

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**

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VIVITSU
STRIVING TOWARDS KNOWLEDGE

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This book belongs to future,

CA Finalist

“You become what you believe.”

-Oprah Winfrey



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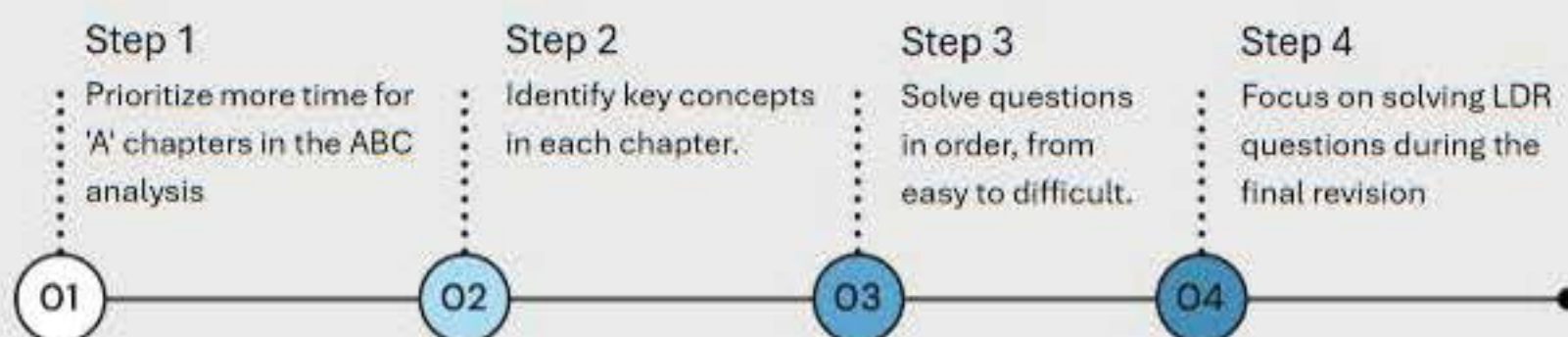


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How to Read this book?



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.

Table of Contents

Sr.	Particulars	PAGE NO.	IMP
Section A - Direct Tax			
1	Basic Concepts	1.1 – 1.12	C
2	Residence and Scope of Total Income	2.1 – 2.31	B
3	Heads of Income		
3.1	Salaries	3.1-1 – 3.1-19	B
3.2	Income from House Property	3.2-1 – 3.2-16	B
3.3	Profits and Gains of Business or Profession	3.3-1 – 3.3-33	A
3.4	Capital Gains	3.4-1 – 3.4-31	A
3.5	Income from Other Sources	3.5-1 – 3.5-7	C
4	Income of Other Persons included in Assessee's Total Income	4.1 – 4.18	B
5	Aggregation of Income, Set-Off and Carry Forward of Losses	5.1 – 5.30	B
6	Deductions from Gross Total Income	6.1 – 6.18	B
7	Advance Tax, Tax Deduction at Source and Tax Collection at Source	7.1 – 7.26	B
8	Provisions for filing Return of Income and Self Assessment	8.1 – 8.18	C
9	Income Tax Liability – Computation and Optimisation	9.1 – 9.78	A
10	Case Scenarios	10.1 – 10.24	A
Section B GST			
11	GST in India – An Introduction	11.1 – 11.5	C
12	Supply under GST	12.1 – 12.9	C
13	Charge of GST	13.1 – 13.10	A
14	Place of Supply	14.1 – 14.12	A
15	Exemptions from GST	15.1 – 15.16	A
16	Time of Supply	16.1 – 16.6	C
17	Value of Supply	17.1 -17.19	A
18	Input Tax Credit	18.1 – 18.36	A
19	Registration	19.1 – 19.16	B
20	Tax Invoice; Credit and Debit Notes	20.1 – 20.12	B
21	Accounts and Records	21.1 – 21.4	C
22	E-Way Bill	22.1 – 22.9	B
23	Payment of Tax	23.1 – 23.9	C
24	Tax Deduction at Source and Collection of Tax at Source	24.1 – 24.5	B
25	Returns	25.1 – 25.10	B
26	Case Scenarios	26.1 – 26.32	A

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 1: BASIC CONCEPTS

CONCEPTS OF THIS CHAPTER

- Understand tax and its types
- Differentiate between direct and indirect taxes
- Recognize components of income-tax law
- Learn income computation for tax levy
- Understand key terms in Income-tax Act, 1961
- Grasp agricultural income and its scope
- Identify agricultural vs non-agricultural income
- Recognize previous and assessment years
- Examine income assessment in the previous year
- Apply tax rates under default tax regime (section 115BAC)
- Apply tax rates for optional tax regime under normal provisions



LDR Questions

Q 7

Q 9

QUICK REVIEW OF IMPORTANT CONCEPTS

Assessee [Section 2(7)]

“Assessee” means a person by whom any tax or any other sum of money is payable under this Act.

Person

• Individual	• AOP/BOI	• Local Authority	• Firm
• Artificial juridical person	• Company	• HUF	

Apportionment of Income between business income and agricultural income:

Rule	Apportionment of income in certain cases	Agricultural Income	Business Income
7A	Income from sale of rubber products derived from rubber plant grown by the seller in India.	65%	35%
7B	Income from sale of coffee	75%	25%
	- grown and cured by the seller in India - grown, cured, roasted and grounded by the seller in India	60%	40%
8	Income from sale of tea grown and manufactured by the seller in India	60%	40%

PREVIOUS YEAR AND ASSESSMENT YEAR

Previous Year 2024-25 → Assessment Year 2025-26

General Rule

Income of a previous year is assessed in the assessment the previous year

Exceptions to this rule

Cases where income of a previous year is assessed in the previous year itself

Shipping business of non-resident	Persons leaving India	AOP/ BOI/ Artificial Juridical Person formed for a particular event or purpose	Persons likely to transfer property to avoid tax	Discontinued business
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UNDISCLOSED SOURCES OF INCOME

- Amount borrowed or repaid on hundi [Section 69D]
- Unexplained Investments [Section 69]
- Investment etc. not fully disclosed [Section 69B]
- Cash Credits [Section 68]
- Unexplained Money [Section 69A]
- Unexplained expenditure [Section 69C]

Individual/Hindu Undivided Family (HUF)/Association of Persons (AOP)/Body of Individuals (BOI)/Artificial Juridical Person

Default tax regime under section 115BAC of the Income-tax Act, 1961

(i)	Up to ₹ 3,00,000	Nil
(ii)	From ₹ 3,00,000 to ₹ 7,00,000	5%
(iii)	From ₹ 7,00,000 to ₹ 10,00,000	10%
(iv)	From ₹ 10,00,000 to ₹ 12,00,000	15%
(v)	From ₹ 12,00,000 to ₹ 15,00,000	20%
(vi)	Above ₹ 15,00,000	30%

Conditions to be satisfied

(1) Certain deductions/exemptions not allowable:

Section	Exemption/Deduction
10(5)	Leave travel concession
10(13A)	House Rent Allowance
10(14)	Exemption in respect of special allowances or benefit to meet expenses relating to duties or personal expenses
10(17)	Daily allowance or constituency allowance of MPs and MLAs
10(32)	Exemption of income of minor child included in the income of parent
10AA	Tax holiday for units established in SEZ
16	(i) Entertainment allowance (ii) Profession tax
24(A)	Interest on loan in respect of self-occupied property
32(1) (iia)	Additional depreciation
35(1) (ii),(iia),(iii) or 35(2AA)	Research related deductions
35AD	Investment linked tax incentives for specified businesses
80C to 80U	Deductions under Chapter VI-A (other than employers contribution towards NPS under section 80CCD(2), 80CCH(2) and deduction in respect of employment of new employees under section 80JJAA).

(2) Certain losses not allowed to be set-off:

- carried forward or depreciation from any earlier assessment year, if such loss or depreciation is attributable to any of the deductions referred to in (1) above; or
- under the head house property with any other head of income; would **not** be allowed.

(3) Depreciation or additional depreciation: Depreciation in respect of any block of assets entitled to more than 40%, would be restricted to 40% on the written down value of such block of assets.

(4) Exemption or deduction for allowances or perquisite: provided under any other law for the time being force in India would **not** be allowed.

Time limit for exercising the option to shift out of the default tax regime

- Assessee having no income from business or profession:** such option has to be exercised along with the return of income to be furnished under section 139(1) for a previous year relevant to the assessment year in each previous year.
- In case of an Assessee having income from business or profession:** the option has to be exercised on or before the due date specified under section 139(1) for furnishing the return of income for such previous year once such option is exercised, it would apply to subsequent assessment years. Thereafter, such person shall never be eligible to exercise option under this section,

AMT liability not attracted in default tax regime.



Tax rates prescribed by the Annual Finance Act for optional tax regime

(i)	not exceed ₹ 2,50,000	NIL
(ii)	₹ 2,50,000 but does not exceed ₹ 5,00,000	5%
(iii)	₹ 5,00,000 but does not exceed ₹ 10,00,000	20%
(iv)	exceeds ₹ 10,00,000	30%

For senior citizens (being resident individuals of the age of 60 years or more but less than 80 years)

(i)	not exceed ₹ 3,00,000	NIL
(ii)	₹ 3,00,000 but does not exceed ₹ 5,00,000	5%
(iii)	₹ 5,00,000 but does not exceed ₹ 10,00,000	20%
(iv)	Exceed ₹ 10,00,000	30%

For resident individuals of the age of 80 years or more at any time during the previous year

(i)	exceed ₹ 5,00,000	NIL
(ii)	₹ 5,00,000 but does not exceed ₹ 10,00,000	20%
(iii)	Exceed ₹ 10,00,000	30%

Section	Income	Rate of Tax
115BB	Winning Form Lotteries etc	30%
115BBJ	Net winnings from online games	30%
115BBE	Unexplained money, investment, expenditure, etc.	60%

Surcharge

In case the Individual/HUF/AOP/BoOI and Artificial Juridical Person pays tax under default tax regime

	Particulars	Rate of surcharge
(i)	Where the total income (including dividend income and capital gains chargeable to tax u/s 111A, 112 and 112A) > ₹ 50 lakhs but ≤ ₹ 1 crore	10%
(ii)	Where total income (including dividend income and capital gains chargeable to tax u/s 111A, 112 and 112A) > ₹ 1 crore but ≤ ₹ 2 crore	15%
(iii)	Where total income (excluding dividend income and capital gains chargeable to tax u/s 111A, 112 and 112A) > ₹ 2 crore The rate of surcharge on the income-tax payable on the portion of dividend income and capital gains chargeable to tax u/s 111A, 112 and 112A	25% Not exceeding 15%
(iv)	Where total income (including dividend income and capital gains chargeable to tax u/s 111A, 112 and 112A) > ₹ 2 crore in cases not covered under (iii) above	15%

Firm/ LLP/ Local Authority

Income-tax

Whole of the total income 30%

Special rates for capital gains under sections 112, 112A and 111A would be applicable to Firm/ LLP/ local authority also.

Surcharge = Total income exceeds ₹ 1 crore, rate of 12%

Co-operative Society

does not exceed ₹ 10,000	10%
exceeds ₹ 10,000 but does not exceed ₹ 20,000	20%
exceeds ₹ 20,000	30%



Tax rate in case of a manufacturing co-operative society opting for concessional tax regime u/s 115BAE 15%
other resident co-operative society opting for concessional tax regime u/s 115BAD: 22%

Surcharge

(a) **whose total income > ₹ 1 crore but is ≤ ₹ 10 crore - 7%**

should not exceed the amount of income-tax computed on total income of ₹ 1 crore by more than the amount of income that exceeds ₹ 1 crore.

(b) **whose total income is > ₹ 10 crore - 12%**

should not exceed the amount of income-tax and surcharge computed on total income of ₹ 10 crore by more than the amount of income that exceeds ₹ 10 crore.

(c) **opting for section 115BAD or section 115BAE - 10%**

Domestic Company

If the total turnover or gross receipt in the P.Y.2022-23 ≤ ₹ 400 crore	25% of the total income
In any other case	30% of the total income

case of a domestic manufacturing company exercising option u/s 115BAB: 15% of income derived from or incidental to manufacturing or production of an article or thing

In case of a domestic company exercising option u/s 115BAA: 22% of total income

Surcharge

(a) Domestic company (other than a domestic company opting for section 115BAA or section 115BAB), whose total income > ₹ 1 crore but is ≤ ₹ 10 crore – 7%

(b) Domestic company (other than a domestic company opting for section 115BAA or section 115BAB), Whose total income is > ₹ 10 Crore – 12%

(c) Domestic company opting for section 115BAA or section 115BAB, Surcharge 10% there would be no marginal relief.

Foreign Company

Royalties and fees for rendering technical services (FTS)	50%
Other income	35%

Surcharge

(a) > ₹ 1 crore but is ≤ ₹ 10 crore – 2%

(b) whose total income is > ₹ 10 crore

Rebate tax under default tax regime u/s 115BAC

If total income **does not exceed ₹ 7,00,000** rebate shall be equal to the amount of income-tax payable on his total income for any assessment year or an amount of ₹ **25,000**, whichever is less.

Rebate to a resident individual paying tax under optional tax regime

If total income of such individual does not exceed ` 5,00,000, the rebate shall be equal to the amount of income-tax payable on his total income for any assessment year or an amount of ` 12,500, whichever is less.

“Health and Education cess” on Income-tax: 4% of income-tax and surcharge, if applicable

Agricultural income is exempt under section 10(1)

However, agricultural income has to be aggregated with non-agricultural income for determining the rate at which non-agricultural income would be subject to tax, in case of individuals, HUF, AOPs & BOIs etc., where the

- agricultural income exceeds ₹ 5,000 p.a. and
- non-agricultural income exceeds basic exemption limit.

Questions & Answers

Question 1

Examine with reasons whether the following statements are correct/incorrect with regard to the provisions of Income-tax Act, 1961:

Cash credit of ₹ 1,50,000 were traced in the books of accounts of Mr. Yogesh for which no explanation about



its source was provided. Such income is taxable @30% under section 115BB in the hands of Yogesh.
(RTP Nov'23)

Answer 1

The statement is incorrect.

Unexplained cash credit is taxable @ 60% plus surcharge @25% plus cess @4% under section 115BBE.

Question 2

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

- (i) Mr. Rajpal took a land on rent from Ms. Shilpa on monthly rent of ₹ 10,000. He sub-lets the land to Mr. Manish for a monthly rent of ₹ 11,500. Manish uses the land for grazing of cattle required for agricultural activities. Mr. Rajpal wants to claim deduction of ₹ 10,000 (being rent paid by him to Ms. Shilpa) from the rental income received by it from Mr. Manish.
- (ii) Mr. Netram grows paddy on land. He then employs mechanical operations on grain to make it fit for sale in the market, like removing hay and chaff from the grain, filtering the grain and finally packing the rice in gunny bags. He claims that entire income earned by him from sale of rice is agricultural income not liable to income-tax since paddy as grown on land is not fit for sale in its original form.
(PYP 4 Marks, Jan'21)

Answer 2

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

Question 3

Mr. X a resident, aged 56 years, till recently was a successful businessman filing his return of incomes regularly and promptly ever since he obtained PAN card. During the COVID- Pandemic period his business suffered severely and he incurred huge losses. He was not able to continue his business and finally on 1st January 2024 he decided to wind-up his business which he also promptly intimated to the jurisdictional Assessing Officer about the closure of his business.

The Assessing Officer sent him a notice to tax income of A.Y. 2025-26 during the A.Y. 2024-25 itself. Does the Assessing Officer have the power to do so? Are there any exceptions to the general rule "Income of the previous year is assessed in the assessment year following the previous year"? (PYP 4 Marks Nov'22)

Answer 3

Yes, he has the power to do so.

Since the business of Mr. X is discontinued on 1st January, 2025, the income of the period from 1.4.2024 to 1.1.2025 may, at the discretion of the Assessing Officer, be charged to tax in A.Y.2025-26 itself.

Following are the other exceptions to the general rule "Income of the previous year is assessed in the assessment year following the previous year" i.e., the income of the previous year is assessed in the previous year itself.

- (i) Shipping business of non-resident
- (ii) Persons leaving India with no present intention of returning
- (iii) AOP/BOI/Artificial Juridical Person formed for a particular event or purpose and likely to be dissolved



(iv) Persons likely to transfer property to avoid tax.

EXAM INSIGHTS: While computing total income of an individual, some of the examinees had not provided deduction under section 80TTA in respect of interest on savings account of minor child included in the hands of the parent.

Question 4

The assessee is found to be the owner of the gold (market value of which is ₹ 50,00,000) during the financial year ending 31-03-2025 but he recorded to have spent ₹ 10,00,000 in acquiring the same. Explain how the Assessing Officer will deal with the issue. (PYP 2 Marks May'22)

Answer 4

As per section 69B, if the assessee is found to be the owner of gold (market value of which is ₹ 50 lakhs) during the financial year ending 31.3.2025 but he has recorded to have spent only ₹ 10 lakhs in acquiring it, the Assessing Officer can add the difference of the market value of such gold and ₹ 10 lakhs i.e., ₹ 40 lakhs as the income of the assessee for A.Y. 2025-26, if the assessee offers no satisfactory explanation thereof. Such income would be chargeable to tax @ 78% (@60% plus surcharge @25% and cess @4%).

Question 5

Mr. Kabra is engaged in the business of growing and curing (further processing) coffee in the state of Karnataka. The whole of coffee grown in his plantation is cured. Relevant information pertaining to the year ended 31-03-2025 are given hereunder:

PARTICULARS	AMOUNT ₹
Opening balance of the car as on 01-04-2024	3,00,000
Opening balance of machinery as on 01-04-2024	15,00,000
Expenses incurred in growing coffee	3,10,000
Expenses of curing coffee	3,00,000
Sale value of cured coffee	22,00,000

The car is used for the agricultural operations and the machine was used for coffee curing business operations. Compute the income arising from the above activities for the assessment year 2025-26 and the written down value as on 01-04-2025 (WDV as on 31-03-2025 less depreciation for the P.Y. 2024-25).

(PYP 4 Marks, May'22)

Answer 5

Computation of Income from growing and curing coffee of Mr. Kabra for A.Y. 2025-26

Particulars	Amount (₹)	Amount (₹)
Income from growing and curing coffee		
Sale value of cured coffee		22,00,000
Less: Expenses incurred in growing coffee	3,10,000	
Depreciation on Car (15% of ₹ 3,00,000)	<u>45,000</u>	
		<u>3,55,000</u>
Less: Expenses of curing coffee	3,00,000	18,45,000
Depreciation on machinery (15% of ₹ 15,00,000)	<u>2,25,000</u>	
		<u>5,25,000</u>
		<u>13,20,000</u>
Business Income [25% of ₹ 13,20,000]		3,30,000
Agricultural Income [75% of ₹ 13,20,000]		9,90,000



Computation of Written Down Value as on 1.4.2025		
Opening balance of Car as on 1.4.2024	3,00,000	
Less: Depreciation@15% on ₹ 3 lakh	<u>45,000</u>	
WDV of car as on 1.4.2025	<u>2,55,000</u>	
Opening balance of machinery as on 1.4.2024	15,00,000	
Less: Depreciation @15% on ₹ 15 lakh	<u>2,25,000</u>	
WDV of machinery as on 1.4.2025	<u>12,75,000</u>	

EXAM INSIGHTS: Examinees could not correctly compute the amount of depreciation on car used for agricultural operations, since they were not aware of the correct rate of depreciation on car. Consequently, income arising from agricultural operations and coffee curing business operations were wrongly computed.

Question 6

Mr. Jay is having total income of ₹ 6,90,000 during the P.Y. 2024-25 consisting of Income from business of ₹ 40,000, lottery winnings (gross) ₹ 5,60,000, income by way of salary (computed) ₹ 1,20,000 and loss from house property ₹ 30,000. Compute his tax liability and advance tax obligations for A.Y. 2025-26.

(MTP 4 Marks, Oct'21)

Answer 6

Computation of tax liability and advance tax obligations of Mr. Jay for A.Y. 2025-26

Particulars	₹	₹
Income from salary (computed)	1,20,000	
Less: Set-off loss from house property	(30,000)	90,000
Loss from house property	30,000	
Less: Set-off against salary income	(30,000)	-
Income from business		40,000
Lottery winning		5,60,000
Total Income		6,90,000
Tax liability		
Tax @30% on lottery income		1,68,000
Tax on other income of ₹ 1,30,000 (Nil, since it does not exceed the basic exemption limit of ₹ 2,50,000)		-
		1,68,000
Add: Health and education cess@4%		6,720
Total tax liability		1,74,720
Less: TDS on lottery income under section 194B		1,68,000
Net tax payable		6,720
Since tax payable for the P.Y. 2024-25 is less than ₹ 10,000, Mr. Jay is not liable to pay advance tax.		

Question 7



Compute the tax liability of Ms. Kajal for A.Y. 2025-26, a female resident aged 40 years, where her total income is ₹2,00,50,000 comprising of business income. Ms. Kajal opts for the provisions of section 115BAC.

(MTP 3 Marks, Apr'22) (Same concept different figures SM)



Answer 7

Computation of tax liability of Ms. Kajal under section 115BAC for the A.Y.2025-26

	₹	₹
(A) Tax payable including surcharge on total income of ₹ 2,00,50,000		
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%	<u>55,65,000</u>	
	57,05,000	
Add: Surcharge @ 25% (since total income exceeds ₹ 2 crore but does not exceed ₹ 5 crore)	<u>14,26,250</u>	71,31,250
(B) Tax payable on total income of ₹ 2 crore [(₹ 20,000 plus ₹ 30,000 plus ₹ 30,000 plus ₹ 60,000 plus ₹ 55,50,000) plus surcharge @15%]		65,43,500
(C) Excess tax payable (A)-(B)		5,87,750
(D) Marginal Relief (₹ 5,87,750 – ₹ 50,000, being the amount of income in excess of ₹ 2,00,00,000)		5,37,750
(E) Tax payable before cess (A – D)		65,93,500
Add: Health and education cess @4%		2,63,740
Tax payable		68,57,240

Alternative Presentation

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

	₹	₹
(A) Tax payable including surcharge on total income of ₹ 2,00,50,000		
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%	<u>55,65,000</u>	
	57,05,000	
Add: Surcharge @ 25% (since total income exceeds ₹ 2 crore but does not exceed ₹ 5 crore)	<u>14,26,250</u>	71,31,250
(B) Tax payable on total income of ₹ 2 crore [(₹ 15,000 plus ₹ 30,000 plus ₹ 45,000 plus ₹ 60,000 plus ₹ 55,50,000) plus surcharge @15%]		65,43,500
(C) Total income less ₹ 2 crore		50,000
(D) Tax payable on total income of ₹ 2 crore plus excess of total income over ₹ 2 crore (B + C)		65,93,500
(E) Tax payable: Lower of A and D		65,93,500
Add: Health and education cess @4%		2,63,740
Tax payable		68,57,240
(F) Marginal Relief (A -D)		5,37,750

**Question 8**

Mr. Agarwal, aged 40 years and a resident in India, has a total income of ₹ 6,50,00,000, comprising long term capital gain taxable under section 112 @ 20% of ₹ 55,00,000, short term capital gain taxable @ 15% under section 111A of ₹ 65,00,000 and other income of ₹ 5,30,00,000. Compute his tax liability for A.Y.2025-26 under the default tax regime and optional tax regime as per the normal provisions of the Act assuming that the total income and its components are the same in both tax regimes. (SM)

Answer 8**Computation of tax liability of Mr. Agarwal for the A.Y.2025-26 under default tax regime**

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

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

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

Question 9

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



Answer 9

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

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

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

Particulars	₹
Tax on total income of ₹ 2,30,00,000	
Tax@12.5% of ₹ 52,00,000	6,50,000
Tax@20% of ₹ 64,00,000	12,80,000
Tax on other income of ₹ 1,14,00,000	
₹ 3,00,000 – ₹ 5,00,000 @5%	10,000
₹ 5,00,000 – ₹ 10,00,000 @20%	1,00,000
₹ 10,00,000 – ₹ 1,14,00,000 @30%	31,20,000
	32,30,000
	51,60,000
Add: Surcharge @15%	7,74,000
	59,34,000
Add: Health and education cess @4%	2,37,360
Tax Liability	61,71,360

MULTIPLE CHOICE QUESTIONS (MCQS)

1. Miss Nisha (68 years) is a resident individual. For the Assessment Year 2025-26, she has following income:
 Long-term capital gain on transfer of equity shares before 23.07.2024 ₹s.1,80,000
 (Securities Transaction Tax has been paid on acquisition and transfer of the said shares)
 Other income ₹s.2,75,000.
 Calculate the tax liability of Miss Nish for Assessment Year 2025-26. Assume that she has not opted for 115BAC. (MTP 2 Marks, Nov'21)
- (a) Nil (b) Rs. 5670
 (c) Rs. 5,720 (d) Rs. 8,320

Ans: (c)

2. Mr. Ashutosh, aged 65 years and a resident in India, has a total income of ₹ 3,20,00,000, comprising long term capital gain taxable under section 112 @ 20% of ₹ 57,00,000, long term capital gains taxable under section 112A @10% of ₹ 65,00,000 and other income of ₹ 1,98,00,000. What would be his tax liability for A.Y. 2025-26. Assume that Mr. Ashutosh has not opted for the provisions of section 115BAC. (Assumed that all capital gains are done before 23.07.2024. (MTP 2 Marks, Oct'21)



- (a) ₹ 90,05,880
(c) ₹ 97,34,400

- (b) ₹ 97,25,690
(d) ₹ 97,22,440

Ans: (a)

3. During the P.Y.2024-25, Mr. Rohan has ₹ 80 lakhs of short-term capital gains taxable u/s 111A @ 15%, ₹ 70 lakhs of long-term capital gains taxable u/s 112A @ 10% and business income of ₹ 2.90 crores. Which of the following statements is correct? (MTP 2 Marks, Sep'22)

- (a) Surcharge@25% is leviable on income-tax computed on total income of ₹ 4.40 crores
(b) Surcharge@15% is leviable on income-tax computed on total income of ₹ 4.40 crore
(c) Surcharge@15% is leviable in respect of income-tax computed on capital gains of ₹ 1.50 crore; in respect of business income of ₹ 2.90 crores, surcharge is leviable@25% on income-tax
(d) Surcharge@15% is leviable in respect of income-tax computed on capital gains of ₹ 1.50 crore; in respect of business income of ₹ 2.90 crores, surcharge is leviable@37% on income-tax

Ans: (c)

4. Mr. Ashish's total income comprises of long-term capital gains @ 20% on sale of land ₹ 5 lakhs; short-term capital gains @15% on sale of STT paid listed equity shares ₹ 2 lakhs; income from lottery ₹ 1 and savings bank interest ₹ 30,000. He invests ₹ 1.50 lakhs in PPF. His tax liability for A.Y.2025-26, assuming that he is a resident Indian of the age of 40 years and does not opt for the provisions of section 115BAC, is – (MTP 2 Marks, Oct'22)

- (a) ₹ 1,64,800
(c) ₹ 1,14,400

- (b) ₹ 1,66,400
(d) ₹ 1,13,300

Ans: (c)

5. The Gupta HUF in Maharashtra comprises of Mr. Harsh Gupta, his wife Mrs. Nidhi Gupta, his son Mr. Deepak Gupta, his daughter-in-law Mrs. Deepti Gupta, his daughter Miss Preeti Gupta. Which of the members of the HUF are eligible for coparcenary rights? (MTP 1 Mark, Mar'23)

- (a) Only Mr. Harsh Gupta and Mr. Deepak Gupta
(b) Only Mr. Harsh Gupta, Mr. Deepak Gupta and Miss Preeti Gupta
(c) Only Mr. Harsh Gupta, Mr. Deepak Gupta, Mrs. Nidhi Gupta and Mrs. Deepti Gupta
(d) All the members are co-parceners

Ans: (b)

6. Income derived from farm building situated in the immediate vicinity of an agricultural land (not assessed to land revenue) would be treated as agricultural income if such land is situated in – (MTP 1 Mark, Mar'23)

- (a) an area at a distance of 3 kms from the local limits of a municipality and has a population of 80,000 as per last census
(b) an area within 1.5 kms from the local limits of a municipality and has a population of 12,000 as per last census
(c) an area within 2 kms from the local limits of a municipality and has a population of 11,00,000 as per last census
(d) an area within 8 kms from the local limits of a municipality and has a population of 10,50,000 as per last census

Ans: (a)

7. Mr. Rishabh, aged 65 years and a resident in India, has a total income of ₹4,50,00,000, comprising long term capital gain taxable @12.5% under section 112 of ₹ 85,00,000, long term capital gain taxable @12.5% under section 112A of ₹ 75,00,000 and other income of ₹ 2,90,00,000. What would be his tax liability for A.Y. 2025-26. Assume that Mr. Rishabh has opted for the provisions of section 115BAC. (RTP May'23, MTP 2 Marks, Sep'23)

- (a) ₹ 1,41,40,750
(b) ₹ 1,32,80,312
(c) ₹ 1,38,84,390
(d) ₹ 1,39,81,240

Ans: (b)



8. Mr. A has taken two ULIPs. ULIP "X" is issued on 1.1.2023 and ULIP "Y" on 1.5.2024. The sum assured of ULIP "X" and ULIP "Y" is ₹ 30 lakhs and ₹ 40 lakhs, respectively. The annual premium paid by Mr. A during the P.Y. 2024-25 is ₹ 3 lakhs and ₹ 4 lakhs, respectively. What would be the taxability of the consideration received by Mr. A on maturity of both the ULIPs? (RTP May'22)

- (a) Consideration received on the maturity of ULIP "X" would be exempt u/s 10(10D) while the profits and gains from receipt of consideration on the maturity of ULIP "Y" would be taxable.
- (b) Consideration received on the maturity of ULIP "Y" would be exempt u/s 10(10D) while the profits and gains from receipt of consideration on the maturity of ULIP "X" would be taxable.
- (c) Consideration received on the maturity of both ULIP "X" and ULIP "Y" would be exempt u/s 10(10D)
- (d) The profits and gains from receipt of consideration on the maturity of both ULIP "X" and ULIP "Y" would be taxable.

Ans: (a)

9. Mr. Garg, aged 45 years and a resident in India, is having a total income of ₹ 5,70,000 comprising of long term capital gains taxable under section 112 @12.5% of ₹ 70,000, long term capital gains taxable under section 112A @ 12.5% of ₹ 1,50,000, short term capital gains taxable @ 20% under section 111A of ₹ 1,00,000 and other income of ₹ 2,50,000. Compute his tax liability for A.Y. 2025-26 under the default tax regime under section 115BAC. (RTP May'24)

- (a) Nil
- (b) ₹ 3,250
- (c) ₹ 9,360
- (d) ₹ 19,760

Ans: (b)

10. Mr. X, a resident 47 years, has salary income (computed) of ₹ 7,25,000 and agricultural income of ₹ 1,00,000 for the P.Y. 2024-25. Compute his tax liability or A.Y. 2025-26 if he is paying tax under default tax regime under section 115BAC. (MTP 1 Mark, Apr'24)

(a) ₹ 20,800	(b) ₹ 33,800
(c) Nil	(d) ₹ 30,160

Ans: (a)

11. Mr. Raja, aged 64 years, was not able to provide satisfactory explanation to the Assessing Officer for the investments of ₹ 7 lakhs not recorded in the books of accounts. What shall be the tax payable by him on the value of such investments considered to be deemed income as per section 69? (MTP 1 Mark, Jul'24)

- (a) ₹ 2,18,400
- (b) ₹ 55,000
- (c) ₹ 5,46,000
- (d) ₹ 54,600

Ans: (c)

12. What would be the tax liability of Ms. Savita, a resident, who attained the age of 60 years on 01.04.2024 on the total income of ₹ 7,25,000, comprising of salary income and interest on fixed deposits under default tax regime under section 115BAC? (MTP 1 Mark, Mar'24)

(a) ₹ 28,600	(b) ₹ 23,400
(c) ₹ ,600	(d) ₹ 2,600

Ans: (b)

13. During the year 2024-25, Mrs. Kalis (aged 65 years), received ₹ 10,50,000 a family pension. She had to spend ₹ 26,000 to get such income towards documentation and processing charges. She does not have any other income. Assuming she opts for³ the default tax regime, what shall be her total income chargeable to tax? (PYP 1 Mark Sep'24)

- (a) ₹ 10,25,000
- (b) ₹ 10,24,000
- (c) ₹ 10,50,000
- (d) ₹ 7,00,000

Ans: (a)

CHAPTER 2: RESIDENCE AND SCOPE OF TOTAL INCOME

CONCEPTS OF THIS CHAPTER

- Understand provisions for determining residential status
- Apply provisions to determine residential status of persons
- Examine scope of income based on residential status
- Apply provisions to determine total income based on residential status



LDR Questions

Q 19

Q 21

Q 25

QUICK REVIEW OF IMPORTANT CONCEPTS

RESIDENTIAL STATUS [SECTION 6]

Residential Status (Section 6)	Individual/HUF	Resident	– Resident and ordinarily resident
			Deemed resident (Individual)
		Non-resident	
	Firm/AOP/Local Authority/Company etc.	Resident	
		Non-resident	

Residential Status of Individuals

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

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

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

Exceptions:

Resident in India only if the period of their stay during the relevant previous year amounts to 182 days or more.

- Indian citizen, who leaves India during the relevant previous year as a member of the crew of an Indian ship or for purposes of employment outside India, or
- Indian citizen or person of Indian origin who, being outside India comes on a visit to India during the relevant previous year.

However, such person having total income, other than the income from foreign sources exceeding ₹ 15 lakhs during the previous year will be treated as resident in India if he satisfies the condition mentioned in sec 6(1) above.

Period of stay in India for an Indian citizen, being a crew member?

Period to be excluded

Period commencing from

the date entered into the Continuous Discharge Certificate in respect of joining the ship by the said individual for the eligible voyage

and

Period ending on

the date entered into the Continuous Discharge Certificate in respect of signing off by that individual from the ship in respect of such voyage.



Deemed resident [Section 6(1A)] – An individual, being an Indian citizen, having total income, other than the income from foreign sources exceeding ₹ 15 lakhs during the previous year would be deemed to be resident in India in that previous year, if he is not liable to tax in any other country or territory by reason of his domicile or residence or any other criteria of similar nature.

this provision will not apply in case of an individual who is a resident of India in the previous year as per section 6(1).

Resident and ordinarily resident/Resident but not ordinarily resident

Individuals and HUF can be “resident but not ordinarily resident” in India. Not-ordinarily resident person is one who satisfies any one of the conditions specified u/s 6(6).

- (i) such individual has been non-resident in India in any 9 out of the 10 previous years preceding the relevant previous year,
- (ii) individual has, during the 7 previous years preceding the relevant previous year, been in India for a period of 729 days or less,
- (iii) such individual is an Indian citizen or person of Indian origin having total income, other than the income from foreign sources exceeding ₹ 15 lakhs during the previous year, who has been in India for 120 days or more but less than 182 days during that previous year
- (iv) If such individual is an Indian citizen who is deemed to be resident in India under section 6(1A).

A deemed resident u/s 6(1A) is always RNOR.

HUF [ROR/RNOR/non-resident]

- A HUF would be **resident in India** if the **control and management** of its affairs is situated **wholly or partly in India**.
- If the **control and management** of the affairs is situated **wholly outside India**, it would become a **non-resident**.
- If the HUF is resident, then the satisfaction or otherwise of additional conditions by Karta would determine whether the HUF is **ROR** or **RNOR**.
- If Karta satisfies both the additional conditions [(i) & (ii)] in (i) above, then, the HUF would be ROR. Otherwise, the HUF

Firms, AoPs and Bols [Resident/Non-resident]

- A firm, AoP or Bol would be **resident in India**, if the **control and management** of its affairs is situated **wholly or partly in India**.
- If the **control and management** of the affairs is situated **wholly outside India**, they would become a **non-resident**.

Companies [Resident/Non-resident]

- A company would be **resident in India** in any previous year, if it is an Indian company or its place of effective management (POEM) in that year, is in India.
- If the company is not an Indian Company and its POEM is also not in India in that year, it would become a non-resident for that year.

Section 5 [Scope of Total Income]

Resident and Ordinarily Resident	Resident but not Ordinarily Resident	Non-Resident
Income received/ deemed to be received/accrued or arisen/deemed to accrue or arise in or outside India In short, the global income is taxable.	Income which is received/ deemed to be received/ accrued or arisen/ deemed to accrue or arise in India; AND Income which accrues or arises outside India being derived from a business controlled in or profession set up in India.	Income received/ deemed to be received/accrued or arisen/deemed to accrue or arise in India.

Question & Answers

Question 1

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



- (1) Hire charges paid outside India for the use of machinery situated in India.
- (2) Income of a non-resident and non-citizen of India from the shooting of cinematograph film in India.
- (3) Capital gain arising through a transfer of a house property situated in India, the place of registration and the place of payment of consideration being outside India.
- (4) Allowances paid by the Government to a citizen of India for the services rendered outside India.
- (5) Past period foreign untaxed income brought to India during the previous year.
- (6) Gift received by a non-resident on the occasion of his wedding in India. (PYP 3 Marks, Nov'23)

Answer 1

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

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

- (5) No
- (6) No

Question 2

Income deemed to accrue or arise in India to a non-resident by way of interest, royalty and fee for technical services is to be taxed in India irrespective of territorial nexus. Examine the correctness or otherwise of the given statement. (PYP 3 Marks, Jan'21)

Answer 2

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

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

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

Therefore, the given statement that income deemed to accrue or arise in India to a non-resident by way of interest, royalty and fees for technical services is to be taxed irrespective of territorial nexus, is correct.

Question 3

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

Mr. Pratham, a non-resident in India, received a sum of ₹ 1,14,000 from Mr. Rakesh, a resident and ordinarily resident in India. The amount was paid to Pratham on account of transfer of right to use the manufacturing process developed by Pratham. The manufacturing process was developed by Mr. Pratham in Singapore and Mr. Rakesh uses such process for his business carried on by him in Dubai. (PYP 2 Marks, Jan'21)

Answer 3

Consideration for transfer of right to use the manufacturing process falls within the definition of royalty. Income by way of royalty payable by Mr. Rakesh, a resident and ordinarily resident, is not deemed to accrue or arise in India in the hands of Mr. Pratham as per section 9(1)(vi)(b), since royalty is payable in respect of right used for the purposes of a business carried on by Mr. Rakesh outside India i.e., in Dubai.

Question 4

Sagar, a Chartered Accountant, is presently working in a firm in India. He has received an offer for the post of Chief Financial Officer from a company at New York. As per the offer letter, he should join the company at any time between 1st September, 2024 and 31st October, 2024. He approaches you for your advice on the



following issues to mitigate his tax liability in India:

- (i) Date by which he should leave India to join the company;
- (ii) Direct credit of part of his salary to his bank account in Delhi maintained jointly with his mother to meet requirement of his family. (MTP 6 Marks, Aug'24)

Answer 4

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

- (i) Since Sagar is leaving India for the purpose of employment outside India, he will be treated as resident only if the period of his stay during the previous year amounts to 182 days or more. Therefore, Sagar should leave India on or before 28th September, 2024, in which case, his stay in India during the previous year would be less than 182 days and he would become non-resident for the purpose of taxability in India. In such a case, only the income which accrues or arises in India or which is deemed to accrue or arise in India or received or deemed to be received in India shall be taxable.
The income earned by him in New York would not be chargeable to tax in India for A.Y. 2025-26, if he leaves India on or before 28th September, 2024.
- (ii) If any part of Sagar's salary will be credited directly to his bank account in Delhi then, that part of his salary would be considered as income received in India during the previous year under section 5 and would be chargeable to tax under Income-tax Act, 1961, even if he is a non-resident. Therefore, Sagar should receive his entire salary in New York and then remit the required amount to his bank account in Delhi in which case, the salary earned by him in New York would not be subject to tax in India.

Question 5

Mr. Jai Chand (an Indian citizen) left India for employment in country X on 5th June, 2015. He regularly visited India and stayed for 60 days in every previous year since then. However, in the financial year 2024-25, he did not come to India at all. He owns a commercial building in Delhi which is let out. He has also set a retail store in India which is controlled by his brother from India. He provides the following information to you regarding his income for the financial year 2024-25:

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

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

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

Determine the residential status of Mr. Jai Chand for the Assessment year 2025-26.

Will your answer change if he is a citizen of Country X? (PYP 3 Marks, May'23)

Answer 5

Determination of residential status of Mr. Jai Chand for A.Y. 2024-25

Since Mr. Jai Chand, an Indian citizen employed in Country X, did not come to India at all during the P.Y. 2024-25, he would not be a resident for A.Y. 2025-26 as per section 6(1).

However, since he is an Indian citizen

- having total income (excluding income from foreign sources) of ₹ 16,50,000 [₹ 12,00,000, being income from commercial building in India + ₹ 4,50,000, being Income from retail store in India], which exceeds the threshold of ₹ 15 lakhs during the previous year; and
- not liable to tax in Country X, he would be deemed resident in India for the P.Y. 2024-25.

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

Yes, in case Mr. Jai Chand is a citizen of Country X, he would be non-resident in India for the P.Y. 2024-25, since the provisions of deemed resident are applicable only to an Indian citizen.

Question 6

Mr. Sanjay has following incomes during the previous year 2024 -25:

- (1) Interest on England Development Bonds (1/3 received in India) ₹ 60,000.
- (2) Interest received from a non-resident ₹ 5,000 against a loan given to him to run a business in India.
- (3) Royalty received from Akhil, a resident, for technical services given to run a business outside India ₹ 20,000.



(4) Income from business in Sri Lanka ₹ 25,000 out of which ₹ 15,000 were received in India. The business is controlled from India.

Compute taxable income of Mr. Sanjay for the assessment year 2025 -26 if he is a

- (i) Not ordinarily resident
- (ii) Non-resident (PYP 4 Marks, Nov'23)

Answer 6

Computation of taxable income of Mr. Sanjay for the A.Y. 2025-26

		Not ordinarily resident (RNOR)	Non-resident
(1)	Interest on England Development Bonds (1/3 received in India), amount of ₹ 20,000 being received in India would be taxable in case of both RNOR and non-resident.	20,000	20,000
(2)	Interest received from non-resident against a loan given to him to run a business in India would be deemed to accrue or arise in India. Thus, such interest is taxable in case of both RNOR and non-resident	5,000	5,000
(3)	Royalty received from Akhil, a resident for technical services given to run a business outside India would not be deemed to accrue or arise in India, since such services are utilised for business carried outside India. Thus, royalty would not be taxable in case of both RNOR and non-resident.	-	-
(4)	Income from business in Sri Lanka of ₹ 25,000 out of which ₹ 15,000 were received in India. Whole of the income from business in Sri Lanka is taxable in case of RNOR, since business is controlled from India. However, in case of non-resident only the amount received in India would be taxable.	25,000	15,000
Taxable Income		50,000	40,000

EXAM INSIGHTS: The question requires to compute taxable income of Mr. Sanjay if he is a Not ordinarily resident and Non-resident. Some examinees have wrongly taxed the whole income of ₹ 60,000 of interest on England Development Bonds while only 1/3rd is received in India. Some examinees have also wrongly taxed the royalty income of ₹ 20,000 received from Akhil, a resident for technical services used for business outside India.

Question 7

Mr. Thomas, a citizen of Japan, comes to India for the first time during the P.Y. 2020-21. During the financial years 2020-21, 2021-22, 2022-23, 2023-24 and 2024-25 he was in India for 50 days, 65 days, 95 days, 150 days and 75 days, respectively. Determine his residential status for the A.Y. 2025-26. Examine the tax implications in the hands of Mr. Thomas for the Assessment Year 2025-26 of the following transactions entered by him.

- (1) Interest received from Mr. Michel, a non-resident outside India (The borrowed fund is used by Mr. Michel for investing in Indian company's debt fund for earning interest).
- (2) He is also engaged in the business of running news agency and earned income of Rs. 5 lakhs from collection of news and views in India for transmission outside India.
- (3) He entered into an agreement with ABC & Co., a partnership firm for transfer of technical documents and design and for providing services relating thereto, to set up a Steel manufacturing plant, in India. He charged Rs. 15 lakhs for these services from ABC & Co. (MTP 7 Marks, Nov'21)

Answer 7

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

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



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

If an individual satisfies any one of the conditions mentioned above, he is a resident. If both the above conditions are not satisfied, the individual is a non-resident. During the previous year 2024-25, Mr. Thomas was in India for 75 days and during the 4 years preceding the previous year 2024-25, he was in India for 360 days (i.e. 50+ 65+ 95+ 150 days).

The total stay of the Mr. Thomas during the previous year in India was less than 182 days and during the four years preceding this year was for 360 days. Therefore, due to non-fulfillment of any of the two conditions for a resident, he would be treated as non-resident for the Assessment Year 2025-26.

- (1) Not taxable, since interest payable by a non-resident to another non-resident would be deemed to accrue or arise in India only if the borrowed fund is used for the purposes of business or profession carried on by him in India. In this case, it is used for investing in Indian company's debt fund for earning interest and not for the purposes of business or profession. Hence, it is not taxable in India.
- (2) No income shall be deemed to accrue or arise to Mr. Thomas through or from activities which are confined to the collection of news and views in India for transmission outside India. Hence, Rs. 10 lakhs are not taxable in India in the hands of Mr. Thomas.
- (3) Rs. 10 lakhs are deemed to accrue or arise in India to Mr. Thomas, a non-resident, since it represents royalty/fees for technical services paid for services utilized in India, in this case, for setting up a Steel manufacturing plant in India. Hence, the same would be taxable in India in the hands of Mr. Thomas.

Question 8

Determine the residential status and total income of Mr. Raghu for the assessment year 2025-26 from the information given below.

Mr. Raghu (age 62 years), an American citizen, is employed with a multinational company in Gurugram. Mr. Raghu holds a senior level position as researcher in the company, since 2012. To share his knowledge and finding in research, company gave him an opportunity to travel to other group companies outside India while

continuing to be based at the Gurugram office.

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

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

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

- (1) Salary Rs. 15,80,000. The entire salary is paid by the Indian company in his Indian bank account.
- (2) Dividend amounting to Rs. 48,000 received from Treat Ltd., a Singapore based company, which was transferred to his bank account in Singapore.
- (3) Interest on fixed deposit with Punjab National Bank (Delhi) amounting to Rs. 10,500 was credited to his saving account. (MTP 7 Marks, Mar'21)

Answer 8

Determination of residential status

Mr. Raghu would be a resident in India in P.Y. 2024-25, if he satisfies any one of the following conditions:

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

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

satisfied, he would be a non-resident.

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

A person would be "Not ordinarily Resident" in India in any previous year, if such person, inter alia,



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

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

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

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

Question 9

Mrs. Wiwtsu, an Indian Citizen, is a government employee working for the Indian Government. She submits the following information for the previous year ending 31.03.2025:

		₹
1	Salary income received in Malaysia for services rendered there	2,00,000
2	Profit from business carried on in Orissa	80,000
3	Loss from business carried on in Baroda	(20,000)
4	Profit from business carried on in Paris (income is earned and received in Sydney and business is controlled from Paris)	42,000
5	Loss from business carried on in Canada (though profits are not received in India, business is controlled from Dehradun)	(46,000)
6	Unabsorbed depreciation of business in Canada	16,000
7	Profit from Indonesia business (controlled from Delhi) and 60% of profit deposited in a bank in Indonesia and 40% received in India	70,000
8	Rent from house property situated in Canada and received in Canada	1,92,000

Determine the gross total income of Wiwtsu for the A.Y. 2025-26 ignoring the provisions of section 115BAC on the assumption that she is:

- (1) Resident but not ordinarily resident in India
 (2) Non-resident in India. (RTP May'23)

Answer 9

Computation of gross total Income of Mrs. Wiwtsu for the A.Y. 2025-26

Particulars of income		Resident but not ordinarily Resident (₹)	Non-Resident (₹)
1	Salary income received in Malaysia for services rendered there (Note 1)	2,00,000	2,00,000
	Less: Standard deduction under section 16(ia)	50,000	50,000
		1,50,000	1,50,000
2	Profit from business carried on in Orissa [Since it accrues or arises in India]	80,000	80,000



3	Loss from business carried on in Baroda [Since it accrues or arises in India]	(20,000)	(20,000)
4	Profit from business carried on in Paris (income is earned and received in Sydney and business is controlled from Paris) [Since it accrues or arises outside India]	Nil	Nil
5	Loss from business carried on in Canada (business is controlled from Dehradun)	(46,000)	Nil
6	Unabsorbed depreciation of business in Canada	(16,000)	Nil
7	Profit from Indonesia business (business is controlled from Delhi)	70,000	28,000
8	Rent from property situated in Canada and received in Canada	Nil	Nil
Gross Total Income		2,18,000	2,38,000

Note 1 - Income from "Salaries" payable by the Government to a citizen of India for services rendered outside India is deemed to accrue or arise in India as per section 9(1)(iii). Standard deduction under section 16(ia) is allowable, irrespective of residential status.

Note 2 - In case of a non-resident, only income received or deemed to be received in India and income accruing or arising or deemed to accrue or arise in India is chargeable to tax. However, in case of a resident but not ordinarily resident, income derived from a business controlled in or profession set up in India is also taxable even though it accrues or arises outside India.

Therefore, income referred to in S. No. 1, 2 and 3 are taxable in the hands of Mrs. Wiwtsu in both cases if she is a resident but not ordinarily resident or if she is a non-resident.

Loss from business carried on in Canada, unabsorbed depreciation of business in Canada and Profit from Indonesia business would be fully chargeable to tax in India if she is a resident but not ordinarily resident as it derived from a business controlled in India. However, Profit from Indonesia business is taxable in case of non-resident to the extent of such profits received in India.

Question 10

Ms. Rita, an Indian citizen and an MBA from Howard University, was employed in AFL LLP of Country A since June, 2016. She came to India on 15.11.2024 and joined as CEO of Autofit Ltd. Ms. Rita was in India before she left for overseas education in May, 2012 and was subsequently employed outside India and never visited India thereafter. There is no income-tax in Country A. She has earned interest income of ₹ 2,40,000 (net) in Country A and salary income from AFL LLP of ₹ 15 lakhs up to the date of her return to India in the financial year 2024-25.

Salary income (computed) of Ms. Rita from Autofit Ltd. up to 31.03.2025 is ₹ 13,50,000 and she earned dividend of ₹ 3,00,000 from shares of an Indian company.

What would be the residential status of Ms. Rita and her total income for the A.Y. 2025-26? (RTP May'24)

Answer 10

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

As per section 6(1), in order to be a resident of India in the P.Y.2024 -25, Ms. Rita should satisfy either of the following two conditions -

- (1) Her stay in India should be for a period of 182 days or more in the P.Y.2024-25; or
- (2) Her stay in India should be for a period of 60 days or more in the P.Y.2024-25 and for a period of 365 days or more in the four immediately preceding previous years.

Ms. Rita's stay in India in the P.Y.2024-25 is 138 days (i.e., 16 days + 31 days +31 days + 29 days + 31 days). She left India in May, 2012 and never visited India thereafter. Her stay in India in the four immediately preceding previous years would be Nil.

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

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



Ms. Rita's total income, other than income from foreign sources, would be ₹ 16,50,000 for A.Y.2025-26 as shown:

Particulars	₹
Salary income from Autofit Ltd. [Computed] [Accrues or arises in India]	13,50,000
Dividend from shares of an Indian company [Accrues or arises in India]	<u>3,00,000</u>
	16,50,000

Since Ms. Rita is a citizen of India who is not liable to pay income-tax in Country A and her total income, other than income from foreign sources, exceed ₹ 15 lakhs, she would be deemed resident in India under section 6(1A) for A.Y.2025-26. A deemed resident is, by default, a resident but not ordinarily resident.

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

Ms. Rita's total income for A.Y. 2025-26	₹
Salary income from AFL LLP [Not taxable since it accrues or arises outside India]	-
Salary income from Autofit Ltd. [Computed]	13,50,000
Interest income in Country A [Not taxable since it accrues or arises outside India]	-
Dividend from shares of an Indian company	<u>3,00,000</u>
Total Income	16,50,000

Question 11

Mr. Sarthak, an individual and Indian citizen living in Dubai, since year 2006 and never came to India for a single day since then, earned the following incomes during previous year 2024-25:

Particulars	Amount (in ₹)
(i) Income accrued and arisen in Dubai but he is not liable to tax in Dubai	20,00,000
(ii) Income accrued and arisen in India	5,00,000
(iii) Income deemed to accrue and arise in India	8,00,000
(iv) Income arising in Dubai from a profession set up in India	10,00,000

- Determine the residential status of Mr. Sarthak and taxable income for the previous year 2024-25 (assuming no other income arise during the previous year).
- What would be your answer if income arising in Dubai from a profession set up in India is ₹ 2 lakhs instead of ₹ 10 lakhs?
- What would be your answer, if Mr. Sarthak is not an Indian citizen but his parents were born in India? (MTP 6 Marks, Apr'23, PYP 6 Marks Nov '22)

Answer 11

- Mr. Sarthak is an Indian citizen living in Dubai since 2005 who never came to India for a single day since then, he would not be a resident in India for the P.Y. 2024-25 on the basis of number of days of his stay in India as per section 6(1). However, since he is an Indian citizen
 - having total income (excluding income from foreign sources) of ₹ 23 lakhs, which **exceeds the threshold of ₹ 15 lakhs** during the previous year; and
 - not liable to tax in Dubai, he would be **deemed resident** in India for the P.Y. 2024-25 by virtue of section 6(1A). A deemed resident is always a resident but not ordinarily resident in India (RNOR).

Computation of Total Income for A.Y.2025-26

Particulars	₹
(i) Income accrued and arisen in Dubai (not taxable in case of an RNOR)	-
(ii) Income accrued and arisen in India (taxable)	5,00,000
(iii) Income deemed to accrue or arise in India (taxable)	8,00,000
(iv) Income arising in Dubai from a profession set up in India would be taxable in case of RNOR	10,00,000
Total income	23,00,000

- If income arising in Dubai from a profession set up in India is ₹ 2 lakhs instead of ₹ 10 lakhs, his total income (excluding income from foreign sources) would be only ₹ 15 lakhs. Since the same does not exceed the threshold limit of ₹ 15 lakhs, he would not be deemed resident.



Accordingly, he would be non-resident in India for the P.Y. 2024-25 and hence, his total income would be only ₹ 13 lakhs (aggregate of (ii) and (iii) above i.e., ₹ 5 lakhs + ₹ 8 lakhs).

- III. If Mr. Sarthak is not an Indian citizen and his parents were born in India, he would be person of Indian origin. In such case, the provisions relating to deemed resident would not apply to him. Accordingly, he would be non-resident in India during the P.Y. 2024-25 and his total income would be ₹ 13 lakhs.

Question 12

Mr. Akash, an Indian citizen aged 45 years, worked in XYZ Ltd. in Delhi. He got a job offer from ABC Inc., California on 01.06.2023. He left India for the first time on 31.07.2023 and joined ABC Inc. on 08.08.2023. During the P.Y. 2024-25, Mr. Akash visited India from 25.05.2024 to 22.09.2024. He has received the following income for the previous year 2024-25:

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

Determine the residential status of Mr. Akash and compute his total income for the A.Y. 2025-26.

(MTP 6 Marks Mar'24, RTP Nov'22)

Answer 12

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

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

In this case, total income, other than the income from foreign sources, of Mr. Akash for P.Y. 2024-25 would be

Particulars		Amount (₹)
Salary from ABC Inc., California received in California (Computed) (Not included in total income, since it is income from foreign source)		-
Dividend from Indian companies (Included in total income, since it is deemed to accrue or arise in India)		5,00,000
Agricultural income from land situated in Nepal (Not included in total income, since it is accrued or arisen outside India and received outside India)		-
Rent received/receivable from house property in Delhi (Included in total income, since it is deemed to accrue or arise in India)	5,50,000	
Less: 30% of ₹ 5.50 lakhs	<u>1,65,000</u>	3,85,000
Profits from a profession in California, which was set up in India, received there		6,00,000
Total income, other than the income from foreign sources		14,85,000

Since, Mr. Akash is an Indian citizen who comes on a visit to India only for 121 days in the P.Y. 2024-25 and his total income, other than income from foreign sources does not exceed ₹ 15 lakhs, he would be non-resident for the A.Y. 2025-26.

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

Particulars		Amount (₹)
Salary from ABC Inc., California received in California (Computed) (Not taxable, since it neither accrues or arises in India nor is it received in India)		-



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

Question 13

(Includes concepts of Agricultural Income)

Miss Geeta, a citizen of India, got married to Mr. Peter of Australia and left India for the first time on 20.8.2024. She has not visited India again during the P.Y. 2024-25. She has derived the following to income for the year ended 31-3-2025:

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

You are required to determine the residential status of Miss Geeta and compute the business income and agricultural income of Miss. Geeta for the Assessment Year 2025-26. (MTP 6 Marks, Jul'24)

Answer 13

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

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

(or)

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

Miss Geeta's stay in India during the P.Y.202-25 is 142 days [30+31+30+31+20] which is less than 182 days. However, her stay in India during the P.Y.2024-25 exceeds 60 days. Since, she left India for the first time, her stay in India during the four previous years prior to P.Y.2024-25 would be more than 365 days. Hence, she is a resident for P.Y.2024-25. Further, Miss Geeta would be "Resident and ordinarily resident" in India in during the previous year 2024-25, since her stay in India in the last seven previous years prior to P.Y.2024-25 is more than 729 days and she must be resident in the preceding ten years.

Computation of business income and agricultural income of Miss Geeta for A.Y. 2025-26

	Particulars	Income	Business Income ₹	Agricultural Income ₹
(i)	Income from sale of Centrifuged latex processed from rubber plants grown in Kanyakumari (Apportioned between business and agricultural income in the ratio of 35:65 as per Rule 7A of Income-tax Rules,1962)	1,50,000	52,500	97,500
(ii)	Income from sale of coffee grown, cured, roasted and grounded in Colombo and received in Chennai [See Note 1 below]	5,00,000	5,00,000	-
(iii)	Income from sale of tea grown and manufactured in West Bengal (Apportioned between business			



	and agricultural income in the ratio of 40:60 as per Rule 8 of the Income-tax Rules, 1962)	12,00,000	4,80,000	7,20,000
(iv)	Income from sapling and seedling grown in a nursery at Cochin. Basic operations were not carried out on land [See Note 2 below]	<u>2,00,000</u>	—	<u>2,00,000</u>
		20,50,000	10,32,500	10,17,500

Notes:

- Since Ms. Geeta is resident and ordinarily resident in India for A.Y. 2025-26, her global income is taxable in India. Entire income from sale of coffee grown, cured, roasted and grounded in Colombo is taxable as business income since such income is earned from sale of coffee grown, cured, roasted and grounded outside India i.e., in Colombo.
- As per Explanation 3 to section 2(1A), income derived from sapling or seedlings grown in a nursery would be deemed to be agricultural income, whether or not the basic operations were carried out on land. Hence, income of ₹ 2,00,000 from sapling and seedling grown in a nursery at Cochin is agricultural income.

Question 14

(Also includes concepts of Computation of Total Income & Tax Payable)

Rajesh was employed in Axis Ltd., Mumbai. He received a salary of ₹ 45,000 p.m. from 1.04.2024 to 20.09.2024. He resigned and left for Dubai for the first time on 28.09.2024 and got monthly salary of rupee equivalent of ₹ 90,000 from 1.10.2024 to 31.03.2025. His salary for October to December was credited in his Mumbai bank account directly and the salary for January to March 2025 was credited in his Dubai bank account.

The cost of his air tickets to Dubai costing ₹ 1,50,000 was funded by her sister staying in London. The cost of his initial stay at Dubai costing ₹ 40,000 was funded by one of his friends staying in Delhi.

He further received interest of ₹ 10,500 on his fixed deposits and ₹ 7,500 on his savings a/c with his Mumbai bank. He also paid LIC Premiums of ₹ 15,000 for self, ₹ 10,000 for spouse and ₹ 25,000 for dependent mother aged 71 years.

Compute taxable income of Mr. Rajesh for the Assessment Year 2025-26. (PYP 7 Marks, Jan'21)

Answer 14

In case of an Indian citizens leaving India for employment during the relevant previous year, the period of their stay during that previous year for being treated as a resident of India must be 182 days or more.

During the previous year 2024-25, Mr. Rajesh, an Indian citizen, was in India for 181 days only (i.e., 30+31+30+31+31+28 days). Thereafter, he left India for employment purposes.

Since he does not satisfy the minimum criteria of 182 days, he is a non-resident for the A.Y. 2025-26.

A non-resident is chargeable to tax in respect of income received or deemed to be received in India and income which accrues or arises or is deemed to accrue or arise to him in India. Hence, salary for January to March 2025, which was credited in his Dubai bank account for services rendered in Dubai, would not be taxable in the hands of Mr. Rajesh.

Computation of taxable income of Mr. Rajesh as per default provisions for A.Y. 2025-26

Particulars		Amount (₹)
Salary		
Salary from 1.4.2024 to 20.9.2024 [45,000 x 5 + 45,000 x 20/30]	2,55,000	
Salary from 1.10.2024 to 31.12.2024 [90,000 x 3]	<u>2,70,000</u>	
Gross Salary		5,25,000
Less: Standard deduction u/s 16(IA)		<u>75,000</u>
Net Salary		4,50,000
Income from Other Sources		
Interest on fixed deposits	10,500	
Interest on Savings account	<u>7,500</u>	<u>18,000</u>
Gross Total Income		4,68,000
Less: Deduction under Chapter VI-A (Not allowed under default scheme)		NIL
Total Income		4,68,000



Computation of taxable income of Mr. Rajesh as per normal provisions for A.Y. 2025-26

Particulars		Amount (₹)
Salary		
Salary from 1.4.2024 to 20.9.2024 [45,000 x 5 + 45,000 x 20/30]	2,55,000	
Salary from 1.10.2024 to 31.12.2024 [90,000 x 3]	<u>2,70,000</u>	
Gross Salary		5,25,000
Less: Standard deduction u/s 16(IA)		<u>50,000</u>
Net Salary		4,75,000
Income from Other Sources		
Interest on fixed deposits	10,500	
Interest on Savings account	<u>7,500</u>	<u>18,000</u>
Gross Total Income		4,93,000
Less: Deduction under Chapter VI-A		
- Deduction under section 80C		25,000
LIC premium for self and spouse [LIC premium for mother is not allowed for deduction]		
- Deduction under section 80TTA		7,500
[Interest on savings account with Mumbai bank]		
Total Income		4,60,500

Working Notes –

- Cost of his air tickets to Dubai costing ₹ 1,50,000 funded by his sister is not taxable under section 56(2)(x) in the hands of Mr. Rajesh, since “sister” is a relative.
- Cost of initial stay at Dubai costing ₹ 40,000 funded by his friend is also not taxable under section 56(2)(x), since the amount does not exceed ₹50,000.

Question 15

Mr. Krishna (aged 58 years), a citizen of India, serving in the Ministry of Finance in India, was transferred to Indian Embassy in UK on 15th March 2024. His income during the financial year 2024-25 is given hereunder:

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

Mr. Krishna did not come to India during the financial year 2024-25. Compute his total income for the Assessment year 2025-26. Assume he does not opt for section 115BAC. (MTP 4 Marks Apr'22, RTP Nov '19 & Nov '18) (Same concepts different figures MTP 3 Marks Dec'24)

Answer 15

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

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

- Income received or deemed to be received in India; and
- Income accruing or arising or income deemed to accrue or arise in India.

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

Particulars	₹
Salaries : Salary from Government of India (Income chargeable under the head ‘Salaries’ payable by the Government to a citizen of India for services rendered outside India is deemed to accrue or arise in India under section 9(1)(iii). Hence, such income is taxable in the hands of Mr. Krishna, a citizen of India, even though he is a non-resident and rendering services outside India)	9,25,000



Foreign Allowance from Government of India [Any allowances or perquisites paid or allowed as such outside India by the Government to a citizen of India for rendering service outside India is exempt under section 10(7)].	Nil
Gross Salary	9,25,000
Less: Standard Deduction under section 16(ia) of ₹ 50,000, being lower of gross salary or ₹ 50,000	<u>50,000</u>
	8,75,000
Income from House Property Rent from a house situated at UK, received in UK (Income from property situated outside India would not be taxable in India in the hands of a non-resident, since it neither accrues or arises in India nor is it deemed to accrue or arise in India nor is it received in India)	Nil
Income from Other Sources	
Interest on Post office savings bank account – exempt up to ₹ 3,500	<u>1,000</u>
Gross Total Income	8,76,000
Less: Deduction under section 80TTA	<u>1,000</u>
Total Income	8,75,000

Question 16

From the following particulars of income furnished by Mr. Ashutosh, aged 65 years, pertaining to year ended 31.03.2025, compute the total income for the A.Y. 2025-26, if he is

- (a) Resident and ordinarily resident
- (b) Non-resident

Assume that he has not opted for 115BAC. (RTP May '22, PYP 10 Marks May '18)

	Particulars	Amount (₹)
(i)	Capital gain on sale of land in Jaipur to Mr. Ramesh, a non-resident, outside India. The consideration is also received outside India in foreign currency	1,50,000
(ii)	Rent from property in Delhi, let out to a branch of a foreign company. The rent agreement is entered outside India. Monthly rent is also received outside India	1,20,000
(iii)	Agricultural income from a land situated in Nepal, received in Nepal	55,000
(iv)	Interest on savings bank deposit in UCO Bank, Delhi	18,000
(v)	Income earned from business in London which is controlled from Delhi (₹ 35,000 is received in India)	60,000
(vi)	Gift received from his daughter on his birthday	55,000
(vii)	Past foreign taxed income brought to India	37,000
(viii)	Fees for technical services rendered to Shine, Ltd., a foreign company, for business outside India and received also outside India	12,000

Answer 16

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

Particulars	Resident and ordinarily resident (₹)	Non-resident (₹)
Capital gain on sale of land in Jaipur to Mr. Ramesh, a non-resident, outside India and received outside India	1,50,000	1,50,000
Rent from property in Delhi, received outside India [₹ 1,20,000 – 30% of ₹ 1,20,000 under section 24(a)]	84,000	84,000
Agricultural income from a land situated in Nepal, received in Nepal	55,000	-
Interest on savings bank deposit in UCO Bank, Delhi	18,000	18,000
Income earned from business in London which is controlled from Delhi	60,000	35,000
Gift received from daughter (Not taxable, since daughter is a relative)	-	-



Past foreign taxed income brought to India (Not taxable)	-	-
Fees for technical services rendered to Shine, Ltd., a foreign company, for business outside India and received also outside India	12,000	-
Gross Total Income	3,79,000	2,87,000
Less: Deduction under section 80TTB/80TTA		
[Interest on savings bank account subject to a maximum of ₹ 50,000/₹ 10,000]	18,000	10,000
Total Income	3,61,000	2,77,000

Notes –

- In case of a resident and ordinarily resident, global income is taxable as per section 5(1). However, as per section 5(2), in case of a non-resident, only the following incomes are chargeable to tax:
 - Income received or deemed to be received in India; and
 - Income accruing or arising or deemed to accrue or arise in India.
 Therefore, agricultural income from a land situated in Nepal, income earned from business in London which is controlled from Delhi, received outside India and fees for technical services from a non-resident for business outside India is not taxable in case of non-resident.
- In case of a senior citizen, being a resident aged 60 years or more, interest upto ₹ 50,000 from saving account with, inter alia, a bank is allowable as deduction under section 80TTB while in case of a non-resident, interest upto ₹ 10,000 from saving account with, inter alia, a bank is allowable as deduction under section 80TTA.

Question 17

Examine the tax implications of the following transactions for the assessment year 2025-26: (Give brief reason)

- Government of India has appointed Mr. Vivtsu as an ambassador in Japan. He received salary of ₹ 7,50,000 and allowances of ₹ 2,40,000 during the previous year 2024-25 for rendering his services in Japan. He is an Indian citizen having status of non-resident in India for the previous year 2024-25.
- Ms. Juhi, a non-resident in India is engaged in operations which are confined to purchase of goods in India for the purpose of export. She has earned ₹ 2,50,000 during the previous year 2024-25.
- Mr. Naveen, a non-resident in India, has earned ₹ 3,00,000 as royalty for a patent right made available to Mr. Rakesh who is also a non-resident. Mr. Rakesh has utilized patent rights for development of a product in India and 50% royalty is received in India and 50% outside India.
- Mr. James, a NRI, borrowed ₹ 10,00,000 on 01.04.2024 from Mr. Akash who is also a non-resident and invested such money in the shares of an Indian Company. Mr. Akash has received interest @ 12% per annum. (PYP 7 Marks Dec'21, MTP 8 Marks Oct '23) (Same concept different figures MTP 7 Marks Oct'22)

Answer 17

- As per section 9(1)(iii), salaries (including, inter alia, allowances) payable by the Government to a citizen of India for services rendered outside India shall be deemed to accrue or arise in India. Thus, salary received from Government by Mr. Viv Tsu, being a non-resident of ₹ 7,50,000 for rendering services in Japan would be taxable in his hands, after allowing standard deduction of ₹ 50,000. However, any allowance or perquisites paid or allowed outside India by the Government to a citizen of India for rendering services outside India will be fully exempt u/s 10(7). Hence, ₹ 2,40,000, being the allowance would be exempt.
- In the case of a non-resident, no income shall be deemed to accrue or arise in India to him through or from operations which are confined to the purchase of goods in India for the purpose of export. Thus, income of ₹ 2,50,000 arising in the hands of Ms. Juhi would not be taxable in her hands in India, since her operations are confined to purchase of goods in India for the purpose of export.
- Royalty payable by a non-resident would be deemed to accrue or arise in India in the hands of the recipient only when such royalty is payable in respect of any right, property or information used for the purposes of a business or profession carried on by such non-resident in India or earning any income from any source in India.

In the present case, since Mr. Rakesh, a non-resident, paid the royalty of ₹ 3,00,000 for a patent right



used for development of a product in India, the same would be taxable in India in the hands of the recipient, Mr. Naveen, a non-resident, irrespective of the fact that only 50% of the royalty is received in India.

(iv) Interest payable by a non-resident on the money borrowed for any purpose other than a business or profession in India, would not be deemed to accrue or arise in India.

In the present case, since Mr. James, a non-resident borrowed the money for investment in shares of an Indian company, the interest on such borrowing of ₹ 1,20,000 (₹ 10,00,000 x 12%) payable to Mr. Akash, a non-resident would not be deemed to accrue or arise to him in India. Hence, the same would not be taxable in India in the hands of Mr. Akash.

EXAM INSIGHTS: (i) Many examinees were not aware that perquisites or allowances paid outside India by the Government of India to an Indian citizen for rendering services outside India are exempt by virtue of section 10(7).
 (ii) Examinees could not arrive at correct conclusion that income from operations which are confined to purchase of goods in India for the purpose of export is not deemed to accrue or arise in India and hence not taxable in the hands of Ms. Juhi.
 (iv) Many examinees could not correctly conclude that interest payable by a non-resident on money borrowed for any purpose other than business or profession in India would not be taxable in India.

Question 18

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

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

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

(i) Determine her residential status and compute the total income chargeable to tax for the Assessment Year 2025-26.

(ii) Will the residential status change if she had returned to India again on 20-01-2025 instead of 20-02-2025? (MTP 7 Marks, Apr'21)(Same concepts different figures RTP May'21, MTP 6 Marks, Sep'22)

Answer 18

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

Particulars		Rs.
Under section 6(1), an individual is said to be resident in India in any previous year, if he/she satisfies any one of the following conditions:		
(i) He/she has been in India during the previous year for a total period of 182 days or more, or		
(ii) He/she has been in India during the 4 years immediately preceding the previous year for a total period of 365 days or more and has been in India for at least 60 days in the previous year.		
If an individual satisfies any one of the conditions mentioned above, he/she is a resident. If both the above conditions are not satisfied, the individual is a non-resident.		
Therefore, the residential status of Miss Bhanushali, an American National, for A.Y.2025-26 has to be determined on the basis of her stay in India during the previous year relevant to A.Y.2025-26 i.e. P.Y.2024-25 and in the preceding four assessment years.		
Her stay in India during the previous year 2024-25 and in the preceding four years are as under:		
P.Y. 2024-25		
01.04.2024 to 11.08.2024	133 days	
20.02.2025 to 31.03.2025	40 days	
Total	173 days	



Four preceding previous years		
P.Y.2023-24 [14.2.2024 to 31.3.2024]	47 days	
P.Y.2022-23	Nil	
P.Y.2021-22	Nil	
P.Y.2020-21	Nil	
Total	47 days	
The total stay of Miss Bhanushali during the previous year in India was less than 182 days and during the four years preceding this year was for 47 days. Therefore, due to non-fulfillment of any of the two conditions for a resident, she would be treated as non-resident for the Assessment Year 2025-26.		
Computation of total income of Miss Bhanushali for the A.Y. 2025-26.		
Income from other sources		
Gifts received from non-relatives is chargeable to tax as per section 56(2) (x) if the aggregate value of such gifts exceeds Rs. 50,000.		
Rs. 71,000 received from parents of husband would be exempt, since parents of husband fall within the definition of 'relatives' and gifts from a relative are not chargeable to tax.		Nil
- Rs. 21,000 received from married sister-in-law is exempt, since sister of husband falls within the definition of relative and gifts from a relative are not chargeable to tax.		Nil
- Gift received from two friends of her husband Rs. 1,41,000 and Rs. 1,21,000 aggregating to Rs. 2,62,000 is taxable under section 56(2)(x) since the aggregate of Rs. 2,62,000 exceeds Rs. 50,000.		2,62,000
Total Income		2,62,000

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

Particulars	Rs.
Yes, the Answer would change, if she had returned to India again on 20.1.2025 instead of 20.2.2025.	
In such case, her stay in India during the previous year 2024-25 would be:	
01.04.2024 to 11.08.2025 -	133 days
20.01.2025 to 31.03.2025 -	71 days
Total	204 days
Since she satisfies the condition of stay in India for more than 182 days during the previous year 2024-25, she would become resident in India. She would be a resident but not ordinarily resident in India for A.Y. 2025-26, since her stay in India in the preceding seven years is less than 730 days (it is only 47 days) ¹ .	

¹ In the alternative, an individual can be treated as not ordinarily resident if she is non-resident in any 9 out of 10 preceding assessment years. In this case, Miss Bhanushali is a non-resident in all 10 preceding assessment years. She was in India for only 47 days in A.Y.2024-25 and never visited India earlier.

Question 19

LDR

Mr. Sushant furnished the following particulars of his income for the year ended 31.3.2025.

	Particulars	₹
(a)	Income earned from business in Dubai which is controlled from Delhi (₹ 65,000 is received in India)	80,000
(b)	Pension for services rendered in India but received in Dubai (computed)	24,000
(c)	Dividend from an Oil Company, a Dubai based company, received in Dubai	15,000
(d)	Rent from property in Dubai, deposited in a bank in Dubai and later on, remitted to India through approved banking channels	70,000
(e)	Dividend from Sunset Ltd., an Indian company, received in Dubai	78,000
(f)	Interest on money borrowed by Mr. Dipish, a non-resident, for the purpose of investment in shares of ABC Ltd., an Indian company	55,000
(g)	Agricultural income from a land in Bhutan, received in India	25,000



Compute his gross total income for the assessment year 2025-26, if he is:

- Resident and ordinarily resident;
- Resident but not ordinarily resident;
- Non-resident (MTP 7 Marks, Mar'22)

Answer 19

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

	Particulars	Resident & ordinarily resident	Resident but not ordinarily resident	Non-Resident
		₹	₹	₹
(a)	Income earned from business in Dubai which is controlled from Delhi, out of which ₹ 65,000 is received in India	80,000	80,000	65,000
(b)	Pension for services rendered in India but received in Dubai (computed)	24,000	24,000	24,000
(c)	Dividend received in Dubai from an Oil company, a Dubai based company	15,000	-	-
(d)	Rent from property in Dubai, deposited in a bank in Dubai	49,000	-	-
(e)	Dividend from Sunset Ltd., an Indian Company	78,000	78,000	78,000
(f)	Interest on money borrowed by Mr. Dipish, a non-resident, for the purpose of investment in shares of ABC Ltd., an Indian company	55,000	-	-
(g)	Agricultural income from a land in Bhutan, received in India (Taxable)	25,000	25,000	25,000
Gross Total Income		3,26,000	2,07,000	1,92,000

Notes:

- As per section 5(1), global income is taxable in case of a resident. However, as per section 5(2), in case of a non-resident, only the following incomes are chargeable to tax in India:
 - Income received or deemed to be received in India; and
 - Income accruing or arising or deemed to accrue or arise in India.
 Further, the income which accrues or arise outside India would be chargeable to tax in case of resident but not ordinarily resident in India, only if such income is derived from a business controlled in India. Accordingly, the entire income earned from business in Dubai which is controlled from Delhi would be chargeable to tax in the hands of Mr. Sushant if he is a resident in India or resident but not ordinarily resident. However, if he is non-resident then only that part of income which is received in India would be taxable in his hands.
- Agricultural income from a land in Bhutan, received in India is taxable in all cases.
- Pension for services rendered in India but received in Dubai and dividend from Sunset Ltd., an Indian company would be taxable in all cases, since it has accrued or arisen in India.
- Dividend from a Dubai based company, received in Dubai and interest on money borrowed by Mr. Dipish, a non-resident, for the purpose of investment in shares of ABC Ltd., an Indian company, would be taxable in the hands of Mr. Sushant, only if he is resident and ordinarily resident in India. If he is a resident but not ordinarily resident or a non-resident, the same would not be taxable in his hands in India since it has neither accrued nor arisen in India nor is it received in India.
- Likewise, rental income from property in Dubai would also be taxable only if he is resident in India. It has been assumed that the rental income is the gross annual value of the property. Therefore, deduction @30% under section 24, has been provided and the net income so computed is taken into account for determining the gross total income of a resident and ordinarily resident.

	₹
Rent received (assumed as gross annual value)	70,000



Less: Deduction under section 24 (30% of ₹ 70,000)	21,000
Income from house property	<u>49,000</u>

Question 20

Miss Asha is an Indian citizen. She is a lawyer by profession. She started her consultancy profession in India in 2021 with the name "New way associates". In May 2023, she got married to Mr. Ram, an American citizen. Mr. Ram came to India for the first time on 1st May 2022 when he joined an MNC in India. He got a promotion and was transferred to Dubai. He left for Dubai on 1st October, 2023. Mrs. Asha accompanied him to Dubai. She started providing consultancy there. Both of them came to India for 3 months from June to August in 2024 to spend time with Asha's family. Following incomes were earned by Mr. Ram and Mrs. Asha during the P.Y. 2024-25.

	Income of Mr. Ram	₹
1	Salary from company in Dubai (not liable to tax in Dubai)	13,00,000
2	Long term capital gain on sale of shares of an Indian company	2,50,000
3	Income from house property in Delhi (computed)	4,60,000
4	Dividend from shares of an Indian company	65,000

	Income of Mrs. Asha	₹
1	Profit from consultancy profession in Dubai which was set up in India (not liable to tax in Dubai)	12,00,000
2	Profit from consultancy profession in India	3,00,000
3	Long term capital gain on sale of shares of British company, credited to her Dubai bank account	60,000
4	Short term capital loss on sale of listed shares of an Indian company	(42,000)

Determine the residential status of Mr. Ram and Mrs. Asha and their total income for the A.Y. 2025-26 ignoring the provisions of section 115BAC. (RTP Nov'23)

Answer 20

Determination of residential status of Mr. Ram

Mr. Ram is an American citizen who comes on a visit to India during the P.Y. 2024-25 for 3 months. He has been in India from 1st May 2022 to 1st October 2023. Since Mr. Ram has been in India for a period of more than 60 days (i.e., 92 days) during the P.Y. 2024-25 and for a period of more than 365 days (i.e., 519 days) during the 4 immediately preceding previous years, he satisfies one of the basic conditions and he is a resident for the A.Y. 2025-26.

Since his period of stay in India during the preceding 7 previous years is less than 730 days (i.e., 519 days), he is a resident but not-ordinarily resident in India during the A.Y. 2025-26.

Since Mr. Ram is a resident but not-ordinarily resident, income which accrues or arises in India, deemed to accrue or arises in India, received in India, deemed to be received in India and income derived from business controlled in or a profession set up in India is chargeable to tax in India in his hands.

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

	Particulars of income	(₹)
1	Salary from company in Dubai [Not taxable, since it accrues and arises outside India]	-
2	Long term capital gain on sale of shares of an Indian company [Taxable, since it accrues and arises in India]	2,50,000
3	Income from house property in Delhi [Taxable, since it accrues and arises in India]	4,60,000
4	Dividend from shares of an Indian company [Taxable, since it accrues and arises in India]	65,000
		7,75,000

Determination of residential status of Mrs. Asha

Mrs. Asha is an Indian citizen who comes on a visit to India during the P.Y. 2024 -25 for 3 months i.e., 92 days. Since she does not satisfy any of the basic conditions of staying in India for 182 days or 120 days during the P.Y.



2024-25, she is not a resident in India as per section 6(1).

Mrs. Asha would be a deemed resident under section 6(1A) if her total income other than the income from foreign sources exceeds ₹ 15 lakhs during the P.Y. 2024-25 as she is an Indian citizen and is not liable to tax in Dubai.

Computation of total Income other than the income from foreign sources of Mrs. Asha

Particulars of income		(₹)
1	Profit from consultancy profession in Dubai which was set up in India [Includible]	12,00,000
2	Profit from consultancy profession in India [Includible]	3,00,000
3	Long term capital gain on sale of shares of British company [Not includible, since it is a foreign source income]	-
4	Short term capital loss on sale of listed shares of an Indian company [It accrues and arises in India. However, short term capital loss is not allowed to be set off from business or profession income, hence, not includible]	-
		15,00,000

Since, total income other than the income from foreign sources of Mrs. Asha does not exceed ₹ 15 lakhs, she would not be a deemed resident. Hence, Mrs. Asha is a non- resident during the A.Y. 2025-26.

Since Mrs. Asha is a non-resident, income which accrues or arises in India, deemed to accrue or arises in India, received in India and deemed to be received in India is chargeable to tax in India in her hands.

Particulars of income		(₹)
1	Profit from consultancy profession in Dubai which was set up in India [Not taxable]	-
2	Profit from consultancy profession in India [Taxable, since it accrues and arises in India]	3,00,000
3	Long term capital gain on sale of shares of British company [Not taxable, since it accrues and arises outside India]	-
4	Short term capital loss on sale of listed shares of an Indian company [Since, it accrues and arises in India, it is allowed to be carry forward to A.Y. 2026-27]	-
		3,00,000

Question 21

LDR

Mrs. Sarika, an Indian citizen, is in employment with an overseas company located in UAE. She is not liable to tax in UAE. During the P.Y. 2024-25, she comes to India for 121 days. She was in India for 50 days, 100 days, 76 days and 145 days in the financial years 2020-21, 2021-22, 2022-23 & 2023-24 respectively. Her annual income for the previous year 2024-25 is as follows:

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

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

- You are required to determine the residential status and total income of Mrs. Sarika for the A.Y. 2025-26.
- What would be your answer if income arising and received in UAE, from a business set up in India is ₹ 10,00,000 instead of ₹ 5,00,000?
- In continuation to point (ii), what would be your answer if Mrs. Sarika comes to India in P.Y. 2023-24 for 45 days instead of 145 days? (RTP Sep'24) (Same concepts different figures PYP 4 Marks May'22)

Answer 21

- Mrs. Sarika is an Indian citizen and in employment in UAE. She comes on a visit to India during the P.Y. 2024-25 for 121 days. Her stay in India in the four immediately preceding previous years i.e., in P.Y. 2020-21 to P.Y. 2023-24 is 371 days (50 + 100 + 76 + 145 days).

Her total income, other than the income from foreign sources, during the P.Y. 2024-25 would be –



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

Mrs. Sarika, an Indian citizen, having total income other than income from foreign sources not exceeding ₹ 15 lakhs and visiting India during the P.Y 2024-25, would be a resident in India for the A.Y. 2025-26, if she has stayed in India for 182 days or more during the P.Y. 2024-25.

Since she has stayed only for 121 days in India during the P.Y. 2024-25, she is a non-resident for the A.Y. 2025-26. Her total income during the P.Y. 2024-25 would be –

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

(ii) If Income arising and received in UAE, from a business set up in India is ₹ 10,00,000 instead of ₹ 5,00,000, her total income, other than the income from foreign sources, during the P.Y. 2024-25 would have been ₹ 18 lakhs.

In such a case, Mrs. Sarika, an Indian citizen, having total income other than income from foreign sources exceeding ₹ 15 lakhs and visiting India during the P.Y 2024-25, can be a resident in India for A.Y. 2025-26, if she has been in India for 120 days or more but less than 182 days in the P.Y. 2024-25 and during the 4 years immediately preceding the P.Y. 2024-25 for a total period of 365 days or more.

Since she has stayed in India for 121 days during the P.Y. 2024-25 and her stay in India in the four immediately preceding previous years is 371 days, she would be a resident in India for A.Y. 2025-26 and by default, she would be treated as resident but not ordinarily resident.

In such case, income arising and received in UAE, from a business set up in India would also form part of total income of Mrs. Sarika and her total income during the P.Y. 2024-25 would be ₹ 18 lakhs [₹ 8,00,000 (computed in (i) above) plus ₹ 10,00,000].

(iii) If Mrs. Sarika comes to India in P.Y. 2023-24 for 45 days instead of 145 days, she would not be a resident in India for the P.Y. 2024-25 as per section 6(1) since her stay in India in the four immediately preceding previous years would be less than 365 days.

However, since she is an Indian citizen having total income (excluding income from foreign sources) of ₹ 18 lakhs, which exceeds the threshold of ₹ 15 lakhs during the previous year; and not liable to tax in UAE, she would be a deemed resident in India for the P.Y. 2024-25 by virtue of section 6(1A).

A deemed resident is always a resident but not ordinarily resident. In such case, her total income during the P.Y. 2024-25 would be same i.e., ₹ 18 lakhs as computed in point (ii) above.

EXAM INSIGHTS: This question requires the examinees to determine the residential status of Mrs. Shrutu for the P.Y. 2024-25. In order to determine the residential status of an Individual who comes on a visit to India and stay during the previous year for 120 days or more but less than 182 days, computation of total income (excluding income from foreign sources) is essential. Only if, the income so computed exceeds ₹ 15 lakhs, this condition would be attracted for determination of residential status. However, some examinees had determined the residential status directly without first computing total income (excluding income from foreign sources), though the question specifically requires to support the answer with computation.



Question 22

Mr. Prashant (aged 35 years) is an Australian citizen who is settled in Australia and visits India for 125 days in every financial year since past 11 years. During the F.Y. 2024-25, he visited India for a total period of 200 days. The purpose of his visit was to meet his family members who are settled in India and also for managing his family members who are settled in India and also for managing his business in Sri Lanka through his office in Chennai, India.

During the P.Y. 2024-25, he has the following incomes:

- (A) Income from business in Australia controlled form Australia - ₹ 20,00,000
 - (B) Income from business in Sri Lanka controlled form Chennai - ₹ 16,00,000
 - (C) Short-term capital gains on sale of shares of an Indian company received in Australia - ₹ 50,000. The shares were sold online from Australia.
 - (D) Income from agricultural land in Australia, received there and then brought to India - ₹ 2,00,000
- Find out the residential status of Mr. Prashant and compute his total income for Assessment Year 2025-26. (PYP 4 Marks, May'23)

Answer 22

Determination of Residential Status of Mr. Prashant²

Mr. Prashant is an Australian citizen who comes on a visit to India for 125 days in every financial year since the past 11 years. During the P.Y. 2024-25, he visited India for 200 days. Since he stayed in India for 182 days or more during the P.Y. 2024-25, he would be resident in India for the A.Y. 2025-26.

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

- He is a resident in at least 2 out of 10 previous years preceding the relevant previous year; and
- His stay in India in the last 7 years preceding the relevant previous year is 730 days or more [Refer Note 1 below for alternate presentation]

First condition

Residential status for P.Y.2023-24 (A.Y.2024-25) – Resident, since he has stayed in India for ≥ 60 days (125 days) in the said P.Y. and ≥ 365 days (500 days, being 125 days x 4) in the four immediately preceding PYs.

Residential status for P.Y.2022-23 (A.Y.2023-24) – Resident, since he has stayed in India for ≥ 60 days (125 days) in the said P.Y. and ≥ 365 days (500 days, being 125 days' x 4) in the four immediately preceding PYs.

Therefore, he satisfies the first condition of being resident in India in at least 2 out of 10 previous years preceding the relevant P.Y.³

Second condition

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

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

In case of ROR, global income would be taxable in India. Accordingly, his total income for A.Y. 2025-26 would as follows:

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

	Particulars	₹
(i)	Income from business in Australia	20,00,000
(ii)	Income from business in Sri Lanka	16,00,000
(iii)	Short-term capital gains on sale of shares of an Indian company	50,000
(iv)	Income from agricultural land in Australia [would not be exempt, since it is not from an agricultural land in India]	2,00,000
	Total income	<u>38,50,000</u>

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

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

- He is a non-resident in at least 9 out of 10 previous years preceding the relevant previous year; or
- His stay in India in the last 7 years preceding the relevant previous year is 729 days or less.



- Mr. Prashant does not satisfy either of the above conditions on account of being resident in more than 1 year out of 10 years and stay in India for 875 days in the 7 years preceding the P.Y.2024-25. Hence, he is a Resident and Ordinarily Resident in the P.Y.2024-25.
- (2) In the absence of information relating to whether Mr. Prashant is a person of Indian origin, the above solution has been worked out assuming that Mr. Prashant is not a person of Indian origin. However, alternate assumption that Mr. Prashant is a person of Indian origin is also possible since the purpose of his visit was to meet his family members who are settled in India. Accordingly, if it is assumed that he is a person of Indian origin, then, for determining whether he is resident in P.Y.2022-23 and P.Y.2023-24, information relating to his total income (excluding income from foreign sources) for the said P.Y.s is required for ascertaining whether the condition of 120 days in the relevant P.Y. + 365 days in the 4 immediately preceding P.Ys would be attracted in his case. This information is not given in the question. Accordingly, assumptions would have to be made relating to the applicability of this condition.

Question 23

Mr. Tilak aged 35 years, furnishes the following information regarding his income for the assessment year 2025-26. Compute the total income if he is:

- (1) Resident and Ordinarily Resident.
- (2) Resident but Not Ordinarily Resident (Ignore the provisions of Section 115BAC).
 - (a) Remuneration of ₹ 50,000 for service rendered in Malaysia, credited to his bank account in Malaysia and immediately remitted to his bank account in India.
 - (b) Profits from a business in England controlled from Bombay ₹ 3,00,000 (out of which ₹ 25,000 is received in India).
 - (c) Amount brought to India out of past untaxed profits earned in Singapore ₹ 1,00,000.
 - (d) Capital gain on sale of land in India but received in Malaysia ₹ 2,00,000.
 - (e) Income from agriculture land at Nepal of ₹ 18,000, received there and then brought to India.
 - (f) He paid ₹ 50,000 towards principal payment of loan taken for construction of his self-occupied house in India.
 - (g) Interest on saving bank deposit in State Bank of India of ₹ 12,000. (PYP 6 Marks May'24)

Answer 23

Computation of total income of Mr. Tilak for the A.Y. 2025-26 (if he is Resident and Ordinarily Resident - ROR)

	Particulars	₹
(a)	Remuneration for services rendered in Malaysia Global income is taxable in case of a ROR. [Note – Alternatively, remuneration for services rendered in Malaysia can be taxable as "Salaries". In such case standard deduction of ₹ 50,000 would be reduced.]	50,000
(b)	Profit from business in England controlled from Bombay Global income is taxable in case of a ROR.	3,00,000
(c)	Past untaxed profits earned in Singapore and brought to India in current year	Nil
(d)	Capital gain on sale of land in India but received in Malaysia Deemed to accrue or arises in India, since the property is situated in India.	2,00,000
(e)	Income from agricultural land in Nepal, received there Global income is taxable in case of a ROR	18,000
(f)	Interest on saving bank deposit in SBI Taxable since it is deemed to accrue or arises in India.	<u>12,000</u>
	Gross Total Income	5,80,000
	Less: Deduction under Chapter VI-A	
	Deduction under section 80C - For repayment of housing loan	50,000
	Deduction under section 80TTA - Interest on savings bank account subject to a maximum of ₹ 10,000	<u>10,000</u>
	Total Income	<u>5,20,000</u>

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



(if he is Resident but Not Ordinarily Resident - RNOR)

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

Question 24

The following are the incomes of Shri Subhash Chandra, a citizen of India, for the previous year 2024-25:

- Income from business in India ₹ 2,00,000. The business is controlled from London and ₹ 60,000 were remitted to London.
- Profits from business earned in Japan ₹ 70,000 of which ₹ 20,000 were received in India. This business is controlled from India.
- Untaxed income of ₹ 1,30,000 for the year 2022-23 of a business in England which was brought in India on 3rd March, 2025.
- Royalty of ₹ 4,00,000 received from Shri Ramesh, a resident, for technical service provided to run a business outside India.
- Agricultural income of ₹ 90,000 in Bhutan.
- Income of ₹ 73,000 from house property in Dubai, which was deposited in bank at Dubai.

Compute Gross Total Income of Shri Sub hash Chandra for the A.Y. 2025-26, if he is -

- A Resident and Ordinarily Resident; and
- A Resident but Not Ordinarily Resident (PYP 7 Marks, May'19, MTP 6 Marks Sep'23)

Answer 24

Computation of Gross Total Income of Shri Subhash Chandra for the A.Y. 2025-26

	Particulars	Resident and Ordinarily Resident [ROR](₹)	Resident but Not Ordinarily Resident [RNOR](₹)
(i)	Income from business in India, controlled from London [Taxable both in the hands ROR and RNOR, since income accrues/arises from business in India, irrespective of the fact that business is controlled from London]	2,00,000	2,00,000
(ii)	Profits earned from business in Japan [Profits from business in Japan is taxable in the hands of ROR, since global income is taxable in the hands of ROR. Moreover, entire profit of ₹ 70,000 would be taxable in the hands of	70,000	70,000



	RNOR, even if only ₹ 20,000 is received in India, since the business in Japan is controlled from India]			
(iii)	Untaxed income for the year 2022-23 of a business in England which was brought in India during the P.Y. 2024-25 [Not taxable either in the hands of ROR or RNOR, since such income is not related to the P.Y. 2024-25.]		Nil	Nil
(iv)	Royalty received from a resident for technical service provided to run a business outside India [Taxable in the hands of ROR, since global income is taxable in the hands of ROR. Not taxable in the hands RNOR, since royalty income is not deemed to accrue or arise in India as such income is paid by a resident for technical services used to run a business outside India.]		4,00,000	Nil
(v)	Agricultural Income in Bhutan³ [Since agricultural income accrues/arises outside India, it is taxable only in the hands of ROR. No exemption is available in respect of agricultural income earned outside India]		90,000	Nil
(vi)	Income from house property in Dubai, which was deposited in a bank at Dubai Since income accrues/arises outside India and is also received outside India, it is taxable only in the hands of ROR	73,000		
	Less: Deduction u/s 24@30%	<u>21,900</u>	51,100	Nil
	[See Note below for alternative treatment]			
	Gross Total Income		8,11,100	2,70,000

Note – In the above solution, income of ₹ 73,000 from house property in Dubai is presumed to be the rent received, since the said amount is stated to be the amount deposited in bank. Accordingly, deduction@30% of the said amount has been provided to compute the “Income from house property”, where Shri Sub hash Chandra is a ROR.

However, since the words “Income from house property” appears to indicate that the same is the income computed under that head of income, it is possible to consider the said amount of ₹ 73,000 as income computed under the head “Income from house property” after providing deduction@30% under section 24(a). In such a case, the gross total income of Shri Subhash Chandra, if he were a ROR, would be ₹ 8,33,000.

Question 25

LDR

Mrs. Sia D’Souza is an American, got married to Mr. Kabir of India in New York on 14.02.2024 and came to India for the first time on 18.03.2024. She left for Australia on 16.08.2024. She returned to India again on 23.03.2025. On 01.04.2024, she had purchased a Flat in Mumbai, which was let out to Mr. Sameer on a rent of ₹ 26,000 p.m. from 1.6.2024. She had taken loan from an Indian bank for purchase of this flat on which bank had charged interest of ₹ 2,05,000 upto 31.03.2025.

While in India, during the previous year 2024-25, she had received a gold chain from her in laws worth ₹ 1,50,000 and ₹ 1,65,000 from very close friends of her husband.

From the information given above, you are required to determine her the residential status and compute her total income chargeable to tax for the Assessment Year 2025-26 assuming she has shifted out of the default tax regime under section 115BAC. (MTP 6 Marks Apr’24 & Mar’23, MTP 7 Marks Oct’21 & Oct’19)

Answer 25

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

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

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



Therefore, the residential status of Mrs. Sia D'Souza, an American, for A.Y.2025-26 has to be determined on the basis of her stay in India during the previous year relevant to A.Y. 2025-26 i.e. P.Y.2024-25 and in

the preceding four assessment years.

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

P.Y. 2024-25

01.04.2024 to 16.08.2024	-	138 days
23.03.2025 to 31.03.2025	-	<u>9 days</u>
		Total <u>147 days</u>

Four preceding previous years

P.Y.2023-24 [1.4.2023 to 31.3.2024]	-	14 days
P.Y.2022-23 [1.4.2022 to 31.3.2023]	-	Nil
P.Y.2021-22 [1.4.2021 to 31.3.2022]	-	Nil
P.Y.2020-21 [1.4.2020 to 31.3.2021]	-	Nil
Total		<u>14 days</u>

The total stay of Mrs. Sia D'Souza during the previous year in India was less than 182 days and during the four years preceding this year was for 14 days. Therefore, due to non-fulfillment of any of the two conditions for a resident, she would be treated as non-resident for the Assessment Year 2025-26.

Computation of total income of Mrs. Sia D'Souza for the A.Y. 2025-26

Particulars	₹	₹
Income from house property		
Flat located in Mumbai let-out from 01.06.2024 to 31.03.2025 @ ₹ 26,000 p.m. Gross Annual Value $[26,000 \times 10]^1$	2,60,000	
Less: Municipal taxes	Nil	
Net Annual Value (NAV)	2,60,000	
Less: Deduction under section 24		
30% of NAV	78,000	
Interest on loan [fully allowable as deduction, since property is let-out]	<u>2,05,000</u>	<u>2,83,000</u> (23,000)
Income from other sources		
- Gold chain worth ₹ 1,50,000 received from parents of husband would be exempt, since parents of husband fall within the definition of relatives and gifts from a relative are not chargeable to tax.	Nil	
- Gift received from friends of her husband aggregating to ₹ 1,65,000 is taxable under section 56(2)(x) since the amount of cash gifts of ₹ 1,65,000 exceeds ₹ 50,000.	<u>1,65,000</u>	<u>1,65,000</u>
Gross Total income/ Total Income		<u>1,42,000</u>

Question 26

Mr. Akshay (aged 59 years), an Indian citizen, travelled frequently out of India for his business trip as well as for his outings. He left India from Delhi airport on 20th April 2023 and returned on 15th October 2024. He has been in India for less than 700 days during the 7 years immediately preceding the previous year. Determine his residential status and his total income for the assessment year 2025-26 from the following information:

- (1) Long term capital gain on sale of shares of Shama India Ltd., a listed Indian company, amounting to ₹ 1,12,000. The sale proceeds were credited to his bank account in UK.
- (2) Dividend amounting to ₹ 40,000 (gross) received from RIL Ltd., an Indian company. He had borrowed money from Mr. Vivi, a non-resident Indian, for the above-mentioned investment on 2nd April, 2024. Interest on the borrowed money for the P.Y. 2024-25 amounted to ₹10,000.
- (3) Interest on post office saving bank account amounting to ₹9,500.

Mr. Akshay has shifted out of the default tax regime and wants to pay tax under normal provisions of the Act. (RTP Jan'25)



Answer 26

Determination of residential status

An individual is said to be resident in India in any previous year, if he satisfies any one of the following conditions:

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

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

Mr. Akshay, an Indian citizen, has satisfied the first basic conditions for being a resident, since he was in India for 189 days (20+17+30+31+31+29+31) during the previous year 2024-25. Hence, he is a resident in India for A.Y. 2025-26.

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

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

Since Mr. Akshay has been in India for less than 700 days during the 7 years immediately preceding the previous year, he would be a resident but not ordinarily resident for A.Y. 2025-26

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

	Particulars		Amount (₹)
(1)	Long-term capital gain on sale of shares of an Indian listed company is chargeable to tax in the hands of Mr. Akshay, since it has accrued and arisen in India even though the sale proceeds were credited to bank account in UK.		1,12,000
(2)	Dividend received from an Indian company taxable in the hands of the Akshay as Income from other sources since the income has accrued or arisen in India	40,000	
	Less: Interest expenditure restricted to 20% of dividend	8,000	32,000
(3)	Interest on post office saving bank account is taxable in the hands of Mr. Akshay as Income from other sources, since it has accrued and arisen in India and is also received in India.	9,500	
	Less: Exemption under section 10(15)	3,500	6,000
Gross Total Income			1,50,000
Less: Deduction under section 80TTA			6,000
Total Income			1,44,000

Question 27

Mrs. Riya, aged 62 years, was born and brought up in New Delhi. She got married in Russia in 1997 and settled there since then. Since her marriage, she visits India for 60 days each year during her summer break. The following are the details of her income for the previous year ended 31.03.2025:

S.No.	Particulars	Amount (in ₹)
1.	Pension received from Russian Government	65,000
2.	Long-term capital gain on sale of land at New Delhi (computed)	3,00,000
3.	Short-term capital gain on sale of shares of Indian listed companies in respect of which STT was paid both at the time of acquisition as well as at the time of sale (computed)	60,000
4.	Premium paid for self to Russian Life Insurance Corporation at Russia	75,000
5.	Rent received (equivalent to Annual Value) in respect of house property in New Delhi	90,000

You are required to ascertain the residential status of Mrs. Riya and compute her total income in India for Assessment Year 2025-26 under default tax regime. (MTP 6 Marks Nov'24, PYP 6 Marks Jul'21)



Answer 27

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

Since Mrs. Riya is a person of Indian origin who comes on a visit to India only for 60 days in the P.Y. 2024-25, she is non-resident for the A.Y. 2025-26.

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

Computation of total income and tax liability of Mrs. Riya for A.Y. 2025-26

Particulars		Amt (₹)
Salaries		
Pension received from Russian Government [Not taxable, since it neither accrues or arises in India nor it is received in India]		Nil
Income from House Property		
Annual Value [Rental Income from house property in New Delhi is taxable, since it is	90,000	
deemed to accrue or arise in India, as it accrues or arises from a property situated in India]		
Less: Deduction u/s 24(a) @ 30%	27,000	63,000
Capital Gains		
Long-term capital gains on sale of land at New Delhi [Taxable, since it is deemed to accrue or arise in India as it is arising from transfer of land situated in India]		3,00,000
Short-term capital gains on sale of shares of Indian listed companies in respect of which STT was paid [Taxable, since it is deemed to accrue or arise in India, as such income arises on transfer of shares of Indian listed companies]		60,000
Gross Total Income		4,23,000
Less: Deduction under Chapter VI-A		
Deduction under section 80C		
Life insurance premium of ₹ 75,000 [Premium paid to Russian Life Insurance Corporation allowable as deduction. However, the same has to be restricted to gross total income excluding LTCG and STCG, as Chapter VI-A deductions are not allowable against such income chargeable to tax u/s 112 and 111A, respectively]		63,000
Total Income		3,60,000

Question 28

Mr. Madan, a citizen of India and the Karta of an HUF, is employed in M/s. PCS Pvt. Ltd. He is drawing monthly salary of ₹ 65,500 in India. On June 1, 2024 he purchased one residential house property in Mumbai for ₹ 18,00,000 in his individual capacity. The market value of the property is ₹ 32,00,000 and value for the purpose of charging stamp duty is ₹ 23,00,000. On August 31st, 2024 he was transferred to the branch office of M/s. PCS Pvt. Ltd. in U.S.A. and he left India on September 1st, 2024. The overseas branch paid him a salary of \$ 2,500 per month in USA. He managed business of HUF from USA when he was not in India. He had also gone out of India for 99 days and 201 days in previous years 2023-24 and 2022-23, respectively. He had never gone out of India prior to that.

He visited India from January 1, 2025 to January 15, 2025 for training on a project and received 15 days salary in India as per his Indian monthly salary before being transferred.

Mr. Rajeev, one of his friends, gifted him a sculpture in India on August 10, 2024. The market value is ₹ 45,100. Determine the residential status of Mr. Madan and his HUF and compute gross total income of Mr. Madan for the assessment year 2025-26 assuming he opted out of the default tax regime. The value of one USD (\$) may be taken as ₹ 70. (PYP 4 Marks Sep'24)



Answer 28

Residential Status of Mr. Madan

Mr. Madan, an Indian citizen who left India on 1st September 2024 for the purpose of employment to USA, would be non-resident in India, since he stayed in India for 169 days (30+31+30+31+31+1+15) only during the P.Y. 2024-25 which is less than 182 days.

Residential Status of HUF

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

Hence, the HUF would be resident in India for the P.Y. 2024-25.

A HUF is said to be "Resident and ordinarily resident" in India during the previous year 2024-25, if Karta (Mr. Madan, in this case) satisfies both the following conditions:

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

Mr. Madan has satisfied both the above conditions as he had never gone out of India except for 99 days and 201 days in the P.Y. 2023-24 and P.Y. 2022-23, respectively, the HUF would be ROR in India.

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

	Amount in ₹
Income under the head "Salaries"	
Salary earned in India: [₹65,500 x 5 + ₹65,500 x 15/31]	3,59,194
Salary paid in USA: [Not taxable as Mr. Madan is a non-resident and such income does not accrue or arise or received in India]	Nil
Less: Standard Deduction	50,000
Income from other sources	3,09,194
Difference between the consideration of ₹ 18 lakhs and stamp duty value of ₹ 23 lakhs of the residential property acquired [Taxable, since the difference of ₹ 5 lakhs exceed ₹ 1,80,000, being the higher of 10% of the consideration and ₹50,000]	5,00,000
Sculpture received as gift from Rajeev, his friend in India [Not taxable as the value does not exceed ₹50,000]	Nil
Gross Total Income	8,09,914

MULTIPLE CHOICE QUESTIONS (MCQS)

1. Determine residential status of Sundaram (HUF) which carries out its transactions in Malaysia. Its affairs are partly controlled from India. The Karta of HUF, Mr. Sandarac who is from Chennai visits India on 01.06.2024 and leaves to Malaysia on 10.02.2025. He has not visited India for the past 11 years. (MTP 2 Marks, Nov'21)
 - (a) Non-resident
 - (b) Resident but not ordinarily resident
 - (c) Deemed resident
 - (d) Resident and ordinarily resident

Ans: (b)

2. Mr. Mango, an Indian citizen, lives in New York, USA since the last 10 years. He has a penthouse in Mumbai, given on rent @2,00,000 per month. During the year 2024-25, he came to India for 152 days in aggregate. His total stay in India in the immediately preceding 4 previous years is 366 days. You are, being the tax consultant of Mr. Mango, advise him about his residential status for the A.Y. 2025-26. (MTP 2 Marks, Apr'21)
 - (a) Non-Resident
 - (b) Resident but not ordinary resident
 - (c) Resident and ordinary resident
 - (d) Deemed resident

Ans: (b)

3. Lister Internationals Inc., a non-resident, engaged in business of selling "Good Z" appoints Mr. Risky as an agent in India for selling such product. Mr. Risky works as an agent for several other persons also including nonresidents aiding them in selling their products. The appointment of Mr. Risky will - (MTP 1 Mark, Apr'21)



- (a) lead to business connection in India as he is not independent agent
- (b) lead to business connection in India as he is an independent agent
- (c) not lead to business connection in India as he is not independent agent
- (d) not lead to business connection in India as he is an independent agent

Ans: (d)

4. Mr. Harry, an Indian citizen, is a marketing consultant who provides consultancy to various countries around the globe. Due to his profession, he is required to travel across various countries throughout the year. His marketing project does not last for more than 40 days and therefore his stay in any country including India usually never exceeds 40 days during a year. His income is ₹80 lakhs across the globe which is not liable to tax in any country. During the P.Y. 2024-25, an Indian company provides him a marketing project in India. His stay in India for the project is expected to be only 25 days and his income from that project would be ₹30 lakhs. Being a highly qualified professional, he consults you about the tax regime on his income and his residential status in India. (MTP 2 Marks, Mar'21)

- (a) He shall be treated as resident but not ordinarily resident and shall be liable to pay tax on ₹30 lakhs.
- (b) He shall be treated as resident and ordinarily resident and shall be liable to pay tax on ₹80 lakhs.
- (c) He shall be treated as non-resident and shall not be liable to any tax.
- (d) He shall be treated as resident but not ordinarily resident and shall be liable to pay tax on his entire income of ₹80 lakhs earned across the globe.

Ans: (a)

5. Mr. Sushant is a person of Indian origin, residing in Canada. During P.Y. 2024-25, he visited India on several occasions and his period of stay, in total, amounted to 129 days during P.Y. 2024-25 and his period of stay in India during P.Y.2020-21, P.Y. 2021-22, P.Y. 2022-23 and P.Y. 2023-24 was 135 days, 115 days, 95 days and 125 days, respectively. He earned the following incomes during the P.Y. 2024-25:

Source of Income	Amount (₹)
Income received or deemed to be received in India	2,50,000
Income accruing or arising or which is deemed to accrue or arise in India	3,75,000
Income accruing or arising and received outside India from business controlled from India	5,50,000
Income accruing or arising and received outside India from business controlled outside India	6,50,000

What is the residential status of Mr. Sushant for A.Y. 2025-26 and his income liable to tax in India during A.Y. 2025-26 (MTP 2 Marks, Apr'22, Dec'24)

- (a) Non-Resident; ₹6,25,000 is liable to tax in India
- (b) Resident and ordinary resident; ₹18,25,000 is liable to tax in India
- (c) Resident but not ordinarily resident; ₹11,75,000 is liable to tax in India
- (d) Non-Resident; ₹11,75,000 is liable to tax in India

Ans: (a)

6. Who among the following will qualify as non-resident for the previous year 2024-25?

- Mr. Bob, an Italian dancer, came on visit to India to explore Indian dance on 15.09.2024 and left on 25.12.2024. For past four years, he visited India for dance competition and stayed in India for 120 days each year.
- Mr. Samrat born and settled in USA, visits India each year for 100 days to meet his parents and grandparents, born in India in 1946, living in Delhi. His Indian income is ₹ 15,20,000.
- Mr. Joseph, an American scientist, left India to his home country for fixed employment there. He stayed in India for study and research in medicines from 01.01.2020 till 01.07.2024. (MTP 2 Marks, Oct'22)

Choose the correct answer

- (a) Mr. Bob and Mr. Joseph
- (b) Mr. Samrat
- (c) Mr. Bob, Mr. Samrat and Mr. Joseph
- (d) None of the three

Ans: (b)



7. Mr. Rajesh, aged 53 years, and his wife, Mrs. Sowmya, aged 50 years, are citizens of Country X. They are living in Country X since birth. They are not liable to tax in Country X. Both of them have keen interest in Indian Culture. Mr. Rajesh's parents and grandparents were born in Country X. Mrs. Sowmya visits India along with Mr. Rajesh for four months every year to be with her parents, who were born in Delhi and have always lived in Delhi. During their stay in India, they organize Cultural Programme in Delhi-NCR. Income of Mr. Rajesh and Mrs. Sowmya from the Indian sources for the P.Y. 2024-25 is ₹ 18 lakhs and ₹ 16 lakhs, respectively.

What is the residential status of Mr. Rajesh and Mrs. Sowmya for A.Y.2025-26? (RTP May'22)

- (a) Both are resident and ordinarily resident in India
- (b) Both are non-resident in India
- (c) Mr. Rajesh is resident but not ordinarily resident in India and Mrs. Sowmya is non-resident
- (d) Mrs. Sowmya is resident but not ordinarily resident in India and Mr. Rajesh is non-resident

Ans: (d)

8. Mr. Ross, an Australian citizen, is employed in the Indian embassy in Australia. He is a non-resident in India for A.Y. 2025-26. He received salary and allowances in Australia from the Government of India for the year ended 31.03.2025 for services rendered by him in Australia. In addition, he was allowed perquisites by the Government. Which of the following statements are correct? (MTP 2 Marks Aug'24)

- (a) Salary, allowances and perquisites received outside India are not taxable in the hands of Mr. Ross, since he is non-resident
- (b) Salary, allowances and perquisites received outside India by Mr. Ross are taxable in India since they are deemed to accrue or arise in India
- (c) Salary received by Mr. Ross is taxable in India but allowances and perquisites are exempt
- (d) Salary received by Mr. Ross is exempt in India but allowances and perquisites are taxable

Ans: (a)

9. Mr. Sumit is an Indian citizen and a member of the crew of an America bound Indian ship engaged in carriage of freight in international traffic departing from Kochi on 25th April, 2024. From the following details for the P.Y. 2024-25, determine the residential status of Mr. Sumit for A.Y. 2025-26, assuming that his stay in India in the last 4 previous years preceding P.Y. 2024-25 is 365 days and last seven previous years preceding P.Y. 2024-25 is 730 days: (i) Date entered in the Continuous Discharge Certificate in respect of joining the ship by Mr. Sumit: 25th April, 2024 (ii) Date entered in the Continuous Discharge Certificate in respect of signing off the ship by Mr. Sumit: 24th October, 2024

Mr. Sumit has been filing his income tax return in India as a Resident for previous 2 years.

What is his residential status for A.Y. 2025-26: (RTP May'19, MTP 2 Marks, Sep '23)

- (a) Resident and ordinarily resident
- (b) Resident but not-ordinarily resident
- (c) Non-resident
- (d) Non-resident till 24.10.2024 and resident till 31.03.2024

Ans: (a)

10. Mr. Tejas, an Indian Citizen, left India permanently with his wife and two children, for extending his retail trade business of toys in Canada in the year 2019. From Canada, he is managing his retail business of toys in India. For the purpose his Indian business, he visits India every year from 1st September to 31st January. His business income is ₹ 23.50 lakhs and ₹ 18 lakhs from retail trade business in Canada and in India, respectively for the F.Y. 2024-25. He has no other income during the P.Y. 2024-25. Determine his residential status and income taxable in his hands for the A.Y. 2025-26. (RTP May'21, MTP 2 Marks Oct '23)

- (a) Resident and ordinarily resident in India and income of ₹ 18 lakhs and ₹ 23.50 lakhs would be taxable.
- (b) Non-Resident and ₹ 18 lakhs from Indian retail trade business would only be taxable.
- (c) Resident but not ordinarily Resident and ₹ 18 lakhs from Indian retail trade business would only be taxable.
- (d) Deemed resident and ₹ 18 lakhs from Indian retail trade business would only be taxable.

Ans: (c)

CHAPTER 3.1: SALARIES

CONCEPTS OF THIS CHAPTER

- Determine when salary income is chargeable to tax
- Understand salary, profits in lieu, allowances, perquisites, retirement benefits
- Identify exempt allowances and tax-free perquisites under both tax regimes (section 115BAC and normal provisions)
- Determine taxable portion of retirement benefits, allowances, and salary-related benefits
- Calculate perquisite value chargeable to tax under "Salaries"
- Identify admissible salary deductions under default and optional tax regimes
- Compute income under the head "Salaries" for both tax regimes



LDR Questions

Q 11

Q 12

QUICK REVIEW OF IMPORTANT CONCEPTS

Taxability/Exemption of certain Allowances

House Rent Allowance 10(13A) #

Least of the following is exempt:

- (a) HRA actually received (b) Rent paid less 10% of salary
 (c) 50% of salary, if accommodation is located in Mumbai, Kolkata, Delhi or Chennai 40% of salary, if the accommodation is located in any other city.

Section 10(14)(ii)

- **Child Education Allowance #**: ₹100 per month per child upto maximum of two children

Note - out of the default tax regime provided under section 115BAC(1A).

- **Transport allowance for commuting between the place of residence and the place of duty** : ₹ 3,200 per month for an employee who is blind or deaf and dumb or orthopedically handicapped

- **Hostel expenditure of employee's children #**: ₹300 per month per child upto maximum of two children

option of shifting out of the default tax regime provided under section 115BAC(1A)

Exemption of Terminal Benefits [Exemption is available irrespective of the tax regime]

Gratuity 10(10)

- **Central Government employees/ etc.** - Fully exempt u/s 10(10)(i)

- **Other employees –**

Least of the following is exempt: (i) Gratuity actually received

In case of employees covered by the Payment of Gratuity Act, 1972

(i) $15/26 \times$ last drawn salary \times number of completed years or part in excess of six months

(ii) ₹ 20,00,000

In case of employees not covered by the Payment of Gratuity Act, 1972

(i) $1/2 \times$ average salary of last 10 months \times number of completed years of service (fraction to be ignored).

(ii) ₹ 20,00,000

Pension 10(10A)

- **Uncommuted pension- Government & Non- Government employees** Fully taxable

- **Commuted pension- Employees of Central - Government/** Fully exempt under section 10(10A)



- Other Employees
 - If the employee is in receipt of gratuity - $1/3 \times (\text{commuted pension received} \div \text{commutation \%}) \times 100$
 - If the employee is not in receipt of gratuity - $1/2 \times (\text{commuted pension received} \div \text{commutation \%}) \times 100$

Leave Salary

- Received during service - Government & Non-Government- Fully taxable
- Received at the time of retirement- Government- Fully exempt u/s 10(10AA)(i)
- Non-Government- Least of the following is exempt:
 - (i) ₹ 25,00,000
 - (ii) Leave salary actually received
 - (iii) Cash equivalent of leave standing at the credit of the employee [based on average salary of last 10 months] (maximum 30 days for every year of service)
 - (iv) 10 months' salary (based on average salary of last 10 months preceding retirement)

Retrenchment Compensation 10(10B)

Least of the following is exempt:

- (i) Compensation actually received
- (ii) ₹ 5,00,000
- (iii) 15 days average pay \times Completed years of service and part thereof in excess of 6 months

Voluntary Retirement Compensation 10(10C)

- Central and State Government, Public sector company, any other company, local authority, co-operative society, IIT etc.
- Least of the following is exempt :
 - (i) Compensation actually received
 - (ii) ₹ 5,00,000
 - (iii) 3 months' salary \times completed years of service
 - (iv) Last drawn salary \times remaining months of services left

Section 10(5) [Leave Travel Concession]

Exemption is available for 2 trips in a block of 4 calendar years. Exemption would be available to an assessee only if he exercises the option of shifting out of the default tax regime provided under section 115BAC(1A).

Provident Funds - Exemption & Taxability provisions

Particulars	Recognized PF	Unrecognized PF	Statutory PF	Public PF
Employer's Contribution	Contribution in excess of 12% of salary is taxable	Not taxable at time of contribution	Fully exempt	N.A.
Employee's Contribution	Eligible for deduction u/s 80C [#]	Not eligible for deduction	Eligible for deduction u/s 80C [#]	Eligible for deduction u/s 80C [#]
Interest Credited on Employer's Contribution	Amount in excess of 9.5% p.a. is taxable	Not taxable at the time of credit of interest	Fully exempt	N.A.
Interest Credited on Employee's Contribution	Amount in excess of 9.5% p.a. is taxable as "salary" u/s 17(1)	Not taxable at the time of credit of interest	Exempt upto certain limit of contribution	Fully exempt

[#]Exercises the option to shift out of default tax regime 115BAC

Valuation of Perquisites [Section 17(2) read with Rule 3]

(i) Rent-free residential accommodation/ Accommodation provided to an employee at concessional rate

- Where accommodation is owned by employer

Location	Perquisite value
In cities having a population > 40 lakhs as per 2011 census	10% of salary
In cities having a population > 15 lakhs \leq 40 lakhs as per 2011 census	7.5% of salary
In other areas	5% of salary

The perquisite value should be arrived at by reducing the rent, if any, actually paid by the employee, from the above value.

- Where the accommodation is taken on lease or rent by employer - Lower of the following is taxable:



- (a) actual amount of lease rent paid or payable by employer or | (b) 10% of salary
The lower of the above should be reduced by the rent, actually paid by the employee, to arrive at the perquisite value

(ii) Interest free or concessional loan

In respect of any loan given by employer to employee or any member of his household (excluding for medical treatment for specified ailments or where loans amount in aggregate does not exceed ` 20,000), the interest at the rate charged by SBI as on the first day of the relevant previous year at maximum outstanding monthly balance as reduced by the interest

(iii) Use of movable assets by employee/ any member of his household

Asset given	Value of benefit
(a) Use of laptops and computers	Nil
(b) Movable assets, other than – (i) laptops and computers; and (ii) assets already specified	10% p.a. of the actual cost of such asset, or the amount of rent or charge paid, or payable by the employer, (-) Amount paid by/ recovered from an employee

(iv) Transfer of movable assets

Actual cost of asset to employer (-) cost of normal wear and tear (-) amount paid or recovered from employee

Assets transferred	Value of perquisite
<ul style="list-style-type: none"> Computers and electronic items Motor cars Any other asset 	<ul style="list-style-type: none"> @50% on WDV for each completed year of usage @20% on WDV for each completed year of usage @10% of actual cost of such asset to employer for each completed year of usage [on SLM basis]

(v) Motor car

1.		
Car owned/ hired by	Employer	
Expenses met by	Employer	
Wholly official use	Not a perquisite*	
Partly personal use (c)	CC of engine	Perquisite value
	upto 1.6 litres	₹1,800 p.m.
	above 1.6 litres	₹2,400 p.m.
If chauffeur is also provided, ₹ 900 p.m. should be added to the above value.		
2.		
Car owned/ hired by	Employee	
Expenses met by	Employer	
Wholly official use	Not a perquisite*	
Partly personal use (c)	Actual amount of expenditure incurred by the employer as reduced by the perquisite value arrived at in (1) above.	

- *Provided employer maintains the complete details of such journey and expenditure thereon and gives a certificate that such expenditure are incurred wholly for official use.

Deductions from gross salary [Section 16]

1. Standard deduction [Section 16(ia)]

- Standard deduction of upto ₹ 75,000 under default tax regime under section 115BAC.
- Standard deduction of upto ₹50,000 under normal provisions of the Act.

2. Entertainment allowance (allowable only in the case of government employees) [Section 16(ii)]

- Least of the following is allowed as deduction:
 - (1) ₹ 5,000
 - (2) 1/5th of basic salary
 - (3) Actual entertainment allowance received

Note - Available only if he shifts out of the default tax regime provided under section 115BAC(1A).

3. Professional tax [Section 16(iii)]

Note - Available only if he shifts out of the default tax regime provided under section 115BAC(1A).



Question & Answers

Question 1

Mr. Sahil, a resident individual, aged 40 years, is an assistant manager of Fox Ltd. He is getting a salary of ₹ 55,000 per month. During the previous year 2024-25, he received the following amounts from his employer.

- (i) Dearness allowance (10% of basic pay which forms part of salary for retirement benefits).
- (ii) Bonus of ₹ 60,000.
- (iii) Fixed Medical allowance of ₹ 50,000 for meeting medical expenditure.
- (iv) He was also reimbursed the medical bill of his mother dependent on him amounting to ₹ 6,500.
- (v) Mr. Sahil was provided;
 - a laptop both for official and personal use. Laptop was acquired by the company on 1st June, 2022 at ₹ 35,000.
 - a domestic servant at a monthly salary of ₹ 8,000 which was reimbursed by his employer.
- (vi) Fox Ltd. allotted 700 equity shares in the month of October 2024 @ ₹ 170 per share against the fair market value of ₹ 280 per share on the date of exercise of option by Mr. Sahil. The fair market value was computed in accordance with the method prescribed under the Act.
- (vii) Professional tax ₹ 2,200 (out of which ₹ 1,400 was paid by the employer).

Compute the Income under the head "Salaries" of Mr. Sahil for the assessment year 2025-26 if he is paying tax under default tax regime under section 115BAC. (MTP 5 Marks, Mar'24) (Similar Concept Different Figure RTP May'20)

Answer 1

Computation of Income under the head "Salaries" in the hands of Mr. Sahil for the A.Y. 2025-26

Particulars	₹
Basic Salary [₹ 55,000 x 12]	6,60,000
Dearness allowance [10% of basic salary]	66,000
Bonus	60,000
Fixed Medical Allowance [Taxable]	50,000
Reimbursement of Medical expenditure incurred for his father [Fully taxable]	6,500
Facility of laptop [Facility of laptop is an exempt perquisite, whether used for official or personal purpose or both]	Nil
Reimbursement of salary of domestic servant [₹ 8,000 x 12] [Fully taxable, since perquisite includes any sum paid by the employer in respect of any obligation which would have been payable by the employee]	96,000
Value of equity shares allotted [700 equity shares x ₹ 110 (₹ 280, being the fair market value – ₹ 170, being the amount recovered)]	77,000
Professional tax paid by the employer [Perquisite includes any sum paid by the employer in respect of any obligation which would have been payable by the employee]	1,400
Gross Salary	10,16,900
Less: Deduction under section 16	
Professional tax paid [Not allowed]	-
Standard Deduction (Lower of ₹ 75,000 or amount of salary)	75,000
Taxable Salary	9,41,900

Question 2

Mr. Kashyap, aged 38 years, is entitled to a salary of ₹ 40,000 per month. He is given an option by his employer either to take house rent allowance or a rent free accommodation which is owned by the company. The HRA amount payable was ₹ 8,000 per month. The rent for the hired accommodation was ₹ 6,500 per month at New Delhi. Advise Mr. Kashyap whether it would be beneficial for him to avail HRA or Rent Free Accommodation. Give your advice on the basis of "Net Take Home Cash benefits". Assume Mr. Kashyap does not opt for the provisions of section 115BAC. (MTP 7 Marks, Nov'21)

**Answer 2****Computation of tax liability of Kashyap under both the options**

Particulars		Option I – HRA (₹)	Option II – RFA (₹)
Basic Salary (₹ 40,000 x 12 Months)		4,80,000	4,80,000
Perquisite value of rent-free accommodation (10% of ₹ 4,80,000)		N.A.	48,000
House rent Allowance (₹ 8,000 x 12 Months)	₹ 96,000		
Less: Exempt u/s 10(13A) – least of the following -			
- 50% of Basic Salary ₹ 2,40,000			
- Actual HRA received ₹ 96,000			
- Rent paid less 10% of salary ₹ 30,000	₹30,000	66,000	
Gross Salary		5,46,000	5,28,000
Less: Standard deduction u/s 16(IA)		50,000	50,000
Net Salary		4,96,000	4,78,000
Less: Deduction under Chapter VI-A		-	-
Total Income		4,96,000	4,78,000
Tax on total income		12,300	11,400
Less: Rebate under section 87A - Lower of ₹ 12,500 or income-tax of ₹ 12,300, since total income does not exceed ₹ 5,00,000		12,300	11,400
		Nil	Nil
Add: Health and Education cess@4%		Nil	Nil
Total tax payable		Nil	Nil
Tax Payable (Rounded off)		Nil	Nil

Cash Flow Statement

Particulars	Option I – HRA	Option II – RFA
Inflow: Salary	5,76,000	4,80,000
Less: Outflow: Rent paid	(78,000)	-
Tax on total income	Nil	Nil
Net Inflow	4,98,000	4,80,000

Since the net cash inflow under Option I (HRA) is higher than in Option II (RFA), it is beneficial for Mr. Kashyap to avail Option I, i.e., House Rent Allowance

Question 3

Mr. Sunil is the CEO of Sheetal Textiles Ltd. His basic salary is ₹ 6,00,000 p.m. He is paid 8% as D.A. He contributes 10% of his pay and D.A. towards his recognized provident fund and the company contributes the same amount. The accumulated balance in recognized provident fund as on 1.4.2023, 31.3.2024 and 31.3.2025 is ₹ 50,35,000, ₹ 71,46,700 and ₹ 94,57,700, respectively. Compute the perquisite value chargeable to tax in the hands of Mr. Sunil u/s 17(2)(vii) and 17(2)(viia) for the A.Y. 2024-25 and A.Y. 2025-26. (RTP May'22)

Answer 3**Computation of perquisite value taxable u/s 17(2)(vii) and 17(2)(viia) for A.Y. 2024-25**

- Perquisite value taxable u/s 17(2)(vii) = ₹ 7,77,600, being employer's contribution to recognized provident fund during the P.Y. 2023-24 – ₹ 7,50,000 = ₹ 27,600
- Perquisite value taxable u/s 17(2)(viia) = Annual accretion on perquisite taxable u/s 17(2)(vii)

$$= (PC/2)*R + (PC1 + TP1)*R = (27,600/2) \times 0.0914 + 0 = ₹ 1,261$$



PC	Sheetal Textile Ltd.'s contribution in excess of ₹ 7.5 lakh to recognized provident fund during P.Y. 2023-24 = ₹ 27,600
PC1	Nil
TP1	Nil
R	$I/\text{Favg} = 5,56,500/60,90,850 = 0.0914$
I	RPF balance as on 31.3.2025 – employee's and employer's contribution during the year – RPF balance as on 1.4.2024 = ₹ 5,56,500 (₹ 71,46,700 – ₹ 7,77,600 – ₹ 7,77,600 – ₹ 50,35,000)
Favg	Balance to the credit of recognized provident fund as on 1 st April, 2023 + Balance to the credit of recognized provident fund as on 31 st March, 2024)/2 = (₹ 50,35,000 + ₹ 71,46,700)/2 = ₹ 60,90,850

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

- Perquisite value taxable u/s 17(2)(vii) = ₹ 7,77,600, being employer's contribution to recognized provident fund during the P.Y. 2024-25 – ₹ 7,50,000 = ₹ 27,600
- Perquisite value taxable u/s 17(2)(viii) = Annual accretion on perquisite taxable u/s 17(2)(vii)
 $= (PC/2)*R + (PC1 + TP1)*R$
 $= (27,600/2) \times 0.0910 + (27,600 + 1,261) \times 0.0910$
 $= ₹ 1,256 + ₹ 2,626$
 $= ₹ 3,882$

PC	Sheetal Textile Ltd.'s contribution in excess of ₹ 7.5 lakh to recognized provident fund during P.Y. 2023-24 = ₹ 27,600
PC1	Amount of employer's contribution in excess of ₹ 7,50,000 to RPF in P.Y. 2023-24 = ₹ 27,600
TP1	Taxable perquisite under section 17(2)(viii) for the P.Y. 2023-24 = ₹ 1,261
R	$I/\text{Favg} = 7,55,800/83,02,200 = 0.0910$
I	RPF balance as on 31.3.2025 – employee's and employer's contribution during the year – RPF balance as on 1.4.2024 = ₹ 7,55,800 (₹ 94,57,700 – ₹ 7,77,600 – ₹ 7,77,600 – ₹ 71,46,700)
Favg	Balance to the credit of recognized provident fund as on 1 st April, 2024 + Balance to the credit of recognized provident fund as on 31 st March, 2025)/2 = (₹ 71,46,700 + ₹ 94,57,700)/2 = ₹ 83,02,200

Note – Since the employee's contribution to RPF exceeds ₹ 2,50,000 in the P.Y.2024-25, interest on ₹ 5,27,600 (i.e., ₹ 7,77,600 – ₹ 2,50,000) will also be chargeable to tax.

Question 4

Mr. Wiv Tsu, a salaried employee in a private company, furnishes you the following information for the year ended on 31-03-2025:

- Basic salary ₹75,000 p.m.
From 1st December 2024, basic salary increased to 85,000 p.m.
- Dearness allowance @50% of basic salary (40% of D.A. forms part of salary for retirement benefits).
- Entertainment allowance ₹10,000
- Contribution of employer to recognized provident fund account of the employee @18% of basic salary. Employees also contribute an equivalent amount.
- Professional tax paid ₹ 2,200 of which ₹ 1,800 was paid by the employer.
- House rent allowance of ₹ 16,000 p.m. He paid rent of ₹ 17,000 p.m. for accommodation in Meerut.
- Conveyance allowance of ₹ 1,500 p.m. by the company towards actual reimbursement of conveyance spent on official duty.
- Loan of ₹ 2,00,000 was taken from the employer on 1.7.2024 for medical treatment of his brother for tuberculosis treatment. Interest charged on such loan is 5%. The entire loan is outstanding as on 31.3.2025. No medical insurance has been taken for his brother. SBI rate of interest on 1.4.2024 was 11%.
- Free education was provided to the sister of Mr. Wiv Tsu in a school maintained and owned by the company. The cost of such education facility is computed at ₹ 900 p.m. No amount was recovered by the company for such education facility from Wiv Tsu.
- Leave travel concession given to Wiv Tsu, his wife and three children (one daughter aged 6 and twin sons



aged 4). Cost of air tickets (economy class) reimbursed by the employer ₹ 20,000 for adults and lumpsum of ₹ 25,000 for three children. Wiv Tsu is eligible for availing exemption this year to the extent it is permissible under the Income- tax Act, 1961.

Compute the taxable salary of Mr. Wiv Tsu if he has shifted out of the default tax regime under section 115BAC. (RTP Sep'24, SM)

Answer 4

Computation of taxable salary of Mr. Wiv Tsu for the A.Y. 2025-26

Particulars	₹	₹
Basic Salary [(₹75,000 x 8) + (₹85,000 x 4)]		9,40,000
Dearness allowance [50% of basic salary]		4,70,000
Employer's contribution to recognized provident fund [18% x ₹9,40,000]	1,69,200	
Less: Exempt up-to 12% of basic salary and D.A. forms part of retirement benefit [12% x ₹11,28,000]	<u>1,35,360</u>	33,840
Taxable allowances		
Entertainment allowance		10,000
Conveyance allowance [Exempt, since it is based on actual reimbursement for official purpose]		-
House rent allowance	1,92,000	
Less: Least of the following exempt under section 10(13A)	<u>91,200</u>	1,00,800
(i) HRA received	1,92,000	
(ii) Rent paid (-) 10% of salary [₹2,04,000 – 10% x ₹11,28,000]	91,200	
(iii) 40% of salary [40% x ₹11,28,000]	4,51,200	
Taxable Perquisite		
Professional tax paid by the employer [Perquisite includes any sum paid by the employer in respect of any obligation which would have been payable by the employee]		1,800
Interest on loan [Not a perquisite, since loan is for medical treatment of his brother for tuberculosis treatment]		-
Provision of education facility [₹900 x 12]		10,800
Leave travel concession	45,000	
Less: Exempt	45,000	-
[Mr. Wiv Tsu can avail exemption on the entire amount of ₹ 45,000 reimbursed by the employer towards leave travel concession since the leave travel concession was availed for himself, wife and three children and the journey was undertaken by economy class airfare. The restriction imposed for two children is not applicable in case of multiple birth which take place after the first child.]		
Gross Salary		15,67,240
Less: Deduction under section 16		
Professional tax paid	2,200	
Standard Deduction, lower of salary or ₹50,000	50,000	52,200
Taxable Salary		15,15,040

Question 5

Mr. Rohan retired from M/s. QRST Ltd. a private sector company, on 31st March, 2025 after completing 28 years and 3 months of service. He received the following sums/gifts on his retirement:

- (i) Gratuity of ₹ 7,50,000. He was covered under the Payment of Gratuity Act, 1972.
- (ii) Leave encashment of ₹ 3,25,000 for 210 days leave balance in his account. He was credited with 30 days leave for each completed year of service.

(iii) Crockery set worth ₹ 4,500 from his employer at the farewell party which was organized by the HR



department a day before his retirement.

He drew a basic salary of ₹ 25,000 per month along with 50% of basic salary as dearness allowance (not forming part of retirement benefits) for the period from 1st April, 2024 to 31st March, 2025.

Further, during the year, his employer provided him a motor car of 1800 cc which was used by him and his family solely for personal purposes. The cost of fuel and repairs were met by Mr. Rohan himself. The car was purchased by the employer on 1st April, 2023 at a cost of ₹ 8,00,000. Salary of driver amounting to ₹ 10,000 per month was met by the employer only. Upon retirement, he gave the car back to the employer.

You are required to compute the taxable salary of Mr. Rohan for A.Y.2025-26 assuming that he neither claims any relief under section 89 nor does he opt to pay tax under section 115BAC. (PYP 7 Marks, May'23)

Answer 5

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

Particulars		₹
Basic Salary ₹ 25,000 x 12		3,00,000
Dearness Allowance (50% of basic salary)		1,50,000
Gratuity [₹ 7,50,000 – ₹ 6,05,769]		1,44,231
Less: Exempt under section 10(10) - Least of the following:	₹	
(i) Notified limit	20,00,000	
(ii) Actual gratuity received	7,50,000	
(iii) $15/26 \times$ last drawn salary x no. of completed years of services or part in excess of 6 months [$15/26 \times 37,500^4 \times 28$]	6,05,769	
Leave encashment [₹ 3,25,000 – ₹ 1,75,000]		1,50,000
Less: Exempt under section 10(10AA) - Least of the following:		
(i) Notified limit	25,00,000	
(ii) Actual leave salary received	3,25,000	
(iii) 10 months x ₹ 25,000	2,50,000	
(iv) Cash equivalent of leave to his credit [₹ 25,000 x 210/30]	1,75,000	
Crockery set [not a perquisite, since value of gift does not exceed ₹ 5,000]		-
Perquisite value of car [Driver's salary met by employer ₹ 1,20,000 (i.e., ₹ 10,000 x 12) + ₹ 80,000 (10% of ₹ 8,00,000), being normal wear and tear on car]		2,00,000
Gross Salary		9,44,231
Less: Standard deduction u/s 16(ia)		50,000
Taxable Salary		8,94,231

⁴ Since gratuity is received under the Payment of Gratuity Act, both basic salary and dearness allowance has to be considered for computation of this limit, even though dearness allowance does not form part of retirement benefits.

Question 6

Ms. Neelima, a resident of Delhi, was employed by LMN Ltd. upto 15, March, 1994. At the time of leaving LMN Ltd., she was paid ₹ 3,50,000 as leave salary out of which ₹ 59,000 was exempted from tax under section 10(10AA).

Thereafter, she joined CD (P) Ltd. and received ₹ 4,14,000 as leave salary at the time of retirement on December 31, 2024. In addition, she received a gratuity of ₹ 12,00,000 from the employer (she is not covered by the Payment of Gratuity Act, 1972). The following information is available:

Average salary received during 11 months ending on December 31, 2024



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

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

You are required to compute her total income for the assessment year 2025 -26, clearly showing all workings. (Ignore section 115BAC provisions). (PYP 6 Marks Nov'23)

Answer 6

Computation of Total income of Ms. Neelima for A.Y. 2025-26

Particulars	₹	₹	₹
Income under the head "Salaries"			
Basic Salary [₹ 22,600 x 4 + ₹ 22,900 x 5]		2,04,900	
Gratuity [₹ 12,00,000 – ₹ 1,59,040]		10,40,960	
Less: Exempt under section 10(10) - Least of the following:			
(i) Notified limit	20,00,000		
(ii) Actual gratuity received	12,00,000		
(iii) $1/2 \times 22,720 [(22,600 \times 6 + 22,900 \times 4)/102] \times 14$ [No. of completed years of services, ignore fraction]	1,59,040		
Leave encashment [₹ 4,14,000 – ₹ 2,27,500]		1,86,500	
Less: Exempt under section 10(10AA) – Least of the following:			
(i) Notified limit [₹ 3,00,000 – ₹ 59,000, amount exempted earlier]	2,41,000		
(ii) Actual leave salary received	4,14,000		
(iii) 10 months x 22,750 [(₹ 22,600 x 5 + 22,900 x 5)/103]	2,27,500		
(iv) Cash equivalent of leave to his credit [₹ 22,750 x 11 [420 days (30 days x 14 years of service) less 90 days of leave availed /30]	2,50,250		
Employer's contribution from unrecognized provident fund received on retirement		2,10,000	
Interest on Employer's contribution from unrecognized provident fund received on retirement		<u>50,000</u>	
Gross Salary		16,92,360	
Less: Standard deduction u/s 16(ia)		<u>50,000</u>	
Taxable Salary			16,42,360
Income from Other Sources			
Interest on employee's contribution from unrecognized provident fund		60,000	
Employee's contribution from unrecognized provident fund received on retirement [Not Taxable]		-	<u>60,000</u>
Gross Total Income/Total Income			<u>17,02,360</u>

EXAM INSIGHTS: Many of the examinees could not correctly compute the amount of exemption for leave encashment and gratuity. Some examinees have failed to tax the interest on employee's contribution from unrecognized provident fund under the head "Income from Other Sources".



Question 7

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

Particulars	₹
Basic salary	6,20,000
Dearness allowance	4,20,000
Commission	75,000
Entertainment allowance	9,000
Medical expenses reimbursed by the employer	18,000
Profession tax (of this, 50% paid by employer)	4,000
Health insurance premium paid by employer	8,000
Gift voucher given by employer on her birthday	10,000
Life insurance premium of Akansha paid by employer	26,000
Laptop provided for use at home. Actual cost of Laptop to employer Children of the assessee are also using the Laptop at home]	45,000
Employer company owns a Maruti Suzuki Swift car, which was provided to the assessee, both for official and personal use. Driver was also provided. (Engine cubic capacity more than 1.6 litres). All expenses are met by the employer	
Annual credit card fees paid by employer [Credit card is not exclusively used for official purposes; details of usage are not available]	7,000

You are required to compute the income chargeable under the head Salaries for the assessment year 2025-26 if she pays tax under default tax regime. (New SM, MTP 6 Marks Sep'22, RTP Nov '20)

Answer 7

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

Particulars	₹
Basic Salary	6,20,000
Dearness allowance	4,20,000
Commission	75,000
Entertainment allowance	9,000
Medical expenses reimbursed by the employer is fully taxable	18,000
Professional tax paid by the employer is a taxable perquisite as per section 17(2)(iv), since it is an obligation of the employee which is paid by the employer	2,000
Health insurance premium of ₹ 8,000 paid by the employer is an exempt perquisite [Clause (iii) of proviso to section 17(2)]	Nil
Gift voucher given by employer on Ms. Akansha birthday (entire amount is taxable since the perquisite value exceeds ₹ 5,000) as per Rule 3(7)(iv)	10,000
Life insurance premium of Ms. Akansha paid by employer is a taxable perquisite as per section 17(2)(v)	26,000
Laptop provided for use at home is an exempt perquisite as per Rule 3(7)(vii)	Nil
Provision of motor car with driver (engine cubic capacity more than 1.6 litres) owned by employer to employee, the perquisite value would be ₹ 39,600 [₹ (2,400+ 900) ×12] as per Rule 3(2)	39,600
Annual credit card fees paid by employer is a taxable perquisite as per Rule 3(7)(v) since the credit card is not exclusively used for official purposes and details of usage are not available	7,000



Gross Salary	12,26,600
Less: Deductions under section 16 - Standard Deduction as per section 16(ia)	75,000
Income chargeable under the head "Salaries"	11,51,600

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

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

An alternate view possible is that only the sum in excess of ₹ 5,000 is taxable in view of the language of Circular No.15/2001 dated 12.12.2001, which states that such gifts upto ₹ 5,000 in the aggregate per annum would be exempt, beyond which it would be taxed as a perquisite. As per this view, the value of perquisite would be ₹ 5,000. Accordingly, the gross salary and net salary would be ₹ 12,21,600 and ₹ 11,46,600, respectively.

Question 8

Mr. Samaksh is a Marketing Manager in Smile Ltd. From the following information, you are required to compute his income chargeable under the head Salary for assessment year 2025-26.

- Basic salary is ₹ 70,000 per month.
- Dearness allowance @ 40% of basic salary
- He is provided health insurance scheme approved by IRDA for which ₹ 20,000 incurred by Smile Ltd.
- Received ₹ 10,000 as gift voucher on the occasion of his marriage anniversary from Smile Ltd.
- Smile Ltd. allotted 800 sweat equity shares in August 2024. The shares were allotted at ₹ 450 per share and the fair market value on the date of exercising the option by Mr. Samaksh was ₹ 700 per share.
- He was provided with furniture during September 2020. The furniture is used at his residence for personal purpose. The actual cost of the furniture was ₹ 1,10,000. On 31st March, 2025, the company offered the furniture to him at free of cost. No amount was recovered from him towards the furniture till date.
- Received ₹ 10,000 towards entertainment allowance.
- Housing Loan @ 4.5% p.a. provided by Smile Ltd., amount outstanding as on 01.04.2024 is ₹ 15 Lakhs. ₹ 50,000 is paid by Mr. Samaksh every quarter towards principal starting from June 2024. The lending rate of SBI for similar loan as on 01.04.2024 was 8%.
- Facility of laptop costing ₹ 50,000. Ignore provisions of 115BAC. (MTP 7 Marks, Mar'21, MTP 6 Marks Jul'24)

Answer 8

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

Particulars	₹	₹
Basic Salary [₹ 70,000 x 12 months]		8,40,000
Dearness allowance [40% of ₹ 8,40,000]		3,36,000
Entertainment allowance		10,000
Interest on housing loan given at concessional rate, would be perquisite, since the amount of loan exceeds ₹ 20,000, For computation, the lending rate of SBI on 1.4.2024 @8% has to be considered. Thus, perquisite value would be determined @ 3.5% (8% - 4.5%) [See Working Note]		49,291
Health insurance premium paid by the employer [tax free perquisite]		Nil
Gift voucher on the occasion of his marriage anniversary [As per Rule 3(7)(iv), the value of any gift or voucher or token in lieu of gift received by the employee or by member of his household exceeding ₹ 5,000 in		10,000



aggregate during the previous year is fully taxable] (See note below)		
Allotment of sweat equity shares		
Fair market value of 800 sweat equity shares @ ₹ 700 each	5,60,000	
Less: Amount recovered @ ₹ 450 each	<u>3,60,000</u>	2,00,000
Use of furniture by employee		
10% p.a. of the actual cost of ₹ 1,10,000		11,000
Use of Laptop		
Facility of use of laptop is not a taxable perquisite		Nil
Transfer of asset to employee		
Value of furniture transferred to Mr. Samaksh	1,10,000	
Less: Normal wear and tear @10% for each completed year of usage on SLM basis [1,10,000 x 10% x 4 years (from September 2020 to September 2024)]	<u>44,000</u>	<u>66,000</u>
Gross Salary		15,22,291
Less: Standard deduction u/s 16 [Actual salary or ₹ 50,000, whichever is less]		<u>50,000</u>
Net Salary		14,72,291

Working Note:

Computation of perquisite value of loan given at concessional rate

For computation, the lending rate of SBI on 1.4.2024 @8% has to be considered. Thus, perquisite value would be determined @ 3.5% (8% - 4.5%)

Month	Maximum outstanding balance as on last date of month (₹)	Perquisite value at 3.5% for the month (₹)
April, 2024	15,00,000	4,375
May, 2024	15,00,000	4,375
June, 2024	14,50,000	4,229
July, 2024	14,50,000	4,229
August, 2024	14,50,000	4,229
September, 2024	14,00,000	4,083
October, 2024	14,00,000	4,083
November, 2024	14,00,000	4,083
December, 2024	13,50,000	3,937.50
January, 2025	13,50,000	3,937.50
February, 2025	13,50,000	3,937.50
March, 2025	13,00,000	3,792
Total value of this perquisite		49,290.50

Note: An alternate view possible is that only the sum in excess of ₹ 5,000 is taxable. In such a case, the value of perquisite would be ₹ 5,000 and gross salary and net salary would be ₹ 15,17,291 and ₹ 14,67,291, respectively.

Question 9

Ms. Aashima is a Finance manager in ABC limited. She has given the details of her income for the P.Y. 2024-25. You are required to compute the income chargeable to tax under the head "Salaries" in the hands of Ms. Aashima from the details given below:

Basic Salary	₹ 60,000 p.m.
Dearness Allowance	₹ 24,000 p.m. (40% of which forms part of retirement benefits)
Bonus	₹ 21,000 p.m.



Motor car owned by the employer (cubic capacity of engine exceeds 1.6 liters) provided to Ms. Aashima from 1st October, 2024 which is used for both official and personal purposes. Repair and running expenses of ₹ 60,000 were fully met by the company. The motor car was self-driven by the employee. Professional tax paid ₹ 2,500 out of which ₹ 2,000 was paid by the employer. Her employer has provided her with an accommodation on 1st April 2024 at a concessional rent. The house was taken on lease by ABC Ltd. for ₹ 12,000 p.m. Ms. Aashima occupied the house from 1st December, 2024, ₹ 4,800 p.m. is recovered from the salary of Ms. Aashima. The employer gave her a gift voucher of ₹ 8,000 on her birthday. Ms. Aashima contributes 15% of her salary (Basic Pay plus DA) towards recognized provident fund and the company contributes the same amount. The company pays medical insurance premium to effect insurance on the health of Ms. Aashima ₹ 20,000. Assume that she does not opt for 115BAC. (MTP 7 Marks, Mar'22)

Answer 9

Computation of income chargeable to tax under the head "Salaries" in the hands of Ms. Aashima for A.Y.2025-26

Particulars		₹
Basic Salary [₹ 60,000 x 12]		7,20,000
Dearness allowance [₹ 24,000 x 12]		2,88,000
Bonus [₹ 21,000 x 12]		2,52,000
Perquisite of Motor car (₹2,400 x 6 months) [See Note 1]		14,400
Professional tax paid by employer [See Note 2]		2,000
Perquisite value in respect of concessional rent [See Note 3]		28,800
Gift voucher given by employer on Ms. Aashima's birthday (entire amount is taxable since the perquisite value exceeds ₹ 5,000) [See Note 4]		8,000
Employer's contribution to recognized provident fund in excess of 12% of salary = 15% x [(₹ 60,000 + ₹ 24,000) x 12] – 12% x { [₹ 60,000 + ₹ 9,600 (being 40% of ₹ 24,000)] x 12} = 1,51,200 – 1,00,224 [Salary = Basic Salary + Dearness allowance, to the extent it forms part of pay for retirement benefits]		50,976
Medical insurance premium of ₹ 20,000 paid by the employer to effect an insurance on the health of an employee is an exempt perquisite		—
Gross salary		13,64,176
Less: Deduction under section 16		
Standard deduction under section 16(ia)	50,000	
Professional tax u/s 16(iii) [See Note 2]	2,500	52,500
Salary chargeable to tax		13,11,696

Notes:

- In case a motor car (engine cubic capacity more than 1.6 litres) owned by employer is provided to an employee without chauffeur for both official and personal purpose, where the expenses are fully met by the employer, the value of perquisite would be ₹ 2,400 p.m. The car was provided to Ms. Aashima on 1.10.2024, therefore, the perquisite value has been calculated for 6 months.
- As per section 17(2)(iv), a "perquisite" includes any sum paid by the employer in respect of any obligation which, but for such payment, would have been payable by the assessee. Therefore, professional tax of ₹ 2,000 paid by the employer is taxable as a perquisite in the hands of Ms. Aashima. As per section 16(iii), a deduction from the salary is provided on account of tax on employment i.e. professional tax paid during the year. Therefore, in the present case, the professional tax paid by the employer on behalf of the employee ₹ 2,000 is first included in the salary and deduction of the entire professional tax of ₹ 2,500 is provided from salary.
- Where the accommodation is taken on lease or rent by the employer, the actual amount of lease rent paid or payable by the employer or 10% of salary, whichever is lower, **in respect of the period during which the house is occupied by the employee**, as reduced by the rent recoverable from the employee, is the value of



the perquisite.

Actual rent paid by the employer from 1.12.2024 to 31.3.2025 = ₹ 48,000 [₹ 12,000 x 4 months]

10% of salary = ₹ 54,360 [10% x (₹ 60,000 + ₹ 9,600 + ₹ 21,000) x 4 months]

Salary = Basic Salary + Dearness Allowance, to the extent it forms part of pay for retirement benefits + Bonus
Lower of the above is ₹ 48,000 which is to be reduced by the rent recovered from the employee.

Hence, the perquisite value of concessional rent = ₹ 48,000 – ₹ 19,200 [₹ 4,800 x 4 months] = ₹ 28,800

4. As per Rule 3(7)(iv), the value of any gift or voucher received by the employee or by member of his household on ceremonial occasions or otherwise from the employer shall be determined as the sum equal to the amount of such gift. However, the value of any gift or voucher received by the employee or by member of his household below ₹ 5,000 in aggregate during the previous year would be exempt as per the proviso to Rule 3(7)(iv).

In this case, the gift voucher of ₹ 8,000 was received by Ms. Aashima from her employer on the occasion of her birthday. Since the value of the gift voucher exceeds the limit of ₹ 5,000, the entire amount of ₹ 8,000 is liable to tax as perquisite. The above solution has been worked out accordingly.

Alternative view - An alternate view is also possible is that only the sum in excess of ₹ 5,000 is taxable in view of the language of Circular No.15/2001 dated 12.12.2001, which states that such gifts upto ₹ 5,000 in the aggregate per annum would be exempt, beyond which it would be taxed as a perquisite. As per this view, the value of perquisite would be ₹ 3,000. The salary chargeable to tax, in this case, would be ₹ 13,06,676.

Question 10

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

- He retired on 31-12-2024 at the age of 60, after putting in 25 years and 9 months of service, from a private company at Delhi.
- He was paid a salary of ₹ 25,000 p.m. and house rent allowance of ₹ 6,000 p.m. He paid rent of ₹ 6,500 p.m., during his tenure of service.
- On retirement, he was paid a gratuity of ₹ 3,50,000. He was covered by the payment of Gratuity Act, 1972. He had not received any other gratuity at any point of time earlier, other than this gratuity.
- He had accumulated leave of 15 days per annum during the period of his service; this was encashed by him at the time of his retirement. A sum of ₹ 3,15,000 was received by him in this regard. Employer allowed 30 days leave per annum.
- He is receiving ₹ 5,000 as pension. On 1.2.2025, he commuted 60% of his pension and received ₹ 3,00,000 as commuted pension.
- The company presented him with a gift voucher of ₹ 5,000 on his retirement. His colleagues also gifted him a mobile phone worth ₹ 50,000 from their own contribution. (New SM, MTP 7 Marks Oct'21)

Answer 10

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

Particulars	₹	₹
Basic Salary = ₹ 25,000 x 9 months		2,25,000
House Rent Allowance = ₹ 6,000 x 9 months [Fully taxable under default tax regime]		54,000
Gratuity	3,50,000	
Less: Least of the following exempt under section 10(10)(ii)	<u>3,50,000</u>	Nil
(i) Actual Gratuity received ₹ 3,50,000		
(ii) 15 days salary for every year of completed service [15/26 x ₹ 25,000 x 26] = ₹ 3,75,000		
(iii) Notified limit = ₹ 20,00,000		
Leave encashment	3,15,000	
Less: Least of the following exempt under section 10(10AA)	<u>2,50,000</u>	65,000
(i) ₹ 25,00,000		
(ii) Leave salary actually received ₹ 3,15,000		



(iii) ₹ 2,50,000, being 10 months' salary x ₹ 25,000		
(iv) Cash equivalent of leave standing at the credit of the employee based on the average salary of last 10 months' (max. 30 days per year of service) for every year of actual service rendered for the employer from whose service he has retired $375/30 \times ₹ 25,000 = ₹ 3,12,500$ [Leave Due = Leave allowed – Leave taken] $= 750 (30 \text{ days per year} \times 25 \text{ years}) - 375 \text{ days} (15 \text{ days} \times 25) = 375 \text{ days}$		
Uncommuted Pension received [₹ 5,000 x 1] + (₹ 5,000 x 2 x 40%)		9,000
Commuted Pension received	3,00,000	
Less: Exempt under section 10(10A) $1/3 \times ₹ 3,00,000/60\% \times 100\%$	1,66,667	1,33,333
Gift Voucher [As per Rule 3(7)(iv), the value of any gift or voucher or token in lieu of gift received by the employee or by member of his household not exceeding ₹ 5,000 in aggregate during the previous year is exempt]		Nil
Mobile Phone received as gift from colleagues (Neither taxable under the head "Salaries" nor "Income from other sources", since taxability provisions under section 56(2)(x) are not attracted in respect of mobile phone received from colleagues, as mobile phone is not included in the definition of "property" thereunder)		Nil
Gross Salary		4,86,333
Less: Standard deduction u/s 16 [Actual salary or ₹ 7,000, whichever is less] [Allowable under default tax regime]		75,000
Net Salary		4,11,333

Question 11

LDR

Mr. B is a sales manager in PQR Ltd. During F.Y. 2024-25 he has received the following towards his salary and allowances/perquisites;

- Basic pay ₹ 85,000 per month up to December 2024 and thereafter an increase of ₹ 2,000 per month.
 - Dearness allowance 40% of basic pay forming part of retirement benefits.
 - Bonus 1-month basic pay based on the salary drawn during January month every year.
 - He contributes 14% of his basic pay & DA towards his recognized provident fund and his employer company contributes the same amount.
 - Travelling allowance of ₹ 5,000 per month towards on duty tours.
 - Research and training allowance ₹ 3,000 per month.
 - Children education allowance of ₹ 600 per month, per child for his 2 sons and 1 daughter.
 - Accommodation owned by PQR Ltd. was provided to him in Hyderabad for the whole year and furniture of ₹ 2,00,000 was provided from 1st October, 2024.
 - Reimbursement of medical expenses on his treatment in private hospital ₹ 15,000, medical allowance ₹ 1,500 per month. Company has paid premium on medical policy purchased on his health ₹ 12,500.
- You are required to:
- Compute the income chargeable to tax under the head "Income from Salary", assuming that he does not opt for the provisions under section 115BAC.
 - What will be the income under the head "Salaries", if he opts for the provisions under section 115BAC? (PYP 8 Marks, Nov'22)

Answer 11

- Computation of income chargeable to tax under the head "Salaries" for A.Y.2025-26, if Mr. B does not opt for the provisions of section 115BAC

Particulars	₹	₹
Basic Pay [₹ 85,000 x 9 + ₹ 87,000 x 3]		10,26,000
Dearness Allowance [₹ 10,26,000 x 40%]		4,10,400
Bonus		87,000
Travelling allowance [Exempt, since provided towards duty tours ¹]		-



Research and training allowance [₹ 3,000 x 12]		36,000
Medical allowance [₹ 1500 x 12]		18,000
Children Education allowance [₹ 600 x 12 x 3]	21,600	
Less: Exempt [₹100 x 12 x 2]	<u>2,400</u>	<u>19,200</u>
Salary (for the purpose of valuation of Rent-free accommodation)		15,96,600
Value of Rent-free accommodation [10% of ₹ 15,96,600]	1,59,660	
Add: Value of furniture [₹ 2,00,000 × 10% p.a. for 6 months]	10,000	1,69,660
Reimbursement of medical expenses [taxable, since amount is reimbursed for treatment in private hospital]		15,000
Health insurance premium paid by PQR Ltd. [Exempt]		-
Employers' contribution to RPF in excess of 12% of salary = 2% of ₹ 14,36,400 (₹ 10,26,000 + ₹ 4,10,400)		28,728
Gross Salary		18,09,988
Less: Deductions under section 16		
Standard deduction		50,000
Income chargeable under the head "Salaries"		17,59,988

II. Computation of income chargeable to tax under the head "Salaries" for A.Y.2025-26, if Mr. B opts for the provisions of section 115BAC

Income chargeable under the head "Salaries"		17,59,988
Add: Exemption in respect of children education allowance [Not allowable as per section 115BAC]		2400
		17,62,388
Less: Value of rent-free accommodation (As per regular provisions)		1,69,660
		15,92,728
Add: Value of Rent-free accommodation [10% of ₹ 15,99,000 (₹ 15,96,600 (as calculated above) + ₹ 2,400)]	1,59,900	
Add: Value of furniture [₹ 2,00,000 × 10% p.a. for 6 months]	10,000	1,69,900
Less: Standard Deduction is Rs 75,000 under 115BAC. Hence excess Rs 25,000 (Rs 75,000 – Rs 50,000) will be reduced		(25,000)
Income chargeable under the head "Salaries"		17,37,628

EXAM INSIGHTS: Examinees failed to provide for standard deduction of ₹ 50,000 while computing income under the head "Salaries" though Mr. B has not opted for section 115BAC.

Question 12

LDR

(Includes concepts of Income of Other Person included in Assesses Total Income)

Mr. Rohan, an employee of ABC Ltd. is posted at Mumbai. He was appointed on 1st March 2024 on the scale of ₹ 60,000 - ₹ 2,000 - ₹ 80,000. Details of his other income for the previous year 2024-25 areas follows:

- Dearness allowance: 40% of basic salary (60% forms part of pay for retirement benefits)
- Telephone allowance @₹500 per month
- Both Mr. Rohan and the company contribute 15% of basic salary to RPF. Interest accrued in this Fund@12% p.a. amounted to ₹25,800.
- The company has provided him with the rent free unfurnished accommodation in Mumbai owned by the company.
- The salary of ₹ 2,500 p.m. of domestic servant is reimbursed by the company.
- Rohan has used his own motor car of 1.8 ltr engine capacity for both official and personal purposes. The running and maintenance costs of ₹50,000 are borne by the company.
- Professional tax paid ₹ 2,500 of which ₹ 1,500 was paid by the employer.



During the year 2023-24, Mr. Rohan gifted a sum of ₹ 6,00,000 to Mrs. Rohan. She started a business by introducing such amount as her capital. On 1st April, 2024, her total investment in business was ₹ 10,00,000. During the previous year 2024-25, she has suffered a loss of ₹1,20,000 from such business. Determine the gross total income of Mr. Rohan for the A.Y. 2025-26 under normal provisions of the Act. (RTP Jan'25)

Answer 12

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

Particulars		Amount (₹)	Amount (₹)
I	Salaries		
	Basic Salary (₹60,000 x 11 + ₹62,000 x 1)		7,22,000
	Dearness Allowance (40% of ₹7,22,000)		2,88,800
	Telephone allowance (₹500 x 12)		6,000
	Employer's contribution to RPF (15% of ₹ 7,22,000)	1,08,300	
	Less: Exempt [12% of salary i.e., 12% x 8,95,280 (7,22,000 + 60% of 2,88,800)]	1,07,434	866
	Interest accrued in the RPF@12%	25,800	
	Less: Exempt@9.5% p.a.	20,425	5,375
	Value of Rent Free accommodation		
	From April 2024 to March 2025		
	[10% of ₹9,01,280 i.e., ₹7,22,000 (60,000 x 11 + 62,000 x 1) + 1,73,280 (₹ 7,22,000 x 40% x 60%) + ₹6,000 (₹500 x 12)]		90,128
	Reimbursement of salary of domestic servant [₹2,500 x 12]		30,000
	Perquisite value of motor car		
	Running and maintenance costs incurred by employer	50,000	
	Less: Specified as per Rule 3 [₹2,400 x 12]	28,800	21,200
Professional tax paid by employer		1,500	
Gross Salary		11,65,869	
II	Less: Deduction under section 16		
	Standard deduction	50,000	
	Professional tax paid	2,500	52,500
	Taxable Salary		11,13,369
	Profit and gains from business or profession		
Where the amount of Mr. Rohan (₹ 6 lakh, in this case) is invested by Mrs. Rohan in a business as her capital, proportionate share of profit or loss, as the case may be, computing taking into account the value of the investment as on 1.4.2024 to the total investment in the business (₹ 10 lakhs) would be included in the income of Mr. Rohan [loss of ₹1,20,000 x 6/10][Business loss of ₹ 72,000 cannot be set off against salary income. It has to be carried forward to next year]	(72,000)	-	
Gross Total Income		11,13,369	

Question 13

(FY & AY have not been changed in this question to keep the essence of all the adjustments)

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

- Basic Pay ₹ 35,000 per month till January 31, 2024, ₹ 40,000 p.m. from February 2024.
- Dearness allowance 30% of basic salary (54% of DA forms part of retirement benefits)
- Leave encashment for P.Y. 2023-24 ₹ 10,000.
- He received salary for the month of April 2024 in advance on 31st March 2024. Also, he received an arrear salary for the month of March 2023 on the same day.
- His employer gave him a rent-free accommodation (fully furnished) in Delhi from 01.04.2019. This house



is owned by his employer. During the previous year 2019-20, the perquisite value of such rent-free furnished accommodation was valued at ₹ 39,000. The employer also provided him with the facility of a gardener to maintain this house. The salary of gardener paid by the employer was ₹ 1,000 p.m. The furniture and appliances provided with the house were bought by the employer at an aggregate cost of ₹ 1,50,000 on 01.01.2020. Electricity and water bills of ₹ 4,000 p.m. for the said house were paid by the employer.

Cost Inflation Index F.Y. 2019-20-289, F.Y. 2020-21-301, F.Y. 2023-24-348.

- (vi) The employer also spent ₹ 50,000 on a refresher course for upgrading Mr. Radhey's skills.
 (vii) During the previous year his wife had been admitted in a notified hospital for treatment of her kidney disease, the hospital bills amounting to ₹ 3,50,000 were paid by the employer.
 You are required to compute the taxable salary income of Mr. Radhey for the Assessment Year 2024-25 assuming that he has opted out of the default tax regime under section 115BAC. (PYP 6 Marks Sep'24)

Answer 13

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

	₹	₹
Basic Pay [$₹35,000 \times 10 + ₹40,000 \times 2$]		4,30,000
Dearness Allowance [$₹4,30,000 \times 30\%$]		1,29,000
Leave encashment for P.Y. 2023-24		10,000
Advance salary for April 2024 received on 31.3.2024 [Note - Alternatively, it is possible to assume that the advance salary is inclusive of DA. In such a case, advance salary for April 2024 would be ₹ 52,000.]		40,000
Arrear salary for March 2023, assumed it is taxed on due basis during the P.Y. 2022-23.		--
Value of Rent-free accommodation		
From April 2023 to August 2023		
Value of Rent-free accommodation {15% of ₹2,07,515 i.e., [$₹1,75,000$ ($35,000 \times 5$, basic salary) + $₹28,350$ ($1,75,000 \times 30\% \times 54\%$, DA) + $4,167$ ($10,000/12 \times 5$, leave encashment)]}	31,128	
Add: Value of furniture [$₹1,50,000 \times 10\%$ p.a. for 5 months]	6,250	
		37,378
From September 2023 to March 2024		
Value of Rent-free accommodation {10% of ₹3,02,143 i.e., [$₹2,55,000$ ($35,000 \times 5 + 40,000 \times 2$, basic salary) + $₹41,310$ ($2,55,000 \times 30\% \times 54\%$, DA) + $5,833$ ($10,000/12 \times 7$, leave encashment)]}	30,214	
Add: Value of furniture [$₹1,50,000 \times 10\%$ p.a. for 7 months]	8,750	
		38,964
		76,342
[Note - In the absence of the information of the month in which leave encashment is received, leave encashment is proportionated in 5:7 months period. Alternatively, it is possible to assume that the amount of ₹ 10,000 is received either during the April to August month or September to March 2024. In such case, perquisite value of rent-free accommodation would undergo a change.]		
Facility of gardener [Salary of gardener paid by the employer would be taxable as perquisite] [$₹1,000 \times 12$]		12,000
Facility of use of electricity [Electricity and water bills paid by the employer would be taxable as perquisite] [$₹4,000 \times 12$]		48,000
Refresher course for upgrading skills [Tax free perquisite]		Nil
Value of medical treatment [Exempt, since medical treatment for wife is in notified hospital]		Nil
Gross Salary		7,45,342
Less: Deduction under section 16 - Standard deduction		50,000
Taxable Salary		6,95,342



MULTIPLE CHOICE QUESTIONS (MCQS)

1. Mr. Karan completed his MBA in April 2024 and joined XYZ Ltd from 01.05.2024. His basic salary is ₹ 2,25,000 p.m. He is paid 12% of basic salary as D.A forming part of retirement benefits. He contributed 11% of his pay and D.A. towards recognized provident fund and the company contributes the same amount. Accumulated interest on provident fund as on 31.3.2025 is ₹ 49,325. What would be the income chargeable to tax under the head "Salaries" of Mr. Karan for the A.Y. 2025-26 if he does not opt for section 115BAC? (RTP Nov'22)
- (a) ₹ 27,26,442
(b) ₹ 27,30,884
(c) ₹ 27,22,000
(d) ₹ 27,71,325

Ans: (a)

2. Mr. Jagat is an employee in accounts department of Bharat Ltd., a cellular company operating in the regions of eastern India. It is engaged in manufacturing of cellular devices. During F.Y. 2024-25, following transactions were undertaken by Mr. Jagat:
- (i) He attended a seminar on "Perquisite Valuation". Seminar fees of ₹ 12,500 was paid by Bharat Ltd.
(ii) Tuition fees of Mr. Himanshu (son of Mr. Jagat) paid to private coaching classes (not having any tie-up with Bharat Ltd.) was reimbursed by Bharat Ltd. Amount of fees was ₹ 25,000.
(iii) Ms. Sapna (daughter of Mr. Jagat) studies in DPS Public School (owned and maintained by Bharat Ltd.). Tuition fees paid for Ms. Sapna was ₹ 750 per month by Mr. Jagat. Cost of education in similar institution is ₹ 5,250 per month.

What shall be the amount which is chargeable to tax under the head "Salaries" in hands of Mr. Jagat for A.Y. 2025-26? (MTP 2 Marks, Apr'23, RTP May'20)

- (a) ₹ 25,000
(b) ₹ 37,500
(c) ₹ 66,500
(d) ₹ 79,000

Ans: (d)



VIVITSU
STRIVING TOWARDS KNOWLEDGE

CHAPTER 3.2: INCOME FROM HOUSE PROPERTY

CONCEPTS OF THIS CHAPTER

- Understand when income is chargeable under "Income from house property"
- Learn meaning and tax treatment of composite rent
- Determine annual value for different house property categories
- Compute income from house property for various categories
- Apply tax treatment on recovery of unrealized rent and arrears
- Compute income from co-owned property



LDR Questions
Q 3
Q 10

QUICK REVIEW OF IMPORTANT CONCEPTS

Section	Contents																		
22	<p>Basis of Charge:</p> <p>(i) Property should consist of any buildings or lands appurtenant thereto.</p> <p>(ii) Assessee must be the owner of the property</p> <p>(iii) The property should not be used by the owner for the purpose of any business or profession carried on by him, the profit of which is chargeable to tax. Further, the income earned by an assessee engaged in the business of letting out of commercial properties on rent would be taxable as business income.</p> <p>(iv) Property held as stock-in-trade etc.-charged under the head "Income from house property", where it is held by the assessee as stock-in-trade of a business also.</p>																		
23(1)	<p>Annual Value of let-out property</p> <p>Annual value is the amount arrived after deducting the municipal taxes actually paid by the owner during the previous year from the Gross Annual Value (GAV). The GAV of let-out property would be determined in the following manner:</p> <table border="1" style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 15%;">Step 1:</td> <td style="width: 45%;">• Compare fair rent with municipal value</td> <td style="width: 15%;"> </td> <td style="width: 25%;">• whichever is higher</td> </tr> <tr> <td>Step 2:</td> <td>• Compare step 1 value with standard rent</td> <td> </td> <td>• whichever is lower is the Expected Rent</td> </tr> <tr> <td>Step 3:</td> <td colspan="3">• Compare the Expected rent determined above with actual rent</td> </tr> </table> <table border="1" style="width: 100%; border-collapse: collapse; margin-top: 10px;"> <tr> <td style="width: 50%; border-right: 1px dashed black;">Actual rent > Expected Rent</td> <td style="width: 50%;">Actual rent < Expected Rent</td> </tr> <tr> <td style="border-right: 1px dashed black;">Actual rent is GAV</td> <td> <table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 50%; border-right: 1px dashed black;">Actual rent < Expected Rent because of vacancy = Actual Rent is GAV.</td> <td style="width: 50%;">Actual rent < Expected Rent because of other reason = Expected Rent is GAV</td> </tr> </table> </td> </tr> </table>	Step 1:	• Compare fair rent with municipal value		• whichever is higher	Step 2:	• Compare step 1 value with standard rent		• whichever is lower is the Expected Rent	Step 3:	• Compare the Expected rent determined above with actual rent			Actual rent > Expected Rent	Actual rent < Expected Rent	Actual rent is GAV	<table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 50%; border-right: 1px dashed black;">Actual rent < Expected Rent because of vacancy = Actual Rent is GAV.</td> <td style="width: 50%;">Actual rent < Expected Rent because of other reason = Expected Rent is GAV</td> </tr> </table>	Actual rent < Expected Rent because of vacancy = Actual Rent is GAV.	Actual rent < Expected Rent because of other reason = Expected Rent is GAV
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23(2)	<p>Annual Value of self-occupied property</p> <p>If a property is self-occupied for residence or remains unoccupied throughout the year due to employment, business, or profession at another location where the Assessee resides in a non-owned building, its Annual Value is Nil, provided no other benefit is derived. The Assessee can claim the "Nil" Annual Value benefit for up to two self-occupied residential properties.</p>																		
23(4)	<p>Annual Value of deemed to be let-out property</p> <p>If more than two properties are so self-occupied/unoccupied, the other property(s) would be deemed to be let out, in respect of which Expected Rent would be the GAV.</p>																		



23(5)	<p>Annual value where the property held as stock-in-trade etc. Where property consisting of any buildings or lands appurtenant thereto is held as stock-in-trade and the whole or any part of the property is not let out during the whole or any part of the previous year, the annual value of such property or part of the property for the period up to 2 years from the end of the financial year in which certificate of completion of construction of the property is obtained from the competent authority shall be taken as "Nil".</p>
24	<p>Deductions from Annual Value</p> <ol style="list-style-type: none"> 1. 30% of Annual Value [Section 24(a)] 2. Interest on borrowed capital [Section 24(b)]: Interest payable on loans borrowed for the purpose of acquisition, construction, repairs, renewal or reconstruction can be claimed as deduction. <p>Pre-construction interest: Interest for the period prior to the previous year in which property is acquired or construction is completed. Pre-construction interest is allowable as deduction in 5 equal instalments from the previous year of completion of construction or acquisition.</p> <p>(a) Let out property: Whole of the amount of interest on borrowed capital payable during the previous year and apportioned pre-construction interest without any ceiling limit would be allowed as deduction.</p> <p>(b) Self-occupied property: (only allowed if they shift out of the default tax regime 115BAC)</p> <ol style="list-style-type: none"> (i) Interest on a loan taken on or after 1.4.1999 for acquiring or constructing a house, completed within 5 years from the end of the financial year in which the loan was borrowed, is deductible up to ₹2,00,000 for one or two self-occupied properties (including apportioned pre-construction interest). (ii) In case of loan taken for repair, renovation or reconstruction at any point of time, aggregate interest paid or payable for one or two self-occupied properties subject to maximum of ₹30,000(including apportioned pre-construction interest).
25	<p>Inadmissible deductions Interest chargeable under this Act which is payable outside India shall not be deducted if –</p> <ol style="list-style-type: none"> (a) tax has not been paid or deducted from such interest and (b) in respect of which there is no person in India who may be treated as an agent
25A	<p>Taxability of recovery of unrealised rent & arrears of rent received</p> <ol style="list-style-type: none"> (i) Taxable in the year of receipt/ realisation (ii) Deduction@30% of rent received/ realised (iii) Taxable even if assessee is not the owner of the property in the financial year of receipt
26	<p>Co-owned property</p> <ol style="list-style-type: none"> (i) Self-occupied property: The annual value of the property of each co-owner will be Nil and each co-owner shall be entitled to a deduction of ₹30,000/ ₹2,00,000, as the case may be. However, aggregate deduction of interest to each co-owner in respect of co-owned self-occupied property and any other self-occupied house property, if any, cannot exceed ` 30,000/ ` 2,00,000, as the case may be. (ii) Let-out property: The income from such property shall be computed as if the property is owned by one owner and thereafter the income so computed shall be apportioned amongst each co-owner as per their specific share.
27	<p>Deemed Ownership: The following persons are deemed to be the owners:</p> <ol style="list-style-type: none"> (i) Transferor of the property, where the property is transferred to the spouse or to minor child except minor married daughter, without adequate consideration (ii) Holder of an impartible estate (iii) Member of a co-operative society etc. (iv) Person in possession of a property (v) Person having right in a property for a period not less than 12 years
Other important points	
(i)	The Actual rent received/receivable should not include any amount of rent which is not capable of being realized
(ii)	If a portion of a property is let-out and a portion is self-occupied, then, the income will be computed separately for let out and self-occupied portion.



Question & Answers

Question 1

You are required to compute the income from "House Property" for the A.Y. 2025-26 of Mrs. Rajni from her house property at Panchkula in Haryana. The Municipal value of the property is ₹ 7,50,000, Fair Rent of the property is ₹ 6,30,000 and Standard Rent is ₹ 7,20,000 per annum.

The property was let out for ₹ 80,000 per month for the period April 2024 to November 2024.

Thereafter, the tenant vacated the property and Mrs. Rajni used the house for self-occupation. Rent for the months of October and November 2024 could not be realized from the tenant. The tenancy was bonafide but the defaulting tenant was in occupation of another property of the assessee, paying rent regularly.

She paid municipal taxes @ 12% during the year and paid interest of ₹ 50,000 during the year for amount borrowed towards repairs of the house property. (MTP 4 Marks Mar'22, RTP Nov'19)(Same concept different figures PYP 7 Marks Nov'18)

Answer 1

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

Particulars		Amount in ₹	
Computation of Gross Annual Value			
Expected Rent for the whole year = Higher of Municipal Value of ₹ 7,50,000 and Fair Rent of ₹ 6,30,000, but restricted to Standard Rent of ₹ 7,20,000		7,20,000	
Actual rent received for the let-out period = ₹ 80,000 x 8		6,40,000	
[Unrealized rent is not deductible from actual rent in this case since the defaulting tenant is in occupation of another property of the assessee, and hence, one of the conditions laid out in Rule 4 has not been fulfilled]			
GAV is the higher of Expected Rent for the whole year and Actual rent received/receivable for the let-out period		7,20,000	
Gross Annual Value (GAV)			7,20,000
Less:	Municipal taxes (paid by the owner during the previous year) = 12% of ₹ 7,50,000		90,000
Net Annual Value (NAV)			6,30,000
Less:	Deductions under section 24		
	(a) 30% of NAV = 30% of ₹ 6,30,000	1,89,000	
	(b) Interest on amount borrowed for repairs (Fully allowable as deduction, since it pertains to let-out property)	50,000	2,39,000
Income from house property			3,91,000

EXAM INSIGHTS: Many examinees failed to arrive at Gross Annual Value by considering the higher of expected rent for the whole year and actual rent for let out period, resulting in wrong computation of income from house property.

Question 2

Mr. Ravi, a resident and ordinarily resident in India, owns a let out house property having different flats in Kanpur which has municipal value of ₹ 27,00,000 and standard rent of ₹ 29,80,000. Market rent of similar property is ₹ 30,00,000. Annual rent was ₹ 40,00,000 which includes ₹ 10,00,000 pertaining to different amenities provided in the building. One flat in the property (annual rent is ₹ 2,40,000) remains vacant for 4 months during the previous year. He has incurred following expenses in respect of aforesaid property:

Municipal taxes of ₹ 4,00,000 for the financial year 2024-25 (10% rebate is obtained for payment before due date). Arrears of municipal tax of financial year 2023-24 paid during the year of ₹ 1,40,000 which includes interest on arrears of ₹ 25,000.

Lift maintenance expenses of ₹ 2,40,000 which includes a payment of ₹ 30,000 which is made in cash.

Salary of ₹ 88,000 paid to staff for collecting house rent and other charges.



Compute the total income of Mr. Ravi for the assessment year 2025-26 assuming that Mr. Ravi has not opted for the provisions under section 115BAC. (PYP 6 Marks, Dec'21)

Answer 2

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

Particulars		Amount (₹)	Amount (₹)
Income from house property			
Gross Annual Value			
- Expected rent ₹ 29,80,000 [Higher of Municipal Value of ₹ 27,00,000 p.a. and Fair Rent of ₹ 30,00,000 p.a., but restricted to Standard Rent of ₹ 29,80,000 p.a.]			
- Actual rent ₹ 29,40,000 [₹ 30,00,000, being annual rent for house property less rent of ₹ 60,000 (₹ 2,40,000 x 4/12 x 3/4) due to vacancy]			
Gross Annual Value		29,40,000	
In this case, the actual rent is lower than the expected rent due to vacancy. Otherwise, the actual rent of ₹ 30,00,000 would have been higher than the expected rent. In such a case, the actual rent would be the gross annual value, even if it is lower than the expected rent. Less: Municipal taxes actually paid during the year: [₹ 4,00,000 – rebate of ₹ 40,000] = ₹ 3,60,000 [₹ 1,40,000 arrears – ₹ 25,000 interest] = ₹ 1,15,000			
		4,75,000	
Net Annual Value		24,65,000	
Less: Deduction from Net Annual Value			
30% of Net Annual Value		7,39,500	
Income from Other Sources/Profits and gains from business or profession			17,25,500
Rent for amenities		10,00,000	
Less: Loss due to vacancy [₹ 2,40,000 x 4/12 x ¼]		20,000	
Less: Expenditure in respect thereof		9,80,000	
- Lift maintenance expenses [excluding cash payment of ₹ 30,000 disallowed] = ₹ 2,40,000 – ₹ 30,000	2,10,000		
- Salary to staff [₹ 88,000 x 1/4, being the proportion pertaining to amenities]	22,000		
		2,32,000	7,48,000
Total Income			24,73,500

EXAM INSIGHTS: Many examinees had wrongly computed the amount of gross annual value without considering loss due to vacancy. Interest on arrears of municipal taxes were also wrongly deducted while computing net annual value. Moreover, amount of 10% rebate for payment of municipal taxes before due date was also not deducted to arrive at the net amount of municipal taxes allowable as deduction.

Question 3

LDR

Mr. Sailesh constructed a house in P.Y. 2018-19 with 3 independent units. During the P.Y. 2024-25, Unit - 1 (50% of floor area) is let out for residential purpose at monthly rent of ₹ 20,000. Rent of January 2025 could not be collected from the tenant and a notice to vacate the unit was given to the tenant. No other property of Mr. Sailesh is occupied by the tenant. Unit - 1 remains vacant for February and March 2025 when it is not put to any use. Unit - 2 (25% of the floor area) is used by Mr. Sailesh for the purpose of his business, while Unit - 3 (the remaining 25%) is utilized for the purpose of his residence. Other particulars of the house are as follows:

Municipal valuation - ₹ 2,88,000

Fair rent - ₹ 2,98,000

Standard rent under the Rent Control Act - ₹ 2,78,000



Municipal taxes - ₹ 30,000 paid by Mr. Sailesh

Repairs - ₹ 7,000

Interest on capital borrowed for the construction of the property - ₹ 90,000,

Ground rent - ₹ 6,000 and

Fire insurance premium paid - ₹ 60,000.

Income of Sailesh from the business is ₹ 2,40,000 (without debiting house rent and other incidental expenditure). Determine the taxable income of Mr. Sailesh for the assessment year 2025-26 if he opts to be taxed under section 115BAC. (MTP 7 Marks, Apr'22, MTP 5 Marks Dec'24) (Same concepts different figures PYP 6 Marks, Jul'21)

Answer 3

Computation of taxable income of Mr. Sailesh for A.Y. 2025-26

Particulars	Amount	Amount
Income from house property		
<u>Unit - 1 [50% of floor area - Let out]</u>		
Gross Annual Value, higher of		
- Expected rent ₹ 1,39,000 [Higher of Municipal Value of ₹ 1,44,000 p.a. and Fair Rent of ₹ 1,49,000 p.a., but restricted to Standard Rent of ₹ 1,39,000 p.a.]		
- Actual rent ₹ 1,80,000 i.e., [₹ 20,000 x 10] less unrealized rent of January, 2025 ₹ 20,000		
Gross Annual Value	1,80,000	
Less: Municipal taxes [50% of ₹30,000]	<u>15,000</u>	
Net Annual Value	1,65,000	
Less: Deductions from Net Annual Value		
(a) 30% of Net Annual Value	49,500	
(b) Interest on loan [50% of ₹ 90,000]	<u>45,000</u>	70,500
<u>Unit - 3 [25% of floor area - Self occupied]</u>		
Net Annual Value	-	
Less: Interest on loan [Not allowed as Mr. Sailesh is opting for section 115BAC.]	-	-
Income from house property		70,500
Profits and gains from business or profession		
Business Income [without deducting expenditure of Unit - 2 25% floor area used for business purposes]	2,40,000	
Less: Expenditure in respect of Unit -2		
- Municipal taxes [25% of ₹ 30,000]	7,500	
- Repairs [25% of ₹ 7,000]	1,750	
- Interest on loan [25% of ₹ 90,000]	22,500	
- Ground rent [25% of ₹ 6,000]	1,500	
- Fire Insurance premium [25% of ₹ 60,000]	<u>15,000</u>	<u>48,250</u>
Taxable Income		<u>2,62,250</u>

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

EXAM INSIGHTS: The computation of business income in respect of Unit -2 used for business purpose was wrongly made by many examinees. The treatment of expenses incurred in respect of this unit was wrongly done.



Question 4

Mr. Vivi Tsu, a citizen of the Country Y, is a resident but not ordinarily resident in India during the financial year 2024-25. He owns two house properties in Country Y, one is used as his residence. Another house property is rented for a monthly rent of \$ 18,000. Fair rent of the house property is \$ 20,000. The value of one CYD (\$) may be taken as ₹ 78.

He took ownership and possession of a flat in Delhi on 1.10.2024, which is used for self-occupation, while he is in India. The flat was used by him for 3 months at the time when he visited India during the previous year 2024-25. The municipal valuation is ₹ 4,58,000 p.a. and the fair rent is ₹ 3,60,000 p.a. He paid property tax of ₹ 13,800 and ₹ 2,800 as Sewerage tax to Municipal Corporation of Delhi.

He had taken a loan of ₹ 18,00,000 @9.5% from HDFC Bank on 1st August, 2022 for purchasing this flat. No amount is repaid by him till 31.03.2025.

He also had a house property in Bangalore which is let out on a monthly rent of ₹ 40,000. The fair rent of which is ₹ 4,58,000 p.a. and Municipal value of ₹ 3,58,000 p.a. and Standard Rent of ₹ 4,20,000 p.a. He had taken a loan of ₹ 25,00,000 @ 10% from one of his friends, residing in Country Y for this house. Municipal tax of ₹ 5,400 is paid by him in respect of this house during the previous year 2024-25.

Compute the income chargeable from house property of Mr. Vivi Tsu for the assessment year 2025-26.

(RTP May'21, MTP 6 Marks, Oct'23)

Answer 4

Since Mr. Vivi Tsu, is a resident but not ordinarily resident in India, only the income in respect of properties situated in India would be taxable in his hands.

Thus, the rental income which accrues or arises in Country Y from the let-out property and annual value of self-occupied property would not be taxable in his hands. However, income arising from properties in India are taxable in the hands of Mr. Vivi Tsu.

Accordingly, the income from house property of Mr. Vivi Tsu for A.Y.2025-26 will be calculated as under:

Particulars		₹	₹
1.	Self-occupied house at Delhi		
	Annual value		Nil
	Less: Deduction under section 24	Nil	
	Interest on borrowed capital (See Note below)		2,00,000
	Chargeable income from this house property		(2,00,000)
2.	Let out house property at Bangalore		
	Expected rent, being higher of ₹ 3,58,000 municipal value and fair rent of ₹ 4,58,000 but restricted to Standard rent of ₹ 4,20,000	4,20,000	
	Actual rent [40,000 x 12]	4,80,000	
	Gross Annual Value, being higher of expected rent and actual rent		4,80,000
	Less: Municipal taxes		5,400
	Net Annual Value		4,74,600
	Less: Deduction under section 24		
	- 30% of net annual value [30% x 4,74,600]	1,42,380	
	- Interest on borrowed capital (actual allowable as deduction without any ceiling limit)	2,50,000	3,92,380
			82,220
	Loss under the head "Income from house property" (₹ 2,00,000 - ₹ 82,220)		(1,17,780)

Note: Interest on borrowed capital

Particulars	₹
Interest for the current year [18,00,000 x 9.5%]	1,71,000
Add: 1/5th of pre-construction interest (₹ 2,85,000 x 1/5)	57,000
1.8.2022 to 31.03.2023- (₹ 18,00,000 x 9.5% x 8/12)	1,14,000



1.4.2023 to 31.03.2024 – (₹ 18,00,000 x 9.5%)	1,71,000	
		2,28,000
Interest deduction allowable under section 24, restricted to		2,00,000

Question 5

Mr. Kushal is a resident but not ordinarily resident in India during the Assessment Year 2025-26. He furnishes the following information regarding his income/expenditure pertaining to his house properties for the previous year 2024-25:

- He owns two houses, one in New York and the other in Ahmedabad.
- The house in New York is let out there at a rent of \$ 5,000 p.m. The entire rent is received in India. He paid Property tax of \$ 1,250 and Sewerage Tax \$ 750 there. (\$ 1 = INR 81)
- The house in Ahmedabad is self-occupied. He had taken a loan of ₹ 30,00,000 to construct the house on 1st September, 2019 @10%. The construction was completed on 31st May, 2021 and he occupied the house on 1st June, 2021.

The entire loan is outstanding as on 31st March, 2025. Property tax paid in respect of the second house is ₹ 2,800. Compute the income chargeable under the head "Income from House property" in the hands of Mr. Kushal for the Assessment Year 2025 -26 if he has opted out of the default tax regime under section 115BAC. (MTP 5 Marks, Mar'24) (Same concept different figure MTP 4 Marks, Sep'22, RTP May 20, MTP 5 Marks Aug'24)

Answer 5

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

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

Notes:

- (1) Since Mr. Kushal is a resident but not ordinarily resident in India for A.Y. 2025-26, income which is, inter alia, received in India shall be taxable in India, even if such income has accrued or arisen outside India by virtue of the provisions of section 5(1). Accordingly, rent received from house property in New York would be taxable in India since such income is received by him in India.
- (2) **Interest on housing loan for construction of self-occupied property allowable as deduction under section 24**



Interest for the current year ($\text{₹ } 30,00,000 \times 10\%$)	₹ 3,00,000
Pre-construction interest	
For the period 01.09.2019 to 31.03.2021	
$(\text{₹ } 30,00,000 \times 10\% \times 19/12) = \text{₹ } 4,75,000$	
₹ 4,75,000 allowed in 5 equal installments ($\text{₹ } 4,75,000/5$)	₹ 95,000
	₹ 3,95,000
In case of self-occupied property, interest deduction to be restricted to	₹ 2,00,000

Question 6

Mr. Akash owns a residential house property whose Municipal Value, Fair Rent and Standard Rent are ₹ 1,60,000, ₹ 1,70,000 and ₹ 1,90,000, respectively. The house has two independent units. Unit I (25% of floor area) is utilized for the purpose of his profession and Unit II (75% of floor area) is let out for residential purposes at a monthly rent of ₹ 8,500. Municipal taxes @8% of the Municipal Value were paid during the year by Mr. Akash. He made the following payments in respect of the house property during the previous year 2024-25:

Light and Water charges ₹ 2,000, Repairs ₹ 1,45,000, Interest on loan taken for the repair of property ₹ 36,000. Mr. Akash has taken a loan of ₹ 5,00,000 in July, 2017 for the construction of the above house property. Construction was completed on 30th June, 2020. He paid interest on loan @12% per annum and every month such interest was paid. No repayment of loan has been made so far.

Income of Mr. Akash from his profession amounted to ₹ 8,00,000 during the year (without debiting house rent and other incidental expenditure including admissible depreciation of ₹ 8,000 on the portion of house used for profession).

Determine the Gross total income of Mr. Akash for the A.Y. 2025-26 ignoring the provisions of section 115BAC. (RTP May'23)

Answer 6

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

Particulars			₹	₹
I	Income from House Property			
	Unit-II (75% of floor area)			
	<u>Gross Annual Value</u>			
	(a) Actual rent received ($\text{₹ } 8,500 \times 12$)	₹ 1,02,000		
	(b) Expected rent	₹ 1,27,500		
	[Higher of municipal value (i.e. ₹ 1,60,000) and fair rent (i.e. ₹ 1,70,000) but restricted to standard rent (i.e. ₹ 1,90,000) ₹ 1,70,000 x 75%]			
	Higher of (a) or (b) is GAV		1,27,500	
	Less: Municipal taxes ($\text{₹ } 1,60,000 \times 8\% \times 75\%$)		<u>9,600</u>	
	NAV		1,17,900	
	Less: Deductions u/s 24			
	(a) 30% of NAV	₹ 35,370		
	(b) Interest on loan (See note)	<u>₹ 96,750</u>	<u>1,32,120</u>	(14,220)
II	Profits & Gains of business & profession			
	Income from Profession		8,00,000	
	Less: Light & Water Charges (25% of ₹ 2,000)	₹ 500		
	Municipal taxes (25% of ₹ 12,800)	₹ 3,200		
	Repairs (25% of ₹ 1,45,000)	₹ 36,250		
	Interest on loan taken for repair (25% of ₹ 36,000)	₹ 9,000		



Interest on loan taken for construction of house property (25% of ₹ 60,000)	₹ 15,000		
Depreciation	₹ 8,000	71,950	7,28,050
Gross Total Income			7,13,830

Note:

Computation of Interest on loan

	₹
Interest for the year (₹ 5,00,000 x 12%)	60,000
Pre-construction period Interest- 12% of ₹ 5,00,000 for 33 months = ₹ 1,65,000	
To be allowed in 5 equal instalments from the year of completion (₹ 1,65,000 x 1/5)	33,000
Interest on loan taken for repair (no restriction for let out property)	36,000
Total Interest deduction u/s 24(b)	1,29,000
Total Interest deduction u/s 24(b) for let out property (75% x ₹ 1,29,000)	96,750

Question 7

Mr. Madhvan is a finance manager in Star Private Limited. He gets a salary of ₹ 30,000 per month. He owns two houses, one of which has been let out to his employer and which is in turn provided to him as rent free accommodation. Following details (annual) are furnished in respect of two house properties for the Financial Year 2024-25.

	House 1	House 2
Fair rent	75,000	1,95,000
Actual rent	65,000	2,85,000
Municipal Valuation	74,000	1,90,000
Municipal taxes paid	18,000	70,000
Repairs	15,000	35,000
Insurance premium on building	12,000	17,000
Ground rent	7,000	9,000
Nature of occupation	Let-out to Star Private Limited	Let-out to Ms. Puja

₹ 17,000 were paid as interest on loan taken by mortgaging House 1 for construction of House 2.

During the previous year 2024-25, Mr. Madhvan purchased a rural agricultural land for ₹ 2,50,000. Stamp valuation of such property is ₹ 3,00,000.

Determine the taxable income of Mr. Madhvan for the assessment year 2025-26. All workings should form part of your answer. Assume he has not opted for 115BAC. (PYP 8 Marks, May'19, MTP 7 Marks, Sep'23)

Answer 7

Computation of taxable income of Mr. Madhvan for A.Y. 2025-26

Particulars		₹	₹
Salaries			
Basic Salary = ₹ 30,000 x 12		3,60,000	
Rent free accommodation		36,000	
[Lower of lease rental paid or payable by the employer (or) 10% of salary i.e., lower of ₹ 65,000 or ₹ 36,000, being 10% of ₹ 3,60,000]			
Gross Salary		3,96,000	
Less: Standard deduction u/s 16(IA) [Actual salary or ₹ 50,000]		50,000	
			3,46,000
Net Salary			
Income from house property	House 1	House 2	
Municipal value (A)	74,000	1,90,000	
Fair rent (B)	75,000	1,95,000	



Higher of (A) and (B) = (C)	75,000	1,95,000	
Actual rent received	65,000	2,85,000	
Gross Annual Value [Higher of (C) and Actual rent]	75,000	2,85,000	
Less: Municipal tax paid	<u>18,000</u>	<u>70,000</u>	
Net Annual Value (NAV)	57,000	2,15,000	
Less: Deductions u/s 24 30% of NAV			
Interest on loan	<u>Nil</u>	<u>17,000</u>	
	<u>39,900</u>	<u>1,33,500</u>	
Income from house property [₹ 39,900 + ₹ 1,33,500]			1,73,400
Income from Other Sources			
Purchase of rural agricultural land for a consideration less than stamp duty value [Not taxable under section 56(2)(x), since rural agricultural land is not a capital asset]			Nil
Total Income			5,19,400
Note - Expenditure on repairs, insurance premium on building and ground rent are not allowable under the head "Income from house property."			

EXAM INSIGHTS: Some examinees have wrongly considered House 1 let out to employer as self-occupied property. Also, some examinees have computed tax liability which is not the requirement of the question.

Question 8

Mr. Roy owns a house in Kolkata. During the previous year 2024-25, 3/4th portion of the house was self-occupied and 1/4th portion was let out for residential purposes at a rent of ₹ 12,000 p.m. The tenant vacated the property on 28th February, 2025. The property was vacant during March, 2025. Rent for the months of January 2025 and February 2025 could not be realized in spite of the owner's efforts. All the conditions prescribed under Rule 4 are satisfied.

Municipal value of the property is ₹ 4,50,000 p.a., fair rent is ₹ 4,70,000 p.a. and standard rent is ₹ 5,00,000. He paid municipal taxes @10% of municipal value during the year. A loan of ₹ 30,00,000 was taken by him during the year 2015 for acquiring the property. Interest on loan paid during the previous year 2024-25 was ₹ 1,51,000. Compute Roy's income from house property for the A.Y. 2025-26. (RTP Nov'22)

Answer 8

There are two units of the house. Unit I with 3/4th area is used by Mr. Roy for self-occupation throughout the year and no benefit is derived from that unit, hence, it will be treated as self-occupied and its annual value will be nil. Unit 2 with 1/4th area is let-out during the previous year and its annual value has to be determined as per section 23(1).

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

Particulars		₹
Unit I (3/4th area – self-occupied)		
Annual Value		Nil
Less: Deduction under section 24(b) 3/4th of ₹ 1,51,000		1,13,250
Income from Unit I (self-occupied)		(1,13,250)
Unit II (1/4th area – let out)		
Computation of GAV		
Step 1 – Computation of Expected Rent (ER)		
ER = Higher of municipal value (MV) and fair rent (FR), but restricted to standard rent (SR).	1,17,500	
However, in this case, standard rent of ₹ 1,25,000 (1/4th of ₹ 5,00,000) is more than		



the higher of MV of ₹ 1,12,500 (1/4th of ₹ 4,50,000) and FR of ₹ 1,17,500 (1/4th of ₹ 4,70,000). Hence the higher of MV and FR is the ER. In this case, it is the fair rent.		
Step 2 – Computation of actual rent received/ receivable ₹ 12,000 × 9 = 1,08,000 [The property was let-out for 11 months. However, rent for 2 months i.e., January and February, 2025 could not be realized. Actual rent should not include any amount of rent which is not capable of being realized. Therefore, actual rent has been computed for 9 months]	1,08,000	
Step 3 – Computation of GAV		
The actual rent of ₹ 1,08,000 is lower than expected rent of ₹ 1,17,500 owing to vacancy, since had the property not been vacant in March 2025, the actual rent would have been ₹ 1,20,000 (i.e. ₹ 1,08,000 + ₹ 12,000), which is higher than the ER of ₹ 1,17,500. Therefore, actual rent is the GAV.	1,08,000	
Gross Annual Value (GAV)		1,08,000
Less: Municipal taxes paid by the owner during the previous year relating to let-out portion 1/4th of (10% of ₹ 4,50,000) = ₹ 45,000/4 = ₹ 11,250		11,250
Net Annual Value (NAV)		96,750
Less: Deductions under section 24		
(a) 30% of NAV = 30% of ₹ 96,750	29,025	
(b) Interest paid on borrowed capital (relating to let out portion) [1/4th of ₹ 1,51,000]	37,750	66,775
Income from Unit II (let-out)		29,975
Loss under the head “Income from house property” (-1,13,250 + 29,975)		-83,275

Note – Alternatively, as per income-tax returns, unrealized rent can be deducted from GAV. In such a case, GAV would be ₹ 1,32,000, being higher of expected rent of ₹ 1,17,500 and actual rent of ₹ 1,32,000. Thereafter, unrealized rent of ₹ 24,000 and municipal taxes of ₹ 11,250 would be deducted from GAV of ₹ 1,32,000 to arrive at the NAV of ₹ 96,750.

Question 9

Two brothers Arun and Bimal are co-owners of a house property with equal share. The property was constructed during the financial year 2016-2017. The property consists of eight identical units and is situated at Cochin. During the financial year 2024-25, each co-owner occupied one unit for residence and the balance of six units were let out at a rent of ₹ 12,000 per month per unit. The municipal value of the house property is ₹ 9,00,000 and the municipal taxes are 20% of municipal value, which were paid during the year. The other expenses were as follows:

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

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

Arun could not occupy his unit for six months as he was transferred to Chennai. He does not own any other house. The other income of Mr. Arun and Mr. Bimal are ₹ 2,90,000 and ₹ 1,80,000, respectively, for the financial year 2024-25.

Compute the income under the head ‘Income from House Property’ and the total income of two brothers for the A.Y. 2025-26 if they pay tax under the default tax regime under section 115BAC.

Also, show the computation of income under this head, if they both exercised the option of shifting out of the default tax regime provided under section 115BAC(1A). (SM)

Answer 9

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

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

Particulars	Arun (₹)	Bimal(₹)
Income from house property		



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

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

Particulars	₹	₹
Let-out portion (75%)		
Gross Annual Value		
(a) Municipal value (75% of ₹ 9 lakh)	6,75,000	
(b) Actual rent [(₹ 12000 x 6 x 12) – (₹ 12,000 x 1 x 4)]	8,16,000	
= ₹ 8,64,000 - ₹ 48,000		
- whichever is higher		8,16,000
Less: Municipal taxes 75% of ₹ 1,80,000 (20% of ₹ 9lakh)		1,35,000
Net Annual Value (NAV)		6,81,000
Less: Deduction under section 24		
(a) 30% of NAV	2,04,300	
(b) Interest on loan taken for the house [75% of ₹ 3 lakh]	2,25,000	4,29,300
Income from let-out portion of house property		2,51,700
Share of each co-owner (50%)		1,25,850

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

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

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

Question 10

LDR

Mr. Raj, a resident in India, owns two house property, one in Delhi and another in Kanpur. The property in Kanpur is self-occupied by Mr. Raj, however, the property in Delhi is let out throughout the year. The particulars of the Delhi house for the P.Y. 2024-25 are as under:

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

Municipal tax paid by Mr. Raj on 10.6.2024 for Kanpur house is ₹ 3,500. Mr. Raj had taken a loan from SBI of ₹ 35 lakhs@12 p.a. in April, 2021 for purchase of Delhi house. The stamp duty value of this house was ₹ 40 lakhs. Mr. Raj purchased a plot in Kanpur in May, 2022 and the construction of the Kanpur house was began in June, 2022 and was completed on December, 2023. Mr. Raj took a loan of ₹ 5,00,000@10% on 1-7-2022 for



the construction of this house. No repayment has been done so far for both the loans.
During the P.Y. 2024-25, Mr. Raj has earned a salary income of ₹ 18,00,000. Compute total income of Mr. Raj for the A.Y. 2025-26 under both tax regimes. (RTP May'24)

Answer 10

Computation of total income of Mr. Raj for A.Y. 2025-26 under default tax regime

Particulars		₹	₹
I.	Salaries		
	Gross salary	18,00,000	
	Less: Standard deduction under section 16(ia)	<u>50,000</u>	17,50,000
II.	Income from house property		
	Rented property at Delhi		
	Step I - Computation of Expected Rent		
	Expected Rent = Higher of Municipal Value of ₹ 2,05,000 and Fair Rent of ₹ 1,95,000, but restricted to Standard Rent of ₹ 1,72,000	1,72,000	
	Step II - Actual Rent		
	Actual rent received or receivable (₹ 15,000 x 12)	1,80,000	
	Step III – Computation of Gross Annual Value		
	GAV is the higher of Expected Rent and Actual rent received/receivable	1,80,000	
	Gross Annual Value	1,80,000	
	Less: Municipal taxes (5% of ₹ 2,05,000)	<u>10,250</u>	
	Net Annual value	1,69,750	
	Less: Deductions under section 24 -		
	(i) 30% of net annual value	50,925	
	(ii) Interest on loan (₹ 35 lakhs x 12%)	<u>4,20,000</u>	(3,01,175)
	Self-occupied property at Kanpur		
	Annual value [No deduction for municipal taxes is allowed in respect of self-occupied property]	Nil	
	Less: Deduction under section 24 -		
	Interest on borrowed capital [Not allowable under section 115BAC]	<u>Nil</u>	<u>Nil</u>
	Income from house property		<u>(3,01,175)</u>
	Gross Total Income [Loss from house property is not allowed to be set off against income under any other head while computing income under section 115BAC]		17,50,000
	Less: Deduction under section 80EEA		<u>Nil</u>
	Total Income		17,50,000

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

Particulars		₹	₹
I.	Salaries		
	Gross salary	18,00,000	
	Less: Standard deduction under section 16(ia)	50,000	17,50,000
II.	Income from house property		
	Rented property at Delhi		
	Step I - Computation of Expected Rent		
	Expected Rent = Higher of Municipal Value of ₹ 2,05,000 and Fair Rent	1,72,000	



of ₹ 1,95,000, but restricted to Standard Rent of ₹ 1,72,000		
Step II - Actual Rent		
Actual rent received or receivable (₹ 15,000 x 12)	1,80,000	
Step III – Computation of Gross Annual Value		
GAV is the higher of Expected Rent and Actual rent received/ receivable	1,80,000	
Gross Annual Value	1,80,000	
Less: Municipal taxes (5% of ₹ 2,05,000)	10,250	
Net Annual value	1,69,750	
Less: Deductions under section 24 -		
30% of net annual value	50,925	
Interest on loan (₹ 35 lakhs x 12%) [₹ 4,20,000 - ₹ 1,50,000, being the interest for which deduction under section 80EEA is claimed]	2,70,000	(1,51,175)
Self-occupied property at Kanpur		
Annual value [No deduction for municipal taxes is allowed in respect of self-occupied property]	Nil	
Less: Deduction under section 24 -		
Interest on borrowed capital [₹ 2,50,000 (₹ 25,00,000 x 10%) plus pre construction interest of ₹ 37,500, being 1/5 th of (₹ 25,00,000 x 10% x 9/12)] [₹ 2,87,500, restricted to ₹ 2,00,000]	2,00,000	(2,00,000)
Income from house property		(3,51,175)
Gross Total Income [As per section 71(3A), loss from house property can be set off against income under any other head to the extent of ₹ 2,00,000 only. Balance loss of ₹ 1,51,175 to be carried forward to A.Y. 2026-27]		15,50,000
Less: Deduction under section 80EEA [Since the loan is sanctioned between 1.4.2019 and 31.3.2022 and the stamp duty value of the property does not exceed ₹ 45 lakhs, deduction of ₹ 1,50,000 is allowed in respect of interest on loan for Delhi house]		1,50,000
Total Income		14,00,000

Question 11

Mr. Ramesh and Mr. Suresh constructed their houses on a piece of land purchased by them at Mumbai. The built up area of each house was 1,500 sq. ft. ground floor and an equal area in the first floor. Ramesh started construction on 1-04-2023 and completed on 1-04-2024. Suresh started the construction on 1-04-2023 and completed the construction on 30-06-2024. Ramesh occupied the entire house on 01-04-2024. Suresh occupied the ground floor on 01-07-2024 and let out the first floor for a rent of ₹ 15,000 per month. However, the tenant vacated the house on 31-12-2024 and Suresh occupied the entire house during the period 01-01-2025 to 31-03-2025.

Following are the other information.

(i)	Fair rental value of each unit (ground floor / first floor)	₹1,00,000 per annum
(ii)	Municipal value of each unit (ground floor / first floor)	₹ 72,000 per annum
(iii)	Municipal taxes paid by	Ramesh – ₹ 8,000 Suresh – ₹ 8,000
(iv)	Repair and maintenance charges paid by	Ramesh – ₹ 28,000 Suresh – ₹ 30,000

Ramesh has availed a housing loan of ₹ 20 lakhs @ 12% p.a. on 01-04-2023. Suresh has availed a housing loan of ₹ 12 lakhs @ 10% p.a. on 01-07-2023. No repayment was made by either of them till 31-03-2025. Compute income from house property for Ramesh and Suresh for the previous year 2024-25 (A.Y. 2025-26). (MTP 7 Marks, Apr'23, Mar'21 & Apr'19)

**Answer 11****Computation of income from house property of Mr. Ramesh for A.Y. 2025-26**

Particulars	₹	₹
Annual value is nil (since house is self-occupied)		Nil
Less: Deduction under section 24(b)		
Interest paid on borrowed capital ₹ 20,00,000 @ 12%	2,40,000	
Pre-construction interest ₹ 2,40,000/5	<u>48,000</u>	
As per second proviso to section 24(b), interest deduction restricted to	2,88,000	<u>2,00,000</u>
Loss under the head "Income from house property" of Mr. Ramesh		<u>(2,00,000)</u>

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

Particulars	Ground floor (Self occupied)	First floor
Gross annual value (See Note below)	Nil	90,000
Less: Municipal taxes (for first floor)		<u>4,000</u>
Net annual value(A)	Nil	86,000
Less: Deduction under section 24		
(a) 30% of net annual value		25,800
(b) interest on borrowed capital		
Current year interest		
₹ 12,00,000 x 10% = ₹ 1,20,000	60,000	60,000
Pre-construction interest		
₹ 12,00,000 x 10% x 9/12 = ₹ 90,000		
₹ 90,000 allowed in 5 equal instalments		
₹ 90000/5 = ₹ 18,000 per annum	<u>9,000</u>	<u>9,000</u>
Total deduction under section 24(b)	<u>69,000</u>	<u>94,800</u>
Income from house property (A)-(B)	<u>(69,000)</u>	<u>(8,800)</u>
Loss under the head "Income from house property" of Mr. Suresh (both ground floor and first floor)	<u>(77,800)</u>	

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

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

The Expected Rent is the higher of fair rent and municipal value. This should be considered for 9 months since the construction of property was completed only on 30.6.2024.

Expected rent = ₹ 75,000 being higher of -

Fair rent = 1,00,000 x 9 /12 = ₹ 75,000

Municipal value = 72,000 x 9/12 = ₹ 54,000

Actual rent = ₹ 90,000 (₹ 15,000 p.m. for 6 months from July to December, 2024)

Gross Annual Value = ₹ 90,000 (being higher of Expected Rent of ₹ 75,000 and actual rent of ₹ 90,000)



MULTIPLE CHOICE QUESTIONS (MCQS)

1. Mr. Akash is constructing a residential house property in Patna for self-occupation. He has taken a loan of ₹ 40 lakhs from SBI on 30.3.2024 for this purpose. He pays interest of ₹ 2.50 lakhs during the P.Y.2024-25. He repays ₹ 1.50 lakhs towards principal on 31.3.2025. The construction is completed in May, 2024. The stamp duty value of the house is ₹ 46 lakhs. This is the only house property of Mr. Akash. For A.Y. 2025-26- (MTP 2 Marks, Oct'22)
- (a) Mr. Akash is entitled for deduction of ₹ 2 lakhs under section 24 and ₹ 1.50 lakhs under section 80C
 - (b) Mr. Akash is entitled for deduction of ₹ 2 lakhs under section 24, ₹ 50,000 under section 80EEA and ₹ 1.50 lakhs under section 80C
 - (c) Mr. Akash is neither entitled for deduction under section 24 nor under section 80C. He is, however, entitled for deduction of ₹ 1.50 lakhs under section 80EEA
 - (d) Mr. Akash is not entitled for deduction under section 24, section 80C and section 80EEA

Ans: (d)

2. Mr. Wiwitsu has a house property in Chennai which he let out to Mr. Sumit. For acquisition of this house, Mr. Wiwitsu has taken a loan of ₹ 30,00,000 @10% p.a. on 1-4-2018. He has further taken a loan of ₹ 5 lakhs @12% p.a. on 1.7.2024 towards repairs of the house. He has not repaid any amount of loan so far. The amount of interest deduction u/s 24(b) to Mr. Wiwitsu for A.Y. 2025-26 if he opted for the provisions of section 115BAC is – (RTP May'23)
- (a) ₹ 2,00,000
 - (b) ₹ 2,30,000
 - (c) ₹ 3,45,000
 - (d) ₹ 3,60,000

Ans: (c)

3. Mr. Sundaram owns two residential house properties in Chennai, one of which is used by him and his family for their residential purposes. Both the houses are exactly identical and their expected rent/municipal value etc. are also the same. He let out the other house for a rent of ₹ 1,15,000 p.m. He took two similar loans for the purchase of these two houses on 1.4.2023. The stamp duty value of these houses is ₹ 30 lakhs each. During the F.Y. 2024-25, he paid ₹ 4,00,000 as interest for each of the houses. He does not have any other income or investments during the year. He did not file his return of income within the due date under section 139(1). What shall be his total income chargeable to tax? (PYP 2 Marks Sep'24)
- (a) ₹ 2,16,000
 - (b) ₹ 3,66,000
 - (c) ₹ 5,66,000
 - (d) ₹ 1,66,000

Ans: (c)

CHAPTER 3.3: PROFITS AND GAINS OF BUSINESS OR PROFESSION

CONCEPTS OF THIS CHAPTER

- Meaning of "business" and "profession" for tax purposes
- Scope of income chargeable to tax under these heads
- Speculative transactions and tax treatment of speculative business losses
- Admissible deductions and conditions for eligibility
- Limits on admissible deductions
- Deductions under section 115BAC (default tax regime)
- Deductions under normal provisions of the Income Tax Act
- Non-admissible expenditures/payments
- Deductions allowed only on actual payment
- Taxable receipts under the business head
- Assesses required to maintain books and get audits
- Presumptive tax provisions for eligible business/profession
- Computing business income with applicable deductions
- Income computation in mixed agricultural and business cases



LDR Questions

Q 13

Q 15

Q 17

QUICK REVIEW OF IMPORTANT CONCEPTS

Income chargeable under this head [Section 28]

- (i) The PGBP carried on by the Assessee at any time during the previous year.
- (ii) Any compensation or payment due to or received by a person, at or in connection with termination etc
- (iii) Income derived by a trade, professional or similar association from specific services performed for its members.
- (v) The value of any benefit or perquisite arising from business or the exercise of profession, whether
 - (a) convertible into money or not; or
 - (b) in cash or in kind or partly in cash and partly in kind.
- (vi) Any interest, salary, bonus, commission or remuneration due to, or received by, a partner of a firm from such firm (to the extent allowed as deduction in the hands of the firm).
However, the partner's share in the total income of the firm or LLP is exempt from tax [Section 10(2A)].
- (vii) Any sum, received or receivable, in cash or kind under an agreement for –
 - (a) not carrying out any activity in relation to any business or profession; or
 - (b) not sharing any know-how, patent, copyright, trademark, licence, franchise etc likely to assist in the manufacture or processing of goods or provision of services.
- (viii) Any sum received under a Keyman insurance policy including the sum allocated by way of bonus
- (xi) Fair market value of inventory as on date on which it is converted into or treated as a capital asset.
- (x) Any sum, whether received or receivable, in cash or kind, on account of any capital asset (other than land or goodwill or financial instrument) being demolished, destroyed, discarded or transferred, in respect of which the whole of the expenditure had been allowed as deduction under section 35AD.

Admissible Deductions

Section	Deduction
30	Amount paid on account of rent, rates, taxes, and insurance for buildings used for the purpose of business or profession.
31	current repairs and insurance of machinery, plant and furniture used for the purpose of business or profession.



32	Depreciation : is mandatorily allowable as deduction Note: If the asset is acquired during the previous year and is put to use for less than 180 days during that previous year then, only 50% of the depreciation calculated at the rates prescribed will be allowed.
32(1)(iia) [#]	Additional depreciation at the rate of 20% of actual cost of plant or machinery acquired and installed by an assessee engaged in the business of manufacture or production of any article or thing or in the business of generation, transmission or distribution of power, shall be allowed.
35	Expenditure on Scientific Research -Expenditure incurred by assessee [Allowable both under the default tax regime u/s 115BAC and the optional tax regime i.e., normal provisions of the Act] [Section 35(1)(i) & Section 35(1)(iv) read with section 35(2)].
	Contributions to Outsiders [Allowable only if the assessee exercises the option of shifting out of the default tax regime provided under section 115BAC(1A)] Section Association/University/company/college/IIT (Approved entities) 35(1)(ii) Approved entities for scientific research 35(1) (iia) Approved entities company for scientific research 35(1)(iii) Approved entities research in social science or statistical research 35(2AA) Approved entities to be used for scientific research undertaken under an approved programme
35AD [#]	This section provides for investment-linked tax deduction in respect of the following specified businesses commencing operations on or after the dates specified thereto Quantum of deduction - 100% of the capital expenditure (other than expenditure on acquisition of any land, goodwill or financial instrument) incurred during the previous year, wholly and exclusively for the above specified businesses Payment exceeding ₹ 10,000 to be made through prescribed electronic modes to qualify for deduction u/s 35AD Non-eligibility for deduction u/s 10AA or Chapter VI-A Asset to be used only for specified business for 8 years
35D	Preliminary expenditure incurred by Indian companies and other resident non-corporate assesseees shall be allowed as deduction over a period of 5 years beginning with the previous year in which business commences or in which extension of the undertaking is completed or the new unit commences operation or production. Qualifying amount - Maximum aggregate amount of the qualifying expenses that can be amortized is 5% of the cost of project In case of an Indian company, 5% of the cost of project or at its option, 5% of the capital employed by the company, whichever is higher.
35DDA	One-fifth of the expenditure incurred by an assessee-employer in any previous year in the form of payment to any employee in connection with his voluntary retirement.
40(a)(ia)	30% of any sum payable to a resident on which tax is deductible at source and such tax has not been deducted or, after deduction has not been paid on or before the due date for filing of return of income u/s 139(1).
In case of partnership firms or LLPs -	
40(b)	(i) Payment of interest to any partner authorised by partnership deed in excess of the amount calculated at 12% simple interest per annum. (ii) Payment of remuneration to a working partner authorized by partnership deed to the extent the aggregate of such payment to working partners exceed the following limits – (a) On the first ₹ 6,00,000 of the ₹ 3,00,000 or 90% of the book- book-profit or in case of a loss profit, whichever is more. (b) On the balance of book-profit 60%
40A (2)	Any expenditure incurred in respect of which a payment is made to a related person or entity , to the extent it is considered excessive or unreasonable by the Assessing Officer.
40A (3)	Any expenditure, in respect of which a payment or aggregate of payments made to a person in a single day otherwise than by account payee cheque or account payee bank draft or ECS exceed ₹ 10,000.
	transport operator for plying, hiring or leasing goods carriages , an enhanced limit of ₹ 35,000 shall apply. If the payment/payments exceed this limit, the entire expenditure would be disallowed.



	<p>Exceptions Rule 6DD: Payment to RBI, SBI, Co-operative banks Payment made to Government, which according to its Rules, has to be made in legal tender Payment for purchase of agricultural produce, forest produce, fish and fish products, productions of horticulture or apiculture to the cultivator, grower or producer of such produce or products.</p>
43B	<p>Allowable only if the sum is actually paid on or before the due date of filing of return u/s 139(1)</p> <ul style="list-style-type: none"> • Tax, duty, cess or fee • Contribution to any provident fund or superannuation fund or gratuity fund • Bonus or commission

Other Provisions

44AB	Mandatory audit of accounts of certain persons	
	Category of person	Condition for applicability of section 44AB
(1)	(2)	(3)
I	In case of a person carrying on business	
(a)	In case of a person carrying on business	If his total sales, turnover or gross receipts in business > ₹ 1 crore in the relevant PY.
	If in case of such person carrying on business –	If his total sales, turnover or gross receipts in business > ₹ 10 crore in the relevant PY
(b)	Aggregate cash receipts in the relevant PY ≤ 5% of total receipts Aggregate cash payments in the relevant PY ≤ 5% of total payments In case of an eligible assessee carrying on business, whose total turnover, sales, gross receipts ≤ ₹ 200 lakhs, and who has opted for section 44AD in any earlier PY In case of an eligible assessee carrying on business, whose aggregate cash receipts in the relevant PY ≤ 5% of total turnover or gross receipts and whose total turnover, sales, gross receipts ≤ ₹ 300 lakhs, and who has opted for section 44AD in any earlier PY	If he declares profit for any of the five successive PYs (say, P.Y.2024-25) not in accordance with section 44AD (i.e., he declares profits lower than 8% or 6% of total turnover, sales or gross receipts, as the case may be, in that year), then, he cannot opt for section 44AD for five successive PYs after the year of such default (i.e., from P.Y.2025-26 to P.Y.2029-30). For the year of default (i.e., P.Y. 2024-25) and five successive previous years (i.e., P.Y.2025-26 to P.Y.2029-30), he has to maintain books of account u/s 44AA and get them audited u/s 44AB, if his income exceeds the basic exemption limit.

Presumptive Income Provisions

44AD	total turnover or gross receipts in the previous year does not exceed ₹ 2 crore. If aggregate cash receipts in the relevant PY ≤ 5% of total turnover or gross receipts of the assessee, higher turnover threshold of ₹ 3 crore would be applicable. Non-applicability of section 44AD (i) a person carrying on specified professions referred to in section 44AA(1), (ii) a person earning income in the nature of commission or brokerage ; (iii) a person carrying on agency business . Deemed profits and gains <ul style="list-style-type: none"> • 8% of gross receipts or total turnover • However, the presumptive income would be 6% (instead of 8%) of total turnover • by an account payee cheque or • by an account payee bank draft or • by use of electronic clearing system through a bank account or • through such other prescribed electronic modes
44ADA	In any profession referred to in section 44AA (1) gross receipts does not exceed ₹ 50 lakhs in a previous year. 50% of the gross receipts or such higher sum claimed to have been earned by him.
44AE	Any assessee who owns not more than ten goods carriages at any time during the previous year and who is engaged in For each heavy goods vehicle, ₹ 1,000 per ton of gross vehicle weight or unladen weight, as the case may be, for



the business of plying, hiring and leasing goods carriages.

every month or part of a month during which the vehicle is **owned** by the assessee.

For each vehicle, other than heavy goods vehicle, ₹ 7,500 per month or part of a month during which such vehicle is **owned** by the assessee (**or**) an amount claimed to have been actually earned from such vehicle, **whichever is higher.**

Questions & Answers

Question 1

Examine with reasons whether the following statements are correct/incorrect with regard to the provisions of Income-tax Act, 1961:

M/s XY & Co., a partnership firm, is engaged in the business of operating goods vehicles and computes its income on presumptive basis under section 44AE. Since the income is computed under section 44AE, no further deduction of any kind is allowable from the income so computed. (RTP Nov'23)

Answer 1

The statement is incorrect.

If the income is computed under presumptive taxation under section 44AE, deduction allowable under section 30 to 38 shall be deemed to have been given full effect to and no further deduction shall be allowed. However, in case of firm, salary and interest paid to partners is deductible subject to the conditions and limits prescribed in section 40(b).

Question 2

Mr. Abhimanyu is engaged in the business of generation and distribution of electric power. He opts to claim depreciation on written down value for income-tax purposes. From the following details, compute the depreciation allowable as per the provisions of the Income-tax Act, 1961 for the A.Y. 2025-26, assuming he has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A):

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

All assets were purchased by A/c payee cheque. (SM)

Answer 2

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

Particulars	₹	₹
Normal Depreciation		
Depreciation@15% on ₹ 51,50,000, being machinery put to use for more than 180 days [WDV as on 31.3.2024 of ₹ 50,00,000 – Depreciation for P.Y. 2023-24 of ₹ 7,50,000+ Purchase cost of imported machinery of ₹ 9,00,000]	7,72,500	
Depreciation@7.5% on ₹ 10,00,000, being new machinery put to use for less than 180 days	<u>75,000</u>	
	8,47,500	
Depreciation@40% on computers purchased ₹ 2,00,000	<u>80,000</u>	9,27,500
Additional Depreciation (Refer Note below)	1,00,000	



Additional Depreciation@10% of ₹ 10,00,000 [being actual cost of new machinery purchased on 12-10-2024]		
Additional Depreciation@20% on new computer installed in generation wing of the unit [20% of ₹ 2,00,000]	40,000	1,40,000
Depreciation on Plant and Machinery		10,67,500

Note: -

Mr. Abhimanyu is eligible for additional depreciation since he has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A). The benefit of additional depreciation is available to new plant and machinery acquired and installed in power sector undertakings. Accordingly, additional depreciation is allowable in the case of any new machinery or plant acquired and installed by an assessee engaged, inter alia, in the business of generation, transmission or distribution of power, at the rate of 20% of the actual cost of such machinery or plant.

Therefore, new computer installed in generation wing units eligible for additional depreciation@20%.

Since the new machinery was purchased only on 12.10.2024, it was put to use for less than 180 days during the previous year, and hence, only 10% (i.e., 50% of 20%) is allowable as additional depreciation in the A.Y.2025-26. The balance additional depreciation would be allowed in the next year.

However, additional depreciation shall not be allowed in respect of, inter alia, any machinery or plant which, before its installation by the assessee, was used either within or outside India by any other person. Therefore, additional depreciation is not allowable in respect of imported machinery, since it was used in Colombo, before its installation by the assessee.

Question 3

Mr. Wiwzu, a retail trader of Cochin gives the following Trading and Profit and Loss Account for the year ended 31st March, 2025:

Trading and Profit and Loss Account for the year ended 31.03.2025

Particulars	₹	Particulars	₹
To Opening stock	90,000	By Sales	1,12,11,500
To Purchases	1,10,04,000	By Closing stock	1,86,100
To Gross Profit	3,03,600		-
	<u>1,13,97,600</u>		<u>1,13,97,600</u>
To Salary	60,000	By Gross profit b/d	3,03,600
To Rent and rates	36,000	By Income from UTI	2,400
To Interest on loan	15,000		
To Depreciation	1,05,000		
To Printing & stationery	23,200		
To Postage & telegram	1,640		
To Loss on sale of shares (Short-term)	8,100		
To Other general expenses	7,060		
To Net Profit	50,000		
	<u>3,06,000</u>		<u>3,06,000</u>

Additional Information:

(i) It was found that some stocks were omitted to be included in both the Opening and Closing Stock, the values of which were:

Opening stock	₹ 9,000
Closing stock	₹ 18,000

(ii) Salary includes ₹ 10,000 paid to his brother, which is unreasonable to the extent of ₹ 2,000.

(iii) The whole amount of printing and stationery was paid in cash by way of one-time payment to Mr. Ramesh.

(iv) The depreciation provided in the Profit and Loss Account ₹ 1,05,000 was based on the following information:



The opening balance of plant and machinery (i.e., the written down value as on 31.3.2024 minus depreciation for P.Y. 2023-24) is ₹ 4,20,000. A new plant falling under the same block of depreciation was bought on 01.7.2024 for ₹ 70,000. Two old plants were sold on 1.10.2024 for ₹ 50,000.

(v) Rent and rates includes GST liability of ₹ 3,400 paid on 7.4.2025.

(vi) Other general expenses include ₹ 2,000 paid as donation to a Public Charitable Trust.

You are required to compute the profits and gains of Mr. Wiwzu under presumptive taxation u/s 44AD and profits and gains as per the regular provisions of the Act assuming he has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A). Assume that the whole of the amount of turnover received by account payee cheque or use of electronic clearing system through bank account during the previous year. (SM)

Answer 3

Computation of business income of Mr. Wiwzu for the A.Y. 2025-26

Particulars	₹	₹
Net Profit as per profit and loss account		50,000
Add: Inadmissible expenses/ losses		
Under valuation of closing stock	18,000	
Salary paid to brother – unreasonable [Section 40A(2)]	2,000	
Printing and stationery - whole amount of printing & stationery paid in cash would be disallowed, since such amount exceeds ₹ 10,000 [Section 40A(3)]	23,200	
Depreciation (considered separately)	1,05,000	
Short term capital loss on shares	8,100	
Donation to public charitable trust	2,000	1,58,300
		2,08,300
Less: Items to be deducted:		
Under valuation of opening stock	9,000	
Income from UTI [Chargeable under the head "Income from Other Sources"]	2,400	11,400
Business income before depreciation		1,96,900
Less: Depreciation (See Note 1)		66,000
		1,30,900

Computation of business income as per section 44AD:

As per section 44AD, where the amount of turnover is received, inter alia, by way of account payee cheque or use of electronic clearing system through bank account or through such other prescribed electronic modes, the presumptive business income would be 6% of turnover, i.e., ₹ 1,12,11,500 x 6 /100 = ₹ 6,72,690

Notes:

1. Calculation of depreciation

Particulars	₹
Opening balance of plant & machinery as on 1.4.2023 (i.e. WDV as on 31.3.2024 (-) depreciation for P.Y. 2023-24)	4,20,000
Add: Cost of new plant & machinery	70,000
	4,90,000
Less: Sale proceeds of assets sold	50,000
WDV of the block of plant & machinery as on 31.3.2025	4,40,000
Depreciation@15%	66,000
No additional depreciation is allowable as the assessee is not engaged in manufacture or production of any article.	

2. Since GST liability has been paid before the due date of filing return of income under section 139(1), the same is deductible.



Question 4

Mr. Sukhvinder is engaged in the business of plying goods carriages. On 1st April, 2024, he owns 10 trucks (out of which 6 are heavy goods vehicles, the gross vehicle weight of such goods vehicle is 15,000 kg each). On 2nd May, 2024, he sold one of the heavy goods vehicles and purchased a light goods vehicle on 6th May, 2024. This new vehicle could, however, be put to use only on 15th June, 2024.

Compute the total income of Mr. Sukhvinder for the A.Y. 2025-26, taking note of the following data:

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

Answer 4

Section 44AE would apply in the case of Mr. Sukhvinder since he is engaged in the business of plying goods carriages and owns not more than ten goods carriages at any time during the previous year.

Section 44AE provides for computation of business income of such assesses on a presumptive basis. The income shall be deemed to be ₹ 1,000 per ton of gross vehicle weight or unladen weight, as the case may be, per month or part of the month for each heavy goods vehicle and ₹ 7,500 per month or part of month for each goods carriage other than heavy goods vehicle, owned by the assessee in the previous year or such higher sum as declared by the assessee in his return of income.

Mr. Sukhvinder's business income calculated applying the provisions of section 44AE is ₹ 13,72,500 (**See Notes 1 & 2 below**) and his total income would be ₹ 14,42,500. However, as per section 44AE(7), Mr. Sukhvinder may claim lower profits and gains if he keeps and maintains proper books of account as per section 44AA and gets the same audited and furnishes a report of such audit as required under section 44AB. If he does so, then his income for tax purposes from goods carriages would be ₹ 4,45,000 instead of ₹ 13,72,500 and his total income would be ₹ 5,15,000.

Notes:

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

Particulars	Presumptive income ₹	Where books are maintained ₹
Income from business of plying goods carriages [See Note 2 Below]	13,72,500	4,45,000
Other business and non-business income	70,000	70,000
Total Income	14,42,500	5,15,000

2. Calculation of presumptive income as per section 44AE

Type of carriage	No. of months	Rate per ton per month/ per month	Ton	Amount ₹
(1)	(2)		(3)	(4)
Heavy goods vehicle				
1 goods carriage up-to 1st May	2	1,000	15 (15,000/1,000)	30,000
5 goods carriage held throughout the year	12	1,000	15 (15,000/1,000)	9,00,000
Goods vehicle other than heavy goods vehicle				
1 goods carriage from 6th May	11	7,500	-	82,500
4 goods carriage held throughout the year	12	7,500	-	3,60,000
Total				13,72,500



Question 5

Mr. Raju, a manufacturer at Chennai, gives the following Manufacturing, Trading and Profit & Loss Account for the year ended 31.03.2025:

Manufacturing, Trading and Profit & Loss Account for the year ended 31.03.2025

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

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

- Administrative charges include ₹ 46,000 paid as commission to brother of the assessee. The commission amount at the market rate is ₹ 36,000.
- The assessee paid ₹ 33,000 in cash to a transport carrier on 29.12.2024. This amount is included in manufacturing expenses. (Assume that the provisions relating to TDS are not applicable to this payment)
- A sum of ₹ 4,000 per month was paid as salary to a staff throughout the year and this has not been recorded in the books of account.
- Bank term loan interest actually paid upto 31.03.2025 was ₹ 20,000 and the balance was paid in November 2025.
- Housing loan principal repaid during the year was ₹ 50,000 and it relates to residential property acquired by him in P.Y. 2023-24 for self-occupation. Interest on housing loan was ₹ 23,000. Housing loan was taken from Canara Bank. These amounts were not dealt with in the profit and loss account given above.
- Depreciation allowable under the Act is to be computed on the basis of following information:

Plant & Machinery (Depreciation rate @15%)	₹
WDV as on 31.03.2024 minus Depreciation for P.Y. 2023-24	11,90,000
Additions during the year (used for more than 180 days)	2,00,000
Total additions during the year	4,00,000

Compute the total income of Mr. Raju for the A.Y. 2025-26 assuming he pays tax under default tax regime.

Note: Ignore application of section 14A for disallowance of expenditures in respect of any exempt income. (SM)

Answer 5

Compute of total Income of Mr. Raju for the A.Y.2025-26

Particulars	₹	₹
Profits and gains of business or profession		
Net profit as per profit and loss account		5,00,000
Add: Excess commission paid to brother disallowed under section 40A(2)	10,000	
Disallowance under section 40A (3) is not attracted since the limit for one-time cash payment is ₹ 35,000 in respect of payment to transport operators. Therefore, amount of ₹ 33,000 paid in cash to a transport carrier is allowable as deduction.	Nil	



	Salary paid to staff not recorded in the books (Assuming that the expenditure is in the nature of unexplained expenditure and hence, is deemed to be income as per section 69C and would be taxable @ 60% under section 115BBE – no deduction allowable in respect of such expenditure) [See Note 1 below]	48,000	
	Bank term loan interest paid after the due date of filing of return under section 139(1) – disallowed as per section 43B	40,000	
	State GST penalty paid disallowed [See Note 2 below]	5,000	
	Depreciation debited to profit and loss account	2,00,000	3,03,000
Less:	Dividend from domestic companies [Chargeable to tax under the head “Income from Other Sources”]	15,000	8,03,000
	Income from agriculture [Exempt under section 10(1)]	1,80,000	
	Depreciation under the Income-tax Act, 1961 (As per working note)	2,23,500	4,18,500
			3,84,500
	Income from house property		
	Annual value of self-occupied property	Nil	
Less:	Deduction u/s 24(b) – interest on housing loan [Not allowable, since Mr. Raju is paying tax as per default tax regime]	Nil	Nil
	Income from Other Sources		
	Dividend from domestic companies		15,000
	Gross Total Income		3,99,500
Less:	Deduction u/s 80C [Not allowable, since Mr. Raju is paying tax as per default tax regime]		Nil
	Total Income		3,99,500

Working Note:

Computation of depreciation under the Income-tax Act, 1961

Particulars	₹
Depreciation @ 15% on ₹ 13.90 lakhs (WDV as on 31.3.2024 less depreciation for P.Y. 2023-24 i.e., ₹ 11.90 lakh plus assets purchased during the year and used for more than 180 days ₹ 2 lakh)	2,08,500
Depreciation @ 7.5% on ₹ 2 lakh (Assets used for < 180 days)	15,000
	2,23,500

Since Mr. Raju is paying tax as per default tax regime, additional depreciation u/s 32(1)(iia) would not be available to him.

Notes (Alternate views):

- It is also possible to take a view that the salary not recorded in the books of account was an erroneous omission and that the assessee has offered satisfactory explanation for the same. In such a case, the same should not be added back as unexplained expenditure, but would be allowable as deduction while computing profits and gains of business and profession.
- Where the imposition of penalty is not for delay in payment of sales tax or VAT or GST but for contravention of provisions of the Sales Tax Act or VAT Act or GST Law, the levy is not compensatory and therefore, not deductible. However, if the levy is compensatory in nature, it would be fully allowable. Where it is a composite levy, the portion which is compensatory is allowable and that portion which is penal is to be disallowed. Since the question only mentions “GST penalty paid” and the reason for levy of penalty is not given, it has been assumed that the levy is not compensatory and therefore, not deductible. It is, however, possible to assume that such levy is compensatory in nature and hence, allowable as deduction. In such a case, the total income would be ₹ 3,94,500.

Question 6

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



Particulars	₹
Opening balance of car (only asset in the block) as on 1.4.2024 (i.e. WDV as on 31.3.2024 (-) depreciation for P.Y. 2023-24)	3,00,000
Opening balance of machinery as on 1.4.2024 (i.e., WDV as on 31.3.2024 (-) depreciation for P.Y. 2023-24)	15,00,000
Expenses incurred for growing coffee	3,10,000
Expenditure for curing coffee	3,00,000
Sale value of cured coffee	22,00,000

Besides being used for agricultural operations, the car is also used for personal use; disallowance for personal use may be taken at 20%. The expenses incurred for car running and maintenance are ₹50,000. The machines were used in coffee curing business operations.

Compute the income arising from the above activities for the A.Y. 2025-26. (SM)

Answer 6

Where an assessee is engaged in the composite business of growing and curing of coffee, the income will be segregated between agricultural income and business income, as per Rule 7B of the Income-tax Rules, 1962. As per the above Rule, income derived from sale of coffee grown and cured by the seller in India shall be computed as if it were income derived from business, and 25% of such income shall be deemed to be income liable to tax. The balance 75% will be treated as agricultural income.

Particulars	₹	₹
Sale value of cured coffee		22,00,000
Less: Expenses for growing coffee	3,10,000	
Car expenses (80% of ₹ 50,000)	40,000	
Depreciation on car (80% of 15% of ₹3,00,000) [See Computation below]	36,000	
Total cost of agricultural operations	3,86,000	
Expenditure on coffee curing operations	3,00,000	
Add: Depreciation on machinery (15% of ₹15,00,000) [See Computation below]	<u>2,25,000</u>	
Total cost of the curing operations	<u>5,25,000</u>	
Total cost of composite operations		9,11,000
Total profits from composite activities		12,89,000
Business income (25% of above)		3,22,250
Agricultural income (75% of above)		9,66,750

Computation of depreciation for P.Y. 2024-25

Particulars	₹	₹
Car		
Opening balance as on 1.4.2024 (i.e., WDV as on 31.3.2023 (-) depreciation for P.Y.2023-24)		3,00,000
Depreciation thereon at 15%	45,000	
Less: Disallowance @20% for personal use	<u>9,000</u>	
Depreciation actually allowed		36,000
Machinery		
Opening balance as on 1.4.2024 (i.e., WDV as on 31.3.2024 (-) depreciation for P.Y.2023-24)		15,00,000
Depreciation @ 15% for P.Y. 2024-25		2,25,000

Explanation 7 to section 43(6) provides that in cases of 'composite income', for the purpose of computing written down value of assets acquired before the previous year, the total amount of depreciation shall be computed as



if the entire composite income of the assessee (and not just 25%) is chargeable under the head "Profits and gains of business or profession". The depreciation so computed shall be deemed to have been "actually allowed" to the assessee.

Question 7

AB Light LLP consists of 2 working partners, Mr. Anand and Mr. Bheem with 60% and 40% share, respectively. As per the partnership deed, they are eligible for interest on capital @15% p.a. on their capital contribution of ₹ 15 lakhs each and remuneration of ₹ 50,000 p.m. to Anand and ₹ 40,000 p.m. to Bheem. The firm is engaged in manufacturing business. During the year ended 31.3.2025, the net profit as per profit and loss account was ₹ 25,86,000 before considering interest on capital and remuneration to partners as well as the following items:

		₹
(i)	Current year revenue expenditure on scientific research	2,40,000
(ii)	Unabsorbed capital expenditure on scientific research relating to P.Y. 2021-22	85,000
(iii)	Brought forward business loss of A.Y. 2016-17	40,000
(iv)	Unabsorbed depreciation of A.Y. 2013-14	52,000
(v)	Current year depreciation under section 32	4,70,000
(vi)	Brought forward business loss of A.Y. 2020-21	49,000
(vii)	Current year capital expenditure on scientific research	3,45,000

You are required to compute the total income of AB Light LLP for A.Y. 2025-26 after considering the above items. Also, determine the amount of remuneration taxable in the hands of Mr. Anand and Mr. Bheem. (RTP Nov'23)

Answer 7

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

Particulars		Amount (₹)
Net profit as per profit and loss account before interest on capital and remuneration to partners and other items		25,86,000
Less: Expenditure allowable from business income		
- Interest @ 12% p.a. [being the maximum allowable as per section 40(b)] (₹ 15,00,000 × 12% × 2)	3,60,000	
- Current year revenue expenditure on scientific research under section 35(1)(i)	2,40,000	6,00,000
		19,86,000
- Current year depreciation under section 32(1)	4,70,000	
- Current year capital expenditure on scientific research under section 35(1)(iv)	3,45,000	
- Unabsorbed depreciation of A.Y. 2013-14 under section 32(2)	52,000	
- Unabsorbed capital expenditure on scientific research relating to P.Y. 2021-22 under section 35(4)	85,000	9,52,000
Book Profit		10,34,000
Less: Partners' remuneration allowable under section 40(b)		
(i) As per limit prescribed in section 40(b)		
On first ₹ 6,00,000 90%	5,40,000	
On the balance ₹ 4,34,000 60%	2,60,400	
	8,00,400	
(ii) Remuneration actually paid or payable [₹ 50,000 × 12 + ₹ 40,000 × 12]	10,80,000	
(i) or (ii) whichever is less, is deductible		8,00,400
Profit from manufacturing business		2,33,600



Less: Brought forward business loss of A.Y. 2016-17 [Not allowed to set off since 8 years have been already expired]	-	
Less: Brought forward business loss of A.Y. 2020-21	49,000	49,000
Profits and gains of business or profession		1,84,600

Remuneration taxable in the hands of Mr. Anand as business income = ₹ 8,00,400 x 6,00,000/10,80,000 = ₹ 4,44,667

Remuneration taxable in the hands of Mr. Bheem as business income = ₹ 8,00,400 x 4,80,000/10,80,000 = ₹ 3,55,733

Question 8

Mr. Aman has furnished the following particulars relating to payments made and expenditure incurred towards scientific research for the year ended 31.3.2025:

Sr. No.	Particulars	₹ (in lakhs)
(i)	Payment made to AB University, an approved University	15
(ii)	Payment made to Siya College	17
(iii)	Payment made to IIT, Bangalore (under an approved programme for scientific research)	12
(iv)	Machinery purchased for in-house scientific research	25

Compute the deduction available under section 35 of the Income-tax Act, 1961 for A.Y. 2025-26, while computing his income under the head "Profits and gains of business or profession" under default tax regime under section 115BAC. (MTP 4 Marks Jul'24)

Answer 8

Computation of deduction allowable under section 35

Particulars	Amount (₹ in lakhs)	Section	% of deduction	Amount of deduction (₹ in lakhs)
Payment for scientific research				
AB University, an approved University	15	35(1)(ii)	Nil	Nil
Siya College	17	-	Nil	Nil
IIT Bangalore (under an approved programme for scientific research)	12	35(2AA)	Nil	Nil
In-house research			100%	25
Capital expenditure – Purchase of Machinery	25	35(1)(iv) r.w. 35(2)		
Deduction allowable under section 35				25

Deduction under section 35(1)(ii) and 35(2AA) is not allowable under default tax regime under section 115BAC.

Question 9

Mr. Rao finished the following information regarding the payments made towards Scientific Research during the financial year 2024-25:

- Revenue expenditure on Scientific Research incurred during the year ₹ 1,00,000.
- Capital Expenditure for Scientific Research ₹ 3,00,000.
- Contribution to Notified approved research association ₹ 1,50,000.
- Amount paid to H Limited an Indian company which has as its main object scientific research and approved by the prescribed authority ₹ 2,50,000.
- Expenditure of ₹ 2,50,000 towards purchase of Land for scientific research.
- He also incurred revenue expenditure of ₹ 2,00,000 towards salary of research staff in the F.Y.2023-24 (before commencement of business) and certified by the prescribed authority.

Compute the deduction allowable u/s 35 for the assessment year 2025-26, assuming that he has not opted for default tax regime u/s 115BAC. (PYP 4 Marks, May'24)



Answer 9

Computation of deduction allowable u/s 35 for the A.Y. 2025 -26

	Particulars	₹
(i)	Revenue expenditure on scientific research allowable as deduction u/s 35(1)(i), assuming such expenditure is related to his business.	1,00,000
(ii)	Capital expenditure allowable as deduction u/s 35(1)(iv), assuming such expenditure is incurred for his business.	3,00,000
(iii)	Contribution to notified approved research association for scientific research – 100% of the amount paid is allowed as deduction u/s 35(1)(ii).	1,50,000
(iv)	Amount paid to H Ltd., an Indian company approved by the prescribed authority – 100% of the amount paid is allowed as deduction u/s 35(1)(iia)	2,50,000
(v)	Expenditure towards purchase of land – not allowed as deduction	Nil
(vi)	Revenue expenditure towards salary of research staff incurred in the F.Y. 2023-24 (before commencement of business) – allowed as deduction u/s 35(1)(i) in the P.Y. 2024-25 as it was expended within the 3 years immediately preceding the commencement of business (assuming business is commenced during the P.Y. 2024-25). Note - Since the date of commencement of business is not given, an alternative view is possible that the business is commenced during the F.Y. 2023-24 itself. In that case, deduction for revenue expenditure incurred towards salary of research staff in F.Y. 2023-24 before commencement of business would have been allowed in the F.Y. 2023-24 and accordingly, no deduction would be available in F.Y. 2024-25.	2,00,000
Total deduction allowable		10,00,000

Question 10

Mr. Yogesh is in the business of operating goods vehicles. As on 1st April, 2024, he had the following vehicles:

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

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

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

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

(MTP 3 Marks, Apr'21, PYP 4 Marks, Nov'19)

Answer 10

Since Mr. Yogesh does not own more than 10 vehicles at any time during the previous year 2024 -25, he is eligible to opt for presumptive taxation scheme under section 44AE. As per section 44AE, ₹ 1,000 per ton of gross vehicle weight or unladen weight, as the case may be, per month or part of the month for each heavy goods vehicle and ₹ 7,500 per month or part of month for each goods carriage other than heavy goods vehicle, owned by him would be deemed as his profits and gains from such goods carriage.

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



Calculation of presumptive income as per section 44AE

Type of carriage	No. of months the vehicle is owned by Mr. Prakash	Rate per ton per month	Ton	Amount ₹
(1)	(2)	(3)	(4)	(5) [(2) x (3) x (4)]
Heavy goods vehicle				
Vehicle B (15,000 kgs) held throughout the year	12	₹ 1,000	15 (15,000/1,000)	1,80,000
Vehicle E (14,000 kgs) purchased on 15.5.2023	11	₹ 1,000	14 (14,000/1,000)	1,54,000
Goods vehicles other than heavy goods vehicle		Rate per month		
Vehicle A held throughout the year	12	₹ 7,500	-	90,000
Vehicle C held throughout the year	12	₹ 7,500	-	90,000
Vehicle D purchased on 20.4.2024	12	₹ 7,500	-	90,000
			Total	6,04,000

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

EXAM INSIGHTS: Most of the examinees were not aware that for computing presumptive income under section 44AE the “date of owning” the vehicle is relevant and not the date of “put to use”. Hence, their computation of presumptive income was wrong.

Question 11

(Includes concepts of Advance Tax)

Ms. Soha (aged 35 years), a resident individual, is a dealer of scooters. During the previous year 2024-25, total turnover of her business was Rs. 110 lakhs (out of which Rs. 25 lakhs were received by way of account payee cheques and balance in cash). Ms. Soha does not opt to pay tax as per the provisions of section 115BAC. What would be your advice to Ms. Soha relating to the provisions of advance tax with its due date along with the amount payable, assuming that she wishes to make maximum tax savings.

(MTP 3 Marks, Nov'21) (Same concept different figures RTP Nov'21)

Answer 11

Computation of advance tax of Ms. Soha under Presumptive Income scheme as per section 44AD

The total turnover of Ms. Soha, a dealer of scooter, is ₹ 110 lakhs. Since her total turnover from such business is less than Rs. 200 lakhs and she does not wish to get his books of account audited, she can opt for presumptive tax scheme under section 44AD.

Profits and gains from business computed under section 44AD:

Particulars	₹
6% of Rs. 25 lakhs, being turnover effected through account payee cheque	1,50,000
8% of Rs. 85 lakhs, being cash turnover	6,80,000
	8,30,000

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



Computation of tax liability of Ms. Soha as per normal provisions of Income-tax Act, 1961

Particulars	Amount in ₹	
Total Income	8,30,000	
Tax on 8,30,000		
Upton ₹ 2,50,000	Nil	
₹ 2,50,001 – ₹ 5,00,000@5%	12,500	
₹ 5,00,001 – ₹ 8,30,000@20%	<u>66,000</u>	78,500
Add: Health and Education cess@4%		<u>3,140</u>
Tax liability		<u>81,640</u>

Accordingly, she is required to pay advance tax of Rs. 81,640 on or before 15th March of the financial year. However, any amount by way of advance tax on or before 31st March of the financial year shall also be treated as advance tax paid during the financial year ending on that day for all the purposes of the Act.

Question 12

M/s. Ravi & sons, a partnership firm consisting of two partners, reports a net profit of ₹ 7,50,000 before deduction of the following items:

- Salary of ₹ 25,000 each per month payable to two working partners of the firm (as authorized by the deed of partnership)
- Depreciation on plant and machinery under section 32 is ₹ 2,50,000
- Interest on capital 15% per annum (as per the deed of partnership).
The amount of capital eligible for interest is ₹ 6,00,000 for both partners
- Carry forward loss of P.Y. 2023-24 - ₹ 50,000

Compute for A.Y. 2025-26:

- (i) Book-profit of the firm under section 40(b) of the Income-tax Act, 1961.
- (ii) Amount of salary that can be paid to working partners as per section 40(b).

(MTP 4 Marks, Apr'24) (MTP 5 Marks, Mar'18, Old & New SM)

Answer 12

(i) Computation of book profit of the firm under section 40(b)

Particulars	Amount (₹)	Amount (₹)
Net Profit (before deduction of depreciation, salary and interest)		7,50,000
Less: Depreciation under section 32	2,50,000	
Interest @ 12% p.a. [being the maximum allowable as per section 40(b)] (₹ 6,00,000 × 12%)	<u>72,000</u>	<u>3,22,000</u>
Book profit		4,28,000

“Book profit” means the net profit as per the profit and loss account for the relevant previous year computed in the manner laid down in Chapter IV-D as increased by the aggregate amount of the remuneration paid or payable to the partners of the firm if the same has been already deducted while computing the net profit. Hence, brought forward loss of ₹ 50,000 of P.Y.2023-24 is not allowed to be set off for computation of “book profit”.

(ii) Salary actually paid to working partners = ₹ 25,000 × 2 × 12 = ₹ 6,00,000

As per the provisions of section 40(b)(v), the maximum allowable working partners' salary for the A.Y. 2025-26 in this case would be:

Particulars	₹
On the first ₹ 6,00,000 of book profit [(₹ 3,00,000 or 90% of ₹ 4,28,000) whichever is more]	4,48,200
Maximum allowable working partners' salary	4,48,200



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

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

Additional information:

- All assets were purchased by A/c payee cheque.
 - All assets were put to use immediately.
 - New machinery purchased on 1-12-2024 and computer have been installed in the office.
 - During the year ended 31-3-2024, a new machinery had been purchased on 31-10-2023, for ₹ 10 lakhs. Additional depreciation, besides normal depreciation, had been claimed thereon.
 - Depreciation rate for machinery may be taken as 15%.
 - The assessee has no brought forward business loss or unabsorbed depreciation as on 1.4.2024.
- Compute the depreciation available to the assessee as per the provisions of the Income-tax Act, 1961 and the WDV of different blocks of assets as on 31-3-2025 if -

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

Answer 13

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

Particulars	Plant & Machinery (₹ in lacs)	Computer (₹ in lacs)
Written down value (as on 31.3.2024)	30.00	Nil
Less: Depreciation including additional depreciation for P.Y. 2023-24	4.75	-
Opening balance as on 1.4.2024	25.25	
Add: Actual cost of new assets acquired during the year		
New machinery purchased on 1.9.2024	10.00	-
New machinery purchased on 1.12.2024	8.00	-
Computer purchased on 3.1.2025	-	4.00
	43.25	4.00
Less: Assets sold/discarded/destroyed during the year		
Written Down Value (as on 31.03.2025)	Nil	Nil
	43.25	4.00

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

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

Computation of depreciation for A.Y. 2025-26

	Particular	Plant & Machinery (₹ in lacs)	Computer (₹ in lacs)
i.	Assets put to use for more than 180 days, eligible for 100% depreciation calculated applying the eligible rate of normal depreciation and additional depreciation		
	Normal Depreciation		
	- WDV of plant and machinery (₹ 25.25 lacs x 15%)	3.79	-



	- New Machinery purchased on 1.9.2024 (₹ 10 lacs x 15%)	1.50	-
	(A)	5.29	-
	Additional Depreciation		
	New Machinery purchased on 1.9.2024 (₹ 10 lakhs x 20%)	2.00	
	Balance additional depreciation in respect of new machinery purchased on 31.10.2023 and put to use for less than 180 days in the P.Y. 2023-24 (₹ 10 lakhs x 20% x 50%)	1.00	
	(B)	3.00	
ii.	Assets put to use for less than 180 days, eligible for 50% depreciation calculated applying the eligible rate of normal depreciation and additional depreciation, if any		
	Normal Depreciation		
	New machinery purchased on 1.12.2024 [₹ 8 lacs x 7.5% (i.e., 50% of 15%)]	0.60	-
	Computer purchased on 3.1.2024 [₹ 4 lacs x 20% (50% of 40%)]	-	0.80
	(C)	0.60	0.80
	Total Depreciation (A+B+C)	8.89	0.80

Notes:

- (1) As per section 32(1)(ia), additional depreciation is allowable in the case of any new machinery or plant acquired and installed after 31.3.2005, by an assessee engaged, inter alia, in the business of manufacture or production of any article or thing, at the rate of 20% of the actual cost of such machinery or plant. However, additional depreciation shall not be allowed in respect of, inter alia,—
- any office appliances or road transport vehicles;
 - any machinery or plant installed in, inter alia, office premises.
- In view of the above provisions, additional depreciation cannot be claimed in respect of -
- Machinery purchased on 1.12.2024, installed in office and
 - Computer purchased on 3.1.2025, installed in office.
- (2) Balance additional depreciation @10% on new plant or machinery acquired and put to use for less than 180 days in the year of acquisition which has not been allowed in that year, shall be allowed in the immediately succeeding previous year.
- Hence, in this case, the balance additional depreciation@10% (i.e., ₹ 1 lakhs, being 10% of ₹ 10 lakhs) in respect of new machinery which had been purchased during the previous year 2022-23 and put to use for less than 180 days in that year can be claimed in P.Y. 2023-24 being immediately succeeding previous year.
- (i) **If Mr. Venus pays tax under default tax regime under section 115BAC**
- In this case, under the default tax regime as per section 115BAC, he would be entitled only for normal depreciation but not additional depreciation.

Computation of depreciation for A.Y. 2025-26

	Particulars	Plant & Machinery (₹ in lacs)	Computer (₹ in lacs)
I.	Assets put to use for more than 180 days, eligible for 100% depreciation calculated applying the eligible rate of normal depreciation		
	Normal Depreciation		
	- WDV of plant and machinery (₹ 25.25 lacs x 15%)	3.79	-
	- New Machinery purchased on 1.9.2023 (₹ 10 lacs x 15%)	1.50	-



	(A)	5.29	-
II. Assets put to use for less than 180 days, eligible for 50% depreciation calculated applying the eligible rate of normal depreciation			
Normal Depreciation			
New machinery purchased on 1.12.2024 [₹ 8 lacs x 7.5% (i.e., 50% of 15%)]		0.60	-
Computer purchased on 3.1.2023 [₹ 4 lacs x 20% (50% of 40%)]		-	0.80
	(C)	0.60	0.80
Total Depreciation (A+B+C)		5.89	0.80

Question 14

Mr. Viwit Su (aged 67 years), a manufacturer, reported a profit of ₹ 3,95,11,290 for the previous year 2024-25 after debiting/crediting the following items:

Debits:

- ₹ 15,000 paid to a Gurudwara registered u/s 80G of the Income-tax Act, in cash where no cheques are accepted.
- ₹ 35,500 contributed to an university approved and notified u/s 35(1)(ii) to be used for scientific research.
- Interest paid ₹ 1,75,000 on loan taken for purchase of E-vehicle on 15-07-2024 from a bank. The E-vehicle was purchased for the personal use of his wife.
- He has purchased timber under a forest lease of ₹ 25,00,000 for the purpose of business.

Credits:

- Income of ₹ 3,50,000 from royalty on patent registered under the Patent Act received from different resident clients. No TDS was needed to be deducted by any of the clients.
- He received ₹ 3,00,000 from a debtor which was written off as bad in the year 2020-21. Amount due from the debtor (which was written off as bad) was ₹ 4,00,000, out of which tax officer had only allowed ₹ 2,50,000 as deduction in computing the total income for assessment year 2021-22.
- He sold some goods to his brother for ₹ 6,00,000. The fair market value of such goods was ₹ 9,00,000.

Other information:

- Depreciation in books of accounts is computed by applying the rates prescribed under the Income tax laws.
- Mr. Viwit Su purchased a new car of ₹ 14,00,000 on 1st August, 2024 and the same was put to use in the business on the same day. No depreciation for the same has been taken on car in the books of account.
- Mr. Viwit Su had sold a house on 25th March, 2024 and deposited the long term capital gains of ₹ 20,00,000 in capital gain account scheme by the due date of filing return of income for that year. On 11th March, 2025, he sold another house property in which he resided for ₹ 1 crore. He earned a long term capital gain of ₹ 55,00,000 on sale of this property. On 25th March, 2025, he withdrew money out of his capital gain account and invested ₹ 1 crore on construction of one house.
- Mr. Viwit Su also made the following payments during the previous year 2024-25
 - Lump-sum premium of ₹ 1,20,000 paid on 30th March, 2025 for the medical policy taken for self and spouse. The policy shall be effective for five years i.e. from 30 th March, 2025 to 29th March, 2030.
 - ₹ 8,000 paid in cash for preventive health check-up of self and spouse.

Compute the total income and tax payable by Mr. Viwit Su for the assessment year 2025-26 assuming he does not opt for section 115BAC. (MTP 14 Marks, Oct'22) (Same concept different figures PYP 14 Marks Jan'21)

Answer 14

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

	Particulars	₹	₹	₹
I	Income from business or profession			
	Net profit as per profit and loss account		3,95,11,290	
	Add: Items of expenditure debited but not allowable while computing business income			
	(a) Donation to Gurudwara in cash [not allowable as deduction since it is not incurred wholly and exclusively for business purpose. Since the amount is already debited, the same has to be added			



	back while computing business income]	15,000		
	(b) Contribution to an university approved and notified u/s 35(1)(ii) for scientific research [Eligible for deduction @100%. Since, 100% of the expenditure is already debited to profit and loss account, no adjustment is required]	-		
	(c) Interest on loan taken for purchase of e-vehicle [Interest on loan for purchase of e-vehicle for personal purpose is not allowed as deduction from business income since the same is not incurred wholly and exclusively for business purpose. Since it is already debited, the same has to be added back while computing business income]	1,75,000		
	(iii) Sale of goods to brother at less than FMV [The provisions of section 40A(2) are not applicable in case of sale transaction, even if the same is to a related party. Therefore, no adjustment is necessary in respect of difference of ₹ 3 lakh]	-	<u>1,90,000</u>	
			3,97,01,290	
	Less: Items of income credited but not taxable or taxable under any other head of income			
	(i) Royalty on patent [Not taxable as business income since Mr. Viwit Su is engaged in manufacturing business. Since the amount is already credited to profit and loss account, the same has to be reduced while computing business income]	3,50,000		
	(ii) Bad debt recovered [Actual bad debt is ₹ 1 lakhs i.e., ₹ 4 lakhs less ₹ 3 lakh, being the amount of bad debt recovered. Bad debt written off is ₹ 2.50 lakhs. Bad debt recovered to the extent of ₹ 1.50 lakh being excess of bad debt recovered over actual bad debt would be deemed to be business income. Since the entire ₹ 3 lakhs is credited to the profit and loss account, ₹ 1.50 lakhs has to be reduced]	<u>1,50,000</u>	<u>5,00,000</u>	
			3,92,01,290	
	Less: Allowable expenditure			
	7. Depreciation on car [₹ 14 lakh x 15%, since car is put to use for more than 180 days in the P.Y.2024-25]		<u>2,10,000</u>	
				3,89,91,290
II	Capital Gain			
	Long term capital gain on sale of house property		55,00,000	
	Less: Exemption under section 54 [Since whole amount of long term capital gain is invested in construction of house within the stipulated time limit.] [Capital gain of ₹ 20 lakhs in capital gain account scheme is not taxable in P.Y. 2024-25, since the same is withdrawn and invested in construction of house within the stipulated time limit. The remaining amount of ₹ 80 lakhs invested in construction of house is eligible for exemption u/s 54, subject to a maximum of ₹55 lakhs being long-term capital gain on sale of house property during the P.Y.2024-25]		<u>55,00,000</u>	
III	Income from Other Sources			
	Royalty on patent [Taxable as “income from other sources”, since he is engaged in business of manufacturing]			<u>3,50,000</u>
	Gross Total Income			3,93,41,290
	Less: Deduction under Chapter VI-A			



Deduction under section 80D - Mediclaim premium for self and spouse [In case of lump sum premium for medical policy, deduction is allowed for equally for each relevant previous years. [₹ 1,20,000/6 years, being relevant previous years in which the insurance is in force]	20,000		
- Preventive health check up of self and spouse [Preventive health checkup paid in cash allowed to the extent of ₹ 5,000]	<u>5,000</u>	25,000	
Deduction under section 80G [Donation of ₹ 15,000 to Gurudwara not allowable as deduction since amount exceeding ₹ 2,000 paid in cash]		-	
Deduction under section 80RRB [Deduction in respect of royalty on patent registered under the Patent Act subject to a maximum of ₹ 3 lakh]		<u>3,00,000</u>	<u>3,25,000</u>
Total income			3,90,16,290

Computation of tax payable by Mr. Viwit Su for A.Y.2025-26

Particulars	₹	₹
Tax on total income of ₹ 3,90,16,290		
Upto ₹3,00,000	Nil	
₹3,00,001 – ₹ 5,00,000 [@5% of ₹2 lakh]	10,000	
₹5,00,001 – ₹10,00,000 [@20% of ₹5,00,000]	1,00,000	
₹10,00,001- ₹ 3,90,16,290 [@30% of ₹ 3,80,16,290]	<u>1,14,04,887</u>	1,15,14,887
Add: Surcharge @ 25%, since total income exceeds ₹ 2,00,00,000 but does not exceed ₹ 5,00,00,000		<u>28,78,722</u>
		1,43,93,609
Add: Health and education cess@4%		<u>5,75,744</u>
Total tax liability		1,49,69,353
Less: TCS u/s 206C(1) @ 2.5% on ₹ 25 lakh i.e., timber	62,500	
TCS u/s 206C(1F)@1% of ₹14 lakh i.e., sale of motor car where consideration exceeds ₹10 lakh	14,000	
TDS u/s 194-IA@1% of ₹1 crore i.e., sale of immovable property where consideration is ₹ 50 lakh or more	<u>1,00,000</u>	<u>1,76,500</u>
Tax payable		1,47,92,853
Tax payable (rounded off)		1,47,92,850

Question 15

LDR

Mr. Amit, having business of manufacturing of furniture, gives the following Trading and Profit & Loss Account for the year ended 31.03.2025:

Trading and Profit & Loss Account

Particulars	₹	Particulars	₹
Opening Stock	5,62,500	Sales	2,33,25,000
Purchases	1,88,62,500	Closing Stock	6,75,000
Freight & Cartage	1,89,000		
Gross profit	43,86,000		
	2,40,00,000		2,40,00,000
Bonus to staff	71,250	Gross profit	43,86,000
Rent of premises	80,250	Income-tax refund	30,000



Advertisement	7,500	Warehousing charges	22,50,000
Bad Debts	1,12,500		
Interest on loans	2,51,250		
Depreciation	1,07,250		
Goods and Services tax demand paid	1,62,525		
Salary	5,50,000		
Miscellaneous expenses	2,38,475		
Net profit	50,85,000		
	66,66,000		66,66,000

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

- Income-tax refund includes amount of ₹ 4,570 of interest allowed thereon.
- Salary includes ₹ 30,000 paid to his brother which is unreasonable to the extent of ₹ 5,000.
- Advertisement expenses include an amount of ₹ 2,500 paid for advertisement published in the souvenir issued by a political party. The payment is made by way of an account payee cheque.
- Miscellaneous expenses include an amount of ₹ 1,00,000 paid to Political Party by cheque.
- Goods and Services Tax demand paid includes an amount of ₹ 5,300 charged as penalty for delayed filing of returns and ₹ 12,750 towards interest for delay in deposit of tax.
- Mr. Amit had purchased a warehouse building of ₹ 20 lakhs in rural area for the purpose of storage of agricultural produce. This was made available for use from 15.07.2024 and the income from this activity is credited in the Profit and Loss account under the head "Warehousing charges".
- Depreciation under the Income-tax Act, 1961 works out at ₹ 65,000 excluding depreciation on warehouse building.
- Interest on loans includes an amount of ₹ 80,000 paid to Mr. Mohit, a resident, on which tax was not deducted.

Compute the total income and tax liability of Mr. Amit for the A.Y. 2025-26 in a most beneficial manner.
(MTP 15 Marks, Mar'24) (RTP Nov'22)

Answer 15

Computation of total income of Mr. Amit as per section 115BAC for A.Y. 2025-26

Particulars	₹
Net profit as per profit and loss account	50,85,000
Less: Income-tax refund credited in the profit and loss account, out of which interest on such refund is only taxable, which is to be considered separately under the head "Income from other sources"	<u>30,000</u>
	50,55,000
Add: Expenses either not allowable or to be considered separately but charged in the profit & loss account	
- Salary paid to brother disallowed to the extent considered unreasonable [Section 40A(2)]	5,000
- Advertisement in the souvenir of political party not allowable as per section 37(2B) (See Note 1)	2,500
- Payment made to political party by cheque (See Note 2)	1,00,000
- Penalty levied by the Goods and Services tax department for delayed filing of returns not allowable as being paid for infraction of law (See Note 3)	5,300
- Depreciation as per books	1,07,250
- 30% of interest paid on loan paid to Mr. Mohit, a resident, without deduction of tax at source not allowable as per section 40(a)(ia)	24,000
	52,99,050
Less: Depreciation allowable as per Income-tax Act, 1961	65,000



Depreciation on building [₹ 20 lakhs x 10%]	2,00,000	2,65,000
Profits and gains from business or profession		50,34,050
Income from Other Sources		
Interest on income-tax refund		4,570
Gross Total Income		50,38,620
Less: Deduction under section 80GGC [Contribution to Political Party] [Not allowable]		Nil
Total Income		50,38,620

Notes –

- (1) The amount of ₹ 2,500 paid for advertisement in the souvenir issued by a political party attracts disallowance under section 37(2B).
- (2) Payment to political party is not an expenditure incurred wholly and exclusively for business purpose and hence not allowance under section 37(1). Since the amount has been debited to profit and loss account, the same has to be added back for computing business income.
- (3) The interest of ₹ 12,750 paid on the delayed deposit of goods and services tax is for breach of contract and hence, is allowable as deduction. However, penalty of ₹ 5,300 for delay in filing of returns is not allowable since it is for breach of law.
- (4) Deduction under section 35AD is not allowable as per section 115BAC(2). However, normal depreciation u/s 32 is allowable.

Computation of tax liability as per section 115BAC

Particulars	₹	₹
Tax on total income of ₹ 50,38,620		
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%	<u>10,61,586</u>	
		12,01,586
Add: Surcharge @10% [Since, the total income exceeds ₹ 50 lakhs but does not exceed ₹ 1 crore]		1,20,159
		13,21,745
Less: Marginal relief (See computation below)		83,125
		12,38,620
Add: Health and education cess@4%		<u>49,545</u>
Total tax liability		<u>12,88,165</u>
Total tax liability (Rounded off)		12,88,170

Computation of marginal relief

Particulars	₹
(A) Tax payable including surcharge on total income of ₹ 50,38,620 as per section 115BAC	13,21,745
(B) Tax payable on total income of ₹ 50 lakhs as per section 115BAC	<u>12,00,000</u>
(C) Excess tax payable (A-B)	<u>1,21,745</u>
(D) Marginal relief (₹ 1,21,745 – ₹ 38,620, being the amount of income in excess of ₹ 50 lakhs)	83,125

Note - An individual paying tax u/s 115BAC is not liable to alternate minimum tax u/s 115JC.

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

Particulars	₹	₹
Gross Total Income as per default tax regime under section 115BAC		50,38,620
Add: Depreciation on building [₹ 20 lakhs x 10%]		<u>2,00,000</u>
		52,38,620
Less: Warehousing charges		<u>22,50,000</u>
Gross Total Income excluding profits and gains from specified business under section 35AD		29,88,620
Profits and gains from specified business under section 35AD		
Warehousing charges	22,50,000	
Less: Deduction under section 35AD (See Note 1)	<u>20,00,000</u>	<u>2,50,000</u>
Gross Total Income as per normal provisions of the Act		32,38,620
Less: Deduction under section 80GGC for contribution to Political Party (See Note 2)		1,00,000
Total Income as per regular provisions of the Act		31,38,620

Notes –

- (1) Deduction @100% of the capital expenditure is available under section 35AD in respect of specified business of setting up and operating a warehouse facility for storage of agricultural produce which commences operation on or after 1.04.2009.
- (2) Payment to political party qualifies for deduction under section 80GGC since the payment is made by way of a cheque.

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

Particulars	₹	₹
Tax on total income of ₹ 31,38,620		
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 ₹ 5,00,000]	1,00,000	
₹ 10,00,001- ₹ 31,38,620 [@30% of ₹ 21,38,620]	<u>6,41,586</u>	7,54,086
Add: Health and education cess@4%		<u>30,163</u>
Total tax liability		7,84,249
Total tax liability (rounded off)		7,84,250

Computation of adjusted total income and AMT of Mr. Amit for A.Y. 2024-25

Particulars	₹	₹
Total Income (computed above as per regular provisions of income tax)		31,38,620
Add: Deduction under section 35AD	20,00,000	
Less: Depreciation under section 32 on building [₹ 20 lakhs x 10%]	<u>(2,00,000)</u>	18,00,000
Adjusted Total Income		49,38,620
Alternative Minimum Tax@18.5%		9,13,645
Add: Health and education cess@4%		<u>36,546</u>
Total tax liability		9,50,191
Total tax liability (rounded off)		9,50,190

Since the regular income-tax payable is less than the alternate minimum tax payable, the adjusted total income shall be deemed to be the total income and tax is leviable @18.5% thereof plus cess@4%. Therefore, liability as per section 115JC is ₹ 9,50,190.

Since the tax liability of Mr. Amit under section 115JC is lower than the tax liability as computed u/s 115BAC, it would be beneficial for him to opt out of the default tax regime under section 115BAC for A.Y. 2025-26 and pays tax under regular provisions of the Act. Moreover, benefit of alternate minimum tax credit is also available to the extent of tax paid in excess of regular tax.

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

Particulars	₹
Tax liability under section 115JC	9,50,190
Less: Tax liability under the regular provisions of the Income-tax Act, 1961	7,84,250
	1,65,940

Question 16

Dr. Rohan, 82 years old resident surgeon, having his Nursing Home in Mumbai, gives the following particulars for the year ended on 31.03.2025.

Receipts	₹	Payments	₹
Opening Balance b/d	1,25,000	Salary to Staff	3,50,000
Fees from visits to other hospitals (net)	5,85,000	Taxes & Insurance	26,000
Fees for March, 2024 received in April, 2024		Entertainment Expenses	1,10,000
IPD 40,000	85,000	Purchase of Television	48,000
OPD 45,000			
Dividend from shares (net)	18,900	Gift to daughter-in law	60,000
Fees received during the year	10,25,000	Interest on loan for repairs to property	65,000
Gifts received from relatives of patients	45,000	Personal medical expenses	70,000
Honorarium for painting services in Jai Hind Art School (net)	22,500	Deposits in PPF A/c	55,000
Income-tax Refund (Including interest ₹ 1,500)	12,100	Nursing Home expenses	3,75,000
		Prof. fees paid for consulting services	1,20,000
		Purchase of furniture at home	1,35,000
		Personal Expenses	3,00,000
		Balance c/f	2,04,500
	19,18,500		19,18,500

Other Information:

- He keeps his books of accounts on cash basis and has not opted for the provisions of section 44ADA.
- Salary includes ₹ 60,000 paid to his sister who is a qualified nurse paid in cash.
- Entertainment expenses include ₹ 25,000 for dinner to doctors in a five star hotel.
- Interest on loan for repairs to property includes ₹ 40,000 for his residential property.
- His daughter in law earned income of ₹ 10,000 from the amount received as gift.
- Fixed Assets values as on 01.04.2024 are as under :

Nursing Home Equipment's ₹ 2,20,000, Medical Books (incl. annual publications ₹ 10,000) ₹ 35,000, Laptop ₹ 40,000.

- Television purchased for nursing home purpose on 21.09.2024 is put to use on 03.10.2024.
- He has donated ₹ 10,000 towards PM CARES Fund on 15.08.2024.

You are required to

- Compute the total income and tax payable by him for AY 2025 -26 as per the regular provisions of the Income-tax Act, 1961. Assume that he has not opted for section 115BAC.
- What will be his total income and tax payable, if he opts for the provisions of section 44ADA? Will it be more beneficial for him to adopt 44ADA? (PYP 14 Marks, Nov'22)

**Answer 16****I. Computation of total income and tax payable by Dr. Rohan for A.Y. 2025-26 as per the regular provisions of the Act**

	Particulars	₹	₹	₹
I	<u>Income from house property</u>			
	Annual value [Assuming residential property self-occupied]		Nil	
	Less: Deduction under section 24(b)			
	Interest on loan for repairs to property, ₹ 40,000, restricted to		<u>30,000</u>	
	Loss from self-occupied property [can be set-off against Profits and gains of business or profession or Income from other sources]			(30,000)
II	<u>Profits and gains from business and profession</u>			
	Gross Receipts			
	Fees from visits to other hospitals [5,85,000/90%]	6,50,000		
	Fees for March 2024 received in April 2024 [Fees for March 2024 is chargeable to tax during P.Y. 2024-25, since Dr. Rohan is following cash system of accounting] [40,000 + 45,000]	85,000		
	Fees received during the year	10,25,000		
	Gifts received from relatives of patients [taxable as business income]	<u>45,000</u>	18,05,000	
	Less: Permissible deductions			
	Salary to staff [Salary paid to his sister who is a qualified nurse in cash disallowed under section 40A(3), since such cash payment exceeds ₹ 10,000] [₹ 3,50,000 – ₹ 60,000]	2,90,000		
	Taxes and insurance	26,000		
	Entertainment expenses, including dinner to doctors [Assuming that the entire sum was incurred wholly and exclusively for business purpose]	1,10,000		
	Interest on loan for repair to property [to the extent relating to business] = ₹ 65,000 – ₹ 40,000, relating to residential property	25,000		
	Nursing home expenses	3,75,000		
	Professional fees paid for consulting services	<u>1,20,000</u>	<u>9,46,000</u>	
			8,59,000	
	Less: Depreciation under section 32 Nursing home equipment's [2,20,000 x 15%] Note – Nursing home equipment would be eligible for depreciation @15%, being the general rate for plant and machinery. The main solution has, accordingly, been worked out applying 15%. However, if such equipment are in the nature of life saving medical equipment, they would be eligible for higher depreciation @40%. If 40% rate is applied, depreciation would be ₹ 88,000	33,000		
	Medical books [35,000 x 40%]	14,000		
	Laptop [40,000 x 40%]	16,000		
	Television [48,000 x 15%, since the television is put to use for 180	<u>7,200</u>	<u>70,200</u>	



	days during the P.Y. 2024-25]			
	<p>Note - Television would be eligible for depreciation @15%. However, television connected to laptop or other medical equipment and used by Doctor may be classified as plant and machinery eligible for depreciation @40%. If 40% rate is applied, depreciation for TV would be ₹ 19,200.</p> <p>Also, it is possible to take a view that Television is furniture and fixtures qualifying for depreciation@10%. If 10% rate is applied, depreciation for TV would be ₹ 4,800.</p>			7,88,800
III	Income from Other Sources			
	Dividend from shares [18,900/90%]		21,000	
	Honorarium for painting services in Jai Hind Art School [22,500/90%]		25,000	
	Honorarium (Alternative without TDS) - ₹ 22,500 Note - In the question, it is mentioned that Dr. Rohan has received Honorarium for painting services in Jai Hind Art School (Net) of ₹ 22,500. Since the threshold limit for deducting tax at source under section 194J is ₹ 30,000, there is no requirement to deduct tax at source on such income. Accordingly, question can be answered without grossing up the amount of honorarium of ₹ 22,500.			
	Interest on income-tax refund		1,500	
	Income earned from gift to daughter in law [Income earned by daughter in law from asset gifted without consideration to her by Dr. Rohan is includible in the hands of Dr. Rohan]		<u>10,000</u>	<u>57,500</u>
	Gross Total Income			8,16,300
	Less: Deduction under Chapter VI-A			
	Deduction under section 80C			
	Deposits in PPF		55,000	
	Deduction under section 80D			
	Medical expenses to the extent of ₹ 50,000 since Dr. Rohan is a senior citizen (assuming he has not taken any medical insurance policy)		50,000	
	Deduction under section 80G			
	Donation towards PM CARES Fund		<u>10,000</u>	<u>1,15,000</u>
	Total Income			<u>7,01,300</u>
	Tax Payable			
	Upto ₹ 5,00,000 [since Dr. Rohan is aged 80 years or above]		Nil	
	₹ 5,00,001 to ₹ 7,01,300 [₹ 2,01,300@20%]		<u>40,260</u>	
				40,260
	Add: HEC@4%			<u>1,610</u>
	Tax liability			41,870
	Less: TDS on fees from visits to other hospitals		65,000	
	TDS on dividend from shares		2,100	
	TDS on honorarium for painting services in Jai Hind art School		<u>2,500</u>	<u>69,600</u>



	Tax Refundable	27,730
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II. **Computation of total income and tax payable by Dr. Rohan for A.Y. 2025-26 if he opts for section 44ADA**

	Particulars	₹	₹
I	Income from house property		
	Loss from self-occupied property		(30,000)
II	Income from business or profession		
	Income from profession [18,05,000 x 50%] [No other expenditure or depreciation is allowed]		9,02,500
III	Income from Other Sources		<u>57,500</u>
	Gross Total Income		9,30,000
	Less: Deduction under Chapter VI-A		<u>1,15,000</u>
	Total Income		8,15,000
	Tax Payable		
	Upto ₹ 5,00,000	Nil	
	₹ 5,00,001 to ₹ 8,15,000 [3,15,000@20%]	<u>63,000</u>	
			63,000
	Less: HEC@4%		<u>2,520</u>
	Tax liability		65,520
	Less: TDS		<u>69,600</u>
	Tax Refundable		<u>4,080</u>
Since tax refundable in case Dr. Rohan opts for the provisions of section 44ADA is lower than the regular provisions of the Act, it would be beneficial for him not to opt for section 44ADA and get his books of account audited and declare income under the regular provisions.			

EXAM INSIGHTS: Gift received from relatives of patients upto ₹ 50,000 shown as exempt though only gifts from own relatives would be eligible for exemption under section 56(2)(x) and not from relatives of patients.

- Interest on loan for repair of property not restricted to ₹ 30,000. It was wrongly deducted in full i.e., ₹ 40,000 while computing income under the head "House Property". While computing tax payable/tax refundable, amount of TDS was not deducted from the amount of tax liability. Consequently, computation of total income and tax payable were incorrect.

Question 17

LDR

Mr. Samar, a resident individual, aged 43 years, provides professional services in the field of interior decoration. His Income & Expenditure A/c for the year ended 31st March, 2025 is as under:

Expenditure	₹	Income	₹
To Employees' Remuneration & Benefits	13,66,000	By Consultancy Charges	58,80,000
To Office & Administrative Exp.	3,14,000	By Interest on Public Provident Fund (PPF) Account	60,000
To General Expenses	75,000	By Interest on Savings Bank Account	20,000
To Electricity Expenses	65,000	By Interest on National Savings Certificates VIII Issue (for 3rd year)	21,000
To Medical Expenses	80,000		
To Purchase of Furniture	48,000		



To Depreciation	90,000		
To Excess of income over exp.	39,43,000		
	59,81,000		59,81,000

The following other information relates to financial year 2024-25:

- (i) The expenses on Employees' Remuneration & Benefits includes:
 - (a) Family Planning expenditure of ₹ 20,000 incurred for the employees which was revenue in nature. The same was paid through account payee cheque.
 - (b) Payment of salary of ₹ 25,000 per month to sister-in-law of Mr. Samar, who was in-charge of the Accounts & Receivables department. However, in comparison to similar work profile, the reasonable salary at market rates is ₹ 20,000 per month.
- (ii) Amount received by Mr. Samar as Employees' Contribution to EPF for the month of February, 2025 - ₹ 10,000 was deposited after the due date under the relevant Act relating to EPF.
- (iii) Medical Expenses of ₹ 80,000 as appearing in the Income & Expenditure A/c was expensed for the treatment of father of Mr. Samar. His father was 72 years old and was not covered by any health insurance policy. The said payment of ₹ 80,000 was made through account payee cheque.
- (iv) General expenses as appearing in the Income & Expenditure A/c, includes a sum of ₹ 25,000 paid to Ms. Anjaleen on 5th January, 2025 as commission for securing work from new clients. This payment was made to her without deduction of tax at source.
- (v) Written down value of the depreciable assets as on 1st April, 2023 were as follows:
Professional Books ₹ 90,000, Computers ₹ 35,000
- (vi) The new Furniture as appearing in the Income & Expenditure A/c was purchased on 31st August, 2024 and was put to use on the same day. The payment was made as under:
 - ₹ 18,000 paid in cash at the time of purchase of new furniture on 31.08.2024.
 - ₹ 19,000 paid by account payee cheque on 05.09.2024 as balance cost of new furniture and
 - ₹ 11,000 paid in cash on 31.08.2024 to the transporter as freight charges for the new furniture.
- (vii) Mr. Samar purchased a car on 02.04.2023 for ₹ 3,35,000 for personal use. However, on 30.04.2024 he brought the said car for use in his profession. The fair market value of the car as on 30.04.2024 was ₹ 2,50,000.
- (viii) Mr. Samar made a contribution of ₹ 1,00,000 in his PPF A/c on 31.01.2025.
- (ix) The Gross Professional Receipts of Mr. Samar for P.Y. 2023-24 was ₹ 52,00,000.
Compute the total income and tax liability of Mr. Samar for A.Y. 2025-26, assuming that he has not opted for payment of tax under section 115BAC.
Ignore provisions under section 14A relating to disallowance of expenditure incurred in relation to income not includible in total income. (MTP 14 Marks, Mar'23) (Same concept different figures PYP 14 Marks, Jul'21)

Answer 17

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

	Particulars	₹	₹	₹
I	Income from business or profession			
	Excess of income over expenditure		39,43,000	
	Add: Items debited but not allowable while computing business income			
	- Family planning expenditure incurred for employees [not allowable as deduction since expenditure on family planning for employees is allowed only to a company assessee / not allowed in case of individuals. Since the amount is debited to Income and Expenditure Account, the same has to be added back for computing business income]	20,000		



- Salary payment to sister-in-law in excess of market rate [Any expenditure incurred for which payment is made to a relative, to the extent it is considered unreasonable is disallowed. However, sister-in-law is not included in the definition of "relative" ¹ for the purpose of section 40A(2). Therefore, no adjustment is required for excess salary paid to Mr. Samar's sister-in-law]	Nil		
- Medical expenses for the treatment of father [Not allowed as deduction since it is a personal expenditure / not an expenditure incurred for the purpose of business of Mr. Samar. Since the amount is debited to Income and Expenditure Account, the same has to be added back for computing business income]	80,000		
- Commission to Ms. Anjaleen without deduction of tax at source [Mr. Samar would be liable to deduct tax at source on commission since his gross receipts from profession exceeded ₹ 50 lakhs during F.Y.2023-24. Since commission has been paid without deduction of tax at source, hence 30% of ₹ 25,000, being commission paid without deducting tax at source, would be disallowed under section 40(a)(ia) while computing the business income of A.Y.2025-26]	7,500		
- Depreciation as per books of account	90,000		
- Purchase of Furniture [not allowable, since it is a capital expenditure]	48,000	2,45,500	
		41,88,500	
<i>Add:</i> Employees' Contribution to EPF [Sum received by the assessee from his employees as contribution to EPF is income of the employer. Since the amount is not credited to Income and Expenditure Account, the same has to be added for computing business income. Deduction in respect of such sum is allowed only if such amount is credited to the employee's account on or before due date under the relevant Act. Since, the employees contribution to EPF for February 2024 is deposited after the due date under the relevant Act, no deduction would be available]		10,000	
<i>Less:</i> Depreciation as per Income-tax Rules		41,98,500	
- On Professional Books [₹ 90,000 x 40%]	36,000		
- On Computers [₹ 35,000 x 40%]	14,000		
- On Furniture [₹ 19,000 x 10%, since it has been put to use for more than 180 days during the year] [Any expenditure for acquisition of any asset in respect of which payment or aggregate of payment made to a person, otherwise than by an A/c payee cheque/ bank draft or use of ECS or through prescribed electronic mode, exceeds ₹ 10,000 in a day, such expenditure would not form part of actual cost of such asset. Hence, ₹ 18,000 and ₹ 11,000 paid on 31.8.2024 in cash would not be included in the actual cost of furniture]	1,900		
- On Car [₹ 3,35,000 x 15%] [Actual cost of car would be the purchase price of the car to Mr. Samar, i.e., ₹ 3,35,000]	50,250	1,02,150	
		40,96,350	
Less: Items of income credited but not taxable or taxable under any other head of income			
- Interest on Public Provident Fund [Exempt]	60,000		



	- Interest on savings bank account [Taxable under the head "Income from other sources"]	20,000		
	- Interest on National Savings Certificates VIII Issue (3 rd Year) [Taxable under the head "Income from other sources"]	21,000	1,01,000	
				39,95,350
II	Income from Other Sources			
	Interest on savings bank account		20,000	
	Interest on National Savings Certificates VIII Issue (3 rd Year)		21,000	41,000
	Gross Total Income			40,36,350
	Less: Deduction under Chapter VI-A			
	Deduction under section 80C			
	Contribution to PPF	1,00,000		
	Interest on NSC (3 rd Year) (Reinvested)	<u>21,000</u>	1,21,000	
	Deduction under section 80D			
	Medical expenses for the treatment of father [Since Mr. Samar's father is a senior citizen and not covered by any health insurance policy, payment for medical expenditure by a mode other than cash would be allowed as deduction to the extent of ₹ 50,000]		50,000	
	Deduction under section 80TTA			
	Interest on savings bank account to the extent of ₹ 10,000		10,000	1,81,000
	Total Income			38,55,350

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

Particulars	₹	₹
Tax on total income of ₹ 38,55,350		
Upto ₹ 2,50,000		Nil
₹ 2,50,001 – ₹ 5,00,000[@5% of ₹ 2.50 lakh]	12,500	
₹ 5,00,001 – ₹ 10,00,000[@20% of ₹ 5 lakh]	1,00,000	
₹ 10,00,001- ₹ 38,55,350 [@30% of ₹ 28,55,350]	<u>8,56,605</u>	
		9,69,105
Add: Health and education cess@4%		<u>38,764</u>
Tax liability		<u>10,07,869</u>
Tax liability (rounded off)		10,07,870

¹As per section 2(41)

EXAM INSIGHTS: The following common errors were noticed:

- Family planning expenses were wrongly allowed as deduction while computing business income of Mr. Ashish, being an individual though the same is allowable only to company assesses.
- Disallowance u/s 40A(2) wrongly made in respect of salary paid to sister-in-law, without considering that she is not a relative for this purpose.
- 30% disallowance of expenditure for non-deduction of tax at source from commission payment was not made.
- Exemption not provided for interest on PPF. Consequently, total income and tax liability were also not correctly computed.

Question 18

(Includes concepts of Capital Gains)

Mr. Piyush runs a sole proprietorship firm and owns four machines which was put in use for business in March, 2023. The depreciation on these machines is charged @ 15%. The written down value of these



machines as on 1st April, 2024 was ₹ 7,70,000. Two of the old machines were sold on 15th July, 2024 for ₹ 10,00,000. A second hand plant was bought for ₹6,10,000 on 30th December, 2024.

Further, Mr. Piyush has furnished the following particulars relating topayments made and expenditure incurred towards scientific research for the year ended 31.3.2025:

Sl. No.	Particulars	₹ (in lakhs)
(i)	Payment made to UV University, an approved University	15
(ii)	Payment made to Satyawati College	17

Compute the following for Assessment Year 2025-26

- Claim of depreciation
- Capital gains liable to tax
- If Piyush had sold the two machines in July, 2024 for ₹ 15,00,000, explain, will there be any difference in your above workings?
- Deduction available under section 35 if he has shifted out of the default tax regime (MTP 6 Marks Nov'24) (Similar concepts fewer adjustments MTP 4 Marks, Apr'21 & Oct '23)

Answer 18

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

Particulars	₹
W.D.V. of the block as on 1.4.2024	7,70,000
Add: Purchase of second hand plant during the year [in December, 2024]	<u>6,10,000</u>
	13,80,000
Less: Sale consideration of old machinery during the year [in July, 2024]	<u>10,00,000</u>
W.D.V of the block as on 31.03.2025	<u>3,80,000</u>
Depreciation @ 15% but restricted to 50% thereon. ₹3,80,000 X 7.5%	<u>28,500</u>
[Since the value of the block as on 31.3.2025 represents part of actual cost of second hand plant purchased in December, 2024, which has been put to use for less than 180 days, depreciation is restricted to 50% of the prescribed percentage of 15% i.e. depreciation is restricted to 7½%. Therefore, the depreciation allowable for the year is ₹28,500 being 7½% of ₹3,80,000]	

- In the given case, no capital gains would arise, since the block of asset continues to exist, and some of the assets are sold for a price which is lesser than the written down value of the block as increased by the actual cost of asset purchased during the year
- If the two machines are sold in July, 2024 for ₹ 15,00,000, then short term capital gains would arise, since the sale consideration is more than the aggregate of the written down value of the block at the beginning of the year and the additions made during the year.

Particulars	₹	₹
Sale consideration		15,00,000
Less: W.D.V. of the machines as on 1.4.2024	7,70,000	
Purchase of second plant during the year	<u>6,10,000</u>	
		<u>13,80,000</u>
Short term capital gains		1,20,000

(iv) Computation of deduction allowable under section 35

Particulars	Amount (₹ in lakhs)	Section	% of weighted deduction	Amount of deduction (₹ in lakhs)
Payment for scientific research				
UV University, an approved University	15	35(1)(ii)	100%	15
Satyawati College [Since it is not mentioned as an approved University]	17	-	NIL	NIL



MULTIPLE CHOICE QUESTIONS (MCQS)

1. K is a working partner in a firm on behalf of his HUF and the HUF has contributed ₹3,00,000 as its capital contribution. Apart from this, K has given a loan of ₹ 50,000 to the firm in his individual capacity. The firm pays interest as per market rate of 15% per annum on capital as well as loan. Compute the amount of interest that shall be allowed to the firm while calculating its business income assuming that the interest is authorized by the partnership deed. (MTP 2 Marks, Nov'21)
- (a) ₹ 42,000
 - (b) ₹ 51,000
 - (c) ₹ 52,500
 - (d) ₹ 43,500

Ans: (d)

2. Mrs. Bhawna, wife of Mr. Sonu, is a partner in a firm. Her capital contribution of ₹ 10 lakhs to the firm as on 31.3.2024 included ₹ 6 lakhs contributed out of gift received from Sonu. On 1.4.2024, she further invested ₹ 2 lakh out of gift received from Sonu. The firm paid interest on capital of ₹ 1,20,000 and share of profit of ₹ 1,00,000 during the F.Y.2024-25. The entire interest has been allowed as deduction in the hands of the firm. Which of the following statements is correct? (MTP 2 Marks, Mar'22)
- (a) Share of profit is exempt but interest on capital is taxable in the hands of Mrs. Bhawna
 - (b) Share of profit is exempt but interest of ₹ 80,000 is includible in the income of Mr. Sonu and interest of ₹ 40,000 is includible in the income of Mrs. Bhawna
 - (c) Share of profit is exempt but interest of ₹ 72,000 is includible in the income of Mr. Sonu and interest of ₹ 48,000 is includible in the income of Mrs. Bhawna
 - (d) Share of profit to the extent of Rs 60,000 and interest on capital to the extent of ₹ 72,000 is includible in the hands of Mr. Sonu

Ans: (b)

3. Mr. Wiwitsu, a proprietor, commenced operation of the business of a new three-star hotel in Mumbai on 1.7.2024. He had made a total investment of ₹ 7.58 crores till 30.6.2024. Out of total investment of ₹ 7.58 crores, ₹ 1.58 crores was used for purchase of land in P.Y.2023-24. ₹ 4.70 crores was used for constructing Hotel and balance of ₹ 1.30 used for purchasing the furniture in P.Y. 2024-25. He wants to avail the benefit of deduction under section 35AD as he satisfied with all the conditions prescribed u/s 35AD. His profit and gains from the business for P.Y. 2024-25 is ₹ 50 lakhs before claiming deduction u/s 35AD. He wants to file his income-tax return on 12.12.2025. How much deduction Mr. Wiwitsu can claim for A.Y. 2025-26 and the losses which he can carry forward to A.Y. 2026-27? (MTP 2 Marks, Apr'22)
- (a) He can claim the deduction of ₹ 7.58 crores from his business income but he would not be able to carry forward the business loss of ₹ 7.08 crores
 - (b) He can claim the deduction of ₹ 6.00 crores from his business income and can carry forward the business loss of ₹ 5.50
 - (c) He can claim the deduction of ₹ 6.00 crores from his business income but cannot carry forward the business loss of ₹ 5.50
 - (d) He can claim the deduction of ₹7.58 crores from his business income and can carry forward the business loss of ₹ 7.08 crores

Ans: (c)

4. Mr. A engaged in the retail trading of toys, had acquired a motor vehicle - A for ₹ 4 lakhs on 20.08.2022, put to use on 04.10.2023 and another motor vehicle - B for ₹ 3 lakhs on 19.02.2023, put to use on 03.09.2023. On 01.04.2023, Mr. A took a vehicle loan of ₹ 5 lakhs at 10% p.a. and acquired the motor vehicle - C for ₹ 5 lakhs on 31.05.2023, put to use on 30.06.2023. On 30.07.2024 the same vehicle - C was sold for ₹ 5.50 lakhs and reacquired it back on 28.08.2024 for ₹ 6 lakhs. Assuming the above mentioned assets are the only assets in the block of assets for Mr. A, what would be its total depreciation claim under section 32 for P.Y. 2024-25? (RTP May'23)
- (a) ₹ 1,66,594
 - (b) ₹ 1,62,094
 - (c) ₹ 1,37,438



(d) ₹ 1,60,500

Ans: (c)

5. Mr. C aged 35 years is a working partner in M/s BCD, a partnership firm, with equal profit sharing ratio. During the P.Y. 2024-25, the firm has paid remuneration to Mr. B, Mr. C and Mr. D, being the working partners of the firm, of ₹ 2,00,000 each. The firm has paid interest on capital of ₹ 1,20,000 in total to all the three partners and the same is within the prescribed limit of 12%. The firm had a loss of ₹ 1,12,000 after debiting remuneration and interest on capital.

Note – Remuneration and interest on capital is authorized by the partnership deed

You, being the CA of Mr. C, are in the process of computing his total income. What would be his taxable remuneration from the firm? (MTP 2 Marks, Apr'21, Mar'23)

- (a) ₹ 2,00,000
 (b) ₹ 1,51,600
 (c) ₹ 1,46,400
 (d) ₹ 1,50,000

Ans: (c)

6. M/s ABC, an eligible assessee, following mercantile system of accounting, carrying on eligible business under section 44AD provides the following details:

- ◆ Total turnover for the financial year 2024-25 is ₹ 130 lakh
- ◆ Out of the above:
 - ₹ 25 lakh received by A/c payee cheque during the financial year 2024-25;
 - ₹ 50 lakh received by cash during the financial year 2024-25;
 - ₹ 25 lakh received by A/c payee bank draft before the due date of filing of return;
 - ₹ 30 lakh not received till due date of filing of return.

What shall be the amount of deemed profits of M/s ABC under section 44AD(1) for A.Y. 2025-26? (MTP 2 Marks, Apr'23, RTP May'19)

- (a) ₹ 10.4 lakh
 (b) ₹ 7.0 lakh
 (c) ₹ 5.5 lakh
 (d) ₹ 9.4 lakh

Ans: (d)

7. Mr. Anil started business of manufacturing tables in February 2025. He follows mercantile system of accounting. He purchased wood from Mr. A, Mr. B and Mr. C. The details of purchases and payment made are as under: (RTP May'24)

Buyer	Date of purchase	Purchase amount (₹)	Payment due as per written agreement, if any	Date of payment
Mr. A, a micro enterprise	15.02.2025	5 lakhs	Within 30 days from the date of purchase	29.03.2025
Mr. B, a small enterprise	17.03.2025	7 lakhs	No written agreement	15.04.2025
Mr. A, a medium enterprise	25.03.2025	8 lakhs	Within 40 days from the date of purchase	30.11.2025

How much deduction would be available to Mr. Anil in A.Y. 2024-25 in respect of purchases made during the P.Y. 2024-25 while computing business income?

- (a) Nil
 (b) ₹ 5 lakhs
 (c) ₹ 13 lakhs
 (d) ₹ 12 lakhs

Ans: (c)

CHAPTER 3.4: CAPITAL GAINS

CONCEPTS OF THIS CHAPTER

- Scope of income chargeable under capital gains
- Assets classified as “capital assets” for tax purposes
- Meaning of short-term vs long-term capital assets
- Computing holding period to determine asset type
- Transactions considered as transfer for capital gains
- Transactions not regarded as transfer
- Computing capital gains from asset transfer
- Determining cost of acquisition and indexed cost for long-term assets
- Capital gains on depreciable assets
- Capital gains on market-linked debentures and specified securities
- Capital gains on slump sale
- Exemption on investment of capital gains/net consideration
- Calculating capital gains after exemptions
- Concessional tax treatment for short-term/long-term gains on listed shares/equity funds
- Tax liability on short-term/long-term capital gains applying special tax rates



LDR Questions

- Q 13
- Q 17
- Q 21
- Q 22

QUICK REVIEW OF IMPORTANT CONCEPTS

Short-term capital asset/ long-term capital asset

Capital Asset	STCG, if held for	LTCG, if held for
In case transfer takes place before 23.7.2024		
<ul style="list-style-type: none"> • Security (other than unit) listed in a recognize stock exchange • Unit of equity-oriented fund/unit of UTI • Zero coupon bond 	≤ 12 Months immediately preceding the date of its transfer	> 12 Months immediately preceding the date of its transfer
<ul style="list-style-type: none"> • Unlisted shares 	≤ 24 Months immediately preceding the date of its transfer	> 24 Months immediately preceding the date of its transfer
<ul style="list-style-type: none"> • Unlisted securities other than shares • Other capital assets 	≤ 36 Months immediately preceding the date of its transfer	> 36 Months immediately preceding the date of its transfer
In case transfer takes place on or after 23.7.2024		
<ul style="list-style-type: none"> • Security listed in a recognize stock exchange • Unity of equity-oriented fund/unit of UTI • Zero Coupon bond 	≤ 12 Months immediately preceding the date of its transfer	> 12 Months immediately preceding the date of its transfer
<ul style="list-style-type: none"> • Other capital assets 	≤ 24 Months immediately preceding the date of its transfer	> 24 Months immediately preceding the date of its transfer

Transactions not regarded as transfer [Section 47]:

- distribution of capital total or partial partition of a HUF



- transfer of capital asset by an individual or HUF under a gift or will or an irrevocable trust (by any person up-to A.Y. 2024-25)
- holding company to its 100% subsidiary Indian company or by a subsidiary company to its 100% holding Indian company
- Issue of shares by the resulting company, in a scheme of demerger
- By a Shareholder in a scheme of amalgamation
- of conversion of bonds, debentures, debenture stock, deposit certificates of a company, into shares or debentures of that company.
- Conversion of preference share of a company into equity shares
- Transaction of reverse mortgage

Capital Gains: Special Provisions

50	Any Income From transfer of depreciable assets is deemed to be capital gains arising from transfer of short – term capital assets, irrespective of the period of holding	
50B	Net worth is deemed to be the cost of acquisition and the cost of improvement – ‘Net worth’ shall be aggregate value of total assets minus value of liabilities of such undertaking as per books of account. Fair market value is deemed to be the full value of consideration Fair market value (FMV) of capital assets would be the higher of - (i) FMV 1 , being the fair market value of capital assets transferred by way of slump sale (ii) FMV 2 , being the fair market value of the consideration received or accruing as a result of transfer by way of slump sale Capital gains = Fair market value – Net worth	
50C	1. Stamp duty value > actual consideration If Stamp duty value > 110% of actual consideration If Stamp duty value ≤ 110% of actual consideration 2. Actual consideration > stamp Duty value 3. Value ascertained by valuation officer > stamp duty value 4. Value ascertained by valuation officer < stamp duty value	Stamp Duty Value Actual sale consideration Actual sale consideration Stamp Duty Value Value ascertained by valuation officer
51	Advance money received and forfeited up-to 31.3.2014	
	the advance money forfeited by the assessee has to be reduced from the cost of acquisition	
	Advance money received and forfeited on or after 1.4.2014	
	Therefore, advance money received and forfeited on or after 1.4.2014 should not be deducted from the cost for determining the indexed cost of acquisition while computing capital gains arising on transfer of the asset.	

Cost of Acquisition [Section 55]

1	Good will - Self-generated	NIL
	- Acquired from previous owner	Purchase price
2	Bonus shares If bonus shares are allotted before 1.4.2001 If bonus shares are allotted on or after 1.4.2001 Bonus shares allotted before 1.2.2018, on which STT has been paid at the time of transfer	FMV on 1.4.2001 Nil The higher of – Actual cost of acquisition Nil, on or after 1.4.2001 Lower of- (a) FMV as on 31.1.2018 and (b) Actual sale consideration
3	Rights Shares Original shares Rights shares subscribed for by the assessee Right entitlement	Amount actually paid for acquiring the original shares Amount actually paid for acquiring the rights shares Nil
4	Long term capital assets equity shares unit of equity oriented fund acquired before 1st February, 2018	Cost of acquisition shall be the higher of - (i) cost of acquisition of such



		(ii) lower of <ul style="list-style-type: none"> - the FMV of such asset on 31.1.2018 - the full value of consideration recd or accruing as a result of the transfer of the capital asset.
5	Any other capital asset Capital asset became the property of the assessee before 1.4.2001	Cost of the asset to the assessee, or FMV as on 1.4.2001, at the option of the assessee. However, in case of capital asset being land or building, FMV as on 1.4.2001 shall not exceed stamp duty value as on 1.4.2001.

Exemption of Capital Gains [Sections 54 to 54F]

S. No.	Particulars	Section 54	Section 54B	Section 54D	Section 54EC	Section 54F
1	Eligible Assessee	Individual/ HUF	Individual/ HUF	Any assessee	Any assessee	Individual/ HUF
2	Asset transferred	Residential House (LTCA)	Urban Agricultural Land	Land & building forming part of an industrial undertaking	Land or building or both (LTCA)	Any LTCA other than Residential House.
3	Other Conditions	Income from such house should be chargeable under the head "Income from house property"	Land used for agricultural purposes by assessee or his parents or HUF for 2 years immediately preceding the date of transfer	Land & building have been used for business of undertaking for at least 2 years immediately preceding the date of transfer. The transfer by way of compulsory acquisition of the industrial undertaking	-	Assessee should not own more than one residential house on the date of transfer. He should not purchase within 2 years or construct within 3 years after the date of transfer, another residential house.
4	Qualifying asset i.e., Asset in which capital gains has to be invested	One Residential House/Two residential houses in India, at the option of the assessee, where capital gains does not exceed ₹ 2 crore	Land for being used for agricultural purpose (Urban/ Rural)	Land or building or right in land or building	Bonds of NHAI or RECL or any other bond notified by C.G. (Redeemable after 5 years)	One Residential House situated in India
5	Time limit for purchase/ construction	Purchase within 1 year before or 2 years after the date of transfer (or) construct within 3 years after the date of transfer	Purchase within a period of 2 years after the date of transfer	Purchase/ construct within 3 years after the date of transfer, for shifting or re-establishing the existing undertaking or setting up a new industrial undertaking.	Purchase within a period of 6 months after the date of transfer	Purchase within 1 year before or 2 years after the date of transfer (or) Construct within 3 years after the date of transfer



6	Amount of Exemption	Cost of new Residential House or two houses, as the case may be or Capital Gain, whichever is lower, is exempt. 10 Cr limit on exemption	Cost of new Agricultural Land or Capital Gain, whichever is lower, is exempt	Cost of new asset or Capital Gain, whichever is lower.	Capital Gain or amount invested in specified bonds, whichever is lower. Maximum Investment is ₹ 50 lakhs.	Cost of new Residential House \geq Net sale consideration of original asset, entire Capital gain is exempt. 10 Cr limit on exemption
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Section	Income	Rate of Tax
112	(i) Long term capital gains (a) From transfer of capital asset which takes place before 23.7.2024 (b) From transfer of capital asset which takes place on or after 23.7.2024 - From transfer of any land or building or both by an individual or a HUF, being a resident acquired before 23.7.2024 - From transfer of other capital asset	20% with indexation Lower of 20% with indexation or 12.5% without indexation 12.5% without indexation
	(ii) Long-term capital gains arising from transfer of unlisted securities or share of company in which public are not substantially interested by non-resident assesses - If transfer takes place before 23.7.2024 - If transfer takes place on or after 23.7.2024	10% without indexation 12.5% without indexation
112A	Long term capital gains on transfer of – • Equity share in a company • Unit of an equity oriented fund • Unit of business trust Condition for availing the benefit of this concessional rate is that securities transaction tax (STT) should have been paid	10% on LTCG > ₹ 1.25 lakhs if transfer takes place before 23.7.2024 12.5% on LTCG > ₹ 1.25 lakhs if transfer takes place on or after 23.7.2024
111A	Short-term capital gains on transfer of – • Equity shares in a company • Unit of an equity oriented fund • Unit of business trust conditions for availing the benefit of this concessional rate are – (i) the transaction of the transaction of sale of such equity share or unit should be entered into on or after 1.10.2004; and (ii) such transaction should be chargeable STT.	15% if transfer takes place before 23.7.2024 20% if transfer takes place on or after 23.7.2024

Questions & Answers

Question 1

Aggarwal & Sons, HUF purchased a house property in the year 1950 for ₹50,000. On 31.10.2024, the HUF was totally partitioned and the aforesaid house property was given to Mr. Subhash Aggarwal, a member of the family. Fair Market value of the house as on 31.10.2024 was ₹21,00,000. FMV of the house as on 1.4.2001 was ₹3,50,000. What will be the tax implications in the hands of Mr. Subhash Aggarwal and the HUF? (MTP 3 Marks, Oct'21)

Answer 1

Tax implications in the hands of HUF

As per section 47, any distribution of capital assets on the total or partial partition of a HUF would not be regarded as transfer for the purpose of capital gains tax.

In this case, Aggarwal & Sons, HUF transferred the asset to Mr. Subhash Aggarwal, a member of HUF on total partition of the HUF. Hence, the transaction would not be regarded as transfer.



Tax implications in the hands of Mr. Subhash Aggarwal

If an immovable property is received by any person without consideration, the stamp duty value of such property would be taxed as the income of the recipient under section 56(2)(x), if it exceeds ₹50,000. However, it would not be taxable as income if the transfer is by way of a transfer, inter alia, on total or partial partition of a HUF.

In the give case, since Mr. Subhash Aggarwal received the house property on total partition of the HUF, it would not be taxable in his hand.

Question 2

(Includes concepts from Income from Other Sources)

Mrs. Neha transferred 100 shares of ABC (P) Ltd. to M/s. XYZ Co. (P) Ltd. on 10.9.2024 for ₹ 3,00,000 when the market price was ₹ 5,00,000. The indexed cost of acquisition of shares for Mrs. Neha was computed at ₹ 4,30,000. The transfer was not subjected to securities transaction tax.

Determine the income chargeable to tax in the hands of Mrs. Neha and M/s. XYZ Co. (P) Ltd. because of the above said transaction. (MTP 2 Marks, Nov'21)

Answer 2

Any movable property received for inadequate consideration by any person is chargeable to tax under section 56(2)(x), if the difference between aggregate Fair Market Value of the property and consideration exceeds ₹ 50,000.

Thus, share received by M/s XYZ (P) Ltd. from Mrs. Neha for inadequate consideration is chargeable to tax under section 56(2)(x) to the extent of ₹ 2,00,000.

As per section 50CA, since, the consideration is less than the fair market value of unquoted shares of ABC (P) Ltd., fair market value of shares of the company would be deemed to be the full value of consideration. It is presumed that the shares of ABC (P) Ltd are unquoted shares.

The full value of consideration (₹ 5,00,000) less the indexed cost of acquisition (₹ 4,30,000) would result in a long term capital gains of ₹ 70,000 in the hands of Mrs. Neha.

Question 3

Aarav converts his plot of land purchased in July, 2004 for ₹ 80,000 converted into stock-in-trade on 31st March, 2024. The fair market value as on 31.3.2024 was ₹ 3,00,000. The stock-in-trade was sold for ₹ 3,25,000 in the month of January, 2025.

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

Cost Inflation Index: 2004-05:113; F.Y. 2023-24: 348; F.Y. 2024-25: 363. (SM)

Answer 3

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

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

Therefore, in this problem, both capital gains and business income would be charged to tax in the A.Y. 2025-26.

Particulars	₹	
Profits & Gains of Business or Profession		
Sale price of stock-in-trade	3,25,000	
Less: Fair market value on the date of conversion	3,00,000	
Capital Gains		25,000
Full value of consideration (Fair market value on the date of conversion)	3,00,000	
Less: Indexed cost of acquisition (₹ 80,000 × 348/113)	2,46,372	
Long-term Capital gain		53,628
Taxable income		78,628



Question 4

Mr. Gyaanchand purchased 1200 shares of "A" limited at ₹ ₹130 per share on 26.02.1979. "A" limited issued him 600 bonus shares on 20.02.2005. The fair market value of these shares at Mumbai Stock Exchange as on 1.04.2001 was ₹900 per share and ₹2,000 per share as on 31.01.2018. On 07.07.2024 Mr. Gyaanchand sold all 1800 shares @ ₹ 2,400 per share at Mumbai Stock Exchange and securities transaction tax was paid. Compute capital gain chargeable to tax in the hands of Mr. Gyaanchand for the A.Y.2025-26. (MTP 4 Marks, Oct'21)

Answer 4

Computation of capital gain of Mr. Gyaanchand for the A.Y.2025-26

Particulars	₹	₹
Capital Gains		
In respect of 600 shares (bonus shares)		
Full value of consideration [600 shares x ₹2,400 per share]	14,40,000	
Less: Cost of acquisition [600 shares x ₹2,000]	<u>12,00,000</u>	2,40,000
Higher of (i) and (ii), below		
(i) Nil, being cost of acquisition		
(ii) ₹2,000 per share, being the lower of FMV as on 31.1.2018 - ₹2,000 per share		
Sale consideration – ₹2,400 per share		
In respect of 1,200 original shares		
Full value of consideration [1,200 shares x ₹2,400]	28,80,000	
Less: Cost of acquisition [1,200 shares x ₹2,000]	<u>24,00,000</u>	<u>4,80,000</u>
Higher of (i) and (ii), below		
(i) ₹900, being original cost of acquisition (₹ 130) or FMV as on 1.4.2001 (₹900), at the option of the assessee		
(ii) ₹2,000 per share, being the lower of		
FMV as on 31.1.2018 - ₹2,000 per share		
Sale consideration – ₹2,400 per share		
Long term capital gain		7,20,000

Question 5

Mr. Raj is carrying on business of manufacture and sale of art-silk cloth. He purchased machinery worth ₹ 4 lacs on 1.5.2021 and insured it with United India Assurance Ltd against fire, flood, earthquake etc., The written down value of the asset as on 01.04.2024 was ₹ 1,87,850. The insurance policy contained a reinstatement clause requiring the insurance company to pay the value of the machinery, as on the date of fire etc., in case of destruction of loss. A fire broke out in August, 2024 causing extensive damage to the machinery of the assessee rendering them totally useless. The assessee company received a sum of ₹ 4 lacs from the insurance company on 15th March, 2025. Examine the issues arising on account on the transactions and their tax treatment. (Cost inflation index for financial year 2020-21 & 2024-25 are 301 and 363 respectively) (MTP 4 Marks, Nov'21)

Answer 5

As per section 45(1A), where any person receives any money or other assets under an insurance from an insurer on account of damage to or destruction of capital asset as a result of, inter alia, accidental fire then, any profits and gains arising from the receipt of such money or other assets, shall be chargeable to income tax under the head "Capital Gains" and shall be deemed to be the income of such person of the previous year in which such money or asset was received.

For the purpose of section 48, the money received or the market value of the asset shall be deemed to be the full value of the consideration accruing as a result of the transfer of such capital asset. Since the asset was



destroyed and the money from the insurance company was received in the previous year, there will be a liability to compute capital gains in respect of the insurance moneys received by the assessee.

Under section 45(1A) any profits and gains arising from receipt of insurance moneys is chargeable under the head "Capital gains". For the purpose of section 48, the moneys received shall be deemed to be the full value of the consideration accruing or arising. Under section 50 the capital gains in respect of depreciable assets had to be computed in the following manner (assuming it was the only asset in the block).

The computation of capital gain and tax implication is given below:

Full value of the consideration	₹ 4,00,000
Less: Written down value as on April 1st, 2024	₹ 1,87,850
Short term capital gains	₹ 2,12,150

Question 6

Examine the taxability of capital gains in the following scenarios for the Assessment Year 2025-26, determine the taxable amount and rate of tax applicable:

- On 20th December, 2024 5,000 shares of AB Ltd., a listed company are sold by Mr. Wiwsu @ 500 per share and STT was paid at the time of sale of shares. These shares were acquired by him on 5th June, 2017 @ ₹ 425 per share by paying STT at the time of purchase. On 31st January, 2018, the shares of AB Ltd. were traded on a recognized stock exchange at the Fair Market Value of ₹ 450 per share.
- Mr. Satish is the owner of a residential house which was purchased on 1st July, 2017 for ₹ 10,50,000. He sold the said house on 14th October, 2024 for ₹ 25,00,000. Valuation as per stamp valuation authorities was ₹ 45,00,000. He invested ₹ 15,00,000 in RECL Bonds on 20th March, 2025.

The Cost Inflation index for-

F.Y.	2017-18	272
F.Y.	2024-25	363

(MTP 2 Marks, Sep'22, PYP 4 Marks July 21)

Answer 6

(i)	Long-term capital gain on transfer of 5,000 shares of AB Ltd. [taxable u/s 112A @12.5% on amount exceeding ₹ 1,25,000]	
	Full value of consideration [5,000 x ₹ 500]	25,00,000
	Less: Cost of acquisition	
	Higher of	
	Cost of acquisition [5,000 x ₹ 425]	21,25,000
	Lower of fair market value per share as on 31.1.2018	22,50,000
	i.e., ₹ 450 per share and sale consideration i.e., ₹ 500 per share [5,000 x ₹ 450]	<u>22,50,000</u>
	Long term capital gain taxable u/s 112A	<u>2,50,000</u>
	Long-term capital gain exceeding ₹ 1.25 lakh i.e., ₹ 1,25,000 would be taxable @12.5%	
(ii)	Sale of residential house [long-term capital asset, since held for more than 24 months]	
a	20% with Indexation Benefits	
	Full value of consideration [stamp duty value, since it exceeds 110% of actual sale consideration]	45,00,000
	Less: Indexed Cost of acquisition (10,50,000 x 363/272)	14,01,287
		30,98,713
	Less: Deduction under section 54EC	15,00,000
	Since ₹ 15,00,000 is invested in RECL bonds on 20th March 2025 i.e., before six months from the date of transfer	
	Long-term capital gain	15,98,713
	Long-term capital gain taxable u/s 112 @ 20%	3,19,743
b	12.5% without Indexation Benefits	
	Full value of consideration [stamp duty value, since it exceeds 110% of actual sale consideration]	45,00,000
	Less: Cost of acquisition (Read Note)	10,50,000



		34,50,000
	Less: Deduction under section 54EC	15,00,000
	Since ₹ 15,00,000 is invested in RECL bonds on 20th March 2025 i.e., before six months from the date of transfer	
	Long-term capital gain	19,50,000
	Long-term capital gain taxable u/s 112 @ 12.5%	2,43,750

Hence 12.5% without Indexation Benefits is more beneficial for the Assessee.

Note:

(i) As transfer is after 23.07.2024, tax rates will be LTCG on equity shares 112A= 12.5%

(ii) When transfer takes place after 23.07.2024 Land or building or both if acquired before 23.7.2024 then the individual can choose between 12.5% without indexation or 20% with indexation benefit, whichever is more beneficial to the assessee.

Question 7

Mr. Aryan, a resident individual aged 58 years, sells (unlisted) shares in a private sector company on May 17, 2024 for ₹ 10,00,000. The shares were bought on 01.08.2012 for a consideration of ₹ 2,00,000.

Mr Aryan paid ₹ 2,000 as brokerage on sale of shares.

Mr. Aryan deposited ₹ 5,00,000 in Capital Gain Account Scheme on 15.06.2025 (Before filing the return of income for the Assessment Year 2025-26).

On April 30, 2026 he withdraws ₹ 4,50,000 and purchases a residential house properly at Delhi on May 1, 2026 for ₹ 4,50,000.

Cost Inflation Index (CII) – F.Y. 2012-13 - 200, F.Y. 2024-25 - 363.

Ascertain –

- The amount of Capital Gain chargeable to tax for the A.Y. 2025-26.
- Tax treatment (with mention of relevant assessment year) of the unutilized amount. (PYP 4 Marks Nov'23)

Answer 7

- Computation of Capital Gains on sale of unlisted shares for A.Y.2025-26**

Particulars	₹
Net Sales Consideration [₹ 10,00,000 – ₹ 2,000]	9,98,000
Less: Indexed cost of acquisition [₹ 2,00,000 x 363/200]	<u>3,63,000</u>
	6,35,000
Less: Exemption u/s 54F	
Deposit in Capital Gains Accounts Scheme on or before the due date of filing return of income would be deemed to be cost of new asset.	
Accordingly, exemption u/s 54F would be ₹ 3,34,168 [₹ 5,00,000 x ₹ 6,35,000 / ₹ 9,98,000]	<u>3,18,136</u>
Capital Gains chargeable to tax	<u>3,16,864</u>

Note: Since the sale is before 23.07.2024 indexation benefit will be allowed.

- Tax treatment of unutilized amount in Capital Gains Accounts Scheme**

The unutilized amount will be chargeable to tax as capital gains on proportionate basis in the previous year in which the 3 years period from the date of transfer expires. In this case, the 3 year period from 17.5.2024 expires on 16.5.2027. Consequently, the proportional capital gains on the unutilized amount will be taxable in the A.Y. 2028- 29, relevant to the P.Y. 2027-28.

The amount of capital gains for A.Y. 2028-29 would be ₹ 30,541 [₹ 3,16,864 – ₹ 2,86,323 (₹ 4,50,000 x ₹ 6,35,000 / ₹ 9,98,000)].

EXAM INSIGHTS: Many examinees failed to compute the amount of exemption under section 54F correctly and the tax treatment of unutilized amount lying in Capital Gain Accounts Scheme.



Question 8

Mr. Mithun purchased 100 equity shares of M/s Good money Co. Ltd. on 01-04-2007 at rate of ₹ 1,000 per share in public issue of the company by paying securities transaction tax. Company allotted bonus shares in the ratio of 1:1 on 01.12.2023. He has also received dividend of ₹ 10 per share on 01.05.2024. He has sold all the shares on 01.10.2024 at the rate of ₹ 4,000 per share through a recognized stock exchange and paid brokerage of 1% and securities transaction tax of 0.02%. Compute his total income and tax liability for A.Y. 2025-26 if Mr. Mithun pays tax under default tax regime, assuming that he is having no income other than given above. Fair market value of shares of M/s Goodmoney Co. Ltd. on 31.1.2018 is ₹ 2,000. (SM)

Answer 8

Computation of total income & tax liability of Mr. Mithun for A.Y. 2025-26

Particulars		₹
Long term capital gains on sale of original shares		
Gross sale consideration (100 x ₹ 4,000)		4,00,000
Less: Brokerage@1%		4,000
Net sale consideration		3,96,000
Less: Cost of acquisition (100 x ₹ 2,000) (Refer Note 1)		2,00,000
Long term capital gains		1,96,000
Short term capital gains on sale of bonus shares		
Gross sale consideration (100 x ₹ 4,000)		4,00,000
Less: Brokerage@1%		4,000
Net sale consideration		3,96,000
Less: Cost of acquisition of bonus shares [Nil as such shares are allotted after 1.04.2001]		NIL
Short term capital gains [Since bonus shares are held for less than 12 months before sale]		3,96,000
Income from other sources		
Dividend received from M/s Goodmoney Co. Ltd. is taxable in the hands of shareholders [200 shares x 10 per share]		2,000
Other income		8,00,000
Total Income		13,94,000
Tax Liability		
Tax on STCG u/s 111A 20% of ₹ 3,96,000		79,200
Tax on LTCG u/s 112A 12.5% of (₹ 1,96,000 - ₹ 1,25,000) since it is transferred on or after 23.7.2024		8,875
Tax on other income of ₹ 8,02,000		
₹ 3,00,000 to ₹ 7,00,000@5%	20,000	
₹ 7,00,000 to ₹ 8,02,000 @10%	10,200	30,200
		1,18,275

Notes:

- Cost of acquisition of such equity shares acquired before 1.2.2018 is higher of
 - Cost of acquisition i.e., ₹ 1,000 per share and
 - lower of Fair market value of such asset i.e., ₹ 2,000 per share and Full value of consideration i.e., ₹ 4,000 per share.
 Therefore, the cost of acquisition of original share is ₹ 2,000 per share.
- Securities transaction tax is not allowable as deduction.



Question 9

Mr. Kalyan has a residential house property which was acquired on 12-08-2005 for ₹ 2,00,000. The property is sold for ₹ 22,00,000 in December 2024. The sub-registrar refused to register the documents for the said value, as according to him, stamp duty value based on State Government guidelines was ₹ 28,00,000. Mr. Kalyan preferred an appeal to the revenue divisional officer who fixed the value of the house ₹ 25,00,000. He acquired another residential house on 31-03-2025 for ₹ 17,00,000 for self-occupation. On 01-03-2026, he sold such new residential house for ₹ 30,00,000.

Compute his capital gain for the A.Y. 2025-26 and 2026-27. (Cost Inflation Index: 2001-02; 2005-06 and 2024-25 are, 100; 117 and 363)(MTP 4 Marks, Oct'23)

Answer 9

Computation of capital gain in the hands of Mr. Kalyan for A.Y. 2025-26

When transfer takes place after 23.07.2024 Land or building or both if acquired before 23.7.2024 then the individual can choose between 12.5% without indexation or 20% with indexation benefit, whichever is more beneficial to the assessee.

(i) 20% with Indexation Benefits

Particulars	₹
Full value of consideration	25,00,000
[As per section 50C, in case the actual sale consideration (i.e., ₹ 22 lakhs, in this case) is less than the stamp duty value (i.e., ₹ 28 lakhs, in this case) assessed by the stamp valuation authority (Sub-registrar, in this case), the stamp duty value shall be deemed as the full value of consideration if it exceeds 110% of the sale consideration However, if assessee has preferred an appeal to the Valuation Officer (i.e., revenue divisional officer, in this case) and the Valuation Officer has fixed the value of the house (i.e., ₹ 25 lakh, in this case) less than stamp duty value (i.e., ₹ 28 lakh, in this case), such value determined by the Valuation Officer shall be deemed as the full value of consideration.]	
Less: Indexed cost of acquisition [₹ 2,00,000 x 363/117]	6,20,513
Long-term capital gain [Since the residential house is held for more than 24 months]	18,79,487
Less: Exemption under section 54	
Purchase of new residential house property on 31.3.2025 (i.e., within two years from the date of transfer of residential house)	17,00,000
Taxable long term capital gain	1,79,487
LTCG Tax	35,897

(ii) 12.5% without Indexation Benefits

Particulars	₹
Full value of consideration (Same as above)	25,00,000
Less: Cost of Acquisition	2,00,000
Long-term capital gain [Since the residential house is held for more than 24 months]	23,00,000
Less: Exemption under section 54	
Purchase of new residential house property on 31.3.2025 (i.e., within two years from the date of transfer of residential house)	17,00,000
Taxable long term capital gain	6,00,000
LTCG Tax	75,000

Hence 20% with indexation is more beneficial for the the Assessee.

Computation of capital gains in the hands of Mr. Kalyan for A.Y. 2026-27

Particulars	₹
Full value of consideration	30,00,000
Less: Cost of acquisition [As per section 54, if the new residential house purchased (i.e., on	



31.3.2025, in this case) is transferred within 3 years of its purchase (i.e., on 1.3.2026, in this case), and the cost of acquisition of the new house (i.e., ₹ 17 lakhs, in this case) is lower than the long-term capital gain (i.e., ₹ 18,79,487, in this case), the cost of acquisition of such new residential house shall be taken as Nil, while computing capital gains on sale of the new residential house]	Nil
Short term capital gain [Since the residential house is held for a period less than 24 months]	30,00,000

Question 10

Determine the capital gains/loss on transfer of listed equity shares (STT paid both at the time of acquisition and transfer of shares) and units of equity oriented mutual fund (STT paid at the time of transfer of units) for the A.Y.2025-26 and tax, if any, payable thereon, in the following cases, assuming that these are the only transactions covered under section 112A during the P.Y.2024-25 in respect of these assesseees:

- (i) Mr. Shagun purchased 300 shares in A Ltd. on 20.5.2017 at a cost of ₹ 400 per share. He sold all the shares of A Ltd. on 31.5.2024 for ₹ 1200. The price at which these shares were traded in National Stock Exchange on 31.1.2018 is as follows –

Particulars	Amount in ₹
Highest Trading Price	700
Average Trading Price	680
Lowest Trading Price	660

- (ii) Mr. Raj purchased 200 units of equity oriented fund, Fund A on 1.2.2017 at a cost of ₹ 550 per unit. The units were not listed at the time of purchase. Subsequently, units of Fund A were listed on 1.1.2018 on the National Stock Exchange. Mr. Raj sold all the units on 3.4.2024 for ₹ 900 each. The details relating to quoted price on National Stock Exchange and net asset value of the units are given hereunder:

Particulars	Fund A
	Amount in ₹
Highest Trading Price	750 (on 31.1.2018)
Average Trading Price	700 (on 31.1.2018)
Lowest Trading Price	650 (on 31.1.2018)
Net Asset Value on 31.1.2018	800

(MTP 4 Marks, Jul'24)

Answer 10

For the purpose of computation of long-term capital gains chargeable to tax under section 112A, the cost of acquisition in relation to the long-term capital asset, being an equity share in a company or a unit of an equity oriented fund or a unit of a business trust acquired before 1st February, 2018 shall be the higher of

- (a) cost of acquisition of such asset, i.e., actual cost; and
 (b) lower of
 (i) the fair market value of such asset as on 31.1.2018; and
 (ii) the full value of consideration received or accruing as a result of the transfer of the capital asset.
- (i) The fair market value of listed equity shares as on 31.1.2018 is the highest price quoted on the recognized stock exchange as on that date.

Accordingly, long-term capital gain on transfer of STT paid listed equity shares by Mr. Shagun would be determined as follows:

The FMV of shares of A Ltd. would be ₹ 700, being the highest price quoted on National Stock Exchange on 31.1.2018. The cost of acquisition of each equity share in A Ltd. would be ₹ 700, being higher of actual cost i.e., ₹ 400 and ₹ 700 [being the lower of FMV of ₹ 700 as on 31.1.2018 (i.e., the highest trading price) and actual sale consideration of ₹ 1,200]. Thus, the long-term capital gain would be ₹ 1,50,000 i.e., (₹ 1,200 – ₹ 700) x 300 shares. The long-term capital gain of ₹ 25,000 (i.e., the amount in excess of ₹ 1,25,000) would be subject to tax@10% under section 112A (plus cess@4%), without benefit of indexation. The tax on capital gain @10.4% would be ₹ 2,600 (₹ 25,000 x 10.4%)

- (ii) In the case of units listed on recognized stock exchange on the date of transfer, the FMV as on 31.1.2018 would be the highest trading price on recognized stock exchange as on 31.1.2018 (if units are listed on that date), else, it would be the net asset value as on 31.1.2018 (where units are unlisted on that date).



Accordingly, the FMV of units of Fund A as on 31.1.2018 would be ₹ 750 (being the highest trading price on 31.1.2018, since the units of Fund A are listed on that date).

The cost of acquisition of a unit of Fund A would be ₹ 750, being higher of actual cost i.e., ₹ 550 and ₹ 750 (being the lower of FMV of ₹ 750 as on 31.1.2018 and actual sale consideration of ₹ 900). Thus, the long-term capital gains on sale of units of Fund A would be ₹ 30,000 (₹ 900 – ₹ 750) x 200 units.

Since the long term capital gains on sale of units of Fund A is ₹ 30,000, which is less than ₹ 1,25,000, the said sum is not chargeable to tax under section 112A.

Question 11

Calculate the amount chargeable to tax under the head 'Capital Gains' and also calculate tax on such gains for A.Y. 2025-26 from the following details provided by Mr. Naveen with respect to sale of certain securities during F.Y. 2024-25, assuming that the other incomes of Mr. Naveen exceed the maximum amount not chargeable to tax. (Ignore surcharge and cess):

(i) Sold 10,000 shares of Y Ltd. on 05-04-2024 @ ₹ 650 per share

Y Ltd. is a listed company. These shares were acquired by Mr. Naveen on 05-04-2017 @ ₹ 100 per share. STT was paid both at the time of acquisition as well as at the time of transfer of such shares which was affected through a recognized stock exchange.

On 31-01-2018, the shares of Y Ltd. were traded on a recognized stock exchange as under:

Highest price - ₹ 300 per share

Average price - ₹ 290 per share

Lowest price - ₹ 280 per share

(ii) Sold 1,000 units of AB Mutual Fund on 20-05-2024 @ ₹ 50 per unit

AB Mutual Fund is an equity oriented fund. These units were acquired by Mr. Naveen on 10-03-2017 @ ₹ 10 per unit. STT was paid only at the time of transfer of such units. On 31-01-2018, the Net Asset Value of the units of AB Mutual Fund was ₹ 55 per unit. The units of AB Mutual Fund were not listed on the stock exchange as on 31.1.2018.

(iii) Sold 100 shares of C Ltd. on 27-09-2024 @ ₹ 200 per share.

C Ltd. is an unlisted company. These shares were issued by the company as bonus shares on 30-09-1997. The Fair Market Value of these shares as on 01-04-2001 was ₹ 50 per share.

Cost Inflation Index for various financial years are as under (MTP 7 Marks, Apr'21, PYP 6 Marks Nov 19)

2001-02	100
2016-17	264
2017-18	272
2020-21	301
2024-25	363

Answer 11

Computation of amount chargeable to tax under the head "Capital Gains" in the hands of Mr. Naveen

	Particulars	₹
(i)	Sale of 10,000 shares of Y Ltd. on 5.4.2024 @ 650 per share	
	Sales consideration (10,000 x ₹ 650)	65,00,000
	Less: Cost of acquisition Higher of:	₹ 30,00,000
	- Actual cost (10,000 x ₹ 100)	10,00,000
	- Lower of:	30,00,000
	<ul style="list-style-type: none"> • ₹ 30,00,000 (₹ 300 x 10,000), being fair market value as on 31.1.2018 (Highest price of the shares traded on 31.1.2018); and • ₹ 65,00,000, being full value of consideration on transfer Long-term capital gain under section 112A [Since shares held for more than 12 months and STT is paid both at the time of purchase and sale. Benefit of indexation is, however, not available on LTCG taxable u/s 112A].	35,00,000



(ii)	Sale of 1,000 units of AB Mutual Fund on 20.5.2024 @ ₹ 50 per unit		
	Sale consideration (1,000 x ₹ 50)		50,000
	Less: Cost of acquisition - Higher of -		<u>50,000</u>
	- Actual cost (1,000 x ₹ 10)	10,000	
	- Lower of:	50,000	
	<ul style="list-style-type: none"> • ₹ 55,000 (₹ 55 x 1,000), FMV, being Net Asset Value as on 31.1.2018; and • ₹ 50,000, being full value of consideration on transfer Long-term capital gain under section 112A [Since shares are held for more than 12 months and STT is paid at the time of sale]		Nil
(iii)	Sale of 100 shares of C Ltd. on 27.9.2024 @ 200 per share		
	Sale consideration (100 x ₹ 200)		20,000
	Less: Cost of acquisition [100 x ₹ 50 (being FMV on 1.4.2001) (No indexation as transfer is after 23.07.2024)]		<u>5,000</u>
	Long-term capital gain under section 112 [Since shares are unlisted and held for more than 24 months]		<u>15,000</u>

Computation of tax on such capital gains for A.Y. 2024-25

Particulars	₹
Tax under section 112A @ 10% on long-term capital gains of ₹ 34,00,000 [LTCG of ₹ 35,00,000 (-) ₹ 1,00,000] arising on sale of shares of Y Ltd.	3,40,000
Tax under section 112 @ 20% on long-term capital gains of ₹ 2,600 arising on sale of unlisted shares of C Ltd.	<u>520</u>
Total tax payable	<u>3,40,520</u>

EXAM INSIGHTS: This question requires computation of “Capital Gains” on transfer of listed shares of A Ltd., units of B Mutual Fund and unlisted shares of C Ltd. However, many examinees could not correctly compute the cost of acquisition of 10,000 listed shares of A Ltd.

Question 12

Mr. Ramesh entered into an agreement with Mr. Vivitzu to sell a plot on 5.4.2024 for ₹ 45 lakhs. He received an advance of ₹ 15 lakhs from him on the date of agreement by account payee cheque. Transfer took place on 10-9-2024. The valuation determined by the stamp valuation authority on the date of agreement and transfer was ₹ 49 lakhs and ₹ 53 lakhs, respectively.

Mr. Vivitzu has sold this plot to Ms. Babli on 21-3-2025 for ₹ 55 lakhs.

The valuation as per stamp valuation authority was ₹ 54 lakhs on 21-3-2025. Discuss the tax consequences of above, in the hands of Mr. Ramesh and Mr. Vivitzu. Also, compute the capital gain in the hands of Mr. Vivitzu.

Note: None of the parties viz Mr. Ramesh, Mr. Vivitzu & Ms. Babli are related to each other; the transactions are between outsiders. (MTP 7 Marks, Apr'23, RTP Nov 22)

Answer 12

I.	Tax consequences in the hands of Mr. Ramesh
	As per section 50C, where the actual sale consideration is less than the value adopted by the Stamp Valuation Authority for the purpose of charging stamp duty, and such stamp duty value exceeds 110% of the actual sale consideration, then, the value adopted by the Stamp Valuation Authority shall be taken to be the full value of consideration.
	In a case where the date of agreement is different from the date of registration, stamp duty value on the date of agreement can be considered provided the whole or part of the consideration is received by way



of account payee cheque/bank draft or by way of ECS through bank account or through such other electronic mode as may be prescribed, on or before the date of agreement.

In this case, since ₹ 15 lakhs is received through account payee cheque on the date of agreement, stamp duty value on the date of agreement would be considered for determining the full value of consideration.

Accordingly, in this case, capital gains would be computed in the hands of Mr. Ramesh, for A.Y.2025-26, taking the actual consideration of ₹ 45 lakh of plot as the full value of consideration arising on transfer of such plot, since the stamp duty value on the date of agreement does not exceed 110% of the actual consideration.

Note – If it is assumed that Mr. Ramesh is a property dealer, the income would be taxable as his business income under section 43CA

II. Tax consequences in the hands of Mr. Vivitzu

In case, immovable property is received for inadequate consideration, the difference between the stamp duty value and actual consideration would be taxable under section 56(2)(x) in the hands of the recipient, if such difference exceeds the higher of ₹ 50,000 or 10% of actual sales consideration.

In a case where the date of agreement is different from the date of registration, stamp duty value on the date of agreement can be considered provided the whole or part of the consideration is paid by way of account payee cheque/bank draft or by way of ECS through bank account or through such other electronic mode as may be prescribed, on or before the date of agreement.

In this case, since ₹ 15 lakhs is paid through account payee cheque on the date of agreement, stamp duty value on the date of agreement would be considered.

Therefore, nothing would be taxable in the hands of Mr. Vivitzu under the head "Income from Other Sources" in A.Y.2025-26 since the difference between stamp duty value on the date of agreement and actual consideration does not exceed ₹ 4,50,000, being the higher of ₹ 50,000 and 10% of consideration.

At the time of subsequent sale of property by Mr. Vivitzu to Ms. Babli (on 21.3.2025), short-term capital gains would arise in the hands of Mr. Vivitzu in A.Y.2025-26, since the property is held by him for less than 24 months.

Particulars	₹
Full value of consideration (Since actual consideration of ₹ 55 lakh is higher than stamp duty value of ₹ 54 lakh)	55 lakh
Less: Cost of acquisition	45 lakh
Short-term capital gains	10 lakh

Question 13

LDR

Mr. Riyaan owned a residential house in Noida. It was acquired on 09.09.2014 for ₹ 30,00,000. He sold it for ₹ 1,57,00,000 on 07.01.2022.

Mr. Riyaan utilized the sale proceeds of the above property to acquire a residential house in Panchkula for ₹ 2,05,00,000 on 20.07.2022. The said house property was sold on 31.10.2024 and he purchased another residential house in Delhi for ₹ 2,57,00,000 on 02.03.2025. The property at Panchkula was sold for ₹ 3,25,00,000.

Calculate capital gains chargeable to tax for the assessment year 2022-23 and 2025-26. All workings should form part of your answer: Cost inflation index for various financial years are as under:

(MTP 7 Marks, Sep'23, PYP 6 Marks May'19)

2014-15	-	240
2021-22	-	317
2022-23	-	331
2024-25	-	363

**Answer 13****Computation of capital gains chargeable to tax for A.Y. 2022-23**

Particulars	₹
Full value of consideration received on sale of residential house in Noida	1,57,00,000
Less: Indexed cost of acquisition [$₹ 30,00,000 \times 317/240$]	39,62,500
Long-term capital gain	1,17,37,500
Less: Exemption under section 54	
Purchase of new residential house property at Panchkula for ₹ 2,05,00,000 on 20.7.2022 i.e., within two years from the date of transfer of residential house in Noida; exemption restricted to long term capital gain, since cost of new house exceeds long-term capital gain	<u>1,17,37,500</u>
Taxable long term capital gain	<u>Nil</u>

Computation of capital gains chargeable to tax for A.Y. 2025-26

Particulars	₹
(i) 20% with Indexation Benefits	
Full value of consideration received on sale of residential house at Panchkula	3,25,00,000
Less: Indexed cost of acquisition [As per section 54, if the new residential house purchased (i.e., on 20.7.2022, in this case) is transferred within 3 years of its purchase (i.e., on 31.10.2024, in this case), and the cost of acquisition of the new house (i.e., ₹ 2,05,00,000) is higher than the long-term capital gain (i.e., ₹ 1,17,37,500,) then, the cost of acquisition of such new residential house shall be reduced by long term capital gain exempted earlier, while computing capital gains on sale of the new residential house] [$₹ 85,62,500 (₹ 2,05,00,000 - ₹ 1,17,37,500) \times 363/331$]	<u>96,09,630</u>
Long-term capital gain [Since the residential house is held for more than 24 months]	2,28,90,370
Less: Exemption under section 54	
Purchase of new residential house property in Delhi for ₹ 2,57,00,000 on 2.3.2025 i.e., within two years from 31.10.2024, being the date of transfer of residential house at Panchkula; exemption restricted to long term capital gain, since cost of new house exceeds long-term capital gains	<u>2,28,90,370</u>
Taxable long term capital gain	<u>Nil</u>
(ii) 12.5% without Indexation Benefits	
Full value of consideration received on sale of residential house at Panchkula	3,25,00,000
Less: Cost of acquisition ($(₹ 2,05,00,000 - ₹ 1,17,37,500)$)	<u>87,62,500</u>
	2,37,37,500
Less: Exemption under section 54	<u>2,37,37,500</u>
Taxable long term capital gain	<u>Nil</u>

Hence Long term Capital Gains is Nil irrespective of 20% with indexation or 12.5% without indexation.

Question 14

Mr. Patel is a proprietor of Star Stores since 20-05-2022. He has transferred his shop by way of slump sale for a total consideration of ₹ 40 Lakh. The professional fees & brokerage paid for this sale are ₹ 80,000. His Balance Sheet as on 31-03-2025 is as under

Liabilities	₹	Assets	₹
Own Capital	10,50,000	Building	5,00,000
Bank Loan	5,00,000	Furniture	5,00,000
Trade Creditors	2,50,000	Debtors	2,00,000



Unsecured Loan	2,00,000	Other Assets	8,00,000
	20,00,000		20,00,000

Other Information:

- No individual value of any asset is considered in the transfer deed.
 - Other assets include trademarks valuing ₹ 2,00,000 as on 01-04-2024 on which no depreciation has been provided.
 - Furniture of ₹ 1,50,000 purchased on 05-11-2024 on which no depreciation has been provided.
 - Unsecured loan includes ₹ 50,000 as advance received from his wife, which she has agreed to waive off.
- Compute the capital gain for A.Y. 2025-26. (PYP 4 Marks, Jul'21)

Answer 14

Computation of capital gains on slump sale of shop

Particulars		₹
*Sale value		40,00,000
Less: Expenses on sale [professional fees & brokerage]		80,000
Net sale consideration		39,20,000
Less: Net worth (See Working Note below)		10,42,500
Short-term capital gain [Since shop is held for not more than 36 months immediately preceding the date of transfer]		28,77,500
Working Note:		
Computation of net worth of shop		
Building		5,00,000
Furniture	5,00,000	
Less: Depreciation on ₹1,50,000 @ 5%, being 50% of 10% since furniture is put to use for less than 180 days during the previous year	7,500	4,92,500
Debtors		2,00,000
Other assets	8,00,000	
Less: Depreciation on ₹ 2,00,000, being intangible asset @ 25%	50,000	7,50,000
Total assets		19,42,500
Less: Bank loan	5,00,000	
Trade creditors	2,50,000	
Unsecured loan ₹ 2,00,000 less ₹ 50,000, being the amount waived off by his wife	1,50,000	9,00,000
Net worth		10,42,500

Question 15

Mr. Surinder furnishes the following particulars for the previous year ending 31.03.2025. He had a Residential House, inherited from his father in December 2009, the Fair Market Value of which on 01.04.2001 is ₹ 13 lakhs. In the year 2013-2014, further construction and improvements costing of ₹ 10 lakhs. The House was originally purchased by his father on 01.03.2000 for ₹ 10 Lakhs. On 10.05.2024, the House was sold for ₹ 75 Lakhs. Expenditure in connection with transfer is ₹ 50,000. On 20.12.2024, he purchased a Residential House for ₹ 12 lakhs and he does not own any other house. Compute the taxable Capital Gain for the assessment year 2025-26.

(Cost Inflation Index: F.Y. 2013-14=220, F.Y.2024-25=363, F.Y. 2009-10 = 148 and F.Y. 2001-02=100)

(PYP 4 Marks, May'24)

Answer 15

Computation of Taxable Capital Gains for A.Y.2025-26

Particulars	₹
Full Value of Consideration	75,00,000
Less: Expenditure in connection with transfer	50,000



Net Sales Consideration	74,50,000
Less: Indexed cost of acquisition [₹ 13,00,000 (higher of actual cost to the previous owner of ₹ 10 lakhs and Fair market value as on 1.4.2001 of ₹ 13 lakhs) x 363/100]	47,19,000
Less: Indexed cost of improvements [₹ 10 lakhs x 363/220]	16,50,000
	10,81,000
Less: Exemption u/s 54 – in respect of residential house purchased on 20.12.2024 of Rs 12L	10,81,000
Taxable Long Term Capital Gains	NIL

Note – The above answer is on the basis of the view expressed by Bombay High Court in CIT v. Manjula J. Shah 16 Taxman 42, wherein it was held that Indexed cost of acquisition in case of gifted asset has to be computed with reference to the year in which the previous owner first held the asset and not the year in which the assessee became the owner of the asset.

Alternative answer is possible on basis of the plain reading of the provisions of section 48 wherein the indexed cost of acquisition would be determined by taking the Cost Inflation Index (CII) for the year in which the asset is first held by the assessee i.e. F.Y.2009-10. In such a case, the Indexed cost of acquisition would ₹ 31,88,514 (₹ 13,00,000 x 363/148) and taxable long term capital gains would be ₹ 14,11,486.

Question 16

Mrs. Harshita purchased a land at a cost of ₹ 35 lakhs in the F.Y. 2004-05 and held the same as her capital asset till 20th March, 2024.

She started her real estate business on 21st March, 2024 and converted the said land into stock-in-trade of her business on the said date, when the fair market value of the land was ₹ 210 lakhs.

She constructed 15 flats of equal size, quality and dimension. Cost of construction of each flat is ₹ 10 lakhs. Construction was completed in February, 2025. She sold 10 flats at ₹ 30 lakhs per flat in March, 2025. The remaining 5 flats were held in stock as on 31st March, 2025.

She invested ₹ 50 lakhs in bonds issued by National Highways Authority of India on 31st March, 2024 and another ₹ 50 lakhs in bonds of Rural Electrification Corporation Ltd. in April, 2025.

Compute the amount of chargeable capital gain and business income in the hands of Mrs. Harshita arising from the above transactions for A.Y. 2025-26 indicating clearly the reasons for treatment for each item. [Cost Inflation Index: F.Y. 2004-05: 113; F.Y. 2023-24: 348; F.Y. 2024-25: 363]. (SM)

Answer 16

Computation of capital gains and business income of Harshita for A.Y. 2025-26

Particulars	₹
Business Income	
Sale price of flats [10 × ₹ 30 lakhs]	3,00,00,000
Less: Cost of flats	
Fair market value of land on the date of conversion [₹ 210 lacs × 2/3]	1,40,00,000
Cost of construction of flats [10 × ₹ 10 lakhs]	1,00,00,000
Business income chargeable to tax for A.Y.2025-26	60,00,000
Capital Gains	
Fair market value of land on the date of conversion deemed as the full value of consideration for the purposes of section 45(2)	2,10,00,000
Less: Indexed cost of acquisition [₹ 35,00,000 × 348/113]	1,07,78,761
	1,02,21,239
Proportionate capital gains arising during A.Y. 2025-26 [₹ 1,02,21,239 x 2/3]	68,14,159
Less: Exemption under section 54EC	50,00,000
Capital gains chargeable to tax for A.Y.2025-26	18,14,159

Notes:

- (1) The conversion of a capital asset into stock-in-trade is treated as a transfer under section 2(47). It would be treated as a transfer in the year in which the capital asset is converted into stock-in-trade (i.e.,



P.Y.2023-24, in this case).

- (2) As per section 45(2), the capital gains arising from the transfer by way of conversion of capital assets into stock-in-trade will be chargeable to tax only in the year in which the stock-in-trade is sold.
- (3) The indexation benefit for computing indexed cost of acquisition would, however, be available only up to the year of conversion of capital asset into stock-in-trade (i.e., P.Y.2023-24) and not up to the year of sale of stock-in-trade (i.e., P.Y.2024-25).
- (4) For the purpose of computing capital gains in such cases, the fair market value of the capital asset on the date on which it was converted into stock-in-trade shall be deemed to be the full value of consideration received or accruing as a result of the transfer of the capital asset.

In this case, since only 2/3rd of the stock-in-trade (10 flats out of 15 flats) is sold in the P.Y.2024-25, only proportionate capital gains (i.e., 2/3rd) would be chargeable to tax in the A.Y.2025-26.

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

Therefore, even though investment of ₹ 50 lakhs has been made in bonds of NHAI during the P.Y. 2024-25 and investment of ₹ 50 lakhs has been made in bonds of RECL during the P.Y. 2025-26, both within the stipulated six month period, the maximum deduction allowable for A.Y. 2025-26, in respect of long-term capital gain arising on sale of long-term capital asset(s) during the P.Y. 2024-25, is only ₹ 50 lakhs.

Question 17

LDR

Mr. Aditya is a proprietor of Star Stores having 2 units. On 1.4.2024, he has transferred Unit 2, which he started in 2004-05, by way of slump sale for a total consideration of ₹ 18 lakhs. The professional fees & brokerage paid for this transfer are ₹ 78,000. His Balance Sheet as on 31-03-2024 is as under:

Liabilities	₹	Assets	Unit 1 ₹	Unit 2 ₹	Total
Own Capital	20,50,000	Land	12,75,000	7,50,000	20,25,000
Revaluation reserve	2,50,000	Furniture	2,00,000	5,00,000	7,00,000
Bank Loan (70% for Unit 1)	8,50,000	Debtors	2,00,000	3,50,000	5,50,000
Trade Creditors (20% for Unit 2)	4,50,000	Patents	-	7,25,000	7,25,000
Unsecured Loan (30% for Unit 2)	4,00,000				
	40,00,000		16,75,000	23,25,000	40,00,000

Other Information:

1. Land of Unit 2 was purchased at ₹ 5,00,000 in the year 2005 and revalued at ₹ 7,50,000 as on 31.3.2024.
2. No individual value of any asset is considered in the transfer deed.
3. Patents were acquired on 01-12-2022 on which no depreciation has been provided.
4. Furniture of Unit 2 of ₹ 5,00,000 were purchased on 01-12-2023 on which no depreciation has been provided.
5. Fair market value of capital asset transferred by way of slump sale of Unit 2 is ₹ 18,10,000.

Compute the capital gain for A.Y. 2025-26. (RTP May'22)

**Answer 17**

As per section 50B, any profits and gains arising from the slump sale effected in the previous year shall be chargeable to income-tax as capital gains arising from the transfer of capital assets and shall be deemed to be the income of the previous year in which the transfer took place.

If the assessee owned and held the undertaking transferred under slump sale for more than 36 months before slump sale, the capital gain shall be deemed to be long-term capital gain. Indexation benefit is not available in case of slump sale as per section 50B(2).

Computation of capital gain on slump sale of Unit 2

Particulars	₹
Full value of consideration for slump sale of Unit 2 [Fair market value of capital asset transferred by way of slump sale (i.e., ₹ 18,10,000) or fair market value of the consideration received (value of the monetary consideration received i.e., ₹ 18,00,000) whichever is higher]	18,10,000
Less: Expenses on sale [professional fees & brokerage]	<u>78,000</u>
Net full value of consideration	17,32,000
Less: Cost of acquisition, being the net worth of Unit 2 (Note 1)	<u>13,35,781</u>
Long term capital gains arising on slump sale	<u>3,96,219</u>
(The capital gains is long-term as the Unit 2 is held for more than 36 months)	

Notes**1. Computation of net worth of Unit 2**

Particulars		₹
(1) Book value of non-depreciable assets		
(i) Land (Revaluation not to be considered)		5,00,000
(ii) Debtors		3,50,000
(2) Written down value of depreciable assets under section 43(6)		
(i) Furniture (See Note 2)		4,75,000
(ii) Patents (See Note 3)		<u>4,75,781</u>
Aggregate value of total assets		18,00,781
Less: Current liabilities of Unit 2		
Bank Loan [₹ 8,50,000 x 30%]	2,55,000	
Trade Creditors [₹ 4,50,000 x 20%]	90,000	
Unsecured Loan [₹ 4,00,000 x 30%]	<u>1,20,000</u>	<u>4,65,000</u>
Net worth of unit 2		<u>13,35,781</u>

2. Written down value of furniture as on 1.4.2024

Value of patents	₹
Cost as on 1.12.2023	5,00,000
Less: Depreciation @ 10% x 50% for Financial Year 2023-24	<u>25,000</u>
WDV as on 1.4.2024	<u>4,75,000</u>

3. Written down value of patents as on 1.4.2024

Value of patents	₹
Cost as on 1.12.2022	7,25,000
Less: Depreciation @ 25% x 50% for Financial Year 2022-23	<u>90,625</u>
WDV as on 1.4.2023	6,34,375
Less: Depreciation@25% for Financial Year 2023-24	<u>1,58,594</u>
WDV as on 1.4.2024	<u>4,75,781</u>



Question 18

Determine the capital gains/loss and tax liability in the following scenarios for the A.Y. 2024-25 assuming the assessee does not have any other source of income:

- (i) On 12th December, 2024, 1,200 shares of X Ltd., a listed company are sold by Mr. Vishal, a non-resident, @ ₹ 1,550 per share and STT was paid at the time of sale of shares. These shares were acquired by him on 25th May, 2017 @ ₹ 425 per share by paying STT at the time of purchase. The price at which these shares were traded in National Stock Exchange on 31st January, 2018 is as follows –

Particulars	Amount in ₹
Highest Trading Price	680
Average Trading Price	610
Lowest Trading Price	540

- (ii) Mr. Kabir, a resident aged 45 years, is the owner of residential house which was purchased on 1st August, 2021 for ₹ 19,00,000. He sold the said house on 25th September, 2024 for ₹ 24,50,000. Valuation as per stamp valuation authorities was ₹ 25,50,000 as on the date of sale. CII – 2021-22: 317; 2024-25: 363 (RTP Nov'23)

Answer 18

	Particulars	Amount ₹
(i)	Long-term capital gain on transfer of 1,200 shares of X Ltd. [Taxable u/s 112A @12.5% on amount exceeding ₹ 1,25,000]	
	Full value of consideration [1,200 x ₹ 1,550]	18,60,000
	Less: Cost of acquisition	8,16,000
	Higher of	
	(i) Cost of acquisition [1,200 x ₹ 425]	5,10,000
	(ii) Lower of fair market value of such shares as on 31.1.2018 and sale consideration [1,200 x 680]	8,16,000
	Fair market value of listed equity shares as on 31.1.2018 [Highest price quoted on the recognized stock exchange i.e., ₹ 680 per share sale consideration ₹ 1,550 per share]	
	Long term capital gain taxable u/s 112A/ Total Income	10,44,000
	Tax on long-term capital gain exceeding ₹ 1.25 lakh i.e., ₹ 9,19,000 @12.5%	1,14,875
	Add: Health and Education Cess @ 4%	4,595
	Tax liability	1,19,470
	Tax liability (Rounded off)	1,19,470
	Since Mr. Vishal is a non-resident, benefit of unexhausted basic exemption limit would not be available to him.	
(ii)	Sale of residential house [Long-term capital asset, since held for more than 24 months]	
	(i) 20% with indexation benefits	
	Full value of consideration [Actual consideration, since stamp duty value does not exceeds 110% of actual sale consideration]	24,50,000
	Less: Indexed cost of acquisition [₹ 19,00,000 x 363/317]	21,75,710
	Long term capital gain/ Total Income	2,74,290
	Long-term capital gain taxable u/s 112 @20% on NIL [₹ 2,74,290 – ₹ 3,00,000, being unexhausted basic exemption limit]	NIL
	(ii) 12.5% with indexation benefits	
	Full value of consideration	24,50,000
	Less: cost of acquisition	19,00,000



Long term capital gain/ Total Income		5,50,000
Long-term capital gain taxable u/s 112 @12.5% on 2,50,000 [₹ 5,50,000 – ₹ 3,00,000, being unexhausted basic exemption limit]		31,250
Hence 20% with indexation is more beneficial for the the Assessee		

Question 19

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

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

Mrs. Yuvika, again entered into an agreement on 01.05.2024 for sale of this house at ₹ 810 lakhs. She received ₹ 80 lakhs as advance by RTGS. The stamp duty value on the date of agreement was ₹ 890 lakhs. The sale deed was executed and registered on 14-07-2024 for the agreed consideration. However, the State stamp valuation authority had revised the values, hence, the value of property for stamp duty purposes was ₹ 900 lakhs. Mrs. Yuvika paid 1% as brokerage on sale consideration received.

Subsequent to sale, Mrs. Yuvika made following acquisition/investments:

- Acquired two residential houses at Delhi and Chandigarh for ₹ 130 lakhs and ₹ 50 lakhs, respectively, on 31.1.2025 and 15.5.2025
- Acquired a residential house at UK for ₹ 180 lakhs on 23.3.2025.
- Subscribed to NHA capital gains bond (approved under section 54EC) for ₹ 50 lakhs on 30-11-2024 and for ₹ 40 lakhs on 9-1-2025.

Compute the income chargeable under the head 'Capital Gains' of Mrs. Yuvika for A.Y.2025-26. The choice of exemption must be in the manner most beneficial to the assessee.

Cost Inflation Index: F.Y. 2005-06 – 117; F.Y. 2007-08 – 129; F.Y. 2024-25 - 363. (SM)

Answer 19

Computation of income chargeable under the head "Capital Gains" of Mrs. Yuvika for A.Y.2025-26

Particulars	Rs. (in lakhs)	Rs (in lakhs)
Capital Gains on sale of residential building		
Actual sale consideration Rs.810 lakhs		
Value adopted by Stamp Valuation Authority Rs.890 lakhs		
[Where the actual sale consideration is less than the value adopted by the Stamp Valuation Authority for the purpose of charging stamp duty, and such stamp duty value exceeds 110% of the actual sale consideration, then, the value adopted by the Stamp Valuation Authority shall be taken to be the full value of consideration as per section 50C.		
However, where the date of agreement is different from the date of registration, stamp duty value on the date of agreement can be considered provided the whole or part of the consideration is received by way of account payee cheque/bank draft or by way of ECS through bank account or through prescribed electronic modes on or before the date of agreement.		
In this case, since advance of Rs. 80 lakh is received by RTGS, i.e., one of the prescribed modes, stamp duty value on the date of agreement can be adopted as the full value of consideration. However, in the present case since stamp duty value on the date of agreement does not exceed 110% of the actual consideration, actual sale consideration would be taken as the full value of consideration)		
Gross Sale consideration (actual consideration, since stamp duty value on the date		810.00



of agreement does not exceed 110% of the actual consideration)		
Less: Brokerage @1% of sale consideration (1% of Rs.810 lakhs)		8.10
Net Sale consideration		801.90
Less: Indexed cost of acquisition		
- Cost of vacant land, Rs. 80 lakhs, plus registration and other expenses i.e., Rs. 8 lakhs, being 10% of cost of land [$₹ 88 \text{ lakhs} \times 363/117$]	273.03	
- Construction cost of residential building($₹100 \text{ lakhs} \times 363/129$)	281.40	554.43
Long-term capital gains		247.47
Since the residential house property was held by Mrs. Yuvika for more than 24 months immediately preceding the date of its transfer, the resultant gain is a long-term capital gain]		
Less: Exemption under section 54		130.00
Where long-term capital gains exceed Rs. 2 crore, the capital gain arising on transfer of a long-term residential property shall not be chargeable to tax to the extent such capital gain is invested in the purchase of one residential house property in India, one year before or two years after the date of transfer of original asset. Therefore, in the present case, the exemption would be available only in respect of the one residential house acquired in India and not in respect of the residential house in UK. It would be more beneficial for her to claim the cost of acquisition of residential house at Delhi, i.e., Rs. 130 lakhs as exemption.		
Less: Exemption under section 54EC		50.00
Amount invested in capital gains bonds of NHAI within six months after the date of transfer (i.e., on or before 13.1.2025), of long-term capital asset, being land or building or both, would qualify for exemption, to the maximum extent of Rs. 50 lakhs, whether such investment is made in the current financial year or subsequent financial year. Therefore, in the present case, exemption can be availed only to the extent of Rs. 50 lakh out of Rs. 90 lakhs, even if the both the investments are made on or before 13.1.2025(i.e., within six months after the date of transfer).		
Long term capital gains chargeable to tax		67.47

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

Question 20

(To keep the essence of the question we have not changed the AY to 2024 – 25)

Ms. Mishika has entered into an agreement with M/s CVM Build Limited on 25.04.2017 in which she agrees to allow such Company to develop a shopping mall on land owned by her in New Delhi. She purchased such land on 05.05.2009 for ₹ 15,00,000. In consideration, M/s CVM Build Limited will provide 20% share in shopping mall to Mishika. The certificate of completion of shopping mall was issued by authority as on 26.12.2020. On such date, Stamp duty value of shopping mall was ₹ 4,14,00,000. Subsequently on 18.03.2021, she sold her 15% share in shopping mall to Mr. Ketav in consideration of ₹ 65,00,000.

She has also purchased a house on 09.05.2020 in consideration of ₹ 46,00,000 and occupied for own residence. Punjab National Bank has sanctioned a loan of ₹ 35,50,000 (80% of stamp value) at the interest rate of 12% per annum on 01.05.2020 and disbursement was made on 01.06.2020. She does not own any other residential house on the date of sanction of loan. Principal amount of ₹ 1,30,000 was paid during the financial year 2020-21. Cost Inflation Indices: 2020-21: 301, 2009-10: 148

Compute total income of Ms. Mishika for the assessment year 2021 -22 assuming that she has not opted for the provisions under section 115BAC. (PYP 7 Marks, Dec'21)



Answer 20

Computation of total income of Ms. Mishika for the A.Y.2021 -22

Particulars	Amount (₹)	Amount (₹)
Income from house property [Self-occupied]		
Net Annual Value	Nil	
Less: Interest on housing loan of ₹ 3,55,000 [₹ 35,50,000 x 12% x 10/12 months] restricted to ₹ 2,00,000/-	<u>2,00,000</u>	
	(2,00,000)	
Less: Set-off of loss against long-term capital gains	<u>2,00,000</u>	Nil
Long-term capital gains on transfer of land under specified agreement		
Since Ms. Mishika transferred her share in the project after issue of completion certificate, capital gains on transfer of land handed over to developer under specified agreement in the P.Y. 2017-18 would be taxable in the previous year 2020-21, being the year in which certificate of completion is issued as per section 45(5A). Accordingly, capital gain arising in respect of land would be-		
Full value of consideration, being 20% share in shopping mall [Stamp duty value on the date of issue of completion certificate (₹ 4,14,00,000 x 20%)]	82,80,000	
Less: Indexed of cost of acquisition [₹ 15,00,000 x 301/148]	<u>30,50,676</u>	
Long-term capital gain	52,29,324	
Less: Deduction under section 54F		
Deduction in respect of amount invested for purchase of a residential house acquired within one year prior to date of transfer would be allowable proportionately, since amount invested is less than the net consideration. Accordingly, deduction would be ₹ 29,05,180 (₹ 52,29,324 x ₹46,00,000 / ₹ 82,80,000)	<u>29,05,180</u>	
Long-term capital gains	23,24,144	
Less: Set-off of loss from house property [It is beneficial to set-off loss from house property against long-term capital gains, since in case of Ms. Mishika total income comprises of LTCG taxable@20% and STCG taxable at normal slab rates; and she can claim deduction of ₹ 2,80,000 under Chapter VI-A against STCG of ₹ 2,90,000. Moreover, the remaining STCG would also not be taxable since it would be below the basic exemption limit]	<u>2,00,000</u>	
		21,24,144
Short-term capital gains		
Sale of 15% share in shopping mall [short-term capital asset, since held for not more than 24 months]		
Net Sales consideration	65,00,000	
Less: Cost of acquisition, being the full value of consideration taxable on transfer of land [₹ 4,14,00,000 x 15%]	<u>62,10,000</u>	
Short-term capital gains		<u>2,90,000</u>
Gross Total Income		24,14,144
Less: Deductions under Chapter VI-A (allowable against short-term capital gains of ₹ 2,90,000)		
Deduction under section 80C – repayment of principal amount of housing loan	1,30,000	
Deduction under section 80EEA – Ms. Mishika would be eligible for deduction of interest on housing loan (₹ 3,55,000 - ₹ 2,00,000 = ₹ 1,55,000) to the extent of ₹ 1,50,000, since stamp duty value of the house does not exceed ₹ 45,00,000 [being ₹ 44,37,500 (₹ 35,50,000 x 100/80)] and she does not own any other residential house on the date of sanction of loan.	<u>1,50,000</u>	<u>2,80,000</u>



Total Income		21,34,144
Total Income (rounded off)		21,34,140

Note -

As per section 45(5A), any capital gains arising from the transfer of a capital asset, being land or building or both, under a specified agreement, is chargeable to income-tax as income of the previous year in which the certificate of completion is issued by the competent authority. In the above solution, the CII of F.Y.2020-21 has been considered on the basis of parity, since, as per section 45(5A), it is the stamp duty value of the developed property (shopping mall, in this case) on the date of issue of certificate of completion (26.12.2020), which is deemed as the

full value of consideration for transfer of land handed over to the developer.

Alternate view -

The definition of transfer, inter alia, includes any arrangement or transaction where any rights are handed over in execution of part performance of contract, even though the legal title has not been transferred.

Hence, in case of 'specified agreement(s)', 'transfer' takes place at the time when the owner of the immovable property hands over the same to the developer i.e., in F.Y.2017-18 in this case.

As per the plain reading of definition of 'indexed cost of acquisition', the CII of the year in which the asset (land, in this case) is transferred has to be considered. Accordingly, as per this interpretation, CII of F.Y. 2017-18 i.e., 272 can be considered for computing indexed cost of acquisition. If the CII of F.Y.2017-18 is considered on the basis of this line of reasoning, the figures of long-term capital gains and total income would accordingly change. However, the CII of F.Y.2017-18 has not been given in the question for the purpose of making such computation.

EXAM INSIGHTS: Examinees failed to provide for deduction under section 54F while computing taxable long-term capital gains, set-off of loss from house property against long-term capital gains and deduction under section 80EEA while computing total income of Ms. Mishika.

Question 21**LDR**

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

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

On November 15, 2024, Mr. Shiva entered into an agreement with Mr. Manish for sale of such house for ₹ 30,50,000 and received an amount of ₹ 1,50,000 as advance through an account payee cheque. Mr. Manish paid the balance entire sum and Mr. Shiva transferred the house to Mr. Manish on February 20, 2025. Mr. Shiva has paid the brokerage @1% of sale consideration to the broker.

On April 1, 2001, fair market value of the house property was ₹ 11,85,000 and Stamp duty value was ₹ 10,70,000. Further, the Valuation as per Stamp duty Authority of such house on 15th November, 2024 was ₹ 39,00,000 and on 20th February, 2025 was ₹ 41,00,000.

Compute the capital gains in the hands of Mr. Shiva for A.Y.2025-26. Also, Compute the tax liability under section 112, assuming that the basic exemption limit has been fully exhausted against other income.

CII for F.Y. 2001-02: 100; F.Y. 2008-09: 137; F.Y. 2015-16: 254; F.Y. 2024-25: 363 (SM, MTP 7 Marks, Mar'23 & Aug '18,)

Answer 21**Computation of Capital gains in the hands of Mr. Shiva for A.Y. 2025-26**

Particulars	Amount (₹)	Amount (₹)
Actual sale consideration	30,50,000	
Valuation as per Stamp duty Authority on the date of agreement	39,00,000	



(Where the actual sale consideration is less than the value adopted by the Stamp Valuation Authority for the purpose of charging stamp duty, and such stamp duty value exceeds 110% of the actual sale consideration then, the value adopted by the Stamp Valuation Authority shall be taken to be the full value of consideration as per section 50C.		
However, where the date of agreement is different from the date of registration, stamp duty value on the date of agreement can be considered, provided the whole or part of the consideration is received by way of account payee cheque/bank draft or by way of ECS through bank account or such other electronic mode as may be prescribed on or before the date of agreement. In the present case, since part of the payment is made by account payee cheque on the date of agreement, the stamp duty value on the date of agreement would be considered as full value of consideration)		
Deemed Full value of consideration [Since stamp duty value on the date of agreement exceeds 110% of the actual consideration, stamp duty value would be deemed as Full Value of Consideration]		39,00,000
Less: Expenses on transfer (Brokerage @1% of ₹ 30,50,000)		30,500
Net sale consideration		38,69,500
Less: Cost of acquisition (Note 1)	9,59,000	
Less: Cost of improvement	3,90,000	13,49,000
Long term capital gain		25,20,500

Computation of tax liability u/s 112

Particulars	Amount (₹)	Amount (₹)
On LTCG of ₹ 25,20,500 x 12.5%		3,15,063
Add: Health and Education cess @4%		12,603
On LTCG with indexation benefit		3,27,666
Net Sale consideration	38,69,500	
Less: Indexed cost of acquisition (₹ 9,59,000 x 363/100)	34,81,170	
Less: Indexed cost of Improvement [₹ 3,90,000 x 363/254]	5,57,362	
Long-term capital loss	(1,69,032)	
Since the computation results in a long term capital loss, if indexation benefit is given, the tax u/s 112 would be Nil. However, this computation is only for determining tax liability, the said loss can neither be set-off nor carried forward.		

Notes:

(1) Computation of cost of acquisition

Particulars	Amount (₹)	Amount (₹)
Cost of acquisition,		10,70,000
Being the higher of		
(i) lower of Fair market value i.e., ₹ 11,85,000 and Stamp duty value i.e., ₹ 10,70,000, on April 1, 2001	10,70,000	
(ii) Actual cost of acquisition (₹ 3,24,000 + ₹ 35,000, being stamp duty @10% of ₹ 3,50,000)	3,59,000	
Less: Advance money taken from Mr. Mohan and forfeited		1,11,000
Cost of acquisition		9,59,000

- (2) Where advance money has been received by the assessee, and retained by him, as a result of failure of the negotiations, section 51 will apply. The advance retained by the assessee will go to reduce the cost of acquisition. Accordingly, cost of acquisition after reducing the advance money



forfeited would be ₹ 9,59,000 [i.e. ₹ 10,70,000 – ₹ 1,11,000 (being the advance money forfeited during the P.Y. 2008-09)]. However, where the advance money is forfeited during the previous year 2014-15 or thereafter, the amount forfeited would be taxable under the head “Income from Other Sources” and such amount will not be deducted from the cost of acquisition of such asset while calculating capital gains. Hence, ₹ 1,51,000, being the advance received from Ms. Deepshikha and retained by him, would have been taxable under the head “Income from other sources” in the hands of Mr. Shiva in A.Y.2016-17.

Question 22

LDR

Mr. Sarthak entered into an agreement with Mr. Jaikumar to sell his residential house located at Kanpur on 16.08.2024 for ₹ 1,50,00,000.

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

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

Mr. Jaikumar was handed over the possession of the property on 15.12.2024 and the registration process was completed on 14.01.2025. He paid the sale proceeds as per the sale agreement.

The value determined by the Stamp Duty Authority-

- (a) on 16.08.2024 was ₹ 1,70,00,000;
- (b) on 15.12.2024 was ₹ 1,71,00,000; and
- (c) on 14.01.2025 was ₹ 1,71,50,000.

Mr. Sarthak had acquired the residential house at Kanpur on 01.04.2001 for ₹ 30,00,000. After recovering the sale proceeds from Jaikumar, he purchased two residential house properties, one in Kanpur for ₹ 20,00,000 on 24.3.2025 and another in Delhi for ₹ 35,00,000 on 28.5.2025.

Compute the income chargeable under the head “Capital Gains” of Mr. Sarthak for the Assessment Year 2025-26.

Cost Inflation Index for Financial Year(s): 2001-02 - 100; 2024-25 – 363 (SM) (Same concepts different figures RTP May’24, MTP 7 Marks Oct’19, MTP Aug’24, MTP 6 Marks, Oct’22, RTP Nov’18)

Answer 22

Computation of income chargeable under the head “Capital Gains” of Mr. Sarthak for A.Y. 2025-26

Particulars	₹
Capital Gains on sale of residential house	
Actual sale consideration	₹ 1,50,00,000
Value adopted by Stamp Valuation Authority on the date of agreement	₹ 1,70,00,000
<p>[As per section 50C, where the actual sale consideration is less than the value adopted by the Stamp Valuation Authority for the purpose of charging stamp duty, and such stamp duty value exceeds 110% of the actual sale consideration, then, the value adopted by the Stamp Valuation Authority shall be taken to be the full value of consideration.</p> <p>In a case where the date of agreement is different from the date of registration, stamp duty value on the date of agreement can be considered provided the whole or part of the consideration is paid by way of account payee cheque/bank draft or by way of ECS through bank account or through such other electronic mode as may be prescribed, on or before the date of agreement.</p> <p>In this case, since 20% of ₹ 150 lakhs is paid through account payee bank draft on the date of agreement, stamp duty value on the date of agreement would be considered for determining the full value of consideration]</p>	



Full value of sale consideration [Stamp duty value on the date of agreement, since it exceeds 110% of the actual sale consideration]	1,70,00,000
Less: Cost of acquisition of residential house	30,00,000
Long-term capital gains [Since the residential house property was held by Mr. Sarthak for more than 24 months immediately preceding the date of its transfer]	1,40,00,000
Less: Exemption u/s 54	55,00,000
Since, long-term capital gains does not exceed ₹ 2 crore, he would be eligible for exemption in respect of both the residential house properties purchased in India. The capital gain arising on transfer of a long-term residential property shall not be chargeable to tax to the extent such capital gain is invested in the purchase of these residential house properties in India within one year before or two years after the date of transfer of original asset. Thus, he would be eligible for exemption of ₹ 55,00,000 being ₹ 20,00,000 and ₹ 35,00,000 invested on acquisition of residential house property in Kanpur and Delhi, respectively.	
Long term capital gains chargeable to tax	85,00,000

Note: It may be noted that since Sarthak has transferred residential house property on or after 23.7.2024 which was acquired before the said date, he can opt to pay tax @20% on LTCG (computed with indexation) or 12.5% on LTCG (computed without indexation) whichever is beneficial to him.

Question 23

Mr. Asif bought a vacant land for ₹ 80 lakhs in March 2005. Registration and other expenses were 10% of the cost of land. He constructed a residential building on the said land for ₹ 100 lakhs during the financial year 2006-07.

He entered into an agreement for sale of the above said residential house with Mr. Hari (not a relative) on 1st July 2024. The sale consideration was fixed at ₹ 600 lakhs and on the date of agreement, Mr. Asif received ₹ 20 lakhs as advance in cash. The stamp duty value on that date was ₹620 lakhs.

The sale deed was executed and registered on 20-7-2024 for the agreed consideration. However, the State stamp valuation authority had revised the values, hence, the value of property for stamp duty purposes was ₹ 670 lakhs. Mr. Asif paid 1% as brokerage on sale consideration received.

Subsequent to sale, Mr. Asif made investments in NHAI bond: ₹ 45 lakhs on 29-10-2024 and ₹15 lakhs on 12-12-2024.

Compute the Capital Gain chargeable to tax for A.Y. 2024-25. Cost Inflation Index:

F.Y. 2004-05	113
F.Y. 2006-07	122
F.Y. 2024-25	363 (MTP 4 Marks Nov'24)

Answer 23

Computation of income chargeable under the head "Capital Gains" for A.Y.2025-26

Particulars	₹ (in lakhs)	₹ (in lakhs)
Capital Gains on sale of residential building		
Actual sale consideration ₹600 lakhs		
Value adopted by Stamp Valuation Authority ₹670 lakhs		
Full Value of Consideration		670.00
[In case the actual sale consideration declared by the assessee is less than the value adopted by the Stamp Valuation Authority for the purpose of charging stamp duty, then, the value adopted by the Stamp Valuation Authority shall be taken to be the full value of consideration as per section 50C. In a case where the date of agreement is different from the date of registration, stamp duty value on the date of agreement can be considered provided the whole or part of the consideration is paid by way of account		



payee cheque/bank draft or by way of ECS through bank account on or before the date of agreement. However, where the stamp duty value does not exceed 110% of the sale consideration received or accruing as a result of the transfer, the consideration so received or accruing shall be deemed to be the full value of the consideration. In this case, since advance of ₹ 20 lakh is paid by cash, stamp duty value of ₹ 620 lakhs on the date of agreement cannot be adopted as the full value of consideration and stamp duty value on the date of registration would be considered. However, since stamp duty value on the date of registration exceeds 110% of the actual consideration, stamp duty value on the date of registration would be the full value of consideration]		
Less: Brokerage@1% of sale consideration (1% of ₹600 lakhs)		6.00
Net Sale consideration		664.00
Less: Indexed cost of acquisition - Cost of vacant land, ₹ 80 lakhs, plus registration and other expenses i.e., ₹ 8 lakhs, being 10% of cost of land [₹ 88 lakhs × 363/113]	282.69	
- Construction cost of residential building (₹100 lakhs x 363/122)	<u>297.54</u>	<u>580.23</u>
Long-term capital gains before exemption		83.77
Less: Exemption under section 54EC		50.00
Amount deposited in capital gains bonds of NHAI within six months from the date of transfer (i.e., on or before 20.01.2025) would qualify for exemption, to the maximum extent of ₹50 lakhs. Therefore, in the present case, exemption can be availed only to the extent of ₹ 50 lakh out of ₹ 60 lakhs, even if the both the investments are made on or before 20.01.2025 (i.e., within six months from the date of transfer).		
Long Term Capital Gains [Since it was held for more than 24 months]		33.77

Question 24

Mr. Soham, a builder, entered into an agreement on 1.4.2024 with Mr. Aman to transfer 4th Floor in Tower A of a new project for ₹ 1,50,00,000. He received ₹ 25 lakhs as advance in cash on 1.4.2024. The stamp duty value of such floor on that date was ₹ 1,70,00,000. The sale deed was executed and registered on 15.6.2024 for the agreed consideration. However, the stamp duty value on that date was ₹ 1,75,00,000. Discuss the tax consequences of above, in the hands of Mr. Soham and Mr. Aman. (MTP 5 Marks Dec'24) (Same concepts different figures MTP 7 Marks, Apr'22)

Answer 24

I	Tax consequences in the hands of Mr. Soham
	<p>As per section 43CA, where the consideration received or accruing is less than the stamp duty value of an asset (other than capital asset), being land or building or both and such stamp duty value exceeds 110% of the consideration received or accruing, then the stamp duty value shall be deemed to be the full value of the consideration.</p> <p>However, where the date of agreement is different from the date of registration, stamp duty value on the date of agreement can be considered provided whole or part of the considered is received by way of account payee cheque/ bank draft/ ECS or through any other prescribed modes on or before the date of agreement.</p> <p>In this case, since ₹ 25 lakhs is received by cash on the date of agreement, stamp duty value on the date of registration is to be considered. Since such stamp duty value (₹ 1.75 crores) exceed 110% of the consideration received (₹ 1.50 crores), business income would be computed in the hands of Mr. Soham, for A.Y.2025-26, taking sale consideration of ₹ 1,75,00,000 as the full value of consideration arising on transfer.</p>



II	Tax consequences in the hands of Mr. Aman
	<p>In case, immovable property is received for inadequate consideration, the difference between the stamp duty value and actual consideration would be taxable under section 56(2)(x) in the hands of the recipient, if such difference exceeds the higher of ₹ 50,000 and 10% of actual sales consideration.</p> <p>Where the date of agreement is different from the date of registration, stamp duty value on the date of agreement can be considered provided whole or part of the consideration is received by way of account payee cheque/ bank draft/ ECS or through any other prescribed modes on or before the date of agreement.</p> <p>In this case, since ₹ 25 lakhs is received by cash on the date of agreement, stamp duty value on the date of registration is to be considered. Accordingly, ₹ 25,00,000 would be taxable in the hands of Mr. Aman under the head "Income from Other Sources" in A.Y.2025-26 since the difference of ₹ 25,00,000 exceeds ₹ 15,00,000, being the higher of ₹ 50,000 and ₹ 15,00,000 (10% of consideration).</p>

Question 25

Mr. Raj a resident individual, aged 69 years sold an urban agricultural land for ₹ 75,00,000 to Mr. Vipul on December 15, 2024 when the stamp duty value of agricultural land was ₹ 95 lakhs. However, the "agreement to sell" the agricultural land was entered on July 15, 2024 and Mr. Vipul gave ₹ 4 lakhs as advance through IMPS. The stamp duty value at the time of agreement was ₹ 85 lakhs. Mr. Raj paid 1% of sale consideration as commission to a broker. The land was purchased by him on May 15, 2002 for ₹ 10.85 lakhs and it was being used for agricultural purposes by him since its purchase.

Mr. Raj purchased another agricultural land in rural area on January 1, 2025 for ₹ 40 lakhs and this land was sold by him on March 12, 2025 for ₹ 45 lakhs and he invested the entire sale proceeds in fixed deposits with a nationalized bank on the same day.

Compute capital gain for assessment year 2025-26 if Mr. Raj exercises the option of shifting out of the default tax regime provided under section 115BAC(1A).

Cost Inflation Index for: F.Y. 2002-03 = 105; F.Y. 2024-25 = 363 (PYP 4 Marks Sep'24)

Answer 25

Computation of Capital Gains of Mr. Raj for A.Y.2025-26

Particulars	₹
Capital gain on sale of urban agricultural land	
(i) 20% with indexation benefits	
Actual sale consideration	75,00,000
Stamp duty value as on date of agreement i.e., on 15.7.2024 [Since part consideration is received through IMPS on the date of agreement]	85,00,000
Full Value of Consideration [Stamp duty value on the date of agreement since it exceeds 110% of the actual sale consideration]	85,00,000
Less: Expenditure in connection with transfer [1% of sale consideration i.e., ₹75 lakhs]	75,000
Net Sales Consideration	84,25,000
Less: Indexed cost of acquisition [₹10,85,000 x 363/105]	37,51,000
	46,74,000
Less: Exemption u/s 54B – In respect of rural agricultural land purchased on 1.1.2025. Mr. Raj is eligible to claim exemption u/s 54B since he has used the urban agricultural land for agricultural purposes for more than 2 years preceding the date of its transfer. [See Note for alternative answer]	40,00,000
Long term capital gain	6,74,000
(ii) 12.5% without indexation benefits	
Net Sales Consideration	84,25,000
Less: cost of acquisition	10,85,000
	73,40,000
Less: Exemption u/s 54B	40,00,000
Long term capital gain	33,40,000
Hence 20% with indexation is more beneficial for the the Assessee	



Capital gain on sale of rural agricultural land

As per section 54B, if the new agricultural land is transferred within 3 years from the date of its purchase, while computing the capital gains on transfer of such new agricultural land, the cost of acquisition of such land would be reduced by the amount of capital gain claimed as exempted. However, since rural agricultural is not a capital asset, no capital gain would arise on sale of such land even though it is transferred within 3 years from the date of its purchase.

Note [Alternative answer] – Mr. Raj transferred urban agricultural land on 15.12.2024 and purchased rural agricultural land on 1.1.2025 which is sold on 12.3.2025. Since the rural agricultural land is sold within the same previous year in which original asset was transferred i.e., P.Y. 2024-25, a view can be taken that the exemption under section 54B would not be available as at the time of filing return of income such acquired land does not exist. In such case, long term capital gain would be ₹ 46,74,000.

MULTIPLE CHOICE QUESTIONS (MCQS)

1. In P.Y. 2024-2025, Mr. A has transferred the following assets:

Asset transferred	Full Value of Consideration (₹)	Indexed Cost of Acquisition (₹)	Transfer Date
Residential house property	8 crores	6 crores	25.11.2024
Jewellery	3 crores	2 crores	05.01.2025

Mr. A bought a new residential house property on 01.04.2023 for ₹ 1 crore and on 28.02.2025 deposited ₹ 3 crores in a capital gains deposit account scheme. On 30.07.2025, Mr. A has withdrawn ₹ 3 crores from capital gains deposit account and acquired a residential house property worth ₹ 2.5 crore. What would be the capital gains in the hands of Mr. A for A.Y. 2025-26, if the expenses in connection with transfer of jewellery were ₹ 2,00,000? (MTP 2 Marks, Mar'22)

- (a) ₹ 80,50,000
- (b) ₹ 81,55,705
- (c) ₹ 98,00,000
- (d) ₹ 48,00,000

Ans: (b)

2. A building was acquired on 1.4.1995 for ₹ 20,00,000 and sold for ₹ 80,00,000 on 01.06.2024. The stamp duty value on the date of transfer was ₹ 85,00,000. The fair market value of the building on 1.4.2001 was ₹ 25,00,000. Its stamp duty value on the same date was ₹ 22,00,000. Determine the capital gains on sale of such building for the A.Y. 2024-25?

Cost Inflation Index for F.Y. 2001-02: 100; F.Y. 2023-24: 363 (RTP Nov'21)

- (a) ₹ 14,000
- (b) ₹ 10,75,000
- (c) ₹ 7,40,000
- (d) ₹ 4,75,000

Ans: (a)

3. Mr. Kashyap, CEO of SHY Ltd., purchased a BMW of ₹ 1.15 crores on 23rd September, 2021 for his personal use. On 28.2.2025, he sold this car for ₹ 1 crore and incurred an expenditure of ₹ 2.74 lakhs for transferring the ownership of car. Compute the taxable capital gain/loss, if any, to Mr. Kashyap for the A.Y. 2024-25.

CII-2020-21: 301; 2022-23: 331; 2024-25: 363 (RTP Nov'23)

- (a) Short term capital loss of ₹ 0.1774 crores
- (b) Long term capital loss of ₹ 0.3445 crores
- (c) Nil
- (d) Long term capital loss of ₹ 0.317 crores

Ans: (c)



4. Mr. Vivitzu transferred 600 unlisted shares of XYZ (P) Ltd. to ABC (P) Ltd. on 15.07.2024 for ₹ 3,50,000 when the market price was ₹ 5,15,000. The indexed cost of acquisition of shares for Mr. Vivitzu was computed at ₹ 4,25,000.

Determine the income chargeable to tax in the hands of Mr. Vivitzu and ABC (P) Ltd. in respect of the above transaction. (RTP May'21, MTP 2 Marks, Oct'23)

- (a) ₹ 90,000 chargeable to tax in the hands of Mr. Vivitzu as long-term capital gains and nothing is taxable in the hands of ABC (P) Ltd.
- (b) ₹ 75,000 chargeable to tax in the hands of Mr. Vivitzu as long-term capital gains and nothing is taxable in the hands of ABC (P) Ltd.
- (c) ₹ 90,000 chargeable to tax in the hands of Mr. Vivitzu as long-term capital gains and ₹ 1,65,000 is taxable under the head "Income from other sources" in the hands of ABC (P) Ltd.
- (d) ₹ 75,000 chargeable to tax in the hands of Mr. Vivitzu as long-term capital gains and ₹ 1,65,000 is taxable under the head "Income from other sources" in the hands of ABC (P) Ltd.

Ans: (c)

5. Mr. A, aged 45 years sold an agricultural land for ₹ 52 lakhs on 04.10.2024 acquired at a cost of ₹ 49.25 lakhs on 13.09.2023 situated at 7 kms from the jurisdiction of municipality having population of 4,00,000 and also sold another agricultural land for ₹ 53 lakhs on 12.12.2024 acquired at a cost of ₹ 46 lakhs on 15 02.2023 situated at 1.5 kms from the jurisdiction of municipality having population of 12,000. What would be the amount of capital gain chargeable to tax in the hands of Mr. A for the assessment year 2025-26? Cost inflation index for F.Y. 2017-18: 272; 2018-19: 280; 2019-20:289; F.Y. 2024-25- 363. (RTP Nov'20, MTP 2 Marks, Apr'23)

- (a) Short-term capital gain of ₹ 9.75 lakhs
- (b) Short-term capital gain of ₹ 7 lakhs
- (c) Long-term capital gain of ₹ 4,12,500
- (d) Long-term capital gain of ₹ 5,29,196

Ans: (b)



CHAPTER 3.5: INCOME FROM OTHER SOURCES

CONCEPTS OF THIS CHAPTER

- Income chargeable under "Income from other sources"
- Taxability of receipts without or for inadequate consideration
- Admissible deductions while computing income under this head
- Inadmissible deductions under this head
- Tax computation on casual income
- Computing income chargeable to tax under "Income from other sources"



LDR Questions
Q 8

QUICK REVIEW OF IMPORTANT CONCEPTS

Sum of money or property received by any person [Section 56(2)(x)]		
Nature of asset	Particulars	Taxable value
Money	Without consideration	The whole amount, if the same exceeds ₹ 50,000.
Movable property	Without consideration	The aggregate fair market value of the property, if it exceeds ₹ 50,000.
Movable property	Inadequate consideration	The difference between the aggregate fair market value and the consideration, if such difference exceeds ₹ 50,000.
Immovable property	Without consideration	The stamp value of the property, if it exceeds ₹ 50,000.
Immovable property	Inadequate consideration	The difference between the stamp duty value and the consideration, if such difference exceeds the higher of ₹ 50,000 and 10% of consideration.

Receipts exempted from the applicability of section 56(2)(x)

Any sum of money or value of property received –

- | | |
|--|---|
| (a) from any relative; or | (b) on the occasion of the marriage of the individual; or |
| (c) under a will or by way of inheritance; | |

Other receipts chargeable under this head

Section	Provision
56(2)(viii)	Interest received on compensation/enhanced compensation deemed to be income in the year of receipt and taxable under the head "Income from Other Sources".
56(2)(ix)	sum of money received as an advance or otherwise in the course of negotiations for transfer of a capital asset, if such sum is forfeited and the negotiations do not result in transfer of such asset
56(2)(xi)	Compensation or other payment, due to or received by any person, by whatever name called, in connection with termination of his employment modification of the terms
56(2)(xii)	Sum received, including the amount allocated by way of bonus, under a LIP other than under a ULIP and key man insurance policy, which is not exempt u/s 10(10D).

Exemptions [Section 10]

- | | |
|--------|--|
| 10(16) | The value of scholarship granted to meet the cost of education would be exempt from tax in the hands of the recipient irrespective of the amount or source of scholarship. |
|--------|--|



10(17) Daily allowance and Constituency allowance received by any Member of Parliament or of State Legislatures is exempt.

10(10A) Any commuted pension received by an individual from a fund set up by LIC of India or any other insurer under a pension scheme

Deductions allowable [Section 57]

Particulars	Deduction
In case of dividend	Interest expenditure to earn such income. However, such interest expenses cannot exceed 20% of such income included in total income
Interest on Compensation/enhanced compensation received	50% of such interest income

Deductions not allowable [Section 58]

- Personal expense of the Assessee
- Payment chargeable to tax under the head "Salaries", is payable outside India unless tax has been paid thereon or deducted at source.
- Expenditure in respect of which a payment is made related person, to the extent the same is considered excessive or unreasonable by the Assessing Officer
- Payment or aggregate payments exceeding ₹ 10,000 is made to a person in a day otherwise than by account payee cheque or draft or ECS
- Any expenditure by way of earnings from lotteries
- 30% of expenditure in respect of sum which is payable to a resident on which tax is deductible at source, if such tax has not been deducted or after deduction has not been paid on or before the due date of return specified in section 139(1)

Question & Answers

Question 1

Mr. Ravi received an advance of ₹ 2,00,000 on 10.5.2024 from a closely held manufacturing company (private company in which the public are not substantially interested) in which he holds 22% shareholding. The company had an accumulated profit of ₹ 1,00,000 at the time of giving the advance. Compute the amount of income to be included in the hands of Mr. Ravi for the assessment year 2025-26 and also state the head under which it is to be included. (PYP 2 Marks May'24)

Answer 1

In the present case, the amount of advance of ₹ 2,00,000 received by Mr. Ravi from closely held manufacturing company would be deemed as dividend to the extent of accumulated profit of ₹ 1,00,000, since Mr. Ravi holds 22% shareholding in the company which is not less than 10% of the voting power in the company.

Accordingly, deemed dividend of ₹ 1,00,000 would be taxable in the hands of Mr. Ravi under the head "Income from Other Sources" for the A.Y. 2025-26.

Question 2

Examine with reasons whether the following statements are correct/incorrect with regard to the provisions of Income-tax Act, 1961:

Akash, aged 17 years, received ₹ 3,50,000 as educational scholarship from M/s ABC Ltd. As a part of public welfare program, ABC Ltd. gave the above scholarship for his exceptional performance in Higher Secondary Examinations and to meet the cost of his further studies. The scholarship so received by Akash is taxable in his hands under the head "Income from other sources". (RTP Nov'23)

Answer 2

The statement is incorrect.

Income of Akash, being a minor child, from his skill or talent would be taxable in his hands. However, as per section 10(16), the value of scholarship granted to meet the cost of education would be exempt from tax in the hands of the recipient irrespective of the amount or source of scholarship.



Question 3

Examine with reasons whether the following statements are correct/incorrect with regard to the provisions of Income-tax Act, 1961:

Mr. Shyam is a salaried individual. He purchased a painting and sculpture from his friends Mr. Wivitsu and Mr. Ashish for ₹ 45,000 and ₹ 35,000, respectively. The fair market value of painting and sculpture on the date of purchase was ₹ 80,000 and ₹ 60,000, respectively. Since the difference between fair market value and consideration of painting and sculpture does not exceed ₹ 50,000 individually, nothing would be taxable in the hands of Mr. Shyam. (RTP Nov'23)

Answer 3

The statement is incorrect.

In case movable property is received for inadequate consideration and the difference between **aggregate fair market value** of the property and such consideration exceeds ₹ 50,000, such difference would be taxed as the income of the recipient. Since the difference between aggregate fair market value of painting and sculpture (i.e., ₹ 1,40,000) and consideration (i.e., ₹ 80,000) exceeds ₹ 50,000, the difference of ₹ 60,000 would be taxable in the hands of Mr. Shyam under the head "Income from other sources".

Question 4

On 10.10.2024, Mr. Govind (a bank employee) received Rs. 5,00,000 towards interest on enhanced compensation from State Government in respect of compulsory acquisition of his land effected during the financial year 2016-17. Out of this interest, Rs. 1,50,000 relates to the financial year 2017-18; Rs. 1,65,000 to the financial year 2018-19; and Rs. 1,85,000 to the financial year 2019-20. He incurred Rs. 50,000 by way of legal expenses to receive the interest on such enhanced compensation.

How much of interest on enhanced compensation would be chargeable to tax for the assessment year 2025-26? (SM)

Answer 4

Section 145B provides that interest received by the assessee on enhanced compensation shall be deemed to be the income of the assessee of the year in which it is received, irrespective of the method of accounting followed by the assessee and irrespective of the financial year to which it relates.

Section 56(2)(viii) states that such income shall be taxable as 'Income from other sources'.

50% of such income shall be allowed as deduction by virtue of section 57(iv) and no other deduction shall be permissible from such Income.

Therefore, legal expenses incurred to receive the interest on enhanced compensation would not be allowed as deduction from such income.

Computation of interest on enhanced compensation taxable as "Income from other sources" for the A.Y 2025-26:

Particulars	Rs.
Interest on enhanced compensation taxable u/s 56(2)(viii)	5,00,000
Less: Deduction under section 57(iv) (50% x Rs. 5,00,000)	2,50,000
Taxable interest on enhanced compensation	2,50,000

Question 5

XYZ (P) Ltd. was incorporated during P.Y. 2024-25 having a paid up capital of ₹ 25 lakhs. In order to increase its capital, the company further issues 1,00,000 shares (having face value of ₹ 100 each) during the year at par as on 1.9.2024. The FMV of such shares as on 1.9.2024 was ₹ 75.

- Determine the tax implications of the above transaction in the hands of company, assuming it is the only transaction made during the year.
- Will your Answer change, if shares were issued at ₹ 110 each?
- What will be your answer, if shares were issued at ₹ 110 and FMV of the shares was ₹125 as on 1.9.2024? (MTP 4 Marks, Mar'22)



Answer 5

The provisions of section 56(2)(viib) would be attracted, where consideration is received from a resident person by a company, other than a company in which public are substantially interested, in excess of the face value of shares i.e., where shares are issued at a premium. In such a case, the difference between the consideration received and the fair market value would be chargeable to tax under the head “Income from Other Sources”.

- (i) In this case, since XYZ (P) Ltd., a closely held company issued 1,00,000 shares (having face value of ₹100 each) **at par** i.e., ₹ 100 each, though issue price is greater than FMV, **no amount would be chargeable to tax** as income from other sources.
- (ii) In this case, since shares are issued at a premium, the amount by which the issue price of ₹110 each **exceeds the FMV** of ₹ 75 each would be chargeable to tax under the head “Income from other sources”. Hence, **₹35 lakh**, being ₹35 (i.e., ₹110 - ₹75) x 1,00,000 shares, would be chargeable under section 56(2)(viib).
- (iii) If shares are issued at ₹115 each and FMV of share is ₹ 125 each, **no amount would be chargeable to tax**

even though the shares were issued at a premium, since shares are issued at a price which is **less than the fair market value**.

Question 6

The following details have been furnished by Mrs. Hemali pertaining to the yearended 31.3.2025:

- (i) Cash gift of Rs. 51,000 received from her friend on the occasion of her “Shastiapha Poorthi”, a wedding function celebrated on her husband completing 60 years of age. This was also her 25th wedding anniversary.
- (ii) On the above occasion, a diamond necklace worth Rs. 2 lacs were presented by her sister living in Dubai.
- (iii) When she celebrated her daughter's wedding on 21.2.2025, her friend assigned in Mrs. Healy's favor, a fixed deposit held by the said friend in a scheduled bank; the value of the fixed deposit and the accrued interest on the said date was Rs. 52,000.

Compute the income, if any, assessable as ‘income from other sources’ for A.Y.2025-26. (SM)

Answer 6

- (i) Any sum of money received by an individual on the occasion of the marriage of the individual is exempt. This provision is, however, not applicable to a cash gift received during a wedding function celebrated on completion of 60 years of age. The gift of Rs. 51,000 received from a non-relative is, therefore, chargeable to tax under section 56(2)(x) in the hands of Mrs. Hemali, since the same exceeds Rs.50,000.
- (ii) The provisions of section 56(2)(x) are not attracted in respect of any sum of money or property received from a relative. Thus, the gift of diamond necklace received from her sister, being a relative, is not taxable under section 56(2)(x), even though jeweler falls within the definition of “property”.
- (iii) To be exempt from applicability of section 56(2)(x), the property should be received on the occasion of the marriage of the individual, not that of the individual's son or daughter. Therefore, this exemption provision is not attracted in this case.

Any sum of money received without consideration by an individual is chargeable to tax under section 56(2)(x), if the aggregate value exceeds Rs. 50,000 in a year. “Sum of money” has, however, not been defined under section 56(2)(x).

Therefore, there are two possible views in respect of the value of fixed deposit assigned in favor of Mrs. Hemali –

- (1) The first view is that fixed deposit does not fall within the meaning of “sum of money” and therefore, the provisions of section 56(2)(x) are not attracted. It may be noted that fixed deposit is also not included in the definition of “property”.
- (2) However, another possible view is that fixed deposit assigned in favor of Mrs. Hemali falls within the meaning of “sum of money” received.

Income assessable as “Income from other sources”

If the first view is taken, the total amount chargeable to tax as “Income from other sources” would be Rs.



51,000, being cash gift received from a friend on her Shastiapha Poorthi.

As per the second view, the provisions of section 56(2)(x) would also be attracted in respect of the fixed deposit assigned and the "Income from other sources" of Mrs. Hemali would be Rs.1,03,000 (₹51,000 + Rs. 52,000).

Question 7

Examine whether the following are chargeable to tax and the amount liable to tax:

- (i) Interest on enhanced compensation ₹ 3,00,000 received on 31.03.2025 from Government of Tamil Nadu towards urban land acquired by it. 40% of enhanced compensation interest pertains to previous year 2023-24. (SM)
- (ii) Narayanan transferred 1000 shares of BS Ltd to AB Pvt. Ltd on 01-06-2024 for a consideration of ₹ 2,00,000 when the fair market value of the same as on transaction date was ₹ 3,00,000. The indexed cost of acquisition of shares for Narayanan was ₹ 2,75,000. The transfer was effected off market on which securities transaction tax was not paid. BS Ltd is a closely held unlisted company.
- (iii) Mr. A received ₹ 5,00,000 on 1st March 2025 from Sree Pushpaka Charitable Trust for meeting his medical expenses. The trust is registered under section 12AB of Income-tax Act. (PYP 6 Marks, Nov'22)

Answer 7

- (i) Interest on enhanced compensation received on 31.03.2025 from Government of Tamil Nadu (including 40% of interest on enhanced compensation relating to P.Y. 2023-24) would be deemed to be the income of P.Y. 2024-25, being the year in which it is received irrespective of the method of accounting followed by the assessee.

Interest of ₹ 3,00,000 on enhanced compensation is chargeable to tax during the P.Y. 2024-25 after providing deduction of 50% under section 57. Therefore, ₹ 1,50,000 is chargeable to tax under the head "Income from other sources".

- (ii) **In the hands of Mr. Narayanan**

Since the consideration of ₹ 2,00,000 is less than ₹ 3,00,000, being the fair market value of unquoted shares of BS Ltd., the fair market value of shares i.e., ₹ 3,00,000 would be deemed to be the full value of consideration.

Accordingly, ₹ 25,000 [₹ 3,00,000 – ₹ 2,75,000, being indexed cost of acquisition] would be liable to tax as long term capital gains in the hands of Mr. Narayanan.

In the hands of AB Pvt. Ltd.

Shares received by AB Pvt. Ltd. from Mr. Narayanan for inadequate consideration is chargeable to tax, since the difference exceeds ₹ 50,000. Accordingly, ₹ 1,00,000, being the difference between aggregate Fair Market Value of the shares i.e., ₹ 3,00,000 and consideration i.e., ₹ 2,00,000 would be chargeable to tax under the head "Income from other sources".

- (iii) The sum of ₹ 5,00,000 received from Sree Pushpaka Charitable Trust, without consideration, for meeting medical expenses would not be chargeable to tax in the hands of Mr. A, since the same is received from a trust registered under section 12AB.

Question 8



From the following calculate the taxable amount under the proper head of income for the Financial Year 2024-25 of Mr L, who is resident and 56 years old. The reasons should form part of your answer:

- (i) Dividend of ₹ 50,000 received in April 2024. The dividend was declared by the company - LMN Limited at its annual general meeting held in October 2023.
- (ii) Advance forfeited amounting to ₹ 1,00,000 on 01.05.2024 as the negotiation for transfer of capital asset did not result in transfer of Capital Asset.
- (iii) Cash Gift received from non-relative on the occasion of marriage of son ₹ 51,000.
- (iv) During the Financial Year 2024-25, he received ₹ 99,000 as pension from employer of deceased wife. (PYP 4 Marks Nov'23)

**Answer 8****Computation of taxable amount of Mr. L for the A.Y.2025-26**

Particulars	₹
Income from other Sources	
(i) Dividend from LMN Ltd. would be chargeable to tax under the head "Income from Other Sources". Since dividend was declared by LMN Ltd. at its annual general meeting held in October 2023, the amount of dividend was taxable in the A.Y. 2024-25. Accordingly, the dividend of ₹ 50,000 would not be taxable in the current A.Y. 2025-26.	-
Note - Since the exact amount of dividend to be taxable can be determined only at the time of payment or distribution of dividend, alternate view is possible to tax such dividend on receipt basis. ⁴ Consequently, the amount of dividend received in April, 2024, would be chargeable to tax in the current A.Y. 2025-26. Accordingly, the total income of Mr. L for A.Y. 2025-26 would be ₹ 2,85,000	
(ii) Advance of ₹ 1,00,000 forfeited on 1.5.2024 - The advance received and forfeited on or after 1.4.2014 would be subject to tax under section 56(2)(ix) under the head "Income from Other Sources".	1,00,000
(iii) Cash gifts from non-relative on marriage of son of ₹ 51,000 – Since gift is received by Mr. L from a non-relative on the occasion of marriage of his son, it would be taxable in his hands under section 56(2)(x) under the head "Income from Other Sources".	51,000
(iv) Pension from employer of deceased wife of ₹ 99,000 - Pension after deducting lower of ₹ 33,000 i.e., 1/3 of such income or ₹ 15,000, is chargeable to tax under the head "Income from Other Sources". [₹ 99,000 – ₹ 15,000] (In case of default tax regime it is lower of 33,000 i.e. 1/3 of such income or 25000, is chargeable to tax under the head "Income from Other Sources". [₹ 99,000 – ₹ 25,000]= 74,000 hence taxable amount would be 2,25,000.)	84,000
Taxable amount	2,35,000

EXAM INSIGHTS: Many examinees could not correctly compute taxable amount of pension received from employer of deceased wife after providing deduction under section 57.

Question 9

Examine the following transactions in the context of Income-tax Act, 1961:

- (i) Mr. Koshi transferred 300 shares of Style Pvt Ltd. to Vivitsu Pvt. Ltd. on 10. 9.2024 for ₹ 3,00,000 when the market price was ₹ 5,00,000. The indexed cost of acquisition of shares for Mr. Koshi was computed at ₹ 4,45,000. The transfer was not subjected to securities transaction tax.
Determine the income chargeable to tax in the hands of Mr. Koshi and Vivitsu Pvt. Ltd. because of the above said transaction. (MTP 2 Marks Oct'22)
- (ii) Mr. Chetan is employed in a company with taxable salary income of ₹ 4,00,000. He received a cash gift of ₹ 1,00,000 from Help Charitable Trust (registered under section 12AB) in March 2025 for meeting his medical expenses.
Is the cash gift so received from the trust chargeable to tax in the hands of Mr. Chetan?
(MTP 2 Marks, Oct'22, MTP 1 Mark Nov'21, SM)

Answer 9

- (i) Any movable property received for inadequate consideration by any person is chargeable to tax under section 56(2)(x), if the difference between aggregate Fair Market Value of the property and consideration exceeds ₹ 50,000.
Thus, share received by Vivitsu Pvt. Ltd. from Mr Koshi for inadequate consideration is chargeable to tax under section 56(2)(x) to the extent of ₹ 2,00,000.
As per section 50CA, since, the consideration is less than the fair market value of unquoted shares of Style Pvt. Ltd., fair market value of shares of the company would be deemed to be the full value of consideration. It is presumed that the shares of Style Pvt. Ltd are unquoted shares.
The full value of consideration (₹ 5,00,000) less the indexed cost of acquisition (₹ 4,45,000) would result in a long term capital gains of ₹ 55,000 in the hands of Mr. Koshi.



- (ii) The provisions of section 56(2)(x) would not apply to any sum of money or any property received from any trust or institution registered under section 12AB. Therefore, the cash gift of ₹ 1 lakh received from Help Charitable Trust, being a trust registered under section 12AB, for meeting medical expenses would not be chargeable to tax under section 56(2)(x) in the hands of Mr. Chetan.

MULTIPLE CHOICE QUESTIONS (MCQS)

1. Ms. Shalini received interest on enhanced compensation of ₹ 5,00,000. Out of this interest, ₹ 1,50,000 relates to the previous year 2023-24, ₹ 1,90,000 relates to previous year 2020-21 and ₹ 1,60,000 relates to previous year 2024-25. She paid ₹ 1 lakh to her advocate for his efforts in the matter. What amount would be taxable in P.Y. 2024-25 and taxable, if any, under which head of income. (MTP 2 Marks, Nov'21)
- (a) ₹2,50,000 under the head "income from other sources"
(b) ₹ 4,00,000 under the head "income from other sources"
(c) ₹1,60,000 under the head "income from other sources"
(d) ₹1,60,000 under the head "Capital gains"

Ans: (a)

2. Mr. T, an Indian Citizen and resident of India, earned dividend income of ₹ 4,500 from an Indian company, which was declared on 1.10.2024 and paid in cash to Mr. T. What are the tax implications with respect to the dividend in the hands of Mr. T and Indian Company? (RTP Nov'21)
- (a) Such dividend is taxable in the hands of Mr. T and Indian company is required to deduct tax at source @7.5%.
(b) Such dividend is taxable in the hands of Mr. T and Indian company is required to deduct tax at source @10%.
(c) Such dividend is taxable in the hands of Mr. T. However, Indian company is not required to deduct tax at source since it does not exceed ₹ 5,000.
(d) Such dividend is exempt in the hands of Mr. T. Hence, Indian company is not required to deduct tax at source.

Ans: (b)

3. Mr. Vikas received a gold ring worth ₹ 60,000 on the occasion of his daughter's wedding from his best friend Mr. Vishnu. Mr. Vishnu also gifted a gold chain to Kavya, daughter of Mr. Vikas, worth ₹ 80,000 on the said occasion. Would such gifts be taxable in the hands of Mr. Vikas and Ms. Kavya? (RTP Nov'21)
- (a) Yes, the gift of gold ring and gold chain is taxable in the hands of Mr. Vikas and Ms. Kavya, respectively
(b) Such gifts are not taxable in the hands of Mr. Vikas nor in the hands of Ms. Kavya
(c) Value of gold ring is taxable in the hands of Mr. Vikas but value of gold chain is not taxable in the hands of Ms. Kavya
(d) Value of gold chain is taxable in the hands of Ms. Kavya but value of gold ring is not taxable in the hands of Mr. Vikas

Ans: (c)