. She sold 10 flats at Rs.30 lakhs per flat in March, 2025. The remaining 5 flats were held in stock as on 31st March, 2025.

She invested Rs.50 lakhs in bonds issued by National Highways Authority of India on 31st March, 2025 and another Rs.50 lakhs in bonds of Rural Electrification Corporation Ltd. in April, 2025.

Compute the amount of chargeable capital gain and business income in the hands of Mrs. Harshita arising from the above transactions for A.Y. 2025-26 indicating clearly the reasons for treatment for each item. [Cost Inflation Index: F.Y. 2004-05: 113; F.Y. 2023-24: 348; F.Y. 2024-25: 363].

Computation of capital gains and business income of Harshita for A.Y. 2025-26

Particulars	Rs.
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.2025-26	60,00,000
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 × 348/113]	1,07,78,761
	1,02,21,239
Proportionate capital gains arising during A.Y. 2025-26 [Rs.1,02,21,239 × 2/3]	68,14,159
Less: Exemption under section 54EC	50,00,000
Capital gains chargeable to tax for A.Y.2025-26	18,14,159



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.2023-24, in this case).
- (2) As per section 45(2), the capital gains arising from the transfer by way of conversion of capital assets into stock-in-trade will be chargeable to tax only in the year in which the stock-in-trade is sold.
- (3) The indexation benefit for computing indexed cost of acquisition would, however, be available only up to the year of conversion of capital asset into stock-in-trade (i.e., P.Y.2023-24) and not up to the year of sale of stock-in-trade (i.e., P.Y.2024-25).
- (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.2024-25, only proportionate capital gains (i.e., 2/3rd) would be chargeable to tax in the A.Y.2025-26.
- (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. 2024-25 and investment of Rs.50 lakhs has been made in bonds of RECL during the P.Y. 2025-26, both within the stipulated six month period, the maximum deduction allowable for A.Y. 2025-26, in respect of long-term capital gain arising on sale of long-term capital asset(s) during the P.Y. 2024-25, 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 which occurred in December 2024.

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 1.4.2024 (i.e., WDV as on 31.3.2024 after



providing depreciation for P.Y. 2023-24) 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.

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

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

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

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

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

Question 5:

Mr. Sarthak entered into an agreement with Mr. Jaikumar to sell his residential house located at Kanpur on 16.08.2024 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 15.12.2024 and the registration process was completed on 14.01.2025. He paid the sale proceeds as per the sale agreement.

The value determined by the Stamp Duty Authority-

- (a) on 16.08.2024 was Rs.1,70,00,000;
- (b) on 15.12.2024 was Rs.1,71,00,000; and
- (c) on 14.01.2025 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 24.3.2025 and another in Delhi for Rs.35,00,000 on 28.5.2025.

Compute the income chargeable under the head "Capital Gains" of Mr. Sarthak for the Assessment Year 2025-26.

Cost Inflation Index for Financial Year(s): 2001-02 - 100; 2024-25 – 363

Computation of income chargeable under the head "Capital Gains" of Mr. Sarthak for A.Y. 2025-26

Particulars		Rs.
Capital Gains on sale of residential house		
Actual sale consideration	Rs.1,50,00,000	
Value adopted by Stamp Valuation Authority on the date of agreement	Rs.1,70,00,000	
<p>[As per section 50C, where the actual sale consideration is less than the value adopted by the Stamp Valuation Authority for the purpose of charging stamp duty, and such stamp duty value exceeds 110% of the actual sale consideration, then, the value adopted by the Stamp Valuation Authority shall be taken to be the full value of consideration.</p> <p>In a case where the date of agreement is different from the date of registration, stamp duty value on the date of agreement can be considered provided the whole or part of the consideration is paid by way of account payee cheque/bank draft or by way of ECS through bank account or through such other electronic mode as may be prescribed, on or before the date of agreement.</p> <p>In this case, since 20% of Rs.150 lakhs is paid through account payee bank draft on the date of agreement, stamp duty value on the date of agreement would be considered for determining the full value of consideration]</p>		
Full value of sale consideration [Stamp duty value on the date of agreement, since it exceeds 110% of the actual sale consideration]		1,70,00,000
Less: Cost of acquisition of residential house		30,00,000
Long-term capital gains [Since the residential house property was held by Mr. Sarthak for more than 24 months immediately preceding the date of its transfer]		1,40,00,000



Less: Exemption u/s 54	55,00,000
Since, long-term capital gains does not exceed Rs.2 crore, he would be eligible for exemption in respect of both the residential house properties purchased in India. The capital gain arising on transfer of a long-term residential property shall not be chargeable to tax to the extent such capital gain is invested in the purchase of these residential house properties in India within one year before or two years after the date of transfer of original asset. Thus, he would be eligible for exemption of Rs.55,00,000 being Rs.20,00,000 and Rs.35,00,000 invested on acquisition of residential house property in Kanpur and Delhi, respectively.	
Long term capital gains chargeable to tax	85,00,000

Note: It may be noted that since Sarthak has transferred residential house property on or after 23.7.2024 which was acquired before the said date, he can opt to pay tax @20% on LTCG (computed with indexation) or 12.5% on LTCG (computed without indexation) whichever is beneficial to him.

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 01.05.2024 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 14-07-2024 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 acquisition/investments:

- (i) Acquired two residential houses at Delhi and Chandigarh for Rs.130 lakhs and Rs.50 lakhs, respectively, on 31.1.2025 and 15.5.2025
- (ii) Acquired a residential house at UK for Rs.180 lakhs on 23.3.2025.
- (iii) Subscribed to NHA capital gains bond (approved under section 54EC) for Rs.50 lakhs on 30-11-2024 and for Rs.40 lakhs on 9-1-2025.

Compute the income chargeable under the head 'Capital Gains' of Mrs. Yuvika for A.Y.2025-26.

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. 2024-25 - 363.




Computation of income chargeable under the head “Capital Gains” of Mrs. Yuvika for A.Y.2025-26

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, plus registration and other expenses i.e., Rs.8 lakhs, being 10% of cost of land [Rs.88 lakhs × 363/117]	273.03	
- Construction cost of residential building (Rs.100 lakhs x 363/129)	281.40	554.43
Long-term capital gains		247.47
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>		
Less: Exemption under section 54EC		50.00
<p>Amount invested in capital gains bonds of NHAI within six months after the date of transfer (i.e., on or before 13.1.2025), 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. 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 13.1.2025 (i.e., within six months after the date of transfer).</p>		
Long term capital gains chargeable to tax		67.47

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 @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, 2024, 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, 2025. 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, 2024 was Rs.39,00,000 and on 20th February, 2025 was Rs.41,00,000.

Compute the capital gains in the hands of Mr. Shiva for A.Y.2025-26. Also, compute the tax liability under section 112, assuming that the basic exemption limit has been fully exhausted against other income.

CII for F.Y. 2001-02: 100; F.Y. 2008-09: 137; F.Y. 2015-16: 254; F.Y. 2024-25: 363

Computation of Capital gains in the hands of Mr. Shiva for A.Y. 2025-26

Particulars	Amount (Rs.)	Amount (Rs.)
Actual sale consideration	30,50,000	
Valuation as per Stamp duty Authority on the date of agreement	39,00,000	
(Where the actual sale consideration is less than the value adopted by the Stamp Valuation Authority for the purpose of charging stamp duty, and such stamp duty value exceeds 110% of the actual sale consideration then, the value adopted by the Stamp Valuation Authority shall be taken to be the full value of consideration as per section 50C.		
However, where the date of agreement is different from the date of registration, stamp duty value on the date of agreement can be considered, provided the whole or part of the consideration is received by way of account payee cheque/bank draft or by way of ECS through bank account or such other electronic mode as may be prescribed on or before the date of agreement. In the present case, since part of the payment is made by account payee cheque on the date of agreement, the stamp duty value on the date of agreement would be considered as full value of consideration)		
Deemed Full value of consideration [Since stamp duty value on the date of agreement exceeds 110% of the actual		39,00,000

consideration, stamp duty value would be deemed as Full Value of Consideration]		
Less: Expenses on transfer (Brokerage @1% of Rs.30,50,000)		30,500
Net sale consideration		38,69,500
Less: Cost of acquisition (Note 1)	9,59,000	
Less: Cost of improvement	3,90,000	13,49,000
Long term capital gain		25,20,500

Computation of tax liability u/s 112

Particulars		Amount (Rs.)
On LTCG of Rs.25,20,500 x 12.5%		3,15,063
Add: Health and Education cess @4%		<u>12,603</u>
		<u>3,27,666</u>
On LTCG with indexation benefit		
Net Sale consideration	38,69,500	
Less: Indexed cost of acquisition (Rs.9,59,000 x 363/100)	34,81,170	
Less: Indexed cost of Improvement [Rs.3,90,000 x 363/254]	<u>5,57,362</u>	
Long-term capital loss	<u>(1,69,032)</u>	

Since the computation results in a long term capital loss, if indexation benefit is given, the tax u/s 112 would be Nil. However, this computation is only for determining tax liability, the said loss can neither be set-off nor carried forward.

Notes:

(1) Computation of cost of acquisition

Particulars	Amount (Rs.)	Amount (Rs.)
Cost of acquisition,		10,70,000
Being the higher of		
(i) lower of Fair market value i.e., Rs.11,85,000 and Stamp duty value i.e., Rs.10,70,000, on April 1, 2001	10,70,000	
(ii) Actual cost of acquisition (Rs.3,24,000 + Rs.35,000, being stamp duty @10% of Rs.3,50,000)	3,59,000	
Less: Advance money taken from Mr. Mohan and forfeited		1,11,000
Cost of acquisition		9,59,000

(2) Where advance money has been received by the assessee, and retained by him, as a result of failure of the negotiations, section 51 will apply. The advance retained by the assessee will go to reduce the cost of acquisition. Accordingly, cost of acquisition after reducing the advance money forfeited would be Rs.9,59,000 [i.e. Rs.10,70,000 – Rs.1,11,000 (being the advance money

forfeited during the P.Y. 2008-09)]. However, where the advance money is forfeited during the previous year 2014-15 or thereafter, the amount forfeited would be taxable under the head “Income from Other Sources” and such amount will not be deducted from the cost of acquisition of such asset while calculating capital gains. Hence, Rs.1,51,000, being the advance received from Ms. Deepshikha and retained by him, would have been taxable under the head “Income from other sources” in the hands of Mr. Shiva in A.Y.2016-17.



Past Exam Questions

QUESTION 1

PEP NOV 23 (4 MARKS)

Mr. Aryan, a resident individual aged 58 years, sells (unlisted) shares in a private sector company on May 17, 2022 for Rs. 10,00,000. The shares were bought on 01.08.2012 for a consideration of Rs. 2,00,000. Mr Aryan paid Rs. 2,000 as brokerage on sale of shares.

Mr. Aryan deposited Rs. 5,00,000 in Capital Gain Account Scheme on 15.06.2023 (Before filing the return of income for the Assessment Year 2023-24).

On April 30, 2024 he withdraws Rs. 4,50,000 and purchases a residential house properly at Delhi on May 1, 2024 for Rs. 4,50,000.

Cost Inflation Index (CII) – F.Y. 2012-13 - 200, F.Y. 2022-23 - 331.

Ascertain –

- (i) The amount of Capital Gain chargeable to tax for the A.Y. 2023-24.
- (ii) Tax treatment (with mention of relevant assessment year) of the unutilized amount.

(i) **Computation of Capital Gains on sale of unlisted shares for A.Y.2023-24**

Particulars	Rs.
Net Sales Consideration [Rs. 10,00,000 – Rs. 2,000]	9,98,000
Less: Indexed cost of acquisition [Rs. 2,00,000 x 331/200]	<u>3,31,000</u>
	6,67,000
Less: Exemption u/s 54F	
Deposit in Capital Gains Accounts Scheme on or before the due date of filing return of income would be deemed to be cost of new asset. Accordingly, exemption u/s 54F would be Rs. 3,34,168 [Rs. 5,00,000 x Rs. 6,67,000 / Rs. 9,98,000]	<u>3,34,168</u>
Capital Gains chargeable to tax	<u>3,32,832</u>

(ii) **Tax treatment of unutilized amount in Capital Gains Accounts Scheme**

The unutilized amount will be chargeable to tax as capital gains on proportionate basis in the previous year in which the 3 years period from the date of transfer expires. In this case, the 3 year period from 17.5.2022 expires on 16.5.2025. Consequently, the proportional capital gains on the unutilized amount will be taxable in the A.Y. 2026- 27, relevant to the P.Y. 2025-26.

The amount of capital gains for A.Y. 2026-27 would be Rs. 33,416 [Rs. 3,34,168 – Rs. 3,00,752 (Rs. 4,50,000 x Rs. 6,67,000 / Rs. 9,98,000)].

QUESTION 2

PEP May 2024 (4 MARKS)

Mr. Surinder furnishes the following particulars for the previous year ending 31.03.2024. He had a Residential House, inherited from his father in December 2009, the Fair Market Value of which on 01.04.2001 is Rs. 13 lakhs. In the year 2013-2014, further construction and improvements costing of Rs. 10 lakhs. The House was originally purchased by his father on 01.03.2000 for Rs. 10 Lakhs. On



10.05.2023, the House was sold for Rs. 75 Lakhs. Expenditure in connection with transfer is Rs. 50,000. On 20.12.2023, he purchased a Residential House for Rs. 12 lakhs and he does not own any other house.

Compute the taxable Capital Gain for the assessment year 2024-25.

(Cost Inflation Index: F.Y. 2013-14=220, F.Y.2023-24=348, F.Y. 2009-10 = 148 and F.Y. 2001-02=100)

Computation of Taxable Capital Gains for A.Y.2024-25

Particulars	Rs.
Full Value of Consideration	75,00,000
Less: Expenditure in connection with transfer	<u>50,000</u>
Net Sales Consideration	74,50,000
Less: Indexed cost of acquisition [Rs. 13,00,000 (higher of actual cost to the previous owner of Rs. 10 lakhs and Fair market value as on 1.4.2001 of Rs. 13 lakhs) x 348/100]	45,24,000
Less: Indexed cost of improvements [Rs. 10 lakhs x 348/220]	<u>15,81,818</u>
	13,44,182
Less: Exemption u/s 54 – in respect of residential house purchased on 20.12.2023	<u>12,00,000</u>
Taxable Long Term Capital Gains	<u>1,44,182</u>

Note – The above answer is on the basis of the view expressed by Bombay High Court in CIT v. Manjula J. Shah 16 Taxman 42, wherein it was held that Indexed cost of acquisition in case of gifted asset has to be computed with reference to the year in which the previous owner first held the asset and not the year in which the assessee became the owner of the asset.

Alternative answer is possible on basis of the plain reading of the provisions of section 48 wherein the indexed cost of acquisition would be determined by taking the Cost Inflation Index (CII) for the year in which the asset is first held by the assessee i.e. F.Y.2009-10. In such a case, the Indexed cost of acquisition would be Rs. 30,56,757 (Rs. 13,00,000 x 348/148) and taxable long term capital gains would be Rs. 16,11,425.

QUESTION 3

PEP SEPT 24(4 MARKS)

Mr. Raj a resident individual, aged 69 years sold an urban agricultural land for Rs.75,00,000 to Mr. Vipul on December 15, 2023 when the stamp duty value of agricultural land was Rs.95 lakhs. However, the “agreement to sell” the agricultural land was entered on July 15, 2023 and Mr. Vipul gave Rs.4 lakhs as advance through IMPS. The stamp duty value at the time of agreement was Rs.85 lakhs. Mr. Raj paid 1% of sale consideration as commission to a broker. The land was purchased by him on May 15, 2002 for Rs.10.85 lakhs and it was being used for agricultural purposes by him since its purchase.

Mr. Raj purchased another agricultural land in rural area on January 1, 2024 for Rs.40 lakhs and

this land was sold by him on March 12, 2024 for Rs.45 lakhs and he invested the entire sale proceeds in fixed deposits with a nationalized bank on the same day.

Compute capital gain for assessment year 2024-25 if Mr. Raj exercises the option of shifting out of the default tax regime provided under section 115BAC(1A).

Cost Inflation Index for: F.Y. 2002-03 = 105; F.Y. 2023-24-348.

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

Particulars	Rs.
Capital gain on sale of urban agricultural land	
Actual sale consideration	75,00,000
Stamp duty value as on date of agreement i.e., on 15.7.2023 [Since part consideration is received through IMPS on the date of agreement]	85,00,000
Full Value of Consideration [Stamp duty value on the date of agreement since it exceeds 110% of the actual sale consideration]	85,00,000
Less: Expenditure in connection with transfer [1% of sale consideration i.e., Rs.75 lakhs]	75,000
Net Sales Consideration	84,25,000
Less: Indexed cost of acquisition [Rs.10,85,000 x 348/105]	35,96,000
	48,29,000
Less: Exemption u/s 54B – In respect of rural agricultural land purchased on 1.1.2024. Mr. Raj is eligible to claim exemption u/s 54B since he has used the urban agricultural land for agricultural purposes for more than 2 years preceding the date of its transfer. [See Note for alternative answer]	40,00,000
Long term capital gain	8,29,000
Capital gain on sale of rural agricultural land	
As per section 54B, if the new agricultural land is transferred within 3 years from the date of its purchase, while computing the capital gains on transfer of such new agricultural land, the cost of acquisition of such land would be reduced by the amount of capital gain claimed as exempted. However, since rural agricultural is not a capital asset, no capital gain would arise on sale of such land even though it is transferred within 3 years from the date of its purchase.	

Note [Alternative answer] – Mr. Raj transferred urban agricultural land on 15.12.2023 and purchased rural agricultural land on 1.1.2024 which is sold on 12.3.2024. Since the rural agricultural land is sold within the same previous year in which original asset was transferred i.e., P.Y. 2023-24, a view can be taken that the exemption under section 54B would not be available as at the time of filing return of income such acquired land does not exist. In such case, long term capital gain would be Rs.48,29,000._____

Questions from MTP, RTP

QUESTION 1

MTP 1 SEPT 24 (4 MARKS)

Determine the capital gains/loss on transfer of listed equity shares (STT paid both at the time of acquisition and transfer of shares) and units of equity oriented mutual fund (STT paid at the time of transfer of units) for the A.Y.2024-25 and tax, if any, payable thereon, in the following cases, assuming that these are the only transactions covered under section 112A during the P.Y.2023-24 in respect of these assesseees:

- (i) Mr. Shagun purchased 300 shares in A Ltd. on 20.5.2017 at a cost of Rs.400 per share. He sold all the shares of A Ltd. on 31.5.2023 for Rs.1200. The price at which these shares were traded in National Stock Exchange on 31.1.2018 is as follows –

Particulars	Amount in Rs.
Highest Trading Price	700
Average Trading Price	680
Lowest Trading Price	660

- (ii) Mr. Raj purchased 200 units of equity oriented fund, Fund A on 1.2.2017 at a cost of Rs.550 per unit. The units were not listed at the time of purchase. Subsequently, units of Fund A were listed on 1.1.2018 on the National Stock Exchange. Mr. Raj sold all the units on 3.4.2023 for Rs.900 each. The details relating to quoted price on National Stock Exchange and net asset value of the units are given hereunder:

Particulars	Fund A
	Amount in Rs.
Highest Trading Price	750 (on 31.1.2018)
Average Trading Price	700 (on 31.1.2018)
Lowest Trading Price	650 (on 31.1.2018)
Net Asset Value on 31.1.2018	800

For the purpose of computation of long-term capital gains chargeable to tax under section 112A, the cost of acquisition in relation to the long- term capital asset, being an equity share in a company or a unit of an equity-oriented fund or a unit of a business trust acquired before 1st February, 2018 shall be the higher of

(a) cost of acquisition of such asset, i.e., actual cost; and

(b) lower of

(i) the fair market value of such asset as on 31.1.2018; and

(ii) the full value of consideration received or accruing as a result of the transfer of the capital asset.

(i) The fair market value of listed equity shares as on 31.1.2018 is the highest price quoted on the recognized stock exchange as on that date.

Accordingly, long-term capital gain on transfer of STT paid listed equity shares by Mr. Shagun would be determined as follows:

The FMV of shares of A Ltd. would be Rs. 700, being the highest price quoted on National Stock Exchange on 31.1.2018. The cost of acquisition of each equity share in A Ltd. would be Rs. 700, being higher of actual cost i.e., Rs. 400 and Rs. 700 [being the lower of FMV of Rs. 700 as on 31.1.2018 (i.e., the highest trading price) and actual sale consideration of Rs. 1,200]. Thus, the long-term capital gain would be Rs. 1,50,000 i.e., $(Rs. 1,200 - Rs. 700) \times 300$ shares. The long-term capital gain of Rs. 50,000 (i.e., the amount in excess of Rs. 1,00,000) would be subject to tax@10% under section 112A (plus cess@4%), without benefit of indexation. The tax on capital gain @10.4% would be Rs. 5,200 $(Rs. 50,000 \times 10.4\%)$

- (ii) In the case of units listed on recognised stock exchange on the date of transfer, the FMV as on 31.1.2018 would be the highest trading price on recognised stock exchange as on 31.1.2018 (if units are listed on that date), else, it would be the net asset value as on 31.1.2018 (where units are unlisted on that date).

Accordingly, the FMV of units of Fund A as on 31.1.2018 would be Rs. 750 (being the highest trading price on 31.1.2018, since the units of Fund A are listed on that date).

The cost of acquisition of a unit of Fund A would be Rs. 750, being higher of actual cost i.e., Rs. 550 and Rs. 750 (being the lower of FMV of Rs. 750 as on 31.1.2018 and actual sale consideration of Rs. 900). Thus, the long-term capital gains on sale of units of Fund A would be Rs. 30,000 $(Rs. 900 - Rs. 750) \times 200$ units.

Since the long term capital gains on sale of units of Fund A is Rs. 30,000, which is less than Rs. 1,00,000, the said sum is not chargeable to tax under section 112A.

QUESTION 2

MTP 2 SEPT 24 (5 MARKS)

Mr. Ashish entered into an agreement with Mr. Dhaval to sell his residential house located at Navi Mumbai on 16.08.2023 for Rs. 80,00,000.

The sale proceeds was 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 of the property.

Mr. Dhaval 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 on 16.08.2023 was Rs. 90,00,000 whereas on 14.01.2024 it was Rs. 91,50,000.

Mr. Ashish had acquired the property on 01.04.2001 for Rs. 20,00,000. After recovering the sale proceeds from Dhaval, he purchased another residential house property in Kanpur for Rs. 15,00,000.

Compute the income under the head "Capital Gains" for the Assessment Year 2024-25.



Cost Inflation Index for Financial Year(s)

2001-02	-	100
2023-24	-	348

Computation of income chargeable under the head “Capital Gains” for A.Y. 2024-25

Particulars	Rs.
Capital Gains on sale of residential house	
Actual sale consideration	Rs. 80 lakhs
Value adopted by Stamp Valuation Authority	Rs. 90 lakhs
Full value of sale consideration [Higher of the above]	90,00,000
[As per section 50C, where the actual sale consideration is less than the value adopted by the Stamp Valuation Authority for the purpose of charging stamp duty, and such stamp duty value exceeds 110% of the actual sale consideration, then, the value adopted by the Stamp Valuation Authority shall be taken to be the full value of consideration. In a case where the date of agreement is different from the date of registration, stamp duty value on the date of agreement can be considered provided the whole or part of the consideration is paid by way of account payee cheque/bank draft or by way of ECS through bank account on or before the date of agreement. In this case, since 20% of Rs. 80 lakhs is paid through account payee bank draft on the date of agreement, stamp duty value on the date of agreement can be adopted as the full value of consideration]	
Less: Indexed cost of acquisition of residential house [Rs. 20 lakhs x 348/100]	<u>69,60,000</u>
Long-term capital gains [Since the residential house property was held by Mr. Ashish for more than 24 months immediately preceding the date of its transfer]	20,40,000
Less: Exemption under section 54	15,00,000
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 within one year before or two years after the date of transfer of original asset.	
Long term capital gains chargeable to tax	5,40,000

QUESTION 3

MTP 1 JAN 25 (4 MARKS)

Mr. Asif bought a vacant land for Rs.80 lakhs in March 2005. Registration and other expenses were 10% of the cost of land. He constructed a residential building on the said land for Rs.100 lakhs during the financial year 2006-07.

He entered into an agreement for sale of the above said residential house with Mr. Hari (not a

relative) in July 2023. The sale consideration was fixed at Rs.600 lakhs and on the date of agreement, Mr. Asif received Rs.20 lakhs as advance in cash. The stamp duty value on that date was Rs.620 lakhs.

The sale deed was executed and registered on 10-2-2024 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.670 lakhs. Mr. Asif paid 1% as brokerage on sale consideration received.

Subsequent to sale, Mr. Asif made investments in NHAI bond: Rs.45 lakhs on 29-5-2024 and Rs.15 lakhs on 12-7-2024.

Compute the Capital Gain chargeable to tax for A.Y. 2024-25.

Cost Inflation Index: F.Y. 2004-05	113
F.Y. 2006-07	122
F.Y. 2023-24	348

Computation of income chargeable under the head “Capital Gains” for A.Y.2024-25

Particulars	Rs. (in lakhs)	Rs. (in lakhs)
Capital Gains on sale of residential building		
Actual sale consideration Rs.600 lakhs		
Value adopted by Stamp Valuation Authority Rs.670 lakhs		
Full Value of Consideration		670.00
[In case the actual sale consideration declared by the assessee is less than the value adopted by the Stamp Valuation Authority for the purpose of charging stamp duty, then, the value adopted by the Stamp Valuation Authority shall be taken to be the full value of consideration as per section 50C. In a case where the date of agreement is different from the date of registration, stamp duty value on the date of agreement can be considered provided the whole or part of the consideration is paid by way of account payee cheque/bank draft or by way of ECS through bank account on or before the date of agreement. However, where the stamp duty value does not exceed 110% of the sale consideration received or accruing as a result of the transfer, the consideration so received or accruing shall be deemed to be the full value of the consideration. In this case, since advance of Rs. 20 lakh is		



paid by cash, stamp duty value of Rs. 620 lakhs on the date of agreement cannot be adopted as the full value of consideration and stamp duty value on the date of registration would be considered. However, since stamp duty value on the date of registration exceeds 110% of the actual consideration, stamp duty value on the date of registration would be the full value of consideration]		
Less: Brokerage@1% of sale consideration (1% of Rs. 600 lakhs)		<u>6.00</u>
Net Sale consideration		664.00
Less: Indexed cost of acquisition -Cost of vacant land, Rs. 80 lakhs, plus registration and other expenses i.e., Rs. 8 lakhs, being 10% of cost of land [Rs. 88 lakhs × 348/113]	271.01	
-Construction cost of residential building (Rs. 100 lakhs x 348/122)	<u>285.25</u>	<u>556.26</u>
Long-term capital gains before exemption		107.74
Less: Exemption under section 54EC		50.00
Amount deposited in capital gains bonds of NHA1 within six months from the date of transfer (i.e., on or before 09.08.2024) would qualify for exemption, to the maximum extent of Rs. 50 lakhs. Therefore, in the present case, exemption can be availed only to the extent of Rs. 50 lakh out of Rs. 60 lakhs, even if the both the investments are made on or before 09.08.2024 (i.e., within six months from the date of transfer).		
Long Term Capital Gains [Since it was held for more than 24 months]		57.74

QUESTION 4

RTP MAY 24

Mr. Rajkumar bought a residential house for Rs.5 crores in March 2016. He entered into an agreement for sale of the said residential house with Ms. Nikita (not a relative) in July 2023 for Rs.17 crores. The sale proceeds were to be paid in the following manner:

- (i) 10% through account payee bank draft on the date of agreement.**
- (ii) 80% on the date of the possession of the property.**
- (iii) Balance after the completion of the registration of the title of the property.**



Ms. Nikita was handed over the possession of the property on 10.11.2023 and the registration process was completed on 05.02.2024. She paid the sale proceeds as per the sale agreement. Value of property for stamp duty in July 2023 was Rs.19 crores. Subsequently, the State stamp valuation authority had revised the values, hence, the value of property for stamp duty purposes was Rs.20 crores on 05.02.2024. Mr. Rajkumar paid 1% as brokerage on sale consideration received.

Subsequent to sale, he purchased another residential house for Rs.13 crores in Mumbai in March 2024.

You are required to compute the capital gains chargeable to tax in the hands of Mr. Rajkumar for A.Y. 2024-25.

What would be the capital gain, if any, in A.Y. 2025-26 if Mr. Rajkumar transfers the new residential house in December 2024 for Rs.15 crores?

CII: 2015-16: 254; 2023-24: 348

Computation of capital gains of Mr. Rajkumar for A.Y. 2024-25

Particulars	Rs. (in crores)
Actual sale consideration Rs.17 crores	
Value adopted by Stamp Valuation Authority Rs.19 crores	
[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.1.7 crores is received by account payee bank draft, stamp duty value on the date of agreement can be adopted as the full value of consideration.	
Gross Sale consideration (Stamp duty value on the date of agreement, since it exceeds 110% of the actual consideration)	19
Less: Brokerage @1% of sale consideration (1% of Rs.17 crores)	<u>0.17</u>
Net Sale consideration	18.83
Less: Indexed cost of acquisition [Rs.5 crores x 348/254]	<u>6.85</u>



Long term capital gains	11.98
[Since the residential house property was held by Mr. Rajkumar 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	<u>10</u>
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. However, if the cost of new residential house exceeds Rs.10 crores, the amount exceeding Rs.10 crore would not be taken into account for exemption.	
Therefore, in the present case, the exemption would be available in respect of the residential house acquired in Mumbai and to the extent of Rs.10 crores only.	
Long term capital gains chargeable to tax	1.98

Computation of capital gains of Mr. Rajkumar for A.Y. 2025-26

Particulars	Rs. (in crores)
Sale consideration	15
Less: Cost of acquisition (-) capital gains exempt in A.Y. 2024-25 (Rs.13 – Rs.10)	<u>3</u>
Short term capital gains chargeable to tax	12
Since the residential house property was held by Mr. Rajkumar for not more than 24 months immediately preceding the date of its transfer]	





7. Income From Other Sources

Illustrations from ISM

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)?

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 not a company where lending of money is a substantial part of the business of the company, the provisions of section 2(22)(e) would be attracted. In this case, since the company is a manufacturing company and not a lending company and Rahul holds more than 10% of the equity shares in the company, the provisions of section 2(22)(e) would be attracted.

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. 2024-25 from his friend Mr. B, -

- (1) Cash gift of Rs.75,000 on his anniversary, 15th April, 2024.
- (2) Bullion, the fair market value of which was Rs.60,000, on his birthday, 19th June, 2024.
- (3) A plot of land at Faridabad on 1st July, 2024, the stamp value of which is 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, 2024.
Further, on 1st November, 2024, 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, 2024 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, 2025, 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. 2025-26.

Computation of “Income from other sources” of Mr. A for the A.Y. 2025-26

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

Computation of “Capital Gains” of Mr. A for the A.Y.2025-26

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

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



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.

	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 Mr. Rajesh, who is a dealer in automobile spare parts, for Rs.90 lakh on 1.1.2025 when the stamp duty value was Rs.150 lakh. The agreement was, however, entered into on 1.9.2024 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, 2023. Would your answer be different if Hari was a share broker instead of a property dealer?

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

In the hands of the seller, Mr. Hari	In the hands of the buyer, Mr. Rajesh
<p>In the hands of Hari, the provisions of section 43CA would be attracted, since the building represents his stock-in-trade and he has transferred the same for a consideration less than the stamp duty value; and the stamp duty value exceeds 110% of consideration. Under section 43CA, the option to adopt the stamp duty value on the date of agreement can be exercised only if whole or part of the consideration has been received on or before the date of agreement by way of account payee cheque or draft or by use of ECS through a bank account or through credit card, debit card, net banking, IMPS (Immediate payment Service), UPI (Unified Payment Interface), RTGS (Real Time Gross Settlement), NEFT (National Electronic Funds Transfer), and BHIM (Bharat Interface for Money) Aadhar Pay on or before the date of agreement. In this case, since the down payment of Rs.15 lakh is received on the date of agreement by crossed cheque and not account payee cheque, the option cannot be exercised. Therefore, Rs.75 lakh, being the difference between the stamp duty value on the date of transfer i.e., Rs.150 lakh, and the purchase price i.e., Rs.75 lakh, would be chargeable as business income in the hands of Mr. Hari, since stamp duty</p>	<p>Since Mr. Rajesh is a dealer in automobile spare parts, the building purchased would be a capital asset in his hands. The provisions of section 56(2)(x) would be attracted in the hands of Mr. Rajesh who has received immovable property, being a capital asset, for inadequate consideration and the difference between the consideration and stamp duty value exceeds Rs. 9,00,000, being the higher of Rs.50,000 and 10% of consideration. Therefore, Rs.60 lakh, being the difference between the stamp duty value of the property on the date of registration (i.e., Rs.150 lakh) and the actual consideration (i.e., Rs.90 lakh) would be taxable under section 56(2)(x) in the hands of Mr. Rajesh, since the payment on the date of agreement is made by crossed cheque and not account payee cheque/draft or ECS or through credit card, debit card, net banking, IMPS (Immediate payment Service), UPI (Unified Payment Interface), RTGS (Real Time Gross Settlement), NEFT (National Electronic Funds Transfer), and BHIM (Bharat Interface for Money) Aadhar Pay.</p>





value exceeds 110% of the consideration	
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Case 2: Tax implications if Mr. Hari is a share broker

In the hands of the seller, Mr. Hari	In the hands of the buyer, Mr. Rajesh
<p>In case Mr. Hari is a share broker and not a property dealer, the building would represent his capital asset and not stock-in-trade. In such a case, the provisions of section 50C would be attracted in the hands of Mr. Hari, since building is transferred for a consideration less than the stamp duty value; and the stamp duty value exceeds 110% of consideration.</p> <p>Thus, Rs.75 lakh, being the difference between the stamp duty value on the date of registration (i.e., Rs.150 lakh) and the purchase price (i.e., Rs.75 lakh) would be chargeable as short-term capital gains.</p> <p>It may be noted that under section 50C, the option to adopt the stamp duty value on the date of agreement can be exercised only if whole or part of the consideration has been received on or before the date of agreement by way of account payee cheque or draft or by use of ECS through a bank account or through credit card, debit card, net banking, IMPS (Immediate payment Service), UPI (Unified Payment Interface), RTGS (Real Time Gross Settlement), NEFT (National Electronic Funds Transfer), and BHIM (Bharat Interface for Money) Aadhar Pay on or before the date of agreement. In this case, since the down payment of Rs.15 lakhs has been received on the date of agreement by crossed cheque and not account payee cheque, the option cannot be exercised.</p>	<p>There would be no difference in the taxability in the hands of Mr. Rajesh, whether Mr. Hari is a property dealer or a stock broker. Therefore, the provisions of section 56(2)(x) would be attracted in the hands of Mr. Rajesh who has received immovable property, being a capital asset, for inadequate consideration and the difference between the consideration and stamp duty value exceeds Rs.9,00,000, being the higher of Rs.50,000 and 10% of consideration.</p> <p>Therefore, Rs.60 lakh, being the difference between the stamp duty value of the property on the date of registration (i.e., Rs.150 lakh) and the actual consideration (i.e., Rs.90 lakh) would be taxable under section 56(2)(x) in the hands of Mr. Rajesh, since the payment on the date of agreement is made by crossed cheque and not account payee cheque/draft or ECS or through credit card, debit card, net banking, IMPS (Immediate payment Service), UPI (Unified Payment Interface), RTGS (Real Time Gross Settlement), NEFT (National Electronic Funds Transfer), and BHIM (Bharat Interface for Money) Aadhar Pay.</p>





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.

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 2024-25 is Rs.5,00,000. Out of this interest, Rs.1,50,000 relates to the previous year 2020-21, Rs.1,65,000 relates to previous year 2021-22 and Rs.1,85,000 relates to previous year 2022-23. Discuss the tax implication, if any, of such interest income for A.Y.2025-26.

The entire interest of Rs.5,00,000 would be taxable in the year of receipt, namely, P.Y. 2024-25.

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





TYK from ISM

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) Salary received by a partner from his partnership firm
- (iii) Rental income of machinery
- (iv) Winnings from lotteries by a person having the same as business activity
- (v) Salaries received by a Member of Parliament
- (vi) Receipts without consideration
- (vii) In case of retirement, interest on employee’s contribution if provident fund is unrecognized.
- (viii) Rental income in case of a person engaged in the business of letting out of commercial properties.

Head under which following incomes are taxable:

	Particulars	Head of Income
(i)	Rental income in case property held as stock-in trade for 3 years	Income from house property
(ii)	Salary by partner from his partnership firm	Profits and gains of business or profession
(iii)	Rental income of machinery (See Note below)	Profits and gains of business or profession/Income from other sources
(iv)	Winnings from lotteries by a person having the same as business activity	Income from other sources
(v)	Salaries payable to a Member of Parliament	Income from other sources
(vi)	Receipts without consideration	Income from other sources
(vii)	In case of retirement, interest on employee’s contribution if provident fund is unrecognized	Income from other sources
(viii)	Rental income in case of a person engaged in the business of letting out of commercial 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 12-3-2025 for acquisition of urban land, of which 40% relates to P.Y.2023-24.

Taxability of Receipts

S. No.	Taxable/ Not Taxable	Answer Amount liable to tax (Rs.)	Reason
(i)	Taxable	1,20,000	The exemption from applicability of section 56(2)(x) would be available if, inter alia, gift is received from a relative or gift is received on the occasion of marriage of the individual himself. In this case, since gift is received by Mr. Raj from a non-relative on the occasion of marriage of his son, it would be taxable in his hands under section 56(2)(x).
(ii)	Taxable	48,000	As per section 145B(1), interest received by the assessee on enhanced compensation shall be deemed to be the income of the year in which it is received, irrespective of the method of accounting followed by the assessee. Interest of Rs.96,000 on enhanced compensation is chargeable to tax in the year of receipt i.e. P.Y. 2024-25 under section 56(2)(viii) after providing deduction of 50% under section 57(iv). Therefore, Rs.48,000 is chargeable to tax under the head "Income from other sources".

Question 3:
On 10.10.2024, 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 2016-17.
Out of this interest, Rs. 1,50,000 relates to the financial year 2017-18; Rs.1,65,000 to the financial year 2018-19; and Rs.1,85,000 to the financial year 2019-20. 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 in the A.Y.2025-26?



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 2025-26:

Particulars	Rs.
Interest on enhanced compensation taxable u/s 56(2)(viii)	5,00,000
Less: Deduction under section 57(iv) (50% x Rs.5,00,000)	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 31.3.2025:

- (i) Cash gift of Rs.51,000 received from her friend on the occasion of her "Shastiaptha Poorthi", a wedding function celebrated on her husband completing 60 years of age. This was also her 25th wedding anniversary.
- (ii) On the above occasion, a diamond necklace worth Rs.2 lacs was presented by her sister living in Dubai.
- (iii) When she celebrated her daughter's wedding on 21.2.2025, 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" for A.Y.2025-26.

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

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

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

iii. To be exempt from applicability of section 56(2)(x), the property should be received on the occasion

of the marriage of the individual, not that of the individual's son or daughter. Therefore, this exemption provision is not attracted in this case.

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

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

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

Income assessable as "Income from other sources"

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

As per the second view, the provisions of section 56(2)(x) would also be attracted in respect of the fixed deposit assigned and the "Income from other sources" of Mrs. Hemali would be Rs.1,03,000 (Rs.51,000 + Rs.52,000).

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 10.10.2024 for Rs.3,00,000 when the fair market value 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 sum of Rs.1,00,000 from Atma Charitable Trust (registered under section 12AB) by account payee cheque in December 2024 for meeting his medical expenses.**

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

- (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 sum 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.



Past Exam Questions

QUESTION 1

PEP NOV 23 (4 Marks)

From the following calculate the taxable amount under the proper head of income for the Financial Year 2022-23 of Mr L, who is resident and 56 years old. The reasons should form part of your

- (i) Dividend of Rs. 50,000 received in April 2022. The dividend was declared by the company - LMN Limited at its annual general meeting held in October 2021.
- (ii) Advance forfeited amounting to Rs. 1,00,000 on 01.05.2022 as the negotiation for transfer of capital asset did not result in transfer of Capital Asset.
- (iii) Cash Gift received from non-relative on the occasion of marriage of son Rs. 51,000.
- (iv) During the Financial Year 2022-23, he received Rs. 99,000 as pension from employer of deceased wife.

Computation of taxable amount of Mr. L for the A.Y.2023-24

Particulars	Rs.
Income from other Sources	
(i) Dividend from LMN Ltd. would be chargeable to tax under the head "Income from Other Sources". Since dividend was declared by LMN Ltd. at its annual general meeting held in October 2021, the amount of dividend was taxable in the A.Y. 2022-23. Accordingly, the dividend of Rs. 50,000 would not be taxable in the current A.Y. 2023-24.	-
Note - Since the exact amount of dividend to be taxable can be determined only at the time of payment or distribution of dividend, alternate view is possible to tax such dividend on receipt basis. ⁴ Consequently, the amount of dividend received in April, 2022, would be chargeable to tax in the current A.Y. 2023-24. Accordingly, the total income of Mr. L for A.Y. 2023-24 would be Rs. 2,85,000	
(ii) Advance of Rs. 1,00,000 forfeited on 1.5.2022 - The advance received and forfeited on or after 1.4.2014 would be subject to tax under section 56(2)(ix) under the head "Income from Other Sources".	1,00,000
(iii) Cash gifts from non-relative on marriage of son of Rs. 51,000 – Since gift is received by Mr. L from a non-relative on the occasion of marriage of his son, it would be taxable in his hands under section 56(2)(x) under the head "Income from Other Sources".	51,000
(iv) Pension from employer of deceased wife of Rs. 99,000 - Pension after deducting lower of Rs. 33,000 i.e., 1/3 of such income or Rs. 15,000, is chargeable to tax under the head "Income from Other Sources". [Rs. 99,000 – Rs. 15,000]	84,000
Taxable amount	2,35,000





QUESTION 2

PEP May 2024 (2 MARKS)

Mr. Ravi received an advance of Rs. 2,00,000 on 10.5.2023 from a closely held manufacturing company (private company in which the public are not substantially interested) in which he holds 22% shareholding. The company had an accumulated profit of Rs. 1,00,000 at the time of giving the advance. Compute the amount of income to be included in the hands of Mr. Ravi for the assessment year 2024-25 and also state the head under which it is to be included.

In the present case, the amount of advance of Rs. 2,00,000 received by Mr. Ravi from closely held manufacturing company would be deemed as dividend to the extent of accumulated profit of Rs. 1,00,000, since Mr. Ravi holds 22% shareholding in the company which is not less than 10% of the voting power in the company.

Accordingly, deemed dividend of Rs. 1,00,000 would be taxable in the hands of Mr. Ravi under the head "Income from Other Sources" for the A.Y. 2024-25.





Questions from MTP, RTP

QUESTION 1

MTP 2 JAN 25 (5 MARKS)

Mr. Soham, a builder, entered into an agreement on 1.4.2023 with Mr. Aman to transfer 4th Floor in Tower A of a new project for Rs.1,50,00,000. He received Rs.25 lakhs as advance in cash on 1.4.2023. The stamp duty value of such floor on that date was Rs.1,70,00,000. The sale deed was executed and registered on 15.6.2023 for the agreed consideration. However, the stamp duty value on that date was Rs.1,75,00,000.

Discuss the tax consequences of above, in the hands of Mr. Soham and Mr. Aman.

I	<u>Tax consequences in the hands of Mr. Soham</u>
	<p>As per section 43CA, where the consideration received or accruing is less than the stamp duty value of an asset (other than capital asset), being land or building or both and such stamp duty value exceeds 110% of the consideration received or accruing, then the stamp duty value shall be deemed to be the full value of the consideration.</p> <p>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 whole or part of the considered is received by way of account payee cheque/ bank draft/ ECS or through any other prescribed modes on or before the date of agreement.</p> <p>In this case, since Rs. 25 lakhs is received by cash on the date of agreement, stamp duty value on the date of registration is to be considered. Since such stamp duty value (Rs. 1.75 crores) exceed 110% of the consideration received (Rs. 1.50 crores), business income would be computed in the hands of Mr. Soham, for A.Y.2024-25, taking sale consideration of Rs. 1,75,00,000 as the full value of consideration arising on transfer.</p>
II	<u>Tax consequences in the hands of Mr. Aman</u>
	<p>In case, immovable property is received for inadequate consideration, the difference between the stamp duty value and actual consideration would be taxable under section 56(2)(x) in the hands of the recipient, if such difference exceeds the higher of Rs. 50,000 and 10% of actual sales consideration.</p> <p>Where the date of agreement is different from the date of registration, stamp duty value on the date of agreement can be considered provided whole or part of the considered is received by way of account payee cheque/ bank draft/ ECS or through any other prescribed modes on or before the date of agreement.</p> <p>In this case, since Rs. 25 lakhs is received by cash on the date of agreement, stamp duty value on the date of registration is to be considered. Accordingly, Rs. 25,00,000 would be taxable in the hands of Mr. Aman under the head "Income from Other Sources" in A.Y.2024-25 since the difference of Rs.25,00,000 exceed Rs. 15,00,000, being the higher of Rs. 50,000 and Rs. 15,00,000 (10% of consideration).</p>





8. Clubbing Provisions

Illustrations from ISM

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?

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.2025-26 if they are paying tax under default tax regime

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)	75,000	2,85,000
Other Income		7,00,000
Gross total income		9,85,000

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

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.75,000, being the standard deduction under section 16(ia) plus other income [Rs.4,00,000] = Rs.6,85,000



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.2025-26.

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
Gross total income	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 01.04.2023 with a capital of Rs.5,00,000. He incurred a loss of Rs.2,00,000 during the year 2023-24. To overcome the financial position, his wife Mrs. Vaishaly, a software Engineer, gave a gift of Rs.5,00,000 on 01.04.2024, which was immediately invested in the business by Mr. Vaibhav. He earned a profit of Rs.4,00,000 during the year 2024-25. Compute the amount to be clubbed in the hands of Mrs. Vaishaly for the A.Y. 2025-26. If Mrs. Vaishaly gave the said amount as loan, what would be the amount to be clubbed?

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 1.4.2024 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. 2025-26 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 1.4.2024	3,00,000	5,00,000	8,00,000
	(5,00,000 – 2,00,000)		
Profit for P.Y.2024-25 to be apportioned on the basis of capital employed on the first day of the previous year i.e., as on 1.4.2024 (3:5)	1,50,000 $(4,00,000 \times \frac{3}{8})$	2,50,000 $(4,00,000 \times \frac{5}{8})$	4,00,000

Therefore, the income to be clubbed in the hands of Mrs. Vaishaly for the A.Y.2025-26 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.

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.

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.

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

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

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 1.4.2024 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)).

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

Particulars	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 30.09.2024 from friend of Mrs. A	2,500

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

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. 2025-26

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 14-6-2024. On 12-7-2024, 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 01-8-2024 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.

In the given case, Mr. Vasudevan gifted a sum of Rs.6 lakhs to his brother's wife on 14.06.2024 and simultaneously, his brother gifted a sum of Rs.5 lakhs to Mr. Vasudevan's wife on 12.07.2024. 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.



TYK from ISM

Question 1:

Mr. Sharma has four minor children - 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 assuming he has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A).

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. Mr. Sharma would be eligible for exemption u/s 10(32) since he has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A). The remaining income would be included in the hands of the parent.

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

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



Question 2:

During the previous year 2024-25, the following transactions occurred in respect of Mr. 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% p.a. from 1-4-2024 to 31-3-2025 to the savings bank account of Mr. B, son of his brother, to help him in his education.
- 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.
- Mr. A gifted a flat to Mrs. A on April 1, 2024. During the previous year 2024-25, Mrs. A's "Income from house property" (computed) was Rs.52,000 from such flat.
- 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.
- 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 that they exercise the option of shifting out of the default tax regime provided under section 115BAC(1A).

Computation of total income of Mr. A, Mrs. A and their minor son for the A.Y. 2025-26

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	18,500	-	-



made in the business out of the amount gifted by Mr. A [See Note (4) below]

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?

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 2022. As on 1.4.2023 her capital in business was Rs.3,00,000.

Her husband gifted Rs.2,00,000 on 10.4.2023 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 2023-24, Rs.1,50,000 and Financial Year 2024-25 Rs.3,90,000. Compute the income, to be clubbed in the hands of Rani’s husband for the Assessment year 2025-26 with reasons.

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.2025-26 is computed as under:

Particulars	Smt. Rani’s Capital Contribution	Capital Contribution Out of gift from husband	Total
	Rs.	Rs.	Rs.
Capital as at 1.4.2023	3,00,000	-	3,00,000
Investment on 10.04.2023 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. 2023-24 to be apportioned on the basis of capital employed on the first day of the previous year i.e., on 1.4.2023	1,50,000		1,50,000
Capital employed as at 1.4.2024	4,50,000	2,00,000	6,50,000
Profit for F.Y.2024-25 to be apportioned on the basis of capital employed as at 1.4.2024 (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.2025-26 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.

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.1,000 (Rs.76,000 less standard deduction under section 16(ia) of Rs.75,000) shall be taxable as "Salaries" in the hands of Mrs. B.
However, if Mrs. B exercises the option of shifting out of default tax regime, salary of Rs.26,000 (Rs.76,000 less standard deduction under section 16(ia) of Rs.50,000) shall be taxable as "Salaries".
- (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 if such parent exercises the option of shifting out of the default tax regime provided under section 115BAC(1A). The balance income would be clubbed in the hands of the parent as "Income from other sources".
- (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.



Past Exam Questions

QUESTION 1

PEP MAY 23 (6 MARKS)

Mr. Chaman who is 50 years old and his wife Mrs. Chaman who is 48 years old furnish the following information (all the amount of incomes/gains/losses are computed as per the provisions of Income-tax Act):

- (i) Mr. Chaman's salary income - Rs. 11,00,000
- (ii) Mrs. Chaman's income from Kathak performances - Rs. 2,50,000. She is a professional Kathak dancer and pursues dancing as her profession.
- (iii) Mrs. Chaman earned long-term capital gains of Rs. 5,50,000 from sale of shares.
- (iv) Mrs. Chaman gifted Rs. 2,00,000 to Mr. Chaman out of her Stridhan on 1.4.2023, Mr. Chaman invested the entire amount in stock market but suffered a short-term capital loss of Rs. 5,10,000
- (v) Miss Naina, their minor daughter, earned Rs. 3,56,000 by performing in various quiz competitions held online during the year 2022-23. She kept that amount in savings bank account and earned interest of Rs. 15,000 during the year 2022-23.
- (vi) Master Neelabh, their minor son earned Rs. 35,000 from fixed deposit which was made out of the cash he received on his birthday from his friends and family. Neelabh suffers from disability as mentioned under section 80U. The medical certificate shows a disability of upto 75%.

Compute the total income in the hands of Mr. and Mrs. Chaman and their minor children for the Assessment Year 2023-24. Ignore section 115BAC pertaining to alternative tax regime.

Computation of total income of Mr. Chaman, Mrs. Chaman and their minor children for the
A.Y.2023-24

Particulars	Mr. Chaman	Mrs. Chaman	Naina, minor daughter	Neelabh, minor son
	Rs.	Rs.	Rs.	Rs.
Income under the head "Salaries"				
Salaries (computed)	11,00,000			
Profits and gains from business or profession				
Income from Kathak performances		2,50,000		
Capital Gains				
Long term capital gains from sale of shares		5,50,000		
Less: Set off of short-term capital loss		<u>2,00,000</u>		



Less: Deductions under Chapter VI-A				
- Under section 80TTA In respect of interest on saving bank account to the extent of	10,000			
- Under section 80U Flat deduction of Rs. 75,000 to a person with disability. However, deduction would be restricted to gross total income				35,000
Total Income	11,03,500	6,00,000	3,56,000	Nil

Note –

1) The question mentions that Mrs. Chaman gifted Rs. 2 lakh to Mr. Chaman out of her Stridhan on 1.4.2023 and that Mr. Chaman invested the entire amount in stock market but suffered a short-term capital loss of Rs. 5,10,000. It is not possible to invest Rs. 2 lakhs and incur short-term capital loss of Rs. 5.10 lakhs. Accordingly, in the above , it has been assumed that the remaining Rs. 3,10,000 is invested by Mr. Chaman and hence the same would be a short-term capital loss to be carried forward by him.

Due to the use of the words “invested the entire amount in the stock market” in the question, it is possible to take a view that the entire capital loss of Rs. 5,10,000 has to be set off against long-term capital gains of Rs. 5,50,000 in the hands of Mrs. Chaman. In which case the total income of Mrs. Chaman would be Rs. 2,90,000 instead of Rs. 6,00,000. Also, there would be no short-term capital loss in the hands of Mr. Chaman.

Since the relevant assessment year for May 2023 examination is A.Y. 2023 -24, accordingly, the relevant previous year is P.Y. 2022-23. The above has been worked out considering the date of gift as 1.4.2022.

2) Item (iv) mentions that the gift was made by Mrs. Chaman to Mr. Chaman on 1.4.2023, which falls outside the P.Y. 2022-23. Since the date of gift has been mentioned as 1.4.2023 in the question, as per the plain reading, such short-term capital loss cannot be set-off against long-term capital gains of Rs. 5,50,000. In such a case, the total income of Mr. Chaman would be Rs. 8,00,000.



Questions from MTP, RTP

QUESTION 1
MTP 1 SEPT 24 (4 MARKS)

Mr. Jain and his wife Mrs. Jain are partners in a partnership firm holding 25% share each. During the F.Y. 2023-24, the firm paid Rs.2,50,000 to each of them as remuneration. Apart from this, they provide you the following information in respect of F.Y. 2023-24:

- (i) Salary received by Mr. Jain from his employer Rs.12,50,000.
- (ii) Interest on fixed deposit earned by Mrs. Jain Rs.14,00,000. (The fixed deposit was opened by using her "Stridhan")
- (iii) Income of their three minor children Neeta, Meeta and Seeta was Rs.15,000; Rs.10,000 and Rs.2,000 respectively.

You are required to compute the gross total income of Mr. and Mrs. Jain as per the provisions of Income-tax Act for the A.Y. 2024-25 assuming that they have shifted out of the default tax regime.

Computation of Gross Total Income of Mr. Jain and Mrs. Jain for A.Y. 2024-25

Particulars	Mr. Jain		Mrs. Jain	
	Rs.	Rs.	Rs.	Rs.
Salary	12,50,000		-	
Less: Standard deduction under section 16(ia)	<u>50,000</u>			
		12,00,000		
Interest on Fixed Deposit earned by Mrs. Jain	-			14,00,000
Total income (before including remuneration from firm and minor's income)		12,00,000		14,00,000
Remuneration from firm (assumed that the same is fully deductible in the hands of the firm)			2,50,000	
Remuneration of Rs. 2,50,000 received by Mr. Jain has to be included in the total income of Mrs. Jain, since both of them have substantial interest in the concern (i.e., each having 25% share in the firm, in the present				



case), and her total income of Rs.14 lakh exceeds the total income of her spouse excluding this income (i.e., Rs. 12 lakh). It is assumed that such remuneration is fully deductible in the hands of the firm.			<u>2,50,000</u>	5,00,000
Total Income (before including minor's income)		12,00,000		19,00,000
Income of three minor children to be included in Mrs. Jain's income ¹ , since her total income before including minor's income is higher than that of her husband.			-	
- Neeta			15,000	
- Meeta			10,000	
- Seeta			<u>2,000</u>	
			27,000	
Less: Exemption of Rs. 1,500 u/s 10(32) in respect of the income each child so included.			<u>4,500</u>	22,500
Gross Total Income		12,00,000		19,22,500



9. Set-Off And Carry Forward of Losses

Illustrations from ISM

Illustration 1

Mr. A, aged 35 years, submits the following particulars pertaining to the A.Y.2025-26:

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.2025-26, assuming that

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

(i) **Computation of total income of Mr. A for the A.Y.2025-26
under 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	
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 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.

(ii) **Computation of total income of Mr. A for the A.Y.2025-26
under default tax regime**

Particulars	Amount (Rs.)	Amount (Rs.)
Income from salary		4,00,000
Income from other sources (interest on fixed deposit with bank)	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 assessment year		
Gross total income/ Total Income		4,00,000

Notes:

- (i) Under the default tax regime, loss from house property of Rs.2,20,000 cannot be set off against income under any other head and cannot be carried forward to next assessment 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.2024-25:

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.2025-26, assuming that he pays tax under section 115BAC?

Total income of Mr. B for the A.Y. 2025-26

Particulars	Amount (Rs.)	Amount (Rs.)
Income from salaries		45,000
Income from house property		
Loss from house property can neither be set-off nor can be carried forward, since Mr. B is paying tax under the default tax regime u/s 115BAC		Nil
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) 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.
- (ii) 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.
- (iii) 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. 2024-25, 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.2023-24	(96,000)
Short term capital loss of A.Y.2024-25	(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.2025-26?

Taxable capital gains of Mr. C for the A.Y. 2025-26

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.2024-25	(37,000)	1,13,000
Long term capital gain	75,000	
Less: Brought forward long-term capital loss of A.Y.2023-24 Rs. 96,000 set off to the extent of Rs. 75,000 [See Note below]	(75,000)	Nil
Taxable short-term capital gains		1,13,000

Note: Long-term capital loss cannot be set off against short-term capital gain. Hence, the unadjusted long-term capital loss of A.Y.2023-24 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.2024-25:

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. 2024-25)	50,000
Brought forward loss from the activity of owning and maintaining the race horses (relating to A.Y.2022-23)	96,000

What is the total income in the hands of Mr. D for the A.Y. 2025-26?

Total income of Mr. D for the A.Y. 2025-26

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.2026-27		
Income from textile business	85,000	
Less: Brought forward business loss from textile business	50,000	35,000
Total income		35,000

Note: Loss from the activity of owning and maintaining race horses cannot be set-off against any other source/head of income.

Illustration 5

Mr. E has furnished his details for the A.Y.2025-26 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.2023-24	(30,000)
Winning from lotteries (Gross)	20,000

Compute the total income of Mr. E for the A.Y.2025-26.

Computation of total income of Mr. E for the A.Y.2025-26

	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.



TYK from ISM

Question 1

Compute the gross total income of Mr. F for the A.Y. 2025-26 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. 2024-25)	(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)

Gross Total Income of Mr. F for the A.Y. 2025-26

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

Notes:

- (1) Dividend from Indian companies is taxable at normal rates of tax in the hands of resident shareholders.
- (2) 60% of the income from tea business is treated as agricultural income and therefore, exempt from tax;
- (3) Long-term capital loss can be set-off only against long-term capital gains. Therefore, long-term capital loss of Rs.90,000 brought forward from A.Y.2024-25 cannot be set-off in the A.Y.2025-26, 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.2026-27.



Question 2

Mr. Soohan submits the following details of his income for the A.Y.2025-26:

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 for P.Y. 2019-20 (discontinued in P.Y. 2020-21)	(-) 1,20,000
Short term capital loss	(-) 60,000
Long term capital gain	40,000
Dividend	5,000
Income received from lottery winning (Gross)	50,000
Winnings from card games (Gross)	6,000
Agricultural income	20,000
Short-term capital loss under section 111A	(-) 10,000
Bank interest on Fixed deposit	5,000

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

Computation of Gross Total Income of Mr. Soohan for the A.Y.2025-26

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.2019-20 to be carried forward to A.Y.2026-27		
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.2026-27		
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	

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

Question 3

Mr. Batra furnishes the following details for year ended 31.03.2025:

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.2022-23 - Rs. 25,000.

(ii) Brought forward loss from business of textile Rs. 60,000 - Loss pertains to A.Y. 2017-18.

Compute gross total income of Mr. Batra for the Assessment Year 2025-26, assuming that he has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A). Also determine the losses eligible for carry forward to the A.Y. 2026-27.

Computation of Gross Total Income of Mr. Batra for the A.Y. 2025-26

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. 2017-18 set-off to the extent of Rs. 50,000 [See Note 1]	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. 2022-23 set- off to the extent of Rs.	15,000	NIL

15,000

Balance loss of Rs. 10,000 to be carried forward to

A.Y. 2026-27 **[See Note 2]**

Capital Gain

Short term capital gain		1,40,000
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Long term capital gain on sale of land	30,000	
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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
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Balance loss of Rs. 70,000 to be carried forward to A.Y. 2026-27

[See Note 3]

Gross Total Income		2,00,000
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Losses to be carried forward to A.Y. 2026-27

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.2022-23		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. 2017-18 expired in the A.Y. 2025-26, the balance unabsorbed business loss of Rs. 10,000 cannot be carried forward to A.Y. 2026-27.
- (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 31.03.2025:

	(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)	7,50,000

Mr. A had declared income on presumptive basis under section 44AD for the first time in A.Y.2025-26. Assume 10% of the turnover during the P.Y.2024-25 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.

(iii) He has brought A.Y. 2023-24 forward depreciation relating to	1,00,000
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Compute taxable income of Mr. A and his tax liability for the A.Y. 2025-26 with reasons for your computation, assuming that he exercises the option of shifting out of the default tax regime provided under section 115BAC(1A).

Computation of total income and tax liability of Mr. A for the A.Y. 2025-26

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. 2023-24	1,00,000
Total income	9,70,000
Tax liability	1,06,500
Add: Health and Education cess@4%	4,260
Total tax liability	1,10,760

Note:

- Income from retail trade:** Presumptive business income 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 declare profits as per 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 declare income under presumptive provisions under section 44AD for next five assessment years, if he does not declared profits as per presumptive provisions under section 44AD this year.

- 2. Income from plying of light goods vehicles:** Income calculated under section 44AE(1) would be Rs. $7,500 \times 12 \times 5$ 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, if income is declared under presumptive provisions, 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 income is declared as per presumptive provisions, 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 31-03-2025:

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. 2023-24 Rs. 2,000.

(2) Brought forward loss from trading business Rs. 5,000 relating to A.Y.2020-21.

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

Computation of total income of Mr. Aditya for the A.Y.2025-26

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)	2,00,000	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. 2026-27		
Profits and gains of business or profession		
Income from trading business	45,000	
Less: Brought forward loss from trading business of A.Y. 2020-21 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	Nil
Balance loss of Rs. 20,000 from speculative business A to be carried forward to A.Y.2026-27 as per section 73(2)		
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.2026-27

Particulars	Rs.
<u>Loss from House property</u>	50,000
<p>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 since Mr. Aditya is exercising the option of shifting out of the default tax regime provided under section 115BAC(1A).</p> <p>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.2033-34, in this case.</p>	
<u>Loss from speculative business A</u>	20,000
<p>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.2029-30, in this case, as specified under section 73(4).</p>	
<u>Loss from specified business</u>	20,000
<p>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.</p> <p>Mr. Aditya is entitled to deduction u/s 35AD, since he has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A). He can, accordingly, carry forward loss from such business indefinitely for set off against profits of any other specified business.</p>	
<u>Loss from the activity of owning and maintaining race horses</u>	2,000
<p>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.2027-28, in this case, as specified under section 74A(3).</p>	

Question 6

Mr. Garg, a resident individual, furnishes the following particulars of his income and other details for the P.Y. 2024-25.

	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 A.Y. 2024-25 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 A.Y. 2025-26 and the amount of loss, if any that can be carried forward or not.

Computation of Gross Total Income of Mr. Garg for the A.Y. 2025-26

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.2024-25		
(Unabsorbed depreciation can be set-off against any head of income other than "salary")	11,000	55,000
(iii) Capital gains		
Long-term capital gain on sale of land	10,800	
Less: Brought forward short-term capital loss [Short- term capital loss can be set-off against both short-term capital gains and long-term capital gains as per section 74(1)]	9,800	1,000
Gross Total Income		71,000

Amount of loss to be carried forward to A.Y.2026-27

	Particulars	Rs.
(1)	Loss from speculative business [to be carried forward as per section 73]	22,000
	[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.2024-25 has to be carried forward to A.Y. 2026-27 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.2028-29]

- (2) **Loss on maintenance of race horses [to be carried forward as per section 74A]** 15,000
 [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.2029-30]
- (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 31.3.2025:

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

Computation of total income of Mr. Srivatsan for the A.Y.2025-26

Particulars	Rs.	Rs.
Salaries		
Income from salaries	2,20,000	
Less: Loss from house property since Mr. Srivatsan has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A)	1,90,000	30,000
Profits and gains of business or profession		
Income from speculation business	30,000	
Less: Loss from cloth business of 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
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Gross Total Income

1,15,000

Less: Deduction under section 80C (life insurance premium paid)

[See Note (iv) below]		30,000
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Total income

85,000

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. Mr. Srivatsan is entitled to deduction u/s 35AD, since he has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A). Therefore, he can carry forward loss of Rs. 20,000 from specified business referred u/s 35AD indefinitely for set off against profits of any specified business.
- (ii) Business loss cannot be set off against salary income. However, the balance business loss of 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)]. Mr. Srivatsan is entitled to deduction u/s 80C, since he has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A).
- (v) Income from betting is chargeable at a flat rate of 30% under section 115BB and no expenditure or allowance can be allowed as deduction from such income, nor can any loss be set-off against such income.



Question 8

Mr. Rajat submits the following information for the financial year ending 31st March, 2025. He decides to pay tax under the default tax regime u/s 115BAC. 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 let out house property:	
(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 31 st October, 2024 – Current year loss	40,000
(ii) Brought forward business loss of A.Y.2020-21	95,000
(b) Chemical Business:	
(i) Discontinued from 1 st March, 2022 – 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. 2021-22	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

Computation of total income of Mr. Rajat for the A.Y. 2025-26

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	
	95,000	
Less: Brought forward business loss of textile business for A.Y.2020-21 set off against the business income of current year	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 (not available since he is paying tax under the default tax regime)	-
Total Income	1,02,000

Statement of losses to be carried forward to A.Y. 2026-27

Particulars	Rs.
Brought forward chemical business loss of A.Y. 2021-22 to be carried forward u/s 72	50,000
Long term capital loss of A.Y. 2025-26 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 31.3.2025:

- (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, being dividend income on listed equity shares of domestic companies.
- (vi) Brought forward business loss of A.Y. 2023-24 Rs. 12,50,000.

Compute gross total income of Ms. Geeta for the A.Y. 2025-26 and ascertain the amount of loss that can be carried forward.

Computation of Gross Total Income of Ms. Geeta for the A.Y. 2025-26

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. 2023-24 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 income 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 2023-24 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 2024-25:

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 A.Y. 2025-26, and the amount of loss that can or cannot be carried forward.

Computation of Gross Total Income of Mr. P for the A.Y. 2025-26

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 set-off 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. 2026-27. It may be noted that speculative business loss can be carried forward for a maximum of four years as per section 73(4).

Past Exam Questions

QUESTION 1

PEP NOV 23 (7 MARKS)

Mr. Jai, a resident individual, furnishes the following particulars of his income and other details for the previous year 2022-23:

	Rs.
Income from the activity of owning and maintaining race horses	40,000
Income from crossword puzzle solving	30,000
Income from Agricultural land in Haryana	25,000
Dividend Income from domestic company (gross)	15,000
(Expenditure incurred in collecting the aforesaid dividend)	2,500
Income from cycling business	1,50,000
Loss from warehousing facility for storage of edible oils	1,00,000
Share of loss form PR associates, a firm (having 4 equal partners) in which he is a partner	23,000
The following items have been brought forward from the assessment year 2020-21:	
Brought forward loss form house property	1,00,000
Loss from the activity of owning and maintaining race horses	37,000
Loss from gambling	10,000
Unabsorbed depreciation	15,000
Speculation Loss	20,000

Mrs. Jai (wife of Mr Jai) got a salary of Rs. 1,20,000 from PR associates during the year 2022-23.

She is not qualified for the job.

Compute the gross total income of Mr Jai for the assessment year 2023 -24 ignoring the provisions of section 115BAC.

Computation of gross total income of Mr. Jai for the A.Y.2023-24

Particulars	Rs.	Rs.
Income under the head "Salaries"		
Salary of Mrs. Jai from PR associates	1,20,000	
Less: Standard deduction under section 16	<u>50,000</u>	70,000
[Salary of Mrs. Jai would be includible in the income of Mr. Jai, since Mr. Jai has a substantial interest in PR associates by having 25% share of profit in it and Mrs. Jai is not qualified for the job]		
Profits and gains from business and profession		
Income from cycling business	1,50,000	
Share of loss from PR associate [Exempt under section 10(2A)]	-	

Less: Set off of loss from warehousing facility for storage of edible oils		<u>1,00,000</u>	
		50,000	
Less: Set off of unabsorbed depreciation of A.Y. 2020-21		<u>15,000</u>	35,000
[Note - Alternatively, unabsorbed depreciation can be set-off against income from other sources other than income from crossword puzzle]			
Income from Other Sources			
Income from crossword puzzle solving		30,000	
Income from agricultural land in Haryana [Exempt under section 10(1)]		-	
Dividend from domestic company (gross)		15,000	
[No deduction is allowed from dividend income other than interest expenses]			
Income from the activity of owning and maintaining race horses	40,000		
Less: Set off of brought loss from the activity of owning and maintaining race horses of A.Y. 2020-21, since four years has not lapsed	<u>(37,000)</u>	<u>3,000</u>	<u>48,000</u>
Gross Total Income			<u>1,53,000</u>

Notes:

- (i) Brought forward loss from house property can be set off only against income of house property. Hence, such loss has to be carried forward to A.Y. 2024-25.
- (ii) Loss from gambling can neither be set-off nor be carried forward.
- (iii) Brought forward loss from speculative business can be set off against income of any other speculative business. Hence, such loss has to be carried forward to A.Y. 2024- 25.

QUESTION 2

PEP MAY 2024(6 MARKS)

Mr. Joshi, resident Indian, aged about 58 years, furnished the following details of his income for the previous year 2023-24:

- (i) Income from House property (computed) Rs. 2,00,000.
- (ii) Income from Proprietary Business Rs. 3,00,000.
- (iii) Short Term Capital Gain on sale of Land Rs. 2,00,000.
- (iv) Short Term Capital loss on sale of equity shares listed in recognized stock exchange (STT paid) Rs. 75,000.
- (v) Interest on Bank fixed deposit Rs. 50,000 received by his son, aged 21 years, out of money gifted by Mr. Joshi in 2022.
- (vi) Loss from Speculation Business Rs. 40,000.
- (vii) Loss from Owning and Maintenance of Race Horses Rs. 50,000.

Following are the brought forward losses:

- (a) Brought forward House property loss of assessment year 2021 -22 Rs. 2,50,000.
- (b) Brought forward business loss of Proprietary business from assessment year 2013-14 Rs. 50,000.
- (c) Unabsorbed Depreciation relating to assessment year 2014 -15 Rs. 1,00,000.
- (d) Brought forward Long Term Capital Loss from assessment year 2018-19 Rs. 90,000. Return of income for that year was filed on 31.01.2019, after due date of filing the return.
- Compute the total income of Mr. Joshi for the assessment year 2024 -25 and show the items eligible for carry forward, assuming that he exercises the option of shifting out of the default tax regime provided under Section 115BAC(1A).

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

Particulars	Rs.	
Income from house property	2,00,000	
Less: Set-off of brought forward loss from house property of A.Y. 2021-22 is allowed, since 8 years period not yet lapsed	<u>2,00,000</u>	Nil
Profits and gains from business or profession		
Income from proprietary business	3,00,000	
Less: Set off of brought forward business loss of A.Y. 2013-14 not allowable as 8 years' time has already lapsed in the A.Y. 2021-22	Nil	
Less: Set off of unabsorbed depreciation of A.Y. 2014-15	<u>1,00,000</u>	2,00,000
[Note – Alternatively, unabsorbed depreciation can be set-off against short-term capital gains]		
Capital Gains		
Short-term capital gain on sale of land	2,00,000	
Less: Set-off of short-term capital loss on sale of listed equity shares	<u>75,000</u>	1,25,000
Brought forward long-term capital loss is not allowed to be carried forward and set-off, since return of income for the A.Y. 2018-19 was filed after the due date of filing return of income.		
Income from Other Sources		
Interest on fixed deposit not includible in the hands of Mr. Joshi since his son is major		<u>Nil</u>
Gross Total Income		3,25,000
Less: Deduction under Chapter VI-A		Nil
Total Income		3,25,000



Items eligible for carried forward

- | | |
|--------------|--|
| (i) | Loss from speculation business of Rs. 40,000 can be set-off against income from speculation business only. Hence, such loss would be carried forward to subsequent assessment year. |
| (ii) | Loss from owning and maintenance of race horses Rs. 50,000, can be set-off against income from income from owning and maintenance of race horses only. Thus, such loss would be carried forward to subsequent assessment year. |
| (iii) | Brought forward loss from house property can be set off only against income of house property. Hence, remaining loss of Rs. 50,000 has to be carried forward to subsequent assessment year. |

QUESTION 3

PEP SEPT 24 (6 MARKS)

Mr. Suraj, (39 years), his wife Megha (35 years) and minor son Dev (12 years), provide the following details of their income/losses for the previous year 2023-24:

Mr. Suraj

- (i) Salary received as a partner from a partnership firm - Rs.6,15,000**
He is a working partner in the firm and the salary is as per the limits prescribed under section 40(b).
- (ii) Income (loss) from house property:**
Brought forward loss from House -A (let out) - Rs.96,000 Current year loss from House B (let out) - Rs.2,30,000
- (iii) Interest received on enhanced compensation - Rs.2,00,000**
It relates to transfer of a piece of land in the financial year 2018-19.
Out of the above Rs.35,000 relates to previous year 2023-24 and the balance relate to preceding previous year.
- (iv) Gift from grandfather's younger sister by cheque - Rs.1,25,000**
- (v) Dividend on listed equity shares of domestic companies (Gross) - Rs.50,000**
- (vi) On 1stDecember 2023, Mr. Suraj received Rs.75 lakhs as maturity proceeds from his life insurance policy which was taken on 1stMay 2012. He paid Rs.6,00,000 as annual premium and the sum assured was Rs.65 lakhs.**

Mrs. Megha

- (i) Current year loss from business. (She carried on this business with funds which Mr. Suraj gifted to her) - Rs.8,10,000.**
- (ii) Mrs. Megha purchased a house property from her "Stridhan" and gifted the same to her minor son, Dev on 1stApril, 2023 out of love and affection. The FMV of the house on the date of transfer was Rs.51 lakhs.**

Master Dev

Rent received from house property received from Mrs. Megha - Rs.35,000 p.m.



Compute total income of Mr. Suraj, Mrs. Megha and Dev for the assessment year 2024-25 assuming Mr. Suraj has decided to pay tax under default tax regime provided under section 115BAC, whereas Mrs. Megha and Dev have opted out of the default tax regime. Briefly explain the reasons for the treatment of each item.

Computation of total income of Mr. Suraj, Mrs. Megha and minor son Dev for A.Y. 2024-25

Particulars	Mr. Suraj [Under default tax regime] Rs.	Mrs. Megha [Under normal provisions] Rs.	Dev [Under normal provisions] Rs.
Income from house property			
Annual Value [As per section 27, Mrs. Megha is the deemed owner of the house property transferred to minor son, Dev without consideration though such property is acquired from her "Stridhan"] [Rs.35,000 x12]		4,20,000	
Less: Deduction @30% of NAV		1,26,000	
		2,94,000	
Brought forward loss from House A [Not allowed to be set-off against income from other heads]	-		
Current year loss of Mr. Suraj from House – B [Not allowed to be set-off against income from other heads since Mr. Suraj is paying tax under default tax regime]	-		
Profits and gains from business or profession			
Salary from partnership firm	6,15,000		
Less: As per section 70, set off of current year loss from business of Rs.8,10,000 to the extent of [Current year loss from business of his wife is allowed to be set off in the hands of Mr. Suraj since funds for business is gifted by him]	6,15,000		
Income from Other Sources			
Interest on enhanced compensation [Taxable in the year it is received]	2,00,000		
Less: Deduction @50%	1,00,000		



Gift from grandfather's sister [Taxable under section 56(2)(x), since grandfather's sister is not a relative and the amount of gift exceeds Rs.50,000]	1,00,000		
	1,25,000		
Dividend on shares (gross)	50,000		
Maturity proceeds from LIC [Exempt under section 10(10D) since the annual premium payable does not exceed 10% of sum assured]	-		
Less: Set off of remaining business loss of Rs.1,95,000	2,75,000		
	1,95,000		
Gift of house property from Mrs. Megha to Dev [Exempt since the gift is from a relative i.e., from his mother]	80,000		Nil
Taxable Income	80,000	2,94,000	-





Questions from MTP, RTP

QUESTION 1

MTP 1 MAY 24 (6 MARKS)

Mr. Vishal, aged 33 years, submits the information of following transaction/income during the P.Y. 2023-24

- (i) Mr. Vishal had a house in Delhi. During financial year 2022-23, he had transferred the said house to Ms. Deepika, daughter of his brother without any consideration. House would go back to Mr. Vishal after the life time of Ms. Deepika. The transfer was made with a condition that 10% of rental income from such house shall be paid to Mrs. Vishal. Rent received by Ms. Deepika during the previous year 2023-24 from such house property is Rs. 5,50,000.
- (ii) Mr. Vishal holds preference shares in M/s A Pvt. Ltd. He instructed the company to pay dividends to Ms. Chandni, daughter of his servant. The transfer is irrevocable for the lifetime of Chandni. Dividend received by Ms. Chandni during the previous year 2023-24 is Rs. 4,50,000.
- (iii) Mr. Vishal has a short term capital loss of Rs. 16,000 from sale of property and long term capital gain of Rs. 15,000 from sale of property.
- (iv) Other income/loss of Mr. Vishal includes
 - Interest from saving bank account of Rs. 1,75,000
 - Cash gift of Rs. 75,000 received from daughter of his sister on his birthday.
 - Income from betting of Rs. 25,000
 - Income from card games of Rs. 46,000
 - Loss on maintenance of race horses of Rs. 14,600

Compute the total income of Mr. Vishal for the Assessment Year 2024-25 if he has opted out of the default tax regime and the losses to be carried forward.

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

Particulars	Amount (Rs.)	Amount (Rs.)
Income from house property		
House in Delhi [Since Mr. Vishal receives direct or indirect benefit from income arising to his brother’s daughter, Ms. Deepika, from the transfer of house to her without consideration, such income is to be included in the total income of Mr. Vishal, even though the transfer may not be revocable during lifetime of Ms. Deepika]		
Gross Annual Value ³	5,50,000	
Less: Municipal taxes	-	
Net Annual Value	5,50,000	
Less: Deductions from Net Annual Value		



(a) 30% of Net Annual Value	1,65,000	
(b) Interest on loan	-	3,85,000
Capital Gains		-
Long term capital gain from sale of property	15,000	
Less: Short-term capital loss can be set-off against both short-term capital gains and long-term capital gains. Short term capital loss of Rs. 16,000 set off against long-term capital gains to the extent of Rs.15,000. Balance short term capital loss of Rs. 1,000 to be carry forward to A.Y.2025-26	<u>15,000</u>	
Income from other sources		
Dividend on preference shares [Taxable in the hands of Mr. Vishal as per section 60, since he transferred the income, i.e., dividend, without transferring the asset, i.e., preference shares]	4,50,000	
Interest from saving bank account	1,75,000	
Cash gift [Taxable as per section 56(2)(x), since sum of money exceeding Rs. 50,000 is received from his niece, who is not a relative]	75,000	
Income from betting [No loss is allowed to be set off against such income]	25,000	
Income from card games [No loss is allowed to be set off against such income]	<u>46,000</u>	<u>7,71,000</u>
Gross Total Income		11,56,000
Less: Deduction under Chapter VI-A		
Deduction under section 80TTA [Interest from savings bank account]	<u>10,000</u>	10,000
Total Income		11,46,000

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

Particulars	Amount (Rs.)
Short term capital loss [Rs. 16,000 – Rs. 15,000]	1,000
Loss on maintenance of race horses [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.]	14,600

QUESTION 2

MTP 1 JAN 25 (6 MARKS)

Vijay Prasad, a non resident aged 50 years furnishes the following information of the income from India for the year ended on 31-03-2024:

Income by way of salary (computed)	2,75,000
Short term capital loss	(1,85,000)
Business income - Retail business	1,20,000



Business income - whole sale business	(1,00,000)
Brought forward business loss (A.Y. 2021-22)	(1,35,000)
Long term capital gain from sale of building	2,00,000
Lottery winnings (gross)	45,000
Contribution to provident fund and NSC	1,50,000
Income of minor daughter Manisha from special talent	2,00,000
Compute his income tax liability assuming that he opts out of the default tax regime under section 115BAC	

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

Particulars	Rs.	Rs.
Salary		
Income by way of salary (computed)		2,75,000
Profits and gains from business and profession		
Business Income- Retail business	1,20,000	
Less: Set-off of business loss of Rs. 1,00,000 from wholesale business	<u>1,00,000</u>	
	20,000	
Less: Set-off of brought forward business loss of Rs. 1,35,000 of A.Y.2021-22 allowable to the extent of Rs. 20,000 by virtue of section 72(1)	<u>20,000</u>	Nil
[Balance brought forward business loss of Rs.1,15,000 (i.e., Rs. 1,35,000 – Rs.20,000) to be carry forward to A.Y. 2025-26 for set-off against business income of that year]		
Capital Gains		
Long-term capital gain on sale of building	2,00,000	
Less: Set-off of short term capital loss	<u>1,85,000</u>	15,000
Income from Other Sources		
Lottery winnings		45,000
Income of minor daughter from special talent [Not included in Vijay Prasad's income since it is earned from special talent]		-
Gross Total Income		3,35,000
Less: Deduction under section 80C		
Contribution to provident fund and NSC Rs. 1,50,000		<u>150,000</u>
Total Income		<u>1,85,000</u>
Tax on Rs. 1,85,000		
Tax on lottery income of Rs. 45,000 @30% [Unexhausted basic	13,500	



exemption limit can not be reduced from lottery income]		
Tax on LTCG of Rs. 15,000 @20% [Unexhausted basic exemption limit can not be reduced from LTCG as Mr. Vijay is a non resident]	3,000	
Tax on other income of Rs. 1,25,000 (since it does not exceed basic exemption limit)	-	
		16,500
Add: Health and education cess @4%		<u>660</u>
Tax liability		17,160

QUESTION 3
MTP 2 MAY 24 (6 MARKS)

The following are the details relating to Mr. Roshan, a resident Indian, relating to the year ended 31.03.2024

Particulars	Amount (Rs.)
Short term capital gain	1,50,000
Loss from house property [let out property]	2,50,000
Loss from speculative business	50,000
Loss from card games	20,000
Brought forward long term capital loss of A.Y. 2020-21	86,000
Dividend from ABC Ltd.	11,00,000
Loss from tea business	1,06,000

Mr. Roshan's wife, Shamita is employed with Ray Ltd., at a monthly salary of Rs. 25,000, where Mr. Roshan holds 21% of the shares of the company. Shamita is not adequately qualified for the post held by her in Ray Ltd.

You are required to compute taxable income of Mr. Roshan for the A.Y. 2024-25 if he has exercised the option to shift out of the default tax regime under section 115BAC. Ascertain the amount of losses which can be carried forward.

Computation of Taxable Income of Mr. Roshan for the A.Y. 2024-25 under normal provisions of the Act

Particulars	Rs.	Rs.
Salaries		
Shamita's salary (Rs. 25,000 x 12) [See Note 1]	3,00,000	
Less: Standard deduction under section 16(ia) upto Rs. 50,000	<u>50,000</u>	
	2,50,000	
Less: Loss from house property set off against salary income as per section 71(3A) [See Note 2]	<u>2,00,000</u>	50,000
Capital Gains		
Short term capital gain	1,50,000	

Less: Loss from tea business (Rs. 1,06,000 x 40%) [See Note 3 & 4]	<u>42,400</u>	1,07,600
Income from Other Sources		
Dividend income		<u>11,00,000</u>
Taxable Income		12,57,600

The following losses can be carried forward for subsequent assessment years:

(i) Loss from house property to be carried forward and set-off against income from house property	Rs. 50,000
(ii) Long-term capital loss of A.Y. 2020-21 can be carried forward and set-off against long-term capital gains	Rs. 86,000
(iii) Loss from speculative business to be carried forward and set-off against income from speculative business	Rs. 50,000

Notes:

- (1) As per section 64(1)(ii), all the income which arises directly or indirectly, to the spouse of any individual by way of salary, commission, fees or any other form of remuneration from a concern in which such individual has a substantial interest shall be included in the total income of such individual. However, where spouse possesses technical or professional qualification and the income is solely attributable to the application of such knowledge and experience, clubbing provisions will not apply. Since, Mrs. Shamita is not adequately qualified for the post and Mr. Roshan has substantial interest in Ray Ltd by holding 21% of the shares of the Ray Ltd., the salary income of Mrs. Shamita to be included in Mr. Roshan's income.
- (2) 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.
- (3) 60% of the losses from tea business is treated as agricultural income and therefore exempt under section 10(1). Loss from an exempt source cannot be set off against profits from a taxable source.
- (4) As per section 71(2A), business loss cannot be set off against salary income. Hence, 40% of the losses from tea business i.e., Rs. 42,400 can be set off against short term capital gains or dividend income.
- (5) Loss from card games can neither be set off against any other income, nor can it be carried forward.
- (6) Loss of Rs. 50,000 from speculative business can be set-off only against the income from the speculative business. Hence, such loss has to be carried forward.
- (7) As per section 74(1), brought forward long-term capital loss can be set-off only against long-term capital gain. Such loss can be carried forward for eight assessment years immediately succeeding the assessment year for which the loss was first computed. Since, 8 assessment years has not expired, such loss can be carried forward to A.Y. 2025-26 for set-off against long-term capital gains.


QUESTION 4
MTP 2 SEPT 24 (6 MARKS)
Mr. Mohit submits the following information for the previous year 2023-24:

		(Amount in Rs.)
(i)	Income from salary	6,50,000
(ii)	Income from House-I	55,000
(iii)	Loss from House-II (self-occupied property)	1,25,000
(iv)	Loss from House-III	190,000
(v)	Loss from leather business	68,000
(vi)	Profit from cloth business	1,70,000
(vii)	Short term capital loss in equity-oriented funds on which STT was paid	35,000
(viii)	Income from crossword puzzles	12,000
(ix)	Dividend from foreign company (Gross)	8,500
(x)	Loss on owning and maintenance of race horses	7,500
(xi)	Income from owning and maintenance of race bulls	9,000

Compute the gross total income and losses to be carried forward of Mr. Mohit for assessment year 2024-25 under regular provisions of the Act. Mr. Mohit has filed his return of income on 25.07.2024.

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

Particulars		Rs.	Rs.
Salaries			
Income from salary		6,50,000	4,50,000
Less: Loss from house property of Rs. 2,60,000, restricted to		<u>2,00,000</u>	
Income from house property			
Income from House I		55,000	
Less: Loss from House II (self-occupied)	1,25,000		
Loss from House III	<u>1,90,000</u>	<u>3,15,000</u>	
		(2,60,000)	
Set-off of loss from house property against salary income, restricted to		<u>2,00,000</u>	
Loss to be carried forward to A.Y. 2025-26		<u>(60,000)</u>	
Profits and gains of business or profession			
Profit from cloth business		1,70,000	
Less: Loss from leather business		<u>68,000</u>	1,02,000
Capital Gains			

Short term capital loss in equity-oriented funds on which STT is paid Rs. 35,000 to be carried forward to A.Y. 2025-26 since such loss can be set-off only against capital gains and not against income under any other head		
Income from other sources		
Income from owning and maintenance of race bulls Loss of Rs. 7,500 from the activity of owning and maintenance of race horses cannot be set-off against any source other than income from the activity of owning and maintaining race horses. Hence, such loss has to be carried forward to A.Y. 2025-26.	9,000 Nil	
Income from crossword puzzles	12,000	
Dividend from foreign company	<u>8,500</u>	<u>29,500</u>
Gross Total Income		<u>5,81,500</u>

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

Particulars	Rs.
Loss from house property [to be carried forward for set-off against income from house property]	60,000
Short-term capital loss in equity oriented funds on which STT was paid [to be carried forward for set-off against capital gains, long- term or short-term]	35,000
Loss from owning and maintaining race horses [to be carried forward for set-off against income from the activity of owning and maintaining race horses]	7,500

Note: Loss from house property can also be set-off to the extent of Rs. 1,02,000 from profits and gains from business or profession and balance i.e., Rs. 98,000 against Income under the head “Salaries”.

Particulars	Amount (Rs.)
Income from Salary (Computed)	27,40,000
Long term capital loss on sale of shares of Reliance Ltd. STT has been paid both at the time of acquisition and sale	(1,25,000)
Income from let out property in Kanpur	5,50,000
Loss from let out property in Delhi	(3,75,000)
Interest on self-acquired property in Mumbai	(1,50,000)

QUESTION 5

RTP JAN 25

Mr. Mayank, a resident individual, furnished the following information in respect of income earned and losses incurred by him for the F.Y. 2023-24



Net winnings from online games (Net of TDS)	35,000
Profit and gains from manufacturing business (after deducting normal depreciation of Rs.2,00,000 and additional depreciation of Rs.50,000)	36,86,000

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

Particulars	Amount
Business loss from manufacturing business	(5,35,000)
Unabsorbed normal depreciation	(2,10,000)
Loss from the activity of owning and maintaining the race horses	(1,50,000)
Loss from let out property in Delhi	(2,10,000)

Mr. Mayank filed his return of income for A.Y. 2023-24 on 28.7.2023 and opted for section 115BAC. Compute the Gross total income of Mr. Mayank for the A.Y. 2024-25 and the amount of loss, if any, that can be carried forward if he wants to continue with the provisions under section 115BAC.

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

Particulars	Amount (Rs.)	Amount (Rs.)
Income from Salary (Computed)		27,40,000
Income from house property		
Income from let out property in Kanpur	5,50,000	
Less: Set off of loss from let out property in Delhi	(3,75,000)	
Less: Interest u/s 24(b) is not allowed in case of self-occupied property since Mr. Mayank is paying tax under section 115BAC]	-	
Less: Loss from let out property in Delhi of A.Y. 2023-24 cannot be set off against income from house property of A.Y. 2024-25 since Mr. Mayank has paid tax under section 115BAC during the A.Y. 2023-24 and no deduction in respect of loss of house property of that year will be allowed in any subsequent year.	-	
		1,75,000
Profits and gains from business or profession		
Profits from manufacturing business	36,86,000	
Add: Additional depreciation not allowable in case of section 115BAC	50,000	
	37,36,000	
Less: Brought forward business loss of A.Y. 2023-24	(5,35,000)	
Less: Unabsorbed normal depreciation	(2,10,000)	29,91,000





Capital Gains		
Long term capital loss on sale of shares of Reliance Ltd. on which STT has been paid can be set off only against long term capital gains. Hence, it has to be carried forward	(1,25,000)	-
Income from Other Sources		
Net winnings from online games [Rs.35,000/70%]		50,000
Gross Total Income		59,56,000

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

Particulars	Amount (Rs.)
Brought forward loss from the activity of owning and maintaining the race horses of A.Y. 2023-24 can be set off only against the income from the activity of owning and maintaining race horses. Hence, it has to be carried forward.	1,50,000
Long term capital loss on sale of shares of Reliance Ltd. on which STT has been paid	1,25,000



10. Deductions From Gross Total Income

Illustrations from ISM

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 80QQB 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).

- (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 80QQB.

Illustration 2

Compute the eligible deduction under section 80C for A.Y.2025-26 in respect of life insurance premium paid by Mr. Ganesh during the P.Y.2024-25, the details of which are given hereunder, if Mr. Ganesh 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	9,00,000	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

	Date of issue of policy	Person insured	Actual capital sum assured (Rs.)	Insurance premium paid during 2024-25 (Rs.)	Deduct- ion u/s 80C for A.Y.2025-26 (Rs.)	Remark (restricted to % of sum assured) (Rs.)
(i)	30/3/2012	Self	9,00,000	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	

Illustration 3

What would your answer if Mr. Ganesh pays tax under default tax regime under section 115BAC?

If Mr. Ganesh pays tax under default tax regime under section 115BAC, he would not be eligible for deduction under section 80C.

Illustration 4

An individual assessee, resident in India, has made the following deposit/payment during the previous year 2024-25:

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. 2,20,000)	25,000

What is the deduction allowable under section 80C for A.Y.2025-26 if the assessee has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A)?

Computation of deduction under section 80C for A.Y.2025-26

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. 2,20,000, as the policy is taken after 31.3.2012)	22,000
Total	1,72,000
However, the maximum permissible deduction u/s 80C is restricted to	1,50,000

Illustration 5

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

What would be your answer if Mr. A pays tax under the default tax regime under section 115BAC?



(i) Tax treatment in the hands of Mr. A in respect of employer’s and own contribution to pension scheme referred to in section 80CCD, where Mr. A has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A) [i.e., where Mr. A pays tax under the normal provisions of the Act]

- (a)** Employer’s contribution to such pension scheme would be treated as salary since it is specifically included in the definition of “salary” under section 17(1)(viii). Therefore, Rs. 1,80,000, being 15% of basic salary of Rs. 12,00,000, will be included in Mr. A’s salary.
- (b)** 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.



(ii) Where Mr. A pays tax under the default tax regime under section 115BAC

Mr. A would not be eligible for deduction under section 80CCD(1)/(1B) in respect of his contribution to pension scheme under the default tax regime under section 115BAC. However, he would be allowed deduction of upto Rs. 2,01,600, being 14% of salary [Rs. 14,40,000, computed in (i) above] under section 80CCD(2) in respect of employer's contribution to pension scheme. Accordingly, entire employer's contribution of Rs. 1,80,000 would be allowed as deduction under section 80CCD(2).

Illustration 6

The gross total income of Mr. X for the A.Y.2025-26 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.2025-26 if Mr. X exercises the option of shifting out of the default tax regime provided under section 115BAC(1A).

Computation of deduction under Chapter VI-A for the A.Y.2025-26

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	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. 2025-26	1,50,000

Illustration 7

Mr. A, aged 40 years, paid medical insurance premium of Rs. 20,000 during the P.Y. 2024-25 to insure his health as well as the health of his spouse. He also paid medical insurance premium of 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. 2025-26 if Mr. A has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A).

Deduction allowable under section 80D for the A.Y.2025-26

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) Mediclaim 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 8

Mr. Y, aged 40 years, paid medical insurance premium of Rs. 22,000 during the P.Y. 2024-25 to insure his health as well as the health of his spouse and dependent children. He also paid medical insurance premium of 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. 2025-26 if Mr. Y has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A).

Deduction allowable under section 80D for the A.Y.2025-26

Particulars	Rs.	Rs.
(i) Medical insurance premium paid for self, spouse and dependent children	22,000	
(ii) Contribution to CGHS	6,000	
	28,000	
restricted to		25,000
(iii) Mediclaim premium paid for mother, who is over 60 years of age	33,000	
(iv) Medical expenditure incurred for father, who is over 60 years of age and not covered by any insurance	20,000	
	53,000	
restricted to		50,000
		75,000

Illustration 9

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. 2025-26, if Mr. X has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A).

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 10

What will be the deduction if Mr. X had made this deposit for his dependant father?

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 11

Mr. B has taken three education loans on April 1, 2024, 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.2025-26 if Mr. B has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A).

Deduction under section 80E is available to an individual assessee exercising the option of shifting out of the default tax regime provided under section 115BAC(1A), 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 12

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.2025-26 if Mr. A 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 31.3.2025 and he does not own any other house property.

Particulars	Rs.
Interest deduction for A.Y.2025-26	
(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 13

The following are the particulars relating to Mr. A, Mr. B, Mr. C and Mr. D, salaried individuals, for A.Y. 2025-26 –

Particulars	Mr. A	Mr. B	Mr. C	Mr. D
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.2025-26 in the hands of Mr. A, Mr. B, Mr. C and Mr. D if they have exercised the option of shifting out of the default tax regime provided under section 115BAC(1A). Assume that there has been no principal repayment in respect of any of the above loans upto 31.3.2025.

Particulars	Rs.
Mr. A	
Interest deduction for A.Y.2025-26	
(i) Deduction allowable while computing income under the head “Income from house property”	
Deduction u/s 24(b) Rs. 3,87,000 [Rs. 43,00,000 × 9%]	
Restricted to	2,00,000
(ii) Deduction under Chapter VI-A from Gross Total Income	
Deduction u/s 80EEA Rs. 1,87,000 (Rs. 3,87,000 – Rs. 2,00,000)	
Restricted to	1,50,000

Mr. B



Interest deduction for A.Y.2025-26

(i) Deduction allowable while computing income under the head “Income from house property”

Deduction u/s 24(b) Rs. 4,05,000 [Rs. 45,00,000 × 9%]

Restricted to 2,00,000

(ii) Deduction under Chapter VI-A from Gross Total Income

Deduction u/s 80EEA is not permissible since: Nil

(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.

Mr. C

Deduction under Chapter VI-A from Gross Total Income

Deduction u/s 80EEB for interest payable on loan taken for purchase of electric vehicle [Rs. 20 lakhs x 10% = 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 from Gross Total Income

Deduction u/s 80EEB is not permissible since loan was sanctioned before 1.4.2019. Nil

Illustration 14

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 Prime Minister’s Drought Relief 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. 2025-26 if he exercises the option of shifting out of the default tax regime provided under section 115BAC(1A).



Computation of Total Income of Mr. Shiva for A.Y. 2025-26

Particulars	Rs.	Rs.
Gross Total Income		7,75,000
Less: Deduction under section 80C		
Deposit in PPF	1,00,000	
Life insurance premium paid for insurance of major daughter (Maximum 10% of the assured value Rs. 1,80,000, as the policy is taken after 31.3.2012)	18,000	
	1,18,000	
Deduction under section 80CCC in respect of LIC pension fund	60,000	
	1,78,000	
As per section 80CCE, deduction under section 80C & 80CCC is restricted to		1,50,000
Deduction under section 80D		
Medical Insurance premium in respect of self and spouse	26,000	
Restricted to		25,000
Deduction under section 80G (See Working Note below)		87,500
Total income		5,12,500

Working Note: Computation of deduction under section 80G

Particulars of donation	Amount donated (Rs.)	% of deduction	Deduction u/s 80G (Rs.)
(i) National Children's Fund	25,000	100%	25,000
(ii) Prime Minister's Drought Relief Fund	25,000	50%	12,500
(iii) Approved institution for promotion of family planning	40,000	100%, subject to qualifying limit	40,000
(iv) Public Charitable Trust	50,000	50% subject to qualifying limit (See Note below)	10,000
			87,500

Note - Adjusted total income = Gross Total Income – Amount of deductions under section 80C to 80U except section 80G i.e., Rs. 6,00,000, in this case.

Rs. 60,000, being 10% of adjusted total income is the qualifying limit, in this case.

Firstly, donation of Rs. 40,000 to approved institution for family planning qualifying for 100% deduction subject to qualifying limit, has to be adjusted against this amount. Thereafter, donation to public charitable trust qualifying for 50% deduction, subject to qualifying limit is adjusted. Hence, the contribution of Rs. 50,000 to public charitable trust is restricted to 20,000 (being, Rs. 60,000 - Rs.

40,000), 50% of which would be the deduction under section 80G. Therefore, the deduction under section 80G in respect of donation to public charitable trust would be Rs. 10,000, which is 50% of Rs. 20,000..

Illustration 15

Mr. Ganesh, a businessman, whose total income (before allowing deduction under section 80GG) for A.Y.2025-26 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.2025-26 if he has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A).

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

(i) Actual rent paid less 10% of total income

$$\text{Rs. } 1,44,000 (-) \frac{(10 \times 4,60,000)}{100} = \text{Rs. } 98,000$$

(ii) 25% of total income = $\frac{25 \times 4,60,000}{100} = \text{Rs. } 1,15,000$

(iii) Amount calculated at Rs. 5,000 p.m. = Rs. 60,000

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

Illustration 16

During the P.Y. 2024-25, 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? ABC Ltd. does not opt for section 115BAA/115BAB.

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 17

Mr. A has commenced the business of manufacture of computers on 1.4.2024. He employed 350 new employees during the P.Y. 2024-25, the details of whom are as follows –

	No. of employees	Date of employment	Regular/ Casual	Total monthly emoluments per employee (Rs.)
(i)	75	1.4.2024	Regular	24,000
(ii)	125	1.5.2024	Regular	26,000
(iii)	50	1.8.2024	Casual	24,500
(iv)	100	1.9.2024	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. 2025-26, 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 1.4.2024?

Mr. A is eligible for deduction under section 80JJAA since he is subject to tax audit under section 44AB for A.Y. 2025-26 and he has employed “additional employees” during the P.Y. 2024-25.

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 1.8.2024 who do not participate in recognized provident fund	50
Regular employees employed on 1.5.2024, since their total monthly emoluments exceed Rs. 25,000	125
Regular employees employed on 1.9.2024 since they have been employed for less than 240 days in the P.Y.2024-25.	100
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 1.5.2024 also do not qualify as additional employees since their monthly emoluments exceed Rs. 25,000. Also, 100 regular employees employed on 1.9.2024 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 1.4.2024 qualify as additional employees, and the total emoluments paid or payable to them during the P.Y.2024-25 is deemed to be the additional employee cost.

(ii) As regards 100 regular employees employed on 1.9.2024, they would be treated as additional employees for previous year 2025-26, 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. 2026-27.

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 1.9.2024, since they have been employed for more than 150 days in the previous year 2024-25.

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 18

Mr. Aakash earned 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, 2025 is Rs. 2,30,000. The remaining amount was not remitted till 31st March, 2026. Compute the amount includible in the gross total income of Mr. Aakash and the amount of deduction which he will be eligible for under section 80QQB if he has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A).

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 would be Rs. 1,90,000 as calculated hereunder –

Particulars	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	40,000
Deduction u/s 80QQB	1,90,000

Illustration 19

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. 2024-25. 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. 2025-26 if he has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A)?

Computation of total income of Mr. A for A.Y.2025-26

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

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 20

Mr. Gurnam, aged 42 years, has salary income (computed) of Rs. 5,50,000 for the previous year ended 31.03.2025. 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 2025-26 from the following particulars, assuming he has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A):

- (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 15.07.2021 and



- the sum assured on life of his dependent parents is Rs. 2,00,000.
- (ii) Life insurance premium of Rs. 19,500 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 08.09.2020 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.

Computation of total income of Mr. Gurnam for the Assessment Year 2025-26

Particulars	Rs.	Rs.	Rs.
Income from salary			5,50,000
Interest on saving bank deposit			14,500
Gross Total Income			5,64,500
<i>Less: Deduction under Chapter VIA</i>			
Under section 80C (See Note 1)			
- major son	19,500		
- self Rs. 22,500 restricted to 10% of Rs. 2,00,000	20,000	39,500	
Under section 80D (See Note 2)			
Premium paid for Rs. 26,000 health insurance of self and wife by cheque, restricted to	25,000		
Payment made for health check-up for parents	4,500	29,500	
Under section 80E			
For payment of interest on loan taken from bank for MBA course of his daughter		6,500	
Under section 80TTA (See Note 4)			
Interest on savings bank account Rs. 14,500 restricted to		10,000	85,500
Total Income			4,79,000

Notes:

- (1) As per section 80C, no deduction is allowed in respect of premium paid for life insurance of parents, whether they are dependent or not. Therefore, no deduction is allowable in respect of Rs. 25,000 paid as premium for life insurance of dependent parents of Mr. Gurnam. In respect of insurance policy issued on or after 01.04.2012, deduction shall be allowed for life insurance premium paid only to the extent of 10% of sum assured. In case the insurance policy is



issued before 01.04.2012, deduction of premium paid on life insurance policy shall be allowed up to 20% of sum assured.

Therefore, in the present case, deduction of Rs. 19,500 is allowable in full in respect of life insurance of Mr. Gurnam's son since the insurance policy was issued before 01.04.2012 and the premium amount is less than 20% of Rs. 3,50,000. However, in respect of premium paid for life insurance policy of Mr. Gurnam himself, deduction is allowable only up to 10% of Rs. 2,00,000 since, the policy was issued on or after 01.04.2012 and the premium amount exceeds 10% of sum assured.

- (2) As per section 80D, in case the premium is paid in respect of health of a person specified therein and for health check-up of such person, deduction shall be allowed up to Rs. 25,000. Further, deduction up to Rs. 5,000 in aggregate shall be allowed in respect of health check-up of self, spouse, children and parents. In order to claim deduction under section 80D, the payment for health-checkup can be made in any mode including cash. However, the payment for health insurance premium has to be paid in any mode other than cash.

Therefore, in the present case, in respect of premium of Rs. 26,000 paid for health insurance of self and wife, deduction would be restricted to Rs. 25,000. Since the limit of Rs. 25,000 has been exhausted against medical insurance premium, no deduction is allowable for preventive health check-up for self and wife. However, deduction of Rs. 4,500 is allowable in respect of health check-up of his parents, since it falls within the limit of Rs. 5,000.

- (3) No deduction shall be allowed under section 80G in case the donation is made in cash of a sum exceeding Rs. 2,000. Therefore, deduction under section 80G is not allowable in respect of **cash donation** of Rs. 5,000 made to an institution approved for the purpose of section 80G for promotion of family planning.
- (4) As per section 80TTA, deduction shall be allowed from the gross total income of an individual or Hindu Undivided Family in respect of income by way of interest on deposit in the savings account included in the assessee's gross total income, subject to a maximum of Rs. 10,000. Therefore, deduction of Rs. 10,000 is allowable from the gross total income of Mr. Gurnam, though the interest from savings bank account is Rs. 14,500.

Illustration 21

Mr. Y furnishes you the following information for the year ended 31.3.2025:

Particulars	Rs. (in lacs)
Total turnover of Unit A located in Special Economic Zone	100
Profit of the business of Unit A	30
Export turnover of Unit A received in India in convertible foreign exchange on or before 30.9.2025	50
Total turnover of Unit B located in Domestic Tariff Area (DTA)	200
Profit of the business of Unit B	20



Compute deduction under section 10AA for the A.Y. 2025-26, assuming that Mr. Y commenced operations in SEZ and DTA in the year 2019-20 and Mr. Y has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A).

50% of the profit derived from export of articles or things or services is eligible for deduction under section 10AA, since F.Y. 2024-25 is the sixth year commencing from the year of manufacture or production of articles or things or provision of services by the Unit in SEZ. As per section 10AA(7), the profit derived from export of articles or things or services shall be the amount which bears to the profits of the business of the undertaking, being the Unit, the same proportion as the export turnover in respect of articles or things or services bears to the total turnover of the business carried on by the undertaking.

Deduction under section 10AA

$$= \text{Profit of the business of Unit A} \times \frac{\text{Export Turnover Of Unit A}}{\text{Total Turnver Of Unit A}} \times 50\%$$

$$= \text{Rs. 30 lakhs} \times \frac{50}{100} \times 50\% = \text{Rs. 7.52 lakhs}$$

Note – No deduction under section 10AA is allowable in respect of profits of business of Unit B located in DTA.



TYK from ISM

Question 1

Examine the following statements with regard to the provisions of the Income- tax Act, 1961:

- (i) During the financial year 2024-25, 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 irrespective of the tax regime.
- (v) Mrs. Sheela, widow of Mr. Satish (who was an employee of M/s. XYZ Ltd.), received Rs. 7 lakhs on 1.5.2024, 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.2025-26.
- (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. He has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A).

- (i) **The statement is correct.** The deduction under section 80E is available to an individual in respect of interest on loan taken for his higher education or for the higher education of his relative only if he exercises the option of shifting out of the default tax regime provided under section 115BAC(1A). 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, if he exercises the option of shifting out of the default tax regime provided under section 115BAC(1A). 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, if the assessee has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A).
- (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.** An individual would not be eligible for deduction u/s 80E if he pays tax under default tax regime under section 115BAC. If he has exercised the option of shifting out

of the default tax regime provided under section 115BAC(1A), deduction under section 80E would be available in respect of interest paid on education loan. Hence, the deduction will be limited to interest of Rs. 14,000, if he has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A).

(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. 2025-26.

(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, a resident individual, has to pay to a hospital for treatment Rs. 62,000 and spent nothing for life insurance or for maintenance of dependent disabled.**
- (ii) Varun, 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) Hari, a resident individual, has incurred Rs. 20,000 for treatment and Rs. 25,000 was deposited with LIC for maintenance of dependant disabled.**

- (i)** The deduction of Rs. 75,000 under section 80DD is allowable to Rajan, irrespective of the amount of expenditure incurred or paid by him. If the expenditure is incurred in respect of a dependant with severe disability, the deduction allowable is Rs. 1,25,000.
- (ii)** The assessee Varun has deposited Rs. 25,000 for maintenance of dependent disabled. He 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.

Question 3

For the A.Y. 2025-26, the Gross total income of Mr. 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 31.3.2025, in a tax efficient manner.

Computation of total income and tax liability of

Mr. Chaturvedi for the A.Y. 2025-26 under default tax regime

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

Computation of total income and tax liability of

Mr. Chaturvedi for the A.Y. 2025-26 under the optional tax regime

(i.e., the normal provisions of the Act)

Particulars	Rs.	Rs.
Gross total income incl. long term capital gain		8,18,240
<i>Less: Long term capital gain</i>		2,45,000
		5,73,240
Less: Deductions under Chapter VI-A		
Under section 80C in respect of PPF deposit	1,20,000	
Under section 80D (it is assumed that premium of Rs. 51,000 is paid by otherwise than by cash. The deduction would be restricted to Rs. 50,000, since Mr. Chaturvedi is a senior citizen)	50,000	
Under section 80G (See Notes 1 & 2 below)	17,662	
Under section 80TTB (See Note 3 below)	50,000	2,37,662
Total income (excluding long term capital gains)		3,35,578
Total income (including long term capital gains)		5,80,578
Total income (rounded off)		5,80,580
Tax on total income (including long-term capital gains of Rs. 2,45,000)		
LTCG Rs. 2,45,000 x 20%		49,000

Balance total income Rs. 3,35,580 (See Note 4 below)	1,779
	50,779
Add: Health and Education cess @4%	2,031
Total tax liability	52,810

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

Notes:

1. Computation of deduction under section 80G:

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

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

Question 4

Mr. Rajmohan whose gross total income was Rs. 6,40,000 for the financial year 2024-25, 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 A.Y. 2025-26 if he has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A).

Computation of total income of Mr. Rajmohan for the A.Y.2025-26

Particulars	Rs.	Rs.
Gross Total Income		6,40,000
Less: Deduction under Chapter VI-A		
Under section 80C		
Repayment of loan taken for acquisition of residential house	50,000	
Five year time deposit with Post Office	20,000	
	70,000	
Under section 80E		
Interest on loan taken for higher education of spouse, being a relative.	10,000	
Under section 80G (See Note below)		
Donation to recognized charitable trust (50% of 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. 2025-26 of Ms. Roma, aged 40 years, who has a gross total income of Rs. 15,00,000 for the A.Y. 2025-26 and has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A). She provides the following information about her investments/payments during the P.Y. 2024-25:

Sl. No.	Particulars	Amount (Rs.)
1.	Life Insurance premium paid (Policy taken on 31-03- 2012 and sum assured is Rs. 4,70,000)	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

Computation of eligible deduction under Chapter VI-A of

Ms. Roma for A.Y. 2025-26

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	
As per section 80CCE, aggregate deduction under, inter alia, section 80C and 80CCC, is restricted to		1,50,000
Deduction under section 80D		
Payment of medical insurance premium of 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

Mr. Rudra has one unit at Special Economic Zone (SEZ) and other unit at Domestic Tariff Area (DTA). He provides the following details for the previous year 2024-25.

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

Proceeds from export sales in SEZ received in convertible foreign exchange by 30.9.2025 is Rs. 3,00,00,000. He has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A). Calculate the eligible deduction under section 10AA of the Income-tax Act, 1961, for the Assessment Year 2025-26 if both the units were set up and start manufacturing from 22- 05-2016.

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

As per section 10AA, in computing the total income of Mr. Rudra from his unit located in a Special Economic Zone (SEZ), which begins to manufacture or produce articles or things or provide any services during the previous year relevant to the assessment year commencing on or after

01.04.2006 but before 01.04.2021, there shall be allowed a deduction of 100% of the profit and gains derived from export of such articles or things or from services for a period of five consecutive assessment years beginning with the assessment year relevant to the previous year in which the Unit begins to manufacture or produce such articles or things or provide services, as the case may be, and 50% of such profits for further five assessment years.

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

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

Since A.Y. 2025-26 is the 9th assessment year from A.Y. 2017-18, relevant to the previous year 2016-17, in which the SEZ unit began manufacturing of articles or things, it shall be eligible for deduction of 50% of the profits derived from export of such articles or things, assuming all the other conditions specified in section 10AA are fulfilled.

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

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

Export turnover of Unit in SEZ is the export sales in SEZ received in convertible foreign exchange by 30.9.2025 which is Rs. 3,00,00,000.

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

Working Note:

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

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

Past Exam Questions

QUESTION 1

PEP MAY 23 (4 Marks)

Mr. Ray, a resident individual, aged 37 years gives the following information with respect to various loans taken by him from scheduled banks for various purposes-

(i) A housing loan of Rs. 36,00,000/- taken on 15th March, 2022 for the purchase of a house to be used for self-residence at a cost of Rs. 47,00,000/-. The stamp duty value of the house was Rs. 42,00,000/- at the time of purchase. Amount of re-payment of loan during P.Y.2022-23 was:

(A) towards principal - Rs. 1,25,000/-

(B) towards interest - Rs. 3,65,000/-

This is the first and only residential house owned by Mr. Ray.

(ii) A vehicle loan of Rs. 16,00,000/- taken on 31st October, 2021 for the purchase of electric vehicle for personal use. Amount of re-payment of loan during P.Y.2022-23 was:

(A) towards principal - Rs. 75,000/-

(B) towards interest - Rs. 1,90,000/-

Besides these loans, he has also paid a sum of Rs. 15,000 to a political party as contribution. The entire amount was paid in cash.

You are required to compute the amount of deduction(s) available to Mr. Ray under various provisions of Income-tax Act for A.Y.2023-24 so that he gets the maximum benefits assuming that he does not opt to pay tax under section 115BAC.

Computation of amount of deductions available to Mr. Ray for A.Y. 2023 -24

		Amount (Rs.)	
(i)	<p>Deduction allowable while computing income under the head "Income from house property"</p> <p>Deduction under section 24(b) for interest on loan of Rs. 3,65,000 in respect of self-occupied property restricted to</p>	2,00,000	
(ii)	<p>Deduction under Chapter VI-A from Gross Total Income</p> <p>Deduction under section 80C</p> <p>For repayment of loan of Rs. 1,25,000 to bank</p> <p>Deduction under section 80EEA</p> <p>Since stamp duty value does not exceed Rs. 45 lakhs and Mr. Ray does not own any residential house, he is eligible for deduction of upto Rs. 1,50,000 in respect of such interest on loan since loan is sanctioned between 1.4.2019 and 31.3.2022.</p> <p>Rs. 3,65,000 – Rs. 2,00,000 [claimed as deduction u/s 24(b)] = Rs. 1,65,000 restricted to Rs. 1,50,000, being the maximum</p>	1,25,000	

	permissible deduction	1,50,000	
	Deduction under section 80EEB Deduction for interest on loan for purchase of electric vehicle of Rs. 1,90,000 restricted to Rs. 1,50,000, being the maximum permissible deduction, since loan is sanctioned between 1.4.2019 and 31.3.2023. No deduction in respect of principal repayment of loan for purchase of electric vehicle is allowable	1,50,000	
	Deduction under section 80GGC Contribution of Rs. 15,000 to political party not allowable since the sum is paid in cash	Nil	
	Deduction under Chapter VI-A from Gross Total Income		4,25,000

QUESTION 2
PEP NOV 23 (3 Marks)

Mr. Suraj, an Indian citizen, gives the following details of his income and expenses during the year 2022-23:

	Rs.
Income from profession	11,70,000
Winning from lottery	70,000
Contribution to ULIP 1971 plan for spouse	70,000
Cheque donation to National Defence Fund	60,000
Cheque donation to Government for promoting family planning	35,000
Cheque the deduction to approved public charitable institute	1,20,000

Compute the deduction under section 80G allowable to him for the assessment year 2023-24.

Computation of deduction available to Mr. Suraj under section 80G for A.Y. 2023-24

	Particulars	Amount (Rs.)
(i)	Donation to National Defence Fund by cheque [100% of Rs. 60,000 is allowed as deduction without any qualifying limit]	60,000
(ii)	Donation to Government for promoting family planning by cheque - 100% of Rs. 35,000, subject to qualifying limit of Rs. 1,17,000 [See Note below] is allowed as deduction	35,000
(iii)	Donation to approved public charitable institute by cheque is to be restricted to lower of - Rs. 60,000 (50% of Rs. 1,20,000) or - Rs. 41,000 [50% of qualifying limit after adjusting donation for family planning i.e., Rs. 82,000 (Rs. 1,17,000 – Rs. 35,000)]	41,000
	Deduction under section 80G	1,36,000

Note - Qualifying limit is Rs. 1,17,000 (10% of Rs. 11,70,000, being adjusted total income)

Adjusted total income = Rs. 11,70,000 (Rs. 11,70,000, being income from profession + Rs. 70,000, being winnings from lottery – Rs. 70,000, being deduction under section 80C)



Questions from MTP, RTP





11. Advance Tax, TDS & TCS

Illustrations from ISM

Illustration 1

Mr. A, the employer, pays gross salary including allowances and monetary perquisites amounting to Rs.7,30,000 to his General Manager. Besides, the employer provides non-monetary perquisites to him whose value is estimated at Rs.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?

	Rs.
Gross salary, allowances and monetary perquisites	7,30,000
Non-Monetary perquisites	<u>1,20,000</u>
	8,50,000
Less: Standard deduction under section 16(ia)	<u>50,000</u>
	<u>8,00,000</u>
Tax Liability	75,400
Average rate of tax (Rs.75,400 / Rs.8,00,000 × 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 Rs.1,20,000 = Rs.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).

Illustration 2

Examine the TDS implications under section 194A in the cases mentioned hereunder–

- (i) On 1.10.2024, 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 31.3.2025.
- (ii) On 1.6.2024, 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 28.2.2025.
- (iii) On 1.10.2024, 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 31.3.2025.



- (i) ABC Co-operative Bank has to deduct tax at source@10% on the interest of Rs.45,000 ($9\% \times \text{Rs.}10 \text{ lakh} \times \frac{1}{2}$) 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 31.3.2025 to Mr. Rajesh, since such interest does not exceed the threshold limit of Rs.40,000.

Illustration 3

ABC Ltd. makes the following payments to Mr. X, a contractor, for contract work during the P.Y.2024-25–

Rs.20,000 on 1.5.2024

Rs.25,000 on 1.8.2024

Rs.28,000 on 1.12.2024

On 1.3.2025, 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.

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. 2024-25 exceeds Rs.1,00,000 (on account of the last payment of Rs.30,000, due on 1.3.2025, 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., $\text{Rs.}30,000 - \text{Rs.}1,030$) has to be paid to Mr. X.

Illustration 4

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.

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 5

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.

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 6

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

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



for deduction of tax at source attracted.

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

Therefore, the amount of tax to be deducted at source
 = Rs.6,00,000 x 10% = Rs.60,000

Illustration 7

Mr. X, a salaried individual, pays rent of Rs.55,000 per month to Mr. Y from June, 2024. Is he required to deduct tax at source? If so, when is he required to deduct tax? Also, compute the amount of tax to be deducted at source.

Would your answer change if Mr. X vacated the premises on 31st December, 2024?

Also, what would be your answer if Mr. Y does not provide his PAN to Mr. X?

Since Mr. X pays rent exceeding Rs.50,000 per month in the F.Y. 2024-25, he is liable to deduct tax at source @5% till 30.09.2024 and thereafter @2% of such rent for F.Y. 2024-25 under section 194-IB. Thus, Rs.17,600 [(Rs.55,000 x 5% x 4)+ (Rs.55,000 x 2% x 6)] has to be deducted from rent payable for March, 2025.

If Mr. X vacated the premises in December, 2024, then tax of Rs.14,300 [(Rs.55,000 x 5% x 4)+(Rs.55,000 x 2% x 3)] has to be deducted from rent payable for December, 2024.

In case Mr. Y does not provide his PAN to Mr. X, tax would be deductible@20%, instead of 5% and 2%.

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, 2025.

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, 2024.

Illustration 8

XYZ Ltd. makes a payment of Rs.28,000 to Mr. Ganesh on 2.8.2024 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.

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.2024-25.

Illustration 9

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.2024-25
1.	Mr.Ganesh, an individual carrying	Contract Payment for repair of residential house	Rs.5 lakhs
	on retail business with turnover of Rs.2.5 crores in the P.Y.2023-24	Payment of commission to Mr. Vallish for business purposes	Rs.80,000 in November 2024
2.	Mr. Rajesh, a wholesale trader whose turnover was Rs.95 lakhs in P.Y. 2023-24.	Contract Payment for reconstruction of residential house (made during the period January- March, 2025)	Rs.20 lakhs in January, 2025, Rs.15 lakhs in Feb 2025 and Rs.20 lakhs in March 2025.
3.	Mr. Satish, a salaried individual	Payment of brokerage for buying a residential house in March, 2025	Rs.51 lakhs
4.	Mr.Dheeraj, a pensioner	Contract payment made during October-November 2024 for reconstruction of residential house	Rs.48 lakhs

	Particulars of the payer	Nature of payment	Aggregate of payments in the F.Y.2024-25	Whether TDS provisions are attracted?
1.	Mr.Ganesh, an individual carrying on retail business with turnover of Rs. 2.5 crores in the P.Y.2023-24	Contract Payment for repair of residential house	Rs.5 lakhs	No; TDS under section 194C is not attracted since the payment is for personal purpose. TDS under section 194M is not attracted as aggregate of contract payment to the payee in the P.Y.2024-25 does not exceed Rs.50 lakh.
		Payment of commission to Mr. Vallish for business purposes	Rs.80,000	Yes, u/s 194H @2%, since the payment exceeds Rs.15,000, and Mr. Ganesh's turnover exceeds Rs.1 crore in the P.Y.2023-24.
2.	Mr. Rajesh, a wholesale trader whose turnover	Contract Payment for reconstruction of residential	Rs.55 lakhs	Yes, u/s 194M @2%, since the aggregate of payments (i.e., Rs.55 lakhs) exceed Rs.50

was Rs.95 lakhs house
in P.Y. 2023-24

lakhs. Since, his turnover does not exceed 1 crore in the P.Y.2023-24, TDS provisions under section 194C are not attracted in respect of payments made in the P.Y. 2024-25.

3. Mr.Satish, a salaried individual
Payment of brokerage for buying a residential house
Rs.51 lakhs

Yes, u/s 194M @2%, since the payment of Rs.51 lakhs made in March 2025 exceeds the threshold of Rs.50 lakhs. Since Mr. Satish is a salaried individual, the provisions of section 194H are not applicable in this case.

4. Mr. Dheeraj, a pensioner
Contract payment for reconstruction of residential house
Rs.48 lakhs

TDS provisions under section 194C are not attracted since Mr. Dheeraj is a pensioner. TDS provisions under section 194M are also not applicable in this case, since the payment of Rs.48 lakhs does not exceed the threshold of Rs.50 lakhs.

Illustration 10

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 30.6.2024, towards maturity proceeds of LIC policy taken on 1.7.2021, 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 31.12.2024 on LIC policy taken on 31.12.2011, for which the sum assured is Rs.3.50 lakhs and the annual premium is Rs.26,100.
- (iii) Mr. Z, a resident, is due to receive Rs.95,000 on 1.8.2024 towards maturity proceeds of LIC policy taken on 1.8.2017 for which the sum assured is Rs.90,000 and the annual premium was Rs.10,000.

- (i) Since the annual premium exceeds 10% of sum assured in respect of a policy taken after 31.3.2012, the maturity proceeds of Rs.4.50 lakhs due on 31.3.2024 are not exempt under section 10(10D) in the hands of Mr. X. Therefore, tax is required to be deducted @5% under section 194DA on the amount of income comprised therein i.e., on Rs.75,000 (Rs.4,50,000, being maturity proceeds - Rs.3,75,000, being the aggregate amount of insurance premium paid).
- (ii) Since the annual premium is less than 20% of sum assured in respect of a policy taken before 1.4.2012, the sum of Rs.3.95 lakhs due to Mr. Y would be exempt under section 10(10D) in his hands. Hence, no tax is required to be deducted at source under section 194DA on such sum payable to Mr. Y.
- (iii) Even though the annual premium exceeds 10% of sum assured in respect of a policy taken after 31.3.2012, and consequently, the maturity proceeds of Rs.95,000 due on 1.8.2024 would not be exempt under section 10(10D) in the hands of Mr. Z, the tax deduction provisions under section 194DA are not attracted since the maturity proceeds are less than Rs.1 lakh.

Illustration 11

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 1.8.2024. He has purchased the house property and the land in the year 2023 for Rs.40 lakh and Rs.10 lakh, respectively. The stamp duty value on the date of transfer, i.e., 1.8.2024, 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.

(i) Tax implications in the hands of Mr. X

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.2025-26.

Since rural agricultural land is not a capital asset, the gains arising on sale of such land is not taxable in the hands of Mr. X.

(ii) Tax implications in the hands of Mr. Y

In case immovable property is received for inadequate consideration, the difference between the stamp value and actual consideration would be taxable under section 56(2)(x), if such difference exceeds the higher of Rs.50,000 and 10% of the consideration. 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).

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.

(iii) TDS implications in the hands of Mr. Y

Since the sale consideration of house property or the stamp duty value 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.85,000, being 1% of Rs.85 lakhs (higher of Rs.60 lakhs or Rs.85 lakhs).

TDS provisions under section 194-IA are not attracted in respect of transfer of rural agricultural land.

Illustration 12

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% p.a. 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 1.4.2024. Interest on savings bank credited to his SBI savings account for the P.Y.2024-25 is Rs.9,500.

- (1) From the above facts, compute the total income and tax liability of Mr. Sharma for the A.Y. 2025-26, assuming that he has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A).
- (2) What would be the amount of tax deductible at source by SBI, assuming that the same is a specified bank? Is Mr. Sharma required to file his return of income for A.Y.2025-26, if tax deductible at source has been fully deducted? Examine.
- (3) Is Mr. Sharma required to file his return of income for A.Y. 2025-26, if the fixed deposit of Rs.20 lakh was with Canara Bank instead of SBI, other facts remaining the same?

(1) Computation of total income of Mr. Sharma for A.Y.2025-26

Particulars	Rs.	Rs.
I Salaries		
Pension (Rs.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.2025-26

Particulars	Rs.
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 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”. 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.

Illustration 13

Mr. Gupta, a resident Indian, is in retail business and his turnover for F.Y.2023-24 was Rs.12 crores. He regularly purchases goods from another resident, Mr. Agarwal, a wholesaler, and the aggregate payments during the F.Y.2024-25 was Rs.95 lakh (Rs.20 lakh on 1.6.2024, Rs.25 lakh on 12.8.2024, Rs.22 lakh on 23.11.2024 and Rs.28 lakh on 25.3.2025). Assume that the said amounts were credited to Mr. Agarwal’s account in the books of Mr. Gupta on the same date. Mr. Agarwal’s turnover for F.Y.2023-24 was 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.2023-24 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?

(1) Since Mr. Gupta’s turnover for F.Y.2023-24 exceeds 10 crores, and payments made by him to Mr. Agarwal, a resident seller exceed Rs.50 lakhs in the P.Y.2024-25, 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 1.6.2024 and 12.8.2024, 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 23.11.2024 [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 25.3.2025.

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.2023-24 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.2023-24 and his receipts from Mr. Gupta exceed Rs.50 lakhs.

No tax is to be collected u/s 206C(1H) on 1.6.2024 and 12.8.2024, 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 23.11.2024 (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 25.3.2025.

- (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 23.11.2024 and 25.3.2025, 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 23.11.2024 and 25.3.2025, respectively.



TYK from ISM

Question 1

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

Total turnover for the financial year -

Particulars	Rs.
2023-24	1,05,00,000
2024-25	95,00,000

Examine whether tax deduction at source provisions are attracted for the below said expenses incurred during the financial year 2024-25:

Particulars	Rs.
Interest paid to UCO Bank on 15.8.2024	41,000
Contract payment to Raj (2 contracts of Rs.12,000 each) on 12.12.2024	24,000
Shop rent paid (one payee) on 21.1.2025	2,50,000
Commission paid to Balu on 15.3.2025	7,000

As the turnover of business carried on by Ashwin for F.Y. 2023-24, has exceeded Rs.1 crore, he has to comply with the tax deduction provisions during the financial year 2024-25, 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 2024-25 as per the provisions of the Income-tax Act, 1961.

S. No.	Date	Nature of Payment
(i)	1-10-2024	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 alongwith his PAN.
(ii)	1-11-2024	Payment of fee for technical services of Rs.25,000 and Royalty of





		Rs.20,000 to Mr. Shyam who is having PAN.
(iii)	30-06-2024	Payment of Rs.25,000 to M/s X Ltd. for repair of building.
(iv)	01-01-2025	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)	01-01-2025	Payment of Rs.2,30,000 made to Mr. Bharat for compulsory acquisition of his house as per law of the State Government.
(vi)	01-02-2025	Payment of commission of Rs.14,000 to Mr. Y.

- i) No tax is required to be deducted at source under section 194C by M/s S Ltd. on payment to transporter Mr. R, since he satisfies the following conditions:
- (1) He owns ten or less goods carriages at any time during the previous year.
 - (2) He is engaged in the business of plying, hiring or leasing goods carriages;
 - (3) He has furnished a declaration to this effect along with his PAN.
- ii) As per section 194J, liability to deduct tax is attracted only in case the payment made as fees for technical services and royalty, individually, exceeds Rs.30,000 during the financial year. In the given case, since, the individual payments for fee of technical services i.e., Rs.25,000 and royalty Rs.20,000 is less than Rs.30,000 each, there is no liability to deduct tax at source. It is assumed that no other payment towards fees for technical services and royalty were made during the year to Mr. Shyam.
- iii) Provisions of section 194C are not attracted in this case, since the payment for repair of building on 30.06.2024 to M/s X Ltd. is less than the threshold limit of Rs.30,000.
- iv) According to section 194C, the definition of “work” does not include the manufacturing or supply of product according to the specification by customer in case the material is purchased from a person other than the customer or associate of such customer.
Therefore, there is no liability to deduct tax at source in respect of payment of Rs.2,00,000 to Mr. A, since the contract is a contract for ‘sale’.
- v) As per section 194LA, any person responsible for payment to a resident, any sum in the nature of compensation or consideration on account of compulsory acquisition under any law, of any immovable property, is responsible for deduction of tax at source if such payment or the aggregate amount of such payments to the resident during the financial year exceeds Rs.2,50,000. In the given case, no liability to deduct tax at source is attracted as the payment made does not exceed Rs.2,50,000.
- vi) As per section 194H, tax is deductible at source if the amount of commission or brokerage or the aggregate of the amounts of commission or brokerage credited or paid during the financial year exceeds Rs.15,000.
Since the commission payment made to Mr. Y does not exceed Rs.15,000, the provisions of section 194H are not attracted.





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 27.9.2024.
- (b) Fee paid on 1.12.2024 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 01-01-2025.

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 1.12.2024 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.2024-25. 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:
 = Rs.19,000 x 10% = 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 F.Y. 2024-25:

- (1) 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 31.3.2025.
- (2) Winning from horse race Rs.1,50,000 paid to Mr. Shyam, an Indian resident.
- (3) Rs.2,00,000 paid to Mr. A, a resident individual, on 22-02-2025 by the State of Uttar Pradesh on compulsory acquisition of his urban land.

- (1) Provisions of tax deduction at source under section 194C are attracted in respect of payment by a company to a sub-contractor. Under section 194C, tax is deductible at the time of credit or payment, whichever is earlier @1% in case the payment is made to an individual. Since the aggregate amount credited or paid during the year is Rs.4,20,000, tax is deductible @1% on Rs.4,20,000.
 Tax to be deducted = Rs.4,20,000 x 1% = **Rs.4,200**
- (2) 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.45,000.**
- (3) As per section 194LA, any person responsible for payment to a resident, any sum in the nature of compensation or consideration on account of compulsory acquisition under any law, of any immovable property, is required to deduct tax at source, if such payment or the aggregate amount of such payments to the resident during the financial year exceeds 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.

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

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

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

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

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

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

Past Exam Questions

QUESTION 1

PEP MAY 23 (7 MARKS)

- (i) Miss Tara, resident individual aged 32 years, is a social media influencer. She makes videos reviewing various electronic items and posts those videos on social media. On 1st December 2022, XYZ Ltd., an Indian company manufacturer of electronic cars gave her a brand new car having fair market value of Rs. 6 lakhs to promote on her social media page. She used that car for 7 months for her personal purposes, recorded a video reviewing the car and then returned the car to the company. You are required to discuss the applicable provisions in the Income-tax Act regarding the deduction of tax at source in respect of such transaction.
- (ii) Ms. Aruna is a Chief Executive Officer of a multi-national company. She hires Mr. Suresh for supply of her housing staff (like gardener, chefs and drivers etc.) and makes the following payments to him:
Rs. 25,00,000/- on 10th August, 2022 and Rs. 30,00,000 on 22nd November, 2022.
Determine the amount of tax to be deducted/ collected at source, if any.
Would your answer be different, if Ms. Aruna is a business woman and her books are not audited in immediately preceding financial year and payment to Mr. Suresh is for business purposes.
- (iii) By virtue of an agreement with Nationalized Bank, M/s ABC Pvt Ltd., a company engaged in catering business received Rs. 60,000 p.m. towards supply of food, water, snacks, etc. during office hours to the employees of the bank. Discuss the TDS implication of this transaction/agreement.

- (i) Under section 194R, the person who is responsible for providing to a resident, any benefit or perquisite whether convertible into money or not, arising from business or the exercise of a profession by such resident, has to first ensure deduction of tax @10% of the value of such benefit or perquisite, if the same exceeds Rs. 20,000.
However, in case of benefit or perquisite being a product like car, mobile etc. if the product is returned to the manufacturing company after using for the purpose of rendering service, then it will not be treated as a benefit/perquisite for the purposes of section 194R.
Accordingly, in the present case, since Miss Tara has returned the car to XYZ Ltd., TDS provisions under section 194R would not apply.
- (ii) The provisions of section 194C would not apply in the hands of Ms. Aruna since the amount paid to Mr. Suresh is for supply of her housing staff. Hence, it is used exclusively for her personal purposes.
In this case, tax is required to be deducted at source from such amount under section 194M @5%, since the aggregate payment made to Mr. Suresh for the said contract exceeds Rs. 50 lakhs during the P.Y.2022-23.
Accordingly, Rs. 2,75,000, being 5% of Rs. 55,00,000 [Rs. 25,00,000 + Rs. 30,00,000], is required

to be deducted at source.

In case Ms. Aruna made payment to Mr. Suresh for business purposes and she is not required to get her books of account audited [assuming her turnover from such business does not exceed Rs. 1 crore in P.Y. 2021-22], she is not required to deduct tax at source under section 194C. In such case also, she is required to deducted tax at source of Rs. 2,75,000 under section 194M.

Note – In the question, it is mentioned that Ms. Aruna is a business woman and her books are not audited in immediately preceding financial year. However, whether the provisions of section 194C would be attracted are dependent on whether the turnover of business carried on by her during the financial year immediately preceding the financial year in which the sum credited or paid exceeds Rs. 1 crore. In the absence of this information, it is possible that audit may not be required in her case due to the following reasons-

- her turnover exceeds Rs. 1 crore but does not exceed Rs. 10 crores and receipts and payments in cash does not exceed 5% of such receipts or payments, respectively.
- her turnover exceeds Rs. 1 crore but does not exceed Rs. 2 crore and she is declaring profits under the presumptive provisions of section 44AD.

Accordingly, following alternate answer is also possible based on the assumption that turnover of Ms. Aruna’s business exceeds Rs. 1 crore.

Alternative answer - In case Ms. Aruna made payment to Mr. Suresh for business purposes during the P.Y. 2021-22, she would be required to deduct tax at source @1% under section 194C amounting to Rs. 55,000 (since payment is made to Mr. Suresh, an individual) of Rs. 55,00,000.

(iii) According to section 194C, the definition of “work” include catering. In the present case, nationalised bank is required to deduct tax source @2% on Rs. 7,20,000 [Rs. 60,000 x 12] paid to ABC Pvt. Ltd. for providing catering services to the bank, since amount of Rs. 60,000 paid every month exceeds the threshold of Rs. 30,000.

Therefore, nationalised bank is required to deduct tax at source of Rs. 1,200 per month amounting to Rs. 14,400 for the year.

QUESTION 2

PEP NOV 23 (6 MARKS)

Discuss the liability of tax deduction at source under the Income-tax Act, 1961 in respect of the following cases with reference to A.Y. 2023- 24. (State applicable provision and give brief reasons for your answer, wherever applicable)

(i) XYZ, a resident partnership firm is in retail business buying fabric material regularly from ABC, a resident proprietorship firm. Details of transactions during P.Y. 2022-23 are as given:

Particulars	Date of Payment	Amt (Rs.)
Advance payment	1.4.2022	40,00,000
Payment for supplies	2.7.2022	20,00,000
Advance payment	4.8.2022	12,00,000

XYZ achieved gross turnover of Rs. 12 crore from the business during the financial year



2021-22 and the gross business turnover for financial year 2022-23 turns out to be Rs. 9 crores. Gross business turnover of ABC for the financial year 2021 -22 was Rs. 6 crores. Will your answer be same, if the gross turnover of XYZ during the financial year 2021-22 includes Rs. 4 crore towards supply of material for charitable purposes?

(ii) MJ, a part time director of ABZ Pvt. Ltd. was paid an amount of Rs. 2,49,000 as commission on sales (which was not in the nature of Salary) for the period 01.04.2022 to 31.03.2023.

(iii) Mr. Kumar, a resident senior citizen, aged 86 years, is a retired State Govt. employee. He gets pension of Rs. 72,000 p.m. He has his saving account with Bank of Baroda, a bank notified by the Central Govt. u/s 194P, has received the interest on saving account Rs. 15,000 during the P.Y. 2022-23. His pension is also credited in this account. In the same bank he has deposited Rs. 10 Lakh in a Term Deposit @7% simple interest on 01.07.2022. He has no other income. He has not opted section 115BAC. Discuss requirement of filing of income tax return also.

(i) Tax is required to be deducted at source under section 194Q by XYZ, being a buyer, since its turnover in the immediately preceding financial year i.e., F.Y. 2021-22 exceeds Rs. 10 crores and it has purchased goods exceeding Rs. 50 lakhs in the F.Y. 2022-23. TDS u/s 194Q would be 0.1% of the sum exceeding Rs. 50 lakhs and the same has to be deducted at the time of payment or credit of such sum to the account of resident seller, whichever is earlier.

Therefore, in the present case, XYZ, a resident partnership, is required to deduct tax at source – On 2.7.2022 of Rs. 1,000, being @0.1% on Rs. 10 lakhs exceeding Rs. 50 lakhs (Rs. 40,00,000 on 1.4.2022 + Rs. 20,00,000 on 2.7.2022).

On 4.8.2022 of Rs. 1,200, being @0.1% Rs. 12 lakhs.

No, in such case, the amount of turnover of XYZ would not exceed Rs. 10 crores in F.Y. 2021-22, since Rs. 4 crores towards supply of material for charitable purposes, being a non-business activity, would not be considered for the purpose of turnover.

Accordingly, XYZ is not required to deduct tax at source under section 194Q.

(ii) ABZ Pvt. Ltd. is required to deduct tax at source u/s 194J @10% on Rs. 2,49,000 paid to MJ, a part time director, as commission, which is not in the nature of salary on which tax is deductible under section 192.

Therefore, Rs. 24,900 (Rs. 2,49,000 x 10%) is required to be deducted at source.

(iii) Bank of Baroda, being a specified bank notified by the Central Government u/s 194P is required to deduct tax at source at the rates in force on the total income of Mr. Kumar, being a specified senior citizen (75 years or more) computed as follows:

Computation of total income of Mr. Kumar not opting for section 115BAC and tax liability for

A.Y.2023-24

	Particulars	Rs.	Rs.
I	Salaries		
	Pension (Rs. 72,000 x 12)	8,64,000	



Less: Standard deduction u/s 16(ia)	<u>50,000</u>	8,14,000
II Income from Other Sources		
Interest on savings account	15,000	
Interest on fixed deposit (Rs. 10 lakh x 7% x 9/12)	<u>52,500</u>	
		<u>67,500</u>
Gross total income		8,81,500
Less: Deductions under Chapter VI-A Under section 80TTB		
Interest on fixed deposit and savings account, restricted to Rs. 50,000, since Mr. Kumar is a resident Indian of the age of 60 years or more	<u>50,000</u>	<u>50,000</u>
Total Income		<u>8,31,500</u>
Computation of tax liability for A.Y. 2023-24		
Tax on Rs. 8,31,500 [20% on income exceeding Rs. 5 lakhs, being the basic exemption limit, since Mr. Kumar is of the age of 80 years or more]		66,300
Add: Health and Education Cess@4%		<u>2,652</u>
Tax liability		<u>68,952</u>
Tax liability (Rounded off)		<u>68,950</u>

Accordingly, Bank of Baroda is required to deduct tax at source of Rs. 68,950 for the P.Y. 2022 -23. In such case, Mr. Kumar is not required to file his return of income for A.Y. 2023-24.

Note – The question mentions that Mr. Kumar has deposited Rs. 10 lakhs in a Term Deposit in the same bank but does not specify the duration of the term deposit. The above is given assuming that term deposit is not for 5 years. However, alternate assumption that such term deposit is for 5 years is also possible. In such a case, Mr. Kumar would be eligible for deduction under section 80C of Rs. 1,50,000 for deposit in 5 years term deposit. In that case, deduction under Chapter VI-A would be Rs. 2,00,000, total income would be Rs. 6,81,500 and tax liability (rounded off) would be Rs. 37,750.

QUESTION 3

PEP NOV 23 (4 MARKS)

Explain the provisions of tax collection at source for overseas remittance by an authorized dealer. Also enumerate the rate of tax to be collected and the amount on which no tax is to be collected.

An authorised dealer, who receives amount, under the Liberalised Remittance Scheme of the RBI, for overseas remittance from a buyer, being a person remitting such amount out of India is required to collect tax at source at the time of debiting the amount or at the time of receipt of such amount, whichever is earlier.



Rate of TCS in case of collection by an authorized dealer

	Amount and purpose of remittance	Rate of TCS
(1)	Amount or aggregate of amounts remitted for a purpose other than for purchase of overseas tour programme package and <ul style="list-style-type: none"> • Amount or aggregate of amounts remitted is less than Rs. 7 lakhs in a financial year • amount or aggregate of the amounts remitted is in excess of Rs. 7 lakhs 	Nil (No TCS) 5% in excess of Rs. 7 lakhs
(2)	Amount aggregate of the amounts remitted out is a loan obtained from any financial institution as defined in section 80E, for the purpose of pursuing any education; and the amount remitted exceed Rs. 7 lakhs in a financial year.	0.5% of the amount or aggregate of amounts in excess of Rs. 7 lakh

QUESTION 4

PEP May 2024 (4 MARKS)

Examine the applicability of Tax Deduction at Sources (TDS) or Tax Collection at Source (TCS) as per the Income Act, 1961 for the assessment year 2024 - 25 in the following independent situations.

- (i) ABC Limited paid rent of Rs. 75,000+18% GST per month to Mr. Ram for the office premises from 01.04.2023 to 31.03.2024. Mr. Ram has furnished his PAN and also filed his return of income before due date regularly.**
- (ii) XYZ Pvt. Ltd sells two cars to Mrs. Anju costing Rs. 4,00,000 and Rs. 12,00,000 respectively on 01.05.2023 and 25.12 2023. Mrs. Anju has furnished her PAN and filed her return of income regularly before the due date.**

- i. ABC Limited is required to deduct tax at source under section 194-I @10% on rent of Rs. 75,000 per month exclusive of GST component, since the aggregate rent of Rs. 9,00,000 during the financial year exceeds the threshold limit of Rs. 2,40,000.
Tax has to be deducted at the time of payment or credit, whichever is earlier.**
- ii. XYZ Pvt. Ltd. is not required to collect tax at source on sale of car of Rs. 4,00,000 to Mrs. Anju since its value does not exceed Rs. 10 lakhs.
However, it is required to collect tax at source u/s 206C(1F) @1% on the total sale consideration of Rs. 12 lakhs since the value of this car exceeds Rs. 10 lakhs.
Tax has to be collected at the time of receipt of Rs. 12 lakhs.**

QUESTION 5

PEP SEP 24 (6 MARKS)

- i. M/s. PQR & Co., a proprietary firm of Mr. Yogesh, paid an amount of Rs.30,500 to Mr. Amit, a resident individual aged 45 years, on June 1, 2023 towards fees for professional services. Subsequently, another payment of Rs.60,000 was due to Mr. Amit on January 30, 2024. Tax was not deducted from both the transactions. Mr. Amit has filed his return of**



income for assessment year 2024-25 on May 2, 2024, taking into account professional fees from M/s. PQR & Co. and paid the taxes due on the income declared in the return of income.

What are the tax obligations in the hands of M/s. PQR & Co. on the assumption that the accounts of the firm are audited under section 44AB of the Income-tax Act 1961?

- ii. M/s. Fastest Ltd. is an Indian car manufacturer. During the F.Y. 2023-24, it sold cars for Rs.150 lakhs to M/s. Race LLP, a distributor of cars where the sale price of each car was Rs.7.5 lakhs. The turnover for the F.Y. 2022-23 of M/s. Fastest Ltd. was Rs.15 crores and M/s. Race LLP was 8 crores. What shall be the TCS/TDS implications on M/s. Fastest Ltd. and M/s. Race LLP?

- (i) M/s PQR & Co. is required to deduct tax at source under section 194J @10% on the professional fees paid to Mr. Amit of Rs.30,500 and Rs.60,000 on 1st June 2023 and 30th January 2024, respectively, assuming M/s PQR & Co. turnover/gross receipts exceeds the prescribed threshold limit¹.

However, M/s PQR & Co. has not deducted the tax at source during the P.Y. 2023-24, disallowance of Rs.27,150, being 30% of Rs.90,500 would be attracted u/s 40(a)(ia) though Mr. Amit has filed his return of income considering the professional fees from M/s PQR & Co. and paid taxes on the same.

In such a case, M/s PQR & Co. would not be deemed as assessee in default by virtue of the first proviso to section 201(1) and the amount disallowed i.e., 27,150 would be allowed as deduction in A.Y. 2025-26.

For non-deduction of tax at source, interest @1% would be leviable under section 201(1A)(i) for every month or part of the month on the amount of tax from the date on which such tax was deductible to the date such tax was paid by the payee i.e., 2.5.2024.

Interest @1% on Rs.3,050 (10% of Rs.30,500) from June 2023 to May 2024 = Rs.366 and on Rs.6,000 (10% of Rs.60,000) from January, 2024 to May 2024 = Rs.300 is payable by M/s PQR & Co.

- (ii) M/s. Fastest Ltd. is not required to collect tax at source u/s 206C(1F) on sale of cars of Rs.150 lakhs to M/s. Race LLP, since such sale is to a distributor and sale price of each car does not exceed Rs.10 lakhs.

M/s. Race LLP is also not required to deduct tax at source u/s 194Q, since its turnover, being a buyer in the P.Y. 2022-23 does not exceed Rs.10 crores.

However, M/s Fastest Ltd. is required to collect tax at source u/s 206C(1H) @0.1% on the sale consideration exceeding Rs.50 lakhs i.e. on Rs.100 lakhs since turnover of M/s Fastest Ltd. exceeds Rs.10 crores and TCS u/s 206C(1F) and TDS u/s 194Q is not applicable.



Questions from MTP, RTP

QUESTION 1

MTP 1 MAY 24 (4 MARKS)

Examine and compute the liability for deduction of tax at source, if any, in the cases stated hereunder, for the financial year ended 31st March, 2024.

- (i) State Bank of India pays Rs. 70,000 per month and Rs. 60,000 per month as rent to the Central Government and Mr. Kunal, respectively for building in which its branches are situated.
- (ii) Payment of Rs. 2,50,000 to Mr. Deepak a transporter who owns 8 goods carriages throughout the previous year. He does not furnish his PAN.

TDS implications

- (i) Section 194-I, which governs the deduction of tax at source @10% on payment of rent, exceeding Rs. 2,40,000 p.a., is applicable to all persons except individuals and HUF, whose turnover/gross receipts do not exceed Rs. 1 crore in case of business or Rs. 50 lakhs in case of profession during the financial year immediately preceding the financial year in which such rent is credited or paid.

In the present case, State Bank of India has to deduct at source @ 10% on rental payment to Mr. Kunal.

Tax deducted at source = Rs. 72,000 (Rs. 7,20,000 x 10%)

Section 196, however, provides exemption in respect of payments made to Government from application of the provisions of tax deduction at source.

Therefore, no tax is required to be deducted at source by State Bank of India from rental payments to the Government.

- (ii) As per section 194C, no tax is required to be deducted at source on payment to transporter if the following conditions are satisfied:

- (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 furnishes a declaration to this effect along with his PAN.

In the present case, since Mr. Deepak has not furnished his PAN, tax is required to be deducted at source @ 20% under section 206AA on Rs. 2,50,000, since the same exceeds the threshold limit of Rs. 1,00,000. Tax deducted at source = Rs. 50,000 (Rs. 2,50,000 x 20%)

QUESTION 2

MTP 2 MAY 24 (4 MARKS)

Briefly discuss the provisions of tax deduction/collection at source under the Income-tax Act, 1961 and determine the amount, if any, of TDS and TCS in respect of the following payments:

- (i) Mr. Harish bought an overseas tour programme package for Switzerland for himself and his family of Rs. 10 lakhs on 01-11-2023 from an agent who is engaged in organising foreign tours in course of his business. He made the payment by an account payee cheque and provided the permanent account number to the seller.



(ii) Mr. Aditya pays Rs. 55,00,000 during F.Y. 2023-24 to Mr. Naresh, for supply of labour, for carrying out the construction work of his factory. During the P.Y. 2022-23, Mr. Aditya's turnover was Rs. 95 lakhs.

TDS implications

(i) Since overseas tour package is taken on or after 1.10.2023, tax @ 5% till Rs. 7 lakhs and 20% thereafter, is required to be collected u/s 206C(1G) by the seller of an overseas tour programme package, from Mr. Harish, being the buyer of an overseas tour package, even if payment is made by account payee cheque.

Accordingly, tax has to be collected @5% on Rs. 7 lakh and 20% on Rs. 3 lakhs.

TCS = Rs. 95,000

(ii) Mr. Aditya has to deduct tax at source @5% u/s 194M, although his turnover for the P.Y. 2022-23 does not exceed Rs. 1 crore and he is not liable to deduct tax at source under section 194C, since the payment to contractor, Mr. Naresh, exceeds Rs. 50 lakhs.

Accordingly, tax has to be deducted @5% on Rs. 55 lakhs.

TDS = Rs. 2,75,000

QUESTION 3

MTP 1 SEPT 24 (4 MARKS)

Briefly discuss the provisions of tax deduction at source under the Income-tax Act, 1961 and determine the amount, if any, of TDS in respect of the following payments:

(i) Mr. Vikas received a sum of Rs.10,20,000 on 28.02.2024 as pre- mature withdrawal from Employees Provident Fund Scheme before continuous service of 5 years on account of termination of employment due to ill-health.

(ii) Indian Bank sanctioned and disbursed a loan of Rs.12 crores to B Ltd. on 31-12-2023. B Ltd. paid a sum of Rs.1,20,000 as service fee to Indian Bank for processing the loan application.

TDS implications

(i) On pre-mature withdrawal from EPF

No tax is deductible under section 192A even though the employee, Mr. Vikas, 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.

(ii) On payment of service fee to bank

Even though service fee is included in the definition of "interest" under section 2(28A), no tax is deductible at source under section 194A, since the service fee is paid to a banking company, i.e., Indian Bank.

QUESTION 4

MTP 2 SEPT 24 (4 MARKS)

Briefly discuss the provisions of tax deduction/collection at source under the Income-tax Act, 1961 and determine the amount, if any, of TDS and TCS in respect of the following payments:

(i) Mr. Deepak wishes to purchase a residential house costing Rs. 60 lakhs from Ms. Priya. The



house is situated at Chennai and its stamp duty value is Rs. 65 lakhs. He also wants to purchase agricultural lands in a rural area for Rs. 65 lakhs. Both the buyer as well as the sellers are residents in India.

(ii) ABC & Co., a partnership firm is having a car dealership show- room – 2. They have purchased cars for Rs. 2 crores from XYZ Ltd., car manufacturers, the cost of each car being more than (Rs.12 lakhs. They sell the cars to individual buyers at a price yielding 10% margin on cost. Turnover of ABC & Co. and XYZ Ltd. was less than Rs. 10 crores during the P.Y. 2022-23.

TDS implications

(i) Since the sale consideration or stamp duty value of residential house exceeds Rs. 50 lakhs, Mr. Deepak is required to deduct tax at source@1% of Rs. 65 lakhs, being higher of sale consideration of Rs. 60 lakh and stamp duty value of Rs. 65 lakhs under section 194-IA. TDS provisions under section 194-IA are not attracted in respect of transfer of rural agricultural land, even if the consideration exceeds Rs. 50 lakh.

(ii) Every person, being a seller, who receives any amount as consideration for sale of a motor vehicle of the value exceeding Rs. 10 lakhs, is required to collect tax at source @1% of the sale consideration from the buyer. TCS provisions will, however, not apply on sale of motor vehicles by manufacturers to dealers/distributors. Hence, XYZ Ltd., the manufacturer-seller need not collect tax at source on sale of cars to the dealer, ABC & Co., even if the value of each car exceeds Rs. 10 lakhs. However, TCS provisions would be attracted when ABC & Co., sells cars to individual buyers, since the value of each car exceeds Rs. 10 lakhs. ABC & Co. has to collect tax@1% of the consideration on sale of each car to an individual buyer.

QUESTION 5 **MTP 1 JAN 25(4 MARKS)**
Mr. Sameer, aged 52 years, provides you the following information and requests you to determine his advance tax liability with due dates for the financial year 2023-24.

Estimated tax liability for the financial year 2023-24	Rs.80,000
Tax deducted at source for this year	Rs.12,000

Determination of Advance Tax Liability of Mr. Sameer

Particulars		Rs.
Estimated tax liability for the financial year 2023-24		80,000
Less: Tax deducted at source		<u>12,000</u>
Tax payable		<u>68,000</u>
Due Date of installment	Amount payable	Rs.
On or before 15th June, 2023	Not less than 15% of advance tax liability	10,200



On or before 15th September, 2023	Not less than 45% of advance tax liability less amount paid in earlier installment	20,400 (Rs. 30,600, being 45% of Rs. 68,000 - Rs. 10,200)
On or before 15th December, 2023	Not less than 75% of advance tax liability less amount paid in earlier installment(s)	20,400 (51,000, being 75% of Rs. 68,000 - Rs. 30,600)
On or before 15 th March, 2024	Whole of the advance tax liability less amount paid in earlier installment(s)	17,000 (68,000, being 100% of Rs. 68,000 - Rs. 51,000)

QUESTION 6

MTP 2 JAN 25 (4 MARKS)

Briefly discuss the provisions of tax deducted at source under the Income-tax Act, 1961 in respect of the following payments:

- (i) Mr. Shamsher (a resident individual aged 65 years) has maintained two fixed deposits in two different branches of HFC Bank of India (working on core banking). During the year 2023-24, the bank paid Rs.32,000 and Rs.17,000 as interest on these fixed deposits.
- (ii) Mr. Chetan, a pensioner, pays Rs.55,00,000 during F.Y. 2023-24 to Mr. Gopi, for contract payment for reconstruction of his residential house.

- (i) HFC Bank is not required to deduct tax at source under section 194A, since the aggregate interest on fixed deposit with the two branches of the bank Rs. 49,000 does not exceed the threshold limit of Rs. 50,000, applicable in case of senior citizen. Since HFC Bank has adopted core banking (CBS), the aggregate interest paid by both branches has to be considered.
- (ii) TDS provisions under section 194C are not attracted in this case, since Mr. Chetan is a pensioner. However, Mr. Chetan has to deduct tax at source@5% u/s 194M, since the payment to contractor, Mr. Gopi, exceeds Rs. 50 lakhs.

QUESTION 7

RTP JAN 25

Examine the applicability of Tax deduction at source (TDS) or Tax collection at source (TCS) as per the Income-tax Act, 1961 for the A.Y 2024-25 in the following situations

- (i) Mr. Arjun, a resident Indian, is in retail business in Delhi and his turnover for F.Y.2022-23 was Rs.9.90 crores. He regularly purchases goods from another resident, Mr. Saurabh, a wholesaler in Noida. GST rate on such goods is 5%. The aggregate amount of sales made by Mr. Saurabh to Mr. Arjun during the F.Y.2023-24 was Rs.49 lakhs (without GST). Mr Arjun made the payment for consideration of goods (Rs.21 lakhs on 8.7.2023, Rs.26.25 lakhs on 27.8.2023 and Rs.4.2 lakhs on 11.3.2024). Mr. Saurabh's turnover for F.Y.2022-23 was Rs.10.10 crores.
- (ii) Mr. Raja paid Rs.12 lakhs on 1.11.2023 to M/s. Thomas Cook for a holiday package to Singapore for a week with his family, comprising of his wife and two children, being twins



aged 22 years, in the last week of November. Mr. Raja also remitted Rs.10 lakhs on 28.3.2024, out of his personal savings, under LRS through Bank of India, as gift to his sister residing in London, on the occasion of her 50th birthday.

- i) Since Mr. Arjun’s turnover for the F.Y. 2022-23 does not exceed Rs.10 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. Saurabh since his turnover for the P.Y. 2022-23 exceeds Rs.10 crores and his sales consideration (including GST) from Mr. Arjun exceeds Rs.50 lakhs. No tax is to be collected under section 206C(1H) on 8.7.2023 and 27.8.2023 since the aggregate receipts till that date i.e., Rs.47.25 lakhs, has not exceeded the threshold limit of Rs.50 lakhs. Tax of Rs.145 i.e., 0.1% of Rs.1.45 lakhs has to be collected under section 206C(1H) on 11.3.2024 (Rs.4.20 lakhs - Rs.2.75 lakhs, being the balance threshold limit)
- ii) M/s. Thomas Cook, being a seller of an overseas tour programme package has to collect tax at source under section 206C(1G) from Mr. Raja on receiving amount for purchase of package. For the amount received on or after 1.10.2023, tax has to be collected @5% on upto Rs.7 lakhs received and @20% on amount received above Rs.7 lakhs. M/s Thomas Cook has to collect tax of Rs.1,35,000, being Rs.35,000 (5% of Rs.7 lakhs) and Rs.1 lakh (20% of Rs.5 lakhs). Bank of India, being an authorized dealer has to collect tax at source under section 206C(1G) @20% on amount in excess of Rs.7 lakhs remitted under the LRS on or after 1.10.2023 since the remittance of Rs.10 lakhs is not for the purpose of education and medical treatment. Bank of India has to collect tax of Rs.60,000 i.e., 20% of Rs.3 lakhs, being the amount remitted in excess of Rs.7 lakhs.

QUESTION 8 **RTP SEPT 25**
Mr. Kumar, aged 50 years, has withdrawn cash of Rs. 1,20,00,000 during the P.Y. 2023-24 from his saving account in HDFC Bank. Mr. Kumar regularly filed his return of income till A.Y. 2023-24.

If an individual has aggregate TDS and TCS credit of Rs. 25,000 or more during the previous year, he would be required to file a return of income, even if his total income does not exceed the basic exemption limit.

In this cash, TDS of Rs. 40,000 i.e., @2% on Rs. 20 lakhs, would have been deducted by HDFC Bank under section 194N on cash exceeding Rs. 1 crore withdrawn by Mr. Kumar during the P.Y. 2023-24. Hence, he is required to file his return of income for A.Y. 2024-25 on or before the due date under section 139(1).





12. Return Of Income

Illustrations from ISM

Illustration 1

Paras aged 55 years is a resident of India. During the F.Y. 2024-25, 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?

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.3,00,000 under default tax regime u/s 115BAC(1A) and Rs.2,50,000 if exercises the option of shifting out of the default tax regime provided under section 115BAC(1A) (for A.Y. 2025-26).

Computation of total income of Mr. Paras for A.Y. 2025-26

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 under Chapter VI-A (not available under the default tax regime under section 115BAC)	-
Total Income	33,000

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

Since the total income of Mr. Paras for A.Y.2025-26, before giving effect to the deductions under Chapter VI-A, is less than the basic exemption limit in both regimes, he is not required to file return of income for A.Y.2025-26.





Note: In the above, 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 to, inter alia, 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, as the case may be. Consequently, he would be required to file return of income for A.Y.2025-26.

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).

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, 2025 audited under section 44AB. Her total income for the A.Y. 2025-26 is Rs.6,35,000. She wants to furnish her return of income for A.Y. 2025-26 through a tax return preparer. Can she do so?

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



TYK from ISM

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 31.03.2025 whether or not declaring presumptive income under section 44AD, is 31st October, 2025.

(a) Disagree

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

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

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

(b) Disagree

In case Mr. A offers his business income as per the presumptive taxation provisions of section 44AD (Rs.11.60 lakhs or more), then, the due date under section 139(1) for filing of return of income for the year ended 31.03.2025, shall be 31st July, 2025.

In case, Mr. A wants to declare business income lower than Rs.11.60 lakhs, he has to get his accounts audited under section 44AB, since his turnover exceeds Rs.1 crore, in which case, the due date for filing return would be 31st October, 2025.

Question 2

Mr. Vineet exercised the option of shifting out of the default tax regime provided under section 115BAC(1A) and submits his return of income under the optional tax regime (i.e., the normal provisions of the Act) on 12-09-2025 for A.Y. 2025-26 consisting of income under the head "Salaries", "Income from house property" and bank interest. On 21-12-2025, 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- 03-2026?

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.2025-26 under section 139(1), in his case, is 31st July, 2025. Since Mr. Vineet had submitted his return only on 12.9.2025, 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 2025, 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 31.12.2025.

However, he cannot revise return had he discovered this omission only on 21- 03-2026, since it is beyond 31.12.2025.

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.**

(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?

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

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

Following losses are covered by section 139(3):

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

However, loss from house property to be carried forward under section 71B and unabsorbed

depreciation under section 32 can be carried forward even if return of loss has not been filed as required under section 139(3).

Question 5

Mr. Aakash has undertaken certain transactions during the F.Y.2024-25, 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.2024-25 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.

Transaction	Is quoting of PAN mandatory in related documents?
1. Payment of life insurance premium of Rs.45,000 in the F.Y.2024-25 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.2024-25.
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.



Past Exam Questions

QUESTION 1

PEP MAY 23 (4 MARKS)

What is the time limit within which an updated return can be filed? Also enumerate the circumstances in which updated return cannot be furnished.

Any person may furnish an updated return of his income or the income of any other person in respect of which he is assessable, for the previous year relevant to the assessment year at any time within 24 months from the end of the relevant assessment year.

Circumstances in which updated return cannot be furnished

No updated return can be furnished by any person for the relevant assessment year, where

- (a) an updated return has been furnished by him for the relevant assessment year
- (b) any proceeding for assessment or reassessment or recomputation or revision of income is pending or has been completed for the relevant assessment year in his case;
- (c) he is such person or belongs to such class of persons, as may be notified by the CBDT.
- (d) an updated return is a loss return
- (e) the updated return has the effect of decreasing the total tax liability determined on the basis of return furnished under section 139(1)/(4)/(5) / original or revised return
- (f) the updated return results in refund or increases the refund due on the basis of return furnished under section 139(1)/(4)/(5) / original or revised return.

Note – Any three of the above circumstances can be mentioned.

QUESTION 2

PEP MAY 23 (4 MARKS)

A person other than a company or a firm who is otherwise not required to furnish the return of income, needs to furnish return of income provided they fulfil certain conditions prescribed. Enumerate.

A person, other than a company or a firm, who is not required to furnish a return under section 139(1), has to furnish their return of income on or before the due date if they fulfill any of the following conditions -

- (i) if his total sales, turnover or gross receipts, as the case may be, in the business > Rs. 60 lakhs during the previous year; or
- (ii) if his total gross receipts in profession > Rs. 10 lakhs during the previous year; or
- (iii) if the aggregate of TDS and TCS during the previous year, in the case of the person, is Rs. 25,000 or more; or

However, a resident individual who is of the age of 60 years or more, at any time during the relevant previous year would be required to file return of income only, if the aggregate of TDS and TCS during the previous year, in his case, is Rs. 50,000 or more.

- (iv) the deposit in one or more savings bank account of the person, in aggregate, is Rs. 50 lakhs or more during the previous year





QUESTION 3

PEP NOV 23 (4 MARKS)

In the context of Tax Return Preparer Scheme, 2006, explain the following:

- (i) Eligible Persons**
- (ii) Educational Qualifications of Tax Return Preparer**
- (iii) Persons not entitled to act as return preparer**

In the context of Tax Return Preparer scheme, 2006

(i) Eligible Persons

Any person being an individual or a Hindu undivided family

(ii) Educational Qualifications of Tax Return Preparer

An individual, who

- holds a bachelor degree from a recognised Indian University or institution, or
- has passed the intermediate level examination conducted by
- the Institute of Chartered Accountants of India (ICAI) or
- the Institute of Company Secretaries of India (ICSI) or
- the Institute of Cost Accountants of India (ICWAI)

(iii) Person not entitled to act as return preparer

An individual who is -

- (i)** any officer of a scheduled bank with which the assessee maintains a current account or has other regular dealings.
- (ii)** a legal practitioner, entitled to practice in any civil court in India.
- (iii)** an accountant
- (iv)** an employee of the “specified class or classes of persons” i.e., any person other than a company or a person whose accounts are required to be audited under section 44AB (tax audit) or under any other existing law, who is required to furnish a return of income under the Act.

QUESTION 4

PEP MAY 2024 (4 MARKS)

State with reason whether the following persons are required to file their return of income as per the provisions of the Income Tax Act, 1961 for the assessment year 2024-25:

- (i) Mr. Aneesh aged 31 years, who opted for default tax regime u/s 115BAC(1A) had a total income of Rs. 2,90,000 for the previous year 2023-24.**
- (ii) Smt. Patel, aged 65 years, has a TDS credit of Rs. 55,000 during the previous year 2023-24.**
- (iii) The gross receipts of Mr. Ajit, aged 45 years, an architect for the previous year 2023-24 was Rs. 12,00,000, but his profit from profession was only Rs. 2,25,000 and he has no other income.**

- (i)** In this case, Mr. Aneesh is not required to file return of income, since his total income does not exceed Rs. 3,00,000, being the basic exemption limit as per the default tax regime u/s 115BAC, assuming Mr. Aneesh has not claimed any deduction u/s 54/54D/54EC or 54F and deduction



allowable under Chapter VI-A.

- (ii) In the present case, since Smt. Patel, a senior citizen has a TDS credit of Rs. 55,000, which exceeds the threshold limit of Rs. 50,000, she is required to file her return of income even if it is assumed that her total income does not exceed the basic exemption limit.
- (iii) In this case, since Mr. Ajit's gross receipts from the profession of architect was Rs. 12,00,000 for the P.Y. 2023-24, which is in excess of Rs. 10 lakhs, hence, he is required to file his return of income though his total income is Rs. 2,25,000 which does not exceed the basic exemption limit.

QUESTION 5

PEP MAY 2024 (4 MARKS)

BDT has vide Notification No. 37/2022 dated 21.04.2022, inserted Rule 12AB, notified which are all the person other than a company or firm who is not required to file return of income under Section 139(1) must file the return of Income. State who are required compulsorily to file return of Income.

The CBDT has, vide Notification No. 37/2022 dated 21.4.2022, inserted Rule 12AB to provide that a person, other than a company or a firm, who is not required to furnish a return under section 139(1), and who fulfils any of the following conditions during the previous year has to file their return of income on or before the due date in the prescribed form and manner –

- (i) if his total sales, turnover or gross receipts, as the case may be, in the business > Rs. 60 lakhs during the previous year; or
- (ii) if his total gross receipts in profession > Rs. 10 lakhs during the previous year; or
- (iii) if the aggregate of TDS and TCS during the previous year, in the case of the person, is Rs. 25,000 or more; or

However, a resident individual who is of the age of 60 years or more, at any time during the relevant previous year (or senior citizen) would be required to file return of income only, if the aggregate of TDS and TCS during the previous year, in his case, is Rs. 50,000 or more

- (iv) the deposit in one or more savings bank account of the person, in aggregate, is Rs. 50 lakhs or more during the previous year.

QUESTION 6

PEP SEPT 24 (4 MARKS)

Answer the following:

- (i) **Vegetable Ltd. filed its return of income for the A.Y. 2023-24, on 15thDecember 2023. On 2nd January 2024, the accountant of Vegetable Ltd. realised that he had forgotten to claim a genuine business expenditure amounting to Rs.15 lakhs. He wants to file revised return to claim such expenditure as the assessment is not yet completed. Whether the action of the accountant of Vegetable Ltd. is valid?**
- (ii) **Mahendra, a resident individual aged 45 years earned a salary income of Rs.2 crores during the F.Y. 2023-24. He also earned dividend from unlisted shares amounting to Rs.4 lakhs. He wants to file his return of income for the A.Y. 2024-25 through a Tax Return Preparer. Can he do so?**

(i) The due date of filing return of income of Vegetable Ltd for the A.Y.2023-24 is 31st October, 2023 since it is a company.

However, it filed its return of income on 15.12.2023, which is a belated return.

If any omission is discovered even in a belated return, the same can also be revised up to 31.12.2023 being the date 3 months prior to the end of the relevant assessment year i.e.

31.03.2024 or completion of assessment, whichever is earlier.

However, it cannot file a revised return on 02.01.2024 since it is beyond 31.12.2023. Hence, the action of accountant of Vegetable Ltd is not valid.

(ii) Since Mr. Mahendra is a resident individual, not being a company or a person whose accounts are required to be audited under section 44AB for the P.Y. 2023-24, and therefore he can file his return of income for A.Y. 2024-25 through a Tax Return Preparer.

QUESTION 7

PEP SEPT 24 (4 MARKS)

Rani, an Indian resident aged 34 years did not file her return of income for the A.Y. 2021-22, 2022-23 and 2023-24. She gives the following information regarding each of the A.Y.-

A.Y. 2021-22

(i) Tax payable on the total income of Rani - Rs.14,50,000

(ii) TDS deducted - Rs.5,00,000 **A.Y. 2022-23**

(i) Tax payable on the total income of Rani - Rs.5,60,000

(ii) TDS deducted - Rs.10,00,000 **A.Y. 2023-24**

(i) Tax payable on the total income of Rani - Rs.6,30,000

(ii) TDS deducted - Rs.2,00,000

(iii) Interest payable under section 234A, 234B and 234C - Rs.90,000 (calculated till 31st May 2024)

(iv) Self-assessment tax paid - Rs.1,00,000

She approaches you to file updated return under section 139(8A) on 16.5.2024. You are required to prepare a suggestion to be given to her in this respect. Your suggestion should include the financial aspect also (like payment of tax) briefly outlining the relevant provisions of the Income-tax Act.

An updated return can be furnished for the previous year relevant to the assessment year at any time within 24 months from the end of the relevant assessment year.

Accordingly, the following are the suggestions to Rani with respect to updated return on 16.5.2024 for A.Y. 2021-22, A.Y. 2022-23 and A.Y. 2023-24:

A.Y. 2021-22: Since the period of 24 months from the end of A.Y. 2021-22 expired on 31.3.2024 updated return cannot be furnished on 16.5.2024 for A.Y. 2021-22.

A.Y. 2022-23: For A.Y. 2022-23, updated return can be furnished up to 31.3.2025. Thus, updated return can be furnished on 16.5.2024.

Since updated return would be furnished after the expiry of 12 months but before 24 months from

the end of 31.3.2023, additional income tax would be payable @50% of aggregate of tax (after taking into consideration tax deducted at source) and interest payable.

Accordingly, Rani is required to pay additional income-tax in addition to the tax payable of Rs.5,60,000, interest and late fee of Rs.5,000.

Alternate answer: The main has been worked out in line with the provisions of section 140B taking tax payable as the net figure of tax after adjusting TDS. However, since the term “tax payable” used in the ITR form for updated return is before the adjustment of TDS, TCS, Advance tax, interest payable etc., it is possible to take a view that the amount of tax payable of Rs.5,60,000 is before adjusting TDS of Rs.10,00,000. In such case, since the refund of Rs.4,40,000 would arise, updated return cannot be furnished for A.Y. 2022-23.

A.Y. 2023-24: - For A.Y. 2023-24, updated return can be furnished up to 31.3.2026. Thus, updated return can be furnished on 16.5.2024

Since updated return would be furnished before the expiry of 12 months from the end of 31.3.2024, additional income tax would be payable @25% of aggregate of tax (after taking into consideration tax deducted at source and self-assessment tax paid) and interest payable.

Accordingly, Rani is required to pay additional income-tax of Rs.1,80,000 i.e., 25% of Rs.7,20,000 (Rs.6,30,000 + Rs.90,000) in addition to tax payable of Rs.6,30,000, interest payable of Rs.90,000 and late fees of Rs.5,000.

Alternate answer: The main has been worked out in line with the provisions of section 140B taking tax payable as the net figure of tax after adjusting TDS and self-assessment tax paid. However, since the term “tax payable” used in the ITR form for updated return is before the adjustment of TDS, TCS, Advance tax, interest payable etc., it is possible to take a view that the amount of tax payable of Rs.6,30,000 is before adjusting TDS of Rs.2,00,000 and self-assessment tax paid of Rs.1,00,000. In such case, Rani is required to pay additional income-tax of Rs.1,05,000 i.e., 25% of Rs.4,20,000 [Rs.3,30,000 (Rs.6,30,000 – Rs.2,00,000 – Rs.1,00,000) + Rs.90,000] in addition to tax payable of Rs.3,30,000, interest payable of Rs.90,000 and late fees of Rs.5,000.



Questions from MTP, RTP

QUESTION 1 **MTP 2 MAY 24 (4 MARKS)**
Enumerate the cases where a return of loss has to be filed on or before the due date specified u/s 139(1) for carry forward of the losses. Also enumerate the cases where losses can be carried forward even though the return of loss has not been filed on or before the due date.

As per section 139(3), an assessee is required to file a return of loss within the due date specified u/s 139(1) for filing return of income.

As per section 80, certain losses which have not been determined in pursuance of a return filed under section 139(3) on or before the due date specified under section 139(1) cannot be carried forward and set-off. Thus, the assessee has to file a return of loss under section 139(3) within the time allowed u/s 139(1) in order to carry forward and set off of following losses:

- loss under the head “Capital Gains”,
- loss from activity of owning and maintaining race horses.
- business loss,
- speculation business loss and
- loss from specified business.

However, following can be carried forward for set-off even if the return of loss has not been filed before the due date:

- Loss under the head “Income from house property” and
- Unabsorbed depreciation

QUESTION 2 **MTP 2 MAY 24 (4 MARKS)**
Mr. Vishnu has undertaken certain transactions during the F.Y.2023- 24, which are listed below. You are required to identify the transactions in respect of which quoting of PAN is mandatory in the related documents –

S. No.	Transaction
1.	Sale of scooter for Rs. 70,000
2.	Payment of life insurance premium of Rs. 67,000 to insurance company
3.	Purchase of plot for Rs. 9 lakhs while the stamp duty of the same is Rs. 11 lakhs
4.	Applied to PNB for issue of credit card.

	Transaction	Is quoting of PAN mandatory in related documents?
1.	Sale of scooter for Rs. 70,000	No, quoting of PAN is not mandatory on sale of scooter.
2.	Payment of life insurance premium of Rs. 67,000 to insurance company	Yes, since the amount paid exceeds Rs. 50,000.
3.	Purchase of plot for Rs. 9 lakhs while	Though the amount of consideration does not

	the stamp duty of the same is Rs. 11 lakhs	exceed Rs. 10 lakhs, Mr. Vishnu has to quote PAN since stamp duty of plot exceeds Rs. 10 lakhs.
4.	Applied to PNB 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 3

MTP 2 MAY 24 (4 MARKS)

In the following cases relating to P.Y.2023-24, the total income of the assessee or the total income of any other person in respect of which he/she is assessable under Income-tax Act does not exceed the basic exemption limit. You are required to state with reasons, whether the assessee is still required to file the return of income or loss for A.Y.2024-25 in each of the following independent situations:

- (i) Manish & Sons (HUF) sold a residential house on which there arose a long term capital gain of Rs. 12 lakhs which was invested in Capital Gain Bonds u/s 54EC so that no long term capital gain was taxable.
- (ii) Samarth has incurred an expenditure of Rs. 1,20,000 towards consumption of electricity, the entire payment of which was made through banking channels.

- (i) A HUF whose total income without giving effect to, inter alia, section 54EC, exceeds the basic exemption limit, is required to file a return of its income on or before the due date under section 139(1). In this case, since the total income without giving effect to exemption under section 54EC is Rs. 12 lakhs, exceeds the basic exemption limit, the HUF is required to file its return of income for A.Y. 2024-25 on or before the due date under section 139(1).
- (ii) If an individual has incurred expenditure exceeding Rs. 1 lakh towards consumption of electricity during the previous year, he would be required to file a return of income, even if his total income does not exceed the basic exemption limit. Since Mr. Samarth has incurred expenditure of Rs. 1,20,000 in the P.Y.2023-24 towards consumption of electricity, he has to file his return of income for A.Y. 2024-25 on or before the due date under section 139(1).

QUESTION 4

MTP 2 MAY 24 (4 MARKS)

Briefly mention the provisions of Income-tax Act, 1961 with regard to quoting Aadhaar Number under section 139AA of the Act.

Every person who is eligible to obtain Aadhaar Number is required to mandatorily quote Aadhaar Number:

- (a) in the application form for allotment of Permanent Account Number (PAN)
- (b) in the return of income

The provisions of section 139AA relating to quoting of Aadhaar Number would, however, not apply to an individual who does not possess the Aadhaar number or Enrolment ID and is:

- (i) residing in the States of Assam, Jammu & Kashmir and Meghalaya;

- (ii) a non-resident as per Income-tax Act, 1961;
- (iii) of the age of 80 years or more at any time during the previous year;
- (iv) not a citizen of India.

If a person does not have Aadhaar Number, he is required to quote Enrolment ID of Aadhaar application form issued to him at the time of enrolment in the application form for allotment of PAN or in the return of income furnished by him.

QUESTION 5

MTP 2 SEPT 24 (4 MARKS)

What are the consequences of failure to intimate Aadhar Number. Is there any fee for such default?

If a person, who has been allotted PAN as on 1st July, 2017 and is required to intimate his Aadhaar number, has failed to intimate the same on or before 31st March, 2022, the PAN of such person would become inoperative.

A person, whose PAN has become inoperative, would be liable for following further consequences for the period commencing from the date notified by the CBDT till the date it becomes operative –

- (i) no refund of any amount of tax or part thereof, due under the provisions of the Act;
- (ii) interest would not be payable on such refund for the period, beginning with the date notified by the CBDT and ending with the date on which it becomes operative;
- (iii) where tax is deductible at source in case of such person, such tax shall be deducted at higher rate, in accordance with provisions of section 206AA;
- (iv) where tax is collectible at source in case of such person, such tax shall be collected at higher rate, in accordance with provisions of section 206CC:

Where a person, who is required to intimate his Aadhaar Number under section 139AA(2), fails to do so on or before the notified date i.e., 31.3.2022, he shall be liable to pay such fee, as may be prescribed, at the time of making intimation under section 139AA(2) after 31.3.2022.

However, such fee shall not exceed Rs. 1,000.

QUESTION 6

MTP 2 SEPT 24 (4 MARKS)

- (i) **What is the fee for default in furnishing return of income u/s 234F?**
- (ii) **To whom the provisions of section 139AA relating to quoting of Aadhar Number do not apply?**

(i) Fee for default in furnishing return of income u/s 234F

Where a person who is required to furnish a return of income under section 139, fails to do so within the prescribed time limit under section 139(1), he shall pay, by way of fee, a sum of Rs. 5,000.

However, if the total income of the person does not exceed Rs. 5 lakhs, the fees payable shall not exceed Rs. 1,000

(ii) Persons to whom provisions of section 139AA relating to quoting of Aadhar Number does not apply



The provisions of section 139AA relating to quoting of Aadhar Number would not apply to an individual who does not possess the Aadhar number or Enrolment ID and is:

- (i) residing in the States of Assam, Jammu & Kashmir and Meghalaya;
- (ii) a non-resident as per Income-tax Act, 1961;
- (iii) of the age of 80 years or more at any time during the previous year;
- (iv) not a citizen of India.

QUESTION 7 **MTP 1 JAN 25 (4 MARKS)**
Mr. Kailash, a resident and ordinarily resident in India, could not file his return of Income for the assessment year 2021-22 before due date prescribed under section 139(1). Advise Mr. Kailash as a tax consultant. What are the consequences for non-filing of return of Income within the due date under section 139(1)?

Consequences for non-filing return of income within the due date under section 139(1)

Interest under section 234A

Interest under section 234A@1% per month or part of the month for the period commencing from the date immediately following the due date under section 139(1) till the date of furnishing of return of income is payable, where the return of income is furnished after the due date. However, no interest u/s 234A shall be charged on self-assessment tax paid by the assessee on or before the due date of filing of return.

Fee under section 234F

Late fee of Rs. 5,000 would be payable under section 234F, if the return of income is not filed before the due date specified in section 139(1). However, such fee cannot exceed Rs. 1,000, if the total income does not exceed Rs. 5,00,000.

Carry forward and set-off of certain losses not permissible

Following losses would not be allowed to be carried forward, where a return of income is not furnished within the time allowed under section 139(1):

- business loss, speculation business loss, loss from specified business,
- loss under the head “Capital Gains”; and
- loss from the activity of owning and maintaining race horses.

QUESTION 8 **MTP 1 JAN 25 (4 MARKS)**
Mr. Naksh has undertaken certain transactions during the F.Y.2023-24, which are listed below. You are required to identify the transactions in respect of which quoting of PAN is mandatory in the related documents–

S. No.	Transaction





1.	Payment of life insurance premium of Rs.40,000 in the F.Y.2023-24 by account payee cheque to LIC for insuring life of self and spouse
2.	Payment of Rs.1,10,000 to RBI for acquiring its bonds
3.	Applied for issue of credit card to SBI
4.	Payment of Rs.1,00,000 by account payee cheque to travel agent for travel to Singapore for 3 days to visit

	Transaction	Is quoting of PAN mandatory in related documents?
1.	Payment of life insurance premium of Rs. 40,000 in the F.Y.2023-24 by account payee cheque to LIC for insuring life of self and spouse	No, since the amount paid does not exceed Rs. 50,000 in the F.Y.2023-24.
2.	Payment of Rs. 1,10,000 to RBI for acquiring its bonds	Yes, since the amount paid exceeds Rs. 50,000
3.	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.
4.	Payment of Rs. 1,00,000 by account payee cheque to travel agent for travel to Dubai for 3 days to visit	No, since the amount was paid by account payee cheque and not in cash, quoting of PAN is not mandatory even though the payment exceeds Rs. 50,000

QUESTION 9

MTP 2 JAN 25 (3 MARKS)

Mr. Sumit has submitted his income-tax return containing certain losses/deductions in respect of the P.Y. 2023-24 on 22.10.2024. The due date for filing the return for Mr. Sumit was 31st July, 2024 under section 139(1). You are required to examine with reference to the relevant provisions of Income-tax Act, 1961 whether the following losses/deductions can be carried forward/claimed in subsequent years by Mr. Sumit if he pays tax under default tax provisions of the Act.

- (i) Loss from the business carried on by him as a proprietor: Rs.10,80,000 (computed)
- (ii) Unabsorbed Depreciation: Rs.2,00,000 (computed)
- (iii) Loss from let out house property: Rs.2,50,000 (computed)

Mr. Sumit has furnished his return of income under default tax regime for A.Y.2024-25 on 22.10.2024, i.e., after the due date specified under section 139(1) i.e., 31st July 2024. Hence, the return is a belated return under section 139(4).

As per section 80 read with section 139(3), specified losses, which have not been determined in pursuance of a return of loss filed within the time specified in section 139(1), cannot be carried



forward to the subsequent year for set-off against income of that year. The specified losses include, inter alia, business loss but does not include loss from house property and unabsorbed depreciation. Accordingly, business loss of Rs. 10,80,000 of Mr. Sumit for A.Y. 2024-25, not determined in pursuance of a return of loss filed within the time specified in section 139(1), cannot be carried forward to A.Y. 2025-26.

However, the loss of Rs. 2,50,000 from let out house property and unabsorbed depreciation of Rs. 2,00,000 pertaining to A.Y.2024-25, can be carried forward to A.Y.2025-26 for set-off, even though Mr. Sumit has filed the return of loss for A.Y.2024-25 belatedly.

QUESTION 10

MTP 2 JAN 25 (3 MARKS)

Mr. Prince, a senior citizen, has reported a Total Income Rs.1,90,000. He has claimed exemption of Rs.50,000 under section 54EC in respect of long term capital gain on sale of house property and deductions under Chapter VI-A amounting to Rs.1,50,000 for the previous year 2023-24. Is he liable to file his return of income under section 139(1) for the Assessment year 2024-25? If so why?

As per sixth proviso to section 139(1), every person, being an individual whose total income without giving effect to the provisions of, inter alia, section 54EC and Chapter VI-A exceeds the basic exemption limit, is compulsorily required to furnish return of income on or before the due date. Therefore, in the present case, Mr. Prince, a senior citizen is required to file return of income, since his total income of Rs. 3,90,000 before giving effect to the exemption under section 54EC and deduction of Rs. 1,50,000 under Chapter VI-A, exceeds the basic exemption limit of Rs. 3,00,000 applicable in his case.

QUESTION 11

MTP 2 JAN 25 (3 MARKS)

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.**

- (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 12

RTP MAY 24

Mr. Rahul, an Indian citizen residing in Mumbai, files his return of income every year on time. He has Aadhaar number as well. He has not intimated his Aadhaar number to the prescribed authority till August 2023. He approached you on 1.9.2023 and asked you the consequences for not doing so and the effective date from which those consequences would become effective? What would be your answer if Mr. Rahul wants to intimate his Aadhaar number to the prescribed authority now?

Where a person, who has been allotted PAN and is required to intimate his Aadhaar number, has failed to intimate the same on or before the 31.3.2022, the PAN of such person shall become inoperative.

Consequences of failure to intimate Aadhar Number

A person, whose PAN has become inoperative, would be liable for further consequences for the period commencing from the date specified by the Board till the date it becomes operative, namely

- (i) refund of any amount of tax or part thereof, due under the provisions of the Act shall not be made;
- (ii) interest shall not be payable on such refund for the period, beginning with the date specified and ending with the date on which it becomes operative;
- (iii) where tax is deductible under Chapter XVIIIB in case of such person, such tax shall be deducted at higher rate, in accordance with provisions of section 206AA;
- (iv) where tax is collectible at source under Chapter XVII-BB in case of such person, such tax shall be collected at higher rate, in accordance with provisions of section 206CC.

The consequences specified above will be effective from 1.7.2023.

If Mr. Rahul wants to intimate his Aadhaar number to the prescribed authority on 1.9.2023, he would be liable to pay a fee of Rs.1,000 as specified under section 234H. His PAN would become operative within 30 days from the date of intimation of Aadhaar number and would not be liable for the above consequences once his PAN becomes operative.

QUESTION 13

RTP SEPT 24

In each of the following independent situations, you are required to examine whether these persons are required to file their return of income or loss for A.Y.2024-25 if their total income for the P.Y. 2023-24 do not exceed the basic exemption limit:

- (i) The turnover of Mr. Ashish's business is Rs. 65 lakhs during the P.Y. 2023-24.
- (ii) Mr. Subhash has incurred a total expenditure of Rs. 90,000 towards consumption of electricity during the P.Y. 2023-24.
- (iii) Mr. Deepak has savings bank account in SBI and HDFC and a current account in Axis Bank with opening balance of Rs. 20 lakhs, Rs. 10 lakhs and Rs. 30 lakhs, respectively. He deposited Rs. 40 lakhs in SBI account, Rs. 25 lakhs in HDFC account and Rs. 75 lakhs in Axis account during the P.Y. 2023-24.



(i) If an individual has total sales, turnover or gross receipts, as the case may be, in the business exceeding Rs. 50 lakhs during the previous year, he would be required to file a return of income, even if his total income does not exceed the basic exemption limit.

Since Mr. Ashish's turnover from the business is Rs. 65,00,000 for the P.Y. 2023-24, he is required to file his return of income for A.Y. 2024-25 on or before the due date under section 139(1).

(ii) If an individual has incurred aggregate amount of expenditure exceeding Rs. 1 lakh towards consumption of electricity during the previous year, he would be required to file a return of income, even if his total income does not exceed the basic exemption limit.

Since Mr. Subhash does not have total income exceeding the basic exemption limit and has incurred a total expenditure of Rs. 90,000 only in the P.Y.2023-24 towards consumption of electricity, he is not required to file his return of income for A.Y. 2024-25.

(iii) Even though the total income of an individual does not exceed the basic exemption limit, he would be required to file his return of income if

a. he has deposited an amount or aggregate of the amounts exceeding Rs. 1 crore in one or more current accounts maintained with a banking company or a co-operative bank during the previous year or

b. the deposit in one or more savings bank account of the person, in aggregate, is Rs. 50 lakhs or more during the previous year

In this case, he has deposited only Rs. 75 lakhs in current account in Axis account during the P.Y. 2023-24 but has deposited Rs. 65 lakhs in savings bank account (Rs. 40 lakhs in SBI and Rs. 25 lakhs in HDFC) during the P.Y. 2023-24, hence, he is required to file a return of income for A.Y. 2024-25 on or before the due date under section 139(1).



13. Computation Of Total Income

Illustrations from ISM

Illustration 1

Mr. A, aged 32 years, is employed with XYZ (P) Ltd. on a basic salary of Rs.50,000 p.m. He has received transport allowance of Rs.15,000 p.m. and house rent allowance of Rs.20,000 p.m. from the company for the P.Y. 2024-25. He has paid rent of Rs.25,000 p.m. for an accommodation in Delhi. Mr. A has paid interest of Rs.2,10,000 for housing loan taken for the construction of his house in Mumbai. The construction of the house is completed in March, 2025 and his parents live in that house.

Other Information

- Contribution to PPF - Rs.1,50,000
- Contribution to pension scheme referred to in section 80CCD - Rs.50,000
- Payment of medical insurance premium for father, who is of the age of 65 - Rs.55,000
- Payment of medical insurance premium for self and spouse - Rs.32,000

Compute the total income and tax liability of Mr. A for the A.Y. 2025-26 in the most beneficial manner.

Computation of total income and tax liability of Mr. A for A.Y. 2025-26 under default tax regime under section 115BAC

Particulars	Rs.
Salaries	
Basic Salary [Rs.50,000 x 12]	6,00,000
Transport allowance [Rs.15,000 x 12]	1,80,000
HRA received [Rs.20,000 x 12]	2,40,000
Gross salary	10,20,000
Less: Standard deduction u/s 16(ia)	(75,000)
	9,45,000
Income from house property	
Interest on housing loan	-
Gross Total Income	9,45,000
Less: Deductions under Chapter VI- A	
Section 80C	
Contribution in PPF	-
Section 80CCD	
Contribution to pension scheme	-
Section 80D	
Mediclaime insurance premium for self and parents	-



Total Income		9,45,000
Tax liability		
Tax @5% on Rs.4,00,000 [Rs.7,00,000 - Rs.3,00,000]	20,000	
Tax @10% on Rs.2,45,000 [Rs.9,45,000 - Rs.7,00,000]	24,500	44,500
Add: Health & Education cess @ 4%		1,780
Total Tax Liability		46,280

**Computation of total income and tax liability of Mr. A for A.Y. 2025-26
under normal provisions of the Act**

Particulars		Rs.
Salaries		
Basic Salary [Rs.50,000 x 12]		6,00,000
Transport allowance [Rs.15,000 x 12]		1,80,000
HRA received	2,40,000	
Less: Least of the following exempt u/s 10(13A)	2,40,000	-
HRA Received	2,40,000	
Actual rent paid – 10% of salary [Rs.3,00,000 – Rs.60,000]	2,40,000	
50% of salary	3,00,000	
Gross salary		7,80,000
Less: Standard deduction u/s 16(ia)		(50,000)
		7,30,000
Income from house property		
[Annual Value is Nil. Deduction u/s 24(b) for interest on housing loan would be restricted to Rs.2,00,000, in case of self-occupied property, which would represent loss from house property]	(2,00,000)	
Gross Total Income		5,30,000
Less: Deductions under Chapter VI-A		
Section 80C		
Contribution to PPF		1,50,000
Section 80CCD(1B)		
Own contribution to pension scheme		50,000
Section 80D		
Mediclinaim insurance premium		
For self and spouse, restricted to	25,000	
For father, who is a senior citizen, restricted to	50,000	
		75,000
Total Income		2,55,000
Tax liability		

Tax @ 5% on Rs.5,000 [Rs.2,55,000 - Rs.2,50,000]	250
Less: Rebate u/s 87A	250
Total Tax Liability	-

Since tax liability as per the normal provisions of the Act is lower than the tax liability under the default tax regime under section 115BAC, it would be beneficial for Mr. A to shift out of the default tax regime under section 115BAC for A.Y. 2025-26.

Note: In this case, Mr. A is entitled to exemption u/s 10(13A), benefit of interest on housing loan in respect of self-occupied property and Chapter VI-A deductions, owing to which his total income is reduced by Rs.6,90,000. His total income under the regular provisions of the Act is less than Rs.5,00,000, owing to which he becomes entitled to rebate u/s 87A. Hence, in this case, it is beneficial for Mr. A to shift out of the default tax regime under section 115BAC for A.Y. 2025-26.

Illustration 2

Mr. Kadam is entitled to a salary of Rs.41,000 per month. He is given an option by his employer either to take house rent allowance or a rent free accommodation which is owned by the company. The HRA amount payable was Rs.7,000 per month. The rent for the hired accommodation was Rs.6,000 per month at New Delhi. Advice Mr. Kadam whether it would be beneficial for him to avail HRA or Rent Free Accommodation. Give your advice on the basis of "Net Take Home Cash benefits". Assume Mr. Kadam exercises the option to shift out of the default tax regime under section 115BAC.

Computation of tax liability of Kadam under both the options

Particulars	Option I – Option II –	
	HRA (Rs.)	RFA (Rs.)
Basic Salary (Rs.41,000 x 12 Months)	4,92,000	4,92,000
Perquisite value of rent-free accommodation (10% of Rs.4,92,000)	N.A.	49,200
House rent Allowance (Rs.7,000 x 12 Months) Rs.84,000		
Less: Exempt u/s 10(13A) – least of the following -		
- 50% of Basic Salary	Rs.2,46,000	
- Actual HRA received	Rs.84,000	
- Rent paid less 10% of salary	Rs.22,800	Rs.22,800
Gross Salary	5,53,200	5,41,200
Less: Standard deduction u/s 16(ia)	50,000	50,000
Net Salary	5,03,200	4,91,200
Less: Deduction under Chapter VI-A	-	-
Total Income	5,03,200	4,91,200
Tax on total income	13,140	12,060

Less: Rebate under section 87A - Lower of Rs.12,500 or income-tax of Rs.12,060, since total income does not exceed Rs.5,00,000

	Nil	12,060
	13,140	Nil
Add: Health and Education cess@4%	526	Nil
Tax liability	13,666	Nil
Tax liability (Rounded off)	13,670	Nil

Cash Flow Statement

Particulars	Option I –	Option II –
	HRA	RFA
Inflow: Salary	5,76,000	4,92,000
Less: Outflow: Rent paid	(72,000)	-
Tax on total income	(13,670)	Nil
Net Inflow	4,90,330	4,92,000

Since the net cash inflow under option II (RFA) is higher than in Option I (HRA), it is beneficial for Mr. Kadam to avail Option II, i.e., Rent Free Accommodation.



TYK from ISM

Question 1

Compute the tax liability of Mr. Gupta (aged 61) under default tax regime, having total income of Rs.1,02,00,000 for the A.Y.2025-26. Assume that his total income comprises of salary income, income from house property and interest on fixed deposit.

Computation of tax liability of Mr. Gupta for the A.Y.2025-26 under default tax regime

(A) Income-tax (including surcharge) computed on total income of Rs.1,02,00,000		
Rs.3,00,000 – Rs.7,00,000 @5%	Rs.20,000	
Rs.7,00,001 – Rs.10,00,000 @10%	Rs.30,000	
Rs.10,00,001 – Rs.12,00,000 @15%	Rs.30,000	
Rs.12,00,001 – Rs.15,00,000 @20%	Rs.60,000	
Rs.15,00,001 – Rs.1,02,00,000 @30%	<u>Rs.26,10,000</u>	
Total	Rs.27,50,000	
Add: Surcharge @15%	<u>Rs.4,12,500</u>	Rs.31,62,500
(B) Income-tax computed on total income of Rs.1crore		
(Rs.1,40,000 plus Rs.25,50,000)		Rs.26,90,000
Add: Surcharge@10%		<u>Rs.2,69,000</u>
		Rs.29,59,000
(C) Total Income Less Rs.1crore		
		Rs.2,00,000
(D) Income-tax computed on total income of Rs.1 crore		
plus the excess of total income over Rs.1 crore (B +C)		Rs.31,59,000
(E) Tax liability: lower of (A) and (D)		
		Rs.31,59,000
Add: Health and education cess @4%		<u>Rs.1,26,360</u>
Tax liability (including cess)		<u>Rs.32,85,360</u>
(F) Marginal Relief (A – D)		
		Rs.3,500

Alternative method -

(A) Income-tax (including surcharge) computed on total income of Rs.1,02,00,000		
Rs.3,00,000 – Rs.7,00,000 @5%	Rs.20,000	
Rs.7,00,001 – Rs.10,00,000 @10%	Rs.30,000	
Rs.10,00,001 – Rs.12,00,000 @15%	Rs.30,000	
Rs.12,00,001 – Rs.15,00,000 @20%	Rs.60,000	
Rs.15,00,001 – Rs.1,02,00,000 @30%	<u>Rs.26,10,000</u>	
Total	Rs.27,50,000	
Add: Surcharge @ 15%	<u>Rs.4,12,500</u>	Rs.31,62,500
(B) Income-tax computed on total income of Rs.1 crore		
[(Rs.1,40,000 plus Rs.25,50,000) plus surcharge@10%]		<u>Rs.29,59,000</u>

(C) Excess tax payable (A)-(B)	Rs.2,03,500
(D) Marginal Relief (Rs.2,03,500 – Rs.2,00,000, being the amount of income in excess of Rs.1,00,00,000)	Rs.3,500
(E) Tax liability (A)-(D)	Rs.31,59,000
Add: Health and education cess @4%	<u>Rs.1,26,360</u>
Tax liability (including cess)	<u>Rs.32,85,360</u>

Question 2

Miss Charlie, an American national, got married to Mr. Radhey of India in USA on 02.03.2024 and came to India for the first time on 16.03.2024. She left for USA on 19.9.2024. She returned to India again on 27.03.2025. While in India, she had purchased a show room in Mumbai on 30.04.2024, which was leased out to a company on a rent of Rs.25,000 p.m. from 01.05.2024. She had taken loan from a bank for purchase of this show room on which bank had charged interest of Rs.97,500 upto 31.03.2025. She had received the following cash gifts from her relatives and friends during 1.4.2024 to 31.3.2025:

- 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)

- (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 A.Y. 2025-26 if she opts out of the default tax regime under section 115BAC.
- (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?

(a) 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.2025-26 has to be determined on the basis of her stay in India during the P.Y.2024-25 and in the preceding four previous years.

Her stay in India during the P.Y.2024-25 and in the preceding four years are as under: P.Y. 2024-25

P.Y. 2024 – 25

01.04.2024 to 19.09.2024	-	172 days
27.03.2025 to 31.03.2025	-	<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. 2022 – 23 [1.4.2022 to 31.3.2023]	-	NIL
P.Y. 2021 – 22 [1.4.2021 to 31.3.2022]	-	NIL
P.Y. 2020 – 21 [1.4.2020 to 31.3.2021]	-	<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 A.Y.2025-26.

Computation of total income of Miss Charlie for the A.Y. 2025-26

Particulars		Rs.	Rs.
Income from house property			
Show room located in Mumbai remained on rent from 01.05.2024 to 31.03.2025@ 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. 2025-26
under normal provisions of the Act**

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. 2025-26, rebate under section 87A would not be available to her, even though her total income does not exceed Rs.5 lakhs.

(b) 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.2024-25 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 2024-25.

Question 3

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, 2025 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 (principal Rs.5,000, interest Rs.450)	5,450

To Clinic consumables	1,10,000	By Dividend from units of UTI (Gross)	10,500
To Rent paid	90,000	By Winning from game show on T.V. (net of TDS of Rs.15,000)	35,000
To Administrative expenses	2,55,000	By Rent	27,000
To Amount paid to scientific research association approved u/s 35	1,50,000		
To Net profit	4,40,400		
	59,63,800		59,63,800

- (i) Rent paid includes Rs.30,000 paid by cheque towards rent for her residential house in Surat.
- (ii) Clinic equipments are:
 1.4.2024 Opening W.D.V. - Rs.5,00,000
 7.12.2024 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, 2024, 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 2024-25.
- (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, 2025 for her medical insurance premium.

From the above, compute the total income of Dr. Smt. Niranjana for the A.Y. 2025-26 under the default tax regime and optional tax regime as per the normal provisions of the Act.

Computation of total income of Dr. Niranjana for A.Y. 2025-26

under default tax regime

Particulars	Rs.	Rs.	Rs.
I Income from Salary			
Basic Salary (Rs.7,500 x 12)		90,000	
Less: Standard deduction u/s 16(ia)		75,000	15,000
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			
Netprofit as per Income and Expenditure account		4,40,400	
Less: Items of income to be treated separately			
(i) Rent received (taxable under the head “Income from 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	90,000	
(On equipments acquired during the year in December 2024, she is entitled to depreciation @50% of normal depreciation, since the same are put to use for less than 180 days during the year)			
		2,72,450	
Add: Items of expenditure not allowable while computing business income			
(i) Amount paid to scientific research association approved u/s 35 (not allowed under default tax regime)	1,50,000		
(ii) Rent for her residential accommodation included in Income and Expenditure A/c	30,000		
(iii) Municipal tax paid relating to residential house at Surat included in administrative expenses	2,000	1,82,000	4,54,450
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		5,47,900
Less: Deductions under Chapter VI- A:		
(a) Section 80C [Not allowed under default tax regime]		Nil
(b) Section 80D [Not allowed under default tax regime]		Nil
(c) Section 80E [Not allowed under default tax regime]		Nil
Total income		5,47,900

**Computation of total income of Dr. Niranjana for A.Y. 2025-26
under normal provisions of the Act**

Particulars	Rs.	Rs.
Gross Total Income as per default tax regime		5,47,900
Add: Standard deduction of Rs. 25,000, being the excess amount allowed u/s 115BAC		25,000
Less: Items of expenditure allowable while computing business income under normal provisions of the Act		
100% deduction is allowable in respect of the amount paid to scientific research association allowable under normal provisions of the Act.		1,50,000
Gross Total Income as per normal provisions of the Act		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 under normal provisions of the Act, as she owns a house in Surat, a place where she is residing as well as carrying on her profession.

Question 4

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, 2025 reads as follows:

Expenditure	(Rs.)	Income	(Rs.)	(Rs.)
Salary to staff	15,50,000	Fees earned:		
Stipend to articled Assistants	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 for valuation of answer papers		15,800
Purchase of car (for official use)	80,000	Rent received from residential flat let out		85,600
Repair, maintenance and petrol of car	4,000			
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 CA Intermediate Examination at first attempt.
 - (iv) Repairs and maintenance of car include Rs.2,000 for the period from 1-10-2024 to 30-09-2025.
 - (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. 2024-25.
- Compute the total income and tax payable by Ms. Purvi for the A.Y. 2025-26 in a most beneficial manner.

**Computation of total income and tax payable by Ms. Purvi for the A.Y. 2025-26
under default tax regime under section 115BAC**

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 [not allowable under default tax regime]		-
Total Income		10,11,944
Total Income (rounded off)		10,11,940
Tax on total income		
Upto Rs.3,00,000	Nil	
Rs.3,00,001 - Rs.7,00,000 @5%	20,000	
Rs.7,00,001 - Rs.10,00,000 @10%	30,000	
Rs.10,00,001 - Rs.10,11,940 @ 15%	1,791	51,791
Add: Health and Education cess @ 4%		2,072
Total tax liability		53,863
Less: Advance tax paid		70,000
Less: Tax deducted at source on dividend income from an Indian company u/s 194	1,052	
Tax deducted at source on income from UTI u/s 194K	760	1,812
Tax Payable/ (Refundable)		(17,949)
Tax Payable/ (Refundable) (rounded off)		(17,950)

**Computation of total income and tax payable
under normal provisions of the Act**

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 out of the default tax regime under section 115BAC]		
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.5,00,000 - Rs.10,00,000 @20%	1,00,000	
Rs.10,00,000 – 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: TDS u/s 194 on dividend	1,052	
TDS u/s 194K on income from UTI	760	1,812
Tax Payable		45,793
Tax Payable (rounded off)		45,790

Since there is tax refundable under default tax regime under section 115BAC and tax payable under the regular provisions of the Income-tax Act, 1961, it would be beneficial for Ms. Purvi to pay tax under default tax regime under section 115BAC.

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 u/s 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 CA Intermediate examination in their first attempt is deductible under section 37(1).

(iii) Repairs and maintenance paid in advance for the period 1.4.2025 to 30.9.2025 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 5

Mr. Y carries on his own business. An analysis of his trading and profit & loss for the year ended 31-3-2025 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 31-1-2025 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 of Rs.10,000 debited in the books.

(11) Investment in NSC Rs.15,000 debited in the books.

Compute the total income of Mr. Y for the assessment year 2025-26 under optional tax regime as per normal provisions of the Act.

Computation of total income of Mr. Y for the A.Y. 2025-26

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 considered unreasonable [Section 40A(2)]	2,500	
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)	10,000	
[See Note (iii)]		
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 u/s 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 6

Balamurugan furnishes the following information for the year ended 31-03-2025:

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 taxable @20%	70,000
Compute his total income, tax liability and advance tax obligations under default tax regime under section 115BAC.	

**Computation of total income of Balamurugan
for the year ended 31.03.2025**

Particulars	Rs.	Rs.
Salaries	2,70,000	
Less: Loss from house property (Cannot be set off against income under any other head)	-	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.2025-26

Particulars	Rs.
On total income of Rs.2,70,000 (excluding lottery winning and LTCG)	Nil
On LTCG of Rs.5,000 @20% (balance unexhausted basic exemption limit of Rs.30,000 can be adjusted against LTCG taxable u/s 112)	1,000
On lottery winnings of Rs.5,00,000 @ 30%	1,50,000
	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.6,040

(Rs.1,57,040 – Rs.1,50,000) is less than Rs.10,000, advance tax liability is not attracted.

Note - 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, 2025. 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.1,040 (Rs.1,57,040 – Rs.1,50,000) is less than Rs.10,000, advance tax liability is not attracted.

Question 7

Mr. Rajiv aged 50 years, a resident individual and practicing Chartered Accountant, furnishes you the receipts and payments account for the financial year 2024-25.

Receipts and Payments Account

Receipts	Rs.	Payments	Rs.
Opening balance (1.4.2024) Cash on hand and at Bank	12,000	Staff salary, bonus and stipend to articled 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
		Lifeinsurance premium (10% of sum assured)	24,000
		Motor car (acquired in Jan. 2025 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 1.07.2024 (annual publications by A/c payee cheque)	20,000
		Computer acquired on 1.11.2024 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 (31.3.2025) Cash on	19,15,000



		hand and at Bank	
	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 2005-06, 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 1-4-2024 are given below:

Furniture & Fittings	Rs.60,000
Plant & Machinery (Air-conditioners, Photocopiers, etc.)	Rs.80,000
Computers	Rs.50,000

Note: Mr. Rajiv follows regularly the cash system of accounting.

Compute the total income of Mr. Rajiv for the A.Y. 2025-26 assuming that he has shifted out of the default tax regime under section 115BAC.

Computation of total income of Mr. Rajiv for the A.Y.2025-26

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 Loss from self-occupied property	30,000	(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)	44,000	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	
Less: Depreciation		26,02,000	
Motor car Rs.4,25,000 x 7.5% x 4/5 Books being annual publications@40% Furniture and fittings@10% of Rs.60,000 Plant and machinery@15% of Rs.80,000 Computer@40% of Rs.50,000	25,500		
	8,000		
	6,000		
	12,000		
	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		18,000	1,62,000
Total income			23,30,500

Question 8

From the following details, compute the total income and tax liability of Siddhant, aged 31 years, of Delhi both as per section 115BAC and as per the regular provisions of the Income-tax Act, 1961 for the A.Y.2025-26. Advise Mr. Siddhant whether he should 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 2021-22, 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.

Computation of total income and tax liability of Siddhant under default tax regime under section 115BAC for the A.Y. 2025-26

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)		75,000
		3,98,000
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	Rs.24,000	
[See Note 2]	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	2,700	Nil

extent of Rs.2,700

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) [Exemption under section 10(32) would not be available]	3,800	
(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		5,29,890
Deduction under section 80C [No deduction under Chapter VI-A would be allowed as per section 115BAC(2)]		Nil
Total Income		5,29,890

Particulars	Rs.
Tax on total income [5% of Rs.2,29,890 (Rs. 5,29,890 - Rs.3,00,000)]	11,495
Less: Rebate u/s 87A, since total income does not exceed Rs.7,00,000	11,495
Tax liability	Nil

Computation of total income and tax liability of Siddhant for the A.Y. 2025-26 under normal provisions of the Act

Particulars	Rs.	Rs.
Gross total income (as per default scheme)		5,29,890
Add: Standard Deduction [Rs. 25,000 being excess amount allowed under section 115BAC]		25,000
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
Less: Deductions under Chapter VI-A		
Under section 80C [Contribution to PPF]		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: HEC @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.2025-26.

Notes:

- (1) It is assumed that the entire loan of Rs.1,60,000 is outstanding as on 31.3.2025;
- (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 9

Ramdin, aged 33 years, working as Manager (Sales) with Frozen Foods Ltd., provides the following information for the year ended 31.03.2025:

- | | |
|--|---------------------|
| ➤ 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 lakhs |
| ➤ 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 25 th wedding anniversary. | |
| ➤ Music System purchased on 01.04.2024 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 24.4.2024 and interest of Rs.6,786 (Net) from the debentures of Indian Companies on 5.5.2024. | |
| ➤ Made payment by cheques of Rs.15,370 towards premium on Life Insurance policies and | |



Rs.22,500 for Medclaim 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 his total income and tax payable thereon for the A.Y. 2025-26. Assume that Mr. Ramdin has exercised the option to shift out of the default tax regime under section 115BAC.

Computation of Total Income of Mr. Ramdin for the A.Y.2025-26

under normal provisions of the Act

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 lakhs)		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 25 th 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

Less: 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:

1. Gratuity received during service is fully taxable.
2. Employer's contribution in the recognized provident fund is exempt up to 12% of the salary i.e. 12% of (Basic Salary + DA for retirement benefits + Commission based on turnover)
= 12% of (Rs.1,80,000+ (50% of Rs.1,44,000)+ Rs.25,000)
= 12% of 2,77,000 = Rs.33,240
3. An alternate view possible is that only the sum in excess of Rs.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.

4. 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 – Deductions under section 80C and 80D = Rs.5,99,160 - Rs.1,47,870 = Rs.4,51,290.

Question 10

From the following particulars furnished by Mr. X for the year ended 31.3.2025, you are requested to compute his total income and tax payable for the assessment year 2025-26, assuming that he opts out of the default tax regime under section 115BAC.

- (a) Mr. X retired on 31.12.2024 at the age of 58, after putting in 26 years and 1 month of service, from a private company at Mumbai.
- (b) 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 31.3.2025.
- (f) Mr. X has deposited Rs.1,00,000 in public provident fund.

Computation of total income of Mr. X for A.Y.2025-26

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

$$= 30 \text{ days/year} \times 26 = 780 \text{ days}$$

Less: Leave taken /availed by Mr. X during the period of his service

$$= \underline{15 \text{ days/year} \times 26 = 390 \text{ days}}$$

Earned leave to the credit of Mr. X at the time of his

390 days



retirement

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 11

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 31.3.2025:

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 on 15.5.2024 at Mumbai taxable	1,00,000	1,00,000
4.	Short-term capital gain on sale of shares on 23.4.2024 of Indian listed companies in respect of which STT was paid	20,000	2,50,000
5.	LIC premium paid	--	10,000
6.	Premium paid to Canadian Life Insurance Corporation at Canada	40,000	--
7.	Mediclaim policy premium paid by A/c Payee Cheque	--	25,000
8.	Deposit in PPF	--	20,000
9.	Rent received in respect of house property at Mumbai	60,000	30,000

Compute the total income and tax liability of Mrs. Rosy and Mrs. Mary for the A.Y. 2025-26 and tax thereon assuming both exercised the option to shift out of the default tax regime.

Computation of total income of Mrs. Rosy and Mrs. Mary for the A.Y.2025-26

S. No.	Particulars	Mrs. Rosy (Non-resident) Rs.	Mrs. Mary (ROR) Rs.
(I) Salaries			
	Pension recd 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	60,000	30,000

the annual value in the absence of other information i.e. municipal value, fair rent and standard rent)

Less: Deduction u/s 24(a)@30%	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 u/s 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 u/s 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.2025-26		
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.2025-26		
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 u/s 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 on 15.5.2024, is chargeable to tax@20% as per section 112.

- (2) Short-term capital gains on transfer of equity shares on 23.4.2024 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. 2025-26.

Question 12

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 2023-24, 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, 2024 and the expenditure of Rs.75 lakhs was capitalized in the books on that date.

Relevant details for the F.Y. 2024-25 are as follows:

Particulars	Rs.
Profit of unit located in SEZ	40,00,000
Export turnover received in India in convertible foreign exchange on or before 30.9.2025	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 A.Y. 2025-26 both as per section 115BAC and as per regular provisions of the Income-tax Act, 1961 for A.Y. 2025-26. Advise Mr. X whether he should pay tax under default tax regime or normal provisions of the Act.

**Computation of total income and tax liability of Mr. X for A.Y.2025-26
(under default tax regime under section 115BAC)**

Particulars	Rs.	Rs.
Profits and gains of business or profession		
Profit from unit in SEZ		40,00,000
Profit from operation of warehousing facility	1,05,00,000	
Less: Depreciation under section 32		
On building @10% of Rs.65 lakhs ⁴ (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		38,45,000
Add: Surcharge@15%		5,76,750
		44,21,750
Add: Health and Education cess@4%		1,76,870
Total tax liability		45,98,620

Notes:

- (1) Deductions u/s 10AA and 35AD are **not** allowable as per section 115BAC(2). However, normal depreciation u/s 32 is allowable.
- (2) Mr. X is **not** liable to alternate minimum tax u/s 115JC under default tax regime under section 115BAC.

**Computation of total income and tax liability of Mr. X for A.Y.2025-26
(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]	16,00,000	
Business income of SEZ unit chargeable to tax		24,00,000
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		64,00,000
Computation of tax liability (under the normal/ regular provisions)		
Tax on Rs.64,00,000		17,32,500
Add: Health and Education cess@4%		69,300
Total tax liability		18,01,800

**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)		64,00,000
Add: Deduction under section 10AA		16,00,000
		80,00,000
Add: Deduction under section 35AD	65,00,000	
Less: Depreciation under section 32		
On building @10% of Rs.65 lakhs ⁵	6,50,000	58,50,000
Adjusted Total Income		1,38,50,000
Alternate Minimum Tax@18.5%		25,62,250
Add: Surcharge@15% (since adjusted total income > 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.

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 the default tax regime under section 115BAC for A.Y. 2025-26**. 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	18,01,800
	12,62,650

Notes:

(1) Deduction under section 10AA in respect of Unit in SEZ =

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

$$40,00,000 \times \frac{80,00,000}{1,00,00,000} \times 50\% = \text{Rs. } 16,00,000$$

(2) Deduction@100% of the capital expenditure is available under section 35AD for A.Y.2025-26 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.2023-24 and capitalized in the books of account on 1.4.2024, 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.



Past Exam Questions

QUESTION 1
PEP MAY 23 (14 MARKS)

Mr. Bhasin, a resident individual, aged 52 years, provides management consultancy services to various corporate and non-corporate clients. His Income & Expenditure A/c for the year ended 31st March, 2023 is as under:

Expenditure	Amount (Rs.)	Income	Amount (Rs.)
To Employees' Remuneration	15,00,000	By Gross Receipts from Profession (last year Rs. 75,00,000) (No TDS was deducted from any of the receipts)	60,60,000
To Office & Administrative Expenses	5,00,000	By Interest on Savings Bank Account	25,000
To Rates and Taxes	15,000	By Winnings from Lottery (Net of cost of lottery tickets of Rs. 500)	99,500
To Interest Expenses	80,000	By Rent Received	2,40,000
To Office Rent	2,40,000		
To Insurance Premium	72,000		
To Professional Fees	2,00,000		
To Depreciation on Computers	1,20,000		
To Excess of Income over Expenditure	<u>36,97,500</u> 64,24,500		64,24,500

The following details relates to F.Y. 2022-23:

- (i) Employees' Remuneration includes a sum of Rs. 3,00,000 paid to his wife, Mrs. Beena who is working as a manager in his office. She does not have any technical or professional qualification or experience required for the job. The payment of salary was as per market rates in comparison to similar work profile.
- (ii) Mr. Bhasin owns a big house with 2 independent units. Unit - 1 (with 50% floor area) has been let out for residential purposes at a monthly rent of Rs. 20,000 for the entire year. Unit - 2 (with the balance 50% of the floor area) is used by Mr. Bhasin as his residence- cum-office. Other particulars of the house are:
Municipal Valuation - Rs. 3,60,000 p.a. Fair Rent - Rs. 4,20,000 p.a.
Standard Rent under Rent Control Act -Rs. 4,00,000 p.a.
- (iii) Rates and taxes include a sum of Rs. 10,000 paid as municipal taxes of the house.



- (iv) Interest expenses represent interest on capital borrowed from a nationalised bank for the construction of the house. The construction was completed in F.Y.2010 -11. Neither the loan nor the interest was paid till the due date of filing the return of income.
 - (v) Based on the actual rent received for Unit-1, Mr. Bhasin has debited Rs. 2,40,000 as notional rent for Unit-2 which is used for his profession.
 - (vi) The expense on insurance premium of Rs. 72,000 represents lump-sum health insurance premium paid by Mr. Bhasin for 3 years effective from 1st July, 2022 to 30th June, 2025 for himself, his spouse and two dependent children. The said insurance premium was paid through account payee cheque.
 - (vii) The expenses on professional fees paid includes a sum of Rs. 1,00,000 paid to Mr. Raunak, an Indian resident on which no tax was deducted at source.
 - (viii) There was only one block containing computers which came into existence only on 2nd April, 2022 when new laptops (for Rs. 1,60,000), printers and scanners (for Rs. 40,000) were purchased. He charged depreciation @ 60% in the entire cost of Rs. 2,00,000 and debited the amount to Income & Expenditure A/c.
 - (ix) Mr. Bhasin has also taken a loan of Rs. 5,00,000 from a nationalised bank for higher education of his son. During F.Y.2022-23, he repaid principal of Rs. 75,000 along with interest of Rs. 40,000. This amount is not reflected in Income and Expenditure Account.
- You are required to compute the total income under proper heads of income of Mr. Bhasin for A.Y. 2023-24 under regular provisions of Income-tax Act 1961, assuming that he has not opted to pay tax under section 115BAC. Also calculate the total tax payable by him.

Computation of total income and tax payable by Mr. Bhasin for A.Y. 2023 -24

	Particulars	Rs.	Rs.	Rs.
I	Income from Salaries			
	Salary of Mrs. Beena [Remuneration paid by Mr. Bhasin to his wife Mrs. Beena who is employed as a manager in his office would be included in his hands, since Mrs. Beena does not have any technical or professional qualification or experience required for the job]		3,00,000	
	Less: Standard deduction u/s 16(ia)		<u>50,000</u>	2,50,000
II	Income from house property			
	Let out portion (Unit 1 – 50% area)			
	Gross Annual Value [Higher of expected rent of Rs. 2,00,000 and actual rent of Rs. 2,40,000 (Rs. 20,000 x 12)]	2,40,000		
	[Expected rent is higher of municipal value of Rs. 1,80,000 (3,60,000 x 50%) and fair rent of Rs. 2,10,000 (Rs. 4,20,000 x 50%), restricted to standard rent of Rs. 2,00,000 (Rs.			



4,00,000 x 50%)]			
Less: Municipal taxes paid for let out portion (Rs. 10,000 x 50%)	<u>5,000</u>		
Net Annual Value (NAV)	2,35,000		
Less: Deduction under section 24			
(a) 30% of NAV	70,500		
(b) Interest on capital borrowed for construction of house relating to let out portion (80,000 x 50%) (allowed on accrual basis)	<u>40,000</u>		
Income from let out portion		1,24,500	
Self-occupied (Unit 2 – 25%)			
[Since Unit 2 representing 50% of the floor area is used for residence as well as business purpose, it is assumed that it is equally used for residence and business purpose]			
Gross Annual Value	Nil		
Less: Municipal taxes [not allowed for self- occupied property]	Nil		
Net Annual Value	Nil		
Less: Deduction under section 24(b)			
Interest on loan for construction of house, Rs. 80,000 x 50% x 1/2 (allowable on accrual basis)	20,000		
Loss from self-occupied portion		(20,000)	
[Loss from self-occupied portion can be set off against income from let out portion]			1,04,500
III Profits and gains from business and profession			
Excess of income over expenditure		36,97,500	
Add: Expenses debited to Income & Expenditure A/c but not allowable as deduction			
Remuneration paid to his wife Mrs. Beena [As per section 40A(2) remuneration paid to Mrs. Beena is allowed, since it is as per market rates]	-		
Municipal taxes attributable to let out and self- occupied portions not allowable [Rs. 10,000 x 75%]	7,500		
Interest on capital borrowed for construction of house attributable to let out and self- occupied portion not allowable [Rs. 80,000 x 75%]	60,000		

Interest on capital borrowed from bank for construction of house attributable to business portion i.e., 25% of Rs. 80,000 [not allowable, since it is not paid on or before due date of filing return of income by virtue of section 43B]	20,000		
Notional rent for Unit 2 used for business or profession [not allowable under section 30, since Mr. Bhasin himself is the owner of the property]	2,40,000		
Insurance premium [Personal expenditure not allowable]	72,000		
Professional fees to Mr. Raunak without deducting TDS [Rs. 1,00,000 x 30%] [Mr. Bhasin is required to deduct TDS on professional fees payment to Mr. Raunak since his gross receipts from profession exceeds Rs. 50 lakhs during the P.Y. 2021-22. 30% of the sum paid to Mr. Raunak, resident without deducting tax to be disallowed in P.Y. 2022-23]	30,000		
Depreciation as per books	<u>1,20,000</u>	<u>5,49,500</u>	
		42,47,000	
Less: Income credited to Income & Expenditure A/c but not taxable as business income			
Interest on savings bank account [taxable under the head “Income from other sources”]	25,000		
Winnings from lottery [taxable under the head “Income from other sources”]	99,500		
Rent received [taxable under the head “Income from house property”]	<u>2,40,000</u>	<u>3,64,500</u>	
		38,82,500	
Less: Depreciation allowable [2,00,000 (Rs. 1,60,000, being new laptops + Rs. 40,000, being printers) x 40%, i.e., 64,000+16,000 as it was put to use for more than 180 days in the P.Y. 2022-23. Printers and scanners for Rs. 40,000 are eligible for higher depreciation of 40%]		<u>80,000</u>	
			38,02,500
IV Income from Other Sources			
Interest on savings bank account		25,000	
Winnings from Lottery [No expenditure or allowance is allowed from lottery income]		1,00,000	
			<u>1,25,000</u>

Gross Total Income			42,82,000
Less: Deduction under Chapter VI-A			
Deduction under section 80D			
Medical insurance premium [Rs. 72,000 x 1/4, being the previous years in which insurance would be in force] [allowable for self, spouse and dependent children]		18,000	
Deduction under section 80E			
Interest on loan taken from a nationalised bank for higher education of son		40,000	
Deduction under section 80TTA			
Interest on saving bank account to the extent of		<u>10,000</u>	<u>68,000</u>
Total Income			<u>42,14,000</u>
Tax Payable			
On lottery income [30% of Rs. 1,00,000]		30,000	
On other income of Rs. 41,14,000			
Upto Rs. 2,50,000	Nil		
Rs. 2,50,000 @5% [Rs. 2,50,000 – Rs. 5,00,000]	12,500		
Rs. 5,00,000 @20% [Rs. 5,00,000 – Rs. 10,00,000]	1,00,000		
Rs. 31,14,000 @30% [Rs. 10,00,000 – Rs. 41,14,000]	<u>9,34,200</u>		
		<u>10,46,700</u>	
			10,76,700
Less: HEC@4%			<u>43,068</u>
Tax liability			11,19,768
Less: TDS on lottery winnings @30% u/s 194B			<u>30,000</u>
Tax payable			<u>10,89,768</u>
Tax payable (rounded off)			10,89,770

QUESTION 2

PEP MAY 23 (7 MARKS)

Mr. Bhagat, an individual aged 50 years, set up a unit in Special Economic Zone (SEZ) in F.Y.2017-18 for the production of computers. The unit fulfils all the conditions of section 10AA of the Income-tax Act, 1961. During F.Y. 2021-22, he set up a hospital in a district of Maharashtra with 110 beds for patients. It fulfils all the conditions of section 35AD. Capital expenditure in respect of the said hospital amounted to Rs. 65 lakhs (comprising of cost of land Rs. 15 lakhs and the balance was the cost of construction of building). The hospital became operational with effect from 1st April, 2022 and the expenditure of Rs. 65 lakhs was capitalized in the books of accounts on that date Relevant details for F.Y. 2022-23 are as follows:



Particulars	Amount (Rs. in lakhs)
Profit of unit located in SEZ	36
Export sales of SEZ unit	75
Domestic sales of SEZ unit	25
Profit from operation of hospital facility (before considering deduction under Section 35AD)	90

Compute the income-tax (including AMT under section 115JC and AMT credit, if any, under section 115JEE) payable by Mr. Bhagat for A.Y. 2023-24 under regular provisions of the Income-tax Act i.e. ignoring the provisions of section 115BAC. Ignore marginal relief, if any.

**Computation of total income and tax payable of Mr. Bhagat for A.Y.2023 -24
(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		36,00,000
Profit from operation of hospital	90,00,000	
Less: Deduction u/s 35AD	<u>50,00,000</u>	
In this case, since the capital expenditure of Rs. 50 lakhs (i.e., Rs. 65 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 1.4.2022, being the date when the hospital became operational, the said amount would be eligible for deduction under section 35AD.		
Business income from hospital chargeable to tax		40,00,000
Gross Total Income		76,00,000
Less: Deduction u/s 10AA		13,50,000
Profit of SEZ unit x $\frac{\text{Export turnover of SEZ unit}}{\text{Total turnover of SEZ unit}} \times 50\%$ = Rs. 36,00,000 x $\frac{\text{Rs.75,00,000}}{\text{Rs.1,00,00,000}} \times 50\%$ = Rs. 27,00,000 x 50% = Rs. 13,50,000		
Deduction would be 50% of eligible profits, since P.Y.2022-23 is the 6th year of operation		
Total Income		62,50,000
Computation of tax payable (under the regular provisions of the Act)		Rs.
Tax on Rs. 62,50,000 [Rs. 1,12,500 plus 30% of Rs. 52,50,000]		16,87,500



Add: Surcharge @10%, since total income exceeds Rs. 50 lakhs but does not exceed Rs. 1 crore	1,68,750
	18,56,250
Add: Health and Education cess@4%	74,250
Total tax payable	19,30,500

Computation of adjusted total income of Mr. Bhagat for levy of Alternate Minimum Tax

		Rs.
Total Income (computed above as per regular provisions of income tax)		62,50,000
Add: Deduction under section 10AA		<u>13,50,000</u>
		76,00,000
Add: Deduction under section 35AD	50,00,000	
Less: Depreciation under section 32		
On building @10% of Rs. 50 lakhs	5,00,000	45,00,000
Adjusted Total Income		1,21,00,000
Alternate Minimum <u>Tax@18.5%</u>		22,38,500
Add: Surcharge@15% (since adjusted total income > Rs. 1 crore but does not exceed Rs. 2 crores)		3,35,775
		25,74,275
Add: Health and education cess@4%		1,02,971
		26,77,246
Tax liability u/s 115JC (rounded off)		26,77,250
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 payable as per section 115JC is Rs. 26,77,250.		
AMT Credit to be carried forward under section 115JEE		
Tax liability under section 115JC	26,77,250	
Less: Tax liability under the regular provisions of the Income-tax Act, 1961	19,30,500	
	7,46,750	



QUESTION 3

PEP NOV 23 (14 MARKS)

Mr. Pramod, a resident aged 55 years, is a retail trader; he furnished the following information for A.Y. 2023-24:

Trading and Profit and Loss Account for the year ended on 31.03.2023:

	Rs.		Rs.
To Opening Stock	1,15,000	By Sales	70,80,000
Purchases	55,40,000	Closing Stock	2,10,000
Transport charges	1,20,000		
Gross Profit c/f	<u>15,15,000</u>		
	<u>72,90,000</u>		<u>72,90,000</u>
To Salaries	3,40,000	By Gross Profit b/f	15,15,000
Rates and Taxes	24,000	Rent from H. Property	1,80,000
Administrative Expenses	3,25,000	Rent from furniture	1,20,000
Depreciation	80,000		
Net Profit	<u>10,46,000</u>		
	18,15,000		18,15,000

- (1) All the sales are by account payee cheques or through bank transfers.
- (2) The opening and closing stocks have been over valued by Rs. 15,000 and Rs. 20,000 respectively.
- (3) Rates and taxes include GST liability of Rs. 5,000 paid on 01.05.2023 and municipal taxes for let out property Rs. 7,000.
- (4) Administrative expenses include Rs. 25,000 paid as donation to National Children’s Fund, and a payment for laptop purchased on 15.05.2022 for Rs. 60,000 through bank transfer.
- (5) Transport charges include Rs. 30,000 paid in cash on 01.09.2022.
- (6) He incurred a loss of Rs. 8,000 on sale of equity shares on 10.02.2023, which were purchased on 10.06.2022.
- (7) Depreciation includes Rs. 1,200 as depreciation on Trade Marks wrongly charged at 15%.
- (8) He deposited Rs. 50,000 in PPF a/c and has paid life insurance premium Rs. 60,000.
- (9) He paid interest of Rs. 70,000 on loan availed in F.Y. 2017-18 for higher education of his wife.

Compute the total income and the income tax payable by Mr. Pramod for A.Y. 2023-24, if,

- (i) The business profit is computed as per normal provisions and he opts for section 115BAC.
- (ii) He opts to compute business profit under presumptive taxation under section 44AD and does not opt for section 115BAC.
- (iii) The business profit is computed as per normal provisions of Income-tax Act and he does not opt for section 115BAC.



Which option is advantageous to Mr. Pramod ?

- (i) Computation of total income and tax payable by Mr. Pramod for A.Y. 2023 -24 as per normal provisions of the Act (as per books of accounts) and opting for section 115BAC

	Particulars	Rs.	Rs.
I	Income from house property		
	Gross Annual Value ¹	1,80,000	
	Less: Municipal taxes paid	<u>7,000</u>	
	Net Annual Value (NAV)	1,73,000	
	Less: Deduction u/s 24(a) - 30% of NAV	<u>51,900</u>	1,21,100
II	Profits and gains of business or profession		
	Net Profit	10,46,000	
	Add: Over statement of opening stock	<u>15,000</u>	
		10,61,000	
	Less: Over statement of closing stock	<u>20,000</u>	
		10,41,000	
	[Note - Alternatively, net of overstatement of opening stock and closing stock i.e., Rs. 5,000 can be reduced.]		
	Add: Expenses debited to profit and loss account but not allowable as deduction		
	GST liability paid on 1.5.2023 [Since GST liability has been paid before the due date of filing return of income under section 139(1), the same is deductible]	-	
	Municipal taxes for let out property	7,000	
	Donation to National Children's Fund	25,000	
	Payment for Laptop	60,000	
	Transport charges of Rs. 30,000 in cash [Not disallowed since the limit for one time cash payment is Rs. 35,000 in respect of payment to transport operators.]	<u>-</u>	
		11,33,000	
	Less: Incomes credited to profit and loss account but not taxable as business income		
	Rent from house property	1,80,000	
	Rent from furniture	<u>1,20,000</u>	
		8,33,000	
	Less: Depreciation		
	- On Trade Marks [Trade Marks are eligible for	800	

	depreciation @25%] [Rs.1,200/15% x 25% - Rs. 1,200, being the wrong depreciation]		
	[Note - Alternatively, depreciation of Rs. 1,200 wrongly claimed can be added and the amount of correct depreciation of Rs. 2,000 can be deducted.]		
	- On laptop [Rs. 60,000 x 40%]	<u>24,000</u>	8,08,200
III	Capital Gains		
	Short term capital loss of Rs. 8,000 on sale of equity shares [Can be set off against capital gain only. Hence, carried forward to A.Y. 2024-25]		-
IV	Income from Other Sources		
	Rent from furniture		<u>1,20,000</u>
	Gross Total Income/Total income [Deduction under Chapter VI-A is not allowed under section 115BAC]		<u>10,49,300</u>
	Computation of Tax payable		
	Tax on Rs. 10,49,300		
	Upto Rs. 2,50,000	Nil	
	Rs. 2,50,000 @5% [Rs. 5,00,000 - Rs. 2,50,000]	12,500	
	Rs. 2,50,000 @10% [Rs. 7,50,000 - Rs. 5,00,000]	25,000	
	Rs. 2,50,000 @15% [Rs. 10,00,000 - Rs. 7,50,000]	37,500	
	Rs. 49,300 @20% [Rs. 10,49,300 - Rs. 10,00,000]	<u>9,860</u>	
			84,860
	Add: Health and education cess @4%		<u>3,394</u>
	Tax payable		<u>88,254</u>
	Tax payable (Rounded off)		<u>88,250</u>

(ii) Computation of total income and tax payable by Mr. Pramod for A.Y. 2023 -24 as per presumptive provisions under section 44AD and not opting for section 115BAC

	Particulars	Rs.	Rs.
I	Income from house property [Computed in (i) above]		1,21,100
II	Profits and gains of business or profession		4,24,800
	[6% of sales, as all sales are by account payee cheque or through bank transfers] [Rs. 70,80,000 x 6%]		
III	Income from Other Sources [Computed in (i) above]		<u>1,20,000</u>
	Gross Total Income		6,65,900
	Less: Deduction under Chapter VI-A		

<u>Deduction under section 80C</u>		
- Deposit in PPF A/c	50,000	
- Life insurance premium	<u>60,000</u>	1,10,000
<u>Deduction under section 80G</u>		
Donation to National Children's Fund [Allowed 100% without qualifying limit]		25,000
<u>Deduction under section 80E</u>		
Interest on loan for higher education of his wife		<u>70,000</u>
Total Income		<u>4,60,900</u>
Computation of Tax Payable		
Tax on Rs. 4,60,900		
Rs. 2,10,900 @ 5% [Rs. 4,60,900 - Rs. 2,50,000]		10,545
Less: Rebate u/s 87A – lower of Rs. 10,545 or Rs. 12,500 allowable, since total income does not exceed Rs. 5,00,000		<u>10,545</u>
Tax Payable		<u>Nil</u>

(iii) Computation of total income and tax payable by Mr. Pramod for A.Y. 2023-24 as per normal provisions of the Act (as per books of accounts) and not opting for section 115BAC

Particulars		Rs.
Gross Total Income [Computed in (i) above]		10,49,300
Less: Deduction under Chapter VI-A [Computed in (ii) above] [Rs. 1,10,000 + Rs. 25,000 + Rs. 70,000]		<u>2,05,000</u>
Total Income		<u>8,44,300</u>
Computation of Tax Payable		
Tax on Rs. 8,44,300		
Rs. 2,50,000 @5% [Rs. 5,00,000 - Rs. 2,50,000]	12,500	
Rs. 3,44,300 @20% [Rs. 8,44,300 - Rs. 5,00,000]	<u>68,860</u>	
		81,360
Add: Health and education cess @4%		<u>3,254</u>
Tax payable		<u>84,614</u>
Tax payable (Rounded off)		<u>84,610</u>

Option advantageous to Mr. Pramod

It is beneficial for Mr. Pramod to opt for presumptive provisions under section 44AD and not to opt for section 115BAC.


QUESTION 4
PEP MAY 2024 (15 MARKS)

Mr. Sahil, resident Indian aged 40 years, a Manufacturer at Chennai, gives the following Manufacturing, Trading and Profit & Loss Account for the year ended 31.03.2024.

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

Particulars	Rs.	Particulars	Rs.
To Opening Stock	71,000	By Sales	43,50,000
To Purchase of Raw Materials	17,20,500	By Closing Stock	2,00,000
To Manufacturing Wages & Expenses	5,80,500		
To Gross Profit	21,78,000		
Total	45,50,000	Total	45,50,000
To Administrative Charges	2,90,000	By Gross Profit	21,78,000
To SGST Penalty Paid (It is not compensatory nature)	7,000	By Dividend From Domestic Companies	15,000
		By Winning from	
To GST Paid	1,10,000	Lotteries (Net of TDS) (TDS 4,500)	10,500
To General Expenses	55,000	By Profit on Sale of Shares	45,000
To Miscellaneous Expenses	1,50,500		
To Loss on Sale of Shares	20,000		
To Interest to Bank (on Machinery term loan)	60,000		
To Depreciation	2,00,000		
To Net Profit	13,56,000		
Total	22,48,500	Total	22,48,500

Following are the further information relating to Financial Year 2023 -2024:

- (i) Administrative Charges include Rs. 46,000 paid as commission to brother of Assessee. The Commission amount at the market rate in Rs. 36,000.
- (ii) The assessee paid Rs. 33,000 in cash to a Transport Carrier on 26.12.2023. This amount is included in Manufacturing Expenses. (Assume that the provisions relating to TDS are not applicable on 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 books of account.
- (iv) Bank Term Loan Interest actually paid upto 31.03.2024 was Rs. 20,000 and the balance was paid in October 2024.

- (v) Miscellaneous Expenses include Rs. 10,000 contributed to Prime Minister's Relief Fund.
- (vi) Loss on Sale of Shares represents shares sold within a period of 6 months from the date of purchase.
- (vii) Profit on Sale of Shares represents shares held for 2 years & Securities Transaction Tax was paid on it.
- (viii) Housing Loan Principal repaid during the year was Rs. 50,000 and it relates to residential property occupied by him. Interest on Housing Loan was Rs. 2,60,000. Housing Loan was taken from Canara Bank. (Value of house property is Rs. 45 Lakhs, loan value Rs. 25 Lakhs and sanction date 31.03.2017).
- These amounts were not dealt with in the Profit and Loss Account given above. (Assume this housing loan is eligible for 80EE deduction).

(ix) Depreciation allowable under the Act to be computed on the basis of following information:

Plant & Machinery (Depreciation Rate @15%)	Rs.
Opening WDV (as on 01.04.2023)	12,00,000
Additions During the year (Used for more than 180 Days)	2,00,000
Total Additions during the year	4,00,000
Note: Ignore Additional Depreciation u/s 32(1)(iia)	

Compute the total income and tax liability of Mr. Sahil for the A.Y. 2024 -25 if he has exercised the option of shifting out of the default tax regime provided under Section 115BAC(1A).

Computation of total income and tax liability of Mr. Sahil for A.Y. 2024-25

	Particulars	Rs.	Rs.
I	<u>Income from house property</u>		
	Annual value of self-occupied property	Nil	
	Less: Deduction under section 24(b)		
	Interest on housing loan of Rs. 2,60,000 restricted to Rs. 2,00,000	2,00,000	
		(2,00,000)	
II	<u>Profits and gains of business or profession</u>		
	Net Profit	13,56,000	
	Add: Expenses debited to Profit and loss A/c but not allowable as deduction or to be considered under other head		
	- Commission paid to brother [Commission paid to a related person/relative to the extent it is excessive to market rate is disallowed under section 40A(2)]	10,000	
	- Cash payment to a Transport Carrier [Not disallowed	Nil	

	<p>under section 40A(3) since the limit for one time cash payment is Rs. 35,000 in respect of payment to transport operators]</p> <p>- Interest to bank on term loan [Interest paid to bank after the due date of filing of return under section 139(1) is disallowed as per section 43B]</p>	<p>40,000</p>	
	<p>- Contribution to Prime Minister’s Relief Fund [Not allowable since the same is not incurred wholly and exclusively for business purpose]</p> <p>- SGST Penalty paid [SGST penalty paid is not compensatory in nature and therefore, not allowable]</p> <p>- Loss on sale of shares</p> <p>- Depreciation as per books of account</p> <p>Less: Incomes credited to profit and loss account but not taxable as business income</p> <p>- Dividend from Domestic Companies</p> <p>- Winnings from lotteries</p> <p>- Profit on sale of shares</p> <p>Less: Depreciation allowable as per Income- tax Rules,1962</p> <p>- On Plant & Machinery [@15% on Rs. 14,00,000, being opening WDV of Rs. 12 lakhs and additions put to use for more than 180 days of Rs. 2 lakhs + @7.5% on Rs. 2,00,000, being additions put to use for less than 180 days]</p> <p>[8% of sales i.e. Rs. 43,50,000 x 8%¹ assuming entire amount of sales are not received by A/c payee cheque or A/c payee draft or ECS or other electronic prescribed modes]</p> <p>Business Income</p> <p>[As per section 44AD, in case of Mr. Sahil, being an eligible assessee, a sum equal to Rs. 3,48,000 (8%¹ of total turnover i.e., Rs. 43,50,000) or as the case may be, a sum higher than the aforesaid sum claimed to have been earned by him would be deemed to be the business income. In this case, since Mr. Sahil has maintained books of account, he can claim the higher sum actually earned Rs. 13,47,500 as his income from</p>	<p>10,000</p> <p>7,000</p> <p>20,000</p> <p><u>2,00,000</u></p> <p>16,43,000</p> <p>15,000</p> <p>10,500</p> <p><u>45,000</u></p> <p>15,72,500</p> <p><u>2,25,000</u></p> <p>13,47,500</p> <p>3,48,000</p> <p>13,47,500</p>	

	business.] (See Note below the for alternate answer)		
	Less: Set off of loss from house property as per section 71(3A)	<u>2,00,000</u>	
		11,47,500	
	Add: Salary paid to staff not recorded in the books [Assuming the expenditure is in the nature of unexplained expenditure, the same is deemed to be income as per section 69C of Mr. Sahil. No deduction would be allowed in respect of such expenditure.]	<u>48,000</u>	11,95,500
	Alternatively, it is possible to assume that the salary not recorded in the books of account was an erroneous omission and the assessee has offered satisfactory explanation about the source of such expenditure. In such a case, it would not be considered as deemed income and the same would be allowed as deduction while computing business income on the basis of books of accounts. In such a case, business income, total income and tax liability (rounded off) would be Rs. 10,99,500, Rs. 10,44,500 and Rs. 1,23,080.		
III	<u>Capital Gains</u>		
	Long term capital gains taxable u/s 112A [Since shares are held for 2 years and STT has been paid]	45,000	
	Less: Set off of short term capital loss as per section 70(2)	<u>20,000</u>	25,000
IV	<u>Income from Other Sources</u>		
	Dividend from Domestic Companies	15,000	
	Winning from lotteries (Rs. 10,500 + Rs. 4,500)	<u>15,000</u>	30,000
	Gross Total Income		12,50,500
	Less: Deduction under Chapter VI-A		
	<u>Deduction under section 80C</u>		
	Principal repayment of housing loan	50,000	
	<u>Deduction under section 80EE</u>		
	Interest on housing loan of Rs. 60,000 [Rs. 2,60,000 – Rs. 2,00,000, allowed u/s 24(b)] allowable under section 80EE upto Rs. 50,000	50,000	
	<u>Deduction under section 80G</u>		
	Contribution to Prime Minister’s Relief Fund ²	<u>10,000</u>	<u>1,10,000</u>
	Total Income		<u>11,40,500</u>

Tax Liability		
Tax on LTCG of Rs. 25,000 u/s 112A [Exempt upto Rs. 1 lakh]		Nil
Tax on winning from lotteries of Rs. 15,000 @30%		4,500
Tax on unexplained expenditure of Rs. 48,000 @60%		28,800
Tax on balance income of Rs. 10,52,500 at slab rate		
Upto Rs. 2,50,000	Nil	
From Rs. 2,50,001 to Rs. 5,00,000 @5%	12,500	
From Rs. 5,00,001 to Rs. 10,00,000 @20%	1,00,000	
From Rs. 10,00,001 to Rs. 10,52,500 @30%	<u>15,750</u>	<u>1,28,250</u>
		1,61,550
Add: Surcharge @25% on tax on unexplained expenditure of Rs. 28,800		<u>7,200</u>
		1,68,750
Add: Health and education cess @4%		<u>6,750</u>
Tax Liability		<u>1,75,500</u>

Note – Alternatively, if Mr. Sahil claims his business income as Rs. 3,48,000 i.e., 8%³ of total turnover under section 44AD, his total income and tax liability would undergo a change.

QUESTION 5

PEP SEPT 24 (15 MARKS)

Mr. Raman, a resident individual aged 62 years, is engaged in the business of manufacturing and sales of spare parts for motor bikes, as a proprietor. He prepares his accounts on mercantile basis. This business is carried out on the ground floor of a two storied commercial building owned by him, the written down value of which is Rs.8 lakhs as on April 1, 2023. He prepares his accounts on accrual basis. The Statement of Profit and Loss for the previous year ended on March 31, 2024 shows a net profit of Rs.9.25 lakhs (before taxation and depreciation) after debiting/crediting the following items:

- i. Travelling expenses includes Rs.2,40,000 being expenditure incurred on a foreign tour to Taiwan for attending a business exhibition and meeting with vendors, out of which Rs.40,000 is incurred in Indian currency and Rs.2,00,000 in foreign currency. Mr. Raman has spent 10 days in Taiwan, out of which 4 days were utilized by him for attending marriage ceremony of a vendor's son.
- ii. Administrative expenses include Rs.9,525 paid towards interest on delay in deposit of GST.
- iii. General expenses include a sum of Rs.3,88,000 paid to a non-resident as fee for technical services without deduction of tax at source.
- iv. Fire insurance premium of Rs.66,000 for the entire building remained unpaid till 31st March, 2024.
- v. Expenditure of Rs.75,000, was paid to a scientific research association approved under

section 35. Out of Rs.75,000, Rs.50,000 was utilised towards the purchase of land by the research association.

- vi. He let out first floor of his commercial building to Mr. Aman on April 1, 2023 and received rent of Rs.35,000 per month. Municipal taxes Rs.20,000 relating to the building were paid equally by both Mr. Raman and Mr. Aman. Rent received was credited and municipal taxes of Rs.10,000 (relating to ground floor) was debited to the statement of profit and loss.
- vii. He sold a piece of land for Rs.44 lakhs on 12th April, 2023. He had acquired the land for 40 lakhs on 1st January, 2022. The gain of 4,00,000 is credited to the statement of profit and loss.

(CII for F.Y. 2021-22-317; F.Y. 2023-24-348)

Additional Information:

- (i) Mr. Raman purchased raw material from M/s. Paul Industries, a micro enterprise, for Rs. 49,000 on March 10, 2024. However, the payment to M/s. Paul Industries was made on April 5, 2024 by cheque. No written agreement for payment existed between M/s. Paul Industries and Mr. Raman. Another supplier M/s. Kal Industries, a small enterprise, with whom also no written agreement existed for payment, was paid Rs.1,34,000 in cash on April 5, 2024 for purchase of raw material on March 31, 2024. Both M/s. Paul Industries and M/s. Kal Industries follow mercantile system of accounting.
- (ii) Mr. Raman acquired a registered trademark on July 15, 2023 for Rs.2,00,000. Mr. Raman started using this trademark for his business from January 15, 2024. Mr. Raman omitted to enter any transaction relating to this trademark in his books of accounts.
- (iii) Mr. Raman bought a car for personal use on 12th April, 2020 for Rs.5,40,000. He started using this car for business purposes from 01.04.2023. As on that day, the market value of the car was Rs.2,10,000. Assume the rate of depreciation to be 15%.
- (iv) He incurred Rs.2,50,000 on the purchase of a new machinery to be used in the production of spare parts for motor bikes on May 15, 2023.
- (v) He has paid tuition fees of Rs.25,000 for the education of his daughter to a college.
- (vi) During the year, Mr. Raman has incurred Rs.9,500 in cash for preventive health check-up where Rs.5,000 was for himself and Rs.4,500 was for his parents who are super senior citizens.
- (vii) Donation paid to a registered political party by way of cheque Rs.20,000.

Compute the total income and tax payable for assessment year 2024-25 by Mr. Raman under default tax regime and optional tax regime as per normal provisions of the Act. Which option is advantageous to Mr. Raman?

**Computation of total income and tax payable by Mr. Raman for
A.Y. 2024-25 under default tax regime**

	Particulars	Rs.	Rs.
I	Income from house property		
	Gross Annual Value of first floor (Rent received has been taken as gross annual value in the absence of other information) [Rs.35,000 x 12]	4,20,000	
	Less: Municipal taxes (paid by tenant, Mr. Aman, hence not deductible)	Nil	
	Net Annual Value	4,20,000	
	Less: Deduction @30% of NAV	1,26,000	
			2,94,000
II	Profits and gains of business or profession		
	Net Profit	9,25,000	
	Add: Expenses debited to Profit and loss A/c but not allowable as deduction or to be considered under other heads of income		
	➤ Travelling expenses [Allowable since the same is incurred wholly and exclusively for business purpose]	Nil	
	[Note - Alternatively, it is possible to assume that the proportionate foreign tour expenditure attributable to attending the marriage ceremony of a vendor's son is a personal expenditure. In such case, Rs.2,40,000 X 4 /10 = Rs.96,000 would be disallowed.]		
	➤ Interest on delay in deposit of GST [Interest on delay in deposit in GST is compensatory in nature and hence, allowable as expenditure]	Nil	
	➤ Fee for technical services to non-resident [100% disallowed under section 40(a)(i) since the TDS was not deducted]	3,88,000	
	➤ Fire insurance premium [Fire insurance premium for ground floor which is occupied for business purpose is allowed since Mr. Raman is following mercantile system of accounting. Remaining half for let out	33,000	



portion is disallowed] [Rs.66,000/2]		
➤ Contribution to scientific research association approved u/s 35 [Not allowable under section 35(1)(ii) as per default tax regime]	75,000	
➤ Municipal taxes for ground floor [Allowable since the ground floor is occupied for business purpose]	Nil	
➤ Sum payable for purchase of raw material from M/s Paul Industries, a micro enterprise [Not allowable as per section 43B(h) since payment was made to a micro enterprise on 5.4.2024 which is beyond the time limit specified u/s 15 of the MSMED Act, 2006 i.e., within 15 days from 10.3.2024]	49,000	
➤ Sum payable for purchase of raw material from M/s Kal Industries, a small enterprise [Allowable as per section 43B(h) since payment was made to a small enterprise on 5.4.2024 i.e., within 15 days from 31.3.2024.	Nil	
However, since the payment is made in cash on 5.4.2024, Rs.1,34,000 for purchase of raw material would be the deemed income of P.Y. 2024-25 as per section 40A(3A)]		
	14,70,000	
Less: Incomes credited to profit and loss account but not taxable as business income		
➤ Rent received for let out portion	4,20,000	
➤ Gain on sale of land	4,00,000	
	6,50,000	
Less: Depreciation		
➤ On trademark [Rs.2,00,000 x 25% x 50%, since trademark is put to use for less than 180 days]	25,000	
➤ On Car [Rs.5,40,000 x 15%]	81,000	
➤ On new Plant & machinery [Rs.2,50,000 x 15%]	37,500	
➤ On Building [Rs.8,00,000 x 10%]	80,000	
Additional depreciation		
➤ On new Plant & machinery [Not allowable under default tax regime]	Nil	
Income from Business		4,26,500

III	Capital Gains		
	Full value of consideration	44,00,000	
	Less: Cost of acquisition	40,00,000	
	Short term capital gains on land [Since land is held for less than 24 months]		4,00,000
	Gross Total Income		11,20,500
	Less: Deduction under Chapter VI-A [Not allowable under default tax regime]		Nil
	Total Income		11,20,500
	Tax Payable		
	Up to Rs.3,00,000	Nil	
	From Rs.3,00,001 to Rs.6,00,000 @5%	15,000	
	From Rs.6,00,001 to Rs.9,00,000 @10%	30,000	
	From Rs.9,00,001 to Rs.11,20,500 @15%	33,075	
			78,075
	Add: Health and education cess @4%		3,123
	Tax Payable		81,198
	Tax Payable (Rounded off)		81,200

Computation of total income and tax payable by Mr. Raman for A.Y. 2024-25 under normal provisions of the Act

	Particulars	Rs.	Rs.
	Gross Total Income as per default tax regime		11,20,500
	Less: Additional depreciation on new Plant & machinery [Rs.2,50,000 x 20%]		50,000
	Less: Contribution to scientific research association approved u/s 35		75,000
	Gross Total Income as per normal provisions of the Act		9,95,500
	Less: Deduction under Chapter VI-A		
	Deduction under section 80C		
	Tuition fees to a college for daughter's education	25,000	
	Deduction under section 80D		
	Preventive health check-up for self and parents restricted to	5,000	
	Deduction under section 80GGC		
	Donation to a registered political party since the payment is made otherwise than by cash	20,000	
			50,000



Total Income as per normal provisions of the Act		9,45,500
Tax Payable		
Up to Rs.3,00,000	Nil	
From Rs.3,00,001 to Rs.5,00,000 @5%	10,000	
From Rs.5,00,001 to Rs.9,45,500 @20%	89,100	
		99,100
Add: Health and education cess @4%		3,964
Tax Payable		1,03,064
Tax Payable (Rounded off)		1,03,060

Since tax payable under default tax regime is lower than the tax payable under normal provisions of the Act, it would be beneficial for Mr. Raman to pay tax under default tax regime u/s 115BAC.

Questions from MTP, RTP

QUESTION 1

MTP 1 MAY 24 (15 MARKS)

Mr. Amit, having business of manufacturing of furniture, gives the following Trading and Profit & Loss Account for the year ended 31.03.2024:

Trading and Profit & Loss Account

Particulars	Rs.	Particulars	Rs.
Opening Stock	5,62,500	Sales	2,33,25,000
Purchases	1,88,62,500	Closing Stock	6,75,000
Freight & Cartage	1,89,000		
Gross profit	43,86,000		
	2,40,00,000		2,40,00,000
Bonus to staff	71,250	Gross profit	43,86,000
Rent of premises	80,250	Income-tax refund	30,000
Advertisement	7,500	Warehousing charges	22,50,000
Bad Debts	1,12,500		
Interest on loans	2,51,250		
Depreciation	1,07,250		
Goods and Services tax demand paid	1,62,525		
Salary	5,50,000		
Miscellaneous expenses	2,38,475		
Net profit	50,85,000		
	66,66,000		66,66,000

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

- (i) Income-tax refund includes amount of Rs. 4,570 of interest allowed thereon.
- (ii) Salary include Rs. 30,000 paid to his brother which is unreasonable to the extent of Rs. 5,000.
- (iii) Advertisement expenses include an amount of Rs. 2,500 paid for advertisement published in the souvenir issued by a political party. The payment is made by way of an account payee cheque.
- (iv) Miscellaneous expenses include an amount of Rs. 1,00,000 paid to Political Party by cheque.
- (v) Goods and Services Tax demand paid includes an amount of Rs. 5,300 charged as penalty for delayed filing of returns and Rs. 12,750 towards interest for delay in deposit of tax.
- (vi) Mr. Amiiit had purchased a warehouse building of Rs. 20 lakhs in rural area for the purpose of storage of agricultural produce. This was made available for use from 15.07.2023 and the income from this activity is credited in the Profit and Loss account under the head "Warehousing charges".

(vii) Depreciation under the Income-tax Act, 1961 works out at Rs. 65,000 excluding depreciation on warehouse building.

(viii) Interest on loans includes an amount of Rs. 80,000 paid to Mr. Mohit, a resident, on which tax was not deducted.

Compute the total income and tax liability of Mr. Amit for the A.Y. 2024-25 in a most beneficial manner.

Computation of total income of Mr. Amit as per section 115BAC for A.Y. 2024-25

Particulars		Rs.
Net profit as per profit and loss account		50,85,000
Less:	Income-tax refund credited in the profit and loss account, out of which interest on such refund is only taxable, which is to be considered separately under the head "Income from other sources"	<u>30,000</u>
Add:	Expenses either not allowable or to be considered separately but charged in the profit & loss account	50,55,000
	- Salary paid to brother disallowed to the extent considered unreasonable [Section 40A(2)]	5,000
	- Advertisement in the souvenir of political party not allowable as per section 37(2B) (See Note 1)	2,500
	- Payment made to political party by cheque (See Note 2)	1,00,000
	- Penalty levied by the Goods and Services tax department for delayed filing of returns not allowable as being paid for infraction of law (See Note 3)	5,300
	- Depreciation as per books	1,07,250
	- 30% of interest paid on loan paid to Mr. Mohit, a resident, without deduction of tax at source not allowable as per section 40(a)(ia)	24,000
		52,99,050
Less:	Depreciation allowable as per Income-tax Act, 1961	65,000
	Depreciation on building [Rs. 20 lakhs x 10%]	2,00,000
Profits and gains from business or profession		50,34,050
Income from Other Sources		
	Interest on income-tax refund	4,570
Gross Total Income		50,38,620
Less:	Deduction under section 80GGC [Contribution to Political Party] [Not allowable]	Nil
Total Income		50,38,620

Notes –

- (1) The amount of Rs. 2,500 paid for advertisement in the souvenir issued by a political party attracts disallowance under section 37(2B).
- (2) Payment to political party is not an expenditure incurred wholly and exclusively for business purpose and hence not allowance under section 37(1). Since the amount has been debited to profit and loss account, the same has to be added back for computing business income.
- (3) The interest of Rs. 12,750 paid on the delayed deposit of goods and services tax is for breach of contract and hence, is allowable as deduction. However, penalty of Rs. 5,300 for delay in filing of returns is not allowable since it is for breach of law.
- (4) Deduction under section 35AD is not allowable as per section 115BAC(2). However, normal depreciation u/s 32 is allowable.

Computation of tax liability as per section 115BAC

Particulars	Rs.	Rs.
Tax on total income of Rs. 50,38,620		
Upto Rs. 3,00,000	Nil	
Rs. 3,00,001 – Rs. 6,00,000 [@5% of Rs. 3 lakhs]	15,000	
Rs. 6,00,001 – Rs. 9,00,000 [@10% of Rs. 3 lakhs]	30,000	
Rs. 9,00,001 – Rs. 12,00,000 [@15% of Rs. 3 lakhs]	45,000	
Rs. 12,00,001 – Rs. 15,00,000 [@20% of Rs. 3 lakhs]	60,000	
Rs.15,00,001 – Rs. 50,38,620 [@30% of Rs. 35,38,620]	<u>10,61,586</u>	12,11,586
Add: Surcharge @10% [Since, the total income exceeds Rs. 50 lakhs but does not exceed Rs. 1 crore]		<u>1,21,159</u>
		13,32,745
Less: Marginal relief (See computation below)		<u>94,125</u>
		12,38,620
Add: Health and education cess@4%		<u>49,545</u>
Total tax liability		<u>12,88,165</u>
Total tax liability (Rounded off)		12,88,170

Computation of marginal relief

Particulars	Rs.
(A) Tax payable including surcharge on total income of Rs. 50,38,620 as per section 115BAC	13,32,745
(B) Tax payable on total income of Rs. 50 lakhs as per section 115BAC	<u>12,00,000</u>
(C) Excess tax payable (A-B)	<u>1,32,745</u>
(D) Marginal relief (Rs. 1,32,745 – Rs. 38,620, being the amount of income in excess of Rs. 50 lakhs)	94,125

Note - An individual paying tax u/s 115BAC is not liable to alternate minimum tax u/s 115JC.

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

Particulars	Rs.	Rs.
Gross Total Income as per default tax regime under section 115BAC		50,38,620
Add: Depreciation on building [Rs. 20 lakhs x 10%]		<u>2,00,000</u>
		52,38,620
Less: Warehousing charges		<u>22,50,000</u>
Gross Total Income excluding profits and gains from specified business under section 35AD		29,88,620
Profits and gains from specified business under section 35AD		
Warehousing charges	22,50,000	
Less: Deduction under section 35AD (See Note 1)	<u>20,00,000</u>	<u>2,50,000</u>
Gross Total Income as per normal provisions of the Act		32,38,620
Less: Deduction under section 80GGC for contribution to Political Party (See Note 2)		1,00,000
Total Income as per regular provisions of the Act		31,38,620

Notes –

- (1) Deduction @100% of the capital expenditure is available under section 35AD in respect of specified business of setting up and operating a warehouse facility for storage of agricultural produce which commences operation on or after 1.04.2009.
- (2) Payment to political party qualifies for deduction under section 80GGC since the payment is made by way of a cheque.

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

Particulars	Rs.	Rs.
Tax on total income of Rs. 31,38,620		
Upto Rs. 2,50,000	Nil	
Rs. 2,50,001 – Rs. 5,00,000 [@5% of Rs. 2.50 lakh]	12,500	
Rs. 5,00,001 – Rs. 10,00,000 [@20% of Rs. 5,00,000]	1,00,000	
Rs. 10,00,001- Rs. 31,38,620 [@30% of Rs. 21,38,620]	<u>6,41,586</u>	7,54,086
Add: Health and education cess@4%		<u>30,163</u>
Total tax liability		<u>7,84,249</u>
Total tax liability (rounded off)		7,84,250



Computation of adjusted total income and AMT of Mr. Amit for A.Y. 2024-25

Particulars	Rs.	Rs.
Total Income (computed above as per regular provisions of income tax)		31,38,620
Add: Deduction under section 35AD	20,00,000	
Less: Depreciation under section 32 on building [Rs.20 lakhs x 10%]	<u>(2,00,000)</u>	<u>18,00,000</u>
Adjusted Total Income		<u>49,38,620</u>
Alternative Minimum Tax@18.5%		9,13,645
Add: Health and education cess@4%		<u>36,546</u>
Total tax liability		<u>9,50,191</u>
Total tax liability (rounded off)		9,50,190

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 cess@4%. Therefore, liability as per section 115JC is Rs. 9,50,190.

Since the tax liability of Mr. Amit under section 115JC is lower than the tax liability as computed u/s 115BAC, it would be beneficial for him to opt out of the default tax regime under section 115BAC for A.Y. 2024-25 and pays tax under regular provisions of the Act. Moreover, benefit of alternate minimum tax credit is also available to the extent of tax paid in excess of regular tax.

AMT credit to be carried forward under section 115JEE

Particulars	Rs.
Tax liability under section 115JC	9,50,190
Less: Tax liability under the regular provisions of the Income-tax Act, 1961	7,84,250
	1,65,940

QUESTION 2

MTP 2 MAY 24 (15 MARKS)

Mr. Sunil, aged 48 years, a resident Indian has furnished the following particulars for the year ended 31.03.2024:

- (i) He occupies ground floor of his residential building and has let out first floor for residential use at an annual rent of Rs. 2,95,000. He has paid municipal taxes of Rs. 25,000 for the current financial year. Both these floors are of equal size.
- (ii) As per interest certificate from HDFC bank, he paid Rs. 1,50,000 as interest and Rs. 80,000 towards principal repayment of housing loan borrowed for the above residential building in the year 2018.
- (iii) He owns an industrial undertaking established in a SEZ and which had commenced operation during the financial year 2019-20. Total turnover of the undertaking was Rs. 400 lakhs, which includes Rs. 150 lakhs from export turnover. Out of Rs. 150 lakhs, only Rs. 120



lakhs have been received in India in convertible foreign exchange on or before 30.9.2024. This industrial undertaking fulfills all the conditions of section 10AA of the Income-tax Act, 1961. Profit from this industry is Rs. 40 lakhs.

- (iv) He employed 20 new employees for the said industrial undertaking during the previous year 2023-24. Out of 20 employees, 12 were employed on 1st May 2023 for monthly emoluments of Rs. 18,000 and remaining were employed on 1st September 2023 on monthly emoluments of Rs. 12,000. All these employees participate in recognised provident fund and they are paid their emoluments directly to their bank accounts.
- (v) He earned Rs. 30,000 and Rs. 40,000 as interest on saving bank deposits and fixed deposits, respectively.
- (vi) He also sold his vacant land on 01.12.2023 for Rs. 15 lakhs. The stamp duty value of land at the time of transfer was Rs. 16 lakhs. This land was acquired by him on 15.10.1998 for Rs. 2.80 lakhs. The FMV of the land as on 1st April, 2001 was Rs. 4.8 lakhs and Stamp duty value on the said date was Rs. 4 lakhs. He had incurred registration expenses of Rs. 12,000 at that time. The cost of inflation index for the financial year 2023-24 and 2001-02 are 348 and 100, respectively.
- (vii) He paid insurance premium of Rs. 40,000 towards life insurance policy of his son, who is not dependent on him.

You are requested to compute total income and tax liability of Mr. Sunil for the Assessment Year 2024-25, in the manner so that he can make maximum tax savings.

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

	Particulars	Rs.	Rs.	Rs.
I	Income from house property			
	Let out portion [First floor]			
	Gross Annual Value [Rent received is taken as GAV, in the absence of other information]			2,95,000
	Less: Municipal taxes paid by him in the P.Y. 2023-24 pertaining to let out portion [Rs. 25,000/2]			<u>12,500</u>
	Net Annual Value (NAV)			2,82,500
	Less: Deduction u/s 24			
	(a) 30% of Rs. 2,82,500		84,750	
	(b) Interest on housing loan [Rs. 1,50,000/2]		<u>75,000</u>	<u>1,59,750</u>
				1,22,750
		Self-occupied portion [Ground Floor]		



	Annual Value		Nil	
	[No deduction is allowable in respect of municipal taxes paid]			
	Less: Interest on housing loan [Not allowable under section 115BAC]		<u>Nil</u>	
			Nil	
	Income from house property			1,22,750
II	Profits and gains of business or profession			
	Income from SEZ unit			40,00,000
III	Capital Gains			
	Long-term capital gains on sale of land (since held for more than 24 months)			
	Full Value of Consideration [Actual consideration of Rs. 15 lakhs, since stamp duty value of Rs. 16 lakhs does not exceed actual consideration by more than 10%]		15,00,000	
	Less: Indexed Cost of acquisition [Rs. 4,00,000 x 348/100]		<u>13,92,000</u>	1,08,000
	Cost of acquisition			
	Higher of -			
	- Actual cost Rs. 2.80 lakhs + Rs. 0.12 lakhs = Rs. 2.92 lakhs and			
	- Fair Market Value (FMV) as on 1.4.2001 = Rs. 4.8 lakhs but cannot exceed stamp duty value of Rs. 4 lakhs.			
IV	Income from Other Sources			
	Interest on savings bank deposits		30,000	
	Interest on fixed deposits		<u>40,000</u>	<u>70,000</u>
	Gross Total Income			43,00,750
	Less: Deduction under Chapter VI-A			
	Deduction under section 80JJAA			7,12,800
	30% of the employee cost of the new employees employed during the P.Y. 2023-24 for 240 days or more during the P.Y. 2023-24 allowable as deduction [30% of Rs. 23,76,000 (12 x 18,000 x 11)]			

As per section 115BAC, no deduction under section 10AA or under Chapter VI-A is allowable except u/s 80JJAA			
Total Income			35,87,950

Computation of tax liability of Mr. Sunil under section 115BAC

Particulars	Rs.	Rs.
Tax on total income of Rs. 35,87,950		
Tax on LTCG of Rs. 1,08,000@20%		21,600
Tax on remaining total income of Rs. 34,79,950		
Upto Rs. 3,00,000	Nil	
Rs. 3,00,001 – Rs. 6,00,000 [@5% of Rs. 3 lakhs]	15,000	
Rs. 6,00,001 – Rs. 9,00,000 [@10% of Rs. 3 lakhs]	30,000	
Rs. 9,00,001 – Rs. 12,00,000 [@15% of Rs. 3 lakhs]	45,000	
Rs. 12,00,001 – Rs. 15,00,000 [@20% of Rs. 3 lakhs]	60,000	
Rs. 15,00,001 – Rs. 34,79,950 [@30% of Rs. 19,79,950]	<u>5,93,985</u>	<u>7,43,985</u>
		7,65,585
Add: Health and education cess@4%		<u>30,623</u>
Total tax liability		<u>7,96,208</u>
Tax liability (rounded off)		7,96,210

Note - An individual paying tax u/s 115BAC is not liable to alternate minimum tax u/s 115JC.

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

Particulars	Rs.	Rs.
Gross Total Income as per default tax regime under section 115BAC		43,00,750
Less: Interest on borrowing in respect of self- occupied house property [Rs. 1,50,000/2]		<u>75,000</u>
Gross Total Income as per section 115BAC		42,25,750
Less: Deduction u/s 10AA [Since the industrial undertaking is established in SEZ, it is entitled to deduction u/s 10AA@100% of export profits, since P.Y.2023-24 being the 5th year of operations] [Profits of the SEZ x Export Turnover received in convertible foreign exchange/Total Turnover] x 100% [Rs. 40 lakhs x Rs. 120 lakhs/ Rs. 400 lakhs x 100%]		12,00,000
Less: Deduction under Chapter VI-A		
Deduction under section 80C		

Repayment of principal amount of housing loan	80,000	
Insurance premium paid on life insurance policy of son allowable, even though not dependent on Mr. Sunil	<u>40,000</u>	1,20,000
Deduction under section 80JJAA [As computed above]		7,12,800
Deduction under section 80TTA		10,000
Interest on savings bank account, restricted to Rs. 10,000		
Total Income as per regular provisions of the Act		21,82,950

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

Particulars	Rs.	Rs.
Tax on total income of Rs. 21,82,950		
Tax on LTCG of Rs. 1,08,000@20%		21,600
Tax on remaining total income of Rs. 20,74,950		
Upto Rs. 2,50,000	Nil	
Rs. 2,50,001 – Rs. 5,00,000[@5% of Rs. 2.50 lakhs]	12,500	
Rs. 5,00,001 – Rs. 10,00,000[@20% of Rs. 5 lakhs]	1,00,000	
Rs. 10,00,001 – Rs. 20,74,950[@30% of Rs. 10,74,950]	<u>3,22,485</u>	<u>4,34,985</u>
		4,56,585
Add: Health and education cess@4%		<u>18,263</u>
Total tax liability		<u>4,74,848</u>
Tax liability (rounded off)		4,74,850

Computation of adjusted total income and AMT of Mr. Sunil for A.Y. 2024-25

Particulars	Rs.
Computation of adjusted total income	
Total income as per the normal provisions of the Act	21,82,950
Add: Deduction u/s 10AA	12,00,000
Deduction u/s 80JJAA	<u>7,12,800</u>
Adjusted Total Income	<u>40,95,750</u>
Alternative Minimum Tax@18.5%	7,57,714
Add: Health and education cess@4%	<u>30,309</u>
AMT liability	<u>7,88,023</u>
AMT liability (rounded off)	7,88,020

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 cess@4%. Therefore, liability as per section 115JC is Rs. 7,88,020.

Since, tax liability as per section 115BAC of **Rs. 7,96,210** is higher than the tax liability of **Rs.**

7,88,020, being higher of AMT liability and tax liability computed as per normal provisions of the

Income-tax Act, 1961, it is beneficial for Mr. Sunil to exercise the option to shift out of the default tax regime under section 115BAC. In such a case, his tax liability would be Rs. 7,88,020 and Mr. Sunil would be eligible to carry forward the AMT credit of Rs. 3,13,170 (Rs. 7,88,020 - Rs. 4,74,850).

QUESTION 3

MTP 1 SEP 24 (15 MARKS)

Mr. Ayush, a resident individual, aged 54 years, is engaged in the business of manufacturing textiles. He earned profit of Rs.82,45,000 as per profit and loss account after debiting and crediting the following items:

- (i) Depreciation Rs.15,40,000
- (ii) Short term capital gains on transfer of listed equity shares in a company on which STT is paid Rs.10,00,000
- (iii) He received income-tax refund of Rs.15,550 which includes interest on refund of Rs.4,550.
- (iv) Dividend income from Indian companies Rs.15,00,000. Dividend received from each company is less than Rs.5,000.

Additional information –

- (i) Mr. Ayush installed new plant and machinery for Rs.65 lakhs on 1.10.2023 which was put to use on 1.1.2024. Depreciation (including additional depreciation) on this amount of Rs.65 lakhs is included in the depreciation debited to profit and loss account which has been computed as per Income-tax Rules, 1962.
- (ii) Mr. Ayush took a loan from SBI of Rs.50 lakhs on 1.9.2023 @10.5% p.a. to purchase such plant and machinery. Total interest upto 31.3.2024 has been paid on 31.3.2024 and the same has been debited to profit and loss account.
- (iii) Advance tax paid during the year is Rs.17,50,000
- (iv) Ayush purchased goods for Rs.40 lakhs from Mr. Ram, his brother. The market value of the goods is Rs.35 lakhs.
- (v) He paid Rs.40,000 as life insurance premium taken on the life of his married daughter who is not dependent on him. The sum assured is Rs.5,00,000 and the policy was taken on 1.4.2016.
- (vi) He paid Rs.45,000 by cheque towards health insurance policy covering himself, his spouse and his children.
- (vii) On 1.7.2023, Mr. Ayush withdrew Rs.1.5 crores in cash from three current accounts maintained by him with SBI. There are no other withdrawals during the year. He regularly files his return of income.

You are required to compute the total income and tax payable by Mr. Ayush for the A.Y. 2024-25 assuming that he has shifted out of the default tax regime under section 115BAC.

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

Particulars		Rs.	Rs.	Rs.
I	Income from business or profession			
	Net profit as per profit and loss account		82,45,000	

Add: Items of expenditure not allowable while computing business income			
(i) Interest on loan taken for purchase of plant & machinery [Interest from the date on which capital was borrowed till the date on which asset was first put to use, not allowable as deduction under section 36(1)(iii). Accordingly, interest of Rs. 1,75,000 [Rs. 50,00,000 x 10.5% x 4/12] has to be added back, since the same is debited to the profit and loss account]	1,75,000		
(ii) Purchase of goods at a price higher than the fair market value [The difference between the purchase price (Rs. 40 lakhs) and the fair market value (Rs. 35 lakhs) has to be added back as per section 40A(2) since the purchase is from a related party, i.e., his brother and at a price higher than the fair market value]	<u>5,00,000</u>		
		<u>6,75,000</u>	
		89,20,000	
Less: Items of income to be treated separately under the respective head of income			
(i) Income-tax refund including interest on refund of Rs. 4,550	15,550		
(ii) Dividend from Indian companies	15,00,000		
(iii) Short term capital gains on transfer of listed equity shares	<u>10,00,000</u>		
		<u>25,15,550</u>	
		64,04,450	
Less: Depreciation on interest on loan capitalised to plant and machinery			
Rs. 1,75,000, being the amount of interest on loan taken for purchase of plant and machinery from the date on which capital was borrowed till the date on which asset was first put to use, shall be capitalized			
Normal depreciation @15% x 50% on such interest	13,125		
Additional depreciation @20% x 50% on such interest [Since plant & machinery was put to use for less than 180 days in P.Y. 2023-24, it is eligible for 50% of the rate of	<u>17,500</u>	<u>30,625</u>	

	depreciation]			
				63,73,825
II	Capital Gains			
	Short term capital gains on transfer of listed equity shares			10,00,000
III	Income from Other Sources			
	Interest on income-tax refund		4,550	
	Dividend from Indian companies		<u>15,00,000</u>	<u>15,04,550</u>
	Gross Total Income			88,78,375
	Less: Deductions under Chapter VI-A			
	- Deduction under section 80C		40,000	
	Life insurance premium for married daughter [Allowable as deduction though she is not dependent, since child of an individual whether dependent or not falls within the meaning of term "Person". Accordingly, whole of the amount of Rs. 40,000 is allowable as it does not exceed 10% of the Rs. 5,00,000, being the sum assured]			
	- Deduction under section 80D			
	Health insurance premium for self, spouse and children [Allowable as deduction, since it is paid otherwise than by way of cash. However, it is to be restricted to Rs. 25,000		<u>25,000</u>	<u>65,000</u>
	Total Income			88,13,375
	Total Income (Rounded off)			88,13,380

Computation of tax payable by Mr. Ayush for A.Y. 2024-25

under the regular provisions of the Act

Particulars	Rs.	Rs.
Tax on total income of Rs. 88,13,380		
Tax on short term capital gains on transfer of listed equity shares @15% u/s 111A [Rs. 10,00,000 x 15%]		1,50,000
Tax on other Income of Rs. 78,13,380		
Upto Rs. 2,50,000	Nil	
Rs. 2,50,001 – Rs. 5,00,000 [@5% of Rs. 2.50 lakh]	12,500	
Rs. 5,00,001 – Rs. 10,00,000 [@20% of Rs. 5,00,000]	1,00,000	
Rs. 10,00,001- Rs. 78,13,380 [@30% of Rs. 68,13,380]	<u>20,44,014</u>	<u>21,56,514</u>
		23,06,514

Add: Surcharge @10%, since total income exceeds Rs. 50,00,000 but does not exceed Rs. 1 crore		<u>2,30,651</u>
		25,37,165
Add: Health and education cess@4%		<u>1,01,487</u>
Total tax liability		26,38,652
Less: TDS u/s 194N @ 2% on Rs. 50 lakhs, being the cash withdrawals exceeding Rs. 1 crore	1,00,000	
Less: Advance tax paid	<u>17,50,000</u>	<u>18,50,000</u>
Tax payable		<u>7,88,652</u>
Tax payable (rounded off)		7,88,650

QUESTION 4
MTP 2 SEP 24 (15 MARKS)

Ms. Farah, aged 40 years, is an advocate (Taxation). She keeps her books of accounts on accrual basis. Her profit & loss account for the year ended on March 31, 2024 is as follows:

Profit & Loss Account for the year ending March 31, 2024

	AMOUNT (Rs.)		AMOUNT (Rs.)
Staff salary	40,10,000	Fees Earned from:	
Rent	9,00,000	Taxation services	50,00,000
Administrative expenses	6,50,000	Appeals	16,00,000
Incentives to office staff	2,00,000	Consultancy	15,00,000
Meetings, Seminars and conferences	1,70,000	Dividend from an Indian company (gross)	81,00,000
Purchase of car (for official use) on 01.07.2023	3,00,000	Interest on deposit certificates issued under gold monetization scheme, 2015	11,00,000
Repairs and Maintenance of car	35,000	Honorarium received for valuation of answer papers	25,000
Travelling Expenses	5,00,000	Rent received in respect of house property	50,000
Municipal tax paid in respect of house property	9,000		90,000
Net profit	<u>25,91,000</u>		
	93,65,000		93,65,000

Other information:

- (i) Administrative expenses include Rs. 50,000 paid to a tax consultant in cash for assisting Ms. Farah in one of the professional assignments.
- (ii) The traveling expenses include expenditure incurred on foreign professional tour of Rs. 50,000 which was within the RBI norms.
- (iii) Ms. Farah paid medical insurance premium for her parents (senior citizens and not dependent on her) online amounting Rs. 47,000. She also paid Rs. 8,500 by cash towards preventive health check-up for herself and her spouse.
- (iv) Repairs and maintenance of car is for the period from 1-10-2023 to 30-09-2024.
- (v) She has paid Rs. 1,00,000 towards advance tax during the P.Y. 2023-24.

Compute Total Income and Net tax payable as per the most beneficial taxation scheme for Ms. Farah for the A.Y. 2024-25.

Computation of Total Income of Ms. Farah for the A.Y.2024-25 under default tax regime under section 115BAC

Particulars	Rs.	Rs.	Rs.
Income from house property			
Gross Annual Value ¹		90,000	
Less: Municipal taxes paid		<u>9,000</u>	
Net Annual Value (NAV)		81,000	
Less: Deduction under section 24(a) – 30% of NAV = 30% of Rs. 81,000		<u>24,300</u>	56,700
Profits and gains of business or profession			
Netprofit as per Profit and loss account		25,91,000	
Add: Expenses debited but not allowable			
(i) Purchase of car [Amount paid for purchase of car is not allowable since it is a capital expenditure]	3,00,000		
(ii) Municipal tax paid in respect of house property [allowable as deduction under the head “Income from house property”]	9,000		
(iii) Payment made to tax consultant in cash [disallowed under section 40A(3), since such cash payment exceeds Rs. 10,000]	50,000		
(iv) Travel expenditure on foreign professional tour [Since it is incurred in connection with professional work, the same is allowable as deduction. As it has already been debited to profit and loss account, no further adjustment is required]	-		

(v) Repair and maintenance of car [Repairs and maintenance paid in advance for the period 1.4.2024 to 30.9.2024 i.e. for 6 months amounting to Rs. 17,500 is not allowable as deduction, since Ms. Farah is following the accrual system of accounting]	17,500		
		3,76,500	
		29,67,500	
Less: Income credited but not taxable under this head:			
(i) Dividend from an Indian company (taxable under the head "Income from Other Sources")	11,00,000		
(ii) Interest on deposit certificates issued under gold monetization scheme, 2015 (taxability or otherwise to be considered under the head "Income from Other Sources")	25,000		
(iii) Honorarium for valuation of answer papers	50,000		
(iv) Rent received in respect of house property	90,000	12,65,000	
		17,02,500	
Less: Depreciation on car @15%		45,000	
Income from Other Sources			16,57,500
Dividend from an Indian company		11,00,000	
Interest on deposit certificates issued under gold monetization scheme, 2015 [Exempt under section 10(15)]		-	
Honorarium for valuation of answer papers		50,000	11,50,000
Gross Total Income			28,64,200
Less: Deduction under Chapter VI-A [Deduction under section 80D would not be allowable]			-
Total Income			28,64,200

Computation of tax payable under default tax regime under section 115BAC

Particulars		Rs.
Tax on total income of Rs. 28,64,200		
Upto Rs. 3,00,000		Nil
Rs. 3,00,001 – Rs. 6,00,000 [i.e., Rs. 3,00,000@5%]	15,000	
Rs. 6,00,001 – Rs. 9,00,000 [i.e., Rs. 3,00,000@10%]	30,000	
Rs. 9,00,001 – Rs. 12,00,000 [i.e., Rs. 3,00,000@15%]	45,000	
Rs. 12,00,001 – Rs. 15,00,000 [i.e., Rs. 3,00,000@20%]	60,000	
Rs. 15,00,001 – Rs. 28,64,200 [i.e., Rs. 13,64,200 @30%]	<u>4,09,260</u>	5,59,260
Add: Health and Education cess@4%		<u>22,370</u>

Tax Liability		5,81,630
Less: Advance Tax paid		1,00,000
Less: Tax deducted at source on dividend income from an Indian company under section 194 [Rs. 11,00,000 x 10%]		<u>1,10,000</u>
Tax payable		<u>3,71,630</u>

Computation of total income and tax payable by Ms. Farah for the A.Y.2024-25 under regular provisions of the Act

Particulars		Rs.
Gross Total Income		28,64,200
[Income under the “Income from house property” “Profits and gains from business or profession” and “Income from other sources” would remain the same under regular provisions of the Act]		
Less: Deductions under Chapter VI-A		
<u>Section 80D</u>		
Medical insurance premium paid online for parents, being senior citizens	47,000	
Payment made in cash of Rs. 8,500 for preventive health check-up for self and spouse restricted to	5,000	52,000
Total Income		28,12,200
Tax on total income of Rs. 28,12,200		
Upto Rs. 2,50,000	Nil	
Rs. 2,50,001 – Rs. 5,00,000 [i.e., Rs. 2,50,000@5%]	12,500	
Rs. 5,00,001 – Rs. 10,00,000 [i.e., Rs. 5,00,000@20%]	1,00,000	
Rs. 10,00,001 – Rs. 28,12,200 [i.e., Rs. 18,12,200 @30%]	<u>5,43,660</u>	6,56,160
Add: Health and Education cess@4%		<u>26,246</u>
Tax Liability		6,82,406
Less: Advance Tax paid		1,00,000
Less: Tax deducted at source on dividend income from an Indian company under section 194 [Rs. 11,00,000 x 10%]		<u>1,10,000</u>
Tax payable		<u>4,72,406</u>
Tax payable (Rounded off)		<u>4,72,410</u>

Note – Since the tax payable under default tax regime under section 115BAC is lower than the tax payable under the regular provisions of the Act, it would be beneficial for Ms. Farah to pay tax under default tax regime under section 115BAC for A.Y. 2024-25.

QUESTION 5

MTP 1 JAN 25 (15 MARKS)

Mr. Amit, aged 45 years, a resident Indian has provided you the following information for the previous year ended 31.03.2024

- (i) He received royalty of Rs.2,88,000 from abroad for a book authored by him in the nature of artistic. The rate of royalty as 18% of value of books and expenditure made for earning this royalty was Rs.40,000. The amount remitted to India till 30th September, 2024 is Rs.2,30,000.
- (ii) He owns an industrial undertaking established in a SEZ and which had commenced operation during the financial year 2021-22. Total turnover of the undertaking was Rs.200 lakhs, which includes Rs.140 lakhs from export turnover which have been received in India in convertible foreign exchange on or before 30.9.2024. Profit from this industry is Rs.20 lakhs.
- (iii) He was holding 30% equity shares in TSP (P) Ltd., an Indian company. Company allotted shares to shareholders on 1st October, 2020. The paid up share capital of company is Rs.20 lakh divided into 2 lakh shares of Rs.10 each which were issued at a premium of Rs.30 each. He sold all these shares on 30th April, 2023 for Rs.60 per share. Equity shares of TSP (P) Ltd. are listed on National Stock Exchange and Mr. Amit has paid STT both at the time of acquisition and transfer of such shares. FMV on 31.1.2018 was Rs.50 per share.
- (iv) Received Rs.30,000 as savings bank deposits.
- (v) He occupies ground floor of his residential building and has let out first floor for residential use at an annual rent of Rs.2,28,000. He has paid municipal taxes of Rs.60,000 for the current financial year. Both floor are of equal size.
- (vi) He paid insurance premium of Rs.39,000 on life insurance policy of son, who is not dependent on him and Rs.48,000 on life insurance policy of his dependent father.
- (vii) He paid tuition fees of Rs.42,000 for his three children to a school. The fees being Rs.14,000 p.a. per child.

You are required to compute the total income and tax liability of Mr. Amit under normal provisions for the A.Y. 2024-25.

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

	Particulars	Rs.	Rs.	Rs.
I	Income from house property Let out portion [First floor]			
	Gross Annual Value [Rent received is taken as GAV, in the absence of other information]		2,28,000	
	Less: Municipal taxes paid by him in the P.Y. 2023-24 pertaining to let out portion		30,000	

	[Rs. 60,000/2]			
	Net Annual Value (NAV)		1,98,000	
	Less: Deduction u/s 24			
	(a) 30% of Rs. 1,98,000		59,400	
			1,38,600	
	Self-occupied portion [Ground Floor]			
	Annual Value		Nil	
	[No deduction is allowable in Respect of municipal taxes paid]			1,38,600
II	Profits and gains of business or profession			20,00,000
	Income from SEZ unit			
III	Capital Gains			
	On transfer of 60,000 shares (2,00,000 x 30%)			
	Sales consideration [60,000 x Rs. 60 per share]		36,00,000	
	Less: Cost of acquisition, higher of –		<u>30,00,000</u>	
	- Actual cost [60,000 x Rs. 40 per share]	24,00,000		
	- Lower of			
	FMV on 31.1.2018 [60,000 x 50]	30,00,000		
	Actual sales consideration [60,000 x 60]	36,00,000		
	Long-term capital gains u/s 112A (since shares are held for a period of more than 12 months before transfer)			6,00,000
IV	Income from Other Sources			
	Royalty from artistic book		2,88,000	
	Less: Expenses incurred for earning royalty		40,000	
			2,48,000	
	Interest on savings bank deposits		30,000	
				2,78,000
	Gross Total Income			30,16,600
	Less: Deduction u/s 10AA [Not available, since he commenced operation in P.Y. 2021-22]			-
	Less: Deduction under Chapter VI-A			

Deduction under section 80C			
Tuition fee paid for maximum of two children is allowable (Rs. 14,000 x 2)	28,000		
Insurance premium paid on life insurance policy of son allowable, even though not dependent on Mr. Amit	39,000		
Insurance premium paid on life insurance policy of father not allowable, even though father is dependent on Mr. Amit	-	67,000	
Deduction 80QQB under section		1,90,000	
Royalty [Rs. 2,88,000 x 15/18 = Rs. 2,40,000, restricted to amount brought into India in convertible foreign exchange Rs. 2,30,000 minus Rs. 40,000 expenses already allowed as deduction while computing royalty income]			
Deduction 80TTA under section		10,000	
Interest on savings bank account, restricted to Rs. 10,000			2,67,000
Total Income			27,49,600

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

Particulars	Rs.	Rs.
Tax on total income of Rs. 27,49,600		
Tax on LTCG of Rs.5,00,000, being the sum exceeding Rs.1 lakh @10%		50,000
Tax on remaining total income of Rs. 21,49,600		
Upto Rs. 2,50,000	Nil	
Rs. 2,50,001 – Rs. 5,00,000[@5% of Rs. 2.50 lakh]	12,500	
Rs. 5,00,001 – Rs. 10,00,000 [@20% of Rs. 5,00,000]	1,00,000	
Rs. 10,00,001 – Rs. 21,49,600 [@30% of Rs. 11,49,600]	3,44,880	4,57,380
		5,07,380
Add: Health and education cess@4%		20,295
Total tax liability		5,27,675
Tax liability (rounded off)		5,27,680

**Computation of adjusted total income and AMT of Mr. Amit for
A.Y. 2024-25**

Particulars	Rs.
Computation of adjusted total income	
Total income as per the normal provisions of the Act	27,49,600
Add: Deduction u/s 80QQB	1,90,000
Adjusted Total Income	29,39,600
Alternative Minimum Tax@18.5%	5,43,826
Add: Health and education cess@4%	21,753
AMT liability	5,65,579
AMT liability (rounded off)	5,65,580

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 cess@4%. Therefore, liability as per section 115JC is Rs. 5,65,580.

QUESTION 6

MTP 2 JAN 25 15 MARKS

Mr. Ashok, aged 61 years, a resident individual, engaged in a wholesale business of stationary products provides you the following information for the year ended 31.3.2024. He is also a partner in UVW & Co., a partnership firm.

Sl. No.	Particulars	Rs.	Rs.
(i)	Interest on capital received from UVW & Co., at 14% [in accordance with the partnership deed]		1,40,000
(ii)	Share of profit from the firm		44,000
(iii)	Salary as working partner (fully allowed in the hands of the firm)		1,00,000
(iv)	Interest from bank on fixed deposit (Net of TDS)		49,500
(v)	Interest on saving bank account		13,300
(vi)	Income-tax refund received relating to assessment year 2023-24 including interest of Rs.1,400		34,500
(vii)	Net profit from wholesale business		6,60,000
	Amounts debited include the following:		
	- Depreciation as per books	34,000	
	- Motor car expenses	40,000	
	- Municipal taxes for the shop (For two half years; payment for one half year made on 12.7.2023 and for the other on 31.12.2024)	7,000	

	- Salary to manager by way of a single cash payment	22,000	
(viii)	The WDV of the assets (as on 1.4.2023) used in above wholesale business is as under:		
	- Computers	2,40,000	
	- Computer printer	1,50,000	
(ix)	Motor car acquired on 31.12.2023 (20% used for personal use)	6,80,000	
(x)	He owned a house property in Mumbai which was sold in January, 2021. He received arrears of rent in respect of the said property in October, 2023.		1,35,000
(x)	LIP paid for independent son	60,000	
(xi)	PPF of his wife	70,000	
(xii)	Health insurance premium paid by way of A/c payee cheque for self	35,000	
(xiii)	Contribution toward Prime Minister National Relief Fund	50,000	

You are required to compute the total income and tax liability of Mr. Ashok for the A.Y. 2024-25 assuming he opts out from the provisions of section 115BAC.

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

Particulars	Rs.	Rs.
Income from house property		
Arrears of rent (Taxable under section 25A even if Mr. Ashok is not the owner of the house property in the P.Y.2023-24)	1,35,000	
Less: Deduction@30%	<u>40,500</u>	94,500
Profits and gains of business or profession		
Income from wholesale business		
Net profit as per books	6,60,000	
Add: Amount debited to P & L A/c, not allowable as deduction		
- Depreciation as per books	34,000	
- Disallowance of municipal taxes paid for the second half-year under section 43B, since the same was paid after the due date of filing of return of income (Rs. 7,000/2)	3,500	
- Disallowance under section 40A(3) in respect of salary paid in cash since the same exceeds Rs. 10,000	22,000	
- 20% of car expenses for personal use	<u>8,000</u>	
	7,27,500	

Less: Depreciation allowable (Note 1)		<u>1,96,800</u>	
		5,30,700	
Income from firm			
Share of profit from the firm is exempt under section 10(2A)	-		
Interest on capital from partnership firm (Note 2)	1,20,000		
Salary as working partner fully taxable	<u>1,00,000</u>	<u>2,20,000</u>	7,50,700
Income from other sources			
Interest on bank fixed deposit (Gross) [Rs. 49,500 x 100/90]		55,000	
Interest on saving bank account		13,300	
Interest on income-tax refund		<u>1,400</u>	<u>69,700</u>
Gross total income			9,14,900
Less: Deduction under Chapter VIA (Note 3)			<u>2,65,000</u>
Total Income			<u>6,49,900</u>

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

Particulars	Rs.
Upto Rs. 3,00,000	Nil
Rs. 3,00,001 – Rs. 5,00,000 [i.e., Rs. 2,00,000@5%]	10,000
Rs. 5,00,001 – Rs. 6,49,900 [i.e., Rs. 1,49,900@20%]	<u>29,980</u>
	39,980
Add: Health and Education cess@4%	<u>1,599</u>
Tax liability	<u>41,579</u>
Tax liability (Rounded off)	<u>41,580</u>

Notes:

(1) Depreciation allowable under the Income-tax Rules, 1962

		Opening WDV/ Actual cost	Rate		Depreciation
Block 1	Computers	2,40,000	40%		96,000
	Computer printer	1,50,000	40%		60,000
Block 2	Motor Car	6,80,000	15%	51,000 [50% of 15% is allowable, since it is put to use for less than 180]	40,800

		days]	
	Less: 20% personal use disallowance for personal use	<u>10,200</u>	
			<u>1,96,800</u>

(2) Only to the extent the interest is allowed as deduction in the hands of the firm, the same is includible as business income in the hands of the partner. Since interest is paid in accordance with partnership deed, maximum interest allowable as deduction in the hands of the firm is 12% p.a. Therefore, interest @12% p.a. amounting to Rs. 1,20,000 would be treated as the business income of Mr. Ashok.

(3) Deduction under Chapter VI-A

Particulars	Rs.	Rs.
Under section 80C		
LIP for independent son	60,000	
PPF paid in wife's name	<u>70,000</u>	
		1,30,000
Under section 80D		
Health insurance premium taken for himself is fully allowable as deduction, since he is a senior citizen		35,000
Under section 80G		
Contribution towards PM National Relief Fund Eligible for 100% deduction without any qualifying limit		50,000
Under section 80TTB		
Interest on deposits in case of senior citizen, restricted to		<u>50,000</u>
Total deduction		<u>2,65,000</u>

QUESTION 7

MTP 1 SEP 24 (6 MARKS)

Mr. Ram, an employee of the Central Government is posted at New Delhi. He joined the service on 1st February, 2021. Details of his income for the previous year 2023-24, are as follows:

- (i) Basic salary: Rs.3,80,000
- (ii) Dearness allowance: Rs.1,20,000 (40% forms part of pay for retirement benefits)
- (iii) Both Mr. Ram and Government contribute 20% of basic salary to the pension scheme referred to in section 80CCD.
- (iv) Gift received by Ram's minor son on his birthday from friend: Rs.70,000. (No other gift is received by him during the previous year 2023-24)
- (v) On 25.03.2023, Mr. Ram gifted a sum of Rs.6,00,000 to Mrs. Ram to start a business by

introducing such amount as her capital. On 1st April, 2023, her total investments in business was Rs.10,00,000 which includes Rs.6,00,000 gifted by Mr. Ram. During the previous year 2023-24, she has loss from such business Rs.1,30,000.

(vi) Mr. Ram deposited Rs.70,000 in Sukanya Samridhi account on 23.01.2024. He also contributed Rs.40,000 in an approved annuity plan of LIC to claim deduction u/s 80CCC.

(vii) He has taken an educational loan from SBI for his major son who is pursuing MBA course from Gujarat University. He has paid Rs.15,000 as interest on such loan.

Determine the total income of Mr. Ram for the assessment year 2024-25. Ignore provisions under section 115BAC.

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

Particulars	Amount Rs.	Amount Rs.
Salaries		
Basic Salary	3,80,000	
Dearness Allowance	1,20,000	
Employer contribution to NPS = 20% of Rs. 3,80,000	<u>76,000</u>	
	5,76,000	
Less: Standard deduction [Rs. 50,000 or Rs. 5,76,000, whichever is lower]	<u>50,000</u>	5,26,000
Profits and gains of business or profession		
Where the amount gifted by Mr. Ram (Rs. 6 lakh, in this case) is invested by Mrs. Ram in a business as her capital, proportionate share of profit or loss, as the case may be, computed by taking into account the value of the investment as on 1.4.2023 to the total investment in the business (Rs. 10 lakh) would be included in the income of Mr. Ram [loss of Rs. 1,30,000 x 6/10]	<u>(78,000)</u>	
Income from other sources		
All income of the minor son would be included in the income of the parent Mr. Ram, since his income is higher than the income of Mrs. Ram (loss of Rs. 52,000, based on the information given in the question). Accordingly, Rs. 70,000, being amount of gift received by minor son during the P.Y. 2023-24, would be included in the income of Mr. Ram as the amount of gift exceeds Rs. 50,000.	70,000	
Less: Exemption in respect of income of minor child included		

in Mr. Ram's income	<u>1,500</u>	
	68,500	
Less: Business loss of Rs. 78,000 set-off to the extent of	68,500	
(Balance business loss of Rs. 9,500 to be carried forward to the next year, since the same cannot be set-off against salary income)		<u>Nil</u>
Gross Total Income		5,26,000
Less: Deductions under Chapter VI-A		
Under section 80C – deposit in Sukanya Samridhi Account	70,000	
Under section 80CCC – Contribution to LIC Annuity Plan	40,000	
Under section 80CCD(1) – Employee contribution to NPS (Rs. 76,000 – Rs. 50,000 deduction claimed u/s 80CCD(1B)], since it is lower than Rs. 42,800, being 10% of salary (Rs. 3,80,000 + Rs. 48,000)	<u>26,000</u>	
Allowable in full, since less than Rs.1,50,000, being the maximum permissible deduction u/s 80C, 80CCC & 80CCD(1)	1,36,000	
Under section 80CCD(1B) – Employee contribution to NPS	50,000	
Under section 80CCD(2) – Employer contribution to NPS restricted to 14% of basic salary + DA forming part of pay, since employer is Central Government = 14% x (Rs. 3,80,000 + Rs. 48,000)	59,920	
Under section 80E – Interest paid on loan taken for higher education	<u>15,000</u>	
		<u>2,60,920</u>
Total Income		2,65,080

QUESTION 8
MTP 2 JAN 25 (7 MARKS)

Mr. Mohan, aged 30 years, submits the information of following transaction/income during the P.Y. 2023-24

- (i) Mr. Mohan had a house in Delhi. During financial year 2020-21, he had transferred the said house to Ms. Veena, daughter of his brother without any consideration. House would go back to Mr. Mohan after the life time of Ms. Veena. The transfer was made with a condition that 15% of rental income from such house shall be paid to Mrs. Mohan. Rent received by Ms. Veena during the previous year 2023-24 from such house property is Rs.6,50,000.
- (ii) Mr. and Mrs. Mohan forms a partnership firm with equal share in profits. Mr. Mohan transferred a fixed deposit of Rs.50 lakhs to such firm. Firm had no income or expense other

than the interest of Rs.6,00,000 received from such fixed deposit. Firm distributed the entire surplus to Mr. and Mrs. Mohan at the end of the year.

(iii) Mr. Mohan holds preference shares in M/s X Pvt. Ltd. He instructed the company to pay dividends to Ms. Roshni, daughter of his servant. The transfer is irrevocable for the life time of Roshni. Dividend received by Ms. Roshni during the previous year 2023-24 is Rs.10,00,000.

(iv) Mr. Mohan has a short term capital loss of Rs.16,000 from sale of property and long term capital gain of Rs.15,000 from sale of property.

(v) Other income of Mr. Mohan includes

- Interest from saving bank account of Rs.2,00,000
- Cash gift of Rs.75,000 received from daughter of his sister on his birthday.
- Income from betting of Rs.34,000
- Income from card games of Rs.46,000
- Loss on maintenance of race horses of Rs.14,600

Compute the total income of Mr. Mohan for the Assessment Year 2024-25 and the losses to be carried forward if he pays tax under normal provisions of the Act.

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

Particulars	Amount (Rs.)	Amount (Rs.)
Income from house property		
House in Delhi [Since Mr. Mohan receives direct or indirect benefit from income arising to his brother's daughter, Ms. Veena, from the transfer of house to her without consideration, such income is to be included in the total income of Mr. Mohan as per proviso to section 62(1), even though the transfer may not be revocable during lifetime of Ms. Veena]		
Gross Annual Value ¹	6,50,000	
Less: Municipal taxes	—	
Net Annual Value	6,50,000	
Less: Deductions from Net Annual Value		
(a) 30% of Net Annual Value	1,95,000	
(b) Interest on loan	—	4,55,000
Profits and gains from business or profession		
Share of profit from firm [Exempt u/s 10(2A)] Exempt income	-	

cannot be clubbed		
Capital Gains		
Long term capital gain from sale of property	15,000	
Less: Short-term capital loss can be set-off against both short-term capital gains and long-term capital gains ² . Short term capital loss of Rs. 16,000 set off against long-term capital gains to the extent of Rs. 15,000 ³ .	<u>15,000</u>	-
Income from other sources		
Dividend on preference shares [Taxable in the hands of Mr. Mohan as per section 60, since he transferred the income, i.e., dividend, without transferring the asset, i.e., preference shares]	10,00,000	
Interest from saving bank account	2,00,000	
Cash gift [Taxable as per section 56(2)(x), since sum of money exceeding Rs. 50,000 is received from his niece, who is not a relative]	75,000	
Income from betting [No loss is allowed to be set off against such income]	34,000	
Income from card games [No loss is allowed to be set off against such income]	<u>46,000</u>	<u>13,55,000</u>
Gross Total Income		18,10,000
Less: Deduction under Chapter VI-A		
Deduction under section 80TTA [Interest from savings bank account]	<u>10,000</u>	10,000
Total Income		18,00,000

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

Particulars	Amount (Rs.)
Short term capital loss [Rs. 16,000 – Rs. 15,000]	1,000
Loss on maintenance of race horses [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. Hence, such loss has to be carried forward to A.Y.2025-26]	14,600

QUESTION 9

RTP MAY 24

Mr. Rajesh is a working partner in M/s Sunflower Associates, a partnership firm. Mr. Rajesh has contributed Rs.15 lakhs as capital in the firm.

Partnership deed authorises payment of interest to partners @ 13% and also payment of

remuneration to partners @20,000 per month. Whole of the remuneration is allowable as deduction to M/s Sunflower Associates.

Mr. Rajesh has set up a unit in SEZ in May, 2017. The total turnover, export turnover and net profit for the year ended 31.3.2024 were Rs.120 lakhs, Rs.45 lakhs and Rs.7.5 lakhs respectively.

Out of the export turnover of Rs.45 lakhs, only Rs.40 lakhs has been received in convertible foreign exchange by 30.9.2024.

During the P.Y. 2023-24, Mr. Rajesh has commenced a business of warehousing facility for storage of edible oil. The net profit of this business as per profit & loss account is Rs.7,50,000.

The following items are debited to Profit & Loss Account:

- (i) Personal drawings Rs.70,000
- (ii) Advance income-tax paid Rs.1,00,000
- (iii) Purchase of warehouse building of Rs.10 lakhs on 10.6.2023 for the purpose of storage of edible oil.

The following items are credited to Profit & Loss account:

- (i) Interest on saving bank account with post office Rs.15,000
- (ii) Interest on fixed deposit with SBI Rs.20,000
- (iii) Dividend from Indian companies (Gross) Rs.32,000

He has paid the premium of Rs.60,000 on life insurance policy in the name of her married daughter. The policy was taken on 1.10.2018 and the sum assured being Rs.5,00,000.

Compute the total income and tax payable by Mr. Rajesh for the A.Y. 2024-25 under default tax regime and normal provisions of the Act.

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

	Particulars	Amount (in Rs.)	
I	Profits and gains of business and profession		
	Income from firm M/s Sunflower Associates		
	Interest on capital@13% p.a. on Rs.15 lakhs, restricted to 12%, which is the maximum deduction allowable in the hands of the firm	1,80,000	
	Salary to Mr. Rajesh as a working partner, which is allowable as deduction in the hands of firm (Rs.20,000 x 12)	<u>2,40,000</u>	4,20,000
	Profit from SEZ unit		
	Net profit from SEZ unit		7,50,000
	Income from warehousing facility for storage of edible oil		

	Net profit as per profit and loss account		7,50,000	
	Less: Income credited to profit and loss account but taxable under the head 'Income from Other Sources'			
	Interest on savings bank A/c with post office		15,000	
	Interest on fixed deposit with SBI		20,000	
	Dividend from Indian companies (Gross)		<u>32,000</u>	
			6,83,000	
	Add: Payments not allowable as deduction			
	Advance income-tax paid disallowed u/s 40(a)(ii)		1,00,000	
	Personal drawings disallowed u/s 37		70,000	
	Purchase of building		<u>10,00,000</u>	
			18,53,000	
	Less: Depreciation on building [Rs.10,00,000 x 10%]		<u>1,00,000</u>	17,53,000
II	Income from Other Sources			
	Interest on savings bank A/c with post office	15,000		
	Less: Exempt under section 10(15)	<u>3,500</u>	11,500	
	Interest on fixed deposit with SBI		20,000	
	Dividend from Indian companies (Gross)		<u>32,000</u>	<u>63,500</u>
	Gross Total Income/ Total Income			29,86,500
	[No deduction under section 80C, 80TTA and 10AA would be allowable]			

Computation of tax payable under default tax regime for A.Y. 2024-25

	Rs.	Rs.
Tax on total income of Rs.29,86,500		
On first Rs.3,00,000	Nil	
Rs.3,00,001 – Rs.6,00,000 [@5% of Rs.3 lakhs]	15,000	
Rs.6,00,001 – Rs.9,00,000 [@10% of Rs.3 lakhs]	30,000	
Rs.9,00,001 – Rs.12,00,000 [@15% of Rs.3 lakhs]	45,000	
Rs.12,00,001 – Rs.15,00,000 [@20% of Rs.3 lakhs]	60,000	
Rs.15,00,001 - Rs.29,86,500 [@30% of Rs.14,86,500]	<u>4,45,950</u>	
		5,95,950
Add: Health and Education cess @4%		<u>23,838</u>
		6,19,788
Less: Advance income-tax paid		<u>1,00,000</u>
Tax payable		<u>5,19,788</u>



Tax Payable (Rounded off)		5,19,790
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Computation of total income of Mr. Rajesh for the A.Y. 2024-25 under normal provisions of the

Act

Particulars	Amount (in Rs.)	
Gross Total Income as per section 115BAC	29,86,500	
Less: Deduction under section 10AA [Rs.7,50,000 x 40,00,000/ Rs.1,20,00,000 x 50%, being seventh year of operation]	<u>1,25,000</u>	28,61,500
Less: Deduction under Chapter VI-A		
<u>Deduction under section 80C</u>		
Life insurance premium [maximum 10% of sum assured]	50,000	
<u>Deduction under section 80TTA</u>		
Interest on saving bank account with post office, restricted to	<u>10,000</u>	<u>60,000</u>
Total Income		<u>28,01,500</u>

Computation of tax payable by Mr. Rajesh for A.Y. 2024-25 under the regular provisions of the Act

Particulars	Rs.	Rs.
Tax on total income of Rs.28,01,500		
Upto Rs.2,50,000	Nil	
Rs.2,50,001 – Rs.5,00,000 [@5% of Rs.2.50 lakhs]	12,500	
Rs.5,00,001 – Rs.10,00,000 [@20% of Rs.5 lakhs]	1,00,000	
Rs. 10,00,001 - Rs.28,01,500 [@30% of Rs.18,01,500]	<u>5,40,450</u>	6,52,950
Add: Health and education cess@4%		<u>26,118</u>
Total tax liability		6,79,068
Less: Advance income-tax paid		<u>1,00,000</u>
Tax payable		<u>5,79,068</u>
Tax payable (rounded off)		<u>5,79,070</u>

Computation of adjusted total income and AMT of Mr. Rajesh for A.Y. 2024-25

Particulars	Rs.	Rs.
Total Income (computed above as per regular provisions of income tax)		28,01,500
Add: Deduction under section 10AA		<u>1,25,000</u>
Adjusted Total Income		<u>29,26,500</u>
Alternative Minimum Tax@18.5%		5,41,403
Add: Health and education cess@4%		<u>21,656</u>
Total tax liability		5,63,059



Less: Advance income-tax paid		<u>1,00,000</u>
Tax payable		<u>4,63,059</u>
Tax payable (rounded off)		4,63,060

Since alternate minimum tax payable is less than the regular income-tax payable, tax payable under normal provisions of the Act is Rs.5,79,070.

QUESTION 10
RTP SEPT 24

Karan, a resident aged 50 years, furnishes the following information for the year ended on 31-03-2024:

Particulars	Amount (Rs.)
Salary (Gross)	2,75,000
Income from let out house property	(2,85,000)
Interest on loan paid for self-occupied house property	1,20,000
Income from sale of rubber products from rubber plants	2,00,000
Business income - Retail business	1,20,000
Business income - wholesale business	(1,00,000)
Brought forward business loss (A.Y. 2023-24)	(1,35,000)
Dividend received from ABC Ltd., an Indian company carrying on agricultural operations	13,500
Long term capital gain from sale of listed equity shares (STT paid on sale and purchase of shares)	2,00,000
Short-term capital gains on sale of shares	(1,10,000)
Lottery winnings (gross)	45,000
Contribution to provident fund and NSC	1,50,000
Income of minor son Raju from special talent	1,50,000
Interest from Bank received by Raju on deposit made out of his special talent	10,000

Compute Karan's total income under the default tax regime under section 115BAC for the A.Y. 2024-25 assuming his wife does not earn any income.

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

Particulars	Rs.	Rs.
Salary		
Gross salary	2,75,000	
Less: Standard deduction under section 16(ia)	50,000	2,25,000
Income from house property		
Interest on loan paid for self occupied property [Not allowable under section 115BAC]	-	



Loss from let out house property	2,85,000	
[Loss from house property is not allowed to be set off against income under any other head while computing income under section 115BAC.]	2,85,000	
Profits and gains from business and profession		
Income from sale of rubber products from rubber plants [Rs. 70,000 (35% of Rs. 2,00,000) is business income and Rs. 1,30,000 (65% of Rs. 2,00,000) is agricultural income which is exempt from tax]	70,000	
Business Income- Retail business	1,20,000	
	1,90,000	
Less: Set-off of wholesale business loss of Rs. 1,00,000	1,00,000	
	90,000	
Less: Set-off of brought forward business loss of Rs. 1,35,000 of A.Y.2023-24 allowable to the extent of Rs. 90,000 by virtue of section 72(1)	90,000	Nil
[Balance brought forward business loss of Rs.45,000 (i.e., Rs. 1,35,000 – Rs. 90,000) to be carry forward to A.Y. 2025-26 for set-off against business income of that year]		
Capital Gains		
Long-term capital gain on sale of listed equity shares on which STT is paid	2,00,000	
Less: Set-off of short-term capital loss of Rs. 1,10,000	1,10,000	90,000
Income from Other Sources		
Dividend from Indian companies [13,500/90 x 100]	15,000	
Lottery winnings	45,000	
Income of minor son from special talent [Not included in Karan's income since it is earned from special talent]	-	
Interest from bank received by minor son on deposit made out of his income from special talent [Includible in the income of Mr. Karan, since Mrs. Karan does not earn any income]	10,000	
Less: Exemption under section 10(32) [Not allowable under section 115BAC]	-	70,000
Gross Total Income		3,85,000
Less: Deduction under section 80C [Not allowable under section 115BAC]		-





Total Income		3,85,000
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QUESTION 11
RTP SEPT 24

Mr. Anand, a resident Indian aged 45 years, has provided you the following information for the previous year ended on 31.03.2024

(i) He owns an industrial undertaking established in a SEZ and which had commenced operation during the financial year 2019-20. Total turnover of the undertaking was Rs. 200 lakhs. Export turnover received in India in convertible foreign exchange on or before 30.9.2024 is Rs. 120 lakhs. This industrial undertaking fulfills all the conditions of section 10AA of the Income-tax Act, 1961. Profit from this industry is Rs. 35 lakhs.

(ii) Mr. Anand sold equity shares of different Indian companies on 14th March, 2024:

Name	Sale value (per share)	Purchase price (per share)	Acquired on	No. of shares	FMV as on 31.1.2018
Sam Ltd.	Rs. 150	Rs. 120 (STT paid at acquisition)	2 nd Feb, 2024	2000	-
Jam Ltd.	Rs. 100	Rs. 72 (STT paid at acquisition)	16 th April, 2017	1250	50

CII – F.Y. 2017-18: 272; F.Y. 2023-24: 348

Sale proceeds were subject to brokerage of 0.1% and securities transaction tax of 0.125% on the gross consideration.

(iii) He made payment of Rs. 90,000 on 1.9.2023 vide cheque towards medical insurance as lumpsum premium for himself and his wife till 31.8.2027. He also made cash payment of Rs. 7,500 towards preventive health checkup for himself and his wife.

(iv) He received royalty of Rs. 2,88,000 from abroad for a book authored by him in the nature of artistic. The rate of royalty as 16% of value of books and expenditure made for earning this royalty was Rs. 40,000. The amount remitted to India till 30th September, 2024 is Rs. 2,50,000.

(v) He received income-tax refund of Rs.15,750 (including interest Rs. 1,750) relating to the assessment year 2023-24.

(vi) He occupies ground floor of his residential building and has let out first floor for residential use for a monthly rent of Rs. 15,000. He has paid municipal taxes of Rs. 30,000 for the current financial year. Both floors are of equal size. He has taken a loan from bank of Rs. 50 lakhs for the construction of this property in 2020 and has repaid Rs. 2,05,000 (including interest Rs.1,00,000) during the year 2023-24.

(vii) Mr. Anand deposited Rs. 1,30,000 in Public Provident Fund and Rs.80,000 in 5 years



term deposit in the name of his minor son, Aman.

You are required to compute the total income and tax liability of Mr. Anand under section 115BAC as well as under normal provisions for the A.Y. 2024-25. Ignore AMT provisions.

Computation of total income and tax liability of Mr. Anand for A.Y. 2024-25 under section 115BAC

	Particulars	Rs.	Rs.	Rs.
I.	Income from house property			
	Let out portion [First floor]			
	Gross Annual Value [Rent received is taken as GAV, in the absence of other information]		1,80,000	
	<i>Less:</i> Municipal taxes paid by him in the P.Y. 2023-24 pertaining to let out portion [Rs. 30,000/2]		15,000	
	Net Annual Value (NAV)		1,65,000	
	<i>Less:</i> Deduction u/s 24			
	(a) 30% of Rs. 1,65,000	49,500		
	(b) Interest on loan [Rs. 1,00,000/2]	50,000	99,500	
			65,500	
	Self-occupied portion [Ground Floor]			
	Annual Value		Nil	
	[No deduction is allowable in respect of municipal taxes paid]			
	Net Annual Value (NAV)		Nil	
	<i>Less:</i> Interest on loan [Not allowable under section 115BAC]		Nil	65,500
II.	Profits and gains of business or profession			
	Income from SEZ unit			35,00,000
III.	Capital Gains			
	Short-term capital gains on sale of equity shares of Sam Ltd. (since held for not more than 12 months)			
	Full Value of Consideration [2000 x Rs. 150]	3,00,000		
	<i>Less:</i> Brokerage @ 0.1%	300		
	Net sale consideration	2,99,700		





	Less: Cost of acquisition [Rs. 2000 x 120]	2,40,000	59,700	
	Long-term capital gains on sale of equity shares of Jam Ltd. (since held for more than 12 months)			
	Full Value of Consideration [1250 x Rs. 100]	1,25,000		
	Less: Brokerage @ 0.1%	125		
	Net sale consideration	1,24,875		
	Less: Cost of acquisition [No indexation benefit would be available]	90,000	34,875	94,575
	Higher of cost of acquisition of Rs. 90,000 (72 x 1250) and Rs. 62,500, being lower of FMV of Rs. 62,500 and full value of consideration of Rs. 1,25,000			
	Income from Other Sources			
	Royalty from artistic book		2,88,000	
	Less: Expenses incurred for earning royalty		40,000	
			2,48,000	
	Interest on income-tax refund		1,750	
				2,49,750
	Gross Total Income			39,09,825
	Less: Deduction under Chapter VI-A [Not allowable under section 115BAC]			-
	Total Income			39,09,825
	Total Income (Rounded off)			39,09,830
IV.	Tax on total income of Rs. 39,09,830			
	Tax on LTCG exceeding Rs. 1 lakhs @10% u/s 112A			-
	Tax on STCG of Rs. 59,700 @15% u/s 111A			8,955
	Tax on remaining total income of Rs. 38,15,255			
	Upto Rs. 3,00,000		Nil	
	Rs. 3,00,001 - Rs. 6,00,000[@5% of Rs. 3 lakhs]		15,000	
	Rs. 6,00,001 - Rs. 9,00,000[@10% of Rs. 3 lakhs]		30,000	
	Rs. 9,00,001 - Rs. 12,00,000[@15% of Rs. 3 lakhs]		45,000	
	Rs. 12,00,001 - Rs. 15,00,000[@20% of Rs. 3 lakhs]		60,000	
	Rs. 15,00,001 - Rs. 38,15,255[@30% of Rs. 23,15,255]		6,94,577	8,44,577





		8,53,532
	Add: Health and education cess@4%	34,141
	Tax liability	8,87,673
	Tax liability (Rounded off)	8,87,670

**Computation of total income and tax liability of Mr. Anand for
A.Y. 2024-25 under normal provisions of the Act**

Particulars	Rs.	Rs.	Rs.
Gross Total Income as per section 115BAC			39,09,825
Less: Interest on loan for self occupied property [Rs. 1,00,000/2]			50,000
Gross Total Income as per normal provisions of the Act			38,59,825
Less: Deduction u/s 10AA [Since the industrial undertaking is established in SEZ, it is entitled to deduction u/s 10AA @100% of export profits, since P.Y.2023-24, being the 5 th year of operations]			21,00,000
[Profits of the SEZ x Export Turnover received in India in convertible foreign exchange on or before 30.9.2024/Total Turnover] x 100%			
[Rs. 35 lakhs x Rs. 120 lakhs/ Rs. 200 lakhs x 100%]			
Less: Deduction under Chapter VI-A			
Deduction under section 80C			
Repayment of housing loan	1,05,000		
Public Provident Fund	1,30,000		
5 years Term deposit (not allowed as deduction in the name of minor son)	-		
Restricted to	2,35,000	1,50,000	
Deduction under section 80D			
Medical insurance premium [90,000 x 1/5]	18,000		
Preventive health check up of Rs. 7,500, subject to maximum of Rs. 5,000	5,000	23,000	
Deduction under section 80QQB		2,10,000	
Royalty [Rs. 2,88,000 x 15/16 = Rs. 2,70,000,			



restricted to amount brought into India in convertible foreign exchange Rs. 2,50,000 minus Rs. 40,000 expenses already allowed as deduction while computing royalty income]			3,83,000
Total Income			13,76,825
Total Income (Rounded off)			13,76,830
Tax on total income of Rs. 13,76,830			
Tax on LTCG exceeding Rs. 1 lakhs @10% u/s 112A			-
Tax on STCG of Rs. 59,700 @15% u/s 111A			8,955
Tax on remaining total income of Rs. 12,82,255			
Upto Rs. 2,50,000		Nil	
Rs. 2,50,001 - Rs. 5,00,000[@5% of Rs. 2,50,000]		12,500	
Rs. 5,00,001 - Rs. 10,00,000[@20% of Rs. 5,00,000]		1,00,000	
Rs. 10,00,001 - Rs. 12,82,255[@30% of Rs. 2,82,255]		84,677	1,97,177
<i>Add: Health and education cess@4%</i>			2,06,132
Tax liability			8,245
Tax liability (rounded off)			2,14,377
			2,14,380

QUESTION 12

RTP JAN 25

Mr. Ramesh is an authorized wholesale distributor of fertilizers and other agricultural products. An analysis of his trading and profit & loss account for the previous year 31.3.2024 revealed the following information:

- (1) Net Profit Rs.75,43,000.
- (2) The following incomes were credited in the profit and loss account
 - (a) Rent received Rs.5,40,000
 - (b) Income-tax refund Rs.15,000
 - (c) Dividend from Indian companies Rs.2,50,000 (Gross)
- (3) Rates and taxes debited to profit and loss account include Rs.1,000 paid towards late filing of his IT return for A.Y. 2023-24 under section 234F of Income-tax Act.
- (4) Salaries debited to profit and loss account include Rs.35,000 paid on single day by way of cash to his accountant.
- (5) Interest of Rs.1,20,000 paid on loan of Rs.10,00,000 taken from NBFC. Out of the loan, amount of Rs.2 lakhs was used for personal purposes and the balance was used for business purposes. No TDS was deducted while paying interest. Interest of Rs.1,20,000 is debited to profit and loss account.

(6) Municipal Taxes of Rs.10,000 paid for the building was debited to profit and loss account.

Additional Information

- (1) Closing stock was undervalued by Rs.40,000
- (2) Income-tax refund includes Rs.2,000 towards interest.
- (3) An amount of Rs.45,000 was paid by cheque during the year towards health insurance policy covering himself, his spouse and his children.
- (4) Advance Tax paid during the year is Rs.15 lakhs.
- (5) Half of the building is used for business purpose and remaining half let out to Mr. Anshul for residential purpose.
- (6) He also sold his vacant land on 10.11.2023 for Rs.10 lakhs. The stamp duty value of land at the time of transfer was Rs.14 lakhs. The FMV and stamp duty value of the land as on 1st April, 2001 was Rs.4 lakhs and Rs.3 lakhs, respectively. This land was acquired by him on 05.08.1995 for Rs.1.80 lakhs. He had incurred registration expenses of Rs.10,000 at that time. The cost of inflation index for the years 2023-24 and 2001-02 are 348 and 100, respectively.
- (7) Mr. Ramesh's turnover for the P.Y. 2022-23 was Rs.3 crores

You are required to compute the total income and tax payable by Mr. Ramesh for the A.Y. 2024-25 under regular provisions of the Act.

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

Particulars	Amount (Rs.)	Amount (Rs.)
Income from house property		
Rent received (Rent received has been taken as gross annual value, due to absence of information relating to expected rent)	5,40,000	
Less: Municipal tax paid by Ramesh (Rs.10,000 x ½)	<u>5,000</u>	
Net Annual Value	5,35,000	
Less: Deduction u/s 24(a) – 30% of NAV	<u>1,60,500</u>	3,74,500
Profits and gains from business or profession		
Net profit as per profit and loss account	75,43,000	
Add: Expenses/Payments debited to profit and loss account but not allowed		
- Fee for late filing of income-tax return for A.Y. 2023-24 – disallowed	1,000	
- Salary paid to an accountant in cash exceeding Rs.10,000 – disallowed under section 40A(3)	35,000	

- Interest paid to NBFC on loan which is used for personal purposes (Rs.1,20,000 x 2,00,000/10,00,000) – not allowed as per section 37	24,000	
- Interest paid to NBFC on which tax is not deducted attracts disallowance @30% of Rs.96,000 under section 40(a)(ia) [Since Mr. Ramesh’s turnover for the immediately preceding previous year i.e., P.Y. 2022-23 exceeds Rs.1 crore, he is required to deduct tax at source.	28,800	
Disallowance @30% of interest is attracted for non-deduction of tax at source]		
- Municipal taxes paid for let out portion [Rs.10,000 x ½]	<u>5,000</u>	
	76,36,800	
Add: Undervaluation of Closing stock	<u>40,000</u>	
	76,76,800	
Less: Income chargeable under other heads and income not chargeable to tax but credited to profit and loss account		
- Rent received (Taxable under the head “Income from house property”)	5,40,000	
- Income-tax refund	15,000	
- Dividend received from Indian companies (Taxable under the head “Income from other sources”)	<u>2,50,000</u>	
		68,71,800
Capital Gains		
Long-term capital gains on sale of land (since held for more than 24 months)		
Full Value of Consideration [Higher of stamp duty value of Rs.14 lakhs and Actual consideration of Rs.10 lakhs, since stamp duty value exceeds actual consideration by more than 10%]	14,00,000	
Less: Indexed Cost of acquisition [Rs.3,00,000 x 348/100]	<u>10,44,000</u>	3,56,000
Cost of acquisition Higher of –		
➤ Actual cost Rs.1.80 lakhs + Rs.0.10 lakhs = Rs.1.90 lakhs and		
➤ Fair Market Value (FMV) Rs.4 lakhs as on 1.4.2001 restricted to stamp duty value of Rs.3 lakhs as on 1.4.2001 = Rs.3 lakhs		
Income from Other Sources		
Interest on income-tax refund	2,000	

Dividend from Indian companies	<u>2,50,000</u>	<u>2,52,000</u>
Gross Total Income		78,54,300
Less: Deduction under Chapter VI-A		
Section 80D - Health insurance premium paid for self, spouse and his children allowable as deduction to the extent Rs.25000		<u>25,000</u>
Total Income		<u>78,29,300</u>

Computation of tax payable by Mr. Ramesh for the A.Y.2024-25

Particulars		Amount (Rs.)
Tax on Rs.3,56,000@20% under section 112		71,200
Tax on balance income of Rs.74,73,300		
Upto Rs.2,50,000	Nil	
Rs.2,50,001 - Rs.5,00,000 [i.e., Rs.2,50,000 @5%]	12,500	
Rs.5,00,001 - Rs.10,00,000 [i.e., Rs.5,00,000 @20%]	1,00,000	
Above Rs.10,00,000 [i.e., Rs.64,73,300 @30%]	<u>19,41,990</u>	<u>20,54,490</u>
		21,25,690
<i>Add:</i> Surcharge @10%, since total income exceeds Rs.50,00,000 but does not exceed Rs.1 crore		<u>2,12,569</u>
		23,38,259
<i>Add:</i> Health and Education cess@4%		<u>93,530</u>
Tax liability		24,31,789
<i>Less:</i> Advance Tax		<u>15,00,000</u>
Tax Payable		<u>9,31,789</u>
Tax Payable (Rounded off)		<u>9,31,790</u>