

CA | CMA INTERMEDIATE

COMPILER

BY CA BHANWAR BORANA



CA | CMA INTERMEDIATE



**QUESTION
& ANSWERS**

**MAY | SEP 2025
& JAN 2026**

As Amended by
Finance Act 2024

**DI[₹]RECT
TAX**

BY CA BHANWAR BORANA

for CA/CMA Intermediate



DIRECT TAXATION

(For MAY 2025 / SEP 2025 & JAN 2026)

Amended by Finance Act, 2024

As per New Syllabus of ICAI

CA Bhanwar Borana

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Basic Concepts

Question 1

[Tax Calculation as per Normal Prov.]

Mr. X has a total income of ₹ 12,00,000 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 exercises the option of shifting out of the default tax regime provided u/s 115BAC(1A). [SM Q.]

Answer 1

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

Tax liability:

First ₹ 2,50,000	- Nil	
Next ₹ 2,50,001 – ₹ 5,00,000	- @5% of ₹ 2,50,000	= ₹ 12,500
Next ₹ 5,00,001 – ₹ 10,00,000	- @20% of ₹ 5,00,000	= ₹ 1,00,000
Balance i.e., ₹ 12,00,000 minus ₹10,00,000	- @30% of ₹ 2,00,000	= ₹ 60,000
		= ₹ 1,72,500
Add: Health and Education cess@4%		= ₹ 6,900
		= <u>₹ 1,79,400</u>

(b) Computation of Tax liability of Mr. X (age 63 years)

Tax liability:

First ₹ 3,00,000	- Nil	
Next ₹ 3,00,001 – ₹ 5,00,000	- @5% of ₹ 2,00,000	= ₹ 10,000
Next ₹ 5,00,001 – ₹ 10,00,000	- @20% of ₹ 5,00,000	= ₹ 1,00,000
Balance i.e., ₹ 12,00,000 minus ₹10,00,000 - @30% of ₹ 2,00,000		= ₹ 60,000
		= ₹ 1,70,000
Add: Health and Education cess@4%		= ₹ 6,800
		= <u>₹ 1,76,800</u>

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

Tax liability:

First ₹ 5,00,000	- Nil	
Next ₹ 5,00,001 – ₹ 10,00,000	- @ 20% of ₹ 5,00,000	= ₹ 1,00,000
Balance i.e., (₹12,00,000 - ₹10,00,000) - @ 30% of ₹ 2,00,000		= ₹ 60,000
		= ₹ 1,60,000
Add: Health and Education cess@4%		= ₹ 6,400
		= <u>₹ 1,66,400</u>

Question 2**[Marginal Relief]**

Compute the tax liability of Mr. A (aged 42), having total income of ₹ 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 exercises the option of shifting out of the default tax regime provided u/s 115BAC(1A). **[SM Q.]**

Answer 2**Computation of tax liability of Mr. A for the A.Y. 2025-26**

(A) Tax payable including surcharge on total income of		₹ 51,00,000
₹ 2,50,000 – ₹ 5,00,000 @5%	₹ 12,500	
₹ 5,00,001 – ₹ 10,00,000 @20%	₹ 1,00,000	
₹ 10,00,001 – ₹ 51,00,000 @30%	₹ 12,30,000	
Total	₹ 13,42,500	
Add: Surcharge @ 10%	₹ 1,34,250	₹ 14,76,750
(B) Above amount is restricted to		
Tax on ₹ 50 lakhs + (NTI - 50 lakhs)		₹ 14,12,500
₹ 13,12,500 + ₹ 1,00,000		₹ 14,12,500
(C) Tax payable: lower of (A) and (B)		₹ 14,12,500
Add: Health and education cess @4%		₹ 56,500
Tax liability		₹ 14,69,000
(D) Marginal Relief (A – B)		₹ 64,250

Question 3**[Marginal Relief]**

Compute the tax liability of Mr. B (aged 51), having total income of ₹ 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. **[SM Q.]**

Answer 3**Computation of tax liability of Mr. B for the A.Y. 2025-26 as per default taxation regime u/s 115BAC**

(A) Tax payable including surcharge on total income of ₹ 1,01,00,000		
₹ 3,00,000 – ₹ 7,00,000 @5%	₹ 20,000	
₹ 7,00,001 – ₹ 10,00,000 @10%	₹ 30,000	
₹ 10,00,001 – ₹ 12,00,000 @15%	₹ 30,000	
₹ 12,00,001 – ₹ 15,00,000 @20%	₹ 60,000	
₹ 15,00,001 – ₹ 1,01,00,000 @30%	₹ 25,80,000	
Total	₹ 27,20,000	
Add: Surcharge @15%	₹ 4,08,000	
Tax liability without marginal relief	₹ 31,28,000	
(B) Above amount is restricted to		
Tax on 1 crore + (NTI - 1Cr)		
(26,90,000 + 10% surcharge) + 1,00,000	₹ 30,59,000	
(C) Tax payable: lower of (A) & (B)	₹ 30,59,000	
Add: Health and education cess @4%	₹ 1,22,360	
Tax liability	₹ 31,81,360	
(D) Marginal relief (A-B)		₹ 69,000

Question 4**[Rebate u/s 87A as per Normal Provisions]**

Mr. Raghav aged 26 years and a resident in India, has a total income of ₹ 4,40,000, comprising his salary income and interest on bank fixed deposit. Compute his tax liability for A.Y.2025-26. Assume assessee exercises the option of shifting out of the default tax regime provided u/s 115BAC(1A). **[SM Q.]**

Answer 4**Computation of tax liability of Mr. Raghav for A.Y. 2025-26**

Particulars	₹
Tax on total income of ₹ 4,40,000	
Tax@5%of ₹ 1,90,000 (₹ 4,40,000 – ₹ 2,50,000)	9,500
Less: Rebate u/s 87A (Lower of tax payable or ₹ 12,500)	<u>9,500</u>
Tax Liability	<u>Nil</u>

Question 5**[Rebate u/s 87A as per Normal Provisions]**

Mr. Dinesh aged 35 years and a resident in India, has a total income of ₹ 4,80,000, comprising of long-term capital gains taxable u/s 112 arise on 10/07/2024. Compute his tax liability for A.Y.2025-26. Assume assessee exercises the option of shifting out of the default tax regime provided u/s 115BAC(1A). **[SM Q.]**

Answer 5**Computation of tax liability of Mr. Dinesh for A.Y. 2025-26**

Particulars	₹
Tax on total income of ₹ 4,80,000	
Tax@20%of ₹ 2,30,000 (₹ 4,80,000 – ₹ 2,50,000, being unexhausted basic exemption limit)	46,000
Less: Rebate u/s 87A (Lower of ₹ 46,000 or ₹ 12,500)	<u>12,500</u>
	33,500
Add: Health and education cess @4%	<u>1,340</u>
Tax Liability	<u>34,840</u>

Question 6**[Rebate u/s 87A as per Sec 115BAC]**

Mr. Pawan aged 35 years and a resident in India, has a total income of ₹ 7,15,000, comprising his salary income and interest on bank fixed deposit. Compute his tax liability for A.Y.2025-26 under default tax regime u/s 115BAC.

Answer 6**Computation of tax liability of Mr. Pawan for A.Y. 2025-26**

Particulars	₹
Tax on Total Income as per section 115BAC	21,500
Less: Rebate u/s 87A [not available as income > 7 lakhs]	N/A
	21,500
Above amount restricted to	
Tax on 7,00,000 + (NTI – 7,00,000)	15,000
[Nil + 15,000]	

Particulars	₹
	15,000
Add: HEC@4%	600
Tax Liability	15,600

Question 7**[Definition of Assessee]**

Who is an "Assessee"?

[SM Q.]**Answer 7**

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

In addition, the term includes –

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

Question 8**[HUF School of laws]**

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.

[SM Q.]**Answer 8**

The two schools of Hindu law are Dayabaga school, prevalent in West Bengal and Assam, and Mitakshara school, prevalent in rest of India. Under the 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, the father and his brothers would be the coparceners of the HUF.

Under the Mitakshara school of Hindu Law, one acquires the right to the family property by his birth and not by succession irrespective of the fact that his elders are living. Thus, every child born in the family acquires a right/share in the family property.

Question 9**[HUF School of laws]**

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?

[SM Q.]**Answer 9**

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 10**[AOP/BOI Deference]**What is the difference between an Association of Persons and Body of Individuals? **[SM Q.]****Answer 10**

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

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

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

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

Question 11**[Income of PY Taxable in PY only]**State any four instances where the income of the previous year is assessable in the previous year itself instead of the assessment year. **[SM Q.]****Answer 11**

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

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

Question 12

[Tax Calculation with Special Income]

Mr. Agarwal, aged 40 years and a resident in India, has a total income of ₹ 6,50,00,000, comprising long term capital gain taxable u/s 112 @20% of ₹ 55,00,000, short term capital gain taxable u/s 111A @15% of ₹ 65,00,000 and other income of ₹ 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. [SM Q.]

Answer 12

Computation of tax liability of Mr. Agarwal for the A.Y.2025-26 as per default tax regime u/s 115BAC

Particulars		₹
Tax on total income of ₹ 6,50,00,000		
Tax@20% on LTCG of ₹ 55,00,000		11,00,000
Tax@15% STCG 111A of ₹ 65,00,000		9,75,000
Tax on other income of ₹ 6,30,00,000		
₹ 3,00,000 – ₹ 7,00,000@5%	₹ 20,000	
₹ 7,00,001 – ₹ 10,00,000@10%	₹ 30,000	
₹ 10,00,001 – ₹ 12,00,000@15%	₹ 30,000	
₹ 12,00,001 – ₹ 15,00,000@20%	₹ 60,000	
₹ 15,00,001 – ₹ 5,30,00,000 @30%	₹ 1,54,50,000	1,55,90,000
		1,76,65,000
Add: Surcharge @15% on ₹ 20,75,000	3,11,250	
@25% on ₹ 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 as per Normal Provisions

Particulars		₹
Tax on total income of ₹ 6,50,00,000		
Tax@20% on LTCG of ₹ 55,00,000		11,00,000
Tax@15% STCG 111A of ₹ 65,00,000		9,75,000
Tax on other income of ₹ 3,30,00,000		
₹ 2,50,000 – ₹ 5,00,000 @5%	12,500	
₹ 5,00,000 – ₹ 10,00,000 @20%	1,00,000	
₹ 10,00,000 – ₹ 5,30,00,000 @30%	1,56,00,000	1,57,12,500
		1,77,87,500
Add: Surcharge @15% on ₹ 20,75,000	3,11,250	
@37% on ₹ 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 13**[Tax Calculation with Special Income]**

Mr. Sharma aged 62 years and a resident in India, has a total income of ₹ 2,30,00,000, comprising long term capital gain taxable @12.5% u/s 112 of ₹ 52,00,000, short term capital gain taxable @20% u/s 111A of ₹ 64,00,000 and other income of ₹ 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.

Answer 13

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

Particulars	₹
<u>Tax on total income of ₹ 2,30,00,000</u>	
Tax@12.5% of ₹ 52,00,000	6,50,000
Tax@20% of ₹ 64,00,000	12,80,000
Tax on other income of ₹ 1,14,00,000	
₹ 3,00,000 – ₹ 7,00,000 @5%	20,000
₹ 7,00,000 – ₹ 10,00,000 @10%	30,000
₹ 10,00,000 – ₹ 12,00,000 @15%	30,000
₹ 12,00,000 – ₹ 15,00,000 @20%	60,000
₹ 15,00,000 – ₹ 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	₹
<u>Tax on total income of ₹ 2,30,00,000</u>	
Tax@12.5% of ₹ 52,00,000	6,50,000
Tax@20% of ₹ 64,00,000	12,80,000
Tax on other income of ₹ 1,14,00,000	
₹ 3,00,000 – ₹ 5,00,000 @5%	10,000
₹ 5,00,000 – ₹ 10,00,000 @20%	1,00,000
₹ 10,00,000 – ₹ 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

Question 14**[Bifurcation of Business & Agriculture Income]**

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

Answer 14**Computation of Business Income and Agriculture Income of Mr. B**

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

Question 15**[Agriculture Income]**

Explain with brief reasons, whether the following income can be regarded as agricultural income, as per the provisions of the Income-tax Act, 1961:

- Rent received for letting out agricultural land for a movie shooting.
- Income from sale of seedlings in a nursery adjacent to the agricultural lands owned by an assessee. **[SM Q.]**

Answer 15

- Rent received for letting out agricultural land for a movie shooting:**

As per section 2(1A), "agricultural income" means, inter alia,

- any rent or revenue derived from land
- which is situated in India and is used for agricultural purposes.

In the present case, rent is being derived from letting out of agricultural land for a movie shoot, which is not an agricultural purpose and hence, it does not constitute agricultural income.

(ii) Income from sale of seedlings in a nursery:

As per Explanation 3 to section 2(1A), income derived from saplings or seedlings grown in a nursery is deemed to be agricultural income, whether or not the basic operations were carried out on land.

Therefore, the amount received from sale of seedlings in a nursery adjacent to the agricultural lands owned by the assessee constitutes agricultural income.

Question 16**[Bifurcation of Business & Agriculture Income]**

Mr. Raja, a resident Indian, earns income of ₹ 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 ₹ 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?

[SM Q.]**Answer 16**

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 ₹ 10 lakhs = ₹ 2.5 lakhs

Business income of Mr. Shyam = 40% of ₹ 20 lakhs = ₹ 8 lakhs

Question 17**[Bifurcation of Business & Agriculture Income]**

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	₹
(i)	Income from sale of centrifuged latex processed from rubber plants grown in Darjeeling.	3,00,000
(ii)	Income from sale of coffee grown and cured in Yercaud, Tamil Nadu.	1,00,000
(iii)	Income from sale of coffee grown, cured, roasted and grounded, in Colombo. Sale consideration was received at Chennai.	2,50,000
(iv)	Income from sale of tea grown and manufactured in Shimla.	4,00,000
(v)	Income from sapling and seedling grown in a nursery at Cochin. Basic operations were not carried out by her on land.	80,000

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

[SM Q.]**Answer 17****Computation of business income and agricultural income of Ms. Vivitha for the A.Y.2025-26**

Sr. No.	Source of income	Gross (₹)	Business income		Agricultural income
			%	₹	₹
(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

Sr. No.	Source of income	Gross (₹)	Business income		Agricultural income
			%	₹	₹
(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.

Question 18 [Tax calculation and Partial integration in case of Agriculture Income]

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

- | | |
|--|---------------|
| (i) Income from salary (computed) | - ₹ 10,80,000 |
| (ii) Income from house property (computed) | - ₹ 2,50,000 |
| (iii) Agricultural income from a land in Jaipur | - ₹ 4,80,000 |
| (iv) Expenses incurred for earning agricultural income | - ₹ 1,70,000 |

Compute his tax liability for A.Y. 2025-26 assuming his age is -

- 45 years
- 70 years

Answer 18**(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 u/s 115BAC**

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

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

His tax liability is computed in the following manner:

Particulars	₹	₹
Income from salary		10,80,000
Income from house property		2,50,000
Net agricultural income [₹ 4,80,000 – ₹ 1,70,000]	3,10,000	
Less: Exempt u/s 10(1)	(3,10,000)	-

Particulars	₹	₹
Gross Total Income		13,30,000
Less: Deductions under Chapter VI-A		-
Total Income		<u>13,30,000</u>

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

Tax on ₹ 16,40,000 = ₹ 1,82,000

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

Step 2 : ₹ 3,10,000 + ₹ 3,00,000 = ₹ 6,10,000

Tax on ₹ 6,10,000 = ₹ 15,500 (i.e. 5% of ₹ 3,10,000)

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

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

= ₹ 1,66,500 + 4% of ₹ 1,66,500 = ₹ 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 ₹ 5,000 p.a., and
2. Non-agricultural income exceeds the basic exemption limit of ₹ 2,50,000.

His tax liability is computed in the following manner:

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

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

Tax on ₹ 16,40,000 = ₹ 3,04,500

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

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

Tax on ₹ 5,60,000 = ₹ 24,500

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

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

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

= ₹ 2,80,000 + 4% of ₹ 2,80,000 = ₹ 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 u/s 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., ₹ 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** : ₹ 13,30,000 + ₹ 3,10,000 = ₹ 16,40,000
 Tax on ₹ 16,40,000 = ₹ 3,02,000
 (i.e., 5% of ₹ 2,00,000 plus 20% of ₹ 5,00,000 plus 30% of ₹ 6,40,000)
- Step 2** : ₹ 3,10,000 + ₹ 3,00,000 = ₹ 6,10,000 Tax on ₹ 6,10,000 = ₹ 32,000
 (i.e. 5% of ₹ 2,00,000 plus 20% of ₹ 1,10,000)
- Step 3** : ₹ 3,02,000 – ₹ 32,000 = ₹ 2,70,000
- Step 4 & 5** : Total tax payable = ₹ 2,70,000
 = ₹ 2,70,000 + 4% of ₹ 2,70,000 = ₹ 2,80,800.

Question 19

[Agriculture Income]

Discuss the taxability of the following transactions giving reasons, in the light of relevant provisions, for your conclusion.

- (i) Mr. Rajpal took a land on rent from Ms. Shilpa on monthly rent of ₹ 10,000. He sub-lets the land to Mr. Manish for a monthly rent of ₹ 11,500. Manish uses the land for grazing of cattle required for agricultural activities. Mr. Rajpal wants to claim deduction of ₹ 10,000 (being rent paid by him to Ms. Shilpa) from the rental income received by it from Mr. Manish.
- (ii) Mr. Netram grows paddy on land. He then employs mechanical operations on grain to make it fit for sale in the market, like removing hay and chaff from the grain, filtering the grain and finally packing the rice in gunny bags. He claims that entire income earned by him from sale of rice is agricultural income not liable to income-tax since paddy as grown on land is not fit for sale in its original form.

Answer 19

- (i) The rent or revenue derived from land situated in India and used for agricultural purposes would be agricultural income u/s 2(1A)(a). Therefore, rent received from sub-letting of the land used for grazing of cattle required for agriculture activities is agricultural income. The rent can either be received by the owner of the land or by the original tenant from the sub-tenant.
 Accordingly, rent received by Mr. Rajpal from Mr. Manish for using land for grazing of cattle required for agricultural activities is agricultural income exempt u/s 10(1). As per section 14A, no deduction is allowable in respect of exempt income.
- (ii) The income from the process ordinarily employed to render the produce fit to be taken to the market would be agricultural income u/s 2(1A)(b)(ii). The process of making the rice ready from paddy for the market may involve manual operations or mechanical operations, both of which constitute processes ordinarily employed to make the product fit for the market. Accordingly, the entire income earned by Mr. Netram from sale of rice is agricultural income.

Residence and Scope of Total Income

Question 1

[Residential Status of Crew Member]

Mr. Anand is an Indian citizen and a member of the crew of a Singapore bound Indian ship engaged in carriage of passengers in international traffic departing from Chennai port on 6th June, 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: [SM Q.]

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

Answer 1

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 beginning 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.

Question 2

[Residential Status of Crew Member]

You are required to determine the residential status of Mr. Dinesh, a citizen of India, for the previous year 2024-25.

Mr. Dinesh is a member of crew of a Singapore bound Indian ship, carrying passengers in the international waters, which left Kochi port in Kerala, on 16th August, 2024.

Following details are made available to you for the previous year 2024-25:

Particulars	Date
Date entered into the Continuous Discharge Certificate in respect of joining the ship by Mr. Dinesh	16th August, 2024
Date entered into the Continuous Discharge Certificate in respect of signing off the ship by Mr. Dinesh	21st January, 2025

In June, 2024, he had gone out of India to Dubai on a private tour for a continuous period of 27 days.

During the last four years preceding the PY 2024-25, he was present in India for 425 days. During the last seven PY's preceding the PY 2024-25, he was present in India for 830 days.

[RTP NOV-20 Q.]

Answer 2

Determination of residential status of Mr. Dinesh for the P.Y. 2024-25

As per Explanation 1 to section 6(1), where an Indian citizen leaves India as a member of crew of an Indian ship, he will be resident in India only if he stayed in India for 182 days during the relevant previous year.

As per Explanation 2 to section 6(1), in case of an individual, being a citizen of India and a member of the crew of a foreign bound ship leaving India, the period or periods of stay in India shall, in respect of an eligible voyage, not include the period commencing from the date entered into the Continuous Discharge Certificate in respect of joining of ship by the said individual for the eligible voyage and ending on the date entered into the Continuous Discharge Certificate in respect of signing off by that individual from the ship in respect of such voyage.

Eligible voyage includes a voyage undertaken by an Indian ship engaged in the carriage of passengers in international traffic, originating from any port in India and having its destination at a port outside India.

In this case, voyage is undertaken by a foreign bound Indian ship engaged in the carriage of passengers in international traffic, originating from a port in India (i.e., the Kochi port) and having its destination at a port outside India (i.e., the Singapore port). Hence, the voyage is an eligible voyage.

Therefore, the period from 16th August, 2024 and ending on 21st January, 2025 has to be excluded for computing the period of stay of Mr. Dinesh in India. Accordingly, the period of 159 days [16+30+31+30+31+21] has to be excluded for computing the period of his stay in India during the P.Y.2023-24.

Further, since Mr. Dinesh had also gone out of India to Dubai on a private tour for a continuous period of 27 days in June, 2024, such period has also to be excluded for computing his period of stay in India during the P.Y.2024-25.

Consequently, the period of stay in India during the P.Y. 2024-25 would be 179 days [i.e., 365 days – 159 days – 27 days], which is less than 182 days.

Thus, Mr. Dinesh would be a non-resident for A.Y. 2025-26.

Since the residential status of Mr. Dinesh is “non-resident” for A.Y. 2025-26 consequent to his number of days of stay in India in P.Y. 2024-25, being less than 182 days, his period of stay in India in the earlier previous years become irrelevant.

Question 3

[Residential Status of Individual]

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

- Find out his residential status for the assessment year 2025-26.
- Would your answer change if the above facts relate to Srinath, an Indian citizen who resides in Australia and represents the Australian cricket team?
- What would be your answer if Srinath had visited India for 120 days instead of 100 days every year, including P.Y.2024-25?

[SM Q.]

Answer 3

(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 previous years (100 x 4=400 days)

Chapter 2: Residence and Scope of Total Income

2023-24	100 days
2022-23	100 days
2021-22	100 days
2020-21	<u>100 days</u>
Total	<u>400 days</u>

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 u/s 6(1), he is a resident for the assessment year 2025-26.

Computation of period of stay during 7 preceding previous years = $100 \times 7 = 700$ 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	<u>100 days</u>
Total	<u>700 days</u>

Since his period of stay in India during the past 7 previous years is less than 730 days, he is a not-ordinarily resident during the assessment year 2025-26.

Therefore, Mr. Brett Lee is a resident but not ordinarily resident during the previous year 2024-25 relevant to the assessment year 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 ₹ 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 \times 4 years) in the immediately four preceding previous years.

If his total income (excluding income from foreign sources) does not exceed ₹ 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.

Question 4

[Residential Status of Individual]

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. [SM Q.]

Answer 4

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

Thus, he does not satisfy the basic condition u/s 6(1). Therefore, he is a non-resident for the previous year 2024-25.

Question 5**[Residential Status of Individual]**

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 assessment year 2025-26. **[SM Q.]**

Answer 5

U/s 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 6**[Residential Status of Individual]**

Mr. Dey, a non-resident, residing in US since 1990, came back to India on 1.4.2023 for permanent settlement. What will be his residential status for assessment year 2025-26? **[SM Q.]**

Answer 6

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 can be resident but not ordinarily resident also due to the fact that he has stayed in India only for 365 days (i.e., less than 730 days) in 7 previous years immediately preceding the P.Y. 2024-25.

Question 7**[Residential Status of Individual & Total Income]**

Mr. Dhruv, a person of Indian origin and citizen of Country X, got married to Ms. Deepa, an Indian citizen residing in Country X, on 4th February, 2024 and came to India for the first time on 20-02-2024. He left for Country X on 12th August, 2024. He returned to India again on 20-01-2025 with his wife to spend some time with his parents-in law for 30 days and thereafter returned to Country X on 18.02.2025.

He received the following gifts from his relatives and friends of her wife during 01-04-2024 to 31-03-2025 in India:

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

- (a) Determine his residential status and compute the total income chargeable to tax along with the amount of tax payable on such income for the Assessment Year 2025-26.
- (b) Will your answer change if he has received ₹ 16,00,000 instead of ₹ 2,82,000 from very close friends of his wife during the previous year 2024-25 and he stayed in India for 400 days during the 4 years preceding the previous year 2024-25? [MTP Q.]

Answer 7

(a) Determination of residential status and computation of total income and tax payable of Mr. Dhruv

U/s 6(1), an individual, being a person of Indian origin and who comes on a visit to India during the previous year and his total income other than the income from foreign source exceeds ₹ 15,00,000, is said to be resident in India, if he stayed in India for a total period of 120 days or more during that previous year and for 365 days or more during the 4 years immediately preceding the relevant previous year.

However, in case, the total income other than the income from foreign source does not exceed ₹ 15,00,000, the said individual is said to be resident in India, only if he stayed in India for a total period of 182 days or more during that previous year.

Since in the present case, total income other than from foreign source, of Mr. Dhruv, a person of Indian origin does not exceed ₹ 15,00,000, he would be said to be resident in India, only if he stayed in India for 182 days or more during the previous year 2024-25 relevant to A.Y. 2025-26.

His stay in India during the previous year 2024-25 is as under:

01.04.2024 to 12.08.2024	-	134 days
20.01.2025 to 18.02.2025	-	30 days

Total **164 days**

Since Mr. Dhruv has stayed in India during the previous year for less than 182 days, he is said to be non-resident. Accordingly, his total income and tax payable would be computed in the following manner:

Computation of total income and tax payable of Mr. Dhruv for the A.Y. 2025-26

Particulars	₹
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 ₹ 50,000.	
- ₹ 1,01,000 received from parents of wife would be exempt, since parents of wife fall within the definition of 'relatives' and gifts from a relative are not chargeable to tax.	Nil
- ₹ 11,000 received from married sister-in-law is exempt, since sister of wife falls within the definition of relative and gifts from a relative are not chargeable to tax.	Nil
- Gift received from close friends of his wife of ₹ 2,82,000 is taxable u/s 56(2)(x) since the said sum exceeds ₹ 50,000.	2,82,000
Total Income	2,82,000
Tax on total income of ₹ 2,82,000 as per default tax regime u/s 115BAC is Nil due to basic exemption of ₹ 3,00,000	Nil
Tax on total income of ₹ 2,82,000 as per normal provisions [5% of ₹ 32,000 in excess of ₹ 2,50,000, being the basic exemption limit]	1,600
Add: Health and Education cess@4%	64
Total tax payable	1,664
Total tax payable (rounded off)	1,660

Chapter 2: Residence and Scope of Total Income

(b) Determination of residential status and computation of total income and tax payable of Mr. Dhruv (if he has received cash gifts from non-relative for ₹ 16,00,000):

Where an individual, being a person of Indian origin comes on visit to India and he is having total income other than income from foreign sources exceeding ₹ 15 lakhs during the previous year, such individual is said to be resident in India, if he stays in India during the previous year for 120 days or more and for 365 days or more during the 4 years immediately preceding the relevant previous year. As per section 6(6), such individual whose stay in India is for 120 days or more but less than 182 days in the P.Y. 2024-25 would be resident but not ordinarily resident irrespective of his residential status or no. of days of stay in India in the immediately preceding PYs.

Mr. Dhruv, is a person of India origin who has come on a visit to India during the previous year. Since his total income other than income from foreign sources exceeds ₹ 15,00,000; and his stay in India is for 164 days during the P.Y. 2024-25 and for 400 days during the 4 years immediately preceding the P.Y. 2024-25, he is resident but not ordinarily resident in India for the P.Y. 2024-25.

In such case, his total income and tax payable would be computed in the following manner:

Computation of total income and tax payable of Mr. Dhruv for the A.Y. 2025-26

Particulars	₹
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 ₹ 50,000.	
- ₹ 1,01,000 received from parents of wife would be exempt, since parents of wife fall within the definition of 'relatives' and gifts from a relative are not chargeable to tax.	Nil
- ₹ 11,000 received from married sister-in-law is exempt, since sister of wife falls within the definition of relative and gifts from a relative are not chargeable to tax.	Nil
- Gift received from close friends of his wife of ₹ 16,00,000 is taxable u/s 56(2)(x) since the amount of cash gifts exceeds ₹ 50,000.	16,00,000
Total Income	16,00,000
Tax on total income of ₹ 16,00,000 as per default tax regime u/s 115BAC	
Upto ₹ 3,00,000 Nil	
₹ 3,00,001 – ₹ 6,00,000 @ 5% 15,000	
₹ 6,00,001 – ₹ 9,00,000 @ 10% 30,000	
₹ 9,00,001 – ₹ 12,00,000 @ 15% 45,000	
₹ 12,00,001 – ₹ 15,00,000 @ 20% 60,000	
₹ 15,00,001 – ₹ 16,00,000 @ 30% 30,000	1,80,000
Add: Health and Education cess @ 4%	7,200
Total tax payable	1,87,200

Note – Since his tax payable as per normal provisions is ₹ 3,04,200 [₹ 2,92,500 (₹ 1,12,500 plus 30% on ₹ 6,00,000 income exceeding ₹ 10,00,000) plus ₹ 11,700, being health and education cess @ 4%], which is higher than the tax payable computed as per concessional tax rates available u/s 115BAC, it is beneficial for him to opt for section 115BAC.

Question 8**[Residential Status of Individual & Total Income]**

Miss Charlie, an American national, got married to Mr. Radhey of India in USA on 2.03.2024 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 ₹ 25,000 p.m. from 1.05.2024. She had taken loan from a bank for purchase of this show room on which bank had charged interest of ₹ 97,500 upto 31.03.2025. She had received the following cash gifts from her relatives and friends during 1.4.2024 to 31.3.2025:

- From parents of husband ₹ 51,000
- From married sister of husband ₹ 11,000
- From two very close friends of her husband (₹ 1,51,000 and ₹ 21,000) ₹ 1,72,000

- (a) Determine her residential status and compute the total income chargeable to tax along with the amount of tax liability on such income for the Assessment Year 2025-26 if she opts out of the default tax regime u/s 115BAC.
- (a) Would her residential status undergo any change, assuming that she is a person of Indian origin and her total income from Indian sources is ₹18,00,000 and she is not liable to tax in USA? **[SM Q.]**

Answer 8

- I. U/s 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 previous year relevant to A.Y. 2025-26 i.e., P.Y.2024-25 and in the preceding four assessment years.

Her stay in India during the previous year 2024-25 and in the preceding four years are as under:

P.Y. 2024-25

01.04.2024 to 19.09.2024	-	172 days
27.03.2025 to 31.03.2025	-	5 days
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 Assessment Year 2025-26.

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

Particulars	₹	₹
Income from house property		
Show room located in Mumbai remained on rent from 01.05.2024 to 31.03.2025 @ ₹ 25,000/- p.m.	2,75,000	
Gross Annual Value [₹ 25,000 x 11] (See Note 1 below)		
Less: Municipal taxes	Nil	
Net Annual Value (NAV)	2,75,000	
Less: Deduction u/s 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 ₹ 50,000.		
- ₹50,000 received from parents of husband would be exempt, since parents of husband fall within the definition of 'relative' and gifts from a relative are not chargeable to tax.	Nil	
- ₹11,000 received from married sister of husband is exempt, since sister-in-law falls within the definition of relative and gifts from a relative are not chargeable to tax.	Nil	
- Gift received from two friends of husband ₹ 1,51,000 and ₹ 21,000 aggregating to ₹ 1,72,000 is taxable u/s 56(2)(x) since the aggregate of ₹ 1,72,000 exceeds ₹ 50,000. (See Note 2 below)	1,72,000	1,72,000
Total income		2,67,000

Computation of tax liability by Miss Charlie for the A.Y. 2025-26

Particulars	₹
Tax on total income of ₹ 2,67,000	850
Add: Health and Education cess@4%	34
Total tax liability	884
Total tax liability (rounded off)	880

Notes:

1. Actual rent received has been taken as the gross annual value in the absence of other information (i.e. Municipal value, fair rental value and standard rent) in the question.
2. If the aggregate value of taxable gifts received from non-relatives exceed ₹ 50,000 during the year, the entire amount received (i.e. the aggregate value of taxable gifts received) is taxable. Therefore, the entire amount of ₹ 1,72,000 is taxable u/s 56(2)(x).
3. Since Miss Charlie is a non-resident for the A.Y. 2025-26, rebate u/s 87A would not be available to her, even though her total income does not exceed ₹ 5 lacs.
4. The tax liability of Miss Charlie would be the same even if she opts to pay tax as per section 115BAC, since she would be eligible for deduction u/s 24(b), for interest on housing loan in respect of let out property under regular provisions as well as u/s 115BAC of the Income-tax Act, 1961.

II. Residential status of Miss Charlie in case she is a person of Indian origin and her total income from Indian sources exceeds ₹ 18,00,000

If she is a person of Indian origin and her total income from Indian sources exceeds ₹ 15,00,000 (₹ 18,00,000, in her case), the condition of stay in India for a period exceeding 120 days during the 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 ₹ 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 9

[Residential Status of Individual & Total Income]

Determine the residential status and total income of Mr. Raghu for the assessment year 2025-26 from the information given below. Assuming that he has exercised the option of shifting out of the default tax regime provided u/s 115BAC(1A)

Mr. Raghu (age 62 years), an American citizen, is employed with a multinational company in Gurugram. Mr. Raghu holds a senior level position as researcher in the company, since 2009. To share his knowledge and finding in research, company gave him an opportunity to travel to other group companies outside India while continuing to be based at the Gurugram office.

The details of his travel outside India for the financial year 2024-25 are as under:

Country	Period of stay
USA	25 August, 2024 to 10 November, 2024
UK	20 November, 2024 to 23 December, 2024
Germany	10 January, 2025 to 24 March, 2025

During the last four years preceding the previous year 2024-25, he was present in India for 380 days. During the last seven previous years preceding the previous year 2024-25, he was present in India for 700 days. During the P.Y. 2024-25, he earned the following incomes:

- (1) Salary ₹ 15,00,000. The entire salary is paid by the Indian company in his Indian bank account.
- (2) Dividend amounting to ₹ 48,000 received from Treat Ltd., a Singapore based company, which was transferred to his bank account in Singapore.
- (3) Interest on fixed deposit with Punjab National Bank (Delhi) amounting to ₹ 10,500 was credited to his saving account.

[MTP Q.]

Answer 9

Determination of residential status

Mr. Raghu would be a resident in India in P.Y. 2024-25, 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.

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

During the P.Y. 2024-25 Mr. Raghu stayed in India for 179 days i.e., 365 days – 186 days [78 days + 34 days + 74 days] and 380 days i.e., more than 365 days during the 4 preceding previous years. He satisfies the second basic condition for being a resident. Hence, he is a resident in India for A.Y.2025-26.

A person would 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.

For the previous year 2024-25, Mr. Raghu would be “Resident but not ordinarily resident” since he stayed for less than 729 days during the 7 previous years immediately preceding P.Y. 2024-25.

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

Particulars	Amount (₹)
(1) Salary from Indian company received in a bank account in India 15,00,000	
Less: Standard deduction u/s 16(ia) 50,000	14,50,000
(2) Dividend of ₹ 48,000 received from Singapore based company transferred to his bank account in Singapore is not taxable in the hands of the resident but not ordinarily resident since the income has neither accrued or arisen in India nor has it been received in India.	Nil
(3) Interest on fixed deposit with PNB credited to his savings bank account is taxable in the hands of Mr. Raghu as Income from other sources, since it has accrued and arisen in India and is also received in India.	10,500
Gross Total Income	14,60,500
Less: Deduction u/s 80TTB	10,500
Total Income	14,50,000

Question 10

[Residential Status of Individual & Total Income]

Miss Bhanushali, an American National, got married to Mr. Vikas of India in New York on 3rd February, 2024 and came to India for the first time on 14-02-2024. She left for New York on 11-08-2024. She returned to India again on 20-02-2025.

She received the following gifts from her relatives and friends during 01-04-2024 to 31-03-2025 in India:

- From parents of husband ₹ 71,000
- From married sister of husband ₹ 21,000
- From two very close friends of her husband ₹ 1,41,000 and ₹ 1,21,000 ₹ 2,62,000

(i) Determine her residential status and compute the total income chargeable to tax for the Assessment Year 2025-26. Assuming that she has exercised the option of shifting out of the default tax regime provided u/s 115BAC(1A)

(ii) Will the residential status change if she had returned to India again on 20-01-2025 instead of 20-02-2025?

[MTP Q.]

Answer 10

(i) Determination of residential status and computation of total income of Miss Bhanushali (if she returned to India on 20.2.2025)

Particulars	₹
U/s 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 Bhanushali, an American National, for A.Y.2025-26 has to be determined on the basis of her stay in India during the previous year relevant to A.Y. 2025-26 i.e. P.Y.2024-25 and in the preceding four assessment years. Her stay in India during the previous year 2024-25 and in the preceding four years are as under: P.Y. 2024-25 01.04.2024 to 11.08.2024 - 133 days 20.02.2025 to 31.03.2025 - 41 days Total 174 days Four preceding previous years P.Y.2023-24 [14.2.2023 to 31.3.2024] - 47 days P.Y.2022-23 - Nil P.Y.2021-22 - Nil P.Y.2020-21 - Nil Total 47 days The total stay of Miss Bhanushali during the previous year in India was less than 182 days and during the four years preceding this year was for 47 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 2025-26. Computation of total income of Miss Bhanushali for the A.Y. 2025-26 Income from other sources Gifts received from non-relatives is chargeable to tax as per section 56(2) (x) if the aggregate value of such gifts exceeds ₹ 50,000. - ₹ 71,000 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 - ₹ 21,000 received from married sister-in-law is exempt, since sister of husband falls within the definition of relative and gifts from a relative are not chargeable to tax. Nil - Gift received from two friends of her husband ₹ 1,41,000 and ₹ 1,21,000 aggregating to ₹ 2,62,000 is taxable u/s 56(2)(x) since the aggregate of ₹ 2,62,000 exceeds ₹ 50,000. 262000 Total Income 262000	

Chapter 2: Residence and Scope of Total Income

(ii) Determination of residential status of Miss Bhanushali (if she returned to India on 20.1.2025)

Particulars	₹
Yes, the answer would change, if she had returned to India again on 20.1.2025 instead of 20.2.2025.	
In such case, her stay in India during the previous year 2024-25 would be:	
01.04.2024 to 11.08.2024 - 133 days	
20.01.2025 to 31.03.2025 - 72 days	
Total	205 days
Since she satisfies the condition of stay in India for more than 182 days during the previous year 2024-25, she would become resident in India. She would be a resident but not ordinarily resident in India for A.Y. 2025-26, since her stay in India in the preceding seven years is less than 730 days (it is only 47 days) ¹	

- 1 In the alternative, an individual can be treated as not ordinarily resident if she is non-resident in any 9 out of 10 preceding assessment years. In this case, Miss Bhanushali is a non-resident in all 10 preceding assessment years. She was in India for only 47 days in A.Y.2025-26 and never visited India earlier.

Question 11

[Residential Status of Individual & Total Income]

Ms. Rita, an Indian citizen and an MBA from Howard University, was employed in AFL LLP of Country A since June, 2017. She came to India on 15.11.2024 and joined as CEO of Autofit Ltd. Ms. Rita was in India before she left for overseas education in May, 2013 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 ₹ 2,40,000 (net) in Country A and salary income from AFL LLP of ₹ 15 lakhs up to the date of her return to India in the financial year 2024-25.

Salary income (computed) of Ms. Rita from Autofit Ltd. up to 31.03.2025 is ₹ 13,50,000 and she earned dividend of ₹ 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. 2025-26?

Answer 11

Determination of residential status of Ms. Rita for the A.Y. 2025 -26

As per section 6(1), in order to be a resident of India in the P.Y.2024 -25, 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.2024-25; or
- (2) Her stay in India should be for a period of 60 days or more in the P.Y.2024-25 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.2024-25 is 137 days (i.e., 16 days + 31 days + 31 days + 28 days + 31 days). She left India in May, 2013 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 ₹ 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 ₹ 16,50,000 for A.Y.2025-26 as shown below -

Chapter 2: Residence and Scope of Total Income

Particulars	₹
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>
	<u>16,50,000</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 ₹ 15 lakhs, she would be deemed resident in India u/s 6(1A) for A.Y.2025-26. 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. 2025-26

Particulars	₹
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 12

[Residential Status of HUF]

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. [SM Q.]

Answer 12

- (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.

Question 13

[Total Income with 10(7) exemption]

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 previous year 2024-25. He has received the following income for the Financial Year 2024-25:

S. No.	Particulars	₹
(i)	Salary (Computed)	5,00,000
(ii)	Foreign Allowance [not included in (i) above]	4,00,000

Chapter 2: Residence and Scope of Total Income

S. No.	Particulars	₹
(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 Assessment Year 2025-26.

[SM Q.]

Answer 13

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 previous year 2024-25.

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

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

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

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

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

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

Question 14

[Total Income with 10(7) exemption]

Mr. Shridhar (age 45 years), a citizen of India, serving in the Ministry of Finance in India, was transferred to Indian Embassy in Australia on 15th March 2024. His income during the financial year 2024-25 is given hereunder:

Particulars	₹
Rent from a house situated at Australia, received in Australia. Thereafter, remitted to Indian bank account.	5,25,000
Interest on Post office savings bank account in India	4,500
Salary from Government of India	9,25,000
Foreign Allowances from Government of India	8,00,000

Mr. Shridhar did not come to India during the financial year 2024-25. Compute his Gross Total Income for the Assessment year 2025-26. Assume he opted out from section 115BAC.

[MTP Q.]

Answer 14

Mr. Shridhar is a non-resident for the A.Y. 2025-26, since he was not present in India at any time during the previous year 2024-25 [Section 6(1)].

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

Particulars	₹
Salaries	9,25,000
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 u/s 9(1)(iii). Hence, such income is taxable in the hands of Mr. Shridhar, a citizen of India, even though he is a non-resident and rendering services outside India)	
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 u/s 10(7)].	Nil
Gross Salary	9,25,000
Less: Standard Deduction u/s 16(ia) of ₹ 50,000, being lower of gross salary or ₹ 50,000	50,000
	8,75,000
Income from House Property	Nil
Rent from a house situated at Australia, received in Australia (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)	
Income from Other Sources	
Interest on Post office savings bank account – exempt upto ₹ 3,500	1,000
Gross Total Income	8,76,000

Note – Interest on Post office saving bank account of ₹ 1,000 would be allowed as deduction u/s 80TTA.

Question 15**[Scope of Total income in case of ROR, R but NOR & NR]**

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 u/s 115BAC(1A) –

[SM Q.]

Particulars	Amount (₹)
Interest on UK Development Bonds, 50% of interest received in India	10,000
Income from a business in Chennai (50% is received in India)	20,000
Short term capital gains on sale of shares of an Indian company received in London	20,000
Dividend from British company received in London	5,000
Long term capital gains on sale of plant at Germany, 50% of profits are received in India	40,000
Income earned from business in Germany which is controlled from Delhi (₹ 40,000 is received in India)	70,000
Profits from a business in Delhi but managed entirely from London	15,000

Chapter 2: Residence and Scope of Total Income

Particulars	Amount (₹)
Income from house property in London deposited in a Bank at London, brought to India (Computed)	50,000
Interest on debentures in an Indian company received in London	12,000
Fees for technical services rendered in India but received in London	8,000
Profits from a business in Mumbai managed from London	26,000
Income from property situated in Nepal received there (Computed)	16,000
Past foreign untaxed income brought to India during the previous year	5,000
Income from agricultural land in Nepal, received there and then brought to India	18,000
Income from profession in Kenya which was set up in India, received there but spent in India	5,000
Gift received on the occasion of his wedding	20,000
Interest on savings bank deposit in State Bank of India	12,000
Income from a business in Russia, controlled from Russia	20,000
Dividend from Reliance Petroleum Limited, an Indian Company	5,000
Agricultural income from a land in Rajasthan	15,000

Answer 15

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

Particulars	Resident and ordinarily resident ₹	Resident but not ordinarily resident ₹	Non-resident ₹
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 profits are received in India	40,000	20,000	20,000
Income earned from business in Germany which is controlled from Delhi, out of which ₹ 40,000 is received in India	70,000	70,000	40,000
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	-	-

Particulars	Resident and ordinarily resident ₹	Resident but not ordinarily resident ₹	Non- resident ₹
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 from 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 u/s 10(1)]	-	-	-
Gross Total Income	3,52,000	2,18,000	1,83,000
Less: Deduction u/s 80TTA Interest on savings bank account subject to a maximum of 10,000]	<u>10,000</u>	<u>10,000</u>	<u>10,000</u>
Total Income	<u>3,42,000</u>	<u>2,08,000</u>	<u>1,73,000</u>

Question 16**[Scope of Total income in case of ROR & NR]**

Mr. Ramesh & Mr. Suresh are brothers and they earned the following incomes during the financial year 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 he has exercised the option of shifting out of the default tax regime provided u/s 115BAC(1A) –

[SM Q.]

Sr. No.	Particulars	Mr. Ramesh (₹)	Mr. Suresh (₹)
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

Chapter 2: Residence and Scope of Total Income

Sr. No.	Particulars	Mr. Ramesh (₹)	Mr. Suresh (₹)
4.	Short term capital gain on sale of shares of an Indian company received in India	60,000	90,000
5.	Income from a business in Chennai	80,000	70,000
6.	Fees for technical services rendered in India, but received in Canada	1,00,000	----
7.	Interest on savings bank deposit in UCO Bank, Delhi	7,000	12,000
8.	Agricultural income from a land situated in Andhra Pradesh	55,000	45,000
9.	Rent received in respect of house property at Bhopal	1,00,000	60,000
10.	Life insurance premium paid	---	30,000

Answer 16

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

S. No.	Particulars	Mr. Ramesh (Non- Resident) (₹)	Mr. Suresh (Resident) (₹)
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:

1. 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.
2. 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:

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

3. Dividend received from British company in London by Mr. Ramesh, a non-resident, is not taxable since it accrued and is received outside India. However, such dividend received by Mr. Suresh is taxable, since he is a resident and ordinarily resident.
4. Agricultural income from a land situated in India is exempt u/s 10(1) in the case of both non-residents and residents.
5. Income from house property-

	Mr. Ramesh (₹)	Mr. Suresh (₹)
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

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 ₹ 10,000 from savings account with, inter alia, a bank is allowable as deduction u/s 80TTA.

Question 17**[Income deemed to accrued or arise in India]**

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".

[SM Q.]**Answer 17**

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 18**[Income deemed to accrue or arise in India]**

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? **[SM Q.]**

Answer 18

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 u/s 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.

Question 19**[Misc. Concepts]**

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

- (i) Salary paid by Central Government to Mr. John, a citizen of India ₹ 7,00,000 for the services rendered outside India.
- (ii) Interest on moneys borrowed from outside India ₹ 5,00,000 by a non-resident for the purpose of business within India say, at Mumbai.
- (iii) Post office savings bank interest of ₹ 19,000 received by a resident assessee, Mr. Ram, aged 46 years.
- (iv) Royalty paid by a resident to a non-resident in respect of a business carried on outside India.
- (v) Legal charges of ₹ 5,00,000 paid in Delhi to a lawyer of United Kingdom who visited India to represent a case at the Delhi High Court. **[SM Q.]**

Answer 19

	Taxable/Not Taxable	Amount liable to tax (₹)	Reason
(i)	Taxable	6,50,000	As per section 9(1)(iii), salaries payable by the Government to a citizen of India for service rendered outside India shall be deemed to accrue or arise in India. Therefore, salary paid by Central Government to Mr. John for services rendered outside India would be deemed to accrue or arise in India since he is a citizen of India. He would be entitled to standard deduction of ₹ 50,000 u/s 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.

	Taxable/Not Taxable	Amount liable to tax (₹)	Reason
(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 ₹ 3,500 in case of an individual a/c. Further, interest upto ₹ 10,000, would be allowed as deduction u/s 80TTA from Gross Total Income. Balance ₹ 5,500 i.e., ₹ 19,000 - ₹ 3,500 - ₹ 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.

Income from Salary

Question 1

[HRA Exemptions]

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

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

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

[SM Q.]

Answer 1

HRA received	₹ 1,80,000
Less: Exempt u/s 10(13A) [Note]	₹ 1,36,800
Taxable HRA	₹ 43,200

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

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

Note: For the purpose of exemption u/s 10(13A), salary includes dearness allowance only when the terms of employment so provide and also include turnover commission, but excludes all other allowances and perquisites.

Question 2

[Allowances Taxability]

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

Transport allowance : ₹ 1,800 p.m.

Tribal area allowance : ₹ 500 p.m.

Compute his taxable allowances

Answer 2

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 u/s 115BAC(1A)

Children Education Allowance:

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

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

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

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

Taxable allowances ₹ 25,800

If Mr. Srikant pays tax under default tax regime u/s 115BAC

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

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

Tribal area allowance (₹ 500 p.m. × 12 months) ₹ 6,000

Taxable allowances ₹ 30,240

Question 3

[Pension Exemptions]

Mr. Sagar who retired on 1.10.2024 is receiving ₹ 5,000 p.m. as pension. On 1.2.2025, he commuted 60% of his pension and received ₹ 3,00,000 as commuted pension. You are required to compute his taxable pension assuming:

- He is a government employee.
- He is a private sector employee and received gratuity of ₹ 5,00,000 at the time of retirement.
- He is a private sector employee and did not receive any gratuity at the time of retirement. **[SM Q.]**

Answer 3

(a) He is a government employee

Uncommuted pension received (October – March) ₹ 24,000

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

Commuted pension received ₹ 3,00,000

Less: Exempt u/s 10(10A) ₹ 3,00,000

Taxable pension ₹ 24,000

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

Uncommuted pension received (October – March) ₹ 24,000

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

Commuted pension received ₹ 3,00,000

Less: Exempt u/s 10(10A)

$$\left(\frac{1}{3} \times \frac{₹ 3,00,000}{60\%} \times 100\% \right)$$

₹ 1,66,667

₹ 1,33,333

Taxable pension

₹ 1,57,333

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

Uncommuted pension received (October – March) ₹ 24,000

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

Chapter 3: Income from Salary

Commuted pension received	₹ 3,00,000	
Less: Exempt u/s 10(10A)		
$\left(\frac{1}{2} \times \frac{₹ 3,00,000}{60\%} \times 100\% \right)$	₹ 2,50,000	₹ 50,000
Taxable pension		₹ 74,000

Question 4

[Gratuity Exemptions]

Mr. Ravi retired on 15.6.2024 after completion of 26 years 8 months of service and received gratuity of ₹ 15,00,000. At the time of retirement, his salary was:

Basic Salary	:	₹ 50,000 p.m.
Dearness Allowance	:	₹ 10,000 p.m. (60% of which is for retirement benefits)
Commission	:	1% of turnover (turnover in the last 12 months was ₹ 1,20,00,000)
Bonus	:	₹ 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.

[SM Q.]

Answer 4

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

Gratuity received at the time of retirement ₹ 15,00,000

Less: Exemption u/s 10(10) Least of the following:

- (i) Gratuity received ₹ 15,00,000
- (ii) Statutory Max. limit ₹ 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

$\frac{15}{26} \times \text{last drawn salary} \times \text{years of service 26 and 8 months}$

$\frac{15}{26} \times (50,000 + 10,000) \times 27 =$ ₹ 9,34,615 ₹ 9,34,615

Taxable Gratuity ₹ **5,65,385**

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

Gratuity received at the time of retirement ₹ 15,00,000

Less: Exemption u/s 10(10) (Note) ₹ 8,58,000

Taxable Gratuity ₹ **6,42,000**

Note: Exemption u/s 10(10) is least of the following:

- (i) Gratuity received ₹ 15,00,000
- (ii) Statutory limit ₹ 20,00,000
- (iii) Half month's salary based on average salary of last 10 months preceding the month of retirement for each completed year of service.

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

(Average Salary: Average basic salary of last 10 months + Average Dearness Allowance in terms of last 10 months + Average turnover commission of last 10 months)

$$\frac{1}{2} \times \frac{\left[(50,000 \times 10) + (10,000 \times 60\% \times 10) + \left(1\% \times 1,20,00,000 \times \frac{10}{12} \right) \right]}{10} \times 26 = ₹ 8,58,000$$

(c) He is a government employee

Gratuity received at the time of retirement ₹ 15,00,000

Less: Exemption u/s 10(10) ₹ 15,00,000

Taxable gratuity Nil

Question 5

[Leave Salary Exemptions]

Mr. Gupta retired on 1.12.2024 after 20 years of service and received leave salary of ₹ 5,00,000. Other details of his salary income are:

Basic Salary : ₹ 5,000 p.m. (₹ 1,000 was increased w.e.f. 1.4.2024)

Dearness Allowance : ₹ 3,000 p.m. (60% of which is for retirement benefits)

Commission : ₹ 500 p.m.

Bonus : ₹ 1,000 p.m.

Leave availed during service : 480 days

He was entitled to 30 days leave every year.

You are required to compute his taxable leave salary assuming:

(a) He is a government employee.

(b) He is a non government employee.

[SM Q.]

Answer 5

(a) He is a government employee

Leave Salary received at the time of retirement ₹ 5,00,000

Less: Exemption u/s 10(10AA) ₹ 5,00,000

Taxable Leave salary Nil

(b) He is a non-government employee

Leave Salary received at the time of retirement ₹ 5,00,000

Less: Exempt u/s 10(10AA) [See Note below] ₹ 26,400

Taxable Leave Salary ₹ 4,73,600

Note: Exemption u/s 10(10AA) is least of the following:

(i) Leave salary received ₹ 5,00,000

(ii) Statutory limit ₹ 25,00,000

(iii) 10 months' salary based on average salary of last 10 months

$$\begin{aligned} \text{i.e. } & 10 \times \frac{\text{Salary of last 10 months i.e. Feb. - Nov.}}{10 \text{ months}} \\ & = 10 \times \frac{(5000 \times 8) + (4000 \times 2) + (60\% \times 3000 \times 10)}{10 \text{ months}} \\ & \hspace{15em} ₹ 66,000 \end{aligned}$$

(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

(Average Salary: Average basic salary of last 10 months + Average Dearness Allowance in terms of last 10 months + Average turnover commission of last 10 months)

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

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

= $\left[\frac{120 \text{ days}}{30 \text{ days}} \times \frac{₹ 66,000}{10} \right]$

₹ 26,400

Question 6

[Taxability of Provident Fund]

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	₹
Basic pay @ ₹ 16,000 per month for 9 months	1,44,000
Dearness pay (50% forms part of the retirement benefits) ₹ 8,000 per month for 9 months	72,000
Lumpsum payment received from 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 ₹ 2,20,000 and the interest thereon ₹ 50,000. The employee's contribution was ₹ 2,70,000 and the interest thereon ₹ 60,000. What is the taxable portion of the amount received from the unrecognized provident fund in the hands of Mr. A for the assessment year 2025-26?

Will your answer be any different if the fund mentioned above was a recognised provident fund? [SM Q.]

Answer 6

- (i) 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	₹
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 u/s 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.

- (ii) 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.

Question 7**[Taxability of Provident Fund]**

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: **[SM Q.]**

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

Answer 7**Computation of Gross Salary of Mr. B for the A.Y.2025-26**

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

Note 1: Gratuity received during service is fully taxable.

Note 2: Employers contribution in the RPF is exempt up to 12% of the salary. i.e., 12% of [Basic Salary + Dearness Allowance forming part of retirement benefits + Commission based on turnover] = 12% of [₹ 1,20,000 + (50% × ₹ 96,000) + ₹ 5,000] = 12% of ₹ 1,73,000 = ₹ 20,760

Note 3: Employee's contribution to RPF is not taxable. It is eligible for deduction u/s 80C.

Question 8**[Taxability of VRS]**

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

Answer 8

Voluntary retirement compensation received	₹ 7,00,000
Less: Exemption u/s 10(10C) [See Note below]	₹ 5,00,000
Taxable voluntary retirement compensation	₹ 2,00,000

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

- | | |
|---|---------------|
| (i) Compensation actually received | = ₹ 7,00,000 |
| (ii) Statutory limit | = ₹ 5,00,000 |
| (iii) 3 months' salary × completed years of service
= (₹ 20,000 + ₹ 5,000) × 3 × 30 years | = ₹ 22,50,000 |
| (iv) Last drawn salary × remaining months of service left
= (₹ 20,000 + ₹ 5,000) × 6 × 12 months | = ₹ 18,00,000 |

(Salary = Basic Salary + Dearness allowance in terms + Turnover Commission)

Question 9

[Taxability of ER contribution to RPF > 7.5 Lakhs]

Mr. X is appointed as a CFO of ABC Ltd. in Mumbai from 1.9.2022. His basic salary is ₹ 6,00,000 p.m. He is paid 8% as D.A. He contributes 10% of his pay and D.A. towards his recognized provident fund and the company contributes the same amount. The accumulated balance in recognized provident fund as on 1.4.2023, 31.3.2024 and 31.3.2025 is ₹ 9,81,137, ₹ 27,43,048 and ₹ 46,48,555, respectively. Compute the perquisite value chargeable to tax in the hands of Mr. X u/s 17(2)(vii) and 17(2)(viia) for the A.Y. 2024-25 and A.Y. 2025-26. Prior to 1.9.2022, he was a consultant, whose professional fees was taxable under the head "Profits and gains of business or profession".

Answer 9

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) = ₹ 7,77,600, being employer's contribution to recognized provident fund during the P.Y. 2023-24 – ₹ 7,50,000 = ₹ 27,600
- Perquisite value taxable u/s 17(2)(viia) = Annual accretion on perquisite taxable u/s 17(2)(vii) = $(PC/2) \times R + (PC1 + TP1) \times R$
= $(27,600/2) \times 0.111 + 0$
= ₹ 1,532

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

PC1 Nil since employer's contribution is less than ₹ 7.5 lakh to recognized provident fund in P.Y. 2022-23 and there is no employer's contribution prior to this.

TP1 Nil

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

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

Favg Balance to the credit of recognized provident fund as on 1st April, 2023 + Balance to the credit of recognized provident fund as on 31st March, 2024/2 = (₹ 9,81,137 + ₹ 27,43,048)/2 = ₹ 18,62,093

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

- ₹ 2,03,600 [Employee's contribution exceeding ₹ 2,50,000 during P.Y. 2022-23]
- ₹ 5,27,600 [Employee's contribution exceeding ₹ 2,50,000 during P.Y. 2023-24]
- interest accrued on ₹ 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. 2025-25

- Perquisite value taxable u/s 17(2)(vii) = ₹ 7,77,600, being employer's contribution to recognized provident fund during the P.Y. 2024-25 – ₹ 7,50,000 = ₹ 27,600
- Perquisite value taxable u/s 17(2)(viia) = Annual accretion on perquisite taxable u/s 17(2)(vii) = $(PC/2) \times R + (PC1 + TP1) \times R$

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

$$= ₹ 1,308 + ₹ 2,761 = ₹ 4,069$$

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

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

TP1 Taxable perquisite u/s 17(2)(viii) for the P.Y. 2023-24 = ₹ 1,532

R $I/F_{avg} = 3,50,307/36,95,802 = 0.09479$

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

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

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

- (i) ₹ 2,03,600 [Employee's contribution exceeding ₹ 2,50,000 during P.Y. 2022-23]
- (ii) ₹ 5,27,600 [Employee's contribution exceeding ₹ 2,50,000 during P.Y. 2023-24]
- (iii) ₹ 5,27,600 [Employee's contribution exceeding ₹ 2,50,000 during P.Y. 2024-25]
- (iv) interest accrued on ₹ 2,03,600 being excess employee's contribution of P.Y. 2022-23
- (v) interest accrued on ₹ 5,27,600 being excess employee's contribution of P.Y. 2023-24

Question 10

[Taxability of LTC Perks]

- A. 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 ₹ 60,000 (₹ 45,000 for adults and ₹ 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 u/s 115BAC(1A).
- B. In the above point A, will there be any difference if among his three children the twins were 5 years old and the son 3 years old? Discuss. [SM Q.]

Answer 10

- A. 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.
- B. 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

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

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

Question 11

[Taxability of Medical Perks]

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: [SM Q.]

Medical premium paid for insuring health of Mr. G	₹ 7,000
Treatment of Mr. G by his family doctor	₹ 5,000
Treatment of Mr. G in a Government hospital	₹ 25,000

Treatment of Mr. G's grandfather in a private clinic	₹ 12,000
Treatment of Mr. G's mother (68 years and dependant) by family doctor	₹ 8,000
Treatment of Mr. G's sister (dependant) in a nursing home	₹ 3,000
Treatment of Mr. G's brother (independent)	₹ 6,000
Treatment of Mr. G's father (75 years and dependent) abroad	₹ 50,000
Expenses of staying abroad of the patient and	₹ 30,000
Limit specified by RBI	₹ 75,000

Answer 11**Computation of taxable value of perquisite in the hands of Mr. G**

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

Question 12**[Taxability of Medical Perks]**

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

	Particulars	₹
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. [SM Q.]

Answer 12

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

Question 13

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

Basic salary	₹ 8,500 p.m.
Dearness Allowance	₹ 2,000 p.m. (30% is for retirement benefits)
Bonus	₹ 1,500 p.m.

Even though the company allotted the house to him on 1.4.2024, he occupied the same only from 1.11.2024.

- Calculate the taxable value of the perquisite for A.Y.2025-26.
- Compute the value of the perquisite if Mr. C is required to pay a rent of ₹ 1,000 p.m. to the company, for the use of this accommodation.
- Compute the value of the perquisite if ABC Ltd. has taken this accommodation on a lease rent of ₹ 1,050 p.m. and Mr. C is required to pay a rent of ₹ 1,000 p.m. to the company, for the use of this accommodation.
- Compute the value of the perquisite if ABC Ltd. has provided a television (WDV ₹ 10,000; Cost ₹ 25,000) and two air conditioners. The rent paid by the company for the air conditioners is ₹ 400 p.m. each. The television was provided on 1.1.2025. However, Mr. C is required to pay a rent of ₹ 1,000 p.m. to the company, for the use of this furnished accommodation.
- Compute the value of the perquisite if Mr. C is a government employee. The licence fees determined by the Government for this accommodation was ₹ 700 p.m. [SM Q.]

Answer 13

- Value of the rent free unfurnished accommodation
 = 10% of salary for the relevant period
 = 10% of [(₹ 8500 × 5) + (₹ 2,000 × 30% × 5) + (₹ 1,500 × 5)] [See Note below]
 = 10% of ₹ 53,000 = ₹ 5,300.

Note: Since, Mr. C occupies the house only from 1.11.2024, we have to include the salary due to him only in respect of months during which he has occupied the accommodation. Hence salary for 5 months (i.e. from 1.11.2024 to 31.03.2025) will be considered.

- First of all, we have to see whether there is a concession in the matter of rent. In the case of accommodation owned by the employer in cities having a population exceeding 40 lakh, there would be deemed to be a concession in the matter of rent if 10% of salary exceeds rent recoverable from the employee.

In this case, 10% of salary would be ₹ 5,300 (i.e. 10% of ₹ 53,000). The rent paid by the employee is ₹ 5,000 (i.e., ₹ 1,000 × 5). Since 10% of salary exceeds the rent recovered from the employee, there is a deemed concession in the matter of rent.

Once there is a deemed concession, the provisions of Rule 3(1) would be applicable in computing the taxable perquisite.

Value of the rent free unfurnished accommodation	= ₹ 5,300
Less: Rent paid by the employee (₹ 1,000 × 5)	= ₹ 5,000
Perquisite value of unfurnished accommodation given at concessional rent	= ₹ 300

- Here again, we have to see whether there is a concession in the matter of rent. In the case of accommodation taken on lease by the employer, there would be deemed to be a concession in the matter of rent if the rent paid by the employer or 10% of salary, whichever is lower, exceeds rent recoverable from the employee.

In this case, 10% of salary is ₹ 5,300 (i.e. 10% of ₹ 53,000). Rent paid by the employer is ₹ 5,125 (i.e. ₹ 1,025 × 5). The lower of the two is ₹ 5,125. Therefore, there is a deemed concession in the matter of rent. Once there is a deemed concession, the provisions of Rule 3(1) would be applicable in computing the taxable perquisite.

Value of the rent-free unfurnished accommodation [Note] = ₹ 5,125

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

Value of unfurnished accommodation given at concessional rent = ₹ 125

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

(i) Lease rent paid by the company for relevant period = ₹ 1,025 × 5 = ₹ 5,125

(ii) 10% of salary for the relevant period (computed earlier) = ₹ 5,300

- (d) Here again, we have to see whether there is a concession in the matter of rent. In the case of accommodation owned by the employer in a city having a population exceeding ₹ 40 lakh, there would be deemed to be a concession in the matter of rent 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 there is a concession in the matter of rent.

In this case, 10% of salary is ₹ 5,300 (i.e. 10% of ₹ 53,000). The rent paid by the employee is ₹ 5,000 (i.e. ₹ 1,000 × 5). The value of furniture of ₹ 4,625 (see Note below) is to be added to 10% of salary. The deemed concession in the matter of rent is ₹ 5,300 + ₹ 4,625 - ₹ 5,000 = ₹ 4,925. Once there is a deemed concession, the provisions of Rule 3(1) would be applicable in computing the taxable perquisite.

Value of the rent free unfurnished accommodation (computed earlier) = ₹ 5,300

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

Value of rent free furnished accommodation = ₹ 9,925

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

Value of furnished accommodation given at concessional rent = ₹ 4,925

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

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

Value of the rent-free unfurnished accommodation (₹ 700 × 5) = ₹ 3,500

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

Value of rent-free furnished accommodation = ₹ 8,125

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

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

Question 14

[Taxability of Servant Perks]

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

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

Chapter 3: Income from Salary

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. [SM Q.]

Answer 14

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 u/s 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.

Question 15

[Misc Provisions related to retirement benefits]

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:

- Gratuity ₹ 6,00,000. He was covered under the Payment of Gratuity Act, 1972.
- Leave encashment of ₹ 3,30,000 for 330 days leave balance in his account. He was credited 30 days leave for each completed year of service.
- As per the scheme of the company, he was offered a car which was purchased on 30.01.2022 by the company for ₹ 5,00,000. Company has recovered ₹ 2,00,000 from him for the car. Company depreciates the vehicles at the rate of 15% on Straight Line Method.
- An amount of ₹ 3,00,000 as commutation of pension for 2/3 of his pension commutation.
- Company presented him a gift voucher worth ₹ 6,000 on his retirement.
- His colleagues also gifted him a Television (LCD) worth ₹ 50,000 from their own contribution.

Following are the other particulars:

- He has drawn a basic salary of ₹ 20,000 and 50% dearness allowance per month for the period from 01.04.2024 to 31.01.2025.
- Received pension of ₹ 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 has not opted for the provisions of section 115BAC. [SM Q.]

Answer 15

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

Particulars	₹
Basic Salary = ₹ 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 (₹ 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 ₹ 5,000 in aggregate during the previous year is exempt. In this case, the amount was received on his retirement and the sum exceeds the limit of ₹ 5,000.

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

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

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

Particulars	₹
Purchase price (30.1.2022)	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	₹
Gratuity received	6,00,000
Less : Exempt u/s 10(10) - Least of the following:	
(i) Notified limit = ₹ 20,00,000	
(ii) Actual gratuity = ₹ 6,00,000	
(iii) $15/26 \times \text{last drawn salary} \times \text{no. of completed years of services or part in excess of 6 months}$ $15/26 \times ₹ 30,000 \times 30 = ₹ 5,19,231$	5,19,231
Taxable Gratuity	80,769

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

- (4) **Taxable leave encashment**

Particulars	₹
Leave Salary received	3,30,000
Less : Exempt u/s 10(10AA) - Least of the following:	
(i) Notified limit	₹ 25,00,000
(ii) Actual leave salary	₹ 3,30,000

Particulars		₹
(iii) 10 months x ₹ 20,000	₹ 2,00,000	
(iv) Cash equivalent of leave to his credit	₹ 2,20,000	2,00,000
$\left(\frac{330}{30} \times 20,000 \right)$		1,30,000
Taxable Leave encashment		

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 u/s 10(10AA) in respect of leave encashment would be ₹ 3,00,000 (i.e. 10 x ₹ 30,000) and the fourth limit ₹ 3,30,000, in which case, the taxable leave encashment would be ₹ 30,000 (₹ 3,30,000 - ₹ 3,00,000). In such a case, the gross total income would be ₹ 6,32,769.

(5) Commuted Pension

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

Particulars	₹
Amount received	3,00,000
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 u/s 56(2)(x) are not attracted in respect of television received from colleagues, since television is not included in the definition of property therein.

Question 16

[Misc Provisions related to Perks]

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:

- Domestic servant was provided at the residence of Bala. Salary of domestic servant is ₹ 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?
- 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 ₹ 900 per month and for Ashok at ₹ 1,200 per month. No amount was recovered by the company for such education facility from Bala.
- 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 ₹ 1,10,000.
- A gift voucher worth ₹ 10,000 was given on the occasion of his marriage anniversary. It is given by the company to all employees above certain grade.
- Telephone provided at the residence of Shri Bala and the bill aggregating to ₹ 25,000 paid by the employer.
- Housing loan @ 6% per annum. Amount outstanding on 1.4.2024 is ₹ 6,00,000. Shri Bala pays ₹ 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%. [SM Q.]

Answer 16

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 = ₹ 1,500 × 12 = ₹ 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 ₹ 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 ₹ 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 ₹ 1,000 per month.

However, the cost of free education provided to his child Ashok would be taxable, since the cost exceeds ₹ 1,000 per month. The taxable perquisite value would be ₹ 14,400 (₹ 1,200 × 12).

Note – An alternate view possible is that only the sum in excess of ₹ 1,000 per month is taxable. In such a case, the value of perquisite would be ₹ 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 ₹ 1,10,000.

The perquisite value would be 10% of the actual cost i.e., ₹ 11,000, being 10% of ₹ 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 ₹ 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 ₹ 5,000.

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

Note – An alternate view possible is that only the sum in excess of ₹ 5,000 is taxable. In such a case, the value of perquisite would be ₹ 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 (₹)	Perquisite value at 4% for the month (₹)
April, 2024	5,88,000	1,960
May, 2024	5,76,000	1,920

Month	Maximum outstanding balance as on last date of month (₹)	Perquisite value at 4% for the month (₹)
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 = ₹ 74,280 [i.e. ₹ 18,000 + ₹ 14,400 + ₹ 11,000 + ₹ 10,000 + ₹ 20,880].

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

Question 17

[ESOPS Perks]

AB Co. Ltd. allotted 1000 sweat equity shares to Sri Chand in June 2024. The shares were allotted at ₹ 200 per share as against the fair market value of ₹ 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.

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

[SM Q.]

Answer 17

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

- 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 u/s 17(2)(vi).

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

Question 18**[Misc Provisions related to Perks]**

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

Compute the value of perquisites chargeable to tax for the A.Y.2025-26, assuming his salary for perquisite valuation to be ₹ 10 lakh.

Answer 18

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

Particulars		Amount in ₹	
(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 ₹ 10,00,000	1,00,000	
	Lower of the above		1,00,000
	Less: Rent paid by Mr. Y (₹ 5,000 × 12)		60,000
			40,000
	Add: Hire charges paid by X Ltd. for furniture provided for the use of Mr. Y (₹ 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 [(₹ 1,800 + ₹ 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 ₹ 5,000 is taxable. In such a case, the value of perquisite would be ₹ 5,000.

Question 19**[Provisions related to Entertainment allowance]**

Mr. Goyal receives the following emoluments during the previous year ending 31.03.2025.

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

Mr. Goyal contributes ₹ 5,000 towards 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.

Answer 19

Computation of salary of Mr. Goyal for the A.Y.2025-26 under default tax regime u/s 115BAC

Particulars	₹
Basic Salary	4,00,000
Dearness Allowance	1,50,000
Commission	1,00,000
Entertainment Allowance received	40,000
Employee's contribution to RPF [Note]	-
Medical expenses reimbursed	25,000
Professional tax paid by the employer	1,000
Gross Salary	7,16,000
Less: Deductions u/s 16(ia) - Standard deduction of upto ₹ 50,000	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 u/s 115BAC.

Computation of salary of Mr. Goyal for the A.Y.2025-26 under the optional tax regime (normal provisions of the Act)

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

Q tion 20**[Provisions related to Arrears Salary & Rebate u/s 89]**

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 ₹ 10,20,000 and arrears of salary received is ₹ 3,45,000. Further, you are given the following details relating to the earlier years to which the arrears of salary received is attributable to:

Previous year	Taxable Salary(₹)	Arrears now received (₹)
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 u/s 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 u/s 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 ₹ 2,40,000	Nil	Upto ₹ 1,60,000	Nil
	₹ 2,40,001 - ₹ 5,00,000	10%	₹ 1,60,001 - ₹ 5,00,000	10%
	₹ 5,00,001 - ₹ 8,00,000	20%	₹ 5,00,001 - ₹ 8,00,000	20%
	Above ₹ 8,00,000	30%	Above ₹ 8,00,000	30%
	Slabs	Rate	Slabs	Rate
2012-13	Upto ₹ 2,50,000	Nil	Upto ₹ 1,80,000	Nil
	₹ 2,50,001 - ₹ 5,00,000	10%	₹ 1,80,001 - ₹ 5,00,000	10%
	₹ 5,00,001 - ₹ 8,00,000	20%	₹ 5,00,001 - ₹ 8,00,000	20%
	Above ₹ 8,00,000	30%	Above ₹ 8,00,000	30%
2013-14	Upto ₹ 2,50,000	Nil	Upto ₹ 2,00,000	Nil
	₹ 2,50,001 - ₹ 5,00,000	10%	₹ 2,00,001 - ₹ 5,00,000	10%
	₹ 5,00,001 - ₹ 10,00,000	20%	₹ 5,00,001 - ₹ 10,00,000	20%
	Above ₹ 10,00,000	30%	Above ₹ 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. **[SM Q.]**

Answer 20

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

Particulars	Incl. arrears of salary ₹	Excl. arrears of salary ₹
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

Chapter 3: Income from Salary

Particulars	Incl. arrears of salary ₹	Excl. arrears of salary ₹
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 (₹)	Excl. arrears (₹)	Incl. arrears (₹)	Excl. arrears (₹)	Incl. arrears (₹)	Excl. arrears (₹)
Taxable salary	7,10,000	7,10,000	8,25,000	8,25,000	9,50,000	9,50,000
Add: Arrears of salary	1,03,000	-	1,17,000	-	1,25,000	-
Taxable 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 u/s 89

	Particulars	₹	₹
(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 :	3,91,400	
	Tax on income including arrears (₹ 1,00,837 + ₹ 1,38,638 + ₹ 1,51,925)		
	Less: Tax on income excluding arrears (₹ 78,280 + ₹ 1,02,485 + ₹ 1,18,450)	2,99,215	92,185
	Relief u/s 89 - difference between tax on arrears in A.Y 2025-26 and tax on arrears in the respective years		15,455

Tax payable for A.Y. 2025-26 after relief u/s 89

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

Question 21

[HRA Exemption]

Mr. Mohit is employed with XY Ltd. on a basic salary of ₹ 10,000 p.m. He is also entitled to dearness allowance @100% of basic salary, 50% of which is included in salary as per terms of employment. The company gives him house rent allowance of ₹ 6,000 p.m. which was

increased to ₹ 7,000 p.m. with effect from 01.01.2025. He also got an increment of ₹ 1,000 p.m. in his basic salary with effect from 01.02.2025. Rent paid by him during the previous year 2024-25 is as under:

April and May, 2024 - Nil, as he stayed with his parents
 June to October, 2024 - ₹ 6,000 p.m. for an accommodation in Ghaziabad
 November, 2024 to March, 2025 - ₹ 8,000 p.m. for an accommodation in Delhi

Compute his gross salary for assessment year 2025-26 assuming he exercises the option of shifting out of the default tax regime provided u/s 115BAC(1A). **[SM Q.]**

Answer 21

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

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

Note: Computation of Taxable House Rent Allowance (HRA)

Particulars	April-May (₹)	June-Oct (₹)	Nov-Dec (₹)	Jan (₹)	Feb-March (₹)
Basic salary 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 (₹ 6,000×5)	16,000 (₹ 8,000×2)	8,000 (₹ 8,000×1)	16,000 (₹ 8,000×2)
House rent allowance (HRA) received during the relevant period (A)	12,000 (₹ 6,000×2)	30,000 (₹ 6,000×5)	12,000 (₹ 6,000×2)	7,000 (₹ 7,000×1)	14,000 (₹ 7,000×2)
Least of the 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

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Particulars	April-May (₹)	June-Oct (₹)	Nov-Dec (₹)	Jan (₹)	Feb-March (₹)
3. 40% of salary (Residence at Ghaziabad – June to Oct, 2023) 50% of salary (Residence at Delhi– Nov, 24 - March, 25)	-	30,000 (40% × ₹ 75,000)	15,000 (50% × ₹ 30,000)	7,500 (50% × ₹ 15,000)	16,500 (50% × ₹ 33,000)
Exempt HRA (B)	Nil	22,500	12,000	6,500	12,700
Taxable HRA [Actual HRA (–) Exempt HRA] (A-B)	12,000	7,500	Nil	500	1,300

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

Question 22

[Misc Provisions related to Perks]

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

- A company owned accommodation is provided to him in Delhi. Furniture costing ₹ 2,40,000 was provided on 1.8.2024.
- A personal loan of ₹ 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.)
- His son is allowed to use a motor cycle belonging to the company. The company had purchased this motor cycle for ₹ 60,000 on 1.5.2021. The motor cycle was finally sold to him on 1.8.2024 for ₹ 30,000.
- Professional tax paid by Mr. X is ₹ 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 u/s 115BAC(1A).

Answer 22

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

Particulars	₹	₹
Basic salary [₹ 25,000 × 12]		3,00,000
Commission [₹ 1,000 × 12]		12,000
Entertainment allowance [₹ 1,000 × 12]		12,000
Rent free accommodation [Note 1]	32,400	
Add : Value of furniture [₹ 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 [₹ 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 u/s 16		
U/s 16(ia) – Standard deduction	50,000	
U/s 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 (₹ 3,00,000 + ₹ 12,000 + ₹ 12,000) = ₹ 32,400

2. Value of perquisite for interest on personal loan

= [₹ 5,00,000 × (12.75% - 6.75%) for 9 months] = ₹ 22,500

3. Depreciated value of the motor cycle

= Original cost - Depreciation @ 10% p.a. for 3 completed years.

= ₹ 60,000 - (₹ 60,000 × 10% p.a. × 3 years) = ₹ 42,000.

Perquisite = ₹ 42,000 - ₹ 30,000 = ₹ 12,000.

Question 23**[Misc Provisions related to Perks]**

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

(i) Basic salary upto 31.10.2024 ₹ 50,000 p.m.

Basic salary from 01.11.2024 ₹ 60,000 p.m.

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

(ii) Dearness allowance @ 40% of basic salary.

(iii) Bonus equal to one month salary. Paid in October 2024 on basic salary plus dearness allowance applicable for that month.

(iv) Contribution of employer to recognized provident fund account of the employee @ 16% of basic salary.

(v) Professional tax paid ₹ 2,500 of which ₹ 2,000 was paid by the employer.

(vi) Facility of laptop and computer was provided to Balaji for both official and personal use. Cost of laptop ₹ 45,000 and computer ₹ 35,000 were acquired by the company on 01.12.2024.

(vii) 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 ₹ 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.

(viii) Leave travel concession given to employee, his wife and three children (one daughter aged 7 and twin sons aged 3). Cost of air tickets (economy class) reimbursed by the employer ₹ 30,000 for adults and ₹ 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 assessment year 2025-26 assuming he has shifted out for the provisions of section 115BAC. **[SM Q.]**

Answer 23**Computation of Taxable Salary of Mr. Balaji for A.Y. 2025-26**

Particulars	₹
Basic salary [(₹ 50,000 × 7) + (₹ 60,000 × 5)]	6,50,000
Dearness Allowance (40% of basic salary)	2,60,000
Bonus (₹ 50,000 + 40% of ₹ 50,000) (See Note 1)	70,000
Employers contribution to recognised provident fund in excess of 12% of salary = 4% of ₹ 6,50,000 (See Note 2)	26,000
Professional tax paid by employer	2,000

Particulars	₹
Perquisite of Motor Car (₹ 2,400 for 5 months) (See Note 4)	12,000
Gross Salary	10,20,000
Less: Deduction u/s 16	
Standard deduction u/s 16(ia) ₹ 50,000	
Professional tax u/s 16(iii) (See Note 6) ₹ 2,500	52,500
Taxable Salary	9,67,500

Notes:

1. Since bonus was paid in the month of October, the basic salary of ₹ 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 ₹ 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 u/s 10(5) on the entire amount of ₹ 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.
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 ₹ 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 ₹ 2,000 is first included in the salary and deduction of the entire professional tax of ₹ 2,500 is provided from salary.

Question 24**[Misc Provisions related to Perks]**

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 u/s 115BAC(1A) -

Mr. X is a regular employee of Rama & Co., in Gurgaon. He was appointed on 1.1.2024 in the scale of ₹ 20,000 - ₹ 1,000 - ₹ 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 ₹ 10,000 per month. He is also provided with following facilities:

- (i) Facility of laptop costing ₹ 50,000.
- (ii) Company reimbursed the medical treatment bill of his brother of ₹ 25,000, who is dependent on him.

- (iii) The monthly salary of ₹ 1,000 of a house keeper is reimbursed by the company.
- (iv) A gift voucher of ₹ 10,000 on the occasion of his marriage anniversary.
- (v) Conveyance allowance of ₹ 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 ₹ 5,000 is paid by the company.
- (vii) He is getting telephone allowance @ ₹ 500 per month.

Answer 24**Computation of taxable salary of Mr. X for A.Y. 2025-26**

Particulars	₹
Basic pay [(₹ 20,000×9) + (₹ 21,000×3)] = ₹ 1,80,000 + ₹ 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 ₹ 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 u/s 16(ia) – Standard deduction	50,000
Salary income chargeable to tax	3,28,749

Notes:

- Since dearness allowance forms part of salary for retirement benefits, the perquisite value of rent-free accommodation and employer's contribution to recognized provident fund have been accordingly worked out.
- 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., ₹ 2,43,000
- (ii) Dearness allowance i.e. ₹ 24,300
- (iii) Bonus i.e., ₹ 21,000
- (iv) Telephone allowance i.e., ₹ 6,000 Therefore, salary works out to ₹ 2,43,000 + ₹ 24,300 + ₹ 21,000 + ₹ 6,000 = ₹ 2,94,300.

10% of salary = ₹ 2,94,300 × 10/100 = ₹ 29,430

Value of rent-free house = Lower of rent paid by the employer (i.e. ₹ 1,20,000) or 10% of salary (i.e., ₹ 29,430). Therefore, the perquisite value is ₹ 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 ₹ 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 ₹ 5,000.

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

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

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

Question 25

[Misc Provisions related to Perks]

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

Particulars	₹
Basic salary	5,40,000
Dearness allowance	3,60,000
Commission	50,000
Entertainment allowance	7,500
Medical expenses reimbursed by the employer	21,000
Profession tax (of this, 50% paid by employer)	4,000
Health insurance premium paid by employer	9,000
Gift voucher given by employer on his birthday	12,000
Life insurance premium of Neeraj paid by employer	34,000
Laptop provided for use at home. Actual cost of Laptop to employer Children of the assessee are also using the Laptop at home]	30,000
Employer company owns a Maruti Suzuki Swift car (Engine cubic capacity more than 1.6 litres), which was provided to the assessee, both for official and personal use. No driver was provided. 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]	5,000

You are required to compute the income chargeable under the head Salaries for the assessment year 2025-26. Assume he has shifted out of default taxation regime u/s 115BAC

[RTP NOV-20 Q.]

Answer 25

Computation of income chargeable under the head "Salaries" of Mr. Neeraj for A.Y. 2025-26

Particulars	₹
Basic Salary	5,40,000
Dearness allowance	3,60,000
Commission	50,000
Entertainment allowance	7,500
Medical expenses reimbursed by the employer is fully taxable	21,000

Particulars	₹
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 ₹ 9,000 paid by the employer is an exempt perquisite [Clause (iii) of proviso to section 17(2)]	Nil
Gift voucher given by employer on Mr. Neeraj birthday [entire amount is taxable since the perquisite value exceeds ₹ 5,000, as per Rule 3(7)(iv)]	12,000
Life insurance premium of Mr. Neeraj paid by employer is a taxable perquisite as per section 17(2)(v)	34,000
Laptop provided for use at home is an exempt perquisite as per Rule 3(7)(vii)	Nil
Provision of motor car (engine cubic capacity more than 1.6 litres) owned by employer provided to employee, the perquisite value would be ₹ 28,800 [₹ 2,400 × 12] as per Rule 3(2)	28,800
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	5,000
Gross Salary	10,60,300
Less: Deductions u/s 16	
- Standard Deduction as per section 16(ia), lower of gross salary and ₹ 50,000	50,000
- Entertainment allowance (deduction not allowable since Mr. Neeraj is not a Government employee)	Nil
- Professional tax paid allowable as deduction as per section 16(iii)	4,000
Income chargeable under the head "Salaries"	10,06,300

Note: As per Rule 3(7)(iv), the value of any gift or voucher received by the employee or by member of his household on ceremonial occasions or otherwise from the employer shall be determined as the sum equal to the amount of such gift. However, the value of any gift or voucher received by the employee or by member of his household below ₹ 5,000 in aggregate during the previous year would be exempt as per the proviso to Rule 3(7)(iv). In this case, the gift voucher of ₹ 12,000 was received by Mr. Neeraj from his employer on the occasion of his birthday. Since the value of the gift voucher exceeds the limit of ₹ 5,000, the entire amount of ₹ 12,000 is liable to tax as perquisite. The above solution has been worked out accordingly.

An alternate view possible is that only the sum in excess of ₹ 5,000 is taxable in view of the language of Circular No.15/2001 dated 12.12.2001, which states that such gifts upto ₹ 5,000 in the aggregate per annum would be exempt, beyond which it would be taxed as a perquisite. As per this view, the value of perquisite would be ₹ 7,000. Accordingly, the gross salary and net salary would be 10,55,300 and 10,01,300, respectively.

Question 26

[Misc Provisions related to Perks]

Mr. Samaksh 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 2025-26. Assume he has shifted out of default taxation regime u/s 115BAC

- Basic salary is ₹ 70,000 per month.
- Dearness allowance @ 40% of basic salary
- He is provided health insurance scheme approved by IRDA for which ₹ 20,000 incurred by Smile Ltd.

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- (iv) Received ₹ 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 2024. The shares were allotted at ₹ 450 per share and the fair market value on the date of exercising the option by Mr. Samaksh was ₹ 700 per share.
- (vi) He was provided with furniture during September 2020. The furniture is used at his residence for personal purpose. The actual cost of the furniture was ₹ 1,10,000. On 31st March, 2025, the company offered the furniture to him at free of cost. No amount was recovered from him towards the furniture till date.
- (vii) Received ₹ 10,000 towards entertainment allowance.
- (viii) Housing Loan@ 4.5% p.a. provided by Smile Ltd., amount outstanding as on 01.04.2024 is ₹ 15 Lakhs. ₹ 50,000 is paid by Mr. Samaksh every quarter towards principal starting from June 2023. The lending rate of SBI for similar loan as on 01.04.2024 was 8%.
- (ix) Facility of laptop costing ₹ 50,000

[MTP Q.]

Answer 26

Computation of income under the head "Salaries" of Mr. Samaksh for the A.Y.2025-26

Particulars	₹	₹
Basic Salary [₹70,000 x 12 months]		8,40,000
Dearness allowance [40% of ₹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 ₹ 20,000, For computation, the lending rate of SBI on 1.4.2024 @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 ₹ 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 @ ₹ 700 each	5,60,000	
Less: Amount recovered @ ₹ 450 each	3,60,000	2,00,000
Use of furniture by employee		
10% p.a. of the actual cost of ₹ 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. Samaksh	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 2020 to September 2024)]	44,000	66,000

Particulars	₹	₹
Gross Salary		15,22,291
Less: Standard deduction u/s 16 [Actual salary or ₹ 50,000, whichever is less]		50,000
Net Salary		14,72,291

Working Note:**Computation of perquisite value of loan given at concessional rate**

For computation, the lending rate of SBI on 1.4.2024 @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 (₹)	Perquisite value at 3.5% for the month (₹)
April, 2024	15,00,000	4,375
May, 2024	15,00,000	4,375
June, 2024	14,50,000	4,229
July, 2024	14,50,000	4,229
August, 2024	14,50,000	4,229
September, 2024	14,00,000	4,083
October, 2024	14,00,000	4,083
November, 2024	14,00,000	4,083
December, 2024	13,50,000	3,937.50
January, 2025	13,50,000	3,937.50
February, 2025	13,50,000	3,937.50
March, 2025	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 ₹ 5,000 is taxable. In such a case, the value of perquisite would be ₹ 5,000 and gross salary and net salary would be ₹ 15,17,291 and ₹ 14,67,291, respectively.

Question 27**[Misc Provisions related to Retirement benefits]**

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

- 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.
- He was paid a salary of ₹ 25,000 p.m. and house rent allowance of ₹6,000 p.m. He paid rent of ₹ 6,500 p.m., during his tenure of service.
- On retirement, he was paid a gratuity of ₹ 3,50,000. He was covered by the payment of Gratuity Act, 1972. He had not received any other gratuity at any point of time earlier, other than this gratuity.
- He had accumulated leave of 15 days per annum during the period of his service; this was encashed by him at the time of his retirement. A sum of ₹ 3,15,000 was received by him in this regard. Employer allowed 30 days leave per annum.

Chapter 3: Income from Salary

- (v) He is receiving ₹5,000 as pension. On 1.2.2025, he commuted 60% of his pension and received ₹ 3,00,000 as commuted pension.
- (vi) The company presented him with a gift voucher of ₹ 5,000 on his retirement. His colleagues also gifted him a mobile phone worth ₹ 50,000 from their own contribution.

[MTP Q./SM]

Answer 27

Computation of income under the head "Salaries" of Mr. Raja under default tax regime for the A.Y.2025-26

Particulars	₹	₹
Basic Salary = ₹ 25,000 x 9 months		2,25,000
House Rent Allowance = ₹ 6,000 x 9 months [Fully Taxable under default tax regime]		54,000
Gratuity	3,50,000	
Less: Least of the following exempt u/s 10(10)(ii)	3,50,000	Nil
(i) Actual Gratuity received ₹ 3,50,000		
(ii) 15 days salary for every year of completed service $[15/26 \times ₹ 25,000 \times 26] = ₹ 3,75,000$		
(iii) Notified limit = ₹ 20,00,000		
Leave encashment	3,15,000	
Less: Least of the following exempt u/s 10(10AA)	2,50,000	65,000
(i) ₹ 25,00,000		
(ii) Leave salary actually received ₹ 3,15,000		
(iii) ₹ 2,50,000, being 10 months' salary x ₹ 25,000		
(iv) Cash equivalent of leave standing at the credit of the employee based on the average salary of last 10 months' (max. 30 days per year of service) for every year of actual service rendered for the employer from whose service he has retired		
$375/30 \times ₹ 25,000 = ₹ 3,12,500$		
[Leave Due = Leave allowed – Leave taken]		
$= 750 (30 \text{ days per year} \times 25 \text{ years}) - 375 \text{ days } (15 \text{ days} \times 25)$		
$= 375 \text{ days}$		
Uncommuted Pension received $[₹ 5,000 \times 1] + (₹ 5,000 \times 2 \times 40\%)$		9,000
Commuted Pension received	3,00,000	
Less: Exempt u/s 10(10A)		
$1/3 \times ₹ 3,00,000/60\% \times 100\%$	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 ₹ 5,000 in aggregate during the previous year is exempt]		Exempt

Particulars	₹	₹
Mobile Phone received as gift from colleagues (Neither taxable under the head "Salaries" nor "Income from other sources", since taxability provisions u/s 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 ₹ 75,000, whichever is less]		75,000
Net Salary		4,11,333

Question 28**[Misc Provisions related to Perks]**

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

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

Answer 28

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

Particulars	₹
Basic Salary	6,20,000
Dearness allowance	4,20,000
Commission	75,000
Entertainment allowance	9,000
Medical expenses reimbursed by the employer 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

Particulars	₹
Health insurance premium of ₹ 8,000 paid by the employer is an exempt perquisite [Clause (iii) of proviso to section 17(2)]	Nil
Gift voucher given by employer on Ms. Akansha birthday (entire amount is taxable since the perquisite value exceeds ₹ 5,000) as per Rule 3(7)(iv)	10,000
Life insurance premium of Ms. Akansha paid by employer is a taxable perquisite as per section 17(2)(v)	26,000
Laptop provided for use at home is an exempt perquisite as per Rule 3(7)(vii)	Nil
Provision of motor car with driver (engine cubic capacity more than 1.6 litres) owned by employer to employee, the perquisite value would be ₹ 39,600 [$(2,400 + 900) \times 12$] 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 u/s 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 ₹ 5,000 in aggregate during the previous year would be exempt as per the proviso to Rule 3(7)(iv). In this case, the gift voucher of ₹ 10,000 was received by Ms. Akansha from her employer on the occasion of her birthday.

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

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

Question 29

[HRA or House Perks]

Mr. Kadam is entitled to a salary of ₹ 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 ₹ 7,000 per month. The rent for the hired accommodation was ₹ 6,000 per month at New Delhi. Advise 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.

Answer 29

Computation of tax liability of Kadam under both the options

Particulars	Option I – HRA (₹)	Option II – RFA (₹)
Basic Salary (₹ 41,000 x 12 Months)	4,92,000	4,92,000
Perquisite value of rent-free accommodation (10% of ₹ 4,92,000)	N.A.	49,200
House rent Allowance (₹ 7,000 x 12 Months) ₹ 84,000		

Particulars	Option I – HRA (₹)	Option II – RFA (₹)
<i>Less: Exempt u/s 10(13A) – least of the following -</i>		
- 50% of Basic Salary ₹ 2,46,000		
- Actual HRA received ₹ 84,000		
- Rent paid less 10% of salary ₹ 22,800 ₹ 22,800	61,200	
Gross Salary	5,53,200	5,41,200
<i>Less: Standard deduction u/s 16(ia)</i>	50,000	50,000
Net Salary	5,03,200	4,91,200
<i>Less: Deduction under Chapter VI-A</i>	-	-
Total Income	5,03,200	4,91,200
Tax on total income	13,140	12,060
<i>Less: Rebate under section 87A - Lower of ₹ 12,500 or income-tax of ₹ 12,060, since total income does not exceed ₹ 5,00,000</i>	Nil	12,060
<i>Add: Health and Education cess@4%</i>	526	Nil
Tax liability	13,666	Nil
Tax liability (Rounded off)	13,670	Nil

Cash Flow Statement

Particulars	Option I – HRA	Option II – RFA
Inflow: Salary	5,76,000	4,92,000
<i>Less: Outflow: Rent paid</i>	(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.

Income from House Property

Question 1

[GAV Calculation]

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

Particulars	House I (₹)	House II (₹)	House III (₹)	House IV (₹)	House V (₹)
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

Answer 1

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 (₹)	House II (₹)	House III (₹)	House IV (₹)	House V (₹)
(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

Question 2

[NAV Calculation]

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 ₹ 95. Compute Rajesh's Net Annual Value of the property for the A.Y. 2025-26. [SM Q.]

Answer 2

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

Question 3**[Interest Calculation]**

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 ₹ 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 ₹ 5 lakh @ 11% p.a. on 1.10.2023 towards repairs. Compute the deduction which would be available to him u/s 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 u/s 115BAC(1A).

[SM Q.]**Answer 3**

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

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

Particulars	₹
I Interest on loan taken for acquisition of residential house property at Bombay 30,00,000 × 10% = ₹ 3,00,000 Restricted to ₹ 2,00,000	2,00,000
II Interest on loan taken for repair of residential house property at Delhi ₹ 5,00,000 × 11% = ₹ 55,000	
Restricted to ₹ 30,000	30,000
Total interest	2,30,000
Deduction u/s 24(b) in respect of (I) and (II) above to be restricted to	2,00,000

Question 4**[HP Income with Unrealized Rent]**

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

Unrealized rent was ₹ 11,000 and all conditions prescribed by Rule 4 are satisfied. He paid municipal taxes @ 10% of municipal valuation. Interest on borrowed capital was ₹ 40,000 for the year. Compute his income from house property for A.Y. 2025-26.

[SM Q.]

Chapter 4: Income from House Property**Answer 4****Computation of Income from house property of Mr. Anirudh for A.Y. 2025-26**

Particulars	Amount in ₹	
Municipal Value	(A)	1,30,000
Fair Rent	(B)	1,10,000
Whichever is Higher	(C)	1,30,000
Standard Rent	(D)	1,20,000
Expected Rent lower of (C) & (D)	(E)	1,20,000
Actual Rent Received/Receivable minus Unrealized Rent	(F)	1,21,000
Gross Annual Value (GAV) [Higher of (E) & (F)]		1,21,000
Less: Municipal taxes (paid by the owner during the previous year) = 10% of ₹ 1,30,000		13,000
Net Annual Value (NAV)		1,08,000
Less: Deductions u/s 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 ₹ 1,32,000, being higher of expected rent of ₹ 1,20,000 and actual rent of ₹ 1,32,000. Thereafter, unrealized rent of ₹ 11,000 and municipal taxes of ₹ 13,000 would be deducted from GAV of ₹ 1,32,000 to arrive at the NAV of ₹ 1,08,000.

Question 5**[HP Income with Unrealized Rent]**

Ganesh has a property whose municipal valuation is ₹ 2,50,000 p.a. The fair rent is ₹ 2,00,000 p.a. and the standard rent fixed by the Rent Control Act is ₹ 2,10,000 p.a. The property was let out for a rent of ₹ 20,000 p.m. However, the tenant vacated the property on 31.1.2025. Unrealised rent was ₹ 20,000 and all conditions prescribed by Rule 4 are satisfied. He paid municipal taxes @8% of municipal valuation. Interest on borrowed capital was ₹ 65,000 for the year. Compute the income from house property of Ganesh for A.Y. 2025-26. **[SM Q.]**

Answer 5**Computation of income from house property of Ganesh for A.Y. 2025-26**

Particulars	Amount in ₹	
Municipal Value	(A)	2,50,000
Fair Rent	(B)	2,00,000
Whichever is Higher	(C)	2,50,000
Standard Rent	(D)	2,10,000
Expected Rent lower of (C) & (D)	(E)	2,10,000
Actual Rent Received/Receivable minus Unrealized Rent	(F)	1,80,000

Particulars	Amount in ₹	
[In this case the actual rent of ₹ 1,80,000 is lower than ER of ₹ 2,10,000 owing to vacancy, since, had the property not been vacant the actual rent would have been ₹ 2,20,000 (₹ 1,80,000 + ₹ 40,000, being notional rent for February and March 2025). Therefore, actual rent is the GAV.]		
Gross Annual Value (GAV)		1,80,000
Less: Municipal taxes (paid by the owner during the previous year) = 8% of ₹ 2,50,000		20,000
Net Annual Value (NAV)		1,60,000
Less: Deductions u/s 24		
(a) 30% of NAV = 30% of ₹ 1,60,000	48,000	
(b) Interest on borrowed capital (actual without any ceiling limit)	65,000	1,13,000
Income from house property		47,000

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

Question 6**[SOP – Interest Deduction]**

Poorna has one house property at Indira Nagar in Bangalore. She stays with her family in the house. The rent of similar property in the neighbourhood is ₹ 25,000 p.m. The municipal valuation is ₹ 2,80,000 p.a.. Municipal taxes paid is ₹ 8,000. The house construction began in April 2018 with a loan of ₹ 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 ₹ 3,60,000. On 31.3.2025, Poorna paid ₹ 2,40,000 which included ₹ 1,80,000 as interest. There was no principal repayment prior to this date. Compute Poorna's income from house property for A.Y. 2024-25 assume she exercises the option of shifting out of the default tax regime provided u/s 115BAC(1A).

[SM Q.]**Answer 6****Computation of income from house property of Smt. Poorna for A.Y. 2025-26**

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

Question 7

[Partly let-out & partly SOP timewise]

Smt. Rajalakshmi owns a house property at Adyar in Chennai. The municipal value of the property is ₹ 5,00,000, fair rent is ₹ 4,20,000 and standard rent is ₹ 4,80,000. The property was let-out for ₹ 50,000 p.m. up to December 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 ₹ 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. [SM Q.]

Answer 7

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

Particulars	Amount in ₹	
Municipal Value	(A)	5,00,000
Fair Rent	(B)	4,20,000
Whichever is Higher	(C)	5,00,000
Standard Rent	(D)	4,80,000
Expected Rent lower of (C) & (D)	(E)	4,80,000
Actual Rent Received/Receivable minus Unrealized Rent	(F)	3,50,000
[Actual rent received/receivable for the period let out less unrealized rent as per Rule 4 = (₹ 50,000 × 9) - (₹ 50,000 × 2) = ₹ 4,50,000 - ₹ 1,00,000]		
Gross Annual Value (GAV) [Higher of (E) & (F)]		4,80,000
Less: Municipal taxes (paid by the owner during the previous year) = 12% of ₹ 5,00,000		60,000
Net Annual Value (NAV)		4,20,000
Less: Deductions u/s 24		
(a) 30% of NAV = 30% of ₹ 4,20,000	1,26,000	1,51,000
(b) Interest on borrowed capital	25,000	
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 ₹ 4,80,000, being higher of expected rent of ₹ 4,80,000 and actual rent of ₹ 4,50,000. Thereafter, unrealized rent of ₹ 1,00,000 and municipal taxes of ₹ 60,000 would be deducted from GAV of ₹ 4,80,000 to arrive at the NAV of ₹ 3,20,000. The deduction u/s 24(a) would be ₹ 96,000, being 30% of ₹ 3,20,000. The income from house property would, therefore, be ₹ 1,99,000.

Question 8

[More than 2 SOP's]

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.	₹ 3,00,000	₹ 3,60,000	₹ 3,30,000
Fair rent p.a.	₹ 3,75,000	₹ 2,75,000	₹ 3,80,000
Standard rent p.a.	₹ 3,50,000	₹ 3,70,000	₹ 3,75,000
Date of completion/purchase	31.3.2000	31.3.2002	01.4.2016

Particulars	House I	House II	House III
Municipal taxes paid during the year	12%	8%	6%
Interest on money borrowed for repair of property during the current year	-	₹ 55,000	
Interest for current year on money borrowed in April, 2016 for purchase of Property			₹ 1,75,000

Compute Ganesh's income from house property for 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.

Answer 8

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 ₹		
	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 u/s 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 u/s 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 ₹
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 ₹
House I (Self-occupied)	Nil
House II (Deemed to be let-out)	76,840
House III (Self-occupied) (No interest deduction)	Nil
Income from house property	1,76,840

Chapter 4: Income from House Property

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 ₹
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 ₹ 73,640 for the A.Y. 2024-25 under default tax regime u/s 115BAC.

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

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

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

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

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

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

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

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

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

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

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 ₹ 1,840 for the A.Y. 2025-26 under the optional tax regime i.e., the normal provisions of the Act.

Question 9

[more than 2 SOP's]

Ms. Pihu has three houses, all of which are self-occupied. The particulars of these houses are given below:

Particulars	(Value in ₹)		
	House – I	House – II	House-III
Municipal Valuation per annum	1,30,000	1,20,000	1,20,000
Fair Rent per annum	1,10,000	1,85,000	1,45,000
Standard rent per annum	1,00,000	1,90,000	1,30,000
Date of completion	30-01-2005	31-07-2008	31.5.2011
Municipal taxes payable during the year (paid for House II & III only)	12%	9%	10%
Interest on money borrowed for repair of property during current year	-	75,000	-

You are required to compute Pihu's income from house property for the Assessment Year 2025-26 and suggest which houses should be opted by Pihu to be assessed as self-occupied so that her tax liability is minimum. Assume she exercise the option of shifting out of the default tax regime provided u/s 115BAC(1A). **[RTP N-20]**

Answer 9

In this case, Pihu has more than two house properties for self-occupation. As per section 23(4), Pihu can avail the benefit of self-occupation (i.e., benefit of "Nil" Annual Value) only in respect of any two of the house properties, at her option. The other house property would be treated as "deemed let-out" property, in respect of which the Expected rent would be the gross annual value. Pihu should, therefore, consider the most beneficial option while deciding which house properties should be treated by her as self-occupied.

OPTION 1 [House I & II – Self-occupied and House III- Deemed to be let out]

If House I and II are opted to be self-occupied, Pihu's income from house property for A.Y. 2025-26 would be –

Particulars	Amount in ₹
House I (Self-occupied) [Annual value is Nil]	Nil
House II (Self-occupied) [Annual value is Nil, but interest deduction would be available, subject to a maximum of ₹ 30,000. In case of money borrowed for repair of self-occupied property, the interest deduction would be restricted to ₹30,000, irrespective of the date of borrowal].	(30,000)
House III (Deemed to be let-out) [See Working Note below]	82,600
Income from house property	52,600

OPTION 2 [House I & III – Self-occupied and House II- Deemed to be let out]

If House I and III are opted to be self-occupied, Pihu's income from house property for A.Y. 2025-26 would be –

Particulars	Amount in ₹
House I (Self-occupied) [Annual value is Nil]	Nil
House II (Deemed to be let-out) [See Working Note below]	46,940
House III (Self-occupied) [Annual value is Nil]	Nil
Income from house property	46,940

Chapter 4: Income from House Property

OPTION 3 [House I – Deemed to be let out and House II & III – Self-occupied]

If House II and III are opted to be self-occupied, Pihu's income from house property for A.Y. 2025-26 would be –

Particulars	Amount in ₹
House I (Deemed to be let-out) [See Working Note below]	70,000
House II (Self-occupied) [Annual value is Nil, but interest deduction would be available, subject to a maximum of ₹ 30,000. In case of money borrowed for repair of self-occupied property, the interest deduction would be restricted to ₹30,000, irrespective of the date of borrowal].	(30,000)
House III (Self-occupied) [Annual value is Nil]	Nil
Income from house property	40,000

Since Option 3 is more beneficial, Pihu should opt to treat House – II & III as Self-occupied and House I as Deemed to be let out, in which case, her income from house property would be ₹ 40,000 for the A.Y. 2025-26.

Working Note:

Computation of income from House I, II and House III assuming that all are deemed to be let out

Particulars	Amount in Rupees		
	House I	House II	House III
Gross Annual Value (GAV) Expected rent is the GAV of house property Expected rent= Higher of Municipal Value and Fair Rent but restricted to Standard Rent	1,00,000	1,85,000	1,30,000
Less: Municipal taxes (paid by the owner during the previous year)	Nil	10,800	12,000
Net Annual Value (NAV)	1,00,000	1,74,200	1,18,000
Less: Deductions u/s 24			
(a) 30% of NAV	30,000	52,260	35,400
(b) Interest on borrowed capital (allowed in full in case of deemed let out property)	-	75,000	-
Income from deemed to be let-out house property	70,000	46,940	82,600

Question 10

[Partly let-out & partly SOP areawise]

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 ₹ 8,000 p.m. Municipal value of the property is ₹ 3,00,000 p.a., fair rent is ₹ 2,70,000 p.a. and standard rent is ₹ 3,30,000 p.a. He paid municipal taxes @10% of municipal value during the year. A loan of ₹ 25,00,000 was taken by him during the year 2019 for acquiring the property. Interest on loan paid during the previous year 2024-25 was ₹ 1,20,000. Compute 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 u/s 115BAC(1A).

What would be Prem's income from house property under the default tax regime? [SM Q.]

Answer 10

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

Particulars	Amount in ₹	
Unit I (2/3rd area – self-occupied)		
Annual Value		Nil
Less: Deduction u/s 24(b) 2/3rd of ₹ 1,20,000		80,000
Income from Unit I (self-occupied)		(80,000)
Unit II (1/3rd area – let out)		
Computation of GAV		
Step I Compute ER	1,00,000	
ER = Higher of MV and FR, restricted to SR		
However, in this case, SR of ₹ 1,10,000 (1/3rd of ₹ 3,30,000) is more than the higher of MV of ₹ 1,00,000 (1/3rd of ₹ 3,00,000) and FR of ₹ 90,000 (1/3rd of ₹ 2,70,000). Hence the higher of MV and FR is the ER. In this case, it is the MV.		
Step 2 Compute actual rent received/ receivable ₹ 8,000×12 = ₹ 96,000	96,000	
Step 3 Compare ER and Actual rent received/ Receivable		
Step 4 GAV is the higher of ER and actual rent received/ receivable i.e. higher of ₹ 1,00,000 and ₹ 96,000	1,00,000	
Gross Annual Value(GAV)		1,00,000
Less: Municipal taxes paid by the owner during the previous year relating to let-out portion 1/3rd of (10% of ₹ 3,00,000) = ₹ 30,000/3 = ₹10,000		10,000
Net Annual Value (NAV)		90,000
Less: Deductions u/s 24		
(a) 30% of NAV = 30% of ₹ 90,000	27,000	
(b) Interest paid on borrowed capital (relating to let out portion) 1/3rd of ₹ 1,20,000	40,000	67,000
Income from Unit II (let-out)		23,000
Loss under the head “Income from house property” = (₹ 80,000) + ₹ 23,000 = (₹ 57,000)		

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

Question 11

[Recovery of Unrealized and arrears of Rent]

Mr. Anand sold his residential house property in March, 2024.

In June, 2024, he recovered rent of ₹ 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 realize two months rent of

Chapter 4: Income from House Property

₹ 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 ₹ 12,000 to ₹ 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 ₹ 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? **[SM Q.]**

Answer 11

Since the unrealised rent was recovered in the P.Y. 2024-25, the same would be taxable in the A.Y. 2025-26 u/s 25A, irrespective of the fact that Mr. Anand was not the owner of the house in that year. Further, the arrears of rent was also received in the P.Y. 2024-25, and hence the same would be taxable in the

A.Y. 2025-26 u/s 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	₹
(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

Question 12

[Co ownership of HP.]

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 ₹ 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 ₹ 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 u/s 24(b) for A.Y. 2025-26 if both exercise the option of shifting out of the default tax regime provided u/s 115BAC(1A). **[SM Q.]**

Answer 12

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

Particulars	₹
I Interest on loan taken for acquisition of residential house property at Calcutta ₹ 50,00,000 x 10% = ₹ 5,00,000 Ms. Aparna's share = 50% of ₹ 5,00,000 = ₹ 2,50,000 Restricted to ₹ 2,00,000	2,00,000
II Interest on loan taken for repair of flat at Pune ₹ 3,00,000 x 12% = ₹ 36,000 Restricted to ₹ 30,000	30,000
Total interest	2,30,000
Deduction u/s 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	₹
Interest on loan taken for acquisition of residential house property at Calcutta ₹ 50,00,000 x 10% = ₹ 5,00,000	
Ms. Dimple's share = 50% of ₹ 5,00,000 = ₹ 2,50,000	
Restricted to ₹ 2,00,000	2,00,000
Deduction u/s 24(b)	2,00,000

Question 13**[Co ownership of HP.]**

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

Particulars	₹
Municipal value of the property	1,60,000
Fair rent	1,50,000
Standard rent under the Rent Control Act	1,70,000
Rent received	15,000 p.m.

The loan for the construction of this property is jointly taken and the interest charged by the bank is ₹ 25,000, out of which ₹ 21,000 has been paid. Interest on the unpaid interest is ₹ 450. To repay this loan, Raman and his brother have taken a fresh loan and interest charged on this loan is ₹ 5,000.

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

Compute the income from this property chargeable in the hands of Mr. Raman for the A.Y. 2025-26.

[SM Q.]**Answer 13****Computation of income from house property of Mr. Raman for A.Y. 2025-26**

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

- Interest on housing loan is allowable as a deduction u/s 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 u/s 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 14
[Partly let-out property areawise]

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

Compute income from house property of Mr. X for the A.Y. 2025-26 if he exercise the option of shifting out of the default tax regime provided u/s 115BAC(1A). **[SM Q.]**

Answer 14
Computation of Income from house property for A.Y. 2025-26

Particulars	₹	₹
(A) Rented unit (50% of total area – See Note below)		
Step I - Computation of Expected Rent		
Municipal valuation (₹ 1,90,000 x ½)	95,000	
Fair rent (₹ 1,85,000 x ½)	92,500	
Standard rent (₹ 1,62,000 x ½)	81,000	

Particulars	₹	₹
Expected Rent is higher of municipal valuation and fair rent, but restricted to standard rent	81,000	
Step II - Actual Rent		
Rent receivable for the whole year (₹ 8,000 x 12)	96,000	
Step III – Computation of Gross Annual Value		
Compute Actual Rent	80,000	
Actual rent received/receivable for the period let out less unrealized rent as per Rule 4 (₹ 96,000 – ₹ 16,000)		
[Since, owing to vacancy, the actual rent received and vacancy rent is higher than the Expected Rent, the actual rent received is the Gross Annual Value]		
Gross Annual Value		80,000
Less: Municipal taxes (15% of ₹ 95,000)		14,250
Net Annual value		65,750
Less : Deductions u/s 24 -		
(i) 30% of net annual value	19,725	
(ii) Interest on borrowed capital (₹ 750 x 12)	9,000	28,725
Taxable income from let out portion		37,025
(B) Self occupied unit (50% of total area – See Note below)		
Annual value	Nil	
Less : Deduction u/s 24 -		
Interest on borrowed capital (₹ 750 x 12)	9,000	9,000
Loss from self occupied portion		(9,000)
Income from house property		28,025

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

Question 15

[Partly let-out property areawise]

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

During the Financial Year 2024-25, one-third of the portion of the house was let out for residential purpose at a monthly rent of ₹ 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 ₹ 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 Assessment Year 2025-26 if he exercise the option of shifting out of the default tax regime provided u/s 115BAC(1A).

[SM Q.]

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

Particulars	₹	₹
Income from house property		
I. Self-occupied portion (Two third)		
Net Annual value		Nil
Less: Deduction u/s 24(b)		
Interest on loan (See Note below) (₹ 18,600 x 2/3)		12,400
Loss from self occupied property		(12,400)
II. Let-out portion (One third)		
Gross Annual Value		
(a) Actual rent received (₹ 5,000 x 12)	₹ 60,000	
(b) Expected rent	₹ 36,000	
[higher of municipal valuation (i.e., ₹ 96,000) and fair rent (i.e., ₹ 1,26,000) but restricted to standard rent (i.e., ₹ 1,08,000)] = ₹ 1,08,000 x 1/3	60,000	
Higher of (a) or (b)	3,520	
Less: Municipal taxes (₹ 96,000 x 11% x 1/3)		
Net Annual Value	56,480	
Less: Deductions u/s 24	16,944	
(a) 30% of NAV		
(b) Interest on loan (See Note below) (₹ 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 ₹ 1,00,000 = ₹ 12,000

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

Pre-construction period interest to be allowed in 5 equal annual installments of ₹ 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 u/s 24 = ₹ 12,000 + ₹ 6,600 = ₹ 18,600.

Question 16**[Computation of House Property]**

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 ₹ 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 ₹ 3,84,000 p.a. and the fair rent is ₹ 4,20,000 p.a. She paid the following to Corporation of Chennai:

Property Tax ₹ 16,200

Sewerage Tax ₹ 1,800

She had taken a loan from Standard Chartered Bank in June, 2022 for purchasing this flat. Interest on loan was as under:

Particulars	₹
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 ₹ 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 assessment year 2025-26 if she exercise the option of shifting out of the default tax regime provided u/s 115BAC(1A). **[SM Q.]**

Answer 16

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 u/s 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	₹	₹
1. Self-occupied house at Los Angeles		
Annual value		Nil
Less: Deduction u/s 24		Nil
Chargeable income from this house property		Nil
2. Self-occupied house property at Chennai		
Annual value		Nil
Less: Deduction u/s 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	₹
Interest for the current year (₹ 50,800 + ₹ 1,31,300)	1,82,100
Add: 1/5th of pre-construction interest (₹ 49,200 x 1/5)	9,840
Interest deduction allowable u/s 24	1,91,940

Question 17

[Partly let-out property areawise & Co ownership]

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 ₹ 12,000 per month per unit. The municipal value of the house property is ₹ 9,00,000 and the municipal taxes are 20% of municipal value, which were paid during the year. The other expenses were as follows:

	₹
(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 ₹ 2,90,000 and ₹ 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 u/s 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 u/s 115BAC(1A).

Answer 17

(i) If Arun and Bimal pay tax under the default tax regime u/s 115BAC

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

Particulars	Arun (₹)	Bimal (₹)
Income from house property		
I. Self-occupied portion (25%)		
Annual value	Nil	Nil
Less: Deduction u/s 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	₹	₹
Let-out portion (75%)		
Gross Annual Value		
(a) Municipal value (75% of ₹ 9 lakh)	6,75,000	

(b) Actual rent [(₹ 12000 x 6 x 12) – (₹ 12,000 x 1 x 4)]	8,16,000	
= ₹ 8,64,000 - ₹ 48,000		
- whichever is higher		8,16,000
Less: Municipal taxes 75% of ₹ 1,80,000 (20% of ₹ 9 lakh)		1,35,000
Net Annual Value (NAV)		6,81,000
Less: Deduction u/s 24		
(a) 30% of NAV	2,04,300	
(b) Interest on loan taken for the house [75% of ₹ 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 u/s 115BAC(1A)

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

Particulars	Arun (₹)	Bimal(₹)
Income from house property		
I. Self-occupied portion (25%)		
Annual value	Nil	Nil
Less: Deduction u/s 24(b)		
Interest on loan taken for construction ₹ 37,500 (being 25% of ₹ 1.5 lakh) [Allowable since they have exercised the option of shifting out of the default tax regime provided u/s 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

Question 18

[Partly let-out property timewise]

Mrs. Daya, a resident of India, owns a house property at Panipat in Haryana. The Municipal value of the property is ₹ 8,50,000, Fair Rent of the property is ₹ 7,30,000 and Standard Rent is ₹ 8,20,000 per annum. The property was let out for ₹ 85,000 per month for the period April 2024 to December 2024.

Thereafter, the tenant vacated the property and Mrs. Daya used the house for self-occupation. Rent for the months of November and December 2024 could not be realized from the tenant. Mrs. Daya has not instituted any legal proceedings for recovery of the unpaid rent.

She paid municipal taxes @ 12% during the year and paid interest of ₹ 50,000 during the year for amount borrowed towards repairs of the house property.

You are required to compute her income from house property for the A.Y. 2025-26.

[RTP M-20]

Answer 18

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

Particulars	Amount in ₹	
Computation of Gross Annual Value		
Expected Rent for the whole year = Higher of Municipal Value of ₹ 8,50,000 and Fair Rent of ₹ 7,30,000, but restricted to Standard Rent of ₹ 8,20,000	8,20,000	
Actual rent receivable for the let-out period = ₹ 85,000 * 9	7,65,000	
[Unrealised rent is not deductible from actual rent in this case since Mrs. Daya has not instituted any legal proceedings for recovery of unpaid rent. Hence, one of the conditions laid out in Rule 4 has not been fulfilled]		
GAV is the higher of Expected Rent for the whole year and Actual rent received/receivable for the let-out period	8,20,000	
Gross Annual Value (GAV)		8,20,000
Less: Municipal taxes (paid by the owner during the previous year) = 12% of ₹ 8,50,000		1,02,000
Net Annual Value (NAV)		7,18,000
Less: Deductions u/s 24		
(a) 30% of NAV = 30% of ₹ 7,18,000	2,15,400	
(b) Interest on amount borrowed for repairs (Fully allowable as deduction, since it pertains to let-out property)	50,000	2,65,400
Income from house property		4,52,600

Question 19

[Party let-out property Areawise + Timewise + Interest Calculation]

Mr. Naveen and Mr. Vikas constructed their houses on a piece of land purchased by them at Delhi. The built up area of each house was 1,800 sq. ft. ground floor and an equal area in the first floor. Naveen started construction on 1-04-2022 and completed on 1-04-2024. Vikas started the construction on 1-04-2022 and completed the construction on 30-09-2024. Naveen occupied the entire house on 01-04-2024. Vikas occupied the ground floor on 01-10-2024 and let out the first floor for a rent of ₹20,000 per month. However, the tenant vacated the house on 31-12-2024 and Vikas occupied the entire house during the period 01-01-2025 to 31-03-2025.

Following are the other information

- Fair rental value of each unit - ₹ 1,00,000 per annum (ground floor /first floor)
- Municipal value of each unit (ground floor / first floor) - ₹ 72,000 per annum
- Municipal taxes paid by
 - Naveen – ₹ 8,000
 - Vikas – ₹ 8,000
- Repair and maintenance charges paid by
 - Naveen – ₹ 28,000
 - Vikas – ₹ 30,000

Naveen has availed a housing loan of ₹ 15 lakhs @ 12% p.a. on 01-04-2022. Vikas has availed a housing loan of ₹ 10 lakhs @ 10% p.a. on 01-07-2022. No repayment was made by either of them till 31-03-2025. Compute income from house property for Naveen and Vikas for the previous year 2024-25 if both exercise the option of shifting out of the default tax regime provided u/s 115BAC(1A). [MTP Q.]

Answer 19

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

Particulars	₹	₹
Annual value is nil (since house is self occupied)		Nil
Less: Deduction u/s 24(b)		
Interest paid on borrowed capital ₹15,00,000 @ 12%	1,80,000	
Pre-construction interest ₹3,60,000/5	72,000	
	2,52,000	
As per second proviso to section 24(b), interest deduction restricted to		2,00,000
Loss under the head "Income from house property" of Mr. Naveen		(2,00,000)

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

Particulars	Ground floor Self occupied)	First floor
Gross annual value (See Note below)	Nil	60,000
Less: Municipal taxes (for first floor)		4,000
Net annual value(A)	Nil	56,000
Less: Deduction u/s 24		
(a) 30% of net annual value		16,800
(b) interest on borrowed capital		
Current year interest		
₹10,00,000 x 10% = ₹1,00,000	50,000	50,000
Pre-construction interest		
₹10,00,000 x 10% x 21/12 = ₹1,75,000		
₹1,75,000 allowed in 5 equal installments		
₹1,75,000/5 = ₹35,000 per annum	17,500	17,500
Total deduction u/s 24	67,500	84,300
Income from house property (A)-(B)	(67,500)	(28,300)
Loss under the head "Income from house property" of Mr. Vikas (both ground floor and first floor)	(95,800)	

Note: Computation of Gross Annual Value (GAV) of first floor of Vikas's house

If a single unit of property (in this case the first floor of Vikas's house) is let out for some months and self-occupied for the other months, then the Expected Rent of the property shall be taken into account for determining the annual value. The Expected Rent shall be compared with the actual rent and whichever is higher shall be adopted as the annual value. In this case, the actual rent shall be the rent for the period for which the property was let out during the previous year.

Chapter 4: Income from House Property

The Expected Rent is the higher of fair rent and municipal value. This should be considered for 6 months since the construction of property was completed only on 30.9.2024.

Expected rent = ₹50,000 being higher of -

Fair rent = $1,00,000 \times 6/12 = ₹50,000$ Municipal value = $72,000 \times 6/12 = ₹36,000$

Actual rent = ₹60,000 (₹20,000 p.m. for 3 months from October to December, 2024)

Gross Annual Value = ₹60,000 (being higher of Expected Rent of ₹50,000 and actual rent of ₹60,000).

Question 20

[Party let-out property Areawise]

Mr. Ramesh constructed a big house (construction completed in Previous Year 2008 -09) with 3 independent units. Unit - 1 (50% of floor area) is let out for residential purpose at monthly rent of ₹ 15,000. A sum of ₹ 3,000 could not be collected from the tenant and a notice to vacate the unit was given to the tenant. No other property of Mr. Ramesh is occupied by the tenant. Unit - 1 remains vacant for 2 months when it is not put to any use. Unit - 2 (25% of the floor area) is used by Mr. Ramesh for the purpose of his business, while Unit - 3 (the remaining 25%) is utilized for the purpose of his residence. Other particulars of the house are as follows:

Municipal valuation - ₹ 1,88,000

Fair rent - ₹ 2,48,000

Standard rent under the Rent Control Act - ₹ 2,28,000

Municipal taxes - ₹ 20,000 Repairs - ₹ 5,000

Interest on capital borrowed for the construction of the property - ₹ 60,000, ground rent ₹ 6,000 and fire insurance premium paid - ₹ 60,000.

Income of Ramesh from the business is ₹ 1,40,000 (without debiting house rent and other incidental expenditure).

Determine the taxable income of Mr. Ramesh for the assessment year 2025-26 if he opted out from default taxation regime u/s 115BAC.

Answer 20

Computation of Taxable Income of Mr. Ramesh for A.Y. 2025-26 under the regular provisions of the Act

Particulars	Amount (₹)	Amount (₹)
Income from house property		
<u>Unit - 1 [50% of floor area - Let out]</u>		
Gross Annual Value, higher of		
- Expected rent ₹ 1,14,000 [Higher of Municipal Value of ₹ 94,000 p.a. and Fair Rent of ₹ 1,24,000 p.a., but restricted to Standard Rent of ₹ 1,14,000 p.a.]		
- Actual rent ₹ 1,47,000 [₹ 15,000 x 10] less unrealized rent ¹ of ₹ 3,000		
Gross Annual Value	1,47,000	
(Alternatively, ₹ 1,50,000 can be shown as actual rent and gross annual value, and thereafter, deduct ₹ 3,000 unrealized rent therefrom)		

¹ Since the conditions laid down under Rule 4 of Income-tax Rules, 1962, are satisfied.

Particulars	Amount (₹)	Amount (₹)
Less: Municipal taxes [50% of ₹20,000 ¹]	<u>10,000</u>	
Net annual value	1,37,000	
Less: Deductions from Net Annual Value		
(a) 30% of Net Annual Value	41,100	
(b) Interest on loan [50% of ₹ 60,000]	<u>30,000</u>	65,900
Unit – 3 [25% of floor area – Self occupied]		
Net Annual Value	-	
Less: Interest on loan [25% of ₹ 60,000]	<u>15,000</u>	<u>(15,000)</u>
Income from house property		50,900
Profits and gains from business or profession		
Business Income [without deducting expenditure on Unit - 2 25% floor area used for business purposes]	1,40,000	
Less: Expenditure in respect of Unit -2		
- Municipal taxes [25% of ₹ 20,000 ²]	5,000	
- Repairs [25% of ₹ 5,000]	1,250	
- Interest on loan [25% of ₹ 60,000]	15,000	
- Ground rent [25% of ₹ 6,000]	1,500	
- Fire Insurance premium [25% of ₹ 60,000]	<u>15,000</u>	
	<u>37,750</u>	<u>1,02,250</u>
Taxable Income		<u>1,53,150</u>

1 Assumed to have been paid during the year by Mr. Ramesh.

2 Assumed to have been paid on or before the due date u/s 139(1).

Profit & Gain from Business or Profession (PGBP)

Question 1

[Depreciation Calculation]

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

	Particulars	₹
(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 08.06.2024	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 as per the Income-tax Act, 1961 for the A.Y. 2025-26 if Mr. X has exercised the option of shifting out of the default tax regime provided u/s 115BAC(1A). Assume that all the assets were purchased by way of account payee cheque.

[SM Q]

Answer 1

Computation of depreciation allowance u/s 32 for the A.Y. 2025-26

Particular	₹	P & M @15%	P & M @40%
Opening WDV as on 1.4.2024		30,00,000	
Add: Plant and Machinery acquired during the year			
- New Plant & Machinery acquired on 08.06.2024	20,00,000		
- New Plant & Machinery acquired on 15.12.2024	8,00,000	28,00,000	
- Computer acquired on 2.1.2025			3,00,000
		58,00,000	3,00,000
Less: Asset sold during the year		-	-
Written down value before charging depreciation		58,00,000	3,00,000
Normal depreciation			
Asset put to use 180 days or more [50,00,000 x 15%]	7,50,000		
Asset put to use less than 180 days [8,00,000 x 7.5%]	60,000	8,10,000	
Computer Put to use less than 180 days [3,00,000 x 20%]			60,000

Particular	₹	P & M @15%	P & M @40%
Additional Depreciation [(20,00,000 x 20%) + (8,00,000 x 10%)]		4,80,000	-
Closing WDV		45,10,000	2,40,000

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 ₹ 80,000, being 10% (i.e., 50% of 20%) of ₹ 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 ₹ 80,000 being 50% of ₹ 1,60,000 (20% of ₹ 8,00,000) would be allowed as deduction in the A.Y.2026-27.

(3) As per section 32(1)(ia), additional depreciation is allowable in the case of any new machinery or plant acquired and installed after 31.3.2005 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.

Question 2

[Depreciation Calculation]

A car purchased by Dr. Soman on 10.08.2021 for ₹ 5,25,000 for personal use is brought into professional use on 1.07.2024 by him, when its market value was ₹ 2,50,000.

Compute the actual cost of the car and the amount of depreciation for the assessment year 2025-26 assuming the rate of depreciation to be 15%. **[SM Q]**

Answer 2

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

The purchase price of ₹ 5,25,000 is, therefore, the actual cost of the car to Dr. Soman. Market value (i.e. ₹ 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 ₹ 78,750, being ₹ 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.

Question 3

[Depreciation Calculation]

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 ₹
1.	Computer including computer software	27 Sept., 24	1 Oct., 24	35,000
2.	Computer UPS	2 Oct., 24	8 Oct., 24	8,500

Sl. No.	Description	Date of acquisition	Date when put to use	Amount ₹
3.	Computer printer	1 Oct., 24	1 Oct., 24	12,500
4.	Books (other than annual publications are of ₹ 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

[SM Q]
Answer 3
Computation of depreciation allowable for A.Y.2025-26

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

Working Note:
Computation of depreciation

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

Question 4
[Depreciation Calculation]

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 ₹ 120 crore. The said plant and machinery included second hand plant and machinery bought for ₹ 20 crore and new plant and machinery for scientific research relating to the business of the assessee acquired at a cost of ₹ 15 crore.

Compute the amount of depreciation allowable under section 32 of the Income-tax Act, 1961 in respect of the 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 u/s 115BAC(1A). **[SM Q]**

Answer 4

Computation of depreciation allowable for the A.Y. 2025-26 in the hands of Mr. Gamma

Particulars	₹ 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 ₹ 105 crore		15.75
Additional Depreciation:		
Cost of plant and machinery	120.00	
Less: Second hand plant and machinery (Note 2) 20.00		
Plant and machinery used for scientific research, the whole of the actual cost of which is allowable as deduction under section 35(1)(iv) read with section 35(2)(ia) (Note 2) 15.00	35.00	
	85.00	
Additional Depreciation at 20%		17.00
Depreciation allowable for 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.
- 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 in, inter alia, the business of manufacture or production of any article or thing, at the rate of 20% of the actual cost of such machinery or plant.

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

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

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

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

Question 5

[Depreciation Calculation]

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:

	(₹ in lakhs)
WDV of Plant and Machinery on 31.3.2024 (before depreciation)	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 31-10-2024, for ₹ 10 lakhs. Additional depreciation, besides normal depreciation, had been claimed thereon.
- Depreciation rate for machinery may be taken as 15%.
- The assessee has no brought forward business loss or unabsorbed depreciation as on 1.4.2024.

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 -

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

Answer 5**Computation of written down value of block of assets of Venus Ltd. as on 31.3.2025**

Particulars	Plant & Machinery (₹ in lacs)	Computer (₹ in lacs)
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 (₹ in lacs)	Computer (₹ in lacs)
I.	Assets put to use for more than 180 days, eligible for 100% depreciation calculated applying the eligible rate of normal depreciation and additional depreciation		
	Normal Depreciation		
	- WDV of plant and machinery (₹ 25.25 lacs x 15%)	3.79	-
	- New Machinery purchased on 1.9.2024 (₹ 10 lacs x 15%)	1.50	-
	(A)	5.29	-
	Additional Depreciation		
	New Machinery purchased on 1.9.2024 (₹ 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 (₹ 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		
	New machinery purchased on 1.12.2024 [₹ 8 lacs x 7.5% (i.e., 50% of 15%)]	0.60	-
	Computer purchased on 3.1.2024 [₹ 4 lacs x 20% (50% of 40%)]	-	0.80
	(C)	0.60	0.80
	Total Depreciation (A+B+C)	8.89	0.80

Notes:

- (1) As per section 32(1)(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, 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., ₹ 1 lakhs, being 10% of ₹ 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.

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

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

Computation of depreciation for A.Y. 2025-26

	Particulars	Plant & Machinery (₹ in lacs)	Computer (₹ in lacs)
I.	Assets put to use for more than 180 days, eligible for 100% depreciation calculated applying the eligible rate of normal depreciation		
	<u>Normal Depreciation</u>		
	- WDV of plant and machinery (₹ 25.25 lacs x 15%)	3.79	-
	- New Machinery purchased on 1.9.2024 (₹ 10 lacs x 15%)	1.50	-
	(A)	5.29	-
II.	Assets put to use for less than 180 days, eligible for 50% depreciation calculated applying the eligible rate of normal depreciation		
	<u>Normal Depreciation</u>		
	New machinery purchased on 1.12.2024 [₹ 8 lacs x 7.5% (i.e., 50% of 15%)]	0.60	-
	Computer purchased on 3.1.2024 [₹ 4 lacs x 20% (50% of 40%)]	-	0.80
	(C)	0.60	0.80
	Total Depreciation (A+B+C)	5.89	0.80

Question 6

[Depreciation Calculation]

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 assessment year 2025-26, assuming he has exercised the option of shifting out of the default tax regime provided u/s 115BAC(1A):

	(₹ in lacs)
(i) WDV of block as on 31.3.2024 (15% rate) (before depreciation)	50
(ii) Depreciation for P.Y. 2023-24	7.50
(iii) New machinery purchased on 12-10-2024	10

Chapter 5: Profit & Gain from Business or Profession (PGBP)

- (iv) Machinery imported from Colombo on 12-4-2024. 9
 This machine had been used only in Colombo earlier and the assessee is the first user in India.
- (v) New computer installed in generation wing unit on 15-7-2024 2
 All assets were purchased by A/c payee cheque. [SM Q]

Answer 6

Computation of written down value of block of assets of Venus Ltd. as on 31.3.2025

Particulars	Plant & Machinery (₹ in lacs)	Computer (in lacs)
Written down value (as on 31.3.2024)	50.00	-
Less: Depreciation including additional depreciation for P.Y. 2023-24	7.5	-
Opening balance as on 1.4.2024	42.5	
Add: Actual cost of new assets acquired during the year		
New machinery purchased on 12.4.2024	9.00	-
New machinery purchased on 12.10.2024	10.00	-
Computer purchased on 15.07.2024	-	2.00
	61.5	2.00
Less: Assets sold/discarded/destroyed during the year	Nil	Nil
Written Down Value (as on 31.03.2025)	43.25	2.00

Computation of Depreciation for A.Y. 2025-26

	Particulars	Plant & Machinery (₹ in lacs)	Computer (₹ in lacs)
I.	Assets put to use for more than 180 days, eligible for 100% depreciation calculated applying the eligible rate of normal depreciation and additional depreciation		
	<u>Normal Depreciation</u>		
	- WDV of plant and machinery (₹ 42.5 lacs x 15%)	6.375	-
	- New Machinery purchased on 12.04.2024 (₹ 9 lacs x 15%)	1.35	-
	- Computer purchased on 15.07.2024 [₹ 2 lacs x 40%]	-	0.8
	(A)	7.725	
	<u>Additional Depreciation</u>		
	New Machinery purchased on 12,10.2024 (₹ 10 lakhs x 10%)	1.00	
	Additional Depreciation@20% on new computer installed in generation wing of the unit [20% of ₹ 2 lakhs]	-	

	Particulars	Plant & Machinery (₹ in lacs)	Computer (₹ in lacs)
	(B)	1.00	0.4
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 [₹ 10 lacs x 7.5% (i.e., 50% of 15%)]	0.75 -	-
	(C)	0.75	0.40
	Total Depreciation (A+B+C)	9.475	1.2

Note:-

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 7**[Depreciation Calculation]**

Dr. Arjun runs a clinic in Delhi. As per new rule in the city, private cars can be plied in the city only on alternate days. He has purchased a car on 25-09-2024, for the purpose of his medical profession, as per following details:

Cost of car (excluding GST)	15,00,000
Add: Delhi GST at 14%	2,10,000
Add: Central GST at 14%	2,10,000
Total price of car	19,20,000

He put his car to use from 25.9.2024 itself. He estimates the usage of the car for personal purposes will be 25%. He is advised by his friends that since the car has run only on alternate days, half the depreciation, which is otherwise allowable, will be actually allowed. He has started using the car immediately after purchase.

Determine the depreciation allowable on car for the A.Y. 2025-26, if this is the only asset in the block. If this car would also be used in the subsequent Assessment Year 2026-27 on the same terms and conditions above, what will be the depreciation allowable? Assume that there is no change in the legal position under the Income-tax Act, 1961. **[RTP M-20 Q]**

Answer 7

Computation of depreciation allowance

Particulars	₹
Since the car was put to use for more than 180 days in the P.Y.2024-25, full depreciation@15% of ₹ 19,20,000, which is the total price (inclusive of GST) would be allowable.	
However, the depreciation actually allowed would be restricted to 75%, since 25% of usage is estimated for personal use, on which depreciation is not allowable	
Depreciation for P.Y.2024-25 = $15\% \times ₹ 19,20,000 \times 75\% =$	2,16,000
Written Down Value as on 1.4.2025 = ₹ 19,20,000 – ₹2,16,000 = ₹17,04,000	
Depreciation for P.Y.2025-26 = $15\% \times ₹17,04,000 \times 75\% =$	1,91,700

Note - As per section 17(5) of the CGST Act, 2017, input tax credit would not be available in respect of motor vehicles for transportation of persons having approved seating capacity of not more than thirteen persons (including the driver), except when they are used for making the taxable supplies, namely, further supply of such motor vehicles; or transportation of passengers; or imparting training on driving such motor vehicles. Since Dr. Arjun used the car for his professional purpose and not for any purpose stated in exception cases, input tax credit would not be available and hence, both CGST & SGST would form part of actual cost of car.

Question 8

[Depreciation Calculation]

Mr. Lights engaged in the business of generation of power, furnishes the following particulars pertaining to P.Y. 24-25. Compute the depreciation allowable u/s 32 for A.Y. 25-26 while computing his income under the head "Profits and gains of business or profession". Assessee has opted for the depreciation allowance on the basis of written down value. Assessee shifted out of default tax regime u/s 115BAC.

[FINAL SM Q]

Particular	₹
Opening Written down value of Plant and Machinery (15% block) as on 1.4.2024 (Purchase value ₹8,00,000)	5,78,000
Purchase of second-hand machinery (15% block) on 29.12.2024 for business	2,00,000
Machinery Y (15% block) purchased and installed on 12.7.2024 for the purpose of power generation	8,00,000
Acquired and installed for use a new air pollution control equipment on 31.7.2024	2,50,000
New air conditioner purchased and installed in office premises on 8.9.2024	3,00,000
New machinery Z (15% block) acquired and installed on 23.11.2024 for the purpose of generation of power	3,25,000
Sale value of an old machinery X, sold during the year (Purchase value ₹4,80,000 WDV as on 1.4.2024 ₹3,46,800)	3,10,000

Computation of depreciation allowance u/s 32 for the A.Y. 2025-26

Particular	₹	P & M @15%	P & M @40%
Opening WDV as on 1.4.2024		5,78,000	
Add: Plant and Machinery acquired during the year			
- Second hand machinery	2,00,000		
- Machinery Y	8,00,000		
- Air conditioner for office	3,00,000		
- Machinery Z	3,25,000	16,25,000	
- Air pollution control equipment			2,50,000
		22,03,000	2,50,000
Less: Asset sold during the year		3,10,000	Nil
Written down value before charging depreciation		18,93,000	2,50,000

Particular	₹	P & M @15%	P & M @40%
Normal depreciation			
40% on air pollution control equipment (₹2,50,000 x 40%)			1,00,000
Depreciation on plant and machinery put to use for less than 180 days@7.5% (i.e. 50% of 15%)			
Second hand machinery (₹2,00,000 x 7.5%)	15,000		
- Machinery Z (₹3,25,000 x 7.5%)	24,375	39,375	
15% on the balance WDV being put to use for more than 180 days (₹13,68,000 x 15%)		2,05,200	
Additional depreciation			
- Machinery Y (₹8,00,000 x 20%)	1,60,000		
- Machinery Z (₹3,25,000 x 10%, being 50% of 20%)	32,500		
Air pollution control equipment (₹2,50,000 x 20%)		1,92,500	50,000
Total depreciation		4,37,075	1,50,000

Notes:

- Power generation equipment qualify for claiming additional depreciation in respect of new plant and machinery.
- Additional depreciation is not allowed in respect of second-hand machinery.
- No additional depreciation is allowed in respect of office appliances. Hence, no depreciation is allowed in respect of air conditioner installed in office premises.
- The balance 50% additional depreciation in respect of machinery Z of ₹32,500 (10% x ₹3,25,00) can be claimed as deduction in subsequent financial year i.e., F.Y. 2025-26.

Question 9

[Capital Gain in case of Depreciable assets]

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 ₹ 8,50,000. Three of the old machines were sold on 10th June, 2024 for ₹ 11,00,000. A second hand plant was bought for ₹ 8,50,000 on 30th November, 2024.

You are required to:

- determine the claim of depreciation for Assessment Year 2025-26.
- compute the capital gains liable to tax for Assessment Year 2025-26.
- If Singhania & Co. had sold the three machines in June, 2024 for ₹ 21,00,000, will there be any difference in your above workings? Explain. **[SM Q.]**

Answer 9

(i) Computation of depreciation for A.Y.2025-26

Particulars	₹
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 ₹ 45,000, being 7½% of ₹ 6,00,000.

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

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

Since in the first two cases, the sale consideration is more than the 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 ₹ 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	₹	₹
Sale consideration		21,00,000
Less: Opening balance of the block as on 1.4.2024	8,50,000	
[i.e., W.D.V. as on 31.3.2024 after providing		

Particulars	₹	₹
depreciation for P.Y. 2023-24]		
Purchase of second plant during the year	8,50,000	17,00,000
Short term capital gains		4,00,000

Question 10

[Scientific Research]

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.

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

	Particulars	₹
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 ₹ 5,00,000) on scientific research	7,50,000

Answer 10

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

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

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

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

Question 11

[Specified Businesses u/s 35AD]

Mr. A commenced operations of the businesses of setting up a warehousing facility for storage of food grains, sugar and edible oil on 1.4.2024. He incurred capital expenditure of ₹ 80 lakh, ₹ 60 lakh and ₹ 50 lakh, respectively, on purchase of land and building during the period January, 2024 to March, 2024 exclusively for the above businesses, and capitalized the same in its books of account as on 1st April, 2024. The cost of land included in the above figures is ₹ 50 lakh, ₹ 40 lakh and ₹ 30 lakh, respectively. During the P.Y. 2024-25, he incurred capital expenditure of ₹ 20 lakh, ₹ 15 lakh & ₹ 10 lakh, respectively, for extension/ reconstruction of the building purchased and used exclusively for the above businesses.

Compute the income under the head "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 u/s 115BAC(1A) and Mr. A 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 ₹ 16 lakhs, ₹ 14 lakhs and ₹ 31 lakhs, respectively. Also, assume in respect of expenditure incurred, the payments are made by account payee cheque or use of ECS through bank account.

[SM Q]

Answer 11

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

Particulars	₹ (in lakhs)
Profit from business of setting up of warehouse for storage of edible oil (before providing for depreciation under section 32)	31
Less: Depreciation under section 32	

Particulars	₹ (in lakhs)
10% of ₹ 30 lakh, being (₹50 lakh-₹30 lakh + ₹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
	₹ (in lakhs)		
(A) Profits from the specified business of setting up a warehousing facility (before providing deduction under section 35AD)	16	14	30
Less: Deduction under section 35AD			
(B) Capital expenditure incurred prior to 1.4.2024 (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) = ₹ 30 lakh (₹ 80 lakh – ₹ 50 lakh) and ₹ 20 lakh (₹ 60 lakh – ₹ 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)

Notes:

- 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 01.04.2012 or on or after 01.04.2009, respectively.
- However, since setting up and operating a warehousing facility for storage of edible oils is not a specified business, Mr. A is not eligible for deduction under section 35AD in respect of capital expenditure incurred in respect of such business.
- 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.
- Loss from a specified business can be set-off only against profits from another specified business. Therefore, the loss of ₹ 55 lakh from the specified businesses of setting up and operating a warehousing facility for storage of food grains and sugar cannot be set-off against the profits of ₹ 28 lakh from the business of setting and operating a warehousing facility for storage of edible oils, since the same is not a specified business. Such loss can, however, be carried forward indefinitely for set-off against profits of the same or any other specified business.

Question 12

[Specified Businesses u/s 35AD]

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 ₹ 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 ₹ 2 crore (out of which ₹ 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 u/s 115BAC(1A).

The profits from the business of running this hotel (before claiming deduction under section 35AD) for the A.Y.2025-26 is ₹ 25 lakhs. Assume that he also has another existing business of running a four-star hotel in Coimbatore, which commenced operations fifteen years back, the profits from which are ₹ 120 lakhs for the A.Y.2025-26. Also, assume that payments for capital expenditure were made by net banking.

[SM Q]

Answer 12

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

Particulars	₹
Profits from the specified business of new hotel in Madurai (before providing deduction under section 35AD)	25 lakh
Less: Deduction under section 35AD	
Capital expenditure incurred during the P.Y.2024-25 (excluding the expenditure incurred on acquisition of land) = ₹ 200 lakh – ₹ 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	<u>50 lakh</u>
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

Question 13

[Specified Businesses u/s 35AD]

Mr. Arnav is a proprietor having two units – Unit A carries on specified business of setting up and operating a warehousing facility for storage of sugar; Unit B carries on non-specified business of operating a warehousing facility for storage of edible oil.

Unit A commenced operations on 1.4.2023 and it claimed deduction of ₹ 100 lacs incurred on purchase of two buildings for ₹ 50 lacs each (for operating a warehousing facility for storage of sugar) under section 35AD for A.Y.2024-25. However, in February, 2025, Unit A transferred one of its buildings to Unit B.

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

[SM Q]

Answer 13

Since the capital asset, in respect of which deduction of ₹ 50 lacs 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	₹
Deduction allowed under section 35AD for A.Y.2024-25	50,00,000
Less: Depreciation allowable u/s 32 for A.Y.2024-25 [10% of ₹ 50 lacs]	5,00,000
Deemed income under section 35AD(7B)	45,00,000

Mr. Arnav, however, by virtue of proviso to Explanation 13 to section 43(1), can claim depreciation under section 32 on the building in Unit B for A.Y.2025-26. For the purpose of claiming depreciation on building in Unit B, the actual cost of the building would be:

Particulars	₹
Actual cost to the assessee	50,00,000
Less: Depreciation allowable u/s 32 for A.Y.2024-25 [10% of ₹ 50 lacs]	5,00,000
Actual cost in the hands of Mr. Arnav in respect of building in its Unit B	45,00,000

Question 14**[Employer contribution towards NPS]**

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 ₹ 10 lakh. Would disallowance under section 40A(9) be attracted, and if so, to what extent?

[SM Q]**Answer 14****Computation of deduction u/s 36(1)(iva) and disallowance u/s 40A(9)**

Particulars	₹
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 ₹ 10 lakh)	2,00,000
Less: Permissible deduction under section 36(1)(iva)	
(14% of basic salary plus dearness pay = 14% of ₹ 14,00,000 = ₹ 1,40,000)	1,96,000
Excess contribution disallowed under section 40A(9)	4,000

Question 15**[Disallowed u/s 40 – TDS not deducted]**

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 ₹
(1)	Salary to its employees (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?

[SM Q]

Answer 15

Non-deduction of tax at source on any sum payable to a resident on which tax is deductible at source would attract disallowance u/s 40(a)(ia).

Therefore, non-deduction of tax at source on any sum paid by way of salary on which tax is deductible u/s 192 or any sum credited or paid by way of directors' remuneration on which tax is deductible under section 194J, would attract disallowance @30% u/s 40(a)(ia). Whereas in case of salary, tax has to be deducted u/s 192 at the time of payment, in case of directors' remuneration, tax has to be deducted at the time of credit of such sum to the account of the payee or at the time of payment, whichever is earlier. Therefore, in both the cases i.e., salary and directors' remuneration, tax is deductible in the 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 ₹	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 ₹ 8,400 would be allowed as deduction while computing the business income of A.Y. 2026-27.

Question 16

[Disallowed u/s 40 – TDS not deducted]

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

- Interest of ₹ 45,000 was paid to Rehman & Co., a resident partnership firm, without deduction of tax at source;
- ₹ 10,00,000 was paid as salary to a resident individual without deduction of tax at source;
- Commission of ₹ 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) of the Income-tax Act, 1961 assuming that the payees in all the cases mentioned above, have not paid the tax, if any, which was required to be deducted by Mr. Raja? [SM Q]

Answer 16

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.

- The obligation to deduct tax at source from interest paid to a resident arises under section 194A in the case of an individual, whose total turnover in the immediately preceding previous year, i.e., P.Y.2023-24 exceeds ₹ 1 crore.

Thus, in present case, since the turnover of the assessee is less than ₹ 1 crore, he is not liable to deduct tax at source. Hence, disallowance under section 40(a)(ia) is not attracted in this case.

- 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 of all assessee-employer even if the turnover amount does not exceed ₹ 1 crore in the immediately preceding previous year.

Therefore, in the present case, the disallowance under section 40(a)(ia) is attracted for failure to deduct tax at source under section 192 from salary payment. However, only 30% of the amount of salary paid without deduction of tax at source would be disallowed.

- (iii) The obligation to deduct tax at source under section 194-H from commission paid in excess of ₹ 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 ₹ 1 crore. Thus, in present case, since the turnover of the assessee is less than ₹ 1 crore, he is not liable to deduct tax at source u/s 194-H. Mr. Raja is not required to deduct tax at source u/s 194M also since the aggregate of such commission to Mr. Vidyasagar does not exceed ₹ 50 lakh during the P.Y. 2024-25. Therefore, disallowance under section 40(a)(ia) is not attracted in this case.

Question 17**[Partnership Firm – Remuneration and Interest allowability]**

Rao & Jain, a partnership firm consisting of two partners, reports a net profit of ₹ 17,00,000 before deduction of the following items:

- (1) Salary of ₹ 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) ₹ 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 ₹ 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).

Answer 17

- (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	₹	₹
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)] (₹ 5,00,000 × 12%)	60,000	2,10,000
Book Profit		14,90,000

- (ii) Salary actually paid to working partners = ₹ 40,000 × 2 × 12 = ₹ 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 ₹ 6,00,000 of book profit or in case of loss	₹ 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	₹
On the first ₹ 6,00,000 of book profit [(₹ 3,00,000 or 90% of ₹ 6,00,000) whichever is more]	5,40,000
On the balance of book profit [60% of (₹ 14,90,000 - ₹ 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 ₹ 9,60,000.

Question 18

[Disallowance due to section 43B]

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:

	₹
(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 ₹ 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. [SM Q]

Answer 18

According to section 43B, any interest payable on the term loans to specified financial institutions and any interest payable on any loans and advances to, *inter alia*, scheduled banks shall be allowed only in the year of payment of such interest irrespective of the method of accounting followed by the assessee. Where there is default in the payment of interest by the assessee, such unpaid interest may be converted into loan. Such conversion of unpaid interest into loan shall not be construed as payment of interest for the purpose of section 43B. The amount of unpaid interest so converted as loan shall be allowed as deduction only in the year in which the converted loan is actually paid.

In the given case of Hari, the unpaid interest of ₹ 15,00,000 due to APSFC and of ₹ 30,00,000 due to Indian Bank was converted into loan. Such conversion would not amount to payment of interest and would not, therefore, be eligible for deduction in the year of such conversion. Hence, claim of Hari that the entire interest of ₹ 45,00,000 is to be allowed as deduction in the year of conversion is not tenable. The deduction shall be allowed only to the extent of repayment made during the 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 (₹)
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

Question 19**[Sec 44AA Maintenance of BOA]**

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

Particulars	₹
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? **[SM Q]**

Answer 19

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:

- if his gross receipts in all the three years immediately preceding the relevant previous year has exceeded ₹ 1,50,000; or
- if it is a new profession which is setup in the relevant previous year, it is likely to exceed ₹ 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 ₹ 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.

Question 20**[Sec 44AD Presumptive PGBP]**

Mr. Praveen engaged in retail trade, reports a turnover of ₹ 2,98,50,000 for the financial year 2024-25. Amount received in cash during the P.Y. 2024-25 is ₹ 14,00,000 and balance through prescribed electronic modes on or before 31st July 2025. His income from the said business as per books of account is ₹ 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.

- Is Mr. Praveen also eligible for presumptive determination of his income chargeable to tax for the assessment year 2025-26?
- 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?

Answer 20

- (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 ₹ 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 ₹ 18,19,000 (₹ 1,12,000, being 8% of ₹ 14,00,000 + ₹ 17,07,000, being 6% of ₹ 2,84,50,000).
- (iii) Mr. Praveen had declared profit for the 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.

Question 21

[Sec 44AD Presumptive PGBP]

Mr. Ayaansh (aged 35 years), a resident individual, is a dealer of garments. During the previous year 2024-25, total turnover of his business was ₹ 105 lakhs (out of which ₹ 15 lakhs was received by way of account payee cheques and balance in cash). Mr. Ayaansh does not opt to pay tax as per the provisions of section 115BAC.

What would be your advice to Mr. Ayaansh relating to the provisions of advance tax with its due date along with the amount payable, assuming that he wishes to make maximum tax savings without getting his books of account audited.

[RTP N-21 Q]

Answer 21

Computation of advance tax of Mr. Ayaansh under Presumptive scheme as per section 44AD

The total turnover of Mr. Ayaansh, a dealer of garments, is ₹ 105 lakhs. Since his total turnover from such business is less than ₹ 200 lakhs and he does not wish to get his books of account audited, he can opt for presumptive tax scheme under section 44AD.

Profits and gains from business computed under section 44AD:

Particulars	₹
6% of ₹ 15 lakhs, being turnover effected through account payee cheque	90,000
8% of ₹ 90 lakhs, being cash turnover	7,20,000
	8,10,000

An eligible assessee opting for computation of profits and gains of business on presumptive basis under section 44AD in respect of eligible business is required to pay advance tax of the whole amount on or before 15th March of the financial year.

Computation of tax liability of Mr. Ayaansh as per normal provisions of Income-tax Act, 1961

Particulars	Amount in ₹	
Total Income	8,10,000	
Tax on 8,10,000		
Upto ₹ 2,50,000	Nil	
₹ 2,50,001 – ₹ 5,00,000@5%	12,500	
₹ 5,00,001 – ₹ 8,10,000@20%	62,000	74,500
Add: Health and Education cess@4%		2,980
Tax liability		77,480

Accordingly, he is required to pay advance tax of ₹ 77,480 on or before 15th March of the financial year. However, any amount by way of advance tax on or before 31st March of the financial year shall also be treated as advance tax paid during the financial year ending on that day for all the purposes of the Act.

Question 22

[Sec 44AE Presumptive PGBP]

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? **[SM Q]**

Answer 22

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. ₹ 1,000 per ton of gross vehicle weight or unladen weight per month or part of the month for each heavy goods vehicle and ₹ 7,500 per month or part of month for each goods carriage other than heavy goods vehicle, owned by him would be deemed as his profits and gains from such goods carriage.

Heavy goods vehicle means any goods carriage, the gross vehicle weight of which exceeds 12,000 kg.

(1)	(2)	(3)	(4)
Number of Vehicles	Date of purchase	No. of months for which vehicle is owned	No. of months × No. of vehicles [(1) × (3)]
For Heavy goods vehicle			
2	29.08.2024	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 - ₹ 6,82,500, i.e., $55 \times ₹ 7,500$ (being for other than heavy goods vehicle) + $18 \times ₹ 1,000 \times 15$ ton (being for heavy goods vehicle).

The answer would remain the same even if the two vehicles purchased in April, 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.

Question 23

[Sec 44AE Presumptive PGBP]

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 assessment year 2025-26, taking note of the following data:

[SM Q]

Particulars	₹	₹
Freight charges collected		12,70,000
Less : Operational expenses	6,25,000	
Depreciation as per section 32	1,85,000	
Other office expenses	15,000	8,25,000
Net Profit		4,45,000
Other business and non-business income		70,000

Answer 23

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 ₹ 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 ₹ 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 ₹ 13,72,500 (See Notes 1 & 2 below) and his total income would be ₹ 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 ₹ 4,45,000 instead of ₹ 13,72,500 and his total income would be ₹ 5,15,000.

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Notes:

1. Computation of total income of Mr. Sukhvinder for A.Y. 2025-26

Particulars	Presumptive income ₹	Where books are maintained ₹
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 ₹
(1)	(2)		(3)	(4)
Heavy goods vehicle				
1 goods carriage upto 1st May	2	1,000	15 (15,000/1,000)	30,000
5 goods carriage held throughout the year	12	1,000	15 (15,000/1,000)	9,00,000
Goods vehicle other than heavy goods vehicle				
1 goods carriage from 6th May	11	7,500	-	82,500
4 goods carriage held throughout the year	12	7,500	-	3,60,000
			Total	13,72,500

Question 24

[Sec 44AE Presumptive PGBP]

Mr. Yogesh is in the business of operating goods vehicles. As on 1st April, 2024, he had the following vehicles: [Exam N-19 Q]

Vehicle	Gross Vehicle Weight (in Kgs.)	Date of Purchase	Put to use during F.Y. 2024-25?
A	9000	2-6-2023	Yes
B	15000	15-5-2023	Yes
C	12000	4-8-2023	No (as under repairs)

During P.Y. 2024-25, he purchased the following vehicles:

Vehicle	Gross Vehicle Weight (in Kgs.)	Date of Purchase	Date on which put to use
D	11500	20-4-2024	10-5-2024
E	14000	15-5-2024	18-5-2024

Compute his income under section 44AE of the Income-tax Act, 1961 for A.Y. 2025-26.

Answer 24

Since Mr. Yogesh 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. As per section 44AE, ₹ 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 ₹ 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.

Calculation of presumptive income as per section 44AE

Type of carriage	No. of months the vehicle is owned by Mr. Prakash	Rate per ton per month	Ton	Amount ₹
(1)	(2)	(3)	(4)	(5) [(2) x (3) x (4)]
Heavy goods vehicle				
Vehicle B (15,000 kgs) held throughout the year	12	₹ 1,000	15 (15,000/1,000)	1,80,000
Vehicle E (14,000kgs) purchased on 15.5.2024	11	₹ 1,000Rate per month	14 (14,000/1,000)	1,54,000
Goods vehicles other than heavy goods vehicle				
Vehicle A held throughout the year	12	₹ 7,500	-	90,000
Vehicle C held throughout the year	12	₹ 7,500	-	90,000
Vehicle D purchased on 20.4.2024	12	₹ 7,500	-	90,000
Total				6,04,000

The “put to use” date of the vehicle is not relevant for the purpose of computation of presumptive income under section 44AE, since the presumptive income has to be calculated per month or part of the month for which the vehicle is owned by Mr. Yogesh.

Question 25

[Misc Exps allowability]

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 Assessment Year 2025-26.

- Construction of school building in compliance with CSR activities amounting to ₹ 5,60,000.
- Purchase of building for the purpose of specified business of setting up and operating a warehousing facility for storage of food grains amounting to ₹ 4,50,000.
- Interest on loan paid to Mr. X (a resident) ₹ 50,000 on which tax has not been deducted. The sales for the previous year 2023-24 was ₹ 202 lakhs. Mr. X has not paid the tax, if any, on such interest.
- Commodities transaction tax paid ₹ 20,000 on sale of bullion.

[SM Q]

Answer 25

Allowability of the expenses incurred by Mr. Manav, a wholesale dealer in commodities, while computing profits and gains from business or profession

(i) Construction of school building in compliance with CSR activities

Under section 37(1), only expenditure not being in the nature of capital expenditure or personal expense and not covered under sections 30 to 36, and incurred wholly and exclusively for the purposes of the business is allowed as a deduction while computing business income.

However, any expenditure incurred by an assessee on the activities relating to corporate social responsibility referred to in section 135 of the Companies Act, 2013 shall not be deemed to have been incurred for the purpose of business and hence, shall **not** be allowed as deduction under section 37.

Accordingly, the amount of ₹ 5,60,000 incurred by Mr. Manav, towards construction of school building in compliance with CSR activities shall **not** be allowed as deduction under section 37.

(ii) Purchase of building for setting up and operating a warehousing facility for storage of food grains

Mr. Manav, would be eligible for investment-linked tax deduction under section 35AD @100% in respect of amount of ₹ 4,50,000 invested in purchase of building for setting up and operating a warehousing facility for storage of food grains which commences operation on or after 1st April, 2009 (P.Y. 2024-25, in this case), if Mr. Manav does not opt for section 115BAC.

Therefore, the deduction under section 35AD while computing business income of such specified business would be ₹ 4,50,000, if Mr. Manav opts for section 35AD.

(iii) Interest on loan paid to Mr. X (a resident) ₹ 50,000 on which tax has not been deducted

As per section 194A, Mr. Manav, being an individual is required to deduct tax at source on the amount of interest on loan paid to Mr. X, since his turnover during the previous year 2023-24 exceeds ₹ 100 lacs.

Therefore, ₹ 15,000, being 30% of ₹ 50,000, would be disallowed under section 40(a)(ia) while computing the business income of Mr. Manav for non-deduction of tax at source under section 194A on interest of ₹ 50,000 paid by it to Mr. X.

The balance ₹ 35,000 would be allowed as deduction under section 36(1)(iii), assuming that the amount was borrowed for the purposes of business.

(iv) Commodities transaction tax of ₹ 20,000 paid on sale of bullion Commodities transaction tax paid in respect of taxable commodities transactions entered into in the course of business during the previous year is allowable as deduction, provided the income arising from such taxable commodities transactions is included in the income computed under the head "Profits and gains of business or profession".

Taking that income from this commodities transaction is included while computing the business income of Mr. Manav, the commodity transaction tax of ₹ 20,000 paid is allowable as deduction under section 36(1)(xvi).

Question 26

[Misc Exps allowability]

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 ₹ 25,000 has been allowed on accrual basis and in a later year, in respect of the said expenditure, assessee makes the payment of ₹ 25,000 through a crossed cheque, ₹ 25,000 can be the profits and gains of business under section 40A(3A) in the year of payment.

- (iii) It is mandatory to provide for depreciation under section 32 of the Income-tax Act, 1961, while computing income under the head "Profits and Gains from Business and Profession".
- (iv) The mediclaim premium paid to GIC by Mr. Lomesh for his employees, by a draft, on 27.12.2024 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 u/s 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%. [SM Q]

Answer 26

- (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 ₹ 10,000 has been made in the subsequent year otherwise than by an account payee cheque or an account payee bank draft or use of ECS through a bank account or through such other prescribed electronic modes such as credit card, debit card, net banking, IMPS, UPI, RTGS, NEFT, and BHIM Aadhar Pay, then, the payment so made shall be deemed to be the income of the subsequent year in which such payment has been made.
- (iii) **True:** According to the Explanation 5 to section 32(1), allowance of depreciation is mandatory. Therefore, depreciation has to be provided mandatorily while calculating income from business/profession whether or not the assessee has claimed the same while computing his total income.
- (iv) **True:** Section 36(1)(ib) provides deduction in respect of premium paid by an employer to keep in force an insurance on the health of his employees under a scheme framed in this behalf by GIC or any other insurer. The medical insurance premium can be paid by any mode other than cash, to be eligible for deduction under section 36(1)(ib).
- (v) **False:** Expenditure incurred in making payment to the employee in connection with his voluntary retirement either in the year of retirement or in any subsequent year, will be entitled to deduction in 5 equal annual installments beginning from the year in which each payment is made to the employee.
- (vi) **False:** Additional depreciation can be claimed only in respect of eligible plant and machinery acquired and installed by an assessee engaged in the business of manufacture or production of any article or thing or in the business of generation or transmission or distribution of power.
In this case, the assessee is engaged in trading activities and the new plant has been acquired and installed in a trading concern. Hence, the assessee will not be entitled to claim additional depreciation under section 32(1)(iia).

Question 27

[Misc Exps allowability]

Examine, with reasons, the allowability of the following expenses under the Income-tax Act, 1961 while computing income from business or profession for the Assessment Year 2025-26:

- (i) Provision made on the basis of actuarial valuation for payment of gratuity ₹ 5,00,000. However, no payment on account of gratuity was made before due date of filing return.
- (ii) Purchase of oil seeds of ₹ 50,000 in cash from a farmer on a banking day.
- (iii) Tax on non-monetary perquisite provided to an employee ₹ 20,000.

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- (iv) Payment of ₹ 50,000 by using credit card for fire insurance.
- (v) Salary payment of ₹ 4,00,000 to Mr. X outside India by a company without deduction of tax assuming Mr. X has not paid tax on such salary income.
- (vi) Payment made in cash ₹ 30,000 to a transporter in a day for carriage of goods

[SM Q]

Answer 27

- (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 ₹ 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 ₹ 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 ₹ 4,00,000 outside India by a company without deduction of tax at source.

- (vi) **Allowable as deduction:** The limit for attracting disallowance under section 40A(3) for payment otherwise than by way of account payee cheque or account payee bank draft or use of ECS through a bank account or through such other prescribed electronic mode is ₹ 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 ₹ 30,000 made in cash to a transporter for carriage of goods.

Question 28

[Misc Exps allowability]

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 ₹ 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. **[SM Q]**

Answer 28

- (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 29

[Computation of PGBP]

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	₹	Particulars	₹
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 | ₹ 9,000 |
| Closing stock | ₹ 18,000 |

- (ii) Salary includes ₹ 10,000 paid to his brother, which is unreasonable to the extent of ₹ 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 ₹ 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 ₹ 4,20,000. A new plant falling under the same block of depreciation was bought on 01.7.2024 for ₹ 70,000. Two old plants were sold on 1.10.2024 for ₹ 50,000.
- (v) Rent and rates includes GST liability of ₹ 3,400 paid on 7.4.2025.
- (vi) Other general expenses include ₹ 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 under section 44AD and profits and gains as per normal provisions of the Act assuming he has not opted for the provisions of section 115BAC. 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. **[SM Q]**

Answer 29
Computation of business income of Mr. Sivam for the A.Y. 2025-26

Particulars	₹	₹
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 ₹ 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., ₹ 1,12,11,500 x 6 /100 = ₹ 6,72,690

Notes:

1. Calculation of depreciation

Particulars	₹
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 30

[Computation of PGBP]

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	₹	Particulars	₹
To Opening Stock	71,000	By Sales	2,32,00,000
To Purchase of Raw Materials	2,16,99,000	By Closing stock	2,00,000
To Manufacturing Wages & Expenses	5,70,000		
To Gross Profit	10,60,000		
	2,34,00,000		2,34,00,000
To Administrative charges	3,26,000	By Gross Profit	10,60,000
To SGST penalty	5,000	By Dividend from domestic companies	15,000
To GST paid	1,10,000	By Income from agriculture (net)	1,80,000
To General Expenses	54,000		
To Interest to Bank (On machinery term loan)	60,000		
To Depreciation	2,00,000		
To Net Profit	5,00,000		
	12,55,000		12,55,000

Following are the further information relating to the financial year 2024-25:

- (i) Administrative charges include ₹ 46,000 paid as commission to brother of the assessee. The commission amount at the market rate is ₹ 36,000.

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- (ii) The assessee paid ₹ 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 ₹ 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 ₹ 20,000 and the balance was paid in November 2025.
- (v) Housing loan principal repaid during the year was ₹ 50,000 and it relates to residential property acquired by him in P.Y. 2023-24 for self-occupation. Interest on housing loan was ₹ 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%)	₹
WDV (as on 31.03.2024)	14,00,000
Less: Depreciation for P.Y. 2023-24	2,10,000
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 assessment year 2025-26 assuming he paid taxes under default tax.

Note: Ignore application of section 14A for disallowance of expenditures in respect of any exempt income. **[SM Q]**

Answer 30

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

Particulars		₹	₹
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 ₹ 35,000 in respect of payment to transport operators. Therefore, amount of ₹ 33,000 paid in cash to a transport carrier is allowable as deduction.	Nil	
	Salary paid to staff not recorded in the books (Assuming that the expenditure is in the nature of unexplained expenditure and hence, is deemed to be income as per section 69C and would be taxable @ 60% under section 115BBE – no deduction allowable in respect of such expenditure) [See Note 1 below]	48,000	
	Bank term loan interest paid after the due date of filing of return under section 139(1)–disallowed as per section 43B	40,000	
	State GST penalty paid disallowed [See Note 2 below]	5,000	
	Depreciation debited to profit and loss account	2,00,000	3,03,000

Particulars		₹	₹
Less:	Dividend from domestic companies [Chargeable to tax under the head "Income from Other Sources"]	15,000	8,03,000
	Income from agriculture [Exempt under section 10(1)]	1,80,000	
	Depreciation under the Income-tax Act, 1961 (As per working note)	2,23,500	4,18,500
			3,84,500
	Income from house property		
	Annual value of self-occupied property	Nil	
	Less: Deduction u/s 24(b) – interest on housing loan [Not allowable, since Mr. Raju is paying tax as per default tax regime]	Nil	Nil
	Income from Other Sources		
	Dividend from domestic companies		15,000
	Gross Total Income		3,99,500
	Less: Deduction under section 80C in respect of Principal repayment of housing loan [Not allowable, since Mr. Raju is paying tax as per default tax regime]		Nil
	Total Income		3,99,500

Working Note:

Computation of depreciation under the Income-tax Act, 1961

Particulars	₹
Depreciation @ 15% on ₹ 14 lakh (WDV as on 31.3.2024 of ₹ 14 lakh)	
less Depreciation for P.Y. 2023-24 of ₹ 2.10 lakh plus assets purchased during the year and used for more than 180 days ₹ 2 lakh)	2,08,500
Depreciation @ 7.5% on ₹ 2 lakh (Assets used for < 180 days)	15,000
	2,23,500

Notes (Alternate views):

- It is also possible to take a view that the salary not recorded in the books of account was an erroneous omission and that the assessee has offered satisfactory explanation for the same. In such a case, the same should not be added back as unexplained expenditure, but would be allowable as deduction while computing profits and gains of business and profession.
- Where the imposition of penalty is not for delay in payment of sales tax or VAT or GST but for contravention of provisions of the Sales Tax Act or VAT Act or GST Law, the levy is not compensatory and therefore, not deductible.
However, if the levy is compensatory in nature, it would be fully allowable. Where it is a composite levy, the portion which is compensatory is allowable and that portion which is penal is to be disallowed.
Since the question only mentions "GST penalty paid" and the reason for levy of penalty is not given, it has been assumed that the levy is not compensatory and therefore, not deductible. It is, however, possible to assume that such levy is compensatory in nature and hence, allowable as deduction. In such a case, the total income would be ₹ 3,21,500.

Question 31**[Party agriculture and Party Business Income]**

Mr. Tenzingh is engaged in composite business of growing and curing (further processing) coffee in Coorg, Karnataka. The whole of coffee grown in his plantation is cured. Relevant information pertaining to the year ended 31.3.2025 are given below:

Particulars	₹
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 ₹ 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.

[SM Q]**Answer 31**

Where an assessee is engaged in the composite business of growing and curing of coffee, the income will be segregated between agricultural income and business income, as per Rule 7B of the Income-tax Rules, 1962.

As per the above Rule, income derived from sale of coffee grown and cured by the seller in India shall be computed as if it were income derived from business, and 25% of such income shall be deemed to be income liable to tax. The balance 75% will be treated as agricultural income.

Particulars	₹	₹	₹
Sale value of cured coffee			22,00,000
Less: Expenses for growing coffee		3,10,000	
Car expenses (80% of ₹ 50,000)		40,000	
Depreciation on car (80% of 15% of ₹ 3,00,000) [See Computation below]		36,000	
Total cost of agricultural operations		3,86,000	
Expenditure for coffee curing operations	3,00,000		
Add: Depreciation on machinery (15% of ₹ 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	₹	₹
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.

Capital Gain

Question 1

[Capital Asset]

A is the owner of a car. On 1-4-2024, he starts a business of purchase and sale of motor car. He treats the above car as part of the stock-in-trade of his new business. He sells the same on 31-3-2025 and gets a profit of ₹ 1 lakh. Discuss the tax implication in his hands under the head "Capital gains". [SM Q.]

Answer 1

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.

Question 2

[Conversion of capital asset into SIT]

X converts his capital asset (acquired on June 10, 2004 for ₹ 60,000) into stock-in-trade on March 10, 2024. The fair market value on the date of the above conversion was ₹ 5,50,000. He subsequently sells the stock-in-trade so converted for ₹ 6,00,000 on June 10, 2024. Discuss the year of chargeability of capital gain and business income. [SM Q.]

Answer 2

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 business income of ₹ 50,000 (i.e., ₹ 6,00,000 (-) ₹ 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.

Question 3

[COA in case of Asset Acquired before 1/4/01]

Mr. C purchases a house property for ₹1,06,000 on May 15, 1975. The following expenses are incurred by him for making addition/alternation to the house property:

	Particulars	₹
(a)	Cost of construction of first floor in 1982-83	3,10,000
(b)	Cost of construction of the second floor in 2002-03	7,35,000
(c)	Reconstruction of the property in 2012-13	5,50,000

Fair market value of the property on April 1, 2001 is ₹ 8,50,000 and stamp duty value on the said date was ₹ 8,10,000. The house property is sold by Mr. C on July 10, 2024 for ₹ 68,00,000 (expenses incurred on transfer: ₹ 50,000). Compute the capital gain for the assessment year 2025-26.

Cost Inflation Index: F.Y. 2001-02: 100, F.Y. 2002-03: 105, F.Y. 2012-13: 200, F.Y. 2024-25: 363

Answer 3

Computation of capital gain of Mr. C for the A.Y.2025-26

Particulars	₹	₹
Gross sale consideration		68,00,000
Less: Expenses on transfer		50,000
Net sale consideration		67,50,000
Less: Indexed cost of acquisition (Note 1)	29,40,300	
Less: Indexed cost of improvement (Note 2)	35,39,250	64,79,550
Long-term capital gain		2,70,450

Notes 1 & 2:

Indexed cost of acquisition: ₹ 8,10,000 × 363/100 = ₹ 29,40,300

Fair market value on April 1, 2001 (actual cost of acquisition is ignored as it is lower than market value on April 1, 2001) however, it should not exceed ₹ 8,10,000, being the stamp duty value on 1.4.2001.

Indexed cost of improvement:

Particulars	₹
Construction of first floor in 1982-83 (expenses incurred prior to April 1, 2001 are not considered)	Nil
Construction of second floor in 2002-03 (i.e., ₹ 7,35,000 × 363/105)	25,41,000
Alteration/reconstruction in 2012-13 (i.e., ₹ 5,50,000 × 363/200)	9,98,250
Indexed cost of improvement	35,39,250

Question 4

[Conversion of capital Assets into SIT]

Mrs. Harshita purchased a land at a cost of ₹ 35 lakhs in the financial year 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 ₹ 210 lakhs.

She constructed 15 flats of equal size, quality and dimension. Cost of construction of each flat is ₹ 10 lakhs. Construction was completed in February, 2025. She sold 10 flats at ₹ 30 lakhs per flat in March, 2025. The remaining 5 flats were held in stock as on 31st March, 2025.

She invested ₹ 50 lakhs in bonds issued by National Highways Authority of India on 31st March, 2025 and another ₹ 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 Assessment Year 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].

[SM Q.]

Computation of capital gains and business income of Harshita for A.Y. 2025-26

Particulars	₹
Capital Gains	
Fair market value of land on the date of conversion deemed as the full value of consideration for the purposes of section 45(2)	2,10,00,000
Less: Indexed cost of acquisition [$₹35,00,000 \times 348(2023-24)/113(2004-05)$]	1,07,78,761
	1,02,21,239
Proportionate capital gains arising during A.Y. 2025-26 [$₹1,02,21,239 \times 2/3$]	68,14,159
Less: Exemption u/s 54EC	50,00,000
Capital gains chargeable to tax for A.Y.2025-26	18,14,159
Business Income	
Sale price of flats [$10 \times ₹30$ lakhs]	
Less: Cost of flats	3,00,00,000
Fair market value of land on the date of conversion [$₹210$ lacs $\times 2/3$]	1,40,00,000
Cost of construction of flats [$10 \times ₹10$ lakhs]	1,00,00,000
Business income chargeable to tax for A.Y.2025-26	60,00,000

Notes:

- (1) The conversion of a capital asset into stock-in-trade is treated as a transfer u/s 2(47). It would be treated as a transfer in the year in which the capital asset is converted into stock-in-trade (i.e., P.Y.2023-24, in this case).
- (2) However, as per section 45(2), the capital gains arising from the transfer by way of conversion of capital assets into stock-in-trade will be chargeable to tax only in the year in which the stock-in-trade is sold.
- (3) The indexation benefit for computing indexed cost of acquisition would, however, be available only up to the year of conversion of capital asset into stock-in-trade (i.e., P.Y.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 u/s 54EC [CBDT Circular No.791 dated 2.6.2000]. In this case, since the investment in bonds of NHAI has been made within 6 months of sale of flats, the same qualifies for exemption u/s 54EC. With respect to long-term capital gains arising on land or building or both in any financial year, the maximum deduction u/s 54EC would be ₹ 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 ₹ 50 lakhs has been made in bonds of NHAI during the P.Y. 2024-25 and investment of ₹ 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 ₹ 50 lakhs.

Question 5**[Bonus Shares]**

Ms. Usha purchases 1,000 equity shares in X Ltd., an unlisted company, at a cost of ₹ 30 per share (brokerage 1%) in January 1996. She gets 100 bonus shares in August 2000. She again gets 1,100 bonus shares by virtue of her holding in February 2006. Fair market value of the shares of X Ltd. on April 1, 2001 is ₹ 80.

On 1st May 2024, she transfers all her shares @ ₹ 200 per share (brokerage 2%).

Compute the capital gains taxable in the hands of Ms. Usha for the A.Y. 2025-26

Cost Inflation Index for F.Y. 2001-02: 100, F.Y.2005-06: 117 & F.Y.2024-25: 363.

Answer 5**Computation of capital gains for the A.Y. 2025-26**

Particulars	₹
1000 Original shares	
Sale proceeds (1000 × ₹ 200)	2,00,000
Less : Brokerage paid (2% of ₹ 2,00,000)	4,000
Net sale consideration	1,96,000
Less : Indexed cost of acquisition [₹ 80 × 1000 × 363/100]	2,90,400
Long term capital loss (A)	(94,400)
100 Bonus shares	
Sale proceeds (100 × ₹ 200)	20,000
Less: Brokerage paid (2% of ₹ 20,000)	400
Net sale consideration	19,600
Less: Indexed cost of acquisition [₹ 80 × 100 × 363/100] [See Note below]	29,040
Long term capital loss (B)	(9,440)
1100 Bonus shares	
Sale proceeds (1100 × ₹ 200)	2,20,000
Less: Brokerage paid (2% of ₹ 2,20,000)	4,400
Net sale consideration	2,15,600
Less: Cost of acquisition	NIL
Long term capital gain (C)	2,15,600
Long term capital gain (A+B+C)	1,11,760

Note: Cost of acquisition of bonus shares acquired before 1.4.2001 is the FMV as on 1.4.2001 (being the higher of the cost or the FMV as on 1.4.2001).

Question 6

[Right Shares]

Mr. R holds 1000 shares in Star Minus Ltd., an unlisted company, acquired in the year 2001-02 at a cost of ₹75,000. He has been offered right shares the company in the month of August, 2024 at ₹160 per share, in the ratio of 2 for every 5 held. He retains 50% of the right and renounces the balance right shares in favour of Mr. Q for ₹30 per shares in September 2024. All the shares are sold by Mr. R for ₹300 per shares in January 2025 and Mr. Q sells his shares in December 2024 at ₹280 per share. What are the capital gains taxable in the hands of Mr. R and Mr. Q?

Financial year	Cost Inflation Index
2001-02	100
2024-25	363

Answer 6

Computation of capital gains in the hands of Mr. R for the A.Y. 2025-26

Particulars		₹
1000 Original shares		
Sale proceeds (1000 x ₹300)		3,00,000
Less : Cost of acquisition	—	75,000
Long-term capital gain (A)		2,25,000
200 Right shares		
Sale proceeds (200 x ₹300)		60,000
Less : Cost of acquisition (₹160 x 200) [Note 1]	—	32,000
Short-term capital gain (B)		28,000
Sale of Right entitlement		
Sale proceeds (200 x ₹30)		6,000
Less : Cost of acquisition [Note 2]	—	NIL
Short term capital gain (C)		6,000
Capital Gains (A+B+C)		2,59,000

Note:

1. Since the holding period of these shares is less than 24 months, they are short term capital assets.
2. The cost of the rights renounced in favour of another person for a consideration is taken to be nil. The consideration so received is taxed as short-term capital gains in full. The period of holding is taken from the date of the rights offer to the date of the renouncement.

Computer of capital gains in the hands of Mr. Q for the A. Y. 2025-26

Particulars		₹
Sale proceeds (200 shares x ₹280)		56,000
Less: Cost of acquisition [200 shares x (₹30 + ₹160)] [See Note below]	—	38,000
Short-term capital gain		18,000

Note:

The cost of the right is the amount paid to Mr. R as well as the amount paid to the company. Since the holding period of these shares is less than 24 months, they are short capital assets.

Question 7**[45(5) – Compulsory Acquisition]**

The Government compulsorily acquired land of Mr. Shivam in April 2020 and paid compensation of ₹ 20 lakhs in June 2024. The land was acquired by Mr. Shivam in June 2004 for ₹ 12 lakhs. He had filed for additional compensation through Court and was awarded ₹ 18 Lakhs in February 2025 but this amount was received only during May 2025. Compute the taxable capital gain from the above transaction indicating the relevant assessment year. Expenses in connection with compulsory acquisition were ₹ 30,000 and for obtaining enhancement of compensation was ₹ 1 lakh.

Cost inflation index: FY 2004-05: 113; FY 2020-21: 301; FY 2021-22: 317; FY 2024-25:363

Answer 7

Computation of capital gains of Mr. Shivam for the A.Y.2025-26

Particulars	₹
Full value of consideration (Compensation received) [Taxable in the year of receipt i.e., P.Y.2024-25]	20,00,000
Less: Expenses in connection with compulsory acquisition	30,000
	19,70,000
Less: Indexed cost of acquisition [$₹ 12,00,000 \times 301/113$]	31,96,460
Long-term capital loss (since land was held for > 24 months) for the A.Y. 2025-26	(12,26,460)
Note – Since the year of compulsory acquisition i.e., F.Y.2020-21 is the year of transfer of land, CII for F.Y.2020-21 has to be considered for computing indexed cost of acquisition.	

Computation of capital gains of Mr. Shivam for the A.Y.2026-27

Particulars	₹
Full value of consideration (Enhanced Compensation received is taxable in the year of receipt i.e., P.Y.2025-26)	18,00,000
Less: Expenses for obtaining enhanced compensation (allowable as deduction)	1,00,000
	17,00,000
Less: Set-off of b/f long-term capital loss from A.Y.2025-26	12,26,460
Long-term capital gains for the A.Y. 2026-24	4,73,540
Note – No deduction in respect of cost of acquisition is allowable from enhanced compensation.	

Question 8**[Exempt transfer u/s 47]**

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

- Mr. A purchased gold in 1970 for ₹ 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 ₹ 1,00,000.
- A house property is purchased by a Hindu undivided family in 1945 for ₹ 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 ₹ 12,00,000.

Chapter 6: Capital Gain

- (iii) Mr. B purchased 50 convertible debentures for ₹ 40,000 in 1995 which are converted into 500 shares worth ₹ 85,000 in November 2024 by the company. [SM Q.]

Answer 8

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

Question 9

[Exempt transfer u/s 47 Reverse mortgage]

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? [SM Q.]

Answer 9

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.

Question 10

[Misc. Concepts]

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. [SM Q.]

Answer 10

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

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

Question 11**[Slump Sale]**

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 ₹ 25 lacs. The fair market value of the unit on 1.4.2024 is ₹ 30 lacs. Unit 1 was started in the year 2006-07. The expenses incurred for this transfer were ₹ 28,000. His Balance Sheet as on 31.3.2024 is as under:

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

Other information:

- Revaluation reserve is created by revising upward the value of the building of Unit 1.
- No individual value of any asset is considered in the transfer deed.
- Other assets of Unit 1 include patents acquired on 1.7.2022 for ₹ 50,000 on which no depreciation has been charged.
- 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.

[SM Q.]**Answer 11****Computation of capital gains on slump sale of Unit 1**

Particulars	₹
Full value of consideration [Fair market value on 1.4.2024]	30,00,000
Less: Transfer Expenses	28,000
	29,72,000
Less: Cost of Acquisition (Note 1)	12,50,625
Long-term capital gain	17,21,375

Notes:

1. Computation of net worth of Unit 1 of Akash Enterprises

Particulars	₹	₹
Building (excluding ₹ 3 lakhs on account of revaluation)		9,00,000
Machinery		3,00,000
Debtors		1,00,000

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Particulars	₹	₹
Patents (See Note2 below)		28,125
Other assets (₹ 1,50,000 – ₹ 50,000)		1,00,000
Total assets		14,28,125
Less: Creditors (25% of ₹ 1,50,000)	37,500	
Bank Loan (70% of ₹ 2,00,000)	1,40,000	1,77,500
Net worth		12,50,625

2. Written down value of patents as on 1.4.2024

Value of patents:	₹
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

For the purposes of computation of net worth, the written down value determined as per section 43(6) has to be considered in the case of depreciable assets. The problem has been solved assuming that the Balance Sheet values of ₹ 3 lakh and ₹ 9 lakh (₹ 12 lakh – ₹ 3 lakh) represent the written down value of machinery and building, respectively, of Unit 1.

3. Since the Unit is held for more than 36 months, capital gain arising would be long term capital gain. However, indexation benefit is not available in case of slump sale.

Question 12

[Exemptions u/s 54]

Mr. Cee purchased a residential house on July 20, 2022 for ₹ 10,00,000 and made some additions to the house incurring ₹ 2,00,000 in August 2022. He sold the house property in April 2024 for ₹ 20,00,000. Out of the sale proceeds, he spent ₹ 5,00,000 to purchase another house property in September 2023.

What is the amount of capital gains taxable in the hands of Mr. Cee for the A.Y.2025-26?

[SM Q.]

Answer 12

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

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

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

Question 13

[Bonus Shares]

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

Company allotted bonus shares in the ratio of 1:1 on 01.12.2023. He has also received dividend of ₹ 10 per share on 01.05.2024.

He has sold all the shares on 01.10.2024 at the rate of ₹ 4,000 per share through a recognized stock exchange and paid brokerage of 1% and securities transaction tax of 0.02%.

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 ₹ 8,00,000. Fair market value of shares of M/s Goodmoney Co. Ltd. on 31.1.2018 is ₹ 2,000.

Answer 13

Computation of total income & tax liability of Mr. Mithun for A.Y. 2025-26

Particulars	₹
Long term capital gains on sale of original shares	
Gross sale consideration (100 x ₹ 4,000)	4,00,000
Less: Brokerage@1%	4,000
Net sale consideration	3,96,000
Less: Cost of acquisition (100 x ₹ 2,000) (Refer Note 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 ₹ 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 ₹ 3,96,000	79,200
Tax on LTCG u/s 112A	

Particulars		₹
12.5% of (₹ 1,96,000 - ₹ 1,25,000) since it is transferred on or after 23.7.2024		8,875
Tax on other income of ₹ 8,02,000		
₹ 3,00,000 to ₹ 7,00,000 @5%	20,000	
₹ 7,00,000 to ₹ 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., ₹ 1,000 per share and
- lower of

Fair market value of such asset i.e., ₹ 2,000 per share and Full value of consideration i.e., ₹ 4,000 per share.

Therefore, the cost of acquisition of original share is ₹ 2,000 per share.

(2) Securities transaction tax is not allowable as deduction.

Question 14**[Destruction of capital assets]**

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

The value of stock lost (total damaged) was ₹ 6,50,000. Certain portion of the machinery could be salvaged. The opening 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 ₹ 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, 2004 for ₹ 1,20,000. The market value of these two items as on the date of fire accident was ₹ 1,80,000.

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

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

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

[SM Q.]**Answer 14**

- (i) **Compensation towards loss of stock:** Any compensation received from the insurance company towards loss/damage to stock in trade is to be construed as a trading receipt. Hence, ₹ 4,80,000 received as insurance claim for loss of stock has to be assessed under the head "Profit and gains of business or profession".

Note - The assessee can claim the value of stock destroyed by fire as revenue loss, eligible for deduction while computing income under the head "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, ₹ 4,80,000 being the excess of written down value (i.e. ₹ 10,80,000) over the insurance compensation (i.e. ₹ 6,00,000) will be assessable as a short-term capital loss.

Note – If new machinery is purchased in the next year, it will constitute the new block of machinery, on which depreciation can be claimed for that year.

- (iii) **Compensation towards loss of gold chain and diamond ring:** Gold chain and diamond ring are capital assets as envisaged by 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 indexed cost of acquisition of jewellery from the insurance compensation of ₹ 1,80,000.

Question 15

[Capital Gain with Section 50C & Exemption u/s 54]

Mr. Sarthak entered into an agreement with Mr. Jaikumar to sell his residential house located at Kanpur on 16.08.2024 for ₹ 1,50,00,000.

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

- 20% through account payee bank draft on the date of agreement.
- 60% on the date of the possession of the property.
- 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-

- on 16.08.2024 was ₹ 1,70,00,000;
- on 15.12.2024 was ₹ 1,71,00,000; and
- on 14.01.2025 was ₹ 1,71,50,000.

Mr. Sarthak had acquired the residential house at Kanpur on 01.04.2001 for ₹ 30,00,000. After recovering the sale proceeds from Jaikumar, he purchased two residential house properties, one in Kanpur for ₹ 20,00,000 on 24.3.2025 and another in Delhi for ₹ 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

Answer 15

Computation of income chargeable under the head “Capital Gains” of Mr. Sarthak for A.Y. 2025-26

Particulars	₹
Capital Gains on sale of residential house	
Actual sale consideration	₹
1,50,00,000	
Value adopted by Stamp Valuation Authority	₹
1,70,00,000	
on the date of agreement	

Particulars	₹
[As per section 50C, where the actual sale consideration is less than the value adopted by the Stamp Valuation Authority for the purpose of charging stamp duty, and such stamp duty value exceeds 110% of the actual sale consideration, then, the value adopted by the Stamp Valuation Authority shall be taken to be the full value of consideration.]	
In a case where the date of agreement is different from the date of registration, stamp duty value on the date of agreement can be considered provided the whole or part of the consideration is paid by way of account payee cheque/bank draft or by way of ECS through bank account or through such other electronic mode as may be prescribed, on or before the date of agreement.	
In this case, since 20% of ₹ 150 lakhs is paid through account payee bank draft on the date of agreement, stamp duty value on the date of agreement would be considered for determining the full value of consideration]	
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 ₹ 2 crore, he would be eligible for exemption in respect of both the residential house properties purchased in India. The capital gain arising on transfer of a long-term residential property shall not be chargeable to tax to the extent such capital gain is invested in the purchase of these residential house properties in India within one year before or two years after the date of transfer of original asset. Thus, he would be eligible for exemption of ₹ 55,00,000 being ₹ 20,00,000 and ₹ 35,00,000 invested on acquisition of residential house property in Kanpur and Delhi, respectively.	
Long term capital gains chargeable to tax	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 16

[Capital Gain with Section 50C & Exemption u/s 54/54EC]

Mrs. Yuvika bought a vacant land for ₹ 80 lakhs in May 2005. Registration and other expenses were 10% of the cost of land. She constructed a residential building on the said land for ₹ 100 lakhs during the 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 ₹ 700 lakhs and on 23-4-2015, Mrs. Yuvika received ₹ 20 lakhs as advance in cash by executing an agreement. However, due to failure on part of Mr. Johar, the said negotiation could not materialise and hence, the said amount of advance was forfeited by Mrs. Yuvika.

Mrs. Yuvika, again entered into an agreement on 01.05.2024 for sale of this house at ₹ 810 lakhs. She received ₹ 80 lakhs as advance by RTGS. The stamp duty value on the date of agreement was ₹ 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 ₹ 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 ₹ 130 lakhs and ₹ 50 lakhs, respectively, on 31.1.2025 and 15.5.2025
- (ii) Acquired a residential house at UK for ₹ 180 lakhs on 23.3.2025.
- (iii) Subscribed to NHAI capital gains bond (approved u/s 54EC) for ₹ 50 lakhs on 30-11-2024 and for ₹ 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.

Answer 16

Computation of income chargeable under the head "Capital Gains" of Mrs. Yuvika for A.Y.2025-26

Particulars	₹ (in lakhs)	₹ (in lakhs)
Capital Gains on sale of residential building		
Actual sale consideration ₹ 810 lakhs		
Value adopted by Stamp Valuation Authority ₹ 890 lakhs		
[Where the actual sale consideration is less than the value adopted by the Stamp Valuation Authority for the purpose of charging stamp duty, and such stamp duty value exceeds 110% of the actual sale consideration, then, the value adopted by the Stamp Valuation Authority shall be taken to be the 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 ₹ 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 ₹ 810 lakhs)		8.10
Net Sale consideration		801.90
Less: Indexed cost of acquisition		

Particulars	₹ (in lakhs)	₹ (in lakhs)
- Cost of vacant land, ₹ 80 lakhs, plus registration and other expenses i.e., ₹ 8 lakhs, being 10% of cost of land [₹ 88 lakhs × 363/117]	273.03	
- Construction cost of residential building (₹ 100 lakhs × 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 u/s 54		130.00
Where long-term capital gains exceed ₹ 2 crore, the capital gain arising on transfer of a long-term residential property shall not be chargeable to tax to the extent such capital gain is invested in the purchase of one residential house property in India, one year before or two years after the date of transfer of original asset.		
Therefore, in the present case, the exemption would be available only in respect of the one residential house acquired in India and not in respect of the residential house in UK. It would be more beneficial for her to claim the cost of acquisition of residential house at Delhi, i.e., ₹ 130 lakhs as exemption.		
Less: Exemption u/s 54EC		50.00
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 ₹ 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 ₹ 50 lakh out of ₹ 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).		
Long term capital gains chargeable to tax		67.47

Note: Advance of ₹ 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 17

[Capital Gain with Section 50C & Advance Money]

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

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

On November 15, 2024, Mr. Shiva entered into an agreement with Mr. Manish for sale of such house for ₹ 30,50,000 and received an amount of ₹ 1,50,000 as advance through an account payee cheque. Mr. Manish paid the balance entire sum and Mr. Shiva transferred the house to Mr. Manish on February 20, 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 ₹ 11,85,000 and Stamp duty value was ₹ 10,70,000. Further, the Valuation as per Stamp duty Authority of such house on 15th November, 2024 was ₹ 39,00,000 and on 20th February, 2025 was ₹ 41,00,000.

Compute the capital gains in the hands of Mr. Shiva for A.Y.2025-26. Also, compute the tax liability u/s 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

Answer 17

Computation of Capital gains in the hands of Mr. Shiva for A.Y. 2025-26

Particulars	Amount (₹)	Amount (₹)
Actual sale consideration	30,50,000	
Valuation as per Stamp duty Authority on the date of agreement	39,00,000	
(Where the actual sale consideration is less than the value adopted by the Stamp Valuation Authority for the purpose of charging stamp duty, and such 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 consideration, stamp duty value would be deemed as Full Value of Consideration]		39,00,000
<i>Less:</i> Expenses on transfer (Brokerage @1% of ₹ 30,50,000)		30,500
Net sale consideration		38,69,500
<i>Less:</i> Cost of acquisition (Note 1)	9,59,000	
<i>Less:</i> 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 (₹)
On LTCG of ₹ 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 (₹ 9,59,000 x 363/100)	<u>34,81,170</u>
Less: Indexed cost of Improvement [₹ 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 (₹)	Amount (₹)
Cost of acquisition, Being the higher of		10,70,000
(i) lower of Fair market value i.e., ₹ 11,85,000 and Stamp duty value i.e., ₹ 10,70,000, on April 1, 2001	10,70,000	
(ii) Actual cost of acquisition (₹ 3,24,000 + ₹ 35,000, being stamp duty @10% of ₹ 3,50,000)	3,59,000	
Less: Advance money taken from Mr. Mohan and forfeited		1,11,000
Cost of acquisition		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 ₹ 9,59,000 [i.e. ₹ 10,70,000 – ₹ 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, ₹ 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.

Question 18

[Capital Gain in case of share and security]

Calculate the amount chargeable to tax under the head 'Capital Gains' and also calculate tax on such gains for A.Y. 2025-26 from the following details provided by Mr. Naveen with respect to sale of certain securities during F.Y. 2024-25, assuming that the other incomes of Mr. Naveen exceed the maximum amount not chargeable to tax. (Ignore surcharge and cess):

[MTP Q]

(i) Sold 10,000 shares of Y Ltd. on 05-04-2024 @ ₹ 650 per share

Y Ltd. is a listed company. These shares were acquired by Mr. Naveen on 05-04-2017 @ ₹ 100 per share. STT was paid both at the time of acquisition as well as at the time of transfer of such shares which was affected through a recognized stock exchange.

On 31-01-2018, the shares of Y Ltd. were traded on a recognized stock exchange as under:

Highest price - ₹ 300 per share

Average price - ₹ 290 per share

Lowest price - ₹ 280 per share

(ii) Sold 1,000 units of AB Mutual Fund on 20-05-2024 @ ₹ 50 per unit

AB Mutual Fund is an equity oriented fund. These units were acquired by Mr. Naveen on 10-03-2017 @ ₹ 10 per unit. STT was paid only at the time of transfer of such units. On 31-01-2018, the Net Asset Value of the units of AB Mutual Fund was ₹ 55 per unit. The units of AB Mutual Fund were not listed on the stock exchange as on 31.1.2018.

(iii) Sold 100 shares of C Ltd. on 27-05-2024 @ ₹ 200 per share

C Ltd. is an unlisted company. These shares were issued by the company as bonus shares on 30-09-1997. The Fair Market Value of these shares as on 01-04-2001 was ₹ 50 per share.

Cost Inflation Index for various financial years are as under:

2001-02	-	100
2017-18	-	272
2018-19	-	280
2024-25	-	363

Answer 18**Computation of Capital Gains in the hands of Mr. Naveen**

	Particulars	₹
(i)	Sale of 10,000 shares of Y Ltd. on 5.4.2024 @ 650 per share	
	Sales consideration (10,000 x ₹ 650)	65,00,000
	Less: Cost of acquisition	₹ 30,00,000
	Higher of:	
	- Actual cost (10,000 x ₹ 100)	10,00,000
	- Lower of:	30,00,000
	• ₹ 30,00,000 (₹ 300 x 10,000), being fair market value as on 31.1.2018 (Highest price of the shares traded on 31.1.2018); and	
	• ₹ 65,00,000, being full value of consideration on transfer	35,00,000
	Long-term capital gain u/s 112A [Since shares held for more than 12 months and STT is paid both at the time of purchase and sale. Benefit of indexation is, however, not available on LTCG taxable u/s 112A].	
(ii)	Sale of 1,000 units of AB Mutual Fund on 20.5.2024 @ ₹ 50 per unit	
	Sale consideration (1,000 x ₹ 50)	50,000
	Less: Cost of acquisition - Higher of -	50,000
	- Actual cost (1,000 x ₹ 10)	10,000
	- Lower of:	50,000
	• ₹ 55,000 (₹ 55 x 1,000), FMV, being Net Asset Value as on 31.1.2018; and	

	Particulars	₹
	<ul style="list-style-type: none"> ₹ 50,000, being full value of consideration on transfer Long-term capital gain u/s 112A [Since shares are held for more than 12 months and STT is paid at the time of sale]	Nil
(iii)	Sale of 100 shares of C Ltd. on 27.5.2024 @ 200 per share Sale consideration (100 x ₹ 200)	20,000
	Less: Indexed Cost of acquisition [100 x ₹ 50 (being FMV on 1.4.2001) x 363/100]	18,150
	Long-term capital gain u/s 112 [Since shares are unlisted and held for more than 24 months]	1,850

Computation of tax on such capital gains for A.Y. 2025-26

Particulars	₹
Tax u/s 112A @ 10% on long-term capital gains of ₹ 34,00,000 [LTCG of ₹ 35,00,000 (-) ₹ 1,25,000] arising on sale of shares of Y Ltd.	3,37,500
Tax u/s 112 @ 20% on long-term capital gains of ₹ 1,850 arising on sale of unlisted shares of C Ltd.	370
Total tax payable	3,37,870

Question 19

[Calculation of Tax Liability in case of CG]

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

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

Answer 19

- 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	₹ 3,00,000	₹ 3,00,000	₹ 3,00,000	₹ 3,00,000

Particulars	Mr. A (age 45)	Mrs. B (age 62)	Mr. C (age 81)	Mr. D (age 82)
Asset sold	Vacant site	Listed equity shares (STT paid on both sale and purchase of shares)	Rural agricultural land	-
Long-term capital gain (on sale of above asset)	₹ 85,000 [Taxable @20% u/s 112]	₹ 10,000 [exempt u/s 112A since it is less than ₹ 1,25,000]	₹ 60,000 (Exempt – not a capital asset)	-
Other income	₹ 2,40,000	₹ 3,10,000	₹ 5,90,000	₹ 4,80,000
Tax liability				
On LTCG	₹ 17,000	-	-	-
On Other income	Nil	₹ 500	₹ 14,500	₹ 9,000
	₹ 17,000	₹ 500	₹ 14,500	₹ 9,000
Less: Rebate u/s 87A	-	-	₹ 14,500	-
	₹ 17,000	₹ 500	Nil	₹ 9,000
Add: Health & education cess (HEC) @4%	₹ 680	₹ 20	Nil	₹ 360
Total tax liability	₹ 17,680	₹ 520	Nil	₹ 9,360

Note: Since Mr. C is a resident whose total income does not exceed ₹ 7 lakhs, he is eligible for rebate of ₹ 25,000 or the actual tax payable, whichever is lower, u/s 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	₹ 2,50,000	₹ 2,50,000	₹ 5,00,000	₹ 2,50,000
Asset sold	Vacant site	Listed equity shares (STT paid on both sale and purchase of shares)	Rural agricultural land	-
Long-term capital gain (on sale of above asset)	₹ 85,000 [Taxable @20%	₹ 10,000 [exempt u/s 112A since it is less	₹ 60,000 (Exempt – not a	-
Other income				₹ 4,80,000

Chapter 6: Capital Gain

Particulars	Mr. A (age 45)	Mrs. B (age 62)	Mr. C (age 81)	Mr. D (age 82)
Tax liability	u/s 112]	than ₹	capital asset)	-
On LTCG	₹ 2,40,000	1,25,000]	₹ 5,90,000	₹ 11,500
On Other income	₹ 17,000	₹ 3,10,000	-	-
	Nil	-	-	-
	₹ 17,000	₹ 3,000	₹ 18,000	₹ 11,500
Less: Rebate u/s 87A	-	-	-	-
	₹ 17,000	₹ 3,000	₹ 18,000	₹ 11,500
Add: Health & education cess (HEC) @4%	₹ 680	₹ 120	₹ 720	₹ 460
Total tax liability	₹ 17,680	₹ 3,120	₹ 18,720	₹ 11,960

Notes:

Since Mrs. B and Mr. D are non-residents, they cannot avail the higher basic exemption limit of ₹ 3,00,000 and ₹ 5,00,000 for persons over the age of 60 years and 80 years, respectively. Also, they along with Mr. A, being non-residents are not eligible for rebate u/s 87A even though their total income does not exceed ₹ 5 lakh.

Question 20

[Capital Gain with Section 50C & Exemption u/s 54]

Mr. Rajkumar bought a residential house for ₹ 5 crores in March 2016. He entered into an agreement for sale of the said residential house with Ms. Nikita (not a relative) in September 2024 for ₹ 17 crores. The sale proceeds were to be paid in the following manner:

- 10% through account payee bank draft on the date of agreement.
- 80% on the date of the possession of the property.
- Balance after the completion of the registration of the title of the property.

Ms. Nikita was handed over the possession of the property on 10.11.2024 and the registration process was completed on 05.02.2025. She paid the sale proceeds as per the sale agreement. Value of property for stamp duty in September 2024 was ₹ 19 crores. Subsequently, the State stamp valuation authority had revised the values, hence, the value of property for stamp duty purposes was ₹ 20 crores on 05.02.2025. Mr. Rajkumar paid 1% as brokerage on sale consideration received.

Subsequent to sale, he purchased another residential house for ₹ 13 crores in Mumbai in March 2025.

You are required to compute the capital gains chargeable to tax in the hands of Mr. Rajkumar for A.Y. 2025-26. What would be the capital gain, if any, in A.Y. 2026-27 if Mr. Rajkumar transfers the new residential house in December 2025 for ₹ 15 crores?

CII: 2015-16: 254; 2024-25: 363

Answer 20

Computation of capital gains of Mr. Rajkumar for A.Y. 2025-26

Particulars	₹ (in crores)
Actual sale consideration ₹ 17 crores	
Value adopted by Stamp Valuation Authority ₹ 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	

Particulars	₹ (in crores)
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 ₹ 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 ₹ 17 crores)	0.17
Net Sale consideration	18.83
Less: Cost of acquisition	5.00
Long term capital gains	13.83
[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 u/s 54 Where long-term capital gains exceed ₹ 2 crore, the capital gain arising on transfer of a long-term residential property shall not be chargeable to tax to the extent such capital gain is invested in the purchase of one residential house property in India, one year before or two years after the date of transfer of original asset. However, if the cost of new residential house exceeds ₹ 10 crores, the amount exceeding ₹ 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 ₹ 10 crores only.	10
Long term capital gains chargeable to tax As per proviso to section 112, this case while calculating tax liability, assessee is required to pay tax at 12.5% without indexation or 20% with indexation, whichever is lower.	3.83

Computation of capital gains of Mr. Rajkumar for A.Y. 2025-26

Particulars	₹ (in crores)
Sale consideration	15
Less: Cost of acquisition (-) capital gains exempt in A.Y. 2025-26 (₹ 13 – ₹ 10)	3
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]	

Question 21

[Sec 50AA Capital Gain]

Mr. Sanjay is a resident in India aged 55 years. He had an impressive investment portfolio in various mutual funds. He redeemed his entire mutual fund investment portfolio and bought a villa in Lonavala for ₹ 2.00 crores to spend rest of his life there. The details of mutual funds are as under –

S. No.	Type of mutual fund	Date of investment	Date of redemption	Amount invested (in ₹ lakhs)	Amount redeemed (in ₹ lakhs)
1	BLR growth fund	03.04.2021	05.06.2024	110	140
2	ABC Strategic fund	04.05.2024	02.02.2025	46	50
3	ABD fund Midcap	02.12.2023	05.07.2024	115	118
4	SBA fund Growth	08.11.2022	12.12.2024	110	120

The funds stated at 1 and 2 have invested 30% of their proceeds in equity shares of domestic companies and funds stated at 3 and 4 have invested 70% of their proceeds in equity shares of domestic companies. The investment pattern of funds remained unchanged over all the years. STT is paid at the time of acquisition and redemption of mutual fund, wherever applicable.

You are required to compute the capital gains chargeable to tax in the hands of Mr. Sanjay for A.Y. 2025-26.

Answer 21

Computation of capital gains of Mr. Sanjay for A.Y. 2025-26

Particulars	₹	₹
Redemption of BLR growth fund		
Full value of consideration [Redemption value]	1,40,00,000	
Less: Indexed cost of acquisition [$₹ 1,10,00,000 \times 363/317$]	1,25,96,215	
Long term capital gains [Since it is debt fund (as not more than 65% of the proceeds are invested in equity shares of domestic companies) and it was held by Mr. Sanjay for more than 36 months immediately preceding the date of its transfer] Sec 50AA not applicable as MF acquired before 1/4/2023.		14,03,785
Redemption of ABC Strategic fund		
Full value of consideration [Redemption value]	50,00,000	
Less: Cost of acquisition	46,00,000	
Short term capital gains [Since it is a specified mutual fund (as not more than 35% of its proceeds are invested in equity shares of domestic companies) which is acquired on or after 1.4.2023, this fund would be considered as short-term capital asset as per section 50AA irrespective of the period of holding]		4,00,000
Redemption of ABD Midcap fund		
Full value of consideration [Redemption value]	1,18,00,000	
Less: Cost of acquisition	1,15,00,000	
Short term capital gains [Since it is equity-oriented fund (as more than 65% of its proceeds are invested in equity shares of domestic companies) and it was held by Mr. Sanjay for not more than 12 months immediately preceding the date of its transfer]		3,00,000

Redemption of SBA Growth fund		
Full value of consideration [Redemption value]	1,20,00,000	
Less: Cost of acquisition	1,10,00,000	
Long term capital gains [Since it is equity-oriented fund (as more than 65% of its proceeds are invested in equity shares of domestic companies) and it was held by Mr. Sanjay for more than 12 months immediately preceding the date of its transfer]		10,00,000
Total Capital Gain		31,03,785
Less: Exemption u/s 54F		
Capital gain arising on transfer of a long term capital asset other than a residential house 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.		14,03,785
Therefore, in the present case, the exemption would be available only in respect of long-term capital gains from redemption of BLR growth fund and SBA Growth fund.		5,00,000
Exemption from long term capital gains from redemption of BLR short term fund [14,03,785 x 1,40,00,000 / 1,40,00,000]		
Exemption from long term capital gains from redemption of SBA Growth fund [10,00,000 x 60,00,000 (2 crore – 1.4 crore) / 1,20,00,000]		
Capital Gain Chargeable to tax for AY 25-26		12,00,000

Question 22**[Capital Gain Tax with & Without Indexation]**

Mr. Gopal resident Individual acquired a house property for ₹ 7,00,000 during PY 1982-83 & paid stamp duty ₹ 1,50,000 at the time of registration of property. He incurred following expenses for improvement of property,

PY 96-97	-	₹ 3,50,000
PY 12-13	-	₹ 4,00,000
PY 23-24	-	₹ 3,50,000

FMV as on 01/04/2001 of such property is ₹ 18,20,000 & Stamp Duty Value on same date is ₹ 16,00,000.

Mr. Gopal sold this property as on 10/12/2024 for ₹ 1,25,00,000.

Mr. Gopal's income from other sources is ₹ 10,00,000. Compute Total Income and Tax liability. Assume he opted out from section 115BAC.

Cost Inflation Index for F.Y. 2001-02: 100; F.Y. 2012-13: 200, F.Y. 2023-24: 348, F.Y. 2024-25: 363

Answer 22**Computation of taxable capital gains for the A.Y.2025-26**

Particulars	₹	₹
Sale consideration		1,25,00,000
Less: Expenses incurred for transfer		-
		1,25,00,000

Particulars	₹	₹
Less: (i) Cost of acquisition		
(a) Cost 8,50,000		
(b) - FMV on 1/4/01 18.2 lakhs		
- SDV on 1/4/01 16.0 lakhs 16,00,000	16,00,000	
(ii) Cost of improvement (12-13)	4,00,000	
(iii) Cost of improvement (23-24)	3,50,000	23,50,000
Long term capital gains		1,01,50,000

Computation of Total Income & Tax Liability for the A.Y.2025-26

Particulars	₹	₹
LTCG u/s 112		1,01,50,000
Income from other sources		10,00,000
Net Taxable Income		1,11,50,000
Computation of Tax Liability		
1. Tax on LTCG u/s 112 [Note-2]		
(a) Tax @ 12.5% without Index [1,01,50,000 x 12.5%]	12,68,750	
(b) Tax @ 20% with Index (note -1) [56,00,914 x 20%]	11,20,183	11,20,183
Whichever is lower		
2. Tax on Balance Income		
Upto 2,50,000 -		
> 2,50,000 upto 5,00,000 5% 12,500		
> 5,00,000 upto 10,00,000 20% 1,00,000		1,12,500
		12,32,683
Add: Surcharge @15% since Total Income more than 1 crore		1,84,902
		14,17,585
Add: Health & Education cess @4%		56,703
Net Tax Liability		14,74,289
	i.e.	14,74,290

Note: 1

Particulars	Amount ₹
Full Value of Consideration	1,25,00,000
Less: Transfer Expenses	—
Net Consideration	1,25,00,000
Less: Indexed Cost of Acquisition	—
16,00,000 × $\frac{363}{100}$ [F.Y. 2024-25]	
100 [F.Y. 2001-02]	(58,08,0000)
Less: Indexed Cost of Improvement	
4,00,000 × $\frac{363}{200}$ [F.Y. 2024-25]	
200 [F.Y. 2012-13]	(7,26,000)

Particulars	Amount ₹
3,50,000 × 363 [F.Y. 2024-25] 348 [F.Y. 2023-24]	(3,65,086)
Long Term Capital Loss	56,00,914

Note: 2

If a Resident Individual or HUF transfers any immovable property acquired before 23rd July, 2024, and the tax calculated on LTCG at the new rate (12.5% without indexation) is higher than the tax calculated at the old rate (20% with indexation), then the excess tax is ignored. In other words, the assessee is required to pay tax at 12.5% without indexation or 20% with indexation, whichever is lower.

Income from Other Sources

Question 1

[Deemed Dividend u/s 2(22)(e)]

Rahul, a resident Indian, holding 28% of equity shares in a company, took a loan of ₹ 5,00,000 from the same company. On the date of granting the loan, the company had accumulated profit of ₹ 4,00,000. The company is engaged in some manufacturing activity.

- (i) Is the amount of loan taxable as deemed dividend, 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)? [SM Q.]

Answer 1

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 u/s 2(22)(e), to the extent the company possesses accumulated profits.

- (i) The provisions of section 2(22)(e), however, will not apply where the loan is given by a company in which public are substantially interested. In such a case, the loan would not be taxable as deemed dividend.
- (ii) However, if the loan is taken from a private company (i.e. a company in which the public are not substantially interested), which is a manufacturing company and not a company where lending of money is a substantial part of the business of the company, then, the provisions of section 2(22)(e) would be attracted, since Rahul holds more than 10% of the equity shares in the company.

The amount chargeable as deemed dividend cannot, however, exceed the accumulated profits held by the company on the date of giving the loan. Therefore, the amount taxable as deemed dividend would be limited to the accumulated profit i.e., ₹ 4,00,000 and not the amount of loan which is ₹ 5,00,000.

Question 2

[Capital Gain & IFOS]

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 ₹ 75,000 on his anniversary, 15th April, 2024.
- (2) Bullion, the fair market value of which was ₹ 60,000, on his birthday, 19th June, 2024.
- (3) A plot of land at Faridabad on 1st July, 2024, the stamp value of which is ₹ 5 lakh on that date. Mr. 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. @ ₹ 400 each on 19th June, 2024, the fair market value of which was ₹ 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 ₹ 20 lakh. The stamp duty value of the property as on 1st November, 2024 was ₹ 32 lakh and on the date of booking was ₹ 23 lakh. He had paid ₹ 1 lakh by account payee cheque as down payment on the date of booking.

On 1st March, 2025, he sold the plot of land at Faridabad for ₹ 7 lakh.

Compute the income of Mr. A chargeable under the head "Income from other sources" and "Capital Gains" for A.Y. 2025-26. [SM Q.]

Answer 2

Computation of "Income from other sources" of Mr. A for the A.Y. 2025-26

	Particulars	₹
(1)	Cash gift is taxable u/s 56(2)(x), since it exceeds ₹ 50,000	75,000
(2)	Since bullion is included in the definition of property, therefore, when bullion is received without consideration, the same is taxable, since the aggregate fair market value exceeds ₹ 50,000	60,000
(3)	Stamp value of plot of land at Faridabad, received without consideration, is taxable u/s 56(2)(x)	5,00,000
(4)	Difference of ₹ 2 lakh in the value of shares of X Ltd. purchased from Mr. C, a dealer in shares, is not taxable as it represents the stock-in-trade of Mr. A. Since Mr. A is a dealer in shares and it has been mentioned that the shares were subsequently sold in the course of his business, such shares represent the stock-in-trade of Mr. A.	-
(5)	Difference between the stamp duty value of ₹ 23 lakh on the date of booking and the actual consideration of ₹ 20 lakh paid is taxable u/s 56(2)(x) since the difference exceeds ₹ 2,00,000, being the higher of ₹ 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	₹
Sale Consideration	7,00,000
Less: Cost of acquisition [deemed to be the stamp value charged to tax u/s 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.

Question 3

[Taxability of GIFT]

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

- Akhil HUF received ₹ 75,000 in cash from niece of Akhil (i.e., daughter of Akhil's sister). Akhil is the Karta of the HUF.
- Nitisha, a member of her father's HUF, transferred a house property to the HUF without consideration. The stamp duty value of the house property is ₹ 9,00,000.
- 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 ₹ 100 per share. He also received jewellery worth ₹ 45,000 (FMV) from his nephew on the same day.
- Kishan HUF gifted a car to son of Karta for achieving good marks in XII board examination. The fair market value of the car is ₹ 5,25,000.

[SM Q.]

Answer 3

	Taxable/ Non- taxable	Amount liable to tax (₹)	Reason
(i)	Taxable	75,000	Sum of money exceeding ₹ 50,000 received without consideration from a non-relative is taxable u/s 56(2)(x). Daughter of Mr. Akhil's sister is not a relative of Akhil HUF, since she is not a member of Akhil HUF.
(ii)	Non- taxable	Nil	Immovable property received without consideration by a HUF from its relative is not taxable u/s 56(2)(x). Since Nitisha is a member of the HUF, she is a relative of the HUF. However, income from such asset would be included in the hands of Nitisha under 64(2).
(iii)	Taxable	55,000	As per provisions of section 56(2)(x), in case the aggregate fair market value of property, other than immovable property, received without consideration exceeds ₹ 50,000, the whole of the aggregate value shall be taxable. In this case, the aggregate fair market value of shares (₹ 10,000) and jewellery (₹ 45,000) exceeds ₹ 50,000. Hence, the entire amount of ₹ 55,000 shall be taxable.
(iv)	Non- taxable	Nil	Car is not included in the definition of property for the purpose of section 56(2)(x), therefore, the same shall not be taxable.

Question 4

[Taxability of Capital Gain & GIFT]

Mr. Hari, a property dealer, sold a building in the course of his business to his friend Rajesh, who is a dealer in automobile spare parts, for ₹ 90 lakh on 1.1.2025, when the stamp duty value was ₹ 150 lakh. The agreement was, however, entered into on 1.9.2024 when the stamp duty value was ₹ 140 lakh. Mr. Hari had received a down payment of ₹ 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 ₹ 75 lakh on 12th July, 2023.

Would your answer be different if Hari was a share broker instead of a property dealer?

[SM Q.]

Answer 4

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.</p> <p>U/s 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</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 ₹ 9,00,000, being the higher of ₹ 50,000 and 10% of consideration. Therefore, ₹ 60 lakh, being the difference between the stamp duty value of the property on the date of registration (i.e., ₹ 150 lakh)</p>

In the hands of the seller, Mr. Hari	In the hands of the buyer, Mr. Rajesh
<p>payee cheque or draft or by use of ECS through a bank account or through credit card, debit card, net banking, IMPS (Immediate payment Service), UPI (Unified Payment Interface), RTGS (Real Time Gross Settlement), NEFT (National Electronic Funds Transfer), and BHIM (Bharat Interface for Money) Aadhar Pay on or before the date of agreement. In this case, since the down payment of ₹ 15 lakh is received on the date of agreement by crossed cheque and not account payee cheque, the option cannot be exercised.</p> <p>Therefore, ₹ 75 lakh, being the difference between the stamp duty value on the date of transfer i.e., ₹ 150 lakh, and the purchase price i.e., ₹ 75 lakh, would be chargeable as business income in the hands of Mr. Hari, since stamp duty value exceeds 110% of the consideration</p>	<p>and the actual consideration (i.e., ₹ 90 lakh) would be taxable u/s 56(2)(x) in the hands of Mr. Rajesh, since the payment on the date of agreement is made by crossed cheque and not account payee cheque/draft or ECS or through credit card, debit card, net banking, IMPS (Immediate payment Service), UPI (Unified Payment Interface), RTGS (Real Time Gross Settlement), NEFT (National Electronic Funds Transfer), and BHIM (Bharat Interface for Money) Aadhar Pay.</p>

Case 2: Tax implications if Mr. Hari is a 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, ₹ 75 lakh, being the difference between the stamp duty value on the date of registration (i.e., ₹ 150 lakh) and the purchase price (i.e., ₹ 75 lakh) would be chargeable as short-term capital gains.</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, (except where the property transferred in a residential unit fulfilling the stipulated conditions, which is not so in this case).</p> <p>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 ₹ 9,00,000, being the higher of ₹ 50,000 and 10% of consideration.</p>
<p>It may be noted that u/s 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</p>	<p>Therefore, ₹ 60 lakh, being the difference between the stamp duty value of the property on the date of registration (i.e., ₹ 150 lakh) and the actual consideration (i.e., ₹ 90 lakh) would be taxable u/s 56(2)(x) in the hands of Mr. Rajesh, since the payment on the date of agreement is made by crossed cheque and not account payee cheque/draft or ECS or through credit card, debit card, net banking, IMPS (Immediate payment Service), UPI</p>

In the hands of the seller, Mr. Hari	In the hands of the buyer, Mr. Rajesh
Interface for Money) Aadhar Pay on or before the date of agreement. In this case, since the down payment of ₹ 15 lakhs has been received on the date of agreement by crossed cheque and not account payee cheque, the option cannot be exercised.	(Unified Payment Interface), RTGS (Real Time Gross Settlement), NEFT (National Electronic Funds Transfer), and BHIM (Bharat Interface for Money) Aadhar Pay.

Question 5**[Income from other sources]****[SM Q.]**

Examine under which heads the following incomes are taxable:

- Rental income in case property held as stock-in-trade for 3 years
- Dividend on shares
- Salary received by a partner from his partnership firm
- Rental income of machinery
- Winnings from lotteries by a person having the same as business activity
- Salaries payable to a Member of Parliament
- Receipts without consideration
- In case of retirement, interest on employee's contribution if provident fund is unrecognized.
- Rental income in case of a person engaged in the business of letting out of properties.

Answer 5

	Particulars	Head of Income
(i)	Rental income in case property held as stock-in trade for 3 years	Income from house property
(ii)	Dividend on shares	Income from other sources
(iii)	Salary by partner from his partnership firm	Profits and gains of business or profession
(iv)	Rental income of machinery (See Note below)	Profits and gains of business or profession/ Income from other sources
(v)	Winnings from lotteries by a person having the same as business activity	Income from other sources
(vi)	Salaries payable to a Member of Parliament	Income from other sources
(vii)	Receipts without consideration	Income from other sources
(viii)	In case of retirement, interest on employee's contribution if provident fund is unrecognized	Income from other sources
(xi)	Rental income in case of a person engaged in the business of letting out of properties	Profits and gains from business or profession

Note - As per section 56(2)(ii), rental income of machinery would be chargeable to tax under the head "Income from Other Sources", if the same is not chargeable to income-tax under the head "Profits and gains of business or profession".

Question 6**[Interest on Late Compensation]**

On 10.10.2024, Mr. Govind (a bank employee) received ₹ 5,00,000 towards interest on enhanced compensation from State Government in respect of compulsory acquisition of his land effected during the financial year 2015-16.

Out of this interest, ₹ 1,50,000 relates to the financial year 2016-17; ₹ 1,65,000 to the financial year 2017-18; and ₹ 1,85,000 to the financial year 2018-19. He incurred ₹ 50,000 by way of legal expenses to receive the interest on such enhanced compensation.

How much of interest on enhanced compensation would be chargeable to tax for the assessment year 2025-26? **[SM Q.]**

Answer 6

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

Question 7**[Taxability of Gift]**

The following details have been furnished by Mrs. Hemali pertaining to the year ended 31.3.2025:

- Cash gift of ₹ 51,000 received from her friend on the occasion of her "Shastipatha Poorthi", a wedding function celebrated on her husband completing 60 years of age. This was also her 25th wedding anniversary.
- On the above occasion, a diamond necklace worth ₹ 2 lacs was presented by her sister living in Dubai.
- 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 ₹ 52,000.

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

[SM Q.]

Answer 7

- Any sum of money received by an individual on the occasion of the marriage of the individual is exempt. This provision is, however, not applicable to a cash gift received during a wedding function celebrated on completion of 60 years of age.

The gift of ₹ 51,000 received from a non-relative is, therefore, chargeable to tax u/s 56(2)(x) in the hands of Mrs. Hemali, since the same exceeds ₹ 50,000.

- 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 u/s 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, ₹ 52,000 shall be taxable in hands of Hemali. We assume that FD is treated under money.

Question 8**[Taxability of Gift]**

Examine the following transactions in the context of Income-tax Act, 1961: **[SM Q.]**

- (i) Mr. B transferred 500 shares of R (P) Ltd. to M/s. B Co. (P) Ltd. on 10.10.2024 for ₹ 3,00,000 when the market price was ₹ 5,00,000. The indexed cost of acquisition of shares for Mr. B was computed at ₹ 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 ₹ 5,00,000. He received a cash gift of ₹ 1,00,000 from Atma Charitable Trust (registered u/s 12AB) in December 2024 for meeting his medical expenses.

Is the cash gift so received from the trust chargeable to tax in the hands of Mr. Chezian?

Answer 8

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

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

As per 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 (₹ 5,00,000) less the indexed cost of acquisition (₹ 4,45,000) would result in a long term capital gains of ₹ 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 u/s 12AB. Therefore, the cash gift of ₹ 1 lakh received from Atma Charitable Trust, being a trust registered u/s 12AB, for meeting medical expenses would not be chargeable to tax u/s 56(2)(x) in the hands of Mr. Chezian.

Income of Other Persons Included in Assessee's Total Income

Question 1

[Clubbing of children Income]

Mr. A has three minor children – two twin daughters, aged 12 years, and one son, aged 16 years. Income of the twin daughters is ₹ 2,000 p.a. each and that of the son is ₹ 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 ₹ 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 u/s 115BAC(1A)].

[SM Q.]

Answer 1

Taxable income, in respect of minor children, in the hands of Mr. A is:

Particulars	₹	₹
Twin minor daughters [₹ 2,000 × 2]	4,000	
Less: Exempt u/s 10(32) [₹ 1,500 × 2]	3,000	1,000
Minor son	1,200	
Less: Exempt u/s 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 ₹ 84,000 [i.e., ₹ 1,20,000 (-) ₹ 36,000, being 30% of ₹ 1,20,000] would be taxable directly in her hands as the deemed owner of the said property. Consequently, clubbing provisions u/s 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.

Question 2

[Clubbing of children Income]

Mr. Sharma has four children consisting 2 daughters and 2 sons. The annual income of 2 daughters were ₹ 9,000 and ₹ 4,500 and of sons were ₹ 6,200 and ₹ 4,300, respectively. The daughter who has income of ₹ 4,500 was suffering from a disability specified u/s 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 u/s 115BAC(1A).

[SM Q.]

Answer 2

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 u/s 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 u/s 80U should not be clubbed with the income of Mr. Sharma.

Chapter 8: Income of Other Persons included in Assessee's Total Income

U/s 10(32), income of each minor child includible in the hands of the parent u/s 64(1A) would be exempt to the extent of the actual income or ₹ 1,500, whichever is lower. The remaining income would be included in the hands of the parent.

Computation of income earned by minor children to be clubbed with the income of Mr. Sharma:

	Particulars	₹
(i)	Income of one daughter	9,000
	Less: Income exempt u/s 10(32)	1,500
	Total (A)	7,500
(ii)	Income of two sons (₹ 6,200 + ₹ 4,300)	10,500
	Less: Income exempt u/s 10(32)	
	(₹ 1,500 + ₹ 1,500)	3,000
	Total (B)	7,500
	Total Income to be clubbed as per section 64(1A) (A+B)	15,000

Note: It has been assumed that:

- (1) All the four children are minor children;
- (2) The income does not accrue or arise to the minor children on account of any manual work done by them or activity involving application of their skill, talent or specialized knowledge and experience;
- (3) The income of Mr. Sharma, before including the minor children's income, is greater than the income of Mrs. Sharma, due to which the income of the minor children would be included in his hands; and
- (4) This is the first year in which clubbing provisions are attracted.

Question 3

[Clubbing of spouse of Income]

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 ₹ 30,000 p.m. She is, however, not qualified for the job. The other income of Mr. A & Mrs. A are ₹ 7,00,000 & ₹ 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.

Will your answer be different if Mrs. A was qualified for the job?

[SM Q.]

Answer 3

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	₹	₹
Salary received by Mrs. A (₹30,000 × 12)	3,60,000	
Less: Standard deduction u/s 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 ₹ 4,00,000.

Chapter 8: Income of Other Persons included in Assessee's Total Income

If Mrs. A possesses professional qualifications for the job, then the clubbing provisions shall not be applicable.

Gross total income of Mr. A = ₹ 7,00,000 [other income].

Gross total income of Mrs. A = Salary received by Mrs. A [₹ 30,000 × 12] Less ₹ 75,000, being the standard deduction u/s 16(ia) plus other income [₹ 4,00,000] = ₹ 6,85,000

Question 4

[Clubbing of Income]

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 ₹ 3,44,000 without any qualification in accountancy. Mr. B also receives ₹ 30,000 as interest on securities. Mrs. B owns a house property which she has let out. Rent received from tenants is ₹ 6,000 p.m. Compute the gross total income of Mr. B and Mrs. B for the A.Y. 2025-26. [SM Q.]

Answer 4

Since Mrs. B is not professionally qualified for the job, the clubbing provisions shall be applicable.

Computation of Gross total income of Mr. B

Particulars	₹
Income under the head salary of Mrs. B (Computed)	3,44,000
Income from other sources	
- Interest on securities	30,000
	3,74,000

Computation of Gross total income of Mrs. B

Particulars	₹	₹
Income from Salary [clubbed in the hands of Mr. B]		Nil
Income from house property		
Gross Annual Value [₹ 6,000 × 12]	72,000	
Less: Municipal taxes paid	-	
Net Annual Value (NAV)	72,000	
Less: Deductions u/s 24		
- 30% of NAV i.e., 30% of ₹ 72,000	21,600	
- Interest on loan	-	50,400
Gross total income		50,400

Question 5

[Clubbing of spouse of Income from Business]

Mr. Vaibhav started a proprietary business on 01.04.2023 with a capital of ₹ 5,00,000. He incurred a loss of ₹ 2,00,000 during the year 2023-24. To overcome the financial position, his wife Mrs. Vaishaly, a software Engineer, gave a gift of ₹ 5,00,000 on 01.04.2024, which was immediately invested in the business by Mr. Vaibhav. He earned a profit of ₹ 4,00,000 during the year 2024-25. Compute the amount to be clubbed in the hands of Mrs. Vaishaly for the Assessment Year 2025-26. If Mrs. Vaishaly gave the said amount as loan, what would be the amount to be clubbed? [SM Q.]

Answer 5

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 ₹ 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 (₹)	Capital contribution out of gift from Mrs. Vaishaly (₹)	Total (₹)
Capital as on 1.4.2024	3,00,000 (5,00,000 – 2,00,000)	5,00,000	8,00,000
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 $\left(4,00,000 \times \frac{3}{8}\right)$	2,50,000 $\left(4,00,000 \times \frac{5}{8}\right)$	4,00,000

Therefore, the income to be clubbed in the hands of Mrs. Vaishaly for the A.Y.2025-26 is ₹ 2,50,000.

In case Mrs. Vaishaly gave the said amount as a loan, then, clubbing provisions would not be attracted.

Note: The provisions of section 56(2)(x) would not be attracted in the hands of Mr. Vaibhav, since he has received a sum of money exceeding ₹ 50,000 without consideration from a relative i.e., his wife.

Question 6
[Clubbing of spouse of Income from Business]

A proprietary business was started by Smt. Rani in the year 2022. As on 1.4.2023 her capital in business was ₹ 3,00,000.

Her husband gifted ₹ 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, ₹ 1,50,000 and Financial year 2024-25 ₹ 3,90,000. Compute the income, to be clubbed in the hands of Rani's husband for the Assessment year 2025-26 with reasons.

[SM Q.]

Answer 6

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 ₹ 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
	₹	₹	₹
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

Particulars	Smt. Rani's Capital Contribution	Capital Contribution Out of gift from husband	Total
	₹	₹	₹
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 ₹ 1,20,000.

Question 7

[Clubbing of Income]

Mrs. Kasturi transferred her immovable property to ABC Co. Ltd. subject to a condition that out of the rental income, a sum of ₹ 36,000 per annum shall be utilized for the benefit of her son's wife.

Mrs. Kasturi claims that the amount of ₹ 36,000 (utilized by her son's wife) should not be included in her total income as she no longer owned the property.

Examine with reasons whether the contention of Mrs. Kasturi is valid in law.

[SM Q.]

Answer 7

The clubbing provisions u/s 64(1)(viii) are attracted in case of transfer of any asset, directly or indirectly, otherwise than for adequate consideration, to any person to the extent to which the income from such asset is for the immediate or deferred benefit of son's wife. Such income shall be included in computing the total income of the transferor-individual.

Therefore, income of ₹ 36,000 meant for the benefit of daughter-in-law is chargeable to tax in the hands of transferor i.e., Mrs. Kasturi in this case.

The contention of Mrs. Kasturi is, hence, not valid in law.

Note - In order to attract the clubbing provisions u/s 64(1)(viii), the transfer should be otherwise than for adequate consideration. In this case, it is presumed that the transfer is otherwise than for adequate consideration and therefore, the clubbing provisions are attracted. 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.

If it is presumed that the transfer was for adequate consideration, the provisions of section 64(1)(viii) would not be attracted.

Question 8

[Clubbing of Income]

Compute the gross total income of Mr. & Mrs. A from the following information assuming both exercise the option of shifting out of the default tax regime provided u/s 115BAC(1A)

	Particulars	₹
(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

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	Particulars	₹
(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. **[SM Q.]**

Answer 8

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 ₹ 3,90,000 and income of Mrs. A is ₹ 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 ₹ 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	₹	₹
Income from profession		3,90,000
Income of minor son B from company deposit	15,000	
Less: Exemption u/s 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 ₹ 2,500 received from a non-relative is not taxable u/s 56(2)(x) being less than the aggregate limit of ₹ 50,000	Nil	
	3,000	
Less : Exemption u/s 10(32)	1,500	1,500
Gross Total Income		4,05,000

Question 9**[Cross Gift]**

Mr. Vasudevan gifted a sum of ₹ 6 lakhs to his brother's wife on 14-6-2024. On 12-7-2024, his brother gifted a sum of ₹ 5 lakhs to Mr. Vasudevan's wife. The gifted amounts were invested as fixed deposits in banks by Mrs. Vasudevan and wife of Mr. Vasudevan's brother on 01-8-2024 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. **[SM Q.]**

Answer 9

In the given case, Mr. Vasudevan gifted a sum of ₹ 6 lakhs to his brother's wife on 14.06.2024 and simultaneously, his brother gifted a sum of ₹ 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 *Keshavji Morarji* (1967).

Accordingly, the interest income arising to Mrs. Vasudevan in the form of interest on fixed deposits would be included in the total income of Mr. Vasudevan and interest income arising in the hands of his brother's wife would be taxable in the hands of Mr. Vasudevan's brother as per section 64(1), to the extent of amount of cross transfers i.e., ₹ 5 lakhs.

This is because both Mr. Vasudevan and his brother are the indirect transferors of the income to their respective spouses with an intention to reduce their burden of taxation.

However, the interest income earned by his spouse on fixed deposit of ₹ 5 lakhs alone would be included in the hands of Mr. Vasudevan's brother and not the interest income on the entire fixed deposit of ₹ 6 lakhs, since the cross transfer is only to the extent of ₹ 5 lakhs.

Question 10**[Cross Gift]**

Mr. A has gifted a house property valued at ₹ 50 lakhs to his wife, Mrs. B, who in turn has gifted the same to Mrs. C, their daughter-in-law. The house was let out at ₹ 25,000 per month throughout the year. Compute the total income of Mr. A and Mrs. C. Will your answer be different if the said property was gifted to his son, husband of Mrs. C? **[SM Q.]**

Answer 10

As per section 27(i), an individual who transfers otherwise than for adequate consideration any house property to his spouse, not being a transfer in connection with an agreement to live apart, shall be deemed to be the owner of the house property so transferred.

Therefore, in this case, Mr. A would be the deemed owner of the house property transferred to his wife Mrs. B without consideration.

As per section 64(1)(vi), income arising to the son's wife from assets transferred, directly or indirectly, to her by an individual otherwise than for adequate consideration would be included in the total income of such individual.

Income from let-out property is ₹ 2,10,000 [i.e., ₹ 3,00,000, being the actual rent calculated at ₹ 25,000 per month less ₹ 90,000, being deduction u/s 24@30% of ₹ 3,00,000]

In this case, income of ₹ 2,10,000 from let-out property arising to Mrs. C, being Mr. A's son's wife, would be included in the income of Mr. A, applying the provisions of section 27(i) and section 64(1)(vi). Such income would, therefore, not be taxable in the hands of Mrs. C.

In case the property was gifted to Mr. A's son, the clubbing provisions u/s 64 would not apply, since the son is not a minor child. Therefore, the income of ₹ 2,10,000 from letting out of property gifted to the son would be taxable in the hands of the son.

It may be noted that the provisions of section 56(2)(x) would not be attracted in the hands of the recipient of house property, since the receipt of property in each case was from a "relative" of such individual. Therefore, the 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.

Question 11**[Cross Gift]**

Rayaan gifted ₹ 15 lakhs to his wife, Sargam on her birthday on, 23rd February, 2024. Sargam lent ₹ 8,00,000 out of the gifted amount to Karuna on 1st April, 2024 for six months on which she received interest of ₹ 80,000. The said sum of ₹ 80,000 was invested in

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shares of a listed company on 5th October, 2024, which were sold for ₹ 96,000 on 28th March, 2025. Securities transactions tax was paid on purchase and sale of such shares. The balance amount of gift was invested on 1st April 2024, as capital by Sargam in her new business. She suffered loss of ₹ 52,000 in the business in Financial Year 2024-25.

In whose hands the above income and loss shall be included in Assessment Year 2025-26, assuming that capital invested in the business was entirely out of the funds gifted by her husband. Support your answer with brief reasons. **[RTP M-20 Q.]**

Answer 11

In computing the total income of any individual, there shall be included all such income as arises directly or indirectly, to the spouse of such individual from assets transferred directly or indirectly, to the spouse by such individual otherwise than for adequate consideration or in connection with an agreement to live apart.

Interest on loan: Accordingly, ₹ 80,000, being the amount of interest on loan received by Mrs. Sargam, wife of Mr. Rayaana, would be includible in the total income of Mr. Rayaana, since such loan was given out of the sum of money received by her as gift from her husband.

Loss from business: As per Explanation 2 to section 64, income includes loss. Thus, clubbing provisions would be attracted even if there is loss and not income.

Thus, the entire loss of ₹ 52,000 from the business carried on by Mrs. Sargam would also be includible in the total income of Mr. Rayaana, since as on 1st April 2024, the capital invested was entirely out of the funds gifted by her husband.

Short-term capital gain: Income from the accretion of the transferred asset is not liable to be included in the hands of the transferor and, therefore, short-term capital gain of ₹ 16,000 (₹ 96,000, being the sale consideration less ₹ 80,000, being the cost of acquisition) arising in the hands of Mrs. Sargam from sale of shares acquired by investing the interest income of ₹ 80,000 earned by her (from the loan given out of the sum gifted by her husband), would not be included in the hands of Mr. Rayaana. Thus, such income is taxable in the hands of Mrs. Sargam.

Question 12

[Cross Gift]

Mr. Karan gifted a sum of ₹ 9 lakhs to his brother's minor son on 1-5-2024. On the same date, his brother gifted debentures worth ₹ 10 lakhs to Mrs. Karan. Son of Mr. Karan's brother invested the amount in fixed deposit with Canara Bank @ 9% p.a. interest and Mrs. Karan received interest of ₹ 81,000 on these debentures during the previous year 2024-25. Discuss the tax implications under the provisions of the Income-tax Act, 1961.

[RTP N-20]

Answer 12

In the given case, Mr. Karan gifted a sum of ₹ 9 lakhs to his brother's minor son on 1.5.2024 and simultaneously, his brother gifted debentures worth ₹ 10 lakhs to Mr. Karan's wife on the same date. Mr. Karan's brother's minor son invested the gifted amount of ₹ 9 lakhs in fixed deposit with Canara Bank.

These transfers are in the nature of cross transfers. Accordingly, the income from the assets transferred would be assessed in the hands of the deemed transferor because the transfers are so intimately connected to form part of a single transaction and each transfer constitutes consideration for the other by being mutual or otherwise.

If two transactions are inter-connected and are part of the same transaction in such a way that it can be said that the circuitous method was adopted as a device to evade tax, the implication of clubbing provisions would be attracted.

As per section 64(1A), all income of a minor child is includible in the hands of the parent, whose total income, before including minor's income is higher. Accordingly, the interest income arising to Mr. Karan's brother's son from fixed deposits would be included in the total income of Mr. Karan's brother, assuming that Mr. Karan's brother's total income is higher than his wife's total income,

before including minor's income. Mr. Karan's brother can claim exemption of ₹ 1,500 u/s 10(32).

Interest on debentures arising in the hands of Mrs. Karan would be taxable in the hands of Mr. Karan as per section 64(1)(iv).

This is because both Mr. Karan and his brother are the indirect transferors of the income to their spouse and minor son, respectively, with an intention to reduce their burden of taxation.

In the hands of Mr. Karan, interest received by his spouse on debentures of ₹ 9 lakhs alone would be included and not the entire interest income on the debentures of ₹10 lakhs, since the cross transfer is only to the extent of ₹ 9 lakhs.

Hence, only proportional interest (i.e., 9/10th of interest on debentures received) ₹ 72,900 would be includible in the hands of Mr. Karan.

The provisions of section 56(2)(x) are not attracted in respect of sum of money transferred or value of debentures transferred, since in both the cases, the transfer is from a relative.

Question 13

[Misc. Income clubbing]

During the previous year 2024-25, the following transactions occurred in respect of Mr. A.

- Mr. A had a fixed deposit of ₹ 5,00,000 in Bank of India. He instructed the bank to credit the interest on the deposit @ 9% 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 ₹ 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 ₹ 52,000 from such flat.
- Mr. A gifted ₹ 2,00,000 to his minor son who invested the same in a business and he derived income of ₹ 20,000 from the investment.
- Mr. A's minor son derived an income of ₹ 20,000 through a business activity involving application of his skill and talent.

During the year, Mr. A got a monthly pension of ₹ 10,000. He had no other income. Mrs. A received salary of ₹ 20,000 per month from a part time job.

Examine the tax implications of each transaction and compute the total income of Mr. A, Mrs. A and their minor child assuming they exercised the option of shifting out of the default tax regime provided u/s 115BAC(1A). [SM Q.]

Answer 13

Computation of total income of Mr. A, Mrs. A and their minor son for the A.Y. 2025-26

Particulars	Mr. A (₹)	Mrs. A (₹)	Minor Son (₹)
Income under the head "Salaries"			
Salary income (of Mrs. A)	-	2,40,000	-
Pension income (of Mr. A) (₹ 10,000×12)	1,20,000	-	-
Less: Standard deduction u/s 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			

Particulars	Mr. A (₹)		Mrs. A (₹)	Minor Son (₹)
Interest on Mr. A's fixed deposit with Bank of India (₹ 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 u/s 64(1A)		1,92,000	1,90,000	-
Income of the minor son from the investment made in the business out of the amount gifted by Mr. A [See Note (4) below]		18,500	-	-
Income of the minor son through a business activity involving application of his skill and talent [See Note (5) below]		-	-	20,000
Total Income		2,10,500	1,90,000	20,000

Notes:

(1) As per section 60, in case there is a transfer of income without transfer of asset from which such income is derived, such income shall be treated as income of the transferor. Therefore, the fixed deposit interest of ₹ 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 ₹ 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 ₹ 1,500 per child.

Therefore, the income of ₹ 20,000 received by minor son from the investment made out of the sum gifted by Mr. A shall, after providing for exemption of ₹ 1,500 u/s 10(32), be included in the income of Mr.

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A, since Mr. A's income of ₹ 1,92,000 (before including the income of the minor child) is greater than Mrs. A's income of ₹ 1,90,000. Therefore, ₹ 18,500 (i.e., ₹ 20,000 – ₹ 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 ₹ 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 ₹ 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 14

[Misc Income clubbing]

Mr. B is the Karta of a HUF, whose members derive income as given below:

	Particulars	₹
(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.

[SM Q.]

Answer 14

Clubbing of income and other tax implications

As per the provisions of section 64(1A), in case the marriage of the parents subsists, 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 ₹ 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 ₹ 26,000 (₹ 76,000 less standard deduction u/s 16(ia) of ₹ 50,000) shall be taxable as "Salaries" in the hands of Mrs. B.
- (iii) Income from fixed deposit of ₹ 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 ₹ 1,500 per child. The balance income would be clubbed in the hands of the parent as "Income from other sources".

- (iv) Income of ₹ 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.

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- (v) Income of ₹ 1,95,000 arising to minor son D from lottery shall be included in the hands of Mr. B as "Income from other sources", since Mr. B's income is greater than the income of Mrs. B before including the income of minor child.

Note—Mr. B can reduce the tax deducted at source from such lottery income while computing his net tax liability.

Question 15

[Misc Income clubbing]

Details of Income of Mr. R and his wife Mrs. R for the previous year 2024-25 are as under:

- (i) Mr. R transferred his self-occupied property without any consideration to the HUF of which he is a member. During the previous year 2024-25 the HUF earned an income of ₹ 50,000 from such property.
- (ii) Mr. R transferred ₹ 4,00,000 to his wife Mrs. R on 01.04.2009 without any consideration which was given as a loan by her to Mr. Girish. She earned ₹ 3,50,000 as interest during the earlier previous years which was also given as a loan to Mr. Girish. During the previous year 2024-25, she earned interest @ 11% per annum.
- (iii) Mr. R and Mrs. R both hold equity shares of 27% and 25% respectively in AMG Limited. They are also working as employees in such Company. During the financial year 2024-25 they have withdrawn a salary of ₹ 3,20,000 and 2,70,000 respectively.
- (iv) Mrs. R transferred 5,000 equity shares of RSB Ltd. on 17.09.2016 to Mr. R without any consideration. The Company issued 3,000 bonus shares to Mr. R in 2019. On 04.03.2025, Mr. R sold entire share holdings and earned ₹ 5,20,000 as capital gains.

Apart from above income, Mr. R has income from commission ₹ 4,00,000 and Mrs. R has interest income of ₹ 3,30,000.

Compute Gross Total income of Mr. R and Mrs. R for the assessment year 2025-26. Assume they have opted out from default taxation regime u/s 115BAC.

Answer 15

(a) Computation of Gross Total Income of Mr. R and Mrs. R for A.Y. 2025-26

	Particulars	Mr. R	Mrs. R
		Amount (₹)	
I.	Income from house property Income from property transferred to HUF without consideration Since Mr. R has transferred his property to his HUF without consideration, income of ₹ 50,000 ¹ from such property would be included in the total income of Mr. R as per section 64(2).	50,000	
II.	Capital Gains Income from equity shares transferred by Mrs. R to Mr. R without consideration Capital gains arising to Mr. R from transfer of equity shares of RSB Ltd. gifted to him by Mrs. R would be included in the hands of Mrs. R [₹ 5,20,000 x 5,000/8,000]		3,25,000

¹ Assumed as computed figure.

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	Particulars	Mr. R	Mrs. R
		Amount (₹)	
	Capital gains arising to Mr. R from transfer of bonus shares issued by RSB Ltd. on the basis of holding of the said equity shares would be included in the income of Mr. R and not Mrs. R, since income derived from accretion of the transferred asset cannot be clubbed with the income of transferor of the original asset i.e., Mrs. R [₹ 5,20,000 x 3,000/8,000] ³	1,95,000	
III.	Income from Other Sources		
	Income from commission	4,00,000	
	Interest income		3,30,000
	Interest income on ₹ 4 lakh transferred by Mr. R to Mrs. R without consideration		
	Income of ₹ 44,000, i.e., 11% of ₹4,00,000, being the amount transferred by Mr. R to Mrs. R without any consideration and loaned by her to Mr. Girish, would be included in the income of Mr. R	44,000	
	Income of ₹ 38,500 i.e., 11% of ₹ 3,50,000, being the interest earned by Mrs. R out of amount gifted by Mr. R and thereafter, given by her as loan to Mr. Girish, would be included in the income of Mrs. R, as income derived by Mrs. R from accretion of the amount gifted by Mr. R (i.e., interest income) cannot be included in the income of Mr. R.		38,500
	Total income [before considering adjustment on account of item (iii) i.e., salary income from a company in which both Mr. R and Mrs. R have substantial interest]	6,89,000	6,93,500
IV.	Salary income from a company in which both Mr. R and Mrs. R have substantial interest		
	Since both Mr. R and Mrs. R have substantial interest in AMG Ltd. (on account of holding equity shares carrying 20% or more of voting power) and both are in receipt of income by way of salary from AMG Ltd., such salary income would be includible in the hands of that spouse, whose total income, before including such salary income, is higher. Accordingly, the salary income of both Mr. R and Mrs. R would be included in the hands of Mrs. R in this case, since her total income, before including such income, is higher than that of Mr. R.		
	Salary income of Mr. R = ₹ 3,20,000 – ₹ 50,000 (standard deduction)		2,70,000
	Salary income of Mrs. R = ₹ 2,70,000 – ₹ 50,000 (standard deduction)		2,20,000
	Gross Total Income	6,89,000	11,83,500

Aggregation of Income, Set-Off and Carry Forward of Losses

Question 1

Mr. A, aged 35 years, submits the following particulars pertaining to the A.Y.2025-26:

Particulars	₹
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

- He has exercised the option of shifting out of the default tax regime provided u/s 115BAC(1A).
- He pays tax under the default tax regime.

Answer 1

(i) Computation of total income for the A.Y.2025-26 under normal provisions of the Act

Particulars	Amount (₹)	Amount (₹)
Income from salary	4,00,000	
Less: Loss from house property of ₹ 2,20,000 to be restricted to ₹ 2 lakhs by virtue of section 71(3A)	(-) 2,00,000	2,00,000
Balance loss of ₹ 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 ₹ 1,00,000 set-off to the extent of ₹ 80,000	(-) 80,000	
Business loss of ₹ 20,000 to be carried forward for set-off against business income of the next assessment year		
Gross total income [See Note below]		2,00,000
Less: Deduction under Chapter VI-A		Nil
Total income		2,00,000

Notes:

- Gross Total Income includes salary income of ₹ 2,00,000 after adjusting loss of ₹ 2,00,000 from house property. The balance loss of ₹ 20,000 from house property to be carried forward to next assessment year for set-off against income from house property of that year.

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- (ii) Business loss of ₹ 1,00,000 is set off against bank interest of ₹ 80,000 and remaining business loss of ₹ 20,000 will be carried forward as it cannot be set off against salary income.

(ii) Computation of total income for the A.Y.2025-26 under default tax regime

Particulars	Amount (₹)	Amount (₹)
Income from salary		4,00,000
Income from other sources (interest on fixed deposit with bank)	80,000	
Less: Business loss of ₹ 1,00,000 set-off to the extent of ₹ 80,000	(-) 80,000	-
Business loss of ₹ 20,000 to be carried forward for set-off against business income of the next AY		
Gross total income/ Total Income		4,00,000

Notes:

- (i) Under the default tax regime, loss from house property cannot be set off against income under any other head and cannot be carry forward.
- (ii) Business loss of ₹ 1,00,000 is set off against bank interest of ₹ 80,000 and remaining business loss of ₹ 20,000 will be carried forward as it cannot be set off against salary income.

Question 2

Mr. B, a resident individual, furnishes the following particulars for the P.Y.2024-25:

Particulars	₹
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?

Answer 2

Total income of Mr. B for the A.Y. 2025-26

Particulars	Amount (₹)	Amount (₹)
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)	

Particulars	Amount (₹)	Amount (₹)
Capital Gains		
Long term capital gain taxable u/s 112	19,000	
Short term capital loss ₹ 25,000 set off against long-term capital gains to the extent of ₹ 19,000 [Note (iii)]	(19,000)	
	Nil	
Balance short term capital loss of ₹ 6,000 to be carried forward [Note (iii)]		
Taxable income		45,000

Notes:

- Business loss cannot be set-off against salary income. Therefore, loss of ₹ 22,000 from the non-speculative business cannot be set off against the income from salaries. Hence, such loss has to be carried forward to the next year for set-off against business profits, if any.
- Loss of ₹ 4,000 from the speculative business can be set off only against the income from the speculative business. Hence, such loss has to be carried forward.
- 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 ₹ 25,000 can be set-off against long-term capital gains to the extent of ₹ 19,000. The balance short term capital loss of ₹ 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.

Question 3

During the P.Y. 2024-25, Mr. C has the following income and the brought forward losses:

Particulars	₹
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?

[SM Q.]

Answer 3**Taxable capital gains of Mr. C for the A.Y. 2025-26**

Particulars	₹	₹
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		
₹ 96,000 set off to the extent of ₹ 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 ₹ 21,000 (i.e. ₹ 96,000 – ₹ 75,000) can be carried forward to the next year to be set-off against long-term capital gains of that year.

Question 4

Mr. D has the following income for the P.Y.2024-25:

Particulars	₹
Income from the activity of owning and maintaining the race horses	75,000
Income from textile business	85,000
Brought forward textile business loss (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?

[SM Q.]

Answer 4

Total income of Mr. D for the A.Y. 2025-26

Particulars	₹	₹
Income from the activity of owning and maintaining race horses	75,000	
Less: Brought forward loss of ₹ 96,000 from the activity of owning and maintaining race horses set-off to the extent of ₹ 75,000	75,000	
	Nil	
Balance loss of ₹ 21,000 (₹ 96,000 – ₹ 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.

Question 5

Mr. E has furnished his details for the A.Y.2025-26 as under:

Particulars	₹
Income from salaries (computed)	1,50,000
Income from speculation business	60,000
Loss from non-speculation business	(40,000)
Short term capital gain	80,000
Long term capital loss of A.Y.2023-24	(30,000)
Winning from lotteries (Gross)	20,000

What is the taxable income of Mr. E for the A.Y.2025-26?

[SM Q.]

Answer 5

Computation of taxable income of Mr. E for the A.Y. 2025-26

Particulars	₹	₹
Income from salaries		1,50,000
Income from speculation business	60,000	
Less : Loss from non-speculation business	(40,000)	20,000
Short-term capital gain		80,000
Winnings from lotteries		20,000
Taxable income		2,70,000

Note: Long term capital loss can be set off only against long term capital gain. Therefore, long term capital loss of ₹ 30,000 has to be carried forward to the

Question 6

Compute the gross total income of Mr. F for the A.Y. 2025-26 from the information given below – **[SM Q.]**

Particulars	₹
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 growing & manufacturing business	1,20,000
Dividends from Indian companies carrying on agricultural operations (Gross)	80,000
Current year depreciation	26,000
Brought forward business loss (loss incurred six years ago)	(45,000)

Answer 6

Gross Total Income of Mr. F for the A.Y. 2025-26

Particulars	₹	₹
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

Chapter 9: Aggregation of Income, Set-Off and Carry Forward of Losses

Note:

- (1) Dividend from Indian companies is fully taxable in the hands of shareholders at normal rates of tax.
- (2) 60% of the income from tea business is treated as agricultural income and therefore, exempt from tax;
- (3) Long-term capital loss can be set-off only against long-term capital gains. Therefore, long-term capital loss of ₹ 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 7

Mr. Soohan submits the following details of his income for the assessment year 2025-26:

Particulars	₹
Income from salary (computed)	3,00,000
Loss from let out house property	(-) 40,000
Income from sugar business	50,000
Loss from iron ore business b/f (discontinued in P.Y. 2019-20)	(-) 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 u/s 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 u/s 115BAC(1A).

[SM Q.]

Answer 7

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

Particulars	₹	₹
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 ₹ 1,20,000 from iron-ore business set-off as per section 72(1) to the extent of ₹ 50,000	(50,000)	Nil
Balance business loss of ₹ 70,000 of P.Y.2019-20 to be		

Chapter 9: Aggregation of Income, Set-Off and Carry Forward of Losses

Particulars	₹	₹
carried forward to A.Y.2026-27		
Capital gains		
Long term capital gain	40,000	
Less: Short term capital loss of ₹ 60,000 set-off to the extent of ₹ 40,000	(40,000)	
Balance short-term capital loss of ₹ 20,000 to be carried forward		
Short-term capital loss of ₹ 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 (₹ 1,20,000 – ₹ 50,000)	70,000	
Short term capital loss (₹ 20,000 + ₹ 10,000)	30,000	

Notes:

1. Agricultural income is exempt u/s 10(1)
2. It is presumed that loss from iron-ore business relates to P.Y.2019-20, the year in which the business was discontinued.

Question 8

Mr. Batra furnishes the following details for year ended 31.03.2025:

Particulars	₹
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 ₹ 25,000.

(ii) Brought forward loss from business of textile ₹ 60,000 - Loss pertains to A.Y. 2017-18.

Compute gross total income of Mr. Batra for the AY 2025-26, assuming that he has exercised the option of shifting out of the default tax regime provided u/s 115BAC(1A). Also determine the losses eligible for carry forward to the AY 2026-27. **[SM Q.]**

Answer 8

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

Particulars	₹	₹
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 ₹ 60,000 from textile business b/f from A.Y. 2017-18 set-off to the extent of ₹ 50,000	50,000	NIL
Income from the activity of owning and maintaining race horses	15,000	
Less: Loss of ₹ 25,000 from activity of owning and maintaining race horses b/f from A.Y. 2022-23 set-off to the extent of ₹ 15,000		
Balance loss of ₹ 10,000 to be carried forward to A.Y. 2026-27 [See Note 2]	15,000	NIL
Capital Gain		
Short term capital gain		1,40,000
Long term capital gain on sale of land	30,000	
Less: Long term capital loss of ₹ 1,00,000 on sale of unlisted shares set-off to the extent of ₹ 30,000	30,000	NIL
Balance loss of ₹ 70,000 to be carried forward to A.Y. 2026-27 [See Note 3]		
Gross Total Income		2,00,000

Losses to be carried forward to A.Y. 2026-27

Particulars	₹
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 ₹ 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 ₹ 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 9

Mr. A furnishes you the following information for the year ended 31.03.2025:

	(₹)
(i) Income from plying of vehicles (computed as per books) (He owned 5 light goods vehicle throughout the year)	3,20,000
(ii) Income from retail trade of garments (Computed as per books) (Sales turnover ₹ 1,35,70,000) Mr. A had declared income on presumptive basis u/s 44AD for the first time in A.Y. 2024-25. Assume 10% of the turnover during the previous year 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.	7,50,000
(iii) He has brought forward depreciation relating to A.Y. 2023-24	1,00,000

Compute taxable income of Mr. A and his tax liability for the assessment year 2025-26 with reasons for your computation, assuming he has exercised the option of shifting out of the default tax regime provided u/s 115BAC(1A). **[SM Q.]**

Answer 9

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

Particulars	₹
Income from retail trade – as per books (See Note 1 below)	7,50,000
Income from plying of vehicles – as per books (See Note 2 below)	3,20,000
	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 u/s 44AD is ₹ 8,41,340 i.e., 8% of ₹ 13,57,000, being 10% of the turnover received in cash and 6% of ₹ 1,22,13,000, being the amount of sales turnover received through A/c payee cheque. However, the income computed as per books is ₹ 7,50,000 which is to be further reduced by the amount of unabsorbed depreciation of ₹ 1,00,000. Since the income computed as per books is lower than the income deemed u/s 44AD, the assessee can adopt the income as per books.

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However, if he does not opt for presumptive taxation u/s 44AD, he has to get his books of accounts audited u/s 44AB, since his turnover exceeds ₹ 1 crore (the enhanced limit of ₹ 10 crore would not be available, since more than 5% of the turnover is received in cash). Also, his case would be falling u/s 44AD(4) and hence tax audit is mandatory. It may further be noted that he cannot opt for section 44AD for next five A.Ys, if he does not opt for section 44AD this year.

2. **Income from plying of light goods vehicles:** Income calculated u/s 44AE(1) would be ₹ 7,500 x 12 x 5 which is equal to ₹ 4,50,000. However, the income from plying of vehicles as per books is ₹ 3,20,000, which is lower than the presumptive income of ₹ 4,50,000 calculated as per section 44AE(1). Hence, the assessee can adopt the income as per books i.e. ₹ 3,20,000, provided he maintains books of account as per section 44AA and gets his accounts audited and furnishes an audit report as required u/s 44AB.

It is to be further noted that in both the above cases, had presumptive income provisions been opted, all deductions u/ss 30 to 38, including depreciation would have been deemed to have been given full effect to and no further deduction under those sections would be allowable.

If the assessee opted for income to be assessed on presumptive basis, his total income would be as under:

Particulars	₹
Income from retail trade u/s 44AD [₹ 13,57,000 @ 8% plus ₹ 1,22,13,000 @6%]	8,41,340
Income from plying of light goods vehicles u/s 44AE [₹ 7,500 x 12 x 5]	4,50,000
	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 10

Mr. Aditya furnishes the following details for the year ended 31-03-2025:

Particulars	Amount (₹)
Loss from speculative business A	25,000
Income from speculative business B	5,000
Loss from specified business covered u/s 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

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Following are the brought forward losses:

- (1) Losses from owning and maintaining of race horses pertaining to A.Y. 2023-24 ₹ 2,000.
- (2) Brought forward loss from trading business ₹ 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 has exercised the option of shifting out of the default tax regime provided u/s 115BAC(1A). [SM Q.]

Answer 10

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

Particulars	₹	₹
Salaries		
Income from Salary	3,00,000	
Less: Loss from house property set-off against salary income as per section 71(3A)	<u>2,00,000</u>	1,00,000
Loss from house property to the extent not set off i.e. ₹ 50,000 (₹ 2,50,000 – ₹ 2,00,000) to be carried forward to A.Y. 2026-27		
Profits and gains of business or profession	45,000	
Income from trading business		
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 u/s 72(3), within which set-off is permitted, has not expired.	5,000	40,000
Income from speculative business B	5,000	
Less: Loss of ₹ 25,000 from speculative business A set-off as per section 73(1) to the extent of ₹ 5,000	<u>5,000</u>	
Balance loss of ₹ 20,000 from speculative business A to be carried forward to A.Y.2026-27 as per section 73(2)		Nil
Loss of ₹ 20,000 from specified business covered u/s 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)]	<u>75,000</u>	
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 u/s 112A	1,02,000	23,000
Total Income		1,63,000

Items eligible for carried forward to A.Y.2026-27

Particulars	₹
Loss from House property	50,000
As per section 71(3A), Loss from house property can be set-off against any other head of income to the extent of ₹ 2,00,000 only.	

Particulars	₹
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.	
<u>Loss from speculative business A</u>	20,000
Loss from speculative business can be set-off only against profits from any other speculation business. As per section 73(2), balance loss not set-off can be carried forward to the next year for set-off against speculative business income of that year. Such loss can be carried forward for a maximum of four assessment years i.e., upto A.Y.2029-30, in this case, as specified u/s 73(4).	
<u>Loss from specified business</u>	20,000
Loss from specified business u/s 35AD can be set-off only against profits of any other specified business. If loss cannot be so set-off, the same has to be 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.	
<u>Loss from the activity of owning and maintaining race horses</u>	2,000
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 u/s 74A(3).	

Question 11

Mr. Garg, a resident individual, furnishes the following particulars of his income and other details for the previous year 2024-25.

	Particulars	₹
(1)	Income from Salary (computed)	15,000
(2)	Income from business	66,000
(3)	Long term capital gain on sale of land	10,800
(4)	Loss on maintenance of race horses	15,000
(5)	Loss from gambling	9,100

The other details of unabsorbed depreciation and brought forward losses pertaining to Assessment Year 2024-25 are as follows:

	Particulars	₹
(1)	Unabsorbed depreciation	11,000
(2)	Loss from Speculative business	22,000
(3)	Short term capital loss	9,800

Compute the Gross total income of Mr. Garg for the Assessment Year 2025-26 and the amount of loss, if any that can be carried forward or not. [SM Q.]

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

Particulars	₹	₹
(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	<u>11,000</u>	55,000
(Unabsorbed depreciation can be set-off against any head of income other than "salary")		
(iii) Capital gains		
Long-term capital gain on sale of land	10,800	
Less: Brought forward short-term capital loss		
[Short-term capital loss can be set-off against both short-term capital gains and long-term capital gains as per section 74(1)]	9,800	1,000
Gross Total Income		71,000

Amount of loss to be carried forward to A.Y.2026-27

	Particulars	₹
(1)	Loss from speculative business [to be carried forward as per section 73] [Loss from a speculative business can be set off only against income from another speculative business. Since there is no income from speculative business in the current year, the entire loss of ₹ 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]	22,000
(2)	Loss on maintenance of race horses [to be carried forward as per section 74A] [As per section 74A(3), the loss incurred in the activity of owning and maintaining race horses in any assessment year cannot be set-off against income from any other source other than the activity of owning and maintaining race horses. Such loss can be carried forward for a maximum of four assessment years i.e., upto A.Y.2029-30]	15,000
(3)	Loss from gambling can neither be set-off nor be carried forward.	

Question 12

The following are the details relating to Mr. Srivatsan, a resident Indian, aged 57, relating to the year ended 31.3.2025:

Particulars	₹
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

Particulars	₹
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 u/s 115BAC(1A).

[SM Q.]

Answer 12

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

Particulars	₹	₹
Salaries		
Income from salaries	2,20,000	
Less: Loss from house property	1,90,000	30,000
Profits and gains of business or profession		
Income from speculation business	30,000	
Less: Loss from cloth business of ₹ 2,40,000 set off to the extent of ₹ 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 ₹ 2,10,000 from cloth business	2,10,000	40,000
Income from other sources		
Income from betting		45,000
Gross Total Income		1,15,000
Less: Deduction u/s 80C (life insurance premium paid) [See Note (iv) below]		30,000
Total income		85,000

Losses to be carried forward:

Particulars	₹
(1) Loss from cloth business (₹ 2,40,000 – ₹ 30,000 – ₹ 2,10,000)	Nil
(2) Loss from specified business covered by section 35AD	20,000

Notes:

- 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.
- Business loss cannot be set off against salary income. However, the balance business loss of ₹ 2,10,000 (₹ 2,40,000 – ₹ 30,000 set-off against income from speculation business) can be set-off against long-term capital gains of ₹ 2,50,000 from sale of urban land. Consequently, the taxable long-term capital gains would be ₹ 40,000.
- 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 u/s 80C in respect of life insurance premium of ₹ 45,000 paid has to be restricted to ₹ 30,000 [i.e., Gross Total Income of ₹ 1,15,000 – ₹ 40,000 (LTCG) – ₹ 45,000 (Casual income)].
- (v) Income from betting is chargeable at a flat rate of 30% u/s 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 13

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	₹
(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 31st 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 1st 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 2010	16,550
(iii) (a) Short-term capital gain	60,000
(b) Long-term capital loss	35,000
(iv) Contribution to LIC towards premium	10,000

Answer 13
Computation of total income of Mr. Rajat for the A.Y. 2025-26

Particulars	₹	₹
1. Income from house property		
House No.1	72,000	
House No.2	(-) 30,000	42,000
2. Profits and gains of business or profession		
Profit from leather business	1,00,000	
Bad debts recovered taxable u/s 41(4)	35,000	
	1,35,000	
Less: Current year loss of textile business	(-) 40,000	
	95,000	

Particulars	₹	₹
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		
U/s 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	₹
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 ₹ 16,550 is exempt u/s 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 14

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 ₹ 7,50,000. The same was allowed to the firm.
- (ii) Loss on sale of shares listed in BSE ₹ 3,00,000. Shares were held for 15 months and STT paid on sale and acquisition.
- (iii) Long-term capital gain on sale of land ₹ 5,00,000.
- (iv) ₹ 51,000 received in cash from friends in party.
- (v) ₹ 55,000, received towards dividend on listed equity shares of domestic companies.
- (vi) Brought forward business loss of assessment year 2023-24 ₹ 12,50,000.

Compute gross total income of Ms. Geeta for the Assessment Year 2025-26 and ascertain the amount of loss that can be carried forward. **[SM Q.]**

Answer 14

Computation of Gross Total Income of Ms. Geeta for the A.Y. 2025-26

Particulars	₹
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 ₹ 12,50,000 to be set-off to the extent of ₹ 7,50,000	7,50,000
	Nil
(Balance b/f business loss of ₹ 5,00,000 can be carried forward to the next year)	

Particulars		₹
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)	<u>3,00,000</u>	2,00,000
Income from other sources		
Cash gift received from friends - since the value of cash gift exceeds ₹ 50,000, the entire sum is taxable	51,000	
Dividend received from a domestic company is fully taxable in the hands of shareholders	<u>55,000</u>	1,06,000
Gross Total Income		3,06,000

Notes:

- Balance brought forward business loss of assessment year 2023-24 of ₹ 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 u/s 112A. Therefore, it can be set-off against long-term capital gain on sale of land as per section 70(3).

Question 15

Mr. P, a resident individual, furnishes the following particulars of his income and other details for the previous year 2024-25:

Sl. No.	Particulars	₹
(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 ₹ 8,000, for which no treatment is given above.

The other details of unabsorbed depreciation and brought forward losses (pertaining to A.Y. 2024-25) are:

Sl. No.	Particulars	₹
(i)	Unabsorbed depreciation	9,000
(ii)	Loss from speculative business	16,000
(iii)	Short term capital loss	7,800

Compute the gross total income of Mr. P for the Assessment year 2025-26, and the amount of loss that can or cannot be carried forward. **[SM Q.]**

Answer 15

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

Particulars	₹	₹
(i) Income from salary		18,000
(ii) Income from House Property		
Net Annual Value	70,000	
Less: Deduction u/s 24 (30% of ₹ 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 ₹ 16,000 from speculative business s/o to the extent of ₹ 12,000	12,000	Nil
(Balance loss of ₹ 4,000 (i.e. ₹ 16,000 – ₹ 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	₹
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:

- Loss on gambling can neither be set-off nor be carried forward.
- 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.
- 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).

Question 16

Compute total income of Mr. Mathur for the AY 2025-26 from the following information furnished by him for the FY 2024-25. Assuming that he has exercised the option of shifting out of the default tax regime provided u/s 115BAC(1A).

[RTP M-20 Q.]

Particulars	₹
Salary income (computed)	4,70,000
Loss from self-occupied house property	2,00,000
Loss from let out house property	60,000
Loss from speculation business-X	80,000
Profit from speculation business-Y	40,000
Income from trading and manufacturing business @ 8%	3,50,000
Interest on PPF deposit	95,000
Long term capital gain on sale of Vacant site (Computed)	2,10,000
Short term capital loss on sale of Jewellery	1,50,000
Investment in tax saver deposit on 31-03-2025	60,000
Brought forward loss of business of assessment year 2019-20	5,50,000
Donation to a charitable trust recognized u/s 12AA and approved u/s 80G paid by cheque	1,10,000
Enhanced compensation received from government for compulsory acquisition of land (held for a period of 5 years) in the year 2009	3,00,000

Answer 16

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

Particulars	₹	₹
Salaries		4,70,000
Profits and gains from business or profession		
Profit from speculation business Y	40,000	
Less: Loss of ₹80,000 from speculation business X set-off against profit from speculation business Y to the extent of such profit	(40,000)	
Loss of ₹ 40,000 from speculation business X to be carried forward to A.Y. 2026-27 for set-off against profits from speculation business.		
Income from trading and manufacturing business @8%	3,50,000	
Less: Brought forward business loss of A.Y. 2019-20 set-off since a period of eight assessment years has not expired.	(3,50,000)	Nil
Balance loss of ₹ 2,00,000 to be carried forward to A.Y. 2026-27		
Capital Gains		
Enhanced compensation received from government for compulsory acquisition [Taxable in P.Y. 2024-25 since enhanced compensation is taxable on receipt basis]	3,00,000	
Long term capital gain on sale of vacant site	2,10,000	
Less: Short term capital loss on sale of jewellery	(1,50,000)	
	3,60,000	
Less: Loss from house property can be set-off to the extent of ₹ 2,00,000 as per section 71(3A) [since long-term capital gains would be chargeable to tax @20%, it would be beneficial to set-off the loss from house property against LTCG]. Balance loss of ₹ 60,000 to be carried forward to A.Y. 2026-27.	(2,00,000)	1,60,000

Chapter 9: Aggregation of Income, Set-Off and Carry Forward of Losses

Particulars	₹	₹
Income from Other Sources		
Interest on PPF deposit	95,000	
Less: Exempt u/s 10(11)	(95,000)	Nil
Gross Total Income		6,30,000
Less: Deduction under Chapter VI-A		
Deduction u/s 80C		
Investment in tax saver deposit on 31.3.2025	60,000	
Deduction u/s 80G		
Donation to recognized and approved charitable trust [Donation of ₹ 1,10,000 to be first restricted to ₹ 41,000, being 10% of adjusted total income of ₹ 4,10,000 i.e., [₹ 6,30,000 – ₹ 1,60,000 – ₹ 60,000]. Thereafter, deduction would be computed at 50% of ₹ 41,000.	20,500	80,500
Total Income		5,49,500

Question 17

Mr. Krishan, residing in Indore, provides the following information for the financial year 2024-25:

Particulars	₹
Income from textile business	4,60,000
Income from speculation business	25,000
Loss from gambling	12,000
Loss on maintenance of race horse	15,000
Current year depreciation of textile business not adjusted in the income given above.	5,000
Unabsorbed depreciation of assessment year 2023-24	10,000
Speculation business loss of assessment year 2024-25	30,000

Compute the Gross Total Income of Mr. Krishan for the Assessment year 2025-26 and also state the losses eligible for carry forward and period upto which such losses can be carried forward. [RTP N-20 Q.]

Answer 17

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

Particulars	₹	₹
Profits and gains of business or profession		
Income from Textile business	4,60,000	
Less: Current year depreciation allowable u/s 32(1)	5,000	
	4,55,000	
Less: Unabsorbed depreciation brought forward from A.Y.2023-24 as per section 32(2)	10,000	
		4,45,000

Particulars	₹	₹
Income from speculation business		
Current year income from speculation business	25,000	
Less: Speculation business loss for A.Y. 2024-25 set-off as per the provisions of section 73(2)	30,000	
Speculation business loss to be carried forward	(5,000)	Nil
Gross Total Income		4,45,000

Losses eligible for carry forward to A.Y.2026-27

	Particulars	₹
(1)	Loss from speculation business to be carried forward as per section 73 Loss from speculation business can be set off only against income from another speculation business. The remaining loss from speculation business can be carried forward for a maximum of four assessment years immediately succeeding the assessment year for which the loss was first computed. Thus, such loss can be carried forward upto A.Y.2028-29	5,000
(2)	Loss on maintenance of race horses to be carried forward as per section 74A(3) Loss on maintenance of race horses can be set-off only against income from the activity of owning and maintaining race horses. Such loss can be carried forward for a maximum of four assessment years immediately succeeding the assessment year for which the loss was first computed. Thus, such loss can be carried forward upto A.Y. 2029-30	15,000
(3)	Loss from gambling can neither be set-off nor be carried forward.	

Question 18

Ms. Aarti, a resident individual, provides the following information of her income/losses for the year ended on 31st March, 2025: [RTP N-21 Q.]

S. No.	Particulars	(₹)
1.	Income from salary (Computed)	8,20,000
2.	Income from house property (let out) (Net Annual Value)	1,20,000
3.	Share of profit from firm in which she is partner	48,000
4.	Loss from specified business covered u/s 35AD	67,000
5.	Income from textile business before adjusting the following items:	3,30,000
	(a) Current year depreciation	53,000
	(b) Unabsorbed depreciation of earlier year	1,85,000
	(c) Brought forward loss of textile business of the A.Y. 2022-23	1,90,000
6.	Long-term capital gain on sale of debentures (unlisted)	1,50,000
7.	Long-term capital loss on sale of equity shares (STT not paid)	1,50,000
8.	Long-term capital gain on sale of equity shares listed in recognized stock exchange (STT paid at the time of acquisition and sale)	2,50,000

S. No.	Particulars	(₹)
9.	Dividend from units of UTI	1,15,000
10.	Repayment towards housing loan taken from a scheduled bank. Out of this ₹ 3,28,000 was towards payment of interest and rest towards principal.	4,85,000

Compute the Gross Total Income of Ms. Aarti and ascertain the amount of loss that can be carried forward. Ms. Aarti has always filed her return within the due date specified u/s 139(1) of the Income-tax Act, 1961. Assuming that she has exercised the option of shifting out of the default tax regime provided u/s 115BAC(1A).

Answer 18

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

Particulars	₹	₹
Salary Income (computed)	8,20,000	
Less: As per section 71(3A), loss from house property of ₹ 2,44,000 can be set-off, to the extent of Income from House Property	2,00,000	6,20,000
Net Annual Value of House Property	1,20,000	
Less: Deduction u/s 24		
(a) 30% of NAV	36,000	
(b) Interest on housing loan	3,28,000	
Loss from house property	(2,44,000)	
Less: Loss eligible for set-off against salary income restricted to	2,00,000	
Loss to be carried forward to A.Y. 2026-27 for set-off against income from house property, if any, in that year.	(44,000)	
Profits and gains of business or profession		
Share of profit from firm [Exempt u/s 10(2A)]	-	
Loss from specified business u/s 35AD ₹ 67,000 [can be set-off only against income from any specified business. Hence, it has to be carried forward to A.Y.2026-27]	-	
Income from textile business	3,30,000	
Less: Current year depreciation	53,000	
	2,77,000	
Less: Brought forward loss of textile business	1,90,000	
	87,000	
Less: Set-off of unabsorbed depreciation to the extent of ₹ 87,000 against business income	87,000	Nil
Capital Gains		
Long-term capital gains on sale of listed equity shares (STT paid)	2,50,000	
Less: Balance unabsorbed depreciation of ₹ 98,000 set-off	98,000	
Long-term capital gains on sale of listed equity shares [Tax is payable u/s 112A @ 10% on the amount exceeding ₹ 1,00,000]	1,52,000	1,52,000

Chapter 9: Aggregation of Income, Set-Off and Carry Forward of Losses

Particulars	₹	₹
Long-term capital gains on sale of debentures	1,50,000	
Less: Set-off of Long-term capital loss on sale of equity shares (STT not paid) [Since long-term capital gain on sale of unlisted debentures are taxable @20% and long-term term capital gain on sale of listed shares in excess of ₹1,00,000 taxable @10%, it is beneficial to set-off long-term capital loss against LTCG on sale of debentures]	1,50,000	Nil
Income from Other Sources		
Dividend from units of UTI [Taxable in the hands of the unitholders]		1,15,000
Gross Total Income		8,87,000

Losses to be carried forward to A.Y.2026-27		₹
(i)	Losses from specified business [can be carried forward indefinitely for set-off against income from any specified business]	67,000
(ii)	Loss from house property [can be carried forward upto 8 successive assessment years for set-off against income from house property]	44,000

Question 19

Compute the gross total income of Mr. Farhan and show the items eligible for carry forward and the assessment years upto which such losses can be carry forward from the following information furnished by him for the year ended 31-03-2025, Assuming that he has exercised the option of shifting out of the default tax regime provided u/s 115BAC(1A).

Particulars	Amount (₹)
Loss from speculative business MNO	12,000
Income from speculative business BPO	25,000
Loss from specified business covered u/s 35AD	45,000
Income from salary (computed)	4,18,000
Loss from house property	2,20,000
Income from trading business	2,80,000
Long-term capital gain from sale of urban land	2,05,000
Long-term capital loss on sale of equity shares (STT not paid)	85,000
Long-term capital loss on sale of listed equity shares in recognized stock exchange (STT paid at the time of acquisition and sale of shares)	1,10,000
Short-term capital loss u/s 111A	85,000

Following are the brought forward losses:

- (1) Brought forward loss from speculative business MNO ₹ 18,000 relating to A.Y. 2021-22.
- (2) Brought forward loss from trading business of ₹ 12,000 relating to A.Y. 2019-20
- (3) Unabsorbed depreciation ₹ 1,00,000 relating to A.Y. 2024-25

Assume Mr. Farhan has furnished his return of income on or before the due date specified u/s 139(1) in all the above previous years. **[MTP Q.]**

Answer 19

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

Particulars	₹	₹
Salaries		
Income from Salary	4,18,000	
Less: Loss from house property set-off against salary	(2,00,000)	2,18,000
[As per section 71(3A), loss from house property to the extent of ₹ 2,00,000 can be set-off against any other head of income.]		
Profits and gains of business or profession		
Income from trading business	2,80,000	
Less: Brought forward loss from trading business of A.Y. 2019-20 can be set off against current year income from trading business as per section 72(1), since the eight-year time limit as specified u/s 72(3), within which set-off is permitted, has not expired.	(12,000)	
Less: Unabsorbed depreciation	(1,00,000)	1,68,000
Income from speculative business BPO	25,000	
Less: Loss from speculative business MNO set-off as per section 73(1)	(12,000)	
Loss from speculative business MNO brought forward from A.Y. 2021-22 as per section 73(2), can be set off to the extent of ₹ 13,000. Balance loss will be lapsed, since four years has expired	(13,000)	-
Capital Gains		
Long term capital gain on sale of urban land	2,05,000	
Less: Long term capital loss on sale of shares (STT not paid) set-off as per section 71(3)	(85,000)	
Less: Long-term capital loss on sale of listed equity shares on which STT is paid can also be set-off as per section 71(3), since long-term capital arising on sale of such shares is taxable u/s 112A	(1,10,000)	
Less: Short-term capital loss u/s 111A as per section 71(2)	(10,000)	-
Gross Total Income		3,86,000

Items eligible for carried forward to A.Y.2026-27

Particulars	₹
Loss from house property 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.	20,000
Loss from specified business u/s 35AD Loss from specified business u/s 35AD can be set-off only against profits of any other specified business. If loss cannot be so set-off, the same has to be 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.	45,000

Particulars	₹
Short-term capital loss u/s 111A	75,000
Short-term capital loss u/s 111A can be set-off against long term or short term capital gains. If it cannot be so set-off, it has to be carried forward to the next year for set-off against capital gains, if any, in that year. It can be carried forward for a maximum of eight assessment years, i.e., upto A.Y.2033-34, in this case, as specified u/s 74(1).	

Question 20

Compute the total income of Mr. Praveen (aged 48), a resident Indian, from the following information relating to the financial year ended 31.3.2025. Also, show the items eligible for carry forward, Assuming that he has exercised the option of shifting out of the default tax regime provided u/s 115BAC(1A). **[MTP Q.]**

Particulars	₹
Income from salaries	2,20,000
Loss from house property	2,50,000
Loss from toy business	1,30,000
Income from speculation business	40,000
Loss from specified business covered by section 35AD	20,000
Long-term capital gains from sale of urban land	2,50,000
Long-term capital loss from sale of listed shares in recognized stock exchange (STT paid at the time of acquisition and sale of shares)	1,10,000
Loss from card games	32,000
Income from betting (Gross)	45,000
Life Insurance Premium paid (10% of the capital sum assured)	50,000

Answer 20**Computation of total income of Mr. Praveen for the A.Y.2025-26**

Particulars	₹	₹
Salaries		
Income from salaries	2,20,000	
Less: Loss from house property set-off against salary as per section 71(1) & 71(3A)	2,00,000	20,000
Profits and gains of business or profession		
Income from speculation business	40,000	
Less: Loss from toy business set off	40,000	Nil
Capital gains		
Long-term capital gains from sale of urban land	2,50,000	
Less: Long term capital loss on sale of listed shares on which STT is paid can be set off as per section 74(1), since long-term capital gain arising on sale of such shares is taxable u/s 112A	1,10,000	

Particulars	₹	₹
	1,40,000	
Less: Loss from toy business set off	90,000	50,000
Income from other sources		
Income from betting		45,000
Gross total income		1,15,000
Less: Deduction u/s 80C(life insurance premium paid)		20,000
Total income		95,000

Losses to be carried forward:

Particulars	₹
(1) Loss from house property (₹2,50,000 – ₹2,00,000)	50,000
(2) Loss from toy business (₹1,30,000 – ₹40,000 – ₹90,000)	Nil
(3) Loss from specified business covered by section 35AD	20,000

Notes:

- As per section 71(3A), loss from house property can be set-off against any other head of income to the extent of ₹2,00,000 only.
As per 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.
- 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. If loss cannot be so set-off, the same has to be carried forward to the subsequent year for set-off against profits and gains of any 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.
- Business loss cannot be set off against salary income. However, business loss of ₹90,000 (₹1,30,000 – ₹40,000 set-off against income from speculation business) can be set-off against long-term capital gains from sale of urban land. Consequently, the taxable long-term capital gains would be ₹50,000.
- Loss from card games can neither be set off against any other income, nor can it be carried forward.
- 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 u/s 80C in respect of life insurance premium paid has to be restricted to ₹20,000 [i.e., Gross Total Income of ₹1,15,000 – ₹50,000 (LTCG) – ₹45,000 (Casual income)].
- Income from betting is chargeable at a flat rate of 30% u/s 115BB and no expenditure or allowance can be allowed as deduction from such income, nor can any loss be set-off against such income.

Deductions from Gross Total Income

10

Question 1

[Sec 80C Deduction if Return file on time]

Examine the following statements with regard to the provisions of the Income-tax Act, 1961:

- For grant of deduction u/s 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.
- Filing of belated return u/s 139(4) of the Income-tax Act, 1961 will debar an assessee from claiming deduction u/s 80QQB if the assessee exercises the option of shifting out of the default tax regime provided u/s 115BAC(1A) (i.e., he pays tax under the optional tax regime).

[SM Q.]

Answer 1

- The statement is **not correct**. Section 80AC stipulates compulsory filing of return of income on or before the due date specified u/s 139(1), as a pre-condition for availing the benefit of deduction, inter alia, u/s 80JJAA.
- The statement is **correct**. As per section 80AC, the assessee has to furnish his return of income on or before the due date specified u/s 139(1), to be eligible to claim deduction under, inter alia, section 80QQB.

Question 2

[Sec 80C]

Compute the eligible deduction u/s 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 u/s 115BAC(1A) –

[SM Q.]

	Date of issue of policy	Person insured	Actual capital sum assured (₹)	Insurance premium paid during 2024-25 (₹)
(i)	30/3/2012	Self	8,00,000	48,000
(ii)	1/5/2018	Spouse	1,50,000	20,000
(iii)	1/6/2021	Handicapped son (section 80U disability)	4,00,000	80,000

Answer 2

	Date of issue of policy	Person insured	Actual capital sum assured (₹)	Insurance premium paid during 2024-25 (₹)	Deduct- ion u/s 80C for A.Y.2025-26 (₹)	Remark (restricted to % of sum assured) (₹)
(i)	30/3/2012	Self	8,00,000	48,000	48,000	20%
(ii)	1/5/2018	Spouse	1,50,000	20,000	15,000	10%

	Date of issue of policy	Person insured	Actual capital sum assured (₹)	Insurance premium paid during 2024-25 (₹)	Deduct- ion u/s 80C for A.Y.2025-26 (₹)	Remark (restricted to % of sum assured) (₹)
(iii)	1/6/2021	Handicapped son (section 80U disability)	4,00,000	80,000	60,000	15%
	Total				1,23,000	

Question 3**[Sec 80U]**

The basic salary of Mr. A is ₹ 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 u/s 115BAC(1A).

What would be your answer if Mr. A pays tax under the default tax regime u/s 115BAC?

Answer 3

- (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 u/s 115BAC(1A) [i.e., where Mr. A pays tax under the normal provisions of the Act]
- (a) Employer's contribution to such pension scheme would be treated as salary since it is specifically included in the definition of "salary" u/s 17(1)(viii). Therefore, ₹ 1,80,000, being 15% of basic salary of ₹ 12,00,000, will be included in Mr. A's salary.
- (b) Mr. A's contribution to pension scheme is allowable as deduction u/s 80CCD(1). However, the deduction is restricted to 10% of salary. Salary, for this purpose, means basic pay plus dearness allowance, if it forms part of pay.

Therefore, "salary" for the purpose of deduction u/s 80CCD for Mr. A would be –

Particulars	₹
Basic salary = ₹ 1,00,000 × 12 =	12,00,000
Dearness allowance = 40% of ₹ 12,00,000 = ₹ 4,80,000	
50% of Dearness Allowance forms part of pay = 50% of ₹ 4,80,000	2,40,000
Salary for the purpose of deduction u/s 80CCD	14,40,000
Deduction u/s 80CCD(1) is restricted to 10% of ₹ 14,40,000 (as against actual contribution of ₹ 1,80,000, being 15% of basic salary of ₹ 12,00,000)	1,44,000
As per section 80CCD(1B), a further deduction of upto ₹ 50,000 is allowable. Therefore, deduction u/s 80CCD(1B) is ₹ 36,000 (₹ 1,80,000 - ₹ 1,44,000).	36,000

₹ 1,44,000 is allowable as deduction u/s 80CCD(1). This would be taken into consideration and be subject to the overall limit of ₹ 1,50,000 u/s 80CCE. ₹ 36,000 allowable as deduction u/s 80CCD(1B) is outside the overall limit of ₹ 1,50,000 u/s 80CCE.

In the alternative, ₹ 50,000 can be claimed as deduction u/s 80CCD(1B). The balance ₹ 1,30,000 (₹ 1,80,000 - ₹ 50,000) can be claimed as deduction u/s 80CCD(1).

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- (c) Employer's contribution to pension scheme would be allowable as deduction u/s 80CCD(2), subject to a maximum of 10% of salary. Therefore, deduction u/s 80CCD(2), would also be restricted to ₹ 1,44,000, even though the entire employer's contribution of ₹ 1,80,000 is included in salary u/s 17(1)(viii). However, this deduction of employer's contribution of ₹ 1,44,000 to pension scheme would be outside the overall limit of ₹ 1,50,000 u/s 80CCE i.e., this deduction would be over and above the other deductions which are subject to the limit of ₹ 1,50,000.

(ii) Where Mr. A pays tax under the default tax regime u/s 115BAC

Mr. A would not be eligible for deduction u/s 80CCD(1)/(1B) in respect of his contribution to pension scheme under the default tax regime u/s 115BAC. However, he would be allowed deduction of ₹ 2,01,600, being 14% of salary [₹ 14,40,000, computed in (i) above] u/s 80CCD(2) in respect of employer contribution to pension scheme.

Question 4

[Sec 80C, 80CCC & 80CCE]

The gross total income of Mr. X for the A.Y.2025-26 is ₹ 8,00,000. He has made the following investments/payments during the F.Y.2024-25 –

Particulars		₹
(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 u/s 115BAC(1A). [SM Q.]

Answer 4

Computation of deduction under Chapter VI-A for the A.Y.2025-26

Particulars	₹
Deduction u/s 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 ₹ 1,50,000, being the maximum permissible deduction u/s 80C	1,50,000
Deduction u/s 80CCC	
- Contribution to approved pension fund of LIC ₹ 1,05,000	1,05,000
	2,55,000
As per section 80CCE, the aggregate deduction u/s 80C, 80CCC and 80CCD(1) has to be restricted to ₹ 1,50,000	
Deduction allowable under Chapter VIA for the A.Y. 2025-26	1,50,000

Question 5

[Sec 80D]

Mr. A, aged 40 years, paid medical insurance premium of ₹ 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 ₹ 47,000 during the year to insure the health of his father, aged 63 years, who is

not dependent on him. He contributed ₹ 3,600 to Central Government Health Scheme during the year. He has incurred ₹ 3,000 in cash on preventive health check-up of himself and his spouse and ₹ 4,000 by cheque on preventive health check-up of his father. Compute the deduction allowable u/s 80D for the A.Y. 2025-26 if Mr. A has exercised the option of shifting out of the default tax regime provided u/s 115BAC(1A). [SM Q.]

Answer 5

Deduction allowable u/s 80D for the A.Y.2025-26

	Particulars	Actual Payment ₹	Maximum deduction allowable ₹
A.	Premium paid and medical expenditure incurred for self and spouse		
(i)	Medical insurance premium paid for self and spouse	20,000	20,000
(ii)	Contribution to CGHS	3,600	3,600
(iii)	Exp. on preventive health check-up of self & spouse	3,000	1,400
		26,600	25,000
B.	Premium paid or medical expenditure incurred for father, who is a senior citizen		
(i)	Mediclaime premium paid for father, who is over 60 years of age	47,000	47,000
(ii)	Expenditure on preventive health check-up of father	4,000	3,000
		51,000	50,000
	Total deduction u/s 80D (₹ 25,000 + ₹ 50,000)		75,000

Notes:

- (1) The total deduction under A. (i), (ii) and (iii) above should not exceed ₹ 25,000. Therefore, the expenditure on preventive health check-up for self and spouse would be restricted to ₹ 1,400, being (₹ 25,000 – ₹ 20,000 – ₹ 3,600).
- (2) The total deduction under B. (i) and (ii) above should not exceed ₹ 50,000. Therefore, the expenditure on preventive health check-up for father would be restricted to ₹ 3,000, being (₹ 50,000 – ₹ 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 ₹ 4,400 (i.e., ₹ 1,400 + ₹ 3,000), which is within the maximum permissible limit of ₹ 5,000.

Question 6

[Sec 80D]

Mr. Y, aged 40 years, paid medical insurance premium of ₹ 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 ₹ 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 ₹ 20,000 on his father, aged 71 years, who is not covered under mediclaime policy. His father is also not dependent upon him. He contributed ₹ 6,000 to Central Government Health Scheme during the year. Compute the deduction allowable u/s 80D for the A.Y. 2025-26 if Mr. Y has exercised the option of shifting out of the default tax regime provided u/s 115BAC(1A).

[SM Q.]

Deduction allowable u/s 80D for the A.Y.2025-26

Particulars	₹	₹
(i) Medical insurance premium paid for self, spouse and dependent children	22,000	25,000
(ii) Contribution to CGHS	6,000	
restricted to	28,000	
(iii) Mediclaim premium paid for mother, who is over 60 years of age	33,000	50,000
(iv) Medical expenditure incurred for father, who is over 60 years of age and not covered by any insurance	20,000	
restricted to	53,000	
		75,000

Question 7

[Sec 80E]

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 (₹)	5,00,000	2,00,000	4,00,000
Annual repayment of loan (₹)	1,00,000	40,000	80,000
Annual repayment of interest (₹)	20,000	10,000	18,000

Compute the amount deductible u/s 80E for the A.Y.2025-26, assuming he has exercised the option of shifting out of the default tax regime provided u/s 115BAC(1A).

[SM Q.]

Answer 7

Deduction u/s 80E is available to an individual assessee in respect of any interest paid by him in the previous year in respect of loan taken for pursuing his higher education or higher education of his spouse or children. Higher education means any course of study pursued after senior secondary examination.

Therefore, interest repayment in respect of all the above loans would be eligible for deduction.

Deduction u/s 80E = ₹ 20,000 + ₹ 10,000 + ₹ 18,000 = ₹ 48,000.

Question 8

[Sec 80EE]

Mr. A purchased a residential house property for self-occupation at a cost of ₹ 45 lakh on 1.4.2017, in respect of which he took a housing loan of ₹ 35 lakh from Bank of India @ 11% p.a. on the same date. The loan was sanctioned on 28th March, 2017. Compute the eligible deduction in respect of interest on housing loan for A.Y.2025-26 under the provisions of the Income-tax Act, 1961 assuming he has exercised the option of shifting out of the default tax regime provided u/s 115BAC(1A). Assuming that the entire loan was outstanding as on 31.3.2025 and he does not own any other house property.

[SM Q.]

Answer 8

Particulars	₹
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) ₹ 3,85,000 [₹ 35,00,000 × 11%]	
Restricted to	2,00,000
(ii) Deduction under Chapter VI-A from Gross Total Income	
Deduction u/s 80EE ₹ 1,85,000 (₹ 3,85,000 – ₹ 2,00,000)	50,000
Restricted to	

Question 9

[Sec 80EEA & 80EEB]

The following are the particulars relating to Mr. A, Mr. B, Mr. C and Mr. D, salaried individuals, for A.Y. 2025-26 –

[SM Q.]

Particulars	Mr. A	Mr. B	Mr. C	Mr. D
Amount of loan taken	₹ 43 lakhs	₹ 45 lakhs	₹ 20 lakhs	₹ 15 lakhs
Loan taken from	HFC	Deposit taking NBFC	Deposit taking NBFC	Public sector bank
Date of sanction of loan	1.4.2021	1.4.2021	1.4.2021	30.3.2019
Date of disbursement of loan	1.5.2021	1.5.2021	1.5.2021	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	₹ 45 lakhs	₹ 48 lakhs	-	-
Cost of electric vehicle	-	-	₹ 22 lakhs	₹ 18 lakhs
Rate of interest	9% p.a.	9% p.a.	10% p.a.	10% p.a.

Compute the amount of deduction, if any, allowable under the provisions of the Income-tax Act, 1961 for A.Y.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 u/s 115BAC(1A). Assume that there has been no principal repayment in respect of any of the above loans upto 31.3.2025.

Particulars	₹
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) ₹ 3,87,000	
[₹ 43,00,000 × 9%]	
Restricted to	2,00,000
(ii) Deduction under Chapter VI-A from Gross Total Income	
Deduction u/s 80EEA ₹ 1,87,000	
(₹ 3,87,000 – ₹ 2,00,000)	
Restricted to	1,50,000
Mr. B	
Interest deduction for A.Y.2025-26	
(i) Deduction allowable while computing income under the head "Income from house property"	
Deduction u/s 24(b) ₹ 4,05,000	
[₹ 45,00,000 × 9%]	
Restricted to	2,00,000
(ii) Deduction under Chapter VI-A	
Deduction u/s 80EEA is not permissible since:	
(i) loan is taken from NBFC	
(ii) stamp duty value exceeds ₹ 45 lakh.	
Deduction u/s 80EEA would not be permissible due to either violation listed above.	Nil
Mr. C	
Deduction under Chapter VI-A	
Deduction u/s 80EEB for interest payable on loan taken for purchase of electric vehicle [₹ 20 lakhs × 10% = ₹ 2,00,000, restricted to ₹ 1,50,000, being the maximum permissible deduction]	1,50,000
Mr. D	
Deduction under Chapter VI-A	
Deduction u/s 80EEB is not permissible since loan was sanctioned before 1.4.2019.	Nil

Question 10**[Various deductions]**

Mr. Shiva aged 58 years, has gross total income of ₹ 7,75,000 comprising of income from salary and house property. He has made the following payments and investments:

- Premium paid to insure the life of her major daughter (policy taken on 1.4.2018)
(Assured value ₹ 1,80,000) – ₹ 20,000.
- Medical Insurance premium for self – ₹ 12,000; Spouse – ₹ 14,000.

- (iii) Donation to a public charitable institution ₹ 50,000 by way of cheque.
- (iv) LIC Pension Fund – ₹ 60,000.
- (v) Donation to National Children's Fund - ₹ 25,000 by way of cheque
- (vi) Donation to Prime Minister's Drought Relief Fund - ₹ 25,000 by way of cheque
- (vii) Donation to approved institution for promotion of family planning - ₹ 40,000 by way of cheque
- (viii) Deposit in PPF – ₹ 1,00,000

Compute the total income of Mr. Shiva for A.Y. 2025-26 if he exercises the option of shifting out of the default tax regime provided u/s 115BAC(1A).

Answer 10

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

Particulars	₹	₹
Gross Total Income		7,75,000
Less: Deduction u/s 80C		
Deposit in PPF	1,00,000	
Life insurance premium paid for insurance of major daughter (Maximum 10% of the assured value ₹ 1,80,000, as the policy is taken after 31.3.2012)	18,000	
	1,18,000	
Deduction u/s 80CCC in respect of LIC pension fund	60,000	
	1,78,000	
As per section 80CCE, deduction u/s 80C & 80CCC is restricted to		1,50,000
Deduction u/s 80D		
Medical Insurance premium in respect of self and spouse Restricted to	26,000	
Deduction u/s 80G (See Working Note below)		25,000
		87,500
Total income		5,12,500

Working Note: Computation of deduction u/s 80G

	Particulars of donation	Amount donated (₹)	% of deduction	Deduction u/s 80G (₹)
(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

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Note - Adjusted total income = Gross Total Income – Amount of deductions u/s 80C to 80U except section 80G i.e., ₹ 6,00,000, in this case.

₹ 60,000, being 10% of adjusted total income is the qualifying limit, in this case.

Firstly, donation of ₹ 40,000 to approved institution for family planning qualifying for 100% deduction subject to qualifying limit, has to be adjusted against this amount. Thereafter, donation to public charitable trust qualifying for 50% deduction, subject to qualifying limit is adjusted. Hence, the contribution of ₹ 50,000 to public charitable trust is restricted to 20,000 (being, ₹ 60,000 - ₹ 40,000), 50% of which would be the deduction u/s 80G. Therefore, the deduction u/s 80G in respect of donation to public charitable trust would be ₹ 10,000, which is 50% of ₹ 20,000.

Question 11

[Sec 80GG]

Mr. Ganesh, a businessman, whose total income (before allowing deduction u/s 80GG) for A.Y.2025-26 is ₹ 4,60,000, paid house rent at ₹ 12,000 p.m. in respect of residential accommodation occupied by him at Mumbai. Compute the deduction allowable to him u/s 80GG for A.Y.2025-26, if he has exercised the option of shifting out of the default tax regime provided u/s 115BAC(1A).

[SM Q.]

Answer 11

The deduction u/s 80GG will be computed as follows:

(i) Actual rent paid less 10% of total income

$$\begin{aligned} \text{₹ 1,44,000 (-)} - \frac{(10 \times 4,60,000)}{100} &= \text{₹ 98,000 (A)} \\ &= \frac{25 \times 4,60,000}{100} = \text{₹ 1,15,000 (B)} \end{aligned}$$

(ii) 25% of total income

(iii) Amount calculated at ₹ 5,000 p.m. = ₹ 60,000 (C)

Deduction allowable u/s 80GG [least of (i), (ii) and (iii)] = ₹ 60,000

Question 12

[Sec 80GGB]

During the P.Y. 2024-25, ABC Ltd., an Indian company,

(1) contributed a sum of ₹ 2 lakh to an electoral trust; and

(2) incurred expenditure of ₹ 25,000 on advertisement in a brochure of a political party.

Is the company eligible for deduction in respect of such contribution/expenditure, assuming that the contribution was made by cheque? If so, what is the quantum of deduction? [SM Q.]

Answer 12

An Indian company is eligible for deduction u/s 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 ₹ 2,25,000 u/s 80GGB in respect of sum of ₹ 2 lakh contributed to an electoral trust and ₹ 25,000 incurred by it on advertisement in a brochure of a political party.

It may be noted that there is a specific disallowance u/s 37(2B) in respect of expenditure incurred on advertisement in a brochure of a political party. Therefore, the expenditure of ₹ 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 u/s 80GGB.

Question 13

[Sec 80JJAA]

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 (₹)
(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 ₹ 75 lakhs and his total turnover is ₹ 10.16 crores.

What would be your answer if Mr. A has commenced the business of manufacture of footwear on 1.4.2024? [SM Q.]

Answer 13

Mr. A is eligible for deduction u/s 80JJAA since he is subject to tax audit u/s 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 = ₹ 24,000 × 12 × 75 [See Working Note below] = ₹ 2,16,00,000

Deduction u/s 80JJAA = 30% of ₹ 2,16,00,000 = ₹ 64,80,000.

Working Note:

Number of additional employees

Particulars	No. of workmen	
Total number of employees employed during the year		350
Less: Casual employees employed on 1.8.2024 who do not participate in recognized provident fund	50	
Regular employees employed on 1.5.2024, since their total monthly emoluments exceed ₹ 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	275
Number of "additional employees"		75

Notes –

- (i) Since casual employees do not participate in recognized provident fund, they do not qualify as additional employees. Further, 125 regular employees employed on 1.5.2024 also do not qualify as additional employees since their monthly emoluments exceed ₹ 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 u/s 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 u/s 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 = ₹ 2,16,00,000 + ₹ 24,000 × 7 × 100 = ₹ 3,84,00,000
Deduction u/s 80JJAA = 30% of ₹ 3,84,00,000 = ₹ 1,15,20,000

Question 14**[Sec 80QQB]**

Mr. Aakash received royalty of ₹ 2,88,000 from a foreign country for a book authored by him, being a work of literary nature. The rate of royalty is 18% of value of books. The expenditure incurred by him for earning this royalty was ₹ 40,000. The amount remitted to India till 30th September, 2024 is ₹ 2,30,000. The remaining amount was not remitted till 31st March, 2025. Compute the amount includible in the gross total income of Mr. Aakash and the amount of deduction which he will be eligible for u/s 80QQB if he has exercised the option of shifting out of the default tax regime provided u/s 115BAC(1A). **[SM Q.]**

Answer 14

The net royalty of ₹ 2,48,000 (i.e., royalty of ₹ 2,88,000 less ₹ 40,000, being expenditure to earn such income) is includible in gross total income.

Deduction u/s 80QQB:	₹
Royalty ₹ 2,88,000 × 15/18 = ₹ 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

Question 15**[Sec 80C & 80TTB]**

Mr. A, a resident individual aged 61 years, has earned business income (computed) of ₹ 1,35,000, lottery income of ₹ 1,20,000 (gross) during the P.Y. 2024-25. He also has interest on Fixed Deposit of ₹ 30,000 with banks. He invested an amount of ₹ 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 u/s 115BAC(1A).

[SM Q.]**Answer 15****Computation of total income of Mr. A for A.Y.2025-26**

Particulars	₹	₹
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]		

Particulars	₹	₹
U/s 80C		
- Deposit in Public Provident Fund	1,50,000	
U/s 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 ₹ 50,000 u/s 80TTB.

Though the aggregate of deductions under Chapter VI-A is ₹ 1,80,000, however, the maximum permissible deduction cannot exceed the gross total income exclusive of long term capital gains taxable u/s 112 and section 112A, short-term capital gains covered u/s 111A and winnings from lotteries of the assessee.

Therefore, the maximum permissible deduction under Chapter VI-A = ₹ 2,85,000 – ₹ 1,20,000 = ₹ 1,65,000.

Question 16

[Various deductions]

Mr. Gurnam, aged 42 years, has salary income (computed) of ₹ 5,50,000 for the previous year ended 31.03.2025. He has earned interest of ₹ 14,500 on the saving bank account with State Bank of India during the year. Compute the total income of Mr. Gurnam for the assessment year 2025-26 from the following particulars, if he has exercised the option of shifting out of the default tax regime provided u/s 115BAC(1A).

- Life insurance premium paid to Birla Sunlife Insurance in cash amounting to ₹ 25,000 for insurance of life of his dependent parents. The insurance policy was taken on 15.07.2019 and the sum assured on life of his dependent parents is ₹ 2,00,000.
- Life insurance premium of ₹ 25,500 paid for the insurance of life of his major son who is not dependent on him. The sum assured on life of his son is ₹ 3,50,000 and the life insurance policy was taken on 30.3.2012.
- Life insurance premium paid by cheque of ₹ 22,500 for insurance of his life. The insurance policy was taken on 08.09.2018 and the sum assured is ₹ 2,00,000.
- Premium of ₹ 26,000 paid by cheque for health insurance of self and his wife.
- ₹ 1,500 paid in cash for his health check-up and ₹ 4,500 paid in cheque for preventive health check-up for his parents, who are senior citizens.
- Paid interest of ₹ 6,500 on loan taken from bank for MBA course pursued by his daughter.
- A sum of ₹ 5,000 donated in cash to an institution approved for purpose of section 80G for promoting family planning.

[SM Q.]

Answer 16

Computation of total income of Mr. Gurnam for the Assessment Year 2025-26

Particulars	₹	₹	₹
Income from salary			5,50,000
Interest on saving bank deposit			14,500
Gross Total Income			5,64,500

Particulars	₹	₹	₹
Less: Deduction under Chapter VIA			
U/s 80C (See Note 1)			
Life insurance premium paid for life insurance of:			
- major son	25,500		
- self ₹ 22,500 restricted to 10% of ₹ 2,00,000	20,000	45,500	
U/s 80D (See Note 2)			
Premium paid for ₹ 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	
U/s 80E			
For payment of interest on loan taken from bank for MBA course of his daughter		6,500	
U/s 80TTA (See Note 4)			
Interest on savings bank account ₹ 14,500 restricted to		10,000	91,500
Total Income			4,73,000

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 ₹ 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 ₹ 25,500 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 ₹ 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 ₹ 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 ₹ 25,000. Further, deduction up to ₹ 5,000 in aggregate shall be allowed in respect of health check-up of self, spouse, children and parents. In order to claim deduction u/s 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 ₹ 26,000 paid for health insurance of self and wife, deduction would be restricted to ₹ 25,000. Since the limit of ₹ 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 ₹ 4,500 is allowable in respect of health check-up of his parents, since it falls within the limit of ₹ 5,000.

- (3) No deduction shall be allowed u/s 80G in case the donation is made in cash of a sum exceeding ₹ 2,000. Therefore, deduction u/s 80G is not allowable in respect of **cash donation** of ₹ 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 ₹ 10,000. Therefore, deduction of ₹ 10,000 is allowable from the gross total income of Mr. Gurnam, though the interest from savings bank account is ₹ 14,500.

Question 17

[Various deductions]

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 u/s 80E.
- (ii) Subscription to notified bonds of NABARD would qualify for deduction u/s 80C.
- (iii) In order to be eligible to claim deduction u/s 80C, investment /contribution/ subscription etc. in eligible or approved modes, should be made from out of income chargeable to tax.
- (iv) Where an individual repays a sum of ₹ 30,000 towards principal and ₹ 14,000 as interest in respect of loan taken from a bank for pursuing eligible higher studies, the deduction allowable u/s 80E is ₹ 44,000.
- (v) Mrs. Sheela, widow of Mr. Satish (who was an employee of M/s. XYZ Ltd.), received ₹ 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 u/s 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 ₹ 50,000 towards Tier II account of NPS. The same would be eligible for deduction u/s 80CCD. He has exercised the option of shifting out of the default tax regime provided u/s 115BAC(1A).

[SM Q.]

Answer 17

- (i) **The statement is correct.** The deduction u/s 80E available to an individual in respect of interest on loan taken for his higher education or for the higher education of his relative. For this purpose, relative means, inter alia, spouse and children of the individual. Therefore, Mr. Amit will get the deduction u/s 80E in respect of interest on loan availed by him for his son's higher education. It is immaterial that his son is already employed in a firm. This would not affect Mr. Amit's eligibility for deduction u/s 80E.
- (ii) **The statement is correct.** U/s 80C(2) subscription to such bonds issued by NABARD (as the Central Government may notify in the Official Gazette) would qualify for deduction u/s 80C.
- (iii) **The statement is not correct.** There is no stipulation u/s 80C that the investment, subscription, etc. should be made from out of income chargeable to tax.
- (iv) **The statement is not correct.** Deduction u/s 80E is in respect of interest paid on education loan. Hence, the deduction will be limited to ₹14,000.
- (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 u/s 80C and not section 80CCD.

Question 18

[Sec 80DD]

Examine the allowability of the following, if he has exercised the option of shifting out of the default tax regime provided u/s 115BAC(1A).

Chapter 10: Deductions from Gross Total Income

- (i) Rajan, a resident Individual has to pay to a hospital for treatment ₹ 62,000 and spent nothing for life insurance or for maintenance of dependent disabled.
- (ii) Raja, a resident Indian, has spent nothing for treatment in the previous year and deposited ₹ 25,000 with LIC for maintenance of dependent disabled.
- (iii) Kamal, a resident Individual has incurred ₹ 20,000 for treatment and ₹ 25,000 was deposited with LIC for maintenance of dependent disabled.
- (iv) Payment of ₹ 50,000 by cheque to an electoral trust by an Indian company. **[SM Q.]**

Answer 18

- (i) The deduction of ₹ 75,000 u/s 80DD is allowed, irrespective of the amount of expenditure incurred or paid by the assessee. If the expenditure is incurred in respect of a dependent with severe disability, the deduction allowable is ₹ 1,25,000.
- (ii) The assessee Rajan has deposited ₹ 25,000 for maintenance of dependent disabled. The assessee is, however, eligible to claim ₹ 75,000 since the deduction of ₹ 75,000 is allowed, irrespective of the amount deposited with LIC. In the case of dependent with severe disability, the deduction allowable is ₹ 1,25,000.
- (iii) Section 80DD allows a deduction of ₹ 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 ₹ 75,000 even though the total amount incurred/ deposited is only ₹ 45,000. If the dependent is a person with severe disability the quantum of deduction is ₹ 1,25,000.
- (iv) Amount paid by an Indian Company to an electoral trust is eligible for deduction u/s 80GGB from gross total income, since such payment is made otherwise than by way of cash.

Question 19

[Various deductions]

For the A.Y. 2025-26, the Gross total income of Mr. Chaturvedi, a resident in India, was ₹ 8,18,240 which includes long-term capital gain of ₹ 2,45,000 taxable u/s 112 and Short-term capital gain of ₹ 58,000. The Gross total income also includes interest income of ₹ 12,000 from savings bank deposits with banks and ₹ 40,000 interest on fixed deposits with banks. Mr. Chaturvedi has invested in PPF ₹ 1,20,000 and also paid a medical insurance premium ₹ 51,000. Mr. Chaturvedi also contributed ₹ 50,000 to Public Charitable Trust eligible for deduction u/s 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.

Answer 19

Computation of total income and tax liability of Mr. Chaturvedi for the A.Y. 2025-26 under default tax regime

Particulars	₹
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 ₹ 2,45,000 x 20%	49,000
Balance total income ₹ 5,73,240	13,662
	62,662
Add: Health and Education cess @4%	2,506
Total tax liability	65,168
Total tax liability (Rounded off)	65,170

Chapter 10: Deductions from Gross Total Income

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	₹	₹
Gross total income incl. long term capital gain		8,18,240
Less: Long term capital gain		2,45,000
		5,73,240
Less: Deductions under Chapter VI-A		
U/s 80C in respect of PPF deposit	1,20,000	
U/s 80D (it is assumed that premium of ₹ 51,000 is paid by otherwise than by cash. The deduction would be restricted to ₹ 50,000, since Mr. Chaturvedi is a senior citizen)	50,000	
U/s 80G (See Notes 1 & 2 below)	17,662	
U/s 80TTB (See Note 3 below)	50,000	2,37,662
Total income (excluding long term capital gains)		3,35,578
Total income (including long term capital gains)		5,80,578
Total income (rounded off)		5,80,580
Tax on total income (including long-term capital gains of ₹ 2,45,000)		
LTCG ₹ 2,45,000 x 20%		49,000
Balance total income ₹ 3,35,580 (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 u/s 115BAC(1A).

Notes:

1. Computation of deduction u/s 80G:

Particulars	₹
Gross total income (excluding long term capital gains)	5,73,240
Less : Deduction u/s 80C, 80D & 80TTB	2,20,000
	3,53,24
10% of the above	35,324
Contribution made	50,000
Lower of the two eligible for deduction u/s	35,324
Deduction u/s 80G – 50% of ₹ 35,324	17,662

Chapter 10: Deductions from Gross Total Income

2. Deduction u/s 80G is allowed only if amount is paid by any mode other than cash, in case of amount exceeding ₹ 2,000. Therefore, the contribution made to public charitable trust is eligible for deduction since it is made by way of an account payee cheque.
3. Deduction of upto ₹ 50,000 u/s 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 ₹ 3,00,000.

Question 20

[Various deductions]

Mr. Rajmohan whose gross total income was ₹ 6,40,000 for the financial year 2024-25, furnishes you the following information:

- (i) Stamp duty paid on acquisition of residential house (self-occupied) - ₹ 50,000.
- (ii) Five year post office time deposit - ₹ 20,000.
- (iii) Donation to a recognized charitable trust ₹ 25,000 which is eligible for deduction u/s 80G at the applicable rate.
- (iv) Interest on loan taken for higher education of spouse paid during the year - ₹ 10,000.

Compute the total income of Mr. Rajmohan for the AY 2025-26, if he has exercised the option of shifting out of the default tax regime provided u/s 115BAC(1A). [SM Q.]

Answer 20

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

Particulars	₹	₹
Gross Total Income		6,40,000
Less: Deduction under Chapter VI-A		
U/s 80C		
Stamp duty paid on acquisition of residential house	50,000	
Five year time deposit with Post Office	20,000	
	70,000	
U/s 80E		
Interest on loan taken for higher education of spouse, being a relative.	10,000	
U/s 80G (See Note below)		
Donation to recognized charitable trust (50% of ₹ 25,000)	12,500	92,500
Total Income		5,47,500

Note: In case of deduction u/s 80G in respect of donation to a charitable trust, the net qualifying amount has to be restricted to 10% of adjusted total income, i.e., gross total income less deductions under Chapter VI-A except 80G. The adjusted total income is, therefore, ₹ 5,60,000 (i.e. 6,40,000 – ₹ 80,000), 10% of which is ₹ 56,000, which is higher than the actual donation of ₹ 25,000. Therefore, the deduction u/s 80G would be ₹ 12,500, being 50% of the actual donation of ₹ 25,000.

Question 21

[Various deductions]

Compute the eligible deduction under Chapter VI-A for the A.Y. 2025-26 of Ms. Roma, aged 40 years, who has a GTI of ₹ 15,00,000 for the A.Y. 2025-26 she has exercised the option of shifting out of the default tax regime provided u/s 115BAC(1A) and provides the following information about her investments/payments during the P.Y. 2024-25: [SM Q.]

Sl. No.	Particulars	Amount (₹)
1.	Life Insurance premium paid (Policy taken on 31-03-2012 and sum assured is ₹ 4,40,000)	35,000
2.	Public Provident Fund contribution	1,50,000

Sl. No.	Particulars	Amount (₹)
3.	Repayment of housing loan to Bhartiya Mahila Bank, Bangalore	20,000
4.	Payment to L.I.C. Pension Fund	1,40,000
5.	Mediclaime Policy taken for self, wife and dependent children, premium paid by cheque	30,000
6.	Medical Insurance premium paid by cheque for parents (Senior Citizens)	52,000

Answer 21

Computation of eligible deduction under Chapter VI-A of Ms. Roma for A.Y. 2025-26

Particulars	₹	₹
Deduction u/s 80C		
Life insurance premium paid ₹ 35,000 (allowed in full since the same is within the limit of 20% of the sum assured, the policy being taken before 1.4.2012)	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 ₹ 1,50,000	1,50,000	
Deduction u/s 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 u/s 80D		
Payment of medical insurance premium of ₹ 30,000 towards medical policy taken for self, wife and dependent children restricted to	25,000	
Medical insurance premium paid ₹ 52,000 for parents, being senior citizens, restricted to	50,000	75,000
Eligible deduction under Chapter VI-A		2,25,000

Question 22

[Various deductions]

Compute the deduction available to Mr. Dhyanchand under Chapter VI-A for A.Y. 2025-26. Mr. Dhyanchand, aged 65 years, is working with ABC Ltd. His income comprises of salary of ₹ 18,50,000 and interest on fixed deposits of ₹ 75,000. He submits the following particulars of investments and payments made by him during the previous year 2024-25, assume he has exercised the option of shifting out of the default tax regime provided u/s 115BAC(1A)

- Deposit of ₹ 1,50,000 in public provident fund
- Payment of life insurance premium of ₹ 62,000 on the policy taken on 01.4.2017 to insure his life (Sum assured – ₹ 4,00,000).
- Deposit of ₹ 45,000 in a five year term deposit with bank.
- Contributed ₹ 2,10,000, being 15% of his salary (basic salary plus dearness allowance,

which forms part of retirement benefits) to the NPS of the Central Government. A matching contribution was made by ABC Ltd.

- On 1.4.2024, mediclaim premium of ₹ 1,08,000 and ₹ 80,000 paid as lumpsum to insure his and his wife (aged 58 years) health, respectively for four years
- Incurred ₹ 46,000 towards medical expenditure of his father, aged 85 years, not dependent on him. No insurance policy taken for his father.
- He spent ₹ 6,000 for the preventive health-check up of his wife.
- He has incurred an expenditure of ₹ 90,000 for the medical treatment of his mother, being a person with severe disability. **[MTP Q.]**

Answer 22

Deduction available to Mr. Dhyanchand under Chapter VI-A for A.Y.2025-26

Section	Particulars	₹	₹
80C	Deposit in public provident fund	1,50,000	
	Life insurance premium paid ₹ 62,000 (deduction restricted to ₹ 40,000, being 10% of ₹ 4,00,000, which is the sum assured, since the policy was taken on or after 01.04.2012)	40,000	
	Five year term deposit with bank	45,000	1,50,000
	Restricted to	2,35,000	1,40,000
80CCD(1)	Contribution to NPS of the Central Government, ₹ 1,60,000 [₹ 2,10,000 – ₹ 50,000, being deduction u/s 80CCD(1B)], restricted to 10% of salary [₹ 2,10,000 x 10/15] [See Note 1]		2,90,000
80CCE	Aggregate deduction under section 80C and 80CCD(1), ₹ 2,90,000, but restricted to		1,50,000
80CCD(1B)	₹ 50,000 would be eligible for deduction in respect of contribution to NPS of the Central Government		50,000
80CCD(2)	Employer contribution to NPS, restricted to 10% of salary [See Note 2]		1,40,000
80D	(i) (a) Medical insurance premium for self and his wife, deduction would be equal to ₹ 47,000 (₹ 27,000 + ₹ 20,000), being 1/4th of lumpsum premium, since policies would be in force for four previous years.	47,000	
	(b) Preventive health check up ₹ 6,000 for wife restricted to ₹ 3,000 (₹ 50,000 - ₹ 47,000, since maximum allowable deduction is ₹ 50,000 in case assessee or one of the family member is senior citizen)	3,000	
		50,000	
	(ii) Medical Expenditure for his father would be fully allowed as deduction, since no insurance policy is taken on his name	46,000	
	Total of (i) and (ii)		96,000

Section	Particulars	₹	₹
80DD	Deduction of ₹ 1,25,000 in respect of expenditure on medical treatment of his mother, being a person with severe disability would be allowed irrespective of the fact that amount of expenditure incurred is ₹ 90,000		1,25,000
80TTB	Interest on fixed deposits with bank of ₹ 75,000, deduction restricted to		50,000
Deduction under Chapter VI-A			6,11,000

Notes:

- (1) The deduction u/s 80CCD(1B) would not be subject to overall limit of ₹ 1.50 lakh u/s 80CCE. Therefore, it is more beneficial for Mr. Dhyanchand to claim deduction u/s 80CCD(1B) first in respect of contribution to NPS. Thereafter, the remaining amount of ₹ 1,60,000 can be claimed as deduction u/s 80CCD(1), subject to a maximum limit of 10% of salary i.e. ₹ 1,40,000.
- (2) The entire employer's contribution to notified pension scheme has to be first included under the head "Salaries" while computing gross total income and thereafter, deduction u/s 80CCD(2) would be allowed, subject to a maximum of 10% of salary. Deduction u/s 80CCD(2) is also not subject to the overall limit of ₹ 1,50,000 u/s 80CCE.

Question 23**[Various deductions]**

Deepak is retired Government Officer, aged 65 years, resides in Hyderabad, derived following income:

	₹
Pension	6,60,000
Interest from bank on fixed deposits (Gross)	55,000

Compute the total income of Mr. Deepak for the assessment year 2025-26 from the following particulars assume he has exercised the option of shifting out of the default tax regime provided u/s 115BAC(1A).

- Life insurance premium paid by cheque ₹ 22,500 for insurance of his life. The insurance policy was taken on 08-09-2016 and the sum assured is ₹ 2,00,000.
- Premium of ₹ 26,000 paid by cheque for health insurance of self and his wife.
- Paid interest of ₹ 6,500 on loan taken from bank for MBA course pursued by his daughter.
- A sum of ₹ 15,000 donated in cash to an institution approved for the purpose of section 80G for promoting family planning.

[MTP Q.]**Answer 23****Computation of total income of Mr. Deepak for A.Y.2025-26**

Particulars	₹	₹
Income under the head "Salaries"		
Pension	6,60,000	
Less: Standard deduction u/s 16(ia)		
Lower of ₹ 50,000 or actual salary/pension	50,000	6,10,000
Income from Other Sources		
Interest from bank on fixed deposit (Gross)		55,000

Particulars	₹	₹
Gross Total Income		6,65,000
Less: Deduction under Chapter VI-A		
Deduction u/s 80C		
LIC premium of ₹ 22,500 (restricted to 10% of ₹ 2,00,000, being the sum assured, as the policy is taken after 31.3.2012)	20,000	
Deduction u/s 80D	26,000	
Premium for health insurance for self and his wife paid by cheque, allowed upto ₹ 50,000 since Mr. Deepak is a senior citizen		
Deduction u/s 80E		
Interest on loan taken from bank for MBA course pursued by his Daughter	6,500	
Deduction u/s 80G		
Donation to an approved institution for promoting family planning not allowed since the amount exceeding ₹ 2,000 is paid in cash	Nil	
Deduction u/s 80TTB		
Interest on fixed deposit with bank allowable as deduction upto ₹ 50,000, since Mr. Deepak is a senior citizen	50,000	
		1,02,500
Total Income		5,62,500

Question 24**[Sec 80DD]**

Mr. X is a resident individual. He deposits a sum of ₹ 50,000 with Life Insurance Corporation every year for the maintenance of his 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 u/s 80DD for the A.Y. 2025-26 assume he has exercised the option of shifting out of the default tax regime provided u/s 115BAC(1A).

What will be the deduction if Mr. X had made this deposit for his dependant father? **[SM Q.]**

Answer 24

Since the amount deposited by Mr. X was for his grandfather, he will not be allowed any deduction u/s 80DD. The deduction is available if the individual assessee incurs any expense for a "dependant" disabled person. Grandfather does not come within the meaning of "dependant" as defined u/s 80DD.

If the expense was incurred for a dependant disabled person, Mr. X will be entitled to claim a deduction of ₹ 75,000 u/s 80DD, irrespective of the amount deposited. In case his father has severe disability, the deduction would be ₹ 1,25,000.

Question 25

[Sec 10AA SEZ]

Y Ltd. furnishes you the following information for the year ended 31.3.2025:

Particulars	₹ (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 u/s 10AA for the A.Y. 2025-26, assuming that Y Ltd. commenced operations in SEZ and DTA in the year 2020-21. [SM Q.]

Answer 25

100% of the profit derived from export of articles or things or services is eligible for deduction u/s 10AA, since F.Y. 2024-25 falls within the first five year period commencing from the year of manufacture or production of articles or things or provision of services by the Unit in SEZ. As per section 10AA(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 u/s 10AA

$$= \text{Profit of the business of Unit A} \times \frac{\text{Export Turnover of Unit A}}{\text{Total Turnover of Unit A}} \times 100\%$$

$$= ₹ 30 \text{ lakhs} \times \frac{50}{100} \times 100\% = ₹ 15 \text{ lakhs}$$

Note – No deduction u/s 10AA is allowable in respect of profits of business of Unit B located in DTA.

Question 26

[Sec 10AA SEZ]

Rudra Ltd. has one unit at Special Economic Zone (SEZ) and other unit at Domestic Tariff Area (DTA). The company provides the following details for the previous year 2024-25.

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

Calculate the eligible deduction u/s 10AA of the Income-tax Act, 1961, for the Assessment Year 2025-26, in the following situations:

- If both the units were set up and start manufacturing from 22-05-2015.
- If both the units were set up and start manufacturing from 14-05-2020.

[SM Q.]

Answer 26

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

As per section 10AA, in computing the total income of Rudra Ltd. from its unit located in a Special Economic Zone (SEZ), which begins to manufacture or produce articles or things or provide any

services during the 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.

Computation of eligible deduction u/s 10AA [See Working Note below]:

(i) If Unit in SEZ was set up and began manufacturing from 22-05-2015:

Since A.Y. 2025-26 is the 10th assessment year from A.Y. 2016-17, relevant to the previous year 2015-16, in which the SEZ unit began manufacturing of articles or things, it shall be eligible for deduction of 50% of the profits derived from export of such articles or things, assuming all the other conditions specified in section 10AA are fulfilled.

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

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

(ii) If Unit in SEZ was set up and began manufacturing from 14-05-2020:

Since A.Y. 2025-26 is the 5th assessment year from A.Y. 2021-22, relevant to the previous year 2020-21, in which the SEZ unit began manufacturing of articles or things, it shall be eligible for deduction of 100% of the profits derived from export of such articles or things, assuming all the other conditions specified in section 10AA are fulfilled.

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

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

= Profits of Unit in SEZ

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

Question 27

[Sec 10AA SEZ]

Mr. Ramesh furnishes the following particulars for the previous year 2024-25 in respect of an industrial undertaking established in "Special Economic Zone" in March 2019. It began manufacturing in April 2019.

Particulars	₹
Total sales	85,00,000
Export sales [proceeds received in India till 30 th September, 2025]	45,00,000
Domestic sales	40,00,000
Profit from the above undertaking	20,00,000

Export Sales of F.Y. of 2024-25 include freight and insurance of ₹ 5 lacs for delivery of goods outside India. Compute the amount of deduction available to Mr. Ramesh u/s 10AA for A.Y. 2025-26. [MTP Q.]

Answer 27

Computation of deduction u/s 10AA for A.Y. 2025-26

Since A.Y. 2025-26 is the 6th assessment year from A.Y. 2020-21, relevant to the previous year 2019-20, 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 conditions specified in section 10AA are fulfilled.

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

$$= 20,00,000 \times \frac{40,00,000}{80,00,000} \times 50\% = 5,00,000$$

Working Note:

	₹
Export Turnover	
Sale proceeds received in India	45,00,000
Less: Freight and insurance for delivery of goods outside India to be excluded from export turnover	5,00,000
	40,00,000
Total turnover	85,00,000
Less: Freight and insurance not includible [Since freight and insurance has been excluded from export turnover, the same has to be excluded from total turnover also].	5,00,000
	80,00,000

Question 28

[Sec 10AA SEZ]

M/s Rajveer, a proprietorship has two units namely, Unit X and Unit Y. Unit X located in Special Economic Zone and Unit Y in Domestic Tariff Area (DTA). The following are the details for the financial year 2024-25:

Particulars	Unit Y (₹)	M/s Rajveer (₹)
Total sales	50,00,000	85,00,000
Export sales	28,00,000	55,00,000
Domestic sales	22,00,000	30,00,000
Net Profit	4,00,000	10,00,000

Total Sales of F.Y. 2024-25 include freight of ₹ 5 lacs for delivery of goods outside India with respect to Unit X.

Both the units were set up and started manufacturing from 20.6.2020. Compute the amount of deduction available to M/s Rajveer u/s 10AA for the A.Y. 2025-26.

[RTP Nov-21 Q.]

Answer 28

Computation of deduction u/s 10AA for A.Y. 2025-26

Since A.Y. 2025-26 is the 5th assessment year from A.Y. 2022-23, relevant to the previous year 2021-22, in which the SEZ unit began manufacturing of articles or things or provide any services, it shall be eligible for deduction of 100% of the profits derived from export of such articles or things or from services, assuming all the other conditions specified in section 10AA are fulfilled.

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

$$= 6,00,000 \times \frac{22,00,000}{30,00,000} \times 100\% = 4,40,000$$

Working Note:

Computation of total sales, export sales and net profit of Unit X

Particulars	M/s Rajveer (₹)	Unit Y (₹)	Unit X (₹)
Total sales	85,00,000	50,00,000	35,00,000
Export sales	55,00,000	28,00,000	27,00,000
Domestic sales	30,00,000	22,00,000	8,00,000
Net Profit	10,00,000	4,00,000	6,00,000
Export Turnover			
Sale proceeds			27,00,000
Less: Freight not includible in export turnover			5,00,000
			22,00,000
Total turnover			35,00,000
Less: Freight not includible [Since freight has been excluded from export turnover, the same has to be excluded from total turnover also].			5,00,000
			30,00,000

Advance Tax, Tax Deduction at Source and Introduction to Tax Collection at Source

Question 1

[TDS u/s 192]

Mr. A, the employer, pays gross salary including allowances and monetary perquisites amounting to ₹ 7,30,000 to his General Manager. Besides, the employer provides non-monetary perquisites to him whose value is estimated at ₹ 1,20,000. The General Manager is exercising the option to shift out of the default tax regime and pay tax under the optional tax regime as per the normal provisions of the Act. What is the tax implication in the hands of Mr. A, the employer and General Manager, the employee?

Answer 1

	₹
Gross salary, allowances and monetary perquisites	7,30,000
Non-Monetary perquisites	<u>1,20,000</u>
	8,50,000
Less: Standard deduction u/s 16(ia)	<u>50,000</u>
	<u>8,00,000</u>
Tax Liability	75,400
Average rate of tax ($\frac{₹ 75,400}{₹ 8,00,000} \times 100$)	9.425%

Mr. A can deduct ₹ 75,400 at source from the salary of the General Manager at the time of payment.

Alternatively, Mr. A can pay tax on non-monetary perquisites as under – Tax on non-monetary perquisites = 9.425% of ₹ 1,20,000 = ₹ 11,310

Balance to be deducted from salary = ₹ 64,090

If Mr. A pays tax of ₹ 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).

Question 2

[TDS u/s 194A]

Examine the TDS implications u/s 194A in the cases mentioned hereunder–

- On 1.10.2024, Mr. Harish made a six-month fixed deposit of ₹ 10 lakh @ 9% p.a. with ABC Co-operative Bank. The fixed deposit matures on 31.3.2024.
- On 1.6.2024, Mr. Ganesh made three nine months fixed deposits of ₹ 3 lakh each, carrying interest @ 9% p.a. with Dwarka Branch, Janakpuri Branch and Rohini Branch of XYZ Bank, a bank which has adopted CBS. The fixed deposits mature on 28.2.2025.
- On 1.10.2024, Mr. Rajesh started a six months recurring deposit of ₹ 2,00,000 per month @ 8% p.a. with PQR Bank. The recurring deposit matures on 31.3.2025. [SM-Q]

Answer 2

- (i) ABC Co-operative Bank has to deduct tax at source@10% on the interest of ₹ 45,000 ($9\% \times ₹ 10 \text{ lakh} \times \frac{1}{2}$) u/s 194A. The tax deductible at source u/s 194A from such interest is, therefore, ₹ 4,500.
- (ii) XYZ Bank has to deduct tax at source@10% u/s 194A, since the aggregate interest on fixed deposit with the three branches of the bank is ₹ 60,750 [$3,00,000 \times 3 \times 9\% \times 9/12$], which exceeds the threshold limit of ₹ 40,000. Since XYZ Bank has adopted CBS, the aggregate interest credited/paid by all branches has to be considered. Since the aggregate interest of ₹ 60,750 exceeds the threshold limit of ₹ 40,000, tax has to be deducted@10% u/s 194A.
- (iii) No tax has to be deducted u/s 194A by PQR Bank on the interest of ₹ 28,000 falling due on recurring deposit on 31.3.2025 to Mr. Rajesh, since such interest does not exceed the threshold limit of ₹ 40,000

Question 3**[TDS u/s 194C]**

ABC Ltd. makes the following payments to Mr. X, a contractor, for contract work during the P.Y. 2024-25—

₹ 20,000 on 1.5.2024

₹ 25,000 on 1.8.2024

₹ 28,000 on 1.12.2024

On 1.3.2025, a payment of ₹ 30,000 is due to Mr. X on account of a contract work.

Discuss whether ABC Ltd. is liable to deduct tax at source u/s 194C from payments made to Mr. X. **[SM Q.]**

Answer 3

In this case, the individual contract payments made to Mr. X does not exceed ₹ 30,000. However, since the aggregate amount paid to Mr. X during the P.Y. 2024-25 exceeds ₹ 1,00,000 (on account of the last payment of ₹ 30,000, due on 1.3.2025, taking the total from ₹ 73,000 to ₹ 1,03,000), the TDS provisions u/s 194C would get attracted. Tax has to be deducted@1% on the entire amount of ₹ 1,03,000 from the last payment of ₹ 30,000 and the balance of ₹ 28,970 (i.e., ₹ 30,000 – ₹ 1,030) has to be paid to Mr. X.

Question 4**[TDS u/s 194C]**

Moon TV, a television channel, made payment of ₹ 50 lakhs to a production house for production of programme for telecasting as per the specifications given by the channel. The copyright of the programme is also transferred to Moon TV. Would such payment be liable for tax deduction at source u/s 194C? Discuss.

Also, examine whether the provisions of tax deduction at source u/s 194C would be attracted if the payment was made by Moon TV for acquisition of telecasting rights of the content already produced by the production house. **[SM Q.]**

Answer 4

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' u/s 194C. Therefore, the payment of ₹ 50 lakhs made by Moon TV to the production house would be subject to tax deduction at source u/s 194C.

If, however, the payment was made by Moon TV for acquisition of telecasting rights of the content already produced by the production house, there is no contract for "carrying out any work", as required in section 194C(1). Therefore, such payment would not be liable for tax deduction at source u/s 194C.

Question 5**[TDS u/s 194C]**

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. **[SM Q.]**

Answer 5

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 ₹ 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 ₹ 35,000. Therefore, payment or aggregate of payments up to ₹ 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).

U/s 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.

Question 6**[TDS u/s 194DA]**

Examine the applicability of the provisions for tax deduction at source u/s 194DA in the following cases -

- (i) Mr. X, a resident, is due to receive ₹ 4.50 lakhs on 30.06.2024, towards maturity proceeds of LIC policy taken on 1.7.2021, for which the sum assured is ₹ 4 lakhs and the annual premium is ₹ 1,25,000.
- (ii) Mr. Y, a resident, is due to receive ₹ 3.95 lakhs on 31.3.2025 on LIC policy taken on 31.3.2012, for which the sum assured is ₹ 3.50 lakhs and the annual premium is ₹ 26,100.
- (iii) Mr. Z, a resident, is due to receive ₹ 95,000 on 1.8.2024 towards maturity proceeds of LIC policy taken on 1.8.2018 for which the sum assured is ₹ 90,000 and the annual premium was ₹ 10,000. **[SM Q.]**

Answer 6

- (i) Since the annual premium exceeds 10% of sum assured in respect of a policy taken after 31.3.2012, the maturity proceeds of ₹ 4.50 lakhs due on 30.6.2024 are not exempt u/s 10(10D) in the hands of Mr. X. Therefore, tax is required to be deducted @5% u/s 194DA on the amount of income comprised therein i.e., on ₹ 75,000 (₹ 4,50,000, being maturity proceeds - ₹ 3,75,000, being the aggregate amount of insurance premium paid).
- (ii) Since the annual premium is less than 20% of sum assured in respect of a policy taken before 1.4.2012, the sum of ₹ 3.95 lakhs due to Mr. Y would be exempt u/s 10(10D) in his hands. Hence, no tax is required to be deducted at source u/s 194DA on such sum payable to Mr. Y.
- (iii) Even though the annual premium exceeds 10% of sum assured in respect of a policy taken after 31.3.2012, and consequently, the maturity proceeds of ₹ 95,000 due on 1.8.2024 would not be exempt u/s 10(10D) in the hands of Mr. Z, the tax deduction provisions u/s 194DA are not attracted since the maturity proceeds are less than ₹ 1 lakh.

Question 7**[Sec 194-I]**

XYZ Ltd. pays ₹ 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 u/s 194-I are attracted.

Answer 7

Section 194-I, which governs the deduction of tax at source on payment of rent, exceeding ₹ 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 ₹ 1 crore in case of business and ₹ 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 ₹ 2,40,000, the provisions of section 194-I for deduction of tax at source attracted.

The rate applicable for deduction at source u/s 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
 $= ₹ 6,00,000 \times 10\% = ₹ 60,000$

Question 8**[Sec 194-IB]**

Mr. X, a salaried individual, pays rent of ₹ 55,000 per month to Mr. Y from June, 2024 for immovable property. 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? **[SM Q.]**

Answer 8

Since Mr. X pays rent exceeding ₹ 50,000 per month in the F.Y. 2024-25, he is liable to deduct tax at source @5% of such rent for F.Y. 2024-25 u/s 194-IB. Thus, ₹ 11,000 [₹ 55,000 x 2% x 10] has to be deducted from rent payable for March, 2025.

If Mr. X vacated the premises in December, 2024, then tax of ₹ 7,700 [₹ 55,000 x 2% x 7] 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 2%.

In case 1 above, this would amount to ₹ 1,10,000 [₹ 55,000 x 20% x 10], but the same has to be restricted to ₹ 55,000, being rent for March, 2025.

In case 2 above, this would amount to ₹ 77,000 [₹ 55,000 x 20% x 7], but the same has to be restricted to ₹ 55,000, being rent for December, 2024.

Question 9**[Sec 194J]**

XYZ Ltd. makes a payment of ₹ 28,000 to Mr. Ganesh on 2.8.2024 towards fees for professional services and another payment of ₹ 25,000 to him on the same date towards fees for technical services. Discuss whether TDS provisions u/s 194J are attracted. **[SM Q.]**

Answer 9

TDS provisions u/s 194J would not get attracted, since the limit of ₹ 30,000 is applicable for fees for professional services and fees for technical services, separately. It is assumed that there is no other payment to Mr. Ganesh towards fees for professional services and fees for technical services during the P.Y. 2024-25.

Question 10**[Sec 194C, 194M, 194H]**

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. **[SM Q.]**

	Particulars of the payer	Nature of payment	Aggregate of payments made in the F.Y.2024-25
1	Mr. Ganesh, an individual carrying on retail business with turnover of ₹ 2.5 crores in the P.Y.2023-24	Contract Payment for repair of residential house	₹ 5 lakhs
		Payment of commission to Mr. Vallish for business purposes	₹ 80,000 in November, 2024
2.	Mr. Rajesh, a wholesale trader whose turnover was ₹ 95 lakhs in P.Y. 2023-24.	Contract Payment for reconstruction of residential house (made during the period January- March, 2025)	₹ 20 lakhs in January, 2025, ₹ 15 lakhs in Feb 2025 and ₹ 20 lakhs in March 2025.
3.	Mr. Satish, a salaried individual	Payment of brokerage for buying a residential house in March, 2025	₹ 51 lakhs
4.	Mr. Dheeraj, a pensioner	Contract payment made during October-November 2024 for reconstruction of residential house	₹ 48 lakhs

Answer 10

	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 ₹ 2.5 crores in the P.Y.2023-24	Contract Payment for Repair of residential house	₹ 5 lakhs	No; TDS u/s 194C is not attracted since The payment is for Personal purpose. TDS u/s 194M is not attracted as aggregate of contract payment to the payee in the P.Y.2024-25 does not exceed ₹ 50 lakh.
		Payment of commission to Mr. Vallish for business purposes	₹ 80,000	Yes, u/s 194H @2%, since the payment exceeds ₹ 15,000, and Mr. Ganesh's turnover exceeds ₹ 1 crore in the P.Y.2023-24.
2.	Mr. Rajesh, a wholesale trader whose turnover was ₹ 95 lakhs in P.Y. 2023-24	Contract Payment for reconstruction of residential house	₹ 55 lakhs	Yes, u/s 194M @2%, since the Aggregate of payments (i.e., ₹ 55 lakhs) exceed ₹ 50 lakhs. Since, his turnover does not exceed 1 crore in the P.Y.2023-24, TDS provisions u/s 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	₹ 51 lakhs	Yes, u/s 194M @2%, since the payment of ₹ 51 lakhs made in March 2025 exceeds the threshold of ₹ 50 lakhs. Since Mr. Satish is a salaried individual, the provisions of section 194H are not applicable in this case.

Chapter 11: Advance Tax, TDS and Introduction to TCS

	Particulars of the payer	Nature of payment	Aggregate of payments in the F.Y.2024-25	Whether TDS provisions are attracted?
4.	Mr. Dheeraj, a pensioner	Contract payment for reconstruction of residential house	₹ 48 lakhs	TDS provisions u/s 194C are not attracted since Mr. Dheeraj is a pensioner. TDS provisions u/s 194M are also not Applicable in this case, since the payment of ₹ 48 lakhs does not exceed the threshold of ₹ 50 lakhs.

Question 11

[Capital Gain & IFOS]

Mr. X sold his house property in Bangalore as well as his rural agricultural land for a consideration of ₹ 60 lakh and ₹ 15 lakh, respectively, to Mr. Y on 1.8.2024. He has purchased the house property and the land in the year 2023 for ₹ 40 lakh and ₹ 10 lakh, respectively. The stamp duty value on the date of transfer, i.e., 1.8.2024, is ₹ 85 lakh and ₹ 20 lakh for the house property and rural agricultural land, respectively. Examine the tax implications in the hands of Mr. X and Mr. Y and the TDS implications, if any, in the hands of Mr. Y, assuming that both Mr. X and Mr. Y are resident Indians.

Answer 11

(i)	Tax implications in the hands of Mr. X
	As per section 50C, the stamp duty value of house property (i.e. ₹ 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, ₹ 45 lakh (i.e., ₹ 85 lakh – ₹ 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 u/s 56(2)(x), if such difference exceeds the higher of ₹ 50,000 and 10% of the consideration. Therefore, in this case ₹ 25 lakh (₹ 85 lakh – ₹ 60 lakh) would be taxable in the hands of Mr. Y u/s 56(2)(x). Since agricultural land is not a capital asset, the provisions of section 56(2)(x) are not attracted in respect of receipt of agricultural land for inadequate consideration, since the definition of "property" u/s 56(2)(x) includes only capital assets specified thereunder.
(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 ₹ 50 lakh, Mr. Y is required to deduct tax at source u/s 194-IA. The tax to be deducted u/s 194-IA would be ₹ 85,000, being 1% of ₹ 85 lakhs (higher of ₹ 60 lakhs or ₹ 85 lakhs). TDS provisions u/s 194-IA are not attracted in respect of transfer of rural agricultural land.

Q :tion 12

[Sec 194P]

Mr. Sharma, a resident Indian aged 77 years, gets pension of ₹ 52,000 per month from the UP State Government. The same is credited to his savings account in SBI, Lucknow Branch. In addition, he gets interest@8% on fixed deposit of ₹ 20 lakh with the said bank. Out of the deposit of ₹ 20 lakh, ₹ 2 lakh represents five year term deposit made by him on 1.4.2024. Interest on savings bank credited to his SBI savings account for the P.Y.2024-25 is ₹ 9,500.

- (1) From the above facts, compute the total income and tax liability of Mr. Sharma for the A.Y. 2025-26, assuming that he has exercised the option of shifting out of the default tax regime provided u/s 115BAC(1A).
- (1) 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.
- (2) Would your answer to Q.2 be different if the fixed deposit of ₹ 20 lakh was with Canara Bank instead of SBI, other facts remaining the same?

[SM Q.]

Answer 12

- (1) Computation of total income of Mr. Sharma for A.Y.2025-26

Particulars	₹	₹
I Salaries		
Pension (52,000 x 12)	6,24,000	
Less: Standard deduction u/s 16(ia)	50,000	
		5,74,000
II Income from Other Sources		
Interest on fixed deposit (₹ 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		
U/s 80C		
Five year term deposit (₹ 2 lakh, restricted to ₹ 1.5 lakh)	1,50,000	
U/s 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		
Tax payable [₹ 43,500 x 20% + ₹ 10,000]		18,700
Add: Health and Education Cess@4%		748
Tax liability		19,448
Tax liability (rounded off)		19,450

- (2) SBI, being a specified bank, is required to deduct tax at source u/s 194P (after considering the tax, if any, deducted on pension u/s 192) and remit the same to the Central Government. In such a case, Mr. Sharma would not be required to file his return of income u/s 139.
- (3) If the fixed deposit of ₹ 20 lakh is with a bank other than SBI, which is the bank where his pension is credited, then, Mr. Sharma would not qualify as a "specified senior citizen",

consequent to which SBI would not be liable to deduct tax u/s 194P. In this case, Mr. Sharma would have to file his return of income u/s 139, since his total income (without giving effect to deduction under Chapter VI-A) exceeds the basic exemption limit.

It may be noted that in this case, TDS provisions u/s 192 would, in any case, be attracted in respect of pension income. Further, Canara Bank would, be liable to deduct tax@10% u/s 194-A on interest on fixed deposit, since the same exceeds ₹ 50,000.

Question 13**[Sec 194Q & 206C(1H)]**

Mr. Gupta, a resident Indian, is in retail business and his turnover for F.Y.2023-24 was ₹ 12 crores. He regularly purchases goods from another resident, Mr. Agarwal, a wholesaler, and the aggregate payments during the F.Y.2024-25 was ₹ 95 lakh (₹ 20 lakh on 1.6.2024, ₹ 25 lakh on 12.8.2024, ₹ 22 lakh on 23.11.2024 and ₹ 28 lakh on 25.3.2025). Assume that the said amounts were credited to Mr. Agarwal's account in the books of Mr. Gupta on the same date. Mr. Agarwal's turnover for F.Y.2023-24 was ₹ 15 crores.

- (1) Based on the above facts, examine the TDS/TCS implications, if any, under the Income-tax Act, 1961.
- (2) Would your answer be different if Mr. Gupta's turnover for F.Y.2023-24 was ₹ 8 crores, all other facts remaining the same?
- (3) Would your answer to (1) and (2) change, if PAN has not been furnished by the buyer or seller, as required?

[SM Q.]**Answer 13**

- (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 ₹ 50 lakhs in the P.Y.2024-25, he is liable to deduct tax@0.1% of ₹ 45 lakhs (being the sum exceeding ₹ 50 lakhs) in the following manner –

No tax is to be deducted u/s 194Q on the payments made on 1.6.2024 and 12.8.2024, since the aggregate payments till that date i.e. 45 lakhs, has not exceeded the threshold of ₹ 50 lakhs. Tax of ₹ 1,700 (i.e., 0.1% of ₹ 17 lakhs) has to be deducted u/s 194Q from the payment/ credit of ₹ 22 lakh on 23.11.2024 [₹ 22 lakh – ₹ 5 lakhs, being the balance unexhausted threshold limit].

Tax of ₹ 2,800 (i.e., 0.1% of ₹ 28 lakhs) has to be deducted u/s 194Q from the payment/ credit of ₹ 28 lakhs on 25.3.2025.

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 ₹ 8 crores, TDS provisions u/s 194Q would not be attracted. However, TCS provisions u/s 206C(1H) would be attracted in the hands of Mr. Agarwal, since his turnover exceeds ₹ 10 crores in the F.Y.2023-24 and his receipts from Mr. Gupta exceed ₹ 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 ₹ 50 lakhs.

Tax of ₹ 1,700 (i.e., 0.1% of ₹ 17 lakhs) has to be collected u/s 206C(1H) on 23.11.2024 (₹ 22 lakh – ₹ 5 lakhs, being the balance unexhausted threshold limit).

Tax of ₹ 2,800 (i.e., 0.1% of ₹ 28 lakhs) has to be collected u/s 206C(1H) on 25.3.2025.

- (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 ₹ 85,000 (i.e., 5% of ₹ 17 lakhs) and ₹ 1,40,000 (5% of ₹ 28 lakhs) has to be deducted by Mr. Gupta u/s 194Q on 23.11.2024 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 ₹ 17,000 (i.e., 1% of ₹ 17 lakhs) and ₹ 28,000 (1% of ₹ 28 lakhs) has to be collected by Mr. Agarwal u/s 206C(1H) on 23.11.2024 and 25.3.2025, respectively.

Question 14**[Interest on TDS late deduction and Payment]**

An amount of ₹ 40,000 was paid to Mr. X on 1.7.2024 towards fees for professional services without deduction of tax at source. Subsequently, another payment of ₹ 50,000 was due to Mr. X on 28.2.2025, from which tax@10% (amounting to ₹ 9,000) on the entire amount of ₹ 90,000 was deducted. However, this tax of ₹ 9,000 was deposited only on 22.6.2025. Compute the interest chargeable u/s 201(1A). **[SM Q.]**

Answer 14

Interest u/s 201(1A) would be computed as follows –

Particulars	₹
1% on tax deductible but not deducted i.e., 1% on ₹ 4,000 for 8 months	320
1½% on tax deducted but not deposited i.e. 1½% on ₹ 9,000 for 4 months	540
	860

Question 15**[TDS Various section]**

Ashwin doing manufacture and wholesale trade furnishes you the following information:

Total turnover for the financial year

[SM Q.]

Particulars	₹
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	₹
Interest paid to UCO Bank on 15.8.2024	41,000
Contract payment to Raj (2 contracts of ₹ 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

Answer 15

As the turnover of business carried on by Ashwin for F.Y. 2023-24, has exceeded ₹ 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 u/s 194A is not attracted in respect of interest paid to a banking company.

Contract payment of ₹ 24,000 to Raj for 2 contracts of ₹ 12,000 each

TDS provisions u/s 194C would not be attracted if the amount paid to a contractor does not exceed ₹ 30,000 in a single payment or ₹ 1,00,000 in the aggregate during the financial year. Therefore, TDS provisions u/s 194C are not attracted in this case.

Shop Rent paid to one payee – Tax has to be deducted@10% u/s 194-I as the annual rental payment exceeds ₹ 2,40,000.

Commission paid to Balu – No, tax has to be deducted u/s 194H in this case as the commission does not exceed ₹ 15,000.

Question 16**[TDS Various section]**

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.

[SM Q.]

Sr. No.	Date	Nature of Payment
(i)	1-10-2024	Payment of ₹ 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 ₹ 25,000 and Royalty of ₹ 20,000 to Mr. Shyam who is having PAN.
(iii)	30-06-2024	Payment of ₹ 25,000 to M/s X Ltd. for repair of building.
(iv)	01-01-2025	Payment of ₹ 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 ₹ 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 ₹ 14,000 to Mr. Y.

Answer 16

- (i) No tax is required to be deducted at source u/s 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 ₹ 30,000 during the financial year. In the given case, since, the individual payments for fee of technical services i.e., ₹ 25,000 and royalty ₹ 20,000 is less than ₹ 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 ₹ 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 ₹ 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 ₹ 2,50,000.
- In the given case, no liability to deduct tax at source is attracted as the payment made does not exceed ₹ 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 ₹ 15,000.
- Since the commission payment made to Mr. Y does not exceed ₹ 15,000, the provisions of section 194H are not attracted.

Question 17**[TDS Various section]**

Examine the applicability of TDS provisions and TDS amount in the following cases:

- Rent paid for hire of machinery by B Ltd. to Mr. Raman ₹ 2,60,000 on 27.9.2024.
- Fee paid on 1.12.2024 to Dr. Srivatsan by Sundar (HUF) ₹ 35,000 for surgery performed on a member of the family.
- ABC and Co. Ltd. paid ₹ 19,000 to one of its Directors as sitting fees on 01-01-2025.

[SM Q.]**Answer 17**

- Since the rent paid for hire of machinery by B. Ltd. to Mr. Raman exceeds ₹ 2,40,000, the provisions of section 194-I for deduction of tax at source are attracted.

The rate applicable for deduction of tax at source u/s 194-I on rent paid for hire of plant and machinery is 2%, assuming that Mr. Raman had furnished his permanent account number to B Ltd.

Therefore, the amount of tax to be deducted at source: = ₹ 2,60,000 x 2% = ₹ 5,200.

Note: In case Mr. Raman does not furnish his permanent account number to B Ltd., tax shall be deducted @ 20% on ₹ 2,60,000, by virtue of provisions of section 206AA.

- 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 ₹ 1 crore in case of business or ₹ 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 u/s 194J) in respect of fees for professional service if such sum or aggregate of such sum exceeds ₹ 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 ₹ 50 lakhs in the P.Y.2024-25. However, since the payment does not exceed ₹ 50 lakh in this case, there is no liability to deduct tax at source u/s 194M also.

- 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 u/s 192. The threshold limit of ₹ 30,000 upto which the provisions of tax deduction at source are not attracted in respect of every other payment covered u/s 194J is, however, not applicable in respect of sum paid to a director.

Therefore, tax@10% has to be deducted at source u/s 194J in respect of the sum of ₹ 19,000 paid by ABC Ltd. to its director.

Therefore, the amount of tax to be deducted at source: = ₹ 19,000 x 10% = ₹ 1,900

Question 18**[TDS Various section]**

Examine the applicability of tax deduction at source provisions, the rate and amount of tax deduction in the following cases for the financial year 2024-25:

- Payment made by a company to Mr. Ram, sub-contractor, ₹ 3,00,000 with outstanding balance of ₹ 1,20,000 shown in the books as on 31-03-2025.
- Winning from horse race ₹ 1,50,000 paid to Mr. Shyam, an Indian resident.
- ₹ 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.

[SM Q.]

Answer 18

- (1) Provisions of tax deduction at source u/s 194C are attracted in respect of payment by a company to a sub-contractor. U/s 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 ₹ 4,20,000, tax is deductible @ 1% on ₹ 4,20,000.

Tax to be deducted = ₹ 4,20,000 x 1% = ₹ 4,200

- (2) U/s 194BB, tax is to be deducted at source, if the winnings from horse races exceed ₹ 10,000. The rate of deduction of tax at source is 30%.

Hence, tax to be deducted = ₹ 1,50,000 x 30% = ₹ 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 ₹ 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 ₹ 2,50,000.

Question 19**[Interest on deferment of Advance Tax instalment]**

Briefly discuss the provisions relating to payment of advance tax on income arising from capital gains and casual income. **[SM Q.]**

Answer 19

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% u/s 194B and 194BB. Therefore, advance tax liability would arise only if the surcharge, if any, and health and education cess@4% in respect thereof, along with tax liability in respect of other income, if any, is ₹ 10,000 or more.

Question 20**[Interest on short payment Advance Tax]**

Mr. Jay having total income of ₹ 8,70,000, did not pay any advance tax during the previous year 2024-25. He wishes to pay the whole of the tax, along with interest if any, on filing the return in the month of July, 2025. What is total tax which Mr. Jay has to deposit as self-assessment tax along with interest, if he files the return on 29.07.2025? Assume that he opt out from default regime u/s 115BAC. **[Past RTP Q.]**

Answer 20

Obligation to pay advance tax arises in every case, where the advance tax payable is ₹ 10,000 or more. As a consequence of such failure, assessee may be charged with interest u/s 234B and 234C.

In the given case, since Mr. Jay did not deposit any amount of advance tax during the previous year, he will need to pay the total tax due on his income along with interest for default in payment of advance tax [u/s 234B] and interest for deferment of advance tax [u/s 234C] before filing of his return.

Total tax due on returned income of ₹ 8,70,000 is ₹ 89,960 [(20% of ₹ 3,70,000 + ₹ 12,500) + cess@4%]

Interest u/s 234B

Interest u/s 234B is attracted - a) When the assessee, who is liable to pay advance tax has failed to pay such tax; or b) Where the advance tax paid by the assessee is less than 90% of the assessed tax.

Since, Mr. Jay did not pay any amount as advance tax, interest u/s 234B at 1% per month or part of the month will be levied beginning from 1st April of the following year i.e., 01.04.2025 till the time he deposits the whole tax under self- assessment.

Interest will be levied on tax liability of ₹ 89,900 (rounded off to nearest hundred, ignoring fraction) at 1% for four months i.e., from 1st April to 29th July.

The interest u/s 234B amount to ₹ 3,596

Interest u/s 234C

Assessees, other than assessee who declare profits and gains in accordance with provision of section 44AD(1) or section 44ADA(1), are liable to pay advance tax in 4 installments during the previous year. Section 234C is attracted, if the actual installment paid by the assessee is the less than the amount required to be paid by him on such instalments. The interest shall be calculated at 1% per month or part of the month for short payment or non-payment of each instalment.

In the given scenario, since Mr. Jay, did not deposit any amount as advance tax, the interest u/s 234C is calculated as under –

Date of Instalment	Specified % of estimated tax	Amount due and unpaid (rounded off to nearest ₹ 100, ignoring fraction)	Period	Interest @ 1%
15th June 2024	15%	13,400	3 months	402
15th September 2024	45%	40,400	3 months	1,212
15th December 2024	75%	67,400	3 months	2,022
15th March 2025	100%	89,900	1 month	899
Total interest u/s 234C				4,535

Mr. Jay needs to pay ₹ 98,091 as total of tax and interest on or before filing of return in the month of July, 2025.

Question 21

[TDS Various section]

Examine & explain the TDS implications in the following cases along with reasons thereof, assuming that the deductees are residents and having a PAN which they have duly furnished to the respective deductors.

- Mr. Kunal received a sum of ₹ 10,20,000 on 28.02.2025 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.
- Indian Bank sanctioned and disbursed a loan of ₹ 12 crores to B Ltd. on 31-12-2024. B Ltd. paid a sum of ₹ 1,20,000 as service fee to Indian Bank for processing the loan application.
- Mr. Agam, working in a private company, is on deputation for 5 months (from October, 2024 to February, 2025) at Mumbai where he pays a monthly house rent of ₹ 32,000 for those five months, totalling to ₹ 1,60,000. Rent is paid by him on the first day of the relevant month.

[MTP Q.]

Answer 21

TDS implications

(i) On pre-mature withdrawal from EPF

No tax is deductible u/s 192A even though the employee, Mr. Kunal, has not completed 5 years of continuous service, since termination of employment is on account of his ill-health. Hence, Rule 8 of Part A of the Fourth Schedule is applicable in this case.

(ii) On payment of service fee to bank

Even though service fee is included in the definition of "interest" u/s 2(28A), no tax is deductible at source u/s 194A, since the service fee is paid to a banking company, i.e., Indian Bank.

(iii) On payment of rent by a salaried individual

Mr. Agam, a salaried individual, is not liable to deduct tax at source @5%/2% u/s 194-IB on ₹ 1,60,000 (being rent for 5 months from October 2024 to February 2025) from the rent of ₹ 32,000 payable on 1st day of every month, since the monthly rent does not exceed ₹ 50,000.

Question 22

[Advance Tax Instalment]

Determine the advance tax payable by Mr. Deepak with their due dates for the assessment year 2025-26. [MTP Q.]

	Amount (₹)
Total estimated tax payable	5,50,000
TDS (deductible but not deducted)	70,000
TCS (collected)	20,000

Answer 22

Computation of Advance Tax Payable for the A.Y 2025-26

Particulars	₹
Tax Payable	5,50,000
Less: TDS (deductible but not deducted), cannot be reduced for computing advance tax liability	Nil
Less: TCS	20,000
Net Tax Payable	5,30,000

Due dates for payment of advance tax

Due date of installment	Amount payable
On or before 15th June, 2024	₹ 79,500 [15% of ₹ 5,30,000]
On or before 15th September, 2024	₹ 1,59,000 [₹ 2,38,500 (45% of ₹ 5,30,000) less ₹ 79,500, (amount paid in earlier installment)]
On or before 15th December, 2024	₹ 1,59,000 [₹ 3,97,500 (75% of ₹ 5,30,000) Less ₹ 2,38,500 (amount paid in earlier installment or installments)]
On or before 15th March, 2025	₹ 1,32,500, [₹ 5,30,000 (whole amount of advance tax liability less ₹ 3,97,500 (amount paid in earlier installment or installments)]

Question 23

[TDS Various section]

Examine & explain the TDS implications in the following cases along with reasons thereof, assuming that the deductees are residents and having a PAN which they have duly furnished to the respective deductors.

- (i) Ms. Sarla received a sum of ₹ 95,000 on 30th September 2024 towards maturity proceeds of LIC taken on 1st October 2018 for which sum assured was ₹ 80,000 and annual premium was ₹ 10,000.
- (ii) Mr. Rohit transferred a residential house property to Mr. Arun for ₹ 45 lacs. The stamp duty value of such property is ₹ 55 lacs.
- (iii) Akash (P) Limited pays the following amounts to Mr. Santosh during previous year 2024-25:
 - (a) ₹ 22,000 towards fee for professional services
 - (b) ₹ 18,000 towards royalty.
- (iv) Payment of ₹ 1,75,000 made to Mr. Ankit for purchase of bag according to specifications of M/s. Packaging Limited. However, no material was supplied for such bag by Packaging Limited or its associates to Mr. Ankit.
- (v) ABC Private Limited pays ₹ 12,000 to Ms. Deepika, its director, on 1.5.2024 towards sitting fee which is not taxable u/s 192.
- (vi) Rashi Limited is engaged by Jigar Limited for the sole purpose of business of operation of call centre. On 18-03-2025, the total amount credited by Jigar Limited in the ledger account of Rashi Limited is ₹ 70,000 regarding service charges of call centre. The amount is paid through cheque on 28-03-2025 by Jigar Limited.
- (vii) Ms. Mohit won a lucky draw prize of ₹ 21,000. The lucky draw was organized by M/s. Maximus Retail Ltd. for its customer. [MTP Q.]

Answer 23

- (i) **On payment of LIC maturity proceeds** - The annual premium exceeds 10% of sum assured in respect of a policy taken after 31.3.2012, and consequently, the maturity proceeds of ₹ 95,000 would not be exempt u/s 10(10D) in the hands of Ms. Sarla. However, tax deduction provisions u/s 194-DA are not attracted since the maturity proceeds are less than ₹ 1 lakh.
- (ii) **On payment of sale consideration for purchase of residential house property** - U/s 194-IA if consideration or SDV is ₹ 50 lakhs or more than TDS applicable @1% on consideration or SDV whichever is higher. In this case TDS applicable @1% on ₹ 55 lakhs.
- (iii) **On payment of fee for professional services and royalty** - U/s 194J, the threshold limit of ₹ 30,000 is specified separately for, inter alia, fees for professional services and royalty. Therefore, Akash (P) Limited is not required to deduct tax at source u/s 194J either on fee of ₹ 22,000 for professional services or on royalty of ₹ 18,000 paid to Mr. Santosh, since the payment under each category does not exceed the independent threshold ₹ 30,000 specified thereunder.
- (iv) **On payment for purchase of bag according to specifications** - As per 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 its associate, being a person related to the customer in such manner as defined u/s 40A(2)(b).
Therefore, M/s Packaging Limited is not required to deduct tax at source in respect of payment of ₹ 1,75,000 to Mr. Ankit, for purchase of bag according to its specifications, since it did not supply the material for such bag and nor was the material supplied by any of its associates. Hence, the contract is a contract for 'sale' and not a works contract.
- (v) **On payment of sitting fees to the director** - ABC Private Limited is required to deduct tax at source @10% on sitting fees of ₹ 12,000 paid to its director, since the threshold limit of ₹ 30,000 u/s 194J is not applicable in respect of fees paid to a director of a company.

- (vi) **On payment of call centre service charges** - Since Rashi Limited is engaged only in the business of operation of call centre, Jigar Limited is required deduct tax at source @ 2% on the amount of ₹ 70,000 u/s 194J on 18.3.2025 i.e., at the time of credit of call centre service charges to the account of Rashi Limited, since the said date is earlier than the payment date i.e., 28.3.2025.
- (vii) **On payment of prize winnings of ₹ 21,000** - Tax is deductible @ 30% u/s 194B by M/s. Maximus Retail Ltd., from the prize money of ₹ 21,000 payable to the customer, since the winnings exceed ₹ 10,000.

Question 24**[TDS Various section]**

Examine whether TDS provisions would be attracted in the following cases, and if so, under which section. Also specify the rate of TDS and amount required to be deducted at source as applicable in each case. Assume that all payments are made to residents.

S. No.	Particulars of the payer	Nature of payment	Aggregate of payments made in the F.Y. 2024-25 (Amt. in ₹)
(A)	Mr. Kale, receiving pension from Central Government	Contractual payment made during April 2024 for reconstruction of his residential house in Arunachal Pradesh	52,50,000
(B)	Mr. Rahul, a wholesale trader of spices whose turnover was ₹ 5 crores F.Y. 2023-24	Contract payment for construction of office godown during January to March 2025 to Mr. Akhilesh, an individual	50,00,000
(C)	Mr. Golu, an individual carrying garment trading business with turnover of ₹ 95 lakhs in F.Y. 2023-2024	Payment of commission to Mr. Vinay for securing a contract from a big business house in November 2024	1,20,000
(D)	XYZ Urban Co-operative bank	Payment by way of cash withdrawal, by ABC & Co. a partnership firm, amounting ₹ 1.2 crores during Financial Year 2024-25. ABC & Co. has filed its tax returns for the last 3 financial years with in time.	1,20,00,000

Answer 24

- (b) (i) Mr. Kale, being a pensioner, would not be liable to deduct tax at source u/s 194C. However, he has to deduct tax at source @ 5% u/s 194M, since the aggregate amount of payment to the contractor for his personal purposes i.e., for reconstruction of his residential house in Arunachal Pradesh, exceeds the threshold limit of ₹ 50,00,000.

Therefore, TDS u/s 194M would be = ₹ 52,50,000 × 5% = ₹ 2,62,500.

- (ii) Mr. Rahul is required to deduct tax at source u/s 194C, since his turnover from business in the financial year 2023-24, being the financial year immediately preceding F.Y. 2024-25 in which such sum is paid, exceeds ₹ 1 crore. Tax is to be deducted at source at the rate 1% as the payment is made to an Individual.

Therefore, TDS u/s 194C would be = ₹ 50,00,000 x 1% = ₹ 50,000

- (iii) Tax is required to be deducted u/s 194H, if the payer is an individual whose turnover from business carried on by him in the financial year immediately preceding the financial year in which commission is paid, exceeds ₹ 1 crore. However, where TDS u/s 194H is not applicable, tax is required to be deducted u/s 194M where payment of commission during the relevant previous year exceeds ₹ 50 lakhs

In the present case, Mr. Golu is not required to deduct tax at source u/s 194H on the commission paid to Mr. Vinay in the P.Y. 2024-25 since his turnover from his business does not exceed ₹ 1 crore during the P.Y. 2023-24.

Further, Mr. Golu is also not required to deduct tax at source u/s 194M on the said commission paid to Mr. Vinay since the commission paid does not exceed ₹ 50 lakhs during the P.Y. 2024-25.

- (iv) A co-operative bank which is responsible for paying any sum, being the amount or aggregate of amounts, as the case may be, in cash exceeding ₹ 1 crore during the previous year, to any person from an account maintained by such person with it, has to deduct an amount equal to 2% of such sum, as income-tax at the time of payment. Accordingly, since XYZ Urban Co-operative is responsible for paying a sum exceeding ₹ 1 crore (₹ 1.2 crore, in this case) in cash to ABC & Co., a partnership firm, during the F.Y. 2024-25, the bank is required deduct tax at source @ 2% of such sum.

Therefore, TDS u/s 194N would be = ₹ 20,00,000 x 2% = ₹ 40,000.

Question 25

[TDS/TCS Various section]

- (a) State in brief the applicability of provisions of tax deduction at source, the rate and amount of tax deduction in the following cases for the financial year 2024-25 under Income-tax Act, 1961. Assume that all payments are made to residents:
- Mr. Mahesh has paid ₹ 6,00,000 on 15.10.2024 to M/s Fresh Cold Storage Pvt. Ltd. for preservation of fruits and vegetables. He is engaged in the wholesale business of fruits & vegetable in India having turnover of ₹ 3 Crores during the previous year 2023-24.
 - Mr. Ramu, a salaried individual, has paid rent of ₹ 60,000 per month for house property to Mr. Shiv Kumar from 1st July, 2024 to 31st March, 2025. Mr. Shiv Kumar has not furnished his Permanent Account Number.
- (b) Examine the following transactions with reference to applicability of the provision of tax collected at source and the rate and amount of the TCS for the Assessment year 2025-26.
- Mr. Kalpit bought an overseas tour programme package for Singapore for himself and his family of ₹ 5 lakhs on 01-06-2024 from an agent who is engaged in organising foreign tours in course of his business. He made the payment by an account payee cheque and provided the permanent account number to the seller. Assuming Kalpit is not liable to deduct tax at source under any other provisions of the Act.
 - Mr. Anu doing business of textile as a proprietor. His turnover in the business is ₹ 11 crores in the previous year 2023-24. He received payment against sale of textile goods from Mr. Ram of ₹ 75 lakhs against the sales made to him in the previous year and preceding previous years. (Assuming all the sales are domestic sales and Mr. Ram is neither liable to deduct tax on the purchase from Mr. Anu nor he deducted any tax at source).

Answer 25

- (a) (i) The arrangement between Mr. Mahesh, the customer, and M/s. Fresh Cold Storage Pvt. Ltd., the cold storage owner, is basically contractual in nature and main object of the cold storage is to preserve perishable goods by mechanical process and storage of such goods is only

incidental. Hence, the provisions of section 194C will be applicable to the amount of ₹ 6 lakh paid by Mr. Mahesh to the cold storage company¹.

Accordingly, tax has to be deducted @ 2% on ₹ 6 lakh.

$$\text{TDS u/s 194C} = 2\% \times ₹ 6 \text{ lakh} = ₹ 12,000$$

- (ii) Mr. Ramu, being a salaried individual, has to deduct tax at source @ 2% u/s 194-IB on the annual rent paid by him from the last month's rent (rent of March, 2025), since the rent paid by him exceeds ₹ 50,000 p.m.

Since his landlord Mr. Shiv Kumar has not furnished his PAN to Mr. Ramu, tax has to be deducted @ 20% instead of 2%.

However, the same cannot exceed ₹ 60,000, being rent for March, 2025.

TDS u/s 194-IB = ₹ 5,40,000 (₹ 60,000 x 9) x 20% = ₹ 1,08,000, but restricted to ₹ 60,000, being rent for March, 2025.

- (b) (i) Tax @ 5% is required to be collected u/s 206C by the seller of an overseas tour programme package, from Mr. Kalpit, being the buyer of an overseas tour package, even if payment is made by account payee cheque.

Accordingly, tax has to be collected @ 5% on ₹ 5 lakh.

$$\text{TCS} = 5\% \times ₹ 5 \text{ lakh} = ₹ 25,000$$

- (ii) Mr. Anu is required to collect tax @ 0.1% u/s 206C from Mr. Ram, since his turnover in the P.Y. 2023-24 exceeds ₹ 10 crores, and the sales receipts from Mr. Ram in the P.Y. 2024-25 exceeds ₹ 50 lakhs. Tax has to be collected by Mr. Anu on ₹ 25 lakhs, being the amount exceeding ₹ 50 lakhs, at the time of receipt. Since receipt is in the P.Y. 2024-25, TCS provisions are attracted even though part of the sales may relate to the preceding previous years.

$$\text{TCS} = 0.1\% \times ₹ 25 \text{ lakhs} = ₹ 2,500$$

¹ Circular No. 1/2008 dated 10.1.2008.

Provisions for Filing return of Income and Self Assessment

Question 1

[Return Filing 139(1)]

Paras aged 55 years is a resident of India. During the F.Y. 2024-25, interest of ₹ 2,88,000 was credited to his Non-resident (External) Account with SBI. ₹ 30,000, being interest on fixed deposit with SBI, was credited to his saving bank account during this period. He also earned ₹ 3,000 as interest on this saving account. Is Paras required to file return of income?

What will be your answer, if he has incurred ₹ 3 lakhs as travel expenditure of self and spouse to US to stay with his married daughter for some time?

Answer 1

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. ₹ 3,00,000 under default tax regime u/s 115BAC(1A) and ₹ 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	₹
Income from other sources	
Interest earned from Non-resident (External) Account ₹ 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 ₹ 3,000 under section 80TTA. Accordingly, his total income would be ₹ 30,000. However, in both regimes, total income of ₹ 33,000, before giving effect to deductions under Chapter VI-A, would be considered.

Since the total income of Mr. Paras for A.Y.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 solution, interest of ₹ 2,88,000 earned from Non-resident (External) account has been taken as exempt on the assumption that Mr. Paras, a resident, has been permitted by RBI to maintain the aforesaid account. However, in case he has not been so permitted, the said interest would be taxable. In such a case, his total income, before giving effect to, *inter alia*, the deductions under Chapter VI-A, would be ₹ 3,21,000 (₹ 30,000 + ₹ 2,88,000 + ₹ 3,000), which is higher than the basic exemption limit of ₹ 3,00,000 or ₹ 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 ₹ 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.

Question 2

[Return Filing 139(3)/139(4)/(139(5))]

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:

- Belated return filed under section 139(4).
- Return already revised once under section 139(5).
- Return of loss filed under section 139(3).

[SM Q.]

Answer 2

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,

- A belated return filed under section 139(4) can be revised.
- 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.
- 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).

Question 3

[TRP]

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 assessment year 2025-26 is ₹ 6,35,000. She wants to furnish her return of income for assessment year 2025-26 through a tax return preparer. Can she do so?

[SM Q.]

Answer 3

Section 139B provides a scheme for submission of return of income for any assessment year through a Tax Return Preparer. However, it is not applicable to persons whose books of account are required to be audited under section 44AB. Therefore, Mrs. Hetal cannot furnish her return of income for A.Y.2025-26 through a Tax Return Preparer.

Question 4

[Verifying of Return]

State with reasons whether you agree or disagree with the following statements:

- Return of income of Limited Liability Partnership (LLP) could be verified by any partner.
- Time limit for filing return under section 139(1) in the case of Mr. A having total turnover of ₹ 160 lakhs (₹ 100 lakhs received in cash) for the year ended 31.03.2025, whether or not opting to offer presumptive income under section 44AD, is 31st October, 2025.

[SM Q.]

Answer 4

(a) Disagree

The return of income of LLP should be verified by a designated partner.

Any other partner can verify the Return of Income of LLP only in the following cases:-

- (i) where for any unavoidable reason such designated partner is not able to verify the return, or,
- (ii) where there is no designated partner.

(b) Disagree

In case Mr. A opts to offer his income as per the presumptive taxation provisions of section 44AD, then, the due date under section 139(1) for filing of return of income for the year ended 31.03.2025, shall be 31st July, 2025.

In case, Mr. A does not opt for presumptive taxation provisions under section 44AD, he has to get his accounts audited under section 44AB, since his turnover exceeds ₹ 1 crore, in which case, the due date for filing return would be 31st October, 2025.

Question 5

[[Return Filing 139(4)/139(5)]

Mr. Vineet exercised the option of shifting out of the default tax regime provided u/s 115BAC(1A) and submits his return of income 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?

[SM Q.]

Answer 5

Vineet has filed his original return of income for assessment year 2023-24 within the due date specified in section 139(4) for filing belated return. 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 6

[PAN 139A & Verifying Return u/s 140]

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.

[SM Q.]

Answer 6

- (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 7**[Return Filing 139(3)]**

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? **[SM Q.]**

Answer 7

A return of loss is a return which shows certain losses. Section 80 provides that the losses specified therein cannot be carried forward, unless such losses are determined in pursuance of return filed under the provisions of section 139(3).

Section 139(3) states that to carry forward the losses specified therein, the return should be filed within the time specified in section 139(1).

Following losses are covered by section 139(3):

- business loss to be carried forward under section 72(1),
- speculation business loss to be carried forward under section 73(2),
- loss from specified business to be carried forward under section 73A(2).
- loss under the head "Capital Gains" to be carried forward under section 74(1); and
- loss incurred in the activity of owning and maintaining race horses to be carried forward under section 74A(3)

However, loss from house property to be carried forward under section 71B and unabsorbed depreciation under section 32 can be carried forward even if return of loss has not been filed as required under section 139(3).

Question 8**[PAN u/s 139A]**

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 – **[SM Q.]**

S. No.	Transaction
1.	Payment of life insurance premium of ₹ 45,000 in the F.Y.2024-25 by account payee cheque to LIC for insuring life of self and spouse
2.	Payment of ₹ 1,00,000 to a five-star hotel for stay for 5 days with family, out of which ₹ 60,000 was paid in cash
3.	Payment of ₹ 80,000 by ECS through bank account for acquiring the debentures of A Ltd., an Indian company
4.	Payment of ₹ 95,000 by account payee cheque to Thomas Cook for travel to Dubai for 3 days to visit relatives
5.	Applied to SBI for issue of credit card.

Answer 8

	Transaction	Is quoting of PAN mandatory in related documents?
1.	Payment of life insurance premium of ₹ 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 ₹ 50,000 in the F.Y.2024-25.
2.	Payment of ₹ 1,00,000 to a five-star hotel for stay for 5 days with family, out of which ₹ 60,000 was paid in cash	Yes, since the amount paid in cash exceeds ₹ 50,000

	Transaction	Is quoting of PAN mandatory in related documents?
3.	Payment of ₹ 80,000, by ECS through bank account, for acquiring the debentures of A Ltd., an Indian company	Yes, since the amount paid for acquiring debentures exceeds ₹ 50,000. Mode of payment is not relevant in this case.
4.	Payment of ₹ 95,000 by account payee cheque to Thomas Cook for travel to Dubai for 3 days to visit relatives	No, since the amount was paid by account payee cheque, quoting of PAN is not mandatory even though the payment exceeds ₹ 50,000
5.	Applied to SBI for issue of credit card.	Yes, quoting of PAN is mandatory on making an application to a banking company for issue of credit card.

Question 9

[Return u/s 139(4) & Consequences]

Mr. Sudarshan, due to inadvertent reasons, failed to file his Income-tax return for the assessment year 2025-26 on or before the due date of filing such return of income.

- Can he file the above return after due date of filing return of income? If yes, which is the last date for filing the above return?
- What are the consequences of non-filing the return within the due date under section 139(1)?

[RTP M-20 Q.]

Answer 9

If any person fails to furnish a return within the time allowed to him under section 139(1), he may furnish the belated return for any previous year at any time -

- 3 months prior to the end of the relevant assessment year; or
 - before the completion of the assessment,
- whichever is earlier.

The last date for filing return of income for A.Y.2025-26, therefore, is 31st December 2026. Thereafter, Mr. Sudarshan cannot furnish a belated return after this date.

Consequences for non-filing return of Income within the due date under section 139(1)

Carry forward and set-off of certain losses: Business loss, speculation business loss, loss from specified business under section 35AD, loss under the head "Capital Gains"; and loss from the activity of owning and maintaining race horses, would not be allowed to be carried forward for set-off against income of subsequent years, where a return of income is not furnished within the time allowed 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.

Fee under section 234F: Fee of ₹ 5,000 would be payable under section 234F, if the return of income is not filed on or before the due date specified in section 139(1). However, such fee cannot exceed ₹ 1,000, if the total income does not exceed ₹ 5,00,000.

Question 10

[Late Filing Fees & 139AA Aadhar Number]

- What is the fee for default in furnishing return of income u/s 234F?
- To whom the provisions of section 139AA relating to quoting of Aadhar Number do not apply?

[MTP Q.]

Answer 10

(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 ₹5,000. However, such fee cannot exceed ₹ 1,000, if the total income does not exceed ₹ 5,00,000.

(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.

Income Tax Liability Computation and Optimisation [Total Income & Tax liability]

13

Question 1

[Total Income & Tax Liability as per Default & Normal Tax Regime]

Mr. A, aged 32 years, is employed with XYZ (P) Ltd. on a basic salary of ₹ 50,000 p.m. He has received transport allowance of ₹ 15,000 p.m. and house rent allowance of ₹ 20,000 p.m. from the company for the P.Y. 2024-25. He has paid rent of ₹ 25,000 p.m. for an accommodation in Delhi. Mr. A has paid interest of ₹ 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 - ₹ 1,50,000
- Contribution to pension scheme referred to in section 80CCD - ₹ 50,000
- Payment of medical insurance premium for father, who is of the age of 65 - ₹ 55,000
- Payment of medical insurance premium for self and spouse - ₹ 32,000

Compute the total income and tax liability of Mr. A for the A.Y. 2025-26 in the most beneficial manner.

Answer 1

Computation of total income and tax liability of Mr. A for A.Y. 2025-26 under default tax regime u/s 115BAC

Particulars		₹
Salaries		
Basic Salary [₹ 50,000 x 12]		6,00,000
Transport allowance [₹ 15,000 x 12]		1,80,000
HRA received [₹ 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		-

Particulars		₹
Section 80CCD		
Contribution to pension scheme		-
Section 80D		
Mediclaim insurance premium for self and parents		-
Total Income		9,45,000
Tax liability		
Tax @5% on ₹ 4,00,000 [₹ 7,00,000 - ₹ 3,00,000]	20,000	
Tax @10% on ₹ 2,45,000 [₹ 9,45,000 - ₹ 6,00,000]	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		₹
Salaries		
Basic Salary [₹ 50,000 x 12]		6,00,000
Transport allowance [₹ 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	2,40,000	
[₹ 3,00,000 – ₹ 60,000]		
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 ₹ 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)		

Particulars	₹
Own contribution to pension scheme	50,000
Section 80D	
Mediclaim 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 ₹ 5,000 [₹ 2,55,000 - ₹ 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 u/s 115BAC, it would be beneficial for Mr. A to shift out of the default tax regime u/s 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 ₹ 6,90,000. His total income under the regular provisions of the Act is less than ₹ 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 u/s 115BAC for A.Y. 2025-26.

Question 2 [Indirect Method - Total Income as per Default & Normal Tax Regime]

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		₹	Income		₹
To	Medicine consumed	35,38,400	By	Consultation and medical charges	58,85,850
To	Staff salary	13,80,000	By	Income-tax refund (principal ₹ 5,000, interest ₹ 450)	5,450
To	Clinic consumables	1,10,000	By	Dividend from units of UTI (Gross)	10,500
To	Rent paid	90,000	By	Winning from game show on T.V. (net of TDS of ₹ 15,000)	35,000
To	Administrative expenses	2,55,000	By	Rent	27,000
To	Amount paid to Scientific research association approved u/s 35	1,50,000			
To	Net profit	4,40,400			
		59,63,800			59,63,800

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- (i) Rent paid includes ₹ 30,000 paid by cheque towards rent for her residential house in Surat.
- (ii) Clinic equipments are:
1.4.2024 Opening W.D.V. - ₹ 5,00,000
7.12.2024 Acquired (cost) by cheque - ₹ 2,00,000
- (iii) Rent received relates to residential house property situated at Surat. Gross Annual Value ₹ 27,000. The municipal tax of ₹ 2,000, paid in December, 2024, has been included in "administrative expenses".
- (iv) She received salary of ₹ 7,500 p.m. from "Full Cure Hospital" which has not been included in the "consultation and medical charges".
- (v) Dr. Niranjana availed a loan of ₹ 5,50,000 from a bank for higher education of her daughter. She repaid principal of ₹ 1,00,000, and interest thereon ₹ 55,000 during the previous year 2024-25.
- (vi) She paid ₹ 1,00,000 as tuition fee (not in the nature of development fees/ donation) to the university for full time education of her daughter.
- (vii) An amount of ₹ 28,000 has also been paid by cheque on 27th March, 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.

Answer 2**Computation of total income of Dr. Niranjana for A.Y. 2025-26 under default tax regime**

	Particulars	₹	₹	₹
I	Income from Salary			
	Basic Salary (₹ 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	
III	Less: Deduction u/s 24@30% of ₹ 25,000		7,500	17,500
	Income from profession			
	Net profit 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		

	Particulars	₹	₹	₹
	(iv) Income tax refund	5,450	77,950	
			3,62,450	
	Less: Allowable expenditure			
	Depreciation on clinic equipments			
	on ₹ 5,00,000@15%	75,000		
	on ₹ 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		
	(i) Rent for her residential accommodation included in Income and Expenditure A/c	30,000		
	(ii) Municipal tax paid relating to residential house at Surat included in administrative expenses	2,000	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 (₹ 35,000 + ₹ 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	₹	₹
	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:

- 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".
- Winnings from game show on T.V. should be grossed up for the chargeability under the head "Income from other sources" (₹ 35,000 + ₹ 15,000). Thereafter, while computing tax liability, TDS of ₹ 15,000 should be deducted to arrive at the tax payable. Winnings from game show are subject to tax @30% as per section 115BB.
- 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 3 [Indirect Method - Total Income & Tax Liability as per Default & Normal Tax Regime]

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	(₹)	Income	(₹)	(₹)
Salary to staff	15,50,000	Fees earned:		
Stipend to articled Assistants	1,37,000	Audit	27,88,000	
Incentive to articled Assistants	13,000	Taxation services	15,40,300	
		Consultancy	12,70,000	55,98,300
		Dividend on shares of X Ltd., an Indian company (Gross)		10,524

Expenditure	(₹)	Income	(₹)	(₹)
Office rent	12,24,000	Income from UTI (Gross)		7,600
Printing and stationery	12,22,000	Honorarium received from various institutions for valuation of answer papers		15,800
Meeting, seminar and conference	31,600	Rent received from residential flat let out		85,600
Purchase of car (for official use)	80,000			
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:

- Allowable rate of depreciation on motor car is 15%.
- Value of benefits received from clients during the course of profession is ₹ 10,500.
- Incentives to articled assistants represent amount paid to two articled assistants for passing CA Intermediate Examination at first attempt.
- Repairs and maintenance of car include ₹ 2,000 for the period from 1-10-2024 to 30-09-2025.
- Salary includes ₹ 30,000 to a computer specialist in cash for assisting Ms. Purvi in one professional assignment.
- The travelling expenses include expenditure incurred on foreign tour of ₹ 32,000 which was within the RBI norms.
- Medical Insurance Premium on the health of dependent brother and major son dependent on her amounts to ₹ 5,000 and ₹ 10,000, respectively, paid in cash.
- She invested an amount of ₹ 10,000 in National Saving Certificate.
- She has paid ₹ 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.

Answer 3

Computation of total income and tax payable by Ms. Purvi for the A.Y. 2025-26 under default tax regime u/s 115BAC

Particulars	₹	₹
Income from house property (See Working Note 1)		57,820
Profit and gains of business or profession		9,20,200

Particulars	₹	₹
(See Working Note 2)		
Income from other sources (See Working Note 3)		33,924
Gross Total Income		10,11,944
Less: Deductions under Chapter VI-A [not allowable under default tax regime]		-
Total Income		10,11,944
Total Income (rounded off)		10,11,940
Tax on total income		
Upto ₹ 3,00,000	Nil	
₹ 3,00,001 - ₹ 7,00,000 @5%	20,000	
₹ 7,00,001 - ₹ 10,00,000 @10%	30,000	
₹ 10,00,001 - ₹ 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	₹	₹
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 u/s 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 ₹ 2,50,000	Nil	
₹ 2,50,001 - ₹ 5,00,000 @5%	12,500	
₹ 5,00,000 - ₹ 10,00,000 @20%	1,00,000	
₹ 10,00,000 - ₹ 10,01,940 @ 30%	582	
Add: Health and Education cess @ 4%		1,13,082
Total tax liability		4,523
Less: Advance tax paid		1,17,605
Less: TDS u/s 194 on dividend	1,052	70,000
TDS u/s 194K on income from UTI	760	
Tax Payable		1,812
Tax Payable (rounded off)		45,793
		45,790

Chapter 13: Income Tax Liability Computation and Optimisation

Since there is tax refundable under default tax regime u/s 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 u/s 115BAC.

Working Notes:

(1) Income from House Property

Particulars	₹	₹
Gross Annual Value u/s 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	₹	₹
Net profit as per Income and Expenditure account		9,28,224
Add: Expenses debited but not allowable		
(i) Salary paid to computer specialist in cash disallowed u/s 40A(3), since such cash payment exceeds ₹ 10,000	30,000	
(ii) Amount paid for purchase of car is not allowable u/s 37(1) since it is a capital expenditure	80,000	
(ii) Municipal taxes paid in respect of residential flat let out	3,000	1,13,000
		10,41,224
Add: Value of benefit received from clients during the course of profession [taxable as business income u/s 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 u/s 32(1)(ii).

Chapter 13: Income Tax Liability Computation and Optimisation

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 u/s 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 ₹ 1,000 is allowable since Ms. Purvi is following the cash system of accounting.
- (iv) ₹ 32,000 expended on foreign tour is allowable as deduction assuming that it was incurred in connection with her professional work. Since it has already been debited to income and expenditure account, no further adjustment is required.

(3) Income from other sources

Particulars	₹
Dividend on shares of X Ltd., an Indian company (taxable in the hands of shareholders)	10,524
Income from UTI (taxable in the hands of unit holders)	7,600
Honorarium for valuation of answer papers	15,800
	33,924

(4) Deduction under Chapter VI-A :

Particulars	₹
Deduction u/s 80C (Investment in NSC) Deduction u/s 80D (See Notes (i) & (ii) below)	10,000 Nil
Total deduction under Chapter VI-A	10,000

Notes:

- (i) Premium paid to insure the health of brother is not eligible for deduction u/s 80D, even though he is a dependent, since brother is not included in the definition of "family" u/s 80D.
- (ii) Premium paid to insure the health of major son is not eligible for deduction, even though he is a dependent, since payment is made in cash.

Question 4

[Total Income as per Normal Tax Regime]

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 ₹ 11,20,000.
- (2) The following incomes were credited in the profit and loss account:
 - (a) Income from UTI ₹ 22,000 (Gross)
 - (b) Interest on debentures ₹ 17,500 (Gross)
 - (c) Winnings from horse races ₹ 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 ₹ 8,000. Closing stock ₹ 12,000.
- (4) ₹ 1,00,000 was debited in the profit and loss account, being contribution to a University approved and notified u/s 35(1)(ii).
- (5) Salary includes ₹ 20,000 paid to his brother which is unreasonable to the extent of ₹ 2,500.

Chapter 13: Income Tax Liability Computation and Optimisation

- (6) Advertisement expenses include 15 gift packets of dry fruits costing ₹ 1,000 per packet presented to important customers.
- (7) Total expenses on car was ₹ 78,000. The car was used both for business and personal purposes. $\frac{3}{4}$ th is for business purposes.
- (8) Miscellaneous expenses included ₹ 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 ₹ 55,000. Depreciation allowed as per Income-tax Rules, 1962 was ₹ 50,000.
- (10) Drawings of ₹ 10,000 debited in the books.
- (11) Investment in NSC ₹ 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.

Answer 4

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

Particulars	₹
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 u/s 80C (Investment in NSC)	15,000
Total Income	11,61,000

Working Notes:

1. Computation of profits and gains of business or profession

Particulars	₹	₹
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 ($₹ 78,000 \times \frac{1}{4}$)	19,500	
Depreciation debited in the books of account	55,000	
Drawings (not allowable since it is personal in nature) [See Note (iii)]	10,000	
Investment in NSC [See Note (iii)]	15,000	1,02,000
		12,22,000
Add: Under statement of closing stock		12,000
		12,34,000
Less: Under statement of opening stock		8,000
Less: Contribution to a University approved and notified 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.		-

Chapter 13: Income Tax Liability Computation and Optimisation

Particulars	₹	₹
		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:

- 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 u/s 37.
- Disallowance u/s 40A(3) is not attracted in respect of cash payment exceeding ₹ 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 ₹ 35,000 is applicable (i.e. payment of upto ₹ 35,000 can be made in cash without attracting disallowance u/s 40A(3)).
- 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.
- In point no. 9 of the question, it has been given that depreciation as per Income-tax Rules, 1962 is ₹ 50,000. It has been assumed that, in the said figure of ₹ 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	₹
Dividend from UTI	22,000
Interest on debentures	17,500
Winnings from races	15,000
	54,500

Question 5

[Total Income & Tax Liability as per Default Tax Regime]

Balamurugan furnishes the following information for the year ended 31-03-2025:

Particulars	₹
Income from textile business	(1,35,000)
Income from house property	(15,000)
Lottery winning (Gross)	5,00,000

Chapter 13: Income Tax Liability Computation and Optimisation

Particulars	₹
Speculation business income	1,00,000
Income by way of salary (Computed)	2,70,000
Long term capital gain u/s 112	70,000

Compute his total income, tax liability and advance tax obligations under default tax regime u/s 115BAC.

Answer 5

Computation of total income of Balamurugan for the year ended 31.03.2025

Particulars	₹	₹
Salaries	2,70,000	2,70,000
Less: Loss from house property (Cannot be set off against income under any other head & cannot be c/f)	-	
Profits and gains of business or profession		
Speculation business income	1,00,000	
Less: Business loss of ₹ 1,35,000 set-off to the extent of ₹ 1,00,000	(1,00,000)	Nil
	Nil	
Balance current year business loss of ₹ 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)	35,000
Long term capital gain after set off of business loss		
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	₹
On total income of ₹ 2,70,000 (excluding lottery winning and LTCG)	Nil
On LTCG of ₹ 5,000 @20% (balance unexhausted basic exemption limit of ₹ 30,000 can be adjusted against LTCG taxable u/s 112)	1,000
On lottery winnings of ₹ 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% u/s 194B. Since the remaining tax liability of ₹ 6,040 (₹ 1,57,040 – ₹ 1,50,000) is less than ₹ 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 u/s 194B. In this case, it has been assumed that tax deductible at source u/s 194B has been fully deducted from lottery income. Since the remaining tax liability of ₹ 1,040 (₹ 1,57,040 – ₹ 1,50,000) is less than ₹ 10,000, advance tax liability is not attracted.

Question 6

[Direct Method - Total Income as per Normal Tax Regime]

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	₹	Payments	₹
Opening balance (1.4.2024)	12,000	Staff salary, bonus and stipend to articled clerks	21,50,000
Cash on hand and at Bank			
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 ₹ 88,000)	1,88,000
		Life insurance 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)	19,15,000
		Cash on hand and at Bank	
	62,50,000		62,50,000

Chapter 13: Income Tax Liability Computation and Optimisation

Following further information is given to you:

- (1) He occupies 50% of the building for own residence and let out the balance for residential use at a monthly rent of ₹ 5,000. The building was constructed during the year 1997-98, when the housing loan was taken.
- (2) Motor car was put to use both for official and personal purpose. One-fifth of the motor car use is for personal purpose. No car loan interest was paid during the year.
- (3) The written down value of assets as on 1-4-2024 are given below:

Furniture & Fittings ₹ 60,000

Plant & Machinery ₹ 80,000

(Air-conditioners, Photocopiers, etc.)

Computers ₹ 50,000

Note: Mr. Rajiv follows regularly the cash system of accounting.

Compute the total income of Mr. Rajiv for the assessment year 2025-26, assuming that he has shifted out of the default tax regime u/s 115BAC. [SM Q.]

Answer 6

Computation of total income of Mr. Rajiv for the assessment year 2025-26

Particulars	₹	₹	₹
Income from house property			
Self-occupied			
Annual value	Nil		
Less: Deduction u/s 24(b) Interest on housing loan			
50% of ₹ 88,000 = 44,000 but limited to	30,000		
Loss from self occupied property		(30,000)	
Let out property			
Annual value (Rent receivable has been taken as the annual value in the absence of other information)	60,000		
Less: Deductions u/s 24 30% of Net Annual Value	18,000		
Interest on housing loan (50% of ₹ 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	

Particulars	₹	₹	₹
		26,02,000	
Motor car Depreciation ₹ 4,25,000 x 7.5% x 4/5	25,500		
Books being annual publications@40%	8,000		
Furniture and fittings@10% of ₹ 60,000	6,000		
Plant and machinery@15% of ₹ 80,000	12,000		
Computer@40% of ₹ 50,000	20,000		
Computer (New) ₹ 30,000 @ 40% x 50%	6,000	77,500	25,24,500
Gross Total income			24,92,500
Less: Deductions under Chapter VI-A			
Deduction u/s 80C			
Housing loan principal repayment	1,00,000		
PPF subscription	20,000		
Life insurance premium	24,000		
Total amount of ₹ 1,44,000 is allowed as deduction since it is within the limit of ₹ 1,50,000		1,44,000	
Deduction u/s 80D			
Medical insurance premium paid ₹ 18,000		18,000	1,62,000
Total income			23,30,500

Question 7**[Total Income & Tax Liability as per Default & Normal Tax Regime]**

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	₹
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 ₹ 4,75,000 in April, 2017, which was financed by a loan from Life Insurance Corporation of India of ₹ 1,60,000@15% interest, his own savings of ₹ 65,000 and a deposit from a nationalized bank for ₹ 2,50,000 to whom this flat was given on lease for ten years. The rent payable by the bank was ₹ 3,500 per month. The following particulars are relevant:

- Municipal taxes paid by Mr. Siddhant ₹ 4,300 (per annum)
- House Insurance ₹ 860

- (c) He earned ₹ 2,700 in share speculation business and lost ₹ 4,200 in cotton speculation business.
- (d) In the year 2021-22, he had gifted ₹ 30,000 to his wife and ₹ 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 ₹ 30,000 each from four friends.
- (f) He contributed ₹ 50,000 to Public Provident Fund.

Answer 7

Computation of total income and tax liability of Siddhant under default tax regime u/s 115BAC for the A.Y. 2025-26

Particulars	₹	₹
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 u/s 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) (₹ 3,500 × 12)	42,000	
Less: Municipal taxes paid	4,300	
Net Annual Value (NAV)	37,700	
Less: Deductions u/s 24		
(i) 30% of NAV ₹ 11,310		
(ii) Interest on loan from LIC @15% of ₹ 1,60,000 [See Note 2] ₹ 24,000	35,310	2,390
Income from speculative business		
Income from share speculation business	2,700	
Less: Loss of ₹ 4,200 from cotton speculation business set-off to the extent of ₹ 2,700	2,700	Nil
Balance loss of ₹ 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 u/s 10(32) would not be available]	3,800	

Chapter 13: Income Tax Liability Computation and Optimisation

Particulars	₹	₹
(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 u/s 56(2)(x) as the aggregate amount received during the year exceeds ₹ 50,000)	1,20,000	1,29,500
Gross Total Income		5,29,890
Deduction u/s 80C [No deduction under Chapter VI-A would be allowed as per section 115BAC(2)]		Nil
Total Income		5,29,890

Particulars	₹
Tax on total income [5% of ₹ 2,29,890 (₹ 5,29,890 - ₹ 3,00,000)]	11,495
Less: Rebate u/s 87A, since total income does not exceed ₹ 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	₹	₹
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		
U/s 80C [Contribution to PPF]		50,000
Total Income		5,03,390

Particulars	₹
Tax on total income [5% of ₹ 2,50,000 + 20% of ₹ 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 ₹ 5,00,000, he would not be eligible for rebate u/s 87A.

Since Mr. Siddhant is not liable to pay any tax under default tax regime u/s 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 ₹ 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 u/s 80GG in respect of rent paid by him for his accommodation in Delhi, since one of the conditions to be satisfied for claiming deduction u/s 80GG is that the assessee should not own any residential accommodation in the same place.

Question 8

[Total Income as per Normal Tax Regime]

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 ₹ 15,000 p.m.
- DA (50% of it is meant for retirement benefits) ₹ 12,000 p.m.
- Commission as a percentage of turnover of the Company 0.5 %
- Turnover of the Company ₹ 50 lacs
- Bonus ₹ 50,000
- Gratuity ₹ 30,000
- Own Contribution to R.P.F. ₹ 30,000
- Employer's contribution to R.P.F. 20% of basic salary
- Interest credited in the R.P.F. account @ 15% p.a. ₹ 15,000
- Gold Ring worth ₹ 10,000 was given by employer on his 25th wedding anniversary.
- Music System purchased on 01.04.2024 by the company for ₹ 85,000 and was given to him for personal use.
- Two old light goods vehicles owned by him were leased to a transport company against the fixed charges of ₹ 6,500 p.m. Books of account are not maintained.
- Received interest of ₹ 5,860 on bank FDRs on 24.4.2024 and interest of ₹ 6,786 (Net) from the debentures of Indian Companies on 5.5.2024.
- Made payment by cheques of ₹ 15,370 towards premium on Life Insurance policies and ₹ 22,500 for Mediclaim Insurance policy for self and spouse.
- Invested in NSC ₹ 30,000 and in FDR of SBI for 5 years ₹ 50,000.
- Donations of ₹ 11,000 to an institution approved u/s 80G and of ₹ 5,100 to Prime Minister's National Relief Fund were given during the year by way of cheque.

Compute the total income and tax payable thereon for the A.Y. 2025-26. Assume Ramdin has exercised the option to shift out of the default tax regime u/s 115BAC. **[SM Q.]**

Answer 8

Computation of Total Income for the A.Y.2025-26

Particulars	₹	₹
Income from Salaries		
Basic Salary (₹ 15,000 x 12)		1,80,000
Dearness Allowance (₹ 12,000 x 12)		1,44,000
Commission on Turnover (0.5% of ₹ 50 lacs)		25,000
Bonus		50,000
Gratuity (See Note 1)		30,000

Particulars	₹	₹
Employer's contribution to recognized provident fund		
Actual contribution [20% of ₹ 1,80,000]	36,000	
Less: Exempt (See Note 2)	33,240	2,760
Interest credited in recognized provident fund account @15% p.a.	15,000	
Less: Exempt upto 9.5% p.a.	9,500	5,500
Gift of gold ring worth ₹ 10,000 on 25th wedding anniversary by employer (See Note 3)		10,000
Perquisite value of music system given for personal use (being 10% of actual cost) i.e. 10% of ₹ 85,000		8,500
		4,55,760
Less: Standard deduction u/s 16(ia)		50,000
		4,05,760
Profits and Gains of Business or Profession		
Lease of 2 light goods vehicles on contract basis against fixed charges of ₹ 6,500 p.m. In this case, presumptive tax provisions of section 44AE will apply i.e. ₹ 7,500 p.m. for each of the two light goods vehicle (₹ 7,500 x 2 x 12). He cannot claim lower profits and gains since he has not maintained books of account.		1,80,000
Income from Other Sources		
Interest on bank FDRs	5,860	
Interest on debentures (₹ 6786 x 100/90)	7,540	13,400
Gross total Income		5,99,160
Less: Deductions under Chapter VI-A		
Section 80C		
Premium on life insurance policy	15,370	
Investment in NSC	30,000	
FDR of SBI for 5 years	50,000	
Employee's contribution to recognized provident fund	30,000	1,25,370
Section 80D – Mediclaim Insurance		22,500
Section 80G (See Note 4)		10,600
Total Income		4,40,690
Tax on total income		
Income-tax [5% of ₹ 1,90,690 (i.e., ₹ 4,40,690 – ₹ 2,50,000)]		9,535
Add: Rebate u/s 87A, since total income does not exceed ₹ 5,00,000		9,535
Tax liability		Nil
Less: Tax deducted at source (₹ 7,540 – ₹ 6,786)		754
Net tax refundable		754
Tax refundable (rounded off)		750

Notes:

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 (₹ 1,80,000 + (50% of ₹ 1,44,000) + ₹ 25,000) = 12% of 2,77,000 = ₹ 33,240
3. An alternate view possible is that only the sum in excess of ₹ 5,000 is taxable in view of the language of Circular No.15/2001 dated 12.12.2001 that such gifts upto ₹ 5,000 in the aggregate per annum would be exempt, beyond which it would be taxed as a perquisite. As per this view, the value of perquisite would be ₹ 5,000. In such a case the Income from Salaries would be ₹ 4,00,760.
4. Deduction u/s 80G is computed as under:

Particulars	₹
Donation to PM National Relief Fund (100%)	5,100
Donation to institution approved u/s 80G (50% of ₹ 11,000) (amount contributed ₹ 11,000 or 10% of Adjusted	
Total Income i.e. ₹ 45,129, whichever is lower)	5,500
Total deduction	10,600

Adjusted Total Income = Gross Total Income Deductions u/s 80C and 80D = ₹ 5,99,160 ₹ 1,47,870 = ₹ 4,51,290.

Question 9

[Total Income & Tax payable as per Normal Tax Regime]

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 has exercised the option to shift out of the default tax regime u/s 115BAC.

- 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.
- He was paid a salary of ₹ 25,000 p.m. and house rent allowance of ₹ 6,000 p.m. He paid rent of ₹ 6,500 p.m. during his tenure of service.
- On retirement, he was paid a gratuity of ₹ 3,50,000. He was covered by the payment of Gratuity Act. Mr. X had not received any other gratuity at any point of time earlier, other than this gratuity.
- He had accumulated leave of 15 days per annum during the period of his service; this was encashed by Mr. X at the time of his retirement. A sum of ₹ 3,15,000 was received by him in this regard. His average salary for last 10 months may be taken as ₹ 24,500. Employer allowed 30 days leave per annum.
- After retirement, he ventured into textile business and incurred a loss of ₹ 80,000 for the period upto 31.3.2025.
- Mr. X has deposited ₹ 1,00,000 in public provident fund.

[SM Q.]

Answer 9

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

Particulars	₹	₹
Income from Salaries		
Basic salary (₹ 25,000 x 9 months)		2,25,000
House rent allowance:		
Actual amount received (₹ 6,000 x 9 months)	54,000	

Particulars	₹	₹
Less : Exemption u/s 10(13A)(Note 1)	36,000	18,000
Gratuity:		
Actual amount received	3,50,000	
Less: Exemption u/s 10(10)(ii) (Note 2)	3,50,000	-
Leave encashment:		
Actual amount received	3,15,000	
Less : Exemption u/s 10(10AA) (Note 3)	2,45,000	70,000
Gross Salary		3,13,000
Less: Standard deduction u/s 16(ia)		50,000
		2,63,000
Profits and gains of business or profession		
Business loss of ₹ 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 u/s 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 ₹ 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:

	₹
(i) HRA actually received (₹ 6,000 x 9)	54,000
(ii) Rent paid in excess of 10% of salary (₹ 6,500 – ₹ 2,500) x 9 months	36,000
(iii) 50% of salary	1,12,500

(2) Gratuity of ₹ 3,50,000 is exempt u/s 10(10)(ii), being the minimum of the following amounts:

	₹
(i) Actual amount received	3,50,000
(ii) Half month salary for each year of completed service [(₹ 25,000 x 15/26) x 26 years]	3,75,000
(iii) Statutory limit	20,00,000

(3) Leave encashment is exempt upto the least of the following:

	₹
(i) Actual amount received	3,15,000
(ii) 10 months average salary (₹ 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	3,00,000

(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 days/year x 26 = 780 days
Less: Leave taken /availed by Mr. X during the period of his service	<u>= 15 days/year x 26 = 390 days</u>
Earned leave to the credit of Mr. X at the time of his retirement	390 days
Cash equivalent of earned leave to the credit of Mr. X at the time of his retirement	= 390 x ₹ 24,500 /30 = ₹ 3,18,500

Question 10

[Total Income and Tax Payable as per default & Normal Tax Regime]

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:

[SM Q.]

S. No.	Particulars	Rosy ₹	Mary ₹
1.	Pension received from State Government	--	60,000
2.	Pension received from Canadian Government	20,000	--
3.	Long-term capital gain on sale of land at Mumbai	1,00,000	1,00,000
4.	Short-term capital gain on sale of shares of Indian listed companies in respect of which STT was paid	20,000	2,50,000
5.	LIC premium paid	--	10,000
6.	Premium paid to Canadian Life Insurance Corporation at Canada	40,000	--
7.	Mediclaim policy premium paid by A/c Payee Cheque	--	25,000
8.	Deposit in PPF	--	20,000
9.	Rent received in respect of house property at Mumbai	60,000	30,000

Compute the taxable income and tax liability of Mrs. Rosy and Mrs. Mary for the Assessment Year 2024-25 and tax thereon. Assume both has exercised the option to shift out of the default tax regime u/s 115BAC.

Answer 10

Computation of taxable income of Mrs. Rosy and Mrs. Mary for the A.Y.2025-26

S. No.	Particulars	Mrs. Rosy (Non-resident)	Mrs. Mary (ROR)
		₹	₹
(I)	Salaries		
	Pension received from State Govt. ₹ 60,000		
	Less: Standard deduction u/s 16(ia) ₹ 50,000	-	10,000
	Pension received from Canadian Government is not taxable in the case of a non-resident since it is earned and received outside India	-	-
		-	10,000
(II)	Income from house property		
	Rent received from house property at Mumbai (assumed to be the annual value in the absence of other information i.e. municipal value, fair rent and standard rent)	60,000	30,000
	Less: Deduction 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 u/ss 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 ₹ 1,00,000	20,000	
	Tax on short-term capital gains @15% of ₹ 20,000	3,000	
	Tax on balance income of ₹ 2,000	Nil	
		23,000	

S. No.	Particulars	Mrs. Rosy (Non-resident)	Mrs. Mary (ROR)
		₹	₹
	Tax liability of Mrs. Mary for A.Y.2025-26		
	Tax on STCG @15% of ₹ 1,00,000 [i.e. ₹ 2,50,000 less ₹ 1,50,000, being the unexhausted basic exemption limit as per proviso to section 111A] [See Notes 3 & 4 below]		15,000
	Less: Rebate u/s 87A would be lower of ₹ 12,500 or tax liability, since total income does not exceed ₹ 5,00,000		12,500
			2,500
	Add: Health and Education cess@4%	920	100
	Total tax liability	23,920	2,600

Notes:

- (1) Long-term capital gains on sale of land is chargeable to tax@20% as per section 112.
- (2) Short-term capital gains on transfer of equity shares in respect of which securities transaction tax is paid is subject to tax@15% as per section 111A.
- (3) In case of resident individuals, if the basic exemption limit is not fully exhausted against other income, then, the long-term capital gains u/s 112/short-term capital gains u/s 111A will be reduced by the unexhausted basic exemption limit and only the balance will be taxed at 20%/15%, respectively. However, this benefit is not available to non-residents. Therefore, while Mrs. Mary can adjust unexhausted basic exemption limit against long-term capital gains taxable u/s 112 and short-term capital gains taxable u/s 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 ₹ 2,50,000 against long-term capital gains of ₹ 100,000 and the balance limit of ₹ 1,50,000 (i.e., ₹ 2,50,000 – ₹ 1,50,000) against short-term capital gains.
- (5) Rebate u/s 87A would not be available to Mrs. Rosy even though her total income does not exceed ₹ 5,00,000, since she is non-resident for the A.Y. 2025-26.

Question 11**[Total Income & Tax (AMT also) as per Normal Tax Regime & 115BAC]**

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 ₹ 75 lakhs (including cost of land ₹ 10 lakhs). The warehouse became operational with effect from 1st April, 2024 and the expenditure of ₹ 75 lakhs was capitalized in the books on that date.

Relevant details for the F.Y. 2024-25 are as follows:

Particulars	₹
Profit of unit located in SEZ	40,00,000
Export turnover received in India in convertible foreign exchange on or before 30.9.2025	80,00,000
Domestic sales of above unit.	20,00,000
Profit from operation of warehousing facility (before considering deduction u/s 35AD)	1,05,00,000

Chapter 13: Income Tax Liability Computation and Optimisation

Compute income-tax (including AMT u/s 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.

Answer 11

Computation of total income and tax liability of Mr. X for A.Y.2025-26 (under default tax regime u/s 115BAC)

Particulars	₹	₹
Profits and gains of business or profession		
Profit from unit in SEZ		40,00,000
Profit from operation of warehousing facility	1,05,00,000	
Less: Depreciation u/s 32		
On building @10% of ₹ 65 lakhs ¹ (normal depreciation u/s 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 ₹ 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 u/s 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	₹	₹
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 ₹ 64,00,000		17,32,500
Add: Health and Education cess@4%		69,300
Total tax liability		18,01,800

¹ Assuming the capital expenditure of ₹ 65 lakhs is incurred entirely on buildings.

Computation of adjusted total income of Mr. X for levy of Alternate Minimum Tax

Particulars	₹	₹
Total Income (computed above as per regular provisions of income tax)		64,00,000
Add: Deduction u/s 10AA		16,00,000
		80,00,000
Add: Deduction u/s 35AD	65,00,000	
Less: Depreciation u/s 32		
On building @10% of ₹65 lakhs ¹	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 income > ₹ 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 ₹ 30,64,450.

Since the tax liability of Mr. X u/s 115JC is lower than the tax liability as computed u/s 115BAC, it would be beneficial for him **to opt out of the default tax regime u/s 115BAC for A.Y. 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 u/s 115JEE

	₹
Tax liability u/s 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 u/s 10AA in respect of Unit in SEZ =

$$\text{Profit of the Unit in SEZ} \times \frac{\text{Export turnover of the Unit in SEZ}}{\text{Total turnover of the Unit in SEZ}}$$

$$₹40,00,000 \times \frac{₹80,00,000}{₹1,00,00,000} = ₹32,00,000$$

Since current year is 6th year of operation so deduction allowed is 50% of ₹32,00,000 i.e. ₹16,00,000.

- (2) Deduction@100% of the capital expenditure is available u/s 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.

¹ Assuming the capital expenditure of ₹65 lakhs is incurred entirely on buildings

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 u/s 35AD would, however, **not** be available on expenditure incurred on acquisition of land.

In this case, since the capital expenditure of ₹ 65 lakhs (i.e., ₹ 75 lakhs – ₹ 10 lakhs, being expenditure on acquisition of land) has been incurred in the F.Y.2023-24 and capitalized in the books of account on 1.4.2024, being the date when the warehouse became operational, ₹ 65,00,000, being 100% of ₹ 65 lakhs would qualify for deduction u/s 35AD.

Question 12

[Total Income & Tax liability as per Normal Tax Regime]

Mr. Manohar, a resident individual, age 53 years provides consultancy services in the field of Taxation. His Income and Expenditure account for the year ended 31st March, 2025 is as follows:

[RTP M-20 Q.]

Income and Expenditure account for the year ending 31st March, 2025

Expenditure	Amount (₹)	Income	Amount (₹)
To Salary	4,00,000	By Consulting fees	58,00,000
To Motor car expenses	88,000	By Share of Profit from HUF	55,000
To Depreciation	87,500	By Interest on bank fixed deposits	25,000
To Medical expenses	70,000	By Interest on income tax refund	26,000
To Purchase of computer	90,000		
To Bonus	25,000		
To General expenses	1,05,000		
To Office & administrative	1,15,000		
To Excess of income over Expenditure	49,25,500		
	59,06,000		59,06,000

The following other information relates to the financial year 2024-25:

- (1) Salary includes a payment of ₹ 22,000 per month to his sister-in-law who is in-charge of the marketing department. However, in comparison to similar business, the reasonable salary of a marketing supervisor is ₹ 18,000 per month.
- (2) Written down value of the assets as on 1st April, 2024 are as follows:
Motor Car (25% used for personal use) ₹ 3,50,000
Furniture and Fittings ₹ 80,000
- (3) Medical expenses includes:
 - Family planning expenditure ₹ 15,000 incurred for the employees which was revenue in nature.
 - Medical expenses for his father ₹ 55,000. (Father's age is 65 years and he is not covered under any medical insurance policy). ₹ 2,500 incurred in cash and remaining by credit card.
- (4) The computer was purchased on 5th June, 2024 on credit. The total invoice was paid in the following manner:

- ₹ 18,000 paid in cash as down payment on the date of purchase.
- Remaining amount was paid through account payee cheque on 10th August, 2024.

(5) Bonus was paid on 30th September, 2025.

(6) General expenses include commission payment of ₹ 42,000 to Mr. Mahesh for the promotion of business on 17th September, 2024 without deduction of tax at source.

(7) He also received gold coins from a family friend on the occasion of marriage anniversary on 15th November, 2024. The market value of the coins on the said date was ₹ 85,000.

The consultancy fees for the previous year 2023-24 was ₹ 52,50,300.

Compute the total income and the tax liability of Mr. Manohar for the AY 2025-26. Assume he has exercised the option to shift out of the default tax regime u/s 115BAC.

Answer 12

Computation of Total Income of Mr. Manohar for the A.Y.2025-26

Particulars	₹	₹
Profit and gains from business or profession		
Net income as per Income and Expenditure Account		49,25,500
Add: Expenses debited but not allowable		
- Excess salary of ₹ 4,000 per month to sister-in-law [not disallowed since sister-in-law does not fall within the definition of 'relative' u/s 2(41)]	-	
- Motor car expenses attributable to personal use not allowable (₹ 88,000 x 25%)	22,000	
- Depreciation as per books of account	87,500	
- Medical expenses of ₹ 15,000 for family planning expenditure for the employees [disallowed, since such expenditure is allowable to company assessee only]	15,000	
- Medical expenditure of ₹ 55,000 incurred for his father, not allowable, since it is personal in nature]	55,000	
- Purchase of computer (not allowable since it is capital in nature)	90,000	
- Bonus (allowed since it is paid on the due date of filing of return of income i.e., on 30.9.2025)	-	
[For the P.Y.2024-25, the gross receipts i.e., fees of Mr. Manohar from consultancy services is ₹ 58 lakhs (exceeding ₹ 50 lakhs), he has to get his books of account audited u/s 44AB, in which case, his due date for filing return of income would be 30.9.2025]		
- Commission paid without deduction of tax at source [Mr. Manohar would be liable to deduct tax at source u/s 194-H on commission paid during the P.Y.2024-25, since his gross receipts from profession during the P.Y.2023-24 exceeded the monetary limit specified in section 44AB i.e., ₹ 50 lakhs. Thus, 30% disallowance would be attracted since he has not deducted tax at source on the commission]	12,600	2,82,100
Less: Income credited but not taxable or taxable under any other head		52,07,600
- Share of profit from HUF (Exempt)	55,000	

Particulars	₹	₹
- Interest on bank fixed deposit	25,000	
- Interest on income-tax refund	26,000	
		1,06,000
		51,01,600
Less: Depreciation allowable under the Income-tax Act, 1961 [See Working Note]		76,175
		50,25,425
Income from Other Sources		
- Interest on bank fixed deposits	25,000	
- Interest on income-tax refund	26,000	
- Value of gold coins received from a family friend on the occasion of marriage anniversary (taxable u/s 56(2)(x), as the fair market value of such coins exceeds ₹ 50,000)	85,000	1,36,000
		51,61,425
Gross Total Income		
Less: Deduction under Chapter VI-A		
Section 80D		50,000
Medical expenses for father (Deduction allowable to the extent of ₹ 50,000 since father, aged 65 years, is a senior citizen and is not covered under any medical insurance policy)		
Total Income		51,11,425
Total Income (Rounded off)		51,11,430

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

Particulars	₹	₹
Tax on total income of ₹ 51,11,430		
Upto ₹ 2,50,000	Nil	
₹ 2,50,001 – ₹ 5,00,000 @5%	12,500	
₹ 5,00,001 – ₹ 10,00,000 @20%	1,00,000	
Above ₹ 10,00,001 i.e., 41,11,430 @30%	12,33,429	13,45,929
Add: Surcharge @10% [Since his total income exceed ₹ 50,00,000]		1,34,593
		14,80,522
Less: Marginal Relief:		
Excess tax payable [14,80,522 - 13,12,500, being the amount of tax payable on total income of ₹ 50 lakhs]	1,68,022	
Amount of income in excess of ₹ 50,00,000	1,11,430	56,592
		14,23,930
Add: Health & Education cess@4%		56,957
Tax liability		14,80,887
Tax liability (rounded off)		14,80,890

Working note:

Computation of depreciation allowable as per Income-tax Act, 1961

Particulars	₹
On Motor Car ₹ 3,50,000 x 15% x 75%	39,375
On Furniture and fittings ₹ 80,000 x 10%	8,000
On Computer ₹ 72,000 x 40% [Actual cost of the computer is ₹ 72,000 (i.e., ₹ 90,000 – ₹ 18,000). ₹ 18,000 paid otherwise than by way of account payee cheque/bank draft or use of ECS is not includible in actual cost.	28,800
	76,175

Question 13

[Total Income as per Normal Tax Regime]

Mr. Suraj aged 50 years, a resident individual, engaged in a wholesale business of health products. He is also a partner in XYZ & Co., a partnership firm. The following details are made available for the year ended 31.3.2025:

Sl. No.	Particulars	₹	₹
(i)	Interest on capital received from XYZ & Co., at 15% [in accordance with the partnership deed]		1,50,000
(ii)	Share of profit from the firm		35,000
(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)		40,500
(v)	Interest on saving bank account		12,300
(vi)	Income-tax refund received relating to assessment year 2024-25 including interest of ₹ 2,300		34,500
(vii)	Net profit from wholesale business		5,60,000
	Amounts debited include the following:		
	- Depreciation as per books	34,000	
	- Motor car expenses	40,000	
	- Municipal taxes for the shop	7,000	
	(For two half years; payment for one half year made on 12.7.2025 and for the other on 31.12.2025)		
	Salary to manager by way of a single cash payment	21,000	
(viii)	The WDV of the assets (as on 1.4.2024) used in above wholesale business is as under:		
	- Computers	2,40,000	
	- Computer printer	1,50,000	

Sl. No.	Particulars	₹	₹
(ix)	Motor car acquired on 31.12.2024 (20% used for personal use)	6,80,000	1,15,000
(x)	He owned a house property in Mumbai which was sold in January, 2019. He received arrears of rent in respect of the said property in October, 2024.		
(x)	LIP paid for independent son	60,000	
(xi)	PPF of his wife	70,000	
(xii)	Health insurance premium paid towards a policy covering her mother aged 75 by way of cheque. She is not dependant on him.	35,000	
(xiii)	Contribution toward Prime Minister National Relief Fund	50,000	

You are required to compute the total income of the Mr. Suraj for the assessment year 2025-26 and the closing WDV of each block of assets. Assume he has exercised the option to shift out of the default tax regime u/s 115BAC. **[RTP N-20 Q.]**

Answer 13**Computation of total income of Mr. Suraj for the A.Y.2025-26**

Particulars	₹	₹
Income from house property		
Arrears of rent (taxable u/s 25A even if Mr. Suraj is not the owner of the house property in the P.Y.2024-25)	1,15,000	
Less: Deduction@30%	34,500	80,500
Income chargeable under this head Profits and gains of business or profession		
Income from wholesale business		
Net profit as per books	5,60,000	
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 u/s 43B, since the same was paid after the due date of filing of return (₹ 7,000/2)	3,500	
- Disallowance u/s 40A(3) in respect of salary paid in cash since the same exceeds ₹ 10,000	21,000	
- 20% of car expenses for personal use	8,000	
	6,26,500	
Less: Depreciation allowable (Note 1)	1,96,800	
	4,29,700	
Income from firm		
Share of profit from the firm is exempt u/s 10(2A)	-	

Chapter 13: Income Tax Liability Computation and Optimisation

Particulars		₹	₹
Interest on capital from partnership firm (Note 2)	1,20,000		
Salary as working partner fully taxable	1,00,000	2,20,000	6,49,700
Income from other sources			
Interest on bank fixed deposit (Gross)		45,000	
Interest on saving bank account		12,300	
Interest on income-tax refund		2,300	59,600
Gross total income			7,89,800
Less: Deduction under Chapter VIA (Note 3)			2,25,000
Total Income			5,64,800

Notes:

(1) Depreciation allowable under the Income-tax Rules, 1962

		Opening WDV	Rate		Depreciation	Closing WDV
Block 1	Computers	2,40,000	40%		96,000	1,44,000
	Computer printer	1,50,000	40%		60,000	90,000
Block 2	Motor Car	6,80,000	15%	51,000	40,800	6,39,200
				[50% of 15% is allowable, since it is put to use for less than 180 days]		
	Less: 20% disallowance for personal use			10,200		
					1,96,800	8,73,200

(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 ₹ 1,20,000 would be treated as the business income of Mr. Suraj.

(3) Deduction under Chapter VI-A

Particulars	₹	₹
U/s 80C		
LIP for independent son	60,000	
PPF paid in wife's name	70,000	
	1,30,000	
Since the maximum deduction u/s 80C and 80CCE is ₹ 1,50,000, the entire sum of ₹ 1,30,000 would be allowed as deduction		1,30,000
U/s 80D		

Particulars	₹	₹
Health insurance premium taken for mother is fully allowable as deduction, even though she is not dependant on him. Since she is senior citizen whole of amount is allowable as deduction as it is within overall limit of ₹ 50,000		35,000
U/s 80G Contribution towards PM National Relief Fund eligible for 100% deduction without any qualifying limit		50,000
U/s 80TTA Interest on saving bank account, restricted to		10,000
Total deduction		2,25,000

Question 14**[Total Income as per Normal Tax Regime]**

Mr. Prakash furnishes the following information for the financial year 2024-25.

Particulars	₹
Loss from speculation business-X	85,000
Profit from speculation business-Y	45,000
Interest on borrowings in respect of self-occupied house property	3,18,000
Income from let out house property	1,20,000
Presumptive Income from trading and manufacturing business u/s 44AD	1,00,000
Salary from XYZ (P) Ltd.	5,25,000
Interest on PPF deposit	65,000
Long term capital gain on sale of Vacant site	1,25,000
Short term capital loss on sale of Jewellery	65,000
Investment in tax saver deposit on 31-03-25	60,000
Brought forward loss of business of assessment year 2019-20	1,00,000
Donation to a charitable trust recognized u/s 12AB and approved u/s 80G (payment made via credit card)	60,000

Compute total income of Mr. Prakash for the assessment year 2025-26 also show the loss, eligible to be carried forward. Assume he has exercised the option to shift out of the default tax regime u/s 115BAC.

[MTP Q.]**Answer 14****Computation of total income of Mr. Prakash for A.Y.2025-26**

Particulars	₹	₹
Salary from XYZ (P) Ltd.	5,25,000	
Less: Standard Deduction u/s 16(ia)	50,000	
	4,75,000	
Less: Loss from house property of ₹ 20,000 [₹ 80,000 - ₹ 60,000, being the loss set-off against long-term capital gains]	20,000	4,55,000
Income from house property		

Particulars	₹	₹
Income from let out house property	1,20,000	
Less: Loss from self-occupied house property to the extent of ₹ 2 lakhs, allowable as deduction u/s 24(b) in respect of interest on borrowings	2,00,000	
	(80,000)	
Less: Amount set-off against other heads of income	(80,000)	
Profits and gains from business or profession		
Profit from speculation business Y	45,000	
Less: Loss of ₹ 85,000 from speculation business X set-off against profit from speculation business Y to the extent of such profit	(45,000)	
Presumptive Income from trading and manufacturing business	1,00,000	Nil
Less: Brought forward business loss of A.Y. 2019-20 set-off since the period of eight assessment years has not expired	(1,00,000)	Nil
Capital Gains		
Long term capital gain on sale of vacant site	1,25,000	
Less: Short term capital loss on sale of jewellery	65,000	
	60,000	
Less: Loss from house property to be set-off to the extent of LTCG (It is more beneficial for Mr. Prakash to first set-off the loss from house property against the long-term capital gains, since it is taxable @20%)	60,000	Nil
Income from Other Sources		
Interest on PPF deposit	65,000	
Less: Exempt	65,000	Nil
Gross Total Income		4,55,000
Less: Deduction under Chapter VI-A		
Deduction u/s 80C		
Investment in tax saver deposit on 31.3.2025	60,000	
Deduction u/s 80G		
Donation to recognized and approved charitable trust [Donation of ₹ 60,000 to be first restricted to ₹ 39,500, being 10% of adjusted total income of ₹ 3,95,000 (₹ 4,55,000 – ₹ 60,000). Thereafter, deduction would be computed at 50% of ₹ 39,500.	19,750	
		79,750
Total Income		3,75,250

Losses to be carried forward to A.Y.2026-27	
Particulars	₹
Loss from speculation business X (₹ 85,000 - ₹ 45,000)	40,000
Loss from speculation business can be set-off only against profits of any other speculation 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 speculation business, if any, in that year.	

Question 15**[Total Income and Tax liability as per Normal Tax Regime]**

Compute total income and tax liability thereon of Mr. Raghav for the A.Y. 2025-26 from the following details:

Mr. Raghav (aged, 61 years) working in a private company from last 10 years. His salary details for the financial year 2024-25 are:

(i) Basic Salary	1,70,000 p.m.
(ii) Dearness Allowance (forms part of retirement benefits)	80,000 p.m.
(iii) Commission	32,000 p.m.
(iv) Transport Allowance	5,000 p.m.
(v) Medical Reimbursement	40,000

Mr. Raghav resigned from the services on 30th November, 2024 after completing 10 years and 5 months of service. He was paid gratuity of ₹ 25 lakhs on his retirement. He is not covered under the Payment of Gratuity Act, 1972.

He started business of hiring of goods vehicle, purchased 4 small goods vehicle on 10th December, 2024 and 4 heavy vehicles having gross weight of 20 MTs each on 1st January, 2025. He did not maintain books of accounts for the business of hiring of goods vehicle. Mr. Shivpal, his very close friend gifted him ₹ 2 lakhs to purchase the vehicles.

He was holding 30% equity shares in TSP (P) Ltd., an Indian company. The paid up share capital of company as on 31st March, 2024 was ₹ 20 lakh divided into 2 lakh shares of ₹ 10 each which were issued at a premium of ₹ 30 each. Company allotted shares to shareholders on 1st October, 2013.

He sold all these shares on 30th April, 2024 for ₹ 60 per share. Equity shares of TSP (P) Ltd. are listed on National Stock Exchange and Mr. Raghav has paid STT both at the time of acquisition and transfer of such shares. FMV on 31.1.2018 was ₹ 50 per share.

On 12.2.2025, interest of fixed deposits of ₹ 90,000 credited to his SBI Bank. On 30.4.2024, ₹ 5,500 and on 30.12.2024, ₹ 8,500 credited to interest on saving bank A/c with SBI Bank.

He deposited ₹ 1,10,000 in PPF A/c. He paid insurance premium of ₹ 20,000 on his life policy during the financial year 2024-25. The policy was taken in April 2011 and sum assured was ₹ 3,00,000. He also made payment of ₹ 25,000 towards L.I.C. pension fund and premium of ₹ 40,000 towards mediclaim policy for self and ₹ 20,000 for his wife. All the payment he made by A/c payee cheque.

There was no change in salary of Mr. Raghav from last two years. Assume he has exercised the option to shift out of the default tax regime u/s 115BAC.

[MTP Q.]

Cost inflation Index is:

Financial Year	Cost Inflation Index
2013-14	220
2024-25	363

Answer 15

Computation of Total Income of Mr. Raghav for the A.Y.2025-26

Particulars	₹	₹
Salaries		
Basic Salary = 1,70,000 x 8	13,60,000	
Dearness Allowance = 80,000 x 8	6,40,000	
Commission = 32,000 x 8	2,56,000	
Transport Allowance = 5,000 x 8	40,000	
Medical reimbursement [Fully taxable]	40,000	
Gratuity – Amount received	25,00,000	
Less: Least of the following exempt u/s 10(10)		
(i) Actual Gratuity received ₹ 25,00,000		
(ii) ½ month's salary for every year of completed service [½ x 2,50,000 (Basic salary plus DA) + x 10] = ₹ 12,50,000		
(iii) Notified limit of ₹ 20,00,000		
Least of the above is exempt	12,50,000	
Gross Salary	35,86,000	
Less: Standard deduction u/s 16(ja) [Actual salary or ₹ 50,000, whichever is less]	50,000	
Net Salary		35,36,000
Profits and gains of business or profession		
Income from business of hiring goods vehicle		
Other than heavy goods vehicles = 4 x (₹ 7,500 p.m.) x (4 months)	1,20,000	
Heavy goods vehicles = 4 x (20 MTs x ₹ 1,000 per MT) x (3 months)	2,40,000	
Capital Gains		3,60,000
On transfer of 60,000 shares (2,00,000 x 30%)		
Sales consideration [60,000 x ₹ 60 per share]	36,00,000	
Less: Cost of acquisition, higher of –	30,00,000	
- Actual cost [60,000 x ₹ 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
Income from Other Sources		

Particulars	₹	₹
Gift from friend taxable u/s 56(2)(x) since the same exceeds ₹ 50,000. It is fully taxable		2,00,000
Interest on Saving A/c with SBI Bank		14,000
Interest on Fixed deposits with SBI Bank		1,00,000
[Since interest is credited after deduction of at source @ 10%, as the amount of interest exceeds ₹ 50,000, amount included in the total income need to be grossed up (₹ 90,000 x 100/90)]		3,14,000
Gross Total Income		48,10,000
Less: Deduction under Chapter VI-A		
Section 80C		
Deposits in PPF A/c		1,10,000
Life Insurance premium [fully deductible, since, in respect of a policy taken before 1.4.2012, the actual premium paid (₹ 20,000) or 20% of the sum assured (₹ 3,00,000 x 20% = ₹ 60,000), whichever is lower, has to be deducted]		20,000
		1,30,000
Section 80CCC		
Payment to LIC Pension Fund		25,000
		1,55,000
Restricted to ₹ 1,50,000, being the maximum allowable deduction		1,50,000
Section 80D		
Medical insurance premium for self and spouse ₹ 60,000, allowable to the extent of ₹ 50,000, since Mr. Raghav is a senior citizen		50,000
Section 80TTB		
Deduction in respect of interest on fixed deposits and saving bank allowable as deduction u/s 80TTB, since Mr. Raghav is a senior citizen, to the extent of ₹ 50,000		50,000
Total Income		45,60,000

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

Particulars	₹	₹
Tax on total income of ₹ 45,60,000		
Tax on long-term capital gains of ₹ 6,00,000 arising from transfer of listed shares @10% u/s 112A after deducting ₹ 1.25 lakh.		47,500
Tax on other income of ₹ 39,60,000 [₹ 45,60,000 – ₹ 6,00,000 capital gains]		
Upto ₹ 3,00,000	Nil	
₹ 3,00,001 – ₹ 5,00,000 [i.e., ₹ 3,00,000 @ 5%]	10,000	
₹ 5,00,001 – ₹ 10,00,000 [i.e., ₹ 5,00,000 @ 20%]	1,00,000	

Chapter 13: Income Tax Liability Computation and Optimisation

Particulars	₹	₹
₹ 10,00,001 – ₹ 39,60,000 [i.e., ₹ 29,60,000@30%]	8,88,000	9,98,000
		10,45,500
Add: Health and Education cess@4%		41,820
Tax liability		10,87,320

Question 16

[Total Income as per Normal Tax Regime]

Mr. Uday Shankar (aged 67 years) is retired from a Public Sector Undertaking. He resides in Indore, Madhya Pradesh. He provides you the following particulars of his income and certain payments/investments for the previous year 2024-25:

- Pension income of ₹ 7,80,000
- Interest from fixed deposits of ₹ 2,35,000 (Gross)
- Life insurance premium paid by cheque ₹ 25,500 for insurance of his life. The insurance policy was taken on 08-09-2017 and the sum assured is ₹ 2,50,000.
- Premium of ₹ 36,000 paid by cheque for health insurance of self and his wife, who is also a senior citizen.
- ₹ 3,500 paid in cash for his health check-up and ₹ 4,500 paid through cheque for preventive health check-up of his mother aged 90 years.
- Paid interest of ₹ 9,500 on loan taken from bank for MBA course pursued by his daughter.
- A sum of ₹ 95,000 donated by cheque to an institution approved for the purpose of section 80G for promoting family planning.
- ₹ 20,000 contributed towards PM CARES Fund by cheque.

Compute the total income of Mr. Uday Shankar for the assessment year 2025-26, Assume he has exercised the option to shift out of the default tax regime u/s 115BAC. [RTP N-21 Q.]

Answer 16

Computation of total income of Mr. Uday Shankar for A.Y.2025-26

Particulars	₹	₹	₹
Income under the head "Salaries"			
Pension	7,80,000		
Less: Standard deduction u/s 16(ia)			
Lower of ₹ 50,000 or actual salary/pension	50,000		7,30,000
Income from Other Sources			
Interest from bank on fixed deposit (Gross)			2,35,000
Gross Total Income			9,65,000
Less: Deduction under Chapter VI-A			
Deduction u/s 80C			
LIC premium of ₹ 25,500 (restricted to 10% of ₹ 2,50,000, being the sum assured, as the policy is taken after 31.3.2012)		25,000	
Deduction u/s 80D			
Premium for health insurance for self and his wife paid by cheque, allowed upto ₹ 50,000 since Mr. Uday Shankar is a senior citizen	36,000		

Particulars	₹	₹	₹
Preventive health check-up for self, ₹ 3,500, and for his mother, ₹ 4,500, restricted to ₹ 5,000 (deduction allowed even if the same is paid in cash)	5,000	41,000	
Deduction u/s 80E			
Interest on loan taken from bank for MBA course pursued by his daughter		9,500	
Deduction u/s 80G			
Donation to PM CARES Fund – 100% allowable		20,000	
Donation to an approved institution for promoting family planning – 100% allowable subject to qualifying limit of ₹ 83,950 i.e., 10% of ₹ 8,39,500 being the adjusted total income		83,950	
Deduction u/s 80TTB			
Interest on fixed deposit with bank allowable as deduction upto ₹ 50,000, since Mr. Uday Shankar is a senior citizen		50,000	
			2,29,450
Total Income			7,35,550

Question 17 [Direct Method - Total Income & Tax liability as per Normal Tax Regime]

You are required to compute the total income and tax liability of Mr. Alok, aged 58 years, a resident individual. Mr. Alok is an advocate and furnishes you the receipts and payments account for the financial year 2024-25.

Receipts and Payments Account

Receipts	₹	Payments	₹
Opening Balance (01-04-2024)		Staff salary and bonus to clerks	17,50,000
Cash & Bank	80,000	Other general and administrative expenses	22,00,000
Fee from legal services	49,60,000	Office rent	1,48,000
Motor car loan from SBI @12% p.a. interest	5,00,000	Life Insurance Premium (Sum Assured ₹ 5,00,000)	49,000
Sale receipts of 5,800 listed equity shares (sold on 31st March 2025)	5,95,000	Motor car (Acquired in January 2025 by way of NEFT)	9,50,000
		Books bought by way of A/c payee cheque in the month of May, June and September 2024 (annual publications)	80,000
		Computer acquired on 1-11-2024 for professional use (payment made by A/c payee cheque)	52,000

Receipts	₹	Payments	₹
		Domestic drawings	6,23,000
		Motor car maintenance	72,000
		Public Provident Fund subscription	1,50,000
		Closing balances (31-03-2025) Cash & Bank	61,000
	61,35,000		61,35,000

Other information:

- (i) Listed equity shares on which STT was paid were acquired in August 2016 for ₹ 1,21,800. The fair market value of such shares as on 31st January 2018 and on 1st April 2018 was ₹ 75 per share and ₹ 85 per share, respectively.
- (ii) Motor car was put to use for both official and personal purposes. 1/3rd of the motor car is for personal purpose. No interest on car loan was paid during the previous year 2024-25.
- (iii) Mr. Alok purchased a flat in Kanpur for ₹ 35,00,000 in July 2013 cost of which was partly financed by a loan from Punjab National Housing Finance Limited of ₹ 25,00,000, his own savings ₹ 1,00,000 and a deposit from Repco Bank for ₹ 9,00,000. The flat was given to Repco Bank on lease for 10 years @ ₹ 35,000 per month. The following particulars are relevant:
 - (a) Municipal taxes paid by Mr. Alok ₹ 8,200 per annum
 - (b) House insurance ₹ 11,000
 As per interest certificate issued by Punjab National Housing Finance Limited for the financial year 2024-25, he paid ₹ 1,80,000 towards principal and ₹ 2,01,500 as interest.
- (iv) He earned ₹ 1,20,000 in share speculation business and lost ₹ 1,80,000 in commodity speculation business.
- (v) Mr. Alok received a gift of ₹ 21,000 each from four of his family friends.
- (vi) He contributed ₹ 1,21,000 to PM Cares Fund by way of bank draft.
- (vii) He donated to a registered political party ₹ 3,50,000 by way of cheque.
- (viii) He follows cash system of accounting.
- (ix) Cost Inflation Index : F.Y. 2016-17 – 264; F.Y. 2018-19 – 280; F.Y. 2024-25 – 363

Assume he has exercised the option to shift out of the default tax regime u/s 115BAC.

[MTP Q.]

Answer 17**Computation of total income and tax liability of Mr. Alok for A.Y. 2025-26**

Particulars	₹	₹	₹
Income from house property			
Gross annual value ¹ (₹ 35,000 x 12)		4,20,000	
Less: Municipal taxes paid by Mr. Alok		8,200	
Net annual value		4,11,800	
Less: Deductions u/s 24			
(a) 30% of Net Annual Value		1,23,540	

Particulars	₹	₹	₹
(b) Interest on house borrowing (allowed in full in case of let out property)		2,01,500	
Profits and gains of business or profession			
Income from profession			
Fees from legal services		49,60,000	86,760
Less: Expenses allowable as deduction			
- Staff salary and bonus	17,50,000		
- Other general and administrative expenses	22,00,000		
- Office rent	1,48,000		
- Motor car maintenance (₹ 72,000 x 2/3)	48,000		
- Car loan interest – not allowable, since Mr. Alok follows cash system of accounting and no interest is paid during the previous year)	-	41,46,000	
Less: Depreciation u/s 32		8,14,000	
- Motor car ₹ 9,50,000 x 15% x 50% x 2/3, being put to use for less than 180 days	47,500		
- Books being annual publications [₹ 80,000 x 40%]	32,000		
- Computer @40% of ₹ 52,000 x 50%, since the same is put to use for less than 180 days	10,400	89,900	
		7,24,100	
For the P.Y. 2024-25, the gross receipts of Mr. Alok is ₹ 49,60,000. Since, it does not exceed ₹ 50,00,000, he is eligible to opt for presumptive tax scheme u/s 44ADA			
In such case, his professional income would be ₹ 24,80,000, being 50% of ₹ 49,60,000			
It is more beneficial for Mr. Alok to declare profit of ₹ 7,24,100 as per books of accounts which is lower than the profits computed on presumptive basis u/s 44ADA. However, for declaring lower profits, he has to maintain books of account u/s 44AA and get the same audited u/s 44AB			
Income from share speculation business			
Less: Loss from commodity speculation business set off against income from share speculation business. Balance loss of ₹ 60,000 from commodity speculation business to be carried forward to A.Y. 2026-27.	1,20,000		
	1,20,000	Nil	7,24,100
Capital Gains			
Long-term capital gains on sale of 5800 listed shares Sale consideration		5,95,000	1,60,000
Less: Cost of acquisition is higher of		4,35,000	
- Cost of acquisition	1,21,800		
- Lower of ₹ 4,35,000 (₹ 75 x 5800), being fair market value as on 31.1.2018 and ₹ 5,95,000, being full value of consideration on transfer	4,35,000		
			84,000

Particulars	₹	₹	₹
Income from other sources			
Cash Gift of ₹ 84,000 i.e., ₹ 21,000 x 4, received from his four friends is taxable u/s 56(2)(x), since aggregate amount of cash gifts exceeds ₹ 50,000			10,54,860
Gross Total Income			
Less: Deductions under Chapter VI-A			
Section 80C	49,000		
Life insurance premium	1,80,000		
Repayment of housing loan PPF subscription	1,50,000		
Restricted to ₹ 1,50,000	3,79,000	1,50,000	
Section 80G			
Contribution to PM Cares Fund (100% of ₹ 1,21,000) by way of bank draft		1,21,000	
Section 80GGC			
Donation to registered political party made by way of cheque		3,50,000	
			6,21,000
Total Income			4,33,860
Tax liability			
Tax @10% u/s 112A on long-term capital gains exceeding ₹ 1,00,000 i.e., ₹ 60,000			6,000
Tax @5% on ₹ 23,860 [₹ 2,73,860 (total income excluding LTCG u/s 112A) - ₹ 2,50,000, being basic exemption limit]			1,193
			7,193
Less: Rebate u/s 87A [Since the total income does not exceed ₹ 5 lakhs. Rebate u/s 87A is not available on tax on LTCG taxable u/s 112A]			1,193
			6,000
Add: Health and Education cess@4%			240
Tax liability			6,240

1 Rent receivable has been taken as the gross annual value in the absence of other information.

Question 18

[Total Income and Tax liability as per Normal Tax Regime]

You are required to compute the total income and tax payable by Mr. Josh, aged 48 years, from the following information provided by him for the Assessment Year 2025-26. Assume he has exercised the option to shift out of the default tax regime u/s 115BAC.

- Basic Salary @ ₹ 51,000 per month, Dearness allowance @ ₹ 10,000 per month (Part of salary for retirement benefits), House rent allowance ₹ 4,000 per month and rent paid for house in Chennai is ₹ 7,000 per month.
- He owns a commercial building at Mumbai, which is let out on 1.7.2024 at a monthly rent of ₹ 46,000 to ABC Ltd. He paid municipal taxes of ₹ 27,000 and ₹ 25,000 for the financial year 2023-24 and 2024-25 on 31-3-2025 and 20-4-2025, respectively. Fair rent of the building is ₹ 33,000 p.m.

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(iii) He purchased 4000 unlisted shares of Maharaja Limited on 25-2-2009 for ₹ 80,000. Company declared bonus in the ratio of 1:1 on 15th March, 2009. Mr. Josh sold 3000 bonus shares on 15.01.2025 for ₹ 2,00,000 to his friend Mr. Mehul through unrecognized stock exchange. (Cost Inflation Index: 2008-09: 137, 2024-25: 363)

(iv) Interest from saving bank account with SBI Bank ₹ 15,000 and lottery winnings (Net of TDS@30%) is ₹ 21,000.

He paid the following amounts during the P.Y. 2024-25:

(a) Deposits in Public Provident Fund ₹ 1,50,000.

(b) Medical insurance premium paid for health of his wife ₹ 19,000 and for health of dependent son ₹ 12,000 through cheque.

[MTP Q.]

Answer 18

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

Particulars	₹	₹
Salaries		
Basic Salary = ₹ 51,000 x 12	6,12,000	
Dearness Allowance (DA) = ₹ 10,000 x 12	1,20,000	
House Rent Allowance (HRA) = ₹ 4,000 x 12 ₹ 48,000		
Less: Least of the following exempt u/s 10(13A) ₹ 10,800	37,200	
(i) HRA actually received = ₹ 4,000 x 12 = ₹ 48,000		
(ii) Rent paid (-) 10% of salary [₹ 84,000 (i.e., ₹ 7,000 x 12) (-) ₹ 73,200 (10% of salary i.e., 10% of ₹ 7,32,000 (Basic Salary + DA))] = ₹ 10,800		
(iii) 50% of salary [50% of ₹ 7,32,000 (Basic Salary + DA)] = ₹ 3,66,000		
Gross Salary	7,69,200	
Less: Standard deduction u/s 16(ia)	50,000	
		7,19,200
Income from house property		
Gross Annual Value [₹ 46,000 x 9, being the higher of actual rent received and fair rent]	4,14,000	
Less: Municipal tax paid during the P.Y. 2024-25	27,000	
Net Annual Value	3,87,000	
Less: Deduction u/s 24 [30% of Net Annual Value]	1,16,100	
		2,70,900
Capital Gains		
Full value of consideration	2,00,000	
Less: Cost of acquisition of bonus shares allotted on or after 1.4.2001	Nil	
Long-term capital gains (since bonus shares are held for a period of more than 24 months)		2,00,000

Particulars	₹	₹
Income from Other Sources		
Interest from saving bank account with SBI Bank	15,000	
Lottery winnings [21,000 x 100/70]	30,000	45,000
Gross Total Income		12,35,100
Less: Deduction under Chapter VI-A		
Section 80C		
Deposits in PPF	1,50,000	
Section 80D		
Medical insurance premium for wife and dependent son ₹ 31,000, restricted to	25,000	
Section 80TTA		
Interest on saving bank account with SBI	10,000	1,85,000
Total Income		10,50,100

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

Particulars	₹	₹
Tax on total income of ₹ 10,50,100		
Tax on long-term capital gains of ₹ 2,00,000@20% u/s 112	40,000	
Tax on lottery income of ₹ 30,000 @30% u/s 115BB	9,000	
Tax on other income of ₹ 8,20,100 [₹ 10,50,100 – ₹ 2,00,000, capital gains – ₹ 30,000, lottery income]		
Upto ₹ 2,50,000	Nil	
₹ 2,50,001 – ₹ 5,00,000 [i.e., ₹ 2,50,000@5%]	12,500	
₹ 5,00,001 – ₹ 8,20,100 [i.e., ₹ 3,20,100@20%]	64,020	
		1,25,520
Add: Health and education cess@4%		5,021
Tax liability		1,30,541
Less: Tax deducted at source		
TDS on lottery income	9,000	
TDS on rent u/s 194I [₹ 4,14,000 x 10%]	41,400	50,400
Tax Payable		80,141
Tax Payable (rounded off)		80,140

Question 19

[Misc concepts & questions]

- (a) Mrs. Jasmin, an Australian citizen, got married to Mr. Kapil of India in Australia on 2.01.2024 and came to India for the first time on 18.03.2024. She left for Australia on 10.8.2024. She returned to India again on 23.02.2025.

On 01.04.2024, she had purchased a Flat in Mumbai, which was let out to Mr. Sunil on a rent of ₹ 28,000 p.m. from 1.5.2024. She had taken loan from an Indian bank for purchase of this flat on which bank had charged interest of ₹ 2,15,500 upto 31.03.2025.

While in India, during the previous year 2024-25, she had received a gold chain from her in-laws worth ₹1,50,000, a car worth ₹ 6,25,000 from married sister of her husband and ₹ 1,72,000 from very close friends of her husband.

Determine her residential status and compute her gross total income chargeable to tax for the Assessment Year 2025-26.

- (b) I. Mr. Jay is having total income of ₹ 6,90,000 during the P.Y. 2024-25 consisting of Income from business of ₹ 40,000, lottery winnings (gross) ₹ 5,60,000, income by way of salary (computed) ₹ 1,20,000 and loss from house property ₹ 30,000. Compute his tax liability and advance tax obligations for A.Y. 2025-26.

II. 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.

[MTP Q.]

Answer 19

- (a) U/s 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. Jasmin, an Australian, for A.Y.2025-26 has to be determined on the basis of her stay in India during the previous year relevant to A.Y. 2025-26 i.e. P.Y.2024-25 and in the preceding four assessment years.

Her stay in India during the previous year 2024-25 and in the preceding four years are as under:

P.Y. 2024-25

01.04.2024 to 10.08.2024	-132 days
23.02.2025 to 31.03.2025	- 38 days
Total	- 170 days

Four preceding previous years

P.Y.2023-24 [1.4.2023 to 31.3.2024]	- 14 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]	-Nil

Total 14 days

The total stay of Mrs. Jasmin 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-fulfilment of any of the two conditions for a resident, she would be treated as non-resident for the Assessment Year 2025-26.

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

Particulars	₹	₹
Income from house property		
Flat located in Mumbai let-out from 01.05.2024 to 31.03.2025 @ ₹ 28,000/- p.m.		
Gross Annual Value [28,000 x 11]1	3,08,000	
Less: Municipal taxes	Nil	
Net Annual Value (NAV)	3,08,000	
Less: Deduction u/s 24		
30% of NAV	92,400	
Interest on loan [fully allowable as deduction, since 2,15,500 property is let-out]	3,07,900	100
Income from other sources		
- Gold chain worth ₹ 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	
- Car worth ₹ 6,25,000 received from married sister of her husband is exempt, since sister-in-law falls within the definition of relative and gifts from a relative are not chargeable to tax. Moreover, car is not included in the definition of property.	Nil	
- Gift received from friends of her husband aggregating to ₹ 1,72,000 is taxable u/s 56(2)(x) since the amount of cash gifts of ₹1,72,000 exceeds ₹50,000.	1,72,000	1,72,000
Gross Total income		1,72,100

1 Actual rent received has been taken as the gross annual the value in absence of other information (i.e. Municipal value, fair rental value and standard rent) in the question.

(b) I. Computation of tax liability and advance tax obligations of Mr. Jay for A.Y. 2025-26

Particulars	₹	₹
Income from salary (computed)	1,20,000	
Less: Set-off loss from house property	(30,000)	90,000
Loss from house property	30,000	
Less: Set-off against salary income	(30,000)	-
Income from business		40,000
Lottery winning		5,60,000
Total Income		6,90,000
Tax liability		
Tax @30% on lottery income		1,68,000

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Particulars	₹	₹
Tax on other income of ₹ 1,30,000 (Nil, since it does not exceed the basic exemption limit of ₹ 2,50,000)		-
		1,68,000
Add: Health and education cess@4%		6,720
Total tax liability		1,74,720
Less: TDS on lottery income u/s 194B		1,68,000
Net tax payable		6,720
Since tax payable for the P.Y. 2024-25 is less than ₹ 10,000, Mr. Jay is not liable to pay advance tax.		

II. (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 20

[Misc question and concepts]

- (a) Suresh gifted ₹10 lakhs to his wife, Shagun on her birthday on, 29th February, 2024. Shagun lent such amount to Kinjal on 1st April, 2024 for six months on which she received interest of ₹75,000. The said sum of ₹ 75,000 was invested in shares of a listed company on 5th October, 2024, which were sold for ₹ 90,000 on 30th March, 2025. Securities transactions tax was paid on purchase and sale of such shares. In whose hands the above income shall be included in A.Y.2025-26. Support your answer with brief reasons.
- (b) State in brief the applicability of tax deduction at source provisions, the rate and amount of tax deduction in the following cases for the financial year 2024-25 under the Income-tax Act, 1961. Assume that all payments are made to residents:
- Vikas, an Indian resident and salaried individual, makes payments of ₹ 15 lakh in January, 2025, ₹ 30 lakh in February, 2025 and ₹ 15 lakh in March, 2025 to Naveen, a contractor for reconstruction of his residential house.
 - ABC Ltd. makes the payment of ₹ 2,50,000 to Gaurav, an individual transporter who owned 6 goods carriages throughout the previous year. He does not furnish his PAN.

Answer 20

- (a) In computing the total income of any individual, there shall be included all such income as arises directly or indirectly, to the spouse of such individual from assets transferred directly or indirectly, to the spouse by such individual otherwise than for adequate consideration or in connection with an agreement to live apart.

Interest on loan: Accordingly, ₹ 75,000, being the amount of interest on loan received by Mrs. Shagun, wife of Mr. Suresh, would be includible in the total income of Mr. Suresh, since such loan was given out of the sum of money received by her as gift from her husband.

Short-term capital gain: Income from the accretion of the transferred asset is not liable to be included in the hands of the transferor and, therefore, short-term capital gain of ₹ 15,000 (₹ 90,000, being the sale consideration less ₹ 75,000, being the cost of acquisition) arising in the hands of Mrs. Shagun from sale of shares acquired by investing the interest income of ₹ 75,000 earned by her (from the loan given out of the sum gifted by her husband), would not be included in the hands of Mr. Suresh. Thus, such income is taxable in the hands of Mrs. Shagun.

(b) TDS implications

(i) On payments made to contractor

Since Vikas is a salaried person and does not have business or profession income, TDS u/s 194C is not attracted in his case. In any case, the contractor is engaged for reconstruction of residential house, hence, the amount paid to him is exclusively for personal purposes of Mr. Vikas. Consequently, section 194C would not be attracted.

Tax is deductible @2% u/s 194M, since payments to Mr. Naveen, a contractor, for reconstruction of his residential house exceeds ₹ 50 lakhs in aggregate during the F.Y.2024-25.

Amount of tax to be deducted = 2% of ₹ 60 lakhs = ₹ 1,20,000

(ii) Payment to transporter who has not furnished PAN

U/s 194C, no tax is deductible in respect of payments to a transporter, who owns ten or less goods carriages at any time during the year and furnishes a declaration to that effect along with his PAN to the person paying or crediting such sum.

However, in this case, this exemption from TDS would not be available, since Gaurav has not furnished his PAN to ABC Ltd. As per section 206AA, due to non-furnishing of PAN, tax would be deductible at a higher rate of 20% and not @1% provided u/s 194C.

Amount of tax to be deducted = ₹ 2,50,000 x 20% = ₹ 50,000.

Question 21

[Total Income and tax liability as per Normal Tax Regime]

From the following information provided by Mr. Suresh, aged 43 years and a wholesale dealer, for the A.Y. 2025-26, you are required to compute the tax payable by him as per normal provisions of income tax. (opted out from section 115BAC)

Trading and Profit and Loss Account of Mr. Suresh

Particulars	Amount in ₹	Particulars	Amount in ₹
To Opening Stock	24,21,000	By Sales	2,62,50,100
To Purchases	2,06,00,500	By Closing stock	52,00,100
To Direct expenses	4,12,040		
To Freight inward	2,65,000		
To Gross Profit c/d	77,51,660		
	3,14,50,200		3,14,50,200
To Salaries and wages	17,15,000	By Gross Profit b/d	77,51,660
To General expenses	3,65,000	By dividend from Indian companies (gross)	17,20,000
To Rates and taxes	2,40,000	By Interest received on FDs (Net of tax) [FD made on 1.8.2024]	1,08,000
To Interest paid on late filing of GST	3,845	By Rent received	7,20,000
To Income-tax paid for FY 2022-23	3,45,000	By Income-tax Refund	19,000
To Interest paid to NBFC	1,15,000		
To Depreciation	1,82,000		
To Net Profit	73,52,815		
	1,03,18,660		1,03,18,660

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The following additional information is provided by him:

- Closing stock of previous year 2024-25 was undervalued by ₹ 55,000.
- Rates and taxes include ₹ 1,000 paid towards late filing of his Income-tax return for Assessment Year 2024-25 u/s 234F of Income-tax Act.
- Salaries include ₹ 30,000 paid on single day by way of cash to his accountant.
- Interest paid on loan of ₹ 10,00,000 taken from a Non-Banking Finance company. Out of the loan, amount of ₹ 2 lakhs was used for personal purpose and the balance was used for business purpose. No TDS was deducted while paying the interest on loan.
- An amount of ₹ 35,000 was paid by cheque during the year towards health insurance policy covering himself, his spouse and his children.
- General expenses include Advertisement expense of ₹ 25,000 paid by cheque towards an advertisement in a souvenir published by local political party.
- Income-tax refund includes ₹ 2,500 towards interest.
- Depreciation charged is as per Income-tax Rules is ₹ 2,20,000
- Advance Tax paid during the year is ₹ 9 lakhs.
- TDS has been deducted on interest received on FD.
- Turnover for the year ending 31.03.2024 was ₹ 2.58 crores (It include cash T/o of ₹ 50 lakhs)

[MTP Q.]

Answer 21

Computation of Total Income of Mr. Suresh for the A.Y.2025-26

Particulars	₹	₹	₹
Income from house property			
Annual value (rent received has been taken as annual value, due to absence of information relating to expected rent in the question)		7,20,000	
Less: Deduction u/s 24(a)			
30% of Annual Value		2,16,000	
			5,04,000
Profits and gains of business or profession			
Net profit as per profit and loss account		73,52,815	
Add: Expenses/Payments debited to profit and loss account but not allowed			
- Depreciation as per books of account	1,82,000		
- Fee for late filing of income-tax return for A.Y. 2024-25 – disallowed	1,000		
- Salary paid to an accountant in cash exceeding ₹ 10,000 – disallowed u/s 40A(3)	30,000		
- Interest paid to NBFC on loan which is used for personal purposes (₹ 1,15,000 x 2,00,000/ 10,00,000) – not allowed as per section 37	23,000		
- Interest paid to NBFC on which tax is not deducted attracts disallowance @30% of ₹ 92,000 u/s 40(a)(ia) [Since Mr. Suresh's turnover for the immediately	27,600		

Particulars	₹	₹	₹
preceding previous year i.e., P.Y. 2023-24 exceeds ₹ 1 crore, he is required to deduct tax at source. Disallowance@30% of interest is attracted for non-deduction of tax at source]			
- Income-tax paid for F.Y. 2023-24	3,45,000		
- Interest paid on late filing of GST, allowed, since it is not for infraction of law but is compensatory in nature.	Nil		
- Advertisement expenses towards an advertisement in a souvenir published by local political party [u/s 37(2B)]			
	25,000	6,33,600	
Add: Undervaluation of Closing stock		55,000	
		80,41,415	
Less: Income chargeable under other heads and income not chargeable to tax but credited to profit and loss account			
- Dividend from Indian companies (taxable under the head "Income from other sources")	17,20,000		
- Interest on FDs (Net of taxes) (Gross income taxable under the head "Income from other sources")	1,08,000		
- Rent received (taxable under the head "Income from house property")	7,20,000		
- Income-tax refund	19,000	25,67,000	
		54,74,415	
Less: Depreciation as per Income-tax Rules		2,20,000	52,54,415
Income from Other Sources			
Dividend from Indian companies		17,20,000	
Interest on fixed deposits (₹ 1,08,000 x 100/90, since tax was deducted at source @10%)		1,20,000	
Interest on income-tax refund		2,500	18,42,500
Gross Total Income			76,00,915
Less: Deduction under Chapter VI-A			
Section 80D			
Health insurance premium paid for self, spouse and his children allowable as deduction to the extent ₹ 25000		25,000	
Section 80GGC			
Expenditure towards advertisement in a souvenir published by local political party not allowable as deduction		Nil	25,000
Total Income			75,75,915
Total Income (Rounded Off)			75,75,920

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

Particulars	₹
Upto ₹ 2,50,000	Nil
₹ 2,50,001 – ₹ 5,00,000 [i.e., ₹ 2,50,000@5%]	12,500
₹ 5,00,001 – ₹ 10,00,000 [i.e., ₹ 5,00,000@20%]	1,00,000
₹ 10,00,001 above [i.e., ₹ 65,75,920 @30%]	19,72,776
	20,85,276
Add: Surcharge @10%, since total income exceeds ₹ 50,00,000	2,08,528
	22,93,804
Add: Health and Education cess@4%	91,752
Tax Liability	23,85,556
Less: Advance tax	9,00,000
Tax deducted at source on interest on FDs u/s 194A	12,000
Tax payable	14,73,556
Tax payable (rounded off)	14,73,560

Question 22

[Misc Concepts & Questions]

- (a) Mr. Thomas, a citizen of Japan, 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 50 days, 65 days, 95 days, 150 days and 75 days, respectively. Determine his residential status for the A.Y. 2025-26. Examine the tax implications in the hands of Mr. Thomas for the Assessment Year 2025-26 of the following transactions entered by him.
- (1) Interest received from Mr. Michel, a non-resident outside India (The borrowed fund is used by Mr. Michel for investing in Indian company's debt fund for earning interest).
 - (2) He is also engaged in the business of running news agency and earned income of ₹ 5 lakhs from collection of news and views in India for transmission outside India.
 - (3) He entered into an agreement with ABC & Co., a partnership firm for transfer of technical documents and design and for providing services relating thereto, to set up a Steel manufacturing plant, in India. He charged ₹ 15 lakhs for these services from ABC & Co.
- (b) Mr. Naksh 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 ₹ 40,000 in the F.Y.2024-25 by account payee cheque to LIC for insuring life of self and spouse
2.	Payment of ₹ 1,10,000 to RBI for acquiring its bonds
3.	Applied for issue of credit card to SBI
4.	Payment of ₹ 1,00,000 by account payee cheque to travel agent for travel to Singapore for 3 days to visit

- (c) Ms. Soha (aged 35 years), a resident individual, is a dealer of scooters. During the previous year 2024-25, total turnover of her business was ₹ 110 lakhs (out of which ₹ 25

lakhs was received by way of account payee cheques and balance in cash). Ms. Soha opt out from default tax regime u/s 115BAC.

What would be your advice to Ms. Soha relating to the provisions of advance tax with its due date along with the amount payable, assuming that she wishes to make maximum tax savings. [MTP Q.]

Answer 22

(a) U/s 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.

During the previous year 2024-25, Mr. Thomas was in India for 75 days and during the 4 years preceding the previous year 2024-25, he was in India for 360 days (i.e. 50+ 65+ 95+ 150 days).

The total stay of the Mr. Thomas during the previous year in India was less than 182 days and during the four years preceding this year was for 360 days. Therefore, due to non-fulfillment of any of the two conditions for a resident, he would be treated as non-resident for the Assessment Year 2025-26.

- (1) Not taxable, since interest payable by a non-resident to another non-resident would be deemed to accrue or arise in India only if the borrowed fund is used for the purposes of business or profession carried on by him in India. In this case, it is used for investing in Indian company's debt fund for earning interest and not for the purposes of business or profession. Hence, it is not taxable in India.
- (2) No income shall be deemed to accrue or arise to Mr. Thomas through or from activities which are confined to the collection of news and views in India for transmission outside India. Hence, ₹ 10 lakhs is not taxable in India in the hands of Mr. Thomas.
- (3) ₹ 10 lakhs is deemed to accrue or arise in India to Mr. Thomas, a non-resident, since it represents royalty/fees for technical services paid for services utilized in India, in this case, for setting up a Steel manufacturing plant in India. Hence, the same would be taxable in India in the hands of Mr. Thomas.

(b)

	Transaction	Is quoting of PAN mandatory in related documents?
1.	Payment of life insurance premium of ₹ 40,000 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 ₹ 50,000 in the F.Y.2024-25.
2.	Payment of ₹ 1,10,000 to RBI for acquiring its bonds	Yes, since the amount paid exceeds ₹ 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 ₹ 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, quoting of PAN is not mandatory even though the payment exceeds ₹ 50,000

Chapter 13: Income Tax Liability Computation and Optimisation

(c) Computation of advance tax of Ms. Soha under Presumptive Income scheme as per section 44AD

The total turnover of Ms. Soha, a dealer of scooter, is ₹ 110 lakhs. Since her total turnover from such business is less than ₹ 200 lakhs and she does not wish to get his books of account audited, she can opt for presumptive tax scheme u/s 44AD.

Profits and gains from business computed u/s 44AD:

Particulars	₹
6% of ₹ 25 lakhs, being turnover effected through account payee cheque	1,50,000
8% of ₹ 85 lakhs, being cash turnover	6,80,000
	8,30,000

An eligible assessee opting for computation of profits and gains of business on presumptive basis u/s 44AD in respect of eligible business is required to pay advance tax of the whole amount on or before 15th March of the financial year.

Computation of tax liability of Ms. Soha as per normal provisions of Income-tax Act, 1961

Particulars	Amount in ₹	
Total Income	8,30,000	
Tax on 8,30,000		
Upto ₹ 2,50,000	Nil	
₹ 2,50,001 – ₹ 5,00,000 @ 5%	12,500	
₹ 5,00,001 – ₹ 8,30,000 @ 20%	66,000	78,500
Add: Health and Education cess @ 4%		3,140
Tax liability		81,640

Accordingly, she is required to pay advance tax of ₹ 81,640 on or before 15th March of the financial year. However, any amount by way of advance tax on or before 31st March of the financial year shall also be treated as advance tax paid during the financial year ending on that day for all the purposes of the Act.

Question 23

[Total Income and Tax liability as per Normal Tax Regime]

Mr. Krishna (aged 65 years), a furniture manufacturer, reported a profit of ₹ 5,64,44,700 for the previous year 2024-25 after debiting/crediting the following items:

Debits:

- ₹ 20,000 paid to a Gurudwara registered u/s 80G of the Income-tax Act, in cash where no cheques are accepted.
- ₹ 48,000 contributed to a university approved and notified u/s 35(1)(ii) to be used for scientific research.
- Interest paid ₹ 1,67,000 on loan taken for purchase of E-vehicle. Loan sanctioned on 15-05-2022 from a bank. The E-vehicle was purchased for the personal use of his wife.
- His firm has purchased timber under a forest lease of ₹ 20,00,000 for the purpose of business.

Credits:

- Income of ₹ 4,00,000 from royalty on patent registered under the Patent Act received from different resident clients. No TDS was needed to be deducted by any of the clients.

2. He received ₹ 3,00,000 from a debtor which was written off as bad in the year 2020-21. Amount due from the debtor (which was written off as bad) was ₹ 5,00,000, out of which tax officer had only allowed ₹ 3,00,000 as deduction in computing the total income for assessment year 2021-22.
3. He sold some furniture to his brother for ₹ 7,00,000. The fair market value of such furniture was ₹ 9,00,000.

Other information :

1. Depreciation in books of accounts is computed by applying the rates prescribed under the Income tax laws.
2. Mr. Krishna purchased a new car of ₹ 12,00,000 on 1st September, 2024 and the same was put to use in the business on the same day. No depreciation for the same has been taken on car in the books of account.
3. Mr. Krishna had sold a house on 30th March, 2022 and deposited the long term capital gains of ₹ 25,00,000 in capital gain account scheme by the due date of filing return of income for that year. On 1st March, 2025, he sold another house property in which he resided for ₹ 1 crore. He earned a long term capital gain of ₹ 50,00,000 on sale of this property. On 25th March, 2025, he withdrew money out of his capital gain account and invested ₹ 1 crore on construction of one house.
4. Mr. Krishna also made the following payments during the previous year 2024-25
 - Lump-sum premium of ₹ 30,000 paid on 30th March, 2025 for the medical policy taken for self and spouse. The policy shall be effective for five years i.e. from 30th March, 2025 to 29th March, 2030.
 - ₹ 8,000 paid in cash for preventive health check-up of self and spouse.

Compute the total income and tax payable by Mr. Krishna for the assessment year 2025-26. Assume assessee opted out from default tax regime of section 115BAC.

(Jan 21 Exams)

Answer 23

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

	Particulars	₹	₹	₹
I	Income from business or profession			
	Net profit as per profit and loss account		5,64,44,700	
	Add: Items of expenditure debited but not allowable while computing business income			
	1. Donation to Gurudwara in cash [not allowable as deduction since it is not incurred wholly and exclusively for business purpose. Since the amount is already debited, the same has to be added back while computing business income]	20,000		
	2. Interest on loan taken for purchase of e-vehicle [Interest on loan for purchase of e-vehicle for personal purpose is not allowed as deduction from business income since the same is not incurred wholly and exclusively for business purpose. Since it is already debited, the same has to be added back while computing business income]	1,67,000		

	Particulars	₹	₹	₹
	3. Sale of furniture to brother at less than FMV [The provisions of section 40A(2) are not applicable in case of sale transaction, even if the same is to a related party. Therefore, no adjustment is necessary in respect of difference of ₹ 2 lakh]	-	<u>1,87,000</u> 5,66,31,700	
	Less: Items of income credited but not taxable or taxable under any other head of income			
	4. Royalty on patent [Not taxable as business income since Mr. Krishna is engaged in manufacturing business. Since the amount is already credited to profit and loss account, the same has to be reduced while computing business income]	4,00,000		
	5. Bad debt recovered [Actual bad debt is ₹ 2 lakhs i.e., ₹ 5 lakhs less ₹ 3 lakh, being the amount of bad debt recovered. Bad debt written off is ₹ 3 lakhs. Bad debt recovered to the extent of ₹ 1 lakh being excess of bad debt recovered over actual bad debt would be deemed to be business income. Since the entire ₹ 3 lakhs is credited to the profit and loss account, ₹ 2 lakhs has to be reduced]	<u>2,00,000</u>	<u>6,00,000</u> 5,60,31,700	
	Less: Allowable expenditure			
	6. Contribution to a university approved and notified u/s 35(1)(ii) for scientific research [Eligible for deduction @100%. Since, 100% of the expenditure is already debited to profit and loss account, no adjustment is made]		-	
	7. Depreciation on car [₹ 12 lakh x 15%, since put to use for more than 180 days in the P.Y.2024-25]		<u>1,80,000</u>	
				5,58,51,700
II	Capital Gain			
	Long term capital gain on sale of house property			
	Less: Exemption u/s 54 [Since whole amount of long term capital gain is invested in construction of house within the stipulated time limit.]		50,00,000	
	[Capital gain of ₹ 25 lakhs in capital gain account scheme is not taxable in P.Y. 2024-25, since the same is withdrawn and invested in construction of house within the stipulated time limit. The remaining amount of ₹75 lakhs invested in construction of house is eligible for		<u>50,00,000</u>	-

Chapter 13: Income Tax Liability Computation and Optimisation

	Particulars	₹	₹	₹
	exemption u/s 54, subject to a maximum of ₹50 lakhs being long-term capital gain on sale of house property during the P.Y.2024-25]			
III	Income from Other Sources Royalty on patent [Taxable as "income from other sources", since he is engaged in business of manufacturing furniture] Gross Total Income			<u>4,00,000</u> 5,62,51,700
	Less: Deduction under Chapter VI-A Deduction u/s 80D - Medici claim premium for self and spouse [In case of lump sum premium for medical policy, deduction is allowed for equally for each relevant previous years. [₹ 30,000/6 years, being relevant previous years in which the insurance is in force] - Preventive health check up of self and spouse [Preventive health check up paid in cash allowed to the extent of ₹ 5,000] Deduction u/s 80EEB [Since the loan is sanctioned by Bank during the P.Y. 2022-23, interest on loan taken for purchase of e-vehicle is allowed to the extent of ₹ 1,50,000] Deduction u/s 80G [Donation of ₹ 20,000 to Gurudwara not allowable as deduction since amount exceeding ₹ 2,000 paid in cash] Deduction u/s 80RRB [Deduction in respect of royalty on patent registered under the Patent Act subject to a maximum of ₹ 3 lakh] Total income	5,000 <u>5,000</u>	 10,000 1,50,000	 <u>3,00,000</u> <u>4,60,000</u> 5,57,91,700

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

Particulars	₹	₹
Tax on total income of ₹ 5,57,91,700		
Upto ₹ 3,00,000	Nil	
₹ 3,00,001 – ₹ 5,00,000 [@5% of ₹ 2 lakh]	10,000	
₹ 5,00,001 – ₹ 10,00,000 [@20% of ₹ 5,00,000]	1,00,000	
₹ 10,00,001- ₹ 5,57,91,700 [@30% of ₹ 5,47,91,700]	<u>1,64,37,510</u>	1,65,47,510
Add: Surcharge @ 37%, since total income exceeds ₹ 5,00,00,000		<u>61,22,579</u>

Particulars	₹	₹
Add: Health and education cess@4%		2,26,70,089
		<u>9,06,803</u>
Total tax liability		2,35,76,892
Less: TCS u/s 206C(1) @ 2.5% on ₹ 20 lakh i.e., timber	50,000	
TCS u/s 206C(1F)@1% of ₹ 12 lakh i.e., sale of motor car where consideration exceeds ₹ 10 lakh	12,000	
TDS u/s 194-IA@1% of ₹ 1 crore i.e., sale of immovable property where consideration or SDV is ₹ 50 lakh or more	<u>1,00,000</u>	<u>1,62,000</u>
Tax payable		<u>2,34,14,892</u>
Tax payable (rounded off)		2,34,14,890

Question 24**[Total Income as per Normal Tax Regime]**

During the previous year 2024-25, following transactions took place in respect of Mr. Raghav who is 56 years old.

- (i) Mr. Raghav owns two house properties in Mumbai. The details in respect of these properties are as under -

	House 1 Self-occupied	House 2 Let-out
Rent received per month	Not applicable	₹ 60,000
Municipal taxes paid	₹ 7,500	Nil
Interest on loan (taken for purchase of property)	₹ 3,50,000	₹ 5,00,000
Principal repayment of loan (taken from HDFC bank)	₹ 2,00,000	₹ 3,00,000

- (ii) Mr. Raghav had a house in Delhi. During financial year 2014-15, he had transferred the house to Ms. Vamika, daughter of his sister without any consideration. House would go back to Mr. Raghav after the life time of Ms. Vamika. The transfer was made with a condition that 10% of rental income from such house shall be paid to Mrs. Raghav. Rent received by Ms. Vamika during the previous year 2024-25 from such house property is ₹ 5,50,000.

- (iii) Mr. Raghav receives following income from M/s M Pvt. Ltd. during P.Y. 2024-25:

- Interest on Debentures of ₹ 7,50,000; and
- Salary of ₹ 3,75,000. He does not possess the adequate professional qualification commensurate with the salary received by him.

Shareholding of M/s M Pvt. Ltd. as on 31.3.2025 is as under -

	Equity shares	Preference shares
Mr. Raghav	Nil	Nil
Mrs. Raghav	2%	25%
Mr. Jai Kishan (brother of Mrs. Raghav)	98%	75%

- (iv) Mr. and Mrs. Raghav forms a partnership firm with equal share in profits. Mr. Raghav transferred a fixed deposit of ₹ 1 crore to such firm. Firm had no income or expense other than the interest of ₹ 9,00,000 received from such fixed deposit. Firm

distributed the entire surplus to Mr. and Mrs. Raghav at the end of the year.

(v) Mr. Raghav holds preference shares in M/s K Pvt. Ltd. He instructed the company to pay dividends to Ms. Geetanshi, daughter of his servant. The transfer is irrevocable for the life time of Geetanshi. Dividend received by Ms. Geetanshi during the previous year 2024-25 is ₹ 3,00,000.

(vi) Other income of Mr. Raghav includes

- Interest from saving bank account of ₹ 2,00,000
- Cash gift of ₹ 75,000 received from daughter of his sister on his birthday.

Compute the total income of Mr. Raghav for the Assessment Year 2025-26. Assume assessee optout from default tax regime u/s 115BAC.

Answer 24

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

Particulars	Amount (₹)	Amount (₹)
Salary [Since Mrs. Raghav along with her brother holds shares carrying 100% voting power in M/s M Pvt. Ltd., they have a substantial interest in the company. Since Mr. Raghav is working in the same company without any professional qualifications commensurate with his salary, the salary of ₹ 3,75,000 received by him would be included in the hands of Mrs. Raghav.]		Nil
Income from house property		
<u>House 1 [Self-occupied]</u>		
Net annual value	-	
Less: Interest on loan [upto ₹2,00,000]	2,00,000	(2,00,000)
<u>House 2 [Let out]</u>		
Gross annual value ¹ [₹60,000 x 12]	7,20,000	
Less: Municipal taxes	-	
Net annual value	7,20,000	
Less: Deductions from Net Annual Value		
(a) 30% of Net Annual Value	2,16,000	
(b) Interest on loan	5,00,000	4,000
<u>House in Delhi</u> [Since Mr. Raghav receives direct or indirect benefit from income arising to his sister's daughter, Ms. Vamika, from the transfer of house to her without consideration, such income is to be included in the total income of Mr. Raghav as per proviso to section 62(1), even though the transfer may not be revocable during lifetime of Ms. Vamika's]		
Gross Annual Value ²	5,50,000	
Less: Municipal taxes	-	

¹ Rent receivable has been taken as the gross annual value in the absence of other information.

² Rent receivable has been taken as the gross annual value in the absence of other information.

Particulars	Amount (₹)	Amount (₹)
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
		1,89,000
Profits and gains from business or profession		
Share of profit from firm [Exempt u/s 10(2A)]	-	
Exempt income cannot be clubbed		
Income from other sources		
Dividend on preference shares	3,00,000	
[Taxable in the hands of Mr. Raghav as per section 60, since he transferred the income, i.e., dividend, without transferring the asset, i.e., preference shares]		
Interest on debentures	7,50,000	
Interest from saving bank account	2,00,000	
Cash gift [Taxable, since sum of money exceeding ₹ 50,000 is received from his niece, who is not a relative as per section 56(2)]	75,000	13,25,000
Gross Total Income		15,14,000
Less: Deduction under Chapter VI-A		
Deduction u/s 80C [Principal repayment of loan ₹ 5 lakh, restricted to ₹ 1,50,000]	1,50,000	
Deduction u/s 80TTA [Interest from savings bank account]	10,000	1,60,000
Total Income		13,54,000

Question 25**[Total Income & Tax liability as per Normal Tax Regime]**

Mr. Ashish, a resident individual, aged 43 years, provides professional services in the field of interior decoration. His Income & Expenditure A/c for the year ended 31st March, 2025 is as under:

Expenditure	₹	Income	₹
To Employees' Remuneration & Benefits	13,66,000	By Consultancy Charges	58,80,000
To Office & Administrative Exp.	3,14,000	By Interest on Public Provident Fund (PPF) Account	60,000
To General Expenses	75,000	By Interest on Savings Bank Account	20,000
To Electricity Expenses	65,000	By Interest on National Savings Certificates VIII Issue (for 3rd year)	21,000
To Medical Expenses	80,000		
To Purchase of Furniture	48,000		
To Depreciation	90,000		
To Excess of income over exp.	39,43,000		
	59,81,000		59,81,000

The following other information relates to financial year 2024 -25:

- (i) The expenses on Employees' Remuneration & Benefits includes:
 - (a) Family Planning expenditure of ₹ 20,000 incurred for the employees which was revenue in nature. The same was paid through account payee cheque.
 - (b) Payment of salary of ₹ 25,000 per month to sister-in-law of Mr. Ashish, who was in-charge of the Accounts & Receivables department. However, in comparison to similar work profile, the reasonable salary at market rates is ₹ 20,000 per month.
- (ii) Amount received by Mr. Ashish as Employees' Contribution to EPF for the month of February, 2025 - ₹ 10,000 was deposited after the due date under the relevant Act relating to EPF.
- (iii) Medical Expenses of ₹ 80,000 as appearing in the Income & Expenditure was expensed for the treatment of father of Mr. Ashish. His father was 72 years old and was not covered by any health insurance policy. The said payment of ₹ 80,000 was made through account payee cheque.
- (iv) General expenses as appearing in the Income & Expenditure A/c, includes a sum of ₹ 25,000 paid to Ms. Anjaleen on 5th January, 2025 as commission for securing work from new clients. This payment was made to her without deduction of tax at source.
- (v) Written down value of the depreciable assets as on 1st April, 2024 were as follows:

Professional Books	₹ 90,000
Computers	₹ 35,000
- (vi) The new Furniture as appearing in the Income & Expenditure A/c was purchased on 31st August, 2024 and was put to use on the same day. The payment was made as under:
 - ₹ 18,000 paid in cash at the time of purchase of new furniture on 31/08/24.
 - ₹ 19,000 paid by account payee cheque on 05/09/2024 as balance cost of new furniture and
 - ₹ 11,000 paid in cash on 31/08/24 to the transporter as freight charges for the new furniture.
- (vii) Mr. Ashish purchased a car on 02/04/2023 for ₹ 3,35,000 for personal use. However, on 30/04/2024 he brought the said car for use in his profession. The fair market value of the car as on 30/04/2024 was ₹ 2,50,000.
- (viii) Mr. Ashish made a contribution of ₹ 1,00,000 in his PPF A/c on 31/01/2025.
- (ix) The Gross Professional Receipts of Mr. Ashish for P.Y. 2023-24 was ₹ 52,00,000.

Compute the total income and tax liability of Mr. Ashish for A.Y. 2025-26, assuming that he has opted out from default taxation regime u/s 115BAC. (July 21 Exam)

Answer 25

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

	Particulars	₹	₹	₹
	<u>Income from business or profession</u>			
	Excess of income over expenditure		39,43,000	
	Add: Items debited but not allowable while computing business income			
	- Family planning expenditure incurred for employees [not allowable as deduction since expenditure on family planning for employees is allowed only to a company assessee/not allowed in case of individuals. Since the amount is	20,000		

Particulars	₹	₹	₹
debited to Income and Expenditure Account, the same has to be added back for computing business income]			
- Salary payment to sister-in-law in excess of market rate [Any expenditure incurred for which payment is made to a relative, to the extent it is considered unreasonable is disallowed. However, sister-in-law is not included in the definition of "relative" for the purpose of section 40A(2). Therefore, no adjustment is required for excess salary paid to Mr. Ashish's sister-in-law]	Nil		
- Employees' Contribution to EPF [Sum received by the assessee from his employees as contribution to EPF is income of the employer. Deduction in respect of such sum is allowed only if such amount is credited to the employee's account on or before due date under the relevant Act. Since, the employees contribution to EPF for February 2025 is deposited after the due date under the relevant Act, deduction would not be available]	10,000		
- Medical expenses for the treatment of father [Not allowed as deduction since it is a personal expenditure/not an expenditure incurred for the purpose of business of Mr. Ashish. Since the amount is debited to Income and Expenditure Account, the same has to be added back for computing business income]	80,000		
- Commission to Ms. Anjaleen without deduction of tax at source – [Mr. Ashish would be liable to deduct tax at source on commission since his gross receipts from profession exceeded ₹ 50 lakhs during F.Y.2023-24. Since commission has been paid without deduction of tax at source, hence 30% of ₹ 25,000, being commission paid without deducting tax at source, would be disallowed u/s 40(a)(ia) while computing the business income of A.Y.2025-26]	7,500		
- Depreciation as per books of account	90,000		
- Purchase of Furniture [not allowable, since it is a capital expenditure]	<u>48,000</u>		
		<u>2,55,500</u>	
		41,98,500	

	Particulars	₹	₹	₹
	Less: Depreciation as per Income-tax Rules			
	- On Professional Books [₹ 90,000 x 40%]	36,000		
	- On Computers [₹ 35,000 x 40%]	14,000		
	- On Furniture [₹19,000 x 10%, since it has been put to use for more than 180 days during the year] [Any expenditure for acquisition of any asset in respect of which payment or aggregate of payment made to a person, otherwise than by an a/c payee cheque/bank draft or use of ECS or through prescribed electronic mode, exceeds ₹10,000 in a day, such expenditure would not form part of actual cost of such asset. Hence, ₹ 18,000 and ₹ 11,000 paid on 31.8.2024 in cash would not be included in the actual cost of furniture]	1,900		
	- On Car [₹ 3,35,000 x 15%] [Actual cost of car would be the purchase price of the car to Mr. Ashish, i.e., ₹ 3,35,000]	<u>50,250</u>	<u>1,02,150</u>	
			40,96,350	
	Less: Items of income credited but not taxable or taxable under any other head of income			
	- Interest on Public Provident Fund [Exempt]	60,000		
	- Interest on savings bank account [Taxable under the head "Income from other sources"]	20,000		
	- Interest on National Savings Certificates VIII Issue (3rd Year) [Taxable under the head "Income from other sources"]	<u>21,000</u>	<u>1,01,000</u>	
				39,95,350
II	<u>Income from other sources</u>			
	Interest on savings bank account		20,000	
	Interest on National Savings Certificates VIII Issue (3rd Year)		<u>21,000</u>	
				<u>41,000</u>
	Gross Total Income			40,36,350
	Less: Deduction under Chapter VI-A			
	<u>Deduction u/s 80C</u>			
	Contribution to PPF	1,00,000		
	Interest on NSC (3rd Year) (Reinvested)	<u>21,000</u>	1,21,000	
	<u>Deduction u/s 80D</u>			
	Medical expenses for the treatment of father [Since Mr. Ashish's father is a senior citizen and not covered by any health insurance policy, payment for medical expenditure by a mode other than cash would be allowed as deduction to the extent of ₹ 50,000]		50,000	

Chapter 13: Income Tax Liability Computation and Optimisation

Particulars	₹	₹	₹
Deduction u/s 80TTA			
Interest on savings bank account to the extent of ₹ 10,000		10,000	1,81,000
Total income			<u>38,55,350</u>

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

Particulars	₹	₹
Tax on total income of ₹ 38,55,350		
Upto ₹ 2,50,000	Nil	
₹ 2,50,001 – ₹ 5,00,000[@5% of ₹ 2.50 lakh]	12,500	
₹ 5,00,001 – ₹ 10,00,000[@20% of ₹ 5 lakh]	1,00,000	
₹ 10,00,001- ₹ 38,55,350 [@30% of ₹ 28,55,350]	8,56,605	
		9,69,105
Add: Health and education cess@4%		38,764
Tax liability		<u>10,07,869</u>
Tax liability (rounded off)		10,07,870

Question 26

[Total Income & Tax liability as per Normal Tax Regime]

Mr. Shivansh, a resident and ordinarily resident aged 61 years, is engaged in the business of manufacturing of motor parts. He is subject to tax audit u/s 44AB of Income-tax Act, 1961. He has provided following information:

Profit & Loss account for the year ended 31st March, 2025

Particulars	(₹)	Particulars	(₹)
To Administrative expenses	4,30,000	By Gross Profit	58,30,000
To Salaries & wages	20,00,000	By Profit on sale of asset of scientific research	2,00,000
To Interest on loans	7,50,000	By Winning from lottery (Net of TDS @ 30%)	31,500
To Depreciation	6,17,000		
To Professional fees	2,70,000		
To Rent, rates & taxes	2,80,000		
To Travelling & conveyance	1,40,000		
To Net Profit	<u>15,74,500</u>		
Total	60,61,500	Total	60,61,500

Explanatory information:

- Opening and closing stock of finished goods were undervalued by 10%. Opening stock of ₹ 4,50,000 and Closing stock of ₹ 5,58,000 was shown.
- Salaries & wages include following items:
 - Contributed 20% of basic salary in National Pension Scheme referred in section 80CCD regarding salary paid to an employee Mr. Ganesh who has withdrawn basic salary of ₹ 3,00,000 and Dearness allowance is 40% of basic salary. 50% of Dearness allowance forms part of the salary.

- (b) Some of the employees opted for retirement under the voluntary retirement scheme; a sum of ₹ 2,40,000 was paid to them on 1st January, 2025.
- (iii) Interest on loan includes interest paid @ 15% per annum on loan of ₹ 12,00,000 which was taken from State Bank of India on 01.05.2022 for purchase of new electric car of ₹ 15,00,000. The car is used for personal purpose.
- (iv) Depreciation allowable as per Income-tax Rules, 1962 is ₹ 4,50,000 but during the calculation of such depreciation following addition was not considered:
Motor car purchased for ₹ 3,00,000 for supply of finished goods to dealers on 25-08-2024.
- (v) An asset was purchased for ₹ 6,00,000 on 17-11-23 for conducting scientific research and the deduction was claimed u/s 35 of the Income-tax Act, 1961. This asset was sold on 05-09-2024 for a consideration of ₹ 8,00,000.

Other information:

A plot of Industrial land which was used by Mr. Shivansh for business purpose for last 10 years was compulsorily acquired by Central Government on 07.05.2024. The compensation of ₹ 12,00,000 was received on 27.02.2025. Such property was purchased by him on 08.08.2005 for ₹ 2,00,000. He has purchased another plot of industrial land on 21.04.2025 for ₹ 6,00,000. Government has also paid ₹ 54,000 as interest on such compensation on 28.03.2025.

Cost Inflation Indices: FY 2024-25: 363, FY 2005-06: 117

Compute the total income and tax liability of Mr. Shivansh for the assessment year 2025-26 assuming that he has opted out from default tax regime u/s 115BAC. Ignore Provisions relating to AMT.

(DEC 21 Exam)

Answer 26

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

	Particulars	₹	₹	₹
I.	<u>Income from business or profession</u>			
	Net Profit		15,74,500	
	Add: Items debited but not allowable/item not credited but taxable while computing business income			
	- Employer's contribution to NPS in excess of 14% of salary - Employer's contribution to the extent of 14% of salary i.e., basic salary plus dearness allowance forming part of salary would be allowed as deduction. Thus, excess contribution i.e., ₹ 9,600 [₹ 60,000, being 20% of ₹ 3,00,000 less ₹ 50,400 being 14% of ₹ 3,60,000 (₹ 3,00,000 + 20% of ₹ 3,00,000)] has to be added back.	9,600		
	- VRS expenditure - 1/5th of expenditure on voluntary retirement scheme is allowable over a period of five years u/s 35DDA. Since whole amount of expenditure is debited to Profit and Loss A/c, 4/5th has to be added back [₹ 2,40,000 x 4/5].	1,92,000		
	- Interest on loan taken for purchase of electric car used for personal purpose not allowable as deduction while computing business income as being expense of personal nature. Thus, ₹ 1,65,000	1,65,000		

	Particulars	₹	₹	₹
	[₹ 12,00,000 x 15% x 11/12] has to be added back, since the same forms part of interest on loan debited to profit and loss account.			
	- Sale proceeds of asset acquired for conducting scientific research taxable as business income u/s 41(3) in the year of sale to the extent of lower of ₹ 6,00,000 (being the deduction allowed u/s 35) and ₹ 8,00,000 being the excess of sale proceeds and deduction allowed u/s 35 i.e., (₹ 8,00,000 + ₹ 6,00,000) over the capital expenditure incurred of ₹ 6,00,000	6,00,000		
	- Undervaluation of stock [(₹ 5,58,000 - ₹ 4,50,000) x 10/90] Note: Alternatively, undervaluation of closing stock i.e., ₹ 62,000 can be added back and under valuation of opening stock i.e., ₹ 50,000 can be reduced from net profits.	12,000		
	- Depreciation as per books of A/c	6,17,000		
			15,95,600	
			31,70,100	
	Less: Depreciation as per Income-tax Rules		4,50,000	
	Depreciation on Motor car purchased for supply of finished goods [₹ 3,00,000 x 15%]	45,000		
			4,95,000	
			26,75,100	
	Less: Items of income credited to profit and loss account but not taxable or taxable under any other head of income			
	- Profit on sale of asset of scientific research [Taxable under the head "Capital Gains"]	2,00,000		
	- Winning from lottery [Taxable under the head "Income from other sources"]	31,500	2,31,500	
				24,43,600
II. Capital Gain				
	Short-term capital gains			
	Sale of asset acquired for conducting scientific research			
	Sales consideration	8,00,000		
	Less: Cost of acquisition	6,00,000		
	Short-term capital gain		2,00,000	

	Particulars	₹	₹	₹
	<u>Long-term capital gains</u>			
	Compulsory acquisition of industrial plot by the Central Government taxable as per section 45(5)			
	Compensation received	12,00,000		
	Less: Indexed cost of acquisition [$\text{₹ } 2,00,000 \times 363/117$]	<u>6,20,513</u>		
	Long-term capital gain [since such plot is held for more than 24 months]	5,79,487		
	Less: Exemption u/s 54D			
	- Acquisition of industrial plot within 3 years	<u>5,79,487</u>		
			=	2,00,000
III.	<u>Income from other sources</u>			
	Winning from lottery [$\text{₹ } 31,500 \times 100/70$]		45,000	
	Interest on enhanced compensation	54,000		
	Less: 50% of enhanced compensation	<u>27,000</u>	<u>27,000</u>	<u>72,000</u>
	Gross Total Income			27,15,600
	Less: Deduction under Chapter VI-A			
	Deduction u/s 80EEB			
	Interest on loan taken for purchase of electric vehicle allowable as deduction to the extent of			<u>1,50,000</u>
	Total Income			<u>25,65,600</u>

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

Particulars	₹	₹
Tax on long-term capital gains @20% of ₹ 0		0
Tax on winning from lottery @30% of ₹ 45,000		13,500
Tax on total income (excluding winning from lottery) of ₹ 25,20,600		
Upto ₹ 3,00,000 [since Mr. Shivansh, a senior citizen, he is eligible for higher exemption limit]	Nil	
₹ 3,00,001 – ₹ 5,00,000[@5% of ₹ 2.00 lakh]	10,000	
₹ 5,00,001 – ₹10,00,000[@20% of ₹ 5 lakh]	1,00,000	
₹ 10,00,001- ₹ 25,20,600 [@30% of ₹ 15,20,600]	<u>4,56,180</u>	
		<u>5,66,180</u>
		5,79,680
Add: Health and education cess@4%		<u>23,187</u>
Tax liability		<u>6,02,867</u>
Tax liability (rounded off)		6,02,870

Question 27

[Total Income as per Normal Tax Regime]

Mr. Rajesh is a working partner in M/s Sunflower Associates, a partnership firm. Mr. Rajesh has contributed ₹ 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 31.3.2025 were ₹ 120 lakhs, ₹ 45 lakhs and ₹ 7.5 lakhs respectively. Out of the export turnover of ₹ 45 lakhs, only ₹ 40 lakhs has been received in convertible foreign exchange by 30.9.2025.

During the P.Y. 2024-25, 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 ₹ 7,50,000. The following items are debited to Profit & Loss Account:

- (i) Personal drawings ₹ 70,000
- (ii) Advance income-tax paid ₹ 1,00,000
- (iii) Purchase of warehouse building of ₹ 10 lakhs on 10.6.2024 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 ₹ 15,000
- (ii) Interest on fixed deposit with SBI ₹ 20,000
- (iii) Dividend from Indian companies (Gross) ₹ 32,000

He has paid the premium of ₹ 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 ₹ 5,00,000.

Compute the total income and tax payable by Mr. Rajesh for the A.Y. 2025-26 under default tax regime and normal provisions of the Act.

Answer 27

Computation of total income of Mr. Rajesh for the A.Y. 2025-26 under default tax regime u/s 115BAC

	Particulars	Amount (in ₹)	
I	Profits and gains of business and profession		
	Income from firm M/s Sunflower Associates		
	Interest on capital @ 13% p.a. on ₹ 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 (₹ 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		

	Particulars	Amount (in ₹)	
	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 [₹ 10,00,000 x 10%]	<u>1,00,000</u>	17,53,000
II	Income from Other Sources		
	Interest on savings bank 15,000		
	A/c with post office		
	Less: Exempt u/s 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 u/s 80C, 80TTA and 10AA would be allowable]		

Computation of tax payable under default tax regime for A.Y. 2025-26

	₹	₹
Tax on total income of ₹ 29,86,500		
On first ₹ 3,00,000	Nil	
₹ 3,00,001 – ₹ 7,00,000 [@5% of ₹ 4 lakhs]	20,000	
₹ 7,00,001 – ₹ 10,00,000 [@10% of ₹ 3 lakhs]	30,000	
₹ 9,00,001 – ₹ 12,00,000 [@15% of ₹ 2 lakhs]	30,000	
₹ 12,00,001 – ₹ 15,00,000 [@20% of ₹ 3 lakhs]	60,000	
₹ 15,00,001 – ₹ 29,86,500 [@30% of ₹ 14,86,500]	<u>4,45,950</u>	
		5,85,950
Add: Health and Education cess @4%		<u>23,438</u>
		6,09,388
Less: Advance income-tax paid		<u>1,00,000</u>
Tax payable		<u>5,09,388</u>
Tax Payable (Rounded off)		5,09,788

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

Particulars	Amount (in ₹)	
Gross Total Income as per section 115BAC	29,86,500	
Less: Deduction u/s 10AA	<u>1,25,000</u>	28,61,500
[₹ 7,50,000 x 40,00,000/ ₹ 1,20,00,000 x 50%, being eighth year of operation]		
Less: Deduction under Chapter VI-A		
<u>Deduction u/s 80C</u>		
Life insurance premium [maximum 10% of sum assured]	50,000	
<u>Deduction u/s 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. 2025-26
under the regular provisions of the Act**

Particulars	₹	₹
Tax on total income of ₹ 28,01,500		
Upto ₹ 2,50,000	Nil	
₹ 2,50,001 – ₹ 5,00,000 [@5% of ₹ 2.50 lakhs]	12,500	
₹ 5,00,001 – ₹ 10,00,000 [@20% of ₹ 5 lakhs]	1,00,000	
₹ 10,00,001 – ₹ 28,01,500 [@30% of ₹ 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	₹	₹
Total Income (computed above as per regular provisions of income tax)		28,01,500
Add: Deduction u/s 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)		<u>4,63,060</u>

Since alternate minimum tax payable is less than the regular income-tax payable, tax payable under normal provisions of the Act is ₹ 5,79,070.

Question 28 [Total Income & Tax liability as per Normal Tax Regime and default tax regime]

Mr. Sunil, aged 48 years, a resident Indian has furnished the following particulars for the year ended 31.03.2025:

- (i) He occupies ground floor of his residential building and has let out first floor for residential use at an annual rent of ₹ 2,95,000. He has paid municipal taxes of ₹ 25,000 for the current financial year. Both these floors are of equal size.
- (ii) As per interest certificate from HDFC bank, he paid ₹ 1,50,000 as interest and ₹ 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 2020-21. Total turnover of the undertaking was ₹ 400 lakhs, which includes ₹ 150 lakhs from export turnover. Out of ₹ 150 lakhs, only ₹ 120 lakhs have been received in India in convertible foreign exchange on or before 30.9.2025. This industrial undertaking fulfills all the conditions of section 10AA of the Income-tax Act, 1961. Profit from this industry is ₹ 40 lakhs.
- (iv) He employed 20 new employees for the said industrial undertaking during the previous year 2024-25. Out of 20 employees, 12 were employed on 1st May 2024 for monthly emoluments of ₹ 18,000 and remaining were employed on 1st September 2024 on monthly emoluments of ₹ 12,000. All these employees participate in recognised provident fund and they are paid their emoluments directly to their bank accounts.
- (v) He earned ₹ 30,000 and ₹ 40,000 as interest on saving bank deposits and fixed deposits, respectively.
- (vi) He also sold his vacant land on 01.07.2024 for ₹ 15 lakhs. The stamp duty value of land at the time of transfer was ₹ 16 lakhs. This land was acquired by him on 15.10.1998 for ₹ 2.80 lakhs. The FMV of the land as on 1st April, 2001 was ₹ 4.8 lakhs and Stamp duty value on the said date was ₹ 4 lakhs. He had incurred registration expenses of ₹ 12,000 at that time.
The cost of inflation index for the financial year 2024-25 and 2001-02 are 363 and 100, respectively.
- (vii) He paid insurance premium of ₹ 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 2025-26, in the manner so that he can make maximum tax savings.

Answer 28

**Computation of total income of Mr. Sunil for A.Y. 2025-26
under default tax regime u/s 115BAC**

	Particulars	₹	₹	₹
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. 2024-25 pertaining to let out portion [₹ 25,000/2]		<u>12,500</u>	
	Net Annual Value (NAV)		2,82,500	

	Particulars	₹	₹	₹
	<i>Less: Deduction u/s 24</i>			
	(a) 30% of ₹ 2,82,500	84,750		
	(b) Interest on housing loan [₹ 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]		<u>Nil</u>	
	<i>Less: Interest on housing loan [Not allowable u/s 115BAC]</i>		Nil	1,22,750
II	Income from house property			
	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 ₹ 15 lakhs, since stamp duty value of ₹ 16 lakhs does not exceed actual consideration by more than 10%]		15,00,000	
	<i>Less: Indexed Cost of acquisition [₹ 4,00,000 x 363/100]</i>		<u>14,52,000</u>	48,000
	Cost of acquisition			
	Higher of -			
	- Actual cost ₹ 2.80 lakhs + ₹ 0.12 lakhs = ₹ 2.92 lakhs and			
	- Fair Market Value (FMV) as on 1.4.2001 = ₹ 4.8 lakhs but cannot exceed stamp duty value of ₹ 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			42,40,750
	<i>Less: Deduction under Chapter VI-A</i>			
	Deduction u/s 80JJAA			7,12,800
	30% of the employee cost of the new employees employed during the P.Y. 2024-25 for 240 days or more during the P.Y. 2024-25 allowable as deduction [30% of ₹ 23,76,000]			

Chapter 13: Income Tax Liability Computation and Optimisation

Particulars	₹	₹	₹
(12 x 18,000 x 11)] As per section 115BAC, no deduction u/s 10AA or under Chapter VI-A is allowable except u/s 80JJAA			
Total Income			35,27,950

Computation of tax liability of Mr. Sunil u/s 115BAC

Particulars	₹	₹
Tax on total income of ₹ 35,27,950		
Tax on LTCG of ₹ 48,000@20%		9,600
Tax on remaining total income of ₹ 34,79,950		
Upto ₹ 3,00,000	Nil	
₹ 3,00,001 – ₹ 7,00,000 [@5% of ₹ 4 lakhs]	20,000	
₹ 7,00,001 – ₹ 10,00,000 [@10% of ₹ 3 lakhs]	30,000	
₹ 10,00,001 – ₹ 12,00,000 [@15% of ₹ 2 lakhs]	30,000	
₹ 12,00,001 – ₹ 15,00,000 [@20% of ₹ 3 lakhs]	60,000	
₹ 15,00,001 – ₹ 34,79,950 [@30% of ₹ 19,79,950]	<u>5,93,985</u>	<u>7,33,985</u>
		7,43,585
Add: Health and education cess@4%		<u>29,743</u>
Total tax liability		<u>7,73,328</u>
Tax liability (rounded off)		7,73,330

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. 2025-26 under normal provisions of the Act

Particulars	₹	₹
Gross Total Income as per default tax regime u/s 115BAC		42,40,750
Less: Interest on borrowing in respect of self- occupied house property [₹ 1,50,000/2]		<u>75,000</u>
Gross Total Income as per section 115BAC		41,65,750
Less: Deduction u/s 10AA		12,00,000
[Since the industrial undertaking is established in SEZ, it is entitled to deduction u/s 10AA@100% of export profits, since P.Y.2024-25 being the 5th year of operations]		
[Profits of the SEZ x Export Turnover received in convertible foreign exchange/Total Turnover] x 100% [₹ 40 lakhs x ₹ 120 lakhs/ ₹ 400 lakhs x 100%]		
Less: Deduction under Chapter VI-A		
Deduction u/s 80C		
Repayment of principal amount of housing loan	80,000	

Particulars	₹	₹
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 u/s 80JJAA [As computed above]		7,12,800
Deduction u/s 80TTA		10,000
Interest on savings bank account, restricted to ₹ 10,000		
Total Income as per regular provisions of the Act		21,22,950

**Computation of tax liability of Mr. Sunil for A.Y. 2024-25
under the regular provisions of the Act**

Particulars	₹	₹
Tax on total income of ₹ 21,22,950		
Tax on LTCG of ₹ 48,000@20%		9,600
Tax on remaining total income of ₹ 20,74,950		
Upto ₹ 2,50,000	Nil	
₹ 2,50,001 – ₹ 5,00,000[@5% of ₹ 2.50 lakhs]	12,500	
₹ 5,00,001 – ₹ 10,00,000[@20% of ₹ 5 lakhs]	1,00,000	
₹ 10,00,001 – ₹ 20,74,950[@30% of ₹ 10,74,950]	<u>3,22,485</u>	<u>4,34,985</u>
		4,44,585
<i>Add: Health and education cess@4%</i>		<u>17,783</u>
Total tax liability		<u>4,62,368</u>
Tax liability (rounded off)		4,62,370

Computation of adjusted total income and AMT of Mr. Sunil for A.Y. 2025-26

Particulars	₹
Computation of adjusted total income	
Total income as per the normal provisions of the Act	21,22,950
Add: Deduction u/s 10AA	12,00,000
Deduction u/s 80JJAA	<u>7,12,800</u>
Adjusted Total Income	<u>40,35,750</u>
Alternative Minimum Tax@18.5%	7,46,614
<i>Add: Health and education cess@4%</i>	<u>29,865</u>
AMT liability	<u>7,76,478</u>
AMT liability (rounded off)	7,76,480

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 ₹ 7,76,480.

Since, tax liability as per section 115BAC is lower than the tax liability of as per AMT, it is beneficial for Mr. Sunil to exercise the option of the default tax regime u/s 115BAC.

Question 29 [Master Question - Total Income & Tax liability as per default tax regime & Normal Tax Regime]

Statement of Profit and Loss account of Mr. BB, resident individual, age 34 years, engaged in production and marketing of diversified products, shows a net profit (before tax) of ₹72,00,000 for the financial year ended 31st March, 2025 after charge of the following items:

A: Items debited to the Statement of Profit and Loss:

- (i) Depreciation as per Books of accounts: ₹24,00,000
- (ii) Interest amounting to ₹60,000 for short payment of advance tax paid as per section 234B relating to the assessment year 2023-24.
- (iii) Expenditure of ₹41,000 paid in cash comprising of ₹22,000 directly paid to producer of dairy farming products and ₹19,000 paid towards printing and stationery items to a trader.
- (iv) ₹3,50,000 paid to a contractor for carrying out repair work at factory premises. Tax was not deducted at source on this payment.
- (v) Contribution to AAM Aadmi Party: ₹3,00,000 paid by way of cheque.
- (vi) Expenditure towards advertising charges in a brochure of a political party registered u/s 29A of Representation of People Act, 1951: ₹40,000 paid by way of cheque.
- (vii) Interest on term loans obtained from Cooperative Bank is ₹ 2,60,000. Interest ₹ 1,60,000 not paid before the due date of filing of return of income (due date being 30.10.2025) & on 12.12.24 Co. op bank converted outstanding interest of 1,00,000 into loan and assessee deducted the said interest while computing profits and gains of business of A.Y.2025-26.
- (viii) Actual contribution to the pension scheme of employees: ₹1,50,000
- (ix) The assessee has made provision for Gratuity based on actuarial valuation of ₹ 5 lacs. Actual gratuity paid amounting to ₹ 1,20,000 during financial year 2024-25 was debited to provision of Gratuity Account.
- (x) Employer's contribution to EPF of ₹2 lakhs for the month of March, 2025 were remitted on 8th June 2025.
- (xi) Advertisement expenditure debited to profit and loss account includes the sum of ₹60,000 paid in cash to the sister of assessee, the market value of which is ₹52,000.
- (xii) The opening and closing stock for the year were ₹ 55 lakhs and ₹ 54 lakhs respectively. Opening stock was overvalued by 10% and Closing stock was undervalued by 10%.
- (xiii) ₹ 45,000 paid in cash to Mr. Raj employee of the company at the time of his retirement.
- (xiv) Contribution of ₹ 2,50,000 to a scientific laboratory functioning at the national level with a specific direction for use of the amount for scientific research programme approved by the prescribed authority.
- (xv) An amount of ₹ 5 lakhs was paid to the manager of the company under Voluntary Retirement Scheme.
- (xvi) Raw material of ₹ 5,00,000 purchased on 17th March, 2025 from Mr. Kuku (a small enterprise as per MSME Act), payment made to Kuku on 15th April, 2025. There is no written agreement between parties related to payments.

B: Items credited to the Statement of Profit and Loss:

- (i) Unrealised rent of ₹3,80,000 pertaining to financial year 2020-21 & 2021-22 recovered during the year in respect of a commercial property owned by the assessee, which was sold by the assessee on 23.03.2024.
- (ii) Dividends from a foreign company ₹1,60,000.
- (iii) Interest from banks on fixed deposits net of TDS at 10%: ₹1,35,000

- (iv) The assessee had made a sale of for ₹ 20 Lakhs to M/s A. Co Engineers a sole proprietary concern, on 10-10-2023. On 01-02-2024 ₹ 10 lakhs were written off in the books as bad debts. Due to the demise of the sole proprietor, the assessee could collect only ₹ 7 Lakhs towards the final settlement on 01-03-2025. The amount recovered was shown as Bad debts recovered and credited to Statement of Profit and Loss.
- (v) Trade creditors ₹5,00,000 were outstanding for more than 5 years and there is no business relationship with them. The amount was unilaterally transferred to credit of statement of profit and loss.

Additional Information:

- (1) Depreciation as per Income-tax Rules: ₹28,00,000
- (2) Expenditure pertaining to previous financial year allowed on due basis, but paid in current financial year in cash on 18.01.2025: ₹35,000
- (3) Audit fee for the previous year 2023-24: ₹75,000. TDS deducted but not paid in the relevant previous year. However, TDS was paid on 31.12.2024.
- (4) The eligible salary and dearness allowance for the pension scheme referred to u/s 80CCD is ₹10,00,000.
- (5) The assessee has obtained a loan of ₹ 5 lakhs from Manu Textiles Private Limited in which he holds 16% voting rights. The accumulated profits of Manu Textiles Private Limited on the date of receipt of loan was ₹ 2 lacs.
- (6) Grant received from State Government for acquisition of generator ₹10 lakhs. The generator was acquired and put to use for printing business on 01.06.2024 for ₹35 lakhs. A sum of ₹5 lakhs was paid as advance by cash to the supplier of generator.

Further following expenses related to acquisition of asset –

- (a) Transportation charges paid of transporter ₹ 25,000 in cash
- (b) Installation charges paid to Mr. Ali ₹ 35,000 through BHIM UPI

This adjustment is not recorded in books of account.

- (7) An asset was purchased for ₹ 6,00,000 on 17-11-23 for conducting scientific research and the deduction was claimed u/s 35 of the Income-tax Act, 1961. This asset was sold on 05-09-2024 for a consideration of ₹ 8,00,000.
- (8) Employees contribution to EPF of ₹ 2 lakhs recovered from their salaries for the month of March 2025 and shown in the Balance Sheet under the head Sundry Creditors was remitted on 31st May, 2025.
- (9) During the year F.Y. 2024-25, the assessee has employed 56 additional employees for leather manufacturing business. All these employees contribute to a recognized provident fund. 39 out of 56 employees joined on 1-6-2024 on a salary of ₹ 15,000 per month, 14 joined on 1-7-2024 on a salary of ₹ 45,700 per month, and 3 joined on 1-11-2024 on a salary of ₹ 22,000 per month. The salaries of 9 employees who joined on 1-6-2024 are being settled by bearer cheques every month. Audit u/s 44AB has been done before the due date.
- (10) Turnover of Mr. BB for PY 23-24 was 3 crores.

Compute the total income & tax liability of Mr. BB for assessment year 2025-26 under default tax regime and optional tax regime and also advice the assessee that which option is more beneficial. Give brief reasons for the treatment given to each of the items taken into consideration in computation of income of the assessee. [Ignore the provisions of AMT]

Answer 29

**Computation of Total Income & Tax liability Mr. BB for the
A.Y. 2025-26 as per default taxation regime u/s 115BAC**

	Particulars	Amount (₹)		
I	Income from house property			
	Unrealised rent [Taxable u/s 25A, even if Mr. BB is no longer the owner of commercial property]		3,80,000	
	Less: 30% of above		<u>1,14,000</u>	2,66,000
II	Profits and gains of business and profession			
	Net profit as per the statement of profit and loss		72,00,000	
	Add: Items debited but to be considered separately or to be disallowed			
	(i) Depreciation as per Books	24,00,000		
	(ii) Interest u/s 234B for short payment of advance tax [Any interest payable for default committed by assessee for discharging his statutory obligations under Income-tax Act, 1961 which is calculated with reference to the tax on income is not allowable as deduction u/s 40(a)(ii). Since the same has been debited to statement of profit and loss, it has to be added back]	60,000		
	(iii) Cash payment in excess of ₹10,000 [Disallowance u/s 40A(3) is attracted in respect of expenditure, for which payment exceeding ₹10,000 in a day has been made in cash. Since expenditure of ₹19,000 towards printing and stationery items is debited to the statement of profit and loss, the same has to be added back. However, payment of ₹22,000 to producer for dairy farming products is not disallowed since it is covered under the exceptions specified in Rule 6DD]	19,000		
	(iv) Repair work paid to contractor without deduction of tax at source [Disallowance of 30% of the amount of ₹3,50,000 paid for carrying out repair work to a contractor without deduction of tax at source would be attracted u/s 40(a)(ia)]	1,05,000		
	(v) Contribution to political party [Contribution to political party is not allowable as deduction while computing business profits. Since the contribution has been debited to statement of profit and loss, the same has to be added back while computing business income]	3,00,000		

	Particulars		Amount (₹)	
	<p>(vi) Advertisement in brochure of a political party [Advertisement charges paid in respect of brochure published by a political party is not allowable as deduction from business profits as per section 37. Since the expenditure has been debited to statement of profit and loss, the same has to be added back while computing business income]</p>	40,000		
	<p>(vii) Interest to co-operative bank not paid before 31.10.2025 & Interest converted into loan [Disallowance u/s 43B would be attracted for A.Y.2025-26, since the interest was not paid on or before the due date of filing of return] [1,60,000 + 1,00,000] Section 43B clarifies that if any sum payable by the assessee as interest on any such loan is converted into a loan or borrowing or advance, the interest so converted and not actually paid shall not be deemed as actual payment, and hence, would not be allowed as deduction.</p>	2,60,000		
	<p>(viii) Contribution towards pension scheme of employees [Contribution towards pension scheme, referred to in section 80CCD, of employees is allowed only to the extent of 14% of salary of the employee in the P.Y. i.e., ₹1,40,000 being 14% of ₹10,00,000. Therefore, the excess contribution of ₹10,000 [i.e., ₹1,50,000 – ₹1,40,000] is disallowed u/s 36(1)(iva).</p>	10,000		
	<p>(ix) Provision for gratuity [Provision of ₹ 5 lakhs for gratuity based on the actuarial valuation is not allowed as deduction as per section 40A(7). However, actual gratuity of ₹ 1,20,000 paid is allowable as deduction. Hence, the difference has to be added back to income (₹ 5,00,000 – ₹ 1,20,000)]</p>	3,80,000		
	<p>(x) Employers' contribution to EPF [As per section 43B, employers' contribution to EPF is allowable as deduction since the same has been deposited on or before the 'due date' of filing of return u/s 139(1). Since the same has been debited to profit and loss account, no further adjustment is necessary]</p>	-		
	<p>(xi) Advertisement expenses paid to sister [As per section 40A(2) any payment made to relative shall be disallowed to the extent unreasonable]</p>	8,000		

	Particulars	Amount (₹)		
(xii)	Stock Adjustment Overvaluation of opening stock [₹ 55,00,000 x 10/110] Undervaluation of closing stock [₹ 54,00,000 x 10/90]	11,00,000		
(xiii)	Payment to Mr. Raj, an employee, on his retirement [Section 40A(3) provides for disallowance@100% of the expenditure incurred exceeding ₹ 10,000 otherwise than by an account payee cheque drawn on a bank or an account payee bank draft or use of electronic clearing system through a bank account or through such other electronic mode as may be prescribed. However, no disallowance u/s 40A(3) is to be made as the amount paid to Mr. Raj is on his retirement since such sum payable does not exceed ₹ 50,000. This exception is provided in Rule 6DD]	Nil		
(xiv)	Contribution to National Laboratory [As per section 35(2AA) donation to National Laboratory eligible for 100% deduction but when assessee opted section 115BAC then this deduction not allowed]	2,50,000		
(xv)	Voluntary Retirement Scheme expenditure [Only 1/5th of expenditure on voluntary retirement scheme is allowable over a period of five years u/s 35DDA. Since whole amount of expenditure is debited to statement of profit and loss, 4/5th has to be added back [₹ 5,00,000 x 4/5]	4,00,000		
(xvi)	Salary paid to employees through bearer cheques [Salary paid through bearer cheques (9 employees x ₹ 15,000 x 10 months) will attract disallowance u/s 40A(3) and hence, the same has to be added back]	13,50,000		
(xvii)	Payment made to Mr. Kuku [Disallowance u/s 43B(h) would be attracted for A.Y.2025-26, since the amount was not paid to small enterprise within time limit of section 15 of MSMED Act, 2006] [As per section 15 of MSMED Act, 2006 Where any person purchases goods/services, from a micro/small enterprise, the payment shall be made before the date agreed upon between him and supplier in writing. In no case the period agreed upon between the supplier and the buyer in writing shall more than 45 days. If, however, there is no	5,00,000		

Particulars		Amount (₹)		
	such agreement, the payment shall be made within 15 days of acceptance or deemed acceptance of goods/services. Since payment made after 15 days so amount disallowed in PY 24-25]		71,82,000	
			1,43,82,000	
	Add: Amount taxable but not credited to statement of profit and loss			
	Expenditure pertaining to previous financial year		35,000	
	[Cash payment in excess of ₹10,000 made in the current year in respect of expenditure allowed on mercantile basis in the previous year, would be deemed as income in the current year as per section 40A(3A).]			
	Employees' contribution to EPF [Since employees' contribution to EPF has not been deposited on or before the due date under the PF Act, the same has to be added for computing business income]		2,00,000	
	Sale of Scientific Research Asset [Sale proceeds of asset acquired for conducting scientific research taxable as business income u/s 41(3) in the year of sale to the extent of lower of ₹ 6,00,000 (being the deduction allowed u/s 35) and ₹ 8,00,000 being the excess of sale proceeds and deduction allowed u/s 35 i.e., (₹ 8,00,000 + ₹ 6,00,000) over the capital expenditure incurred of ₹ 6,00,000]		6,00,000	
			1,52,17,000	
	Less: Items credited to statement of profit and loss, but not includible in business income/ permissible expenditure and allowances			
	(i) Unrealised rent [Unrealised rent in respect of commercial property is taxable under the head "Income for house property". Since the said rent has been credited to the statement of profit and loss, the same has to be deducted while computing business income]	3,80,000		
	(ii) Dividend received from foreign company [Dividend received from foreign company is taxable under the head "Income from other sources". Since the said dividend has been credited to the statement of profit and loss, the same has to be deducted while computing business income]	1,60,000		
	(iii) Interest from bank fixed deposit [Interest on fixed deposit is taxable under "Income from Other Sources". Since the said interest has been credited to the statement of profit and loss, the same has to be deducted while computing business income]	1,35,000		

Particulars	Amount (₹)		
(iv) Audit fees of P.Y. 2023-24 [30% of ₹75,000, being the audit fees disallowed in the P.Y. for non-remittance of TDS on or before due date of filing for P.Y. 2023-24 would be allowed in the year of payment of TDS i.e., P.Y. 2024-25]	22,500		
(v) Bad debt recovered [Since the deduction of bad debt allowed u/s 36 was ₹ 10 lakhs out of the total debt of ₹ 20 lakhs; and the amount recovered in respect of such debt is only ₹ 7 lakhs which is not more than the amount of ₹ 10 lakhs not written off, no amount is chargeable to tax as business income. Since the amount of ₹ 7 lakhs recovered has been credited to the statement of profit and loss, it has to be reduced while computing business income.	7,00,000		
(vi) Bad debts [The assessee had written off ₹ 10 lakh earlier, and out of the balance ₹ 10 lakhs, only ₹ 7 lakhs could be collected towards final settlement. Therefore, the balance ₹ 3 lakhs will be allowable as deduction, provided it is written off in the books of account]	3,00,000		
(vii) Cessation of a trading liability [Remission or cessation of a trading liability, allowed as deduction in an earlier previous year, would be deemed as income in the year of remission or cessation, as per section 41(1)(a). Since the amount of ₹5 lakhs has already been credited to statement of profit and loss, no further adjustment is required]	-	16,97,500	
		1,35,19,500	
Less: Depreciation u/s 32 as per Income tax Rules	28,00,000		
Depreciation on Generator Normal Depreciation [₹ 20,35,000 x 15%] Additional Depreciation [Not allowed in default tax regime] [As per explanation to section 43(1), any amount paid in single day to single person more than ₹ 10,000 otherwise by account payee cheque or DD or ECS then it should not be part of actual cost, so advance paid to supplier and transportation charges not part of actual cost. As per explanation 10 of sec 43(1), Govt. grant related to acquisition of asset shall be reduced while calculation actual cost] Imp. BB's Note – limit of cash payment ₹ 35,000 to transporter is only for the purpose of revenue expenses u/s 40A(3) and not for capital expenditure.	3,05,250 -	31,05,250	

	Particulars	Amount (₹)		
	Profits and gains from business or profession			1,04,14,250
III	Capital Gain			
	Sale of asset acquired for conducting scientific research			
	Full Value of Consideration	8,00,000		
	Less: cost of acquisition	<u>6,00,000</u>		
	Short Term Capital Gain			2,00,000
IV	Income from Other Sources			
	Dividend from foreign company		1,60,000	
	[No deduction is allowable in respect of expenditure incurred on earning dividends except Interest]			
	Deemed dividend u/s 2(22)(e)		2,00,000	
	[Loan of ₹ 5 lakhs by Manu Textiles Pvt. Ltd., a company in which the public are not substantially interested, to assessee, who is holding 16% i.e., 10% or more of the voting power of the company would be deemed to be dividend to the extent of ₹ 2 lakhs being the accumulated profits]			
	Interest from banks on fixed deposits (Gross)			
	[Interest on banks on fixed deposits is taxable as "Income from other sources"] [₹1,35,000 x 100/90]		1,50,000	5,10,000
	Gross Total Income			1,13,90,250
	Less: Deduction under Chapter VI-A			
	Deduction u/s 80JJAA [See working note below the question]			14,49,000
	[It is allowed even assessee follow default tax regime u/s 115BAC]			
	Total income			99,41,250
	Computation of Tax Liability			
	Upto ₹ 3,00,000			
	₹ 3,00,001 - ₹ 7,00,000 @5%	20,000		
	₹ 7,00,001 - ₹ 10,00,000 @10%	30,000		
	₹ 10,00,001 - ₹ 12,00,000 @ 15%	30,000		
	₹ 12,00,001 - ₹ 15,00,000 @ 20%	60,000		
	₹ 15,00,001 - ₹ 99,41,250 @ 30%	25,32,375	26,72,375	
	Add: Surcharge @10%		2,67,238	
			29,39,613	
	Add: Health & Education cess @ 4%		1,17,585	
	Net Tax liability		30,57,197	
	Net Tax liability (rounded off)		30,57,200	

Working Note - Computation of deduction u/s 80JJAA

No of eligible additional employees [56 (-) 14 = 42]	33
[14 employees who joined on 1.7.2024 do not qualify as "additional employees" since their monthly emoluments exceed ₹ 25,000. However, 3 employees who joined on 1.11.2024 qualify as additional employees, since they have been employed for more than 150 days during the P.Y.2024-25.]	
Additional employee cost means the total emoluments paid or payable to additional employees employed during the P.Y.2024-25. However, the additional employee cost in respect of 9 employees who joined on 1.6.2024, whose salary is paid by bearer cheques would be Nil.	
Additional employee cost [₹ 15,000 x 30 employees (39 - 9) x 10 months] + [₹ 22,000 x 3 employees x 5 months] = ₹ 45,00,000 + ₹ 3,30,000	₹ 48,30,000
Eligible deduction = 30% of ₹ 48,30,000	₹ 14,49,000

Computation of Total Income & Tax liability Mr. BB for the A.Y. 2025-26 as per Normal Provisions

	Particulars	Amount (₹)
	Total Income as per 115BAC	99,41,250
Less:	Donation to National Laboratory	2,50,000
	Additional Depreciation on Generator [₹ 20,35,000 x 20%]	4,07,000
Less:	Deduction u/s 80GGC [Contribution to political party is allowable as deduction, since payment is made otherwise than by cash] Expenditure incurred on advertisement in brochure published by political party not treated as contribution to such political party for assessee other than company]	3,00,000
	Total Income as per Normal Provision	89,84,250
	Computation of Tax Liability	
	Upto ₹ 2,50,000	-
	₹ 2,50,001 - ₹ 5,00,000 @5%	12,500
	₹ 5,00,001 - ₹ 10,00,000 @20%	1,00,000
	₹ 10,00,001 - ₹ 89,84,250 @ 30%	23,95,275
		25,07,775
	Add: Surcharge @10%	2,50,778
		27,58,553
	Add: Health & Education Cess	1,10,342
	Net Tax Liability	28,68,895
	Net Tax liability (rounded off)	28,68,900

Conclusion: Tax as per normal provision is lower as compare to tax as per 115BAC, so assessee should opt out from default tax regime u/s 115BAC and follow normal provisions.

Notes

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Published by: **BB PUBLICATION**
D-1, Akurli Siddhi CHS, Society No.13,
Mahada Rd No.2, Lokhandwala Township
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