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CA | CMA INTERMEDIATE
COMPACT
MAY / SEP - 2025 & JAN 2026



DIRECT
TAX

BY CA BHANWAR BORANA

Handwritten Notes

CA | CMA INTERMEDIATE DIRECT TAX

May | Sep 2025 & Jan 2026

All New Revised Edition

A.Y. 2025-26



CA BHANWAR BORANA

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“COMPACT” is a Color- coded book for easy understanding

- *Black-Headings*
- *Blue – Main Content*
- *Red – Important Point & Words*
- *Green – Amendments*

Thanks to Aadil Sayyed for Design this Book

Wishing you all the best for your career.

Happy reading.

Regards,

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COMPACT

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All the Best!

**Do the Well
God will do the Rest**



Entry 82 of the Union List i.e., List I in the Seventh Schedule to Article 246 of the Constitution of India has given the power to the CG to make laws on Income tax other than agricultural income. Entry 46 of state list give power to State Govt. to make law on tax on agriculture income.

Sources of Income Tax Law

- Income Tax Act, 1961: It is the main source of Income tax law. It's provide determination of Total Income, Tax Liability & Procedure of assessment etc. It applicable to whole of India w.e.f. 1st April, 1962.
- Income Tax Rules, 1962: IT Act empowered Central Board of Direct Tax (CBDT) to make rules. All Forms, procedure, depreciation rates, principles of Valuation of perquisites are provided in the Rules.
- Annual Finance Act: Every year, the FM presents a Finance Bill in the parliament, which contains various amendments proposed to be made in the DT & IDT. Finance Bill (No. 2), 2024 presented by Nirmala Sitharaman on 23rd July, 2024.
As soon as the Bill passed by both the houses of the parliament and thereafter receives the assent of President, in becomes the Finance Act. Finance Bill, 2024 became Finance Act (No. 2), 2024 on 16th August, 2024 after receive assent of president.
- Circulars/Notifications from CBDT: Circulars are issued by the CBDT to clarify the meaning & scope of certain provisions contained in the Act. Notifications are issued by Central Govt./CBDT to give effect to the provision of The Act.
Circulars are binding to Assessing officer but not on Assessee and Courts. However Assessee can take advantage of Circulars which are beneficial to them.
- Supreme Court & High Court Decisions: Various issues which are arise out of the provisions are decided by HC/SC. The SC is the Apex Court and the law laid down by the SC is the law of the land. The decision of HC will apply in the respective state in which such HC have jurisdiction.

Sec. 4: Charging Section of Income Tax

Income Tax is charged for every Assessment Year. It is charge on every person as define u/s 2(31). It is charge on the total income earned by the person during Previous Year. The tax is levied at the rates prescribed by Finance Act.

Sec. 2(9): Assessment Year

A.Y. means the period of 12 months starting from 1st April every year. Income earned in Previous year (PY) is taxed in AY. The A.Y. 25-26 is a period of 12 months from the 1st April 25 till 31st March 26.

Sec. 3: Previous Year

P.Y. means the financial year immediately preceding the AY. For A.Y. 25-26, the PY shall be period from 1st April 24 to 31st March 25 & the Income earned in PY 24-25 is assessed in the AY 25-26.



Provided that, in the case of a business or profession newly set up, or a source of income newly coming into existence, in the FY, the PY shall be the period starting from the date of setting up of the business or profession or, the date on which the source of income newly comes into existence and ending with 31st March of FY.

Sec. 2(31): Person

Person includes—

- ✓ Individual: **Natural Person like Man, Woman, Minor, person of Unsound mind.** E.g., Mr. BB
- ✓ Hindu Undivided Family (HUF): **Consists of all males lineally descended from a common ancestor and includes their wives and daughters.** E.g., Ram's HUF
- ✓ Company: **Any body corporate incorporated in India or outside India.** E.g., BB Virtuals Pvt. Ltd.
- ✓ Firm (Includes LLP): E.g., Gupme Foods LLP
- ✓ Association of Person or Body of Individual (AOP/BOI): E.g., Joint Ventures, Unregistered Trust
- ✓ Local Authority: E.g., Municipality, Gram Panchayat
- ✓ Artificial juridical person: E.g., Deities, Bar Council, Universities

Sec. 2(7): Assessee

It means any **person who is liable to pay any tax or any other sum** under IT Act, 1961. It includes person in respect of which any proceeding initiated, deemed assessee or assessee in default.

Certain cases where Income assessed to Tax in Previous Year itself

- Sec 172 - Shipping Business of NR: Where a ship of NR, carries passengers, livestock, mail or goods shipped at a port in India, the ship is allowed to leave the port only when the tax has been paid.
- Sec 174 - Person leaving India: Where it appears to the AO that any individual may leave India and he has no intention of returning, the income of such individual for the period upto the probable date of his departure from India is chargeable to tax in current year only.
- Sec 174A - AOP/ BOI/ AJP formed for a particular event or purpose: AO apprehends that the AOP/ BOI is likely to be dissolved in the same year, he can make assessment of the income up to the date of dissolution as income of the current year.
- Sec 175 - Persons likely to transfer property to avoid tax: If it appears to the AO that a person is likely to charge, sell, transfer, dispose of his assets to avoid payment of any liability, the total income of such person charge to tax in current year itself.
- Sec 176 - Discontinued business: Where any business or profession is discontinued, the income of the period upto the date of such discontinuance may, at the discretion of the AO, be charged to tax in current year.



Tax Rates for Assessment Year 2025-26 (General Tax Rates as per FA-24)

◆	In case of Individual, HUF, AOP, BOI, Artificial Juridical Person	Rates																								
➤	For Individual, HUF, AOP, BOI, AJP (Resident or Non-resident)																									
	Total Income (NTI) upto ₹ 2,50,000 (Basic Exemption limit)	Nil																								
	above ₹ 2,50,000 upto ₹ 5,00,000	5%																								
	above ₹ 5,00,000 upto ₹ 10,00,000	20%																								
	above ₹ 10,00,000	30%																								
➤	For Senior Citizen (Resident Individual age 60 years or more in PY but less than 80 years)																									
	Total Income (NTI) upto ₹ 3,00,000 (Basic Exemption limit)	Nil																								
	above ₹ 3,00,000 upto ₹ 5,00,000	5%																								
	above ₹ 5,00,000 upto ₹ 10,00,000	20%																								
	above ₹ 10,00,000	30%																								
➤	For Super Senior Citizen (Resident Individual age 80 years or more in PY)																									
	Total Income (NTI) upto ₹ 5,00,000 (Basic Exemption limit)	Nil																								
	above ₹ 5,00,000 upto ₹ 10,00,000	20%																								
	above ₹ 10,00,000	30%																								
◆	Circular No 28/2016 dt 27.07.2016: Any Resident Individual whose 60 th /80 th birthday falls on 1 st April,2025 shall be treated as having completed the age of 60/80 years on 31 st March,2025 i.e. PY 2024-25 (AY 25-26) and hence would be eligible for the higher basic exemption limit of ₹ 3,00,000 & ₹ 5,00,000.																									
◆	Surcharge for Assessee being Individual, HUF, AOP, BOI and AJP:																									
	<table><tr><th>S.No.</th><th>Conditions</th><th>Surcharge %</th></tr><tr><td>1.</td><td>Total Income upto ₹ 50 lakhs</td><td>No Surcharge</td></tr><tr><td>2.</td><td>Total Income more than ₹ 50 lakhs upto ₹ 1 crore</td><td>10% on tax</td></tr><tr><td>3.</td><td>Total Income more than ₹ 1 crore upto ₹ 2 crores</td><td>15% on tax</td></tr><tr><td>4.</td><td>Total Income more than 2 crores and it includes Dividend, Capital gain u/s 111A, 112A & 112 (Special income)</td><td>15% on tax on special income</td></tr><tr><td>➤</td><td>Remaining Total Income (Total Income excluding Special Income) is upto ₹ 2 crores</td><td>15% on tax on remaining income</td></tr><tr><td>➤</td><td>Remaining Total Income (Total Income excluding Special Income) more than ₹ 2 crores upto ₹ 5 crores</td><td>25% on tax on remaining income</td></tr><tr><td>➤</td><td>Remaining Total Income (Total Income excluding Special Income) more than ₹ 5 crores.</td><td>37% on tax on remaining income</td></tr></table>	S.No.	Conditions	Surcharge %	1.	Total Income upto ₹ 50 lakhs	No Surcharge	2.	Total Income more than ₹ 50 lakhs upto ₹ 1 crore	10% on tax	3.	Total Income more than ₹ 1 crore upto ₹ 2 crores	15% on tax	4.	Total Income more than 2 crores and it includes Dividend, Capital gain u/s 111A, 112A & 112 (Special income)	15% on tax on special income	➤	Remaining Total Income (Total Income excluding Special Income) is upto ₹ 2 crores	15% on tax on remaining income	➤	Remaining Total Income (Total Income excluding Special Income) more than ₹ 2 crores upto ₹ 5 crores	25% on tax on remaining income	➤	Remaining Total Income (Total Income excluding Special Income) more than ₹ 5 crores.	37% on tax on remaining income	
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Examples

"₹ in Lakhs"

Sr. No.	Total Income excluding special Income	Special Income (CG & Dividend)	Total Income	Surcharge applicable on Tax Calculated on	
				Special Income	Other Income
(i)	20	25	45	NIL	NIL
(ii)	45	50	95	10%	10%
(iii)	45	70	115	15%	15%
(iv)	45	300	345	15%	15%
(v)	60	700	760	15%	15%
(vi)	150	250	400	15%	15%
(vii)	150	500	650	15%	15%
(viii)	300	100	400	15%	25%
(ix)	300	250	550	15%	25%
(x)	600	100	700	15%	37%

◆ In case of Company

A. Domestic Company

Tax Rate

- Total Turnover or Gross Receipt of P.Y. 2022-23 upto ₹ 400 Crore

25%

- Otherwise

30%

B. Foreign Company

35% [earlier it was 40%]

Surcharge:

Domestic Company

Foreign Company

Total Income > ₹ 1 crore but upto ₹ 10 crores

7%

2%

Total Income > ₹ 10 crores

12%

5%

◆ In case of Firm, LLP, Local Authority

Tax Rate: 30%

Surcharge @ 12% if Total Income more than ₹ 1 crore.

◆ In case of Co. operative society

Tax Rate

Total Income upto ₹ 10,000

10%

Total Income > ₹ 10,000 but upto ₹ 20,000

20%

Total Income > ₹ 20,000

30%

Surcharge: Same as domestic company (7% & 12%)

◆ In all the above cases Health & Education cess applicable @4% on tax (including SC if any).

◆ Sec 288A/288B: Amount of Total Income and Tax rounded off to the nearest ₹ 10.

Example: 1

Mr. Jay is a resident, aged 32 years. His income details for PY 2024-25 are as follows:

- (i) Capital gains u/s 112A ₹ 1,00,00,000 (Asset transfer on 16/06/24)
- (ii) Capital gains u/s 112 ₹ 60,00,000 (Asset transfer on 10/12/24)
- (ii) Capital gains u/s 111A ₹ 2,00,00,000 (Asset transfer on 14/02/25)
- (iii) Other income ₹ 1,00,00,000

Calculate his tax liability for AY 2025-26. He shifted out of default tax regime u/s 115BAC(1A).

Solution:

Particular	Tax Rate	Income	Tax
LTCG 112A (in excess of ₹ 1,25,000)	10%	1,00,00,000	9,87,500
LTCG 112	12.5%	60,00,000	7,50,000
STCG 111A	20%	2,00,00,000	40,00,000
Balance NTI	Slab Rate	1,00,00,000	28,12,500
	Total	4,60,00,000	85,50,000
Add: Surcharge on LTCG & STCG 111A @15%			8,60,625
Add: Surcharge on Balance Tax @15%			4,21,875
			98,32,500
Add: Health & Edu. Cess @4%			3,93,300
Net Tax Payable			1,02,25,800

Example: 2

Mr. BB is a resident, aged 34 years. His income details for PY 2024-25 are as follows:

- (i) Capital gains u/s 112A ₹ 2,00,000 (Asset transfer on 23/07/24)
- (ii) Capital gains u/s 112 ₹ 1,00,000 (Asset transfer on 15/05/24)
- (iii) Capital gains u/s 111A ₹ 3,00,000 (Asset transfer on 17/06/24)
- (iii) Dividend ₹ 13,00,000
- (iv) Other income - ₹ 3,34,00,000

Calculate his tax liability for AY 2025-26. He shifted out of default tax regime u/s 115BAC(1A).

Solution:

Particular	Tax Rate	Income	Tax
LTCG 112A (in excess of ₹ 1,25,000)	12.5%	2,00,000	9,375
LTCG 112	20%	1,00,000	20,000
STCG 111A	15%	3,00,000	45,000
Balance NTI	Slab Rate	3,47,00,000	1,02,22,500
		3,53,00,000	1,02,96,875

Add: Surcharge on LTCG & STCG 111A @15%	11,156
Add: Surcharge on Tax on Dividend @15% #	57,446
Add: Surcharge on Balance Tax@25% (9839524 x 25%)	24,59,881
	1,28,25,358
Add: Health & Edu. Cess @4%	5,13,014
Net Tax Payable	1,33,38,372

Tax on dividend = $1,02,22,500 / 3,47,00,000 \times 13,00,000 = 3,82,976$

Test Yourself

From following information calculate net tax liability & assume assessee shifted out of default tax regime u/s 115BAC(1A).

Nature of Income	Mr. SK (64 years NR)	Mr. Dev ✓ (28 years)	Mr. AK (52 years)
Capital gains u/s 112A (Asset transfer on 10/12/24)	1,50,000	-	8,00,00,000
Capital gains u/s 112 (Asset transfer on 10/12/24)	1,70,000	1,90,00,000	2,00,000
Capital gains u/s 111A (Asset transfer on 10/12/24)	4,10,000	7,00,00,000	1,00,000
Dividend	-	-	49,00,000
Other Income	99,00,000	60,00,000	6,59,00,000
Total Income	1,06,30,000	9,50,00,000	15,11,00,000
Final Answer	34,55,095	2,15,13,050	4,16,57,366



- ◆ **Marginal Relief in Surcharge:** If there is little bit increase in income over 50 Lakhs/1 Crore/2 Crore/5 Crore (in case of Ind/HUF/AOP/ BOI/AJP) or 1 Crore (in case of Company/Firm/local Authority/Co. op. society) or 10 Crore (in case of Company/ Co. op Society), surcharge is applicable on entire amount of tax and as a result increase in tax is more than the increase in income. In order to remove this defect, assessee shall be allowed relief to the extent increase in tax is more than the increase in income.

Example-1 Total income of Shree Ltd. (Indian Company) ₹ 1,01,00,000. T/o of PY 22-23 is ₹ 450 crores. Assessee not opted sec. 115BAA. Calculate tax liability.

Solution	₹	
Tax on Total Income (1,01,00,000 × 30%)	30,30,000	
Add: Surcharge @7%	<u>2,12,100</u>	
	32,42,100	Marginal Relief
Above amount is restricted to Tax on 1 crore + (NTI - 1 crore)		₹ 1,42,100
(30,00,000 + 1,00,000)	<u>31,00,000</u>	↓
	31,00,000	
Add: HEC @ 4%	<u>1,24,000</u>	
Net Tax Liability	<u>32,24,000</u>	

Example-2 Total income of Tree Ltd. (Indian Company) ₹ 10,02,30,000. T/o of PY 22-23 is ₹ 350 crores. Assessee not opted sec. 115BAA. Calculate tax liability.

Solution	₹	
Tax on Total Income (10,02,30,000 × 25%)	2,50,57,500	
Add: Surcharge @12%	<u>30,06,900</u>	
	2,80,64,400	Marginal Relief
Above amount is restricted to Tax on 10 crore + (NTI - 10 crore)		₹ 10,84,400
(2,67,50,000 + 2,30,000)	<u>2,69,80,000</u>	↓
	2,69,80,000	
Add: HEC @ 4%	<u>10,79,200</u>	
Net Tax Liability	<u>2,80,59,200</u>	

Example-3 Total income of Mr. Sam (62 years) NR is ₹ 1,01,00,000. Assessee shifted out from default tax regime u/s 115BAC. Calculate tax liability.

Solution	₹
Tax on Total Income	
Upto 2,50,000	Nil
> 2,50,000 upto 5,00,000	12,500
> 5,00,000 upto 10,00,000	1,00,000
>10,00,000 upto 1,01,00,000	<u>27,30,000</u>



	28,42,500	
Add: Surcharge @ 15%	<u>4,26,375</u>	
	32,68,875	Relief
Above amount is restricted to Tax on 1 crore + (NTI - 1 crore)		₹ 75,125
(30,93,750 + 1,00,000)	<u>31,93,750</u>	↓
	31,93,750	
Add: HEC @ 4%	<u>1,27,750</u>	
Net Tax Payable	<u>33,21,500</u>	

Test Yourself

From following information calculate net tax liability & assume assessee shifted out from 115BAC

	Mr. Devam (49 years)	Mr. Krishiv (28 years)
Total Income	5,07,20,000	2,04,40,000
Final Answer	2,00,05,050	74,09,350

Sec. 87A: Rebate from Tax to Certain Individuals

For **Resident Individual** having Total Income upto ₹ 5,00,000.

- ↓ a.) 100% of tax payable, or
 ↓ b.) ₹ 12,500
 Whichever is **Lower**

Notes:

1. This rebate shall be reduced before adding health & education cess.
2. Rebate u/s 87A available against all types of Income **except** LTCG u/s 112A.
3. Marginal relief concept not applicable on rebate **except when assessee opted 115BAC**.
4. Rebate in case of 115BAC discussed with concept of 115BAC in later part of this topic.

Example: Calculate tax liability of Ms. Sneha resident Individual (Age 24 years).

	Case - 1	Case - 2
Total Income	4,40,000	5,07,000
Tax Liability	9,500	13,900
Less: Rebate 87A		
a) Tax Amount	9,500	Not Available
b) 12,500	<u>12,500</u>	
Whichever is lower	9,500	
Add: HEC @ 4%	Nil	13,900
	Nil	556
Net Tax Liability	Nil	14,456



Alternate Taxation Regime

Sec. 115BAC: Tax on Income of Ind, HUF, AOP, BOI, AJP [Amended w.e.f. AY 25-26]

Assessee	Individual, HUF, AOP/BOI (other than Co.op. society), AJP		
Tax rate	<u>Total income</u>	<u>Tax rate</u>	
	Upto ₹ 3,00,000	Nil	
	₹ 3,00,001 to ₹ 7,00,000	5%	
	₹ 7,00,001 to ₹ 10,00,000	10%	
	₹ 10,00,001 to ₹ 12,00,000	15%	
	₹ 12,00,001 to ₹ 15,00,000	20%	
	Above ₹ 15,00,000	30%	
Special Income (u/s 111A, 112, 112A etc.) shall be taxable @ Special rates.			
Surcharge & cess	<p>➤ Surcharge will be @ 10%/15%/25% depending on Total Income of assessee. In this case 37% surcharge not applicable even Total Income > ₹ 5 crores.</p> <p>➤ Health & Education cess shall be @ 4% always.</p>		
AMT	<p>➤ Assessee paid tax as per sec. 115BAC is not required to pay AMT.</p> <p>➤ B/F AMT credit cannot be set off against income u/s 115BAC. Therefore, if assessee has b/f AMT credit, it should first exhaust the AMT credit and thereafter opt for sec 115BAC.</p>		
Conditions	1. Assessee does not claim following deductions/exemptions:		
	HP	<p>➤ Interest u/s 24(b) for Self-occupied property</p> <p>➤ Set-off of HP loss (Let out/Deemed to be let-out property) against other head (HP loss shall not be allowed to be carried forward and it will get lapse)</p>	
	Salary	<p>➤ Entertainment allowance and Professional tax u/s 16(ii)& (iii)</p> <p>➤ Leave travel concession u/s 10(5)</p> <p>➤ HRA u/s 10(13A)</p> <p>➤ Allowance u/s 10(14) (except: DTDC)</p> <p>D. Travel allowance to a Divyang employee for commuting between the place of residence and place of duty.</p> <p>T. Travelling or tour allowance: to meet the cost of travel on tour or on transfer.</p> <p>D. Daily allowance: to meet the ordinary daily charges incurred by an employee due to absence from his normal place of duty.</p> <p>C. Conveyance allowance: to meet the expenditure on conveyance in performance of duties of an office.</p>	
		PGBP	Additional Dep. u/s 32(1)(iia), 35(1)(ii),(iia),(iii),35(2AA), 35AD.
		IFOS	Allowance for income of minor u/s 10(32)
			Allowance to MP/MLA u/s 10(17)

	<p>Deduction</p> <p>Deduction under Chapter VI-A & 10AA</p> <p>Except: deduction u/s 80JJAA, 80CCD(2), 80CCH(2).</p>
	<p>2. Assessee cannot set-off any b/f loss or unabsorbed depreciation attributable to deduction referred above.</p> <p>3. HP loss cannot be set off against other head and it cannot be C/F.</p> <p>4. No deduction or exemption for allowance or perquisite provided under any other law for the time being in force.</p>
Option to opt out from 115BAC [115BAC(6)]	<p>Section 115BAC is default tax regime. However assessee can avail the benefit of regular tax regime by exercising the option.</p> <ul style="list-style-type: none"> ➤ Assessee does not have PGBP: Option of regular tax regime must be exercise alongwith the return u/s 139(1) for every PY. ➤ Assessee having PGBP: Option of regular tax regime must be exercise alongwith the return u/s 139(1). Such option once exercised shall apply for subsequent AY also. However the option once exercise for regular tax regime can be withdraw only once for PY & there after the person shall never be eligible for the benefit of regular tax regime till the time having any income under PGBP.
Rebate u/s 87A As per default tax regime u/s 115BAC	<p>For Resident Individual having Total Income upto ₹ 7,00,000.</p> <p>a.) 100% of tax payable, or</p> <p>b.) ₹ 25,000</p> <p>Whichever is Lower</p> <p>Marginal Relief: If Total Income more than ₹ 7,00,000 but does not exceed ₹ 7,22,220, tax on such income cannot exceed the amount by which the Total Income exceeds ₹ 7,00,000. However marginal Relief not available in case of regular tax regime.</p>
Notes	<p>If assessee having PGBP & opting 115BAC for first time in AY 24-25 and if any additional depreciation is included in B/F unabsorbed depreciation then such additional depreciation not allowed to be set-off but it will be added to opening WDV of block as on 01/04/2023.</p>

Example: Mr. BB (age 34 years) is a Resident Individual. His total income for AY 25-26 is ₹ 7,00,000 or ₹ 7,27,000 or ₹ 7,30,000 or ₹ 7,50,000. Assessee not opted regular tax regime. Calculate tax liability.

Total Income	7,00,000	7,20,000	7,30,000	7,50,000
Tax as per 115BAC	20,000	22,000	23,000	25,000
Less: Rebate u/s 87A				
a.) 100% of tax payable, or				
b.) ₹ 25,000	20,000	Nil	Nil	Nil
	Nil	22,000	23,000	25,000



<u>Restricted to</u>				
Tax on 7 lakhs + (NTI - 7 lakhs)	Nil	20,000	30,000	50,000
	Nil	20,000	23,000	25,000
Add: Health & Edu. Cess @ 4%	Nil	800	920	1,000
Net Tax Liability	Nil	20,800	23,920	26,000
Marginal Relief	-	2,000	-	-

Some other Special Tax Rates

Sec. 115BB: Tax on winnings from lotteries, crossword puzzles, races, card games etc

Tax Rate: **30%**

Sec. 115BBE: Deemed Income u/s 68 to 69D

Tax Rate: **60%** (surcharge @ 25% and HEC @ 4%) effective rate **78%**

Note: No set off of any loss shall be allowable against deemed income.

Sec. 115BBJ: Income from Online Games

Tax Rate: **30%** on winning from online games.

"Online Game" means a game that is offered on the internet and is accessible by a user through a computer resource including any telecommunication device.

Notes for all above sections:

- Deduction u/s 28 to 44C or sec 57 not allowed against above income, means gross income taxable.
- Deduction u/c VI-A not available.
- Basic Exemption Benefit NOT Available against above income (Except 112 (LTCG), 112A & 111A in case of resident Individual & HUF)

Deemed Income [Sec 68 to 69D]**Sec 68: Cash Credit**

Where any sum is found credited in the books of the assessee and assessee offers no explanation about the nature and source or the explanation offered is not satisfactory in the opinion of the AO, the sum so credited may be treated as income of the assessee of that PY.

However, where the sum so credited consists of loan or borrowing or any such amount, by whatever name called, any explanation offered by the assessee shall not be deemed to be satisfactory, if, the person in whose name such credit is recorded also offers no explanation about the nature and source or explanation not satisfactory.

Further, any explanation offered by a closely held company ^{Rt co (unlisted co)} in respect of any sum credited as share application money, share capital, share premium or any such amount, in the a/c's of such company shall be deemed to be not satisfactory, if, the resident person, in whose name such credit is recorded in the books of such company also not explains about the nature and the source of such sum or explanation not satisfactory.

Sec 69: Unexplained Investments

Where in the PY, the assessee has made investments which are not recorded in the BOA and the assessee offers no explanation about the nature and the source of investments or explanation not satisfactory in the opinion of the AO, the value of the investments are taxed as deemed income of the assessee of that PY.

Sec 69A: Unexplained Money, Assets etc.

Where in any PY, the assessee is found to be the owner of any money, bullion, jewellery or other valuable article and the same is not recorded in the BOA and the assessee offers no explanation about the nature and source of acquisition of such money, bullion etc. or the explanation not satisfactory in the opinion of the AO, the money and the value of bullion etc. may be deemed income of the assessee of that PY.

Sec 69B: Amount of investments etc., not fully disclosed in the books of account

Where in any PY, the assessee has made investments or is found to be the owner of any bullion, jewellery or other valuable article and the AO finds that the amount spent on making such investments or in acquiring such articles exceeds the amount recorded in the BOA by the assessee and he offers no explanation for the difference or the explanation is unsatisfactory in the opinion of the AO, such excess may be deemed income of the assessee of that PY.



Sec 69C: Unexplained Expenditure

Where in any PY, an assessee has incurred any **expenditure** and he offers **no explanation** about the source of such expenditure or the explanation is unsatisfactory in the opinion of the AO, AO can treat such unexplained expenditure as the income for such PY. Such unexplained expenditure which is deemed to be the income of the assessee shall not be allowed as deduction under any head of income.

Sec 69D: Amount borrowed or repaid on hundi

Where any amount is borrowed on a hundi or any amount due thereon is repaid other than through an account payee cheque drawn on a bank, the amount so borrowed or repaid shall be deemed to be the income of the person borrowing or repaying for the PY in which the amount was borrowed or repaid, as the case may be.

However, where any amount borrowed on a hundi has been deemed to be the income of any person, he will not be again liable to be assessed in respect of such amount on repayment of such amount. The amount repaid shall include interest paid on the amount borrowed.

Note: Income mentioned u/s 68 to 69D taxable @60% (+25% Surcharge +4% HEC i.e.78%)

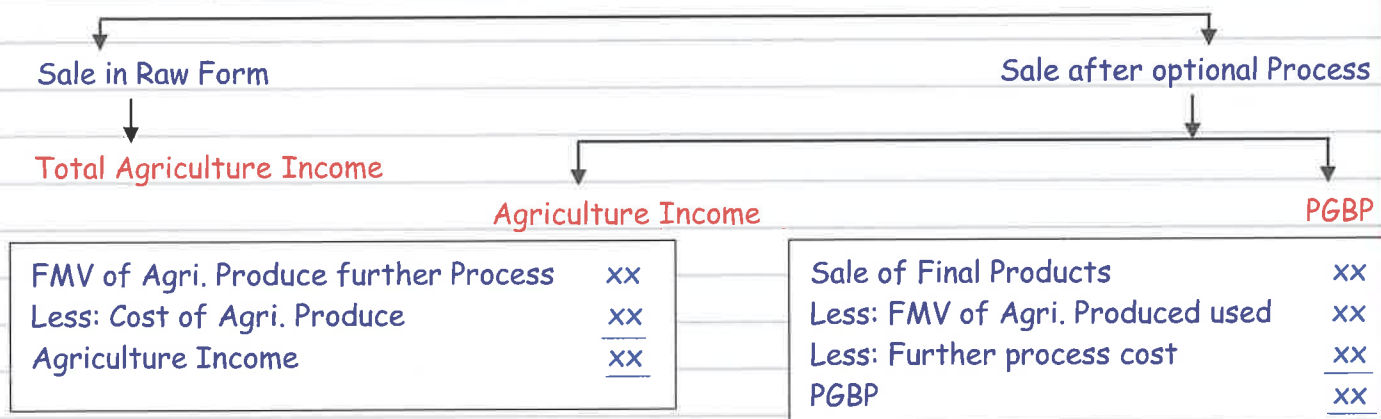
Agriculture Income

➤ **Sec 10(1) Agriculture Income** - It is exempt from Tax if its from agriculture land in India.

As per section 2(1A), Agriculture income means -

- (a) Rent from agriculture land (used for agriculture purpose).
- (b) Income from sale of agriculture produce. (Note 1)
- (c) Rent from house located in Rural Area (use as dwelling house, store house).
- (d) Income from nursery.

Note 1: Rule 7- Sale of agriculture produce



➤ Special Rules for Tea, Coffee & Rubber

Rules	Activity	Agri. Income	PGBP
8	Growing and Manufacturing of Tea	60%	40%
7B	Growing & Manufacturing of Coffee		
	(a) Grown & cured	75%	25%
	(b) Grown, Cured, Roasted & Grounded	60%	40%
7A	Growing & Manufacturing of Rubber	65%	35%

Remember:- Higher% represents income from Agriculture

➤ Partial Integration in case of Agricultural Income

Agriculture income is exempt from tax but for computation of tax it shall be considered if following conditions are satisfied

- Assessee is Individual, HUF, AOP, BOI, AJP.
- Agriculture income more than ₹ 5,000.
- Non-agriculture income more than Basic exemption.

Computation of Tax Liability

		₹
Non-Agriculture Income (Total Income)	[A]	xx
Agriculture Income	[B]	xx
Total	[C]	xx
Tax Payable on "C"	[D]	xx
Aggregation of "B" and Basic Exemption	[E]	xx
Tax payable on "E"	[F]	xx
Net Tax payable "D-F"	[G]	xx



Sec. 6: Residential Status

Total income of an assessee cannot be determined without knowing his residential status. Scope of Total income is based on Residential status. If any person become **Resident** then his **whole world income is taxable** in India but if person become **Non-Resident**, then **only Indian Income** is taxable for that person. Residential status shall be determined for **every person for each previous year** independently.

▪ Residential Status of Individual

Basic Conditions as per Section 6(1)	No. of days stay in India	Satisfied or Not satisfied
1. Stay in India for 182 days or more in P.Y. (Current PY)		
OR		
2. Stay in India for 60 days or more in P.Y. and 365 days or more in Last 4 P.Y.'s		
Additional Conditions Section 6(6)		
1. Resident for 2 P.Y. or more in Last 10 P.Y.'s		
AND		
2. Stay in India for 730 days or more in Last 7 P.Y.'s		

If any individual satisfies **any One Basic condition** (at least one) then he is treated as Resident in India otherwise Non-Resident in India. If any individual become **Resident in India**, then we have to check that such person in **Resident and ordinarily resident (ROR)** in India or **Resident but Not ordinarily (R but NOR)** Resident in India. If the such assessee satisfy **both the additional conditions** then he is treated as R and OR otherwise R but NOR.

Notes:

- The day on which he **enters India**, as well as the day on which he leaves India, shall be taken into account as the **stay of Individual in India**.
- In the following cases only Basic condition no. 1 is applicable for Determination of residential status (**2nd Basic condition should be Ignored**).
 - Indian Citizen**, Leave India during the P.Y. for an **employment outside India**.
 - Indian Citizen** being a **crew member** of Indian Ship, **leave India** during the P.Y.
 - Indian Citizen or Person of Indian origin** engaged outside India in any employment or a Business or Profession, and **Visiting India** during P.Y. & **his total income** (excluding income from foreign source) is **upto ₹ 15 Lakhs in P.Y**

Note : Person of Indian Origin means, he or either of his parents or either of his grandparents were born in undivided India.



- In case of Indian citizen or person of Indian origin having total income (other than foreign source income) of **more than ₹ 15 lakhs** then **2nd** basic condition applicable and instead of **60 days in PY**, **120 days are considered**, if stay in India 120 days or more but less than 182 days in current PY & stay in India for 365 days or more in last 4 PY's then he will be treated **as resident but not ordinary resident**. (In this case no need to check additional conditions)

Note: Income from foreign sources (FSI) means income which **accrues or arises outside India** except income derived from a business controlled in or a profession set up in India.

- Summary - How many days an Indian Citizen or a Person of Indian origin visits in India during PY

Less than 120 days	120 days or more but upto 181 days	182 days or more irrespective of Total Income
NR in India	If he satisfied both the conditions then R but NOR otherwise NR (i) Stay in India for 365 days or more in last 4 PY, and (ii) His Total Income (other than foreign income) more than ₹ 15 Lakhs.	If he satisfied both the conditions then R&OR otherwise R but NOR (i) Resident in India for 2 PY or more in last 10 PY's, and (ii) Stay in India for 730 days 1or more in last 7 PY's

- In case of **Indian citizen**, crew member of a foreign bound ship (originated from India and destination outside India or vice versa) leaving India, followings days shall **be treated as stay outside India**; - "From the **date entered into the continuous discharge certificate (CDC)** is respect of **joining** the ship & ending on the date entered into CDC in respect of **signing** of the ship."

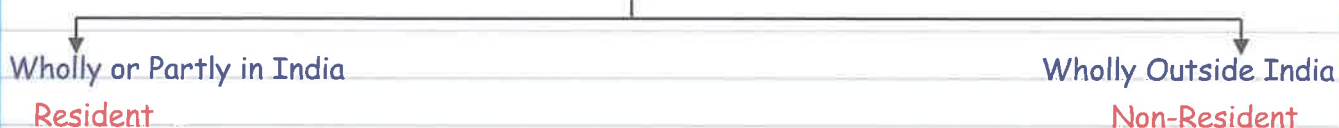
Sec. 6(1A): Deemed Resident

In case of **Indian citizen**, having **total income (other than foreign source income)**, **exceeding ₹ 15 lakhs** during the PY shall be **deemed to be resident** in India in that PY, 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 & he is **always treated as R but NOR**.

- ⊗ However, this provision will not apply in case individual resident in PY as per section 6(1).
- ✓ **Liable to tax means** that there is an **income-tax liability on such person** under foreign country tax law. It also **includes a person** who has subsequently been **exempted from such liability** under the law of that country.

Sec. 6(2): Residential Status of Hindu Undivided Family (HUF)

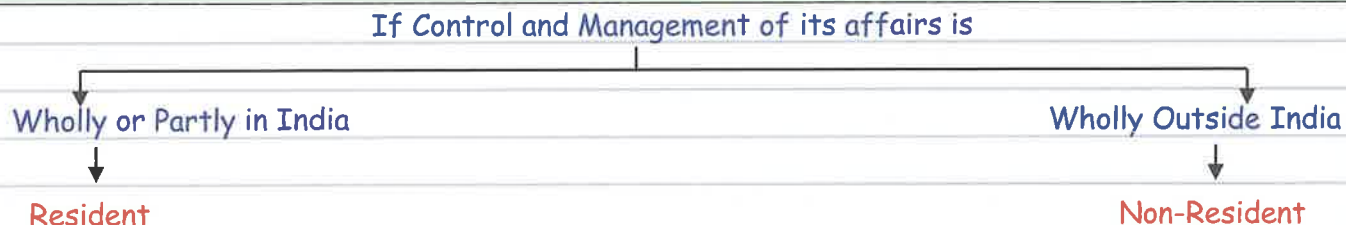
If Control and Management of its affairs is



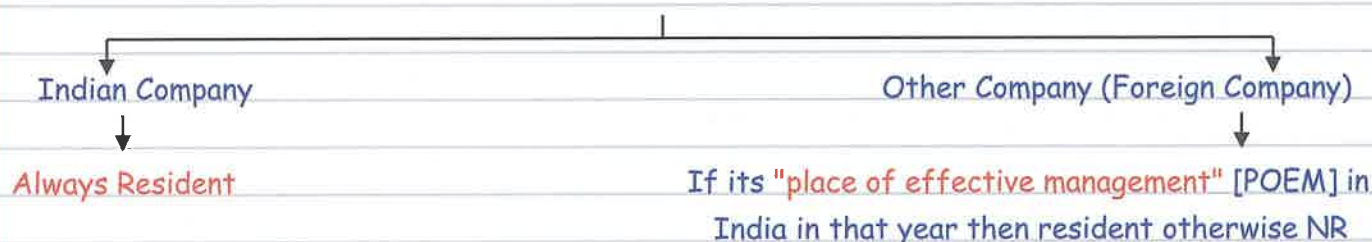


Note: If Karta of HUF is satisfying both the additional Conditions as per sec 6(6) the HUF is treated as R and OR otherwise R but NOR.

Sec. 6(2): Residential Status of FIRM/AOP/BOI/Local Authority/AJP

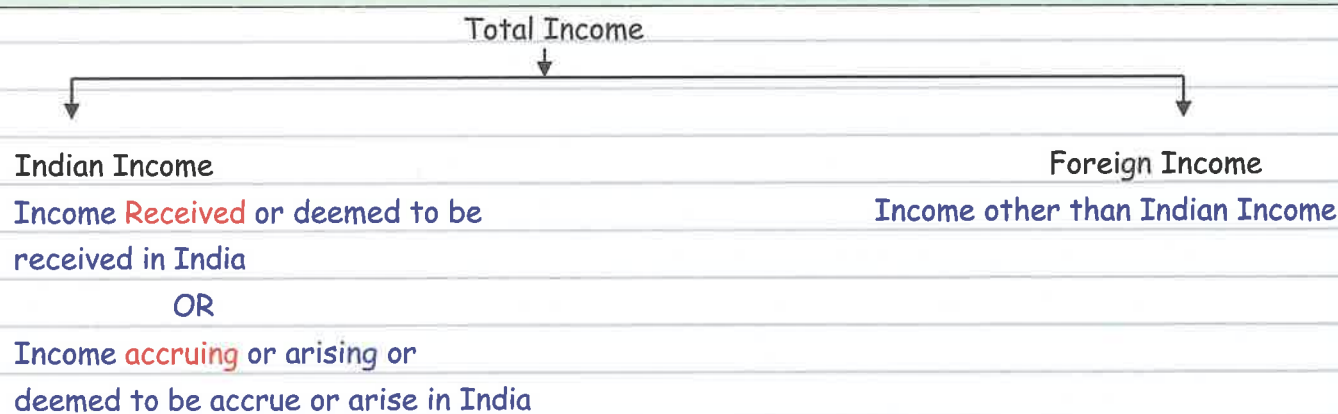


Sec. 6(3): Residential Status of Company



- POEM means a "place where key management & commercial decisions that are necessary for the conduct of the business of an entity as a whole are in substance made".

Sec. 5: Scope of Total Income



- Taxability of Income for Individual & HUF

S.No.	Income	R & OR	R but NOR	NR
1.	Indian Income	Taxable	Taxable	Taxable
2.	Foreign Income			
	- Income from Business or Profession Controlled / setup from India	Taxable	Taxable	Not Taxable
	- Other foreign Income	Taxable	Not Taxable	Not Taxable



➤ Taxability of Income for Other Assessee

S.No.	Income	Resident	NR
1.	Indian Income	Taxable	Taxable
2.	Foreign Income	Taxable	Not Taxable

Notes:

1. Income received means, **received** for the **first time**. After receiving income outside India subsequently if it is remitted into India, it **cannot be treated as Receipt of Income**.
2. Income may be in **Cash or in Kind**.
3. Any income already taxed on accrual basis, consequently remitted to India, is not chargeable to tax at the time of remittance irrespective of the residential status.
4. Income **accrual** in India means, income **generated in India** or **source of Income** situated in India.

Sec. 7: Income deemed to be received in India

- (i) Contribution in excess of **12% of salary to Recognised provident fund** or interest credited in excess of **9.5% p.a** (Annual accretion to the credit of RPF).
- (ii) Contribution by employer under a pension scheme referred u/s 80CCD (NPS).
- (iii) Amount transferred from URPF to RPF (being the employer's contribution and interest thereon).

Sec. 9: Income deemed to accrue or arise in India

- Sec 9(1)(i): Through or from any Business Connection in India or any property in India or any asset or source of income in India or transfer of a capital asset situated in India

⊗ Following shall not be treated as Business Connection in India

- A. **Purchase of goods in India for export**.
- B. **Collection of news and views in India** for transmission out of India.
- C. **Shooting of cinematograph films in India** if such NR is Individual, who is not a citizen of India or a firm which does not have any partner who is a citizen of India or who is resident in India or a company which does not have any shareholder who is a citizen of India or who is resident in India.
- D. In case of a **foreign co.** engaged in the business of mining of diamonds, from the activities which are confined to **display of uncut and unassorted diamonds** in any special zone notified by the CG.

☞ Income from property, Asset or source of Income is situated in India, then it is treated as deemed to be accrued or arise in India.

☞ Income through transfer of Capital asset situated in India whether registration of documents of transfer in India or outside India or consideration received in India or outside India.



- Sec 9(1)(ii): Salary Income for service rendered in India, whether such Income before or after service rendered like Gratuity, Pension, Profit in lieu of Salary.
- Sec 9(1)(iii): Salary received by Indian Citizen from Govt. for service rendered outside India.
 - ✓ As per section 10(7) perquisite & allowances are **Exempt**.
- Sec 9(1)(iv): Dividend paid by Indian Company Outside India
- Section 9(1)(viii) : Deemed accrual of gift made to a person outside India

Gift of any money made by resident to:-

 - NR or foreign company on or after 5th July 2019 or
 - R but NOR on or after 1st April 2023,

shall be deemed to be accrued or arise in India.
- Sec 9(1)(v): If interest is payable by: -
 - a. Government, or
 - b. Resident person [Exception: where money borrowed and used, for the purposes of a **business or profession carried on by him outside India or for the purposes of earning any income from any source outside India**], or
 - c. NR when money borrowed **used** for the purpose of business or profession **carried in India by him**,
 - then such interest is treated as **deemed to be accrued or arise in India**.

E.g.: If a NR 'Lobo' borrows money from a NR 'Hobo' and invests the same in shares of an Indian company, interest payable by 'Lobo' to 'Hobo' will **not be deemed to accrue or arise in India**.
- Sec 9(1)(vi): If royalty payable by: -
 - a. Government, or
 - b. Resident person [Exception : Where it is payable for the transfer of any right or the use of any property or information or for the utilization of services for the purposes of **a business or profession carried on by such person outside India or for the purposes of earning any income from any source outside India**]
 - c. NR in respect of transfer of any right, use of any property or information or utilization of service for purpose of business or profession carried in India or earning any Income from any source in India
 - then such Royalty is treated as **deemed to be accrued or arise in India**.



Notes:

1. Lumpsum Royalty by resident to NR for supply of computer software along with computer hardware under the scheme of CG shall not be treated as deemed to be accrued or arise in India.
 2. If transfer of property is already taxable "Capital gain" then it is not covered under "Royalty".
 3. "Royalty" means consideration (including any lump sum consideration) for —
 - (i) Transfer of all or any rights (including the granting of a licence) in respect of a patent invention, model, design, secret formula or process or trade mark or similar property;
 - (ii) Imparting of any information concerning the working of, or the use of, a patent, invention model, design, secret formula or process or trade mark or similar property;
 - (iii) Use of any patent, invention, model, design, secret formula or process or trade mark or similar property;
 - (iv) Imparting of any information concerning technical, industrial, commercial or scientific knowledge, experience or skill;
 - (v) Use or right to use any industrial, commercial or scientific equipment;
 - (vi) Transfer of all or any rights (including the granting of a licence) in respect of any copyright literary, artistic or scientific work including films or video tapes for use in connection with television or tapes for use in connection with radio broadcasting;
 - (vii) Rendering of any services in connection with the activities referred in above clauses.
 4. Consideration for use or right to use of computer software is covered under Royalty.
- Sec 9(1)(vii): If fees for technical service (FTS) payable by: -
- a. Government, or
 - b. Resident person [Exception : Where the fees is payable in respect of technical services utilised in a business or profession carried on by such person outside India or for the purpose of earning any income from any source outside India.]
 - c. NR in respect of Technical service utilised in business or profession carried on by such person in India or such service utilise for earning any income from any source in Indian,
 - then such FTS is treated as deemed to be accrued or arise in India.

FTS means: any consideration (including any lumpsum consideration) for the rendering of any managerial, technical or consultancy services (including providing the services of technical or other personnel). However, it does not include consideration for any construction, assembly mining or like project undertaken by the recipient or consideration which would be income of the recipient chargeable under the head 'Salaries'.



Sec. 15: Charging Section

Income is taxable under the head salary if there is **Employee - Employer relationship** (master - servant relation).

Salary is taxable even in case of part time job like employee work with 2 employers simultaneously.

Salary is taxable on the basis of **due or received** whichever is **earlier**.

Salary received by **partner** from partnership firm shall be taxable under the head **PGBP**.

Salary received by **MP, MLA, MLC** shall be taxable under the head **IFOS**.

Contract **"of"** service - Taxable under **Salary**.

Contract **"for"** service - Taxable under **PGBP**.

Salary forgone is always taxable since it is merely application of income. Salary surrendered to central Govt., shall not to be treated as salary.

Any amount received before joining employment or after cessation of employment with that person is treated as **"Profit in lieu"** of salary & it is taxable under salary.

- In this topic we have to find out salary income of employee as per default tax regime u/s 115BAC & as per Normal Provision of Income tax. So let's begin this Topic and we will complete this topic with the help of 17 working notes

Name of Assessee:-		PY 24-25 AY 25-26
Computation of Taxable Salary		
Particulars	Note	Amount (₹)
Basic Salary	Note-1	xxx
Dearness Allowance (D.A.)	Note-2	xxx
Commission	Note-3	xxx
Bonus	Note-4	xxx
Advance Salary / Arrears salary	Note-5	xxx
Gratuity	Note-6	xxx
Pension	Note-7	xxx
Leave salary	Note-8	xxx
Allowances	Note-9	xxx
Provident Fund	Note-10	xxx
Super Annuation fund	Note-11	xxx
Voluntary Retirement Compensation	Note-12	xxx
Retrenchment Compensation	Note-13	xxx
Perquisite	Note-14	xxx
Gross Salary		xxx
Less: Deduction u/s 16		
1. Professional Tax [Sec 16(iii)]	Note-15	xxx
2. Entertainment Allowance [Sec 16(ii)]	Note-16	xxx
3. Standard deduction [Sec 16(ai)]	Note-17	xxx
Net Taxable Salary		xxx



➤ Note:1 Basic Salary -

It means fixed regular payment (base salary) of Employee. It is fully taxable.

➤ Note:2 Dearness Allowance (D.A.)

DA is fully taxable whether it is 'in terms' or not in terms'.

DA in terms means DA which is forming part of retirement benefit calculation (provided in terms of employment for retirement benefits). In all the formulas, DA is considered only if it is 'in terms'. If nothing is given about DA then assume it is 'not in terms'.

➤ Note:3 Commission

Commission is fully taxable whether it is Turnover commission or any other commission.

➤ Note:4 Bonus

It is fully taxable.

➤ Note 5 Advance & Arrears Salary

☞ Advance Salary: Advance salary is taxable on receipt basis. If advance against salary is given or only advance is given then it should be ignored because it is treated as loan.

☞ Arrears Salary: It means salary under dispute or increase of salary retrospectively. It is taxable in the year in which it is received or dispute resolved whichever is earlier.

➤ Note 6 Gratuity

Gratuity is a voluntary payment made by an employer in appreciation of services rendered by the employee.

☞ Gratuity received during the employment - fully taxable for all employees (Government as well as non-government employees).

☞ Gratuity received at the time of retirement- It is Exempt u/s 10(10) as follows

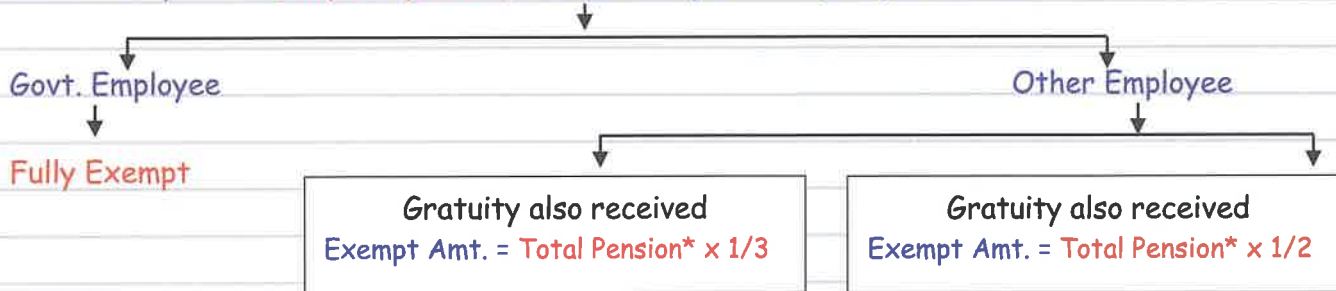
Govt. Employee		Other Employee	
Fully Exempt		POGA Employee	Non - POGA Employee
		(EE covered under Payment of Gratuity Act, 1972)	
		Exempt Amount: Lower of	Exempt Amount: Lower of
		(i) $15/26 \times \text{salary p.m.*} \times \text{No. of years of completion of service}$ [rounding off allowed]	(i) $1/2 \times \text{Avg. salary p.m.*} \times \text{No. of years of completion of service}$ [rounding NOT allowed]
		(ii) Actual amount received	(ii) Actual amount received
		▼(iii) Maximum ` 20 lakhs	▼(iii) Maximum ` 20 lakhs



POGA	Non POGA
*Salary P.M. Latest Basic salary p.m xx (+) Latest D.A (both) xx Salary P.M. xx	*Avg. Salary P.M. (Don't include month of retirement) Avg. Basic salary of last 10 months xx (+) Avg. DA(T) of last 10 months xx (+) Avg. T/O comm. of last 10 months xx Avg. Salary P.M. xx
In case of POGA employee if fraction is more than 6 months, it should be rounded off. e.g. 30 years 4 months = 30 years 30 years 6 months = 30 years 30 years 9 months = 31 years	In case of Non-POGA employee fraction should be ignored. eg: 30 years 3 months = 30 years 30 years 11 months = 30 years
Notes: 1. If gratuity is received from more than one employer in the same previous year, the maximum exemption allowed is ₹ 20,00,000. 2. If gratuity was received in an earlier previous year and another gratuity is received in the current year from a different employer, the ₹ 20,00,000 limit will be reduced by the amount of exemption already claimed.	

➤ Note 7 Pension

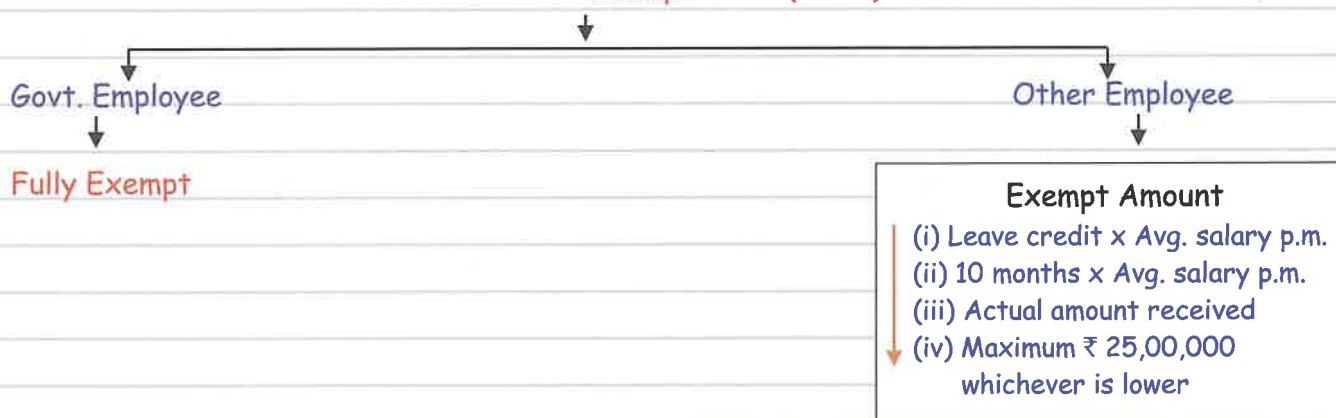
- ☞ Uncommuted pension (monthly pension) - Taxable for All employees
- ☞ Commuted pension (lumpsum pension) - It is exempt u/s 10(10A) as follows



*Total Pension = Full value of pension.

➤ Note 8 Leave Salary: It means encashment of un-utilised leave.

- Received during the employment - fully taxable for all employees.
- Received at the time of retirement- It is Exempt u/s 10(10AA) as follows



Avg. Salary P.M. (Avg of last 10 months upto date of Retirement)	
Avg. Basic salary of last 10 months	xx
Avg. DA (in terms) of last 10 months	xx
Avg. Turnover Commission of last 10 months	xx
Avg. Salary P.M.	xx
Leave Credit (months) = Leave allowed - Leave taken	
↓	
[Max. 30 days for every completed year]	

➤ Note 9 Allowances

S.No.	Allowance	Exempt u/s 10(14)
1.	Commutation / Transport allowance (Office to Home & Home to Office)	Max ₹ 3200 p.m (in case of blind/deaf & dumb or handicapped)
2.	Children Education Allowance	Max ₹ 100 p.m. per child (Max 2 child.)
3.	Children Hostel Allowance	Max ₹ 300 p.m. per child (Max 2 child.)
4.	Underground Allowance (Mines)	Max ₹ 800 p.m.
5.	Tribal area Allowance	Max ₹ 200 p.m.
6.	Allowance to employees of Transport undertaking	70% of such allowance upto a max. of ₹ 10,000 p.m.
7.	Traveling or Tour allowance	Exempt amount = Amount spent
8.	Conveyance allowance	
9.	Uniform allowance	
10.	Daily allowance	
11.	Helper allowance (for office Purpose)	
12.	Research / Academy allowance	
13.	House Rent Allowance (HRA)	Exempt u/s 10(13A) - Lower of (i) 40% / 50%* of salary [BS+DA(T)+T/O Comm.] (ii) Actual Amount received (iii) Rent paid - 10% of salary [BS+DA(T)+ T/O Comm.] *50% if metro cities (Mumbai/Delhi/Chennai/ Kolkata), 40% for other cities.
Notes	1. All other allownaces are fully taxable. 2. If assessee opted 115BAC default tax regime then above exemptions are not available except DTDC (1,7,8,10 allownace exemptions above) 3. Entertainment allowance is also taxable but Govt. EE can claim deduction u/s 16.	

➤ Note 10 Provident Fund

☞ Statutory Provident Fund (SPF) - PF for Govt. or semi-Govt. employees

A. During the Employment

EE's Contribution	ER's Contribution	Int. on EE Cont.	Int on ER Cont.
Ignore (deduction u/s 80C allowed)	Exempt	Exempt	Exempt

B. At the time of retirement lumpsum amount received by Employee - Fully Exempt u/s 10(11)

☞ Recognised Provident Fund (RPF) - PF which is recognised by Commissioner of IT

A. During the Employment

EE's Contribution	ER's Contribution	Int. on EE Cont.	Int on ER Cont.
Ignore (deduction u/s 80C allowed)	Exempt upto 12% of salary [Basic + DT(T)+ T/o Comm)	Exempt upto 9.5% p.a.	Exempt upto 9.5% p.a.

B. At the time of retirement lumpsum amount received by Employee - Fully Exempt u/s 10(12)

Notes:

- Lumpsum amount received from RPF is exempt if employee has rendered service of 5 years or more, If employee rendered service less than 5 years then exemption allowed in respect of employer's contribution and interest shall be withdrawn. However in the following 3 cases exemption shall not be withdrawn even though service is less than 5 years:
 - Employee retired due to ill health.
 - Employee retired due to shut down of employer's business.
 - Employee has retired with the instruction that his balance in RPF should be transferred to new employer, or to NPS A/C referred u/s 80CCD.
- Interest on EE's Contribution towards SPF/RPF : Exemption u/s 10(11) or 10(12) not available for interest accrued during the PY to the extent it relates to the contribution made by that employee exceeding ₹ 2,50,000 in any PY in that fund, on or after 01/04/21. If in that fund employer not made any contribution, then, a higher limit of ₹ 5,00,000 would be applicable. It may be noted that interest accrued on contribution to such funds upto 31/03/21 would be exempt without any limit, even if the accrual of income is after that date.

☞ Unrecognised Provident Fund (URPF) - PF which is recognised by Commissioner of IT

A. During the Employment

EE's Contribution	ER's Contribution	Int. on EE Cont.	Int on ER Cont.
Ignore	Exempt	Exempt	Exempt



B. At the time of retirement lumpsum amount received by Employee - Taxable

EE's Contribution	ER's Contribution	Int. on EE Cont.	Int on ER Cont.
Ignore	Taxable under Salary	Taxable under IFOS	Taxable under Salary

➤ Note 11 Superannuation Fund

☞ Approved Superannuation Fund (ASF)

A. During the Employment

EE's Contribution	ER's Contribution	Int. on EE Cont.	Int on ER Cont.
Ignore (deduction u/s 80C allowed)	Exempt upto ₹ 7,50,000 p.a. [as per sec 17(2)(vii)]	Exempt	Exempt

B. At the time of retirement lumpsum amount received by Employee - Fully Exempt u/s 10(13)

☞ Unapproved Superannuation Fund (UASF) - treatment same as URPF.

➤ Note 12 Voluntary Retirement Scheme Compensation [VRS]

Exempt u/s 10(10C) - Lower of;

(i) Salary p.m. x 3 months x No. of years of completion of service (Fraction IGNORED)

(ii) Salary p.m. x No. of remaining months of service

(iii) Actual amount received

↓ (iv) Maximum ₹ 5,00,000

Salary p.m. = Basic + DA(T) + T/O Commission

➤ Note 13 Retrenchment Compensation

Exempt u/s 10(10B) - Lower of;

(i) * Compensation as per Industrial Disputes Act.

(ii) Maximum ₹ 5,00,000

* $\frac{15}{26} \times \text{Avg salary of last 3 months (Basic + DA(T) + T/O Commission)} \times \text{No. of years of completion of service (if fraction is more than 6 months then round off)}$



- Note 14 Perquisite : It means extra benefit offered by employer to employee. It may be monetary or non- monetary.

Difference between allowance & perquisites.

- ☞ Allowance - It means monthly fixed amount received by employee from employer whether actual expenditure is incurred or not. It is part of salary, e.g. HRA, Medical Allowance etc.
- ☞ Perquisites - It means benefits or facility provided by employer. It is received when actual expenditure is incurred e.g. Medical facility, car facility etc.

1. Leave Travel Concession (LTC) : Travel benefit is provided for travel anywhere in India

Travel by	Exempt Amount u/s 10(5)
Air	↓ (i) Actual Expenses xx ↓ (ii) Economy Class Fare xx Whichever is Lower
Any other Mode	Railway facility Available ↓ (i) Actual Expenses xx ↓ (ii) 1 st Class Railway AC Fare xx Whichever is Lower Railway facility Not Available ☞ Recognised transport facility Available ↓ (i) Actual Expenses xx ↓ (ii) Deluxe Class Bus Fare xx Whichever is Lower ☞ Recognised transport facility Not Available ↓ (i) Actual Expenses xx ↓ (ii) 1 st Class Railway AC Fare of similar distance xx Whichever is Lower

Notes

1. LTC exemption is available for the travel of **employee, his spouse, children* & dependent relative** - (Mother, Father, Brother, Sister)
 * Exemption of LTC is available only for 2 children born on or after 1/10/1998.
 ☞ 1st time = 1 child, 2nd time = Twins
 Total 3 children = Exemption Allowed to **all 3 children**.
 ☞ 1st time = Twins, 2nd time = 1 child
 Total 3 children = Exemption allowed to **only 2 children**.
2. LTC exemption is available for 2 years during the block of 4 Calendar years (current block is 2022-25)

2. Medical Facility

A. Treatment in India

Treatment in Govt. Hospital	}	Fully Exempt
Treatment in Employer's Own Hospital		
Treatment in Govt. Recognised Hospital		
Otherwise (like treatment in Pvt Hospital, clinic etc.)		Fully Taxable

B. Treatment outside India

Benefit of treatment and Benefit of stay	Exempt upto limit prescribed by RBI
Benefit of Travel	It is fully exempt if GTI is upto ₹ 2,00,000 otherwise it is Fully Taxable

Notes:

- Medical insurance premium paid by ER for EE is fully exempt.
- Exemption for treatment is allowed for employee, spouse, children & dependent relative (Mother, Father, Brother, Sister).
- Exemption of stay & travel is allowed only for one patient & one attendant.
- Exemption allowed in respect of any illness relating to COVID-19 subject to such conditions as the CG may notify.

Employee shall submit the following documents to the employer, -

- ☞ COVID-19 positive report of the employee or family member;
- ☞ all necessary documents of medical treatment of the employee or his family member for COVID-19 or illness related to COVID-19 suffered within 6 months from the date of being determined as COVID-19 positive; and
- ☞ a certification in respect of all expenditure incurred on the treatment.

3. "Loan " given by Employer to Employee or any family member of EE at concessional rate of interest or without rate of interest

Taxable amount =

Loan Amt o/s at end of month x (SBI Interest rate on 1st April of PY - Actual Interest rate)

Notes:

- Loan amount is upto ₹ 20,000 then interest benefit is not taxable.
- If loan is taken for treatment of specified disease, then interest benefit is not taxable even if loan amt is more than ₹ 20,000.

4. Gift from ER to EE

- ☞ Gift in Cash/Money = Taxable
- ☞ Gift in Kind = if FMV of Gift is less than ₹ 5000 p.a. then it is fully exempt otherwise fully taxable

5. ESOP: Employee stock option plan or Sweat Equity shares to EE

It means Company offers shares to employee at concessional rates.

Taxable amount: - **FMV of shares - Issue price**

FMV should be taken on the date on which option is exercised by employee.

Calculation of FMV

(i) Case where share is listed on a recognized stock exchange (RSE), FMV shall be average of opening price and closing price of share on that date.

If share is listed on more than one RSE, FMV shall be the avg. of opening price and closing price on RSE which records highest volume of trading in the share.

If on the date of exercising the option, there is no trading in the share on any RSE, FMV shall be—closing price on last trading session.

(ii) Case where share is not listed, the FMV shall be determined by a merchant banker.

6. Use of Movable Assets

Computer & Laptop	Fully Exempt
Any other Asset (Tv, AC, Bike etc.)	Taxable Amount
☞ Owned by Employer	→ 10% of cost of Asset
☞ Hired by Employer	→ Hire charges paid by Employer

7. Transfer of Movable Assets

Taxable Amt = WDV of Asset - Consideration paid by EE

For WDV calculation depreciation shall be calculated for every completed year from the date of acquisition of asset till transfer of asset as per following methods

Computer, Laptop & Electronic items	Depn @ 50% on WDV method
Motor Cars	Depn @ 20% on WDV method
Any other Asset	Depn @ 10% on SLM method

8. Lunch Facility

It is exempt upto ₹ 50 per meal, if lunch is provided in office premises or through Paid voucher.

Notes: (i) Tea, coffee, or breakfast provided in office - **Not taxable**.

(ii) Lunch is provided in remote area is **Not taxable**

9. Employer contribution towards RPF, ASF & NPS [Sec 17(2)(vii)]

Employer contribution towards Recognized Provident Fund (RPF), New Pension Scheme (NPS) referred u/s 80CCD, Approved Super annuation Fund (ASF) in **excess of ₹ 7,50,000 is treated as perquisite in hands of EE and Taxable.**



- upto 90 days and thereafter, the value of perquisite shall be charged for both such accommodations.
2. Where accommodation is provided to the same employee for more than one PY, the value of perquisite shall not exceed the amount so calculated for first PY, as multiplied by amount which is a ratio of the CII (cost inflation index) for PY for which the value is calculated and CII for the previous year in which the accommodation was initially provided to the employee.
"First PY" means P.Y. 2023-24 or PY in which the accommodation was provided to the employee, whichever is later.
3. Meaning of Salary - BDBACM
- | | |
|---------------------------|--------------------------------------------|
| B - Basic salary | A - Taxable Allowances |
| D- Dearness Allowance (T) | C - Commission (All) |
| B- Bonus | M - Other monetary income excluding perks. |
4. For computing BDBACM perks should not be considered.
5. BDBACM should be calculated on due basis, means salary of current period should be considered. Advance salary, arrears salary should be ignored.
6. For computing BDBACM, retirement benefit should not be considered i.e. gratuity, Pension, leave salary, VRS, Retrenchment compensation, lump sum amount from P.F. etc.
7. BDBACM should be considered for the time for which assessee had occupied such house.
8. Employer contribution towards PF & interest on PF should also be not considered.
9. If hotel facility is provided at the time of transfer of employee & if it is upto 15 days, then it is not taxable.
10. If furniture is also provided with house then perks (use of movable asset Perks 6) shall also be added in above taxable amounts.
11. In house facility & hotel facility if employer recover any rent from employee, then such rent should be deducted from above taxable amount.

13. Motor Car Facility

- Car is used for fully office purpose - **Fully Exempt**

If Employer maintains record of each journey & Employer issue a certificate that car is used exclusively for office purpose.

- Car is used for fully personal purpose - **Fully Taxable**

Motor Car	Taxable Amount
☞ Owned by Employer	→ 10% of cost of Asset
☞ Hired by Employer	→ Hire charges paid by Employer
Add: Driver Salary (if Paid by ER)	
Add: Running & Maintenance Charges (if paid by ER)	

➤ Car is used for partly office & partly personal purpose (POPP)

Car Own by	Running & Maint. Charges paid by	Taxable Amount	
Employee	Employee	No Benefit, nothing is taxable.	
	Employer	Running & Maint. charges paid by ER Less: 1800 p.m. / 2400 p.m. [upto 1600CC] [>1600CC]	xxx xxx ---
Employer	Employee	600 p.m. / 900 p.m. [upto 1600CC] [>1600CC]	xxx
	Employer	1800 p.m. / 2400 p.m. [upto 1600CC] [>1600CC]	xxx

Notes:

- ☞ If employer also provided driver, then ₹ 900 pm, should be added to above taxable amount.
- ☞ If more than one car is provided for POPP then one car is taxable according to above standard amount & other car shall be taxable on the assumption that it is fully used for personal purpose.
- ☞ 1600CC is also know as 1.6Ltr of engine.

14. Transport facility for Transport Employee (Free tickets)

- (i) For airlines & railway employee - Airlines & Railway facility is fully exempt.
- (ii) For other employees - It is fully taxable.

15. Education Facility

- (i) For employee - Fully exempt
- (ii) For children - It is exempt if value of education is upto ₹ 1000 p.m. per child & education is provided in employer's own institution or institution where employer have tie-ups, otherwise fully taxable.
- (iii) For other relatives - Fully taxable.

16. Gas, Electricity & Water Supply - Fully Taxable

17. Free Servant - Fully Taxable

18. Any other Perquisite - Fully Taxable



Note: perquisite No 13 to 17 are taxable only if employee is specified EE, if EE is non-specified then these perquisites are Exempt.

Specified Employee means

- ☞ Director employee;
- ☞ Employee having cash salary more than ₹ 50,000;
- ☞ employee having substantial Interest in the business of employer.

➤ Following perquisites are Fully Exempt

1. Telephone / mobile bill paid or re-imbursed by Employer.
2. Scholarship to employee's children.
3. Goods sold by employer to employee at reasonable price.
4. Tax on non-monetary perquisites paid by employer.
5. Personal Accidental Policy premium paid by employer.

➤ Note 15 Professional Tax

It means tax on employment. If it is paid by employer on behalf of employee, then first it should be taxable and there after deduction allowed u/s 16. If it is paid by employee then only deduction is allowed.

➤ Note 16 Entertainment Allowance

It is fully taxable for all employees but deduction is allowed to government employees u/s 16 as follows:

- ↓ (i) 20% of Basic Salary
 - ↓ (ii) Actual amount received
 - ↓ (iii) Maximum ₹ 5000
- Whichever is lower

➤ Note 17 Standard Deduction

If assessee opted 115BAC	Assessee optout from 115BAC
↓ (i) Salary Income	↓ (i) Salary Income
↓ (ii) ₹ 75,000	↓ (ii) ₹ 50,000

➤ Notes: Concept of Pay Scale

Eg:- MS. Priyal joined Railways as on 1/7/2020 on a pay scale of 10000 - 1000 - 13000 - 1500 - 16000 - 2000 - 20000 - 3000. Compute basic salary for A.Y. 2025-26

1/7/20	→	30/6/21	10,000
1/7/21	→	30/6/22	11,000



1/7/22	→	30/6/23	12,000
1/7/23	→	30/6/24	13,000
1/7/24	→	30/6/25	14,500

Salary for PY 2024 - 25

1/4/24 → 31/3/25

$$= (13,000 \times 3\text{months}) + (14,500 \times 9\text{months})$$

$$39,000 + 1,30,500$$

$$= 1,69,500$$

➤ Rebate u/s 89 for Arrears of salary

To calculate the relief, the following steps should be taken :

Step 1 : Firstly, calculate the tax due in the current year by including the arrears in your total income.

Step 2 : Now calculate the tax due in the current year by excluding the arrears from your total income.

Step 3 : Compute the difference of the two figures of Step 1 & 2 and let's call that difference as 'X'.

Step 4: Now Calculate your tax due in the year for which the arrears have been received by including the arrears in your total income.

Step 5 : Then Calculate your tax due in the year for which the arrears have been received by excluding the arrears from your total income.

Step 6 : After that compute the difference of the two figures of Step 4 & 5 and let's call the difference as 'Y'.

Step 7: Lastly subtract X (Step 3) from Y (Step 6) and you will get the relief amount.

Definition of Salary

Entertainment Allowance	Only Basic Salary
Gratuity (POGA)	Basic + DA (Both)
Gratuity (Non POGA)	Basic + DA (T) + T/O Commission
Leave Salary	
HRA	
Contribution to RPF	
VRS	
Retrenchment Compensation	BDBACM
House & Hotel Facility	

Following Benefits **not available** when assessee opted section 115BAC

1. HRA exemption u/s 10(13A)
2. LTC exemption u/s 10(5)
3. Allowance exemptions u/s 10(14) **except DTDC**
4. Free meal exemption upto ₹ 50

Remuneration received by Individual (not being a citizen of India) is fully exempt in following cases		
10(6)(ii)	Remuneration received by Foreign Diplomats/ Consulate and their staff Conditions: (a) The remuneration received by our corresponding Govt. official's resident in such foreign countries should be exempt. (b) The above-mentioned officers should be the subjects of the respective countries and should not be engaged in any other business or profession or employment in India.	Individual (not being a citizen of India)
10(6)(vi)	Remuneration received as employee of a foreign enterprise for services rendered by him during his stay in India, if: a) Foreign enterprise is not engaged in any trade or business in India; b) His stay in India does not exceed period of 90 days in such PY; and c) Such remuneration is not liable to deducted from the income of employer chargeable under this Act	Individual - Salaried Employee (not being a citizen of India)
10(6)(viii)	Salary received by or due for services rendered in connection with his employment on a foreign ship if his total stay in India does not exceed 90 days in the PY.	Individual (NR who is not a citizen of India)



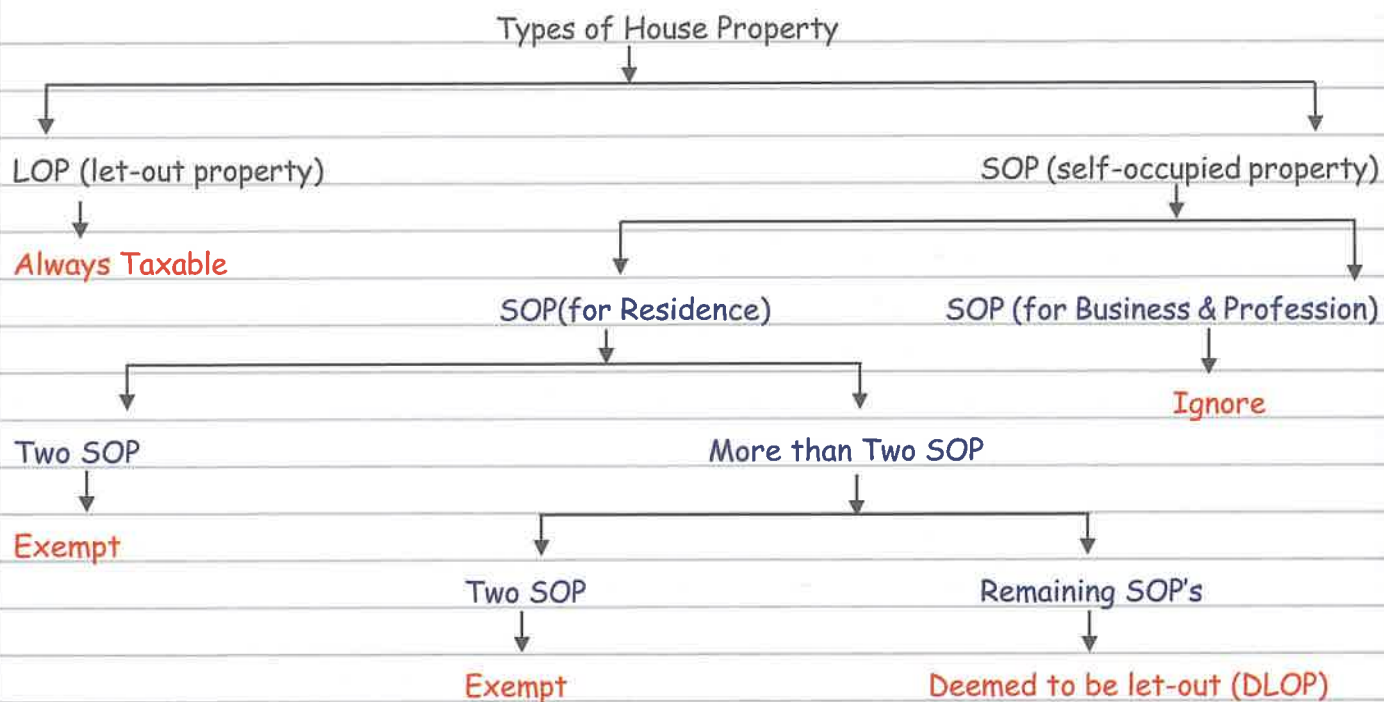
Notes

Sec. 22: Charging Section

Rental Income (Annual value) is taxable under the head income from house property if following two conditions are satisfied:

1. There should be House property **
2. Assessee should be owner of that house property.

** House property means building or land appurtenant thereto.



Computation of Income from House Property	SOP (Res.)	LOP	DLOP
↑ Municipal value	-	xx	xx
↑ Fair Rent	-	xx	xx
↓ Whichever is higher	-	xx	xx
↓ Standard Rent	-	xx	xx
↑ Expected Rent	-	xx	xx
↑ Actual Rent	-	xx	-
Gross Annual Value (GAV)	-	xx	xx
Less: Municipal taxes paid	-	(xx)	(xx)
Net Annual value (NAV)	-	xx	xx
Less: Deduction u/s 24			
(a) Standard deduction 30% of NAV	-	(xx)	(xx)
(b) Interest on Loan	-(xx)	(xx)	(xx)
Income from House Property	-(xx)	xx	xx

1. **Municipal value:** It means value of property as per municipality record.
2. **Fair Rent:** It means rent of similar property in same locality. It is also known as reasonable rent/reasonable letting value.
3. **Standard Rent:** It means rent as per rent control Act, It is the maximum amount of rent that can be legally recovered by Owner from tenant.
4. **Actual Rent:** Actual Rent = Rent received (+) Rent receivable (-) unrealised rent.
5. **Municipal Taxes**
 - ☞ It means tax which is recovered by Municipality, local Authority, gram panchayat.
 - ☞ It is also known as house Tax, property tax, local tax etc.
 - ☞ It is allowed on **payment basis** [paid - Allowed; o/s - Not allowed].
 - ☞ It is allowed only if it is paid by **owner**.
 - ☞ If municipal taxes are given on % age basis then it should be calculated on municipal value.

6. Interest on Loan

- ☞ Interest on loan is allowed as deduction, if loan is taken for the **purpose of house property** i.e. purpose, construction, repair, renovation.
- ☞ Loan may be taken from banks, financial institutions trusts, friends, family etc.
- ☞ Interest is allowed **on due basis** [paid - Allowed; o/s - Allowed]
- ☞ Interest on Interest (**Penal interest**) is **not allowed** as deduction.
- ☞ Any fresh loan is taken for repayment of earlier loan & earlier loan was taken for the purpose of house property then interest of fresh loan shall be allowed as deduction.
- ☞ Interest paid **outside India shall not be allowed** as deduction if **TDS not deducted** on such interest.
- ☞ **Pre-construction/Acquisition interest:** It means interest paid **before the year** in which construction was completed. It is allowed in Five equal instalments from the year in which construction was completed.
- ☞ **Limit of Interest Deduction**

LOP/DLOP

SOP (Residence) 2 SOP

✓ **Special Case**

loan is taken on or after 1.4.1999

+

loan taken for purchase or construction of house property

No Limit (Full Interest Allowed)

Max ₹ 2,00,000



4 Income from House Property

+

If loan is taken for construction then construction should be completed within 5 years from the end of the year in which loan was taken

✓ General Case →

Max. 30,000

➤ Un-realised Rent and recovery of un-realised Rent

Actual Rent = Rent received + Receivable - unrealised rent

Unrealised rent: It means rent which is not recovered by owner from tenant. It is like Bad debts of rent, it is deductible while calculating actual rent if following four conditions of Rule 4 are satisfied.

1. Tenancy should be bonafide.
2. Tenant should have vacated that house property.
3. Such tenant should not occupy any other house property of same assessee.
4. Reasonable step should have been taken for recovery of unrealised rent.

Note : As per ITR FORM unrealised rent can be reduced from Gross Annual Value.

➤ Arrears of rent : It means rent under dispute.

➤ Sec 25A : Recovery of un-realised rent & arrears of rent

Recovery is taxable in the year in which it is recovered, under the head house property, whether the assessee is the owner of the property or not is that financial year. Any expenditure incurred for such recovery shall be Ignored

Taxable Amt = Recovery x 70% [30% std deduction]

➤ Other Expenses

Repair & Maintenance

Society charges

Parking charges

Insurance charges

Electricity & water charges

Lift charges, etc

Not allowed because 30 %
Standard deduction on NAV
is allowed

- Concepts of Vacancy: Let-out property is vacant part of the year due to vacancy

$$ER \leq AR + VR$$

↓
GAV

$$ER > AR + VR$$

↓
GAV

Example

1. Monthly Rent = ₹ 20,000 p.m.

Expected Rent = ₹ 1,92,000

Vacancy = 3 months.

$$ER \qquad AR \quad + \quad VR$$

$$1,92,000 \leq 1,80,000 + 60,000$$

↓
GAV

2. Monthly Rent = ₹ 3,000 p.m.

Expected Rent = ₹ 1,95,000

Vacancy = 2 months.

$$ER \qquad AR \quad + \quad VR$$

$$1,95,000 > 30,000 + 6,000$$

↓
GAV

3. Monthly Rent = ₹ 25,000 p.m.

Expected Rent = ₹ 3,00,000

Vacancy = 3 months.

$$ER \qquad AR \quad + \quad VR$$

$$3,00,000 = 2,25,000 + 75,000$$

↓
GAV

- Concept of Partly Let out property (Area wise)

If some area of House property is let out & remaining is self occupied then let out portion is treated as LOP & self-occupied portion is treated as SOP. In this case, Municipal value, fair rent, standard rent, municipal taxes, interest on loan should be divided between SOP & LOP on area basis.

Actual rent should never be divided because it is always for LOP.

➤ Concept of Partly Let out property (Time wise)

If property is let out for some period of time & self-occupied for remaining time then such property is treated as LOP only. If property is let out for even 1 day, then, also that property is treated as LOP.

➤ Assessee owns more than Two SOP

Two of such house properties (at the option of Assessee) treated as SOP & remaining be treated as DLOP.

➤ Concept of Joint ownership

Joint ownership (co-ownership) means property is owned by more than one owner, in this case, income from house property is calculated normally & thereafter it should be divided between co-owners in their ownership ratio.

Interest on Loan

☞ LOP/DLOP - No Limit

☞ SOP - Limit of ₹ 30,000/ ₹ 2,00,000 apply each owner

➤ Concept of composite Rent

Composite rent = Rent of House property + Rent of other assets & amenities

a) Agreement separable: Rent of HP taxable under IFHP & other asset Rent taxable under PGBP/IFOS.

b) Agreement Not separable: Total Rent taxable under PGBP/IFOS.

Note: If let out of property not feasible without other asset then total rent is taxable under the head income from Business / Profession or income from other sources whether agreement is separable or not. Eg. Hotel.

➤ Sec. 27: Deemed owner

1. If any individual transfers any house property to his / her spouse for without consideration or inadequate consideration then such individual is treated as Deemed owner of such property.

Exception : Transfer in connection of live apart.

2. If any individual transfers any house property to a minor child (other than minor married daughter) for without consideration or inadequate consideration then such individual is treated as deemed owner.

3. In case of a co-operative society, shareholder is treated as deemed owner of such property.

4. Holder of an impartible estate.

5. In case of Immovable property if possession taken in part performance of contract then assessee treated as deemed owner.

6. If property acquired under long term lease (> 12 years) acquirer is deemed owner.



Some Important notes for HP Topic:

1. Where house property is held as stock in trade and not let-out during the P.Y. the NAV of such property shall be treated as NIL for the period of 2 years from the end of Financial Year in which construction was completed.
2. If Assessee pay tax under default taxation regime u/s 115BAC then Interest on loan u/s 24(b) in respect of SOP (30,000 /2,00,000) not allowed to assessee.
3. SOP means property which is occupied by assessee for self occupation or could not occupied due to business, profession or employment at any other place.
4. SOP exemption is allowed only in case of Individual & HUF.
5. Municipal taxes paid to foreign municipality also allowed as deduction if foreign house income is taxable in India.



Sec 28: Charging Section

Following income shall be taxable under the head PGBP.

1. Any **profit** or gain of any **Business/Profession**.
 2. Profit on sale of **import entitlement licence**.
 3. Cash compensatory support or **duty drawback**.
 4. Any amount received under **Key-Man insurance policy**.
 5. Any **gift/benefit/perquisite** arising due to business or profession, whether convertible into money or not or in cash or in kind or partly in cash & partly in kind.
 6. Any **interest, salary**, bonus, commission received by **partner** from partnership **firm** [to the extent allowed u/s 40(b) to firm] .
 7. **Non-compete Fees** [not carrying out any activity in relation to any business or profession or not sharing any know-how, patent, copyright, trade-mark etc.].
 8. Income derived by a trade, professional or similar association from specific service perform for its member.
 9. **FMV of inventory** as on the date on which it is **converted into Capital asset**.
 10. Any **compensation** in connection with the **termination or modification** of the terms and conditions, of any **contract relating to his business**. Accordingly, any compensation, whether revenue or capital, in connection with the termination/modification of the terms and conditions of any business contract shall be taxable under PGBP.
- Any income from letting out of a residential house or a part of the house by the owner **shall not be taxable under "PGBP"** and shall be taxable under "Income from house property"
- [Explanation added by FA 24 w.e.f. AY 25-26]
- Speculation Business: It means a transaction in which a contract for the purchase or sales of any commodity including stocks and shares, is periodically or ultimately settled otherwise than by the actual delivery or transfer of the commodity or scrips.
- Transaction not deemed to be speculative transaction
- a) **Hedging contract** in respect of raw materials or merchandise or stocks and shares.
 - b) **Forward contract**.
 - c) Trading in **derivatives** through recognised stock exchange.
 - d) Trading in **Commodity derivatives** through RSE on which CTT paid. However, the requirement of charge ability of CTT not applicable in respect of trading in agricultural commodity derivatives from A.Y. 19-20.

Notes: Speculative business shall be treated as separate and distinct business.



Sec 29: How to compute PGBP

PGBP are to be computed in accordance with the provisions contained in sections 30 to 43D.

Sec 30: Rent, Rates, Taxes, Repairs & Insurance of Building

	Rent	Rates & Taxes	Insurance	Revenue Repair	Capital Repair
Owner	Not allowed	Allowed	Allowed	Allowed	Not allowed
Tenant	Allowed	Allowed	Allowed	Allowed	Not allowed

Sec 31: Insurance & Repair of Plant & Machinery and Furniture

	Rent	Insurance	Revenue Repair	Capital Repair
Owner	Not allowed	Allowed	Allowed	Not allowed
Tenant	Allowed	Allowed	Allowed	Not allowed

[Sec 37]

Notes :

- Expenses u/s 30 & 31 allowed only if asset **used for business or profession**.
- Capital repair **not allowed** as deduction as it will be **added to cost of asset**. Capital repair incurred by tenant is treated as **Deemed Building** & depreciation is allowed to Tenant.

Sec 32: Depreciation

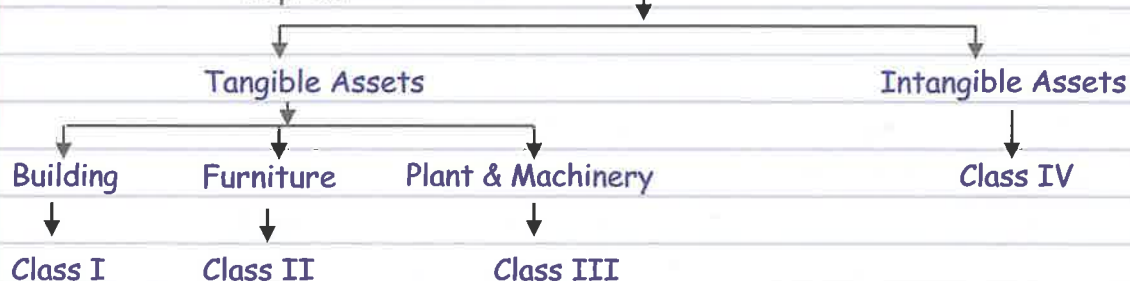
A. Conditions to claim depreciation

- Asset should be **used** for business/profession purposes (active or passive).
- Assessee should be **Owner** of such asset (wholly or partly).

Notes:

- Deprecation is allowed if assessee is **beneficial owner**.
- In case of **Lease**, Depreciation is always claimed by **lessor** whether it is Financial lease or Operating lease [CBDT circular].
- In case of **Hire Purchase**, assessee gets the ownership only after payment of last instalment but he can claim **depreciation from beginning**, assuming assessee is the owner from beginning.
- Depreciation on asset **partially owned** by the assessee shall be allowed to him of his share in asset.
- In case of stand by machinery and emergency spares, the depreciation shall be allowed even if they are ready for use & not put to use.

B. Classification of Depreciable assets



C. Rates of Depreciation (WDV Method) (Block of Asset System)

S.No.	Assets	Rate
1.	Building (includes roads, bridges, wells and tubewells) (i) Residential use (except hotels) (ii) Other Use (iii) Temporary or Wooden Structure	5% 10% 40%
2.	Furniture & Fittings (include electrical fittings like fans, wires, switches etc.)	10%
3.	Plant & Machinery (i) Motor Vehicles - Acquired & put to use between 23.08.19 to 31.03.20 (ii) Motor Vehicles (Lorries, buses, taxi) used in Hire Business - Acquired & put to use between 23.08.19 to 31.03.20 (iii) Ships, Vessels, Speed Boats (iv) Aeroplanes, Aeroengines (v) Computer & Computer software (vi) Books (include annual publication or used in libraries) (vii) Pollution Control Equipment's (viii) Windmills & its equipment installed before 01/04/14 - Windmills & its equipment installed on or after 01/04/14 (ix) Renewable Energy Devices (include E-Vehicles) (x) Oil wells (xi) Other P&M	15% 30% 30% 45% 20% 40% 40% 40% 40% 15% 40% 40% 15% 15%
4.	Intangible Assets	25%

Notes:

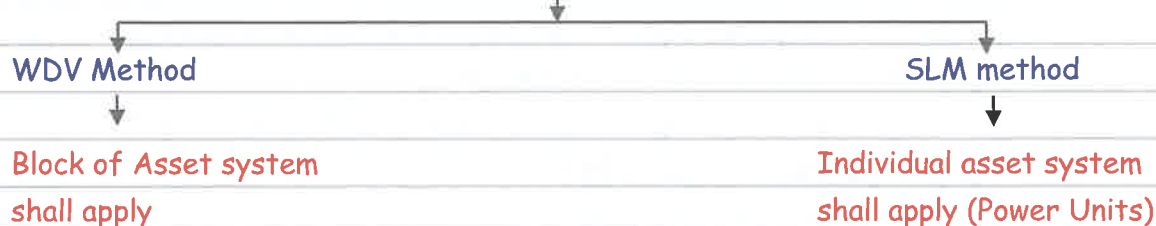
- Mandatory** to claim depreciation for all assessee.
- Mobile phone are **not computers**; hence Depreciation @ 40% is **NOT** eligible.

3. Intangible assets include know-how, patents, copyrights, trademarks, licences, franchises or any other business or commercial rights of similar nature but **other than goodwill of business and profession.**
4. Depreciation rate for computers accessories is 40% i.e. UPS, printer, scanners etc.
5. Depreciation allowed when asset **actually put to use & not ready to use.**
6. As per Sec. 43(3) plant includes **ships, vehicles, books, scientific apparatus & surgical equipment** used for business or profession but does not include Tea bushes, live- stock, building, furniture.

D. Method of Depreciation



E. System of Depreciation



- Block of asset means "**Group of assets** having Same Rate of dep within the Same Class of Asset"
Block Of Asset = Same Rate + Same Class
- Individual assets system: Depreciation calculated on Individual asset - **Same as Accounts.**

F. Calculation of depreciation (Block of asset/ WDV method)

Particulars	Amount ₹
Opening WDV of block	xx
Add: Actual cost of asset acquired during PY	
➤ Put to use 180 days or more (upto 3 rd Oct)	xx
➤ Put to use less than 180 days (on or after 4 th Oct)	xx
➤ Acquired but not put to use	xx
	xx
Less: Money Receivable [selling price of asset]	(x)

Less: WDV of assets transferred in Slump sale (compute WDV of asset assuming this is only asset in block)	(x)
** WDV of Block for the purpose of Depreciation	xx
Less: Depreciation Actually Allowed	(x)
Closing WDV of Block	xx

** WDV of Block of Assets



Notes:

1. If asset acquired during current PY & not put to use then depreciation shall not be allowed for such asset but that asset should be added to Block of asset.
2. Actual sale price of asset shall be reduced and not the FMV of asset sold.
3. If assessee transferred Building then actual sale price shall be reduce and NOT SDV. However, if sec. 50 attract then SDV shall be considered for computation of capital gain.
4. Money payable means sale price or insurance compensation in respect of asset sold, discarded, demolished or destroyed during the PY and the amount of scrap value.

➤ Proviso to Sec. 32(1):

Depreciation is restricted to 50% if asset put to use for less than 180 days in the year of acquisition, restriction applies only in the year of acquisition.

Year of Acq.	Year of Put to use less than 180 days	Depn. Allowed	Rate
PY 24-25	PY 24-25	PY 24-25	Half Rate
PY 24-25	PY 25-26	PY 25-26	Full Rate



G. Sale of Asset / Capital Gain in case of depreciable assets [Block of asset]

Part- A: Where a Block of assets ceases to exist [All Asset Transfer]

Sale Price of asset	5,20,000	7	9,30,000	7
Particular	₹	No.	₹	No.
Opening WDV of block	6,00,000	5	6,00,000	5
(+) Actual cost of Asset acquired	2,00,000	2	2,00,000	2
	8,00,000	7	8,00,000	7
(-) Sale value of assets	(5,20,000)	7	*(8,00,000)	7
Capital Loss	2,80,000	-	-	-
	Asset →	No	Asset →	No
	WDV →	Yes	WDV →	No
	Depn →	No	Depn →	No
	CG →	Yes	CG →	Yes
Computation of Capital Gain				
Full Value of Consideration	5,20,000		9,30,000	
Less: COA (Op Wdv + Actual Cost)	(8,00,000)		(8,00,000)	
	(2,80,000) ←	STCL	1,30,000 ←	STCG

* Block can be Nil but Never Negative.

Note: In case of Depreciable assets there is always STCG/STCL.

Part- B: Where some assets of Block of assets Transferred

Sale Price of asset	9,10,000	4	6,20,000	4
Particular	₹	No.	₹	No.
Opening WDV of block	6,00,000	5	6,00,000	5
(+) Actual cost of Asset acquired	2,00,000	2	2,00,000	2
	8,00,000	7	8,00,000	7
(-) Sale value of assets	*(8,00,000)	4	(6,20,000)	4
Capital Loss	-	3	1,80,000	3
	Asset →	Yes	Asset →	Yes
	WDV →	No	WDV →	Yes
	Depn →	No	Depn →	Yes
	CG →	Yes	CG →	NO
Computation of Capital Gain				
Full Value of Consideration	9,10,000		Normal	
Less: COA(Op Wdv + Actual Cost)	*(8,00,000)		Dep.	
	1,10,000 ←	STCG	Allowed	

* Block can be Nil but Never Negative.



- H. Sec. 32(1)(ia) Additional Depreciation [Not available if assessee opted 115BAC]
- (a) Eligible Assessee - engaged in the business of **manufacture** of any article or **generation transmission or distribution of power**.
- (b) Additional depreciation @20% allowed on Plant & Machinery, excluding:
- ✖ Second hand P&M.
 - ✖ Any p&m installed in **office premises or residential accommodation**.
 - ✖ **Ships, aircraft & transports vehicles**.
 - ✖ P&M on which **100% deduction allowed**.
- (c) Additional depreciation is allowed only in the **First year in which it is put to use**. If put to use for less than 180 days then 10% depn shall be allowed in current year and remaining **10% in next year**.
- (d) **Printing** or printing and publishing treated as **Manufacturing Business** eligible for Add. Dep. [CBDT]
- (e) **Add. dep.** is allowed only if assessee opt **WDV method**. It is not allowed to Power units if they opt SLM method.
- (f) **Forklift Truck** used in factory is not treated as transport vehicle so it is eligible for Add. dep.

I. Sec 43(1) Actual Cost

Particular	₹
Cost of asset (purchase price)	xx
Add: Installation charges	x
Transportation expenses for asset	x
Trial run/test run expenses	x
Taxes & duties (if ITC not available)	x
Interest on loan taken for acquisition of asset (upto the date of asset put to use)	x
Less: Amount recd. on sale of trial run product	(x)
Subsidy/Govt Grants recd. for acquisition of assets	(x)
Actual Cost	xx

Note: If assessee incurs any exps. for acquisition of any asset & payment made to single person in single day, **otherwise than** by an a/c payee cheque/DD or ECS exceeds ₹ 10,000, such expenditure shall not form part of actual cost of such asset.

Explanation to Sec 43(1): Actual Cost in Special Cases

S.No.	Case	Actual Cost
1.	Asset previously used for Scientific Research brought into regular business	Actual cost = NIL (because deduction already claimed u/s 35)

2.	Stock converted into Capital asset and used for Business or Profession	FMV on the date of conversion
3.	Asset acquired by way of gift/Will/Inheritance	Actual cost to the previous owner less depn already allowed to him
4.	Asset acquired with an intention to claim higher depreciation	Amt. determined by A.O. , with the approval of Joint Commissioner (JC) (Normally AO take FMV of such asset)
5.	Re-acquisition of asset sold	<div style="display: flex; align-items: center;"> <div style="margin-right: 10px;">↓</div> <div> (i) WDV at the time of sale xx (ii) Reacquisition cost xx </div> </div>
6.	Asset Purchased & Leased back to the same person	WDV of the previous owner (Lessee)
7.	Building was used for other purpose now brought into business.	<div style="display: flex; justify-content: space-between;"> <div>Original cost</div> <div>xx</div> </div> <div style="display: flex; justify-content: space-between;"> <div>(-) Notional depn till at current depn rate</div> <div>xx</div> </div> <hr style="width: 100px; margin-left: auto; margin-right: 0;"/> <div style="display: flex; justify-content: space-between;"> <div>Actual cost</div> <div>xx</div> </div>
8.	Asset brought into India by NR for use in his Business or Profession	<div style="display: flex; justify-content: space-between;"> <div>Actual Cost</div> <div>xx</div> </div> <div style="display: flex; justify-content: space-between;"> <div>-Dep. Calculated at the rate in force as if the asset was used in India from date of acquisition</div> <div>xx</div> </div>
9.	Actual Cost allowed as deduction u/s 35AD and capital asset transferred to non-specified business after 8 years from the year of acq. or transfer by way of transactions referred in sec.47.	Actual cost for transferee shall be NIL

- Expln 7 of Sec. 43(6): In cases where partly income from Business and Partly from Agriculture (Tea, coffee & Rubber Growing & Mnf.), for the purpose of computing WDV, the depreciation shall be computed as if the entire income of the assessee is "PGBP". The depreciation so computed shall be deemed to have been "actually allowed" to the assessee.
- E.g. Mr. BB engaged in Grwoing & Mnf. of Tea in this case only 40% income taxable under PGBP. If the turnover is, say, ₹20 lakh, the dep. ₹ 1 lakh and other exps. ₹ 4 lakh, then the income would be ₹ 15 lakh. PGBP would be ₹ 6 lakh (being 40% of ₹ 15 lakh). As per earlier Court decisions, only the depreciation "actually allowed" i.e., ₹ 40,000, being 40% of ₹ 1 lakh, has to be deducted to arrive at the WDV but as per this explanation total ₹ 1 lakh shall be reduce to compute WDV.



J. Dep. for Power Units/Sale of Assets/SLM method /Individual asset system

If power units follows SLM method then they are subject to individual asset system profit & loss is calculated on every sale.

For better understanding let's take an example:

Actual cost of asset = ₹ 100

Rate of depn = 10% SLM

In 3rd year suppose asset sold for a) ₹ 72

b) ₹ 89

c) ₹ 117

Calculation of Dep. for 2 years

Actual Cost	100
- Dep. 1 st Year	(10)
	<u>90</u>
- Dep. 2 nd Year	(10)
WDV	<u>80</u>

Tax treatment in the year of sale (3rd Year)

	A	B	C
Sale Value	72	89	117
Less: WDV	80	80	80
Profit/(loss)	(8)	9	37

Terminal Dep.
Allowed as ded.
u/s 32(1)(iii)
P&L - Dr. Side

Balancing Charge
taxable u/s 41(2)
under PGBP

₹20 (upto cost)
Balancing
Charge u/s
41(2)-PGBP

₹ 17
SP > Cost
STCG u/s
50A

K. If asset is not exclusively used for the purpose of Business/Profession then deduction u/s 30,31,32 shall be restricted to a proportionate part as determined by A.O.

Example:

Opening WDV of car (01/04/24) = ₹ 4,00,000

Suppose, CAR 60% used for business purpose & 40% used for personal purpose

Dep. @15% on ₹ 4,00,000 i.e. ₹ 60,000. In this case 60% i.e. ₹ 36,000 dep. allowed and 40% i.e. ₹ 24,000 disallowed.

While calculating Closing WDV only ₹ 36,000 dep. actually allowed shall be reduced from Block.

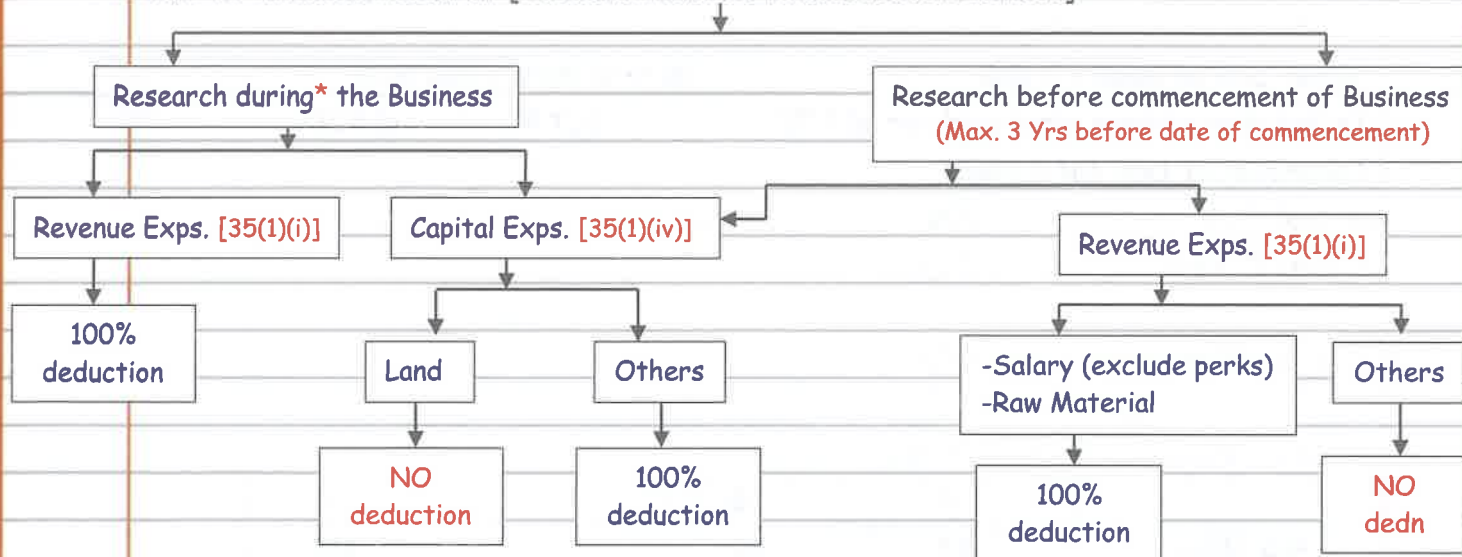
L. Sec.32(2) Unabsorbed Depreciation

Where, in any PY the PGBP is not sufficient to give full effect to the dep., the unab. dep. shall be added to the dep allowance for next PY and shall be deemed to be part of that allowance. Thus, the unab. dep. shall be c/f indefinite no. of years till it is fully set off.

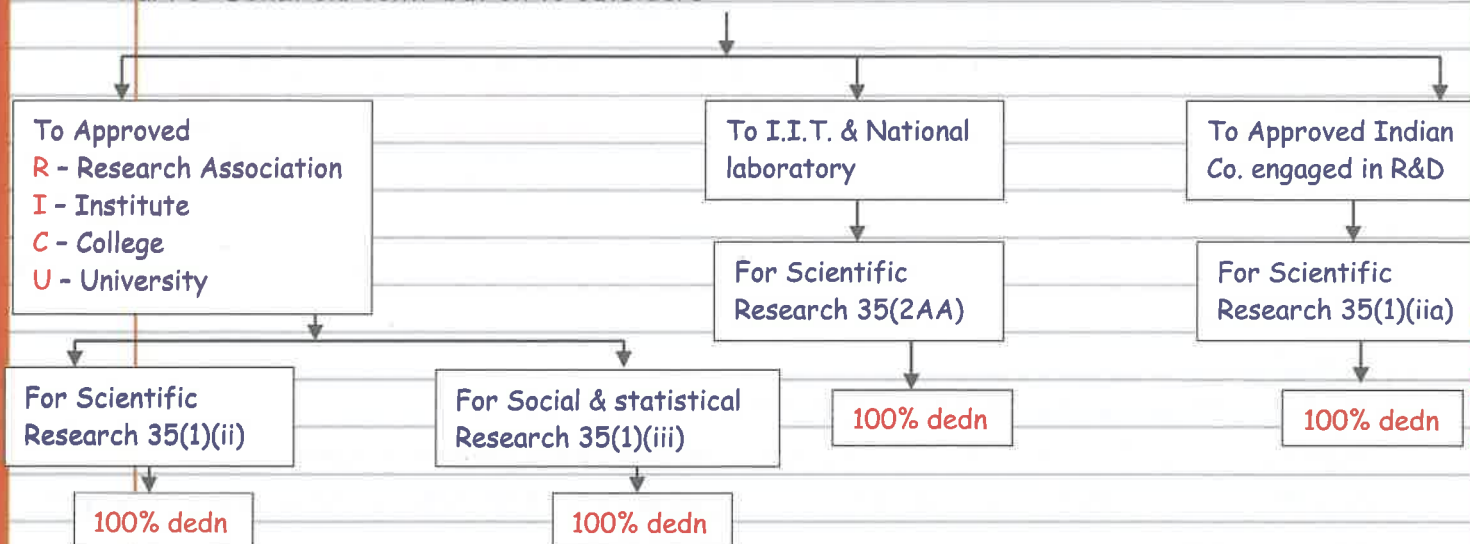
- It can be set-off against the income of any other head **except "Salaries"**.
- It **can be setoff** even if the **business** to which it relates **does not exists**.
- Order of setoff will be: **C.Y. dep → B/F business loss → unabsorbed dep.**

Sec 35: Scientific Research

Part A: Inhouse Research [Research related to assessee's Business]



Part B: Donation/Contribution to outsiders



Notes:

1. The deduction u/s 35(1)(ii)/(iia)/(iii)/35(2AA) shall **not be denied** if **approval** of such institution has been **withdrawn** after payment of sum by assessee.
2. **No depreciation** allowed on assets if deduction u/s 35 claimed.
3. If **L&B** purchased through a composite agreement then the cost of **L&B** shall be **bifurcated** on the basis of FMV because cost of land is not allowed as deduction.
4. Unabsorbed research capital expenditure can be set off & c/f same as un-absorbed depreciation



Sec 35D: Preliminary expenses

➤ Meaning: (a) Preparation of feasibility study/project report

(b) Market survey

(c) Engineering services

(d) Drafting & printing of MOA/ AOA.

(e) Legal fees

(f) Expenses related to public issue of shares & Debenture

(g) other expenses may be notified by CBDT.

➤ Deduction allowed to **Resident Assessee** who incurs preliminary exps before commencement of business or after commencement for extension or for setting up a new unit.

➤ Amount of deduction



** COP or CE, whichever is Higher

➤ Notes :

1. Above deduction is allowed in 5 equal instalments.
2. COP = Cost of project [Amount invested in fixed asset of new project or extension or setup new unit as per books as on last day of P.Y.]
3. CE = Capital employed [share capital + debentures + long term borrowing for new project or extension or setup new unit as per books as on last day of P.Y.]
4. Reserve and surplus (including **security premium**) shall not be part of CE.
5. Audit is mandatory for the year in which such expenses incurred except company and co-operative society & audit report should be submit upto date given u/s 44AB.
6. Assessee shall furnish the details of expenditure in Form No. 3AF to Income Tax Authority within 1 month prior to the due date of ROI u/s 139(1).

Sec 35DDA: Expenditure on Voluntary Retirement Scheme

Assessee : **All Assesses**

Deduction allowed in **5 equal instalments**.

Note: 35D & 35DDA: If there is Amalgamation/Demerger, then remaining deduction shall be Allowed to Amalgamated Company/Resulting Company

Sec 35AD: Specified Business

No.	Business	Commencement on or after
Under this section ded. @100% allowed for Capital Expenses and this section is optional for assessee.		
1	Setting up & Operating a Cold Chain facility	01/04/2009
2	Setting up & Operating a warehousing facility for agri. Produce	01/04/2009
3	Laying & Operating cross country pipeline for distribution of petroleum oil, natural gas.	Nat. Gas. $\frac{1}{4}$ /07 Petro. $\frac{1}{4}$ /09
4	Building & Operating a Hotel of 2 star or above	01/04/2010
5	Building & Operating a Hospital with min. 100 patient beds	01/04/2010
6	Developing & Building a Housing Project under Slum Development scheme	01/04/2010
7	Developing & Building a housing Project under affordable housing scheme	01/04/2011
8	Production of Fertilizers in India	01/04/2011
9	Setting up & Operating inland container depot or container freight station	01/04/2012
10	Bee keeping and production of bee's Honey & Wax	01/04/2012
11	Setting up & Operating a warehousing facility for sugar	01/04/2012
12	Laying & Operating a slurry pipeline for transportation of Iron ore	01/04/2014
13	Setting up & Operating a Semi-conductor wafer fabrication manufacturing unit	01/04/2014
14	Developing or maintaining and operating or developing, maintaining and operating a New Infrastructure Facility	01/04/2017

Conditions & Notes:

- Not formed by splitting or reconstruction of existing business means business should be New.
- P&M should be New
Exception: (a) Imported old P&M (P&M on which dep. not claimed under IT Act.)
(b) 20% of total P&M can be old (Second Hand)
- Deduction allowed on all Capital expenses except (a) Land (b) Goodwill (c) Financial instruments. Further, any exps. for which payment made to a person of an amount exceeding ₹ 10,000 in a do otherwise than by a/c payee cheque or DD or ECS would not be eligible for deduction.
- Depreciation not allowed if deduction claimed u/s 35AD.
- Loss of specified business can be carried forward indefinitely.

6. If asset (on which deduction claimed u/s 35AD is allowed) sold, then the **entire sales price shall be taxable as PGBP** [Section 28].

7. Loss of specified business **can be set off only against specified business** income irrespective of whether the latter is eligible for deduction u/s 35AD.

Example: A assessee can therefore, set-off the losses of a hospital or hotel which begins to operate after 1/04/2010 and which is eligible for deduction sec. 35AD, against the profits of the existing business of operating a hospital (with atleast 100 beds for patients) or a hotel (of 2* or above) started before 1/04/2010 even if the latter is not eligible for deduction u/s 35AD.

8. In case of Hotel (2 * or more) if assessee transfers operation to another person, then assessee shall be deemed to be carrying on the specified business.

9. Infrastructure facility means:

(i) A road including toll road, a bridge or a rail system.

(ii) A highway project including housing or other activities being an integral part of the highway project.

(iii) Water supply project, water treatment system, irrigation project, sanitation and sewage system or solid waste management system.

(iv) A port, airport, inland waterway, inland port or navigational channel in the sea.

10. Business of cross-country pipeline and new infrastructure facility should be **owned by Indian Company or consortium of such companies** or by an authority or a board or corporation or any other body established or constituted under any Central or State Act.

11. Business of cross-country pipeline should be approved by the Petroleum and Natural Gas Regulatory Board and notified by the CG. Under New infrastructure facility entity should have entered into an agreement with the CG/SG/Local Authority or any other Govt body.

12. Asset (on which deduction claimed u/s 35AD) should be exclusively used for specified business for minimum **8 yrs. from the year of acquisition**.

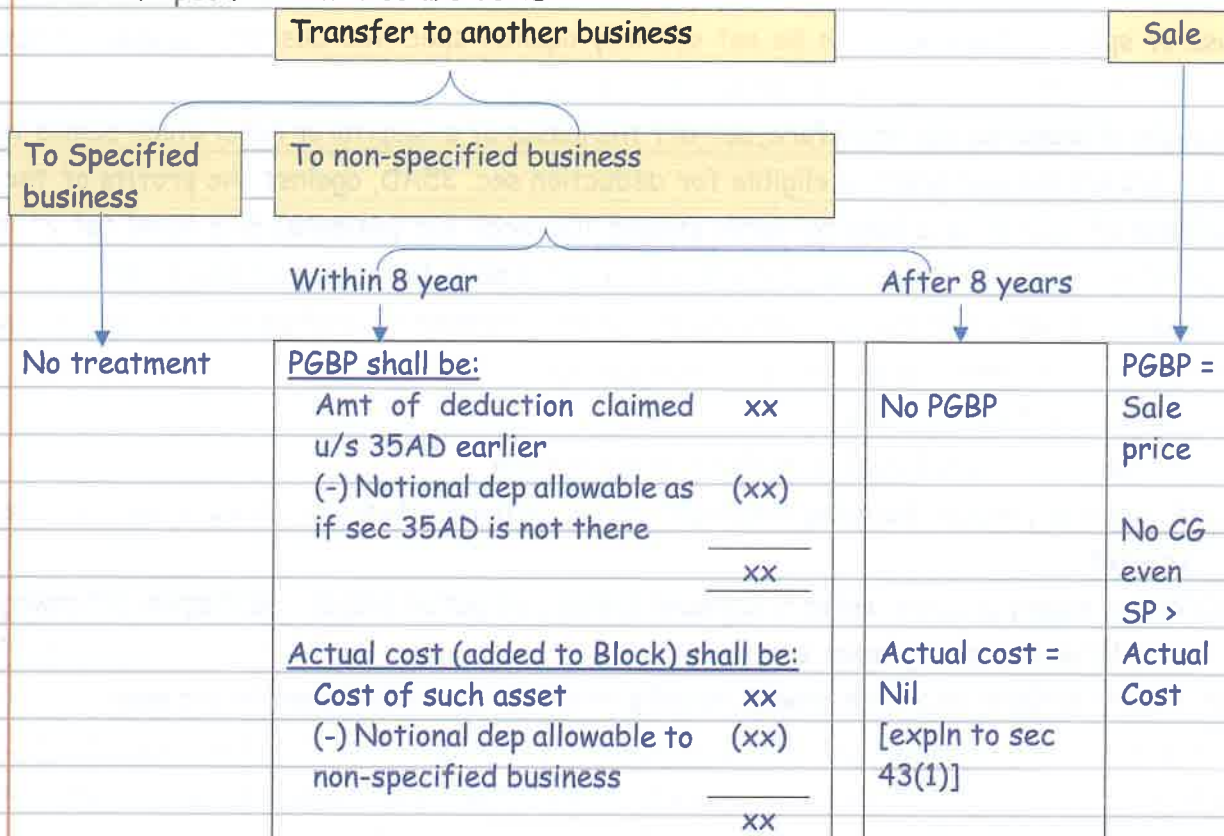
If it is used for non-specified business within 8 yrs. then following shall be taxable under PGBP.

Particular	₹
Amount of deduction claimed u/s 35AD earlier	xx
(-) depreciation that would have been allowable if Sec. 35AD not there	(xx)
PGBP	xx

13. If asset is transferred from specified business to non-specified business within 8 years then Actual cost shall be-

Particular	₹
Cost of Such Asset	xx
(-) depreciation allowable if such asset used for non-specified business from acquisition	(xx)
Actual Cost	xx

➤ Asset of specified business u/s 35AD



Sec 36: Certain deduction u/s 36

- Sec. 36(1)(i): Premium for insurance of stock -in-trade

It is **allowed** as deduction.

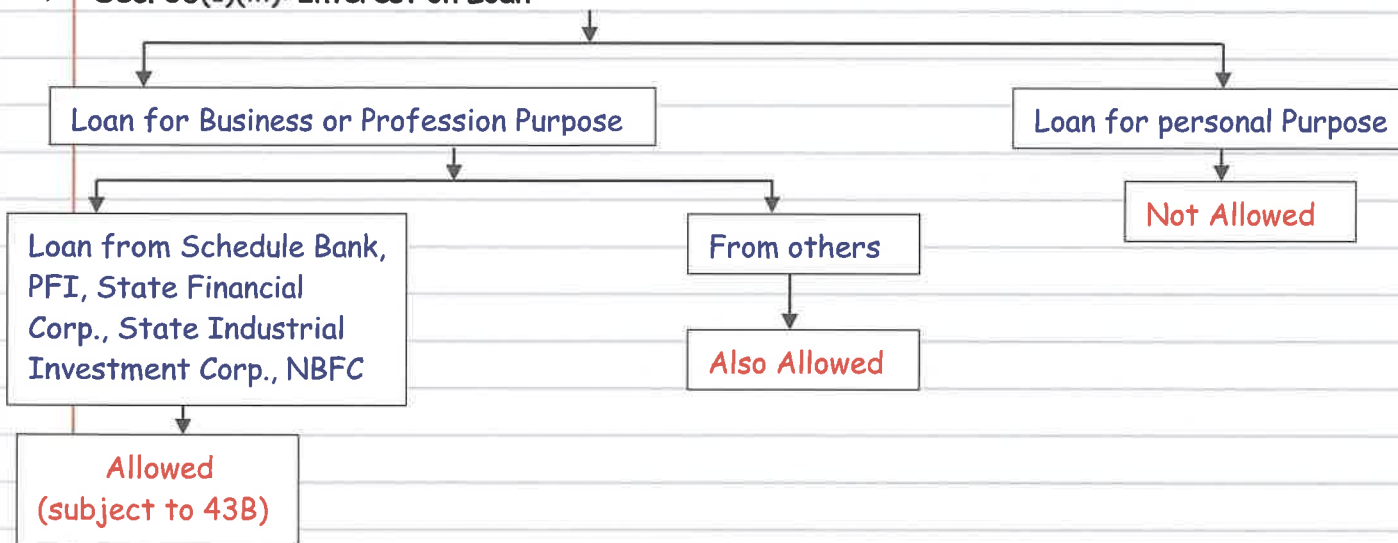
- Sec. 36(1)(ib): Health insurance premium for employees

It is **allowed** as deduction if premium paid in **any mode other than cash**.

- Sec. 36(1)(ii): Bonus or commission to employees

It is **allowed** as deduction subject to Sec. 43B. There is **no restriction** on the amount of bonus and it may exceed the bonus payable under the Payment of Bonus Act, 1965.

- Sec. 36(1)(iii): Interest on Loan



- Sec. 36(1)(iiia): Discount on Zero Coupon Bonds (ZCB)

Pro-rotta amount of discount shall be amortized **over the life (calendar months) of ZCB**.

Example:

KRK Ltd issued 1,00,000 ZCB on 06/12/24 @ ₹ 80. Face value of bond is ₹ 100. ZCB redeemable after 10 months. Compute deduction allowed for P.Y. 2024-25

Solution: Total Discount = $1,00,000 \times 20 = ₹ 20,00,000$

Monthly Discount = $\frac{20,00,000}{10 \text{ months}} = 2,00,000 \text{ p.m}$

Discount for P.Y. 2024-25 = $₹ 2,00,000 \times 4 \text{ months (Dec. 24 to March 25)} = ₹ 8,00,000$

Note: If any calendar month **part is 15 days or more**, it shall be increased to one calendar month & if such part is less than 15 days it shall be Ignored.

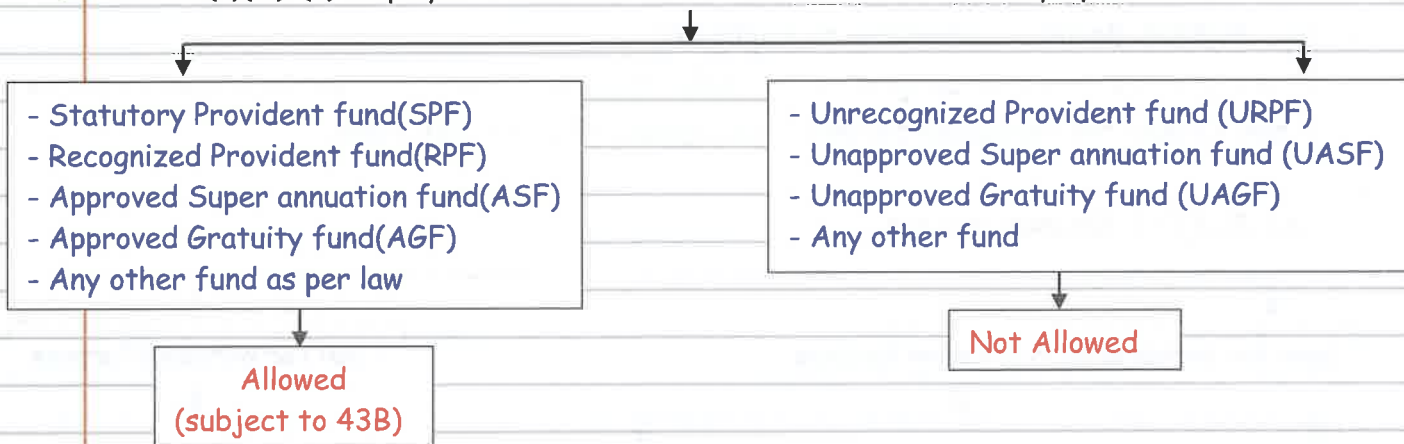
Suppose in above example if ZCB issued on 16/12/24 then we will take 11 calendar months because period is 15 days, or more in the month of issue and redemption.

Monthly discount = $20,00,000 = 1,81,818$

11 months

Deduction for PY 24-25 = $1,81,818 \times 4 \text{ months} = ₹ 7,27,273$

➤ Sec. 36(1)(iv)/(v) Employer's contribution for the benefit of the Employee



➤ Sec. 36(1)(iva): Employer contribution towards Pension scheme referred u/s 80CCD

Deduction **allowed** to employer [Subject to sec 43B]

↓ (i) Actual contribution

↓ (ii) **14%** of salary [Basic +DA (Terms)]

Whichever is lower.

➤ Sec. 36(1)(va): Employees contribution towards welfare fund

Any sum received by **Employer from Employee** as contribution to PF, super annuation fund, ES etc. is deemed to be PGBP if such sum is **not deposited in respective fund up to the due date of such fund.**

Notes:

1. PF due date is **15th of next month.**

2. If any amount deposited after due date of fund, then it will be treated as **PGBP income of employer** and never be allowed to employer.

➤ Sec. 36(1)(vi): Animals used in Business (other than SIT)

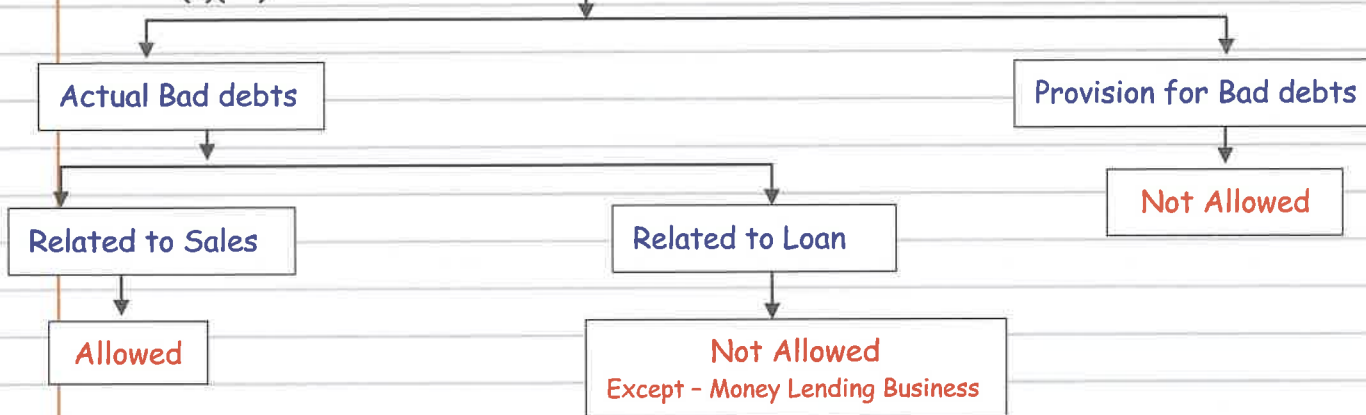
Deduction is allowed in the year in which such animal become permanently useless or died.

Deduction = Cost of animal - scrap value

Note: Depreciation u/s 32 **not allowed on animal.**



> Sec. 36(1)(vii): Bad debts

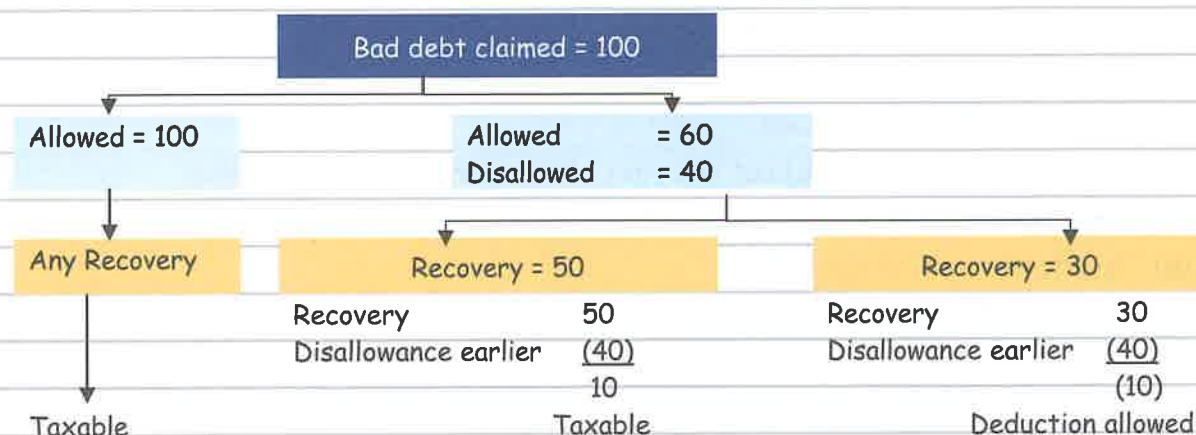


Notes:

1. Bad debts should be **written off in the books of A/c's** of Assessee in the P.Y. in which deduction is claimed.
2. The **debt** should have been taken into account for computing **income for P.Y. or earlier P.Y.**
3. **No need to prove** that the debts have become bad.
4. Where the amount of such debt has been taken into account in computing the income for PY or earlier PY (on the basis of ICDSs without recording the same in the accounts), Such debt shall be allowed in the PY in which such debt becomes bad and it shall be deemed that such debt has been written off as irrecoverable in the accounts.

◆ Sec. 41(4): Bad-Debts Recovery

Where deduction has been allowed in respect of bad debts, recovery shall be taxable as PGBP in the year of recovery. This shall apply even if the business or profession is not in existence in the PY in which recovery has been made.



- Sec. 36(1)(ix): Expenses on Promotion of Family Planning of employees

Assessee: Only Company

Revenue Exps: 100% deduction allowed

Capital Exps: Allowed in 5 equal Instalments

- Sec. 36(1)(xv)/(xvi): Securities Transaction Tax (STT)/Commodities Transaction Tax (CTT)

It is allowed as deduction if assessee held shares /Units/Commodities as stock -in-trade.

Sec 37: General Deduction

Any expenditure [other than covered u/s 30 to 36] shall be allowed as deduction if following conditions are satisfied:

1. Expenses should be incurred **Wholly or Exclusively** for the purpose of Business or Profession.
2. Expenses should be **Revenue in nature**.
3. Expenses should be **Legal** (It should not be illegal like Hafta, Bribes, secret commission, etc.)

Explanation - Following expenses treated as **illegal and not allowed as deduction**

- For any purpose which is an **offence or prohibited by any law** in India or outside India; or
- To provide any **benefit or perquisite** to a person, whether or not carrying on a business or profession & acceptance of such benefit/perquisite is in **violation of any law or rule or regulation or guideline** governing the conduct of such person (**free samples to Dr.**); or
- To **compound an offence** under any law for the time being in force, in India or outside India
- To **settle proceedings** initiated in relation to **contravention under such law as may be notified by the Cen. Govt.**

- Corporate social Responsibility (CSR) expenses

It is not treated as Business expense, so **not allowed**.

- Allowability of some expenses -

- (a) Advertisement in brochure, souvenir, newspaper, pamphlet published by political party - **Not allowed**
- (b) Gift to employee - **Allowed**
- (c) Customary expenses (Puja at the time of new year, Diwali) - **Allowed**
- (d) Expenses incurred by CA' s for attending CPE seminars - **Allowed**
- (e) Dividend - **Not Allowed**
- (f) Taxes, Interest & Penalties

	Tax	Interest	Penalty
Direct Tax (Tax ,Surcharge & Cess.)	Not Allowed	Not Allowed	Not Allowed
Indirect Tax (GST)	Allowed	Allowed	Not Allowed

Subject to Sec 43B



- Penalty of Breach of law - **Not Allowed**
- Breach of Contract (Contract of Revenue Nature) - **Allowed**
- (g) Freebies (gifts, travel facility) provided by Pharmaceutical company to doctors - **illegal expenses - Not allowed.**
- (h) Interest on loan taken for payment of income tax - **Not allowed**
- (i) Premium paid by the firm on the Keyman Insurance policy of a partner - **Allowed**

Sec 40: Amount specifically Not deductible

➤ Sec. 40(a)(i): Payment made to Non-Resident

Amount paid or credited to **Non-resident or foreign Co.** & if:

- a. TDS has **not been deducted** in P.Y. or,
- b. TDS **deducted but not paid to Govt** up to due date of return filing,
- then such **sum (100%) shall not be allowed** as deduction in current P.Y.

➤ Sec. 40(a)(ia): Payment made to Resident

Any amount paid or credited to Resident & if :-

- a. TDS has **not been deducted** in P.Y. or,
- b. TDS **deducted but not paid to Govt** upto due date of return filing,
- then **30% of such sum shall not be allowed** as deduction in current P.Y.

Notes:

1. If TDS deducted in **subsequent year** or **deducted in P.Y. but paid to Govt. after due date** of return filing then **such sum (100% NR)/(30% Resident)** shall be allowed as a deduction **in the P.Y. in which such TDS has been paid to Govt.**
2. Exception to Sec. 40(a)(ia) & 40(a)(i)
If any amount paid/credited to **payee without deduction of TDS** but such payee
 - **Furnishes his ROI.**
 - Takes into account such amount in **total income.**
 - Has **paid the tax** due on such income
 - Payer furnishes a certificate in **FORM 26A from CA** to this effect then it shall be deemed that the payer has deducted TDS & paid to Govt on date of furnishing of return by payee & deduction of such expenditure shall be allowed accordingly. **[30%/100% disallowed in current year and will be allow in the year in which payee file his ROI]**

➤ Sec. 40(a)(iii) TDS on salary payable outside India or NR

Any salary payable outside India or to NR in India and if;

a) TDS not deducted or,

b) TDS deducted but not paid to Govt upto due date of TDS payment,

- then such sum shall not be allowed as deduction.

Note: If TDS deposited late even by one day, the salary shall not be allowed as deduction.

➤ Sec. 40(a)(v) Tax on Non-Monetary Perquisite

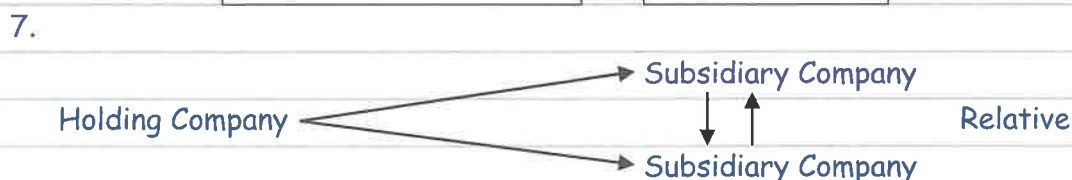
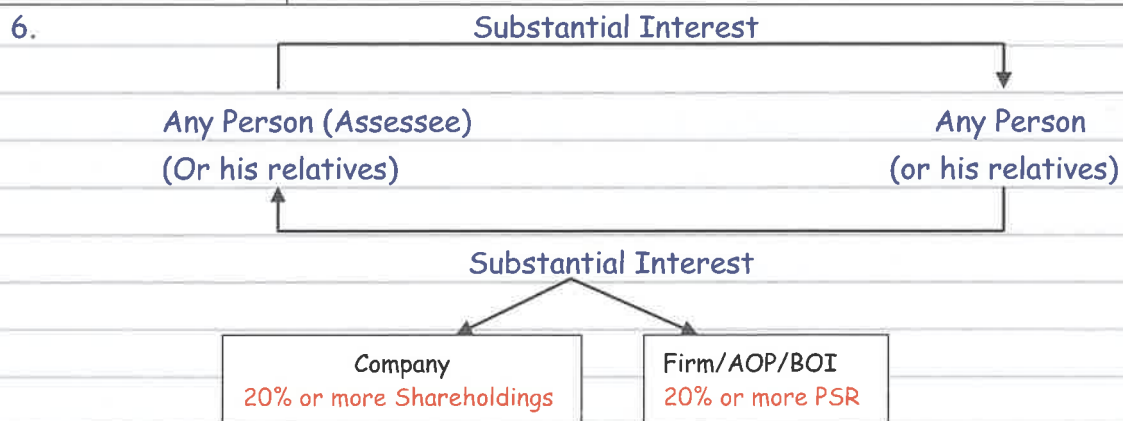
If employer offers some Non-Monetary perquisite to the employee, then tax on such Non-Monetary perquisite is the responsibility of the employee. But instead of employee, if employer decides to pay tax on such Non-Monetary perquisite from his pocket, then that Tax is Not Allowed as deduction because its Exempt in hand of Employee u/s 10(10CC).

Sec 40A(2): Payments to specified Persons (Relatives)

If payment of expenditure made to relative then A.O can disallow excessive or unreasonable amount.

➤ Specified Person (Relatives) for Sec 40A(2)

Assessee	Relatives
1. Individual	S, M, F, B, S, LA, LD
2. HUF	Members & their Relatives
3. FIRM/LLP	Partners & their Relatives
4. Company	Directors & their Relatives
5. AOP/BOI	Members & their Relatives



Sec 40A(3): Cash payment > ₹ 10,000 to single person in a single Day

If assessee makes payment for any expenditure to any single person otherwise than by A/c Payee Cheque or Demand Draft or which is more than ₹ 10,000 in a single day then such expenditure shall be disallowed.

Notes:

1. If payment made to transporter then limit is ₹35,000.
2. If the expenditure is claimed as deduction in earlier year on accrual basis & if such expenses is subsequently paid in cash or bearer cheque then deduction allowed earlier shall be withdrawn & taxable as PGBP [40A(3A)].
3. If expenditure paid by Cross cheque then also deduction not allowed.

➤ **Exceptions of Sec. 40A(3) [Rule 6DD]**

1. Payment made to RBI/LIC/Banks/Govt.
2. Payment made through NEFT/RTGS/Debit card /ECS /credit card/UPI/ BHIM.
3. Payments by book entry (adjustment).
4. Payment to producers of agriculture product, forest product, poultry product, fish product, live-stock etc.
5. Payment of Retirement benefits, provided such payment is upto ₹ 50000.
6. Payment of salary to an employee who is posted to any other place or ship for 15 days or more other than his normal place of duty.
7. Payment made where Banking facility not available.
8. Payment is made by any person to his agent who is required to make payment in cash for goods or services on behalf of such person.
9. Payment is made by an authorised dealer or a money changer against purchase of foreign currency or travellers cheques in the normal course of his business.
10. Payment for purchase of product manufactured or processed without aid of power in a cottage industry, to the producer of such product.

Sec 40A(7): Provision of Gratuity - Not Allowed

Only payment to Approved Gratuity Fund or provision for gratuity actually become payable during the P.Y. (due basis) is allowed as deduction.

**Sec 43B: Expenses allowed on Payment Basis**

Following expenses [except point (h)] are allowed only if they are actually paid upto the due date of return filing as per Sec. 139(1)

- (a) Any tax, Duty, Cess & Fees
- (b) Employer's contribution towards SPF, RPF, Approved Gratuity Fund, Approved Super Annuation Fund, New pension scheme, any fund as per Law
- (c) Bonus or Commission to Employees
- (d) Interest on loan to any PFI, State Financial corp, state industrial Investment Corp, scheduled Banks [scheduled bank include co-operative bank other than a primary agricultural credit society or a primary co-operative agricultural and rural development bank]
- (e) Leave encashment (Leave salary) to employees
- (f) Any sum payable to Indian railways for use of Railway Assets.
- (g) Interest on any loan or borrowing from such class of NBFC as may be notified by CG.
- (h) Any sum payable by the assessee to a micro or small enterprise beyond the time limit specified in sec. 15 of the Micro, Small and Medium Enterprises Development Act, 2006. (refer note 3)

[Added by FA 2023 w.e.f. AY 24-25]

Note: If payment (a to g) made after due date of return filing & payment (h) made after time limit of MSMED Act, then such expenses shall be allowed in the year of actual payment.

Notes:

1. Where the interest payable on loans has been converted into a loan or borrowing, it shall not be deemed that the interest is paid off. Interest shall only be allowed as deduction in the PY in which such instalments are paid.
2. If interest payable on loan is converted into debenture or any other instrument by which the liability to pay is deferred to a future date shall not be treated as actual payment.
3. Any payment made to Micro & Small enterprise allowed as deduction in current year if payment made within time allowed u/s 15 of MSMED Act otherwise allowed in the year of Actual Payment
4. Time Limit as per Sec 15 of MSMED Act: Where any person purchases goods/services, from a micro/small enterprise, the payment shall be made before the date agreed upon between him and supplier in writing. In no case the period agreed upon between the supplier and the buyer in writing shall more than 45 days. If, however, there is no such agreement, the payment shall be made within 15 days of acceptance or deemed acceptance of goods/services.

	Micro Ent.	Small Ent.
Investment in P&M or equipment's, and	Upto ₹ 1 crore	Upto ₹ 10 crore
Turnover	Upto ₹ 5 Crore	Upto ₹ 50 crore



Example-1: BB Ltd. purchased goods from DB Ltd (a small enterprise as per MSME Act) for ₹ 15,00,000 on 2nd March 25. As per written agreement payment is to be made upto 30th April 25.

However payment is made as follows:

- 2,00,000 paid on 30th March 25
- 4,00,000 paid on 6th April 25
- 3,00,000 paid on 15th April 25
- 6,00,000 paid on 6th May 25

Soln

Date of acceptance of goods is 2nd March 25. Due date for payment as per MSME Act is 16th April 25 (i.e., the agreed date of payment or 45 days, whichever is earlier).

Deduction will be available to BB Ltd. as follows-

Amount ₹	Payment date	Due date as per MSME Act	Payment made before due date ?	Basis of Deduction	PY in which exps allowed
2,00,000	30 th March 25	16 th April 25	Yes	Accrual	PY 24-25
4,00,000	6 th April 25	16 th April 25	Yes	Accrual	PY 24-25
3,00,000	15 th April 25	16 th April 25	Yes	Accrual	PY 24-25
6,00,000	6 th May 25	16 th April 25	No	Payment	PY 25-26

Example-2: Suppose in example-1 there is no agreement about the time of payment

Date of acceptance of goods is 2nd March 25. Due date for payment as per MSME Act is 17th March 25 (i.e., 15 days of acceptance of goods).

Amount ₹	Payment date	Due date as per MSME Act	Payment made before due date ?	Basis of Deduction	PY in which exps allowed
2,00,000	30 th March 25	17 th Mar. 25	No	Payment	PY 24-25
4,00,000	6 th April 25	17 th Mar. 25	No	Payment	PY 25-26
3,00,000	15 th April 25	17 th Mar. 25	No	Payment	PY 25-26
6,00,000	6 th May 25	17 th Mar. 25	No	Payment	PY 25-26

Sec 43A: Asset acquired from foreign country

If any asset is acquired from a foreign country through a loan in foreign currency or foreign suppliers credit, any loss/gain arising at the time of payment shall be adjusted within the Block of asset.

Notes:

1. Adjustment is made only at the time of actual payment of foreign loan or supplier's credit.
2. If there is gain then reduce from block of asset & if there is loss then added to the block.

Sec 41: Deemed PGBP

- Sec. 41(1) Recovery against any deductions already claimed

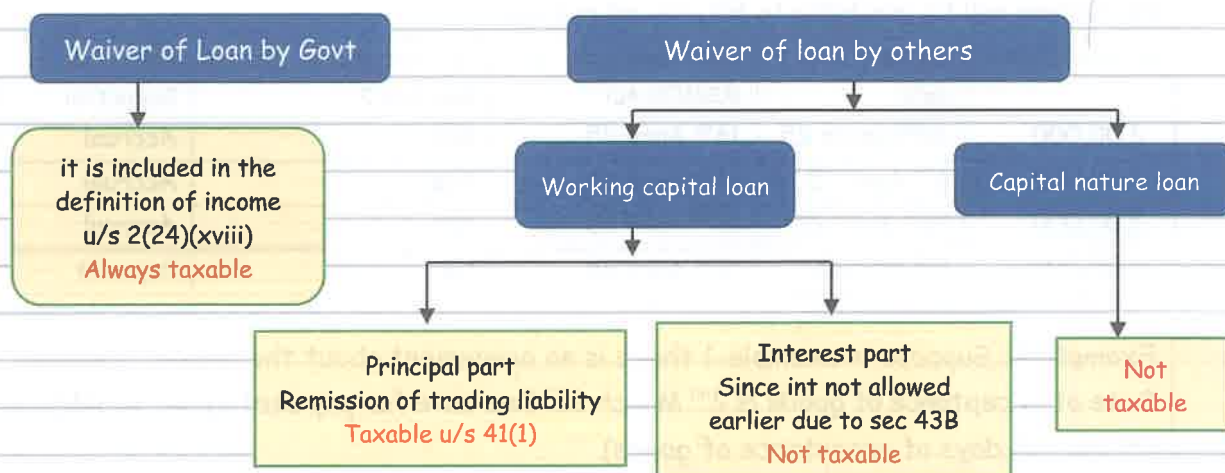
If Assessee was **allowed a deduction in earlier P.Y.** by way of expenditure, loss, trading liability & now during the **current P.Y.** assessee has obtained a **refund** of such liability or there is remission/cessation of such trading liability, then such refund /remission shall be taxable under PGBP.

Example:

a) Sales Tax/GST Refund

b) stock in trade is destroyed by fire & allowed as trading loss & later on insurance compensation is received by assessee.

Waiver of loan



- Sec. 41(3): sale of Scientific Research Assets

Sale without use in Business

↓
(i) Sale price
↓
(ii) Deduction already claimed u/s 35(1)(iv)
↓
Whichever is lower
↓
Taxable as **PGBP**

If $SP > Cost$ then capital gain also arise.

Sale after use in Business

(a) Add to Block of asset Actual cost = Nil
Expln 1 of Sec. 43(1)

(b) at the time of sale Sec. 50 will apply
[full block /part block sold]

- Sec. 41(2): Balancing charge

Already discussed with the power units depreciation.

- Sec. 41(4): Recovery of Bad debts.

Recovery amount shall be taxable in the year in which it is recovered.



Sec 44AA: Compulsory maintenance of books of accounts

- A. Specified Profession: In case of specified profession, if **Gross Receipt is more than ₹ 1,50,000** in all 3 years preceding the PY or likely to exceed if the profession is newly setup then, assessee is required to maintain books of accounts as per **Rule-6F**, otherwise he is required to maintain such books of accounts or documents from which AO is able to complete the assessment.

Specified profession:

- | | | |
|-------------------------|------------------------------|------------------------|
| 1. Medical | 5. Accountancy | 9. Architect |
| 2. Engineering | 6. Company secretary | 10. Interior decorator |
| 3. Technical consultant | 7. Legal | 11. Film artists |
| 4. IT professional | 8. Authorised representative | |

Prescribed books as per Rule 6F:

- | | | |
|--------------------------------------------------------------------------------------------------------------------------|-------------------------------------------|------------|
| 1. Cash book | 2. Journal (in case of mercantile system) | 3. Ledgers |
| 4. Carbon copies of bills issued by the assessee serially numbered for an amt > ₹ 25. | | |
| 5. Original bills issued to the assessee for expenditure > ₹ 50. | | |
| 6. In case of medical profession, additional books i.e. daily case register and inventory register has to be maintained. | | |

- B. Other Assessee (Business): In case of other assessee, if **PGBP is more than ₹ 1,20,000/-** or **Total Sales /Gross receipt is more than ₹ 10,00,000/-** in any of the 3 years preceding the PY or likely to exceeding in case of newly setup business/profession, then assessee is required to maintain **any books of accounts or documents** from which AO is able to complete the assessment otherwise the assessee is not required to maintain any books of accounts.

However, in case of Individual & HUF, limit will be ₹2,50,000 for PGBP and ₹ 25,00,000 for Turnover or Gross Receipts.

- C. Special Cases:

- Assessee declared **lower income u/s 44AD/44ADA** and **NTI > Basic exemption**.
- Assessee claiming **lower income u/s 44AE**

Notes:

- Period: The prescribed BOA shall be kept and maintained for a period of **6 years from the end of the AY**.
- Penalty u/s 271A: Failure to maintain BOA shall attract a **penalty of ₹ 25,000**.

Sec 44AB: Compulsory Audit of books of accounts

Following persons are required to furnish audit report by **1 month before the due date of filing ROI u/s 139(1)** in a prescribed form (3CA/3CB/3CD):

A	B	C
Specified profession	Business	Special Cases
G.R > ₹ 50 Lac	T.O./G.R. > ₹ 1 crore	<ul style="list-style-type: none"> Assessee claiming lower income u/s 44AD or 44ADA and NTI > Basic exemption Assessee claiming lower income u/s 44AE
	<p>In case of business, T.O. Limit shall be ₹ 10 crores instead of ₹ 1 crore if:</p> <p>i) *Cash receipts out of total receipts is upto 5% during the PY and</p> <p>ii) *Cash payment out of total payments is upto 5% during the PY.</p>	

*cheque/DD, which is not account payee, shall be treated as Cash

➤ Non-applicability of Sec 44AB: Person declaring income u/s 44AD or 44ADA.

➤ Penalty u/s 271B: if assessee fails to get accounts audited:

(i) 0.5% of T.O. or G.R. or

(ii) ₹ 1,50,000

Whichever is lower

Sec 44AD: Profit & Gains of Business on Presumptive Basis

a) Eligible Assessee: Resident Individual/Resident HUF/ Resident Firm (excluding LLP) who has claimed dedn u/s 10AA or 80IA to 80RRB.

b) This section is applicable for **any Business except**

- Sec. 44AE Business,
- Agency Business,
- Commission & Brokerage business;

and Turnover/Gross Receipts is upto ₹ 2 crore.

Note: Where the amounts received during the PY in *cash does not exceed 5% of the total turnover or gross receipts of such PY then limit of T/o ₹ 3 crore apply instead of ₹ 2 crore.

[Amended by FA 2023 w.e.f. AY 24-25]

*cheque/DD, which is not account payee, shall be treated as Cash

c) Presumptive PGBP income= Turnover/Gross receipt x 8%

"If Turnover/ Gross Receipts realized by Account Payee Cheque/DD/ ECS upto due date of Return Filing then PGBP = T/O x 6 %"



- d) If assessee declares income as per Sec. 44AD or higher income and whose T/O is up to 2Cr/3Cr then assessee is not required to maintain books of account & get it audited.
- e) If assessee declares income for any P.Y as per 44AD & he doesn't declare income as per 44AD in any of the five consecutive P.Y.s, then he shall not eligible to claim benefit of sec. 44AD for 5 years subsequent to the year in which assessee did not declare income as per Sec. 44AD.
- f) If point (e) is applicable & NTI of assessee is more than basic exemption then assessee is required to maintain books of accounts & get it audited.

Example:

Let us consider the following particulars relating to an resident individual, Mr.A being an eligible assessee whose Turnover do not exceed ₹ 2 crore in any of the AY's between A.Y. 24-25 to A.Y. 26-27.

Particular	AY 24-25	AY 25-26	AY 26-27
Total T/o (All Cash)	1,80,00,000	1,90,00,000	2,00,00,000
Income offered for tax	14,40,000	15,20,000	10,00,000
% of Gross receipts	8%	8%	5%
Offered income as per 44AD	Yes	Yes	No

In the above case Mr. A an eligible assessee, opts for presumptive taxation u/s 44AD for A.Y. 24-25 & A.Y. 25-26. However, for A.Y. 26-27, he offers income of only ₹ 10 lakh on turnover of ₹ 2 crore, which amounts to 5% of his gross receipts. He has to maintains books of accounts u/s 44AA & gets the same audited u/s 44AB. Since he has not offered income in accordance with the provisions of Sec. 44AD, for five consecutive A.Y. after A.Y. 24-25, he will not be eligible to claim the benefit of Sec. 44AD for next five AY succeeding A.Y. 26-27 i.e. from A.Y. 27-28 to 31-32.

Sec 44ADA: Profit & Gains of profession on Presumptive Basis

- a) Eligible Assessee: Resident Individual or resident firm (excluding LLP) engaged in profession as referred in Sec.44AA.
- b) This section is applicable if Gross Receipt is upto ₹ 50 lakhs.
- c) PGBP Income = Gross receipt x 50%.

Note: Where the amounts received during the PY in *cash does not exceed 5% of the gross receipts of such PY then limit of GR ₹ 75 lakhs apply instead of ₹ 50 lakhs.

*cheque/DD, which is not account payee, shall be treated as Cash

- d) If assessee declares income as per Section 44ADA or higher then, he is not required to maintain books of accounts & get it audited.



- e) If assessee declares income lower than 50% & his NTI is more than basic exemption he is required to maintain books of A/c & get it audited.

➤ Common notes for 44AD and 44ADA

1. Deduction u/s 30-38 shall not be allowed. (Assume its deemed to be already allowed).
2. WDV is to be calculated considering notional dep every P.Y.
3. Partners' remuneration & interest are not allowed from deemed PGBP.
4. 100% Advance Tax can be paid by 15th march of P.Y.

Sec 44AE: Profit & Gains of Transporter on Presumptive Basis

If assessee engaged in the business of **plying, hiring, leasing such goods carriage** then PGBP will be-

- Heavy goods Vehicle: ₹ 1,000 per ton of gross vehicle weight or unladen weight, as the case may be, for every month or part of a month
- Other Vehicle: ₹ 7,500 for every month or part of a month

Notes:

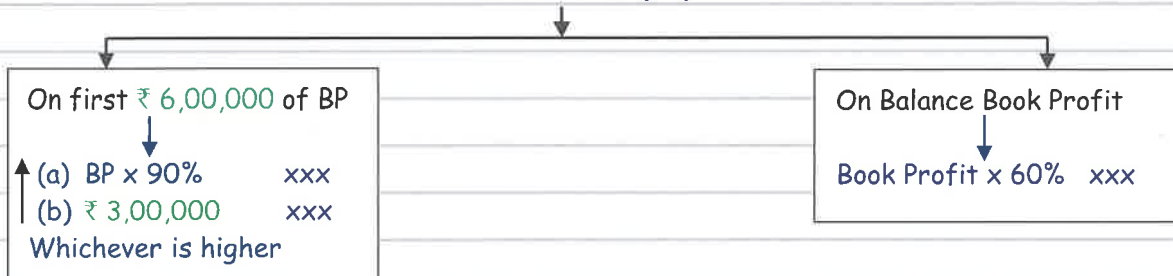
1. The assessee can also declare a higher amount in his return of income. In such case, the latter will be considered to be his income.
2. This section is applicable if assessee **owns Max 10 vehicles**. If assessee owns more than 10 vehicles at any time during the P.Y. then this section shall not apply.
3. Income **calculated even vehicle not put to use but own** by assessee.
4. **Partners remuneration**, salary, interest etc as per 40(b) **shall be deductible** while computing income u/s 44AE
5. Heavy goods vehicle means any goods carriage, the Gross Vehicle Weight of which exceeds 12,000 kilograms (12 tons)
6. As per CBDT clarification we have to consider Gross Vehicle Weight (GVW) for calculating income however if GVW not available then we have to consider unladen weight.
7. Assessee's opting for presumptive taxation are not required to maintain books of account as per Sec 44AA or get them audited u/s 44AB. However, where an Assessee wishes to declare income lesser than as computed u/s 44AE, he is required to mandatorily maintain books of account and get the same audited.
8. Deduction u/s 30-38 shall not be deemed. (Assume its deemed to be already allowed).
9. WDV is to be calculated considering notional dep every PY.

Sec 40(b): Payment of Interest, Bonus, Commission or Remuneration

Interest & Remuneration paid by Firm/LLP is allowed as deduction if following conditions are satisfied :

1. Remuneration paid to only Working Partner.
2. Remuneration & Interest should be authorised by Partnership deed.
3. Remuneration & Interest should relate to period falling after the date of Partnership deed. That means it should not be retrospective.
4. Interest on partner's capital & loan allowed max@ 12% p.a. simple interest.
5. Remuneration allowed on Book profit basis *

* Book Profits (BP)



❖ Meaning of Book Profit	₹
Net Profit under PGBP	xx
(-) Current year + b/f depreciation	xx
	xx
(+) Remuneration (if it is debited to P&L A/c)	xx
Book Profits	xx

In simple terms: Book Profit means PGBP before Remuneration.

❖ Explanation to see 40(b)

1. If any individual is a partner in a Firm on Individual capacity & receiving interest on Representative's capacity, then sec 40(b) not applicable on such interest.
2. If any individual is a partner in a Firm on Representative's capacity & receiving interest on Individual capacity, then sec 40(b) not applicable on such interest.

Summary

Partner on	Interest Recd. on	Treatment
Individual Capacity	Individual Capacity	Max. 12% interest allowed as per 40(b)
Representative Capacity	Representative Capacity	Max. 12% interest allowed as per 40(b)
Individual Capacity	Representative Capacity	Limit of Sec. 40(b) Not applicable so even interest more than 12% allowed
Representative Capacity	Individual Capacity	Limit of Sec. 40(b) Not applicable so even interest more than 12% allowed



Note: The above explanation is applicable **only for Interest**. If any individual is partner or representative capacity or individual capacity and received any remuneration then on such remuneration limit of section 40(b) shall apply.

➤ **Sec 145(1) Method of Accounting**

For PGBP & IFOS assessee can follow mercantile or cash system.

➤ **Format to Solve PGBP Question as per Indirect Method under default Tax Regime u/s 115BAC**

Particular	Amount	Amount
Net profit as per statement of profit and loss		A
Add: Exps. dr to P&L but Disallowed		
✓ Depreciation as per books of account	xx	
✓ Income-tax [disallowed u/s 40(a)(ii)]	xx	
✓ 30% of sum payable to residents on which TDS is not deducted or has not been paid on or before the due date u/s 139(1), disallowed under section 40(a)(ia) [The same is allowable in the year in which the tax is deducted and remitted]	xx	
✓ Any expenditure incurred, in respect of which payment is made for goods, services or facilities to a related person, to the extent the same is excessive or unreasonable, in the opinion of the A.O.[disallowed u/s 40A(2)]	xx	
✓ Any expenditure incurred in respect of which payment or aggregate of payments to a person exceeding ₹ 10,000 in a single day is made otherwise than by way of A/c payee cheque/bank draft/ ECS (debit card, credit card, Net banking, RTGS, NEFT, IMPS, BHIM Aadhar Pay) [disallowed u/s 40A(3)]	xx	
✓ Certain sums payable by the assessee which have not been paid during the relevant P.Y. in which the liability was incurred on or before the due date for filing return u/s 139(1) in respect of that P.Y. [disallowed u/s 43B]	xx	
✓ Sum payable by the assessee to a micro or small enterprise beyond the time limit u/s 15 of MSME Development Act, 2006 [disallowed u/s 43B]	xx	
✓ Personal expenses [not allowable as per section 37]	xx	
✓ Capital expenditure [not allowable as per section 37]	xx	
✓ Repairs of capital nature [not allowable as per Sections 30 & 31]	xx	
✓ Amortization of preliminary expenditure u/s 35D/ expenditure incurred under voluntary retirement scheme u/s 35DDA [4/5th of such expenditure to be added back]	xx	
✓ Family planning expenses not allowable in the case of a person other than a company	xx	
✓ Fine or penalty paid for infringement or breach of law [However, penalty in the nature of damages for delay in completion of a contract, being compensatory in nature, is allowable]	xx	
✓ All expenses related to income which is not taxable under this head e.g. municipal taxes in respect of residential house property	xx	
✓ Any sum paid by the assessee as an employer by way of contribution to pension scheme u/s 80CCD exceeding 14% of the salary of the employee	xx	B
(A + B)		C



Less: Expenditure allowable as deduction but not debited to statement of profit and loss (Allowed)		
✓ Depreciation computed as per Rule 5 of Income-tax Rules, 1962	xx	
✓ 30% of expenditure disallowed in an earlier P.Y. due to non-deduction of tax at source/ non-remittance before due date u/s 139(1) of that year, allowed this year on remittance (This item of adjustment is generally given under "Additional information" in the question)	xx	
✓ Amount disallowed in an earlier P.Y. as per section 43B, due to non-payment on or before due date u/s 139(1), allowed as deduction in this year on actual payment (This item of adjustment is generally given under "Additional information" in the question)	xx	D
C - D		E
Less: Income credited in statement of profit and loss but not taxable/taxable under any other head		
✓ Dividend income	xx	
✓ Agricultural income exempt under section 10(1)	xx	
✓ Interest on securities/savings bank account/FD taxable under the head "Income from other sources"	xx	
✓ Profit on sale of capital asset taxable under the head "Capital Gains"	xx	
✓ Rent from house property taxable under the head "IFHP"	xx	
✓ Winnings from lotteries, horse races, games etc. taxable under the head "IFOS"	xx	
✓ Gifts exempt or taxable under the head "IFOS"	xx	
✓ Income-tax refund not taxable	xx	
✓ Interest on income-tax refund taxable under the head "IFOS"	xx	F
(E - F)		G
Add: Income chargeable under this head/Deemed Income [If the same is given as additional information and has not already been credited to Statement of Profit & Loss]		
✓ Salary, remuneration, interest received by a partner from the firm, to the extent the same is deductible in the hands of the firm as per section 40(b)	xx	
✓ Bad debt allowed as deduction u/s 36(1)(vii) in an earlier P.Y., now recovered [deemed as income u/s 41(4)]	xx	
✓ Remission or cessation of a trading liability [deemed as income u/s 41(1)]	xx	H
PGBP (G + H)		I

Note: When assessee opted section 115BAC then following deduction not allowed

- ☞ Additional Depreciation
- ☞ Donation u/s 35(1)(ii)/(iii)/(iia)/35(2AA)
- ☞ Deduction u/s 35AD



Notes

Sec. 45(1): Charging Section

Any profit and gain arising from **Transfer** of a **Capital Asset** shall be chargeable under the head capital gain in the **P.Y. in which transfer took place.**

Sec. 2(14): Capital Asset

Capital Asset means-

- A) Property of any kind held by assessee, whether or not connected with business or profession.
- B) Any Securities held by a Foreign Institutional Investor (FII).

But Capital Asset **does not include (excludes)**

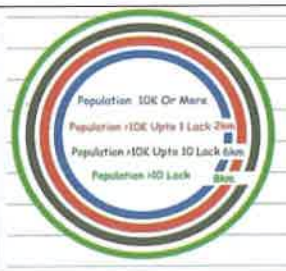
- (i) **Stock** in trade (RM/WIP /FG).
- (ii) Movable **personal** asset (used by assessee or dependent family member for personal purpose).
But **Excludes:** Jewellery, Drawings, Paintings, Sculpture, Archaeological Collection, or Any other work of Art.
- (iii) **Rural Agricultural Land** in India.
- (iv) Gold Deposit Bonds, 1999 or Deposit Certificates issued under the Gold Monetisation Scheme, 2015.

Interest on Instrument
also exempt u/s 10(15)

Notes:

1. Assets used for personal purpose of assessee :-
 ⇒ T.V., Car, Mobile etc - **Not a Capital Asset - CG not Applicable**
 ⇒ Jewellery, Drawings, Paintings - **Capital Asset - CG Applicable**
2. Gold Utensils, Silver Bars, Silver Coins were held not to be Consider as Personal Effect - **Capital Gain Applicable** (Maharaja Rana Hemanth Singh)
3. Silver Utensils held to be Personal Effect - **No Capital Gain** (Benarshilal Kataruka)
4. Car used in the **business** treated as **capital asset**.
5. Jewellery means:
 - a.) Ornaments made of gold, silver, platinum or other precious metal or alloy containing such metals.
 - b.) Precious stones whether or not set in any furniture, utensil or other article.
6. Definition of **Urban Area**
 - a) Any area (municipality, cantonment board etc) which has a population of 10000 or more.
 - b) In the following area within the distance, measured aerially

Shortest distance from area referred in point (a)	Population according to last census
upto 2kms	>10,000 upto 1,00,000
upto 6kms	>1,00,000 upto 10,00,000
upto 8kms	>10,00,000



Rural Area Means Area Which is Not a Urban Area.

Sec. 2(47): Transfer

'Transfer' includes

- (i) The **sale, exchange or relinquishment** of the asset, or
- (ii) The **extinguishment of any right** there in, or
- (iii) **Compulsory acquisition** there of under any law, or
- (iv) **Conversion of capital asset into stock** in trade, or
- (v) Allowing the **possession of any immovable property** to be taken or retained in part performance of a contract.
- (vi) Any **transaction** (like becoming a member of, or acquiring shares in a Co. operative society) which has the effect of transferring or **enabling the enjoyment of immovable property**.
- (vii) The **redemption of Zero-Coupon Bonds (ZCB)**

Types of Capital Asset

Short Term Capital Asset (STCA)

STCG

Long Term Capital Asset (LTCA)

LTCG

Capital Asset		Period of Holding	
		Upto 22/07/24	From 23/07/24
Part: A	<ul style="list-style-type: none"> ➤ Security (other than Unit*) listed in recognised stock exchange of India ➤ Unit of UTI ➤ Unit of Equity oriented Mutual Fund ➤ ZCB 	1 Year	1 Year
Part: B	<ul style="list-style-type: none"> ➤ Unlisted shares (Shares not covered in Part-A) ➤ Immovable Property 	2 Years	2 Years
Part: C	➤ Any other Asset	3 Years	2 Years

* "other than Unit" is omitted w.e.f. 23rd July, 24 so now in case of listed units POH 1 year applicable from 23rd July, 24.

If any asset held for more than 1/2/3 years then it is treated as LTCA otherwise STCA.

Sec. 48: Computation of Capital Gain

Particular	Amount
Full value of consideration (FVOC)	xx
(-) Expenses incurred in connection of transfer	(x)
Net Consideration	xx
Less: Cost of Acquisition (COA)	(x)
Cost Of Improvement (COI)	(x)
Capital Gain	xx

Proviso added by FA- 23: Provided that the COA or COI shall not include the deductions claimed in respect of interest u/s 24(b) or under the provisions of Chapter VI-A.

◆ Second proviso (exception) to section 48: Indexation [Not applicable w.e.f. 23rd July, 2024]

In case of LTCA (long term capital asset) COA & COI should be indexed:

a) ICOA:

$$\text{COA} \times \frac{\text{CII of the year of Transfer}}{\text{CII for the first year in which asset was held by assessee or for the year 01-02, whichever is later}}$$

b) ICOI

$$\text{COI} \times \frac{\text{CII for the year of transfer}}{\text{CII for the year in which the improvement to the asset took place}}$$

Cost Inflation Index (CII)

FY	C.I.I.	FY	C.I.I.	FY	C.I.I.
2001-02	100	2009-10	148	2017-18	272
2002-03	105	2010-11	167	2018-19	280
2003-04	109	2011-12	184	2019-20	289
2004-05	113	2012-13	200	2020-21	301
2005-06	117	2013-14	220	2021-22	317
2006-07	122	2014-15	240	2022-23	331
2007-08	129	2015-16	254	2023-24	348
2008-09	137	2016-17	264	2024-25	363

Note: From July 23, 2024, indexation benefits are not available on the transfer of long-term capital assets, regardless of the holding period.

Note: Site (land) and Building are separate assets for the purpose of capital gain. If site acquired before 2 years and building constructed within 2 years then we have to calculate separate capital gain for both the assets. Capital gain on land is treated as L TCG and on building treated as STCG.

c) Asset acquired before 01/04/2001:

COA = Actual cost or FMV as on 1/4/01, whichever is higher

Note: In case of immovable properties if Stamp Duty Value (SDV) as on 01.04.2001 available then **FVM** as on 01.04.2001 **should not be more than SDV** as on 01.04.2001.

COA =

a) Actual Cost of Asset		xx
b) (i) FMV as on 01/04/01	xx	
(ii) SDV as on 01/04/01	xx	xx

d) Improvement done before 1/4/2001 - Should be ignored.

◆ **First proviso to section 48: Capital Gain in case of Non-Resident**

- **NR Assessee** (include foreign company);
- Asset being **Shares & Debenture** of Indian Company;
- Such asset acquired in **foreign currency** by way of purchase or reinvestment;
- then capital gain shall be calculated in foreign currency & after that it shall be reconverted into Indian currency.

Rule 115A: Method of Conversion

COA	Avg. of TTBR & TTSR on the date of Acquisition
FVOC & Transfer Exps.	Avg. of TTBR & TTSR on the date of Transfer
CG into Indian currency	TTBR on the date of Transfer

Notes: 1. Assessee should be NR in the year of sale.

2. **Index benefit not available** where first proviso applies.

◆ **Third proviso to section 48: First and second proviso NOT Applicable** for computation of LTCG referred u/s 112A.

◆ **Fourth proviso to section 48: No indexation in case of Debentures & Bonds**
 Index benefit **not allowed** in case of bonds & debentures **except** Capital Indexation Bonds and Sovereign Gold Bonds issued by RBI.
 As per section 47, NO Capital Gain will arise in case of Individual on Redemption of Sovereign Gold Bond issued by RBI.



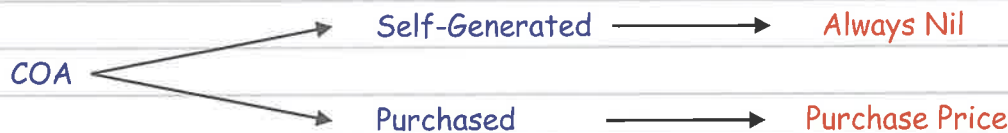
B. **Other Person:** Capital gain applicable on transfer or maturity and index benefit available.

- ◆ Seventh proviso to Section 48: Security Transactions Tax (STT) not Allowed
 STT paid on sale/purchase of shares/unit **shall not be allowed** under capital gain.
 If it is paid at the time of Sale - **Not treated as transfer expense**
 If it is paid at the time of Purchase - **Not added to the cost of acquisition**

Sec. 55: Cost of Acquisition and Improvement

➤ Cost of Acquisition (COA)

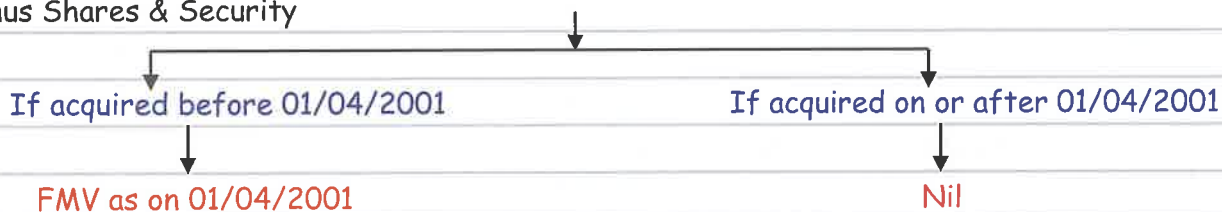
- Goodwill or any other intangible asset of Business or Profession,
- Trademark or Brand name associates with a business or profession,
- Right to manufacture, produce, process any article or things (patent & copyright),
- Right to carry on any Business or Profession,
- Tenancy right, Loom hours, Route permits or any other right.



Notes

- Benefit of FMV as on 01/04/2001 NOT available in case of above assets.
- In case of Goodwill, in respect of which depreciation has been claimed upto PY 19-20, the COA would be purchase price as reduced by depreciation claimed by the assessee.

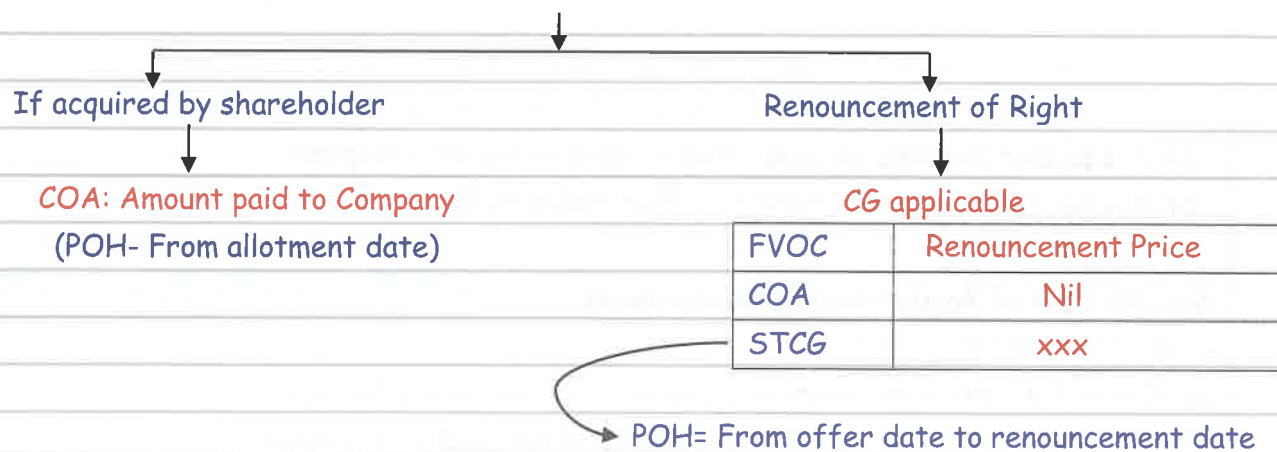
➤ Bonus Shares & Security



POH Case of Shares/Securities - from allotment date to transfer date.

Note: If sec. 112A apply & Bonus shares allotted before 01/2/18 then COA is FMV as on 31/1/18.

➤ Right Shares & Security



▪ In hands of purchaser of right

COA: Amount paid to Company for shares + Amount paid for purchase of right

POH: From date of allotment of shares

➤ Cost of Improvement (COI)

- In case of goodwill or any other intangible asset of business, patent, copyright, right to carry on any business or profession or any other right - **always Nil.**
- In case of other assets capital expenses incurred on improvement on or after 01/04/2001.

Exception of Section 45(1)

As per section 45(1), Capital Gain is chargeable to tax in the year of transfer but in the following cases Capital Gain is not taxable in the year of transfer:-

Sec 45(2): Conversion of capital Asset into Stock in Trade

Conversion of capital asset into stock-in-trade is treated as transfer, capital gain shall arise where an assessee converts capital asset into stock in trade.

Capital Gain shall be **taxable** in the year in which such **stock in trade is sold.**

Capital Gain	₹	PGBP	₹
FVOC (FMV on date of conversion)	xx	Sale Price of stock in trade	xx
(-) COA/ICOA	(x)	(-) FMV of Asset on date of conversion	(x)
(-) COI/ICOI	(x)		
STCG/LTCG	xx	PGBP	xx

➤ Amount recorded in books of accounts - **Not Relevant**

➤ FMV as on date of conversion - **Relevant**

Notes:

- If any **part of stock** in trade is sold then **only part capital gain** shall arise in the year in which **part of stock-in-trade is sold.**



2. In case of conversion of capital asset into stock and subsequent sale of stock, period of 6 months shall be calculated from date of sale of stock for the purpose of exemption u/s 54EC (CBDT Circular)

Conversion of Stock in Trade into Capital Assets

➤ Section 28(via): PGBP

The FMV of Inventory as on the date on which it is converted into capital asset shall be Taxable under PGBP.

➤ Section 49(9): Cost of Acquisition

For the purpose of computing capital gain COA of such asset shall be FMV Referred in sec. 28(via).

➤ Section 2(42A): Period of Holding

POH Shall be reckoned from the date of conversion into Capital Asset.

Note: In this case the PGBP taxable in the year of conversion of SIT into Capital asset and capital gain taxable in the year in which capital asset transferred but in section 45(2) conversion of capital asset into stock in trade, capital gain and PGBP both taxable in the year in which stock sold.

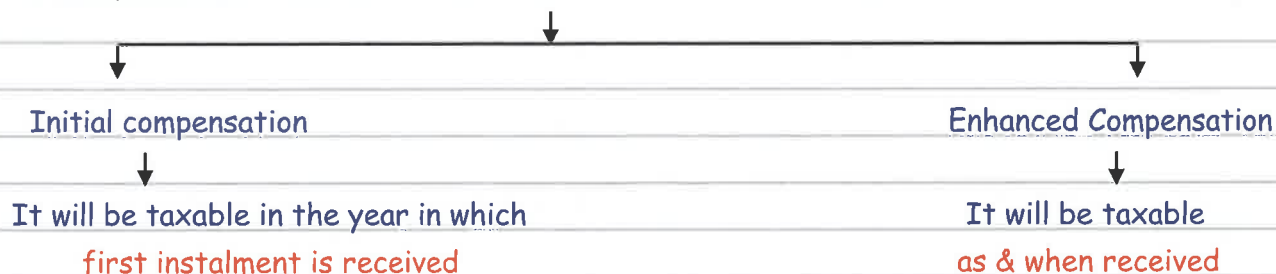
Section 45(5): Compensation on compulsory Acquisition under any Law

Normally capital gain is taxed in the year of transfer but in case of compulsory acquisition of capital asset, capital gain will be taxable in the year in which **compensation is received**.

For Initial Compensation	₹	For Enhanced Compensation	₹
FVOC (Initial Compensation)	xx	FVOC (Enhanced Compensation)	xx
(-) COA/ICOA	(x)	(-) Litigation Expenses	(x)
(-) COI/ICOI	(x)		
STCG/LTCG	xx	STCG/LTCG	xx

CBDT Clarification - Compensation received in respect of any award or agreement which has been exempted from levy of income-tax u/s 96 of the Right to Fair Compensation and Transparency in Land Acquisition, Rehabilitation and Resettlement Act, 2013 (RFCTLARR) shall also not be taxable under Income-tax Act, 1961

➤ If compensation received in instalment



- If any **enhanced compensation** is received due to the **interim order** of any court, then such compensation shall **not** be taxable in the **year of receipt** but shall be taxable in the year in which **final order is passed** by such court or other authority.
- Any interest received on late compensation shall be taxable under IFOS in the **year of receipt** & 50% deduction will be allowed u/s 57.
- **Nature of Capital Gain** of Enhanced compensation will be **same as that of Initial** compensation.
- If due to the death of transferor, the enhanced compensation is received by any other person. In that case, the enhanced compensation will be taxable under Capital gain of such other person.
- Any Capital Gains arising to an **Individual or HUF** on **compulsory acquisition** of **urban agricultural land** shall be exempt from tax provided such land has been used for agricultural purposes during the preceding 2 years by the Individual or his parents or by such HUF [Sec 10(37)].

Section 45(1A): Insurance Claims for Damage or Destruction of Capital Asset

Normally capital gain is taxed in the year of transfer but in case of **destruction** of capital asset, Capital gain will be taxable in the **year in which insurance claim is received**.

Capital asset is destroyed due to fire, flood, earthquake, tsunami, riot, civil disturbance, enemy action or any other natural calamity and **insurance claim is received** then capital gain is applicable.

- If no claim received, no capital gain shall arise.

- Computation of Capital Gain

Particular	₹
FVOC [Insurance claim (Money/ FMV of asset received as claim)]	xx
(-) COA/ICOA	(x)
(-) COI/ICOI	(x)
STCG/LTCG	xx

Summary

Section	Year of Transfer	Year of Tax	POH	FVOC
45(1A) Destruction of CA	Year of Destruction	Ins. Claim Recd.	Till date of destruction	Ins. Claim Recd.
45(2) Conversion of CA into SIT	Year of Conversion	Year in which SIT sold	Till date of conversion	FMV on the date of Conversion
45(5) Compulsory Acq. of CA	Year of compulsory Acq.	Compensation Recd	Till date of compulsory acq.	Compensation Recd.

Sec 50AA: Capital Gain in case of Debt, MF & Market linked Debentures

In Case of;

- (a) unit of a Specified Mutual Fund acquired on or after 1st April, 23 or a Market Linked Debenture (MLD); or
- (b) unlisted bond or an unlisted debenture which is transferred or redeemed or matures on or after the 23rd July, 2024,

the capital gain shall be calculated as follows & it is always STCG.

Computation of Capital Gain	₹
FVOC on transfer, redemption or maturity	xx
Less: Transfer Expenses	(x)
Net Consideration	xx
Less: Cost of Acquisition	(x)
STCG	xx

Notes:

1. STT **not allowed** while calculating capital gain.
2. In this case capital asset deemed to be STCA & CG STCG so index not allowed.
3. "MLD" means a security which has an underlying principal component in the form of a debt security and where the **returns are linked to market returns** on other underlying securities or indices and include any security classified or regulated as a Market Linked Debenture by the SEBI;
4. "Specified Mutual Fund" means a MF where **not more than 35%** of its total proceeds is invested in the **equity shares of domestic companies**.
5. Percentage of equity shareholding shall be computed with reference to the annual average of the daily closing figures.

Sec 50B: Slump Sale

Slump sale means transfers the **entire undertaking or division** for lumpsum consideration without assigning value/selling price of individual asset.

Computation of Capital Gain	₹
FVOC [FMV as per rule 11UAE] (Given in Question)	xx
Less: Transfer Expenses	(x)
Net Consideration	xx
Less: Cost of Acquisition (Net worth of Undertaking) (Note-1) [Index not allowed on COA]	(x)
STCG/LTCG	xx

Notes:

1. Computation of Net worth = Assets minus liabilities

Assets	₹
➤ Depreciable Asset	WDV as per Income Tax
➤ Other Assets	Book Value
Less: Liabilities	(Book Value)
Net worth	xxx

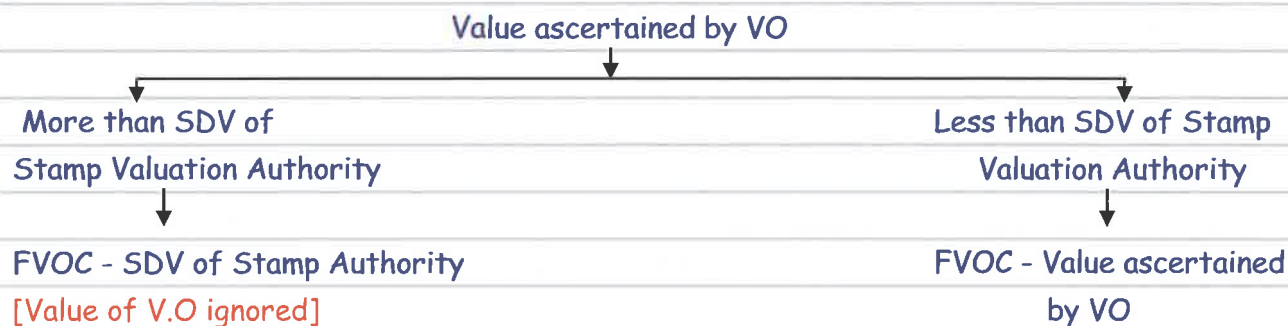
2. Revaluation of asset shall be **ignored**.
3. If Net-worth comes negative then, COA = Nil.
4. For computing net worth,
 - if asset (on which deduction u/s 35AD was claimed) - Value taken as **Nil**
 - Value of self-generated goodwill - Value taken as **Nil**
5. No Profit under PGBP shall arise even if stock is transferred in slump sale.
6. Nature of capital gain
 - If undertaking held for More than 3 Years - **LTCG**
 - If undertaking held for 3 Year or Less - **STCG**
7. Assessee shall furnish a **CA report** upto date of Audit u/s 44AB indicating the computation of the net worth, and certifying that the net worth, has been correctly arrived.
8. Rule 11UAE: FMV on the **date of transfer (slump sale)** shall be higher of FMV-1 or FMV-2
 - ↑ FMV-1 : FMV of **Undertaking transferred**
 - ↑ FMV-2 : FMV of **Consideration Received**

Sec 50C: Stamp Duty value shall be treated as FVOC

In case of **immovable property** held as **capital asset**, if SDV (assessed/assessable by stamp valuation authority) is more than 110% of consideration such SDV shall be deemed to be FVOC.



- Where assessee **claims** that SDV is more than FMV of the property & such SDV has not been disputed in any appeal then the **A.O. may refer the valuation to valuation officer (VO).**



- Normally SDV considered on the date of **registration** but u/s 50C if date of agreement & registration are not same, then assessee can take **SDV on the date of agreement** if he has received **consideration or part thereof** upto the **date of agreement** in A/c payee cheque /DD, use of electronic clearing system (ECS) through a bank account or any other electronic modes as may be prescribed.

Notification 8/2020 - Other electronic modes

- (a) Credit Card, Debit Card ;
- (b) Net Banking ;
- (c) IMPS (Immediate Payment Service) ;
- (d) UPI (Unified Payment Interface) ;
- (e) RTGS (Real Time Gross Settlement) ;
- (f) NEFT (National Electronic Funds Transfer), and
- (g) BHIM (Bharat Interface for Money) Aadhaar Pay.

Note: **Above notification also applicable for section 13A, 35AD, 40A, 43, 43CA, 44AD, 56, 80JJAA, 269SS, 269ST, 269T.**

Sec 50CA: FMV of Unquoted Shares shall be Treated as FVOC

Where **Unquoted Shares** (i.e. shares other than Quoted Shares), being a Capital Asset is transferred for consideration lower than FMV, then such **FMV shall be deemed to be FVOC.**

Sec 50D: Where sales consideration is not ascertainable or cannot be determined

Then **FMV** of such asset as on the date of transfer shall be **FVOC**

Sec 51: Advance money forfeited (Token money)

If any advance money/token money/earnest money is forfeited by the assessee (**present owner**) **before 01/04/2014**, then it shall be reduced from "Cost of Acquisition" (before indexing).



Note: Above provisions are applicable only in case of forfeitures done by present owner - Any forfeiture done by **previous owner shall not be considered**.

Sec. 56(2)(ix): Any advance money forfeiture **on or after 01/04/14** shall be charged to tax in the year of forfeiture under the head **"Income from Other Sources"**.

Sec 47: Certain Transaction not regarded as Transfer (Exempt transfer)

Following transactions are not regarded as transfer. Therefore, no Capital Gain will arise

1. Distribution of capital asset on the partial or total **partition of HUF**- [Sec. 47(i)]
2. Transfer of capital asset by **Individual or HUF** under **gift, will, irrevocable trust** - [Sec. 47(ii)]

Notes:

→ This clause shall not apply to **gift** or an irrevocable trust of share, debenture or warrant allotted by company to employee under **ESOPS**.

→ As per sixth proviso to section 48- **FMV on the date of transfer** (date of GIFT or irrevocable trust) shall be treated as **FVOC of such shares, debentures or warrants**.

3. & 4. Transfer of capital asset by **holding Co. to its subsidiary Co. or subsidiary Co. to its holding Co.** provided following conditions are satisfied - [Sec. 47(iv)/ Sec.47(v)]

- a) Holding Co. holds 100% shareholding of subsidiary Co.
- b) Transferee Co. should be Indian Co.

➤ In Above cases

(a) Cost of Acquisition Sec. 49 (1): Cost to the **Previous Owner**.

(b) Cost of Improvement: Incurred by **previous owner & present owner** shall be considered.

(c) Period of Holding: POH of previous owner shall also be considered.

(d) Indexed Cost of Acquisition: Manjula J. Shah (Bombay H.C)

$$\text{COA of Previous owner} \times \frac{\text{CII of the year of Transfer}}{\text{CII for the year in which asset first held by Previous Owner}}$$

(e) Benefit of FMV as on 01/04/2001 - **Available**

6. Transfer under Amalgamation

Transfer of Any Capital asset by Amalgamating Co. to amalgamated Co.	If Amalgamated Co. is an Indian Co. [Sec. 47(vi)]
----------------------------------------------------------------------	------------------------------------------------------

7. Transfer under Demerger

Transfer of Any Capital asset by Demerged Co. to Resulting company	If Resulting Co. a is Indian Co. [Sec. 47(vib)]
--------------------------------------------------------------------	----------------------------------------------------

8. Conversion of securities

Conversion of Bond, debenture, debenture stock, deposit certificates of a company into Share or debenture of same Co. [Sec. 47(x)]	COA of share/debenture received on conversion = cost of that part of Bond, debenture, Deposit certificates which is so converted. -Sec. 49(2A) POH of share/debenture shall also include the period for which Bond, debenture, Deposit certificates held by the assessee.
Conversion of Preference share of a Co. into Equity share of same co. [Sec. 47(xb)]	COA of equity share received on conversion = cost of that part of preference shares which is so converted. -Sec. 49(2AE) POH of equity share shall also include the period for which preference shares held by the assessee. Sec. 2(42A)
Conversion of Gold into Electronic Gold Receipt (EGR) issued by a Vault Manager, or conversion of Electronic Gold Receipt into Gold. [Sec. 47(viid)]	COA of current asset (EGR/gold) received on conversion = cost of earlier asset (gold/EGR) which is so converted. -Sec. 49(10) POH of earlier asset (gold/EGR) shall also include the period for which current asset (EGR/gold) held by the assessee. Sec. 2(42A)

9. Transfer of Sovereign Gold Bond issued by RBI under Sovereign Gold Bond Scheme 2015, by way of redemption by the assessee being an Individual. [Sec. 47(viic)]

10. Transfer of Work of Art, scientific, archaeological, manuscript, books, photograph or print to Govt., University, National Museum or art gallery or archives, any public notified museum. [Sec. 47(ix)]

11. Transfer of capital asset under reversed mortgage under a scheme made and notified by CG. [Sec. 47(xvi)]

Note: Amount of loan (either in instalment or lumpsum) received by the senior citizen under the transaction of reverse mortgage would be exempt from income tax u/s 10(43).

Exemption under Capital Gain

Sec 54: Exemption for Residential House Property

A.	Assessee	Individual or HUF
B.	Transferred Assets	Residential house property (RHP) being building & land appurtenant there to.
C.	CG on Transferred Asset	LTCG
D.	Asset to be acquired	One Residential HP in India Note: IF LTCG is upto ₹ 2 Crore then Assessee can acquire Two Residential HP in prescribed time limit. This benefit of 2 HP is available only once in life time.
E.	Time limit for Purchase or construction	Purchase: Within 1 yr. before or 2 yrs after the date of transfer; and (-1+2) Construction: Complete construction within 3 yrs after date of transfer. (+3)
F.	Deposit Scheme (Note-1)	CGAS applicable
G.	Amount of Exemption	<div> <div>(i) Capital Gain xxx</div> <div>(ii) Cost of New Asset/Deposit Amount xxx</div> <div>Whichever is lower</div> </div> <p>Note: If Cost of new asset exceeds ₹ 10 crores, then the amount exceeding ₹ 10 crores shall not be taken into account for the purposes of exemption. [Added by FA 2023 w.e.f. AY 24-25]</p>
H.	Locking period on transfer of New Asset	New Asset transferred within 3 yrs from date of purchase or construction then exemption claimed earlier shall be withdrawn & COA of new asset reduced by exempted Capital Gain while calculating CG on new asset.

Sec 54B: Exemption for Urban Agriculture Land

A.	Assessee	Individual or HUF
B.	Transferred Assets	Urban Agricultural land use by Individual or his Parents for agri. purpose during 2 yrs. before the transfer.
C.	CG on Transferred Asset	STCG/LTCG
D.	Asset to be acquired	Urban or Rural Agriculture Land
E.	Time limit for Purchase or construction	Purchase: Within 2 yrs after the date of transfer; (+2)
F.	Deposit Scheme (Note-1)	CGAS applicable
G.	Amount of Exemption	<div> <div>(i) Capital Gain xxx</div> <div>(ii) Cost of New Asset/Deposit Amount xxx</div> </div>



		Whichever is lower
H.	Locking period on transfer of New Asset	Same as section 54.
I.	Notes	<ol style="list-style-type: none"> 1. If assessee acquired new asset as Rural Agriculture land & if he transfer that land within 3 years period then exemption claimed earlier shall not be withdrawn as Rural agriculture land is not a capital asset. 2. Deduction u/s 54B can be for STCG also. The condition is that land should be used by assessee or his parents for 2 years prior to the date of transfer.

Sec 54D: Exemption for Industrial Land & Building

A.	Assessee	Any Person
B.	Transferred Assets	Compulsory acquisition of land or building which was used by assessee in the business of industrial undertaking during 2 yrs prior to date of transfer.
C.	CG on Transferred Asset	STCG/LTCG
D.	Asset to be acquired	New land or buildings for the industrial undertaking.
E.	Time limit for Purchase or construction	Purchase: Within 3 years from date of receipt of compensation.
F.	Deposit Scheme (Note-1)	CGAS applicable
G.	Amount of Exemption	<div style="display: flex; justify-content: space-between;"> <div> (i) Capital Gain ↓ (ii) Cost of New Asset/Deposit Amount Whichever is lower </div> <div> xxx xxx </div> </div>
H.	Locking period on transfer of New Asset	Same as section 54.

Sec 54EC: Exemption for Immovable Property

A.	Assessee	Any Person
B.	Transferred Assets	Land, Building or Both
C.	CG on Transferred Asset	LTCG
D.	Asset to be acquired	Bonds redeemable after 5 years issued, by <ol style="list-style-type: none"> (a) National Highway Authority of India (NHAI) (b) Rural Electrification Corp. Ltd. (RECL) (c) Power Finance Corp. Ltd. (PFCL) (d) Indian Railway Fin. Corp. Ltd. (IRFCL)



		Maximum exemption limit being ₹ 50 lakhs within prescribed time limit.
E.	Time limit for Purchase or construction	Purchase: Within 6 months from the date of transfer of original asset.
F.	Deposit Scheme	CGAS NOT applicable
G.	Amount of Exemption	<div> <div>(i) Capital Gain</div> <div>xxx</div> </div> <div> <div>(ii) Cost of New Asset</div> <div>xxx</div> </div> <div>Whichever is lower [Max. can be ₹ 50 lakhs]</div>
H.	Locking period on transfer of New Asset	<p>New asset is transferred or converted into money within 5 years from date of acquisition then exempt LTCG will be taxable in year of transfer/conversion.</p> <p>Note: If assessee takes any loan or advance on the security of bonds, he shall be deemed to have converted into money on the date on which such loan or advance is taken & CG exempted earlier shall be taxable.</p>

Sec 54F: Exemption for Any LTCA other than Residential House Property

A.	Assessee	Individual or HUF
B.	Transferred Assets	Any LTCA other than Residential House Property
C.	CG on Transferred Asset	LTCG
D.	Asset to be acquired	One Residential HP in India
E.	Time limit for Purchase or construction	<p>Purchase: Within 1 yr. before or 2 yrs after the date of transfer; and (-1+2)</p> <p>Construction: Complete construction within 3 yrs after date of transfer. (+3)</p>
F.	Deposit Scheme (Note-1)	CGAS applicable
G.	Amount of Exemption	<p>$LTCG \times \frac{\text{Cost of New Asset/Deposit Amt}}{\text{Net Consideration}}$</p> <p>Note: If Cost of new asset exceeds ₹ 10 crores, then the amount exceeding ₹ 10 crores shall not be taken into account for the purposes of exemption. [Added by FA 2023 w.e.f. AY 24-25]</p>
H.	Locking period on transfer of New Asset	New Asset transferred within 3 yrs from date of purchase or construction then exemption claimed earlier shall be withdrawn & treated as LTCG.
I.	Additional Conditions	<p>➤ On the date of transfer of LTCA, assessee should not own more than one residential HP, and</p>

- Should **not purchase** any other house within **2 years** or **construct** within **3 years** after the date of transfer.

If above conditions not satisfied then exempt CG, taxable in PY in which such other residential house is purchased/constructed.

Notes:

1. Capital Gain Account Scheme:

- Amount: If investment u/s 54, 54B, 54D, 54F is not made before the date of filing of return, then the amount of net consideration (in case of sec. 54F) or capital gain has to be deposited under the CGAS. The amount so deposited shall be deemed to be cost of new asset.
- Time limit: Such deposit in CGAS should be made before due date or actual date of filing the return, whichever is earlier.

- Unutilized amount: If the amount deposited is not utilized for the specified purpose within the stipulated period, then the unutilized amount shall be charged as CG of the PY in which the specified period expires. However, In the case of sec. 54F, proportionate amount will be taxable.

Note: CBDT clarifies that in the event of death of an individual before the stipulated period, the unutilized amount is not chargeable to tax in the hands of the legal heirs of the deceased individual.

2. Section 54H: Extension of time for acquiring new asset

Where transfer of capital asset is by compulsory acquisition under any law, then, Time limits for acquiring new assets & for depositing in CGAS shall be computed from date of receipt of compensation & not from the date of compulsory acquisition.

Example: Mr. BB purchase gold in PY 12-13 for ₹ 13 crore. On 16/03/25 he sold such gold for ₹ 40.05 crores. Transfer expenses is ₹ 0.05 crore. On 28/06/25 he has purchased a residential house property in Mumbai for ₹ 28 crores. He does not own more than 1 HP on the date of transfer of Gold. On 30/03/27 he has transferred Mumbai HP for ₹ 34 crores. Discuss Tax treatment.

Solution:

Computation of Capital Gain on transfer of Gold

PY24-25 AY25-26

Particular	₹ in crores
Full Value of Consideration	40.05
Less: Transfer expenses	0.05
Net Consideration	40.00
Less: COA	13.00
Gross LTCG	27.00
Less: Exemption u/s 54F	
LTCG × Cost of New Asset ₹ 28 Cr. but its restricted to ₹ 10 Cr.	(6.75)
₹ 27 Net Consideration ₹ 40	

	Net LTCG	20.25
Computation of Capital Gain on transfer of Mumbai HP PY26-27 AY27-28		
Particular		₹ in crores
Full Value of Consideration		34.00
Less: Transfer expenses		-
	Net Consideration	34.00
Less: COA		28.00
	STCG	6.00
Deemed LTCG as Mumbai property transfer within 3 years of acq.		6.75

Tax Rates for Capital Gain

Sec 112A: Tax on LTCG of certain Asset [Added by FA18 - Applicable from AY 19-20]

- LTCG on transfer of equity shares or equity-oriented units or units of Business Trust, in excess of ₹ 1,25,000 shall be taxable;-
 - @ 10% for any transfer which takes place before 23rd July, 2024; and
 - @ 12.5% for any transfer which takes place on or after 23rd July, 2024,
 if following conditions are satisfied;
 - STT paid on acquisition & transfer of Equity shares.
 - STT paid on transfer of equity-oriented units and units of business trust.
 Note: limit of ₹ 1,25,000 shall apply on aggregate of the LTCG under sub-clauses (a) and (b).
 [Amended by FA 24, w.e.f. 23rd July, 24]
- LTCG arising from transaction in recog. stock exchange located in an international financial service centre (IFSC) would be taxable @ 10%/12.5% where the consideration in foreign currency even though STT Not Paid in respect of such transaction.
- Deduction u/c VI-A & Rebate u/s 87A Not Allowed Against Capital Gain referred u/s 112A.

◆ Sec. 55: Cost of Acquisition

In case of equity shares or unit of equity-oriented fund or unit of Business Trust acquired before 1/2/2018 & transferred on or after 1/4/2018, COA shall be:

Higher of step 1 & 2

Step - 1	(i) Cost of acquisition	xxx	
Step - 2	(ii) Lower of		
	a. FMV as on 31/01/2018	xxx	
	b. Sale value FVOC	xxx	xxx
			xxx
			COA
			xxx

Note: Indexation not available for computation of Capital Gain u/s 112A.

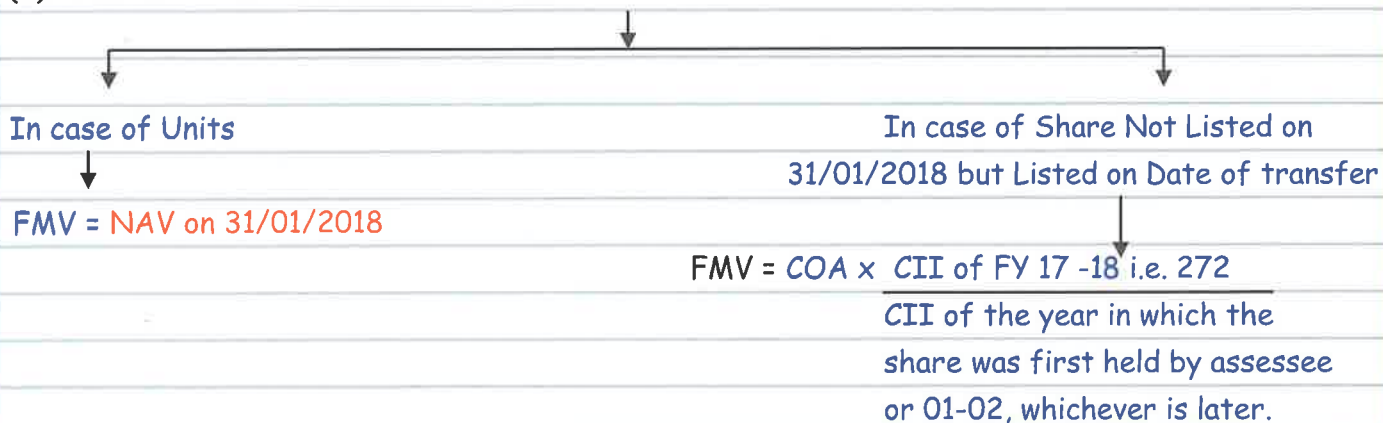
➤ Computation of FMV on 31/01/2018

(i) Listed shares/Units on RSE on 31/01/2018:

FMV = Highest price Quoted on 31/01/2018.

Note: If no trading on 31/01/2018 then the highest price of last trading session before 31/01/2018.

(ii) Unit/Shares not listed on 31/01/2018



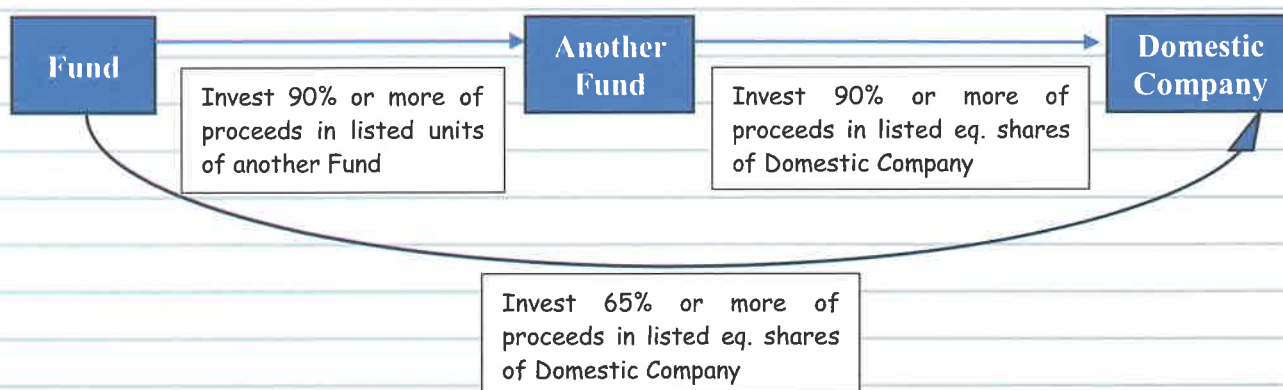
➤ Equity Oriented Fund meaning: Fund set-up under a scheme of a MF or ULIP to which exemption u/s 10(10D) does not apply;

(i) In a case where the fund invests in the units of another fund which is traded on a RSE,-

(A) a minimum of 90% of the total proceeds of such fund is invested in the units of such other fund; and

(B) such other fund also invests a minimum of 90% of its total proceeds in the equity shares of domestic companies listed on a RSE; and

(ii) In any other case, a minimum of 65% of the total proceeds of such fund is invested in the equity shares of domestic companies listed on a RSE.



Sec 111A: Tax on STCG of certain Asset

- STCG on transfer of equity shares or unit of equity-oriented fund or unit of business trust shall be taxable :-
 - (a) @ 15% for any transfer which takes place before the 23rd July, 2024; and
 - (b) @ 20% for any transfer which takes place on or after the 23rd July, 2024, if STT paid on transfer of such assets. [Amended by FA 24 w.e.f. 23rd July 24]
- Concessional rate of 15%/20% available on transaction in foreign currency on RSE located in IFSC even though STT not paid in respect of such translation.
- Deduction u/s VI-A not available against STCG taxable u/s 111A.

Other Capital Gain Tax (other than referred in 112A & 111A above)

No.	Particular	LTCG	STCG
A.	Transfer took place before 23rd July, 24	20%	Normal Tax Rate (slab rate)
B.	Transfer took place on or after 23rd July, 24	12.5%	Normal Tax Rate (slab rate)

Note: If a Resident Individual or HUF transfers any immovable property acquired before 23rd July, 2024, and the tax calculated on LTCG at the new rate (12.5% without indexation) is higher than the tax calculated at the old rate (20% with indexation), then the excess tax is ignored. In other words, the assessee is required to pay tax at 12.5% without indexation or 20% with indexation, whichever is lower.

- Proviso to Sec. 112 [Not applicable w.e.f. AY 23rd July 24]
In case of LTCG on listed securities (other than units) & Zero Coupon Bonds, assessee can pay tax
 - (i) 10% (without indexation)
 - (ii) 20% (with indexation)
 whichever is lower
- In case of NR or Foreign Company - 10% Tax on LTCG from Unlisted securities or shares without First & Second Proviso to Section 48 if transfer took place before 23rd July, 24 & 12.5% if transfer took place on or after 23rd July 2024.
- Benefit of Basic Exemption against LTCG / STCG 111A/LTCG 112A
In case of Resident Individual/HUF, if balance total income (other than LTCG 112, LTCG 112A & STCG 111A) is less than basic exemption then unexhausted (unutilised) basic exemption can be used against LTCG 112, LTCG 112A & STCG 111A.

Example: Total income (NTI) of Mr. Ram is ₹ 4,20,000 (it include LTCG on sale of land ₹ 2,50,000)
 Now tax liability of Ram (assume he opted out from default tax regime 115BAC), $[2,50,000 - 80,000] = ₹ 1,70,000 \times 20\% = ₹ 34,000$ - Rebate u/s 87A+ HEC@ 4%.

Sec 55A: Reference to Valuation officer (V.O.)

A.O May Refer Case to Valuation officer in the following circumstances

- (i) FMV Claimed by assessee as per registered valuer:- A.O. is of Opinion that the Value so Claimed is at variance with its FMV.
- (ii) In any other Case:-
 - a) FMV as per A.O. Opinion more than value claimed by assessee by
 - i) 15% of value claimed by assessee, OR
 - ii) 25000/-

↓
whichever is lower
 - b) Having regard to nature of asset and other relevant circumstances, it is necessary so to do.

➤ Sec. 2(1B): Definition of Amalgamation

Merger of one or more companies with another company or the merger of two or more companies to form one company, in such a manner that -

- (i) All the asset & liabilities of amalgamating company becomes the asset & liabilities of amalgamated company.
- (ii) Shareholders holding minimum 75% in value of shares in amalgamating company become shareholder of amalgamated company.

➤ Taxation of Shareholder

- a) As per Sec. 47, there will be no transfer & hence no CG when shareholder allotted shares of amalgamated Company in exchange of share of amalgamating Co.
- b) COA of the shares in the Amalgamated Company = COA of the shares in the Amalgamating Company [Sec. 49(2)].
- c) POH = Period for which shares held in Amalgamating Company + Period in Amalgamated Company.

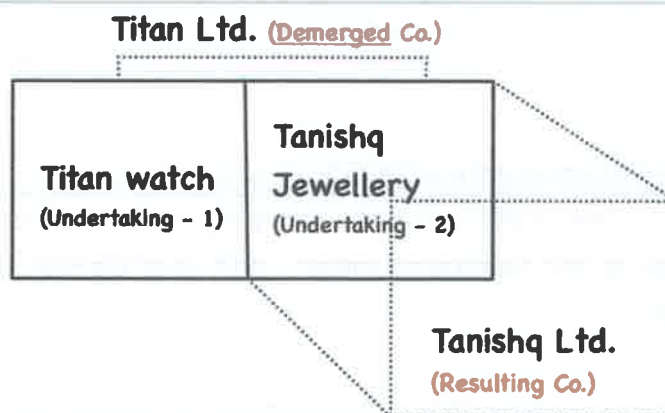
➤ Taxation of Amalgamating company

As per Sec. 47, there will be no capital gain on transfer of capital asset by amalgamating company to amalgamated company.

➤ Taxation of Amalgamated Company

- a) As per Sec. 49 (1) COA of asset becomes property of Amalgamated Company = COA of Amalgamating Company [Cost of Previous Owner].
- b) POH of asset = Period of Amalgamating Company as well as Amalgamated Company.

➤ Meaning of Demerger



➤ Sec. 2(19AA): Demerger means transfer by demerged Co. of its one or more undertaking to an resulting Company, all the following conditions are fulfilled:

- (a) All the assets & liabilities of undertaking-2 (tanishq) transferred by demerged company become the asset & liabilities of resulting company (tanishq ltd).
- (b) All assets & liabilities should be transferred at Book value [Revaluation is to be ignored].
- (c) The resulting company (tanishq ltd.) issues, its shares to the shareholder of demerged company (titan ltd.) on proportionate basis except when the resulting company itself is shareholder of the demerged Company.
- (d) The shareholders holding minimum 75% value of shares in the demerged Company becomes the shareholder of resulting Company.
- (e) Transfer of undertaking on a going concern basis.

➤ Taxation of Shareholder

- a) Sec. 47: There will be no capital gain in hands of shareholders of demerged Company when they receive share of resulting Company.
- b) POH of shares of resulting company: Period for which shares were held in demerged Co. should also be considered [Sec. 2(42A)]
- c) Sec. 49(2C): COA of shares of Resulting Company

COA of shares held in demerged Company \times Net Book value of assets transferred in demerger
 **Net worth of demerged Company before demerger
 **Net worth = Paid up share capital + General reserve

d) Sec. 49(2D): COA of shares in the Demerged Company

COA of original shares in demerged Company	xx
(-) COA of shares in resulting Company (point c).	xx
	xx

➤ Taxation of Resulting Co.

COA of Asset received in Demerger = COA to Demerged Company

➤ Taxation of Demerged Co.

As per Sec. 47 there will be no capital gain when asset transferred by Demerged Company to Resulting Company.

In case of Liquidation

◆ In hands of Company

(a) Distribution shall be treated as Deemed dividend u/s 2(22)(c).

(b) As per sec 46(1): Where asset of Co. is distributed on its liquidation, such distribution shall not be treated as transfer. Hence, Capital Gain shall not apply in hands of company.

◆ In hands of Shareholder

Where shareholder, on liquidation, receives any money or other assets from company then capital gain is applicable in hands of shareholder.

Computation of Capital Gain

Particulars	₹
Money received	xx
(+) FMV of asset recd. on date of Distribution	<u>xx</u>
	xx
(-) Amount assessed as deemed dividend u/s 2(22)(c)	(x)
Full Value of Consideration (FVOC)	xx
(-) COA/ICOA of shares	(x)
STCG/LTCG	xx

Notes:

- POH of shares: Date of Acquisition to date of Liquidation.
- CG is applicable in the hands of SH in the year in which he received assets under Liquidation.
- COA of assets received under Liquidation is FMV of such asset on the date of distribution. (Sec.- 55)

Taxation in Case of Buy Back [upto 30th Sep. 2024]

◆ In case of shares of Domestic Company (listed as well as unlisted)

➤ In hands of Company

As per Sec 115QA, Domestic Company shall pay tax @ 23.296% (20%+12%+4%) on distributed income which shall be calculated as under:

Distributed income = Buyback price - Issue price (including premium)

Note: Company required to pay tax within 14 days from date of Distribution.



➤ In hands of Shareholder

The amount received by shareholders on Buyback of shares shall be **exempt u/s 10(34A)**. No tax treatment in hands of shareholders.

Taxation in Case of Buy Back by Domestic Company w.e.f. 1st October, 2024

➤ In hands of company: There is **NO Tax** treatment in hands of Company.

➤ In hands of shareholder:

(a) Sec. 2(22)(f): Any payment by Company on Buy Back of shares shall be treated as deemed dividend in hands of shareholder and it is taxable under IFOS as per normal tax rate.

(b) Buy Back is treated as extinguishment of rights so CG is applicable as per section 46A in hand of shareholder.

Computation of Capital Gain

Particulars	₹
Full Value of Consideration	Always NIL
(-) COA of shares	(x)
STCL/LTCL	(xx)

POH = Date of Acquisition till date of Buy back.

Example: Mr. BB acquired 1,000 shares of BB Virtuals Ltd @ ₹ 50 per share during PY 20-21. BBV buy back 300 shares @ ₹ 120 per share on 10/12/2024. Mr. BB sold 700 shares on 15/07/2025 @ ₹ 200 per share. Discuss Tax treatment in hands of Mr. BB.

Solution:

(a) During PY 24-25, ₹ 36,000 (300 shares x ₹ 120) is treated as deemed dividend in hands of Mr. BB u/s 2(22)(f) & it is taxable under IFOS.

(b) Computation of Capital Gain on Buy Back

PY 24-25 AY 25-26

Particulars	₹
Full Value of Consideration	Always NIL
(-) COA of shares [300 shares x ₹ 50]	(15,000)
LTCL (it can be setoff against any other LTCG or C/F for next 8 AY's.)	(15,000)

(c) Computation of Capital Gain on sale of 700 shares

PY 25-26 AY 26-27

Particulars	₹
Full Value of Consideration [700 shares x ₹ 200]	1,40,000
(-) COA of shares. [700 shares x ₹ 50]	35,000
LTCL	1,05,000
Less: LTCL of last Year	(15,000)
Net LTCG Taxable in AY 26-27	90,000



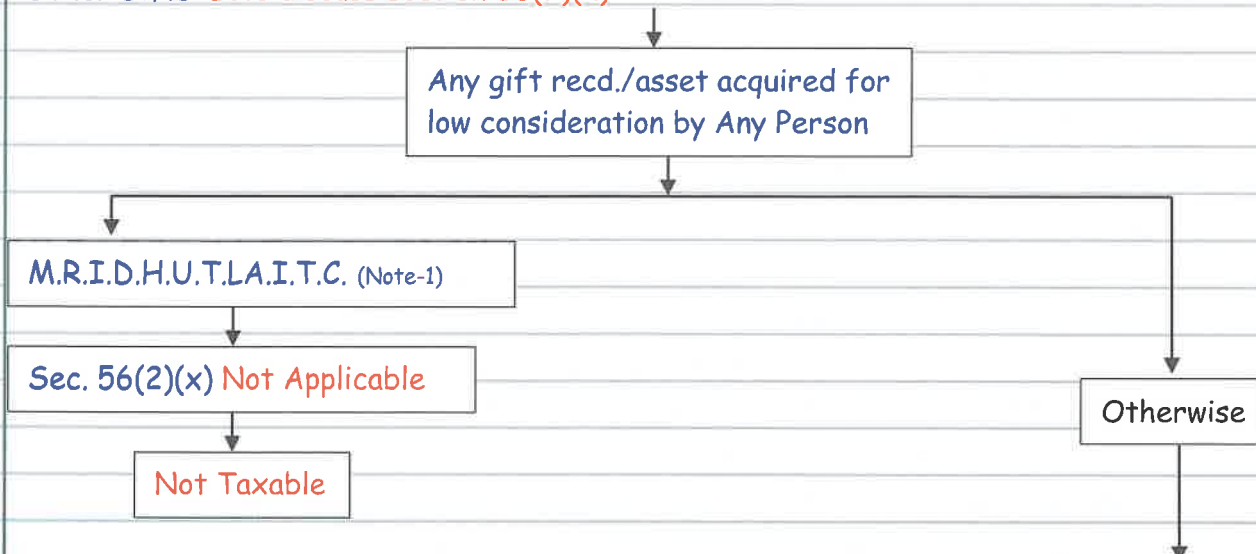
Sec. 56(1): Any Income which is **not taxable** under Salary, IFHP, PGBP or Capital gain, shall be chargeable under IFOS.

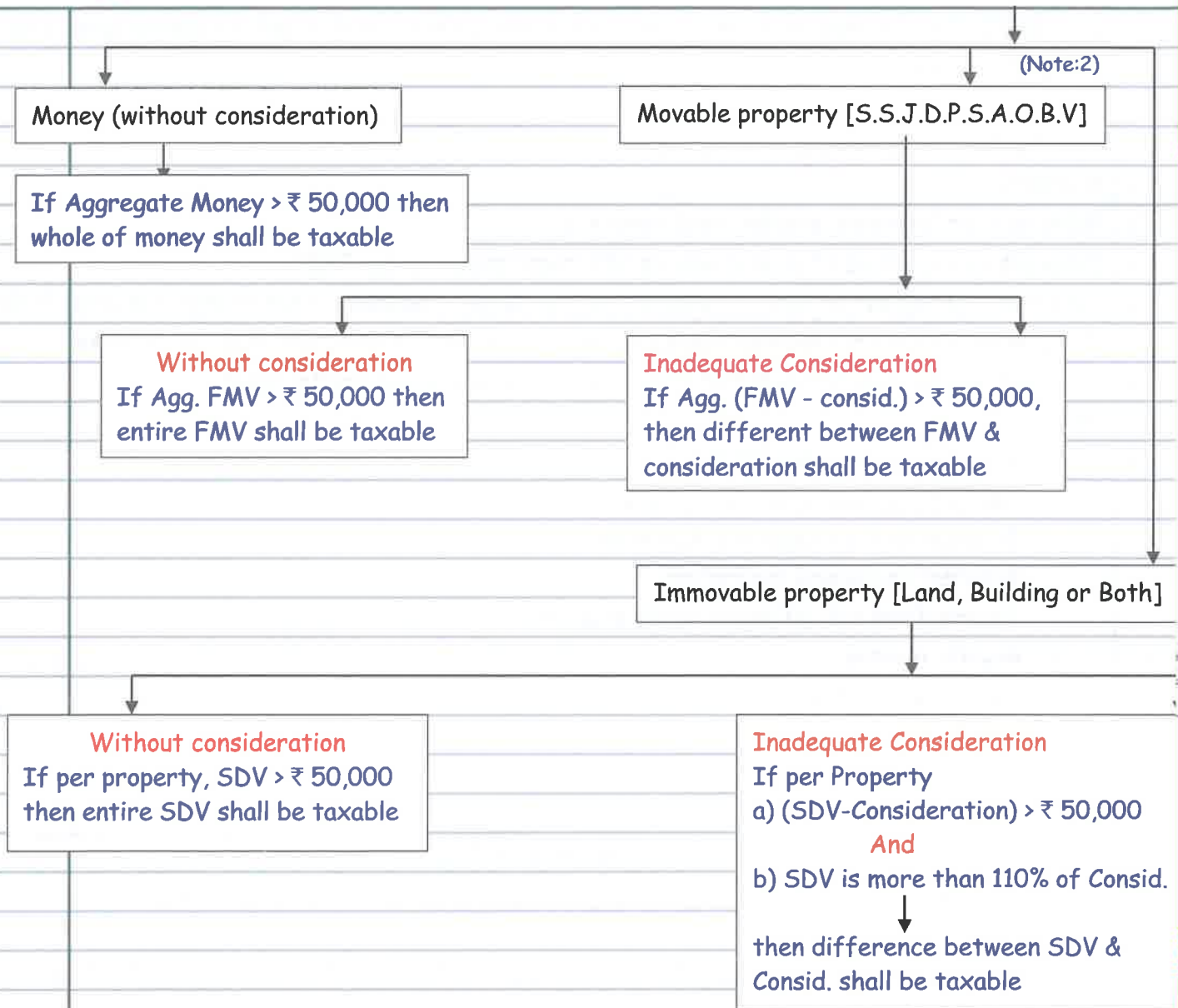
Sec. 56(2) Income taxable under IFOS

- Dividend
- Winning from lotteries, puzzles, card game etc.
- Interest on securities (if shares held as SIT then taxable under PGBP)
- Rent from letting out of P&M or furniture with or without building, if not chargeable under PGBP
- Any sum received under keymen insurance policy if not chargeable under PGBP or Salaries
- Interest received on compensation of compulsory acquisition of capital asset
- Gift
- Other income taxable under IFOS:
 - Amount received under family pension.
 - Interest on bank deposit & loan given.
 - Interest on Income tax refund.
 - Income from sub-letting of house property.
 - Royalty income.
 - Agriculture income.
 - Director sitting fee.
 - Salary of MP/ MLA/ MLC etc.

Taxation of Gift

1. Any gift received by employee from employer due to employee - employer relationship - **always taxable** [even if received on marriage] under income from salary.
2. Any gift/benefit/perquisite arising from Business or Profession - **always taxable under PGBP**.
3. Other Gifts: **Lets discuss section 56(2)(x)**





Note-1: Money/Property **Not Taxable** if it is received

- M - On the occasion of **Marriage**
- R - From any **Relative** (note-3)
- I - Under will or way of **Inheritance**
- D - In contemplation of **Death**
- H - From any **Hospital** or medical institution
- U - From any **University** or educational institution
- T - From or by any **Trust** registered u/s 12AA/12AB
- LA - From any **Local Authority** u/s 10(20)
- I - From an **Individual** by a trust created solely for the benefit of the relative of the Ind.
- T - by any Fund, Trust, Hospital, Medical Inst., University, Edu. Institution ref. u/s 10(23C)

➤ C - Certain Exempt transfer as per sec. 47 HUF Partition, Holding to Subsidiary, Subsidiary to Holding, Amalgamation & Demerger)

◆ Amendment by FA-22 w.e.f. AY 20-21

Sec. 56(2)(x) not applicable in the following cases, Money recd.:-

(i) By Individual, from any person, for exps. actually incurred on treatment of Covid-19 related illness of him or any family member.

(ii) By family member of deceased person, within 12 months of death (death due to Covid-19 illness) -

(a) from the employer of the deceased person (without any limit); or

(b) from any other person or persons upto ₹ 10 lakhs.

Note-1: Family means spouse, children and dependent relative (parents, brother, sister).

Note-2: Death should be within 6 months from the date of testing covid positive.

Note-2: Property (Movable & Immovable)

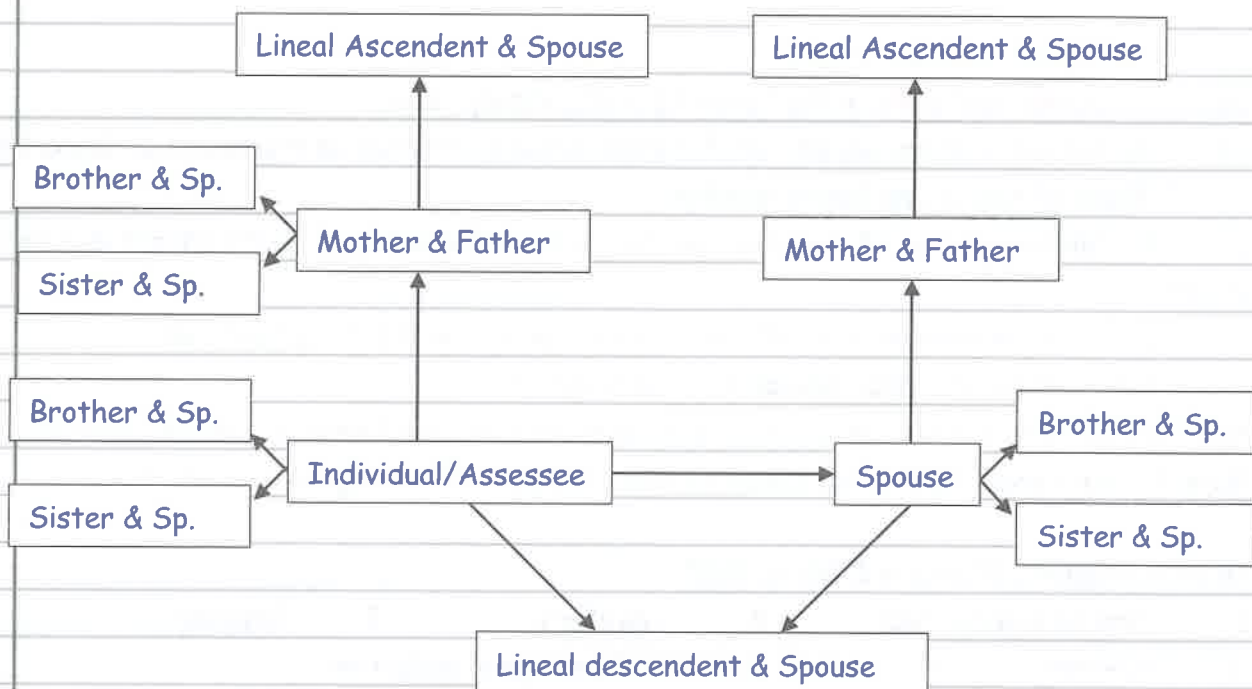
- | | | |
|----------------------------|------------------------------|------------|
| 1. Shares & securities | 2. Jewellery | 3. Drawing |
| 4. Painting | 5. Archaeological collection | |
| 6. Sculptures | 7. Any other work of art | |
| 8. Bullion | 9. Immovable property | |
| 10. Virtual Digital Assets | | |

✶ Any property received as gift or acquired for low consideration other than above, Sec. 56(2)(x) Not applicable - Not taxable.

Car, Iphone 14, T.V., Furniture, Wrist Watch, etc. received then not taxable even value is more than ₹ 50,000/-

Note-3: Relative

A. In case of Individual



B. In case of HUF - Any member of HUF

Note-4: Assessee is not satisfied with SDV then his case may be transfer to VO (same as sec 50C)

Note 5: Sec. 56(2)(x) applicable only if property is in the nature of capital asset of the recipient, if it is Stock-in-trade then Sec. 56(2)(x) Not applicable.

Note 6: Sec.49(4): If any person receiving any asset as gift or acquires for inadequate consideration & he already assessed u/s 56(2)(x) on FMV/SDV then COA of such asset shall be FMV/SDV which was considered under IFOS u/s Sec. 56(2)(x). When COA is computed as per section 49(4), the period of holding of the previous owner shall not be included in the period of holding.

Note 6: If date of agreement & registration is not same, SDV on the date of agreement can be considered u/s 56(2)(x), if full or part consideration paid by A/c Payee cheque, A/c Payee DD or any ECS through bank A/c upto date of agreement.

Sec. 43CA: SDV shall be treated as sales consideration

In case of **immovable property held as stock-in-trade**, if SDV is more than **110%** of consideration then such SDV shall be deemed to be sales consideration for computing PGBP.

- If assessee not satisfied with SDV then his case may be transferred to V.O. (same as Sec. 50C).
- If date of agreement & registration is not same, SDV on the date of agreement can be considered u/s 43CA, if full or part consideration received by A/c Payee cheque, A/c Payee DD or any ECS through bank A/c upto date of agreement.
- Immovable property
 - Capital Asset → 50C Apply → Capital Gain
 - SIT → 43CA Apply → PGBP

Sec. 56(2)(xi): Compensation on termination of Employment

Any compensation received by any person in due to termination of his employment (or modification of terms of employment) is treated as income.

This section is applicable only if compensation is received from a person other than employer. However, if it is received from employer, then it is taxable u/s 17(3)(i) under the head "Salaries".

Sec. 57: Allowable Deduction

- a) Dividend [other than referred u/s 2(22)(f)] or income on units of MF/UTI: Only interest expenses is allowed as deduction subject to maximum 20% of dividend or income from MF /UTI.
- b) Income under family pension: deduction shall be lower of 1/3rd of family pension or ₹ 15,000 p.a.
 Note: In case of assessee opted default taxation regime u/s 115BAC then deduction is ₹ 25,000 instead of ₹ 15,000.
 Certain exemption in respect of family pension:
 - Received by the widow or children or nominated heirs, of a member of the armed forces (including para-military forces), where the death has occurred in the course of operational duties shall be exempt u/s 10(19) .
 - Received by any family member of individual who had been in the service of CG or SG and had been awarded "Param Vir Chakra" or "Vir Chakra" or Mahavir Chakra" or other notified gallantry awards shall be exempt u/s 10(18)(ii).
- c) Interest on compensation of compulsory acquisition - 50% of such Interest.
- d) Any other expenditure (not being in the nature of capital expenditure) - Allowed if it's wholly and exclusively for the purpose of making or earning such income.

Sec. 58: Expenses Not allowed as deductions under IFOS

- Any **personal expenses** of the assessee.
- Any interest or salary payable outside India on which **TDS has not been paid or deducted.**
- Cash Expenditure **exceeding ₹ 10,000.** Provisions of section 40A(3) shall apply.
- **30%** of any sum payable to a **resident** on which TDS has not been paid or deducted at source. Provision of section 40(a)(ia) shall apply.
- Any expenditure incurred in connection with **casual income.**

Exempt Incomes

Section	Provisions
10(4)(ii)	Income by way of interest on moneys standing to his credit in a Non-resident (External) Account (NRE A/c), is exempt in the hands of an individual, being a person resident outside India as per the FEMA, 1999 or in the hands of an individual who has been permitted by the RBI to maintain such account.
10(10BC)	Compensation received or receivable from CG, SG or local authority by an individual or his legal heir on account of any disaster is exempt except to the extent of loss or damage allowed as deduction under the Act.
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(17A)	Payment, whether in cash or kind, in pursuance of an award instituted in public interest by the Govt or reward by the Govt. for approved purposes is exempt.
10(15)	Interest on Post Office Savings Bank Account (1) ₹ 3,500 in case of an individual account. (2) ₹ 7,000 in case of a joint account.



Taxability of Dividend

- Indian Company: Company formed & registered under Companies Act, 2013 or any law of state.
- Domestic Company: Indian Company or any other company (foreign company) who made prescribed arrangement for the declaration and a payment of dividend within India. Thus all Indian Co. are treated as domestic companies but all Dom. Co. not treated as Indian Co.
If a Foreign Co. makes prescribed arrangements for payment of dividends in India it shall be treated as Dom. Co.
- Foreign Company: Company which is not a Domestic Company.

Sec 8: Taxability of Dividend

Dividend Income from Domestic Co. or Foreign Co. taxable in hands of Shareholder at Normal Tax rate.

- Final Dividend: It is taxable in the year in which it is declared at the AGM by company.
- Deemed Dividend: It is taxable in the year in which it is distributed/paid by company.
- Interim Dividend: It is taxable in the year in which it is received by shareholder.

Deemed Dividend

In reality these payments are not dividend but for the purpose of income tax they are treated as dividends. The objective is to plug the loopholes in the tax provision & to check avoidance.

◆ Sec. 2(22)(a): Any distribution of assets

Any distribution of Assets by a company to its shareholders to the extent the company possesses accumulated profits (capitalised or not).

Notes:

- In case of Bonus shares, there is no release of assets hence, issue of bonus shares is not deemed as dividend.
- When assets are distributed u/s 2(22)(a)/(c)/(d), the FMV of the asset on the date of distribution has to be taken for computing the dividend.

◆ Sec. 2(22)(b): Any distribution of Debentures, deposit certificate etc.

(a) Any distribution to its shareholders by Co. of debentures, debentures stock or deposit certificates, and

(b) Any distribution to its preference shareholders of shares by way of Bonus,

to the extent to which Co. possesses accumulated profit (capitalised or not).

◆ Sec 2(22)(c): Distribution of assets on liquidation

Any distribution of assets by company on liquidation to the extent to which company possesses accumulated profit (capitalised or not).

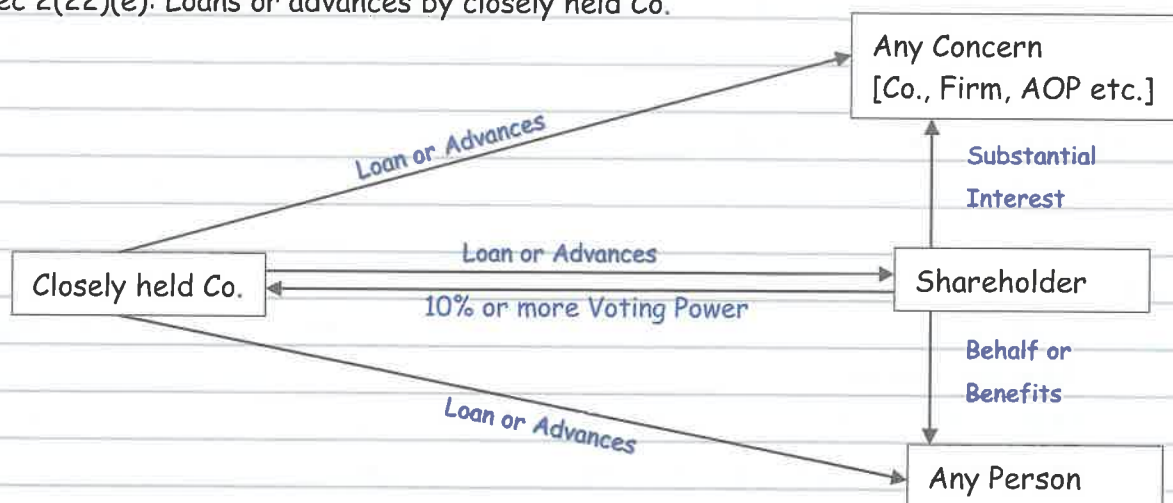
◆ Sec 2(22)(d): Reduction of share Capital

Any distribution to its shareholder by company on reduction of its capital to the extent to which company has accumulated profit (Capitalised or not).

➤ Some differences between 2(22)(a)/(b)/(c)/(d) & 2(22)(e)

S.No.	2(22)(a)/(b)/(c)/(d)	2(22)(e)
1.	Treated as Deemed dividend to the extent accumulated Profit (capitalised* or not).	Treated as deemed dividend to the extent accumulated profit.
2.	Applicable to all Companies.	Applicable to only closely held Company.
Notes	Distr. treated as DD "to the extent of accum. profits". In case accum. loss, the above prov. shall not apply. Accum. profit means profit/reserve created through P&L A/c.	
	*Capitalised means issue of bonus shares, transfers to capital reserves etc. shall also be included in accum. profit.	

◆ Sec 2(22)(e): Loans or advances by closely held Co.



Notes :

1. Loan or advances is treated as deemed dividend & taxable in hands of shareholder to the extent to which company possesses accumulated profit.
2. Concern means HUF, Firm, Company, AOP/BOI.
3. Substantial interest means 20% or more voting power/PSR at any time during the P.Y.
4. Loan is repaid or Company charges market rate of interest then also loan is treated as deemed dividend.



5. Accum. profit means profit as per Companies Act (means accounting profit) not Assessable profit.
6. Section 2(22)(e) is not applicable in case of trade advances means advance which is in the nature of commercial transaction. [CBDT Circular 19/2017]

Example: Advance made by company to sister concern for job work, Advance was made by a company to its shareholder to install P&M at the shareholder's premises to enable him to do job work for the company so that the company could fulfil an export order etc.

7. If loan and advance given to concern then it is treated as deemed dividend in hands of concern but as per some court judgments its taxable in hands of shareholder.

Dividend shall not include -

- (a) Any Advance or Loans given by Company in the ordinary course of its business of money lending. where money lending is "substantial part of the business (SPOB)". SPOB has to be understood on case to case basis. The relevant factors can be T/o, profits, manpower, capital employed etc.
- (b) Any dividend paid by a company, which is set off against the loan which has been deemed as dividend u/s 2(22)(e).
- (c) Buy back of shares.
- (d) Shares allotted to shareholder of demerged Company by resulting Company under Demerger.
- (e) Any distribution made u/s 2(22)(c)/2(22)(d) is respect of preference shares.

➤ Sec 10(10D): Exemption on maturity of Life Insurance Policy

Any sum received under a LIP, including the bonus is Exempt from Tax.

Following sums are taxable:

(i) Received under a Keyman insurance policy.

(ii) Received where premium paid is more than prescribed limit (20%,10%,15%) given u/s 80C.
(If it is received on death then its exempt).

(iii) Received where any LIP, other than ULIP, issued on or after the 1st April, 2023, if the amount of premium payable for any of the PY during the term of policy exceeds ₹ 5,00,000.

Provided, if premium is payable for more than one LIP, other than ULIP, issued on or after 1st April, 2023, the exemption u/s 10(10D) shall apply only with respect to those LIP's, where the aggregate amount of premium does not exceed ₹ 5,00,000, in any of the PY during the term of any of those policies. [6th & 7th provisos of sec 10(10D)-added by FA, 23 w.e.f. AY 24-25]

Note: Exemption is available if sum received in point (iii) on the death of person.

Example 1:

LIP	A
Date of issue	1.4.2013
Annual premium	6,00,000
Sum assured	60,00,000
Consideration received as on 01.11.2023 on maturity	70,00,000
Note - The assessee did not receive any consideration under any other eligible LIPs in earlier P.Y. preceding the P.Y.2023-24.	

Eligibility for exemption u/s 10(10D) - Consideration received under LIP "A" would be exempt u/s 10(10D) in A.Y. 2024-25 since annual premium does not exceed 10% of the actual capital sum assured. Moreover, as the policy has been issued before 1.4.2023, limit of ₹ 5,00,000 of amount of premium payable is not applicable.

Example 2:

LIP	A
Date of issue	1.4.2023
Annual premium	5,00,000
Sum assured	50,00,000
Consideration received as on 01.11.2033 on maturity	52,00,000
Note - The assessee did not receive any consideration under any other eligible LIPs in earlier P.Y. preceding the P.Y.2033-34.	

Eligibility for exemption u/s 10(10D) - Consideration received under LIP "A" would be exempt u/s 10(10D) in A.Y. 2034-35 since annual premium does not exceed 10% of the actual capital sum assured & premium is not more than ` 5,00,000.

Example 3:

LIP	A
Date of issue	1.4.2023
Annual premium	6,00,000
Sum assured	60,00,000
Consideration received as on 01.11.2033 on maturity	70,00,000
Note - The assessee did not receive any consideration under any other eligible LIPs in earlier P.Y. preceding the P.Y.2033-34.	

Eligibility for exemption u/s 10(10D) - Consideration received would not be exempt u/s 10(10D) in A.Y. 2034-35 since the annual premium payable on the eligible LIP exceeds ` 5,00,000.

Example 4:

LIP	A	B
Date of issue	1.4.2023	1.4.2023
Annual premium	3,00,000	2,00,000
Sum assured	30,00,000	20,00,000
Consideration received as on 01.11.2033 on maturity	32,00,000	21,00,000

Note - The assessee did not receive any consideration under any other eligible LIPs in earlier P.Y. preceding the P.Y.2033-34.

Eligibility for exemption u/s 10(10D) - In this case, the aggregate of the annual premium payable for LIP "A" and LIP "B" does not exceed ` 5,00,000 during the term of these policies. Further, annual premium payable in respect of LIP "A" and LIP "B" does not exceed 10% of actual capital sum assured. Therefore, the consideration received under LIP "A" and "B" would be exempt u/s 10(10D) in A.Y. 2034-35

Example 5:

LIP	A	B
Date of issue	1.4.2023	1.4.2023
Annual premium	4,50,000	5,50,000
Sum assured	45,00,000	55,00,000
Consideration received as on 01.11.2033 on maturity	52,00,000	60,00,000

Note - The assessee did not receive any consideration under any other eligible LIPs in earlier P.Y. preceding the P.Y.2033-34.

Eligibility for exemption u/s 10(10D) - In this case, the aggregate of the annual premium payable for LIP "A" and LIP "B" exceeds ` 5,00,000 during the term of these policies. However, the consideration received under LIP "A" would be exempt u/s 10(10D) in A.Y. 2034-35, since its annual premium payable does not exceed ` 5,00,000 for any previous year during the term of the policy and also does not exceed 10% of actual capital sum assured. Consequently, the consideration received under LIP "B" alone would not be exempt u/s 10(10D) in A.Y. 2034-35.

Example 6:

LIP	A	B	C
Date of issue	1.4.2023	1.4.2023	1.4.2023
Annual premium	1,00,000	3,50,000	6,00,000
Sum assured	10,00,000	35,00,000	60,00,000
Consideration received as on 01.11.2033 on maturity	12,00,000	40,00,000	70,00,000

Note - The assessee did not receive any consideration under any other eligible LIPs in earlier P.Y. preceding the P.Y.2033-34.



Eligibility for exemption u/s 10(10D) - The aggregate of annual premium payable for LIP "A", LIP "B" and LIP "C" exceeds ₹ 5,00,000 during the term of these policies. However, the consideration received under LIPs "A" and "B" would be exempt u/s 10(10D) in A.Y. 2034-35, since aggregate of annual premium payable for these two policies does not exceed ₹ 5,00,000 for any previous year during the term of these two policies and annual premium payable in respect of these policies does not exceed 10% of actual capital sum assured.

Consequently, the consideration received under LIP "C" alone would not be exempt u/s 10(10D) in A.Y. 2034-35.

Example 7:

LIP	X	A	B	C
Date of issue	1.4.2022	1.4.2023	1.4.2023	1.4.2023
Annual premium	5,50,000	1,00,000	3,50,000	6,00,000
Sum assured	55,00,000	10,00,000	35,00,000	60,00,000
Consideration received as on 01.11.2032 on maturity	62,00,000			
Consideration received as on 01.11.2033 on maturity		12,00,000	40,00,000	70,00,000

Note - The assessee did not receive any consideration under any other eligible LIPs in earlier P.Y. preceding the P.Y.2033-34, except LIP X in P.Y. 2032-33.

Eligibility for exemption u/s 10(10D) - The consideration received under LIP "X" would be exempt u/s 10(10D) in A.Y. 2032-33, since annual premium does not exceed 10% of the actual capital sum assured. Moreover, as the policy has been issued before 1.4.2023, limit of ₹ 5,00,000 on amount of premium payable is not applicable, since LIP "X" is not an eligible LIP.

The aggregate of annual premium payable for LIP "A", LIP "B" and LIP "C" (being LIPs issued on or after 1.4.2023) exceeds ₹ 5,00,000 during the term of these policies.

However, the consideration received under LIPs "A" and "B" would be exempt u/s 10(10D) in A.Y. 2034-35, since aggregate of annual premium payable for these two policies does not exceed ₹ 5,00,000 for any previous year during the term of these two policies and annual premium payable in respect of these policies does not exceed 10% of actual capital sum assured.

Consequently, the consideration received under LIP "C" alone would not be exempt u/s 10(10D) in A.Y. 2034-35.

Example 7:

LIP	X	A	B	C
Date of issue	1.4.2023	1.4.2024	1.4.2024	1.4.2024
Annual premium	4,50,000	1,00,000	1,50,000	6,00,000
Sum assured	45,00,000	10,00,000	15,00,000	60,00,000
Consideration received as on 01.11.2033 on maturity	50,00,000			
Consideration received as on 01.11.2034 on maturity		12,00,000	18,00,000	70,00,000

Note - The assessee did not receive any consideration under any other eligible LIPs in earlier P.Y. preceding the P.Y.2034-35, except LIP X in P.Y. 2033-34.

Eligibility for exemption u/s 10(10D) - Consideration under LIP "X" would be exempt u/s 10(10D) in P.Y. 2033-34, since the annual premium does not exceed ` 5,00,000 and also does not exceed 10% of actual capital sum assured.

In this case, the aggregate of the annual premium payable for LIP "A", LIP "B" and LIP "C" along with the premium for LIP "X" exceeds ` 5,00,000 during the term of these policies.

The aggregate of the annual premium payable for LIP "A" and the premium for LIP "X" also exceeds ` 5,00,000 during the term of these policies.

Consequently, the consideration received under LIP "A", LIP "B" and LIP "C" would not be exempt u/s 10(10D) in A.Y. 2035-36.

Example 9:

LIP	X	A	B	C
Date of issue	1.4.2023	1.4.2024	1.4.2024	1.4.2024
Annual premium	2,50,000	2,00,000	2,50,000	6,00,000
Sum assured	25,00,000	20,00,000	25,00,000	60,00,000
Consideration received as on 01.11.2033 on maturity	30,00,000			
Consideration received as on 01.11.2034 on maturity		24,00,000	38,00,000	70,00,000

Note - The assessee did not receive any consideration under any other eligible LIPs in earlier P.Y. preceding the P.Y.2034-35, except LIP X in P.Y. 2033-34.

Eligibility for exemption u/s 10(10D) - The consideration under LIP "X" would be exempt u/s 10(10D) in P.Y. 2033-34, since the annual premium does not exceed ` 5,00,000 and also does not exceed 10% of actual capital sum assured.

In this case, the aggregate of the annual premium payable for LIP "A", LIP "B" and LIP "C" along with the premium for LIP "X" exceeds ` 5,00,000 during the term of these policies.

However, the consideration received under LIPs "A" or "B" (any one) can be claimed as exempt u/s 10(10D) in A.Y. 2035-36.

If the consideration received under LIP "A" is claimed to be exempt as aggregate of the annual premium payable for LIP "X" and "A" did not exceed ` 5,00,000 for any of the PYs., the consideration received under LIP "B" would not be exempt.

If the consideration received under LIP "B" is claimed to be exempt as aggregate of the annual premium payable for LIP "X" and "B" did not exceed ` 5,00,000 for any of the PYs., the consideration received under LIP "A" would not be exempt. Exemption for consideration received under LIP "B" is preferred as it is more beneficial to the assessee.

Alternative treatment: If the consideration under LIP "X" was not claimed to be exempt u/s 10(10D) in A.Y. 2034-35 by the assessee, then, the consideration received under LIP "A" and LIP "B" would be exempt u/s 10(10D) in A.Y. 2035-36 since the aggregate of the annual premium payable for the LIPs "A" and "B" together did not exceed ` 5,00,000 for any of the previous years during the term of these two policies. However, the most beneficial treatment is to claim LIP "X" and "B" as exempt. It may be noted that in every case, the consideration received for LIP "C" would not be exempt u/s 10(10D).

Example 10:

LIP	X	Y	A	B	C
Date of issue	1.4.2023	1.4.2023	1.4.2024	1.4.2024	1.4.2024
Annual premium	2,00,000	2,00,000	2,00,000	3,00,000	6,00,000
Sum assured	20,00,000	20,00,000	20,00,000	30,00,000	60,00,000
Consideration received on surrender as on 1.7.2033	12,00,000				
Consideration received as on 01.11.2034 on maturity		24,00,000			
Consideration received as on 01.11.2035 on maturity			24,00,000	36,00,000	70,00,000

Note - The assessee did not receive any consideration under any other eligible LIPs in earlier P.Y. preceding the P.Y.2035-36, except LIP "X" and "Y".

Eligibility for exemption u/s 10(10D) - The consideration under LIP "X" would be exempt u/s 10(10D) in A.Y.2034-35, since the annual premium does not exceed ` 5,00,000 and also does not exceed 10% of actual capital sum assured.

The consideration received under LIP "Y" would be exempt u/s 10(10D) in A.Y. 2035-36, since the aggregate of annual premium payable for LIP "X" and "Y" does not exceed ` 5,00,000 and annual premium payable for LIP "Y" does not exceed 10% of actual capital sum assured.

The consideration received under LIPs "A", ULIP "B" and ULIP "C" would not be exempt u/s 10(10D) in A.Y. 2036-37, since aggregate of annual premium payable for these three policies and LIP "X" and "Y" exceeds ` 5,00,000.

Alternative treatment: If the consideration on surrender under LIP "X" was not claimed to be exempt u/s 10(10D) in A.Y. 2034-35 by the assessee, then the consideration received under LIP "Y" would be exempt and the consideration received under LIP "A" or LIP "B" (any one) can be exempt u/s 10(10D) in A.Y. 2036-37. If the consideration received under LIP "A" is claimed to be exempt, as aggregate of the annual premium payable for LIP "Y" and "A" did not exceed ` 5,00,000 for any of the PYs., the consideration received under LIP "B" would not be exempt.

If the consideration received under LIP "B" is claimed to be exempt as aggregate of the annual premium payable for LIP "Y" and "B" did not exceed ` 5,00,000 for any of the PYs., the consideration received under LIP "A" would not be exempt. Exemption for consideration received under LIP "B" is preferred as it is more beneficial to the assessee.

If the consideration on surrender of LIP "X" and on maturity of LIP "Y" were not claimed to be exempt under section 10(10D) in A.Y.2034-35 and A.Y.2035-36, respectively, then consideration received under both LIP "A" and LIP "B" would be exempt in A.Y.2036-37 (being LIPs issued on or after 1.4.2023, whose aggregate consideration does not exceed ` 5,00,000).

It may be noted that, in every case, consideration received under LIP "C" would not be exempt u/s 10(10D).

Clarification on GST Component: It is also clarified by the CBDT that the premium payable/ aggregate premium payable for a life insurance policy/policies, other than a ULIP, issued on or after 1.4.2023, for any PY, would be exclusive of the amount of GST payable on such premium.

Clarification on premium of Term life insurance policy: It is further clarified by the CBDT that the limit of ` 5,00,000 of amount of premium payable would not be applicable in case of a term life insurance policy i.e. where sum under a life insurance policy is only paid to the nominee in case of the death of the person insured during the term of the policy and no amount is paid to anyone if the insured person survives the policy tenure.



Sec 56(2)(xiii): Income from Life Insurance Policy (Added by FA-23 w.e.f. AY 24-25)

Any sum is received, including bonus, at any time during a PY, under a life insurance policy, other than KIP & ULIP, which is not exempted u/s 10(10D), the sum received as exceeds the aggregate of the premium paid, during the term of such life insurance policy, and not claimed as deduction under any other provision of this Act, computed in such manner as may be prescribed.

Example : Hari, Ram & Kavi take life insurance policy on 10/07/24. They do not have any other policy & do not intend to take any other insurance policy in future. Discuss tax treatment

Particular	Hari	Ram	Kavi
Sum Assured	45,00,000	60,00,000	60,00,000
Annual Insurance Premium	4,00,000	5,20,000	6,50,000
Term of Policy	10 Years	10 Years	10 Years
Deduction claimed u/s 80C every year	60,000	1,50,000	1,20,000
Maturity Amount	52,00,000	77,00,000	80,00,000

Solution:

- Mr. Hari - As annual premium within the limit of 10% of sum assured & annual premium doesn't more than 5,00,000 so exemption u/s 10(10D) available. Nothing will be taxable u/s 56(2)(xiii).
- Mr. Ram - Annual premium withing the limit of 10% of sum assured but premium on policy taken on or after 01/04/23 is more than 5,00,000 so exemption u/s 10(10D) not available & it is taxable u/s 56(2)(xiii) under IFOS.
- Mr. Kavi - Annual premium exceed the limit of 10% of sum assured & premium on policy taken on or after 01/04/23 is more than 5,00,000 so exemption u/s 10(10D) not available & it is taxable u/s 56(2)(xiii) under IFOS.

Computation of Taxable amount from LIP under IFOS

PY 33-34 AY 34-35

Particular	Mr. Ram	Mr. Kavi
Maturity Amount (A)	77,00,000	80,00,000
Annual Premium Paid	5,20,000	6,50,000
Less: Deduction Claimed u/s 80C	1,50,000	1,20,000
Total Premium paid net of deduction u/s 80C (B)	37,00,000	53,00,000
Taxable Income	40,00,000	27,00,000



Notes



Sec 64(1A): Income of a minor child

Income of a minor child is taxable in hands of the parent whose income is more before clubbing minor's income.

Exception:- In the following 3 cases minor's income is taxable in the hands of minor only:-

- ✓ Income is due to **manual work**.
- ✓ Income is due to **skill & talent**.
- ✓ Minor child **suffering from disability**.

Notes:

1. If minor child's income is clubbed in the hands of parent then **exemption u/s 10(32) of ₹ 1500 p.a. per child is allowed to parent**.
2. Once minor's income is clubbed with one parent, it will continue to be clubbed with that parent only, in subsequent years. AO, may, club the minor's income with other parent after giving an opportunity to be heard.
3. Where the marriage of the parents does not subsist, income of the minor will be includible in the income of that parent who maintains the minor child in the relevant PY.
4. Clubbing provisions are attracted even in respect of income of minor married daughter.
5. Child in relation to an individual includes a step-child and an adopted child of that individual.

Sec 64(1)(iv): Asset transferred to spouse

If any individual transfers any asset to his or her **spouse** without consideration or for inadequate consideration then **income from such asset** is received by spouse but **tax on such income is paid by transferor (Assessee)**.

Notes:-

1. The above provision is applicable only if relationship of husband & wife should **exist at the time of transfer of asset as well as at the time of generating the income**.
2. This provision is not applicable if asset is transferred in connection with **agreement to live apart**.
3. If a House property is transferred by an individual to his spouse or minor child (Not being a minor married daughter) for without/inadequate consideration then such individual is treated as **Deemed owner** as per sec 27 & sec 64 shall not apply.

Sec 64(1)(vi): Asset transferred to Son's Wife

If any individual transfers any asset to his/her **son's wife** without consideration or for inadequate consideration, then income from such asset is received by son's wife but **tax on such asset is paid by transferor**.

Note: This provision is applicable only if the relationship of mother/father - in law & daughter - in law exists at the time of transfer of asset as well as at the time of generating the income.

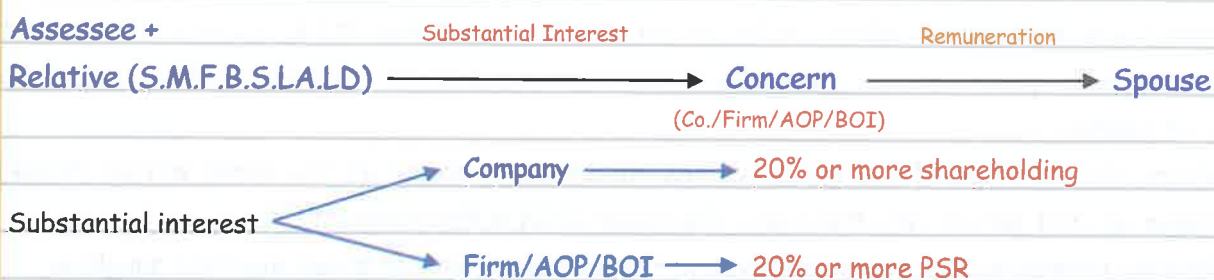
Sec 64(1)(vii/viii): Asset transferred to any person for the benefit of spouse/son's wife

If an individual transfers any asset to any person without consideration or for inadequate consideration for the benefit of son's wife/spouse then income from such asset is received by any other person (transferee) but tax on such income is paid by transferor.

Sec 64(1)(ii): Income of spouse from a concern where assessee has substantial interest

Income of spouse is taxable in hands of assessee if following conditions are satisfied :-

1. Income should be in the nature of salary, commission, bonus (remuneration) &
2. Such remuneration should be received from a concern where assessee has substantial interest.



- Exceptions: If remuneration received by spouse due to technical & professional qualification & such remuneration is attributed to such qualification then the above provision is not applicable.
- Where both husband and wife have substantial interest in a concern and both are in receipt of income by way of remuneration from concern, such income will be includible in the hands of that spouse, whose total income, excluding such income is higher. Where any such income is once included in the total income of either spouse, income arising in the succeeding year shall not be included in the total income of the other spouse unless the AO is satisfied, after giving that spouse an opportunity of being heard, that it is necessary to do so.

Sec 60: Income transfer without transfer of asset

If an individual transfers any income without transfer of asset then such income is taxable in the hands of transferor.

Sec 61: Revocable transfer of asset

In case of revocable transfer, income is received by transferee but tax is paid by transferor.

Exception: If transfer is revoked after the death of beneficiary or transferee then the above provision is not applicable.

Sec 64(2): Asset transfer to HUF

If any individual transfers any asset to his HUF without/for inadequate consideration, then income from such asset is received by HUF but taxable in hands of transferor (member).

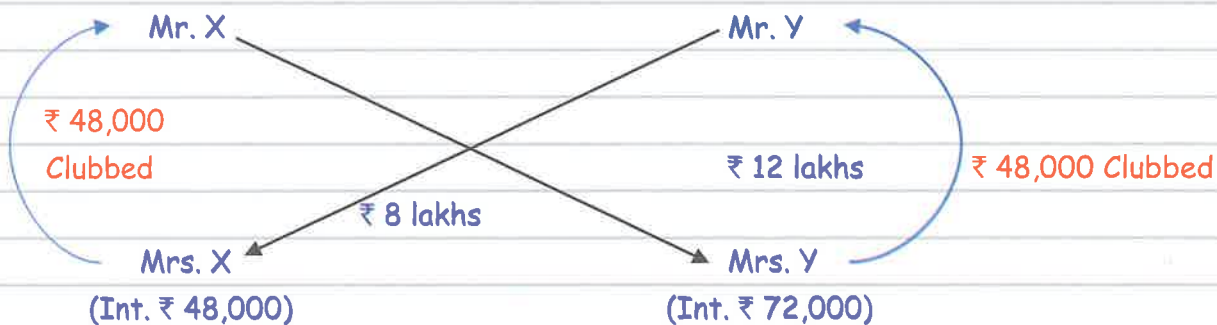


☞ After partition of HUF, Income from such asset recd. by spouse shall be clubbed in hands of transferor.

Notes:

1. Income includes loss, so, if there is loss then also clubbing provisions are applicable.
2. Where an asset transferred is converted into other form, income derived from such converted asset shall be clubbed.
3. Natural love & affection may be a good consideration but it's not adequate consideration.
4. If the asset transferred is sold by the transferee then CG is treated as income & shall be clubbed.
5. If there are two transactions and they are inter-connected and part of same transaction, it shall be considered to be a device for evasion of tax and therefore clubbing provision shall apply. (Cross Gifts)

E.g.- Mr. X gifted ₹ 12 Lakhs to his brother's wife (Mrs. Y) & his brother (Mr. Y) gifted ₹ 8 Lakhs to Mrs X (Mr. X's wife). Gifted amount deposited in Banks @ 9% on 1/8/2023.



Clubbing provisions will be applicable only to the extent of income on the matching amount of cross gifts, in the above example, ₹ 8 Lakhs is matching amount.

6. Where any asset is transferred by individual to his spouse/son's wife & such amount is invested in Business by transferee then proportionate profit of such business shall be clubbed as per following formula :

$$\text{Income from business} \times \frac{\text{Gifted by Assessee}}{\text{Capital of Business on first day of P.Y. (Opening Capital)}}$$

Clubbing shall be applicable only if gifted money is included in opening capital.

7. All the clubbing provisions are not applicable to second generation income i.e. income from accretion of transferred asset.



Notes



Sec 70: Intra head adjustment

It means loss from one source of income can be set off against income from another source of income but in the **same head of income**.

Exceptions:

- ☞ Speculative business loss can be set off against only speculative business income.
- ☞ Specified business loss (Sec 35AD) can be set off against specified business income.
- ☞ Long term capital loss (LTCL) can be set off against long term capital gains.
- ☞ Loss from owning & maintaining race horses can be set off against income from owning & maintaining race horses.

Sec 71: Inter head adjustment

It means loss under one head of income can be set off against income from another head of income but in the **same previous year***.

Exceptions:

- ☞ Speculative business loss can be set off against only speculative business income.
- ☞ Specified business loss (Sec 35AD) can be set off against specified business income.
- ☞ Long term capital loss (LTCL) can be set off against long term capital gains.
- ☞ Loss from owning & maintaining race horses can be set off against income from owning & maintaining race horses.
- ☞ Short term capital loss (STCL) can be set off only against STCG & LTCG.
- ☞ Loss from Business cannot be set off against salary.

* For **carry forward losses Inter-head adjustment Not Allowed**

Summary

1. Income From Salary - **Loss not possible**
2. Income From House Property - **Loss from HP**
 - ☞ Step - 1 Intra head adjustment
 - ☞ Step - 2 Inter head adjustment (**Max ₹ 2,00,000**)
 - ☞ Step - 3 Carry Forward for next 8 AY's
3. Profit & Gain from Business or profession
 - (i) Loss from Speculative Business
 - ☞ Step - 1 Setoff against speculative business income
 - ☞ Step - 2 Carry Forward for next 4 AY's
 - (ii) Loss from Specified Business
 - ☞ Step - 1 Setoff against specified business income
 - ☞ Step - 2 Carry Forward for Unlimited Period



(iii) Any other Business Loss

- ☞ Step - 1 Intra head adjustment
- ☞ Step - 2 Inter head adjustment (except Salary)
- ☞ Step - 3 Carry Forward for next 8 AY's

4. Capital Gain

(i) STCL

- ☞ Step - 1 Setoff against STCG or LTCG
- ☞ Step - 2 Carry Forward for next 8 AY's

(ii) LTCL

- ☞ Step - 1 Setoff against LTCG
- ☞ Step - 2 Carry Forward for next 8 AY's

5. Income from other sources

(i) Loss from Owning & Maintaining race-horses

- ☞ Step - 1 Setoff against Owning & Maintaining race-horses income
- ☞ Step - 2 Carry Forward for next 4 AY's

(ii) Other losses of IFOS

- ☞ Step - 1 Intra head adjustment
- ☞ Step - 2 Inter head adjustment
- ☞ Step - 3 Carry Forward NOT allowed.

Notes:

1. Loss from house prop. which can be set-off against income from any other head is max. ₹2 lakhs
2. It is to be remembered that once a particular loss is carried forward, it can be set off only against the income from the same head in the forthcoming AY's.

Carry Forward & Set-off of Losses

Section	Losses to be C/F	B/F losses setoff against	Time Limit	ROI on tim
71B	Loss from HP	Income from HP	8 Years	No
72	Normal Business Loss	Any Business Income	8 Years	Yes
73	Speculative Business Loss	Speculative Business Income	4 Years	Yes
73A	Specified Business Loss	Specified Business Income	Unlimited	Yes
74	STCL	STCG & LTCG	8 Years	Yes
	LTCL	LTCG	8 Years	Yes
74A	Owning & maint. race horses	Income from Owning & maint race horses	4 Years	Yes
32	Unabsorbed Dep.	Any head of Income except salary	Unlimited	No



Notes:

1. Whenever income is exempt then losses does not have any tax treatment means it should be ignored.
2. Loss from any lottery, card games, races, etc are **Not Eligible** for set off & C/F & Losses cannot be set off against the income referred u/s 115BB i.e lottery income, crossword puzzles, income in TV show, etc.
3. B/f losses from a business can be set off even if such business is Not continued.
4. Order for set off of losses.
 - ✓ Current year depreciation
 - ✓ B/f losses from Business or profession
 - ✓ Unabsorbed depreciation
5. If there is income under any head & eligible losses under any other head, such loss shall be first set off against the income before set off & elf of losses(CBDT circular).
6. Set off of losses not permissible against unexplained income, investment, money etc, chargeable u/s 68 to 69D [Sec 115BBE].
7. If assessee opted section 115BAC default tax regime then HP head losses not allowed to setoff against any other head and it cannot be carry forward.

Stock & Commodity market

1. Transactions in shares where delivery effected
 - ☞ **PGBP** if shares held as **Stock in trade**
 - ☞ **Capital Gain** if shares held as **Capital Asset**
2. Transactions in shares where delivery not effected i.e., Intraday
 - ☞ **Always Speculative Business Income**
3. Transactions in Derivative i.e. futures, options etc. & currency futures at recognised stock exchange
 - ☞ **Always Normal Business Income**



Notes



1. Deduction u/c VI-A is **restricted** to Gross Total income & deduction **cannot be carry forward**.
2. Deduction u/c VI-A is Not Allowed against LTCG, LTCG 112A, STCG 111A & special rates of tax income.

Payment Related Deductions

Sec 80C: Specified Investments

- Eligible Assessee: **Individual & HUF**
- Amount of Deduction: **Max ₹ 1,50,000**
- Eligible Investments

1. Life Insurance Premium (LIP)

For Individual: **Self, Spouse, Children**

For HUF: **Any Member**

Policy issued before 1/4/12	Policy issued on or after 1/4/12	Policy issued on or after 1/4/13 for person with disability (u/s 80U) or person suffering from specified disease (u/s 80DDDB)
↓ (i) Premium Paid xx ↓ (ii) 20% of Policy Value xx	↓ (i) Premium Paid xx ↓ (ii) 10% of Policy Value xx	↓ (i) Premium Paid xx ↓ (ii) 15% of Policy Value xx

2. Amount deposited in **Public Provident Fund (PPF)**
(For Individual: **Self, Spouse, Children**)
(For HUF: **Any Member**)
3. Employee's contribution to **Statutory provident fund, Recognised Provident fund or Approved Superannuation Fund (SPF, RPF & ASF)**.
4. Amount invested in **NSC** as well as **interest accrued on NSC**.
5. **Repayment** of Loan taken from banks or financial institution for purchase or construction of House.
6. **Fixed Deposit** in a scheduled Bank or Post office for **5 years or more**.
7. **Tuition fees** paid for education of children. [Max 2 children for full time education in India]
8. Deposit in Notified **bonds of NABARD**.
9. Deposit in **Senior citizen Saving Scheme**.
10. Contribution towards **Unit Linked Insurance Plan (ULIP) or ELSS**.
11. Notified **units of Mutual Funds or UTI**.
12. Notified **Pension scheme of UTI or MF**.
13. Deposit in **Sukanya Samridhi scheme A/c** [For any girl child of individual or girl child for whom such individual is a legal guardian].
14. **Stamp duty, Registration fee** for acquisition of house property.
15. By employee of **CG** as a contribution to a specified account of the pension scheme referred to in Sec. 80CCD for a fix period of **Three years or more (NPS Tier - II)**.
16. Contribution to **National Housing Bank (Tax Saving) Term Deposit Scheme, 2008**.

Sec 80CCC: Contribution to Pension Fund of LIC or other Insurance company

- Eligible Assessee: **Individual & HUF**
- Amount of Deduction: **Max ₹ 1,50,000**

Sec 80CCD: Contribution to Pension scheme of Central Govt. / National Pension scheme

- Eligible Assessee: **Individual**
- Amount of Deduction: **Max ₹ 1,50,000**

Sec 80CCD(1)

Salaried Employee

- (i) Employees Contribution xx
- (ii) 10% of salary xx

Other Individuals

- (i) Assessee's Contribution xx
- (ii) 20% of GTI xx

Sec 80CCD(1B): Additional deduction up to ₹ 50,000 shall be allowed other than contribution covered u/s 80CCD(1)

Example: Assessee's contribution - ₹ 1,40,000 towards NPS & GTI is ₹ 5,50,000, in this case assessee can claim ₹ 1,10,000 (20% of GTI) u/s 80CCD(1) & remaining ₹ 30,000 u/s 80CCD(1B). He can first claim u/s 80CCD(1B) of ₹ 50,000 & remaining ₹ 90,000 u/s 80CCD(1).

Sec 80CCD(2): Employer's contribution to NPS for the benefit of Employee

Employer's contribution is first taxable under the head salary in hands of Employee & then he gets deduction u/s 80CCD(2)

- (i) Employer's Contribution xx
- (ii) 10%* / 14%* of Salary xx

* 14 % where such contribution made by C.G or S.G.

* 14% if assessee follow default tax regime u/s 115BAC [Added by FA 24 w.e.f. AY 25-26]

Notes

- ✓ For the purpose of Sec 80CCD(1) & (2), Salary means = **Basic salary + DA (In terms)**
- ✓ As per Sec 10(12A) any payment received by assessee on closure of his account is exempt to the extent of 60% (40% is taxable) of total amount payable to him at the time of closure. In case of employee or Non-employee, any amount received from NPS by the nominee legal heir on death of an assessee is Fully Exempt.
- ✓ Subscribers from Recognised Provident Funds and Super-annuation Funds would be able to transfer their corpus from these funds to National Pension System (NPS) without any tax implication.
- ✓ In case of partial withdrawal from NPS by an employee, payment shall be exempt upto 25% of contributions made by him (Fully taxable for non-salaried employee) [Sec 10(12B)].
- Sec 80CCE: Aggregate deduction u/s 80C + 80CCC + 80CCD(1) is **restricted to Max. ₹ 1,50,000**

Sec 80CCH: Contribution to Agnipath Scheme (Added by FA 23 w.e.f. AY 24-25)

- Eligible Assessee: Individual enrolled in Agnipath scheme subscribing to the Agniveer Corpus Fund on or after 1.11.2022.
- Sec 80CCH(1): 100% of his contribution to Agnipath Corpus Fund
- Sec 80CCH(2): 100% of CG contribution to Agnipath Corpus Fund (first it is taxable under salary and then EE can claim deduction here)
- Sec 10(12C): Any amount received by assessee or his nominee from Agnipath Fund is exempt from tax.

Note: As per Agnipath scheme 30% of monthly package should contributed to Agnipath fund by assessee and CG will also contribute matching amount.

Sec 80D: Medical Ins. Premium, CG Health Scheme, Preventive Health check-up & Medical Treatment

- Eligible Assessee: Individual & HUF
- For Whom: Individual - Self, spouse, Parents & dependent children.
HUF - Any member of HUF.
- Mode of payment: Any mode other than Cash, but payment of preventive health check-up can be made in Cash.
- Amount of Deduction

Particular	Individual		HUF
	Self, Spouse, depended Children	Parents	Members
(i) Medical insurance Premium	Yes	Yes	Yes
(ii) CG Health scheme	Yes	No	No
(iii) Preventive Health check-up	Yes	Yes	No
General Deduction [i + ii + iii]	Max 25,000	Max 25,000	Max 25,000
+ Additional Deduction (When Mediclaim taken for Senior Citizen - Age 60 or more)	Max 25,000	Max 25,000	Max 25,000
Medical Exps. of Senior citizen (Age 60 or more) & Mediclaim premium not paid for Such person	Max 50,000	Max 50,000	Max 50,000
Maximum Deduction (A+B)	Max 50,000	Max 50,000	Max 50,000

Notes: Aggregate payment for preventive health check-up of self, spouse, dependent children & parents cannot exceed ₹ 5000/-

- Where the medical insurance premium is paid in lumpsum for more than 1 year, deduction for each year shall be : Lumpsum premium
PY's in which Insurance in force



E.g.: Mr. BB paid health insurance premium to star health of ₹ 60,000 for 5 years on 01/11/24. Policy tenure is 5 years i.e. from 01/11/24 till 31/10/29. Calculate deduction to be allowed in PY 24-25.

In this case deduction allowed in 6 PY's i.e., from PY 24-25 till PY 29-30, so deduction for PY 24-25 is ₹ 60,000/6 years = ₹ 10,000.

Sec 80DD: Medical treatment & Maintenance of Handicapped dependant relative

- Eligible Assessee: Resident Individual & HUF
- Amount of Deduction: (i) Normal disability : ₹ 75,000
(ii) Severe disability (80% or more disability) = ₹ 1,25,000

Notes

1. Assessee should incur **expenses on medical treatment** or deposit any amount for **maintenance of such handicapped dependant relative**.
2. Relative Individual - Spouse, Brother, Sister, Children, Mother, Father.
HUF - Any dependant member of HUF
3. Deduction will be reversed if dependent handicapped relative received annuity before the death of assessee or before attaining age of 60 years of assessee.

Sec 80DDB: Deduction in respect of Medical treatment of specified Disease

- Eligible Assessee: Resident Individual & HUF
- Amount of Deduction: ₹

(i) Actual Expenses on treatment	xx
(ii) Maximum * ₹ 40,000/ ₹ 1,00,000	<u>xx</u>
Whichever is Lower	xx
Less: Insurance Claim Recd.	<u>xx</u>
Amount of Deduction	<u>xx</u>
- * Normal case - ₹ 40,000
Senior citizen patient - ₹ 1,00,000
- Assessee should incur expenditure on the **treatment of specified diseases** for :-
Individual - Self or dependant relative (Spouse, Brother, Sister, Children, Mother, Father)
HUF - Any dependant member of HUF

Sec 80U: Deduction for handicapped Assessee

- Eligible Assessee: Resident Individual
- Amount of Deduction: (i) Normal disability : ₹ 75,000
(ii) Severe disability (80% or more disability) = ₹ 1,25,000

Sec 80E: Interest on loan for higher education in India or abroad [any course after XII Class]

- Eligible Assessee: Individual
- Amount of Deduction: Interest amount for a period of 8 consecutive years starting from the year in which assessee starts paying interest.
- Deduction is allowed if loan taken for the education of self, spouse, children or any student for whom assessee is a legal guardian.

Sec 80EE: Deduction in respect of interest on housing loan

- Eligible Assessee: Individual
- Amount of Deduction: Max. ₹ 50,000
- Conditions
 - ☞ Loan should be taken from bank or financial institution for acquisition of residential property.
 - ☞ Purchase price of house upto ₹ 50 Lakhs.
 - ☞ Loan should be sanctioned between 1/4/2016 to 31/3/2017.
 - ☞ Loan amount up to ₹ 35 lakhs.
 - ☞ Assessee does not own any residential house on the date of sanction of loan.
 - ☞ First deduction should be claimed u/s 24(b) of house property (up to ₹ 2,00,000) & remaining int. deduction u/s 80EE.

Sec 80EEA: Deduction in respect of interest on housing loan

- Eligible Assessee: Individual (other than covered u/s 80E)
- Amount of Deduction: Max. ₹ 1,50,000
- Conditions
 - ☞ Loan should be taken from banks or financial institution for acquisition of residential property.
 - ☞ Stamp Duty Value of house property should be upto ₹ 45 lakhs.
 - ☞ Loan should be sanctioned between 1/4/2019 to 31/3/2022.
 - ☞ Assessee does not own any residential house property on the date of sanction of loan.
 - ☞ If deduction allowed for any interest here then deduction shall not be allowed in respect of such interest under any other provision.
 - ☞ First deduction should be claimed u/s 24(b) of house property and remaining interest deduction u/s 80EEA.

Sec 80EEB: Deduction in respect of interest on Electric Vehicle (EV) Loan

- Eligible Assessee: Individual
- Amount of Deduction: Max. ₹ 1,50,000
- Conditions
 - ☞ Loan should be taken from banks or financial institutions including NBFC.

- ☞ Loan should be sanctioned between 1/4/2019 to 31/3/2023.
- ☞ If deduction allowed for any interest here then deduction shall not be allowed in respect of such interest under any other provision.

Sec 80G: Donations

➤ Eligible Assessee: All Assessee

➤ Eligible Donations

Part A - Unlimited Category

- ☞ National Defence fund
- ☞ P.M. National Relief fund
- ☞ P.M. Armenia Earthquake Relief fund
- ☞ C.M. Relief fund & Lieutenant Governor Relief fund
- ☞ Zilla Saksharta Samiti
- ☞ National Sports fund
- ☞ National Children fund
- ☞ National Cultural fund
- ☞ Swachh Bharat Kosh
- ☞ Clean Ganga Fund
- ☞ National Fund for control of Drug abuse
- ☞ P.M. Citizen Assistance and Relief Fund (Care Fund)
- ☞ Fund for Army, etc.

100% Unlimited

☞ P.M. Drought Relief fund - 50% Unlimited

Part B - Limited Category

- ✓ Donation to Govt. or Local Authority or approved Institution for promoting Family Planning (F)
- ✓ Donations by Company to Indian Olympics Association (O) or any other institution for development of infrastructure for sports in India,

100% Limited

- ✓ Donation to Housing development authority (H)
- ✓ Donation for renovation or repair of temple, (T) gurudwara, mosque or church, etc.
- ✓ Donation to any Public Charitable Trust (C)
- ✓ Donation for Promoting minority community in India (M)

50% Limited

➤ Under limited category, there is limit of Eligible donation

F.O.	xx
H.T.C.M.	xx
Total Donation	xx
10% of ATI *	xx
Eligible Donation	xx

*ATI - Adjusted Total income

₹

GTI (exclude LTCG 112, 112A & STCG 111A) xx

(-) All deductions (except 80G) xx

ATI xx

➤ Notes:

1. Deduction under this section is not allowed if donation made in **cash is more than ₹ 2000**.
2. Donations paid in **kind are not eligible** for deduction u/s 80G.

Sec 80GG: Rent paid of House Property (HRA not recd.)

➤ Eligible Assessee: Individual

➤ Amount of Deduction

- (i) ₹ 5000 P.M.
- (ii) 25% of Adj. GTI
- ↓ (iii) Rent Paid - 10% of Adj. GTI

➤ Assessee or his spouse or minor child or HUF should not own any house at the place of his duty.
Adjusted GTI = GTI - All deductions u/c VIA (Except u/s 80GG)

Sec 80GGA: Donation for scientific research or rural development

➤ Eligible Assessee: All assesseees (except assesseees having income under the head PGBP)

➤ Amount of Deduction: 100% of donation

➤ If donation amount is **more than ₹ 2,000** then should be made **other than Cash**.

Sec 80GGB/80GGC: Donation to Political Parties or Electoral Trust

➤ Eligible Assessee: 80GGB - Indian Company, 80GGC - Any Other Person

➤ Amount of Deduction: 100% of donation

Note: No deduction, if donation made in **Cash**.

Income Based Deductions ["VI-A Part - C" Income in respect of certain Income]**General points regarding Income Based Deductions**

1. Deduction u/s 10AA/chapter VI - A Part-C shall NOT be allowed, if NOT claimed in return. Also deduction shall be allowed, only if the return is filed upto the due date of filing of return.
2. Income based deduction u/c VI-A "Part-C" means deduction covered u/s 80-IA to 80RRE. Deduction u/s 80JJAA practically allowed on expenditure but it is included in income base deduction "Part-C" in law so AMT also apply if assessee claimed deduction u/s 80JJAA.

Sec 80JJAA: Deduction in respect of Employment of new employees

- Eligible Assessee: Any Assessee engaged in **Business & to whom Sec 44AB applies**
- Amount of Deduction: **30% of Additional employee cost** (deduction for 3 consecutive years)
- Additional employee cost: Total emolument paid or payable to Additional employees employee during the P.Y.
 - ☞ In case of existing business, Additional employee cost shall be **Nil**, if
 - There is **no increase in the Total number** of employees.
 - Emoluments paid otherwise than by alc payee cheque, DD or ECS.
 - E.g.: Suppose total employee as on 31/3/24 were 100 and during P.Y. 24-25, 15 employees left the job & 15 new employees joined, then there will be no deduction, suppose in above example if 20 new employees joined then deduction will be allowed on emolument paid to 5 employees.
 - ☞ In case of New Business - Emoluments paid or payable to employees employed during that P.Y.
- Additional employees **do not include** -
 - ⊗ Employee whose emoluments > ₹ 25,000 p.m.
 - ⊗ Employee employed for **less than 240 days** in P.Y. (in case of manufacture of **apparel or footwear or leather products then 150 days**)
 - ⊗ Employee **does not participate in RPF**.
 - ⊗ Employee for whom the entire contribution is paid by Govt under Employees Pension scheme notified in accordance with the provision of the Employees PF & Misc. Provision Act, 1952.
- Notes:
 1. If an employee is employed during PY for less than 240/150 days, but is employed for a period of 240/150 days, in next year, he shall be deemed to have been employed in next year. Accordingly assessee entitled for deduction of 30% of additional employee cost in the next.
 2. Deduction under this section allowed only if BOA is audited of assessee and audit report should be submit upto date given u/s 44AB.

Sec 80QQB: Royalty from Books of literacy, artistic, scientific nature

➤ Eligible Assessee: Resident Individual

➤ Amount of Deduction:

↓ (i)	Eligible Royalty received	xx
↓ (ii)	Max. ₹ 3,00,000	xx
	Whichever is Lower	xx

➤ Eligible Royalty: In case of lumpsum Royalty - Amount Received as Royalty
Otherwise - Max. 15% of value of Book sold

Sec 80RRB: Royalty from Patent

➤ Eligible Assessee: Resident Individual

➤ Amount of Deduction:

↓ (a)	Royalty received	xx
↓ (ii)	Max. ₹ 3,00,000	xx
	Whichever is Lower	xx

➤ Note for 80QQB & 80RRB: If Royalty is earned outside India, then deduction is allowed only if such royalty amount is brought in India in convertible foreign exchange within 6 months from the end of the P.Y. or time allowed by RBI

Other Income Based Deductions ["VI-A Part - CA"]

Sec 80TTA: Interest on Savings Account from Bank, Co.op Bank & Post office

➤ Eligible Assessee: Individual & HUF

➤ Amount of Deduction:

↓ (i)	Interest Amount	xx
↓ (ii)	Max. ₹ 10,000	xx
	Whichever is Lower	xx

➤ Note: Deduction under this section not available to a resident senior citizen eligible for deduction u/s 80TTB

Sec 80TTB: Interest on Deposits from Bank, Co.op Bank & Post office

➤ Eligible Assessee: Resident Senior Citizen

➤ Amount of Deduction:

↓ (i)	Interest Amount	xx
↓ (ii)	Max. ₹ 50,000	xx
	Whichever is Lower	xx



➤ Sec 10AA: Special Provisions for newly establish units SEZ

1. In computing Total income of an undertaking, which begins to manufacturing or produce article or things or computer software in any SEZ

Deduction under this section is available only if the SEZ unit has received the necessary approval upto 31.3.2020 and begins manufacture or production of articles or things or providing services upto 31.03.2021.

Amount of Deduction	
For First 5 AY's	100% of Export Profit
For Next 5 AY's	50% of Export Profit
For Next 5 AY's	Amount debited to P&L A/c & credited to SEZ Reinvestment Allowance Reserve A/c OR 50% of Export Profit Whichever is lower

2. Export Profit

$$\text{PGBP of unit located in SEZ} \times \frac{\text{Export Turnover}^{**}}{\text{Total Turnover}}$$

**Export Turnover means the consideration in respect of export brought into India in convertible foreign currency within 6 months from end of PY or time permitted by RBI.

Notes:

1. Sales proceeds deemed to have been received in India if such amount is credited to a separate A/c maintained by assessee outside India with approval of RBI.
2. Amount credited to SEZ Re-invest allowance reserve A/c should be utilized for acquiring new P&M & put to use within 3 years from the end of P.Y. in which reserve was created. If amount mis-utilised or un-utilised then deduction claimed earlier shall be taxable as PGBP.

Deemed Income

- If Reserve has been utilized for non-specified purpose: of the year in which wrongly utilized.
- If Reserve has not been utilized till the expiry of time limit: of the year immediately following the period of 3 years.



3. Export T/O **does not include** freight, telecommunication charges, Insurance or expenses for providing service outside India. Further export T/O shall not include cash compensatory support, Duty drawback and profit on sale of import entitlement licenses.
4. Total T/O shall **not include** freight, telecommunication charges, insurance or expenses for providing service outside India. Further it shall not include CCS, DD and profit on sale of import entitlement licenses. Total T/O includes Export T/O and Domestic T/O and it further includes even that portion of export T/O which is not received in convertible foreign exchange.
5. Deduction u/s 10AA available after **claiming all deduction u/c VI-A** from GTI.
6. Income from cash Compensatory support, duty drawback and sale of import entitlement licenses are taxable under the head PGBP but not eligible for deduction calculation as these are ancillary profit and hence do not constitute profit "derived from" business.
7. Assessee shall obtain a report from an CA and furnish it before the due date specified u/s 44AB.
8. P&M used in business should be New:-
Exceptions:
 - a) **20%** of total value of P&M used in undertaking can be **second hand**.
 - b) **P&M Imported** from outside India for the first time shall be treated as **New P&M**.

Alternate Minimum Tax (AMT)

AMT is applicable to **All assessee** except Company.

➤ Sec 115JC: Income tax payable by any person, higher of	₹
↑ (i) Income Tax payable as per Normal Provision of Income Tax	xxx
(ii) 18.5% of Adjusted Total income (ATI)	xxx
[Surcharge (if applicable) + 4%]	

Notes:

1. Calculation of ATI	₹
Total Income (NTI) as per Normal provision of Income Tax	xx
Add: (i) Deduction u/s 10AA (SEZ)	xx
(ii) Deduction u/s 35AD (14 Business)	xx
(iii) Deduction u/c VI-A (80JJAA, 80QQB & 80RRB)	xx
	xx
Less: Depreciation allowable as per Sec. 32 assuming that deduction u/s 35AD was not allowed on the assets on which deduction u/s 35AD is claimed	xx
ATI	<u>xx</u>

2. AMT shall not be applicable if **ATI** (Adjusted Total income) is up to ₹ 20 lakhs in case of Individual/HUF/AOP/BOI/Artificial Judicial Person.

The provision of AMT apply only if assessee is claiming deduction u/s **10AA, 35AD, 80JJAA, 80QQB or 80RRB**.

3. AMT not applicable if assessee follow section 115BAC.

➤ Sec 115JD : AMT Credit

- If **AMT > Normal Income tax** then excess shall be treated as AMT credit.
- AMT credit can be C/F and set off **for 15 years**.
- Credit can be set-off in the year in which **regular tax is more than AMT**.
- The credit allowed to be set off will be restricted to the difference between the regular Income tax computed under normal provision of IT & the AMT.
- Assessee can claim **AMT credit in such subsequent P.Y.** even if AMT is not applicable in subsequent P.Y.

ADVANCE TAX

1. Advance tax means tax paid in the financial year immediately preceding the A.Y. (i.e. P.Y.)
2. Advance shall be calculated by estimating the current year income then applying tax rates. **TDS, TCS, AMT Credit, Relief credit shall be deducted** to arrive at Advance tax liability.
3. Assessee is required to pay Advance tax if his liability for advance tax is ₹ 10,000 or more.
Exceptions: Resident Senior citizen not having income under "PGBP", shall not be required to pay advanced tax.
4. Due dates of Advance Tax for All Assessee's

Due Date	Amount of Advance Tax	Important
upto 15 th June of P.Y.	upto 15% of advance tax liability	If Assessee opts for Sec 44AD/ADA (Presumptive PGBP) then due date is 15 th March of P.Y. (100% of Advance tax in 1 instalment)
upto 15 th Sept of P.Y.	upto 45% of advance tax liability	
upto 15 th Dec of P.Y.	upto 75% of advance tax liability	
upto 15 th Mar of P.Y.	upto 100% of advance tax liability	
Note: Tax paid upto 31 st March of P.Y. is treated as advance tax.		

INTEREST u/s 234A, 234B & 234C➤ Sec 234A: Interest for delay in Return filing

Tax as per ROI x Rate x Period

[After Adjustment of
TDS/TCS/ Advance tax/
AMT credit/ Relief]
i.e. Tax remaining unpaid
on 1st April of A.Y.

[1 % per month
or part of a
month]

[From the date after due
date of ROI till the date
of actual filing of Return]

Notes: 1. However as per supreme court decision in Dr. Prannoy Roy, credit will be given of self-Assessment tax, if it is paid upto due date of return filing.

➤ Sec 234B : Interest for non / short payment of advance tax

This interest is **not applicable** if assessee paid 90% or more of Advance tax payable.

Advance Tax Short x Rate x Period

Paid as per ROI

[1 % per month or
part of a month]

[From 1st April of A.Y. till the
date of actual payment of Tax]

➤ Sec 234C: Interest for deferment of Advance tax instalments

Deferred Amount x 1% per month or
part of a month x 3 months for all instalments except
last instalment

[For last instalment, Int is applicable
always for 1 month] [16/3 to 31/3]



- Notes:
1. Interest u/s 234C **always** calculated on **tax as per ROI**.
 2. Interest u/s 234C shall **not be levied** for 1st or 2nd instalment deferment, if Assessee has paid Advance tax upto 12% in 1st instalment, upto 36% in 2nd instalment.
 3. Advance tax in case of Capital gain, Winnings, Dividend, PGBP first time
Assessee is not able to estimate **capital gains or winnings or income under PGBP accrues first time or Dividend** so advance tax on such income shall be paid in remaining instalment by assessee after receipt of such income. If no instalment is due [income recd. during 16/3 to 31/3] then Advance tax shall be paid upto 31/3 of P.Y.
In case of above income interest **u/s 234C** applicable only from the quarter in which income is received.
- Sec 234E: Fee for default in furnishing TDS/TCS Statements (Return)
For delayed filing quarterly statement, assessee shall be liable to a mandatory **fees of ₹200 per day** during which default continues. The fees cannot exceed the amount of TDS deductible. The fees shall be paid before filing of quarterly statement.
- Sec 234F: Fee for default in furnishing return of income
Where a person, who is **required to furnish a ROI u/s 139**, fails to do so within the prescribed time limit u/s 139(1), he shall pay, by way of fee, **a sum of ₹ 5000**.
However, if total income of the person does not exceeds **₹ 5 lakhs**, the fees payable **shall not exceed ₹ 1,000**.
- Sec 234H : Fees for default in Linking Aadhar with PAN
If assessee link Aadhar with PAN on or after 01/04/2022 then he is required to pay following fees-
- Link between 01/04/22 till 30/06/22 - ₹ 500
 - Link on or after 01/07/22 - ₹ 1,000



Tax Deducted at Source (TDS)

1. TDS requirement arise :
 - (i) at the time of payment, OR
 - (ii) at the time crediting the A/c of payee, whichever is **earlier**
 But in following cases TDS deducted only at the **time of payments**:
 - (i) Salary - Sec 192
 - (ii) EPF Payment - Sec 192A
 - (iii) Dividend - Sec 194
 - (iv) Winnings - Sec 194B, 194BB, 194BA
 - (v) Maturity of life insurance policy - Sec 194DA
 - (vi) Compensation on compulsory acquisition of property - Sec 194LA
 - (vii) Cash withdraw from bank - Sec 194N
2. All TDS rates are Fixed rates i.e. 1%,2%,5%,10% etc. but if payment made to **NR / Foreign Co.** or payment of **salary** then surcharge & HEC shall be considered.
3. Sec 206AA: If payee **does not furnish his PAN** to the payer, the TDS rate shall be:-
 - (i) Rate as per respective section, OR
 - (ii) Rate @ 20%*
 Whichever is higher
 *For sec 194-Q rate is **5%** instead of **20%**
4. If the payment is made by payer without TDS, then payee shall be responsible to make payment of tax directly. However, if the tax has been deducted by payer, but not deposited with Government, then payee cannot be called upon to pay that much tax.

Section	Nature of Payment	Payer	Payee	Rate
192	Salary	Any Person	Employee (R/NR)	Slab Rate

Additional Points

1. Employer required to deduct TDS only **at the time of Payment**.
2. If employee **intend to opt out from default taxation** u/s 115BAC & submitted declaration to employer then employer shall deduct TDS as per normal rates, otherwise as per Sec 115BAC.
3. Employer shall **consider details of other income, deduction & TDS/TCS** of employee if furnished by Employee. Employee has to submit evidences of such deductions, exemptions & losses.
4. Employer shall **not consider losses** of employee except loss under the head house property.
5. If employer bear the **tax on non-monetary perquisites**, then this need not be deducted from the salary of the employee. Amount borne shall not be allowed to employer u/s 40(a)(v) and the same



will be exempted in the hands of employee u/s 10(10CC). Also, the tax so borne will be treated as TDS in the hands of employee and credit of the same can be availed by employee.

6. Where the employee has worked with more than 1 employer during the year or employee changed the job during the year, he may furnish the details of his salary & TDS deducted by one employer to other/current employer.
7. Where firm pays salary to partner, section 192 is not attracted as it is taxable in hands of partner under PGBP.

Section	Nature of Payment	Payer	Payee	Rate
192A	Accumulated balance of PF	Any Person	Employee (R/NR)	10%

Additional Points

1. TDS required to be deducted only at the time of Payment.
2. No need to deduct TDS if aggregate amount of payment is less than ₹ 50,000.

Section	Nature of Payment	Payer	Payee	Rate
193	Interest on Securities	Any Person	Resident Person	10%

Additional Points

No TDS if interest is paid:

- For Debenture issued by a public company to Individual/HUF if interest does not exceed ₹ 5,000 during the PY and the same is paid by a/c payee cheque.
- To LIC, GIC or other insurers.
- Sec 54EC CG Bonds issued by Power Finance Corp. Ltd. or Indian Railway Finance Corp. Ltd.
- On Govt. Security [Exception - interest on 8% Savings (Taxable) Bonds, 2003 or 7.75% Savings (Taxable) Bonds, 2018 or Floating Rate Savings Bonds, 2020 or any other notified security, if interest is more than ₹ 10,000 during the PY then TDS applicable]

Section	Nature of Payment	Payer	Payee	Rate
194	Dividend	Domestic Company	Resident Person	10%

Additional Points

1. TDS required to be deducted only at the time of Payment.
2. No TDS if payment made to Individual by any mode other than cash and payment is upto ₹ 5,000 in a PY.
3. TDS also required to be deducted on deemed dividend u/s 2(22)(a) to 2(22)(f). [2(22)(f) w.e.f. 1/10/2018]
4. No TDS if dividend to LIC, GIC or any other insurer provided the shares are owned by them, or they have full beneficial interest in such shares.



Section	Nature of Payment	Payer	Payee	Rate
194A	Interest other than Security interest	Any Person other than Individual & HUF [Ind/HUF required to deduct TDS, if last year T/O > ₹ 1 Cr in case of business or G/R > ₹ 50 Lakhs in case of profession]	Resident Person	10%

Additional Points

No TDS in following cases

- Interest by Bank/Co. Op. Bank/Post office on **time deposit upto ₹ 40,000** (₹ 50,000 for Resident senior citizen).
- Interest by any other person **upto ₹ 5,000**.
- Interest on **Saving Bank Account**.
- Interest by **Firm to Partners**.
- Interest on **Income Tax Refund**.
- Interest on "Mahila Samman Savings Certificate, 2023".
- Interest to **Banks, Co-op. banks, Financial Corporations, LIC, Insurance Co., UTI, National Skill Development Fund, Housing and Urban Development Corporation**. [Remember - NBFC not covered]
- Interest **by** a Co-operative Society (other than Co. op. Bank) to another Co-operative Society or to any of its Members.
- Interest **by** a Co-operative Society being bank to another co-op. society.
- Interest on deposits with a primary agricultural credit society or a primary credit society or a co-operative land mortgage bank or a co-operative land development bank
Note: In case of point 8 to 10 TDS required to be deducted if **T/O or G/R of Co-op. Society in last year more than ₹ 50 Crores** and interest paid/credited is more than ₹ 40,000 or in case of senior citizen ₹ 50000.
- Interest Credited on the compensation amount awarded by the Motor Accidents Claims Tribunal (MACT).
- Interest on the compensation amount awarded by the MACT paid during the FY does not exceed ₹ 50,000.
- In case of banks following **CBS Software**, NO TDS should be made on Interest which is credited to a provision account on a daily or monthly basis only for the purpose of macro monitoring by CBS software since no amount is actually credited to depositor's a/c. Thus, TDS is to be made at the time of actual credit given to depositor's a/c and Further, **the limit of ₹ 40,000 shall be check bank-wise not branch-wise**.

Section	Nature of Payment	Payer	Payee	Rate
194B	Winnings from lotteries, crossword puzzles etc.	Any Person	Any Person	30%
194BB	Winnings from Horse Races	Any Person	Any Person	30%

Additional Points

1. TDS required to be deducted only at the **time of Payment**.
2. No TDS if winning is **upto ₹ 10,000 during the F.Y.**
3. If the winning is wholly in **kind or it is partly in kind** & partly in cash and the cash balance is not sufficient enough to meet the TDS liabilities, then Payer shall **release the prize only after ensuring that tax on such wining is paid to Govt.**
4. In cases where the book-maker paying the winnings, credits such winnings and debits the losses to the punter, tax has to be **deducted @30% on winnings before set-off of losses**. Thereafter the net amount, after deduction of tax and losses, has to be paid to the winner.

Section	Nature of Payment	Payer	Payee	Rate
194BA	Winnings from Online Games	Any Person	Any Person	30%

Additional Points

1. TDS required to be deducted at the time of withdrawal during the PY from user account as well as at the end of Financial Year.
2. Computation of Net Winning for the purpose of Sec 115BBJ: **(A+D) - (B+C)**

A	Aggregate amount withdrawn from user account during the FY
D	Closing balance of user account at the end of the FY
B	Aggregate amount of non-taxable deposit made in user account by the assessee during the FY
C	Opening balance of user account at the beginning of the FY

Example

Mr. Tararam Dewasi is online fantasy game addict. He's having user account with My11circle App.

Opening Balance as on 01/04/23: ₹ 60,000

Amount deposited during PY 23-24 in user account: ₹ 1,50,000

Amount withdraw during PY 23-24 from user account: ₹ 3,37,000

Closing Balance as on 31/03/24: ₹ 72,000

In this case for the purpose of sec. 115BBJ taxable new winning is $(3,37,000 + 72,000) - (1,50,000 + 60,000)$: 1,99,000 taxable @30%



- In order to remove difficulty in deducting TDS for insignificant withdrawal, it is clarified that tax may not be deducted on withdrawal on satisfaction of all of the following conditions:-
- (i) Net winnings comprised in the amount withdrawn **does not exceed ₹ 100 in a month**;
 - (ii) tax not deducted on account of this concession is **deducted at a time when the net winnings comprised in withdrawal exceeds ₹ 100** in the same month or subsequent month or if there is no such withdrawal, at the end of the FY; and
 - (iii) the **deductor undertakes responsibility of paying the difference** if the balance in the user account at the time of tax deduction u/s 194BA is not sufficient to discharge the tax deduction liability calculated.

- **Payment in cash or kind:** Whenever there is payment to the user in kind or in cash, or partly in kind and partly in cash, which **is not from the user account**, the provisions shall apply to calculate net winnings by deeming that the money equivalent to such payment has been **deposited as taxable deposit** in the user account and the equivalent amount has been **withdrawn** from the user account at the same time and shall accordingly be included in amount A.

Mr. Chetan won Mahindra Thar on My11circle. FMV of car is ₹ 12,00,000. In this case ₹ 12 lakhs treated as taxable deposit in user account and same time it is treated as withdrawal. TDS @30% applicable on ₹ 12,00,000 u/s 194BA.

In this case My11circle will release the car only after ensuring that tax on such winning is paid to Govt

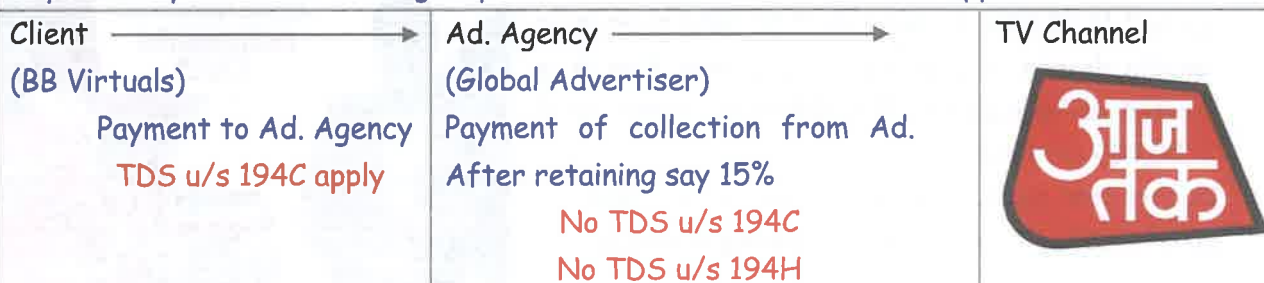


Section	Nature of Payment	Payer	Payee	Rate
194C	Contracts & sub-contracts [carrying out any work (including supply of labour for carrying out any work) in pursuance of a contract]	Any Person other than Individual, HUF, AOP, BOI [Ind/HUF/AOP/BOI required to deduct TDS, if last year T/O > ₹ 1 Cr in case of business or G/R > ₹ 50 Lakhs in case of profession]	Resident Person	Payee:- Ind/HUF 1% Others 2%

Additional Points

- No TDS if :-**
 - ☞ Single contract is **upto ₹ 30,000** or
 - ☞ Aggregate of contract in PY is **upto ₹ 1,00,000**.
- No TDS if contract is for **personal purpose of Individual/HUF**.**
- Work includes:**
 - ☞ Advertising, Broadcasting, Telecasting (including production of programmes),
 - ☞ Carriage of goods or passengers by any mode other than by railways,
 - ☞ Catering,
 - ☞ Manufacturing or supplying a product as per **specification of customer** using material supply/sale by such customer or its associate of customer covered u/s 40A(2) (Job Work).
- Work excludes:**
 - ☞ Manufacturing or supplying a product as per specification of customer using material purchased from any person, other than customer or its associate, or
 - ☞ Any sum already covered u/s 194J.

5. No TDS if payment made to transporter owning not more than 10 vehicles at any time in the P and who furnishes a declaration to this effect along with his PAN.
6. In case of Job Work, TDS shall be applied on the invoice value excluding the value of material purchased from the customer/associate, provided bifurcation is given in the invoice. If no bifurcation is given, then TDS shall be applied on the entire amount.
7. Payments by client to Advt. agency - It is treated as work and TDS applicable u/s 194C.



8. Cold Storage charges, which involves providing of refrigeration facility as well as storage facility, shall also be subject to TDS u/s 194C as a contract charge only and not u/s 194-I (Rent).

Section	Nature of Payment	Payer	Payee	Rate
194D	Insurance Commission	Any Person	Resident Person	5% (10% if payee Dom. Co.)
194G	Commission on sale of lottery tickets	Any Person	Any Person	5%(2% w.e.f. 1/10/24)
194H	Commission and Brokerage	Any Person other than Individual & HUF [Ind/HUF required to deduct TDS, if last year T/O > ₹ 1 Cr in case of business or G/R > ₹ 50 Lakhs in case of profession]	Resident Person	5%(2% w.e.f. 1/10/24)

Additional Points

1. No TDS in above sections if Commission or Brokerage is upto ₹ 15,000.
2. No TDS u/s 194H on Payments by BSNL or MTNL to their public call office franchises.
3. No TDS u/s 194H if commission or brokerage related to security like commission to underwriter, brokerage on public issue etc.

Section	Nature of Payment	Payer	Payee	Rate
194DA	Maturity of Life Insurance Policy	Any Person	Resident Person	5%(2% w.e.f. 1/10/24)

Additional Points

1. TDS required to be deducted only at the **time of Payment**.
2. No TDS if maturity amount is less than ₹ 1,00,000.
3. No TDS if maturity amount **exempted u/s 10(10D)**. [In case of LIP maturity amount taxable in case of Keyman Ins. or LIP taken on or after 1.4.23 & premium paid > ₹5,00,000 in a year or Premium more than limit of 10%, 15%, 20% of policy value prescribed u/s 80C]
4. In this section TDS applicable on **income component** i.e. maturity amount minus premium paid.

Section	Nature of Payment	Payer	Payee	Rate
194-I	Rent of P&M, Equipment's, Building, Furniture & Land	Any Person other than Individual & HUF [Ind/HUF required to deduct TDS, if last year T/O > ₹ 1 Cr in case of business or G/R > ₹ 50 Lakhs in case of profession]	Resident Person	P&M, Equipment's -2% Land, Building & Furniture - 10%

Additional Points

1. **No TDS** if rent is **upto ₹ 2,40,000** to a person in F.Y.
2. **No TDS on 'Refundable Deposits'**. However, 'Non-Refundable Deposits' shall attract TDS under this section.
3. Arrears of Rent received during the current year shall also be considered for the purpose of deducting TDS u/s 194I.
4. Even **Advance Rent** shall also be **subject to TDS** in the year of payment.
5. **Warehousing charges** shall also be **subjected to TDS** under this section.
6. It is **not necessary that the Payee must be the owner** of any of the above-mentioned assets.
7. CBDT circular-Lumpsum lease premium or onetime upfront lease charges which are not adjustable against periodic rent and which are paid for acquisition of long term lease rights - are not in the nature of rent within the meaning of sec 194-I, therefore NO TDS.
8. **Passenger Service fees (PSF)** paid by Airline's Company to Airport Operator is **not treated as rent** so TDS not applicable u/s 194-I [Circular No. 21/2017].

Section	Nature of Payment	Payer	Payee	Rate
194-IA	Transfer of Immovable property (other than rural agriculture land)	Any Person (Buyer)	Resident Person (Seller)	1 % of Consideration or SDV, whichever is higher

Additional Points

1. TDS is applicable only if **Consideration or SDV is ₹ 50,00,000 or more**.

2. Where there is more than one transferor or transferee in respect of any immovable property then the consideration shall be the aggregate of the amounts paid or payable by all the transferees to the transferor or all the transferors for transfer of such immovable property [Added w.e.f. 1/10/24]

3. Consideration for transfer of immovable property includes club membership fees, car parking fees, electricity or water facility fees, maintenance fees, advance fees or any other similar charges incidental to transfer of immovable property.

Section	Nature of Payment	Payer	Payee	Rate
194-IB	Rent of Immovable property	Individual/HUF (Not covered u/ s 194-I)	Resident Person	5%(2% w.e.f. 1/10/24)

Additional Points

- No TDS if rent is upto ₹ 50,000 per month or part of the month.
- In this section TDS required to be deducted only at the time of credit or actual payment on the last month rent, whichever is earlier. [Here last month of year or tenancy as the case may be]
- Where the payee fails to furnish his PAN, TDS shall be deducted at the rate of 20%. However in any case, such deduction cannot exceed the rent of the last month.

Section	Nature of Payment	Payer	Payee	Rate
194J	a) Fees for professional Service (FPS) b) Fees for Technical Services (FTS) c) Remuneration to directors d) Royalty e) Non-compete fees (NCF)	Any Person other than Individual & HUF [Ind/HUF required to deduct TDS, if last year T/O > ₹ 1 Cr in case of business or G/R > ₹ 50 Lakhs in case of profession]	Resident Person	10%

Additional Points

- In following cases TDS rate is 2% instead of 10% :-
 - ✓ Payment to any call centre.
 - ✓ Fees for Technical service (not being professional service).
 - ✓ Royalty paid for sale distribution or exhibition of cinematographic film.
- No TDS if amount is upto ₹ 30,000 p.a., limit of ₹ 30,000 p.a. is applicable separately for each nature of payment (i.e. ₹ 30,000 each for FPS, FTS, Royalty, Non-compete). No limit for director's fees (TDS to be deducted mandatorily).
- No TDS on FPS by Individual/HUF if made exclusively for personal purposes.



4. **Individual/HUF**, if last year T/O > ₹ 1 Cr or GR > ₹ 50 Lakhs, are required to deduct TDS only from **FPS and FTS**. No need to deduct TDS on royalty or NCF even last year TO/GR more than prescribed limit.
5. CBDT Notification: Payments made to Sports person, Sports Columnist, Umpire, Commentator, Referee, Physiotherapist, Team Physician, Anchor, Event Manager will also be regarded as FPS and accordingly be liable to TDS u/s 194J.
6. Consideration paid for **acquisition of software** falls within the definition of royalty and hence, would be liable for TDS u/s 194J. However, **no TDS** would be attracted in cases of subsequent transfers if the transfer is made **without any modification** and TDS has already been deducted u/s 194J in the earlier transfers & transferor submit declaration along with PAN for same.
7. CBDT Circular: Third Party Administrators (TPA) making payments on behalf of insurance companies to hospitals for settlement of medical/insurance claims etc. are liable to deduct TDS u/s 194J.

Section	Nature of Payment	Payer	Payee	Rate
194K	Income from UTI or Mutual Fund Units	Any Person (UTI/MF)	Resident Person	10%

Additional Points

No TDS if payment is **upto ₹ 5,000 in a P.Y.**

Section	Nature of Payment	Payer	Payee	Rate
194LA	Compensation on compulsory acquisition of Immovable Property	Any Person	Resident Person	10%

Additional Points

1. TDS required to deduct only at the **time of payment**.
2. No TDS if payment is **upto ₹ 2,50,000 in a P.Y.**
3. No TDS if the Immovable Property is an 'Urban or Rural Agricultural Land' in India.

Section	Nature of Payment	Payer	Payee	Rate
194M	Work pursuance contract, Commission / Brokerage, Fees for Professional service	Individual/HUF (other than required to deduct TDS u/s 194C, 194H, 194J)	Resident Person	5%(2% w.e.f. 1/10/24)

Additional Points

1. **No TDS** if amount is **upto ₹ 50,00,000**.

2. TDS u/s 194C, 194H & 194J in case of Ind/HUF payer applicable only if last year TO/GR more than prescribed Limit and u/s 194C & 194J TDS not applicable in case of personal nature contract or FPS so in those cases TDS required to be deducted u/s 194M if amount more than ₹50 lakhs.
3. Note for Sec 194-IA, 194-IB, 194M: In these sections payer not required to opt TAN number and TDS required to deposit online to Govt. along with TDS return in Form 26QB, 26QC and 26QD within 30 days from the end of the month in which TDS was deducted.

Section	Nature of Payment	Payer	Payee	Rate
194N	Cash withdraw from Bank, Co.op. Bank, Post office	Bank, Co.op. Bank, Post office	Any Person	2% (refer point 3)

Additional Points

1. TDS is required to be deducted only at the **time of payment**.
2. No TDS if cash withdraw is upto ₹ 1 Crore in a PY. If cash withdraw more than ₹ 1 crore then TDS applicable **only on excess amount over ₹ 1 crore**. Where the recipient is a co-operative society, limit of ₹ 3 crores is applicable for cash withdrawals.
3. If payee has not filed return **for all 3 preceding PY's** for which due date u/s 139(1) already expired then TDS shall be deducted as follows:
 - ☛ **2%** on cash withdraw in excess of ₹ 20 lakhs upto ₹ 1 crore and
 - ☛ **5%** on cash withdraw in excess of ₹ 1 crore.

Note: Here we will check return of PY20-21, PY21-22 & PY22-23 for the TDS liability in PY 24-25.
4. **No TDS** if cash withdrawal by :
 - ☛ Government (SG/CG),
 - ☛ Banks, Co-op. Bank, Post office and their business correspondent,
 - ☛ White label ATM operator of Banks or Co-op. Bank.

Section	Nature of Payment	Payer	Payee	Rate
194P	TDS by Bank in case of senior citizen	Specified Bank	Resident Individual age 75 Years or more in PY	Slab Rate

Additional Points

1. This section apply only if individual having income in the **nature of pension** and no other income **except the income in the nature of interest** from any account maintained in the same specified bank in which he is receiving his pension and has furnished a declaration to the specified bank containing such particulars, in paper FORM 12BBA and duly verified.
2. Once the declaration is furnished by senior citizen, the bank would be required to compute the income of such senior citizen. For computing total income deduction u/s 80C to 80U should be



given (if assessee opted out from 115BAC) along with rebate u/s 87A. The bank shall deduct tax on such total income on the basis of slab rate after considering any TDS deducted on pension.

3. "Specified bank" means a schedule bank which has been appointed as agent of RBI u/s 45 of RBI Act, 1934.

Section	Nature of Payment	Payer	Payee	Rate
194-Q	Purchase of Goods more than ₹ 50 Lakhs in a PY	Any Person (Buyer) whose last year T/O more than ₹ 10 Crore	Resident Person (Seller)	0.1% of sum in excess of ₹ 50 Lakhs

Additional Points

- In this section TDS required to deduct only on **excess amount over ₹ 50 lakhs**.
- TDS is **not required to be deducted** under this section, if -
 - ✓ TDS is deductible under any other section;
 - ✓ TCS is collectible u/s 206C [other than section 206C(1H)].
- In case of a transaction to which **both sec. 206C(1H) and 194Q applies**, TDS deducted u/s 194Q.
- In case of a transaction to which **both sec. 206C(1)/(1F)/(1G) and 194Q applies**, TCS to be collected u/s 206C(1)/(1F)/(1G).
- If **PAN of payee is not available**, tax will be deducted u/s 194Q at the **rate of 5%**.
- CBDT Clarifications:
 - ✓ **GST/VAT/Sales tax/CST/Excise Duty (IDT):** TDS u/s 194Q NOT applicable on IDT amount if it is separately indicated in invoice but if **advance payment is made** then **TDS should be deducted on total advance payment** as we are not aware that what will be IDT amount in invoice.
 - ✓ **Purchase Return:** TDS deducted at the time of crediting the party or payment, whichever is earlier, so at the time of purchased TDS already deducted by Buyer. In case of purchase return there is no need to return TDS amount and it can be adjusted against future purchase from same seller. In case of replacement of Goods, no adjustment required.
 - ✓ **First year of Incorporation:** TDS required to be deducted only if buyer's last year T/O more than ₹ 10 Crores. Since in case of first year of incorporation last year T/O is nil so **this section NOT applicable in first year of Incorporation**.
 - ✓ **Last Year T/O:** While checking last year T/O of buyer it should include only Business T/O or G/R and it should be more than ₹ 10 Crores. Non-Business T/O not to be counted.



Section	Nature of Payment	Payer	Payee	Rate
194R	Any benefit or perquisite, whether converted into money or not, arising from business or profession	Any Person other than Individual & HUF [Ind/HUF required to deduct TDS, if last year T/O > ₹ 1 Cr in case of business or G/R > ₹ 50 Lakhs in case of profession]	Resident Person	10%
Additional Points				
1. No TDS if amount of benefit or perquisite provided to a person is upto ₹ 20,000 in PY.				
2. If the benefit or perquisite is wholly in kind or it is partly in kind & partly in cash and the cash balance is not sufficient enough to meet the TDS liabilities, then Payer shall release the benefit or perquisite only after ensuring that tax is paid on such benefit or perquisite by way of				
(a) He has collected the amount equivalent to TDS amount from the Payee, or				
(b) He paid TDS from his own pocket , or				
(c) He insists the Payee to make the payment of TDS on his own by way of advance tax & submit the proof to the Payer.				
Miscellaneous Provisions				
☞	Sec 196: TDS not applicable if payee is Government, RBI, Statutory Corporation, Mutual Fund, New Pension Trust.			
☞	CBDT Circular: TDS NOT applicable in case of "GST on services" separately indicated in Invoice			
☞	Sec 197 - Lower Deduction Certificate: Where assessee's Total Income or receipts of income is not liable to tax or taxable at lower rate in current year (it may be due to b/f losses) the assessee can apply to AO for issue of certificate for No Deduction or Low deduction of TDS. If AO satisfied with application of assessee then he may issue such certificate. In this case assessee's TDS will be deducted as per rate given in certificate.			
☞	197A: Declaration in Form 15G/15H: Where the total income of the Resident (other than company & firm) is below basic exemption limit during the year, no TDS shall be deducted u/s 192A, 193, 194A, 194D, 194DA, 194-I, 194K if Assessee furnishes a self-declaration to the payer in Form 15G/15H.			
	Exception: Benefit will not be available, if the incomes referred to in the above sections themselves are beyond basic exemption limit.			
	However, in case of Resident Senior Citizen, he may furnish Form-15H requesting for non-deduction as long as the tax payable during the year is NIL (even by way of rebate u/s 87A).			



Example: Rent received by Mr Kunal is ₹ 3,60,000 and he has invested ₹ 1,20,000 u/s 80C. Now his NTI is less than basic exemption then also Kunal can't furnish 15G but suppose he is Senior Citizen then he can furnish 15H.

Sec 198: TDS shall also be deemed to be the income of the Payee, except TDS paid by Employer on Non-monetary perquisite or TDS deducted u/s 194N.

Sec 199: TDS credit available to a person from whose income deduction is made except:-

- ✓ In case of clubbing credit available to a person in whose hands the income is ultimately taxable.
- ✓ In case of tax paid by employer from own pocket on Non-monetary perquisite employee can take credit.

Due date of payment of TDS and TCS

TDS deducted/ TCS collected month	TDS Due date	TCS Due date
During April to February months	7 th of Next month	7 th of Next month
March month	30 th April of next FY	7 th April of next FY

Note: If TDS deducted u/s 194-IA, 194-IB or 194M then it should be deposited to Govt. withing 30 days from end of the month in which deducted along with return in Form 26QB, 26QC, 26QD.

Due date of TDS/TCS Returns/Statements

Quarter Ended	TDS Return	TCS Return
30 th June	31 st July	15 th July
30 th September	31 st October	15 th October
31 st December	31 st January	15 th January
31 st March	31 st May	15 th May

Notes: Fees of ₹ 200 per day of default u/s 234E applicable if TDS/TCS return after due dates.

Sec 200A/206CB: Processing of TDS/TCS Returns (Intimation by CPC)

1. TDS/TCS returns filed shall be processed electronically and the following adjustment can be made:
 - (a) Rectification of any Arithmetical errors;
 - (b) Incorrect claim apparent on record.
2. An Intimation will be prepared specifying the amount of demand/refund along with interest, fees (if any) and sent to the deduction/collector within 1 year from the end of the FY in which return was filed.



- Sec 201 - Assessee in default: If payer not deducted TDS or after deduction not paid to Govt then such person is treated as assessee in default and required to pay penalty u/s 221 and that can be maximum 100% of TDS amount.
- Exception: Payer shall not be treated as assessee in default if payments made / credited to Payee without TDS, if such Payee fulfils all the following 4 conditions:
- ✓ He has furnished his ROI u/s 139;
 - ✓ Such sum has been taken into account by him, in such ROI;
 - ✓ He has paid the tax due on income declared by him in his ROI; and
 - ✓ Payer has furnished a Certificate in this regard from a CA in Form 26A.
- Sec 201(1A): Interest on Late deduction or Late payment of TDS
- ✓ Late Deduction: Interest @ 1 % per month or part of the month on amount of TDS from the date on which TDS was deductible till the date on which TDS actually deducted.
 - ✓ Late Payment: Interest @1.5% per month or part of the month on amount of TDS from the date on which TDS actually deducted till the date on which such tax actually paid.
- Sec 206AB/206CCA: TDS/TCS rate in case of Non-Filers
- In case of TDS/TCS if payee/collectee has **not filed return** of income for **last year for which due date u/s 139(1) already expired** before the current PY and TDS deducted & TCS collected in that year was ₹ 50,000 or more, then TDS/TCS in current year shall be applicable at following rates:-
- (a) Twice the TDS/TCS rate, or
 - (b) 5%
- Whichever is higher.
- Notes:
1. This section not applicable in case of TDS deductible u/s 192, 192A, 194B, 194BA, 194BB, 194-194-IB, 194M and 194N.
 2. If payee/collectee has not furnished PAN/ Aadhar also then TDS/TCS shall be deducted/ collected at rates higher of this section and section 206AA in case of TDS and 206CC in case of TCS.
 3. For applicability of this section in current year we have to check that return was filed for PY 22-23 or not.
 4. From 1/7/2023 for TCS maximum rate under this section can be 20%.

Tax Collection at Sources (TCS)

Section	Nature of Transaction	Rate	Collector (Seller)	Collectee (Buyer)
206C(1)	Sale of Goods <ul style="list-style-type: none"> ➤ Tendu Leaves ➤ Timber & other forest products ➤ Alcoholic liquor for human consumption ➤ Scrap ➤ Minerals being Coal, Lignite, Iron ore 	5% 2.5% 1% 1% 1%	Any Person other than Individual and HUF [Ind/HUF required to collect TCS, if last year T/O > ₹ 1 Cr in case of business or G/R > ₹ 50 Lakhs in case of profession]	Any person other than : <ol style="list-style-type: none"> 1. Buyer who buys such goods for his personal consumption; 2. Public sector Co; 3. CG, SG, Embassy, High comm., legation, consulate, trade representation and clubs.

Additional Points

1. **No TCS if resident buyer** furnishes a declaration to the seller that "goods" are to be utilized in **manufacturing/production** of any article or for the purpose of **generation of power**.
2. If buyer T/o of last year more than ₹ 10 crores then Buyer required to deduct TDS u/s 194Q.
3. Scrap means waste from the manufacture or mechanical working of materials & which is definitely not usable as such because of breakage, cutting up, wear and other reasons.

Section	Nature of Transaction	Rate	Collector (Licensor)	Collectee (Licensee)
206C(1C)	Leasing or licensing or transferring any right or interest in any- <ul style="list-style-type: none"> ✓ Parking lot or ✓ Toll plaza or ✓ Mine or quarry for the purpose of business	2%	Same as section 206C(1)	Any person other than public sector company

Note: For the purpose of this section "mining and quarrying" shall not include mining and quarrying of "mineral oil" includes petroleum and natural gas.

Section	Nature of Transaction	Rate	Collector (Seller)	Collectee (Buyer)
206C(1F)	Sale of a motor vehicle of the value exceeding ₹10 lakhs	1 %	Same as section 206C(1)	Any person other than mentioned in Note-1

Notes:

1. Public Sector Co engaged in the business of carrying passengers, CG, SG, Embassy, High comm, legation, consulate, trade representation, Local authority, **RBI**.

2. TCS will apply only in case of **sale of motor vehicle at retail level**. No TCS under this section on sale by manufacturers to dealers/distributors.
3. Threshold limit of **₹10 lakhs** has to be looked at on each individual purchase and not on aggregate purchases made during the year.

Section	Nature of Transaction	Purpose	Rate	Collector (Seller)
206C(1G)	Remittance of money more than ₹ 7 lakhs under Liberalised Remittance Scheme (LRS) of RBI	Education or Medical	5% of amount in excess of ₹ 7 lakhs (Note: 2)	Authorized dealer
		Other Purpose	20% of amount in excess of ₹ 7 lakhs	
	Sale of overseas tour program package (OTPP)	5% of sale value upto ₹ 7 lakhs and 20% above ₹ 7 lakhs.		Seller of OTPP

Additional Points

1. **No TCS** if buyer is :
 - ☛ Deducted TDS under any section;
 - ☛ CG, SG, Embassy, High comm., legation, consulate and trade representation, Local authority
 - ☛ Non Resident Visiting India.
2. In case of LRS if remitted amount is out of **Educational Loan (referred u/s 80E) taken from Financial Institution** then TCS rate shall be **0.5% instead of 5%**.
3. "OTPP" means any tour package which offers visit to a country or countries or territory or territories outside India and includes expenses for travel or hotel stay or boarding or lodging or any other expenditure of similar nature or in relation thereto.

Examples

1. Mr. BB wants to transfer ₹ 10 lakhs on 15/9/24 & ₹ 12 lakhs on 14/2/25 to USA for buying property through AB Ltd. (an authorized dealer) under LRS scheme of RBI.
Sol.- In this case AB Ltd require to collect TCS from Mr. BB @ 20% of ₹ 3 lakhs i.e. ₹ 60,000 on 15/9/24 & @20% of 12 lakhs i.e. 2.4 lakhs on 14/2/25.
2. Suppose in Q 1, Mr. BB wants to transfer only ₹ 5 lakhs instead of ₹ 22 lakhs.
Sol.- In this case TCS NOT applicable as it applies only if amount is more than ₹ 7 lakhs.
3. Suppose in Q 1, Mr. BB wants to transfer for the purpose of Education or Medical treatment.
Sol.- In this case AB Ltd require to collect TCS from Mr. BB @ 5% of ₹ 3 lakhs i.e. ₹ 15,000 on 15/9/24 & @ 5% of ₹ 12 lakhs i.e. ₹ 60,000 on 14/2/25.
4. Suppose in Q 1, Mr. BB wants to transfer for the purpose of Education and this amounts is out of educational loan taken from IDFC First Bank.



Sol.- In this case AB Ltd require to collect TCS from Mr. BB @ 0.5% of ₹ 3 lakhs i.e. ₹ 1500 on 15/9/24 & @ 0.5% of ₹ 12 lakhs i.e. ₹ 6000 on 14/2/25.

5. Suppose in Q 1, Mr. BB remitted ₹ 10 lakhs through AB Ltd. (dealer) and ₹ 12 lakhs through JJ Ltd (dealer).

Sol.- As per CBDT clarification limit of ₹ 7,00,000 applicable on total LRS remittance made by any person in a PY. In this case TCS applicable as per answer given in point 1. In this case JJ Ltd. will take self-declaration from Mr. BB about his earlier remittance through AB Ltd.

6. Mr. Devam purchased Singapore tour package from Thomas Cook for ₹ 2,50,000 on 16/6/24.

Sol.- In this case Thomas cook required to collect TCS@ 5% of ₹ 2,50,000 i.e. ₹ 12,500.

7. Suppose in above example Devam deducted TDS of Thomas Cook u/s 194C.

Sol.- If TDS deducted under any provisions of IT then TCS not apply u/s 206C(1G).

8. Mr. SS purchased Thailand tour package from MMT for ₹ 15,00,000 on 10/12/24.

Sol.- In this case MMT required to collect TCS@ 5% of ₹ 7,00,000 i.e. ₹ 35,000 & 20% of ₹ 8,00,000 i.e. ₹ 1,60,000. Total TCS amount is ₹ 1,95,000

Section	Nature of Transaction	Rate	Collector (Seller)	Collectee (Buyer)
206C(1H)	Sale of Good [other than export & covered u/s 206C(1)/(1F)/(1G)]	0.1% of consideration in excess of ₹ 50 lakhs	Any person whose last year T/O is more than ₹ 10 Crore	Any person other than mentioned in Note-1

Additional Points

- CG, SG, an embassy, High Commission, legation, commission, consulate, the trade representation of a foreign State, a local authority or a person importing goods into India or any other notified person.
- If buyer deducted TDS under any section then TCS not applicable under this section.
- If buyer not submit PAN or Aadhar then TCS rate is 1% instead of 0.1% in this section.
- Under this section TCS collected only at the time of receiving consideration in excess of ₹ 50 lakhs in PY.
- CBDT Clarifications
 - ✓ In case of Motor vehicle if section 206C(1F) not applicable (like manufacturer to distributor) then section 206C(1H) applicable if other condition of this section satisfied.
 - ✓ No need of any adjustment for GST or sale return as TCS under this section applicable on receipt of consideration.



6. Example: Navneet Motors, Mumbai is an authorised dealer of BMW & KIA Motors. T/O of last year is 25 Crores.

Case-A: Sale of a car Kia Seltos to Mr Ravi (a salaried employee) for ₹ 9,60,000 (including GST) - In this case TDS u/s 206C(1H) & (1F) not applicable.

Case-B: Sale of 7 cars Kia Seltos to Mr Ravi for ₹ 9,60,000 each (including GST) & received ₹ 67,20,000 by dealer - In this case TCS u/s 206C(1F) not applicable but TCS u/s 206C(1H) is applicable dealer will collect TCS@ 0.1% of amount in excess of ₹ 50,00,000 i.e. ₹ 17,20,000.

Case-C: Sale of a car BMW GT to Mr Kavi for ₹ 92,00,000 (including GST) - In this case TCS u/s 206C(1F) applicable & dealer will collect TCS@ 1% of ₹ 92,00,000.

Case-D BMW India Ltd. sold 200 cars to Navneet Motors in PY 24-25 and total consideration received is ₹ 150 Crores. In this case Navneet motors will deduct TDS of BMW India Ltd @ 0.1% in excess of ₹ 50 lakhs u/s 194Q.

Case-E Navneet Motors sold a Kia Carnival to MR Devam and consideration is as follows:

Base Price : 23,00,000

Add: Luxury Tax: 4,60,000

Add: GST 28%: 6,44,000

Total 34,04,000

In this case Navneet motors will collect TCS u/s 206C(1F) on ₹ 34,04,000.

Miscellaneous Provisions

☞ Time of Collection TCS: TCS has to be collect at the time of debiting the party or receiving the consideration, whichever is earlier but in case of section 206C(1F) & (1H) it has to collect only at the time of receive the consideration.

☞ Sec 206C(7) Interest on late collection/deposit TCS: In case of any delay, interest shall be calculated @ 1 % per month or part thereof from date on which TCS was collectible to date or on which TCS is actually paid. [w.e.f. 01/04/25 on late payment of TCS interest applicable @ 1.5% p.m. or part of the month]

☞ Sec 206CC: If the collectee has not provided PAN or Aadhaar to the collector, then TCS rate shall be

(a) Twice of the rate or

(b) 5% [1 % in case of sub-section (1H)]

Whichever is higher

Note: From 1.7.23, the higher rate of TCS leviable for non-furnishing of PAN should not exceed 20%.



Sec 139(1): Filing of Return of Income (ROI) [Normal return]

- A. For Company & Partnership Firm (including LLP) - Return filing is **compulsory**.
- B. For other Assessee - If GTI (before claiming exemption u/s 54, 54B, 54D, 54EC, 54F) more than Basic exemption, **then return filing is compulsory**.
- C. Following persons compulsory required to file the return.
 1. Resident Individual - Resident (other than R but NOR)



Note: If income already included in the income of person "A" then "B" not required to file ROI.

- ✓ Beneficial Owner - Individual providing consideration for the asset directly or indirectly for the immediate or future benefit for himself or any other person.
 - ✓ Beneficiary - Individual deriving benefit from the asset, consideration for which has been provided by any other person.
2. Person (other than Company and Firm) not covered in above points required to file ROI, if
 - Assessee has **deposited** an aggregate amount **exceeding ₹ 1 crore rupees** in one or more **current accounts** maintained with a bank or a co-operative bank or **deposited ₹ 50 lakhs or more** in one or more **savings accounts**.
 - Assessee has incurred **foreign travel expenditure** of an aggregate amount **exceeding ₹ 2 lakhs** for himself or any other person.
 - Assessee has incurred expenditure of an aggregate amount **exceeding ₹ 1 lakh** towards consumption of **electricity**.
 - Assessee's total sales, turnover or gross receipts, as the case may be, in the **business exceeds ₹ 60 lakhs** during the PY or total gross receipts in **profession exceeds ₹ 10 lakhs** during the PY.
 - Assessee's aggregate of **TDS and TCS** during the PY, is **₹ 25,000 or more** (in case of senior citizen **₹ 50,000**).



❖ Due Dates of Return Filing

Assessee	Due Dates
Person require to furnish Transfer Pricing Audit report u/s 92E including the partners* of the firm	30 th Nov. of AY
<ul style="list-style-type: none"> ☞ Company, other than above ☞ Person whose Books of Accounts are required to be audited under any law ☞ Partner* of a firm, where firm's Books of Accounts are required to be audited under any law 	31 st Oct. of AY
Person other than the above	31 st July of AY

* or the spouse of such partner if the provisions of section 5A applies to such spouse.

Note: As per section 5A if individual govern by Portuguese Civil Code of 1860 in Goa, Dadra and Nagar Haveli and Daman and Diu then Income shall be equally distributed between husband and wife except Salary.

Sec 139(1C): Central Govt may exempt class of person to file ROI

Central Government may by notification specify such class or classes of persons who will be **exempted** from the requirement of **filing of return**.

Sec 139(3): Loss Return

As per sec 80, assessee required to file the **return upto due date u/s 139(1)** for carry forward of following losses:

- ✓ **Business loss** u/s 72(1)
- ✓ Speculation business loss u/s 73(2)
- ✓ Loss from specified business u/s 73A(2)
- ✓ Loss under the head "**Capital Gains**" u/s 74(1)
- ✓ Loss from the activity of **owning and maintaining race horses** u/s 74A(3)

Notes:

1. Loss **can be set-off** even if return filed after due date.
2. House property losses & unabsorbed depreciation can be **Carry Forward** even if return late filed.
3. The condition stipulated/ enumerated in sec. 80 applies only for the year in **which the loss was sustained/incurred**. It does not apply to the ROI of the year in which carry forward is claimed.



Sec 139(4): Belated Return

If Assessee fails to File return within due date then he can file belated return with in following time limit:

- ✓ Before the **three months** prior to end the of the relevant AY (31st Dec. 25 for AY 25-26)
- OR
- ✓ Before completion of Assessment
- Whichever is **earlier**

❖ Consequences of belated return

- ⊗ **No carry forward** of specified loss as per sec 80.
- ⊗ **No deduction** of certain Income u/c VI-A (80JJAA, 80QQB & 80RRB) and u/s 10AA.
- ⊗ **Interest u/s 234A** i.e. 1% pm or part of the month.
- ⊗ **Late filing fees** u/s 234F i.e. ₹ 5,000/1000.

Sec 139(5): Revised Return

Any person filed return u/s 139(1) or 139(3) or 139(4), if discover any omission or wrong statement in such ROI Filed earlier, then such person can file revised return within following time limit :-

- ✓ Before the **three months** prior to end the of the relevant AY (31st Dec. 25 for AY 25-26)
- OR
- ✓ Before completion of Assessment
- Whichever is **earlier**

Notes:

1. Belated return filed u/s 139(4) can be revised u/s 139(5).
2. Revised return substitutes original return from the date the original return was filed.
3. Assessee can revise return any no. of times within time limit.

Sec 139(9): Defective Return

Return shall be considered as defective, if -

- (a) Return not Filed in **prescribed form**,
- (b) **Proofs of tax** not attached with return,
- (c) Report u/s **44AB** not submitted,

If return treated as defective, A.O. shall intimate the defect to assessee & give him an opportunity to rectify the defect **within 15 days or extended time** if assessee does not rectify the defect then return shall be treated as invalid return (void-ab-initio).

Sec 139A: Permanent Account Number (PAN)

S.No.	Persons required to apply for PAN	Time limit for application
1.	Every person, if his total income or the total income of any other person in respect of which he is assessable exceeds Basic exemption .	upto 31 st May of the AY
2.	Every person carrying on Business or Profession whose Turnover or Gross receipts are or is likely to exceed ₹ 5 lakhs in any PY	Upto end of PY
3.	Trust required u/s 139(4A)	Upto end of PY
4.	Resident , other than an individual, which enters into a financial transaction of an amount aggregating to ₹ 2,50,000 or more in a FY	upto 31 st May of the AY
5.	MD, director, partner, trustee, author, founder, karta, CEO, principal officer or office bearer of person referred in (4)	upto 31 st May of the AY
6.	Person intends to enter into following transactions (a) Cash deposits aggregating ₹ 20 lakhs or more in a FY, in one or more a/c with a Bank or a co-op. bank (b) Cash withdrawals aggregating ₹ 20 lakhs or more in a FY, in one or more account with a Bank or a co-op. bank (c) Opening of a current a/c or cash credit a/c with a Bank /Co-op. bank	At least seven days before the date on which he intends to enter into the said transaction.

Cases where PAN to be quoted in Transactions

S.No.	Nature of transaction	Value of transaction
1.	Sale or purchase of a motor vehicle, other than two-wheeler	All such transactions
2.	Opening an account [other than FD referred in 12 and a Basic Savings Bank Deposit Account] with a Bank or Co-Op. Bank	All such transactions
3.	Making an application to Bank or Co-Op. Bank or to any other company or institution, for issue of a Credit or Debit card	All such transactions
4.	Opening of a D-Mat account	All such transactions
5.	Payment to a hotel or restaurant against a bill or bills at any one time	Cash of > ₹ 50,000
6.	Payment in connection with travel to any foreign country or for purchase of any foreign currency at any one time	Cash of > ₹ 50,000
7.	Payment to a Mutual Fund for purchase of its units	Amount > ₹ 50,000
8.	Payment to Company or Institution for acquiring debentures or bonds issued by it	Amount > ₹ 50,000
9.	Payment to RBI for acquiring bonds issued by it	Amount > ₹ 50,000
10.	Deposit with Bank or Co-Op. Bank or post office	Cash deposit > ₹ 50,000 during any one day
11.	Purchase of bank drafts or pay orders or banker's cheques from a Bank or Co-Op. Bank	Cash payment > ₹ 50,000 during any one day



12.	FD with Bank or Co-Op. Bank or post office or Nidhi or NBFC	Amount > ₹ 50,000 or aggregating to more than ₹ 5 lakhs during a FY
13.	Payment for one or more pre-paid payment instruments of Bank or Co-Op. Bank or to any other company or institution	Amount > ₹ 50,000
14.	Payment as life insurance premium to Insurer	Amount > ₹ 50,000 in FY
15.	A contract for sale or purchase of securities (other than shares)	Amount > ₹ 1 lakh per transaction
16.	Sale or purchase of Unlisted shares of a company	
17.	Sale or purchase of any immovable property	Amount or SDV > ₹ 10 lakhs
18.	Sale or purchase of any goods or services (other than covered above)	Amount > ₹ 2 lakhs per transaction

Person not required to obtain PAN: Minor not having any income taxable in his own hands, can enter into the above transactions by quoting the PAN of his parents or guardian.

➤ PAN & Aadhar Interchangeable

- Every person who is required to intimate/quote his PAN may quote his Aadhaar if he:
 - has not been allotted a PAN but possesses the Aadhaar (PAN will be allotted automatically by dept. without any documents & Fees), or
 - has been allotted a PAN and has already linked Aadhar & PAN.
- Every person entering into prescribed transaction (point 6 of sec.139A) shall be required to authenticate the PAN or Aadhaar quoted. Also, every person receiving such documents should ensure that PAN or Aadhaar is quoted on the documents and authenticated.

E.g. - Suppose Mr. BB deposited cash of ₹ 25 lakhs with HDFC Bank and BB submitted his PAN/ Aadhar then BB require to authenticate that PAN/Aadhar belongs to him. In this case HDFC Bank also require to authenticate that PAN/Aadhaar belongs to BB only.

Note: Provided that the provision of above point 2 shall not apply where the person, depositing or withdrawing money or opening a current a/c or cash credit a/c, is the CG, SG or the Consular Office.

➤ Sec. 272B: Penalty for failure to comply with section 139A

S.No.	Failure	Penalty ₹
1.	Fails to comply with provisions of sec 139A	10,000
2.	If a person requires to quote his PAN or Aadhar, in any document referred u/s 139A, quotes a false number	10,000 for each default
3.	Person entering into prescribed transactions fails to authentic PAN or Aadhar in documents	10,000 for each default
4.	Person receiving such documents fails to ensure that PAN or Aadhar quoted and fails to authentic	10,000 for each default

Sec 139AA: Aadhar Number

A. Every person who is **eligible to obtain Aadhaar number** shall, on or after the 1st, July, 2017, quote Aadhaar number -

- (i) in the application form for allotment of PAN;
- (ii) in the return of income

If Aadhar No not available then that person should quote application-id of Aadhar.

From 1/10/24 Enrolment ID option not available and if any person applied for PAN on the basis of Enrolment ID then he mandatorily required to intimate his Aadhar No. in prescribed manner.

B. Every person already holding PAN on 1st July 2017, shall link Aadhar with PAN till 31/03/2022; otherwise PAN shall be made inoperative.

Note: As per C.G Notification, Sec. 139AA **not apply** to an individual who **does not possess the Aadhar number** or Enrolment ID and is :

- (i) Residing in the states of J&K, Meghalaya and Assam
- (ii) NR as per IT Act, 1961
- (iii) Age of 80 years or more at any time during the P.Y.
- (iv) Not a citizen of India

➤ Where a person fails to link his Aadhaar No. with PAN upto 31/03/2022, the PAN shall become inoperative till the same is linked and until such date it shall be deemed that the person has not quoted his PAN in any transaction, thus becoming liable for penalty u/s 272B. Pan No. will be operative from the date on which its linked with Aadhar.

➤ If assessee link Aadhar with PAN on or after 01/04/2022 then he is required to pay fees as per sec. 234H (given in advance tax topic)

➤ If assessee fails to link till 31/03/22 then PAN will be inoperative but as per CBDT **negative consequences** of not quoting or not furnishing PAN shall be **applicable from 01/07/23**.



Sec 139B: Tax Return Preparer (TRP)

- (1) CBDT to frame a scheme whereby a **specified class** of persons can file their ROI through TRPs.
- (2) A TRP means an **Individual** who is authorised to act as TRP by CBDT, other than following persons:
 - ☞ A Chartered Accountant;
 - ☞ A Legal Practitioner;
 - ☞ An Officer of Scheduled Bank with which assessee maintains an account;
 - ☞ Employee of specified class of person.
- (3) Specified class of persons means any persons **who is required to file ROI**, other than :-
 - (a) A Company
 - (b) Person whose, BOA are required to be audited u/s 44AB or under any other law
- (4) As per CBDT, scheme only Individual and HUF can file their return through TRP.
- (5) Individual holding bachelor degree from recognised Indian university or passed inter exam of ICAI/ICSI/ICAI(CMA) can become TRP.

Sec 140: Verification of Return

S.No.	In case of	Verified by
1.	Individual <ul style="list-style-type: none"> ☞ Individual not present in India or Mentally incapacitated 	Himself Competent to verify on behalf of Individual
2.	HUF <ul style="list-style-type: none"> ☞ Karta not present in India or karta mentally incapacitated 	Karta Any adult member HUF
3.	Partnership Firm <ul style="list-style-type: none"> ☞ If there is no managing partner 	Managing Partner Any adult Partner
4.	LLP <ul style="list-style-type: none"> ☞ If there is no designated partner 	Designated Partner Any Partner or *any other person may be prescribed
5.	Company <ul style="list-style-type: none"> ☞ No MD ☞ Co. under liquidation <ul style="list-style-type: none"> ☞ Application for corporate insolvency resolution process has been admitted by the Adjudicating Authority under the IBC, 2016 	MD Any other Director or *any other person may be prescribed Liquidator Insolvency professional appointed by such Adjudicating Authority
6.	Political Party	CEO
7.	Local Authority	Principal officer
8.	Any other person	Person competent to verify

*Person, appointed by the Adjudicating Authority for discharging the duties and functions of an interim resolution professional, a resolution professional, or a liquidator, as the case may be, under the IBC, 2016

Note: If return not verified then it is treated as return void-ab-initio (invalid return).



Sec 140A: Self-Assessment Tax (SAT)

Assessee is required to **pay taxes** before Filing of return [after considering advance tax, TDS, TCS, MAT, AMT credit, relief any tax,] along with interest & Fees.

If there is short payment then the amount so paid is **first adjusted towards Fees, there after towards interest & balance towards taxes.**

Sec 1398A: Updated Return (Added by FA 2022 w.e.f. 01/04/2022)

- Updated return: Any person may furnish an updated return of his income (or the income of any other person in respect of which he is assessable). This section applicable from 1st April, 2022.
- Time-limit: Updated return can be submitted **within 24 months from the end of the relevant AY**
E.g.- Updated return for the AY 25-26 can be submitted on or before 31st March, 2028.
- Who can submit updated return: Updated return can be submitted by any person whether (or not) he has furnished a return u/s 139(1)/(4)/(5) for an AY.
- Other points: The following points should be noted: -
 1. If a person has sustained a loss for any PY and he has **already submitted return of loss** for that year within due date u/s 139(1), he can furnish an updated return **where such return is a return of income.**
 2. If as a result of submitting updated return, the quantum of carried forward loss (or unabsorbed depreciation or AMT credit) is to be reduced for any subsequent year, then an updated return shall be furnished for each such subsequent year.
- When updated return **cannot** be submitted:-
 1. If updated return is a **return of a loss.**
 2. **Updated return** has been already furnished by him u/s 139(8A) for the RAY
 3. If updated return has the effect of **decreasing the total tax liability** determined on the basis of return furnished u/s 139(1)/(4)/(5) or **results in refund** or **increases the refund** due on the basis of return furnished u/s 139(1)/(4)/(5), of such person for the RAY.
- Updated return to be accompanied by proof of payment of tax and additional income-tax - updated return cannot be submitted unless it is accompanied by proof of payment of tax u/s 140B (ie, tax and additional income-tax).
- Computation of Additional Tax

If updated return is furnished after expiry of time available u/s 139(4)/(5) but before 12 months from the end of the RAY

25% of aggregate of tax (+SC+ HEC) and interest as computed above

If updated return is furnished after the expiry of 12 months but before 24 months from the end of the RAY

50% of aggregate of tax (+SC+ HEC) and interest as computed above

**Example**

Mr. X would like to furnish his updated return for the A.Y. 22-23. In case he furnished his updated return of income, he would be liable to pay ₹ 2,50,000 towards tax and ₹ 35,000 towards interest after adjusting tax and interest paid at the time filing earlier return. You are required to examine whether Mr. X can furnish updated return- (i) as on 31.3.24 (ii) as on 28.2.25 (iii) as on 31.5.25. If yes, compute the amount of additional income-tax payable by Mr. X at the time of filing his updated return.

Mr. X may furnish an updated return of his income for A.Y. 22-23 at any time within 24 months from the end of AY i.e., 31.3.25. Accordingly, Mr. X can furnish updated return as on 31.3.24 and 28.2.25. However, he cannot furnish such return as on 31.5.25.

Accordingly, Mr. X is liable to pay additional income-tax in case he furnished his updated return as on

- (i) 31.3.24 - ₹ 71,250 [25% of 2,85,000, being tax of ₹ 2,50,000 plus interest of ₹ 35,000]
- (ii) 28.2.25 of ₹ 1,42,500 [50% of 2,85,000, being tax of ₹ 2,50,000 plus interest of ₹ 35,000]



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ALL INDIA RANKERS 2024

CA INTER SEP 2024 RESULTS

AIR 2  TANYA GUPTA	AIR 3  VIDHI JAIN						
AIR 9  YASHVARDHAN KOCHAR	AIR 10  AYUSHI GOPALKA	AIR 14  VRINDA MAHESHWARI	AIR 15  AMRUTA BORADE	AIR 16  ARYAN AGARWAL	AIR 17  BHUMI GARG	AIR 19  K SIWATHI NAYAK	
AIR 28  RASHI	AIR 30  JAGJIT SINGH	AIR 33  CHINMAY SANGHAVI	AIR 34  SHRUTI KUMARI	AIR 36  KASHIF MOHAMMED	AIR 37  APOORVA SARAF	AIR 39  UDAYSINH SISODIYA	
AIR 39  ABHISHEK MISHRA	AIR 41  TABASSUM NATH	AIR 49  RAGHAV KUMAR	AIR 42  SAMBHAV AGARWAL	AIR 44  ANOUSHKA SINGH	AIR 45  KOMAL	AIR 48  NOOR BAGGA	

CA INTER MAY 2024 RESULTS

AIR 2  YAGYA CHANDAK	AIR 3  HIREESH KASHIRAMKA	AIR 7  MANIK MITTAL	AIR 9  DIVIN J. MATHEW	AIR 14  SHUBHAM MITTAL	AIR 15  ARPIT KEDIA	AIR 22  HARDIK MOOGAT	
AIR 23  TANYA GUPTA	AIR 27  GAUTAM KALRA	AIR 29  YASH JAIN	AIR 32  KARTIK MITTAL	AIR 38  HARSH AGARWAL	AIR 39  SIDDHARTH NAHAR	AIR 41  ARNAV JAIN	AIR 42  VIVEK PANCHAL
AIR 42  KRISHNA NIMODIYA	AIR 42  TANUP AGARWAL	AIR 46  MANISH AGARWAL	AIR 46  NISHTHA SALUJA	AIR 47  PIYUSH	AIR 47  PRIYANSHI	AIR 50  YASHVARDHAN JAIN	AIR 50  ADITIYA GUPTA

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Basic Concepts

Question 1

Mr. X has a total income of ₹ 12,00,000 for P.Y.2024-25, comprising of income from house property and interest on fixed deposits. Compute his tax liability for A.Y.2025-26 assuming his age is—

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

Assume that Mr. X exercises the option of shifting out of the default tax regime provided u/s 115BAC(1A). [Ignore 115BAC] [SM Q.]

Question 2

Compute the tax liability of Mr. A (aged 42), having total income of ₹ 51 lakhs for the Assessment Year 2025-26. Assume that his total income comprises of salary income, Income from house property and interest on fixed deposit. Assume that Mr. A exercises the option of shifting out of the default tax regime provided u/s 115BAC(1A). [SM Q.]

opt out

Question 3

Compute the tax liability of Mr. B (aged 51), having total income of ₹ 1,01,00,000 for the Assessment Year 2025-26. Assume that his total income comprises of salary income, Income from house property and interest on fixed deposit. *Both regime* [SM Q.]

Question 4

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

Question 5

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

Question 6

Who is an "Assessee"?

[SM Q.]

Answer 6

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

In addition, the term includes —

Chapter 1: Basic Concepts

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

Question 7

What are the two schools of Hindu law and where are they prevalent? Explain. Also, mention the difference between the two schools of Hindu Law. [SM Q.]

Answer 7

The two schools of Hindu law are Dayabaga school, prevalent in West Bengal and Assam, and Mitakshara school, prevalent in rest of India. Under the Dayabaga school of Hindu Law, nobody acquires the right, share in the property by birth as long as the head of family is living. Thus, the children do not acquire any right, share in the family property, as long as his father is alive and only on death of the father, the children will acquire right/share in the property. Hence, the father and his brothers would be the coparceners of the HUF.

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

Question 8

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

Answer 8

Dayabaga school of Hindu law is prevalent in Assam. In Dayabaga school of Hindu law, nobody acquires the right, share in the property by birth as long as the head of family is living. Thus, the children do not acquire any right, share in the family property, as long as his father is alive and only on death of the father, the children will acquire right/share in the property.

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

Question 9

What is the difference between an Association of Persons and Body of Individuals? [SM Q.]

Answer 9

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

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

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

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

Question 10

State any four instances where the income of the previous year is assessable in the previous year itself instead of the assessment year. **[SM Q.]**

Answer 10

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

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

Question 11

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 of ₹ 55,00,000, short term capital gain taxable u/s 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 Q.]**

Question 12

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 u/s 112 of ₹ 52,00,000, short term capital gain taxable u/s 111A of ₹ 64,00,000 and other income of ₹ 1,14,00,000. Compute his tax liability for A.Y.2025-26. Assume he exercises the option of shifting out of the default tax regime provided u/s 115BAC(1A). [Ignore 115BAC] **[SM Q.]**

Question 13

Chapter 1: Basic Concepts

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

Answer 13

Computation of Business Income and Agriculture Income of Mr. B

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

Question 14

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

- Rent received for letting out agricultural land for a movie shooting. — No.
- Income from sale of seedlings in a nursery adjacent to the agricultural lands owned by an assessee. — Yes.

[SM Q.]

Answer 14

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

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

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

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

- Income from sale of seedlings in a nursery:**

As per Explanation 3 to section 2(1A), income derived from saplings or seedlings grown in a

nursery is deemed to be agricultural income, whether or not the basic operations were carried out on land.

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

Question 15

Mr. Raja, a resident Indian, earns income of ₹ 10 lakhs from sale of coffee grown and cured in India during the A.Y. 2025-26. His friend, Mr. Shyam, a resident Indian, earns income of ₹ 20 lakhs from sale of coffee grown, cured, roasted and grounded by him in India during the A.Y. 2025-26. What would be the business income chargeable to tax in India of Mr. Raja and Mr. Shyam? [SM Q.]

Handwritten notes: 25% (for Raja), 40% (for Shyam), 800000 (for Shyam), 250000 (for Raja)

Answer 15

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

Business income of Mr. Raja = 25% of ₹ 10 lakhs = ₹ 2.5 lakhs

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

Question 16

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

- Income from salary (computed) - ₹ 4,80,000
 - Income from house property (computed) - ₹ 3,50,000
 - Agricultural income from a land in Jaipur - ₹ 4,80,000
 - Expenses incurred for earning agricultural income - ₹ 1,70,000
- Handwritten notes: net Agri Income (480000 - 170000) = 310000*

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

- 45 years
- 70 years

Question 17

Miss Vivitha, a resident and ordinarily resident in India, has derived the following income from various operations (relating to plantations and estates owned by her) during the year ended 31-3-2025:

S. No.	Particulars	₹
(i)	Income from sale of centrifuged latex processed from rubber plants grown in Darjeeling.	3,00,000
(ii)	Income from sale of coffee grown and cured in Yercaud, Tamil Nadu.	1,00,000
(iii)	Income from sale of <u>coffee grown</u> , cured, roasted and grounded, in <u>Colombo</u> . Sale consideration was received at Chennai.	2,50,000
(iv)	Income from sale of tea grown and manufactured in Shimla.	4,00,000
(v)	Income from sapling and seedling grown in a <u>nursery</u> at Cochin. Basic operations were not carried out by her on land.	80,000

Handwritten notes: 105000 (for i), 145000 (for ii), 25000 (for iii), 75000 (for iii), 100000 (for iv), 240000 (for iv), 100000 (for v)

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

Question 18

Discuss the taxability of the following transactions giving reasons, in the light of relevant

provisions, for your conclusion.

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

Answer 18

- (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.

Residence and Scope of Total Income

Question 1

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

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

Answer 1

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

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

Therefore, the period beginning from 6th June, 2024 and ending on 9th December, 2024, being the dates entered into the Continuous Discharge Certificate in respect of joining the ship and signing off from the ship by Mr. Anand, an Indian citizen who is a member of the crew of the ship, has to be excluded for computing the period of his stay in India. Accordingly, 187 days $[25 + 31 + 31 + 30 + 31 + 30 + 9]$ have to be excluded from the period of his stay in India. Consequently, Mr. Anand's period of stay in India during the P.Y. 2024-25 would be 178 days [i.e., 365 days – 187 days]. Since his period of stay in India during the P.Y. 2024-25 is less than 182 days, he is a non-resident for A.Y. 2025-26.

Question 2

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

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

Question 3

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

Question 4

The business of a HUF is transacted from Australia and all the policy decisions are taken there. Mr. E, the Karta of the HUF, who was born in Kolkata, visits India during the P.Y. 2024-25 after 15 years. He comes to India on 1.4.2024 and leaves for Australia on 1.12.2024. Determine the residential status of Mr. E and the HUF for A.Y. 2025-26. **[SM Q.]**

Question 5

Mr. David, an Indian citizen aged 40 years, a Government employee serving in the Ministry of External Affairs, left India for the first time on 31.03.2024 due to his transfer to High Commission of Canada. He did not visit India any time during the previous year 2024-25. He has received the following income for the Financial Year 2024-25:

S. No.	Particulars	₹
(i)	Salary (Computed)	5,00,000
(ii)	Foreign Allowance [not included in (i) above]	4,00,000
(iii)	Interest on fixed deposit from bank in India	1,00,000
(iv)	Income from agriculture in Nepal	2,00,000
(v)	Income from house property in Nepal	2,50,000

Compute his Gross Total Income for Assessment Year 2025-26. **[SM Q.]**

Answer 5

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

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

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

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

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

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

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

Question 6

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

Answer 6

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

The income deemed to accrue or arise in India under section 9 comprises, inter alia, income by way of fees for technical services, which includes any consideration for rendering of any managerial, technical or consultancy services. Therefore, payment to a management consultant relating to project financing is covered within the scope of “fees for technical services”.

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

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

Question 7

Compute the total income in the hands of an individual aged 35 years, being a resident and ordinarily resident, resident but not ordinarily resident, and non-resident for the A.Y. 2025-26, assuming that he has exercised the option of shifting out of the default tax regime provided u/s 115BAC(1A) – **[SM Q.]**

Particulars	Amount (₹)
Interest on UK Development Bonds, 50% of interest received in India	10,000
Income from a business in Chennai (50% is received in India)	20,000
Short term capital gains on sale of shares of an Indian company received in London	20,000
Dividend from British company received in London	5,000
Long term capital gains on sale of plant at Germany, 50% of profits are received in India	40,000
Income earned from business in Germany which is controlled from Delhi (₹ 40,000 is received in India)	70,000
Profits from a business in Delhi but managed entirely from London	15,000
Income from house property in London deposited in a Bank at London, brought to India (Computed)	50,000
Interest on debentures in an Indian company received in London	12,000
Fees for technical services rendered in India but received in London	8,000
Profits from a business in Mumbai managed from London	26,000
Income from property situated in Nepal received there (Computed)	16,000
Past foreign untaxed income brought to India during the previous year	5,000
Income from agricultural land in Nepal, received there and then brought to	18,000

Particulars	Amount (₹)
India	
Income from profession in Kenya which was set up in India, received there but spent in India	5,000
Gift received on the occasion of his wedding	20,000
Interest on savings bank deposit in State Bank of India	12,000
Income from a business in Russia, controlled from Russia	20,000
Dividend from Reliance Petroleum Limited, an Indian Company	5,000
Agricultural income from a land in Rajasthan	15,000

Question 8

Mr. Ram, an Indian citizen, left India on 22.09.2024 for the first time to work as an officer of a company in Germany. Determine the residential status of Ram for the assessment year 2025-26. **[SM Q.]**

Answer 8

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

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

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

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

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

Question 9

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

Answer 9

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

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

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

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

For the previous year 2024-25 (A.Y. 2025-26), his status would be “Resident but not ordinarily resident” since he was non-resident in 9 out of 10 previous years immediately preceding the P.Y. 2024-25. He can be resident but not ordinarily resident also due to the fact that he has stayed in India only for 365 days (i.e., less than 730 days) in 7 previous years immediately preceding the P.Y. 2024-25.

Question 10

Mr. Ramesh & Mr. Suresh are brothers and they earned the following incomes during the financial year 2024-25. Mr. Ramesh settled in Canada in the year 1996 and Mr. Suresh settled in Delhi. Compute the total income for the A.Y. 2025-26, assuming that he has exercised the option of shifting out of the default tax regime provided u/s 115BAC(1A) –

[SM Q.]

Sr. No.	Particulars	Mr. Ramesh (₹)	Mr. Suresh (₹)
1.	Interest on Canada Development Bonds (only 50% of interest received in India)	35,000	40,000
2.	Dividend from British company received in London	28,000	20,000
3.	Profits from a business in Nagpur, but managed directly from London	1,00,000	1,40,000
4.	Short term capital gain on sale of shares of an Indian company received in India	60,000	90,000
5.	Income from a business in Chennai	80,000	70,000
6.	Fees for technical services rendered in India, but received in Canada	1,00,000	----
7.	Interest on savings bank deposit in UCO Bank, Delhi	7,000	12,000
8.	Agricultural income from a land situated in Andhra Pradesh	55,000	45,000
9.	Rent received in respect of house property at Bhopal	1,00,000	60,000
10.	Life insurance premium paid	---	30,000

Answer 10

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

S. No.	Particulars	Mr. Ramesh (Non-Resident) (₹)	Mr. Suresh (Resident) (₹)
1.	Interest on Canada Development Bond (See Note 2)	17,500	40,000
2.	Dividend from British Company received in London (See Note 3)	-	20,000
3.	Profits from a business in Nagpur but managed directly from London (See Note 2)	1,00,000	1,40,000
4.	Short term capital gain on sale of shares of an Indian company received in India (See Note 2)	60,000	90,000
5.	Income from a business in Chennai (See Note 2)	80,000	70,000
6.	Fees for technical services rendered in India, but received in Canada (See Note 2)	1,00,000	-
7.	Interest on savings bank deposit in UCO Bank, Delhi (See Note 2)	7,000	12,000

8.	Agricultural income from a land situated in Andhra Pradesh (See Note 4)	-	-
9.	Income from house property at Bhopal (See Note 5)	<u>70,000</u>	<u>42,000</u>
	Gross Total income	4,34,500	4,14,000
	Less: Deduction under Chapter VI-A		
	Section 80C - Life insurance premium	-	30,000
	Section 80TTA (See Note 6)	<u>7,000</u>	<u>10,000</u>
	Total Income	<u>4,27,500</u>	<u>3,74,000</u>

Notes:

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

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

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

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

Interest on Canada Development Bond would be fully taxable in the hands of Mr. Suresh, whereas only 50%, which is received in India, is taxable in the hands of Mr. Ramesh.

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

	Mr. Ramesh (₹)	Mr. Suresh (₹)
Rent received	1,00,000	60,000
Less: Deduction under section 24(a) @30%	<u>30,000</u>	<u>18,000</u>
Net income from house property	<u>70,000</u>	<u>42,000</u>

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

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

Question 11

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

[SM Q.]

Answer 11

This statement is correct.

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

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

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

Question 12

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

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

Answer 12

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

Chapter 2: Residence and Scope of Total Income

	Taxable/Not Taxable	Amount liable to tax (₹)	Reason
(v)	Taxable	5,00,000	In case of a non-resident, any income which accrues or arises in India or which is deemed to accrue or arise in India or which is received in India or is deemed to be received in India is taxable in India. Therefore, legal charges paid in India to a non-resident lawyer of UK, who visited India to represent a case at the Delhi High Court would be taxable in India.

Question 13

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

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

Mr. Shridhar did not come to India during the financial year 2024-25. Compute his Gross Total Income for the Assessment year 2025-26. **[MTP Q.]**

Answer 13

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

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

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

Particulars	₹
Salaries	9,25,000
Salary from Government of India (Income chargeable under the head 'Salaries' payable by the Government to a citizen of India for services rendered outside India is deemed to accrue or arise in India under section 9(1)(iii). Hence, such income is taxable in the hands of Mr. Shridhar, a citizen of India, even though he is a non-resident and rendering services outside India)	
Foreign Allowance from Government of India [Any allowances or perquisites paid or allowed as such outside India by the Government to a citizen of India for rendering service outside India is exempt under section 10(7)].	Nil
Gross Salary	9,25,000
Less: Standard Deduction u/s 16(ia) of ₹ 50,000, being lower of gross salary or ₹ 50,000	50,000
	8,75,000
Income from House Property	Nil
Rent from a house situated at Australia, received in Australia (Income from property situated outside India would not be taxable in India in the hands	

Particulars	₹
of a non-resident, since it neither accrues or arises in India nor is it deemed to accrue or arise in India nor is it received in India)	
Income from Other Sources	
Interest on Post office savings bank account – exempt upto ₹ 3,500	1,000
Gross Total Income	8,76,000

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

Question 14

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

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

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

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

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

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

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

[RTP NOV-20 Q.]

Answer 14

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

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

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

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

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

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

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

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

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

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

Question 15

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

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

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

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

Question 16

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

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

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

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

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

- Salary ₹ 15,80,000. The entire salary is paid by the Indian company in his Indian bank

account.

- (2) Dividend amounting to ₹ 48,000 received from Treat Ltd., a Singapore based company, which was transferred to his bank account in Singapore.
- (3) Interest on fixed deposit with Punjab National Bank (Delhi) amounting to ₹ 10,500 was credited to his saving account. **[MTP Q.]**

Answer 16

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 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 180 days i.e., 366 days – 186 days [78 days + 34 days + 74 days] and 380 days i.e., more than 365 days during the 4 preceding previous years. He satisfies the second basic condition for being a resident. Hence, he is a resident in India for A.Y.2025-26.

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

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

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

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

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

Question 17

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

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

- From parents of husband ₹ 71,000
 - From married sister of husband ₹ 21,000
 - From two very close friends of her husband ₹ 1,41,000 and ₹ 1,21,000 ₹ 2,62,000
- (i) Determine her residential status and compute the total income chargeable to tax for the Assessment Year 2025-26. Assuming that she has exercised the option of shifting out of the default tax regime provided u/s 115BAC(1A)
- (ii) Will the residential status change if she had returned to India again on 20-01-2025 instead of 20-02-2025? **[MTP Q.]**

Answer 17**(i) Determination of residential status and computation of total income of Miss Bhanushali (if she returned to India on 20.2.2025)**

Particulars	₹
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 [14.2.2023 to 31.3.2024] - 47 days	
P.Y. 2022-23 - Nil	
P.Y. 2021-22 - Nil	
P.Y. 2020-21 - Nil	
Total 47 days	
The total stay of Miss Bhanushali during the previous year in India was less than 182 days and during the four years preceding this year was for 47 days.	
Therefore, due to non-fulfillment of any of the two conditions for a resident, she would be treated as non-resident for the Assessment Year 2025-26.	
Computation of total income of Miss Bhanushali for the A.Y. 2025-26	
Income from other sources	
Gifts received from non-relatives is chargeable to tax as per section 56(2) (x) if the aggregate value of such gifts exceeds ₹ 50,000.	Nil
- ₹ 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

Particulars	₹
- ₹ 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.	<u>262000</u>
- Gift received from two friends of her husband ₹ 1,41,000 and ₹ 1,21,000 aggregating to ₹ 2,62,000 is taxable under section 56(2)(x) since the aggregate of ₹ 2,62,000 exceeds ₹ 50,000.	262000
Total Income	

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

Particulars	₹
Yes, the answer would change, if she had returned to India again on 20.1.2025 instead of 20.2.2025. In such case, her stay in India during the previous year 2024-25 would be: 01.04.2024 to 11.08.2024 - 133 days 20.01.2025 to 31.03.2025 - 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.2025-26 and never visited India earlier.

*Income from Salary***Question 1**

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

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

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

[SM Q.]

Question 2

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

Transport allowance : ₹ 1,800 p.m.

Tribal area allowance : ₹ 500 p.m.

Compute his taxable allowances

Answer 2

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

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

Children Education Allowance:

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

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

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

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

Taxable allowances ₹ 25,800

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

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

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

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

Taxable allowances ₹ 30,240

Question 3

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

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

[SM Q.]**Question 4**

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

Basic Salary	: ₹ 50,000 p.m.
Dearness Allowance	: ₹ 10,000 p.m. (60% of which is for retirement benefits)
Commission	: 1% of turnover (turnover in the last 12 months was ₹ 1,20,00,000)
Bonus	: ₹ 25,000 p.a.

Compute his taxable gratuity assuming:

- He is private sector employee and covered by the Payment of Gratuity Act, 1972.
- He is private sector employee and **not** covered by Payment of Gratuity Act, 1972.
- He is a Government employee.

[SM Q.]**Question 5**

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

Basic Salary	: ₹ 5,000 p.m. (₹ 1,000 was increased w.e.f. 1.4.2024)
Dearness Allowance	: ₹ 3,000 p.m. (60% of which is for retirement benefits)
Commission	: ₹ 500 p.m.
Bonus	: ₹ 1,000 p.m.
Leave availed during service	: 480 days

He was entitled to 30 days leave every year.

You are required to compute his taxable leave salary assuming:

- He is a government employee.
- He is a non government employee.

[SM Q.]**Question 6**

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

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

Chapter 3: Income from Salary

Out of the amount received from the unrecognised provident fund, the employer's contribution was ₹ 2,20,000 and the interest thereon ₹ 50,000. The employee's contribution was ₹ 2,70,000 and the interest thereon ₹ 60,000. What is the taxable portion of the amount received from the unrecognised provident fund in the hands of Mr. A for the assessment year 2025-26?

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

Answer 6

- (i) Taxable portion of the amount received from the URPF in the hands of Mr. A for the A.Y. 2025-26 is computed hereunder:

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

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

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

Question 7

Mr. B is working in XYZ Ltd. and has given the details of his income for the P.Y. 2024-25. You are required to compute his gross salary from the details given below: **[SM Q.]**

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

Question 8

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

Question 9

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

Question 10

- A. Mr. D went on a holiday on 25.12.2024 to Delhi with his wife and three children (one son – age 5 years; twin daughters – age 3 years). They went by flight (economy class) and the total cost of tickets reimbursed by his employer was ₹ 60,000 (₹ 45,000 for adults and ₹ 15,000 for the three minor children). Compute the amount of LTC exempt if Mr. D exercises the option of shifting out of the default tax regime provided u/s 115BAC(1A).
- B. In the above point A, will there be any difference if among his three children the twins were 5 years old and the son 3 years old? Discuss. **[SM Q.]**

Answer 10

- A. Since the son's age is more than the twin daughters, Mr. D can avail exemption for all his three children. The restriction of two children is not applicable to multiple births after one child. The holiday being in India and the journey being performed by air (economy class), the entire reimbursement met by the employer is fully exempt.
- B. Since the twins' age is more than the son, Mr. D cannot avail for exemption for all his three children. LTC exemption can be availed in respect of only two children. Taxable

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

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

Question 11

Compute the taxable value of the perquisite in respect of medical facilities received by Mr. G from his employer during the P.Y. 2024-25: **[SM Q.]**

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

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

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

Question 12

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

Basic salary	₹ 12,500 p.m.
Dearness Allowance	₹ 2,000 p.m. (30% is for retirement benefits)
Bonus	₹ 1,500 p.m.

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

- Calculate the taxable value of the perquisite for A.Y.2025-26.
- Compute the value of the perquisite if Mr. C is required to pay a rent of ₹ 1,000 p.m. to the company, for the use of this accommodation.
- Compute the value of the perquisite if ABC Ltd. has taken this accommodation on a lease rent of ₹ 1,200 p.m. and Mr. C is required to pay a rent of ₹ 1,000 p.m. to the company, for the use of this accommodation.
- Compute the value of the perquisite if ABC Ltd. has provided a television (WDV ₹ 10,000; Cost ₹ 25,000) and two air conditioners. The rent paid by the company for the air conditioners is ₹ 400 p.m. each. The television was provided on 1.1.2025. However, Mr. C is required to pay a rent of ₹ 1,000 p.m. to the company, for the use of this furnished accommodation.
- Compute the value of the perquisite if Mr. C is a government employee. The licence fees determined by the Government for this accommodation was ₹ 700 p.m. **[SM Q.]**

Question 13

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

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

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

Answer 13

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

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

Question 14

Mr. X retired from the services of M/s Y Ltd. on 31.01.2025, after completing service of 30 years and one month. He had joined the company on 1.1.1995 at the age of 30 years and received the following on his retirement:

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

Following are the other particulars:

- (i) He has drawn a basic salary of ₹ 20,000 and 50% dearness allowance per month for the period from 01.04.2024 to 31.01.2025.
- (ii) Received pension of ₹ 5,000 per month for the period 01.02.2025 to 31.03.2025 after commutation of pension.

Compute his gross total income from the above for Assessment Year 2025-26 assuming he has not opted for the provisions of section 115BAC. **[SM Q.]**

Question 15

Shri Bala employed in ABC Co. Ltd. as Finance Manager gives you the list of perquisites provided by the company to him for the entire financial year 2024-25:

- (i) Domestic servant was provided at the residence of Bala. Salary of domestic servant is ₹ 1,500 per month. The servant was engaged by him and the salary is reimbursed by the company (employer).
In case the company has employed the domestic servant, what is the value of perquisite?
- (ii) Free education was provided to his two children Arthy and Ashok in a school maintained and owned by the company. The cost of such education for Arthy is computed at ₹ 900 per month and for Ashok at ₹ 1,200 per month. No amount was recovered by the company for such education facility from Bala.
- (iii) The employer has provided movable assets such as television, refrigerator and air-conditioner at the residence of Bala. The actual cost of such assets provided to the employee is ₹ 1,10,000.
- (iv) A gift voucher worth ₹ 10,000 was given on the occasion of his marriage anniversary. It is given by the company to all employees above certain grade.
- (v) Telephone provided at the residence of Shri Bala and the bill aggregating to ₹ 25,000 paid by the employer.

(vi) Housing loan @ 6% per annum. Amount outstanding on 1.4.2024 is ₹ 6,00,000. Shri Bala pays ₹ 12,000 per month towards principal, on 5th of each month.

Compute the chargeable perquisite in the hands of Mr. Bala for the A.Y. 2025-26.

The lending rate of State Bank of India as on 1.4.2024 for housing loan may be taken as 10%. **[SM Q.]**

Answer 15**Taxability of perquisites provided by ABC Co. Ltd. to Shri Bala**

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

Taxable perquisite value = ₹ 1,500 × 12 = ₹ 18,000.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Month	Maximum outstanding balance as on last date of month (₹)	Perquisite value at 4% for the month (₹)
April, 2024	5,88,000	1,960
May, 2024	5,76,000	1,920
June, 2024	5,64,000	1,880
July, 2024	5,52,000	1,840
August, 2024	5,40,000	1,800
September, 2024	5,28,000	1,760
October, 2024	5,16,000	1,720
November, 2024	5,04,000	1,680
December, 2024	4,92,000	1,640
January, 2025	4,80,000	1,600
February, 2025	4,68,000	1,560
March, 2025	4,56,000	1,520
Total value of this perquisite		20,880

Total value of taxable perquisite = ₹ 74,280 [i.e. ₹ 18,000 + ₹ 14,400 + ₹ 11,000 + ₹ 10,000 + ₹ 20,880].

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

Question 16

AB Co. Ltd. allotted 1000 sweat equity shares to Sri Chand in June 2024. The shares were allotted at ₹ 200 per share as against the fair market value of ₹ 300 per share on the date of exercise of option by the allottee viz. Sri Chand. The fair market value was computed in accordance with the method prescribed under the Act.

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

Answer 16

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

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

- As per section 49(2AA), where capital gain arises from transfer of sweat equity shares, the cost of acquisition of such shares shall be the fair market value which has been taken into account for perquisite valuation under section 17(2)(vi).

Therefore, in case of subsequent sale of sweat equity shares by Sri Chand, the cost of acquisition

would be ₹ 3,00,000.

Question 17

X Ltd. provided the following perquisites to its employee Mr. Y for the P.Y. 2024-25 –

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

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

Question 18

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

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

Mr. Goyal contributes ₹ 5,000 towards recognized provident fund. He has no other income. Determine the income from salary for A.Y. 2025-26, if Mr. Goyal is a State Government employee.

Answer 18

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

Particulars	₹
Basic Salary	4,00,000
Dearness Allowance	1,50,000
Commission	1,00,000
Entertainment Allowance received	40,000
Employee's contribution to RPF [Note]	-
Medical expenses reimbursed	25,000
Professional tax paid by the employer	1,000
Gross Salary	7,16,000
Less: Deductions under section 16(ia) - Standard deduction of upto ₹ 50,000	75,000
Income from Salary	6,41,000

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

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

Particulars	₹	₹
Basic Salary		4,00,000
Dearness Allowance		1,50,000
Commission		1,00,000
Entertainment Allowance received		40,000
Employee's contribution to RPF [Note]		-
Medical expenses reimbursed		25,000
Professional tax paid by the employer		1,000
Gross Salary		7,16,000
Less: Deductions under section 16		
under section 16(ia) - Standard deduction of upto ₹ 50,000		50,000
under section 16(ii) - Entertainment allowance being lowest of :		
(a) Allowance received	40,000	
(b) One fifth of basic salary [$1/5 \times ₹ 4,00,000$]	80,000	
(c) Statutory amount	5,000	5,000
under section 16(iii) - Professional tax paid		2,000
Income from Salary		6,59,000

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

Question 19

In the case of Mr. Hari, who turned 70 years on 28.3.2025, you are informed that the salary (computed) for the previous year 2024-25 is ₹ 10,20,000 and arrears of salary received is ₹ 3,45,000. Further, you are given the following details relating to the earlier years to which the arrears of salary received is attributable to:

Previous year	Taxable Salary(₹)	Arrears now received (₹)
2011 – 2012	7,10,000	1,03,000
2012 – 2013	8,25,000	1,17,000
2013 – 2014	9,50,000	1,25,000

Compute the relief available under section 89 and the tax payable for the A.Y. 2025-26. Assume that Mr. Hari does not opt for section 115BAC.

Note: Rates of Taxes:

Assessment Year	Slab rates of income-tax			
	For resident individuals of the age of 60 years or more at any time during the previous year		For other resident individuals	
	Slabs	Rate	Slabs	Rate

2012-13	Upto ₹ 2,40,000	Nil	Upto ₹ 1,60,000	Nil
	₹ 2,40,001 - ₹ 5,00,000	10%	₹ 1,60,001 - ₹ 5,00,000	10%
	₹ 5,00,001 - ₹ 8,00,000	20%	₹ 5,00,001 - ₹ 8,00,000	20%
	Above ₹ 8,00,000	30%	Above ₹ 8,00,000	30%
	Slabs	Rate	Slabs	Rate
2013-14	Upto ₹ 2,50,000	Nil	Upto ₹ 1,80,000	Nil
	₹ 2,50,001 - ₹ 5,00,000	10%	₹ 1,80,001 - ₹ 5,00,000	10%
	₹ 5,00,001 - ₹ 8,00,000	20%	₹ 5,00,001 - ₹ 8,00,000	20%
	Above ₹ 8,00,000	30%	Above ₹ 8,00,000	30%
2014-15	Upto ₹ 2,50,000	Nil	Upto ₹ 2,00,000	Nil
	₹ 2,50,001 - ₹ 5,00,000	10%	₹ 2,00,001 - ₹ 5,00,000	10%
	₹ 5,00,001 - ₹ 10,00,000	20%	₹ 5,00,001 - ₹ 10,00,000	20%
	Above ₹ 10,00,000	30%	Above ₹ 10,00,000	30%

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

Question 20

Mr. Mohit is employed with XY Ltd. on a basic salary of ₹ 10,000 p.m. He is also entitled to dearness allowance @100% of basic salary, 50% of which is included in salary as per terms of employment. The company gives him house rent allowance of ₹ 6,000 p.m. which was increased to ₹ 7,000 p.m. with effect from 01.01.2025. He also got an increment of ₹ 1,000 p.m. in his basic salary with effect from 01.02.2025. Rent paid by him during the previous year 2024-25 is as under:

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

Compute his gross salary for assessment year 2025-26 assuming he has opted out for the provisions of section 115BAC. **[SM Q.]**

Answer 20

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

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

Note: Computation of Taxable House Rent Allowance (HRA)

Particulars	April-May (₹)	June-Oct (₹)	Nov-Dec (₹)	Jan (₹)	Feb-March (₹)
Basic salary per month	10,000	10,000	10,000	10,000	11,000
Dearness allowance (included in salary as per terms of employment) (50% of basic salary)	5,000	5,000	5,000	5,000	5,500
Salary per month for the purpose of computation of house rent allowance	15,000	15,000	15,000	15,000	16,500
Relevant period (in months)	2	5	2	1	2
Salary for the relevant period (Salary per month × relevant period)	30,000	75,000	30,000	15,000	33,000
Rent paid for the relevant period	Nil	30,000 (₹ 6,000×5)	16,000 (₹ 8,000×2)	8,000 (₹ 8,000×1)	16,000 (₹ 8,000×2)
House rent allowance (HRA) received during the relevant period (A)	12,000 (₹ 6,000×2)	30,000 (₹ 6,000×5)	12,000 (₹ 6,000×2)	7,000 (₹ 7,000×1)	14,000 (₹ 7,000×2)
Least of the following is exempt [u/s 10(13A)]	N.A.				
1. Actual HRA received	-	30,000	12,000	7,000	14,000
2. Rent paid (–) 10% of salary	-	22,500	13,000	6,500	12,700
3. 40% of salary (Residence at Ghaziabad – June to Oct, 2023) 50% of salary (Residence at Delhi– Nov, 24 - March, 25)	-	30,000 (40% × ₹ 75,000)	15,000 (50% × ₹ 30,000)	7,500 (50% × ₹ 15,000)	16,500 (50% × ₹ 33,000)
Exempt HRA (B)	Nil	22,500	12,000	6,500	12,700
Taxable HRA [Actual HRA (–) Exempt HRA] (A–B)	12,000	7,500	Nil	500	1,300

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

Question 21

Ms. Rakhi is an employee in a private company. She receives the following medical benefits from the company during the previous year 2024-25:

	Particulars	₹
1	Reimbursement of following medical expenses incurred by Ms. Rakhi	
	(A) On treatment of her self-employed daughter in a private clinic	4,000
	(B) On treatment of herself by family doctor	8,000
	(C) On treatment of her mother-in-law dependent on her, in a nursing home	5,000
2	Payment of premium on Mediclaim Policy taken on her health	7,500
3	Medical Allowance	2,000 p.m.
4	Medical expenses reimbursed on her son's treatment in a government hospital	5,000
5	Expenses incurred by company on the treatment of her minor son abroad including stay expenses	1,05,000
6	Expenses in relation to foreign travel of Rakhi and her son for medical treatment	1,20,000
	Note -Limit prescribed by RBI for expenditure on medical treatment and stay abroad is USD 2,50,000 per financial year under liberalized remittance scheme.	

Examine the taxability of the above benefits and allowances in the hands of Rakhi. **[SM Q.]**

Answer 21

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

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

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

Question 22

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

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

Compute the income from salary of Mr. X for the A.Y. 2025-26 assuming Mr. X has opted out for the provisions of section 115BAC. **[SM Q.]**

Question 23

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

- (i) Basic salary upto 31.10.2024 ₹ 50,000 p.m.
Basic salary from 01.11.2024 ₹ 60,000 p.m.
Note: Salary is due and paid on the last day of every month.
- (ii) Dearness allowance @ 40% of basic salary.
- (iii) Bonus equal to one month salary. Paid in October 2024 on basic salary plus dearness allowance applicable for that month.
- (iv) Contribution of employer to recognized provident fund account of the employee @ 16% of basic salary.

- (v) Professional tax paid ₹ 2,500 of which ₹ 2,000 was paid by the employer.
- (vi) Facility of laptop and computer was provided to Balaji for both official and personal use. Cost of laptop ₹ 45,000 and computer ₹ 35,000 were acquired by the company on 01.12.2024.
- (vii) Motor car owned by the employer (cubic capacity of engine exceeds 1.60 litres) provided to the employee from 01.11.2024 meant for both official and personal use. Repair and running expenses of ₹ 45,000 from 01.11.2024 to 31.03.2025, were fully met by the employer. The motor car was self-driven by the employee.
- (viii) Leave travel concession given to employee, his wife and three children (one daughter aged 7 and twin sons aged 3). Cost of air tickets (economy class) reimbursed by the employer ₹ 30,000 for adults and ₹ 45,000 for three children. Balaji is eligible for availing exemption this year to the extent it is permissible in law.

Compute the salary income chargeable to tax in the hands of Mr. Balaji for the assessment year 2025-26 assuming he has shifted out for the provisions of section 115BAC. **[SM Q.]**

Question 24

From the following details, find out the salary chargeable to tax for the A.Y.2025-26 assuming he has shifted out for the provisions of section 115BAC-

Mr. X is a regular employee of Rama & Co., in Gurgaon. He was appointed on 1.1.2024 in the scale of ₹ 20,000 - ₹ 1,000 - ₹ 30,000. He is paid 10% D.A. & Bonus equivalent to one month pay based on salary of March every year. He contributes 15% of his pay and D.A. towards his recognized provident fund and the company contributes the same amount. DA forms part of pay for retirement benefits.

He is also provided with following facilities:

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

[SM Q.]

Question 25

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

Particulars	₹
Basic salary	5,40,000
Dearness allowance	3,60,000
Commission	50,000
Entertainment allowance	7,500
Medical expenses reimbursed by the employer	21,000
Profession tax (of this, 50% paid by employer)	4,000

Particulars	₹
Health insurance premium paid by employer	9,000
Gift voucher given by employer on his birthday	12,000
Life insurance premium of Neeraj paid by employer	34,000
Laptop provided for use at home. Actual cost of Laptop to employer Children of the assessee are also using the Laptop at home]	30,000
Employer company owns a Maruti Suzuki Swift car (Engine cubic capacity more than 1.6 litres), which was provided to the assessee, both for official and personal use. No driver was provided. All expenses are met by the employer	
Annual credit card fees paid by employer [Credit card is not exclusively used for official purposes; details of usage are not available]	5,000

You are required to compute the income chargeable under the head Salaries for the assessment year 2025-26. Assume he has shifted out of default taxation regime u/s 115BAC [RTP NOV-20 Q.]

Answer 25**Computation of income chargeable under the head “Salaries” of Mr. Neeraj for A.Y.2025-26**

Particulars	₹
Basic Salary	5,40,000
Dearness allowance	3,60,000
Commission	50,000
Entertainment allowance	7,500
Medical expenses reimbursed by the employer is fully taxable	21,000
Professional tax paid by the employer is a taxable perquisite as per section 17(2)(iv), since it is an obligation of the employee which is paid by the employer	2,000
Health insurance premium of ₹ 9,000 paid by the employer is an exempt perquisite [Clause (iii) of proviso to section 17(2)]	Nil
Gift voucher given by employer on Mr. Neeraj birthday [entire amount is taxable since the perquisite value exceeds ₹ 5,000, as per Rule 3(7)(iv)]	12,000
Life insurance premium of Mr. Neeraj paid by employer is a taxable perquisite as per section 17(2)(v)	34,000
Laptop provided for use at home is an exempt perquisite as per Rule 3(7)(vii)	Nil
Provision of motor car (engine cubic capacity more than 1.6 litres) owned by employer provided to employee, the perquisite value would be ₹ 28,800 [₹ 2,400 × 12] as per Rule 3(2)	28,800
Annual credit card fees paid by employer is a taxable perquisite as per Rule 3(7)(v) since the credit card is not exclusively used for official purposes and details of usage are not available	5,000
Gross Salary	10,60,300
Less: Deductions under section 16	
- Standard Deduction as per section 16(ia), lower of gross salary and ₹ 50,000	50,000
- Entertainment allowance (deduction not allowable since Mr. Neeraj is not a	Nil

Particulars	₹
Government employee)	
- Professional tax paid allowable as deduction as per section 16(iii)	4,000
Income chargeable under the head "Salaries"	10,06,300

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

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

Question 26

Mr. Samaksh is a Marketing Manager in Smile Ltd. From the following information, you are required to compute his income chargeable under the head salary for assessment year 2025-26. Assume he has shifted out of default taxation regime u/s 115BAC

- Basic salary is ₹ 70,000 per month.
- Dearness allowance @ 40% of basic salary
- He is provided health insurance scheme approved by IRDA for which ₹ 20,000 incurred by Smile Ltd.
- 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 2023. The lending rate of SBI for similar loan as on 01.04.2024 was 8%.
- Facility of laptop costing ₹ 50,000

[MTP Q.]

Answer 26

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

Particulars	₹	₹
Basic Salary [₹70,000 x 12 months]		8,40,000
Dearness allowance [40% of ₹8,40,000]		3,36,000

Particulars	₹	₹
Entertainment allowance		10,000
Interest on housing loan given at concessional rate, would be perquisite, since the amount of loan exceeds ₹ 20,000, For computation, the lending rate of SBI on 1.4.2024 @8% has to be considered. Thus, perquisite value would be determined @ 3.5% (8% - 4.5%) [See Working Note]		49,291
Health insurance premium paid by the employer [tax free perquisite]		Nil
Gift voucher on the occasion of his marriage anniversary [As per Rule 3(7)(iv), the value of any gift or voucher or token in lieu of gift received by the employee or by member of his household exceeding ₹ 5,000 in aggregate during the previous year is fully taxable] (See note below)		10,000
Allotment of sweat equity shares		
Fair market value of 800 sweat equity shares @ ₹ 700 each	5,60,000	
Less: Amount recovered @ ₹ 450 each	3,60,000	2,00,000
Use of furniture by employee		
10% p.a. of the actual cost of ₹ 1,10,000		11,000
Use of Laptop		
Facility of use of laptop is not a taxable perquisite		Nil
Transfer of asset to employee		
Value of furniture transferred to Mr. Samaksh	1,10,000	
Less: Normal wear and tear @10% for each completed year of usage on SLM basis [1,10,000 x 10% x 4 years (from September 2020 to September 2024)]	44,000	66,000
Gross Salary		15,22,291
Less: Standard deduction u/s 16 [Actual salary or ₹ 50,000, whichever is less]		50,000
Net Salary		14,72,291

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

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

Month	Maximum outstanding balance as on last date of month (₹)	Perquisite value at 3.5% for the month (₹)
April, 2024	15,00,000	4,375
May, 2024	15,00,000	4,375
June, 2024	14,50,000	4,229
July, 2024	14,50,000	4,229
August, 2024	14,50,000	4,229
September, 2024	14,00,000	4,083

Chapter 3: Income from Salary

October, 2024	14,00,000	4,083
November, 2024	14,00,000	4,083
December, 2024	13,50,000	3,937.50
January, 2025	13,50,000	3,937.50
February, 2025	13,50,000	3,937.50
March, 2025	13,00,000	3,792
Total value of this perquisite		49,290.50

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

Question 27

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

- He retired on 31-12-2024 at the age of 60, after putting in 25 years and 9 months of service, from a private company at Delhi.
- He was paid a salary of ₹ 25,000 p.m. and house rent allowance of ₹6,000 p.m. He paid rent of ₹ 6,500 p.m., during his tenure of service.
- On retirement, he was paid a gratuity of ₹ 3,50,000. He was covered by the payment of Gratuity Act, 1972. He had not received any other gratuity at any point of time earlier, other than this gratuity.
- He had accumulated leave of 15 days per annum during the period of his service; this was encashed by him at the time of his retirement. A sum of ₹ 3,15,000 was received by him in this regard. Employer allowed 30 days leave per annum.
- 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.

[MTP Q./SM]

Answer 27

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

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

Particulars	₹	₹
(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 x ₹ 25,000 = ₹ 3,12,500		
[Leave Due = Leave allowed – Leave taken]		
= 750 (30 days per year × 25 years) – 375 days (15 days x 25)		
= 375 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 x ₹ 3,00,000/60% x 100%)	1,66,667	1,33,333
Gift Voucher [As per Rule 3(7)(iv), the value of any gift or voucher or token in lieu of gift received by the employee or by member of his household not exceeding ₹ 5,000 in aggregate during the previous year is exempt]		Exempt
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 ₹ 75,000, whichever is less]		75,000
Net Salary		4,11,333

Question 28

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	45,000
Children of the assessee are also using the Laptop at home]	
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
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You are required to compute the income chargeable under the head Salaries for the assessment year 2025-26 if she pays tax under default tax regime.

Answer 28

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

Particulars	₹
Basic Salary	6,20,000
Dearness allowance	4,20,000
Commission	75,000
Entertainment allowance	9,000
Medical expenses reimbursed by the employer is fully taxable	18,000
Professional tax paid by the employer is a taxable perquisite as per section 17(2)(iv), since it is an obligation of the employee which is paid by the employer	2,000
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 ₹ 11,71,600, respectively.

Income from House Property

Question 1

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

Particulars	House I (₹)	House II (₹)	House III (₹)	House IV (₹)	House V (₹)
Municipal Value	80,000	55,000	65,000	24,000	80,000
Fair Rent	90,000	60,000	65,000	25,000	75,000
Standard Rent	N.A.	75,000	58,000	N.A.	78,000
Actual rent received/ receivable	72,000	72,000	60,000	30,000	72,000
Municipal Taxes	10%	12%	8%	10%	15%

Question 2

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

Answer 2

For the P.Y. 2024-25, Mr. Rajesh, a British national, is resident and ordinarily resident in India. Therefore, income received by him by way of rent of the house property located in London is to be included in the total income in India. Municipal taxes paid in London is to be allowed as deduction from the gross annual value.

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

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

Question 3

Mr. Manas owns two house properties one at Bombay, wherein his family resides and the other at Delhi, which is unoccupied. He lives in Chandigarh for his employment purposes in a rented house. For acquisition of house property at Bombay, he has taken a loan of ₹ 30 lakh@10% p.a. on 1.4.2023. He has not repaid any amount so far. In respect of house property at Delhi, he has taken a loan of ₹ 5 lakh@11% p.a. on 1.10.2023 towards repairs. Compute the deduction which would be available to him under section 24(b) for A.Y.2025-

26 in respect of interest payable on such loan if he exercises the option of shifting out of the default tax regime provided under section 115BAC(1A). [SM Q.]

Answer 3

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

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

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

Question 4

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

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

Question 5

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

Question 6

Poorna has one house property at Indira Nagar in Bangalore. She stays with her family in the house. The rent of similar property in the neighbourhood is ₹ 25,000 p.m. The municipal valuation is ₹ 2,80,000 p.a.. Municipal taxes paid is ₹ 8,000. The house construction began in April 2018 with a loan of ₹ 20,00,000 taken from SBI Housing Finance Ltd. @9% p.a. on 1.4.2018. The construction was completed on 30.11.2020. The accumulated interest up to 31.3.2020 is ₹ 3,60,000. On 31.3.2025, Poorna paid ₹ 2,40,000 which included ₹ 1,80,000 as interest. There was no principal repayment prior to this date. Compute Poorna's income from house property for A.Y. 2024-25 assume she exercises the option of shifting out of the default tax regime provided u/s 115BAC(1A). [SM Q.]

Question 7

Smt. Rajalakshmi owns a house property at Adyar in Chennai. The municipal value of the property is ₹ 5,00,000, fair rent is ₹ 4,20,000 and standard rent is ₹ 4,80,000. The property was let-out for ₹ 50,000 p.m. up to December 2024. Thereafter, the tenant vacated the

Chapter 4: Income from House Property

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

Question 8

Ganesh has three houses, all of which are self-occupied. The particulars of the houses for the P.Y.2024-25 are as under:

Particulars	House I	House II	House III
Municipal valuation p.a.	₹ 3,00,000	₹ 3,60,000	₹ 3,30,000
Fair rent p.a.	₹ 3,75,000	₹ 2,75,000	₹ 3,80,000
Standard rent p.a.	₹ 3,50,000	₹ 3,70,000	₹ 3,75,000
Date of completion/purchase	31.3.2000	31.3.2002	01.4.2016
Municipal taxes paid during the year	12%	8%	6%
Interest on money borrowed for repair of property during the current year	-	₹ 55,000	
Interest for current year on money borrowed in April, 2016 for purchase of Property			₹ 1,75,000

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

Question 9

Prem owns a house in Madras. During the previous year 2024-25, 2/3rd portion of the house was self-occupied and 1/3rd portion was let out for residential purposes at a rent of ₹ 8,000 p.m. Municipal value of the property is ₹ 3,00,000 p.a., fair rent is ₹ 2,70,000 p.a. and standard rent is ₹ 3,30,000 p.a. He paid municipal taxes @10% of municipal value during the year. A loan of ₹ 25,00,000 was taken by him during the year 2019 for acquiring the property. Interest on loan paid during the previous year 2024-25 was ₹ 1,20,000. Compute Prem's income from house property for the A.Y. 2025-26, assuming that he has exercised the option of shifting out of the default tax regime provided u/s 115BAC(1A).

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

Question 10

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

In June, 2024, he recovered rent of ₹ 10,000 from Mr. Gaurav, to whom he had let out his house for two years from April 2018 to March 2020. He could not realize two months rent of ₹ 20,000 from him and to that extent his actual rent was reduced while computing income from house property for A.Y.2020-21.

Further, he had let out his property from April, 2020 to February, 2024 to Mr. Satish. In April, 2022, he had increased the rent from ₹ 12,000 to ₹ 15,000 per month and the same was a subject matter of dispute. In September, 2024, the matter was finally settled and Mr. Anand received ₹ 69,000 as arrears of rent for the period April 2022 to February, 2024. Would the recovery of unrealised rent and arrears of rent be taxable in the hands of Mr. Anand, and if so in which year? [SM Q.]

Answer 10

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

A.Y. 2025-26 under section 25A, even though Mr. Anand was not the owner of the house in that year. A deduction of 30% of unrealised rent recovered and arrears of rent would be allowed while computing income from house property of Mr. Anand for A.Y. 2025-26.

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

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

Question 11

Ms. Aparna co-owns a residential house property in Calcutta along with her sister Ms. Dimple, where her sister's family resides. Both of them have equal share in the property and the same is used by them for self-occupation. Interest is payable in respect of loan of ₹ 50,00,000@10% taken on 1.4.2023 for acquisition of such property. In addition, Ms. Aparna owns a flat in Pune in which she and her parents reside. She has taken a loan of ₹ 3,00,000@12% on 1.10.2023 for repairs of this flat.

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

[SM Q.]**Answer 11****Computation of deduction u/s 24(b) available to Ms. Aparna for A.Y.2025-26**

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

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

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

Question 12

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

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

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

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

Compute the income from this property chargeable in the hands of Mr. Raman for the A.Y. 2025-26. **[SM Q.]**

Question 13

Mr. X owns one residential house in Mumbai. The house is having two identical units. First unit of the house is self-occupied by Mr. X and another unit is rented for ₹ 8,000 p.m. The rented unit was vacant for 2 months during the year. The particulars of the house for the previous year 2024-25 are as under:

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

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

Question 14

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

During the Financial Year 2024-25, one-third of the portion of the house was let out for residential purpose at a monthly rent of ₹ 5,000. The remaining two-third portion was self-occupied by him. Municipal tax @ 11 % of municipal value was paid during the year.

The construction of the house began in June, 2017 and was completed on 31-5-2020. Vikas took a loan of ₹ 1,00,000 on 1-7-2017 for the construction of building.

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

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

Question 15

Mrs. Rohini Ravi, a citizen of the U.S.A., is a resident and ordinarily resident in India during the financial year 2024-25. She owns a house property at Los Angeles, U.S.A., which is used as her residence. The annual value of the house is \$ 20,000. The value of one USD (\$) may be taken as ₹ 75.

She took ownership and possession of a flat in Chennai on 1.7.2024, which is used for self-occupation, while she is in India. The flat was used by her for 7 months only during the year ended 31.3.2025. The municipal valuation is ₹ 3,84,000 p.a. and the fair rent is ₹ 4,20,000 p.a. She paid the following to Corporation of Chennai:

Property Tax ₹ 16,200

Sewerage Tax ₹ 1,800

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

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

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

Compute the income chargeable from house property of Mrs. Rohini Ravi for the assessment year 2025-26 if she exercise the option of shifting out of the default tax regime provided u/s 115BAC(1A). **[SM Q.]**

Answer 15

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

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

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

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

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

Note: Interest on borrowed capital

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

Question 16

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).

Question 17

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

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

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

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

[RTP M-20]

Answer 17

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

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

Question 18

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

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

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

Answer 18

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

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

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

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

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

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

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

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

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

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

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

Working Note:

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

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

Question 19

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

Following are the other information

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

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

[MTP Q.]

Question 20

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

Municipal valuation - ₹ 1,88,000

Fair rent - ₹ 2,48,000

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

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

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

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

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

Answer 20

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

Particulars	Amount (₹)	Amount (₹)
Income from house property		
<u>Unit - 1 [50% of floor area - Let out]</u>		
Gross Annual Value, higher of		
- Expected rent ₹ 1,14,000 [Higher of Municipal Value of ₹ 94,000 p.a. and Fair Rent of ₹ 1,24,000 p.a., but restricted to Standard Rent of ₹ 1,14,000 p.a.]		
- Actual rent ₹ 1,47,000 [₹ 15,000 x 10] less unrealized rent ¹ of ₹ 3,000		
Gross Annual Value	1,47,000	
(Alternatively, ₹ 1,50,000 can be shown as actual rent and gross annual value, and thereafter, deduct ₹ 3,000 unrealized rent therefrom)		
Less: Municipal taxes [50% of ₹20,000 ²]	10,000	
Net annual value	1,37,000	
Less: Deductions from Net Annual Value		
(a) 30% of Net Annual Value	41,100	
(b) Interest on loan [50% of ₹ 60,000]	30,000	65,900

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

² Assumed to have been paid during the year by Mr. Ramesh.

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

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

Profit & Gain from Business or Profession (PGBP)

5

Question 1

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

	Particulars	₹
(1)	Opening balance of plant and machinery as on 1.4.2024 (i.e., WDV as on 31.3.2024 after reducing depreciation for P.Y. 2023-24)	30,00,000
(2)	New plant and machinery purchased and put to use on 08.06.2024	20,00,000
(3)	New plant and machinery acquired and put to use on 15.12.2024	8,00,000
(4)	Computer acquired and installed in the office premises on 2.1.2025	3,00,000

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

[SM Q]

Question 2

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

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

[SM Q]

Answer 2

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

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

Therefore, amount of depreciation on car as per section 32 for the A.Y. 2025-26 would be ₹ 78,750, being ₹ 5,25,000 x 15%.

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

Question 3

A newly qualified Chartered Accountant Mr. Dhaval, commenced practice and has acquired the following assets in his office during F.Y. 2024-25 at the cost shown against each item. Calculate the amount of depreciation that can be claimed from his professional income for A.Y. 2025-26. Assume that all the assets were purchased by way of account payee cheque.

Sl. No.	Description	Date of acquisition	Date when put to use	Amount ₹
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1.	Computer including computer software	27 Sept., 24	1 Oct., 24	35,000
2.	Computer UPS	2 Oct., 24	8 Oct., 24	8,500
3.	Computer printer	1 Oct., 24	1 Oct., 24	12,500
4.	Books (other than annual publications are of ₹ 12,000)	1 Apr., 24	1 Apr., 24	13,000
5.	Office furniture (Acquired from a practicing C.A.)	1 Apr., 24	1 Apr., 24	3,00,000
6.	Laptop	26 Sep., 24	8 Oct., 24	43,000

[SM Q]

Question 4

Mr. Gamma, a proprietor started a business of manufacture of tyres and tubes for motor vehicles on 1.1.2024. The manufacturing unit was set up on 1.5.2024. He commenced his manufacturing operations on 1.6.2024. The total cost of the plant and machinery installed in the unit is ₹ 120 crore. The said plant and machinery included second hand plant and machinery bought for ₹ 20 crore and new plant and machinery for scientific research relating to the business of the assessee acquired at a cost of ₹ 15 crore.

Compute the amount of depreciation allowable under section 32 of the Income-tax Act, 1961 in respect of the assessment year 2025-26. Assume that all the assets were purchased by way of account payee cheque and Mr. Gamma has exercised the option of shifting out of the default tax regime provided u/s 115BAC(1A).

[SM Q]

Question 5

Mr. Praveen Kumar has furnished the following particulars relating to payments made towards scientific research for the year ended 31.3.2025:

Particulars	₹ (in lacs)
(1) Payments made to K Research Ltd.	20
(2) Payments made to LMN College	15
(3) Payments made to OPQ College	10
Note: K Research Ltd. and LMN College are approved research institutions and these payments are to be used for the purpose of scientific research.	
(4) Payments made to National Laboratory	8
(5) Machinery purchased for in-house scientific research	25
(6) Salaries to research staff engaged in in-house scientific research	12

Compute the amount of deduction available u/s 35 of the Income-tax Act, 1961 while arriving at the business income of the assessee.

[Past Exam Q]

Question 6

Mr. A, furnishes the following particulars for the P.Y.2024-25. Compute the deduction allowable under section 35 for A.Y.2025-26, while computing his income under the head "Profits and gains of business or profession", if,

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

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

Answer 6

- (i) If Mr. A is paying tax under default tax regime under section 115BAC Computation of deduction under section 35 for the A.Y.2025-26

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

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

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

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

Question 7

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

Compute the income under the head "Profits and gains of business or profession" for the A.Y.2025-26 and the loss to be carried forward, assuming that Mr. A is exercising the option of shifting out of the default tax regime provided u/s 115BAC(1A) and Mr. A has fulfilled all the conditions specified under section 35AD and wants to claim deduction under section 35AD and has not claimed any deduction under Chapter VI-A under the heading "C – Deductions in respect of certain incomes".

The profits from the business of setting up a warehousing facility for storage of food grains, sugar and edible oil (before claiming deduction under section 35AD and section 32) for the A.Y. 2025-26 is ₹ 16 lakhs, ₹ 14 lakhs and ₹ 31 lakhs, respectively. Also, assume in respect of expenditure incurred, the payments are made by account payee cheque or use of ECS through bank account.

[SM Q]

Question 8

Mr. Suraj, a proprietor, commenced operations of the business of a new three-star hotel in Madurai, Tamil Nadu on 1.4.2024. He incurred capital expenditure of ₹ 50 lakh during the period January, 2024 to March, 2024 exclusively for the above business, and capitalized the same in his books of account as on 1st April, 2024. Further, during the P.Y. 2024-25, he incurred capital expenditure of ₹ 2 crore (out of which ₹ 1.50 crore was for acquisition of land) exclusively for the above business.

Compute the income under the head “Profits and gains of business or profession” for the A.Y.2025-26, assuming that he has fulfilled all the conditions specified under section 35AD and opted for claiming deduction under section 35AD; and he has not claimed any deduction under Chapter VI-A under the heading “C – Deductions in respect of certain incomes”. He has exercised the option of shifting out of the default tax regime provided u/s 115BAC(1A).

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

Answer 8**Computation of profits and gains of business or profession for A.Y. 2025-26**

Particulars	₹
Profits from the specified business of new hotel in Madurai (before providing deduction under section 35AD)	25 lakh
Less: Deduction under section 35AD	
Capital expenditure incurred during the P.Y.2024-25 (excluding the expenditure incurred on acquisition of land) = ₹ 200 lakh – ₹ 150 lakh	50 lakh
Capital expenditure incurred prior to 1.4.2024 (i.e., prior to commencement of business) and capitalized in the books of account as on 1.4.2024	50 lakh
Total deduction under section 35AD for A.Y.2025-26	100 lakh
Loss from the specified business of new hotel in Madurai	(75 lakh)
Profit from the existing business of running a hotel in Coimbatore	120 lakh
Net profit from business after set-off of loss of specified business against profits of another specified business under section 73A	45 lakh

Question 9

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

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

Examine the tax implications of such transfer in the hands of Mr. Arnav. **[SM Q]**

Answer 9

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

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

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

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

Question 10

First Flight Ltd. is an existing Indian Company, which sets up a new industrial unit. It incurs the following expenditure in connection with the new unit:

Preparation of project report	4,00,000
Market survey	3,00,000
Legal and other charges for issue of additional capital required for the new unit	2,00,000
Total	9,00,000

The following further data is given:

Cost of project	30,00,000
Capital employed in the new unit	35,00,000

What is the deduction admissible to the company under section 35D for Assessment Year 2025-26?

Question 11

X Ltd. contributes 20% of basic salary to the account of each employee under a pension scheme referred to in section 80CCD. Dearness Allowance is 40% of basic salary and it forms part of pay of the employees.

Compute the amount of deduction allowable under section 36(1)(iva), if the basic salary of the employees aggregate to ₹ 10 lakh. Would disallowance under section 40A(9) be attracted, and if so, to what extent?

[SM Q]

Answer 11

Computation of deduction u/s 36(1)(iva) and disallowance u/s 40A(9)

Particulars	₹
Basic Salary	10,00,000
Dearness Allowance @ 40% of basic salary [DA forms part of pay]	4,00,000
Salary for the purpose of section 36(1)(iva) (Basic Salary + DA)	14,00,000
Actual contribution (20% of basic salary i.e., 20% of ₹ 10 lakh)	2,00,000
Less: Permissible deduction under section 36(1)(iva)	
(14% of basic salary plus dearness pay = 14% of ₹ 14,00,000 = ₹ 1,40,000)	1,96,000
Excess contribution disallowed under section 40A(9)	4,000

Question 12

Delta Ltd. credited the following amounts to the account of resident payees in the month of March, 2025 without deduction of tax at source. What would be the consequence of non-deduction of tax at source by Delta Ltd. on these amounts during the financial year 2024-25, assuming that the resident payees in all the cases mentioned below, have not paid the tax, if any, which was required to be deducted by Delta Ltd.?

	Particulars	Amount in ₹
(1)	Salary to its employees (credited and paid in March, 2025)	12,00,000
(2)	Directors' remuneration (credited in March, 2025 and paid in April, 2025)	28,000

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

Answer 12

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

Therefore, non-deduction of tax at source on any sum paid by way of salary on which tax is deductible u/s 192 or any sum credited or paid by way of directors' remuneration on which tax is deductible under section 194J, would attract disallowance @30% u/s 40(a)(ia). Whereas in case of salary, tax has to be deducted u/s 192 at the time of payment, in case of directors' remuneration, tax has to be deducted at the time of credit of such sum to the account of the payee or at the time of payment, whichever is earlier. Therefore, in both the cases i.e., salary and directors' remuneration, tax is deductible in the P.Y. 2024-25, since salary was paid in that year and directors' remuneration was credited in that year. Therefore, the amount to be disallowed u/s 40(a)(ia) while computing business income for A.Y. 2025-26 is as follows –

Particulars	Amount paid in ₹	Disallowance u/s 40(a)(ia) @30%
(1) Salary [tax is deductible under section 192]	12,00,000	3,60,000
(2) Directors' remuneration [tax is deductible under section 194J without any threshold limit]	28,000	8,400
Disallowance under section 40(a)(ia)		3,68,400

If the tax is deducted on directors' remuneration in the next year i.e., P.Y. 2025-26 at the time of payment and remitted to the Government, the amount of ₹ 8,400 would be allowed as deduction while computing the business income of A.Y. 2026-27.

Question 13

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

- Interest of ₹ 45,000 was paid to Rehman & Co., a resident partnership firm, without deduction of tax at source;
- ₹ 10,00,000 was paid as salary to a resident individual without deduction of tax at source;
- Commission of ₹ 16,000 was paid to Mr. Vidyasagar, a resident, on 2.7.2024 without deduction of tax at source.

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

the Income-tax Act, 1961 assuming that the payees in all the cases mentioned above, have not paid the tax, if any, which was required to be deducted by Mr. Raja? **[SM Q]**

Answer 13

Disallowance under section 40(a)(ia) of the Income-tax Act, 1961 is attracted where the assessee fails to deduct tax at source as is required under the Act, or having deducted tax at source, fails to remit the same to the credit of the Central Government within the stipulated time limit.

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

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

- (ii) The disallowance of 30% of the sums payable under section 40(a)(ia) would be attracted in respect of all sums on which tax is deductible under Chapter XVII-B. Section 192, which requires deduction of tax at source from salary paid, is covered under Chapter XVII-B. The obligation to deduct tax at source under section 192 arises, in the hands all assessee-employer even if the turnover amount does not exceed ₹ 1 crore in the immediately preceding previous year.

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

- (iii) The obligation to deduct tax at source under section 194-H from commission paid in excess of ₹ 15,000 to a resident arises in the case of an individual, whose total turnover in the immediately preceding previous year, i.e., P.Y.2023-24 exceeds ₹ 1 crore. Thus, in present case, since the turnover of the assessee is less than ₹ 1 crore, he is not liable to deduct tax at source u/s 194-H. Mr. Raja is not required to deduct tax at source u/s 194M also since the aggregate of such commission to Mr. Vidyasagar does not exceed ₹ 50 lakh during the P.Y. 2024-25. Therefore, disallowance under section 40(a)(ia) is not attracted in this case.

Question 14

Rao & Jain, a partnership firm consisting of two partners, reports a net profit of ₹ 7,00,000 before deduction of the following items:

- (1) Salary of ₹ 20,000 each per month payable to two working partners of the firm (as authorized by the deed of partnership).
- (2) Depreciation on plant and machinery under section 32 (computed) ₹ 1,50,000.
- (3) Interest on capital at 15% per annum (as per the deed of partnership). The amount of capital eligible for interest is ₹ 5,00,000.

Compute:

- (i) Book-profit of the firm under section 40(b) of the Income-tax Act, 1961.
- (ii) Allowable working partner salary for the assessment year 2025-26 as per section 40(b).

[SM Q]

Question 15

A firm comprising of four partners A, B, C and D carrying on business in partnership, sharing profits/ losses equally shows a profit of ₹ 7,00,000 in its books after deduction of the following amounts for the year :

Particulars	Amt.
(a) Remuneration to partner 'A' who is not actively engaged in business	60,000
(b) Remuneration to partners 'B' & 'C' actively engaged in business	

Partner 'B'	80,000
Partner 'C'	90,000
(c) Interest to partner 'D' on loan of 1,50,000	36,000

The deed of partnership provides for the payment of above remuneration and interest to partners. You are required to work out the taxable income of the firm as well as partners for assessment year 2025-26.

Question 16

Hari, an individual, carried on the business of purchase and sale of agricultural commodities like paddy, wheat, etc. He borrowed loans from Andhra Pradesh State Financial Corporation (APSFC) and Indian Bank and has not paid interest as detailed hereunder:

	₹
(i) Andhra Pradesh State Financial Corporation (P.Y. 2023-24 & 2024-25)	15,00,000
(ii) Indian Bank (P.Y. 2024-25)	30,00,000
	45,00,000

Both APSFC and Indian Bank, while restructuring the loan facilities of Hari during the year 2024-25, converted the above interest payable by Hari to them as a loan repayable in 60 equal installments. During the year ended 31.3.2025, Hari paid 5 installments to APSFC and 3 installments to Indian Bank.

Hari claimed the entire interest of ₹ 45,00,000 as an expenditure while computing the income from business of purchase and sale of agricultural commodities. Examine whether his claim is valid and if not what is the amount of interest, if any, allowable. **[SM Q]**

Answer 16

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

In the given case of Hari, the unpaid interest of ₹ 15,00,000 due to APSFC and of ₹ 30,00,000 due to Indian Bank was converted into loan. Such conversion would not amount to payment of interest and would not, therefore, be eligible for deduction in the year of such conversion. Hence, claim of Hari that the entire interest of ₹ 45,00,000 is to be allowed as deduction in the year of conversion is not tenable. The deduction shall be allowed only to the extent of repayment made during the financial year. Accordingly, the amount of interest eligible for deduction for the A.Y.2025-26 shall be calculated as follows:

	Interest outstanding	Number of Instalments	Amount per instalment	Instalments paid	Interest allowable (₹)
APSFC	15 lakh	60	25,000	5	1,25,000
Indian Bank	30 lakh	60	50,000	3	1,50,000
Total amount eligible for deduction					2,75,000

Question 17

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

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

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

Answer 17

Section 44AA(1) requires every person carrying on any profession, notified by the Board in the Official Gazette (in addition to the professions already specified therein), to maintain such books of account and other documents as may enable the Assessing Officer to compute his total income in accordance with the provisions of the Income-tax Act, 1961.

As per Rule 6F, a person carrying on a notified profession shall be required to maintain specified books of accounts:

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

In the present case, Vinod is a person carrying on profession as film artist, which is a notified profession. Since his gross receipts have not exceeded ₹ 1,50,000 in financial year 2021-22, the requirement under section 44AA to compulsorily maintain the prescribed books of account is not applicable to him.

Mr. Vinod, however, required to maintain such books of accounts as would enable the Assessing Officer to compute his total income.

Question 18

Mr. Praveen engaged in retail trade, reports a turnover of ₹ 2,98,50,000 for the financial year 2024-25. Amount received in cash during the P.Y. 2024-25 is ₹ 14,00,000 and balance through prescribed electronic modes on or before 31st October 2025. His income from the said business as per books of account is ₹ 15,00,000 computed as per the provisions of Chapter IV-D "Profits and gains from business or Profession" of the Income-tax Act, 1961. Retail trade is the only source of income for Mr. Praveen. A.Y. 2024-25 was the first year for which he declared his business income in accordance with the provisions of presumptive taxation u/s 44AD.

- Is Mr. Praveen also eligible for presumptive determination of his income chargeable to tax for the assessment year 2025-26?
- If so, determine his income from retail trade as per the applicable presumptive provision.
- In case Mr. Praveen wants to declare profits as per books of account from retail trade, what are his obligations under the Income-tax Act, 1961?
- What is the due date for filing his return of income under both the options?

Answer 18

- Yes. Since his cash receipts during the P.Y. does not 5% of the total turnover $(14,00,000/2,98,50,000 \times 100)$ and his total turnover for the F.Y. 2024-25 is below ₹ 300 lakhs, he is eligible for presumptive taxation scheme under section 44AD in respect of his retail trade business.

- (ii) His income from retail trade, applying the presumptive tax provisions under section 44AD, would be ₹ 18,19,000 (₹ 1,12,000, being 8% of ₹ 14,00,000 + ₹ 17,07,000, being 6% of ₹ 2,84,50,000).
- (iii) Mr. Praveen had declared profit for the previous year 2023-24 in accordance with the presumptive provisions and if he wants to declare profits as per books of account which is lower than the presumptive income for any of the five consecutive assessment years i.e., A.Y. 2025-26 to A.Y. 2029-30, he would not be eligible to claim the benefit of presumptive taxation for five assessment years subsequent to the assessment year relevant to the previous year in which the profit has not been declared in accordance the presumptive provisions i.e. if he declares profits lower than the presumptive income in say P.Y. 2024-25 relevant to A.Y. 2025-26, then he would not be eligible to claim the benefit of presumptive taxation for A.Y. 2026-27 to A.Y. 2030-31.
- Consequently, Mr. Praveen is required to maintain the books of accounts and get them audited under section 44AB, since his income exceeds the basic exemption limit.
- (iv) In case he declares presumptive income under section 44AD, the due date would be 31st July, 2025.

In case he declares profits as per books of account which is lower than the presumptive income, he is required to get his books of account audited, in which case the due date for filing of return of income would be 31st October, 2025.

Question 19

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

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

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

[SM Q]

Answer 19

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

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

(1)	(2)	(3)	(4)
Number of Vehicles	Date of purchase	No. of months for which vehicle is owned	No. of months × No. of vehicles [(1) × (3)]
For Heavy goods vehicle			

2	29.08.2024	8	16
1	23.02.2025	2	2
			18
For goods vehicle other than heavy goods vehicle			
2	10.4.2024	12	24
1	15.3.2025	1	1
3	16.7.2024	9	27
1	02.1.2025	3	3
			55

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

The answer would remain the same even if the two vehicles purchased in April, 2024 were put to use only in July, 2024, since the presumptive income has to be calculated per month or part of the month for which the vehicle is owned by Mr. X.

Question 20

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

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

Additional information:

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

Compute the depreciation available to the assessee as per the provisions of the Income-tax Act, 1961 and the WDV of different blocks of assets as on 31-3-2025 if -

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

Answer 20
Computation of written down value of block of assets of Venus Ltd. as on 31.3.2025

Particulars	Plant & Machinery (₹ in lacs)	Computer (₹ in lacs)
Written down value (as on 31.3.2024)	30.00	Nil
Less: Depreciation including additional depreciation for P.Y. 2023-24	4.75	-
Opening balance as on 1.4.2024	25.25	
Add: Actual cost of new assets acquired during the year		
New machinery purchased on 1.9.2024	10.00	-
New machinery purchased on 1.12.2024	8.00	-
Computer purchased on 3.1.2025	-	4.00
	43.25	4.00
Less: Assets sold/discarded/destroyed during the year	Nil	Nil
Written Down Value (as on 31.03.2025)	43.25	4.00

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

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

Computation of depreciation for A.Y. 2025-26

	Particulars	Plant & Machinery (₹ in lacs)	Computer (₹ in lacs)
I.	Assets put to use for more than 180 days, eligible for 100% depreciation calculated applying the eligible rate of normal depreciation and additional depreciation		
	<u>Normal Depreciation</u>		
	- WDV of plant and machinery (₹ 25.25 lacs x 15%)	3.79	-
	- New Machinery purchased on 1.9.2024 (₹ 10 lacs x 15%)	1.50	-
	(A)	5.29	-
	<u>Additional Depreciation</u>		
	New Machinery purchased on 1.9.2024 (₹ 10 lakhs x 20%)	2.00	-
	Balance additional depreciation in respect of new machinery purchased on 31.10.2023 and put to use for less than 180 days in the P.Y. 2023-24 (₹ 10 lakhs x 20% x 50%)	1.00	-
	(B)	3.00	-

II.	Assets put to use for less than 180 days, eligible for 50% depreciation calculated applying the eligible rate of normal depreciation and additional depreciation, if any		
	New machinery purchased on 1.12.2024 [₹ 8 lacs x 7.5% (i.e., 50% of 15%)]	0.60	-
	Computer purchased on 3.1.2024 [₹ 4 lacs x 20% (50% of 40%)]	-	0.80
	(C)	0.60	0.80
	Total Depreciation (A+B+C)	8.89	0.80

Notes:

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

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

- (i) any office appliances or road transport vehicles;
- (ii) any machinery or plant installed in, inter alia, office premises.

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

- (i) Machinery purchased on 1.12.2024, installed in office and
- (ii) Computer purchased on 3.1.2025, installed in office.

- (2) Balance additional depreciation@10% on new plant or machinery acquired and put to use for less than 180 days in the year of acquisition which has not been allowed in that year, shall be allowed in the immediately succeeding previous year.

Hence, in this case, the balance additional depreciation@10% (i.e., ₹ 1 lakhs, being 10% of ₹ 10 lakhs) in respect of new machinery which had

been purchased during the previous year 2023-24 and put to use for less than 180 days in that year can be claimed in P.Y. 2024-25 being immediately succeeding previous year.

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

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

Computation of depreciation for A.Y. 2025-26

	Particulars	Plant & Machinery (₹ in lacs)	Computer (₹ in lacs)
I.	Assets put to use for more than 180 days, eligible for 100% depreciation calculated applying the eligible rate of normal depreciation		
	<u>Normal Depreciation</u>		
	- WDV of plant and machinery (₹ 25.25 lacs x 15%)	3.79	-
	- New Machinery purchased on 1.9.2024 (₹ 10 lacs x 15%)	1.50	-
	(A)	5.29	-
II.	Assets put to use for less than 180 days, eligible for		

50% depreciation calculated applying the eligible rate of normal depreciation			
<u>Normal Depreciation</u>			
New machinery purchased on 1.12.2024 [₹ 8 lacs x 7.5% (i.e., 50% of 15%)]		0.60	-
Computer purchased on 3.1.2024 [₹ 4 lacs x 20% (50% of 40%)]		-	0.80
	(C)	0.60	0.80
Total Depreciation (A+B+C)		5.89	0.80

Question 21

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

	(₹ in lacs)
(i) WDV of block as on 31.3.2024 (15% rate) (before depreciation)	50
(ii) Depreciation for P.Y. 2023-24	7.50
(iii) New machinery purchased on 12-10-2024	10
(iv) Machinery imported from Colombo on 12-4-2024.	9
This machine had been used only in Colombo earlier and the assessee is the first user in India.	
(v) New computer installed in generation wing unit on 15-7-2024	2
All assets were purchased by A/c payee cheque.	[SM Q]

Answer 21
Computation of written down value of block of assets of Venus Ltd. as on 31.3.2025

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

Computation of Depreciation for A.Y. 2025-26

Particulars	Plant & Machinery (₹ in lacs)	Computer (₹ in lacs)
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	Particulars	Plant & Machinery (₹ in lacs)	Computer (₹ in lacs)
I.	Assets put to use for more than 180 days, eligible for 100% depreciation calculated applying the eligible rate of normal depreciation and additional depreciation		
	<u>Normal Depreciation</u>		
	- WDV of plant and machinery (₹ 42.5 lacs x 15%)	6.375	-
	- New Machinery purchased on 12.04.2024 (₹ 9 lacs x 15%)	1.35	-
	- Computer purchased on 15.07.2024 [₹ 2 lacs x 40%]	-	0.8
	(A)	7.725	
	<u>Additional Depreciation</u>		
	New Machinery purchased on 12.10.2024 (₹ 10 lakhs x 10%)	1.00	
	Additional Depreciation@20% on new computer installed in generation wing of the unit [20% of ₹ 2 lakhs]	-	
	(B)	1.00	0.4
II.	Assets put to use for less than 180 days, eligible for 50% depreciation calculated applying the eligible rate of normal depreciation and additional depreciation, if any		
	<u>Normal Depreciation</u>		
	New machinery purchased on 1.12.2024 [₹ 10 lacs x 7.5% (i.e., 50% of 15%)]	0.75	-
	(C)	0.75	0.40
	Total Depreciation (A+B+C)	9.475	1.2

Note:-

The benefit of additional depreciation is available to new plant and machinery acquired and installed in power sector undertakings. Accordingly, additional depreciation is allowable in the case of any new machinery or plant acquired and installed by an assessee engaged, inter alia, in the business of generation, transmission or distribution of power, at the rate of 20% of the actual cost of such machinery or plant.

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

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

Question 22

Examine with reasons, the allowability of the following expenses incurred by Mr. Manav, a wholesale dealer of commodities, under the Income-tax Act, 1961 while computing profit and gains from business or profession for the Assessment Year 2025-26.

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

[SM Q]**Answer 22**

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Question 23

Examine with reasons, for the following sub-divisions, whether the following statements are true or false having regard to the provisions of the Income-tax Act, 1961:

- (i) For a dealer in shares and securities, securities transaction tax paid in a recognized stock exchange is permissible business expenditure.
- (ii) Where a person follows mercantile system of accounting, an expenditure of ₹ 25,000 has been allowed on accrual basis and in a later year, in respect of the said expenditure, assessee makes the payment of ₹ 25,000 through a crossed cheque, ₹ 25,000 can be the profits and gains of business under section 40A(3A) in the year of payment.
- (iii) It is mandatory to provide for depreciation under section 32 of the Income-tax Act, 1961, while computing income under the head "Profits and Gains from Business and Profession".
- (iv) The mediclaim premium paid to GIC by Mr. Lomesh for his employees, by a draft, on 27.12.2024 is a deductible expenditure under section 36.
- (v) Under section 35DDA, amortization of expenditure incurred under eligible Voluntary Retirement Scheme at the time of retirement alone, can be done.
- (vi) An individual engaged in trading activities and exercising the option of shifting out of the default tax regime provided u/s 115BAC(1A) can claim additional depreciation under section 32(1)(ia) in respect of new plant acquired and installed in the trading concern, where the increase in value of such plant as compared to the approved base year is more than 10%. **[SM Q]**

Answer 23

- (i) **True:** Section 36(1)(xv) allows a deduction of the amount of securities transaction tax paid by the assessee in respect of taxable securities transactions entered into in the course of business during the previous year as deduction from the business income of a dealer in shares and securities.
- (ii) **True:** As per section 40A(3A), in the case of an assessee following mercantile system of accounting, if an expenditure has been allowed as deduction in any previous year on due basis, and payment exceeding ₹ 10,000 has been made in the subsequent year otherwise than by an account payee cheque or an account payee bank draft or use of ECS through a bank account or through such other prescribed electronic modes such as credit card, debit card, net banking, IMPS, UPI, RTGS, NEFT, and BHIM Aadhar Pay, then, the payment so made shall be deemed to be the income of the subsequent year in which such payment has been made.
- (iii) **True:** According to the Explanation 5 to section 32(1), allowance of depreciation is mandatory. Therefore, depreciation has to be provided mandatorily while calculating income from business/profession whether or not the assessee has claimed the same while computing his total income.
- (iv) **True:** Section 36(1)(ib) provides deduction in respect of premium paid by an employer to keep in force an insurance on the health of his employees under a scheme framed in this behalf by GIC or any other insurer. The medical insurance premium can be paid by any mode other than cash, to be eligible for deduction under section 36(1)(ib).
- (v) **False:** Expenditure incurred in making payment to the employee in connection with his voluntary retirement either in the year of retirement or in any subsequent year, will be entitled to deduction in 5 equal annual installments beginning from the year in which each payment is made to the employee.
- (vi) **False:** Additional depreciation can be claimed only in respect of eligible plant and machinery acquired and installed by an assessee engaged in the business of manufacture or production of

any article or thing or in the business of generation or transmission or distribution of power.

In this case, the assessee is engaged in trading activities and the new plant has been acquired and installed in a trading concern. Hence, the assessee will not be entitled to claim additional depreciation under section 32(1)(ia).

Question 24

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

- (i) Provision made on the basis of actuarial valuation for payment of gratuity ₹ 5,00,000. However, no payment on account of gratuity was made before due date of filing return.
- (ii) Purchase of oil seeds of ₹ 50,000 in cash from a farmer on a banking day.
- (iii) Tax on non-monetary perquisite provided to an employee ₹ 20,000.
- (iv) Payment of ₹ 50,000 by using credit card for fire insurance.
- (v) Salary payment of ₹ 4,00,000 to Mr. X outside India by a company without deduction of tax assuming Mr. X has not paid tax on such salary income.
- (vi) Payment made in cash ₹ 30,000 to a transporter in a day for carriage of goods

[SM Q]

Answer 24

(i) **Not allowable as deduction:** As per section 40A(7), no deduction is allowed in computing business income in respect of any provision made by the assessee in his books of account for the payment of gratuity to his employees except in the following two cases:

- (1) where any provision is made for the purpose of payment of sum by way of contribution towards an approved gratuity fund; or
- (2) where any provision is made for the purpose of making any payment on account of gratuity that has become payable during the previous year.

Therefore, in the present case, the provision made on the basis of actuarial valuation for payment of gratuity has to be disallowed under section 40A(7), since, no payment has been actually made on account of gratuity.

Note: It is assumed that such provision is not for the purpose of contribution towards an approved gratuity fund.

(ii) **Allowable as deduction:** As per Rule 6DD, in case the payment is made for purchase of agricultural produce directly to the cultivator, grower or producer of such agricultural produce, no disallowance under section 40A(3) is attracted even though the cash payment for the expense exceeds ₹ 10,000.

Therefore, in the given case, disallowance under section 40A(3) is not attracted since, cash payment for purchase of oil seeds is made directly to the farmer.

(iii) **Not allowable as deduction:** Income-tax of ₹ 20,000 paid by the employer in respect of non-monetary perquisites provided to its employees is exempt in the hands of the employee under section 10(10CC).

As per section 40(a)(v), such income-tax paid by the employer is not deductible while computing business income.

(iv) **Allowable as deduction:** Payment for fire insurance is allowable as deduction under section 36(1). Since payment is made by credit card, which is a prescribed electronic mode, disallowance under section 40A(3) is not attracted in this case.

(v) **Not allowable as deduction:** Disallowance under section 40(a)(iii) is attracted in respect of salary payment of ₹ 4,00,000 outside India by a company without deduction of tax at source.

(vi) **Allowable as deduction:** The limit for attracting disallowance under section 40A(3) for payment

otherwise than by way of account payee cheque or account payee bank draft or use of ECS through a bank account or through such other prescribed electronic mode is ₹ 35,000 in case of payment made for plying, hiring or leasing goods carriage. Therefore, in the present case, disallowance under section 40A(3) is not attracted for payment of ₹ 30,000 made in cash to a transporter for carriage of goods.

Question 25

Examine with reasons, whether the following statements are true or false, with regard to the provisions of the Income-tax Act, 1961:

- (a) Payment made in respect of a business expenditure incurred on 16th February, 2025 for ₹ 25,000 through a crossed cheque is hit by the provisions of section 40A(3).
- (b) (i) It is a condition precedent to write off in the books of account, the amount due from debtor to claim deduction for bad debt.
(ii) Failure to deduct tax at source in accordance with the provisions of Chapter XVII-B, inter alia, from the amounts payable to a non-resident as rent or royalty, will result in disallowance while computing the business income where the non-resident payee has not paid the tax due on such income. **[SM Q]**

Answer 25

- (a) **True:** In order to escape the disallowance specified in section 40A(3), payment in respect of the business expenditure ought to have been made through an account payee cheque. Payment through a crossed cheque will attract disallowance under section 40A(3).
- (b) (i) **True:** It is mandatory to write off the amount due from a debtor as not receivable in the books of account, in order to claim the same as bad debt under section 36(1)(vii). However, where the debt has been taken into account in computing the income of the assessee on the basis of ICDSs notified under section 145(2), without recording the same in the accounts, then, such debt shall be allowed in the previous year in which such debt becomes irrecoverable and it shall be deemed that such debt or part thereof has been written off as irrecoverable in the accounts for the said purpose.
(ii) **True:** Section 40(a)(i) provides that failure to deduct tax at source from, inter alia, rent or royalty payable to a non-resident, in accordance with the provisions of Chapter XVII-B, will result in disallowance of such expenditure, where the non-resident payee has not paid the tax due on such income.

Question 26

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

Trading and Profit and Loss Account for the year ended 31.03.2025

Particulars	₹	Particulars	₹
To Opening stock	90,000	By Sales	1,12,11,500
To Purchases	1,10,04,000	By Closing stock	1,86,100
To Gross Profit	3,03,600		-
	1,13,97,600		1,13,97,600
To Salary	60,000	By Gross profit b/d	3,03,600
To Rent and rates	36,000	By Income from UTI	2,400
To Interest on loan	15,000		
To Depreciation	1,05,000		
To Printing & stationery	23,200		
To Postage & telegram	1,640		

Particulars	₹	Particulars	₹
To Loss on sale of shares (Short term)	8,100		
To Other general expenses	7,060		
To Net Profit	50,000		
	3,06,000		3,06,000

Additional Information:

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

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

- (ii) Salary includes ₹ 10,000 paid to his brother, which is unreasonable to the extent of ₹ 2,000.
- (iii) The whole amount of printing and stationery was paid in cash by way of one time payment to Mr. Ramesh.
- (iv) The depreciation provided in the Profit and Loss Account ₹ 1,05,000 was based on the following information:

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

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

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

You are required to compute the profits and gains of Mr. Sivam under presumptive taxation under section 44AD and profits and gains as per normal provisions of the Act assuming he has opted out from default taxation regime u/s 115BAC. Assume that the whole of the amount of turnover received by account payee cheque or use of electronic clearing system through bank account during the previous year.

[SM Q]**Question 27**

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

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

[SM Q]

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

Answer 27

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

year.

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

Mr. Sukhvinder's business income calculated applying the provisions of section 44AE is ₹ 13,72,500 (See Notes 1 & 2 below) and his total income would be ₹ 14,42,500.

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

Notes:

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

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

2. Calculation of presumptive income as per section 44AE

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

Question 28

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

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

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

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

- 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)	14,00,000

Less: Depreciation for P.Y. 2023-24	2,10,000
Additions during the year (used for more than 180 days)	2,00,000
Total additions during the year	4,00,000

Compute the total income of Mr. Raju for the assessment year 2025-26 assuming he paid taxes under default tax.

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

Question 29

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

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

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

Compute the income arising from the above activities for the A.Y. 2025-26. **[SM Q]**

Answer 29

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

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

Particulars	₹	₹	₹
Sale value of cured coffee			22,00,000
Less: Expenses for growing coffee		3,10,000	
Car expenses (80% of ₹ 50,000)		40,000	
Depreciation on car (80% of 15% of ₹ 3,00,000) [See Computation below]		36,000	
Total cost of agricultural operations		3,86,000	
Expenditure for coffee curing operations	3,00,000		
Add: Depreciation on machinery (15% of ₹ 15,00,000) [See Computation below]	2,25,000		
Total cost of the curing operations		5,25,000	

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Total cost of composite operations		9,11,000
Total profits from composite activities		12,89,000
Business income (25% of above)		3,22,250
Agricultural income (75% of above)		9,66,750

Computation of depreciation for P.Y. 2024-25

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

Explanation 7 to section 43(6) provides that in cases of 'composite income', for the purpose of computing written down value of assets acquired before the previous year, the total amount of depreciation shall be computed as if the entire composite income of the assessee (and not just 25%) is chargeable under the head "Profits and gains of business or profession". The depreciation so computed shall be deemed to have been "actually allowed" to the assessee.

Question 30

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

[FINAL SM Q]

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

Answer 30

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

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

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

Notes:

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

Question 31

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

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

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

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

Answer 31**Computation of depreciation allowance**

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

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

Question 32

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

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

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

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

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

Answer 32

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

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

Calculation of presumptive income as per section 44AE

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

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

Question 33

M/s. Moksh Enterprises, a sole proprietorship owns four machines, 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. You are required to:

- (i) Determine the claim of depreciation for Assessment Year 2025-26.
- (ii) Compute the capital gains liable to tax for Assessment Year 2025-26.
- (iii) If Moksh Enterprises had sold the two machines in July, 2024 for ₹ 15,00,000, explain, will there be any difference in your above workings?

Answer 33

(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]	6,10,000
	13,80,000
Less: Sale consideration of old machinery during the year [in July, 2024]	10,00,000
W.D.V of the block as on 31.03.2025	3,80,000
Depreciation @ 15% but restricted to 50% thereon. ₹ 3,80,000 X 7.5%	28,500
[Since the value of the block as on 31.3.2025 represents part of actual cost of second hand plant purchased in December, 2023, which has been put to use for less than 180 days, depreciation is restricted to 50% of the prescribed percentage of 15% i.e. depreciation is restricted to 7½%.	
Therefore, the depreciation allowable for the year is ₹ 28,500 being 7½% of ₹ 3,80,000]	

(ii) In the given case, no capital gains would arise, since the block of asset continues to exist, and some of the assets are sold for a price which is lesser than the written down value of the block as increased by the actual cost of asset purchased during the year.

(iii) 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	6,10,000	13,80,000
Short term capital gains		1,20,000

Capital Gain

Question 1

A is the owner of a car. On 1-4-2024, he starts a business of purchase and sale of motor car. He treats the above car as part of the stock-in-trade of his new business. He sells the same on 31-3-2025 and gets a profit of ₹ 1 lakh. Discuss the tax implication in his hands under the head "Capital gains". [SM Q.]

Answer 1

Since car is a personal asset, conversion or treatment of the same as the stock-in-trade of his business will not be trapped by the provisions of section 45(2). Hence, A is not liable to capital gains tax.

Question 2

Mr. A purchased a property during 03-04 for ₹ 3,50,000. He spent ₹ 2,00,000 on Improvement during 2004-05. The property was sold by for ₹ 37 lacs on 12th July, 2024 (Brokerage 2%). Compute Capital Gains.

Question 3

Mr. C purchases a house property for ₹ 1,06,000 on May 15, 1984. The following expenses are incurred by him for making addition/alternation to the house property:

Particulars	₹
(a) Cost of construction of first floor in 1992-93	1,35,000
(b) Cost of construction of the second floor in 2003-04	3,10,000
(c) Reconstruction of the property in 2009-10	2,50,000

Fair market value of the property on April 1, 2001 is ₹ 4,50,000. The house property is sold by Mr. C on May 10, 2024 for ₹ 72,00,000 (expenses incurred on transfer ₹ 60,000). Compute the capital gain for the assessment year 2025-26.

Question 4

X converts his capital asset (acquired on June 10, 2004 for ₹ 60,000) into stock-in-trade on March 10, 2024. The fair market value on the date of the above conversion was ₹ 5,50,000. He subsequently sells the stock-in-trade so converted for ₹ 6,00,000 on June 10, 2024. Discuss the year of chargeability of capital gain and business income. [SM Q.]

Question 5

Preeti purchased a Land at a cost of ₹ 10 Lakhs in the Financial Year 1982-83 and held the same as her Capital Asset till 31st March, 2010. Preeti started her real estate business on 01st April, 2010 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 ₹ 150 Lakhs. FMV of land as on 1/4/2001 is 9.3 lacs.

She constructed 20 Flats of equal size, quality and dimension. Cost of construction of each flat is ₹ 8 Lakhs. Construction was completed in December 2024. She sold 15 Flats at ₹ 20 Lakhs per Flat between January, 2025 and March 2025. The remaining 5 flats were held in stock as on 31st March, 2025.

Compute the amount of chargeable Capital Gain and Business Income in the hands of Preeti arising from the transactions for A.Y. 2025-26 indicating clearly the reasons for treatment for each item.

Question 6

The house property of Navin is compulsory acquired by the Govt. on March 10, 2010. The Govt. award ₹ 14,00,000 in the first instance (out of which 10,000 is received on April 12, 2024 and the balance ₹ 13,90,000 is received on May 10, 2025). Navin purchased the house in 2001-02 for ₹ 2,00,000. On the appeal of Navin the high court increase the compensation to ₹ 16,50,000 (Expenditure in court's proceedings ₹ 6,000). The additional compensation of ₹ 2,50,000 is received on May 6, 2026. Find out the capital gain chargeable to tax.

Question 7

The Government compulsorily acquired land of Mr. Shivam in April 2021 and paid compensation of ₹ 20 lakhs in June 2024. The land was acquired by Mr. Shivam in June 2004 for ₹ 12 lakhs. He had filed for additional compensation through Court and was awarded ₹ 18 Lakhs in February 2025 but this amount was received only during May 2025. Compute the taxable capital gain from the above transaction indicating the relevant assessment year. Expenses in connection with compulsory acquisition were ₹ 30,000 and for obtaining enhancement of compensation was ₹ 1 lakh

Question 8

The Assessee was a Company carrying on business of manufacture and sale of Art-Silk cloth. It purchased Machinery worth ₹4 Lakhs on 1.5.2007 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 ₹2,08,800. The Insurance policy contained a re-instatement clause requiring the insurance company to pay the value of the machinery, as in the date of the 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 ₹6 Lakhs from the Insurance Company on 15th March, 2025. Discuss the issue arising on account on the transactions and their treatment.

Question 9

Ms. Usha purchases 1,000 equity shares in X Ltd., an unlisted company, at a cost of ₹ 30 per share (brokerage 1%) in January 1996. She gets 100 bonus shares in August 2000. She again gets 1,100 bonus shares by virtue of her holding in February 2006. Fair market value of the shares of X Ltd. on April 1, 2001 is ₹ 80.

On 1st May 2024, she transfers all her shares @ ₹ 200 per share (brokerage 2%).

Compute the capital gains taxable in the hands of Ms. Usha for the A.Y. 2025-26

Cost Inflation Index for F.Y. 2001-02: 100, F.Y.2005-06: 117 & F.Y.2024-25: 363.

Question 10

Mr. R holds 1000 shares in Star Minus Ltd., an unlisted company, acquired in the year 2001-02 at a cost of ₹ 75,000. He has been offered right shares by the company in the month of August, 2024 at ₹ 160 per share, in the ratio of 2 for every 5 held. He retains 50% of the rights and renounces the balance right shares in favour of Mr. Q for ₹ 30 per share in September 2024. All the shares are sold by Mr. R for ₹ 300 per share in January 2025 and Mr. Q sells his shares in December 2024 at ₹ 280 per share.

What are the capital gains taxable in the hands of Mr. R and Mr. Q?

Question 11

X & sons, HUF, purchased a land for ₹ 1,20,000 in the P.Y. 2002-03. In the P.Y. 2006-07, a partition took place when Mr. A, a coparcener, is allotted this plot valued at ₹ 1,50,000. In P.Y. 2007-08, he had incurred expenses of ₹ 2,35,000 towards fencing of the plot. Mr. A sells this plot of land for ₹ 15,00,000 on 10th December, 2024 after incurring expenses to the extent of ₹ 20,000. You are required to compute the capital gain for the A.Y. 2025-26.

Question 12

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

- (i) Mr. A purchased gold in 1970 for ₹ 25,000. In the P.Y. 2024-25, he gifted it to his son at the time of marriage. Fair market value (FMV) of the gold on the day the gift was made was ₹ 1,00,000.
- (ii) A house property is purchased by a Hindu undivided family in 1945 for ₹ 20,000. It is given to one of the family members in the P.Y. 2024-25 at the time of partition of the family. FMV on the date of partition was ₹ 12,00,000.
- (iii) Mr. B purchased 50 convertible debentures for ₹ 40,000 in 1995 which are converted into 500 shares worth ₹ 85,000 in November 2024 by the company. **[SM Q.]**

Answer 12

We know that capital gains arises only when we transfer a capital asset. The liability of capital gains tax in the situations given above is discussed as follows:

- (i) As per the provisions of section 47(iii), transfer of a capital asset under a gift is not regarded as transfer for the purpose of capital gains. Therefore, capital gains tax liability does not arise in the given situation.
- (ii) As per the provisions of section 47(i), transfer of a capital asset (being in kind) on the total or partial partition of Hindu undivided family is not regarded as transfer for the purpose of capital gains. Therefore, capital gains tax liability does not arise in the given situation.
- (iii) As per the provisions of section 47(x), transfer by way of conversion of bonds or debentures, debenture stock or deposit certificates in any form of a company into shares or debentures of that company is not regarded as transfer for the purpose of capital gains. Therefore, capital gains tax liability does not arise in the given situation.

Question 13

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

Answer 13

Section 47(xvi) provides that any transfer of a capital asset in a transaction of reverse mortgage under a scheme made and notified by the Central Government shall not be considered as a transfer for the

purpose of capital gain.

Accordingly, the mortgaging of residential house with bank by Mr. Abhishek will not be regarded as a transfer. Therefore, no capital gain will be charged on such transaction.

Further, section 10(43) provides that the amount received by the senior citizen as a loan, either in lump sum or in installment, in a transaction of reverse mortgage would be exempt from income-tax. Therefore, the monthly installment amounts received by Mr. Abhishek would not be taxable.

Question 14

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

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

[SM Q.]

Answer 14

- (i) **False:** As per section 47(xvi), such alienation in a transaction of reverse mortgage under a scheme made and notified by the Central Government is not regarded as "transfer" for the purpose of capital gains.
- (ii) **True:** Section 2(42A) defines the term 'short-term capital asset'. Under the proviso to section 2(42A), zero coupon bond held for not more than 12 months will be treated as a short-term capital asset. Consequently, such bond held for more than 12 months will be a long-term capital asset.
- (iii) **True:** As per section 2(48), 'Zero Coupon Bond' means a bond issued by any infrastructure capital company or infrastructure capital fund or infrastructure debt fund or a public sector company, or Scheduled Bank on or after 1st June 2005, in respect of which no payment and benefit is received or receivable before maturity or redemption from such issuing entity and which the Central Government may notify in this behalf.

Question 15

Mr. A is a proprietor of Akash Enterprises having 2 units. He transferred on 1.4.2024 his Unit 1 by way of slump sale for a total consideration of ₹ 25 lacs. The fair market value of the unit on 1.4.2024 is ₹ 30 lacs. Unit 1 was started in the year 2006-07. The expenses incurred for this transfer were ₹ 28,000. His Balance Sheet as on 31.3.2024 is as under:

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

Other information:

- (i) Revaluation reserve is created by revising upward the value of the building of Unit 1.
- (ii) No individual value of any asset is considered in the transfer deed.

(iii) Other assets of Unit 1 include patents acquired on 1.7.2022 for ₹ 50,000 on which no depreciation has been charged.

Compute the capital gain for the assessment year 2025-26.

[SM Q.]

Question 16

Mr. Dinesh received a vacant site as gift from his friend in November 2005. The site was acquired by his friend for ₹ 7,00,000 in April 2002. Dinesh constructed a residential building during the year 2010-11 in the said site for ₹ 15,00,000. He carried out some further extension of the construction in the year 2012-13 for ₹ 5,00,000.

Dinesh sold the residential building for ₹ 55,00,000 in January 2025 but the State stamp valuation authority adopted ₹ 65,00,000 as value for the purpose of stamp duty.

Compute his long-term capital gain, for the assessment year 2025-26 based on the above information.

Question 17

Mr. Kay purchases a house property on April 10, 1992 for ₹ 65,000. The fair market value of the house property on April 1, 2001 was ₹ 2,70,000 & SDV as on 01/04/01 is ₹ 2,90,000. On August 31, 2003, Mr. Kay enters into an agreement with Mr. Jay for sale of such property for ₹ 3,70,000 and received an amount of ₹ 60,000 as advance. However, as Mr. Jay did not pay the balance amount, Mr. Kay forfeited the advance. In May 2008, Mr. Kay constructed the first floor by incurring a cost of ₹ 2,35,000. Subsequently, in January 2009, Mr. Kay gifted the house to his friend Mr. Dee. On February 10, 2025, Mr. Dee sold the house for ₹ 22,00,000. Compute the capital gains in the hands of Mr. Dee for A.Y. 2025-26.

Question 18

Mr. X purchases a house property in December 1993 for ₹ 5,25,000 and an amount of ₹ 1,75,000 was spent on the improvement and repairs of the property in March, 1997. The property was proposed to be sold to Mr. Z in the month of May, 2006 and an advance of 40,000 was taken from him. As the entire money was not paid in time, Mr. X forfeited the advance and subsequently sold the property to Mr. Y in the month of May, 2024 for ₹ 58,00,000. The fair value of the property on April 1, 2001 was ₹ 11,90,000 & SDV as on 01/04/01 is ₹ 12,90,000. What is the capital gain chargeable in the hands of Mr. X for the A.Y. 2024-25?

Question 19

Ravi owns a residential house which was purchased by him in 1975 for ₹ 80,000. The FMV as on 1.4.01 was ₹ 2,00,000 & SDV as on 01/04/01 is ₹ 1,90,000. This house is sold by him on 16.7.2024 for a consideration of ₹ 27,00,000. The brokerage and expenses on transfer was ₹ 15,000. Compute capital gains for the assessment year 2025-26. If he invests ₹ 5,00,000 for purchase of a new house on 15.3.2025. If the HP so purchased in 15.3.2025 is again sold in 21.10.25 for ₹ 9 lacs, what will be the tax liability?

Question 20

Mr. Roy owned a residential house in Noida. It was acquired on 09.09.2011 for ₹ 30,00,000. He sold it for ₹ 1,57,00,000 on 07.01.2022.

Mr. Roy 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 at delhi for 2,57,00,000 on 02.03.25. The property at Panchkula was sold for ₹ 3,25,00,000.

Chapter 6: Capital Gain

Calculate capital gains chargeable to tax for the assessment year 2022-23 and 2025-26. All working should form part of your answer.

Question 21

On 16th January 2025, Suman sold agricultural land for ₹ 22 lacs. He incurred selling expenses for ₹50,000. Compute capital gains. If the land sold, was purchased on 1st February 2006 for ₹ 2 lacs, and the land was used for agricultural purposes by his mother. He again purchased agricultural land of ₹ 8 lacs on 25th January 2025. Amount deposited in a scheduled bank under "Capital Gains Deposit Scheme ₹ 4 lacs on 6th April 2025.

Question 22

PQR Ltd., purchased a land for industrial undertaking in May 2004, at a cost of ₹ 3,50,000. The above property was compulsorily acquired by the State Government at a compensation of ₹ 14,00,000 in the month of January, 2025. The compensation was received in February, 2025. The company purchased another land for its industrial undertaking at a cost of ₹ 2,00,000 in the month of March, 2025. What is the amount of the capital gains chargeable to tax in the hands of the company for the A.Y. 2025-26?

Question 23

From the following particulars, compute the taxable capital gains of Mr. D for A.Y.2025-26

Cost of jewellery [Purchased in F.Y.2004-05]	₹ 2,52,000
Sale price of jewellery sold in January 2024	₹ 11,50,000
Expenses on transfer	₹ 7,000
Residential house purchased in March 2024	₹ 5,00,000

Question 24

Mr. Selvan, acquired a residential house in January, 2002 for ₹ 10,00,000 and made some improvements by way of additional construction to the house, incurring expenditure of ₹ 2,00,000 in October, 2005. He sold the house property in October, 2024 for ₹ 75,00,000. The value of property was adopted as ₹ 80,00,000 by the State stamp valuation authority for registration purpose. He acquired a residential house in January, 2025 for ₹ 25,00,000. He deposited ₹ 20,00,000 in capital gains bonds issued by National Highways Authority of India (NHAI) in June, 2025 Compute the capital gain chargeable to tax for the assessment year 2025-26.

What would be the tax consequence and in which assessment year it would be taxable, if the house property acquired in January, 2025 is sold for ₹ 40,00,000 in March, 2026?

Question 25

Mr. Rahul transferred a vacant site on 28.10.2024 for ₹ 100 lakhs. The site was acquired for ₹ 9,99,300 on 30.6.2004. He invested ₹ 50 lakhs in eligible bonds issued by Rural Electrification Corporation Ltd. (RECL) on 20.3.2025. Again, he invested ₹ 20 lakhs in eligible bonds issued by National Highways Authority of India (NHAI) on 16.4.2025.

Compute the chargeable capital gain in the hands of Rahul for the A.Y. 2025-26.

Question 26

Mr. Kumar has purchased an agricultural land costing ₹ 6 lakh in Lucknow on 1.4.2002 and has been using it for agricultural purposes since its purchased till 1.8.2016 when the

Government took over compulsory acquisition of this land. A compensation of ₹ 12 lakh was settled. The compensation was received by Mr. Kumar on 1.7.2024.

- Compute the amount of capital gains taxable in the hands of Mr. Kumar.
- Will your answer be any different if Mr. Kumar had by his own will sold this land to his friend Mr. Sharma? Explain.
- Will your answer be different if Mr. Kumar had not used this land for agricultural activities? Explain and compute the amount of capital gains taxable in the hands of Mr. Kumar, if any.
- Will your answer be different if the land belonged to ABC Ltd. and not Mr. Kumar and compensation on compulsory acquisition was received by the company? Explain

Question 27

Mr. Cee purchased a residential house on July 20, 2022 for ₹ 10,00,000 and made some additions to the house incurring ₹ 2,00,000 in August 2022. He sold the house property in April 2024 for ₹ 20,00,000. Out of the sale proceeds, he spent ₹ 5,00,000 to purchase another house property in September 2023.

What is the amount of capital gains taxable in the hands of Mr. Cee for the A.Y.2025-26?

[SM Q.]

Answer 27

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

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

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

Question 28

Calculate the income-tax liability for the assessment year 2025-26 in the following cases:

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

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

Question 29

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

Company allotted bonus shares in the ratio of 1:1 on 01.12.2022. 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.

Question 30

Mrs. Harshita purchased a land at a cost of ₹ 35 lakhs in the financial year 2004-05 and held the same as her capital asset till 20th March, 2024.

She started her real estate business on 21st March, 2024 and converted the said land into stock-in-trade of her business on the said date, when the fair market value of the land was ₹ 210 lakhs.

She constructed 15 flats of equal size, quality and dimension. Cost of construction of each flat is ₹ 10 lakhs. Construction was completed in February, 2025. She sold 10 flats at ₹ 30 lakhs per flat in March, 2025. The remaining 5 flats were held in stock as on 31st March, 2025.

She invested ₹ 50 lakhs in bonds issued by National Highways Authority of India on 31st March, 2025 and another ₹ 50 lakhs in bonds of Rural Electrification Corporation Ltd. in April, 2025.

Compute the amount of chargeable capital gain and business income in the hands of Mrs. Harshita arising from the above transactions for Assessment Year 2025-26 indicating clearly the reasons for treatment for each item.

[Cost Inflation Index: F.Y. 2004-05: 113; F.Y. 2023-24: 348, F.Y. 2024-25: 363]. **[SM Q.]**

Answer 30**Computation of capital gains and business income of Harshita for A.Y. 2025-26**

Particulars	₹
Capital Gains	
Fair market value of land on the date of conversion deemed as the full value of consideration for the purposes of section 45(2)	2,10,00,000
Less: Indexed cost of acquisition [$₹35,00,000 \times 348(2023-24)/113(2004-05)$]	1,07,78,761
	1,02,21,239
Proportionate capital gains arising during A.Y. 2025-26 [$₹ 1,02,21,239 \times 2/3$]	68,14,159
Less: Exemption under section 54EC	50,00,000
Capital gains chargeable to tax for A.Y.2025-26	18,14,159
Business Income	
Sale price of flats [$10 \times ₹ 30$ lakhs]	
Less: Cost of flats	3,00,00,000

Fair market value of land on the date of conversion [$\text{₹ } 210 \text{ lacs} \times 2/3$]	1,40,00,000
Cost of construction of flats [$10 \times \text{₹ } 10 \text{ lakhs}$]	1,00,00,000
Business income chargeable to tax for A.Y.2025-26	60,00,000

Notes:

- (1) The conversion of a capital asset into stock-in-trade is treated as a transfer 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) However, as per section 45(2), the capital gains arising from the transfer by way of conversion of capital assets into stock-in-trade will be chargeable to tax only in the year in which the stock-in-trade is sold.
- (3) The indexation benefit for computing indexed cost of acquisition would, however, be available only up to the year of conversion of capital asset into stock-in-trade (i.e., P.Y.2023-24) and not up to the year of sale of stock-in-trade (i.e., P.Y.2024-25).
- (4) For the purpose of computing capital gains in such cases, the fair market value of the capital asset on the date on which it was converted into stock-in-trade shall be deemed to be the full value of consideration received or accruing as a result of the transfer of the capital asset.

In this case, since only 2/3rd of the stock-in-trade (10 flats out of 15 flats) is sold in the P.Y.2024-25, only proportionate capital gains (i.e., 2/3rd) would be chargeable to tax in the A.Y.2025-26.

- (5) On sale of such stock-in-trade, business income would arise. The business income chargeable to tax would be the difference between the price at which the stock-in-trade is sold and the fair market value on the date of conversion of the capital asset into stock-in-trade.
- (6) In case of conversion of capital asset into stock-in-trade and subsequent sale of stock-in-trade, the period of 6 months is to be reckoned from the date of sale of stock-in-trade for the purpose of exemption 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 31

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

The value of stock lost (total damaged) was ₹ 6,50,000. Certain portion of the machinery could be salvaged. The opening balance of the block as on 1.4.2024 (i.e., WDV as on 31.3.2024 after providing depreciation for P.Y. 2023-24) was ₹ 10,80,000.

During the process of safeguarding machinery and in the fire fighting operations, Mr. A lost his gold chain and a diamond ring, which he had purchased in April, 2004 for ₹ 1,20,000. The market value of these two items as on the date of fire accident was ₹ 1,80,000.

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

- | | |
|---------------------------|------------|
| (i) Towards loss of stock | ₹ 4,80,000 |
|---------------------------|------------|

- (ii) Towards damage of machinery ₹ 6,00,000
 (iii) Towards gold chain and diamond ring ₹ 1,80,000
 You are requested to briefly comment on the tax treatment of the above three items under the provisions of the Income-tax Act, 1961. **[SM Q.]**

Answer 31

- (i) **Compensation towards loss of stock:** Any compensation received from the insurance company towards loss/damage to stock in trade is to be construed as a trading receipt. Hence, ₹ 4,80,000 received as insurance claim for loss of stock has to be assessed under the head "Profit and gains of business or profession".

Note - The assessee can claim the value of stock destroyed by fire as revenue loss, eligible for deduction while computing income under the head "Profits and gains of business or profession".

- (ii) **Compensation towards damage to machinery:** The question does not mention whether the salvaged machinery is taken over by the Insurance company or whether there was any replacement of machinery during the year. Assuming that the salvaged machinery is taken over by the Insurance company, and there was no fresh addition of machinery during the year, the block of machinery will cease to exist. Therefore, ₹ 4,80,000 being the excess of written down value (i.e. ₹ 10,80,000) over the insurance compensation (i.e. ₹ 6,00,000) will be assessable as a short-term capital loss.

Note - If new machinery is purchased in the next year, it will constitute the new block of machinery, on which depreciation can be claimed for that year.

- (iii) **Compensation towards loss of gold chain and diamond ring:** Gold chain and diamond ring are capital assets as envisaged by section 2(14). They are not "personal effects", which alone are to be excluded. If any profit or gain arises in a previous year owing to receipt of insurance claim, the same shall be chargeable to tax as capital gains. The capital gains has to be computed by reducing the indexed cost of acquisition of jewellery from the insurance compensation of ₹ 1,80,000.

Question 32

Mr. Sarthak entered into an agreement with Mr. Jaikumar to sell his residential house located at Kanpur on 16.04.2024 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 15.07.2024 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/MTP Q.]

Answer 32

Computation of "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
[As per section 50C, where the actual sale consideration is less than the value adopted by the Stamp Valuation Authority for the purpose of charging stamp duty, and such stamp duty value exceeds 110% of the actual sale consideration, then, the value adopted by the Stamp Valuation Authority shall be taken to be the full value of consideration.	
In a case where the date of agreement is different from the date of registration, stamp duty value on the date of agreement can be considered provided the whole or part of the consideration is paid by way of account payee cheque/bank draft or by way of ECS through bank account or through such other electronic mode as may be prescribed, on or before the date of agreement.	
In this case, since 20% of ₹ 150 lakhs is paid through account payee bank draft on the date of agreement, stamp duty value on the date of agreement would be considered for determining the full value of consideration]	
Full value of sale consideration [Stamp duty value on the date of agreement, since it exceeds 110% of the actual sale consideration]	1,70,00,000
Less: Indexed cost of acquisition of residential house [₹ 30 lakhs x 363/100]	1,08,90,000
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]	61,10,000
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	6,10,000

Question 33

Mrs. Yuvika bought a vacant land for ₹ 80 lakhs in May 2004. 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 2006-07.

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 01.04.2024 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 14-7-2024 for the agreed consideration. However, the State stamp valuation authority had revised the values, hence, the value of property for stamp duty purposes was ₹ 900 lakhs. Mrs. Yuvika paid 1% as brokerage on sale consideration received.

Subsequent to sale, Mrs. Yuvika made following investments:

- (i) Acquired two residential houses at Delhi for ₹ 130 lakhs and ₹ 50 lakhs on 31.1.2025 and 15.5.2025
- (ii) Acquired a residential house at UK for ₹ 180 lakhs on 23.3.2025.
- (iii) Subscribed to NHAI capital gains bond (approved under section 54EC) for ₹ 50 lakhs on 29-12-2024 and for ₹ 40 lakhs on 12-5-2025.

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. 2004-05 – 113; F.Y. 2006-07 – 122; F.Y. 2024-25 - 363.

[SM/RTP N-19 Q]

Answer 33

Computation of "Capital Gains" of Mrs. Yuvika for A.Y.2025-26

Particulars	₹ (in lakhs)	₹ (in lakhs)
Capital Gains on sale of residential building		
Actual sale consideration ₹ 810 lakhs		
Value adopted by Stamp Valuation Authority ₹ 890 lakhs [Where the actual sale consideration is less than the value adopted by the Stamp Valuation Authority for the purpose of charging stamp duty, and such stamp duty value exceeds 110% of the actual sale consideration, then, the value adopted by the Stamp Valuation Authority shall be taken to be the full value of consideration as per section 50C.		
However, where the date of agreement is different from the date of registration, stamp duty value on the date of agreement can be considered provided the whole or part of the consideration is received by way of account payee cheque/bank draft or by way of ECS through bank account or through prescribed electronic modes on or before the date of agreement.		
In this case, since advance of ₹ 80 lakh is received by RTGS, i.e., one of the prescribed modes, stamp duty value on the date of agreement can be adopted as the full value of consideration. However, in the present case since stamp duty value on the date of agreement does not exceed 110% of the actual consideration, actual sale consideration would be taken as the full value of consideration)		810.00
Gross Sale consideration (actual consideration, since stamp duty value on the date of agreement does not exceed 110% of the actual consideration)		8.10
Less: Brokerage @1% of sale consideration (1% of ₹ 810 lakhs)		

Particulars	₹ (in lakhs)	₹ (in lakhs)
Net Sale consideration		801.90
Less: Indexed cost of acquisition	282.69	
- 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]	297.54	580.23
- Construction cost of residential building (₹ 100 lakhs × 363/122)		221.67
Long-term capital gains		
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 ₹ 2 crore, the capital gain arising on transfer of a long-term residential property shall not be chargeable to tax to the extent such capital gain is invested in the purchase of one residential house property in India, one year before or two years after the date of transfer of original asset.		
Therefore, in the present case, the exemption would be available only in respect of the one residential house acquired in India and not in respect of the residential house in UK. It would be more beneficial for her to claim the cost of acquisition of residential house at Delhi, i.e., ₹ 130 lakhs as exemption.		
Less: Exemption under section 54EC		50.00
Amount invested in capital gains bonds of NHAI within six months after the date of transfer, of long-term capital asset, being land or building or both, would qualify for exemption, to the maximum extent of ₹ 50 lakhs, whether such investment is made in the current financial year or subsequent financial year.		
Therefore, in the present case, exemption can be availed only to the extent of ₹ 50 lakhs.		
Long term capital gains chargeable to tax		41.67

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 34

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, 2007, 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 2014, 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, 2014, 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.

CII for F.Y. 2001-02: 100; F.Y. 2007-08: 129; F.Y. 2014-15: 240; F.Y. 2024-25: 363

[SM/MTP Q]

Question 35

Calculate the amount chargeable to tax under the head 'Capital Gains' and also calculate tax on such gains for A.Y. 2025-26 from the following details provided by Mr. Naveen with respect to sale of certain securities during F.Y. 2024-25, assuming that the other incomes of Mr. Naveen exceed the maximum amount not chargeable to tax. (Ignore surcharge and cess):

[MTP Q]

(i) Sold 10,000 shares of Y Ltd. on 05-04-2024 @ ₹ 650 per share

Y Ltd. is a listed company. These shares were acquired by Mr. Naveen on 05-04-2017 @ ₹ 100 per share. STT was paid both at the time of acquisition as well as at the time of transfer of such shares which was affected through a recognized stock exchange.

On 31-01-2018, the shares of Y Ltd. were traded on a recognized stock exchange as under:

Highest price - ₹ 300 per share

Average price - ₹ 290 per share

Lowest price - ₹ 280 per share

(ii) Sold 1,000 units of AB Mutual Fund on 20-05-2024 @ ₹ 50 per unit

AB Mutual Fund is an equity oriented fund. These units were acquired by Mr. Naveen on 10-03-2017 @ ₹ 10 per unit. STT was paid only at the time of transfer of such units. On 31-01-2018, the Net Asset Value of the units of AB Mutual Fund was ₹ 55 per unit. The units of AB Mutual Fund were not listed on the stock exchange as on 31.1.2018.

(iii) Sold 100 shares of C Ltd. on 27-09-2024 @ ₹ 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:

2001-02	-	100
2017-18	-	272
2018-19	-	280
2024-25	-	363

Question 36

Mr. Rajkumar bought a residential house for ₹ 5 crores in March 2016. He entered into an agreement for sale of the said residential house with Ms. Nikita (not a relative) in September 2024 for ₹ 17 crores. The sale proceeds were to be paid in the following manner:

10% through account payee bank draft on the date of agreement.

80% on the date of the possession of the property.

Balance after the completion of the registration of the title of the property.

Ms. Nikita was handed over the possession of the property on 10.11.2024 and the registration process was completed on 05.02.2025. She paid the sale proceeds as per the sale agreement. Value of property for stamp duty in September 2024 was ₹ 19 crores. Subsequently, the State stamp valuation authority had revised the values, hence, the value of property for stamp duty purposes was ₹ 20 crores on 05.02.2025. Mr. Rajkumar paid 1% as brokerage on sale consideration received.

Subsequent to sale, he purchased another residential house for ₹ 13 crores in Mumbai in March 2025.

You are required to compute the capital gains chargeable to tax in the hands of Mr. Rajkumar for A.Y. 2025-26. What would be the capital gain, if any, in A.Y. 2026-27 if Mr. Rajkumar transfers the new residential house in December 2025 for ₹ 15 crores?

CII: 2015-16: 254; 2024-25: 363

Question 37

Mr. Sanjay is a resident in India aged 55 years. He had an impressive investment portfolio in various mutual funds. He redeemed his entire mutual fund investment portfolio and bought a villa in Lonavala for ₹ 2.00 crores to spend rest of his life there. The details of mutual funds are as under –

S. No.	Type of mutual fund	Date of investment	Date of redemption	Amount invested (in ₹ lakhs)	Amount redeemed (in ₹ lakhs)
1	BLR growth fund	03.04.2021	05.06.2024	110	140
2	ABC Strategic fund	04.05.2024	02.02.2025	46	50
3	ABD fund Midcap	02.12.2023	05.07.2024	115	118
4	SBA fund Growth	08.11.2022	12.12.2024	110	120

The funds stated at 1 and 2 have invested 30% of their proceeds in equity shares of domestic companies and funds stated at 3 and 4 have invested 70% of their proceeds in equity shares of domestic companies. The investment pattern of funds remained unchanged over all the years. STT is paid at the time of acquisition and redemption of mutual fund, wherever applicable.

You are required to compute the capital gains chargeable to tax in the hands of Mr. Sanjay for A.Y. 2025-26.

Answer

Computation of capital gains of Mr. Sanjay for A.Y. 2025-26

Particulars	₹	₹
Redemption of BLR growth fund		
Full value of consideration [Redemption value]		
Less: Indexed cost of acquisition [₹ 1,10,00,000 × 363/317]	1,40,00,000	
Long term capital gains [Since it is debt fund (as not more than 65% of the proceeds are invested in equity shares of domestic companies) and it was held by Mr. Sanjay for more than 36 months immediately preceding the date of its transfer] Sec 50AA not applicable as MF acquired before 1/4/2023.	1,25,96,215	14,03,785

Redemption of ABC Strategic fund Full value of consideration [Redemption value] Less: Cost of acquisition Short term capital gains [Since it is a specified mutual fund (as not more than 35% of its proceeds are invested in equity shares of domestic companies) which is acquired on or after 1.4.2023, this fund would be considered as short-term capital asset as per section 50AA irrespective of the period of holding]	50,00,000 46,00,000	4,00,000
Redemption of ABD Midcap fund Full value of consideration [Redemption value] Less: Cost of acquisition Short term capital gains [Since it is equity-oriented fund (as more than 65% of its proceeds are invested in equity shares of domestic companies) and it was held by Mr. Sanjay for not more than 12 months immediately preceding the date of its transfer]	1,18,00,000 1,15,00,000	3,00,000
Redemption of SBA Growth fund Full value of consideration [Redemption value] Less: Cost of acquisition Long term capital gains [Since it is equity-oriented fund (as more than 65% of its proceeds are invested in equity shares of domestic companies) and it was held by Mr. Sanjay for more than 12 months immediately preceding the date of its transfer]	1,20,00,000 1,10,00,000	10,00,000
Total Capital Gain		31,03,785
Less: Exemption under section 54F Capital gain arising on transfer of a long term capital asset other than a residential house shall not be chargeable to tax to the extent such capital gain is invested in the purchase of one residential house property in India within one year before or two years after the date of transfer of original asset. Therefore, in the present case, the exemption would be available only in respect of long-term capital gains from redemption of BLR growth fund and SBA Growth fund. Exemption from long term capital gains from redemption of BLR short term fund $[14,03,785 \times 1,40,00,000 / 1,40,00,000]$ Exemption from long term capital gains from redemption of SBA Growth fund $[10,00,000 \times 60,00,000 (2 \text{ crore} - 1.4 \text{ crore}) / 1,20,00,000]$		14,03,785 5,00,000
Capital Gain Chargeable to tax for AY 25-26		12,00,000

Income from Other Sources

Question 1

Rahul, a resident Indian, holding 28% of equity shares in a company, took a loan of ₹ 5,00,000 from the same company. On the date of granting the loan, the company had accumulated profit of ₹4,00,000. The company is engaged in some manufacturing activity.

- Is the amount of loan taxable as deemed dividend, if the company is a company in which the public are substantially interested?
- What would be your answer, if the lending company is a private limited company (i.e. which is not a company in which the public are substantially interested)? **[SM Q.]**

Answer 1

Any payment by a company, other than a company in which the public are substantially interested, of any sum by way of advance or loan to an equity shareholder, being a person who is the beneficial owner of shares holding not less than 10% of the voting power, is deemed as dividend under section 2(22)(e), to the extent the company possesses accumulated profits.

- The provisions of section 2(22)(e), however, will not apply where the loan is given by a company in which public are substantially interested. In such a case, the loan would not be taxable as deemed dividend.
- However, if the loan is taken from a private company (i.e. a company in which the public are not substantially interested), which is a manufacturing company and not a company where lending of money is a substantial part of the business of the company, then, the provisions of section 2(22)(e) would be attracted, since Rahul holds more than 10% of the equity shares in the company.

The amount chargeable as deemed dividend cannot, however, exceed the accumulated profits held by the company on the date of giving the loan. Therefore, the amount taxable as deemed dividend would be limited to the accumulated profit i.e., ₹ 4,00,000 and not the amount of loan which is ₹ 5,00,000.

Question 2

From the following particulars of Gani Bhai for the previous year ended 31st March, 2025, compute the income chargeable under the head "Income from other sources":

Particulars	₹
(a) Directors fees from a company	10,000
(b) Interest on bank deposits	3,000
(c) Income from undisclosed sources	12,000
(d) Winnings from lotteries (Net)	35,000
(e) Royalty on book written by him	9,000
(f) Lectures in seminars	5,000
(g) Interest on loan given to a relative	7,000

(h) Interest on debenture of a company	3,600
(i) Interest on post office Saving Bank Account	500
(j) Interest on government securities	2,200
(k) Interest on monthly income scheme of Post Office	33,000

He paid ₹ 1,000 for typing the manuscript of book written by him.

Question 3

The following details have been furnished by Mrs. Hemali pertaining to the year ended 31.3.2025:

- (i) Cash gift of ₹ 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 ₹ 2 lacs was presented by her sister living in Dubai.
- (iii) When she celebrated her daughter's wedding on 21.2.2025, her friend assigned in Mrs. Hemali's favour, a fixed deposit held by the said friend in a scheduled bank; the value of the fixed deposit and the accrued interest on the said date was ₹ 52,000.

Compute the income, if any, assessable as income from other sources.

[SM Q.]

Answer 3

- (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 ₹ 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 ₹ 50,000.

- (ii) The provisions of section 56(2)(x) are not attracted in respect of any sum of money or property received from a relative. Thus, the gift of diamond necklace received from her sister, being a relative, is not taxable under section 56(2)(x), even though jewellery falls within the definition of "property".

- (iii) To be exempt from applicability of section 56(2)(x), the property should be received on the occasion of the marriage of the individual, not that of the individual's son or daughter. Therefore, this exemption provision is not attracted in this case, ₹ 52,000 shall be taxable in hands of Hemali. We assume that FD is treated under money.

Question 4

Check the taxability of the following gifts received by Mrs. Rashmi during the previous year 2024-25 and compute the taxable income from gifts for Assessment Year 2024-25:

- (1) On the occasion of her marriage on 14.8.2024, she has received ₹ 90,000 as gift out of which ₹ 70,000 are from relatives and balance from friends.
- (2) On 12.9.2024, she has received gift of ₹ 18,000 from cousin of her mother.
- (3) A cell phone worth ₹ 21,000 is gifted by her friend on 15.8.2024.
- (4) She gets a cash gift of ₹ 25,000 from the elder brother of her husband's grandfather on 25.10.2024.
- (5) She has received a cash gift of ₹ 12,000 from her friend on 14.4.2024.

Question 5

Mr. A, a dealer in shares, received the following without consideration during the P.Y. 2024-25 from his friend Mr. B, -

- (1) Cash gift of ₹ 75,000 on his anniversary, 15th April, 2024.
- (2) Bullion, the fair market value of which was ₹ 60,000, on his birthday, 19th June, 2024.
- (3) A plot of land at Faridabad on 1st July, 2024, the stamp value of which is ₹ 5 lakh on that date. Mr. B had purchased the land in April, 2009.

Mr. A purchased from his friend Mr. C, who is also a dealer in shares, 1000 shares of X Ltd. @ ₹ 400 each on 19th June, 2024, the fair market value of which was ₹ 600 each on that date. Mr. A sold these shares in the course of his business on 23rd June, 2024.

Further, on 1st November, 2024, Mr. A took possession of property (office building) booked by him two years back at ₹ 20 lakh. The stamp duty value of the property as on 1st November, 2024 was ₹ 32 lakh and on the date of booking was ₹ 23 lakh. He had paid ₹ 1 lakh by account payee cheque as down payment on the date of booking.

On 1st March, 2025, he sold the plot of land at Faridabad for ₹ 7 lakh.

Compute the income of Mr. A chargeable under the head "Income from other sources" and "Capital Gains" for A.Y. 2025-26. **[SM Q.]**

Question 6

Discuss the taxability or otherwise of the following in the hands of the recipient under section 56(2)(x) the Income-tax Act, 1961 -

- (i) Akhil HUF received ₹ 75,000 in cash from niece of Akhil (i.e., daughter of Akhil's sister). Akhil is the Karta of the HUF.
- (ii) Nitisha, a member of her father's HUF, transferred a house property to the HUF without consideration. The stamp duty value of the house property is ₹ 9,00,000.
- (iii) Mr. Akshat received 100 shares of A Ltd. from his friend as a gift on occasion of his 25th marriage anniversary. The fair market value on that date was ₹ 100 per share. He also received jewellery worth ₹ 45,000 (FMV) from his nephew on the same day.
- (iv) Kishan HUF gifted a car to son of Karta for achieving good marks in XII board examination. The fair market value of the car is ₹ 5,25,000. **[SM Q.]**

Answer 6

	Taxable/ Non- taxable	Amount liable to tax (₹)	Reason
(i)	Taxable	75,000	Sum of money exceeding ₹ 50,000 received without consideration from a non-relative is taxable under section 56(2)(x). Daughter of Mr. Akhil's sister is not a relative of Akhil HUF, since she is not a member of Akhil HUF.
(ii)	Non- taxable	Nil	Immovable property received without consideration by a HUF from its relative is not taxable under section 56(2)(x). Since Nitisha is a member of the HUF, she is a relative of the HUF. However, income from such asset would be included in the hands of Nitisha under 64(2).
(iii)	Taxable	55,000	As per provisions of section 56(2)(x), in case the aggregate fair market value of property, other than immovable property, received without consideration exceeds ₹ 50,000, the whole of

			the aggregate value shall be taxable. In this case, the aggregate fair market value of shares (₹ 10,000) and jewellery (₹ 45,000) exceeds ₹ 50,000. Hence, the entire amount of ₹ 55,000 shall be taxable.
(iv)	Non- taxable	Nil	Car is not included in the definition of property for the purpose of section 56(2)(x), therefore, the same shall not be taxable.

Question 7

Mr. Hari, a property dealer, sold a building in the course of his business to his friend Rajesh, who is a dealer in automobile spare parts, for ₹ 90 lakh on 1.1.2025, when the stamp duty value was ₹ 150 lakh. The agreement was, however, entered into on 1.9.2024 when the stamp duty value was ₹ 140 lakh. Mr. Hari had received a down payment of ₹ 15 lakh by a crossed cheque from Rajesh on the date of agreement. Discuss the tax implications in the hands of Hari and Rajesh, assuming that Mr. Hari has purchased the building for ₹ 75 lakh on 12th July, 2023.

Would your answer be different if Hari was a share broker instead of a property dealer?

[SM Q.]

Answer 7

Case 1: Tax implications if Mr. Hari is a property dealer

<u>In the hands of the seller, Mr. Hari</u>	<u>In the hands of the buyer, Mr. Rajesh</u>
<p>In the hands of Hari, the provisions of section 43CA would be attracted, since the building represents his stock-in- trade and he has transferred the same for a consideration less than the stamp duty value; and the stamp duty value exceeds 110% of consideration.</p> <p>Under section 43CA, the option to adopt the stamp duty value on the date of agreement can be exercised only if whole or part of the consideration has been received on or before the date of agreement by way of account payee cheque or draft or by use of ECS through a bank account or through credit card, debit card, net banking, IMPS (Immediate payment Service), UPI (Unified Payment Interface), RTGS (Real Time Gross Settlement), NEFT (National Electronic Funds Transfer), and BHIM (Bharat Interface for Money) Aadhar Pay on or before the date of agreement. In this case, since the down payment of ₹ 15 lakh is received on the date of agreement by crossed cheque and not account payee cheque, the option cannot be exercised.</p> <p>Therefore, ₹ 75 lakh, being the difference between the stamp duty value on the date of transfer i.e., ₹ 150 lakh, and the purchase</p>	<p>Since Mr. Rajesh is a dealer in automobile spare parts, the building purchased would be a capital asset in his hands. The provisions of section 56(2)(x) would be attracted in the hands of Mr. Rajesh who has received immovable property, being a capital asset, for inadequate consideration and the difference between the consideration and stamp duty value exceeds ₹ 9,00,000, being the higher of ₹ 50,000 and 10% of consideration. Therefore, ₹ 60 lakh, being the difference between the stamp duty value of the property on the date of registration (i.e., ₹ 150 lakh) and the actual consideration (i.e., ₹ 90 lakh) would be taxable under section 56(2)(x) in the hands of Mr. Rajesh, since the payment on the date of agreement is made by crossed cheque and not account payee cheque/draft or ECS or through credit card, debit card, net banking, IMPS (Immediate payment Service), UPI (Unified Payment Interface), RTGS (Real Time Gross Settlement), NEFT (National Electronic Funds Transfer), and BHIM (Bharat Interface for Money) Aadhar Pay.</p>

In the hands of the seller, Mr. Hari	In the hands of the buyer, Mr. Rajesh
price i.e., ₹ 75 lakh, would be chargeable as business income in the hands of Mr. Hari, since stamp duty value exceeds 110% of the consideration	

Case 2: Tax implications if Mr. Hari is a share broker

In the hands of the seller, Mr. Hari	In the hands of the buyer, Mr. Rajesh
<p>In case Mr. Hari is a share broker and not a property dealer, the building would represent his capital asset and not stock-in-trade. In such a case, the provisions of section 50C would be attracted in the hands of Mr. Hari, since building is transferred for a consideration less than the stamp duty value; and the stamp duty value exceeds 110% of consideration.</p> <p>Thus, ₹ 75 lakh, being the difference between the stamp duty value on the date of registration (i.e., ₹ 150 lakh) and the purchase price (i.e., ₹ 75 lakh) would be chargeable as short-term capital gains.</p>	<p>There would be no difference in the taxability in the hands of Mr. Rajesh, whether Mr. Hari is a property dealer or a stock broker, (except where the property transferred in a residential unit fulfilling the stipulated conditions, which is not so in this case).</p> <p>Therefore, the provisions of section 56(2)(x) would be attracted in the hands of Mr. Rajesh who has received immovable property, being a capital asset, for inadequate consideration and the difference between the consideration and stamp duty value exceeds ₹ 9,00,000, being the higher of ₹ 50,000 and 10% of consideration.</p>
<p>It may be noted that under section 50C, the option to adopt the stamp duty value on the date of agreement can be exercised only if whole or part of the consideration has been received on or before the date of agreement by way of account payee cheque or draft or by use of ECS through a bank account or through credit card, debit card, net banking, IMPS (Immediate payment Service), UPI (Unified Payment Interface), RTGS (Real Time Gross Settlement), NEFT (National Electronic Funds Transfer), and BHIM (Bharat Interface for Money) Aadhar Pay on or before the date of agreement. In this case, since the down payment of ₹ 15 lakhs has been received on the date of agreement by crossed cheque and not account payee cheque, the option cannot be exercised.</p>	<p>Therefore, ₹ 60 lakh, being the difference between the stamp duty value of the property on the date of registration (i.e., ₹ 150 lakh) and the actual consideration (i.e., ₹ 90 lakh) would be taxable under section 56(2)(x) in the hands of Mr. Rajesh, since the payment on the date of agreement is made by crossed cheque and not account payee cheque/draft or ECS or through credit card, debit card, net banking, IMPS (Immediate payment Service), UPI (Unified Payment Interface), RTGS (Real Time Gross Settlement), NEFT (National Electronic Funds Transfer), and BHIM (Bharat Interface for Money) Aadhar Pay.</p>

Question 8

Examine under which heads the following incomes are taxable:

[SM Q.]

- Rental income in case property held as stock-in-trade for 3 years
- Dividend on shares
- Salary received by a partner from his partnership firm
- Rental income of machinery
- Winnings from lotteries by a person having the same as business activity
- Salaries payable to a Member of Parliament

- (vii) Receipts without consideration
- (viii) In case of retirement, interest on employee's contribution if provident fund is unrecognized.
- (ix) Rental income in case of a person engaged in the business of letting out of properties.

Answer 8

	Particulars	Head of Income
(i)	Rental income in case property held as stock-in trade for 3 years	Income from house property
(ii)	Dividend on shares	Income from other sources
(iii)	Salary by partner from his partnership firm	Profits and gains of business or profession
(iv)	Rental income of machinery (See Note below)	Profits and gains of business or profession/ Income from other sources
(v)	Winnings from lotteries by a person having the same as business activity	Income from other sources
(vi)	Salaries payable to a Member of Parliament	Income from other sources
(vii)	Receipts without consideration	Income from other sources
(viii)	In case of retirement, interest on employee's contribution if provident fund is unrecognized	Income from other sources
(xi)	Rental income in case of a person engaged in the business of letting out of properties	Profits and gains from business or profession

Note - As per section 56(2)(ii), rental income of machinery would be chargeable to tax under the head "Income from Other Sources", if the same is not chargeable to income-tax under the head "Profits and gains of business or profession".

Question 9

On 10.10.2024, Mr. Govind (a bank employee) received ₹ 5,00,000 towards interest on enhanced compensation from State Government in respect of compulsory acquisition of his land effected during the financial year 2015-16.

Out of this interest, ₹ 1,50,000 relates to the financial year 2016-17; ₹ 1,65,000 to the financial year 2017-18; and ₹ 1,85,000 to the financial year 2018-19. He incurred ₹ 50,000 by way of legal expenses to receive the interest on such enhanced compensation.

How much of interest on enhanced compensation would be chargeable to tax for the assessment year 2025-26? **[SM Q.]**

Answer 9

Section 145B provides that interest received by the assessee on enhanced compensation shall be deemed to be the income of the assessee of the year in which it is received, irrespective of the method of accounting followed by the assessee and irrespective of the financial year to which it relates.

Section 56(2)(viii) states that such income shall be taxable as 'Income from other sources'.

50% of such income shall be allowed as deduction by virtue of section 57(iv) and no other deduction shall be permissible from such Income.

Therefore, legal expenses incurred to receive the interest on enhanced compensation would not be allowed as deduction from such income.

Computation of interest on enhanced compensation taxable as "Income from other sources" for the A.Y 2025-26:

Particulars	₹
Interest on enhanced compensation taxable u/s 56(2)(viii)	5,00,000
Less: Deduction under section 57(iv) (50% x ₹ 5,00,000)	2,50,000
Taxable interest on enhanced compensation	2,50,000

Question 10

Examine the following transactions in the context of Income-tax Act, 1961:

[SM Q.]

- (i) Mr. B transferred 500 shares of R (P) Ltd. to M/s. B Co. (P) Ltd. on 10.10.2024 for ₹ 3,00,000 when the market price was ₹ 5,00,000. The indexed cost of acquisition of shares for Mr. B was computed at ₹ 4,45,000. The transfer was not subjected to securities transaction tax.

Determine the income chargeable to tax in the hands of Mr. B and M/s. B Co. (P) Ltd. because of the above said transaction.

- (ii) Mr. Chezian is employed in a company with taxable salary income of ₹ 5,00,000. He received a cash gift of ₹ 1,00,000 from Atma Charitable Trust (registered under section 12AB) in December 2024 for meeting his medical expenses.

Is the cash gift so received from the trust chargeable to tax in the hands of Mr. Chezian?

Answer 10

- (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 M/s B. Co. (P) Ltd. from Mr B for inadequate consideration is chargeable to tax under section 56(2)(x) to the extent of ₹ 2,00,000.

As per section 50CA, since, the consideration is less than the fair market value of unquoted shares of R (P) Ltd., fair market value of shares of the company would be deemed to be the full value of consideration. It is presumed that the shares of R (P) Ltd are unquoted shares.

The full value of consideration (₹ 5,00,000) less the indexed cost of acquisition (₹ 4,45,000) would result in a long term capital gains of ₹ 55,000 in the hands of Mr. B.

- (ii) The provisions of section 56(2)(x) would not apply to any sum of money or any property received from any trust or institution registered under section 12AB. Therefore, the cash gift of ₹ 1 lakh received from Atma Charitable Trust, being a trust registered under section 12AB, for meeting medical expenses would not be chargeable to tax under section 56(2)(x) in the hands of Mr. Chezian.

Question 11

Mr. Ganesh received the following gifts during P.Y. 2024-25 from his friend Mr. Sundar

- (i) Cash Gift of ₹ 51,000/- on his birthday, 19th June, 2024
- (ii) 50 Shares of Beta Ltd, the FMV of which was ₹ 60,000 on his birthday, 19th June, 2024
- (iii) 100 shares of Alpha Ltd, FMV of which was ₹ 70,000 on the date of transfer. The gift was received on the occasion of Diwali. Mr. Sundar had originally purchased the shares on 10.08.2024 at a cost of ₹ 50,000/-

Further on 20th November, 2024, Mr. Ganesh purchased land from his sister's mother-in-law for ₹ 5,00,000/-. The stamp value of land was ₹ 7,00,000/-.

On 15th February, 2025, he sold 100 shares of Alpha Ltd for ₹ 1,00,000/-.

Compute the Income of Mr. Ganesh chargeable under the head "Income from Other Sources" and "Capital Gains" for A.Y. 2025-26

Question 12

Karan's bank account shows the following deposits during the financial year 2024-25. Compute Karan's (aged 45 years) total income for the A.Y. 2025-26, assuming that his income from house property (computed) is ₹ 62,000.

(i) Gift from his sister in Amsterdam	₹ 2,30,000
(ii) Gift from his friend on his birthday	₹ 10,000
(iii) Dividend from shares of various Indian companies	₹ 12,600
(iv) Gift from his mother's friend on his engagement	₹ 25,000
(v) Gift from his fiancée	₹ 75,000
(vi) Interest on bank deposits (Fixed Deposit)(Gross)	₹ 25,000

Question 13

X acquires a commercial flat from Y on December 16, 2024. Cost of acquisition and stamp duty value are as follows –

	Case 1	Case 2	Case 3	Case 4	Case 5
Consideration	4,00,000	4,00,000	4,00,000	6,00,000	6,00,000
SDV	4,39,000	4,46,000	4,70,000	6,59,000	6,80,000

Discuss tax implication in hands of X & Y.

Question 14

X acquires an immovable property from Y during Dec. 2024. Relevant data is given below –

	Case 1	Case 2	Case 3	Case 4	Case 5
SDV on the date of agreement	4,00,000	4,00,000	4,50,000	4,50,000	7,00,000
SDV on the date of registration	4,70,000	4,70,000	4,90,000	4,90,000	7,80,000
Consideration for acquiring property from Y	3,81,000	3,81,000	4,27,500	4,27,500	7,10,000
Whether advance is paid by A/c payee cheque/DD/ECS upto date of agreement	Yes	NO	Yes	NO	NO

Discuss tax implication in hands of X & Y.

Question 15

Examine whether the following incomes are chargeable to tax, and if so, compute the amount liable to tax:

- (i) Arvind received ₹ 20,000 as his share from the income of the HUF.
- (ii) Mr. Xavier, a 'Param Vir Chakra' awardee, who was formerly in the service of the Central Government, received a pension of ₹ 2,20,000 during the financial year 2023-24.

[SM Q.]

Answer 15

S. No.	Taxable/Not Taxable	Amount liable to tax (₹)	Reason
(i)	Not Taxable	-	Share received by member out of the income of the HUF is exempt under section 10(2).
(ii)	Not Taxable	-	Pension received by Mr. Xavier, a former Central Government employee who is a 'Param Vir Chakra' awardee, is exempt under section 10(18).

Question 16

Examine with reasons in brief whether the following statements are true or false with reference to the provisions of the Income-tax Act, 1961:

- (i) Pension received by a recipient of gallantry award, who was a former employee of Central Government, is exempt from income-tax. [SM Q.]

Answer 16

- (i) **True:** Section 10(18) exempts any income by way of pension received by individual who has been in service of Central Government and has been awarded "ParamVir Chakra" or "MahaVir Chakra" or "Vir Chakra" or such other gallantry award as the Central Government, may, by notification in the Official Gazette, specify in this behalf.

Question 17

Compensation on account of disaster received from a local authority by an individual or his/her legal heir is taxable. Examine the correctness of the statement with reference to the provisions of the Income-tax Act, 1961. [SM Q.]

Answer 17

The statement is not correct. As per section 10(10BC), any amount received or receivable as compensation by an individual or his/her legal heir on account of any disaster from the Central Government, State Government or a local authority is exempt from tax. However, the exemption is not available to the extent such individual or legal heir has already been allowed a deduction under this Act on account of such loss or damage caused by such disaster.

Income of Other Persons Included in Assessee's Total Income (Clubbing of Income)

Question 1

Mr. A holds shares carrying 25% voting power in X (P) Ltd. Mrs. A is working as a computer software programmer in X (P) Ltd. at a salary of ₹ 30,000 p.m. She is, however, not qualified for the job. The other income of Mr. A & Mrs. A are ₹ 7,00,000 & ₹ 4,00,000, respectively. Compute the gross total income of Mr. A and Mrs. A for the A.Y.2025-26, assuming that they opt out from default taxation regime u/s 115BAC.

Will your answer be different if Mrs. A was qualified for the job?

[SM Q.]

Answer 1

Mr. A holds shares carrying 25% voting power in X (P) Ltd i.e., a substantial interest in the company. His wife is working in the same company without any professional qualifications for the same. Thus, by virtue of the clubbing provisions of the Act, the salary received by Mrs. A from X (P) Ltd. will be clubbed in the hands of Mr. A.

Computation of Gross total income of Mr. A

Particulars	₹	₹
Salary received by Mrs. A ($₹30,000 \times 12$)	3,60,000	
Less: Standard deduction under section 16(ia)	50,000	3,10,000
Other Income		7,00,000
Gross total income		10,10,000

The gross total income of Mrs. A is ₹ 4,00,000.

If Mrs. A possesses professional qualifications for the job, then the clubbing provisions shall not be applicable.

Gross total income of Mr. A = ₹ 7,00,000 [other income].

Gross total income of Mrs. A = Salary received by Mrs. A [$₹ 30,000 \times 12$]

Less ₹ 50,000, being the standard deduction under section 16(ia) plus other income [$₹ 4,00,000$] = ₹ 7,10,000

Question 2

Mr. B holds shares carrying 30% voting power in Y (P) Ltd. Mrs. B is working as accountant in Y (P) Ltd. getting income under the head salary (computed) of ₹ 3,44,000 without any qualification in accountancy. Mr. B also receives ₹ 30,000 as interest on securities. Mrs. B owns a house property which she has let out. Rent received from tenants is ₹ 6,000 p.m. Compute the gross total income of Mr. B and Mrs. B for the A.Y.2025-26.

[SM Q.]

Answer 2

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

Computation of Gross total income of Mr. B

Particulars	₹
Income under the head salary of Mrs. B (Computed)	3,44,000
Income from other sources	
- Interest on securities	30,000
	3,74,000

Computation of Gross total income of Mrs. B

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

Question 3

Mr. Vaibhav started a proprietary business on 01.04.2023 with a capital of ₹ 5,00,000. He incurred a loss of ₹ 2,00,000 during the year 2023-24. To overcome the financial position, his wife Mrs. Vaishaly, a software Engineer, gave a gift of ₹ 5,00,000 on 01.04.2024, which was immediately invested in the business by Mr. Vaibhav. He earned a profit of ₹ 4,00,000 during the year 2024-25. Compute the amount to be clubbed in the hands of Mrs. Vaishaly for the Assessment Year 2025-26. If Mrs. Vaishaly gave the said amount as loan, what would be the amount to be clubbed?

[SM Q.]**Question 4**

Mrs. Kasturi transferred her immovable property to ABC Co. Ltd. subject to a condition that out of the rental income, a sum of ₹ 36,000 per annum shall be utilized for the benefit of her son's wife.

Mrs. Kasturi claims that the amount of ₹ 36,000 (utilized by her son's wife) should not be included in her total income as she no longer owned the property.

Examine with reasons whether the contention of Mrs. Kasturi is valid in law.

[SM Q.]**Answer 4**

The clubbing provisions under section 64(1)(viii) are attracted in case of transfer of any asset, directly or indirectly, otherwise than for adequate consideration, to any person to the extent to which the

income from such asset is for the immediate or deferred benefit of son's wife. Such income shall be included in computing the total income of the transferor-individual.

Therefore, income of ₹ 36,000 meant for the benefit of daughter-in-law is chargeable to tax in the hands of transferor i.e., Mrs. Kasturi in this case.

The contention of Mrs. Kasturi is, hence, not valid in law.

Note - In order to attract the clubbing provisions under section 64(1)(viii), the transfer should be otherwise than for adequate consideration. In this case, it is presumed that the transfer is otherwise than for adequate consideration and therefore, the clubbing provisions are attracted. Moreover, the provisions of section 56(2)(x) would also get attracted in the hands of ABC Co Ltd., if the conditions specified thereunder are satisfied.

If it is presumed that the transfer was for adequate consideration, the provisions of section 64(1)(viii) would not be attracted.

Question 5

Mr. A has three minor children – two twin daughters, aged 12 years, and one son, aged 16 years. Income of the twin daughters is ₹ 2,000 p.a. each and that of the son is ₹ 1,200 p.a. Mrs. A has transferred her flat to her minor son on 1.4.2024 out of natural love and affection. The flat was let out on the same date and the rental income from the flat is ₹ 10,000 p.m. Compute the income, in respect of minor children, to be included in the hands of Mr. A and Mrs. A u/s 64(1A) [assuming that Mr. A's total income is higher than Mrs. A's total income, before including the income of minor children and both Mr. A and Mrs. A exercise the option of shifting out of the default tax regime provided u/s 115BAC(1A)]. **[SM Q.]**

Answer 5

Taxable income, in respect of minor children, in the hands of Mr. A is:

Particulars	₹	₹
Twin minor daughters [₹ 2,000 × 2]	4,000	
Less: Exempt under section 10(32) [₹ 1,500 × 2]	3,000	1,000
Minor son	1,200	
Less: Exempt under section 10(32)	1,200	Nil
Income to be clubbed in the hands of Mr. A		1,000

Note – As per section 27(i), Mrs. A is the deemed owner of house property transferred to her minor son. Natural love and affection do not constitute adequate consideration for this purpose. Accordingly, the income from house property of ₹ 84,000 [i.e., ₹ 1,20,000 (-) ₹ 36,000, being 30% of ₹ 1,20,000] would be taxable directly in her hands as the deemed owner of the said property. Consequently, clubbing provisions under section 64(1A) would not be attracted in respect of income from house property, owing to which exemption u/s 10(32) cannot be availed by her.

Question 6

Compute the gross total income of Mr. & Mrs. A from the following information assuming both exercise the option of shifting out of the default tax regime provided u/s 115BAC(1A)

	Particulars	₹
(a)	Salary income (computed) of Mrs. A	2,30,000
(b)	Income from profession of Mr. A	3,90,000
(c)	Income of minor son B from company deposit	15,000
(d)	Income of minor daughter C from special talent	32,000
(e)	Interest from bank received by C on deposit made out of her special	

Chapter 8: Income of Other Persons included in Assessee's Total Income

	talent	3,000
(f)	Gift received by C on 30.09.2024 from friend of Mrs. A	2,500

Brief working is sufficient. Detailed computation under various heads of income is not required. **[SM Q.]**

Answer 6

As per the provisions of section 64(1A) of the Income-tax Act, 1961, all the income of a minor child has to be clubbed in the hands of that parent whose total income (excluding the income of the minor) is greater. The income of Mr. A is ₹ 3,90,000 and income of Mrs. A is ₹ 2,30,000. Since the income of Mr. A is greater than that of Mrs. A, the income of the minor children have to be clubbed in the hands of Mr. A. It is assumed that this is the first year when clubbing provisions are attracted.

Income derived by a minor child from any activity involving application of his/her skill, talent, specialised knowledge and experience is not to be clubbed. Hence, the income of minor child C from exercise of special talent will not be clubbed.

However, interest from bank deposit has to be clubbed even when deposit is made out of income arising from application of special talent.

The Gross Total Income of Mrs. A is ₹ 2,30,000. The total income of Mr. A giving effect to the provisions of section 64(1A) is as follows:

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

Particulars	₹	₹
Income from profession		3,90,000
Income of minor son B from company deposit	15,000	
Less: Exemption under section 10(32)	1,500	13,500
Income of minor daughter C		
From special talent – not to be clubbed	-	
Interest from bank	3,000	
Gift of ₹ 2,500 received from a non-relative is not taxable under section 56(2)(x) being less than the aggregate limit of ₹ 50,000	Nil	
	3,000	
Less : Exemption under section 10(32)	1,500	1,500
Gross Total Income		4,05,000

Question 7

Mr. Vasudevan gifted a sum of ₹ 6 lakhs to his brother's wife on 14-6-2024. On 12-7-2024, his brother gifted a sum of ₹ 5 lakhs to Mr. Vasudevan's wife. The gifted amounts were invested as fixed deposits in banks by Mrs. Vasudevan and wife of Mr. Vasudevan's brother on 01-8-2024 at 9% interest. Examine the consequences of the above under the provisions of the Income-tax Act, 1961 in the hands of Mr. Vasudevan and his brother. **[SM Q.]**

Answer 7

In the given case, Mr. Vasudevan gifted a sum of ₹ 6 lakhs to his brother's wife on 14.06.2024 and simultaneously, his brother gifted a sum of ₹ 5 lakhs to Mr. Vasudevan's wife on 12.07.2024. The gifted amounts were invested as fixed deposits in banks by Mrs. Vasudevan and his brother's wife. These transfers are in the nature of cross transfers. Accordingly, the income from the assets transferred would be assessed in the hands of the deemed transferor because the transfers are so intimately connected to form part of a single transaction and each transfer constitutes consideration for the other by being mutual or otherwise.

If two transactions are inter-connected and are part of the same transaction in such a way that it can be said that the circuitous method was adopted as a device to evade tax, the implication of clubbing provisions would be attracted. It was so held by the Apex Court in Keshavji Morarji (1967) .

Accordingly, the interest income arising to Mrs. Vasudevan in the form of interest on fixed deposits would be included in the total income of Mr. Vasudevan and interest income arising in the hands of his brother's wife would be taxable in the hands of Mr. Vasudevan's brother as per section 64(1), to the extent of amount of cross transfers i.e., ₹ 5 lakhs.

This is because both Mr. Vasudevan and his brother are the indirect transferors of the income to their respective spouses with an intention to reduce their burden of taxation.

However, the interest income earned by his spouse on fixed deposit of ₹ 5 lakhs alone would be included in the hands of Mr. Vasudevan's brother and not the interest income on the entire fixed deposit of ₹ 6 lakhs, since the cross transfer is only to the extent of ₹ 5 lakhs.

Question 8

Mr. Sharma has four children consisting 2 daughters and 2 sons. The annual income of 2 daughters were ₹ 9,000 and ₹ 4,500 and of sons were ₹ 6,200 and ₹ 4,300, respectively. The daughter who has income of ₹ 4,500 was suffering from a disability specified under section 80U.

Compute the amount of income earned by minor children to be clubbed in hands of Mr. Sharma assuming he has exercised the option of shifting out of the default tax regime provided u/s 115BAC(1A). **[SM Q.]**

Answer 8

As per section 64(1A), in computing the total income of an individual, all such income accruing or arising to a minor child shall be included. However, income of a minor child suffering from disability specified under section 80U would not be included in the income of the parent but would be taxable in the hands of the minor child. Therefore, in this case, the income of daughter suffering from disability specified under section 80U should not be clubbed with the income of Mr. Sharma.

Under section 10(32), income of each minor child includible in the hands of the parent under section 64(1A) would be exempt to the extent of the actual income or ₹ 1,500, whichever is lower. The remaining income would be included in the hands of the parent.

Computation of income earned by minor children to be clubbed with the income of Mr. Sharma:

	Particulars	₹
(i)	Income of one daughter	9,000
	Less: Income exempt under section 10(32)	1,500
	Total (A)	7,500
(ii)	Income of two sons (₹ 6,200 + ₹ 4,300)	10,500
	Less: Income exempt under section 10(32)	
	(₹ 1,500 + ₹ 1,500)	3,000
	Total (B)	7,500
	Total Income to be clubbed as per section 64(1A) (A+B)	15,000

Note: It has been assumed that:

- (1) All the four children are minor children;
- (2) The income does not accrue or arise to the minor children on account of any manual work done by them or activity involving application of their skill, talent or specialized knowledge and experience;

- (3) The income of Mr. Sharma, before including the minor children's income, is greater than the income of Mrs. Sharma, due to which the income of the minor children would be included in his hands; and
- (4) This is the first year in which clubbing provisions are attracted.

Question 9

During the previous year 2024-25, the following transactions occurred in respect of Mr. A.

- (a) Mr. A had a fixed deposit of ₹ 5,00,000 in Bank of India. He instructed the bank to credit the interest on the deposit @ 9% from 1-4-2024 to 31-3-2025 to the savings bank account of Mr. B, son of his brother, to help him in his education.
- (b) Mr. A holds 75% profit share in a partnership firm. Mrs. A received a commission of ₹ 25,000 from the firm for promoting the sales of the firm. Mrs. A possesses no technical or professional qualification.
- (c) Mr. A gifted a flat to Mrs. A on April 1, 2024. During the previous year 2024-25, Mrs. A's "Income from house property" (computed) was ₹ 52,000 from such flat.
- (d) Mr. A gifted ₹ 2,00,000 to his minor son who invested the same in a business and he derived income of ₹ 20,000 from the investment.
- (e) Mr. A's minor son derived an income of ₹ 20,000 through a business activity involving application of his skill and talent.

During the year, Mr. A got a monthly pension of ₹ 10,000. He had no other income. Mrs. A received salary of ₹ 20,000 per month from a part time job.

Examine the tax implications of each transaction and compute the total income of Mr. A, Mrs. A and their minor child assuming they exercised the option of shifting out of the default tax regime provided u/s 115BAC(1A). **[SM Q.]**

Question 10

Mr. A has gifted a house property valued at ₹ 50 lakhs to his wife, Mrs. B, who in turn has gifted the same to Mrs. C, their daughter-in-law. The house was let out at ₹ 25,000 per month throughout the year. Compute the total income of Mr. A and Mrs. C. Will your answer be different if the said property was gifted to his son, husband of Mrs. C? **[SM Q.]**

Answer 10

As per section 27(i), an individual who transfers otherwise than for adequate consideration any house property to his spouse, not being a transfer in connection with an agreement to live apart, shall be deemed to be the owner of the house property so transferred.

Therefore, in this case, Mr. A would be the deemed owner of the house property transferred to his wife Mrs. B without consideration.

As per section 64(1)(vi), income arising to the son's wife from assets transferred, directly or indirectly, to her by an individual otherwise than for adequate consideration would be included in the total income of such individual.

Income from let-out property is ₹ 2,10,000 [i.e., ₹ 3,00,000, being the actual rent calculated at ₹ 25,000 per month less ₹ 90,000, being deduction under section 24@30% of ₹ 3,00,000]

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

In case the property was gifted to Mr. A's son, the clubbing provisions under section 64 would not apply, since the son is not a minor child. Therefore, the income of ₹ 2,10,000 from letting out of property gifted to the son would be taxable in the hands of the son.

It may be noted that the provisions of section 56(2)(x) would not be attracted in the hands of the

recipient of house property, since the receipt of property in each case was from a “relative” of such individual. Therefore, the stamp duty value of house property would not be chargeable to tax in the hands of the recipient of immovable property, even though the house property was received by her or him without consideration.

Question 11

A proprietary business was started by Smt. Rani in the year 2022. As on 1.4.2023 her capital in business was ₹ 3,00,000.

Her husband gifted ₹ 2,00,000 on 10.4.2023 to her and such sum is invested by Smt. Rani in her business on the same date. Smt. Rani earned profits from her proprietary business for the Financial year 2023-24, ₹ 1,50,000 and Financial year 2024-25 ₹ 3,90,000. Compute the income, to be clubbed in the hands of Rani's husband for the Assessment year 2025-26 with reasons. **[SM Q.]**

Question 12

Mr. B is the Karta of a HUF, whose members derive income as given below:

	Particulars	₹
(i)	Income from B's profession	45,000
(ii)	Mrs. B's salary as fashion designer	76,000
(iii)	Minor son D (interest on fixed deposits with a bank which were gifted to him by his uncle)	10,000
(iv)	Minor daughter P's earnings from sports	95,000
(v)	D's winnings from lottery (gross)	1,95,000

Examine the tax implications in the hands of Mr. and Mrs. B. **[SM Q.]**

Answer 12**Clubbing of income and other tax implications**

As per the provisions of section 64(1A), in case the marriage of the parents subsist, the income of a minor child shall be clubbed in the hands of the parent whose total income, excluding the income of the minor child to be clubbed, is greater. In this problem, it has been assumed that the marriage of Mr. B and Mrs. B subsists.

Further, in case the income arises to the minor child on account of any manual work done by the child or as a result of any activity involving application of skill, talent, specialized knowledge or experience of the child, then, the same shall not be clubbed in the hands of the parent.

Tax implications

- (i) Income of ₹ 45,000 from Mr. B's profession shall be taxable in the hands of Mr. B under the head “Profits and gains of business or profession”.
- (ii) Salary of ₹ 26,000 (₹ 76,000 less standard deduction under section 16(ia) of ₹ 50,000) shall be taxable as “Salaries” in the hands of Mrs. B.
- (iii) Income from fixed deposit of ₹ 10,000 arising to the minor son D, shall be clubbed in the hands of the father, Mr. B as “Income from other sources”, since Mr. B's income is greater than income of Mrs. B before including the income of the minor child.
As per section 10(32), income of a minor child which is includible in the income of the parent shall be exempt to the extent of ₹ 1,500 per child. The balance income would be clubbed in the hands of the parent as “Income from other sources”.
- (iv) Income of ₹ 95,000 arising to the minor daughter P from sports shall not be included in the hands of the parent, since such income has arisen to the minor daughter on account of an activity involving application of her skill.
- (v) Income of ₹ 1,95,000 arising to minor son D from lottery shall be included in the hands of Mr. B

as "Income from other sources", since Mr. B's income is greater than the income of Mrs. B before including the income of minor child.

Note—Mr. B can reduce the tax deducted at source from such lottery income while computing his net tax liability.

Question 13

Rayaan gifted ₹ 15 lakhs to his wife, Sargam on her birthday on, 23rd February, 2024. Sargam lent ₹ 8,00,000 out of the gifted amount to Karuna on 1st April, 2024 for six months on which she received interest of ₹ 80,000. The said sum of ₹ 80,000 was invested in shares of a listed company on 5th October, 2024, which were sold for ₹ 96,000 on 28th March, 2025. Securities transactions tax was paid on purchase and sale of such shares. The balance amount of gift was invested on 1st April 2024, as capital by Sargam in her new business. She suffered loss of ₹ 52,000 in the business in Financial Year 2024-25.

In whose hands the above income and loss shall be included in Assessment Year 2025-26, assuming that capital invested in the business was entirely out of the funds gifted by her husband. Support your answer with brief reasons. **[RTP M-20 Q.]**

Answer 13

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

Interest on loan: Accordingly, ₹ 80,000, being the amount of interest on loan received by Mrs. Sargam, wife of Mr. Rayaan, would be includible in the total income of Mr. Rayaan, since such loan was given out of the sum of money received by her as gift from her husband.

Loss from business: As per Explanation 2 to section 64, income includes loss. Thus, clubbing provisions would be attracted even if there is loss and not income.

Thus, the entire loss of ₹ 52,000 from the business carried on by Mrs. Sargam would also be includible in the total income of Mr. Rayaan, since as on 1st April 2024, the capital invested was entirely out of the funds gifted by her husband.

Short-term capital gain: Income from the accretion of the transferred asset is not liable to be included in the hands of the transferor and, therefore, short-term capital gain of ₹ 16,000 (₹ 96,000, being the sale consideration less ₹ 80,000, being the cost of acquisition) arising in the hands of Mrs. Sargam from sale of shares acquired by investing the interest income of ₹ 80,000 earned by her (from the loan given out of the sum gifted by her husband), would not be included in the hands of Mr. Rayaan. Thus, such income is taxable in the hands of Mrs. Sargam.

Question 14

Mr. Karan gifted a sum of ₹ 9 lakhs to his brother's minor son on 1-5-2024. On the same date, his brother gifted debentures worth ₹ 10 lakhs to Mrs. Karan. Son of Mr. Karan's brother invested the amount in fixed deposit with Canara Bank @ 9% p.a. interest and Mrs. Karan received interest of ₹ 81,000 on these debentures during the previous year 2024-25. Discuss the tax implications under the provisions of the Income-tax Act, 1961.

[RTP N-20]

Answer 14

In the given case, Mr. Karan gifted a sum of ₹ 9 lakhs to his brother's minor son on 1.5.2024 and simultaneously, his brother gifted debentures worth ₹ 10 lakhs to Mr. Karan's wife on the same date. Mr. Karan's brother's minor son invested the gifted amount of ₹ 9 lakhs in fixed deposit with Canara Bank.

These transfers are in the nature of cross transfers. Accordingly, the income from the assets transferred would be assessed in the hands of the deemed transferor because the transfers are so

intimately connected to form part of a single transaction and each transfer constitutes consideration for the other by being mutual or otherwise.

If two transactions are inter-connected and are part of the same transaction in such a way that it can be said that the circuitous method was adopted as a device to evade tax, the implication of clubbing provisions would be attracted.

As per section 64(1A), all income of a minor child is includible in the hands of the parent, whose total income, before including minor's income is higher. Accordingly, the interest income arising to Mr. Karan's brother's son from fixed deposits would be included in the total income of Mr. Karan's brother, assuming that Mr. Karan's brother's total income is higher than his wife's total income, before including minor's income. Mr. Karan's brother can claim exemption of ₹ 1,500 under section 10(32).

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

This is because both Mr. Karan and his brother are the indirect transferors of the income to their spouse and minor son, respectively, with an intention to reduce their burden of taxation.

In the hands of Mr. Karan, interest received by his spouse on debentures of ₹ 9 lakhs alone would be included and not the entire interest income on the debentures of ₹10 lakhs, since the cross transfer is only to the extent of ₹ 9 lakhs.

Hence, only proportional interest (i.e., 9/10th of interest on debentures received) ₹ 72,900 would be includible in the hands of Mr. Karan.

The provisions of section 56(2)(x) are not attracted in respect of sum of money transferred or value of debentures transferred, since in both the cases, the transfer is from a relative.

Question 15

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

- (i) Mr. R transferred his self-occupied property without any consideration to the HUF of which he is a member. During the previous year 2024-25 the HUF earned an income of ₹ 50,000 from such property.
- (ii) Mr. R transferred ₹ 4,00,000 to his wife Mrs. R on 01.04.2009 without any consideration which was given as a loan by her to Mr. Girish. She earned ₹ 3,50,000 as interest during the earlier previous years which was also given as a loan to Mr. Girish. During the previous year 2024-25, she earned interest @ 11% per annum.
- (iii) Mr. R and Mrs. R both hold equity shares of 27% and 25% respectively in AMG Limited. They are also working as employees in such Company. During the financial year 2024-25 they have withdrawn a salary of ₹ 3,20,000 and 2,70,000 respectively.
- (iv) Mrs. R transferred 5,000 equity shares of RSB Ltd. on 17.09.2016 to Mr. R without any consideration. The Company issued 3,000 bonus shares to Mr. R in 2019. On 04.03.2025, Mr. R sold entire share holdings and earned ₹ 5,20,000 as capital gains.

Apart from above income, Mr. R has income from commission ₹ 4,00,000 and Mrs. R has interest income of ₹ 3,30,000.

Compute Gross Total income of Mr. R and Mrs. R for the assessment year 2025-26. Assume they have opted out from 115BAC.

Answer 15

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

	Particulars	Mr. R	Mrs. R
		Amount (₹)	
I.	Income from house property transferred to HUF without consideration		

	Particulars	Mr. R	Mrs. R
		Amount (₹)	
II.	Since Mr. R has transferred his property to his HUF without consideration, income of ₹ 50,000 ¹ from such property would be included in the total income of Mr. R as per section 64(2).	50,000	
	Capital Gains Income from equity shares transferred by Mrs. R to Mr. R without consideration Capital gains arising to Mr. R from transfer of equity shares of RSB Ltd. gifted to him by Mrs. R would be included in the hands of Mrs. R [₹ 5,20,000 x 5,000/8,000]		3,25,000
	Capital gains arising to Mr. R from transfer of bonus shares issued by RSB Ltd. on the basis of holding of the said equity shares would be included in the income of Mr. R and not Mrs. R, since income derived from accretion of the transferred asset cannot be clubbed with the income of transferor of the original asset i.e., Mrs. R [₹ 5,20,000 x 3,000/8,000] ³	1,95,000	
III.	Income from Other Sources Income from commission Interest income Interest income on ₹ 4 lakh transferred by Mr. R to Mrs. R without consideration Income of ₹ 44,000, i.e., 11% of ₹4,00,000, being the amount transferred by Mr. R to Mrs. R without any consideration and loaned by her to Mr. Girish, would be included in the income of Mr. R Income of ₹ 38,500 i.e., 11% of ₹ 3,50,000, being the interest earned by Mrs. R out of amount gifted by Mr. R and thereafter, given by her as loan to Mr. Girish, would be included in the income of Mrs. R, as income derived by Mrs. R from accretion of the amount gifted by Mr. R (i.e., interest income) cannot be included in the income of Mr. R.	4,00,000 44,000	3,30,000 38,500
	Total income [before considering adjustment on account of item (iii) i.e., salary income from a company in which both Mr. R and Mrs. R have substantial interest] IV. Salary income from a company in which both Mr. R and Mrs. R have substantial interest Since both Mr. R and Mrs. R have substantial interest in AMG Ltd. (on account of holding equity shares carrying 20% or more of voting power) and both are in receipt of income by way of salary from AMG Ltd., such salary income would be includible in the hands of that spouse, whose total income, before including such salary income,	6,89,000	6,93,500

¹ Assumed as computed figure.

	Particulars	Mr. R	Mrs. R
		Amount (₹)	
	is higher. Accordingly, the salary income of both Mr. R and Mrs. R would be included in the hands of Mrs. R in this case, since her total income, before including such income, is higher than that of Mr. R.		
	Salary income of Mr. R = ₹ 3,20,000 – ₹ 50,000 (standard deduction)		2,70,000
	Salary income of Mrs. R = ₹ 2,70,000 – ₹ 50,000 (standard deduction)		2,20,000
	Gross Total Income	6,89,000	11,83,500

Question 16

Mr. Vatsan has transferred, through a duly registered document, the income arising from a godown to his son, without transferring the godown. In whose hands will the rental income from godown be charged?

Answer 16

Section 60 expressly states that where there is transfer of income from an asset without transfer of the asset itself, such income shall be included in the total income of the transferor. Hence, the rental income derived from the godown shall be clubbed in the hands of Mr. Vatsan.

Aggregation of Income, Set-Off and Carry Forward of Losses

Question 1

Mr. A, aged 35 years, submits the following particulars pertaining to the A.Y.2025-26:

Particulars	₹
Income from salary (computed)	4,00,000
Loss from let-out property	(-) 2,20,000
Business loss	(-) 1,00,000
Bank interest (FD) received	80,000

Compute the total income of Mr. A for the A.Y.2025-26, assuming that

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

Answer 1

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

Particulars	Amount (₹)	Amount (₹)
Income from salary	4,00,000	2,00,000
Less: Loss from house property of ₹ 2,20,000 to be restricted to ₹ 2 lakhs by virtue of section 71(3A)	(-) 2,00,000	
Balance loss of ₹ 20,000 from house property to be carried forward to next assessment year		
Income from other sources (interest on fixed deposit with bank)	80,000	-
Less: Business loss of ₹ 1,00,000 set-off to the extent of ₹ 80,000	(-) 80,000	
Business loss of ₹ 20,000 to be carried forward for set-off against business income of the next assessment year		
Gross total income [See Note below]		2,00,000
Less: Deduction under Chapter VI-A		Nil
Total income		2,00,000

Notes:

Chapter 9: Aggregation of Income, Set-Off and Carry Forward of Losses

- (i) Gross Total Income includes salary income of ₹ 2,00,000 after adjusting loss of ₹ 2,00,000 from house property. The balance loss of ₹ 20,000 from house property to be carried forward to next assessment year for set-off against income from house property of that year.
- (ii) Business loss of ₹ 1,00,000 is set off against bank interest of ₹ 80,000 and remaining business loss of ₹ 20,000 will be carried forward as it cannot be set off against salary income.

(ii) **Computation of total income of Mr. A for the A.Y.2025-26**
under default tax regime

Particulars	Amount (₹)	Amount (₹)
Income from salary		4,00,000
Income from other sources (interest on fixed deposit with bank)	80,000	
Less: Business loss of ₹ 1,00,000 set-off to the extent of ₹ 80,000	(-) 80,000	
Business loss of ₹ 20,000 to be carried forward for set-off against business income of the next assessment year		
Gross total income/ Total Income		4,00,000

Notes:

- (i) Under the default tax regime, loss from house property cannot be set off against income under any other head. Therefore, the loss of ₹ 2,20,000 from house property to be carried forward to next assessment year for set-off against income from house property of that year.
- (ii) Business loss of ₹ 1,00,000 is set off against bank interest of ₹ 80,000 and remaining business loss of ₹ 20,000 will be carried forward as it cannot be set off against salary income.

Question 2

Mr. B, a resident individual, furnishes the following particulars for the P.Y.2024-25:

Particulars	₹
Income from salary (computed)	45,000
Income from house property	(24,000)
Income from non-speculative business	(22,000)
Income from speculative business	(4,000)
Short-term capital losses	(25,000)
Long-term capital gains taxable u/s 112	19,000

What is the total income chargeable to tax for the A.Y.2025-26, assuming that he pays tax under section 115BAC?

Answer 2**Total income of Mr. B for the A.Y. 2025-26**

Particulars	Amount (₹)	Amount (₹)
Income from salaries		45,000
Income from house property		
Loss from house property to be carried forward [Note (i)]	(24,000)	

Chapter 9: Aggregation of Income, Set-Off and Carry Forward of Losses

Particulars	Amount (₹)	Amount (₹)
Profits and gains of business and profession		
Business loss to be carried forward [Note (ii)]	(22,000)	
Speculative loss to be carried forward [Note (iii)]	(4,000)	
Capital Gains		
Long term capital gain taxable u/s 112	19,000	
Short term capital loss ₹ 25,000 set off against long-term capital gains to the extent of ₹ 19,000 [Note (iv)]	(19,000)	
	Nil	
Balance short term capital loss of ₹ 6,000 to be carried forward [Note (iv)]		
Taxable income		45,000

Notes:

- (i) Since Mr. B is paying tax under the default tax regime u/s 115BAC, loss from house property cannot be set off against income under any other head. Hence, such loss has to be carried forward to the next year for set-off against income from house property, if any.
- (ii) Business loss cannot be set-off against salary income. Therefore, loss of ₹ 22,000 from the non-speculative business cannot be set off against the income from salaries. Hence, such loss has to be carried forward to the next year for set-off against business profits, if any.
- (iii) Loss of ₹ 4,000 from the speculative business can be set off only against the income from the speculative business. Hence, such loss has to be carried forward.
- (iv) Short term capital loss can be set off against both short term capital gain and long-term capital gain. Therefore, short term capital loss of ₹ 25,000 can be set-off against long-term capital gains to the extent of ₹ 19,000. The balance short term capital loss of ₹ 6,000 cannot be set-off against any other income and has to be carried forward to the next year for set-off against capital gains, if any.

Question 3

During the P.Y. 2024-25, Mr. C has the following income and the brought forward losses:

Particulars	₹
Short term capital gains on sale of shares	1,50,000
Long term capital loss of A.Y.2023-24	(96,000)
Short term capital loss of A.Y.2024-25	(37,000)
Long term capital gain u/s 112	75,000

What is the capital gain taxable in the hands of Mr. C for the A.Y.2025-26?

[SM Q.]

Answer 3

Taxable capital gains of Mr. C for the A.Y. 2025-26

Particulars	₹	₹
Short term capital gains on sale of shares	1,50,000	
Less: Brought forward short term capital loss of the A.Y.2024-25	(37,000)	1,13,000

Chapter 9: Aggregation of Income, Set-Off and Carry Forward of Losses

Particulars	₹	₹
Long term capital gain	75,000	
Less: Brought forward long-term capital loss of A.Y.2023-24		
₹ 96,000 set off to the extent of ₹ 75,000 [See Note below]	(75,000)	Nil
Taxable short-term capital gains		1,13,000

Note: Long-term capital loss cannot be set off against short-term capital gain. Hence, the unadjusted long-term capital loss of A.Y.2023-24 of ₹ 21,000 (i.e. ₹ 96,000 – ₹ 75,000) can be carried forward to the next year to be set-off against long-term capital gains of that year.

Question 4

Mr. D has the following income for the P.Y.2024-25:

Particulars	₹
Income from the activity of owning and maintaining the race horses	75,000
Income from textile business	85,000
Brought forward textile business loss (relating to A.Y. 2024-25)	50,000
Brought forward loss from the activity of owning and maintaining the race horses (relating to A.Y.2022-23)	96,000

What is the total income in the hands of Mr. D for the A.Y. 2025-26?

[SM Q.]

Answer 4**Total income of Mr. D for the A.Y. 2025-26**

Particulars	₹	₹
Income from the activity of owning and maintaining race horses	75,000	
Less: Brought forward loss of ₹ 96,000 from the activity of owning and maintaining race horses set-off to the extent of ₹ 75,000	75,000	
	Nil	
Balance loss of ₹ 21,000 (₹ 96,000 – ₹ 75,000) from the activity of owning and maintaining race horses to be carried forward to A.Y.2026-27		
Income from textile business	85,000	
Less: Brought forward business loss from textile business.	50,000	35,000
Total income		35,000

Note: Loss from the activity of owning and maintaining race horses cannot be set-off against any other source/head of income.

Question 5

Chapter 9: Aggregation of Income, Set-Off and Carry Forward of Losses

Mr. E has furnished his details for the A.Y.2025-26 as under:

Particulars	₹
Income from salaries (computed)	1,50,000
Income from speculation business	60,000
Loss from non-speculation business	(40,000)
Short term capital gain	80,000
Long term capital loss of A.Y.2023-24	(30,000)
Winning from lotteries (Gross)	20,000

What is the taxable income of Mr. E for the A.Y.2025-26?

[SM Q.]

Answer 5

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

Particulars	₹	₹
Income from salaries		1,50,000
Income from speculation business	60,000	
Less : Loss from non-speculation business	(40,000)	20,000
Short-term capital gain		80,000
Winnings from lotteries		20,000
Taxable income		2,70,000

Note: Long term capital loss can be set off only against long term capital gain. Therefore, long term capital loss of ₹ 30,000 has to be carried forward to the

Question 6

Compute the gross total income of Mr. F for the A.Y. 2025-26 from the information given below –

[SM Q.]

Particulars	₹
Income from house property (computed)	1,25,000
Income from business (before providing for depreciation)	1,35,000
Short term capital gains on sale of unlisted shares	56,000
Long term capital loss from sale of property (brought forward from A.Y. 2024-25)	(90,000)
Income from tea growing & manufacturing business	1,20,000
Dividends from Indian companies carrying on agricultural operations (Gross)	80,000
Current year depreciation	26,000
Brought forward business loss (loss incurred six years ago)	(45,000)

Answer 6

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

Particulars	₹	₹
Income from house property (Computed)		1,25,000
Income from business		
Profits before depreciation	1,35,000	
Less: Current year depreciation	26,000	
Less: Brought forward business loss	45,000	
	64,000	
Income from tea business (40% is business income)	48,000	1,12,000
Capital gains		
Short term capital gains		56,000
Income from Other Sources		
Dividend income (taxable in the hands of shareholders)		80,000
Gross Total Income		3,73,000

Note:

- (1) Dividend from Indian companies is fully taxable in the hands of shareholders at normal rates of tax.
- (2) 60% of the income from tea business is treated as agricultural income and therefore, exempt from tax;
- (3) Long-term capital loss can be set-off only against long-term capital gains. Therefore, long-term capital loss of ₹ 90,000 brought forward from A.Y.2024-25 cannot be set-off in the A.Y.2025-26, since there is no long-term capital gains in that year. It has to be carried forward for set-off against long-term capital gains, if any, during A.Y.2026-27.

Question 7

Mr. Soohan submits the following details of his income for the assessment year 2025-26:

Particulars	₹
Income from salary (computed)	3,00,000
Loss from let out house property	(-) 40,000
Income from sugar business	50,000
Loss from iron ore business b/f (discontinued in P.Y. 2019-20)	(-) 1,20,000
Short term capital loss	(-) 60,000
Long term capital gain	40,000
Dividend	5,000
Income received from lottery winning (Gross)	50,000
Winnings from card games (Gross)	6,000
Agricultural income	20,000
Short-term capital loss under section 111A	(-) 10,000
Bank interest on Fixed deposit	5,000

Calculate gross total income and losses to be carried forward, assuming that he has

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

[SM Q.]

Question 8

Mr. Batra furnishes the following details for year ended 31.03.2025:

Particulars	₹
Short term capital gain	1,40,000
Loss from speculative business	60,000
Long term capital gain on sale of land	30,000
Long term capital loss on sale of unlisted shares	1,00,000
Income from business of textile (after allowing current year depreciation)	50,000
Income from activity of owning and maintaining race horses	15,000
Income from salary (computed)	1,00,000
Loss from house property	40,000

Following are the brought forward losses:

- Losses from activity of owning and maintaining race horses-pertaining to A.Y.2022-23 ₹ 25,000.
- Brought forward loss from business of textile ₹ 60,000 - Loss pertains to A.Y. 2017-18.

Compute gross total income of Mr. Batra for the AY 2025-26, assuming that he has exercised the option of shifting out of the default tax regime provided u/s 115BAC(1A). Also determine the losses eligible for carry forward to the AY 2026-27.

[SM Q.]

Question 9

Mr. A furnishes you the following information for the year ended 31.03.2025:

	(₹)
(i) Income from plying of vehicles (computed as per books) (He owned 5 light goods vehicle throughout the year)	3,20,000
(ii) Income from retail trade of garments (Computed as per books) (Sales turnover ₹ 1,35,70,000) Mr. A had declared income on presumptive basis under section 44AD for the first time in A.Y. 2024-25. Assume 10% of the turnover during the previous year 2024-25 was received in cash and balance through A/c payee cheque and all the payments in respect of expenditure were also made through A/c payee cheque or debit card.	7,50,000
(iii) He has brought forward depreciation relating to A.Y. 2023-24	1,00,000

Compute taxable income of Mr. A and his tax liability for the assessment year 2025-26 with reasons for your computation, assuming he has exercised the option of shifting out of the default tax regime provided u/s 115BAC(1A).

[SM Q.]

Answer 9

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

Particulars	₹
Income from retail trade – as per books (See Note 1 below)	7,50,000

Income from plying of vehicles – as per books (See Note 2 below)	3,20,000
	10,70,000
Less : Set off of b/f depreciation relating to A.Y. 2023-24	1,00,000
Total income	9,70,000
Tax liability	1,06,500
Add: Health and Education cess @4%	4,260
Total tax liability	1,10,760

Note:

- Income from retail trade:** Presumptive business income under section 44AD is ₹ 8,41,340 i.e., 8% of ₹ 13,57,000, being 10% of the turnover received in cash and 6% of ₹ 1,22,13,000, being the amount of sales turnover received through A/c payee cheque. However, the income computed as per books is ₹ 7,50,000 which is to be further reduced by the amount of unabsorbed depreciation of ₹ 1,00,000. Since the income computed as per books is lower than the income deemed under section 44AD, the assessee can adopt the income as per books.

However, if he does not opt for presumptive taxation under section 44AD, he has to get his books of accounts audited under section 44AB, since his turnover exceeds ₹ 1 crore (the enhanced limit of ₹ 10 crore would not be available, since more than 5% of the turnover is received in cash). Also, his case would be falling under section 44AD(4) and hence tax audit is mandatory. It may further be noted that he cannot opt for section 44AD for next five A.Ys, if he does not opt for section 44AD this year.

- Income from plying of light goods vehicles:** Income calculated under section 44AE(1) would be ₹ 7,500 x 12 x 5 which is equal to ₹ 4,50,000. However, the income from plying of vehicles as per books is ₹ 3,20,000, which is lower than the presumptive income of ₹ 4,50,000 calculated as per section 44AE(1). Hence, the assessee can adopt the income as per books i.e. ₹ 3,20,000, provided he maintains books of account as per section 44AA and gets his accounts audited and furnishes an audit report as required under section 44AB.

It is to be further noted that in both the above cases, had presumptive income provisions been opted, all deductions under sections 30 to 38, including depreciation would have been deemed to have been given full effect to and no further deduction under those sections would be allowable.

If the assessee opted for income to be assessed on presumptive basis, his total income would be as under:

Particulars	₹
Income from retail trade under section 44AD [₹ 13,57,000 @ 8% plus ₹ 1,22,13,000 @6%]	8,41,340
Income from plying of light goods vehicles under section 44AE [₹ 7,500 x 12 x 5]	4,50,000
	12,91,340
Less: Set off of brought forward depreciation – not possible as it is deemed that it has been allowed and set off	Nil
Total income	12,91,340
Tax thereon	1,99,902
Add : Health and Education cess @4%	7,996
Total tax liability	2,07,898
Total tax liability (rounded off)	2,07,900

Question 10

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

Particulars	Amount (₹)
Loss from speculative business A	25,000
Income from speculative business B	5,000
Loss from specified business covered under section 35AD	20,000
Income from salary (computed)	3,00,000
Loss from let out house property	2,50,000
Income from trading business	45,000
Long-term capital gain from sale of urban land	2,00,000
Long-term capital loss on sale of shares (STT not paid)	75,000
Long-term capital loss on sale of listed shares in recognized stock exchange (STT paid at the time of acquisition and sale of shares)	1,02,000

Following are the brought forward losses:

- (1) Losses from owning and maintaining of race horses pertaining to A.Y. 2023-24 ₹ 2,000.
- (2) Brought forward loss from trading business ₹ 5,000 relating to A.Y. 2020-21.

Compute the total income of Mr. Aditya and show the items eligible for carry forward, assuming that he has exercised the option of shifting out of the default tax regime provided u/s 115BAC(1A). **[SM Q.]**

Question 11

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

	Particulars	₹
(1)	Income from Salary (computed)	15,000
(2)	Income from business	66,000
(3)	Long term capital gain on sale of land	10,800
(4)	Loss on maintenance of race horses	15,000
(5)	Loss from gambling	9,100

The other details of unabsorbed depreciation and brought forward losses pertaining to Assessment Year 2024-25 are as follows:

	Particulars	₹
(1)	Unabsorbed depreciation	11,000
(2)	Loss from Speculative business	22,000
(3)	Short term capital loss	9,800

Compute the Gross total income of Mr. Garg for the Assessment Year 2025-26 and the amount of loss, if any that can be carried forward or not. **[SM Q.]**

Answer 11**Computation of Gross Total Income of Mr. Garg for the A.Y. 2025-26**

Particulars	₹	₹
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Chapter 9: Aggregation of Income, Set-Off and Carry Forward of Losses

Particulars	₹	₹
(i) Income from salary		15,000
(ii) Profits and gains of business or profession	66,000	
Less: Unabsorbed depreciation brought forward from A.Y.2024-25	<u>11,000</u>	55,000
(Unabsorbed depreciation can be set-off against any head of income other than "salary")		
(iii) Capital gains		
Long-term capital gain on sale of land	10,800	
Less: Brought forward short-term capital loss		
[Short-term capital loss can be set-off against both short-term capital gains and long-term capital gains as per section 74(1)]	9,800	1,000
Gross Total Income		71,000

Amount of loss to be carried forward to A.Y.2026-27

	Particulars	₹
(1)	Loss from speculative business [to be carried forward as per section 73] [Loss from a speculative business can be set off only against income from another speculative business. Since there is no income from speculative business in the current year, the entire loss of ₹ 22,000 brought forward from A.Y.2024-25 has to be carried forward to A.Y. 2026-27 for set-off against speculative business income of that year. It may be noted that speculative business loss can be carried forward for a maximum of four years as per section 73(4), i.e., upto A.Y.2028-29]	22,000
(2)	Loss on maintenance of race horses [to be carried forward as per section 74A] [As per section 74A(3), the loss incurred in the activity of owning and maintaining race horses in any assessment year cannot be set-off against income from any other source other than the activity of owning and maintaining race horses. Such loss can be carried forward for a maximum of four assessment years i.e., upto A.Y.2029-30]	15,000
(3)	Loss from gambling can neither be set-off nor be carried forward.	

Question 12

The following are the details relating to Mr. Srivatsan, a resident Indian, aged 57, relating to the year ended 31.3.2025:

Particulars	₹
Income from salaries (computed)	2,20,000
Loss from house property	1,90,000
Loss from cloth business	2,40,000
Income from speculation business	30,000
Loss from specified business covered by section 35AD	20,000
Long-term capital gains from sale of urban land	2,50,000

Particulars	₹
Loss from card games	32,000
Income from betting (Gross)	45,000
Life Insurance Premium paid (10% of the capital sum assured)	45,000

Compute the total income and show the items eligible for carry forward, assuming that he has exercised the option of shifting out of the default tax regime provided u/s 115BAC(1A).

[SM Q.]

Question 13

Mr. Rajat submits the following information for the financial year ending 31st March, 2025. He decides to pay tax under the default tax regime u/s 115BAC. He desires that you should:

- (a) Compute the total income; and
(b) Ascertain the amount of losses that can be carried forward.

Particulars	₹
(i) He has two let out house property:	
(a) House No. I – Income after all statutory deductions	72,000
(b) House No. II – Current year loss	(30,000)
(ii) He has three proprietary businesses:	
(a) Textile Business:	
(i) Discontinued from 31st October, 2024 – Current year loss	40,000
(ii) Brought forward business loss of A.Y. 2020-21	95,000
(b) Chemical Business:	
(i) Discontinued from 1st March, 2022 – hence no profit/loss	Nil
(ii) Bad debts allowed in earlier years recovered during this year	35,000
(iii) Brought forward business loss of A.Y. 2021-22	50,000
(c) Leather Business: Profit for the current year	1,00,000
(d) Share of profit in a firm in which he is partner since 2010	16,550
(iii) (a) Short-term capital gain	60,000
(b) Long-term capital loss	35,000
(iv) Contribution to LIC towards premium	10,000

Answer 13**Computation of total income of Mr. Rajat for the A.Y. 2025-26**

Particulars	₹	₹
1. Income from house property		
House No.1	72,000	
House No.2	(-) 30,000	42,000
2. Profits and gains of business or profession		
Profit from leather business	1,00,000	
Bad debts recovered taxable under section 41(4)	35,000	
	1,35,000	
Less: Current year loss of textile business	(-) 40,000	
	95,000	

Less: Brought forward business loss of textile business for A.Y. 2020-21 set off against the business income of current year	95,000	Nil
3. Capital Gains		
Short-term capital gain		60,000
Gross Total Income		1,02,000
Less: Deduction under Chapter VI-A		
Under section 80C – LIC premium paid (not available since he is paying tax under the default tax regime)		-
Total Income		1,02,000

Statement of losses to be carried forward to A.Y. 2026-27

Particulars	₹
Brought forward chemical business loss of A.Y. 2021-22 to be carried forward u/s 72	50,000
Long term capital loss of A.Y. 2025-26 to be carried forward u/s 74	35,000

Notes:

- (1) Share of profit from firm of ₹ 16,550 is exempt under section 10(2A).
- (2) Long-term capital loss cannot be set-off against short-term capital gains. Therefore, it has to be carried forward to the next year to be set-off against long-term capital gains of that year.

Question 14

Ms. Geeta, a resident individual, provides the following details of her income/losses for the year ended 31.3.2025:

- (i) Salary received as a partner from a partnership firm ₹ 7,50,000. The same was allowed to the firm.
- (ii) Loss on sale of shares listed in BSE ₹ 3,00,000. Shares were held for 15 months and STT paid on sale and acquisition.
- (iii) Long-term capital gain on sale of land ₹ 5,00,000.
- (iv) ₹ 51,000 received in cash from friends in party.
- (v) ₹ 55,000, received towards dividend on listed equity shares of domestic companies.
- (vi) Brought forward business loss of assessment year 2023-24 ₹ 12,50,000.

Compute gross total income of Ms. Geeta for the Assessment Year 2025-26 and ascertain the amount of loss that can be carried forward. **[SM Q.]**

Answer 14**Computation of Gross Total Income of Ms. Geeta for the Assessment Year 2025-26**

Particulars	₹
Profits and gains of business and profession	
Salary received as a partner from a partnership firm is taxable under the head “Profits and gains of business and profession”	7,50,000
Less: B/f business loss of A.Y. 2023-24 ₹ 12,50,000 to be set-off to the extent of ₹ 7,50,000	7,50,000
	Nil
(Balance b/f business loss of ₹ 5,00,000 can be carried forward to the next year)	
Capital Gains	

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Long term capital gain on sale of land	5,00,000	
Less: Long-term capital loss on shares on STT paid (See Note 2 below)	3,00,000	2,00,000
Income from other sources		
Cash gift received from friends - since the value of cash gift exceeds ₹ 50,000, the entire sum is taxable	51,000	
Dividend received from a domestic company is fully taxable in the hands of shareholders	55,000	1,06,000
Gross Total Income		3,06,000

Notes:

- Balance brought forward business loss of assessment year 2023-24 of ₹ 5,00,000 has to be carried forward to the next year.
- Long-term capital loss on sale of shares on which STT is paid at the time of acquisition and sale can be set-off against long-term capital gain on sale of land since long-term capital gain on sale of shares (STT paid) is taxable under section 112A. Therefore, it can be set-off against long-term capital gain on sale of land as per section 70(3).

Question 15

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

Sl. No.	Particulars	₹
(i)	Income from salary (computed)	18,000
(ii)	Net annual value of house property	70,000
(iii)	Income from business	80,000
(iv)	Income from speculative business	12,000
(v)	Long term capital gain on sale of land	15,800
(vi)	Loss on maintenance of race horse	9,000
(vii)	Loss on gambling	8,000

Depreciation allowable under the Income-tax Act, 1961, comes to ₹ 8,000, for which no treatment is given above.

The other details of unabsorbed depreciation and brought forward losses (pertaining to A.Y. 2024-25) are:

Sl. No.	Particulars	₹
(i)	Unabsorbed depreciation	9,000
(ii)	Loss from speculative business	16,000
(iii)	Short term capital loss	7,800

Compute the gross total income of Mr. P for the Assessment year 2025-26, and the amount of loss that can or cannot be carried forward. [SM Q.]

Question 16

Compute total income of Mr. Mathur for the AY 2025-26 from the following information furnished by him for the FY 2024-25. Assuming that he has exercised the option of shifting out of the default tax regime provided u/s 115BAC(1A). **[RTP M-20 Q.]**

Particulars	₹
Salary income (computed)	4,70,000
Loss from self-occupied house property	2,00,000
Loss from let out house property	60,000
Loss from speculation business-X	80,000
Profit from speculation business-Y	40,000
Income from trading and manufacturing business @ 8%	3,50,000
Interest on PPF deposit	95,000
Long term capital gain on sale of Vacant site (Computed)	2,10,000
Short term capital loss on sale of Jewellery	1,50,000
Investment in tax saver deposit on 31-03-2025	60,000
Brought forward loss of business of assessment year 2019-20	5,50,000
Donation to a charitable trust recognized under section 12AA and approved under section 80G paid by cheque	1,10,000
Enhanced compensation received from government for compulsory acquisition of land (held for a period of 5 years) in the year 2009	3,00,000

Answer 16**Computation of total income of Mr. Mathur for A.Y.2025-26**

Particulars	₹	₹
Salaries		4,70,000
Profits and gains from business or profession		
Profit from speculation business Y	40,000	
Less: Loss of ₹80,000 from speculation business X set-off against profit from speculation business Y to the extent of such profit	(40,000)	
Loss of ₹ 40,000 from speculation business X to be carried forward to A.Y. 2026-27 for set-off against profits from speculation business.		
Income from trading and manufacturing business @8%	3,50,000	
Less: Brought forward business loss of A.Y. 2019-20 set-off since a period of eight assessment years has not expired.	(3,50,000)	Nil
Balance loss of ₹ 2,00,000 to be carried forward to A.Y. 2026-27		
Capital Gains		
Enhanced compensation received from government for compulsory acquisition [Taxable in P.Y. 2024-25 since enhanced compensation is taxable on receipt basis]	3,00,000	
Long term capital gain on sale of vacant site	2,10,000	

Particulars	₹	₹
Less: Short term capital loss on sale of jewellery	(1,50,000)	
	3,60,000	
Less: Loss from house property can be set-off to the extent of ₹ 2,00,000 as per section 71(3A) [since long-term capital gains would be chargeable to tax @20%, it would be beneficial to set-off the loss from house property against LTCG]. Balance loss of ₹ 60,000 to be carried forward to A.Y. 2026-27.	(2,00,000)	1,60,000
Income from Other Sources		
Interest on PPF deposit	95,000	
Less: Exempt under section 10(11)	(95,000)	Nil
Gross Total Income		6,30,000
Less: Deduction under Chapter VI-A		
Deduction under section 80C		
Investment in tax saver deposit on 31.3.2025	60,000	
Deduction under section 80G		
Donation to recognized and approved charitable trust [Donation of ₹ 1,10,000 to be first restricted to ₹ 41,000, being 10% of adjusted total income of ₹ 4,10,000 i.e., [₹ 6,30,000 – ₹ 1,60,000 – ₹ 60,000]. Thereafter, deduction would be computed at 50% of ₹ 41,000.	20,500	80,500
Total Income		5,49,500

Question 17

Mr. Krishan, residing in Indore, provides the following information for the financial year 2024-25:

Particulars	₹
Income from textile business	4,60,000
Income from speculation business	25,000
Loss from gambling	12,000
Loss on maintenance of race horse	15,000
Current year depreciation of textile business not adjusted in the income given above.	5,000
Unabsorbed depreciation of assessment year 2023-24	10,000
Speculation business loss of assessment year 2024-25	30,000

Compute the Gross Total Income of Mr. Krishan for the Assessment year 2025-26 and also state the losses eligible for carry forward and period upto which such losses can be carried forward. [RTP N-20 Q.]

Answer 17**Computation of Gross Total Income of Mr. Krishan for A.Y. 2025-26**

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Particulars	₹	₹
Profits and gains of business or profession		
Income from Textile business	4,60,000	
Less: Current year depreciation allowable under section 32(1)	5,000	
	4,55,000	
Less: Unabsorbed depreciation brought forward from A.Y.2023-24 as per section 32(2)	10,000	4,45,000
Income from speculation business		
Current year income from speculation business	25,000	
Less: Speculation business loss for A.Y. 2024-25 set-off as per the provisions of section 73(2)	30,000	
Speculation business loss to be carried forward	(5,000)	Nil
Gross Total Income		4,45,000

Losses eligible for carry forward to A.Y.2026-27

	Particulars	₹
(1)	Loss from speculation business to be carried forward as per section 73 Loss from speculation business can be set off only against income from another speculation business. The remaining loss from speculation business can be carried forward for a maximum of four assessment years immediately succeeding the assessment year for which the loss was first computed. Thus, such loss can be carried forward upto A.Y.2028-29	5,000
(2)	Loss on maintenance of race horses to be carried forward as per section 74A(3) Loss on maintenance of race horses can be set-off only against income from the activity of owning and maintaining race horses. Such loss can be carried forward for a maximum of four assessment years immediately succeeding the assessment year for which the loss was first computed. Thus, such loss can be carried forward upto A.Y. 2029-30	15,000
(3)	Loss from gambling can neither be set-off nor be carried forward.	

Question 18

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

[RTP N-21 Q.]

S. No.	Particulars	(₹)
1.	Income from salary (Computed)	8,20,000
2.	Income from house property (let out) (Net Annual Value)	1,20,000
3.	Share of profit from firm in which she is partner	48,000
4.	Loss from specified business covered under section 35AD	67,000
5.	Income from textile business before adjusting the following items:	3,30,000
	(a) Current year depreciation	53,000

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S. No.	Particulars	(₹)
	(b) Unabsorbed depreciation of earlier year	1,85,000
	(c) Brought forward loss of textile business of the A.Y. 2022-23	1,90,000
6.	Long-term capital gain on sale of debentures (unlisted)	1,50,000
7.	Long-term capital loss on sale of equity shares (STT not paid)	1,50,000
8.	Long-term capital gain on sale of equity shares listed in recognized stock exchange (STT paid at the time of acquisition and sale)	2,50,000
9.	Dividend from units of UTI	1,15,000
10.	Repayment towards housing loan taken from a scheduled bank. Out of this ₹ 3,28,000 was towards payment of interest and rest towards principal.	4,85,000

Compute the Gross Total Income of Ms. Aarti and ascertain the amount of loss that can be carried forward. Ms. Aarti has always filed her return within the due date specified under section 139(1) of the Income-tax Act, 1961. Assuming that she has exercised the option of shifting out of the default tax regime provided u/s 115BAC(1A).

Answer 18

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

Particulars	₹	₹
Salary Income (computed)	8,20,000	
Less: As per section 71(3A), loss from house property of ₹ 2,44,000 can be set-off, to the extent of Income from House Property	2,00,000	6,20,000
Net Annual Value of House Property	1,20,000	
Less: Deduction u/s 24		
(a) 30% of NAV	36,000	
(b) Interest on housing loan	3,28,000	
Loss from house property	(2,44,000)	
Less: Loss eligible for set-off against salary income restricted to	2,00,000	
Loss to be carried forward to A.Y. 2026-27 for set-off against income from house property, if any, in that year.	(44,000)	
Profits and gains of business or profession		
Share of profit from firm [Exempt u/s 10(2A)]	-	
Loss from specified business u/s 35AD ₹ 67,000 [can be set-off only against income from any specified business. Hence, it has to be carried forward to A.Y.2026-27]	-	
Income from textile business	3,30,000	
Less: Current year depreciation	53,000	
	2,77,000	
Less: Brought forward loss of textile business	1,90,000	
	87,000	

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Particulars	₹	₹
Less: Set-off of unabsorbed depreciation to the extent of ₹ 87,000 against business income	87,000	Nil
Capital Gains		
Long-term capital gains on sale of listed equity shares (STT paid)	2,50,000	
Less: Balance unabsorbed depreciation of ₹ 98,000 set-off	98,000	
Long-term capital gains on sale of listed equity shares [Tax is payable u/s 112A @ 10% on the amount exceeding ₹ 1,00,000]	1,52,000	1,52,000
Long-term capital gains on sale of debentures	1,50,000	
Less: Set-off of Long-term capital loss on sale of equity shares (STT not paid) [Since long-term capital gain on sale of unlisted debentures are taxable @20% and long-term term capital gain on sale of listed shares in excess of ₹1,00,000 taxable @10%, it is beneficial to set-off long-term capital loss against LTCG on sale of debentures]	1,50,000	Nil
Income from Other Sources		
Dividend from units of UTI [Taxable in the hands of the unitholders]		1,15,000
Gross Total Income		8,87,000

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

Question 19

Compute the gross total income of Mr. Farhan and show the items eligible for carry forward and the assessment years upto which such losses can be carry forward from the following information furnished by him for the year ended 31-03-2025, Assuming that he has exercised the option of shifting out of the default tax regime provided u/s 115BAC(1A).

Particulars	Amount (₹)
Loss from speculative business MNO	12,000
Income from speculative business BPO	25,000
Loss from specified business covered under section 35AD	45,000
Income from salary (computed)	4,18,000
Loss from house property	2,20,000
Income from trading business	2,80,000
Long-term capital gain from sale of urban land	2,05,000
Long-term capital loss on sale of equity shares (STT not paid)	85,000
Long-term capital loss on sale of listed equity shares in recognized stock	1,10,000

exchange (STT paid at the time of acquisition and sale of shares)	
Short-term capital loss under section 111A	85,000

Following are the brought forward losses:

- (1) Brought forward loss from speculative business MNO ₹ 18,000 relating to A.Y. 2021-22.
- (2) Brought forward loss from trading business of ₹ 12,000 relating to A.Y. 2019-20
- (3) Unabsorbed depreciation ₹ 1,00,000 relating to A.Y. 2024-25

Assume Mr. Farhan has furnished his return of income on or before the due date specified under section 139(1) in all the above previous years. **[MTP Q.]**

Answer 19

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

Particulars	₹	₹
Salaries		
Income from Salary	4,18,000	
Less: Loss from house property set-off against salary	(2,00,000)	2,18,000
[As per section 71(3A), loss from house property to the extent of ₹ 2,00,000 can be set-off against any other head of income.]		
Profits and gains of business or profession		
Income from trading business	2,80,000	
Less: Brought forward loss from trading business of A.Y. 2019-20 can be set off against current year income from trading business as per section 72(1), since the eight-year time limit as specified under section 72(3), within which set-off is permitted, has not expired.	(12,000)	
Less: Unabsorbed depreciation	(1,00,000)	1,68,000
Income from speculative business BPO	25,000	
Less: Loss from speculative business MNO set-off as per section 73(1)	(12,000)	
Loss from speculative business MNO brought forward from A.Y. 2021-22 as per section 73(2), can be set off to the extent of ₹ 13,000. Balance loss will be lapsed, since four years his expired	(13,000)	-
Capital Gains		
Long term capital gain on sale of urban land	2,05,000	
Less: Long term capital loss on sale of shares (STT not paid) set-off as per section 71(3)	(85,000)	
Less: Long-term capital loss on sale of listed equity shares on which STT is paid can also be set-off as per section 71(3), since long-term capital arising on sale of such shares is taxable under section 112A	(1,10,000)	
Less: Short-term capital loss under section 111A as per section 71(2)	(10,000)	-

Chapter 9: Aggregation of Income, Set-Off and Carry Forward of Losses

Gross Total Income	3,86,000
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Items eligible for carried forward to A.Y.2026-27

Particulars	₹
Loss from house property As per section 71B, balance loss not set-off can be carried forward to the next year for set-off against income from house property of that year. It can be carried forward for a maximum of eight assessment years i.e., upto A.Y. 2033-34, in this case.	20,000
Loss from specified business under section 35AD Loss from specified business under section 35AD can be set-off only against profits of any other specified business. If loss cannot be so set-off, the same has to be carried forward to the subsequent year for set off against income from specified business, if any, in that year. As per section 73A(2), such loss can be carried forward indefinitely for set-off against profits of any specified business .	45,000
Short-term capital loss under section 111A Short-term capital loss under section 111A can be set-off against long term or short term capital gains. If it cannot be so set-off, it has to be carried forward to the next year for set-off against capital gains, if any, in that year. It can be carried forward for a maximum of eight assessment years, i.e., upto A.Y.2033-34, in this case, as specified under section 74(1).	75,000

Question 20

Compute the total income of Mr. Praveen (aged 48), a resident Indian, from the following information relating to the financial year ended 31.3.2025. Also, show the items eligible for carry forward, Assuming that he has exercised the option of shifting out of the default tax regime provided u/s 115BAC(1A). **[MTP Q.]**

Particulars	₹
Income from salaries	2,20,000
Loss from house property	2,50,000
Loss from toy business	1,30,000
Income from speculation business	40,000
Loss from specified business covered by section 35AD	20,000
Long-term capital gains from sale of urban land	2,50,000
Long-term capital loss from sale of listed shares in recognized stock exchange (STT paid at the time of acquisition and sale of shares)	1,10,000
Loss from card games	32,000
Income from betting (Gross)	45,000
Life Insurance Premium paid (10% of the capital sum assured)	50,000

Answer 20**Computation of total income of Mr. Praveen for the A.Y.2025-26**

Particulars	₹	₹
Salaries		
Income from salaries	2,20,000	
Less: Loss from house property set-off against salary as per section 71(1) & 71(3A)	2,00,000	20,000
Profits and gains of business or profession		
Income from speculation business	40,000	
Less: Loss from toy business set off	40,000	Nil
Capital gains		
Long-term capital gains from sale of urban land	2,50,000	
Less: Long term capital loss on sale of listed shares on which STT is paid can be set off as per section 74(1), since long-term capital gain arising on sale of such shares is taxable under section 112A	1,10,000	
	1,40,000	
Less: Loss from toy business set off	90,000	50,000
Income from other sources		
Income from betting		45,000
Gross total income		1,15,000
Less: Deduction under section 80C(life insurance premium paid)		20,000
Total income		95,000

Losses to be carried forward:

Particulars	₹
(1) Loss from house property (₹2,50,000 – ₹2,00,000)	50,000
(2) Loss from toy business (₹1,30,000 – ₹40,000 – ₹90,000)	Nil
(3) Loss from specified business covered by section 35AD	20,000

Notes:

- As per section 71(3A), loss from house property can be set-off against any other head of income to the extent of ₹2,00,000 only.
As per section 71B, balance loss not set-off can be carried forward to the next year for set-off against income from house property of that year. It can be carried forward for a maximum of eight assessment years i.e., upto A.Y. 2033-34, in this case.
- Loss from specified business covered by section 35AD can be set-off only against profits and gains of any other specified business. Therefore, such loss cannot be set off against any other income. If loss cannot be so set-off, the same has to be carried forward to the subsequent year for set-off against profits and gains of any specified business, if any, in that year. As per section 73A(2), such loss can be carried forward indefinitely for set-off against profits of any specified business.
- Business loss cannot be set off against salary income. However, business loss of ₹90,000 (₹1,30,000 – ₹40,000 set-off against income from speculation business) can be set-off against long-term capital gains from sale of urban land. Consequently, the taxable long-term capital gains would be ₹50,000.
- Loss from card games can neither be set off against any other income, nor can it be carried forward.
- For providing deduction under Chapter VI-A, gross total income has to be reduced by the amount

of long-term capital gains and casual income. Therefore, the deduction under section 80C in respect of life insurance premium paid has to be restricted to ₹20,000 [i.e., Gross Total Income of ₹1,15,000 – ₹50,000 (LTCG) – ₹45,000 (Casual income)].

- (vi) Income from betting is chargeable at a flat rate of 30% under section 115BB and no expenditure or allowance can be allowed as deduction from such income, nor can any loss be set-off against such income.

Deductions from Gross Total Income

10

Question 1

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

- For grant of deduction u/s 80JJAA, filing of audit report in prescribed form is must for a corporate assessee; filing of return within the due date laid down in section 139(1) is not required.
- Filing of belated return u/s 139(4) of the Income-tax Act, 1961 will debar an assessee from claiming deduction u/s 80QBB if the assessee exercises the option of shifting out of the default tax regime provided u/s 115BAC(1A) (i.e., he pays tax under the optional tax regime).

[SM Q.]

Answer 1

- The statement is **not correct**. Section 80AC stipulates compulsory filing of return of income on or before the due date specified u/s 139(1), as a pre-condition for availing the benefit of deduction, inter alia, u/s 80JJAA.
- The statement is **correct**. As per section 80AC, the assessee has to furnish his return of income on or before the due date specified u/s 139(1), to be eligible to claim deduction under, inter alia, section 80QBB.

Question 2

Compute the eligible deduction u/s 80C for A.Y.2025-26 in respect of life insurance premium paid by Mr. Ganesh during the P.Y.2024-25, the details of which are given hereunder if Mr. Ganesh has exercised the option of shifting out of the default tax regime provided u/s 115BAC(1A) –

[SM Q.]

	Date of issue of policy	Person insured	Actual capital sum assured (₹)	Insurance premium paid during 2024-25(₹)
(i)	30/3/2012	Self	8,00,000	48,000
(ii)	01/5/2018	Spouse	1,50,000	20,000
(iii)	01/6/2021	Handicapped son (section 80U disability)	4,00,000	80,000

Answer 2

	Date of issue of policy	Person insured	Actual capital sum assured (₹)	Insurance premium paid during 2024-25 (₹)	Deduct- ion u/s 80C for A.Y.2025-26 (₹)	Remark (restricted to % of sum assured) (₹)
(i)	30/3/2012	Self	8,00,000	48,000	48,000	20%

	Date of issue of policy	Person insured	Actual capital sum assured (₹)	Insurance premium paid during 2024-25 (₹)	Deduct- ion u/s 80C for A.Y.2025-26 (₹)	Remark (restricted to % of sum assured) (₹)
(ii)	01/5/2018	Spouse	1,50,000	20,000	15,000	10%
(iii)	01/6/2021	Handicapped son (section 80U disability)	4,00,000	80,000	60,000	15%
	Total				1,23,000	

Question 3

The basic salary of Mr. A is ₹ 1,00,000 p.m. He is entitled to dearness allowance, which is 40% of basic salary. 50% of dearness allowance forms part of pay for retirement benefits. Both Mr. A and his employer, ABC Ltd., contribute 15% of basic salary to the pension scheme referred to in section 80CCD. Explain the tax treatment in respect of such contribution in the hands of Mr. A if he has exercised the option of shifting out of the default tax regime provided u/s 115BAC(1A).

What would be your answer if Mr. A pays tax under the default tax regime u/s 115BAC?

Answer 3

(i) **Tax treatment in the hands of Mr. A in respect of employer's and own contribution to pension scheme referred to in section 80CCD, where Mr. A has exercised the option of shifting out of the default tax regime provided u/s 115BAC(1A) [i.e., where Mr. A pays tax under the normal provisions of the Act]**

- Employer's contribution to such pension scheme would be treated as salary since it is specifically included in the definition of "salary" u/s 17(1)(viii). Therefore, ₹ 1,80,000, being 15% of basic salary of ₹ 12,00,000, will be included in Mr. A's salary.
- Mr. A's contribution to pension scheme is allowable as deduction u/s 80CCD(1). However, the deduction is restricted to 10% of salary. Salary, for this purpose, means basic pay plus dearness allowance, if it forms part of pay.

Therefore, "salary" for the purpose of deduction u/s 80CCD for Mr. A would be –

Particulars	₹
Basic salary = ₹ 1,00,000 × 12 =	12,00,000
Dearness allowance = 40% of ₹ 12,00,000 = ₹ 4,80,000	
50% of Dearness Allowance forms part of pay = 50% of ₹ 4,80,000	2,40,000
Salary for the purpose of deduction u/s 80CCD	14,40,000
Deduction u/s 80CCD(1) is restricted to 10% of ₹ 14,40,000 (as against actual contribution of ₹ 1,80,000, being 15% of basic salary of ₹ 12,00,000)	1,44,000
As per section 80CCD(1B), a further deduction of upto ₹ 50,000 is allowable. Therefore, deduction u/s 80CCD(1B) is ₹ 36,000 (₹ 1,80,000 - ₹ 1,44,000).	36,000

₹ 1,44,000 is allowable as deduction u/s 80CCD(1). This would be taken into consideration and be subject to the overall limit of

₹ 1,50,000 u/s 80CCE. ₹ 36,000 allowable as deduction u/s 80CCD(1B) is outside the overall

limit of ₹ 1,50,000 u/s 80CCE.

In the alternative, ₹ 50,000 can be claimed as deduction u/s 80CCD(1B). The balance ₹ 1,30,000 (₹ 1,80,000- ₹ 50,000) can be claimed as deduction u/s 80CCD(1).

- (c) Employer's contribution to pension scheme would be allowable as deduction u/s 80CCD(2), subject to a maximum of 10% of salary. Therefore, deduction u/s 80CCD(2), would also be restricted to ₹ 1,44,000, even though the entire employer's contribution of ₹ 1,80,000 is included in salary u/s 17(1)(viii). However, this deduction of employer's contribution of ₹ 1,44,000 to pension scheme would be outside the overall limit of ₹ 1,50,000 u/s 80CCE i.e., this deduction would be over and above the other deductions which are subject to the limit of ₹ 1,50,000.

(ii) Where Mr. A pays tax under the default tax regime u/s 115BAC

Mr. A would not be eligible for deduction u/s 80CCD(1)/(1B) in respect of his contribution to pension scheme under the default tax regime u/s 115BAC. However, he would be allowed deduction of ₹ 1,80,000 u/s 80CCD(2) in respect of employer's contribution to pension scheme. As amendment made by FA 24 deduction @14% of salary is allowed if assessee pay tax as per default taxation regime.

Question 4

The gross total income of Mr. X for the A.Y.2025-26 is ₹ 8,00,000. He has made the following investments/payments during the F.Y.2024-25 –

Particulars		₹
(1)	Contribution to PPF	1,10,000
(2)	Payment of tuition fees to Apeejay School, New Delhi, for education of his son studying in Class XI	45,000
(3)	Repayment of housing loan taken from Standard Chartered Bank	25,000
(4)	Contribution to approved pension fund of LIC	1,05,000

Compute the eligible deduction under Chapter VI-A for the A.Y.2025-26, if Mr. X exercises the option of shifting out of the default tax regime provided u/s 115BAC(1A). **[SM Q.]**

Answer 4

Computation of deduction under Chapter VI-A for the A.Y.2025-26

Particulars		₹
Deduction u/s 80C		
-	Contribution to PPF	1,10,000
-	Payment of tuition fees to Apeejay School, New Delhi, for education of his son studying in Class XI	45,000
-	Repayment of housing loan	25,000
		1,80,000
Restricted to ₹ 1,50,000, being the maximum permissible deduction u/s 80C		1,50,000
Deduction u/s 80CCC		
-	Contribution to approved pension fund of LIC ₹ 1,05,000	1,05,000
		2,55,000
As per section 80CCE, the aggregate deduction u/s 80C, 80CCC and 80CCD(1) has to be restricted to ₹ 1,50,000		1,50,000
Deduction allowable under Chapter VIA for the A.Y. 2025-26		

Question 5

Mr. A, aged 40 years, paid medical insurance premium of ₹ 20,000 during the P.Y. 2024-25 to insure his health as well as the health of his spouse. He also paid medical insurance premium of ₹ 47,000 during the year to insure the health of his father, aged 63 years, who is not dependent on him. He contributed ₹ 3,600 to Central Government Health Scheme during the year. He has incurred ₹ 3,000 in cash on preventive health check-up of himself and his spouse and ₹ 4,000 by cheque on preventive health check-up of his father. Compute the deduction allowable u/s 80D for the A.Y. 2025-26 if Mr. A has exercised the option of shifting out of the default tax regime provided u/s 115BAC(1A). **[SM Q.]**

Answer 5**Deduction allowable u/s 80D for the A.Y.2025-26**

	Particulars	Actual Payment ₹	Maximum deduction allowable ₹
A.	Premium paid and medical expenditure incurred for self and spouse		
(i)	Medical insurance premium paid for self and spouse	20,000	20,000
(ii)	Contribution to CGHS	3,600	3,600
(iii)	Exp. on preventive health check-up of self & spouse	3,000	1,400
		26,600	25,000
B.	Premium paid or medical expenditure incurred for father, who is a senior citizen		
(i)	Mediclaime premium paid for father, who is over 60 years of age	47,000	47,000
(ii)	Expenditure on preventive health check-up of father	4,000	3,000
		51,000	50,000
	Total deduction u/s 80D (₹ 25,000 + ₹ 50,000)		75,000

Notes:

- (1) The total deduction under A. (i), (ii) and (iii) above should not exceed ₹ 25,000. Therefore, the expenditure on preventive health check-up for self and spouse would be restricted to ₹ 1,400, being (₹ 25,000 – ₹ 20,000 – ₹ 3,600).
- (2) The total deduction under B. (i) and (ii) above should not exceed ₹ 50,000. Therefore, the expenditure on preventive health check-up for father would be restricted to ₹ 3,000, being (₹ 50,000 – ₹ 47,000).
- (3) In this case, the total deduction allowed on account of expenditure on preventive health check-up of self, spouse and father is ₹ 4,400 (i.e., ₹ 1,400 + ₹ 3,000), which is within the maximum permissible limit of ₹ 5,000.

Question 6

Mr. Y, aged 40 years, paid medical insurance premium of ₹ 22,000 during the P.Y. 2024-25 to insure his health as well as the health of his spouse and dependent children. He also paid medical insurance premium of ₹ 33,000 during the year to insure the health of his mother, aged 67 years, who is not dependent on him. He incurred medical expenditure of ₹ 20,000 on his father, aged 71 years, who is not covered under mediclaime policy. His father is also not dependent upon him. He contributed ₹ 6,000 to Central Government Health Scheme during the year. Compute the deduction allowable u/s 80D for the A.Y. 2025-26 if Mr. Y has exercised the option of shifting out of the default tax regime provided u/s 115BAC(1A). **[SM Q.]**

Question 7

Mr. B has taken three education loans on April 1, 2024, the details of which are given below:

	Loan 1	Loan 2	Loan 3
For whose education loan was taken	B	Son of B	Daughter of B
Purpose of loan	MBA	B. Sc.	B.A.
Amount of loan (₹)	5,00,000	2,00,000	4,00,000
Annual repayment of loan (₹)	1,00,000	40,000	80,000
Annual repayment of interest (₹)	20,000	10,000	18,000

Compute the amount deductible u/s 80E for the A.Y.2025-26, assuming he has exercised the option of shifting out of the default tax regime provided u/s 115BAC(1A).

[SM Q.]

Answer 7

Deduction u/s 80E is available to an individual assessee in respect of any interest paid by him in the previous year in respect of loan taken for pursuing his higher education or higher education of his spouse or children. Higher education means any course of study pursued after senior secondary examination.

Therefore, interest repayment in respect of all the above loans would be eligible for deduction.

Deduction u/s 80E = ₹ 20,000 + ₹ 10,000 + ₹ 18,000 = ₹ 48,000.

Question 8

Mr. A purchased a residential house property for self-occupation at a cost of ₹ 45 lakh on 1.4.2019, in respect of which he took a housing loan of ₹ 35 lakh from Bank of India@11% p.a. on the same date. The loan was sanctioned on 28th March, 2017. Compute the eligible deduction in respect of interest on housing loan for A.Y.2025-26 under the provisions of the Income-tax Act, 1961 assuming he has exercised the option of shifting out of the default tax regime provided u/s 115BAC(1A). Assuming that the entire loan was outstanding as on 31.3.2025 and he does not own any other house property.

[SM Q.]

Answer 8

Particulars	₹
Interest deduction for A.Y.2025-26	
(i) Deduction allowable while computing income under the head "Income from house property"	
Deduction u/s 24(b) ₹ 3,85,000 [₹ 35,00,000 × 11%]	
Restricted to	2,00,000
(ii) Deduction under Chapter VI-A from Gross Total Income	
Deduction u/s 80EE ₹ 1,85,000 (₹ 3,85,000 – ₹ 2,00,000)	50,000
Restricted to	

Question 9

The following are the particulars relating to Mr. A, Mr. B, Mr. C and Mr. D, salaried individuals, for A.Y. 2025-26 –

[SM Q.]

Particulars	Mr. A	Mr. B	Mr. C	Mr. D
Amount of loan taken	₹ 43 lakhs	₹ 45 lakhs	₹ 20 lakhs	₹ 15 lakhs
Loan taken from	HFC	Deposit taking NBFC	Deposit taking NBFC	Public sector bank
Date of sanction of loan	1.4.2021	1.4.2021	1.4.2021	30.3.2019
Date of disbursement of loan	1.5.2021	1.5.2021	1.5.2021	1.5.2019
Purpose of loan	Acquisition of residential house property for self-occupation	Acquisition of residential house property for self-occupation	Purchase of electric vehicle for personal use	Purchase of electric vehicle for personal use
Stamp duty value of house property	₹ 45 lakhs	₹ 48 lakhs	-	-
Cost of electric vehicle	-	-	₹ 22 lakhs	₹ 18 lakhs
Rate of interest	9% p.a.	9% p.a.	10% p.a.	10% p.a.

Compute the amount of deduction, if any, allowable under the provisions of the Income-tax Act, 1961 for A.Y.2025-26 in the hands of Mr. A, Mr. B, Mr. C and Mr. D, if they have exercised the option of shifting out of the default tax regime provided u/s 115BAC(1A). Assume that there has been no principal repayment in respect of any of the above loans upto 31.3.2025.

Question 10

Mr. Shiva aged 58 years, has gross total income of ₹ 7,75,000 comprising of income from salary and house property. He has made the following payments and investments:

- Premium paid to insure the life of her major daughter (policy taken on 1.4.2018) (Assured value ₹ 1,80,000) – ₹ 20,000.
- Medical Insurance premium for self – ₹ 12,000; Spouse – ₹ 14,000.
- Donation to a public charitable institution ₹ 50,000 by way of cheque.
- LIC Pension Fund – ₹ 60,000.
- Donation to National Children's Fund - ₹ 25,000 by way of cheque
- Donation to Prime Minister's Drought Relief Fund - ₹ 25,000 by way of cheque
- Donation to approved institution for promotion of family planning - ₹ 40,000 by way of cheque
- Deposit in PPF – ₹ 1,00,000

Compute the total income of Mr. Shiva for A.Y. 2025-26 if he exercises the option of shifting out of the default tax regime provided u/s 115BAC(1A).

Question 11

Mr. Ganesh, a businessman, whose total income (before allowing deduction u/s 80GG) for A.Y.2025-26 is ₹ 4,60,000, paid house rent at ₹ 12,000 p.m. in respect of residential accommodation occupied by him at Mumbai. Compute the deduction allowable to him u/s 80GG for A.Y.2025-26, if he has exercised the option of shifting out of the default tax regime provided u/s 115BAC(1A). [SM Q.]

Answer 11

The deduction u/s 80GG will be computed as follows:

(i) Actual rent paid less 10% of total income

$$\begin{aligned} \text{₹ } 1,44,000 (-) \frac{(10 \times 4,60,000)}{100} &= \text{₹ } 98,000 \text{ (A)} \\ &= \frac{25 \times 4,60,000}{100} = \text{₹ } 1,15,000 \text{ (B)} \end{aligned}$$

(ii) 25% of total income

(iii) Amount calculated at ₹ 5,000 p.m. = ₹ 60,000 (C)

Deduction allowable u/s 80GG [least of (i), (ii) and (iii)] = ₹ 60,000

Question 12

During the P.Y. 2024-25, ABC Ltd., an Indian company,

(1) contributed a sum of ₹ 2 lakh to an electoral trust; and

(2) incurred expenditure of ₹ 25,000 on advertisement in a brochure of a political party.

Is the company eligible for deduction in respect of such contribution/expenditure, assuming that the contribution was made by cheque? If so, what is the quantum of deduction? [SM Q.]

Answer 12

An Indian company is eligible for deduction u/s 80GGB in respect of any sum contributed by it in the previous year to any political party or an electoral trust. Further, the word “contribute” in section 80GGB has the meaning assigned to it in section 293A of the Companies Act, 1956, and accordingly, it includes the amount of expenditure incurred on advertisement in a brochure of a political party.

Therefore, ABC Ltd. is eligible for a deduction of ₹ 2,25,000 u/s 80GGB in respect of sum of ₹ 2 lakh contributed to an electoral trust and ₹ 25,000 incurred by it on advertisement in a brochure of a political party.

It may be noted that there is a specific disallowance u/s 37(2B) in respect of expenditure incurred on advertisement in a brochure of a political party. Therefore, the expenditure of ₹ 25,000 would be disallowed while computing business income/gross total income. However, the said expenditure incurred by an Indian company is allowable as a deduction from gross total income u/s 80GGB.

Question 13

Mr. A has commenced the business of manufacture of computers on 1.4.2024. He employed 350 new employees during the P.Y. 2024-25, the details of whom are as follows –

	No. of employees	Date of employment	Regular/ Casual	Total monthly emoluments per employee (₹)
(i)	75	1.4.2024	Regular	24,000
(ii)	125	1.5.2024	Regular	26,000
(iii)	50	1.8.2024	Casual	24,500
(iv)	100	1.9.2024	Regular	24,000

The regular employees participate in recognized provident fund while the casual employees do not. Compute the deduction, if any, available to Mr. A for A.Y. 2025-26, if the profits and gains derived from manufacture of computers that year is ₹ 75 lakhs and his total turnover is ₹ 10.16 crores.

What would be your answer if Mr. A has commenced the business of manufacture of footwear on 1.4.2024? **[SM Q.]**

Question 14

Mr. Aakash received royalty of ₹ 2,88,000 from a foreign country for a book authored by him, being a work of literary nature. The rate of royalty is 18% of value of books. The expenditure incurred by him for earning this royalty was ₹ 40,000. The amount remitted to India till 30th September, 2024 is ₹ 2,30,000. The remaining amount was not remitted till 31st March, 2025. Compute the amount includible in the gross total income of Mr. Aakash and the amount of deduction which he will be eligible for u/s 80QQB if he has exercised the option of shifting out of the default tax regime provided u/s 115BAC(1A). **[SM Q.]**

Answer 14

The net royalty of ₹ 2,48,000 (i.e., royalty of ₹ 2,88,000 less ₹ 40,000, being expenditure to earn such income) is includible in gross total income.

Deduction u/s 80QQB:	₹
Royalty ₹ 2,88,000 × 15/18 = ₹ 2,40,000	
Restricted to	
Amount brought into India in convertible foreign exchange within the prescribed time	2,30,000
Less: Expenses already allowed as deduction while computing royalty income	40,000
Deduction u/s 80QQB	1,90,000

Question 15

Mr. A, a resident individual aged 61 years, has earned business income (computed) of ₹ 1,35,000, lottery income of ₹ 1,20,000 (gross) during the P.Y. 2024-25. He also has interest on Fixed Deposit of ₹ 30,000 with banks. He invested an amount of ₹ 1,50,000 in Public Provident Fund account. What is the total income of Mr. A for the A.Y. 2025-26, if he has exercised the option of shifting out of the default tax regime provided u/s 115BAC(1A).

[SM Q.]

Answer 15

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

Particulars	₹	₹
Profits and gains of business or profession		1,35,000
Income from other sources		
- Interest on Fixed Deposit with banks		30,000
- lottery income		1,20,000
Gross Total Income		2,85,000
Less: Deductions under Chapter VIA [See Note below]		
U/s 80C		

Particulars	₹	₹
- Deposit in Public Provident Fund	1,50,000	
U/s 80TTB		
- Interest on fixed deposits with banks	30,000	
	1,80,000	
Restricted to		1,65,000
Total Income		1,20,000

Note: In case of resident individuals of the age of 60 years or more, interest on bank fixed deposits qualifies for deduction upto ₹ 50,000 u/s 80TTB.

Though the aggregate of deductions under Chapter VI-A is ₹ 1,80,000, however, the maximum permissible deduction cannot exceed the gross total income exclusive of long term capital gains taxable u/s 112 and section 112A, short-term capital gains covered u/s 111A and winnings from lotteries of the assessee.

Therefore, the maximum permissible deduction under Chapter VI-A = ₹ 2,85,000 – ₹ 1,20,000 = ₹ 1,65,000.

Question 16

Mr. Gurnam, aged 42 years, has salary income (computed) of ₹ 5,50,000 for the previous year ended 31.03.2025. He has earned interest of ₹ 14,500 on the saving bank account with State Bank of India during the year. Compute the total income of Mr. Gurnam for the assessment year 2025-26 from the following particulars, if he has exercised the option of shifting out of the default tax regime provided u/s 115BAC(1A).

- Life insurance premium paid to Birla Sunlife Insurance in cash amounting to ₹ 25,000 for insurance of life of his dependent parents. The insurance policy was taken on 15.07.2019 and the sum assured on life of his dependent parents is ₹ 2,00,000.
- Life insurance premium of ₹ 25,500 paid for the insurance of life of his major son who is not dependent on him. The sum assured on life of his son is ₹ 3,50,000 and the life insurance policy was taken on 30.3.2012.
- Life insurance premium paid by cheque of ₹ 22,500 for insurance of his life. The insurance policy was taken on 08.09.2018 and the sum assured is ₹ 2,00,000.
- Premium of ₹ 26,000 paid by cheque for health insurance of self and his wife.
- ₹ 1,500 paid in cash for his health check-up and ₹ 4,500 paid in cheque for preventive health check-up for his parents, who are senior citizens.
- Paid interest of ₹ 6,500 on loan taken from bank for MBA course pursued by his daughter.
- A sum of ₹ 5,000 donated in cash to an institution approved for purpose of section 80G for promoting family planning.

[SM Q.]

Question 17

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

- During the financial year 2024-25, Mr. Amit paid interest on loan availed by him for his son's higher education. His son is already employed in a firm. Mr. Amit will get the deduction u/s 80E.
- Subscription to notified bonds of NABARD would qualify for deduction u/s 80C.
- In order to be eligible to claim deduction u/s 80C, investment /contribution/ subscription etc. in eligible or approved modes, should be made from out of income chargeable to tax.

- (iv) Where an individual repays a sum of ₹ 30,000 towards principal and ₹ 14,000 as interest in respect of loan taken from a bank for pursuing eligible higher studies, the deduction allowable u/s 80E is ₹ 44,000.
- (v) Mrs. Sheela, widow of Mr. Satish (who was an employee of M/s. XYZ Ltd.), received ₹ 7 lakhs on 1.5.2024, being amount standing to the credit of Mr. Satish in his NPS Account, in respect of which deduction has been allowed u/s 80CCD to Mr. Satish in the earlier previous years. Such amount received by her as a nominee on closure of the account is deemed to be her income for A.Y.2025-26.
- (vi) Mr. Vishal, a Central Government employee, contributed ₹ 50,000 towards Tier II account of NPS. The same would be eligible for deduction u/s 80CCD. He has exercised the option of shifting out of the default tax regime provided u/s 115BAC(1A). [SM Q.]

Answer 17

- (i) **The statement is correct.** The deduction u/s 80E available to an individual in respect of interest on loan taken for his higher education or for the higher education of his relative. For this purpose, relative means, inter alia, spouse and children of the individual. Therefore, Mr. Amit will get the deduction u/s 80E in respect of interest on loan availed by him for his son's higher education. It is immaterial that his son is already employed in a firm. This would not affect Mr. Amit's eligibility for deduction u/s 80E.
- (ii) **The statement is correct.** U/s 80C(2) subscription to such bonds issued by NABARD (as the Central Government may notify in the Official Gazette) would qualify for deduction u/s 80C.
- (iii) **The statement is not correct.** There is no stipulation u/s 80C that the investment, subscription, etc. should be made from out of income chargeable to tax.
- (iv) **The statement is not correct.** Deduction u/s 80E is in respect of interest paid on education loan. Hence, the deduction will be limited to ₹14,000.
- (v) **The statement is not correct.** The proviso to section 80CCD(3) provides that the amount received by the nominee, on closure of NPS account on the death of the assessee, shall not be deemed to be the income of the nominee. Hence, amount received by Mrs. Sheela would not be deemed to be her income for A.Y. 2025-26.
- (vi) **The statement is not correct.** Contribution to Tier II account of NPS would qualify for deduction u/s 80C and not section 80CCD.

Question 18

Examine the allowability of the following, if he has exercised the option of shifting out of the default tax regime provided u/s 115BAC(1A).

- (i) Rajan has to pay to a hospital for treatment ₹ 62,000 and spent nothing for life insurance or for maintenance of dependent disabled.
- (ii) Raja, a resident Indian, has spent nothing for treatment in the previous year and deposited ₹ 25,000 with LIC for maintenance of dependant disabled.
- (iii) Rajan has incurred ₹ 20,000 for treatment and ₹ 25,000 was deposited with LIC for maintenance of dependant disabled.
- (iv) Payment of ₹ 50,000 by cheque to an electoral trust by an Indian company. [SM Q.]

Answer 18

- (i) The deduction of ₹ 75,000 u/s 80DD is allowed, irrespective of the amount of expenditure incurred or paid by the assessee. If the expenditure is incurred in respect of a dependant with severe disability, the deduction allowable is ₹ 1,25,000.
- (ii) The assessee Rajan has deposited ₹ 25,000 for maintenance of dependent disabled. The assessee is, however, eligible to claim ₹ 75,000 since the deduction of ₹ 75,000 is allowed, irrespective of the amount deposited with LIC. In the case of dependant with severe disability, the deduction allowable is ₹ 1,25,000.

- (iii) Section 80DD allows a deduction of ₹ 75,000 irrespective of the actual amount spent on maintenance of a dependent disabled and/or actual amount deposited with LIC. Therefore, the deduction will be ₹ 75,000 even though the total amount incurred/ deposited is only ₹ 45,000. If the dependant is a person with severe disability the quantum of deduction is ₹ 1,25,000.
- (iv) Amount paid by an Indian Company to an electoral trust is eligible for deduction u/s 80GGB from gross total income, since such payment is made otherwise than by way of cash.

Question 19

For the A.Y. 2025-26, the Gross total income of Mr. Chaturvedi, a resident in India, was ₹ 8,18,240 which includes long-term capital gain of ₹ 2,45,000 taxable u/s 112 and Short-term capital gain of ₹ 58,000. The Gross total income also includes interest income of ₹ 12,000 from savings bank deposits with banks and ₹ 40,000 interest on fixed deposits with banks. Mr. Chaturvedi has invested in PPF ₹ 1,20,000 and also paid a medical insurance premium ₹ 51,000. Mr. Chaturvedi also contributed ₹ 50,000 to Public Charitable Trust eligible for deduction u/s 80G by way of an account payee cheque. Compute the total income and tax thereon of Mr. Chaturvedi, who is 70 years old as on 31.3.2025, in a tax efficient manner.

Answer 19

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

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

Computation of total income and tax liability of Mr. Chaturvedi for the A.Y. 2025-26 under the optional tax regime (i.e., the normal provisions of the Act)

Particulars	₹	₹
Gross total income incl. long term capital gain		8,18,240
Less: Long term capital gain		2,45,000
		5,73,240
Less: Deductions under Chapter VI-A		
U/s 80C in respect of PPF deposit	1,20,000	
U/s 80D (it is assumed that premium of ₹ 51,000 is paid by otherwise than by cash. The deduction would be restricted to ₹ 50,000, since	50,000	

Chapter 10: Deductions from Gross Total Income

Mr. Chaturvedi is a senior citizen)		
U/s 80G (See Notes 1 & 2 below)	17,662	
U/s 80TTB (See Note 3 below)	50,000	2,37,662
Total income (excluding long term capital gains)		3,35,578
Total income (including long term capital gains)		5,80,578
Total income (rounded off)		5,80,580
Tax on total income (including long-term capital gains of ₹ 2,45,000)		
LTCG ₹ 2,45,000 x 20%		49,000
Balance total income ₹ 3,35,580 (See Note 4 below)		1,779
		50,779
Add: Health and Education cess @4%		2,031
Total tax liability		52,810

Since the tax liability is lower under the optional tax regime (i.e., normal provisions of the Act) as compared to the default tax regime, Mr. Chaturvedi should exercise the option of shifting out of the default tax regime provided u/s 115BAC(1A).

Notes:

1. Computation of deduction u/s 80G:

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

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

Question 20

Mr. Rajmohan whose gross total income was ₹ 6,40,000 for the financial year 2024-25, furnishes you the following information:

- Stamp duty paid on acquisition of residential house (self-occupied) - ₹ 50,000.
- Five year post office time deposit - ₹ 20,000.

- (iii) Donation to a recognized charitable trust ₹ 25,000 which is eligible for deduction u/s 80G at the applicable rate.
- (iv) Interest on loan taken for higher education of spouse paid during the year - ₹ 10,000.
- Compute the total income of Mr. Rajmohan for the AY 2025-26, if he has exercised the option of shifting out of the default tax regime provided u/s 115BAC(1A). [SM Q.]

Answer 20

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

Particulars	₹	₹
Gross Total Income		6,40,000
Less: Deduction under Chapter VI-A		
<u>U/s 80C</u>		
Stamp duty paid on acquisition of residential house	50,000	
Five year time deposit with Post Office	20,000	
	70,000	
<u>U/s 80E</u>		
Interest on loan taken for higher education of spouse, being a relative.	10,000	
<u>U/s 80G (See Note below)</u>		
Donation to recognized charitable trust (50% of ₹ 25,000)	12,500	92,500
Total Income		5,47,500

Note: In case of deduction u/s 80G in respect of donation to a charitable trust, the net qualifying amount has to be restricted to 10% of adjusted total income, i.e., gross total income less deductions under Chapter VI-A except 80G. The adjusted total income is, therefore, ₹ 5,60,000 (i.e. 6,40,000 – ₹ 80,000), 10% of which is ₹ 56,000, which is higher than the actual donation of ₹ 25,000. Therefore, the deduction u/s 80G would be ₹ 12,500, being 50% of the actual donation of ₹ 25,000.

Question 21

Compute the eligible deduction under Chapter VI-A for the A.Y. 2025-26 of Ms. Roma, aged 40 years, who has a GTI of ₹ 15,00,000 for the A.Y. 2025-26 she has exercised the option of shifting out of the default tax regime provided u/s 115BAC(1A) and provides the following information about her investments/payments during the P.Y. 2024-25: [SM Q.]

Sl. No.	Particulars	Amount (₹)
1.	Life Insurance premium paid (Policy taken on 31-03-2012 and sum assured is ₹ 4,40,000)	35,000
2.	Public Provident Fund contribution	1,50,000
3.	Repayment of housing loan to Bhartiya Mahila Bank, Bangalore	20,000
4.	Payment to L.I.C. Pension Fund	1,40,000
5.	Mediclaime Policy taken for self, wife and dependent children, premium paid by cheque	30,000
6.	Medical Insurance premium paid by cheque for parents (Senior Citizens)	52,000

Answer 21

Computation of eligible deduction under Chapter VI-A of Ms. Roma for A.Y. 2025-26

Particulars	₹	₹
Deduction u/s 80C		
Life insurance premium paid ₹ 35,000 (allowed in full since the same is within the limit of 20% of the sum assured, the policy being taken before 1.4.2012)	35,000	
Public Provident Fund	1,50,000	
Repayment of housing loan to Bhartiya Mahila Bank, Bangalore	20,000	
	2,05,000	
Restricted to a maximum of ₹ 1,50,000	1,50,000	
Deduction u/s 80CCC for payment towards LIC pension fund		
	1,40,000	
	2,90,000	
As per section 80CCE, aggregate deduction under, inter alia, section 80C and 80CCC, is restricted to		1,50,000
Deduction u/s 80D		
Payment of medical insurance premium of ₹ 30,000 towards medical policy taken for self, wife and dependent children restricted to	25,000	
Medical insurance premium paid ₹ 52,000 for parents, being senior citizens, restricted to	50,000	
		75,000
Eligible deduction under Chapter VI-A		2,25,000

Question 22

Compute the deduction available to Mr. Dhyanchand under Chapter VI-A for A.Y.2025-26. Mr. Dhyanchand, aged 65 years, is working with ABC Ltd. His income comprises of salary of ₹ 18,50,000 and interest on fixed deposits of ₹ 75,000. He submits the following particulars of investments and payments made by him during the previous year 2024-25, assume he has exercised the option of shifting out of the default tax regime provided u/s 115BAC(1A)

- Deposit of ₹ 1,50,000 in public provident fund
- Payment of life insurance premium of ₹ 62,000 on the policy taken on 01.4.2017 to insure his life (Sum assured – ₹ 4,00,000).
- Deposit of ₹ 45,000 in a five year term deposit with bank.
- Contributed ₹ 2,10,000, being 15% of his salary (basic salary plus dearness allowance, which forms part of retirement benefits) to the NPS of the Central Government. A matching contribution was made by ABC Ltd.
- On 1.4.2024, mediclaim premium of ₹ 1,08,000 and ₹ 80,000 paid as lumpsum to insure his and his wife (aged 58 years) health, respectively for four years
- Incurred ₹ 46,000 towards medical expenditure of his father, aged 85 years, not dependent on him. No insurance policy taken for his father.
- He spent ₹ 6,000 for the preventive health-check up of his wife.
- He has incurred an expenditure of ₹ 90,000 for the medical treatment of his mother, being a person with severe disability.

[MTP Q.]**Answer 22****Deduction available to Mr. Dhyanchand under Chapter VI-A for A.Y.2025-26**

Section	Particulars	₹	₹
80C	Deposit in public provident fund	1,50,000	
	Life insurance premium paid ₹ 62,000 (deduction	40,000	

Chapter 10: Deductions from Gross Total Income

Section	Particulars	₹	₹
80CCD(1)	restricted to ₹ 40,000, being 10% of ₹ 4,00,000, which is the sum assured, since the policy was taken on or after 01.04.2012)		
	Five year term deposit with bank	45,000	1,50,000
	Restricted to	2,35,000	1,40,000
	Contribution to NPS of the Central Government, ₹ 1,60,000 [₹ 2,10,000 – ₹ 50,000, being deduction u/s 80CCD(1B)], restricted to 10% of salary [₹ 2,10,000 x 10/15] [See Note 1]		2,90,000
80CCE	Aggregate deduction under section 80C and 80CCD(1), ₹ 2,90,000, but restricted to		1,50,000
80CCD(1B)	₹ 50,000 would be eligible for deduction in respect of contribution to NPS of the Central Government		50,000
80CCD(2)	Employer contribution to NPS, restricted to 10% of salary [See Note 2]		1,40,000
80D	(i) (a) Medical insurance premium for self and his wife, deduction would be equal to ₹ 47,000 (₹ 27,000 + ₹ 20,000), being 1/4th of lumpsum premium, since policies would be in force for four previous years.	47,000	
	(b) Preventive health check up ₹ 6,000 for wife restricted to ₹ 3,000 (₹ 50,000 - ₹ 47,000, since maximum allowable deduction is ₹ 50,000 in case assessee or one of the family member is senior citizen)	3,000	
	(ii) Medical Expenditure for his father would be fully allowed as deduction, since no insurance policy is taken on his name	50,000	
	Total of (i) and (ii)	46,000	96,000
80DD	Deduction of ₹ 1,25,000 in respect of expenditure on medical treatment of his mother, being a person with severe disability would be allowed irrespective of the fact that amount of expenditure incurred is ₹ 90,000		1,25,000
80TTB	Interest on fixed deposits with bank of ₹ 75,000, deduction restricted to		50,000
Deduction under Chapter VI-A			6,11,000

Notes:

- (1) The deduction u/s 80CCD(1B) would not be subject to overall limit of ₹ 1.50 lakh u/s 80CCE. Therefore, it is more beneficial for Mr. Dhyanchand to claim deduction u/s 80CCD(1B) first in respect of contribution to NPS. Thereafter, the remaining amount of ₹ 1,60,000 can be claimed as deduction u/s 80CCD(1), subject to a maximum limit of 10% of salary i.e. ₹ 1,40,000.
- (2) The entire employer's contribution to notified pension scheme has to be first included under the head "Salaries" while computing gross total income and thereafter, deduction u/s 80CCD(2) would be allowed, subject to a maximum of 10% of salary. Deduction u/s 80CCD(2) is also not

subject to the overall limit of ₹ 1,50,000 u/s 80CCE.

Question 23

Deepak is retired Government Officer, aged 65 years, resides in Hyderabad, derived following income:

	₹
Pension	6,60,000
Interest from bank on fixed deposits (Gross)	55,000

Compute the total income of Mr. Deepak for the assessment year 2025-26 from the following particulars assume he has exercised the option of shifting out of the default tax regime provided u/s 115BAC(1A).

- Life insurance premium paid by cheque ₹ 22,500 for insurance of his life. The insurance policy was taken on 08-09-2016 and the sum assured is ₹ 2,00,000.
- Premium of ₹ 26,000 paid by cheque for health insurance of self and his wife.
- Paid interest of ₹ 6,500 on loan taken from bank for MBA course pursued by his daughter.
- A sum of ₹ 15,000 donated in cash to an institution approved for the purpose of section 80G for promoting family planning.

[MTP Q.]

Answer 23

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

Particulars	₹	₹
Income under the head "Salaries"		
Pension	6,60,000	
Less: Standard deduction u/s 16(ia)		
Lower of ₹ 50,000 or actual salary/pension	50,000	6,10,000
Income from Other Sources		
Interest from bank on fixed deposit (Gross)		55,000
Gross Total Income		6,65,000
Less: Deduction under Chapter VI-A		
Deduction u/s 80C		
LIC premium of ₹ 22,500 (restricted to 10% of ₹ 2,00,000, being the sum assured, as the policy is taken after 31.3.2012)	20,000	
Deduction u/s 80D		
Premium for health insurance for self and his wife paid by cheque, allowed upto ₹ 50,000 since Mr. Deepak is a senior citizen	26,000	
Deduction u/s 80E		
Interest on loan taken from bank for MBA course pursued by his Daughter	6,500	
Deduction u/s 80G		
Donation to an approved institution for promoting family planning not		

Particulars	₹	₹
allowed since the amount exceeding ₹ 2,000 is paid in cash	Nil	
Deduction u/s 80TTB		
Interest on fixed deposit with bank allowable as deduction upto ₹50,000, since Mr. Deepak is a senior citizen	50,000	
		1,02,500
Total Income		5,62,500

Question 24

Mr. X is a resident individual. He deposits a sum of ₹ 50,000 with Life Insurance Corporation every year for the maintenance of his disabled grandfather who is wholly dependent upon him. The disability is one which comes under the Persons with Disabilities (Equal Opportunities, Protection of Rights and Full Participation) Act, 1995. A copy of the certificate from the medical authority is submitted. Compute the amount of deduction available u/s 80DD for the A.Y. 2025-26 assume he has exercised the option of shifting out of the default tax regime provided u/s 115BAC(1A).

What will be the deduction if Mr. X had made this deposit for his dependant father? [SM Q.]

Answer 24

Since the amount deposited by Mr. X was for his grandfather, he will not be allowed any deduction u/s 80DD. The deduction is available if the individual assessee incurs any expense for a “dependant” disabled person. Grandfather does not come within the meaning of “dependant” as defined u/s 80DD.

If the expense was incurred for a dependant disabled person, Mr. X will be entitled to claim a deduction of ₹ 75,000 u/s 80DD, irrespective of the amount deposited. In case his father has severe disability, the deduction would be ₹ 1,25,000.

Question 25

Y Ltd. furnishes you the following information for the year ended 31.3.2025:

Particulars	₹ (in lacs)
Total turnover of Unit A located in Special Economic Zone	100
Profit of the business of Unit A	30
Export turnover of Unit A	50
Total turnover of Unit B located in Domestic Tariff Area (DTA)	200
Profit of the business of Unit B	20

Compute deduction u/s 10AA for the A.Y. 2025-26, assuming that Y Ltd. commenced operations in SEZ and DTA in the year 2020-21. [SM Q.]

Question 26

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

Particulars	Rudra Ltd. (₹)	Unit in DTA (₹)
Total Sales	6,00,00,000	2,00,00,000
Export Sales	4,60,00,000	1,60,00,000

Chapter 10: Deductions from Gross Total Income

Net Profit	80,00,000	20,00,000
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Calculate the eligible deduction u/s 10AA of the Income-tax Act, 1961, for the Assessment Year 2025-26, in the following situations:

- If both the units were set up and start manufacturing from 22-05-2015.
- If both the units were set up and start manufacturing from 14-05-2020.

[SM Q.]**Question 27**

Mr. Ramesh furnishes the following particulars for the previous year 2024-25 in respect of an industrial undertaking established in "Special Economic Zone" in March 2019. It began manufacturing in April 2019.

Particulars	₹
Total sales	85,00,000
Export sales [proceeds received in India]	45,00,000
Domestic sales	40,00,000
Profit from the above undertaking	20,00,000

Export Sales of F.Y. of 2024-25 include freight and insurance of ₹ 5 lacs for delivery of goods outside India. Compute the amount of deduction available to Mr. Ramesh u/s 10AA for A.Y. 2025-26.

[MTP Q.]**Answer 27****Computation of deduction u/s 10AA for A.Y. 2025-26**

Since A.Y. 2025-26 is the 6th assessment year from A.Y. 2020-21, relevant to the previous year 2019-20, in which the SEZ unit began manufacturing of articles or things, it shall be eligible for deduction of 50% of the profits derived from export of such articles or things, assuming all the conditions specified in section 10AA are fulfilled.

$$\begin{aligned}
 &= \text{Profit of Unit in SEZ} \times \frac{\text{Export turnover of Unit in SEZ} \times 50\%}{\text{Total Turnover of Unit in SEZ}} \\
 &= 20,00,000 \times \frac{40,00,000}{80,00,000} \times 50\% = 5,00,000
 \end{aligned}$$

Working Note:

	₹
Export Turnover	
Sale proceeds received in India	45,00,000
Less: Freight and insurance for delivery of goods outside India to be excluded from export turnover	5,00,000
	40,00,000
Total turnover	85,00,000
Less: Freight and insurance not includible [Since freight and insurance has been excluded from export turnover, the same has to be excluded from total turnover also].	5,00,000
	80,00,000

Question 28

M/s Rajveer, a proprietorship has two units namely, Unit X and Unit Y. Unit X located in Special Economic Zone and Unit Y in Domestic Tariff Area (DTA). The following are the details for the financial year 2024-25:

Particulars	Unit Y (₹)	M/s Rajveer (₹)
Total sales	50,00,000	85,00,000
Export sales	28,00,000	55,00,000
Domestic sales	12,00,000	30,00,000
Net Profit	4,00,000	10,00,000

Total Sales of F.Y. 2024-25 include freight of ₹ 5 lacs for delivery of goods outside India with respect to Unit X.

Both the units were set up and started manufacturing from 20.6.2021. Compute the amount of deduction available to M/s Rajveer u/s 10AA for the A.Y. 2025-26.

[RTP Nov-21 Q.]

Answer 28**Computation of deduction u/s 10AA for A.Y. 2025-26**

Since A.Y. 2025-26 is the 4th assessment year from A.Y. 2022-23, relevant to the previous year 2021-22, in which the SEZ unit began manufacturing of articles or things or provide any services, it shall be eligible for deduction of 100% of the profits derived from export of such articles or things or from services, assuming all the other conditions specified in section 10AA are fulfilled.

$$\begin{aligned}
 &= \text{Profit of Unit in SEZ} \times \frac{\text{Export turnover of Unit in SEZ} \times 100\%}{\text{Total Turnover of Unit in SEZ}} \\
 &= 6,00,000 \times \frac{22,00,000}{30,00,000} \times 100\% = 4,40,000
 \end{aligned}$$

Working Note:**Computation of total sales, export sales and net profit of Unit X**

Particulars	M/s Rajveer (₹)	Unit Y (₹)	Unit X (₹)
Total sales	85,00,000	50,00,000	35,00,000
Export sales	55,00,000	28,00,000	27,00,000
Domestic sales	30,00,000	12,00,000	18,00,000
Net Profit	10,00,000	4,00,000	6,00,000
Export Turnover			
Sale proceeds			27,00,000
Less: Freight not includible in export turnover			5,00,000
			22,00,000
Total turnover			35,00,000
Less: Freight not includible [Since freight has been excluded from export turnover, the same has to be excluded from total turnover also].			5,00,000
			30,00,000

Advance Tax, Tax Deduction at Source and Introduction to Tax Collection at Source

Question 1

Mr. A, the employer, pays gross salary including allowances and monetary perquisites amounting to ₹ 7,30,000 to his General Manager. Besides, the employer provides non-monetary perquisites to him whose value is estimated at ₹ 1,20,000. The General Manager is exercising the option to shift out of the default tax regime and pay tax under the optional tax regime as per the normal provisions of the Act. What is the tax implication in the hands of Mr. A, the employer and General Manager, the employee?

Answer 1

	₹
Gross salary, allowances and monetary perquisites	7,30,000
Non-Monetary perquisites	<u>1,20,000</u>
	8,50,000
Less: Standard deduction under section 16(ia)	<u>50,000</u>
	<u>8,00,000</u>
Tax Liability	75,400
Average rate of tax ($\text{₹ } 75,400 / \text{₹ } 8,00,000 \times 100$)	9.425%

Mr. A can deduct ₹ 75,400 at source from the salary of the General Manager at the time of payment.

Alternatively, Mr. A can pay tax on non-monetary perquisites as under – Tax on non-monetary perquisites = 9.425% of ₹ 1,20,000 = ₹ 11,310

Balance to be deducted from salary = ₹ 64,090

If Mr. A pays tax of ₹ 11,310 on non-monetary perquisites, the same is not a deductible expenditure as per section 40(a). The amount of tax paid towards non-monetary perquisite by the employer, however, is not chargeable to tax in the hands of the employee as per section 10(10CC).

Question 2

Examine the TDS implications under section 194A in the cases mentioned hereunder–

- On 1.10.2024, Mr. Harish made a six-month fixed deposit of ₹ 10 lakh@9% p.a. with ABC Co-operative Bank. The fixed deposit matures on 31.3.2024.
- On 1.6.2024, Mr. Ganesh made three nine months fixed deposits of ₹ 3 lakh each, carrying interest@9% p.a. with Dwarka Branch, Janakpuri Branch and Rohini Branch of XYZ Bank, a bank which has adopted CBS. The fixed deposits mature on 28.2.2025.
- On 1.10.2024, Mr. Rajesh started a six months recurring deposit of ₹ 2,00,000 per month@8% p.a. with PQR Bank. The recurring deposit matures on 31.3.2025. [SM-Q]

Answer 2

- (i) ABC Co-operative Bank has to deduct tax at source@10% on the interest of ₹ 45,000 ($9\% \times ₹ 10 \text{ lakh} \times \frac{1}{2}$) under section 194A. The tax deductible at source under section 194A from such interest is, therefore, ₹ 4,500.
- (ii) XYZ Bank has to deduct tax at source@10% u/s 194A, since the aggregate interest on fixed deposit with the three branches of the bank is ₹ 60,750 [$3,00,000 \times 3 \times 9\% \times 9/12$], which exceeds the threshold limit of ₹ 40,000. Since XYZ Bank has adopted CBS, the aggregate interest credited/paid by all branches has to be considered. Since the aggregate interest of ₹ 60,750 exceeds the threshold limit of ₹ 40,000, tax has to be deducted@10% u/s 194A.
- (iii) No tax has to be deducted under section 194A by PQR Bank on the interest of ₹ 28,000 falling due on recurring deposit on 31.3.2025 to Mr. Rajesh, since such interest does not exceed the threshold limit of ₹ 40,000

Question 3

ABC Ltd. makes the following payments to Mr. X, a contractor, for contract work during the P.Y.2024-25—

₹ 20,000 on 1.5.2024

₹ 25,000 on 1.8.2024

₹ 28,000 on 1.12.2024

On 1.3.2025, a payment of ₹ 30,000 is due to Mr. X on account of a contract work.

Discuss whether ABC Ltd. is liable to deduct tax at source under section 194C from payments made to Mr. X. **[SM Q.]**

Answer 3

In this case, the individual contract payments made to Mr. X does not exceed ₹ 30,000. However, since the aggregate amount paid to Mr. X during the P.Y. 2024-25 exceeds ₹ 1,00,000 (on account of the last payment of ₹ 30,000, due on 1.3.2025, taking the total from ₹ 73,000 to ₹ 1,03,000), the TDS provisions under section 194C would get attracted. Tax has to be deducted@1% on the entire amount of ₹ 1,03,000 from the last payment of ₹ 30,000 and the balance of ₹ 28,970 (i.e., ₹ 30,000 – ₹ 1,030) has to be paid to Mr. X.

Question 4

Certain concessions are granted to transport operators in the context of cash payments u/s 40A(3) and deduction of tax at source u/s 194-C. Elucidate. **[SM Q.]**

Answer 4

Section 40A(3) provides for disallowance of expenditure incurred in respect of which payment or aggregate of payments made to a person in a day exceeds ₹ 10,000, and such payment or payments are made otherwise than by account payee cheque or account payee bank draft or use of electronic clearing system through bank account or through other prescribed electronic modes.

However, in case of payment made to transport operators for plying, hiring or leasing goods carriages, the disallowance will be attracted only if the payment made to a person in a day exceeds ₹ 35,000. Therefore, payment or aggregate of payments up to ₹ 35,000 in a day can be made to a transport operator otherwise than by way of account payee cheque or account payee bank draft or use of electronic system through bank account or through other prescribed electronic modes, without attracting disallowance u/s 40A(3).

Under section 194C, tax had to be deducted in respect of payments made to contractors at the rate of 1%, in case the payment is made to individual or Hindu Undivided Family or at the rate of 2%, in any other case.

However, no deduction is required to be made from any sum credited or paid or likely to be credited or paid during the previous year to the account of a contractor, during the course of the business of plying, hiring or leasing goods carriages, if the following conditions are fulfilled:-

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

Question 5

Examine the applicability of the provisions for tax deduction at source under section 194DA in the following cases -

- (i) Mr. X, a resident, is due to receive ₹ 4.50 lakhs on 31.3.2025, towards maturity proceeds of LIC policy taken on 1.4.2022, for which the sum assured is ₹ 4 lakhs and the annual premium is ₹ 1,25,000.
- (ii) Mr. Y, a resident, is due to receive ₹ 3.95 lakhs on 31.3.2025 on LIC policy taken on 31.3.2012, for which the sum assured is ₹ 3.50 lakhs and the annual premium is ₹ 26,100.
- (iii) Mr. Z, a resident, is due to receive ₹ 95,000 on 1.8.2024 towards maturity proceeds of LIC policy taken on 1.8.2018 for which the sum assured is ₹ 90,000 and the annual premium was ₹ 10,000. [SM Q.]

Question 6

Moon TV, a television channel, made payment of ₹ 50 lakhs to a production house for production of programme for telecasting as per the specifications given by the channel. The copyright of the programme is also transferred to Moon TV. Would such payment be liable for tax deduction at source under section 194C? Discuss.

Also, examine whether the provisions of tax deduction at source under section 194C would be attracted if the payment was made by Moon TV for acquisition of telecasting rights of the content already produced by the production house. [SM Q.]

Answer 6

In this case, since the programme is produced by the production house as per the specifications given by Moon TV, a television channel, and the copyright is also transferred to the television channel, the same falls within the scope of definition of the term 'work' under section 194C. Therefore, the payment of ₹ 50 lakhs made by Moon TV to the production house would be subject to tax deduction at source under section 194C.

If, however, the payment was made by Moon TV for acquisition of telecasting rights of the content already produced by the production house, there is no contract for "carrying out any work", as required in section 194C(1). Therefore, such payment would not be liable for tax deduction at source under section 194C.

Question 7

XYZ Ltd. pays ₹ 50,000 per month as rent to the Mr. Kishore for a building in which one of its branches is situated. Discuss whether TDS provisions under section 194-I are attracted.

Answer 7

Section 194-I, which governs the deduction of tax at source on payment of rent, exceeding ₹ 2,40,000 p.a., is applicable to all taxable entities except individuals and HUFs, whose total sales, gross receipts or turnover from the business or profession carried on by him does not exceed ₹ 1 crore in case of business and ₹ 50 lakhs in case of profession during the financial year immediately preceding financial year in which such rent was credited or paid, is liable to deduct tax at source.

Since the rent paid by XYZ Ltd. to Mr. Kishore exceeds ₹ 2,40,000, the provisions of section 194-I for deduction of tax at source attracted.

The rate applicable for deduction at source under section 194-I on rent paid is 10%, assuming that Mr. Kishore had furnished his PAN to XYZ Ltd.

Chapter 11: Advance Tax, TDS and Introduction to TCS

Therefore, the amount of tax to be deducted at source

$$= ₹ 6,00,000 \times 10\% = ₹ 60,000$$

Question 8

Mr. X, a salaried individual, pays rent of ₹ 55,000 per month to Mr. Y from June, 2024 for immovable property. Is he required to deduct tax at source? If so, when is he required to deduct tax? Also, compute the amount of tax to be deducted at source.

Would your answer change if Mr. X vacated the premises on 31st December, 2024? Also, what would be your answer if Mr. Y does not provide his PAN to Mr. X? **[SM Q.]**

Question 9

XYZ Ltd. makes a payment of ₹ 28,000 to Mr. Ganesh on 2.8.2024 towards fees for professional services and another payment of ₹ 25,000 to him on the same date towards fees for technical services. Discuss whether TDS provisions under section 194J are attracted. **[SM Q.]**

Answer 9

TDS provisions under section 194J would not get attracted, since the limit of ₹ 30,000 is applicable for fees for professional services and fees for technical services, separately. It is assumed that there is no other payment to Mr. Ganesh towards fees for professional services and fees for technical services during the P.Y.2024-25.

Question 10

Examine whether TDS provisions would be attracted in the following cases, and if so, under which section. Also specify the rate of TDS applicable in each case. Assume that all payments are made to residents. **[SM Q.]**

	Particulars of the payer	Nature of payment	Aggregate of payments made in the F.Y.2024-25
1	Mr. Ganesh, an individual carrying on retail business with turnover of ₹ 2.5 crores in the P.Y.2023-24	Contract Payment for repair of residential house	₹ 5 lakhs
		Payment of commission to Mr. Vallish for business purposes	₹ 80,000
2.	Mr. Rajesh, a wholesale trader whose turnover was ₹ 95 lakhs in P.Y. 2023-24.	Contract Payment for reconstruction of residential house (made during the period January- March, 2025)	₹ 20 lakhs in January, 2025, ₹ 15 lakhs in Feb 2025 and ₹ 20 lakhs in March 2025.
3.	Mr. Satish, a salaried individual	Payment of brokerage for buying a residential house in March, 2025	₹ 51 lakhs
4.	Mr. Dheeraj, a pensioner	Contract payment made during October-November 2024 for reconstruction of residential house	₹ 48 lakhs

Question 11

Mr. X sold his house property in Bangalore as well as his rural agricultural land for a consideration of ₹ 60 lakh and ₹ 15 lakh, respectively, to Mr. Y on 1.8.2024. He has purchased the house property and the land in the year 2023 for ₹ 40 lakh and ₹ 10 lakh, respectively. The stamp duty value on the date of transfer, i.e., 1.8.2024, is ₹ 85 lakh and ₹

20 lakh for the house property and rural agricultural land, respectively. Examine the tax implications in the hands of Mr. X and Mr. Y and the TDS implications, if any, in the hands of Mr. Y, assuming that both Mr. X and Mr. Y are resident Indians.

Question 12

Mr. Sharma, a resident Indian aged 77 years, gets pension of ₹ 52,000 per month from the UP State Government. The same is credited to his savings account in SBI, Lucknow Branch. In addition, he gets interest@8% on fixed deposit of ₹ 20 lakh with the said bank. Out of the deposit of ₹ 20 lakh, ₹ 2 lakh represents five year term deposit made by him on 1.4.2024. Interest on savings bank credited to his SBI savings account for the P.Y.2024-25 is ₹ 9,500.

- (1) From the above facts, compute the total income and tax liability of Mr. Sharma for the A.Y. 2025-26, assuming that he has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A).
- (1) What would be the amount of tax deductible at source by SBI, assuming that the same is a specified bank? Is Mr. Sharma required to file his return of income for A.Y.2025-26, if tax deductible at source has been fully deducted? Examine.
- (2) Would your answer to Q.2 be different if the fixed deposit of ₹ 20 lakh was with Canara Bank instead of SBI, other facts remaining the same? **[SM Q.]**

Answer 12

(1) Computation of total income of Mr. Sharma for A.Y.2025-26

Particulars	₹	₹
I Salaries		
Pension (52,000 x 12)	6,24,000	
Less: Standard deduction u/s 16(ia)	50,000	
		5,74,000
II Income from Other Sources		
Interest on fixed deposit (₹ 20 lakh x 8%)	1,60,000	
Interest on savings account	9,500	
		1,69,500
Gross total income		7,43,500
Less: Deductions under Chapter VI-A		
Under Section 80C		
Five year term deposit (₹ 2 lakh, restricted to ₹ 1.5 lakh)	1,50,000	
Under section 80TTB		
Interest on fixed deposit and savings account, restricted to 50,000, since Mr. Sharma is a resident Indian of the age of 77 years.	50,000	
		2,00,000
Total Income		5,43,500
Computation of tax liability for A.Y.2025-26		
Tax payable [₹ 43,500 x 20% + ₹ 10,000]		18,700
Add: Health and Education Cess@4%		748
Tax liability		19,448
Tax liability (rounded off)		19,450

- (2) SBI, being a specified bank, is required to deduct tax at source u/s 194P (after considering the tax, if any, deducted on pension u/s 192) and remit the same to the Central Government. In such a

case, Mr. Sharma would not be required to file his return of income u/s 139.

- (3) If the fixed deposit of ₹ 20 lakh is with a bank other than SBI, which is the bank where his pension is credited, then, Mr. Sharma would not qualify as a “specified senior citizen”, consequent to which SBI would not be liable to deduct tax under section 194P. In this case, Mr. Sharma would have to file his return of income u/s 139, since his total income (without giving effect to deduction under Chapter VI-A) exceeds the basic exemption limit.

It may be noted that in this case, TDS provisions u/s 192 would, in any case, be attracted in respect of pension income. Further, Canara Bank would, be liable to deduct tax@10% under section 194-A on interest on fixed deposit, since the same exceeds ₹ 50,000.

Question 13

Mr. Gupta, a resident Indian, is in retail business and his turnover for F.Y.2023-24 was ₹ 12 crores. He regularly purchases goods from another resident, Mr. Agarwal, a wholesaler, and the aggregate payments during the F.Y.2024-25 was ₹ 95 lakh (₹ 20 lakh on 1.6.2024, ₹ 25 lakh on 12.8.2024, ₹ 22 lakh on 23.11.2024 and ₹ 28 lakh on 25.3.2025). Assume that the said amounts were credited to Mr. Agarwal's account in the books of Mr. Gupta on the same date. Mr. Agarwal's turnover for F.Y.2023-24 was ₹ 15 crores.

- (1) Based on the above facts, examine the TDS/TCS implications, if any, under the Income-tax Act, 1961.
- (2) Would your answer be different if Mr. Gupta's turnover for F.Y.2023-24 was ₹ 8 crores, all other facts remaining the same?
- (3) Would your answer to (1) and (2) change, if PAN has not been furnished by the buyer or seller, as required?

[SM Q.]

Answer 13

- (1) Since Mr. Gupta's turnover for F.Y.2023-24 exceeds 10 crores, and payments made by him to Mr. Agarwal, a resident seller exceed ₹ 50 lakhs in the P.Y.2024-25, he is liable to deduct tax@0.1% of ₹ 45 lakhs (being the sum exceeding ₹ 50 lakhs) in the following manner –

No tax is to be deducted u/s 194Q on the payments made on 1.6.2024 and 12.8.2024, since the aggregate payments till that date i.e. 45 lakhs, has not exceeded the threshold of ₹ 50 lakhs. Tax of ₹ 1,700 (i.e., 0.1% of ₹ 17 lakhs) has to be deducted u/s 194Q from the payment/ credit of ₹ 22 lakh on 23.11.2024 [₹ 22 lakh – ₹ 5 lakhs, being the balance unexhausted threshold limit].

Tax of ₹ 2,800 (i.e., 0.1% of ₹ 28 lakhs) has to be deducted u/s 194Q from the payment/ credit of ₹ 28 lakhs on 25.3.2025.

Note – In this case, since both section 194Q and 206C(1H) applies, tax has to be deducted u/s 194Q.

- (2) If Mr. Gupta's turnover for the F.Y.2023-24 was only ₹ 8 crores, TDS provisions under section 194Q would not be attracted. However, TCS provisions under section 206C(1H) would be attracted in the hands of Mr. Agarwal, since his turnover exceeds ₹ 10 crores in the F.Y.2023-24 and his receipts from Mr. Gupta exceed ₹ 50 lakhs.

No tax is to be collected u/s 206C(1H) on 1.6.2024 and 12.8.2024, since the aggregate receipts till that date i.e. 45 lakhs, has not exceeded the threshold of ₹ 50 lakhs.

Tax of ₹ 1,700 (i.e., 0.1% of ₹ 17 lakhs) has to be collected u/s 206C(1H) on 23.11.2024 (₹ 22 lakh – ₹ 5 lakhs, being the balance unexhausted threshold limit).

Tax of ₹ 2,800 (i.e., 0.1% of ₹ 28 lakhs) has to be collected u/s 206C(1H) on 25.3.2025.

- (3) In case (1), if PAN is not furnished by Mr. Agarwal to Mr. Gupta, then, Mr. Gupta has to deduct tax@5%, instead of 0.1%. Accordingly, tax of ₹ 85,000 (i.e., 5% of ₹ 17 lakhs) and ₹ 1,40,000 (5% of ₹ 28 lakhs) has to be deducted by Mr. Gupta u/s 194Q on 23.11.2024 and 25.3.2025, respectively.

In case (2), if PAN is not furnished by Mr. Gupta to Mr. Agarwal, then, Mr. Agarwal has to

collect tax@1% instead of 0.1%. Accordingly, tax of ₹ 17,000 (i.e., 1% of ₹ 17 lakhs) and ₹ 28,000 (1% of ₹ 28 lakhs) has to be collected by Mr. Agarwal u/s 206C(1H) on 23.11.2024 and 25.3.2025, respectively.

Question 14

An amount of ₹ 40,000 was paid to Mr. X on 1.7.2024 towards fees for professional services without deduction of tax at source. Subsequently, another payment of ₹ 50,000 was due to Mr. X on 28.2.2025, from which tax@10% (amounting to ₹ 9,000) on the entire amount of ₹ 90,000 was deducted. However, this tax of ₹ 9,000 was deposited only on 22.6.2025. Compute the interest chargeable under section 201(1A). [SM Q.]

Answer 14

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

Particulars	₹
1% on tax deductible but not deducted i.e., 1% on ₹ 4,000 for 8 months	320
1½% on tax deducted but not deposited i.e. 1½% on ₹ 9,000 for 4 months	540
	860

Question 15

Ashwin doing manufacture and wholesale trade furnishes you the following information:

Total turnover for the financial year

[SM Q.]

Particulars	₹
2023-24	1,05,00,000
2024-25	95,00,000

Examine whether tax deduction at source provisions are attracted for the below said expenses incurred during the financial year 2024-25:

Particulars	₹
Interest paid to UCO Bank on 15.8.2024	41,000
Contract payment to Raj (2 contracts of ₹ 12,000 each) on 12.12.2024	24,000
Shop rent paid (one payee) on 21.1.2025	2,50,000
Commission paid to Balu on 15.3.2025	7,000

Answer 15

As the turnover of business carried on by Ashwin for F.Y. 2023-24, has exceeded ₹ 1 crore, he has to comply with the tax deduction provisions during the financial year 2024-25, subject to, the exemptions provided for under the relevant sections for applicability of TDS provisions.

Interest paid to UCO Bank

TDS under section 194A is not attracted in respect of interest paid to a banking company.

Contract payment of ₹ 24,000 to Raj for 2 contracts of ₹ 12,000 each

TDS provisions under section 194C would not be attracted if the amount paid to a contractor does not exceed ₹ 30,000 in a single payment or ₹ 1,00,000 in the aggregate during the financial year. Therefore, TDS provisions under section 194C are not attracted in this case.

Shop Rent paid to one payee – Tax has to be deducted@10% under section 194-I as the annual rental payment exceeds ₹ 2,40,000.

Commission paid to Balu – No, tax has to be deducted under section 194H in this case as the commission does not exceed ₹ 15,000.

Question 16

Compute the amount of tax deduction at source on the following payments made by M/s. S Ltd. during the financial year 2024-25 as per the provisions of the Income-tax Act, 1961.

[SM Q.]

Sr. No.	Date	Nature of Payment
(i)	1-10-2024	Payment of ₹ 2,00,000 to Mr. R, a transporter who owns 8 goods carriages throughout the previous year and furnishes a declaration to this effect alongwith his PAN.
(ii)	1-11-2024	Payment of fee for technical services of ₹ 25,000 and Royalty of ₹ 20,000 to Mr. Shyam who is having PAN.
(iii)	30-06-2024	Payment of ₹ 25,000 to M/s X Ltd. for repair of building.
(iv)	01-01-2025	Payment of ₹ 2,00,000 made to Mr. A for purchase of diaries made according to specifications of M/s S Ltd. However, no material was supplied for such diaries to Mr. A by M/s S Ltd or its associates.
(v)	01-01-2025	Payment of ₹ 2,30,000 made to Mr. Bharat for compulsory Acquisition of his house as per law of the State Government.
(vi)	01-02-2025	Payment of commission of ₹ 14,000 to Mr. Y.

Answer 16

- (i) No tax is required to be deducted at source under section 194C by M/s S Ltd. on payment to transporter Mr. R, since he satisfies the following conditions:
- (1) He owns ten or less goods carriages at any time during the previous year.
 - (2) He is engaged in the business of plying, hiring or leasing goods carriages;
 - (3) He has furnished a declaration to this effect along with his PAN.
- (ii) As per section 194J, liability to deduct tax is attracted only in case the payment made as fees for technical services and royalty, individually, exceeds ₹ 30,000 during the financial year. In the given case, since, the individual payments for fee of technical services i.e., ₹ 25,000 and royalty ₹ 20,000 is less than ₹ 30,000 each, there is no liability to deduct tax at source. It is assumed that no other payment towards fees for technical services and royalty were made during the year to Mr. Shyam.
- (iii) Provisions of section 194C are not attracted in this case, since the payment for repair of building on 30.06.2024 to M/s. X Ltd. is less than the threshold limit of ₹ 30,000.
- (iv) According to section 194C, the definition of “work” does not include the manufacturing or supply of product according to the specification by customer in case the material is purchased from a person other than the customer or associate of such customer.
Therefore, there is no liability to deduct tax at source in respect of payment of ₹ 2,00,000 to Mr. A, since the contract is a contract for ‘sale’.
- (v) As per section 194LA, any person responsible for payment to a resident, any sum in the nature of compensation or consideration on account of compulsory acquisition under any law, of any immovable property, is responsible for deduction of tax at source if such payment or the aggregate amount of such payments to the resident during the financial year exceeds ₹ 2,50,000.
In the given case, no liability to deduct tax at source is attracted as the payment made does not exceed ₹ 2,50,000.
- (vi) As per section 194H, tax is deductible at source if the amount of commission or brokerage or the aggregate of the amounts of commission or brokerage credited or paid during the financial year exceeds ₹ 15,000.
Since the commission payment made to Mr. Y does not exceed ₹ 15,000, the provisions of section 194H are not attracted.

Question 17

Examine the applicability of TDS provisions and TDS amount in the following cases:

- Rent paid for hire of machinery by B Ltd. to Mr. Raman ₹ 2,60,000 on 27.9.2024.
- Fee paid on 1.12.2024 to Dr. Srivatsan by Sundar (HUF) ₹ 35,000 for surgery performed on a member of the family.
- ABC and Co. Ltd. paid ₹ 19,000 to one of its Directors as sitting fees on 01-01-2025.

[SM Q.]

Answer 17

- Since the rent paid for hire of machinery by B. Ltd. to Mr. Raman exceeds ₹ 2,40,000, the provisions of section 194-I for deduction of tax at source are attracted.

The rate applicable for deduction of tax at source under section 194-I on rent paid for hire of plant and machinery is 2%, assuming that Mr. Raman had furnished his permanent account number to B Ltd.

Therefore, the amount of tax to be deducted at source: = ₹ 2,60,000 x 2% = ₹ 5,200.

Note: In case Mr. Raman does not furnish his permanent account number to B Ltd., tax shall be deducted @ 20% on ₹ 2,60,000, by virtue of provisions of section 206AA.

- As per the provisions of section 194J, a Hindu Undivided Family is required to deduct tax at source on fees paid for professional services only if the total sales, gross receipts or turnover from the business or profession exceed ₹ 1 crore in case of business or ₹ 50 lakhs in case of profession, as the case may be, in the financial year preceding the current financial year and such payment made for professional services is not exclusively for the personal purpose of any member of Hindu Undivided Family.

Section 194M, provides for deduction of tax at source by a HUF (which is not required to deduct tax at source under section 194J) in respect of fees for professional service if such sum or aggregate of such sum exceeds ₹ 50 lakhs during the financial year.

In the given case, the fees for professional service to Dr. Srivatsan is paid on 1.12.2024 for a personal purpose, therefore, section 194J is not attracted. Section 194M would have been attracted, if the payment or aggregate of payments exceeded ₹ 50 lakhs in the P.Y.2024-25. However, since the payment does not exceed ₹ 50 lakh in this case, there is no liability to deduct tax at source under section 194M also.

- Section 194J provides for deduction of tax at source @10% from any sum paid by way of any remuneration or fees or commission, by whatever name called, to a resident director, which is not in the nature of salary on which tax is deductible under section 192. The threshold limit of ₹ 30,000 upto which the provisions of tax deduction at source are not attracted in respect of every other payment covered under section 194J is, however, not applicable in respect of sum paid to a director.

Therefore, tax@10% has to be deducted at source under section 194J in respect of the sum of ₹ 19,000 paid by ABC Ltd. to its director.

Therefore, the amount of tax to be deducted at source: = ₹ 19,000 x 10% = ₹ 1,900

Question 18

Examine the applicability of tax deduction at source provisions, the rate and amount of tax deduction in the following cases for the financial year 2024-25:

- Payment made by a company to Mr. Ram, sub-contractor, ₹ 3,00,000 with outstanding balance of ₹ 1,20,000 shown in the books as on 31-03-2025.
- Winning from horse race ₹ 1,50,000 paid to Mr. Shyam, an Indian resident.
- ₹ 2,00,000 paid to Mr. A, a resident individual, on 22-02-2025 by the State of Uttar Pradesh on compulsory acquisition of his urban land.

[SM Q.]

Answer 18

- (1) Provisions of tax deduction at source under section 194C are attracted in respect of payment by a company to a sub-contractor. Under section 194C, tax is deductible at the time of credit or payment, whichever is earlier @ 1% in case the payment is made to an individual.

Since the aggregate amount credited or paid during the year is ₹ 4,20,000, tax is deductible @ 1% on ₹ 4,20,000. —

Tax to be deducted = ₹ 4,20,000 x 1% = ₹ 4,200

- (2) Under section 194BB, tax is to be deducted at source, if the winnings from horse races exceed ₹ 10,000. The rate of deduction of tax at source is 30%.

Hence, tax to be deducted = ₹ 1,50,000 x 30% = ₹ 45,000.

- (3) As per section 194LA, any person responsible for payment to a resident, any sum in the nature of compensation or consideration on account of compulsory acquisition under any law, of any immovable property, is required to deduct tax at source, if such payment or the aggregate amount of such payments to the resident during the financial year exceeds ₹ 2,50,000.

In the given case, there is no liability to deduct tax at source as the payment made to Mr. A does not exceed ₹ 2,50,000.

Question 19

Briefly discuss the provisions relating to payment of advance tax on income arising from capital gains and casual income. [SM Q.]

Answer 19

The proviso to section 234C contains the provisions for payment of advance tax in case of capital gains and casual income.

Advance tax is payable by an assessee on his/its total income, which includes capital gains and casual income like income from lotteries, crossword puzzles, etc.

Since it is not possible for the assessee to estimate his capital gains, or income from lotteries etc., it has been provided that if any such income arises after the due date for any instalment, then, the entire amount of the tax payable (after considering tax deducted at source) on such capital gains or casual income should be paid in the remaining instalments of advance tax, which are due.

Where no such instalment is due, the entire tax should be paid by 31st March of the relevant financial year.

No interest liability on late payment would arise if the entire tax liability is so paid.

Note: In case of casual income the entire tax liability is fully deductible at source @30% under section 194B and 194BB. Therefore, advance tax liability would arise only if the surcharge, if any, and health and education cess@4% in respect thereof, along with tax liability in respect of other income, if any, is ₹ 10,000 or more.

Question 20

Mr. Jay having total income of ₹ 8,70,000, did not pay any advance tax during the previous year 2024-25. He wishes to pay the whole of the tax, along with interest if any, on filing the return in the month of July, 2025. What is total tax which Mr. Jay has to deposit as self-assessment tax along with interest, if he files the return on 29.07.2025? Assume that he opt out from default regime u/s 115BAC. [Past RTP Q.]

Answer 20

Obligation to pay advance tax arises in every case, where the advance tax payable is ₹ 10,000 or more. As a consequence of such failure, assessee may be charged with interest under section 234B and 234C.

In the given case, since Mr. Jay did not deposit any amount of advance tax during the previous year, he will need to pay the total tax due on his income along with interest for default in payment of

advance tax [under section 234B] and interest for deferment of advance tax [under section 234C] before filing of his return.

Total tax due on returned income of ₹ 8,70,000 is ₹ 89,960 [(20% of ₹ 3,70,000 + ₹ 12,500) + cess@4%]

Interest under section 234B

Interest under section 234B is attracted - a) When the assessee, who is liable to pay advance tax has failed to pay such tax; or b) Where the advance tax paid by the assessee is less than 90% of the assessed tax.

Since, Mr. Jay did not pay any amount as advance tax, interest under section 234B at 1% per month or part of the month will be levied beginning from 1st April of the following year i.e., 01.04.2025 till the time he deposits the whole tax under self- assessment.

Interest will be levied on tax liability of ₹ 89,900 (rounded off to nearest hundred, ignoring fraction) at 1% for four months i.e., from 1st April to 29th July.

The interest under section 234B amount to ₹ 3,596

Interest under section 234C

Assessee, other than assessee who declare profits and gains in accordance with provision of section 44AD(1) or section 44ADA(1), are liable to pay advance tax in 4 installments during the previous year. Section 234C is attracted, if the actual installment paid by the assessee is the less than the amount required to be paid by him on such instalments. The interest shall be calculated at 1% per month or part of the month for short payment or non-payment of each instalment.

In the given scenario, since Mr. Jay, did not deposit any amount as advance tax, the interest under section 234C is calculated as under –

Date of Instalment	Specified % of estimated tax	Amount due and unpaid (rounded off to nearest ₹ 100, ignoring fraction)	Period	Interest @ 1%
15th June 2024	15%	13,400	3 months	402
15th September 2024	45%	40,400	3 months	1,212
15th December 2024	75%	67,400	3 months	2,022
15th March 2025	100%	89,900	1 month	899
Total interest under section 234C				4,535

Mr. Jay needs to pay ₹ 98,091 as total of tax and interest on or before filing of return in the month of July, 2025.

Question 21

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

- Mr. Kunal received a sum of ₹ 10,20,000 on 28.02.2025 as pre-mature withdrawal from Employees Provident Fund Scheme before continuous service of 5 years on account of termination of employment due to ill-health.
- Indian Bank sanctioned and disbursed a loan of ₹ 12 crores to B Ltd. on 31-12-2024. B Ltd. paid a sum of ₹ 1,20,000 as service fee to Indian Bank for processing the loan application.
- Mr. Agam, working in a private company, is on deputation for 5 months (from October, 2024 to February, 2025) at Mumbai where he pays a monthly house rent of ₹ 32,000 for those five months, totalling to ₹ 1,60,000. Rent is paid by him on the first day of the relevant month.

[MTP Q.]

Question 22

Determine the advance tax payable by Mr. Deepak with their due dates for the assessment year 2025-26. [MTP Q.]

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

Answer 22
Computation of Advance Tax Payable for the A.Y 2025-26

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

Due dates for payment of advance tax

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

Question 23

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

- (i) Ms. Sarla received a sum of ₹ 95,000 on 30th September 2024 towards maturity proceeds of LIC taken on 1st October 2018 for which sum assured was ₹ 80,000 and annual premium was ₹ 10,000.
- (ii) Mr. Rohit transferred a residential house property to Mr. Arun for ₹ 45 lacs. The stamp duty value of such property is ₹ 55 lacs.
- (iii) Akash (P) Limited pays the following amounts to Mr. Santosh during previous year 2024-25:
 - (a) ₹ 22,000 towards fee for professional services
 - (b) ₹ 18,000 towards royalty.

- (iv) Payment of ₹ 1,75,000 made to Mr. Ankit for purchase of bag according to specifications of M/s. Packaging Limited. However, no material was supplied for such bag by Packaging Limited or its associates to Mr. Ankit.
- (v) ABC Private Limited pays ₹ 12,000 to Ms. Deepika, its director, on 1.5.2024 towards sitting fee which is not taxable u/s 192.
- (vi) Rashi Limited is engaged by Jigar Limited for the sole purpose of business of operation of call centre. On 18-03-2025, the total amount credited by Jigar Limited in the ledger account of Rashi Limited is ₹ 70,000 regarding service charges of call centre. The amount is paid through cheque on 28-03-2025 by Jigar Limited.
- (vii) Ms. Mohit won a lucky draw prize of ₹ 21,000. The lucky draw was organized by M/s. Maximus Retail Ltd. for its customer.

[MTP Q.]

Question 24

Examine whether TDS provisions would be attracted in the following cases, and if so, under which section. Also specify the rate of TDS and amount required to be deducted at source as applicable in each case. Assume that all payments are made to residents.

S. No.	Particulars of the payer	Nature of payment	Aggregate of payments made in the F.Y. 2024-25 (Amt. in ₹)
(A)	Mr. Kale, receiving pension from Central Government	Contractual payment made during April 2024 for reconstruction of his residential house in Arunachal Pradesh	52,50,000
(B)	Mr. Rahul, a wholesale trader of spices whose turnover was ₹ 5 crores F.Y. 2023-24	Contract payment for construction of office godown during January to March 2025 to Mr. Akhilesh, an individual	50,00,000
(C)	Mr. Golu, an individual carrying garment trading business with turnover of ₹ 95 lakhs in F.Y. 2023-2024	Payment of commission to Mr. Vinay for securing a contract from a big business house in November 2024	1,20,000
(D)	XYZ Urban Co-operative bank	Payment by way of cash withdrawal, by ABC & Co. a partnership firm, amounting ₹ 1.2 crores during Financial Year 2024-25. ABC & Co. has filed its tax returns for the last 3 financial years with in time.	1,20,00,000

(2 x 4 = 8 Marks)

Question 25

- (a) State in brief the applicability of provisions of tax deduction at source, the rate and amount of tax deduction in the following cases for the financial year 2024 -25 under Income-tax Act, 1961. Assume that all payments are made to residents:

- (i) Mr. Mahesh has paid ₹ 6,00,000 on 15.10.2024 to M/s Fresh Cold Storage Pvt. Ltd. for preservation of fruits and vegetables. He is engaged in the wholesale business of fruits & vegetable in India having turnover of ₹ 3 Crores during the previous year 2023-24.
 - (ii) Mr. Ramu, a salaried individual, has paid rent of ₹ 60,000 per month for house property to Mr. Shiv Kumar from 1st July, 2024 to 31st March, 2025. Mr. Shiv Kumar has not furnished his Permanent Account Number.
- (b) Examine the following transactions with reference to applicability of the provision of tax collected at source and the rate and amount of the TCS for the Assessment year 2025-26.
- (i) Mr. Kalpit bought an overseas tour programme package for Singapore for himself and his family of ₹ 5 lakhs on 01-06-2024 from an agent who is engaged in organising foreign tours in course of his business. He made the payment by an account payee cheque and provided the permanent account number to the seller. Assuming Kalpit is not liable to deduct tax at source under any other provisions of the Act.
 - (ii) Mr. Anu doing business of textile as a proprietor. His turnover in the business is ₹ 11 crores in the previous year 2023-24. He received payment against sale of textile goods from Mr. Ram of ₹ 75 lakhs against the sales made to him in the previous year and preceding previous years. (Assuming all the sales are domestic sales and Mr. Ram is neither liable to deduct tax on the purchase from Mr. Anu nor he deducted any tax at source).

(DEC 21 Exam)

Provisions for Filing return of Income and Self Assessment

Question 1

Paras aged 55 years is a resident of India. During the F.Y. 2024-25, interest of ₹ 2,88,000 was credited to his Non-resident (External) Account with SBI. ₹ 30,000, being interest on fixed deposit with SBI, was credited to his saving bank account during this period. He also earned ₹ 3,000 as interest on this saving account. Is Paras required to file return of income? Assume NRI account permitted with the approval of RBI.

What will be your answer, if he has incurred ₹3 lakhs as travel expenditure of self and spouse to US to stay with his married daughter for some time? **[SM Q.]**

Answer 1

An individual is required to furnish a return of income under section 139(1) if his total income, before giving effect to the deductions under Chapter VI-A or exemption under section or section 54/54B/54D/54EC or 54F, exceeds the maximum amount not chargeable to tax i.e. ₹ 3,00,000 under default tax regime u/s 115BAC and ₹ 2,50,000 if exercises the option of shifting out of the default tax regime provided u/s 115BAC(1A) (for A.Y. 2025-26)

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

Particulars	₹
Income from other sources	
Interest earned from Non-resident (External) Account ₹ 2,88,000	
[Exempt under section 10(4)(ii), assuming that Mr. Paras has been permitted by RBI to maintain the aforesaid account]	NIL
Interest on fixed deposit with SBI	30,000
Interest on savings bank account	3,000
Gross Total Income	33,000
Less: Deduction u/s 80TTA (Interest on saving bank account)	3,000
Total Income	30,000

Since the total income of Mr. Paras for A.Y.2025-26, before giving effect, inter alia, to the deductions under Chapter VI-A, is less than the basic exemption limit, he is not required to file return of income for A.Y.2025-26.

If he has incurred expenditure of ₹ 3 lakhs on foreign travel of self and spouse, he has to mandatorily file his return of income on or before the due date under section 139(1), even if his income is less than the basic exemption limit.

Question 2

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

- (i) Belated return filed under section 139(4).
- (ii) Return already revised once under section 139(5).
- (iii) Return of loss filed under section 139(3).

[SM Q.]**Answer 2**

Any person who has furnished a return under section 139(1) or 139(4) can file a revised return at any time before three months prior to the end of the relevant assessment year or before the completion of assessment, whichever is earlier, if he discovers any omission or any wrong statement in the return filed earlier. Accordingly,

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

Question 3

Mrs. Hetal, an individual engaged in the business of Beauty Parlour, has got her books of account for the financial year ended on 31st March, 2025 audited under section 44AB. Her total income for the assessment year 2025-26 is ₹ 6,35,000. She wants to furnish her return of income for assessment year 2025-26 through a tax return preparer. Can she do so?

[SM Q.]**Answer 3**

Section 139B provides a scheme for submission of return of income for any assessment year through a Tax Return Preparer. However, it is not applicable to persons whose books of account are required to be audited under section 44AB. Therefore, Mrs. Hetal cannot furnish her return of income for A.Y.2025-26 through a Tax Return Preparer.

Question 4

State with reasons whether you agree or disagree with the following statements:

- (a) Return of income of Limited Liability Partnership (LLP) could be verified by any partner.
- (b) Time limit for filing return under section 139(1) in the case of Mr. A having total turnover of ₹ 160 lakhs (₹ 100 lakhs received in cash) for the year ended 31.03.2025, whether or not opting to offer presumptive income under section 44AD, is 31st October, 2025.

[SM Q.]**Answer 4****(a) Disagree**

The return of income of LLP should be verified by a designated partner.

Any other partner can verify the Return of Income of LLP only in the following cases:-

- (i) where for any unavoidable reason such designated partner is not able to verify the return, or,
- (ii) where there is no designated partner.

(b) Disagree

In case Mr. A opts to offer his income as per the presumptive taxation provisions of section 44AD, then, the due date under section 139(1) for filing of return of income for the year ended 31.03.2025, shall be 31st July, 2025.

In case, Mr. A does not opt for presumptive taxation provisions under section 44AD, he has to get his accounts audited under section 44AB, since his turnover exceeds ₹ 1 crore, in which case, the due date for filing return would be 31st October, 2025.

Question 5

Mr. Vineet exercised the option of shifting out of the default tax regime provided u/s 115BAC(1A) and submits his return of income on 12-09-2025 for A.Y 2025-26 consisting of income under the head "Salaries", "Income from house property" and bank interest. On 21-12-2025, he realized that he had not claimed deduction under section 80TTA in respect of his interest income on the Savings Bank Account. He wants to revise his return of income. Can he do so? Examine. Would your answer be different if he discovered this omission on 21-03-2026? **[SM Q.]**

Answer 5

Vineet has filed his original return of income for assessment year 2023-24 within the due date specified in section 139(4) for filing belated return. Since Mr. Vineet has income only under the heads "Salaries", "Income from house property" and "Income from other sources", he does not fall under the category of a person whose accounts are required to be audited under the Income-tax Act, 1961 or any other law in force. Therefore, the due date of filing return for A.Y.2025-26 under section 139(1), in his case, is 31st July, 2025. Since Mr. Vineet had submitted his return only on 12.9.2025, the said return is a belated return under section 139(4).

As per section 139(5), a return furnished under section 139(1) or a belated return u/s 139(4) can be revised. Thus, a belated return under section 139(4) can also be revised. Therefore, Mr. Vineet can revise the return of income filed by him under section 139(4) in December 2025, to claim deduction under section 80TTA, since the time limit for filing a revised return is three months prior to the end of the relevant assessment year, which is 31.12.2025.

However, he cannot revise return had he discovered this omission only on 21.03.2026, since it is beyond 31.12.2025.

Question 6

Examine with reasons, whether the following statements are true or false, with regard to the provisions of the Income-tax Act, 1961:

- (i) The Assessing Officer has the power, inter alia, to allot PAN to any person by whom no tax is payable.
- (ii) Where the Karta of a HUF is absent from India, the return of income can be verified by any male member of the family. **[SM Q.]**

Answer 6

(i) **True:** Section 139A(2) provides that the Assessing Officer may, having regard to the nature of transactions as may be prescribed, also allot a PAN to any other person, whether any tax is payable by him or not, in the manner and in accordance with the procedure as may be prescribed.

(ii) **False:** Section 140(b) provides that where the Karta of a HUF is absent from India, the return of income can be verified by any other adult member of the family; such member can be a male or female member.

Question 7

Explain the term "return of loss" under the Income-tax Act, 1961. Can any loss be carried forward even if return of loss has not been filed as required? **[SM Q.]**

Answer 7

A return of loss is a return which shows certain losses. Section 80 provides that the losses specified therein cannot be carried forward, unless such losses are determined in pursuance of return filed under the provisions of section 139(3).

Section 139(3) states that to carry forward the losses specified therein, the return should be filed within the time specified in section 139(1).

Following losses are covered by section 139(3):

- business loss to be carried forward under section 72(1),
- speculation business loss to be carried forward under section 73(2),
- loss from specified business to be carried forward under section 73A(2).
- loss under the head “Capital Gains” to be carried forward under section 74(1); and
- loss incurred in the activity of owning and maintaining race horses to be carried forward under section 74A(3)

However, loss from house property to be carried forward under section 71B and unabsorbed depreciation under section 32 can be carried forward even if return of loss has not been filed as required under section 139(3).

Question 8

Mr. Aakash has undertaken certain transactions during the F.Y.2024-25, which are listed below. You are required to identify the transactions in respect of which quoting of PAN is mandatory in the related documents – **[SM Q.]**

S. No.	Transaction
1.	Payment of life insurance premium of ₹ 45,000 in the F.Y.2024-25 by account payee cheque to LIC for insuring life of self and spouse
2.	Payment of ₹ 1,00,000 to a five-star hotel for stay for 5 days with family, out of which ₹ 60,000 was paid in cash
3.	Payment of ₹ 80,000 by ECS through bank account for acquiring the debentures of A Ltd., an Indian company
4.	Payment of ₹ 95,000 by account payee cheque to Thomas Cook for travel to Dubai for 3 days to visit relatives
5.	Applied to SBI for issue of credit card.

Answer 8

	Transaction	Is quoting of PAN mandatory in related documents?
1.	Payment of life insurance premium of ₹ 45,000 in the F.Y.2024-25 by account payee cheque to LIC for insuring life of self and spouse	No, since the amount paid does not exceed ₹ 50,000 in the F.Y.2024-25.
2.	Payment of ₹ 1,00,000 to a five-star hotel for stay for 5 days with family, out of which ₹ 60,000 was paid in cash	Yes, since the amount paid in cash exceeds ₹ 50,000
3.	Payment of ₹ 80,000, by ECS through bank account, for acquiring the debentures of A Ltd., an Indian company	Yes, since the amount paid for acquiring debentures exceeds ₹ 50,000. Mode of payment is not relevant in this case.

	Transaction	Is quoting of PAN mandatory in related documents?
4.	Payment of ₹ 95,000 by account payee cheque to Thomas Cook for travel to Dubai for 3 days to visit relatives	No, since the amount was paid by account payee cheque, quoting of PAN is not mandatory even though the payment exceeds ₹ 50,000
5.	Applied to SBI for issue of credit card.	Yes, quoting of PAN is mandatory on making an application to a banking company for issue of credit card.

Question 9

Mr. Sudarshan, due to inadvertent reasons, failed to file his Income-tax return for the assessment year 2025-26 on or before the due date of filing such return of income.

- Can he file the above return after due date of filing return of income? If yes, which is the last date for filing the above return?
- What are the consequences of non-filing the return within the due date under section 139(1)?

[RTP M-20 Q.]

Answer 9

If any person fails to furnish a return within the time allowed to him under section 139(1), he may furnish the belated return for any previous year at any time -

- 3 months prior to the end of the relevant assessment year; or
- before the completion of the assessment, whichever is earlier.

The last date for filing return of income for A.Y.2025-26, therefore, is 31st December 2026. Thereafter, Mr. Sudarshan cannot furnish a belated return after this date.

Consequences for non-filing return of Income within the due date under section 139(1)

Carry forward and set-off of certain losses: Business loss, speculation business loss, loss from specified business under section 35AD, loss under the head “Capital Gains”; and loss from the activity of owning and maintaining race horses, would not be allowed to be carried forward for set-off against income of subsequent years, where a return of income is not furnished within the time allowed under section 139(1).

Interest under section 234A: Interest under section 234A@1% per month or part of the month for the period commencing from the date immediately following the due date under section 139(1) till the date of furnishing of return of income is payable, where the return of income is furnished after the due date.

Fee under section 234F: Fee of ₹ 5,000 would be payable under section 234F, if the return of income is not filed on or before the due date specified in section 139(1). However, such fee cannot exceed ₹ 1,000, if the total income does not exceed ₹ 5,00,000.

Question 10

- What is the fee for default in furnishing return of income u/s 234F?
- To whom the provisions of section 139AA relating to quoting of Aadhar Number do not apply?

[MTP Q.]

Answer 10

(i) Fee for default in furnishing return of income u/s 234F

Where a person, who is required to furnish a return of income under section 139, fails to do so within the prescribed time limit under section 139(1), he shall pay, by way of fee, a sum of ₹5,000. However, such fee cannot exceed ₹ 1,000, if the total income does not exceed ₹ 5,00,000.

(ii) Persons to whom provisions of section 139AA relating to quoting of Aadhar Number does not apply

The provisions of section 139AA relating to quoting of Aadhar Number would not apply to an individual who does not possess the Aadhar number or Enrolment ID and is:

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

Income Tax Liability Computation and Optimisation [Total Income & Tax liability]

Question 1

Mr. A, aged 32 years, is employed with XYZ (P) Ltd. on a basic salary of ₹ 50,000 p.m. He has received transport allowance of ₹ 15,000 p.m. and house rent allowance of ₹ 20,000 p.m. from the company for the P.Y. 2024-25. He has paid rent of ₹ 25,000 p.m. for an accommodation in Delhi. Mr. A has paid interest of ₹ 2,10,000 for housing loan taken for the construction of his house in Mumbai. The construction of the house is completed in March, 2024 and his parents live in that house.

Other Information

- Contribution to PPF - ₹ 1,50,000
- Contribution to pension scheme referred to in section 80CCD - ₹ 50,000
- Payment of medical insurance premium for father, who is of the age of 65 - ₹ 55,000
- Payment of medical insurance premium for self and spouse - ₹ 32,000

Compute the total income and tax liability of Mr. A for the A.Y. 2025-26 in the most beneficial manner.

Question 2

Miss Charlie, an American national, got married to Mr. Radhey of India in USA on 2.03.2024 and came to India for the first time on 16.03.2024. She left for USA on 19.9.2024. She returned to India again on 27.03.2025. While in India, she had purchased a show room in Mumbai on 30.04.2024, which was leased out to a company on a rent of ₹ 25,000 p.m. from 1.05.2024. She had taken loan from a bank for purchase of this show room on which bank had charged interest of ₹ 97,500 upto 31.03.2025. She had received the following cash gifts from her relatives and friends during 1.4.2024 to 31.3.2025:

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

(a) Determine her residential status and compute the total income chargeable to tax along with the amount of tax liability on such income for the Assessment Year 2025-26 if she opts out of the default tax regime u/s 115BAC.

(a) Would her residential status undergo any change, assuming that she is a person of Indian origin and her total income from Indian sources is ₹18,00,000 and she is not liable to tax in USA?

[SM Q.]

Answer 2

I. U/s 6(1), an individual is said to be resident in India in any previous year, if he/she satisfies any one of the following conditions:

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

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

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

Therefore, the residential status of Miss Charlie, an American National, for A.Y.2025-26 has to be determined on the basis of her stay in India during the previous year relevant to A.Y. 2025-26 i.e., P.Y.2024-25 and in the preceding four assessment years.

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

P.Y. 2024-25

01.04.2024 to 19.09.2024	-	172 days
27.03.2025 to 31.03.2025	-	<u>5 days</u>
Total		<u>177 days</u>

Four preceding previous years

P.Y. 2023-24 [1.4.2023 to 31.3.2024] -		16 days
P.Y.2022-23 [1.4.2022 to 31.3.2023]	-	Nil
P.Y.2021-22 [1.4.2021 to 31.3.2022]	-	Nil
P.Y.2020-21 [1.4.2020 to 31.3.2021]	-	<u>Nil</u>
Total		<u>16 days</u>

The total stay of the assessee during the previous year in India was less than 182 days and during the four years preceding this year was for 16 days. Therefore, due to non-fulfilment of any of the two conditions for a resident, she would be treated as non-resident for the Assessment Year 2025-26.

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

Particulars	₹	₹
Income from house property		
Show room located in Mumbai remained on rent from 01.05.2024 to 31.03.2025 @ ₹ 25,000/- p.m.	2,75,000	
Gross Annual Value [₹ 25,000 x 11] (See Note 1 below)		
Less: Municipal taxes	Nil	
Net Annual Value (NAV)	2,75,000	
Less: Deduction u/s 24		
30% of NAV	82,500	
Interest on loan	97,500	
	1,80,000	95,000
Income from other sources		
Cash gifts received from non-relatives is chargeable to tax as per section 56(2)(x), if the aggregate value of such gifts exceeds ₹ 50,000.		
- ₹50,000 received from parents of husband would be exempt, since parents of husband fall within the definition of 'relative' and gifts from a relative are not chargeable to tax.	Nil	
- ₹11,000 received from married sister of husband is exempt, since sister-in-law falls within the definition of relative and gifts from a relative are not chargeable to tax.	Nil	
- Gift received from two friends of husband ₹ 1,51,000 and ₹ 21,000 aggregating to ₹ 1,72,000 is taxable u/s 56(2)(x) since the		

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aggregate of ₹ 1,72,000 exceeds ₹ 50,000. (See Note 2 below)	1,72,000	1,72,000
Total income		2,67,000

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

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

Notes:

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

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

If she is a person of Indian origin and her total income from Indian sources exceeds ₹ 15,00,000 (₹ 18,00,000, in her case), the condition of stay in India for a period exceeding 120 days during the previous year and 365 days during the four immediately preceding previous years would be applicable for being treated as a resident. Since her stay in India exceeds 120 days in the P.Y. 2024-25 but the period of her stay in India during the four immediately preceding previous years is less than 365 days (only 16 days), her residential status as per section 6(1) would continue to be same i.e., non-resident in India.

Further, since she is not a citizen of India, the provisions of section 6(1A) deeming an individual to be a citizen of India would not get attracted in her case, even though she is a person of Indian origin and her total income from Indian sources exceeds ₹ 15,00,000 and she is not liable to pay tax in USA.

Therefore, her residential status would be non-resident in India for the previous year 2024-25.

Question 3

Dr. Niranjana, a resident individual, aged 60 years is running a clinic in Surat. Her Income and Expenditure Account for the year ending March 31st, 2025 is as under:

Expenditure		1 B₹		Income	2 B₹
To	Medicine consumed	35,38,400	By	Consultation and medical charges	58,85,850
To	Staff salary	13,80,000	By	Income-tax refund (principal ₹ 5,000, interest ₹ 450)	5,450
To	Clinic consumables	1,10,000	By	Dividend from units of UTI (Gross)	10,500

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Expenditure		1 B₹	Income		2 B₹
To	Rent paid	90,000	By	Winning from game show on T.V. (net of TDS of ₹ 15,000)	35,000
To	Administrative expenses	2,55,000	By	Rent	27,000
To	Amount paid to Scientific research association approved u/s 35	1,50,000			
To	Net profit	4,40,400			
		59,63,800			59,63,800

- Rent paid includes ₹ 30,000 paid by cheque towards rent for her residential house in Surat.
- Clinic equipments are:
1.4.2024 Opening W.D.V. - ₹ 5,00,000
7.12.2024 Acquired (cost) by cheque - ₹ 2,00,000
- Rent received relates to residential house property situated at Surat. Gross Annual Value ₹ 27,000. The municipal tax of ₹ 2,000, paid in December, 2024, has been included in "administrative expenses".
- She received salary of ₹ 7,500 p.m. from "Full Cure Hospital" which has not been included in the "consultation and medical charges".
- Dr. Niranjana availed a loan of ₹ 5,50,000 from a bank for higher education of her daughter. She repaid principal of ₹ 1,00,000, and interest thereon ₹ 55,000 during the previous year 2024-25.
- She paid ₹ 1,00,000 as tuition fee (not in the nature of development fees/ donation) to the university for full time education of her daughter.
- An amount of ₹ 28,000 has also been paid by cheque on 27th March, 2025 for her medical insurance premium.

From the above, compute the total income of Dr. Smt. Niranjana for the A.Y. 2025-26 under the default tax regime and optional tax regime as per the normal provisions of the Act.

Answer 3

Computation of total income of Dr. Niranjana for A.Y. 2025-26 under default tax regime

18B Particulars		₹	₹	₹
I	Income from Salary			
	Basic Salary (₹ 7,500 x 12)		90,000	
	Less: Standard deduction u/s 16(ia)		75,000	15,000
II	Income from house property			
	Gross Annual Value (GAV)		27,000	
	Less: Municipal taxes paid		2,000	
	Net Annual Value (NAV)		25,000	
III	Less: Deduction u/s 24@30% of ₹ 25,000		7,500	17,500
	Income from profession			
	Net profit as per Income and Expenditure		4,40,400	

	18B Particulars	₹	₹	₹
	account			
	Less: Items of income to be treated separately			
	(i) Rent received (taxable under the head "Income from house property")	27,000		
	(ii) Dividend from units of UTI (taxable under the head "Income from other sources")	10,500		
	(iii) Winning from game show on T.V.(net of TDS) – taxable under the head "Income from other sources"	35,000		
	(iv) Income tax refund	5,450	77,950	
			3,62,450	
	Less: Allowable expenditure			
	Depreciation on clinic equipments			
	on ₹ 5,00,000@15%	75,000		
	on ₹ 2,00,000@7.5%	15,000	90,000	
	(On equipments acquired during the year in December 2024, she is entitled to depreciation @50% of normal depreciation, since the same are put to use for less than 180 days during the year)			
			2,72,450	
	Add: Items of expenditure not Allowable while computing business income			
	(i) Amount paid to scientific research association approved u/s 35 (not allowed under default tax regime)	1,50,000		
	(i) Rent for her residential accommodation included in Income and Expenditure A/c	30,000		
	(ii) Municipal tax paid relating to residential house at Surat included in administrative expenses	2,000	1,82,000	4,54,450
IV	Income from other sources			
	(a) Interest on income-tax refund		450	
	(b) Dividend from UTI (taxable in the hands of unit holders)		10,500	
	(c) Winnings from TV game show (₹ 35,000 + ₹ 15,000)		50,000	60,950

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	18B Particulars	₹	₹	₹
	Gross Total Income			5,47,900
	Less: Deductions under Chapter VI- A:			
	(a) Section 80C [Not allowed under default tax regime]			Nil
	(b) Section 80D [Not allowed under default tax regime]			Nil
	(c) Section 80E [Not allowed under default tax regime]			Nil
	Total income			5,47,900

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

	Particulars	₹	₹
	Gross Total Income as per default tax regime		5,47,900
	Add: Deduction u/s 16 (ia) allowed only 50,000 in normal provisions		25,000
	Less: Items of expenditure allowable while computing business income under normal provisions of the Act 100% deduction is allowable in respect of the amount paid to scientific research association allowable under normal provisions of the Act.		1,50,000
	Gross Total Income as per normal provisions of the Act		4,22,900
	Less: Deductions under Chapter VI-A:		
	(a) Section 80C Tuition fee paid to university for full time education of her daughter	1,00,000	
	(b) Section 80D -Medical insurance premium (fully allowed since she is a senior citizen)	28,000	
	(c) Section 80E - Interest on loan taken for higher education is deductible	55,000	1,83,000
	Total income		2,39,900

Notes:

- The principal amount received towards income-tax refund will be excluded from computation of total income. Interest received will be taxed under the head "Income from other sources".
- Winnings from game show on T.V. should be grossed up for the chargeability under the head "Income from other sources" (₹ 35,000 + ₹ 15,000). Thereafter, while computing tax liability, TDS of ₹ 15,000 should be deducted to arrive at the tax payable. Winnings from game show are subject to tax @30% as per section 115BB.
- Dr. Niranjana would not be eligible for deduction u/s 80GG under normal provisions of the Act, as she owns a house in Surat, a place where she is residing as well as carrying on her profession.

Question 4

Chapter 13: Income Tax Liability Computation and Optimisation

Ms. Purvi, aged 55 years, is a Chartered Accountant in practice. She maintains her accounts on cash basis. Her Income and Expenditure account for the year ended March 31, 2025 reads as follows:

Expenditure	(₹)	Income	(₹)	(₹)
Salary to staff	15,50,000	Fees earned:		
Stipend to articled Assistants	1,37,000	Audit	27,88,000	
Incentive to articled Assistants	13,000	Taxation services	15,40,300	
Office rent	12,24,000	Consultancy	12,70,000	55,98,300
Printing and stationery	12,22,000	Dividend on shares of X Ltd., an Indian company (Gross)		10,524
Meeting, seminar and conference	31,600	Income from UTI (Gross)		7,600
Purchase of car (for official use)	80,000	Honorarium received from various institutions for valuation of answer papers		15,800
Repair, maintenance and petrol of car	4,000	Rent received from residential flat let out		85,600
Travelling expenses	5,25,000			
Municipal tax paid in respect of house property	3,000			
Net Profit	9,28,224			
	57,17,824			57,17,824

Other Information:

- (i) Allowable rate of depreciation on motor car is 15%.
- (ii) Value of benefits received from clients during the course of profession is ₹ 10,500.
- (iii) Incentives to articled assistants represent amount paid to two articled assistants for passing CA Intermediate Examination at first attempt.
- (iv) Repairs and maintenance of car include ₹ 2,000 for the period from 1-10-2024 to 30-09-2025.
- (v) Salary includes ₹ 30,000 to a computer specialist in cash for assisting Ms. Purvi in one professional assignment.
- (vi) The travelling expenses include expenditure incurred on foreign tour of ₹ 32,000 which was within the RBI norms.
- (vii) Medical Insurance Premium on the health of dependent brother and major son dependent on her amounts to ₹ 5,000 and ₹ 10,000, respectively, paid in cash.

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(viii) She invested an amount of ₹ 10,000 in National Saving Certificate.

(ix) She has paid ₹ 70,000 towards advance tax during the P.Y. 2024-25.

Compute the total income and tax payable by Ms. Purvi for the A.Y. 2025-26 in a most beneficial manner.

Answer 4

Computation of total income and tax payable by Ms. Purvi for the A.Y. 2025-26 under default tax regime u/s 115BAC

Particulars	₹	₹
Income from house property (See Working Note 1)		57,820
Profit and gains of business or profession (See Working Note 2)		9,20,200
Income from other sources (See Working Note 3)		33,924
Gross Total Income		10,11,944
Less: Deductions under Chapter VI-A [not allowable under default tax regime]		-
Total Income		10,11,944
Total Income (rounded off)		10,11,940
Tax on total income		
Upto ₹ 3,00,000	Nil	
₹ 3,00,001 - ₹ 7,00,000 @5%	20,000	
₹ 7,00,001 - ₹ 10,00,000 @10%	30,000	
₹ 10,00,001 - ₹ 10,11,940 @ 15%	1,791	51,791
Add: Health and Education cess @ 4%		2,072
Total tax liability		53,863
Less: Advance tax paid		70,000
Less: Tax deducted at source on dividend income from an Indian company u/s 194	1,052	
Tax deducted at source on income from UTI u/s 194K	760	1,812
Tax Payable/(Refundable)		(17,949)
Tax Payable/(Refundable) (rounded off)		(17,950)

Computation of total income and tax payable under normal provisions of the Act

Particulars	₹	₹
Gross Total Income		10,11,944
[Income under the "Income from house property" "Profits and gains from business or profession" and "Income from other sources" would remain the same even if Ms. Purvi opts out of the default tax regime u/s 115BAC]		
Less: Deductions under Chapter VI-A (See Working Note 4)		10,000
Total Income		10,01,944
Total Income (rounded off)		10,01,940
Tax on total income	Nil	

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Upto ₹ 2,50,000	12,500	
₹ 2,50,001 – ₹ 5,00,000 @5%	1,00,000	
₹ 5,00,000 - ₹ 10,00,000 @20%	582	
₹ 10,00,000 – ₹ 10,01,940 @ 30%		
Add: Health and Education cess @ 4%		1,13,082
Total tax liability		4,523
Less: Advance tax paid	1,052	
Less: TDS u/s 194 on dividend	760	1,17,605
TDS u/s 194K on income from UTI		70,000
Tax Payable		1,812
Tax Payable (rounded off)		45,793
		45,790

Since there is tax refundable under default tax regime u/s 115BAC and tax payable under the regular provisions of the Income-tax Act, 1961, it would be beneficial for Ms. Purvi to pay tax under default tax regime u/s 115BAC.

Working Notes:

(1) Income from House Property

Particulars	₹	₹
Gross Annual Value u/s 23(1)	85,600	
Less: Municipal taxes paid	3,000	
Net Annual Value (NAV)	82,600	
Less: Deduction u/s 24@30% of NAV	24,780	57,820

Note - Rent received has been taken as the Gross Annual Value in the absence of other information relating to Municipal Value, Fair Rent and Standard Rent.

(2) Income under the head “Profits & Gains of Business or Profession”

Particulars	₹	₹
Net profit as per Income and Expenditure account		9,28,224
Add: Expenses debited but not allowable		
(i) Salary paid to computer specialist in cash disallowed u/s 40A(3), since such cash payment exceeds ₹ 10,000	30,000	
(ii) Amount paid for purchase of car is not allowable u/s 37(1) since it is a capital expenditure	80,000	
(ii) Municipal taxes paid in respect of residential flat let out	3,000	1,13,000
		10,41,224
Add: Value of benefit received from clients during the course of profession [taxable as business income u/s 28(iv)]		10,500
		10,51,724
Less: Income credited but not taxable under this head:		

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Particulars	₹	₹
(i) Dividend on shares of X Ltd., an Indian company (taxable under the head "Income from other sources")	10,524	
(ii) Income from UTI (taxable under the head "Income from other sources")	7,600	
(iii) Honorarium for valuation of answer papers	15,800	
(iv) Rent received from letting out of residential flat	85,600	1,19,524
		9,32,200
Less: Depreciation on motor car @15% (See Note (i) below)		12,000
		9,20,200

Notes:

- It has been assumed that the motor car was put to use for more than 180 days during the previous year and hence, full depreciation @ 15% has been provided for u/s 32(1)(ii).
Note: Alternatively, the question can be solved by assuming that motor car has been put to use for less than 180 days and accordingly, only 50% of depreciation would be allowable as per the second proviso below section 32(1)(ii).
- Incentive to articled assistants for passing CA Intermediate examination in their first attempt is deductible u/s 37(1).
- Repairs and maintenance paid in advance for the period 1.4.2025 to 30.9.2025 i.e. for 6 months amounting to ₹ 1,000 is allowable since Ms. Purvi is following the cash system of accounting.
- ₹ 32,000 expended on foreign tour is allowable as deduction assuming that it was incurred in connection with her professional work. Since it has already been debited to income and expenditure account, no further adjustment is required.

(3) Income from other sources

Particulars	₹
Dividend on shares of X Ltd., an Indian company (taxable in the hands of shareholders)	10,524
Income from UTI (taxable in the hands of unit holders)	7,600
Honorarium for valuation of answer papers	15,800
	33,924

(4) Deduction under Chapter VI-A :

Particulars	₹
Deduction u/s 80C (Investment in NSC) Deduction u/s 80D (See Notes (i) & (ii) below)	10,000 Nil
Total deduction under Chapter VI-A	10,000

Notes:

- (i) Premium paid to insure the health of brother is not eligible for deduction u/s 80D, even though he is a dependent, since brother is not included in the definition of "family" u/s 80D.
- (ii) Premium paid to insure the health of major son is not eligible for deduction, even though he is a dependent, since payment is made in cash.

Question 5

Mr. Y carries on his own business. An analysis of his trading and profit & loss for the year ended 31-3-2025 revealed the following information:

- (1) The net profit was ₹ 11,20,000.
- (2) The following incomes were credited in the profit and loss account:
 - (a) Income from UTI ₹ 22,000 (Gross)
 - (b) Interest on debentures ₹ 17,500 (Gross)
 - (c) Winnings from horse races ₹ 15,000 (Gross)
- (3) It was found that some stocks were omitted to be included in both the opening and closing stocks, the value of which were:
Opening stock ₹ 8,000. Closing stock ₹ 12,000.
- (4) ₹ 1,00,000 was debited in the profit and loss account, being contribution to a University approved and notified u/s 35(1)(ii).
- (5) Salary includes ₹ 20,000 paid to his brother which is unreasonable to the extent of ₹ 2,500.
- (6) Advertisement expenses include 15 gift packets of dry fruits costing ₹ 1,000 per packet presented to important customers.
- (7) Total expenses on car was ₹ 78,000. The car was used both for business and personal purposes. $\frac{3}{4}$ th is for business purposes.
- (8) Miscellaneous expenses included ₹ 30,000 paid to A & Co., a goods transport operator in cash on 31-1-2025 for distribution of the company's product to the warehouses.
- (9) Depreciation debited in the books was ₹ 55,000. Depreciation allowed as per Income-tax Rules, 1962 was ₹ 50,000.
- (10) Drawings of ₹ 10,000 debited in the books.
- (11) Investment in NSC ₹ 15,000 debited in the books.

Compute the total income of Mr. Y for the assessment year 2025-26 under optional tax regime as per normal provisions of the Act.

Answer 5

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

Particulars	₹
Profits and gains of business or profession (See Working Note 1 below)	11,21,500
Income from other sources (See Working Note 2 below)	54,500
Gross Total Income	11,76,000
Less: Deduction u/s 80C (Investment in NSC)	15,000
Total Income	11,61,000

Working Notes:
1. Computation of profits and gains of business or profession

Particulars	₹	₹
Net profit as per profit and loss account		11,20,000
Add: Expenses debited to profit and loss Account but not allowable as deduction		
Salary paid to brother disallowed to the extent considered unreasonable [Section 40A(2)]	2,500	
Motor car expenses attributable to personal use not allowable ($₹ 78,000 \times \frac{1}{4}$)	19,500	
Depreciation debited in the books of account	55,000	
Drawings (not allowable since it is personal in nature) [See Note (iii)]	10,000	
Investment in NSC [See Note (iii)]	15,000	1,02,000
		12,22,000
Add: Under statement of closing stock		12,000
		12,34,000
Less: Under statement of opening stock		8,000
Less: Contribution to a University approved and notified u/s 35(1)(ii) is eligible for 100% deduction. Since whole of the actual contribution (100%) has been debited to profit and loss account, no further adjustment is required.		
		12,26,000
Less: Incomes credited to profit and loss account but not taxable as business income		
Income from UTI [taxable under the head "Income from other sources"]	22,000	
Interest on debentures (taxable under the head "Income from other sources")	17,500	
Winnings from horse races (taxable under the head "Income from other sources")	15,000	54,500
		11,71,500
Less: Depreciation allowable under the Income-tax Rules, 1962		50,000
		11,21,500

Notes:

- Advertisement expenses of revenue nature, namely, gift of dry fruits to important customers, is incurred wholly and exclusively for business purposes. Hence, the same is allowable as deduction u/s 37.
- Disallowance u/s 40A(3) is not attracted in respect of cash payment exceeding ₹ 10,000 to A & Co., a goods transport operator, since, in case of payment made for plying, hiring or leasing

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goods carriages, an increased limit of ₹ 35,000 is applicable (i.e. payment of upto ₹ 35,000 can be made in cash without attracting disallowance u/s 40A(3))

- (iii) Since drawings and investment in NSC have been given effect to in the profit and loss account, the same have to be added back to arrive at the business income.
- (iv) In point no. 9 of the question, it has been given that depreciation as per Income-tax Rules, 1962 is ₹ 50,000. It has been assumed that, in the said figure of ₹ 50,000, only the proportional depreciation (i.e., 75% for business purposes) has been included in respect of motor car.

2. Computation of "Income from Other Sources"

Particulars	₹
Dividend from UTI	22,000
Interest on debentures	17,500
Winnings from races	15,000
	54,500

Question 6

Balamurugan furnishes the following information for the year ended 31-03-2025:

Particulars	₹
Income from textile business	(1,35,000)
Income from house property	(15,000)
Lottery winning (Gross)	5,00,000
Speculation business income	1,00,000
Income by way of salary (Computed)	2,70,000
Long term capital gain u/s 112 [asset transfer on 10/07/2024]	70,000

Compute his total income, tax liability and advance tax obligations under default tax regime u/s 115BAC.

Answer 6

Computation of total income of Balamurugan for the year ended 31.03.2025

Particulars	₹	₹
Salaries	2,70,000	2,70,000
Less: Loss from house property (Cannot be set off against income under any other head)	-	
Profits and gains of business or profession		
Speculation business income	1,00,000	
Less: Business loss of ₹ 1,35,000 set-off to the extent of ₹ 1,00,000	(1,00,000)	
	Nil	
Balance current year business loss of ₹ 35,000 to be set-off against long-term capital gain		
Capital Gains		
Long term capital gain	70,000	

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Particulars	₹	₹
Less: Balance current year business loss set-off	(35,000)	
Long term capital gain after set off of business loss		35,000
Income from other sources		
Lottery winnings (Gross)		5,00,000
Total Income		8,05,000

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

Particulars	₹
On total income of ₹ 2,70,000 (excluding lottery winning and LTCG)	Nil
On LTCG of ₹ 5,000 @20% (balance unexhausted basic exemption limit of ₹ 30,000 can be adjusted against LTCG taxable u/s 112)	1,000
On lottery winnings of ₹ 5,00,000 @ 30%	1,50,000
	1,51,000
Add: Health and Education cess @ 4%	6,040
Total tax liability	1,57,040

The assessee need not pay advance tax since the total income (excluding lottery income) liable to tax is below the basic exemption limit. Further, in respect of lottery income, tax would have been deducted at source @ 30% u/s 194B. Since the remaining tax liability of ₹ 6,040 (₹ 1,57,040 – ₹ 1,50,000) is less than ₹ 10,000, advance tax liability is not attracted.

Note - The first proviso to section 234C(1) provides that since it is not possible for the assessee to estimate his income from lotteries, the entire amount of tax payable (after considering TDS) on such income should be paid in the remaining instalments of advance tax which are due. Where no such instalment is due, the entire tax should be paid by 31st March, 2025. The first proviso to section 234C(1) would be attracted only in case of non- deduction or short-deduction of tax at source u/s 194B. In this case, it has been assumed that tax deductible at source u/s 194B has been fully deducted from lottery income. Since the remaining tax liability of ₹ 1,040 (₹ 1,57,040 – ₹ 1,50,000) is less than ₹ 10,000, advance tax liability is not attracted.

Question 7

Mr. Rajiv, aged 50 years, a resident individual and practicing Chartered Accountant, furnishes you the receipts and payments account for the financial year 2024-25.

Receipts and Payments Account

Receipts	₹	Payments	₹
Opening balance (1.4.2024) Cash on hand and at Bank	12,000	Staff salary, bonus and stipend to articled clerks	21,50,000
Fee from professional services (Gross)	59,38,000	Other administrative expenses	11,48,000
Rent	50,000	Office rent	30,000
Motor car loan from Canara Bank (@ 9% p.a.)	2,50,000	Housing loan repaid to SBI (includes interest of ₹ 88,000)	1,88,000
		Life insurance premium (10% of sum assured)	24,000

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Receipts	₹	Payments	₹
		Motor car (acquired in Jan. 2025 by A/c payee cheque)	4,25,000
		Medical insurance premium (for self and wife)(paid by A/c Payee cheque)	18,000
		Books bought on 1.07.2024 (annual publications by A/c payee cheque)	20,000
		Computer acquired on 1.11.2024 by A/c payee cheque (for professional use)	30,000
		Domestic drawings	2,72,000
		Public provident fund subscription	20,000
		Motor car maintenance	10,000
		Closing balance (31.3.2025) Cash on hand and at Bank	19,15,000
	62,50,000		62,50,000

Following further information is given to you:

- (1) He occupies 50% of the building for own residence and let out the balance for residential use at a monthly rent of ₹ 5,000. The building was constructed during the year 1997-98, when the housing loan was taken.
- (2) Motor car was put to use both for official and personal purpose. One-fifth of the motor car use is for personal purpose. No car loan interest was paid during the year.
- (3) The written down value of assets as on 1-4-2024 are given below:

Furniture & Fittings	₹ 60,000
Plant & Machinery	₹ 80,000
(Air-conditioners, Photocopiers, etc.)	
Computers	₹ 50,000

Note: Mr. Rajiv follows regularly the cash system of accounting.

Compute the total income of Mr. Rajiv for the assessment year 2025-26, assuming that he has shifted out of the default tax regime u/s 115BAC.

[SM Q.]

Answer 7

Computation of total income of Mr. Rajiv for the assessment year 2025-26

Particulars	₹	₹	₹
Income from house property			
Self-occupied			
Annual value	Nil		
Less: Deduction u/s 24(b) Interest on housing loan			
50% of ₹ 88,000 = 44,000 but limited to	30,000		
Loss from self occupied property		(30,000)	

Chapter 13: Income Tax Liability Computation and Optimisation

Particulars	₹	₹	₹
Let out property			
Annual value (Rent receivable has been taken as the annual value in the absence of other information)	60,000		
Less: Deductions u/s 24 30% of Net Annual Value 18,000			
Interest on housing loan (50% of ₹ 88,000) 44,000	62,000	(2,000)	
Loss from house property			(32,000)
Profits and gains of business or Profession			
Fees from professional services		59,38,000	
Less: Expenses allowable as deduction Staff salary, bonus and stipend	21,50,000		
Other administrative expenses	11,48,000		
Office rent	30,000		
Motor car maintenance (10,000 x 4/5)	8,000		
Car loan interest – not allowable (since the same has not been paid and the assessee follows cash system of accounting)	Nil	33,36,000	
		26,02,000	
Motor car Depreciation ₹ 4,25,000 x 7.5% x 4/5	25,500		
Books being annual publications@40%	8,000		
Furniture and fittings@10% of ₹ 60,000	6,000		
Plant and machinery@15% of ₹ 80,000	12,000		
Computer@40% of ₹ 50,000	20,000		
Computer (New) ₹ 30,000 @ 40% x 50%	6,000	77,500	25,24,500
Gross Total income			24,92,500
Less: Deductions under Chapter VI-A			
Deduction u/s 80C			
Housing loan principal repayment	1,00,000		
PPF subscription	20,000		
Life insurance premium	24,000		
Total amount of ₹ 1,44,000 is allowed as deduction since it is within the limit of ₹ 1,50,000		1,44,000	
Deduction u/s 80D			
Medical insurance premium paid ₹ 18,000		18,000	1,62,000
Total income			23,30,500

Question 8

From the following details, compute the total income and tax liability of Siddhant, aged 31 years, of Delhi both as per section 115BAC and as per the regular provisions of the Income-tax Act, 1961 for the A.Y.2025-26. Advise Mr. Siddhant whether he should opt for section 115BAC:

Particulars	₹
Salary including dearness allowance	4,35,000
Bonus	15,000

Particulars	₹
Salary of servant provided by the employer	12,000
Rent paid by Siddhant for his accommodation	49,600
Bills paid by the employer for gas, electricity and water provided free of cost at the above flat	11,000

Siddhant purchased a flat in a co-operative housing society in Delhi for ₹ 4,75,000 in April, 2017, which was financed by a loan from Life Insurance Corporation of India of ₹ 1,60,000@15% interest, his own savings of ₹ 65,000 and a deposit from a nationalized bank for ₹ 2,50,000 to whom this flat was given on lease for ten years. The rent payable by the bank was ₹ 3,500 per month. The following particulars are relevant:

- Municipal taxes paid by Mr. Siddhant ₹ 4,300 (per annum)
- House Insurance ₹ 860
- He earned ₹ 2,700 in share speculation business and lost ₹ 4,200 in cotton speculation business.
- In the year 2021-22, he had gifted ₹ 30,000 to his wife and ₹ 20,000 to his son who was aged 11. The gifted amounts were advanced to Mr. Rajesh, who was paying interest@19% per annum.
- Siddhant received a gift of ₹ 30,000 each from four friends.
- He contributed ₹ 50,000 to Public Provident Fund.

Answer 8

Computation of total income and tax liability of Siddhant under default tax regime u/s 115BAC for the A.Y. 2025-26

Particulars	₹	₹
Salary Income		
Salary including dearness allowance		4,35,000
Bonus		15,000
Value of perquisites:		
(i) Salary of servant	12,000	
(ii) Free gas, electricity and water	11,000	23,000
		4,73,000
Less: Standard deduction u/s 16(ia)		75,000
		3,98,000
Income from house property		
Gross Annual Value (GAV) (Rent receivable is taken as GAV in the absence of other information) (₹ 3,500 × 12)	42,000	
Less: Municipal taxes paid	4,300	
Net Annual Value (NAV)	37,700	
Less: Deductions u/s 24		
(i) 30% of NAV ₹ 11,310		
(ii) Interest on loan from LIC @15% of ₹ 1,60,000 [See Note 2] ₹ 24,000	35,310	2,390

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Particulars	₹	₹
Income from speculative business		
Income from share speculation business	2,700	
Less: Loss of ₹ 4,200 from cotton speculation business set-off to the extent of ₹ 2,700	2,700	Nil
Balance loss of ₹ 1,500 from cotton speculation business has to be carried forward to the next year as it cannot be set off against any other head of income.		
Income from Other Sources		
(i) Income on account of interest earned from advancing money gifted to his minor son is includible in the hands of Siddhant as per section 64(1A) [Exemption u/s 10(32) would not be available]	3,800	
(ii) Interest income earned from advancing money gifted to wife has to be clubbed with the income of the assessee as per section 64(1)	5,700	
(iii) Gift received from four friends (taxable u/s 56(2)(x) as the aggregate amount received during the year exceeds ₹ 50,000)	1,20,000	1,29,500
Gross Total Income		5,29,890
Deduction u/s 80C [No deduction under Chapter VI-A would be allowed as per section 115BAC(2)]		Nil
Total Income		5,29,890

Particulars	₹
Tax on total income [5% of ₹ 2,29,890 (₹ 5,29,890 - ₹ 3,00,000)]	11,493
Less: Rebate u/s 87A, since total income does not exceed ₹ 7,00,000	11,493
Tax liability	Nil

Computation of total income and tax liability of Siddhant for the A.Y. 2025-26 under normal provisions of the Act

Particulars	₹	₹
Gross total income (as per default scheme)		5,29,890
Add: Deduction u/s 16 [excess deduction]		25,000
Less: Exemption u/s 10(32) in respect of interest		
income of minor son included in the hands of Siddhant		1,500
Gross total income (under the normal provisions of the Act)		5,53,390
Less: Deductions under Chapter VI-A		
U/s 80C [Contribution to PPF]		50,000
Total Income		5,03,390

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Particulars	₹
Tax on total income [5% of ₹ 2,50,000 + 20% of ₹ 3,390]	13,178
Add: HEC @4%	527
Tax liability	13,705
Tax liability (Rounded off)	13,710

Since his total income as per the normal provisions of the Act exceeds ₹ 5,00,000, he would not be eligible for rebate u/s 87A.

Since Mr. Siddhant is not liable to pay any tax under default tax regime u/s 115BAC, it would be beneficial for him to not to exercise the option of shift out of the default tax regime for A.Y.2025-26.

Notes:

- (1) It is assumed that the entire loan of ₹ 1,60,000 is outstanding as on 31.3.2025;
- (2) Since Siddhant's own flat in a co-operative housing society, which he has rented out to a nationalized bank, is also in Delhi, he is not eligible for deduction u/s 80GG in respect of rent paid by him for his accommodation in Delhi, since one of the conditions to be satisfied for claiming deduction u/s 80GG is that the assessee should not own any residential accommodation in the same place.

Question 9

Ramdin, aged 33 years, working as Manager (Sales) with Frozen Foods-Ltd., provides the following information for the year ended 31.03.2025:

- Basic Salary ₹ 15,000 p.m.
- DA (50% of it is meant for retirement benefits) ₹ 12,000 p.m.
- Commission as a percentage of turnover of the Company 0.5 %
- Turnover of the Company ₹ 50 lacs
- Bonus ₹ 50,000
- Gratuity ₹ 30,000
- Own Contribution to R.P.F. ₹ 30,000
- Employer's contribution to R.P.F. 20% of basic salary
- Interest credited in the R.P.F. account @ 15% p.a. ₹ 15,000
- Gold Ring worth ₹ 10,000 was given by employer on his 25th wedding anniversary.
- Music System purchased on 01.04.2024 by the company for ₹ 85,000 and was given to him for personal use.
- Two old light goods vehicles owned by him were leased to a transport company against the fixed charges of ₹ 6,500 p.m. Books of account are not maintained.
- Received interest of ₹ 5,860 on bank FDRs on 24.4.2024 and interest of ₹ 6,786 (Net) from the debentures of Indian Companies on 5.5.2024.
- Made payment by cheques of ₹ 15,370 towards premium on Life Insurance policies and ₹ 22,500 for Mediclaim Insurance policy for self and spouse.
- Invested in NSC ₹ 30,000 and in FDR of SBI for 5 years ₹ 50,000.
- Donations of ₹ 11,000 to an institution approved u/s 80G and of ₹ 5,100 to Prime Minister's National Relief Fund were given during the year by way of cheque.

Compute the total income and tax payable thereon for the A.Y. 2025-26. Assume Ramdin has exercised the option to shift out of the default tax regime u/s 115BAC. **[SM Q.]**

Answer 9

Chapter 13: Income Tax Liability Computation and Optimisation

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

Particulars	₹	₹
Income from Salaries		
Basic Salary (₹ 15,000 x 12)		1,80,000
Dearness Allowance (₹ 12,000 x 12)		1,44,000
Commission on Turnover (0.5% of ₹ 50 lacs)		25,000
Bonus		50,000
Gratuity (See Note 1)		30,000
Employer's contribution to recognized provident fund		
Actual contribution [20% of ₹ 1,80,000]	36,000	
Less: Exempt (See Note 2)	33,240	2,760
Interest credited in recognized provident fund account @15% p.a.	15,000	
Less: Exempt upto 9.5% p.a.	9,500	5,500
Gift of gold ring worth ₹ 10,000 on 25th wedding anniversary by employer (See Note 3)		10,000
Perquisite value of music system given for personal use (being 10% of actual cost) i.e. 10% of ₹ 85,000		8,500
		4,55,760
Less: Standard deduction u/s 16(ia)		50,000
		4,05,760
Profits and Gains of Business or Profession		
Lease of 2 light goods vehicles on contract basis against fixed charges of ₹ 6,500 p.m. In this case, presumptive tax provisions of section 44AE will apply i.e. ₹ 7,500 p.m. for each of the two light goods vehicle (₹ 7,500 x 2 x 12). He cannot claim lower profits and gains since he has not maintained books of account.		1,80,000
Income from Other Sources		
Interest on bank FDRs	5,860	
Interest on debentures (₹ 6786 x 100/90)	7,540	13,400
Gross total Income		5,99,160
Less: Deductions under Chapter VI-A		
Section 80C		
Premium on life insurance policy	15,370	
Investment in NSC	30,000	
FDR of SBI for 5 years	50,000	
Employee's contribution to recognized provident fund	30,000	1,25,370
Section 80D – Mediclaim Insurance		22,500

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Particulars	₹	₹
Section 80G (See Note 4)		10,600
Total Income		4,40,690
Tax on total income		
Income-tax [5% of ₹ 1,90,690 (i.e., ₹ 4,40,690 – ₹ 2,50,000)]		9,535
Add: Rebate u/s 87A, since total income does not exceed ₹ 5,00,000		9,535
Tax liability		Nil
Less: Tax deducted at source (₹ 7,540 – ₹ 6,786)		754
Net tax refundable		754
Tax refundable (rounded off)		750

Notes:

- Gratuity received during service is fully taxable.
- Employer's contribution in the recognized provident fund is exempt up to 12% of the salary i.e. 12% of (Basic Salary + DA for retirement benefits + Commission based on turnover) = 12% of (₹ 1,80,000 + (50% of ₹ 1,44,000) + ₹ 25,000) = 12% of 2,77,000 = ₹ 33,240
- An alternate view possible is that only the sum in excess of ₹ 5,000 is taxable in view of the language of Circular No.15/2001 dated 12.12.2001 that such gifts upto ₹ 5,000 in the aggregate per annum would be exempt, beyond which it would be taxed as a perquisite. As per this view, the value of perquisite would be ₹ 5,000. In such a case the Income from Salaries would be ₹ 4,00,760.
- Deduction u/s 80G is computed as under:

Particulars	₹
Donation to PM National Relief Fund (100%)	5,100
Donation to institution approved u/s 80G (50% of ₹ 11,000) (amount contributed ₹ 11,000 or 10% of Adjusted	
Total Income i.e. ₹ 45,129, whichever is lower)	5,500
Total deduction	10,600

Adjusted Total Income = Gross Total Income Deductions u/s 80C and 80D = ₹ 5,99,160 – ₹ 1,47,870 = ₹ 4,51,290.

Question 10

From the following particulars furnished by Mr. X for the year ended 31.3.2025, you are requested to compute his total income and tax payable for the assessment year 2025-26, assuming that he has exercised the option to shift out of the default tax regime u/s 115BAC.

- Mr. X retired on 31.12.2024 at the age of 58, after putting in 26 years and 1 month of service, from a private company at Mumbai.
- He was paid a salary of ₹ 25,000 p.m. and house rent allowance of ₹ 6,000 p.m. He paid rent of ₹ 6,500 p.m. during his tenure of service.
- On retirement, he was paid a gratuity of ₹ 3,50,000. He was covered by the payment of Gratuity Act. Mr. X had not received any other gratuity at any point of time earlier, other than this gratuity.
- He had accumulated leave of 15 days per annum during the period of his service; this was encashed by Mr. X at the time of his retirement. A sum of ₹ 3,15,000 was received

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by him in this regard. His average salary for last 10 months may be taken as ₹ 24,500. Employer allowed 30 days leave per annum.

- (e) After retirement, he ventured into textile business and incurred a loss of ₹ 80,000 for the period upto 31.3.2025.
- (f) Mr. X has deposited ₹ 1,00,000 in public provident fund. [SM Q.]

Answer 10**Computation of total income of Mr. X for A.Y.2025-26**

Particulars	₹	₹
Income from Salaries		
Basic salary (₹ 25,000 x 9 months)		2,25,000
House rent allowance:		
Actual amount received (₹ 6,000 x 9 months)	54,000	
Less : Exemption u/s 10(13A)(Note 1)	36,000	18,000
Gratuity:		
Actual amount received	3,50,000	
Less: Exemption u/s 10(10)(ii) (Note 2)	3,50,000	-
Leave encashment:		
Actual amount received	3,15,000	
Less : Exemption u/s 10(10AA) (Note 3)	2,45,000	70,000
Gross Salary		3,13,000
Less: Standard deduction u/s 16(ia)		50,000
		2,63,000
Profits and gains of business or profession		
Business loss of ₹ 80,000 to be carried forward as the same cannot be set off against salary income		Nil
Gross Total income		2,63,000
Less: Deduction u/s 80C		
Deposit in Public Provident Fund		1,00,000
Total income		1,63,000
Tax on total income (Nil, since it is lower than the basic exemption limit of ₹ 2,50,000)		Nil

Notes:

- (1) As per section 10(13A), house rent allowance will be exempt to the extent of least of the following three amounts:

	₹
(i) HRA actually received (₹ 6,000 x 9)	54,000
(ii) Rent paid in excess of 10% of salary (₹ 6,500 – ₹ 2,500) x 9 months	36,000
(iii) 50% of salary	1,12,500

- (2) Gratuity of ₹ 3,50,000 is exempt u/s 10(10)(ii), being the minimum of the following amounts:

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	₹
(i) Actual amount received	3,50,000
(ii) Half month salary for each year of completed service [(₹ 25,000 x 15/26) x 26 years]	3,75,000
(iii) Statutory limit	20,00,000

(3) Leave encashment is exempt upto the least of the following:

	₹
(i) Actual amount received	3,15,000
(ii) 10 months average salary (₹ 24,500 x 10)	2,45,000
(iii) Cash equivalent of unavailed leave calculated on the basis of maximum 30 days for every year of actual service rendered to the employer from whose service he retired (See Note 4 below)	3,18,500
(iv) Statutory limit	3,00,000

(4) Since the leave entitlement of Mr. X as per his employer's rules is 30 days credit for each year of service and he had accumulated 15 days per annum during the period of his service, he would have availed/taken the balance 15 days leave every year.

Leave entitlement of Mr. X on the basis of 30 days for every year of actual service rendered by him to the employer	= 30 days/year x 26 = 780 days
Less: Leave taken /availed by Mr. X during the period of his service	= 15 days/year x 26 = 390 days
Earned leave to the credit of Mr. X at the time of his retirement	390 days
Cash equivalent of earned leave to the credit of Mr. X at the time of his retirement	= 390 x ₹ 24,500 /30 = ₹ 3,18,500

Question 11

Rosy and Mary are sisters, born and brought up at Mumbai. Rosy got married in 1982 and settled at Canada since 1982. Mary got married and settled in Mumbai. Both of them are below 60 years. The following are the details of their income for the previous year ended 31.3.2025:

[SM Q.]

S. No.	Particulars	Rosy ₹	Mary ₹
1.	Pension received from State Government	--	60,000
2.	Pension received from Canadian Government	20,000	--
3.	Long-term capital gain on sale of land at Mumbai [transfer on 10/07/2024]	1,00,000	1,00,000
4.	Short-term capital gain on sale of shares of Indian listed companies in respect of which STT was paid [transfer on 10/05/2024]	20,000	2,50,000
5.	LIC premium paid	--	10,000
6.	Premium paid to Canadian Life Insurance Corporation at	40,000	--

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S. No.	Particulars	Rosy ₹	Mary ₹
7.	Canada Mediclaime policy premium paid by A/c Payee Cheque	--	25,000
8.	Deposit in PPF	--	20,000
9.	Rent received in respect of house property at Mumbai	60,000	30,000

Compute the taxable income and tax liability of Mrs. Rosy and Mrs. Mary for the Assessment Year 2024-25 and tax thereon. Assume both has exercised the option to shift out of the default tax regime u/s 115BAC.

Answer 11
Computation of taxable income of Mrs. Rosy and Mrs. Mary for the A.Y.2025-26

S. No.	Particulars	Mrs. Rosy (Non-resident) ₹	Mrs. Mary (ROR) ₹
(I)	Salaries		
	Pension received from State Govt. ₹ 60,000		
	Less: Standard deduction u/s 16(ia) ₹ 50,000		10,000
	Pension received from Canadian Government is not taxable in the case of a non-resident since it is earned and received outside India		
			10,000
(II)	Income from house property		
	Rent received from house property at Mumbai (assumed to be the annual value in the absence of other information i.e. municipal value, fair rent and standard rent)	60,000	30,000
	Less: Deduction u/s 24(a)@30%	18,000	9,000
		42,000	21,000
(III)	Capital gains		
	Long-term capital gain on sale of land at Mumbai	1,00,000	1,00,000
	Short term capital gain on sale of shares of Indian listed companies in respect of which STT was paid	20,000	2,50,000
		1,20,000	3,50,000
(A)	Gross Total Income [(I)+(II)+(III)]	1,62,000	3,81,000
	Less: Deductions under Chapter VIA		
1.	Deduction u/s 80C		
	1. LIC Premium paid		10,000
	2. Premium paid to Canadian Life Insurance Corporation	40,000	
	3. Deposit in PPF		20,000
		40,000	30,000
2.	Deduction u/s 80D – Mediclaime premium paid		25,000
		40,000	55,000

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S. No.	Particulars	Mrs. Rosy (Non-resident)	Mrs. Mary (ROR)
		₹	₹
(B)	Total deduction under Chapter VI-A is restricted to income other than capital gains taxable u/ss 111A & 112	40,000	31,000
(C)	Total income (A-B)	1,22,000	3,50,000
	Tax liability of Mrs. Rosy for A.Y.2025-26		
	Tax on long-term capital gains @20% of ₹ 1,00,000	20,000	
	Tax on short-term capital gains @15% of ₹ 20,000	3,000	
	Tax on balance income of ₹ 2,000	Nil	
		23,000	
	Tax liability of Mrs. Mary for A.Y.2025-26		
	Tax on STCG @15% of ₹ 1,00,000 [i.e. ₹ 2,50,000 less ₹ 1,50,000, being the unexhausted basic exemption limit as per proviso to section 111A] [See Notes 3 & 4 below]		15,000
	Less: Rebate u/s 87A would be lower of ₹ 12,500 or tax liability, since total income does not exceed ₹ 5,00,000		12,500
			2,500
	Add: Health and Education cess@4%	920	100
	Total tax liability	23,920	2,600

Notes:

- (1) Long-term capital gains on sale of land is chargeable to tax@20% as per section 112.
- (2) Short-term capital gains on transfer of equity shares in respect of which securities transaction tax is paid is subject to tax@15% as per section 111A.
- (3) In case of resident individuals, if the basic exemption limit is not fully exhausted against other income, then, the long-term capital gains u/s 112/short-term capital gains u/s 111A will be reduced by the unexhausted basic exemption limit and only the balance will be taxed at 20%/15%, respectively. However, this benefit is not available to non-residents. Therefore, while Mrs. Mary can adjust unexhausted basic exemption limit against long-term capital gains taxable u/s 112 and short-term capital gains taxable u/s 111A, Mrs. Rosy cannot do so.
- (4) Since long-term capital gains is taxable at the rate of 20% and short-term capital gains is taxable at the rate of 15%, it is more beneficial for Mrs. Mary to first exhaust her basic exemption limit of ₹ 2,50,000 against long-term capital gains of ₹ 100,000 and the balance limit of ₹ 1,50,000 (i.e., ₹ 2,50,000 – ₹ 1,50,000) against short-term capital gains.
- (5) Rebate u/s 87A would not be available to Mrs. Rosy even though her total income does not exceed ₹ 5,00,000, since she is non-resident for the A.Y. 2025-26.

Question 12

Mr. X, an individual set up a unit in Special Economic Zone (SEZ) in the financial year 2020-21 for production of washing machines. The unit fulfills all the conditions of section 10AA of the Income-tax Act, 1961. During the financial year 2023-24, he has also set up a warehousing facility in a district of Tamil Nadu for storage of agricultural produce. It fulfills all the conditions of section 35AD. Capital expenditure in respect of warehouse amounted to ₹ 75 lakhs (including cost of land ₹ 10 lakhs). The warehouse became operational with effect from 1st April, 2024 and the expenditure of ₹ 75 lakhs was capitalized in the books on that date.

Relevant details for the F.Y. 2024-25 are as follows:

Particulars	₹
Profit of unit located in SEZ	40,00,000
Export turnover received in India in convertible foreign exchange on or before 30.9.2025	80,00,000
Domestic sales of above unit	20,00,000
Profit from operation of warehousing facility (before considering deduction u/s 35AD)	1,05,00,000

Compute income-tax (including AMT u/s 115JC) liability of Mr. X for A.Y. 2025-26 both as per section 115BAC and as per regular provisions of the Income-tax Act, 1961 for A.Y. 2025-26. Advise Mr. X whether he should pay tax under default tax regime or normal provisions of the Act.

Question 13

Mr. Manohar, a resident individual, age 53 years provides consultancy services in the field of Taxation. His Income and Expenditure account for the year ended 31st March, 2025 is as follows:

[RTP M-20 Q.]

Income and Expenditure account for the year ending 31st March, 2025

Expenditure	Amount (₹)	Income	Amount (₹)
To Salary	4,00,000	By Consulting fees	58,00,000
To Motor car expenses	88,000	By Share of Profit from HUF	55,000
To Depreciation	87,500	By Interest on bank fixed deposits	25,000
To Medical expenses	70,000	By Interest on income tax refund	26,000
To Purchase of computer	90,000		
To Bonus	25,000		
To General expenses	1,05,000		
To Office & administrative	1,15,000		
To Excess of income over Expenditure	49,25,500		
	59,06,000		59,06,000

The following other information relates to the financial year 2024-25:

- (1) Salary includes a payment of ₹ 22,000 per month to his sister-in-law who is in-charge of the marketing department. However, in comparison to similar business, the reasonable salary of a marketing supervisor is ₹ 18,000 per month.

(2) Written down value of the assets as on 1st April, 2024 are as follows:

Motor Car (25% used for personal use) ₹ 3,50,000

Furniture and Fittings ₹ 80,000

(3) Medical expenses includes:

- Family planning expenditure ₹ 15,000 incurred for the employees which was revenue in nature.
- Medical expenses for his father ₹ 55,000. (Father's age is 65 years and he is not covered under any medical insurance policy). ₹ 2,500 incurred in cash and remaining by credit card.

(4) The computer was purchased on 5th June, 2024 on credit. The total invoice was paid in the following manner:

- ₹ 18,000 paid in cash as down payment on the date of purchase.
- Remaining amount was paid through account payee cheque on 10th August, 2024.

(5) Bonus was paid on 30th September, 2025.

(6) General expenses include commission payment of ₹ 42,000 to Mr. Mahesh for the promotion of business on 17th September, 2024 without deduction of tax at source.

(7) He also received gold coins from a family friend on the occasion of marriage anniversary on 15th November, 2024. The market value of the coins on the said date was ₹ 85,000.

The consultancy fees for the previous year 2023-24 was ₹ 52,50,300.

Compute the total income and the tax liability of Mr. Manohar for the AY 2025-26. Assume he has exercised the option to shift out of the default tax regime u/s 115BAC.

Answer 13
Computation of Total Income of Mr. Manohar for the A.Y.2025-26

Particulars	₹	₹
Profit and gains from business or profession		
Net income as per Income and Expenditure Account		49,25,500
Add: Expenses debited but not allowable		
- Excess salary of ₹ 4,000 per month to sister-in-law [not disallowed since sister-in-law does not fall within the definition of 'relative' u/s 2(41)]	-	
- Motor car expenses attributable to personal use not allowable (₹ 88,000 x 25%)	22,000	
- Depreciation as per books of account	87,500	
- Medical expenses of ₹ 15,000 for family planning expenditure for the employees [disallowed, since such expenditure is allowable to company assessee only]	15,000	
- Medical expenditure of ₹ 55,000 incurred for his father, not allowable, since it is personal in nature]	55,000	
- Purchase of computer (not allowable since it is capital in nature)	90,000	
- Bonus (allowed since it is paid on the due date of filing of return of income i.e., on 30.9.2025)	-	
[For the P.Y.2024-25, the gross receipts i.e., fees of Mr. Manohar from consultancy services is ₹ 58 lakhs (exceeding ₹ 50 lakhs), he has to get his books of account audited u/s 44AB, in which case, his due date for filing return of income would be 30.9.2025]		

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Particulars	₹	₹
- Commission paid without deduction of tax at source [Mr. Manohar would be liable to deduct tax at source u/s 194-H on commission paid during the P.Y.2024-25, since his gross receipts from profession during the P.Y.2023-24 exceeded the monetary limit specified in section 44AB i.e., ₹ 50 lakhs. Thus, 30% disallowance would be attracted since he has not deducted tax at source on the commission]	12,600	2,82,100
Less: Income credited but not taxable or taxable under any other head		52,07,600
- Share of profit from HUF (Exempt)	55,000	
- Interest on bank fixed deposit	25,000	
- Interest on income-tax refund	26,000	
		1,06,000
		51,01,600
Less: Depreciation allowable under the Income-tax Act, 1961 [See Working Note]		76,175
		50,25,425
Income from Other Sources		
- Interest on bank fixed deposits	25,000	
- Interest on income-tax refund	26,000	
- Value of gold coins received from a family friend on the occasion of marriage anniversary (taxable u/s 56(2)(x), as the fair market value of such coins exceeds ₹ 50,000)	85,000	1,36,000
		51,61,425
Gross Total Income		
Less: Deduction under Chapter VI-A		
Section 80D		50,000
Medical expenses for father (Deduction allowable to the extent of ₹ 50,000 since father, aged 65 years, is a senior citizen and is not covered under any medical insurance policy)		
Total Income		51,11,425
Total Income (Rounded off)		51,11,430

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

Particulars	₹	₹
Tax on total income of ₹ 51,11,430		
Upto ₹ 2,50,000	Nil	
₹ 2,50,001 – ₹ 5,00,000 @5%	12,500	
₹ 5,00,001 – ₹ 10,00,000 @20%	1,00,000	
Above ₹ 10,00,001 i.e., 41,11,430 @30%	12,33,429	13,45,929
Add: Surcharge @10% [Since his total income exceed ₹ 50,00,000]		1,34,593
		14,80,522
Less: Marginal Relief:		

Chapter 13: Income Tax Liability Computation and Optimisation

Excess tax payable [14,80,522 - 13,12,500, being the amount of tax payable on total income of ₹ 50 lakhs]	1,68,022	
Amount of income in excess of ₹ 50,00,000	1,11,430	56,592
		14,23,930
Add: Health & Education cess@4%		56,957
Tax liability		14,80,887
Tax liability (rounded off)		14,80,890

Working note:

Computation of depreciation allowable as per Income-tax Act, 1961

Particulars	₹
On Motor Car	
₹ 3,50,000 x 15% x 75%	39,375
On Furniture and fittings	
₹ 80,000 x 10%	8,000
On Computer	
₹ 72,000 x 40% [Actual cost of the computer is ₹ 72,000 (i.e., ₹ 90,000 – ₹ 18,000). ₹ 18,000 paid otherwise than by way of account payee cheque/bank draft or use of ECS is not includible in actual cost.]	28,800
	76,175

Question 14

Mr. Suraj aged 50 years, a resident individual, engaged in a wholesale business of health products. He is also a partner in XYZ & Co., a partnership firm. The following details are made available for the year ended 31.3.2025:

Sl. No.	Particulars	₹	₹
(i)	Interest on capital received from XYZ & Co., at 15% [in accordance with the partnership deed]		1,50,000
(ii)	Share of profit from the firm		35,000
(iii)	Salary as working partner (fully allowed in the hands of the firm)		1,00,000
(iv)	Interest from bank on fixed deposit (Net of TDS)		40,500
(v)	Interest on saving bank account		12,300
(vi)	Income-tax refund received relating to assessment year 2024-25 including interest of ₹ 2,300		34,500
(vii)	Net profit from wholesale business		5,60,000
	Amounts debited include the following:		
	- Depreciation as per books	34,000	
	- Motor car expenses	40,000	
	- Municipal taxes for the shop	7,000	
	(For two half years; payment for one half year made on 12.7.2025 and for the other on 31.12.2025)		
	Salary to manager by way of a single cash payment	21,000	

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Sl. No.	Particulars	₹	₹
(viii)	The WDV of the assets (as on 1.4.2024) used in above wholesale business is as under:		
	- Computers	2,40,000	
	- Computer printer	1,50,000	
(ix)	Motor car acquired on 31.12.2024 (20% used for personal use)	6,80,000	
(x)	He owned a house property in Mumbai which was sold in January, 2019. He received arrears of rent in respect of the said property in October, 2024.		1,15,000
(x)	LIP paid for independent son	60,000	
(xi)	PPF of his wife	70,000	
(xii)	Health insurance premium paid towards a policy covering her mother aged 75 by way of cheque. She is not dependant on him.	35,000	
(xiii)	Contribution toward Prime Minister National Relief Fund	50,000	

You are required to compute the total income of the Mr. Suraj for the assessment year 2025-26 and the closing WDV of each block of assets. Assume he has exercised the option to shift out of the default tax regime u/s 115BAC. **[RTP N-20 Q.]**

Answer 14

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

Particulars	₹	₹
Income from house property		
Arrears of rent (taxable u/s 25A even if Mr. Suraj is not the owner of the house property in the P.Y.2024-25)	1,15,000	
Less: Deduction@30%	34,500	80,500
Income chargeable under this head Profits and gains of business or profession		
Income from wholesale business		
Net profit as per books	5,60,000	
Add: Amount debited to P & L A/c, not allowable as deduction		
- Depreciation as per books	34,000	
- Disallowance of municipal taxes paid for the second half- year u/s 43B, since the same was paid after the due date of filing of return (₹ 7,000/2)	3,500	
- Disallowance u/s 40A(3) in respect of salary paid in cash since the same exceeds ₹ 10,000	21,000	
- 20% of car expenses for personal use	8,000	
	6,26,500	
Less: Depreciation allowable (Note 1)	1,96,800	
	4,29,700	

Particulars		₹	₹
Income from firm			
Share of profit from the firm is exempt u/s 10(2A)			
Interest on capital from partnership firm (Note 2)	1,20,000		
Salary as working partner fully taxable	1,00,000	2,20,000	6,49,700
Income from other sources			
Interest on bank fixed deposit (Gross)		45,000	
Interest on saving bank account		12,300	
Interest on income-tax refund		2,300	59,600
Gross total income			7,89,800
Less: Deduction under Chapter VIA (Note 3)			2,25,000
Total Income			5,64,800

Notes:

(1) Depreciation allowable under the Income-tax Rules, 1962

		Opening WDV	Rate		Depre-ciation	Closing WDV
Block 1	Computers	2,40,000	40%		96,000	1,44,000
	Computer printer	1,50,000	40%		60,000	90,000
Block 2	Motor Car	6,80,000	15%	51,000	40,800	6,39,200
				[50% of 15% is allowable, since it is put to use for less than 180 days]		
	Less: 20% disallowance for personal use			10,200		
					1,96,800	8,73,200

(2) Only to the extent the interest is allowed as deduction in the hands of the firm, the same is includible as business income in the hands of the partner. Since interest is paid in accordance with partnership deed, maximum interest allowable as deduction in the hands of the firm is 12% p.a. Therefore, interest @12% p.a. amounting to ₹ 1,20,000 would be treated as the business income of Mr. Suraj.

(3) Deduction under Chapter VI-A

Particulars	₹	₹
U/s 80C		
LIP for independent son	60,000	
PPF paid in wife's name	70,000	
	1,30,000	
Since the maximum deduction u/s 80C and 80CCE is ₹ 1,50,000, the		

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entire sum of ₹ 1,30,000 would be allowed as deduction		1,30,000
U/s 80D		
Health insurance premium taken for mother is fully allowable as deduction, even though she is not dependant on him. Since she is senior citizen whole of amount is allowable as deduction as it is within overall limit of ₹ 50,000		35,000
U/s 80G		
Contribution towards PM National Relief Fund eligible for 100% deduction without any qualifying limit		50,000
U/s 80TTA		
Interest on saving bank account, restricted to		10,000
Total deduction		2,25,000

Question 15

Mr. Prakash furnishes the following information for the financial year 2024-25.

Particulars	₹
Loss from speculation business-X	85,000
Profit from speculation business-Y	45,000
Interest on borrowings in respect of self-occupied house property	3,18,000
Income from let out house property	1,20,000
Presumptive Income from trading and manufacturing business u/s 44AD	1,00,000
Salary from XYZ (P) Ltd.	5,25,000
Interest on PPF deposit	65,000
Long term capital gain on sale of Vacant site	1,25,000
Short term capital loss on sale of Jewellery	65,000
Investment in tax saver deposit on 31-03-25	60,000
Brought forward loss of business of assessment year 2019-20	1,00,000
Donation to a charitable trust recognized u/s 12AB and approved u/s 80G (payment made via credit card)	60,000

Compute total income of Mr. Prakash for the assessment year 2025-26 also show the loss, eligible to be carried forward. Assume he has exercised the option to shift out of the default tax regime u/s 115BAC.

[MTP Q.]

Answer 15

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

Particulars	₹	₹
Salary from XYZ (P) Ltd.	5,25,000	
Less: Standard Deduction u/s 16(ia)	50,000	
	4,75,000	
Less: Loss from house property of ₹ 20,000 [₹ 80,000 - ₹ 60,000, being the loss set-off against long-term capital gains]	20,000	4,55,000
Income from house property		

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Particulars	₹	₹
Income from let out house property	1,20,000	
Less: Loss from self-occupied house property to the extent of ₹ 2 lakhs, allowable as deduction u/s 24(b) in respect of interest on borrowings	2,00,000	
	(80,000)	
Less: Amount set-off against other heads of income	(80,000)	
Profits and gains from business or profession		
Profit from speculation business Y	45,000	
Less: Loss of ₹ 85,000 from speculation business X set-off against profit from speculation business Y to the extent of such profit	(45,000)	
Presumptive Income from trading and manufacturing business	1,00,000	Nil
Less: Brought forward business loss of A.Y. 2019-20 set-off since the period of eight assessment years has not expired	(1,00,000)	Nil
Capital Gains		
Long term capital gain on sale of vacant site	1,25,000	
Less: Short term capital loss on sale of jewellery	65,000	
	60,000	
Less: Loss from house property to be set-off to the extent of LTCG (It is more beneficial for Mr. Prakash to first set-off the loss from house property against the long-term capital gains, since it is taxable @20%)	60,000	Nil
Income from Other Sources		
Interest on PPF deposit	65,000	
Less: Exempt	65,000	Nil
Gross Total Income		4,55,000
Less: Deduction under Chapter VI-A		
Deduction u/s 80C		
Investment in tax saver deposit on 31.3.2025	60,000	
Deduction u/s 80G		
Donation to recognized and approved charitable trust [Donation of ₹ 60,000 to be first restricted to ₹ 39,500, being 10% of adjusted total income of ₹ 3,95,000 (₹ 4,55,000 – ₹ 60,000). Thereafter, deduction would be computed at 50% of ₹ 39,500.	19,750	
		79,750
Total Income		3,75,250

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

Particulars	₹
Loss from speculation business X (₹ 85,000 - ₹ 45,000)	40,000

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Loss from speculation business can be set-off only against profits of any other speculation business. If loss cannot be so set-off, the same has to be carried forward to the subsequent year for set off against income from speculation business, if any, in that year.

Question 16

Compute total income and tax liability thereon of Mr. Raghav for the A.Y. 2025-26 from the following details as per default tax regime and normal provision of Income Tax.

Mr. Raghav (aged, 61 years) working in a private company from last 10 years. His salary details for the financial year 2024-25 are:

(i) Basic Salary	1,70,000 p.m.
(ii) Dearness Allowance (forms part of retirement benefits)	80,000 p.m.
(iii) Commission	32,000 p.m.
(iv) Transport Allowance	5,000 p.m.
(v) Medical Reimbursement	40,000

Mr. Raghav resigned from the services on 30th November, 2024 after completing 10 years and 5 months of service. He was paid gratuity of ₹ 25 lakhs on his retirement. He is not covered under the Payment of Gratuity Act, 1972.

He started business of hiring of goods vehicle, purchased 4 small goods vehicle on 10th December, 2024 and 4 heavy vehicles having gross weight of 20 MTs each on 1st January, 2025. He did not maintain books of accounts for the business of hiring of goods vehicle. Mr. Shivpal, his very close friend gifted him ₹ 2 lakhs to purchase the vehicles.

He was holding 30% equity shares in TSP (P) Ltd., an Indian company. The paid up share capital of company as on 31st March, 2024 was ₹ 20 lakh divided into 2 lakh shares of ₹ 10 each which were issued at a premium of ₹ 30 each. Company allotted shares to shareholders on 1st October, 2013.

He sold all these shares on 30th November, 2024 for ₹ 60 per share. Equity shares of TSP (P) Ltd. are listed on National Stock Exchange and Mr. Raghav has paid STT both at the time of acquisition and transfer of such shares. FMV on 31.12.2018 was ₹ 50 per share.

On 12.2.2025, interest of fixed deposits of ₹ 90,000 credited to his SBI Bank. On 30.4.2024, ₹ 5,500 and on 30.12.2024, ₹ 8,500 credited to interest on saving bank A/c with SBI Bank.

He deposited ₹ 1,10,000 in PPF A/c. He paid insurance premium of ₹ 20,000 on his life policy during the financial year 2024-25. The policy was taken in April 2011 and sum assured was ₹ 3,00,000. He also made payment of ₹ 25,000 towards L.I.C. pension fund and premium of ₹ 40,000 towards mediclaim policy for self and ₹ 20,000 for his wife. All the payment he made by A/c payee cheque.

There was no change in salary of Mr. Raghav from last two years.

[RTP Q]

Cost inflation Index is:

Financial Year	Cost Inflation Index
2013-14	220
2024-25	363

Question 17

Mr. Uday Shankar (aged 67 years) is retired from a Public Sector Undertaking. He resides in Indore, Madhya Pradesh. He provides you the following particulars of his income and certain payments/investments for the previous year 2024-25:

- Pension income of ₹ 7,80,000

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- Interest from fixed deposits of ₹ 2,35,000 (Gross)
- Life insurance premium paid by cheque ₹ 25,500 for insurance of his life. The insurance policy was taken on 08-09-2017 and the sum assured is ₹ 2,50,000.
- Premium of ₹ 36,000 paid by cheque for health insurance of self and his wife, who is also a senior citizen.
- ₹ 3,500 paid in cash for his health check-up and ₹ 4,500 paid through cheque for preventive health check-up of his mother aged 90 years.
- Paid interest of ₹ 9,500 on loan taken from bank for MBA course pursued by his daughter.
- A sum of ₹ 95,000 donated by cheque to an institution approved for the purpose of section 80G for promoting family planning.
- ₹ 20,000 contributed towards PM CARES Fund by cheque.

Compute the total income of Mr. Uday Shankar for the assessment year 2025-26, Assume he has exercised the option to shift out of the default tax regime u/s 115BAC. [RTP N-21 Q.]

Answer 17

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

Particulars	₹	₹	₹
Income under the head "Salaries"			
Pension	7,80,000		
Less: Standard deduction u/s 16(ia)			
Lower of ₹ 50,000 or actual salary/pension	50,000		7,30,000
Income from Other Sources			
Interest from bank on fixed deposit (Gross)			2,35,000
Gross Total Income			9,65,000
Less: Deduction under Chapter VI-A			
Deduction u/s 80C			
LIC premium of ₹ 25,500 (restricted to 10% of ₹ 2,50,000, being the sum assured, as the policy is taken after 31.3.2012)		25,000	
Deduction u/s 80D			
Premium for health insurance for self and his wife paid by cheque, allowed upto ₹ 50,000 since Mr. Uday Shankar is a senior citizen	36,000		
Preventive health check-up for self, ₹ 3,500, and for his mother, ₹ 4,500, restricted to ₹ 5,000 (deduction allowed even if the same is paid in cash)	5,000		
		41,000	
Deduction u/s 80E			
Interest on loan taken from bank for MBA course pursued by his daughter		9,500	
Deduction u/s 80G			
Donation to PM CARES Fund – 100% allowable		20,000	
Donation to an approved institution for promoting family planning – 100% allowable subject to qualifying limit of ₹		83,950	

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Particulars	₹	₹	₹
83,950 i.e., 10% of ₹ 8,39,500 being the adjusted total income			
Deduction u/s 80TTB			
Interest on fixed deposit with bank allowable as deduction upto ₹ 50,000, since Mr. Uday Shankar is a senior citizen		50,000	
			2,29,450
Total Income			7,35,550

Question 18

Mr. Dheeraj, aged 48 years, a resident Indian has furnished the following particulars for the year ended 31.03.2025: **[RTP N-21 Q.]**

- (i) He occupies ground floor of his residential building and has let out first floor for residential use at an annual rent of ₹ 3,34,000. He has paid municipal taxes of ₹ 30,000 for the current financial year. Both these floors are of equal size.
- (ii) As per interest certificate from ICICI bank, he paid ₹ 1,80,000 as interest and ₹ 95,000 towards principal repayment of housing loan borrowed for the above residential building in the year 2015.
- (iii) He owns an industrial undertaking established in a SEZ and which had commenced operation during the financial year 2022-23. Total turnover of the undertaking was ₹ 400 lakhs, which includes ₹ 120 lakhs from export turnover. This industrial undertaking fulfills all the conditions of section 10AA of the Income-tax Act, 1961. Profit from this industry is ₹ 45 lakhs.
- (iv) He employed 20 new employees for the said industrial undertaking during the previous year 2024-25. Out of 20 employees, 12 were employed on 1st May 2024 on monthly emoluments of ₹ 18,000 and remaining were employed on 1st August 2024 on monthly emoluments of ₹ 12,000. All these employees participate in recognised provident fund and they are paid their emoluments directly to their bank accounts.
- (v) He earned ₹ 30,000 and ₹ 45,000 as interest on saving bank deposits and fixed deposits respectively.
- (vi) He also sold his vacant land on 01.12.2024 for ₹ 14.07 lakhs. The stamp duty value of land at the time of transfer was ₹ 15 lakhs. The FMV of the land as on 1st April, 2001 was ₹ 4.8 lakhs and Stamp duty value on the said date was ₹ 3.8 lakhs. This land was acquired by him on 15.9.1997 for ₹ 2.80 lakhs. He had incurred registration expenses of ₹ 12,000 at that time.

The cost of inflation index for the financial year 2024-25 and 2001-02 are 363 and 100 respectively.

- (vii) He paid insurance premium of ₹ 49,000 towards life insurance policy of his son, who is not dependent on him.

You are requested to compute his total income and tax liability of Mr. Dheeraj for the Assessment Year 2025-26, in the manner so that he can make maximum tax savings.

Question 19

You are required to compute the total income and tax liability of Mr. Alok, aged 58 years, a resident individual. Mr. Alok is an advocate and furnishes you the receipts and payments account for the financial year 2024-25.

Receipts and Payments Account

Receipts	₹	Payments	₹
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Receipts	₹	Payments	₹
Opening Balance (01-04-2024)		Staff salary and bonus to clerks	17,50,000
Cash & Bank	80,000	Other general and administrative expenses	22,00,000
Fee from legal services	49,60,000	Office rent	1,48,000
Motor car loan from SBI @12% p.a. interest	5,00,000	Life Insurance Premium (Sum Assured ₹ 5,00,000)	49,000
Sale receipts of 5,800 listed equity shares (sold on 31st March 2025)	5,95,000	Motor car (Acquired in January 2025 by way of NEFT)	9,50,000
		Books bought by way of A/c payee cheque in the month of May, June and September 2024 (annual publications)	80,000
		Computer acquired on 1-11-2024 for professional use (payment made by A/c payee cheque)	52,000
		Domestic drawings	6,23,000
		Motor car maintenance	72,000
		Public Provident Fund subscription	1,50,000
		Closing balances (31-03-2025)	61,000
		Cash & Bank	
	61,35,000		61,35,000

Other information:

- (i) Listed equity shares on which STT was paid were acquired in August 2016 for ₹ 1,21,800. The fair market value of such shares as on 31st January 2018 and on 1st April 2018 was ₹ 75 per share and ₹ 85 per share, respectively.
- (ii) Motor car was put to use for both official and personal purposes. 1/3rd of the motor car is for personal purpose. No interest on car loan was paid during the previous year 2024-25.
- (iii) Mr. Alok purchased a flat in Kanpur for ₹ 35,00,000 in July 2013 cost of which was partly financed by a loan from Punjab National Housing Finance Limited of ₹ 25,00,000, his own savings ₹ 1,00,000 and a deposit from Repco Bank for ₹ 9,00,000. The flat was given to Repco Bank on lease for 10 years @ ₹ 35,000 per month. The following particulars are relevant:
 - (a) Municipal taxes paid by Mr. Alok ₹ 8,200 per annum
 - (b) House insurance ₹ 11,000

As per interest certificate issued by Punjab National Housing Finance Limited for the financial year 2024-25, he paid ₹ 1,80,000 towards principal and ₹ 2,01,500 as interest.
- (iv) He earned ₹ 1,20,000 in share speculation business and lost ₹ 1,80,000 in commodity speculation business.
- (v) Mr. Alok received a gift of ₹ 21,000 each from four of his family friends.
- (vi) He contributed ₹ 1,21,000 to PM Cares Fund by way of bank draft.
- (vii) He donated to a registered political party ₹ 3,50,000 by way of cheque.

(viii) He follows cash system of accounting.

(ix) Cost Inflation Index : F.Y. 2016-17 – 264; F.Y. 2018-19 – 280; F.Y. 2024-25 – 363

You are requested to compute his total income and tax liability of Mr. Alok for the Assessment Year 2025-26, in the manner so that he can make maximum tax savings.

[MTP Q.]

Question 20

You are required to compute the total income and tax payable by Mr. Josh, aged 48 years, from the following information provided by him for the Assessment Year 2025-26. Assume he has exercised the option to shift out of the default tax regime u/s 115BAC.

- (i) Basic Salary @ ₹ 51,000 per month, Dearness allowance @ ₹ 10,000 per month (Part of salary for retirement benefits), House rent allowance ₹ 4,000 per month and rent paid for house in Chennai is ₹ 7,000 per month.
- (ii) He owns a commercial building at Mumbai, which is let out on 1.7.2024 at a monthly rent of ₹ 46,000 to ABC Ltd. He paid municipal taxes of ₹ 27,000 and ₹ 25,000 for the financial year 2023-24 and 2024-25 on 31-3-2025 and 20-4-2025, respectively. Fair rent of the building is ₹ 33,000 p.m.
- (iii) He purchased 4000 unlisted shares of Maharaja Limited on 25-2-2009 for ₹ 80,000. Company declared bonus in the ratio of 1:1 on 15th March, 2009. Mr. Josh sold 3000 bonus shares on 15.01.2025 for ₹ 2,00,000 to his friend Mr. Mehul through unrecognized stock exchange. (Cost Inflation Index: 2008-09: 137, 2024-25: 363)
- (iv) Interest from saving bank account with SBI Bank ₹ 15,000 and lottery winnings (Net of TDS@30%) is ₹ 21,000.

He paid the following amounts during the P.Y. 2024-25:

- (a) Deposits in Public Provident Fund ₹ 1,50,000.
- (b) Medical insurance premium paid for health of his wife ₹ 19,000 and for health of dependent son ₹ 12,000 through cheque.

[MTP Q.]

Answer 20**Computation of total income of Mr. Josh for the A.Y.2025-26**

Particulars	₹	₹
Salaries		
Basic Salary = ₹ 51,000 x 12	6,12,000	
Dearness Allowance (DA) = ₹ 10,000 x 12	1,20,000	
House Rent Allowance (HRA) = ₹ 4,000 x 12 ₹ 48,000		
Less: Least of the following exempt u/s 10(13A) ₹ 10,800	37,200	
(i) HRA actually received = ₹ 4,000 x 12 = ₹ 48,000		
(ii) Rent paid (-) 10% of salary [₹ 84,000 (i.e., ₹ 7,000 x 12) (-) ₹ 73,200 (10% of salary i.e., 10% of ₹ 7,32,000 (Basic Salary + DA))] = ₹ 10,800		
(iii) 50% of salary [50% of ₹ 7,32,000 (Basic Salary + DA)] = ₹ 3,66,000		
Gross Salary	7,69,200	
Less: Standard deduction u/s 16(ia)	50,000	
		7,19,200
Income from house property		
Gross Annual Value [₹ 46,000 x 9, being the higher of actual rent received and fair rent]	4,14,000	
Less: Municipal tax paid during the P.Y. 2024-25	27,000	

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Particulars	₹	₹
Net Annual Value	3,87,000	
Less: Deduction u/s 24 [30% of Net Annual Value]	1,16,100	2,70,900
Capital Gains		
Full value of consideration	2,00,000	
Less: Cost of acquisition of bonus shares allotted on or after 1.4.2001	Nil	
Long-term capital gains (since bonus shares are held for a period of more than 24 months)		2,00,000
Income from Other Sources		
Interest from saving bank account with SBI Bank	15,000	
Lottery winnings [21,000 x 100/70]	30,000	45,000
Gross Total Income		12,35,100
Less: Deduction under Chapter VI-A		
Section 80C		
Deposits in PPF	1,50,000	
Section 80D		
Medical insurance premium for wife and dependent son ₹ 31,000, restricted to	25,000	
Section 80TTA		
Interest on saving bank account with SBI	10,000	1,85,000
Total Income		10,50,100

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

Particulars	₹	₹
Tax on total income of ₹ 10,50,100		
Tax on long-term capital gains of ₹ 2,00,000@12.5% u/s 112	25,000	
Tax on lottery income of ₹ 30,000 @30% u/s 115BB	9,000	
Tax on other income of ₹ 8,20,100 [₹ 10,50,100 – ₹ 2,00,000, capital gains – ₹ 30,000, lottery income]		
Upto ₹ 2,50,000	Nil	
₹ 2,50,001 – ₹ 5,00,000 [i.e., ₹ 2,50,000@5%]	12,500	
₹ 5,00,001 – ₹ 8,20,100 [i.e., ₹ 3,20,100@20%]	64,020	
		1,10,520
Add: Health and education cess@4%		4,421
Tax liability		1,14,941
Less: Tax deducted at source		

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Particulars	₹	₹
TDS on lottery income	9,000	
TDS on rent u/s 194I [$₹ 4,14,000 \times 10\%$]	41,400	50,400
Tax Payable		64,541
Tax Payable (rounded off)		64,540

Question 21

Mr. Rakesh, aged 45 years, a resident Indian has provided you the following information for the previous year ended 31.03.2025 **[MTP Q.]**

- (i) He received royalty of ₹ 2,88,000 from abroad for a book authored by him in the nature of artistic. The rate of royalty as 18% of value of books and expenditure made for earning this royalty was ₹ 40,000. The amount remitted to India till 30th September, 2025 is ₹ 2,30,000.
- (ii) He owns an industrial undertaking established in a SEZ and which had commenced operation during the financial year 2022-23. Total turnover of the undertaking was ₹ 200 lakhs, which includes ₹140 lakhs from export turnover. This industrial undertaking fulfills all the conditions of section 10AA of the Income-tax Act, 1961. Profit from this industry is ₹ 25 lakhs.
- (iii) He also sold his vacant land on 10.11.2024 for ₹13 lakhs. The stamp duty value of land at the time of transfer was ₹ 18.60 lakhs. The FMV of the land as on 1st April, 2001 was ₹ 5 lakhs. This land was acquired by him on 05.08.1995 for ₹ 1.75 lakhs. He had incurred registration expenses of ₹ 20,000 at that time. The cost of inflation index for the year 2024-25 and 2001-02 are 363 and 100 respectively.
- (iv) Received ₹ 40,000 as interest on saving bank deposits.
- (v) He occupies ground floor of his residential building and has let out first floor for residential use at an annual rent of ₹ 2,28,000. He has paid municipal taxes of ₹ 60,000 for the current financial year. Both floor are of equal size.
- (vi) He paid insurance premium of ₹ 39,000 on life insurance policy of son, who is not dependent on him and ₹ 48,000 on life insurance policy of his dependent father.
- (vii) He paid tuition fees of ₹ 42,000 for his three children to a school. The fees being ₹ 14,000 p.a. per child.

You are required to compute the total income and tax liability of Mr. Rakesh under normal provisions as well as u/s 115BAC for the A.Y. 2025-26. Ignore AMT provisions.

Question 22

- (a) Mrs. Jasmin, an Australian citizen, got married to Mr. Kapil of India in Australia on 2.01.2024 and came to India for the first time on 18.03.2024. She left for Australia on 10.8.2024. She returned to India again on 23.02.2025.

On 01.04.2024, she had purchased a Flat in Mumbai, which was let out to Mr. Sunil on a rent of ₹ 28,000 p.m. from 1.5.2024. She had taken loan from an Indian bank for purchase of this flat on which bank had charged interest of ₹ 2,15,500 upto 31.03.2025.

While in India, during the previous year 2024-25, she had received a gold chain from her in-laws worth ₹1,50,000, a car worth ₹ 6,25,000 from married sister of her husband and ₹ 1,72,000 from very close friends of her husband.

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

- (b) I. Mr. Jay is having total income of ₹ 6,90,000 during the P.Y. 2024-25 consisting of Income from business of ₹ 40,000, lottery winnings (gross) ₹ 5,60,000, income by way of

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salary (computed) ₹ 1,20,000 and loss from house property ₹ 30,000. Compute his tax liability and advance tax obligations for A.Y. 2025-26.

II. Examine with reasons, whether the following statements are true or false, with regard to the provisions of the Income-tax Act, 1961:

- (i) The Assessing Officer has the power, inter alia, to allot PAN to any person by whom no tax is payable.
- (ii) Where the Karta of a HUF is absent from India, the return of income can be verified by any male member of the family.

[MTP Q.]

Answer 22

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

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

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

Therefore, the residential status of Mrs. Jasmin, an Australian, for A.Y. 2025-26 has to be determined on the basis of her stay in India during the previous year relevant to A.Y. 2025-26 i.e. P.Y. 2024-25 and in the preceding four assessment years.

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

P.Y. 2024-25

01.04.2024 to 10.08.2024	-132 days
23.02.2025 to 31.03.2025	- 37 days
Total	- 169 days

Four preceding previous years

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

Total 14 days

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

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

Particulars	₹	₹
Income from house property		
Flat located in Mumbai let-out from 01.05.2024 to 31.03.2025 @ ₹ 28,000/- p.m.		
Gross Annual Value [28,000 x 11]1	3,08,000	
Less: Municipal taxes	Nil	
Net Annual Value (NAV)	3,08,000	
Less: Deduction u/s 24		
30% of NAV	92,400	

Particulars	₹	₹
Interest on loan [fully allowable as deduction, since 2,15,500 property is let-out]	3,07,900	100
Income from other sources		
- Gold chain worth ₹ 1,50,000 received from parents of husband would be exempt, since parents of husband fall within the definition of relatives and gifts from a relative are not chargeable to tax.	Nil	
- Car worth ₹ 6,25,000 received from married sister of her husband is exempt, since sister-in-law falls within the definition of relative and gifts from a relative are not chargeable to tax. Moreover, car is not included in the definition of property.	Nil	
- Gift received from friends of her husband aggregating to ₹ 1,72,000 is taxable u/s 56(2)(x) since the amount of cash gifts of ₹ 1,72,000 exceeds ₹ 50,000.	1,72,000	1,72,000
Gross Total income		1,72,100

1 Actual rent received has been taken as the gross annual the value in absence of other information (i.e. Municipal value, fair rental value and standard rent) in the question.

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

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

II. (i) True : Section 139A(2) provides that the Assessing Officer may, having regard to the nature of

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transactions as may be prescribed, also allot a PAN to any other person, whether any tax is payable by him or not, in the manner and in accordance with the procedure as may be prescribed.

(ii) False: Section 140(b) provides that where the Karta of a HUF is absent from India, the return of income can be verified by any other adult member of the family; such member can be a male or female member.

Question 23

- (a) Compute total income of Mr. Mayank for the A.Y.2025-26 from the following information furnished by him for the financial year 2024-25. **[MTP Q.]**

Particulars	₹
Salary income (computed)	4,70,000
Loss from self-occupied house property	2,00,000
Loss from let out house property	60,000
Loss from speculation business-X	80,000
Profit from speculation business-Y	40,000
Income from trading and manufacturing business @ 8%	3,50,000
Interest on PPF deposit	95,000
Long term capital gain on sale of Vacant site (Computed)	2,10,000
Short term capital loss on sale of Jewellery	1,50,000
Brought forward loss of business of assessment year 2019-20	5,50,000
Donation to a charitable trust recognized u/s 12AA and approved u/s 80G paid by cheque	1,10,000
Enhanced compensation received from government for compulsory acquisition of land (held for a period of 5 years) in the year 2007	3,00,000

- (b) Suresh gifted ₹10 lakhs to his wife, Shagun on her birthday on, 29th February, 2024. Shagun lent such amount to Kinjal on 1st April, 2024 for six months on which she received interest of ₹75,000. The said sum of ₹ 75,000 was invested in shares of a listed company on 5th October, 2024, which were sold for ₹ 90,000 on 30th March, 2025. Securities transactions tax was paid on purchase and sale of such shares.

In whose hands the above income shall be included in A.Y.2025-26. Support your answer with brief reasons.

- (c) State in brief the applicability of tax deduction at source provisions, the rate and amount of tax deduction in the following cases for the financial year 2024-25 under the Income-tax Act, 1961. Assume that all payments are made to residents:
- (i) Vikas, an Indian resident and salaried individual, makes payments of ₹ 15 lakh in January, 2025, ₹ 30 lakh in February, 2025 and ₹ 15 lakh in March, 2025 to Naveen, a contractor for reconstruction of his residential house.
- (ii) ABC Ltd. makes the payment of ₹ 2,50,000 to Gaurav, an individual transporter who owned 6 goods carriages throughout the previous year. He does not furnish his PAN.

Question 24

From the following information provided by Mr. Suresh, aged 43 years and a wholesale dealer, for the A.Y. 2025-26, you are required to compute the tax payable by him

Trading and Profit and Loss Account of Mr. Suresh

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Particulars	Amount in ₹	Particulars	Amount in ₹
To Opening Stock	24,21,000	By Sales	2,62,50,100
To Purchases	2,06,00,500	By Closing stock	52,00,100
To Direct expenses	4,12,040		
To Freight inward	2,65,000		
To Gross Profit c/d	77,51,660		
	3,14,50,200		3,14,50,200
To Salaries and wages	17,15,000	By Gross Profit b/d	77,51,660
To General expenses	3,65,000	By dividend * from Indian companies (gross)	17,20,000
To Rates and taxes	2,40,000	By Interest received on FDs (Net of tax) [FD made on 1.8.2024]	1,08,000
To Interest paid on late filing of GST	3,845	By Rent received	7,20,000
To Income-tax paid for FY 2022-23	3,45,000	By Income-tax Refund	19,000
To Interest paid to NBFC	1,15,000		
To Depreciation	1,82,000		
To Net Profit	73,52,815		
	1,03,18,660		1,03,18,660

The following additional information is provided by him:

- (a) Closing stock of previous year 2024-25 was undervalued by ₹ 55,000.
- (b) Rates and taxes include ₹ 1,000 paid towards late filing of his Income-tax return for Assessment Year 2024-25 u/s 234F of Income-tax Act.
- (c) Salaries include ₹ 30,000 paid on single day by way of cash to his accountant.
- (d) Interest paid on loan of ₹ 10,00,000 taken from a Non-Banking Finance company. Out of the loan, amount of ₹ 2 lakhs was used for personal purpose and the balance was used for business purpose. No TDS was deducted while paying the interest on loan.
- (e) An amount of ₹ 35,000 was paid by cheque during the year towards health insurance policy covering himself, his spouse and his children.
- (f) General expenses include Advertisement expense of ₹ 25,000 paid by cheque towards an advertisement in a souvenir published by local political party.
- (g) Income-tax refund includes ₹ 2,500 towards interest.
- (h) Depreciation charged is as per Income-tax Rules is ₹ 2,20,000
- (i) Advance Tax paid during the year is ₹ 9 lakhs.
- (j) TDS has been deducted on interest received on FD.
- (k) Turnover for the year ending 31.03.2024 was ₹ 2.58 crores.

[MTP Q.]

Question 25

- (a) Mr. Thomas, a citizen of Japan, comes to India for the first time during the P.Y. 2020-21. During the financial years 2020-21, 2021-22, 2022-23, 2023-24 and 2024-25, he was in India for 50 days, 65 days, 95 days, 150 days and 75 days, respectively. Determine his

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residential status for the A.Y. 2025-26. Examine the tax implications in the hands of Mr. Thomas for the Assessment Year 2025-26 of the following transactions entered by him.

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

- (b) Mr. Naksh has undertaken certain transactions during the F.Y.2024-25, which are listed below. You are required to identify the transactions in respect of which quoting of PAN is mandatory in the related documents –

S.No.	Transaction
1.	Payment of life insurance premium of ₹ 40,000 in the F.Y.2024-25 by account payee cheque to LIC for insuring life of self and spouse
2.	Payment of ₹ 1,10,000 to RBI for acquiring its bonds
3.	Applied for issue of credit card to SBI
4.	Payment of ₹ 1,00,000 by account payee cheque to travel agent for travel to Singapore for 3 days to visit

- (c) Ms. Soha (aged 35 years), a resident individual, is a dealer of scooters. During the previous year 2024-25, total turnover of her business was ₹ 110 lakhs (out of which ₹ 25 lakhs was received by way of account payee cheques and balance in cash). Ms. Soha opt out from default taxation regime u/s 115BAC.

What would be your advice to Ms. Soha relating to the provisions of advance tax with its due date along with the amount payable, assuming that she wishes to make maximum tax savings.

[MTP Q.]

Answer 25

- (a) U/s 6(1), an individual is said to be resident in India in any previous year, if he satisfies any one of the following conditions:

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

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

During the previous year 2024-25, Mr. Thomas was in India for 75 days and during the 4 years preceding the previous year 2024-25, he was in India for 360 days (i.e. 50+ 65+ 95+ 150 days).

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

- (1) Not taxable, since interest payable by a non-resident to another non-resident would be deemed to accrue or arise in India only if the borrowed fund is used for the purposes of business or profession carried on by him in India. In this case, it is used for investing in Indian company's debt fund for earning interest and not for the purposes of business or profession. Hence, it is not taxable in India.
- (2) No income shall be deemed to accrue or arise to Mr. Thomas through or from activities

which are confined to the collection of news and views in India for transmission outside India. Hence, ₹ 10 lakhs is not taxable in India in the hands of Mr. Thomas.

- (3) ₹ 10 lakhs is deemed to accrue or arise in India to Mr. Thomas, a non-resident, since it represents royalty/fees for technical services paid for services utilized in India, in this case, for setting up a Steel manufacturing plant in India. Hence, the same would be taxable in India in the hands of Mr. Thomas.

(b)

	Transaction	Is quoting of PAN mandatory in related documents?
1.	Payment of life insurance premium of ₹ 40,000 in the F.Y.2024-25 by account payee cheque to LIC for insuring life of self and spouse	No, since the amount paid does not exceed ₹ 50,000 in the F.Y.2024-25.
2.	Payment of ₹ 1,10,000 to RBI for acquiring its bonds	Yes, since the amount paid exceeds ₹ 50,000
3.	Applied to SBI for issue of credit card.	Yes, quoting of PAN is mandatory on making an application to a banking company for issue of credit card.
4.	Payment of ₹ 1,00,000 by account payee cheque to travel agent for travel to Dubai for 3 days to visit	No, since the amount was paid by account payee cheque, quoting of PAN is not mandatory even though the payment exceeds ₹ 50,000

(c) Computation of advance tax of Ms. Soha under Presumptive Income scheme as per section 44AD

The total turnover of Ms. Soha, a dealer of scooter, is ₹ 110 lakhs. Since her total turnover from such business is less than ₹ 200 lakhs and she does not wish to get his books of account audited, she can opt for presumptive tax scheme u/s 44AD.

Profits and gains from business computed u/s 44AD:

Particulars	₹
6% of ₹ 25 lakhs, being turnover effected through account payee cheque	1,50,000
8% of ₹ 85 lakhs, being cash turnover	6,80,000
	8,30,000

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

Computation of tax liability of Ms. Soha as per normal provisions of Income-tax Act, 1961

Particulars	Amount in ₹	
Total Income	8,30,000	
Tax on 8,30,000		
Upto ₹ 2,50,000	Nil	
₹ 2,50,001 – ₹ 5,00,000@5%	12,500	
₹ 5,00,001 – ₹ 8,30,000@20%	66,000	78,500
Add: Health and Education cess@4%		3,140

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Tax liability		81,640
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Accordingly, she is required to pay advance tax of ₹ 81,640 on or before 15th March of the financial year. However, any amount by way of advance tax on or before 31st March of the financial year shall also be treated as advance tax paid during the financial year ending on that day for all the purposes of the Act.

Question 26

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 has opted option to shift out of the default tax regime u/s 115BAC. **[SM/MTP Q.]**

Answer 26**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 u/s 87A - Lower of ₹ 12,500 or income-tax of ₹ 12,300 & 11,900, since total income does not exceed ₹ 5,00,000	12,300	11,400
	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 27

Mr. Krishna (aged 65 years), a furniture manufacturer, reported a profit of ₹ 5,64,44,700 for the previous year 2024-25 after debiting/crediting the following items:

Debits:

1. ₹ 20,000 paid to a Gurudwara registered u/s 80G of the Income-tax Act, in cash where no cheques are accepted.
2. ₹ 48,000 contributed to a university approved and notified u/s 35(1)(ii) to be used for scientific research.
3. Interest paid ₹ 1,67,000 on loan taken for purchase of E-vehicle on 15-05-2024 from a bank. The E-vehicle was purchased for the personal use of his wife.
4. His firm has purchased timber under a forest lease of ₹ 20,00,000 for the purpose of business.

Credits:

1. Income of ₹ 4,00,000 from royalty on patent registered under the Patent Act received from different resident clients. No TDS was needed to be deducted by any of the clients.
2. He received ₹ 3,00,000 from a debtor which was written off as bad in the year 2020-21. Amount due from the debtor (which was written off as bad) was ₹ 5,00,000, out of which tax officer had only allowed ₹ 3,00,000 as deduction in computing the total income for assessment year 2021-22.
3. He sold some furniture to his brother for ₹ 7,00,000. The fair market value of such furniture was ₹ 9,00,000.

Other information :

1. Depreciation in books of accounts is computed by applying the rates prescribed under the Income tax laws.
2. Mr. Krishna purchased a new car of ₹ 12,00,000 on 1st September, 2024 and the same was put to use in the business on the same day. No depreciation for the same has been taken on car in the books of account.
3. Mr. Krishna had sold a house on 30th March, 2022 and deposited the long term capital gains of ₹ 25,00,000 in capital gain account scheme by the due date of filing return of income for that year. On 1st March, 2025, he sold another house property in which he resided for ₹ 1 crore. He earned a long term capital gain of ₹ 50,00,000 on sale of this property. On 25th March, 2025, he withdrew money out of his capital gain account and invested ₹ 1 crore on construction of one house.
4. Mr. Krishna also made the following payments during the previous year 2024-25
 - Lump-sum premium of ₹ 30,000 paid on 30th March, 2025 for the medical policy taken for self and spouse. The policy shall be effective for five years i.e. from 30th March, 2025 to 29th March, 2030.
 - ₹ 8,000 paid in cash for preventive health check-up of self and spouse.

Compute the total income and tax payable by Mr. Krishna for the assessment year 2025-26.

(Jan 21 Exams)

Question 28

During the previous year 2024-25, following transactions took place in respect of Mr. Raghav who is 56 years old.

- (i) Mr. Raghav owns two house properties in Mumbai. The details in respect of these properties are as under -

	House 1 Self-occupied	House 2 Let-out
Rent received per month	Not applicable	₹ 60,000
Municipal taxes paid	₹ 7,500	Nil
Interest on loan (taken for purchase of property)	₹ 3,50,000	₹ 5,00,000
Principal repayment of loan (taken from HDFC bank)	₹ 2,00,000	₹ 3,00,000

- (ii) Mr. Raghav had a house in Delhi. During financial year 2014-15, he had transferred the house to Ms. Vamika, daughter of his sister without any consideration. House would go back to Mr. Raghav after the life time of Ms. Vamika. The transfer was made with a condition that 10% of rental income from such house shall be paid to Mrs. Raghav. Rent received by Ms. Vamika during the previous year 2024-25 from such house property is ₹ 5,50,000.

- (iii) Mr. Raghav receives following income from M/s M Pvt. Ltd. during P.Y. 2024-25:

- Interest on Debentures of ₹ 7,50,000; and
- Salary of ₹ 3,75,000. He does not possess the adequate professional qualification commensurate with the salary received by him.

Shareholding of M/s M Pvt. Ltd. as on 31.3.2025 is as under -

	Equity shares	Preference shares
Mr. Raghav	Nil	Nil
Mrs. Raghav	2%	25%
Mr. Jai Kishan (brother of Mrs. Raghav)	98%	75%

- (iv) Mr. and Mrs. Raghav forms a partnership firm with equal share in profits. Mr. Raghav transferred a fixed deposit of ₹ 1 crore to such firm. Firm had no income or expense other than the interest of ₹ 9,00,000 received from such fixed deposit. Firm distributed the entire surplus to Mr. and Mrs. Raghav at the end of the year.
- (v) Mr. Raghav holds preference shares in M/s K Pvt. Ltd. He instructed the company to pay dividends to Ms. Geetanshi, daughter of his servant. The transfer is irrevocable for the life time of Geetanshi. Dividend received by Ms. Geetanshi during the previous year 2024-25 is ₹ 3,00,000.
- (vi) Other income of Mr. Raghav includes
- Interest from saving bank account of ₹ 2,00,000
 - Cash gift of ₹ 75,000 received from daughter of his sister on his birthday.

Compute the total income of Mr. Raghav for the Assessment Year 2025-26. Assume he has opted out from default taxation regime u/s 115BAC.

Answer 28

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

Particulars	Amount (₹)	Amount (₹)
Salary [Since Mrs. Raghav along with her brother holds shares carrying 100% voting power in M/s M Pvt. Ltd., they have a substantial interest in the company. Since Mr. Raghav is working in the same company without any professional qualifications commensurate with his salary, the salary of ₹ 3,75,000 received by him would be included in the hands of Mrs. Raghav.]		Nil
Income from house property		
<u>House 1 [Self-occupied]</u>		
Net annual value	-	
Less: Interest on loan [upto ₹2,00,000]	2,00,000	(2,00,000)
<u>House 2 [Let out]</u>		
Gross annual value ¹ [₹60,000 x 12]	7,20,000	
Less: Municipal taxes	-	
Net annual value	7,20,000	
Less: Deductions from Net Annual Value		
(a) 30% of Net Annual Value	2,16,000	
(b) Interest on loan	5,00,000	4,000
<u>House in Delhi</u> [Since Mr. Raghav receives direct or indirect benefit from income arising to his sister's daughter, Ms. Vamika, from the transfer of house to her without consideration, such income is to be included in the total income of Mr. Raghav as per proviso to section 62(1), even though the transfer may not be revocable during lifetime of Ms. Vamika's]		
Gross Annual Value ²	5,50,000	
Less: Municipal taxes	-	
Net Annual Value	5,50,000	
Less: Deductions from Net Annual Value		
(a) 30% of Net Annual Value	1,65,000	
(b) Interest on loan	-	3,85,000
		1,89,000
Profits and gains from business or profession		
Share of profit from firm [Exempt u/s 10(2A)]	-	
Exempt income cannot be clubbed		

1 Rent receivable has been taken as the gross annual value in the absence of other information.

2 Rent receivable has been taken as the gross annual value in the absence of other information.

Chapter 13: Income Tax Liability Computation and Optimisation

Particulars	Amount (₹)	Amount (₹)
Income from other sources		
Dividend on preference shares [Taxable in the hands of Mr. Raghav as per section 60, since he transferred the income, i.e., dividend, without transferring the asset, i.e., preference shares]	3,00,000	
Interest on debentures	7,50,000	
Interest from saving bank account	2,00,000	
Cash gift [Taxable, since sum of money exceeding ₹ 50,000 is received from his niece, who is not a relative as per section 56(2)]	<u>75,000</u>	<u>13,25,000</u>
Gross Total Income		15,14,000
Less: Deduction under Chapter VI-A		
Deduction u/s 80C [Principal repayment of loan ₹ 5 lakh, restricted to ₹ 1,50,000]	1,50,000	
Deduction u/s 80TTA [Interest from savings bank account]	<u>10,000</u>	<u>1,60,000</u>
Total Income		13,54,000

Question 29

Mr. Ashish, a resident individual, aged 43 years, provides professional services in the field of interior decoration. His Income & Expenditure A/c for the year ended 31st March, 2025 is as under:

Expenditure	₹	Income	₹
To Employees' Remuneration & Benefits	13,66,000	By Consultancy Charges	58,80,000
To Office & Administrative Exp.	3,14,000	By Interest on Public Provident Fund (PPF) Account	60,000
To General Expenses	75,000	By Interest on Savings Bank Account	20,000
To Electricity Expenses	65,000	By Interest on National Savings Certificates VIII Issue (for 3rd year)	21,000
To Medical Expenses	80,000		
To Purchase of Furniture	48,000		
To Depreciation	90,000		
To Excess of income over exp.	39,43,000		
	<u>59,81,000</u>		<u>59,81,000</u>

The following other information relates to financial year 2024 -25:

- (i) The expenses on Employees' Remuneration & Benefits includes:
 - (a) Family Planning expenditure of ₹ 20,000 incurred for the employees which was revenue in nature. The same was paid through account payee cheque.
 - (b) Payment of salary of ₹ 25,000 per month to sister-in-law of Mr. Ashish, who was in-charge of the Accounts & Receivables department. However, in comparison to similar work profile, the reasonable salary at market rates is ₹ 20,000 per month.
- (ii) Amount received by Mr. Ashish as Employees' Contribution to EPF for the month of February, 2025 - ₹ 10,000 was deposited after the due date under the relevant Act relating to EPF.

- (iii) Medical Expenses of ₹ 80,000 as appearing in the Income & Expenditure was expensed for the treatment of father of Mr. Ashish. His father was 72 years old and was not covered by any health insurance policy. The said payment of ₹ 80,000 was made through account payee cheque.
- (iv) General expenses as appearing in the Income & Expenditure A/c, includes a sum of ₹ 25,000 paid to Ms. Anjaleen on 5th January, 2025 as commission for securing work from new clients. This payment was made to her without deduction of tax at source.
- (v) Written down value of the depreciable assets as on 1st April, 2024 were as follows:
Professional Books ₹ 90,000
Computers ₹ 35,000
- (vi) The new Furniture as appearing in the Income & Expenditure A/c was purchased on 31st August, 2024 and was put to use on the same day. The payment was made as under:
- ₹ 18,000 paid in cash at the time of purchase of new furniture on 31/08/24.
 - ₹ 19,000 paid by account payee cheque on 05/09/2024 as balance cost of new furniture and
 - ₹ 11,000 paid in cash on 31/08/24 to the transporter as freight charges for the new furniture.
- (vii) Mr. Ashish purchased a car on 02/04/2023 for ₹ 3,35,000 for personal use. However, on 30/04/2024 he brought the said car for use in his profession. The fair market value of the car as on 30/04/2024 was ₹ 2,50,000.
- (viii) Mr. Ashish made a contribution of ₹ 1,00,000 in his PPF A/c on 31/01/2025.
- (ix) The Gross Professional Receipts of Mr. Ashish for P.Y. 2023-24 was ₹ 52,00,000.
- Compute the total income and tax liability of Mr. Ashish for A.Y. 2025-26, assuming that he has opted out from default taxation regime u/s 115BAC. (July 21 Exam)

Answer 29

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

Particulars	₹	₹	₹
<u>Income from business or profession</u>			
Excess of income over expenditure		39,43,000	
Add: Items debited but not allowable while computing business income			
- Family planning expenditure incurred for employees [not allowable as deduction since expenditure on family planning for employees is allowed only to a company assessee/not allowed in case of individuals. Since the amount is 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" for the purpose of section 40A(2).	Nil		

	Particulars	₹	₹	₹
	Therefore, no adjustment is required for excess salary paid to Mr. Ashish's sister-in-law]			
-	Employees' Contribution to EPF [Sum received by the assessee from his employees as contribution to EPF is income of the employer. Deduction in respect of such sum is allowed only if such amount is credited to the employee's account on or before due date under the relevant Act. Since, the employees contribution to EPF for February 2025 is deposited after the due date under the relevant Act, deduction would not be available]	10,000		
-	Medical expenses for the treatment of father [Not allowed as deduction since it is a personal expenditure/not an expenditure incurred for the purpose of business of	80,000		
	Mr. Ashish. Since the amount is debited to Income and Expenditure Account, the same has to be added back for computing business income]			
-	Commission to Ms. Anjaleen without deduction of tax at source – [Mr. Ashish would be liable to deduct tax at source on commission since his gross receipts from profession exceeded ₹ 50 lakhs during F.Y.2023-24. Since commission has been paid without deduction of tax at source, hence 30% of ₹ 25,000, being commission paid without deducting tax at source, would be disallowed u/s 40(a)(ia) while computing the business income of A.Y.2025-26]	7,500		
-	Depreciation as per books of account	90,000		
-	Purchase of Furniture [not allowable, since it is a capital expenditure]	48,000		
			<u>2,55,500</u>	
			41,98,500	

Chapter 13: Income Tax Liability Computation and Optimisation

	Particulars	₹	₹	₹
	Less: Depreciation as per Income-tax Rules			
	- On Professional Books [₹ 90,000 x 40%]	36,000		
	- On Computers [₹ 35,000 x 40%]	14,000		
	- On Furniture [₹19,000 x 10%, since it has been put to use for more than 180 days during the year] [Any expenditure for acquisition of any asset in respect of which payment or aggregate of payment made to a person, otherwise than by an a/c payee cheque/bank draft or use of ECS or through prescribed electronic mode, exceeds ₹10,000 in a day, such expenditure would not form part of actual cost of such asset. Hence, ₹ 18,000 and ₹ 11,000 paid on 31.8.2024 in cash would not be included in the actual cost of furniture]	1,900		
	- On Car [₹ 3,35,000 x 15%] [Actual cost of car would be the purchase price of the car to Mr. Ashish, i.e., ₹ 3,35,000]	<u>50,250</u>	<u>1,02,150</u>	
			40,96,350	
	Less: Items of income credited but not taxable or taxable under any other head of income			
	- Interest on Public Provident Fund [Exempt]	60,000		
	- Interest on savings bank account [Taxable under the head "Income from other sources"]	20,000		
	- Interest on National Savings Certificates VIII Issue (3rd Year) [Taxable under the head "Income from other sources"]	<u>21,000</u>	<u>1,01,000</u>	39,95,350
II	<u>Income from other sources</u>			
	Interest on savings bank account		20,000	
	Interest on National Savings Certificates VIII Issue (3rd Year)		<u>21,000</u>	<u>41,000</u>
	Gross Total Income			40,36,350
	Less: Deduction under Chapter VI-A			
	<u>Deduction u/s 80C</u>			
	Contribution to PPF	1,00,000		
	Interest on NSC (3rd Year) (Reinvested)	<u>21,000</u>	1,21,000	
	<u>Deduction u/s 80D</u>			
	Medical expenses for the treatment of father [Since Mr. Ashish's father is a senior citizen and not covered by any health insurance policy, payment for medical expenditure by a mode other than cash would be allowed as deduction to the extent of ₹ 50,000]		50,000	
	<u>Deduction u/s 80TTA</u>			
	Interest on savings bank account to the extent of ₹ 10,000		<u>10,000</u>	<u>1,81,000</u>
	Total income			<u>38,55,350</u>

Chapter 13: Income Tax Liability Computation and Optimisation

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

Particulars	₹	₹
Tax on total income of ₹ 38,55,350		
Upto ₹ 2,50,000	Nil	
₹ 2,50,001 – ₹ 5,00,000[@5% of ₹ 2.50 lakh]	12,500	
₹ 5,00,001 – ₹ 10,00,000[@20% of ₹ 5 lakh]	1,00,000	
₹ 10,00,001- ₹ 38,55,350 [@30% of ₹ 28,55,350]	8,56,605	
		9,69,105
Add: Health and education cess@4%		38,764
Tax liability		<u>10,07,869</u>
Tax liability (rounded off)		10,07,870

Question 30

Mr. Shivansh, a resident and ordinarily resident aged 61 years, is engaged in the business of manufacturing of motor parts. He is subject to tax audit u/s 44AB of Income-tax Act, 1961. He has provided following information:

Profit & Loss account for the year ended 31st March, 2025

Particulars	(₹)	Particulars	(₹)
To Administrative expenses	4,30,000	By Gross Profit	58,30,000
To Salaries & wages	20,00,000	By Profit on sale of asset of scientific research	2,00,000
To Interest on loans	7,50,000	By Winning from lottery (Net of TDS @ 30%)	31,500
To Depreciation	6,17,000		
To Professional fees	2,70,000		
To Rent, rates & taxes	2,80,000		
To Travelling & conveyance	1,40,000		
To Net Profit	<u>15,74,500</u>		
Total	60,61,500	Total	60,61,500

Explanatory information:

- Opening and closing stock of finished goods were undervalued by 10%. Opening stock of ₹ 4,50,000 and Closing stock of ₹ 5,58,000 was shown.
- Salaries & wages include following items:
 - Contributed 20% of basic salary in National Pension Scheme referred in section 80CCD regarding salary paid to an employee Mr. Ganesh who has withdrawn basic salary of ₹ 3,00,000 and Dearness allowance is 40% of basic salary. 50% of Dearness allowance forms part of the salary.
 - Some of the employees opted for retirement under the voluntary retirement scheme; a sum of ₹ 2,40,000 was paid to them on 1st January, 2025.
- Interest on loan includes interest paid @ 15% per annum on loan of ₹ 12,00,000 which was taken from State Bank of India on 01.05.2024 for purchase of new electric car of ₹ 15,00,000. The car is used for personal purpose.

- (iv) Depreciation allowable as per Income-tax Rules, 1962 is ₹ 4,50,000 but during the calculation of such depreciation following addition was not considered:
Motor car purchased for ₹ 3,00,000 for supply of finished goods to dealers on 25-08-2024.
- (v) An asset was purchased for ₹ 6,00,000 on 17-11-23 for conducting scientific research and the deduction was claimed u/s 35 of the Income-tax Act, 1961. This asset was sold on 05-09-2024 for a consideration of ₹ 8,00,000.

Other information:

A plot of Industrial land which was used by Mr. Shivansh for business purpose for last 10 years was compulsorily acquired by Central Government on 07.05.2024. The compensation of ₹ 12,00,000 was received on 27.02.2025. Such property was purchased by him on 08.08.2005 for ₹ 2,00,000. He has purchased another plot of industrial land on 21.04.2025 for ₹ 6,00,000. Government has also paid ₹ 54,000 as interest on such compensation on 28.03.2025.

Cost Inflation Indices: FY 2024-25: 363, FY 2005-06: 117

Compute the total income and tax liability of Mr. Shivansh for the assessment year 2025-26 as per default tax regime u/s 115BAC. Ignore Provisions relating to AMT. **(DEC 21 Exam)**