

## PAPER 3

# Taxation Reviewer

Chapter-wise compilation  
RTP, MTP and PYP questions

## KEY HIGHLIGHTS



Easy to Hard  
Difficulty Level



Importance levels  
marked as A, B or C



Reference to  
all questions



Quick recap of  
important concepts



Exam  
Insights



Last Day Revision  
Questions Marked

APPLICABLE  
FOR MAY'25,  
SEPT'25 AND  
JAN'26

# **TAXATION REVIEWER**

**CA Intermediate  
May 2025,  
September 2025 & January 2026**

**Publisher:**



**VIVITSU**  
STRIVING TOWARDS KNOWLEDGE

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# Taxation Reviewer

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*This book belongs to future,*

## CA Finalist

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***“You become what you believe.”***

***-Oprah Winfrey***



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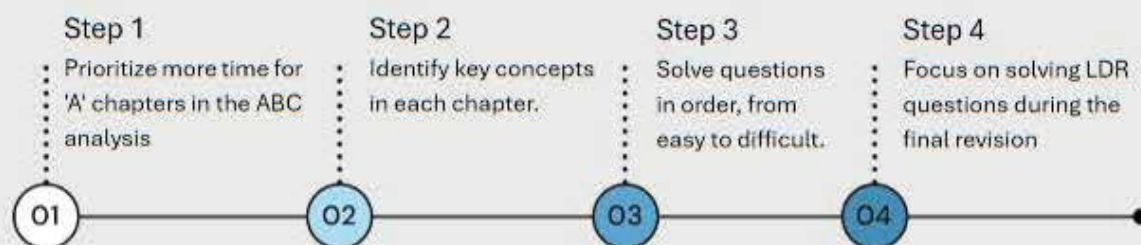


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## How to Read this book?



### Step 1: Prioritize your chapters

Chapters in the index are categorized as A, B, or C based on their importance. Focus more on 'A' chapters, as they carry the most weight, and give adequate attention to 'B' chapters. While all chapters must be covered, this approach helps manage time efficiently for better results.



### Step 2: Identify key concept

Identify the key concepts for each chapter using the list provided at the start of the chapter. Ensure you understand them thoroughly. If you struggle with a question, revisit the concepts, review them, and strengthen your understanding before moving forward.



### Step 3: Start easy

Start with Question 1, as they progress from easy to difficult, helping you build confidence throughout the chapter. Pay close attention to the "EXAM INSIGHTS" to avoid common mistakes. Questions are segregated topic wise where possible.



### Step 4: Last Day Revision (LDR)

Focus on solving LDR questions during the final revision. In the 1.5 days before the exam, prioritize these questions as they cover the most critical concepts from each chapter. You'll find a quick summary of LDR question numbers listed right before each chapter for easy reference.



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## ABC Analysis

**A** Very Important,  
Read on priority

**B** Moderately  
Important

**C** Less critical but still  
essential

*Ensure you thoroughly read all chapters without skipping any. The ABC analysis is designed to help you prioritize based on past trends, but it should not replace comprehensive preparation.*



## CHAPTER 4: INCOME OF OTHER PERSONS INCLUDED IN ASSESSEE'S TOTAL INCOME

### CONCEPTS OF THIS CHAPTER

- When clubbing provisions apply in computing total income
- Spouse's income inclusion in individual's total income
- Son's wife's income inclusion in individual's total income
- Income of minor where clubbing provisions don't apply
- Minor's income clubbing in parent's hands and computation
- Income of HUF included in a member's hands



### LDR Questions

Q 12

Q 15

Q 16

### QUICK REVIEW OF IMPORTANT CONCEPTS

Section	Income to be clubbed	Content
60	Income transferred without transfer of asset	When a person transfers the income accruing from an asset without the transfer of the asset itself, such income is to be included in the total income of the transferor, whether the transfer is revocable or irrevocable.
61	Income arising from revocable transfer of assets	Such income is to be included in the hands of the transferor. A transfer is deemed to be revocable if it – (i) contains any provision for re-transfer of the whole or any part of the income or assets to the transferor; or (ii) gives right to re-assume power over the whole or any part of the income or the asset.
64(1)(ii)	Income arising to spouse by way of remuneration from a concern in which the individual has substantial interest	Such income arising to spouse is to be included in the total income of the individual. However, if remuneration received is attributable to the application of technical or professional knowledge and experience of spouse, then, such income is not to be clubbed.
64(1)(iv)	Income arising to spouse from assets transferred without adequate consideration Income arising to son's wife from an asset transferred without adequate consideration	Income arising from an asset (other than house property) transferred otherwise than for adequate consideration or not in connection with an agreement to live apart, from one spouse to another shall be included in the total income of the transferor. Income arising from an asset transferred otherwise than for adequate consideration, by an individual to his or her son's wife shall be included in the total income of the transferor.
64(1)(viii)	Income arising from transfer of assets for the benefit of spouse or son's wife	All income arising to any person or association of persons from assets transferred without adequate consideration is includible in the income of the transferor, to the extent such income is used by the transferee for the immediate or deferred benefit of the transferor's spouse or son's wife.
64(1A)	Income of minor child	The income of the minor child shall be included with the income of that parent, whose total income, before including minor's income, is higher.





Where the marriage of the parents does not subsist, the income of the minor will be includible in the income of that parent who maintains the minor child in the relevant previous year.

parent, shall be entitled to exemption of such income subject to a maximum of ₹ 1,500 per child under section 10(32).

section 10(32) would be available to an assessee only if he exercises the option of shifting out of the default tax regime following income of a minor child shall, however, not be clubbed in the hands of his or her parent –

(a) Income from manual work done by him or activity involving application of minor's skill,

(b) Income of a minor child suffering from any disability specified in section 80U.

64(2) Conversion of self-acquired property into the property of a HUF

converts his individual property into property of the HUF of which he is a member, directly or indirectly

### Question & Answers

#### Question 1

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. (MTP 3 Marks, Oct'21, Mar'19, RTP Nov '18, Nov'19)

#### Answer 1

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.

#### Question 2

Mr. Vikas holds shares carrying 33% voting power in Kaya Ltd. Mrs. Rinky is working as accountant in Kaya Ltd. getting income from salary (computed) of Rs. 4,60,000 without any qualification in accountancy. Mr. Vikas also receives Rs. 35,000 as interest on securities. Mrs. Rinky owns a house property which she has let out. Rent received from tenants is Rs. 6,000 p.m. Compute the gross total income of Mr. Vikas and Mrs. Rinky for the A.Y. 2025-26. (MTP 4 Marks, Nov'21)

#### Answer 2

Since Mrs. Rinky is not professionally qualified for the job, the clubbing provisions shall be applicable.



**Computation of Gross total income of Mr. Vikas**

Particulars	Rs.
Income from Salary of Mrs. Rinky (Computed)	4,60,000
Income from other sources	
- Interest on securities	35,000
	<b>4,95,000</b>

**Computation of gross total income of Mrs. Rinky**

Particulars	Rs.	Rs.
<b>Income from Salary</b> [clubbed in the hands of Mr. Vikas]		Nil
<b>Income from house property</b>		
Gross Annual Value [Rs. 6,000 × 12]	72,000	
Less: Municipal taxes paid	-	
<b>Net Annual Value (NAV)</b>	<b>72,000</b>	
<b>Less: Deductions under section 24</b>		
- 30% of NAV i.e., 30% of Rs. 72,000	21,600	
- Interest on loan	-	50,400
<b>Gross total income</b>		<b>50,400</b>

**Question 3**

Mr. Sarthak is a member of HUF. It consists of himself, his wife Juhi and his major son Arjun and his minor daughter Aditi. Mr. Sarthak transferred his house property acquired through his personal income to the HUF without any consideration.

On 01-10-2024, HUF is partitioned and such property being divided equally. Net annual value of the property for the Previous Year 2024-25 is ₹ 1,00,000. Determine the tax implications. (PYP 4 Marks, May'22)

**Answer 3**

	₹
Since Mr. Sarthak, who is a member of the HUF, transfers the house property acquired by him out of his personal income to the HUF without any consideration, the income from such property would continue to be included in his total income upto the date of partition. Accordingly, income from such property for six months upto the date of partition i.e., 30.9.2024 ( $6/12 \times ₹ 70,000$ [Net Annual Value of ₹ 1,00,000 less deduction under section 24(a) @30%]) would be included in the total income of Mr. Sarthak.	35,000
Since the HUF was partitioned on 1.10.2024, the income derived from such converted house property as is received by Mr. Sarthak's spouse, Juhi, on attrition will be deemed to arise to Mr. Sarthak from house property transferred indirectly by him to her and consequently, such income would also be included in the total income of Mr. Sarthak. Accordingly, Mr. Sarthak's share (25%) and Juhi's share (25%) would be included in the total income of Mr. Sarthak.	
Sarthak's Share [25% of ₹ 35,000 ( $₹ 70,000 \times 6/12$ )]	8,750
Juhi's Share [25% of ₹ 35,000] included in the total income of Sarthak	8,750
<b>Income from house property includible in the income of Mr. Sarthak</b>	<b>52,500</b>
25% share of Sarthak's minor daughter, Aditi, i.e., ₹ 8,750, being 25% of ₹ 35,000, would be included in the total income of Mr. Sarthak or Juhi, whosoever's total income, before including Aditi's income, is higher. Such parent shall be entitled to an exemption of ₹ 1,500 under section 10(32).	
25% share of Sarthak's major son, Arjun, i.e., ₹ 8,750, being 25% of ₹ 35,000, would be included in Arjun's total income.	
Distribution of house property on partition of HUF is not a transfer for levy of capital gains tax.	





#### Question 4

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)

#### Answer 4

##### 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

- 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".
- Salary of ₹ 26,000 (₹ 76,000 less standard deduction under section 16(ia) of ₹ 50,000) shall be taxable as "Salaries" in the hands of Mrs. B.
- 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 if such parent exercises the option of shifting out of the default tax regime provided under section 115BAC(1A). The balance income would be clubbed in the hands of the parent as "Income from other sources".

- 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.
- 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 5

Mr. Samrat and his wife, Mrs. Komal, holds 12% voting power each in ABC (P) Ltd. Mr. Samrat and Mrs. Komal are working in ABC (P) Ltd. However, Mrs. Komal is not qualified for the job. From the following information given in respect of F.Y. 2024-25, you are required to compute the gross total income of Mr. Samrat and Mrs. Komal for the A.Y. 2025-26

- Dividend of ₹ 22,500 and ₹ 45,000 is received by Mr. Samrat and Mrs. Komal, respectively, from ABC (P) Ltd. Mr. Samrat has instructed the company to pay 50% of his dividend to Ms. Kajal, daughter of his deceased brother.
- Salary earned by Mr. Samrat and Mrs. Komal from ABC (P) Ltd. is ₹ 8,50,000 and ₹ 5,50,000, respectively.
- Business income earned by Mr. Samrat from his sole proprietary business is ₹ 15,60,000





- (iv) Interest on fixed deposit earned by Mrs. Komal of ₹ 9,00,000.
- (v) Their son, Akash, aged 10 years having PAN, received interest of ₹ 54,000 from bank on a fixed deposit created by his grandfather in his name. Assumed that they have opted out of 115BAC. (RTP May'22)

#### Answer 5

##### Computation of Gross Total Income of Mr. Samrat and Mrs. Komal for A.Y. 2025 -26

Particulars	Mr. Samrat		Mrs. Komal	
	₹	₹	₹	₹
Salary of Samrat	8,50,000			-
Less: Standard deduction under section 16(ia)	<u>50,000</u>	8,00,000		-
Salary of Komal	5,50,000			-
Less: Standard deduction under section 16(ia)	<u>50,000</u>	5,00,000		-
[Salary earned by Mrs. Komal has to be included in the total income of Mr. Samrat, since he has substantial interest in the concern (i.e., having 24% voting power in ABC (P) Ltd., along with his wife) and Mrs. Komal does not have any professional qualification for the job.]				
Business Income		15,60,000		-
Dividend income from ABC (P) Ltd. [Taxable in the hands of Mr. Samrat as per section 60, since he transferred the income i.e., dividend without transferring the asset i.e., shares]	[22,500/ 90 x 100 x 2]	50,000	[45,000/90 x 100]	50,000
Interest on Fixed Deposit earned by Mrs. Komal				<u>9,00,000</u>
<b>Total Income (before including minor's income)</b>		29,10,000		9,50,000
Income of minor child to be included in Mr. Samrat's income, since his total income before including minor's income is higher than that of Mrs. Komal. [₹ 54,000 /90 x 100]	60,000			
Less: Exemption of ₹ 1,500 u/s 10(32) in respect of the income of each child so included.	<u>1,500</u>	58,500		
<b>Gross Total Income</b>		<b>29,68,500</b>		<b>9,50,000</b>

#### Question 6

Mr. Jain and his wife Mrs. Jain are partners in a partnership firm holding 25% share each. During the F.Y. 2024-25, the firm paid ₹2,50,000 to each of them as remuneration. Apart from this, they provide you the following information in respect of F.Y. 2024-25:

- (i) Salary received by Mr. Jain from his employer ₹ 12,50,000.
- (ii) Interest on fixed deposit earned by Mrs. Jain ₹ 14,00,000. (The fixed deposit was opened by using her "Stridhan")
- (iii) Income of their three minor children Neeta, Meeta and Seeta was ₹ 15,000; ₹ 10,000 and ₹ 2,000 respectively.

You are required to compute the gross total income of Mr. and Mrs. Jain as per the provisions of Income-tax Act for the A.Y. 2025-26 assuming that they have shifted out of the default tax regime. (MTP 4 Marks, Jul'24)

#### Answer 6

##### Computation of Gross Total Income of Mr. Jain and Mrs. Jain for A.Y. 2025-26

Particulars	Mr. Jain		Mrs. Jain	
	₹	₹	₹	₹
Salary	12,50,000		-	





Less: Standard deduction under section 16(ia)	<u>50,000</u>			
		12,00,000		
Interest on Fixed Deposit earned by Mrs. Jain	-			14,00,000
Total income (before including remuneration from firm and minor's income)		12,00,000		14,00,000
Remuneration from firm (assumed that the same is fully deductible in the hands of the firm)			2,50,000	
Remuneration of ₹ 2,50,000 received by Mr. Jain has to be included in the total income of Mrs. Jain, since both of them have substantial interest in the concern (i.e., each having 25% share in the firm, in the present case), and her total income of ₹14 lakh exceeds the total income of her spouse excluding this income (i.e., ₹ 12 lakh). It is assumed that such remuneration is fully deductible in the hands of the firm.			<u>2,50,000</u>	5,00,000
<b>Total Income (before including minor's income)</b>		12,00,000		19,00,000
Income of three minor children to be included in Mrs. Jain's income <sup>1</sup> , since her total income before including minor's income is higher than that of her husband.		-		
- Neeta			15,000	
- Meeta			10,000	
- Seeta			<u>2,000</u>	
			27,000	
Less: Exemption of ₹ 1,500 u/s 10(32) in respect of the income each child so included.			<u>4,500</u>	22,500
<b>Gross Total Income</b>		<b>12,00,000</b>		<b>19,22,500</b>

### Question 7

Nishant gifted ₹ 10 lakhs to his wife, Nisha on her birthday on, 1st January, 2024. Nisha lent ₹ 5,00,000 out of the gifted amount to Krish on 1st April, 2024 for six months on which she received interest of ₹ 50,000. The said sum of ₹ 50,000 was invested in shares of a listed company on 15th October, 2024, which were sold for ₹ 75,000 on 30th December, 2024. Securities transaction tax was paid on such sale. The balance amount of gift was invested as capital by Nisha in a newly business started on 1.4.2024. She suffered loss of ₹ 15,000 in the business in Financial Year 2024-25.

In whose hands the above income and loss shall be included in Assessment Year 2025 -26? Support your answer with brief reasons. (MTP 4 Marks, Apr'23 & Oct '20)

### Answer 7

#### Interest on loan

As per section 64(1)(iv), in computing the total income of any individual, there shall be included all such income as arises directly or indirectly, to the spouse of such individual from assets transferred directly or indirectly, to the spouse by such individual otherwise than for adequate consideration or in connection with an agreement to live apart.

Accordingly, ₹ 50,000, being the amount of interest on loan received by Ms. Nisha, wife of Mr. Nishant, would be includible in the total income of Mr. Nishant, since such loan was given by her out of the sum of money received by her as gift from her husband.

#### Loss from business

Since the capital was invested in business by Ms. Nisha on 1st April, 2024, and capital invested was entirely out of the funds gifted by her husband, the entire loss of ₹ 15,000 from the business carried on by Ms. Nisha would also be includible in the total income of Mr. Nishant.





Since income includes loss as per Explanation 2 to section 64, clubbing provisions would be attracted even if there is loss and not income.

#### **Capital Gain on sale of shares of listed company**

The short-term capital gain of ₹ 25,000 (₹ 75,000, being the sale consideration less ₹ 50,000, being the cost of acquisition) arising in the hands of Ms. Nisha from sale of shares acquired by investing the interest income of ₹ 50,000 earned by her (from the loan given out of the sum gifted to her by her husband), would not be included in the hands of Mr. Nishant.

Income from the accretion of the transferred asset is not liable to be included in the hands of the transferor and therefore such income is taxable in the hands of Ms. Nisha. Since securities transaction tax has been paid, such short-term capital gain on sale of listed shares is taxable @ 20% (Since it is sold after 23.07.2024) in the hands of Ms. Nisha.

### **Question 8**

**Mr. Om has gifted a house property valued at ₹ 50 lakhs to his wife, Mrs. Uma, who in turn has gifted the same to Mrs. Pallavi, their daughter-in-law. The house was let out at ₹ 25,000 per month throughout the year. Compute the total income of Mr. Om and Mrs. Pallavi.**

**Will your answer be different if the said property was gifted to his son, husband of Mrs. Pallavi?**  
(MTP 4 Marks, Mar'23 & SM)

#### **Answer 8**

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. Om would be the deemed owner of the house property transferred to his wife Mrs. Uma 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 under section 24 @ 30% of ₹ 3,00,000]

In this case, income of ₹ 2,10,000 from let-out property arising to Mrs. Pallavi, being Mr. Om's son's wife, would be included in the income of Mr. Om, applying the provisions of section 27(i) and section 64(1)(vi). Such income would, therefore, not be taxable in the hands of Mrs. Pallavi.

In case the property was gifted to Mr. Om's son, the clubbing provisions under section 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.

**Note** - The first part of the question can also be answered by applying the provisions of section 64(1)(vi) directly to include the income of ₹ 2,10,000 arising to Mrs. Pallavi in the hands of Mr. Om. [without first applying the provisions of section 27(i) to deem Mr. Om as the owner of the house property transferred to his wife Mrs. Uma without consideration], since section 64(1)(vi) speaks of clubbing of income arising to son's wife from indirect transfer of assets to her by her husband's parent, without consideration. Gift of house property by Mr. Om to Mrs. Pallavi, via Mrs. Uma, can be viewed as an indirect transfer by Mr. Om to Mrs. Pallavi.

### **Question 9**

**From the following transactions compute the total income of Mr. Raman and his wife Savita for the Assessment year 2025-26.**

- (i) **Mr. Raman had a fixed deposit of ₹ 5,00,000 in the bank. He instructed the bank to credit the interest on deposit @ 6% from 01-04-2024 to 31-03-2025 to the savings account of his brother's son for his education.**





- (ii) Savita is a B.com graduate and working in the ABC Private Limited as an accountant with a monthly salary of ₹ 25,000. Raman holds 30% equity shares of the ABC Private Limited.
- (iii) Raman started proprietary business on 01-04-2003 with a capital of ₹ 10,00,000. He incurred a loss of ₹ 2,00,000 during the previous year 2023-24. To overcome the financial position, Savita gifted a sum of ₹ 4,00,000 to him on 01-04-2024 which was immediately invested in the business by Mr. Raman. He earned a profit of ₹ 3,00,000 during the previous year 2024-25
- (iv) Sajan, younger son of Raman, aged 17 years won in a debate competition during the annual competitions held at his school and received a cash award of ₹ 10,000 and he also earned interest of ₹ 7,000 on balance maintained in his savings bank account. Assume that they have opted out of default tax regime. (PYP 4 Marks, Nov'22)

#### Answer 9

#### Computation of Total Income of Mr. Raman and Mrs. Savita for A.Y. 2025-26

Particulars	Mr. Raman	Mrs. Savita
	Amount (₹)	
(i) Interest on fixed deposits [Income would be included in the hands of Raman, since he has transferred income to his brother's son without transfer of the asset, being fixed deposit] [₹ 5,00,000 x 6%]	30,000	
(ii) Salary income [₹ 3,00,000 (₹ 25,000 x 12) less standard deduction of ₹ 50,000] [Mrs. Savita's salary would not be included in the income of Raman, who has substantial interest in the company, since she possesses the relevant professional qualifications for working as an accountant]		2,50,000
(iii) Savita gifted ₹ 4,00,000 to Mr. Raman, which Mr. Raman has invested in the business. In such case, proportionate income (i.e., $\frac{1}{3} \times ₹ 3,00,000$ ) arising from such investment is to be included in the total income of Savita.	2,00,000	1,00,000
Mr. Raman's contribution in capital as on 1.4.2024 = ₹ 8,00,000 [₹ 10,00,000 – ₹ 2,00,000]		
Mrs. Savita's contribution on 1.4.2024 = ₹ 4,00,000		
₹ 3,00,000, being the 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 (8:4 or 2:1)		
<b>Total income [before considering minor income from interest on savings account]</b>	<b>2,30,000</b>	<b>3,50,000</b>
(iv) Cash award won in a debate by Sajan, minor son, would not be included in the hands of either parent, since such income arises from his own skills/talent. However, interest of ₹ 7,000 on savings bank account (after providing for deduction of ₹ 1,500) is to be included in the hands of Mrs. Savita, since her income is higher than that of her husband [₹ 7,000 - ₹ 1,500]		5,500
<b>Gross Total Income</b>	<b>2,30,000</b>	<b>3,55,500</b>
<b>Less: Deduction under section 80TTA</b> (Interest on savings bank account)	-	<u>5,500</u>
<b>Total Income</b>	<b>2,30,000</b>	<b>3,50,000</b>

#### Question 10

Mr. Raja gifted a sum of ₹ 8 lakhs to his brother's minor son on 14-5-2024. On the same date, his brother gifted debentures worth ₹ 10 lakhs to Mrs. Raja. Son of Mr. Raja's brother invested the amount in fixed deposit with SBI@ 9% p.a. interest and Mrs. Raja 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. Assume that he has opted out of 115BAC. (MTP 4 Marks, Oct'22 & Oct '18) (Same concept different figures RTP Nov'20)





### Answer 10

In the given case, Mr. Raja gifted a sum of ₹ 8 lakhs to his brother's minor son on 14.5.2024 and simultaneously, his brother gifted debentures worth ₹ 10 lakhs to Mr. Raja's wife on the same date. Mr. Raja's brother's minor son invested the gifted amount of ₹ 8 lakhs in fixed deposit with SBI.

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<sup>1</sup>.

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. Raja's brother's son from fixed deposits would be included in the total income of Mr. Raja's brother, assuming that Mr. Raja's brother's total income is higher than his wife's total income, before including minor's income. Mr. Raja's brother can claim exemption of ₹ 1,500 under section 10(32).

Interest on debentures arising in the hands of Mrs. Raja would be taxable in the hands of Mr. Raja as per section 64(1)(iv).

This is because both Mr. Raja 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. Raja, interest received by his spouse on debentures of ₹ 8 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 ₹ 8 lakhs.

Hence, only proportional interest (i.e., 8/10th of interest on debentures received) ₹ 64,800 would be includible in the hands of Mr. Raja.

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 11

Mr. Manoj, a bhajan singer of Rajasthan and his wife Mrs. Vivi furnish the following information relating to the A.Y. 2025-26.

		₹
1	Income of Mr. Manoj - Professional bhajan singer (computed)	5,65,000
2	Salary income of Mrs. Vivi (Computed)	3,80,000
3	Loan received by Mrs. Vivi from Ramu & Jay (P) Ltd. (Mrs. Vivi holds 35% shares of the Co. The Co. has incurred losses since its inception 2 years back)	2,50,000
4	Income of their minor son Ganesh from winning singing reality show on T.V.	2,50,000
5	Cash gift received by Ganesh from friend of Mr. Manoj on winning the show	21,000
6	Interest income received by minor married daughter Gudia from deposit with Ramu & Jay Pvt Ltd.	40,000

Compute total taxable income of Mr. Manoj & Mrs. Vivi for the A.Y. 2025-26 if they opt for the provisions of section 115BAC. (MTP 5 Marks, Sep'23, PYP 5 Marks Nov'19)

### Answer 11

#### Computation of Taxable income of Mr. Manoj for A.Y. 2025-26

Particulars	₹
Professional income (bhajan singer)	5,65,000
Income of minor son – Ganesh	
- Income from winning singing reality show on T.V. Income derived by a minor child from any activity involving application of his/her skill, talent, specialized knowledge and experience is not to be included in the hands of parent. Hence, ₹ 2,50,000 earned by minor son Ganesh from reality show on TV would not be included in the income of either parent.	Nil
- Cash gift received by Ganesh from friend of Mr. Manoj on winning the show The cash gift received by his minor son Ganesh (not on account of her skill) from his friends would not be taxable, since its value does not exceed ₹ 50,000.	Nil





<b>Income of minor married daughter – Gudia</b>	
Interest income on deposit with Ramu & Jay Pvt. Ltd.	40,000
Less: Exempt under section 10(32) [Since Mr. Manoj has opted for the provisions of section 115BAC, exemption u/s 10(32) would not be available]	-
(Income of minor daughter would be included in the hands of Mr. Manoj, since his income, before including minor daughter's income, is higher than his wife's income).	
<b>Taxable Income</b>	<b>6,05,000</b>

**Computation of Taxable income of Mrs. Vivi for A.Y. 2025-26**

Particulars	₹
Salary income (computed)	3,80,000
Loan received from Ramu & Jay (Pvt.) Ltd. [Such loan amount would not be considered as deemed dividend under section 2(22)(e), even though Mrs. Vivi has substantial interest (holding 20% shares or more) in the Ramu & Jay (Pvt.) Ltd., a closely held company, since the company does not have any accumulated profits on account of losses incurred in last 2 years from inception]	Nil
<b>Taxable Income</b>	<b>3,80,000</b>

**Question 12**

LDR

(Includes concepts of Deductions from Gross Total Income)

Mr. Dharmesh who is 45 years old and his wife Mrs. Anandi who is 42 years old furnished the following information:

S. No.	Particulars	Amount (₹)
(i)	Salary income (computed) of Mrs. Anandi	9,60,000
(ii)	Income of minor son "A" who suffers from disability specified in section 80U	3,08,000
(iii)	Income of minor daughter "C" from script writing for Television Serials	1,86,000
(iv)	Income from garment trading business of Mr. Dharmesh	17,50,000
(v)	Cash gift received by minor daughter "C" on 02-10-2020 from friend of Mrs. Anandi, on winning of a story writing competition	45,000
(vi)	Income of minor son "B" from scholarship received from his school	1,00,000
(vii)	Income of minor son "B" from fixed deposit with Punjab National Bank, made out of income earned from scholarship	5,000

Compute the total income of Mr. Dharmesh and his wife Mrs. Anandi for Assessment Year 2024-25 assuming that they have not opted to be taxed under section 115BAC. (PYP 5 Marks, Jul'21, MTP 5 Marks Oct '23)

**Answer 12**

**Computation of Total Income of Mr. Dharmesh and Mrs. Anandi for A.Y. 2025-26**

Particulars	Amount (₹)	
	Mr. Dharmesh	Mrs. Anandi
Salary income (computed)		9,60,000
Less- Standard deduction		(50,000)
Income from garment trading business	17,50,000	
<b>Total Income before including income of minor children</b>	<b>17,50,000</b>	<b>9,10,000</b>
<b>Income of minor son "A"</b>		
Income of ₹ 3,08,000 of minor son A who suffers from disability specified in section 80U [Since minor child A is suffering from disability specified under section 80U, hence, his income would not be included in the income of the parent but would be taxable in		





the hands of the minor child]			
<b>Income of minor son "B"</b>			
Income of ₹ 1,00,000 from scholarship [Exempt u/s 10(16)]		-	
Income from fixed deposit with PNB [Since Mr. Dharmesh's income is greater than that of Mrs. Anandi, income of minor son B from fixed deposit would be included in the hands of Mr. Dharmesh. Interest from bank deposit has to be included in Mr. Dharmesh's income, even if deposit is made out of income earned from scholarship]	5,000		
<b>Less:</b> Exemption under section 10(32)	1,500	3,500	
<b>Income of minor daughter "C"</b>			
Income of ₹ 1,86,000 from script writing for television serials [Income derived by a minor child from any activity involving application of his/her skill, talent, specialized knowledge and experience is not to be included in the hands of the parent]		Nil	
Hence, clubbing provisions will not apply in this case/no adjustment is required.			
Cash gifts of ₹ 45,000 received from friend of Mrs. Anandi [Gift not exceeding ₹ 50,000 received from a non-relative is not taxable under section 56(2)(x)]			
Hence, clubbing provisions will not apply in this case / no adjustment is required.		Nil	
<b>Gross Total Income/ Total Income</b>		<b>17,53,500</b>	<b>9,10,000</b>

**Note** - As per section 10(16), scholarships granted to meet the cost of education is exempt from tax. The purpose of scholarship received by minor son B is explicitly not mentioned in the question. However, scholarships given by schools are generally in the form of financial assistance for meeting the cost of education. Hence, it is logical to assume that the scholarship to B has been granted to him to meet his cost of education. Based on this assumption, the same has been treated as exempt from tax u/s 10(16).

**Alternate view** - However, in absence of specific information, it is possible to assume that such scholarship has been granted on account of B's exceptional academic achievements i.e., involving application of his skill, talent, specialised knowledge and experience and hence would be covered under the proviso to section 64(1A) and thus should not be included in the income of parent.

### Question 13

**Details of Income of Mr. R and his wife Mrs. R for the previous year 2024-25 are as under:**

- 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.
- Mr. R transferred ₹ 4,00,000 to his wife Mrs. R on 01.04.2010 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.
- 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.
- Mrs. R transferred 5,000 equity shares of RSB Ltd. on 17.09.2017 to Mr. R without any consideration. The Company issued 3,000 bonus shares to Mr. R in 2020. On 04.03.2024, 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 that they have opted out of 115BAC. (PYP 4 Marks, Dec'21)





## Answer 13

### Computation of Gross Total Income of Mr. R and Mrs. R for A.Y. 2025-26

	Particulars	Mr. R	Mrs. R
		Amount (₹)	
I.	<b>Income from house property</b> <b>Income from property transferred to HUF without consideration</b>		
	Since Mr. R has transferred his property to his HUF without consideration, income of ₹ 50,000 <sup>6</sup> from such property would be included in the total income of Mr. R as per section 64(2).	50,000	
II.	<b>Capital Gains</b> <b>Income from equity shares transferred by Mrs. R to Mr. R without consideration</b>		
	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
	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] <sup>7</sup>	1,95,000	
III.	<b>Income from Other Sources</b>		
	Income from commission	4,00,000	
	Interest income		3,30,000
	<b>Interest income on ₹ 4 lakh transferred by Mr. R to Mrs. R without consideration</b>		
	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.	<b>Salary income from a company in which both Mr. R and Mrs. R have substantial interest</b>		
	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 <b>salary income would be includible in the hands of that spouse, whose total income, before including such salary income, is higher.</b> 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
	<b>Gross Total Income</b>	<b>6,89,000</b>	<b>11,83,500</b>





**Exam Insights:** Examinees were not aware that where both the spouses are drawing remuneration from a concern in which both have substantial interest, then such salary income would be includible in the income of the spouse, whose total income, before including such salary income, is higher. They had wrongly clubbed the income of the spouse with the income of the spouse who has higher substantial interest in the concern.

#### Question 14

Mr. Chaman who is 50 years old and his wife Mrs. Chaman who is 48 years old furnish the following information (all the amount of incomes/gains/losses are computed as per the provisions of Income-tax Act):

- Mr. Chaman's salary income - ₹ 11,00,000
- Mrs. Chaman's income from Kathak performances - ₹ 2,50,000. She is a professional Kathak dancer and pursue dancing as her profession.
- Mrs. Chaman earned long-term capital gains of ₹ 5,50,000 from sale of shares.
- Mrs. Chaman gifted ₹ 2,00,000 to Mr. Chaman out of her Stridhan on 1.4.2024, Mr. Chaman invested the entire amount in stock market but suffered a short-term capital loss of ₹ 5,10,000.
- Miss Naina, their minor daughter, earned ₹ 3,56,000 by performing in various quiz competitions held online during the year 2024-25. She kept that amount in savings bank account and earned interest of ₹ 15,000 during the year 2024-25.
- Master Vivit, their minor son earned ₹ 35,000 from fixed deposit which was made out of the cash he received on his birthday from his friends and family. Vivit suffers from disability as mentioned under section 80U. The medical certificate shows a disability of upto 75%.

Compute the total income in the hands of Mr. and Mrs. Chaman and their minor children for the Assessment Year 2025-26. Ignore section 115BAC pertaining to alternative tax regime. (PYP 6 Marks, May'23)

#### Answer 14

Computation of total income of Mr. Chaman, Mrs. Chaman and their minor children for the A.Y.2025-26

Particulars	Mr. Chaman ₹	Mrs. Chaman ₹	Naina, minor daughter ₹	Vivit, minor son ₹
<b>Income under the head "Salaries"</b> Salaries (computed)	11,00,000			
<b>Profits and gains from business or profession</b> Income from Kathak performances		2,50,000		
<b>Capital Gains</b>				
Long term capital gains from sale of shares		5,50,000		
Less: Set off of short-term capital loss from long term capital gain [Short term capital loss to the extent of ₹ 2 lakhs would be included in the income of Mrs. Chaman, since the shares are purchased by Mr. Chaman from the amount of ₹ 2 lakhs gifted by Mrs. Chaman out of her Stridhan. Clubbing provisions would be attracted even if it is a loss and not income] <b>[Refer Note 1 and 2 below]</b>		<u>2,00,000</u>		
The balance short-term capital loss of ₹ 3,10,000 has to be carried forward by Mr. Chaman, since it cannot be set-off against salary income.		3,50,000		
<b>Income [before considering income of minor son and minor daughter]</b>	<b>11,00,000</b>	<b>6,00,000</b>		





Income of Naina, minor daughter, from performances in various quiz competitions would not be included in the hands of either parent, since such income arises from her own skills/talent.			3,56,000	
However, interest of ₹ 15,000 on saving bank account [after providing for deduction of ₹ 1,500, being exempt under section 10(32)] is to be included in the hands of Mr. Chaman, since his income is higher than that of his wife [₹ 15,000 - ₹ 1,500] <sup>5</sup>	13,500			
Income of Vivit, minor son suffering from disability u/s 80U, from fixed deposits would not be included in the income of parent but would be taxable in his hands.				35,000
<b>Gross Total Income</b>	<b>11,13,500</b>	<b>6,00,000</b>	<b>3,56,000</b>	<b>35,000</b>
<b>Less: Deductions under Chapter VI-A</b>				
- <b>Under section 80TTA</b> In respect of interest on saving bank account to the extent of	10,000			
- <b>Under section 80U</b> Flat deduction of ₹ 75,000 to a person with disability. However, deduction would be restricted to gross total income				35,000
<b>Total Income</b>	<b>11,03,500</b>	<b>6,00,000</b>	<b>3,56,000</b>	<b>Nil</b>

**Note – (1)** The question mentions that Mrs. Chaman gifted ₹ 2 lakh to Mr. Chaman out of her Stridhan on 1.4.2023 and that Mr. Chaman invested the entire amount in stock market but suffered a short-term capital loss of ₹ 5,10,000. It is not possible to invest ₹ 2 lakhs and incur short-term capital loss of ₹ 5.10 lakhs. Accordingly, in the above solution, it has been assumed that the remaining ₹ 3,10,000 is invested by Mr. Chaman and hence the same would be a short-term capital loss to be carried forward by him.

Due to the use of the words “invested the entire amount in the stock market” in the question, it is possible to take a view that the entire capital loss of ₹ 5,10,000 has to be set off against long-term capital gains of ₹ 5,50,000 in the hands of Mrs. Chaman. In which case the total income of Mrs. Chaman would be ₹ 2,90,000 instead of ₹ 6,00,000. Also, there would be no short-term capital loss in the hands of Mr. Chaman.

**Exam Insights:** Examinees have wrongly clubbed the income of Vivit, minor son in the hands of his father, without considering that Master Vivit was suffering from disability upto 75%. Thereafter, provided deduction under section 80U in full i.e., ₹ 75,000 in the hands of his father. However, income of Vivit is taxable in his own hands and deduction u/s 80U has to be restricted to the extent of his gross total income i.e., ₹ 35,000.

#### Question 15

LDR

Mr. Mohan, aged 30 years, submits the information of following transaction/income during the P.Y. 2024-25

- Mr. Mohan had a house in Delhi. During financial year 2021-22, he had transferred the said house to Ms. Veena, daughter of his brother without any consideration. House would go back to Mr. Mohan after the life time of Ms. Veena. The transfer was made with a condition that 15% of rental income from such house shall be paid to Mrs. Mohan. Rent received by Ms. Veena during the previous year 2024-25 from such house property is ₹ 6,50,000.
- Mr. and Mrs. Mohan forms a partnership firm with equal share in profits. Mr. Mohan transferred a fixed deposit of ₹ 50 lakhs to such firm. Firm had no income or expense other than the interest of ₹ 6,00,000 received from such fixed deposit. Firm distributed the entire surplus to Mr. and Mrs. Mohan at the end of the year.
- Mr. Mohan holds preference shares in M/s X Pvt. Ltd. He instructed the company to pay dividends to Ms. Roshni, daughter of his servant. The transfer is irrevocable for the life time of Roshni. Dividend





received by Ms. Roshni during the previous year 2024-25 is ₹ 10,00,000.

(iv) Mr. Mohan has a short term capital loss of ₹ 16,000 from sale of property and long term capital gain of ₹ 15,000 from sale of property.

(v) Other income of Mr. Mohan includes

- Interest from saving bank account of ₹ 2,00,000
- Cash gift of ₹ 75,000 received from daughter of his sister on his birthday.
- Income from betting of ₹ 34,000
- Income from card games of ₹ 46,000
- Loss on maintenance of race horses of ₹ 14,600

Compute the total income of Mr. Mohan for the Assessment Year 2025-26 and the losses to be carried forward if he pays tax under normal provisions of the Act. (MTP 7 Marks Dec'24)

**Answer 15**

**Computation of Total Income of Mr. Mohan for A.Y. 2025-26**

Particulars	Amount (₹)	Amount (₹)
<b>Income from house property</b>		
<b>House in Delhi</b> [Since Mr. Mohan receives direct or indirect benefit from income arising to his brother's daughter, Ms. Veena, from the transfer of house to her without consideration, such income is to be included in the total income of Mr. Mohan as per proviso to section 62(1), even though the transfer may not be revocable during lifetime of Ms. Veena]		
Gross Annual Value <sup>1</sup>	6,50,000	
Less: Municipal taxes	-	
Net Annual Value	6,50,000	
Less: Deductions from Net Annual Value		
(a) 30% of Net Annual Value	1,95,000	
(b) Interest on loan	-	4,55,000
<b>Profits and gains from business or profession</b>		
Share of profit from firm [Exempt u/s 10(2A)] Exempt income cannot be clubbed	-	
<b>Capital Gains</b>		
Long term capital gain from sale of property	15,000	
<b>Less:</b> Short-term capital loss can be set-off against both short-term capital gains and long-term capital gains <sup>2</sup> . Short term capital loss of ₹ 16,000 set off against long-term capital gains to the extent of ₹ 15,000 <sup>3</sup> .	15,000	-
<b>Income from other sources</b>		
Dividend on preference shares [Taxable in the hands of Mr. Mohan as per section 60, since he transferred the income, i.e., dividend, without transferring the asset, i.e., preference shares]	10,00,000	
Interest from saving bank account	2,00,000	
Cash gift [Taxable as per section 56(2)(x), since sum of money exceeding ₹ 50,000 is received from his niece, who is not a relative]	75,000	
Income from betting [No loss is allowed to be set off against such income]	34,000	
Income from card games [No loss is allowed to be set off against such income]	46,000	13,55,000
<b>Gross Total Income</b>		<b>18,10,000</b>
<b>Less: Deduction under Chapter VI-A</b>		
Deduction under section 80TTA [Interest from savings bank account]	10,000	10,000
<b>Total Income</b>		<b>18,00,000</b>

**Losses to be carried forward to A.Y. 2026-27**





Particulars	Amount (₹)
Short term capital loss [₹ 16,000 – ₹ 15,000]	1,000
Loss on maintenance of race horses [Loss incurred on maintenance of race horses cannot be set-off against income from any source other than the activity of owning and maintaining race horses. Hence, such loss has to be carried forward to A.Y.2026-27]	14,600

#### Question 16

LDR

Mr. Suraj, (39 years), his wife Megha (35 years) and minor son Dev (12 years), provide the following details of their income/losses for the previous year 2024-25:

Mr. Suraj

- Salary received as a partner from a partnership firm - ₹ 6,15,000  
He is a working partner in the firm and the salary is as per the limits prescribed under section 40(b).
- Income (loss) from house property:  
Brought forward loss from House -A (let out) - ₹ 96,000 Current year loss from House B (let out) - ₹ 2,30,000
- Interest received on enhanced compensation - ₹ 2,00,000  
It relates to transfer of a piece of land in the financial year 2019-20.  
Out of the above ₹ 35,000 relates to previous year 2024-25 and the balance relate to preceding previous year.
- Gift from grandfather's younger sister by cheque - ₹ 1,25,000
- Dividend on listed equity shares of domestic companies (Gross) - ₹ 50,000
- On 1st December 2024, Mr. Suraj received ₹ 75 lakhs as maturity proceeds from his life insurance policy which was taken on 1st May 2012. He paid ₹ 6,00,000 as annual premium and the sum assured was ₹ 65 lakhs.

Mrs. Megha

- Current year loss from business. (She carried on this business with funds which Mr. Suraj gifted to her) - ₹ 8,10,000.
- Mrs. Megha purchased a house property from her "Stridhan" and gifted the same to her minor son, Dev on 1st April, 2024 out of love and affection. The FMV of the house on the date of transfer was ₹ 51 lakhs.

Master Dev

Rent received from house property received from Mrs. Megha - ₹ 35,000 p.m.

Compute total income of Mr. Suraj, Mrs. Megha and Dev for the assessment year 2025-26 assuming Mr. Suraj has decided to pay tax under default tax regime provided under section 115BAC, whereas Mrs. Megha and Dev have opted out of the default tax regime. Briefly explain the reasons for the treatment of each item. (Chapter Income of Other Persons included in Assesses Total Income) (PYP 6 Marks Sep'24)

#### Answer 16

Computation of total income of Mr. Suraj, Mrs. Megha and minor son Dev for A.Y. 2025-26

Particulars	Mr. Suraj [Under default tax regime] ₹	Mrs. Megha [Under normal provisions] ₹	Dev [Under normal provisions] ₹
Income from house property			
Annual Value [As per section 27, Mrs. Megha is the deemed owner of the house property transferred to minor son, Dev without consideration though such property is acquired from her "Stridhan"] [₹35,000 x12]		4,20,000	
Less: Deduction @30% of NAV		1,26,000	
		2,94,000	





Brought forward loss from House A [Not allowed to be set-off against income from other heads]	-		
Current year loss of Mr. Suraj from House – B [Not allowed to be set-off against income from other heads since Mr. Suraj is paying tax under default tax regime]	-		
<b>Profits and gains from business or profession</b>			
Salary from partnership firm	6,15,000		
Less: As per section 70, set off of current year loss from business of ₹ 8,10,000 to the extent of [Current year loss from business of his wife is allowed to be set off in the hands of Mr. Suraj since funds for business is gifted by him]	6,15,000		
Income from Other Sources	-		
Interest on enhanced compensation [Taxable in the year it is received]	2,00,000		
Less: Deduction @50%	1,00,000		
	1,00,000		
Gift from grandfather's sister [Taxable under section 56(2)(x), since grandfather's sister is not a relative and the amount of gift exceeds ₹ 50,000]	1,25,000		
Dividend on shares (gross)	50,000		
Maturity proceeds from LIC [Exempt under section 10(10D) since the annual premium payable does not exceed 10% of sum assured]	-		
	2,75,000		
Less: Set off of remaining business loss of ₹ 1,95,000	1,95,000		
	80,000		NIL
Gift of house property from Mrs. Megha to Dev [Exempt since the gift is from a relative i.e., from his mother]			
<b>Taxable Income</b>	<b>80,000</b>	<b>2,94,000</b>	<b>-</b>

#### MULTIPLE CHOICE QUESTIONS (MCQS)

- Mr. Vishal started a proprietary business on 01.04.2023 with a capital of ₹ 5,00,000. He incurred a loss of ₹ 1,00,000 during the year 2023-24. To overcome the financial position, his wife Mrs Kamini, a Chartered Accountant, gave a gift of ₹ 4,00,000 on 01.04.2024, which was immediately invested in the business by Mr. Vishal. He earned a profit of ₹ 2,00,000 during the year 2024-25. What is the amount to be clubbed in the hands of Mrs Kamini for the Assessment Year 2025-26? (MTP 1 Mark, Oct'21)
  - ₹ 88,888
  - ₹ 1,00,000
  - ₹ 2,00,000
  - Nil

Ans: (b)





2. Mr. Raj Makes a gift of ₹ 25,000 to his wife, Mrs Rama, on 27.03.2024. Mrs. Rama, on 2.4.2024, invests ₹ 75,000 (25,000 out of gift and 50,000 of her own) in a partnership firm as capital which is her total capital contribution in the firm. During the year ended 31.03.2025 she earns an interest of ₹ 12,000 and salary of ₹ 1,20,000 from the firm. What amount shall form part of total income of Mr. Raj for the previous year 2024-25? (MTP 2 Marks, Apr'22)
- (a) ₹ 3,000 as interest on capital from firm
  - (b) ₹ 3,000 as interest on capital from firm and ₹40,000 as salary from firm
  - (c) ₹ 4,000 as interest on capital from firm and ₹40,000 as salary from firm
  - (d) Nil

Ans: (d)

3. Pankaj gifted an amount of ₹ 3,00,000 to his wife, Nikki and ₹ 2,00,000 to his daughter, Pinki aged 20 years, on 1st April 2021. Both Nikki and Pinki invested the amounts on the same date in Government of India 11% Taxable Bonds. The interest accrues yearly and is reinvested in the same bonds. Determine what will be the amount taxable in hands on Nikki for A.Y. 2025-26? (MTP 2 Marks, Sep'22 & Apr'21)
- (a) ₹ 4,473
  - (b) ₹ 12,132
  - (c) ₹ 33,000
  - (d) Nil

Ans: (b)

4. Mrs. Archana, wife of Mr. Raj, started a business of trading in beauty products on 15.5.2024. She invested ₹ 5 lakhs in the business on 15.5.2024 out of gift received from her husband, Mr. Raj. She further invested ₹ 4 lakhs from her own savings on 15.12.2024. She earned profits of ₹ 1,50,000 from her business for the financial year 2024-25. Which of the following statements is correct? (MTP 2 Marks, Mar'23)( Same concept different figures MTP 2 Marks April '24)
- (a) Share of profit of ₹ 1,50,000 is includible in the hands of Mrs. Archana.
  - (b) Share of profit of ₹ 66,667 is includible in the hands of Mr. Raj and share of profit of ₹ 83,333 is includible in the hands of Mrs. Archana.
  - (c) Share of profit of ₹ 83,333 is includible in the hands of Mr. Raj and share of profit of ₹ 66,667 is includible in the hands of Mrs. Archana.
  - (d) Share of profit of ₹ 1,50,000 is includible in the hands of Mr. Raj.

Ans: (d)

5. On 20.10.2024, Piya (minor child) gets a gift of ₹ 20,00,000 from her father's friend. On the same day, the amount is deposited as fixed deposit in Piya's bank account. On the said deposit, interest of ₹ 13,000 was earned during the P.Y. 2024-25. In whose hands the income of Piya shall be taxable? Also, compute the amount of income that shall be taxable if both parents pay tax under default tax regime. (MTP 2 Marks Nov'24)
- (a) Income of ₹20,11,500 shall be taxable in the hands of Piya's father.
  - (b) Income of ₹20,13,000 shall be taxable in the hands of Piya's father.
  - (c) Income of ₹ 20,11,500 shall be taxable in the hands of Piya's father or mother, whose income before this clubbing is higher.
  - (d) Income of ₹ 20,13,000 shall be taxable in the hands of Piya's father or mother, whose income before this clubbing is higher.

Ans: (d)



## CHAPTER 5: AGGREGATION OF INCOME, SET-OFF AND CARRY FORWARD OF LOSSES

### CONCEPTS OF THIS CHAPTER

- Permissible inter-source and inter-head adjustments
- Restrictions on inter-source and inter-head loss set-off
- Conditions for carry forward and set-off of losses
- Maximum period for carrying forward different losses
- Order of set-off of losses
- Applying these provisions to compute total income



### LDR Questions

Q 6

Q 12

Q 20

### QUICK REVIEW OF IMPORTANT CONCEPTS

#### Section 70: Inter-source set-off of losses under the same head of income

##### Exceptions

- Loss from speculation business can be set-off only against profits from another speculation business.
- Long term capital loss (LTCL) can be set-off only against Long term capital gains (LTCG).
- Loss from the activity of owning and maintaining race horses can be set-off only against income from the activity of owning and maintaining race horses.
- An Assessee carrying on specified business u/s 35AD and exercising the option of shifting out of the default tax regime provided under section 115BAC(1A), would be eligible for deduction u/s 35AD. In such a case, loss from specified business under section 35AD can be set-off only against profits from any other specified business.

#### Section 71: Inter head adjustment

##### Exceptions

- Loss under the head "Profits and gains of business or profession" cannot be set off against income under the head "Salaries"
- Loss under the head "Capital gains" cannot be set-off against income under any other head.
- Speculation loss and loss from the activity of owning and maintaining racehorses cannot be set-off against income under any other head.
- In case of an Assessee exercising the option of shifting out of the default tax regime provided under section 115BAC(1A) and claiming deduction u/s 35AD, loss from specified business u/s 35AD cannot be set off against income under any other head.
- The loss under the head "Income from house property" would not be allowable to be set-off against income under the other head and cannot be carried forward if the assessee pays tax at concessional rate u/s 115BAC.
- option of shifting out of the default tax regime provided under section 115BAC(1A), loss from house property can be set-off against income under any other head only to the extent of ₹ 2 lakhs. The remaining loss can be carried forward for set-off against income from house property of the succeeding year(s).

#### Losses which cannot be set-off or carried forward

Loss from gambling, betting, card games etc. or Loss from an exempt source





### Maximum period of carry forward of losses & Manner of set-off of brought forward losses

Section	Nature of loss to be carried forward	Income against which the brought forward loss can be set-off	Maximum period [from the end of the relevant assessment year] for carry forward of losses
32(2)	Unabsorbed depreciation	Income under any head other than salaries	Indefinite period
71B	Unabsorbed loss from house property	Income from house property	8 assessment years
72	Unabsorbed business loss	Profits and gains from business or profession	8 assessment years
73	Loss from speculation business	Income from any speculation business	4 assessment years
73A	Loss from specified business u/s 35AD	Profit from any specified business, irrespective of whether such business is eligible for deduction u/s 35AD.	Indefinite period
74	Long-term capital loss	Long-term capital gains	8 assessment years
	Short-term capital loss	Short-term/Long-term capital gains	8 assessment years
74A	Loss from the activity of owning and maintaining race horses	Income from the activity of owning and maintaining race horses.	4 assessment years

### Order of set-off of losses

- Current year depreciation / Current year capital expenditure on scientific research and current year expenditure on family planning, to the extent allowed.
- Brought forward loss from business/profession [Section 72(1)]
- Unabsorbed depreciation [Section 32(2)]
- Unabsorbed capital expenditure on scientific research [Section 35(4)].
- Unabsorbed expenditure on family planning [Section 36(1)(ix)]

### Question & Answers

#### Question 1

(Includes concepts of Return Filing)

Mr. Sumit has submitted his income-tax return containing certain losses/deductions in respect of the P.Y. 2024-25 on 22.10.2025. The due date for filing the return for Mr. Sumit was 31st July, 2025 under section 139(1). You are required to examine with reference to the relevant provisions of Income-tax Act, 1961 whether the following losses/deductions can be carried forward/claimed in subsequent years by Mr. Sumit if he pays tax under default tax provisions of the Act.

- Loss from the business carried on by him as a proprietor: ₹ 10,80,000 (computed)
- Unabsorbed Depreciation: ₹ 2,00,000 (computed)
- Loss from let out house property: ₹ 2,50,000 (computed) (MTP 3 Marks Dec'24)

#### Answer 1

Mr. Sumit has furnished his return of income under default tax regime for A.Y.2025-26 on 22.10.2025, i.e., after the due date specified under section 139(1) i.e., 31<sup>st</sup> July 20245 Hence, the return is a belated return under section 139(4).

As per section 80 read with section 139(3), specified losses, which have not been determined in pursuance of a return of loss filed within the time specified in section 139(1), cannot be carried forward to the subsequent year for set-off against income of that year. The specified losses include, *inter alia*, business loss but does not include loss from house property and unabsorbed depreciation.

Accordingly, business loss of ₹ 10,80,000 of Mr. Sumit for A.Y. 2025-26, not determined in pursuance of a return of loss filed within the time specified in section 139(1), cannot be carried forward to A.Y. 2026-27. However, the loss of ₹ 2,50,000 from let out house property and unabsorbed depreciation of ₹ 2,00,000





pertaining to A.Y.2025-26, can be carried forward to A.Y.2026-27 for set-off, even though Mr. Sumit has filed the return of loss for A.Y.2025-26 belatedly.

## Question 2

Mr. Gaurav, a resident individual, furnishes the following particulars of his income and other details for the previous year 2024-25:

	₹
Income from Salary (computed)	22,00,000
Business loss before providing current year depreciation (Business discontinued on 31.5.2024)	1,00,000
Current year depreciation	50,000
Interest from Fixed Deposit	10,15,000
Interest on loan in respect of self-occupied property	2,35,000
Income from specified business (Not eligible for deduction under section 35AD)	20,000
<b>Brought forward losses (Pertaining to A.Y. 2024-25)</b>	
Unabsorbed depreciation	45,000
Loss from specified business (eligible for deduction under section 35AD)	20,000

You are required to compute his gross total income for the A.Y. 2025-26 in such a way that his tax liability is minimized. (MTP 4 Marks, Sep'22)

## Answer 2

### Computation of gross total income of Mr. Gaurav for A.Y.2025-26

Particulars	₹	₹
<b>Income from Salary (Computed)</b>	22,00,000	
Less: Loss from self-occupied house property (on account of interest deduction upto ₹ 2,00,000) [Loss from house property can be set-off against salary income as per section 71(1)]	<u>2,00,000</u>	20,00,000
<b>Profits and gains from business and profession</b>		
Income from specified business [not eligible for deduction u/s 35AD]	20,000	
Less: Set-off of brought forward loss from specified business [eligible for deduction u/s 35AD] allowable as per section 73A	<u>(20,000)</u>	Nil
[Brought forward loss from specified business eligible for deduction u/s 35AD can be set-off against income from any specified business, whether or not the same is eligible for deduction u/s 35AD]		
<b>Income from Other Sources</b>		
Interest from fixed deposit	10,15,000	
Less: Current year business loss set-off [Inter-head set-off is permissible by virtue of section 71(1). Hence, current year business loss can be set-off against interest income from fixed deposit]	<u>1,00,000</u>	
	9,15,000	
Less: Current year depreciation	<u>50,000</u>	
	8,65,000	
Less: Unabsorbed depreciation under section 32(2) [Can be set-off against any head of income other than Salaries]	<u>45,000</u>	
		8,20,000
<b>Gross Total Income</b>		<b>28,20,000</b>





### Question 3

Compute the gross total income of Mr. Prakhar for A.Y. 2025-26 and the losses to be carried forward, from the information given below:

(i)	Income from House Property (computed)	₹ 3,60,000
(ii)	Short term capital loss on shares of a company	₹ (-) 18,700
(iii)	Long term capital gain on sale of agricultural land	₹ 6,000
(iv)	Income from rubber business (plants grown by Mr. Prakhar)	₹ 80,000
(v)	Loss from garment business b/f discontinued in F.Y. 2020-21	₹ (-) 70,000
(vi)	Loss from betting	₹ (-) 5,500
(vii)	Income from lotteries (net)	₹ 5,460

(PYP 4 Marks, Nov'22)

Answer 3

#### Computation of gross total income of Mr. Prakhar for the A.Y.2025 -26

Particulars	₹	₹
Income from house property (computed)		3,60,000
Profits and gains from business and profession		
Income from rubber business [35% of income from manufacture of rubber is business income [80,000 x 35%] and the balance 65% would be agricultural income	28,000	
Less: Brought forward loss of ₹ 70,000 from garment business set-off to the extent of ₹ 28,000, set-off is permissible even if the business is discontinued	<u>28,000</u>	Nil
Capital Gains		
Long-term capital gain on sale of agricultural land (Exempt, assuming that the same is rural agricultural land)		-
Income from Other Sources		
Income from lotteries (₹ 5,460 x 100/70)		7,800
[Note – Tax @30% has to be deducted on winnings from lotteries u/s 194B only if the amount of payment exceeds ₹ 10,000. However, in the question, winnings from lotteries is only ₹ 5,460 and the word “net” is given in the bracket. Since, the word “net” is written in the bracket in question, main solution is given based on the view that tax has been deducted on income from lotteries @30% and accordingly, the lottery income is grossed up. However, since no tax is deductible u/s 194B where lottery income does not exceed ₹ 10,000, the question can be answered without grossing up the lottery income of ₹ 5,460. In such a case, gross total income would be ₹ 3,65,460]		
Gross Total Income		3,67,800
Losses to be carried forward to A.Y.2026-27		₹
Loss from garment business pertaining to P.Y. 2020-21 (₹ 70,000 – ₹ 28,000)		42,000
Short term capital loss on shares of a company of A.Y. 2025-26		18,700
Loss of ₹ 5,500 from betting can neither be set-off nor be carried forward.		-

**Note –** In the question, long term capital gain on sale of agricultural land is given as ₹ 6,000. However, it is not mentioned as to whether the same is rural agricultural land or urban agricultural land. The main solution given above is based on the assumption that it is rural agricultural land. An alternate solution has been given below based on the assumption that it is urban agricultural land -

#### ALTERNATE SOLUTION

#### Computation of gross total income of Mr. Prakhar for the A.Y.2025-26

Particulars	₹	₹
Income from house property (computed)		3,60,000





<b>Profits and gains from business and profession</b>		
Income from rubber business [35% of income from manufacture of rubber is business income [80,000 x 35%] and the balance 65% would be agricultural income	28,000	
Less: Brought forward loss of ₹ 70,000 from garment business set-off to the extent of ₹ 28,000, set-off is permissible even if the business is discontinued	<u>28,000</u>	Nil
<b>Capital Gains</b>		
Long-term capital gain on sale of agricultural land, assuming that the same is urban agricultural land.	6,000	
Less: Set-off of Short-term capital loss of ₹ 18,700 against long-term capital gains to the extent of ₹ 6,000 by virtue of section 74(1)	<u>6,000</u>	Nil
<b>Income from Other Sources</b>		
Income from lotteries (₹ 5,460 x 100/70)		7,800
[Note – Tax @30% has to be deducted on winnings from lotteries u/s 194B only if the amount of payment exceeds ₹ 10,000. However, in the question, winnings from lotteries is only ₹ 5,460 and the word “net” is given in the bracket. Since, the word “net” is written in the bracket in question, main solution is given based on the view that tax has been deducted on income from lotteries @30% and accordingly, the lottery income is grossed up. However, since no tax is deductible u/s 194B where lottery income does not exceed ₹ 10,000, the question can be answered without grossing up the lottery income of ₹ 5,460. In such a case, gross total income would be ₹ 3,65,460]		
<b>Gross Total Income</b>		<b>3,67,800</b>
<b>Losses to be carried forward to A.Y. 2026-27</b>		<b>₹</b>
Loss from garment business pertaining to P.Y. 2022-23 (₹ 70,000 – ₹ 28,000)		42,000
Short term capital loss on shares of a company of A.Y. 2025-26 (₹ 18,700 – ₹ 6,000)		12,700
Loss of ₹ 5,500 from betting can neither be set-off nor be carried forward.		-

#### Question 4

Mr. Harsh furnishes the following details for the year ended on 31-03-2025:

PARTICULARS	AMOUNT (₹)
Salary received from partnership firm (the same was allowed to the firm)	8,50,000
Loss on sale of shares listed in stock exchange held for 18 months and the STT paid on the sale and acquisition	6,00,000
Long term capital gain on sale of land	5,00,000
Brought forward business loss of assessment year 2017-18	6,00,000
Loss of the specified business covered in Section 35AD	3,50,000
Loss from house property	2,50,000
Income from betting (gross)	50,000
Loss from card games	35,000

Compute the total income and show the item eligible for carry forward of Mr. Harsh for the assessment year 2025-26. (PYP 4 Marks, May'22)



**Answer 4****Computation of total income of Mr. Harsh for the A.Y.2025-26**

Particulars	₹	₹
<b>Profits and gains from business and profession</b>		
Salary received from partnership firm (would be fully taxable in the hands of Mr. Harsh as business income, since the same was allowed to the firm as deduction)	8,50,000	
Less: Loss from house property ₹ 2,50,000 (can be set-off against income from any other head only to the extent of ₹ 2 lakh)	<u>2,00,000</u>	
	6,50,000	
Less: Set-off of brought forward business loss of A.Y. 2017-18 (since the eight year time period for set-off has not expired)	<u>6,00,000</u>	
		50,000
<b>Capital Gains</b>		
Long-term capital gain on sale of land	5,00,000	
Less: Set-off of long-term capital losses (since held for 18 months i.e., more than 12 months) on sale of STT paid listed shares [Such set-off is permissible since it is a loss from a source of income taxable u/s 112A]	<u>5,00,000</u>	-
<b>Income from Other Sources</b>		
Income from betting (gross) [No Loss can be set off against income from betting]		50,000
Loss of ₹ 35,000 from card games can neither be set-off nor be carried forward		-
<b>Total Income</b>		<b>1,00,000</b>
<b>Losses to be carried forward to A.Y. 2026-27</b>		₹
Loss from house property (₹ 2,50,000 – ₹ 2,00,000)		50,000
Loss from specified business covered u/s 35AD [Entire loss is to be carried forward, since there is no income from any specified business for A.Y.2025-26. Such loss has to be carried forward for set-off against income from any specified business in A.Y.2028-29]		3,50,000
Long-term capital loss on sale of listed shares (STT paid) [₹ 6,00,000 – ₹ 5,00,000]		1,00,000

**Exam Insights:** This question tests the provisions of set-off and carry forward of losses, which requires proper presentation of computation of total income showing each head of income in sequence and set-off of current year losses and brought forward losses. However, examinees failed to properly present their answers. Moreover, some of the examinees taxed the remuneration from partnership firm under the head “Salaries” instead of “Profits and gains from business or profession”.

**Question 5**

Mr. Viwitsu is Lawyer by profession and his income from profession for the year 2024-25 is ₹ 10,00,000. From the information given by him, you are required to compute his total income for A.Y. 2025-26 and the losses to be carried forward assuming that he files his income tax returns every year before due date.





Particulars	₹
Income of minor son Raj from company deposit	1,60,000
Income of minor daughter Rashmi (professional dancer) from her dance performances	15,00,000
Interest from Canara bank received by Rashmi on deposit made out of income earned from her dance performances	15,000
Loss from house property (computed)	2,50,000
Short term capital loss	6,00,000
Long-term capital gain from equity shares under section 112A	1,20,000
Long term capital gain under section 112	3,00,000
Short term capital loss under section 111A	5,00,000

Assume that Mr. Viwitsu does not opt for the provisions of section 115BAC and his income before considering clubbing provisions is higher than that of his wife. (MTP 6 Marks, Mar'22)

Answer 5

#### Computation of Total Income of Mr. Viwitsu for A.Y. 2025-26

Particulars	₹	₹	₹
<b>Profits and gains from business and profession</b>			
Income from profession		10,00,000	
Less: Loss from house property (can be set-off to the extent of ₹ 2,00,000, as per section 71(3A).		<u>2,00,000</u>	8,00,000
<b>Capital gains</b>			
Long term capital gains on sale of equity shares under section 112A		1,20,000	
Long term capital gain under section 112		3,00,000	
Less: Short term capital loss set off against long- term capital gain as per section 74		<u>(4,20,000)</u>	Nil
<b>Income from other sources</b>			
<b>Income of minor son Raj</b>			
Income from company deposit includible in the hands of Mr. Viwitsu as per section 64(1A)	1,60,000		
Less: Exemption in respect of income of minor child u/s 10(32)	<u>1,500</u>	1,58,500	
<b>Income of minor daughter Rashmi</b>			
Income of ₹ 15,00,000 of minor daughter Rashmi (professional dancer) not includible in the hands of parent, since such income is earned on account of her special skills	Nil		
Interest received on deposit with Canara Bank made out of amount earned on account of her special talent is includible as per section 64(1A),	15,000		
since interest income arises out of deposit made and not on account of her special skills	Nil		
Less: Exemption in respect of income of minor child u/s 10(32)	<u>1,500</u>	13,500	<u>1,72,000</u>
<b>Total Income</b>			<b>9,72,000</b>

#### Losses to be carried forward to A.Y.2026-27

Particulars	₹
Loss from house property [₹ 2.50,000 – ₹ 2,00,000]	50,000
Short term capital loss under section 111A	5,00,000
Short term capital loss (other than above) [₹ 6,00,000 – ₹ 4,20,000]	1,80,000

**Note** – Short-term capital loss under section 111A can be set-off against long-term capital gains under





section 112 & 112A. In such a case, the losses to be carried forward to A.Y.2026-27 would be as under –

Particulars	₹
Loss from house property [₹ 2.50,000 – ₹ 2,00,000]	50,000
Short term capital loss under section 111A [₹ 5,00,000 – ₹ 4,20,000]	80,000
Short term capital loss (other than above)	6,00,000

#### Question 6

LDR

Compute the total income of Mr. Veer for the assessment year 2025-26 under proper heads from the following information furnished by him for the financial year 2024-25

Particulars	₹
Income from let out house property (computed)	3,50,000
Interest paid on housing loan for self-occupied property	2,00,000
Income from Textile business	5,75,000
Brought forward business loss of Assessment Year 2021-22	1,05,000
Short-term capital loss	70,000
Brought forward long-term loss from Assessment Year 2023-24	90,000
Long-term capital gain on sale of house	75,000
Interest on enhanced compensation from Government for acquisition of land in 2020	5,00,000
Dividend from ABC Ltd., Andhra Pradesh	15,000
Deposit made on 15.02.2025 in his Public Provident fund account	75,000
Loss from owning and maintaining race horse of Assessment Year 2024-25	20,000
Loss from Gambling	8,000

Also state the loss that can be carried forward to A.Y. 2026-27. Mr. Veer filed the return of income for assessment year 2021-22 after the expiry of due date for filing the return. (MTP 7 Marks, Nov'21)

#### Answer 6

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

Particulars	₹	₹
<b>Income from house property</b>		
Income from let out house property	3,50,000	
Less: Set-off of loss from self-occupied house property by virtue of section 70(1) [Whole of interest i.e., ₹ 2,00,000 allowable as deduction, since it is within the permissible limit applicable to self-occupied property; The said amount represents loss from self-occupied property]	(2,00,000)	1,50,000
<b>Profits and gains of business or profession</b>		
Income from textile business	5,75,000	
[As per section 80, brought forward business loss of ₹ 1,05,000 of assessment year 2021-22 cannot be set-off, since return of income for that year was filed after the expiry of due date specified under section 139(1)]	Nil	5,75,000
<b>Capital Gains</b>		
Long-term capital gains on sale of house	75,000	
Less: Short-term capital loss can be set-off against long-term capital gains [section 70(2)]	70,000	
	5,000	
Less: Brought forward long-term capital loss of ₹ 90,000 from A.Y. 2023-24, set-off to the extent of ₹ 5,000	5,000	Nil
<b>Income from Other Sources</b>		
Interest on enhanced compensation from Government	5,00,000	
Less: Deduction @50%	2,50,000	





	2,50,000	
Dividend from ABC Ltd.	15,000	2,65,000
<b>Gross Total Income</b>		<b>9,90,000</b>
Less: Deduction under section 80C – Deposit in PPF		75,000
<b>Total Income</b>		<b>9,15,000</b>
<b>Losses to be carried forward to A.Y.2026-27</b>		
Long-term capital loss of A.Y. 2023-24 (₹ 90,000 – ₹ 5,000) to be set-off against long-term capital gains, if any, in that year	85,000	
Loss from owning and maintaining racehorse of the A.Y. 2024-25 to be set-off against income, if any, from owning and maintaining race horses in that year.	20,000	
Loss from gambling (it can neither be set-off against any income during the previous year nor can it be carried forward for set-off against any income in the subsequent assessment years).		

### Question 7

Mr. Ram, a resident Individual aged 65 years, submits the following details of his income for the assessment year 2025-26:

Particulars	₹
Loss from speculative business A	30,000
Income from speculative business B	1,50,000
Loss from specified business covered under section 35AD	20,000
Income from Salary (computed)	2,00,000
Loss from let out house property	1,90,000
Loss from cloth business	80,000
Long-term capital gain from sale of urban land	3,00,000
Long-term capital loss on sale of shares (STT not paid)	1,00,000
Long-term capital loss on sale of listed shares in recognized stock exchange (STT paid at the time of acquisition and sale of shares)	1,50,000
Income from betting (Gross)	80,000
Loss from gambling	8,000
Interest on saving bank deposits	12,000
Interest on fixed deposits with banks	40,000

Compute the total income of Mr. Ram and show the items eligible for carry forward, assuming that he does not opt for the provisions of section 115BAC. (RTP May'23)

### Answer 7

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

Particulars	Amount (₹)	Amount (₹)
<b>Salaries</b>		
Income from Salary	2,00,000	
Less: Loss from house property set-off against salary	1,90,000	
		10,000
<b>Profits and gains from business or profession</b>		
Income from speculative business B	1,50,000	
Less: Loss of ₹ 30,000 from speculative business A	30,000	
Less: Loss from cloth business [Loss from non- speculative business can be set		





off against profits from speculative business]	<u>80,000</u>	
		40,000
<b>Capital Gains</b>		
Long-term capital gain from sale of urban land	3,00,000	
Less: Long-term capital loss on sale of shares (STT not paid)	1,00,000	
Less: Long-term capital loss on sale of listed shares in recognizes stock exchange (STT paid at the time of acquisition and sale of shares)	<u>1,50,000</u>	
		50,000
<b>Income from Other Sources</b>		
Income from betting	80,000	
Interest on savings bank deposits	12,000	
Interest on fixed deposits with banks	<u>40,000</u>	<u>1,32,000</u>
Gross Total Income		<b>2,32,000</b>
Less: Deduction under section 80TTB (Maximum being ₹ 50,000, since Mr. Ram is a senior citizen)		50,000
<b>Total Income</b>		<b>1,82,000</b>

**Notes:**

- Loss from specified business covered under 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 of ₹ 20,000 has to be carried forward for set-off against profits and gains of any specified business in the following year.
- Loss from gambling can neither be set off against any other income, nor can be carried forward.

**Question 8**

Compute total income of Mr. Mihir for the assessment year 2025-26 from the following information furnished by him for the financial year 2024-25. Assume that he has opted out of 115BAC.

Particulars	₹
Salary income (computed)	4,70,000
Loss from self-occupied house property	2,00,000
Loss from let out house property	80,000
Loss from speculation business-X	90,000
Profit from speculation business-Y	80,000
Income from trading and manufacturing business @ 8%	5,50,000
Interest on PPF deposit	95,000
Long term capital gain on sale of Vacant site (Computed)	1,10,000
Short term capital loss on sale of Jewellery	1,90,000
Investment in tax saver deposit on 31-03-2025	50,000
Brought forward loss of business of assessment year 2021-22	7,50,000
Donation to a charitable trust recognized under section 12AB and approved under section 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 2014	4,00,000

(MTP 7 Marks, Oct'22) (Same concepts different figures MTP 7 Marks Oct'21)



**Answer 8****Computation of total income of Mr. Mihir for A.Y.2025-26**

Particulars	₹	₹
<b>Salaries</b>		4,70,000
<b>Profits and gains from business or profession</b>		
Profit from speculation business Y	80,000	
Less: Loss of ₹ 90,000 from speculation business X set-off against profit from speculation business Y to the extent of such profit	(80,000)	
Loss of ₹ 10,000 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%	5,50,000	
Less: Brought forward business loss of A.Y. 2021-22 set-off since a period of eight assessment years has not expired. Balance loss of ₹ 2,00,000 to be carried forward to A.Y. 2026-27	(5,50,000)	Nil
<b>Capital Gains</b>		
Enhanced compensation received from government for compulsory acquisition [Taxable in P.Y. 2024-25 since enhanced compensation is taxable on receipt basis]	4,00,000	
Long term capital gain on sale of vacant site	1,10,000	
Less: Short term capital loss on sale of jewellery	(1,90,000)	
	3,20,000	
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 80,000 to be carried forward to A.Y. 2026-27.	(2,00,000)	1,20,000
<b>Income from Other Sources</b>		
Interest on PPF deposit	95,000	
Less: Exempt under section 10(11)	(95,000)	Nil
<b>Gross Total Income</b>		<b>5,90,000</b>
Less: Deduction under Chapter VI-A		
<b>Deduction under section 80C</b>		
Investment in tax saver deposit on 31.3.2025	50,000	
<b>Deduction under section 80G</b>		
Donation to recognized and approved charitable trust [Donation of ₹ 1,10,000 to be first restricted to ₹ 42,000, being 10% of adjusted total income of ₹ 4,20,000 i.e., [₹ 5,90,000 – ₹ 1,20,000 – ₹ 50,000]. Thereafter, deduction would be computed at 50% of ₹ 42,000.	21,000	71,000
<b>Total Income</b>		<b>5,19,000</b>

**Question 9**

Mr. Mohit submits the following information for the previous year 2024-25:

		(Amount in ₹)
(i)	Income from salary	6,50,000
(ii)	Income from House-I	55,000
(iii)	Loss from House-II (self-occupied property)	1,25,000
(iv)	Loss from House-III	190,000
(v)	Loss from leather business	68,000
(vi)	Profit from cloth business	1,70,000





(vii)	Short term capital loss in equity-oriented funds on which STT was paid	35,000
(viii)	Income from crossword puzzles	12,000
(ix)	Dividend from foreign company (Gross)	8,500
(x)	Loss on owning and maintenance of race horses	7,500
(xi)	Income from owning and maintenance of race bulls	9,000

Compute the gross total income and losses to be carried forward of Mr. Mohit for assessment year 2025-26 under regular provisions of the Act. Mr. Mohit has filed his return of income on 25.07.2025. (MTP 6 Marks, Aug'24)

**Answer 9**

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

Particulars		₹	₹
<b>Salaries</b>			
Income from salary		6,50,000	
Less: Loss from house property of ₹ 2,60,000, restricted to		<u>2,00,000</u>	
			4,50,000
Income from house property			
Income from House I		55,000	
Less: Loss from House II (self-occupied)		1,25,000	
Loss from House III		<u>1,90,000</u>	
		3,15,000	
		(2,60,000)	
Set-off of loss from house property against salary income, restricted to		<u>2,00,000</u>	
Loss to be carried forward to A.Y. 2026-27		<u>(60,000)</u>	
<b>Profits and gains of business or profession</b>			
Profit from cloth business		1,70,000	
Less: Loss from leather business		<u>68,000</u>	
			1,02,000
<b>Capital Gains</b>			
Short term capital loss in equity-oriented funds on which STT is paid ₹ 35,000 to be carried forward to A.Y. 2026-27 since such loss can be set-off only against capital gains and not against income under any other head		-	
<b>Income from other sources</b>			
Income from owning and maintenance of race bulls		9,000	
Loss of ₹ 7,500 from the activity of owning and maintenance of race horses cannot be set-off against any source other than income from the activity of owning and maintaining race horses. Hence, such loss has to be carried forward to A.Y. 2026-27.		Nil	
Income from crossword puzzles		12,000	
Dividend from foreign company		<u>8,500</u>	
			29,500
<b>Gross Total Income</b>			<b>5,81,500</b>



**Losses to be carried forward to A.Y.2026-27:**

Particulars	₹
<b>Loss from house property</b> [to be carried forward for set-off against income from house property]	60,000
<b>Short-term capital loss</b> in equity oriented funds on which STT was paid [to be carried forward for set-off against capital gains, long- term or short-term]	35,000
<b>Loss from owning and maintaining race horses</b> [to be carried forward for set-off against income from the activity of owning and maintaining race horses]	7,500

**Note:** Loss from house property can also be set-off to the extent of ₹ 1,02,000 from profits and gains from business or profession and balance i.e., ₹ 98,000 against Income under the head “Salaries”.

**Question 10**

Following are the details of incomes/losses of Mr. Rishi for the F.Y. 2024-25:

(Figures in brackets represents losses)	₹
Taxable salary income (computed)	3,60,000
Taxable income from house property (computed)	
- from rented house property X	1,20,000
- from rented house property Y	(3,40,000)
Taxable profit from business (computed)	
- business P	2,30,000
- business Q	(12,000)
- business R (speculative business)	15,000
- business T (speculative business)	(25,000)
Taxable Income from other sources :	
- from card games	16,000
- from owning & maintenance of race horses	(7,000)
- interest on securities	5,000

You are required to determine the Gross total income of Mr. Rishi for Assessment Year 2025-26.  
(PYP 5 Marks, Nov'19, MTP 5 Marks, Sep '23)

**Answer 10****Computation of gross total income of Mr. Rishi for the A.Y.2025-26**

Particulars	₹	₹
<b>Salary Income (computed)</b>	3,60,000	
Less: Set-off of loss from house property ₹ 2,20,000, restricted to	<u>2,00,000</u>	
		1,60,000
<b>Income from House Property</b>		
Income from Property X	1,20,000	
Less: Loss from Property Y [inter-source set-off is permitted under section 70(1)]	<u>3,40,000</u>	
Loss from house property	2,20,000	
Less: Loss eligible for set-off against salary income as per section 71(3A), restricted to	<u>2,00,000</u>	
Loss to be carried forward to A.Y. 2026-27 as per section 71B, for set-off		





against income from house property, if any, in that year.	(20,000)	
<b>Profits and gains of business or profession</b>		
Income from business P	2,30,000	
Less: Loss from business Q (inter-source set-off is permitted)	<u>12,000</u>	
		2,18,000
Income from speculation business R	15,000	
Less: Loss from speculation business T [can be set-off only against income from speculation business as per section 73(1)]	<u>25,000</u>	
Loss to be carried forward to A.Y. 2026-27 for set-off against speculative business income of that year by virtue of section 73(2).	(10,000)	
<b>Income from Other Sources</b>		
Income from card games	16,000	
Interest on securities	<u>5,000</u>	21,000
Loss from owning & maintaining race horses [Not allowed to be set-off against any other income under this head or under any other head. Thus, such loss has to be carried forward to A.Y. 2026-27 for set-off against income, if any, from owning and maintaining race horses in that year by virtue of section 74A(3)]	(7,000)	
<b>Gross Total Income</b>		<b>3,99,000</b>

**Note:** Loss from house property of ₹ 2 lakh can also be set-off against business income instead of salary income. In such a case, salary income would be ₹ 3,60,000 and business income would be ₹ 18,000. Gross total income would remain the same.

Any other permutation for set-off of house property (other than income from card games), including partial set-off against one head and the remaining against another, is also possible.

STRIVING TOWARDS KNOWLEDGE

#### Question 11

**Mr. X a resident individual submits the following information, relevant to the previous year ending March 31, 2025:**

S. No.	Particulars	Amount (₹)
(i)	Income from Salary (Computed)	2,22,000
(ii)	Income from House Property	
	- House in Delhi	22,000
	- House in Chennai	(-) 2,60,000
	- House in Mumbai (self-occupied)	(-) 20,000
(iii)	Profit and gains from business or profession	
	- Textile business	18,000
	- Cosmetics business	(-) 22,000
	- Speculative business- 1	(-) 74,000
	- Speculative business-2	46,000
(iv)	Capital gains	
	Short term capital loss from sale of property	(-) 16,000
	Long term capital gains from sale of property	15,400
(v)	Income from other sources (Computed)	
	- Income from betting	34,000
	- Income from card games	46,000





	- Loss on maintenance of race horses	(-)14,600
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Determine the gross total income of Mr. X for the assessment year 2025-26 and the losses to be carried forward assuming that he does not opt to be taxed under section 115BAC (PYP 5 Marks, Jul'21, MTP 5 Marks Oct '23)

#### Answer 11

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

Particulars	Amount	Amount
<b>Salaries</b>		
Income from salary (computed)	2,22,000	
<b>Less:</b> Set-off of loss from house property of ₹ 2,58,000 to the extent of ₹ 2 lakhs by virtue of section 71(3A)	<u>2,00,000</u>	22,000
<b>Income from house property</b>		
- House in Delhi	22,000	
- House in Chennai	(2,60,000)	
- House in Mumbai (self-occupied)	<u>(20,000)</u>	
	(2,58,000)	
Loss upto ₹ 2 lakhs can be set off against income from salary. Balance loss of ₹ 58,000 from house property has to be carried forward to A.Y.2026-27.		
<b>Profits and gains from business or profession</b>		
Profits from Speculative business – 2	46,000	
<b>Less:</b> Loss of ₹ 74,000 from speculation business - 1 set off to the extent of profits of ₹ 46,000 as per section 73(1) from another speculation business. Loss from speculation business cannot be set-off against any income other than profit and gains of another speculation business. Hence, the balance loss of ₹ 28,000 from speculative business has to be carried forward to A.Y.2026-27.	<u>(46,000)</u>	
Profits from textile business	18,000	
<b>Less:</b> Loss from cosmetic business of ₹ 22,000 set off against profits from textile business to the extent of ₹ 18,000 as per section 70(1).	<u>(18,000)</u>	-
Balance loss of ₹ 4,000 from cosmetic business has to be carried forward to A.Y.2026-27, since the same cannot be set-off against salary income.		
<b>Capital Gains</b>		
Long term capital gain from sale of property	15,400	
<b>Less:</b> Short-term capital loss can be set-off against both short-term capital gains and long-term capital gains. Short term capital loss of ₹ 16,000 set off against long-term capital gains to the extent of ₹ 15,400 as per section 74(1).	<u>(15,400)</u>	-
Balance short term capital loss of ₹ 600 has to be carry forward to A.Y.2026-27		
<b>Income from Other Sources</b>		
Income from betting [No loss is allowed to be set off against such income]	34,000	
Income from card games [No loss is allowed to be set off against such income]	46,000	
Loss on activity of owning and maintenance of race horses [Loss incurred on activity of owning and maintenance of race horses cannot be set-off against	<u>Nil</u>	





income from any source other than the activity of owning and maintaining race horses. Hence, such loss of ₹ 14,600 has to be carried forward to A.Y.2026-27]		
		<u>80,000</u>
<b>Gross Total Income</b>		<b><u>1,02,000</u></b>

### Question 12

LDR

Mr. Joshi, resident Indian, aged about 58 years, furnished the following details of his income for the previous year 2024-25:

- Income from House property (computed) ₹ 2,00,000.
- Income from Proprietary Business ₹ 3,00,000.
- Short Term Capital Gain on sale of Land ₹ 2,00,000.
- Short Term Capital loss on sale of equity shares listed in recognized stock exchange (STT paid) ₹ 75,000.
- Interest on Bank fixed deposit ₹ 50,000 received by his son, aged 21 years, out of money gifted by Mr. Joshi in 2023.
- Loss from Speculation Business ₹ 40,000.
- Loss from Owning and Maintenance of Race Horses ₹ 50,000.

Following are the brought forward losses:

- Brought forward House property loss of assessment year 2022 -23 ₹ 2,50,000.
  - Brought forward business loss of Proprietary business from assessment year 2014-15 ₹ 50,000.
  - Unabsorbed Depreciation relating to assessment year 2015 -16 ₹ 1,00,000.
  - Brought forward Long Term Capital Loss from assessment year 2019-20 ₹ 90,000. Return of income for that year was filed on 31.01.2020, after due date of filing the return.
- Compute the total income of Mr. Joshi for the assessment year 2025 -26 and show the items eligible for carry forward, assuming that he exercises the option of shifting out of the default tax regime provided under Section 115BAC(1A). (PYP 6 Marks, May'24)

### Answer 12

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

Particulars	₹	
<b>Income from house property</b>	2,00,000	
Less: Set-off of brought forward loss from house property of A.Y. 2022-23 is allowed, since 8 years period not yet lapsed	<u>2,00,000</u>	Nil
<b>Profits and gains from business or profession</b>		
Income from proprietary business	3,00,000	
Less: Set off of brought forward business loss of A.Y. 2014-15 not allowable as 8 years' time has already lapsed in the A.Y. 2022-23	Nil	
Less: Set off of unabsorbed depreciation of A.Y. 2015-16	<u>1,00,000</u>	2,00,000
[Note – Alternatively, unabsorbed depreciation can be set-off against short-term capital gains]		
<b>Capital Gains</b>		
Short-term capital gain on sale of land	2,00,000	
Less: Set-off of short-term capital loss on sale of listed equity shares	<u>75,000</u>	1,25,000
Brought forward long-term capital loss is not allowed to be carried forward and set-off, since return of income for the A.Y. 2019-20 was filed after the due date of filing return of income.		
<b>Income from Other Sources</b>		
Interest on fixed deposit not includible in the hands of Mr. Joshi since his		<u>Nil</u>





son is major		
<b>Gross Total Income</b>		<b>3,25,000</b>
<b>Less: Deduction under Chapter VI-A</b>		<u>Nil</u>
<b>Total Income</b>		<b>3,25,000</b>

Items eligible for carried forward		
(i)	Loss from speculation business of ₹ 40,000 can be set-off against income from speculation business only. Hence, such loss would be carried forward to subsequent assessment year.	
(ii)	Loss from owning and maintenance of race horses ₹ 50,000, can be set-off against income from income from owning and maintenance of race horses only. Thus, such loss would be carried forward to subsequent assessment year.	
(iii)	Brought forward loss from house property can be set off only against income of house property. Hence, remaining loss of ₹ 50,000 has to be carried forward to subsequent assessment year.	

### Question 13

(Includes concepts of Clubbing of Income)

The following are the details relating to Mr. Wiwitsu, a resident Indian, relating to the year ended 31.03.2025

Particulars	Amount (₹)
Short term capital gain	1,50,000
Loss from house property [let out property]	2,50,000
Loss from speculative business	50,000
Loss from card games	20,000
Brought forward long term capital loss of A.Y. 2021-22	86,000
Dividend from ABC Ltd.	11,00,000
Loss from tea business	1,06,000

Mr. Wiwitsu's wife, Shamita is employed with Ray Ltd., at a monthly salary of ₹ 25,000, where Mr. Wiwitsu holds 21% of the shares of the company. Shamita is not adequately qualified for the post held by her in Ray Ltd.

You are required to compute taxable income of Mr. Wiwitsu for the A.Y. 2025-26 if he has exercised the option to shift out of the default tax regime under section 115BAC. Ascertain the amount of losses which can be carried forward. (MTP 6 Marks, Apr'24)(MTP 7 Marks, Oct'20 & Mar'18 )

### Answer 13

**Computation of Taxable Income of Mr. Wiwitsu for the A.Y. 2025-26 under normal provisions of the Act**

Particulars	₹	₹
<b>Salaries</b>		
Shamita's salary (₹ 25,000 x 12) [See Note 1]	3,00,000	
Less: Standard deduction under section 16(ia) upto ₹ 50,000	<u>50,000</u>	
	2,50,000	
Less: Loss from house property set off against salary income as per section 71(3A) [See Note 2]	<u>2,00,000</u>	50,000
<b>Capital Gains</b>		
Short term capital gain	1,50,000	
Less: Loss from tea business (₹ 1,06,000 x 40%) [See Note 3 & 4]	<u>42,400</u>	1,07,600
<b>Income from Other Sources</b>		
Dividend income		<u>11,00,000</u>
<b>Taxable Income</b>		<b>12,57,600</b>





**The following losses can be carried forward for subsequent assessment years:**

- |       |   |          |
|-------|---|----------|
| (i)   | Loss from house property to be carried forward and set-off against income from house property             | ₹ 50,000 |
| (ii)  | Long-term capital loss of A.Y. 2021-22 can be carried forward and set-off against long-term capital gains | ₹ 86,000 |
| (iii) | Loss from speculative business to be carried forward and set-off against income from speculative business | ₹ 50,000 |

**Notes:**

- As per section 64(1)(ii), all the income which arises directly or indirectly, to the spouse of any individual by way of salary, commission, fees or any other form of remuneration from a concern in which such individual has a substantial interest shall be included in the total income of such individual. However, where spouse possesses technical or professional qualification and the income is solely attributable to the application of such knowledge and experience, clubbing provisions will not apply. Since, Mrs. Shamita is not adequately qualified for the post and Mr. Wiwitsu has substantial interest in Ray Ltd by holding 21% of the shares of the Ray Ltd., the salary income of Mrs. Shamita to be included in Mr. Wiwitsu's income.
- 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.
- 60% of the losses from tea business is treated as agricultural income and therefore exempt under section 10(1). Loss from an exempt source cannot be set off against profits from a taxable source.
- As per section 71(2A), business loss cannot be set off against salary income. Hence, 40% of the losses from tea business i.e., ₹ 42,400 can be set off against short term capital gains or dividend income.
- Loss from card games can neither be set off against any other income, nor can it be carried forward.
- Loss of ₹ 50,000 from speculative business can be set-off only against the income from the speculative business. Hence, such loss has to be carried forward.
- As per section 74(1), brought forward long-term capital loss can be set-off only against long-term capital gain. Such loss can be carried forward for eight assessment years immediately succeeding the assessment year for which the loss was first computed. Since, 8 assessment years has not expired, such loss can be carried forward to A.Y. 2026-27 for set-off against long-term capital gains.

#### Question 14

**Compute the gross total income of Mr. Farhan and show the items eligible for carry forward and the assessment years up to which such losses can be carry forward from the following information furnished by him for the year ended 31-03-2025:**

Particulars	Amount (₹)
Loss from speculative business MNO	12,000
Income from speculative business BPO	25,000
Loss from specified business covered under section 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 under section 111A	85,000

**Following are the brought forward losses:**

- Brought forward loss from speculative business MNO ₹ 18,000 relating to A.Y. 2021-22.
- 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 under section 139(1) in all the above previous years. (MTP 7 Marks, Mar'21) (Same concepts different figures SM)

**Answer 14**

**Computation of Gross total income of Mr. Farhan for the A.Y.2025-26**

Particulars	₹	₹
<b>Salaries</b>		
Income from Salary	4,18,000	
<b>Less:</b> Loss from house property set-off against salary [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.]	(2,00,000)	2,18,000
<b>Profits and gains of business or profession</b>		
Income from trading business	2,80,000	
<b>Less:</b> Brought forward loss from trading business of A.Y. 2015-16 can be set off against current year income from trading business as per section 72(1), since the eight-year time limit as specified under section 72(3), within which set-off is permitted, has not expired.	(12,000)	
<b>Less:</b> Unabsorbed depreciation	(1,00,000)	1,68,000
<b>Income from speculative business BPO</b>	25,000	
<b>Less:</b> 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)	-
<b>Capital Gains</b>		
Long term capital gain on sale of urban land	2,05,000	
<b>Less:</b> Long term capital loss on sale of shares (STT not paid) set-off as per section 71(3)	(85,000)	
<b>Less:</b> 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 under section 112A	(1,10,000)	
<b>Less:</b> Short-term capital loss under section 111A as per section 71(2)	(10,000)	-
<b>Gross Total Income</b>		<b>3,86,000</b>

**Items eligible for carried forward to A.Y.2026-27**

Particulars	₹
<b><u>Loss from house property</u></b> 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., up to A.Y. 2033-34, in this case.	20,000
<b><u>Loss from specified business under section 35AD</u></b> Loss from specified business under section 35AD can be set-off only against profits of any other specified business. If loss cannot be so set-off, the same has to be carried forward to the subsequent year for set off against income from specified business, if any, in that year. As per section 73A(2), such loss can be carried forward indefinitely for set-off against profits of any specified business .	45,000
<b><u>Short-term capital loss under section 111A</u></b> Short-term capital loss under section 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., up to A.Y.2033-34, in this case, as specified under section 74(1).	75,000





### Question 15

Mr. Kabir, a resident individual aged 45 years, furnishes the following particulars of his income and other details for the previous year 2024-25:

Particulars	Amount (₹)
Income from tea business	5,00,000
Losses from sugar business	4,00,000
Dividend from Indian company carrying on agricultural operations (gross)	1,00,000
Agricultural income	55,000
Salary received as a partner from a partnership firm. The same was allowed to the firm.	4,50,000
Net annual value of house property	4,20,000
Loss from gambling	1,00,000
Short term capital gains on sale of land	75,000
Loss on sale of shares listed in BSE. Shares were held for 15 months and STT paid on sale and acquisition	3,00,000
Life insurance premium paid (10% of the capital sum assured)	80,000
Bank interest on Fixed deposit (gross)	55,000
Interest on saving bank account	13,000

The other details of brought forward losses pertaining to A.Y. 2024-25 are as follow:

Particulars	Amount (₹)
Brought forward business loss from sugar business	1,00,000
Brought forward short term capital loss	45,000
Brought forward loss from house property	3,00,000
Brought forward loss from maintenance of race horses	60,000

Compute the total income of Mr. Kabir for the Assessment Year 2025-26 and the amount of loss, if any, that can be carried forward, if he does not opt for section 115BAC. (RTP Nov'22)

### Answer 15

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

Particulars	Amount (₹)	Amount (₹)
<b>Income from house property</b>		
Net annual value	4,20,000	
Less: Deduction under section 24 (30% of ₹ 4,20,000)	<u>1,26,000</u>	
	2,94,000	
Less: Brought forward loss of ₹ 3 lakhs from house property set off to the extent of ₹ 2,94,000	<u>2,94,000</u>	-
<b>Profit and gains from business or profession</b>		
Income from tea business (40% is business income)	2,00,000	
Salary received as partner from a partnership firm is taxable under the head "Profits and gains from business or profession"	<u>4,50,000</u>	
	6,50,000	
Less: Losses from sugar business	<u>4,00,000</u>	
	2,50,000	
Less: Brought forward business loss from sugar business	<u>1,00,000</u>	1,50,000





<b>Capital Gains</b>		
Short term capital gains on sale of land	75,000	
Less: Brought forward short term capital loss	<u>45,000</u>	30,000
<b>Income from Other Sources</b>		
Dividend from Indian company	1,00,000	
Agricultural income (exempt)	-	
Bank interest on Fixed deposit	55,000	
Interest on saving bank account	<u>13,000</u>	<u>1,68,000</u>
Gross Total Income		<b>3,48,000</b>
Less: Deduction under section 80C (life insurance premium paid)	80,000	
Less: Interest on saving bank account under section 80TTA, to the extent of	<u>10,000</u>	<u>90,000</u>
<b>Total Income</b>		<b><u>2,58,000</u></b>

**Losses to be carried forward to A.Y. 2026-27**

Particulars	Amount (₹)
Loss from house property of A.Y. 2024-25	6,000
Loss from maintenance of race horses of A.Y. 2024-25	60,000
Long term capital loss on sale of STT paid listed shares	3,00,000

**Notes –**

- 60% of the income from tea business is treated as agricultural income and therefore, exempt from tax.
- Agricultural income is exempt under section 10(1).
- Loss from gambling can neither be set off against any other income, nor can be carried forward.
- 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 only. Since there is no long term capital gains in A.Y. 2025-26, it has to be carried forward for set-off against long term capital gains, if any, during A.Y. 2026-27.
- As per section 74A(3), loss from maintenance of race horses (current year or brought forward) can be set-off only against income from the activity of owning and maintaining race horses. Since there is no income from the activity of owning and maintaining race horses in A.Y. 2023-24, it has to be set off against the income from the activity of owning and maintaining race horses, if any, in A.Y. 2026 -27.

**Question 16**

**Ms. Aarti, a resident individual, provides the following information of her income/losses for the year ended on 31st March, 2025:**

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 under section 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





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 under section 139(1) of the Income-tax Act, 1961. She does not want to opt for 115BAC. (MTP 7 Marks, Apr'23, RTP Nov'21)

Answer 16

**Computation of gross total income of Ms. Aarti for the A.Y.2025-26**

Particulars		₹	₹
<b>Salary Income (computed)</b>		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		<u>2,00,000</u>	6,20,000
<b>Income from House Property</b>			
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	<u>3,28,000</u>	<u>3,64,000</u>	
Loss from house property		(2,44,000)	
Less: Loss eligible for set-off against salary income restricted to		<u>2,00,000</u>	
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)	
<b>Profits and gains of business or profession</b>			
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		<u>53,000</u>	
		2,77,000	
Less: Brought forward loss of textile business		<u>1,90,000</u>	
		87,000	
Less: Set-off of unabsorbed depreciation to the extent of ₹ 87,000 against business income		<u>87,000</u>	Nil
<b>Capital Gains</b>			
Long-term capital gains on sale of listed equity shares (STT paid)		2,50,000	
Less: Balance unabsorbed depreciation of ₹ 98,000 set-off		<u>98,000</u>	
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
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 loss against LTCG on sale of debentures]		<u>1,50,000</u>	Nil
<b>Income from Other Sources</b>			
Dividend from units of UTI [Taxable in the hands of the			1,15,000





unitholders]			
<b>Gross Total Income</b>			8,87,000

<b>Losses to be carried forward to A.Y.2026-27</b>	<b>₹</b>
Losses from specified business [can be carried forward indefinitely for set- off against income from any specified business]	67,000
Loss from house property [can be carried forward upto 8 successive assessment years for set-off against income from house property]	44,000

### Question 17

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 under section 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 under section 12AA and approved under section 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 that he does not opt for section 115BAC.

(RTP May'21) (Same concept different figures fewer adjustments MTP 7 Marks Mar'23)

### Answer 17

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

Particulars	₹	₹
<b>Salary from XYZ (P) Ltd.</b>	5,25,000	
Less: Standard Deduction u/s 16(ia)	<u>50,000</u>	
	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]	<u>20,000</u>	4,55,000
<b>Income from house property</b>		
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	<u>2,00,000</u>	
	(80,000)	
Less: Amount set-off against other heads of income	(80,000)	
<b>Profits and gains from business or profession</b>		





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)	Nil
Presumptive Income from trading and manufacturing business	1,00,000	
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
<b>Capital Gains</b>		
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	60,000	Nil
(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%)		
<b>Income from Other Sources</b>		
Interest on PPF deposit	65,000	
Less: Exempt	65,000	Nil
<b>Gross Total Income</b>		<b>4,55,000</b>
Less: Deduction under Chapter VI-A		
<b>Deduction under section 80C</b>		
Investment in tax saver deposit on 31.3.2025	60,000	
<b>Deduction under section 80G</b>		
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
<b>Total Income</b>		<b>3,75,250</b>
<b>Losses to be carried forward to A.Y.2025-26</b>		
<b>Particulars</b>		<b>₹</b>
<b>Loss from speculation business X (₹ 85,000 - ₹ 45,000)</b>		<b>40,000</b>
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 18

Mr. Jai, a resident individual, furnishes the following particulars of his income and other details for the previous year 2024-25:

	₹
Income from the activity of owning and maintaining race horses	40,000
Income from crossword puzzle solving	30,000
Income from Agricultural land in Haryana	25,000
Dividend Income from domestic company (gross)	15,000
(Expenditure incurred in collecting the aforesaid dividend)	2,500
Income from cycling business	1,50,000
Loss from warehousing facility for storage of edible oils	1,00,000
Share of loss form PR associates, a firm (having 4 equal partners) in which he is a partner	23,000
The following items have been brought forward from the assessment year 2022-23:	





Brought forward loss from house property	1,00,000
Loss from the activity of owning and maintaining race horses	37,000
Loss from gambling	10,000
Unabsorbed depreciation	15,000
Speculation Loss	20,000

Mrs. Jai (wife of Mr Jai) got a salary of ₹ 1,20,000 from PR associates during the year 2024-25. She is not qualified for the job.

Compute the gross total income of Mr Jai for the assessment year 2025-26 ignoring the provisions of section 115BAC. (PYP 7 Marks, Nov'23)

**Answer 18**

**Computation of gross total income of Mr. Jai for the A.Y.2025-26**

Particulars	₹	₹
<b>Income under the head "Salaries"</b>		
Salary of Mrs. Jai from PR associates	1,20,000	
Less: Standard deduction under section 16	<u>50,000</u>	70,000
[Salary of Mrs. Jai would be includible in the income of Mr. Jai, since Mr. Jai has a substantial interest in PR associates by having 25% share of profit in it and Mrs. Jai is not qualified for the job]		
<b>Profits and gains from business and profession</b>		
Income from cycling business	1,50,000	
Share of loss from PR associate [Exempt under section 10(2A)]	-	
Less: Set off of loss from warehousing facility for storage of edible oils	<u>1,00,000</u>	
	50,000	
Less: Set off of unabsorbed depreciation of A.Y. 2022-23	<u>15,000</u>	35,000
[ <b>Note</b> - Alternatively, unabsorbed depreciation can be set-off against income from other sources other than income from crossword puzzle]		
<b>Income from Other Sources</b>		
Income from crossword puzzle solving	30,000	
Income from agricultural land in Haryana [Exempt under section 10(1)]	-	
Dividend from domestic company (gross)	15,000	
[No deduction is allowed from dividend income other than interest expenses]		
Income from the activity of owning and maintaining race horses	40,000	
Less: Set off of brought loss from the activity of owning and maintaining race horses of A.Y. 2022-23, since four years has not lapsed	<u>(37,000)</u>	<u>3,000</u>
		<u>48,000</u>
<b>Gross Total Income</b>		<b><u>1,53,000</u></b>

**Notes:**

- Brought forward loss from house property can be set off only against income of house property. Hence, such loss has to be carried forward to A.Y. 2025-26.
- Loss from gambling can neither be set-off nor be carried forward.
- Brought forward loss from speculative business can be set off against income of any other speculative business. Hence, such loss has to be carried forward to A.Y. 2024- 25.

**Exam Insights:** Some examinees have wrongly set off the brought forward loss of house property against the salary income and carry forwarded the loss from the business of warehousing facility of storage of edible oil considering it as a loss from specified business though such business is not specified business u/s 35AD.



**Question 19**

Compute the total income of Mr. Wiwit Su (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.

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

(MTP 7 Marks, Apr'21, SM, RTP May '18)

**Answer 19****Computation of total income of Mr. Wiwit Su for the A.Y.2025-26**

Particulars	₹	₹
<b>Salaries</b>		
Income from salaries	2,20,000	
Less: Loss from house property set-off against salary as per section 71(1) & 71(3A)	<u>2,00,000</u>	20,000
<b>Profits and gains of business or profession</b>		
Income from speculation business	40,000	
Less: Loss from toy business set off	<u>40,000</u>	Nil
<b>Capital gains</b>		
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 under section 112A	<u>1,10,000</u>	
	1,40,000	
Less: Loss from toy business set off	<u>90,000</u>	50,000
<b>Income from other sources</b>		
Income from betting		<u>45,000</u>
<b>Gross total income</b>		<b>1,15,000</b>
Less: Deduction under section 80C (life insurance premium paid)		<u>20,000</u>
<b>Total income</b>		<b><u>95,000</u></b>

**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:**

- (i) 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., up to A.Y. 2032-33, in this case.





- (ii) 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.
- (iii) 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.
- (iv) Loss from card games can neither be set off against any other income, nor can it be carried forward.
- (v) For providing deduction under Chapter VI-A, gross total income has to be reduced by the amount of long-term capital gains and casual income. Therefore, the deduction under section 80C in respect of life insurance premium paid has to be restricted to ₹ 20,000 [i.e., Gross Total Income of ₹1,15,000 – ₹ 50,000 (LTCG) – ₹ 45,000 (Casual income)].
- (vi) Income from betting is chargeable at a flat rate of 30% under section 115BB and no expenditure or allowance can be allowed as deduction from such income, nor can any loss be set-off against such income.

### Question 20

LDR

Mr. Mayank, a resident individual, furnished the following information in respect of income earned and losses incurred by him for the F.Y. 2024-25

Particulars	Amount (₹)
Income from Salary (Computed)	27,40,000
Long term capital loss on sale of shares of Reliance Ltd. STT has been paid both at the time of acquisition and sale	(1,25,000)
Income from let out property in Kanpur	5,50,000
Loss from let out property in Delhi	(3,75,000)
Interest on self-acquired property in Mumbai	(1,50,000)
Net winnings from online games (Net of TDS)	35,000
Profit and gains from manufacturing business (after deducting normal depreciation of ₹ 2,00,000 and additional depreciation of ₹ 50,000)	36,86,000

The other details of losses and unabsorbed depreciation pertaining to A.Y. 2024-25 are as follows:

Particulars	Amount
Business loss from manufacturing business	(5,35,000)
Unabsorbed normal depreciation	(2,10,000)
Loss from the activity of owning and maintaining the race horses	(1,50,000)
Loss from let out property in Delhi	(2,10,000)

Mr. Mayank filed his return of income for A.Y. 2024-25 on 28.7.2024 and opted for section 115BAC. Compute the Gross total income of Mr. Mayank for the A.Y. 2025-26 and the amount of loss, if any, that can be carried forward if he wants to continue with the provisions under section 115BAC. (RTP Jan'25) (Same concepts different figures RTP May'22)

### Answer 20

#### Computation of gross total income of Mr. Mayank for A.Y. 2025-26

Particulars	Amount (₹)	Amount (₹)
Income from Salary (Computed)		27,40,000
Income from house property		
Income from let out property in Kanpur	5,50,000	
Less: Set off of loss from let out property in Delhi	(3,75,000)	
Less: Interest u/s 24(b) is not allowed in case of self-occupied property since Mr. Mayank is paying tax under section 115BAC]	-	





Less: Loss from let out property in Delhi of A.Y. 2024-25 cannot be set off against income from house property of A.Y. 2025-26 since Mr. Mayank has paid tax under section 115BAC during the A.Y. 2024-25 and no deduction in respect of loss of house property of that year will be allowed in any subsequent year.	-	
		1,75,000
<b>Profits and gains from business or profession</b>		
Profits from manufacturing business	36,86,000	
Add: Additional depreciation not allowable in case of section 115BAC	50,000	
	37,36,000	
Less: Brought forward business loss of A.Y. 2024-25	(5,35,000)	
Less: Unabsorbed normal depreciation	(2,10,000)	29,91,000
<b>Capital Gains</b>		
Long term capital loss on sale of shares of Reliance Ltd. on which STT has been paid can be set off only against long term capital gains. Hence, it has to be carried forward	(1,25,000)	-
<b>Income from Other Sources</b>		
Net winnings from online games [₹35,000/70%]		50,000
<b>Gross Total Income</b>		<b>59,56,000</b>

#### Losses to be carried forward to A.Y. 2026-27

Particulars	Amount (₹)
Brought forward loss from the activity of owning and maintaining the race horses of A.Y. 2024-25 can be set off only against the income from the activity of owning and maintaining race horses. Hence, it has to be carried forward.	1,50,000
Long term capital loss on sale of shares of Reliance Ltd. on which STT has been paid	1,25,000

#### Question 21

Vijay Prasad, a non resident aged 50 years furnishes the following information of the income from India for the year ended on 31-03-2025:

Income by way of salary (computed)	2,75,000
Short term capital loss	(1,85,000)
Business income - Retail business	1,20,000
Business income - whole sale business	(1,00,000)
Brought forward business loss (A.Y. 2022-23)	(1,35,000)
Long term capital gain from sale of building	2,00,000
Lottery winnings (gross)	45,000
Contribution to provident fund and NSC	1,50,000
Income of minor daughter Manisha from special talent	2,00,000

Compute his income tax liability assuming that he opts out of the default tax regime under section 115BAC. (MTP 6 Marks Nov'24)

#### Answer 21

##### Computation of tax liability of Mr. Vijay Prasad for A.Y. 2025-26

Particulars	₹	₹
<b>Salary</b>		
Income by way of salary (computed)		2,75,000
<b>Profits and gains from business and profession</b>		
Business Income- Retail business	1,20,000	
Less: Set-off of business loss of ₹ 1,00,000 from wholesale business	<u>1,00,000</u>	
	20,000	





Less: Set-off of brought forward business loss of ₹ 1,35,000 of A.Y.2022-23 allowable to the extent of ₹20,000 by virtue of section 72(1)	<u>20,000</u>	Nil
[Balance brought forward business loss of ₹ 1,15,000 (i.e., ₹ 1,35,000 – ₹ 20,000) to be carry forward to A.Y. 2026-27 for set-off against business income of that year]		
<b>Capital Gains</b>		
Long-term capital gain on sale of building	2,00,000	
Less: Set-off of short term capital loss	<u>1,85,000</u>	15,000
<b>Income from Other Sources</b>		
Lottery winnings		45,000
Income of minor daughter from special talent[Not included in Vijay Prasad's income since it is earned from special talent]		-
<b>Gross Total Income</b>		3,35,000
<b>Less:</b> Deduction under section 80C		
Contribution to provident fund and NSC ₹1,50,000		<u>150,000</u>
<b>Total Income</b>		<u><b>1,85,000</b></u>
<b>Tax on ₹ 1,85,000</b>		
Tax on lottery income of ₹ 45,000 @30% [Unexhausted basic exemption limit can not be reduced from lottery income]	13,500	
Tax on LTCG of ₹ 15,000 @20%* [Unexhausted basic exemption limit can not be reduced from LTCG as Mr. Vijay is a non resident]	3,000	
Tax on other income of ₹ 1,25,000 (since it does not exceed basic exemption limit)	-	
		16,500
Add: Health and education cess @4%		<u>660</u>
<b>Tax liability</b>		<b>17,160</b>

\*Assumed that asset was sold before 23.07.2024 hence rate applied is 20%. If it was sold after 23.07.2024 rate applied would be 12.5%.

### MULTIPLE CHOICE QUESTIONS (MCQS)

- Mr. Kumar, engaged in wholesale business of clothes and speculative business, discontinued its operations on 19.10.2024 and 30.09.2024 respectively. The cloth business loss upto 19.10.2024 for P.Y. 2024-25 was ₹ 8,000 and speculative business loss upto 30.09.2024 for P.Y. 2024-25 was ₹ 40,000. Out of total bad debts of ₹ 1,00,000 that were claimed by Mr. Kumar in respect of a particular debtor of cloth business, ₹ 60,000 was allowed by the Assessing Officer in P.Y. 2023-24. On 29.01.2025, Mr. Kumar received a sum of ₹ 68,000 from the debtor in full and final settlement. How much amount would be taxable in the hands of Mr. Kumar for A.Y. 2025-26? (MTP 2 Marks, Mar'22)

- ₹ 28,000
- ₹ 20,000
- ₹ 60,000
- ₹ 68,000

Ans: (b)

- Mr. Ravi incurred loss of ₹ 4 lakh in the P.Y.2024-25 in leather business. Against which of the following incomes earned during the same year, can he set-off such loss?

- Profit of ₹ 1 lakh from apparel business
- Long-term capital gains of ₹ 2 lakhs on sale of jewellery
- Salary income of ₹ 1 lakh

Choose the correct answer: (MTP 2 Marks, Apr'23)

- First from (ii) and thereafter from (i); the remaining loss has to be carried forward.
- First from (i) and thereafter from (ii) and (iii)





- (c) First from (i) and thereafter from (iii); the remaining loss has to be carried forward
- (d) First from (i) and thereafter from (ii); the remaining loss has to be carried forward

**Ans: (d)**

3. During the A.Y. 2025-26, Mr. Kabir has a loss of ₹ 6 lakhs under the head "Income from house property", loss of ₹ 5 lakhs from business of profession and income of ₹ 3 lakhs from long term capital gains. He filed his return of income for the A.Y. 2025-26 on 31.12.2025. Determine the total income of Mr. Kabir for A.Y. 2025-26 and the amount of loss which can be carried forward in a manner most beneficial to him? (MTP 2 Marks, Mar'21)

- (a) Total income Nil; loss of ₹ 4,00,000 from house property and loss of ₹ 4,00,000 from business or profession
- (b) Total income ₹ 1,00,000; loss of ₹ 4,00,000 from house property.
- (c) Total income Nil; No loss is allowed to be carried forward.
- (d) Total income Nil; loss of ₹ 6,00,000 from house property.

**Ans: (d)**

4. During the A.Y.2024-25, Mr. A has a loss of ₹ 8 lakhs under the head "Income from house property" which could not be set off against any other head of income as per the provisions of section 71. The due date for filing return of income u/s 139(1) in case of Mr. A has already expired and Mr. A forgot to file his return of income within the said due date. However, Mr. A filed his belated return of income for A.Y.2024-25. Now, while filing return of income for A.Y.2025-26, Mr. A wishes to set off the said loss against income from house property for the P.Y. 2024-25. Determine whether Mr. A can claim the said set off.

(MTP 2 Marks, Oct'23)

- (a) No, Mr. A cannot claim set off of loss of ₹ 8 lakhs during A.Y. 2025-26 as he failed to file his return of income u/s 139(1) for A.Y. 2024-25.
- (b) Yes, Mr. A can claim set off of loss of ₹ 2 lakhs, out of ₹ 8 lakhs, from his income from house property during A.Y. 2025-26, if any, and the balance has to be carried forward to A.Y.2026 -27.
- (c) Yes, Mr. A can claim set off of loss of ₹ 2 lakhs, out of ₹ 8 lakhs, from his income from any head during A.Y. 2025-26 and the balance has to be carried forward to A.Y.2025 -27.
- (d) Yes, Mr. A can claim set off of loss of ₹ 8 lakhs during A.Y. 2025-26 from his income from house property, if any, and the balance has to be carried forward to A.Y.2026-27.

**Ans: (d)**

5. Mr. Arpan (aged 35 years) submits the following particulars for the purpose of computing his total income: (MTP 2 Marks Jul'24, RTP May'21, MTP 2 Marks, Sep'23 )

Particulars	₹
Income from salary (computed)	4,00,000
Loss from let-out house property	(-) 2,20,000
Brought forward loss from let-out house property for the A.Y. 2024-25	(-) 2,30,000
Business loss	(-) 1,00,000
Bank interest (FD)	80,000

Compute the total income of Mr. Arpan for the A.Y.2025-26 and the amount of loss that can be carried forward for the subsequent assessment year under normal provisions of the Act?

- (a) Total income ₹ 2,00,000 and loss from house property of ₹ 2,50,000 and business loss of ₹ 20,000 to be carried forward to subsequent assessment year.
- (b) Total income ₹ 1,60,000 and loss from house property of ₹ 2,30,000 to be carried forward to subsequent assessment year.
- (c) Total income ₹ 4,00,000 and business loss of ₹ 20,000 to be carried forward to subsequent assessment year.
- (d) Total income is Nil and loss from house property of ₹ 70,000 to be carried forward to subsequent assessment year.

**Ans: (a)**



## CHAPTER 6: DEDUCTIONS FROM GROSS TOTAL INCOME

### CONCEPTS OF THIS CHAPTER

- Deductions under default tax regime (section 115BAC)
- Deductions under optional tax regime (section 115BAC(1A))
- Assesses eligible for deductions under various sections
- Deductions for payments under relevant sections
- Deductions for certain income under relevant sections
- Deductions for persons with disabilities
- Deductions under section 10AA for SEZ units



LDR Questions

Q 10

Q 11

### QUICK REVIEW OF IMPORTANT CONCEPTS

#### Deductions in respect of certain payments

Section	Eligible Payments	Permissible Deduction				
80C <sup>#</sup>	Contribution to PPF, Payment of LIC premium, repayment of housing loan, tuition fees to an Indian school/college etc	Sum paid or deposited, subject to a maximum of ₹ 1,50,000				
80CCC <sup>#</sup>	Contribution to certain pension funds					
80CCD	Contribution to Pension Scheme of Central Government	<b>Employee's Contribution/Individual' Contribution</b> In case of a salaried individual, deduction it is restricted to 10% of his salary. In any other case, deduction u/s 80CCD(1) is restricted to 20% of gross total income. Further, additional deduction of upto ₹ 50,000 is available u/s 80CCD(1B).				
80D <sup>#</sup>	<b>Medical Insurance Premium</b> (1) Any premium paid, otherwise than by way of cash, to keep in force an insurance on the health of – <table><tr><td>Individual</td><td>self, spouse and dependent children</td></tr><tr><td>HUF</td><td>Family member</td></tr></table> (2) In case of an individual, contribution, otherwise than by way of cash (3) Premium paid to keep in force an insurance on the health of parents, whether or not dependent on the individual.	Individual	self, spouse and dependent children	HUF	Family member	<b>Employer's Contribution</b> It is restricted to 14% of salary, where the employer is the Central Government, 10% of salary (14% under default tax regime), in case of any other employer. <b>[Deduction u/s 80CCD (2) would be available irrespective of the regime under which he pays tax.]</b>  Maximum ₹ 25,000 (₹50,000, in case the individual or his or her spouse is a senior citizen)  Maximum ₹ 25,000 (₹50,000, in case either or both of the parents are senior citizen(s))
		Individual	self, spouse and dependent children			
HUF	Family member					





	<b>Notes:</b> (i) on account of medical expenditure incurred on the health of the assessee or his family member or his parent, who is a senior citizen and no amount to keep in force an insurance on the health of such person. (ii) Payment, including cash payment, for preventive health check-up of himself, spouse, dependent children and parents. Maintenance including medical treatment of a dependant disabled. Such persons should not have claimed deduction under section 80U	Amount paid subject to a cap of ₹50,000  Amount paid subject to a cap of ₹5,000, in aggregate (subject to the overall individual limits of ₹25,000/ ₹50,000, as the case may be) Flat deduction of ₹ 75,000. In case of severe disability (i.e. person with 80% or more disability) the flat deduction shall be ₹1,25,000.										
80DD <sup>f</sup>												
80DDB <sup>f</sup>	Deduction for medical treatment of specified diseases or ailments	Actual sum paid or ₹40,000 (₹1,00,000, if the payment is for medical treatment of a senior citizen), whichever is less, Minus the amount received from the insurance company or reimbursed by the employer.										
80E <sup>f</sup>	Interest on loan taken for higher education from any financial institution or approved charitable institution.	The deduction is available for interest payment in the initial assessment year and seven assessment years immediately succeeding the initial assessment year OR until the interest is paid in full by the assessee, whichever is earlier.										
80G <sup>f</sup>	<b>Donation to certain charitable institutions</b> <table><tr><th>Category</th><th>Donee</th></tr><tr><td>100% deduction of amount donated, without any qualifying limit</td><td>Prime Minister's National Relief Fund etc</td></tr><tr><td>50% deduction of amount donated, without any qualifying limit</td><td>Prime Minister's Drought Relief Fund etc</td></tr><tr><td>100% deduction of amount donated, subject to qualifying limit</td><td>Government or local authority, institution for promotion of family planning etc.</td></tr><tr><td>50% deduction of amount donated, subject to qualifying limit.</td><td>Govt or any local authority to be used for charitable purpose, other than promotion of family planning, notified temple, church, gurudwara, mosque etc.</td></tr></table> <b>Calculation of Qualifying limit for Category III &amp; IV donations:</b> <b>Step 1:</b> Compute adjusted total income, i.e., the gross total income as reduced by the following: 1 Deductions under Chapter VI-A, except u/s 80G 2 Short term capital gains taxable u/s 111A 3 Long term capital gains taxable u/s 112 & 112A <b>Step 2:</b> Calculate 10% of adjusted total income. <b>Step 3:</b> Calculate the actual donation, which is subject to qualifying limit <b>Step 4:</b> Lower of Step 2 or Step 3 is the maximum permissible deduction. <b>Step 5:</b> The said deduction is adjusted first against donations qualifying for 100% deduction (i.e., Category III donations). Thereafter, 50% of balance qualifies for deduction under section 80G. <b>Note -</b> No deduction shall be allowed for donation in excess of ₹ 2,000, if paid in cash.		Category	Donee	100% deduction of amount donated, without any qualifying limit	Prime Minister's National Relief Fund etc	50% deduction of amount donated, without any qualifying limit	Prime Minister's Drought Relief Fund etc	100% deduction of amount donated, subject to qualifying limit	Government or local authority, institution for promotion of family planning etc.	50% deduction of amount donated, subject to qualifying limit.	Govt or any local authority to be used for charitable purpose, other than promotion of family planning, notified temple, church, gurudwara, mosque etc.
Category	Donee											
100% deduction of amount donated, without any qualifying limit	Prime Minister's National Relief Fund etc											
50% deduction of amount donated, without any qualifying limit	Prime Minister's Drought Relief Fund etc											
100% deduction of amount donated, subject to qualifying limit	Government or local authority, institution for promotion of family planning etc.											
50% deduction of amount donated, subject to qualifying limit.	Govt or any local authority to be used for charitable purpose, other than promotion of family planning, notified temple, church, gurudwara, mosque etc.											
80JJAA	Deduction in respect of employment of new employees	30% of additional employee cost incurred in the previous year. Deduction is allowable for 3 assessment years including assessment year relevant to the previous year in which such employment is provided. <b>Available irrespective of the regime under which the employer pays tax]</b>										





<b>80QRB<sup>#</sup></b>	Royalty income, etc., of authors of certain books other than text books	Income derived in the exercise of profession or ₹ 3,00,000, whichever is less. Received otherwise than by way of lumpsum, income to be restricted to 15% of value of books sold during the relevant previous year.
<b>80RRB<sup>#</sup></b>	Royalty on patents	Whole of such income or ₹ 3,00,000, whichever is less.
<b>80TTA<sup>#</sup></b>	Interest on deposits in savings account	Actual interest subject to a maximum of ₹ 10,000
<b>80TTB<sup>#</sup></b>	Interest on deposits	Actual interest or ₹ 50,000, whichever is less
<b>80U<sup>#</sup></b>	Deduction in case of a person with disability	Flat deduction of ₹ 75,000, in case of a person with disability. Flat deduction of ₹ 1,25,000, in case of a person with severe disability (80% or more disability).

**Sec 10 AA<sup>#</sup>: An assessee who derives profits from an undertaking, being a Unit established in SEZ, which begins to manufacture or produce articles or things or provide any service on or after 1.4.2005 but before 1.4.2021**

Profits derived from exports of such articles or things or export of services (including computer software).

**Conditions for deduction**

1. Proceeds to be received in convertible foreign exchange within 6 months from the end of the P.Y. or such further period as the competent authority may allow in this behalf.
2. The report of chartered accountant certifying that the deduction has been correctly claimed should be furnished before the date specified in section 44AB.
3. Return of income to be filed on or before due date u/s 139(1).

Deduction for 15 consecutive assessment years

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

**Years 1 to 5** - 100% of such profits would be exempt in the first five years; **Years 6 to 10** - 50% of such profits in the next five years; and **Years 11 to 15** - In the last five years, 50% of such profits subject to transfer to SEZ Re-Investment Reserve Account.

default tax regime

**"Deductions will only be available if the Assessee shifts out of the default tax regime under section 115BAC**

**Question & Answers**

**Question 1**

Examine the following statements with regard to the provisions of the Income-tax Act, 1961:

- (i) During the financial year 2025-26, Mr. Amit paid interest on loan availed by him for his son's higher education. His son is already employed in a firm. Mr. Amit will get the deduction under section 80E.
- (ii) Subscription to notified bonds of NABARD would qualify for deduction under section 80C.
- (iii) In order to be eligible to claim deduction under section 80C, investment/contribution/subscription etc. in eligible or approved modes, should be made from out of income chargeable to tax.
- (iv) Where an individual repays a sum of ₹ 30,000 towards principal and ₹ 14,000 as interest in respect of loan taken from a bank for pursuing eligible higher studies, the deduction allowable under section 80E is ₹ 44,000 irrespective of the tax regime.
- (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 under section 80CCD to Mr. Satish in the earlier previous years. Such amount received by her as a nominee on closure of the account is deemed to be her income for A.Y. 2025-26.
- (vi) Mr. Vishal, a Central Government employee, contributed ₹ 50,000 towards Tier II account of NPS. The same would be eligible for deduction under section 80CCD. He has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A). (SM)

**Answer 1**

- (i) **The statement is correct.** The deduction under section 80E available to an individual in respect of interest on loan taken for his higher education or for the higher education of his relative. For this purpose, relative means, inter alia, spouse and children of the individual. Therefore, Mr. Amit will get the deduction under section 80E in respect of interest on loan availed by him for his son's higher education. It is immaterial





that his son is already employed in a firm. This would not affect Mr. Amit's eligibility for deduction under section 80E.

- (ii) **The statement is correct.** Under section 80C(2) subscription to such bonds issued by NABARD (as the Central Government may notify in the Official Gazette) would qualify for deduction under section 80C, if the assessee has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A).
- (iii) **The statement is not correct.** There is no stipulation under section 80C that the investment, subscription, etc. should be made from out of income chargeable to tax.
- (iv) **The statement is not correct.** Deduction under section 80E is in respect of interest paid on education loan. Hence, the deduction will be limited to ₹14,000, if he has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A).
- (v) **The statement is not correct.** The proviso to section 80CCD (3) provides that the amount received by the nominee, on closure of NPS account on the death of the assessee, shall not be deemed to be the income of the nominee. Hence, amount received by Mrs. Sheela would not be deemed to be her income for A.Y. 2025-26.
- (vi) **The statement is not correct.** Contribution to Tier II account of NPS would qualify for deduction under section 80C and not section 80CCD.

## Question 2

In August 2021, Mr. Kunal, a first-time home buyer, borrowed a sum of ₹ 40 lakhs from the National Housing Bank for acquisition of a residential house for self-occupation. The stamp duty value of the house is ₹ 43 lakhs. The loan was sanctioned on 17.3.2022. The loan amount was disbursed directly to the builder by the bank. The repayments made towards principal and interest during the P.Y. 2024-25 was ₹ 2 lakhs and ₹ 2.80 lakhs, respectively.

In the light of the above facts, determine the deduction, if any, available to Mr. Kunal during the A.Y. 2025-26 in respect of the repayment of loan and interest. (MTP 4 Marks, Mar'22)

## Answer 2

### Deduction in respect of repayment of loan under section 80C

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

Since, Mr. Kunal has repaid loan of ₹ 2 lakhs during the A.Y. 2025-26, he is eligible for deduction under section 80C in respect of loan repayment. However, deduction under section 80C cannot exceed ₹ 1,50,000. Therefore, deduction under section 80C would be ₹1,50,000 for the A.Y. 2025-26.

### Deduction in respect of interest on housing loan under section 24

As per section 24(b), interest payable on loans borrowed for the purpose of acquisition, construction, repairs, renewal or reconstruction of house property can be claimed as deduction. However, where the self-occupied property is acquired or constructed on or after 1.4.1999 and such acquisition or construction is completed within five years from the end of the financial year in which capital was borrowed, the amount of deduction would not exceed ₹ 2 lakhs.

Hence, deduction under section 24 in respect of interest on housing loan would be ₹ 2 lakhs only.

### Deduction under section 80EEA

As per section 80EEA, interest payable on loan taken for the purpose of acquisition of a residential house from any financial institution qualifies for deduction, subject to a maximum of ₹ 1,50,000, provided following conditions are satisfied –

- (i) Such loan is sanctioned by the financial institution during the period 1.4.2019 to 31.3.2022
- (ii) The stamp duty value of the house does not exceed ₹ 45 lakhs and
- (iii) the assessee does not own any residential house on the date of sanction of loan.
- (iv) The individual should not be eligible to claim deduction u/s 80EE

Therefore, in this case, since Mr. Kunal satisfies all the above conditions, he is eligible for deduction under section 80EEA. Mr. Kunal has paid interest of ₹2,80,000 out of which ₹2,00,000 is eligible under section 24(b), hence, interest of ₹80,000 would qualify for deduction under section 80EEA.

(This deduction is only available if individual exercises the option to shift out of the default tax regime)



**Question 3**

Mr. Wiwsu, an Indian citizen, gives the following details of his income and expenses during the year 2024-25:

	₹
Income from profession	11,70,000
Winning from lottery	70,000
Contribution to ULIP 1971 plan for spouse	70,000
Cheque donation to National Defense Fund	60,000
Cheque donation to Government for promoting family planning	35,000
Cheque the deduction to approved public charitable institute	1,20,000

Compute the deduction under section 80G allowable to him for the assessment year 2025-26.  
(PYP 3 Marks Nov'23)

**Answer 3****Computation of deduction available to Mr. Wiwsu under section 80G for A.Y. 2025-26**

	Particulars	Amount (₹)
(i)	Donation to National Defense Fund by cheque [100% of ₹ 60,000 is allowed as deduction without any qualifying limit]	60,000
(ii)	Donation to Government for promoting family planning by cheque - 100% of ₹ 35,000, subject to qualifying limit of ₹ 1,17,000 [See Note below] is allowed as deduction	35,000
(iii)	Donation to approved public charitable institute by cheque is to be restricted to lower of - ₹ 60,000 (50% of ₹ 1,20,000) or - ₹ 41,000 [50% of qualifying limit after adjusting donation for family planning i.e., ₹ 82,000 (₹ 1,17,000 – ₹ 35,000)]	41,000
<b>Deduction under section 80G</b>		<b>1,36,000</b>
Note - Qualifying limit is ₹ 1,17,000 (10% of ₹ 11,70,000, being adjusted total income) Adjusted total income = ₹ 11,70,000 (₹ 11,70,000, being income from profession + ₹ 70,000, being winnings from lottery – ₹ 70,000, being deduction under section 80C)		

**EXAM INSIGHTS:** Many examinees could not compute the correct amount of qualifying amount to determine the eligible deduction under section 80G.

**Question 4**

Mr. Rudra has one unit at Special Economic Zone (SEZ) and other unit at Domestic Tariff Area (DTA). He provides the following details for the previous year 2024-25.

Particulars	Mr. Rudra (₹)	Unit in DTA (₹)
Total Sales	6,00,00,000	2,00,00,000
Export Sales	5,60,00,000	1,60,00,000
Net Profit	80,00,000	20,00,000

Proceeds from export sales in SEZ received in convertible foreign exchange by 30.9.2025 is ₹ 3,00,00,000. He has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A). Calculate the eligible deduction under section 10AA of the Income-tax Act, 1961, for the Assessment Year 2025-26, if both the units were set up and start manufacturing from 22-05-2016. (SM)

**Answer 4****Computation of deduction u/s 10AA of the Income-tax Act, 1961**

As per section 10AA, in computing the total income of Mr. Rudra from his unit located in a Special Economic Zone (SEZ), which begins to manufacture or produce articles or things or provide any services during the previous





year relevant to the assessment year commencing on or after 01.04.2006 but before 01.04.2021, there shall be allowed

a deduction of 100% of the profit and gains derived from export of such articles or things or from services for a period of five consecutive assessment years beginning with the assessment year relevant to the previous year in which the Unit begins to manufacture or produce such articles or things or provide services, as the case may be, and 50% of such profits for further five assessment years.

Since Mr. Rudra has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A), he would be eligible for deduction u/s 10AA.

The deduction u/s 10AA would be available only if Mr. Rudra furnishes report of chartered accountant before the date specified in section 44AB and files return of income on or before due date u/s 139(1).

**Since A.Y. 2025-26 is the 9<sup>th</sup> assessment year** from A.Y. 2017-18, relevant to the previous year 2016-17, in which the SEZ unit began manufacturing of articles or things, it shall be eligible for deduction of 50% of the profits derived from export of such articles or things, assuming all the other conditions specified in section 10AA are fulfilled.

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

$$= 60 \text{ Lakhs} \times \frac{300 \text{ Lakhs}}{400 \text{ Lakhs}} \times 50\% = \text{Rs. 22.50 lakhs}$$

Export turnover of Unit in SEZ is the export sales in SEZ received in convertible foreign exchange by 30.9.2025 which is ₹ 3,00,00,000.

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

#### Working Note:

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

Particulars	Rudra Ltd. (₹)	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 5

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:

- 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 lump sum 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. Assume that he has opted out of default scheme. (MTP 7 Marks, Mar'21, RTP May '19)



**Answer 5****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	<u>45,000</u>	
		2,35,000	
80CCD(1)	Restricted to Contribution to NPS of the Central Government, ₹ 1,60,000 [₹ 2,10,000 – ₹ 50,000, being deduction under section 80CCD(1B)], restricted to 10% of salary [₹ 2,10,000 x 10/15] <b>[See Note 1]</b>		1,50,000
			1,40,000
			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 <b>[See Note 2]</b>		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 1/4 <sup>th</sup> of lump sum 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)	<u>3,000</u>	
		50 000	
	(ii) Medical Expenditure for his father would be fully allowed as deduction, since no insurance policy is taken on his name	<u>46,000</u>	
	<b>Total of (i) and (ii)</b>		<b>96,000</b>
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
	<b>Deduction under Chapter VI-A</b>		<b>6,11,000</b>

**Notes:**

- (1) The deduction under section 80CCD(1B) would not be subject to overall limit of ₹ 1.50 lakh under section 80CCE. Therefore, it is more beneficial for Mr. Dhyanchand to claim deduction under section 80CCD(1B) first in respect of contribution to NPS. Thereafter, the remaining amount of ₹ 1,60,000 can be claimed as deduction under section 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 under section 80CCD (2) would be allowed, subject to a maximum of 10% of salary. Deduction under section 80CCD (2) is also not subject to the overall limit of ₹ 1,50,000 under section 80CCE.





### Question 6

Mr. Vivit Su, a resident individual, aged 40 years, suffers from severe disability as certified by medical authority. He gives the following information for the previous year 2024-25 -

- He has paid life insurance premium by cheque ₹ 27,000 to insure his life. The insurance policy was taken on 27.8.2019 and the sum assured is ₹ 2,20,000.
  - He had written a literary book for Rochak Publication. A lump sum amount of royalty income earned in the previous year 2024-25 amounted to ₹ 9,00,000. Expenses incurred for writing the book amounted to ₹ 40,000.
  - His friends gifted a statue of Goddess Saraswati to his daughter Ms. Diya (aged 14 years) on the successful completion of her secondary school. Fair market value of the statue is ₹ 65,000.
  - He received a gold chain worth ₹ 68,000 from his in-laws on the occasion of his marriage anniversary
  - He had deposited ₹ 70,000 in fixed deposit with SBI in the name of his minor son in September 2024. Interest earned on such deposit ₹ 5,500.
  - He donated ₹ 5,000 in cash to a NGO (the NGO was registered under section 80G of the Income-tax Act, 1961).
  - He had taken a loan of ₹ 38,00,000 for the purchase of a house property valuing ₹ 45,00,000 for self-occupation from a financial institution on 1st May 2022. He repaid ₹ 1,80,000 during the P.Y. 2024-25 out of which ₹ 1,05,000 is towards principal payment and the balance is for interest on loan.
- Compute the total income of Mr. Vivit Su for the A.Y. 2025-26 if he does not opt for the provisions of section 115BAC. (RTP Nov'23)

### Answer 6

#### Computation of total income of Mr. Vivit Su for the A.Y.2025-26

Particulars	₹	₹
<b>Income from house property</b>		
NAV	Nil	
Less: Interest on loan	75,000	(75,000)
		(75,000)
<b>Income from Other Sources</b>		
Royalty	9,00,000	
Less: Expenses incurred for writing book	40,000	8,60,000
Value of statue of Goddess Saraswati [The fair market value of the statue (sculpture) received by his minor daughter as gift (not on account of her skill) from his friends would be taxable, since its value exceeds ₹ 50,000. It would be included in the hands of Mr. Vivit Su, assuming his income before considering clubbing provisions is higher than his wife].	65,000	
Less: Exemption under section 10(32)	1,500	63,500
Value of Gold Chain [The Fair market value of ₹ 68,000 of gold chain received on occasion of his marriage anniversary would be exempt, since it is received from a relative.]		-
Interest on fixed deposit in the name of his son [It would be included in the hands of Mr. Vivit Su, assuming his income before considering clubbing provisions is higher than his wife]	5,500	
Less: Exemption under section 10(32)	1,500	4,000
<b>Gross Total Income</b>		8,52,500
<b>Less: Deduction under Chapter VI-A</b>		
<b>Deduction under section 80C</b>		
Life insurance premium [Since Mr. Vivit Su suffers from severe disability,	27,000	





premium upto 15% of the sum assured ₹ 2,20,000 would be allowed, as the policy is taken after 31.3.2012]		
Repayment of principal amount for housing loan	1,05,000	1,32,000
<b>Deduction under section 80G</b>		
Donation to an NGO registered under section 80G [Not allowable since the donation is made in cash of a sum exceeding ₹ 2,000]		-
<b>Deduction under section 80QQB</b>		
Royalty income of a resident from literary book		3,00,000
Deduction under section 80U [Since Mr. Vivit Su suffers from severe disability]		1,25,000
<b>Total income</b>		<b>2,95,500</b>

#### Question 7

Mr. Raj Kumar (aged 65 years) is retired from a Public Sector Undertaking. He resides in Delhi. He provides you the following particulars of his income and certain payments/investments for the previous year 2024-25:

- Pension income of ₹ 8,50,000
- Interest from fixed deposits with SBI of ₹ 3,35,000 (Gross)
- Life insurance premium paid by cheque ₹ 27,500 for insurance of his life. The insurance policy was taken on 10-07-2018 and the sum assured is ₹ 2,40,000.
- Premium of ₹ 37,500 paid by cheque for health insurance of self and his wife, who is also a senior citizen.
- ₹ 3,000 paid in cash for his health check-up and ₹ 4,500 paid through cheque for preventive health check-up of his father aged 90 years.
- Paid interest of ₹ 8,500 on loan taken from bank for MBA course pursued by his son.
- A sum of ₹ 1,20,000 donated by cheque to an institution approved for the purpose of section 80G for promoting family planning.
- ₹ 10,000 contributed towards PM CARES Fund by cheque.

Compute the total income of Mr. Raj Kumar for the assessment year 2025-26, assuming he does not opt for section 115BAC. (MTP 6 Marks, Sep'22) (Same concept different figures RTP Nov'21, MTP 3 Marks Apr'21)

#### Answer 7

##### Computation of total income of Mr. Raj Kumar for A.Y.2025-26

Particulars	₹	₹	₹
<b>Income under the head "Salaries"</b>			
Pension	8,50,000		
Less: Standard deduction u/s 16(ia) Lower of ₹ 50,000 or actual salary/pension	50,000		8,00,000
<b>Income from Other Sources</b>			
Interest from bank on fixed deposit (Gross)			3,35,000
<b>Gross Total Income</b>			<b>11,35,000</b>
<b>Less: Deduction under Chapter VI-A</b>			
<b>Deduction under section 80C</b>			
LIC premium of ₹ 27,500 (restricted to 10% of ₹ 2,40,000, being the sum assured, as the policy is taken after 31.3.2012)		24,000	
<b>Deduction under section 80D</b>			
Premium for health insurance for self and his wife paid by cheque, allowed upto ₹ 50,000 since Mr. Raj Kumar is a senior citizen	37,500		
Preventive health check-up for self, ₹ 3,000, and for his father, ₹ 4,500, restricted to ₹ 5,000 (deduction allowed even if the same is paid in cash)	5,000		
		42,500	
<b>Deduction under section 80E</b>			
Interest on loan taken from bank for MBA course pursued by his son		8,500	





<b>Deduction under section 80G</b>			
Donation to PM CARES Fund – 100% allowable		10,000	
Donation to an approved institution for promoting family planning – 100% allowable subject to qualifying limit of ₹ 1,01,000 i.e., 10% of ₹ 10,10,000 being the adjusted total income		1,01,000	
<b>Deduction under section 80TTB</b>			
Interest on fixed deposit with bank allowable as deduction upto ₹ 50,000, since Mr. Raj Kumar is a senior citizen		50,000	
			2,36,000
<b>Total Income</b>			<b>8,99,000</b>

### Question 8

(FY & AY have been kept unchanged to keep the essence of all the adjustments)

Mr. Ray, a resident individual, aged 37 years gives the following information with respect to various loans taken by him from scheduled banks for various purposes-

(i) A housing loan of ₹ 36,00,000/- taken on 15th March, 2023 for the purchase of a house to be used for self-residence at a cost of ₹ 47,00,000/-. The stamp duty value of the house was ₹ 42,00,000/- at the time of purchase. Amount of re-payment of loan during P.Y.2024-25 was:

(A) towards principal - ₹ 1,25,000/-

(B) towards interest - ₹ 3,65,000/-

This is the first and only residential house owned by Mr. Ray.

(ii) A vehicle loan of ₹ 16,00,000/- taken on 31st October, 2021 for the purchase of electric vehicle for personal use. Amount of re-payment of loan during P.Y.2024-25 was:

(C) towards principal - ₹ 75,000/-

(D) towards interest - ₹ 1,90,000/-

Besides these loans, he has also paid a sum of ₹ 15,000 to a political party as contribution. The entire amount was paid in cash.

You are required to compute the amount of deduction(s) available to Mr. Ray under various provisions of Income-tax Act for A.Y.2025-26 so that he gets the maximum benefits assuming that he does not opt to pay tax under section 115BAC. (PYP 4 Marks, May'23)

**Answer 8**

#### Computation of amount of deductions available to Mr. Ray for A.Y. 2025-26

		Amount (₹)	
(i)	<b>Deduction allowable while computing income under the head "Income from house property"</b> Deduction under section 24(b) for interest on loan of ₹ 3,65,000 in respect of self-occupied property restricted to		2,00,000
(ii)	<b>Deduction under Chapter VI-A from Gross Total Income</b> <b>Deduction under section 80C</b> For repayment of loan of ₹ 1,25,000 to bank	1,25,000	
	<b>Deduction under section 80EEA</b> Since stamp duty value does not exceed ₹ 45 lakhs and Mr. Ray does not own any residential house, he is eligible for deduction of upto ₹ 1,50,000 in respect of such interest on loan since loan is sanctioned between 1.4.2019 and 31.3.2022. ₹ 3,65,000 – ₹ 2,00,000 [claimed as deduction u/s 24(b)] = ₹ 1,65,000 restricted to ₹ 1,50,000, being the maximum permissible deduction		

**Exam Insights:** Examinees could not correctly calculate the amount of deduction available under section 80 EEA and 80EEB. They had not restricted the deduction under each of these sections to 1,50,000.





		1,50,000	
	<b>Deduction under section 80EEB</b> Deduction for interest on loan for purchase of electric vehicle of ₹ 1,90,000 restricted to ₹ 1,50,000, being the maximum permissible deduction, since loan is sanctioned between 1.4.2019 and 31.3.2023. No deduction in respect of principal repayment of loan for purchase of electric vehicle is allowable	1,50,000	
	<b>Deduction under section 80GGC</b>		
	Contribution of ₹ 15,000 to political party not allowable since the sum is paid in cash	Nil	
	<b>Deduction under Chapter VI-A from Gross Total Income</b>		<b>4,25,000</b>

#### Question 9

Mr. Raju furnishes the following particulars for the previous year 2024-25 in respect of an industrial undertaking established in "Special Economic Zone" in March 2016. It began manufacturing in April 2017.

Particulars	(₹)
Total sales	1,70,00,000
Export sales [proceeds received in India]	90,00,000
Domestic sales	80,00,000
Profit from the above undertaking	40,00,000

Export Sales of F.Y. of 2024-25 include freight and insurance of ₹ 10 lakhs for delivery of goods outside India. Compute the amount of deduction available to Mr. Raju under section 10AA for A.Y. 2025-26.

(MTP 4 Marks, Oct'22, RTP Nov'19 & Nov'21)

#### Answer 9

##### Computation of deduction under section 10AA for A.Y. 2024-25

Since year A.Y. 2025-26 is the 8 <sup>th</sup> assessment year 2018-19 relevant to the previous year 2017-18, in the which the SEZ unit began manufacturing of articles or thinks, it shall be eligible for deduction of 50% of the profit derived from export of such articles or thinks, assuming all the other conditions specified in section 10AA are fulfilled
$= \text{Profits of Unit in SEZ} \times \frac{\text{Export turnover of Unit in SEZ}}{\text{Total turnover of Unit in SEZ}} \times 50\%$
$= 40,00,000 \times \frac{80,00,000}{1,60,00,000} \times 50\% = ₹ 10,00,000$

#### Working Note:

	₹
<b>Export Turnover</b>	
Sale proceeds received in India	90,00,000
Less: Freight and insurance for delivery of goods outside India to be excluded from export turnover	10,00,000
	<b>80,00,000</b>
<b>Total turnover</b>	1,70,00,000
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].	10,00,000
	<b>1,60,00,000</b>



**Question 10****LDR**

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 under section 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 under section 80G by way of an account payee cheque. Compute the total income and tax thereon of Mr. Chaturvedi, who is 70 years old as on 31.3.2025, in a tax efficient manner. (SM)

**Answer 10**

**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: <b>Deductions under Chapter VI-A</b>	-
No deduction would be available under default tax regime u/s 115BAC	
<b>Total income</b>	<b>8,18,240</b>
<b>Tax on total income</b>	
LTCG ₹ 2,45,000 x 20%*	49,000
Balance total income ₹ 5,73,240	<u>13,662</u>
	62,662
Add: Health and Education cess @4%	<u>2,506</u>
<b>Total tax liability</b>	<b><u>65,168</u></b>
<b>Total tax liability (Rounded off)</b>	<b>65,170</b>

\*Assumed as before 23.07.2024

**Computation of total income and tax liability of Mr. Chaturvedi for the A.Y. 2025-26**

Particulars	₹	₹
Gross total income incl. long term capital gain		8,18,240
Less: Long term capital gain		<u>2,45,000</u>
		5,73,240
Less: Deductions under Chapter VI-A		
Under section 80C in respect of PPF deposit	1,20,000	
Under section 80D (it is assumed that premium of ₹ 51,000 is paid by otherwise than by cash. The deduction would be restricted to ₹ 50,000, since Mr. Chaturvedi is a senior citizen)	50,000	
Under section 80G (See Notes 1 & 2 below)	17,662	
Under section 80TTB (See Note 3 below)	<u>50,000</u>	<u>2,37,662</u>
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)		<u>1,779</u>
		50,779
Add: Health and Education cess @4%		<u>2,031</u>
<b>Total tax liability</b>		<b>52,810</b>

Since the tax liability is lower under the optional tax regime (i.e., normal provisions of the Act) as compared to the default tax regime, Mr. Chaturvedi should exercise the option of shifting out of the default tax regime





provided under section 115BAC(1A).

**Notes:**

**1. Computation of deduction under section 80G:**

Particulars	₹
Gross total income (excluding long term capital gains)	5,73,240
Less : Deduction under section 80C, 80D & 80TTB	2,20,000
	<b>3,53,24</b>
10% of the above	35,324
Contribution made	50,000
Lower of the two eligible for deduction under section	35,324
<b>Deduction under section 80G – 50% of ₹ 35,324</b>	<b>17,662</b>

- Deduction under section 80G is allowed only if amount is paid by any mode other than cash, in case of amount exceeding ₹ 2,000. Therefore, the contribution made to public charitable trust is eligible for deduction since it is made by way of an account payee cheque.
- Deduction of upto ₹ 50,000 under section 80TTB is allowed to a senior citizen if gross total income includes interest income on bank deposits, both fixed deposits and savings account.
- Mr. Chaturvedi, being a senior citizen is eligible for a higher basic exemption of ₹ 3,00,000.

**Question 11**

**LDR**

Mr. Xavier, an Indian resident individual, set up a unit in Special Economic Zone (SEZ) in the financial year 2019-20 for production of Mobile Phones. 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 ₹ 93 lakhs (including cost of land ₹ 13 lakhs). The warehouse became operational with effect from 1st April, 2024 and the expenditure of ₹ 63 lakhs was capitalized in the books on that date.

Further details relevant for the financial year 2024-25 are as follows:

Particulars	₹
Profit from operation of warehousing facility before claiming deduction under section 35AD	1,10,00,000
Net Profit of SEZ (Mobile Phone) Unit	50,00,000
Export sales of SEZ (Mobile Phone) Unit	90,00,000
Domestic Sales of SEZ (Mobile Phone) Unit	60,00,000

Compute income tax (including AMT under 115JC) payable by Mr. Xavier for Assessment Year 2025-26.  
(PYP 6 Marks, Jan'21)

**Answer 11**

**Computation of total income for A.Y. 2025-26 (under the regular provisions of the Act)**

Particulars	₹	₹
<b>Profits and gains of business or profession</b>		
<b>Profit from unit in SEZ</b>	50,00,000	
Less: Deduction under section 10AA	30,00,000	
[50,00,000 x 90,00,000/1,50,00,000 x 100%, since it is 5th year of manufacturing]		
Business income of SEZ unit chargeable to tax		20,00,000
<b>Profit from operation of warehousing facility</b>	1,10,00,000	
Less: Deduction u/s 35AD [Deduction@100% in respect of the expenditure incurred prior to the commencement of its operations and capitalized in the	80,00,000	





books of account on 1.4.2024. Deduction is not available on expenditure incurred on acquisition of land] [₹ 93 lakhs – ₹ 13 lakhs]		
Business income of warehousing facility chargeable to tax		30,00,000
<b>Total Income</b>		<b>50,00,000</b>
<b>Computation of tax liability</b>		
Tax on ₹ 50,00,000		13,12,500
Add: Health and Education cess@4%		52,500
<b>Total tax liability</b>		<b>13,65,000</b>

**Computation of adjusted total income and AMT of Mr. Xavier for A.Y. 2025-26**

Particulars	₹	₹
Total Income (as computed above)		50,00,000
Add: Deduction under section 10AA		<u>30,00,000</u>
		<u>80,00,000</u>
Add: Deduction under section 35AD	80,00,000	
Less: Depreciation u/s 32 [On building@10% of ₹ 80 lakhs <sup>2</sup> ]	<u>8,00,000</u>	<u>72,00,000</u>
<b>Adjusted Total Income</b>		<b><u>1,52,00,000</u></b>
Alternate Minimum Tax@18.5%		28,12,000
Add: Surcharge@15% (since adjusted total income > ₹ 1 crore)		4,21,800
		<b>32,33,800</b>
Add: Health and Education cess@4%		1,29,352
Total tax liability		33,63,152
<b>Tax Liability (Rounded off)</b>		<b>33,63,150</b>

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 payable @18.5% thereof plus surcharge@15% and cess@4%. Therefore, the tax liability is ₹ 33,63,150.

**AMT Credit to be carried forward under section 115JEE**

	₹
Tax liability under section 115JC	33,63,150
Less: Tax liability under the regular provisions of the Income-tax Act, 1961	13,65,000
	<b>19,98,150</b>

**Note:** In the third para of the question, there is a difference between the figure of capital expenditure incurred in respect of warehouse i.e., ₹ 93 lakhs (including cost of land ₹ 13 lakhs) and the figure of capital expenditure capitalized in the books on 1.4.2024 i.e., ₹ 63 lakhs. It appears to be a typographical error, due to which the main solution has been worked out considering ₹ 93 lakhs as the amount capitalized in the books on 1.4.2024.

However, alternative answers have been worked out below considering ₹ 63 lakhs (being the figure as printed in the question paper) as the amount capitalized in the books on 1.4.2024. In Alternative 1, it has been assumed that the amount of ₹ 63 lakhs capitalized on 1.4.2024 does not include cost of land. In Alternative 2, it has been assumed that the amount of ₹ 63 lakhs capitalized on 1.4.2024 includes cost of land.





**Alternative 1 (The amount of ₹ 63 lakhs capitalized on 1.4.2020 does not include cost of land)**

**Computation of total income and tax liability of Mr. Xavier for A.Y. 2025-26**

(under the regular provisions of the Act)

Particulars	₹	₹
<b>Profits and gains of business or profession</b>		
<b>Profit from unit in SEZ</b>	50,00,000	
Less: Deduction u/s 10AA	<u>30,00,000</u>	
[50,00,000 x 90,00,000/1,50,00,000 x 100%, since it is 5th year of manufacturing]		
Business income of SEZ unit chargeable to tax		20,00,000
<b>Profit from operation of warehousing facility<sup>3</sup></b>	1,10,00,000	
Less: Deduction u/s 35AD [Deduction@100% in respect of the expenditure incurred prior to the commencement of its operations and capitalized in the books of account on 1.4.2024. It is assumed that the capitalized expenditure of ₹ 63 lakhs does not include cost of land]	<u>63,00,000</u>	
Business income of warehousing facility chargeable to tax		47,00,000
<b>Total Income</b>		<b>67,00,000</b>
<b>Computation of tax liability</b>		
Tax on ₹ 67,00,000		18,22,500
Add: Surcharge @10%		1,82,250
		20,04,750
Add: Health and Education cess@4%		80,190
<b>Total tax liability</b>		<b>20,84,940</b>

**Computation of adjusted total income and AMT of Mr. Xavier for A.Y. 2025-26**

Particulars	₹	₹
Total Income (as computed above)		67,00,000
Add: Deduction under section 10AA		<u>30,00,000</u>
		97,00,000
Add: Deduction under section 35AD	63,00,000	
Less: Depreciation u/s 32 [On building @10% of ₹63 lakhs <sup>4</sup> ]	<u>6,30,000</u>	<u>56,70,000</u>
<b>Adjusted Total Income</b>		<b>1,53,70,000</b>
Alternate Minimum Tax@18.5%		28,43,450
Add: Surcharge@15% (since adjusted total income > ₹ 1 crore)		<u>4,26,518</u>
		32,69,968
Add: Health and Education cess@4%		<u>1,30,799</u>
<b>Total tax liability</b>		<b>34,00,767</b>
<b>Tax Liability (Rounded off)</b>		<b>34,00,770</b>

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 payable @18.5% thereof plus surcharge@15% and cess@4%. Therefore, the tax liability is ₹ 34,00,770.

**AMT Credit to be carried forward under section 115JEE**

	₹
Tax liability under section 115JC	34,00,770
Less: Tax liability under the regular provisions of the Income-tax Act, 1961	20,84,940
	<b>13,15,830</b>





**Alternative 2 (The amount of ₹63 lakh capitalized includes cost of land)**  
**Computation of total income and tax liability of Mr. Xavier for A.Y. 2025-26**  
**(under the regular provisions of the Act)**

Particulars	₹	₹
<b>Profits and gains of business or profession</b>		
Profit from unit in SEZ	50,00,000	
Less: Deduction u/s 10AA	<u>30,00,000</u>	
[50,00,000 x 90,00,000/1,50,00,000 x 100%, since it is 5th year of manufacturing]		
Business income of SEZ unit chargeable to tax		20,00,000
<b>Profit from operation of warehousing facility<sup>5</sup></b>	1,10,00,000	
Less: Deduction u/s 35AD [Deduction@100% in respect of the expenditure incurred prior to the commencement of its operations, and capitalized in the books of account on 1.4.2020. Deduction is not available on expenditure incurred on acquisition of land. It is assumed that the capitalized expenditure includes ₹ 13 lakhs of land] [₹ 63 lakhs – ₹ 13 lakhs]	50,00,000	
Business income of warehousing facility chargeable to tax		<u>60,00,000</u>
<b>Total Income</b>		<b><u>80,00,000</u></b>
<b>Computation of tax liability</b>		
Tax on ₹ 80,00,000		22,12,500
Add: Surcharge @10%		<u>2,21,250</u>
		24,33,750
Add: Health and Education cess@4%		<u>97,350</u>
<b>Total tax liability</b>		<b><u>25,31,100</u></b>

**Computation of adjusted total income and AMT of Mr. Xavier for A.Y. 2025-26**

Particulars	₹	₹
Total Income (as computed above)		80,00,000
Add: Deduction under section 10AA		<u>30,00,000</u>
		1,10,00,000
Add: Deduction under section 35AD	50,00,000	
Less: Depreciation u/s 32 [On building @10% of ₹ 50 lakhs <sup>6</sup> ]	<u>5,00,000</u>	<u>45,00,000</u>
<b>Adjusted Total Income</b>		<b><u>1,55,00,000</u></b>
Alternate Minimum Tax@18.5%		28,67,500
Add: Surcharge@15% (since adjusted total income > ₹ 1 crore)		<u>4,30,125</u>
		<b><u>32,97,625</u></b>
Add: Health and Education cess@4%		<u>1,31,905</u>
<b>Total tax liability</b>		<b><u>34,29,530</u></b>

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 payable @18.5% thereof plus surcharge@15% and cess@4%. Therefore, the tax liability is ₹ 34,29,530.

**AMT Credit to be carried forward under section 115JEE**

	₹
Tax liability under section 115JC	34,29,530
Less: Tax liability under the regular provisions of the Income-tax Act, 1961	25,31,100
	<b><u>8,98,430</u></b>





## MULTIPLE CHOICE QUESTIONS (MCQS)

1. The basic salary of Mr. Raj is ₹ 1,15,000 p.m. He is entitled to dearness allowance, which is 30% of basic salary which forms part of pay for retirement benefits. Mr. Raj and his employer, XYZ Ltd., both contribute 20% of basic salary to the pension scheme referred to in section 80CCD. What is the amount of deduction available to Mr. Raj under section 80CCD for A.Y. 2025-26? Assume that he has opted out of default scheme. (MTP 2 Marks, Mar'22)

- (a) ₹ 4,08,800
- (b) ₹ 5,05,400
- (c) ₹ 3,79,400
- (d) ₹ 3,58,800

Ans: (c)

2. Mr. Krishna, a resident Indian aged 61 years, maintains a saving account with a co-operative land development bank and he earns ₹ 20,000 as interest on saving account for the Financial Year 2024-25. Mr. Krishna also maintains a fixed deposit and recurring deposit account with Mani Finance (A Non-Banking Finance Company) and earns ₹ 25,000 and 10,000 as interest on fixed deposit and recurring deposit, respectively. What would be the deduction allowable to Mr. Krishna under Chapter VI-A if he does not opt for the section 115BAC for the A.Y. 2025-26? (MTP 2 Marks, Apr'21)

- (a) ₹ 55,000
- (b) ₹ 10,000
- (c) ₹ 20,000
- (d) ₹ 50,000

Ans: (c)

3. Mr. Arpit, an employee of MNO Ltd. has contributed ₹ 1,61,280 towards NPS and similar amount is contributed by his employer. His basic salary is ₹ 80,000 p.m. and dearness allowance is 40% of basic salary which forms part of retirement benefits. He also paid ₹ 55,000 towards LIC premium for himself and his wife and medical insurance premium of ₹ 35,000 by crossed cheque for his mother, being a senior citizen during the previous year 2024-25. How much deduction is available under Chapter VI-A while computing total income of Mr. Arpit for the A.Y. 2025-26? Assume he has opted out of 115BAC. (RTP Nov'21)

- (a) ₹ 3,46,280
- (b) ₹ 3,69,400
- (c) ₹ 3,19,400
- (d) ₹ 3,96,280

Ans: (b)

4. Mr. Raj, aged 65 years, is a salaried person. He has taken a LIP on his major son's name on 01.11.2014. The sum assured of LIP is ₹ 16,00,000 and the premium payable is ₹ 1,70,000. He has also taken a medical policy of ₹ 10,00,000 for self and his wife on 01.11.2021. The medical policy is valid for 5 years. He has paid one time premium of ₹ 1,80,000. What is the total deduction available to Mr. Raj for A.Y. 2025-26? (RTP Nov'22)

- (a) ₹ 1,86,000
- (b) ₹ 1,96,000
- (c) ₹ 1,90,000
- (d) ₹ 1,80,000

Ans: (d)

5. Roshini Ltd. has two units, one unit at Special Economic Zone (SEZ) and other unit at Domestic Tariff Area (DTA). The unit in SEZ was set up and started manufacturing from 12.5.2014 and unit in DTA from 15.6.2018. Total turnover of Roshini Ltd. and Unit in DTA is ₹ 12,50,00,000 and 4,50,00,000, respectively. Export sales of units in SEZ and DTA is ₹ 3,50,00,000 and ₹ 2,25,00,000, respectively and net profit of Unit in SEZ and DTA is ₹ 95,00,000 and ₹ 80,00,000, respectively. Out of the export sales of ₹ 3,50,00,000, ₹ 2,00,00,000 have been received in convertible foreign exchange by 30.9.2025. Roshini Ltd. would be eligible for deduction under section 10AA for – (MTP 2 Marks Mar'24 & Sep'22) (RTP May'20)

- (a) ₹ 20,78,125
- (b) ₹ 41,56,250
- (c) ₹ 11,87,500
- (d) ₹ 23,75,000

Ans: (c)





6. Rohit, a resident Indian, has incurred ₹ 15,000 for medical treatment of his dependent brother, who is a person with severe disability and has deposited ₹ 20,000 with LIC for his maintenance. Rohit shifts out of the default tax regime for A.Y. 2025-26. Rohit would be eligible for deduction under section 80DD of an amount equal to (MTP 1 Mark Nov'24)

- (a) ₹ 15,000
- (b) ₹ 35,000
- (c) ₹ 75,000
- (d) ₹ 1,25,000

Ans: (d)



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## CHAPTER 7: ADVANCE TAX, TAX DEDUCTED AT SOURCE & INTRODUCTION TO TAX COLLECTION AT SOURCE

### CONCEPTS OF THIS CHAPTER

- Modes of income tax recovery from an assessee
- Tax deduction at source (TDS) on specified income/payments
- Determining when tax is deductible at source
- Computing tax deductible at source in specific cases
- Cases where tax is not required to be deducted at source
- Duty of the person deducting tax
- Consequences of failing to deduct or pay TDS
- Liability and computation of advance tax
- Tax collection at source (TCS) and its applicability
- Difference between TDS and TCS



LDR Questions

Q 13

Q 15

Q 16

### QUICK REVIEW OF IMPORTANT CONCEPTS

#### TAX DEDUCTION AT SOURCE (TDS)

##### Section -192: Salary

<b>Threshold Limit for TDS</b>	Basic exemption limit
<b>Rate of TDS</b>	Average rate of income-tax
<b>Time of deduction</b>	At the time of payment

##### Section -193: Interest on Securities

<b>Threshold Limit for TDS</b>	> ₹ 10,000 in a F.Y.
<b>Rate of TDS</b>	10%
<b>Time of deduction</b>	At the time of credit to the account or at the time of payment, whichever is earlier.

##### Section -194: Dividend (including dividends on preference shares)

<b>Threshold Limit for TDS</b>	Amount or aggregate amount > ₹ 5,000 in a F.Y., shareholder by any mode other than cash > No threshold in other cases
<b>Rate of TDS</b>	10%
<b>Time of deduction</b>	Before making any payment by any mode in respect of any dividend or before making any distribution or payment of dividend.

##### Section -194A: Interest other than interest on securities

<b>Threshold Limit for TDS</b>	Amount or aggregate amount > ₹ 40,000 in a F.Y. In case of interest Credited or paid by a banking company, co-operative society engaged in banking business etc In all the above cases, if payee is a resident senior citizen, tax deduction limit is > ₹ 50,000. > ₹ 5,000 in a F.Y., in other cases.
<b>Payer</b>	Any person (other than an individual or HUF whose turnover from business or profession do not exceed ₹ 1 crore in case of business or ₹ 50 lakhs in case of profession during the immediately preceding F.Y. responsible for paying interest other than interest on securities.
<b>Rate of TDS</b>	10%
<b>Time of deduction</b>	At the time of credit to the account or at the time of payment whichever is earlier.

##### Section -194B: Winnings from any lottery

<b>Threshold Limit for TDS</b>	Amount or the aggregate of amounts > ₹ 10,000 in a F.Y.
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Rate of TDS	30%
Time of deduction	At the time of payment

#### Section -194BA: Winnings from online games

Threshold Limit for TDS	On the net winnings
Rate of TDS	30%
Time of deduction	At the end of the F.Y.

#### Section -194BB: Winnings from horse race

Threshold Limit for TDS	Amount or the aggregate of amounts > ₹ 10,000 in a F.Y.
Rate of TDS	30%
Time of deduction	At the time of payment

#### Section -194C: Payments to Contractors

Threshold Limit for TDS	Single sum credited or paid > ₹ 30,000 (or) The aggregate of sums credited or paid to a contractor during the F.Y. > ₹ 1,00,00 Individual/HUF need not deduct tax where sum is credited or paid Exclusively for personal purposes
Payer	Same As 194 A
Rate of TDS	1% of sum paid or credited, if the payee is an individual or HUF 2% of sum paid or credited, if the payee is any other person.
Time of deduction	At the time of credit to the account or at the time of payment whichever is earlier

#### Section -194D: Insurance Commission

Threshold Limit for TDS	Amount or aggregate amount > ₹ 15,000 in a F.Y.
Rate of TDS	5% if the payee is a non-corporate resident 10%, if the payee is a domestic company
Time of deduction	At the time of credit to the account or at the time of payment whichever is earlier

#### Section -194DA: Any sum under a life insurance policy not fulfilling the condition specified u/s 10(10D)

Threshold Limit for TDS	Amount or aggregate amount ≥ ₹ 1,00,000 in a financial year
Rate of TDS	5% of the amount of income comprised therein w.e.f 1.10.24 rate of tax is 2%
Time of deduction	At the time of payment

#### Section -194H: Commission or brokerage

Threshold Limit for TDS	> ₹ 15,000 in a financial year
Payer	Same As 194 A
Rate of TDS	5% till 30.09.2024. Thereafter 2%.
Time of deduction	At the time of credit to the account or at the time of payment whichever is earlier.

#### Section -194I: Rent

Threshold Limit for TDS	> ₹ 2,40,000 in a financial year
Payer	Same As 194 A
Rate of TDS	For P&M 2%, For Land & building, furniture & fitting 10%
Time of deduction	At the time of credit to the account or at the time of payment whichever is earlier.

#### Section -194-IA: Payment on transfer of certain immovable property other than Agricultural land

Threshold Limit for TDS	≥ ₹ 50 lakh (Consideration for transfer or stamp duty value)
Payer	1% of consideration for transfer or stamp duty value, whichever is higher
Time of deduction	At the time of credit to the account or at the time of payment whichever is earlier

#### Section -194- IB: Payment of rent by certain individuals or HUF

Threshold Limit for TDS	> ₹ 50,000 for a month or part of a month
Rate of TDS	5% till 30.09.2024. Thereafter 2%.
Time of deduction	At the time of credit of rent, for the last month of the previous year or the last month of tenancy

#### Section -194J: Fees for professional or technical services/ Royalty/ Noncompete fees/ Director's remuneration

Threshold Limit for TDS	> ₹ 30,000 in a financial year, for each category of income. (However, this limit does not apply in case of payment made to director of a company).
Payer	Same As 194 A
Rate of TDS	2% technical fees or operation of call center or royalty. 10% other payments
Time of deduction	At the time of credit to the account or at the time of payment whichever is earlier.

#### Section -194LA: Compensation on acquisition of certain immovable property other Than agricultural land situated in India





<b>Threshold Limit for TDS</b>	Amount or aggregate amount > ₹ 2,50,000 in a F.Y.
<b>Rate of TDS</b>	10%
<b>Time of deduction</b>	At the time payment

#### Section -194M: Payments to Contractors, Commission or brokerage, Fees for professional services

<b>Threshold Limit for TDS</b>	> ₹ 50,00,000 in a financial year
<b>Payer</b>	Individual or HUF other than those who are required to deduct tax at source under section 194C or 194H or 194J
<b>Rate of TDS</b>	5% till 30.09.2024. Thereafter 2%.
<b>Time of deduction</b>	At the time of credit to the account or at the time of payment whichever is earlier.

#### Section -194N: Cash withdrawals

<b>Threshold Limit for TDS</b>	> ₹ 3 crore if the recipient is a cooperative society > ₹ 1 crore in case of others
<b>Rate of TDS</b>	@2% of such Sum In case the recipient has not filed ROI for all the 3 immediately Preceding P.Y.s, for which time limit u/s 139(1) has expired, such sum shall be the amt or agg. of amts, in cash > ₹ 20 lakh during the P.Y. - @2% of the sum, where cash withdrawal > ₹ 20 lakhs but ≤ ₹ 1 crore/ ₹ 3 crore in case the recipient is a co-operative society - @5% of the sum, where cash withdrawal > ₹ 1 crore/ ₹ 3 crore in case the recipient is a co-operative society
<b>Time of deduction</b>	At the time of payment of such sum

#### Section -194Q: Purchase of goods

<b>Threshold Limit for TDS</b>	> ₹50 lakhs in a previous year
<b>Rate of TDS</b>	0.1% of sum exceeding ₹ 50 lakhs
<b>Time of deduction</b>	Same As 194 A

**Section 206AA** requires furnishing of PAN by the deductee to the deductor, failing which the deductor has to deduct tax at the higher of the following rates, namely, -

- (i) at the rate specified in the relevant provision
- (ii) at the rate or rates in force;
- (iii) at the rate of 20% and in case of section 194-Q, 5%

#### ADVANCE PAYMENT OF TAX

Advance tax is payable during a F.Y. in every case where the amount of such tax payable by the assessee during the year is ₹10,000 or more.

for corporates and non-corporates (other than 44AD or section 44ADA)

<b>Due date of instalment</b>	<b>Amount payable</b>
On or before 15th Jun	Not less than 15% of advance tax liability.
On or before 15 <sup>th</sup> Sep	Not less than 45% of advance tax liability (-) amount paid in earlier instalment.
On or before 15 <sup>th</sup> Dec	Not less than 75% of advance tax liability (-) amount paid in earlier instalment/s
On or before 15th Mar	The whole amount of advance tax liability (-) amount paid in earlier instalment/s

#### Advance tax payment on presumptive basis under section 44AD(1) or section 44ADA(1)

Shall be required to pay advance tax of the whole amount on or before 15th March of the F.Y.

#### Interest for defaults in payment of advance tax [Section 234B]

- Attracted for non-payment of advance tax or payment of advance tax of an amount less than 90% of assessed tax
- Interest liability would be 1% per month or part of the month
- Calculated on the amount of difference between the assessed tax and the advance tax paid.

#### Interest for deferment of advance tax [Section 234C]

Failed to pay such tax or the advance tax paid by such assessee on its current income on or before the dates specified is less than the specified percentage of tax due on returned income, then simple interest@1% per month for the period on the amount of shortfall, s leviable u/s 234C.

#### Computation of interest under section 234C in case of an assessee of section 44AD(1) or section 44ADA(1):

Filed to pay such tax or the advance tax paid by the assessee on its current income on or before 15th March is less than the tax due on the returned income, then, the assessee shall be liable to pay simple interest at the rate of 1% on the amount of the shortfall from the tax due on the returned income.

#### TAX COLLECTION AT SOURCE [SECTION 206C]

- **Lease or a licence of parking lot, toll plaza or mine or a quarry [Section 206C(1C)]**- the rate of 2%





- **Sale of motor vehicle of value exceeding ₹ 10 lakhs [Section 206C(1F)]**
  - For sale of a motor vehicle of the value exceeding ₹ 10 lakhs, shall, at the time of receipt of such amount, collect tax from the buyer @ 1% of the sale consideration.
  - from 01.01.2025, every person, being a seller, who receives any amount as consideration for sale of any other notified goods exceeding ₹ 10 lakhs, to, at the time of receipt of such amount, collect tax from the buyer @ 1% of the sale consideration.

- **Remittance under LRS of RBI or purchase of an overseas tour package [Section 206C(1G)]**

Amount and purpose of remittance	Rate of TCS
Where the amount is for purchase of an overseas tour programme package	5% till ₹ 7 lakhs, 20% thereafter
(a) Where the amount or aggregate of the amounts being remitted by a buyer is less than ₹ 7 lakhs in a financial year	<b>Nil (No tax to be collected at source)</b>
(a) where the amount is remitted for the purpose of education or medical treatment; and (b) the amount or aggregate of the amounts in excess of ₹ 7 lakhs is remitted by the buyer in a financial year	5% of the amt or agg. of amts in excess of ₹ 7 lakh
(a) where the amount is remitted for the purpose other than mentioned in (iii) above; and (b) the amount or aggregate of the amounts in excess of ₹ 7 lakhs is remitted by the buyer in a financial year	<b>20% of the amt or agg. of amts in excess of ₹ 7 lakh</b>
(a) where the amount being remitted out is a loan obtained from any financial institution as defined in section 80E, for the purpose of pursuing any education; and (b) the amount or aggregate of the amounts in excess of ₹ 7 lakhs is remitted by the buyer in a financial year	0.5% of the amt or agg. of amts in excess of ₹ 7 lakh

- **Sale of goods of value exceeding ₹ 50 lakh [Section 206C(1H)] - @0.1%**
- **case of non-furnishing of PAN**
  - Twice the rate specified in the
  - at 5% [1%, in case tax is required to be collected at source u/s 206C(1H)]
  - Maximum the rate of TCS shall not exceed 20%
- **Section 206CCA higher of the following rates –**
  - at twice the rate specified
  - at 5% Maximum the rate of TCS under this section shall not exceed 20%

### Question & Answers

#### Tax Deduction at Source (TDS)

##### Question 1

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.

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 along with 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 Ltd. However, no material was supplied for such diaries to Mr. A by M/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.

(SM)

**Answer 1**

- (i) No tax is required to be deducted at source under section 194C by M/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 2**

Compute the amount of TDS on the following payments made:

- Payment of royalty of Rs. 20,000 & fee for technical services of Rs. 24,000 to Mr. A, who is having PAN, were made during the Previous Year 2024-25 by M/s. Zen Ltd.
- Kiara Ltd., paid Rs. 18,000 to one of its directors as sitting fees on 02.02.2025.
- Rs. 2,35,000 paid to Mr. Summit, a resident Individual on 26.12.2024 by State of Tamil Nadu on Compulsory Acquisition of his urban land. (MTP 3 Marks, Nov'21)

**Answer 2****(i) Royalty & Fee for technical services**

Tax is not required to be deducted at source under section 194J on payment of royalty of Rs. 20,000 and fee for technical services of Rs. 24,000 to Mr. A, since the limit of Rs. 30,000 for non-deduction of tax at source is applicable for royalty and fees for technical services, separately.

**(ii) Director's sitting fees**

Kiara Ltd. is required deduct tax at source @10% under section 194J, on the amount of sitting fees of Rs. 18,000 paid to a director, since the threshold limit of Rs. 30,000 is not applicable in respect of sum paid to a director.

Therefore, tax to be deducted at source = Rs. 18,000 @ (10%) = Rs. 1800

**(iii) Compensation on compulsory acquisition of urban land**

As per section 194LA, no tax is required to be deducted at source on the amount of Rs. 2,35,000 paid to Mr. Summit by State Government on compulsory acquisition of his urban land, since amount does not exceed Rs. 2,50,000.





### Question 3

Examine TDS implications in case of following transactions, briefly explaining provisions involved assuming that all the payees are residents; state the rate and amount to be deducted, in case TDS is required to be deducted

- (i) Mrinal & Sons, a LLP withdrew from its bank account ₹ 40 lakhs by cash on 1.5.2024, ₹ 35 lakhs on 7.9.2023 and ₹ 55 lakhs on 28.2.2025. The purpose of withdrawal from bank was for buying agricultural produce, from farmers/ agriculturist, being raw material required for manufacture of finished products by it. Mrinal & Sons regularly files its return of income before the due date.
- (ii) Mr. Mukesh, aged 75 years, holds 6½ Gold Bonds, 1977 of ₹ 2,50,000 and 7% Gold Bonds of ₹ 3,50,000. He received interest on these bonds on 31.1.2025. (MTP 4 Marks, Mar'22)

#### Answer 3

- (i) Mrinal & Sons has withdrawn aggregate cash of ₹1.30 crores during the previous year 2024-25. Since aggregate amount cash withdrawals exceed ₹ 1 crore, bank is required deducted tax at source @2% on the amount exceeding ₹ 1 crore i.e., ₹ 30 lakhs though he withdraws the same for buying agricultural produce from farmers, agriculturists, being raw material required for manufacture of finished products by it.  
TDS = 2% of ₹30 lakhs = ₹60,000
- (ii) Tax @10% under section 193 is to be deducted on interest on 6½ Gold Bonds, 1977 and 7% Gold Bonds 1980, since the nominal value of the bonds held by Mr. Mukesh i.e., ₹ 6,00,000 exceed ₹10,000.  
Interest on 6½ Gold Bonds, 1977 = ₹ 2,50,000 x 6.5% = ₹ 16,250  
Interest on 7% Gold Bonds 1980 = ₹ 3,50,000 x 7% = ₹ 24,500  
Tax to be deducted at source = ₹ 40,750 x 10% = ₹ 4,075

### Question 4

Briefly discuss the provisions of tax deducted at source under the Income-tax Act in respect of the following payments:

- (i) Mr. Kamlesh (a resident individual aged 65 years) has maintained two fixed deposits in two different branches of ABC Bank of India (working on core banking solution). During the year 2024-25, the bank paid ₹ 32,000 and ₹ 17,000 as interest on these fixed deposits.
- (ii) Mr. Avinash, a pensioner, pays ₹ 55,00,000 during F.Y. 2024-25 to Mr. Raju, for contract payment for reconstruction of his residential house. (MTP 4 Marks, Apr'22, Dec'24)

#### Answer 4

- (i) ABC Bank is not required to deduct tax at source under section 194A, since the aggregate interest on fixed deposit with the two branches of the bank ₹ 49,000 does not exceed the threshold limit of ₹ 50,000, applicable in case of senior citizen. Since ABC Bank has adopted core banking solution (CBS), the aggregate interest paid by both branches has to be considered.
- (ii) TDS provisions under section 194C are not attracted in this case, since Mr. Avinash is a pensioner. However, Mr. Avinash has to deduct tax at source @5% u/s 194M, since the payment to contractor, Mr. Raju, exceeds ₹ 50 lakhs. (wef 1.10.2024 the TDS rate u/s 194M is reduced to 2%)

### Question 5

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 2023-24 under Income-tax Act, 1961. Assume that all payments are made to residents:

- (i) Mr. Amar 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 2024-25.
- (ii) Mr. Ramu, a salaried individual, has paid rent of ₹ 60,000 per month to Mr. Shiv Kumar from 1st July, 2024 to 31st March, 2025. Mr. Shiv Kumar has not furnished his Permanent Account Number. (MTP 4 Marks, Mar'23, PYP 4 Marks Dec '21)





### Answer 5

#### TDS implications

- (i) The arrangement between Mr. Amar, 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. Amar to the cold storage company<sup>3</sup>.  
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 @ 5% u/s 194-IB (wef 1.10.2024 the TDS rate u/s 194-IB is reduced to 2%) on the annual rent paid by him from the last month's rent (rent of March, 2024), 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 5%. However, the same cannot exceed ₹ 60,000, being rent for March, 2024.  
 $\text{TDS u/s 194-IB} = ₹ 5,40,000 (₹ 60,000 \times 9) \times 20\% = ₹ 1,08,000$ , but restricted to ₹ 60,000, being rent for March, 2024.

### Question 6

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:

- (i) Sahil, a resident Indian individual, not deriving any income from business or profession makes payments of ₹ 10 lakh in January, 2025, ₹ 25 lakh in February, 2025 and ₹ 25 lakh in March, 2025 to Madan, a contractor for reconstruction of his residential house.
- (ii) Wivitzu Ltd. makes the payment of ₹ 2,00,000 to Ramesh, an individual transporter who owned 6 goods carriages throughout the previous year. He does not furnish his PAN. (MTP 4 Marks Oct '21 & Oct'22, PYP 5 Marks, Nov '20)

### Answer 6

#### TDS implications:

- (i) **On payments made to contractor**  
Tax is deductible @ 2% (wef 1.10.2024 the TDS rate u/s 194M is reduced to 2% earlier it was 5%) under section 194M, since payments to Mr. Madan, 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**  
Under section 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 Ramesh has not furnished his PAN to Wivitzu 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 under section 194C.  
Amount of tax to be deducted = ₹ 2,00,000 x 20% = ₹ 40,000

### Question 7

Briefly discuss the provisions of tax deducted at source and compute the amount of TDS under the Income-tax Act in respect of the following payments:

- (i) ₹ 51,000 paid to Mr. A, a resident individual as interest income on compensation awarded by Motor Accidents Claims Tribunal by a transport company.
- (ii) Ms. Asha deposited ₹ 35,00,000 @ 10% p.a. on 1.7.2024 with ABC Co-operative bank limited.
- (iii) Mr. Naresh won ₹ 15,00,000 in Kon Banega Crorepati
- (iv) Mr. Avinash deposited ₹ 2,00,000 @ 11% p.a. on 1.5.2024 for half year with Hike Investment LLP.
- (MTP 8 Marks Sep'22)





### Answer 7

- (i) Tax has to be deducted at source by the transport company @10% under section 194A on payment of ₹ 51,000 made to Mr. A, a resident individual, as interest income on compensation awarded by Motor Accidents Claims Tribunal by a transport company, since the interest paid exceeds the specified threshold of ₹ 50,000.  
Tax to be deducted = ₹ 51,000 x 10% = ₹ 5,100
- (ii) Tax has to be deducted at source by the ABC Co-operative Bank @10% under section 194A on interest of ₹ 2,62,500 [₹ 35,00,000 x 10% p.a. x 9/12] on deposits made by Ms. Asha, since the same exceeds the specified threshold of ₹ 40,000.  
Tax to be deducted = ₹ 2,62,500 x 10% = ₹ 26,250
- (iii) Tax has to be deducted @30% under section 194B on payment of ₹ 15,00,000 made to Mr. Naresh for winnings in Kon Banega Crorepati.  
Tax to be deducted = ₹ 15,00,000 x 30% = ₹ 4,50,000
- (iv) Tax has to be deducted at source by Hike Investment LLP @10% under section 194A on interest of ₹ 11,000 [₹ 2,00,000 x 11% x 6/12] on deposits made by Mr. Avinash, since the same exceeds the specified threshold of ₹ 5,000.  
Tax to be deducted = ₹ 11,000 x 10% = ₹ 1,100.

### Question 8

Examine & explain the TDS implications in the following cases along with reasons thereof, assuming that the deducted are residents and having a PAN which they have duly furnished to the respective detectors.

- (i) Ms. Sarla received a sum of Rs. 92,000 on 30<sup>th</sup> September 2024 towards maturity proceeds of LIC taken on 1<sup>st</sup> October 2014 for which sum assured was Rs. 80,000 and annual premium was Rs. 10,000.
- (ii) Mr. Rohit transferred a residential house property to Mr. Arun for Rs. 45 lacs. The stamp duty value of such property is Rs. 55 lacs.
- (iii) Akash (P) Limited pays the following amounts to Mr. Santosh during previous year 2024-25:
- (1) Rs. 22,000 towards fee for professional services
  - (2) Rs. 18,000 towards royalty.
- (iv) Payment of Rs. 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 Rs. 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 center. On 18-03-2025, the total amount credited by Jigar Limited in the ledger account of Rashi Limited is Rs. 70,000 regarding service charges of call center. The amount is paid through cheque on 28-03-2025 by Jigar Limited.
- (vii) Ms. Mohit won a lucky draw prize of Rs. 21,000. The lucky draw was organized by M/s. Maximus Retail Ltd. for its customer. (MTP 7 Marks, Apr'21, PYP 7 Marks, May'19)

### Answer 8

- (i) premium exceeds 10% of sum assured in respect of a policy taken after 31.3.2012, and consequently, the maturity proceeds of Rs. 95,000 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 Rs. 1 lakh.
- (ii) **On payment of sale consideration for purchase of residential house property** - Tax is to be deducted at source if consideration or SDV is Rs 50,00,000 or more since SDV is Rs 55,00,000 TDS u/s 194-IA will be applicable @ 1% of consideration or SDV whichever is higher. TDS of Rs 55,000 will be cut.
- (iii) **On payment of fee for professional services and royalty** – Under section 194J, the threshold limit of Rs. 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 under section 194J either on fee of Rs. 22,000 for professional services or on royalty of Rs. 18,000 paid to Mr. Santosh, since the payment under each category does not exceed the independent threshold Rs. 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 Rs. 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 Rs. 12,000 paid to its director, since the threshold limit of Rs. 30,000 u/s 194J is not applicable in respect of fees paid to a director.
- (vi) **On payment of call center service charges** - Since Rashi Limited is engaged only in the business of operation of call center, Jigar Limited is required deduct tax at source @2% on the amount of Rs. 70,000 u/s 194J on 18.3.2024 i.e., at the time of credit of call center service charges to the account of Rashi Limited, since the said date is earlier than the payment date i.e., 28.3.2024.
- (vii) **On payment of prize winnings of Rs. 21,000**  
Tax is deductible @ 30% under section 194B by M/s. Maximus Retail Ltd., from the prize money of Rs. 21,000 payables to the customer, since the winnings exceed Rs. 10,000.

**EXAM INSIGHTS:** The question requires the examinees to examine the TDS implications in cases (i) to (vi) given thereunder. Examinees were not aware that TDS u/s 194DA would not be attracted if maturity proceeds received from LIC were less than Rs.1 lakh. They were also not aware that TDS u/s 194-IA would not be attracted where sale consideration of house property is less than Rs.50 lakhs, even though stamp duty value is higher than Rs.50 lakhs.

### Question 9

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 go down during January to March 2025 to Mr. Achilles, an individual	50,00,000
(C)	Mr. Vivit, 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

(PYP 8 Marks, Jul'21)

### Answer 9





- (i) Mr. Kale, being a pensioner, would not be liable to deduct tax at source under section 194C. However, he has to deduct tax at source @ 2% u/s 194M (wef 1.10.2024 the TDS rate u/s 194M is reduced to 2% before 1.10.2024 it was 5% it is assumed that transaction took place in the second part of the year), 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 x 2% = ₹ 1,05,000.
- (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. Vivit is not required to deduct tax at source u/s 194H on the commission paid to Mr. Vinay in the P.Y.2023 -24 since his turnover from his business does not exceed ₹ 1 crore during the P.Y. 2023-24. Further, Mr. Vivit 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 10

**Examine TDS/TCS implications in case of following transactions, briefly explaining provisions involved assuming that all the payees are residents; state the rate and amount to be deducted, in case TDS/TCS is required to be deducted/collected.**

- (i) On 1.5.2024, Mr. Brines made three fixed deposits of nine months each of ₹ 3 lakh each, carrying interest @ 9% with Mumbai Branch, Delhi Branch and Chandigarh Branch of CBZ Bank, a bank which had adopted CBS. These Fixed Deposits mature on 31.01.2025.
- (ii) Mr. Marwah, aged 80 years, holds 6½% Gold Bonds, 1977 of ₹ 2,00,000 and 7% Gold Bonds 1980 of ₹ 3,00,000. He received yearly interest on these bonds on 28.02.2025.
- (iii) M/s AG Pvt. Ltd. took a loan of ₹ 50,00,000 from Mr. Haridas. It credited interest of ₹ 79,000 payable to Mr. Haridas during the previous year 2024-25. M/s AG Pvt. Ltd. is not liable for tax audit during previous years 2022-23 and 2023-24.
- (iv) Mr. Prabhakar is due to receive ₹ 6 lakh on 31.3.2025 towards maturity proceeds of LIC policy taken on 1.4.2016, for which the sum assured is ₹ 5 lakhs and the annual premium is ₹ 1,40,000. (PYP 8 Marks, Jan'21)

#### Answer 10

- (i) CBZ Bank has to deduct tax at source @10% under section 194A, since the aggregate interest on fixed deposit with the three branches of the bank is ₹ 60,750 [3,00,000 x 9% x 3 x 9/12], which exceeds the threshold limit of ₹ 40,000.  
Since CBZ Bank has adopted core banking solution (CBS), the aggregate interest credited/paid by all branches has to be considered.  
Tax to be deducted at source = ₹ 60,750 x 10% = ₹ 6,075<sup>1</sup>
- (ii) Tax @10% under section 193 is to be deducted on interest on 6½ Gold Bonds, 1977 and 7% Gold Bonds 1980, since the nominal value of the bonds held by Mr. Marwah i.e., ₹ 5,00,000 exceed ₹ 10,000.  
Interest on 6½ Gold Bonds, 1977 = ₹ 2,00,000 x 6.5% = ₹ 13,000  
Interest on 7% Gold Bonds 1980 = ₹ 3,00,000 x 7% = ₹ 21,000





Tax to be deducted at source = ₹ 34,000 x 10% = ₹ 3,400

- (iii) M/s AG Pvt. Ltd. has to deduct tax at source @10% under section 194A, since the interest on loan payable is ₹ 79,000 which exceeds the threshold limit of ₹ 5,000. M/s AG Pvt. Ltd., being a company, has to deduct tax at source irrespective of the fact that it is not liable to tax audit during P.Y. 2022-23 and 2023-24.

Tax to be deducted at source = ₹ 79,000 x 10% = ₹ 7,900

- (iv) Since the annual premium exceeds 10% of sum assured in respect of a policy taken after 31.3.2012, the maturity proceeds of ₹ 6 lakhs due on 31.3.2025 are not exempt under section 10(10D) in the hands of Mr. Prabhakar. Therefore, tax is required to be deducted @5% under section 194DA on the amount of income comprised therein i.e., on ₹ 40,000 [₹ 6,00,000, being maturity proceeds - ₹ 5,60,000, being the amount of insurance premium paid. Wef. 1.10.2024 the TDS rate u/s 194DA is reduced to 2% from 5%.  
Tax to be deducted at source = ₹ 40,000 x 2% = ₹ 800

<sup>1</sup> Alternatively, in the absence of information about p.a., the amount of interest can also be worked out as ₹ 81,000 [3,00,000 x 9% x 3] and the tax to be deducted thereon would be ₹ 81,000 x 10% = ₹ 8,100.

### Question 11

**Examine the applicability and the amount of TDS to be deducted in the following cases for F.Y. 2024-25:**

- (i) S and Co. Ltd. paid ₹ 25,000 to one of its Directors as sitting fees on 02-02-2025.  
(ii) ₹ 2,20,000 paid to Mr. Mohan, a resident individual, on 28-02-2024 by the State of Haryana on compulsory acquisition of his urban land.  
(iii) Mr. Purushotham, a resident Indian, dealing in hardware goods has a turnover of ₹ 12 crores in the previous year 2023-24. He purchased goods from Mr. Agarwal, a resident seller, regularly in the course of his business. The aggregate purchase made during the previous year 2024-25 on various dates is ₹ 80 lakhs which are as under:

10-06-2024	₹ 25,00,000
20-08-2024	₹ 27,00,000
12-10-2024	₹ 28,00,000

He credited Mr. Agarwal's account in the books of accounts on the same date and made the payment on the 28-02-2025 ₹ 80 lakh. Mr. Agarwal's turnover for the financial year 2023-24 is ₹ 20 crores.

- (iv) M/s ABC & Sons, a resident HUF is selling bags and wallets manufactured by them through E-commerce platform provided by PQ Ltd. Mr. A buys bag for ₹ 6,00,000 from PQ Ltd. online and directly made the payment to ABC & Sons on 1st October, 2024. (MTP 8 Marks, Apr'23, PYP 6 Marks Nov'22)

### Answer 11

#### TDS implications

- (i) Tax @10% has to be deducted by S and Co. Ltd. under section 194J on directors sitting fees of ₹ 25,000. The threshold limit of ₹ 30,000 is not applicable in respect of sum paid to a director.  
The amount of tax to be deducted at source = ₹ 25,000 x 10% = ₹ 2,500
- (ii) There is no liability to deduct tax at source under section 194LA, since the payment to Mr. Mohan, a resident, by State of Haryana on compulsory acquisition of his urban land does not exceed ₹ 2,50,000.
- (iii) Since Mr. Purushotham's turnover for F.Y.2023-24 exceeds ₹ 10 crores, and value of goods purchased from Mr. Agarwal, a resident seller, exceeds ₹ 50 lakhs in the P.Y.2024-25, he is liable to deduct tax@0.1% on ₹ 30 lakhs (being the sum exceeding ₹ 50 lakhs), at the time of credit or payment, whichever is earlier.  
On 10.6.24 = Nil (No tax is to be deducted u/s 194Q on the purchases made on 10.6.2024 since the purchases made till that date has not exceeded the threshold of ₹ 50 lakhs)  
On 20.8.2024 = 0.1% of ₹ 2 lakhs (₹ 27 lakhs - ₹ 25 lakhs, being balance unexhausted limit) = ₹ 200  
On 12.10.2024 = 0.1% of ₹ 28 lakhs = ₹ 2,800.
- (iv) The E-commerce operator, PQ Ltd. is required to deduct tax at the rate of 1% of the gross sale amount. The sale amount exceeds ₹ 5,00,000, hence section 194-O is applicable to the e-commerce participant i.e., M/s ABC & Sons, HUF, on the sales facilitated by PQ Ltd. Therefore, TDS of ₹ 6,000 (1% of 6,00,000) shall be deducted by PQ Ltd. on 1st October, 2024. Direct payment by Mr. A shall be deemed to be payment made by PQ Ltd. to the HUF.





**Exam Insights:** Examinees wrongly considered the threshold limit of ₹ 30,000 while applying the provisions of tax deducted at source on directors sitting fees. They were not aware that this is the only payment covered under section 194J for which there is no threshold limit.

### Question 12

Examine and compute the liability for deduction of tax at source, if any, in the cases stated hereunder, for the financial year ended 31st March, 2025.

- (i) State Bank of India pays ₹ 70,000 per month and ₹ 60,000 per month as rent to the Central Government and Mr. Kunal, respectively for building in which its branches are situated.
- (ii) Payment of ₹ 2,50,000 to Mr. Deepak a transporter who owns 8 goods carriages throughout the previous year. He does not furnish his PAN. (MTP 4 Marks, Mar'24, May'20 & Oct'19)

### Answer 12

#### TDS implications

- (i) Section 194-I, which governs the deduction of tax at source @10% on payment of rent, exceeding ₹ 2,40,000 p.a., is applicable to all persons except individuals and HUF, whose turnover/gross receipts do not exceed ₹ 1 crore in case of business or ₹ 50 lakhs in case of profession during the financial year immediately preceding the financial year in which such rent is credited or paid.

In the present case, State Bank of India has to deduct at source @ 10% on rental payment to Mr. Kunal.

Tax deducted at source = ₹ 72,000 (₹ 7,20,000 x 10%)

Section 196, however, provides exemption in respect of payments made to Government from application of the provisions of tax deduction at source.

Therefore, no tax is required to be deducted at source by State Bank of India from rental payments to the Government.

- (ii) As per section 194C, no tax is required to be deducted at source on payment to transporter if the following conditions are satisfied:

- (1) He owns ten or less goods carriages at any time during the previous year.
- (2) He is engaged in the business of plying, hiring or leasing goods carriages;
- (3) He furnishes a declaration to this effect along with his PAN.

In the present case, since Mr. Deepak has not furnished his PAN, tax is required to be deducted at source @ 20% under section 206AA on ₹ 2,50,000, since the same exceeds the threshold limit of ₹ 1,00,000.

Tax deducted at source = ₹ 50,000 (₹ 2,50,000 x 20%)

### Question 13

LDR

- (a) Examine & explain the TDS implications in the following cases along with reasons thereof, assuming that the deducted are residents and having a PAN which they have duly furnished to the respective detectors.
  - (i) 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.
  - (ii) 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.
  - (iii) 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.
- (b) Mr. Subhash engaged in the business of trading of electrical appliances. His turnover for F.Y. 2023-24 and F.Y. 2024-25 was ₹ 12 crore and 9.5 crore, respectively. During the previous year, Wivitzu Ltd. placed order for purchase of electric appliances for ₹ 55 lakhs on 01.08.2024. He again placed order for ₹ 35 lakhs on 01.11.2024. Mr. Subhash delivered both the orders within 15 days of receipt of orders. Discuss, whether Mr. Subhash is required to collect tax at source, on the consideration received from Wivitzu Ltd. (RTP May'21, MTP 8 Marks Sep '23) (MTP 4 Marks Jul'24)





### Answer 13

#### (a) TDS implications

##### (i) On pre-mature withdrawal from EPF

No tax is deductible under section 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" under section 2(28A), no tax is deductible at source under section 194A, since the service fee is paid to a banking company, i.e., Indian Bank.

##### (iii) On payment of rent by a salaried individual

Mr. Agam, a salaried individual, is not liable to deduct tax at source @5% (wef 1.10.2024 the TDS rate u/s 194M is reduced from 5% to 2%). under section 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.

##### (b) As per section 206(1H), tax is required to be collected at source @0.1% on the sale consideration exceeding ₹ 50 lakhs at the time of receipt of consideration. Tax is required to collected at source by a seller, being a person whose total turnover from the business exceeds ₹ 10 crore during the financial year immediately preceding the financial year in which sale of goods is carried out.

Since the threshold of ₹ 50 lakhs is with respect to the previous year, calculation of receipt of sale consideration for triggering TCS under section 206C(1H) shall be computed from 1st April, 2024.

Hence, in the present case, since Mr. Subhash has sold electric appliance for sale consideration or in aggregate of such consideration, exceeding ₹ 50 lakhs, TCS is required to be collected at source @0.1%, on amount of ₹40 Lakhs ( ₹55 Lakh + ₹ 35 lakhs= ₹ 90 Lakhs).

### Question 14

Discuss the liability of tax deduction at source under the Income-tax Act, 1961 in respect of the following cases with reference to A.Y. 2025-26.

##### (i) XY a partnership firm is selling its product 'R' through the E-commerce Platform provided by AB Ltd. (E-commerce Operator). AB Ltd., credited in its books of account, the account of XY on 28th February, 2025 by sum of ₹ 4,90,000 for the sale of product R, made during the month February, 2025.

Mr. Rai, who purchased product 'R' through the platform provided by AB Ltd. made payment of ₹60,000 directly to XY on 21st February, 2025.

##### (ii) ABC Ltd is a producer of natural gas. During the year it sold natural gas worth ₹ 26,50,000 to M/s Deep Co., a partnership firm. It also incurred ₹ 1,70,000 as freight for the transportation of gas. It raised the invoice and clearly segregated the value of gas as well as the transportation charges.

##### (iii) ABC LLP paid job charges to XYZ, a partnership firm for doing embroidery work on the fabric supplied by the ABC LLP during the previous year 2024-25 as under

BILL NO.	DATE	AMOUNT ₹
1	30-04-2024	27,000
57	30-06-2024	25,000
105	30-09-2024	28,000
151	30-12-2024	32,000

(PYP 6 Marks, May'22, MTP 6 Marks Oct '23)

### Answer 14

##### (i) AB Ltd, an e-commerce operator is required to deduct tax @1% under section 194-O on ₹ 5,50,000 (i.e., ₹ 4,90,000 credited on 28.2.2025 plus deemed payment of ₹ 60,000 on 21.2.2025, being payment directly made by Mr. Rai to the e-commerce participant XY), being the gross amount of sale of product 'R' of XY, an e-commerce participant, since such sale is effected in February, 2025 is facilitated by AB Ltd. through its e-commerce platform.

Hence, TDS u/s 194O = 1% on ₹ 5,50,000 = ₹ 5,500





- (ii) Since ABC Ltd., being the producer of the natural gas, sells as well as transports the gas to M/s. Deep Co., the purchaser, till the point of delivery, where the ownership of gas is simultaneously transferred to M/s. Deep Co., the manner of raising the invoice (whether the transportation charges are embedded in the cost of gas or shown separately) does not alter the basic nature of such contract which remains essentially a 'contract for sale' and not a 'works contract' as envisaged in section 194C. Therefore, in such circumstances, the TDS provisions would not be attracted on ₹1,70,000, being the component of gas transportation charges paid by M/s. Deep Co. to ABC Ltd.

**Alternate Answer:**

The above solution is based on Circular No. 9/2012 dated 17.10.2012, wherein it has been clarified that in case the Owner/Seller of the gas sells as well as transports the gas to the purchaser till the point of delivery, where the ownership of gas to the purchaser is simultaneously transferred, the manner of raising the sale bill, does not alter the basic nature of such contract which remains essentially a 'contract for sale' and not a 'works contract' as envisaged in section 194C of the Act.

Since, the Question is silent on the timing of the transfer of ownership of the gas to the purchaser, an assumption that the ownership of the gas to the purchaser is transferred before its transportation is possible. In such a case, the transportation of gas after transfer of ownership may be considered as a separate contract for transportation of gas i.e. 'works contract' u/s 194C, and hence TDS @ 2% has to be deducted by M/s. Deep Co. on ₹ 1,70,000/- i.e. ₹ 3,400/-.

- (iii) In this case, the individual contract payments (through the bills dated 30.4.2024, 30.6.2024 and 30.9.2024) made by ABC LLP to XYZ does not exceed ₹ 30,000. However, since the aggregate amount paid to XYZ during the P.Y. 2024-25 exceeds ₹ 1,00,000 (on account of the last payment of ₹ 32,000, due on 30.12.2024, taking the total from ₹ 80,000 to ₹ 1,12,000), the TDS provisions under section 194C would get attracted on the entire sum of ₹ 1,12,000.

Tax has to be deducted @ 2% (since payment is to a firm, XYZ) on the entire amount of ₹ 1,12,000, from the last payment of ₹ 32,000 on 30.12.2024.

Hence, TDS u/s 194C = ₹ 2,240.

**EXAM INSIGHTS:** Most of the examinees were not aware that amount paid by the purchaser directly to the e-commerce participant is deemed to be credited/paid by the e-commerce operator and, hence, such amount is also subjected to tax deduction at source under section 194O.

**Question 15**

**LDR**

- (A) Miss Tara, resident individual aged 32 years, is a social media influencer. She makes videos reviewing various electronic items and posts those videos on social media. On 1st December 2024, Wivitzu Ltd., an Indian company manufacturer of electronic cars gave her a brand new car having fair market value of ₹ 6 lakhs to promote on her social media page. She used that car for 7 months for her personal purposes, recorded a video reviewing the car and then returned the car to the company. You are required to discuss the applicable provisions in the Income-tax Act regarding the deduction of tax at source in respect of such transaction.
- (B) Ms. Aruna is a Chief Executive Officer of a multi-national company. She hires Mr. Suresh for supply of her housing staff (like gardener, chefs and drivers etc.) and makes the following payments to him: ₹ 25,00,000/- on 10th August, 2024 and ₹ 30,00,000 on 22nd November, 2024. Determine the amount of tax to be deducted/ collected at source, if any. Would your answer be different, if Ms. Aruna is a business woman and her books are not audited in immediately preceding financial year and payment to Mr. Suresh is for business purposes.
- (C) By virtue of an agreement with Nationalized Bank, M/s ABC Pvt Ltd., a company engaged in catering business received ₹ 60,000 p.m. towards supply of food, water, snacks, etc. during office hours to the employees of the bank. Discuss the TDS implication of this transaction/agreement.  
(PYP 7 Marks, May'23)

**Answer 15**

- (i) Under section 194R, the person who is responsible for providing to a resident, any benefit or perquisite whether convertible into money or not, arising from business or the exercise of a profession by such





resident, has to first ensure deduction of tax @ 10% of the value of such benefit or perquisite, if the same exceeds ₹ 20,000.

However, in case of benefit or perquisite being a product like car, mobile etc. if the product is returned to the manufacturing company after using for the purpose of rendering service, then it will not be treated as a benefit/perquisite for the purposes of section 194R.

Accordingly, in the present case, since Miss Tara has returned the car to Wivitzu Ltd., TDS provisions under section 194R would not apply.

- (ii) The provisions of section 194C would not apply in the hands of Ms. Aruna since the amount paid to Mr. Suresh is for supply of her housing staff. Hence, it is used exclusively for her personal purposes.

In this case, tax is required to be deducted at source from such amount under section 194M @ 5% (wef 1.10.2024 the TDS rate u/s 194M is reduced from 5% to 2%). Hence since the transaction where it crosses 50 lakhs is done after 1.10.2024 the TDS rate will be 2%), since the aggregate payment made to Mr. Suresh for the said contract exceeds ₹ 50 lakhs during the P.Y. 2024-25.

Accordingly, ₹ 1,10,000, being 2% of ₹ 55,00,000 [₹ 25,00,000 + ₹ 30,00,000], is required to be deducted at source.

In case Ms. Aruna made payment to Mr. Suresh for business purposes and she is not required to get her books of account audited [assuming her turnover from such business does not exceed ₹ 1 crore in P.Y. 2023-24], she is not required to deduct tax at source under section 194C. In such case also, she is required to deduct tax at source of ₹ 1,10,000 under section 194M.

**Note** – In the question, it is mentioned that Ms. Aruna is a business woman and her books are not audited in immediately preceding financial year. However, whether the provisions of section 194C would be attracted are dependent on whether the turnover of business carried on by her during the financial year immediately preceding the financial year in which the sum credited or paid exceeds ₹ 1 crore. In the absence of this information, it is possible that audit may not be required in her case due to the following reasons-

- her turnover exceeds ₹ 1 crore but does not exceed ₹ 10 crores and receipts and payments in cash does not exceed 5% of such receipts or payments, respectively.
- her turnover exceeds ₹ 1 crore but does not exceed ₹ 2 crore and she is declaring profits under the presumptive provisions of section 44AD.

Accordingly, following alternate answer is also possible based on the assumption that turnover of Ms. Aruna's business exceeds ₹ 1 crore.

**Alternative answer** - In case Ms. Aruna made payment to Mr. Suresh for business purposes during the P.Y. 2023-24, she would be required to deduct tax at source @ 1% under section 194C amounting to ₹ 55,000 (since payment is made to Mr. Suresh, an individual) of ₹ 55,00,000.

- (iii) According to section 194C, the definition of "work" include catering. In the present case, nationalised bank is required to deduct tax source @ 2% on ₹ 7,20,000 [₹ 60,000 x 12] paid to ABC Pvt. Ltd. for providing catering services to the bank, since amount of ₹ 60,000 paid every month exceeds the threshold of ₹ 30,000.

Therefore, nationalised bank is required to deduct tax at source of ₹ 1,200 per month amounting to ₹ 14,400 for the year.

**EXAM INSIGHTS:** Examinees depicted lack of knowledge of the newly inserted TDS provisions of section 194R applicable in respect of any benefit or perquisite provided to a resident.

### Question 16

LDR

Discuss the liability of tax deduction at source under the Income-tax Act, 1961 in respect of the following cases with reference to A.Y. 2025-26. (State applicable provision and give brief reasons for your answer, wherever applicable)

- (i) XYZ, a resident partnership firm is in retail business buying fabric material regularly from ABC, a resident proprietorship firm. Details of transactions during P.Y. 2024-25 are as given:

Particulars	Date of Payment	Amt (₹)
Advance payment	1.4.2024	40,00,000
Payment for supplies	2.7.2024	20,00,000
Advance payment	4.8.2024	12,00,000





XYZ achieved gross turnover of ₹ 12 crore from the business during the financial year 2023-24 and the gross business turnover for financial year 2024-25 turns out to be ₹ 9 crores. Gross business turnover of ABC for the financial year 2023 -24 was ₹ 6 crores.

Will your answer be same, if the gross turnover of XYZ during the financial year 2023-24 includes ₹ 4 crore towards supply of material for charitable purposes?

- (ii) MJ, a part time director of ABZ Pvt. Ltd. was paid an amount of ₹ 2,49,000 as commission on sales (which was not in the nature of Salary) for the period 01.04.2024 to 31.03.2025.
- (iii) Mr. Kumar, a resident senior citizen, aged 86 years, is a retired State Govt. employee. He gets pension of ₹ 72,000 p.m. He has his saving account with Bank of Baroda, a bank notified by the Central Govt. u/s 194P, has received the interest on saving account ₹ 15,000 during the P.Y. 2024-25. His pension is also credited in this account. In the same bank he has deposited ₹ 10 Lakh in a Term Deposit @7% simple interest on 01.07.2024. He has no other income. He has not opted section 115BAC. Discuss requirement of filing of income tax return also. (PYP 7 Marks, Nov'23)

#### Answer 16

- (i) Tax is required to be deducted at source under section 194Q by XYZ, being a buyer, since its turnover in the immediately preceding financial year i.e., F.Y. 2023-24 exceeds ₹ 10 crores and it has purchased goods exceeding ₹ 50 lakhs in the F.Y. 2024-25. TDS u/s 194Q would be 0.1% of the sum exceeding ₹ 50 lakhs and the same has to be deducted at the time of payment or credit of such sum to the account of resident seller, whichever is earlier.

Therefore, in the present case, XYZ, a resident partnership, is required to deduct tax at source –

On 2.7.2024 of ₹ 1,000, being @0.1% on ₹ 10 lakhs exceeding ₹ 50 lakhs (₹ 40,00,000 on 1.4.2024 + ₹ 20,00,000 on 2.7.2024).

On 4.8.2024 of ₹ 1,200, being @0.1% ₹ 12 lakhs.

No, in such case, the amount of turnover of XYZ would not exceed ₹ 10 crores in F.Y. 2024-24, since ₹ 4 crores towards supply of material for charitable purposes, being a non-business activity, would not be considered for the purpose of turnover.

Accordingly, XYZ is not required to deduct tax at source under section 194Q.

- (ii) ABZ Pvt. Ltd. is required to deduct tax at source u/s 194J @10% on ₹ 2,49,000 paid to MJ, a part time director, as commission, which is not in the nature of salary on which tax is deductible under section 192.

Therefore, ₹ 24,900 (₹ 2,49,000 x 10%) is required to be deducted at source.

- (iii) Bank of Baroda, being a specified bank notified by the Central Government u/s 194P is required to deduct tax at source at the rates in force on the total income of Mr. Kumar, being a specified senior citizen (75 years or more) computed as follows:

#### Computation of total income of Mr. Kumar not opting for section 115BAC and tax liability for A.Y.2025-26

	Particulars	₹	₹
I	<b>Salaries</b>		
	Pension (₹ 72,000 x 12)	8,64,000	
	Less: Standard deduction u/s 16(ia)	<u>50,000</u>	8,14,000
II	<b>Income from Other Sources</b>		
	Interest on savings account	15,000	
	Interest on fixed deposit (₹ 10 lakh x 7% x 9/12)	<u>52,500</u>	
			<u>67,500</u>
	<b>Gross total income</b>		8,81,500
	<b>Less: Deductions under Chapter VI-A</b>		
	<b>Under section 80TTB</b>		
	Interest on fixed deposit and savings account, restricted to ₹ 50,000, since Mr. Kumar is a resident Indian of the age of 60 years or more	<u>50,000</u>	<u>50,000</u>
	<b>Total Income</b>		<u>8,31,500</u>
	<b>Computation of tax liability for A.Y.2025-26</b>		
	Tax on ₹ 8,31,500 [20% on income exceeding ₹ 5 lakhs, being		66,300





	the basic exemption limit, since Mr. Kumar is of the age of 80 years or more]		
	Add: Health and Education Cess@4%		2,652
	<b>Tax liability</b>		<b>68,952</b>
	<b>Tax liability (Rounded off)</b>		<b>68,950</b>

Accordingly, Bank of Baroda is required to deduct tax at source of ₹ 68,950 for the P.Y. 2024 -25. In such case, Mr. Kumar is not required to file his return of income for A.Y. 2025-26.

**Note** – The question mentions that Mr. Kumar has deposited ₹ 10 lakhs in a Term Deposit in the same bank but does not specify the duration of the term deposit. The above solution is given assuming that term deposit is not for 5 years. However, alternate assumption that such term deposit is for 5 years is also possible. In such a case, Mr. Kumar would be eligible for deduction under section 80C of ₹ 1,50,000 for deposit in 5 years term deposit. In that case, deduction under Chapter VI-A would be ₹ 2,00,000, total income would be ₹ 6,81,500 and tax liability (rounded off) would be ₹ 37,750.

**EXAM INSIGHTS:** The question requires to discuss the TDS liability in the different situations. In point (i), the second requirement of the question is to determine the TDS liability if the Gross turnover of XYZ, a purchaser, of ₹ 12 crores includes ₹ 4 crore towards supply of material for charitable purpose. Many examinees were failed to appreciate that supply of material for charitable purpose is a non-business activity and hence, would not be included in the turnover for the purpose of calculating the limit of Rs 10 crores for attracting tax deduction provisions under section 194Q. In point (iii), many examinees could not compute the TDS amount applying the provisions of section 194P correctly.

## Tax Collection at Source (TCS)

### Question 17

State Government of Madhya Pradesh grants a lease of coal mine to ABC Co. Ltd., an Indian company, on 1.10.2022 and charged ₹ 8 crores for the lease. ABC Co. Ltd. sold coal for ₹ 2 crores to Mahapower Ltd., another Indian company, during the previous year 2024-25. Mahapower Ltd. furnishes a declaration to ABC Co. Ltd. that the coal is to be utilized for the purpose of generation of power. The turnover of ABC Co. Ltd. and Mahapower Ltd. for the F.Y. 2023-24 amounted to ₹ 11 crores and ₹ 12 crores, respectively. What is the amount of tax required to be deducted or collected at source in respect of the above transactions, if any? (RTP Nov'22)

### Answer 17

Section 206C(1C) provides for collection of tax @2% by every person who grants a lease in any mine or a quarry to another person for the use of such mine or quarry for the purposes of business. Accordingly, State Government of Madhya Pradesh is required to collect tax at source of ₹ 16,00,000, being 2% on ₹ 8 crores, being the charges for lease of coal mine.

Under section 206C (1), seller of certain goods, inter alia, coal is required to collect tax from the buyers @1%. However, no collection would be made under section 206C(1), in case of a resident buyer, if such buyer furnishes to the person responsible for collecting tax, a declaration to the effect that goods are to be utilized for the purpose of generation of power.

In the present case, ABC Co. Ltd. is not required to collect tax at source u/s 206C(1) in respect of coal sold to Mahapower Ltd. since Mahapower Ltd. has furnished a declaration to ABC Co. Ltd. that the coal is to be utilized for the purpose of generation of power.

As per section 206C(1H), tax is to be collected in respect of sale of goods other than the goods which have been covered under section 206C (1). In case of goods which are covered under section 206C(1) but exempted under section 206C(1A), tax will not be collectible under either section 206C(1) or section 206C(1H).

Section 194Q requires any person, being a buyer who is responsible for paying any sum to resident for purchase of any goods of the value exceeding ₹ 50 lakhs in any previous year, to deduct tax @0.1% of such





sum exceeding ₹ 50 lakhs. The provisions of section 194Q do not apply in respect to those transactions where tax is collectible under section 206C [except under section 206C(1H)].

Buyer means a person whose turnover from the business carried on by him exceeds ₹ 10 crores during the financial year preceding the financial year in which goods are purchased.

In this case, since Mahapower Ltd.'s turnover for P.Y. 2023-24 exceeds ₹ 10 crores, it is a buyer as per section 194Q. Since, tax is not required to be collected on sale of coal to Mahapower Ltd., the provisions of section 194Q would apply and Mahapower Ltd. is required to deduct tax of ₹ 15,000 under section 194Q, being 0.1% of ₹ 1.5 crores, being the sum exceeding ₹ 50 lakhs.

### Question 18

**Explain the provisions of tax collection at source for overseas remittance by an authorized dealer. Also enumerate the rate of tax to be collected and the amount on which no tax is to be collected. (PYP 4 Marks, Nov'23)**

### Answer 18

An authorized dealer, who receives amount, under the Liberalized Remittance Scheme of the RBI, for overseas remittance from a buyer, being a person remitting such amount out of India is required to collect tax at source at the time of debiting the amount or at the time of receipt of such amount, whichever is earlier.

#### Rate of TCS in case of collection by an authorized dealer

	Amount and purpose of remittance	Rate of TCS
(1)	Amount or aggregate of amounts remitted for a purpose other than for purchase of overseas tour programme package and	
	• Amount or aggregate of amounts remitted is less than ₹ 7 lakhs in a financial year	Nil (No TCS)
	• amount or aggregate of the amounts remitted is in excess of ₹ 7 lakhs	5% in excess of ₹ 7 lakhs
(2)	Amount aggregate of the amounts remitted out is a loan obtained from any financial institution as defined in section 80E, for the purpose of pursuing any education; and the amount remitted exceed ₹ 7 lakhs in a financial year.	0.5% of the amount or aggregate of amounts in excess of ₹ 7 lakh

**EXAM INSIGHTS:** In first alternative, many examinees wrote incorrect limit and rate of TCS for overseas remittance by authorized dealer. In second alternative, many examinees were not aware of the provisions of Tax Return Prepare scheme, 2006.

## Advance Tax

### Question 19

**Determine the advance tax payable by Mr. Deepak with their due dates for the assessment year 2025-26.**

	Amount (Rs.)
Total estimated tax payable	5,50,000
TDS (deductible but not deducted)	70,000
TCS (collected)	20,000

(MTP 3 Marks, Mar'21, RTP Nov '19)

### Answer 19

#### Computation of Advance Tax Payable for the A.Y 2025-26

Particulars	Rs.
Tax Payable	5,50,000
Less: TDS (deductible but not deducted), cannot be reduced for computing advance tax liability	Nil
Less: TCS	20,000
<b>Net Tax Payable</b>	<b>5,30,000</b>





### Due dates for payment of advance tax

Due date of installment	Amount payable
On or before 15th June, 2024	<b>Rs. 79,500</b> [15% of Rs. 5,30,000]
On or before 15th September, 2024	<b>Rs. 1,59,000</b> [Rs. 2,38,500 (45% of Rs. 5,30,000) less Rs. 79,500, (amount paid in earlier installment)]
On or before 15th December, 2024	<b>Rs. 1,59,000</b> [Rs. 3,97,500 (75% of Rs. 5,30,000) Less Rs. 2,38,500 (amount paid in earlier installment or installments)]
On or before 15th March, 2025	<b>Rs. 1,32,500,</b> [Rs. 5,30,000 (whole amount of advance tax liability less Rs. 3,97,500 (amount paid in earlier installment or installments))]

### Question 20

Mr. Sameer, aged 52 years, provides you the following information and requests you to determine his advance tax liability with due dates for the financial year 2024-25

Estimated tax liability for the financial year 2024-25	₹ 80,000
Tax deducted at source for this year	₹ 12,000

(MTP 4 Marks Nov'24)

### Answer 20

#### Determination of Advance Tax Liability of Mr. Sameer

Particulars	₹
Estimated tax liability for the financial year 2024-25	80,000
<b>Less:</b> Tax deducted at source	<u>12,000</u>
<b>Tax payable</b>	<b><u>68,000</u></b>

Due Date of installment	Amount payable	₹
On or before 15 <sup>th</sup> June, 2024	Not less than 15% of advance tax liability	10,200
On or before 15 <sup>th</sup> September, 2024	Not less than 45% of advance tax liability less amount paid in earlier installment	20,400 (₹30,600, being 45% of ₹ 68,000 - ₹ 10,200)
On or before 15 <sup>th</sup> December, 2024	Not less than 75% of advance tax liability less amount paid in earlier installment(s)	20,400 (51,000, being 75% of ₹ 68,000 - ₹ 30,600)
On or before 15 <sup>th</sup> March, 2025	Whole of the advance tax liability less amount paid in earlier installment(s)	17,000 (68,000, being 100% of ₹ 68,000 - ₹ 51,000)

### Question 21

An amount of ₹ 50,000 was paid to Mr. Rakesh on 1.9.2024 towards fees for professional services without deduction of tax at source. Subsequently, another payment of ₹ 60,000 was due to Mr. Rakesh on 31.1.2025, from which tax@10% (amounting to ₹ 11,000) on the entire amount of ₹ 1,10,000 was deducted. However, this tax of ₹ 11,000 was deposited only on 22.7.2025. Compute the interest chargeable under section 201(1A). (MTP 3 Marks, Oct'22)

### Answer 21

Interest under section 201(1A) would be computed as follows –

Particulars	₹
1% on tax deductible but not deducted i.e., 1% on ₹ 5,000 for 5 months	250
1½% on tax deducted but not deposited i.e. 1½% on ₹ 11,000 for 6 months <sup>2</sup>	990
	<b>1,240</b>

<sup>2</sup> As per TRACES, interest is computed for 7 months





### Question 22

Briefly discuss the clarification issued by the CBDT on the cross application of TDS under section 194-Q and TCS under section 206C(1H). (MTP 3 Marks, Mar'22)

#### Answer 22

As per section 206C(1H), tax is not required to be collected under the said section if the buyer is liable to deduct tax at source under any other provision of the Act on the goods purchased by him from the seller and has deducted such tax.

As per section 194Q, the provision of section 194Q would not apply to a transaction on which tax is collectible under the provisions of section 206C, other than a transaction on which section 206C(1H) applies.

If a transaction is within the purview of both section 194Q and section 206C(1H), the tax is required to be deducted under section 194Q. The transaction would come out of the purview of section 206C(1H) after tax has been deducted by the buyer on that transaction. Once the buyer has deducted the tax on a transaction, the seller is not required to collect the tax under section 206C(1H) on the same transaction. However, if, for any reason, tax has been collected by the seller under section 206C(1H), before the buyer could deduct tax under section 194Q on the same transaction, such transaction would not be subjected to tax deduction again by the buyer.

### Tax Deduction at Source & Tax Collected at Source (TDS & TCS)

### Question 23

Briefly discuss the provisions of tax deduction/collection at source under the Income-tax Act, 1961 and determine the amount, if any, of TDS and TCS in respect of the following payments:

- (i) Mr. Harish bought an overseas tour programme package for Switzerland for himself and his family of ₹ 10 lakhs on 01-11-2024 from an agent who is engaged in organizing foreign tours in course of his business. He made the payment by an account payee cheque and provided the permanent account number to the seller.
- (ii) Mr. Aditya pays ₹ 55,00,000 during F.Y. 2024-25 to Mr. Naresh, for supply of labour, for carrying out the construction work of his factory. During the P.Y. 2023-24, Mr. Aditya's turnover was ₹ 95 lakhs. (MTP 4 Marks, Apr'24) (MTP 4 Marks Mar'23, PYP 4 Marks Dec '21)

#### Answer 23

- (i) Since overseas tour package is taken on or after 1.10.2023, tax @ 5% till ₹ 7 lakhs and 20% thereafter, is required to be collected u/s 206C(1G) by the seller of an overseas tour programme package, from Mr. Harish, being the buyer of an overseas tour package, even if payment is made by account payee cheque. Accordingly, tax has to be collected @ 5% on ₹ 7 lakh and 20% on ₹ 3 lakhs. TCS = ₹ 95,000
- (ii) Mr. Aditya has to deduct tax at source @ 2% (wef 1.10.2024 the TDS rate u/s 194M is reduced to 2% before it was 5% it is assumed that the transaction takes place after 1.10.2024) u/s 194M, although his turnover for the P.Y. 2023-24 does not exceed ₹ 1 crore and he is not liable to deduct tax at source under section 194C, since the payment to contractor, Mr. Naresh, exceeds ₹ 50 lakhs. Accordingly, tax has to be deducted @ 2% on ₹ 55 lakhs.

$$\text{TDS} = ₹ 1,10,000$$

### Question 24

Briefly discuss the provisions of tax deduction/collection at source under the Income-tax Act, 1961 and determine the amount, if any, of TDS and TCS in respect of the following payments:

- (i) Mr. Deepak wishes to purchase a residential house costing ₹ 60 lakhs from Ms. Priya. The house is situated at Chennai and its stamp duty value is ₹ 65 lakhs. He also wants to purchase agricultural lands in a rural area for ₹ 65 lakhs. Both the buyer as well as the sellers are residents in India.
- (ii) ABC & Co., a partnership firm is having a car dealership show-room - 2. They have purchased cars for ₹ 2 crores from Wivitzu Ltd., car manufacturers, the cost of each car being more than ₹ 12 lakhs. They sell the cars to individual buyers at a price yielding 10% margin on cost. Turnover of ABC & Co.





and Wivitzu Ltd. was less than ₹ 10 crores during the P.Y. 2023-24. (MTP 4 Marks, Aug'24)

#### Answer 24

- (i) Since the sale consideration or stamp duty value of residential house exceeds ₹ 50 lakhs, Mr. Deepak is required to deduct tax at source @1% of ₹ 65 lakhs, being higher of sale consideration of ₹ 60 lakh and stamp duty value of ₹ 65 lakhs under section 194-IA. TDS provisions under section 194-IA are not attracted in respect of transfer of rural agricultural land, even if the consideration exceeds ₹ 50 lakh.
- (ii) Every person, being a seller, who receives any amount as consideration for sale of a motor vehicle of the value exceeding ₹ 10 lakhs, is required to collect tax at source @1% of the sale consideration from the buyer. TCS provisions will, however, not apply on sale of motor vehicles by manufacturers to dealers/distributors. Hence, Wivitzu Ltd., the manufacturer-seller need not collect tax at source on sale of cars to the dealer, ABC & Co., even if the value of each car exceeds ₹ 10 lakhs. However, TCS provisions would be attracted when ABC & Co., sells cars to individual buyers, since the value of each car exceeds ₹ 10 lakhs. ABC & Co. has to collect tax @1% of the consideration on sale of each car to an individual buyer.

#### Question 25

Examine the applicability of Tax Deduction at Sources (TDS) or Tax Collection at Source (TCS) as per the Income Act, 1961 for the assessment year 2024 - 25 in the following independent situations.

- (i) ABC Limited paid rent of ₹ 75,000+18% GST per month to Mr. Ram for the office premises from 01.04.2024 to 31.03.2025. Mr. Ram has furnished his PAN and also filed his return of income before due date regularly.
- (ii) XYZ Pvt. Ltd sells two cars to Mrs. Anju costing ₹ 4,00,000 and ₹ 12,00,000 respectively on 01.05.2024 and 25.12.2024. Mrs. Anju has furnished her PAN and filed her return of income regularly before the due date. (PYP 4 Marks, May'24)

#### Answer 25

- (i) ABC Limited is required to deduct tax at source under section 194-I @10% on rent of ₹ 75,000 per month exclusive of GST component, since the aggregate rent of ₹ 9,00,000 during the financial year exceeds the threshold limit of ₹ 2,40,000. Tax has to be deducted at the time of payment or credit, whichever is earlier.
- (ii) XYZ Pvt. Ltd. is not required to collect tax at source on sale of car of ₹ 4,00,000 to Mrs. Anju since its value does not exceed ₹ 10 lakhs. However, it is required to collect tax at source u/s 206C(1F) @1% on the total sale consideration of ₹ 12 lakhs since the value of this car exceeds ₹ 10 lakhs. Tax has to be collected at the time of receipt of ₹ 12 lakhs.

#### Question 26

Examine the applicability of Tax deduction at source (TDS) or Tax collection at source (TCS) as per the Income-tax Act, 1961 for the A.Y 2024-25 in the following situations

- (i) Mr. Arjun, a resident Indian, is in retail business in Delhi and his turnover for F.Y.2023-24 was ₹ 9.90 crores. He regularly purchases goods from another resident, Mr. Saurabh, a wholesaler in Noida. GST rate on such goods is 5%. The aggregate amount of sales made by Mr. Saurabh to Mr. Arjun during the F.Y.2024-25 was ₹ 49 lakhs (without GST). Mr Arjun made the payment for consideration of goods (₹ 21 lakhs on 8.7.2024, ₹ 26.25 lakhs on 27.8.2024 and ₹ 4.2 lakhs on 11.3.2025. Mr. Saurabh's turnover for F.Y.2023-24 was ₹ 10.10 crores.
- (ii) Mr. Raja paid ₹ 12 lakhs on 1.11.2024 to M/s. Thomas Cook for a holiday package to Singapore for a week with his family, comprising of his wife and two children, being twins aged 22 years, in the last week of November. Mr. Raja also remitted ₹ 10 lakhs on 28.3.2025, out of his personal savings, under LRS through Bank of India, as gift to his sister residing in London, on the occasion of her 50th birthday. (RTP Jan'25)





### Answer 26

- (i) Since Mr. Arjun's turnover for the F.Y. 2023-24 does not exceed ₹ 10 crores, TDS provisions under section 194Q would not be attracted. However, TCS provisions under section 206C(1H) would be attracted in the hands of Mr. Saurabh since his turnover for the P.Y. 2023-24 exceeds ₹ 10 crores and his sales consideration (including GST) from Mr. Arjun exceeds ₹ 50 lakhs.

No tax is to be collected under section 206C(1H) on 8.7.2024 and 27.8.2024 since the aggregate receipts till that date i.e., ₹ 47.25 lakhs, has not exceeded the threshold limit of ₹ 50 lakhs.

Tax of ₹ 145 i.e., 0.1% of ₹ 1.45 lakhs has to be collected under section 206C(1H) on 11.3.2025 (₹ 4.20 lakhs - ₹ 2.75 lakhs, being the balance threshold limit)

- (ii) M/s. Thomas Cook, being a seller of an overseas tour programme package has to collect tax at source under section 206C(1G) from Mr. Raja on receiving amount for purchase of package. For the amount received on or after 1.10.2023, tax has to be collected @5% on upto ₹ 7 lakhs received and @20% on amount received above ₹ 7 lakhs.

M/s Thomas Cook has to collect tax of ₹ 1,35,000, being ₹ 35,000 (5% of ₹ 7 lakhs) and ₹ 1 lakh (20% of ₹ 5 lakhs).

Bank of India, being an authorized dealer has to collect tax at source under section 206C(1G) @20% on amount in excess of ₹ 7 lakhs remitted under the LRS on or after 1.10.2023 since the remittance of ₹ 10 lakhs is not for the purpose of education and medical treatment.

Bank of India has to collect tax of ₹ 60,000 i.e., 20% of ₹ 3 lakhs, being the amount remitted in excess of ₹ 7 lakhs.

### Question 27

- (i) M/s. PQR & Co., a proprietary firm of Mr. Yogesh, paid an amount of ₹ 30,500 to Mr. Amit, a resident individual aged 45 years, on June 1, 2024 towards fees for professional services. Subsequently, another payment of ₹ 60,000 was due to Mr. Amit on January 30, 2025. Tax was not deducted from both the transactions. Mr. Amit has filed his return of income for assessment year 2025-26 on May 2, 2025, taking into account professional fees from M/s. PQR & Co. and paid the taxes due on the income declared in the return of income.

What are the tax obligations in the hands of M/s. PQR & Co. on the assumption that the accounts of the firm are audited under section 44AB of the Income-tax Act 1961?

- (ii) M/s. Fastest Ltd. is an Indian car manufacturer. During the F.Y. 2024-25, it sold cars for ₹ 150 lakhs to M/s. Race LLP, a distributor of cars where the sale price of each car was ₹ 7.5 lakhs. The turnover for the F.Y. 2023-24 of M/s. Fastest Ltd. was ₹ 15 crores and M/s. Race LLP was 8 crores. What shall be the TCS/TDS implications on M/s. Fastest Ltd. and M/s. Race LLP? (PYP 6 Marks Sep'24)

### Answer 27

- (i) M/s PQR & Co. is required to deduct tax at source under section 194J @10% on the professional fees paid to Mr. Amit of ₹ 30,500 and ₹ 60,000 on 1<sup>st</sup> June 2024 and 30<sup>th</sup> January 2025, respectively, assuming M/s PQR & Co. turnover/gross receipts exceeds the prescribed threshold limit<sup>1</sup>.

However, M/s PQR & Co. has not deducted the tax at source during the P.Y. 2024-25, disallowance of ₹ 27,150, being 30% of ₹ 90,500 would be attracted u/s 40(a)(ia) though Mr. Amit has filed his return of income considering the professional fees from M/s PQR & Co. and paid taxes on the same.

In such a case, M/s PQR & Co. would not be deemed as assessee in default by virtue of the first proviso to section 201(1) and the amount disallowed i.e., 27,150 would be allowed as deduction in A.Y. 2026-27.

For non-deduction of tax at source, interest @1% would be leviable under section 201(1A)(i) for every month or part of the month on the amount of tax from the date on which such tax was deductible to the date such tax was paid by the payee i.e., 2.5.2025.

Interest @1% on ₹ 3,050 (10% of ₹ 30,500) from June 2024 to May 2025

= ₹ 366 and on ₹ 6,000 (10% of ₹ 60,000) from January, 2025 to May 2025 = ₹ 300 is payable by M/s PQR & Co.

- (ii) M/s. Fastest Ltd. is not required to collect tax at source u/s 206C(1F) on sale of cars of ₹ 150 lakhs to M/s. Race LLP, since such sale is to a distributor and sale price of each car does not exceed ₹ 10 lakhs. M/s. Race LLP is also not required to deduct tax at source u/s 194Q, since its turnover, being a buyer in the P.Y. 2023-24 does not exceed ₹ 10 crores.





However, M/s Fastest Ltd. is required to collect tax at source u/s 206C(1H) @0.1% on the sale consideration exceeding ₹50 lakhs i.e. on ₹100 lakhs since turnover of M/s Fastest Ltd. exceeds ₹10 crores and TCS u/s 206C(1F) and TDS u/s 194Q is not applicable.

### **MULTIPLE CHOICE QUESTIONS (MCQS)**

1. While deciding liability of an individual to deduct tax on payment of fees for professional services, which of the following is immaterial - (MTP 1 Marks, Oct'21)

- (a) Amount paid to professional
- (b) Turnover of financial year immediately preceding financial year in which payment made
- (c) Turnover of financial year in which payment is made
- (d) Amount of fees for professional services

Ans: (c)

2. Mr. Prakash is employed with Wivitzu Ltd. from 05.11.2020. He resigned on 31.03.2025 and also withdrew a sum of Rs. 55,000, being the accumulated balance of employer's contribution in his EPF Account, on the same date. The tax would be deducted – (MTP 2 Marks, Nov'21)

- (a) Rs. 500 u/s 192
- (b) Rs. 5,500 u/s 192
- (c) Rs. 4,125 u/s 192A
- (d) Rs. 5,500 u/s 192A

Ans: (d)

3. TPR & Co., a partnership firm selling its product X through the digital facility provided by MKY Limited (an E-commerce operator). MKY Limited has credited in its books of account, the account of TPR & Co. on 31st January, 2025 by sum of Rs. 4,80,000 for the sale of product X made during the month of January 2025. Out of Rs. 4,80,000, it made payment for Rs. 4,00,300 on 3rd February, 2025. Further, Mr. Pawn, who purchased the product X through the facility provided by MKY Limited, has made the payment of sum of Rs. 40,000 directly to TPR & Co. on 15th January, 2025. Which statement is correct regarding requirement of deduction of tax at source by MKY Limited? (MTP 2 Marks, Mar'21)

- (a) No tax is required to be deducted at source.
- (b) MKY Limited is required to deduct tax at source Rs. 5,200 under section 194O.
- (c) MKY Limited is required to deduct tax at source Rs. 3,900 under section 194O.
- (d) MKY Limited is required to deduct tax at source Rs. 520 under section 194O.

Ans: (d)

4. Mr. Kumar made the following cash withdrawals during the P.Y.2024-25 –

Date	Amount	From
1.6.2024	₹ 70 lakhs	Canara Bank
1.7.2024	₹ 45 lakhs	HDFC
1.8.2024	₹ 50 lakhs	Canara Bank
1.9.2024	₹ 15 lakhs	HDFC
1.10.2024	₹ 60 lakhs	Repco Bank (Co-operative Bank)
1.11.2024	₹ 10 lakhs	SBI
1.12.2024	₹ 10 lakhs	Repco Bank
2.1.2025	₹ 15 lakhs	HDFC
10.1.2025	₹ 15 lakhs	HDFC
20.1.2025	₹ 20 lakhs	Repco Bank
1.2.2025	₹ 15 lakhs	Repco Bank
10.2.2025	₹ 75 lakhs	SBI





20.2.2025	₹ 15 lakhs	HDFC
1.3.2025	₹ 15 lakhs	SBI

Which of the above banks are required to deduct tax at source on cash withdrawals made by Mr. Kumar in the P.Y.2024-25 if he regularly files his return of income? (MTP 2 Marks, Apr'22, Dec'24)

- (a) Canara Bank & HDFC
- (b) HDFC, SBI & Repco
- (c) HDFC, Repco & Canara Bank
- (d) HDFC & Repco

Ans: (c)

5. Mr. Harish is an interior decorator declaring profits under 44ADA in the P.Y.2024-25 and the earlier previous years. Mr. Harish has to pay brokerage of ₹ 15 lakhs to Mr. Patel, a broker, to buy a residential house, and ₹ 50 lakhs to Mr. Suresh, a contractor for reconstruction of the residential house. Are TDS provisions attracted in the hands of Mr. Harish in respect of the above transactions? (MTP 2 Marks, Oct'22)

- (a) No; TDS provisions are not attracted in the hands of Mr. Harish in respect of payments to Mr. Patel and Mr. Suresh
- (b) Yes; Mr. Harish has to deduct tax from payment to Mr. Patel and Mr. Suresh
- (c) Mr. Harish does not have to deduct tax on payment to Mr. Patel but has to deduct tax from payment to Mr. Suresh
- (d) Mr. Harish does not have to deduct tax on payment to Mr. Suresh but has to deduct tax from payment to Mr. Patel

Ans: (a)

6. Mr. Vyas, aged 80, is a retired government employee. On 1st April 2024, he received the maturity amount of his LIC policy amounting to Rs. 3,50,000. This policy was taken by Mr. Vyas on 1st April 2014 on which the sum assured was Rs. 3,00,000 and the annual premium was Rs. 40,000. His other income comprised of pension amounting to Rs. 85,000. Mr. Vyas furnishes a declaration in Form 15H for non-deduction of tax at source to the insurance company stating that his net tax liability for the year is NIL. Choose the correct statement from below: (MTP 2 Marks, Mar'21)

- (a) The declaration made by Mr. Vyas is wrong and the insurance company has to deduct tax of Rs. 3,500 under section 194DA.
- (b) The claim by Vyas is right and insurance company is not required to deduct tax at source.
- (c) The insurance company has to deduct tax under section 194DA since declaration in Form 15H cannot be made for tax deduction under section 194DA.
- (d) The declaration made by Mr. Vyas is wrong and the insurance company has to deduct tax of Rs. 1,000 under section 194DA.

Ans: (b)

7. Dr. Sargun, maintained two bank A/c's, one current A/c with Canara Bank for her profession and a Saving Bank A/c with State Bank of India. The following are the details of her withdrawals from these A/c during the previous year 2024-25: (RTP May'21)

Date of withdrawals	Canara Bank	State Bank of India
25.04.2024	25,00,000	
27.04.2024		15,50,000
31.08.2024	29,00,000	
01.09.2024	14,20,000	
05.09.2024		14,00,000
07.10.2024	18,21,000	
11.12.2024	26,23,000	





12.02.2025	7,56,000	
25.03.2025		16,13,000

She furnished her return of income for the A.Y. 2024-25 and A.Y. 2023-24 on or before the time limit prescribed u/s 139(1). However, for the A.Y. 2022-23 and A.Y. 2021-22, she has furnished her return of income belatedly.

Is any tax deductible at source u/s 194N on the withdrawals made by Dr. Sargun from Canara Bank and SBI Bank? If yes, at what rate and what amount?

- (a) TDS is deductible at source on ₹ 33,79,000 @ 5% by Canara Bank and no tax is deductible by SBI.
- (b) TDS is deductible at source on ₹ 20,20,000 @ 5% by Canara Bank and no tax is deductible by SBI.
- (c) TDS is deductible at source on ₹ 20,20,000 @ 2% by Canara Bank and no tax is deductible by SBI.
- (d) TDS is deductible at source on ₹ 75,00,000 @ 5% and on ₹ 20,20,000 @ 2% by Canara Bank and tax is deductible at source @5% on ₹25,63,000 by SBI.

Ans: (c)

8. Mrs. Kajal, the General Manager of M/s Gold Ltd. was paid a salary ₹ 4,50,000 per month. The above salary includes non-monetary perquisite of ₹ 50,000 per month. As per the terms of employment, tax on non-monetary perquisite is to be borne by M/s Gold Ltd. Mrs. Kajal's contribution towards PPF is ₹ 1,50,000. What would be the amount of tax to be deducted by M/s Gold Ltd. from the salary of Mrs. Kajal if she intimated M/s Gold Ltd. to opt for provisions of section 115BAC for A.Y. 2025-26? (RTP Nov'22)

- (a) ₹ 13,06,940
- (b) ₹ 15,52,980
- (c) ₹ 12,54,936
- (d) ₹ 13,88,970

Ans: (a)

9. Mr. Ramesh, Mr. Mahesh and Mr. Suresh jointly owned a flat in Mathura, which was let out to Dr. Rajesh from 01.04.2024. The annual rent paid by Dr. Rajesh for the flat was ₹ 5,40,000, credited equally to each of their account. Mr. Rajesh approached his tax consultant to seek clarity in relation to deduction of tax on payment of the rent. He informed his consultant that he occupied such flat for his personal accommodation and his receipts from his profession during the previous year 2023-24 was ₹ 58 lakhs. As tax consultant, choose the correct answer – (MTP 2 Marks, Sep '23)

- (a) No tax at source is required to be deducted since the rental payments are towards flat occupied for personal purpose
- (b) Tax is required to be deducted at source since the rent payment exceeds ₹ 2,40,000 and Dr. Rajesh is an individual having gross receipts from profession exceeding ₹ 50 lakh in the preceding financial year.
- (c) No tax is required to be deducted at source since the rent credited to each co-owner is less than ₹ 2,40,000
- (d) No tax is required to be deducted at source since Dr. Rajesh's gross receipts during the preceding financial year were less than ₹ 1 crore

Ans: (c)

10. Wivitzu Ltd. is engaged in the manufacture of mobile phones with a brand name "JUST SAY". There are five dealers in Delhi and Mumbai to sell "JUST SAY" mobile phones. A Ltd., a dealer in Delhi, receives two mobile phones and X Ltd., a dealer in Mumbai, receives one mobile phone from Wivitzu Ltd. in January, 2025 on achieving the sales target in the third quarter of 2024-25. The manufacturing cost of each such mobile phone is ₹ 15,000 while the MRP is ₹ 25,000. The price charged from the customers for such mobile phone is after providing 22% discount on MRP. Is Wivitzu Ltd. liable to deduct tax at source before giving mobile phones to A Ltd. and X Ltd.? And if yes, how much? (RTP Nov'23)

- (a) Yes; ₹ 3,900 from A Ltd. and No TDS from X Ltd.
- (b) Yes; ₹ 3,000 from A Ltd. and No TDS from X Ltd.
- (c) Yes; ₹ 5,000 from A Ltd. and ₹ 2,500 from X Ltd.





(d) Yes; ₹ 3,900 from A Ltd. and ₹ 1,950 from X Ltd.

**Ans: (a)**

11. An amount of ₹ 60,000 was paid to Mr. Samar on 1.7.2024 towards fees for professional services without deduction of tax at source. Subsequently, another payment of ₹ 75,000 was due to Mr. Samar on 28.02.2025, from which tax @10% (amounting to ₹ 13,500) on the entire amount of ₹ 1,35,000 was deducted and the net amount was paid on the same day to Mr. Samar. However, this tax of ₹ 13,500 was deposited only on 22.6.2025. The interest chargeable under section 201(1A) would be: (MTP 2 Marks, Mar'23)

- (a) ₹ 480
- (b) ₹ 1,290
- (c) ₹ 1,260
- (d) ₹ 810

**Ans: (b)**

12. Mr. Sunil took an education loan of ₹ 8 lakhs on 1.7.2024 from State Bank of India, Mumbai, for his son's MBA from University of Oxford, UK and remitted the said amount through the same bank, which is an authorized dealer, under the Liberalized Remittance Scheme of RBI (LRS). He, further, remitted ₹ 2 lakhs on 15.10.2024 to his son for his personal expenditure, out of his personal savings, through Bank of India, Mumbai which is also an authorized dealer, under LRS. Mr. Sunil also remitted ₹ 6 lakhs on 28.3.2025, out of his personal savings, under LRS through Union Bank of India, Mumbai, for his sister's medical treatment in London.

Mr. Sunil has furnished undertaking containing the details of earlier remittance to Bank of India and Union Bank of India.

What is the amount of tax to be collected from Mr. Sunil in respect of the remittance of amounts to his son and sister? (RTP May'24)

- (a) TCS@0.5% of ₹ 1 lakh in respect of remittance for son's education; @5% of ₹ 2 lakhs in respect of remittance for son's personal expenditure and 5% of ₹ 6 lakhs in respect of remittance for sister's medical treatment.
- (b) TCS@0.5% of ₹ 1 lakh in respect of remittance for son's education; @20% of ₹ 2 lakhs in respect of remittance for son's personal expenditure and 5% of ₹ 6 lakhs in respect of remittance for sister's medical treatment.
- (c) TCS@0.5% of ₹ 1 lakh in respect of remittance for son's education; no TCS in respect of remittance for son's personal expenditure and sister's medical treatment since each transaction is of less than ₹ 7 lakhs.
- (d) TCS@0.5% of ₹ 1 lakh in respect of remittance for son's education; @5% of ₹ 1 lakh in respect of remittance for sister's medical treatment.

**Ans: (b)**

13. Mr. Jai, a resident Indian aged 60 years, won ₹ 9 lakhs and Mr. Veeru, resident Indian aged 55 years, won ₹ 8 lakhs from lotteries. Tax deductible at source under section 194B was duly deducted. Assuming that this is the only source of income of Mr. Jai and Mr. Veeru for A.Y.2025 -26, are Mr. Jai and Mr. Veeru liable to pay advance tax for that year? (MTP 2 Marks, Mar'22)

- (a) No, Mr. Jai and Mr. Veeru are not liable to pay advance tax
- (b) Yes, Mr. Jai and Mr. Veeru are liable to pay advance tax
- (c) Mr. Jai is liable to pay advance tax but Mr. Veeru is not liable to pay advance tax
- (d) Mr. Veeru is liable to pay advance tax but Mr. Jai is not liable to pay advance tax

**Ans: (a)**



## CHAPTER 8: PROVISIONS FOR FILING RETURN OF INCOME AND SELF-ASSESSMENT

### CONCEPTS OF THIS CHAPTER

- Meaning of "return of income"
- Persons required to file a return of income
- Due date for filing return of income for different assesses
- Consequences of late filing of return
- Interest payable for delayed filing of return
- Fee payable for delayed filing of return
- Revising a return of income and time limit for revision
- Filing an updated return of income
- Tax payable on the basis of an updated return
- Persons required to apply for PAN
- Transactions mandating quoting of PAN
- Specified persons who can file return through Tax Return Preparer
- Persons authorized to verify the return of income
- Requirement to pay self-assessment tax before filing return
- Adjustment of payments against self-assessment tax, fee, and interest



### LDR Questions

Q 21

Q 22

Q 30

### QUICK REVIEW OF IMPORTANT CONCEPTS

#### 139(1)- Assesses required to file return of income compulsorily

- (i) Companies and firms
- (ii) a person, being a resident other than not ordinarily resident, having any asset located outside India held as a beneficial owner or beneficiary or who has a signing authority in any account located outside India
- (iii) Individuals, HUF, AOPs or BOIs and artificial juridical persons
- (iv) Any person other than a company or a firm, who is not required to furnish a return under section 139(1), who during the previous year –
  - has deposited more than ₹1 crore in one or more current accounts maintained with a banking company or a co-operative bank; or
  - has incurred expenditure of more than ₹2 lakh for himself or any other person for travel to a foreign country; or
  - has incurred expenditure of more than ₹1 lakh towards consumption of electricity;
  - has to file their return of income on or before due date –
- (i) if his total sales, turnover or gross receipts, as the case may be, in the business > ₹60 lakhs during the previous year;
- (ii) if his total gross receipts in profession > ₹10 lakhs during the previous year;
- (iii) if the aggregate of TDS and TCS during the previous year, in the case of the person, is ₹25,000 or more; resident individual who is of the age of 60 years or more, at any time during the relevant previous year, if the aggregate of TDS and TCS during the previous year, in his case, is ₹50,000 or more
- (iv) the deposit in one or more savings bank account of the person, in aggregate, is ₹50 lakhs or more during the previous year.

#### Due date of filing return of income

- (i) 31st October of the assessment year in case
  - (a) a company;
  - (b) a person (other than company) whose accounts are required to be audited
  - (c) a partner of a firm whose accounts are required to be audited.





- (ii) 30th November of the assessment year to furnish a report referred to in section 92E.
- (iii) 31st July case of any other assessee.

### 139(3)- Return of loss

Can carry forward or set off his/its losses provided he/it has filed his/its return under section 139(3), within the due date specified under section 139(1).

#### **Exceptions**

Loss from house property and unabsorbed depreciation can be carried forward for set-off even though return has not been filed before the due date.

### 139(4)- Belated Return

may be furnished at any time before:

- (i) three months prior to the end of the relevant assessment year (i.e., 31.12.2025 for P.Y. 2024-25); or
  - (ii) completion of the assessment,
- whichever is earlier.

### 139(5)-Revised Return

Omission or any wrong statement is discovered in the return furnished by the assessee at any time before the:

- (i) three months prior to the end of the relevant assessment year (i.e., 31.12.2025 for P.Y. 2024-25); or
  - (ii) completion of assessment,
- whichever is earlier. Thus, belated return can also be revised.

### 234A- Interest for default in furnishing return of income

Pay simple interest @1% per month or part of the month for the period commencing from the date immediately following the due date and ending on the following dates –

Circumstances	Ending on the following dates
Where the return is furnished after due date	date of furnishing of the return
Where no return is furnished	the date of completion of assessment

If Assessee has paid taxes in full on or before the due date, interest under section 234A is not leviable.

### 139(8A)- Updated Return

Any person can furnish an updated return of his income or the income of any other person in respect of which he is assessable, previous year relevant to the assessment year at any time within 24 months from the end of the relevant assessment year.

#### **Provisions of updated return would not apply**

- (i) is a loss return;
- (ii) effect of decreasing the total tax liability determined on the basis of return furnished under section 139(1) or section 139(4) or section 139(5);
- (iii) results in refund or increases the refund due on the basis of return furnished under section 139(1) or section 139(4) or section 139(5).

#### **No updated return can be furnished:**

- (a) an updated return has been furnished by him under this subsection for the relevant assessment year; or
- (b) any proceeding for assessment or reassessment or recomputation or revision of income is pending or has been completed for the relevant assessment year in his case;
- (c) he is such person or belongs to such class of persons, as may be notified by the CBDT.

### 140B- Tax on Updated Return

**Payment of tax, additional tax, interest and fee before furnishing updated return of income if no return is furnished earlier** - Where no return of income has been furnished by an assessee and tax is payable, on the basis of updated return to be furnished by such assessee under section 139(8A), liable to pay such tax together with interest and fee payable under any provision of this Act for any delay in furnishing the return or any default or delay in payment of advance tax, along with the payment of additional tax computed under section 140B(3), before furnishing the return.

The updated return shall be accompanied by proof of payment of such tax, additional income-tax, interest and fee.





**Payment of tax, additional tax, interest and fee before furnishing updated return of income if return is furnished earlier-** return of income under section 139(1) or 139(4) or 139(5) has been furnished by an assessee and tax is payable, on the basis of updated return to be furnished by such assessee under section 139(8A), liable to pay such tax together with interest payable under any provision of this Act for any default or delay in payment of advance tax, along with the payment of additional tax computed u/s 140B(3), as reduced by the amount of interest paid under the provisions of this Act in the earlier return, before furnishing the return.

**Additional income-tax payable at the time of updated return-** The additional tax payable at the time of furnishing the updated return under section 139(8A) would be –

- (i) 25% of aggregate of tax and interest payable, as determined above, return is furnished after expiry of the time available under section 139(4) or 139(5) and before completion of the period of 12 months from the end of the relevant assessment year;
- (ii) 50% of aggregate of tax and interest payable, as determined above, if such return is furnished after the expiry of 12 months from the end of the relevant A.Y. but before completion of the period of 24 months from the end of the relevant A.Y.

### 139(9)- Defective Return

May intimate the defect to the assessee and give him an opportunity to rectify the defect within 15 days the date of intimation or within such further period, If the defect is not rectified within such period, the return would be treated as an invalid return. Provisions would apply as if the assessee had failed to furnish the return. where the assessee rectifies the defect expiry of 15 days or further period allowed by the Assessing Officer but before the assessment is made, the Assessing Officer may condone the delay and treat the return as a valid return.

### 234F- Fee for default in furnishing return of income

A sum of ₹5,000. However if the total income of the Assessee does not exceed ₹5 lakhs, the fees payable shall not exceed ₹1,000

### 139A- Permanent Account Number (PAN)

Quoting of PAN is mandatory

- (a) in all returns to, or correspondence with, any income-tax authority;
- (b) in all challans for the payment
- (c) in all documents pertaining to such transactions entered into by him,

### Inter-changeability of PAN with the Aadhaar number

Furnish or intimate or quote his PAN may furnish or intimate or quote his Aadhaar Number in lieu of the PAN if he

- has not been allotted a PAN
- has been allotted a PAN and has intimated his Aadhaar number to prescribed authority in accordance with the requirement contained in section 139AA(2).

### 139AA- Quoting of Aadhaar Number

Quoted by every person on or after 1.7.2017 in the application for allotment of PAN and in return of income. does not have Aadhaar Number, Enrolment ID of Aadhaar application

w.e.f. 1st October, 2024, Enrolment ID of Aadhaar application for allotment of PAN or in the return of income furnished is discontinued.

A person who has been allotted PAN on the basis of Enrolment ID of Aadhaar application form filed before 1st October, 2024 has to intimate his Aadhaar Number, on or before a notified date, to the prescribed authority in the prescribed manner.

A person who has been allotted PAN as on 1.7.2017 who is eligible to obtain Aadhaar Number to intimate his Aadhaar Number to the prescribed authority on or before 31.3.2022.

If such person has failed to intimate the PAN of such person would become inoperative and he would be liable for payment of fee in accordance with section 234H i.e., ₹1,000.

If such person has intimated his Aadhaar number after 31st March, 2022, after payment of fee specified in section 234H PAN would become operative within 30 days from the date of intimation of Aadhaar number.



**Question 1**

Mr. Ram furnished his return of income for the A.Y. 2025 -26 on 20.07.2025. Due to missing information for payment of taxes in the return of income, the Assessing Officer considers it defective under section 139(9) of the Income-tax Act, 1961.

- What are the consequences if defect is not rectified within the time allowed?
  - Specify the remedies available if not rectified within time allowed by the Assessing Officer?
- (MTP 3 Marks, Mar'23)

**Answer 1**

- If the defect is not rectified within the period of 15 days or such further extended period, then, the return would be treated as an invalid return. The consequential effect would be the same as if the assessee had failed to furnish the return.
- The Assessing Officer has the power to condone the delay and treat the return as a valid return, if the assessee has rectified the return after the expiry of 15 days or the further extended period, but before the assessment is made.

**Question 2**

Who is authorized to verify the return of income of the following assesseees?

- HUF whose Karta is absent from India
- Company where the company is being wound up
- Local authority
- Individual who is mentally incapacitated from attending to his affairs (RTP Nov'23)

**Answer 2****Person authorized to verify return of income**

S.No.	Assessee	Authorised Persons
(a)	HUF whose karta is absent from India	Any other adult member of the HUF
(b)	Company where the company is being wound up	Liquidator
(c)	Local authority	The principal officer
(d)	Individual who is mentally incapacitated from attending to his affairs	His guardian or any other person competent to act on his behalf

**Question 3**

- 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 4 Marks, Apr'21, PYP 2 Marks, May '19, MTP 4 Marks Aug'24)

**Answer 3**

- Fee for default in furnishing return of income u/s 234F**

If return is filed after due date and the total income is under Rs 5,00,000 then late filing fee will be Rs. 1000 and if total income exceeds Rs. 5,00,000 the late filing fee will be Rs. 5,000

- 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:

- residing in the States of Assam, Jammu & Kashmir and Meghalaya;
- a non-resident as per Income-tax Act, 1961;
- of the age of 80 years or more at any time during the previous year;
- not a citizen of India.

**Question 4**

Mr. Prince, a senior citizen, has reported a Total Income ₹ 1,90,000. He has claimed exemption of ₹ 50,000 under section 54EC in respect of long term capital gain on sale of house property and





deductions under Chapter VI-A amounting to ₹ 1,50,000 for the previous year 2024-25. Is he liable to file his return of income under section 139(1) for the Assessment year 2025-26? If so why? (MTP 3 Marks, Mar'22, RTP May '19, MTP 3 marks Dec'24)

#### Answer 4

As per sixth proviso to section 139(1), every person, being an individual whose total income without giving effect to the provisions of, inter alia, section 54EC and Chapter VI-A exceeds the basic exemption limit, is compulsorily required to furnish return of income on or before the due date.

Therefore, in the present case, Mr. Prince, a senior citizen is required to file return of income, since his total income of ₹ 3,90,000 before giving effect to the exemption under section 54EC and deduction of ₹ 1,50,000 under Chapter VI-A, exceeds the basic exemption limit of ₹ 3,00,000 applicable in his case.

#### Question 5

Mr. Rakesh has submitted his income-tax return containing certain losses/deductions in respect of the P.Y. 2024-25 on 22.10.2025. The due date for filing the return for Mr. Rajesh was 31st July, 2025 under section 139(1). You are required to examine with reference to the relevant provisions of Income-tax Act, 1961 whether the following losses/deductions can be carried forward/claimed in subsequent years by Mr. Rakesh.

- (i) Loss from the business carried on by him as a proprietor: ₹ 10,80,000 (computed)
- (ii) Unabsorbed Depreciation: ₹ 2,00,000 (computed)
- (iii) Loss from House property: ₹ 2,50,000 (computed) (MTP 3 Marks, Apr'22, RTP May'20)

#### Answer 5

Mr. Rakesh has furnished his return of income for A.Y.2025-26 on 22.10.2025, i.e., after the due date specified under section 139(1) i.e., 31st July 2025. Hence, the return is a belated return under section 139(4). As per section 80 read with section 139(3), specified losses, which have not been determined in pursuance of a return of loss filed within the time specified in section 139(1), cannot be carried forward to the subsequent year for set-off against income of that year. The specified losses include, inter alia, business loss but does not include loss from house property and unabsorbed depreciation.

Accordingly, business loss of ₹ 10,80,000 of Mr. Rakesh for A.Y. 2025-26, not determined in pursuance of a return of loss, filed within the time specified in section 139(1), cannot be carried forward to A.Y.2026-27.

However, the loss of ₹ 2,50,000 from house property and unabsorbed depreciation of ₹ 2,00,000 pertaining to A.Y.2025-26, can be carried forward to A.Y.2026-27 for set-off, even though Mr. Rakesh has filed the return of loss for A.Y.2025-26 belatedly.

#### Question 6

Mr. Sitaram is engaged in the business of trading of cement having turnover of ₹ 10 crores during the financial year 2024-25. As a tax consultant advise him what are the particulars to be furnished under section 139(6A) along with Return of Income? (PYP 4 Marks, Dec'21)

#### Answer 6

Since Mr. Sitaram's turnover from business of trading of cement is ₹ 10 crores which exceeds ₹ 1 crore, being the threshold limit for tax audit under section 44AB, he is subjected to tax audit.

Accordingly, Mr. Sitaram, is required to furnish the following particulars along with his return of income -

- (i) the report of audit referred to in section 44AB.
- (ii) the particulars of the location and style of the principal place where he carries on the business or profession and all the branches thereof.

#### Question 7

Explain with brief reasons whether the return of income can be revised under section 139(5) of the Income-tax Act, 1961 in the following cases:

- (i) Belated return filed under section 139(4).
- (ii) Return already revised once under section 139(5).
- (iii) Return of loss filed under section 139(3). (Old & New SM) (MTP 3 Marks, March'18, PYP 4 Marks May'22)





### Answer 7

Any person who has furnished a return under section 139(1) or 139(4) can file a revised return at any time

- before three months prior to the end of the relevant assessment year or
- before the completion of assessment,

whichever is earlier, if he discovers any omission or any wrong statement in the return filed earlier. Accordingly,

- (i) A belated return filed under section 139(4) can be revised.
- (ii) A return revised earlier can be revised again as the first revised return replaces the original return. Therefore, if the assessee discovers any omission or wrong statement in such a revised return, he can furnish a second revised return within the prescribed time i.e. at any time before three months prior to the end of the relevant assessment year or before the completion of assessment, whichever is earlier. It implies that a return of income can be revised more than once within the prescribed time.
- (iii) A return of loss filed under section 139(3) is deemed to be return filed under section 139(1), and therefore, can be revised under section 139(5).

**Exam Insights:** Examinees could not substantiate their answers with reasoning, though question clearly stated to give brief reasoning.

### Question 8

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 3 Marks, Mar'19, Oct'21, SM, MTP 3 Marks Dec'24)

### Answer 8

- 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 9

State with reason whether the following persons are required to file their return of income as per the provisions of the Income Tax Act, 1961 for the assessment year 2025-26:

- (i) Mr. Aneesh aged 31 years, who opted for default tax regime u/s 115BAC(1A) had a total income of ₹ 2,90,000 for the previous year 2024-25.
- (ii) Smt. Patel, aged 65 years, has a TDS credit of ₹ 55,000 during the previous year 2024-25.
- (iii) The gross receipts of Mr. Ajit, aged 45 years, an architect for the previous year 2024-25 was ₹ 12,00,000, but his profit from profession was only ₹ 2,25,000 and he has no other income. (PYP 4 Marks May'24)

### Answer 9

- (i) In this case, Mr. Aneesh is not required to file return of income, since his total income does not exceed ₹ 3,00,000, being the basic exemption limit as per the default tax regime u/s 115BAC, assuming Mr. Aneesh has not claimed any deduction u/s 54/54D/54EC or 54F and deduction allowable under Chapter VI-A.
- (ii) In the present case, since Smt. Patel, a senior citizen has a TDS credit of ₹ 55,000, which exceeds the threshold limit of ₹ 50,000, she is required to file her return of income even if it is assumed that her total income does not exceed the basic exemption limit.
- (iii) In this case, since Mr. Ajit's gross receipts from the profession of architect was ₹ 12,00,000 for the P.Y. 2023-24, which is in excess of ₹ 10 lakhs, hence, he is required to file his return of income though his total income is ₹ 2,25,000 which does not exceed the basic exemption limit.





### Question 10

State any three conditions when a person is required to furnish Income-tax return in the prescribed form & manner on or before the due date even if such person (other than a company or a firm) is not otherwise required to furnish a return u/s 139(1). (MTP 3 Marks, Oct'22)

### Answer 10

**Conditions when a person is required to furnish return of income on or before the due date even if he is otherwise not required to furnish return under section 139(1)**

Any person, other than a company or a firm, who is not required to furnish a return under section 139(1), is required to file income-tax return in the prescribed form and manner on or before the due date if, during the previous year, such person

- (i) has deposited an amount or aggregate of the amounts exceeding ₹ 1 crore in one or more current accounts maintained with a banking company or a co-operative bank; or
- (ii) has incurred expenditure of an amount or aggregate of the amounts exceeding ₹ 2 lakh for himself or any other person for travel to a foreign country; or
- (iii) has incurred expenditure of an amount or aggregate of the amounts exceeding ₹ 1 lakh towards consumption of electricity; or
- (iv) fulfils such other prescribed conditions.

Rule 12AA provides that a person, other than a company or a firm, who is not required to furnish a return under section 139(1), and who fulfils any of the following conditions during the previous year has to file their return of income on or before the due date in the prescribed form and manner -

- (a) if his total sales, turnover or gross receipts, as the case may be, in the business > ₹ 60 lakhs during the previous year; or
- (b) if his total gross receipts in profession > ₹ 10 lakhs during the previous year; or
- (c) if the aggregate of TDS and TCS during the previous year, in the case of the person, is ₹ 25,000 or more; or However, a resident individual who is of the age of 60 years or more, at any time during the relevant previous year would be required to file return of income only, if the aggregate of TDS and TCS during the previous year, in his case, is ₹ 50,000 or more.
- (d) the deposit in one or more savings bank account of the person, in aggregate, is ₹ 50 lakhs or more during the previous year.

STRIVING TOWARDS KNOWLEDGE

### Question 11

Mrs. Shivani is a US Citizen. She got married to Mr. Sriram, an Indian citizen and resident of India, in the year 2016. Since then, she has been staying in India. She has a Bank account in US. She sold a residential house in US and earned a long term capital gain of ₹ 2 lakhs. She invested the whole sales consideration in Capital Gain bonds under section 54EC so that no long term capital gain is taxable. She does not have any source of income in India during the P.Y. 2024-25. Is she required to furnish her return of income? If yes, can she furnish a belated return? (RTP May'22)

### Answer 11

An individual whose total income without giving effect to, inter alia, section 54EC exceeds the maximum amount not chargeable to tax i.e., ₹ 2,50,000, is required to file a return of income on or before the due date under section 139(1) i.e., 31st July, 2025.

Every person, being a resident other than not ordinarily resident in India, would be required to file a return of income or loss for the previous year, even if his total income does not exceed the basic exemption limit, if such person, at any time during the previous year, inter alia, holds any asset located outside India or has a signing authority in any account located outside India.

In this case, Mrs. Shivani is a resident and ordinarily resident in India for A.Y. 2025-26 since she has been staying in India since the year 2016. Total income of Mrs. Shivani without giving effect to, inter alia, section 54EC is ₹ 2 lakhs, which is below the basic exemption limit. However, since she has a bank account in US, she has to furnish her return of income for A.Y. 2025-26 on or before 31.07.2025.

Yes, she can furnish a belated return under section 139(4), if she has not furnished her return on or before 31.7.2025, at any time before the -

- (i) three months prior to the end of the relevant assessment year i.e., 31.12.2025; or
- (ii) completion of the assessment, whichever is earlier.





### Question 12

Mr. Vikas, a resident in India aged 80 years, is having a house property in Mumbai. He has let out the house property to ABC Ltd. for a rent of ₹ 50,000 per month from 1.4.2024. He does not have any other source of income. Is Mr. Vikas required to file his return of income for A.Y. 2025-26. If yes, why? (RTP Nov'22)

### Answer 12

An individual whose total income exceeds the maximum amount not chargeable to tax i.e., ₹ 5,00,000 in this case since Mr. Vikas is of 80 years, is required to file a return of income on or before the due date under section 139(1) i.e., 31st July, 2025.

Clause (iv) of seventh proviso to section 139(1) provides that a person (other than a company or a firm) who is not required to furnish a return u/s 139(1) has to furnish return on or before the due date if the person fulfills such other conditions as may be prescribed.

Accordingly, vide Notification no. 3/2022 dated 21.4.2022, the CBDT inserted Rule 12AB which prescribes, inter alia, that in case of resident individual who is aged 60 years or more at any time during the relevant P.Y. is required to file his return of income if the aggregate of tax deducted at source and tax collected at source, in his case, during the P.Y. is ₹ 50,000 or more.

In this case, Mr. Vikas's total income would comprise of only income from house property from let out of house property in Mumbai. His total income would be ₹ 4,20,000 [₹ 6,00,000 – 30% under section 24(a)], which is below the basic exemption limit of ₹ 5,00,000.

ABC Ltd. is required to deduct tax at source u/s 194-I @10% of ₹ 6,00,000. Tax deductible would be ₹ 60,000. Since tax deducted at source in case of Mr. Vikas is more than ₹ 50,000, he has to furnish his return of income for A.Y. 2025-26 on or before 31.07.2025, even though his total income is below the basic exemption limit of ₹ 5,00,000.

**Note** – It is assumed that Mr. Vikas has neither made an application to the Assessing Officer u/s 197 nor furnished declaration to ABC Ltd. u/s 197A for non-deduction of tax. In case, he has obtained the certificate u/s 197 or furnished declaration to ABC Ltd. u/s 197A, no tax would have been deducted by ABC Ltd. on rental income. Consequently, Mr. Vikas would not be required to file his return of income.

### Question 13

In each of the following independent situations, you are required to examine whether these persons are required to file their return of income or loss for A.Y.2025-26 if their total income for the P.Y. 2024-25 do not exceed the basic exemption limit:

- (i) The turnover of Mr. Ashish's business is ₹ 65 lakhs during the P.Y. 2024-25.
- (ii) Mr. Subhash has incurred a total expenditure of ₹ 90,000 towards consumption of electricity during the P.Y. 2024-25.
- (iii) Mr. Deepak has savings bank account in SBI and HDFC and a current account in Axis Bank with opening balance of ₹ 20 lakhs, ₹ 10 lakhs and ₹ 30 lakhs, respectively. He deposited ₹ 40 lakhs in SBI account, ₹ 25 lakhs in HDFC account and ₹ 75 lakhs in Axis account during the P.Y. 2024-25.
- (iv) Mr. Wivtsu, aged 50 years, has withdrawn cash of ₹ 1,20,00,000 during the P.Y. 2024-25 from his saving account in HDFC Bank. Mr. Wivtsu regularly filed his return of income till A.Y. 2025-26. (RTP Sep'24)

### Answer 13

- (i) If an individual has total sales, turnover or gross receipts, as the case may be, in the business exceeding ₹ 50 lakhs during the previous year, he would be required to file a return of income, even if his total income does not exceed the basic exemption limit.

Since Mr. Ashish's turnover from the business is ₹ 65,00,000 for the P.Y. 2024-25, he is required to file his return of income for A.Y. 2025-26 on or before the due date under section 139(1).

- (ii) If an individual has incurred aggregate amount of expenditure exceeding ₹ 1 lakh towards consumption of electricity during the previous year, he would be required to file a return of income, even if his total income does not exceed the basic exemption limit.

Since Mr. Subhash does not have total income exceeding the basic exemption limit and has incurred a total expenditure of ₹ 90,000 only in the P.Y.2024-25 towards consumption of electricity, he is not required to file his return of income for A.Y. 2025-26.

- (iii) Even though the total income of an individual does not exceed the basic exemption limit, he would be required to file his return of income if
  - he has deposited an amount or aggregate of the amount exceeding ₹ 1 crore in one or more current





- accounts maintained with a banking company or a co-operative bank during the previous year or
- the deposit in one or more savings bank account of the person, in aggregate, is ₹50 lakhs or more during the previous year

In this case, he has deposited only ₹ 75 lakhs in current account in Axis account during the P.Y. 2024-25 but has deposited ₹ 65 lakhs in savings bank account (₹40 lakhs in SBI and ₹25 lakhs in HDFC) during the P.Y. 2024-25, hence, he is required to file a return of income for A.Y. 2025-26 on or before the due date under section 139(1).

- (iv) If an individual has aggregate TDS and TCS credit of ₹ 25,000 or more during the previous year, he would be required to file a return of income, even if his total income does not exceed the basic exemption limit. In this case, TDS of ₹ 40,000 i.e., @2% on ₹ 20 lakhs, would have been deducted by HDFC Bank under section 194N on cash exceeding ₹ 1 crore withdrawn by Mr. Wivitsu during the P.Y. 2024-25. Hence, he is required to file his return of income for A.Y. 2025-26 on or before the due date under section 139(1).

#### Question 14

**Due to some inconsistent information provided in the return of income furnished under Section 139(1), the Assessing Officer considers it defective under Section 139(9) of the Income-tax Act, 1961.**

- How, the Assessing Officer would deal with the issue?**
- What are the consequences if defect is not rectified within the time allowed?**
- Specify the remedies available if not rectified within time allowed by the Assessing Officer? (PYP 4 Marks, May'22)**

#### Answer 14

- Where the Assessing Officer considers that the return of income furnished by the assessee is defective,
  - he may intimate the defect to the assessee and
  - give him an opportunity to rectify the defect within a period of 15 days from the date of such intimation. The Assessing Officer has the discretion to extend the time period beyond 15 days, on an application made by the assessee.
- If the defect is not rectified within the period of 15 days or such further extended period, then, the return would be treated as an invalid return. The consequential effect would be the same as if the assessee had failed to furnish the return.
- The Assessing Officer has the power to condone the delay and treat the return as a valid return, if the assessee has rectified the return after the expiry of 15 days or the further extended period, but before the assessment is made.

#### Question 15

- Vegetable Ltd. filed its return of income for the A.Y. 2024-25, on 15th December 2024. On 2nd January 2025, the accountant of Vegetable Ltd. realised that he had forgotten to claim a genuine business expenditure amounting to ₹ 15 lakhs. He wants to file revised return to claim such expenditure as the assessment is not yet completed. Whether the action of the accountant of Vegetable Ltd. is valid?**
- Viwit Su, a resident individual aged 45 years earned a salary income of ₹ 2 crores during the F.Y. 2024-25. He also earned dividend from unlisted shares amounting to ₹ 4 lakhs. He wants to file his return of income for the A.Y. 2025-26 through a Tax Return Preparer. Can he do so? (PYP 4 Marks Sep'24)**

#### Answer 15

- The due date of filing return of income of Vegetable Ltd for the A.Y. 2024-25 is 31<sup>st</sup> October, 2024 since it is a company.  
However, it filed its return of income on 15.12.2024, which is a belated return.  
If any omission is discovered even in a belated return, the same can also be revised up to 31.12.2024 being the date 3 months prior to the end of the relevant assessment year i.e. 31.03.2025 or completion of assessment, whichever is earlier.  
However, it cannot file a revised return on 02.01.2025 since it is beyond 31.12.2024. Hence, the action of accountant of Vegetable Ltd is not valid.
- Since Mr. Viwit Su is a resident individual, not being a company or a person whose accounts are required to be audited under section 44AB for the P.Y. 2024-25, and therefore he can file his return of income for A.Y. 2025-26 through a Tax Return Preparer.





### Question 16

**What is the time limit within which an updated return can be filed? Also enumerate the circumstances in which updated return cannot be furnished. (PYP 4 Marks, May'23)**

#### Answer 16

Any person may furnish an updated return of his income or the income of any other person in respect of which he is assessable, for the previous year relevant to the assessment year at any time within 24 months from the end of the relevant assessment year.

#### **Circumstances in which updated return cannot be furnished**

No updated return can be furnished by any person for the relevant assessment year, where

- (a) an updated return has been furnished by him for the relevant assessment year
- (b) any proceeding for assessment or reassessment or recomputation or revision of income is pending or has been completed for the relevant assessment year in his case;
- (c) he is such person or belongs to such class of persons, as may be notified by the CBDT.
- (d) an updated return is a loss return
- (e) the updated return has the effect of decreasing the total tax liability determined on the basis of return furnished under section 139(1)/(4)/(5) / original or revised return
- (f) the updated return results in refund or increases the refund due on the basis of return furnished under section 139(1)/(4)/(5) / original or revised return.

**Note** – Any three of the above circumstances can be mentioned.

### Question 17

**CBDT has vide Notification No. 37/2022 dated 21.04.2022, inserted Rule 12AB, notified which are all the person other than a company or firm who is not required to file return of income under Section 139(1) must file the return of Income. State who are required compulsorily to file return of Income. (PYP 4 Marks May'24, May'23)**

#### Answer 17

The CBDT has, vide Notification No. 37/2022 dated 21.4.2022, inserted Rule 12AB to provide that a person, other than a company or a firm, who is not required to furnish a return under section 139(1), and who fulfils any of the following conditions during the previous year has to file their return of income on or before the due date in the prescribed form and manner –

- (i) if his total sales, turnover or gross receipts, as the case may be, in the business > ₹ 60 lakhs during the previous year; or
- (ii) if his total gross receipts in profession > ₹ 10 lakhs during the previous year; or
- (iii) if the aggregate of TDS and TCS during the previous year, in the case of the person, is ₹ 25,000 or more; or However, a resident individual who is of the age of 60 years or more, at any time during the relevant previous year (or senior citizen) would be required to file return of income only, if the aggregate of TDS and TCS during the previous year, in his case, is ₹ 50,000 or more
- (iv) the deposit in one or more savings bank account of the person, in aggregate, is ₹ 50 lakhs or more during the previous year.

### Question 18

**In the context of Tax Return Preparer Scheme, 2006, explain the following:**

- (i) **Eligible Persons**
- (ii) **Educational Qualifications of Tax Return Preparer**
- (iii) **Persons not entitled to act as return preparer (PYP 4 Marks, Nov'23)**

#### Answer 18

In the context of Tax Return Preparer scheme, 2006

- (i) **Eligible Persons**  
Any person being an individual or a Hindu undivided family
- (ii) **Educational Qualifications of Tax Return Preparer**  
An individual, who
  - holds a bachelor degree from a recognised Indian University or institution, or
  - has passed the intermediate level examination conducted by





- the Institute of Chartered Accountants of India (ICAI) or
- the Institute of Company Secretaries of India (ICSI) or
- the Institute of Cost Accountants of India (ICWAI)

(iii) **Person not entitled to act as return preparer**

An individual who is -

- (i) any officer of a scheduled bank with which the assessee maintains a current account or has other regular dealings.
- (ii) a legal practitioner, entitled to practice in any civil court in India.
- (iii) an accountant
- (iv) an employee of the "specified class or classes of persons" i.e., any person other than a company or a person whose accounts are required to be audited under section 44AB (tax audit) or under any other existing law, who is required to furnish a return of income under the Act.

### Question 19

**Mr. Praveen, 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.**

- (i) **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?**
- (ii) **What are the consequences of non-filing the return within the due date under section 139(1)?**  
(MTP 4 Marks, Mar'21, RTP Nov '21 & Nov '19, PYP 4 Marks, Dec'21, MTP 4 Marks, Oct'2, MTP 4 Marks Nov'24)

### Answer 19

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 -

- (i) before **three months prior** to the end of the relevant assessment year 31.12.2025; or
- (ii) before the completion of the assessment, whichever is earlier.

The last date for filing return of income for A.Y.2025-26, therefore, is **31<sup>st</sup> December, 2025**.

Thereafter, Mr. Praveen cannot furnish a belated return after this date.

#### **Consequences for non-filing return of income within the due date under section 139(1)**

##### **Interest under section 234A**

Interest under section 234A @1% per month or part of the month for the period commencing from the date immediately following the due date under section 139(1) till the date of furnishing of return of income is payable, where the return of income is furnished after the due date.

However, no interest u/s 234A shall be charged on self-assessment tax paid by the assessee on or before the due date of filing of return.

##### **Fee under section 234F**

Late fee of ₹5,000 would be payable under section 234F, if the return of income is not filed before the due date specified in section 139(1).

However, such fee cannot exceed ₹1,000, if the total income does not exceed ₹5,00,000.

##### **Carry forward and set-off of certain losses not permissible**

Following losses would not be allowed to be carried forward, where a return of income is not furnished within the time allowed under section 139(1):

- business loss, speculation business loss, loss from specified business,
- loss under the head "Capital Gains"; and
- loss from the activity of owning and maintaining race horses

### Question 20

**Enumerate the cases where a return of loss has to be filed on or before the due date specified u/s 139(1) for carry forward of the losses. Also enumerate the cases where losses can be carried forward even though the return of loss has not been filed on or before the due date. (MTP 4 Marks, Sep'22, PYP 4 Marks Jul'21)(MTP 4 Marks, Mar'24)**

### Answer 20

As per section 139(3), an assessee is required to file a return of loss within the due date specified u/s 139(1).





As per section 80, certain losses which have not been determined in pursuance of a return filed under section 139(3) on or before the due date specified under section 139(1) cannot be carried forward and set-off. Thus, the assessee has to file a return of loss under section 139(3) within the time allowed u/s 139(1) in order to carry forward and set off of following losses:

- loss under the head "Capital Gains",
- loss from activity of owning and maintaining race horses.
- business loss,
- speculation business loss and
- loss from specified business.

However, following can be carried forward for set-off even if the return of loss has not been filed before the due date:

- Loss under the head "Income from house property" and
- Unabsorbed depreciation.

### Question 21

LDR

In the following cases relating to P.Y. 2024-25, the total income of the assessee or the total income of any other person in respect of which he/she is assessable under Income-tax Act does not exceed the basic exemption limit. You are required to state with reasons, whether the assessee is still required to file the return of income or loss for A.Y. 2025-26 in each of the following independent situations:

- (i) Manish & Sons (HUF) sold a residential house on which there arose a long term capital gain of ₹ 12 lakhs which was invested in Capital Gain Bonds u/s 54EC so that no long term capital gain was taxable.
- (ii) Mrs. Archana was born in Germany and married in India. Her residential status under section 6(6) of the Income-tax Act, 1961 is 'resident and ordinarily resident'. She owns a car in Germany which she uses for her personal purposes during her visit to her parents' place in that country.
- (iii) Sudhakar has incurred an expenditure of ₹ 1,20,000 towards consumption of electricity, the entire payment of which was made through banking channels. (PYP 4 Mark, Jul'21, MTP 4 Marks Apr'24)

### Answer 21

- (i) A HUF whose total income without giving effect to, inter alia, section 54EC, exceeds the basic exemption limit of ₹ 2,50,000, is required to file a return of its income on or before the due date under section 139(1). In this case, since the total income without giving effect to exemption under section 54EC is ₹ 12 lakhs, exceeds the basic exemption limit, the HUF is required to file its return of income for A.Y. 2025-26 on or before the due date under section 139(1).

- (ii) Every person, being a resident other than not ordinarily resident in India would be required to file a return of income or loss for the previous year on or before the due date, even if his or her total income does not exceed the basic exemption limit, if such person, at any time during the previous year, inter alia, holds any asset located outside India.

In this case, though Mrs. Archana owns a car in Germany, the same does not fall within the ambit of "capital asset" as it is a personal effect. Hence, Mrs. Archana is not required to file her return of income for A.Y. 2025-26 on account of owning a car for personal purposes in Germany.

**Note** – "Asset" for the purpose of the fourth proviso to section 139(1) has not been specifically defined in the said section or elsewhere in the Act. Schedule FA of the income-tax return forms, however, requires details of foreign assets for the purpose of filing of return of income under this provision. The foreign assets listed in the said Schedule does not include car. It, however, includes "any other capital assets outside India". Car used for personal purposes is not a capital asset as it is a "personal effect". Hence, it is not included in the meaning of "asset" for the purpose of the fourth proviso to section 139(1). The above answer is based on the view taken regarding the ambit of the term "asset", based on the list of assets detailed in the relevant schedule of the income-tax return forms.

**Alternative view** - On the plain reading of the fourth proviso to section 139(1) and the general meaning attributable to the word "asset", it is possible to take a view that Mrs. Archana is required to file her return of income as she owns an asset, i.e., a car in Germany. Accordingly, due credit may also be given to the candidates who have answered on this basis.

- (iii) If an individual has incurred expenditure exceeding ₹ 1 lakh towards consumption of electricity during the previous year, he would be required to file a return of income, even if his total income does not exceed the basic exemption limit. Since Mr. Sudhakar has incurred expenditure of ₹ 1,20,000 in the





P.Y. 2024-25 towards consumption of electricity, he has to file his return of income for A.Y. 2025-26 on or before the due date under section 139(1).

### Question 22

LDR

Mr. X would like to furnish his updated return for the A.Y. 2025-26. In case he furnished his updated return of income, he would be liable to pay ₹ 2,50,000 towards tax and ₹ 35,000 towards interest after adjusting tax and interest paid at the time filing earlier return. You are required to examine whether Mr. X can furnish updated return

- (i) as on 31.3.2027
- (ii) as on 28.2.2028
- (iii) as on 31.5.2028

If yes, compute the amount of additional income-tax payable by Mr. X at the time of filing his updated return. (MTP 3 Marks, Apr'23)

### Answer 22

Mr. X may furnish an updated return of his income for A.Y. 2025-26 at any time within 24 months from the end of the relevant assessment year i.e., 31.3.2028.

Accordingly, Mr. X can furnish updated return for A.Y. 2025-26 as on 31.3.2027 and on 28.2.2028. However, he cannot furnish such return as on 31.5.2028, since such date falls after 31.3.2028.

Mr. X would be liable to pay additional income-tax

- @25% of tax and interest payable, if updated return is furnished after the expiry of the time limit available under section 139(4) or 139(5) i.e., 31st December 2025 and before the expiry of 12 months from end of relevant assessment year i.e., 31.3.2026
- @50% of tax and interest payable, if updated return is furnished after the expiry of 12 months from end of relevant assessment year i.e., 31.3.2026 and before the expiry of 24 months from end of relevant assessment year i.e., 31.3.2028.

Accordingly, Mr. X is liable to pay additional income-tax in case he furnished his updated return as on

- (i) 31.3.2027 - ₹ 71,250 [25% of 2,85,000, being tax of ₹ 2,50,000 plus interest of ₹ 35,000]
- (ii) 28.2.2028 of ₹ 1,42,500 [50% of 2,85,000, being tax of ₹ 2,50,000 plus interest of ₹ 35,000]

### Question 23

Mr. Hari aged 57 years is a resident of India. He provides you the following details of his incomes pertaining to F.Y. 2024-25.

- Interest on Non-Resident (External) Account maintained with State Bank of India as per RBI stipulations - ₹ 3,55,000
- Interest on savings bank account maintained with State Bank of India - ₹ 8,000
- Interest on Fixed Deposits with Punjab National Bank - ₹ 40,000

He seeks your advice on his liability to file return of income as per Income-tax Act, 1961 for the Assessment Year 2025-26.

What will be your answer, if he has incurred ₹ 4 lakhs on travel expenses of his newly married son and daughter in law's honeymoon in Canada? (PYP 4 Marks, Jan'21)

### Answer 23

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 54/54B/54D/54EC or 54F, exceeds the maximum amount not chargeable to tax i.e., ₹ 2,50,000.

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

Particulars	₹
<b>Income from other sources</b>	
Interest earned from Non-resident (External) Account ₹ 3,55,000 [Exempt u/s 10(4)(ii), since he is maintaining the said account as per RBI stipulations]	NIL
Interest on savings bank account	8,000
Interest on fixed deposit with Punjab National Bank	40,000
<b>Gross Total Income</b>	<b>48000</b>





Less: Deduction u/s 80TTA (Interest on saving bank account)	8,000
<b>Total Income</b>	<b>40,000</b>

Since the total income of Mr. Hari for A.Y. 2025-26, before giving effect, inter alia, to the deductions under Chapter VI-A, is less than the basic exemption limit of ₹ 2,50,000, he is not required to file return of income for A.Y. 2025-26.

However, if he has incurred expenditure exceeding ₹ 2 lakhs for himself or any other person for travel to a foreign country, he would be required to file a return of income, even if his total income does not exceed the basic exemption limit. Since he has incurred expenditure of ₹ 4 lakhs on foreign travel of his newly married son and daughter in law in the F.Y. 2024-25, he has to mandatorily file his return of income for A.Y. 2024-25 on or before the due date under section 139(1).

#### Question 24

Rani, an Indian resident aged 34 years did not file her return of income for the A.Y. 2022-23, 2023-24 and 2024-25. She gives the following information regarding each of the A.Y. - A.Y. 2022-23

(i) Tax payable on the total income of Rani - ₹ 14,50,000

(ii) TDS deducted - ₹ 5,00,000

A.Y. 2023-24

(i) Tax payable on the total income of Rani - ₹ 5,60,000

(ii) TDS deducted - ₹ 10,00,000

A.Y. 2024-25

(i) Tax payable on the total income of Rani - ₹ 6,30,000

(ii) TDS deducted - ₹ 2,00,000

(iii) Interest payable under section 234A, 234B and 234C - ₹ 90,000 (calculated till 31st May 2025)

(iv) Self-assessment tax paid - ₹ 1,00,000

She approaches you to file updated return under section 139(8A) on 16.5.2025. You are required to prepare a suggestion to be given to her in this respect. Your suggestion should include the financial aspect also (like payment of tax) briefly outlining the relevant provisions of the Income-tax Act.

(PYP 4 Marks Sep'24)

#### Answer 24

An updated return can be furnished for the previous year relevant to the assessment year at any time within 24 months from the end of the relevant assessment year.

Accordingly, the following are the suggestions to Rani with respect to updated return on 16.5.2025 for A.Y. 2022-23, A.Y. 2023-24 and A.Y. 2024-25:

**A.Y. 2022-23:** Since the period of 24 months from the end of A.Y. 2022-23 expired on 31.3.2025 updated return cannot be furnished on 16.5.2025 for A.Y. 2022-23.

**A.Y. 2023-24:** For A.Y. 2023-24, updated return can be furnished up to 31.3.2026. Thus, updated return can be furnished on 16.5.2025.

Since updated return would be furnished after the expiry of 12 months but before 24 months from the end of 31.3.2024, additional income tax would be payable @50% of aggregate of tax (after taking into consideration tax deducted at source) and interest payable.

Accordingly, Rani is required to pay additional income-tax in addition to the tax payable of ₹ 5,60,000, interest and late fee of ₹ 5,000.

**Alternate answer:** The main solution has been worked out in line with the provisions of section 140B taking tax payable as the net figure of tax after adjusting TDS. However, since the term "tax payable" used in the ITR form for updated return is before the adjustment of TDS, TCS, Advance tax, interest payable etc., it is possible to take a view that the amount of tax payable of ₹ 5,60,000 is before adjusting TDS of ₹ 10,00,000. In such case, since the refund of ₹ 4,40,000 would arise, updated return cannot be furnished for A.Y. 2023-24.

**A.Y. 2024-25:** - For A.Y. 2024-25, updated return can be furnished up to 31.3.2027. Thus, updated return can be furnished on 16.5.2025

Since updated return would be furnished before the expiry of 12 months from the end of 31.3.2025, additional income tax would be payable @25% of aggregate of tax (after taking into consideration tax deducted at source and self-assessment tax paid) and interest payable.

Accordingly, Rani is required to pay additional income-tax of ₹ 1,80,000 i.e., 25% of ₹ 7,20,000 (₹ 6,30,000 + ₹ 90,000) in addition to tax payable of ₹ 6,30,000, interest payable of ₹ 90,000 and late fees of ₹ 5,000.





**Alternate answer:** The main solution has been worked out in line with the provisions of section 140B taking tax payable as the net figure of tax after adjusting TDS and self-assessment tax paid. However, since the term “tax payable” used in the ITR form for updated return is before the adjustment of TDS, TCS, Advance tax, interest payable etc., it is possible to take a view that the amount of tax payable of ₹ 6,30,000 is before adjusting TDS of ₹ 2,00,000 and self-assessment tax paid of ₹ 1,00,000. In such case, Rani is required to pay additional income-tax of ₹ 1,05,000 i.e., 25% of ₹ 4,20,000 [₹ 3,30,000 (₹ 6,30,000 – ₹ 2,00,000 – ₹ 1,00,000) + ₹ 90,000] in addition to tax payable of ₹ 3,30,000, interest payable of ₹ 90,000 and late fees of ₹ 5,000.

### Quoting of PAN & Aadhar

#### Question 25

**What are the consequences of failure to intimate Aadhar Number. Is there any fee for such default? (MTP 4 Marks, Apr'22)**

#### Answer 25

If a person, who has been allotted PAN as on 1.7.2017 and is required to intimate his Aadhar number under section 139AA(2), has failed to intimate the same on or before 31.3.2022, the PAN of such person would become inoperative immediately after 31.3.2022 and he would be liable to pay fee in accordance with 234H read with rule 114(5A) i.e. Rs 1000 for the purpose of furnishing, intimating or quoting under the Income-tax Act, 1961. Where a person, whose PAN has become inoperative, is required to furnish, intimate or quote his PAN under the Act, it shall be deemed that he has not furnished, intimated or quoted the PAN, as the case may be, in accordance with the provisions of the Act and he would be liable for all the consequences under the Act for not furnishing, intimating or quoting the PAN.

#### Question 26

**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 –(RTP May'23)**

S.No.	Transaction
1.	Opening a current account with HDFC Bank
2.	Sale of shares of ABC (P) Ltd. for ₹ 1,50,000
3.	Purchase of two wheeler motor vehicle of ₹ 1 lakh
4.	Purchase of a professional laptop of ₹ 3 lakhs

#### Answer 26

	Transaction	Is quoting of PAN mandatory in related documents?
1.	Opening a current account with HDFC Bank	Yes, quoting of PAN is mandatory on opening of a current account by a person with bank.
2.	Sale of shares of ABC (P) Ltd. for ₹ 1,50,000	Yes, since the amount for sale of unlisted shares exceeds ₹ 1,00,000
3.	Purchase of two wheeler motor vehicle of ₹ 1 lakh	Since the purchase is of two wheeler motor vehicle, quoting of PAN is not mandatory
4.	Purchase of a professional laptop of ₹ 3 lakhs	Yes, since the amount paid exceeds ₹ 2,00,000

#### Question 27

**Mr. Vishnu 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.	Sale of scooter for ₹ 70,000
2.	Payment of life insurance premium of ₹ 67,000 to insurance company
3.	Purchase of plot for ₹ 9 lakhs while the stamp duty of the same is ₹ 11 lakhs
4.	Applied to PNB for issue of credit card.

(MTP 4 Marks, Mar'24)





### Answer 27

	Transaction	Is quoting of PAN mandatory in related documents?
1.	Sale of scooter for ₹ 70,000	No, quoting of PAN is not mandatory on sale of scooter.
2.	Payment of life insurance premium of ₹ 67,000 to insurance company	Yes, since the amount paid exceeds ₹ 50,000.
3.	Purchase of plot for ₹ 9 lakhs while the stamp duty of the same is ₹ 11 lakhs	Though the amount of consideration does not exceed ₹ 10 lakhs, Mr. Vishnu has to quote PAN since stamp duty of plot exceeds ₹ 10 lakhs.
4.	Applied to PNB for issue of credit card	Yes, quoting of PAN is mandatory on making an application to a banking company for issue of credit card.

### Question 28

Mr. A employed with B Pvt. Ltd. residing in Chennai, filed his return of Income on 30 th July. He has no other income other than salary. He however has failed to link his Aadhar with PAN as on return filing date.

- What is the last date for linking Aadhar with PAN?
  - What is the consequence for him if he has linked the Aadhar with PAN on 31 st August 2024?
  - Are there any exceptions provided under section 139AA from quoting of Aadhar number?
- (PYP 4 Marks, Nov'22)

### Answer 28

Every person who has been allotted PAN as on 1st July, 2017, and who is eligible to obtain Aadhar Number, has to intimate his Aadhar Number to prescribed authority **on or before 31st March, 2022**.

Since, Mr. A fails to link his Aadhar number with PAN on or before 31.3.2022, consequently, at the time of linking his Aadhaar number with PAN on 31.8.2024, he would be liable to **pay fee of ₹ 1,000** as per section 234H.

Yes, the following are the exceptions -

An individual who does not possess the Aadhar number or Enrolment ID and is:

- residing in Assam, Jammu & Kashmir and Meghalaya;
- a non-resident as per Income-tax Act, 1961;
- of the age of 80 years or more at any time during the previous year;
- not a citizen of India

### Question 29

Briefly mention the provisions of Income-tax Act, 1961 with regard to quoting Aadhaar Number under section 139AA of the Act. (MTP 4 Marks, Apr'24, Sep'23, May'20, PYP 5 Marks, May'18, Oct'19 & Aug'18)

### Answer 29

Every person who is eligible to obtain Aadhaar Number is required to mandatorily quote Aadhaar Number:

- in the application form for allotment of Permanent Account Number (PAN)
- in the return of income

The provisions of section 139AA relating to quoting of Aadhaar Number would, however, not apply to an individual who does not possess the Aadhaar number ID and is:

- residing in the States of Assam, Jammu & Kashmir and Meghalaya;
- a non-resident as per Income-tax Act, 1961;
- of the age of 80 years or more at any time during the previous year;
- not a citizen of India.

If a person does not have Aadhaar Number, he is required to quote Enrolment ID of Aadhaar application form issued to him at the time of enrolment in the application form for allotment of PAN or in the return of income furnished by him. However, w.e.f. 1st October, 2024, the option of quoting Enrolment ID of Aadhaar application for allotment of Permanent Account Number (PAN) or in the return of income furnished is discontinued. Further, a person who has been allotted permanent account number on the basis of Enrolment ID of Aadhaar application form filed before 1st October, 2024 has to intimate his Aadhaar Number, on or before a notified date, to the prescribed authority in the prescribed manner.





Mr. Rahul, an Indian citizen residing in Mumbai, files his return of income every year on time. He has Aadhaar number as well. He has not intimated his Aadhaar number to the prescribed authority till August 2024. He approached you on 1.9.2024 and asked you the consequences for not doing so and the effective date from which those consequences would become effective?

What would be your answer if Mr. Rahul wants to intimate his Aadhaar number to the prescribed authority now? (RTP May'24, MTP 4 Marks Aug'24)

### Answer 30

Where a person, who has been allotted PAN and is required to intimate his Aadhaar number, has failed to intimate the same on or before the 31.3.2022, the PAN of such person shall become inoperative.

#### Consequences of failure to intimate Aadhaar Number

A person, whose PAN has become inoperative, would be liable for further consequences for the period commencing from the date specified by the Board till the date it becomes operative, namely –

- I. refund of any amount of tax or part thereof, due under the provisions of the Act shall not be made;
- II. interest shall not be payable on such refund for the period, beginning with the date specified and ending with the date on which it becomes operative;
- III. where tax is deductible under Chapter XVIIIB in case of such person, such tax shall be deducted at higher rate, in accordance with provisions of section 206AA;
- IV. where tax is collectible at source under Chapter XVII-BB in case of such person, such tax shall be collected at higher rate, in accordance with provisions of section 206CC.

The consequences specified above will be effective from 1.7.2023.

If Mr. Rahul wants to intimate his Aadhaar number to the prescribed authority on 1.9.2024, he would be liable to pay a fee of ₹ 1,000 as specified under section 234H. His PAN would become operative within 30 days from the date of intimation of Aadhaar number and would not be liable for the above consequences once his PAN becomes operative.

### Question 31

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.2023-24 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

(MTP 4 Marks Nov'24, MTP 4 Marks, Nov'21)

### Answer 31

	Transaction	Is quoting of PAN mandatory in related documents?
1.	Payment of life insurance premium of ₹ 40,000 in the F.Y.2023-24 by account payee cheque to LIC for insuring life of self and spouse	No, since the amount paid does not exceed ₹ 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 and not in cash, quoting of PAN is not mandatory even though the payment exceeds ₹ 50,000





### MULTIPLE CHOICE QUESTIONS (MCQS)

1. Mr. Wivtsu, aged 62 years' resident and ordinarily resident, is a retired employee with a monthly pension of ₹ 15,000. He has no other source of income. He has a house property in Bhatinda and his only son is living in London and has a house over there. He met with an accident and died and thereby leaving the house at London in the name of his father, Mr. Wivtsu. Mr. Wivtsu seeks your advice, as to whether he is required to file his income-tax return u/s 139? (MTP 2 Marks, Oct'21)

- (a) Yes, he is mandatorily required to file his income-tax return as he is a resident and ordinarily resident in India and has asset located outside India
- (b) No, he is not required to file return of income as his income is below basic exemption limit
- (c) Yes, he is required to file his return of income as his income exceeds basic exemption limit
- (d) No, he is not required to file his return of income as he is a senior citizen and retired employee

Ans: (a)

2. Mr. Laxman, born on 1.4.1963, has a gross total income of ₹ 2,85,000 for A.Y.2025-26 comprising of his salary income. He does not claim any deduction under Chapter VI-A. He pays electricity bills of ₹ 10,000 per month. He made a visit to Canada along with his wife for a month in January, 2025 for which he incurred to and fro flight charges of ₹ 1.20 lakhs. The remaining expenditure for his visa, stay and sightseeing amounting to ₹ 70,000 was met by his son residing in Canada. Is Mr. Laxman required to file return of income for A.Y.2025-26, and if so, why? (MTP 2 Marks, Sep'22)

- (a) No, Laxman is not required to file his return of income
- (b) Yes, Laxman is required to file his return of income, since his gross total income/total income exceeds the basic exemption limit
- (c) Yes, Laxman is required to file his return of income since he pays electricity bills of ₹ 10,000 per month, which exceeds the prescribed annual threshold
- (d) Yes, Laxman is required to file his return of income since he has incurred foreign travel expenditure exceeding ₹ 1 lakh

Ans: (c)

3. Mr. Sunil has filed his return of loss for A.Y. 2025-26 on 31.7.2025 and received a total refund of ₹ 44,500. On 15.9.2025, he would like to furnish his updated return of income for additional income. In case he furnished his updated return of income for additional income, he would be liable to pay ₹ 57,000 towards tax and ₹ 6,700 towards interest for additional income to be reported in updated return. Compute the additional income-tax payable by Mr. Sunil at the time of filing his updated return. (RTP Nov'23)

- |              |              |
|--------------|--------------|
| (a) ₹ 27,050 | (b) ₹ 15,925 |
| (c) ₹ 14,250 | (d) ₹ 31,850 |

Ans: (a)

4. Which of the following returns can be revised under section 139(5)?

- (i) A return of income filed u/s 139(1)
  - (ii) A belated return of income filed u/s 139(4)
  - (iii) A return of loss filed u/s 139(3) Choose the correct answer: (MTP 1 Mark, Aug'24)
- (a) Only (i)
  - (b) Only (i) and (ii)
  - (c) Only (i) and (iii)
  - (d) (i), (ii) and (iii)

Ans: (d)



## CHAPTER 9: COMPUTATION OF TOTAL INCOME & TAX PAYABLE

### CONCEPTS OF THIS CHAPTER

- Compute tax liability under default tax regime (Section 115BAC)
- Compute tax liability under regular provisions of Income-tax Act, 1961
- Examine applicability of Alternate Minimum Tax (AMT)
- Compute tax liability under AMT provisions and determine tax credit, if any
- Compare tax liability under default tax regime vs. regular provisions (including AMT) and determine the more beneficial option



### LDR Questions

Q 17  
Q 25  
Q 28  
Q 29  
Q 30

### Questions & Answers

#### Question 1

Mr. Suresh has a sole proprietary manufacturing unit. On 1st April, 2024, he owns Plant A and Plant B (rate of depreciation 15%). Depreciated value of the block on 1st April, 2024 is ₹ 10,00,000. Plant B is transferred on 15th October, 2024 for ₹ 19,00,000. Expenditure on transfer of Plant B is ₹ 20,000. Plant C (rate of depreciation 15%) is purchased on 10th March, 2025 for ₹ 22,00,000. However, Plant C is put to use on 2nd September, 2025. Business income of Mr. Suresh before claiming any depreciation is ₹ 11,00,000.

On 1st March, 2025, Mr. Suresh transfers 900 equity shares in A Ltd. (unlisted) for ₹ 23,50,000. Mr. Suresh does not own any residential house property. These shares were purchased on 2nd April, 2015 for ₹ 2,00,000. To avail of the benefit of exemption under different sections, he made the following investments on 1st May, 2025.

- A residential house property at Kolkata: ₹ 19,00,000 (out of which stamp duty expenditure is ₹ 30,000).
- NHAI bonds: ₹ 3,00,000.

Find out the gross total income of Mr. Suresh for the A.Y. 2025-26.

CII – F.Y. 2024-25: 363; F.Y. 2022-23: 331; F.Y. 2015-16:254 (RTP May'23)

#### Answer 1

#### Computation of gross total income of Mr. Suresh for the A.Y. 2025-26

Particulars	Amount (₹)	Amount (₹)
<b>Profits and gains of business or profession</b>		
Business income before depreciation		11,00,000
Depreciated value of the block on April 1, 2024	10,00,000	
Add: "Actual cost" of Plant C acquired on March 10, 2025	22,00,000	
Less: Sale Consideration of Plant B	19,00,000	
<b>Written down value on March 31, 2025</b>	<b>13,00,000</b>	
Normal depreciation (not available as Plant C is not put to use during the P.Y. 2024-25)	Nil	
Additional depreciation (not available as Plant C is not put to use during the P.Y. 2024-25)	Nil	
<b>Capital Gains</b>		
Long term capital gain on transfer of unlisted equity shares [Since shares were held for more than 24 months]		
Sale consideration	23,50,000	





Less: Cost of Acquisition	<b>2,00,000</b>	
	21,50,000	
Less: <b>Exemption under section 54EC</b>	Nil	
[Deduction under section 54EC is allowable only in respect of long term capital gain on transfer of land and building]		
<b>Exemption under section 54F</b> [21,50,000 x 19,00,000/23,50,000]	(17,38,298)	<b>4,11,702</b>
<b>Gross Total Income</b>		<b>15,11,702</b>

## Question 2

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	1,37,000	Audit	27,88,000	
Assistants		Taxation services	15,40,300	
Incentive to articled	13,000	Consultancy	12,70,000	55,98,300
Assistants		Dividend on shares of X Ltd., an Indian company (Gross)		10,524
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	<u>9,28,224</u>			
	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.  
(SM) (Similar concepts different figures MTP 15 Marks Aug'24)



**Answer 2**

**Computation of total income and tax payable by Ms. Purvi for the A.Y. 2025-26  
under default tax regime under section 115BAC**

Particulars	₹	₹
Income from house property (See Working Note 1)		57,820
Profit and gains of business or profession (See Working Note 2)		9,20,200
Income from other sources (See Working Note 3)		33,924
<b>Gross Total Income</b>		<b>10,11,944</b>
Less: Deductions under Chapter VI-A [not allowable under default tax regime]		-
<b>Total Income</b>		<b>10,11,944</b>
<b>Total Income (rounded off)</b>		<b>10,11,940</b>
<b>Tax on total income</b>		
Up-to ₹ 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
<b>Total tax liability</b>		<b>53,863</b>
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
<b>Tax Payable/ (Refundable)</b>		<b>(17,949)</b>
<b>Tax Payable/ (Refundable) (rounded off)</b>		<b>(17,950)</b>

**Computation of total income and tax payable under normal provisions of the Act**

Particulars	₹	₹
<b>Gross Total Income</b> [Income under the "Income from house property" "Profits and gains from business or profession" and "Income from other sources" would remain the same even if Ms. Purvi opts out of the default tax regime under section 115BAC]		<b>10,11,944</b>
Less: Deductions under Chapter VI-A (See Working Note 4)		10,000
<b>Total Income</b>		<b>10,01,944</b>
<b>Total Income (rounded off)</b>		<b>10,01,940</b>
<b>Tax on total income</b>		
Unto ₹ 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	1,13,082
Add: Health and Education cess @ 4%		4,523
<b>Total tax liability</b>		<b>1,17,605</b>
Less: Advance tax paid		70,000
Less: TDS u/s 194 on dividend	1,052	
TDS u/s 194K on income from UTI	760	1,812
<b>Tax Payable</b>		<b>45,793</b>
<b>Tax Payable (rounded off)</b>		<b>45,790</b>

Since there is tax refundable under default tax regime under section 115BAC and tax payable under the regular provisions of the Income-tax Act, 1961, it would be beneficial for Ms. Purvi to pay tax under default tax regime





under section 115BAC.

### Working Notes:

#### (1) Income from House Property

Particulars	₹	₹
Gross Annual Value under section 23(1)	85,600	
Less: Municipal taxes paid	3,000	
Net Annual Value (NAV)	82,600	
Less: Deduction u/s 24@30% of NAV	24,780	57,820

**Note** - Rent received has been taken as the Gross Annual Value in the absence of other information relating to Municipal Value, Fair Rent and Standard Rent.

#### (2) Income under the head "Profits & Gains of Business or Profession"

Particulars	₹	₹
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 under section 37(1) since it is a capital expenditure	80,000	
(ii) Municipal taxes paid in respect of residential flat let out	3,000	1,13,000
		10,41,224
Add: Value of benefit received from clients during the course of profession [taxable as business income under section 28(iv)]		10,500
		10,51,724
Less: Income credited but not taxable under this head:		
(i) Dividend on shares of X Ltd., an Indian company (taxable under the head "Income from other sources")	10,524	
(ii) Income from UTI (taxable under the head "Income from other sources")	7,600	
(iii) Honorarium for valuation of answer papers	15,800	
(iv) Rent received from letting out of residential flat	85,600	1,19,524
		9,32,200
Less: Depreciation on motor car @15% (See Note (i) below)		12,000
		9,20,200

### Notes:

- It has been assumed that the motor car was put to use for more than 180 days during the previous year and hence, full depreciation @ 15% has been provided for under section 32(1)(ii).  
**Note:** Alternatively, the question can be solved by assuming that motor car has been put to use for less than 180 days and accordingly, only 50% of depreciation would be allowable as per the second proviso below section 32(1)(ii).
- Incentive to articled assistants for passing CA Intermediate examination in their first attempt is deductible under section 37(1).
- 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.
- ₹ 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 under section 80C (Investment in NSC)	10,000
Deduction under section 80D (See Notes (i) & (ii) below)	Nil
<b>Total deduction under Chapter VI-A</b>	<b>10,000</b>

**Notes:**

- Premium paid to insure the health of brother is not eligible for deduction under section 80D, even though he is a dependent, since brother is not included in the definition of "family" under section 80D.
- 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 3**

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:

Sr. 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 total income and tax liability of Mrs. Rosy and Mrs. Mary for the A.Y. 2025-26 and tax thereon assuming both exercised the option to shift out of the default tax regime. (SM)

**Answer 3****Computation of total income of Mrs. Rosy and Mrs. Mary for the A.Y. 2025 - 26**

Sr. No.	Particulars	Mrs. Rosy (Non- resident)	Mrs. Mary (ROR)
		₹	₹
<b>(I)</b>	<b>Salaries</b>		
	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	-	-
		-	<b>10,000</b>
<b>(II)</b>	<b>Income from house property</b>		
	Rent received from house property at Mumbai (assumed to be the annual value in the absence of other information i.e. municipal value, fair rent and standard rent)	60,000	30,000
	Less: Deduction under section 24(a)@30%	18,000	9,000
		<b>42,000</b>	<b>21,000</b>
<b>(III)</b>	<b>Capital gains</b>		
	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
		<b>1,20,000</b>	<b>3,50,000</b>
<b>(A)</b>	<b>Gross Total Income [(I)+(II)+(III)]</b>	<b>1,62,000</b>	<b>3,81,000</b>
	Less: Deductions under Chapter VIA		
1.	Deduction under section 80C		
	1. LIC Premium paid	-	10,000
	2. Premium paid to Canadian Life Insurance Corporation	40,000	-
	3. Deposit in PPF	-	20,000
		<b>40,000</b>	<b>30,000</b>
2.	Deduction under section 80D – Mediclaim premium paid		25,000
		<b>40,000</b>	<b>55,000</b>
<b>(B)</b>	Total deduction under Chapter VI-A is restricted to income other than capital gains taxable under sections 111A & 112	40,000	31,000
<b>(C)</b>	<b>Total income (A-B)</b>	<b>1,22,000</b>	<b>3,50,000</b>
	<b>Tax liability of Mrs. Rosy for A.Y.2025-26</b>		
	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	
		<b>23,000</b>	
	<b>Tax liability of Mrs. Mary for A.Y.2025-26</b>		
	Tax on STCG @15% of ₹ 1,00,000 [i.e. ₹ 2,50,000 less ₹ 1,50,000, being the unexhausted basic exemption limit as per proviso to section 111A] [See Notes 3 & 4 below]		15,000
	Less: Rebate under section 87A would be lower of ₹ 12,500 or tax liability, since total income does not exceed ₹ 5,00,000		12,500
			2,500
	Add: Health and Education cess@4%	920	100
	<b>Total tax liability</b>	<b>23,920</b>	<b>2,600</b>

#### Notes:

- (1) Long-term capital gains on sale of land on 15.5.2024 is chargeable to tax@20% as per section 112.
- (2) Short-term capital gains on transfer of equity shares on 23.4.2024 in respect of which securities transaction tax is paid is subject to tax@15% as per section 111A.
- (3) In case of resident individuals, if the basic exemption limit is not fully exhausted against other income, then, the long-term capital gains u/s 112/short-term capital gains u/s 111A will be reduced by the unexhausted basic exemption limit and only the balance will be taxed at 20%/15%, respectively. However, this benefit is not available to non-residents. Therefore, while Mrs. Mary can adjust unexhausted basic exemption limit against long-term capital gains taxable under section 112 and short-term capital gains taxable under section 111A, Mrs. Rosy cannot do so.
- (4) Since long-term capital gains is taxable at the rate of 20% and short-term capital gains is taxable at the rate of 15%, it is more beneficial for Mrs. Mary to first exhaust her basic exemption limit of ₹ 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 under section 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 4

Mr. Sonu, aged 30 years, submits the information of following transaction/income during the P.Y. 2024-25

(i) Mr. Sonu owns two house properties in Delhi. The details in respect of these properties are as under

	House 1 Self-occupied	House 2 Let-out
Rent received per month	Not applicable	₹ 50,000
Municipal taxes paid	₹ 7,500	Nil
Interest on loan (taken for purchase of property)	₹ 2,50,000	₹ 3,00,000
Principal repayment of loan (taken from HDFC bank)	₹ 2,00,000	₹ 3,00,000

(ii) Mr. Sonu had another house in Delhi. During financial year 2018-19, he had transferred the said house to Ms. Varsha, daughter of his brother without any consideration. House would go back to Mr. Sonu after the life time of Ms. Varsha. The transfer was made with a condition that 15% of rental income from such house shall be paid to Mrs. Sonu. Rent received by Ms. Varsha during the previous year 2024-25 from such house property is ₹ 6,50,000.

(iii) Mr. and Mrs. Sonu forms a partnership firm with equal share in profits. Mr. Sonu transferred a fixed deposit of ₹ 50 lakhs to such firm. Firm had no income or expense other than the interest of ₹ 6,00,000 received from such fixed deposit. Firm distributed the entire surplus to Mr. and Mrs. Sonu at the end of the year.

(iv) Mr. Sonu holds preference shares in M/s A Pvt. Ltd. He instructed the company to pay dividends to Ms. Chandni, daughter of his servant. The transfer is irrevocable for the life time of Chandni. Dividend received by Ms. Chandni during the previous year 2024-25 is ₹ 10,00,000.

(v) Mr. Sonu has a short term capital loss of ₹ 16,000 from sale of property and long term capital gain of ₹ 15,000 from sale of property.

(vi) Other income of Mr. Sonu includes

- Interest from saving bank account of ₹ 2,00,000
- Cash gift of ₹ 75,000 received from daughter of his sister on his birthday.
- Income from betting of ₹ 34,000
- Income from card games of ₹ 46,000
- Loss on maintenance of race horses of ₹14,600

Compute the total income of Mr. Sonu for the Assessment Year 2025-26 and the losses to be carried forward assuming that he does not opt to be taxed under section 115BAC. (MTP 10 Marks, Apr'22)

(Same concepts different figures MTP 6 Marks Mar'24)

Answer 4

#### Computation of Total Income of Mr. Sonu for A.Y. 2025-26

Particulars	Amount (₹)	Amount (₹)
<b>Income from house property</b>		
<b>House 1 [Self-occupied]</b>		
Net annual value	-	
Less: Interest on loan [up-to ₹2,00,000]	2,00,000	(2,00,000)
<b>House 2 [Let out]</b>		
Gross annual value <sup>1</sup> [₹50,000 x 12]	6,00,000	
Less: Municipal taxes	-	
Net annual value	6,00,000	
Less: Deductions from Net Annual Value		
(a) 30% of Net Annual Value	1,80,000	
(b) Interest on loan	3,00,000	1,20,000
<b>House in Delhi</b> [Since Mr. Sonu receives direct or indirect benefit from income arising to his brother's daughter, Ms. Varsha, from the transfer of house to her without consideration, such income is to be included in the total income of Mr. Sonu as per proviso to section 62(1), even though the transfer may not be revocable during lifetime of Ms. Varsha]		
Gross Annual Value <sup>2</sup>	6,50,000	





Less: Municipal taxes	-	
Net Annual Value	6,50,000	
Less: Deductions from Net Annual Value		
(a) 30% of Net Annual Value	1,95,000	
(b) Interest on loan	-	4,55,000
		3,75,000
<b>Profits and gains from business or profession</b>		
Share of profit from firm [Exempt u/s 10(2A)]	-	
Exempt income cannot be clubbed		
<b>Capital Gains</b>		
Long term capital gain from sale of property	15,000	
<b>Less:</b> Short-term capital loss can be set-off against both short- term capital gains and long-term capital gains <sup>3</sup> . Short term capital loss of ₹ 16,000 set off against long-term capital gains to the extent of ₹15,000 <sup>4</sup> . Balance short term capital loss of ₹ 1,000 to be carry forward to A.Y.2026-27	15,000	-
<b>Income from other sources</b>		
Dividend on preference shares [Taxable in the hands of Mr. Sonu as per section 60, since he transferred the income, i.e., dividend, without transferring the asset, i.e., preference shares]	10,00,000	
Interest from saving bank account	2,00,000	
Cash gift [Taxable as per section 56(2)(x), since sum of money exceeding ₹ 50,000 is received from his niece, who is not a relative]	75,000	
Income from betting [No loss is allowed to be set off against such income]	34,000	
Income from card games [No loss is allowed to be set off against such income]	46,000	13,55,000
<b>Gross Total Income</b>		<b>17,30,000</b>
<b>Less: Deduction under Chapter VI-A</b>		
Deduction under section 80C [Principal repayment of loan ₹ 5 lakh, restricted to ₹1,50,000]	1,50,000	
Deduction under section 80TTA [Interest from savings bank account]	10,000	1,60,000
<b>Total Income</b>		<b>15,70,000</b>

#### Losses to be carried forward to A.Y. 2026-27

Particulars	Amount (₹)
Short term capital loss [₹ 16,000 – ₹ 15,000]	1,000
Loss on maintenance of race horses [Loss incurred on maintenance of race horses cannot be set-off against income from any source other than the activity of owning and maintaining race horses. Hence, such loss has to be carried forward to A.Y.2026-27]	14,600

<sup>1</sup> Rent receivable has been taken as the gross annual value in the absence of other information

<sup>2</sup> Rent receivable has been taken as the gross annual value in the absence of other information

<sup>3</sup> as per section 74(1) <sup>4</sup> as per section 74(1)

#### Question 5

Mr. Wivitzu, a resident individual aged 48 years, is working at a senior management position in a private bank since past 20 years. During the previous year 2024-25, he received the following emoluments from the employer:

- Basic Salary ₹ 3,50,000 per month.
- Client entertainment reimbursement of ₹ 20,000 per month out of which he submitted bills for ₹ 2,00,000 for the relevant year.
- Leave travel allowance of ₹ 4,00,000 per annum. He took a trip to Goa with his spouse and two children in December 2024, for which plane boarding tickets of ₹ 1,00,000 and hotel bookings of ₹ 3,00,000 were submitted to the employer.
- Performance bonus amounting to 20% of annual basic salary.





- (e) He is eligible to take a staff housing loan upto ₹ 20,00,000 at a concessional rate of 2.5% p.a. He availed a housing loan of ₹ 15,00,000 out of the same on 1st June 2024. No repayment of loan has been made during the F.Y. 2024-25. The lending rate of SBI as on 1.4.2024 for housing loan may be taken as 8% p.a.
- (f) The Bank also allotted 1,500 sweat equity shares to Mr. Wivitzu in May 2024 at the rate of ₹ 1,300 per share. The Fair market value of the share was ₹ 1,500 per share on the date of exercise of option by Mr. Wivitzu. He sold all the shares for ₹ 2,100 per share on 31.03.2025 on recognised stock exchange. Assume Securities transaction tax has been paid.

The following transactions were made by Mr. Wivitzu during the previous year 2024-25:

- (a) He earned rental income of ₹ 35,000 per month from a 3 BHK residential flat situated at Delhi. He purchased the said flat for ₹ 45 Lakhs in June, 2023 using the housing loan availed from the employer and his own savings. It was let out from July, 2024. Municipal taxes of ₹ 12,000 for F.Y. 2024-25 was paid by Mr. Wivitzu.
- (b) He invested ₹ 30,00,000 in RBI Floating Rate Savings Bonds on 1st September 2024 earning an interest of 7% p.a. Interest is credited half yearly on 1st January and 1st July every year. (Assume receipt basis for taxation)
- (c) He also paid LIC premium of ₹ 15,000 for self, ₹ 20,000 for wife and ₹ 30,000 for dependent father, aged 75 years. Medical insurance premium paid on the health of dependent brother and major dependent son amounted to ₹ 5,000 (paid by cheque) and ₹ 10,000 (paid in cash), respectively.
- (d) In December 2024, he earned dividend income of ₹ 5,00,000 (gross) on shares of the bank held by him.
- You are required to compute his total income and tax liability for the assessment year 2025-26, clearly showing all workings. (Ignore section 115BAC provisions) (RTP May'23)

#### Answer 5

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

Particulars		Amount (₹)	Amount (₹)
<b>I</b>	<b>Income from salaries</b>		
	Basic Salary [₹ 3,50,000 x 12]	42,00,000	
	Client entertainment reimbursement [₹ 2,40,000 - ₹ 2,00,000]	40,000	
	Leave Travel Allowance [₹ 4,00,000 - ₹ 1,00,000] [Note 1]	3,00,000	
	Performance Bonus (20% of Basic Salary)	8,40,000	
	Interest on Housing loan [₹ 15,00,000 x (8% - 2.5%) x 10/12]	68,750	
	Sweat Equity allotted by the employer (₹ 1,500 - ₹ 1,300) x 1,500	3,00,000	
	Gross Salary	<b>57,48,750</b>	
	Less: Standard deduction	<u>50,000</u>	
	<b>Taxable Salary</b>		56,98,750
<b>II</b>	<b>Income from house property</b>		
	Gross Annual Value under section 23(1) [Rent received for 9 months has been taken as the Gross Annual Value in the absence of other information relating to Municipal Value, Fair Rent and Standard Rent] [₹ 35,000 x 9]	3,15,000	
	Less: Municipal taxes paid [Paid by Mr. Wivitzu]	<u>12,000</u>	
	Net Annual Value (NAV)	3,03,000	
	Less: Deduction u/s 24		
	(a) @30% of NAV	90,900	
	(b) Interest on borrowed capital [15,00,000 x 2.5% x 10/12]	<u>31,250</u>	
			1,80,850
<b>III</b>	<b>Capital gains</b>		
	STCG on sale of sweat equity shares [1,500 X (₹ 2,100 - ₹ 1,500)]		9,00,000
<b>IV</b>	<b>Income from other sources</b>		
	Dividend Income	5,00,000	
	Interest on RBI bonds [₹ 30,00,000 X 7% X 4/12]	<u>70,000</u>	<u>5,70,000</u>
	<b>Gross total income</b>		73,49,600
	Less: Deduction under Chapter VI-A		
	Deduction u/s 80C for LIC premium paid for self and wife [Note 2]	35,000	
	Deduction u/s 80 D [Note 3]	<u>Nil</u>	<u>35,000</u>





<b>Total Income</b>		<b>73,14,600</b>
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**Computation of tax liability of Mr. Wivitzu for the A.Y. 2025-26**

Particulars	Amount (₹)	Amount (₹)
Tax on STCG u/s 111A @20% on ₹ 9,00,000		1,80,000
Tax on other income of ₹ 64,14,600		
Up-to ₹ 2,50,000	Nil	
₹ 2,50,001 - ₹ 5,00,000 @5%	12,500	
₹ 5,00,001 - ₹ 10,00,000 @20%	1,00,000	
₹ 10,00,001 - ₹ 64,14,600 @30%	16,24,380	17,36,880
		19,16,880
Add: Surcharge@10% since total income exceeds ₹ 50 lakhs but does not exceed ₹ 1 crore		1,91,688
		21,08,568
Add: Health and Education cess @ 4%		84,343
<b>Tax Liability</b>		<b>21,92,911</b>
<b>Tax Liability (Rounded off)</b>		<b>21,92,910</b>

**Notes:**

- (1) Hotel Bookings and lodgings are not covered under leave travel facility. Hence, only ₹ 1,00,000 of cost of tickets would be exempt under section 10(5).
- (2) Premium for life insurance policy of father is not allowed as deduction under section 80C.
- (3) Medical insurance premium on the health of brother is not allowable since brother does not come within the meaning of family u/s 80D. In case of son, premium is paid in cash, hence, the same is not allowed.

**Question 6**

Karan, a resident aged 50 years, furnishes the following information for the year ended on 31-03-2025:

Particulars	Amount (₹)
Salary (Gross)	2,75,000
Income from let out house property	(2,85,000)
Interest on loan paid for self-occupied house property	1,20,000
Income from sale of rubber products from rubber plants	2,00,000
Business income - Retail business	1,20,000
Business income - wholesale business	(1,00,000)
Brought forward business loss (A.Y. 2024-25)	(1,35,000)
Dividend received from ABC Ltd., an Indian company carrying on agricultural operations	13,500
Long term capital gain from sale of listed equity shares (STT paid on sale and purchase of shares)	2,00,000
Short-term capital gains on sale of shares	(1,10,000)
Lottery winnings (gross)	45,000
Contribution to provident fund and NSC	1,50,000
Income of minor son Raju from special talent	1,50,000
Interest from Bank received by Raju on deposit made out of his special talent	10,000

Compute Karan's total income under the default tax regime under section 115BAC for the A.Y. 2025-26 assuming his wife does not earn any income. (RTP Sep'24)

**Answer 6**

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

Particulars	₹	₹
<b>Salary</b>		
Gross salary	2,75,000	





Less: Standard deduction under section 16 (ia)	50,000	2,25,000
<b>Income from house property</b>		
Interest on loan paid for self-occupied property [Not allowable under section 115BAC]	-	
Loss from let out house property	2,85,000	
[Loss from house property is not allowed to be set off against income under any other head while computing income under section 115BAC.]	2,85,000	
<b>Profits and gains from business and profession</b>		
Income from sale of rubber products from rubber plants [₹ 70,000 (35% of ₹ 2,00,000) is business income and ₹ 1,30,000 (65% of ₹ 2,00,000) is agricultural income which is exempt from tax]	70,000	
Business Income- Retail business	1,20,000	
	1,90,000	
Less: Set-off of wholesale business loss of ₹ 1,00,000	1,00,000	
	90,000	
Less: Set-off of brought forward business loss of ₹ 1,35,000 of A.Y. 2024-25 allowable to the extent of ₹ 90,000 by virtue of section 72(1)	90,000	Nil
[Balance brought forward business loss of ₹ 45,000 (i.e., ₹ 1,35,000 – ₹ 90,000) to be carry forward to A.Y. 2026-27 for set-off against business income of that year]		
<b>Capital Gains</b>		
Long-term capital gain on sale of listed equity shares on which STT is paid	2,00,000	
Less: Set-off of short-term capital loss of ₹ 1,10,000	1,10,000	90,000
<b>Income from Other Sources</b>		
Dividend from Indian companies [13,500/90 x 100]	15,000	
Lottery winnings	45,000	
Income of minor son from special talent [Not included in Karan's income since it is earned from special talent]	-	
Interest from bank received by minor son on deposit made out of his income from special talent [Includible in the income of Mr. Karan, since Mrs. Karan does not earn any income]	10,000	
Less: Exemption under section 10(32) [Not allowable under section 115BAC]	-	70,000
<b>Gross Total Income</b>		<b>3,85,000</b>
Less: Deduction under section 80C [Not allowable under section 115BAC]		-
<b>Total Income</b>		<b>3,85,000</b>

#### Question 7

Mr. Ram, an employee of the Central Government is posted at New Delhi. He joined the service on 1st February, 2022. Details of his income for the previous year 2024-25, are as follows:

- Basic salary: ₹ 3,80,000
- Dearness allowance: ₹ 1,20,000 (40% forms part of pay for retirement benefits)
- Both Mr. Ram and Government contribute 20% of basic salary to the pension scheme referred to in section 80CCD.
- Gift received by Ram's minor son on his birthday from friend: ₹ 70,000. (No other gift is received by him during the previous year 2024-25)
- On 25.03.2024, Mr. Ram gifted a sum of ₹ 6,00,000 to Mrs. Ram to start a business by introducing such amount as her capital. On 1st April, 2024, her total investments in business was ₹ 10,00,000 which includes ₹ 6,00,000 gifted by Mr. Ram. During the previous year 2024-25, she has loss from such business ₹ 1,30,000.
- Mr. Ram deposited ₹ 70,000 in Sukanya Samridhi account on 23.01.2025. He also contributed ₹ 40,000 in an approved annuity plan of LIC to claim deduction u/s 80CCC.
- He has taken an educational loan from SBI for his major son who is pursuing MBA course from Gujarat





University. He has paid ₹ 15,000 as interest on such loan.

Determine the total income of Mr. Ram for the assessment year 2025-26. Ignore provisions under section 115BAC. (MTP 6 Marks, Jul'24, PYP 6 Marks Dec'21)

Answer 7

**Computation of Total Income of Mr. Ram for A.Y. 2025-26**

Particulars	Amount ₹	Amount ₹
<b>Salaries</b>		
Basic Salary	3,80,000	
Dearness Allowance	1,20,000	
Employer contribution to NPS = 20% of ₹ 3,80,000	<u>76,000</u>	
	5,76,000	
Less: Standard deduction [₹ 50,000 or ₹ 5,76,000, whichever is lower]	<u>50,000</u>	5,26,000
<b>Profits and gains of business or profession</b>		
Where the amount gifted by Mr. Ram (₹ 6 lakh, in this case) is invested by Mrs. Ram in a business as her capital, proportionate share of profit or loss, as the case may be, computed by taking into account the value of the investment as on 1.4.2024 to the total investment in the business (₹ 10 lakh) would be included in the income of Mr. Ram [loss of ₹ 1,30,000 x 6/10]	<u>(78,000)</u>	
<b>Income from other sources</b>		
All income of the minor son would be included in the income of the parent Mr. Ram, since his income is higher than the income of Mrs. Ram (loss of ₹ 52,000, based on the information given in the question). Accordingly, ₹ 70,000, being amount of gift received by minor son during the P.Y. 2024-25, would be included in the income of Mr. Ram as the amount of gift exceeds ₹ 50,000.	70,000	
Less: Exemption in respect of income of minor child included in Mr. Ram's income	<u>1,500</u>	
	68,500	
Less: Business loss of ₹ 78,000 set-off to the extent of	<u>68,500</u>	
(Balance <b>business loss of ₹ 9,500 to be carried forward</b> to the next year, since the same cannot be set-off against salary income)		
		<u>Nil</u>
Gross Total Income		5,26,000
<b>Less: Deductions under Chapter VI-A</b>		
Under section 80C – deposit in Sukanya Samridhi Account	70,000	
Under section 80CCC – Contribution to LIC Annuity Plan	40,000	
Under section 80CCD(1) – Employee contribution to NPS (₹ 76,000 – ₹ 50,000 deduction claimed u/s 80CCD(1B)), since it is lower than ₹ 42,800, being 10% of salary (₹ 3,80,000 + ₹ 48,000)	<u>26,000</u>	
Allowable in full, since less than ₹1,50,000, being the maximum permissible deduction u/s 80C, 80CCC & 80CCD(1)	1,36,000	
Under section 80CCD(1B) – Employee contribution to NPS	50,000	
Under section 80CCD(2) – Employer contribution to NPS restricted to 14% of basic salary + DA forming part of pay, since employer is Central Government = 14% x (₹ 3,80,000 + ₹ 48,000)	59,920	
Under section 80E – Interest paid on loan taken for higher education	<u>15,000</u>	2,60,920
Total Income		2,65,080





**EXAM INSIGHTS:** Many examinees could not correctly compute the amount of deduction under section 80CCD(1), 80CCD(1B) and 80CCD(2) in respect of contribution towards NPS in case of Central Government employee.

### Question 8

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. Mr. Josh does not want to opt for section 115BAC for the A.Y. 2025-26:

- (i) Basic Salary @ Rs. 51,000 per month, Dearness allowance @ Rs. 10,000 per month (Part of salary for retirement benefits), House rent allowance Rs. 4,000 per month and rent paid for house in Chennai is Rs. 7,000 per month.
  - (ii) He owns a commercial building at Mumbai, which is let out on 1.7.2023 at a monthly rent of Rs. 46,000 to ABC Ltd. He paid municipal taxes of Rs. 27,000 and Rs. 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 Rs. 33,000 p.m.
  - (iii) He purchased 4000 unlisted shares of Maharaja Limited on 25-2-2008 for Rs. 80,000. Company declared bonus in the ratio of 1:1 on 15<sup>th</sup> March, 2008. Mr. Josh sold 3000 bonus shares on 15.01.2025 for Rs. 2,00,000 to his friend Mr. Mehul through unrecognized stock exchange. (Cost Inflation Index: 2007-08: 129, 2024-25: 363)
  - (iv) In April, 2024, he received dividend of Rs. 9,00,000 from ABC Ltd., an Indian company. The dividend is declared by the company in P.Y. 2023-24
  - (v) Interest from saving bank account with SBI Bank Rs. 15,000 and lottery winnings (Net of TDS@30%) is Rs. 21,000.
- He paid the following amounts during the P.Y. 2024-25:
- (a) Deposits in Public Provident Fund Rs. 1,50,000.
  - (b) Medical insurance premium paid for health of his wife Rs. 19,000 and for health of dependent son Rs. 12,000 through cheque. (MTP 14 Marks, Apr'21, PYP 14 Marks May'19)

### Answer 8

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

Particulars	Rs.	Rs.
<b>Salaries</b>		
Basic Salary = Rs. 51,000 x 12	6,12,000	
Dearness Allowance (DA) = Rs. 10,000 x 12	1,20,000	
House Rent Allowance (HRA) = Rs. 4,000 x 12	Rs. 48,000	
Less: Least of the following exempt u/s 10(13A)	Rs. 10,800	37,200
(i) HRA actually received = Rs. 4,000 x 12 = Rs. <b>48,000</b>		
(ii) Rent paid (-) 10% of salary [Rs. 84,000 (i.e., Rs. 7,000 x 12) (-)]		
Rs. 73,200 (10% of salary i.e., 10% of Rs. 7,32,000 (Basic Salary + DA)) = Rs. <b>10,800</b>		
(iii) 50% of salary [50% of Rs. 7,32,000 (Basic Salary + DA)] = Rs. <b>3,66,000</b>		
<b>Gross Salary</b>	7,69,200	
Less: Standard deduction u/s 16(ia)	<u>50,000</u>	
		7,19,200
<b>Income from house property</b>		
Gross Annual Value		
[Rs. 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. 2023-24	<u>27,000</u>	
Net Annual Value	3,87,000	
Less: Deduction u/s 24 [30% of Net Annual Value]	<u>1,16,100</u>	
		2,70,900
<b>Capital Gains</b>		
Full value of consideration	2,00,000	





Less: Cost of acquisition of bonus shares allotted on or after 1.4.2001	<u>Nil</u>	
<b>Long-term capital gains</b> (since bonus shares are held for a period of more than 24 months)		2,00,000
<b>Income from Other Sources</b>		
Dividend received from ABC Ltd., an Indian company	9,00,000	
Interest from saving bank account with SBI Bank	15,000	
Lottery winnings [21,000 x 100/70]	30,000	
		<b>9,45,000</b>
<b>Gross Total Income</b>		<b>21,35,100</b>
<b>Less: Deduction under Chapter VI-A</b>		
<b>Section 80C</b>		
Deposits in PPF	1,50,000	
<b>Section 80D</b>		
Medical insurance premium for wife and dependent son Rs. 31,000, restricted to Rs 25,000	25,000	
<b>Section 80TTA</b>		
Interest on saving bank account with SBI	10,000	
		1,85,000
<b>Total Income</b>		<b>19,50,100</b>

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

Particulars	Rs.	Rs.
<b>Tax on total income of Rs. 19,50,100</b>		
Tax on long-term capital gains of Rs. 2,00,000@12.5% u/s 112	25,000	
Tax on lottery income of Rs. 30,000 @30% u/s 115BB	9,000	
Tax on other income of Rs. 17,20,100 [Rs. 10,50,100 – Rs. 2,00,000, capital gains – Rs. 30,000, lottery income]		
Upto Rs. 2,50,000	Nil	
<b>Rs. 2,50,001 – Rs. 5,00,000 [i.e., Rs. 2,50,000@5%]</b>	<b>12,500</b>	
<b>Rs. 5,00,001 – Rs. 10,00,000 [i.e., Rs. 5,00,100@20%]</b>	<b>1,00,000</b>	
<b>Rs. 10,00,001 –Rs.17,20,100 [i.e., Rs. 7,20,100@30%]</b>	<b>2,16,030</b>	
		<b>3,62,530</b>
Add: Health and education cess@4%		<b>14,501</b>
<b>Tax liability</b>		<b>3,77,031</b>
Less: Tax deducted at source		
TDS on lottery income	9,000	
TDS on rent u/s 194I [Rs. 4,14,000 x 10%]	41,400	
<b>TDS on Dividend (Rs. 9,00,000*10%)</b>	<b>90,000</b>	<b>1,40,400</b>
<b>Tax Payable</b>		<b>2,36,631</b>
<b>Tax Payable (rounded off)</b>		<b>2,36,630</b>

**Question 9**

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 2013-14, 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 Kashan (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 ₹ 13,00,000.

(vi) Other income of Mr. Raghav includes

- Interest from saving bank account of ₹ 2,00,000
- Cash gift of ₹ 75,000 received from daughter of his sister on his birthday.

Compute the total income of Mr. Raghav for the Assessment Year 2025-26. (PYP 8 Marks, Jan'21)

**Answer 9**

#### Computation of Total Income of Mr. Raghav for A.Y. 2025-26

Particulars	Amount (₹)	Amount (₹)
<b>Salary</b> [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
<b>Income from house property</b>		
<b>House 1 [Self-occupied]</b>		
Net annual value	-	
Less: Interest on loan [up to ₹ 2,00,000]	2,00,000	(2,00,000)
<b>House 2 [Let out]</b>		
Gross annual value <sup>7</sup> [₹ 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
<b>House in Delhi</b> [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 <sup>8</sup>	5,50,000	
Less: Municipal taxes	-	
Net Annual Value	5,50,000	
Less: Deductions from Net Annual Value		
(a) 30% of Net Annual Value	1,65,000	





(b) Interest on loan	-	3,85,000
		1,89,000
<b>Profits and gains from business or profession</b>		
Share of profit from firm [Exempt u/s 10(2A)]	-	
Exempt income cannot be clubbed		
<b>Income from other sources</b>		
Dividend on preference shares	13,00,000	
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	23,25,000
<b>Gross Total Income</b>		25,14,000
<b>Less: Deduction under Chapter VI-A</b>		
Deduction under section 80C [Principal repayment of loan ₹ 5 lakh, restricted to ₹ 1,50,000]	1,50,000	
Deduction under section 80TTA [Interest from savings bank account]	10,000	1,60,000
<b>Total Income</b>		23,54,000

<sup>7</sup> Rent receivable has been taken as the gross annual value in the absence of other information

<sup>8</sup> Rent receivable has been taken as the gross annual value in the absence of other information

#### Question 10

Mr. Lalit, a dealer in shares and securities, has entered into following transactions during the previous year 2024-25:

- Received a motor car of ₹ 5,00,000 as gift from his friend Sunil on the occasion of his marriage anniversary.
- Cash gift of ₹ 21,000 each from his four friends.
- Land at Jaipur on 1st July, 2024 as a gift from his friend Kabra, the stamp duty value of the land is ₹ 6 lakhs as on the date. The land was acquired by Mr. Kabra in the previous year 2001-02 for ₹ 2 lakhs.

Mr. Lalit purchased from his friend Mr. Abhishek, who is also a dealer in shares, 1000 shares of ABC Ltd. @400 each on 19th June, 2024 the fair market value of which was ₹ 600 each on that date. Mr. Lalit sold these shares in the course of his business on 23rd June, 2024.

Further, on 1st November, 2024, Mr. Lalit took possession of his residential house 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 ₹ 24 lakh. He had paid ₹ 1 lakh by account payee cheque as down payment on the date of booking.

He received a shop (building) of the fair market value ₹ 1,50,000 and cash ₹ 50,000 in distribution from the ABC (P) Ltd at the time of liquidation process of the company in proportion of his share capital. The balance in general reserve of the company attributable to his share capital is ₹ 1,25,000.

On 1st March, 2025, he sold the plot of land at Jaipur for ₹ 8 lakh.

The value of the cost inflation index is 100 and 317 for the previous year 2001 -02 and 2021-22 respectively.

Compute the income of Mr. Lalit chargeable under the head "Income from other sources" and "Capital Gains" for A.Y. 2025-26. (PYP 8 Marks May'22)

#### Answer 10

##### Computation of "Income from Other Sources" of Mr. Lalit for the A.Y. 2025-26

	Particulars	₹
(i)	Motor car is <u>not</u> included in the definition of "property" for the purpose of section 56(2)(x), hence, value of the same is <b>not</b> taxable, even though it is received without any consideration.	-
(ii)	Cash gift is taxable under section 56(2)(x) [since the aggregate of ₹ 84,000 (₹ 21,000 x 4) exceeds ₹ 50,000]	84,000
(iii)	Stamp value of plot of land at Jaipur, received without consideration, is taxable under section 56(2)(x), since the same exceeds ₹ 50,000	6,00,000
(iv)	Difference of ₹ 2 lakh [1000 shares x ₹ 200] in the value of shares of ABC Ltd.	-





	purchased from Mr. Abhishek, a dealer in shares, is not taxable as it represents the stock-in-trade of Mr. Lalit (since he is a dealer in shares) and not capital asset. <sup>1</sup>	
(v)	Difference between the stamp duty value of ₹ 24 lakh on the date of booking (since advance was paid by account payee cheque on that date) and the actual consideration of ₹ 20 lakh paid is taxable under section 56(2)(x) since the difference exceeds ₹ 2,00,000, being the higher of ₹ 50,000 and 10% of consideration	4,00,000
(vi)	Distribution of assets by ABC (P) Ltd. on liquidation attributable to the accumulated profits (general reserve) of the company is taxable as dividend under section 2(22)(c).	1,25,000
<b>Income taxable under the head "Income from other sources"</b>		<b>12,09,000</b>

#### Computation of "Capital Gains" of Mr. Lalit for the A.Y.2025-26

Particulars	₹
<b>Capital gains on sale of land at Jaipur</b>	
Sale Consideration	8,00,000
Less: Cost of acquisition [deemed to be the stamp value charged to tax under section 56(2)(x)]	6,00,000
Short-term capital gains (since held for a period of not more than 24 months. Period of holding of previous owner, Mr. Kabra, not to be considered)	2,00,000
<b>Capital gains on distribution of assets on liquidation of ABC (P) Ltd.</b>	
<b>Full value of consideration for capital gains on distribution of assets on liquidation of ABC (P) Ltd.</b>	
FMV of assets distributed	1,50,000
Cash	50,000
	<b>2,00,000</b>
Less: Deemed dividend under section 2(22)(c)	1,25,000
<b>Full value of consideration for computing capital gains</b>	<b>75,000</b>

#### Note -

- As cost of acquisition of shares in ABC(P) Ltd. is not given in the question, capital gains on distribution of assets on liquidation of ABC(P) Ltd. in the hands of Mr. Lalit has not been computed.
- As per section 56(1)(i), dividend income is chargeable under the head "Income from Other Sources". Hence, deemed dividend u/s 2(22)(c) would be taxable under the head "Income from Other Sources" in the hands of Mr. Lalit, who is a dealer in shares<sup>2</sup>.

<sup>1</sup> Since Mr. Lalit 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. Lalit.

<sup>2</sup> Alternatively, as per the tutorials given on the website of the Income-tax department, if shares are held for trading purposes, then the dividend income would be taxable under the head "Profits and gains of business or profession".

**EXAM INSIGHTS:** Some of the examinees had wrongly applied the limit of ₹ 50,000 per cash gift received from each friend rather than applying the limit in aggregate for such gifts received from non-relatives during the year.

#### Question 11

Ms. Priyanka, General Manager of ABC Ltd., Mumbai, furnishes the following particulars for the financial year 2024-25:

- Salary ₹ 40,000 per month
- Value of medical facility in a hospital maintained by the company ₹ 10,000
- Rent free accommodation owned by the company
- Housing loan of ₹ 7,00,000 given on 01.04.2024 at the interest rate of 6% p.a. (No repayment made during the year). The rate of interest charged by State Bank of India (SBI) as on 01.04.2023 in respect of housing loan is 9.5%.





- (v) A dining table was provided to Ms. Priyanka at her residence. This was purchased on 1.6.2021 for ₹ 60,000 and sold to Ms. Priyanka on 1.5.2024 for ₹ 30,000.
- (vi) Personal purchases through credit card provided by the company amounting to ₹ 10,000 was paid by the company. No part of the amount was recovered from Ms. Priyanka.
- (vii) A Maruti Suzuki car which was purchased by the company on 16.7.2022 for ₹ 2,50,000 was sold to the assessee on 14.7.2024 for ₹ 1,60,000.

Other income received by the assessee during the previous year 2024-25:

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

- (viii) Deposit in PPF Account made during the year 2024-25 ₹ 40,000

Compute the gross total income of Ms. Priyanka for the Assessment year 2025-26 if she exercised the option to shift out of the default tax regime under section 115BAC. (MTP 6 Marks, Apr'24, MTP 7 Marks Mar'23 & Apr'19)

### Answer 11

Computation of gross total income of Ms. Priyanka for the A.Y. 2025-26 under normal provisions of the Act

	Particulars	₹	₹
(a)	Income from salaries (See Working Note below)		5,71,000
(b)	Income from Other Sources		
	(i) Interest on fixed deposit with a company	7,000	
	(ii) Income from specified mutual fund	3,000	
	(iii) Interest on Fixed Deposit received by minor daughter (₹ 4,000 - ₹ 1500)	<u>2,500</u>	<u>12,500</u>
	<b>Gross total income</b>		5,83,500

### Working Note:

Computation of salary income of Ms. Priyanka for the A.Y. 2025-26

Particulars	₹
Salary [₹ 40,000 x 12]	4,80,000
Medical facility [in the hospital maintained by the company is exempt]	—
Rent free accommodation	
10% of salary (₹ 4,80,000 x 10%)	48,000
Valuation of perquisite of interest on loan	
[Rule 3(7)(i)] – 9.5% is taxable which is to be reduced by actual rate of interest charged i.e. [9.5% - 6% = 3.5%]	24,500
Use of dining table for 1 month	
[₹ 60,000 x 10/100 x 1/12]	500
<b>Perquisite on sale of dining table</b>	
Cost	60,000
Less: Depreciation on straight line method @ 10% for 2 years	<u>12,000</u>
Written Down Value	48,000
Less: Amount paid by the assessee	<u>30,000</u>
Purchase through credit card	10,000
<b>Perquisite on sale of car</b>	
Original cost of car	2,50,000
Less: Depreciation from 16.7.2022 to 15.7.2023 @ 20%	<u>50,000</u>
Value as on 14.07.2024- being the date of sale to employee	2,00,000





Less: Amount received from the assessee on 14.07.2024	1,60,000	40,000
Gross salary		6,21,000
Less: Standard deduction upto ₹ 50,000		50,000
Income from Salaries		<b>5,71,000</b>

### Question 12

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, 2016, 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
- He earned ₹ 2,700 in share speculation business and lost ₹ 4,200 in cotton speculation business.
- 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.
- Siddhant received a gift of ₹ 30,000 each from four friends.
- He contributed ₹ 50,000 to Public Provident Fund. (SM)

### Answer 12

**Computation of total income and tax liability of Siddhant under default tax regime under section 115BAC for the A.Y. 2025-26**

Particulars	₹	₹
<b>Salary Income</b>		
Salary including dearness allowance		4,35,000
Bonus		15,000
Value of perquisites:		
(i) Salary of servant	12,000	
(ii) Free gas, electricity and water	11,000	23,000
		4,73,000
Less: Standard deduction under section 16(ia)		75,000
		3,98,000
<b>Income from house property</b>		
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 under section 24		
(i) 30% of NAV	₹ 11,310	
(ii) Interest on loan from LIC @ 15% of ₹ 1,60,000 [See Note 2]	₹ 24,000	
		2,390





<b>Income from speculative business</b>		
Income from share speculation business	2,700	
Less: Loss of ₹ 4,200 from cotton speculation business set-off to the extent of ₹ 2,700	<u>2,700</u>	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.		
<b>Income from Other Sources</b>		
(i) Income on account of interest earned from advancing money gifted to his minor son is includible in the hands of Siddhant as per section 64(1A) [Exemption under section 10(32) would not be available]	3,800	
(ii) Interest income earned from advancing money gifted to wife has to be clubbed with the income of the assessee as per section 64(1)	5,700	
(iii) Gift received from four friends (taxable under section 56(2)(x) as the aggregate amount received during the year exceeds ₹ 50,000)	<u>1,20,000</u>	<u>1,29,500</u>
<b>Gross Total Income</b>		<b>5,29,890</b>
Deduction under section 80C [No deduction under Chapter VI-A would be allowed as per section 115BAC(2)]		Nil
<b>Total Income</b>		<b>5,29,890</b>

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
<b>Tax liability</b>	<b>Nil</b>

**Computation of total income and tax liability of Siddhant for the A.Y. 2025-26  
under normal provisions of the Act**

Particulars	₹
<b>Gross total income (as per default scheme)</b>	<b>5,29,890</b>
Add: Standard Deduction [Rs. 25,000 being excess amount allowed under section 115 BAC]	<u>25,000</u>
Less: Exemption u/s 10(32) in respect of interest income of minor son included in the hands of Siddhant	<u>1,500</u>
<b>Gross total income (under the normal provisions of the Act)</b>	<b>5,53,390</b>
Less: <b>Deductions under Chapter VI-A</b>	
Under section 80C [Contribution to PPF]	<u>50,000</u>
<b>Total Income</b>	<b>5,03,390</b>

Particulars	₹
Tax on total income [5% of ₹ 2,50,000 + 20% of ₹ 3,390]	13,178
Add: HEC @4%	<u>527</u>
<b>Tax liability</b>	<b><u>13,705</u></b>
<b>Tax liability (Rounded off)</b>	<b>13,710</b>

Since his total income as per the normal provisions of the Act exceeds ₹ 5,00,000, he would not be eligible for rebate under section 87A.

Since Mr. Siddhant is not liable to pay any tax under default tax regime under section 115BAC, it would be beneficial for him to **not** to exercise the option of shift out of the default tax regime for A.Y.2025-26.



**Notes:**

- (1) It is assumed that the entire loan of ₹ 1,60,000 is outstanding as on 31.3.2025;
- (2) Since Siddhant's own flat in a co-operative housing society, which he has rented out to a nationalized bank, is also in Delhi, he is not eligible for deduction under section 80GG in respect of rent paid by him for his accommodation in Delhi, since one of the conditions to be satisfied for claiming deduction under section 80GG is that the assessee should not own any residential accommodation in the same place.

**Question 13**

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 under Section 35AD)	1,05,00,000

Compute income-tax (including AMT under Section 115JC) liability of Mr. X for A.Y. 2025-26 both as per section 115BAC and as per regular provisions of the Income-tax Act, 1961 for A.Y. 2025-26. Advise Mr. X whether he should pay tax under default tax regime or normal provisions of the Act. (SM) (Same concepts different figures PYP 7 Marks May'23)

**Answer 13**

**Computation of total income and tax liability of Mr. X for A.Y.2025-26 (under default tax regime under section 115BAC)**

Particulars	₹	₹
<b>Profits and gains of business or profession</b>		
Profit from unit in SEZ		40,00,000
Profit from operation of warehousing facility	1,05,00,000	
Less: Depreciation under section 32		
On building @10% of ₹ 65 lakhs <sup>4</sup> (normal depreciation under section 32 is allowable)	6,50,000	98,50,000
<b>Total Income</b>		<b>1,38,50,000</b>
<b>Computation of tax liability as per section 115BAC</b>		
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
<b>Total tax liability</b>		<b>45,98,620</b>

**Notes:**

- (1) Deductions u/s 10AA and 35AD are **not** allowable as per section 115BAC(2). However, normal depreciation u/s 32 is allowable.
- (2) Mr. X is **not** liable to alternate minimum tax u/s 115JC under default tax regime under section





115BAC.

**Computation of total income and tax liability of Mr. X for A.Y.2025-26 (under the regular provisions of the Income-tax Act, 1961)**

Particulars	₹	₹
<b>Profits and gains of business or profession</b>		
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
<b>Total Income</b>		<b>64,00,000</b>
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
<b>Total tax liability</b>		<b>18,01,800</b>

**Computation of adjusted total income of Mr. X for levy of Alternate Minimum Tax**

Particulars	₹	₹
<b>Total Income (computed above as per regular provisions of income tax)</b>		<b>64,00,000</b>
Add: Deduction under section 10AA		16,00,000
Add: Deduction under section 35AD	65,00,000	80,00,000
Less: Depreciation under section 32		
On building @10% of ₹65 lakhs <sup>5</sup>	6,50,000	58,50,000
<b>Adjusted Total Income</b>		<b>1,38,50,000</b>
Alternate Minimum Tax@18.5%		25,62,250
Add: Surcharge@15% (since adjusted total income > ₹ 1 crore)		3,84,338
		29,46,588
Add: Health and Education cess@4%		1,17,863
		30,64,451
<b>Tax liability u/s 115JC (rounded off)</b>		<b>30,64,450</b>

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 under section 115JC is lower than the tax liability as computed u/s 115BAC, it would be beneficial for him **to opt out of the default tax regime under section 115BAC for A.Y. 2025-26**. Moreover, benefit of alternate minimum tax credit is also available to the extent of tax paid in excess over regular tax

**AMT Credit to be carried forward under section 115JEE**

	₹
Tax liability under section 115JC	30,64,450
Less: Tax liability under the regular provisions of the Income-tax Act, 1961	18,01,800
	<b>12,62,650</b>





### Notes:

1. Deduction under section 10AA in respect of Unit in SEZ =

$$\text{Profit of the Unit in SEZ} \times \frac{\text{Export turnover of the unit in SEZ}}{\text{Total turnover of the unit in SEZ}} \times 50\%$$

$$40,00,000 \times \frac{80,00,000}{1,00,00,000} \times 50\% = ₹ 16,00,000$$

2. Deduction@100% of the capital expenditure is available under section 35AD for A.Y.2025-26 in respect of specified business of setting up and operating a warehousing facility for storage of agricultural produce which commences operation on or after 01.04.2009.

Further, the expenditure incurred, wholly and exclusively, for the purposes of such specified business, shall be allowed as deduction during the previous year in which he commences operations of his specified business if the expenditure is incurred prior to the commencement of its operations and the amount is capitalized in the books of account of the assessee on the date of commencement of its operations.

Deduction under section 35AD would, however, **not** be available on expenditure incurred on acquisition of land.

In this case, since the capital expenditure of ₹ 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 under section 35AD.

<sup>3</sup>Assuming the capital expenditure of ₹ 65 lakhs is incurred entirely on buildings

**EXAM INSIGHTS:** Some examinees have wrongly provided deduction under section 10AA at 100% of eligible profits, instead of restricting the same to 50%. Some others were not able to compute adjusted total income and AMT correctly.

### Question 14

Mr. Rohit, working as Finance Manager in ABC Ltd., Kanpur, retired from the company on 31.10.2024 at the age of 60. The following amounts were received from the employer from 1st April, 2024 to 31st October, 2024:

Basic Salary ₹ 30,000 p.m.

Dearness Allowance ₹ 20,000 p.m. (40% reckoned for superannuation benefits)

Ex-gratia (lump sum) ₹ 65,000

In addition to the above –

- (i) The company had taken on lease a residential house at Kanpur, paying a lease rent of ₹ 9,000 p.m. Mr. Rohit, who was paying to the company ₹ 6,000 p.m. towards aforesaid rent, vacated the said premises on 31.10.2024.
- (ii) The company had also provided to Mr. Rohit a cooking range and micro-wave oven owned by it. The original cost of these assets was ₹ 40,000 and the written down value as on 1.4.2024 was ₹ 22,000.
- (iii) Mr. Rohit has two sons. His second son was studying in a school run by the employer-company throughout the financial year 2024-25. The education facility was provided free of cost. The cost of such education in a similar school is ₹ 1,800 p.m.
- (iv) The employer-company was contributing ₹ 7,000 p.m. to Central Government Pension Scheme. Mr. Rohit contributed an equal amount.
- (v) Professional tax paid by the employer ₹ 2,400.
- (vi) Subsequent to his retirement, Mr. Rohit started his own business on 15-11-2024. The results of the said business from 15.11.2024 to 31.3.2025 were:
 

A. Business loss (excluding current depreciation)	₹ 90,000
B. Current year's depreciation	₹ 60,000
- (vii) Mr. Rohit won a prize in a TV game show. He received a sum of ₹ 2,10,000 after deduction of tax at source to the tune of ₹ 90,000.
- (viii) Mr. Rohit furnishes the under-mentioned data relating to savings, investments and out-goings:





- A. Life insurance premium, with a private insurance company ₹ 30,000 for his son and ₹ 20,000 for his married daughter.
- B. Medical insurance premium of ₹ 22,000 for himself and ₹ 26,000 for his mother (aged 82), paid by credit card. His mother is however not dependent on him.

You are required to compute the total income of Mr. Rohit (showing clearly the computation under various heads of income) and tax payable by him for the assessment year 2025-26. Assume Mr. Rohit does not opt for the provisions of under section 115BAC. (MTP 14 Marks, Sep'23)

#### Answer 14

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

Particulars		₹	₹
Basic salary (₹ 30,000 x 7)		2,10,000	
Dearness Allowance (₹ 20,000 x 7)		1,40,000	
Ex-gratia		65,000	
Employers' contribution to Central Government Pension Scheme (₹ 7,000 x 7)		49,000	
Professional tax paid by employer		2,400	
Concessional accommodation (See Notes 1 & 2)		7,650	NIL
Value of furniture (See Note 3)		2,333	
Value of concessional educational facility (₹ 1,800 x 7) (See Note 4)		12,600	
Gross salary		4,88,983	
Less: Standard deduction under section 16(ia)	50,000		
Professional tax under section 16(iii)	2,400	52,400	
<b>Net salary</b>			4,28,933
<b>Income from other sources</b>			
Winnings from TV Game Show (₹ 2,10,000 + ₹ 90,000)			3,00,000
<b>Gross Total Income</b>			7,36,583
Less: Deductions under Chapter VI-A			
<b>Deduction under section 80C</b>			
Life insurance premium (₹ 30,000 + ₹ 20,000)		50,000	
<b>Deduction under section 80CCD (1) (See Notes 5)</b>			
Employee's contribution to pension scheme [to be restricted to 10% of salary i.e. 10% of ₹ 2,66,000 (₹ 30,000 + ₹ 8,000) x 7]		26,600	
Total deduction under section 80C & 80CCD (1)		76,600	
Additional employee's contribution to pension scheme [49,000 – 26,600] [Section 80CCD(1B)]		22,400	
Employer's Contribution to pension scheme (to be restricted to 10% of salary) [Section 80CCD (2)]		26,600	
<b>Deduction under section 80D (See Note 6)</b>			
Medical insurance premium (₹ 22,000 + ₹ 26,000)		48,000	1,73,600
<b>Total Income (See Notes 7 &amp; 8)</b>			5,55,333
<b>Total income (rounded off)</b>			5,55,330

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

Particulars	₹
Tax @ 30% on winnings of ₹ 3,00,000 from game show	90,000
Tax on balance income of ₹ 2,55,333 (The basic exemption limit of ₹ 3,00,000 is applicable since Mr. Rohit is of the age of 60 years during the P.Y. 2024-25)	Nil
	90,000
Add: Health and Education cess @ 4%	3,600
Total Tax Liability	93,600
Less: TDS	90,000
<b>Net Tax Payable</b>	3,600



**Notes:**

- (1) For computation of perquisite value of concessional accommodation, 40% of dearness allowance (i.e. ₹ 8,000) should be taken into consideration as forming part of salary, since the question clearly mentions that only 40% is to be reckoned for superannuation benefits. Therefore, salary for the purpose of perquisite valuation would be ₹ 3,31,000 [i.e., (₹ 30,000 + ₹ 8,000) × 7 + 65,000].
- (2) In a case where the accommodation is taken on lease or rent by the employer and provided to the employee, the value of perquisite would be lower of the actual amount of lease rental paid or payable by the employer [i.e. ₹ 63,000, being 9,000 × 7] and **10%** of salary [i.e., ₹ 49,650, being **10%** of ₹ 3,31,000]. This value (i.e. ₹ 33,100) would be reduced by the rent paid by the employee (i.e., ₹ 42,000, being 6,000 × 7). The value of concessional accommodation is **NIL** [i.e. ₹ 33,100 – ₹ 42,000].
- (3) The value of furniture owned by employer and provided to the employee is 10% p.a. of actual cost which amounts to ₹ 2,333 [i.e. 10% of 40,000 × 7/12].  
Therefore, the value of furnished accommodation will be ₹ 9,983 (₹ 7,650 + ₹ 2,333) provided to the employee.

It is also possible to consider the cooking range and micro-wave oven provided by employer to the employee as a perquisite on account of use of movable assets of the employer by the employee. Even it is so assumed, there would be no change in the answer since in such a case also, the perquisite value is 10% p.a. of actual cost.

- (4) In determining the value of perquisite resulting from the provision of free or concessional educational facilities, from a plain reading of the proviso to Rule 3(5), it is apparent that if the cost of education per child exceeds ₹ 1,000 per month, the entire cost will be taken as the value of the perquisite. Accordingly, the full amount of ₹ 1,800 per month is taxable as perquisite. In such a case, the value of the perquisite would be ₹ 12,600 (i.e. ₹ 1,800 × 7).

**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 ₹ 5,600. The gross salary in that case shall be ₹ 4,81,983 and net salary would be ₹ 4,29,583. The total income and tax liability shall accordingly vary.

- (5) The entire employer's contribution to Central Government Pension scheme should be included in salary and deduction under section 80CCD (2) should be restricted to 10% of salary. The employer's contribution to pension scheme would be outside the overall limit of ₹ 1,50,000 stipulated under section 80CCE. Also, the deduction under section 80CCD (1) for the employee's contribution to the pension scheme is restricted to 10% of salary. Salary means basic salary and dearness allowance, if provided in the terms of employment for retirement benefits. The balance ₹ 22,400 (₹ 49,000 – 26,600) can be claimed as deduction under section 80CCD(1B).
- (6) The deduction for medical insurance premium of ₹ 26,000 paid for mother is allowable in full under section 80D, as the maximum limit is ₹ 50,000, since his mother is a senior citizen. Therefore, the total deduction under section 80D would be ₹ 22,000 (for self) + ₹ 26,000 (for mother) = ₹ 48,000.
- (7) Winnings from TV game show is chargeable at a flat rate of 30% under section 115BB. No loss can be set-off against such income. Therefore, business loss cannot be set-off against such income.
- (8) As per section 71(2A), business loss cannot be set-off against salary income. Section 71(2A) provides that where the net result of the computation under the head "Profits and gains of business or profession" is a loss and the assessee has income chargeable under the head "Salaries", the assessee shall not be entitled to have such loss set-off against such income. Even depreciation cannot be set-off against salary income. Therefore, both business loss and current depreciation cannot be set-off against salary income.
- (9) Deduction under section 80GG has not been provided in respect of rent paid by Mr. Rohit to his employer. Such deduction can be provided, if it is assumed that all conditions mentioned in section 80GG are satisfied.

**Question 15**

**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, 2016.

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 2014 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. He does not opt to pay tax as per section 115BAC. (RTP May'21) (Similar concept different figures MTP 15 Marks Nov'24)

(Interest on FD has been changed from Rs. 92,500 to Rs. 90,000 to keep the essence of the question)

Cost inflation Index is:

Financial Year	Cost Inflation Index
2013-14	220
2020-21	301
2024-25	363

Answer 15

Computation of Total Income of Mr. Raghav for the A.Y.2025-26

Particulars		₹	₹
<b>Salaries</b>			
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	
<b>Gratuity</b> – 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	<u>12,50,000</u>	<u>12,50,000</u>	
<b>Gross Salary</b>		<b>35,86,000</b>	
Less: Standard deduction u/s 16(ia) [Actual salary or ₹ 50,000, whichever is less]		<u>50,000</u>	
<b>Net Salary</b>			35,36,000
<b>Profits and gains of business or profession</b>			
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)		<u>2,40,000</u>	3,60,000





<b>Capital Gains</b>			
<b>On transfer of 60,000 shares (2,00,000 x 30%)</b>			
Sales consideration [60,000 x ₹ 60 per share]		36,00,000	
Less: Cost of acquisition, higher of –		<u>30,00,000</u>	
- 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
<b>Income from Other Sources</b>			
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 [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)]		<u>1,00,000</u>	
			<u>3,14,000</u>
<b>Gross Total Income</b>			<b>48,10,000</b>
<b>Less: Deduction under Chapter VI-A</b>			
<b>Section 80C</b>			
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]		<u>20,000</u>	
		1,30,000	
<b>Section 80CCC</b>			
Payment to LIC Pension Fund		<u>25,000</u>	
		1,55,000	
Restricted to ₹ 1,50,000, being the maximum allowable deduction			1,50,000
<b>Section 80D</b>			
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
<b>Section 80TTB</b>			
Deduction in respect of interest on fixed deposits and saving bank allowable as deduction under section 80TTB, since Mr. Raghav is a senior citizen, to the extent of ₹ 50,000			<u>50,000</u>
<b>Total Income</b>			<b>45,60,000</b>

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

Particulars	₹	₹
<b>Tax on total income of ₹ 45,60,000</b>		
Tax on long-term capital gains of ₹ 6,00,000 arising from transfer of listed shares @10% under section 112A after deducting ₹ 1.25 lakh.		47,500
Tax on other income of ₹ 39,60,000 [₹ 45,60,000 – ₹ 6,00,000 capital gains]		
Up-to ₹ 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	
₹ 10,00,001 – ₹ 39,60,000 [i.e., ₹ 29,60,000@30%]	<u>8,88,000</u>	<u>9,98,000</u>
		10,45,500
Add: Health and Education cess@4%		<u>41,820</u>
<b>Tax liability</b>		<b>10,87,320</b>



**Question 16**

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, 2018. 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. (RTP May'24)

**Answer 16**

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

	Particulars	Amount (in ₹)	
I	<b>Profits and gains of business and profession</b>		
	<b>Income from firm M/s Sunflower Associates</b>		
	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
	<b>Profit from SEZ unit</b>		
	Net profit from SEZ unit		7,50,000
	<b>Income from warehousing facility for storage of edible oil</b>		
	Net profit as per profit and loss account	7,50,000	
	<b>Less: Income credited to profit and loss account but taxable under the head 'Income from Other Sources'</b>		
	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	
	<b>Add: Payments not allowable as deduction</b>		
	Advance income-tax paid disallowed u/s 40(a)(ii)	<b>1,00,000</b>	
	Personal drawings disallowed u/s 37	<b>70,000</b>	
	Purchase of building	<u>10,00,000</u>	
		18,53,000	
	<b>Less: Depreciation on building [₹ 10,00,000 x 10%]</b>	<u>1,00,000</u>	17,53,000





II	Income from Other Sources			
	Interest on savings bank A/c with post office	15,000		
	Less: Exempt under section 10(15)	<u>3,500</u>	11,500	
	Interest on fixed deposit with SBI		20,000	
	Dividend from Indian companies (Gross)		<u>32,000</u>	<u>63,500</u>
	<b>Gross Total Income/ Total Income</b>			29,86,500
	[No deduction under section 80C, 80TTA and 10AA would be allowable]			

#### Computation of tax payable under default tax regime for A.Y. 2025-26

	₹	₹
<b>Tax on total income of ₹ 29,86,500</b>		
Up to ₹ 3,00,000 Nil	Nil	
₹ 3,00,000 – ₹ 7,00,000 [₹ 4,00,000 @ 5%] 20,000	20,000	
₹ 7,00,001 – ₹ 10,00,000 [₹ 3,00,000 @ 10%] 30,000	30,000	
₹ 10,00,001 – ₹ 12,00,000 [₹ 2,00,000 @ 15%] 30,000	30,000	
₹ 12,00,001 – ₹ 15,00,000 [₹ 3,00,000 @ 20%] 60,000	60,000	
Above ₹ 15,00,000 @30% [ @30% of ₹ 14,86,500]	4,45,950	
		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)		5,09,390

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

Particulars	Amount (in ₹)	
<b>Gross Total Income as per section 115BAC</b>	29,86,500	
<b>Less: Deduction under section 10AA</b> [₹ 7,50,000 x 40,00,000 / ₹ 1,20,00,000 x 50%, being seventh year of operation]	<u>1,25,000</u>	<b>28,61,500</b>
<b>Less: Deduction under Chapter VI-A</b>		
Deduction under section 80C		
Life insurance premium [maximum 10% of sum assured]	50,000	
Deduction under section 80TTA		
Interest on saving bank account with post office, restricted to	<u>10,000</u>	<u>60,000</u>
<b>Total Income</b>		<b><u>28,01,500</u></b>

#### Computation of tax payable by Mr. Rajesh for A.Y. 2025-26 under the regular provisions of the Act

Particulars	₹	₹
<b>Tax on total income of ₹ 28,01,500</b>		
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]	5,40,450	6,52,950





Add: Health and education cess@4%		26,118
<b>Total tax liability</b>		<b>6,79,068</b>
Less: Advance income-tax paid		1,00,000
<b>Tax payable</b>		<b>5,79,068</b>
<b>Tax payable (rounded off)</b>		<b>5,79,070</b>

**Computation of adjusted total income and AMT of Mr. Rajesh for A.Y. 2025-26**

Particulars	₹	₹
<b>Total Income (computed above as per regular provisions of income tax)</b>		<b>28,01,500</b>
Add: Deduction under section 10AA		1,25,000
<b>Adjusted Total Income</b>		<b>29,26,500</b>
Alternative Minimum Tax@18.5%		5,41,403
Add: Health and education cess@4%		21,656
<b>Total tax liability</b>		<b>5,63,059</b>
Less: Advance income-tax paid		1,00,000
<b>Tax payable</b>		<b>4,63,059</b>
<b>Tax payable (rounded off)</b>		<b>4,63,060</b>

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 17**

LDR

Mr. Anand, a resident Indian aged 45 years, has provided you the following information for the previous year ended on 31.03.2025

- (i) 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 ₹ 200 lakhs. Export turnover received in India in convertible foreign exchange on or before 30.9.2025 is ₹ 120 lakhs. This industrial undertaking fulfills all the conditions of section 10AA of the Income-tax Act, 1961. Profit from this industry is ₹35 lakhs.
- (ii) Mr. Anand sold equity shares of different Indian companies on 14th March, 2025:

Name	Sale value (per share)	Purchase price (per share)	Acquired on	No. of shares	FMV as on 31.1.2018
Sam Ltd.	₹150	₹ 120 (STT Paid at acquisition)	2 <sup>nd</sup> Feb, 2025	2000	-
Jam Ltd.	₹100	₹ 72 (STT Paid at acquisition)	16 <sup>th</sup> April, 2017	1250	50

CII – F.Y. 2017-18: 272; F.Y. 2024-25: 363

Sale proceeds were subject to brokerage of 0.1% and securities transaction tax of 0.125% on the gross consideration.

- (iii) He made payment of ₹ 90,000 on 1.9.2024 vide cheque towards medical insurance as lumpsum premium for himself and his wife till 31.8.2028. He also made cash payment of ₹ 7,500 towards preventive health checkup for himself and his wife.
- (iv) He received royalty of ₹ 2,88,000 from abroad for a book authored by him in the nature of artistic. The rate of royalty as 16% of value of books and expenditure made for earning this royalty was ₹ 40,000. The amount remitted to India till 30th September 2025 is ₹ 2,50,000.
- (v) He received income-tax refund of ₹15,750 (including interest ₹ 1,750) relating to the assessment year 2024-25.
- (vi) He occupies ground floor of his residential building and has let out first floor for residential use for a monthly rent of ₹ 15,000. He has paid municipal taxes of ₹ 30,000 for the current financial year. Both floors are of equal size. He has taken a loan from bank of ₹ 50 lakhs for the construction of this property in 2020 and has repaid ₹ 2,05,000 (including interest ₹1,00,000) during the year 2024-25.
- (vii) Mr. Anand deposited ₹ 1,30,000 in Public Provident Fund and ₹ 80,000 in 5 years term deposit in the





name of his minor son, Aman.

You are required to compute the total income and tax liability of Mr. Anand under section 115BAC as well as under normal provisions for the A.Y. 2025-26. Ignore AMT provisions. (RTP Sep'24)

Answer 17

**Computation of total income and tax liability of Mr. Anand for  
A.Y. 2025-26 under section 115BAC**

	Particulars	₹	₹	₹
I.	<b>Income from house property</b>			
	<b>Let out portion [First floor]</b>			
	Gross Annual Value [Rent received is taken as GAV, in the absence of other information]		1,80,000	
	Less: Municipal taxes paid by him in the P.Y. 2024-25 pertaining to let out portion [₹ 30,000/2]		<u>15,000</u>	
	<b>Net Annual Value (NAV)</b>		1,65,000	
	Less: Deduction u/s 24			
	(a) 30% of ₹ 1,65,000	49,500		
	(b) Interest on loan [₹ 1,00,000/2]	<u>50,000</u>	<u>99,500</u>	
	<b>Self-occupied portion [Ground Floor]</b>		65,500	
	Annual Value		Nil	
	[No deduction is allowable in respect of municipal taxes paid]			
	<b>Net Annual Value (NAV)</b>		Nil	
	Less: Interest on loan [Not allowable under section 115BAC]		<u>Nil</u>	65,500
II.	<b>Profits and gains of business or profession</b>			
	Income from SEZ unit			35,00,000
III.	<b>Capital Gains</b>			
	<b>Short-term capital gains on sale of equity shares of Sam Ltd. (since held for not more than 12 months)</b>			
	Full Value of Consideration [2000 x ₹ 150]	3,00,000		
	Less: Brokerage @ 0.1%	<u>300</u>		
	Net sale consideration	2,99,700		
	Less: Cost of acquisition [₹ 2000 x 120]	<u>2,40,000</u>	59,700	
	<b>Long-term capital gains on sale of equity shares of Jam Ltd. (since held for more than 12 months)</b>			
	Full Value of Consideration [1250 x ₹ 100]	1,25,000		
	Less: Brokerage @ 0.1%	<u>125</u>		
	Net sale consideration	1,24,875		
	Less: Cost of acquisition [No indexation benefit would be available]	<u>90,000</u>	<u>34,875</u>	94,575
	Higher of cost of acquisition of ₹ 90,000 (72 x 1250) and ₹ 62,500, being lower of FMV of ₹ 62,500 and full value of consideration of ₹ 1,25,000			
IV.	<b>Income from Other Sources</b>			
	Royalty from artistic book		2,88,000	
	Less: Expenses incurred for earning royalty		<u>40,000</u>	
			2,48,000	
	Interest on income-tax refund		<u>1,750</u>	
				<u>2,49,750</u>
	<b>Gross Total Income</b>			<b>39,09,825</b>
	<b>Less: Deduction under Chapter VI-A [Not allowable under section</b>			<b>-</b>





<b>115BAC]</b>			
<b>Total Income</b>			<b>39,09,825</b>
<b>Total Income (Rounded off)</b>			<b>39,09,830</b>
<b>Tax on total income of ₹ 39,09,830</b>			
Tax on LTCG exceeding ₹ 1.25 lakhs @12.5% u/s 112A			-
Tax on STCG of ₹ 59,700 @20% u/s 111A			11,940
<b>Tax on remaining total income of ₹ 38,15,255</b>			
Up to ₹ 3,00,000 Nil		Nil	
₹ 3,00,000 – ₹ 7,00,000 [₹ 4,00,000 @ 5%] 20,000		20,000	
₹ 7,00,001 – ₹ 10,00,000 [₹ 3,00,000 @ 10%] 30,000		30,000	
₹ 10,00,001 – ₹ 12,00,000 [₹ 2,00,000 @ 15%] 30,000		30,000	
₹ 12,00,001 – ₹ 15,00,000 [₹ 3,00,000 @ 20%] 60,000		60,000	
Above ₹ 15,00,000 @30% [@30% of ₹ 23,15,255]		6,94,577	8,34,577
			8,46,517
Add: Health and education cess@4%			33,861
<b>Tax liability</b>			<b>8,80,378</b>
<b>Tax liability (Rounded off)</b>			<b>8,80,380</b>

**Computation of total income and tax liability of Mr. Anand for  
A.Y. 2025-26 under normal provisions of the Act**

Particulars	₹	₹	₹
<b>Gross Total Income as per section 115BAC</b>			<b>39,09,825</b>
Less: Interest on loan for self-occupied property [₹ 1,00,000/2]			50,000
<b>Gross Total Income as per normal provisions of the Act</b>			<b>38,59,825</b>
Less: <b>Deduction u/s 10AA</b> [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]			21,00,000
[Profits of the SEZ x Export Turnover received in India in convertible foreign exchange on or before 30.9.2025/Total Turnover] x 100%			
[₹ 35 lakhs x ₹ 120 lakhs/ ₹ 200 lakhs x 100%]			
Less: <b>Deduction under Chapter VI-A</b>			
<b>Deduction under section 80C</b>			
Repayment of housing loan	1,05,000		
Public Provident Fund	1,30,000		
5 years Term deposit (not allowed as deduction in the name of minor son)			
	2,35,000		
Restricted to		1,50,000	
<b>Deduction under section 80D</b>			
Medical insurance premium [90,000 x 1/5]	18,000		
Preventive health check checkup of ₹ 7,500, subject to maximum of ₹ 5,000	5,000	23,000	
<b>Deduction under section 80QCB</b>		2,10,000	
Royalty [₹ 2,88,000 x 15/16 = ₹ 2,70,000, restricted to amount brought into India in convertible foreign exchange ₹ 2,50,000 minus ₹ 40,000 expenses already allowed as deduction while computing royalty income]			
			3,83,000
<b>Total Income</b>			<b>13,76,825</b>
<b>Total Income (Rounded off)</b>			<b>13,76,830</b>
<b>Tax on total income of ₹ 13,76,830</b>			
Tax on LTCG exceeding ₹ 1.25 lakhs @12.5% u/s 112A			-





Tax on STCG of ₹59,700 @20% u/s 111A		11,940
<b>Tax on remaining total income of ₹ 12,82,255</b>		
Up-to ₹2,50,000	Nil	
₹2,50,001 - ₹5,00,000[@5% of ₹2,50,000]	12,500	
₹5,00,001 - ₹10,00,000[@20% of ₹5,00,000]	1,00,000	
₹10,00,001 - ₹12,82,255[@30% of ₹2,82,255]	84,677	1,97,177
		2,09,117
Add: Health and education cess@4%		8,365
<b>Tax liability</b>		<b>2,17,482</b>
<b>Tax liability (rounded off)</b>		<b>2,17,480</b>

### Question 18

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 his total income and tax payable thereon for the A.Y. 2025-26. Assume that Mr. Ramdin has exercised the option to shift out of the default tax regime under section 115BAC. (SM)

### Answer 18

#### Computation of Total Income of Mr. Ramdin for the A.Y.2025-26 under normal provisions of the Act

Particulars	₹	₹
<b>Income from Salaries</b>		
Basic Salary (₹ 15,000 x 12)		1,80,000
Dearness Allowance (₹ 12,000 x12)		1,44,000
Commission on Turnover (0.5% of ₹ 50 lacs)		25,000
Bonus		50,000
Gratuity (See Note 1)		30,000
Employer's contribution to recognized provident fund		
Actual contribution [20% of ₹ 1,80,000]	36,000	
Less: Exempt (See Note 2)	33,240	2,760





Interest credited in recognized provident fund account @15% p.a.	15,000	
Less: Exempt upto 9.5% p.a.	<u>9,500</u>	5,500
Gift of gold ring worth ₹ 10,000 on 25 <sup>th</sup> 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		<u>8,500</u>
		4,55,760
Less: Standard deduction under section 16(ia)		<u>50,000</u>
		4,05,760
<b>Profits and Gains of Business or Profession</b>		
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
<b>Income from Other Sources</b>		
Interest on bank FDRs	5,860	
Interest on debentures (₹ 6786 x 100/90)	<u>7,540</u>	<u>13,400</u>
<b>Gross total Income</b>		<b>5,99,160</b>
Less: Deductions under Chapter VI-A		
<b>14B Section 80C</b>		
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	<u>30,000</u>	1,25,370
<b>Section 80D – Mediclaim Insurance</b>		22,500
<b>Section 80G (See Note 4)</b>		<u>10,600</u>
<b>Total Income</b>		<b>4,40,690</b>
<b>Tax on total income</b>		
Income-tax [5% of ₹ 1,90,690 (i.e., ₹ 4,40,690 – ₹ 2,50,000)]		9,535
Less: Rebate u/s 87A, since total income does not exceed ₹ 5,00,000		<u>9,535</u>
Tax liability		Nil
Less: Tax deducted at source (₹ 7,540 – ₹ 6,786)		<u>754</u>
<b>Net tax refundable</b>		<b>754</b>
<b>Tax refundable (rounded off)</b>		<b>750</b>

#### Notes:

- Gratuity received during service is fully taxable.
- Employer's contribution in the recognized provident fund is exempt up to 12% of the salary i.e. 12% of (Basic Salary + DA for retirement benefits + Commission based on turnover)  

$$= 12\% \text{ of } (\text{₹ } 1,80,000 + (50\% \text{ of } \text{₹ } 1,44,000) + \text{₹ } 25,000)$$

$$= 12\% \text{ of } 2,77,000 = \text{₹ } 33,240$$
- An alternate view possible is that only the sum in excess of ₹ 5,000 is taxable in view of the language of Circular No.15/2001 dated 12.12.2001 that such gifts upto ₹ 5,000 in the aggregate per annum would be exempt, beyond which it would be taxed as a perquisite. As per this view, the value of perquisite would be ₹ 5,000. In such a case the Income from Salaries would be ₹ 4,00,760.
- Deduction under section 80G is computed as under:

Particulars	₹
Donation to PM National Relief Fund (100%)	5,100
Donation to institution approved under section 80G (50% of ₹ 11,000) (amount	<u>5,500</u>





contributed ₹ 11,000 or 10% of Adjusted Total Income i.e. ₹ 45,129, whichever is lower)	
<b>Total deduction</b>	<b>10,600</b>

Adjusted Total Income = Gross Total Income - Deductions under section 80C and 80D  
= ₹ 5,99,160 = ₹ 1,47,870 = ₹ 4,51,290.

#### Question 19

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.

#### Trading and Profit and Loss Account of Mr. Suresh

Particulars	Amount in Rs.	Particulars	Amount in Rs.
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]	1,17,000
To Interest paid on late filing of GST	3,845	By Rent received	7,20,000
To Income-tax paid for FY 2023-24	3,45,000	By Income-tax Refund	13,000
To Interest paid to NBFC	1,15,000		
To Depreciation	1,82,000		
To Net Profit	73,55,815		
	1,03,21,660		1,03,21,660

The following additional information is provided by him:

- Closing stock of previous year 2024-25 was undervalued by Rs. 55,000.
- Rates and taxes include Rs. 1,000 paid towards late filing of his Income-tax return for Assessment Year 2024-25 under section 234F of In-come-tax Act.
- Salaries include Rs. 30,000 paid on single day by way of cash to his accountant.
- Interest paid on loan of Rs. 10,00,000 taken from a Non-Banking Finance company. Out of the loan, amount of Rs. 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 Rs. 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 Rs. 25,000 paid by cheque towards an advertisement in a souvenir published by local political party.
- Income-tax refund includes Rs. 2,500 towards interest.
- Depreciation charged is as per Income-tax Rules is Rs. 2,20,000
- Advance Tax paid during the year is Rs. 9 lakhs.
- TDS has been deducted on interest received on FD.
- Turnover for the year ending 31.03.2024 was Rs. 2.58 crores. (MTP 14 Marks, Nov'21) (Same concepts different figures MTP 14 Marks Mar'22)

(The Interest received from FD has been changed from Rs 1,11,000 to Rs. 1,17,000 and income tax refund has been changed from Rs.19,000 to. Rs. 13,000 to keep the essence of the question)





## Answer 19

### Computation of Total Income of Mr. Suresh for the A.Y.2025-26

Particulars	Rs.	Rs.	Rs.
<b>Income from house property</b>			
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		<u>2,16,000</u>	5,04,000
<b>Profits and gains of business or profession</b>			
Net profit as per profit and loss account		73,55,815	
Add: <b>Expenses/Payments debited to profit and loss account but not allowed</b>			
- 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 Rs. 10,000 – disallowed under section 40A(3)	30,000		
- Interest paid to NBFC on loan which is used for personal purposes (Rs. 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 Rs. 92,000 under section 40(a)(ia) [Since Mr. Suresh's turnover for the immediately preceding previous year i.e., P.Y. 2023-24 exceeds Rs. 1 crore, he is required to deduct tax at source. Disallowance@30% of interest is attracted for non-deduction of tax at source]	27,600		
- 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 [under section 37(2B)]	<u>25,000</u>	6,33,600	
Add: Undervaluation of Closing stock		<u>55,000</u>	
		80,44,415	
<b>Less: Income chargeable under other heads and income not chargeable to tax but credited to profit and loss account</b>			
- 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")	1,17,000		
- Rent received (taxable under the head "Income from house property")	7,20,000		
- Income-tax refund	<u>13,000</u>	<u>25,70,000</u>	
		54,74,415	
Less: Depreciation as per Income-tax Rules		<u>2,20,000</u>	52,54,415
<b>Income from Other Sources</b>			
Dividend from Indian companies		17,20,000	
Interest on fixed deposits (Rs. 1,17,000 x 100/90, since tax was deducted at source @10%)		1,30,000	
Interest on income-tax refund		<u>2,500</u>	<u>18,52,500</u>
<b>Gross Total Income</b>			76,10,915
<b>Less: Deduction under Chapter VI-A</b>			





<b>Section 80D</b>			
Health insurance premium paid for self, spouse and his children allowable as deduction to the extent Rs. 25000		25,000	
<b>Section 80GGC</b>			
Expenditure towards advertisement in a souvenir published by local political party not allowable as deduction		Nil	25,000
<b>Total Income</b>			75,85,915
<b>Total Income (Rounded Off)</b>			75,85,920

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

Particulars		Rs.
Up-to Rs. 2,50,000	Nil	
Rs. 2,50,001 – Rs. 5,00,000 [i.e., Rs. 2,50,000@5%]	12,500	
Rs. 5,00,001 – Rs.10,00,000 [i.e., Rs. 5,00,000@20%]	1,00,000	
Rs. 10,00,001 above [i.e., Rs. 65,85,920 @30%]	19,75,776	20,88,276
		20,88,276
Add: Surcharge @10%, since total income exceeds Rs. 50,00,000		2,08,828
		22,97,104
Add: Health and Education cess@4%		91,884
<b>Tax Liability</b>		<b>23,88,988</b>
<b>Less: Advance tax</b>		9,00,000
Tax deducted at source on interest on FDs under section 194A		13,000
<b>Tax payable</b>		<b>14,75,988</b>
<b>Tax payable (rounded off)</b>		<b>14,75,990</b>

**Computation of tax liability of Mr. Suresh as per section 115BAC for A.Y.2025-26**

Particulars	Rs.
<b>Gross total Income as per regular provisions of the Act</b>	76,10,915
<b>Less: Deduction u/s 10AA/ Deduction under Chapter VI-A</b> [No deduction under section 10AA or under Chapter VI-A is allowed]	-
<b>Total Income as per section 115BAC</b>	<b>76,10,915</b>
<b>Total Income as per section 115BAC (rounded off)</b>	<b>76,10,920</b>
<b>Tax on total income of 76,10,920</b>	<b>19,83,276</b>
Up to ₹ 3,00,000 Nil	
₹ 3,00,000 – ₹ 7,00,000 [₹ 4,00,000 @ 5%] 20,000	
₹ 7,00,001 – ₹ 10,00,000 [₹ 3,00,000 @ 10%] 30,000	
₹ 10,00,001 – ₹ 12,00,000 [₹ 2,00,000 @ 15%] 30,000	
₹ 12,00,001 – ₹ 15,00,000 [₹ 3,00,000 @ 20%] 60,000	
<b>Above ₹ 15,00,000 @30% (61,10,920 @ 30%) 18,33,276</b>	
	<b>19,73,276</b>
Add: Surcharge @10%, since total income exceeds Rs. 50,00,000	1,97,328
	<b>21,70,604</b>
Add: Health and education cess@4%	86,824
<b>Total tax liability</b>	<b>22,57,428</b>
Less: Advance tax	9,00,000
Tax deducted at source on interest on FDs under section 194A	13,000
<b>Tax payable</b>	<b>13,44,428</b>
<b>Tax payable (rounded off)</b>	<b>13,44,430</b>
Since tax liability as per section 115BAC is lower than the tax liability under normal provisions of the Act, it is beneficial for Mr. Suresh to exercise option under section 115BAC. He has to exercise this option on or before the due date of furnishing the return of income. Further, he is having income from business or profession during the P.Y.2024-25, if he opts for section 115BAC for this previous year, the said provisions would apply for subsequent assessment years as well.	





### Question 20

You are required to compute the total income and tax liability of Mr. Neeraj for the A.Y. 2025-26 from the following information given by him for the year ended 31.3.2025. Mr. Neeraj, aged 61 years, a resident individual, engaged in a wholesale business of stationary products. He is also a partner in BAC & Co., a partnership firm.

Sr. No.	Particulars	₹	₹
(i)	Interest on capital received from BAC & Co., at 14% [in accordance with the partnership deed]		1,40,000
(ii)	Share of profit from the firm		44,000
(iii)	Salary as working partner (fully allowed in the hands of the firm)		1,00,000
(iv)	Interest from bank on fixed deposit (Net of TDS)		49,500
(v)	Interest on saving bank account		13,300
(vi)	Income-tax refund received relating to assessment year 2024-25 including interest of ₹ 1,400		34,500
(vii)	Net profit from wholesale business		6,60,000
	Amounts debited include the following:		
	- Depreciation as per books	34,000	
	- Motor car expenses	40,000	
	- Municipal taxes for the shop (For two half years; payment for one half year made on 12.7.2024 and for the other on 31.12.2024)	7,000	
	- Salary to manager by way of a single cash payment	22,000	
(viii)	The WDV of the assets (as on 1.4.2024) used in above wholesale business is as under:		
	- Computers	2,40,000	
	- Computer printer	1,50,000	
(ix)	Motor car acquired on 31.12.2024 (20% used for personal use)	6,80,000	
(x)	He owned a house property in Mumbai which was sold in January, 2018. He received arrears of rent in respect of the said property in October, 2024.		1,35,000
(x)	LIP paid for independent son	60,000	
(xi)	PPF of his wife	70,000	
(xii)	Health insurance premium paid by way of A/c payee cheque for self	35,000	
(xiii)	Contribution toward Prime Minister National Relief Fund	50,000	

Assume Mr. Neeraj does not want to opt for the provisions of section 115BAC. (MTP 14 Marks, Apr'22, MTP 15 Marks Dec'24) (Same concept different figures RTP Nov'20)

### Answer 20

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

Particulars	₹	₹
<b>Income from house property</b>		
Arrears of rent (taxable under section 25A even if Mr. Neeraj is not the owner of the house property in the P.Y.2024-25)	1,35,000	
Less: Deduction@30%	<u>40,500</u>	<b>94,500</b>
<b>Profits and gains of business or profession</b>		
<b>Income from wholesale business</b>		
Net profit as per books	6,60,000	
Add: Amount debited to P & L A/c, not allowable as deduction		
- Depreciation as per books	34,000	
- Disallowance of municipal taxes paid for the second half-year under section 43B, since the same was paid after the due date of filing of return of income (₹ 7,000/2)	3,500	





- Disallowance under section 40A(3) in respect of salary paid in cash since the same exceeds ₹ 10,000		22,000	
- 20% of car expenses for personal use		8,000	
		7,27,500	
Less: Depreciation allowable (Note 1)		1,96,800	
		<b>5,30,700</b>	
<b>Income from firm</b>			
Share of profit from the firm is exempt under section 10(2A)	-		
Interest on capital from partnership firm (Note 2)	1,20,000		
Salary as working partner fully taxable	1,00,000	2,20,000	<b>7,50,700</b>
<b>Income from other sources</b>			
Interest on bank fixed deposit (Gross) [₹49,500 x 100/90]		55,000	
Interest on saving bank account		13,300	
Interest on income-tax refund		1,400	69,700
<b>Gross total income</b>			<b>9,14,900</b>
Less: Deduction under Chapter VIA (Note 3)			2,65,000
<b>Total Income</b>			<b>6,49,900</b>

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

Particulars	₹
Up-to ₹ 3,00,000	Nil
₹ 3,00,001 – ₹ 5,00,000 [i.e., ₹ 2,00,000@5%]	10,000
₹ 5,00,001 – ₹ 6,49,900 [i.e., ₹ 1,49,900@20%]	29,980
	39,980
Add: Health and Education cess@4%	1,599
<b>Tax Liability</b>	<b>41,579</b>
<b>Tax payable (Rounded off)</b>	<b>41,580</b>

**Notes:**

(1) **Depreciation allowable under the Income-tax Rules, 1962**

		Opening WDV/ Actual cost	Rate		Depreciation
Block 1	Computers	2,40,000	40%		96,000
	Computer printer	1,50,000	40%		60,000
Block 2	Motor Car	6,80,000	15%	51,000 [50% of 15% is allowable, since it is put to use for less than 180 days]	40,800
	<b>Less: 20% disallowance for personal use</b>			<b>10,200</b>	<b>1,96,800</b>

(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. Neeraj.

(3) **Deduction under Chapter VI-A**

Particulars	₹	₹
<b>Under section 80C</b>		
LIP for independent son	60,000	
PPF paid in wife's name	70,000	
	1,30,000	
Since the maximum deduction under section 80C is ₹ 1,50,000, the entire sum of		1,30,000





₹ 1,30,000 would be allowed as deduction		
<b>Under section 80D</b>		
Health insurance premium taken for himself is fully allowable as deduction, since he is a senior citizen		35,000
<b>Under section 80G</b>		
Contribution towards PM National Relief Fund eligible for 100% deduction without any qualifying limit		50,000
<b>Under section 80TTB</b>		
Interest on deposits in case of senior citizen, restricted to		50,000
<b>Total deduction</b>		<b>2,65,000</b>

### Question 21

Mr. Wivitzu, a resident and ordinarily resident aged 58 years, is engaged in the business of manufacturing of steel. He is subject to tax audit under section 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	6,45,000	By Gross Profit	88,45,000
To Salaries & wages	30,00,000	By Profit on sale of asset of scientific research	2,00,000
To Interest on loans	11,25,000	By Winning from lottery (Net of TDS @ 30%)	47,250
To Depreciation	9,25,500		
To Professional fees	4,05,000		
To Rent, rates & taxes	4,20,000		
To Travelling & conveyance	2,10,000		
To Net Profit	23,61,750		
<b>Total</b>	<b>90,92,250</b>	<b>Total</b>	<b>90,92,250</b>

#### Explanatory information:

- Opening and closing stock of finished goods were undervalued by 10%. Opening stock of ₹ 3,30,000 and Closing stock of ₹ 4,38,000 was shown.
- Salaries & wages include following items:
  - Contributed 20% of basic salary in National Pension Scheme referred in section 80CCD for an employee Mr. Ganesh who has withdrawn basic salary of ₹ 4,00,000 and Dearness allowance is 40% of basic salary. 50% of Dearness allowance forms part of the salary.
  - Some of the employees opted for retirement under the voluntary retirement scheme; a sum of ₹ 3,50,000 was paid to them on 1st January, 2025.
- Interest on loan includes interest paid @ 15% per annum on loan of ₹ 18,00,000 which was taken from State Bank of India on 01.07.2024 for purchase of new electric car of ₹ 20,00,000. The car is used for personal purpose.
- Depreciation allowable as per Income-tax Rules, 1962 is ₹ 5,50,000 but during the calculation of such depreciation following addition was not considered:  
Motor car purchased for ₹ 3,50,000 for supply of finished goods to dealers on 25-09-2024.
- An asset was purchased for ₹ 7,00,000 on 17-11-2023 for conducting scientific research and the deduction was claimed under section 35 of the Income-tax Act, 1961. This asset was sold on 05-10-2024 for a consideration of ₹ 9,00,000.

#### Other information:

A plot of Industrial land which was used by Mr. Wivitzu for business purpose for last 10 years was compulsorily acquired by Central Government on 07.04.2024. The compensation of ₹ 15,95,262 was received on 20.07.2024. Such property was purchased by him on 08.10.2006 for ₹ 2,50,000. He has purchased another plot of industrial land on 15.04.2025 for ₹ 7,00,000. Government has also paid ₹ 1,05,000 as interest on such compensation on 28.02.2025. Cost Inflation Indices: FY 2021-22: 317, FY 2006-07: 122, FY 2024-25-363





Compute the total income and tax liability of Mr. Wivitzu for the assessment year 2025-26 assuming that he has not opted for the provisions of section 115BAC. (MTP 14 Mark, Sep'22) (Same concept different chapters PYP 14 Marks Dec'21)

(The value of consideration has been changed from Rs 15,00,000 to Rs. 15,95,262 to keep the essence of the question)

#### Answer 21

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

	Particulars	₹	₹	₹
I.	<b>Income from business or profession</b>			
	Net Profit		23,61,750	
	<b>Add: Items debited but not allowable/item not credited but taxable while computing business income</b>			
	- <b>Employer's contribution to NPS in excess of 10% of salary</b> - Employer's contribution to the extent of 10% of salary i.e., basic salary plus dearness allowance forming part of salary would be allowed as deduction. Thus, excess contribution i.e., ₹ 32,000 [₹ 80,000, being 20% of ₹ 4,00,000 less ₹ 48,000 being 10% of ₹ 4,80,000 (₹ 4,00,000 + 20% of ₹ 4,00,000)] has to be added back.	32,000		
	- <b>VRS expenditure</b> - 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 [₹ 3,50,000 x 4/5].	2,80,000		
	- <b>Interest on loan</b> 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, ₹ 2,02,500 [₹ 18,00,000 x 15% x 9/12] has to be added back, since the same forms part of interest on loan debited to profit and loss account.	2,02,500		
	- Sale proceeds of asset acquired for conducting scientific research taxable as business income under section 41(3) in the year of sale to the extent of lower of ₹ 7,00,000 (being the deduction allowed u/s 35) and ₹ 9,00,000 being the excess of sale proceeds and deduction allowed u/s 35 i.e., (₹ 9,00,000 + ₹ 7,00,000) over the capital expenditure incurred of ₹ 7,00,00	7,00,000		
	- Undervaluation of stock [(₹ 4,38,000 - ₹ 3,30,000) x 10/90] <b>Note:</b> Alternatively, undervaluation of closing stock i.e., ₹ 48,667 can be added back and under valuation of opening stock i.e., ₹ 36,667 can be reduced from net profits.	12,000		
	- Depreciation as per books of A/c	9,25,500		
			21,52,000	
			45,13,750	
	Less: Depreciation as per Income-tax Rules	5,50,000		
	Depreciation on Motor car purchased for supply of finished goods [₹ 3,50,000 x 15%]	52,500		
			6,02,500	
			39,11,250	
	<b>Less: Items of income credited to profit and loss account but not taxable or taxable under any other head of income</b>			
	- 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"]	47,250		
			2,47,250	
				36,64,000
II.	<b>Capital Gain</b>			
	<b>Short-term capital gains</b>			
	<b>Sale of asset acquired for conducting scientific research</b>			
	Sales consideration	9,00,000		
	Less: Cost of acquisition	7,00,000		
	Short- term capital gain		2,00,000	
	<b>Long-term capital gains</b>			
	<b>Compulsory acquisition of industrial plot by the Central Government taxable as per section 45(5)</b>			
	Compensation received	15,95,262		
	Less: Indexed cost of acquisition [₹ 2,50,000 x 363/122]	7,43,852		
	<b>Long-term capital gain</b> [since such plot is held for more than 24 months] <b>Less: Exemption u/s 54D</b>	8,50,410		
	- Acquisition of industrial plot within 3 years	7,00,000		
			1,50,410	3,50,410
III.	<b>Income from other sources</b>			
	Winning from lottery [₹ 47,250 x 100/70]		67,500	
	Interest on enhanced compensation	1,05,000		
	Less: 50% of enhanced compensation	52,500		
			52,500	1,20,000
	<b>Gross Total Income</b>			41,34,410
	<b>Less: Deduction under Chapter VI-A</b>			
	<b>Deduction under section 80EEB</b> (Not allowable as loan sanctioned after 31.03.2023)			NIL
	<b>Total Income</b>			41,34,410

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

Particulars	₹	₹
Tax on long-term capital gains @20% of ₹ 1,50,410		30,082
Tax on winning from lottery @30% of ₹ 67,500		20,250
Tax on total income (excluding LTCG and winning from lottery) of ₹ 39,16,500		
Up-to ₹ 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- ₹ 37,66,500 [@30% of ₹ 29,16,500]	8,74,950	
		9,87,450
		10,37,782
Add: Health and education cess@4%		41,511
<b>Tax liability</b>		10,79,293
<b>Tax liability (rounded off)</b>		10,79,290

#### Question 22

Mrs. Kashish, a resident individual, aged 62 years, is a qualified medical practitioner. She runs her own clinic. Income & Expenditure A/c of Mrs. Kashish for the year ending 31.3.2025 is as under:

Expenditure	₹	Income	₹
To Salary to Staff	7,20,000	By Consultation Fees	74,28,000





To Administrative Exp.	11,64,000	By Salary received from True Care Hospitals (P) Ltd.	10,80,000
To Rent of clinic	5,76,000	By Rental Income from House Property	2,40,000
To Conveyance Expenses	1,44,000	By Dividend from Foreign Companies (gross)	60,000
To Power & Fuel	1,44,000		
To Interest on Housing Loan	2,20,000		
To Interest on Education Loan for son	1,56,000		
To Amount paid to scientific research association approved & Notified under section 35	1,50,000		
To net profit	55,34,000		
Total	88,08,000	Total	88,08,000

(i) She is working part-time with True Care Hospitals (P) Ltd. Her salary details are as under:

Basic Pay	₹ 85,000 p.m.
Transport Allowance	₹ 5,000 p.m.
Total	₹ 90,000 p.m.

Further, during P.Y. 2024-25, her son had undergone a medical treatment in True Care Hospitals (P) Ltd. free of cost. The hospital would have charged a sum of ₹ 1,60,000 for a similar treatment to unrelated patients.

(ii) She owns a residential house. The reconstruction of the house was started on 01-04-2024 and was completed on 30-09-2024. After reconstruction, ground floor of the house is self-occupied by her while first floor has been rented out since 1.10.2024. Both the floors are of equal area. The monthly rent is ₹ 40,000. The tenant also pays ₹ 3,000 p.m. as power back-up charges. She took a housing loan of ₹ 25 lakhs for reconstruction on 01-04-2024. Interest on housing loan for the period 01-04-2024 to 30-09-2024 was ₹ 1,20,000 and for the period 01-10-2024 to 31-03-2025 was ₹ 1,00,000. During the year, she also paid municipal taxes for the F.Y. 2023-24 ₹ 5,000 and for F.Y. 2024-25 ₹ 5,000.

(iii) Other information:

- Conveyance expenses include a sum of ₹ 48,000 incurred for conveyance from house to True Care Hospitals (P) Ltd. and vice versa in relation to her employment.
- Power & fuel expenses include a sum of ₹ 10,000 incurred for generator fuel for providing power back-up to the tenant.
- Administrative expenses include a sum of ₹ 10,000 paid as Municipal Taxes for her house.
- Clinic equipments' details are:  
Opening W.D.V. of clinic equipments as on 01-04-2024 was ₹ 5,00,000 and fresh purchase made on 28-08-2024 is ₹ 75,000 which was paid in cash.
- She also paid tuition fee of ₹ 40,000 for her grand-daughter, which has been debited to her Capital A/c.
- She availed a loan of ₹ 25,00,000 from bank for higher education of her son. She repaid principal of ₹ 3,00,000 and interest of ₹ 1,56,000 during P.Y. 2024-25.

You are required to compute the total income and tax liability of Mrs. Kashish for the A.Y. 2025-26 assuming she is not opting for the provisions of section 115BAC. (RTP Nov'23) (Same concept different figures PYP 14 Marks Nov'19)

**Answer 22**

**Computation of total income and tax liability of Mrs. Kashish for A.Y. 2025-26**

	Particulars	₹	₹	₹
I	<b>Income from Salaries:</b>			
	Basic Pay (₹ 85,000 x 12)		10,20,000	
	Transport Allowance (₹ 5,000 x 12) [Fully taxable]		60,000	
	Cost of treatment for son in True Care Hospitals (P) Ltd. [Exempt, since value of medical treatment provided to an employee's family member in any hospital maintained by the employer is		Nil	





	excluded from the definition of perquisite]			
	Gross Salary		10,80,000	
	Less: Standard deduction u/s 16 [Actual salary or ₹ 50,000, whichever is less]		<u>50,000</u>	
				10,30,000
<b>II</b>	<b>Income from House Property</b>			
	<b>Let out portion [First floor]</b>			
	Gross Annual Value [Rent received is taken as GAV = ₹ 40,000 p.m. x 6 months]		2,40,000	
	Less: Municipal taxes paid by her in the P.Y.2023-24 pertaining to let out portion [(₹ 5,000 + ₹ 5,000)/2], allowable since it is paid during the year, even if it relates to earlier years		<u>5,000</u>	
	Net Annual Value (NAV)		2,35,000	
	Less: Deduction u/s 24			
	(a) 30% of ₹ 2,35,000	70,500		
	(b) Interest on housing loan [(₹ 1,20,000 (+) ₹ 1,00,000)/2]	<u>1,10,000</u>	<u>1,80,500</u>	
			54,500	
	<b>Self-occupied portion [Ground Floor]</b>			
	Annual Value	Nil		
	Less: Deduction u/s 24			
	Interest on housing loan for reconstruction			
	₹ 1,10,000 [(₹ 1,20,000 + ₹ 1,00,000)/2] restricted to	30,000	<u>(30,000)</u>	
				24,500
<b>III</b>	<b>Profits and gains of business or profession</b>			
	Net profit as per Income and Expenditure account		55,34,000	
	<b>Less: Items of income to be treated separately under the respective head of income</b>			
	(i) Salary received from True Care Hospitals (P) Ltd.	10,80,000		
	(ii) Rent from house property	2,40,000		
	(iii) Dividend from foreign companies (gross)	<u>60,000</u>		
			<u>13,80,000</u>	
			41,54,000	
	<b>Less: Allowable expenditure</b>			
	• Depreciation on Clinic equipments			
	On Opening WDV ₹ 5,00,000 @15%	75,000		
	On additions during the year ₹ 75,000, no depreciation is allowable, since payment was made in cash and hence, it will not form part of actual cost.	<u>Nil</u>	<u>75,000</u>	
			40,79,000	
	<b>Add: Items of expenditure not allowable while computing business income</b>			
	(i) Interest on housing loan for reconstruction of residential house	2,20,000		
	(ii) Interest on education loan for son	1,56,000		
	(iii) Conveyance expenses in relation to her employment with True Care Hospitals debited to Income and Expenditure A/c, not allowed	48,000		
	(iv) Power and fuel expenses incurred for providing power back up to tenant not deductible	10,000		
	(v) Municipal tax paid relating to residential house included in administrative expenses, not deductible	<u>10,000</u>	<u>4,44,000</u>	45,23,000





<b>IV</b>	<b>Income from Other Sources</b>			
	Power back up charges from tenant (₹ 3,000 p.m. x 6 months)	18,000		
	Less: Actual expenditure incurred for providing power back up	<u>10,000</u>	8,000	
	Dividend from foreign companies		<u>60,000</u>	<u>68,000</u>
	<b>Gross Total Income</b>			56,45,500
	Less: Deduction under Chapter VI-A			
	<b>Deduction under section 80C</b> – Tuition fee paid for grand child is not allowable		Nil	
	<b>Deduction under section 80E</b> - Interest on loan taken for higher education of her son is deductible [principal repayment is not deductible]		1,56,000	1,56,000
	<b>Total income</b>			<b>54,89,500</b>

#### Computation of tax liability of Mrs. Kashish for A.Y.2025-26

Particulars	₹	₹
Tax on total income of ₹ 54,89,500		
Up-to ₹ 3,00,000	Nil	
₹ 3,00,001 – ₹ 5,00,000 [@5% of ₹ 2 lakhs]	10,000	
₹ 5,00,000 – ₹ 10,00,000 [@20% of ₹ 5 lakhs]	1,00,000	
₹ 10,00,000 – ₹ 54,89,500 [@30% of ₹ 44,89,500]	<u>13,46,850</u>	
		14,56,850
Add: Surcharge @10% [Since the total income > ₹ 50 lakhs but ≤ ₹ 1 crore]		<u>1,45,685</u>
		16,02,535
Add: Health and education cess @4%		<u>64,101</u>
Tax liability		<u>16,66,636</u>
Tax liability (rounded off)		16,66,640

#### Question 23

Mrs. Viwit Su, a resident individual aged 54 years, is carrying on business of manufacturing of textile fabrics, as a proprietor. The turnover in the previous year 2023-24 was 250 lakhs and in the current previous year 2024-25, it is ₹ 600 lakhs. The net profit as per the profit and loss account as on 31-03-2025 is ₹ 5,61,000. She provides the following additional information those were not considered while making the profit and loss account for the previous year 2024 -25.

- (i) Depreciation has not been debited to profit and loss account. The details of the plant & machinery employed in the business are given as under:

Date	PARTICULARS	AMOUNT
01-04-2024	Opening written down value of machinery used for manufacturing purpose	4,75,000
03-07-2024	New machinery purchased during the year, payment made by an account pay cheque.	7,25,000
10-03-2025	Sold one of the old machine	75,000

She does not have any other fixed assets employed in the business.

- (ii) Received subsidy of 20% on new machine purchased on 03-07-2024 during the previous year under technology upgradation fund Scheme from the Central Government.
- (iii) She paid a job charges for the value addition on the fabrics ₹ 90,000 without deduction of tax to job worker by an account payee cheque.
- (iv) Commission paid to one agent allowed as deduction in earlier assessment year amounting ₹ 50,000, has now been received back during previous year 2024-25, from the agent due to settlement with commission agent.
- (v) ₹ 25,000 paid to creditor for goods in cash.
- (vi) Incurred loss of ₹ 1,17,500 from an eligible transaction carried out in respect of trading in derivatives in a recognised stock exchange.





- (vii) Interest received amounting ₹ 2,00,000, duly authorised by partnership deed of M/s Ramji textiles @ 15% p.a. on the capital employed. She is sleeping partner in the Ramji textiles.
- (viii) She Received ₹ 60,000 by pre-mature withdrawals from deposit including interest ₹ 5,000, in post office time deposit, eligible for deduction under Section 80C.
- (ix) She sold her gold bracelet (jewellery), used by her for personal purposes, on 01-05-2024 for ₹ 5,34,114, which was acquired for ₹ 40,000 on 01-03-2005. A diamond was embedded onto bracelet on 01-05-2007 of ₹ 50,000. (cost inflation index 2004-05:113, 2007-08:129 and 2024-25:363)
- (x) She received a gold coin (bullion) worth ₹ 55,000 (FMV) from her cousin (daughter of uncle) during the previous year 2024-25.
- (xi) She incurred long term loss from sale of share of the Indian company. (The STT is paid on the sale and purchase of the shares) ₹ 75,000.
- (xii) She deposited a sum of ₹ 50,000 with life insurance Corporation of India every year for the maintenance of her mother aged 70 years depended upon him and suffering from severe disability.
- (xiii) She purchased the new residential house during the previous year and paid stamp duty and registration fee ₹ 1,55,000 to get transfer the property in her name.
- You are required to compute the total income and tax payable by Mrs. Viwit Su for the assessment year 2025-26. (Ignore the provisions of Section 115BAC). Give brief note wherever necessary.  
(PYP 14 Marks, May'22)  
(The sale value of bracelet has been changed from Rs 5,00,000 to Rs. 5,34,114 to keep the essence of the question)

### Answer 23

#### Computation of total income of Mrs. Viwit Su for A.Y. 2025-26

	Particulars	₹	₹	₹
I.	<b>Income from business or profession</b>			
	Net Profit as per profit and loss account		5,61,000	
	<b>Add: Items not credited but taxable while computing business income</b>			
	- Commission from agent on settlement [Since deduction was allowed in respect of commission in earlier year and during the P.Y. 2024-25 Mrs. Viwit Su received back such amount due to settlement, the same would be deemed as her income]	50,000		
	- Interest on capital from partnership firm [₹ 2,00,000/15% x 12%] [Since interest on capital from M/s Ramji textiles is authorized by partnership deed, interest@12% p.a. would be allowed as deduction in the hands of firm under section 40(b). Consequently, interest @ 12% p.a. would be the business income of Mrs. Viwit Su under section 28. For allow ability of interest in the hands of the firm, there is no requirement that the partner should be a working partner]	1,60,000		
			2,10,000	
			7,71,000	
	<b>Less: Items not debited but allowable while computing business income</b>			
	- Job charges without deduction of tax [₹ 90,000 – 30% of ₹ 90,000] [Mrs. Viwit Su's turnover for the P.Y. 2023-24 exceeds ₹ 1 crore, hence, she is liable to deduct tax at source u/s 194C on Job charges of ₹ 90,000. Since Mrs. Viwit Su has not deducted tax at source on ₹ 90,000, 30% would	63,000		





	be disallowed under section 40(a)(ia). Remaining job charges paid would be allowable as deduction while computing business income				
	- Payment to creditor in cash [Payment to creditor in cash is not allowable as business expenditure, since such amount exceeds ₹ 10,000 and paid in cash by virtue of section 40A(3)]		-		
				<u>63,000</u>	
				7,08,000	
	Less: Depreciation as per Income-tax Rules				
	Opening WDV of machinery	4,75,000			
	Add: Purchase of machinery for ₹ 7,25,000 during the P.Y. 2024-25 by A/c payee cheque. Subsidy of ₹ 1,45,000, being 20% of cost, received from Central Government on new machinery is to be reduced from actual cost (₹7,25,000 – ₹ 1,45,000).	<u>5,80,000</u>			
		10,55,000			
	Less: Sale proceeds	<u>75,000</u>			
	WDV as on 31.3.2025 before depreciation for P.Y. 2024-25	<u>9,80,000</u>			
	depreciation @ 15% on 9,80,000		1,47,000		
	Additional Depreciation@20% on ₹ 5,80,000		<u>1,16,000</u>		
	(As new machinery is used in manufacturing business and put to use for more than 180 days in the P.Y. 2024-25, depreciation and additional depreciation will be allowed in full)			<u>2,63,000</u>	
				4,45,000	
	Less: Loss from eligible transaction carried out in respect of trading in derivatives in a recognized stock exchange is not a speculative business and hence, the same is allowed to be set off from textile business income as per section 70.			<u>1,17,500</u>	
					<b>3,27,500</b>
<b>II</b>	<b>Capital Gains</b>				
	<b>Long term capital gain on sale of gold bracelet since it is held for more than 36 months</b>		<b>5,34,114</b>		
	Sales consideration				
	Less: Cost of acquisition (40,000 x 363/113)		<b>1,28,496</b>		
	Less: Cost of improvement (50,000 x 363/129)		<b>1,40,698</b>		
	Long- term capital gain on sale of gold bracelet			2,64,920	
	<b>Note –</b> In the additional information (xiii), it is mentioned that Mrs. Viwit Su has purchased a new residential house during the previous year. In such a case, she would be eligible for exemption u/s 54F in respect of amount invested in purchase of new residential house from long term capital gain on sale of gold bracelet. However, the cost of new residential house is not provided in the Question but only stamp duty and registration fee is given which would also be the part of cost of house. In such case exemption u/s 54F would be ₹ 2,64,920 x 1,55,000/5,34,114 = ₹ 76,880. Accordingly, long term capital gain would be ₹ 1,05,540 (instead of ₹ 1,89,920). In such a case, and tax liability of Mrs.				





	Viwit Su would be 8,952 (instead of ₹ 9,340).				
	<b>Less:</b> Long term capital loss from sale of STT paid shares of an Indian company allowed to be set off from long term capital gain on sale of gold bracelet as per section 70.			<u>75,000</u>	
					1,89,920
<b>iii</b>	<b><u>Income from Other Sources</u></b>				
	Fair market value of gold coin received from cousin [Taxable u/s 56(2)(x), since cousin is not a relative and the fair market value exceeds ₹ 50,000]			55,000	
	Pre-mature withdrawal from post office time deposit [Amount including interest received on pre-mature withdrawal from post office time deposit, in respect of which deduction u/s 80C was claimed, would be deemed to be the income of Mrs. Viwit Su]			<u>60,000</u>	1,15,000
	<b>Gross Total Income</b>				<b>6,32,420</b>
	<b>Less: Deduction under Chapter VI-A</b>				
	<b><u>Deduction under section 80C</u></b>				
	Stamp duty and registration fee of ₹ 1,55,000 for the purpose of transfer of house property, restricted to			1,50,000	
	<b><u>Deduction under section 80DD</u></b>				
	Sum deposited with LIC for the maintenance of her dependent mother and suffering from severe disability [Eligible for higher deduction ₹1,25,000 in case of severe disability irrespective of amount deposited with LIC]			1,25,000	
					<u>2,75,000</u>
	<b>Total Income</b>				<b>3,57,420</b>

#### Computation of tax liability of Mrs. Viwit Su for A.Y.2025-26

Particulars	₹
Tax on long-term capital gains @20% on ₹ 1,07,420 [₹ 1,89,920 – ₹ 82,500, being unexhausted basic exemption limit (₹ 2,50,000 – ₹1,67,500)]	21,484
Tax on other income of ₹ 1,67,500 [₹ 3,57,420 – ₹ 1,89,920, being LTCG], being lower than the basic exemption limit	Nil
	21,484
Less: Rebate u/s 87A [Tax payable or ₹12,500, whichever is less]	<u>12,500</u>
	8,984
Add: Health and education cess@4%	359
<b>Tax liability</b>	<b>9,343</b>
Tax liability (rounded off)	9,340

**Note** - The last two lines in the first para of the Question reads as follows—

“The net profit as per the profit and loss account as on 31.3.2025 is ₹ 5,61,000. **She provides the following additional information those were not considered while making the profit and loss account for the previous year 2024-25**”

Items (i) to (xiii) are listed thereunder.

On a plain reading of the above sentences, it appears that none of the expenditures/receipts in (i) to (xiii) were considered while making the profit and loss account. The above solution has been prepared accordingly.

Alternatively, it is possible to interpret the last sentence **(bold underlined above)** to mean that as far as items





(iii) and (v) are concerned, wherein disallowance of expenditure is attracted u/s 40(a)(ia) and 40A(3), respectively, such disallowances (and not the expenditure itself) were not considered while making the profit and loss account of the previous year 2024-25. If so interpreted, then, for item (iii), instead of reducing ₹ 63,000, ₹ 27,000 has to be added back. Likewise for item (v), ₹ 25,000 has to be added back. In such a case, profits and gains from business and profession, Gross Total Income, Total Income and Tax Payable would change accordingly. An alternate solution based on this interpretation has been worked out as follows:

#### Alternate solution

#### Computation of total income of Mrs. Viwit Su for A.Y. 2025-26

	Particulars		₹	₹	₹
I.	<b>Income from business or profession</b>				
	Net Profit as per profit and loss account			5,61,000	
	<b>Add: Items not credited but taxable while computing business income</b>				
	- Commission from agent on settlement [Since deduction was allowed in respect of commission in earlier year and during the P.Y. 2024-25 Mrs. Viwit Su received back such amount due to settlement, the same would be deemed as her income]		50,000		
	- Interest on capital from partnership firm [₹ 2,00,000/15% x 12%] [Since interest on capital from M/s Ramji textiles is authorized by partnership deed, interest@12% p.a. would be allowed as deduction in the hands of firm under section 40(b). Consequently, interest @ 12% p.a. would be the business income of Mrs. Viwit Su under section 28. For allow ability of interest in the hands of the firm, there is no requirement that the partner should be a working partner]		1,60,000		
				<u>2,10,000</u>	
				7,71,000	
	<b>Add: Disallowances not considered while computing business income</b>				
	- Job charges without deduction of tax [30% of ₹ 90,000] [Mrs. Viwit Su's turnover for the P.Y. 2023-24 exceeds ₹ 1 crore, hence, she is liable to deduct tax at source u/s 194C on Job charges of ₹ 90,000. Since Mrs. Viwit Su has not deducted tax at source on ₹ 90,000, 30% would be disallowed under section 40(a)(ia).		27,000		
	- Payment to creditor in cash [Payment to creditor in cash is not allowable as business expenditure, since such amount exceeds ₹ 10,000 and paid in cash as per section 40A(3)]		25,000		
				52,000	
				8,23,000	
	Less: Depreciation as per Income-tax Rules				
	Opening WDV of machinery	4,75,000			
	Add: Purchase of machinery for ₹ 7,25,000 during the P.Y. 2024-25 by A/c payee cheque. Subsidy of ₹ 1,45,000, being 20% of cost, received from Central Government on new machinery is to be reduced from actual cost (₹ 7,25,000 – ₹ 1,45,000).				
		<u>5,80,000</u>			
		10,55,000			
	Less: Sale proceeds	<u>75,000</u>			
	WDV as on 31.3.2025 before depreciation for P.Y. 2024-25	10,55,000			





	Less: Sale proceeds	75,000			
	WDV as on 31.3.2025 before depreciation for P.Y. 2024-25	9,80,000			
	Depreciation @15% on ₹ 9,80,000		1,47,000		
	Additional Depreciation@20% on ₹ 5,80,000		1,16,000		
	(As new machinery is used in manufacturing business and put to use for more than 180 days in the P.Y.2024-25, depreciation and additional depreciation will be allowed in full)			2,63,000	
				5,60,000	
	Less: Loss from eligible transaction carried out in respect of trading in derivatives in a recognized stock exchange is not a speculative business and hence, the same is allowed to be set off from textile business income as per section 70.			1,17,500	
					<b>4,42,500</b>
<b>II</b>	<b><u>Capital Gains</u></b>				
	<b>Long term capital gain on sale of gold bracelet since it is held for more than 36 months</b>		<b>5,34,114</b>		
	Sales consideration				
	Less: Cost of acquisition (40,000 x 363/113)		<b>1,28,496</b>		
	Less: Cost of improvement (50,000 x 363/129)		<b>1,40,698</b>		
	Long- term capital gain on sale of gold bracelet			2,64,920	
	<b>Note –</b> In the additional information (xiii), it is mentioned that Mrs. Viwit Su has purchased a new residential house during the previous year. In such a case, she would be eligible for exemption u/s 54F in respect of amount invested in purchase of new residential house from long term capital gain on sale of gold bracelet. However, the cost of new residential house is not provided in the Question but only stamp duty and registration fee is given which would also be the part of cost of house. In such case exemption u/s 54F would be ₹ 2,64,920 x 1,55,000/5,34,114 = ₹ 76,880. Accordingly, long term capital gain would be ₹ 1,13,040 (instead of ₹ 1,89,920). In such a case, and tax liability of Mrs. Viwit Su would be 12,202 (instead of ₹ 28,190).				
	<b>Less:</b> Long term capital loss from sale of STT paid shares of an Indian company allowed to be set off from long term capital gain on sale of gold bracelet as per section 70			75,000	
					<b>1,89,920</b>
<b>III</b>	<b><u>Income from Other Sources</u></b>				
	Fair market value of gold coin received from cousin [Taxable u/s 56(2)(x), since cousin is not a relative and the fair market value exceeds ₹ 50,000]			55,000	
	Pre-mature withdrawal from post office time deposit [Amount including interest received on pre- mature withdrawn from post office time deposit, in respect of which deduction u/s 80C was claimed, would be deemed to be the income of Mrs. Viwit Su]			<u>60,000</u>	1,15,000
	<b>Gross Total Income</b>				<b>7,47,420</b>
	<b>Less: Deduction under Chapter VI-A</b>				
	<b><u>Deduction under section 80C</u></b>				
	Stamp duty and registration fee of ₹ 1,55,000 for			1,50,000	





	the purpose of transfer of house property, restricted to				
	<b>Deduction under section 80DD</b>				
	Sum deposited with LIC for the maintenance of her dependent mother and suffering from severe disability [Eligible for higher deduction ₹1,25,000 in case of severe disability irrespective of amount deposited with LIC]			1,25,000	2,75,000
	<b>Total Income</b>				<b>4,72,420</b>

#### Computation of tax payable by Mrs. Viwit Su for A.Y.2025-26

Particulars	₹
Tax on long-term capital gains @20% on ₹ 1,89,920	37,984
Tax on other income of ₹ 2,82,500 [₹ 4,72,420 – ₹ 1,89,920, being LTCG] – 5% of ₹ 32,500 (₹ 2,82,500 – basic exemption limit ₹ 2,50,000)	1,625
	39,609
Less: Rebate u/s 87A [Tax payable or ₹ 12,500, whichever is less]	12,500
	27,109
Add: Health and education cess@4%	1,084
<b>Tax Payable</b>	<b>28,193</b>
Tax Payable (rounded off)	28,190

#### EXAM INSIGHTS:

Interest @12% p.a. i.e., to the extent allowed as deduction while computing income of firm, is includible as business income in the hands of the partner. However, some examinees, have wrongly included the amount of interest on capital from partnership firm in excess of 12%, while computing business income in the hands of Mrs. Viwit Su, being a partner in the firm.

Subsidy received from Central Government against purchase of depreciable assets was not deducted from cost of machinery, which leads to wrong computation of depreciation and additional depreciation.

Loss from eligible transaction carried out in respect of trading in derivatives in recognized stock exchange is a non-speculative loss eligible for set-off against profits from other non-speculative business. However, examinees had wrongly considered it as speculative business loss.

Premature withdrawal of deposits in respect of which section 80C deduction was claimed, not considered as taxable receipt by many examinees.

Under section 80DD, flat deduction of ₹ 1,25,000 is available, irrespective of the amount paid. However, some examinees had wrongly restricted such deduction to the amount deposited with LIC for maintenance of her mother, being dependent person suffering from severe disability.

Consequently, computation of total income and tax liability were incorrect.

#### Question 24

Mr. Bhasin, a resident individual, aged 52 years, provides management consultancy services to various corporate and non-corporate clients. His Income & Expenditure A/c for the year ended 31st March, 2025 is as under:

Expenditure	Amount (₹)	Income	Amount (₹)
To Employees' Remuneration	15,00,000	By Gross Receipts from Profession (last year ₹ 75,00,000) (No TDS was deducted from any of the receipts)	60,60,000
To Office & Administrative Expenses	5,00,000	By Interest on Savings Bank Account	25,000





To Rates and Taxes	15,000	By Winnings from Lottery (Net of cost of lottery tickets of ₹ 500)	99,500
To Interest Expenses	80,000	By Rent Received	2,40,000
To Office Rent	2,40,000		
To Insurance Premium	72,000		
To Professional Fees	2,00,000		
To Depreciation on Computers	1,20,000		
To Excess of Income over Expenditure	36,97,500		
	64,24,500		64,24,500

The following details relates to F.Y. 2024-25:

- Employees' Remuneration includes a sum of ₹ 3,00,000 paid to his wife, Mrs. Beena who is working as a manager in his office. She does not have any technical or professional qualification or experience required for the job. The payment of salary was as per market rates in comparison to similar work profile.
- Mr. Bhasin owns a big house with 2 independent units. Unit - 1 (with 50% floor area) has been let out for residential purposes at a monthly rent of ₹ 20,000 for the entire year. Unit - 2 (with the balance 50% of the floor area) is used by Mr. Bhasin as his residence cum-office. Other particulars of the house are:  
Municipal Valuation - ₹ 3,60,000 p.a.  
Fair Rent - ₹ 4,20,000 p.a.  
Standard Rent under Rent Control Act - ₹ 4,00,000 p.a.
- Rates and taxes include a sum of ₹ 10,000 paid as municipal taxes of the house.
- Interest expenses represent interest on capital borrowed from a nationalized bank for the construction of the house. The construction was completed in F.Y.2010-11. Neither the loan nor the interest was paid till the due date of filing the return of income.
- Based on the actual rent received for Unit-1, Mr. Bhasin has debited ₹ 2,40,000 as notional rent for Unit-2 which is used for his profession.
- The expense on insurance premium of ₹ 72,000 represents lump-sum health insurance premium paid by Mr. Bhasin for 3 years effective from 1<sup>st</sup> July, 2024 to 30<sup>th</sup> June, 2027 for himself, his spouse and two dependent children. The said insurance premium was paid through account payee cheque.
- The expenses on professional fees paid includes a sum of ₹ 1,00,000 paid to Mr. Raunak, an Indian resident on which no tax was deducted at source.
- There was only one block containing computers which came into existence only on 2nd April, 2024 when new laptops (for ₹ 1,60,000), printers and scanners (for ₹ 40,000) were purchased. He charged depreciation @ 60% in the entire cost of ₹ 2,00,000 and debited the amount to Income & Expenditure A/c.
- Mr. Bhasin has also taken a loan of ₹ 5,00,000 from a nationalized bank for higher education of his son. During F.Y.2024-25, he repaid principal of ₹ 75,000 along with interest of ₹ 40,000. This amount is not reflected in Income and Expenditure Account.

You are required to compute the total income under proper heads of income of Mr. Bhasin for A.Y. 2025-26 under regular provisions of Income-tax Act 1961, assuming that he has not opted to pay tax under section 115BAC. Also calculate the total tax payable by him. (PYP 14 Marks, May'23)

**Answer 24**

**Computation of total income and tax payable by Mr. Bhasin for A.Y. 2025-26**

	Particulars	₹	₹	₹
I	<b>Income from Salaries</b> Salary of Mrs. Beena [Remuneration paid by Mr. Bhasin to his wife Mrs. Beena who is employed as a manager in his office would be included in his hands, since Mrs. Beena does not have any technical or professional qualification or experience required for the job]		3,00,000	
	Less: Standard deduction u/s 16 (ia)		50,000	2,50,000





<b>II Income from house property</b> <b>Let out portion (Unit 1 – 50% area)</b> Gross Annual Value [Higher of expected rent of ₹ 2,00,000 and actual rent of ₹ 2,40,000 (₹ 20,000 x 12)] [Expected rent is higher of municipal value of ₹ 1,80,000 (3,60,000 x 50%) and fair rent of ₹ 2,10,000 (₹ 4,20,000 x 50%), restricted to standard rent of ₹ 2,00,000 (₹ 4,00,000 x 50%)]	2,40,000		
Less: Municipal taxes paid for let out portion (₹ 10,000 x 50%)	5,000		
Net Annual Value (NAV)	2,35,000		
Less: Deduction under section 24 (a) 30% of NAV	70,500		
(b) Interest on capital borrowed for construction of house relating to let out portion (80,000 x 50%) (allowed on accrual basis)	40,000		
Income from let out portion <b>Self-occupied (Unit 2 – 25%)</b> [Since Unit 2 representing 50% of the floor area is used for residence as well as business purpose, it is assumed that it is equally used for residence and business purpose]		1,24,500	
<b>Gross Annual Value</b>	Nil		
Less: Municipal taxes [not allowed for self-occupied property]	Nil		
Net Annual Value	Nil		
Less: Deduction under section 24(b) Interest on loan for construction of house, ₹ 80,000 x 50% x 1/2 (allowable on accrual basis)	20,000		
Loss from self-occupied portion		(20,000)	
[Loss from self-occupied portion can be set off against income from let out portion]			1,04,500
<b>III Profits and gains from business and profession</b>			
Excess of income over expenditure		36,97,500	
<b>Add: Expenses debited to Income &amp; Expenditure A/c but not allowable as deduction</b>			
<b>Remuneration paid to his wife Mrs. Beena</b> [As per section 40A (2) remuneration paid to Mrs. Beena is allowed, since it is as per market rates]	-		
<b>Municipal taxes</b> attributable to let out and self-occupied portions not allowable [₹ 10,000 x 75%]	7,500		
<b>Interest on capital borrowed for construction of house</b> attributable to let out and self-occupied portion not allowable [₹ 80,000 x 75%]	60,000		
<b>Interest on capital borrowed</b> from bank for construction of house attributable to business portion i.e., 25% of ₹ 80,000 [not allowable, since it is not paid on or before due date of filing return of income by virtue of section 43B]	20,000		
<b>Notional rent for Unit 2</b> used for business or profession [not allowable under section 30, since Mr. Bhasin himself is the owner of the property]	2,40,000		
<b>Insurance premium</b> [Personal expenditure not allowable]	72,000		





<b>Professional fees to Mr. Raunak without 30,000 deducting TDS</b> [₹ 1,00,000 x 30%] [Mr. Bhasin is required to deduct TDS on professional fees payment to Mr. Raunak since his gross receipts from profession exceeds ₹ 50 lakhs during the P.Y. 2023-24. 30% of the sum paid to Mr. Raunak, resident without deducting tax to be disallowed in P.Y. 2024-25]	30,000		
Depreciation as per books	<u>1,20,000</u>	<u>5,49,500</u>	
		42,47,000	
<b>Less: Income credited to Income &amp; Expenditure A/c but not taxable as business income</b> Interest on savings bank account [taxable under the head "Income from other sources"]	25,000		
Winnings from lottery [taxable under the head "Income from other sources"]	99,500		
Rent received [taxable under the head "Income from house property"]	<u>2,40,000</u>	<u>3,64,500</u>	
		38,82,500	
Less: Depreciation allowable [2,00,000 (₹1,60,000, being new laptops + ₹ 40,000, being printers) x 40%, i.e., 64,000+16,000 as it was put to use for more than 180 days in the P.Y. 2024-25. Printers and scanners for ₹ 40,000 are eligible for higher depreciation of 40%]		<u>80,000</u>	
			38,02,500
<b>IV Income from Other Sources</b> Interest on savings bank account		25,000	
Winnings from Lottery [No expenditure or allowance is allowed from lottery income]		<u>1,00,000<sup>1</sup></u>	
			<u>1,25,000</u>
<b>Gross Total Income</b>			42,82,000
<b>Less: Deduction under Chapter VI-A</b> <b>Deduction under section 80D</b>			
Medical insurance premium [₹ 72,000 x 1/4, being the previous years in which insurance would be in force] [allowable for self, spouse and dependent children]		18,000	
<b>Deduction under section 80E</b>			
Interest on loan taken from a nationalised bank for higher education of son		40,000	
<b>Deduction under section 80TTA</b>			
Interest on saving bank account to the extent of		<u>10,000</u>	<u>68,000</u>
<b>Total Income</b>			<u>42,14,000</u>
<b>Tax Payable</b>		30,000	
On lottery income [30% of ₹ 1,00,000]			
On other income of ₹ 41,14,000			
Up-to ₹ 2,50,000	Nil		
₹ 2,50,000 @5% [₹ 2,50,000 – ₹ 5,00,000]	12,500		
₹ 5,00,000 @20% [₹ 5,00,000 – ₹ 10,00,000]	1,00,000		
₹ 31,14,000 @30% [₹ 10,00,000 – ₹ 41,14,000]	<u>9,34,200</u>		
		<u>10,46,700</u>	
			10,76,700





Less: HEC@4%			43,068
<b>Tax liability</b>			<b>11,19,768</b>
Less: TDS on lottery winnings @30% u/s 194B			30,000
<b>Tax payable</b>			<b>10,89,768</b>
<b>Tax payable (rounded off)</b>			10,89,770

#### EXAM INSIGHTS:

Omission to provide standard deduction of ₹ 50,000 from the remuneration paid to Mrs. Beena wife of Mr. Bhasin, a proprietor, which is clubbed in the hands of Mr. Bhasin since she does not possess any technical or professional qualification for the job. Moreover, remuneration paid to her was also wrongly disallowed while determining the "Profits and Gains from business or profession" though such remuneration was as per market rates.

-Interest on capital borrowed for house property attributable to business portion wrongly allowed as deduction though such interest was not paid on or before the due date for filing return of income.

While computing tax payable, amount of TDS u/s 194B on winnings from lottery not deducted from the amount of tax liability. Consequently, computation of total income and tax payable were incorrect.

#### Question 25



Mr. Pramod, a resident aged 55 years, is a retail trader; he furnished the following information for A.Y. 2025-26:

#### Trading and Profit and Loss Account for the year ended on 31.03.2025:

	₹		₹
To Opening Stock	1,15,000	By Sales	70,80,000
Purchases	55,40,000	Closing Stock	2,10,000
Transport charges	1,20,000		
Gross Profit c/f	15,15,000		
	72,90,000		72,90,000
To Salaries	3,40,000	By Gross Profit b/f	15,15,000
Rates and Taxes	24,000	Rent from H. Property	1,80,000
Administrative Expenses	3,25,000	Rent from furniture	1,20,000
Depreciation	80,000		
Net Profit	10,46,000		
	18,15,000		18,15,000

- All the sales are by account payee cheque or through bank transfers.
  - The opening and closing stocks have been over valued by ₹ 15,000 and ₹ 20,000 respectively.
  - Rates and taxes include GST liability of ₹ 5,000 paid on 01.05.2025 and municipal taxes for let out property ₹ 7,000.
  - Administrative expenses include ₹ 25,000 paid as donation to National Children's Fund, and a payment for laptop purchased on 15.05.2022 for ₹ 60,000 through bank transfer.
  - Transport charges include ₹ 30,000 paid in cash on 01.09.2024.
  - He incurred a loss of ₹ 8,000 on sale of equity shares on 10.02.2025, which were purchased on 10.06.2024.
  - Depreciation includes ₹ 1,200 as depreciation on Trade Marks wrongly charged at 15%.
  - He deposited ₹ 50,000 in PPF a/c and has paid life insurance premium ₹ 60,000.
  - He paid interest of ₹ 70,000 on loan availed in F.Y. 2019-20 for higher education of his wife.
- Compute the total income and the income tax payable by Mr. Pramod for A.Y. 2025-26, if,
- The business profit is computed as per normal provisions and he opts for section 115BAC.
  - He opts to compute business profit under presumptive taxation under section 44AD and does not opt for section 115BAC.
  - The business profit is computed as per normal provisions of Income-tax Act and he does not opt for section 115BAC.





Which option is advantageous to Mr. Pramod? (PYP 14 Marks, Nov'23)

Answer 25

- (i) **Computation of total income and tax payable by Mr. Pramod for A.Y. 2025-26 as per normal provisions of the Act (as per books of accounts) and opting for section 115BAC**

	Particulars	₹	₹
I	<b>Income from house property</b>		
	Gross Annual Value <sup>1</sup>	1,80,000	
	Less: Municipal taxes paid	<u>7,000</u>	
	Net Annual Value (NAV)	1,73,000	
	Less: Deduction u/s 24(a) - 30% of NAV	<u>51,900</u>	1,21,100
II	<b>Profits and gains of business or profession</b>		
	<b>Net Profit</b>	10,46,000	
	Add: Over statement of opening stock	<u>15,000</u>	
		10,61,000	
	Less: Over statement of closing stock	<u>20,000</u>	
		10,41,000	
	<b>[Note - Alternatively, net of overstatement of opening stock and closing stock i.e., ₹ 5,000 can be reduced.]</b>		
	<b>Add: Expenses debited to profit and loss account but not allowable as deduction</b>	-	
	GST liability paid on 1.5.2025 [Since GST liability has been paid before the due date of filing return of income under section 139(1), the same is deductible]		
	Municipal taxes for let out property	7,000	
	Donation to National Children's Fund	25,000	
	Payment for Laptop	60,000	
	Transport charges of ₹ 30,000 in cash [Not disallowed since the limit for onetime cash payment is ₹ 35,000 in respect of payment to transport operators.]		
		<u>11,33,000</u>	
	<b>Less: Incomes credited to profit and loss account but not taxable as business income</b>		
	Rent from house property	1,80,000	
	Rent from furniture	<u>1,20,000</u>	
		8,33,000	
	Less: Depreciation		
	- On Trade Marks [Trade Marks are eligible for depreciation @25%] [₹1,200/15% x 25% - ₹ 1,200, being the wrong depreciation]	800	
	<b>[Note - Alternatively, depreciation of ₹ 1,200 wrongly claimed can be added and the amount of correct depreciation of ₹ 2,000 can be deducted.]</b>		
	- On laptop [₹ 60,000 x 40%]	<u>24,000</u>	8,08,200
III	<b>Capital Gains</b>		
	Short term capital loss of ₹ 8,000 on sale of equity shares [Can be set off against capital gain only. Hence, carried forward to A.Y. 2026-27]		-
IV	<b>Income from Other Sources</b>		





Rent from furniture		<u>1,20,000</u>
<b>Gross Total Income/Total income</b>		<b><u>10,49,300</u></b>
[Deduction under Chapter VI-A is not allowed under section 115BAC]		
<b>Computation of Tax payable</b>		
<b>Tax on ₹ 10,49,300</b>		
Up-to ₹ 3,00,000	Nil	
₹ 3,00,000 – ₹ 7,00,000 [₹ 4,00,000 @ 5%] 20,000	20,000	
₹ 7,00,001 – ₹ 10,00,000 [₹ 3,00,000 @ 10%] 30,000	30,000	
₹ 10,00,001 – ₹ 10,49,300 [₹ 49,300 @ 15%] 7,395	7,395	
		57,395
Add: Health and education cess @4%		<u>2,296</u>
<b>Tax payable</b>		<b><u>59,691</u></b>
<b>Tax payable (Rounded off)</b>		<b><u>59,690</u></b>

(ii) **Computation of total income and tax payable by Mr. Pramod for A.Y. 2025 -26 as per presumptive provisions under section 44AD and not opting for section 115BAC**

	Particulars	₹	₹
I	<b>Income from house property</b> [Computed in (i) above]		1,21,100
II	<b>Profits and gains of business or profession</b> [6% of sales, as all sales are by account payee cheque or through bank transfers] [₹ 70,80,000 x 6%]		4,24,800
III	<b>Income from Other Sources [Computed in (i) above]</b>		<u>1,20,000</u>
	<b>Gross Total Income</b>		<b><u>6,65,900</u></b>
	<b>Less: Deduction under Chapter VI-A</b>		
	<u>Deduction under section 80C</u>		
	- Deposit in PPF A/c	50,000	
	- Life insurance premium	<u>60,000</u>	1,10,000
	<u>Deduction under section 80G</u>		
	Donation to National Children's Fund [Allowed 100% without qualifying limit]		25,000
	<u>Deduction under section 80E</u>		
	Interest on loan for higher education of his wife		<u>70,000</u>
	<b>Total Income</b>		<b><u>4,60,900</u></b>
	<b>Computation of Tax Payable</b>		
	Tax on ₹ 4,60,900		
	₹ 2,10,900 @ 5% [₹ 4,60,900 - ₹ 2,50,000]		10,545
	Less: Rebate u/s 87A – lower of ₹ 10,545 or ₹ 12,500 allowable, since total income does not exceed ₹ 5,00,000		<u>10,545</u>
	<b>Tax Payable</b>		<b><u>Nil</u></b>

(iii) **Computation of total income and tax payable by Mr. Pramod for AY 2025-26 as per normal provisions of the Act (as per books of accounts) and not opting for section 115BAC**

Particulars	₹
<b>Gross Total Income [Computed in (i) above]</b>	<b>10,49,300</b>
Less: Deduction under Chapter VI-A [Computed in (ii) above] [₹ 1,10,000 + ₹ 25,000 + ₹ 70,000]	2,05,000





<b>Total Income</b>		<b>8,44,300</b>
<b>Computation of Tax Payable</b>		
<b>Tax on ₹ 8,44,300</b>		
₹ 2,50,000 @5% [₹ 5,00,000 - ₹ 2,50,000]	12,500	
₹ 3,44,300 @20% [₹ 8,44,300 - ₹ 5,00,000]	<u>68,860</u>	
		81,360
Add: Health and education cess @4%		<u>3,254</u>
<b>Tax payable</b>		<b><u>84,614</u></b>
<b>Tax payable (Rounded off)</b>		<b><u>84,610</u></b>

#### Option advantageous to Mr. Pramod

It is beneficial for Mr. Pramod to opt for presumptive provisions under section 44AD and not to opt for section 115BAC.

**EXAM INSIGHTS:** The opening stock and closing stock were overvalued, however, many examinees were not able to make correct adjustment of opening and closing stock. Many examinees were failed to mention about carry forward of short-term capital loss on equity shares. Majority of the examinees not provided rebate under section 87A while computing tax payable on income computed as per presumptive provisions under section 44AD. Some examinees had calculated the depreciation amount wrongly. Under section 44AD, 6% or 8%, as the case may, of the total turnover/ gross receipts is deemed to be the business income of the assessee. However, some examinees have wrongly considered 6% or 8% as tax rates. Consequently, profits and gains from business or profession, total income and tax payable calculation were incorrect.

#### Question 26

Mr. Sahil, resident Indian aged 40 years, a Manufacturer at Chennai, gives the following Manufacturing, Trading and Profit & Loss Account for the year ended 31.03.2025.

#### Manufacturing, Trading and Profit & Loss Account for the year ended 31.03.2025

Particulars	₹	Particulars	₹
To Opening Stock	71,000	By Sales	43,50,000
To Purchase of Raw Materials	17,20,500	By Closing Stock	2,00,000
To Manufacturing Wages & Expenses	5,80,500		
To Gross Profit	21,78,000		
<b>Total</b>	<b>45,50,000</b>	<b>Total</b>	<b>45,50,000</b>
To Administrative Charges	2,90,000	By Gross Profit	21,78,000
		By Dividend From Domestic Companies	15,000
To SGST Penalty Paid (It is not compensatory nature)	7,000	By Winning from Lotteries (Net of TDS) (TDS 4,500)	10,500
To GST Paid	1,10,000		
To General Expenses	55,000	By Profit on Sale of Shares	45,000
To Miscellaneous Expenses	1,50,500		
To Loss on Sale of Shares	20,000		
To Interest to Bank (on Machinery term loan)	60,000		
To Depreciation	2,00,000		
To Net Profit	13,56,000		
<b>Total</b>	<b>22,48,500</b>	<b>Total</b>	<b>22,48,500</b>





Following are the further information relating to Financial Year 2024 -2025:

- (i) Administrative Charges include ₹ 46,000 paid as commission to brother of Assessee. The Commission amount at the market rate in ₹ 36,000.
- (ii) The assessee paid ₹ 33,000 in cash to a Transport Carrier on 26.12.2024. This amount is included in Manufacturing Expenses. (Assume that the provisions relating to TDS are not applicable on 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 books of account.
- (iv) Bank Term Loan Interest actually paid upto 31.03.2024 was ₹ 20,000 and the balance was paid in October 2025.
- (v) Miscellaneous Expenses include ₹ 10,000 contributed to Prime Minister's Relief Fund.
- (vi) Loss on Sale of Shares represents shares sold within a period of 6 months from the date of purchase.
- (vii) Profit on Sale of Shares represents shares held for 2 years & Securities Transaction Tax was paid on it.
- (viii) Housing Loan Principal repaid during the year was ₹ 50,000 and it relates to residential property occupied by him. Interest on Housing Loan was ₹ 2,60,000. Housing Loan was taken from Canara Bank. (Value of house property is ₹ 45 Lakhs, loan value ₹ 25 Lakhs and sanction date 31.03.2017). These amounts were not dealt with in the Profit and Loss Account given above. (Assume this housing loan is eligible for 80EE deduction).
- (ix) Depreciation allowable under the Act to be computed on the basis of following information:

Plant & Machinery (Depreciation Rate @15%)	₹
Opening WDV (as on 01.04.2024)	12,00,000
Additions During the year (Used for more than 180 Days)	2,00,000
Total Additions during the year	4,00,000
Note: Ignore Additional Depreciation u/s 32(1)(iia)	

Compute the total income and tax liability of Mr. Sahil for the A.Y. 2025-26 if he has exercised the option of shifting out of the default tax regime provided under Section 115BAC(1A). (PYP 15 Marks, May'24)

Answer 26

**Computation of total income and tax liability of Mr. Sahil for A.Y. 2025-26**

	Particulars	₹	₹
I	<b>Income from house property</b>		
	Annual value of self-occupied property	Nil	
	Less: Deduction under section 24(b) Interest on housing loan of ₹ 2,60,000 restricted to ₹ 2,00,000	<u>2,00,000</u>	
		(2,00,000)	
II	<b>Profits and gains of business or profession</b>		
	Net Profit	13,56,000	
	<b>Add: Expenses debited to Profit and loss A/c but not allowable as deduction or to be considered under other head</b>		
	- Commission paid to brother [Commission paid to a related person/relative to the extent it is excessive to market rate is disallowed under section 40A(2)]	10,000	
	- Cash payment to a Transport Carrier [Not disallowed under section 40A(3) since the limit for one time cash payment is ₹ 35,000 in respect of payment to transport operators]	Nil	
	- Interest to bank on term loan [Interest paid to bank after the due date of filing of return under section 139(1) is disallowed as per section 43B]	40,000	
	- Contribution to Prime Minister's Relief Fund [Not allowable since the same is not incurred wholly and exclusively for business purpose]	10,000	
	- SGST Penalty paid [SGST penalty paid is not compensatory in nature and therefore, not allowable]	7,000	
	- Loss on sale of shares	20,000	





	- Depreciation as per books of account	2,00,000	
		16,43,000	
	<b>Less: Incomes credited to profit and loss account but not taxable as business income</b>		
	- Dividend from Domestic Companies	15,000	
	- Winnings from lotteries	10,500	
	- Profit on sale of shares	45,000	
		15,72,500	
	Less: Depreciation allowable as per Income- tax Rules,1962		
	- On Plant & Machinery [@15% on ₹ 14,00,000, being opening WDV of ₹ 12 lakhs and additions put to use for more than 180 days of ₹2 lakhs + @7.5% on ₹ 2,00,000, being additions put to use for less than 180 days]	2,25,000	
		13,47,500	
	[8% of sales i.e. ₹ 43,50,000 x 8% <sup>1</sup> assuming entire amount of sales are not received by A/c payee cheque or A/c payee draft or ECS or other electronic prescribed modes]	3,48,000	
	Business Income	13,47,500	
	[As per section 44AD, in case of Mr. Sahil, being an eligible assessee, a sum equal to ₹ 3,48,000 (8% <sup>1</sup> of total turnover i.e., ₹ 43,50,000) or as the case may be, a sum higher than the aforesaid sum claimed to have been earned by him would be deemed to be the business income. In this case, since Mr. Sahil has maintained books of account, he can claim the higher sum actually earned ₹ 13,47,500 as his income from business.] (See Note below the solution for alternate answer)		
	Less: Set off of loss from house property as per section 71(3A)	2,00,000	
		11,47,500	
	<b>Add:</b> Salary paid to staff not recorded in the books	48,000	
	[Assuming the expenditure is in the nature of unexplained expenditure, the same is deemed to be income as per section 69C of Mr. Sahil. No deduction would be allowed in respect of such expenditure.] Alternatively, it is possible to assume that the salary not recorded in the books of account was an erroneous omission and the assessee has offered satisfactory explanation about the source of such expenditure. In such a case, it would not be considered as deemed income and the same would be allowed as deduction while computing business income on the basis of books of accounts. In such a case, business income, total income and tax liability (rounded off) would be ₹ 10,99,500, ₹ 10,44,500 and ₹ 1,23,080.		11,95,500
III	<b>Capital Gains</b>		
	Long term capital gains taxable u/s 112A [Since shares are held for 2 years and STT has been paid]	45,000	
	Less: Set off of short term capital loss as per section 70(2)	20,000	25,000
IV	<b>Income from Other Sources</b>		
	Dividend from Domestic Companies	15,000	
	Winning from lotteries (₹ 10,500 + ₹ 4,500)	15,000	
			30,000
	<b>Gross Total Income</b>		12,50,500





<b>Less: Deduction under Chapter VI-A</b>			
<u>Deduction under section 80C</u>			
Principal repayment of housing loan	50,000		
<u>Deduction under section 80EE</u>			
Interest on housing loan of ₹ 60,000 [₹ 2,60,000 – ₹ 2,00,000, allowed u/s 24(b)] allowable under section 80EE upto ₹ 50,000	50,000		
<u>Deduction under section 80G</u>			
Contribution to Prime Minister's Relief Fund <sup>2</sup>	10,000		1,10,000
<b>Total Income</b>			<b>11,40,500</b>
<b>Tax Liability</b>			
Tax on LTCG of ₹ 25,000 u/s 112A [Exempt upto ₹ 1.25 lakh]			Nil
Tax on winning from lotteries of ₹ 15,000 @30%			4,500
Tax on unexplained expenditure of ₹ 48,000 @60%			28,800
Tax on balance income of ₹ 10,52,500 at slab rate			
Upto ₹ 2,50,000	Nil		
From ₹ 2,50,001 to ₹ 5,00,000 @5%	12,500		
From ₹ 5,00,001 to ₹ 10,00,000 @20%	1,00,000		
From ₹ 10,00,001 to ₹ 10,52,500 @30%	15,750		1,28,250
			1,61,550
Add: Surcharge @25% on tax on unexplained expenditure of ₹ 28,800			7,200
			1,68,750
Add: Health and education cess @4%			6,750
<b>Tax Liability</b>			<b>1,75,500</b>

(<sup>1</sup>- If it is assumed that the entire sales are received by A/c payee cheque or A/c payee draft or ECS or other electronic prescribed modes on or before due date of filing return of income, the presumptive rate would be 6%.)

<sup>2</sup> Assuming contribution is made otherwise than by way of cash

**Note – Alternatively, if Mr. Sahil claims his business income as ₹ 3,48,000 i.e., 8%<sup>3</sup> of total turnover under section 44AD, his total income and tax liability would undergo a change.**

(<sup>3</sup>- If it is assumed that the entire sales are received by A/c payee cheque or A/c payee draft or ECS or other electronic prescribed modes on or before due date of filing return of income, the presumptive rate would be 6%.)

## Question 27

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	Rs.	Payments	Rs.
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 Rs. 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
		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:

- Listed equity shares on which STT was paid were acquired in August 2016 for Rs. 1,21,800. The fair market value of such shares as on 31st January 2018 and on 1st April 2018 was Rs. 75 per share and Rs. 85 per share, respectively.
- 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.
- Mr. Alok purchased a flat in Kanpur for Rs. 35,00,000 in July 2016 cost of which was partly financed by a loan from Punjab National Housing Finance Limited of Rs. 25,00,000, his own savings Rs. 1,00,000 and a deposit from Repco Bank for Rs. 9,00,000. The flat was given to Repco Bank on lease for 10 years @ Rs. 35,000 per month. The following particulars are relevant:
  - Municipal taxes paid by Mr. Alok Rs. 8,200 per annum
  - House insurance Rs. 11,000
 As per interest certificate issued by Punjab National Housing Finance Limited for the financial year 2024-25, he paid Rs. 1,80,000 towards principal and Rs. 2,01,500 as interest.
- He earned Rs. 1,20,000 in share speculation business and lost Rs. 1,80,000 in commodity speculation business.
- Mr. Alok received a gift of Rs. 21,000 each from four of his family friends.
- He contributed Rs. 1,21,000 to PM Cares Fund by way of bank draft.
- He donated to a registered political party Rs. 3,50,000 by way of cheque.
- He follows cash system of accounting.
- Cost Inflation Index : F.Y. 2016-17 – 264; F.Y. 2018-19 – 280; F.Y. 2024-25 – 363  
 Assume Mr. Alok is not willing to opt for the provisions of section 115BAC. (MTP 14 Marks, Mar'21, RTP May'19) (Same concepts different figures fewer adjustments MTP 14 Marks May'20, PYP 10 Marks May'18)

#### Answer 27

##### Computation of total income and tax liability of Mr. Alok for A.Y. 2025-26

Particulars	Rs.	Rs.	Rs.
<b>Income from house property</b>			
Gross annual value <sup>1</sup> (Rs. 35,000 x 12)		4,20,000	
Less: Municipal taxes paid by Mr. Alok		8,200	
Net annual value		4,11,800	
Less: Deductions under section 24			
(a) 30% of Net Annual Value		1,23,540	
(b) Interest on house borrowing (allowed in full in case of let out property)		2,01,500	
			86,760
<b>Profits and gains of business or profession</b>			
<b>Income from profession</b>			
Fees from legal services		49,60,000	





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 (Rs. 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	
		8,14,000	
Less: Depreciation u/s 32			
- Motor car Rs. 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 [Rs. 80,000 x 40%]	32,000		
- Computer @40% of Rs. 52,000 x 50%, since the same is put to use for less than 180 days	10,400	89,900	
		7,24,100	
<p>For the P.Y. 2024-25, the gross receipts of Mr. Alok is Rs. 49,60,000. Since, it does not exceed Rs. 50,00,000, he is eligible to opt for presumptive tax scheme under section 44ADA</p> <p>In such case, his professional income would be Rs. 24,80,000, being 50% of Rs. 49,60,000</p> <p>It is more beneficial for Mr. Alok to declare profit of Rs. 7,24,100 as per books of accounts which is lower than the profits computed on presumptive basis under section 44ADA. However, for declaring lower profits, he has to maintain books of account under section 44AA and get the same audited under section 44AB</p>			
<b>Income from share speculation business</b>	1,20,000		
Less: Loss from commodity speculation business set off against income from share speculation business. Balance loss of Rs. 60,000 from commodity speculation business to be carried forward to A.Y. 2026-27	1,20,000	Nil	7,24,100
<b>Capital Gains</b>			
Long-term capital gains on sale of 5800 listed shares			
Sale consideration		5,95,000	
Less: Cost of acquisition is higher of		4,35,000	1,60,000
- Cost of acquisition	1,21,800		
- Lower of Rs. 4,35,000 (Rs. 75 x 5800), being fair market value as on 31.1.2018 and Rs. 5,95,000, being full value of consideration on transfer	4,35,000		
<b>Income from other sources</b>			
Cash Gift of Rs. 84,000 i.e., Rs. 21,000 x 4, received from his four friends is taxable u/s 56(2)(x), since aggregate amount of cash gifts exceeds Rs. 50,000			84,000
<b>Gross Total Income</b>			<b>10,54,860</b>
<b>Less: Deductions under Chapter VI-A</b>			
<b>Section 80C</b>			
Life insurance premium	49,000		
Repayment of housing loan	1,80,000		
PPF subscription	1,50,000		
	3,79,000		
Restricted to Rs. 1,50,000		1,50,000	
<b>Section 80G</b>			
Contribution to PM Cares Fund (100% of Rs. 1,21,000) by way of bank draft		1,21,000	





<b>Section 80GGC</b>			
Donation to registered political party made by way of cheque		<u>3,50,000</u>	
			6,21,000
<b>Total Income</b>			<b><u>4,33,860</u></b>
<b>Tax liability</b>			
Tax @12.5% under section 112A on long-term capital gains exceeding Rs. 1,25,000 i.e., Rs. 35,000 (as sale is made after 23.07.2024)			4,375
Tax @5% on Rs. 23,860 [Rs. 2,73,860 (total income excluding LTCG u/s 112A) - Rs. 2,50,000, being basic exemption limit]			
			<u>1,193</u>
			5,568
Less: Rebate u/s 87A [Since the total income does not exceed Rs. 5 lakhs. Rebate u/s 87A is not available on tax on LTCG taxable u/s 112A]			<u>1,193</u>
			4,375
Add: Health and Education cess@4%			<u>175</u>
<b>Tax liability</b>			<b><u>4,200</u></b>

Question 28

LDR

Mr. Sunil, aged 48 years, a resident Indian has furnished the following particulars for the year ended 31.03.2025:

- 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.
- 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 2019.
- 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.
- 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 recognized provident fund and they are paid their emoluments directly to their bank accounts.
- He earned ₹ 30,000 and ₹ 40,000 as interest on saving bank deposits and fixed deposits, respectively.
- He also sold his vacant land on 01.12.2024 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.
- 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 2024-25, in the manner so that he can make maximum tax savings.

(MTP 15 Marks, Apr'24, MTP 14 Marks Oct'23, RTP Nov'21)

### Answer 28

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

	Particulars	₹	₹	₹
I	Income from house property			





	<b>Let out portion [First floor]</b>			
	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]		12,500	
	Net Annual Value (NAV)		2,82,500	
	Less: Deduction u/s 24			
	(a) 30% of ₹ 2,82,500	84,750		
	(b) Interest on housing loan [₹ 1,50,000/2]	75,000	1,59,750	
			1,22,750	
	<b>Self-occupied portion [Ground Floor]</b>			
	Annual Value		Nil	
	[No deduction is allowable in respect of municipal taxes paid]			
	Less: Interest on housing loan [Not allowable under section 115BAC]		Nil	
			Nil	
	Income from house property			1,22,750
<b>II</b>	<b>Profits and gains of business or profession</b>			
	Income from SEZ unit			40,00,000
<b>III</b>	<b>Capital Gains</b>			
	<b>Long-term capital gains on sale of land (since held for more than 24 months)</b>			
	<b>As sale is made after 23.07.2024</b>			
	<b>(i) 20% with indexation benefits</b>			
	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	
	Less: Indexed Cost of acquisition [₹ 4,00,000 x 363/100]		14,52,000	
	Long Term Capital Gains		48,000	
	Cost of acquisition			
	<b>Higher of -</b>			
	- 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.			
	<b>(ii) 12.5% without indexation benefits</b>			
	Full Value of Consideration		15,00,000	
	Cost of acquisition		4,00,000	
	Long Term Capital Gains		11,00,000	48,000
	<b>(20% with indexation benefits is more beneficial to the Assessee)</b>			
<b>IV</b>	<b>Income from Other Sources</b>			
	Interest on savings bank deposits		30,000	
	Interest on fixed deposits		40,000	70,000
	<b>Gross Total Income</b>			<b>42,40,750</b>
	<b>Less: Deduction under Chapter VI-A</b>			
	<b>Deduction under section 80JJAA</b>			<b>7,12,800</b>
	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 (12 x 18,000 x 11)] As per section 115BAC, no deduction under section 10AA or under Chapter VI-A is allowable except u/s 80JJAA			
	<b>Total Income</b>			<b>35,27,950</b>

#### Computation of tax liability of Mr. Sunil under section 115BAC

Particulars	₹	₹
<b>Tax on total income of ₹ 35,27,950</b>		
Tax on LTCG of ₹ 48,000@20%		9,600
<b>Tax on remaining total income of ₹ 34,79,950</b>		
Upto ₹ 3,00,000	Nil	
₹ 3,00,000 – ₹ 7,00,000 [₹ 4,00,000 @ 5%] 20,000	20,000	
₹ 7,00,001 – ₹ 10,00,000 [₹ 3,00,000 @ 10%] 30,000	30,000	
₹ 10,00,001 – ₹ 12,00,000 [₹ 2,00,000 @ 15%] 30,000	30,000	
₹ 12,00,001 – ₹ 15,00,000 [₹ 3,00,000 @ 20%] 60,000	60,000	
₹ 15,00,001 – ₹ 34,79,950 [@30% of ₹ 19,79,950]	5,93,985	7,33,985
		7,43,585
Add: Health and education cess@4%		29,743
<b>Total tax liability</b>		<b>7,73,328</b>
<b>Tax liability (rounded off)</b>		<b>7,73,330</b>

**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	₹	₹
<b>Gross Total Income as per default tax regime under section 115BAC</b>		<b>42,40,750</b>
Less: Interest on borrowing in respect of self-occupied house property [₹ 1,50,000/2]		<u>75,000</u>
<b>Gross Total Income as per section 115BAC</b>		<b>41,65,750</b>
<b>Less: Deduction u/s 10AA</b> [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%]		12,00,000
<b>Less: Deduction under Chapter VI-A</b>		
<b>Deduction under section 80C</b>		
Repayment of principal amount of housing loan	80,000	
Insurance premium paid on life insurance policy of son allowable, even though not dependent on Mr. Sunil	40,000	1,20,000
<b>Deduction under section 80JJAA [As computed above]</b>		7,12,800
<b>Deduction under section 80TTA</b> Interest on savings bank account, restricted to ₹ 10,000		10,000
<b>Total Income as per regular provisions of the Act</b>		<b>21,22,950</b>





### Computation of tax liability of Mr. Sunil for A.Y. 2025-26 under the regular provisions of the Act

Particulars	₹	₹
<b>Tax on total income of ₹ 21,22,950</b>		
Tax on LTCG of ₹ 48,000@20%		9,600
<b>Tax on remaining total income of ₹ 20,74,950</b>		
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]	3,22,485	4,34,985
		4,44,585
Add: Health and education cess@4%		17,783
Total tax liability		4,62,368
Tax liability (rounded off)		<b>4,62,370</b>

### Computation of adjusted total income and AMT of Mr. Sunil for A.Y. 2025-26

Particulars	₹
<b>Computation of adjusted total income</b>	
Total income as per the normal provisions of the Act	<b>21,22,950</b>
<b>Add: Deduction u/s 10AA</b>	12,00,000
<b>Deduction u/s 80JJAA</b>	7,12,800
<b>Adjusted Total Income</b>	<b>40,35,750</b>
Alternative Minimum Tax@18.5%	7,46,614
Add: Health and education cess@4%	29,865
<b>AMT liability</b>	<b>7,76,479</b>
<b>AMT liability (rounded off)</b>	<b>7,76,480</b>

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 of ₹ 7,73,330 is lower than the tax liability of ₹ 7,76,480, being higher of AMT liability and tax liability computed as per normal provisions of the Income-tax Act, 1961, it is beneficial for Mr. Sunil to exercise the option to continue under the default tax regime under section 115BAC.

#### Question 29

LDR

From the following particulars furnished by Mr. Ganesh, aged 58 years, a resident Indian for the previous year ended 31.03.2025, you are requested to compute his total income and tax liability under normal as well as special provisions (AMT), if any, applicable to him for the Assessment Year 2025-26.

- He occupies ground floor of his residential building and has let out first floor for residential use at an annual rent of ₹ 2,28,000. He has paid municipal taxes of ₹ 60,000 for the current financial year.
- He owns an industrial undertaking established in a SEZ and which had commenced operation during the financial year 2018-19. Total turnover of the undertaking was ₹ 200 lakhs, which includes ₹ 140 lakhs from export turnover. This industrial undertaking fulfills all the conditions of section 10AA of the Income-tax Act, 1961. Profit from this industry is ₹ 25 lakhs.
- He received royalty of ₹ 2,88,000 from abroad for a book authored by him on the nature of artistic. The rate of royalty as 18% of value of books and expenditure made for earning this royalty was ₹ 40,000. The amount remitted to India till 30th September, 2024 is ₹ 2,30,000.
- Received, 40,000 as interest on saving bank deposits.
- Received ₹ 47,000 as share of profit from an AOP where all the members are individual and which had paid the tax by normal rates of income tax.





(vi) He also sold his vacant land on 10.11.2024 for ₹ 10 lakhs. The stamp duty value of land at the time of transfer was ₹ 16.96 lakhs. The FMV of the land as on 1st April, 2001 was ₹ 4 lakhs. This land was acquired by him on 05.08.1995 for ₹ 1.80 lakhs. He had incurred registration expenses of ₹ 10,000 at that time. The cost of inflation index for the year 2024-25 and 2001-02 are 363 and 100 respectively.

(vii) He paid the following amounts, out of his taxable income:

- Insurance premium of ₹ 39,000 paid on life insurance policy of son, who is not dependent on him.
- Insurance premium of ₹ 48,000 on policy of his dependent father,
- Tuition fees of ₹ 42,000 for his three children to a school. The fees being ₹ 14,000 p.a. per child. Assume that 115BAC is not opted. (PYP 14 Marks, Nov'20) (Same concept fewer adjustments different figures MTP 14 Marks Oct'21, PYP 6 Marks, May'22, PYP 15 Marks Nov'24)

(The stamp duty value of land has been changed from Rs 14 lakhs to Rs. 16.96 Lakhs to keep the essence of the question)

## Answer 29

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

	Particulars	₹	₹	₹
<b>I</b>	<b>Income from house property</b>			
	<b>Let out portion [First floor]<sup>1</sup></b>			
	Gross Annual Value [Rent received is taken as GAV, in the absence of other information]		2,28,000	
	Less: Municipal taxes paid by him in the P.Y. 2024-25 pertaining to let out portion [₹ 60,000/2]		<u>30,000</u>	
	<b>Net Annual Value (NAV)</b>		1,98,000	
	Less: Deduction u/s 24			
	(a) 30% of ₹ 1,98,000		<u>59,400</u>	
			1,38,600	
	<b>Self-occupied portion [Ground Floor]</b>			
	Annual Value		Nil	
	[No deduction is allowable in respect of municipal taxes paid]			1,38,600
<b>II</b>	<b>Profits and gains of business or profession</b>			
	Income from SEZ unit		25,00,000	
	Share income from AOP (since AOP has paid tax at normal rates, share income from AOP will be included in computation of total income of a member as per section 86 <sup>2</sup> )		<u>47,000</u>	25,47,000
<b>III</b>	<b>Capital Gains</b>			
	<b>Long-term capital gains on sale of land (since held for more than 24 months)</b>			
	<b>(i) 20% with Indexation benefits</b>			
	Full Value of Consideration [Higher of stamp duty value of ₹ 16.96 lakhs and Actual consideration of ₹ 10 lakhs, since stamp duty value exceeds actual consideration by more than 10%]	16,96,000		
	Less: Indexed Cost of acquisition [₹ 4,00,000 x 363/100]	<u>14,52,000</u>	2,44,000	2,44,000
	Cost of acquisition			
	<b>Higher of -</b>			
	- Actual cost ₹ 1.80 lakhs + ₹ 0.10 lakhs = ₹ 1.90 lakhs and			
	- Fair Market Value (FMV) as on 1.4.2001 = ₹ 4 lakhs			
	<b>(ii) 12.5% without Indexation benefits</b>			
	Full Value of Consideration	16,96,000		
	Cost of acquisition	<u>4,00,000</u>	12,96,000	
	Long Term Capital Gains			
	<b>20% with Indexation benefits is more beneficial</b>			
<b>IV</b>	<b>Income from Other Sources</b>			





Royalty from artistic book		2,88,000	
Less: Expenses incurred for earning royalty		<u>40,000</u>	
		2,48,000	
Interest on savings bank deposits		<u>40,000</u>	
			<u>2,88,000</u>
<b>Gross Total Income</b>			<b>32,17,600</b>
Less: Deduction u/s 10AA [Since the industrial undertaking is established in SEZ, it is entitled to deduction u/s 10AA@100% of export profits, since P.Y.2020-21 being the 5th year of operations] [Profits of the SEZ x Export Turnover/Total Turnover] x 100% [₹ 25 lakhs x ₹ 140 lakhs/ ₹ 200 lakhs x 100%]			17,50,000
Less: <b>Deduction under Chapter VI-A</b>			
<b>Deduction under section 80C</b>			
Tuition fee paid for maximum of two children is allowable (₹ 14,000 x 2)	28,000		
<sup>3</sup> Insurance premium paid on life insurance policy of son allowable, even though not dependent on Mr. Ganesh	39,000		
<sup>3</sup> Insurance premium paid on life insurance policy of father not allowable, even though father is dependent on Mr. Ganesh	-	67,000	
<b>Deduction under section 80QCB</b>		1,90,000	
Royalty [₹ 2,88,000 x 15/18 = ₹ 2,40,000, restricted to amount brought into India in convertible foreign exchange ₹ 2,30,000 minus 40,000 expenses already allowed as deduction while computing royalty income]			
<b>Deduction under section 80TTA</b>		<u>10,000</u>	
Interest on savings bank account, restricted to ₹ 10,000			<u>2,67,000</u>
<b>Total income</b>			<b>12,00,600</b>

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

Particulars	₹	₹
<b>Tax on total income of ₹ 12,00,600</b>		
Tax on LTCG of ₹ 2,44,000@20%		48,800
<b>Tax on remaining total income of 9,56,600</b>		
Upton ₹ 2,50,000	Nil	
₹ 2,50,001 – ₹ 5,00,000[@5% of ₹ 2.50 lakh]	12,500	
₹ 5,00,001 – ₹ 9,56,600[@20% of ₹ 4,56,600]	<u>91,320</u>	<u>1,03,820</u>
		1,52,620
Add: Health and education cess@4%		<u>6,105</u>
<b>Total tax liability</b>		<u>1,58,725</u>
Tax liability (rounded off)		<b>1,58,730</b>

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

Particulars	₹
<b>Computation of adjusted total income</b>	
Total income as per the normal provisions of the Act	12,00,600
<b>Add: Deduction u/s 10AA</b>	17,50,000
<b>Deduction u/s 80QCB</b>	<u>1,90,000</u>
	<b>31,40,600</b>
AMT@18.5%	5,81,011
Add: HEC@4%	<u>23,240</u>
<b>AMT liability</b>	<u>6,04,251</u>
<b>AMT liability (rounded off)</b>	<b>6,04,250</b>





Since the regular income tax payable is less than the AMT, the adjusted total income of ₹ 31,40,600 would be deemed to be the total income and tax would be payable @18.5% plus HEC@4%. The total tax liability would be ₹ 6,04,250.

<sup>1</sup> It is assumed that the ground floor and first floor are of equal area

<sup>2</sup> Since the total income of Mr. Ganesh, who is a member of the AOP, exceeds the basic exemption limit, the AOP should be taxable at maximum marginal rate and not at normal rates, in which case share income of a member would be exempt. This adjustment as well as rebate u/s 110 read with 86 is not within the scope of syllabus of this paper and hence, the same has not been considered in the given solution.

<sup>3</sup> Deduction u/s 80C has been worked out assuming that insurance premium of Rs. 48,000 paid on policy of dependent father as given in point (vii)(b) is LIC premium, which is not allowable as deduction. However, if it is assumed that the insurance premium is in respect of health insurance, the whole amount of Rs. 48,000 is allowable as deduction u/s 80D.

**EXAM INSIGHTS:** Specific requirement to compute Alternate Minimum Tax (AMT) was not given in the question. This requirement has to be gathered by the examinees on their own, if deduction under section 35AD, deduction under Chapter VI-A in respect of certain incomes other than section 80P or deduction under section 10AA is claimed by an individual. However, majority of examinees had not computed AMT though deduction under section 10AA was provided, and the adjusted total income exceeded ₹ 20 lakhs.

### Question 30

LDR

Mr. Ayush, a resident individual, aged 54 years, is engaged in the business of manufacturing textiles. He earned profit of ₹ 82,45,000 as per profit and loss account after debiting and crediting the following items:

- (i) Depreciation ₹ 15,40,000
- (ii) Short term capital gains on transfer of listed equity shares in a company on which STT is paid ₹ 10,00,000
- (iii) He received income-tax refund of ₹ 15,550 which includes interest on refund of ₹ 4,550.
- (iv) Dividend income from Indian companies ₹ 15,00,000.  
Dividend received from each company is less than ₹ 5,000.

Additional information –

- (i) Mr. Ayush installed new plant and machinery for ₹ 65 lakhs on 1.10.2024 which was put to use on 1.1.2025. Depreciation (including additional depreciation) on this amount of ₹ 65 lakhs is included in the depreciation debited to profit and loss account which has been computed as per Income-tax Rules, 1962.
- (ii) Mr. Ayush took a loan from SBI of ₹ 50 lakhs on 1.9.2024 @10.5% p.a. to purchase such plant and machinery. Total interest upto 31.3.2025 has been paid on 31.3.2025 and the same has been debited to profit and loss account.
- (iii) Advance tax paid during the year is ₹17,50,000
- (iv) Ayush purchased goods for ₹ 40 lakhs from Mr. Ram, his brother. The market value of the goods is ₹ 35 lakhs.
- (v) He paid ₹ 40,000 as life insurance premium taken on the life of his married daughter who is not dependent on him. The sum assured is ₹ 5,00,000 and the policy was taken on 1.4.2016.
- (vi) He paid ₹ 45,000 by cheque towards health insurance policy covering himself, his spouse and his children.
- (vii) On 1.7.2024, Mr. Ayush withdrew ₹ 1.5 crores in cash from three current accounts maintained by him with SBI. There are no other withdrawals during the year. He regularly files his return of income. You are required to compute the total income and tax payable by Mr. Ayush for the A.Y. 2025-26 assuming that he has shifted out of the default tax regime under section 115BAC.  
(MTP 15 Marks, Jul'24) (Same concept different figures MTP 14 Marks Apr'23, RTP May'22)

### Answer 30

**Computation of total income of Mr. Ayush for A.Y. 2025-26 under the regular provisions of the Act**

Particulars	₹	₹	₹
I Income from business or profession			





	Net profit as per profit and loss account		82,45,000	
	<b>Add: Items of expenditure not allowable while computing business income</b>			
	(i) Interest on loan taken for purchase of plant & machinery	1,75,000		
	[Interest from the date on which capital was borrowed till the date on which asset was first put to use, not allowable as deduction under section 36(1)(iii). Accordingly, interest of ₹ 1,75,000 [₹ 50,00,000 x 10.5% x 4/12] has to be added back, since the same is debited to the profit and loss account]			
	Purchase of goods at a price higher than the fair market value	5,00,000		
	[The difference between the purchase price (₹ 40 lakhs) and the fair market value (₹ 35 lakhs) has to be added back as per section 40A(2) since the purchase is from a related party, i.e., his brother and at a price higher than the fair market value]		6,75,000	
			89,20,000	
	<b>Less: Items of income to be treated separately under the respective head of income</b>			
	(i) Income-tax refund including interest on refund of ₹ 4,550	15,550		
	(ii) Dividend from Indian companies	15,00,000		
	(iii) Short term capital gains on transfer of listed equity shares	10,00,000		
			25,15,550	
			64,04,450	
	<b>Less: Depreciation on interest on loan capitalized to plant and machinery</b>			
	₹ 1,75,000, being the amount of interest on loan taken for purchase of plant and machinery from the date on which capital was borrowed till the date on which asset was first put to use, shall be capitalized			
	Normal depreciation @15% x 50% on such interest	13,125		
	Additional depreciation @20% x 50% on such interest [Since plant & machinery was put to use for less than 180 days in P.Y. 2024-25, it is eligible for 50% of the rate of depreciation]	17,500	30,625	
				63,73,825
II	<b>Capital Gains</b>			
	Short term capital gains on transfer of listed equity shares			10,00,000
III	<b>Income from Other Sources</b>			
	Interest on income-tax refund		4,550	
	Dividend from Indian companies		15,00,000	15,04,550
	<b>Gross Total Income</b>			<b>88,78,375</b>
	Less: Deductions under Chapter VI-A			





- Deduction under section 80C Life insurance premium for married daughter [Allowable as deduction though she is not dependent, since child of an individual whether dependent or not falls within the meaning of term "Person". Accordingly, whole of the amount of ₹ 40,000 is allowable as it does not exceed 10% of the ₹ 5,00,000, being the sum assured]		40,000	
- Deduction under section 80D Health insurance premium for self, spouse and children [Allowable as deduction, since it is paid otherwise than by way of cash. However, it is to be restricted to ₹ 25,000]		25,000	65,000
Total Income			88,13,375
Total Income (Rounded off)			88,13,380

#### Computation of tax payable by Mr. Ayush for A.Y. 2025-26 under the regular provisions of the Act

Particulars	₹	₹
<b>Tax on total income of ₹ 88,13,380</b>		
Tax on short term capital gains on transfer of listed equity shares @15%* u/s 111A [₹ 10,00,000 x 15%]		1,50,000
Tax on other Income of ₹ 78,13,380		
Upto ₹ 2,50,000	Nil	
₹ 2,50,001 – ₹ 5,00,000 [@5% of ₹ 2.50 lakh]	12,500	
₹ 5,00,001 – ₹ 10,00,000 [@20% of ₹ 5,00,000]	1,00,000	
₹ 10,00,001- ₹ 78,13,380 [@30% of ₹ 68,13,380]	20,44,014	21,56,514
Add: Surcharge @10%, since total income exceeds ₹ 50,00,000 but does not exceed ₹ 1 crore		23,06,514
		2,30,651
		25,37,165
Add: Health and education cess@4%		1,01,487
<b>Total tax liability</b>		26,38,652
Less: TDS u/s 194N @ 2% on ₹ 50 lakhs, being the cash withdrawals exceeding ₹ 1 crore	1,00,000	
Less: Advance tax paid	17,50,000	18,50,000
<b>Tax payable</b>		7,88,652
<b>Tax payable (rounded off)</b>		7,88,650

\*Assumed that the shares were sold before 23.07.2024. If they were sold after STCG u/s 111A would be @ 20%.

#### Question 31

Mr. Ramesh is an authorized wholesale distributor of fertilizers and other agricultural products. An analysis of his trading and profit & loss account for the previous year 31.3.2025 revealed the following information:

- (1) Net Profit ₹75,43,000.
- (2) The following incomes were credited in the profit and loss account
  - (a) Rent received ₹5,40,000
  - (b) Income-tax refund ₹15,000
  - (c) Dividend from Indian companies ₹2,50,000 (Gross)
- (3) Rates and taxes debited to profit and loss account include ₹ 1,000 paid towards late filing of his IT return for A.Y. 2024-25 under section 234F of Income-tax Act.
- (4) Salaries debited to profit and loss account include ₹ 35,000 paid on single day by way of cash to his accountant.
- (5) Interest of ₹ 1,20,000 paid on loan of ₹ 10,00,000 taken from NBFC. Out of the loan, amount of ₹ 2 lakhs





was used for personal purposes and the balance was used for business purposes. No TDS was deducted while paying interest. Interest of ₹ 1,20,000 is debited to profit and loss account.

(6) Municipal Taxes of ₹ 10,000 paid for the building was debited to profit and loss account.

#### Additional Information

- (1) Closing stock was undervalued by ₹40,000
  - (2) Income-tax refund includes ₹2,000 towards interest.
  - (3) An amount of ₹ 45,000 was paid by cheque during the year towards health insurance policy covering himself, his spouse and his children.
  - (4) Advance Tax paid during the year is ₹15 lakhs.
  - (5) Half of the building is used for business purpose and remaining half let out to Mr. Anshul for residential purpose.
  - (6) He also sold his vacant land on 10.11.2025 for ₹ 10 lakhs. The stamp duty value of land at the time of transfer was ₹ 14 lakhs. The FMV and stamp duty value of the land as on 1<sup>st</sup> April, 2001 was ₹ 4 lakhs and ₹ 3 lakhs, respectively. This land was acquired by him on 05.08.1995 for ₹ 1.80 lakhs. He had incurred registration expenses of ₹ 10,000 at that time. The cost of inflation index for the years 2024-25 and 2001-02 are 363 and 100, respectively.
  - (7) Mr. Ramesh's turnover for the P.Y. 2022-23 was ₹3 crores
- You are required to compute the total income and tax payable by Mr. Ramesh for the A.Y. 2025-26 under regular provisions of the Act. (RTP Jan'25)

#### Answer 31

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

Particulars	Amount (₹)	Amount (₹)
<b>Income from house property</b>		
Rent received (Rent received has been taken as gross annual value, due to absence of information relating to expected rent)	5,40,000	
Less: Municipal tax paid by Ramesh (₹ 10,000 x ½)	5,000	
Net Annual Value	5,35,000	
Less: Deduction u/s 24(a) – 30% of NAV	1,60,500	3,74,500
<b>Profits and gains from business or profession</b>		
Net profit as per profit and loss account	75,43,000	
<b>Add: Expenses/Payments debited to profit and loss account but not allowed</b>		
- 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 under section 40A(3)	35,000	
- Interest paid to NBFC on loan which is used for personal purposes (₹ 1,20,000 x 2,00,000/10,00,000) – not allowed as per section 37	24,000	
- Interest paid to NBFC on which tax is not deducted attracts disallowance @30% of ₹ 96,000 under section 40(a)(ia) [Since Mr. Ramesh's turnover for the immediately 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]	28,800	
- Municipal taxes paid for let out portion [₹ 10,000 x ½]	5,000	
	76,36,800	
<b>Add: Undervaluation of Closing stock</b>	40,000	
	76,76,800	
<b>Less: Income chargeable under other heads and income not chargeable to tax but credited to profit and loss account</b>		
- Rent received (Taxable under the head "Income from house	5,40,000	





property")		
- Income-tax refund	15,000	
- Dividend received from Indian companies (Taxable under the head "Income from other sources")	<u>2,50,000</u>	
		68,71,800
<b>Capital Gains</b>		
<b>Long-term capital gains on sale of land (since held for more than 24 months)</b>		
Since sale is after 23.07.2024, 20% with indexation benefits or 12.5% without indexation benefits which ever is more beneficial for the Assessee can be taken.		
<b>(i) 20% with indexation benefits</b>		
Full Value of Consideration [Higher of stamp duty value of ₹ 14 lakhs and Actual consideration of ₹ 10 lakhs, since stamp duty value exceeds actual consideration by more than 10%]	14,00,000	
Less: Indexed Cost of acquisition [₹ 3,00,000 x 363/100]	<u>10,89,000</u>	
Cost of acquisition	<u>3,11,000</u>	
Higher of –		
- Actual cost ₹ 1.80 lakhs + ₹ 0.10 lakhs = ₹ 1.90 lakhs and		
- Fair Market Value (FMV) ₹ 4 lakhs as on 1.4.2001 restricted to stamp duty value of ₹ 3 lakhs as on 1.4.2001 = ₹ 3 lakhs		
<b>(ii) 12.5% without indexation benefits</b>		
Full Value of Consideration	14,00,000	
Cost of acquisition	<u>3,00,000</u>	
Long term Capital Gains	<u>11,00,000</u>	
<b>20% with indexation benefits is better for the Assessee.</b>		3,11,000
<b>Income from Other Sources</b>		
Interest on income-tax refund	2,000	
Dividend from Indian companies	<u>2,50,000</u>	<u>2,52,000</u>
<b>Gross Total Income</b>		78,09,300
<b>Less: Deduction under Chapter VI-A</b>		
<b>Section 80D - Health insurance premium paid</b>		
for self, spouse and his children allowable as deduction to the extent ₹ 25000		<u>25,000</u>
<b>Total Income</b>		<u>77,84,300</u>

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

Particulars	Amount (₹)
Tax on ₹3,11,000@20% under section 112	62,200
Tax on balance income of ₹74,73,300	
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
Above ₹10,00,000 [i.e., ₹64,73,300 @30%]	<u>19,41,990</u>
	21,16,690
Add: Surcharge @10%, since total income exceeds ₹ 50,00,000 but does not exceed ₹ 1crore	<u>2,11,669</u>
	23,28,359
Add: Health and Education cess@4%	<u>93,134</u>
<b>Tax liability</b>	24,21,493
Less: Advance Tax	<u>15,00,000</u>
<b>Tax Payable</b>	<u>9,21,493</u>
<b>Tax Payable (Rounded off)</b>	<u>9,21,490</u>





### Question 32

Mr. Raman, a resident individual aged 62 years, is engaged in the business of manufacturing and sales of spare parts for motor bikes, as a proprietor. He prepares his accounts on mercantile basis. This business is carried out on the ground floor of a two storied commercial building owned by him, the written down value of which is ₹ 8 lakhs as on April 1, 2024. He prepares his accounts on accrual basis. The Statement of Profit and Loss for the previous year ended on March 31, 2025 shows a net profit of ₹ 9.25 lakhs (before taxation and depreciation) after debiting/crediting the following items:

- (i) Travelling expenses includes ₹ 2,40,000 being expenditure incurred on a foreign tour to Taiwan for attending a business exhibition and meeting with vendors, out of which ₹ 40,000 is incurred in Indian currency and ₹ 2,00,000 in foreign currency. Mr. Raman has spent 10 days in Taiwan, out of which 4 days were utilized by him for attending marriage ceremony of a vendor's son.
- (ii) Administrative expenses include ₹ 9,525 paid towards interest on delay in deposit of GST.
- (iii) General expenses include a sum of ₹ 3,88,000 paid to a non-resident as fee for technical services without deduction of tax at source.
- (iv) Fire insurance premium of ₹ 66,000 for the entire building remained unpaid till 31<sup>st</sup> March, 2025.
- (v) Expenditure of ₹ 75,000, was paid to a scientific research association approved under section 35. Out of ₹ 75,000, ₹ 50,000 was utilised towards the purchase of land by the research association.
- (vi) He let out first floor of his commercial building to Mr. Aman on April 1, 2024 and received rent of ₹ 35,000 per month. Municipal taxes ₹ 20,000 relating to the building were paid equally by both Mr. Raman and Mr. Aman. Rent received was credited and municipal taxes of ₹ 10,000 (relating to ground floor) was debited to the statement of profit and loss.
- (vii) He sold a piece of land for ₹ 44 lakhs on 12<sup>th</sup> April, 2024. He had acquired the land for 40 lakhs on 1<sup>st</sup> January, 2022. The gain of 4,00,000 is credited to the statement of profit and loss.  
(CII for F.Y. 2021-22-317; F.Y. 2024-25-363)

#### Additional Information:

- (i) Mr. Raman purchased raw material from M/s. Paul Industries, a micro enterprise, for ₹ 49,000 on March 10, 2025. However, the payment to M/s. Paul Industries was made on April 5, 2025 by cheque. No written agreement for payment existed between M/s. Paul Industries and Mr. Raman. Another supplier M/s. Kal Industries, a small enterprise, with whom also no written agreement existed for payment, was paid ₹ 1,34,000 in cash on April 5, 2025 for purchase of raw material on March 31, 2025. Both M/s. Paul Industries and M/s. Kal Industries follow mercantile system of accounting.
- (ii) Mr. Raman acquired a registered trademark on July 15, 2024 for ₹ 2,00,000. Mr. Raman started using this trademark for his business from January 15, 2025. Mr. Raman omitted to enter any transaction relating to this trademark in his books of accounts.
- (iii) Mr. Raman bought a car for personal use on 12<sup>th</sup> April, 2021 for ₹ 5,40,000. He started using this car for business purposes from 01.04.2024. As on that day, the market value of the car was ₹ 2,10,000. Assume the rate of depreciation to be 15%.
- (iv) He incurred ₹ 2,50,000 on the purchase of a new machinery to be used in the production of spare parts for motor bikes on May 15, 2024.
- (v) He has paid tuition fees of ₹ 25,000 for the education of his daughter to a college.
- (vi) During the year, Mr. Raman has incurred ₹ 9,500 in cash for preventive health check-up where ₹ 5,000 was for himself and ₹ 4,500 was for his parents who are super senior citizens.
- (vii) Donation paid to a registered political party by way of cheque ₹ 20,000.

Compute the total income and tax payable for assessment year 2025-26 by Mr. Raman under default tax regime and optional tax regime as per normal provisions of the Act. Which option is advantageous to Mr. Raman? (PYP 15 Marks Sep'24)

### Answer 32

#### Computation of total income and tax payable by Mr. Raman for A.Y. 2025-26 under default tax regime

	Particulars	₹	₹
I	<b>Income from house property</b>		
	Gross Annual Value of first floor (Rent received has been taken as gross annual value in the absence of other information) [₹ 35,000 x 12]	4,20,000	





	Less: Municipal taxes (paid by tenant, Mr. Aman, hence not deductible)	Nil	
	Net Annual Value	4,20,000	
	Less: Deduction @30% of NAV	1,26,000	
			2,94,000
<b>II</b>	<b>Profits and gains of business or profession</b>		
	<b>Net Profit</b>	9,25,000	
	<b>Add: Expenses debited to Profit and loss A/c but not allowable as deduction or to be considered under other heads of income</b>		
	- Travelling expenses [Allowable since the same is incurred wholly and exclusively for business purpose]	Nil	
	[ <b>Note</b> - Alternatively, it is possible to assume that the proportionate foreign tour expenditure attributable to attending the marriage ceremony of a vendor's son is a personal expenditure. In such case, ₹ 2,40,000 X 4 /10 = ₹ 96,000 would be disallowed.]		
	- Interest on delay in deposit of GST [Interest on delay in deposit in GST is compensatory in nature and hence, allowable as expenditure]	Nil	
	- Fee for technical services to non-resident [100% disallowed under section 40(a)(i) since the TDS was not deducted]	3,88,000	
	- Fire insurance premium [Fire insurance premium for ground floor which is occupied for business purpose is allowed since Mr. Raman is following mercantile system of accounting. Remaining half for let out portion is disallowed] [₹66,000/2]	33,000	
	- Contribution to scientific research association approved u/s 35 [Not allowable under section 35(1)(ii) as per default tax regime]	75,000	
	- Municipal taxes for ground floor [Allowable since the ground floor is occupied for business purpose]	Nil	
	- Sum payable for purchase of raw material from M/s Paul Industries, a micro enterprise [Not allowable as per section 43B(h) since payment was made to a micro enterprise on 5.4.2024 which is beyond the time limit specified u/s 15 of the MSMED Act, 2006 i.e., within 15 days from 10.3.2025]	49,000	
	- Sum payable for purchase of raw material from M/s Kal Industries, a small enterprise [Allowable as per section 43B(h) since payment was made to a small enterprise on 5.4.2025 i.e., within 15 days from 31.3.2025.	Nil	
	However, since the payment is made incash on 5.4.2025, ₹ 1,34,000 for purchase of raw material would be the deemed income of P.Y. 2025-26 as per section 40A(3A)]		
		14,70,000	
	<b>Less: Incomes credited to profit and loss account but not taxable as business income</b>		
	- Rent received for let out portion	4,20,000	
	- Gain on sale of land	4,00,000	
		6,50,000	
	Less: Depreciation		
	- On trademark [₹ 2,00,000 x 25% x 50%, since trademark is put to use for less than 180 days]	25,000	
	- On Car [₹5,40,000 x 15%]	81,000	
	- On new Plant & machinery [₹2,50,000 x 15%]	37,500	





	- On Building [₹8,00,000 x 10%]	80,000	
	Additional depreciation		
	- On new Plant & machinery [Not allowable under default tax regime]	Nil	
	Income from Business		4,26,500
<b>III</b>	<b>Capital Gains</b>		
	Full value of consideration	44,00,000	
	Less: Cost of acquisition	40,00,000	
	Short term capital gains on land [Since land is held for less than 24 months]		4,00,000
	<b>Gross Total Income</b>		<b>11,20,500</b>
	Less: Deduction under Chapter VI-A [Not allowable under default tax regime]		Nil
	<b>Total Income</b>		<b>11,20,500</b>
	<b>Tax Payable</b>		
	Up to ₹ 3,00,000 Nil	Nil	
	₹ 3,00,000 – ₹ 7,00,000 [₹ 4,00,000 @ 5%]	20,000	
	₹ 7,00,001 – ₹ 10,00,000 [₹ 3,00,000 @ 10%]	30,000	
	From ₹10,00,001 to ₹11,20,500 @15%	18,075	
			68,075
	Add: Health and education cess @4%		2,723
	<b>Tax Payable</b>		<b>70,798</b>
	<b>Tax Payable (Rounded off)</b>		<b>70,800</b>

**Computation of total income and tax payable by Mr. Raman for  
A.Y. 2025-26 under normal provisions of the Act**

	Particulars	₹	₹
	<b>Gross Total Income as per default tax regime</b>		11,20,500
	Less: Additional depreciation on new Plant & machinery [₹2,50,000 x 20%]		50,000
	Less: Contribution to scientific research association approved u/s 35		75,000
	<b>Gross Total Income as per normal provisions of the Act</b>		<b>9,95,500</b>
	<b>Less: Deduction under Chapter VI-A</b>		
	<b>Deduction under section 80C</b>		
	Tuition fees to a college for daughter's education	25,000	
	<b>Deduction under section 80D</b>		
	Preventive health check-up for self and parents restricted to	5,000	
	<b>Deduction under section 80GGC</b>		
	Donation to a registered political party since the payment is made otherwise than by cash	20,000	
			50,000
	<b>Total Income as per normal provisions of the Act</b>		<b>9,45,500</b>
	<b>Tax Payable</b>		
	Up to ₹3,00,000	Nil	
	From ₹3,00,001 to ₹5,00,000 @5%	10,000	
	From ₹5,00,001 to ₹9,45,500 @20%	89,100	
			99,100
	Add: Health and education cess @4%		3,964
	<b>Tax Payable</b>		<b>1,03,064</b>
	<b>Tax Payable (Rounded off)</b>		<b>1,03,060</b>

Since tax payable under default tax regime is lower than the tax payable under normal provisions of the Act, it would be beneficial for Mr. Raman to pay tax under default tax regime u/s 115BAC.





### MULTIPLE CHOICE QUESTIONS (MCQS)

1. Ms. Rimjhim (aged 32 years), an interior decorator, has professional receipts of ₹ 25,60,000 for the previous year 2024-25. She also earned ₹ 1,25,000 as dividend and ₹ 4,65,000 as interest income on fixed deposits. She incurred expenses of ₹ 13,00,000 for her profession and ₹ 30,000 as interest on loan for making investment in shares on which she received dividend. What would be her total income for the A.Y. 2025-26, assuming that she wishes to make maximum tax savings without getting her books of account audited? (RTP May'21, MTP 2 Marks Oct'23)
- (a) ₹ 18,45,000
  - (b) ₹ 18,70,000
  - (c) ₹ 18,40,000
  - (d) ₹ 18,25,000

**Ans: (a)**



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STRIVING TOWARDS KNOWLEDGE



## CHAPTER 10: CASE SCENARIOS



LDR Questions

CS 16

CS 18

CS 20

CS 1

(MTP 10 Marks Oct'21)

Mr. Kashyap, a manufacturer, has disclosed a net profit of ₹40 lakhs for the year ended 31st March, 2025. He claimed depreciation of ₹ 12,20,000 in his books of account. Expenditure in profit and loss account includes interest paid to Mr. Raj, a resident, without deduction of tax at source ₹ 1,50,000. Such tax was, however, deducted on 15.4.2025 and remitted on 17.5.2024.

Mr. Kashyap is engaged in in-house scientific research and development. He incurred expenditure of ₹ 1,50,000 on purchase of research equipment's and ₹ 1,00,000 as remuneration paid to scientists. The said sums are also debited in the profit and loss account.

Mr. Kashyap purchased a new plant and machinery for ₹ 45,00,000 on 2nd August, 2024 and put the same to use on 1st November, 2024. For this purpose, he borrowed ₹ 25,00,000 on 1st August, 2024 and paid interest@10% p.a. which is debited in profit and loss account. Mr. Kashyap also purchased a motor car for ₹ 8,00,000 on 2nd October, 2023, which was put to use on the same date. Written down value of block of plant and machinery (15%) as on 1st April, 2024 is ₹ 95,00,000.

Based on the above information, choose the most appropriate Answer to the following Multiple Choice Questions.

1. What would be the depreciation allowable u/s 32 in respect of block of plant and machinery (15%) and motor car for A.Y.2025-26? Assume that motor car is the only asset in the block. (2 Marks) (Profits & Gains from Business Profession)
  - (a) ₹ 22,23,438 and ₹ 84,000, respectively
  - (b) ₹ 17,67,188 and ₹ 86,700, respectively
  - (c) ₹ 22,12,500 and ₹ 86,700 respectively
  - (d) ₹ 22,23,438 and ₹ 2,40,000, respectively

Ans: (a)

2. What is the amount of disallowance, if any, attracted for non-deduction of tax at source on interest paid to Mr. Raj during the P.Y.2024-25? (2 Marks) (Advance Tax, Tax Deducted at Source & Introduction to Tax Collection at Source)
  - (a) Nil, since the tax was deducted and deposited on or before the due date of filing of return of income
  - (b) ₹ 30,000
  - (c) ₹ 45,000
  - (d) ₹ 1,50,000

Ans: (c)

3. What would be the income under the head "Profits and gains of business and profession" of Mr. Kashyap for A.Y.2025-26 under the normal provisions of the Act? (2 Marks) (Profits & Gains from Business Profession)
  - (a) ₹ 30,20,062
  - (b) ₹ 29,23,962
  - (c) ₹ 28,01,562
  - (d) ₹ 34,11,112

Ans: (a)





4. What would be the income chargeable under the head "Profits and gains of business and profession" of Mr. Kashyap for A.Y. 2024-25, if he opts for section 115BAC? (2 Marks) (Profits & Gains from Business Profession)
- (a) ₹ 29,65,800
  - (b) ₹ 32,15,800
  - (c) ₹ 34,76,312
  - (d) ₹ 36,42,312

Ans: (c)

5. What would be the tax liability of Mr. Kashyap for A.Y. 2024-25 in a manner most beneficial to him? (2 Marks) (Basic Concepts)
- (a) ₹ 7,30,300
  - (b) ₹ 7,47,260
  - (c) ₹ 7,17,280
  - (d) ₹ 6,79,090

Ans: (b)

**CS 2 (MTP 10 Marks Apr'21) (Similar concepts different figures MTP 6 Marks Jul'24)**

Mr. Alishaan is engaged in the business of clothes trading since 2018. His minor daughter's marriage is fixed in December, 2024. He planned destination wedding in Udaipur for his minor daughter. For the wedding, he withdrew Rs. 40,00,000 cash in the month of August, 2023 and Rs. 65,00,000 cash in the month of September, 2024 from Aapka Paisa Bank.

He booked 30 rooms for 5 days for the accommodation of his relatives in Raho Hotel and paid Rs. 40,000 in cash as advance and balance by account payee cheque. He took the catering services of Daana Caterers, a sole proprietor, for the wedding for which he paid Rs. 10,20,000 on 15.10.2024. For her wedding, he gifted his daughter a house property, purchased from RK Builders on 10.10.2024 by account payee cheque for Rs. 15,00,000. The stamp duty value of the property on 10.10.2024 is Rs. 16,00,000 and on the date of transfer to minor daughter is Rs. 20,00,000.

Mr. Alishaan paid Rs. 45,000 in cash and balance in cheque to travel agent for the return ticket of some of his relatives to US. He has not filed his return of income from P.Y. 2020-21. His daughter let out the house property received from him at a monthly rent of Rs. 40,000 from 01.11.2024.

Based on the above information, choose the most appropriate option of the following Multiple Choice Questions (MCQs):- (MTP Apr'21)

1. The amount of tax to be deducted by Aapka Paisa Bank on cash withdrawals by Mr. Alishaan is – (2 Marks) (Advance Tax, Tax Deducted at Source & Introduction to Tax Collection at Source)
  - (a) Rs. 10,000
  - (b) Rs. 25,000
  - (c) Rs. 1,70,000
  - (d) Rs. 1,85,000
2. The amount of tax to be deducted by Mr. Alishaan on payment made to Daana Caterers is (2 Marks) (Advance Tax, Tax Deducted at Source & Introduction to Tax Collection at Source)
  - (a) Rs. 1,200
  - (b) Rs. 900
  - (c) Rs. 150
  - (d) Nil
3. For which of the following transactions, Mr. Alishaan is required to quote his PAN? (1 Mark) (Advance Tax, Tax Deducted at Source & Introduction to Tax Collection at Source)
  - (a) Purchase of immovable property from RK Builders
  - (b) Payment to Raho Hotel
  - (c) Payment to Travel agent
  - (d) All of the above

Ans: (a)





4. What shall be the amount taxable and in whose hands with respect to purchase of immovable property by Mr. Alishaan from RK Builders and gift of the same to his daughter? (2 Marks) (Advance Tax, Tax Deducted at Source & Introduction to Tax Collection at Source)

- (a) Rs. 1,00,000 in the hands of Mr. Alishaan, Rs. 1,00,000 in the hands of RK builders and Rs. 20,00,000 in the hands of minor daughter
- (b) Nothing is taxable in the hands of Mr. Alishaan, RK Builders and minor daughter
- (c) Rs. 1,00,000 in the hands of Mr. Alishaan, Rs. 1,00,000 in the hands of RK builders and nothing is taxable in the hands of minor daughter
- (d) Nothing is taxable in the hands of Mr. Alishaan and RK Builders but Rs. 20,00,000 is taxable in the hands of minor daughter

Ans: (b)

5. What shall be the amount taxable under "Income from House property" with respect to let out of house property by daughter of Mr. Alishaan and in whose hands it will taxable? (2 Marks) (Income of Other Person included in Assessee's Total Income)

- (a) Rs. 1,40,000 taxable in the hands of daughter of Mr. Alishaan
- (b) Rs. 1,40,000 taxable in the hands of husband of daughter of Mr. Alishaan
- (c) Rs. 1,38,500 taxable in the hands of Mr. Alishaan
- (d) Rs. 1,40,000 taxable in the hands of Mr. Alishaan

Ans: (c)

CS 3

(MTP 8 Marks Mar'22)

Anjali is a research scholar pursuing her PhD. She is unmarried and her parents are living in Ahmedabad, Gujarat. Her parental grandparents and other family relatives are staying in South Africa. She was in India with her parents till May 2020. After then, she went to London for further education. In October 2023, she returned to India. On 28th March 2024, she travelled out of India to Johannesburg, in South Africa, for her research project and Khadi business exhibitions. She returned on 1st October 2024 to participate in the 152nd Birth Anniversary Celebrations of Mahatma Gandhi. In this connection, she attended numerous events held all over India, while also holding exhibitions for her textile business in 'Khadi - the fabric that breathes, the livery of freedom' - as showcased by Mahatma Gandhi. She won accolades and awards, gifts and donations in the course of showcasing her work. You have been provided with the following data in respect of her receipts and income for the F.Y. 2024-25

S. No.	Details	Amount (₹)
1.	Scholarship for pursuing her research work	4,80,000
2.	Gross receipts from exhibitions held in South Africa in collaboration with the leading Fashion House	10,00,000
3.	Gross receipts from exhibitions held in India	12,00,000
4.	Gross receipts from sale of Honey in the exhibitions in India	1,05,000
5.	Gross receipts from sale of Handmade Khadi designer fashion accessories and other Khadi stationery products	2,25,000
6.	Gift from father's sister whom she visited in Johannesburg, South Africa	51,000
7.	Cash gifts received from friends in 'Gandhi Gujarat Seva Samaj' with whom she stayed while in Johannesburg, South Africa.	27,000
8.	Received share of income from the HUF	22,000
9.	Cost of material for exhibitions held in South Africa and India - ₹ 12,00,000; Cost of Handmade Khadi designer fashion accessories and other Khadi stationery products - ₹ 1,00,000; Other eligible Business expenses - ₹ 4,00,000; Cost of Honey purchased for sale in the exhibitions in India - ₹ 55,000.	
10.	Mr. Patel of South Africa gave her a cheque of ₹5,00,000 favouring 'Gandhi Smarak Trust' as donation to the Trust. She was requested to hand over the cheque to the Trust's office at Ahmedabad.	

Notes:

1. Anjali does not manufacture any of the Khadi products. She sourced all the Khadi materials, accessories, products and honey from suppliers of such items.





2. All financial transactions are carried out in account payee cheques and TDS has been deducted, wherever applicable.
3. Her paternal grandfather is the Karta of the family HUF. Her paternal grandfather comes on visit in India for 6 months every year since 2017. The HUF is managed outside India and all decisions regarding the HUF are made outside India.
4. Anjali does not want to opt for the provisions of section 115BAC.

From the information given above, choose the most appropriate Answer to the following Questions –

1. What is the residential status of Anjali for the A.Y. 2025-26? (Chapter 2 Residence & Scope of Total Income)
  - (a) Non-resident
  - (b) Resident but not ordinarily resident
  - (c) Deemed resident
  - (d) Resident and ordinarily resident

Ans: (d)

2. What is the residential status of HUF for the A.Y. 2025-26? (Chapter 2 Residence & Scope of Total Income)
  - (a) Resident and ordinarily resident
  - (b) Resident but not ordinarily resident
  - (c) Non-resident
  - (d) Deemed resident

Ans: (c)

3. Determine the taxability of gift received by Anjali from her father's sister and from her friends in 'Gandhi Gujarat Seva Samaj' for the A.Y. 2025-26? (Chapter 3.5 Income from other Sources)
  - (a) ₹ 51,000 will be exempt as it is a gift received from a relative. ₹ 27,000 received as cash gifts from her friends would not be taxable as all her friends are non-residents.
  - (b) ₹ 51,000 will be taxed as "Income from other sources" as father's sister is not a relative. ₹ 27,000 received as cash gifts from friends will also be taxable as the total gifts from non-relatives during the A.Y. 2022-23 exceeds ₹ 50,000.
  - (c) ₹ 51,000 will be exempt as it is a gift received from a relative. ₹ 27,000 received as cash gifts from friends will be taxed as amount is paid in cash and is received from non-residents.
  - (d) ₹ 51,000 will be exempt as it is a gift received from a relative. ₹ 27,000 received as cash gifts from friends will not be taxable as the total gifts received from non-relatives during the A.Y. 2025-26 does not exceed ₹ 50,000.

Ans: (d)

4. What would be the total income of Ms. Anjali for A.Y. 2025-26 if she wishes to maximize tax savings? (Chapter 8 Computation of Total Income & Tax Payable)
  - (a) ₹ 12,55,000
  - (b) ₹ 8,02,000
  - (c) ₹ 1,51,800
  - (d) ₹ 7,75,000

Ans: (c)

CS 4

(MTP 2 Marks Sep'22)

Mrs. Shalini is a retired Government employee. She was born on 01.04.1945 in India. She is residing in Delhi. She stayed with her elder son Mr. Nakul from 1st May, 2024 to 15th October, 2024, who is residing in Australia. She stayed in India for 361 days during the 4 previous years preceding the previous year 2024-25. During the previous year 2024-25, pension of ₹ 7,15,461 is credited in her account with State Bank of India, Uttam Nagar Branch, Delhi after deducting tax at source of ₹ 14,565. She received interest of ₹ 4,352 on her saving A/c with SBI during the previous year 2024-25. She also received interest of ₹ 67,500 on Fixed Deposits with Canara Bank in the month of April, 2024.

She has purchased two life insurance policies for her son Mr. Yuvaan and married daughter Mrs. Kajal, the details of which are as follows:





Person insured	Policy purchased on	Date of payment of premium	Sum Assured	Premium paid
Mr. Yuvaan (50 years old)	15.10.2020	23.10.2024	₹ 9,84,655	₹ 1,00,388
Mrs. Kajal (45 years old)	20.09.2020	25.09.2024	₹ 2,00,000	₹ 17,000

She has taken a medical insurance for herself for which she paid an amount of ₹ 35,000 towards health insurance premium by A/c payee cheque. She incurred ₹ 7,500 towards preventive health check-up of herself and her husband in cash. She also incurred medical expenditure of ₹ 25,000 in cash in the month of January 2025 for her husband. In the month of March 2025, she incurred medical expenditure of ₹ 10,500 for herself, which is paid by account payee cheque. She has given a wristwatch of ₹ 10,000 on her husband's 85th birthday. Her husband is resident in India for the P.Y. 2024-25. Mrs. Shalini does not opt to pay tax under section 115BAC.

Based on the facts of the case scenario given above, choose the most appropriate answer to the following questions:

1. What would be the amount of deduction under Chapter VI-A available to Mrs. Shalini for the A.Y. 2025-26? (Chapter 7: Deductions from Gross Total Income)

- (a) ₹ 2,05,466
- (b) ₹ 2,08,466
- (c) ₹ 2,07,388
- (d) ₹ 2,18,466

Ans: (a)

2. What would be the Gross total income of Mrs. Shalini for the assessment year 2025-26? (Chapter 8: Computation of Total Income & Tax Payable)

- (a) ₹ 7,87,313
- (b) ₹ 8,04,878
- (c) ₹ 7,59,378
- (d) ₹ 8,09,378

Ans: (c)

3. What is the amount of net tax payable/(refundable) of Mrs. Shalini for the A.Y. 2025-26? (Chapter 1: Basic Concepts)

- (a) (₹ 10,850)
- (b) (₹ 1,790)
- (c) (₹ 1,080)
- (d) (₹ 450)

Ans: (a)

4. What would be the total income of Mrs. Shalini for the assessment year 2025-26, if she opts to pay tax under section 115BAC?

- (a) ₹ 7,51,880
- (b) ₹ 8,01,880
- (c) ₹ 7,87,310
- (d) ₹ 8,09,380

Ans: (d)

5. What is the amount of net tax payable/(refundable) of Mrs. Shalini for the A.Y. 2025-26, if she opts to pay tax under section 115BAC?

- (a) ₹ 22,760
- (b) ₹ 13,200
- (c) ₹ 10,110
- (d) ₹ 25,030

Ans: (c)

CS 5

(MTP 10 Marks April'23)

Mr. Rajan, aged 62 years, an Indian citizen, resides in Delhi. His wife Sheetal and daughter Riya also reside with him. Riya, aged 16 years, is studying in 12th Standard in DAV school at New Delhi. Mr. Rajan left for employment to the United States of America on 15th September, 2024 but his family did not accompany





him. He returned to India on 25th March 2025. Mr. Rajan had gone outside India for the first time in his life. During April, 2024 to September, 2024, he worked with a multinational company in Delhi. He earned salary of ₹ 14,00,000 from his job in India. He paid Tuition Fee of ₹ 1,80,000 for Riya's education in DAV school. Apart from that, Mr. Rajan also earned professional income of ₹ 60,00,000 (Gross Receipts – ₹ 90 lakhs) from India. During the year, he also earned interest from his Indian savings bank account to the tune of ₹ 12,000 and interest from fixed deposits with nationalized banks of ₹ 45,000. Mr. Rajan also earned a salary income equivalent to ₹ 6,00,000 from USA for his job, on which no tax is paid or payable in USA, which was deposited in his bank account in USA and later on remitted to India.

Mr. Rajan decides not to opt to pay tax under section 115BAC.

Based on the facts of the case scenario given above, choose the most appropriate answer to the following questions: -

1. What is the residential status of Mr. Rajan for the previous year 2024-25? (Chapter Residence & Scope of Total Income)

- (a) Resident and ordinarily in India
- (b) Resident but not ordinarily resident in India
- (c) Non-resident in India
- (d) Deemed resident but not ordinarily resident in India

Ans: (d)

2. What would be the income chargeable to tax under the head "Salaries" in the hands of Mr. Rajan in India for F.Y. 2024-25? (chapter Salaries)

- (a) ₹ 20,00,000
- (b) ₹ 19,50,000
- (c) ₹ 13,50,000
- (d) ₹ 19,60,000

Ans: (c)

3. How much deduction is available under Chapter VI-A from the Gross Total Income of Mr. Rajan? (chapter Deductions from Gross Total Income)

- (a) ₹ 2,30,000
- (b) ₹ 1,95,000
- (c) ₹ 1,60,000
- (d) ₹ 2,00,000

Ans: (d)

4. What shall be the tax liability of Mr. Rajan for the A.Y. 2025-26? (Chapter Computation of Total Income & Tax Payable)

- (a) ₹ 22,69,810
- (b) ₹ 22,58,940
- (c) ₹ 22,56,080
- (d) ₹ 22,72,670

Ans: (c)

5. What would be the due date for filing income-tax return of Mr. Rajan for the P.Y. 2024-25?

- (a) 31st July, 2024
- (b) 31st October, 2024
- (c) 30th November, 2024
- (d) 31st March, 2025

Ans: (b)

#### CS 6

(RTP May'22)(Ch 9 Advance Tax, TDS & Introduction to TCS)

Mr. Subhash is a retailer of car spare parts. He started his business in May, 2023. His turnover for the P.Y. 2023-24 was ₹ 10.50 crores. He generally purchases goods from Car accessories & Co. only. Car accessories & Co. manufacturers and sells spare parts directly to the customers as well as through an e-commerce platform – CarParts.com. Car accessories & Co.'s turnover from the business for the P.Y. 2023-24 was ₹ 15 crores. The relevant information of purchases made by Mr. Subhash in P.Y. 2024-25 is given here under:





Date of credit to account of Car accessories & Co.	Date of Payment to Car accessories & Co.	Value of spare parts without GST (₹)	GST @18%	Total value of spare parts/ payment
15.05.2024	02.06.2024	40,00,000	7,20,000	47,20,000
18.06.2024	30.06.2024	15,00,000	2,70,000	17,70,000
28.08.2024	17.08.2024	21,50,000	3,87,000	25,37,000
14.02.2025	28.02.2025	10,50,000	1,89,000	12,39,000

In addition to the above, Mr. Subhash also purchased spare parts of Car accessories & Co. for ₹ 12,00,000 inclusive of GST@18% through CarParts.com on 31.12.2024. The payment was made directly to Car accessories & Co. on 15.1.2025. PAN is duly furnished by Mr. Subhash, Car accessories & Co. and CarParts.com. The GST portion is indicated separately in the invoice of Car accessories & Co. but it is not shown separately when the goods are purchased through CarParts.com.

Based on the above facts, choose the most appropriate Answer to Q. NO. 1 to 5 –

1. Is Mr. Subhash required to deduct tax at source in respect of the purchase transactions made directly with Car accessories & Co. If yes, when and what is the amount of tax to be deducted?

- (a) Yes; ₹ 2,150 on 17.08.2024 and ₹ 1,050 on 14.02.2025
- (b) Yes; ₹ 2,537 on 17.08.2024 and ₹ 1,050 on 14.02.2025
- (c) Yes; ₹ 500 on 18.06.2024, ₹ 2,150 on 17.08.2024 and ₹ 1,050 on 14.02.2025
- (d) No, Mr. Subhash is not liable to deduct tax at source.

Ans: (b)

2. Is Car accessories & Co. required to collect tax at source in respect of the sale transactions with Mr. Subhash. If yes, when and what is the amount of tax to be collected?

- (a) Yes; ₹ 500 on 30.06.2024, ₹ 2,150 on 17.08.2025 and ₹ 1,050 on 28.02.2025
- (b) Yes; ₹ 1,490 on 30.06.2024, ₹ 2,537 on 17.08.2024 and ₹ 1,239 on 28.02.2025
- (c) Yes; ₹ 1,490 on 30.06.2024
- (d) No, Car accessories & Co. is not liable to collect tax at source.

Ans: (c)

3. Assume that Mr. Subhash has started the retail business of car spare parts in May, 2024. In such case, would the Answer of MCQ 1 and 2 be different? If yes, what would be the Answer of MCQ 1 and 2?

- (a) No, the Answer of MCQ 1 and 2 would be the same
- (b) Yes, the Answer of MCQ 1 would change to (d) but the Answer of MCQ 2 would be the same
- (c) Yes, the Answer of MCQ 1 would change to (d) and the Answer of MCQ 2 would change to (b)
- (d) Yes, the Answer of MCQ 1 would change to (d) and the Answer of MCQ 2 would change to (a)

Ans: (c)

4. Are the provisions of tax deduction/ collection at source attracted in respect of the transactions with CarParts.com? If yes, who has to deduct/ collect at source and at what rate?

- (a) Mr. Subhash is required to deduct tax at source on ₹ 12 lakhs @0.1%.
- (b) Car accessories & Co. is required to collect tax at source on ₹ 12 lakhs @0.1%.
- (c) CarParts.com is required to deduct tax at source on ₹ 12 lakhs @0.1%.
- (d) CarParts.com is required to deduct tax at source on ₹ 12 lakhs @1%.

Ans: (d)

5. If Mr. Subhash has not furnished his PAN to Car accessories & Co. but has furnished his Aadhar number, what would be the rate of TCS for the purpose of MCQ 2.

- (a) 5%
- (b) 1%
- (c) 0.1%
- (d) Car accessories & Co. is not liable to collect tax at source.

Ans: (c)

CS 7

(RTP May'23) (Ch 9 Advance Tax, TDS & Introduction to TCS)

Kishore & Sons is a dealer of coal. Its turnover for the F.Y. 2023-24 was ₹ 12 crores. The State Government of Hyderabad granted a lease of coal mine to Kishore & Sons on 1.5.2024 and charged ₹ 11 crores for the lease. Kishore & Sons sold coal of ₹ 95 lakhs to M/s BAC Co. during the P.Y. 2024-25. M/s XYZ Ltd. purchased





coal of ₹ 55 lakhs from Kishore & Sons for trading purpose in July 2024. Turnover of M/s XYZ Ltd. during the P.Y. 2023-24 was ₹ 12 crores. PAN is duly furnished by the buyer and seller to each other. Details of sale to and payments from M/s BAC Co. by Kishore & Sons are as follows:

Sr. No.	Date of sale	Date of receipt/ Payment	Amount (₹)
1	29.05.2024	10.05.2024	35,00,000
2	30.06.2024	10.07.2024	25,00,000
3	25.11.2024	25.10.2024	8,00,000
4	20.01.2025	22.01.2025	15,00,000
5	01.03.2025	15.02.2025	12,00,000

Turnover of M/s BAC Co. during the P.Y. 2023-24 was ₹ 11 crores. The above amounts were credited to Kishore & Sons account in the books of M/s BAC Co. on the date of sale. M/s BAC Co. furnishes a declaration to Kishore & Sons that coal is to be utilized for generation of power.

Based on the above facts, choose the most appropriate answer to Q. No. 1 to 5 –

1. Who is required to deduct/ collect tax at source in respect of lease of coal mine by the State Government of Hyderabad to Kishore & Sons and at what rate?

- State Government of Hyderabad is liable to collect tax at source @ 2% on ₹ 11 crores
- State Government of Hyderabad is liable to collect tax at source @0.1% on ₹ 10.50 crores, being the amount exceeding ₹ 50 lakhs
- Kishore & Sons is liable to deduct tax at source @0.1% on ₹ 10.50 crores, being the amount exceeding ₹ 50 lakhs
- Neither State Government of Hyderabad is liable to collect tax at source nor Kishore & Sons is liable to deduct tax at source

Ans: (a)

2. Is Kishore & Sons required to collect tax at source in respect of the sale transactions with M/s BAC Co. If yes, when and what is the amount of tax to be collected?

- Yes; ₹ 1,000 on 30.6.2024, ₹ 800 on 25.10.2024, ₹ 1,500 on 20.1.2025 and ₹ 1,200 on 15.2.2025
- Yes; ₹ 35,000 on 10.5.2024, ₹ 25,000 on 30.6.2024, ₹ 8,000 on 25.10.2024, ₹ 15,000 on 20.1.2025 and ₹ 12,000 on 15.2.2025
- Yes; ₹ 1,000 on 10.7.2024, ₹ 800 on 25.10.2024, ₹ 1,500 on 22.1.2025 and ₹ 1,200 on 15.2.2025
- No, Kishore & Sons is not liable to collect tax at source

Ans: (d)

3. Is Kishore & Sons required to collect tax at source in respect of the sale transaction with M/s XYZ Ltd. If yes, what is the amount of tax to be collected?

- Yes; ₹ 55,000
- Yes; ₹ 5,500
- Yes; ₹ 500
- No, Kishore & Sons is not liable to collect tax at source

Ans: (a)

4. Is M/s BAC Co. required to deduct tax at source in respect of the purchase transactions with Kishore & Sons. If yes, when and what is the amount of tax to be deducted?

- Yes; ₹ 1,000 on 30.6.2024, ₹ 800 on 25.10.2024, ₹ 1,500 on 20.1.2025 and ₹ 1,200 on 15.2.2025
- Yes; ₹ 3,500 on 10.5.2024, ₹ 2,500 on 30.6.2024, ₹ 800 on 25.10.2024, ₹ 1,500 on 20.1.2025 and ₹ 1,200 on 15.2.2025
- Yes; ₹ 1,000 on 10.7.2024, ₹ 800 on 25.10.2024, ₹ 1,500 on 22.1.2025 and ₹ 1,200 on 15.2.2025
- No, M/s BAC Co. is not liable to deduct tax at source

Ans: (a)

5. Assume for the purpose of this MCQ, M/s BAC Co.'s turnover for the F.Y. 2024-25 was ₹ 9 crore, who will be required to deduct/ collect tax at source in respect of transactions between Kishore & Sons and M/s BAC Co. and at what rate?

- Kishore & Sons is liable to collect tax at source @1% of ₹ 95 lakhs
- Kishore & Sons is liable to collect tax at source @0.1% of ₹ 45 lakhs, being the sum exceeding ₹ 50 lakhs





- (c) M/s BAC Co. is liable to deduct tax at source @0.1% of ₹ 45 lakhs, being the sum exceeding ₹ 50 lakhs  
 (d) Neither Kishore & Sons is liable to collect tax at source nor M/s BAC Co. is liable to deduct tax at source

Ans: (d)

CS 8

(RTP Nov'23)

Mr. Shaan, a resident aged 42 years, is employed in an MNC in Gurugram since 2013. He submitted his resignation on 31st July, 2024 for starting his own business and gave a notice period of one month to the employer. He received the following emoluments from his employer for the period from 1st April, 2024 to 31st August, 2024:

Basic pay	₹ 45,000 p.m.
Dearness Allowance (Forming part of retirement benefits)	10% of Basic pay
Medical allowance	₹ 5,000 p.m.
Entertainment allowance	₹ 2,500 p.m.
Commission	₹ 10,000 p.m.
Employee's contribution to RPF	₹ 7,500 p.m.
Employer's contributed the same amount to the RPF	
Interest accrued in the RPF@13%	₹ 14,300

In October, 2024, he started the business of manufacturing of footwear under the brand name "COMFORT". He withdrew the entire amount from his RPF account in September, 2024 to invest in his business. He has employed 75 regular employees on 1.11.2024 at a salary of ₹ 23,000 p.m. and they participate in recognized provident fund. For the P.Y. 2024-25, the profits and gains derived from such business is ₹ 51 lakhs (computed) and the turnover is ₹ 7 crores. Mr. Shaan received 12% of the sales in cash.

On 1st December, 2024, he has purchased a house property for ₹ 90 lakhs for self-occupation by taking a loan of ₹ 45 lakhs@10% p.a. on the same day. He has paid stamp duty of ₹ 6,25,000 on purchase of such house property. Mr. Shaan does not want to opt for the provisions of section 115BAC.

Based on the above facts, choose the most appropriate answer to Q. No. 1 to 5 –

1. What is the amount of salary chargeable under the head "Salaries" to Mr. Shaan for A.Y. 2025-26?  
 (Chapter 4.1 Salaries)

- (a) ₹ 2,85,000  
 (b) ₹ 2,99,300  
 (c) ₹ 2,96,650  
 (d) ₹ 2,84,150

Ans: (c)

2. What is the amount of deduction available to Mr. Shaan under Chapter VI-A for A.Y. 2025-26?  
 (Chapter 7 Deductions from Gross Total Income)

- (a) ₹ 1,50,000  
 (b) ₹ 25,87,500  
 (c) ₹ 26,25,000  
 (d) ₹ 27,37,500

Ans: (d)

3. What is the total income of Mr. Shaan for A.Y. 2025-26?

- (a) ₹ 25,09,150  
 (b) ₹ 24,59,150  
 (c) ₹ 24,61,800  
 (d) ₹ 25,59,150

Ans: (a)

4. Compute the tax liability of Mr. Shaan for A.Y. 2025-26.

- (a) ₹ 5,87,860  
 (b) ₹ 10,78,660  
 (c) ₹ 10,62,520  
 (d) ₹ 5,72,250

Ans: (c)





5. Compute the tax liability of Mr. Shaan for A.Y. 2025-26 if he opts for the provisions of section 115BAC. Assume that the figure of profits and gains from business or profession remains the same under section 115BAC also.
- ₹ 15,68,990
  - ₹ 5,56,650
  - ₹ 5,72,250
  - ₹ 5,46,260

Ans: (d)

CS 9

(RTP May'24)

Mr. Akash (aged 47 years) is a CEO of BAC Enterprises (P) Ltd. During the P.Y.2024-25, he has earned the following income -

- Salary of ₹ 45 lakhs
- long-term capital gain on sale of listed equity shares (STT paid) amounting to ₹ 6,54,000 assumed that it is sold after 23.07.2024
- dividend of ₹ 12,00,000 from shares of Indian companies
- interest on saving bank account with SBI of ₹ 16,000
- interest on fixed deposits with BOB of ₹ 45,000

Mr. Akash has made the following payments towards medical insurance premium for health policies taken for his family members:

- Medical premium for his spouse aged 43 years: ₹ 13,500 (by cheque)
- Medical premium for his mother aged 65 years: ₹ 26,670 (by cheque)
- Preventive health check-up of ₹ 5,500 each for his wife and mother in cash.

Mr. Akash also incurred medical expenses, by credit card, of ₹ 17,000 for the treatment of his mother and of ₹ 27,000 for his father who is 67 years old.

He has multiple life insurance policies. The details of such policies are given hereunder:

Particulars	X	Y	Z	A	B (Term insurance policy)
Date of issue	1.4.2017	1.4.2024	1.4.2025	1.4.2024	1.3.2023
Annual premium (excluding GST)	₹ 40,000	₹ 3,00,000	₹ 2,00,000	₹ 2,50,000	₹ 80,000
GST@18%	₹ 7,200	₹ 54,000	₹ 36,000	₹ 45,000	14,400
Total premium	₹ 47,200	₹ 3,54,000	₹ 2,36,000	₹ 2,95,000	₹ 94,400
Date of maturity	31.3.2026	31.3.2033	31.3.2034	31.3.2033	28.3.2056
Consideration received on maturity (including bonus)	₹ 7,00,000	₹ 36,00,000	₹ 28,00,000	₹ 30,00,000	-
Sum assured	₹ 5,00,000	₹ 33,00,000	₹ 25,00,000	₹ 27,00,000	₹ 2,00,00,000

On the basis of the facts given above, choose the most appropriate answer to Q.1 to Q.5 below, based on the provisions of the Income-tax Act, 1961 -

- Which are the life insurance policies in respect of which Mr. Akash would be eligible for exemption under section 10(10D) in respect of maturity proceeds? Choose the option most beneficial to Mr. Akash. (Chapter Deductions from Gross Total Income)
  - X, Y and Z
  - X and Y
  - X, Z and A
  - Y and Z

Ans: (a)

- What would be your answer to MCQ 1, if Mr. Akash surrendered LIC A in A.Y. 2026-27 and claimed exemption under section 10(10D) in respect of such LIC? This information is only for the purpose of this MCQ. (Chapter Deductions from Gross Total Income)





- (a) X, Y and Z
- (b) X and Y
- (c) X, Z and A
- (d)

**Ans: (c)**

3. What would be the amount of deduction available to Mr. Akash under Chapter VI-A for the A.Y. 2025-26 if he has exercised the option to shift out of the default tax regime? (Chapter Deductions from Gross Total Income)

- (a) ₹ 82,170
- (b) ₹ 78,500
- (c) ₹ 2,28,500
- (d) ₹ 2,32,170

**Ans: (c)**

4. What is Mr. Akash's tax liability for A.Y.2025-26 under the default tax regime under section 115BAC? (chapter Basic Concepts)

- (a) ₹ 16,97,350
- (b) ₹ 16,72,440
- (c) ₹ 18,41,270
- (d) ₹ 18,84,170

**Ans: (b)**

5. What is Mr. Akash's tax liability for A.Y.2025-26 if he has exercised the option to shift out of the default tax regime? (chapter Basic Concepts)

- (a) ₹ 17,42,740
- (b) ₹ 18,93,720
- (c) ₹ 17,29,210
- (d) ₹ 17,27,500

**Ans: (a)**

**CS 10**

**(MTP 6 Marks Mar'24)**

Mr. Arvind, an Indian citizen, wants to file his return of income for the previous year 2024-25. He required assistance for which he has approached you. He has shared the following details relevant to the P.Y. 2024 - 25.

Mr. Arvind owned a house property in Bangalore and the same was rented out for ₹ 65,000 p.m. to Mr. Arjun, a salaried employee. He claims that this was the only income which he earned during the P.Y. 2024-25. However, when you had sought for his bank statement, you observed the following information additionally. There is a credit for ₹ 23,975 towards income-tax refund which includes ₹ 5,775 towards interest on income-tax refund. On 15th August, 2024, the bank statement showed a credit of ₹ 55,000 which he claimed to have received as a gift from his grandchildren on his 60th birthday. On further assessment you were able to understand that Mr. Arvind and his wife had travelled to Mauritius during the P.Y. 2024-25 to spend some time with their son, who is staying in Mauritius. On scrutiny of their passport and relevant documents you conclude that they had left India on 27th September, 2024 and returned on 31st March, 2025. During the 4 years preceding previous year 2024-25, both had stayed in India for 320 days. Prior to that, they had been staying only in India.

Based on the facts of the case scenario given above, choose the most appropriate answer to the following questions:

1. What is the residential status of Mr. Arvind for the P.Y. 2024-25? (Chapter 2: Residence and Scope of Total Income)

- (a) Resident and ordinarily resident
- (b) Resident but not ordinarily resident
- (c) Non-resident
- (d) Deemed resident but not ordinarily resident

**Ans: (c)**





2. Is there any requirement to deduct tax at source under section 194-IB on such rent by Mr. Arjun? If yes, what would be the amount of TDS to be deducted? (Chapter 7: Advance Tax, Tax Deduction at Source and Tax Collection at Source)
- (a) No, there is no requirement to deduct tax at source under section 194-IB, since Mr. Arjun is a salaried employee
  - (b) Yes, Mr. Arjun is required to deduct tax at source of ₹ 39,000 under section 194-IB
  - (c) Yes, Mr. Arjun is required to deduct tax at source of ₹ 78,000 under section 194-IB
  - (d) No, there is no requirement to deduct tax at source under section 194-IB, since Mr. Arvind is a non-resident

Ans: (d)

3. Which of the following statements is correct with respect to advance tax liability of Mr. Arvind for P.Y. 2023-24? (Chapter 7: Advance Tax, Tax Deduction at Source and Tax Collection at Source)
- (a) Advance tax liability shall not arise to Mr. Arvind since he is a non-resident
  - (b) Advance tax liability shall not arise, since Mr. Arvind is a resident senior citizen and he has no income chargeable under the head "Profits and gains of business or profession"
  - (c) Advance tax liability shall arise, since he is a non-resident
  - (d) Advance tax liability shall arise, since his tax liability is not less than ₹ 10,000

Ans: (d)

CS 11

(RTP Sep'24)

Mr. Naveen, aged 40 years, is engaged in the manufacturing business. He follows mercantile system of accounting. The details pertaining to his business for the year ending on 31.3.2025 is as under –

Particulars	Amount (₹)
Capital receipts	1.20 crores
Turnover	2.80 crores
Amount received in cash [out of turnover]	8 lakhs
Amount received in cash [out of capital receipts]	2 lakhs
Amount received through account payee cheque/ NEFT and other prescribed mode on or before the specified date under section 139(1) [out of turnover]	2.50 crores
Total payment	1.60 crores
Cash payment [out of total payments]	9 lakhs
Net profit as per books of account	10.50 lakhs

An analysis of profit and loss for the year ended on 31.3.2025 revealed the following information

- 1. Salary includes wages of ₹ 15,000 p.m. each paid to 1 security guard, 2 housekeeping staff in cash.
- 2. Other administration expenses include ₹ 70,000 paid in cash (Payment in a day is less than ₹8,000).
- 3. Interest charges includes interest payable on loan to Kamal of ₹ 70,000 on which TDS has not been deducted. Loan was taken for the business purpose.

On the basis of the facts given above, choose the most appropriate answer to Q.1 to Q.5 below –

1. Is Mr. Naveen eligible to declare income on presumptive basis under the provisions of the Income-tax Act, 1961 for A.Y. 2025-26?
- (a) No, since turnover of Mr. Naveen exceeds the threshold limit of ₹ 2 crores.
  - (b) Yes, since aggregate cash receipts during the year do not exceed 5% of total amount received.
  - (c) Yes, since amount received in cash during the year do not exceed 5% of turnover.
  - (d) No, as cash payments during the year exceed 5% of aggregate payments.

Ans: (c)

2. What would be your answer to MCQ 1, assuming for the purpose of answering this MCQ and MCQ 3 that Mr. Naveen has additionally received ₹ 10 lakhs by way of crossed cheque [out of turnover] during the P.Y. 2024-25?
- (a) No, since turnover of Mr. Naveen exceeds the threshold limit of ₹ 2 crore.
  - (b) No, since the aggregate cash receipts during the year exceed 5% of turnover.





- (c) No, as cash payments during the year exceed 5% of aggregate payments.
- (d) No, due to both (a) and (b)

**Ans: (d)**

**3. Is Mr. Naveen required to get his books of account audited during the P.Y. 2024-25?**

- (a) No, since turnover of Mr. Naveen does not exceed the threshold limit of ₹ 10 crores.
- (b) Yes, since amount received in cash during the year exceeds 5% of turnover.
- (c) Yes, since cash payments during the year exceed 5% of aggregate payments.
- (d) No, since the amount received in cash during the year does not exceed 5% of total amount received.

**Ans: (c)**

**4. What is the amount of profits and gains of business chargeable to tax in the hands of Mr. Naveen as per books of account?**

- (a) ₹ 10,50,000
- (b) ₹ 16,11,000
- (c) ₹ 16,81,000
- (d) ₹ 16,60,000

**Ans: (b)**

**5. What is the amount of profits and gains of business chargeable to tax in the hands of Mr. Naveen if he does not want to get his books of account audited?**

- (a) ₹ 17,40,000
- (b) ₹ 16,96,000
- (c) ₹ 22,40,000
- (d) ₹ 16,80,000

**Ans: (a)**

**CS 12**

**(MTP 6 Marks Jul'24, Nov'21)**

Mr. Mayank had bought a residential house worth ₹ 2.5 crores at South Extension, Delhi in 2018 and let out the house on rent to Mr. Rihaan. The property was funded through loan from PNB. The interest due for F.Y. 2024-25 to PNB is ₹ 25 lakhs, out of which he paid only ₹ 20 lakhs during the year. Mr. Mayank then took a loan of ₹ 1.5 crores from SBI on 1.7.2024 for construction of first floor in that house for self-occupation. The construction is in progress as on 31.3.2025. Mr. Mayank started repaying EMIs due to SBI. During the P.Y. 2024-25, he repaid principal amount of ₹ 25 lakhs and ₹ 5 lakhs to PNB and SBI, respectively. He also paid interest of ₹ 8 lakhs to SBI out of ₹ 10 lakhs, being interest due for the period from 1.7.2024 to 31.3.2025. Mr. Mayank owns another house in Haryana. He transferred that house to his minor daughter Miss Sia on her birthday as her birthday gift. Miss Sia gave the said house to the local Panchayat from September, 2024 at a rent of ₹ 5,000 per month. Mrs. Mayank's total income for A.Y.2025-26 is higher than that of Mr. Mayank. This is the first year when Miss Sia has any source of income.

Mr. Mayank bought electric vehicle worth ₹ 50 lakhs on loan from BSM Bank which it sanctioned on 1.4.2022. BSM Bank charged interest of ₹ 7 lakhs on electric vehicle for the P.Y.2024-25. Mr. Mayank has also taken loan from ABC Bank for his daughter's higher education. He paid ₹ 50,000 as interest to ABC Bank. He also paid mediclaim of ₹ 20,000 to New India Assurance Scheme for insuring his health.

From the information given above, choose the most appropriate answer to the following questions:

**1. What is the amount of interest allowable as deduction u/s 24 to Mr. Mayank for A.Y.2025-26?**

**(Chapter 2: Income from House Property)**

- (a) ₹ 2 lakhs
- (b) ₹ 25 lakhs
- (c) ₹ 28 lakhs
- (d) ₹ 35 lakhs

**Ans: (b)**

**2. What is the amount of deduction permissible to Mr. Mayank under Chapter VI-A of Income-tax Act, 1961 for A.Y. 2025-26 if he has opted out of the default tax regime? (Chapter 6: Deductions from Gross Total**





Income)

- (a) ₹ 1,70,000
- (b) ₹ 2,20,000
- (c) ₹ 3,70,000
- (d) ₹ 9,20,000

Ans: (c)

3. In whose hands would Sia's rental income from house property at Haryana be taxable and how much income would be taxable? (Chapter 4: Income of Other Persons included in Assessee's Total Income)

- (a) In Sia's hands; ₹ 24,500
- (b) In Mr. Mayank's hands; ₹ 24,500
- (c) In Mrs. Mayank's hands; ₹ 23,000
- (d) It would change every year depending on the parent whose income is higher in that year.

Ans: (b)

CS 13

(MTP 6 Marks Aug'24)

Mr. Sambhav (aged 48 years) 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 by 30.9.2025]	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 lakhs for delivery of goods outside India. He received rent of ₹ 30,000 per month for a commercial property let out to Mr. Akash, a salaried individual. He earned interest on savings bank A/c of ₹ 15,000 and interest on Post Office savings A/c of ₹ 7,000 during the P.Y. 2024-25.

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

Based on the facts of the case scenario given above, choose the most appropriate answer to the following questions:

1. Compute the amount of export turnover and total turnover for purpose of computing deduction under section 10AA for A.Y. 2025-26. (Chapter 6: Deductions form Gross Total Income)

- (a) ₹ 45,00,000 and ₹ 85,00,000, respectively
- (b) ₹ 40,00,000 and ₹ 80,00,000, respectively
- (c) ₹ 45,00,000 and ₹ 80,00,000, respectively
- (d) ₹ 40,00,000 and ₹ 85,00,000, respectively

Ans: (b)

2. Compute the amount of deduction available to Mr. Sambhav under section 10AA for A.Y. 2025-26. (Chapter 6: Deductions form Gross Total Income)

- (a) ₹ 10,00,000
- (b) ₹ 4,70,577
- (c) ₹ 5,62,500
- (d) ₹ 5,00,000

Ans: (d)

3. Compute the total income of Mr. Sambhav for A.Y. 2025-26. (Chapter 9: Income Tax Liability- Computation and Optimisation)

- (a) ₹ 17,60,500
- (b) ₹ 12,60,500
- (c) ₹ 18,72,000
- (d) ₹ 17,64,000

Ans: (a)





Mr. Anshul, aged 54 years, an Indian citizen, is working as Assistant Manager in ABC India Ltd. He is getting basic salary of ₹ 58,000 per month. He used to travel frequently out of India for his office work. He left India from Delhi Airport on 5th October, 2024 and returned to India on 2nd April, 2025.

For previous year 2024-25, following information are relevant;

- (a) Dearness Allowance - 10% of Basic Pay (considered for retirement purposes)
  - (b) Bonus - ₹ 98,000
  - (c) Medical allowance paid during P.Y. 2024-25 amounting to ₹ 60,000
  - (d) He was also reimbursed medical bill of his mother amounting to ₹ 15,000.
  - (e) He was also reimbursed salary of house servant of ₹ 4,000 per month.
  - (f) Professional tax paid by employer amounting to ₹ 2,400.
  - (g) 400 equity shares allotted by ABC India Ltd. at the rate of ₹ 250 per share against fair market value of share of ₹ 350 on the date of exercise of option.
  - (h) Mr. Anshul has exercised the option to shift out of the default tax regime under section 115BAC.
- Based on the facts of the case scenario given above, choose the most appropriate answer to the following questions:

1. What is Mr. Anshul's residential status for the A.Y. 2025-26? (Chapter 2: Residence and Scope of Total Income)

- (a) Resident but can't determine resident and ordinarily resident or resident but not ordinarily resident from the given information
- (b) Non-Resident
- (c) Resident but not ordinarily resident
- (d) Resident and ordinarily resident

Ans: (a)

2. What are his taxable perquisites for A.Y. 2025-26? (Unit 1: Salaries)

- (a) ₹ 55,000
- (b) ₹ 90,400
- (c) ₹ 1,05,400
- (d) ₹ 1,03,000

Ans: (c)

3. What is the income chargeable under the head "Salaries" in the hands of Mr. Anshul for A.Y. 2025-26? (Unit 1: Salaries)

- (a) ₹ 9,76,600
- (b) ₹ 9,86,600
- (c) ₹ 9,71,600
- (d) ₹ 9,61,600

Ans: (a)

Mr. Sarthak, aged 38 years, working in Nobita Pvt. Limited as Senior Manager- Finance. His yearly pay slip for the financial year 2024-25 is as follows:

Earnings	Total	Deduction	Total
Basic Pay	6,34,068	Employee's contribution to Provident Fund	1,14,132
Dearness allowance	1,26,814	Profession tax	2,400
HRA	3,17,040	Income-tax	2,32,830
Transport Allowance	19,200	Net Pay	13,03,848
Personal Allowance	5,09,088		
Children Education Allowance for two children	12,000		





Medical Allowance	15,000		
Bonus	20,000		
Total Earnings	16,53,210		16,53,210

- His employer also contributes equivalent amount of contribution towards provident fund.
- Dearness allowance forms part of retirement benefits.
- He has intimated to his company that he would opt for 115BAC for the A.Y. 2025-26. Consequently, he has not submitted any investment proof to company.
- He has paid ₹ 55,212 towards mediclaim premium for his parents (aged above 65 years) by account payee cheque.
- He has purchased a house of ₹ 28,00,000 and taken a loan of ₹ 21,00,000 from HDFC. He is paying EMI of ₹ 22,835. Possession of house received on 01/04/2024. He himself is occupying this house. Total principal and interest paid for full year is ₹ 55,037 and ₹ 2,18,983 respectively as per interest certificate received from bank for F.Y. 2024-25.
- He has 3 children, studying in Sandalwood International School. The following are the components of school fees paid for the Academic Session 2024-25:

School Fees Component	Child 1	Child 2	Child 3	Total
Tuition fees	30,000	37,000	40,000	1,07,000
Admission fees	20,000	-	-	20,000
Books, stationery and uniform	8,000	12,000	15,000	35,000
Infrastructure Fund	25,000	30,000	35,000	90,000
Commute cost	8,000	8,000	8,000	24,000
Activity Fees	6,000	7,000	8,000	21,000
Total Fees	97,000	94,000	1,06,000	2,97,000

- He has invested ₹ 5000 in HDFC ULIP and taken a LIC policy for his wife for ₹ 10,000.
- He has invested ₹ 12,500 and ₹ 25,000 towards NPS Tier I A/c and Tier II A/c, respectively.
- He has also donated ₹ 50,000 in PM Cares fund created for relief from COVID-19 pandemic in India.
- He has invested ₹ 40,000 in listed equity shares of Shaktimaan Power Solution Limited on 01/03/2024 at ₹ 200 per share and sells 100 shares at ₹ 350 per share on 01/07/2024. STT is paid both at the time of sale and purchase of these shares.

Based on the above facts, choose the most appropriate Answer to Q. Nos. 1 to 5:

1. What would be the amount of income chargeable to tax under the head "Salaries" in the hands of Mr. Sarthak for the A.Y. 2025-26? (Chapter 4.1 Salaries)

- ₹ 16,53,210
- ₹ 16,21,236
- ₹ 16,01,036
- ₹ 16,71,236

Ans: (c)

2. Whether the tax deducted at source by Nobita Pvt Ltd. on the salary paid to Mr. Sarthak based on the intimation submitted by him, is correct? (Chapter 9 Advance Tax, Tax Deducted at Source & Introduction to Tax Collection at Source)

- Yes, the amount of ₹ 2,32,830 deducted as tax at source is correct.
- No, the correct amount of tax to be deducted at source is ₹ 1,77,123.
- No, the correct amount of tax to be deducted at source is ₹ 2,42,800.
- No, the correct amount of tax to be deducted at source is ₹ 2,41,300.

Ans: (b)

3. What would be the total income (without rounding off) of Mr. Ram for the A.Y. 2025-26, assume that he does not opt for section 115BAC? (Chapter 8 Computation of Total Income & Tax Payable)

- ₹ 11,73,736
- ₹ 11,76,699
- ₹ 11,61,699
- ₹ 11,58,736

Ans: (a)





4. What would be tax liability of Mr. Sarthak for the A.Y. 2025-26, if he does not opt for section 115BAC?

(Chapter 1 Basic Concepts)

- (a) ₹ 1,66,530
- (b) ₹ 1,68,870
- (c) ₹ 1,71,210
- (d) ₹ 1,67,450

Ans: (b)

5. Assuming for the purpose of Answering this Question only that no contribution is made by Mr. Sarthak and his employer towards provident fund, what amount of deduction is available to Mr. Sarthak under Chapter VI-A for the previous year 2024-25, if he does not opt for section 115BAC? (chapter 7 Deductions from Gross Total Income)

- (a) ₹ 2,62,500
- (b) ₹ 2,59,537
- (c) ₹ 2,50,000
- (d) ₹ 2,04,500

Ans: (b)

CS 16

(MTP 10 Marks Oct'22 & MTP, Mar'24)

LDR

Mr. Raj, aged 45 years, commenced operations of the business of a new three-star hotel in Mumbai, Maharashtra on 1.4.2024. He incurred capital expenditure of ₹ 90 lakh on land in 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 ₹ 2.50 crore (out of which ₹ 1 crore was for acquisition of land and ₹ 1.50 crore was for acquisition of building) exclusively for the above business. The payments in respect of the above expenditure were made by account payee cheque. The profits from the business of running this hotel (before claiming deduction under section 35AD) for the A.Y.2025-26 is ₹ 75 lakh. Mr. Raj is not opting for section 115BAC.

Mr. Viraj, brother of Mr. Raj, has commenced the business of manufacture of apparel on 1.10.2024. He employed 220 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)	40	1.10.2024	Regular	24,000
(ii)	80	1.10.2024	Regular	24,500
(iii)	50	1.11.2024	Casual	25,500
(iv)	30	1.11.2024	Regular	25,000
(v)	20	1.12.2024	Casual	24,000

All regular employees participate in Recognized Provident Fund and their emoluments are paid by account payee cheque. The profits and gains derived from manufacture of apparel that year is ₹ 80 lakhs and his total turnover is ₹ 11 crores.

Based on the facts of the case scenario given above, choose the most appropriate answer to the following questions:

1. Assuming that Mr. Raj has fulfilled all the conditions specified for claim of deduction under section 35AD and has not claimed any deduction under Chapter VI-A under the heading "C. – Deductions in respect of certain incomes", what would be the quantum of deduction under section 35AD, which he is eligible to claim as deduction for A.Y.2025-26? (Chapter: Profits & Gains from Business Profession)

- (a) ₹ 340 lakh
- (b) ₹ 250 lakh
- (c) ₹ 190 lakh
- (d) ₹ 150 lakh

Ans: (d)

2. Assuming that Mr. Raj also has another existing business of running a four-star hotel in Ahmedabad, which commenced operations twenty years back, the profits from which are ₹ 130 lakh for the A.Y.2025-26, what





would be its income chargeable/loss under the head "Profits and gains of business or profession" for the A.Y.2025-26? (Chapter: Profits & Gains from Business Profession)

- (a) ₹ 130 lakh
- (b) ₹ 55 lakh
- (c) ₹ 20 lakh
- (d) ₹ 15 lakh

Ans: (b)

3. If, out of the amount of ₹ 1 crore paid for acquisition of land in the P.Y.2024-25, ₹ 50 lakh was paid by way of cash, what would be the answer to questions (i) and (ii) above? (Chapter: Profits & Gains from Business Profession)

- (a) ₹ 150 lakh; ₹ 55 lakh, respectively
- (b) ₹ 100 lakh; ₹ 105 lakh, respectively
- (c) ₹ 290 lakh; ₹ 85 lakh, respectively
- (d) ₹ 140 lakh; ₹ 65 lakh, respectively

Ans: (a)

4. Considering the assumption given in question (ii) above, what would be the tax payable (rounded off) by Mr. Raj for A.Y.2024-25? (Chapter : Basic Concepts)

- (a) ₹ 16,73,100
- (b) ₹ 42,03,940
- (c) ₹ 2,73,000
- (d) ₹ 15,21,000

Ans: (b)

5. Would Mr. Viraj be eligible for deduction under section 80JJAA in the A.Y.2025 -26 ? If so, what is the quantum of deduction? (Chapter : Deductions from Gross Total Income)

- (a) No, he would not be eligible for deduction u/s 80JJAA since the employees have not been employed for 240 days in the P.Y.2024-25.
- (b) Yes; ₹ 63,81,000
- (c) Yes; ₹ 58,68,000
- (d) Yes; ₹ 52,56,000

Ans: (b)

CS 17

(MTP 12 Marks Apr'24) (Same Concept Different Figure MTP Mar'21 & Sep'23, MTP 6 Marks Dec'24)

Mr. Pankaj, an Indian resident, purchased a residential house property at Kanpur on 20.08.1998 for ₹ 20.5 lakhs. The fair market value and the stamp duty value of such house property as on 1.4.2001 was ₹ 28.5 lakhs and ₹ 25 lakhs, respectively. On 05.02.2016, Mr. Pankaj entered into an agreement with Mr. Gyan for the sale of such property for ₹ 61 lakhs and received an amount of ₹ 2.5 lakhs as advance. However, as Mr. Gyan did not pay the balance amount, Mr. Pankaj forfeited the advance.

On 10.05.2024, Mr. Pankaj sold the house property to Mr. Rohan for ₹ 1.50 crores, when the stamp duty value of the property was ₹ 2 crores. Further, he purchased two residential house properties at Delhi and Mumbai for ₹ 57 lakhs each on 28.09.2025. Mr. Pankaj has no other income during the P.Y. 2024-25.

On 31.01.2026, Mr. Pankaj decided to sell the house property at Mumbai to his brother, Mr. Gaurav, for ₹ 58 lakhs, from whom ₹ 25,000 was received in cash on 15.01.2026 as advance for signing the agreement to sale. Sale deed was registered on 30.03.2026 on receipt of the balance amount through account payee cheque from Mr. Gaurav. The stamp duty value of house property at Mumbai on 31.01.2026 and 30.03.2026 was ₹ 61 lakhs and ₹ 64 lakhs, respectively.

Cost inflation index –

P.Y. 2024-25: 363; P.Y. 2015-16: 254; P.Y. 2001-02: 100

Based on the facts of the case scenario given above, choose the most appropriate answer to the following questions:





1. What shall be the indexed cost of acquisition of residential house property at Kanpur for computation of capital gains in the hands of Mr. Pankaj? (Chapter 3.4 Capital Gains)

- (a) ₹ 78,30,000
- (b) ₹ 87,00,000
- (c) ₹ 90,48,000
- (d) ₹ 99,18,000

Ans: (b)

2. The amount of capital gains taxable for A.Y. 2025-26 in the hands of Mr. Pankaj for sale of residential house property at Kanpur is - (Chapter 3.4 Capital Gains)

- (a) Nil
- (b) ₹ 1,00,000
- (c) ₹ 63,00,000
- (d) ₹ 1,13,00,000

Ans: (d)

3. The amount of capital gains taxable for A.Y. 2025-26 in the hands of Mr. Pankaj for sale of residential house property at Mumbai is - (Chapter 3.4 Capital Gains)

- (a) ₹ 8 lakhs
- (b) ₹ 7 lakhs
- (c) ₹ 4 lakhs
- (d) ₹ 1 lakh

Ans: (b)

4. The amount taxable under section 56(2)(x) in the hands of Mr. Gaurav, if any, is -(Chapter Income from Other Sources)

- (a) Nil
- (b) ₹ 1 lakh
- (c) ₹ 3 lakhs
- (d) ₹ 6 lakhs

Ans: (a)

5. What shall be the tax credit available with Mr. Pankaj with respect to sale of property at Kanpur during P.Y. 2024-25 assuming the tax was fully deducted by Mr. Rohan? (Chapter 3.4 Capital Gains)

- (a) ₹ 2,00,000
- (b) ₹ 1,50,000
- (c) ₹ 1,00,000
- (d) ₹ 87,000

Ans: (a)

6. Is Mr. Pankaj required to file his return of income for A.Y. 2025-26? (Chapter 8 Provisions for filing Return of Income and Self-Assessment)

- (a) Yes, since his total income exceeds the basic exemption limit
- (b) No, since his total income does not exceed the basic exemption limit
- (c) Yes, since tax deducted in his case exceeds ₹ 25,000
- (d) Yes, since his total income before exemption under section 54 exceeds the basic exemption limit

Ans: (a)

CS 18

(RTP Jan'25)

LDR

Sagar LLP is an LLP unit set up in Special Economic Zone (SEZ) in the financial year 2019-20 for manufacture of textiles. The unit fulfils all the conditions under section 10AA of the Income-tax Act, 1961. The details of this unit for the financial year 2024-25 are given:





Particulars	₹
Profits of unit located in SEZ	58,00,000
Export sales of above unit received in India in convertible foreign exchange on or before 30.9.2025	1,00,00,000
Domestic sales of above unit	60,00,000

Sagar LLP has three partners, Mr. Ram, Mr. Shyam and Mr. Ganesh. Mr. Ram and Mr. Shyam are working partners while Mr. Ganesh is a non-working partner. All the three partners are receiving remuneration of ₹ 1 lakh per month from the LLP which is already debited to the profits and loss account of the LLP.

Apart from this, Mr. Ganesh was employed in XYZ Ltd. till 30.9.2024 and having a salary of ₹ 80,000 per month. He resigned then and decided to start his own business. He set up a warehousing facility in Pune for storage of agricultural produce, fulfilling the conditions for claim of deduction under section 35AD. Capital expenditure in respect of warehouse amounted to ₹ 90 lakhs (including cost of land ₹ 30 lakhs) was incurred during the P.Y. 2024-25. The warehouse became operational with effect from 1st December 2024. The profit from operation of warehousing facility (before considering deduction under section 35AD) during the F.Y. 2024-25 is ₹ 1,10,00,000.

He pays lumpsum premium of ₹ 90,000 towards health insurance for self and his wife (age 43 years) for 36 months on 01.10.2024 by account payee cheque. He also contributes ₹ 1,50,000 towards PPF.

From the information given above, choose the most appropriate answer to the following questions –

1. What is the amount of remuneration allowable as deduction to the LLP for A.Y. 2025-26 under the head “Profits and gains of business or profession”? (Chapter Profits and Gains of Business or Profession)

- (a) ₹ 36.00 lakhs
- (b) ₹ 57.30 lakhs
- (c) ₹ 35.70 lakhs
- (d) ₹ 24.00 lakhs

Ans : (d)

2. What is the amount of deduction available under section 10AA to Sagar LLP and under section 35AD to Mr. Ganesh while computing income under the regular provisions of the Income-tax Act, 1961 for A.Y. 2025-26? (Chapter Profits and Gains of Business or Profession)

- (a) ₹ 36.25 lakhs and ₹ 60 lakhs, respectively
- (b) ₹ 21.875 lakhs and ₹ 60 lakhs, respectively
- (c) ₹ 18.125 lakhs and ₹ 60 lakhs, respectively
- (d) ₹ 21.875 lakhs and ₹ 90 lakhs, respectively

Ans: (b)

3. What is the total income of Mr. Ganesh under the regular provisions of the Income-tax Act, 1961 for A.Y. 2025-26? (Chapter Income Tax Liability – Computation and Optimization)

- (a) ₹ 52,57,500
- (b) ₹ 52,55,000
- (c) ₹ 53,05,000
- (d) ₹ 64,55,000

Ans: (a)

4. What is the tax liability (rounded off) of Mr. Ganesh under default tax regime under section 115BAC for A.Y. 2025-26? (Chapter Basic Concepts)

- (a) ₹ 37,42,280
- (b) ₹ 40,18,560
- (c) ₹ 36,22,680
- (d) ₹ 40,65,200

Ans: (c)

5. What is the tax liability (rounded off) of Mr. Ganesh if he has opted out of the default tax regime for A.Y. 2025-26? (Chapter Basic Concepts)

- (a) ₹ 15,89,870
- (b) ₹ 24,24,460





(c) ₹ 15,89,020

(d) ₹ 24,90,280

Ans: (b)

CS 19

(MTP 6 Marks Nov'24) (Similar concepts different figures MTP 10 Marks Mar'23, RTP Nov'21)

Mr. Raja, an Indian citizen, aged 61 years, has set-up his business in Canada and is residing in Canada since 2009. He owns a house property in Canada, half of which is used by him for his residence and half is given on rent (converted into INR is ₹12,00,000 p.a.).

He purchased a flat in Delhi on 13.10.2020. He has taken a loan from Canara Bank in India of ₹ 34,00,000 for purchase of this flat. The interest on such loan for the F.Y. 2024-25 was ₹ 3,14,000 and principal repayment was ₹ 80,000. Mr. Raja has given this flat on monthly rent of ₹ 32,500 since April, 2024. The annual property tax of Delhi flat is ₹ 40,000 which is paid by Mr. Raja, whenever he comes to India to meet his parents. Mr. Raja visited India for 124 days during the previous year 2024-25. Before that he visited India in total for 366 days during the period 1.4.2020 to 31.3.2024.

He had a house in Ranchi which was sold in May 2022. In respect of this house, he received arrears of rent of ₹ 2,96,000 in February 2025 (not taxed earlier).

Mr. Raja has sold 10,000 listed shares @ ₹ 480 per share of A Ltd., an Indian company, on 15.9.2024, which he acquired 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.

On 31-01-2018, the shares of A Ltd. were traded on a recognized stock exchange as under:

Highest price - ₹ 300 per share

Average price - ₹ 290 per share

Lowest price - ₹ 280 per share

Mr. Raja wants to pay tax under default tax regime under section 115BAC.

Based on the facts of the case scenario given above, choose the most appropriate answer to the following questions:-

1. What would be the residential status of Mr. Raja for the A.Y. 2025-26? (Chapter Residence and Scope of Total Income)

- (a) Resident and ordinarily resident in India
- (b) Resident but not ordinarily resident in India
- (c) Non-resident
- (d) Deemed resident

Ans: (b)

2. What would be amount of income taxable under the head "Income from house property" in the hands of Mr. Raja for the A.Y. 2025-26? (chapter Income from House Property)

- (a) ₹ 2,52,200
- (b) ₹ 1,38,200
- (c) ₹ 9,78,200
- (d) ₹ 10,92,200

Ans: (b)

3. What amount of capital gain would arise in the hands of Mr. Raja on transfer of shares of A Ltd? (chapter Capital Gains)

- (a) ₹ 18,00,000
- (b) ₹ 19,00,000
- (c) ₹ 20,00,000
- (d) ₹ 38,00,000

Ans: (a)

CS 20

(MTP 6 Marks Nov'24)

LDR

Mr. Anay (aged 52 years) is the CEO of XYZ Enterprise Limited. During the previous year 2024-25, he earned salary of ₹ 1,65,00,000 and long-term capital gain on sale of listed equity shares (STT paid) amounting





to ₹1,06,500. He earned interest of ₹4,82,778 on saving bank account.

Further, he has provided the following other information for filing his return of income:

He does not receive house rent allowance from his employer. Mr. Anay took a loan from State Bank of India on 27<sup>th</sup> October 2022 for repairing his house (self-occupied) at Delhi and paid interest on such borrowings of ₹80,000 and ₹1,50,000 towards principal amount during the previous year 2024-25.

Mr. Anay has made the following payments towards medical insurance premium for health policies taken for his family members:

Medical premium for his brother: ₹13,500 (by cheque)

Medical premium for his parents: ₹17,670 (by cheque)

Medical premium for self and his wife: ₹21,000 (by cheque).

He also incurred ₹6,400 towards preventive health check-up of his wife in cash. He deposited ₹1,00,000 towards PPF. He also deposited ₹50,000 and ₹2,50,000 towards Tier I and Tier II NPS A/c, respectively.

He has paid ₹5,30,000 as advance tax. His employer has deducted tax at source of ₹51,89,000. He is of the opinion that the balance amount of tax, if any, he will pay on 27<sup>th</sup> July 2025.

Mr. Anay shifts out of the default tax regime under section 115BAC.

Based on the facts of the case scenario given above, choose the most appropriate answer to the following questions:-

1. What would be the amount of deduction available to Mr. Anay under Chapter VI-A for the assessment year 2024-25? (Chapter Deductions from Gross Total Income)

- (a) ₹2,04,070
- (b) ₹2,42,670
- (c) ₹2,52,670
- (d) ₹2,02,670

Ans: (d)

2. Assume that, for the purpose of answering this question alone, that Mr. Anay pays rent of ₹65,000 per month for his rented house at Mumbai to Mr. C, a resident individual. Is Mr. Anay liable to deduct TDS on such rent? If so, what would be the rate and amount of TDS? (Chapter Advance Tax, Tax Deduction at Source and Tax Collection at Source)

- (a) Yes, Mr. Anay is liable to deduct TDS @2% amounting to ₹15,600 in the month of March 2025
- (b) Yes, Mr. Anay is liable to deduct TDS @5% amounting to ₹3,250 every month i.e., at the time of payment of such rent
- (c) Yes, Mr. Anay is liable to deduct TDS @5% amounting to ₹39,000 in the month of March 2025
- (d) No, Mr. Anay is not liable to deduct TDS, since he is a salaried person

Ans: (a)

3. What would be the amount of interest chargeable under section 234B on account of short payment of advance tax? (Chapter Advance Tax, Tax Deduction at Source and Tax Collection at Source)

- (a) ₹1,980
- (b) Nil
- (c) ₹3,130
- (d) ₹2,410

Ans: (b)

CS 21

(MTP 6 Marks Dec'24) (Same concepts different figures MTP 10 Marks Apr'22)

Mr. Ashish born on 1.4.1964 furnished his return of income for Assessment Year 2025-26 on 10.07.2025. He has paid tax under default tax regime. He had shown the following income in his original return of income -

- Salary of ₹10.50 lakhs from PQR (P) Ltd (Computed)
- Interest from savings bank account of ₹15,700
- Interest from fixed deposits with SBI of ₹50,000.

During the P.Y. 2024-25, he paid interest on loan of ₹2,50,000 for purchase of self-occupied property. He contributed ₹1,50,000 towards the PPF. He paid health insurance premium of ₹40,000 by account payee cheque for self and wife. He paid ₹2,200 in cash for his health check-up and ₹4,000 by cheque for preventive





health check-up of his parents. He also paid medical insurance premium of ₹ 29,000 during the year to insure the health of his mother, aged 80 years. He further incurred medical expenditure of ₹ 18,000 on his father, aged 81 years, who is staying with him. His father is not covered under any mediclaim policy.

He met one of his friends, CA. Ashwin on 01.02.2026. While discussing with his friend, his friend told him that the default tax regime under section 115BAC is not beneficial to him. He advised him to revise his return of income and shift out of the default tax regime. However, Mr. Ashish's son, who is employed in the accounts department of TQM (P) Ltd., is of the view that once tax is paid under section 115BAC in original return, it cannot be changed in revised return.

From the information given above, choose the most appropriate answer to the following questions –

1. What is the total deduction under Chapter VI-A allowable to Mr. Ashish if he shifts out of the default tax regime under section 115BAC? (Chapter 6: Deductions from Gross Total Income)

- (a) ₹ 2,34,800
- (b) ₹ 2,35,000
- (c) ₹ 2,92,000
- (d) ₹ 2,92,200

Ans: (c)

2. What is total income of Mr. Ashish under normal provisions of the Act for A.Y. 2025-26? (Chapter 9: Income Tax Liability – Computation and Optimization)

- (a) ₹ 5,73,700
- (b) ₹ 6,23,700
- (c) ₹ 6,25,700
- (d) ₹ 6,30,700

Ans: (b)

3. Can Mr. Ashish file his revise return of income for A.Y. 2025-26 after the due date and declare income under the regular provisions of the Act? (Chapter 8: Provisions for filing Return of Income and Self-Assessment)

- (a) Yes, Mr. Ashish can revise his return of income and declare income under the regular provisions of the Act
- (b) No, though he can file a revised return of income, option to shift out from section 115BAC once not opted in original return of income cannot be opted in revised return of income if he is filing revised return after due date.
- (c) No, Mr. Ashish cannot revise his return of income for A.Y. 2025-26
- (d) No, he cannot do so since he is a salaried employee. He would have made a declaration to pay tax under section 115BAC to his employer, which cannot be changed subsequently at the time of filing of return of income

Ans: (c)

CS 22

(PYP 6 Marks Sep'24) (chapter Income from House Property)

Ms. Prerna is having a residential house property in Nagpur, of which  $\frac{1}{3}^{\text{rd}}$  is self-occupied and  $\frac{2}{3}^{\text{rd}}$  is let out for commercial purposes at a monthly rent of ₹ 12,000. Fair rent (for let out portion only) was ₹ 30,000 p.m., Municipal value for the property was ₹ 2,40,000 and standard rent under the Rent Control Act was ₹ 3,00,000 for the entire property. Municipal taxes are 10% of municipal valuation and are paid by her on 30<sup>th</sup> July, 2024. She took a loan of ₹ 45,00,000 for the construction of this house from a scheduled bank on 1.4.2022. She repaid the entire loan along with interest on 30.6.2024. The interest rate for this loan was 10% p.a. The construction was completed on 30<sup>th</sup> June, 2023. She earns other income of ₹ 2,00,000 during the previous year 2024-25. She wishes to opt for<sup>1</sup> default tax regime.

Based on the above information, answer multiple choice question no. 1-3:

1. The Net Annual Value (NAV) of the house property for the A.Y. 2025-26 is:

- (a) ₹ 1,28,000
- (b) ₹ 1,44,000
- (c) ₹ 1,84,000
- (d) ₹ 2,00,000

Ans: (c)

2. Deduction in respect of interest on loan for the P.Y. 2024-25 shall be:

- (a) ₹ 2,02,500
- (b) ₹ 1,35,000
- (c) ₹ 5,62,500
- (d) ₹ 1,12,500





Ans: (b)

3. Compute her total income for the assessment year 2025-26

- (a) ₹ 1,93,800
- (b) ₹ 2,00,000
- (c) Nil
- (d) ₹ 2,05,000

Ans: (b)

CS 23

(PYP 6 Marks Sep'24)

Mr. Desai (aged 52 years) is an Indian resident. He gives the following information to you relating to the P.Y. 2024-25:

- (i) Profit from the business carried out in Dubai controlled from Dubai ₹ 13,10,000 (received in a bank account in Dubai).
- (ii) Loss from a business in Delhi - ₹ 4,50,000
- (iii) During the F.Y. 2024-25, he also played some online games on a particular Indian website Game.com. Game.com is a manufacturer of men's shirts. During the year, Mr. Desai won 6 such shirts. The cost to manufacture such shirts by Game.com is ₹ 3,000 per piece and it sells these shirts at ₹ 10,000 per piece (excluding GST @18%). However, to play such games, Mr. Desai had to deposit a sum of ₹ 50,000 with the website as a refundable deposit.
- (iv) On 23<sup>rd</sup> May 2024, he gifted listed equity shares in an Indian company to his son's daughter, Ms. Shanaya. These shares were purchased by him on 1.4.2021 for ₹ 65,000. The market value as on the date of transfer was ₹ 1,00,000. Shanaya sold these shares for a consideration of ₹ 50,000 on 31.3.2025.
- (v) He had taken a loan of ₹ 25,00,000 for the purchase of an electric vehicle (for his personal purposes) on 1.4.2023 from a scheduled bank. He paid ₹ 5,00,000 as interest on such loan during the P.Y. 2024-25.
- (vi) He opts<sup>2</sup> to be governed by the default provisions of taxation regime under the Act.

Based on the above information, answer multiple choice questions:

1. What shall be the total income of Mr. Desai for the A.Y. 2025-26 (Chapter Income Tax Liability – Computation and Optimisation)

- (a) ₹ 8,78,000
- (b) ₹ 8,63,000
- (c) ₹ 9,20,000
- (d) ₹ 7,70,000

Ans: (c)

2. Which of the following statement is correct in respect of deductions available to him under Chapter VI-A? (Chapter Deductions from Gross Total Income)

- (a) He shall be eligible for a deduction of ₹ 1,50,000 in respect of interest on loan irrespective of the tax regime opted by him.
- (b) He shall not be eligible for any deduction under Chapter VI-A irrespective of the tax regime opted by him.
- (c) He shall be eligible for a deduction of ₹ 1,50,000 in respect of interest on loan only if he opts out of the default tax regime.
- (d) He shall be eligible for a deduction of ₹ 50,000 in respect of interest on loan only if he opts out of the default tax regime.

Ans: (c)

3. What is the requirement of deduction of tax at source by Game.com in respect of such winning by Mr. Desai? (Chapter Advance Tax, Tax Deduction at Source and Tax Collection at Source)

- (a) Game.com needs to deduct tax at source amounting to ₹ 18,000.
- (b) Game.com needs to deduct tax at source amounting to ₹ 5,400.
- (c) There is no requirement for deduction of tax at source. However, Mr. Desai needs to collect tax at source from the security deposit.
- (d) Game.com needs to deduct tax at source amounting to ₹ 6,000.

Ans: (None of the option is correct)

\*RTP Nov'22 CS 1 has not been taken as the question is now not in syllabus